

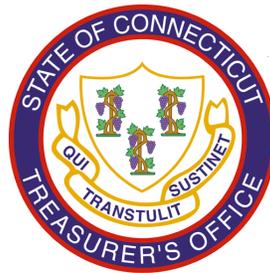


**INVESTMENT POLICY STATEMENT**  
State of Connecticut Retirement Plans & Trust Funds

**INVESTMENT POLICY STATEMENT**

**FOR THE**

**STATE OF CONNECTICUT**  
**RETIREMENT PLANS & TRUST FUNDS**



**SHAWN T. WOODEN**  
**TREASURER OF THE STATE OF CONNECTICUT**

Adopted by Treasurer Wooden 4/10/2019  
Approved by the Investment Advisory Council 5/8/2019



# INVESTMENT POLICY STATEMENT

## State of Connecticut Retirement Plans & Trust Funds

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**Article I. Introduction**

A. This Investment Policy Statement (“IPS”) sets forth the general standards that govern the investments of the State of Connecticut Retirement Plans and Trust Funds (“CRPTF”) as established by the Treasurer of the State of Connecticut (“the Treasurer”), and as approved by the Investment Advisory Council (“IAC”), in accordance with the provisions of subsection (c) of Section 3-13b of the Connecticut General Statutes. Currently the CRPTF includes the following plans and trusts:

1. State Employees’ Retirement Fund,
2. Teachers’ Retirement Fund,
3. Connecticut Municipal Employees’ Retirement Fund,
4. Probate Judges and Employees Retirement Fund,
5. State Judge’s Retirement Fund,
6. State’s Attorneys’ Retirement Fund,
7. Soldiers’, Sailors’ and Marines’ Fund,
8. Arts Endowment Fund,
9. Agricultural College Fund,
10. Ida Eaton Cotton Fund,
11. Andrew C. Clark Fund,
12. School Fund,
13. Hopemead Fund, and
14. Police and Firemen Survivors’ Benefit Fund.
15. Other Post-Employment Benefits Trust Fund

Collectively, these Connecticut retirement plans and trust funds may be referred to as the CRPTF.

B. Specifically, this document addresses the following issues with respect to each plan and trust that comprises the CRPTF:

1. Investment objectives;
2. Asset allocation policy and risk tolerance;
3. Asset class definitions;
4. Investment performance evaluation guidelines;
5. Guidelines for the selection and termination of providers of investment-related services; and
6. Guidelines for corporate citizenship and proxy voting.

C. The Treasurer constructs investment portfolios for each of the CRPTFs using open end investment portfolios known as combined investment funds (“CIF”). Part III of this IPS describes each of the CIFs. Pursuant to Section 3-13b(c)(1) of the



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Connecticut General Statutes, the Specific investment manager guidelines are delineated within investment advisor contracts.

- D. This policy statement is an outline of each of the CRPTF’s long-term strategic plans based on analysis of the capital markets and the financial condition of each plan and trust. In formulating this policy statement, the Treasurer has sought to allow for sufficient flexibility to capture investment opportunities as they occur, while maintaining reasonable parameters to ensure that prudence and care are exercised in the execution of the CRPTF investment program. In the final analysis, the Treasurer must exercise authority consistent with the principles of fiduciary law.
  
- E. The Treasurer will review this policy statement on an annual basis with the IAC. Proposed changes to the IPS will be submitted to the IAC for review in accordance with the provisions of Section 3-13b(c) of the Connecticut General Statutes.



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**Article II. Governing Authority, Duties, and Responsibilities**

- A. Consistent with the Connecticut General Statutes, the Treasurer is the fiduciary of the CRPTF. Responsibilities in this regard are governed by fiduciary law and standards, and by the Constitution and laws of the State of Connecticut.

In his/her fiduciary role, the Treasurer must:

1. Act in the interest of participants and beneficiaries
  2. Work for the purpose of providing benefits to participants and beneficiaries and paying reasonable expenses of administering the CRPTF
  3. Act with the care, skill and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of like character and purpose
  4. Act impartially, taking into account the differing interests of participants and beneficiaries
  5. Incur only costs that are appropriate and reasonable
  6. Act in accordance with a good-faith interpretation of the law governing the retirement program and the CRPTF<sup>1</sup>
  7. Consider the Connecticut General Statutes that require elements of corporate citizenship and the implications of particular investments on foreign policies and the national interests of the United States
  8. Consider the “social, economic and environmental implications of investments of trust funds in particular securities or types of securities” (Section 3-13d of the Connecticut General Statutes).
- B. In carrying out these responsibilities, and as an elected Constitutional Officer of the State of Connecticut, the Treasurer is responsible for the investment and custody of all CRPTF assets and the selection of and contracting with all money managers, investment partners and other service providers. Unless waived by a vote of the IAC, the IAC has up to 45 days to review and comment on any proposed contract for investment services prior to the Treasurer’s execution of a contract. The Treasurer will on a regular basis report to the IAC regarding investment policy, strategies and opportunities. The Treasurer will review with the IAC, on an annual basis, the status of the asset allocation plan for the CRPTF, and will report at each IAC meeting as to the status of the CRPTF investments.
- C. In fulfilling these obligations, the Treasurer will seek recommendations from the Chief Investment Officer and other service providers, and will seek approval from the IAC for amendments to this Investment Policy Statement such as:

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<sup>1</sup>Uniform Management of Public Employee Retirement Systems Act, Section 7 (1997).



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1. Changes in investment policies, asset allocation, and asset allocation ranges;
  2. Inclusion of new asset classes in the investment policy; and
  3. Development and implementation of new investment strategies;
- D. With regard to any proposed amendment, inclusion of, or development of, the items listed above, the following process shall be followed:
1. Public notice of the proposed amendment to the IPS shall be given at least two weeks prior to the IAC meeting.
  2. The Treasurer will present his/her recommended IPS amendments to the IAC and make such recommendation available to the public.
  3. The IAC shall review the Treasurer's recommended IPS amendments.
  4. The IAC will give public notice of its proposed changes, if any.
  5. The Treasurer shall thereafter adopt the IPS, including any changes the Treasurer deems appropriate.
  6. The Treasurer's adopted IPS will be presented for a vote to the appointed IAC members' at the next regularly scheduled IAC meeting.
  7. If a majority of the members appointed to said council fails to approve the adopted IPS, said majority shall provide the reasons for its failure to approve to the Treasurer who may submit an amended proposal at the next regularly scheduled meeting of the IAC.
  8. If the IPS, as amended, is approved, the changes shall be posted on the Treasurer's website.
  9. In the event the Treasurer's adopted IPS is not approved, there will be no changes to the existing IPS.
- E. Appendix Approval Process: With regard to subsequent amendments to the appendix of the IPS, the following process shall be followed.
1. The Treasurer's recommendations to amend the IPS appendix will be presented to the IAC at a regularly scheduled IAC meeting.
  2. The IAC will review the Treasurer's recommendation and provide feedback for his/her consideration.
  3. The Treasurer will adopt the IPS appendix, including any recommendations that he/she deems appropriate.
  4. The Treasurer's adopted IPS appendix shall be presented for a vote to the appointed IAC members. If a majority of the members appointed to said council fails to approve the adopted IPS appendix, said majority shall provide the reasons for its failure to approve to the Treasurer who may submit an amended proposal at the next regularly scheduled meeting of the IAC.
  5. If a majority of the IAC approves the adopted IPS, it shall be posted on the Treasurer's website, and a revised appendix shall be made part of this IPS.



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6. In the event the Treasurer’s adopted IPS appendix is not approved, there will be no changes to the existing IPS appendix.
- F. The Treasurer may retain money managers, investment partners and other service providers to assist in the management of the assets held by the CRPTF and will exercise prudence and care in selecting, instructing and supervising such providers of investment and investment related services. The Treasurer may invest CRPTF assets directly into companies, including (without limitation) investment funds, limited partnerships, limited liability companies, REITs and conduct due diligence, select and monitor the management of such direct investment vehicles. Consistent with Section 3-13i of the Connecticut General Statutes, before the retention of any such money manager, investment partner or professional consultant, the Treasurer will present his/her recommendation to the IAC for its consideration. After such presentation, unless waived by a vote of the IAC, the IAC will have up to 45 days to review and comment upon any proposed contract for investment advisory services prior to the execution of such a contract by the Treasurer. The Treasurer or his/her designee is responsible for negotiating the terms of the contract and subsequent amendments to said contract.
- G. In the event the preconditions described in Section 3-13d (e) of the Connecticut General Statutes are met with respect to a “lame duck” period, any investment decisions in Private Equity and Real Estate must be approved by the IAC until such time as the duly elected Treasurer is officially sworn into office.



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**Article III. Investment Objectives**

- A. Each of the plans and trusts will have an investment objective as individually described in Part II of this IPS and as specifically delineated in the asset allocation guidelines, found in Appendix “A”, Section I of this document. The investment objectives of the CRPTF are long term in nature and have been established based on a comprehensive review of the capital markets and the underlying plans’ and funds’ current and projected financial requirements. The Treasurer adheres to the principle which maintains that over the long term, prudent investment risk-taking may be rewarded with higher incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.



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**Article IV. Asset Allocation**

- A. The asset mix for each of the CRPTF is established by the Treasurer, with approval of the IAC, based on (1) capital market theory, (2) financial and fiduciary requirements, and (3) liquidity needs.
- B. Numerous studies have shown that 90% of the variability in performance is the result of the strategic asset allocation decision. The strategic asset allocation decision, or how much to invest in any particular asset class, is arrived at by undergoing an asset/liability study in which the particular pension plan's liability characteristics or the trust's spending policy is considered.
- C. A broad array of asset classes is considered for inclusion in a potential asset allocation structure. Each asset class has its own distinct characteristics, as well as expectations for long term return and risk behavior. Mathematical modeling is used to determine which mix of asset classes maximizes return at each level of risk. In addition to the asset allocation policy then in place, several alternative asset mixes are selected for further analysis. The liabilities or trust distribution needs are modeled in detail and projections are made based on the actuarial or spending assumptions underlying each of the retirement plans and trusts. The behavior of both the asset classes and the liabilities are tested under different economic scenarios using sophisticated simulation software. The outcomes of these tests are then examined to determine which asset mix offers a balanced risk/return tradeoff as measured by the impact on the liabilities or spending policy over multiple time horizons.
- D. Changes in asset allocation targets and their ranges are expected to occur infrequently. Revisions of these targets will be proposed only when it is clear that significant changes have occurred in the demographics of the participant group and/or in the capital markets such that assumptions upon which the present allocations have been made no longer appear reasonable. Any material changes would be pursuant to the findings of an asset/liability study of the CRPTF, as determined by the Treasurer in consultation with the IAC. In support of this strategy, money managers and investment partners should pursue a strategy of being fully invested, unless otherwise negotiated, consistent with the foregoing guidelines and Investment Management Agreement (IMA) to ensure that cash-equivalent positions do not interfere with the asset allocation strategy.
- E. Because different asset classes are not perfectly correlated and produce different streams of income, the Treasurer will monitor asset allocation on at least a quarterly basis to determine and ensure rebalancing is appropriately implemented.



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- F. Deviations from approved asset allocation targets may occur from time to time as a result of market movements or other unanticipated events. Actions will be taken to assess the situation and develop a remedy that is consistent with all applicable Connecticut General Statutes. It is recognized that remedies to resolve the deviation may take time and should be implemented in a manner that does not negatively impact the performance or risk profile of the CRPTF.



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**Article V. Asset Class Definitions**

A. Detailed descriptions of the asset classes and special limitations or other considerations governing the investment of any CIF therein, are set forth in Part III of this policy statement, and the appendices attached to this IPS.

B. Liquid Portfolio

The liquid portfolios contain a diverse spectrum of securities, including, but not limited to, cash, fixed-income, and equities. The liquid portfolios include the following:

1. Domestic Equity Fund (DEF),
2. Developed Market International Stock Fund (DMISF),
3. Emerging Market International Stock Fund (EMISF),
4. Core Fixed Income Fund (CFIF),
5. Inflation-Linked Bond Fund (ILBF),
6. Emerging Market Debt Fund (EMDF),
7. High Yield Bond Fund (HYBF), and
8. Liquidity Fund (LF).

C. Hybrid Liquid Portfolio

1. Alternative Investment Fund (AIF) - The Alternative Investment Fund is designed to invest CRPTF assets in investment strategies that offer the potential to invest enhance overall portfolio expected returns, reduce risk, or a combination of both in a variety of market conditions. Additionally, the AIF should provide diversification benefits and inflation protection to some extent. The AIF investments will be in externally managed separate accounts, limited liability companies, limited partnerships or co-investments made in operating or holding companies. The AIF serves as a vehicle for strategies that are not easily classified, categorized, or described in the other CIFs. Hybrid strategies that cut across multiple asset classes will also be considered part of the opportunity set. The AIF is less liquid than most traditional asset classes, but has more liquidity than the illiquid portfolios of real estate and private equity.

D. Illiquid Portfolios

1. Real Estate Fund (REF): Real Estate investments may be invested in externally managed separate accounts, limited liability companies, open end commingled fun, limited partnerships or co-investments with a focus on professionally managed commercial properties and land. This definition includes, but is not limited to, retail, office, industrial, apartment, multifamily,



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hotel, timberland, and farmland properties and investments in Real Estate Investment Trusts (“REITs”). The REF may also invest in individual properties.

2. Private Investment Fund (PIF): Private investments may include private equity or private equity-related investments made through externally managed separate accounts, limited liability companies, limited partnerships, or co-investments. Private equity investments include, but are not limited to, corporate finance and venture capital strategies.



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**Article VI. Use of Derivatives**

- A. Derivative instruments are defined as any contract or investment vehicle whose performance, risk characteristics or value is based on a specific asset, interest rate or index value. Derivative instruments may be used for any of the purposes listed below.
1. To gain broad stock or bond market exposure in a manner that does not create the effect of leverage in the overall portfolio, with the exception of approved AIF strategies that prudently use leverage within the constraints of Part III, article XIII.
  2. To convert financial exposure in a given currency to that of another currency (e.g., to hedge Japanese Yen exposure back to the U.S. dollar). Any and all international money managers (equities and fixed income) may enter into foreign exchange contracts on currency provided that: a) such contracts are one year or less; and b) use of such contracts is limited solely and exclusively to hedging currency exposure existing within such money manager's portfolio. There will be no foreign currency speculation or any similar investment activity. The Treasurer may hire currency hedging managers, who will be guided by specific risk parameters in their contracts.
  3. To adjust the duration of a bond portfolio in a manner that is consistent with the accepted approach of the money manager and other policies and guidelines as are provided to the money manager.
  4. To make portfolio adjustments that are consistent with other elements of the CRPTF's investment policies and guidelines and that do not systematically increase risk or the expected volatility of the rate-of-return of the total portfolio.
  5. For trading purposes intended to enhance investment returns, subject to the requirement that the other elements of the CRPTF's investment policies and guidelines are met and there is no systematic increase in the risk or the expected volatility of the rate-of-return of the total portfolio.
- B. All other uses of derivatives are prohibited unless specifically approved by the Treasurer, and endorsed by the IAC. Money managers are expected to have internal risk management programs in place to ensure that derivatives-based strategies do not result in undue risk to the portfolio.



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**Article VII. Investment Diversification**

- A. Investments will be diversified in order to reduce volatility associated with concentrated portfolios and to limit the probability of large losses on individual money managers within the portfolio. Accordingly, the CRPTF will be constructed and maintained to provide prudent diversification among the asset classes in accordance with the asset allocation policy. Within each CIF, there will be prudent diversification with regard to the concentration of holdings in individual issues, corporations, partnerships or industries. Index funds will be used to provide portfolio diversification and active managers will be used to produce incremental returns versus the benchmark. Active managers that have less liquid portfolios will be evaluated on a case by case basis to ensure appropriate levels of liquidity. Investments will comply with the provisions of the Connecticut General Statutes Section 3-13d<sup>2</sup>, Section 3-13g<sup>3</sup>, Section 3-13h<sup>4</sup> and Section 3-21e<sup>5</sup>, and any subsequent modification or revision to Connecticut State Statutes that affect the management of the CRPTF. Part III of this IPS, which describes each of the CIFs, specifically delineates the particular investment guidelines and restrictions for each of the CIFs.

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<sup>2</sup> Pertaining to the consideration of political implications of particular investments in relation to U.S. foreign policy and national interests.

<sup>3</sup> Pertaining to the investments in corporations doing business in Iran.

<sup>4</sup> Pertaining to the divestment of State funds invested in corporations doing business in Northern Ireland that have not implemented the “MacBride” principles. Pursuant to Section 3-13h (d) the restrictions of this section will no longer be effective on and after January 1, 2020.

<sup>5</sup> Pertaining to Divestment of state funds invested in companies doing business in Sudan



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**Article VIII. Guidelines for the Selection and Termination of Providers of Investment-Related Services**

- A. The Treasurer will prudently select money managers, investment partners and other service providers based on their respective expertise relative to the investment mandate they seek to fulfill or the investment service they seek to provide.
- B. In general, the selection process will entail the following processes:
1. Conduct a competitive bidding process or review of a private placement memorandum (“PPM”) as defined by the State’s procurement and purchasing laws and standards, or, where appropriate and practicable, the use of a pre-determined uniform system for evaluating proposals and for otherwise determining the merits of preferred vendors within the industry. A preferred vendor is a money manager or investment partner that the Treasurer intends to hire contingent upon successful contract negotiations. The standard by which any and all selection procedures are determined should not impede the Treasurer’s ability to compete in the marketplace for high quality investment-related services; and
  2. Undertake a thorough due diligence process which establishes an understanding of and comfort level with the firm’s capabilities, organization, track record, institutional expertise, and investment philosophy (where relevant); and
  3. Consider the firm’s diversity policies and practices, corporate responsibility and citizenship; and
  4. Encourage investment within the State of Connecticut that, as a matter of policy, seeks risk-adjusted, rates of return and adheres to investment evaluation standards as set forth in this statement and State Statutes. In cooperation with State of Connecticut agencies and/or through partnership with public and private entities, these targeted investments will include, but not be limited to, under-served urban and rural markets.
  5. Integrate the potential risk and value impact that environmental, social, and governance (“ESG”) factors may have on CRPTFs investment program. A main driver behind the integration of ESG into the investment process is the desire to identify and select investment partners and money managers that carefully review the effect of ESG on companies and to use appropriate criteria to invest in better managed companies to improve return on invested capital; and



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6. Afford opportunities for emerging, minority and women-owned and Connecticut-based investment partners and money managers to compete for investment contracts so long as managers are fully capable of providing services consistent with investment strategy and fiduciary standards. The Treasurer, in consultation with the IAC, may develop specific programs within several CIFs to effectuate this opportunity. In addition, the Treasurer's has structured a brokerage program to afford qualified Connecticut, emerging, minority-owned and women-owned firms the opportunity to compete for brokerage business, consistent with standards of best price, execution and quality of service. The guidelines developed on all current and future initiatives should be consistent with the overall strategic direction of the CIFs.
- C. Money managers, investment partners and other service providers will be required to disclose any third party fees paid, as defined in Section 3-13j of the Connecticut General Statutes and other required disclosures in force and effect at the time of the selection process.
  - D. Before the retention of any money manager, or making a direct investment with an investment partner, or other service provider, the Treasurer will present a recommendation(s) to the IAC for consideration. After such presentation, unless waived by a vote of the IAC, the IAC will have up to 45 days to review and comment upon any proposed contract prior to the execution of a contract by the Treasurer.
  - E. Any decision to terminate a money manager or investment partner will be consistent with the terms and conditions set out in the contract entered into with the CRPTF by and through the Treasurer, and be consistent with Article XI, Performance Evaluation as it relates to the Watch List. The Treasurer will report on the decision to the IAC at the next regularly scheduled meeting.



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**Article IX. Money Manager Structure**

- A. The number of money managers or investment partners retained will be minimized subject to considerations regarding reasonable and prudent levels of risk and diversification. The guidelines used to construct the team of managers will include the following:
- B. Liquid Portfolio
1. Size of Portfolio – to minimize investment fees, investment mandates (regardless of asset class) will generally be a minimum of \$100 million and should not constitute more than 20% of the money manager’s particular strategy for which it is being engaged at the time of investment. However, the Treasurer at his/her discretion and acting in consultation with the IAC may develop programs intended to encourage the development of money managers who demonstrate the capacity to add value to the CRPTF, but may not have the requisite amount of assets under management.
  2. Number of Portfolios – for the purpose of avoiding concentration, all asset classes representing more than 3% of the Fund will have at least two managers.
- C. Hybrid Liquid Portfolio
1. Investments within the Alternative Investment Fund will be evaluated on a case by case basis and will take into consideration: 1) Tenure and track record of management as a team; 2) Expertise in targeted areas of investment; 3) Diversification relative to other investments; 4) Use of leverage (at both portfolio and sub-manager levels); 5) Liquidity of investments; 6) Transparency to the underlying funds and individual weights for each sub-fund; and 7) other relevant factors;
- D. Illiquid Portfolios
1. The asset classes designated as “illiquid” include Private Investment Funds and Real Estate Funds. Each investment that falls within these asset classes will be evaluated on a case-by-case basis. The size of the investment will take into consideration the terms and conditions of the overall investment opportunity. Use of multiple investment partners and styles within each of these portfolios is expected to increase diversification and reduce risk.
  2. With regard to private equity and real estate partners, the CRPTF seeks to retain investment management organizations that possess superior capabilities in the selection and management of real estate assets. Prospective investment management organizations will be evaluated based on criteria including, but not limited to: (i) the suitability of the organization’s investment offerings



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relative to the Fund’s investment guidelines and objectives; (ii) the quality, stability, integrity and experience of the management team; (iii) the ability and willingness of the organization to dedicate sufficient resources and personnel to optimally manage the Fund’s investments; (iv) the reasonableness of investment terms and conditions including provisions to align interests of management and CRPTF; (v) the ability to produce complete audited financial records; and (vi) commitment to responsible contracting policies, workplace diversity and community involvement.

### E. Additional Criteria

1. The criteria for the selection of money managers and direct investments in each CIF will vary according to mandate and asset type. Those criteria are described more fully within each article of Part III of this IPS.
2. Investment partners and money managers will not be allowed to accumulate a significant cash position without prior approval of the Treasurer’s office. In general, “significant” means an amount in excess of the manager’s contractual maximum.



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**Article X. Liquidity**

- A. Based on such factors as investment strategy, cash flow and benefit payments, the Treasurer will determine the appropriate allocation to cash equivalents in order to meet the pension plans and trust funds' liquidity needs in the near term. Liquidity requirements will be reviewed regularly to ensure that each of the CRPTF's policies and practices are structured so as to accommodate changing liquidity needs.



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**Article XI. Performance Evaluation**

- A. The Treasurer will regularly monitor investment performance of the plans and trusts, CIFs, direct investments and individual money managers and investment partners. The Treasurer will analyze performance results over the market cycle. Performance evaluation will be based on a time-weighted total return calculation. The returns will be long term in nature, based upon compounded and annualized market returns, adjusted for the money manager's and investment partner's risk and style, and will be measured against the applicable benchmark on a net-of-fees and expenses basis.
- B. A report of investment performance will be prepared quarterly and submitted to the Treasurer for review and will subsequently be reported to the IAC. The CRPTF's custodian will confirm or reconcile its performance data with the money managers and investment partners. For the CIFs and individual money managers and investment partners, the Treasurer will use designated benchmarks and the investment guidelines as essential parts of the criteria to monitor investment performance. The investment guidelines, unique to each money manager and investment partner, will be incorporated into the investment management contract executed between the Treasurer and such money manager or investment partner and may subsequently be amended as mutually agreed upon by both parties. Money manager investment guideline deviations may occur from time to time as a result of market movements or other unanticipated events. Actions will be taken to assess the situation and develop a remedy that is consistent with all applicable Connecticut General Statutes. It is recognized that remedies to resolve the deviation may take time and should be implemented in a manner that does not negatively impact the performance or risk profile of the CRPTF. The Treasurer, or a designee, will periodically hold meetings with individual money managers and investment partners to review performance. Money managers and investment partners may make presentations before the IAC, as the IAC may request.
- C. The horizon for reviewing the performance of a money manager is long-term. Periodically, it may be necessary and in the best interests of the CRPTF to place a money manager on the Treasurer's "Watch List." Any of the following conditions can trigger placement on the Watch List:
1. The money manager significantly under-performs its benchmark;
  2. The money manager experiences turnover of key members of its investment professional staff;
  3. The CRPTF becomes aware of a significant event affecting the money manager (such as, but not limited to, a change of control, significant negative underperformance relative to its benchmark during any quarter, significant



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- loss of assets under management, the disclosure of SEC or other federal investigations or inquiries into the money manager’s operations); or
4. Any other event that could affect the money manager’s ability to perform its investment management responsibilities for the CRPTF.
- D. Once a money manager is placed on the Watch List, the situation triggering such placement will be reviewed by the Treasurer and/or the Chief Investment Officer. This review will entail a comprehensive analysis of the situation that triggered Watch List status. There is no specific time horizon for money managers placed on watch. Ultimately, the Treasurer will determine whether to (a) continue to monitor the money manager’s performance (b) remove the money manager from Watch List or (c) terminate the money manager.
- E. The horizon for reviewing an investment partner’s performance is also long-term, defined as the term of the partnership, Limited Liability Company or similar structure for real estate, private equity and alternative investments. Periodically, it may be necessary and in the best interests of the CRPTF to place an investment partner on the Treasurer’s “Watch List.” The events triggering such placement are generally defined within the limited partnership agreement and include but not limited to the following:
1. The investment partner experiences turnover of key members of its professional staff;
  2. The CRPTF becomes aware of a significant event affecting the investment partner (such as, but not limited to, a change of control, significant negative underperformance, the disclosure of SEC or other federal investigations or inquiries into the investment partner’s operations); or
  3. Any other event that could affect the investment partner’s ability to perform its investment management responsibilities for the CRPTF.
- F. Once an investment partner is placed on the Watch List, the situation triggering such placement will be reviewed by the Treasurer and/or the Chief Investment Officer. This review will entail a comprehensive analysis of the situation that triggered Watch List status. Compared to portfolios for publicly traded securities, remedies available to CRPTF are limited and generally specified within the governing documents. There is no specific time horizon for investment partners placed on watch. Ultimately, the Treasurer will determine whether to (a) initiate a “no fault divorce” (b) remove the investment partner from the Watch List or (c) sell CRPTF’s interest in the investment.
- G. The Treasurer will inform the IAC of any decision to remove or place a money manager or an investment partner on the “Watch List,” and thereafter will report quarterly to the IAC on the status of the issues that led to placement on the “Watch List” or any action taken by the Treasurer.



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**Article XII. CRPTF’s Guidelines for Corporate Citizenship and Proxy Voting**

- A. In accordance with State law, the Treasurer may consider elements of corporate citizenship when making investment decisions on behalf of the CRPTF; specifically, Section 3-13d(a) of the Connecticut General Statutes provides that the Treasurer may consider the “social, economic and environmental implication of investments” of the CRPTF. “Corporate citizenship” encompasses the principle that, in addition to the traditional corporate focus on profits and short-term performance, the business community must be responsible for “long-term sustainable development of people and communities.”<sup>6</sup> Corporate citizenship is an important criterion in the evaluation of direct investments made by the Treasurer, as well as the companies with which the Treasurer contracts to provide business services. In addition, the corporate citizenship of the companies in which the CRPTF is invested is significant to the Treasurer as a shareholder.
- B. Investments and Corporate Citizenship
1. Principles of fiduciary investment prudence and corporate citizenship, including corporate governance and equal employment opportunity, are embodied in the policies of the Treasurer and by State and federal law. Prudence and the consideration of corporate citizenship are complementary goals as recognized by State law. Primary among the Treasurer’s considerations for the investment of the pension plans and trusts is the prudent investment of these assets for the long-term economic benefit of plan participants and beneficiaries. Prudent investment includes considerations of performance, risk and return. State law complements these principles by specifying that the Treasurer may consider the social, economic, and environmental implications of its investments, recognizing that such considerations may affect the ability to sustain long-term shareholder value.
  2. Section 3-13d(a) of the Connecticut General Statutes directs the Treasurer to “consider the implications of any particular investment in relation to the foreign policy and national interests of the United States.” In addition to this general directive, specific matters implicating foreign policy and U.S. national interests have been embodied in state statutes for consideration in making CRPTF investments:
    - a. CGS §3-13g, regarding investments in companies doing business in Iran;
    - b. CGS §3-13h regarding investments in companies doing business in Northern Ireland that have not implemented the MacBride Principles; and
    - c. CGS §3-21e regarding investments in companies doing business in Sudan.

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<sup>6</sup> Investor Responsibility Research Center, Washington, D.C.



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These statutes provide guidance to the Treasurer when making investment decisions, have been incorporated into the investment process and are reflected in all contracts under which CRPTF funds are invested.

### C. CRPTF Diversity Principles

1. The CRPTF requires a wide array of banking, money management and consultative services, and the Treasurer seeks to do business with financial service providers that demonstrate evidence of good corporate citizenship. Such evidence may consist of a commitment to the State of Connecticut through the hiring of Connecticut employees or the procurement of corporate goods and services from Connecticut-based firms. Other considerations include reinvestment in local communities, the extent of charitable giving and opportunities for students through scholarships or internships. The Treasurer will also consider a firm's employment practices including its hiring, promotion, and training of women and minority employees as well as general employee relations. Other concerns include each firm's policies on environmental compliance and consumer protections.
2. The Treasurer will require all money managers, investment partners and other services providers seeking to do business with the Office of the Treasurer to submit employment data, as well as information on employment and corporate citizenship policies and activities as a part of any Request for Services or Request for Proposals. All contracts with vendors and contractors shall incorporate reference to the various laws and executive orders of the State of Connecticut with respect to non-discrimination. The Treasurer will require all money managers, investment partners and other service providers to submit periodic reports on the firm's progress in implementing employment and corporate citizenship policies.
3. These Diversity Principles can be found in Appendix "C" as an addendum to this Investment Policy Statement.

### D. CRPTF Policy on Proxy Voting

1. Shareholder activity is among the fiduciary duties of the Treasurer as trustee of the CRPTF assets. Plan fiduciaries have a responsibility to vote proxies on issues that may affect the value of the shares held in a portfolio since proxies are considered plan assets and have economic value.
2. Accordingly, the Treasurer may determine, where appropriate, that certain shareholder activities, such as the active monitoring and communication with corporate management, should be undertaken to enhance the economic value of the plan assets. Such circumstances for shareholder activity should be considered appropriate when investments are expected to be held on a long-term basis.



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3. The Treasurer has developed proxy-voting guidelines, which can be found in Appendix “B” to this IPS. Any delegation of proxy voting by the Treasurer, either to external money managers or to a proxy voting service will be consistent with any such guidelines developed.



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**Article XIII. Ongoing Supervision of Assets**

- A. It is the Treasurer's obligation and responsibility to carry out the day-to-day administration of the CRPTF. Consequently, the Treasurer is expected to establish written procedures for the CRPTF's operation consistent with this IPS. Such procedures will include a system of internal controls, which will be documented in writing.
- B. Review of Liabilities: As part of any comprehensive asset allocation/liability study conducted by the Treasurer, all major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be reviewed based upon information provided by each plan's actuaries.
- C. Review of Investment Objectives: Investment performance will be reviewed no less often than quarterly by the Treasurer to determine the continued feasibility of achieving the investment objectives and the appropriateness of this IPS for achieving those objectives.
- D. This IPS is not expected to change frequently. In particular, short-term changes in the financial markets deemed to be temporary in nature should not require any formal adjustments to the IPS.
- E. Review of money managers and investment partners: Individual money managers and investment partners will be provided with written investment guidelines providing additional detail on applicable investment strategies, clarification of permissible investments, investment restrictions and performance evaluation criteria.
- F. Money managers and investment partners will be reviewed annually unless they demonstrate poor performance or have material changes in personnel, assets under management or their investment process, in which case more frequent reviews may be scheduled. (See Article XI for more information on conditions that would warrant placement of money manager or investment partner on the "Watch List.") Additionally, with or without money managers or investment partners being present, the money manager manager's or investment partner's investment results will be reviewed monthly.
- G. Performance reviews will generally include:
  - 1. Assurance that each money manager or investment partner adheres to applicable investment guidelines, which are created within the parameters of this IPS.



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2. Comparison of each money manager's or investment partner's results to those of similar money managers or investment partners in terms of style, diversification, volatility, and performance.
  3. Risk analysis of portfolio investment strategies versus comparable indices.
  4. Review of material changes in the money manager's or investment partner's organization, investment philosophy, personnel, investment process, acquisition or losses of major accounts, etc.
  5. Analysis of the opportunities available in each money manager's or investment partner's designated asset class.
- H. Money managers and investment partners will be responsible for keeping the Treasurer advised of any material changes in personnel, investment strategy, or other pertinent information, which could potentially affect their performance or their relationship with the CRPTF.
- I. **Execution of Security Trades:** The Treasurer expects the purchase and sale of securities to be made in a manner designed to receive the best combination of price, execution, commissions, and value added. A study will be conducted, at least every five years, to assess the best execution of CRPTF securities. The Treasurer has the responsibility to structure the brokerage program in a cost-effective manner, whether execution is undertaken by external managers or by the Office of the Treasurer.



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**Article XIV. Other Policy Considerations**

- A. Third party banks are utilized for the safekeeping of the CRPTF assets, holding the CRPTF assets in custody, valuing plan investments, engaging in securities lending activities and maintaining accurate records of all investments and transactions. All such third party banks will take direction from the Treasurer or a designee.
- B. **Use of Investment Vehicles:** Investment is permitted in individual securities, and through other investment vehicles such as, but not limited to, commingled trusts, separate accounts, mutual funds and other pooled asset portfolios, provided they conform to the applicable guidelines and restrictions set forth in the individual investment advisor contracts..
- C. **Under-Served Urban and Rural Markets:** While maintaining the principles of prudent investment standards and seeking market returns, the CRPTF may, as a matter of policy, channel a portion of its investments (as agreed to by the Treasurer in consultation with the IAC) into under-served urban and rural markets with a special interest in investment opportunity targeted in Connecticut; at the same time achieving necessary geographical diversification.
- D. Deviations from investment policy may occur as a result of new or unique investment opportunities, which are not specifically addressed in this IPS, as may become available from time to time. The Treasurer may deviate from this policy from time to time, after approval by the IAC, provided that any and all such deviations will enhance the CRPTF’s long-term performance and not jeopardize the standards of prudence for the CRPTF as a whole.



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**Introduction**

The asset allocation composition for each retirement plan and trust fund of the CRPTF shall be approved by the IAC, shall be made an appendix to this IPS and posted on the Website of the Office of the State Treasurer.



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**Article I. Teacher’s Retirement Fund**

**A. Investment Authority**

The Teacher’s Retirement Fund (“TERF”) was established by Public Act 78-208. Fund administration is overseen by The Teachers’ Retirement Board, which is within the Office of the State Comptroller for administrative purposes only.

The TERF’s investment portfolio is overseen by the Treasurer (as principal fiduciary of the CRPTF) and is invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

Public Act 78-208 established the TERF for the purpose of providing retirement and other benefits to teachers, their survivors and beneficiaries that have fulfilled the requirements as set forth in the TERF guidelines and Sections 10-183b to 10-183h of the Connecticut General Statutes.

**C. Investment Objectives**

The primary objective of TERF’s investment portfolio is to provide a secure source of retirement income for its beneficiaries. The TERF’s investment objectives are long term in nature and have been established based on comprehensive reviews of capital markets and its underlying current and projected financial requirements as determined through periodic asset/liability studies.

**D. Asset Allocation**

The TERF’s asset mix is established by the Treasurer and the IAC based on (1) capital market theory, (2) the TERF’s financial requirements and (3) the TERF’s liquidity needs.



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**Article II. State Employees' Retirement Fund**

**A. Investment Authority**

The State Employees' Retirement Fund ("SERF") was authorized by Public Act 234 of the 1961 General Assembly, and is codified in Section 5-156 et seq. of the Connecticut General Statutes. Beginning in 1981, the SERF's terms and conditions have been the subject of collective bargaining between the State and a coalition of bargaining units representing state employees, commonly known as the State Employees' Bargaining Coalition (SEBAC). Fund administration is overseen by the Office of the State Comptroller and the State Employees Retirement Commission.

The SERF's investment portfolio is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

Public Act 61-234 re-stated the State Employees Retirement Act and reaffirmed the SERF as the entity that would provide retirement and other benefits to State employees, their survivors and beneficiaries who have fulfilled the requirements as set forth in the SERF guidelines, and as negotiated with SEBAC.

**C. Investment Objectives**

The primary objective of the SERF's investment portfolio is to provide a secure source of retirement income for its beneficiaries. The SERF's investment objectives are long term in nature and have been established based on comprehensive reviews of capital markets and its underlying current and projected financial requirements, as determined through periodic asset/liability studies.

**D. Asset Allocation**

The SERF's asset mix is established by the Treasurer and the IAC based upon (1) capital market theory, (2) the SERF's financial requirements and (3) the SERF's liquidity needs.



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**Article III. Connecticut Municipal Employees' Retirement Fund**

**A. Investment Authority**

The Connecticut Municipal Employees' Retirement Fund ("CMERF") was established by Public Act 191(s. 2) of the 1969 General Assembly. Fund administration is overseen by the Office of the State Comptroller.

The investment portfolio of the CMERF is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

Public Act 69-191(s. 2) established the CMERF for the purpose of providing retirement and other benefits to employees and their beneficiaries of participating municipal and local governmental units. The retirement plan permits municipalities with a small number of employees to get the benefit of the so-called "law of averages" by pooling their contributions with those of other municipalities. This pooling of retirement assets by participating municipalities reduces the risk of excessive cost to an individual municipality because of actuarial vagaries in that municipality. CMERF also takes advantage of economies of scale in its investment strategies and assures that the benefits will be uniform among the participating municipalities.

**C. Investment Objectives**

The primary objective of CMERF's investment portfolio is to provide a secure source of retirement income for its beneficiaries. The CMERF's investment objectives are long-term in nature and have been established based on comprehensive reviews of the capital markets and its underlying current and projected financial requirements, as determined through periodic asset/liability studies.

**D. Asset Allocation**

The CMERF's asset mix is established by the Treasurer and the IAC based on (1) capital market theory, (2) the CMERF's financial requirements and (3) the CMERF's liquidity needs.



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**Article IV. Probate Judge and Employees Retirement Fund**

**A. Investment Authority**

The Probate Court Retirement Fund (“PROB”) was established by Public Act 558(s. 40) of the 1967 General Assembly. Fund administration is through the State Employees Retirement Commission and the Office of the State Comptroller.

The investment portfolio of the PROB is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

Public Act 67-558(s. 40) established the PROB for the purpose of providing retirement and other benefits to Judges of Probate and Probate Court employees and their beneficiaries.

**C. Investment Objectives**

The primary objective of PROB’s investment portfolio is to provide a secure source of retirement income for its beneficiaries. The PROB’s investment objectives are long term in nature and have been established based on a comprehensive review of capital markets and its underlying current and projected financial requirements, as determined through periodic asset/liability studies.

**D. Asset Allocation**

The PROB’s asset mix is established by the Treasurer and the IAC based on (1) capital market theory, (2) the PROB’s financial requirements and (3) the PROB’s liquidity needs.



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**Article V. State Judges Retirement Fund**

**A. Investment Authority**

The State Judges Retirement Fund (“JURF”) was established by Public Act 81-456(S, 5). Fund administration is through the State Employees Retirement Commission and the Office of the State Comptroller.

The investment portfolio of the JURF is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

The JURF was established for the purpose of providing retirement and other benefits to state judges, family support magistrates, and workers compensation commissioners and their beneficiaries who have fulfilled the requirements set forth in the JURF guidelines.

**C. Investment Objectives**

The primary objective of the JURF investment portfolio is to provide a secure source of retirement income for its beneficiaries. The JURF’s investment objectives are long term in nature and established based on a comprehensive review of capital markets and its underlying current and projected financial requirements, as determined through periodic asset/liability studies.

**D. Asset Allocation**

The JURF’s asset mix is established by the Treasurer and the IAC based upon (1) capital market theory, (2) the JURF’s financial requirements and (3) the JURF’s liquidity needs.



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**Article VI. State’s Attorneys’ Retirement Fund**

**A. Investment Authority**

The State’s Attorneys’ Retirement Fund (“SARF”) was established by Public Act 84-399(S.9.17) Fund administration is through the State Employees Retirement Commission and the Office of the State Comptroller.

The investment portfolio of the SARF is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

The SARF was established for the purpose of providing retirement and other benefits to certain states attorneys and certain public defenders and their beneficiaries who have fulfilled the requirements set forth in the SARF guidelines.

**C. Investment Objectives**

The primary objective of the SARF’s investment portfolio is to provide a secure source of retirement income for its beneficiaries. The SARF’s investment objectives are long term in nature and have been established based on a comprehensive review of capital markets and its underlying current and projected financial requirements.

**D. Asset Allocation**

The SARF’s asset mix is established by the Treasurer and the IAC based upon (1) capital market theory, (2) the SARF’s financial requirements and (3) the SARF’s liquidity needs.



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**Article VII. Policemen and Firemen Survivors' Benefit Fund**

**A. Investment Authority**

The Policemen and Firemen Survivors' Benefit Fund ("POFI") was established by Public Act 390 of the 1963 General Assembly. Fund administration is through the State Employees Retirement Commission and the Office of the State Comptroller.

The investment portfolio of the POFI is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

The POFI was established for the purpose of providing retirement and other benefits to participants and their beneficiaries who have fulfilled the requirements set forth in the POFI guidelines.

**C. Investment Objectives**

The primary objective of POFI's investment portfolio is to provide a secure source of retirement income for its beneficiaries. The POFI's investment objectives are long-term in nature and have been established based on a comprehensive review of capital markets and its underlying current and projected financial requirements, as determined through periodic asset/liability studies.

**D. Asset Allocation**

The POFI's asset mix is established by the Treasurer and the IAC based on (1) capital market theory, (2) the POFI's financial requirements, and (3) the POFI's liquidity needs, as specified in Article IV of Part I of this IPS. Prior to May 27, 1999, this fund's investment portfolio was required to be invested in group insurance policies or group annuity contracts. With the adoption of Public Act 99-70, the Treasurer was given the flexibility to take advantage of all the investment opportunities available through the CRPTF asset allocation plan.



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**Article VIII. Agricultural College Fund**

**A. Investment Authority**

The Agricultural College Fund (“AGRI”) is described in Section 10a-115 and 3-40 of the Connecticut General Statutes.

The investment portfolio of the AGRI is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

The AGRI dates back to 1862 when funds were received as proceeds from the sale of federal land granted to the States from the federal government. The beneficiary of the congressional grant became the University Of Connecticut School Of Agriculture, with the income from the assets “inviolably appropriated for teaching; principally, the science of agriculture and the mechanical arts.” The Treasurer annually transfers a distribution to the University of Connecticut.

**C. Investment Objectives**

The primary objective of the investment portfolio of AGRI is to provide a secure source of income from a principal amount that will last in perpetuity. The AGRI’s investment objectives are long term in nature and have been established based upon comprehensive reviews of the capital markets and its underlying current and projected requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for AGRI are as follows:

1. To provide a satisfactory current stream of income given current dollars invested;
2. To maintain the fund corpus by minimizing erosion of principal due to inflation;
3. To maximize returns within reasonable and prudent levels of risk; and
4. To maintain adequate cash levels to meet the fund’s distribution requirements.



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While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

### **D. Asset Allocation**

The AGRI's asset mix is established by the Treasurer and the IAC based on (1) capital market theory, (2) the AGRI's financial requirements and (3) the AGRI's liquidity needs.



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**Article IX. Andrew C. Clark Fund**

**A. Investment Authority**

The Andrew C. Clark Fund (“ACCF”) was established by Public Act 261 of the Connecticut General Assembly, May 3, 1917.

The investment portfolio of ACCF is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

The Treasurer was authorized by an act of the Connecticut General Assembly in 1917 to enter into an agreement with the executors of the will of Andrew C. Clark of New Milford, wherein certain proceeds of his estate would be shared equally by the State and the Congregational Home Missionary Society of New York. In his will, Andrew C. Clark bequeathed that one half of his entire estate be held and invested for the same objects and purposes for which the School Fund was established (as described in Article XIII of this Part.)

**C. Investment Objectives**

The primary objective of the investment portfolio of ACCF is to provide a secure source of income from a principal amount that would last in perpetuity. The ACCF’s investment objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long-term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for ACCF are as follows:

1. To provide a satisfactory current stream of income given current dollars invested;
2. To maintain the trust corpus by minimizing erosion of principal due to inflation;
3. To maximize returns within reasonable and prudent levels of risk; and



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4. To maintain adequate cash levels to meet trust distribution requirements.

While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The ACCF's asset allocation is established by the Treasurer and the IAC based on (1) capital market theory, (2) the ACCF's financial requirements and (3) the ACCF's liquidity needs.



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**Article X. Arts Endowment Fund**

**A. Investment Authority**

The Connecticut Arts Endowment Fund (“AEF”) is established in Section 10-406 of the Connecticut General Statutes.

The investment portfolio of AEF is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

The AEF was established under the provisions of Public Act 88-355 with the purpose of providing income to support nonprofit arts organizations in Connecticut. In 2017, the General Assembly enacted a spending policy which requires an annual distribution equivalent to four (4) percent of the average market value of the AEF over the preceding three years.

The Treasurer annually advises the Department of Economic and Community Development and the Connecticut Arts Council of the amounts available for distribution to organizations for participation in, promotion, development, acceptance and appreciation of artistic and cultural activities.

**C. Investment Objectives**

The primary objective of the AEF’s investment portfolio is to provide a secure source of income. The AEF’s investment objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for AEF are as follows:

1. Provide a current stream of income to maximize income distributions given current dollars invested;
2. Minimize erosion of the trust corpus due to inflation;
3. Maximize returns within reasonable and prudent levels of risk; and
4. Maintain adequate cash levels to meet trust distribution requirements.



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While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The AEF's asset allocation is established by the Treasurer and the IAC based on (1) capital market theory, (2) the AEF's financial requirements and (3) the AEF's liquidity needs.



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**Article XI. Hopemead State Park Fund**

**A. Investment Authority**

The Hopemead State Park Fund (“HOPE”) is established in Section 3-13c of the Connecticut General Statutes.

The investment portfolio of HOPE is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

The HOPE was created pursuant to the August 14, 1964 Last Will and Testament of Charlotte Fuller Eastman of Norwich, Connecticut. Upon the death of H. Louise Fuller in 1975, Mrs. Eastman’s last surviving heir, the bequeathed Hopemead Fund (\$143,288.18) was paid to the Department of Environmental Protection, as the successor of the Connecticut State Park and Forest Commission. As mandated, these assets were designated for the development of the Hopemead State Park. On March 22, 1976, by mutual agreement of the parties these assets were transferred to the Office of the State Treasurer in order to invest the principal.

**C. Investment Objectives**

The primary objective of HOPE’s investment portfolio is to provide a secure source of income. The HOPE’s investment objectives are long term in nature and have been established based on a comprehensive review of capital markets and its underlying current and projected financial requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for HOPE are as follows:

1. To provide a satisfactory current stream of income given current dollars invested;
2. To maintain the trust corpus by minimizing erosion of principal due to inflation;
3. To maximize returns within reasonable and prudent levels of risk; and
4. To maintain adequate cash levels to meet trust distribution requirements.



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While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

### **D. Asset Allocation**

The HOPE's asset allocation is established by the Treasurer and the IAC based on (1) capital market theory, (2) the HOPE's financial requirements and (3) the HOPE's liquidity needs.



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**Article XII. Ida Eaton Cotton Fund**

**A. Description**

The Ida Eaton Cotton Fund (“IECF”) is established under the provisions of Section 3-31a of the Connecticut General Statutes.

The investment portfolio of the IECF is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

The New Haven County Cotton Fund as originally established in 1963, mandated that interest income from the principal of the IECF bequest be used to sponsor and encourage industry among the adult blind community. Thus, on behalf of IECF, a distribution is transferred annually to the General Fund for use by the Board of Education Services for the Blind.

**C. Investment Objectives**

The primary objective of IECF’s investment portfolio is to provide a secure source of income. The IECF’s investment objectives are long term in nature and have been established based on a comprehensive review of capital markets and its underlying current and projected financial requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for IECF are as follows:

1. To provide a satisfactory current stream of income given current dollars invested;
2. To maintain the trust corpus by minimizing erosion of principal due to inflation;
3. To maximize returns within reasonable and prudent levels of risk; and
4. To maintain adequate cash levels to meet trust distribution requirements.

While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon



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this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The IECF's asset allocation is established by the Treasurer and the IAC based on (1) capital market theory, (2) the IECF's financial requirements and (3) the IECF's liquidity needs.



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**Article XIII. School Fund**

**A. Investment Authority**

The School Fund (“SCOL”) is established under the provisions of Section 3-40 of the Connecticut General Statutes.

The investment portfolio of SCOL is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

The SCOL was established through an Act of Congress on July 2, 1862 (as was the Agricultural College Fund) from the proceeds of the sale of federal land, and was approved by a Special Session of the Connecticut General Assembly in December 1862. The SCOL was originally under the jurisdiction of the Agricultural College of the University of Connecticut, but is now within the Department of Education. A distribution is transferred to the Department of Education for general use through the Office of Policy and Management’s budget allocation process.

**C. Investment Objectives**

The primary objective of SCOL’s investment portfolio is to provide a secure source of income. The SCOL’s investment objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for SCOL are as follows:

1. To provide a satisfactory current stream of income given current dollars invested;
2. To maintain the trust corpus by minimizing erosion of principal due to inflation;
3. To maximize returns within reasonable and prudent levels of risk; and
4. To maintain adequate cash levels to meet trust distribution requirements.



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While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The SCOL's asset allocation is established by the Treasurer and the IAC based on (1) capital market theory, (2) the SCOL's financial requirements and (3) the SCOL's liquidity needs.



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**Article XIV. Soldiers’ Sailors’ and Marines’ Fund**

**A. Description**

The Soldiers’ Sailors’ and Marines’ Fund (“SSMF”) is established under the provisions of Section 27-140 of the Connecticut General Statutes.

The investment portfolio of the SSMF is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.)

**B. Statement of Purpose**

The SSMF was established by an Act of the General Assembly in 1917 and, through numerous revisions, remains obligated to serve the interest of military personnel who were engaged in any of the wars waged by the United States, as specified by statute, who were honorably discharged, or to their spouses, survivors and dependents. The distribution is controlled and accounted for by the American Legion for the purposes of providing food, shelter, clothing and other subsistence payments to applicants under the provisions of Sections 27-138 and 27-140 of the Connecticut General Statutes.

**C. Investment Objectives**

The primary objective of SSMF’s investment portfolio is to provide a secure source of income. The SSMF’s investment objectives are long term in nature and have been established based on a comprehensive review of the capital markets and its underlying current and projected financial requirements.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. Consequently, while capital preservation is regarded to be of paramount importance, the Treasurer regards prudent risk-taking as justifiable.

The investment objectives for SSMF are as follows:

1. To provide a satisfactory current stream of income distributions given current dollars invested;
2. To preserve the trust corpus relative to the effects of inflation;
3. To maximize returns within reasonable and prudent levels of risk; and
4. To maintain adequate cash levels to meet trust distribution requirements.



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While there cannot be complete assurance that these objectives will be achieved, it is believed that the probability of their realization is reasonably high based upon this IPS and expected performance of the asset classes discussed in Article IV of Part I of this IPS.

D. Asset Allocation

The SSMF's asset allocation is established by the Treasurer and the IAC based on (1) capital market theory, (2) the SSMF's financial requirements and (3) the SSMF's liquidity needs.



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**Article XV. State of Connecticut Other Post-Employment Benefits Plan**

A. Investment Authority

A Retiree Health Care Trust Fund (also known as Other Post-Employment Benefits Trust Fund or “OPEB Trust Fund”) was established by Public Act 07-1 and was later defined in 2008 by gubernatorial authority as an irrevocable trust. Subsequent agreements in 2009 and 2011 between the State of Connecticut and the State Employees Bargaining Agent Coalition (SEBAC) further addressed the funding for and contractual obligations concerning the OPEB Trust Fund.

The investment portfolio of OPEB Trust Fund is overseen by the Treasurer (as principal fiduciary of the CRPTF) and invested in accordance with applicable statutory requirements and fiduciary standards. (See Sections 3-13c and 3-13d of the Connecticut General Statutes.) Administration of other post-employment benefits is through the Office of the State Comptroller.

B. Statement of Purpose

The OPEB Trust was established for the purpose of supplementing the payment of the costs of health care and other post-employment benefits for retirees of the State of Connecticut retiring after the effective date of SEBAC 2011 and its subsequent revisions.

C. Investment Objectives

The primary objective of the OPEB Trust Fund’s investment portfolio is to accumulate assets and provide a reliable source of funds to supplement the State of Connecticut’s payment of the costs of other post-employment benefits for retirees of the State of Connecticut. The OPEB Trust Fund’s investment objectives are based on a comprehensive review of capital markets, as well as its underlying current and projected funding policy.

The Treasurer adheres to the principles of capital market theory, which maintains that over the long term, prudent investment risk-taking is rewarded with incremental returns. The Treasurer regards prudent risk-taking as justifiable.<sup>7</sup>

D. Asset Allocation

The OPEB Trust Fund’s asset mix is established by the Treasurer and the IAC based upon (1) capital market theory; (2) the OPEB Trust Fund’s funding policy; and (3) the OPEB Trust Fund’s liquidity needs.

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<sup>7</sup> The investment objectives of the OPEB Trust Fund remain under consideration and will be formalized through the Asset Allocation and Liability Study, actuarial reporting, and other relevant policy considerations that may impact the investment horizon of this Trust Fund.



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**Article I. Introduction**

- A. The CIFs are separate pooled investment funds that have been created by the Treasurer of the State of Connecticut under the authority set forth in Section 3-31b of the Connecticut General Statutes. The CIFs were established to provide a means for investing pension plans and other trust fund assets entrusted to the Treasurer in a variety of investment classes. The CIFs are open-end portfolios consisting of the
1. Domestic Equity Fund,
  2. Developed Markets International Stock Fund,
  3. Emerging Markets International Stock Fund,
  4. Core Fixed Income Fund,
  5. Inflation Linked Bond Fund,
  6. High Yield Bond Fund,
  7. Emerging Market Debt Fund,
  8. Real Estate Fund,
  9. Private Investment Fund,
  10. Alternative Investment Fund, and
  11. Liquidity Fund.
- B. The units of the CIFs are owned by the pension plans and trust funds noted in this IPS.
- C. Guidelines for Money Managers and Investment Partners
1. Professional money managers and investment partners will be selected and monitored based on (1) conformity of investment style with each of the CIF's return objectives, (2) demonstrated ability to achieve above average performance results consistently and (3) continuity of senior personnel.
  2. Money managers and investment partners will be given discretion to manage their mandate through written investment guidelines as approved by the Treasurer. The guidelines will be consistent with the objectives and policies of the IPS and subject to the contractual arrangements governing the relationship between the CRPTF and its money managers and investment partners.
  3. The money managers' and investment partners' discretion regarding the selection of investments will be limited by the Treasurer's exercise of his/her duty to consider the consequences of such discretion in accordance with state laws and as may be addressed in the IPS.
  4. It is the current practice that the CRPTF assets are externally managed. However, nothing in this investment policy statement or under applicable law prohibits the ability of the Treasurer, in consultation with the IAC, from establishing criteria, standards and guidelines for managing a portion of the overall CRPTF portfolio within the Office of the Treasurer.



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5. Specific investment guidelines will be developed cooperatively by the Treasurer and such money manager or investment partner and will be incorporated into the Investment Management Agreement (IMA) or investment contract executed by the Treasurer. Decisions regarding the timing of purchases and sales of these investments are to be delegated to the money managers or investment partners, subject to restrictions established by the Treasurer.
- D. Communications, Reporting, & Notification by Money Managers and Investment Partners
1. Any change in investment strategy that materially deviates from the investment guidelines must be immediately communicated to the Treasurer.
  2. Any significant change in ownership or key personnel will be communicated preferably in advance of such change and a formal notice of said change will be issued to the Treasurer within 24 hours of the official change.
  3. Portfolio listings and valuations must be provided on a quarterly basis.
  4. Portfolio accounting will be reconciled to the master custodian on a monthly basis, in a manner prescribed by the Treasurer.
- E. CIF Asset Class Structure/Benchmarks Appendix
1. The CIF structure, benchmarks, and performance objectives are included in the appendix to this IPS.
- F. Proxy Voting
1. Proxy voting activities will be reported quarterly to the IAC and are posted on the Office of the State Treasurer web site.



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**Article II. Domestic Equity Fund**

**A. Statement of Purpose**

The Domestic Equity Fund (“DEF”) will invest primarily in the common stocks of U.S. corporations in order to meet the CRPTF asset allocation guidelines for domestic equities. In the overall asset allocation, DEF’s goal is to achieve a long-term, real rate of return significantly above the inflation rate. While common stocks are volatile on a year-to-year basis, that volatility is diminished over longer periods.

**B. Description of the Fund**

DEF will invest primarily in the common stocks of U.S. corporations. These investments will be primarily made using money managers. DEF assets will be allocated across the U.S. stock market so that there is diversification by both market capitalization and investment style, such as value and growth.

**C. Performance Benchmark & Objectives**

The DEF is expected to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform its benchmark will be contingent upon the amount of risk allowed in the IMA and current market conditions. This policy outlines the level of risk. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. Furthermore, DEF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of domestic equity managers over rolling three-year periods.
3. Generate strong risk-adjusted returns.



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**Article III. Developed Markets International Stock Fund**

**A. Statement of Purpose**

The Developed Markets International Stock Fund (“DMISF”) will invest primarily in the common stocks of non-U.S. corporations in order to meet the CRPTF asset allocation guidelines for International Equities. In the overall asset allocation, DMISF’s goal is to achieve a long-term, real rate of return above the US inflation rate. While common stocks are volatile on a year-to-year basis, that volatility is diminished over longer periods. The inclusion of DMISF investments will generate new sources of risks associated with international investing and at the same time, provides additional measures of diversification to other asset classes within the CRPTF.

**B. Description of the Fund**

DMISF will invest primarily in the common stocks of non-U.S. corporations. These investments will be primarily made using money managers. DMISF assets will be allocated across foreign markets such that there is diversification by market, capitalization and style which, in aggregate, are structured to replicate the characteristics of the comparable developed non-U.S. equity markets index. Non-U.S. equities are defined as common stocks issued by companies domiciled outside the U.S. Developed Markets are defined as the countries included in the benchmark.

**C. Performance Benchmark & Objectives**

The DMISF is expected to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform its benchmark will be contingent upon the amount of risk allowed in the IMA and current market conditions. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. Furthermore, DMISF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of international equity managers over rolling three-year periods.
3. Generate strong risk-adjusted returns.



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**Article IV. Emerging Markets International Stock Fund**

**A. Statement of Purpose**

The Emerging Markets International Stock Fund (“EMISF”) will invest primarily in the common stocks of non-U.S. corporations in order to meet the CRPTF asset allocation guidelines for Emerging Markets Equities. In the overall asset allocation, EMISF’s goal is to achieve a long-term, real rate of return above the US inflation rate. While common stocks are volatile on a year-to-year basis, that volatility is diminished over longer periods. The inclusion of EMISF investments will generate new sources of risks associated with international investing and at the same time, provides additional measures of diversification to other asset classes within the CRPTF.

**B. Description of the Fund**

EMISF will invest primarily in the common stocks of non-U.S. corporations. These investments will primarily be made using money managers. EMISF assets will be allocated across emerging markets such that there is diversification by market, capitalization and style which, in aggregate, are structured to replicate the characteristics of the comparable emerging markets equity index. Non-U.S. equities are defined as common stocks issued by companies domiciled outside the U.S. Emerging Markets are defined as the countries included in the benchmark.

**C. Performance Benchmark & Objectives**

The EMISF is expected to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform its benchmark will be contingent upon the amount of risk allowed in the IMA and current market conditions. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. Furthermore, EMISF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of emerging markets equity managers over rolling three-year periods.
3. Generate strong risk-adjusted returns.



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**Article V. Core Fixed Income Fund**

A. Statement of Purpose

The Core Fixed Income Fund (“CFIF”) will invest primarily in fixed-income securities in the domestic U.S. markets in order to meet the CRPTF asset allocation guidelines for Core Fixed Income. In the overall asset allocation, CFIF’s goal is to achieve a long-term, real rate of return above the inflation rate and provide a stream of income to meet cash flow needs of the plans and trusts. While fixed income securities may exhibit volatility on a year-to-year basis, that volatility is expected to be diminished over longer periods. The inclusion of a core fixed income class will provide a source of diversification to other asset classes within the CRPTF during different economic environments.

B. Description of the Fund

The Core Fixed Income Fund (“CFIF”) consists of active and passive managed fixed income mandates. The CFIF may invest in debt instruments issued by the U.S. Government and its agencies, “quasi Government” agencies, municipalities and U.S. corporations. In addition, mortgage and asset-back securities, Euro bonds, high quality quasi or sovereign debt and any other public or private U.S. regulated debt securities are permitted.

C. Performance Objectives

The CFIF is expected to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform its benchmark will be contingent upon the amount of risk allowed in the IMA and current market conditions. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. Furthermore, CFIF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of core fixed income managers over rolling three- and five-year periods.
3. Generate strong risk-adjusted returns.

**Article VI. Inflation Linked Bond Fund**

A. Statement of Purpose

The Inflation Linked Bond Fund (“ILBF”) will invest in inflation-linked securities in global government and corporate bond markets in order to meet the CRPTF asset allocation guidelines for Inflation-Linked Bonds. In the overall asset allocation, ILBF’s goal is to achieve a long-term, real rate of return above the inflation rate.



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The inclusion of an inflation-linked fixed income class will provide protection against rampant inflation and is a source of diversification to other asset classes within the CRPTF during different economic environments.

### B. Description of Fund

The ILBF consists of managed fixed income portfolios that draw from the global universe of inflation linked bonds. Inflation Linked Bonds pay fixed semi-annual coupons that account for the real return while the inflation component of the return accrues to the bonds' principal every year.

### C. Performance Objectives

The ILBF is expected to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform a benchmark will be contingent upon the amount of risk allowed in the IMA and current market conditions. Appendix "A", Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. This objective may employ either active or passive investment strategies. Furthermore, ILBF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of inflation-linked bond managers over rolling three to five-year periods.
3. Generate strong risk-adjusted returns.



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**Article VII. Emerging Market Debt Fund**

**A. Statement of Purpose**

The Emerging Market Debt Fund (“EMDF”) will invest primarily in emerging market fixed income securities and currencies denominated both in U.S. dollar and foreign currencies in accordance with the CRPTF asset allocation guidelines. EMDF’s goal is to achieve a long-term, real rate of return above the inflation rate while utilizing a range of manager style techniques to capture excess return and diversify risk. While emerging markets fixed income securities are likely to exhibit volatility on a year-to-year basis, that volatility is expected to be diminished over longer periods. The inclusion of an emerging market fixed income class will involve risks associated with international investing, and at the same time provide a source of diversification to other asset classes within the CRPTF given the different economic environments of global economies.

**B. Description of the Fund**

The Emerging Market Debt Fund (“EMDF”) consists of managed fixed income portfolios that invest in emerging market currencies and debt instruments issued by governments, quasi-government agencies and companies operating in developing countries as defined by the benchmark and/or by The World Bank.

**C. Performance Benchmark and Objectives**

The EMDF is expected to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform a benchmark will be contingent upon the amount of risk allowed in the IMA and current market conditions. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. Furthermore, EMDF is expected to:

1. Provide diversification benefits to the CRPTF performance in different economic environments.
2. Achieve cumulative performance results that rank in the top third of emerging market debt managers over rolling three-year periods.
3. Generate strong risk-adjusted returns.



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**Article VIII. High Yield Bond Fund**

A. Statement of Purpose

The High Yield Bond Fund (“HYBF”) will invest primarily in domestic below investment-grade debt securities in order to meet the CRPTF asset allocation guidelines for high yield bonds and bank loans. In the overall asset allocation, HYBF’s goal is to achieve a long-term, real rate of return above the inflation rate and utilize a range of manager styles to capture excess return. The inclusion of a high yield fixed income class will provide a source of diversification to other asset classes within the CRPTF given the different economic environments.

B. Description of the Fund

The High Yield Bond Fund (“HYBF”) consists of actively managed fixed income portfolios which, in aggregate, are debt instruments rated below investment grade by a nationally recognized rating agency service (example: Standard & Poor’s, Moody’s or Fitch).

C. Performance Benchmark and Objectives

The HYBF is expected to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of a money manager to outperform a benchmark will be contingent upon the amount of risk allowed in the IMA and current market conditions. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC. Furthermore, HYBF is expected to:

1. Provide diversification benefits to the CRPTF performance.
2. Achieve cumulative performance results that rank in the top third of high yield debt managers over rolling three- to five-year periods.
3. Generate strong risk-adjusted returns.



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**Article IX. Real Estate Fund**

**A. Statement of Purpose**

The Real Estate Fund’s (“REF”) strategic objectives are to provide diversification to the overall CRPTF investment program, preserve investment capital and generate attractive risk-adjusted rates of return. The REF will also provide consistent current income and provide capital gains to the CRPTF and act as a hedge against inflation given different economic scenarios. The REF may also consider co-investments in operating or holding companies.

**B. Description of the Fund**

The REF is the CIF through which the CRPTF makes investments in the real estate asset class. The investments may consist of a number of different investment strategies and investment vehicles, including externally managed commingled funds, separate accounts, publicly traded real estate investment trusts (“REIT”) or individual properties. All investments in real estate assets are expected to adhere to the standards of fiduciary obligation to the beneficiaries of the CRPTF, and will be considered in the context of the relevant risk/reward factors of this asset class and consistent with the statutory requirements for consideration of investments by the Treasurer in accordance with Section 3-13d(a) of the Connecticut General Statutes. These investments also will adhere to the Responsible Contractor Policy as approved by the IAC and contained in the Appendix. In the event the preconditions of Section 3-13d(e) of the Connecticut General Statutes are met with respect to a “lame duck” period, any investment decisions for the REF must be approved by the IAC until such time as the duly elected Treasurer is officially sworn into office.

**C. Performance Benchmark and Objectives**

1. Expected returns for each of the CRPTF’s real estate investments will be commensurate with the attendant risks associated with each investment.
2. The real estate asset class will be managed to (i) ensure a consistent flow of qualified investment opportunities that represent the most attractive investment vehicles currently available in the marketplace, (ii) produce a diversified and balanced portfolio of investments that are structured so that the risks inherent in these generally illiquid and long-lived assets may be minimized or mitigated, and (iii) adhere to the fiduciary standards delineated in Part I of the IPS.
3. The REF is expected to achieve a net return that, at a minimum, matches the benchmark, over rolling three-to five-year periods. The ability of an investment partner to outperform a benchmark will be contingent upon the amount of risk and the current market conditions. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC.



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**Article X. Private Investment Fund**

**A. Statement of Purpose**

The Private Investment Fund (“PIF”) will invest in various private equity strategies and vehicles in order to meet the CRPTF asset allocation guidelines for Private Equity. The purpose of the PIF is to earn returns in excess of the public equity markets and generate attractive risk-adjusted rates of return. The PIF is also expected to reduce the impact of market volatility by diversifying the total asset base.

**B. Description of the Fund**

The PIF investments will generally be made in externally managed limited partnerships or through separate accounts that focus on private equity investments. The PIF may also make co-investments.

Private equity includes both Venture Capital and Corporate Finance investment strategies. Venture Capital typically involves equity capital invested in young or development stage companies, whether start-up, early, mid or late stage companies. Corporate Finance typically involves equity and debt capital invested in growth, mature or distressed stage companies, often through the financing of acquisitions, spin-offs, mergers or changes in capitalization.

**C. Performance Benchmark and Objectives**

The ability of an investment manager to outperform a benchmark will be contingent upon the amount of risk and the current market conditions. Appendix “A”, Section II of this document, outlines the objective, and will be modified by the Treasurer as market conditions change, and endorsed by the IAC.

The target expected rate of return on any individual investment vehicle within PIF will be based upon the particular investment strategy employed. Private equity investments often do not report a positive return until the third through fifth year of operation. By the end of the fifth year, each separate account or limited partnership is expected to be profitable and by the end of the tenth year, the annualized rate of return of each separate account or limited partnership is expected to achieve the target returns.



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**Article XI. Liquidity Fund**

A. Statement of Purpose

The objective of the Liquidity Fund (“LF”) will be to provide a liquid source of funds to pay retirement benefits or trust beneficiaries.

B. Description of the Fund

The LF consists of: short-term U.S. assets that include cash balances, contributions that are used routinely to make benefit payments, and other cash needs of the plan. The Liquidity Fund assets will be managed consistent with U.S. money market guidelines. The LF may include portfolios managed by the Treasury’s Cash Management Division, including STIF, STIF Plus and the extended investment portfolio.

C. Performance Benchmark and Objectives

The LF is expected to achieve a net return, at a minimum, that matches the benchmark over rolling three- to five-year periods.



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**Article XII. Alternative Investment Fund**

**A. Statement of Purpose**

The AIF will invest CRPTF assets in investment strategies that offer the potential to enhance overall portfolio expected returns, reduce risk, or a combination of both in a variety of market conditions. Additionally, the AIF will provide diversification benefits and inflation protection to some extent. The AIF serves as a vehicle for strategies that are not easily classified, categorized, or described in the other CIFs. Hybrid strategies that cut across multiple asset classes will also be considered part of the opportunity set.

**B. Description of Fund**

AIF strategies represent a broad set of investment styles, mandates and products that focus primarily on the liquid equity, fixed income and derivatives markets, and illiquid securities and investments. AIF strategies may target absolute returns without reference to a traditional benchmark since managers may use a wide range of investment tools such as short-selling, leverage, derivatives and complex securities to achieve their investment objectives. The AIF may also consider co-investments in operating or holding companies.

AIF strategies will be developed within the specific asset class structure parameters as stated in Appendix A, section II, Combined Investment Funds Asset Class Structure/Benchmarks.

The AIF may invest in strategies that do not fit the constraints of existing CIFs and other strategies including absolute return strategies, managed futures strategies, commodities, real assets and other alternative asset strategies.

The AIF mandate may be executed through investment partners and money managers who actively manage a fund of funds (“FoF”) portfolio or through direct investments in single manager funds (“SMF”).

**C. Performance Objectives**

It is anticipated that an allocation to the AIF will offer the potential to enhance overall portfolio expected returns, reduce risk, or a combination of both in a variety of market conditions. Appendix A, Section II of this document outlines the objectives and may be modified by the Treasurer as market conditions change and endorsed by the IAC. Within this context:

1. In aggregate, the AIF’s targeted volatility, as defined by standard deviation of monthly returns, should fall somewhere between equities and fixed income over a market cycle;
2. The correlation of the AIF portfolio to standard equity benchmarks is targeted to be less than 0.50 over a market cycle.



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State of Connecticut Retirement Plans & Trust Funds  
PART III – COMBINED INVESTMENT FUNDS

D. Risk Management

1. Specific guidelines will be required for each investment. These guidelines will be reviewed by the IAC prior to the implementation of any permissible strategies in accordance with Appendix A, section II, Combined Investment Funds Asset Class Structure/Benchmarks and will address derivative use, leverage, short selling, and transparency and other relevant metrics.
2. Aggregate risk exposures of the entire portfolio will be reviewed on a periodic basis and may be managed through a third party risk aggregator with an analysis of fundamental factors, sector analysis, Value at Risk (VAR) analysis and stress testing. The preponderance of the portfolio will be transparent in terms of the risk profile.
3. Counterparty risk will be managed with particular emphasis on assuring that the overall portfolio is not exposed to unintended counterparty exposure. Counterparty risk will be aggregated for each investment partner and at the AIF.



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FUNDS ALLOCATION APPENDIX

**APPENDIX A**  
**SECTION I**  
**PLANS AND TRUST FUNDS ASSET ALLOCATION**



**INVESTMENT POLICY STATEMENT**  
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**APPENDIX A, SECTION I-INTRODUCTION**

The following tables reflect the implemented recommendations from the 2018 asset liability study. Each plan and trust has a different funding status or disbursement requirement and, therefore, a more customized asset allocation plan is required.

The tables below outline the asset allocation plans chosen for each plan given their specified funding needs and objectives. This process is more dynamic, and as such, requires the use of asset allocation ranges instead of specific asset allocation targets.



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**State of Connecticut  
 Teachers' Retirement Fund  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	20%	15%	25%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	9%	4%	14%
<i>Core Fixed Income Fund</i>	16%	11%	21%
<i>Inflation Linked Bond Fund</i>	5%	0%	10%
<i>Emerging Market Debt Fund</i>	5%	0%	10%
<i>High Yield Bond Fund</i>	6%	1%	11%
<i>Real Estate Fund</i>	10%	5%	15%
<i>Private Equity</i>	10%	5%	15%
<i>Alternative Investments</i>	7%	2%	12%
<i>Liquidity Fund</i>	1%	0%	3%
	100%		



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**State of Connecticut  
 State Employees' Retirement Fund  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	20%	15%	25%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	9%	4%	14%
<i>Core Fixed Income Fund</i>	16%	11%	21%
<i>Inflation Linked Bond Fund</i>	5%	0%	10%
<i>Emerging Market Debt Fund</i>	5%	0%	10%
<i>High Yield Bond Fund</i>	6%	1%	11%
<i>Real Estate Fund</i>	10%	5%	15%
<i>Private Equity</i>	10%	5%	15%
<i>Alternative Investments</i>	7%	2%	12%
<i>Liquidity Fund</i>	1%	0%	3%
	100%		



**INVESTMENT POLICY STATEMENT**  
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**State of Connecticut  
 Municipal Employees' Retirement Fund  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	20%	15%	25%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	9%	4%	14%
<i>Core Fixed Income Fund</i>	16%	11%	21%
<i>Inflation Linked Bond Fund</i>	5%	0%	10%
<i>Emerging Market Debt Fund</i>	5%	0%	10%
<i>High Yield Bond Fund</i>	5%	1%	11%
<i>Real Estate Fund</i>	10%	5%	15%
<i>Private Equity</i>	10%	5%	15%
<i>Alternative Investments</i>	7%	2%	12%
<i>Liquidity Fund</i>	1%	0%	3%
	100%		



**INVESTMENT POLICY STATEMENT**  
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**State of Connecticut  
 Probate Judges and Employees’ Retirement Fund  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	20%	15%	25%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	9%	4%	14%
<i>Core Fixed Income Fund</i>	16%	11%	21%
<i>Inflation Linked Bond Fund</i>	5%	0%	10%
<i>Emerging Market Debt Fund</i>	5%	0%	10%
<i>High Yield Bond Fund</i>	6%	1%	11%
<i>Real Estate Fund</i>	10%	5%	15%
<i>Private Equity</i>	10%	5%	15%
<i>Alternative Investments</i>	7%	2%	12%
<i>Liquidity Fund</i>	1%	0%	3%
	100%		



**INVESTMENT POLICY STATEMENT**  
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**State of Connecticut  
 State Judges Retirement Fund  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	20%	15%	25%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	9%	4%	14%
<i>Core Fixed Income Fund</i>	16%	11%	21%
<i>Inflation Linked Bond Fund</i>	5%	0%	10%
<i>Emerging Market Debt Fund</i>	5%	0%	10%
<i>High Yield Bond Fund</i>	6%	1%	11%
<i>Real Estate Fund</i>	10%	5%	15%
<i>Private Equity</i>	10%	5%	15%
<i>Alternative Investments</i>	7%	2%	12%
<i>Liquidity Fund</i>	1%	0%	3%
	100%		



**INVESTMENT POLICY STATEMENT**  
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**State of Connecticut  
 States' Attorneys' Retirement Fund  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	20%	15%	25%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	9%	4%	14%
<i>Core Fixed Income Fund</i>	16%	11%	21%
<i>Inflation Linked Bond Fund</i>	5%	0%	10%
<i>Emerging Market Debt Fund</i>	5%	0%	10%
<i>High Yield Bond Fund</i>	6%	1%	11%
<i>Real Estate Fund</i>	10%	5%	15%
<i>Private Equity</i>	10%	5%	15%
<i>Alternative Investments</i>	7%	2%	12%
<i>Liquidity Fund</i>	1%	0%	3%
	100%		



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**State of Connecticut**  
**Policemen and Firemen Survivors' Benefit Fund**  
**Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	20%	15%	25%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	9%	4%	14%
<i>Core Fixed Income Fund</i>	16%	11%	21%
<i>Inflation Linked Bond Fund</i>	5%	0%	10%
<i>Emerging Market Debt Fund</i>	5%	0%	10%
<i>High Yield Bond Fund</i>	6%	1%	11%
<i>Real Estate Fund</i>	10%	5%	15%
<i>Private Equity</i>	10%	5%	15%
<i>Alternative Investments</i>	7%	2%	12%
<i>Liquidity Fund</i>	1%	0%	3%
	100%		



**INVESTMENT POLICY STATEMENT**  
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**State of Connecticut  
 Agricultural College Fund  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>			
<i>Developed Market International Stock Fund</i>			
<i>Emerging Market International Stock Fund</i>			
<i>Core Fixed Income Fund</i>	100%		
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>			
	100%		

Note: Publicly listed common stock investments in U.S. equity securities are subject to a statutory limit of 60% of the AGRI's total portfolio.



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**State of Connecticut**  
**Andrew C. Clark Fund**  
**Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	15%	10%	20%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	4%	0%	5%
<i>Core Fixed Income Fund</i>	67%	57%	77%
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>	3%	0%	4%
	100%		

Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the ACCF's total portfolio.



**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
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**State of Connecticut  
 Arts Endowment Fund  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	28%	23%	33%
<i>Developed Market International Stock Fund</i>	17%	12%	22%
<i>Emerging Market International Stock Fund</i>	12%	7%	17%
<i>Core Fixed Income Fund</i>	16%	11%	21%
<i>Inflation Linked Bond Fund</i>	9%	4%	14%
<i>Emerging Market Debt Fund</i>	8%	3%	13%
<i>High Yield Bond Fund</i>	9%	4%	14%
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>	1%	0%	3%
	100%		

Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the ART's total portfolio.



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**State of Connecticut  
 Hopemead Fund  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	15%	10%	20%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	4%	0%	5%
<i>Core Fixed Income Fund</i>	67%	57%	77%
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>	3%	0%	4%
	100%		

Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the HOPE’s total portfolio.



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**State of Connecticut  
 Ida Eaton Cotton Fund  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	15%	10%	20%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	4%	0%	5%
<i>Core Fixed Income Fund</i>	67%	57%	77%
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>	3%	0%	4%
	100%		

Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the IDAE's total portfolio.



**INVESTMENT POLICY STATEMENT**  
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**State of Connecticut  
 School Fund  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	15%	10%	20%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	4%	0%	5%
<i>Core Fixed Income Fund</i>	67%	57%	77%
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>	3%	0%	4%
	100%		

Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the SCOL's total portfolio.



**INVESTMENT POLICY STATEMENT**  
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**State of Connecticut**  
**Soldiers’ Sailors’ & Marines’ Fund**  
**Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	15%	10%	20%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	4%	0%	5%
<i>Core Fixed Income Fund</i>	67%	57%	77%
<i>Inflation Linked Bond Fund</i>			
<i>Emerging Market Debt Fund</i>			
<i>High Yield Bond Fund</i>			
<i>Real Estate Fund</i>			
<i>Private Equity</i>			
<i>Alternative Investments</i>			
<i>Liquidity Fund</i>	3%	0%	4%
	100%		

Note: Publicly listed common stock investments including U.S. equity securities are subject to a statutory limit of 60% of the SSMF’s total portfolio.



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**State of Connecticut  
 Other Post-Employment Benefits Plan  
 Asset Allocation Policy and Relative Ranges**

<b>Asset Class</b>	<b>Asset Allocation Target Policy</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<i>Domestic Equity Fund</i>	20%	15%	25%
<i>Developed Market International Stock Fund</i>	11%	6%	16%
<i>Emerging Market International Stock Fund</i>	9%	4%	14%
<i>Core Fixed Income Fund</i>	16%	11%	21%
<i>Inflation Linked Bond Fund</i>	5%	0%	10%
<i>Emerging Market Debt Fund</i>	5%	0%	10%
<i>High Yield Bond Fund</i>	6%	1%	11%
<i>Real Estate Fund</i>	10%	5%	15%
<i>Private Equity</i>	10%	5%	15%
<i>Alternative Investments</i>	7%	2%	12%
<i>Liquidity Fund</i>	1%	0%	3%
	100%		



**INVESTMENT POLICY STATEMENT**  
State of Connecticut Retirement Plans & Trust Funds  
APPENDIX A, SECTION II – COMBINED INVESTMENT FUNDS  
ASSET CLASS STRUCTURE/BENCHMARKS

**APPENDIX A**  
**SECTION II**  
**COMBINED INVESTMENT FUNDS**  
**ASSET CLASS STRUCTURE/BENCHMARKS**



**INVESTMENT POLICY STATEMENT**  
 State of Connecticut Retirement Plans & Trust Funds  
 APPENDIX A, SECTION II – COMBINED INVESTMENT FUNDS  
 ASSET CLASS STRUCTURE/BENCHMARKS

**COMBINED INVESTMENT FUND – OVERVIEW**

The following chart identifies the Combined Investment Funds (CIF) used in the development of investment portfolios for the State of Connecticut Retirement Plans and Trust Funds (“CRPTF”). The benchmark for each CIF is also provided. The performance relative to the benchmark is based upon the assumption that a majority of the underlying assets will be actively managed. However, there may be passively managed portfolios to insure that adequate asset diversification is achieved. When a CIF manager structure is revised, an allocation to active and passive management will be determined. As a result, the expected performance above the benchmark will change and be highly influenced by the allocation to passive. Passive management may be used for asset classes deemed to be efficient. The widespread availability of relevant information for efficient asset classes minimizes the ability of active management to generate returns in excess of their respective benchmark. The use of CIFs allows the Treasurer to establish customized portfolios that meets the specific needs of each of the Retirement Plans and Trust Funds.

COMBINED INVESTMENT FUND	BENCHMARK
<b>Domestic Equity Fund (DEF)</b>	<b>Russell 3000 Index</b>
<b>Developed Markets International Stock Fund (DMISF)</b>	<b>Morgan Stanley Capital International Europe Australasia and Far East Investable Market Index (“MSCI EAFE IMI”)</b>
<b>Emerging Markets International Stock Fund (EMISF)</b>	<b>Morgan Stanley Capital International Emerging Markets Investable Market Index (“MSCI EM IMI”)</b>
<b>Core Fixed Income Fund (CFIF)</b>	<b>Barclays U.S. Aggregate Bond Index</b>
<b>Inflation Linked Bond Fund (ILBF)</b>	<b>Barclays World Government Inflation-Linked Bond Index</b>
<b>Emerging Markets Debt Fund (EMDF)</b>	<b>J.P. Morgan Emerging Markets Bond Index Global Diversified /J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (50%/50%)</b>
<b>High Yield Bond Fund (HYBF)</b>	<b>FTSE High Yield Market Capped Index</b>
<b>Liquidity Fund (LF)</b>	<b>1 month London Interbank Offered Rate (“LIBOR”)</b>
<b>Alternative Investment Fund (AIF)</b>	<b>Hedge Funds: 90 Day Treasury Bill (90 Day T-Bill) +300 basis points and HFRI Fund of Funds Diversified Index Real Assets: CPI + 400 basis points (Custom Benchmark will Market Weight the Hedge Fund and Real Asset components)</b>
<b>Private Investment Fund (PIF)</b>	<b>Russell 3000 +250 basis points</b>
<b>Real Estate Fund (REF)</b>	<b>Open End Diversified Core Equity (NFI-ODCE Index)</b>

The CRPTF will also track the Morgan Stanley Capital International World Environmental Social and Governance (“MSCI World ESG”) index.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds APPENDIX A, SECTION II – COMBINED INVESTMENT FUNDS ASSET CLASS STRUCTURE/BENCHMARKS

#### *Compliance Parameters:*

From time to time, a CIF or any parameter of the IPS may be out of compliance with the policies and practices outlined within the IPS and appendices. This may occur for one of two reasons. The first, a decision based upon perceived opportunities or risks as provided for under Article XIV. D. of the IPS that would result in a position outside of the asset allocation upper and lower bound ranges found within Appendix A, Section I, Retirement Plan and Trust Fund allocation. Asset Allocations outside of policy upper and lower bounds will be addressed in accordance with all applicable Connecticut General Statutes as recommended by the Treasurer and approved by the IAC. The actions taken will be reviewed at least quarterly. The second, the result of market movements, contemplated under Part I Article IV. F. of the IPS, as unanticipated and/or uncontrollable events. All remedies in accordance with applicable Connecticut General Statutes with corrective action reasonably implemented in such manner as to minimize disruption to the overall investment strategy and portfolio structure.

A tactical position based upon perceived opportunities or risks is permitted as long as the resulting asset allocation falls within the upper and lower bound ranges set forth within Appendix A, Section I, Retirement Plan and Trust Funds Asset Allocation.

#### *Procedures:*

Written procedures for the CIF will be maintained in conformance with Part I Article XIII. A. of the IPS. These procedures will provide guidance for daily operations.

#### **Asset Class Structure/Guidelines – Liquid Combined Investment Funds**

#### **Manager Strategies / Styles**

To meet the benchmark and fund objectives of the liquid CIFs, the Treasurer will utilize a combination of money manager styles and strategies. As noted in Part I, Article IX, the size, number and style of money managers retained within each liquid CIF will be determined by the Treasurer's reasonable and prudent considerations to create optimal multi-money manager complements. Each money manager will individually provide a value added function so that the blend of money managers within the liquid CIF achieves its desired return target while maintaining acceptable levels of risk and diversification.

- **Passive** – money manager attempts to match the index in terms of performance and risk characteristics.
- **Enhanced index** – money manager incrementally assumes modest tracking error through a proprietary value-added strategy designed to add incremental return with minimal increase in risk.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds APPENDIX A, SECTION II – COMBINED INVESTMENT FUNDS ASSET CLASS STRUCTURE/BENCHMARKS

- **Active Core** – money manager is acutely aware of benchmark relative exposures (*capitalization, style, industries, etc.*) and actively seeks performance above that of its benchmark with a normalized tracking error.
- **Active Specialist** – money manager is acutely aware of benchmark relative exposures within a Sub-Asset Class (*ex: within a particular capitalization, style, or industry*) and actively seeks performance above that of its benchmark.
- **Opportunistic** – money manager’s investment strategies include new, innovative, or proprietary products which may not be easily classifiable and/or are currently not widely available in the institutional marketplace.

### Currency Strategy

As investors in international markets, CIFs are exposed to the foreign currencies in which the securities are denominated. Over the long term, returns of foreign currencies are expected to be zero. However, in the short and intermediate term, currency movements can have a meaningful impact on the returns of an international portfolio. To provide the ability to opportunistically capture such returns, a strategic hedge ratio may be used for the CIF’s that invest in non-US securities.

To implement this policy, a currency overlay strategy will be utilized. The currency overlay money managers may manage the portfolio passively or actively depending upon opportunities in the marketplace. An active mandate may be utilized to add incremental value to the investment program.

### **Watch List Procedure**

#### **Purpose:**

In accordance with Part I, Article XI of the IPS, the Treasurer will regularly monitor the investment performance for each plan or trust, the CIFs, and individual money managers.

In addition, at the three year investment horizon, utilizing a staggered review schedule, the Treasurer will conduct a comprehensive review of each money manager. A report of findings will be prepared and include a recommendation to continue, terminate or place the money manager on the watch list. All three-year comprehensive reviews will be reported to the IAC. These comprehensive reviews will continue every three years thereafter for as long as the money manager manages assets for the CRPTF.

Periodically, it may be necessary to place a money manager on a Watch List as a result of the ongoing monitoring of individual money managers or the comprehensive money manager evaluation.



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**Conditions:**

The following conditions can trigger placement of a money manager on the Watch List:

- The portfolio managed by the money manager significantly under-performs its benchmark for three consecutive quarters;
- Turnover of key members of the investment professional staff;
- A significant event such as (but not limited to) change of control; a large quarterly loss; a material change in assets under management; the disclosure of Securities & Exchange Commission (“SEC”) or other federal investigations or inquiries into the manager’s operations;
- Violation of investment guidelines;
- A change in the portfolio characteristics or risk profile, which may indicate style drift; or
- Any other event that could affect the money manager’s ability to perform its investment management responsibilities for the CRPTF.

**Action:**

The Chief Investment Officer (“CIO”), with input from staff and/or consultants as appropriate, will make a recommendation to the Treasurer to place a money manager on the Watch List. The recommendation will outline the rationale for the action along with the criteria that may be considered during the monitoring phase.

**Subsequent Actions:**

Once a money manager is placed on the Watch List, the situation triggering such placement will be reviewed by the Treasurer and/or the CIO. This review will entail a comprehensive analysis of the situation through various means such as site visits, conference calls, assessment of the likely impact of the situation, etc. An analysis and recommendation will be delivered to the Treasurer by the CIO. If such analysis alleviates the concerns of the Treasurer, the money manager will be removed from the Watch List. If such analysis does not alleviate the concerns of the Treasurer, a decision will be made whether to (a) continue to monitor the money manager, or (b) terminate the money manager.

It is expected that a money manager on the Watch List will be reviewed every six months based upon the date the manager was placed on the list. There is no stated time constraint under which a decision to continue monitoring, terminate or remove the money manager



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from the Watch List will be made. Each situation will be handled on an individual basis, but wholly consistent with the Watch List framework articulated in Part I Article XI of the IPS.

**Notification to the Investment Advisory Council (“IAC”):**

The Treasurer will inform the IAC of any decision to place a money manager on the Watch List. Thereafter, the Treasurer will report on any change in status of the issues that led to the placement of the money manager on the Watch List or any subsequent action taken.



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**ASSET CLASS STRUCTURE/GUIDELINES – REAL ESTATE FUND**

**Manager Strategies/Style**<sup>7</sup>

The Real Estate Fund (“REF”) investments will generally be made in partnerships with the CRPTF as a limited partner and the investment manager serving as the general partner; in open end or closed end diversified funds; directly in the form of limited partnership or other appropriate limited liability vehicle with 100% ownership of the underlying asset and for which REF is the sole investor or through publicly traded portfolios. The REF performance will be benchmarked against the total rate of return of the Open End Diversified Core Equity Index (NFI-ODCE Index). Additional criteria will be applied to the performance of investment managers having a focus on a particular property sector or geographic location and for investments having higher risk strategies.

The REF will be divided into four segments: the Core Portfolio, the Value-Added Portfolio, the Opportunistic Portfolio, and the Publicly Traded Portfolio. Assignment of an investment to a particular portfolio will be based on the investment’s risk and return characteristics.

*Strategic Objectives of the Core, Value-Added, Opportunistic and Publicly Traded Portfolios:*

Under this structure, the strategic objectives of the Core Portfolio are to: (i) produce stable current income; and (ii) generate market level returns commensurate with a low to moderate level of risk. Hence, the performance of the Core Portfolio is expected to mirror the composite NCREIF Open End Diversified Core Equity “ODCE” Index, on a net-of-fee basis.

The Value-Added Portfolio is expected to produce higher returns than the Core Portfolio, subject to an incrementally greater amount of risk, thereby enhancing the overall performance of the REF. The Value-Added Portfolio is expected to provide solid income and greater levels of appreciation than anticipated in the Core Portfolio. The Value-Added Portfolio is expected to outperform the NCREIF/Townsend Enhanced Return Fund Index, on a net-of-fee basis.

The Opportunistic Portfolio is expected to enhance performance of the REF, and to provide additional diversification. The Opportunistic Portfolio may offer limited current income and returns are often largely dependent on future appreciation. The Opportunistic Portfolio is expected to outperform the NCREIF/Townsend High Return Fund Index, on a net-of-fee basis.

The Publicly Traded Portfolio is intended to perform in excess of the NAREIT Composite Index, enhance performance, provide liquidity and contribute to the REF’s

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<sup>7</sup> Including up to 5% of the REF for investments targeting underserved geographical areas and populations, with a focus on Connecticut.



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diversification by allowing the REF access to property types and real estate operating companies in which exposure is difficult to obtain due to the nature or size of the individual assets or investments.

*Allocation to the Core, Value-Added, Opportunistic, and Publicly Traded Portfolios:*

Allocations to the Core, Value-Added, Opportunistic and Publicly Traded Portfolios will be made to maximize the total return to CRPTF while mitigating risk.

<b>Portfolio Segment</b>	<b>Allocation Range</b>
Core	40% to 60%
Value-Added	15% to 35%
Opportunistic	15% to 35%
Publicly Traded	0% to 20%

All investment vehicles will be managed as approved by the Treasurer consistent with the objectives and policies of the CRPTF and subject to the provisions of the contractual arrangements governing the relationship between the CRPTF and its investment managers, and the investment guidelines outlined below.

*Discretion:*

The Treasurer may enter into discretionary separate account relationships with real estate investment managers, subject to pre-approved investment guidelines, or clearly defined investment strategies. This delineation is known in the real estate industry as “discretion in a box”, which means the investment manager will have the authority and discretion to execute a particular investment strategy only so long as every investment falls within the pre-approved guidelines for that investment manager’s portfolio. For this reason, investment vehicles will be structured to facilitate alignment of interests, management accountability, investment monitoring and, ultimately, liquidity.

In these separate accounts, the CRPTF will have sole ownership of the assets or may joint venture with other institutional investors to acquire the asset. The CRPTF will reserve the right to remove the investment manager of any separate account, with or without cause, in a timely manner.

*Alignment of Interests:*

Preferred investment vehicles for the REF will be those that exhibit the highest degree of management accountability and the greatest alignment of interests. As a matter of policy the REF will seek, but will not be limited to, vehicles in which the dedicated management team co-invests or has substantial ownership interest in the investment entity controlling



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positions with provisions for liquidity, disclosure, as well as the mitigation of conflicts of interest.

Leverage at the aggregate REF level will be targeted at no more than 60%. Individual investment vehicles may exceed the targeted leverage limit as long as the aggregate REF leverage is at or below the specified level. This will be measured by comparing the principal amount of debt secured by real estate investments in the portfolio annually to the gross market value of the REF.

**Management of the REF**

The Treasurer, in consultation with the IAC, will select the investment managers for the REF. In accordance with Section 3-13i of the Connecticut General Statutes, the IAC will have up to a forty-five day period following presentation of the investment opportunity in which to file a written review of the Treasurer's recommendation. While the IAC's response will be given full consideration, the ultimate decision to invest resides with the Treasurer. The Treasurer and the IAC will also review, at least quarterly, the activity and financial condition of the REF. In the event the preconditions described in Section 3-13d (e) of the Connecticut General Statutes are met with respect to the "lame duck" period, any investment decisions in the REF must be approved by the IAC until such time as the duly elected Treasurer is officially sworn into office.

**Diversification of the REF**

In portfolio theory, the principle of diversification is defined as the process of combining investment alternatives so that unique risk is reduced and the level of certainty associated with future expected returns is enhanced. This will be accomplished in the real estate portfolio through the investment of capital among a number of different investment management organizations and in a variety of investment strategies and structures, property types and geographic regions, among other factors.

**Diversification by Geography:**

To reduce risk, investments in the REF will be (i) well diversified by geography and (ii) primarily located in the United States. The allocation ranges for real estate located in the United States versus overseas will be 80% to 100% to the United States and 0% to 20% to real estate markets abroad.

Based on the geographic classification system used in the NFI-ODCE Index, the target allocation ranges for regions within the United States will be within 15% of each NFI-ODCE Region.

**Diversification by Property Type:**

To reduce risk, the REF will be well diversified by property type and primarily invested in apartment, industrial, office and retail assets. The target allocation ranges for the four



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basic property types as well as “hotel” and “other” property types to be included in the REF are as follows:

<u>Property Type</u>	<u>Allocation Range</u>
Apartment	10% - 30%
Industrial	10% - 30%
Office	30% - 45%
Retail	10% - 30%
Hotel	0% - 10%
Other	0% - 20%

Note: “Other” includes, but is not limited to, land, condominiums, golf courses, operating companies and senior housing.

**Diversification by Currency:**

There are no specific guidelines regarding currency diversification. However, investments in markets which restrict, limit or control the conversion of local currency into U.S. dollars will be avoided or, whenever possible, U.S. dollar denominated. In addition, careful attention will be given to the overall strength and stability of currencies at the time of investment in a local economy and on an ongoing basis. To the extent sheltering techniques are employed, expected returns for such investments will take into account the risks associated with the financial overlay.

**Selection Criteria**

The selection criteria will entail a comprehensive, thorough due diligence and investigation of the critical factors on which an investment decision is to be based, including quantitative and qualitative analysis of the general partner and/or investment manager, its professionals and their ability to successfully implement their stated investment strategy within the context of current and prospective market environments. The investment vehicle’s relative investment worthiness will be assessed within this context. To the extent necessary and feasible a site visit will be conducted as part of this process. All real estate investments and the method by which they are sourced will be in compliance with Connecticut General Statutes. Additionally, all new investment vehicles for REF will be appropriately documented and such documentation will meet the standards set by the Treasurer.

**Liquidity Management:**

Investment vehicles utilized in the REF should include clearly defined redemption provisions, which may include investment or liquidation provisions. In addition, whenever possible, investment vehicles will include features that enhance liquidity to investors such as (i) shorter investment time horizons and holding periods, (ii) provisions for interim liquidation of investments, (iii) multiple exit strategies, and (iv) a readily tradable market for investor holdings.



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The REF may invest in open ended funds that have investment and redemption provisions and/or limited partnerships that have fund expiration and extension provisions. The CRPTF will utilize its annual pacing plans and liquidity fund management process to ensure that optimum liquidity is available to manage liquidity needs.

### **Contracts with General Partners**

The CRPTF will seek to negotiate partnership agreements that include language to ensure: (i) accountability and alignment of interests between general partners and the limited partners; (ii) complete disclosure of all actions taken that affect or have the potential to affect the limited partners; (iii) no conflicts of interests; (iv) provisions that allow the CRPTF to sell its limited partnership interest; (v) provision for a “no fault divorce clause” and protections for the limited partners in the event of changes within the general partnership; (vi) the existence of an advisory board and language that describes how conflicts would be handled; (vii) specific language on valuation standards for investments; (viii) provisions that limit the general partner’s ability to concentrate investments of the partnership in one company or enterprise; and (ix) the ability for the CRPTF to have co-investment rights in any underlying investment of the partnership. CRPTF will seek to obtain all of the above provisions, but recognizes that each provision may not be obtainable in each and every partnership. When or if there are deviations from this policy, the rationale for deviating from the policy will be documented and submitted to the Treasurer for approval.

### **Communications, Reporting, Notification**

A comprehensive performance measurement report for the REF will be prepared on a quarterly basis (“Performance Report”). The Performance Report will include a market valuation of and historical returns for each REF investment vehicle. The valuations and returns will be presented on a U.S. dollar basis and aggregated, along with information on investment attributes, on a portfolio basis. In addition, comparisons will be made of actual results to benchmarks, investment parameters and other guidelines or objectives contained herein. The Performance Report will also contain information on significant events impacting the REF and updated information on the status of global real estate markets.

Under the direction of the CIO, staff will endeavor to insure that investment valuations and returns which are prepared by investment managers and included in the Performance Report are calculated in accordance with guidelines established by the CFA Institute Global Investment Performance Standards (“GIPS”), NCREIF, the Pension Real Estate Association (“PREA”), the National Association of Real Estate Investment Managers (“NAREIM”) as included in the most recent editions of the Real Estate Information Standards and the NCREIF Market Value Accounting Policy Manual or other calculations in accordance with industry standards for a particular asset. To the extent



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that investment managers do not report on the REF's investments in a manner consistent with the REF guidelines, the CIO will work with such investment managers to obtain the most appropriate information. The investment managers will be notified at the inception of their contracts that the failure or inability of the investment manager to provide accurate and timely financial reporting including performance results computed in a manner consistent with the preceding requirements may constitute grounds for termination.



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**ASSET CLASS STRUCTURE/GUIDELINES – PRIVATE INVESTMENT FUND**

**Manager Strategies/Style**<sup>8</sup>

Private Investment Fund (“PIF”) investments will generally be made in partnerships with the CRPTF as a limited partner and the investment manager serving as the general partner. The investment managers’ discretion regarding the selection of underlying investments in the partnership will be limited by the Treasurer’s exercise of his/her duty to consider the consequences of such discretion in accordance with state laws and as may be addressed in the IPS. Within that context, the Treasurer recognizes that private equity is an intensively managed asset class; therefore, investments will be made within the framework of the following process:

- Development of strategic asset allocation targets for private equity.
- Development of criteria and procedures for the selection of new private equity partnership commitments.
- Development of performance measurement standards for private equity.
- Monitoring and evaluation of fund managers’ performance on an on-going basis.
- Screening of potential private equity partnerships and reporting to the Treasurer.
- Conducting due diligence as directed by the Treasurer.
- Review by the IAC of any proposal to enter into a limited partnership agreement.
- Review of partnership terms and conditions with recommendations for the CRPTF final negotiations. Ensuring that any contract entered into includes language to establish an alignment of interest between the general partner and the CRPTF as a limited partner.
- Management of securities distributions to achieve as close to the distribution price as possible within a reasonable period of time.

The long term return objective of the PIF is to earn returns in excess of the public equity markets through investments in private companies. The target rate of return for the PIF is the ten-year average annualized return of the Russell 3000 plus a 250 basis point premium.

The target expected rate of return of individual investments within PIF will be based upon the particular investment strategy employed:

- If the investment manager’s strategy is to make equity investments in young or development stage companies, then the expected long term return on investment is the 10-year average annualized return of the Standard & Poor 500, plus an 800 basis point premium, net of fees.

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<sup>8</sup> Including up to 3% for partnerships or investments targeting under-served geographical areas and populations, with a focus on Connecticut.



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- If the investment manager’s strategy is to make equity investments in mature companies, then the expected long term return on investment is the 10-year average annualized return of the Standard & Poor 500, plus a 400 basis point premium, net of fees.
- If the investment manager’s strategy is to purchase debt obligations, then the expected return on investment is at least 600 basis points in excess of the public high yield index, net of fees.

Given the long-term investment objectives of the PIF, the Treasurer’s philosophy is to: 1) manage risks to acceptable levels, 2) allocate risks where there is the greatest opportunity for enhanced return relative to a passive implementation and 3) avoid concentrated levels of risk to the extent possible. In accordance with this philosophy, the following sub-allocations as a percentage of exposure defined as market value plus unfunded commitments will be used as an overall target for commitment levels within the portfolio:

	<b>Lower Range %</b>	<b>Upper Range %</b>
Corporate Finance	70	100
Venture Capital	0	30

### **Eligible Investments**

The following private equity strategies will be considered eligible for CRPTF’s portfolio:

- Early, mid, late and balanced stage venture capital funds;
- Buyout, acquisition and restructuring funds;
- Mezzanine debt funds;
- Growth funds;
- Sector-focused funds;
- Turnaround and distressed funds;
- Internationally-focused funds; and
- Any non-traditional investment approved by the Treasurer as an eligible investment.

The following investment vehicle structures will be considered eligible for CRPTF’s portfolio:

- **Primary Funds:** Investment Vehicles that invest in equity, debt or other securities issued by companies through privately negotiated transactions. The private investment manager serves as the general partner, with capital committed from investors, or limited partners. Primary funds will be the predominant investment vehicle for the Program.
- **Secondary Funds:** Investment Vehicles that purchase interests in primary investment funds from other limited partners.



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- **Fund-of-Funds:** Investment Vehicles that purchase interests in primary funds. The CRPTF will consider investments in both commingled fund-of-funds where the CRPTF is one of multiple limited partners or a separate account vehicle where the CRPTF is the sole limited partner.
- **Separate Accounts:** Externally managed investment programs. Certain market segments may not be appropriate for direct investment due to size, strategy or other constraints, but can efficiently accessed through third party managers.

### Cross Holdings

On occasion, the CRPTF will have exposure to the same securities, companies, partnerships or other investment vehicles among its Primary Fund, Secondary Fund, Fund-of-Funds and /or Separate Account managers. Such exposures are referred to as cross holdings. The discretionary nature of PIF investment vehicles delegates investment authority to the investment manager and, therefore has no control over investments within other investment vehicles. Verification of the investment program is executed in accordance with the governing documents for the investment vehicles. As part of the due diligence process for new Primary Funds, an analysis of the existing portfolio will be conducted to ascertain the potential for cross holding exposure. In addition, Pension Fund Management staff will monitor cross holdings among all investments within the PIF and be aware of cross holding exposures. Relative to Primary Fund investments into the PIF, as a part of the due diligence performed for potential investments, an analysis will be undertaken to determine if a cross holding is present. The existence or non-existence of the potential for cross holding will be one of the factors considered in the decision making process. Although monitored, cross holdings among investments other than Primary Fund investments into the PIF will not be subject to concentration limits outlined in this IPS or its Appendix.

Customized strategies with multiple investment managers, such as the Connecticut Horizon Fund, may be designed to consider these limitations at the program level.

### Diversification

The PIF will be diversified with respect to vintage year, geography, industry, strategy and stage focus. Given the illiquid nature of private equity investments, attempting to “time the market” is not a realistic alternative. The CRPTF will dollar cost average into the market with new commitments on a steady, annual basis.

As described below, diversification factors – vintage year, geography, industry and stage –serve to mitigate risk.



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### **Geographical Diversification**

One measure of diversification is by geographical location of the underlying portfolio companies. Over the long term, the PIF portfolio should seek portfolio diversification with regard to both developed and developing geographic regions. However, in certain situations, geographically targeted strategies may be appropriate for the portfolio.

Allocation to emerging international markets should be considered within the context of the total portfolio's allocation and should be limited to 10% or less of the PIF.

### **Industry Sector Diversification**

The PIF will also seek to diversify by industry sector. The majority of the selected partnerships will have an opportunistic and/or diversified industry focus, since that approach has historically been the most successful. However, with the continually increasing technological sophistication and competitive business environment, some specialized strategies focusing on specific industries may be appropriate.

### **Stage Diversification**

Stage Diversification refers to the business life cycle of: seed, early, growth, and established stages where different financial and business strategies are utilized. The PIF will be well diversified by stage, with a good balance of early stage (seed + start up + early stage), expansion and buyouts/acquisitions of established businesses.

### **Vintage Year Diversification**

Commitment to partnerships will be staged over time. This policy will have the effect of dollar cost averaging the PIF investments over business cycles and will help insulate the portfolio from event risk.

In summary, these diversification guidelines will help provide maximum return and safety of principal for the private equity portfolio over time.

### **Selection Criteria**

All private equity investments and the method by which they are sourced will be in compliance with Connecticut General Statutes. Additionally, all new investments to the PIF will be appropriately documented and such documentation will meet the standards set by the Treasurer.

Partnership selection will entail a comprehensive, thorough process of due diligence and investigation of the critical factors on which an investment decision is to be based. The



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process will include quantitative and qualitative analysis of the general partner, its professionals and their ability to successfully implement their stated investment strategy within the context of current and prospective market environments. The partnership's relative investment worthiness will be assessed within this context. To the extent necessary and feasible a site visit will be conducted as part of this process.

The CRPTF seeks to prudently invest in partnerships with the following characteristics:

- General partners with experience as principals relevant to their investment strategy, and evidence of stability among the general partnership team;
- An attractive track record showing the following:
  - Ability to develop a successful portfolio;
  - An acceptable rate of return on investment for investors;
  - For established partnerships, track record of median performance or better with a preference for top quartile performance when compared to their peer group by *Cambridge Associates*, or a comparable benchmark;
  - Ability to realize profits with successful exits;
  - Well-defined and realistic strategies for the future;
  - Experience investing institutional funds;
  - Evidence of good communications and strong relationships with prior investors;
  - Long-term dedication to the partnership;
  - Special skills or industry expertise; and
  - Alignment of interests between the general partners and the limited partners (as may be demonstrated by the CRPTF's representation on advisory boards, percent equity participation of the general partner, conflict of interest provisions, co-investing criteria, limitations on the percentage of capital of a fund that can be committed to a single investment, etc.).

***Additional Venture Capital Partnership Selection Criteria:***

- Proven value-added from the general partners;
- Proven ability to find and participate in successful investments; and
- Strong relationships with other investors and entrepreneurs.

***Additional Corporate Finance Partnership Selection Criteria:***

- Strong pricing disciplines;
- Ability to find and structure attractive investments;
- Ability to attract appropriate senior financing; and
- Ability to add value with revitalizations or acquisitions.

***Additional criteria for the consideration of first time and/or "spin-out" funds:***

- Professional experience relevant to their investment strategy;



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- Ability to find and participate in successful investments; Well-defined and realistic strategies for the future and a clearly defined mission for the fund;
- Background check of the general partners with colleagues, peers and subordinates, the public record and any other source that might provide relevant information in the investment decision-making process; and
- Special skills or industry expertise.



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**ASSET CLASS STRUCTURE/GUIDELINES/ALTERNATIVE INVESTMENT FUND**

Prior to the implementation of any of the permissible strategies for the Alternative Investment Fund (“AIF”), the Treasurer will consult with the IAC regarding the search process, the intended strategic deployment of assets, the risk management programs of permissible strategies, the proposed structure for investment and the timeframe. AIF investments will generally be made in both private and public investment vehicles.

**Investment Constraints**

In general, the following AIF investment restrictions/limitations apply to all AIF investments unless otherwise authorized in the specific General Contract Agreement (GCA) or Investment Management Agreement (IMA) with the Treasurer and disclosed to the IAC. The CRPTF will seek to negotiate agreements that ensure accountability, alignment of interests between the investment manager and investors, complete disclosure of all actions taken that affect or have the potential to affect investors, language that ensures no conflicts of interests, protections for investors in the event of changes within the manager’s firm, the existence of language that describes how any conflicts would be handled, specific language on valuation standards for investments, and provisions that limit the investment manager’s ability to concentrate investments in one company or enterprise.

Investment manager selection will entail a comprehensive, thorough process of due diligence and investigation of the critical factors on which an investment decision is to be based, including quantitative and qualitative analysis of the funds’ historical performance, its professionals and their ability to successfully implement their stated investment strategy within the context of current and prospective market environments. To the extent necessary and feasible, a site visit will be conducted as part of this process.

- Investment managers will adhere to the investment strategy, diversification limits and administrative guidelines described in their private placement memorandum and related contracts;
- Investment managers will be required to ensure that all AIF investments adhere to all limitations imposed by Connecticut General Statutes and/or federal law;
- No more than 20% of the AIF’s policy target allocation should be invested in any one investment vehicle;
- Investments in the AIF will target allocations to the categories as illustrated in the table below:



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<b>Broad Investment Category</b>	<b>AIF Target Allocation*</b>	<b>AIF Target Range*</b>
Absolute Return Strategies	40%	5% -50%
Real Assets	60%	5% - 75%
Opportunistic Investments	0%	0% - 20%

\* Targets and ranges pertain to a fully seasoned plan. The initial stages of the program’s evolution may result in temporary allocations that differ from the targets.

### **Liquidity Parameters**

Generally, the AIF investment vehicles have initial lock-up provisions that are demanded by an investment manager to insure that a sufficient level of capital is available to support the manager’s investment strategy. The AIF will strive to minimize its exposures to such requirements. For the AIF’s investments in funds with lock-up provisions, exposure to investments with lock-up provisions greater than one year but less than five years will be limited to 10% of the target allocation to AIF. The balance of the AIFs exposure to funds with lock-up provisions will have minimum lock-up of one year or less with redemption periods of no less than once per year.

Under no circumstances will liquid investment strategies be permitted in vehicles or structures that require a commitment of capital of more than 10 years.

Investment in limited partnership vehicles with standard expiration and extension provision are permissible and are not included as part of the liquidity parameters noted above.

### **Strategies Qualifying for Investment**

Permissible securities of all other combined investment funds are included as part of the AIF mandate. In addition, the following are general classes of strategies permitted in the AIF:

#### **1. Absolute Return Strategies (“ARS”)**

ARS Funds of funds (FoF), which are managed in a multi-manager, multi-strategy approach, will be the initial preferred investment vehicle to access ARS strategies. The term “absolute return” is used to denote strategies that focus on the generation of positive returns without regard to market cycles. The expectation is that an ARS will generate a positive return even when the market within which it is investing is experiencing negative returns. As such, ARS is not correlated to any market (i.e. equity, fixed income and/or subclasses thereof). ARS is expected to reduce portfolio risk through the reduction of the volatility of portfolio returns. Single Managed Funds may also be used to gain exposure



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to these strategies. These funds may have exposure to following types of strategies including, but not limited, to:

**Equity-Linked:** Investment managers maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors or geographies and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios.

- Fundamental Long/Short equities
- Sector-focused Long/Short equities
- Equity Market Neutral equities
- Short-Biased equities

**Credit-Linked:** Investment managers seek to profit from the realization of a valuation discrepancy in the relationship between multiple credit-linked securities. Investment managers employ a variety of fundamental and quantitative techniques to establish investment valuations, and security types range broadly across fixed income, derivative or other security types. Fixed income strategies are typically quantitatively driven to measure the existing relationship between instruments and, in some cases, identify attractive positions in which the risk-adjusted spread between these instruments represents an attractive opportunity for the investment manager.

- Convertible Arbitrage
- Capital Structure Arbitrage
- Structured Credit
- Corporate Credit
- Private Issue/Regulation D
- Yield Alternative

**Event-Driven:** Investment managers that hold positions in companies currently or prospectively involved in corporate transactions of a wide variety including, but not limited to, mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities. Event Driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments. Investments are typically evaluated on fundamental characteristics, as opposed to quantitative metrics.

- Distressed/Restructuring Securities
- Merger Arbitrage



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- Special Situations
- Shareholder Activist strategies

**Derivatives:** Investment managers trade a broad range of strategies predicated on movements in underlying economic variables and the impact these have on equity, fixed income, currencies and other derivative instruments. Investment managers employ a variety of techniques, both discretionary and systematic analysis; combinations of top-down and bottom-up views; quantitative and fundamental approaches and long and short term holding periods. Although some strategies employ relative value techniques (e.g. volatility trading), Derivative strategies are generally directional and focus on capturing the market beta of the investment manager’s view of a particular trade.

- Discretionary Thematic
- Systematic Diversified
- Volatility Trading

**Multi-Strategy:** Investment managers in this strategy use any combination of the strategies noted above in an attempt to produce returns in any market condition. While investment managers in this strategy use various techniques to produce returns, they are generally categorized by their diversified use of many strategies and no one strategy dominates. They generally have different teams in the firm running different strategies according to their defined expertise. The portfolio managers of each team focus on selecting the best investments for their portfolio based on their expertise and agreed-upon portfolio constraints. The top-level portfolio managers focus on capital allocation among the various strategies in search of the highest risk-adjusted returns available in the markets.

**2. Real Assets**

Real assets provide at least two primary benefits to a diversified plan. First, real assets have low correlation to equities and fixed income markets and should thereby provide diversification benefits to the CRPTF. Real assets are also designed to yield an inflation-adjusted or positive “real” return. The inflation protection provided by real asset investments helps the CRPTF maintain purchasing power to meet liabilities (e.g. spending needs) particularly during periods of rising inflation or sustained input price increases. Importantly, the asset class should outpace inflation in the long run, which makes real assets a good long-term inflation hedge. Real assets also create both current income as well as the potential for capital appreciation, both of which may be enhanced through the use of leverage.

- Infrastructure Funds
- Commodities
- Energy
- Agriculture



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- Metals and Mining
- Timber

**3. Opportunistic Investments**

This includes strategies and structured products including synthetic investment instruments especially designed to address investor needs. It is understood that, as the portfolio will be built on an opportunistic basis, from time to time the aggregate portfolio may exhibit characteristics that are different from the above guidelines. It is expected that the advisor and investment manager will make all attempts to identify the portfolio gaps and the attendant risks for review by the Treasurer and the CIO.

Definitions

A. This IPS is investment-oriented and, as such, uses various investment terms that are defined as they are used. To facilitate review of this IPS, the more widely used terms are identified and defined as follows:

1. **Combined Investment Fund** - Separate pooled investment funds of various asset classes created by the Treasurer of the State of Connecticut for purposes of accounting for and managing the assets of the CRPTF. CIFs are used by the Treasurer to allocate assets for each of the CRPTFs. Details of the various CIF are found in Part III of this IPS.
2. **Depository Receipts** - Securities representing shares in a company. Depository receipts are sold in one or more countries outside of the company's home country. Owners of depository receipts have the same rights as common share owners with the possible exception of voting rights. Depository receipts used within CIFs include Global Depository Receipts (GDR) that are available in one or more countries outside the company's home country. American Depository Receipts (ADR), a type of GDR issued by a U.S. bank and traded on a U.S. exchange. European Depository Receipt (EDR), a type of GDR issued by a European bank and that trades on exchanges outside of the issuing banks home country.
3. **Investment Partners** – The term used to describe managers primarily within the alternative asset CIFs (i.e. Real Estate Fund, Private Investment Fund and Alternative Investment Fund). The investment vehicles used within these funds are generally legal entities (ex. Limited Partnership, Limited Liability Corporation, etc.) for which the investment partner serves as a general manager with legally defined roles and responsibilities. A primary factor in identifying an investment partner is the fact that the manager, entity or individuals within the management entity invest and risk their own capital along with the investments of the CRPTF (and other investors), thus aligning the interests of all parties. An investment partner may also be a fund-of-fund manager. The discretionary nature of fund-of-fund vehicles, while negotiated within the spirit of this IPS, delegates' investment authority to the investment



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### State of Connecticut Retirement Plans & Trust Funds APPENDIX A, SECTION II – COMBINED INVESTMENT FUNDS ASSET CLASS STRUCTURE/BENCHMARKS

partner, and therefore, the portfolio holdings are separate and distinct from other investment vehicles that are invested directly by the Treasurer.

4. **Money Manager** – the term used to describe the managers retained by the Treasurer to manage specified portfolios of publicly traded securities on behalf of CRPTF.
5. **Opportunistic Investment** – The Treasurer may allow a particular manager with certain skill sets to invest outside of the portfolio benchmark, employ concentrated investment portfolios, tactically allocate funds globally or by style, or permit use of derivatives to construct portfolios to generate above average investment returns. Such opportunities typically arise during a market dislocation.
6. **Other Service Provider** – Term used to describe service providers such as lawyers, consultants, etc. hired to assist the Treasurer in the discharge of his/her duties.
7. **Rule 144A Securities** – A rule that exempts private security offerings from going through the Security and Exchange Commission's (SEC) registration process. The objective of Rule 144A is to increase the liquidity and efficiency of the U.S. equity and debt markets for securities issued in private placements. Thus, large institutional investors are able to trade restricted securities more freely with other institutional investors. Transactions under Rule 144A must be for investment purposes and the securities may not be offered to the general public.
8. **Tracking Error** – This term defines the difference between the investment return generated by an investment portfolio and the index (for example the S&P500 index) against which it is compared. The greater the variance the larger the tracking error.



**INVESTMENT POLICY STATEMENT**  
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APPENDIX A, SECTION III – RESPONSIBLE CONTRACTOR POLICY  
REAL ESTATE FUND

**APPENDIX A**  
**SECTION III**  
**RESPONSIBLE CONTRACTOR POLICY**  
**REAL ESTATE FUND**



**INVESTMENT POLICY STATEMENT**  
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APPENDIX A, SECTION III – RESPONSIBLE CONTRACTOR POLICY  
REAL ESTATE FUND

**I. INTRODUCTION**

The State of Connecticut Retirement Plans & Trust Funds (“CRPTF” or “the Plan”) has a deep interest in the condition of workers employed by the Plan and its advisors. The Plan, through the Responsible Contractor Policy (“Policy”) described below, supports and encourages fair wages and fair benefits for workers employed by its contractors and subcontractors, subject to fiduciary principles concerning duties of loyalty and prudence, both of which further require competitive returns on the Plan’s real estate investments. The Plan endorses small business development, market competition, and control of operating costs. CRPTF supports many of the ideals espoused by labor unions and encourages participation by labor unions and their signatory contractors in the development and management of the Plan’s real estate investments. The Plan believes that an adequately compensated and trained worker delivers a higher quality product and service.

**II. DEFINITION OF A RESPONSIBLE CONTRACTOR**

A Responsible Contractor, as used in this Policy, is a contractor or subcontractor who pays workers a fair wage and a fair benefit as evidenced by payroll and employee records. “Fair benefits” are defined as including, but are not limited to, employer-paid family health care coverage, pension benefits, and apprenticeship programs. What constitutes a “fair wage” and “fair benefit” depends on the wages and benefits paid on comparable real estate projects, based upon local market factors, that include the nature of the project (e.g., residential or commercial; public or private), comparable job or trade classifications, and the scope and complexity of services provided.

**III. INITIAL REQUIREMENTS OF THE RESPONSIBLE CONTRACTING POLICY**

- A. Duty of Loyalty: Notwithstanding any other considerations, assets shall be managed for the exclusive benefit of the participants and the beneficiaries of CRPTF. CRPTF’s as well as its advisors’, duty to the participants and their beneficiaries shall take precedence over any other duty.
- B. Prudence: CRPTF’s IAC, Treasurer, staff and advisors are charged with the fiduciary duty to exercise the care, skill, prudence and diligence appropriate to the task.
- C. Competitive Return: To comply with duties of loyalty and prudence, all investments and services must be made and managed in a manner that produces a competitive risk-adjusted return.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds APPENDIX A, SECTION III – RESPONSIBLE CONTRACTOR POLICY REAL ESTATE FUND

- D. Competitive Bidding: Contractors and their subcontractors for construction, maintenance, and services shall be selected through a competitive bidding and selection process. The purpose of this provision is to encourage fair competition and to actively seek bids from all qualified sources within an area, particularly those identified as Responsible Contractors. Advisors and their subcontractors shall create a bidding process that includes notification and invitations to bid, distributed to a broad spectrum of potential bidders, particularly those identified as Responsible Contractors. The review of the bids shall include consideration of loyalty, prudence, and competitive risk-adjusted returns (factors to be considered include experience, reputation for honesty, integrity, timeliness, dependability, fees, safety record, and the adherence to the Responsible Contracting Policy.)
- E. Local, State and National Laws: All advisors, property managers, contractors, and their subcontractors shall observe all local, state, and national laws (including, by way of illustration, those pertaining to insurance, withholding taxes, minimum wage, labor relations, health, and occupational safety.)

#### IV. SELECTION PREFERENCE OF A RESPONSIBLE CONTRACTOR

If Initial Requirements A through D (see Section III. above) are satisfied, CRPTF expresses a strong preference that Responsible Contractors be hired.

#### V. TRANSITION, ENFORCEMENT, MONITORING, AND ADMINISTRATION

- A. Applicable Investments and Phasing: This Policy shall apply to all applicable real estate advisors. The Policy shall not apply to investments such as hybrid debt, joint ventures, opportunity funds and other real estate investments where CRPTF does not have 100% ownership and/or full control of the investment. However, in those instances where CRPTF does not have 100% ownership and/or full control of the investment, staff will make reasonable attempts to encourage partners to comply with the spirit and practice of Responsible Contracting. In addition, reasonable efforts will be made to include fund managers that have adopted responsible contractor policies and to seek out investment opportunities that have responsible contractor policies in place for investment consideration.
- B. Notification: CRPTF shall provide all applicable current and prospective real estate advisors with a copy of this Policy, including investments where CRPTF does not have 100% ownership and/or full control of the investment.



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APPENDIX A, SECTION III – RESPONSIBLE CONTRACTOR POLICY  
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- C. Solicitation Documents: All requests for proposal and invitations to bid covered by this Policy shall include the terms of this Policy. Responses by bidders shall include information to assist the staff in evaluating a bid.
- D. Contracts and Renewals: All contracts entered into after the effective date of this Policy and pertaining to applicable real estate investments, including renewals of such contracts, shall include the terms of this Policy.
- E. Responsibilities: The responsibilities of CRPTF's staff, advisors, property managers, contractors, and unions are defined as follows:
1. Staff: CRPTF staff shall have the following responsibilities:
    - a. Review the advisors' annual certification statement regarding compliance with the Policy.
    - b. Develop and maintain contact lists for all CRPTF's properties and provide a copy to inquiring parties.
    - c. Insert appropriate contract language where applicable.
    - d. In those instances where CRPTF does not have 100% ownership and/or full control of an investment, make reasonable attempts to encourage partners to comply with the spirit and practice of Responsible Contracting.
  2. Advisors: Advisors' responsibilities shall include:
    - a. Communicate the Policy to all property managers.
    - b. Review a contract listing for each property prepared by each property manager.
    - c. Maintain a simplified bid summary for each applicable contract. The summary should include identifying contract, successful bidder, and bidder's status as Responsible Contractor.
    - d. Maintain an annual report in their home office, describing their own efforts as well as those by property managers and their subcontractors.
    - e. Monitor and enforce the Policy including investigation of potential violations.
    - f. Annually, the signatory to the CRPTF contract will file a certification statement that their firm complied with the Responsible Contractor Policy for the preceding year and upon request will provide written substantiation of such compliance. This provision will be subject to periodic audits.



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### State of Connecticut Retirement Plans & Trust Funds APPENDIX A, SECTION III – RESPONSIBLE CONTRACTOR POLICY REAL ESTATE FUND

3. Property Managers: Property managers will have responsibility for the following:
  - a. Communicate in bid documents the Responsible Contractor Program Policy to contractors seeking to secure construction or building service contracts.
  - b. Communicate the Policy to any interested party.
  - c. Ensure there is a competitive bidding process that is inclusive of potentially eligible Responsible Contractors.
  - d. Require bidders to provide to property manager a Responsible Contractor self-certification on a form approved by CRPTF.
  - e. Prepare and send to advisors a contract listing for applicable service contracts for each property under management. The building trades and service trades and other potential bidders will have access to this list.
  - f. Provide advisors with a simplified bid summary for each contract.
  - g. Provide property level annual report information to advisor.
  - h. Maintain documentation for successful bidders.
  - i. Seek from trade unions/service unions input in the development of Responsible Contractor lists.
  - j. Maintain list of any interested Responsible Contractors (names, addresses and telephone numbers).
4. Contractors: Contractors will have the responsibility for the following:
  - a. Submit to property manager a Responsible Contractor self-certification on a form approved by CRPTF.
  - b. Communicate to subcontractors the Responsible Contractor Program Policy.
  - c. Provide to property manager Responsible Contractor documentation.
5. Unions: Trade unions/service unions shall be asked to perform the following tasks:
  - a. Deliver to the property manager or advisor lists of names and phone numbers of Responsible Contractors.



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds APPENDIX A, SECTION III – RESPONSIBLE CONTRACTOR POLICY REAL ESTATE FUND

- b. Refer interested and qualified Responsible Contractors to the property manager.
  - c. Continually monitor the local labor markets to update the lists.
  - d. Provide technical input as appropriate.
- F. Outreach: CRPTF’s staff will develop and maintain a list of all CRPTF 100% owned and/or fully controlled properties. The list will include the property name, address, advisor and property manager, and phone number of the property manager and real estate advisors. The CRPTF’s staff will provide this list to anyone who requests a copy. Actual contract expiration inquiries will be referred to the property level. Property managers shall provide solicitation documents to any potential contractor who has, in writing, expressed an interest in bidding for the relevant contract.
- G. Minimum Contract Size: The Policy shall absolutely apply to all contracts of a minimum size of \$25,000, individually or annually as applicable. Minimum contract size refers to the total project value of the work being contracted for and not to any disaggregation by trade or task. For example, a \$25,000 contract to paint two buildings in a single office complex would not be treated as two \$12,500 contracts, each less than the minimum contract size. Disaggregation designed to evade the requirements of the Policy is not permitted.
- H. Applicable Expenditures Categories: The Policy shall apply to tenant improvements, capital expenditures, and operational service contracts (such as cleaning).
- I. Fair Wage, Fair Benefits, Training: The Policy avoids a narrow definition of “fair wage”, “fair benefits”, and “training” that might not be practical in all markets. Furthermore, the Policy does not require a “prevailing wage”, as defined by government surveys. Instead, the Policy looks to local practices with regard to type of trade and type of project. The Policy recognizes that practices and labor market conditions vary across the country and that flexibility in its implementation is very important.

In determining “fair wages” and “fair benefits” with regard to a specific contract in a specific market, items that may be considered include local wage practices, state laws, prevailing wages, labor market conditions, and other items.

In place of a prevailing wage standard, the Policy requires a broad outreach and competitive bidding program, as described in Section III.D, and V.F and J. This program is premised upon the availability of a list of Responsible Contractors in every market in which CRPTF directly owns a



## INVESTMENT POLICY STATEMENT

### State of Connecticut Retirement Plans & Trust Funds APPENDIX A, SECTION III – RESPONSIBLE CONTRACTOR POLICY REAL ESTATE FUND

property. While advisors and their property managers and contractors are responsible for gathering and analyzing information relevant to identifying and hiring a Responsible Contractor, compilation of this list does not depend solely on the advisors, property managers, or contractor. This Policy instead invites the various local trades to suggest contractors, which in their view qualify as Responsible Contractors. Sources of information include local building and service trade councils, builders association, and governments.

- J. Competitive Bidding: Property managers and contractors should give notice for applicable bids in local trade publications, bulletins, IAC's and union building trades councils. Property managers should seek input from building trades councils to develop lists of Responsible Contractors for inclusion in the bidding process.

Property managers may choose from the list of Responsible Contractors a reasonable number of contractors to be invited to bid. Given the time and expense required to solicit and evaluate bids, it is not essential that advisors, property managers, and contractors invite all potential bidders.

The property manager must ensure that there is a competitive bidding process, which is inclusive of potentially eligible Responsible Contractors. Inclusion is not necessarily assured by large numbers of bidders. Care must be taken that bidders include potentially eligible Responsible Contractors.

Although the Policy does not require hiring union workers, the trade unions will be invited to (1) deliver to the property manager or advisor lists of names and phone numbers of Responsible Contractors including those Responsible Contractors who have expressed any interest in bidding, and (2) continually monitor the local markets to update the lists, Property managers shall maintain these lists supplied by the trade unions.

- K. Neutrality: CRPTF recognizes the rights of employees to representation, and supports and strongly encourages a position of neutrality, in the event there is a legitimate attempt by a labor organization to organize workers employed in the construction, maintenance, operation, and services at a CRPTF owned property.

Resolution of any inter-jurisdictional trade disputes will be the responsibility of the trades and the various state and national building trades councils. This Policy does not call for any involvement by the advisors, property managers, or contractors in inter-jurisdictional trade disputes.



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- L. Enforcement: If Staff becomes aware of non-compliance, this Plan will place a non-complying advisor or property manager on a probation watch list. If the advisor or property manager does not modify this pattern of conduct even after discussions with CRPTF's staff, the Plan will consider this pattern of conduct along with other information when it reviews the advisor or property manager contract for possible renewal. The key indicator is a pattern of conduct that is inconsistent with the provisions of the Policy.



**INVESTMENT POLICY STATEMENT**  
State of Connecticut Retirement Plans & Trust Funds  
APPENDIX B, SECTION I –DOMESTIC PROXY VOTING POLICIES

**APPENDIX B**  
**SECTION I**  
**DOMESTIC PROXY VOTING POLICIES**

**Adopted**  
**November 2011**



**INVESTMENT POLICY STATEMENT**  
State of Connecticut Retirement Plans & Trust Funds  
APPENDIX B, SECTION I – DOMESTIC PROXY VOTING POLICIES

**State of Connecticut Office of the Treasurer  
Domestic Proxy Voting Policies**

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**INVESTMENT POLICY STATEMENT**  
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**State of Connecticut  
Office of the Treasurer  
Domestic Proxy Voting Policies**

**I. INTRODUCTION**

This document sets forth the Connecticut Retirement Plans and Trust Funds (CRPTF) Domestic Proxy Voting Policies (hereafter referred to as the “proxy voting policies”). These proxy voting policies guide the CRPTF’s proxy voting and shareholder activism, which are essential elements of protecting and increasing the long-term value of CRPTF equity investments. All of the major categories of issues addressed in these proxy voting policies including corporate governance, executive compensation, corporate citizenship, workplace and environmental issues are significant in that all have financial implications for the long-term shareholder value of CRPTF investments.

The CRPTF does not expect that the board of directors of each company in which it invests will adopt or embrace every issue in the proxy voting policies. The CRPTF recognizes that some policies may not be appropriate for every company, due to differing business needs and structures as well as risk factors and competitive needs. The CRPTF looks to each board of directors to take appropriate action in the best interests of the company and its shareholders and the policies in this document represent the CRPTF view on best practices relative to corporate policy.

The proxy voting policies conform to common law fiduciary standards, including Connecticut statutes pertinent to fiduciary conduct, such as the Uniform Prudent Investor Act. These policies also are consistent with the provision of the Connecticut statutes that permits the Treasurer to consider the environmental, social and economic implications of investment decisions.<sup>9</sup>

The proxy voting policies address a broad range of issues, including election of directors, executive compensation, proxy contests, climate change, labor standards, and other corporate governance, environmental, social, and economic issues.

All votes will be reviewed on a company-by-company basis and no issues will be considered routine. Each issue will be considered in the context of the company under review and subject to a rigorous analysis of the economic impact an issue may have on the long-term shareholder value.

The CRPTF also actively engages companies on issues of concern in an effort to increase shareholder value. When appropriate, the CRPTF will itself sponsor shareholder resolutions. These proxy voting policies provide guidance for these activities as well.

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<sup>9</sup> CGS 3-13(d)(a)



**INVESTMENT POLICY STATEMENT**  
State of Connecticut Retirement Plans & Trust Funds  
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## **II. THE BOARD OF DIRECTORS**

Electing the board of directors is the most important stock ownership right that shareholders can exercise. By electing directors with views similar to their own, shareholders can help to define performance standards against which management can be held accountable.

The CRPTF believes that it is very important that a substantial majority of the board be independent and that it is essential that at least a majority of board members be independent of management and that all members of key board committees (nominating, compensation, and audit) be independent. For these purposes, the CRPTF defines an independent director as:

*Someone whose only nontrivial professional, familial or financial connection to the corporation, its chairman, CEO or any other executive officer is his or her directorship.<sup>10</sup>*

A director will NOT be considered independent under the following conditions:

- The director is employed by the company or one of its affiliates;
- The Board has determined by attestation that the director is not independent;
- The director is a former CEO of the company (except if served on an interim emergency basis);
- The director is a former CEO of an acquired company within the past five years;
- The director is a former significant executive<sup>11</sup> of the company, an affiliate or an acquired firm within the past five years;
- The director is a relative of a current significant executive level employee of the company or its affiliates;
- The director is a relative of an individual who was a significant executive within the past five years of the company or its affiliate;
- The director currently provides (or a relative provides) professional services directly to the company, to an affiliate of the company or an individual officer of the company or one of its affiliates;
- The director is employed by (or a relative is employed by) a significant customer or supplier;
- The director has (or a relative has) any transactional relationship with the company or its affiliates;
- The director has any material financial tie or other related party transactional relationship to the company.

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<sup>10</sup> Council of Institutional Investors (CII) see [www.cii.org/councilcorporategovernancepolicies](http://www.cii.org/councilcorporategovernancepolicies)

<sup>11</sup> Executives (officers subject to Section 16 of the Securities and Exchange Act of 1934) follows the Institutional Shareholder Services (ISS) definition, which includes the chief executive officer, operating, financial, legal, technology, and accounting officers of a company (including the president, treasurer, secretary, controller, or any vice president in charge of a principal business unit, division, or policy function).



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### A. Voting for Director Nominees in Uncontested Elections

Traditionally in an uncontested election, all nominees are elected because only a plurality vote is needed to elect each director. Recently, at the urging of shareholders, many companies have moved to either requiring a majority vote to elect a director in an uncontested election, or to require a director that did not receive a majority vote to tender his/her resignation (which can be accepted or rejected by the board). Therefore, uncontested elections have become real elections.

Companies where there is a majority vote standard, the vote options on the proxy are FOR/AGAINST. At plurality vote companies, the proxy vote options are FOR/WITHHOLD.

Votes on director nominees are made on a CASE-BY-CASE basis, considering company performance and individual director performance.

The CRPTF will WITHHOLD votes from or vote AGAINST directors individually or the entire board, for egregious actions or failure to replace management as appropriate.

The CRPTF will WITHHOLD votes from or vote AGAINST individual directors in some cases based on examination of the following factors:

- Nominee is both the CEO and chairman of the board of directors (except for certain situations as cited in Section II.D.);
- Nominee's attendance of meetings is less than 75 percent without valid reason;
- Non-independent nominee being a member of a key board committee (audit, nominating and compensation committee);
- Nominee is serving on an excessive number of other boards; for a CEO this would be more than two (2) public company boards (one plus his or her own), for a non-CEO with a full time job this would be more than three (3) public company boards and for a non-CEO with no other employment except as a board member, this would be five (5) public company boards unless the company has disclosed in the annual proxy statement reasons why additional board service exceeding the guidelines above would not interfere with a nominee's ability to perform his or her responsibilities or there are other mitigating circumstances (e.g. a CEO sitting on the board of a wholly-owned subsidiary);
- Nominee is serving on the board or in an executive position of another company where that company was involved in Chapter 7 bankruptcy, or where there were proven SEC violations, or a proven criminal offense related to the nominee;



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- Poor performance by nominee on the board of another company, such as being a director of a company which filed for bankruptcy and where there are credible allegations of fraud;
- Interlocking directorships where the CRPTF Proxy Voting Advisor and/or other experts deem those relationships an impairment to independent judgment and action;
- Related party transactions where the CRPTF Proxy Voting Advisor and/or other experts deem those transactions to be more in the interest of the director nominee than the shareholders.

The CRPTF will WITHHOLD votes from or vote AGAINST the entire board of directors (excepting new nominees, who the CRPTF will evaluate based on the other criteria in this section) if:

- The company's poison pill has a dead-hand or modified dead-hand feature;
- The board adopts or renews a poison pill unless the poison pill is subject to shareholder approval;
- The board failed to act on a shareholder proposal that received approval by a majority of shares outstanding the previous year;
- The board failed to act on takeover offers where the majority of the shareholders tendered their shares;
- The board failed to address an issue(s) that caused a 50% or greater withhold vote for any director in the previous director election;
- The board did not respond to a request from major institutional investors about significant policy issues that have material significance to shareholder value;
- The Board does not have in place a succession plan for the CEO and key board members such as the chairman and/or lead director;
- Issues specific to key board committees (as outlined below) are not addressed by the board as a whole;
- The board has not ensured that management has installed effective mechanisms to manage risks that may affect the company, its industry and the economy.

The CRPTF will WITHHOLD votes from or vote AGAINST non-independent directors when:

- The non-independent director serves on any of the three key committees: audit, compensation or nominating;
- The company lacks an audit, compensation or nominating committee, enabling the board to function as that committee;
- The full board is less than majority independent.



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The CRPTF will WITHHOLD votes from or vote AGAINST members of key board committees in cases of poor performance of those committees of which the nominee is a member.

The CRPTF will WITHHOLD votes from or vote AGAINST members of the Nominating Committee if:

- The committee does not seek out candidates for the board from a diverse candidate pool, with particular attention to race and gender diversity, particularly when such diversity is underrepresented or nonexistent on the board;
- The committee does not consider input from shareholders in identifying candidates for the board.

The CRPTF will WITHHOLD votes from or vote AGAINST members of the Audit Committee if:

- The non-audit fees paid to the accounting firm performing the audit are greater than 25% of the total fees paid to the firm by the company (see also Section V.);
- The Audit Committee failed to respond to a material weakness identified in the Section 404 Sarbanes-Oxley Act disclosures;
- There are chronic internal control issues and an absence of established effective control mechanisms identified by the external auditors that are not being addressed in a timely manner;
- The committee has poor oversight of the company's procedures to assure independence of the auditors (see Section V. for further discussion);
- The company fails to allow shareholders the opportunity to vote to ratify the company's audit firm.

The CRPTF may WITHHOLD votes from or vote AGAINST the members of the Compensation Committee if the company has poor compensation practices. (See section IX. B. for discussion of poor compensation practices.)

Appendix A to these guidelines contains a discussion and enumeration of poor compensation practices, is incorporated by reference to this section and will be the criteria used for both voting for re-election of members of the Compensation Committee, as well as for the Say on Pay vote (see Section IX.B.)

If the company holds an annual advisory vote on executive compensation, the CRPTF may vote AGAINST the advisory vote to signal its concerns on compensation issues rather than vote against members of the compensation committee. If the pay practices that raise concerns are not corrected, the CRPTF would vote against re-election of the compensation committee member in the subsequent year.



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For companies that do not hold an advisory vote on executive compensation in a particular year, the CRPTF may vote AGAINST the members of the compensation committee as dictated by this subsection.

#### **B. Voting for Director Nominees in Contested Elections**

Competing slates will be evaluated based upon the personal qualifications of the candidates, the economic impact of the policies that they advance, and their expressed and demonstrated commitment to the interests of all shareholders and stakeholders (e.g. employees, customers, and communities in which a company resides), as well as using the criteria outlined in Section II.A. regarding uncontested elections.

Votes in a contested election of directors are evaluated on a CASE-BY-CASE basis, considering the following factors:

- Long-term financial performance of the company relative to its industry;
- Management's track record;
- Performance evaluation of any director standing for re-election;
- Background to the proxy contest;
- Qualifications of director nominees (both slates);
- Evaluation of what each slate is offering shareholders, as well as the likelihood that the proposed objectives and goals can be met;
- Stock ownership positions of individual directors;
- Impact on stakeholders such as the community, employees, customers, etc.

#### **C. Board Diversity**

The CRPTF supports company efforts to search for qualified female and minority candidates for nomination to the board of directors under a policy of board inclusiveness, which includes a commitment to race and gender diversity in its corporate governance. The charter of the nominating committee should include such a policy that would commit the company to seeking a diverse slate of candidates, including ethnic and gender diversity, as well as consideration of candidates' background, experience, age, ethnicity and culture.

Generally, the CRPTF will vote FOR shareholder resolutions requesting reports on the company's efforts to diversify the board, unless:

- The board composition is reasonably inclusive in relation to companies of similar size and business; or
- The board already reports on its nominating procedures and diversity initiatives.

The CRPTF will vote on a CASE-BY-CASE basis on shareholder resolutions asking the company to increase the board's diversity taking into account:



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- The degree of board diversity;
- Comparison with peer companies;
- Established processes for improving board diversity including existence of independent nominating committees and use of an outside search firm;
- History of Equal Employment Opportunity (EEO) violations.

### **D. Independent Director as Chairman of the Board**

The CRPTF believes that the positions of chairman and CEO should be held by different persons, except in extraordinary circumstances. In those circumstances, there should be a lead independent director.

Generally, the CRPTF will WITHHOLD its vote from or vote AGAINST a director nominee who holds both positions.

Overall, the CRPTF will vote FOR shareholder resolutions that ask companies to require the position of chairman of the board be filled by an independent director, except in extraordinary circumstances that are explicitly spelled out.

### **E. Substantial Majority of Independent Directors**

The CRPTF believes that at a minimum, a substantial majority of every board of directors should be independent from management. Boards should strive to maintain board composition made up of a substantial majority of independent directors.

The CRPTF will vote FOR shareholder resolutions asking that a substantial majority of directors be independent.

### **F. Shareholder Access to the Proxy**

The CRPTF supports proxy ballot access for shareholders' nominees to the board, provided that shareholders holding a significant number (no less than 1%) of shares have shown support for each nominee.

Generally, the CRPTF will vote FOR shareholder resolutions asking companies to provide shareholders holding a significant number (no less than 1%) of shares with the ability to nominate director candidates to be included on management's proxy card.



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**G. Nominating Directors on a Company's Proxy Card**

Securities and Exchange Commission (SEC) rules permit a shareholder or group of shareholders meeting certain requirements to nominate candidates to the board of directors through the company's proxy card.<sup>12</sup>

The CRPTF will evaluate whether the replacement of individual board members is beneficial to the company, and will join other shareholders in nominating candidates on a CASE-BY-CASE basis.

**H. Majority Vote for Election of Directors**

Generally, the CRPTF will vote FOR shareholder resolutions (including binding resolutions requesting that the board amend the company's bylaws) calling for directors to be elected with a majority of votes cast<sup>13</sup> for electing directors, provided the proposal includes a carve-out for a plurality voting standard when there are more director nominees than board seats (e.g. contested elections).<sup>14</sup>

**I. Stock Ownership Requirements**

The CRPTF will vote FOR shareholder resolutions that ask companies to require members of the board of directors to own some amount of stock of the companies on which they serve as board members. Exceptions should be made for clergy.

**J. Annual Election of Directors**

The CRPTF will vote FOR shareholder resolutions that ask companies to ensure all members of the board of directors be elected by shareholders every year.

**K. Term of Office**

The CRPTF will vote FOR shareholder resolutions proposing term limits or mandatory retirement age for members of the board of directors, provided that such proposals permit the board to waive this requirement on a CASE-BY-CASE basis.

**L. Cumulative Voting**

The CRPTF will generally vote FOR shareholder resolutions to allow cumulative voting in contested elections, provided that the resolution does not require

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<sup>12</sup> The SEC proxy access rule has been successfully challenged in federal court, in a July 2011 ruling by the DC Court of Appeals. The SEC had previously delayed implementation of this rule pending resolution of the litigation. The next steps are unclear at this writing.

<sup>13</sup> This would replace the plurality vote standard which is an election where the candidate with the most votes is elected rather than requiring a majority of the votes for election – withhold votes do not count.

<sup>14</sup> In contested elections a majority vote is not needed because these elections are competitive.



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cumulative voting in uncontested elections. Under a cumulative voting scheme, the shareholder is permitted to have one vote per share for each director to be elected and shareholders are permitted to apportion those votes in any manner they wish among the director candidates.

#### **M. Director and Officer Indemnification and Liability Protection**

Management proposals typically seek shareholder approval to adopt an amendment to the company's charter to eliminate or limit the personal liability of directors to the company and its shareholders for monetary damages for fiduciary breaches arising from gross negligence.

Generally, the CRPTF will vote AGAINST management proposals to limit or eliminate entirely director and officer liability for:

- A breach of the duty of loyalty,
- Acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law,
- Acts involving the unlawful purchases or redemptions of stock,
- The payment of unlawful dividends, or
- Use of the position as director for receipt of improper personal benefits.

#### **N. Indemnification**

Indemnification is the payment by a company of the expenses of directors who become involved in litigation as a result of their service to the company. Management proposals to indemnify a company's directors differ from those to eliminate or reduce their liability, because with indemnification, directors may still be liable for an act or omission, but the company will bear the expense. The CRPTF may support these management proposals when the company persuasively argues that such action is necessary to attract and retain directors, but will generally oppose indemnification when it is being proposed to insulate directors from actions they have already taken while serving on the board.

Generally, the CRPTF will vote AGAINST indemnification management proposals that would expand coverage to acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness.

Generally, the CRPTF will vote FOR indemnification management proposals that cover the director's legal expenses, if the director is found to have acted in good faith.

### **III. COMPANY RESPONSIVENESS TO SHAREHOLDERS**

Shareholders are the owners of the company and as such have an important right and duty to elect members of the board of directors. The members of the board of directors in turn



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oversee the company and act on behalf of shareholders to protect shareholders' interests. Shareholders often express their concerns through written communication, direct conversations, shareholder resolutions, and voting on proxy issues including voting for directors. Boards of directors need to be responsive to these shareholder communications.

### **A. Response to Majority Votes**

When a shareholder resolution receives the support of a majority of the shareholders voting, the board of directors and management has an obligation to affirmatively consider the wishes of the shareholders.

The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy that creates a mechanism and an obligation for the board of directors to take action on any shareholder resolution that receives an affirmative vote of a majority of those shares voted.

### **B. Communication with Shareholders**

Members of the board of directors have a responsibility to listen to shareholders and to be responsive to their concerns.

The CRPTF will vote FOR shareholder resolutions that request companies to create a formal mechanism for shareholder communication with independent directors.

The CRPTF will vote FOR shareholder resolutions that request companies to require that all directors be present at the annual meeting of shareholders (unless there are extenuating circumstances) and that there is a period set aside at the annual meeting for the independent directors to answer questions from shareholders on issues of concern (management may be present).

## **IV. PROXY CONTEST DEFENSES**

### **A. Poison Pills**

“Shareholder rights plans,” typically known as poison pills, provide the target board with veto power over takeover bids and insulate management from the threat of a change in control. Because poison pills greatly alter the balance of power between shareholders and management, shareholders should be allowed to make their own evaluation of such plans.

The CRPTF will vote FOR shareholder resolutions that request companies to submit its poison pill for shareholder ratification.



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The CRPTF will review on a CASE-BY-CASE basis shareholder resolutions that request companies to redeem a company's poison pill.

The CRPTF will review on a CASE-BY-CASE basis management proposals to ratify a poison pill.

#### **B. Amend Bylaws without Shareholder Consent**

The CRPTF will vote AGAINST management proposals giving the board exclusive authority to amend the bylaws.

The CRPTF will vote AGAINST shareholder resolutions giving the board the ability to amend the bylaws without shareholder approval.

#### **V. AUDITORS**

The CRPTF believes that a company's auditors should be independent of outside influence and therefore should not perform non-audit-related consulting work. The audit committee should adopt and implement a formal policy on the independence of the auditors that is disclosed in the audit committee report of the proxy statement. Such policy should state that the auditors will not be considered independent if they provide significant non-audit services to the company apart from the audit. Services are considered significant if they are worth the lesser of \$50,000 or 1 percent of the audit firm's gross revenues for the most recent fiscal year. Under no circumstances should the amount of payment paid to the auditor for non-audit services (including audit related services) be larger than the payment for audit services. The audit committee should not indemnify the auditor. The appointment of the auditor should always be placed before shareholders for approval.

The CRPTF will vote AGAINST management proposals to ratify auditors if:

- An auditor has a financial interest in or association with the company, and is therefore not independent;
- There is reason to believe that the independent auditor has rendered an opinion which is inaccurate or non-indicative of the company's financial position;
- During the prior year, the fees paid to the audit firm for non-audit-related services was more than 25% of total fees paid to the firm by the company.

#### **VI. ACQUISITIONS AND MERGERS**

Votes on mergers and acquisitions and related issues are considered on a CASE-BY-CASE basis, with the primary concern being the best long-term economic interests of shareholders. In making this evaluation, the CRPTF will take into account at least the following:

- Anticipated financial and operating benefits;



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- Offer price (cost vs. premium);
- Prospects of the combined companies;
- How the deal was negotiated;
- Fairness opinion (or the lack of one);
- Changes in corporate governance and its impact on shareholder rights;
- Impact on community stakeholders and workforce;
- Strategic rationale for the merger or acquisition;
- Analysis of whether there are any conflicts of interest;
- Analysis of corporate governance of the newly formed entity - both compared to the governance provisions of the companies prior to the merger or acquisition, and compared to the governance provisions of these proxy voting policies.

#### **A. Fair Price Provisions**

The CRPTF will vote on a CASE-BY-CASE basis on proposals to adopt fair price provisions (provisions that stipulate that an acquirer must pay the same price to acquire all shares as it paid to acquire the control shares), evaluating factors such as the vote required to approve the proposed acquisition, the vote required to repeal the fair price provision, and the mechanism for determining the fair price.

#### **B. Greenmail**

Greenmail payments are targeted repurchases by management of company stock from individuals or groups seeking control of the company. Since only the hostile party receives payment, usually at a substantial premium over the market value of its shares, the practice discriminates against all other shareholders.

The CRPTF will vote FOR shareholder resolutions to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.

#### **C. Stakeholder Provisions**

The CRPTF will vote FOR shareholder resolutions that ask the board to consider non-shareholder constituencies including employees, customers, the community in which a company resides, and stakeholder or constituency issues of concern, when evaluating a merger or business combination.

## **VII. SHAREHOLDER RIGHTS**

#### **A. Confidential Voting**

The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy allowing for confidential voting.



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**B. Shareholder Ability to Call Special Meetings**

Shareholders should be permitted to call special meetings of shareholders to address and vote on issues that the Board of Directors is not addressing, including but not limited to, removal members of the board. The rules implementing this provision should provide for timely calling of such meetings.

The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy allowing for shareholders' right to call special meetings within the parameters of corporate law of the state in which the company is incorporated to take action on certain matters, including removal of directors, submitting shareholder resolutions or responding to a beneficial offering.

The CRPTF will vote AGAINST proposals to restrict or prohibit shareholder ability to call special meetings and AGAINST provisions that would require advance notice of more than sixty days.

**C. Shareholder Ability to Act by Written Consent**

The CRPTF will vote FOR shareholder resolutions that request companies to adopt a policy allowing for shareholders' ability to take action by written consent within the parameters of corporate law of the state in which the company is incorporated to take action on certain matters including removal of directors, submitting shareholder resolutions or responding to a beneficial offering.

The CRPTF will vote AGAINST proposals to restrict or prohibit shareholder ability to take action by written consent.

**D. Equal Access**

The CRPTF will vote FOR shareholder resolutions that request companies to give shareholders (or group of shareholders) owning a significant number of share (no less than 1%) access to management's proxy material for the purpose of nominating candidates to the board of directors.

**E. Unequal Voting Rights**

The CRPTF will vote FOR shareholder resolutions that request companies to maintain or provide one-share one-vote, and will vote AGAINST management proposals for dual class stock with different voting rights.

**F. Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws**

The CRPTF will vote FOR management or shareholder proposals to reduce supermajority vote requirements for charter and bylaw amendments and mergers.



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However, for companies with shareholders who have significant ownership levels, the CRPTF will vote CASE-BY-CASE, taking into account 1) ownership structure, 2) quorum requirements, and 3) supermajority requirements.

The CRPTF will vote AGAINST management proposals to adopt supermajority requirements for a shareholder vote to approve charter, bylaw amendments and mergers. The CRPTF also will vote AGAINST management proposals seeking to lower supermajority shareholder vote requirements when such requirements accompany management sponsored proposals which would also change certain charter or bylaw provisions.

#### **G. Reimbursement of Proxy Solicitation Expenses**

The CRPTF will vote on CASE-BY-CASE basis for shareholder proposals to fully reimburse all appropriate proxy solicitation expenses associated with dissidents waging a proxy contest.

#### **H. Shareholder Ability to Remove Directors**

The CRPTF will vote FOR resolutions requiring shareholder resolutions that request companies to adopt a policy allowing shareholders the ability to remove directors with cause, including causes that do not rise to the level of legal malfeasance. Such causes include: not attending meetings, failure to carry out committee responsibilities, or actions which may be detrimental to the interests of shareholders.

The CRPTF will vote AGAINST resolutions that provide that directors may be removed only for cause and AGAINST resolutions that provide only continuing directors may elect replacements to fill board vacancies.

#### **I. Action to Fill Board Vacancies**

The CRPTF will vote FOR proposals allowing that any board member named to fill a vacancy must be elected by shareholders at the next annual meeting.

The CRPTF will vote AGAINST proposals to allow management or the board to fill vacant board seats on an interim basis if the board fails to allow a shareholder vote for the interim members at the next annual meeting.

#### **J. Shareholder Ability to Alter the Size of the Board**

The CRPTF will vote AGAINST proposals to allow management or the board to alter the size of the board without shareholder approval.



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**VIII. CAPITAL STRUCTURE**

The management of a corporation's capital structure involves a number of important issues, including dividend policy, types of assets, opportunities for growth, ability to finance new projects internally, and the cost of obtaining additional capital. Many financing decisions have a significant impact on shareholder value, particularly when they involve the issuance of additional common stock, preferred stock, or debt.

The CRPTF will review these proposals for changes in capital structure on a CASE-BY-CASE basis.

In general the CRPTF will vote FOR proposals that are based on a solid business plan, while opposing proposals that:

- Diminish the rights of the current stockholders,
- Are intended to be used as a takeover defense, or
- Unduly dilute the economic or voting interests of current shareholders.

**A. Common Stock Authorization**

CRPTF supports management proposals requesting shareholder approval to increase authorized common stock when management provides persuasive justification for the increase.

CRPTF will evaluate on a CASE-BY-CASE basis proposals where the company intends to use the additional authorized stock to implement a poison pill or other takeover defense.

Generally, the CRPTF will review on a CASE-BY-CASE basis, proposals to increase the number of shares of common stock authorized for issue.

Generally the CRPTF will vote AGAINST proposed common stock authorizations that increase the existing authorization by more than 50 percent unless a clear need for the excess shares is presented by the company.

**B. Blank Check Preferred Authorization**

Preferred stock is an equity security, which has certain features similar to debt instruments, such as fixed dividend payments; seniority of claims compared to common stock; and, in most cases, no voting rights. The terms of blank check preferred stock give the board of directors the power to issue shares of preferred stock at its discretion—with voting rights, conversion, distribution and other rights to be determined by the board at time of issue. Blank check preferred stock can be used for sound corporate purposes, but could be used as a device to thwart hostile takeovers.



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Generally the CRPTF will vote FOR management proposals to create blank check preferred stock in cases where the company expressly states that the stock will not be used as a takeover defense or carry superior voting rights.

Generally the CRPTF will vote on a CASE-BY-CASE basis on management proposals when the company indicates that such preferred stock may be used as a takeover defense.

#### **C. Adjust Par Value of Common Stock**

The CRPTF will vote FOR management resolutions to reduce the par value of common stock.

#### **D. Preemptive Rights**

Preemptive rights permit shareholders to share proportionately in any new issues of stock of the same class. These rights guarantee existing shareholders the first opportunity to purchase shares of new issues of stock in the same class as their own and in the same proportion. The absence of these rights could cause stockholders' interest in a company to be reduced by the sale of additional shares without their knowledge and at prices unfavorable to them. Preemptive rights, however, can make it difficult for corporations to issue large blocks of stock for general corporate purposes. Both corporations and shareholders benefit when corporations are able to arrange issues without preemptive rights that do not result in a substantial transfer of control.

Generally, the CRPTF will vote on a CASE-BY-CASE basis management proposals to create or abolish preemptive rights. In evaluating proposals on preemptive rights, the CRPTF will look at the size of a company and the characteristics of its shareholder base.

#### **E. Debt Restructuring**

The CRPTF will vote on a CASE-BY-CASE basis on management proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan. The CRPTF will consider the following issues:

- Dilution - How much will ownership interests of existing shareholders be reduced, and how extreme will dilution to any future earnings be?
- Change in control - Will the transaction result in a change in control of the company?
- Bankruptcy - Is the threat of bankruptcy, which would result in severe losses in shareholder value, the main factor driving the debt restructuring?



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Generally, the CRPTF will vote FOR management proposals that facilitate debt restructuring unless there are clear signs of self-dealing or other abuses.

#### **F. Dual-Class Stock**

The CRPTF will vote FOR a one-share one-vote structure.

The CRPTF will vote AGAINST management proposals to create a new class of common stock with superior voting rights.

The CRPTF will vote AGAINST management proposals at companies with dual-class capital structures to increase the number of authorized shares of the class of stock that has superior voting rights.

#### **G. Issue Stock for Use with Rights Plan**

The CRPTF will vote AGAINST management proposals that increase authorized common stock for the explicit purpose of implementing a non-shareholder approved shareholder rights plan (poison pill).

#### **H. Recapitalization**

The CRPTF will vote on a CASE-BY-CASE basis on recapitalizations (reclassifications of securities), taking into account the following:

- More simplified capital structure,
- Enhanced liquidity,
- Fairness of conversion terms,
- Impact on voting power and dividends,
- Reasons for the reclassification,
- Conflicts of interest,
- Other alternatives considered.

#### **I. Reverse Stock Splits**

A reverse stock split occurs when blocks of more than one share of stock are converted into one share.

The CRPTF will vote FOR management proposals to implement reverse stock split when the number of authorized shares will be proportionately reduced.

The CRPTF will vote on a CASE-BY-CASE basis on management proposals to implement reverse stock splits that do not proportionately reduce the number of shares authorized for issues as determined using a model developed by a proxy voting service.



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### **J. Share Repurchase Programs**

The CRPTF will vote FOR management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms, provided that adjustments are made to executive compensation programs to reflect the reduced number of shares outstanding (e.g. calculations of earnings per share).

### **K. Stock Distributions: Splits and Dividends**

The CRPTF will vote FOR management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance as determined using a model developed by a proxy voting service.

### **L. Tracking Stock**

The CRPTF will vote on a CASE-BY-CASE basis on the creation of tracking stock, weighing the strategic value of the transaction against such factors as:

- Adverse governance changes,
- Excessive increases in authorized capital stock,
- Unfair method of distribution,
- Diminution of voting rights,
- Adverse conversion features,
- Negative impact on stock option plans,
- Alternatives such as spin-off

## **IX. EXECUTIVE AND DIRECTOR COMPENSATION**

### **A. CRPTF General Principles for Voting on Executive Compensation**

Executive compensation is generally comprised of three basic components: salary, bonus and equity compensation. In addition, there are other forms of compensation, such as retirement benefits, severance benefits, basic employee benefits (such as health and life insurance), loans (and forgiveness of loans), payment of taxes on certain compensation, and “perks” including personal use of company facilities (such as company aircraft).

The CRPTF considers a good compensation policy as one that balances these different forms of compensation to provide incentives for continuous improvement and ties pay to performance. Developing measures of performance for the CEO and other executives is a key component of a compensation plan.

It is the role of the compensation committee to set the compensation for top management and approve compensation policy for the company as a whole.



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Shareholders look to the compensation committee to align management's interests with shareholder interests while providing incentives for long-term performance.

Exorbitant pay, unwarranted severance packages, lack of internal pay equity, abuse of perquisites ("perks"), and corporate scandals, where executives have been highly paid while shareholders have lost billions of dollars, and employees have lost their jobs and much of their life savings, have shown that many compensation committee members have not been doing their jobs. These examples provide a reminder to all compensation committee members of the importance of their responsibility to align pay with performance, to encourage management to effectively manage risks that may affect the company, its industry and the economy, and to provide compensation incentives for management while protecting the financial interests of shareholders.

The compensation committee should commit to providing full descriptions of the qualitative and quantitative performance measures and benchmarks used to determine annual incentive compensation, including the weightings of each measure. At the beginning of the period during which an executive's performance is to be measured, the compensation committee should calculate and disclose the maximum compensation payable in the event that performance-related targets are met. At the end of the performance cycle, the compensation committee should disclose actual targets and details on the determination of final payouts.

The compensation committee should adopt and implement a formal policy on the independence of compensation consultants that is disclosed in the Compensation Discussion and Analysis (CD&A) of the proxy statement. Such policy should state that a compensation consultant will not be considered independent if the consultant firm provides significant services to the company apart from work performed for the compensation committee. Services are considered significant if they are worth the lesser of \$50,000 or 1 percent of the consultant firm's gross revenues for the most recent fiscal year. Under no circumstances should the amount of payment paid to a consultant be larger for management services than the payment for compensation committee services. The compensation committee should not indemnify the compensation consultant for work provide to the committee.

The CRPTF proxy voting policies are based on pay for long-term sustained performance, and the responsibility of the compensation committee to make this happen.

#### **B. Advisory Vote on Executive Compensation**

In response to shareholder requests in 2008, 2009 and 2010, a number of companies adopted a shareholder advisory vote on executive compensation. As provided by the Dodd-Frank Act, companies must hold an advisory vote every



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one, two or three years pursuant to shareholder approval. The legislation also requires that shareholders vote at least every six years on the frequency of the advisory vote.

The CRPTF will always vote FOR management proposals to require annual advisory votes on executive compensation.

When evaluating executive compensation for the purposes of casting an advisory vote on executive compensation, the CRPTF will evaluate the criteria as enumerated in Appendix A, which is incorporated by Reference into this section.

In evaluating executive compensation for the purposes of casting an advisory vote, the CRPTF will review:

- **Pay for performance** – including how both pay and performance are measured.
- The company's **compensation policy** (for both named executives, other employees) as spelled out in the Compensation Discussion and Analysis – including the clarity and transparency of that policy, as well as how the policy ties compensation to the creation of long term shareholder value.
- The company's responsiveness to **input from shareholders** on compensation policy and practices.
- The degree to which the company employs **poor compensation practices**, as delineated in the CRPTF proxy voting guidelines, and as outlined below.

The CRPTF will evaluate these issues in a holistic way, considering all of a company's compensation practices (rather than any one issue) in determining how to vote. How a company's compensation policy and practices have changed from previous years – or not changed in the case of poor compensation practices – will be an additional factor considered.

See Appendix A for the factors to be evaluated in determining how to vote.

#### C. **Advisory Vote on Golden Parachutes**

The 2010 Dodd-Frank Act also requires shareholder advisory votes on golden parachute payments in any solicitation subject to SEC rules regarding dispositions of all or substantially all assets, including a merger. Golden parachute compensation is defined as any type of compensation (whether present, deferred, or contingent that is based on or otherwise relates to a merger, acquisition, or sale transaction. (A separate vote would not be required if disclosure of that compensation had been included in a prior advisory vote on Executive Compensation, and that compensation arrangement remained unchanged).

Federal legislation passed in 2010 requires a separate vote on "golden parachute compensation" to be included in any solicitation subject to SEC rules regarding



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the dispositions of all or substantially all assets, including a merger. Golden parachute compensation is defined as any type of compensation (whether present, deferred, or contingent) that is based on or otherwise relates to a merger, acquisition, or sale transaction. (A separate vote would not be required if disclosure of that compensation had been included in a prior advisory vote on Executive Compensation, and that compensation arrangement remained unchanged).

The CRPTF will vote on these issues on a CASE-BY-CASE basis, in conformance with our policies on severance benefits, as described in Section X.F of these guidelines. When evaluating such benefits for the purposes of casting an advisory vote, the CRPTF will evaluate a number of criteria outlined below. The CRPTF will evaluate these issues in a holistic way, and no one issue will be decisive in determining how to vote.

An acceptable “golden parachute” change-in-control payment and policy should include, but is not limited to, the following:

- The triggering mechanism is beyond the control of management;
- The amount of the payment does not exceed three times the base amount, defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change-in-control occurs;
- The change-in-control payment is double-triggered, i.e., 1) after a change in control has taken place, and 2) termination of the executive as a result of the change in control. Change-in-control is defined as a change in the company ownership structure;
- The company does not provide tax gross-ups on parachute payments;
- The company takes into account the amount of company stock owned by the executive, the benefits payable under any retirement plan(s) in which the executive is a participant, and the amount of compensation deferred by the executive;
- There is no accelerated vesting of equity held by the executive as a result of a change-in-control, provided that in the case where unvested equity no longer exists, the executive is granted equity of equal value with comparable vesting requirements by the new entity.

#### **D. Equity Compensation**

The CRPTF supports compensating executives at a reasonable rate, and believes that executive compensation should be strongly correlated to the long-term performance of the company.

Stock option grants and other forms of compensation should be performance-based with an objective of improving shareholder value and maintaining that value over the long term. Well-designed stock option plans align the interests of



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executives and shareholders by providing that executives benefit when stock prices rise as the company, and shareholders, prosper over the long-term.

The CRPTF will vote on a CASE-BY-CASE basis on proposals for equity-based compensation plans.

The CRPTF will vote FOR proposals for equity compensation plans that provide challenging performance objectives and serve to motivate executives to deliver excellent long-term performance, and vote AGAINST plans that permit reloading of exercised stock options and apparent unreasonable benefits to executives that are not available to any other employees.

The CRPTF will vote on a CASE-BY-CASE basis for management proposals for equity-based compensation plans that link executive compensation to corporate responsibility, such as corporate downsizing, customer or employee satisfaction, community involvement, human rights, environment performance, predatory lending, and executive/employee pay disparities. The CRPTF considers many of these corporate responsibility issues as key business issues linked directly to long-term shareholder return, and will evaluate them accordingly.

The CRPTF will vote AGAINST proposals for equity-based compensation plans if any of the following factors apply:

- The total cost of the company's equity-based compensation plans is unreasonable, based on a model developed by a proxy voting service;
- The plan expressly permits the repricing of stock options without prior shareholder approval;
- The plan expressly permits the reloading of stock options;
- There is a disconnect between CEO pay and the company's performance;
- The company's three-year burn rate exceeds 3% or the industry average;
- The plan is a vehicle for poor pay practices.

#### **E. Employee Stock Ownership Plans (ESOPs)**

The CRPTF will vote FOR proposals to implement an ESOP or increase authorized shares for existing ESOPs, unless the number of shares allocated to the ESOP is excessive (more than five percent of outstanding shares).

#### **F. Incentive Bonus Plans and Tax Deductibility Proposals – OBRA (Omnibus Budget Reconciliation Act of 1990) Related Compensation Proposals**

The CRPTF will vote FOR management proposals that amend shareholder-approved compensation plans to include administrative features or place a cap on the annual grants that any one participant may receive to comply with the provisions of Section 162(m) of OBRA.



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The CRPTF will vote FOR management proposals to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) unless they are clearly inappropriate.

The CRPTF will vote on a CASE-BY-CASE basis on management proposals to amend to existing plans to increase shares reserved and to qualify for favorable tax treatment under the provisions of Section 162(m), as long as the plan does not exceed the allowable cap and the plan does not violate any of the supplemental policies.

Generally, the CRPTF will vote FOR cash or cash and stock bonus plans that are submitted to shareholders for the purpose of exempting compensation from taxes under the provisions of Section 162(m), if no increase in shares is requested.

#### **G. Option Exchange Programs/Repricing Options**

The CRPTF will vote on a CASE-BY-CASE basis on management proposals seeking approval to exchange/reprice options, taking into consideration:

- Historic trading patterns;
- Rationale for the re-pricing;
- Value-for-value exchange;
- Treatment of surrendered options;
- Option vesting;
- Term of the option;
- Exercise price;
- Participation;
- If the surrendered options are added back to the equity plans for re-issuance, the CRPTF will also take into consideration the company's three-year burn rate.

#### **H. Director Compensation**

The CRPTF will vote on a CASE-BY-CASE basis on compensation plans for non-employee directors.

The CRPTF will vote FOR a director compensation plan if ALL of the following qualitative factors are met and disclosed in the proxy statement:

- Director stock ownership policies that require payment of a minimum of 50% of annual director compensation in equity and encourage directors to hold their equity interests while serving on the board.
- A vesting schedule or mandatory holding/deferral period (a minimum vesting of three years for stock options or restricted stock or deferred stock payable at the end of a three-year deferral period);
- Mix between cash and equity;



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- No retirement benefits or perquisites provided to non-employee directors;
- Detailed disclosure provided on cash and equity compensation delivered to each non-employee director for the most recent fiscal year, including annual retainer, board meeting fees, committee retainer, committee-meeting fees, and equity grants.

#### **I. Director Retirement Plans**

The CRPTF will vote AGAINST management proposals for retirement plans for non-employee directors.

#### **X. SHAREHOLDER RESOLUTIONS ON COMPENSATION**

##### **A. Option Expensing**

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to expense stock options, unless the company has already publicly committed to expensing options by a specific date.

##### **B. Option Repricing**

The CRPTF will vote FOR shareholder resolutions that require companies to put option repricing to shareholder vote.

##### **C. Limiting Executive and Director Pay**

Shareholder resolutions to limit executive and director pay need to be evaluated on a CASE-BY-CASE basis.

Generally, the CRPTF will vote FOR shareholder proposals that seek additional disclosure of a significant change in executive and director pay information.

Generally, the CRPTF will vote FOR shareholder proposals that seek to eliminate outside directors' retirement benefits.

Generally, the CRPTF will vote FOR shareholder proposals that seek to provide for indexed and/or premium priced options.

Generally, the CRPTF will vote FOR shareholder proposals that seek non-discrimination in retirement benefits (e.g. retirement benefits and pension plans that are different based on age of employee such as cash balance plans).

Generally, the CRPTF will vote FOR shareholder resolutions that request that earnings from a company's pension plan not be included in company earnings for the purpose of evaluating whether an executive met performance targets in their compensation agreement.



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The CRPTF will vote FOR shareholder resolutions that request companies to require executives to repay long-term incentive compensation or other performance-based compensation to the company in the event a company restates its financial statements for a previous reporting period and such compensation as recalculated is found not to have been earned.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to advocate the use of performance-based awards like indexed, premium-priced, and performance-vested options or performance-based shares.

Generally, the CRPTF will vote FOR shareholder resolutions that ask companies to prohibit tax gross-up payments to executives.

### **D. Clawbacks**

Compensation that is paid based on financial results that are later stated, or on meeting performance metrics that are later revised downward, is compensation that has not been earned. Companies should have policies that “claw-back” unearned compensation.

The CRPTF will vote on a CASE-BY-CASE basis on proposals to recoup unearned incentive bonuses or other incentive payments made to senior executives if it is later determined that the performance metrics upon which the incentive compensation is earned later turn out to have been in error. When making its determination, the CRPTF will take into account:

- If the company has adopted a formal recoupment bonus policy;
- If the company has chronic restatement history or material financial problems; or
- If the company’s policy substantially addresses the concerns raised by the proponent.

### **E. Internal Pay Equity**

Significant differences in pay between top tiers of a company (i.e. between the CEO and his/her direct reports, and similarly one level further down in the organization) are often an indication of poor compensation practices. They could indicate the CEO is reaping an inordinately large share of compensation paid to senior executives, misalignment of pay, or weaknesses in succession planning. Adopting internal pay equity policies and practices can help guard against these potential problems.

The CRPTF will vote on a CASE-BY-CASE basis for shareholder proposals that ask the board compensation committee to adopt a policy regarding internal pay equity the relationship between the compensation received by the CEO and other named executive officers whose compensation is disclosed in the proxy statement.



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The CRPTF will vote FOR shareholder proposals requesting the company to adopt a policy that asks the board compensation committee to consider internal pay equity in (a) the establishment, modification and termination of senior executive pay plans and programs; and (b) making specific awards under those plans and programs.

The CRPTF will vote FOR shareholder proposals that ask the company to disclose to shareholders the role of internal pay equity considerations in the process of setting compensation for the CEO and other named executive officers.

The CRPTF will vote AGAINST shareholder proposals asking the board to adopt a policy that would fix the pay ratio between the CEO and other named executive officer to a specific percentage or multiple of pay.

#### **F. Severance Agreements for Executives/Golden Parachutes**

Severance Agreements often result in awarding pay for failure, and/or large unearned compensation at the conclusion of a merger or acquisition. This has been recognized in the Dodd-Frank Act which requires shareholder votes on these awards under certain circumstances. (See Section IX.C.)

The CRPTF will vote FOR shareholder resolutions that request companies to require golden parachutes or executive severance agreements to be submitted for shareholder ratification, unless the proposal requires shareholder approval prior to entering into employment contracts, or the proposal limits flexibility necessary for recruiting executives.

The CRPTF will vote on a CASE-BY-CASE basis on proposals to ratify or cancel golden parachutes. An acceptable parachute should include, but is not limited to, the following:

- The triggering mechanism should be beyond the control of management;
- The amount should not exceed three times the base amount defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs;
- Change-in-control payments should be double-triggered, i.e., 1) after a change-in-control has taken place, and 2) termination of the executive as a result of the change in control. Change-in-control is defined as a change in the company ownership structure;
- The company should not provide tax gross-ups on parachute payments;
- The company should take into account the amount of company stock owned by the executive, the benefits payable under any retirement plan(s) in which the executive is a participant and the amount of compensation deferred by the executive.



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The CRPTF will vote FOR shareholder proposals requesting companies to eliminate accelerated vesting of equity following the termination of employment for any reason, excepting change-in-control.

The CRPTF will vote FOR shareholder proposals requesting companies to eliminate accelerated vesting of equity held by the executive as a result of a change-in-control, provided that in the case where unvested equity no longer exists, the executive is granted equity of equal value with comparable vesting requirements by the new entity.

#### **G. Golden Coffins/Executive Death Benefits**

Payments to the estates of deceased senior executives of compensation that would have earned after their death, is a poor compensation practice.

Generally, the CRPTF will vote FOR shareholder resolutions that ask the board of directors to submit for shareholder approval any future agreements and corporate policies that would obligate the company to make payments, grants, or awards following the death of a senior executive in the form of unearned salary or bonuses, accelerated vesting of equity awards, perquisites and other payments or awards made in lieu of compensation. This would not apply to any benefit programs or equity plan proposals for which the broad-based employee population are eligible, nor would it apply to compensation earned by the executive and deferred during his or her lifetime.

#### **H. Supplemental Executive Retirement Plans (SERPs)**

Supplemental Executive Retirement Plans (SERPs) are retirement plans for senior executives that are separate from and in addition to retirement plans for all other employees. Often these plans are used to provide compensation to a senior executive that is not based on performance, or provides excessive retirement benefits.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to allow for a shareholder vote to approve SERP agreements, unless the company's executive pension plans do not contain excessive benefits (based on an analysis by the CRPTF's proxy voting service and other expert analysis).

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to call for limitations of annual retirement benefits to a maximum of earned annual salary and bonus.

#### **I. Stock Retention**

The purpose of grants of stock and stocks options to senior executives (rather than cash compensation) is to align their financial interest with that of shareholders.



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This alignment is maintained only if the executive retains the ownership of the stock.

Generally, the CRPTF will vote FOR shareholder proposals requiring senior executives to retain a percentage of shares acquired through equity compensation programs. When voting for these proposals, the CRPTF will take into account current stock ownership guidelines, existing long-term stock-holding requirements and actual equity ownership by executives, and the length of the current holding period.

#### **J. Responsible Use of Company Stock**

The purpose of grants of stock and stocks options to senior executives (rather than cash compensation) is to align their financial interest with that of shareholders. This alignment can be undermined if the executive enters into a derivative transaction that limits the loss in the event that the company performs poorly and the stock value declines.

Generally, the CRPTF will vote FOR shareholder proposals asking the board of directors to adopt policies limiting the ability of named executive officers to enter into derivative or speculative transactions involving company stock, including but not limited to trading in puts, calls, covered calls or other derivative products; engaging in hedging or monetization transactions with respect to company stock; holding company stock in a margin account; or pledging company stock as collateral for a loan.

#### **K. Compensation Consultant Independence**

The CRPTF will vote FOR shareholder resolutions that request companies to include in their corporate governance guidelines that any compensation consultant employed by the compensation committee is independent of management and that such consultant should not provide significant consulting services to the management of the company (see Section IX.A. for further discussion).

### **XI. STATE AND COUNTRY OF INCORPORATION**

#### **A. Voting on State Takeover Statutes**

The CRPTF will vote on a CASE-BY-CASE basis on proposals to opt in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freeze out provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, anti-greenmail provisions, and disgorgement provisions).

The CRPTF generally supports opting into stakeholder protection statutes if they provide comprehensive protections for employees and community stakeholders.



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The CRPTF would be less supportive of takeover statutes that only serve to protect incumbent management from accountability to shareholders, and which negatively influence shareholder value.

#### **B. Voting on Reincorporation Proposals**

The CRPTF will vote on a CASE-BY-CASE basis on proposals to change a company's state of incorporation, taking into consideration both financial and corporate governance concerns, including the reasons for reincorporating, a comparison of the governance provisions, comparative economic benefits, and a comparison of the jurisdictional laws.

The CRPTF will vote FOR reincorporation when the economic factors outweigh any neutral or negative governance changes.

#### **C. Off-Shore Reincorporation**

Proposals to reincorporate outside of the U.S. and management proposals to expatriated companies to reincorporate back in the U.S. will be examined closely.

The CRPTF will vote AGAINST any reincorporation management proposals that are found to reduce the rights of shareholders.

The CRPTF will vote FOR shareholder resolutions that request an expatriated company to study reincorporation back in the U.S. and report back to shareholders.

The CRPTF will vote FOR shareholder resolutions to reincorporate back in the U.S. if those proposals are found to increase the rights of shareholders, and/or have financial benefits to shareholders.

## **XII. SHAREHOLDER RESOLUTIONS ON EQUAL EMPLOYMENT OPPORTUNITY AND OTHER WORKPLACE PRACTICE REPORTING ISSUES**

#### **A. Equal Employment Opportunity**

These proposals generally request that a company establish a policy of reporting to shareholders its progress with equal opportunity and affirmative action programs. The costs of violating federal laws that prohibit discrimination by corporations are high and can affect corporate earnings.

The CRPTF will vote FOR shareholder resolutions that request companies to take action on equal employment opportunity and anti-discrimination.



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The CRPTF will vote FOR shareholder resolutions calling for legal and regulatory compliance and public reporting related to non-discrimination, affirmative action, workplace health and safety, environmental issues, and labor policies and practices that affect long-term corporate performance.

The CRPTF will vote FOR shareholder resolutions that request companies to take action calling for non-discrimination in salary, wages and all benefits.

The CRPTF will vote FOR shareholder resolutions that request companies to ask for disclosure of statistical information and policy statements regarding non-discriminatory hiring, performance evaluation and advancement, and workforce composition.

The CRPTF will vote FOR shareholder resolutions that request companies to disclose the EEO-1 consolidated data report that is filed with the Equal Opportunity Commission (EEOC).

The CRPTF will vote FOR shareholder resolutions that request companies to create policy statements regarding non-discriminatory hiring, performance evaluations, advancement and affirmative action.

The CRPTF will vote FOR shareholder resolutions that request companies to add the terms "sexual orientation," "gender identity," and/or "gender expression" to written non-discrimination policies.

### **B. Non-Discrimination in Retirement Benefits**

Many companies are changing their retirement benefits, including moving to cash balance and defined contribution pension plans. There is the potential for some employees to benefit more than others due to these changes.

The CRPTF will vote FOR shareholder resolutions that request companies to ensure non-discrimination with regard to retirement benefits.

### **C. Workplace Diversity**

#### **i) Glass Ceiling**

Generally, the CRPTF will vote FOR reports outlining the company's progress towards race and gender inclusiveness in management and the board of directors.

#### **ii) Sexual Orientation**

The CRPTF will vote FOR shareholder resolutions that request companies to amend EEO statements in order to prohibit discrimination based on sexual orientation.



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### D. International Labor Standards/Human Rights

#### i) Contract Supplier Standards / International Codes of Conduct / Vendor Standards

This section addresses shareholder resolutions that call for compliance with governmental mandates and corporate policies regarding nondiscrimination, affirmative action, right to affiliate or organize, work place safety and health, and other basic labor and human rights protections, particularly in relation to the use of international suppliers. The global labor standards and human rights resolutions call for global companies to implement comprehensive codes of conduct, and to abide by conventions of the International Labor Organization (ILO) on workplace human rights, in order to assure that its products are made under humane conditions and workers are paid at a minimum the legal minimum wage. The CRPTF proxy voting policies support these resolutions on the grounds that these standards are good business practices that protect shareholder value by improving worker productivity, reducing turnover and time lost due to injury, etc, as well as avoiding negative publicity and a loss of consumer confidence.

Generally, the CRPTF will vote FOR resolutions that request companies to ensure that its products are not made in “sweatshops.”

Generally, the CRPTF will vote FOR resolutions that request companies to help eradicate forced labor and child labor, promote the rights of workers to form and join labor unions and to bargain collectively, seek to ensure that all workers are paid a living wage, and require that company contractors submit to independent monitoring of their factories.

Generally, the CRPTF will vote FOR resolutions that request companies to adopt labor standards – a “Code of Conduct” - for foreign and domestic suppliers and licensees, and a policy that the company will not do business with suppliers that manufacture products for sale using forced labor, child labor, or that fail to comply with applicable laws protecting employees' wages and working conditions including all applicable standards and laws protecting employees' wages, benefits, working conditions, freedom of association (right to organize), and other rights.

Generally, the CRPTF will vote FOR resolutions that request companies to publish their “Code of Conduct.”

Generally, the CRPTF will vote FOR resolutions that request companies to publish a report summarizing the company's current practices for enforcement of its “Code of Conduct.”



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Generally, the CRPTF will vote FOR resolutions that request companies to engage independent monitoring programs by non-governmental organizations to monitor suppliers and licensee compliance with a company's "Code of Conduct."

Generally, the CRPTF will vote FOR resolutions that request companies to create incentives to encourage suppliers to raise standards rather than terminate contracts.

Generally, the CRPTF will vote FOR resolutions that request companies to implement policies for ongoing wage adjustments, ensuring adequate purchasing power and a sustainable living wage for employees of foreign suppliers and licensees.

Generally, the CRPTF will vote FOR resolutions that request companies to improve transparency of their contract supplier reviews.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to outline vendor standards.

#### ii) **Corporate Conduct and Human Rights**

The CRPTF will generally support proposals that call for the adoption and/or enforcement of principles or codes relating to countries in which there are systematic violations of human rights, such as: the use of slave, child, or prison labor; a government that is illegitimate; or where there is a call by human rights advocates, pro-democracy organizations, or legitimately-elected representatives for economic sanctions.

Generally, the CRPTF will vote FOR resolutions that request companies to support Principles or Codes of Conduct relating to the company investment in countries with patterns of workplace and/or human rights abuses.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to adopt policies that reflect the provisions of the General Statutes of Connecticut.

#### E. **Equal Credit and Insurance Opportunity**

Access to capital and insurance is essential to participating in our society. The Equal Credit Opportunity Act prohibits lenders from discriminating with regard to race, religion, national origin, sex, age and the like. "Redlining," the systematic denial of services in an area based on its economic or ethnic profile has a similar negative impact on denying participation in our society.



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The CRPTF will vote FOR shareholder resolutions that request companies to provide reports on lending practices in low/moderate income or minority areas and on steps to remedy mortgage lending discrimination.

The CRPTF will vote FOR shareholder resolutions that request companies to develop fair "lending policies" that would assure access to credit for major disadvantaged groups and require annual reports to shareholders on their implementation.

The CRPTF will vote FOR shareholder resolutions that request insurance companies and banks to appraise their practices and develop policies to avoid redlining.

### **XIII. SHAREHOLDER RESOLUTIONS ON CORPORATE CITIZENSHIP, WORKPLACE, AND ENVIRONMENTAL ISSUES**

In general, the CRPTF will vote FOR shareholder resolutions on responsible business practices that have an impact on the community, environment, and workforce, all of which the company relies on to sustain its business over the long-term.

In most cases, the CRPTF will vote FOR shareholder resolutions that request companies to promote additional information that is not available elsewhere and that is not proprietary, particularly when it appears companies have not adequately addressed shareholders' corporate citizen, workforce, and environmental concerns.

In determining the CRPTF's vote on shareholder resolutions that address responsible business proposals, the CRPTF will analyze the following factors:

- Whether adoption of the resolution would have a positive or negative impact on the company's long-term share value;
- The degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;
- Whether the company has already responded in some appropriate manner to the request embodied in a proposal;
- Whether the company's analysis and voting recommendation to shareholders is persuasive;
- What other companies have done in response to the issue;
- Whether the proposal itself is well framed and reasonable;
- Whether implementation of the resolution would achieve the objectives sought in the proposal; and
- Whether the subject of the resolution is best left to the discretion of the board.

In general, the CRPTF will vote FOR shareholder resolutions that request companies to furnish information helpful to shareholders in evaluating the company's operations. In order to be able to monitor their investments, shareholders often need information best



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provided by the company in which they have invested. Requests to report such information merits support.

The CRPTF will evaluate on a CASE-BY-CASE basis proposals that request the company to cease certain actions that the proponent believes is harmful to society or some segment of society, with special attention to the company's legal and ethical obligations, its ability to remain profitable, and potential negative publicity if the company fails to honor the request.

#### **A. Principles for Responsible Investment**

The Principles for Responsible Investment (PRI)<sup>15</sup> provide a framework to give consideration to environmental, social and corporate governance (ESG) issues that can affect the performance of investment portfolios. The Principles were developed by a number of international institutional investors, including the Connecticut State Treasurer's Office. The United Nations Environmental Program Financial Initiative (UNEP-FI) coordinated the effort. The Principles were launched by this group of international investors in April 2006, at the New York Stock Exchange with U.N. Secretary General Kofi Annan. The principles are consistent with the discussion immediately above.

Principle # 2 specifically states that, "We will be active owners and incorporate ESG issues into our ownership policies and practices." These proxy voting policies are an element of the CRPTF's active ownership policies, and give guidance as to how the CRPTF incorporates these issues into its policies and practices.

#### **B. MacBride Principles**

The MacBride Principles request companies operating in Northern Ireland to support the equal employment opportunity policies that apply in facilities they operate domestically. State of Connecticut General Statutes requires divestment from companies that do not implement the MacBride Principles (CGS 3-13h). The MacBride Principles were established to address the sectarian hiring problems between Protestant and Catholics in Northern Ireland. Because Connecticut Statutes prohibit the CRPTF from holding stocks in companies doing business in Northern Ireland that have not implemented the MacBride principles, the CRPTF does not hold stocks in companies to which resolutions are submitted, and therefore does not vote on these resolutions.

The CRPTF will request their adoption and support MacBride resolutions by writing letters to these companies urging them to implement the MacBride principles and act as good corporate citizens as well as be eligible for investment by the CRPTF.

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<sup>15</sup> The principles can be found at [www.unpri.org](http://www.unpri.org) as well as on the Connecticut State Treasurer's website.



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### C. Climate Change, Energy, and Environment

#### i) Global Warming, Climate Change, and Sustainability

According to the Investor Network on Climate Risk (INCR), a program of Ceres, a national network of investors, environmental organizations and other public interest groups working with companies and investors to address sustainability challenges, “Given the sweeping global nature of climate change, climate risk has become embedded in nearly every investment portfolio. Severe weather events and changing weather patterns, current or impending regulations imposing a cost on carbon and an altered competitive environment will have an inescapable impact on numerous business sectors, their supply chains, their customers and products and the global economy as a whole.”

There are direct economic and financial risks to companies from physical damage due to extreme weather patterns due to climate change. Economic and financial risks can also occur when companies are not prepared for complying with new regulators curbing carbon emissions.

The CRPTF will vote FOR shareholder resolutions that request companies to assess actions the company is taking to mitigate the economic impact on the company of increasing regulatory requirements, competitive pressures, and public expectations to significantly reduce carbon dioxide and other emissions and issue a report to shareholders.

The CRPTF will vote FOR shareholder resolutions that request companies to assess financial risks resulting from climate change and its impacts on shareholder value in the short-, medium- and long-terms, as well as actions the board of directors deems necessary to provide long-term protection of business interests and shareholder value and issue a report to shareholders.

The CRPTF will vote FOR shareholder resolutions that request companies to report on greenhouse gas emissions from company operation and of the company’s products in relation to their impact on global climate change.

The CRPTF will vote FOR shareholder resolutions that request companies to develop a standard reporting format and data baseline so that data from the company can be accurately compared to data from other companies, and compared to recognized measurement standards.

The CRPTF will vote FOR shareholder resolutions that request companies to provide a "sustainability report (also called a “corporate social responsibility report),” such as the Global Reporting Initiative, that describes how the company plans to address issues of climate change and other long-term social, economic and environmental issues in order to



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maintain the long-term financial health of the company in a changing environment.

The CRPTF will vote FOR shareholder resolutions that request companies respond to the annual questionnaire of the Carbon Disclosure Project.

#### ii) **Kyoto Protocol Compliance**

The Kyoto Protocol is an international treaty which sets limits on greenhouse gas emissions.

Generally, the CRPTF will vote FOR shareholder resolutions that request that companies to outline their preparations to comply with standards established by Kyoto Protocol and any successor protocol in countries in which the protocol applies.

#### iii) **CERES Principles**

The CRPTF will vote FOR shareholder resolutions requesting companies to adopt the CERES Principles, taking into account:

- The company's current environmental disclosure beyond legal requirements, including environmental health and safety (EHS) audits and reports that may duplicate CERES;
- The company's environmental performance record, including violations of federal and state regulations, level of toxic emissions, and accidental spills;
- Environmentally conscious practices of peer companies, including endorsement of CERES;
- Costs to the company of membership and implementation.

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to sign onto the Global Compact, Equator Principles, and other similarly broadly recognized commitments to sustainability principals.

The CRPTF will vote FOR shareholder resolutions that request companies to address matters of specific ecological impact, e.g. sustainable use of natural resources, waste reduction, wiser use of energy, reduction of health and safety risks, marketing of safer products and services, reduction or elimination of chlorine in production processes, responsible environmental restoration, etc.

The CRPTF will vote FOR shareholder resolutions that request companies to report on, assess the impact of, and curtail environmental hazards to communities that result from their activities.



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The CRPTF will vote FOR shareholder resolutions that request oil companies not to explore and oil and gas extraction in areas where there is a significant danger of permanent damage to the environment.

#### iv) **Water Risk**

According to Ceres, “Decreasing water availability, declining water quality and growing water demand are creating immense challenges to businesses and investors who have historically taken clean, reliable and inexpensive water for granted. These trends are causing decreases in companies’ water allotments for manufacturing, shifts toward full-cost water pricing, more stringent water quality regulations and increased public scrutiny of corporate water practices.”

There are direct economic and financial risks to companies from not being prepared to operate if there is reduced availability of quality water. There also are financial benefits to reducing water usage.

The CRPTF will vote FOR shareholder resolutions that request companies to assess their current and future water usage, evaluate whether sufficient water will be available in the future, develop plans to reduce water usage, and report to shareholders on these assessments.

The CRPTF will vote FOR shareholder resolutions that request companies to respond to the Carbon Disclosure Project’s water disclosure questionnaire and similar investor-backed initiatives.

#### v) **Arctic National Wildlife Refuge**

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports outlining how it would prevent potential environmental damages from drilling in the Arctic National Wildlife Refuge (ANWR).

#### vi) **Environmental - Economic Risk Report**

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to perform an economic risk assessment of environmental performance, unless the company has already publicly demonstrated compliance with the spirit of the resolution by including a report of such risk assessment in a sustainability report, corporate responsibility report, or similar report.



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### **vii) Environmental Reports**

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports disclosing the company's environmental policies, unless the company already has environmental management systems that are well-documented and available to the public.

### **viii) Nuclear Safety**

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports on risks and/or benefits associated with their nuclear reactor designs and/or the production and interim storage of irradiated fuel rods.

### **ix) Operations in Protected Areas**

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports outlining potential environmental damage from operations in protected regions, including wildlife refuges.

### **x) Renewable Energy**

Generally, the CRPTF will vote FOR requests for reports on the feasibility of developing renewable energy sources, unless the report is duplicative of existing disclosure or irrelevant to the company's line of business.

### **xi) Environmental Justice**

The CRPTF will generally support proposals asking companies to report on whether environmental and health risks posed by their activities fall disproportionately on any one group or groups, and to take action to reduce those risks at reasonable costs to the company.

The CRPTF will generally support proposals asking companies when sitting and addressing issues related to facilities which may have impact on local environment and to respect the rights of local communities to participate in decisions affecting their local environment.

## **D. Special Policy Review and Shareholder Advisory Committees**

The CRPTF will vote FOR shareholder resolutions that request companies to support advisory committees when they appear to offer a potentially effective method for enhancing shareholder value.



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**E. Drug Reimportation**

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to provide reports on the financial and legal impact of their policies regarding prescription drug reimportation, unless such information is already publicly disclosed.

Generally, the CRPTF will vote AGAINST shareholder resolutions requesting that companies adopt specific policies to encourage or constrain prescription drug reimportation.

**F. HIV/AIDS, Malaria, Tuberculosis**

The CRPTF will vote FOR shareholder resolutions to request companies to establish, implement, and report on a standard of response to the HIV/AIDS, tuberculosis, and malaria health pandemic in Africa and other developing countries, unless the company doesn't have significant operations in these markets or has adopted policies and/or procedures to address these issues comparable to those of industry peers.

**G. Predatory Lending**

The CRPTF will vote FOR shareholder resolutions that request companies to adopt policies that preclude predatory lending practices.

The CRPTF will vote on a CASE-BY-CASE basis on requests for reports on the company's procedures for preventing predatory lending, including the establishment of a board committee for oversight, taking into account:

- Whether the company has adequately disclosed mechanisms in place to prevent abusive lending practices;
- Whether the company has adequately disclosed the financial risks of its subprime business;
- Whether the company has been subject to violations of lending laws or serious lending controversies;
- Peer companies' policies to prevent abusive lending practices.

**H. Toxic Chemicals**

Generally, the CRPTF will vote FOR shareholder resolutions that request companies disclose its policies related to toxic chemicals.

The CRPTF will vote on a CASE-BY-CASE basis on resolutions requesting that companies evaluate and disclose the potential financial and legal risks associated with utilizing certain chemicals.



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**XIV. SHAREHOLDER RESOLUTIONS ON GENERAL CORPORATE ISSUES**

**A. Corporate Political Expenditures**

Political contributions can benefit the strategic interests of a company. Shareholders understand that corporate participation in the political process including through political contributions can benefit companies strategically and contribute to value creation. However, shareholders are concerned that board level policies and processes need to exist to ensure that such giving is aligned with shareholders' long-term interests. Shareholders are concerned about the influence of corporate political giving. This activity has the potential to create risks to shareholder value, through reputational harm and through reactions by employees and/or customers.

Shareholders seek to understand who sets political giving policies, who makes the decisions on contributions, and what types of internal controls are in place at the board level to manage, monitor and disclose political contributions, and manage related risks. Shareholders are not interested in obtaining disclosure of the reason specific contributions are made, but instead seek data on contributions and an understanding of mechanisms, such as board-level policies and processes, through which the board exercises oversight over the process.

It is not an appropriate role for shareholders to vote on specific political expenditures whether such vote is in the form of an advisory proposal or would be binding.

Corporate political expenditures can be direct in the form of campaign contributions or indirect in the form of advertising or publicity on politically-related issues.

In the aftermath of the U.S. Supreme Court ruling in *Citizens United*, which ruled that corporations have a constitutional right to free speech – including political advertising – new forms of corporate political spending have emerged. New organizations have been created under sections 501(c) (4), 501 (c) (5) and 501 (c) (6) of the Internal Revenue Code that receive corporate contributions and engage in political advertising. These organizations are not required to disclose their donors.

The CRPTF will vote FOR shareholder resolutions that request companies to provide greater disclosure of corporate campaign financing.

The CRPTF will vote FOR shareholder resolutions that request companies to disclose any and all corporate expenditures for advertising in support of, or in opposition to, any political candidate, issue, and/or ballot referendum, including contributions to political candidates, political action committees, 501(c) (3, 4, and



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5) organizations or any other expenditure which may be used to influence an election.

The CRPTF will vote FOR shareholder resolutions that call on the board to establish corporate political giving guidelines and internal reporting provisions or controls.

The CRPTF will vote AGAINST shareholder resolutions that seek shareholder input to corporate political giving policies or on the contributions themselves. The CRPTF will vote AGAINST shareholder resolutions seeking an advisory vote on political contributions.

### **B. Charitable Contributions**

The CRPTF will vote AGAINST shareholder resolutions that request companies not to make charitable contributes.

### **C. Link Executive Compensation to Corporate Activities Promoting Sustainability**

The CRPTF will vote on a on a CASE-BY-CASE basis on equity-based compensation plans that link executive compensation to responsible business practices that promote the long-term sustainability of the environment, the economic vibrancy of the local community and the welfare of the company's employees.

Such resolutions will be evaluated in the context of:

- The degree to which the issue can be linked to executive compensation and the long term financial performance of the company;
- The degree that performance standards are related to corporate activities those promote long-term sustainability.
- Violations or complaints filed against the company relating to such performance standards;
- Current company pays levels.

### **D. Outsourcing**

The CRPTF will vote on a CASE-BY-CASE basis on proposals calling for companies to report on the risks and opportunities associated with outsourcing.

### **E. Military Sales**

Generally, the CRPTF will vote FOR shareholder resolutions that request companies to report on foreign military sales and economic conversion of



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facilities, as long as such resolutions permit non-disclosure of confidential and proprietary information.

**F. Operations in Nations Sponsoring Terrorism Business Strategy**

The CRPTF will vote on a CASE-BY-CASE basis on shareholder resolutions that require the establishment of a board committee to review and report on the company's financial, legal and reputational risks from its operations in a terrorism-sponsoring state.

**G. Business Strategy**

Shareholders have introduced resolutions asking boards of directors to examine the impact of particular business strategies on long-term corporate value in light of changing market conditions that could affect those particular business strategies, and to report back to shareholders. The CRPTF generally supports enhanced disclosure to shareholders on how the company addresses issues that may present significant risk to long-term corporate value.



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**APPENDIX A**

**Executive Compensation  
Evaluation Criteria**

**Pay for Performance**

- The degree to which pay is tied to long term performance, and the alignment of compensation practice with long term shareholder value – including salary, bonus, equity compensation, long term incentive plans, retirement benefits, perquisites, etc.
- The rigor of performance metrics that are used to evaluate executive performance in determining compensation, and the company’s practice in disclosing these metrics to shareholders.
- The amount of payments provided for in contracted severance agreements, including change of control, severance for cause, and severance without cause, and whether and how these payments would be based on past performance. (See section X.D. below for more detail on criteria).
- The relationship between compensation granted in the current year to amount of key executives’ walk-away pay (compensation received at time of termination, including severance benefits, accelerated vesting of stock options, restricted stock and restricted stock units, deferred compensation, pension benefits, and other post retirement benefits).
- The inclusion of “claw back” provisions which recapture incentive payments that were made to executives on the basis of having met or exceeded performance targets and subsequent financial restatements show that performance targets were not met. Claw back provisions should be triggered whether or not the executive was involved in fraudulent activity or the executive was found personally responsible for the financial misstatements.
- Appropriate use of peer companies to benchmark compensation structures

**Compensation Policy**

- The clarity and thoroughness of the Compensation Committee’s statement of their compensation philosophy contained in the committee’s annual report to shareholders, (as well as in the Committee’s charter).
- The clarity and transparency of the presentation in the Compensation Discussion and Analysis (CD&A).

**Input from Shareholders**

- Willingness of the company’s compensation committee members to engage with shareholders and discuss executive compensation policies and practices.
- Use of other mechanisms by the company to seek shareholder input, including surveys of shareholders, mechanisms for shareholders to provide written input to



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the compensation committee (letters, e-mail, directly from a website, etc.), management meetings with shareholders, etc.

#### **Poor Compensation Practices**

The CRPTF will consider to what extent the company uses what are considered poor compensation practices. The CRPTF will review these criteria holistically, and no one poor practice will result in a no vote. The CRPTF considers the following poor compensation practices:

- Re-pricing of stock options and/or options policies that provide for “reloading” of exercised stock options.
- Awarding of equity compensation (including stock options, restricted stock, restricted stock units, etc.) that excessively dilutes shareholder economic value or shareholder voting rights.
- Awarding Golden Coffins - provisions that award continuing compensation after an executive’s death.
- Implementing compensation schemes that encourage excessive risk-taking, including both risks to the company and, for financial service companies, risks to the national and global financial system and the economy.
- Allowing for tax gross ups (except for pay adjustments that recognize extraordinary expenses related to work assignments).
- Engaging a compensation consultant that is retained by the company to provide other significant services other than work performed for the compensation committee (non-independent compensation consultant).
- Allowing for contractual severance provisions that would reward poor performance.
- Including change-in-control agreements that do not require both a change-in-control and loss of employment or diminution of job responsibilities to trigger payments.
- Changing performance metrics during the performance period in a way that misaligns pay and performance or that are not adjusted to reflect stock repurchase programs.
- Paying for Supplemental Executive Retirement Plans (SERP) that are deemed overly generous, based on an analysis by the CRPTF’s proxy voting service and other expert analysis.
- Awarding new hire packages to new CEOs which are deemed overly generous (“golden hello package”), based on an analysis by the CRPTF’s proxy voting service and other expert analysis.
- Failing to provide for a “claw back” policy – requiring repayment of performance-based compensation when financial restatements shows that compensation was not earned. Failing to submit one-time transfers or stock options to a shareholder vote.<sup>16</sup>

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<sup>16</sup> See Appendix B for discussion of transferable stock options (TSOs)



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**APPENDIX B**

**Transferable Stock Options (TSOs)**

Academic literature by Kevin Murphy and Brian Hall (“Option Value does not Equal Option Cost” and “The Trouble with Stock Options”) shows that employees place significant discounts on the value of their stock option grants. The mis-alignment results in an excess grant of stock options and transfer of shareholder equity at the expense of stockholders.

Transferable stock options (TSOs) may potentially bridge the gap. TSOs are stock options that the option holder can sell, generally at a discount to their fair value calculated using an appropriate financial model, to a third party financial institution in exchange for cash or stock. Employees can readily see that value exists in their unvested stock options, even the underwater ones.

Microsoft was the first company that conducted a one-time broad-based TSO program with the assistance of JP Morgan Chase in late 2003. The company offered to buy packages of options previously granted to employees. Those packages were then re-purchased by JP Morgan Chase, after first removing forfeiture and other provisions unique to employee options. No known companies have offered an ongoing TSO program.

There are two types of TSOs programs: one-time transfer and an ongoing transfer. For one-time transfer programs, ISS will recommend withholding votes from compensation committee members if they fail to submit one-time transfer for shareholder approval. One-time transfer will be evaluated on a CASE-BY-CASE basis giving consideration to the following features:

- Executive officers and non-employee directors should be excluded from participating;
- Stock options must be purchased by a third-party financial institution at a discount to their fair value using Black-Scholes Option Pricing Model or Binomial Option Valuation or other appropriate financial models;
- A two-year minimum holding period for sale proceeds (cash or stock) for all participants.

Additionally, management should provide a clear explanation of why options are being transferred and whether the events leading up to the decline in stock price were beyond management's control. A review of the company's historic stock price volatility should indicate if the options are likely to be back “in-the-money” over the near term.

For an ongoing TSO program, TSOs will be one of the award types under a stock plan. The ongoing TSO program, structure and mechanics must be disclosed to shareholders. The forfeiture rate is set to zero for the TSO portion of shares under the Binomial Valuation Model. Amendments to existing plans that allow for introduction of transferability of stock options should make clear that only options granted post-amendment shall be transferable.



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**APPENDIX B**  
**SECTION II**

**State of Connecticut**  
**Office of the Treasurer**  
**Global Proxy Voting Policies**

**(Adopted May 10, 2000)**



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**State of Connecticut**  
**Office of the Treasurer**  
**Global Proxy Voting Policies**  
**(Adopted May 10, 2000)**

The Connecticut Global Proxy Voting Policies conforms to common law fiduciary standards including Connecticut statutes pertinent to fiduciary conduct such as the Uniform Prudent Investor Act.

Exercising proxy-voting rights is a required duty of the Treasurer and hence the Connecticut Retirement Plans and Trust Funds (CRPTF) by virtue of the rights and responsibilities related to the Treasurer's role as principal fiduciary. Plan fiduciaries have a responsibility to vote proxies on issues that may affect the value of the shares held in a portfolio since proxies are considered plan assets and have economic value.<sup>17</sup>

Proxy voting rights must be exercised in accordance with the fiduciary duties of loyalty and prudence. The duty of loyalty requires that the fiduciary exercise proxy voting for the long-term economic benefit of plan participants and beneficiaries. The duty of prudence includes considerations based on financial criteria and that a clear process exists for evaluating proxy issues. In addition to prudence, Section 3-13a of the Connecticut General Statutes directs the Treasurer to consider the social, economic and environmental implications of all investments. The law also directs the Treasurer to consider the implications of particular investments on foreign policies and the national interests of the United States.

The voting policies contained herein are carefully crafted to meet those requirements by promoting long-term shareholder value, emphasizing the "economic best interests" of plan participants and beneficiaries. The voting fiduciary will assess the short-term and long-term impact of a vote, and will promote a position that is consistent with the long-term economic best interests of plan members. In accordance with state law, the policies take into consideration actions, which promote good corporate citizenship through the proxy process. Many companies realize that it is in their financial interests to pursue business practices that are ethically, environmentally, legally and socially responsible.

The proxy voting guidelines address a broad range of issues, including board size and composition, executive compensation, and mergers and acquisitions—significant voting

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<sup>17</sup> Many public sector pension plans, regulatory bodies, and professional associations have adopted the views of the U.S. Department of Labor on fiduciary duties related to proxy voting. The Department of Labor's Pension and Welfare Benefits Administration has stated in opinion letters and an interpretative bulletin that the voting rights related to shares of stock held by pension plans are plan assets. Therefore, according to the Department, "the fiduciary act of managing plan assets which are shares of corporate stock would include the voting of proxies appurtenant to those shares of stock." Sources include: the Department of Labor Opinion Letter (Feb.23, 1988), reprinted in 15 Pens. Rep. (BNA), 391, the Department of Labor Opinion Letter (Jan.23, 1990), reprinted in 17 Pens. Rep. (BNA), 244 and the Interpretative Bulletin, 94-2.



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items that affect long-term shareholder value. In addition, these guidelines address broader issues of corporate citizenship that can have an impact on corporate performance and important stakeholder interests, including:

- corporate policies that affect the environment including adoption of the CERES Principles;
- corporate policies that affect job security and wage levels;
- corporate responsibility to employees and communities, including the implementation of the MacBride Principles; and
- workplace safety and health issues.

Voting of these policies is delegated to external investment managers responsible for international investment. Each issue should be considered by investment managers in the context of the company under review and subject to a rigorous analysis of the economic impact an issue may have on the long-term shareholder value.



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**I. FINANCIAL REPORTS AND AUDITOR ISSUES**

**A. DIRECTOR, AUDITOR AND FINANCIAL STATEMENT REPORTS**

Most companies around the world submit these reports to shareholders for approval, and this is one of the first items on most agendas. The official financial statements and director and auditor reports are valuable documents when evaluating a company's annual performance. The director report usually includes a review of the company's performance during the year, justification of dividend levels and profits or losses, special events such as acquisitions or disposals, and future plans for the company.

When evaluating a company's financial statements, important factors should be considered including: debt/equity levels on the balance sheet, historical sales and earnings performance, dividend history and payout ratios, and the company's own performance relative to similar companies in its industry.

The CRPTF would:

- Vote FOR approval of financial statements and director and auditor reports, unless:
  - there are concerns about the accounts presented or audit procedures used; or
  - the company is not responsive to shareholder questions about specific items that should be publicly disclosed.

**B. APPOINTMENT OF AUDITORS AND AUDITOR COMPENSATION**

Most major companies around the world use one of the major international auditing firms to conduct their audits. If a company proposes a new auditor or an auditor resigns and does not seek reelection, companies should offer an explanation to shareholders. The practice of auditors contributing nonaudit services to companies is problematic. While large auditors may have effective internal barriers to ensure that there are no conflicts of interest, an auditor's ability to remain objective becomes questionable when fees paid to the auditor for nonaudit services such as management consulting, general bookkeeping, and special situation audits exceed the standard annual audit fees. While some compensation for nonaudit services is customary, the importance of maintaining the independence of the auditor is paramount.



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The CRPTF would:

- Vote FOR the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:
  - there are serious concerns about the accounts presented or the audit procedures used;
  - the auditors are being changed without explanation; or
  - nonaudit-related fees are substantial or are routinely in excess of standard annual audit fees.
- Vote AGAINST the appointment of external auditors if they have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.
- ABSTAIN if a company changes its auditor and fails to provide shareholders with an explanation for the change.

**C. APPOINTMENT OF INTERNAL STATUTORY AUDITORS**

The appointment of internal statutory auditors is a routine request for companies in Latin America, Italy, Spain, Portugal, Japan, and Russia. The statutory auditing board is usually composed of three to five members, including a group chairman and two alternate members, all of whom are expected to be independent. In addition to the regular duty of verifying corporate accounts, the auditor board is responsible for supervising management and ensuring compliance with the law and articles of association. The auditors must perform an audit of the accounts every three months and present to shareholders a report on the balance sheet at the Annual General Meeting (AGM). For most countries, the auditors are elected annually and may seek reelection.

The CRPTF would:

- Vote FOR the appointment or reelection of statutory auditors, unless:
  - there are serious concerns about the statutory reports presented or the audit procedures used;
  - questions exist concerning any of the statutory auditors being appointed; or
  - the auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.



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**II. AMENDMENTS TO ARTICLES OF ASSOCIATION**

Requests to amend a company's articles of association are usually motivated by changes in the company's legal and regulatory environment, although evolution of general business practice can also prompt amendments to articles. Such proposals are especially common whenever stock exchange listing rules are revised, new legislation is passed, or a court case exposes the need to close loopholes.

Amendments to articles range from minor spelling changes to the adoption of an entirely new set of articles. While the majority of such requests are of a technical and administrative nature, minor changes in wording can have a significant impact on corporate governance. From a company's perspective, it is often more efficient to adopt a new set of articles than to introduce numerous amendments. However, bundling changes that treat different provisions of the articles into one voting item prevents shareholders from separating items of concern from routine changes. By leaving a shareholder with an all-or-nothing choice, bundling allows companies to include negative provisions along with positive or neutral changes. The final criterion is whether failure to pass a resolution would cause an immediate loss of shareholder value.

The CRPTF would:

- Vote amendments to the articles of association on a CASE-BY-CASE basis.

**A. CHANGE IN COMPANY FISCAL TERM**

Companies routinely seek shareholder approval to change their fiscal year end. This is a decision best left to management. The CRPTF opposes this resolution only if the company is changing its year end to postpone its AGM. Most countries require companies to hold their AGM within a certain period of time after the close of the fiscal year. If a company is embroiled in a controversy, it might seek approval to amend its fiscal year end at an AGM to avoid controversial issues at an AGM.

The CRPTF would:

- Vote FOR resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its AGM.

**B. LOWER DISCLOSURE THRESHOLD FOR STOCK OWNERSHIP**

Required shareholder disclosure of stock ownership levels vary around the world. In the United States, shareholders owning more than five percent (5%) of outstanding shares are required to disclose share ownership. Some



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countries require disclosure levels such as ten percent (10%) while other countries require lower levels than the U.S. For example, the United Kingdom requires disclosure of stakes of three percent or greater. In some countries, shareholders may be asked from time to time to reduce the disclosure requirement at a specific company.

The CRPTF would:

- Vote AGAINST reductions that could act as a pretext for an anti-takeover device.
- Vote FOR resolutions to lower the stock ownership disclosure threshold in the interests of providing more disclosure by significant shareholders.

#### C. TRANSACT OTHER BUSINESS

This item provides a forum for questions and any other resolutions that may be brought up at the meeting. In most countries the item is a formality and does not require a shareholder vote, but companies in certain countries include “other business” as a voting item. When “other business” is included as an item on the ballot to be voted, there is no opportunity for shareholders to receive information in advance related to these items. Therefore, shareholders cannot risk the negative consequences of voting in advance on an item for which information has not been disclosed.

The CRPTF would:

- Vote AGAINST other business when it appears as a voting item.

### III. BOARD OF DIRECTORS

#### A. DIRECTOR AND SUPERVISORY BOARD MEMBER ELECTIONS

Most countries around the world maintain an Anglo-Saxon board structure, prevalent in the United States, in which company executive and non-executive directors are organized into a single board. However, companies in a number of countries maintain two-tiered board structures, comprising a supervisory board of non-executive directors and a management board with executive directors. The supervisory board oversees the actions of the management board, while the management board is responsible for the company’s daily operations. At companies with two-tiered boards, shareholders elect members to the supervisory board only; management board members are appointed by the supervisory board. In Austria, Brazil, the Czech Republic, Germany, Peru, Poland, Portugal, and Russia, two-tiered boards are the norm. They are also permitted by company law in France and Spain.



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Depending on the country, shareholders will be asked to either elect directors or supervisory board members at annual meetings. The CRPTF considers director/supervisory board elections to be one of the most important voting decisions that shareholders make, especially because shareholders are only given the opportunity to review their companies' operations once a year at the AGM. Thus, if detailed information on boards or nominees is available, analysis to the highest degree possible is warranted. Directors and supervisory board members function as the representatives of shareholders and stakeholders throughout the year and are therefore, a crucial avenue of ongoing influence on management.

Levels of disclosure regarding directors vary widely. In some countries, such as the United Kingdom, Canada, and Australia, companies publish detailed information such as director biographies, share ownership, and related information that aids shareholders in determining the level of director independence. In many other countries, the only information available on directors is their names, while still other countries disclose no information at all. In cases where detailed information about directors is not available, it would be counterproductive to vote against directors on the basis of a lack of information. Opposition to specific nominees or boards should be supported by specific problems or concerns.

When reviewing director election proposals, examine board composition, company performance, and any negative views or information on either the company or individual directors. Determine the number of executive and independent directors on the board, the existence and composition of board committees, and the independence of the chairman. An independent director is one whose only significant relationship with the company is through its board seat. Members of supervisory boards, which represent organized workers' interests, are defined as independent. In cases where board composition is of concern, the company's general health and its recent financial performance may play a part in the evaluation of directors. Individual director information is also considered, including share ownership among director nominees.

The CRPTF takes into account the attendance records of directors when such information is provided to shareholders, using a benchmark attendance rate of 75 percent of board meetings. If an individual director fails to attend at least 75 percent of board meetings for two or more consecutive years, further inquiries should be made to the company regarding the absences. Statements of corporate governance practices are also helpful in reviewing director election proposals, but only in a few countries are these routinely included as part of the annual report, usually as a listing requirement of the major stock exchange. These reports are required in Australia, Canada, South Africa, and the United Kingdom.



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Serious consideration of shareholder nominees will be given if there are clear and compelling reasons for the nominee to join the board.

The CRPTF would:

- Vote FOR management nominees in the election of directors, unless:
  - there are clear concerns about the past performance of the company or the board;
  - the board fails to meet minimum corporate governance standards, (e.g., board independence, executive compensation that is performance based, disclosure);
  - the board takes actions that are not in shareholders' best interests (excessive executive compensation, adopting antitakeover devices, failure to respond to shareholder concerns/wishes, or demonstrating a "lack of duty or care"); or
  - the board has been insensitive to labor interests, human rights, supplier codes of conduct, or has engaged in other corporate activities that affect the reputation of the company in the global market.

#### **B. DIRECTOR FEES**

Fees for nonexecutive directors have been rising in recent years in recognition that such directors around the world are being asked to take on more responsibility for company affairs. The primary focus should be on fees paid to nonexecutive directors or fees paid to all directors, separate from the salaries of executive directors. In many countries, only an aggregate amount payable to nonexecutives or to all directors is disclosed.

Retirement benefits for nonexecutive directors are inappropriate, as they increase the directors' financial reliance on the company and could call into question the objectivity of their decision-making. In addition, most directors have served as senior executives of other companies, and adequate retirement benefits should be provided through these companies. The only caveat to this policy would be for professional nonexecutive directors such as those found in the United Kingdom. However, requests for such benefits in the United Kingdom are rare, and the appropriateness of using shareholder funds in this manner is questionable.

The CRPTF would:

- Vote FOR proposals to award director fees unless the amounts are excessive relative to other companies in the country or industry.



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- Vote AGAINST proposals to introduce retirement benefits for nonexecutive directors.

#### **C. DISCHARGE OF BOARD AND MANAGEMENT**

The annual formal discharge of board and management represents shareholder approval of actions taken during the year. Discharge is a tacit vote of confidence in the company's management and policies. It does not necessarily eliminate the possibility of future shareholder action, although it does make such action more difficult to pursue. Meeting agendas normally list proposals to discharge both the board and management as one agenda item.

This is a routine item in many countries, and discharge is generally granted unless a shareholder states a specific reason for withholding discharge and plans to undertake legal action. Withholding discharge is a serious matter and is advisable only when a shareholder has concrete evidence of negligence or abuse on the part of the board or management, has plans to take legal action, or has knowledge of other shareholders' plans to take legal action.

If evidence suggests that one or more board or management members are responsible for problems such as fraud or grave mismanagement, shareholders can withhold discharge from these individuals and pursue further legal action. Poor performance that can be directly linked to flagrant error or neglect on the part of the board or management, or board actions that are detrimental to shareholders' interests, may also constitute grounds for voting against discharge.

If shareholders approve discharge of the board and management, they may face a greater challenge if they subsequently decide to pursue legal action against these parties. Shareholders would be required to prove that management or the board did not supply correct and complete information regarding the matter in question.

The CRPTF would:

- Vote CASE-BY-CASE on the discharge of the board and management.

#### **D. LIABILITY AND INDEMNIFICATION FOR DIRECTORS, OFFICERS AND AUDITORS**

Management proposals typically seek shareholder approval to adopt an amendment to the company's charter to eliminate or limit the personal liability of directors to the company and its shareholders for monetary



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damages for any breach of fiduciary duty to the fullest extent permitted by law. In contrast, shareholder proposals seek to provide for personal monetary liability for fiduciary breaches arising from gross negligence. While recognizing that a company may have a more difficult time attracting and retaining directors if they are subject to personal monetary liability, the great responsibility and authority of directors justifies holding them accountable for their actions. Each proposal addressing director liability will be evaluated consistent with this philosophy. Support these proposals when the company persuasively argues that such action is necessary to attract and retain directors, but oppose management proposals and support shareholder proposals in light of our philosophy of promoting director accountability.

Specifically, oppose management proposals that limit a director's liability for (i) a breach of the duty of loyalty, (ii) acts or omissions not in good faith or involving intentional misconduct or knowing violations of the law, (iii) acts involving the unlawful purchases or redemptions of stock, (iv) the payment of unlawful dividends, or (v) the receipt of improper personal benefits.

By indemnifying its directors and officers, a company promises to reimburse them for certain legal expenses, damages, and judgments incurred as a result of lawsuits relating to their corporate actions, thereby effectively becoming the insurer for its officers and directors (the company usually purchases insurance to cover its own risk). Proposals to indemnify a company's directors differ from those to eliminate or reduce their liability because with indemnification directors may still be liable for an act or omission, but the company will bear the expense.

Vote in favor of indemnification proposals that contain provisions limiting such insurance to acts carried out on behalf of the company. The directors covered under the indemnification must be acting in good faith on company business and must be found innocent of any civil or criminal charges for duties performed on behalf of the company. Additionally, the company may persuasively argue that such action is necessary to attract and retain directors, but we will oppose indemnification when it is being proposed to insulate directors from actions they have already taken.

Indemnity insurance to auditors call into question the objectivity of the auditor in carrying out the audit, as the fees paid on its behalf could be greater than the audit fees alone. Eliminating concerns about being sued for carelessness could also lead to a decrease in the quality of the audit. Given the substantial settlements against auditors in recent years for poor audit practices, the cost of such insurance to the company and its shareholders is unwarranted.



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The CRPTF would:

- Vote CASE-BY-CASE on proposals that provide director liability for actions on behalf of the company.
- ABSTAIN on proposals that provide for director liability where national law dictates that a shareholder who casts a FOR vote forfeits legal rights, such as the right to sue a company.
- Vote FOR proposals to allow indemnification of directors and officers when actions were taken on behalf of the company and no criminal violations occurred.
- Vote AGAINST proposals to indemnify auditors.
- Vote AGAINST proposals to reduce or eliminate directors' personal liability when litigation is pending against current board members.

#### **E. BOARD STRUCTURE**

Resolutions relating to board structures range from fixing the number of directors or establishing a minimum or maximum number of directors to introducing classified boards and director term limits.

##### **1. Board Size**

Proposals to fix board size are common and are routinely approved. Proposals to establish a range of board size are also frequent; a range of two or three open slots relative to the existing board size is reasonable, as it gives the company some flexibility to attract potentially valuable board members during the year. Latitude beyond this range is inappropriate, however, because companies can use this freedom to hinder unwanted influence from potential acquirers or large shareholders.

##### **2. Adopt Classified Board**

All directors should be accountable to shareholders on an annual basis, as the ability to elect directors is the single most important use of the shareholder franchise.

While classified boards are the norm in most countries, some companies have chosen to place their directors up for annual election. Classifying the board makes it more difficult to effect a change of control through a proxy contest; because only a minority of the directors are elected each year, a dissident shareholder would be unable to win control of the board in a single election.



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### **3. Introduction of Mandatory Age of Retirement**

Age should not be the sole factor in determining a director's value to a company. Rather, each director's performance should be evaluated on the basis of their individual contribution and experience.

### **4. Altering Board Size**

Companies may attempt to increase board size in order to add related or like-minded directors to the board. Conversely, establishing a minimum number of directors could make it easier to remove independent directors from the board.

All proposals to alter board size during a proxy fight or other possible contests for control should be opposed. Allowing directors to alter the terms of a contest while it is underway is not in shareholders' interests, as this tactic could be used to thwart a takeover that is in shareholders' interests.

The CRPTF would:

- Vote FOR proposals to fix board size.
- Vote AGAINST the introduction of classified boards and mandatory retirement ages for directors.
- Vote AGAINST proposals to alter board structure or size in the context of a fight for control of the company or the board.

## **IV. CAPITAL SYSTEMS**

Companies have one of two main types of capital systems: authorized and conditional. Both systems provide companies with the means to finance business activities, but they are considerably different in structure. Which system is used by a company is determined by the economic and legal structure of the market in which it operates.

### **A. AUTHORIZED CAPITAL SYSTEM**

The authorized capital system sets a limit in a company's articles on the total number of shares that can be issued by the company's board. The system allows companies to issue shares from this preapproved limit, although in many markets shareholder approval must be obtained prior to an issuance. Companies also request shareholder approval for increases in authorization when the amount of shares contained in the articles is inadequate for issuance authorities. The CRPTF expects that proposals will be reviewed for such increases based on the following criteria: the history of issuance requests; the size of the request; the purpose of the issuance (general or



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specific) associated with the increase in authorization; and the status of preemptive rights as defined below in Section C.

#### **B. CONDITIONAL CAPITAL SYSTEM**

Under the conditional capital system, companies seek authorizations for pools of capital with fixed periods of availability. For example, if a company seeks to establish a pool of capital for general issuance purposes, it requests the creation of a certain number of shares with or without preemptive rights, issuable piecemeal at the discretion of the board for a fixed period of time. Shares unissued after the fixed time period lapse. This type of authority would be used to carry out a general rights issue or small issuances without preemptive rights.

Requests for a specific issuance authority are tied to a specific transaction or purpose, such as an acquisition or the servicing of convertible securities. Such authorities cannot be used for any purpose other than that specified in the authorization. In this case, a company requests the creation of a certain number of shares with or without preemptive rights, issuable as needed for the specific purpose requested. This pool of conditional capital also carries a fixed expiration date.

In reviewing these proposals the existence of pools of capital from previous years are to be taken into consideration. Because most capital authorizations are for several years, new requests may be made on top of the existing pool of capital. While most requests contain a provision to eliminate earlier pools and replace them with the current request, this is not always the case. Thus, if existing pools of capital are being left in place, the aggregate potential dilution amount from all capital should be considered.

#### **C. SHARE ISSUANCE REQUESTS**

General issuance requests under both authorized and conditional capital systems (defined below) allow companies to issue shares to raise funds for general financing purposes. Approval of such requests gives companies sufficient flexibility to carry out ordinary business activities without having to bear the expense of calling shareholder meetings for every issuance.

Issuances can be carried out with or without preemptive rights. Preemptive rights permit shareholders to share proportionately in any new issuances of stock. These rights guarantee existing shareholders the first opportunity to purchase shares of new issuances of stock in the class they own in an amount equal to the percentage of the class they already own. Corporate law in many countries recognizes preemptive rights and requires shareholder approval for the disapplication of such rights.



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The ability to increase share capital by 50 percent through a rights issue (with preemptive rights) provides the company with sufficient financing to meet most contingencies. Rights issues for general capital needs of less than 50 percent of outstanding capital warrant shareholder approval. Issuance authorities of more than 50 percent can lead to excessive cash calls on shareholders, requiring them to provide the funds necessary to maintain their relative positions in the company or to accept substantial dilution.

In some cases, companies may need the ability to raise funds for routine business contingencies without the expense of carrying out a rights issue. Such contingencies could include the servicing of option plans, small acquisitions, or payment for services. When companies make issuance requests without preemptive rights, shareholders suffer dilution as a result of such issuances. Therefore, authorizations should be limited to a fixed number of shares or a percentage of capital at the time of issuance. While practices regarding this type of authority vary widely among countries, the CRPTF would generally approve issuance requests without preemptive rights for up to ten percent of a company's outstanding capital.

#### **D. SPECIFIC ISSUANCES**

Specific issuance requests should be judged on their individual merits. For example, a company may request the issuance of shares for an acquisition in the form of a rights issue to raise funds for a cash payment, or else a company could request an issuance without preemptive rights for use in a share-based acquisition or issuance to a third party. A more routine request would be an authority to issue shares without preemptive rights for issuance as needed upon conversion of convertible securities or to service a share option plan. These shares can only be used for the purpose defined in the resolution.

#### **E. FOR ALL OF THE ISSUES DISCUSSED ABOVE – IV. A THROUGH D;**

The CRPTF would:

- Vote FOR general issuance requests with preemptive rights up to 50 percent of issued capital;
- Vote FOR general issuance requests without preemptive rights up to ten percent of issue capital; and
- Vote on a CASE-BY-CASE basis for specific issuance requests with or without preemptive rights up to any amount depending on the purpose for the issuance.



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### F. INCREASES IN AUTHORIZED CAPITAL

Increases in authorized capital are requested both for general financing flexibility and to provide for a specific purpose. Companies need an adequate buffer of unissued capital in order to take advantage of opportunities during the year, and thus they often request increases in authorized capital for no specific purpose other than to retain this flexibility. An increase of 50 percent over the existing authorization gives the company sufficient flexibility in any given year but also limits the company's ability to abuse this privilege. If a company wishes to issue shares for any unforeseen reason during the year that would double (or possibly triple) outstanding share capital, an AGM to seek shareholder approval is justified.

Another important consideration is the status of preemptive rights. Not all countries recognize shareholders' preemptive rights, and excessive authorizations could lead to substantial dilution for existing shareholders. When preemptive rights are not guaranteed, companies do not need shareholder approval for share issuances as long as the issuance does not result in an increase above the authorized capital limit.

For specific requests, increases in capital up to any size may be justified if the purpose of the new authorization is in shareholders' interests. Such increases may be needed to fund a variety of corporate activities, and thus each proposal must be reviewed on its individual merits.

Companies do not need unlimited financial flexibility to transact ordinary business because such an arrangement precludes management from periodically consulting shareholders for new capital. Unlimited authorizations may also be used as antitakeover devices, and they have the potential for substantial voting and earnings dilution.

The CRPTF would:

- Vote FOR nonspecific proposals to increase authorized capital up to 50 percent over the current authorization.
- Vote FOR specific proposals to increase authorized capital to any amount, unless:
  - the specific purpose of the increase (such as a share-based acquisition or merger) does not meet the guidelines for the purpose being proposed.
- Vote AGAINST proposals to adopt unlimited capital authorizations.

### G. REDUCTION OF CAPITAL

Proposals to reduce capital are usually the result of a significant corporate restructuring in the face of bankruptcy. Generally support such proposals



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because opposition could lead to insolvency, which is not in shareholders' interests. Evaluation of this type of proposal should take a realistic approach to the company's situation.

The CRPTF would:

- Vote FOR proposals to reduce capital unless the terms are unfavorable to shareholders.

## V. CAPITAL STRUCTURES

A key decision for any business is determining its capital structure. When timed correctly, sophisticated capital management—finding the right mix of equity, long-term debt, and short-term financing—can enhance shareholder returns. This process involves coordination of important issues, including dividend policy, tax and interest rates, types of assets, opportunities for growth, ability to finance new projects internally, and cost of obtaining additional capital.

These decisions are best left to a company's board and senior management, who should be given the latitude to determine the company's capital structure. However, shareholders should be aware that many financing decisions could have an adverse effect on shareholder returns. For example, additional equity financing may reduce an existing shareholder's ownership interest and can dilute the value of the investment. Some capital requests can be used as takeover defenses; in response to this situation, company laws establish limits on management's authority to issue new capital and often require shareholder approval for significant changes in management's existing authorizations.

The CRPTF supports a one share, one vote policy and opposes mechanisms that skew voting rights. Shareholders' voting rights should accrue in accordance with their equity capital commitment to the company. Dual class capital structures entrench certain shareholders and management, insulating them from possible takeovers or other external influence or action. The interests of parties with voting control may not be the same as those of shareholders constituting a majority of the company's capital. Additionally, research and market experience have shown that companies with dual class capital structures or other antitakeover mechanisms consistently trade at a discount to similar companies without such structures.

When companies with dual class capital structures seek shareholder approval for the creation of new shares, CRPTF opposes the creation of additional super-voting shares because this perpetuates the dual class structure. If companies are seeking to increase ordinary or subordinate share capital, the CRPTF expects that such requests would be reviewed on a case-by-case basis. If the shares are needed for a specific purpose, these guidelines support such appraisal as long as the proposal meets the issuance guidelines (see IV. E for these guidelines) for specific



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requests. Refusing such requests could cause an immediate loss of shareholder value by not allowing the company to carry out its ordinary business. However, CRPTF opposes general share creation requests on the grounds that they would perpetuate unequal voting structures. If shareholders routinely approve the creation of ordinary or subordinate voting shares, the company has no incentive to reform its capital structure. By not approving such requests, shareholders can send a signal of dissatisfaction to management.

The CRPTF would:

- Vote FOR resolutions that seek to maintain or convert to a one share, one vote capital structure.
- Vote AGAINST requests for the creation or continuation of dual class capital structures or the creation of new or additional super-voting shares.

#### A. PREFERRED STOCK AND BLANK CHECK PREFERRED STOCK

Preferred stock (also known as preference shares) is an equity security, but it has certain features that liken it to debt instruments, such as fixed dividend payments, seniority of claims relative to regular common stock, and (in most cases) no voting rights except on matters that affect the seniority of preferred stock as a class. Preferred stock usually ranks senior to a company's ordinary shares with respect to dividends and the distribution of assets or winding down of the company. Companies often request approval for the creation of a new class of preferred stock, the issuance of preferred stock, and the introduction of blank check preferred stock authorization. The terms of preferred stock need to be set out at the time of the issuance or authorization request.

Preferred stock can be an effective means of raising capital without increasing debt levels, especially if a company has recently concluded a series of acquisitions. In determining the acceptability of proposals relating to preferred stock, these guidelines expect that the rights and terms of the proposed shares will be examined, including their designation, conditions, restrictions, and limitations. Whether or not the preferred shares carry voting rights is also considered, along with their conversion ratio (if the shares are convertible into common shares). Also important is the company's justification for issuing or authorizing preferred stock. The CRPTF supports proposals that would not result in excessive dilution or adversely affect the rights of holders of common shares.

Companies may also seek shareholder approval for blank check preferred stock, which are blanket authorities to issue preferred stock under which the directors are allowed to set the size, terms, and recipient of such shares at the time of issuance. Blank check preferred stock can be used for



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legitimate corporate purposes such as raising capital or making acquisitions. By not establishing the terms of preferred stock at the time the class of stock is created, companies maintain the flexibility to tailor their preferred stock offerings to prevailing market conditions. However, blank check preferred stock can also be used as an entrenchment device. The ability to issue a block of preferred stock with multiple voting or conversion rights to a friendly investor is a powerful takeover defense. As such, the CRPTF does not support the creation of blank check preferred stock.

These guidelines also expect that a case-by-case analysis will be applied to proposals to increase authorizations of blank check preferred stock when shareholders have already approved the class of stock and the company has a history of issuing such stock for legitimate financing purposes. Theoretically, companies with authorized blank check preferred stock can use these shares for anti-takeover purposes as long as there are a few shares remaining, as they are free to set voting or conversion terms with each issue. Therefore, an increase in authorization may have little effect on the usage of this stock. In cases where a company has issued preferred stock from its authorization for legitimate financing purposes, there is no reason to object to an increase.

The CRPTF would:

- Vote FOR the creation of a new class of preferred stock or for issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.
- Vote AGAINST the creation of blank check preferred stock.
- Vote proposals to increase blank check preferred authorizations on a CASE-BY-CASE basis.

## **B. DEBT ISSUANCE REQUESTS**

Debt issuance is a popular financing strategy. Debt instruments are often issued with the right to convert into equity securities. Many companies issue debt denominated in currencies other than their own. Bonds may be issued with or without preemptive rights.

Companies routinely issue bonds directly to shareholders in order to raise funds while enjoying low borrowing costs. Convertible bonds give holders the choice of becoming shareholders, thereby increasing the shareholder base and liquidity of the company's stock, or selling their newly converted shares on the open market. The issuance of unsecured debt often includes warrants, which are detached at the time of bond issuance. Warrants are



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usually attached to a debt issuance in order to enhance the marketability of the accompanying fixed income security.

When evaluating a debt issuance request, CRPTF expects that the issuing company's present financial situation will be examined. The main factor for analysis is the company's current debt-to-equity ratio, or gearing level. A high gearing level may incline markets and financial analysts to downgrade the company's bond rating, increasing its investment risk factor in the process. These guidelines approve debt issuances for companies when the gearing level is between zero (0%) and fifty (50%) percent. If the company's gearing level is higher than fifty percent (50%), the guidelines expect that other financial statistics will be factored into the analysis, such as the company's growth over the past five years relative to earnings or market capitalization, recent corporate events that might affect the company's bottom line (such as the acquisition of a major competitor or the release of a revolutionary product), and the normal debt levels in the company's industry and country of origin. In the case of convertible bonds, the total level of dilution that would result at the time of conversion should also be taken into account.

The CRPTF would:

- Vote debt issuance requests on a CASE-BY-CASE basis, with or without preemptive rights.
- Vote AGAINST an issuance of convertible bonds with preemptive rights if the conversion increases the company's outstanding shares by more than one hundred percent (100%).
- Vote AGAINST an issuance of convertible bonds without preemptive rights if the conversion increases the company's share capital by more than 20 percent over the current outstanding capital.

#### **C. PLEDGING OF ASSETS FOR DEBT**

In certain countries, shareholder approval is required when a company needs to secure a debt issuance with its assets. In many cases, this is a routine request and is a formality under the relevant law. When reviewing such proposals, the terms of the proposed debt issuance and the company's overall debt level need to be considered.

The CRPTF would:

- Vote proposals to approve the pledging of assets for debt on a CASE-BY-CASE basis.



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### D. INCREASE IN BORROWING POWERS

In some countries, companies are required to seek shareholder approval for increases in their aggregate borrowing power authorities. The aggregate limit on the board's ability to borrow money is often fixed in a company's articles, and shareholder approval to change this limit is therefore legally required. A company's financing needs are best determined by the board, and modest increases in borrowing powers are necessary to allow the company to take advantage of new acquisition opportunities or to complete development and restructuring projects. When voting on borrowing increase requests, factors such as the management's stated need for the increase, the size of the increase, and the company's current gearing level need to be taken into account. Large increases in borrowing powers can sometimes result in dangerously high debt-to-equity ratios that could harm shareholder value. If an increase is excessive without sufficient justification and if a company already has exceptionally high gearing compared to its industry, oppose the request.

The CRPTF would:

- Vote proposals to approve increases in a company's borrowing powers on a CASE-BY-CASE basis.

### E. SHARE REPURCHASE PLANS

Proposals regarding share repurchase plans are routine in most countries, and such plans are usually sufficiently regulated by local laws or listing requirements to protect shareholder interests.

Look for the following conditions in share repurchase plans: limitations on a company's ability to use the plan to repurchase shares from third parties at a premium; limitations on the exercise of the authority to thwart takeover threats; and a requirement that repurchases be made at arm's length through independent third parties and that selective repurchases require shareholder approval.

The CRPTF would:

- Vote AGAINST, if there is evidence of past abuse of the authority is available; or the plan contains no safeguards against selective buybacks.
- Vote AGAINST, if additional investment is needed in business upgrades.



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### **F. CAPITALIZATION OF RESERVES FOR BONUS ISSUES/INCREASE IN PAR VALUE**

Companies routinely carry out bonus issues of shares or increases in par value to existing shareholders, usually through the capitalization of reserves from either the share premium reserve or the retained earnings account. Capitalization of these reserves-transferring them into the share capital account-usually requires shareholder approval. These issuances essentially function as dividends.

When companies increase par value or capitalize reserves and distribute new fully paid shares to shareholders free of charge through a bonus issue, there is no cost to shareholders to maintain their stakes and no risk of dilution. This procedure transfers wealth to shareholders and does not significantly impact share value. The only impact on shareholders is that by increasing the number of shares on issue, the company could increase liquidity, enhance marketability, and ultimately expand its shareholder base.

The CRPTF would:

- Vote FOR requests to capitalize reserves for bonus issues of shares or to increase par value.

### **G. STOCK (SCRIP) DIVIDEND ALTERNATIVE AND DIVIDEND REINVESTMENT PLANS**

Stock dividend alternatives, also referred to in some markets as "scrip" dividend alternatives or dividend reinvestment plans (DRIPS), offer shareholders the option of receiving their dividend payment in the form of fully paid ordinary shares and are common proposals worldwide. While dividend payments in the form of shares in lieu of cash do not immediately add to shareholder value, they allow companies to retain cash and to strengthen the position and commitment of long-term shareholders.

The CRPTF would:

- Vote FOR stock (scrip) dividend proposals.
- Vote AGAINST proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.



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**VI. RESTRUCTURING AND TRANSACTIONS**

**A. REORGANIZATIONS/RESTRUCTURINGS**

Requests to approve corporate reorganizations or restructurings range from the routine shuffling of subsidiaries within a group to major rescue programs for ailing companies. These guidelines expect that such resolutions will usually be approved, unless there are clear conflicts of interest among the various parties, shareholders' rights are being negatively affected, or certain groups or shareholders appear to be getting a better deal at the expense of general shareholders.

In the case of routine reorganizations of assets or subsidiaries within a group, the primary focus with the proposed changes is to ensure that shareholder value is being preserved. This includes the effect of the reorganization on the control of group assets, the final ownership structure, the relative voting power of existing shareholders if the share capital is being adjusted, and the expected benefits arising from the changes.

It is important to assess the proposed restructuring and its impact on job loss with an emphasis on the company's U.S. operations. In certain circumstances, jobs may be lost due to economic inefficiencies. However, we will not support reorganizations that unnecessarily eradicate employment, harming the beneficiaries, communities, and the company's economic position.

In the case of a distress restructuring of a company or group, shareholders' options are far more limited; often, they have no choice but to approve the restructuring or lose everything. In such cases, the CRPTF expects that the company's degree of distress will be evaluated by determining whether or not the company still has a positive net asset value—that is, if realizable assets are greater than liabilities. Although rare, liquidation should be considered an option in these situations.

In most cases, however, the company has a negative asset value, meaning that shareholders would have nothing left after a liquidation. Vote to ensure that the degree of dilution proposed is consistent with the claims of outside parties and is commensurate with the relative commitments of other company stakeholders. Existing shareholders usually must accept the transfer of majority control over the company to outside secured creditors. Ultimately, ownership of a small percentage of something is worth more than majority ownership of nothing.

The CRPTF would:



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- Vote reorganizations and restructurings on a CASE-BY-CASE basis.

#### **B. MERGERS AND ACQUISITIONS**

When evaluating the merits of a proposed acquisition, merger, or takeover offer, focus on the financial and corporate governance impact on shareholder value, both in the immediate and long term. The primary concern is to determine whether or not the proposal is beneficial to shareholders' existing and future earnings stream and to ensure that the impact on voting rights is not disproportionate to that benefit. Generally, we are interested in the long-term shareholder interests as opposed to short-term gains that devalue assets and have a negative impact on workers and communities. Based on this premise, evaluate proposed mergers by looking at the justification for the merger; whether a reasonable financial arrangement has been proposed and a fairness opinion rendered; and the long-term impact of the business plans of the competing parties. Also, assess the impact of the proposed merger on the affected workforce and community including the proposed merger's impact on job loss with an emphasis on the company's U.S. operations. In certain circumstances, jobs may be lost due to economic inefficiencies. However, we will not support mergers that unnecessarily eradicate employment, harming the beneficiaries, communities, and the company's economic position.

In the case of a cross-border merger, consider the proposed merger affect on labor standards and do not support mergers that diminish basic labor standards. The resulting entity should comply with applicable laws and principles protecting employees' wages, benefits, working conditions, freedom of association, and other rights.

In the case of an acquisition, examine the level of voting or earnings dilution and the logic of the proposed purchase if large share issuances are required. The method of financing is also important, as various methods can result in different valuations than originally perceived. Checks for an independent valuation of the terms, particularly if the target of the acquisition is not a publicly traded entity or asset and precise market valuations are not readily available.

Independent evaluation is important when determining whether or not a specific premium is justified. Control premiums (additional payment on top of share price to gain full or partial control of the company) on acquisitions vary widely depending on the industry, the time period, and the country. During the late 1980s in the United States, control premiums of up to 70 percent in certain sectors were considered reasonable. Broad averages over time indicate that premiums in the range of 20 percent to 30 percent are normal, but this must be evaluated on a case-by-case basis. For publicly



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traded entities or assets, look at the price of the acquisition relative to the average market price prior to any announcement, as well as the historical price trends for 60 days prior. For non-publicly traded entities or assets, an independent financial evaluation becomes even more important.

In the case of mergers, examine whether or not the merger makes commercial or strategic sense for the company, and consider the method of effecting the merger and the ultimate impact on shareholders of the proposed financial and corporate governance structure. While historical relative valuations based on market prices are useful in the financial evaluation process, the often complicated financial details of such proposals make an independent fairness opinion of extreme importance. The proposed board structure, share capital structure, and relative share ownership of the new company are all important factors for consideration in this evaluation process.

The CRPTF would:

- Vote FOR mergers and acquisitions, unless:
  - the impact on earnings or voting rights for one class of shareholders is disproportionate to the relative contributions of the group; or
  - the company's structure following the acquisition or merger does not reflect good corporate governance (this will be defined differently within each market context, but should consider such basic provisions as board independence, performance based executive compensation and disclosure of major corporate reorganizations); or
  - there is a high degree of job loss with no reasonable explanation; or
  - there is a significant reduction in basic labor standards.
- Vote AGAINST if the companies do not provide sufficient information upon request to make an informed voting decision.
- ABSTAIN if there is insufficient information available to make an informed voting decision.

#### C. REINCORPORATION PROPOSALS

Reincorporation proposals are most commonly seen in Canada, where companies may register under one of the provincial business statutes. However, companies in other countries may also seek shareholder approval to reincorporate in a U.S. state or another country. Many companies, including U.S. companies, choose to reincorporate in places such as Bermuda, the Cayman Islands, or the British Virgin Islands for tax purposes.

Sometimes a reincorporation proposal is part of a restructuring effort or merger agreement that contributes significantly to a company's growth,



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financial health, and competitive position more than the anticipated negative consequences of incorporating in another province or country. Some reincorporations allow firms to realize lower taxes or incorporation fees. In addition, there may be advantages to incorporating in the province in which the company conducts the bulk of its business.

Companies often adopt a new charter or bylaws with increased protection for management upon reincorporation. For instance, many reincorporation proposals are bundled with the ratification of a new charter that increases the company's capital stock or imposes a classified board. When such changes to the charter include the addition of negative corporate governance provisions, the impact of these new provisions on shareholders must be balanced against the anticipated benefits of the reincorporation.

The expenses involved in a change of domicile relating to legal and administrative fees, plus the greater entrenchment such a reincorporation could provide management, would likely harm shareholders' interests. In cases where companies propose to move to a more protective province or country and supply reasonable financial reasons for doing so, the benefits of the reincorporation must be weighed against the costs of possible management entrenchment. The CRPTF also expects that the reincorporation's impact on the employment environment will be considered.

The CRPTF would:

- Vote reincorporation proposals on a CASE-BY-CASE basis.
- Vote AGAINST the reincorporations to countries, states, or provinces with less stringent disclosure requirements or corporate governance provisions that may be management attempts to lessen accountability to shareholders.
- Vote AGAINST reincorporations to new jurisdictions that diminish basic labor rights and standards.

#### **D. EXPANSION OF BUSINESS ACTIVITIES**

Companies are usually required by law to include in their articles of association or memorandum of association specific business purposes in the form of an objects clause. Because most countries require shareholder approval before articles can be amended, any change to the company's objects clause requires shareholder approval. Countries often seek shareholder approval to amend the objects clause to expand business lines.

Expanding business lines is a decision usually best left to management, but there are some instances where these guidelines anticipate that support will



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be withheld for such changes. If a company has performed poorly for several years and seeks business expansion into a risky enterprise, further clarification from management regarding the purpose of the expansion is required. If the company does not provide a satisfactory business plan, the CRPTF will not support the proposal. Furthermore, if the company does not adhere to basic labor principles or codes of conduct in the expansion of its business, then CRPTF will not support the proposal. For example, the expansion must comply with applicable laws and regulations, provide legitimate policies regarding workplace health and safety, and recognize basic labor rights. The CRPTF believes these policies and practices affect long-term corporate performance and increase shareholder value.

The CRPTF would:

- Vote FOR resolutions to expand business activities unless the new business takes the company into risky areas.

#### **E. RELATED PARTY TRANSACTIONS**

Shareholders are often asked to approve commercial transactions between related parties. A transaction between a parent company and its subsidiary, or a company's dealings with entities that employ the company's directors, are usually classified as related party transactions and are subject to company law or stock exchange listing requirements that mandate shareholder approval. Shareholder approval of these transactions is meant to protect shareholders against insider trading abuses. In most cases, both the rationale and terms of such transactions are reasonable but an evaluation of the transaction by an independent body is not always available. Unless the agreement requests a strategic move outside the company's charter or contains unfavorable terms, support the proposal.

The CRPTF would:

- Vote related party transactions on a CASE-BY-CASE basis.
- ABSTAIN from voting when details of a particular arrangement are not available.

#### **VII. COMPENSATION PLANS**

Disclosure on compensation in most countries is not as extensive as U.S. disclosure. However, compensation plans are becoming more common on meeting agendas of foreign companies, and the structures of these plans are of vital interest to shareholders. When given the opportunity to review these structures, we support plans that motivate participants to focus on long-term shareholder value and returns are performance-based, encourage employee stock ownership, and more closely align employee interests with those of shareholders.



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Beyond the problems presented by limited disclosure, local conditions and traditions in particular countries also hinder the creation of a comprehensive compensation evaluation procedure. Standard market practice in one country may be illegal activity in another. Some countries establish numerical limits on the number of shares available under their plans, while others have percentage limits that apply over a specific length of time. Holding all global companies to the strict standards of the United States, for example, could result in recommendations against almost every compensation plan in many countries. Conversely, making too many allowances for local practices may only encourage poor governance standards over the long term.

The structure of compensation plans in overseas markets vary widely and there are many provisions that will be factored into the analysis of such plans. The absence or presence of these features do not necessarily warrant a recommendation for or against a given plan, but their presence should be taken into consideration in the analysis of a plan.

#### *Issue Terms*

Some countries require optionees to pay a nominal fee (often equivalent to \$0.01) for every option received. This is common and acceptable, although many companies that once enforced this provision are now deleting it from the rules of their plans.

#### *Stock Appreciation Rights*

Stock appreciation rights (SARs) allow participants to receive the difference between the exercise price and the market price at the date of exercise. Many companies use SARs in lieu of regular options. While SARs do not result in the dilution associated with large option exercises, there is little difference between an SAR and a regular option from a shareholder perspective because the financial cost to the company is the same. However, SARs do not encourage stock ownership by participants because they involve no purchase or sale of company stock. CRPTF reviews SARs in the context of the option plan under which they are issued.

#### *Phantom Stock Options*

Phantom stock options offer participants cash bonuses based on the increase in share price during a set period of time. Phantom plans are distinct from SARs in that they often form their own separate plan. Some companies will create a phantom stock option plan to award employees who reside in countries that do not allow stock-based compensation. Participants are designated a set number of hypothetical (phantom) shares, on which the award is based.

While the CRPTF prefers compensation plans that encourage employee ownership, SARs and phantom options are an effective way to provide incentive.



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#### *Super Options*

Super options exceed the limits in a particular country for the value of options granted to any one individual, although they are usually tied to significantly more restrictive vesting provisions and performance criteria. U.K. super options, for example, exceed the Association of British Insurers' recommended limit that options represent no more than four times a participant's salary, yet the stricter performance criteria and longer vesting periods usually mitigate excessive grants. Additionally, dilution resulting from super options has historically been fairly moderate. Super options appear most often in advanced markets with developed stock option plans.

#### **A. STOCK OPTION PLANS**

Stock option plans grant participants an option to buy company shares at a set price (the exercise price). Shares are usually granted at market prices and may be exercised when the company's share price reaches the exercise price. Participants may then purchase the promised shares at the strike price and may later sell the shares after their purchase (or after a defined holding period when the shares may not be sold). Among the criteria that PVS examines in evaluating stock option plans are the following, generally organized from criteria of greater importance to criteria of lesser importance:

The CRPTF would:

- Vote compensation plans on a CASE-BY-CASE basis, taking into account the dilution that will arise from the plan and by analyzing the key features of such plans. Among the criteria that the CRPTF examines in evaluating stock option plans are the following, generally organized from criteria of greater importance to criteria of lesser importance:

##### **1. Shares Reserved for Issuance of Options Under the Plan**

The maximum number of shares approved under a plan depends on the classification of a company's stage of development as growth or mature. Growth companies are usually smaller, in new industries requiring significant research and development, and have restricted cash flows. A company in an established industry but expanding rapidly, or a mature company that is experiencing an extended period of rapid expansion, may also be classified as growth. Mature companies are characterized by stable sales and revenue growth, production efficiencies resulting from volume gains, and strong cash flow resulting from developed products in the payoff stage.



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For mature companies, shares available under stock option plans should be no more than five percent of the issued capital at the time of approval under all plans. For growth companies, shares available should be no more than ten percent of the issued capital at the time of approval under all plans (and five percent under the proposed plan.) For all companies, an absolute number of shares fixed at the time of approval are ideal, but many countries do not include such a limit. In these cases, revolving limits (a certain percentage of issued shares at any one time) of five or ten percent are common. The practice of setting a percentage of shares issuable over a certain number of years before or after the plan is adopted appears to be a compromise between these first two methods. We prefer plans where the limits are sufficiently spread out, e.g., five percent in five years, ten percent in ten years.

The CRPTF would:

- Vote FOR plans that feature dilution levels of up to five percent (5%) at mature companies and of up to ten percent (10%) at growth-oriented companies.

#### **2. Exercise Price and Discounts**

Options should be priced at 100 percent of the shares' fair market value on the date of grant. Usually this is taken as the closing price of the company's shares on the day prior to the date of grant. Some countries determine fair market value as an average of the trading price for the five days prior to the date of grant. This is a common and acceptable practice. Some emerging market countries use a 30-day average or longer to determine fair market value; these resolutions must be reviewed on a case-by-case basis, although provisions of longer than 30 days increase the possibility of discounted options.

In the absence of vesting periods or performance criteria, discounted option grants to directors amount to a cash bonus at shareholder expense. Under such circumstances, option holders have an incentive to cash in their grants for an immediate return, rather than hold on to their options for future gains. This undermines the incentive value underlining these plans. A few countries allow for options to be granted at a discount to market prices.

The CRPTF would:



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- Vote FOR plans that permit discounts up to fifteen percent (15%), but only for grants that are a part of a broad-based employee plan, including all nonexecutive employees.
- Vote AGAINST plans that allow for grants of discounted options to executive officers and/or nonexecutive directors.

#### 3. Plan Administration

Administration of plans should be in the hands of directors who are unable to participate in the plan. Plans administered by the full board should not allow voting by executive directors; plans administered by remuneration committees should be composed entirely of independent directors. Plans that allow nonexecutive directors to participate should not give them any discretion on individual grants; instead, an automatic system of grants should be introduced with fixed annual grants at market prices on a fixed date.

The CRPTF would:

- Vote FOR plans that are administered by individuals who are unable to participate in the plan, as long as all of the other plan terms are in line with guidelines.
- Vote AGAINST plans that allow the administering committee to grant options to itself due to the potential for “backscratching” abuse.

#### 4. Performance Criteria and Vesting Provisions

Performance criteria and vesting provisions are important considerations when evaluating a compensation plan and the existence of long vesting provisions and realistic performance criteria are highly preferred. The ultimate goal of share option plans is to tie executive and employee remuneration to company performance and to give key employees and executives incentive to stay with the firm.

The CRPTF would:

- Vote on a CASE-BY-CASE basis considering the absence of these features do not necessarily warrant a recommendation for or against a given plan, but their presence should be taken into consideration in the analysis of a plan. The existence of strong performance criteria can compensate for minor shortcomings in a plan.



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**B. OTHER FEATURES SPECIFIC TO OPTION PLANS**

**1. Option Repricing**

Some plans include specific provisions allowing for the repricing of options at the board's discretion. In Canada, companies listed on the Toronto Stock Exchange must seek shareholder approval for repricing options held by insiders of the company. Repricing outstanding options reduces the incentive that options provide to raise the share price for shareholders.

The CRPTF would:

- Vote AGAINST plans that include provisions allowing for option repricing when the exercise price is reduced in response to a drop in the share price and vote against the introduction of plans where there is a history of repricing options, unless options are repriced for lower level employees, in which case we vote on a case-by-case basis.
- Vote AGAINST proposals seeking shareholder approval to reprice options.

**2. Financial Assistance**

Some plans offer participants loans to pay the full exercise price on their options. If loans are part of a company's' option plan, they are more preferable as part of a broad-based, company-wide plan to encourage ownership rather than being given only to executive directors. Loans should have interest set at market rates that must be paid back in full over a reasonable length of time.

The CRPTF would:

- Vote FOR plans that allow for the use of loans in option plans as long as such loans are full-recourse, are set a market rates, and have a reasonable term.

**3. Restricted Stock**

Restricted stock is specifically designated stock offered at discount to executives, often under U.S. option plans but increasingly among overseas plans as well. Company shares may be granted outright to optionees with no payment required for the receipt of the shares. Such awards can be extremely expense, as participants exercise awards at fixed prices far below the current market price. If restricted stock is included as part of a stock option plan, the CRPTF expects



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strict limits on the amount of shares that may be issued in this form.

The CRPTF would:

- Vote AGAINST the use of restricted stock in option plans, unless there are strict limits on the number of awards that may be granted as restricted stock.

#### C. INCENTIVE PLANS

Share incentive plans tie key employees' compensation more directly to company performance. Though most popular in the United Kingdom, incentive plans are becoming increasingly popular across the globe. Incentive plans provide participants with free grants of company shares (or, less frequently, cash grants) in proportion with prearranged performance criteria—often earnings per share measured against inflation or total shareholder return. These indicators are frequently compared with those of other firms in the company's industry or stock market index, creating a benchmark and a further determinant of the number of shares granted to a particular participant. Proponents of incentive plans note that they offer shareholders the potential for less dilution and that they more directly encourage participants to focus on long-term company performance through strict performance criteria tied to more than just share price movements.

Most incentive plans are organized with strict vesting provisions, where participants may not receive the share awards until after a period of three years or more. Many plans also grant a percentage of the total amount reserved for each participant on a sliding scale measured against performance criteria. Performance criteria targets that have been satisfied only to a certain point may represent disbursement of twenty-five percent (25%) of the shares or cash to a participant, while one hundred percent (100%) satisfaction may represent the full allotment of the grant. From a shareholder perspective, this graduated system of performance criteria is a major advance.

Evaluation of incentive plans is similar to that of option plans in that acceptable dilution and impartial administration and eligibility remain key factors for a positive recommendation. Insufficient performance criteria or abbreviated vesting provisions are deciding factors as well.

The CRPTF would:

- Vote proposals to adopt incentive plans on a CASE-BY-CASE basis, employing the criteria used to examine stock option plans outlined in Section A above.



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### D. EMPLOYEE SHARE PURCHASE PLANS

Share purchase plans allow participants to purchase shares in the company, often at a discount to market prices. These plans are often broad-based in nature, as they are usually open to all employees. While eligibility under share purchase plans is evaluated similarly to stock option plans, PVS affords more flexibility with the terms of broad-based employee purchase plans. The inclusion of permanent part-time employees and employees who have been with the company for less than one year are provisions of employee plans that are routinely approved. Some plans operate via monthly deductions from employees' paychecks, gathered and held for safe keeping by a trust or a bank and used every month or year to purchase company stock. We approve of these plans if they encourage wide share ownership in the company among employees as well as dilution, eligibility and administration.

Some plans offer participants loans to pay for the shares. If loans are part of a share purchase plan, the CRPTF prefers that loans be made to employees as part of a broad-based, company-wide plan to encourage ownership rather than being given only to executive directors. The CRPTF also prefers loans with interest set at market rates that must be paid back in full over a reasonable length of time. The absence of these features does not necessarily warrant a recommendation against a share purchase plan, but they also should be taken into consideration in the analysis of the plan.

The CRPTF would:

- Vote FOR broad-based, employee-directed share purchase plans with discounts up to fifteen percent (15%).
- Vote FOR plans that allow for the use of loans in employee share purchase plans, unless there are specific concerns with the terms of the loans.

### E. GRANTS OUTSIDE OF PLANS

Resolutions asking shareholders to approve specific grants of shares or cash outside of established plans are problematic. Some companies prefer not to adopt formal share plans, instead asking shareholders to approve yearly grants to specific employees. The CRPTF prefers that companies make such grants in the context of an established plan.

The number of shares issued as part of the grants, when combined with the number of shares reserved for the company's other share plans, must fall within acceptable dilution limits. Vesting provisions and performance criteria are also important and are evaluated on the same basis as if the grants were part of a formal plan.



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The CRPTF would:

- Vote proposals to approve grants outside of formal plans on a CASE-BY-CASE basis, employing the criteria used to examine stock option plans outlined in Section A above.

## VIII. ANTITAKEOVER MECHANISMS

Common anti-takeover mechanisms include staggered boards, super-voting shares, poison pills, unlimited authorized capital authorizations (including blank check preferred stock), and golden shares. Some of these restrictions are aimed solely at limiting share ownership by foreign or unwanted minority shareholders, and others are designed to preclude an unwanted takeover of the target company by any party. We oppose most forms of such mechanisms, as they limit shareholder value by eliminating the takeover or control premium for the company. As owners of the company, shareholders should be given the opportunity to decide on the merits of takeover offers.

### A. RENEW PARTIAL TAKEOVER PROVISION (AUSTRALIA)

Australian law allows companies to introduce into their articles a provision to protect shareholders from partial takeover offers, to be renewed by shareholders every three years. If a partial takeover of the company is announced, directors are required to convene a shareholder meeting at least 15 days before the closing of the offer to seek approval of the offer. If shareholders reject the resolution, the offer is considered withdrawn under company law and the company can refuse to register the shares tendered to the offer. We approve of consulting shareholders on takeover offers, and this article provides protection for minority shareholders by giving them ultimate decision-making authority based on their own interests, not the interests of directors or outside parties.

### B. GOLDEN SHARES

Recently privatized companies across the world often include in their share structure a golden share held by their respective governments. These shares often carry special voting rights or the power of automatic veto over specific proposals. Golden shares are most common among former state-owned companies or politically sensitive industries such as utilities, railways, and airlines. While the introduction of golden shares is not a desirable governance practice, the CRPTF recognizes the political importance certain companies hold for governments and treats the introduction or amendment of government shares on a case-by-case basis.



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### C. POISON PILLS (CANADA)

Otherwise known as shareholder rights plans, poison pills are seen primarily in the Canadian market. Unlike in the United States, Canadian securities legislation requires shareholder approval of all poison pills. Companies generally state that they seek to adopt or renew pills in order to protect shareholders against unfair, abusive, or coercive takeover strategies and to give the target company's board time to pursue alternatives to a hostile takeover bid. Theoretically, the board will refuse to redeem the pill in the face of an unfair offer in order to force a bidder to negotiate for a better offer, at which point it will redeem the pill.

In accomplishing these goals, however, many rights plans place too much of the decision-making powers in the hands of the board and management and out of the hands of shareholders. However, we note that many Canadian companies have adopted new shareholder rights plans in the past year that have been designed to address the concerns of institutional investors, namely providing for three-year sunset provisions, allowing for partial bids to proceed despite board opposition, and curtailing the overall level of discretion afforded the board in interpreting the pills.

Nonetheless, our policy generally does not support the adoption of poison pills on the grounds that they serve to entrench management. Improperly structured rights plans have been used by boards to ward off offers beneficial to shareholders. Current owners should decide who will own the company, with advice and negotiation from the board and management. When considering the merits of a poison pill examine what other antitakeover devices the company has and the company's treatment of shareholders in past situations.

Canadian poison pills often have a sunset provision, requiring shareholder confirmation of the plan. Most pills have either a three-year sunset provision or a five-year sunset provision, requiring that shareholders confirm the continuation of the plan three or five years from the date of adoption. We support a three-year sunset provision, which affords shareholders the ability to reconsider the plan in light of changing market conditions and to review management's use of the plan.

Canadian pills also typically include a permitted bid clause, under which the takeover bid must be made on equal terms to all holders of the company's voting shares; the company must extend the expiration of the bid, usually by 45 or 60 days following the date of the bid. Management sets the terms of the permitted bid clause, and therefore it influences the level of protection that will be provided to shareholders.

Allowing shareholders the right to override the board as a means of balancing power is crucial, but the specifics of the permitted bid clause are



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usually insufficient. Under the clause, the pill may be triggered by a shareholder not intent on an complete acquisition, but who merely wishes to purchase a significant stake in the company. This gives the board power to deny shareholders the benefit of a large semi-controlling shareholder and precludes partial bids that may be in shareholders' interests. In addition to the sunset provision and the structure of the permitted bid clause, in order to qualify for approval, a shareholder rights plan must satisfy ALL of the following conditions:

- Permitted bid clause structure: a permitted bid clause must allow for partial bids supported by a majority of shareholders to proceed despite board opposition; bid periods should generally not be greater than 60 days; the clause should not contain a "toehold provision" that would any person who already controls a specified percentage of shares from making a permitted bid;
- Amendments: the ability of the board to amend key terms of the plan without shareholder approval following initial adoption of the plan must be limited to clerical and typographical changes and changes required to maintain the validity of the rights plan;
- Exchange option: a plan must not contain a provision that would enable the board to issue in exchange for the right, with or without further charge, debt or equity securities, other assets of the company, or any combination thereof;
- Definition of Fair Market Value: the board must not have the discretion to interpret the fair market value of the company's shares if the board determines that the value was adversely affected by the news of an anticipated or actual bid or by other means of manipulation;
- Affiliates and Associates: the board's discretion to decide which parties are acting in concert to determine the level of beneficial ownership, which could be used to trigger the pill should be limited and well-defined in the text of the plan;
- Mandatory Waiver: if the board waives the triggering of the pill with respect to one bidder, the board must be required to waive the pill in favor of any subsequent bids, preventing the board from favoring one bid over another regardless of shareholder interests.

#### **D. DEPOSITARY RECEIPTS AND PRIORITY SHARES (THE NETHERLANDS)**

Depository receipts are an especially common antitakeover defense among large Dutch companies. In the event of a hostile takeover bid, ordinary voting shares are first issued to a company-friendly trust or foundation. The trust or foundation in turn issues depository receipts, similar to banks in the



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United States issuing ADRs except that the foundation retains the voting rights of the issued security. The depositary receipts carry only the financial rights attached to the shares (i.e., dividends). In this manner, the company gains access to capital while retaining control over voting rights. Nonvoting preference shares can be issued to trusts or foundations in a similar fashion.

Priority shares, established in a company's articles, may be awarded with certain powers of control over the rest of the company. In practice, priority shares are held by members of the supervisory board, company-friendly trusts or foundations, or other friendly parties. Depending on the articles, priority shareholders may determine the size of the management or supervisory boards or may propose amendments to articles and the dissolution of the company.

#### **E. FOR ISSUES OF VIII - A THROUGH D**

The CRPTF would:

- Vote AGAINST all antitakeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.
- Vote AGAINST the adoption of poison pills unless they meet ALL of the criteria outlined in Section VII - C above.
- Vote AGAINST the introduction of depositary receipts and priority shares.

#### **IX. SHAREHOLDER PROPOSALS**

Most resolutions fall into three basic categories: corporate governance, social, and environmental. While shareholder proposals in most countries are not as prevalent as they are in the United States, they are becoming more common, and standards for reviewing the various types of proposals are necessary. In general shareholder proposals seen at global companies cover a wide variety of issues, including fundamental corporate governance topics, social issues, direct action proposals, as well as many unique proposals.

Shareholder's proposals are becoming more common in the German market, where there are two types of such proposals-shareholder proposals and counterproposals. Counterproposals are filed in direct opposition to proposals put forward by management at a given shareholder meeting. Many shareholder and counterproposals in Germany focus on environmental and labor issues. The number of shareholder proposals is also on the rise in Canada, although the aggregate annual number still pales in comparison to the U.S.



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**A. CORPORATE GOVERNANCE PROPOSALS**

Support for corporate governance proposals must be measured against the likely impact that approval would have on the company's operations. If a measure would improve disclosure of company activities in non-strategic areas and at minimal costs, we support the proposal. If a proposal seeks to improve the company's corporate governance structure, such as adopting board committees, eliminating staggered board structures, or canceling anti-takeover instruments, approval is also warranted. However, if acceptance of a proposal is likely to lead to a disruption in board or management operations and to cause the company to incur significant costs without clear benefit we will oppose the proposal.

The CRPTF would:

- Generally vote FOR shareholder social, workforce, and environmental proposals that create good corporate citizens while enhancing long-term shareholder value.
- Generally vote FOR disclosure reports that seek additional information that is not available elsewhere and that is not proprietary, particularly when it appears companies have not adequately addressed shareholders' social, workforce and environmental concerns.
- In determining our vote on shareholder social, workforce --and environmental proposals, we also analyze the following factors:
  - whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
  - the percentage of sales, assets and earnings affected;
  - the degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;
  - whether the issues presented should be dealt with through government or company-specific action;
  - whether the company has already responded in some appropriate manner to the request embodied in a proposal;
  - whether the company's analysis and voting recommendation to shareholders is persuasive;



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- what other companies have done in response to the issue;
- whether the proposal itself is well framed and reasonable;
- whether implementation of the proposal would achieve the objectives sought in the proposal; and
- whether the subject of the proposal is best left to the discretion of the board.

In general, we support proposals that request the company to furnish information helpful to shareholders in evaluating the company's operations. In order to be able to intelligently monitor their investments shareholders often need information best provided by the company in which they have invested. Requests to report such information merit support. We will evaluate proposals seeking the company to cease taking certain actions that the proponent believes is harmful to society or some segment of society with special attention to the company's legal and ethical obligations, its ability to remain profitable, and potential negative publicity if the company fails to honor the request.

#### **B. SPECIAL POLICY REVIEW AND SHAREHOLDER ADVISORY COMMITTEES**

These resolutions propose the establishment of special committees of the board to address broad corporate policy and provide forums for ongoing dialogue on issues including, but not limited to shareholder relations, the environment, occupational health and safety, and executive compensation.

The CRPTF would:

- Vote FOR proposals calling for special policy review and shareholder advisory committees when they appear to offer a potentially effective method for enhancing shareholder value.

#### **C. ENVIRONMENTAL REPORTING, CODES OF CONDUCT AND THE "CERES PRINCIPLES"**

Resolutions calling for environmental reporting and/or adoption of principles that encourage the company to protect the environment and the safety and health of its employees generally merit support.

Evidence suggests that environmentally conscious companies may realize long-term savings by implementing programs to pollute less and conserve resources. In addition, environmentally responsible companies stand to benefit from good public relations and new marketing opportunities. Moreover, environmental reporting provides shareholders with more



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information may be relevant to their company's financial well being including regulatory compliance, environmental risk management and brand name protection. One formulation of reporting seen in the United States that may be emulated internationally is the CERES Principles, formulated by the Coalition of Environmentally Responsible Economies. CERES require signing companies to address environmental issues, including protection of the biosphere, sustainable use of natural resources, reduction and disposal of wastes, energy conservation, and employee and community risk reduction. A signee to the CERES Principles would disclose its efforts in such areas through a standardized report submitted to CERES and made available to the public. Many companies have voluntarily adopted these principles.

The CRPTF would:

- Vote FOR proposals on codes of conduct that improve the company's public image, reduces exposure to liabilities, and establish standards so that environmentally responsible companies and markets are not at a competitive financial disadvantage.
- Vote FOR adoption of reports to shareholders on environmental issues.
- Vote FOR the adoption of the CERES Principles.

#### **D. MACBRIDE PRINCIPLES**

These resolutions call for the implementation of the MacBride Principles for operations located in Northern Ireland. They request companies operating abroad to support the equal employment opportunity policies that apply in facilities they operate domestically. State of Connecticut statutes require such a policy of companies in which it is invested. The principles were established to address the sectarian hiring problems between Protestants and Catholics in Northern Ireland. It is well documented that Northern Ireland's Catholic community faces much higher unemployment figures than the Protestant community. In response to this problem, the U.K. government instituted the New Fair Employment Act of 1989 (and subsequent amendments) to address the sectarian hiring problems.

The CRPTF would:

- Vote FOR proposals to support the implementation of the MacBride Principles for operations in Northern Ireland that request companies to abide by equal employment opportunity policies within the legal requirements of the law.

#### **E. CONTRACT SUPPLIER STANDARDS**

These resolutions call for compliance with governmental mandates and corporate policies regarding nondiscrimination, affirmative action, work



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place safety and health and other basic labor protections.

The CRPTF would generally support proposals that:

- Seek publication of a “Code of Conduct” to the company’s foreign suppliers and licensees, requiring they satisfy all applicable standards and laws protecting employees’ wages, benefits, working conditions, freedom of association, and other rights.
- Request a report summarizing the company’s current practices for enforcement of its Code of Conduct.
- Establish independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with the Code of Conduct.
- Create incentives to encourage suppliers to raise standards rather than terminate contracts.
- Implement policies for ongoing wage adjustments, ensuring adequate purchasing power and a sustainable living wage for employees of foreign suppliers and licensees.
- Request public disclosure of contract supplier reviews on a regular basis.
- Adopt labor standards for foreign and domestic suppliers to ensure that the company will not do business with foreign suppliers that manufacture products for sale in the U.S. using forced labor, child labor, or that fail to comply with applicable laws protecting employee’s wages and working conditions.

#### **F. CORPORATE CONDUCT, HUMAN RIGHTS AND LABOR CODES**

CRPFT will generally support proposals that call for the adoption and/or enforcement of principles or codes relating to countries in which there are systematic violations of human rights; such as the use of slave, child, or prison labor; a government that is illegitimate; or there is a call by human rights advocates, pro-democracy organizations, or legitimately-elected representatives for economic sanctions. Many times proposals refer to the conventions of the International Labor Organization (ILO). These proposals relate to a series of seven conventions (commonly referred to as the “Declaration on Fundamental Principles and Rights at Work”) ratified by the ILO, a tri-partite Non-Governmental Organization dedicated to the protection of workers’ rights. The seven conventions fall under four broad categories: right to organize and bargain collectively, non-discrimination in



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employment, abolition of forced labor and end of child labor. Each of the 180 member nations of the ILO are bound to respect and promote these rights to the best of their abilities.

The CRPTF would:

- Vote FOR Principles or Codes of Conduct relating to company investment in countries with patterns of human rights abuses (Northern Ireland, Burma, former Soviet Union and China) and that are in accordance with the provisions of the general statutes of Connecticut, Section 3-13, 45a-203 and 45a-541.
- Vote FOR proposals that support implementation and reporting on ILO codes of conduct.
- Vote FOR proposals that support independent monitoring programs in conjunction with local and respected religious and human rights groups to monitor supplier and licensee compliance with Codes.



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**APPENDIX C**  
**SECTION I**

**COMPLIANCE POLICY FOR IMPLEMENTATION  
OF STATUTORY INVESTMENT RESTRICTIONS**



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**I. Overview**

The Connecticut General Statutes currently authorize the Treasurer to implement investment restrictions on companies doing business in Iran, Northern Ireland and Sudan. See Conn. Gen. Stat. §§3-13g, 3-13h and 3-21e. Each statute provides criteria for the Treasurer to consider in her evaluation of investments in a company, and authorizes actions, up to and including divestment, when warranted in the Treasurer’s sole discretion.

This policy has been promulgated to implement the provisions of the statutes, to incorporate the requirements into the standard Investment Management Agreement, and to provide guidance to the Office of the Treasurer and investment managers on compliance. Any previous policies or interpretations of compliance with the MacBride Statute by the Office of the State Treasurer are hereby superseded by this policy.

At the sole discretion of the Treasurer, this policy may be changed from time to time. Managers will be notified in writing of any modification of this policy.

The standard form of “Investment Management Agreement” (the “Contract” or “IMA”) between the investment manager (each an “Investment Manager” and, collectively, “Investment Managers”) and the Treasurer obligates all Investment Managers to comply with investment restrictions imposed by the Treasurer under these statutes. Failure to comply with this policy shall be a breach of the Contract.

**II. Process for Identifying Companies Subject to Investment Restriction(s)**

1. The Office of the Treasurer is responsible for monitoring and identifying companies that meet the criteria for engagement under each statute. Monitoring activities may be undertaken internally or external resources may be used, including consultants, to identify companies that are candidates for engagement. Although priority will be given to engagement with companies in which the Connecticut Retirement Plans and Trust Funds (CRPTF) holds shares, engagement may be undertaken with companies in which no shares are held, based upon the Treasurer’s authority to prohibit investment in a company, if warranted.
2. When a company has been identified as a candidate for engagement, it will be contacted in writing, to seek information on the company’s business activities in the country at issue and other information identified in the statute. In addition, the Office of the Treasurer will offer to open a



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dialogue with the company. Communication with a company may be conducted by the Treasurer's Office alone, or in concert with other partners, which may include other institutional investors or organizations made up of institutional investors. In all cases, the company will be given a timeframe for responding, and will be informed that failure to respond may be considered by the Treasurer in his/her evaluation of next steps.

3. The company's response, or lack of response, will be evaluated using factors set forth in law, and further communication with the company will be conducted, if desirable. Outside resources may be used to assist in the evaluation of the response. Based upon the evaluation of the company's response, a recommendation may be made to the Treasurer to exercise his/her authority under the statute to impose an investment restriction; e.g. divest and/or restrict future investment in the company. In the alternative, if it is determined that imposition of an investment restriction is not warranted, a recommendation may be made to no action be taken with regard to a company for reasons including, but not limited to:
  - a. No current activity or limited current activity in the country.
  - b. Company has announced its intention to cease business activities and has taken steps toward that end.
  - c. Company is undertaking substantial humanitarian activity or otherwise acting to the benefit of the local population, including employing citizens of the country.
  - d. Company has announced its intention to undertake substantial humanitarian activity or other activity that will benefit the local population.
4. The Treasurer will review the recommendation, and approve, disapprove or ask for additional information or action by staff.
5. If the Treasurer approves a recommendation to divest or restrict future investment in a company, the decision will be implemented, including providing notification to the company of the decision.

### **III. Process for Implementation of Investment Restriction**

1. Whenever the Treasurer decides to impose an investment restriction, written notification will be provided to all Investment Managers. The notice shall identify the company, the required action and the time frame for implementation which ordinarily shall be 120 days. Investment



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Managers will be directed to notify the Treasurer when the required action has been fully implemented.

2. A Restricted Security list will be created, consisting of all companies for which the Treasurer has approved divestment/restriction on future investment.
3. At any time when the Treasurer's Office maintains a Restricted Security list, Investment Managers shall be required to certify at least annually:
  - a. It has adequate procedures in place to prevent acquisition of securities of restricted companies; and
  - b. It holds no Restricted Securities in portfolios it manages on behalf of CRPTF.

The Treasurer may limit his/her investment restriction solely to direct investments in a Restricted Security. In those instances where the CRPTF invests in a mutual fund, exchange traded fund or other form of commingled fund, the Treasurer shall encourage the Investment Manager of the commingled fund to consider alternative investments if practicable.

**IV. Process if Investment Manager Purchases Restricted Security**

1. The purchase of a Restricted Security violates this policy and is a breach of contract.
2. The Investment Manager shall divest any Restricted Security within 30 calendar days of acquisition unless the Treasurer specifies a longer period.
  - a. Additional remedies associated with the breach of contract shall be at the Investment Manager's own expense. Accordingly, the Investment Manager shall Acquisition costs (e.g. brokerage and other costs incurred to acquire the Restricted Security).
  - b. Disposition costs (e.g. brokerage and other costs incurred to sell the Restricted Security).
  - c. Realized losses, if any, based on purchase costs and the amount realized upon disposition of the Restricted Security.
  - d. Lost opportunity costs resulting from the use of funds to purchase and hold a Restricted Security. This shall be measured as the cost



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of the Restricted Security position multiplied by the difference between the investment return on the Restricted Security, as calculated by the Treasurer's master custodian bank, investment consultant or similar agent and the higher of (i) the average return on all other investments by the Investment Manager, as calculated by the Treasurer's master custodian bank, investment consultant or similar agent, or (ii) the average return of the Investment Manager's benchmark index, as calculated by the Treasurer's general consultant. These calculations will be prorated for the time period during which the Restricted Security is held.

#### **V. Process if Investment Manager Fails to Divest Restricted Security Within Required Time Frame**

1. The failure to divest within the required time frame violates this policy and is a breach of contract.
2. The Investment Manager shall divest any Restricted Security as soon as possible unless the Treasurer specifies a longer period.
3. Additional remedies associated with the breach of contract shall be at the Investment Manager's own expense. Accordingly, the Investment Manager shall be liable to reimburse the CRPTF for:
  - a. Acquisition costs (e.g. brokerage and other costs incurred to acquire the Restricted Security).
  - b. Disposition costs (e.g. brokerage and other costs incurred to sell the Restricted Security).
  - c. Realized losses, if any, based on purchase costs and the amount realized upon disposition of the Restricted Security.
  - d. Lost opportunity costs resulting from the use of funds to purchase and hold a Restricted Security. This shall be measured as the cost of the Restricted Security position multiplied by the difference between the investment return on the Restricted Security, as calculated by the Treasurer's master custodian bank, investment consultant or similar agent and the higher of (i) the average return on all other investments by the Investment Manager, as calculated by the Treasurer's master custodian bank, investment consultant or similar agent, or (ii) the average return of the Investment Manager's benchmark index, as calculated by the Treasurer's



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general consultant. These calculations will be prorated for the time period during which the Restricted Security is held.

**VI. Duties of Managers**

1. Investment Managers shall adhere to specific investment restrictions put in place by the Treasurer.
2. Upon notice from the Treasurer that an investment restriction has been imposed with respect to a particular company's security(ies), Investment Managers shall implement the restriction within the time frame indicated in the notice.
3. Investment Managers shall have procedures in place to monitor portfolios it manages on behalf of CRPTF and ensure against acquisition of Restricted Securities.
4. Whenever an Investment Manager breaches the contract by acquiring a Restricted Security, or failing to divest from a Restricted Security within the required time frame, the Investment Manager shall prepare all calculations required to determine the amount of reimbursement due the CRPTF. Such calculations shall be forwarded to the Office of the Treasurer within thirty (30) calendar days of disposition of the Restricted Security for acceptance and approval. The Investment Manager shall make all payments within thirty (30) calendar days after written notice of acceptance and approval has been received.
5. Investment Managers shall provide an annual certification that it (i) has adequate procedures in place to prevent acquisition of securities of restricted companies and (ii) holds no Restricted Securities within portfolios managed on behalf of CRPTF.

**VII. Contract Requirements**

1. The standard IMA shall require compliance with this policy, including requiring Investment Managers to:
  - a. comply with laws restricting investment and to adhere to specific restrictions put in place by the Treasurer;
  - b. continuously monitor portfolio holdings to identify holdings that may be Restricted Securities;



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- c. notify Treasurer in the event it purchases a Restricted Security;
- d. provide an annual certification that it (i) has adequate procedures in place to prevent acquisition of securities of restricted companies and (ii) holds no Restricted Securities; and
- e. respond to the Treasurer's inquiries related to its portfolio holdings.

**VIII. Treasurer's Rights**

1. Consistent with the Contract, if this policy is not complied with, the Treasurer shall have the right to terminate the Contract. Notwithstanding termination of the Contract, in accordance with Sections IV and V above, the Investment Manager is still obligated to compensate the CRPTF for any amounts owed hereunder.
2. Failure to terminate the Contract for any breach shall not constitute a waiver of future breaches.
3. Notwithstanding any time period set forth in this policy, the Treasurer may extend the required time to divest in his/her sole discretion. Any extension will be based on fiduciary considerations. Circumstances which may give rise to consideration of an extension may include, but are not limited to (i) the existence of short-term market dislocations which would have a negative impact on the disposition; (ii) any negative impact such disposition may have upon other investment positions of the Office of the State Treasurer; (iii) evidence of measures that will result in compliance by the company with respect to the security(ies) in question within a time frame that would make divestment impractical; or (iv) other unusual circumstances.



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**CONNECTICUT RETIREMENT PLANS AND TRUST FUNDS**  
**DIVERSITY PRINCIPLES**

*Adopted by the Investment Advisory Council in April, 2006*

The Investment Policy Statement, adopted by the Investment Advisory Council in March 2002, sets forth the Treasurer’s Policy on Vendors and Contractors as Corporate Citizens<sup>18</sup>. The rationale for this policy has only grown stronger over the three-and-one-half years since its adoption as part of the Investment Policy Statement. In an effort to continue to meet the retirement requirements of present and future beneficiaries, the State of Connecticut Retirement Plans and Trust Funds (“CRPTF”) have inherent long-term interests in the success of robust, steadily growing securities markets in the United States and throughout the world.

The globalization of business, coupled with the world-wide economy’s rapidly changing demographics, continues to create opportunities for those who can access untapped or under-exploited business opportunities. Changing demographics are of particular importance in the financial services industry, which has a long history of operating in a ‘relationship’ arena where professionals tend primarily to do business exclusively with those people and entities they already know. Recognizing the benefits that diversity offers for the global business community, it is clear that individuals or firms in the financial services industry that develop a broader circle of people or entities with which they do business will have broader access to legitimate and lucrative business and investment opportunities, and the greatest probability of future success. Conversely, as local, regional, national and global demographics change, individuals and firms that operate in limited circles will likely fall farther behind. Therefore, it is in the CRPTF’s long-term interest to seek increased diversity<sup>19</sup> among its vendors in a manner similar to

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<sup>18</sup>*Treasurer’s Policy on Vendors and Contractors as Corporate Citizens*  
(from *Investment Policy Statement, Part I, Article XII, Section B*)

*The CRPTF requires a wide array of banking, asset management and consultative services, and the Treasurer seeks to do business with financial service providers that demonstrate evidence of corporate citizenship. Some of the key considerations include a commitment to Connecticut through the hiring of Connecticut employees or the procurement of corporate goods and services from Connecticut-based firms. Other considerations include reinvestment in local communities, the extent of charitable giving and opportunities for students through scholarships or internships. The Treasurer will also consider the employment practices including the firm’s hiring, promotion, and training of women and minority employees as well as general employee relations. Other concerns include the firm’s policies on environmental compliance and consumer protections.*

<sup>19</sup> As used herein, the term “diversity” encompasses efforts to expand opportunity to persons protected under state laws which bar discrimination in state contracting based on race, color, religious creed, age, marital status, national origin, ancestry, gender, mental retardation, physical disability and sexual orientation, but also to Connecticut-based firms, and to emerging firms which have been in business less than five (5) years.



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the way in which it seeks the diversification of its portfolio assets in a manner consistent with its fiduciary responsibility.

In addition, for many years, government has had in place laws and policies that promote diversity in its own workplace. Former State Treasurer had implemented a number of initiatives to expand opportunities for greater access to the CRPTF's business. Most notable among these efforts are the Domestic Equity Brokerage Program and the historic launch of the Connecticut Horizon Fund, a fund-of-funds opening access to business in the domestic and international equity and fixed income investment arenas, as a start. It is a natural and logical progression in these policies for CRPTF, as a customer and business partner, to ensure that its vendors are similarly committed to workforce diversity and are representative of the diversity of the community CRPTF serves.

Finally, the financial services industry continues to undergo organic changes that have had a dramatic impact on the employment in Connecticut. Consideration of emerging and Connecticut-based businesses and Connecticut-based business opportunities will enhance the development of the next generation of financial services professionals and businesses and increase the potential for such businesses to develop in the state of Connecticut.

Therefore, the Office of the State Treasurer and the Investment Advisory Council (the "IAC") reaffirm their commitment to seek opportunities to enhance vendor diversity for the benefit of the CRPTF. In recognition of the ongoing diversity objectives established and advanced by the former Treasurer of the State of Connecticut ("the State"), and in recognition of the leadership shown by former IAC member and former State Treasurer Henry Parker, the IAC hereby endorses the following statement of principles and action steps (the "Connecticut Retirement Plans and Trust Funds Diversity Principles"), advancing the fundamental conviction that the firms with which the Office of the Treasurer does business should reflect the increasingly diverse cultures, backgrounds and traditions of the people that it serves.

**VENDOR DIVERSITY IN THE WORKFORCE/PROCUREMENT OF SERVICES**

**STATEMENT OF PRINCIPLES**

1. By establishing relationships with firms having diverse owners and workforces, the CRPTF will have the broadest exposure to business opportunities that will provide solid investment returns.
2. Companies and firms that demonstrate a commitment to diversity are most likely to succeed in an increasingly global marketplace.
3. Consideration of emerging and Connecticut-based businesses and Connecticut-based business opportunities will enhance the development of the next generation



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of financial services professionals and businesses and increase the potential for such businesses to develop in the state of Connecticut.

**PROTOCOL**

1. Financial services firms that wish to do business with the Connecticut State Treasurer's Office shall, at the time of contracting, have in place or agree to adopt written policies that promote diversity in the workforce. Such policies shall demonstrate the firm's commitment to workforce diversity in its policies on recruitment, hiring, training, promotion and retention, and shall recognize diversity as an enduring commitment, requiring ongoing efforts by the firm and periodic assessments of their progress.
2. Financial services firms that wish to do business with the Connecticut State Treasurer's Office must disclose their firm's workforce diversity statistics in a form prescribed by the State Treasurer during the RFP or search process. Workforce diversity shall be considered by the Treasurer when making his/her decision to recommend a firm to the IAC, and the Treasurer's recommendation shall include his/her analysis and conclusions regarding the diversity profile of each firm recommended.
3. In addition to workforce diversity, the Treasurer shall consider a firm's commitment to diversity principles in its procurement policies and practices; as well as, the firm's commitment to the communities it serves.
  - a) Procurement policies and practices should address the development of a diverse supplier network by the firm to meet the firm's procurement needs.
  - b) A firm may show its commitment to its community by support of charitable organizations, scholarship programs and the like that promote opportunities to advance diversity.
4. To enable the Office of the State Treasurer to monitor and evaluate the efforts of firms in promoting and expanding diversity, financial services firms that enter into contracts with the Connecticut State Treasurer's Office shall agree to provide reports on their ongoing activities relating to diversity on a periodic basis upon request. In such report, firms may be asked to address any or all of the following components:
  - a) A workforce diversity report, which, in addition to statistics on the gender and ethnic diversity of the workforce, shall provide data on hiring and promotion activity;



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- b) A supplier diversity report, which shall provide information on the number of minority-owned, women-owned, Connecticut-based and emerging suppliers with which the firm has a business relationship and the value of the business conducted with such suppliers;
  - c) A report on the composition of its Board of Directors, including any changes made since the previous report;
  - d) An outline or description of the firm’s efforts to support the communities it serves, and
  - e) A narrative description of activities undertaken by the firm in support of their commitment to diversity. Such narrative may describe organizations which the firm has joined in furtherance of its efforts to broaden the diversity of its hiring pool, internal efforts to retain and promote diverse employees, diversity training provided to senior management, relationships developed to expand the diversity of its supplier base, and any other efforts that promote diversity in the firm’s workforce and supplier network.
5. The Connecticut State Treasurer’s Office shall review and evaluate information provided by firms relating to diversity. The firm’s progress in promoting diversity shall be a component of the firm’s periodic performance evaluation.
  6. The Treasurer shall provide periodic reports to the IAC regarding the diversity of firms doing business with the CRPTF.

**VENDOR DIVERSITY AT THE OWNERSHIP AND/OR CONTROL LEVEL**

**SPECIAL INITIATIVES**

**DOMESTIC EQUITY BROKERAGE PROGRAM**

The Office of the State Treasurer seeks to ensure that a wider array of broker-dealers has an opportunity to provide services to the Connecticut Retirement Plans and Trust Funds (“CRPTF”). As principal fiduciary of the CRPTF, the State Treasurer encourages providers of investment advisory services to utilize Connecticut-based, minority, women and emerging broker-dealers in trading of CRPTF’s securities.

Specific targets for managers of the CRPTF’s domestic equities for the procurement of brokerage services from diverse firms include 30% of securities trading brokerage commissions to Connecticut-based broker dealers; 25% of securities trading brokerage commissions to minority broker-dealers and/or women broker-dealers; and 5% of securities trading brokerage commissions to emerging broker-dealers.



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**THE CONNECTICUT HORIZON FUND**

The Connecticut Horizon fund is designed to provide the investment program of the Connecticut Retirement Plans & Trusts with additional alpha through active management plus provide opportunity for investment managers who, for multiple reasons, would not typically have full access to the CRPTF.

It is the expressed intent of the CRPTF to afford opportunities for emerging, minority and women-owned and Connecticut-based investment managers to compete for investment contracts so long as such managers are fully capable of providing investment management services consistent with investment strategy and fiduciary standards.

In addition to minority owned firms, woman owned firms, Connecticut based firms, and small firms with assets less than \$2 billion, the Treasurer will also include new innovative investment strategies which are being incubated at all types of firms. In this way, the opportunity to enhance portfolio returns is greater and the spirit of nurturing the next generation of investment managers is expanded to include the next generation of investment ideas.