

**Connecticut Retirement Security Program  
Investment Policy Statement**

**October 18, 2024**

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### I. Introduction

In accordance with the provisions of Public Act 16-29 as amended by Public Act 16-3 (codified in Conn. Gen. Stat. Chapter 574), the Connecticut Office of the State Comptroller (“Office of the State Comptroller”) hereby adopts this Investment Policy Statement for the Connecticut Retirement Security Program, MyCTSAvings.

MyCTSAvings is an automatic enrollment retirement savings program, overseen by the Office of the State Comptroller, created for Connecticut workers who do not have access to a qualified employer-sponsored plan. The investment options offered under MyCTSAvings (the “Program”) are designed to enable participants to implement well-diversified, cost-effective retirement savings portfolios. Investment options available to participants cover a broad range of investment risk and return objectives appropriate for an automatic enrollment retirement savings program. Participants in the Program bear the risk and reap the rewards of investment returns that result from the investment options they select.

### II. Purpose

The Investment Policy Statement (the “Policy”) serves the following purposes:

- To assist the Office of the State Comptroller in supervising, monitoring and evaluating the investment options offered under the Program, in consultation with the Connecticut Retirement Security Program Advisory Board (the “Advisory Board”);
- Outlining the Office of the State Comptroller’s investment philosophy;
- Delineating the ongoing supervision of the Program including roles and responsibilities
- To document the investment options and asset categories offered under the Program;
- To document investment objectives and performance standards for each investment option;
- To establish a procedure for reviewing and monitoring of the investment options’ investment results;
- To define selection and termination criteria for the Program’s investment options.

The Office of the State Comptroller will review the Policy periodically and may amend the Policy as appropriate.

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### III. Roles and Responsibilities

#### **Office of the State Comptroller**

Roles and responsibilities of the Office of the State Comptroller include the following:

- To make decisions in the best interests of Program participants and their beneficiaries in consultation with the Advisory Board;
- To select and monitor the Program administrator with assistance from the investment consultant;
- To select and monitor investment options in accordance with the Program's objectives with the assistance of investment consultant[s];
- To ensure that the Program provides participants with a range of investment options;
- To review, approve and maintain the Policy in consultation with the Advisory Board;  
To review investment expenses and Program Manager fees for reasonableness.

#### **Connecticut Retirement Security Program Advisory Board**

Roles and responsibilities of the Advisory Board include the following:

- To assist the Office of the State Comptroller on decisions pertaining to the Program in the best interests of Program participants and their beneficiaries;
- To assist the Office of the State Comptroller on the selection and monitoring of the Program Administrator and Investment Consultant;
- To assist the Office of the State Comptroller on the selection and monitoring investment offered under the Program in accordance with the Program's objectives with the assistance of Investment Consultant[s];
- To assist the Office of the State Comptroller on the review, approval and maintenance of the Policy;
- To assist the Office of the State Comptroller on the review investment expenses and Program Manager fees for reasonableness.

#### **Investment Consultant**

Roles and responsibilities of the investment consultant to the Advisory Board include the following:

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- To assist the Office of the State Comptroller in the execution of the Program's investment objectives;
- To monitor investment options for adherence to performance standards and objectives;
- To review the Target Retirement Date portfolios' asset allocation, glide path construction and related characteristics and to annually report findings of the review to the Advisory Board and Office of the State Comptroller;
- To review the strategic allocation portfolios' asset allocation and related characteristics and to annually report findings of the review to the Advisory Board and Office of the State Comptroller;
- To advise on potential changes to investment options as necessary in compliance with the Policy;
- To assist in the review of investment management fees and expenses;
- To analyze the Program Manager's recommendations for investment menu design, investment options, underlying investment funds, investment guidelines, and performance standards;
- To inform the Office of the State Comptroller and the Advisory Board of current capital market developments, industry trends and best practices.

### **Program Manager**

- To perform administrative functions in line with contractual obligations and Program objectives;
- To develop recommendations for the Program's investment options, underlying investment strategies, and performance standards;
- To implement the investment menu, investment options, and underlying investment strategies,
- To manage the asset allocation, glide path and underlying investment strategies of the Target Retirement Date portfolios consistent with appropriate return objectives and risk tolerances;
- To regularly report investment option and strategy results to the Office of the State Comptroller, its designees and the Advisory Board;
- To meet with the Office of the State Comptroller and Advisory Board to review the performance of Program investment options;
- To Inform the Office of the State Comptroller and the Advisory Board of any material developments that would adversely impact the achievement of the Program's investment objectives;

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- To assist in changes to investment options as necessary in compliance with the Policy;
- To provide communications about the Program and its investment options for Participants.

### IV. Asset Categories

The Program's investment menu includes a series of Target Retirement Date Portfolios and set of Strategic Allocation Portfolios that provide participants with the ability to build diversified, cost-effective retirement investment portfolios. The asset categories and investment options are as follows:

- Target Retirement Date Portfolios
- Strategic Allocation Portfolios
  - Cash Preservation Portfolio
  - Income Portfolio
  - Income and Growth Portfolio
  - Balanced Portfolio
  - Conservative Growth Portfolio
  - Moderate Growth Portfolio
  - Growth Portfolio

#### Target Retirement Date Portfolios

The Target Retirement Date Portfolios are age-based asset allocation portfolios. As an asset category, target date funds are age-based asset allocation funds that achieve their objectives by investing in a diversified mix of asset classes based on a participant's target retirement date (calculated using the participant's age) with the aim of becoming more conservative as the participant approaches retirement.

- The Target Retirement Date Portfolios provide participants with access to series of investment options tailored to the assumed stage of their career and retirement date.
- The Target Retirement Date portfolios allow participants to take advantage of diversification and asset allocation strategies in line with their projected retirement date.
- The Target Retirement Date Portfolios serve as the Program's default option and will include additional funds as new participants with later retirement dates join the plan.
- The underlying investment strategies are low cost index funds that provide asset class exposure at a modest expense with limited tracking error risk.

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### **Strategic Allocation Portfolios**

The Strategic Allocation Portfolios are risk-based asset allocation portfolios that give participants the ability to invest in investment options that include one or more asset classes and are governed by return and risk objectives that do not materially change over time.

- The Strategic Allocation Portfolios provide access to a range of asset allocation and risk exposures, allowing participants to self-manage their portfolio in line with their objectives.
- Investments in the Strategic Allocation Portfolios are allocated to one or more asset classes in a manner that aligns to an established objective and risk tolerance.
- The underlying investment strategies in the Strategic Allocation portfolios are predominantly index funds that provide access to the capital markets at a modest cost with limited tracking error risk.
- The Program Manager determines the asset mix and underlying investment strategies in the Strategic Allocation portfolios and may change allocations in line with objectives.

### **Asset Category and Investment Requirements**

Each asset category and investment option offered under the Program shall:

- Operate in compliance with an investment option fact sheet or equivalent communication prepared by the Program manager and;
- Have its performance and risk evaluated against the applicable performance standards.

If the Advisory Board determines that an investment option no longer meets performance standards, it may authorize the replacement of that option with a suitable alternative. Periodically, the Advisory Board may add investment options to the Program. In such cases, the Advisory Board will authorize amendments to the Policy to document changes.

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### **V. Investment Objectives and Performance Standards**

The following is a summary of investment objectives and performance standards for each investment option. Individual benchmark indexes for each investment option are included in Appendix A to the policy.

#### **Target Retirement Date Portfolios**

##### **Objective**

The Target Retirement Date Portfolios encompass a series of portfolios, each of which is associated with a participant's assumed retirement date. The objective of each Target Retirement Date Portfolio is to invest in a diversified portfolio of asset class holdings that will be systematically rebalanced during the various market cycles or stages of a participant's lifetime. The Target Retirement Date Portfolios establish a targeted "maturity date" for each Portfolio and will automatically reallocate an individual participant's investments over time to a more conservative allocation as the Portfolio's maturity date approaches. The Target Retirement Date portfolios are designed to enable the participant to select the option that has its "maturity date" set similarly to his or her own investment horizon (e.g., the participant's retirement age). The Office of the State Comptroller approves the asset mix and underlying investments for each of the Target Date Retirement portfolios based on the advice of the Investment consultant and Program manager. The dynamic asset allocation ("glide path") applied to each target date portfolio option will be determined and rebalanced, accordingly, by the Program Manager. By including the Target Retirement Date Portfolios as investment options, the participant understands that investment options will be added, removed and reallocated over time according to an established glide path.

##### **Performance Standards**

The performance of the Target Retirement Date Portfolios will be measured against a primary blended benchmark closely representing asset class weights in the underlying portfolio. The benchmark series represents a key comparison for tracking error for the overall portfolio. The performance of the Target Date Retirement portfolios may also be compared against secondary benchmarks such as the S&P 500 Target Date Index Series. The S&P 500 Target Date Index Series benchmarks represent a broad consensus of asset class exposure from an annual survey of target date fund managers. The performance of the Target Date Retirement portfolios may also be compared against peer median funds from available databases.



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### **Strategic Allocation Portfolios: General Objective**

The objective of each of the Strategic Portfolios is to provide a composition of asset classes and risks that remains mostly fixed over time. The asset class weights and underlying investments may be subject to periodic re-balancing back to the Portfolio guidelines and to changes in investment policy or fund selection authorized by the Advisory Board. Each Portfolio invests in one or more underlying asset classes managed by individually selected investment managers.

### **Cash Preservation Portfolio**

#### **Objective**

The Cash Preservation Portfolio seeks to provide maximum safety and liquidity, and to provide a rate of return consistent with limited risk. The Cash Preservation Portfolio is designed to preserve capital and to provide liquidity to meet typical immediate and short-term needs. The Portfolio is invested exclusively in high-quality, short-term money market instruments that aim to preserve capital, maintain liquidity and produce a competitive yield.

#### **Performance Standard**

The performance of the Cash Preservation Portfolio will be measured against a benchmark consisting of 100% Bloomberg US Treasury Bill 1-3 Mon TR USD index.

### **Income Portfolio**

#### **Objective**

The Income Portfolio seeks to provide investors capital appreciation with minimal risk to principal. The Portfolio is designed for investors with a very low tolerance for short-term market fluctuations who seek low risk to principal and have a high desire for current income with limited capital appreciation. The Portfolio investments include a mix of fixed income investments with a significant cash (money market fund) position.

#### **Performance Standard**

The performance of the Portfolio will be measured against proprietary benchmarks based on the asset allocation of the Portfolio (see appendix A).

### **Income and Growth Portfolio**

#### **Objective**

The Income and Growth Portfolio seeks to conservatively grow the Portfolio with modest income at higher risk. The Portfolio is designed for investors with a moderate tolerance for short-term market

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fluctuations who seek moderate capital appreciation and have a modest desire for income. The Portfolio investments include exposure to a mix of bonds with a blend of globally diversified equity securities.

### **Performance Standard**

The performance of the Portfolio will be measured against proprietary benchmarks based on the asset allocation of the Portfolio (see appendix A).

### **Balanced Portfolio**

#### **Objective**

The Balanced Portfolio seeks to provide a balanced mix of steady return and growth but comes with additional risk. The Portfolio is designed for investors with a modest tolerance for short-term market fluctuations and a desire for income and moderate capital appreciation. The Portfolio investments include exposure to a balanced mix of bonds and globally diversified equity securities.

### **Performance Standard**

The performance of the Portfolio will be measured against proprietary benchmarks based on the asset allocation of the Portfolio (see appendix A).

### **Conservative Growth Portfolio**

#### **Objective**

The Conservative Growth Portfolio seeks to grow the Portfolio with increasing degree of risk. The Portfolio is designed for investors with a moderately high tolerance for short-term market fluctuations who seek significant capital appreciation and have a minimal desire for current income. The Portfolio investments include exposure to a blend of globally diversified equity securities with exposure to a mix of bonds.

### **Performance Standard**

The performance of the Portfolio will be measured against proprietary benchmarks based on the asset allocation of the Portfolio (see appendix A).

### **Moderate Growth Portfolio**

#### **Objective**

The Moderate Growth Portfolio seeks capital appreciation but comes with high degree of risk. The Portfolio is designed for investors with a high tolerance for short-term equity market fluctuations

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who seek capital appreciation. The Portfolio investments generally include exposure to a blend of globally diversified equity securities.

### **Performance Standard**

The performance of the Portfolio will be measured against proprietary benchmarks based on the asset allocation of the Portfolio (see appendix A).

### **Growth Portfolio**

#### **Objective**

The Growth Portfolio seeks to maximize growth but comes with the highest degree of risk. The Portfolio is designed for investors with a very high tolerance for short-term equity market fluctuations who seek maximum capital appreciation. The Portfolio investments generally include exposure to a blend of globally diversified equity securities.

### **Performance Standard**

The performance of the Portfolio will be measured against proprietary benchmarks based on the asset allocation of the Portfolio (see appendix A).

## **VI. Reporting and Monitoring Procedures**

The Office of the State Comptroller or its designee will review the Program's investment options at least annually with a focus on the following:

- Investment options compliance to the Policy;
- The current level of diversification provided by the asset categories and investment options;
- Material changes that may impact performance including regulatory developments, organizational changes; changes in strategy or philosophy or changes in fees;
- Consistency of the investment option's risk and return characteristics with the expectations;
- Comparison of performance and risk to appropriate benchmark indexes and peer groups.

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### VII. Investment Option Evaluation

The Office of the State Comptroller or its designee will evaluate investment options utilizing multiple standards of performance, including, but not limited to the following:

- Net-of-fee absolute returns in comparison to appropriate benchmark indexes and peer groups over multiple time periods;
- Net-of-fee risk-adjusted returns over multiple time horizons;
- Risk characteristics including standard deviation and portfolio efficiency (Sharpe ratio);
- Comparison of characteristics (e.g. asset allocation; target date portfolio glide path) of each investment option to peer funds and stated objectives;
- Changes in underlying investment strategies that may impact the investment option;
- Operational efficiency, soundness of strategy; transparency and cost-effectiveness.

The Office of the State Comptroller may terminate an investment option in consultation with the investment consultant and Program Manager based on the investment option's performance in comparison to the above standards.

Additionally, the Office of the State Comptroller may place an investment option under a formal review, terminate or "freeze" an investment option to new contributions based on the investment option's significant under performance or reasons other than investment performance, including:

1. The investment option has changed investment managers, or such change appears imminent;
2. The investment option has changed portfolio managers;
3. The investment option has had a significant change in ownership or control;
4. The investment option has changed investment focus or has experienced style drift, departing from the investment category or objectives;
5. The investment option has violated a SEC rule or regulation; as well as any other important and appropriate statutory regulatory requirements;
6. The investment option has operational difficulties concerning fund transfers or pricing;
7. The investment option has experienced significant assets growth/decline deemed as potentially detrimental to the investment manager's ability to manage the option effectively in the future.

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### **VIII. Selection Criteria for Investment Options**

The following includes criteria the Office of the State Comptroller or its designee will employ when evaluating an investment option for the Program:

- Soundness of investment philosophy and strategy;
- The prospective investment management firm's record of managing similar investments;
- The firm's experience as evidenced by assets under management and length of track record;
- The prospective investment option's risk-adjusted performance and rank within peer groups;
- Maintenance of diversification and risk characteristics appropriate for the investment category;
- Consistency with the Program's objectives;
- Cost-effectiveness.

### **IX. Termination of Investment Options**

When the Office of the State Comptroller terminates an investment option, the Office of the State Comptroller or its designee, shall promptly notify the Program Manager that the investment option is being terminated. In addition, the Advisory Board, or its designee, shall promptly notify participants who are currently investing in the investment option that the Advisory Board is terminating the investment option and that:

- New investment monies will be redirected to another option under the Program prior to the termination date;
- All assets in the terminated investment option will be transferred to another investment option prior to the termination date; and
- Assets not transferred by participants to an alternative option by the termination date will be transferred to a replacement or designated default fund option.

### **X. Investment Option Expense Standard**

The Office of the State Comptroller or its designee will review the expense and fee structure of each investment option at least annually. Expenses for each of the investment options should be competitive within each respective asset category consistent with the Program's objectives.

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### Appendix A: Performance Benchmarks and Peer Groups

Investment Option Name	Asset Category	Primary Benchmark
Target Retirement Date Portfolios	Target Date	The performance of the Target Retirement Date Portfolios will be measured against a primary blended benchmark closely representing asset class weights in the underlying portfolio. The benchmark series represents a key comparison for tracking error for the overall portfolio. The performance of the Target Retirement Date portfolios may also be compared against secondary benchmarks such as the S&P 500 Target Date Index Series. The S&P 500 Target Date Index Series benchmarks represent a broad consensus of asset class exposure from an annual survey of target date fund managers. The performance of the Target Retirement Date portfolios may also be compared against peer median funds from available databases.
Cash Preservation	Money Market	The performance of the Cash Preservation Portfolio will be measured against a benchmark consisting of 100% Bloomberg US Treasury Bill 1-3 Mon TR USD index.
Income Portfolio	Asset Allocation	60% Bloomberg US Aggregate Bond TR USD + 5% Bloomberg Long Term US Treasury TR USD + 3% Bloomberg US Treasury US TIPS TR USD + 6% JPM EMBI Global Diversified TR USD + 6% Bloomberg VLI High Yield TR USD + 20% Bloomberg US Treasury Bill 1-3 Mon TR USD indices.
Income and Growth Portfolio	Asset Allocation	26% Dow Jones US Total Stock Market TR USD + 10% MSCI EAFE NR USD + 4% MSCI EM NR USD + 45% Bloomberg US Aggregate Bond TR USD + 10% Bloomberg Long Term US Treasury TR USD + 1% Bloomberg US Treasury US TIPS TR USD + 1% JPM EMBI Global Diversified TR USD + 2% Bloomberg VLI High Yield TR USD + 1% Bloomberg US Treasury Bill 1-3 Mon TR USD indices.
Balanced Portfolio	Asset Allocation	33% Dow Jones US Total Stock Market TR USD + 12% MSCI EAFE NR USD + 5% MSCI EM NR USD + 34% Bloomberg US Aggregate Bond TR USD + 12% Bloomberg Long Term US Treasury TR USD + 1% Bloomberg US Treasury US TIPS TR USD + 1% JPM EMBI Global Diversified TR USD + 1% Bloomberg VLI High Yield TR USD + 1% Bloomberg US Treasury Bill 1-3 Mon TR USD indices.

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Investment Option Name	Asset Category	Primary Benchmark
Conservative Growth Portfolio	Asset Allocation	The performance of the Conservative Growth Portfolio will be measured against a benchmark consisting of 39% Dow Jones US Total Stock Market TR USD + 15% MSCI EAFE NR USD + 6% MSCI EM NR USD + 21% Bloomberg US Aggregate Bond TR USD + 15% Bloomberg Long Term US Treasury TR USD + 1% Bloomberg US Treasury US TIPS TR USD + 1% JPM EMBI Global Diversified TR USD + 1% Bloomberg VLI High Yield TR USD + 1% Bloomberg US Treasury Bill 1-3 Mon TR USD indices.
Moderate Growth Portfolio	Asset Allocation	52% Dow Jones US Total Stock Market TR USD + 20% MSCI EAFE NR USD + 8% MSCI EM NR USD + 5% Bloomberg US Aggregate Bond TR USD + 11% Bloomberg Long Term US Treasury TR USD + 1% Bloomberg US Treasury US TIPS TR USD + 1% JPM EMBI Global Diversified TR USD + 1% Bloomberg VLI High Yield TR USD + 1% Bloomberg US Treasury Bill 1-3 Mon TR USD indices.
Growth Portfolio	Asset Allocation	64% Dow Jones US Total Stock Market TR USD + 25% MSCI EAFE NR USD + 10% MSCI EM NR USD + 1% Bloomberg US Treasury Bill 1-3 Mon TR USD indices.

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### **Appendix B: Terminology Definitions**

Asset Allocation – Asset allocation is a process investors use to diversify an investment portfolio across different asset classes such as stocks, bonds and cash.

Diversification – A method of minimizing non-systematic risk that entails allocating assets across securities and investment categories that have low correlations to one another other.

Indexing (Passive Management) – An investment strategy that seeks to track the return of an index such as the S&P 500 index, rather than seeking to outperform it.

Rate of Return – The compounded rate of return generated by an investment over time.

Sharpe Ratio – Represents the excess rate of return over the risk free return divided by the standard deviation of the excess return. The result is the absolute rate of return per unit of risk.

Standard Deviation – A statistical measure of risk. Standard deviation measures the variability or volatility of a portfolio's return stream over time.

Tracking Error – A measure of the standard deviation of a portfolio's performance relative to the performance of an appropriate market benchmark.