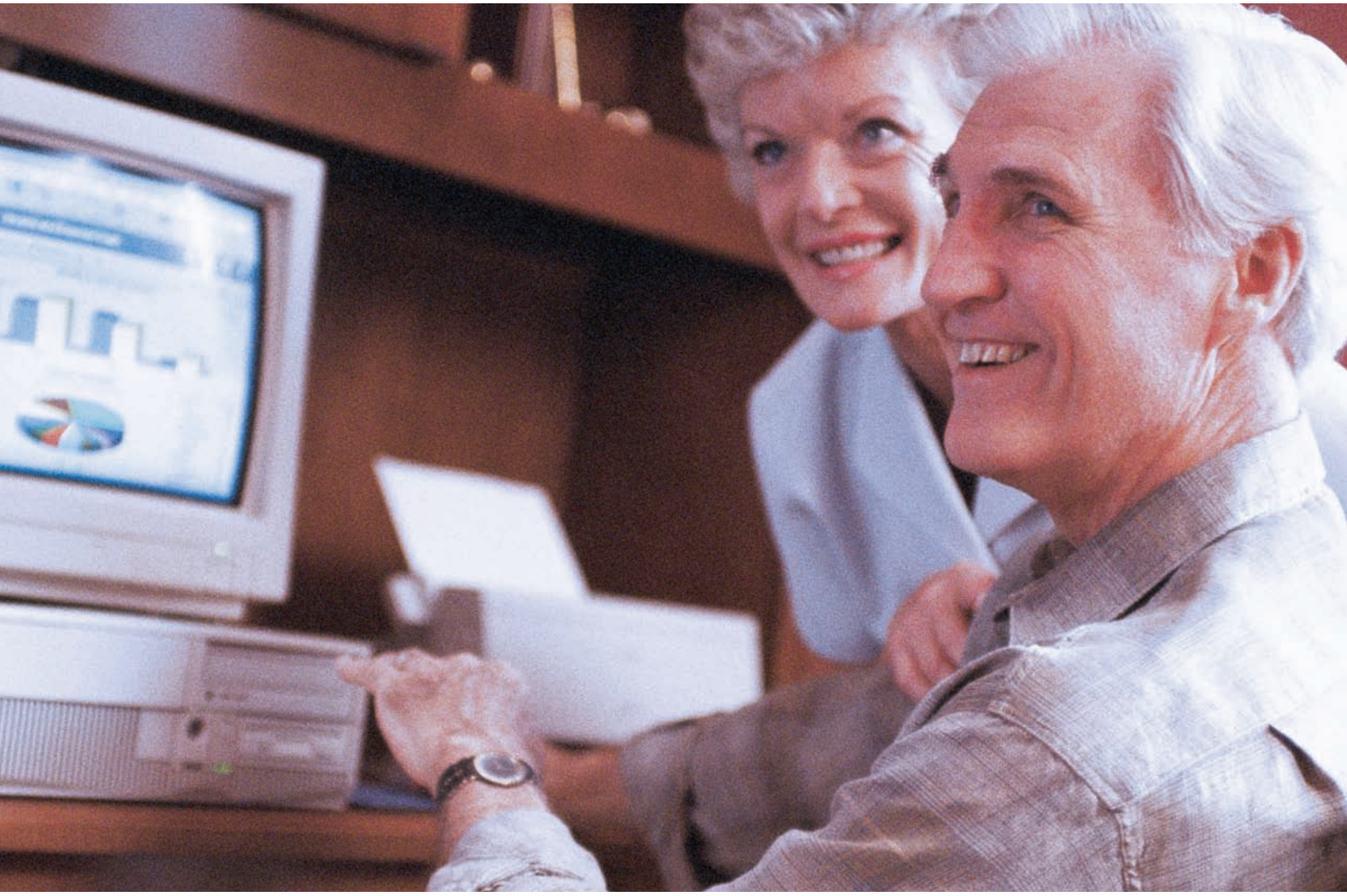
Enhancing Public Retiree Pension Plan Security:



Best Practice Policies for Trustees and Pension Systems

AFSCME
We Make America Happen

AFSCME's 1.6 million members provide the vital services that make America happen and advocate for prosperity and opportunity for all working families.

We are nurses, corrections officers, child care providers, EMTs and sanitation workers. For us, public service is not just a job, it's a calling. At times we are right out front, and at other times we are behind the scenes. Wherever we are, we're proud to take on the responsibility of helping to keep this country strong.

AFSCME is a union made up of a diverse group of people who share a common commitment to public service. We see the big picture and gladly accept the responsibility of guarding and nurturing it — not because we expect to be recognized for our sacrifice, but because we know the job needs to be done. That's why we're in the public service — to keep our families safe and make our communities strong.

While we work for justice in the workplace, we advocate for prosperity and opportunity for all of America's working families. We not only stand for fairness at the bargaining table — we fight for fairness at the ballot box and in the halls of government.

AFSCME
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Executive Summary

AFSCME represents 1.6-million state and local employees and retirees that share a common commitment to public service and who have invested in a financially sound public retirement system for their financial security. AFSCME members participate in more than 150 public pension systems with assets totaling more than $1 trillion. Some of our members have the added responsibility of serving in a fiduciary capacity as a trustee of one of those public retirement systems. As an organization, AFSCME works to ensure our members' financial security and to give those members who serve as trustees on public retirement systems the tools to be effective in that position.

To fulfill their mission, trustees and staff of public pension systems in the United States must invest billions of dollars prudently, ensure sufficient funds will be available to pay retirement benefits many years into the future, and make certain systems are in place to pay retirement benefits in a timely and accurate manner. Under the best of circumstances this is a heavy burden, and in recent years public pension systems have had to cope with additional economic and political challenges that have made the jobs of those who oversee and administer these systems even more difficult.

For many years, AFSCME has been a leader in the efforts to reform corporate governance, working to improve the responsiveness of boards of directors and executives to shareholders. The time has come for a similar focus on the governance of public pension systems. The retirement security not only of our own members, but of public employees and retirees generally, would be enhanced by identifying and implementing "best practices" governance policies that lead to well-educated trustees and staff with a clear understanding of their responsibilities operating in a transparent environment with safeguards to prevent even the appearance of a conflict of interest.

AFSCME has reviewed the policies of leading public pension funds, as well as public pension fund governance best practices research. The latter includes the Clapman Report, released in 2007 by the Committee on Fund Governance of the Stanford Institutional Investors' Forum. The Clapman Report sets forth best practice principles in several areas, including trustee core competencies and

addressing conflicts of interest. This report[1] provides a useful analytical framework against which to measure specific policies appropriate to the needs of individual pension systems.

AFSCME has used this information to develop recommended best practices policy language for public pension funds in three key areas:

1. Board Member Responsibilities and Core Competencies

2. Board Member Education

3. Ethical and Fiduciary Conduct, including:

A. Fiduciary Duties
B. Statement of Ethical Conduct
C. Prohibition on Insider Trading
D. State and/or Local Conflict of Interest Laws
E. Avoidance of Appearance of Nepotism
F. Limitation on Receipt of Gifts
G. No-Contact Policy
H. Disclosure of Communications
I. Prohibition on Campaign Contributions (Pay-to-Play)
J. Disclosure of Third-Party Relationships and Payments; Permanent Ban on Current or Former Board Members or Employees from Providing Placement Agent Services in Connection with the System

We have two goals that led us to develop these recommended policies. Firstly, and most importantly, we want to ensure decisions by public pension fund fiduciaries are made solely in the best interests of plan members, retirees and beneficiaries. Secondly, we wish to provide examples of best practice policies that meet that objective but do not inappropriately tie the hands of those fiduciaries. We recognize few public retirement systems have the time or resources to conduct an extensive development and/or overhaul of their governance and ethics policies. These recommendations can help systems review their existing policies, identify any gaps and revise them or develop new policies as appropriate.

While our report cites the policies of a number of public pension systems from around the country, we want to acknowledge that many other systems have likewise developed strong policies in the ethics and governance areas. We hope systems do not simply "cut and paste" this work into their own policies, but instead use this report as a catalyst for development of policies specifically tailored to their own needs.

Throughout these recommended policies, we refer to "board members" and "trustees" interchangeably. Also, we use the terms "chief executive officer," "chief investment officer" and "general counsel" to refer to those persons with final staff-level authority over administrative, investment and legal matters, respectively, in a public pension system. We recognize smaller systems in particular may utilize outside service providers in lieu of in-house staff to fulfill the latter two functions. In those instances, the system should determine whether a staff role that is identified in a recommended policy is best suited for the outside service provider or available in-house staff.

1. The report may be found online at http://www.law.stanford.edu/program/executive/programs/Clapman_Report-070316v6-Color.pdf

Section I

Overview and Discussion of Best Practice Policies

1. BOARD MEMBER RESPONSIBILITIES AND CORE COMPETENCIES

In most public pension systems in the United States, the membership of the board of trustees is set forth in law, and typically involves some combination of elected, appointed and *ex officio* members. Elected members are chosen by groups of active and/or retired employees covered by the system; appointed members may come from that group, plan sponsor management or the public at large; and *ex officio* members most often are elected or appointed public officials. By design, therefore, trustees come into their positions with diverse skill sets, perspective and understanding of their roles.

Trustees face demands immediately upon taking the oath of office. There is no time for a trustee to "get up to speed" before crucial decisions must be made and key votes must be cast. Consequently, leading pension systems have adopted policies that describe exactly what is expected of a trustee (responsibilities) and what a trustee needs to know (core competencies). Pension boards comprised of trustees with this level of knowledge and understanding are able to evaluate effectively the complex issues presented to them.[2] Further, such boards should be much more immune to efforts by those who would have them make decisions that are not in the best ultimate interest of the members, retirees and beneficiaries of their system.

This is not to say that public pension systems should require expertise in such areas as investments, actuarial matters or auditing as a precondition to serve as a board member. The principal function of a public pension fund trustee is to work with his/her peers on the board to establish the strategic direction of the system, to hire the necessary staff and consultants with the expertise to carry out that direction and administer the system on a day-to-day basis, and then to oversee the work being done to ensure the direction is carried out. For the most part, board competency involves a completely different skill set than those of professional investment manager, actuary or auditor. And, as a practical matter, experience has shown that getting such experts to serve on a board that is regularly in the public eye, requires public disclosure of personal financial interests (including client relationships) and pays little or nothing is extremely impractical.

2. Clapman Report at 12.

What does the proposed policy do?

The proposed policy sets forth a recommended list of responsibilities and core competencies that are common to all board members of a public retirement system.

What is the source of the policy language?

The proposed policy builds upon existing policies in place at the California State Teachers Retirement System (CalSTRS) and the San Diego City Employees' Retirement System (SDCERS).[3] Additional reference points include the California Public Employees' Retirement System (CalPERS) Board of Administration Code of Ethics, as well as the Clapman Report.

2. BOARD MEMBER EDUCATION

The Clapman Report recommends that: "Trustees, on a regular basis, should obtain education that provides and improves core competencies, and that assists them in remaining current with regard to their evolving obligations as fiduciaries."[4] The challenges to fulfillment of this recommendation are twofold. Firstly, education programs must be identified or developed that address one or more of the above competencies. Secondly, there must be an evaluation of the trustee's own needs, given his or her knowledge, experience, the nature of issues facing the board and board responsibilities (i.e., committee membership, committee chair, board chair or vice chair).

There is no lack of educational opportunities available to public pension fund trustees, and trustees as a rule are diligent about attending them. However, while trustees "devote considerable time and effort to education, primarily by attending a variety of conferences that are geared to public funds and that focus on investments," such programs as a rule "neither encourage trustees to develop the broad vision they need to set policy, nor do they provide the practical grounding a board needs to oversee a fund's operations."[5] Also, in our view, many programs do not maximize "in the seat" education. They may rely heavily on for-profit commercial sponsorships. Programs also may tilt the balance toward recreation and entertainment.

What does the proposed policy do?

The proposed education policy sets forth a comprehensive approach to educating pension fund trustees so they can discharge their duties with the requisite knowledge, skills and abilities. It identifies a new board member orientation process designed to get trustees quickly "up to speed," as well as a mentoring process for those new board members who desire a mentor. It sets forth a general curriculum for trustees in their first and second years of service as well as ongoing education thereafter, including fiduciary and conflicts of interest training. Finally, it includes a self-assessment tool to enable trustees to identify their own areas of educational need so they can work effectively with system staff to obtain such training.

What is the source of the policy language?

The education policies of several public retirement systems were reviewed and used in developing the recommended policy language, including those of CalSTRS, SDCERS, the Colorado Public Employees' Retirement Association (CoPERA), the Los Angeles Fire and Police Pension Plan (LAFPP) and

3. In the aftermath of the many problems facing SDCERS in the early part of this decade, the system has implemented a number of significant governance reforms and is gaining recognition as an exemplar of best practices in many areas.
4. Clapman Report at 10.
5. *Good Pension Governance: An Advocate's Guide for Improvement,* John Por and Tom Ianucci, The NAPPA Report (Volume 13, Number 5, February 2001).

the Marin County Employees' Retirement Association (MCERA).

3. ETHICAL AND FIDUCIARY CONDUCT

Stating that: "a clear and robust conflicts policy is a fundamental defense against the misuse of fund assets," the Clapman Report sets forth the following best practice principles for pension fund conflict of interest policies:

- A fund should establish and publicly disclose its policy for dealing effectively and openly with situations that raise either an actual conflict of interest or the potential for the appearance of a conflict of interest.
- In order for a conflict of interest policy to be effective, appropriate authorities with the ability to act independently of any potential conflict must have access to information that adequately describes trustee and staff interests and relationships that could, at a minimum, give rise to an appearance of impropriety. A fund should therefore establish a regular, automatic process that requires all covered persons to report and disclose actual or potential conflicts of interest.
- Trustees and staff should periodically affirm and verify compliance with conflict rules, regulatory reporting requirements and other policies intended to protect the fund against the actuality or appearance of self-interested transactions and conflicts.
- Trustees and staff should under no circumstances pressure anyone, whether or not a covered person, to engage in a transaction that creates an actual conflict or an appearance of impropriety. Trustees and staff should be required to disclose any such attempts to a proper compliance authority as determined by the board.
- A fund should publicly disclose necessary information as specified below to ensure trustees and staff are fulfilling their fiduciary duties to beneficiaries.[6]

Many pension systems, particularly in recent years, have developed effective ethics and conflict of interest policies. Few, however, have developed comprehensive policies addressing all facets of the ethics/conflicts landscape and set them forth in a board policy manual that is available online. One system that has accomplished this, after more than a year of work by its board, is CalSTRS. Section 600 of the CalSTRS Board Policy Manual, completed just prior to the release of the Clapman report,[7] provides the foundation for the best practice policies proposed herein. The policies cover: A) Fiduciary Duties; B) Statement of Ethical Conduct; C) Prohibition on Insider Trading; D) State and/or Local Conflict of Interest Laws; E) Avoidance of Appearance of Nepotism; F) Disclosure of Charitable Contributions, Ban on Specified Gifts, and Recusal; G) No-Contact Policy; H) Disclosure of Communications (including avoidance of undue influence); I) Prohibition on Campaign Contributions (pay-to-play); and J) Disclosure of Third-Party Relationships and Payments. Each of these policies will be discussed in turn.

A. Fiduciary Duties

What does the proposed policy do?

The proposed policy identifies the fiduciary duties commonly applicable to public pension fund trustees and staff. The sources of such duties differ from system to system, and alternatively may be found in constitutional or statutory provisions, rules or regulations and/or through the application of common law trust principles.

What is the source of the policy language?

Policy language from CalSTRS and MCERA was used in creating the policy.

6. Clapman Report at 13, 15.
7. The CalSTRS Board Policy Manual is available online at http://www.calstrs.com/About%20CalSTRS/Teachers%20Retirement%20Board/BoardPolicyManual.pdf

Why is this language included?

In dealing with potential conflicts issues or fiduciary law issues, the potential exists for a given situation to be permissible under one body of laws/rules and impermissible under the other. AFSCME thinks a "one-stop-shopping" approach that combines all potentially applicable laws and rules in one place facilitates a comprehensive analysis of an issue or concern and minimizes the potential for inadvertent wrongful conduct.

B. Statement of Ethical Conduct

What does the proposed policy do?

The policy addresses a broad range of the ethics and conflicts issues facing pension board trustees and staff, including but not limited to using the prestige or influence of a board or staff position for personal gain and maintaining the confidentiality of private information.

What is the source of the policy language?

While most systems have some form of this policy, this language in particular is grounded in the language of California Government Code 19990, which sets forth a "Statement of Incompatible Activities" for a state employee or officer. Both CalSTRS and CalPERS have taken this language and developed their own statements of ethical conduct that are more tailored to the needs of a public pension system, and the recommended policy language is adapted from these statements.

Why is this language included?

This language is intended as a "catchall" provision to cover those areas of potential concern not specifically addressed elsewhere in the ethics/conflicts policies.

C. Prohibition on Insider Trading

What does the proposed policy do?

The proposed policy provides a background on the insider trading issue, defines insider trading, prohibits the use of material, non-public information in the purchase or sale of publicly traded securities and requires an annual certification by board members and staff that they have read and understood the policy.

Why is this language included?

This language is provided to remind board members and staff of their obligations under federal and state/local law not to trade on inside information.

What is the source of the policy language?

This language originally was developed by CalSTRS after a survey of insider trading policies at pension funds around the country. The recommended policy also includes some language from CalPERS' policy.

D. State and/or Local Conflict of Interest Laws

What does the proposed policy do?

The proposed language essentially serves as a reminder that, in addition to the ethics policies of the system, board members and staff are subject to state and/or local laws that address conflicts involving such personal financial interests as investments, sources of income and gifts.

Why is this language included?

To remind board members and staff of their obligations under applicable state or local conflict of interest laws.

What is the source of the policy language?

The proposed language was adopted from the CalSTRS language and made more generic in nature. Systems adapting such policy language should ensure they capture all of the applicable state and local laws regarding disclosure and reporting of financial interests as well as other conflict provisions. For example, most systems in California refer not only to the Political Reform Act and the duty to not participate in

a governmental decision involving a financial interest, but additionally set forth: 1) the requirement in certain circumstances that a board member publicly announce the reason for his/her recusal from an issue; and 2) the prohibition in Government Code 1090 against participating in the making of a governmental contract in which the board member has a personal financial interest.

E. Avoidance of Appearance of Nepotism

What does the proposed policy do?

The proposed policy seeks to avoid an appearance of a conflict of interest that could arise if a matter pending before the board could affect the personal financial interest of a "close relation" of a board member. Typically, state or local conflict of interest laws define a board member's financial interest to extend to immediate family but no farther, leaving open the possibility that a board member could lawfully participate in a decision affecting the personal financial interests of, for example, an in-law. This policy adds a recusal requirement in that situation that does not typically otherwise exist under state or local law.

Why is this language included?

To safeguard both the system and individual board members and staff from allegations that the outcome of a decision was influenced by a familial or other close relationship.[8]

What is the source of the policy language?

This language is taken from Section 500 of the CalSTRS Board Policy Manual.

F. Limitation on Receipt of Gifts

What does this policy do?

The proposed policy reminds board and staff members that the receipt of gifts can create, at a minimum, the appearance of a conflict, and under some circumstances can violate state or local law. It admonishes board and staff members that they must comply with limitations on gifts and honoraria set forth in applicable law. The policy goes on to prohibit the acceptance of any gift if it could be reasonably expected that it would influence the judgment of the board or staff member or be considered as a reward for action or inaction. The policy creates a hard annual limit of $150 of aggregate gifts from any single source in a calendar year. It also sets forth criteria for the exercise of judgment by a board or staff member as to the propriety of accepting a gift in "close cases."

Why is this language included?

Gifts to board members and staff at pension systems from persons doing or seeking to do business with the system often are viewed by many as a form of pay-to-play and raise at a minimum an appearance of conflict. Several systems around the country have come under intense media scrutiny when such gifts have been received by board members and staff. While many state and local laws establish limits on the receipt of gifts by public officers, these limits can be fairly high. The $150 limit is viewed as a more appropriate threshold given the sensitive nature and fiduciary aspects of the positions held by board members and staff of a pension system.

What is the source of the language?

Numerous policies from pension systems around the country were reviewed prior to drafting this policy. The language of the proposed policy is based on elements of gift policies from the Washington State Investment Board, MCERA and the Santa Barbara Employees' Retirement System.

8. If a board member were to participate in such a decision, he or she could face a claim that this action would violate his or her exclusive duty of loyalty, thereby raising fiduciary law concerns.

What alternative language was considered?

Several systems ban the receipt of all gifts regardless of dollar value.

G. No-Contact Policy

What does the proposed policy do?

The proposed policy prohibits any contact between a prospective bidder on a system request for proposal (RFP) or other procurement for goods or services and board members and staff, once the RFP has been issued. Incidental social contact and/or communications clearly not related to the procurement process are permissible.

Why is this language included?

This language is included to prevent a prospective bidder from attempting to exert undue influence on a procurement process by having an *ex parte* communication with decision makers in the process. Many systems are subject to state or local laws on this subject and for such systems this provision will serve as a reminder.

What is the source of the language?

The source of the language is the CalSTRS Board Policy Manual, which in turn was adapted from statutory language applicable to CalSTRS (California Government Code Section 22364) and CalPERS (California Government Code Section 21053).

H. Disclosure of Communications

What does the proposed policy do?

The proposed policy requires disclosure of certain communications between board members and persons seeking to do business with the system. The proposed policy also requires disclosure of certain communications between board members and staff and addresses attempts to exert undue influence over board members and/or staff. Specifically, the policy:

1. Requires written disclosure of any communication between a person financially interested in an investment transaction that requires board approval and a board member concerning the transaction. Disclosure is required by both the board member and the financially interested party.
2. Requires written disclosure of any communication between a person financially interested in an investment transaction that does not require board approval and a board member concerning the transaction. Disclosure is required only by the financially interested party.
3. Requires written disclosure by system staff or consultants of any conversation with a board member in which the board member is advocating for a specific outcome on a proposed investment transaction.
4. States that it is improper for a board member or third party to attempt to use undue influence to coerce staff or another board member to a certain result or decision; defines "undue influence" and "third party" and establishes a procedure to follow if a staff member or board member thinks he or she has been subject to undue influence.

Why is this language included?

Subsections 1 through 3 reflect the principle that board members serve as co-fiduciaries and act solely and exclusively for the benefit of system participants. The board is empowered collectively to direct system management, staff and consultants on policy matters of system operations. Individual communications by board members with staff, consultants and those influencing system actions or doing business with the system create the potential for misunderstanding, misinformation and conflicting constructions. They also could be perceived as inappropriately affecting the board or staff, potentially placing

board members on unequal footing with each other because one or more members could be in possession of information that is material to a decision the others do not have.

Conversely, communications between board members and staff or consultants that are initiated in the regular course of business to help the board member gain a better understanding of an issue or transaction do not raise such concerns. As a result, Section H, Subsection 3 of the proposed policy is drafted to limit the disclosure obligation only to those communications in which a board member is advocating with staff or a consultant for a specific outcome in an investment transaction.

Section 4 was developed as a guard against undue influence being placed on a board member, staff or consultant in order to obtain a specific result from a system decision.

What is the source of the language?

The first disclosure of communications rules we are aware of were enacted by the California Legislature in 1997 to require disclosure of third-party communications with board members of CalSTRS[9] and CalPERS.[10] These laws did not require disclosure of such communications involving investment transactions that were within staff-delegated authority and did not require an investment committee/board vote.

Thereafter, the Teachers' Retirement System of Texas (TRS) adopted a comprehensive disclosure policy addressing all elements of board/staff/consultant/third-party communications with the exception of the undue influence issue. In its own 2006 comprehensive ethics policy review, CalSTRS evaluated that policy and elected not to adopt it in its entirety, but instead to: 1) expand the communications disclosure requirement to delegated investment transactions; 2) add a requirement that communications involving a board member with staff and/or a consultant in which the board member is advocating for a specific outcome on an investment decision be disclosed; and 3) developed the undue influence provision. CalPERS adopted similar policies in September 2008.

I. Prohibition on Campaign Contributions (pay-to-play)

The issue of alleged pay-to-play practices at public pension funds first received national attention in 1999, when the Securities and Exchange Commission (SEC) issued a proposed rule that would ban registered investment advisors from providing advisory services for compensation for two years after the advisor, or any of its partners, executive officers or solicitors, make a contribution to elected officials or candidates for office that could influence the selection of the advisor.[11] The SEC proposed this rule after receiving "reports that the selection of investment advisors, which we regulate under the Advisors Act, may be influenced by political contributions, and as a result, the quality of management services provided to funds may be affected." The SEC observed that: "The record suggests strongly that political contributions can play a significant role in the selection of investment advisors. Allegations of pay-to-play have been reported in at least 17 states."

At that time, some pension systems already had sought to address pay-to-play concerns, either by banning campaign contributions outright or by requiring that investment managers disclose any contributions made to board members or candidates for elected office that sat *ex officio* on the board. In some instances, such disclosure

9. California Education Code Section 22364.
10. California Government Code Section 20153.

11. 17 CFR Part 275; Release No. IA-1819; File No. S7-19-19-99.

was accompanied by an informal process in which the board member would recuse his/herself from voting on a matter affecting an investment manager from whom he/she had received a campaign contribution. But the board member often would participate in discussions leading up to the vote, and the possibility for influencing the outcome of the vote remained.

It ultimately became apparent the SEC would not move forward with the rule-making proposal. Pay-to-play issues continued to surface periodically. In 2004 finding that with so much money at stake, the system "…appeals to human weakness. It offers temptation to elected officials and contractors to place their respective personal interests ahead of the interest of the state…," then-New Jersey Governor Jim McGreevey issued Executive Order 134, banning state vendors from contributing to gubernatorial, state or county committees. Pay-to-play allegations also surfaced in the "Coingate" scandal in Ohio, where the state signed a contract with an investment manager to buy and sell rare coins for the Ohio Bureau of Workers' Compensation and a few months later the manager made a $2,000 campaign contribution to the state's governor. In 2006, the U.S. Department of Justice accused a former board member of the Illinois Teachers' Retirement System of using his ties to the system to extort fees and kickbacks from investment firms seeking capital commitments from the system.

It is against this background that recent allegations of pay-to-play and abusive placement agent relationships in the state of New York and elsewhere have come to light. Led by New York Attorney General Andrew Cuomo, this investigation has led to indictments, guilty pleas and an SEC investigation. The attorney general has developed a "Public Pension Fund Reform Code of Conduct" that, among other things, bans the use of placement agents and the making of campaign contributions by investment firms seeking to do business with public pension funds.

In the aftermath of the criminal indictments in New York, on Aug. 3, 2009, the SEC issued new proposed rules that would prohibit investment advisors from providing advisory services for compensation to a government client for two years after the advisor or certain of its executives or employees make a campaign contribution to certain elected officials or candidates for office. The rule also would prevent an advisor from soliciting from others, or coordinating contributions to certain elected officials or candidates or payments to political parties where the advisor is providing or seeking government business. A *de minimis* exception is provided that would permit covered persons to make aggregate contributions of $250 or less per election to an elected official or candidate if the person making the contribution is entitled to vote for that official or candidate.

AFSCME fully supports a ban on so called pay-to-play. However, AFSCME believes that the *de minimis* threshold of $250 is too low.[12] Also, in our view the exception should not be limited to contributions to

12. In part, this is based on a concern that the Supreme Court and appellate cases that have affirmed $250 limits are 33 and 14 years old, respectively (***Buckley v. Valeo*** (1976) 421 U.S. 1; ***Blount v. SEC*** (1995) 61 F. 3d 938). Failing to account for intervening inflation may make contribution limits more vulnerable to a legal challenge. Further, campaign contributions are a fact of life in the modern political process and AFSCME thinks any limits must draw a careful balance that seeks to avoid the risk of the exercise of undue influence on a pension fiduciary while at the same time not foreclosing the exercise of First Amendment rights to communicate support for a political candidate and his or her ideas through the making of a campaign contribution. We think the limits we have proposed strike an appropriate balance.

an elected official or candidate for whom the donor is entitled to vote. Because of these concerns, as well as the possibility that the SEC's proposed rules either may not be enacted or may be substantially revised, AFSCME is recommending policy language in this area that may be adopted by a public pension system.

What does the proposed policy do?

The proposed policy would ban a person who is engaging or seeking to engage in an investment relationship with a public pension system from making any campaign contribution valued in excess of $1,000 individually or $5,000 in the aggregate in any 12-month period. AFSCME recommends that for smaller systems (less than $5 billion in assets), these thresholds be scaled down to $500 individually or $2,500 in the aggregate. The prohibition would apply to campaign contributions made to, or on behalf of, or at the request of the system's officers and employees, any existing board member, the appointing authority of any board member and those public officers who by virtue of statutory designation sit *ex officio* on the board, and candidates for those offices. The policy also requires recusal of board members receiving such contributions from any participation in a decision regarding an investment relationship with the maker of such a contribution.

Why is this language included?

As noted above, the language is included in the event the SEC either fails to adopt its proposed regulations and/or substantially modifies those regulations in a way that fails to address effectively the pay-to-play issue.

What is the source of the language?

The source of the language is the policy and regulatory language developed by CalSTRS.

Additional comments

Systems considering adopting such a policy should consider whether state or local laws set different or conflicting dollar limits and/or require compliance with formal rulemaking procedures.

J. Disclosure of Third-Party Relationships and Payments; Permanent Ban on Current or Former Board Members or Employees from Providing Placement Agent Services in Connection with the System

Proposed rules issued by the SEC on Aug. 3, 2009, also would prohibit an investment advisor from providing or agreeing to provide, directly or indirectly, payment to any third party for a solicitation of advisory business from any governmental entity on behalf of such advisor. According to the SEC, this ban on the use of third-party placement agents has been proposed to eliminate possible circumvention of the ban on campaign contributions through the use of third parties. According to the SEC, its concern was triggered by responses to its 1999 rule-making proposal, which stated that imposing a two-year "time out" based on a contribution by a third-party solicitor was unfair and created significant compliance challenges because these solicitors were not controlled by the advisors. The prohibition does not extend to officers, employees or related persons of the advisor. The SEC's rule follows on the heels of the New York state attorney general's proposed "Public Pension Fund Reform Code of Conduct," which includes a similar ban.

We applaud the efforts of the New York attorney general, the SEC and others to ensure investment firms that do business with public pension funds are held to the highest standards of transparency, ethics and accountability. However, we think laws, regulations and policies designed to achieve this end should not interfere with

the proper exercise by system trustees, staff and advisors of their fiduciary duties. In our view, the proposed ban on the use of placement agents does that, improperly assuming that in order to ensure a ban on pay-to-play (which AFSCME fully supports) is not circumvented, any use by investment managers of placement agents or other third-party marketers must be abolished. Eliminating the use of placement agents in transactions involving public pension funds will hamper the efforts of investment managers, particularly new managers with smaller capitalization who cannot afford to hire in-house marketing staff, to raise public pension fund investments. This ultimately is detrimental to the pension funds themselves.

The SEC's proposed ban on the use of third-party placement agents has raised similar concerns for public pension systems. The Missouri State Employees' Retirement System (MOSERS) has commented that:

"It is MOSERS' view that legitimate placement agents serve a valuable role to investors in alternative asset classes. It is our view that some of the best investment opportunities are with smaller firms that have spun out from larger organizations or are raising institutional capital for the first time. Typically, small firms do not have the internal resources to effectively market their funds on a global basis. If placement agents are prohibited from being paid by investment managers for facilitating the investment process on behalf of public pension funds, MOSERS will have a more arduous and costly process accessing the best global investment opportunities."

Similarly, the Pension Reserves Investment Management Board of Massachusetts (PRIM) has stated that:

> 'However, an outright ban on the use of placement agents, a long-established and legitimate component of a plan sponsor's exercise of its fiduciary obligation, constitutes an extreme suggestion that would serve to harm the financial interests of investors like ourselves. 'Legitimate' placement agents, as distinguished from the individuals involved in the New York scandal, have long served to help the PRIM Board source high-quality investment opportunities, especially in certain asset classes like private equity. It is difficult to fathom how a political corruption case has led to the conclusion that placement agents as a group are a source of the problem.'

AFSCME shares the concern that a blanket ban on third-party placement agents inappropriately would tie the hands of the fiduciaries that manage public pension funds by narrowing the scope of the investable universe for such funds, particularly in the private equity area. Simply put, public pension funds do not have the staff or resources to evaluate every potential investment opportunity that comes to market in private equity and similar asset classes. Placement agents provide a necessary service to investment managers who may have an excellent product to offer but who need the assistance of a well-regarded investment expert to get the attention of a public pension fund. The practical effect of such a ban would be to make it much more difficult for smaller and/or minority and women-owned investment managers to get the opportunity to make their case to public pension funds for investment capital. And as a practical matter, such a ban does not seem likely to have any more impact on reducing potential corruption than increasing transparency would have.

AFSCME does support robust disclosure provisions that provide full transparency to both public pension funds and the public generally as to all aspects of any placement agent relationships that exist in the context of the investment of public pension assets. Many systems already have adopted such provisions. Moreover, AFSCME thinks there is a significant potential for abuse when a current or former board or staff member seeks to serve as a placement agent on behalf of an investment manager that is seeking an investment relationship with his or her current or former system. We do not think this potential for abuse is cured with the passage of time. As such, we support a permanent ban on current or former board or staff members serving as placement agents in connection with an investment relationship involving their current or former system.

What does the proposed policy do?

The proposed policy would require an investment manager to disclose to the public pension system the following information:

Whether the investment manager has compensated or agreed to compensate any placement agent in connection with an investment by the system.

The name and professional and educational background of the placement agent and whether the placement agent is a current or former board member, employee or consultant of the pension system.

1. A description of the compensation provided or agreed to be provided to the placement agent.
2. A description of the placement agent's services and whether those services are rendered in connection with all prospective clients or a subset thereof.
3. A copy of all agreements between the investment manager and the placement agent.
4. The names of any current or former system board members, employees or consultants who suggested the retention of the placement agent.
5. A statement that the agent is registered with the SEC or the Financial Industry Regulatory Association (FINRA).
6. A statement whether the placement agent is registered as a lobbyist with any state or national government.

The policy applies to all agreements with investment managers that are entered into after the policy is adopted, and to any pre-existing agreements if there is an amendment to a substantial term of that agreement. Compliance responsibilities for system staff also are identified. The policy requires staff to decline an investment if the external manager has used a placement agent that is not registered with the Securities and Exchange Commission or the Financial Industry Regulatory Authority.

Additionally, the proposed policy provides for a lifetime ban on current or former board members and staff from working as a placement agent in connection with an investment relationship involving their current or former system.

Why is this language included?

This language is proffered as an alternative to the SEC's proposed blanket ban on the use of third-party placement agents. It goes farther than many existing retirement system disclosure policies by requiring detailed information about the engagement of the placement agent and by providing extensive compliance provisions. Further, it curbs the potential abuses involved when current or

former board members or staff seek to profit by serving as placement agents in connection with investment relationships involving their current or former system.

What is the source of this language?

This disclosure provisions were adopted by CalPERS in May 2009 and represent the most comprehensive approach to placement agent disclosure we have found.[13] The permanent ban language was developed specifically for this report in response to recent developments in this area.

13. Adapted from California Public Employees' Retirement System Statement of Policy for Disclosure of Placement Agent Fees, adopted May 11, 2009. Copyright CalPERS 2009. Recently, the California Legislature enacted Assembly Bill 1584, which requires California public pension systems to adopt policies on disclosure of placement agent relationships and requires placement agents to disclose campaign contributions made to elected members of the board.

Section II

Recommended Policy Language

1. BOARD MEMBER RESPONSIBILITIES AND CORE COMPETENCIES

Attendance

All board members (or their delegates, where applicable) are expected to attend all board and applicable committee meetings. While attendance is not always possible, board members should, once the calendar for a year is set, immediately flag any scheduling conflicts and thereafter manage their schedules to avoid creating additional conflicts. Absences for medical or other substantial reasons shall be deemed excused absences in the discretion of the board chairman.

Committee Service

Each board member should serve on at least one standing committee.

Preparation

Board members should come to board meetings having read the materials prepared and circulated by staff and/or consultants, and having asked any questions of staff necessary to their understanding of the materials.

Inquisitiveness

Board members should be inquisitive, and should appropriately question staff, advisors and fellow trustees as circumstances require. There is no such thing as a "dumb question."

Integrity

Board members shall conduct themselves with integrity and dignity, maintaining the highest ethical conduct at all times. They should understand system objectives and exercise care, prudence and diligence in handling confidential information.

Knowledge

Board members should develop and maintain their knowledge and understanding of the issues involved in the management of the system. The specific areas in which board members should develop and maintain a high level of knowledge should include:

- Public pension plan governance.
- Asset allocation and investment management.
- Actuarial principles and funding policies.
- Financial reporting, controls and audits.
- Benefits administration.
- Disability (where applicable).
- Vendor selection process.
- Open meeting and public records laws.

- Fiduciary responsibility.
- Ethics, conflicts of interest and disclosures.

Education

Board members should identify areas in which they might benefit from additional education and work with staff to find educational opportunities. Board members should fulfill the training expectations outlined in the Board Member Education policy and are encouraged to attend additional relevant educational opportunities as outlined in Section 5 of that policy.

Collegiality

Members shall make every effort to engage in collegial deliberations, and to maintain an atmosphere in which board or committee members can speak freely, explore ideas before becoming committed to positions and seek information from staff and other members. Board members should come to meetings without having fixed or committed their positions in advance.

Independence

Board members and their delegates shall, upon taking office, sign a pledge confirming their independence and their understanding of their fiduciary duties. The pledge shall be reviewed annually and shall read as follows:

> 'I understand that as a board member, I must discharge my duties as a fiduciary with respect to the system solely in the interest of its members, retirees and beneficiaries. I pledge not to allow political meddling or other forms of intimidation to affect my independence of judgment in the exercise of my fiduciary responsibilities.'

2. BOARD MEMBER EDUCATION

Purpose

To permit board members to develop core competencies, discharge their fiduciary duties to act with care, skill, prudence and diligence and to ensure all board members have a full understanding of the issues facing the system, the board has adopted orientation and mentoring programs; mandatory fiduciary education and ethics training sessions; encourages education; and makes available appropriate periodicals to foster board member awareness of relevant developments. Participation on certain committees, including but not limited to Investment and Audits, will require additional educational development. The annual work plan for each committee will set forth educational requirements for the year.

Principles

The Board Member Education policy rests on the following important principles:

- There is a unique body of knowledge that can be imparted to board members to facilitate the carrying out of their distinct roles and responsibilities.
- Board members are responsible for making policy decisions affecting all major aspects of pension plan administration. They therefore must acquire an appropriate level of knowledge of all significant facets of the plan, rather than only specializing in particular areas.
- No single method of educating trustees is optimal. Instead, a variety of methods is necessary and appropriate.
- This policy is not intended to dictate that board members attend only specific conferences, programs, etc. Instead, trustees should work with the CEO to determine

their own educational needs and which educational opportunities best address those needs.

Orientation of New Board Members

Attendance. Each new board member (and designated representative, where applicable) shall attend an orientation session.

Timing for Orientation. The new board member (or designated representative, where applicable) is urged to attend the orientation session before sitting at the first board meeting as a voting member.

Development and Content. The orientation sessions will be developed by the CEO and will, at a minimum, include the following topics:

- Role and expectations of board members.
- A brief history and overview of the system, including the mission and purpose of the system.
- A review of board committees and their purposes.
- An overview of the organizational structure and the roles of staff and key service providers, including the actuary, investment consultant, investment managers, custodian, attorneys and auditors.
- A summary of the actuarial basis of the system, its assets and liabilities and actuarial assumptions and methodologies.
- A summary of the asset allocation and investment and funding policies of the system.
- A summary of the laws and rules governing the system and the board, including applicable open meeting and public records laws.
- A summary of the benefit structure and administration.
- Where applicable, health benefits program structure, delivery and board authority.
- An explanation of fiduciary responsibility, conflicts of interest and ethics.
- A review of board member immunity, indemnity and fiduciary insurance.
- An explanation of the strategic plan (where applicable) and the planning process.
- A high-level review of existing board policies.
- A briefing on current and emerging issues before the board.
- Biographical information on board members.
- A review of best practices for pension governance.
- An introduction to the executive management team.
- A tour of system offices, if practicable.

Materials. At or before the orientation session, the following documents will be made available to new members:

- A listing of names, addresses and contact information for the board members.
- A listing of names, addresses and contact information for executive management.
- The board member handbook, which contains policies and committee charters.
- The strategic plan.
- A sample board packet.
- A copy of the Open Meeting Act.
- Copies of board and committee meeting minutes for the last six months.
- A list of upcoming recommended educational conferences.
- Any other relevant information or documents deemed appropriate by the CEO.

Mentoring

Any new board member may request a mentor to assist him or her in becoming familiar with his or her responsibilities on the board. If a request is made, the board chair will designate one experienced board member to be a mentor to the new board member for a period of one year. The mentor will contact the new board member at least once each calendar quarter, outside of regularly scheduled board meetings, for consultation or discussion related to new board member orientation.

Ongoing Board Member Education

Educational Conferences. The CEO will maintain a list of educational conferences appropriate for board members and board members may attend any of these conferences subject to the board's travel expense policy. The CEO will scrutinize conference agendas and materials to ensure they are geared appropriately toward education as opposed to marketing and consider whether associated recreational/entertainment activities present potential appearance concerns for board members. The CEO will update this list regularly when new educational opportunities arise. The list also will be modified to reflect the evaluations from board members who have attended specific conferences to ensure the conferences remain worthy of the board's time and the system's expense. In considering out-of-state educational opportunities, board members should weigh the costs and benefits of travel vs. locally based education.

In-House Education Sessions. Based on the personal education needs of the board members, the CEO will arrange for staff or outside service providers to conduct educational sessions throughout the year at regularly scheduled board meetings, or off-site.

First Year. In the board members' first year of service, in addition to attending the orientation session, the board members are encouraged to attend one educational session or conference designed to give them a general understanding of the responsibilities of a public retirement system fiduciary.

Second Year. During the board members' second year of service, board members are encouraged to attend one educational session or conference designed to help them become proficient in performing their duties on board committees.

Ongoing. Board members are responsible for self-evaluating their additional educational needs and obtaining knowledge in specific needs areas in a controlled manner. Board members shall complete annually a Board Member Knowledge Self-Assessment (Attachment I) and then discuss their results and training needs with the CEO.

Evaluation Form. Board members must complete an education evaluation form upon completion of any educational conference, and such form must be turned in with any request for reimbursement of expenses associated with the conference. A reimbursement will not be made without a completed evaluation form.

Fiduciary Education Session

Each year the general counsel will arrange for a fiduciary education session that will update the board members on issues affecting their service on the board. Board members and their designated representatives are expected to attend.

Ethics Training

Board members and their designated representatives shall complete any ethics training courses required by state or local law.

Retirement Industry Periodicals

Board members are encouraged to subscribe to periodicals selected from a list of pension and investment-related periodicals maintained by the CEO. The expense for the periodicals will be paid by the system. The CEO will annually review and update this list with input from the board members.

Compliance

The willful failure of a board member to comply substantially with this education policy will be reviewed by the board.

3. ETHICAL AND FIDUCIARY CONDUCT

A. Fiduciary Duties

Duty of Loyalty

Board members and staff of the system shall discharge their duties with respect to the system and the plan solely in the interest of the members, retirees and beneficiaries for the exclusive purpose of:

- Providing benefits to members and beneficiaries.
- Defraying reasonable expenses of administering the plan.

Duty to Act Prudently

Board members and staff must discharge their duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of a like character and with like aims. This requires:

- Diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it clearly is prudent not to do so.
- Undertaking an appropriate analysis of a proposed course of action, including determination of the relevant facts, considering alternative courses of action and obtaining expert advice as needed.
- Acting in accordance with the documents and instruments governing the system.

Exclusive Purpose of Systems Assets

The assets of the plan shall never inure to the benefit of an employer and shall be held for the exclusive purposes of providing benefits to members and beneficiaries and defraying reasonable expenses of administering the system.

Prohibited Transactions

Except as otherwise provided by law, the board and the officers and employees of the system shall not cause the system to engage in a transaction if they know or should know the transaction constitutes a direct or indirect:

- Sale or exchange, or leasing, of any property from the system to a member or beneficiary for less than adequate consideration, or from a member or beneficiary to the system for more than adequate consideration.
- Lending of money or other extension of credit from the system to a member or beneficiary without the receipt of adequate security and a reasonable rate of interest, or from a member or beneficiary with the provision of excessive security or an unreasonably high rate of interest.
- Furnishing of goods, services or facilities from the system to a member or beneficiary for less than adequate consideration, or from a member, retiree or beneficiary to the system for more than adequate consideration.
- Transfer to, or use by or for the benefit of, a member or beneficiary of any assets of the plan for less than adequate consideration.

- Acquisition, on behalf of the system, of any employer security, real property or loan.

Prohibitions Against Self-Dealing

Board members and officers and employees of the system shall not do any of the following:

- Deal with the assets of the system in their own interest or for their own account.
- In their individual, or any other capacity, act in any transaction involving the system on behalf of a party, or represent a party, whose interests are adverse to the interests of the plan or the interests of the members and beneficiaries.
- Receive any consideration for their personal account from any party conducting business with the system in connection with a transaction involving the assets of the plan.

B. Statement of Ethical Conduct

The board has established the following Statement of Ethical Conduct and has determined that engaging in any of the following activities or conduct is inconsistent, incompatible, in conflict with or inimical to the duties of a board member and/or staff.

No employment, activity or enterprise shall be engaged in by any board member or staff which might result in, or create the appearance of resulting in, any of the following:

1. Using the prestige or influence of the board or staff position for private gain or the advantage of another.
2. Using system time, facilities, employees, equipment or supplies for private gain or advantage, or the private gain or advantage of another.
3. Using confidential information acquired by virtue of system activities for private gain or the advantage of another, including, but not limited to, so called "insider trading" as described in Subsection C, *infra*.
4. Providing confidential information to persons to whom issuance of this information has not been authorized.
5. Receiving or accepting money or any other consideration from anyone other than the system for the performance of an act which the board member or staff would be required or expected to render in the regular course or hours of his/her duties.
6. Performance of an act in other than his/her capacity as a board member or because of the public office that gives rise to the member's *ex officio* status, knowing that such act later may be subject, directly or indirectly, to the control, inspection, review, audit or enforcement by such person or by the system.[14]
7. Receiving or accepting, directly or indirectly, any gift (including money), any service, gratuity, favor, entertainment, hospitality, loan or any other thing of value, from anyone who is doing or is seeking to do business of any kind with the system or whose activities are regulated or controlled in any way by the system, under circumstances from which it reasonably could be inferred that the gift was intended to influence him/her in his/her official duties or was intended as a reward for any official action on his/her part.

14. For example, if the state controller sits on a pension board, the retirement system still can contract with the Controller's Office to issue retirement checks, even if those payments are subject to audit by the retirement system. Conversely, a board member who operates a private payroll service could not contract with the retirement system to issue checks, because those checks would be subject to audit and he or she is not issuing them as a public officer.

8. As a board member, having an *ex parte* communication on the merits of an administrative appeal with any party or their attorney until after the board's decision is final.

9. Publishing any writing or making any statement to the media, to state administrators, legislative personnel or members of the public that purports to represent the system's position or policy on any matter or subject, before the board has formally adopted a policy or position on the matter or subject. This section shall not be interpreted to preclude board members or staff, as private citizens, from expressing their personal views.

Nothing in this statement shall exempt any board member or staff from applicable provisions of any other laws. The standards of conduct set forth in this statement are in addition to those prescribed elsewhere in this policy and in applicable laws and rules.

C. Policy Prohibiting Insider Trading

Background

The board is committed to the highest ethical standards and strictest adherence to federal, state and foreign securities laws and regulations regarding "insider trading." To ensure the system operates in a manner commensurate with its goal of promoting integrity in the investment, administration and management of securities, the board has adopted this policy prohibiting insider trading. The policy applies to board members and staff, which includes investment consultants and contractors affiliated with the system. The prohibition on insider trading continues to apply even after resignation from the board or termination of employment until such time, if ever, the information becomes generally available to the public other than through disclosure by or through the board member or staff.

"Insider trading" has been defined as buying or selling securities on the basis of material, nonpublic information relating to those securities. Any person who possesses material, nonpublic information is considered an "insider" as to that information. The prohibition against insider trading may reach anyone, not just a corporate insider, who has access to the material, nonpublic information. The scope of insider trading liability has been extended to "controlling persons," which includes any entity or person with power of influence or control over the management, policies or activities of another person. It also has been extended to "tippees" who receive material, nonpublic information from an insider when the "tipper" (the "insider") breaches a fiduciary duty for his or her personal benefit and the "tippee" knows or has reason to know of the breach. The law provides civil and criminal penalties for insider trading violations.

Information is deemed material if it would be considered important by a reasonable investor in deciding whether to buy, sell or refrain from any activity regarding that company's securities. Material information may be either positive or negative and can relate to any aspect of a company's business. Common examples of material information include, but are not limited to: unpublished financial results and projections, news of a merger or acquisition, stock splits, public or private securities/debt offerings, changes in dividend policies or amounts, gain or loss of a major customer or supplier, major product announcements, significant changes in senior management, a change in accounting policies, major problems or successes of the business and information relating to a company against whom the system is considering securities litigation. Material nonpublic information may not be used by board members or staff for personal gain or to benefit third parties.

Information is considered "nonpublic" if it is not available to the general public. Once it is released to the general public, it loses its status as "inside" information. However, for nonpublic information to become public, it must have been made generally available to the securities marketplace, and sufficient time must pass for the information to become available in the market. To show that material information is public, it generally is necessary to show some fact verifying the information has become generally available, such as disclosure in company filings with the SEC or company press releases to a national business and financial wire service, a national news service or a national newspaper.

Policy on Insider Trading

Board members and staff may be provided or have access to confidential information, including material, nonpublic information. Any information not publicly available must be treated as confidential even if it is not designated as confidential. It is the duty of board members and staff to maintain the confidentiality of information and to not misuse confidential information, including material, nonpublic information, belonging to or relating to the system. Board members and staff who come into possession of material, nonpublic information must not communicate it intentionally or inadvertently to any third party, including but not limited to relatives and friends, unless the person has a need to know for legitimate reasons in keeping with their responsibilities to the system. Special care should be taken so that confidential information is not disclosed inadvertently.

Board members and staff in possession of material, nonpublic information may not purchase or sell securities of the concerned company or other publicly traded securities to which the information pertains. Recommending purchases or sales of securities to which the material nonpublic information relates, even without disclosing the basis for the recommendation, is prohibited.

Board members and staff in possession of material, nonpublic information relating to a tender offer, acquired directly or indirectly from the bidder or target company, may not trade in target company securities. Board members and staff also may not disclose such material, nonpublic information to another person.

Board members and staff in possession of material, nonpublic information may not purchase, directly or indirectly, any security in the initial public offering of such security. Board members and staff also may not encourage, facilitate or arrange such a purchase by or on behalf of any other person.

This policy is to be delivered to all new board members and staff, including consultants, upon commencement of a relationship or employment with the system. Each board member and all staff must read and complete the certification in Attachment II within 30 days of receipt of the policy and annually by April 1 of each year thereafter. The certifications shall be delivered to the general counsel.

The chief investment officer shall obtain written confirmation from each external manager that handles securities for the system that there is a policy against insider trading and that the policy is enforced. The written confirmation must be received by the system within 30 days of commencement of the manager's relationship with the system.

Disclosures of personal financial interests filed by board members or staff pursuant to state or local law may be reviewed by the system to ensure compliance with this policy. Board members and staff should report any suspected violation of this policy

to the general counsel. The general counsel is responsible for causing an investigation of any reported violation. After such investigation, if the general counsel concludes the policy may have been violated, he or she shall take appropriate action.

Violation of this policy may result in disciplinary action, including dismissal or other sanction. Any disciplinary action for violation of the policy may be in addition to any civil or criminal liability under federal and state securities laws and regulations and is not subject to appeal on the grounds that the violation did not ultimately result in any actual civil or criminal investigation or other legal proceeding.

D. State and/or Local Conflict of Interest Laws

1. All board members and staff are subject to the disclosure and reporting requirements of the system's Conflict of Interest Code (COI) as well as applicable laws and regulations in this area. Absent full compliance with these rules, receipt by a board member or staff from a third party of any gift, honoraria or payment of actual transportation and related lodging and subsistence or any payment or reimbursement of the same may subject them to disqualification from participation in making decisions related to the third party. It is the recipient's responsibility to ensure he or she does not engage in any action that places him or her in a conflict of interest and to properly disclose and report the receipt of any gift, honoraria or travel expenses under the system's COI and applicable political reform laws and regulations. Board members and staff are encouraged to confer with the general counsel if they have questions concerning possible conflicts of interest.
2. Any board member or staff who receives an offer from any third party, other than the system, of travel expenses (paid or reimbursed) or actual transportation and related lodging and subsistence from any third party other than the system, has the responsibility to obtain prior approval to ensure compliance with applicable laws and rules. For board members, prior approval must be given by the full board. For the CEO, prior approval must be given by the board chairman or designee. For other staff, approval must be given by the CEO. If board members and staff accept meals provided by third parties, subject to the obligations noted above, per diem reimbursement for such meals cannot be claimed from the system.

E. Avoidance of Appearance of Nepotism

Even if otherwise permissible under applicable conflict of interest laws and/or board policy, board members should avoid participating in system matters in which a close relation of the board member has a personal, managerial or substantial financial interest. A "close relation" is defined as a spouse, mutual financial dependent, significant other or person in an intimate relationship; a child, parent, sibling (including in-laws and step-relations), grandparent or grandchild, niece or nephew, aunt, uncle or cousin. A "substantial financial interest" exists if the personal financial effect of the system matter on the close relation would be $250 or more in a 12-month period and that effect is particular to the close relation, as opposed to affecting a much larger group. For example, under this policy, a board member would not be precluded from participating in a decision to recommend legislation that would increase the percentage amount of a cost-of-living adjustment paid to all retirees even if the board member's mother would receive this increase along with all other retirees. However, if the board member's mother files an appeal that contends her specific cost-of-living

adjustment had been calculated incorrectly by the system, under this policy the board member would be precluded from participating in the decision regarding this appeal.

F. Limitation on Receipt of Gifts

Public pension plan governance is characterized by a host of competing interests, both public and private, that may challenge board members and staff in the exercise of their fiduciary roles with respect to the exclusive interest of system members. Board members and staff require independence and objectivity when interacting with existing or potential service providers to the system. The receipt of gifts and/or the solicitation of charitable contributions can create at a minimum the appearance of a conflict of interest and may violate state or local law.

1. Applicable State/Local Law

Each board member and designated staff shall comply with the gift limitation provisions and the prohibition on the acceptance of honoraria as set forth in (insert applicable statutory authority).

2. Additional Limitations

a. No board member or staff member may receive, accept, seek or solicit, directly or indirectly, anything of economic value as a gift, gratuity or favor from a person if it reasonably could be expected that the gift, gratuity or favor would:

   i. Influence the vote, action or judgment of the board or staff member; or

   ii. Be considered as part of a reward for action or inaction.

b. No board or staff member may accept gifts with an aggregate value of $150 in a calendar year from a single source that does business or seeks to do business with the retirement system.

c. If the board or staff member is allowed to accept a gift under applicable law and this policy, he or she still is obligated to evaluate the propriety of accepting the gift. Board members and staff should be sensitive to the source and value of the gift, the frequency of gifts from one source, the possible motives of the giver and the perception of others regarding the gift. Close cases always should be decided by rejecting gifts, gratuities or favors that may raise questions regarding the board or staff member's integrity, independence and impartiality. If a board or staff member is uncertain as to whether to accept the gift, he or she should consult the system's general counsel.

3. Application of Policy

Nothing in this policy supersedes any applicable provision of state or local law. Those entities engaged in business with the system also may have reporting requirements under state or local law.

G. No-Contact Policy

Upon the release of any Request for Proposal (RFP), Invitation for Bid (IFB) or comparable procurement vehicle for any system service or product, there may be no communication or contact between the applicant or bidder and board members or staff concerning the subject of the procurement process until the process is completed. Requests for technical clarification regarding the procurement process itself are permissible and must be directed to the person in charge of administering the contract process.

Incidental contact between a prospective bidder or its representative and board members and staff that is exclusively social, or that clearly pertains to a matter not related to the subject procurement process, is permissible.

Any applicant or bidder who willfully violates this policy will be disqualified from any further consideration to provide the applicable service or product.

Board members and staff should report any suspected violation of this policy to the chief executive officer, who will determine the appropriate course of action.

H. Disclosure of Communications

1. Disclosure of Communications Regarding Investment Transactions that Require Investment Committee or Board Approval

a. During the evaluation of any prospective investment transaction, no party who is financially interested in the transaction, nor any officer or employee of that party, may knowingly communicate with any board member concerning any matter relating to the transaction or its evaluation, unless the financially interested party discloses the content of the communication in writing to the general counsel and the board prior to the board's action on the prospective transaction. This does not apply to communications that: (1) are part of a noticed board meeting; (2) are incidental, exclusively social, and do not involve the system or its business, or the board or staff member's role as a system official; or (3) do not involve the system or its business and that are within the scope of the board or staff member's private business or public office wholly unrelated to the system.

   i. The written disclosure must include the date and location of the communication and the substance of the matters discussed. It shall be submitted no later than five working days prior to the noticed board meeting at which the investment transaction is being considered, unless the communication occurs less than five working days before the noticed board meeting, in which case the disclosure must be submitted immediately after the communication occurs.

   ii. Consistent with its fiduciary duties, the board will determine the appropriate remedy for any knowing failure of a financially interested party to comply with this policy, including, but not limited to, outright rejection of the prospective investment transaction, reduction in fee income or any other sanction.

b. Any board member who participates in a communication subject to this policy also has the obligation to disclose the communication to the general counsel and the board, prior to the board's action on the prospective transaction. The disclosure must be in writing and disclose the date and location of the communication and the substance of the matters discussed. It must be submitted no later than five working days prior to the noticed board meeting at which the investment transaction is being considered, unless the communication occurs less than five working days before the noticed board meeting, in which case the writing must be submitted immediately after the communication occurs. The communications disclosed under this section will be made public, either at the open meeting of the board in which the transaction is considered, or if in closed session, upon public disclosure of any closed session votes concerning the investment transaction.

   i. This disclosure obligation does not apply to communications that are general in nature and content, such as: (1) those with regard either to the nature of the party's business or interests or with regard to public information regarding the system; (2) a simple expression of the party's interest

generally in doing business with the system or having the system invest in or with the party communicating with the board member; or (3) a simple expression by the board member in relation to the performance of an investment or service provided to the system.

ii. An alleged failure of a board member to disclose communications as required herein will be referred to the chairperson for appropriate action unless the chairperson is a party to the communication in question, in which case the matter will be referred to the vice chair.

iii. The general counsel will provide the board with an annual summary of the communications disclosed pursuant to this section.

2. Disclosure of Communications Regarding Investment Transactions that Do Not Require Investment Committee Approval

The disclosure obligation regarding communications covered by Subsection H 1 for a party or its officer or employee who is financially interested in an investment transaction also applies to communications involving transactions the chief investment officer has been delegated the authority to approve without the need for investment committee action. Upon the initiation of any consideration by the investment office or one of its consultants or advisors of the review of a proposed investment transaction, the firm seeking a system investment will be given a copy of this policy together with a form to use to report any communications with board members for which disclosure is required. There is no parallel obligation on the part of the board member to disclose a communication involving a transaction that has been delegated to the chief investment officer, although board members are urged to keep an informal record of communications that would be subject to disclosure if the transaction ultimately comes before the Investment Committee and must be reported under Subsection H 1.[15]

The general counsel will provide the board with an annual summary of the communications disclosed pursuant to this paragraph.

3. Disclosure of Communications Between Board Members and Staff Regarding Investment Transactions

As a general matter, the board recognizes that the free flow of communication between individual board members and staff or consultants is beneficial to the conduct of system business, and that requiring disclosure of all or a large part of such regular communication would create a burdensome reporting requirement that likely would serve no useful purpose. However, in those instances where conduct by an individual board member reasonably can be interpreted as an attempt to influence the outcome of a board or staff decision or consultant recommendation in an investment transaction, the board recognizes that such communications could create the potential for misunderstanding, misinformation or conflicting instructions and reasonably could be interpreted as inappropriately affecting the board, staff or consultant. Such communications do not always rise to the level of "undue influence," as defined and discussed in Section H, Subsection 4, but nevertheless should be subject to disclosure.

Any communication regarding a potential investment transaction initiated by a board

15. Under these provisions, disclosure by both the board member and the investment manager must be made for transactions requiring board approval. For transactions delegated to the CIO, only the investment manager has to provide disclosure. If a transaction is originally slotted for CIO approval but then is elevated to the board for decision, the board member must then disclose the communication; hence, the recordkeeping suggestion.

member with either a system employee or consultant in which the board member is advocating for a specified outcome must be documented by the employee or consultant and reported to the general counsel. Such communications will be disclosed to the board if and when, in the judgment of the general counsel, they may be material to the board's deliberation with respect to any system matter.

4. Avoidance of Undue Influence

The board recognizes that if a board member or a third party attempts to direct staff or a board member to a specified action, decision or course of conduct through the use of undue influence, sound decision-making could be compromised to the ultimate detriment of the board as a whole and/or system members, retirees and beneficiaries.

Any staff member or board member who thinks he or she has been subject to the attempted exercise of undue influence, as described above, should report the occurrence immediately and simultaneously to the chief executive officer and to the general counsel. The general counsel will investigate the situation immediately and is authorized to use the services of an outside law firm to conduct the investigation if he or she deems it appropriate. After such investigation, if the general counsel concludes that an exercise of undue influence was attempted, he or she will take whatever action deemed to be appropriate, which will include notification to the board and thereafter a public disclosure during an open session meeting of the board. If the chief executive officer or general counsel thinks he or she personally has been subjected to an attempted exercise of undue influence, he or she must immediately advise the board chairperson, unless the circumstances dictate that another board member should instead be notified. The board chairperson or other board member will investigate the situation with the assistance of the fiduciary counsel and take whatever action he or she deems to be appropriate.

Definitions

Undue Influence is defined as the employment of any improper or wrongful pressure, scheme or threat by which one's will is overcome and he or she is induced to do or not to do an act which he or she would not do, or would do, if left to act freely.

Third Party means and includes a person or entity that is seeking action, opportunity or a specific outcome from the system regarding a system matter. The third party may be seeking the action, opportunity or outcome for his or her or its own behalf or the third party may be seeking it on behalf of another person or entity in the capacity of a representative, agent or intermediary, or as an advocate for a cause or group of individuals or entities. This definition includes public officials.

I. Prohibition on Campaign Contributions

1. Prohibitions

a. No party engaging or seeking to engage in an investment relationship with the system may make any campaign contributions valued in excess of $1,000 individually, or $5000 in the aggregate, from the party engaged in the investment relationship and the individuals identified in Subsection D collectively, in any 12-month period beginning on the dates identified in Subsection E, to any person designated in Subsection C below.

b. For purposes of this policy, "investment relationship" means a relationship between a non-governmental party and the system for the purpose of providing investment services such as money management or fund management services, investment advice or consulting (including making

recommendations for the placement or allocation of investment funds) and investment support services (including market research, fund accounting, custodial services and fiduciary advice) for investments placed in the retirement fund.

c. This prohibition applies to campaign contributions made to, on behalf of or at the request of, the system's officers and employees, any existing board member, the appointing authority of any board member and those public officers who by virtue of statutory designation sit *ex officio* on the board, and candidates for the appointing authority of any board member and those public officers who by virtue of statutory designation sit *ex officio* on the board.

d. This prohibition applies to those parties currently engaging in or seeking to engage in an investment relationship with the system that is expected to generate at least $100,000 annually in income, fees or other revenue to the party, and specifically includes:

i. Those individuals employed by or associated with the parties described in this Section 1 b. above, who are required to file a disclosure of financial interest pursuant to state or local law; or

ii. "Authorized Personnel/Key Personnel" as defined and identified by the contracting party in the "Authorized Personnel/Key Personnel" exhibit incorporated in or attached to the contract between the contracting party entering into the investment relationship and the system; or

iii. Those individuals who expect to and/or do experience a material financial effect on their economic interests, including salary, bonuses, options or other financial incentives directly deriving from an investment relationship with the system.

This prohibition also applies to contributions from any other entities or individuals made at the direction of such parties identified above in this Subsection D.

e. For parties defined in Subsection D above, the prohibition set forth in this section shall apply to the time period which begins:

i. On the date the system first announces a procurement or search process that could lead to an investment relationship that is likely to generate at least $100,000 annually in income, fees or other revenue to the party; or

ii. On the date a party identified in Subsection D above approaches the system with a proposal to enter into an investment relationship by discussing the specific facts and financial terms of a particular investment transaction or strategy, whichever is earlier, and ends when the investment relationship is terminated by any party for any reason, or when the system communicates its decision not to pursue the investment relationship.

2. Disclosure and Recusal Requirement for Campaign Contributions

a. No officer, employee or current board member, including any *ex officio* board members, may make, participate in making or in any way attempt to use his or her official position to influence a decision involving an investment relationship with the system if the officer, employee or member has received, solicited or directed a campaign contribution valued in excess of $1,000 individually or $5,000 in the aggregate, in any 12-month period prior to the dates identified in Section 1 from any person designated in Section 1, Subsection D. For purposes of this section, a member appointed by an appointing power also will be deemed to have received a

contribution if the appointing power has received a contribution within the 12-month period prior to the dates identified in Section 1, Subsection E from any person designated in Section 1, Subsection D.

b. If the disqualification provision of Subsection A results in the lack of a quorum for the purposes of taking action on any item before the board or any of its committees, a sufficient number of board members to constitute a quorum will be drawn by lot from the otherwise disqualified board members for the purpose of establishing a quorum and taking action on items before the board or any of its committees. Board members who have been drawn by lot to constitute a quorum will have their participation deemed as necessary and shall be exempt from the restrictions of Subsection A for the purpose of establishing a quorum and participating in the deliberations and voting on an item for which a quorum could not be established absent this waiver of the restrictions of Subsection A.

3. Remedies, Enforcement and Safe Harbors

a. The general counsel will cause an independent investigation to be performed for any reported violation of Sections 1 and 2, and report any documented violation to the board for action.

b. If any party seeking an investment relationship with the system is found to be in violation of Section 1, that party will be disqualified from engaging in an investment relationship with the system for a period of two years.

c. Any party who has an existing investment relationship with the system and who is found to be in violation of the provisions of Section 1 will be subject to disqualification from doing future or additional business with the system for a period of two years.

d. If a party voluntarily reports a violation of Section 1 to the general counsel within 90 days of the contribution being made and it is established pursuant to an independent investigation that the violation was inadvertent, the disqualification provision of Subsection C will not be applied. This safe harbor provision does not apply to a knowing or intentional violation of Section 1 of the restrictions of Subsection A.

e. System staff will maintain a current list of parties engaged in an investment relationship subject to Section 1, Subsection D. The disclosure and recusal requirements of Section 2, Subsection A do not apply to any officer, employee or board member, including *ex officio* board members, if the investment relationship has not been published on the list maintained by system staff.

J. Disclosure of Third-Party Relationships and Payments; Permanent Ban on Current or Former Board Members or Employees from Providing Placement Agent Services in Connection with the System

1. Purpose

This policy sets forth the circumstances under which the system will require the disclosure of payments to placement agents in connection with systems' investments in or through external investment managers. This policy additionally prohibits permanently current or former board members or employees of the system from providing placement agent services in connection with system investments. This policy is intended to apply broadly to all of the types of investment partners with whom the system does business, including the general partners, managers, investment managers and sponsors of hedge funds, private equity funds, real estate funds and infrastructure funds, as well as

investment managers retained pursuant to a contract. The system adopts this policy to require broad, timely and updated disclosure of all placement agent relationships, compensation and fees. The goals of this policy are to help ensure system investment decisions are made solely on the merits of the investment opportunity by individuals who owe a fiduciary duty to the system; to prevent impropriety and the appearance of impropriety; and to provide transparency and confidence in system investment decision-making.

2. Application

This policy applies to all agreements with external investment managers and those entered into after the date this policy is adopted. This policy also applies to existing agreements with external investment managers if, after the date this policy is adopted, the agreement is amended to extend the term of the agreement, increase the commitment of funds by the system or change the substantive terms of the agreement (including the fees or compensation payable to the investment manager). In the case of such an amendment, the disclosure provisions of Section 4, Subsection A of this policy shall apply to the amendment and not to the original agreement.

3. Disclosure Policy — Responsibilities of External Investment Managers

Each external investment manager is responsible for:

a. Providing the following information (collectively, the "Placement Agent Information Disclosure") to staff and, if applicable, to the general partner, managing member or investment manager at the time investment discussions are initiated by the external manager or the system.

b. A statement whether the external investment manager or any of its principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any person (whether or not employed by the external investment manager) or entity to act as a placement agent in connection with the investment by the system.

c. A résumé for each officer, partner or principal of the placement agent (and any employee providing similar services) detailing the person's education, professional designations, regulatory licenses and investment and work experience. If any such person is a current or former system board member, employee or consultant or a member of the immediate family of any such person, this fact shall be specifically noted.

d. A description of any and all compensation of any kind provided or agreed to be provided to a placement agent, including the nature, timing and value thereof. Compensation to placement agents shall include compensation to third parties as well as employees of the external investment manager who are retained in order to solicit, or who are paid based in whole or in part upon, an investment from the system.

e. A description of the services to be performed by the placement agent and a statement as to whether the placement agent is utilized by the external investment manager with all prospective clients or only with a subset of the external investment manager's prospective clients.

f. A copy of any and all agreements between the external investment manager and the placement agent.

g. The names of any current or former system board members, employees or consultants who suggested the retention of the placement agent.

h. A statement that the placement agent (or any of its affiliates, as applicable)

is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Authority and the details of such registration.

i. A statement whether the placement agent, or any of its affiliates, is registered as a lobbyist with any state or national government.

j. Providing an update of any changes to any of the information included in the Placement Agent Information Disclosure within 14 calendar days of the date that the external investment manager knew or should have known of the change in information.

k. Representing and warranting the accuracy of the information included in the Placement Agent Information Disclosure in any final written agreement with a continuing obligation to update any such information within 14 calendar days of the date that the external investment manager knew or should have known of any change in the information.

4. Disclosure Policy — Responsibilities of System Investment Staff

System investment staff are responsible for all of the following:

a. Providing external investment managers with a copy of this policy at the time that discussions are initiated with respect to a prospective investment or engagement.

b. Confirming that the Placement Agent Information Disclosure has been received prior to the completion of due diligence and any recommendation to proceed with the engagement of the external investment manager or the decision to make any investment.

c. For new contracts and amendments to contracts existing as of the date of this policy, declining the opportunity to retain or invest with the external investment manager if the Placement Agent Information Disclosure reveals that the external investment manager has used a placement agent that is not registered with the Securities and Exchange Commission or the Financial Industry Regulatory Authority.

d. For new contracts and amendments to contracts existing as of the date of this policy, securing the agreement of the external investment manager in the final written agreement between the system and the external investment manager to provide the system the following remedies in the event the external investment manager knew or should have known of any material omission or inaccuracy in the Placement Agent Information Disclosure or any other violation of this policy:

i. Whichever is greater, the reimbursement of any management or advisory fees for two years or an amount equal to the amounts paid or promised to be paid to the placement agent; and

ii. The authority to terminate immediately the investment management contract or other agreement with the external investment manager without penalty, to withdraw without penalty from the limited partnership, limited liability company or other investment vehicle, or to cease making further capital contributions (and paying any fees on these recalled commitments) to the limited partnership, limited liability company or other investment vehicle.

e. For new contracts and amendments to contracts existing as of the date of this policy, confirming that the final written agreement between the system and the external investment manager provides that the external investment manager shall be solely responsible for, and the system shall not pay (directly or indirectly), any fees, compensation or expenses for any

placement agent used by the external investment manager. A provision that allows the external investment manager to pay placement agent fees or compensation from capital contributed by the system with a corresponding reduction in the management fee payable with respect to the system's investment shall not be regarded as a payment of the placement agent fee or compensation by the system for purposes of this policy.

f. Prohibiting any external investment manager or placement agent from soliciting new investments from the system for 24 months after they have committed a material violation of this policy.

g. Providing copies of the Placement Agent Information Disclosure to the chief investment officer, the chief executive officer and the general counsel.

h. Providing the Investment Committee with a copy of the Placement Agent Information Disclosure whenever the committee considers the decision to invest with the external manager.

i. Compiling a monthly report containing the names and amount of compensation agreed to be provided to each placement agent by each external manager as reported in the Placement Agent Information Disclosures, providing the report to the board and disclosing the report to the public by posting to the system's website.

j. Reporting to the board at least quarterly any material violations of this policy.

5. Permanent Ban

No current of former board member or employee may serve as a placement agent in connection with any system investment.

6. External Managers

External managers shall comply with this policy and cooperate with staff in meeting staff's obligations under this policy.

7. Literal Expression of the Policy

All parties responsible for implementing, monitoring and complying with this policy should consider the spirit as well as the literal expression of this policy. In cases in which there is uncertainty whether a disclosure should be made pursuant to this policy, this policy shall be interpreted to require disclosure.

Definitions:

Consultant refers to individuals or firms, and includes key personnel of consultant firms who are contractually retained or have been appointed to a pool by the system to provide investment advice to the system but who do not exercise investment discretion.

External Investment Manager is an asset management firm that is seeking to be, or has been, retained by the system to manage a portfolio of assets (including securities) for a fee. The external manager usually has full discretion to manage system assets, consistent with investment management guidelines provided by the system and fiduciary responsibility.

Placement Agent is any person or entity hired, engaged or retained by or acting on behalf of an external investment manager or on behalf of another placement agent as a finder, solicitor, marketer, consultant, broker or other intermediary to raise money or investments from or to obtain access to the system, directly or indirectly.

ATTACHMENT I

BOARD MEMBER KNOWLEDGE SELF-ASSESSMENT

Introduction

Board policy provides that board members should develop and maintain their knowledge and understanding of the issues involved in the management of the system across the broad spectrum of pension-related areas. The specific areas in which board members should develop and maintain useful levels of knowledge shall include:

- ***Governance***
- ***Asset allocation and investments***
- ***Actuarial process***
- ***Benefits administration***
- ***Disability***
- ***Fiduciary responsibility***
- ***Ethics, conflicts and disclosures***
- ***Open meeting and public records***
- ***Financial controls and audits***
- ***Vendor selection process***

The policy states that board members should identify areas where they might benefit from additional education and work with staff to find educational opportunities. The purpose of this self-assessment is to help board members fulfill their responsibility to identify such areas so they can engage in meaningful discussion with the general counsel regarding educational needs and opportunities and make informed choices about the educational opportunities that they pursue.

Instructions

Keeping in mind that this is not a "test," and that no one besides you will see the specific results, you should answer the questions using your best judgment as to your knowledge level in the given area. As indicated, use a simple numeric scale to identify your knowledge and understanding of the subject matters, with a "1" indicating no knowledge or understanding and a "5" indicating comprehensive and detailed knowledge and understanding. When you complete the self-assessment, identify those subject areas, by either general category or specific question as applicable, where you scored the lowest. Make a note of these areas for future discussion with the general counsel about your educational needs and upcoming educational opportunities to address those needs.

Governance

I am confident I understand the governance of the system. This includes:

	1	2	3	4	5
Understanding board function, processes, committee structure, exercise of discretion, delegation of responsibilities and oversight role.					
Understanding the organizational structure and roles of staff and key service providers, including the actuary, investment consultant, attorneys and auditors.					
Understanding the laws and rules governing the system.					
Understanding the system's independence under applicable laws.					
Understanding best practices for public pension board governance.					

Asset Allocation and Investments

I am confident I understand the asset allocation and investment and funding policies of the system. This includes:

	1	2	3	4	5
Understanding the major asset classes and their characteristics.					
Understanding specialized asset classes and techniques, such as private equity, market neutral and securities lending.					
Understanding the concept of risk versus reward and the "efficient frontier" principle of asset allocation.					
Understanding the reports provided by staff and the investment consultant on the performance of the investment portfolio.					
Understanding the role of active management in the investment portfolio.					

Actuarial Process

I am confident I understand the information provided to me by our outside actuary concerning the actuarial soundness of the system. This includes:

	1	2	3	4	5
Understanding how assets and liabilities of the system are calculated on an actuarial basis.					
Understanding the difference and relationship between the actuarial value of assets and the market value of assets and the asset smoothing process.					
Understanding how changes in actuarial assumptions have an impact on system assets and liabilities.					
Understanding the nature of the plan sponsors' funding obligations and the responsibility of the board to determine the annual required contribution.					
Feeling comfortable with asking our actuary questions when I need further information, explanation or clarification on a subject.					

Benefits Administration

I am confident I understand the benefit structure and benefits administration process at the system. This includes:

	1	2	3	4	5
Understanding the different plans available to employees of all plan sponsors.					
Understanding how the system communicates with its members.					
Understanding the difference between the responsibility for plan design (plan sponsor) and the responsibility for plan administration (the system).					
Understanding how so-called "contingent" benefits are calculated and administered.					
Understanding how the DROP is administered.					

Disability

I am confident I understand the disability benefit structure, program administration and hearing/appeals process at the system. This includes:

	1	2	3	4	5
Understanding the qualifications for a disability retirement and the benefits that are provided.					
Understanding the process that is followed in disability applications, from intake through determination of eligibility.					
Understanding the medical and legal issues that are discussed during consideration of disability matters.					
Understanding the re-examination process.					
Understanding the hearing and appeal process that is followed when a member is dissatisfied.					

Fiduciary Responsibility

I am confident I understand the responsibilities I have as a system fiduciary. This includes:

	1	2	3	4	5
Understanding the duty to be prudent.					
Understanding the duty of loyalty and to whom that duty is owed.					
Understanding what constitutes a prohibited transaction.					
Understanding the duty to administer the plan in accordance with governing plan documents.					
Understanding how to delegate authority while retaining appropriate oversight.					

Ethics, Conflicts and Disclosure

I am confident I understand the laws, rules and policies that address ethics, conflicts and disclosure at the system. This includes:

	1	2	3	4	5
Understanding applicable state and/or local conflict of interest laws and the duty to avoid participating in a decision that affects my economic interests.					
Understanding system policies concerning conflicts of interest.					
Understanding system policies regarding disclosure by board members and/or investment managers of third-party communications.					

Open Meeting and Public Records

I am confident I understand the applicable laws and procedures concerning open meetings and public records. This includes:

	1	2	3	4	5
Understanding the notice requirements for meetings, including teleconference meetings.					
Understanding the limitations on discussing matters that have not been noticed on the agenda.					
Understanding the circumstances under which communications outside of noticed meetings can be deemed under the law to be a "meeting."					
Understanding what may and may not be discussed during a closed session.					
Understanding what constitutes a "public record" under the law and the circumstances under which system records must either be disclosed or withheld.					

Financial Controls and Audits

I am confident I understand the system of financial reporting, controls and audits. This includes:

	1	2	3	4	5
Understanding the respective roles of the chief financial officer, chief compliance officer, the internal auditor and the outside auditor.					
Understanding the Comprehensive Annual Financial Report (CAFR).					
Understanding the concepts of "risk assessment" and developing internal controls to address those risks.					
Understanding the responsibility for maintaining the security of confidential information kept by the system.					
Understanding the present relationship between the system and the plan sponsor(s) with respect to the system's financial controls and reporting.					

Vendor Selection Process

I am confident I understand the vendor selection process. This includes:

	1	2	3	4	5
Understanding when a Request for Proposals (RFP) must be conducted and whether the board must first approve the RFP.					
Understanding the "no-contact" provisions of board policy as they relate to RFPs.					

ATTACHMENT II

Insider Trading Policy Certification

I, _____, hereby certify that I have read and understand the policy prohibiting insider trading and agree to adhere strictly to the policy. I further certify that I understand the failure to act in conformance with the policy prohibiting insider trading will result in serious consequences, including termination from my employment or contract with the system.

_____

Date

_____

Signature

About the Author

Chris Waddell joined Olson Hagel & Fishburn, LLP as a senior attorney in December 2008. He heads the firm's newly created public retirement law practice. Most recently, he served as general counsel for two California public retirement systems; first at the California State Teachers' Retirement System (CalSTRS), the second-largest public pension fund in the country, and later at the San Diego City Employees' Retirement System (SDCERS). He has extensive experience in advising public pension trustees and staff on fiduciary obligations and pension plan governance.

Under Mr. Waddell's guidance, SDCERS has adopted a number of cutting-edge board governance policies in the areas of ethics, conflicts of interest, independence and board member core competencies.

At CalSTRS, Mr. Waddell developed for board adoption significant enhancements to governance and policy, including "pay-to-play" policies and regulations that received national attention. He created a framework for a strong, independent audit committee based upon private-sector best practices. He also authored and administered an innovative securities litigation policy that recouped approximately $200 million in CalSTRS investment losses. Prior to joining CalSTRS, Mr. Waddell served on the CalSTRS board as the representative of the California Department of Finance.

Mr. Waddell is a Fellow at the Rock Center for Corporate Governance at Stanford Law School, where he is co-director of the Fiduciary College, which provides education to pension trustees and staff. He is a member of the National Association of Public Pension Plan Attorneys (NAPPA) and has served as the chairman of the Investment Section and co-chairman of the Fiduciary Section. He has spoken frequently on pension governance, conflicts of interest and securities litigation issues before the National Council on Teacher Retirement, NAPPA, the California Association of Public Retirement Systems and the Stanford Fiduciary College. He also has testified before Congress, the California Legislature, the San Diego City Council and the San Diego Charter Revision Commission.

Mr. Waddell earned his bachelor's degree in political science/public service from the University of California at Davis and his law degree from the McGeorge School of Law, where he was a writer and editor for the Pacific Law Journal.

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