



# **Model Code of Conduct and Ethics Policy**

Endorsed by:  
Association of Public Pension Fund Auditors, Inc.  
A Project of the Best Practices Committee

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## FOREWORD

The following Model Code of Conduct & Ethics Policy (Ethics Policy) captures many of the best practices used at the present time, February 2013. This Ethics Policy does not encompass all items that might be appropriate to a particular public pension fund, nor will all items identified in this Ethics Policy be relevant to every public pension fund. Accordingly, this Ethics Policy may be tailored to each public pension fund's needs. Moreover, as applicable laws, rules and customs change, the Ethics Policy and each public pension fund's code of conduct & ethics policy should be updated.

Endorsement by the Association of Public Pension Fund Auditors, Inc. (APPFA) means that the document is intended as a starting point of reference and as a guide to public pension funds in developing and/or revising their code of conduct & ethics policy.

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Florida Rivera-Alsing, Chair	State Board of Administration of Florida
Ryan Babin	Louisiana State Employees Retirement System
Jenine Gregory	Ontario Municipal Employees Retirement System
Amen Tam	Ontario Municipal Employees Retirement System
Toni Voglino	Maryland State Retirement and Pension System

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## COMMENTARY

### Why have a Code of Conduct and Ethics Policy (Ethics Policy)?

A public pension fund (Fund) has fiduciary duty to act in the best interests of its members, and it has a legal and ethical duty to its member agencies, Fund sponsors and the public. These duties may challenge the character of those who serve the Fund, as they must resist the temptation to place their own interests above the interests of the Fund’s primary stakeholders. The Fund’s leaders can foster this selfless and disciplined conduct by setting the right “tone at the top,” establishing a high standard of ethics, and leading by example. An Ethics Policy is a statement of the ethical standards espoused by those leaders, as well as a directive to apply those standards throughout the organization.

### What are some of the reasons for, and benefits of, ethical behavior and an Ethics Policy?

- Shared ethical standards form the foundation for human interactions. Shared high ethical standards contribute to the harmony and prosperity of the community, primarily by fostering trust and cooperation. An organization’s Ethics Policy communicates its commitment to this social and economic vision.
- Operating ethically reduces the likelihood and severity of legal problems. A strong Ethics Policy that is backed by training and credible enforcement is a preventive and mitigating control against legal risks for both the organization and its employees.
- By adopting high ethical standards, an organization creates an environment that attracts ethical employees and vendors while deterring unethical ones.
- If an organization does not have an Ethics Policy that sets high ethical standards, the staff will substitute their judgment, which may or may not be the “right thing to do.” In other words, the lack of an Ethics Policy leaves a vacuum that will be filled by standards that may not be as high as those desired.
- Almost all organizations have policies covering everything from acceptable business attire to workplace safety. Business ethics should be a worthy work place topic of discussion. An Ethics Policy brings the ethics to the forefront as an important organizational issue and gives employees a starting point for seeking guidance on ethical issues.
- Strong ethical standards and enforcement may increase morale, at least among the ethically inclined employees. However, it can be very demoralizing for an ethical person to watch someone profit from being unethical and never be penalized. An ethical work environment, in which you can trust management and coworkers to “do what’s right,” leads to higher morale.

### Foundation of the Ethics Policy

The Ethics Policy is based on principles, such as integrity and loyalty; and provides an umbrella under which all ethical situations are covered.

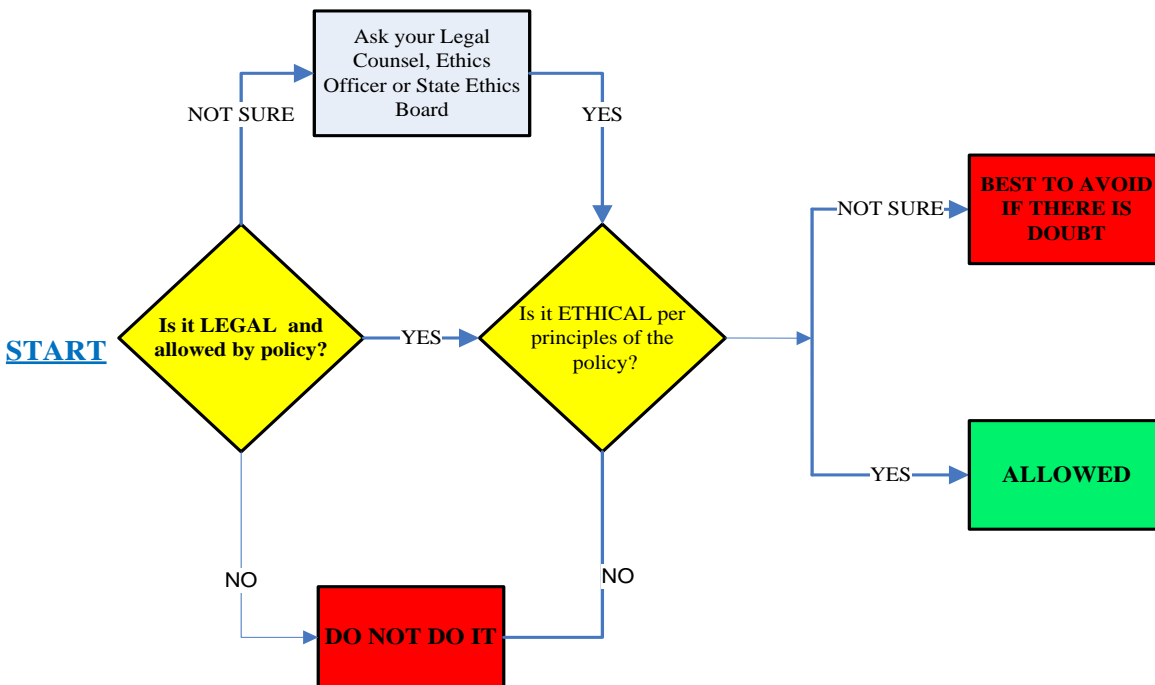
### Model Code of Conduct and Ethics Policy

Endorsed by APPFA



However, principle-based guidance is highly dependent on an individual’s experience, judgment, and personal standards. Therefore, to provide specific guidance in common situations with the potential for actual or perceived conflicts of interest, the Ethics Policy contains rules, including laws, policies and regulations affecting the public pension fund. Of course, even specific rules can be interpreted in different ways, loopholes can be found for every rule, and no policy can provide detailed instructions for every situation an employee will face.

Keep in mind that legal is not always ethical, and ethical is not always legal. A good way to decide how to handle an ethical situation, (such as the acceptance of a gift the offer of travel paid for by a vendor) is to apply the following



Some questions to ask yourself when deciding if your situation/decision fits the above ethical principle:

- Is what I’m doing right?
- Would I mind if others knew about this?
- Would others mind if they knew I was doing this?
- How would this look in the newspaper, on television, or on the Internet?
- What will be the effect of this decision?
- Will it hurt others?
- Is this fair?
- Does this follow the “Golden Rule”?
- Do the words honor, fairness, and honesty all apply?

- Would others think that this might affect my judgment, even if it won't?
- Am I using my position, or confidential information obtained through my job, for private gain?

### **Ethics and Hiring Practices**

One of the most important decisions we make in determining how ethical our organization will be is when we hire an employee. Taking extra time during the hiring process, trying to ensure that only ethical people are hired, will save much more in time, money, and embarrassment than in correcting an ethics violation. The following are some ideas in hiring ethical people.

1. Perform thorough background checks.
  - Criminal background and Department of Motor Vehicles checks will highlight previous ethical problems (Do they follow the law?).
  - Credit checks show if they pay their bills timely (Do they honor contracts and commitments?). However, be careful with this one. Sometimes situations not controllable by the individual, such as illness or divorce, are the major causes of credit problems.
  - Drug testing may be used to determine a propensity to break the law (Do they use illegal drugs?) or desperately need money (to buy illegal drugs).
  - Checking references, including former employers, may give insight into the ethical tendencies of the applicants.
  - Checking how factually the resume is presented can highlight applicants' tendency to embellish the truth or even lie about accomplishments.
  
2. Perform Ethics Test  
 Having applicants take a test on hypothetical ethics situations can highlight their thought process related to ethics.
  
3. Fully Explain All Job Aspects  
 During the interview process, honestly describing to applicants the position responsibilities, pay, chances of advancement, benefits and other job aspects will help mitigate the risk of having a disgruntled employee feeling that the public pension fund "owes" them something.

### **Loyalty and Duty**

Loyalty is a strong value in our society. There are two, sometimes competing, loyalties at the public pension fund, loyalty to fellow employees and loyalty to public pension fund. On one hand, some people may not like a "snitch", a "tattletale", etc. On the other hand, we have a responsibility to employees, members, beneficiaries, etc. that requires us to inform the public pension fund.

When a Covered Party<sup>1</sup> is in possession of information about a potential threat to the well-being of the public pension fund, its employees or interests, that Covered Party has a duty to bring that information forward, including the reporting of actions by fellow Covered Parties (including Board members). The following are three reasons to inform the appropriate party of possible ethics violations:

1. Loyalty to a friend should not come into the equation.
2. Not informing public pension fund of possible Ethics Policy violations could lead to huge problems for public pension fund, affecting your job and the jobs of many others. Examples of this include Enron, WorldCom, and other debacles in which many people knew of ethical problems, but nobody spoke up until it was too late.
3. Not reporting knowledge of a possible violation of the Ethics Policy is a punishable offense, up to and including dismissal of the employee or cancellation of business relationships for contractors and vendors.

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<sup>1</sup> Covered Party includes Fund’s Board members, all management and staff (both permanent and temporary,) and all external vendors, such as attorneys, consultants, advisors, investment consultants, etc., who have discretionary authority over the Fund’s assets or operations.



# 1. INTRODUCTION

## Purpose and Scope

The Ethics Policy defines the standard of professional and ethical conduct expected of the Fund's Board members and staff. These provisions are based on legal and fiduciary concepts. However, this Ethics Policy should not be relied upon as an exclusive or comprehensive list of the legal or fiduciary requirements of conduct. It is intended to be used as a guideline for conduct and the basis for evaluation of that conduct.

This policy does not attempt to specify every possible activity that might be inappropriate or prohibited under applicable laws and regulations. This policy shall not be construed as the sole provision of laws and regulations which must be observed by each Fund's Board member and staff. Nothing in this Ethics Policy shall exempt any person from any federal, state, or county law or regulation. The standards of conduct set forth in this Ethics Policy are in addition to any such law or regulation.

## Fiduciary Duty

Under its governing law, the Fund is a trust fund to be administered solely in the interest of its members and their beneficiaries.

### *Board Fiduciary Responsibilities*

Each Board member shall discharge her or his duties solely in the interest Fund, its members, and beneficiaries. Each Board member shall exercise his or her duties with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity would use in the conduct of an enterprise with a like character and like aims.

Each Board member shall diligently attend to the business of the Board, and shall not leave to the other members of the Board control over the administration of the affairs of the Board.

### *Staff Fiduciary Responsibilities*

The Fund's staff supports the Board in the fulfillment of its duties, including its fiduciary duty to the Fund's members and their beneficiaries. All Fund staff must comply with all relevant federal and state laws, and policies regulating conduct, and must avoid any conduct which is, or may be perceived to be, detrimental to the Fund, its members, and beneficiaries.

## 2. ETHICAL TRAITS

The Fund expects its Covered Parties to consistently demonstrate certain ethical traits, or virtues, in the conduct of their fiduciary duties. These traits together comprise the spirit in which the Fund's ethical standards must be applied, especially in ambiguous or novel situations. These traits may be divided into character and performance traits:

### Character:

Honesty	Truthfulness in word and deed
Integrity	Incorrupt and firm adherence to a code of moral values
Courage	Perseverance in the face of difficult circumstances
Fairness	Impartiality in the pursuit of justice
Respect	Courtesy to others in deference to their intrinsic human dignity
Compassion	Sympathy for the difficulties of others
Goodwill	Concern for the well-being of others
Loyalty	Faithfully serving another's interest

### Performance:

Competence	Knowledge, skills and abilities in one's work
Professionalism	Conscientiously adhering to accepted standards of conduct and work
Lawfulness	Complying with laws that govern one's work
Diligence	Exerting appropriate efforts to achieve one's goals
Prudence	Wise judgment when assessing risks
Excellence	Striving to perform to the best of one's ability
Teamwork	Cooperating with others to achieve a common goal
Reliability	Consistency in one's actions or habitually meeting or exceeding expectations

### 3. STANDARDS OF ETHICAL CONDUCT

Covered Parties are to strive for the best performance on behalf of the Fund and are to perform their duties solely for the benefit of the Fund, its members, and beneficiaries. Best performance is defined here as actions, counsel, or decisions that best protect the interests of the Fund, its members, and beneficiaries or best further their objectives. Best performance requires professional competence and due diligence.

Covered Parties are to avoid actual or perceived conflicts of interest. A conflict of interest exists when a Covered Party has a personal interest that may impair his or her loyalty to the Fund or performance on behalf of the Fund.

The conduct of Covered Parties should at all times be legal and ethical; their demeanor professional and respectful.

Covered Parties are expected to maintain accountability and transparency. They must be forthcoming and candid in their disclosures to the stakeholders regarding any matters pertaining to the Fund, unless maintaining confidentiality is both legal and in the best interests of the Fund, its members, and beneficiaries.

## 4. GENERAL RULES

The following areas are examples of typical activities to which the Fund's Ethics Policy is applied.

### *4.1 Personal Interest in the Fund's Activities*

No Covered Parties may have a financial or personal interest in the Fund's activities which may conflict with the Fund's interests or affects or appears to affect their independence, objectivity, or loyalty to the Fund. They cannot take any official action on matters that will result in a benefit to themselves, related parties, or their business associates, unless such benefit is no greater than that which accrues to a large class, such as across-the-board retirement benefit increases. However, these actions and related potential conflicts must still be disclosed to the Ethics Officer or other party assigned this duty (*see section 6.5 Administration of Ethics Policy-Disclosures*).

### *4.2 Personal Interest in Outside Activities/Employment*

No Covered Parties may have a financial or personal interest in activities outside of the Fund which may conflict with the Fund's interests or which affects or appears to affect their independence, objectivity, or loyalty to the Fund. They may not borrow from contractors, service providers, banks or other financial institutions with which the Fund has a business relationship, unless such entities are normally engaged in such lending in the usual course of their business, and then only on customary terms offered to others under similar circumstances. They may not knowingly refer retirees, active members, etc. to any outside business provider, such as a deferred compensation vendor or a contracted investment advisor, without prior written referral approval of the Executive Director (Chief Executive Officer). Likewise, they may not knowingly refer a business to retirees, active members, etc. They may not engage in outside employment with any external providers of the Fund; or engage in outside employment that would interfere with or hamper expected performance at the Fund. They may not sell goods or provide services to the Fund without disclosure to the Ethics Officer or other party assigned this duty (*see section 6.5 Administration of Ethics Policy-Disclosures*).

### *4.3 Conflict of Interest*

Covered Parties who become aware of a personal conflict of interest have an obligation to disclose that conflict to the Ethics Officer or other party assigned such duties (*see section 6.5 Administration of Ethics Policy-Disclosures*), and the Covered Parties must resolve the conflict.

If the person prudently withdraws from action in which a conflict exists, he or she should resolve the conflict in that manner provided that:

The person is effectively separated from influencing the action taken,

1. The action may properly be taken by others, and the nature of the conflict is not such that the person must regularly and consistently withdraw from decisions which are normally his or her responsibility with respect to the Fund.

If a conflict cannot be cured in the manner just described, the affected Covered Party must work with the Ethics Officer and the appropriate management to resolve the conflict of interest in a manner consistent with governing law and the traits and standards of ethical conduct espoused in this Ethics Policy.

#### ***4.4 Nepotism***

For purposes of this policy, related parties to Covered Parties include any child, step-child, foster child, grandchild, parent, step-parent, grandparent, spouse, brother, sister, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law sharing the same household, and any member of the household, whether or not related. Adoptive relationships are included for purposes of determining whether securities are held by a member of a person's immediate family.

To prevent related party conflict of interest, the Fund may not employ a person who is related to:

- a Board member
- an executive staff
- a vendor

This does not prevent the continued employment of a person who has already been working for the Fund for 30 consecutive days prior to the date that the Board member, executive staff, or vendor acquired their position, or the party became a related party.

Parties related to other Fund employees may be considered for employment by the Fund provided the applicant possesses all the qualifications for employment. A Fund employee may not exercise discretionary authority to hire, evaluate or promote their related party. A related party may not be hired if such employment would:

- Create either a direct or indirect supervisor/subordinate relationship between the related party and the related Covered Party; or
- Create either an actual conflict of interest or the appearance of a conflict of interest.

These criteria will also be considered when assigning, transferring, or promoting an employee.

No Covered Parties may utilize the services of their related parties or close personal associates for Fund business without disclosing such relationship to the Ethics Officer or other party assigned this function prior to execution and obtaining the approval of the Executive Director (Chief Executive Officer) (see [section 6.5 Administration of Ethics Policy-Disclosures](#)). Any such approved arrangements shall be reported to the Board.

#### ***4.5 Hiring and Contracting***

The hiring of employees, vendors, and consultants should not create either an actual or the appearance of conflict of interest. Covered Parties should not unnecessarily retain employees, vendors, or consultants. The hiring of such employees, vendors and consultants shall be based purely on merit. The compensation of such employees, vendors and consultants shall not exceed the fair value of the services rendered.

In order to protect the integrity of the decision-making process and to avoid any and all appearances of conflict, at such time as the Fund commences search procedures for the retention of an outside service provider (including but not limited to investment managers, attorneys, consultants, accountants, auditors, etc.) and identifies specific candidates to be interviewed to provide the desired service, Board members, evaluators of the candidates and executive staff shall refrain from having any contact with the candidates, their representatives, and supporters, other than to answer questions related to the retention process, obtain additional information about the service to be provided, or unintended incidental interactions. Board members shall have no contact during this period. All candidates, upon their identification, shall be advised in writing of this prohibition.

All Covered Parties are to avoid any decision-making practices, particularly with respect to hiring, contracting, or investments that are or appear to be “kickbacks” or “pay-to-play,” practices. “Kickbacks” are transactions where candidates seeking to do business with the Fund provide some personal benefit to the Covered Party to influence a decision. A “pay-to-play” transaction is one where a solicitor, in order to participate in a business process such as a bidding competition, or to influence a Fund decision, or to maintain an existing contract or business association, provides a benefit unrelated to the Fund’s business requirements for that decision.

Any violation of this policy must be immediately reported to the Ethics Officer or other party assigned this duty. Such violation may result in the removal of such vendor’s proposal from consideration.

#### ***4.6 Employment Negotiations and Post Employment Restrictions***

A Board member or employee of the Fund must disclose to the Ethics Officer or other party assigned this function any employment negotiations with firms that do business with the Fund. Employment negotiations means participating in an employment

interview, discussing an offer of employment, and accepting an offer of employment, even if precise terms of employment are not yet defined (see [section 6.5 Administration of the Ethics Policy-Disclosures](#)).

A Board member or employee of the Fund, after termination of his or her term of office or employment with the Fund, shall not appear before the Fund or receive compensation for any services rendered on behalf of any person other than the Fund, in relation to any business dealing with the Fund or application therefore, or any case, proceeding, determination or any other matter upon which he or she took any discretionary act during his or her term of office or employment with the Fund.

#### 4.7 Gifts

Engaging in or condoning bribery is strictly prohibited.

A gift is any payment, thing or other benefit provided to a Covered Party for which the Covered Party did not provide goods or services of equal or greater value, including a discount or a rebate that is not available to the general public. Cash gifts are prohibited. An example of gifts is the payment or reimbursement of travel expenses, including lodging and meals, even if the travel is in connection with official Fund business. Prior to accepting a gift of travel (including lodging and meals), Covered Parties shall consult with the Ethics Officer or Legal Office to confirm that such acceptance is not prohibited by law.

No Covered Party shall, directly or indirectly, solicit, accept or receive any gift, whether in the form of money, service, loan, travel, gratuity, favor, honoraria, entertainment, hospitality, thing or promise, or in any other form, under circumstances in which it could reasonably be considered that the gift was intended to influence him or her, or could reasonably be expected or perceived to influence him or her, in the performance of his or her official duties or was intended as a reward for any official action on his or her part. More simply put, regardless of legality, no gifts of any kind or in any amount should be accepted if someone might consider that gift as influencing a decision made in service to the Fund.

(The following language is available for those funds that **are** subject to special gift limitations for “designated parties” who are responsible for investments or the management of fund assets.)

All members of the Fund’s Boards and staff who are listed as designated parties under [\[list pertinent policy, e.g.: the Fund’s Conflict of Interest and Disclosure Code\]](#) shall comply with the gift restrictions and reporting requirements set forth in [\[list pertinent code\]](#)

(The following language is available for those funds that are **not** subject to special gift limitations for “designated parties” who are responsible for investments or the management of fund assets.)

All members of the Fund’s Boards and staff who are responsible for investment decisions or who are involved in the management of the Fund’s assets shall not solicit, accept, or agree to accept any gifts of more than *de minimis* value, personal



benefits, or personal favors offered to them because of their positions with the Fund (examples of *de minimis* gifts are coffee mugs, envelope openers, calendars, etc. which are defined as items estimated to cost less than \$20 with minimum resale value. Perishable food items may be accepted if made available in the office to all employees in the department and consumed in the office. *De minimis* gifts and perishable food items should not be received on so frequent a basis as to lead a reasonable person to believe that an investment-related employee is using his office for personal gain).

Other Covered Parties are prohibited from accepting gifts from a single source during any calendar year totaling more than *[indicate dollar limit]* or the gift limit set forth in *[list pertinent code]*.

*Certain disclosures are required from those who receive gifts (See Administration of Ethics Policy-Disclosure-Gifts.)*

#### **4.8 Travel and Incidental Reimbursements**

The Fund’s board members and employees are compensated through salary and benefits for their work, and reimbursed for out-of-pocket job-related expenses, particularly travel.

Public funds should be prudently expended. Therefore, the Fund’s board members and employees should be reimbursed for expenses that meet the “actual,” “reasonable” and “necessary” tests.

*Actual* expenses include those expenses that were incurred personally by the board members and employees. If the board member or employee paid an expense that was somehow covered by another entity, it would not be reimbursable. For example, a board member who drives their personal automobile to an official Plan meeting is eligible for reimbursement for mileage. But a board member who drives their company car to that same meeting would not be entitled to reimbursement because they did not personally incur any expense. This is assuming the board member does not have to reimburse the company for said mileage, which is usually the case. If they do not have to reimburse their company, and therefore have not incurred an expense, any claim for mileage reimbursement constitutes an unethical, or even illegal, form of “double dipping.” Use of per diem rates may, however, provide exceptions to this principle.

*Reasonable* expenses include the costs of travel or supplies that enable the person to achieve their objectives in an efficient, safe and cost-effective manner. For example, travelers are not expected to lodge at the cheapest hotel, which may provide unclean or unsafe accommodations. But, at the other extreme, they are also not entitled to secure extravagant accommodations at luxury resorts. Public travelers, including board members, should locate and secure accommodations at moderately priced



hotels using the Fund’s travel guidelines. Hotels generally may be chosen in part to facilitate efficient conduct of business and to minimize daily travel time and travel costs while at the business site, when reasonable costs are obtainable.

Necessary expenses are those that are required to achieve the goals of the organization, and travel is often required to achieve those objectives. But with the communication methodologies available today, such as telephone, email, fax and video conferencing, travel is often avoidable. Therefore, the need for travel should be carefully evaluated. And when travel is deemed necessary, efforts should be made to keep the trip as short as possible. For example, it is not necessary to spend five days on an out-of-state trip to attend a two-hour meeting.

#### ***4.9 Attendance at Functions***

All Covered Parties are prohibited from attending functions paid for by vendors or potential vendors of the Fund, except as provided herein. In particular, all persons responsible for investment decisions or involved in the management of the Fund’s assets are prohibited from accepting invitations to functions, the costs of which will be borne by brokers, dealers, corporations, or the Fund’s master trust custodian, except as provided herein. Exceptions to this rule are invitations to seminars, conferences or other educational meetings presenting topics pertinent to the management of the Fund or its assets that are not intended to promote a certain business relationship or product. Further, such meetings must not be reasonably perceived to cause a loss of independence or objectivity. The Executive Director (Chief Executive Officer) must approve attendance at all events paid for by other than the Fund. The Board Chair must approve such travel by the Executive Director (Chief Executive Officer).

This prohibition does not apply to business meals and receptions at which the sponsor is present, to conference events or ground transportation in connection with business meetings, meals, receptions and conference events. However, staff should use reasonable care and judgment to not place themselves in a situation that might cause, or be perceived to cause, a loss of independence or objectivity.

#### ***4.10 Use of the Fund’s Assets***

Covered Parties may not utilize any property or resources of the Fund for personal gain. Public assets include, but are not limited to:

- Physical assets, such as equipment, furniture, supplies, and facilities
- Computing resources, including hardware and software (See the Fund’s Policy on Information Technology Use by Employees)
- Financial resources, such as cash, stocks and bonds
- Human resources, such as staff time
- Intangible assets, such as goodwill, political influence, and intellectual property

Assets of public funds are only to be used to achieve the business purposes of the public entity. The use of public assets for personal interest, pleasure or profit is not acceptable. It is also not acceptable to use public assets, however meritorious, to further the goals of an outside charitable organization with which the public employee might be affiliated. This includes organizations such as churches, scouting groups, athletic groups, etc.

Certain exceptions are commonly made for *de minimus* personal use, in unavoidable circumstances (e.g., phone call to child's school that must be made during working hours), in conformance with the Fund's policies.

No payments may be authorized on behalf of the Fund for any purposes other than that explicitly disclosed in the original request for payment.

Covered Parties are required to diligently protect the Fund's assets from theft, loss, abuse, or waste.

(Note: The policy may describe specific ethical standards and policies applicable to the use of specific assets, such as information technology, email, company vehicles, postage equipment, telephone equipment, and company records)

#### **4.11 Accounting**

Covered Parties responsible for financial accounting or other recordkeeping functions on behalf of the Fund are to follow established laws, policies, procedures and standards, and are to exercise prudent judgment to ensure that such accounting or recordkeeping are always accurate, reliable, appropriately transparent to the Fund's stakeholders, and secured. Covered Parties are strictly prohibited from falsifying or failing to record proper entries in any records of the Fund.

#### **4.12 Confidentiality**

Although the Fund is a public entity which fosters accountability and transparency before its stakeholders, the Fund is also entrusted with confidential information, which may be classified as follows:

- Non-public, individually identifiable information of its members and staff
- Legally privileged information developed through the attorney-client relationship.
- the Fund's security information which must be kept confidential to protect the Fund's assets
- The Fund's specific investment transactions which are considered confidential, to protect the Fund's assets and investment performance, and to comply with applicable laws.

All confidential information must be diligently safeguarded as required by law. Covered Parties may not disclose or use confidential information acquired in their positions without proper authorization.

No private information, including, but not limited to, member retirement benefit and health insurance information, and non-public investment information, shall be provided to any other person or used in any way other than in the performance of lawful Fund duties and responsibilities. Accessing information for any other purpose is prohibited.

Further, no Covered Party shall accept employment or engage in any business or professional activity that will require him or her to disclose confidential information that he or she has gained by reason of his or her official position with the Fund.

#### ***4.13 Training and Education***

All Covered Parties are responsible for achieving and maintaining the expertise and education appropriate to their duties to the Fund.

#### ***4.14 Illegal Acts***

No Covered Parties may engage in illegal activities at any time, in matters related to the Fund or not related to the Fund. No Covered Parties may knowingly become a party to, or condone, any illegal activity. No Covered Parties may engage in activities involving moral turpitude, such as dishonesty, fraud, deceit or misrepresentation. Illegal behavior is not tolerated and is subject to immediate discipline, including possible termination and prosecution.

(Note: The policy may refer to specific policies related to specific misconduct or illegal acts, such as discrimination, harassment, fraud, or embezzlement)

#### ***4.15 Investments***

All investment staff are obligated to conduct their personal securities transactions in a manner that does not conflict with the Fund’s business and fiduciary responsibilities, interfere with the Fund’s portfolio transactions, or create an actual, potential or perceived conflict of interest. All investment staff shall obtain the written approval of the *[name the individual responsible for investment staff oversight, hereafter referred to as “Director of Investments”]* prior to making personal trades in securities in which the Fund is invested. Similarly, the Director of Investments shall obtain approval from *[name the appropriate management individual who supervises the Director of Investments, such as the Executive Director (Chief Executive Officer)]*. Such trade approval is for the trading day on which the approval is requested and includes the staff member’s trades as well as those for which the member is a “beneficial owner” as defined by Standard IV (B.4) of the CFA Institute’s *Code of Ethics and Standards of Ethical Conduct*. The Fund must have completed its acquisition or disposition of a security before any personal trades can be made. All

investment staff shall report to the Ethics Officer on a monthly basis regarding all personal investment activities. An internal investigation will be promptly conducted into any questionable trade with the possibility of relinquishing all profits for violations of trading policy (see [section 6.5 Administration of Ethics Policy-Disclosures](#)).

The purchase of an initial public offering of equity securities for which no public market in the same or similar securities of that issuer has previously existed is prohibited. An exception is permitted where an employee has an existing right to purchase a security based on his or her status, for a significant period of time, as a depositor or policy holder. Whenever such a transaction is executed, it should be disclosed on the monthly personal trading report (see [section 6.5 Administration of Ethics Policy-Disclosures](#)).

All Covered Parties hired to serve as investment managers and advisors, general pension consultants, placement agents, private equity managers, or venture capital managers are to avoid any actual or apparent conflict of interest in their recommendations and management decisions. All Covered Parties employed in these functions must prepare an annual statement for filing with the Fund which acknowledges the Party's fiduciary responsibilities to the Fund and discloses any potential conflicts of interests. (A Placement Agent is a company that specializes in finding institutional investors that are willing and able to invest in a private equity fund or company issuing securities. Sometimes the "issuer" will hire a placement agent so the fund partners can focus on management issues rather than on raising capital. In the U.S., these companies are regulated by the NASD and SEC). See [section 6.5 Administration of Ethics Policy-Disclosures](#).

All Covered Parties engaged in investment decisions of the Fund are prohibited from participating in insider trading activities as defined by Federal securities laws. This is the use of knowledge that is obtained through a position of trust and is not available outside of that position of trust to conduct investment or business activities that conflict with the interests for which that trust is founded.

All Covered Parties must avoid "front running." This unethical activity occurs when a broker or other similar service provider conducts trades not for a client's benefit but based on information obtained in the course of such professional service before his or her clients have been given the information.

## 5. RULES AND LAWS APPLICABLE TO THE BOARD(S)

### 5.1 General

Each member of the Board(s) shall exercise his or her duties with the care, skill, prudence, and diligence that a prudent person would exercise under similar circumstances. Each member of the Board(s) shall not leave to the other members of the Board control over the administration of the affairs of such Board. *[Cite pertinent law.]*

A member of the Fund's Board(s) shall not engage in any employment, activity, or enterprise for compensation which is inconsistent, incompatible, in conflict with, or inimical to his or her duties as a member of a Board, or with the duties, functions, or responsibilities of the Board(s) on which he or she serves, or where his or her efforts will be subject to approval by any other member of the Board on which he or she serves

Board members must disclose to the Board any conflicts regarding matters that are before the Board and not vote on the matter (*see section 6.5 Administration of Ethics Policy- Disclosures*).

### 5.2 Financial Interests

Each member of the Fund's Board(s) shall abide by the provisions of *[cite pertinent law]*, which prohibits Board members from making, participating in making, or using their positions to influence Board and Fund decisions in which they have a financial interest. A Fund Board member is deemed to have a financial interest if all of the following are present:

1. It is reasonably foreseeable that the decision will have a financial effect;
2. The anticipated financial effect is on a financial interest of the Board member;
3. The anticipated financial effect is material; and
4. The decision's financial effect on the Board member's financial interest is distinguishable from its effect on the public generally.

In addition, this policy prohibits Board members from using their positions to influence Board and Fund decisions in which close associates and/or political associates have a financial interest.

Each member of the Fund's Board(s) shall abide by the provisions of *[cite pertinent law]*, which require the public disclosure of Board Economic interests as prescribed therein (*see section 6.5 Administration of Ethics Policy-Disclosures*).

### 5.3 Honoraria

Each member of the Fund's Boards shall comply with the provisions of *[cite the pertinent law]* prohibiting the acceptance of honoraria.

#### 5.4 Gifts

In addition to gift limits set out above, additional minimum gift limitation requirements are applicable to Board members by *[cite pertinent law]*. (See *section 6.5 Administration of Ethics Policy-Disclosures.*)

#### 5.5 Investments

A member of the Fund's Board(s) shall not become an endorser, surety, or obligor on, or have any personal interest, direct or indirect, in the making of any investment for the Board, or in the gains or profits accruing there from.

#### 5.6 Loans

Each member of the Fund's Board and designated staff shall abide by the loan limitation provisions of *[cite pertinent law]*, which prohibits receiving personal loans from any officer, employee, member, consultant, or contractor with the Fund.

#### 5.7 Contracts

Each member of the Fund Board(s) shall abide by the provisions of *[cite pertinent law]*, which prohibit a Fund Board member from being financially interested in any contract made by the Fund's Board on which he or she serves.

#### 5.8 Board Interaction with Outside Parties

Communications with Service Providers and Other Non-Fund Persons and Entities:

A Board member shall not correspond with a non-Fund person or entity using the Fund's letterhead unless the communication is authorized by the Board on which the member serves. Copies of all written communications from a Board member to a current service provider, or person or entity related to a current service provider, relating to the Fund's business (other than purely personal or social correspondence) shall be provided to the Ethics Officer or Chief Executive Officer for subsequent distribution to all members of the Board on which the member serves.

A copy of any written communication (other than purely personal or social correspondence, routine announcements, generally distributed newsletters, and the like) received by a Board member from a current Fund service provider, or person or entity related to a current service provider, shall be forwarded to the Ethics Officer or the Chief Executive Officer for subsequent distribution to all members of the Board on which the member serves. Unless authorized by the Board, no Board member or staff shall disseminate or otherwise disclose any information obtained in the course and scope of his or her employment, which has not been released, announced, or otherwise made available publicly.

No Board member, executive staff or employee may speak for the Fund without prior written authorization. If someone other than the authorized spokesman makes a statement without authorization, orally or in writing, she or he must explicitly acknowledge that it is not an authorized Fund statement.

A Board member shall be respectful of the Board and its decisions in all external communications, even if he or she disagrees with such decision.

### ***5.9 Communication with Fund Members***

Board members shall be aware of the risk of communicating inaccurate information to Fund members (both active members and retirees), and the potential exposure to liability and possible harm to a Fund member that may result from such miscommunications.

Board members shall mitigate the risk of miscommunication with Fund members and thereby avoid creating additional plan liability by refraining from providing specific advice or counsel with respect to the rights or benefits to which a Fund member may be entitled under the Fund.

Where explicit advice or counsel, with respect to retirement Fund provisions, policies or benefits is needed, Board members will refer inquiries to appropriate Fund management or staff.

### ***5.10 Board Interaction with the Fund’s Management and Staff***

Nothing in this policy prohibits a Board member from interacting with any management or staff member of the Fund in a non-managerial function which is consistent with all other rules in the Fund’s ethics policies, other policies, the Board’s by-laws and other legal authority.

### ***5.11 Conduct at Board Meetings***

The Fund’s Board(s) shall provide fair and equal treatment for all persons and matters coming before the Board(s) or any Board committee.

Board members shall listen courteously to all discussions at meetings and avoid interrupting other speakers, including other Board members, staff or committee members, except as may be permitted by established Rules of Order.

Board members shall refrain from abusive or disruptive conduct, personal charges or verbal attacks upon the character, motives, ethics, or morals of others.



## 6. ADMINISTRATION OF THE ETHICS POLICY

### 6.1 Ethics Officer

The Fund's Board(s) have appointed the *[indicate the appropriate staff title, such as Chief Executive Officer, Human Resource Director or designated compliance officer]* to serve as the Fund's Ethics Officer. The Ethics Officer is responsible for administering, implementing, promoting, interpreting and enforcing this Ethics Policy. His or her duties include:

1. Providing ethics training for the Fund's personnel.
2. Issuing opinions on the proper interpretation of this policy.
3. Determining if potential conflicts of interest should be disclosed, avoided, or corrected.
4. Counseling staff regarding compliance and potential violations and to make policy waivers that ultimately comply with governing law.
5. Manning the "Helpline," to assist Covered Parties with ethics questions or problems, if applicable.

### 6.2 Ethics Questions

Questions on Ethics policy should be referred to the Ethics Officer via the ethics "Helpline," which can be accessed by email (xxxx@xxxxxx), phone (555-555-5555), or in writing (address). Written opinions concerning the interpretation of the Ethics Policy will be provided to the Fund's staff members who file a written. Copies of all such opinions will be furnished to the Fund's Board(s). The Ethics Officer may use whatever resources are reasonably needed to provide the proper opinion. All Covered persons may rely on such opinions to apply this Ethics Policy.

In their sole discretion, the Board or executive staff may seek advisory opinions from the legal counsel to aid in the application of the Ethics Policy to particular factual situations presenting an ethical issue. The legal counsel's opinion shall be advisory only, but any Board member or executive staff acting in reliance thereon shall be deemed to be acting in good faith compliance with this Ethics Policy.

Nothing in this policy should be construed as limiting any Covered Party's right to contact any appropriate independent authority at any time for ethics advice or reporting. For example, in case of doubt as to whether an action may be in violation of the Ethics Policy, an employee may seek the advice of the state Ethics Commission, Covered Party's direct supervisor, or Human Resources Director.



### 6.3 Training

Training, customized for the intended audience, regarding this Ethics Policy will be given by the Ethics Officer or designee:

- Within ten days of employment for new employees, included in the new employee orientation process.
- Within thirty days of election or appointment for trustees.
- Prior to hire for contractors and vendors.

The Ethics Officer is responsible for ensuring that regular Ethics trainings are held for all employees to reinforce and explain the provisions of and answer any questions pertaining to the Ethics Policy. Board members shall receive periodic ethics training regarding governing ethics laws.

Updates to the Ethics Policy will be communicated to all Covered Parties as needed. Computer “pop-up” reminders will also be utilized, when possible, to remind employees of certain aspects of the Ethics Policy. An example of this would be annual reminders, nearing an election, of restrictions on political activities. Ethics topics will also be discussed periodically in the employee newsletter.

### 6.4 Annual Acknowledgement of Compliance

All Covered Parties agree to comply with this Ethics Policy at the commencement of their service or contract with the Fund and shall certify annually in writing their continuing compliance. These certifications are due by January 31 of each year, filed with the Ethics Officer, who is responsible for collecting and maintaining these documents.

To ensure that there is an understanding of the Ethics Policy, a questionnaire of hypothetical scenarios will be administered annually. Once it is clear to the Ethics Officer that the individual fully understands the policy a compliance statement will be issued for signing, acknowledging that the policy has been received, read, and understood.

The compliance statement will state that they have received, read and understand this policy, that they will comply with its provisions, that it is their duty to report any acts by others when they have knowledge of potential violations of this policy, and that adherence to the policy is a condition of their employment or continued business with the Fund. The statement will also include a disclosure of any conflicts of interest or violations of the policy of which they are aware and a reminder that they are required to update their statements if a change in circumstances occurs which would require reporting under this policy.

## 6.5 Disclosures

### 6.5.1 Public Disclosure of Board Economic Interests

Each member of the Board(s) shall comply with *[cite pertinent law]*, requiring the public disclosure of Board Economic interests. Immediately prior to the Board’s consideration of the matter, a Board member shall publicly disclose the actual or potential conflict in detail sufficient to be understood by the public, recuse himself or herself from acting on the matter, and, except in the case of consent agenda items, leave the room until the matter is concluded. Disclosure during Board meetings may be made 1) orally or 2) by handing a written statement to the Chair of the Board, with a copy to all Board members and the Retirement Administrator. Such a disclosure shall be reflected in the official record of the meeting.

### 6.5.2 Disclosure of Personal Trades and Holdings

Each month, all Covered Parties who are responsible for investment decisions or work in an Investments function shall have their broker forward the previous month’s statements of personal securities trades to the Ethics Officer or designate. It is the intent that these monthly statements remain confidential. However, since this is a public document subject to public inspection, the Fund will honor any request by the State’s citizens to review such documents. Prior to hiring an employee for an investment function, such employee should disclose all brokers/brokerage relationships. Annually, affected staff should also submit a statement of investment disclosure, which should include a list of all broker/brokerage relationships and security holdings during the year being reported. Disclosure is not required for any type of securities which the Fund is prohibited from owning. Refer to Personal Trading Policy for further details

### 6.5.3 Disclosure Requirement of Securities Held by Family Members

All Covered Parties who are responsible for investment decisions or work in an investments function are required to disclose trades and holdings of family members where a pecuniary interest exists or where the employee has control over the trading activities in a security account. Pecuniary interest means the opportunity, directly or indirectly, to profit or share in any profit derived from a transaction in a security. Family members regarded as having pecuniary interest in, and therefore as the beneficial owner of, securities held are any child, step-child, foster child, grandchild, parent, step-parent, grandparent, spouse, brother, sister, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law sharing the same household, and any member of the household, whether or not related. Adoptive relationships are included for purposes of determining whether securities are held by a member of a person's immediate family.

#### 6.5.4 Disclosure of Gifts

As specified above under the heading Ethics Standards Applied-Gifts, there are disclosure requirements for those Covered Parties who accept permissible gifts.

The following disclosures are required from those who are responsible for investments or the management of funds.

If a Board member, designated party, or staff, responsible for investment decisions or involved in the management of the Fund's assets, has received gifts of *[enter a threshold, such as \$75.00]* or more from a person, firm, or entity conducting business or seeking to conduct business with the Fund, such Board member, designated party, or staff shall immediately disclose to the Ethics Officer *[or specify other title]* the receipt of the gift(s) including the donor's name, and the nature and value of the gift(s).

If the Fund has received a gift(s) (e.g., travel, admission to seminars/conferences, tickets to events, use of sporting facilities, entertainment, etc.) of *[enter a threshold, such as \$75.00]* or more from a person, firm or entity, the Retirement Administrator shall disclose to the Ethics Officer *[or specify other title]* the receipt of the gift(s) including the donor's name, and the nature and value of the gift(s).

For other Covered Parties, gift(s) from of *[enter limit, e.g.:\$50.00]* or more shall be reported in writing to the Covered Parties' immediate supervisor and the Ethics Officer *[or specify other title]* the receipt of the gift(s) including the donor's name, and the nature and value of the gift(s).

#### 6.5.5 Other Disclosures

Covered Parties are required to disclose the following activities to the Ethics Officer *[or specify other title]*:

- Any official action on matters that will result in a benefit to Covered Parties, related parties, or their business associates, where such benefit is no greater than that which accrues to a large class, such as across-the-board retirement benefit increases.
- Any transaction wherein Covered Parties, related parties, or their business associate are selling or providing goods or services to the Fund with the approval of the Executive Director (Chief Executive Officer).
- Employment negotiations between a Covered Party and firms that do business with the Fund. Employment negotiations means participating in an employment interview, discussing an offer of employment, and accepting an offer of employment, even if precise terms of employment are not yet defined.
- Any perceived or actual conflict of interest should be disclosed to the Ethics Officer *[or specify other title]* to ensure that the existence of the conflict is verified and addressed appropriately.

## 6.6 Incident Reporting

### 6.6.1 General

Any person with knowledge of a violation of this Policy or related laws shall report such information to appropriate supervisory personnel, the Ethics Officer, or the *[enter the appropriate staff title, such as Executive Director (Chief Executive Officer)]*. No retaliatory action will be taken for any such report made in good faith. Not reporting knowledge of a possible violation of the Ethics Policy is a punishable offense, up to and including dismissal of the employee or cancellation of business relationships for contractors and vendors.

(Note: A detailed whistleblower policy may be inserted here or indicate details on the use of an Ethics Hotline).

### 6.6.2 Internal Board Member Disputes or Reports of Board Member Misconduct

The Fund's Board(s) is responsible for governing the conduct of its individual members. In adopting this policy, the Board seeks to promote an orderly, ethical and professional resolution of disputes, as well as alleged Board member misconduct.

Disputes or reports of misconduct within the Fund Board(s) are to be addressed in an executive session of the full Board or the Board committee involved in the matter, as provided in the Board by-laws. In this executive session, appropriate actions may be taken, including:

- a) Resolving the matter within the current or future meetings of the Board;
- b) Referring the matter to an existing or ad-hoc committee for further action;
- c) Appointing appropriate staff or outside consultants for further action;
- d) Referring the matter to outside agencies, such as law enforcement or a district attorney.

The proceedings of this executive session and the results of any follow-up actions must be disclosed in an open session of the Board in a manner and at a time that the Board deems appropriate to fulfill its fiduciary duty to its members.

If disputes or reports of misconduct of Board members are not satisfactorily resolved after exhausting this process, the Board member initiating this process may report the matter to appropriate outside agencies or law enforcement authorities as provided in the Board by-laws.

### 6.7 Enforcement

The Fund's Executive Director (Chief Executive Officer) is responsible for communicating, implementing, and enforcing this Ethics Policy with respect to the

Fund’s staff. The Board Chair will enforce this Ethics Policy with respect to Board members and the Executive Director (Chief Executive Officer) in accordance with Board administrative policies and applicable laws.

Any person with knowledge of a violation of this Ethics Policy shall report such information to appropriate supervisory personnel, the Executive Director (Chief Executive Officer) or the Board Chair, as applicable.

Violations of any of the provisions of the Ethics Policy may result in termination of employment or other disciplinary action as the situation may warrant. Disciplinary actions involving Board members are to be handled in accordance with Board administrative policies and applicable laws.

Questions on this matter should be referred to the Ethics Officer *[or specify other title]*.

The Executive Director (or Chief Executive Officer) is also responsible for ensuring that a regular Ethics training is held periodically for all employees to reinforce and explain the provisions of and answer any questions pertaining to this Ethics Policy.

#### **6.8 Assessment of the Ethics Program – Internal Audit Department**

An effective organizational ethics program should establish basic policies, regularly communicate these policies to employees, provide a means for employees to confidentially ask questions and express concerns, monitor transactions that are high risk, resolve any identified problems and make adjustments to both policy and process as needed. The Internal Audit Department will assess, every three years, the effectiveness of the ethics program, including assessing the Ethics Policy for needed revision. The objectives of the assessment include:

- How well the ethics program operates within the organization.
- Whether the Ethics Policy require revisions due to changes in laws, weaknesses highlighted by societal, market, or other environmental changes, violations of the policy, and/or confusion over requirements or prohibitions.

A report on the assessment will be provided to the Board(s) for consideration of recommended changes, if any.

#### **6.9 Effective Date**

This policy shall become effective *[effective date]* and shall remain in effect until amended.

## REFERENCES

Los Angeles County Employees Retirement Association Code of Ethical Conduct

Ethics Policy of the various public pension funds who are members of APPFA



APPFA • PO Box 16064 • Columbus, OH 43216-6064  
[www.appfa.org](http://www.appfa.org)