

Policy Name: **Fiduciary Review Policy**
Policy Number: 2018 POL-BD-14
Effective Date: December 5, 2018
Reviewed Date: January 9, 2018, August 9, 2021
Applies To: SERS Board Members
Contact Person: Deputy Executive Director for Administration

Purpose

The members of the Board (the "Board") of the State Employees' Retirement System ("SERS") stand in a fiduciary relationship to the members of SERS and have legal duties imposed by statute and common law to ensure that the funds they oversee are invested with the same degree of care that persons of prudence, discretion and intelligence would use when investing their own money. Board governance, policies and practices are the structures and processes through which these duties are implemented. In order to minimize liability exposure and to promote success in achieving its goals, the Board has determined it should obtain regular, independent reviews of its fiduciary and governance practices.

Policy

Every 3-4 years, the Board shall select and contract with a qualified independent consultant ("Consultant") to conduct a review of the Board's performance of its duties, identify developing best practices and make recommendations to the Board for improving its governance, policies and procedures. The Board may delegate the process of researching and identifying Consultant candidates to the Board Governance and Personnel Committee, which committee shall make a recommendation to the Board regarding the selection of the Consultant. The Board shall exercise reasonable discretion in setting the scope of the Consultant's review and should include examination of identified risks or issues which have come to its attention.

The Consultant shall be selected through a competitive process aimed at identifying independent experts with knowledge of public pension fund practices and experience in conducting similar reviews at a reasonable cost. In particular, the Consultant should have the following qualifications, in addition to other qualifications which the Board may determine are needed for the particular review:

- The Consultant shall be independent both in fact and in appearance. The independence of the Consultant is paramount to ensure objectivity and unbiased recommendations.

- The Consultant shall be knowledgeable about the fiduciary duties and governance practices of public pension funds. The Consultant's review may include topics from the list attached hereto as Exhibit A.
- The Consultant shall have experience providing similar reviews to public pension funds of similar size to SERS.

Cooperation with Consultant.

Board members and appropriate SERS employees shall cooperate with the review and promptly provide all information required by the Consultant. An individual shall be identified by the Executive Director to serve as SERS' liaison with the Consultant.

Exhibit A

1. Frameworks

1.1. Legal and Regulatory Framework e.g.,

- 1.1.1. Governance structure (trustee board, sole fiduciary, other)
- 1.1.2. Funding policies and mechanisms
- 1.1.3. Fiduciary responsibilities and authorities
- 1.1.4. Oversight authorities
- 1.1.5. Statutory authority/limitations
- 1.1.6. Trustee qualifications and selection criteria
- 1.1.7. Investment limitations (prudent expert, prudent person, legal list)
- 1.1.8. Investment requirements for in-state managers, minority and women-owned programs, etc.
- 1.1.9. Resource authorities (budget, staffing and compensation)
- 1.1.10. Custodian and selection of custodial bank
- 1.1.11. Selection of external auditor
- 1.1.12. Selection of external actuary
- 1.1.13. Selection of outside counsel
- 1.1.14. Transparency requirements (freedom of information and open meetings laws, contracting, reporting)
- 1.1.15. Trustee indemnification
- 1.1.16. Plan participation requirements
- 1.1.17. Member eligibility and benefit calculation requirements

1.2. Governance Framework e.g.,

- 1.2.1. Powers reserved for the board/fiduciary
- 1.2.2. Direct reports to the board/sole fiduciary
- 1.2.3. Delegations to staff and third parties
- 1.2.4. Role of board officers
- 1.2.5. Board committee structure
- 1.2.6. Board and committee charters
- 1.2.7. Use of advisory boards
- 1.2.8. Board/fiduciary focus on strategy
- 1.2.9. Access to information and reporting to the board/fiduciary
- 1.2.10. Board/fiduciary performance
- 1.2.11. Board/fiduciary self-assessment

- 1.2.12. Board/fiduciary self-development
- 1.2.13. Trustee time commitments
- 1.2.14. Management of/response to litigation
- 1.2.15. Enterprise risk oversight
- 1.2.16. Independent reinsurance

2. Strategies and Risks

2.1. Enterprise Strategies and Policies e.g.,

- 2.1.1. Setting asset allocation strategies
- 2.1.2. Setting investment return assumptions
- 2.1.3. Asset-liability matching process
- 2.1.4. Investment beliefs
- 2.1.5. Investment objectives and plans
- 2.1.6. Selection and use of benchmarks
- 2.1.7. Manager fee reporting policies and practices
- 2.1.8. Corporate governance and proxy voting
- 2.1.9. Ethics/conflicts of interest policies
- 2.1.10. Board/fiduciary/employee financial disclosure
- 2.1.11. Employee confidentiality policy
- 2.1.12. Benefit program strategy development
- 2.1.13. Health care provider strategy development
- 2.1.14. Staff organization structure
- 2.1.15. Organizational and resourcing strategies
- 2.1.16. Staff compensation policies
- 2.1.17. Procurement policies
- 2.1.18. Stakeholder relations and communications
- 2.1.19. Legislative positioning: reactive (awareness of and response to legislative proposals) and proactive (drafting and lobbying)

2.2. Enterprise Risks e.g.,

- 2.2.1. Risk appetite/tolerance
- 2.2.2. Return and risk objectives
- 2.2.3. Risk management policies and metrics (incl. investment guidelines and limits)
- 2.2.4. Enterprise risk management and reporting

3. Operations

3.1. Investment Operations e.g.,

- 3.1.1. Investment manager selection/due diligence/monitoring/termination
- 3.1.2. Use and governance of strategic partnerships
- 3.1.3. Roles and authorities of internal investment staff
- 3.1.4. Contracting process
- 3.1.5. Use of outside counsel
- 3.1.6. Internal investment management
- 3.1.7. Investment management reporting, risk, and support systems
- 3.1.8. Investment research
- 3.1.9. Investment cost management
- 3.1.10. Use of general investment consultant
- 3.1.11. Use of specialty consultants
- 3.1.12. Use of custodial services
- 3.1.13. Securities lending policies and practices
- 3.1.14. Foreign exchange practices
- 3.1.15. Use and monitoring of brokers
- 3.1.16. Transition management
- 3.1.17. Investment funding policies and practices

3.2. Pension and Insurance Operations e.g.,

- 3.2.1. Member contact center
- 3.2.2. Member self-service opportunities
- 3.2.3. New member enrollment
- 3.2.4. Member data management and data security
- 3.2.5. Member education and communication
- 3.2.6. Member statements
- 3.2.7. Dispute resolution
- 3.2.8. Adjustments and exception handling
- 3.2.9. Appeals handling
- 3.2.10. Service credit handling
- 3.2.11. Court settlement processing
- 3.2.12. Regular payment processing
- 3.2.13. Pension reporting
- 3.2.14. Pension plan design and development
- 3.2.15. Health care provider contracting

- 3.2.16. Third party provider compliance monitoring
- 3.2.17. Health care cost monitoring and cost controls
- 3.2.18. Employer contact center
- 3.2.19. Employer data management and security
- 3.2.20. Employer education and communication
- 3.2.21. Employer statements and reporting
- 3.2.22. Actuarial reporting practices and valuations

3.3. Administrative Operations e.g.,

- 3.3.1. Investment accounting, performance reporting and fund valuation
- 3.3.2. Financial accounting operations and reporting
- 3.3.3. Planning, budgeting and performance reporting
- 3.3.4. Recruitment, hiring and organizational development
- 3.3.5. Employee training and development
- 3.3.6. Succession planning
- 3.3.7. Human resources administration
- 3.3.8. Legal support
- 3.3.9. Information systems planning, governance and support
- 3.3.10. Facilities management and support
- 3.3.11. Procurement
- 3.3.12. Business resumption
- 3.3.13. Policies and procedures documentation and review
- 3.3.14. IT Security

4. Compliance and Controls

4.1. Compliance e.g.,

- 4.1.1. Internal audit effectiveness
- 4.1.2. Ethics compliance
- 4.1.3. Compliance with laws and regulations
- 4.1.4. Policy compliance
- 4.1.5. Compliance with delegations
- 4.1.6. Board and/or committee operations compliance to charters and policies
- 4.1.7. Contractual compliance
- 4.1.8. Trust and custody compliance
- 4.1.9. Compliance with compensation policies
- 4.1.10. Compliance with open meeting laws

- 4.1.11. Disclosure and Pennsylvania Right-to-Know Law compliance
- 4.1.12. Compliance with federal statutes and regulations – e.g., OFAC (Office of Foreign Asset Control), NACHA (National Automated Clearing House Association)
- 4.1.13. Compliance with documentation management policies

4.2. Controls e.g.,

- 4.2.1. Externally-managed assets
- 4.2.2. Internally-managed portfolio
- 4.2.3. Cash transfers and funding
- 4.2.4. Cash equitization
- 4.2.5. Securities lending
- 4.2.6. Foreign exchange
- 4.2.7. Performance calculations
- 4.2.8. Investment management fee validation

Document Properties

- a. **Document Owner:** Office of Administration
- b. **Document Author:** Deputy Executive Director for Administration
- c. **Summary of Changes:**

Date	Version	Author	Summary
January 9, 2018	2018 POL-BD-14	SERS Legal Office	The process established by the Board to obtain regular, independent reviews of its fiduciary and governance practices, in order to minimize liability exposure and to promote success in achieving its goals.
August 9, 2021		Deputy Executive Director for Administration	Revised Exhibit A, 1.1.8, to remove the term “non-economic” in reference to describing SERS’ in-state managers, minority and women-owned programs, etc. Also revised the Contact Person, Document Owner, and Document Author.