



Policy Name: Ethical Conduct Policy
Policy Number: 2018 POL-BD-11
Effective Date: January 24, 2007, as amended September 12, 2018
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Applies To: Board Members or Public Officials
Contact Person: SERS Legal Office

Background

The State Employees' Retirement Board (the "board") is aware of its fiduciary obligations and the need to conduct itself in accordance with high ethical standards. Although the members of the board feel that they have conducted themselves in a manner satisfying such obligations and complying with such standards, the board has concluded that it will be beneficial to establish a clear ethical conduct policy with which all board members and, where applicable, their designees are to comply, including, but not limited to board members' recusal from acting on any matter which presents a possible conflict of interest.

Policy

In order to assure members of the State Employees' Retirement System ("SERS") that board members and designees of board members are conducting themselves in a manner consistent with their fiduciary obligations and in accordance with high ethical standards, such members and designees shall comply with the following requirements (see attachment).

Document Properties

- a. **Document Owner:** Executive Office
- b. **Document Author:** Legal Office
- c. **Summary of Changes:** Revised provisions of the policy

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| 12/15/2015 | | Rose Agnew | Assigned New Policy Number |
| January 9, 2018 | | Chris Houston | Revised policy #2007 POL-EO-02 established January 24, 2007 and assigned a new policy number. |

ETHICAL CONDUCT POLICY

BACKGROUND

The State Employees' Retirement Board (the "Board") is aware of its fiduciary obligations and the need to conduct itself in accordance with high ethical standards. Although the members of the Board feel that they have conducted themselves in a manner satisfying such obligations and complying with such standards, the Board has concluded that it will be beneficial to establish a clear ethical conduct policy ("Policy") with which all Board members and, where applicable, their designees are to comply, including, but not limited to Board members' recusal from acting on any matter which presents a possible conflict of interest.

POLICY

In order to assure members of the State Employees' Retirement System ("SERS") and participants in the State Employees' Defined Contribution Plan and the State Employees' Deferred Compensation Plan (hereafter referred to collectively as the "Plans") that Board members and designees of Board members are conducting themselves in a manner consistent with their fiduciary obligations and in accordance with high ethical standards, such members and designees shall comply with the following requirements (copies of the statutory or code of conduct provisions referenced herein are set forth in Appendix A hereto):

1. In making investment decisions, they shall exercise that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of funds, considering the income to be derived therefrom as well as the probable safety of their capital. The foregoing requirement shall be applied on a total portfolio basis with a recognition of the prudence and advantages of reasonable diversification for SERS, in terms of reducing the volatility of returns and risk management.
2. In taking action on any investments, disbursements of moneys, or any other transactions of SERS, including actions relating to the Plans, neither they nor, to their knowledge, any of their immediate family members (such person's spouse, parents, children and siblings and the spouses of any such individuals) shall profit therefrom, either directly or indirectly, and they shall invest and manage the moneys and other assets of SERS and the Plans for the exclusive benefit of the members of SERS and the participants in the Plans, subject to any limitations, exceptions and directives in any applicable law.
3. They shall not engage in conduct that is described as a conflict under either 65 Pa. C.S.A. §1102 or 4 Pa. Code §7.151.
4. They shall not attempt to direct a member of SERS staff, a SERS advisor or consultant, or a fellow Board member to a specified action or decision through the use of any improper or wrongful pressure, scheme, or threat intended to cause someone to act in a way they would not otherwise act if left to act freely.

5. They shall refrain from knowingly soliciting campaign or charitable contributions from SERS staff and SERS contractors and shall comply with all SERS policies, laws, regulations, and codes of conduct applicable to the solicitation of or reporting requirements for the receipt of any campaign or charitable contributions.

6. They shall not knowingly solicit or accept, for themselves or for any other person or entity, including their immediate family (their spouse, parents, children and siblings and the spouses of any such individuals), a gift, gratuity, favor, entertainment, loan or other thing of monetary or economic value (except where its value is truly de minimis or where it is being received by virtue of being a member of a broad general class, such as being a shareholder of a public corporation) from those persons and entities, including the affiliates of such persons and entities, engaged or proposing to engage in investments or transactions with SERS, including those related to the Plans.

7. All security transactions for any accounts they manage or control shall be done in a manner that avoids the appearance of impropriety. Accordingly, no Board member shall engage either in:

- (a) Insider trading, which is an illegal activity in which a person makes trades based on proprietary and confidential information they received about a security that investors generally do not know, or
- (b) Front running, which is an illegal activity in which a person, knowing an institution or firm is about to make a market-moving trade in a security, takes or sells a position in that security “in-front” of the trade to make a personal profit.

These prohibitions apply even if a Board member’s position on the Board ceases and until such time, if ever, as the information has become generally available to the public, other than through disclosure by or through the Board member or a related person.

8. They shall adhere to the Board Confidentiality Policy and not use confidential information that they obtain in the performance of their duties as Board members for the benefit of themselves or any other person or entity, other than members of SERS or participants of the Plans.

9. They shall not enter into any agreement for compensation for services rendered or to be rendered to any person or entity in connection with any investments or transactions involving SERS or the Plans.

10. They shall disclose all conflicts of interest, potential conflicts of interest, and situations that could reasonably be perceived as creating conflicts of interest and such disclosure shall be made prospectively, or as soon as reasonably practicable. The disclosures shall be made in writing to the Chief Compliance Officer who shall notify the Board Chairperson, who shall be required to present to the Board a list of such disclosures.

11. In order to promote and facilitate compliance with the highest ethical standards and in furtherance of providing disclosure and transparency, they shall prior to commencement of service as a Board member (including designees) and annually thereafter on or before May 1st, file with the SERS Chief Compliance Officer:

- An Annual Questionnaire on Conflict of Interests (“Questionnaire”) in the form then being used by SERS;
- A copy of the State Ethics Commission Statement of Financial Interests required to be filed pursuant to the provisions of the Public Official and Employee Ethics Act, 65 Pa. C.S. §1101 *et seq.*; and
- If applicable, a copy of the Code of Conduct Statement of Financial Interest required to be filed under the Governor’s Code of Conduct promulgated by Executive Order 1980-18, as amended.

12. They shall recuse themselves from the vote by the Board or committee on any matter involving a conflict of interest with respect to them or to their knowledge with any of their immediate family members (such person’s spouse, parents, children and siblings and the spouses of any such individuals). This requirement shall be read broadly, and Board members and designees of Board members are encouraged to recuse themselves if there is any possibility that a conflict of interest could be perceived to exist or could create an appearance of impropriety. Recusal shall not imply that a conflict of interest actually exists; rather, it shall only imply that a conflict of interest may exist or may be perceived to exist. A Board member who would recuse on a matter if personally present at the relevant Board or committee meeting and who is being represented at such Board or committee meeting by a designee shall instruct such designee to recuse based on the possible conflict of interest of such Board member and such designee then shall so recuse himself or herself even if the designee would not otherwise recuse. Furthermore, for any matter coming before the Board or a Board committee in executive session involving a conflict of interest, the Board member or designee, if the Board member is not present, shall not participate nor attend the executive session in which the matter is to be considered, and shall recuse himself or herself from voting on the matter when the Board or Board committee returns to open session. The reason for any recusal shall be stated at the relevant Board or committee meeting and a written recusal on the form then being used by SERS shall be filed with SERS’ Secretary. Examples of possible conflicts of interest are set forth in Appendix B, such examples being illustrative and not exhaustive.

13. A matter before the Board shall not be deemed a conflict of interest where such matter may bestow a benefit on a Board member and the benefit in question is merely incidental to the Board member’s membership in a large class such as the class of SERS members or as a participant in the Plans.

14. Board members shall in a timely manner make disclosures required under this policy or report any suspected violations of this Policy to the Chief Compliance Officer who shall notify the Board Chairperson, who shall ensure that such suspected violations are considered by the Board, along with any supporting information. (Should the Board Chairperson be the subject of the suspected violation, the Chief Compliance Officer shall instead report the matter to the Assistant Chairperson or the Chairperson of the SERS Audit Committee, who

shall report the matter to the Board). Upon consideration and all necessary analysis of such suspected violations, the Board may take any of the following actions:

- a) Refer the matter to the Audit Committee to investigate the suspected violations further;
- b) Make a finding that no violation has occurred;
- c) Where the alleged violation pertains to a breach of the law and the Board has determined that there are sufficient grounds to support the suspected violations, refer the matter to the appropriate authorities;
- d) Make a finding that a violation has occurred, and may take any of the following actions:
 - i) Communicate the findings of the Board to any appointing authority, if applicable, or to any other party and by any means the Board deems appropriate.
 - ii) Any other action the Board deems suitable under the circumstances.

15. Any Board Member who is the subject of a suspected violation of these Standards shall:

- a) Be informed of the suspected violations and provided an opportunity at a Board meeting (and a Board committee meeting, if applicable) to respond to the suspected violations. The Board shall endeavor to provide the Board member with adequate notice of such meeting, where circumstances permit; and
- b) Recuse himself or herself from any Board or Board committee review or discussion in relation to the violation, except when invited to respond to the suspected violations.

16. Should a Board Member be unsure of any provision of this policy or related laws and the implementation thereof, they are expected to seek advice or clarification from SERS Chief Counsel.

The foregoing requirements may incorporate or expand on some of the requirements in existing statutes and applicable directives and codes of conduct, but they are not intended to supplant those requirements. In addition to complying with the foregoing requirements, Board members and designees of Board members must comply with all such other applicable requirements.

APPENDIX A

65 Pa. C.S.A. § 1102. Definitions

“Conflict” or “conflict of interest.” Use by a public official or public employee of the authority of his office or employment or any confidential information received through his holding public office or employment for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated. The term does not include an action having a de minimis economic impact or which affects to the same degree a class consisting of the general public or a subclass consisting of an industry, occupation or other group which includes the public official or public employee, a member of his immediate family or a business with which he or a member of his immediate family is associated.

4 PA. Code § 7.151. Adverse pecuniary interest.

An employee, appointee or official in the Executive Branch of the Commonwealth may not do the following:

- (1) Engage directly or indirectly in business transactions or private arrangement for profit which accrues from or is based upon his official position or authority.
- (2) Participate in the negotiation of or decision to award contracts, the settlement of claims or charges in contracts, the making of loans, the granting of subsidies, the fixing of rates, or the issuance of permits, certificates, guarantees or other things of value to, with or for an entity in which he has a financial or personal interest.
- (3) Hold any pecuniary interest in, or own shares or securities issued by, an entity regulated by 4 Pa.C.S. Part II (relating to the Pennsylvania Race Horse Development and Gaming Act) (herein, a “regulated gaming entity”). This provision does not apply to interests held:
 - (i) In mutual funds when the value of the interest owned does not exceed one percent of the total fair market value of the regulated gaming entity.
 - (ii) Through defined benefit pension plans.
 - (iii) Through a deferred compensation plan organized and operated under section 457 of the Internal Revenue Code of 1986 (26 U.S.C.A. § 457).
 - (iv) In blind trusts over which the holder may not exercise any managerial control or receive income during the time period the holder is subject to these provisions.
 - (v) Through a tuition account plan organized and operated under section 529 of the Internal Revenue Code (26 U.S.C.A. § 529).
 - (vi) Through a plan described in section 401(k) of the Internal Revenue Code (26 U.S.C.A. § 401(k)).
 - (vii) In an employer profit-sharing plan qualified under the Internal Revenue Code.
 - (viii) In a regulated gaming entity prior to July 6, 2004, by individuals other than the following:
 - (A) Employees of the Pennsylvania State Police or the Department of Revenue whose duties include any aspect of the gaming industry.
 - (B) Members of the State Horse Racing Commission or the State Harness Racing Commission and their respective staff.

- (C) Public officials appointed by the Governor and Commonwealth employees under the Governor's jurisdiction.
- (D) Members of the board of the Public School Employees Retirement System and its employees.
- (E) Members of the board of the State Employees Retirement System and its employees.
- (F) Members of the board of the Independent Regulatory Review Commission and its employees.

APPENDIX B

Possible conflicts of interest include situations where the Board member or designee:

- a. has a personal bias or prejudice concerning a party that would affect his or her judgment in the matter;
- b. knows that he or she, or any member of his or her immediate family or a business with which he or she or a member of his or her immediate family is associated, has a financial interest (e.g. possesses a direct or indirect financial, property, leasehold, ownership or other beneficial interest) in the subject matter at issue or in a party involved in the matter or an affiliate of such party (an affiliate of a party being a person or entity controlling, controlled by or under common control with such party);
- c. knows that he or she, or any member of his or her immediate family, has more than a de minimis interest that could be substantially affected by the proceeding (e.g., voting in an administrative proceeding that would materially impact the pension benefit of him or her or any member of his or her immediate family); or
- d. receives, or knows that any member of his or her immediate family receives, any meals, lodging, tickets, use of sports facilities, transportation or other things of value from a party involved in the matter or an affiliate of such party or any officer, director, partner, member, trustee or employee of such party or affiliate.