

1000 Mill Street
San Luis Obispo, CA 93408
(805) 781-5465 Phone
(805) 781-5697 Fax
www.SLOPensionTrust.org



ETHICAL AND FIDUCIARY CONDUCT POLICY

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As ethical leaders, the Board and executive team of the Pension Trust share values about what is important and work together with mutual respect in a constructive partnership. Together, the Board and executives set the tone at the top that permeates the organization. The purpose of these policies is to provide the foundation for an ethical culture at the Pension Trust.

A. **Fiduciary Duties**

Duty of Loyalty

Board members and staff of the Pension Trust 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;
- Minimizing employer contributions; and
- Defraying reasonable expenses of administering the plan.

The Duty of Loyalty is the most fundamental of fiduciary duties. The duty of Board members and staff to Pension Trust participants and their beneficiaries must take precedence over any other duty. A trustee does not serve as an “agent” or representative of the employer, union or other constituency responsible for his or her appointment to the Board, and must act in the best interests of all of the participants and beneficiaries even where doing so is not in the interest of

the electoral or appointing authority responsible for the trustee's appointment. While a trustee may wear "two hats," one as a trustee and one reflecting another position, such as employer or union official, the trustee may only wear one hat at a time and must wear their trustee/fiduciary hat when conducting system business.

Under the ***Duty of Impartiality***, a corollary of the Duty of Loyalty, where there are conflicting interests among different groups of participants, retirees and/or beneficiaries the Pension Trust must strive to act in a way that serves the overall best interests of the system's members as a whole and avoid favoring one group over the other.

Under the ***Duty to Administer***, another corollary of the Duty of Loyalty, the Board has the sole and exclusive fiduciary duty to administer the Pension Trust in a manner that will assure prompt delivery of benefits and services to the participants and their beneficiaries.

Duty of Care

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 is clearly 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 (i.e., follow a "prudent process")
- Acting in accordance with the documents and instruments governing the system.

Duty to Provide for Actuarial Services

The Board, consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the Pension Trust.

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 Pension Trust shall not cause the system to engage in a transaction if they know or should know that 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 capacity, act in any transaction involving the Pension Trust 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 Pension Trust, 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 Pension Trust 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 Pension Trust 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 for the Pension Trust.
6. Performance of an act in his/her private capacity other than that as a member of the Pension Trust knowing that such act may later be subject, directly or indirectly, to the control, inspection, review, audit, or enforcement by such person or by the system.¹
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 Pension Trust 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.
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, a Plan sponsor or members of the public which purports to represent the Pension Trust'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.

¹ For example, while a Board member who is also a County officer may, so long as consistent with the “two hats” rule, perform duties as a County officer even if they could be subject to Pension Trust review and a Board member who is also a Pension Trust Board member may apply for retirement, etc. even though such application is subject to Board review. However, a board member who operates a private payroll service could not contract with the Pension Trust to issue retirement checks because those checks would be subject to audit by the Pension Trust.

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 that the Pension Trust 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 has also 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. Liability has also been extended to fiduciaries who trade based upon misappropriated material nonpublic information obtained from their principal. 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 relatives or friends.

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 is generally necessary to show some fact verifying that 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 intentionally or inadvertently communicate it 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 Pension Trust. Special care should be taken so that confidential information is not disclosed inadvertently.

If Board members or staff are uncertain whether a piece of information is material, nonpublic information, they shall consult with the Executive Director or the General Counsel before taking action based upon that information. Special care should be taken so that confidential information is not disclosed inadvertently. Examples of inadvertent disclosure include, but are not limited to, discussing confidential information in non-private locations, and leaving confidential documents exposed on one's desk or in a public area.

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. Board members and staff also may not disclose material, nonpublic information to another person who could subsequently use that information for profit. Recommending purchases or sales of securities to which the material nonpublic information relates, even without disclosing the basis for the recommendation, is prohibited.

Like insider trading, "front running" may subject Board members or Pension Trust staff to criminal and/or civil proceedings. Front running occurs when a person enters into a trade of securities with advance knowledge of pending orders from other investors. It could occur, for example, when any Board member or Pension Trust staff covered by this policy trades with the knowledge that a trade is pending on behalf of the Pension Trust. Furthermore, front running may constitute a misappropriation of Pension Trust proprietary information for private or personal gain. It is therefore the policy of the Pension Trust that front running is prohibited. Board members and Pension Trust staff may not place an order for a personal securities transaction when they know that a Pension Trust securities transaction is pending in a security of the company that is the subject of the personal securities transaction, and must wait until 15 days after such Pension Trust securities transaction is executed before placing an order for a personal securities transaction involving the securities of the company. Likewise, Board members and Pension Trust staff may not knowingly delay, hinder, modify, or cancel any internal Pension Trust buy or sell recommendation, decision, or trading order intending to facilitate a personal securities transaction that, but for the action of the Board member or Pension Trust staff person would otherwise constitute front running or violations of state and federal laws.

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 where it is reasonably foreseeable that the recipient of the information could purchase or sell such company securities.

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.

Compliance

This policy is to be delivered to all new Board members and Management and Investment staff, including consultants, upon commencement of a relationship or employment with the system. Each Board member and all management and investment staff must read and complete the certification in Attachment I within 30 days of receipt of the policy and annually by April 1 of each year thereafter. The certifications shall be delivered to the Executive Director.

The Executive Director shall obtain written confirmation from each external manager that handles securities in public market investments separately managed accounts for the Pension Trust that it has a policy against insider trading and that it enforces the policy. The written confirmation must be received by the system within 30 days of commencement of the manager's relationship with the system.

Statements of Economic Interests (Form 700s) filed by Board members or staff pursuant to state or local law shall be reviewed by the Executive Director to ensure compliance with this policy. Board members and staff should report any suspected violation of this policy to the Executive Director or General Counsel. The Executive Director or General Counsel is responsible for causing an investigation of any reported violation. Following such investigation, if the Executive Director or General Counsel concludes that 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 Conflict of Interest Rules

1. All Pension Trust Board members and designated staff and consultants shall abide by the provisions of the Political Reform Act (PRA), Government Code sections 81000, et seq, including section 87100 that prohibits Board members and designated staff and consultants from

making, participating in making, or using their positions to influence Pension Trust decisions in which they have a financial interest. All Board members and designated staff and consultants are subject to the public disclosure and reporting of economic interests under either section 87200 or the Pension Trust's Conflict of Interest (COI) Code. Absent full compliance with these laws and rules, receipt by a Board member, staff or consultant 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 that 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 PRA and/or Pension Trust's COI Code. Board members, staff and consultants are encouraged to confer with the General Counsel if they have questions concerning possible conflicts of interest.

2. Under section 87105 of the PRA and section 18792.5 of the regulations of the Fair Political Practices Commission (FPPC), a Board member or staff member who has a financial interest in a decision of the Pension Trust must, following the announcement of the agenda item to be discussed or voted upon, but before either the discussion or vote commences, do the following:

- Publicly identify the financial interest that gives rise to the conflict;
- Recuse themselves from discussing, voting, or attempting to use their influence to affect the outcome of a decision of the public body; and
- Leave the room until after the discussion and vote on the item in question.
- A Board Member or staff member that has a financial interest in a matter placed on the consent agenda must observe the above requirements with the exception that he or she is not required to leave the room during the consent agenda.
- In the event that the discussion or vote is to occur in closed session, the public identification may be made orally during the open session before the Board goes into closed session and may be limited to a declaration that his or her recusal is because of a conflict of interest under Government Code section 87100.

3. All Pension Trust Board members and staff shall abide by the provisions of Government Code sections 1090, et seq, which prohibit public officers and employees from, in their official capacity, making or participating in the making of any contract made by the Pension Trust in which they are financially interested.

4. Any Board Member or staff who receives an offer from any third party, other than the Pension Trust, of travel expenses (paid or reimbursed) or actual transportation and related lodging and subsistence, 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 Executive Director, prior approval must be given by the Board President or designee. For other staff, approval must be given by the Executive Director.

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 Pension Trust 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 members’ mother would receive this increase along with all other retirees. However, if the Board members’ mother files an appeal that contends that 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 under California Government Code sections 89500 et seq. and applicable regulations thereunder.

2. *Additional Limitations*

- a. No Board member or staff may receive, accept, seek or solicit, directly or indirectly, anything of economic value as a gift, gratuity or favor from a person if it could reasonably be expected that the gift, gratuity or favor would influence the vote, action or judgment of the Board or staff member; or be considered as part of a reward for action or inaction.
- c. If the Board member or staff is allowed to accept a gift under applicable law and this policy, he or she is still 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 should always 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 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 Pension Trust may also 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 Pension Trust investment or non-investment 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 which is exclusively social, or which 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 Executive Director, who will determine the appropriate course of action.

H. Disclosure of Communications

1. ***Disclosure of Communications between Board Members and Staff Regarding Investment Transactions or Non-Investment Matters***

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 would likely serve no useful purpose. However, in those instances where conduct by an individual Board member can be reasonably interpreted as an attempt to influence the outcome of a Board or staff decision or consultant recommendation in either an investment transaction or non-investment matter, the Board recognizes that such

communications could create the potential for misunderstanding, misinformation or conflicting instructions and could be reasonably 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 (4), but nevertheless should be subject to disclosure.

Any communication regarding either a potential investment transaction or non-investment matter initiated by a Board member with either a Pension Trust 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.

2. *Avoidance of Undue Influence*

The Board recognizes that if a Board member or a third-party attempts to direct Pension Trust staff, a consultant 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, consultant or Board member who believes that 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 Executive Director and to the General Counsel. The General Counsel will investigate the situation immediately and with the approval of either the Board President or Vice-President is authorized to use the services of an outside law firm to conduct the investigation if he or she deems it appropriate. Following 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 Executive Director or General Counsel believes that he or she personally has been subjected to an attempted exercise of undue influence, he or she must immediately advise the Board President unless the circumstances dictate that another Board member should instead be notified. The Board President or other Board member will investigate the situation, with the assistance of an outside law firm if appropriate and take whatever action he or she deems to be appropriate.

All senior executives shall annually certify, in writing, that they have been free from undue influence by any individual Board member, executive or third party.

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 Pension Trust 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. Disclosure and Recusal Requirement for Campaign Contributions

1. 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 a Business Relationship with the system if the officer, employee or member has received, solicited or directed a campaign contribution of \$150 or more, individually or in the aggregate, in the twelve month period prior to the making of the decision from the person or entity seeking the Business Relationship.
2. For purposes of this policy, “Business Relationship” means a relationship between a non-governmental party and the Pension Trust for the purpose of providing investment or non-investment services or goods that is expected to generate at least \$100,000 annually in income, fees or other revenue to the party.
3. If the disqualification provision of subdivision (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 subdivision (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 subdivision (a).
4. The Executive Director or General Counsel will cause an independent investigation to be performed for any reported violation of this Section and report any documented violation to the Board for action. Pension Trust staff will maintain a current list of parties engaged in an Investment Relationship subject to Section 1, subdivision (d). The disclosure and recusal requirements of Section 2, subdivision (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.