



# Montgomery County Employee Retirement Plans

## Governance Manual

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## **I) PURPOSE**

This Governance Manual summarizes the governance structure established by the Board of Investment Trustees (the "Board") to ensure prudent, effective and efficient management of the assets of the Montgomery County Employee Retirement Plans ("ERP"). It is a guide to assist the Board in fulfilling its fiduciary responsibilities and to facilitate the organized, efficient, and cohesive functioning of the management of the ERP. This manual also outlines the roles and responsibilities of the various entities overseeing the administration of the Plans and establishes and documents practices and procedures with the intent of having a positive impact on performance and risk oversight. The stronger the governance of the Plans, the better risks (such as operational risk, investment risk) will be managed and controlled.

## **II) BYLAWS**

### **A) ARTICLE I - Purpose**

Purpose. The purpose of the Board of Investment Trustees (the "Board") is to establish, monitor, and modify, as needed, systems for the receipt, custody, disbursement and investment management of the assets of the (1) defined benefit retirement plans, known as the Employees' Retirement System (ERS), (2) Retirement Savings Plan (RSP), and (3) the Deferred Compensation Plan (DCP), each in accordance with the laws of Montgomery County, Maryland, as amended. For the purpose of these bylaws and Board business, "Montgomery County Employee Retirement Plans" (ERP) will be used to refer to an incorporation of the retirement plans.

### **B) ARTICLE II - Membership**

2.1. Membership. The Board consists of thirteen members, appointed by the County Executive and confirmed by the County Council, to include the Directors of the Department of Finance, the Office of Human Resources, and the Office of Management and Budget, and the Council Staff Director; three employee organization representatives, one individual nominated by the Office, Professional, and Technical (OPT) and Service, Labor and Trades (SLT) bargaining units; one individual nominated by the fire and rescue employee unit; and one individual nominated by the police employee bargaining unit, or individuals recommended by each employee organization; one active County employee who is a vested member of the ERP and Merit System and who is not a member of a collective bargaining unit; a retired member of the ERP; two persons recommended by the County Council who are knowledgeable in pensions, investments or financial matters; and two individuals knowledgeable in pensions or financial matters (33-59(b))

2.2. Terms. Except for ex-officio officers and the individuals nominated by the Fire and Rescue unit, the Office, Professional, and Technical (OPT) and Service, Labor and Trades (SLT), and the Fraternal Order of Police bargaining units who serve indefinitely while holding office, a 3 year term ends on March 1 of every third year after confirmation by the Council. (33-59(b)(2), (3) and (4))

2.3 No member may serve more than two consecutive full terms. This requirement may be waived if there are no other qualified candidates or other unique circumstances justify reappointment. (2-148)

### **C) ARTICLE III - Officers**

3.1. Officers. The officers of the Board consist of a Chair, a Vice Chair, and a Secretary. The officers shall be nominated from the floor and elected by the members at a meeting. (33-59(g)) Each officer shall be elected from a different constituency group.

The constituency groups are (a) ex officio members; (b) members selected by the Council and Executive; (c) members selected by the collective bargaining units (d) member selected on behalf of the unrepresented employees; and (e) member selected on behalf of the retired employees.

3.2. Officer Terms. The term of the Chair, Vice Chair and Secretary shall be one year. No officer may serve more than one term in a particular office.. A member who replaces an officer during a term may only serve for the remainder of the term.

3.3 Rotation of Officers. The officers shall rotate so that for the following year the Secretary will serve as Vice Chair and the Vice Chair will serve as Chair. A member may decline to serve and another member of that constituency group, if applicable, may serve in that officer rotation. If there is no other member of the constituency group, the Board will elect another member to serve as the officer.

3.4. Officer Elections. Officer elections shall take place at the September meeting of the Board or the next meeting thereafter in the absence of a September meeting. If an officer is unable to complete a term, the Board must elect a member to serve the remainder of the term. The election of a replacement must be made at the first Board meeting following the receipt by the Board of either formal or informal notice of the officer's inability or unwillingness to complete the term.

3.5. Chair and Vice Chair Responsibilities. The Chair must conduct the meeting. In the Chair's absence, the Vice Chair must conduct the meeting. If both the Chair and the Vice Chair are absent from a meeting, the members present must elect a member to act as the Chair for the meeting.

The Chair may take administrative action on behalf of the Board. (33-59(g)(1)).

The Vice Chair must perform the duties and exercise the powers of the Chair when the Chair is unavailable, or the Board determines is otherwise unable to perform the duties of the Chair. (33-59(g)(2))

3.6. Secretary Responsibilities. The Secretary must record the proceedings and actions of the Board and may certify a document or action of the Board. (33-59(g) (3).

3.7 Facilitators. The Board may elect Board members to serve as facilitators to assist the Chair with administrative and investment matters during meetings. The facilitators will be nominated from the floor and elected by the members during the September meeting of the Board. The term will be one year and the facilitator may not serve more than two consecutive terms unless the member served less than one half of a term in which case the member can serve for two full consecutive terms following the incomplete term.

3.8 Compliance and Audit Committee. At the September Board meeting, the Board will elect four Board members to serve on the Compliance and Audit Committee. The term will be one year and a committee member may not serve more than two consecutive terms unless the member served less than one half of a term in which case the member can serve for two full consecutive terms following the incomplete term. The Committee will assist the Board in its oversight responsibilities for financial reporting, internal controls and compliance with Board policies and applicable laws. The Committee will meet at least twice in a calendar year.

#### **D) ARTICLE IV – Term**

4.1. Term of Board. The Board continues in existence until it is abolished by law. (33-59(a)(2))

## **E) ARTICLE V - Meetings**

5.1 Meeting Schedule. The Board must meet at least once during each calendar quarter. (33-59(h)(1) but will generally schedule at least six meetings per calendar year. Before each calendar year, the Board shall set a meeting schedule.. Board meeting dates may be changed by the consent of seven members of the Board and may be obtained, in writing, outside a meeting. The Chair or seven members of the Board may call additional Board meetings. (33-59(h)(1))

5.2. Attendance Requirements. The Board will apply the procedures for automatic removal set forth in County Code 2-148 if a member is absent from more than the permitted number of meetings under Code 2-148 (currently 2 scheduled meetings). (33-59(c)(1)). Scheduled meetings mean meetings held at least 7 days after notice of the meeting (2-148). For the first year of a member's term, attendance is based on a member's first 12 months otherwise the 12 month period is the calendar year. A member who is not present for at least half of the scheduled action items presented during a meeting is considered absent. A member may only participate by teleconference or videoconference for one-half of the scheduled meetings during a calendar year.

5.3. Meeting Locations. The Board shall meet in the Stella B. Werner Council Office Building, the Executive Office Building, or the official location of Board offices in Rockville, Maryland, unless the Chair, or a majority of the members, designates another location.

5.4. Meeting Notification. The Chair or the Chair's delegate must supply reasonable notice of the date, time, and place of meetings as required by the Maryland Open Meetings Act.

5.5. Special Meetings. Special meetings may be called by the Chair. Two business days' notice of special meetings must be given to each member of the Board. Such notice may be oral or written.

5.6 Emergency Meetings. The Chair may call an emergency meeting of the Board. Each member must file a written waiver of notice of any emergency meeting after the meeting.

5.7 Meeting Agendas. The Chair or the Chair's delegate must prepare a written agenda for each meeting. After the Chair calls a meeting to order, a member of the Board may move to add or delete from the agenda of that meeting or add an item to a future meeting's agenda. Addition or deletion of an item from the agenda at a current meeting requires the affirmative vote of a majority of all members present. The addition of an item to an agenda for a future meeting requires the request of the majority of Board members.

5.8. Meeting Materials. The written agenda must be mailed to the members at least one week before each meeting. Written information that will be addressed at a Board meeting should be received one week before each meeting. The Chair or the Chair's delegate must send an agenda and any information with respect to a meeting, which is not a regularly scheduled Board meeting, as early as possible prior to the meeting.

5.9. Quorum. A quorum consists of seven members of the Board. A quorum is required to conduct business of the Board. (33-59(h)(2)) Attendance by teleconference or videoconference is included for purposes of establishing a quorum.

5.10. Member Representation. A member of the Board cannot designate a substitute to sit and act in the member's place.

5.11. Closed Sessions. Closed session meetings that are not open to the general public may be held in accordance with the State law on meetings of public bodies. Information discussed and materials distributed during the closed session are deemed confidential.

5.12. Actions Taken Outside of Meetings. The Board may act without a meeting. All of the members must concur in writing for the Board to approve any action the Board takes without a meeting. (33-59(h)(3). Any action taken outside of a meeting must be recorded in a Board resolution at the next Board meeting.

## **F) ARTICLE VI – Conduct of Meetings**

6.1. Rules of Order. The Chair, or a majority of the members present at the meeting, may direct that the proceedings for a deliberative body as contained in the Robert's Rules of Order apply to meetings of the Board for an entire meeting, for a special purpose or during a certain time period of a meeting. Robert's Rules of Order govern when it is necessary to take formal action or decide controversial matters. (2-149) When the Robert's Rules of Order do not apply, the Chair must conduct a discussion informally. Any reference to Robert's Rules of Order means the latest published edition of such rules at the time an issue arises with respect to such rules.

6.2. Board Action Validity – Rules of Order. A Board action that is otherwise valid is not invalid because of the failure to follow Robert's Rules of Order.

6.3. Board Action Validity – Bylaws. Unless otherwise prohibited by law, if Board action is taken in a manner not in accordance with these Bylaws, that action is valid unless a majority of the members of the Board vote to rescind the action. A vote to rescind a Board action which was taken in a manner not in accordance with these Bylaws must be taken no later than the first meeting after the distribution of the draft minutes which refer to the relevant Board action, but in no event later than the next Board meeting.

## **G) ARTICLE VII - Minutes**

7.1. Requirement for Minutes. The Secretary or the Secretary's delegate must take minutes of all meetings of the Board. Minutes of a closed session meeting must be kept separately from minutes of the open meetings. All minutes must be prepared, distributed and maintained in accordance with the State law on meetings of public bodies.

7.2. Approval Process. Draft minutes of each Board meeting must be prepared by the Secretary or the Secretary's delegate and mailed to each member of the Board and counsel to the Board as soon as reasonably possible after the meeting. Draft minutes must be approved or corrected by vote of the Board at its next meeting to the extent the Board can reasonably do so. After minutes have been approved or corrected by the Board, the drafts of the minutes and any related notes must be destroyed.

7.3. Distribution. The Executive Director must forward copies of the approved minutes (except those of closed meetings which do not become public under the Maryland public record rules) to the Reference Section of the Rockville Public Library within six months of their approval.

## **H) ARTICLE VIII – Board Action**

8.1. Resolutions. An action of the Board must be evidenced by a resolution that must be contained in the minutes of the Board. A resolution must be initially moved by one member of the Board, seconded by another member of the Board and must receive an

affirmative vote of seven members of the Board. (33-59(h)(2)) Resolutions are recorded in the minutes by number.

8.2. Voting Requirements. In order to vote, a member must be present. Alternatively, a member may participate in the meeting and vote by teleconference or videoconference if the member has access to all information necessary for making an informed decision. In order to participate by teleconference or videoconference, a member must participate and vote on at least half of all action items. For this purpose, an abstention is considered a vote.

8.3. Amendments. An amendment to a pending resolution or motion may be made only upon the affirmative vote of seven members of the Board.

#### **I) ARTICLE IX – Professional Staff**

9.1. Board Office Staff. The Chair may request the Chief Administrative Officer of the County to appoint persons to serve as staff to the Board. The Executive Director shall direct the staff and perform the duties set by the Board.

9.2 Evaluation of Staff. The Board will annually provide feedback to the Chief Administrative Officer for the evaluation of the Executive Director.

9.3 Public Information Requests. The Executive Director must respond to all public information requests in accordance with the State law on public records and rules adopted by the Board.

9.4 Information Requests. All requests from the media or third parties for information regarding Board actions must be directed to the Executive Director, or his or her designee, who will respond accordingly.

9.5 Delegation to Executive Director. The Board may delegate its duties to the Executive Director in written policies and procedures. (33-60(i))

9.6 Execution of Documents. The Executive Director may execute documents on behalf of the Board.

#### **J) ARTICLE X – Compensation and Expenses**

10.1. Compensation. Members of the Board serve without compensation. (33-59(d))

10.2. Expense Reimbursements. The Board must authorize reimbursement to members, Board staff and Board counsel for all reasonable and proper expenses incurred in performing their duties. Board members may not receive reimbursement for expenses from any other source. (33-59(d)) Specific procedures for reimbursement are set forth in the Board's administrative manual.

#### **K) ARTICLE XI - Reports**

11.1. Reporting Requirements. The Board will prepare the annual and quarterly reports pursuant to Montgomery County Code (sec. 33-61B).

11.2. Preparation and Approval Process. The Executive Director must prepare and distribute quarterly and annual investment reports for consideration by the Board following confirmation of data received from the appropriate sources. Reports will be approved by the Board as soon as practicable thereafter, and filed as required by law.



## **L) ARTICLE XII - Bond**

12.1. Custodian Bond Exemption. The Board shall not require a bond of the Director of Finance as custodian of the ERS in addition to the bond required as the Director of Finance.

## **M) ARTICLE XIII - Miscellaneous**

13.1 Signature Authorities for Payments. All payments from the retirement system assets must be made by (i) the Director of Finance, (ii) a designee of the Director of Finance, or (iii) two (2) persons designated by the Board, acting jointly. The Board must file a duly attested copy of the resolution of the board designating the two (2) persons, with specimen signatures of those persons, with the Director of Finance to indicate their authority for making payments. (33-61(a))

13.2. Mailing Address. The mailing address of the Board is the official location of Board offices at such address established in Rockville, Maryland.

13.3. Amendment of Bylaws. An amendment of the Bylaws may be made only in accordance with the following procedure. A draft amendment must be prepared distributed to Board members and the Board must have one week to consider the draft amendment. The Board may vote on an amendment at any meeting of the Board after the conclusion of the one week period. An amendment of the Bylaws must be approved by the affirmative vote of seven members.

## **III) DELEGATION**

### **A) Background**

Pursuant to Section 33-60 of the County Code, the Board of Investment Trustees (the "Board") may "delegate its duties to the Executive Director or a similarly situated County employee as it deems appropriate and consistent with its fiduciary duties in a written policy or procedure." Section 33-60 of the County Code further provides that "if the Board has prudently delegated its duties and monitored the delegation, the trustees must not be liable for an act or omission made by its delegate."

### **B) Purpose**

These delegation guidelines are intended to serve as the written policy that the Board and Executive Director shall follow in order to establish procedural and substantive safeguards necessary to ensure a prudent delegation of duties by the Board to the Executive Director.

### **C) Initial Delegation**

In deciding whether to delegate duties to the Executive Director, the Board shall conduct a thorough examination of the Executive Director's capabilities (and his/her investment staff), to determine if he/she has the requisite skill, education, background, resources, and experience necessary to perform the duties to be delegated.

### **D) Ongoing Delegation**

At least annually, but at any additional time as the Board deems prudent, the Board shall consider whether to continue its delegation of any duties. Such review shall consist of a review substantially similar to the initial delegation review described above. Additionally, the Executive Director shall annually provide a report to the Board of his/her actions,

performance, capabilities and any events that materially impact his/her ability to perform the delegated duties.

#### **E) Termination of Delegation**

The Board may terminate a delegation at any time and for any reason by Board action. Additionally, at any time that the Executive Director to whom the Board has delegated authority terminates service or becomes incapacitated for a period of more than 10 days, any delegation made specifically to that Executive Director shall automatically terminate. The Chief Administrative Officer of the County shall immediately notify the Board in the event of any such termination or incapacity.

#### **F) Procedural Safeguards Related to Investment Decisions**

In the event that the Board delegates authority to the Executive Director to negotiate with, contract with, retain and terminate investment managers and/or make or termination investments with investment funds, trusts, companies or partnerships, the following procedural rules shall apply:

- No investment shall be made or terminated unless the Executive Director (personally and without further delegation) affirmatively approves of such decision, the Independent Investment Consultant concurs that such investment decision is in compliance with the Board's Statement of Investment Policy and Objectives and the Board's Governance Manual, and Board counsel has reviewed the investment for legal form.
- At each regularly-scheduled Board meeting, the Executive Director, Independent Investment Consultant, and Board Counsel shall provide to the Trustees the following information:
  - Executive Director
    - A listing of each investment made or terminated since the last Board meeting, along with a due diligence memorandum, supporting documentation as to the analysis performed in making the decision, and the certification of compliance with the Board's policies.
    - A description of any discretionary decision made appurtenant to an existing investment (e.g., contract modification)
    - All investment performance reporting and monitoring materials
    - A statement as to any changes in the investment staff
  - Independent Investment Consultant
    - A confirmation that the consultant believes that each investment decision made by the Executive Director is in compliance with the Board's Statement of Investment Policy and Objectives.
    - All investment performance reporting and monitoring
  - Board Counsel

- A report of all contracts and legal agreements executed between the prior and current Board meeting
- A confirmation that he/she is not aware of any investments made or terminated during the quarter that were not reported by the Executive Director
- A confirmation that the retirement plans are not subject to any investment or fiduciary-related investigation or litigation

#### IV) ROLES AND RESPONSIBILITIES

Consistent with its fiduciary role as Trustee of the Plans, the Board's role is to establish policies and procedures to ensure the Montgomery County Employee Retirement Plans are appropriately governed and managed.

To ensure that the accountability and authority for governance and management of the Retirement Plans are clearly stated, the Board herein distinguishes the roles and responsibilities of the various parties responsible for management and administration of the Retirement Plans in the table below. All parties listed below act as fiduciaries to one or more of the retirement plans, with the exception of Board counsel and certain private fund managers. The denotation of "Staff" in the tables refers to the Staff Investment Committee, which is comprised of the Executive Director, Portfolio Managers, and Analysts.

GOVERNANCE POLICY			
ROLE	BOARD	STAFF	INDEPENDENT 3 <sup>RD</sup> PARTY
<b>Determine governance (roles and responsibilities)</b>	Establishes and Approves	Input/Facilitate Discussion	Input (consultants/counsel)
<b>Establish and modify governance policies</b>	Approves	Input	Input (counsel/consultants)
<b>Delegation of authority</b>	Establish	n/a	n/a
<b>Actuarial Assumptions</b>	Recommends	Input	Input (consultants) Approves (actuary)
<b>Annual operating budget</b>	Approves	Input	Input (consultants)
<b>Legislative Reporting</b>	Reviews	n/a	Reports (counsel)

<b>GOVERNANCE MONITORING &amp; REPORTING</b>			
<b>ROLE</b>	<b>BOARD</b>	<b>STAFF</b>	<b>INDEPENDENT 3<sup>RD</sup> PARTY</b>
<b>Annual vendor evaluations</b>	Reviews	Transmits	Reports (all vendors)
<b>Contract execution and amendments</b>	Reviews	Executes (Executive Director)	Approves legal form (counsel) Reports (counsel)
<b>Budget review to ensure administration in a responsible and cost effective manner</b>	Reviews	Reports	n/a
<b>Executive Director performance evaluation</b>	In conjunction with CAO	n/a	CAO in conjunction with Board
<b>Board meeting minutes</b>	Approves	n/a	Records (counsel)
<b>Approval of outside counsel</b>	Recommends	Input	Approves (counsel)

<b>COMPLIANCE</b>			
<b>ROLE</b>	<b>BOARD</b>	<b>STAFF</b>	<b>INDEPENDENT 3<sup>RD</sup> PARTY</b>
<b>Ethics Commission financial disclosure statement</b>	Required filing	Required Filing	n/a
<b>Board's Standards of Professional &amp; Ethical Conduct</b>	Required filing	Required Filing	Required Filing (counsel)
<b>Semi-annual risk and quarterly compliance</b>	Monitors/Reviews	Transmits	Reports (all vendors)
<b>Due diligence and continuing education travel</b> 1) requests 2) meeting evaluations	1) Approves 2) Reviews	1) Transmits 2) Reports	n/a
<b>Annual disclosures</b>	Monitors/Reviews	Transmits	Reports (all vendors)
<b>Annual financial audit</b>	Reviews	Input	Reports (auditor)
<b>Legislative reporting</b>	Approves	Input/Reports	Reports (counsel)

## **V) SERVICE PROVIDER PROCUREMENT**

### **A) Background**

#### **1) Purpose of Policy Statement/Board Requirements**

The purpose of this statement is to define the policy of the Board of Investment Trustees (the "Board") regarding the procurement of external service providers. These services are required in the management of the investment programs for the Employee Retirement Plans (the "ERP") which include the Employees' Retirement System, Retirement Savings Plan and Deferred Compensation Plan. The policy statement is intended to foster competition and fairness while being flexible to meet the needs of a dynamic investment environment.

This policy does not cover procurement of Board office administrative services, which generally follows established County contracts and procedures (i.e., procurement of supplies, mini-contracts, etc.) and is set forth in the Board's Administrative Manual.

2) Statutory Board Responsibility and Authority to Contract for Services

Pursuant to Section 33-60 of the Montgomery County Code, the Board has the fiduciary responsibility for the governance of the ERP investment management programs and has exclusive authority to contract for services to meet this responsibility. Also under Section 33-60, the Board has the authority to delegate its duties. Under this policy, the Board delegates to the Executive Director the ability to select investment managers solely for the ERS and enter into or modify contracts for all Plans. The Board also delegates to the Executive Director the ability to terminate ERS investment manager contracts.

3) Board Exemption from County Procurement Regulations

Pursuant to Section 33-60 of the Montgomery County Code, the Board is exempt from the Montgomery County Government procurement regulations in the procurement of services for the management of ERP assets. However, as detailed in this policy, the Board adheres to a competitive procurement process in the procurement of service providers.

4) Communications Responsibilities

Official communications related to Board procurement processes and activities will be coordinated by Board Staff. Staff will report items of significance to the Board as appropriate.

**B) Procurement of Service Providers – Procedures**

1) Stage 1 – ERP Program requirements

The Board will determine the services necessary to meet the goals of the program, including:

- Hiring/Terminating of service providers
- Number of service providers sought
- Urgency/timeframe for search
- Consultant support required

2) Stage 2 – Research Process

This stage involves determining search criteria and sources and the list of possible candidates that may meet Board needs as specified in Stage 1.

a) Criteria

Based on need, Staff will create a specific list of criteria for determining eligible vendors ("service providers") for the ERP. The initial criteria will pertain to minimum requirements related to expertise in the service area being procured. The Board may add additional criteria to be used in a particular search.

b) Candidate sources

Although not limited to the sources listed below, Staff generally uses these sources to identify eligible candidates. Staff may also use sources identified by the Board's consultant(s). The Board or Staff may recommend additional sources to be used in a particular search.

- Third-party databases including, consultant and other vendors
- Industry sources
- Marketing materials
- Institutional investor contacts
- Reports and sources used to identify emerging investment managers
- Montgomery County resources and information

c) Emerging Investment Managers

The Board, Staff and consultants are committed to including emerging investment managers, among prospective investment manager candidates, including businesses owned by women, minorities and disabled individuals. Emerging investment managers are:

- Firms with assets and/or product assets below the 75<sup>th</sup> percentile of their respective peer group; or
- New or developing firm which is:
  - Raising its first or second institutional fund or
  - Creating its first institutional product

Special efforts will be made to ensure identification of possible eligible firms in the search process including:

- regular monitoring of above-referenced sources to identify possible candidates
- regular review of emerging investment managers
- Staff interviews with emerging firms on an ongoing basis
- maintenance of research files on such firms to assist efforts when searches begin

d) Selection of Candidates

Based on criteria and sources noted above, Staff will prepare a list of possible candidates for a specific search. Staff, with the assistance of the investment consultant, generally will issue a Request For Information (RFI) to the candidates selected. In special circumstances, with Board approval, Staff may not issue a RFI (e.g. using same service provider across County Plans).

Due to the nature of private market and non-marketable investment opportunities for the Employees' Retirement System Staff may not issue a RFI. Staff may identify opportunities based on criteria identified in Stage 2 and will evaluate the opportunity based on the criteria identified in Stage 3.

3) Stage 3 – Review and Verification Process

Stage 3 of the search process focuses on review and verification of information pertaining to the list of candidates identified in Stage 2. Completion of the Stage 3 process should result in the selection of a finalist.

a) Due diligence evaluations

Staff will complete a due diligence process to confirm findings identified in Stage 2. Those candidates deemed to be eligible will be interviewed by Staff, and the Board's consultant (if applicable), by phone or in person in the Board's office. Staff will prepare a summary of the candidate's evaluation which may include:

- Quantitative information resulting from Stage 2 criteria.
- Qualitative information related to candidate's experience, strategies and operations including:
  - organizational structure
  - experience and depth of personnel, including turnover
  - firm-specific operational philosophy
  - fees
  - references from Board consultant(s)
  - references from other sources
  - in the case of limited partnership arrangements such as private equity, real estate or hedge funds, fund-specific aspects including but not limited to liquidity and tax issues.
  - firm-specific legal/litigation issues

b) Selection of prospective service provider(s)

Staff will usually conduct an onsite due diligence review of the prospective service provider(s) which will include an interview, and prepare a report, along with a due diligence evaluation form, with input from the Board consultant resulting in either selection, in the case of prospective ERS investment managers, or a recommendation to the Board, in the case of all other prospective service providers. The selection of the prospective service provider will be based on both quantitative and qualitative evaluations as well as interviews and results of reference checks.

c) Contracting

After Staff has selected any prospective service providers, Staff, in conjunction with Board counsel, will evaluate the contract and governing documents to determine whether there are major issues with the service provider's contract or governing documents that would prohibit the Board from entering into a contract.

4) Stage 4 –Selection of Service Providers and Contract Process

The Executive Director will approve or disapprove Staff's recommendation of investment managers for the ERS. For all other service providers, the Board will vote on Staff's recommendation at a meeting of the Board pursuant to Board bylaws. For all service providers, Staff, with assistance from the Board's counsel, will negotiate the terms of the contract or agreement.

a) Board Voting

For non-investment manager service providers, the Board will vote based on all information made available by Staff, including information on the entire search process as summarized by Staff and the consultant, subsequent materials prepared for Board consideration, final interviews and due diligence meetings, as applicable. The Board will vote by formal resolution.

If the Board does not vote to accept Staff's recommendation, then the Board will determine at what stage to recommence the procurement process.

b) Contract process and negotiations

Staff will pursue contract negotiations, including terms related to fees, operational issues and guidelines, and will apprise the Board if needed.

i) Agreements generally will include provisions for:

- establishment of the account and assignment of management and fiduciary responsibility if required
- directions pertaining to the operations of the account
- directions pertaining to Board and Staff authorities and communications
- professional liability insurance for errors and omissions
- fee and terms of invoicing and payment
- contract termination upon notice by either Board or service provider
- Board required disclosures
- addenda related to Board policies and procedures, and operational guidelines

ii) All service provider agreements will be reviewed by Staff and the Board's counsel to confirm conformance with Board policies and applicable law.

c) Contract execution

All agreements and contracts will be approved and executed in accordance with Board Bylaws. At each Board meeting, the Board will receive a list of contracts signed and executed between the last Board meeting and current Board meeting.

d) Information

Staff will provide the Board with information made available by Staff, including information on the entire search process as summarized by Staff and the consultant, subsequent materials prepared for the Board, final interviews, and due diligence meetings, as applicable. If the contract involved an ERS investment, the Board will receive the information set forth in the Delegation portion of this Governance Manual.

**C) Monitoring of Service Providers**

1) Review process

Staff regularly conducts contract compliance reviews, including reviews of service provider performance, conformance to guidelines, organizational structure and any other performance requirements as specified in the service provider's contract. Service provider related matters other than performance and contract compliance matters will be reported to the Compliance and Audit Committee when deemed significant by Staff, i.e. if the matter(s) have a possible effect on the service provider's ability to perform as expected. Staff will apprise the Board of performance issues as necessary. The Compliance and Audit Committee will assess compliance issues and make recommendations to the Board as necessary.

Generally Staff conducts reviews of all aspects of the service provider's contract on an annual basis. The review may include a due diligence review in the service provider's office or the Board's office when necessary. Matters to be reviewed



include but are not limited to the quantitative and qualitative factors which served as the basis for selection as a service provider.

Annually the Compliance and Audit Committee will review and report compliance by Board service providers with contract disclosure requirements.

## 2) Contract modifications

The Board has delegated to the Executive Director the authority to execute amendments or modifications to all contracts and investment guidelines. Staff, with the assistance of Counsel, will determine the appropriate method of modification, i.e. contract amendment or letter agreement. At each Board meeting, Staff will distribute a report to the Board reflecting amendments or modifications to service provider contracts signed and executed between the last Board meeting and current Board meeting..

## D) Termination of Service Providers

### 1) Basis for termination

The Board has delegated to the Executive Director the authority to terminate an ERS investment manager at any time and contract terms must provide for immediate termination upon written notice, with the exception of private market investments. The Board may terminate all other service providers at any time and contract terms must provide for immediate termination upon written notice by the Board. The Executive Director may terminate ERS investment managers and the Board may terminate all other service providers for any reason, including but not limited to one or more of the following reasons:

- ERP program changes
- Changes in the following:
  - people and organization of the firm
  - philosophy and process of investment strategy
  - resources dedicated to the investment strategy
  - performance of the product that is being reviewed
- Service providers-specific issues related to lack of adherence to contract terms or guidelines or any other changes in the service provider's business strategies.

### 2) Procedures

For ERS investment managers, Staff will provide information regarding any termination at the next meeting. For all other service providers, Staff provides background information regarding any basis for termination to the Board. Action to terminate a non-investment manager service provider must be made by Board resolution. Staff determines and implements the appropriate account transfer/liquidation procedures, informing the Board as necessary.

## E) Records Retention

Staff will maintain service provider records in the Board office. Service provider records will include search-related materials presented to the Board at the time of selection as well as legal and correspondence files. Records will be retained in accordance with Board office procedures. After the service provider relationship has ended, Staff will archive records in accordance with the Board office's records retention policy.

**F) Ethics**

The Board, and as applicable, Staff, will at all times conform to Standard of Professional and Ethical Conduct adopted by the Board and County ethics laws. In addition, individual Board and Staff members will disclose to the Board any inherent, potential, or perceived conflicts of interest in dealing with specific service providers prior to taking any official action concerning any service provider.

Any violation of County or Board ethics rules by any Board or Staff member will be handled in accordance with County Government procedures.

**G) Policy Review**

Staff and/or the Board will review and recommend amendments to this policy as necessary.

**H) County Code-Reporting Requirements**

In accordance with County Code Section 33-60B, the Board will annually report to the County Council and the Executive:

- the identity of each emerging investment manager used during the prior fiscal year;
- the percentage and dollar value of the assets and the investment sector managed by each emerging investment manager; and
- the good faith effort made to include emerging investment managers in the procurement process during the prior fiscal year.

**VI) DUE DILIGENCE AND CONTINUING EDUCATION**

The Board has developed the following guidelines to ensure propriety in actions taken by Board and staff, keeping in mind community values.

**A) Objective**

The objective of Board and staff is to ensure:

- Business matters pertaining to the Board's investment program are properly attended to
- Board representation at selected meetings or conferences involving matters of investment-related importance to the Employee Retirement Plans (ERP), the Board, or the Board program (e.g. annual consultant conferences and annual meetings of membership organizations)
- The Board's fiduciary responsibility related to the "prudent person rule" as set forth under state and local law is met by providing adequate educational and networking opportunities to all Board members and staff
- Compliance with the Board's Annual Fiduciary Affirmation requiring Board members take any necessary training or education opportunities and to keep current on pension and investment developments.

**B) Review Process**

Due Diligence or Continuing Education requests by a Board staff or member, when acting in his or her official capacity, as a representative of the Board, must be approved by the

Board before expenses are incurred. All Board members requests will be reviewed in an Open Session of the Board meeting. In the case of a request which cannot be approved during a regularly scheduled Board meeting, a majority of the members of the Compliance & Audit Committee must approve the request. The following criteria and procedures will be used to review all requests:

1) Criteria

- must be solely in the interests of the beneficiaries and participants
- meets Board objectives
- costs are reasonable and within established County regulations
- third parties may not pay for expenses including: travel and lodging. Third parties may pay for conference registration, if the payment is extended to all public funds. Third parties do not include any managers and vendors with whom the Board has a current contract. To qualify for this exception, current managers and vendors must be contractually obligated to pay for the expenses (e.g. alternative investments) or must pay expenses for all clients.
- falls within County ethics guidelines
- reasonable alternatives do not exist for obtaining the benefit of the proposed plan by a less expensive means
- does not exceed the limit of two (2) non-local conferences/seminars per fiscal year, subject to budget limitations.

2) Review Procedures

- **Annually**
  - Due diligence/continuing education plans and associated costs for the upcoming fiscal year will be reviewed in conjunction with the development of the ERP annual budget request. A budget amount will be determined for Board members' continuing education independent of Staff's due diligence and continuing education.
  - Each member of the Board will report on the training or educational opportunities undertaken, and the methods used to keep current on pension and investment developments, to fulfill his/her fiduciary duty.
- **Quarterly**
  - The Board will review specific due diligence/continuing education requests (meeting or conference information, estimated costs, and other pertinent information) to ensure compliance with Board policy.
  - The Board will review reports by members and staff on approved due diligence/continuing education requests, including conference information materials that may be examined in Board's offices.
- **Other**
  - Due diligence/continuing education requests not previously identified through the quarterly review process will be reviewed by the Compliance & Audit Committee, and must be approved in writing by a majority of the committee, and included in the subsequent quarterly report to the Board.

C) Staff Requirement

As defined within the Montgomery County Personnel Regulations, Section 14, Employee Development, funding for employee development obligates the staff member to remain employed with the County for a certain period (depending upon the amount funded) after completion of any department funded training in whole or in part by trust funds or reimburse the trust fund a pro-rated portion of the monies received.

D) Local Meetings

Local meetings and engagements associated with business or educational opportunities for Board members or staff, which meet the above referenced objectives and criteria, and which do not exceed the County's petty cash reimbursement limit will not be subject to the aforementioned Board review process.

## **VII) CODE OF CONDUCT**

### **A) Standards of Professional & Ethical Conduct**

The Board's Standards of Professional & Ethical Conduct was constructed based on a recommendation from the Chartered Financial Analyst (CFA) Institute on the code of conduct for pension plan governing bodies. Adopting the code:

- Establishes an ethical framework for governing board members
- Shows commitment to the best interests of pension participants and beneficiaries

The Board of Investment Trustees believes that all members of the Board and all Board Staff must conduct themselves in a manner that promotes public confidence and in accordance with fundamental ethical principles of honesty, integrity, independence, fairness, openness, and competence.

All members of the Board of Investment Trustees and Board Staff must:

- 1) Act in good faith and the best interest of the participants, beneficiaries and dependents.
- 2) Act with prudence and reasonable care.
- 3) Act with skill, competence, and diligence.
- 4) Maintain independence and objectivity by avoiding conflicts of interest.
- 5) Refrain from self-dealing and promoting personal interests.
- 6) Refuse any gift or benefit that could reasonably be expected to affect their independence, objectivity, or loyalty.
- 7) Abide by all applicable laws, rules, and regulations, including the Montgomery County Code.
- 8) Treat all participants and beneficiaries fairly, objectively, and impartially.
- 9) Take actions that are consistent with the established mission of the retirement trust funds and the policies that support their missions.
- 10) Regularly review the efficiency and effectiveness of the Board's success in meeting its goals, including assessing the performance and actions of service providers including investment managers, consultants, banks, etc.
- 11) Communicate with participants, beneficiaries, the Chief Administrative Officer, the County Council, and other regulatory agencies in a timely, accurate, and transparent manner.

In furtherance of these obligations and beliefs, all Board members and Staff must complete the annual affirmation of the Statement of Professional and Ethical Code.

### **B) Code of Conduct Guidance**

- 1) *Act in good faith and in the best interest of the participants, beneficiaries and dependents.*

The main purpose of the retirement trust funds is to serve as a secure source of retirement income. Trustees must safeguard the assets of the retirement trust funds to provide the maximum benefit to the participants, beneficiaries, and

dependents. Trustees have a primary duty to act for the benefit of the participants, beneficiaries and dependents and must place the benefit of the participants, beneficiaries, and dependents above that of the County government, even though the trustee may be employed by or is appointed by the County Executive or recommended to the County Executive for appointment by another organization. Decisions must be made in good faith, without improper motive or purpose. As a general matter, trustees should consider whether the retirement trust funds are enhanced by any investment or action, and not swayed by other considerations.

2) *Act with prudence and reasonable care.*

Trustees must exhibit the care and prudence necessary to meet their obligations to participants, beneficiaries and dependents. Prudence requires acting with the appropriate levels of care, skill, and diligence that a person acting in a like capacity and familiar with such matters would use under the same circumstances. Prudence also requires following the investment parameters set forth by the Board's investment policies in accordance with applicable law. It also requires appropriate knowledge of and action in balancing risk and return, seeking appropriate levels of diversification.

Trustees must maintain stable funding costs, keep costs down, and pay benefits upon death, disability, or retirement of participants. For the ERS, trustees must consider the additional objective of ensuring an adequate match between plan assets and liabilities. Consequently, the Board should carry out its activities in a way that does not impose an unnecessary financial burden on the County (where the interest of participants can be well served but without excessive burden to the County). Using care in overseeing retirement trust fund assets requires trustees to act in a judicious manner to avoid harming participants, beneficiaries, and dependents.

The Board will employ experts to direct and implement the decisions of trustees. Both internal staff and outside consultants will be used for this purpose. These "designees" thereby partner with the Board in carrying out the responsibilities of this Code. In retaining and using such designees, the Board must ensure that the Board's decisions have a reasonable and adequate basis and that the Board adequately documents the decision process. While the actual investment decisions may be delegated to investment managers, the Board retains overall responsibility for the assets of the retirement trust funds.

3) *Act with skill, competence, and diligence.*

Skill and diligence [and prudence] require trustees to be knowledgeable about the matters and duties with which they have been entrusted, including trust and pension laws; funding and liabilities; policies; and investments. Trustees should take any necessary training or educational opportunities, and keep current on pension and investment developments. Ignorance of a situation or improper course of action on matters the trustee is responsible for is a violation of this Code and the standard of care in the Montgomery County Code. Before taking action on behalf of the retirement trust funds, trustees must analyze the investment opportunities and should act only after undertaking due diligence to ensure there is sufficient knowledge about specific investments or strategies. Such analysis will depend on the investment style, strategy and policies adopted by the Board.

Trustees must have a thorough understanding of the strategies in which the retirement trust fund are investing; the basic structure and function of the selected investments and securities in which the retirement trust fund invests; how they are traded, their liquidity, and any other risks. Certain types of investments, such as hedge funds, private equity, or more sophisticated derivative instruments, necessitate more thorough investigation and understanding than fundamental investments such as straight-forward and transparent equity, fixed income, or mutual fund products.

A trustee must seek appropriate expert or professional guidance if he or she lacks the expertise necessary to make an informed decision. When making investment decisions, trustees can rely on the recommendations of external third-party service providers, consultants and Board staff, provided that the trustees have made reasonable and diligent efforts to determine that the recommendation has a reasonable basis. When evaluating investment research and recommendations, trustees should consider the assumptions used, such as risks, inflation and rates of return, and the thoroughness of the analysis performed, the timeliness of the information, and the objectivity and independence of the source. The decision process should be well documented. Trustees must not act, or fail to act, if they lack appropriate understanding or knowledge. Trustees should also develop monitoring policies and procedures for any duties that they delegate to consultants and investment managers.

4) *Maintain independence and objectivity by avoiding conflicts of interest.*

Trustees must avoid actual and potential conflicts of interest between their work with the retirement trust funds, other personal or outside interests and their full time employment. Outside duties, responsibilities or political interests must not influence decisions as the trustees must act for the benefit of beneficiaries and participants of the retirement trust funds. Trustees must put their duties to the retirement trust funds before their loyalty to the County government or the group recommending them for appointment to the Board. To the extent conflicts may not be avoided, trustees must recognize and take appropriate measures to deal with the conflict, including disclosing all real or perceived conflicts of interests to the Board and refraining from taking any action on behalf of the retirement trust funds in matters involving any real or perceived conflict. The overriding principle is that trustees should act in the best interests of the retirement trust fund and disclose any conflict of interest. Trustees should support the adoption of County government policies that insulate their decisions from political influence.

5) *Refrain from self-dealing and promoting personal interests.*

Trustees should not put themselves in position where their interests and the interests of the trust fund conflict. Trustees must not use the prestige or influence of their position for private gain or advantage. Trustees must adhere to the Ethics provision of the Montgomery County Code regarding any employment, contractual relationship, or any interest in firms that provide services to the trust fund. At a minimum, where such relationships are unavoidable, trustees must fully disclose the relationship. In addition, trustees should not be involved in any retention or termination decisions of such firms or otherwise vote on matters related to the trustee's firm.

6) *Refuse any gift or benefit that could reasonably be expected to affect their independence, objectivity, or loyalty.*

Trustees must not receive or accept or solicit, directly or indirectly, any gift, service, favor, entertainment, or any other benefit, from anyone currently engaged by or seeking business from the retirement trust funds if it could reasonably be expected to influence a decision or be considered a reward. Trustees are subject to the Ethics provisions of the Montgomery Code which limit the acceptance of gifts from service providers, consultants, potential investment targets, or other business partners to a minimal value (e.g., \$50/meal).

- 7) *Abide by all applicable laws, rules, and regulations, including the terms of the Montgomery County Code.*

Trust funds operate in a complex, varied, and rapidly changing regulatory environment. Generally, trustees are not expected to master the nuances of technical, complex law or become experts in compliance with trust fund regulation. Trustees should consult with the professional advisers retained by the Board to provide technical expertise on applicable law and regulation. Trustees should regularly investigate and ensure that the trusts have adopted and updated compliance policies and procedures designed to comply with laws and regulations that govern the trust fund. Adopting and following policies and procedures are critical to ensure that the retirement trust funds meet their legal and ethical requirements. Documented compliance procedures will assist trustees in fulfilling the responsibilities enumerated in this Code.

- 8) *Treat all participants and beneficiaries fairly, objectively, and impartially.*

Trustees must treat all participants and beneficiaries in a fair and objective manner. Trustees must not give preferential treatment to beneficiaries within a particular class of participants or otherwise favor one class over the others. The County's retirement trust funds have different types of participants: active participants who are making contributions and accruing benefits; deferred participants who have left employment but have not transferred their assets and will receive future benefits when reaching retirement age; and retirees, including spouses of deceased participants, who are currently receiving retirement benefits. Trustees must balance the interests of all types of participants, treating each category of participant fairly and equally.

- 9) *Take actions that are consistent with the established mission of the retirement trust funds and the policies that support that mission.*

Trustees should develop and implement comprehensive written investment policies that set forth the mission, beliefs, and strategic investment plans that guide the investment decisions of the retirement trust funds (the "policies"). Trustees must only take investment actions that are consistent with the stated objectives and constraints of these established policies. Trustees must review and approve the investment policies as necessary, but at least annually, to ensure that the policies remain current. In developing the policies, trustees and their designees must consider the suitability of investments given the need of the trust fund, its future liabilities, risk tolerance, and diversification goals. Trustees must select investment options within the context of the stated mandates or strategies and appropriate asset allocation. The written policies should include a discussion of risk tolerances, return objectives, liquidity requirements, liabilities, tax considerations, and any legal, regulatory, or other unique circumstances. Generally, trustees should focus on long term stability and growth. The policies must comply with any legal or regulatory requirements

- 10) *Regularly review the efficiency and effectiveness of the Board's success in meeting its goals, including assessing the performance and actions of service providers including investment managers, consultants, banks, etc.*

In addition to ensuring that investment managers and consultants retained by the Board adopt and comply adequate compliance and professional standards, trustees must review and compare investment manager performance assessments to the investment policy on a quarterly basis. Trustees must have the knowledge and understanding to critically review and verify the performance of its investment managers. Trustees should develop rules for hiring, firing, and retaining investment managers that foster a long term investment focus and which are consistent with the retirement trust funds' investment policies. Trustees should ensure that the investment managers, consultants, and other service providers employ qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement, and monitor investment decisions and actions. Trustees must ensure that there are proper monitoring and control procedures for all service providers.

- 11) *Communicate with participants, beneficiaries, the Chief Administrative Officer (CAO), County Council, and other regulatory agencies in a timely, accurate, and transparent manner.*

Full and fair disclosure of information is a fundamental ethical principle of capital markets and the investment services industry. Developing and maintaining clear, timely, and thorough communication practices is critical to providing high-quality financial services to participants and beneficiaries. Trustees have a responsibility to ensure that the information provided to participants and beneficiaries is accurate, pertinent, and complete. Trustees must not misrepresent any aspect of their services or activities. Trustees must ensure that misrepresentation does not occur in any communications, including oral representations, electronic communications, or written materials (whether publicly disseminated or not).

Communication with participants and beneficiaries is generally provided on a regular timetable and by the Board Chair, or his/her designee, not by individual trustees. The Board should ensure that all communications with participants and beneficiaries are timely, relevant, complete, and accurate. Trustees have a duty to present performance information that is a fair representation of the retirement trust funds' investment record and includes all relevant factors. Trustees must also comply with the CAO, County Council and other regulatory agencies and submit required reports in a timely manner.

*This policy was derived from the Chartered Financial Analyst (CFA) Institute's Code of Conduct for Members of a Pension Scheme Governing Body ("the Code").*

## **VIII) COMPLIANCE**

### **A) Disclosures**

All service providers must comply with the political contribution reporting requirements under Title 14 (section 14-104) of the Election Law Article of the Maryland Code and must transmit to the Board a copy of any report made to the State Board of Elections.

All service providers must disclose any payment, gift, benefit, or contribution, or request for such item, that they have provided during the previous calendar year to or on behalf of a Board member, Montgomery County employee or official, or any entity whose primary purpose is to benefit employees or retirees of Montgomery County in their capacity as



County employees or retirees, or an entity which solicits in the name of a Board member or the County, except expenses paid in association with attendance at an annual meeting or client conference for which payment of expenses has been offered to all other clients and/or Advisory Board members.

All service providers are required to disclose this information to the Board on an annual basis.

**B) Semi-Annual Risk and Quarterly Compliance**

**Semi-Annual Risk.** All service providers complete a questionnaire related to changes in their business operations including total assets, accounts under management, SEC audits, organization and personnel changes, trading environment updates, soft dollar arrangements, and other manager guidelines compliance factors.

**Quarterly Compliance.** Managers report to Staff on portfolio management compliance including but not limited to guideline adherence, strategy and model risk, derivatives positions, risk-adjusted performance data, and other manager guidelines compliance factors.

A summary is provided by Staff to the Board.

**IX) OTHER**

**A) Disaster Recovery**

Disaster Recovery Planning procedures help protect information of assets of the System in the event of an unforeseen catastrophe and allow for the continued ability to provide services while reducing the operational and financial impact of the loss or destruction of critical systems and data. The disaster recovery plan will be implemented by the appropriate Staff and reviewed frequently for relevance and appropriateness.

**B) Communication**

Communications by trustees, when acting in their capacity as trustees, should be consistent with their fiduciary duty to represent the interests of all Plan participants.

Article IX of the Bylaws states the following:

The Executive Director must respond to all public information requests in accordance with the State law on public records and rules adopted by the Board.

All requests from the media or third parties for information regarding Board actions must be directed to the Executive Director, or his or her designee, who will respond accordingly. Official communications related to Board procurement processes and activities will be coordinated by the Executive Director. Staff will report items of significance to the Board as appropriate.

**C) Strategic Planning**

To systematically plan for the immediate and long-term challenges and needs of the Retirement Plans, Staff will engage in an annual strategic planning process with the Board. The strategic plan will generally cover a 3-5 year period and include goals and strategic initiatives. The strategic plan will be modified from time to time as needed.

Created: July 2012  
Amended: March 2013  
November 2012  
September 2012