

Standards of Professional & Ethical Conduct
Board of Investment Trustees
Montgomery County Employee Retirement Plans

The Board of Investment Trustees is responsible for the investment management of the trust funds of the Montgomery County Retirement Plans which include the Employees' Retirement System (ERS), the Retirement Savings Plan (RSP) and the Deferred Compensation Plan (DCP) ("retirement trust funds"). The Board of Investment Trustees is obligated to discharge all of its duties in accordance with the standard of care set forth in Montgomery County Code Section 33-61C and the ethics provisions of Section 33-61D and Chapter 19A of the Montgomery County.

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. In furtherance of these obligations and beliefs, the Board of Investment Trustees hereby adopts the following Standards of Professional and Ethical Conduct:

A member of the Board of Investment Trustees 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.

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").