

ETHICAL CONDUCT POLICY

BACKGROUND

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

POLICY

In order to assure members of the State Employees' Retirement System ("SERS") that Board members and designees of Board members are conducting themselves in a manner consistent with their fiduciary obligations and in accordance with high ethical standards, such members and designees shall comply with the following requirements (copies of the statutory provisions referenced herein are set forth in Appendix A hereto):

- In making investment decisions, they shall exercise that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of funds, considering the income to be derived therefrom as well as the probable safety of their capital. The foregoing requirement shall be applied on a total portfolio basis with a recognition of the prudence and advantages of reasonable diversification for SERS, in terms of reducing the volatility of returns and risk management.
- In taking action on any investments and disbursements of moneys of SERS, neither they nor, to their knowledge, any of their immediate family members (such person's spouse, parents, children and siblings and the spouses of any such individuals) shall profit therefrom, either directly or indirectly, and they shall invest and manage the moneys and other assets of SERS for the exclusive benefit of the members of SERS, subject to any limitations, exceptions and directives in any applicable law.
- They shall not engage in conduct that is described as a conflict under either 65 Pa. C.S.A. §1102 or 4 Pa. Code §7.151.
- They shall not solicit or accept, for themselves or for any other person or entity, a gift, gratuity, favor, entertainment, loan or other thing of monetary or economic value (except where its value is truly de minimus or where it is being received by virtue of being a member of a broad general class, such as being a shareholder of a public

corporation) from those persons and entities engaged or proposing to engage in transactions with SERS or the affiliates of such persons and entities.

- They shall not use confidential information that they obtain in the performance of their duties as Board members for the benefit of themselves or any other person or entity, other than members of SERS. This shall not preclude the use of information that, although presented to them as being confidential, is generally known to the public.
- They shall not receive any compensation or enter into any agreement for compensation for services rendered or to be rendered to any person or entity in connection with any transaction involving SERS.
- They shall recuse themselves from the vote by the Board on any matter that could be perceived as involving a conflict of interest with respect to them or any of their immediate family members. This requirement shall be read broadly, and Board members and designees of Board members are encouraged to recuse themselves if there is any possibility that a conflict of interest could be perceived to exist (e.g., prior receipt of a political contribution or gift, no matter what amount or value, or any past or present contractual relationship) or could create an appearance of impropriety. Recusal shall not imply that a conflict of interest actually exists; rather, it shall only imply that a conflict of interest may exist or may be perceived to exist. A Board member who would recuse on a matter if personally present at the relevant Board meeting and who is being represented at such Board meeting by a designee shall instruct such designee to recuse based on the possible conflict of interest of such Board member and such designee then shall so recuse himself or herself even if the designee would not otherwise recuse. The reason for any recusal shall be stated at the relevant Board meeting and a written recusal on the form then being used by SERS shall be filed with SERS' Secretary. Examples of possible conflicts of interest are set forth in Appendix B, such examples being illustrative and not exhaustive.

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

APPENDIX A

65 Pa. C.S.A. § 1102. Definitions

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

4 PA. Code § 7.151. Adverse pecuniary interest.

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

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

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

APPENDIX B

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

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