

10-041 Personal Investment Activity

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Purpose

The purpose of this Policy is to provide guidance and direction to State Board of Administration employees regarding personal investment activity. This Policy is put forth to guard against any actual or perceived impropriety or conflict of interest between personal investment interests of State Board of Administration employees, and the Funds managed by the State Board of Administration, which may adversely affect the credibility or reputation of the State Board of Administration.

This Policy applies to all State Board of Administration employees, including OPS employees employed longer than 12 consecutive months. Additionally, this Policy sets forth certain policy implementation requirements for a group of State Board of Administration employees known as “Affected Persons” and their Immediate Family (as these terms are defined below).

Policy

It is the policy of the Executive Director & CIO of the State Board of Administration (SBA) that:

- The interests of the Funds managed by the SBA are of paramount importance to each staff member of the SBA. Employees must exercise care and caution always to place the interests of the SBA before their own.
- No employee may influence the investment decision making process of the SBA for personal gain or private advantage or in a manner detrimental to the interests of the SBA.
- SBA employees must avoid actions or activities that bring into question that person’s independence of judgment with respect to the execution of professional responsibilities.
- All personal transactions must be accomplished in such a manner as to avoid even the mere appearance of impropriety or a conflict of interest on the part of staff. This includes, but is not limited to, refraining from undertaking personal

investment transactions with the same individuals with whom business is conducted on behalf of the SBA.

Background and Implementation

While the SBA affirms the rights of staff to engage in individual investment activities, conflicts of interest or even the appearance of conflict between SBA investment activity and personal investment activity by SBA employees must be avoided. The general intent of this Policy is that, in any situation where the potential for conflict exists, transactions for funds managed by the SBA take precedence over personal transactions. Should any situation arise not specifically governed by these standards, this general intent shall provide guidance in the resolution of the matter. Compliance with this Policy by SBA employees is a consideration of employment, and reckless disregard or willful violation of the provisions of this Policy may be cause for disciplinary action, up to and including termination of employment.

Affected Persons (defined below) are cautioned to be familiar with, and to comply with, Executive Director & CIO Policy #10-043 “Confidentiality”, to prevent their Immediate Family and other Beneficial Ownership relationships (defined below) from inadvertently violating this Policy.

Definitions

“Affected Person” means any employee of the SBA (including OPS employees employed longer than 12 consecutive months) who, in connection with his/her regular functions or duties, participates in the selection of a Fund’s portfolio securities, participates in the selection or funding of external investment managers, participates in inter-asset class or intra-asset class allocation decisions, or who has timely access to information regarding a Fund’s current purchases or sales of securities. This includes, and is limited to, the Executive Director & CIO, the Deputy Executive Director (DED) and all employees within the DED’s span of control, the Chief Risk & Compliance Officer (CRCO) and all employees within the CRCO’s span of control, the Senior DC Programs Officer (SDCPO) and all employees within the SDCPO’s span of control, and all other Executive Service staff members not included above.

“Beneficial Ownership” generally means an Affected Person has a direct or indirect financial interest in a Covered Security and the criteria generally includes:

- the receipt of benefits substantially equivalent to those of ownership through relationship, understanding, agreement, contract or other arrangements; or

- the power to vest or divest such ownership in oneself at once, or at some future time.

Securities Held by Immediate Family Members

An Affected Person is regarded as having Beneficial Ownership of a security held in the name of an Immediate Family member (defined below). In the absence of special circumstances, these Immediate Family relationships ordinarily confer benefits substantially equivalent to ownership.

Securities Held by a Partnership

An Affected Person is regarded as having Beneficial Ownership of securities held in an account for a partnership in which the Affected Person is a general partner or a partner with investment discretion.

Securities Held by a Company

An owner of securities in a holding company (who is in a position of substantive control) will be deemed to have Beneficial Ownership in the holdings of the holding company where:

- the company is merely a medium through which one or several persons in a small group invest or trade in securities; and
- the company has no other substantial business.

In such cases, an Affected Person who is in a substantive position of control of the holding company is deemed to have beneficial interest in the securities of the holding company.

Securities Held in Trust

Beneficial Ownership of securities in a private trust includes:

- Ownership of securities as a trustee where either the trustee or members of his/her Immediate Family have a vested interest in the income or corpus of the trust.
- Ownership of a vested beneficial interest in a trust.
- Ownership of securities as a settlor of a trust in which the settlor has the power to revoke the trust without obtaining the consent of all the beneficiaries.

Using the above definition of Beneficial Ownership as a broad guideline, the ultimate determination of Beneficial Ownership will be made in light of the facts of the particular case. Key factors are the degree of the individual's ability to exercise discretion to invest in, sell or exercise voting rights of the security, and the ability of the individual to benefit from the proceeds of the security.

“Covered Security” includes notes, bonds, stocks (including shares of closed-end funds), convertible securities, preferred stock, derivatives based on Covered Securities, commodity futures, limited partnership interests, warrants and rights.

Covered Security does **not** include securities issued or guaranteed by the U.S. government or its agencies or instrumentalities, municipal bonds, bankers' acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements, variable insurance products (including annuities), guaranteed investment contracts (GICs), exchange traded funds (ETFs) and shares of registered open-end mutual funds.

“Fund” means any portfolio or account under management by the SBA, including externally managed portfolios or accounts.

“Immediate Family” of an Affected Person includes spouse, dependent children, other dependent relatives if living in the same house, and any other household member, whether related or not.

“Initial Public Offering” means an offering of securities for which a registration statement has not been previously filed with the U.S. Securities and Exchange Commission and for which there is no active public market in the shares.

Prohibited Transactions

The following transactions are prohibited within any accounts in which Affected Persons have Beneficial Ownership (as defined in this Policy):

Affected Persons may not purchase or sell, directly or indirectly, any Covered Security during the following “blackout periods”:

- During the time period when an Affected Person knows, or should have known, an initial investment action decision has been made, through the corresponding implementation period of the investment decision, to purchase the Covered Security or sell the Covered Security within an SBA Fund.

- On any day which an Affected Person knows, or should have known, that an SBA Fund has a pending “buy” or “sell” order in the Covered Security until the order is withdrawn or executed.
- For three (3) business days after an SBA Fund trades in the Covered Security.

Affected Persons may not short sell any Covered Security, with the exception of short selling against broad market indices, which is permitted.

Affected Persons may not buy or sell any derivative instrument (including options or warrants) on specific individual Covered Securities.

Affected Persons may not acquire a Covered Security as part of an Initial Public Offering.

Affected Persons may not acquire a Covered Security in a private placement transaction, with exceptions for certain situations involving small businesses with \$2,000,000 or less of gross assets. Exceptions will require written approval received in advance from the Inspector General.

Exempt Transactions

The following transactions are exempt from pre-clearance requirements and blackout periods:

- Purchase, sale or other acquisition of a Covered Security which is non-volitional on the part of the Affected Person or any Fund, such as purchases or sales upon exercise of puts or calls written by the Affected Person, sales from a margin account pursuant to a bona fide margin call, stock dividends, stock splits, mergers, consolidations, spin-offs, or other similar corporate reorganization or distribution.
- Purchases that are part of an automatic dividend reinvestment plan or automatic employee stock purchase plan.
- Purchases effected upon the exercise of rights issued pro rata to all holders of a class of its securities, to the extent such rights were acquired from such issuer, and sales of such rights so acquired.
- Acquisitions of a Covered Security through a gift or bequest.
- Purchase, sale or other acquisition of a Covered Security in a trust in which the Affected Person holds Beneficial Ownership, but for which the Affected Person holds no direct or indirect influence or control with respect to selection of investments

- *De minimus* transactions, defined as \$5,000 per trading day, per covered security of entities (e.g., companies, closed-end funds or issuers) with at least \$1 billion in market capitalization. The Inspector General will refer to a reputable information service to maintain a list of those securities which are eligible for exemption from pre-clearance and blackout period requirements.

Note that exempt transactions, as defined above, are still required to be reported through duplicate broker confirmations, and all associated holdings may be requested to be disclosed as required below under “Reporting Requirements”.

Pre-Clearance of Covered Security Transactions

Written pre-clearance for all non-exempt transactions by an Affected Person in a Covered Security (as defined above) is required from the Inspector General. The Inspector General shall have discretion to prohibit any proposed acquisition by an Affected Person which may be a violation of this Policy, or which may present an appearance of impropriety that may adversely affect the credibility or reputation of the SBA, based on all the relevant facts and circumstances. Transactions that are in accordance with this Policy, and appear upon reasonable inquiry and investigation to present no likelihood of harm to the SBA or inappropriate personal advantage to the employee, shall be entitled to pre-clearance by the Inspector General.

The following guidelines apply to pre-clearance:

- Pre-clearance decisions from the Inspector General or designee will be received within one (1) business day and approvals will be good for a period of two (2) full business days after the date of approval. Every reasonable effort will be made by the Inspector General or designee to provide timely decisions on pre-clearance applications.
- Application for pre-clearance is required for transactions in a specific Covered Security (of a company or fund with market capitalization greater than \$1 billion) in excess of \$5,000 per trading day and for all transactions in Covered Securities of companies with a market capitalization of less than \$1 billion.
- The pre-clearance application submitted will include a certification by the Affected Person that the requested transaction is not prohibited per this Policy to the best of their knowledge. If it is determined later that the Affected Person fraudulently applied for, and received, pre-clearance, the pre-clearance will be void and will not insulate the Affected Person from possible disciplinary action as described below.

- Immediate Family members of Affected Persons are not required to formally apply for pre-clearance. However, Affected Persons are responsible for ensuring that transactions in Covered Securities initiated by Immediate Family members are not prohibited transactions.
- The General Counsel shall be responsible for approving a pre-clearance application submitted by the Inspector General personally.

Reporting Requirements

All reports of transactions and other information filed with the Inspector General in relation to this Policy shall be treated as confidential to the degree allowable by law.

Duplicate Confirmations

All Affected Persons are required to instruct their broker-dealers to provide duplicate confirmations to the SBA's Inspector General, which shall include all personal investment transactions in Covered Securities effected for any account in which such Affected Person has direct ownership. Immediate Family members are not required to provide duplicate transaction confirmations to the Inspector General.

Information required to be disclosed includes:

- Employee name and account number
- The trade date of each transaction, title, interest rate and maturity date (if applicable), number of shares and the principal amount of each Covered Security involved.
- The nature of the transaction (purchase, sale or any other type of acquisitions or dispositions).
- The price of the Covered Security at which the transaction was effected.

Initial Holdings Reports

All Affected Persons are required to disclose to the Inspector General in writing, within ten (10) business days after becoming an Affected Person, the following information:

- the title or name of each Covered Security in which he/she has any direct or indirect Beneficial Ownership that exceeds \$20,000 of cumulative market value upon becoming an Affected Person; and

- the name of any broker, dealer or bank with whom the Affected Person and/or Immediate Family member maintains an account in which any Covered Securities are currently held for his/her direct or indirect Beneficial Ownership.

Change in Status of Personal Investment Accounts

If an Affected Person or a member of his/her Immediate Family initiates transactions in a Covered Security (in which they had direct or indirect Beneficial Ownership) in an existing account which was not previously disclosed to the Inspector General as required on the Initial Holdings Report (due to the fact that the account did not hold Covered Securities at the time of filing the Initial Holdings Report), the following must be reported to the Inspector General within ten (10) business days of initiating such transactions:

- the name of the broker, dealer or bank with whom the Affected Person and/or Immediate Family member maintains an account in which any Covered Securities are held or transacted for his/her direct or indirect Beneficial Ownership.

New Personal Investment Accounts

If an Affected Person or a member of his/her Immediate Family opens or establishes a new account in which any Covered Securities are held or transacted for the direct or indirect Beneficial Ownership of the Affected Person, the following must be reported to the Inspector General within ten (10) business days of opening the account:

- the name of the broker, dealer or bank with whom the account is established; and
- the date the account was established.

Other Disclosures

All Affected Persons have an affirmative duty to promptly disclose any material interest (i.e. \$20,000 or more) in financial institutions or investment organizations with which they conduct business on behalf of the SBA. Such financial institutions or investment organizations would include all broker-dealers, money managers, investment advisors and investment consultants. This disclosure applies to direct or indirect Beneficial Ownership in Covered Securities and must be made to the Inspector General within ten (10) business days of acquisition. Although this is normally accomplished through duplicate

confirmation statements automatically sent to the Inspector General, Affected Persons must take measures to ensure such disclosure is made.

Holdings Reports and Transaction Statements

All Affected Persons are required to instruct their brokers, dealers and/or banks to provide account holdings statements and/or transaction statements directly to the Inspector General no later than thirty (30) days after receiving a written request to provide such information from the Inspector General. Such information requests are authorized by this Policy to cover holding reports and transaction statements for all accounts which hold Covered Securities in which Affected Persons have Beneficial Ownership. The following information is required to be provided by the brokers, dealers and/or banks of Affected Persons, at a minimum:

- The title, number of shares and principal amount of each Covered Security in which the Affected Person has any direct or indirect Beneficial Ownership.
- The trade date of each transaction, title, interest rate and maturity date (if applicable), number of shares and the principal amount of each Covered Security involved.
- The nature of the transaction (purchase, sale or any other type of acquisitions or dispositions).
- The price of the Covered Security at which the transaction was effected.

The General Counsel shall be responsible for receiving all confirmations and disclosures required under this section for the Inspector General personally, and the General Counsel may review these confirmations and disclosures as deemed necessary.

Annual Certifications

All Affected Persons are required to certify in writing to the Inspector General annually that they:

- have read and understand this Policy and acknowledge that they are subject to this Policy;
- have complied, and will continue to comply, with the requirements of this Policy; and
- have provided the complete list of brokerage and trading accounts that they have open in which they hold direct or indirect Beneficial Ownership of Covered Securities.

Enforcement

Affected Persons who violate this Policy may be subject to serious penalties which may include one, or any combination, of the following: written reprimand, reversal of securities transactions, disgorgement of trading profits, suspension or termination of employment, and/or referral to regulatory or law enforcement agencies.

If the Inspector General determines that a material violation of this Policy has occurred, he/she shall submit a written determination, together with documentation and any explanatory material provided by the Affected Person, to the Executive Director & CIO and General Counsel. The Executive Director & CIO shall make the final determination as to whether a violation has occurred and whether disciplinary action is warranted.

Any losses suffered, or tax liability incurred, by an Affected Person due to enforcement of this Policy are the employee's sole responsibility.

Questions and Interpretations

All Affected Persons are urged to seek guidance if any uncertainty exists with respect to personal investment issues. An Affected Person who has a question concerning the applicability of this Policy to a particular situation shall request a determination from the Inspector General before engaging in the personal securities transaction. The Inspector General will be the primary SBA resource for resolving questions and interpretations of this Policy, and will be responsible for consulting and coordinating with the General Counsel and DED as appropriate. The Inspector General will be required to answer questions regarding applicability of this Policy in such reasonable time so as not to unduly restrict an employee's ability to manage his/her financial affairs.

The Inspector General and/or Risk Management and Compliance will deliver an instructional or training activity to be administered periodically, or provide additional written guidelines or resources regarding this Policy and its requirements. No perceived ambiguity in this Policy shall excuse any violation. Any person who believes this Policy to be ambiguous in a particular situation shall be responsible for requesting a determination from the Inspector General.

Compliance

All SBA employees are responsible for compliance with the statements of policy set forth above. Affected Persons are responsible for compliance with all provisions of this Policy, including specific implementation requirements as outlined above, as well as ensuring

their Immediate Family is in compliance with this Policy.

The Inspector General shall be responsible for implementing pre-clearance procedures in accordance with this Policy, including the designation of back-up staff to ensure timely processing.

The Inspector General may review and test Affected Persons' (and their Immediate Family's) compliance with this Policy as deemed necessary. The Inspector General may develop additional policies and guidelines as he/she deems necessary to monitor compliance with this Policy and to otherwise prevent or detect violations.

The Inspector General shall maintain adequate records and documentation to demonstrate Affected Persons' compliance with this Policy.