

## Statute concerning consultation with Investment Advisory Committee on key policies

From Session Law 2016-55 (Investment Administrative  
Changes Act of 2016), pages 12 to 13 and 15 to 16

Signed by the Governor on June 30, 2016

### **PART III. CODIFY KEY DEPARTMENT OF STATE TREASURER POLICIES**

**SECTION 3.** Article 6 of Chapter 147 of the General Statutes is amended by adding new sections to read:

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#### **"§ 147-69.11. Ethics policies.**

(a) To ensure that the State Treasurer's investment programs operate under a strong governance framework with rigorous internal controls and a high degree of operational transparency and are managed with the highest ethical and professional standards and in the most efficient and effective manner possible, the State Treasurer, after consultation with the Investment Advisory Committee, is authorized and required to adopt policies and procedures on the following topics:

- (1) Requiring that the Department of State Treasurer's Investment Management Division adopt a code of ethics.
- (2) Requiring all employees of the Department who have responsibility for matters related to investments to be provided with training with respect to the discharge of their duties and responsibilities to the funds.
- (3) Governing gifts to employees of the Department who have responsibility for matters related to investments.
- (4) Imposing limitations on external investment managers' use of placement agents and other persons that appear before the Department to ensure that these persons play only a proper role in investment opportunities.
- (5) As a component of the investment due diligence, negotiations, and contracting process, requiring an independent assessment of whether circumstances exist that create a material risk that professional judgement or actions regarding a potential investment arrangement's recommendation, approval, or execution have been or will be unduly influenced by a direct or indirect personal interest."

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### **PART V. EFFECTIVE DATE**

**SECTION 5.** Section 5 of this act is effective when it becomes law. Except as otherwise provided, the remainder of this act becomes effective January 31, 2017.

Provisions from State Administrative Procedure Act concerning what types of policies  
should be adopted as a rule

**§ 150B-18. Scope and effect.**

This Article applies to an agency's exercise of its authority to adopt a rule. A rule is not valid unless it is adopted in substantial compliance with this Article. An agency shall not seek to implement or enforce against any person a policy, guideline, or other interpretive statement that meets the definition of a rule contained in G.S. 150B-2(8a) if the policy, guideline, or other interpretive statement has not been adopted as a rule in accordance with this Article.

**§ 150B-2. Definitions.**

As used in this Chapter,

(8a) "Rule" means any agency regulation, standard, or statement of general applicability that implements or interprets an enactment of the General Assembly or Congress or a regulation adopted by a federal agency or that describes the procedure or practice requirements of an agency. The term includes the establishment of a fee and the amendment or repeal of a prior rule. The term does not include the following:

- a. Statements concerning only the internal management of an agency or group of agencies within the same principal office or department enumerated in G.S. 143A-11 or 143B-6, including policies and procedures manuals, if the statement does not directly or substantially affect the procedural or substantive rights or duties of a person not employed by the agency or group of agencies.
- b. Budgets and budget policies and procedures issued by the Director of the Budget, by the head of a department, as defined by G.S. 143A-2 or G.S. 143B-3, by an occupational licensing board, as defined by G.S. 93B-1, or by the State Board of Elections.
- c. Nonbinding interpretative statements within the delegated authority of an agency that merely define, interpret, or explain the meaning of a statute or rule.

- d. A form, the contents or substantive requirements of which are prescribed by rule or statute.
- e. Statements of agency policy made in the context of another proceeding, including:
  - 1. Declaratory rulings under G.S. 150B-4.
  - 2. Orders establishing or fixing rates or tariffs.
- f. Requirements, communicated to the public by the use of signs or symbols, concerning the use of public roads, bridges, ferries, buildings, or facilities.
- g. Statements that set forth criteria or guidelines to be used by the staff of an agency in performing audits, investigations, or inspections; in settling financial disputes or negotiating financial arrangements; or in the defense, prosecution, or settlement of cases.
- h. Scientific, architectural, or engineering standards, forms, or procedures, including design criteria and construction standards used to construct or maintain highways, bridges, or ferries.
- i. Job classification standards, job qualifications, and salaries established for positions under the jurisdiction of the State Human Resources Commission.
- j. Establishment of the interest rate that applies to tax assessments under G.S. 105-241.21.
- k. The State Medical Facilities Plan, if the Plan has been prepared with public notice and hearing as provided in G.S. 131E-176(25), reviewed by the Commission for compliance with G.S. 131E-176(25), and approved by the Governor.
- l. Standards adopted by the Department of Information Technology applied to information technology as defined by G.S. 147-33.81.

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
INVESTMENT MANAGEMENT DIVISION**

**Placement Agent, Political Contribution, and Connection Disclosure Policy**

**I. Purpose**

A. **Background.** The North Carolina State Treasurer (the “Treasurer”) and the North Carolina Department of State Treasurer (the “Department”) strive to model excellence in state government through accountability and prudent investment of entrusted assets. The Treasurer maintains the investment program for the North Carolina Retirement Systems defined in N.C.G.S. § 147-69.2(b)(8) and other investment funds (collectively, the “NC Funds”). The Investment Management Division (“IMD”) serves as the investment arm of the State Treasurer. Because IMD is limited in the number of staff it can hire and the Department lacks legal authority to invest directly in certain asset classes, outside Investment Managers (as hereinafter defined)<sup>1</sup> manage a majority of the investments made on behalf of the NC Funds.

Since the first version of this Policy was adopted in 2009, the Treasurer and the Department have adopted several policies and procedures that govern the selection of outside Investment Managers. Among these policies are the Investment Policy Statement, the External Investment Manager and Vehicle Selection Policy and Procedure (the “Selection Policy”), the Code of Ethics and Conduct, the IMD Investment Committee Charter, and the External Investment Management Conflict of Interest Certification. The Treasurer’s overarching goal, in adopting this set of policies, has been to develop the best possible procedures for selecting investments and to maintain high ethical standards.

B. **Role of Placement Agents.** A Placement Agent is, in essence, a marketing specialist hired by an outside Investment Manager. Placement Agents often serve a valuable function by exposing new and emerging Investment Managers to investment funds which might otherwise have not received information about those Investment Managers’ opportunities. Placement Agents can help smaller managers learn how to market themselves as effectively as their larger counterparts. The Securities and Exchange Commission noted the helpful functions of Placement Agents in 2010, determining that it was prudent to allow Investment Managers to continue hiring Placement Agents so long as those Placement Agents are registered and regulated by an organization such as FINRA. See Release on SEC Rule, 75 Fed. Reg. 41,017 at 41,038 and 41,041 (July 14, 2010).

As the SEC observed, however, Placement Agents have been implicated in improper conduct affecting several public pension funds. If an Investment Manager hires a Placement Agent to utilize a pre-existing relationship between the Placement Agent and the public pension fund’s staff, the Placement Agent does not serve any useful function, and instead could cause a fund to make decisions on factors other than the potential investment’s strategy and expected performance.

<sup>1</sup> Capitalized terms not otherwise defined in the text of this Policy have the meanings stated in Section XI herein.

C. **Goals of this Policy.** In this Policy, the Treasurer has chosen to impose limitations on Investment Managers' use of Placement Agents to ensure that Placement Agents will play only a proper role in marketing investment opportunities. More broadly, the Policy seeks disclosures of connections or relationships between Investment Managers, Placement Agents, and persons affiliated with the Department. The Policy has three basic features:

- First, the Policy requires comprehensive disclosures from the Investment Manager and Placement Agent.
- Second, the Policy provides for attorney review of the disclosed information to ensure that any Placement Agent or Investment Manager was hired for professional expertise, not for his or her connections to the Treasurer, board members, or staff. The Treasurer's Compliance Counsel will also evaluate any relationships to determine appropriate action, such as recusal.
- Third, the Policy restricts Investment Managers from using and compensating Placement Agents unless the Placement Agent is providing an introduction for an Investment Manager who has not managed any investments for the NC Funds within the last two years. *See* Section VII(C).

## **II. Application**

This Policy applies to all Investment Transactions and Substantive Amendments entered into by the Treasurer on or after September 29, 2009. Revised requirements of new versions of the Policy shall apply to new Investment Transactions entered into or modified pursuant to a Substantive Amendment on or after the effective date for that new version listed in Section XII.

For purposes of agreements with Investment Managers entered into prior to September 29, 2009, when a Substantive Amendment is made with the consent of the Treasurer to such agreement, this Policy shall apply prospectively to the amended agreement and not to the original agreement. As to pre-2009 Investment Managers to whom this Policy does not apply pursuant to the foregoing, the Treasurer has previously requested that each such Investment Manager voluntarily comply with this policy.

This Policy applies whenever the Treasurer is seeking to engage, hire, invest with or commit to invest, or to do business with an Investment Manager, whether the applicable agreement is directly with the Investment Manager or with an investment vehicle affiliated with the Investment Manager. Investment Managers should note that, although Placement Agents' services are generally considered more applicable to the general partners, managers, and sponsors of private equity, real estate, absolute return, and other private market investment funds, this Policy also applies to public market Investment Managers.

## **III. Required Disclosures**

### **A. Disclosure Letters.**

1. For each Investment Transaction, prior to entering into an agreement or Substantive Amendment with the Treasurer, or at such time as provided in Section II above, an Investment

Manager shall provide to the Treasurer's Compliance Counsel the following (collectively, the "Disclosure Letters"):

2. A disclosure from the Investment Manager substantially in the form of Appendix 1 to this Policy (an "Investment Manager Disclosure Letter"); and

3. If and only if there is a Placement Agent for the Investment Transaction, a disclosure from each Placement Agent substantially in the form of Appendix 2 to this Policy (a "Placement Agent Disclosure Letter").

For Substantive Amendments, whether or not any Disclosure Letter was provided at the time of the agreement's original execution under this Policy, Investment Managers and Placement Agents (if any) shall complete Disclosure Letters based on the circumstances surrounding the proposed Substantive Amendment, not the original agreement.

#### **B. Content of Disclosure Letters.**

Each Disclosure Letter shall be in substantially the form of Appendix 1 or Appendix 2 to this Policy, as applicable, containing the following:

1. **Response 2.1.** A statement as to whether or not the Investment Manager (or any officer, partner, principal, or affiliate thereof) has elected to use or Compensate a Placement Agent to assist the Investment Manager in obtaining investments from, or business with, any of the NC Funds.

2. **Responses 2.2(e)-(f).** A statement confirming that (i) no Placement Agent is being, or will be, Compensated, directly or indirectly, to assist the Investment Manager in obtaining investments from (or business with) the NC Funds, except as disclosed in the Disclosure Letter and (ii) the Investment Manager, not the Treasurer or the NC Funds, shall bear the entire cost of the Placement Agent fees and expenses disclosed in the Disclosure Letter.

3. **Responses 2.3(a)-(g).** The name of the Placement Agent and a resume (or other summary) for all Placement Agent personnel who played a role in marketing or outreach for the Investment Transaction, all Placement Agent personnel who will receive Compensation as a result of the NC Funds' investment in the Investment Transaction, and each officer, partner, or principal of the Placement Agent. Such resume or other summary shall detail each person's education, work experience, and professional designations. If any such person is a current or former North Carolina Department of State Treasurer employee, IMD Contractor or Consultant, North Carolina State Treasurer, or NC Investment Advisory Committee member, or a member of the Immediate Family of any such person, this fact shall be specifically noted, and any financial benefit to such person from the Investment Transaction shall be identified.

4. **Response 2.6.** The terms of the agreement or arrangement (oral or written) with the Placement Agent that (i) describe any and all Compensation provided or agreed to be provided to a Placement Agent including the nature, timing, and value and (ii) create an obligation to pay a fee to or for the benefit of any Placement Agent. If the contract or agreement between the Investment Manager and Placement Agent is not written, the full extent of such agreement shall be written and summarized, succinctly describing the terms of such agreement or arrangement

with the Placement Agent, including details of the nature, timing, and value of the Compensation or benefit provided. Where the Placement Agent is an employee of the Investment Manager,<sup>2</sup> Compliance Counsel may accept, in lieu of the detailed response described above, a general disclosure providing the employee's role and responsibilities and stating any known effect on the employee's Compensation directly attributable to the NC Funds' proposed investment.

5. **Response 2.7.** A statement as to whether the Placement Agent has been the subject of any actions or investigations by any federal, state, or local government agencies or regulatory bodies in the last ten (10) years and/or anticipates being the subject of such actions or investigations in the future.

6. **Responses 2.2(a)-(d) and 2.8** (where applicable). A statement confirming that (i) the Placement Agent is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association; (ii) the individual officers, partners, principals, employees, or other representatives of the Placement Agent hold all required securities licenses (e.g. Series 7, 63); (iii) no placement fee has been or will be shared with any person or entity not so registered; and (iv) the Placement Agent is in the habitual systemized business of acting as a Placement Agent. In addition, the Placement Agent shall provide a statement that provides details of relevant persons' registrations, the number of years employed by the Placement Agent, and the number of years of experience directly related to such business.

7. **Response 3.2.** A statement as to whether a current or former North Carolina State Treasurer, Department of State Treasurer employee, IMD Contractor or Consultant, or NC Investment Advisory Committee member suggested the retention of a Placement Agent, even if no Placement Agent was ultimately used. If so, the name of such individual(s) shall be provided.

8. **Responses 3.1 to 3.5.** Disclosures of connections or relationships in accordance with Section VIII of this Policy.

9. **Response 4.** A statement indicating whether the Investment Manager or the Placement Agent (as applicable), or any of its officers, partners, or principals, is registered as a lobbyist with any state government and, if applicable, the name and positions of such persons and the registrations held.

10. **Responses 5.1 and 5.2.** Disclosures concerning Political Contributions in accordance with Section IX of this Policy.

C. **Change of Information.** The Investment Manager and Placement Agent shall provide a written update of any material changes to their responses to question 1 through 3.2, 5.1

<sup>2</sup> Note that Investment Manager employees are "Placement Agents" within the definition of this Policy only if subject to SEC or FINRA registration requirements. See this Policy's definition of "Placement Agent" in Section XI.

and 6 of the Disclosure Letter within fourteen (14) days after such person or entity knew or should have known of the change in information.<sup>3</sup>

#### **D. Representations and Warranties**

1. **By Investment Manager.** In the Investment Manager Disclosure Letter and/or the Investment Agreement, the Investment Manager shall represent and warrant that the statements found in the Investment Manager Disclosure Letter are true, correct, and complete in all material respects. The Investment Agreement shall provide for a remedy on breach consistent with § IV of this Policy.

2. **By Placement Agent.** The Placement Agent Disclosure Letter shall include a declaration under penalty of perjury that the Placement Agent Disclosure Letter is true, correct, and complete in all material respects.

**E. Internal Disclosure in Investment Recommendation Memorandum.** For certain IMD transactions, the Selection Policy requires staff to complete an Investment Recommendation Memorandum. In each Investment Recommendation Memorandum, the Asset Class Director will provide a brief statement that describes (1) the person or persons, if any, who initially suggested the investment opportunity to IMD and (2) any persons who appeared before IMD in the marketing or due diligence process on behalf of the Investment Manager and who were not employees of the Investment Manager or one of the Investment Manager's affiliates.

**F. Website Posting.** Disclosure Letters shall be public documents. Any designation by an Investment Manager or Placement Agent of Disclosure Letter text as a trade secret under N.C. Gen. Stat. § 132-1.2(1) shall be supported by a statement identifying how the text designated as a trade secret satisfies the test of N.C. Gen. Stat. §§ 66-152(3)(a.), (b.) and 132-1.2(1)(b.)-(d.). On a quarterly basis, the Department shall electronically collate Disclosure Letters for all proposed Investment Transactions that were accepted and signed by the Treasurer and make such collations available through its website and other means.

#### **IV. Failure to Comply – Remedies**

##### **A. By Investment Managers.**

1. Each Investment Agreement shall include remedial provisions that apply in the event the Investment Manager (i) fails to comply with the Disclosure Letter requirements, (ii) makes a material misstatement or omission in its Disclosure Letter, (iii) fails to update a Disclosure

<sup>3</sup> The Disclosure Letters ask several questions about social relationships, shared work history, and family or marital relationships. These answers to these questions will inevitably change over time. The Investment Manager and Placement Agent need not provide updates to Responses 3.3 to 3.6 and Response 4. The Investment Manager and Placement Agent also need not provide updates to Response 5.2 (listing Political Contributions) for any Political Contribution properly reported to the applicable election authorities and beneath the SEC Rule limit, but must update their response if the representation in Response 5.1 becomes untrue.



Letter as required by Section § III(C) of this Policy, or (iv) otherwise materially violates this Policy (items (i) through (iv) collectively hereinafter, a “Violation of This Policy”).

2. All remedial actions for Violations of This Policy shall be at the Treasurer’s sole discretion, without liability by the Treasurer to the Investment Manager, and the Treasurer may choose not to exercise any such remedy if the Treasurer determines that such exercise may not be in the best interest of the NC Funds.

3. The remedial provisions for a Violation of This Policy shall provide that the Investment Manager shall repay to the Treasurer, the greater of (a) the aggregate amount of any management or advisory fees paid for the most recent two years to the Investment Manager in respect of the investments or business of the Treasurer, whether paid directly by the Treasurer or an investment vehicle in which the Treasurer is an investor and without regard to any offset reducing such fees (e.g., for placement fees, special fees, fund expenses, etc.) or (b) an amount equal to the amounts paid or promised to be paid to the Placement Agent with respect to investments or business with the Treasurer.

4. The Treasurer shall also seek, when practicable, in the remedial provisions in an Investment Agreement for a Violation of This Policy, language that allows for immediate termination of the Investment Agreement without a fee or other penalty; or, for a limited partnership, limited liability company, or other investment vehicle, language that allows for an orderly withdrawal of the Treasurer from such investment vehicle without a fee or other penalty. Withdrawal rights may be limited as necessary for a credit facility associated with an Investment Transaction.

5. The Treasurer may also impose a ban on future Investment Transactions with the Investment Manager.

6. The remedies set forth in this Section shall be in addition to any other remedies that the Treasurer may be entitled to at law or in equity, by contract or otherwise.

7. As to any existing Investment Manager voluntarily complying with the policy as described in Section II, the remedies described in this Section shall not apply to any use of a Placement Agent prior to the approval date of this policy that is described in the Disclosure Letter of the existing Investment Manager first submitted following such approval date, except to the extent the Disclosure Letter is not true, correct and complete in all material respects.

8. For limited partner consent requests based on contracts entered into under prior versions of this Policy, the Treasurer need not renegotiate the remedy provisions established at the time of the original transaction.

**B. By Department Personnel.** Failure to comply with this Policy by Department employees or IMD Contractors or Consultants may result in penalties up to and including termination.

## **V. Notification & Review Process**

A. **Notice.** On or before the time that legal discussions are initiated with respect to a prospective Investment Transaction or Substantive Amendment, the Treasurer's staff will provide the Investment Manager with a copy of this Policy along with the Supplemental Ethics Policy, the Charitable Donations Policy, and the Prohibition of Gifts to State Employees Policy.

B. **Timing of Disclosure Letters.** Unless exceptional circumstances exist, the Disclosure Letters shall be provided to the Compliance Counsel one month before the anticipated closing of the Investment Transaction.

C. **Review before Closing.** Before closing of the Investment Transaction and execution of contractual documents, the Compliance Counsel shall review Disclosure Letters in accordance with Section VI of this Policy.

D. **Implementation.** As part of the closing of an investment or engagement or any amendment thereto to which this Policy is applicable as described in Section II hereinabove, the Investment Manager will be required to (i) represent and warrant that its Disclosure Letter is, as of the date of closing, true, correct and complete in all material respects and (ii) confirm the Investment Manager's agreement to the remedial provisions contained in Section IV.

## **VI. Evaluation of Disclosure Letters**

A. **Information Reviewed.** The Compliance Counsel shall review the Disclosure Letter. When provided in the Selection Policy, the Compliance Counsel shall be provided with Investment Recommendation Memoranda or other documents related to the proposed transaction. The Compliance Counsel may contact Department personnel, the Investment Manager, or the Placement Agent to address questions.

B. **Standard of Review.** The Compliance Counsel shall determine whether in his or her view, based on the information reviewed:

1. The Disclosure Letters are responsive, complete, and sufficient in all material respects;
2. Whether there is a reasonable chance that any aspect of the Investment Transaction's recommendation, negotiation, or approval may violate any law, regulation, or Department policy; and
3. Whether any aspect of the Investment Transaction's recommendation, negotiation, or approval (a) creates a material risk that the professional judgment or actions of persons currently affiliated with the Department have been or will be unduly influenced by a direct or indirect personal interest; or (b) raises significant reputational risk concerns related to Conflicts of Interest.

Any approval by the Compliance Counsel will be made in writing. These criteria are intended to be identical to the criteria in Section VII of the Selection Policy, and the Compliance Counsel's review under this Policy and under the Selection Policy may be combined into one effort.

### **C. Corrective Procedures.**

1. **For issues under § VI(B)(1).** If the Compliance Counsel determines that the test stated by Subsection (B)(1) above is not met, he or she shall contact the Investment Manager or Department staff to seek correction of the Disclosure Letters.

2. **For issues under § VI(B)(2) or (3).** If the Compliance Counsel determines that the test stated by Subsections (B)(2) or (B)(3) above may not be met, the Compliance Counsel will promptly notify the Chief Investment Officer and General Counsel. The issue will be jointly resolved following the procedures set out in Section VII of the Selection Policy. In accordance with Section VII(A) below, the Investment Agreement or Substantive Amendment may not be signed by the Treasurer without approval by the General Counsel or the General Counsel's attorney designee under N.C.G.S. § 114-8.3(b1). The resolution of the issue raised by the Compliance Counsel will be documented in writing and provided to the Treasurer before execution.

### **VII. Prohibitions**

A. **Prohibition on Investment without Approval under This Policy.** This Policy prohibits the Treasurer or Department personnel from entering into any Investment Transaction or Substantive Amendment unless, in compliance with Section VI above, it has been approved by either the Compliance Counsel, the General Counsel, or the attorney designated by the General Counsel to perform review of the contract under N.C.G.S. § 114-8.3(b1).

B. **Eligibility Criteria for Placement Agent.** The Treasurer will not transact business on behalf of any NC Funds with an Investment Manager that has elected to use a Placement Agent unless the following criteria are met in all material respects:

1. The Placement Agent must be registered with either the Securities and Exchange Commission or the Financial Industry Regulatory Authority.<sup>4</sup>

2. The placement fee must not be shared with a person or entity that does not meet the criteria in Subsection (B)(1) above.

3. The person or entity acting as the Placement Agent must be in the habitual, systematized business of acting as a Placement Agent.

4. The Investment Manager must represent and warrant in the Investment Agreement that the information disclosed is true, correct, and complete in all material respects, as set forth in Section III(D).

5. The Investment Manager must agree in the Investment Agreement to the remedies for material omission or inaccuracy in the Disclosure Letter, as set forth in Section IV.

<sup>4</sup> For international Investment Transactions, any Placement Agents outside the United States must have a substantially equivalent foreign registration.

6. The Investment Manager agrees in the Investment Agreement that the Investment Manager, not the Treasurer or the NC Funds, shall bear the entire cost of all Placement Agent fees and expenses.<sup>5</sup>

**C. Prohibition on Use of Placement Agents if Investment Manager Currently Manages, or Recently Managed, North Carolina Investments.**

1. **Prohibition.** The Treasurer shall not enter into an Investment Transaction if the Investment Manager (or its affiliate) currently manages an NC Funds investment or has managed an NC Funds investment within the last two years, but the Investment Manager has elected to use and Compensate a third-party Placement Agent with respect to the Investment Transaction. Such a transaction is not barred if the Investment Manager engages a Placement Agent, but the Placement Agent is not Compensated, directly or indirectly, for the NC Funds' investment.<sup>6</sup>

2. **No Placement Agents to Promote or Market Amendments.** The Treasurer shall not enter into an amendment or consent to amend an existing contract if the Investment Manager hired a third-party Placement Agent to promote or market the amendment.

3. **No Tail Fees.** The Treasurer shall not enter into an Investment Transaction if a Placement Agent or other solicitor (a) is not utilized to promote the current Investment Transaction by the Investment Manager, (b) nonetheless, the Investment Manager would Compensate the Placement Agent based on the NC Funds' investment for the current transaction, and (c) such Compensation would be the result of the Placement Agent's status, in a prior investment transaction, as the Placement Agent to the NC Funds.

4. **Exception for Internal or Affiliated Placement Agents.** The ban on third-party Placement Agents set out in Subsection (C)(1) above does not restrict Investment Managers from utilizing Placement Agents who are employees or employees of an Investment Manager's affiliate, so long as Compensation to the Placement Agent is disclosed in accordance with Section III(B)(4) of this Policy.

**D. Prohibitions on Conduct of Department-Affiliated Personnel.** The Treasurer, Department of State Treasurer staff, IMD Contractors or Consultants, and NC Investment Advisory Committee members ("Department-Affiliated Persons") shall not:

<sup>5</sup> An investment vehicle in which the Treasurer is an investor may make a payment to the Placement Agent as an offset to the NC Funds' future fees or compensation to the Investment Manager if and only if (i) the terms of the management fee offset are fully disclosed, (ii) the Placement Agent and its Compensation are fully disclosed in approved Disclosure Letters under this Policy, and (iii) the NC Funds do not ultimately bear any Placement Agent fees and expenses.

<sup>6</sup> In some situations, an Investment Manager hires a Placement Agent for a small flat fee to assist in preparing marketing materials for all potential investors in the fund. Subsection (C)(1) does not prohibit the Investment Transaction if the flat fee is not based on the size of the Investment Manager's fund, the flat fee is not based, directly or indirectly, on the size of the NC Funds' investment, and the Placement Agent does not appear personally in front of North Carolina.

1. Suggest to an Investment Manager or the Department's investment staff that a Placement Agent be engaged with respect to an Investment Transaction or Substantive Amendment; or

2. Make an initial call or contact to a Placement Agent about an investment opportunity, unless that Placement Agent meets the standards of Subsections (B)(1) and (B)(3) above and the contact will be disclosed in the transaction's Investment Recommendation Memorandum and Disclosure Letters required under this Policy.

## **VIII. Disclosure and Evaluation of Connections or Relationships**

### **A. General Principles.**

Each Disclosure Letter shall contain the statements requested in this section disclosing any connections or relationships that may exist between the Investment Manager or Placement Agent (as applicable) and Department-Affiliated Persons. The Investment Manager and Placement Agent must, in good faith, make their responses materially complete. In preparing their responses, the Investment Manager and Placement Agent may rely on lists provided by the Department of State Treasurer of current and past Department personnel and NC Investment Advisory Committee members.

The Compliance Counsel will evaluate the disclosures in accordance with the standard of review set out in Section VI(B) of this Policy, following the principles set out in this Section VIII. Some types of connections or relationships are the ordinary result of doing business. Based on the facts and the principles set out in this section of the Policy, the Treasurer's Compliance Counsel will determine what actions are required. It may be warranted, in the circumstances, to recuse Department personnel or engage a neutral third party to perform an independent evaluation of the proposed transaction.<sup>7</sup>

### **B. Responses 3.1(a) and (b): Financial Benefit or Current Employment**

1. Disclosure. The Disclosure Letter shall list whether any current Department-Affiliated Persons or any member of their Immediate Family (i) are personnel, officers, directors, partners and/or principals of the Investment Manager or Placement Agent, or (ii) would receive a financial benefit to themselves derived from the Compensation provided to the Investment Manager or Placement Agent.

2. Resolution. If such a connection is disclosed, the Compliance Counsel shall ensure: (i) the affected Department-Affiliated Person shall be recused from the Investment Transaction and shall play no part in its consideration or approval; and (ii) if the Department-Affiliated Person has already played a substantive role in the consideration or approval of the Investment Transaction, the Investment Transaction shall be prohibited. The Chief Investment Officer, Department's General Counsel, and Treasurer shall be notified in writing of the connection.

<sup>7</sup> Any neutral third party engaged under this subsection shall be hired, compensated, and directed by the Department (not the Investment Manager or Placement Agent) and shall be paid on a basis that is not dependent on whether the transaction proceeds to closing.

**C. Responses 3.2(a) and (b): Who Recommended Placement Agent**

1. **Disclosure.** The Disclosure Letter shall list whether any current or former Department-Affiliated Person suggested to the Investment Manager or to the Department's investment staff that a Placement Agent be retained for the Investment Transaction, even if no Placement Agent was ultimately used.

2. **Resolution.** If such a suggestion is disclosed, the Compliance Counsel shall review the disclosure; notify the Chief Investment Officer, General Counsel, and Treasurer; and ensure that appropriate action is taken as prescribed by this subsection.

a. If a current Department-Affiliated Person suggested that a Placement Agent be retained with respect to a proposed Investment Transaction or Substantive Amendment, the Compliance Counsel will seek disciplinary action against the Department-Affiliated Person under Section VII(D)(1) of this Policy. Moreover, the proposed transaction or amendment shall be prohibited if the Investment Manager retained the suggested Placement Agent. If the Investment Manager did not retain the suggested Placement Agent, recusal of the Department-Affiliated Person and mandatory neutral third-party due diligence is required.

b. If a former Department-Affiliated Person suggested that a Placement Agent be retained, the Compliance Counsel shall determine whether recusal, a ban on the investment, or mandatory third-party due diligence is warranted based on the likelihood that the suggestion resulted in a Conflict of Interest.

**D. Response 3.3: Family Relationships**

1. **Disclosure.** The Disclosure Letter shall list any instance in which the current (i) Treasurer, (ii) Department of State Treasurer Senior Staff, (iii) NC Investment Advisory Committee members, (iv) Investment Management Division Senior Staff, or (v) IMD staff who played a role in due diligence for the Investment Transaction are Immediate Family members of either (a) principal members of the project team for the Treasurer's account at the Investment Manager or (b) Placement Agent officers, partners, or principals; Placement Agent personnel who played a role in marketing or outreach for the Investment Transaction; or Placement Agent personnel who will receive Compensation, directly, or indirectly for the Investment Transaction.

2. **Resolution.** If such a connection is disclosed, the Compliance Counsel shall ensure that (i) the Chief Investment Officer, General Counsel, and Treasurer are notified in writing of the connection and (ii) the Department-Affiliated Person with such a connection is recused from the Investment Transaction, has played no part in its consideration or approval, and will play no part in its consideration or approval. If recusal is not practical in the circumstances, or the Department-Affiliated Person has already played a role in the consideration or approval of the Investment Transaction, the Compliance Counsel may either designate the Investment Transaction as prohibited by this Policy or, at the option of the Compliance Counsel, allow the Investment Transaction to go forward if a neutral third party hired by the Department performs an independent evaluation of the proposed transaction and recommends it for investment.

**E. Response 3.4: Former Department Personnel or Officials**

1. **Disclosure.** The Disclosure Letter shall list any instance in which any personnel of the Investment Manager or Placement Agent (if applicable) are former Department-Affiliated Persons. Any financial benefit to such former personnel or officials shall be identified.

2. **Resolution.** If such a connection is disclosed, the Compliance Counsel shall ensure that (i) the Chief Investment Officer, General Counsel, and Treasurer are notified in writing of the connection; and (ii) the decision-making of the Department with respect to the Investment Transaction does not appear to have been unduly influenced by the presence of former Department-Affiliated Persons at the Investment Manager or Placement Agent.

**F. Response 3.5: Prior Working Relationships**

1. **Disclosure.** The Disclosure Letter shall list and describe any professional or working relationships that have existed in the past between persons who are now (i) IMD employees, (ii) IMD Contractors or Consultants, (iii) the State Treasurer, or (iv) Department of State Treasurer Senior Staff, on the one hand, and, on the other hand, (a) the Investment Manager's project team for the Treasurer's account or (b) Placement Agent personnel who would receive Compensation (directly or indirectly) for the Investment Transaction or who played a role in marketing or outreach for the Investment Transaction. For purposes of this response, "professional or working relationships" includes occasions where persons worked together on the same projects at the same company, at the same fund, or as part of a client-consultant relationship; the term does not include prior engagements of the Investment Manager by the Department of State Treasurer or prior occasions in which the Placement Agent marketed a fund to the Department of State Treasurer.

2. **Resolution.** If such a connection is disclosed, the Compliance Counsel shall ensure that the decision-making of the Department with respect to the Investment Transaction does not appear to have been unduly influenced by the prior working relationship.

**G. Response 3.6: Social Connections or Personal Relationships**

1. **Disclosure.** The Disclosure Letter shall list and describe any pre-existing relationships involving social contacts outside of business between (i) IMD employees, (ii) IMD Contractors or Consultants, (iii) the State Treasurer, or (iv) Department of State Treasurer Senior Staff, on the one hand, and, on the other hand, (a) the Investment Manager's project team for the Treasurer's account or (b) Placement Agent personnel who would receive Compensation (directly or indirectly) for the Investment Transaction or who played a role in marketing or outreach for the Investment Transaction.

2. **Resolution.** If such a connection is disclosed, the Compliance Counsel shall ensure that the decision-making of the Department with respect to the Investment Transaction does not appear to have been unduly influenced by the social relationship. If the social relationship appears to be significant and long-lasting, the Compliance Counsel shall notify the Chief Investment Officer, General Counsel, and Treasurer in writing of the social relationship and suggest, based on the facts, whether recusal or an independent evaluation of the transaction by a neutral third party should be provided.

## **IX. Political Contributions**

A. **Prohibition.** The Treasurer will not transact business with an Investment Manager if it has been determined that a Political Contribution to the Treasurer or any incumbent, nominee, or candidate for such elective office has been made, coordinated or solicited (i) in violation of applicable state or federal law or (ii) in a manner that would make it unlawful, under the SEC Rule, for the Investment Manager (or its affiliate) to seek Compensation for services to the Treasurer and/or the NC Funds.

B. **Disclosure.** Each Disclosure Letter shall contain a list of Political Contributions made, coordinated, or solicited by the Investment Manager and Placement Agent (as applicable) and their covered associates (as defined in the SEC Rule) for the campaign of (a) any incumbent, nominee, candidate, or successful candidate for North Carolina State Treasurer or (b) for the campaign of the current State Treasurer running for a different office.

C. **Use of Disclosure.** The Disclosure contemplated by Subsection (B) above shall not be used by the Treasurer or Department of State Treasurer staff for political purposes, but shall be used exclusively as a check on compliance with the SEC Rule and this Policy.

## **X. Interpretation of this Policy**

A. **Authority.** Questions concerning the meaning of this Policy shall be resolved by the Department's General Counsel or by his or her designee.

### **B. Application of Policy to Particular Situations**

To the extent any other text in this Policy conflicts with the more specific treatment of an issue in this Section X(B), the text in this section shall govern.

1. **Fund of Funds.** This Policy applies to all investments (hereinafter, "Fund of Funds") in which the Treasurer selects an Investment Manager (a "First-Level Manager") who then selects several sub-Investment Managers ("Second-Level Managers"). For Fund of Funds, the First-Level Manager shall provide Disclosure Letters to the Treasurer when seeking the Treasurer's commitment to do business with the First-Level Manager. The Second-Level Managers shall provide Disclosure Letters if the Treasurer is asked to consent to or has the ability to veto any investment of funds by the First Level Manager with a Second-Level Manager.<sup>8</sup>

2. **Secondary Market.** This Policy does not apply to "secondary market" and other similar transactions in which the Treasurer is acquiring an interest in an existing investment vehicle from a third party that is not affiliated with the Investment Manager in a transaction in which the

<sup>8</sup> Because the Treasurer does not have a contractual relationship with the Second-Level Manager, the remedial provisions in §§ IV(A)(3) and A(4) of this Policy, which discuss remedial terms in a contract, do not apply in this circumstance. For the avoidance of doubt, a veto or consent right solely pertaining to prudent total portfolio risk management procedures or investment guidelines would not require Disclosure Letters to be submitted.



Investment Manager is not materially involved (e.g., where the Investment Manager's only material involvement is consenting to the transaction).

3. **Supplemental Retirement Plans.** The Supplemental Retirement Plans have adopted a separate, customized version of this Policy.

## **XI. Definitions**

The following terms when used in this Policy shall have the meanings set forth below.

A. **"Compensation"**: Compensation of any kind (including flat fees, contingent fees, or any other form of tangible or intangible compensation or benefit) provided as a result of the NC Funds' investment in the Investment Transaction. If a Placement Agent receives a flat fee based on the size of an Investment Manager's fund, the Placement Agent receives "Compensation" under this Policy if the NC Funds' investment is included in the fund size number that is used to calculate the Placement Agent's fee. A Placement Agent also receives "Compensation" under this Policy if the Investment Manager increases the Placement Agent's flat fee with the understanding, or in part because, direct payment to the Placement Agent based on the NC Funds' investment would be barred under this Policy. "Compensate" means to provide Compensation.

B. **"Compliance Counsel"**: An attorney designated by the Department's General Counsel.

C. **"Conflict of Interest"**: Circumstances that create a material risk that professional judgment or actions regarding the transaction's recommendation, approval, or execution have been or will be unduly influenced by a direct or indirect personal interest.

D. **"IMD Contractor or Consultant"**: A natural person engaged by the Department (whether directly or indirectly through a staffing agency, limited liability entity, or other organization) to consult and advise IMD on potential investment opportunities; provided, however, that the term "IMD Contractor or Consultant" shall not include (i) State of North Carolina employees, (ii) the Treasurer or members of governing boards for NC Funds, and (iii) persons given authority or discretion by the Treasurer to make decisions, such as Investment Managers.

E. **"Department of State Treasurer Senior Staff"**: The Department's Chief of Staff, Deputy Chief of Staff, General Counsel, attorneys in the General Counsel's Office with responsibility for IMD, Director of Communications, and the Treasurer's Executive Assistant.

E1. **"NC Investment Advisory Committee"** means the North Carolina Investment Advisory Committee formed pursuant to N.C.G.S. §147-69.2(b1).

F. **"Investment Agreement"**: The final written agreement or contract between the Treasurer and the Investment Manager with respect to an Investment Transaction.

G. **"Immediate Family"**: Mother, father, brother, sister, wife, husband, or child, either by birth, by marriage, by engagement to be married, or through a live-in domestic partnership that is similar to marriage; lineal ascendants (grandparents, etc.); and lineal descendants (grandchildren, etc.).

H. **“Investment Manager”**: A person or entity, other than Department employees, given authority or discretion by the Treasurer to make decisions concerning the investment of NC Funds, the investment management of NC Funds, or the transfer or transition of invested NC Funds. In the case where the Treasurer invests in a limited partnership, limited liability company, or other similar investment vehicle, “Investment Manager” shall mean solely the general partner, manager, or other similar managing entity. This Policy is intended to apply broadly to all of the types of investment partners with whom the NC Funds does business, including the general partners, investment managers and sponsors of hedge funds, private equity funds, limited liability entities, and real estate funds, as well as investment managers (whether through a separate account or commingled trust) retained pursuant to a contract.

I. **“Investment Transaction”**: A business undertaking agreed upon between the Treasurer and an Investment Manager to invest NC Funds, commit to invest NC Funds, manage invested NC Funds, create a new series under a series limited partnership or series limited liability company, or enter into a contract which can be used from time to time to transfer or transition invested NC Funds.

J. **“Investment Management Division Senior Staff”**: Asset Class Directors, the Chief Administrative Officer, the Risk Officer, and the Chief Investment Officer.

K. **“Placement Agent”**:

1. ***Definition.*** For purposes of this Policy, “Placement Agent” means any entities or persons (including but not limited to lobbyists, solicitors, brokers, meeting arrangers, persons who hold themselves out as “placement agents,” “cap intro” firms, finders, and third party marketers) engaged by an Investment Manager and/or its affiliates, directly or indirectly, to obtain investment from the NC Funds.

2. ***Placement agents who solely solicit investors other than the NC Funds.*** If an entity or person is **not** engaged to obtain investment from the **NC Funds**, but is engaged by an Investment Manager to obtain investment from **other investors**, that entity or person is generally not a “Placement Agent” for purposes of this Policy. However, if the Investment Manager asks for the NC Funds to directly or indirectly pay the fee or costs charged by that entity or person, that person is a “Placement Agent” for purposes of this Policy, regardless whether the entity or person technically was engaged to solicit the NC Funds.<sup>9</sup>

3. ***International regulatory agents.*** Notwithstanding the foregoing, where a fund is required by another country’s national regulator to engage an agent as a precondition to offering interests to investors resident in those countries, those regulation-required agents are not Placement Agents within the definition of this Policy.

4. ***Investment Manager employees.*** Within this Policy, the term “Placement Agent” shall include natural persons who are employees, officers, directors or partners of an Investment

<sup>9</sup> Consistent with footnote 5, the NC Funds must not ultimately bear any Placement Agent fees and expenses.

Manager (or its affiliate) only if they are subject to registration requirements with the Securities and Exchange Commission or the Financial Industry Regulatory Authority.

L. **“Political Contribution”**: Any “Contribution” as defined under the SEC Rule or any other political or campaign contribution under any applicable state or federal law, including, without limitations, any gift, reward, promise of future employment or reward, subscription, loan, advance, deposit of money, or anything of value furnished for the purpose of influencing an election for a federal, state or local office, including any payments for debts incurred in such an election and transition or inaugural expenses incurred by a successful candidate for office.

M. **“SEC Rule”**: The Securities and Exchange Commission rule on Political Contributions by Certain Investment Advisers, 75 Fed. Reg. 41,017 (July 14, 2010), amending 17 C.F.R. §§ 275.204-2, 275.206(4)-3, and 275.206(4)-5. Upon any future amendment to the SEC Rule, this reference shall automatically update to include those amendments.

N. **“Substantive Amendment”**: An amendment to, or consent to amend, an Investment Agreement which changes the Investment Manager, increases the commitment of funds by the Treasurer, or increases the fee percentages of the Investment Manager applicable to any period of the fund’s life. The following are not Substantive Amendments and do not require the submission of Disclosure Letters: consents, elections, or amendments that (i) solely diminish the Investment Manager’s fees or Compensation; or (ii) extend the fund’s commitment period, harvest period, or term without a fee percentage increase.<sup>10</sup>

O. ***Definition Cross-References.*** “Department,” “IMD,” “NC Funds,” “Selection Policy,” and “Treasurer” are defined in Section I of this Policy. “Disclosure Letter,” “Investment Manager Disclosure Letter,” and “Placement Agent Disclosure Letter” are defined in Section III(A) of this Policy. “Violation of This Policy” is defined in Section IV(A) of this Policy. “Department-Affiliated Persons” is defined in Section VII(D) of this Policy. “First-Level Manager,” “Fund of Funds,” and “Second-Level Managers” are defined in Section X(B) of this Policy.

<sup>10</sup> For example, it is a Substantive Amendment to raise the management fee percentage for the harvest period of a fund. However, it is not a Substantive Amendment to extend the original harvest period of the fund’s original term, even though there may be fees paid annually for management or administration of the fund, as these period or term extensions raise a low risk of improper influence, are very common in the industry, and are reviewed in a cost/benefit analysis by the Investment Management Division.

## **XII. Revision History and Effective Date**

Version/ Revision	Date Approved and Effective Date	Description of Changes
1	Sep. 29, 2009	Original version
1.1	Oct. 19, 2009	Clarifications to Policy; voluntary compliance requested from all existing investment managers
1.2	March 14, 2011	Clarifications to Policy; new section on political contributions
2	Approved Nov. 19, 2013 Effective Dec. 1, 2013	Clarifications to Policy and form Disclosure Letter; Disclosure Letters now required from Placement Agents; prohibition on compensation of Placement Agent if Investment Manager recently managed NC Funds; new section on connections or relationships
2.1	Approved _____, 2016 Effective Oct. 1, 2016	New language clarifying what are “Investment Transactions” and “Substantive Amendments” that require submission of documents under the Policy; clarified definition of “Placement Agent”

North Carolina Department of State Treasurer Placement Agent,  
Political Contribution, and Connection Disclosure Policy

**Form Disclosure Letter for Investment Managers**

From: The Investment Manager listed below

To: The Treasurer of the State of North Carolina  
3200 Atlantic Avenue  
Raleigh, North Carolina 27604

Re: Disclosure Letter pursuant to Placement Agent and Political Contribution, and  
Connection Disclosure Policy

Ladies and Gentlemen:

Under the Placement Agent, Political Contribution, and Connection Disclosure Policy (the “Policy”) adopted by the Treasurer of the State of North Carolina (the “Treasurer”), the Treasurer requires Investment Managers and Placement Agents to make disclosures at certain times specified by the Policy. Pursuant to and in accordance with the Policy, the undersigned Investment Manager hereby makes the following disclosures. Capitalized terms not otherwise defined in this Disclosure Letter have the same meanings as specified in the Policy.

**1. Basic Information**

Name of Investment Manager:	
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This letter is submitted in connection with the below-listed Investment Transaction.

*List below the name of the fund or separate account in which the Treasurer is investing. For investment management agreements, list the name of the investment strategy.*

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☐ This form is submitted in connection with an amendment to the Investment Agreement or a proposed consent to amend the Investment Agreement. *If this box is checked, provide responses on this form based on the amendment, not based on the original contract.*

☐ This form is an update to a previously submitted disclosure letter.

## **2. Disclosures and Representations Concerning Placement Agent**

### **2.1. Use of Placement Agent**

*Check the appropriate box.*

☐ The Investment Manager (or any officer, partner, principal, or affiliate thereof) has elected to use or Compensate a Placement Agent to assist the Investment Manager in obtaining this investment.

*See the definition of "Placement Agent" in Section XI of the Policy. Please be aware that this definition includes (without limitation) not only persons who hold themselves out as "placement agents," but also lobbyists, solicitors, brokers, meeting arrangers, or any other entities or persons engaged for the purpose of obtaining investments that are either (i) engaged to obtain investment from the NC Funds or (ii) are directly or indirectly compensated from the NC Funds or the NC Funds' investment.*

☐ No Placement Agent has been, or will be, used or Compensated by the Investment Manager (or any officer, partner, principal, or affiliate thereof) to assist in obtaining this investment. *If this box is checked, proceed to question 3.1.*

### **2.2. Representations**

The Investment Manager hereby confirms and represents:

- a. The Placement Agent is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association;
- b. The individual officers, partners, principals, employees, or other representatives of the Placement Agent hold all required securities licenses;
- c. No placement fee has been, or will be, shared with any person or entity not so registered;
- d. The Placement Agent is in the habitual systematized business of acting as a Placement Agent;
- e. Other than as disclosed in this document, no Placement Agent is being, or will be, Compensated, directly or indirectly, to assist the Investment Manager in obtaining investments from, or business with, any of the NC Funds; and
- f. The Investment Manager, not the Treasurer or the NC Funds, shall bear the entire cost of all Placement Agent fees and expenses disclosed in this document.

### **2.3. Placement Agent Information**

- a. The name of the Placement Agent is:

--

- b. Is the Placement Agent an affiliate or employee of the Investment Manager?  
☐ Yes      ☐ No

*Note that the definition of "Placement Agent" includes not only third parties, but also employees or affiliates of an Investment Manager who were used or Compensated to assist in obtaining North Carolina business and who were subject to registration with the Securities and Exchange Commission or the Financial Industry Regulatory Association.*

- c. The names of the Placement Agent personnel who have played a role in marketing or outreach for the Investment Transaction are:

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- d. The following Placement Agent personnel will receive Compensation, directly or indirectly, as a result of the NC Funds' investment in the Investment Transaction:

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*Note that throughout this Disclosure Letter, "Compensation" to a Placement Agent is deemed to include a flat fee, contingent fee, or any other form of tangible or intangible compensation or benefit. See the Policy's definitions for further details.*

- e. To the Investment Manager's knowledge, the officers, partners, or principals of the Placement Agent, not listed above, are:

--

- f. **Attached** is a resume (or other summary) for each person listed above detailing the person's education, work experience and professional designations.

- g. Are any persons listed above, or any other Placement Agent officers, partners, and/or principals, current or former (i) North Carolina State Treasurers; (ii) Investment Advisory Committee members; (iii) North Carolina Department of State Treasurer employees, contractors, or consultants; or (iv) members of the Immediate Family of persons listed in (i) to (iii) above?

☐ Yes      ☐ No

*If your answer is "Yes," list the persons and identify whether those persons would receive a financial benefit from the Investment Transaction.*

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#### **2.4. Recent Management of North Carolina Investments by Investment Manager**

☐ The Investment Manager (or its affiliate) currently manages an NC Funds investment or has managed an NC Funds investment within the last two years. *If this box is checked, Department policy bars the Compensation of any third-party Placement Agent (in other words, a Placement Agent who is not an employee or affiliate of the Investment Manager) in connection with the Treasurer's investment in the Investment Transaction.*

☐ The Investment Manager (or its affiliate) has not managed an NC Funds investment within the last two years.

#### **2.5. Whether Placement Agent is Being Compensated**

☐ The Placement Agent is not being Compensated, directly or indirectly, as a result of the Treasurer's investment in the Investment Transaction. *If this box is checked, skip question 2.6.*

☐ The Placement Agent is being Compensated, directly or indirectly, as a result of the Treasurer's investment in the Investment Transaction.

#### **2.6. Terms of Placement Agent Compensation and Placement Agent Agreement**

*Check one of the three boxes below. You may attach additional pages.*

☐ Attached are the provisions of the Investment Manager's contract with the Placement Agent that describe the Placement Agent's Compensation and services. These provisions describe any and all Compensation of any kind provided or agreed to be provided to the Placement Agent.

☐ The contract or arrangement between the Investment Manager and the Placement Agent is oral, not written. Below is a description of the terms of that oral contract that create an obligation to pay a fee to or for the benefit of any Placement Agent, including but not limited to a description of all terms concerning Compensation of any kind provided or agreed to be provided to any Placement Agent. This description includes the nature, timing and value of such Compensation.

☐ The Placement Agent is an employee of the Investment Manager. Below is a general disclosure providing the employee's role and responsibilities and stating any known effect on the employee's Compensation that is directly attributable to the NC Funds' proposed investment.



## 2.7. Actions and Investigations Involving Placement Agent

*Check one of the two boxes below.*

- a. Has the Placement Agent (or any officer, partner, or principal thereof) been the subject of a non-routine inquiry, action, or investigation by a federal, state, or local government agency or regulatory body in the last ten (10) years?

☐ Yes      ☐ No

*If your answer is "Yes," describe any such actions or investigations. Attach additional pages as necessary.*

- b. To the Investment Manager's knowledge, does the Placement Agent (or any officer, partner, or principal thereof) anticipate being the subject of such inquiries, actions or investigations in the future?

☐ Yes      ☐ No

*If your answer is "Yes," describe any such actions or investigations. Attach additional pages as necessary.*

## 3. Connections or Relationships

### 3.1. Conflicts

- a. Are any personnel, officers, directors, partners and/or principals of the Investment Manager current North Carolina Department of State Treasurer employees, persons who serve as consultants or contractors for the Department's Investment Management Division, or Investment Advisory Committee members?

☐ Yes      ☐ No

*If the answer is "Yes," enclose a statement providing further information.*

- b. Will any current North Carolina Department of State Treasurer employees, persons who serve as consultants or contractors for the Department's Investment Management Division, or Investment Advisory Committee members receive a financial benefit to themselves or to a member of their Immediate Family derived from the Compensation provided to the Investment Manager or Placement Agent for the Investment Transaction?

☐ Yes      ☐ No

*If the answer is "Yes," enclose a statement providing further information.*

### 3.2. Recommendations of Placement Agent

- a. Did a current or former Treasurer, Department of State Treasurer employee, Investment Management Division contractor or consultant, or member of the Investment Advisory Committee suggest to the Investment Manager that it retain a Placement Agent, even if no Placement Agent was ultimately used?

☐ Yes      ☐ No

*If your answer is "Yes," list the person who suggested retention of the Placement Agent.*

- b. To the Investment Manager's knowledge, did a current or former Treasurer, Department of State Treasurer employee, Investment Management Division contractor or consultant, or member of the Investment Advisory Committee suggest to the Department's investment staff that a Placement Agent be retained for the Investment Transaction, even if no Placement Agent was ultimately used?

☐ Yes      ☐ No

*If your answer is "Yes," list the person who suggested retention of the Placement Agent.*

### 3.3. Family Relationships

Are any of the persons listed in box (1) a member of the Immediate Family of a person listed in box (2)?

Box (1)	Box (2)
<ul style="list-style-type: none"><li>• The State Treasurer</li><li>• Department of State Treasurer Senior Staff</li><li>• Members of the Investment Advisory Committee</li><li>• Investment Management Division Senior Staff</li><li>• Investment Management Division staff who played a role in due diligence for the Investment Transaction</li></ul>	<ul style="list-style-type: none"><li>• A principal member of the project team for the Treasurer's account at the Investment Manager</li><li>• Any person associated with the Placement Agent listed in the responses to Question 2.3</li></ul>

☐ Yes      ☐ No

*If your answer is “Yes,” list the persons and describe the relationship.*

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*The following questions ask about past or present connections, friendships, or relationships that may exist between the Treasurer’s staff and the Investment Manager’s staff. Some types of connections or relationships are the ordinary result of doing business. The Treasurer’s Compliance Counsel will evaluate this form to determine whether recusal, additional due diligence, or other actions are required.*

### **3.4. Former Department Personnel or Officials**

Are any Investment Manager personnel former North Carolina Department of State Treasurer employees or contractors, North Carolina State Treasurers, or Investment Advisory Committee members?

☐ Yes      ☐ No

*If your answer is “Yes,” list the persons and identify whether those persons would receive a financial benefit from the Investment Transaction.*

--

### **3.5. Prior Working Relationships**

List below any professional or working relationships that the Investment Manager’s project team for the Treasurer’s account have had in the past with persons who are now Investment Management Division personnel, Investment Management Division consultants or contractors, the State Treasurer, or Department of State Treasurer Senior Staff. If there are no prior working relationships to report, please indicate so by checking the “None” box below.

*Please list in this section any occasions where persons worked together on the same projects at the same company, at the same fund, or as part of a client-consultant relationship. You need not list prior occasions in which the Investment Manager did business for the Department of State Treasurer.*

☐ None

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### 3.6. Social Connections

List below any social connections or relationships between the Investment Manager’s project team for the Treasurer’s account and Investment Management Division personnel, Investment Management Division consultants or contractors, the State Treasurer, or Department of State Treasurer Senior Staff. If there are no social connections to report, please indicate so by checking the “None” box below.

*Please list in this section any pre-existing relationships involving social contacts outside of business.*

☐ None

### 4. Lobbying Information

*Check one of the two boxes below.*

☐ The Investment Manager (and/or any officer, employee, partner, or principal thereof) is registered as a lobbyist with a state government. If this box is checked, the following are the names and positions of such persons and the registrations held (attach additional pages as necessary):

☐ Neither the Investment Manager nor any officer, employee, partner, or principal thereof is registered as a lobbyist with any state government.

## 5. Political Contributions

### 5.1. Representation

The Investment Manager hereby confirms and represents that none of the Investment Manager and its covered associates as defined in SEC Rule 206(4)-5(f)(2) has made, coordinated or solicited any Political Contribution to the Treasurer or any incumbent, nominee, candidate or successful candidate for such elective office (i) in violation of applicable state or federal law or (ii) in a manner that would make it unlawful, under the SEC Rule, for the Investment Manager to seek compensation for services to the Treasurer and/or the NC Funds.

### 5.2. Disclosure

During the last five years from the date of this letter, have the Investment Manager or any of its covered associates as defined in SEC Rule 206(4)-5(f)(2) made, coordinated, or solicited any Political Contributions for the campaign of (a) any incumbent, nominee, or candidate for North Carolina State Treasurer or (b) for the campaign of the current State Treasurer running for a different office?

☐ Yes      ☐ No

*If your answer is "Yes," list applicable Political Contributions below.*

Date	Person or company making, coordinating, or soliciting	Person or entity receiving	Amount

*[Signature Page Follows]*

**6.     Signature**

By signing below, the Investment Manager hereby (i) represents and warrants that the information found in this Disclosure Letter is true, correct, and complete in all material respects, and (ii) agrees that it shall provide the Treasurer with a written update of any material changes to Responses 1 to 3.2, 5.1, and 6 in this Disclosure Letter within fourteen (14) days from the date the Investment Manager knew or should have known of the change of information.

Sincerely,

\_\_\_\_\_,  
**on behalf of the Investment Manager listed above**

**By:** \_\_\_\_\_  
(print name)

**Title:** \_\_\_\_\_

**Date:** \_\_\_\_\_

North Carolina Department of State Treasurer Placement Agent,  
Political Contribution, and Connection Disclosure Policy

Form Disclosure Letter for Placement Agents

From: The Placement Agent listed below

To: The Treasurer of the State of North Carolina  
3200 Atlantic Avenue  
Raleigh, North Carolina 27604

Re: Disclosure Letter pursuant to Placement Agent, Political Contribution, and  
Connection Disclosure Policy

Ladies and Gentlemen:

Under the Placement Agent, Political Contribution, and Connection Disclosure Policy (the “Policy”) adopted by the Treasurer of the State of North Carolina (the “Treasurer”), the Treasurer requires Investment Managers and Placement Agents to make disclosures at certain times specified by the Policy. Pursuant to and in accordance with the Policy, the undersigned Placement Agent hereby makes the following disclosures. Capitalized terms not otherwise defined in this Disclosure Letter have the same meanings as specified in the Policy.

**1. Basic Information**

Name of Investment Manager:	
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This letter is submitted in connection with the below-listed Investment Transaction.

*List below the name of the fund or separate account in which the Treasurer is investing. For investment management agreements, list the name of the investment strategy.*

--

☐ This form is submitted in connection with an amendment to the Investment Agreement or a proposed consent to amend the Investment Agreement. *If this box is checked, provide responses on this form based on the amendment, not based on the original contract.*

☐ This form is an update to a previously submitted disclosure letter.

## **2. Disclosures and Representations Concerning Placement Agent**

### **2.1. Use of Placement Agent**

The below-signed person or entity confirms that it is serving as a Placement Agent for the Investment Transaction listed above.

### **2.2. Representations**

The Placement Agent hereby confirms and represents:

- a. The Placement Agent is registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association;
- b. The individual officers, partners, principals, employees, or other representatives of the Placement Agent hold all required securities licenses; and
- c. The Placement Agent is in the habitual systematized business of acting as a Placement Agent.

The Placement Agent hereby confirms and represents, to the best of its knowledge:

- d. No placement fee has been, or will be, shared with any person or entity not so registered;
- e. Other than as disclosed in this document, no Placement Agent is being, or will be, compensated, directly or indirectly, to assist the Investment Manager in obtaining investments from, or business with, any of the NC Funds; and
- f. The Investment Manager, not the Treasurer or the NC Funds, shall bear the entire cost of all Placement Agent fees and expenses disclosed in this document.

### **2.3. Placement Agent Information**

- a. The name of the Placement Agent is:

--

- b. Is the Placement Agent an affiliate or employee of the Investment Manager?

☐ Yes      ☐ No

*Note that the definition of "Placement Agent" includes not only third parties, but also employees or affiliates of an Investment Manager who assist in obtaining business and who were subject to registration with the Securities and Exchange Commission or the Financial Industry Regulatory Association. See the definition in Section XI of the Placement Agent Policy for further details.*



- c. The names of the Placement Agent personnel who have played a role in marketing or outreach for the Investment Transaction are:

--

- d. The following Placement Agent personnel will receive Compensation, directly or indirectly, as a result of the NC Funds' investment in the Investment Transaction:

--

*Note that throughout this Disclosure Letter, "Compensation" to a Placement Agent is deemed to include a flat fee, contingent fee, or any other form of tangible or intangible compensation or benefit. See the Policy's definitions for further details.*

- e. The officers, partners, or principals of the Placement Agent, not listed above, are:

--

- f. **Attached** is a resume (or other summary) for each person listed above detailing the person's education, work experience and professional designations.

- g. Are any persons listed above, or any other Placement Agent officers, partners, and/or principals, current or former (i) North Carolina State Treasurers; (ii) Investment Advisory Committee members; (iii) North Carolina Department of State Treasurer employees, contractors, or consultants; or (iv) members of the Immediate Family of persons listed in (i) to (iii) above?

☐ Yes      ☐ No

*If your answer is "Yes," list the persons and identify whether those persons would receive a financial benefit from the Investment Transaction.*

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#### **2.4. Recent Management of North Carolina Investments by Investment Manager**

☐ To the Placement Agent's knowledge, the Investment Manager (or its affiliate) currently manages an NC Funds investment or has managed an NC Funds investment within the last two years. *If this box is checked, Department policy bars the Compensation of any third-party Placement Agent (in other words, a Placement Agent who is not an employee or affiliate of the Investment Manager) in connection with the Treasurer's investment in the Investment Transaction.*

☐ To the Placement Agent's knowledge, the Investment Manager (or its affiliate) has not managed an NC Funds investment within the last two years.

#### **2.5. Whether Placement Agent is Being Compensated**

☐ The Placement Agent is not being Compensated, directly or indirectly, as a result of the Treasurer's investment in the Investment Transaction. *If this box is checked, skip question 2.6.*

☐ The Placement Agent is being Compensated, directly or indirectly, as a result of the Treasurer's investment in the Investment Transaction.

#### **2.6. Terms of Placement Agent Compensation and Placement Agent Agreement**

*Check one of the three boxes below. You may attach additional pages.*

☐ Attached are the provisions of the Investment Manager's contract with the Placement Agent that describe the Placement Agent's Compensation and services. These provisions describe any and all Compensation of any kind provided or agreed to be provided to the Placement Agent.

☐ The contract or arrangement between the Investment Manager and the Placement Agent is oral, not written. Below is a description of the terms of that oral contract that create an obligation to pay a fee to or for the benefit of any Placement Agent, including but not limited to a description of all terms concerning Compensation of any kind provided or agreed to be provided to any Placement Agent. This description includes the nature, timing and value of such Compensation.

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☐ The Placement Agent is an employee of the Investment Manager. Below is a general disclosure providing the employee's role and responsibilities and stating any known effect on the employee's Compensation that is directly attributable to the NC Funds' proposed investment.

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## 2.7. Actions and Investigations Involving Placement Agent

Check one of the two boxes below.

- a. Has the Placement Agent (or any officer, partner, or principal thereof) been the subject of a non-routine inquiry, action, or investigation by a federal, state, or local government agency or regulatory body in the last ten (10) years?

☐ Yes      ☐ No

*If your answer is "Yes," describe any such actions or investigations. Attach additional pages as necessary.*

- b. Does the Placement Agent (or any officer, partner, or principal thereof) anticipate being the subject of such inquiries, actions or investigations in the future?

☐ Yes      ☐ No

*If your answer is "Yes," describe any such actions or investigations. Attach additional pages as necessary.*

## 2.8. Registration of Placement Agent and Licensing of Placement Agent Representatives

- a. The Placement Agent's registration details are as follows:

- b. For each individual officer, partner, principal, employee and other representative of the Placement Agent, the registrations, number of years of employment by the Placement Agent and the number of years of experience directly related to such business are as follows (attach additional pages as necessary):

### **3. Connections or Relationships**

#### **3.1. Conflicts**

- a. Are any personnel, officers, directors, partners and/or principals of the Placement Agent current North Carolina Department of State Treasurer employees, persons who serve as consultants or contractors for the Department's Investment Management Division, or Investment Advisory Committee members?

☐ Yes      ☐ No

*If the answer is "Yes," enclose a statement providing further information.*

- b. Will any current North Carolina Department of State Treasurer employees, persons who serve as consultants or contractors for the Department's Investment Management Division, or Investment Advisory Committee members receive a financial benefit to themselves or to a member of their Immediate Family derived from the Compensation provided to the Placement Agent for the Investment Transaction?

☐ Yes      ☐ No

*If the answer is "Yes," enclose a statement providing further information.*

#### **3.2. Recommendations of Placement Agent**

- a. To the Placement Agent's knowledge, did a current or former Treasurer, Department of State Treasurer employee, Investment Management Division contractor or consultant, or member of the Investment Advisory Committee suggest to the Investment Manager that it retain the Placement Agent?

☐ Yes      ☐ No

*If your answer is "Yes," list the person who suggested retention of the Placement Agent.*

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- b. To the Placement Agent's knowledge, did a current or former Treasurer, Department of State Treasurer employee, Investment Management Division contractor or consultant, or member of the Investment Advisory Committee suggest to the Department's investment staff that the Placement Agent be retained for the Investment Transaction?

☐ Yes      ☐ No

*If your answer is "Yes," list the person who suggested retention of the Placement Agent.*

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### 3.3. Family Relationships

Are any of the persons listed in box (1) a member of the Immediate Family of a person listed in box (2)?

Box (1)	Box (2)
<ul style="list-style-type: none"><li>• The State Treasurer</li><li>• Department of State Treasurer Senior Staff</li><li>• Members of the Investment Advisory Committee</li><li>• Investment Management Division Senior Staff</li><li>• Investment Management Division staff who played a role in due diligence for the Investment Transaction</li></ul>	<ul style="list-style-type: none"><li>• Any person associated with the Placement Agent listed in the responses to Question 2.3</li></ul>

☐ Yes      ☐ No

*If your answer is "Yes," list the persons and describe the relationship.*

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*The following questions ask about past or present connections, friendships, or relationships that may exist between the Treasurer's staff and the staff of any Placement Agent. Some types of connections or relationships are the ordinary result of doing business. The Treasurer's Compliance Counsel will evaluate this form to determine whether recusal, additional due diligence, or other actions are required.*

### 3.4. Former Department Personnel or Officials

Are any Placement Agent personnel former North Carolina Department of State Treasurer employees or contractors, North Carolina State Treasurers, or Investment Advisory Committee members?

☐ Yes      ☐ No

*If your answer is "Yes," list the persons and identify whether those persons would receive a financial benefit from the Investment Transaction.*

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### 3.5. Prior Working Relationships

List below any professional or working relationships that Placement Agent personnel listed in the responses to Questions 2.3(c) or (d) have had in the past with persons who are now Investment Management Division personnel, Investment Management Division consultants or contractors, the State Treasurer, or Department of State Treasurer Senior Staff. If there are no prior working relationships to report, please indicate so by checking the “None” box below.

☐ None

*Please list in this section any occasions where persons worked together on the same projects at the same company, at the same fund, or as part of a client-consultant relationship. You need not list prior occasions in which an Investment Manager utilized the Placement Agent to market a potential investment to the Department of State Treasurer.*

### 3.6. Social Connections

List below any social connections or relationships between Placement Agent personnel listed in the responses to Questions 2.3(c)-(d) and Investment Management Division personnel, Investment Management Division consultants or contractors, the State Treasurer, or Department of State Treasurer Senior Staff. If there are no prior working relationships to report, please indicate so by checking the “None” box below.

☐ None

*Please list in this section any pre-existing relationships involving social contacts outside of business.*

#### 4. **Lobbying Information**

*Check one of the two boxes below.*

☐ The Placement Agent (and/or any officer, employee, partner, or thereof) is registered as a lobbyist with a state government. If this box is checked, the following are the names and positions of such persons and the registrations held (attach additional pages as necessary):

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☐ Neither the Placement Agent nor any officer, employee, partner, or principal thereof is registered as a lobbyist with any state government.

#### 5. **Political Contributions**

##### 5.1. **Representation**

The Placement Agent hereby confirms and represents that none of the Placement Agent and its covered associates as defined in SEC Rule 206(4)-5(f)(2) has made, coordinated or solicited any Political Contribution to the Treasurer or any incumbent, nominee, candidate or successful candidate for such elective office (i) in violation of applicable state or federal law or (ii) in a manner that would make it unlawful, under the SEC Rule, for the Investment Manager to seek compensation for services to the Treasurer and/or the NC Funds.

##### 5.2. **Disclosure**

During the last five years from the date of this letter, have the Placement Agent or any of its covered associates as defined in SEC Rule 206(4)-5(f)(2) made, coordinated, or solicited any Political Contributions for the campaign of (a) any incumbent, nominee, or candidate for North Carolina State Treasurer or (b) for the campaign of the current State Treasurer running for a different office?

☐ Yes      ☐ No

*If your answer is "Yes," list applicable Political Contributions below.*

Date	Person or company making, coordinating, or soliciting	Person or entity receiving	Amount

*[Signature Page Follows]*

**6.     Signature**

By signing below, the Placement Agent hereby (i) represents and warrants that the information found in this Disclosure Letter is true, correct, and complete in all material respects, and (ii) agrees that it shall provide the Treasurer with a written update of any material changes to Questions 1 to 3.2, 5.1, and 6 in this Disclosure Letter within fourteen (14) days from the date the Investment Manager knew or should have known of the change of information.

Sincerely,

\_\_\_\_\_,  
**on behalf of the Placement Agent listed above**

**By:** \_\_\_\_\_  
(print name)

**Title:** \_\_\_\_\_

**Date:** \_\_\_\_\_



# NORTH CAROLINA DEPARTMENT OF STATE TREASURER INVESTMENT MANAGEMENT DIVISION

## External Investment Management Conflict of Interest Certification

**When form is required.** The Department of State Treasurer personnel listed below shall read, complete, and forward to the Compliance Counsel and the Director of Risk Management and Asset Allocation this form for each:

- A new commitment of funds, new investment management agreement, or any other “Investment Transaction” as defined in the *Placement Agent Policy*; or
- “Substantive Amendment” as defined in the *Placement Agent Policy*.

**Definitions.** For the purposes of this form:

- “External Investment Manager” shall have the meaning provided in the *External Investment Manager and Vehicle Selection Policy and Procedures*.
- “Conflict of Interest” shall mean circumstances that create a material risk that professional judgment or actions regarding the transaction’s recommendation, approval, or execution have been or will be unduly influenced by a direct or indirect personal interest.
- “Family” shall mean immediate family (mother, father, brother, sister, wife, husband, or child), either by birth, by marriage, by engagement to be married, or through a live-in domestic partnership that is similar to marriage; lineal ascendants (grandparents, etc.); and lineal descendants (grandchildren, etc.).

**Name of External Investment Manager and Fund:** \_\_\_\_\_

I understand and have adhered to the Department of State Treasurer, Investment Management Division’s *Code of Ethics and Conduct* and other applicable policies in this recommendation, negotiation, and approval process and certify my participation in this process is not precluded, because to the best of my knowledge:

1. My Family and I have NO material financial interest in the External Investment Manager and will not receive a financial benefit derived from the compensation provided to the Manager.
2. My Family and I are NOT employees or directors of the External Investment Manager.
3. I have NOT been employed with the External Investment Manager within the past five (5) years.
4. I have NOT sought employment NOR discussed potential employment with the External Investment Manager.
5. I have NO Conflicts of Interest in the recommendation, negotiation, and/or approval of the External Investment Manager.
6. I voluntarily choose to disclose the following facts which I believe do not constitute a Conflict of Interest and do not preclude my unbiased participation in the recommendation, negotiation, and/or approval of the External Investment Manager. (If so, initial in the left margin and make any disclosure on attached sheets.)
7. I understand that I have an ongoing obligation to update any changes to this form prior to closing.

**Portfolio Manager:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Director:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Chief Investment Officer:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**General Counsel (and/or other in house legal staff):** \_\_\_\_\_ **Date:** \_\_\_\_\_

**State Treasurer:** \_\_\_\_\_ **Date:** \_\_\_\_\_

# **NORTH CAROLINA DEPARTMENT OF STATE TREASURER INVESTMENT MANAGEMENT DIVISION**

## **Code of Ethics and Conduct**

- I. Employees of the Department of State Treasurer, Investment Management Division (“IMD”) hold a public trust that obligates them to endeavor to act consistent with certain principles described within this Code of Ethics and Conduct (the “Code”). As an employee, I shall:
- Be familiar with and comply with applicable policies and state and federal laws and shall not knowingly be a party to, or condone, any illegal or improper activity.
  - Agree that the following policies specifically contain ethical conduct requirements and are incorporated into this document by reference:
    - [State Government Ethics Act](#) (N.C.G.S. § 138A)
    - [Prohibition of Gifts to State Employees Policy](#)
    - [Supplemental Ethics Policy for State Treasurer, Senior Executive Staff and Investment Division](#)
    - [Charitable Donations Policy](#)
    - [Insider and Personal Trading Policy](#)
    - [Placement Agent, Political Contribution, and Connection Disclosure Policy](#)
    - [Use of State Property Policy](#)<sup>1</sup>
  - Act with integrity, competence, diligence, respect, and in an ethical manner in dealings with the beneficiaries and stakeholders defined by applicable statutes, and in dealings with other participants in the global capital markets.
  - Owe a duty of loyalty to beneficiaries and act for their exclusive benefit.
  - Exercise prudence consistent with the Treasurer’s fiduciary duties under G.S. Section 147-69.7 and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other related activities.
  - Have an affirmative duty to proactively identify and promptly disclose to the Compliance Counsel any personal, social, employment or business activities and relationships that:
    - impact my objectivity
    - create potential Conflicts of Interest<sup>2</sup>
    - impair my ability to make impartial decisions
    - otherwise interfere with my proper performance of official duties

<sup>1</sup> For easy reference to each of these policies, you may click on the hyperlinks in the electronic version of this file.

<sup>2</sup> A Conflict of Interest is defined as circumstances that create a material risk that professional judgment or actions regarding a transaction’s recommendation, approval, or execution have been or will be unduly influenced by a direct or indirect personal interest.

- Use care and discretion in the handling of confidential information and not disclose or use such information for personal gain or private advantage.
- Not falsify or fail to record proper entries on any books or records, electronic or otherwise, or knowingly sign or permit the issuance of any statement or report which contains any misstatement or which omits any material fact necessary to make any statement made therein not misleading.
- Abide by the approved practices and recommended standards of professional associations and standard setting organizations of which I am a member (e.g., CFA Institute, AICPA, etc.), to the extent they do not conflict with the requirements of this Code, other policies, or law.
- Have an affirmative duty to immediately report directly to the Compliance Counsel any actual or suspected:
  - employee or contractual party fraud or misconduct
  - employee or contractual party material error that adversely affects IMD or client assets or interests
  - misrepresentation or omission of material information in internal or external reporting and client communications
  - violations of laws, rules, or IMD policies

I agree that the Compliance Counsel shall investigate any such report upon first being made aware of the alleged fraud, misconduct, misrepresentation, error or omission under this provision. The Compliance Counsel will advise the General Counsel and IMD management as appropriate.

- II. I have read the Code and understand that I will be annually required to attest to my compliance with the Code, voluntarily disclose any potential lack of compliance with the Code, and recertify my acceptance of the Code. I further understand that violating this code or failing to annually attest to my compliance with this Code may be grounds for immediate disciplinary action, up to and including dismissal.
- III. I have been in compliance with the Code for the previous 12 months.

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Name/Date

- IV. I hereby acknowledge that I have read the Code and that I understand it and shall comply with its terms.

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Name/Date

## **SUPPLEMENTAL ETHICS POLICY ON OUTSIDE ACTIVITY BY STATE TREASURER AND STAFF**

(Intended as a new proposed Chapter 11 of Title 20 of the North Carolina Administrative Code)

### **SECTION .0100 - PROCEDURE**

#### **SUBSECTION .0101            AUTHORITY; NATURE OF POLICY**

- (a) The following supplemental ethics policy is adopted jointly by:
  - (1) The State Treasurer as an ethics policy pursuant to G.S. 147-69.11(a)(5), after consultation with the Investment Advisory Committee as required by that statute;
  - (2) The Teachers' and State Employees' Retirement System Board of Trustees as a supplemental ethics standard pursuant to G.S. 138A-41(a); and
  - (3) The Local Governmental Employees' Retirement System Board of Trustees as a supplemental ethics standard pursuant to G.S. 138A-41(a).
- (b) This policy will take effect once all of the following have occurred:
  - (1) The policy has been adopted by all the boards and commissions listed in subdivision (a) of this subsection;
  - (2) G.S. 147-69.11(a)(5) has become effective; and
  - (3) The policy has been approved and adopted by the State Treasurer who holds office on the date that G.S. 147-69.11(a)(5) becomes effective.
- (c) Once the policy has been adopted by all the officers, boards and commissions listed in subdivision (a) of this subsection, the Department of State Treasurer shall submit this policy as a proposed rule.

#### **SUBSECTION .0102            ADOPTION**

This policy shall automatically update to conform to changes in statute numbering by the Revisor of Statutes or to incorporate nonsubstantive changes introduced in the rulemaking process in response to comments from the Rules Review Commission or its staff. If any substantive changes are proposed in the rulemaking process or, thereafter, any changes to this policy are requested by any of the officers, boards and commissions that have adopted this policy, staff of the Department of State Treasurer shall bring the proposed revisions before each officer, board and commission for review and approval before the changes become effective.

#### **SUBSECTION .0103            SEVERABILITY**

If any provision of this policy is found to be unenforceable, the remainder of this policy will not be affected.

#### **SUBSECTION .0104            RELATIONSHIP TO STATUTES AND OTHER RULES AND POLICIES**

For the avoidance of doubt, this policy does not override, or authorize any actions prohibited under, other North Carolina Department of State Treasurer policies or state laws.

#### **SUBSECTION .0105            DEFINITIONS**

In this policy, the following words and phrases have the following meanings:

- (1) “Blind trust” has the meaning defined in G.S. 138A-3.
- (2) “Compensation” means actual or deferred compensation, whether paid in cash, stock, options, or in any other form. “Compensation” does not include reimbursement for expenses incurred by a person.
- (3) “Immediate family” has the meaning defined in G.S. 138A-3.
- (4) “Passively traded fund” means (i) a passively traded fund tracking a nationally recognized index or (ii) an automated asset allocation program that invests without user input in a mix of asset classes, including but not limited to the GoalMaker program offered for the North Carolina Supplemental Retirement Plans.
- (5) “Personal stock holdings” means publicly traded stocks owned by a person.
- (6) “Retirement Boards” means the Teachers’ and State Employees’ Retirement System Board of Trustees and Local Governmental Employees’ Retirement System Board of Trustees, sitting as one body in joint session.

## SECTION .0200 – RESTRICTIONS ON OUTSIDE ACTIVITY

### SUBSECTION .0201 OUTSIDE BUSINESS ACTIVITY

<i>Most restrictive option</i>		<i>Least restrictive option</i>		
<b>Option 1-A</b>	<b>Option 1-B</b>	<b>Option 1-C</b>	<b>Option 1-D</b>	<b>Option 1-E</b>
<p>A person covered by this policy shall not serve on the board of directors of a for-profit corporation.</p> <p>A person covered by this policy shall not do work for compensation (whether as an employee, consultant, lecturer, speaker, independent contractor, or otherwise), except for work for the State of North Carolina. This policy does not restrict uncompensated work.</p> <p>A person covered by this policy shall not receive in any given calendar year more than \$10,000 in compensation from passive ownership of any privately held business.</p>	<p>A person covered by this policy shall not serve on the board of directors of a for-profit corporation.</p> <p>A person covered by this policy shall not do work for compensation (whether as an employee, consultant, lecturer, speaker, independent contractor, or otherwise), except for work for the State of North Carolina. This policy does not restrict uncompensated work.</p>	<p>A person covered by this policy shall not serve on the board of directors of a for-profit corporation.</p>	<p>A person covered by this policy shall not serve on the board of directors of a publicly traded for-profit corporation.</p>	<p>[Policy does not cover this topic.]</p>

**SUBSECTION .0202****PERSONAL STOCK HOLDINGS**

<i>Most restrictive option</i>		<i>Least restrictive option</i>
<p><b>Option 2-A</b></p> <p>A person covered by this policy and his or her immediate family shall, within 90 days of becoming covered, divest from and thereafter refrain from any personal stock holdings except passively traded funds.</p>	<p><b>Option 2-B</b></p> <p>A person covered by this policy shall place any personal stock holdings in a blind trust for the duration of his or her tenure at the Department of State Treasurer.</p>	<p><b>Option 2-C</b></p> <p>[Policy does not cover this topic.]</p>

**SUBSECTION .0203****BENEFIT FROM INVESTMENTS**

<i>Most restrictive option</i>	<i>Least restrictive option</i>
<p><b>Option 3-A</b></p> <p>Persons involved in making or administering an investment by the Department of State Treasurer and their immediate family shall not (i) own 0.1% or more in the aggregate of any company that is the investment manager or ultimate recipient of the investment, (ii) derive any income or commission directly from the investment, or (iii) acquire property under the investment. This policy does not restrict holdings through passively traded funds.</p>	<p><b>Option 3-B</b></p> <p>[Policy would not cover this topic directly. However, the situation likely already would be covered under one or more of the following: the IMD Code of Ethics, the IMD Conflict of Interest Certification, the DST Placement Agent Policy, the State Ethics Act, and N.C.G.S. 14-234.]</p>

**SUBSECTION .0204 PERSONS AFFECTED BY POLICY**

<i>Most restrictive option</i>		<i>Least restrictive option</i>
<p><b>Option 4-A</b></p> <p>This policy applies solely to the State Treasurer, the Chief Investment Officer, all investment-related employees receiving market-based compensation under G.S. 147-69.3(i2), and [any other senior DST staff TBD].</p>	<p><b>Option 4-B</b></p> <p>This policy applies solely to the State Treasurer, the Chief Investment Officer, and [senior DST staff TBD].</p>	<p><b>Option 4-C</b></p> <p>This policy applies solely to the State Treasurer.</p>

**SUBSECTION .0205****EXCEPTIONS**

	<i>Most restrictive option</i>	<i>Least restrictive option</i>
Threshold Exception?	<b>Option 5-A</b> [No exception.]	<b>Option 5-B</b> The restrictions stated above do not apply to any board service or secondary employment for which the person covered by this policy receives compensation less than \$1,000 in aggregate for any given year.
Exception by Resolution?	<b>Option 6-A</b> [No exception.]	<b>Option 6-B</b> The restrictions stated above do not apply if the Retirement Boards pass a resolution finding that the proposed work does not create a material risk that professional judgments made or actions taken as a State officer or employee would be unduly influenced by a direct or indirect personal interest.
Exception for Subordinates?	<b>Option 7-A</b> [No exception.]	<b>Option 7-B</b> The State Treasurer may exempt a subordinate from the restrictions stated above by making a written finding that the proposed work does not create a material risk that professional judgments made or actions taken as a State officer or employee would be unduly influenced by a direct or indirect personal interest.

**SECTION .0300 – OTHER RESOLUTIONS OF STATE TREASURER AND RETIREMENT BOARDS****SUBSECTION .0301****RESOLUTION IN FAVOR OF LAW SEEKING TO EXTEND SIMILAR RULES TO SIMILARLY SITUATED POSITIONS ELSEWHERE IN STATE GOVERNMENT**

<i>Most restrictive option</i>	<i>Least restrictive option</i>
<b>Option 8-A</b> The State Treasurer and Retirement Boards resolve to request from the General Assembly a law applying the restrictions stated in this policy to all other elected or appointed individuals who select investments on behalf of State agencies, funds, or institutions.	<b>Option 8-B</b> [No resolution on this topic.]

**SUBSECTION .0302**

**NONBINDING RESOLUTION ON STATE GOVERNMENT COMPENSATION**

<p><b>Option 9-A</b></p> <p>The State Treasurer and Retirement Boards hereby state their view that any executives whose employment or compensation opportunities are restricted under this policy should be compensated in accordance with their market value as executive officers.</p>	<p><b>Option 9-B</b></p> <p>[No resolution on this topic.]</p>
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**§ 138A-1. Title.**

This Chapter shall be known and may be cited as the "State Government Ethics Act". (2006-201, s. 1.)

\* \* \*

**§ 138A-3. Definitions.**

The following definitions apply in this Chapter:

(1) Blind trust. - A trust established by or for the benefit of a covered person or a member of the covered person's immediate family for divestiture of all control and knowledge of assets. A trust qualifies as a blind trust under this subdivision if the covered person or a member of the covered person's immediate family has no knowledge of the holdings and sources of income of the trust, the trustee of the trust is independent of and not associated with or employed by the covered person or a member of the covered person's immediate family and is not a member of the covered person's extended family, and the trustee has sole discretion as to the management of the trust assets.

\* \* \*

(17) Immediate family. - An unemancipated child of the covered person residing in the household and the covered person's spouse, if not legally separated. A member of a covered person's extended family shall also be considered a member of the immediate family if actually residing in the covered person's household.

\* \* \*