

## NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS

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

#### I. Purpose

A. **Background.** The North Carolina State Treasurer (the “Treasurer”), the North Carolina Department of State Treasurer (the “Department”) and the Supplemental Retirement Board of Trustees (the “Board”) strive to model excellence in performing their respective roles as fiduciaries to the Supplemental Retirement Income Plan of North Carolina, the North Carolina Public Employees Deferred Compensation Plan and the North Carolina Public School Teachers’ and Professional Educators’ Plan (collectively the “Plans”) through accountability and prudent oversight of entrusted assets. The Board is responsible for the selection of investment consultants, investment vehicles and investment managers for the Plans. Since 2009, the Treasurer and the Department have adopted several policies and procedures that govern the selection of outside Investment Managers for the investment program for the North Carolina Retirement Systems defined in N.C.G.S. § 147-69.2(b)(8) (the “Retirement Systems”). This policy is designed to be consistent with that of the Retirement Systems and is being implemented to emulate the goals and standards set forth in the policies adopted for the Retirement Systems.

B. **Role of Placement Agents.** A Placement Agent is, in essence, a marketing specialist hired by an outside Investment Management firm (the “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.

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

- First, the Policy requires comprehensive disclosures from any Investment Manager and any Placement Agent for the Plans, whether the Investment Manager has been hired to manage assets for the Plans by the Board directly or whether they are hired indirectly by a Consultant or other entity on behalf of the Board.
- 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, the Board members, or Department 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 Plans within the last two years. *See* Section VII(C).

## **II. Application**

This Policy applies to all Investment Manager relationships entered into by the Board directly or indirectly on or after September 1, 2014 (the "Effective Date").

This Policy applies whenever the Board either directly or indirectly is seeking to engage, hire, invest with or commit to invest, or to do business with an Investment Manager.

## **III. Required Disclosures**

**A. Disclosure Letters.** When the Board directly or indirectly enters into an agreement to hire an Investment Manager, prior to entering into such agreement an Investment Manager shall provide to the Treasurer's Compliance Counsel the following (collectively, the "Disclosure Letters"):

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

**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.

**C. Change of Information.** The Investment Manager and Placement Agent shall provide a written update of any material changes to any of the information found in their Disclosure Letter within fourteen (14) days after such person or entity knew or should have known of the change in information.<sup>1</sup>

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

1. **By Investment Manager.** In the Investment Manager Disclosure Letter, 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 contain substantially the same representation and warranty, and it shall provide for a remedy on breach consistent with § IV of this Policy.

---

<sup>1</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 3.5, but must update Responses 3.1(a), 3.1(b), or 3.2.

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. 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.). The Department shall electronically collate Disclosure Letters for all proposed Investment Transactions that were accepted and signed by the Board and make such collations available through its website and other means.

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

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

1. Each Investment Agreement entered into after the Effective Date 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 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 Board’s sole discretion, without liability of the Board to the Investment Manager, and the Board may choose not to exercise any such remedy if the Board determines that such exercise may not be in the best interest of the Plans.

3. The remedial provisions for a Violation of This Policy shall provide that the Investment Manager shall repay to the Plans the greater of (a) the aggregate amount of any management or advisory fees paid to the Investment Manager for the most recent two years in respect of the investments or business of the Plans, 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 Plans.

4. The Board may also impose a ban on future Investment Transactions with the Investment Manager.

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

**B. By Department Personnel.** Failure to comply with this Policy by Supplemental Retirement Plans (“SRP”) employees, SRP Contractors or SRP Consultants may result in penalties up to and including termination.

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

**A. Notice.** At the time that discussions are initiated with respect to a prospective Investment Manager, SRP staff will provide the Investment Manager directly or through its Investment Consultant

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.** If possible, the Disclosure Letters shall be provided to the Compliance Counsel at least 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 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. 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 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.

### **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).** If the Compliance Counsel determines that the test stated by Subsections (B)(2) above may not be met, the Compliance Counsel will promptly notify SRP staff and the Department's General Counsel. If, after contacting personnel, the Investment Manager, or the Placement Agent, as necessary, to ask questions and after speaking with SRP staff and the General Counsel, the Compliance Counsel determines that a substantive issue exists that cannot be fully resolved through purely forward-looking procedures, the issue shall be escalated for final decision by the Board at its next meeting. The resolution of the issue

raised by the Compliance Counsel will be documented in writing and provided to the Board and the Treasurer before execution.

## **VII. Prohibitions**

**A. Prohibition on Investment without Approval under This Policy.** This Policy prohibits the Board from entering into any Investment Transaction unless the procedures stated by this Policy have been followed.

**B. Eligibility Criteria for Placement Agent.** The Board will not transact business either directly or indirectly on behalf of the Plans 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>2</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.

6. The Investment Manager agrees that the Investment Manager, not the Plans, shall bear the entire cost of all Placement Agent fees and expenses.<sup>3</sup>

**C. Prohibition on Use of Placement Agents if Investment Manager Currently Manages, or Recently Managed, North Carolina Investments.** The Board shall not enter into an Investment Transaction either directly or indirectly if the Investment Manager (or its affiliate) currently manages any funds in the Plans or has conducted such management 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.

**D. Prohibitions on Conduct of Department-Affiliated Personnel.** The Treasurer, SRP staff, SRP Contractors or SRP Consultants, and Board members ("Department-Affiliated Persons") shall

---

<sup>2</sup> For international Investment Transactions, any Placement Agents outside the United States must have a substantially equivalent foreign registration.

<sup>3</sup> An investment vehicle in which the Plans is an investor may make a payment to the Placement Agent as an offset to the Plans' 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 Plans do not ultimately bear any Placement Agent fees and expenses.

not suggest to an Investment Manager that a Placement Agent be engaged with respect to an Investment Transaction.

## **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 Department personnel and Board 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.

### **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 Board, Department's General Counsel, and Treasurer shall be notified in writing of the connection.

### **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 the Placement Agent be retained for the Investment Transaction.

2. **Resolution.** If such a suggestion is disclosed, the Compliance Counsel shall review the disclosure; notify the Board, Department's 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) of this Policy. Moreover, the proposed transaction or amendment shall be prohibited if the Investment Manager retained the suggested Placement Agent.

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) Board members, or (iv) SRP staff, are Immediate Family members of either (a) principal members of the management team 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 Board, 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: 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) SRP employees, (ii) SRP 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 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, the Plans 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 Board or SPR staff with respect to the Investment Transaction does not appear to have been unduly influenced by the prior working relationship.

**F. Response 3.5: 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) SRP employees, (ii) SRP 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 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 Board, Department 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 Board 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 Plans.

**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 respective officers, partners, principals or affiliates 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. 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 Plans 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 Plans' 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 Plans' 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. “Contractor or Consultant”: A natural person engaged by the SRP (whether directly or indirectly through a staffing agency, limited liability entity, or other organization) to consult and advise the Plans on potential investment opportunities; *provided, however*, that the term “SRP Contractor or Consultant” shall not include (i) State of North Carolina employees, (ii) the Treasurer or members of governing boards for the Plans, and (iii) persons given authority or discretion by the Board 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 SRP and the Chief Investment Officer.

F. “Investment Agreement”: The final written agreement or contract between the Board 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 Board to make decisions concerning the investment of Plan funds

I. “Investment Transaction”: A business undertaking agreed upon between the Board and an Investment Manager to invest Plan funds.

J. “Placement Agent”: Any person or entity that is directly or indirectly hired, used, engaged, retained, Compensated, or otherwise given anything directly or indirectly having monetary value or benefit, tangible or intangible, by an Investment Manager to assist the Investment Manager in securing investment commitments or other ongoing investment management business from any of the NC Funds. For purposes of this Policy, the term “Placement Agent” includes, but is not limited to, all placement agents, lobbyists, solicitors, brokers, meeting arrangers, “cap intro” firms, finders, third-party marketers, or any other entities or persons engaged by an Investment Manager and/or its affiliates, directly or indirectly, for the purpose of marketing and/or securing investor commitments or other ongoing investment management business from any of the Plans. Notwithstanding the foregoing, the term “Placement Agent” shall include natural persons who are employees, officers, directors or partners of an Investment Manager (or its affiliate) only if they are subject to registration requirements with the Securities and Exchange Commission or the Financial Industry Regulatory Authority.

K. “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.

L. “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.