

**North Carolina Supplemental Retirement Board of Trustees Meeting  
June 21, 2018**

**NORTH CAROLINA SUPPLEMENTAL RETIREMENT PLANS**

Placement Agent, Political Contribution, and Connection Disclosure Policy

Change Pages from Version 2.1 to Version 3.0

# 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 Employee 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 Placement Agent, Political Contribution, and Connection Disclosure Policy (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. 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 and the Department directly or whether they are hired indirectly by a Consultant or other entity on behalf of the Board and the Department.

- Second, the Policy provides for legal~~attorney~~ review, conducted by an attorney, 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

Departmental 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 or the Retirement Systems within the last two years. *See* Section VII(C).

## II. Application

**A. Generally.** This Policy applies to all Investment Transactions entered into by the Board and the Department directly or indirectly on or after September 1, 2014, and revised versions of this Policy apply to Investment Transactions entered into on or after the effective date of the revision. September 14, 2014, and any effective dates of revisions are referred to collectively as the "Effective Date."

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

**B. Mutual Funds/Exchange-traded Funds.** This Policy does not apply to a mutual fund or exchange-traded fund that is selected as an investment option, when neither the Board nor the Department has any direct contractual or other relationship with the fund or the investment advisor for the fund.

**C. Transition Management.** For transition management services, this Policy applies to the original transition management agreement governing the relationship with the transition manager and any Substantive Amendments to such agreement. This Policy does not apply to a scope of services for each transition handled by the transition manager.

## III. Required Disclosures

**A. Disclosure Letters.** Prior to entering into an Investment Transaction, 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").

For Substantive Amendments, regardless of whether any Disclosure Letters were provided at the time of the contract's original execution, Investment Managers and Placement Agents (if any) shall complete Disclosure Letters based on the circumstances surrounding the proposed Substantive Amendment, not the original contract.

**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 their responses to Questions 1 through 3.2, 5.1 and 6 of the

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.

**O.** “Substantive Amendment”: An amendment to an Investment Agreement that increases the fee, expenses, or other compensation paid to an Investment Manager or other party or otherwise substantively and negatively changes the Board’s and the Department’s rights or obligations.

## **XI. Interpretation**

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

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

Version	Effective Date	Description of Changes
1	September 1, 2014	Original version
2	March 23, 2017	Revised definitions of “Placement Agent” and “Effective Date.” Increased prohibitions and disclosures. Clarified application. Other clarifications and revisions.
<u>3</u>	<u>June 21, 2018</u>	<u>Clarified application of Policy to transition management. Clarified items on the Form Disclosure Letters.</u>

Appendix 1 to North Carolina Supplemental Retirement Plans Placement Agent, Political  
Contribution, and Connection Disclosure Policy

Form Disclosure Letter for Investment Managers

From: The Investment Manager listed below

To: North Carolina Department of State Treasurer and North Carolina Supplemental Retirement Board of Trustees  
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 North Carolina Supplemental Retirement Board of Trustees (the “Board”), the Board 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 Plans are investing. For investment management agreements, list the name of the investment strategy.*

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This disclosure letter is submitted in connection with one of the following (check one box below):

☐ A new Investment Agreement (including an existing Investment Agreement that is amended and restated in its entirety).

☐ ~~This form is submitted in connection with a~~ An amendment to ~~an existing~~ 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 a~~ An update to a previously submitted disclosure letter for the Investment Transaction above.

Appendix 2 to North Carolina Supplemental Retirement Plans Placement Agent, Political  
Contribution, and Connection Disclosure Policy

Form Disclosure Letter for Placement Agents

From: The Placement Agent listed below

To: North Carolina Department of State Treasurer and North Carolina Supplemental Retirement  
Board of Trustees  
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 North Carolina Supplemental Retirement Board of Trustees (the “Board”), the Board 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 Plans are investing. For investment management agreements, list the name of the investment strategy.*

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This disclosure letter is submitted in connection with one of the following (check one box below):

☐ A new Investment Agreement (including an existing Investment Agreement that is amended and restated in its entirety).

☐ ~~This form is submitted in connection with a~~ An amendment to ~~the an existing~~ 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.*

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