



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 16

MEETING DATE: May 19, 2021

SUBJECT: Board and Staff Trading Policy

SUBMITTED FOR: ___ Consent X Deliberation and Action ___ Receive and File

RECOMMENDATION

Staff recommends the Board reaffirm the Board and Staff Trading Policy with minor corrections.

PURPOSE

This item supports the Strategic Management Plan and SCERS' practice of reviewing and refreshing policies every three years.

BACKGROUND

In 2008, the Securities and Exchange Commission (SEC) heightened its scrutiny on potential unlawful use of "insider information", and the use of material, non-public information in making investment decisions. It also focused on the use of "expert networks" for investment research in certain hedge funds.

At the time, the SEC acknowledged that public pension funds are exempt from regulation under the Investment Company Act of 1940, but noted that they "are subject to the anti-fraud provisions of the federal securities laws and [SEC] rules thereunder," and that "Section 10(b) of the Exchange Act and Rule 10b 5 prohibit the purchase or sale of securities on the basis of material, nonpublic information in breach of a duty of trust or confidence." That prohibition covers 'insiders,' those who acquire the information in the context of a relationship of trust or confidence, and persons who are 'tippees' of either 'insiders' or persons who have misappropriated the information. In addition, controlling persons who fail to prevent insider trading may be subject to civil penalties. The SEC alerted public pension plans of their obligation to take reasonable steps to avoid insider trading within their organizations.

Given the heightened scrutiny, coupled with SCERS' expanding footprint into the alternative assets space, the Board and Staff Trading Policy was adopted to ensure that Trustees and Staff fully comply with the restrictions on trading in securities on the basis of insider information obtained subsequent to employment or position with SCERS, whether for the benefit of SCERS or on personal account. The Board adopted the Board and Staff Trading Policy on April 11, 2011,

and the adoption of the policy was consistent with SCERS' commitment to manage system resources with the highest level of professionalism and fiduciary responsibility.

SUMMARY OF POLICY CHANGES

The Board and Staff Trading Policy has remained unchanged since its adoption other than reformatting the policy into SCERS' updated policy format when it was reaffirmed by the Board on December 20, 2017. Pursuant to SCERS' practice of reviewing and refreshing policies every three years, Staff has re-examined the Board and Staff Trading Policy. Staff recommends reaffirming the Policy, with some minor modifications, which are shown in a 'redline' version that tracks the changes between the old policy and the refreshed policy. Some of the modifications include:

- Section A – Guidelines
 - Broader language as to when a Trustee or SCERS employee should consult with General Counsel when in possession of insider information
- Section C – Common examples of insider information
 - Expanded range of examples that may be considered insider information

ATTACHMENT

- Board and Staff Trading Policy – redline version
- Board and Staff Trading Policy – clean version

Prepared by:

/S/

Steve Davis
Chief Investment Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer

/S/

Stephen Lau
General Counsel



BOARD AND STAFF TRADING POLICY

PURPOSE

The purpose of this policy is to assure Sacramento County Employees' Retirement System ("SCERS") Trustees and employees comply with fiduciary responsibility and the federal securities laws and the Rules of the Securities and Exchange Commission (SEC) regarding "insider trading."

POLICY

SCERS, its Trustees and employees, shall endeavor in good faith to avoid obtaining insider information relating to securities that SCERS holds, or may acquire. Notwithstanding, should they come into possession of such insider information, they shall follow the guidelines below~~take reasonable steps~~ to avoid violating standards of fiduciary behavior and the federal securities laws regarding the use of such insider information. Section 10(b) of the Securities and Exchange Act of 1934 and Rule 10b 5 promulgated by the SEC prohibit the purchase or sale of securities on the basis of material, nonpublic information ("insider information").

APPLICATION

A. Guidelines

1. The steps to be taken by Trustees or employees of SCERS who come into possession of insider information in order to comply with fiduciary duties and the federal securities laws shall include, but not be limited to, the following:
 - a. Keep the information strictly confidential, and scrupulously avoid disclosing it to any person (including relatives, friends and associates)~~, unless such persons are reasonably required to know such information in the course and scope of their employment or position with SCERS.~~
 - b. Refrain from any participation, direct or indirect, in the making of any investment decision regarding the sale or purchase of any security to which the insider information reasonably relates ~~("trade")~~, for so long as the information continues to be unavailable to the public, whether for the benefit of SCERS or any other person.
 - c. If a Trustee or SCERS employee has any question about whether a potential disclosure or investment decision would violate Section A.1.a. and/or A.1.b. above, they should consult with SCERS' General Counsel

~~before proceeding. Consult with the General Counsel prior to any such trade.~~

~~e-d. If a Trustee or SCERS employee believes that there is a legitimate reason to depart from Section A.1.a. and/or A.1.b. above (that is, to disclose insider information or transact in securities related to the insider information), they should consult with SCERS' General Counsel before proceeding.~~

2. The General Counsel is designated the Compliance Officer for purposes of assuring that all Trustees and staff are properly advised of their responsibilities under this Policy, and to take such steps as may be reasonable to correct any deficiencies in compliance with this Policy as discovered in the course of his or her duties.
3. SCERS shall provide appropriate education and training of its Trustees and employees regarding their responsibilities and duties under this Policy.

B. Excluded Transactions

The following transactions are excluded by their nature from those which may otherwise involve the making of an investment decision by a Trustee or employee regarding the sale or purchase of any security to which insider information may relate:

1. Transactions made by any external Investment Manager with discretion to trade securities so long as no insider information has been shared with the Investment Manager.
2. Transactions made to substantially duplicate an Index in the ordinary course of business.
3. Specific transactions mandated by legal agreement or binding instructions executed prior to the receipt of insider information.

C. Common Examples of Insider Information Trading

Common, but by no means the only, examples of categories of information that may be considered insider information include:

- Significant changes in management or operations
- ~~•~~ Impending bankruptcy or significant exposure to litigation
- ~~•~~ Stock splits or consolidations
- ~~•~~ Mergers, ~~and~~ acquisitions, and tender offers
- ~~•~~ New product development
- Financial Forecasts, especially earnings estimates
- Changes in previously disclosed financial information

- Declaration of stock dividends and dividend changes
- Stock repurchase programs
- Proposed issuances of new securities

BACKGROUND

SCERS, its Trustees and employees are committed to managing system resources with the highest level of professionalism and fiduciary responsibility, and acknowledge that in pursuing their fiduciary duties they may also be subject to the anti-fraud provisions of the federal securities laws and rules promulgated thereunder by the Securities and Exchange Commission (“SEC”). Section 10(b) of the Securities and Exchange Act of 1934 and Rule 10b 5 promulgated by the SEC prohibit the purchase or sale of securities on the basis of material, nonpublic information (“insider information”) acquired by “insiders” who acquire such information in the context of a relationship of trust or confidence or by “tippees” who may acquire such information from any “insider.”

For purposes of this Policy information shall be considered material if it is foreseeable that it would be considered important to a reasonable investor in making an investment decision regarding the sale or purchase of the securities to which the information relates. Trustees and employees of SCERS may come into possession of insider information whether as an insider, or as a tippee.

RESPONSIBILITIES

Executive Owner: Chief Investment Officer

POLICY HISTORY

Date	Description
<u>05-19-2021</u>	<u>Board affirmed revised policy</u>
08-01-2018	Renumbered from 030
12-20-2017	Board affirmed in revised policy format
04-21-2011	Board approved new policy



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