

Illinois Municipal Retirement Fund
Board Ethics Policy

Preamble

IMRF is administered by a Board of Trustees comprised of representatives of sponsoring employers, participants and annuitants. The members of the Board of Trustees and IMRF staff hold the highest positions of trust because they are stewards of retirement assets. They are also persons who by their mere position are required to exercise diligence and prudence. Their duties require attention to fiduciary standards. Those fiduciary standards extend to consultants and financial advisors who serve in the administration of the goals and objectives of IMRF.

Mission Statement

(40 ILCS 5/7-102)

It is the mission of this Fund to efficiently and impartially develop, implement and administer programs that provide income protection to members and their beneficiaries on behalf of participating employers in a prudent manner.(Adopted January 28, 1997)

Guiding Principles

1. Service to the beneficiaries of IMRF is the primary function of the Board of Trustees and IMRF staff.
2. The Board of Trustees and IMRF staff are ultimately responsible to the beneficiaries of IMRF.
3. In those situations where the law is not clear, the best interests of IMRF beneficiaries must be served. Conscience is critical. Good ends never justify immoral means.
4. Efficient and effective administration and investment management is basic to IMRF. Misuse of influence, fraud, waste or abuse is unacceptable conduct.
5. Safeguarding the trust of fund participants is paramount. Conflicts of interest, bribes, gifts or favors which subordinate IMRF Trustees or staff to private gains are unacceptable.
6. Service to IMRF participants demands special sensitivity to the qualities of justice, courage, honesty, equity competence and compassion.
7. Timely and energetic execution of fiduciary responsibilities is to be pursued at all times by the IMRF Trustees and staff.

General Provisions

Article I “Service to the participants of IMRF is the primary function of the Board of Trustees and IMRF staff.”

The Board of Trustees and IMRF staff have the obligation not only to safeguard the funds on which the plan participants’ security depends, but also to promote their rights, and to ensure the necessary services are provided for all plan participants and their beneficiaries.

This premise is embodied in the exclusive benefit rule of fiduciary law and the plan participants and beneficiaries are the constituencies to whom trustees and staff are accountable.

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Adherence to the fiduciary service obligation of trustees is critical to our society in which accumulation and public commitment of resources is essential. Without the commitment to the fiduciary mandate that trustees may be relied upon to put their participants ahead of themselves, participants and employers would not be willing to commit funds to them for management. Such reticence would lead to a relatively inefficient allocation of resources, with resulting detriments to society as a whole. Consequently, the commitment by trustees to the service ideal is critical to society.

Article II “The Board of Trustees and IMRF staff are ultimately responsible to the participants of IMRF.”

Participants rely on and expect trustees and staff to act with integrity, objectivity, and due care. Integrity is an element of character. Integrity will not accommodate deceit or subordination of principle. Integrity is measured in terms of what is right and just. Integrity requires a trustee to observe the principles of objectivity, independence and prudence.

Objectivity is a state of mind, a quality that lends value to a trustee’s services. It is a distinguishing factor in the profession of public pension administration. The principle of objectivity imposes the obligation to be impartial and intellectually honest. Independence precludes relationships that may appear to impair a trustee’s objectivity in rendering fiduciary services. Subordination of judgment is to be avoided.

The maintenance of objectivity and independence requires a continuing assessment of fiduciary responsibility.

Possession of these attributes by trustees and staff will allow them to serve the uncompromising interest of participants of public pension funds in a responsible manner.

Article III “In those situations where the law is not clear, the best interests of IMRF participants must be served. Conscience is critical. Good ends never justify immoral means.”

Increasingly, we as a society look at the law to define right and wrong, moral and immoral; the notion that law sets the floor rather than the ceiling receives little credibility. By the same token, the tendency to focus on the law leads to a withering of interest and concern for the ethical. The implicit assumption increasingly becomes that, if government has not forbidden it, it must be acceptable. This results in increased dependence on legal process to define the limits, and the game becomes one of avoidance and loophole closing. The result is fundamental change in the mores of society.

Trustees and staff must decide, consciously and deliberately, what role ethical considerations will play in the decision making they are required to undertake. What is legal and what is ethical are not synonymous. If we tend to resort as trustees and staff to legality as our birth line, then ethics will wane and the legal technician will flower. If we take this route we are not being ethical. We avoid responsibility we should not avoid. Perhaps we would not be judged to be immoral but certainly we would be amoral or lacking moral fiber.

Maintaining the trust of those we serve requires more than adherence to minimal legal standards.

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Article IV “Efficient and effective administration and investment management is basic to IMRF. Misuse of influence, fraud, waste or abuse is unacceptable conduct.”

Pension fund administration generally falls within the purview of a system’s retirement board. Elected board members come from all facets of life and the responsibilities may or may not be foreign to the elected or appointed trustee.

Nonetheless, the requirement that a pension fund operate within the cornerstones of efficient and effective administration is essential.

Accountability is paramount in the public sector. The assets of the fund belong to the trust and by design are earmarked by law for the plan participants and their beneficiaries. The genesis of public scrutiny comes not from an inherent mistrust of the trustees, who by the very nature of their name connote a superior duty of care. Rather, the mistrust is often associated with the involvement of government. There is often no distinction between the public’s opinion of a trustee and that of a government official. Particularly today as we are undergoing the most significant transformation of government—from strong central government which people perceive to lend itself to corruption, waste and inefficiency, to a government of local control where accountability can be measured, and efficient and effective management can be restored.

The resulting impact of the transformation of government does not spare the trustee. Instead, the scrutiny has intensified, particularly in light of recent debacles in the investment of governmental funds by entities lacking in oversight and efficient administration. Even though these failures are not in the pension domain, still the perception persists that since trustees are overseeing funds representing billions of dollars, they are grouped together and are guilty by monetary association. Aggravating the situation are isolated instances of trustee abuse which are exploited by the media resulting in the public’s perception that there is a need to regulate the administration of public pension funds. The public perceives that there is a need to avoid what has transpired in central government, to avoid mismanagement, waste and inefficiency.

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Trustees not only have to deal with accountability demanded by the public at large, they must also be accountable to their peers, to their participants and beneficiaries. This accountability not only extends to their role of representation, but it involves a myriad of responsibilities in order to effectuate the type of efficient administration expected by the law and by the constituents of the fund. To avoid the perception of misuse of influence the trustee must be willing to adopt rules and regulations that inhibit that type of activity. Furthermore, trustees must adopt policies and procedures that eliminate waste and embrace the concepts of sound cost effective measures, both as to their administrative staffs and as to their personal involvement as trustees.

Among the major areas of responsibilities that trustees must deal with are the following: the establishment of investment objectives, policies and guidelines to regulate the investment of the pension assets; the adoption of accounting standards and controls; the adoption of sound actuarial standards; the formation of procedures for internal reporting and control; the duty of providing benefits in a responsible fashion that does not cause an undue burden to the taxpaying community nor to the individual member; and compliance with the overall duties of the office.

Trustees must have the flexibility to interface with other members of the pension community whose actions can greatly impact the operation of a fund, to wit, auditors, consultants, financial advisors, oversight boards, and state and local government personnel and officials.

When government downsizes, effective management and administration presents a significant challenge which must be met and which must be preserved from erosion due to undue influence, fraud, waste or abuse.

Article V“Safeguarding the trust of fund beneficiaries is paramount. Conflicts of interest, bribes, gifts or favors which subordinate IMRF Trustees or staff to private gains are unacceptable.”

One can never catalogue all the conduits by which trustees or staff may be induced to manage participant's assets in ways that benefit the trustee, staff member or a third party rather than the participants. The variations on this theme are endless. However, defining how trustees and staff should act in such situations requires no novel interpretation. Rather, it requires recognition of the fact that trustees and staff cannot act in accordance with the morals of the market place but must instead meet the higher standards of loyalty, integrity and prudence.

Under the duty of loyalty, trustees and staff are required to act in the best interest of another. Fullness of disclosure, honesty of intentions, the payment of an adequate price, the lack of damages and in no cases ethical excuses. Honest but imprudent trustees and staff can dissipate the assets of a fund at the same speed as dishonest trustees and staff.

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The relation between trustees or staff and participants is particularly intimate. The participant is obliged to place great confidence in the trustee and staff. The trustee and staff have a high degree of control over the affairs of the participant. The relationship should be treated as one requiring the highest of moral and ethical commitment.

Article VI “Service to IMRF participants demands a special sensitivity to the qualities of justice, courage, honesty, equity, competence and compassion.”

Forms of conduct permissible for those acting at arms length should be forbidden to trustees and staff bound by fiduciary ties. A trustee or staff member is held to something stricter than the morals of the market place. Not honesty alone but fine, exacting observance of honesty is the standard of behavior. Undivided loyalty without disintegrating erosion of particular exceptions to the interests of participants is what is required.

Good faith requires that personal biases be cast aside and the objectivity regarding plan participants and their beneficiaries be uppermost in the conduct of the trustee and staff. Good faith requires that the trustees and staff have understanding, experience, and the ability to appreciate the nature of the decisions that are required. Trustees and staff are required to exercise care, skill and diligence.

Recognizing that others may lack the political courage and willingness to make tough decisions and avoid making pension assets vulnerable, public pension trustees and staff must be ever vigilant to protect against erosion of public pension fund assets. They must insist on funding levels, from whatever source, that guarantee the employer’s promise of security and efficient administration of investments and adequate funding levels.

Article VII “Timely and energetic execution of fiduciary responsibilities is to be pursued at all times by the IMRF trustees and staff.”

The quest for excellence is the essence of due care. Due care requires trustees and staff to discharge fiduciary responsibilities with competence and diligence. Competence is derived from a synthesis of education and experience. It begins with a mastery of a common body of knowledge which is required of all trustees and staff.

Accordingly, trustees and staff have the duty to educate themselves on a continuing basis on all aspects of fund operation, in order to be in compliance with the prudent person/expert standard to which they are called, and to be involved in those functions which require action in the operation of fund business.

Rules and Interpretations

Guiding Principle I “Service to the Participants of IMRF is the Primary Function of the board of Trustees and IMRF staff”

Rule 1.01 Trustees, and staff must serve with the highest degree of loyalty to IMRF, the plan participants and the present and future beneficiaries.

It is clear that the duty of loyalty should extend beyond a prohibition of self-dealing. Even if a trustee or staff member has no personal stake in a transaction, the duty of loyalty should bar him or her from acting in the interest of third parties at the expense of participants.

Rule 1.02 General Welfare. The purpose of a retirement system is to establish a fund so that employees who serve a given number of years may then have an income during retirement, with

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the resulting beneficial effects upon the employee and the family, the institution they serve, and upon the social and economic welfare of society.

If retirement beneficiaries are divided into separate classes that bear some reasonable relationship to the objective sought to be accomplished, then trustees and staff should avoid individual discrimination by treating all persons within the same class the same way.

Rule 1.03 Entitlement. Property interests are created by existing rules or understandings that stem from an independent source such as state law. These types of beneficiary entitlements should be vigorously defended by IMRF.

Balancing the real needs versus the perceived needs of plan participants and beneficiaries is crucial to the function of trustees and staff. The mere request for a favorable ruling by either party does not, in and of itself, justify the act nor does it accord it higher credibility than claims made by others. Decisions must not be made in isolation. They must be weighed against the overwhelming body of applicable law in order that the intent, the legality of the request and the motivation can be determined. Trustees and staff must have the intestinal fortitude to stand up to the claimant and challenge those actions not based on the law.

Guiding Principle II “The Board of Trustees and IMRF Staff Are Ultimately Responsible to participants of IMRF.”

Rule 2.01 Trustees and staff must remove personal bias and function with total objectivity. Trustees and staff are bound to the principal of fairness for, by their work, the balance of a member’s dedicated career is molded to the obligation of the employer to provide security in retirement.

Trustees and staff as decision makers must be persons of conscience and intellectual discipline who shall objectively and fairly judge matters that affect participants of IMRF.

Trustees or staff can be shown to be biased if he or she does not have the ability to set aside personal feelings in deciding a matter involving a participant of IMRF.

The prejudice of a single trustee will taint the action of an entire board. To avoid this result the trustee should recuse him or herself from the matter at hand.

Rule 2.02 Arbitrary and capricious interpretations of IMRF statutes must be prevented by an exercise of independent judgment supported by substantial evidence.

The interpretation of the Illinois Pension Code made by trustees or staff should neither be irrational nor unreasonable.

Guiding Principle III “In those situations where the law is not clear, the best interests of IMRF participants must be served. Conscience is critical. Good ends never justify immoral means.”

Rule 3.01 Trustees and staff must call upon the cornerstones of fair play in evaluating every decision made as a trustee or staff member. When the law is unclear, the decision must rest with the analysis of the evidence viewed against the backdrop of one’s conscience.

A fiduciary relationship exists where there has been some special confidence reposed in one

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who in equity and good conscience is bound to act in good faith and in regard to the one reposing confidence.

Guiding Principle IV “Efficient and effective administration and investment management is basic to IMRF. Misuse of influence, fraud, waste or abuse is unacceptable conduct.”

Rule 4.01 Notice and Hearing. Notice and opportunity to be heard are core components necessary to be provided to participants when benefits may be deprived by the action of a board of trustees.

Three factors should exist in administrative proceedings impacting benefits of IMRF members:

1. Pre-termination notice,
2. An opportunity to respond in writing prior to the termination, and,
3. A post-termination evidentiary hearing

Guiding Principle V “Safeguarding the trust of fund participants is paramount. Conflicts of interest, bribes, gifts or favors which subordinate IMRF trustees or staff to private gains are unacceptable.”

Rule 5.01 Trustees and staff must safeguard assets for the current and future generations of participants.

The trustees and staff have an obligation to manage IMRF funds so as to enable IMRF to meet its obligations not only to retirees, but also to those scheduled to retire in the future, (members whose pension and annuity rights will be earned over the years of active service).

To exhaust assets of an actuarially underfunded pension system on a single class of participants violates a fiduciary obligation.

Rule 5.02 Safeguarding Assets. Trustees and staff are charged with statutory and common law duties to exercise fiduciary responsibilities over assets of the fund. Trustees and staff should only distribute assets from IMRF for the benefit of the participants.

Rule 5.03 Conflict of Interest. As fiduciaries, the trustees and staff must discharge all their duties solely in the interest of the participants and beneficiaries for the exclusive purpose of (1) providing benefits to participants and their beneficiaries; and (2) defraying reasonable expenses of administering IMRF. Trustees and staff must act honestly and with undivided loyalty to the trust and must serve the interest of all beneficiaries excluding self interest. Trustees and staff must not deal with the IMRF assets for their individual benefit.

Guiding Principle VI “Service to IMRF participants demands special sensitivity to the qualities of justice, courage, honesty, equity, competence and compassion.”

Rule 6.01 Trustees and staff must protect the retirement fund by complying with every provision of the trust document as created by the Illinois Pension Code.

Trustees and staff shall protect IMRF. In carrying out this mandate, trustees and staff are held to the highest standards of fiduciary conduct.

A practical application of a protection duty requires that trustees and staff meet the responsibility to maintain the terms of the trust as spelled out in the statute.

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Guiding Principle VII “Timely and energetic execution of fiduciary responsibilities is to be pursued at all times by the IMRF Trustees and staff.

Rule 7.01 Trustees and staff should act in a prudent manner which includes:

- o Employing proper methods to investigate, evaluate and structure the investment;
- o Acting in a manner as would others who have a capacity and familiarity with such matters;
and
- o Exercising independence when making investment decisions.

Rule 7.02 When a trustee or staff member does not possess the education, experience, or skill required to make a decision concerning any operation of the plan, he or she, due to the applied prudent standards of fiduciary trust law, has an affirmative duty and an obligation to seek independent counsel in making the decision. The trustees and staff further have an obligation to learn, comprehend and remain abreast of all component aspects relating to the discharge of their duties through attendance and participation in classes, workshops, forums, seminars and conferences which afford the trustees and staff the opportunity to become familiar with the necessary expertise to exercise independent enlightened judgment on matters regarding IMRF business.

The failure to seek outside counsel is imprudent when, under the circumstances then prevailing, a prudent trustee or staff member acting in like capacity and familiar with such matters would seek such counsel.

A trustee or staff member unfamiliar with an unusual or difficult investment is charged with making an independent inquiry into the merits of the particular investment rather than relying solely upon the advice of others.

Standards of Conduct and Conflict of Interest

IMRF Trustees and staff shall not:

- (a) accept a gift having a value over \$25 or solicit any gift, favor, or service from any third party which has, is or may do business with the Illinois Municipal Retirement Fund unless the service is transportation to and from a permitted meal;
- (b) accept other employment or engage in a business or professional activity that they reasonably expect would require or induce them to disclose confidential information acquired by reason of their official position;
- (c) accept other employment or compensation that could reasonably be expected to impair their independence of judgment in the performance of their official duties;
- (d) make personal investments that could reasonably be expected to create a substantial

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conflict between their private interests and the interests of the plan participants and beneficiaries; provided, however, no trustee or staff member is precluded from making any personal investment that will not create a substantial conflict.

- (e) intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised their official powers or for having performed their official duties in favor of another;
- (f) transact any business in their official capacity with any entity or person in which they have an economic interest;
- (g) appear before the body of which they are a member while acting as an advocate for himself or any other person, group, or entity;
- (h) represent any business entity before the Board of Trustees, for pay;
- (i) represent, directly or indirectly, any business entity in any action or proceeding against the interest of the Board of Trustees, or in any litigation in which the Fund is a party;
- (j) use their official position to secure a special privilege or exemption for themselves or others or to secure confidential information for any purpose other than official duties; or
- (k) intentionally or knowingly disclose any confidential information gained by reason of their position concerning the property, operations, policies or affairs of the Board of Trustees, or use such confidential information for pecuniary gain;
- (l) represent a firm or solicit business on behalf of a firm (including affiliates) for whom he or she previously voted in favor of entering into a business relationship or negotiated or signed a contract binding IMRF for a period of two (2) years following the term of office or employment;
- (m) solicit donations for charities, not for-profit organizations and other causes from any person, organization or entity which does, has done or may do business with IMRF,

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including but not limited to, investment advisors and managers;

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- (n) solicit or accept political contributions or donations for himself or herself or others from any person, organization or entity which does, has done, or may do business with IMRF, including but not limited to, investment advisors and managers; nor may he/she solicit or accept political contributions or donations from employees or IMRF;
- (o) profess or imply that he/she has the endorsement of IMRF with respect to any candidacy for which he or she is running;
- (p) accept free travel or accommodations from any third party which has, is or may do business with the Illinois Municipal Retirement Fund; or
- (q) accept meals on an individual basis from any third party which has, is or may do business with the Illinois Municipal Retirement Fund unless such meal arises out of independent activities not related to the person's role with the Illinois Municipal Retirement Fund or unless it is a member of management staff as determined by the Executive Director.

Interpretation of Policy (Determination of Substantial Interest)

An individual has a substantial interest in a business entity if he or she or his or her spouse:

- (a) has a controlling interest in the business;
- (b) owns more than 10 percent of the voting interest in the business entity;
- (c) owns more than \$25,000 of the fair market value of the business entity;
- (d) has a direct or indirect participating interest by shares, stock, or otherwise, regardless of whether voting rights are included, in more than 10 percent of the profits, proceeds, or capital gains of the business entity;
- (e) is a member of the board of directors or other governing board of the business entity;
- (f) serves as an elected officer of the business entity; or,
- (g) is an employee of the business entity.

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Policy on Business and Educational Functions

The Board of Trustees acknowledges it is responsible for the administration and operation of a specialized business involving great sums of money for the exclusive benefit of the plan participants and beneficiaries of the trust (Fund), and are responsible for defraying reasonable expenses which arise from the performance of duties and responsibilities under applicable trust law and universal tenets of fiduciary responsibility.

In the context of running the business of retirement systems and satisfying on an ongoing basis the requirements embodied in the mandated standard of prudent/expert person rules of law, one major conduit by which this is accomplished is through travel. One cannot, individually or collectively, adequately discharge fiduciary duties in a cloistered state. Trustees cannot rely solely on others to execute their fiduciary functions. While authority can be delegated, fiduciary responsibility rests solely on the shoulders of the trustees.

The Board of Trustees strongly encourages attendance and participation in business and educational functions which will further the performance of duties and responsibilities under applicable trust law.

Examples of Categories and Definitions

I. Business Operations:

Business Meetings:

- gatherings for discussions or negotiations on potential investments.
- formal litigation procedures.
- internal retreats of Board with or without advisors or consultants.
- instructional gatherings to develop business acumen.

Due Diligence:

- personal investigatory appearances by board members to the actual site(s) of a prospective venture, which could include the operational office of a prospective new advisor, consultant or business venture.
- this function should be repeated with existing relationships particularly when a material change has occurred, such as a change in personnel.

Site Inspections:

- primarily reserved for real estate investments in order to “kick the tires”, meet the tenants and the property management teams, check out the condition of the building(s) and other data relating to any proforma items of the investment.

II. Educational Operations:

Conferences:

- usually week long events of an annual nature dealing with a multitude of topics and current trends and developments in the pension industry.
- one of the best forums within which to interact with peers from other jurisdictions (networking).

Workshops and Symposiums:

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-events of two to three days of sessions involving discussions surrounding a single theme- or a specific topic or subject matter.

Special Missions:

-usually involve excursions to foreign lands to provide trustees with an otherwise unobtainable learning experience and which increases the trustee's perspective to the global marketplace.

Trustee Training:

-usually reserved for new trustees to acquire the basics of trust law and fiduciary requirement, as well as matters involving finance, administrative and actuarial issues.

-sometimes good for tenured trustees to revisit as a refresher, particularly on the heels of new case law.

Policy Against Harrassment

It is the desire of the Board of Trustees that employees work in an atmosphere free from all forms of harassment. Therefore, this policy prohibits all types of harassment, including, but not limited to, harassment based on: sex, race, color, religion, national origin, age, marital status, disability, handicap, or any other classification protected under applicable law. This policy extends to each and every level of IMRF. Accordingly, harassment, whether by an employee, a Trustee, an IMRF member or annuitant, a customer, a member of management, or a visitor will not be tolerated. Activities of this nature are unlawful and serve no legitimate purpose; they have a disruptive effect on an individual's ability to perform his/her job, and they undermine the integrity of the employment relationship.

Harassment is verbal or physical conduct relating to an individual's sex, race, color, religion, national origin, age, marital status, disability, handicap, or any other classification protected under applicable law when this conduct:

1. Has the purpose or effect of creating an intimidating, hostile, or offensive working environment;
2. Has the purpose or effect of unreasonably interfering with an individual's work performance; or
3. Otherwise adversely affects an individual's employment opportunities.

We recognize examples of conduct that may constitute prohibited harassment include: slurs, jokes, cartoons, stereotypes, statements, etc., based upon sex, race, color, religion, national origin, age, marital status, disability, handicap, any other classification protected under applicable law, and unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature when:

1. Submission to such conduct is made either explicitly or implicitly a term or condition of an individual's employment;
2. An individual's submission to or rejection of such conduct is used as a basis for an employment decision affecting that individual; or
3. The purpose or the effect of such conduct is to substantially interfere with the affected individual's work performance or to create an intimidating, hostile, or offensive work environment.

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Although the above defines “unlawful” harassment, it is also a violation of this policy to commit or engage in any unprofessional or inappropriate conduct based on any protected classification, whether or not such conduct rises to the level of “unlawful” harassment.

Retaliation against any individual who has complained about harassment, filed a charge of harassment, or who otherwise participated in an investigation of harassment will not be tolerated.

IMRF intends to resolve any complaints of harassment within our organization, but will also advise employees of their right to contact State and Federal agencies charged with enforcing anti-harassment laws.

(Please note: A separate IMRF Policy Against Harassment has been developed for staff which further explains prohibited behavior, outlines procedures to report allegations of harassment and specifically identifies the proper independent agencies to contact, if necessary.)