

## SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

### CODE OF ETHICS

- I. Service to the beneficiaries of SDCERA is the primary function of the Fund's trustees.
- II. The beneficiaries of SDCERA are sovereign, and the trustees are ultimately responsible to them.
- III. In those situations where the law is not clear, the best interests of SDCERA beneficiaries must be served. Conscience is critical. Good ends never justify immoral means.
- IV. Efficient and effective administration and investment management is basic to SDCERA. Misuse of influence, fraud, waste or abuse is unacceptable conduct.
- V. Safeguarding the trust of SDCERA beneficiaries is paramount. Conflicts of interest, bribes, gifts or favors which subordinate trustees to private gains are unacceptable.
- VI. Service to SDCERA beneficiaries demands special sensitivity to the qualities of justice, courage, honesty, equity, competence and compassion.
- VII. Timely and energetic execution of fiduciary responsibilities is to be pursued at all times by trustees of SDCERA.
- VIII. Where not in conflict with SDCERA's paramount duties to its beneficiaries, the interests of minimizing employer contributions and defraying the reasonable costs of administering the system shall also be served in an efficient, effective, and forthright way.

### GENERAL PROVISIONS

#### **Article I Service to the beneficiaries of SDCERA is the primary function of public pension fund trustees**

- A. Public pension fund trustees 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.
- B. This premise is embodied in the exclusive benefit rule of fiduciary law, and the plan participants and beneficiaries are the constituencies to whom trustees are accountable.
- C. 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 beneficiaries ahead of themselves, beneficiaries 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 beneficiaries of SDCERA are sovereign, and the trustees of those funds are ultimately responsible to them**

- A. Beneficiaries who rely on trustees expect them 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.
- B. Objectivity is a state of mind, a quality that lends value to a member'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 member's objectivity in rendering trustee fiduciary services. Subordination of judgment is to be avoided.
- C. The maintenance of objectivity and independence requires a continuing assessment of fiduciary responsibility.
- D. Possession of these attributes by trustees will allow them to serve responsibly the uncompromising interest of beneficiaries of public pension funds.

**Article III In those situations where the law is not clear, the best interests of the SDCERA beneficiaries must be served. Conscience is critical. Good ends never justify immoral means**

- A. 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.
- B. Trustees 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 to legality as our bright line, then ethics will wane, and the legal technician will flower. If we take this route as trustees, we are not being ethical. We avoid responsibility we should not avoid. Perhaps we would be judged to be immoral but certainly we would be amoral or lacking moral fiber.
- C. Maintaining the trust of those we serve requires more than adherence to minimal legal standards.

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

- A. Pension fund administration generally falls within the purview of a system's retirement board. Board members are recruited from all facets of life, and the responsibilities may or may not be foreign to the elected or appointed trustee.
- B. Nonetheless, the requirement that a pension fund operate within the cornerstone of efficient and effective administration is essential.

- C. 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.
- D. 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.
- E. 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 not to the individual member; and compliance with the overall duties of the office.
- F. 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.
- G. 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 SDCERA beneficiaries is paramount. Conflicts of interest, bribes, gifts or favors which subordinate fund trustees to private gains are unacceptable**

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

- B. Under the duty of loyalty, the trustee is 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 are in no cases ethical excuses. Honest but imprudent trustees can dissipate the assets of a fund at the same speed as dishonest trustees.
- C. The relation between trustees and beneficiaries is particularly intimate. The beneficiary is obliged to place great confidence in the trustee. The trustee has a high degree of control over the affairs of the beneficiary. The relationship should be treated as one requiring the highest of moral and ethical commitment.

**Article VI Service to SDCERA beneficiaries demands a special sensitivity to the qualities of justice, courage, honesty, equity, competence and compassion**

- A. Forms of conduct permissible for those acting at arm's length should be forbidden to trustees bound by fiduciary ties. A trustee 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 beneficiaries is what is required.
- B. Good faith requires that personal biases be cast aside and the objectivity regarding plan participants and beneficiaries be uppermost in the conduct of the trustee. Good faith requires that the trustee have understanding, experience, and the ability to appreciate the nature of the decisions the trustee is required to make. Trustees are required to exercise care, skill and diligence.
- C. Recognizing that others may lack the political courage and willingness to make tough decisions and avoid making pension assets vulnerable, public pension trustees 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 in a manner that is consistent with the trustees' legal fiduciary duties to beneficiaries, minimization of employer contributions, and defraying the costs of administering the system.

**Article VII Timely and energetic execution of fiduciary responsibilities is to be pursued at all times by trustees SDCERA**

- A. The quest for excellence is the essence of due care. Due care requires the trustee 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.
- B. Accordingly, trustees 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 trustee action in the operation of fund business.

**Article VIII Where not in conflict with SDCERA’s paramount duties to its beneficiaries, the interests of minimizing employer contributions and defraying the reasonable costs of administering the system shall also be served in an efficient, effective, and forthright way**

- A. While the interests of beneficiaries are the trustees’ primary responsibility, the trustees also have a duty to manage the system so as to minimize employer contributions and defray the costs of administering the system. Consideration of these interests will enhance the efficient and effective management of the system and is consistent with principles of good governance. These interests must be considered, as relevant and appropriate, in connection with all aspects of the trustees’ decision-making.
- B. Every effort should be made by the trustees to govern the system so as to reconcile the three interests and duties – beneficiaries, minimizing employer contributions, and defraying costs of administering the system – and make decisions that serve all three interests. The trustees’ legal fiduciary duties include all three of these interests and duties, and all three interests should be considered in every decision the trustees make. However, the applicable legal principles also recognize that, in the event of a conflict between interests, the trustees’ duties to the beneficiaries are always paramount.
- C. Reasonable minds can differ as to how to strike the balance between the three interest interests, but the trustees, collectively and individually, should forthrightly discuss each of the issues as decisions are made. Such forthright discussion will help ensure that the interests are fairly considered and balanced.

**REVIEW**

This policy shall be reviewed by the Board at least every three (3) years and may be amended at any time.

**HISTORY**

October 3, 1996	Revised
April 5, 2012	Revised, effective immediately
June 4, 2015	Reviewed, no changes