PUBLIC EMPLOYEES' RETIREMENT FUND
INDIANA

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STATEMENT OF BOARD GOVERNANCE

Adopted February 9, 2007

INTRODUCTION

Description of PERF

The Indiana Public Employees' Retirement Fund ("PERF") was established in 1945, to provide retirement, disability, death, and termination benefits to present and former members and their beneficiaries who meet the statutory requirements for such benefits. Members include employees of the State and employees of other governmental units who have adopted resolutions joining PERF (including cities, towns, counties, and other governmental units). Pursuant to Indiana law and the Internal Revenue Code, PERF must be operated for the exclusive benefit of, and solely in the interest of, members and their beneficiaries. PERF is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, PERF is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. PERF is also governed by Indiana statutes and administrative rules. Among the governing Indiana statutes is the requirement that PERF be funded and maintained on an actuarially sound basis. See IC 5-10.2 and IC 5-10.3.

Description of Other Funds Subject to Board Control

The Board of Trustees of PERF (the "Board") is also charged with the administration and trusteeship of the following plans:

1. The 1977 Police Officers' and Firefighters' Pension and Disability Fund. See IC 36-8-8. This Fund provides retirement, death and disability benefits (as established by law) for municipal firefighters and police officers hired on and after May 1, 1977, and their beneficiaries. It is funded through member contributions and an actuarially sound state-wide employer contribution rate.

2. The Judges' Retirement System, which includes the Judges' 1977 Benefit System and the Judges' 1985 Benefit System. See IC 33-38-6, 33-38-7, and 33-38-8. This System provides retirement, death and disability benefits for all eligible judges. It is not actuarially funded and operates on a pay-as-you-go basis. Judges contribute 6% of their salary to the System.

3. The Legislators' Retirement System, which includes the Legislators' Defined Benefit Plan and the Legislators' Defined Contribution Plan. See IC 2-3.5, IC 2-3.5-4, and IC 2-3.5-5. The Legislators' Defined Benefit Plan provides a unit benefit for years of service in the General Assembly prior to May 1989. That plan covers a "closed" group of members and a "closed" liability, in that no individuals elected to the General Assembly after April 1989 earn any benefit under this plan, and no years of service after April 1989 count for benefit accrual for anyone who is participating in that plan. The Legislators' Defined Contribution plan is a money purchase plan, with a fixed member contribution of 5% and a fixed state contribution of 20% each year. Those contributions go into a separate

account for each member, which then provides an account balance payable under various circumstances (termination, death, disability or retirement).

4. The State Excise Police, Gaming Agent and Conservation Officers' Retirement Plan. See IC 5-10-5.5. The plan provides retirement, death and disability benefits for all eligible excise police, gaming agents and conservation officers. It is funded on an actuarially sound basis (with a 40 year amortization of the unfunded accrued liabilities). The members pay 3% of the first $8,500 of their salary, and the state funds the balance.

5. The Prosecuting Attorneys Retirement Fund. See IC 33-39-7. This fund provides retirement, death and disability benefits for all prosecuting attorneys, chief deputy prosecuting attorneys, state paid deputy prosecuting attorneys and certain positions in the prosecuting attorneys council. It is funded on an actuarially sound basis. The members pay 6% of their salary and the state pays the remaining amounts, as actuarially determined.

In addition, the Board is charged with administering the Pension Relief Fund, a separate fund created to provide benefits for eligible police officers and firefighters and their beneficiaries under the 1925 Police Pension Fund (see IC 36-8-6), the 1937 Firefighters Pension Fund (see IC 36-8-7), and the 1953 Police Pension Fund (see IC 36-8-7.5). These funds provide retirement, death and disability benefits for eligible individuals hired before May 1, 1977, as established by state law and local ordinances and decisions. The Pension Relief Fund is funded from proceeds from the state lottery, certain alcohol and tobacco taxes, and additional appropriations. There is a significant funding deficiency remaining at the city and town level under the three funds (the 1925 Police Pension Fund, the 1937 Firefighters Pension Fund and the 1953 Police Pension Fund) even though the covered population is "closed" as of May 1, 1977. The Pension Relief Fund relieves some of that deficiency by releasing dollars to cities and towns to cover benefits, through two release formulas.

PERF Annuity Savings Account

The Annuity Savings Accounts are bookkeeping accounts established for each member of PERF. The member's account is credited with the member's 3% contribution (whether paid by the member or "picked-up" by the employer). The member has limited investment direction to several alternative funds or may leave their account in the "guaranteed fund." The guaranteed fund affords the member a "passbook savings"-like or "risk free" protection on all contributions credited to that member's account, plus all previously credited interest (at an interest rate determined by the Board each year). These accounts produce an additional separate benefit from the fixed-formula employer-funded pension benefit.

Description of Primary Statutory Investment Provisions

The Indiana General Assembly enacted the prudent investor standard to apply to the Board and govern all its investments. See PL 37-1996. In doing so, the General Assembly noted the following:

Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and

Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investments made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and

Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses.

Thus, the primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards. See IC 5-10.3-5-3.

A legal opinion dated May 19, 1997 from Fund counsel analyzes the Board's authority to make investments under the Indiana Constitution and concludes that there are no constraints under Section 12 of Article XI of the Indiana Constitution on the Board's authority to invest. Finally, the Board may not engage in any prohibited transaction, as described in Section 503(b) of the Internal Revenue Code. IC 5-10.2-2-1.5(9).

SECTION 2. RESPONSIBLE PARTIES AND THEIR DUTIES

Board of Trustees

The Board is the body of persons whose role is to oversee all aspects of the operation of the Fund. The Board is appointed by the Governor for a four year term, pursuant to IC 5-10.3-3-2. At least one Board member must be a Fund member with at least ten years of service, and not more than three Board members may be members of the same political party. The Board members are fiduciaries of the Fund. Their responsibilities with respect to the assets of the Fund include completing each of the duties below as a prudent investor:

- Set the policies, objectives, and guidelines for the investment of the assets of the Fund.
- Study issues affecting the investment of the Fund so as to make educated and prudent decisions concerning this Policy.

- Select qualified professionals to assist in the implementation of this Policy.
- Evaluate the Fund's performance and compliance with this Policy.
- Review compliance with applicable state and federal laws.
- Evaluate performance of investment professionals and staff.

Staff of Fund

The Staff are those persons employed by the Fund. Staff duties are to administer the Fund in line with the policies and decisions of the Board and the provisions of governmental law and to provide input for the Board so that issues can be studied fully prior to any Board decision. In addition, Staff is responsible for interacting with the legislature, serving the needs of Fund members, and managing the Fund's relationships with outside professionals and other constituencies.

Executive Director

The Executive Director, a member of the Staff, is appointed by the Board, subject to the approval of the Governor. The Executive Director acts on behalf of the Board, and is responsible for performing duties as assigned by the Board, as well as for receipt of payments and deposits to the Fund, and payments from the Fund.

SECTION 3. CODE OF ETHICS

Fiduciary Responsibility

The members of the Board recognize that they serve as fiduciaries of the Fund. One of their primary responsibilities is the prudent investment of Fund assets. Thus, the Board shall exercise the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. The Board must also diversify the investments of the Fund in accordance with prudent investment standards. See IC 5-10.3-5-3. The Board has a duty of undivided loyalty, and must be impartial in the exercise of such duty, to the beneficiaries of the Fund, as all Fund assets must be used for the exclusive benefit of the Fund's covered members and their beneficiaries. No part of the corpus or income may be used for or diverted to any purpose other than for the "exclusive benefit" of the members or their beneficiaries. See IC 5-10.2-2-1.5. The Board may not engage in any transactions prohibited by Section 503(b) of the Internal Revenue Code. See IC 5-10.2-2-1.5(9). Board members or anyone acting on their behalf must comply with these provisions.

Compliance with Code of Ethics

Board members recognize that they are governed by a strict code of ethics. Because they believe that public confidence in the Board's integrity is essential not only for members of the Fund, but also for the public and taxpayers of the State of Indiana as well, they wish to ensure that their actions conform not only with the letter of the law but also with the spirit of the law. In

accordance with the authority provided by IC 5-10.3-3-7(15), the PERF Board has adopted a resolution to place its employees under the jurisdiction of the State Ethics Commission and to be governed by the State Ethics Commissions rules. The Indiana Code of Ethics covers employees and others (including, but not limited to, Consultants, Custodians, Investment Managers).

Conflict of Interests Rules

Board members recognize that all Fund transactions and selections are to be based on the integrity and competence of the parties with whom the Fund is dealing and upon financial merit and benefit to Fund members and their beneficiaries, and not on personal relationships. Board members shall never act where there may be a conflict of interest or appearance of conflict of interest. They realize they occupy special positions of fiduciary trust and confidence such that each member must studiously and conscientiously avoid any reasonable appearance of conflict. A conflict of interest is understood to be presented in a situation wherein a relationship exists which could reasonably be expected to diminish independence or judgment in performance of official responsibilities as a Board member. Accordingly, a Board member shall not engage in conduct that constitutes or involves a conflict of interest. It is the Board member's duty to determine if a potential conflict of interest exists, to avoid the conflict, if possible, or, where applicable, to disclose a conflict. If a Board member determines that a conflict of interest or potential conflict of interest exists, that individual shall have an obligation to recuse themselves from participating in the matter. The Board member shall disclose the reason for any such recusal.

Voting

Board members should not participate in a discussion or vote on a matter in which they have a direct or indirect financial interest. However, this prohibition does not arise in connection with a matter which affects the member only as a member of the general public or of a subgroup of the general public, such as members of the Fund as a whole.

Disclosure

1. Any person who serves on the Board shall fully disclose any substantial interest in any entity in which an investment has been made with monies of the Fund.

2. Board members shall disclose any significant business relationship they have with any vendors or prospective vendors serving or considered for service to the Fund.

Specific Board Rules of Conduct

In furtherance of the general principles stated above, the Board has adopted the following specific rules.

Contact with Investment Managers

It is the Board's policy that all contact with Investment Managers or others seeking a business relationship with the Fund should be directed to the Executive Director and Staff, not to individual Board members. For example, during a manager, consultant or other professional

search process, it is the Board's policy that no contact with prospective bidders and individual Board members is appropriate. However, the Board recognizes three exceptions to this general rule. First, this rule is not applicable to circumstances arising in the ordinary course of business of an individual that is unrelated to the individual's status as a Board member. Second, this rule is not applicable to contacts relating to Board business with Investment Managers and Consultants with whom the Board has an existing fiduciary relationship. For example, Board members are encouraged to contact an existing Investment Manager with any questions or concerns they might have with respect to a specific investment directed by that Investment Manager. Third, any other casual incidental contact with an existing or prospective Investment Manager or Consultant that a Board member has, not directed to specific Fund matters, should be disclosed to the Executive Director.

Gifts

A Board member may not accept any gifts, favors, services, entertainment, food or drink from a person or business that is seeking or actually has a business relationship with the Fund. However, it is understood that this prohibition is not applicable to circumstances arising in the ordinary course of business of an individual that is unrelated to his or her status as a Board member.

Speaking Engagements

A Board member may not accept any expenses, reimbursement, or honorarium for any speeches or presentations made in his or her capacity as a Board member. This rule does not apply to circumstances where the individual is speaking or presenting in a capacity unrelated to Board membership or as to which Board membership is simply recognized as a part of such member's professional experience.

Conferences and Educational Activities

Board members are encouraged to attend appropriate educational conferences and meetings to assist them in performing their duties. It is the Board's policy to reimburse Board members for expenses related to such activities. The Executive Director will serve to coordinate attendance and administer reimbursement, subject to any required procedure.