

KCPERS Policy

Policy #021 – Code of Conduct and Gifts

Adopted: August 12, 2008

The Board of Trustees of the Police Retirement System of Kansas City and the Civilian Employees' Retirement System of the Police Department of Kansas City adopts the following code of conduct and guidance for the receipt of gifts.

1. Act in good faith and in the best interest of the Retirement System members and beneficiaries.

The overriding objective of the Police Retirement System of Kansas City and Civilian Employees' Retirement System of the Police Department of Kansas City (System) is to serve as a secure source of retirement income. The Retirement Board of Trustees has a primary duty to act for the benefit of the system members and beneficiaries. Trustees comply with this duty by striving to safeguard and grow the assets of the system to provide maximum benefit to the system members and beneficiaries.

However, trustees who exclusively seek to enhance the position of members and beneficiaries cannot discount additional considerations, such as the effect of the trustees' decisions on the financial health and viability of the system sponsor or impact on system investments.

In carrying out their responsibilities, effective trustees will:

- Consider the additional objectives of ensuring an adequate match between plan assets and liabilities, maintaining stable funding costs over time, keeping management costs down, and paying benefits upon the death, disability, retirement, or other special circumstances of plan members.
- Carry out the system activities in a way that serves the interests of plan members while considering the financial burden on the plan sponsor.
- Consider all relevant risk and value factors deemed appropriate when designing the system investment strategy.

2. Act with prudence and reasonable care.

Effective trustees will exhibit the care and prudence necessary to meet their obligations to system members and beneficiaries. The exercise of prudence requires acting with the appropriate level of care, skill, and diligence that a person acting in a like capacity and familiar with such matters would use under the same circumstances. (The Prudent Person Rule)

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In the context of serving as a trustee, The Prudent Person Rule requires:

- Acting in a judicious manner to avoid harming system members and beneficiaries.
- Acting in good faith, without improper motive or purpose.
- Exercising power and discretion consistently.
- Following the investment parameters set forth by the Retirement Board Investment Policy and applicable regulations.
- Having appropriate knowledge of and skill in balancing risk and return by seeking appropriate levels of diversification.

Retirement systems typically employ experts to advise, direct, and implement the decisions of their trustees. Both internal staff and external consultants are retained for this purpose. These “designees” thereby partner with the trustees in carrying out the responsibilities set forth in this policy.

Trustees can rely on external third-party service providers and professional consultants provided that the trustees have made reasonable and diligent effort to:

- Determine that the service providers act with appropriate skill, competence, and diligence.
- Determine that third-party experts are independent and free of conflicts of interest and have the proper incentives to act in the best interests of the fund members.
- Ensure that the designees’ decisions have a reasonable and adequate basis and that the decision process is adequately documented.

However, although the delegation of certain trustee responsibilities to experts is a prudent option, the trustees retain the ultimate fiduciary duty and responsibility to monitor the experts and to ensure that the delegated responsibilities are carried out appropriately.

3. Act with skill, competence, and diligence.

Skill and diligence require trustees to be knowledgeable about the matters and duties with which they have been entrusted. Ignorance of a situation or an improper course of action on matters for which the trustee is responsible, or should at least be aware, is a violation of this policy. Improper or ill-advised decisions can be costly to the system and detrimental to the members and beneficiaries. Prior to taking action on behalf of the system, effective trustees and/or their designees analyze the potential investment opportunities and act only after undertaking due diligence to ensure they have sufficient knowledge about specific investments or strategies.

Effective trustees will have knowledge and understanding of:

- Missouri and Federal laws related to the system.
- System funding and liabilities.
- System policies.
- The basic structure and function of the system asset classes and investment strategies.

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- Investment research and assumptions, such as risks, inflation, and rates of return, as well as the thoroughness of the analysis performed, the timeliness and completeness of the information, and the objectivity and independence of the source.

Trustees are expected to take any training or educational opportunities necessary to ensure that their level of knowledge and understanding about pensions and investments remains current. A lack of appropriate understanding or knowledge should not be a reason for trustees to fail to take action on behalf of members or beneficiaries.

Incumbent trustees and the Pension Systems Manager have a responsibility to ensure that new trustees receive proper training and education to fulfill their duties.

4. Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect trustee loyalty.

Effective trustees endeavor to avoid actual and potential conflicts of interest between their work with the system and other personal or outside interests. The potential for conflicts of interest can be many and varied, but the interests of system members and beneficiaries are paramount.

Effective trustees:

- Strive to avoid even the appearance of impropriety. Outside duties or responsibilities should not influence decisions because the trustee acts primarily for the beneficiaries and members of the system.
- Do not solicit political or other contributions from current or potential vendors to the retirement system, either personally or on behalf of another.
- Do not put themselves in a position where their interests and the interests of the system conflict. Trustees who are also system members or beneficiaries should take precautions to avoid any personal profit at the expense of the system.
- Refuse to accept gifts or entertainment of more than a minimal value from vendors, consultants, potential investment targets, or other business partners. The Retirement Board prohibits the acceptance of any cash gifts. As an appendix to this policy the Retirement Board established guidance limiting the acceptance of travel, entertainment, and gifts in a variety of contexts.

To the extent conflicts may not be avoided, effective trustees recognize and take appropriate measures to deal with and manage the conflict, such as:

- Disclosing all real or perceived conflicts of interests. All business relationships with current or prospective vendors shall be reported to the Retirement Board on a signed document upon establishment of such relationship.
- Abstaining from a vote or excluding themselves from any deliberations in which they are in direct conflict.

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The overriding principle is that trustees should act in the best interests of the members and beneficiaries of the system and disclose any conflicts of interest.

5. Deal fairly, objectively, and impartially with all members and beneficiaries.

To maintain the trust that members and beneficiaries of the system place in them, trustees deal with all system members and beneficiaries in a fair and objective manner. Effective trustees do not give preferential treatment to members within a particular class of members or otherwise favor one class over the others. The system has different types of members: active members who are making contributions and accruing benefits, deferred vested members who have left employment but have not withdrawn their member contributions and will become entitled to future benefits upon reaching eligibility, and retirees and beneficiaries who are currently receiving retirement benefits. Effective trustees balance the interests of all types of members, treating each category of member fairly.

6. Maintain confidentiality of system, participant, and beneficiary information.

Effective trustees hold strictly confidential all information communicated to them in the context of their duty to the system, and they take all reasonable measures to preserve this confidentiality. This discretion applies to information related to individual members and beneficiaries as well as any information that may affect the system's competitive ability (e.g., detailed security transactions, investment holdings, private equity transactions, and merger and acquisition information). Effective trustees ensure that the system has in place practices that address how confidential retirement system information is collected, used, stored, and protected and should ensure that this practice extends to external agents and delegates.

Appendix on Travel, Entertainment, and Gifts

Definition of Gifts – Anything of **tangible** value given without adequate consideration and shall include, but not be limited to any payment of cash, or receipt of goods or services. Meals, refreshments and entertainment are usually considered as **intangibles** and are dealt with separately in this policy. Food or entertainment received other than as a guest of persons physically present is a gift under this policy.

Gifts, Travel and Expenses

System trustees and employees shall not solicit any benefit from any source which is a current or prospective vendor or consultant of the system. It is the policy of the Retirement Board that all trustees, employees, and consultants of the system be careful about accepting any gifts from any other source, particularly those sources which are current or prospective vendors or consultants of the System. All trustees and employees of the system shall file a signed annual report on a form provided by the system disclosing the receipt of any gift with a fair market value of greater than \$50 (including applicable taxes) from any source which is a current or prospective consultant or vendor of the system.

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Each trustee and employee of the system shall file a signed report of all tangible and intangible gifts as required by this policy. The form shall note the source of the gift, the dates received, and the estimated market value of the gift. Reports shall be filed no later than fifteen days after the end of each calendar year, and if a trustee or employee has no such gift to report, a statement to that effect must be filed. The reporting period shall begin with the adoption of this policy.

If edible products are sent to the Retirement System office by a current or prospective consultant or vendor, a report of the date and approximate value will be placed in the system's records and the material placed in a publicly accessible area for general consumption.

If a gift is returned to the sender or donated to a suitable charity immediately upon its receipt, then reporting of the gift is required. Any gift, the receipt of which is prohibited by this policy, shall be returned to its source whenever possible.

No trustee or employee shall receive any gift through an intermediary, if the person knows, or has reason to know, that the gift has originated from another source.

In no event shall any trustee or employee accept a gift, if the source of the gift is not identified. If the source of any gift cannot be ascertained, the gift shall be donated to a suitable charitable organization.

Under no circumstances shall a Trustee or employee accept a cash gift.

Travel and Related Expenses

It shall be the policy of the Retirement Board that wherever possible, the expenses of travel, lodging, meals, and incidentals for its trustees and employees traveling on official business on behalf of the Retirement Board shall be paid by the system, with the exception of current vendor annual meetings or client conferences. Approval will not be needed for the first four seminars, conventions, conferences or other educational functions attended per trustee in any fiscal year. In-state functions do not count toward the four-event threshold. The Retirement Board must approve the travel and related expenses beyond the first four seminars, conventions, conferences or other educational functions attended in any fiscal year.

In no event shall any trustee or employee accept any vendor or consultant provided expenses related to travel, other than working meals or ground transportation, the purpose of which is to determine the selection of new contractors or to determine the assignment of continuing or additional business to existing vendors or consultants

Miscellaneous - Intangibles

Acceptance by trustees or employees of any "favor" or complimentary work or analysis, offered or performed by a current or prospective vendor or consultant of the system, intended to benefit personally the involved individual is prohibited.

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Acceptance by a trustee or employee of more than four invitations annually from any one current or prospective vendor or consultant to entertainment, including, but not limited to meals, refreshment, or entry fees is strongly discouraged.

General Provisions

No trustee or employee shall use their position with the system to solicit business for their own account or the account of an immediate relative or business associate without prior written disclosure to the Retirement Board.

Trustees and employees should also disclose all personal relationships that reasonably could be expected to interfere with their ability to make unbiased and objective recommendations and decisions.

Nothing in this policy shall excuse any trustee or employee from any other restrictions of state or federal law concerning conflicts of interest and fiduciary duties.

Violation of this policy will result in corrective action, up to and including termination of contract or relationship with the system, discipline or initiation of removal action pursuant to any and all applicable laws.

Reports from Vendors and Consultants

All System contracts with vendors and consultants will include a requirement that thereafter records will be maintained and filed annually with the system. All vendors and consultants must report:

- A. Any finders fees, commissions or similar payments, made to anyone whomsoever as consideration for the placement of business with the vendor or consultant;
- B. Any gifts, food, lodging, transportation, or entertainment expense above the minimum reporting limitation contained in this policy for the recipient (See examples later in this policy.);
- C. Any direct or indirect benefit to a trustee or employee other than food, lodging, transportation, entertainment or gifts; and,
- D. The extent, amount and placement of any directed business, other than directed brokerage placed in accordance with a resolution adopted by the Retirement Board in an open meeting, which was in any way associated with the party's relationship with the system.

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Violation of this policy will result in corrective action, up to and including termination of contract or relationship with the system.

Examples of Situations Requiring or Not Requiring Reporting

Reporting Not Required

- A. A vendor invites a trustee to attend a sporting event at no cost to the trustee. The vendor's cost for tickets and refreshments exceed \$50 (including taxes). The vendor and the trustee both attend the event. Because the vendor accompanies the trustee to this event, no reporting is required by the vendor or the trustee.
- B. A vendor invites several trustees and employees to a dinner at a restaurant and the cost of the dinner exceeds \$50 (including taxes) per person. The vendor and the system representatives attend the dinner. Because the vendor accompanies the system representatives to the dinner, no reporting is required by the vendor or the system representatives.
- C. While attending a conference, a system employee attends a reception sponsored and attended by vendors. Neither the vendors nor the employee are required to report the value of the reception because it is widely attended and the vendors are present.
- D. While attending a conference a system employee and all other attendees of the conference receive a bag with various gifts and the aggregate value of the gifts is under \$50 (including taxes). Because the value of the gifts is under \$50 (including taxes), no reporting is required by the employee or the vendor.
- E. While attending a conference, a trustee and all other attendees of the conference receive an item such as a shirt/sweater or briefcase type bag with the vendors name on it. This does not need to be reported because items with vendors logos and/or company name are advertising and do not have retail value.
- F. A trustee attends a conference as a speaker and in return the conference pays for transportation, meals and lodging. This is an honorarium and does not require reporting by the trustee or the conference sponsor.

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Reporting Required

- A. A vendor invites a trustee to attend a sporting event at no cost to the trustee. The vendor's cost for tickets and refreshments exceed \$50 (including taxes). The vendor does not attend the event with the trustee. Because the vendor does not accompany the trustee to this event, both the vendor and the trustee must report the value of the event because the value exceeded \$50 and the vendor did not attend the event with the trustee.
- B. While attending a conference a system employee wins a raffle sponsored by the conference. The prize is \$25 cash. The employee may not accept the cash.
- C. A system employee, during the Christmas holidays, receives a pen and pencil set from a vendor. The value of the set is obviously over \$50 (including taxes). The employee and the vendor must report the gift because the value exceeds \$50.
- D. A vendor celebrates their 25th Anniversary of operation by sending a tangible gift to a system employee. If the gift is returned to the sender or donated to a suitable charity immediately upon its receipt, both the vendor and the employee must report the gift because the value exceeds \$50.

Enforcement

It is the duty of the trustees and employees to be aware of all provisions of this document and to abide by the letter and the spirit of this policy.

The Retirement Board will meet at least annually to review the status of reporting as required by this policy.

Violations of the provisions of this policy will be administered by the Retirement Board after giving due consideration to any mitigating circumstances.