

# **THE WOODLANDS FIREFIGHTERS' RETIREMENT SYSTEM**

## ***ETHICS POLICY FOR BOARD OF TRUSTEES***

***ADOPTED MAY 19, 2015***

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## ***ETHICS POLICY FOR BOARD OF TRUSTEES***

### **I. Overview**

The Board of Trustees of the Woodlands Firefighters' Retirement System (the "System") promulgates the following ethics policy that sets forth the basic principles, guidelines and standards of conduct for Trustees of the System, (individually a "Trustee", or collectively the "Trustees").

This policy does not supersede any applicable federal and Texas law or administrative rule. Trustees must abide by all applicable federal and Texas laws, and System policies, including this ethics policy.

The purpose of this document is to outline the specific standards of conduct expected of Trustees. This policy is a guide, not a complete statement of all legal and fiduciary responsibilities of the Trustees; therefore, compliance with this policy does not necessarily ensure compliance with all legal requirements.

### **II. Code of Ethics**

Trustees shall abide by the Texas Constitution, Texas statutes, and federal laws applicable to the System and will also abide by the code set forth below:

- A. Act solely in the best interest of the System and its members, retirees, and beneficiaries.
- B. Act with integrity, competence, dignity, and in an ethical manner when dealing with participants, beneficiaries, the public, employees, vendors, and fellow Trustees.
- C. Use reasonable care and prudence.
- D. Exercise independent professional judgment.
- E. Remain independent from conflicts-of-interest.
- F. Deal fairly, objectively, and impartially in all matters relating to the System.
- G. Maintain confidentiality of the System, participant, and beneficiary information.
- H. Not have a direct or indirect interest, including financial or other interests, or engage in a personal business activity that could conflict with the proper discharge of the Trustee's duties or management of the System investments.

### **III. General Standards of Conduct**

- A. A Trustee must abide by the following standards of conduct and shall not:

1. Accept or solicit any gift, favor, or service that might reasonably tend to influence the Trustee in the discharge of official duties or that the Trustee knows or should know is being offered with the intent to influence the Trustee's official conduct;
  2. Accept other employment or engage in a business or professional activity that the Trustee might reasonably expect would require or induce the Trustee to disclose confidential information acquired by reason of his or her position with the System;
  3. Accept other employment or compensation that could reasonably be expected to impair the Trustee's independence of judgment in the performance of his or her official duties for the System; or
  4. Intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised the Trustee's authority or performed the Trustee's duties at the System in favor of another.
- B. Trustees must be honest in the exercise of their duties and must not take actions which will discredit the System.
- C. Trustees should avoid personal, employment, or business relationships that create conflicts of interest. Should Trustees become aware of any conflict of interest, they have an affirmative duty to disclose and to cure the conflict in a manner provided for in this policy.
- D. Trustees may not use their relationship with the System to seek or obtain personal gain. This should not be interpreted to forbid properly authorized expense reimbursements from the System to a Trustee for valid expenses.
- E. Trustees should not solicit, accept, or agree to accept any benefit from a person the Trustee knows is interested in or is likely to become interested in any contract, purchase, payment, claim, or transaction involving the exercise of the Trustee's discretion.

#### **IV. Fiduciary Duties**

- A. A Trustee must abide by the following statutory fiduciary responsibility.
1. In the administration of the System and in making and supervising investments of assets of the System, a Trustee shall discharge his or her duties solely in the interest of the participants and beneficiaries:
    - a. for the exclusive purposes of:
      - i. providing benefits to participants and their beneficiaries; and
      - ii. defraying reasonable expenses of administering the System;
    - b. with the care, skill, prudence, and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with

matters of the type would use in the conduct of an enterprise with a like character and like aims;

- c. by diversifying the investments of the System to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and
  - d. in accordance with the documents, instruments, and applicable law governing the System.
2. In choosing and contracting for professional investment management services and in continuing the use of an investment manager, a Trustee must act prudently and in the interest of the participants and beneficiaries of the System.
  3. The System shall obtain an acknowledgement in writing stating that any investment manager selected by the Trustees has fiduciary responsibility to the System.

#### **V. Trustee Responsibilities**

- A. Trustees will have the following responsibilities in performing actions as to the operations of the System:
  1. In making or participating in decisions, Trustees shall give appropriate consideration to those facts and circumstances reasonably available to the Trustees, which are relevant to the particular decision, and shall refrain from using facts or circumstances which are not relevant to the decision.
  2. Trustees shall ensure that System business transactions are based on professional integrity and competence, financial merit and benefit to the System and on a competitive basis.
  3. Trustees shall review on a regular basis the efficiency and effectiveness of the System's success in meeting its goals, including assessing the performance and actions of System service providers, such as investment managers, consultants, and actuaries.
  4. Trustees shall use reasonable care to prevent other Trustees from committing a breach and shall not participate in concealing such a breach, or knowingly or negligently permit such a breach to occur.

#### **VI. Conflicts-of-Interest**

- A. Statutory conflict-of-interest provisions: Chapter 171 of the Texas Local Government Code.
  1. If a Trustee has a substantial interest in a business entity or in real property, the Trustee shall file, before a vote or decision on any matter involving the business entity or the real property, an affidavit stating the nature and extent of the interest and shall abstain from further participation in the matter if:

- a. In the case of a substantial interest in a business entity, the action on the matter will have a special economic effect on the business entity that is distinguishable from the effect on the public; or
  - b. In the case of a substantial interest in real property, it is reasonably foreseeable that an action on the matter will have a special economic effect on the value of the property, distinguishable from its effect on the public.
2. The Trustees shall take a separate vote on any budget item specifically dedicated to a contract with a business entity in which a Trustee has a substantial interest. The affected Trustee may not participate in that separate vote. The affected Trustee may vote on a final budget if the Trustee has complied with Texas Local Government Code, Chapter 171; and the matter in which the Trustee is concerned has been resolved.

For purposes of this section, a Trustee (a) has a substantial interest in a business entity if: (i) a Trustee owns 10% or more of the voting stock or other interest, or \$15,000 or more of the fair market value, of the business entity or (ii) the Trustee received funds from the business entity that exceeded 10% of the Trustee's gross income from the previous year and (b) has a substantial interest in real property if the interest is a legal or equitable ownership interest with a fair market value of \$2,500 or more.

- B. Statutory conflict-of-interest provisions: Chapter 176 of the Texas Local Government Code.
  1. A Trustee shall file a conflicts disclosure statement with the System with respect to a person or entity who enters into a contract with the System, or who the System is considering entering into a contract with, and either (a) the person or entity has an employment or other business relationship with the Trustee or a family member of the Trustee that results in the Trustee or family member receiving certain taxable income exceeding \$2,500 during the relevant preceding 12-month period or (b) the person has given the Trustee or a family member of the Trustee one or more gifts that have an aggregate value of more than \$250 in the relevant preceding 12-month period
  2. A Trustee is not required to file a conflicts disclosure statement in relation to a gift accepted by the Trustee or a family member of the Trustee if the gift is given by a family member of the person accepting the gift, a political contribution as defined by Title 15, Election Code; or food, lodging, transportation, or entertainment accepted as a guest.
  3. The conflicts disclosure form to be filed by a Trustee will be in the form that is specifically prepared by the Texas Ethics Commission for compliance with Texas Local Government Code, Chapter 176.
- C. Additional conflict-of-interest guidelines.
  1. Trustees should make reasonable efforts to avoid conflicts of interest and appearances of conflicts of interest.

2. A conflict of interest exists for a Trustee whenever the Trustee has a personal or private commercial or business relationship that could reasonably be expected to diminish the Trustee's independence of judgment in the performance of the Trustee's responsibilities to the System.
3. Curing Conflicts-of-Interest
  - a. All Trustees who become aware of a personal conflict of interest have an obligation to disclose the conflict to the Board and to cure it. A person normally cures a conflict of interest by promptly eliminating it.
  - b. If a conflict cannot be entirely eliminated, a Trustee can cure a conflict by disclosing any conflicts-of-interest regarding matters which are before the Board, recusing themselves from any relevant deliberations, and not voting on the matter. Such Trustees may be required to disclose additional relevant information with respect to the matter in question provided that:
    - i. the person may be and is effectively separated from influencing the action taken;
    - ii. the action may properly be taken by others; and
    - iii. the nature of the conflict is not such that the person must regularly and consistently withdraw from decisions that are normally his or her responsibility with respect to the System.

## **VII. Prohibited Transactions and Interests**

- A. Trustees must abide by the following guidelines:
  1. Trustees shall not use their position with the System to solicit business for their own account or the account of an immediate relative or business associate.
  2. Trustees shall not borrow from investment managers, outside service providers, professional advisors or consultants, banks or other financial institutions with which the System has a business relationship, unless such entities are normally engaged in such lending in the usual course of their business.
  3. Trustees shall not under any circumstance accept offers by reason of their position with the System to trade in any security or other investment on terms more favorable than those available to the general investing public.
  4. No Trustee shall serve as a placement agent in connection with any System investment. A former Trustee may be prohibited from serving as a placement agent in connection with any System investment for a certain period of time. A placement agent is any person or entity hired, engaged, or retained by or acting on behalf of an external investment manager or investment fund or on behalf of another placement agent as a finder, solicitor, consultant, broker or other intermediary to raise investments from or to obtain access to the System, directly or indirectly.

5. Trustees shall not cause the System to engage in any prohibited transactions outlined above with any immediate relative or business associate of the Trustee, any other Trustee, employee, custodian, vendor or consultant to the System, or any person providing services to the System.
- B. Trustees may buy or sell a publicly traded security of an issuer which is held by the System, but may not engage in a personal securities transaction when the Trustees have actual knowledge that the System is trading such securities.
- C. Revolving Door Prohibitions:
  1. A Trustee may not for two years after ceasing to be in their respective positions at the System make any communication to or appearance before, the Trustees or an employee of the System, with the intent to influence System action to benefit the person seeking such action. This restriction does not apply to the act of providing information as long as such communication is done without the intent to influence any actions by the System.
  2. A former Trustee may not represent any person or receive compensation for services rendered on behalf of any person regarding a particular matter in which the former Trustee participated during the period of his/her service or employment, either through personal involvement or because the matter was within the Trustee's official responsibility.

## **VIII. Confidential Information**

- A. Trustees must not disclose confidential information, except when duly authorized personnel determine such disclosure is required by law.
- B. Trustees may be provided or have access to confidential information, including material, nonpublic information. It is the duty of Trustees to maintain the confidentiality of information and not misuse confidential information, including material, nonpublic information, belonging to or relating to the System. Trustees who come into possession of material, nonpublic information must not communicate it intentionally or inadvertently to any third party, including but not limited to relatives and friends, unless the person has the need to know for legitimate reasons and such communication is consistent with their responsibilities to the System.

## **IX. Gifts**

- A. A "gift" means anything of tangible value given without consideration and includes any payment of cash, receipt of goods or services, or other benefit.
- B. Barring any statutory exception, a Trustee is prohibited from soliciting or accepting a gift from any donor because of or through use of the Trustee's position with the System. Such gifts cannot be accepted by Trustees themselves or for their families or business partners.
- C. Under no circumstances may Trustees accept a gift if the source of the gift is not identified or if the Trustee knows or has reason to know that the gift is being offered through an intermediary.

- D. If a prohibited gift is received by a Trustee, he or she should return the gift to its source. If that is not possible or feasible, the gift should be donated to charity.
- E. Statutory exceptions regarding acceptance of gifts are allowed under this policy as long as the Trustee is not influenced by the gift, which include any food or entertainment in which the donor of such is present and items of a value of less than \$50.00.

## **X. Enforcement**

- A. The Board of Trustees of the System (the "Board") will be responsible for enforcing this policy. A complaint or allegation of a Trustee's potential violation of the policy must be in writing and submitted to the Chairman of the Board, or, if such violation involves the Chairman, the Vice-Chairman. The Chairman or Vice-Chairman, as applicable, may have legal counsel review the claim and related information. No retaliatory action will be taken against the reporting person for any such report involving another person made in good faith.
- B. The Chairman, or Vice-Chairman, as applicable, shall present recommendations to the Board for resolution of the matter. The Board has final decision-making authority with respect to a Trustee's violation of the policy, and such decision shall be binding on the Trustee. A Trustee who is a subject of the alleged violation may not deliberate or vote on such Board action regarding the violation.
- C. If the Board finds a violation occurred, the Board may issue a resolution of reprimand, censure, or other appropriate measure, including a request for resignation.
- D. A violation of this policy may be reported to applicable regulatory or law enforcement agencies when appropriate or required.

## **XI. Training**

- A. Every Trustee shall ensure that he or she has satisfied the training requirements as set forth by the Pension Review Board and obtain other education or training necessary to satisfy his or her duties and responsibilities.

## **XII. Travel**

- A. Trustees may attend educational or training conferences or seminars with prior approval of the Board. Attendance at educational seminars or conferences outside the contiguous forty-eight states is not permitted.
- B. Trustees will be reimbursed for travel expenses to permitted conferences, seminars and on-site visits in accordance with the System's reimbursement procedures established by the System administrator. However, Trustees should make all reasonable efforts to minimize travel expenses, including adherence to the following:
  1. Airfare travel should be coach and should be made as far in advance as reasonably possible, and direct flights should be booked when available.

2. Lodging at conferences and seminars should be arranged at the hotel where the conference or seminar is being held, or other conference or seminar approved hotel, if available. Only room, tax, and hotel parking are acceptable lodging expenses. Personal expenses at the hotel will not be reimbursed.
  3. Ground transportation through use of personal vehicle that is reasonably associated with a conference or seminar attendance will be reimbursed at the current Federal mileage reimbursement rate. Ground transportation other than use of personal vehicle will only be reimbursed for travel to and from the airport and hotel, and if applicable, from an off-site hotel to the conference or seminar.
  4. Meals and included expenses will be reimbursed, but such reimbursements shall not exceed the Federal per diem rule. No reimbursements are permitted for (1) alcoholic beverages or (2) any meal if a meal is otherwise provided as part of a conference or seminar that the Trustee is attending. An amount for meals may be provided in advance, but may not exceed the applicable Federal per diem rule.
  5. Additional expenses related to travel of System business may be reimbursed with Board approval.
  6. Requests for reimbursements for travel expenses should be submitted on the form maintained by the System administrator, if any.
- C. Within a reasonable period of time following attendance at an educational seminar or conference, Trustees shall provide the System administrator of the System with a statement of affirmation of conference attendance.
- D. Trustees may conduct on-site visits to investment managers or other service providers of the System when an on-site visit is advisable to address organizational or operational concerns or, if necessary, to conduct due diligence in connection with the addition of a new manager or provider or replacement of an existing manager or provider. On-site visits of providers shall only be conducted if prior notification is presented to the Board at its regular meeting, and on-site visits of investment managers should normally be conducted only at the recommendation of the System's investment consultant. The travel guidelines, as well as the provisions in this policy on Gifts, shall govern on-site visits as applicable; provided, however, Trustees may not accept gifts of meals, lodging or transportation during such on-site visits, unless the meal is in connection with a working session or the transportation is to and from the physical location of the investment manager or provider.