

# South Dakota Investment Council

## Code of Ethics and Personal Investing Guidelines for SDIC Staff

### Code of Ethics

- (1) The interests of assets under responsibility of the South Dakota Investment Council (SDIC) are to be placed ahead of personal financial interest.
- (2) The position of trust and responsibility shall not be abused. Employees will not engage in professional conduct involving dishonesty, fraud or deceit.
- (3) Staff shall abide by laws and regulations that govern professional conduct and abide by the *"CFA Institute Code of Ethics and Standards of Professional Conduct"* (attached).

### Personal Investing Guidelines

#### **A. Transactions subject to Code of Ethics**

All personal transactions are subject to the Code of Ethics.

#### **B. Transactions exempt from the Personal Investing Guidelines**

Transactions in the following categories are exempt from the personal investing guidelines and are not subject to preapproval or reporting requirements. These exemptions take precedence over all other sections of the Personal Investing Guidelines.

- (1) Certificates of deposit and traditional savings accounts.
- (2) Treasuries, broadly diversified mutual funds, and broadly diversified ETFs, except in the event of an imminent asset allocation move about which the employee is aware, as described in E.(1). Some examples of broadly diversified mutual funds include; large or small-cap equity funds, international or emerging markets stock funds, high yield bond funds and municipal bond funds.
- (3) Regularly scheduled deposits into or withdrawals from mutual funds, 457s, 401Ks, 529s, or similar options are exempt, as well as withdrawals from college saving programs used to pay for college expenses. This exemption does not apply to larger than the regularly scheduled amounts, such as a larger initial deposit amount or a later additional lump sum amount, but such deposits or withdrawals may be exempt under another exemption provision.
- (4) Involuntary receipt of securities, including initial public offerings, such as by inheritance or in relation to a spouse employee stock plan or spouse employer going public.
- (5) Transactions in relation to volunteer activities, subject to item "Volunteer involvement with other organizations' investment activities" on Page 4.

#### **C. Prohibited transactions**

- (1) Initial public offerings are prohibited.
- (2) Investment is prohibited in any company designated by the State Investment Officer as prohibited due to an SDIC relationship that may be material to such company. The list of

prohibited companies may be obtained from the Business Manager. The prohibition does not apply to mutual funds or ETFs that may include an investment in the designated company.

**D. Temporarily prohibited transactions**

- (1) Transaction in a security or related derivative is prohibited on the day of an SDIC transaction in the security or within seven calendar days before it is reasonably anticipated that the SDIC is likely to trade the security based on reasonable good faith efforts to ascertain actual and potential SDIC activity by (a) asking SDIC personnel responsible for researching the security if they know of any transactions that day or any that are anticipated in the next seven days; and (b) comply with the preapproval process which may reveal a temporary prohibition.
- (2) Sale of a security or related derivative is prohibited within 60 calendar days of purchase if the SDIC transacted in the security during the time the security was held by the individual within the sixty day period. Tender of securities due to a corporate action, or sale of involuntarily received securities as defined in B.(4), or donation of securities to charity are exempt from this restriction, however, pre-approval and reporting requirements still apply.

**E. Transactions subject to prior approval by State Investment Officer (or designee)**

- (1) Pre-approval is required for transactions in any security or fund, such as bonds, stocks, derivatives, mutual funds, ETF's, etc., including 457s, 529s, 401Ks, or similar options, which could benefit from an expected imminent SDIC asset allocation move about which the staff member is aware. An imminent asset allocation move is defined as being within 1% of a predetermined price level where an asset allocation move is anticipated or if discussion of an imminent asset allocation move is underway. Consideration of approval will be principally based on the reasons for the timing of the personal transaction; the expected likelihood of an SDIC asset allocation move; and whether the individual is involved in the SDIC allocation decision. Any such approved transactions shall be reported.
- (2) Pre-approval is required for transactions in individual stocks or derivatives on an individual stock and private placement investments. Industry specific and non-U.S. country specific focused mutual funds and ETFs do not require pre-approval unless they are listed on the restricted list maintained by the Business Manager, but they are subject to the reporting requirements. Donation of securities to charity or tender of securities in relation to a merger does not require pre-approval but are subject to reporting requirements H.(1). Questions about unusual circumstances that could potentially violate the Code of Ethics and Personal Investing Guidelines for SDIC Staff should be addressed with the State Investment Officer.
- (3) Pre-approval is not required in the case of alternative procedure F.(2).
- (4) Request for prior approval shall be submitted to the State Investment Officer. If the State Investment Officer is unavailable, the request for prior approval shall be submitted to a designee as directed by a list of designees maintained by the Business Manager. The request shall be submitted by email with a cc to the Business Manager and to the State Investment Officer if the request was submitted to a designee. Approval or denial shall be provided by email by the State Investment Officer or designee with a cc to the Business Manager and to the State Investment Officer if the response was provided by a designee. The Business Manager will maintain a record of the emails for documentation of preapproval of any reported transactions and will cross reference with transaction confirmations as a check that transaction confirmations are provided.

**F. Transactions in which you have a beneficial interest but not significant influence**

If the employee has a known beneficial interest or benefits from the profits from an account which has transactions, but does not have significant influence regarding transaction decisions, the employee must either:

- (1) Obtain cooperation of the decision-maker over the account to comply via the employee with the pre-approval and reporting guidelines; or
- (2) Follow alternative procedure whereby they, (a) report to the extent known the existence of account, value, and nature of transactions in the account; (b) assert in the report ~~of the account-~~ that they will avoid potential conflicts by abstaining from ~~discussing with or~~ influencing ~~any account~~ decision-maker ~~over the account regarding on~~ transactions decisions, including but not limited to, abstaining from discussing with account decision-maker any transactions in the account and ~~about any~~ SDIC actual or anticipated investment activity, and (c) comply with transactions reporting requirement to the extent the information is known by the employee, and respond in good faith to questions of the Investment Officer to facilitate assessment of the effectiveness and reasonableness of procedures in avoiding conflicts.

**G. Transactions of others that you encourage or influence**

- (1) Encouragement of, or intent to influence, transactions of others (such as friends or relatives), except in the case of item I., is prohibited if the transaction would be a prohibited or temporarily prohibited transaction were the transaction by the employee.
- (2) If the degree of influence relating to the transaction of another is sufficiently significant that the employee would substantially direct the transaction, the employee must obtain any preapprovals that would be required were the transaction by the employee and also abide by prohibited and temporarily prohibited transaction requirements. Any known details of a substantially directed transaction shall be reported as if the transaction was by the employee.

**H. Transactions reporting requirements**

- (1) All transactions, except exempt transactions described in B., must be reported within five business days, or as soon as practical, to the Business Manager.
- (2) Transaction reports shall include whether the transaction was a purchase or sale, the name of the security or fund, date, price, shares or units, dollar amount of the transaction, brokerage firm used, amount of commission, and whether pre-approval was received.
- (3) All personnel will direct their brokers to supply to the Business Manager, on a timely basis, duplicate copies of confirmations for individual stock transactions, industry specific ETF's, and industry focused mutual funds. If duplicate confirmations cannot be provided by broker, the employee is responsible for providing a copy.
- (4) At the initiation of employment and anytime thereafter if requested, all personnel will disclose to the State Investment Officer any investments in individual securities, industry focused ETF's, and industry focused mutual funds, as well as any other investment vehicles that could reasonably be envisioned to involve potential conflicts with the SDIC Code of Ethics.
- (5) The Business Manager will review reported transactions with the State Investment Officer and will compile into an annual personal transactions report to the SDIC Audit Committee Chair. The

report will also delineate any violations that required significant remedial action. The report will be made available to the auditors who may also request information about personal transactions during the year. The report shall otherwise remain confidential due to the inclusion of personal employee information.

#### **Family member/significant other employed in investment industry**

If any family member/significant other living in your household is employed in the investment industry, written disclosure to the State Investment Officer of such employment is required.

#### **Volunteer involvement with other organizations' investment activities**

Prior approval from the State Investment Officer is required for involvement on a volunteer basis in the investment activities of non-profit or local government entities to ensure the interests of the state of South Dakota are not compromised. On-going communication with the State Investment Officer on the volunteer involvement is required. The employee shall make a good-faith effort to apply a standard of fairness to any conflicts between such volunteer activities and the interests of the state.

#### **Unusual or hardship circumstances**

Unusual or hardship circumstances should be discussed with the State Investment Officer to determine the proper application of the General Principles and Personal Investing Guidelines or whether any exceptions are appropriate. If the event of any granted exceptions, the Chair of the SDIC Audit Committee will be promptly notified.

#### **Reporting of violations**

Any suspected violation of this Code of Ethics or the Personal Investing Guidelines should be promptly reported to the State Investment Officer and the Business Manager or the Chair of the SDIC Audit Committee, as appropriate.

#### **Disbursement of profits from violations**

Any profit from transactions in violation of this Code of Ethics or Personal Investing Guidelines shall be disgorged to charity and reported.

#### **Annual certification**

All personnel will be required to annually certify their~~Certification of~~ understanding of and compliance with the Code of Ethics and Personal Investing Guidelines for SDIC Staff. The Business Manager will report to the Chair of the Audit Committee and the Department of Legislative Audit as to the receipt of such employee certifications.~~is required annually. The Business Manager will send an email requesting certification through a reply to the email.~~

#### **Questions about the Code of Ethics or Personal Investing Guidelines**

Any questions about the Code of Ethics or Personal Investing Guidelines should be directed to the State Investment Officer. If the State Investment Officer is unavailable and immediate attention is warranted, questions should be directed to a designee authorized to pre-approve transactions.

# CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

## PREAMBLE

The CFA Institute Code of Ethics and Standards of Professional Conduct are fundamental to the values of CFA Institute and essential to achieving its mission to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. High ethical standards are critical to maintaining the public's trust in financial markets and in the investment profession. Since their creation in the 1960s, the Code and Standards have promoted the integrity of CFA Institute members and served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. All CFA Institute members (including holders of the Chartered Financial Analyst® [CFA®] designation) and CFA candidates must abide by the Code and Standards and are encouraged to notify their employer of this responsibility. Violations may result in disciplinary sanctions by CFA Institute. Sanctions can include revocation of membership, revocation of candidacy in the CFA Program, and revocation of the right to use the CFA designation.

## THE CODE OF ETHICS

Members of CFA Institute (including CFA charterholders) and candidates for the CFA designation ("Members and Candidates") must:

- Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity and viability of the global capital markets for the ultimate benefit of society.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

## STANDARDS OF PROFESSIONAL CONDUCT

### I. PROFESSIONALISM

- A. Knowledge of the Law.** Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.
- B. Independence and Objectivity.** Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another's independence and objectivity.

- C. Misrepresentation.** Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.
- D. Misconduct.** Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

### II. INTEGRITY OF CAPITAL MARKETS

- A. Material Nonpublic Information.** Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.
- B. Market Manipulation.** Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

### III. DUTIES TO CLIENTS

- A. Loyalty, Prudence, and Care.** Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests.
- B. Fair Dealing.** Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.
- C. Suitability.**
1. When Members and Candidates are in an advisory relationship with a client, they must:
    - a. Make a reasonable inquiry into a client's or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.
    - b. Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.
    - c. Judge the suitability of investments in the context of the client's total portfolio.
  2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.
- D. Performance Presentation.** When communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.
- E. Preservation of Confidentiality.** Members and Candidates must keep information about current, former, and prospective clients confidential unless:
1. The information concerns illegal activities on the part of the client or prospective client,
  2. Disclosure is required by law, or
  3. The client or prospective client permits disclosure of the information.

### IV. DUTIES TO EMPLOYERS

- A. Loyalty.** In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.
- B. Additional Compensation Arrangements.** Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with or might reasonably be expected to create a conflict of interest with their employer's interest unless they obtain written consent from all parties involved.
- C. Responsibilities of Supervisors.** Members and Candidates must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, regulations, and the Code and Standards.

### V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

- A. Diligence and Reasonable Basis.** Members and Candidates must:
1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
  2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.
- B. Communication with Clients and Prospective Clients.** Members and Candidates must:
1. Disclose to clients and prospective clients the basic format and general principles of the investment processes they use to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
  2. Disclose to clients and prospective clients significant limitations and risks associated with the investment process.
  3. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
  4. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.
- C. Record Retention.** Members and Candidates must develop and maintain appropriate records to support their investment analyses, recommendations, actions, and other investment-related communications with clients and prospective clients.

### VI. CONFLICTS OF INTEREST

- A. Disclosure of Conflicts.** Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.
- B. Priority of Transactions.** Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.
- C. Referral Fees.** Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from or paid to others for the recommendation of products or services.

### VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

- A. Conduct as Participants in CFA Institute Programs.** Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA Institute programs.
- B. Reference to CFA Institute, the CFA Designation, and the CFA Program.** When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA program.