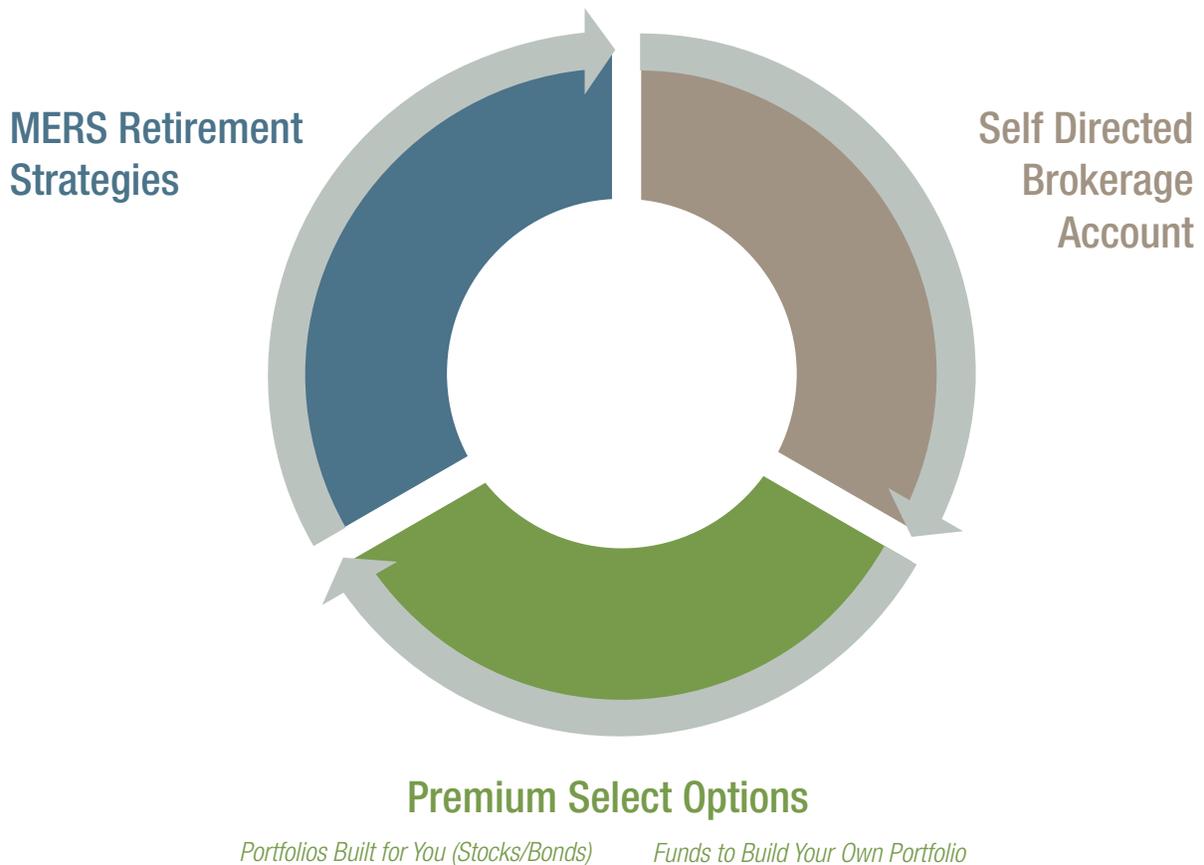


# Investment Policy Statement: Participant Directed Accounts & Institutional Funds

Board Approved on January 31, 2018



## MISSION STATEMENT

The Municipal Employees' Retirement System of Michigan (MERS) exists to provide quality retirement and related services with cost-effective plan administration for members and beneficiaries.

1134 Municipal Way | Lansing, MI 48917 | 800.767.6377 | [www.mersofmich.com](http://www.mersofmich.com)

# Table of Contents

Participant Directed Accounts & Institutional Funds



## Contents

I. INTRODUCTION. . . . .	1
II. PURPOSE. . . . .	1
III. ROLES & RESPONSIBILITIES . . . . .	1
IV. INVESTMENT OBJECTIVES . . . . .	4
V. INVESTMENT OPTIONS . . . . .	4
VI. SELECTION & MONITORING OF INVESTMENT OPTIONS .6	
VII. PERFORMANCE REVIEW. . . . .	8
VIII. CHANGES TO INVESTMENT OPTIONS . . . . .	9
IX. PROXY VOTING . . . . .	9
X. CUSTODY & RECORDKEEPING SELECTION . . . . .	9
XI. POLICY REVIEW . . . . .	9
XII. CODE OF ETHICS. . . . .	9
APPENDIX I. . . . .	10
APPENDIX II . . . . .	11



## I. INTRODUCTION

The Municipal Employees' Retirement System of Michigan (MERS) is an independent, professional retirement services company that was created to administer the retirement plans for Michigan municipalities on a not-for-profit basis. MERS is a statewide voluntary organization that was created in 1945 by the Michigan Legislature. In 1996, the System was granted independence by the Legislature.

MERS offers a Defined Benefit Plan (DB), Defined Contribution Plan (DC), Hybrid Plan, Health Care Savings Program (HCSP), 457 Deferred Compensation Program (457), Retiree Health Funding Vehicle (RHFV), and Investment Services Program (ISP) (the "Plans").

The Retirement Board (Board) has delegated all investment management operations and activities to the Chief Executive Officer (CEO) and the Board's Investment Committee, except those specifically reserved by the Board. The CEO is directly responsible for all day-to-day activities of MERS. The CEO has delegated management of MERS' trust assets to the Office of Investments, including all investment management activities. The MERS Investment Policy Statement (IPS) for the Institutional Funds (RHFV and ISP) and Participant Directed Accounts (DC, DC portion of Hybrid, HCSP, 457) sponsored by MERS has been adopted by the Board to provide guidelines for the structure, selection, and monitoring of the investment options provided under these programs. All transactions undertaken on behalf of the Plans shall be for the sole interest of the Plans' participants and beneficiaries. Participants will be provided the opportunity to obtain sufficient information to make informed decisions with regard to investment options under the Plans.

## II. PURPOSE

The purpose of this IPS is to set forth the general investment policies that the Board has determined to be appropriate and prudent in consideration of the needs of the Institutional Funds and Participant Directed Account Programs sponsored by MERS. It outlines the underlying philosophies and process for the selection, monitoring, and evaluation of the investment choices and investment managers utilized by the Institutional Funds and Participant Directed Account Programs.

The Board shall have sole discretion to interpret this IPS. The Board reserves the right at any time to amend, supplement, rescind, grant exceptions to, or deviate from the IPS as and when, in its sole discretion, it is prudent to do so. The IPS will be reviewed annually and amended as appropriate. This IPS is limited to investment matters. It does not purport to address any duties or responsibilities with respect to the adoption, revision, administration, or any other aspect of any of MERS' Plans, including, but not limited to, their operation and compliance with all applicable tax laws.

## III. ROLES & RESPONSIBILITIES

The following describes the investment related roles and responsibilities of key stakeholders within the Institutional Funds and Participant Directed Account Programs.

### Retirement Board

The Board is the sole fiduciary for MERS' institutional funds and participant directed retirement accounts with respect to establishing, monitoring, and amending the various Plans investment lineup and will



execute its duties solely in the interest of the Plans and their participants and beneficiaries, with the care, skill, prudence, and diligence under the circumstances then prevailing 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, and with like aims. The Board has delegated day-to-day administration of the system to the CEO, including vendor hiring and termination. The Board has the following duties:

1. Establish, review, amend, and oversee MERS' various retirement product plan documents;
2. Establish, review, and amend MERS' policies, including investment policies;
3. Establish and oversee Board committees, including the Investment Committee;
4. Monitor the administration of MERS, its products, and its vendors, including, the custodian and record keeper; and
5. Direct the MERS staff to provide investment education and communication materials to assist decision-makers (participants and sponsors) in making informed investment elections with respect to their accounts

## Investment Committee

With respect to the Institutional Funds and Participant Directed Account Plans, the Board tasked the Investment Committee with the following duties:

1. Prepare, maintain, monitor adherence to, and amend the IPS as necessary and advisable;
2. Determine the appropriate default investment option for the DC, 457, and HCSP Plans;
3. Consider, recommend, and implement changes to the investment programs of the Institutional Funds and Participant Directed Account Programs;
4. Determine the overall number and types of options offered, focusing on easily understandable plan design, so participants have a greater likelihood of achieving their financial goals through a diversified portfolio given their individual investment risk tolerance; and
5. Monitor the operations of the Office of Investments with respect to the Institutional Funds and Participant Directed Account Programs.

## Office of Investments

The Office of Investments, under the supervision of the CEO, has been authorized by the Board to oversee the investment of MERS' assets and direct all investment management activities. In compliance with its fiduciary obligations, the Office of Investments shall act with the care, skill, prudence, and diligence that a prudent person acting in a similar capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with similar aims, and will do the following:

1. Recommend the overall number and types of options offered, focusing on easily understandable plan design, so participants have a greater likelihood of achieving their financial goals through a diversified portfolio given their individual investment risk tolerance;
2. Establish due diligence procedures for selecting, monitoring, and eliminating investment choices offered to participants of the Plans;
3. Select and appoint outside auditors, consultants, or specialists as may be determined necessary from time to time;
4. Monitor and supervise custodian and all investment management service providers;
5. Respond to requests for information from the Board in a timely manner;
6. Provide the Board with necessary information to carry out its fiduciary duty;



7. Provide periodic reports to the Board on the activity and results of the Plans' investments, including investment performance, investment choice additions/subtractions, and relevant industry issues;
8. Review general adherence to this IPS;
9. Select, review, and evaluate the investment options available under the Plans;
10. Construct and manage investment portfolios consistent with the investment philosophy, style, and discipline deemed prudent to provide sufficient investment options for participants to prudently diversify his/her individual accounts;
11. Avoid prohibited transactions and conflicts of interest; and
12. Participate in the periodic review of the reasonableness of the fees and expenses incurred by the Plans for record keeping, investment management, and custodial services.

## Record Keeper

The record keeper is responsible for performing the following, as well as other agreed upon activities, in conjunction with the Plans, the record keeper contract, and statutory provisions:

1. Maintain a participant database, which includes fund elections, account balances, and any other data required by the record keeper to perform its daily recordkeeping and custodial duties and is used by MERS to perform necessary business;
2. Accommodate MERS investment selection and pricing structure, applying fees to participant accounts according to amount and frequency determined by MERS;
3. Through a working interface for trading and reconciliation maintained with any MERS designated custodian, reconcile all contributions to deposits;
4. Ensure deposits are properly allocated to specific investment options according to participant elections; and
5. Produce quarterly statements and ensure online access for individual participants through a secure system with 24/7 access to statements detailing beginning balances, all transactions for the statement period, contributions received, and ending balances as required by governing regulations.

## Custodian

The custodial bank (custodian) is responsible for performing the following, as well as other agreed-upon activities, in conjunction with the Plans, the custody contract, and statutory provisions:

1. Fulfill all regular fiduciary duties of a custodian, as required by applicable state and federal laws;
2. Safeguard custody Plan assets, ensure timely settlement of security transactions, and credit all income and principal realizable by the Plans in a timely manner;
3. Provide a daily sweep of uninvested cash assets in investment manager accounts into a suitable cash management vehicle, and timely and accurately calculate and report the net asset value for unitized accounts;
4. Managing the securities lending program affecting the Plans;
5. Maintain accurate reporting systems in accordance with the contract, which provide information on all monies received or paid on behalf of the Plans and on all securities under the contract including all unsettled securities transactions;

# Investment Policy Statement

Participant Directed Accounts & Institutional Funds



6. Timely delivery of Plan assets to a successor custodian or as otherwise directed by the Office of Investments or its designee with proper instructions upon termination;
7. Distribute promptly all proxy materials or other corporate actions received by the custodian;
8. Coordinate asset transfers as requested by the Office of Investments or its designee(s);
9. Provide fund accounting for investment options. Services include, but are not limited to, calculating net asset value (NAV), maintaining a working interface for trading and reconciliation with the Plans' record keeper, execute daily trades, execute monthly rebalancing for the investment structure, posting securities trades, and analyzing funds relative to target allocations;
10. Provide compliance monitoring services for the Plans' separate accounts; and
11. Providing all other custodial services not mentioned above necessary for the efficient investment, custody, and administration of MERS' assets.

## Participants

The Plans' participants are responsible for all investment decisions and should do the following:

1. Read investment education and communication materials provided by MERS;
2. Determine his/her individual risk tolerance based upon his/her investment objective, time horizon, investment philosophy, and other individual circumstances;
3. Educate him/herself on the available investment options;
4. Design an investment plan from the available investment options that best meets his/her individual requirements and risk tolerance;
5. Manage his/her own investments by allocating assets and future contributions to the various investment options available through the Plans; and
6. Reallocate his/her investments as his/her personal circumstances and risk tolerance change.

## IV. INVESTMENT OBJECTIVES

The objectives of the Plans are to accommodate the varying needs of the participants by providing appropriate and diversified investment options. The investment options will include an assortment of investment choices across a range of asset classes, risk levels, and investment strategies, at a reasonable cost. Each investment option should be an appropriate building block to forming a reasonably diversified portfolio. The Plans will encourage participants to take an active role in saving and selecting among investment options for his/her retirement by providing education and information so they can make informed investment decisions.

## V. INVESTMENT OPTIONS

### Participant Directed Accounts Investment Menu

This IPS establishes three different investment categories that PDA participants can use to address his/her investment needs: Retirement Strategies, Premium Select Options, and Self-Directed Brokerage Account.



## Retirement Strategies (Target Date Funds)

The Retirement Strategies offer participants a simple way to invest. Each fund is named for a “target date”—the approximate year in which the participant is expected to retire and start withdrawing from their account. Funds farthest from the target dates emphasize growth potential by allocating a higher percentage of the portfolio to equities. As investors move closer to—and into—retirement, the funds automatically adjust to a more conservative asset mix. The Retirement Strategies are expected to meet the general needs of the average participant in different age groups by utilizing a glide path. A glide path represents the changes made to the asset allocation over time as the target date approaches.

The Retirement Strategies glide path shall be based on industry accepted investment theory and investment methodology as well as reasonable capital market assumptions. Plan demographics shall be taken into consideration when developing the glide path. The glide path will be monitored by the MERS Office of Investment and Investment Committee.

## Premium Select Options

### 1. Premium Select - Asset Allocation Portfolios

The Premium Select Asset Allocation Portfolios are multi-manager investment options built to offer participants the ability to benefit from economies of scale, by utilizing investments MERS’ Defined Benefit portfolio. The options are designed so a participant can select the option that best matches his/her risk tolerance and offer attractive risk-adjusted returns at a below-market fee.

### 2. Premium Select - Asset Specific Funds

The Premium Select Asset Specific Funds provide a participant the ability to structure his/her own unique portfolio by allocating his/her investments to a single asset class. These options give a participant the ability to build his/her own portfolio. The funds can either be components of the MERS Defined Benefit portfolio or outside investment fund options with a preference for index based investments. Whenever an outside investment is offered, the lowest share class available to MERS will be utilized.

## Self-Directed Brokerage Account

Participants who desire additional investment options and are willing to accept all risks and costs related to such alternatives can make his/her own investment decisions through the Self-Directed Brokerage Account (SDBA). The SDBA is available to participants through MERS DC or 457 programs as long as they maintain a pre-determined account balance.

## Default Options

The Investment Committee will establish a default fund to allocate contributions to the DC, 457, and HCSP when a participant fails to make an investment selection for elective or employer contributions after the opportunity to do so, or when a participant is automatically enrolled in the Plan and does not make an affirmative investment election after the opportunity to do so.

The default fund will provide varying degrees of long-term appreciation and capital preservation through exposure to a mix of equity, fixed income, and diversifying investments that vary based on the participant’s age, target retirement date, life expectancy, or the characteristics of the participants in the aggregate.



1. Any default option will be managed by an investment manager or investment company registered under the Investment Company Act of 1940.
2. The Investment Committee will consider the objectives of the particular Plan when choosing an appropriate default option for each Plan.
3. A notice will be furnished to participants in advance of the first investment in the default option
4. Investment education material regarding the default option will be made available to participants.
5. Participants shall have the opportunity to direct investments out of a default option as frequently as from other investments.
6. The Office of Investments will document the decision-making process when determining an appropriate default option and will annually review the default option to ensure that it continues to satisfy the requirements for a default option.

## Institutional Funds Investment Menu

This IPS establishes investment options that institutional fund employers can use to address their investment needs.

### Premium Select Options

#### 1. Premium Select - Asset Allocation Portfolios

The Premium Select Asset Allocation Portfolios are multi-manager investment options built to offer participants the ability to benefit from economies of scale, by utilizing investments MERS' Defined Benefit portfolio. The options are designed so a participant can select the option that best matches his/her risk tolerance and offer attractive risk-adjusted returns at a below-market fee.

#### 2. Premium Select - Asset Specific Funds

The Premium Select Asset Specific Funds provide a participant the ability to structure his/her own unique portfolio by allocating his/her investments to a single asset class. These options give a participant the ability to build his/her own portfolio. The funds can either be components of the MERS Defined Benefit portfolio or outside investment fund options with a preference for index based investments. Whenever an outside investment is offered, the lowest share class available to MERS will be utilized.

## VI. SELECTION & MONITORING OF INVESTMENT OPTIONS

The Office of Investments will review quarterly each of the investments and will recommend to the Investment Committee adding, removing, or changing investment managers or options as may be appropriate. Plan investment options will be selected and monitored in a manner consistent with MERS fiduciary standard. All Plan determinations will be for the sole benefit of the participants and beneficiaries in the Plan.

The Office of Investments considers a number of qualitative and quantitative factors when selecting and monitoring any investment option. The focus of the evaluation is on long-term issues related to the management of the fund. Qualitative factors may include fundamental changes in a fund manager's investment philosophy, organizational structure (e.g., manager tenure), and financial condition (including any significant changes in total assets under management). Quantitative factors may include adherence to fund objectives, performance, and expenses as detailed below. With regard to performance evaluation,



the Office of Investments will continually monitor the funds' benchmarks to ensure that they are the most appropriate for comparison purposes. No single factor will determine whether an investment option should be added, retained, or eliminated; however, certain factors may carry more weight in the final analysis.

The Office of Investments will evaluate investments based on two sets of criteria: general criteria applicable to all Plan investment options and additional criteria that are specific to certain types of investments. Outlined below are examples of factors that may be used to select and monitor the Plan's investment options. The Office of Investments may consider other factors on a case-by-case basis as it determines prudent.

### **General Investment Evaluation Criteria**

The Office of Investments will assign each investment option a benchmark. If the option is a diversified portfolio, the benchmark will be determined by matching the underlying target asset allocation of the investment and using index returns to represent performance of the asset class. The individual asset class benchmarks are then weighted based on the asset allocation of the particular investment.

The Office of Investments will evaluate all investment options using the following criteria:

1. The ability to construct a diversified portfolio with the Plan's investment offerings;
2. Reasonableness of investment costs which may include expense ratios, revenue sharing agreements, and portfolio turnover; and
3. Performance:
  - a. Cumulative and rolling returns;
  - b. Cumulative and rolling excess returns (performance relative to benchmark);
  - c. Risk adjusted performance; and
  - d. Peer universe comparisons.

### **Retirement Strategies Criteria**

The Office of Investments will evaluate The Retirement Strategies using the general criteria above as well as the following:

1. Asset class diversification;
2. The glide path of funds, paying close attention to the equity exposure, and slope of the glide path;
3. Rebalancing process; and
4. Changes to the demographics of the plan to consider whether the glide path is reasonable for participants.

### **Premium Select Asset Allocation Portfolios**

The Premium Select Asset Allocation Portfolios are constructed by the Office of Investments based on an annual review, taking into consideration the expected risk and return profiles of the underlying funds. The selection and monitoring of the portfolios' underlying funds is governed by the MERS Defined Benefit Investment Policy Statement. However, the portfolios themselves will be evaluated using the general evaluation criteria above.



## Premium Select Asset Specific Funds

Premium Select Asset Specific Funds will be evaluated using the general evaluation criteria above as well as the following:

1. Passively managed funds;
  - a. The fund's ability to successfully track its stated benchmark.
2. Actively managed funds; and
  - a. Stability of investment management team;
  - b. Consistency of investment philosophy and process; and
  - c. Legal and regulatory issues.
3. Stable Value Fund.
  - a. The fund's ability to successfully track its stated benchmark;
  - b. The fund's liquidity profile; and
  - c. The volatility of the funds returns (low volatility).

## Self-Directed Brokerage Account Criteria

The DC and 457 plans offer a brokerage window for participants to invest his/her assets outside of MERS designated investment lineup. However, MERS is not responsible in any way for a participant's decision to invest his/her assets using the brokerage window and all such participants do so at his/her own risk.

## VII. PERFORMANCE REVIEW

The Office of Investments will review quarterly each of the investment options. Specifically, the Office will focus on the following:

1. Quarterly performance report;
2. Retirement Strategies asset allocation relative to target asset allocation;
3. MERS Proprietary Portfolios asset allocation relative to target asset allocation;
4. Analyze investment management expenses of the options;
5. Suitability of investment options in relation to building a diversified portfolio; and
6. Changes within manager's organization or portfolio management team.

The Investment Committee will periodically (at least annually) review and evaluate the investment performance of the plan. The investment performance review will include comparisons against the appropriate benchmark indices and peer universe over relevant time frame. The focus of the review will be to ensure MERS is offering investment options with competitive performance over a full market cycle, which is generally five to ten years. The review will consider the amount of risk taken to achieve the results and investment fees participants pay compared to similar styled funds.

The Investment Committee will review, at least annually, the benchmarks for all costs associated with the management of the Plans. Overall Plan costs will be compared to the market on a weighted average basis.



## VIII. CHANGES TO INVESTMENT OPTIONS

If during periodic review the Office of Investments determines an investment option has not met standards listed above and such failure is unlikely to be resolved, the Office will present the Investment Committee with a recommendation for termination and replacement.

The Investment Committee will review the Office of Investments' recommendation and determine if termination is appropriate, and, if so, an appropriate replacement, if applicable.

Before termination and replacement, reasonable notice will be provided to participants.

## IX. PROXY VOTING

The Office of Investments is responsible for voting all proxies solicited in connection with securities held by the Plans, but may delegate to an outside service provider the responsibility to vote all proxies.

The outside service provider shall keep accurate records with respect to its voting of proxies and make those records available to MERS for review at MERS' request.

All of the Plans' equity shareholder proxies shall be voted in accordance with market standard Glass Lewis principles and requirements provided under the Public Employee Retirement System Investment Act, MCL 38.1132 et seq.

## X. CUSTODY & RECORDKEEPING SELECTION

In an effort to provide the best service to participants at a competitive market price, a due diligence review process will be conducted no less than every five years from the date of implementation of the last bid contract for custody and recordkeeping services.

## XI. POLICY REVIEW

This IPS will be reviewed annually for necessary modifications. The IPS shall remain in effect until revised or amended by the Board. All decisions regarding investment options, administrative issues, and communication efforts must be made for the exclusive purpose of benefiting the Plans' participants and beneficiaries.

## XII. CODE OF ETHICS

The Office of Investments will conduct its affairs in a manner that reflects the highest standards of ethical conduct. The Office of Investments is expected to comply with the CFA Institute Code of Ethics and Standards of Professional Conduct. A copy of the Code and Standards is included as Appendix II.



## MERS INVESTMENT MENU

### Participant Directed Accounts

#### 1 Retirement Strategies<sup>1</sup>

- 2005 Retirement Strategy
- 2010 Retirement Strategy
- 2015 Retirement Strategy
- 2020 Retirement Strategy
- 2025 Retirement Strategy
- 2030 Retirement Strategy
- 2035 Retirement Strategy
- 2040 Retirement Strategy
- 2045 Retirement Strategy
- 2050 Retirement Strategy
- 2055 Retirement Strategy
- 2060 Retirement Strategy

#### 2 Premium Select Options

##### *Portfolios Built for You (Stocks/Bonds)*

- MERS Total Market Portfolio
- MERS Global Stock Portfolio (100/0)
- MERS Capital Appreciation Portfolio (80/20)
- MERS Established Market Portfolio (60/40)<sup>2</sup>
- MERS Balanced Income Portfolio (40/60)
- MERS Capital Preservation Portfolio (20/80)
- MERS Diversified Bond Portfolio (0/100)

##### *Funds to Build Your Own Portfolio*

- Large Cap Stock Index
- Mid Cap Stock Index
- Small Cap Stock Index
- Emerging Market Stock
- International Stock Index
- Real Estate Stock
- Bond Index
- High-Yield Bond
- Short-Term Income
- Stable Value (DC & 457 Only)

#### 3 Self-Directed Brokerage Account

- TD Ameritrade (DC & 457 Only)

### Institutional Funds

##### *Portfolios Built for You*

- MERS Total Market Portfolio<sup>3</sup>
- MERS Global Stock Portfolio (100/0)
- MERS Capital Appreciation Portfolio (80/20)
- MERS Established Market Portfolio (60/40)
- MERS Balanced Income Portfolio (40/60)
- MERS Capital Preservation Portfolio (20/80)
- MERS Diversified Bond Portfolio (0/100)

##### *Funds to Build Your Own Portfolio*

- Large Cap Stock Index
- Mid Cap Stock Index
- Small Cap Stock Index
- Emerging Market Stock
- International Stock Index
- Short-Term Income

Note: <sup>1</sup> Default investment option for DC and 457.

<sup>2</sup> Default investment option for HCSP.

<sup>3</sup> Default investment option for RHFV and ISP.



## 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.