

# DST POLICIES AND PROCEDURES

<b>DST Reference:</b>	<b>IMD-POL-2003-MUL</b>
<b>Title:</b>	<b>Insider and Personal Trading Policy</b>
<b>Chapter:</b>	<b>Legal/Compliance</b>
<b>Current Effective Date:</b>	<b>June 21, 2019</b>
<b>Original Effective Date:</b>	<b>March 31, 2010</b>

Applies to: NC Department of State Treasurer – Investment Management Division, Financial Operations Division, Information Technology Division, and Office of State Treasurer. (See Section II below.)

Keywords: Insider Trading Policy; stock tip; insider information; front-running; nonpublic information

## I. Purpose and Authority

In March 2008, the Securities and Exchange Commission (“SEC”) issued a report admonishing public pension funds about inadequate compliance procedures. Securities and Exchange Commission, Report of Investigation Pursuant to Section 21 (e) of the Securities Exchange Act of 1934, Release No. 57446 (March 6, 2008). Then-SEC Chair Christopher Cox said, “While public pension funds are exempt from most of the federal securities laws governing money managers, they are not exempt from important anti-fraud provisions that prohibit insider trading and other manipulative and dishonest behavior that threatens the integrity of the market.”

In addition, the State Government Ethics Act prohibits a public servant from using or disclosing nonpublic information for private gain. N.C.G.S. § 138A-34. The State Government Ethics Act permits heads of state agencies to develop and implement “in-house educational programs, procedures, or policies tailored to meet the agency’s particular needs for ethics education, conflict identification, and conflict avoidance.” N.C.G.S. § 138A-15. In addition, the Act does not prevent the North Carolina Department of State Treasurer (“DST”) “from adopting additional or supplemental ethics standards applicable to” the agency’s operations. N.C.G.S. § 138A-41.

To preserve the value of integrity and in response to the SEC report and the State Government Ethics Act, the Treasurer adopts this Insider and Personal Trading Policy (this “Policy”) to create safeguards against the misuse of insider information. Strict adherence to the specific requirements of this Policy is mandatory. However, this Policy cannot and is not intended to address all circumstances that may arise. The State Treasurer and those persons covered under this policy must commit to performing their duties in a manner designed to minimize even the appearance of impropriety or a conflict of interest. It must be demonstrated to the stakeholders and general public that DST is dedicated to transparency, accountability, and the highest ethical behavior and that adequate controls are in place to ensure compliance with legal, regulatory, and policy requirements.

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This Policy concerns only the internal management of the Department of State Treasurer. If this Policy directly or substantially affects any procedural or substantive rights or duties, it does so only for persons who are (or were) Department employees or contractors.

## II. Coverage

This Policy applies to any Department of State Treasurer employee or contractor with access to non-public information about proposed trading, trading strategies or holdings of the North Carolina Retirement System (“NCRS”) and the other investment funds held by the Treasurer (together with the NCRS, the “NC Funds”). This includes individuals involved in recommending or making investment decisions or who have access to systems containing investment information. It also includes those working with or in close proximity to persons involved in decision-making who regularly have the opportunity to see written information or hear discussions relating to investments.

Therefore, this Policy extends to all Investment Management Division personnel; the State Treasurer; certain Information Technology Division and Financial Operations Division personnel; and certain Office of State Treasurer personnel, including at least the Chief of Staff, General Counsel, Director of Communications, Executive Assistant to any positions listed above, Legislative Liaison, and any staff attorney with responsibility for or access to Investment Management Division operations. The State Treasurer, Chief of Staff, or General Counsel may deem other employees or contractors of DST to fall under this coverage consistent with the State Government Ethics Act.

Sections IV, V, and VI below apply after termination of employment to nonpublic information obtained while a covered person was a Department of State Treasurer employee or contractor.

## III. Definitions

The following terms when used in this Policy shall have the meanings set forth below:

- “Exempt Trades”:** The following are Exempt Trades: (1) trades of units of open ended mutual funds, segregated funds, or pooled trust funds; (2) purchases made under automatic dividend reinvestment or share purchase plans, but not sales from these made at the direction of those covered under this Policy; (3) trades that result from corporation actions without any voluntary action by the person holding the security; and (4) trades of index products (ETF securities, options, futures, or other derivatives that track published indices).

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2. **“Immediate Family”:** Immediate Family means the spouse, minor children, and dependents of a person.
3. **“Personal Securities Transaction”:** Personal Securities Transaction means a discretionary transaction involving the purchase or sale of a security in which a person, or any member of such person’s Immediate Family, had or gained directly or indirectly a pecuniary interest and in which the person or any member of such person’s Immediate Family had influence or control, directly or indirectly, over the timing of the trade of the security or derivative on a security. Exempt Trades and investment elections made by participants in the Supplemental Retirement Income Plan of North Carolina and by participants in the North Carolina Public Employee Deferred Compensation Plan shall not be considered Personal Securities Transactions.

## IV. Prohibition on Insider Trading; Confidentiality of Insider Information

DST is committed to strict adherence to federal and state laws prohibiting “Insider Trading.” “Insider Trading” occurs when a trade has been influenced by the privileged possession of material nonpublic information. Information is deemed material if it would be considered important by a reasonable investor in deciding whether to buy, sell or refrain from any activity regarding that security. In addition, such information would be material if it were likely to have a significant impact on the market price or value of that company’s securities. Whether information is “material” is established by reviewing all of the facts and circumstances. Determining materiality requires sound judgment and is subject to reconsideration on a regular basis.

Common, but not limited, examples include: (1) financial projections and results; (2) mergers, acquisitions, joint ventures, or tender offers; (3) stock splits and stock dividends; (4) public or private securities or debt offerings; (5) major litigation; (6) significant new product announcements, including regulatory approval or rejection of a product; (7) significant changes in management or operations; (8) purchase or sale of substantial assets; and (9) government investigations, criminal actions, or indictments. Material nonpublic information may not be used by those covered under this Policy for their personal gain or to benefit friends, relatives or others.

If a person covered by this Policy is unsure whether any particular information constitutes material, nonpublic information, then he or she shall consult Compliance Counsel (as defined below) before initiating any transaction on behalf of the NC Funds or Personal Securities Transaction with respect to the subject security.

It is the duty of the Treasurer and those covered under this Policy to maintain the confidentiality of information and to not misuse confidential information, including material nonpublic information, belonging to or relating to the NC Funds.

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Those covered under this Policy who are aware of material, nonpublic information regarding a company are prohibited from, directly or indirectly, making investment decisions on behalf of the NC Funds or in Personal Securities Transactions, related to that company.

## **V. Prohibition on Tipping**

The Treasurer and those covered under this Policy may not directly or indirectly pass along (“tip”) material, nonpublic information about any company to anyone who could trade while aware of such information. The prohibition against insider trading applies to anyone in possession of material, nonpublic information, including family members or other tippers or tippees, and is not limited to DST.

## **VI. Prohibition on Front Running**

“Front Running” occurs when a person enters into a trade of securities with advance knowledge of pending orders from other investors. It could occur, for example, when any person covered by this policy trades with the knowledge that a trade is pending on behalf of the NC Funds.

Like Insider Trading, Front Running may subject the Treasurer and those covered under this Policy to criminal and/or civil proceedings. Further, Front Running may constitute a misappropriation of NC Funds proprietary information for private or personal gain. It is therefore the policy of DST that Front Running is prohibited. The Treasurer and those covered under this Policy may not place an order for a Personal Securities Transaction when they know or reasonably should know that a NC Funds securities transaction is pending in a security of the company that is the subject of the Personal Securities Transaction, and must wait until 3 days after such NC Funds securities transaction is executed before placing an order for a Personal Securities Transaction involving the securities of the same company. Likewise, the Treasurer and those covered under this Policy may not knowingly delay, hinder, modify, or cancel any internal NC Funds buy or sell recommendation, decision, or trading order intending to facilitate a Personal Securities Transaction that, but for the action of the Treasurer and those covered under this Policy would otherwise constitute Front Running or violations of state or federal laws.

## **VII. Compliance, Implementation, and Enforcement**

The General Counsel and his or her designees (each, a “Compliance Counsel,” and together, the “Compliance Committee”) will be responsible for developing and maintaining formal procedures, including any requisite forms, needed for compliance with this Policy.

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## A. New Hire Training.

Compliance Counsel and/or Compliance Committee will provide training on this Policy for all new hires to which the Policy applies. Training should be completed within 30 days of hire. The employee shall sign a declaration that certifies that they have read and understand the Policy and have agreed to act in accordance with the requirement on the form attached hereto as Attachment A (the “Certification Form”). The Certification Form shall include an acknowledgment that failure to act in conformance with this Policy will result in serious consequences, including potential termination of employment. The DST Compliance Consultant will collect signed Certification Forms for tracking and provide to HR staff to file with personnel files.

## B. Annual Certification Form.

A copy of this Policy shall be provided to each person covered under this Policy. In order to assure compliance with this Policy, the Treasurer and those covered under this Policy are required to familiarize themselves with the Policy and **annually** complete the Certification Form that certifies that they have read and understand the Policy and have agreed to act in accordance. The DST Compliance Consultant will collect signed annual Certification Forms for tracking and provide to HR staff to file with personnel files.

## C. Annual Transaction Report.

Each person covered by this Policy shall provide to the Compliance Committee a transaction report on the form attached hereto as Attachment B (the “Transaction Report”). The Transaction Report and Certification Form shall be submitted no later than June 1 of each year, unless the Compliance Committee specifies an alternate date.

The Transaction Report shall list the Personal Securities Transactions engaged in by such person (including his or her Immediate Family) and any statements or other supporting documentation requested by the Compliance Committee **annually** for transactions engaged in during the prior year (or other tax reporting period), provided that a person shall not be required to submit a Transaction Report for any year in which the aggregate dollar amount (purchase(s) and sale(s)) of Personal Securities Transactions otherwise reportable by such person is less than \$5000.

At the request of the Compliance Committee, each person covered under this Policy must submit a supplemental Transaction Report for transactions engaged in during the period or periods specified in such request. At the option of the covered person, information may be provided in the format of IRS Form 8949 rather than the format of Attachment B. The DST Compliance Consultant will collect completed Annual Transaction Reports for tracking and provide to the Compliance Committee for review. After review is completed, all forms will be given to HR staff to file with personnel files.

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## D. Application of Public Records Act to this Policy.

Pursuant to N.C.G.S. § 126-22(b)(3), for Department of State Treasurer employees, Transaction Reports and supporting documentation provided pursuant to this Policy shall be considered “personal financial data” found in an employee personnel file, not subject to inspection and examination under the North Carolina Public Records Act, N.C.G.S. § 132-1 *et seq.*

For Department of State Treasurer contractors who are not employees, Transaction Reports and supporting documentation may be public record unless they are that contractor’s “tax information” as defined by N.C.G.S. § 105-259(a)(2). *See* N.C.G.S. § 132-1.1(b).

## E. Additional Information.

This Policy should be read in conjunction with any applicable federal and state laws, and other DST policies regarding ethics. If this Policy imposes greater obligations, then the requirements of this Policy are deemed to be in addition to and not in conflict with the other obligations. Any questions regarding the application of multiple requirements should be addressed to Compliance Counsel or the Compliance Committee.

## Revision/Review History

Version	Date Approved	Description of Changes
1.0	March 31, 2010	Initial version
2.0	September 1, 2013	Changed date on which annual reports are required to coordinate with tax filing; clarified covered persons to more clearly include contractors; other minor clarifications
2.0	December 1, 2016	Reviewed During November IAC Meeting – No Changes
2.1	April 24, 2017	Updated designated point of contact for policy.
2.2	February 9, 2018	Minor revisions to reflect launch of new internal equity trading platform, included training requirement of policy for all new hires, added obligation of Compliance Consultant to collect and track signed forms, and forms to be filed with personnel files
2.3	June 21, 2019	Tech changes to update chapter assignment from “Operations” to “Legal/Compliance” and assigned new policy number

*For questions or clarification on any of the information contained in this policy, please contact the policy owner or designated contact point: [Investment Management Division Assistant General Counsel](#), [Meryl Murtagh](#). For general questions about department-wide policies and procedures, contact the [DST Policy Coordinator](#).*

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## **ATTACHMENT A**

### **CERTIFICATION FORM INSIDER AND PERSONAL TRADING POLICY**

The Treasurer and all employees or contractors covered under this Policy must certify their understanding of, and intent to comply with the Insider and Personal Trading Policy. Please sign and date the certification within seven (7) days of initial receipt and **annually** thereafter.

I hereby certify that:

1. I have read and understand the Insider and Personal Trading Policy and agree to strictly adhere to the Policy.
2. I further certify that I understand that failure to act in conformance with the Insider and Personal Trading Policy will result in serious consequences, including potential termination from my employment or contract with the North Carolina Department of State Treasurer.

Printed Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

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## ATTACHMENT B

### TRANSACTION REPORT FORM INSIDER AND PERSONAL TRADING POLICY

In accordance with the North Carolina Department of State Treasurer Insider and Personal Trading Policy (the “Policy”), you must provide a report of all Personal Securities Transactions engaged in by you or any member of your Immediate Family during the prior calendar year if the aggregate dollar amount (purchases and sales) of such transactions was \$5000 or more. This report must be submitted on this form to the Compliance Committee annually, no later than June 1 of each year with respect to the prior calendar year. In addition, upon request of the Compliance Committee, you must also provide on this form a report of all Personal Securities Transactions engaged in by you or any member of your Immediate Family during the period specified by the Compliance Committee. Capitalized terms used but not defined in this form have the meanings given to them in the Policy.

1. Name: \_\_\_\_\_
2. Job Title: \_\_\_\_\_
3. Calendar year or other reporting period: \_\_\_\_\_

**Check ONE of the two boxes below and Sign:**

- During the calendar year or other reporting period listed above, the aggregate dollar amount (including both purchases and sales) for all Personal Securities Transactions engaged in by me and all members of my Immediate Family was \$5,000 or less.

*(Note that the Compliance Committee, at its option, may request a report of transactions even if those transactions' aggregate dollar amount was less than \$5,000. If the Compliance Committee has so requested, you must fill out the remainder of this form.)*

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

- On the next page is a list of all Personal Securities Transactions engaged in by me or any member of my Immediate Family during the calendar year or other reporting period listed above where the aggregate dollar amount was \$5,001 or more.

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\*Attach additional sheets as necessary.

*(Note: instead of filling out the form above, you have the option to attach IRS Form 8949. If you choose to submit the IRS form instead of the form above, please redact your social security number.)*

I certify that this report constitutes all of the Personal Securities Transactions engaged in by me or any member of my Immediate Family during the prior calendar year or other reporting period specified above.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_