



Common Investment Meeting (BERS)

Schedule Wednesday, February 6, 2019 9:00 AM — 3:00 PM EST
Venue Office of the New York City Comptroller, 1 Centre Street, 10th Floor (Room 1005) - Northside, New York, NY 10007
Organizer Kim Boston

Agenda

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PUBLIC AGENDA

Market Review

Asset Allocation Discussion:

NEW YORK CITY BOARD OF EDUCATION RETIREMENT SYSTEM

WHEREAS, the New York City Comptroller’s Office, through the Bureau of Asset Management serves as Investment Advisor to the New York City Board of Education Retirement System (BERS); and

WHEREAS, the Board recognizes a sound asset allocation policy as a cornerstone of its fiduciary duty and a significant driver of risk adjusted returns; and

WHEREAS, the Board, the Bureau of Asset Management and the Board’s independent general consultant, Segal Marco Advisors, undertook an extensive review of the Board’s Asset Allocation in 2016; and

WHEREAS, it is prudent to review asset allocation policy on a regular basis; and

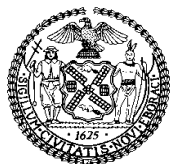
RESOLVED, that:

The Board directs the Bureau of Asset Management and Segal Marco Advisors to commence an asset allocation study and provide their findings and recommendations to the Board for its consideration and action.

The foregoing is a true copy of a resolution adopted by the Board of Trustees on February 6, 2019.

(Signed) _____
Executive Director

Annual Compliance Update:



OFFICE OF NEW YORK CITY COMPTROLLER SCOTT M. STRINGER

Alex Doñé, Deputy Comptroller - Asset Management / Chief Investment Officer

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TO: Trustees of the Teachers' Retirement System of the City of New York ("TRS")
 Trustees of the New York City Employees' Retirement System ("NYCERS")
 Trustees of the New York City Police Pension Fund ("Police")
 Trustees of the New York City Fire Pension Fund ("Fire")
 Trustees of the Board of Education Retirement System of the City of New York ("BERS")

FROM: Shachi Bhatt, Sanya Cowan, Susan Rhee, Maura Zaldonis

DATE: February 6, 2019

RE: Compliance Updates - 2019

With the ever-evolving financial services landscape, BAM Compliance continues to enhance the policies and programs within the Bureau of Asset Management, thereby striving to ensure the utmost integrity amongst all parties involved in advising the pension funds of TRS, NYCERS, Police, Fire, and BERS (collectively the "Systems").

During the May 2018 Trustee update, BAM Compliance outlined our initiatives for the year. They included:

- a. Training:
 - o June/July 2018 - Conflicts of Interest Training will be administered focusing on the investment management-specific conflicts faced by the BAM employees in the course of their day-to-day responsibilities.
 - o November/December 2018 - Fiduciary Training will be administered focusing on the fiduciary duties of the Comptroller's Office staff, specifically the BAM employees. Enhancements were made to the operational due diligence process and forms for both private and public markets managers;
- b. Enhanced involvement in operational due diligence for private market managers; a preliminary due diligence checklist is used during this process.
- c. Continued development of department policies and procedures.

In addition to the above initiatives, Compliance also made updates and enhancements to the following:

- d. Reporting Processes
- e. Annual Certification and Compliance Statement/Compliance and Ethics Questionnaires

I. RECAP OF 2018 INITIATIVES

a. Training for BAM Staff

Training topics in 2018 included:



- *3Q 2018 – Conflicts of Interest Training* – presented in conjunction with the NYC Conflicts of Interest Board, this training focused on the investment management-specific conflicts faced by BAM employees in the course of their day-to-day responsibilities.
- *4Q 2018 – Fiduciary Training* – BAM Compliance hosted interactive training sessions to remind all Agency staff who service the Systems' accounts about the rules and responsibilities of the employees as fiduciaries to the Systems.
- *Enhanced New Employee Training* – A training program is delivered to all new hires on their first day, covering the responsibilities of the Comptroller's Office and the Bureau of Asset Management, the ban on placement agents, and a detailed overview of the Office's personal trading policy. New employees also attend an additional training administered by the Office of General Counsel on conflicts of interest and the Freedom of Information Law. In 2018 all new employees, 18 in total, were trained by BAM's CCO and the Deputy General Counsel / Chief Ethics Officer. Additionally, the department provided similar Compliance training for all 10 of BAM's summer interns.
- *Compliance Newsletter* – As a supplement to in-person training, Compliance began distributing a periodic educational newsletter to all BAM employees in the summer of 2018. Topics covered by the newsletter include placement agent red flags, updates in the regulatory environment, and SEC guidance for investment managers. The newsletter also features a Q&A section for employees to submit questions to the Compliance department. With this interactive learning opportunity, we have continued to support a culture of Compliance at BAM.

b. Due Diligence Process

Updates have been made throughout 2018 to enhance the due diligence process of investment managers. Prior to an investment recommendation to the Systems, all investment firms must complete a set of due diligence forms for BAM's review. BAM Investment Strategy, Compliance, Risk and Investment Operations Support teams review them to ensure no potential conflicts or concerns exist. To bolster this process, the following was updated:

- **ILPA Due Diligence Questionnaire**
BAM's private markets Managers utilize the Institutional Limited Partners Association ("ILPA") Due Diligence Questionnaire ("DDQ") when conducting due diligence on potential new managers. This comprehensive form captures all investment and organizational questions the groups might ask during the process.
 - Diversity & Inclusion Due Diligence Enhancements to the ILPA DDQ



In 2018, ILPA expanded its DDQ to include an amended diversity template, which measures and reports the ethnic and gender diversity within a firm, as well as some questions addressing any incidents at the firm.

A member of BAM's own Private Equity group sat on ILPA's subcommittee, the diversity working group, which spearheaded the diversity template expansion initiative. With input from various internal groups, the BAM submitted BAM's Diversity Profile to ILPA. As a result of BAM Private Equity's involvement and influence on the subcommittee, ILPA adopted BAM's Diversity Profile as their template for measuring and reporting gender and ethnic diversity at firms. However, ILPA did not incorporate the compensation weighted data portion of the diversity profile so BAM continues to collect this information from managers. As a result, the overall diversity component of ILPA's DDQ's increased in granularity, such as on the titles of the individuals, hierarchy of the organizations, trends in diversity, hiring, retention, etc. at various levels.

In addition, ILPA's DDQ also now contains questions on whether there have been any claims of sexual or general harassment, and diversity initiatives at the firm. Internally, BAM Compliance assisted in rolling out the revamped DDQ which is now completed by all private equity, real estate, infrastructure and opportunistic fixed income managers being considered for due diligence.

- Hedge Fund Due Diligence Questionnaire:

Private Equity, Real Estate, Infrastructure, and Opportunistic Fixed Income use the ILPA DDQ when conducting manager diligence. However, due to the wide variety in strategy within the hedge fund space, there was no similar standardized, robust due diligence questionnaire for BAM Hedge Funds. In response to this gap, in 2018, BAM Compliance and BAM Hedge Funds worked together to create and implement a custom hedge fund due diligence questionnaire containing topics that address the needs of the Police and Fire hedge fund portfolios.

- Regulatory Findings and Legal Matters:

Generally, BAM learns about any actual or potential regulatory findings by a Manager from sources such as the Manager itself, the media/news, and other publicly-available information. Upon discovery, Compliance, BAM Investment Strategy and Office of the General Counsel work together to analyze the situation and the extent of which the situation poses any potential or perceived risk to the Systems and its relationship with the Manager. In order to properly assess the situation and report it to the Systems, BAM may conduct an on-site visit to the Manager, followed by a BAM-o-gram. Topics of BAM-o-grams in 2018 included enforcement cases and pay-to-play rule violations. These memos also reflect the ways in which BAM



Compliance followed up with the Managers inquiring how the Managers improved their compliance process in light of the incidents (e.g. any updates made to the compliance manual, additional staff training, implementation of surveillance processes, etc.). As a result, BAM holds these Managers at a higher standard as they relate to compliance with the rules and regulations.

- **Manager's Compliance with the SEC's Pay-to-Play Rule:**

Before any investment recommendations are presented to the Systems, Compliance ensures the Manager's compliance with SEC's pay-to-play rule for the proposed fund. This rule addresses how direct and indirect payments by investment advisers to state and local government officials are perceived as their attempt to improperly influence the government's award of business. Compliance with the rule is designed to protect the independence and integrity of the investment decision making process. To abide by this standard, Compliance carefully checks the New York City Campaign Finance Database for the names of the employees identified by the Manager as being covered by the SEC's rule.

c. Development of Policies and Programs

Compliance has been developing internal policies and procedures on various topics that reflect the aforementioned enhancements, such as on the due diligence process, annual Compliance and Ethics questionnaires, and quarterly Compliance questionnaire. Compliance has also been producing internal desktop procedures that show step-by-step processes on how Compliance conducts its certain day-to-day responsibilities. By capturing institutional knowledge through policies and procedures, we are working to eliminate gaps in our program's workflows.

d. Reporting Processes

- **Quarterly Compliance Trustee Reporting**

In response to Trustee interest in compliance's portfolio monitoring, Compliance implemented a new reporting process in 2Q 2018 for the Boards, providing more transparency on trade errors and breaches of the Trustees' Divestment Resolutions. These breaches are included in the CIM materials on a quarterly basis, and outline the details of the breach, the actions taken by the Investment and Compliance teams, and any financial impact on the portfolios. BAM Compliance has taken an active role in quickly remediating these errors, conducting calls and site visits with senior personnel at the firms, documenting any compliance issues, and working with Investment Strategy and Operations to ensure both the portfolio is made whole as quickly as possible in the event of a loss, and no errors occur in the future.



- Investment Guidelines: Rule Matrix Project/Daily Monitoring:

BAM Compliance took the initiative to improve the oversight of public markets managers' investment guidelines in 2016. A project plan was implemented with an objective to move the monitoring of all manager specific investment guidelines and Systems' restrictions from a monthly to daily frequency. The switch to daily monitoring has allowed for more effective transparency into the Systems' portfolios. Now public markets accounts are reviewed with more current information as the daily testing is based on prior day's holdings. The daily monitoring has reduced the time in identifying securities or portfolio conditions that are in breach of the guidelines and/or Systems' restrictions. As a result of this project, 2,735 Test Rules were put into daily production during the calendar year 2018.

e. Annual Certification and Compliance Statement/Compliance and Ethics Questionnaires

Annually, Compliance delivers an Ethics and Compliance Questionnaire and Certification to all of its Public and Private Markets Managers. In 2018, the questionnaire for the Public Markets Managers consisted of approximately 56 questions and the submissions were mandatory pursuant to the Compliance and Ethics Policy. The questionnaire for the Private Markets Managers consisted of approximately 47 questions and the submissions were voluntary. Question topics added in 2018 include how the Managers handle the investment research services costs and any conflicts of interest that may arise from them. They were added in efforts to ensure the Managers' adherence to an updated set of European regulations.

Both questionnaires requested for the following supporting documents: the firm's most recent Form ADVs (Parts 1 and 2), organizational chart(s), a list of all training conducted by the manager, a copy of the firm's third-party review report, and the Table of Contents of the firm's Compliance manual. BAM believes that the information within these questionnaires creates transparency into managers' compliance program, which helps BAM Compliance to identify and address areas for enhancement.

III. 2019 Initiatives

BAM Compliance will continue to keep abreast of the latest financial services trends. Some of the initiatives outlined for 2019 include:

- Training: ongoing, intermittent Compliance and process-related training that supplements larger in-person classes in forms of live classroom settings and newsletter
 - Since January 1, 2019, BAM received training on New York City Lobbying Laws as well as a reminder of conflicts of interest as they relate to attending industry related conferences



and seminars.

- A review of current compliance processes to identify areas where we can apply technology or automation for higher efficiency.
- Continued development of department policies and procedures, as well as internal review of these documents as they relate to current practices.
- Enhancement in Reporting: Building on the 2018 implementation of the quarterly Board Reporting, Compliance plans to review the department's current reporting requirements to identify opportunities to utilize data to produce additional meaningful metrics.