

**COMMONWEALTH OF PENNSYLVANIA  
STATE EMPLOYEES' RETIREMENT SYSTEM**

SERS # 13-023

**MANAGEMENT AGREEMENT FOR CORE FIXED INCOME  
PORTFOLIO MANAGEMENT**

This Agreement made as of June 1, 20 13 by and between the **COMMONWEALTH OF PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM** (herein "SERS") and **UBS GLOBAL ASSET MANAGEMENT (AMERICAS) INC.**, a Delaware corporation, with a place of business at One North Wacker Drive, Chicago, Illinois 60606 (herein "MANAGER"),

**WITNESSETH:**

**WHEREAS**, pursuant to Title 71, Sections 5101, *et seq.* of the Pennsylvania Consolidated Statutes (the "Retirement Code") and specifically Section 5931(a) thereof, SERS' Board has exclusive control and management of the Pennsylvania State Employees' Retirement Fund (herein the "Fund"), with full power to invest the same, subject to terms and conditions imposed by law; and

**WHEREAS**, pursuant to Section 5902(b) of the Retirement Code, SERS' Board has authority to contract for such professional services as it deems advisable in order to fulfill its duties; and

**WHEREAS**, MANAGER has solicited an engagement to invest certain of the Fund's assets and thereby establish and manage a Core Fixed Income portfolio for and on behalf of SERS; and

**WHEREAS**, MANAGER possesses and will employ, in a fiduciary capacity, professional knowledge, experience, and expertise in fixed income portfolio management, and investment matters generally, to preserve and enhance the financial integrity of the Fund;

**NOW, THEREFORE**, in consideration of the foregoing recitals which are incorporated herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be bound hereby, the parties hereto agree as follows:

1. Engagement. SERS hereby engages MANAGER and MANAGER hereby accepts SERS' engagement to serve as an investment advisor and manager for and on behalf of SERS with respect to Fund assets allocated to it, and to invest and reinvest such assets for and on behalf of SERS consistent with the terms of this Agreement and such other policies and directives as may be communicated in writing to MANAGER from time to time.

2. SERS Policies and Guidelines. MANAGER shall abide by SERS' Statement of Investment Policy and Investment Strategy Statement, attached hereto and incorporated herein as Exhibits A and B, respectively. SERS may retitle, amend or supplement its Statement of Investment Policy from time to time in its sole discretion, and written notice thereof shall be furnished to MANAGER. The Investment Strategy Statement may be amended from time to time upon the mutual written consent of SERS and MANAGER. Upon any such amendment, Exhibit A or Exhibit B, as applicable, shall be replaced by the amended document and a copy shall be sent to MANAGER pursuant to Section 19 of this Agreement.

3. MANAGER's Services. MANAGER shall purchase, sell and exchange authorized securities and generally act as investment advisor and manager for and on behalf of SERS, as limited by law, for Fund assets allocated to it, provided, however, that SERS in its sole discretion may suspend MANAGER's execution, trading and other activities for SERS' account at any time by written notice transmitted pursuant to Section 19 of this Agreement. In performing services hereunder:

(a) *Power and Authority.* MANAGER shall have full power and authority on behalf of SERS to: (i) make purchases and sales of securities or other property consistent with SERS' policies and guidelines in Exhibits A and B; (ii) exercise or abstain from exercising any option, warrant, privilege or right with respect to the assets; (iii) issue orders for, or make purchases or sales of, securities or other property directly with a broker, dealer or other person; and (iv) in connection with the assets, take any other action and exercise any power or authority reasonably necessary in carrying out the investment activities authorized by SERS.

(b) *Involvement with Brokers and Dealers.* In the performance of said services, MANAGER shall execute investment decisions through brokers and dealers of its choice with a view to insuring that such brokers and dealers complete the transactions in a manner most favorable to SERS. MANAGER may utilize the execution, clearing and settlement services of a broker or dealer who is an Affiliate,

provided that MANAGER has first obtained the approval of SERS. For purposes of this Agreement, an "Affiliate" shall be any Person controlling, controlled by or under common control with MANAGER. "Person" shall mean an individual, partnership (general, limited or limited liability), a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization or any other entity. MANAGER shall favor Pennsylvania-domiciled brokers and dealers in the performance of such activities whenever MANAGER can do so in a manner consistent with SERS' Statement of Investment Policy. MANAGER shall provide complete and timely disclosure of any introducing broker relationship by written notice to SERS. Notwithstanding the foregoing, (i) upon SERS' written request, MANAGER shall use its best efforts to execute a percentage of SERS' trades through directed brokers in a manner consistent with Exhibit A and (ii) SERS reserves the right to selectively limit trading with brokerage firms.

(c) *Registration of Securities.* MANAGER, when purchasing registered securities for SERS, shall cooperate with the Custodian in the appropriate registration of such securities. When used in this Agreement, the term "Custodian" refers to the State Treasurer, the State Treasurer's subcustodian, and agents of the State Treasurer's subcustodian. The identity and address of the State Treasurer's subcustodian shall be furnished to MANAGER by SERS.

(d) *Meeting Attendance.* MANAGER shall attend SERS' Board meetings as SERS shall request to apprise SERS of its investment activities. MANAGER shall also attend special meetings and attend or conduct investment seminars when requested by SERS.

(e) *Reports.* MANAGER shall furnish to SERS, or others, as SERS shall more specifically direct in writing hereafter, periodic reports on the status, composition, and performance of the assets managed by MANAGER. MANAGER shall also cause to be forwarded to the State Treasurer's subcustodian, and upon request to the State Treasurer, copies of all trade confirmations promptly after execution of transactions for SERS' account.

(f) *Information to be Furnished.* MANAGER shall furnish to SERS upon request information concerning assets and asset classes in which MANAGER will invest for and on behalf of SERS, including, *inter alia*, identification of purchase or sale opportunities and an overview of specific market conditions.

(g) *Compliance with Laws.* MANAGER's conduct and actions for and on behalf of SERS shall be in compliance at all times with federal and state securities laws and regulations and all other applicable laws and regulations, including but not limited to those relating to the licensing of its personnel. MANAGER shall comply, upon the effective date, with the United States Securities and Exchange Commission ("SEC") Rule 206(4)-5 (the "Rule"), including, but not limited to recordkeeping of Contributions as required by the Rule. Manager shall annually provide SERS' Chief Counsel with a report of all Contributions made by an Applicable Party to an Official of a Pennsylvania Government entity (as such capitalized terms are defined in the Rule).

(h) *Employee Trading.* Except to the extent prohibited by the Employee Retirement Income Security Act of 1974 ("ERISA"), MANAGER, its Affiliates and their respective partners, directors, officers, and employees shall be permitted to buy, sell or trade in any securities for its or their own account or accounts, pursuant to MANAGER's policy on employee trading included in its Code of Ethics dated January 7, 2013 (a copy of which is attached hereto as Exhibit E and made a part hereof); provided, however, that none of MANAGER's partners, directors, officers, or employees, subject to any applicable exemptions set forth in the aforementioned policy on employee trading, shall be permitted to buy, sell or trade in any securities held for SERS' account within less than five (5) business days before or less than one (1) business day after the date such securities were bought, sold or traded by MANAGER for SERS' account. Any amendments to the aforesaid policy shall be promptly provided to SERS. MANAGER shall have no obligation to acquire on behalf of SERS a position in any investment which MANAGER, its Affiliates, or their respective partners, officers, or employees may acquire for its or their own account, if in the sole discretion of MANAGER, it is not feasible or in the best interests of SERS to acquire a position in such investment.

(i) *Class Actions.* MANAGER shall notify SERS within five (5) business days of its receipt of a Notice of Pending Class Action or Notice of Class Action Settlement in which SERS is or may be eligible to participate. With regard to Notices of Class Action Settlement, MANAGER shall also provide the appropriate class action Claims Administrator with contact information for the Custodian, or such other party as SERS may designate from time to time, to enable such Claims Administrator to send any applicable materials directly to the Custodian.

(j) *ERISA Limitations.* References in the preceding subsections to restrictions or limitations on MANAGER's conduct imposed by ERISA shall be applied to MANAGER's conduct under this Agreement without regard to the general applicability of ERISA to the Fund.

(k) *Other Contracts.* To the extent it is necessary for contracts to be signed by SERS (whether signed directly by SERS or by MANAGER on behalf of SERS) pursuant to this Agreement, MANAGER acknowledges that such contracts must be approved in advance by all Commonwealth entities whose approvals are required in accordance with the Commonwealth of Pennsylvania's contract approval process.

4. Standard of Performance. MANAGER shall perform investment advisor and management services under this Agreement subject to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion, intelligence and investment expertise who are familiar with such matters exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income to be derived therefrom as well as the probable safety of their capital.

5. Compensation.

6. Due Diligence Visits. MANAGER shall reimburse SERS for its reasonable and actual travel expenses, if any, not to exceed \$5,000 per year, in connection with visits by SERS personnel to conduct due diligence reviews of the services performed or to be performed by MANAGER under this Agreement. Any amount reimbursed for such due diligence visits shall not affect or increase or decrease the compensation to be paid by SERS to MANAGER as computed in Exhibit C of this Agreement. Reimbursable expenses shall include travel-related expenses incurred in accordance with the Commonwealth Management Directive 230.10, as revised, or SERS Travel Policy, as adopted.

7. MANAGER's Insurance. MANAGER represents and warrants that the insurance coverage submitted to SERS prior to execution of this Agreement is in full force and effect and is unmodified and that such representation and warranty will survive execution of this Agreement. MANAGER shall maintain such insurance coverage, at a minimum, in effect throughout the term of this Agreement. MANAGER shall submit evidence of continued coverage as mutually agreed upon by SERS and MANAGER.

MANAGER shall be expected to comply with such procedures and requirements relating to insurance and bond coverage for the protection of SERS and the Fund as SERS may convey to MANAGER in writing. SERS may require changes to insurance coverage and bonding as it deems appropriate for the protection of SERS and the Fund by giving written notice of such changes to MANAGER at least thirty (30) days in advance of the effective date of such changes.

8. Representations of MANAGER

(a) *General Representations.* MANAGER represents, warrants, confirms and agrees that:

(i) it is a "fiduciary" with respect to SERS and the Fund as that term is defined in Section 3(21)(A) of ERISA, and is not subject to any of the disqualifications described in Section 411 of ERISA, irrespective of the scope of ERISA application to the Fund;

(ii) (A) it is duly registered and in good standing as an investment adviser under the Investment Advisers Act of 1940, as amended, and shall maintain such registration in good standing at all times during the term hereof; (B) it shall timely furnish to SERS a complete and legible copy of Parts I and II of its current Form ADV filed with the United States Securities and Exchange Commission

("SEC") pursuant to Section 203(c) of the Investment Advisers Act of 1940, as amended; (C) throughout the term hereof, it shall make any filings and pay any fees required by the Pennsylvania Securities Act of 1972, as amended (the "1972 Act"); and (D) any investment advisor representative employed by or associated with it who has a place of business in Pennsylvania and who at any time during the term hereof is providing services to SERS pursuant to this Agreement shall be duly registered and in good standing with the Pennsylvania Securities Commission in accordance with, and as may be required by, the 1972 Act; and

(iii) it has substantial experience and expertise making and managing the investments contemplated by this Agreement.

(b) *Evidence of Authority.* MANAGER shall furnish SERS as requested, but in any event no less than annually, with certified resolutions or other appropriate documentation evidencing the authority of its partners, officers, Affiliates and employees to act on behalf of MANAGER.

(c) *Reaffirmation.* MANAGER hereby reaffirms the reliability and accuracy of the written and oral representations made to SERS in the solicitation of this Agreement.

(d) *No Finder's, Solicitor's or Similar Fee.* Neither MANAGER nor any Affiliate, nor any of their respective partners, directors, officers, or employees have employed or retained any company or person, other than a bona fide employee working solely for MANAGER, to solicit or secure this Agreement, and none of the aforementioned parties have paid or agreed to pay, and shall not pay, any company or person, other than a bona fide employee working solely for MANAGER, any fee, commission, percentage, brokerage fee, gift, or any other compensation contingent upon or resulting from the award or making of this Agreement, except where: (i) MANAGER has disclosed, in writing to SERS, that it has engaged such a company or person other than a bona fide employee to secure this Agreement, and (ii) the cost of such engagement is not charged to SERS under the terms of compensation under this Agreement or any subsequent agreement. For breach or violation of this representation, SERS shall have the right to void this Agreement without liability, entitling SERS to recover all monies paid hereunder, and MANAGER shall not make claim for, or be entitled to recover, any sum or sums due under this Agreement or for any services which it may have provided under this Agreement. This remedy, if effected, shall not constitute the sole remedy afforded to SERS for such breach or violation, nor shall it constitute a waiver of SERS' rights to claim damages or to take any other action provided for by law or pursuant to this Agreement.

(e) *MANAGER's Website.* MANAGER agrees that any provisions pertaining or related to indemnification, governing law or jurisdiction, confidentiality or a payment of money (whether as a fine, liquidated damage, levy, access fee or other similar imposition) contained in any current or future website or similar electronic forum/data transfer maintained or made available by or on behalf of MANAGER shall not apply to or have any force or effect on SERS and that this Agreement shall instead control the rights, obligations and duties of the parties hereto.

(f) *Reliance.* MANAGER acknowledges that SERS has relied and will continue to rely upon MANAGER's representations, warranties, confirmations and agreements.

(g) *W-9.* MANAGER shall promptly provide SERS with a current W-9 tax form. MANAGER is responsible for updating this form with SERS as it becomes necessary to do so.

(h) *Notice of Change.* MANAGER shall promptly notify SERS in the event any of the foregoing acknowledgments, representations, warranties or agreements herein shall no longer be true.

9. MANAGER as Independent Contractor. MANAGER shall perform its services hereunder as an independent contractor and shall provide worker's compensation insurance where the same is required. MANAGER accepts full responsibility for the payment of, and shall pay when due, taxes of any nature or jurisdiction upon MANAGER's property and income, premiums for worker's compensation insurance, Social Security taxes, all income tax deductions and any other taxes or payroll deductions required by law for its employees, servants or agents who perform services specified by this Agreement.

10. Changes in MANAGER's Status. In the event of any actual or proposed material change in MANAGER's status or event affecting MANAGER, including, without limitation, (a) change in or departure of directors, officers, partners, employees or Affiliates who exercise investment discretion over SERS' account, (b) material modification of corporate or partnership structure, (c) change in actual control or management of MANAGER, (d) material change in SEC requirements or other government or private registration, accreditation or licensing requirements affecting MANAGER, (e) alleged material violations by MANAGER or any of its partners, directors, officers, or employees, of the Investment Advisers Act of 1940, as amended, the federal securities laws, comparable state law, or the law of any



applicable foreign jurisdiction, (f) material deterioration in MANAGER's financial condition, including but not limited to the filing of a petition in bankruptcy, (g) MANAGER's awareness that its representations and warranties herein cease to be true, and (h) litigation or regulatory proceedings, of which the MANAGER has knowledge, establishing negligence, fraud or breach of fiduciary duty by MANAGER or its partners, directors, officers, or employees, MANAGER shall notify SERS promptly in writing; provided, however, that in no event shall MANAGER be required under this Agreement to disclose any material nonpublic information.

11. Indemnification of SERS. MANAGER shall indemnify and forever hold harmless the Commonwealth of Pennsylvania, the Fund, SERS and its Board members, officers, agents and employees, from and against any and all losses, claims, demands, actions, or liabilities of any nature, including, but not limited to, attorneys' fees, expenses and court costs, based upon, arising out of or in connection with the negligent, reckless, willfully improper or illegal performance of services or failure to perform services under this Agreement, actions outside the scope of authority, or other breach of this Agreement, by MANAGER, an Affiliate, their respective partners, directors, officers, employees and agents or any brokers or futures commission merchants selected by MANAGER and performing services for or on behalf of SERS, regardless of any independent contractual arrangement SERS may have with such brokers or futures commission merchants. At SERS' option, and in its sole discretion, MANAGER shall defend at its expense actions brought against the Commonwealth of Pennsylvania, the Fund, SERS and its Board members, officers, agents and employees arising out of or in connection with any services performed or the failure to perform services, or other breach of this Agreement, by MANAGER, an Affiliate, their respective partners, directors, officers, employees and agents or any brokers or futures commission merchants selected by MANAGER and performing services for or on behalf of SERS, and the costs of such defense shall be borne by MANAGER and shall not constitute an expense of, and shall not be paid out of, Fund assets invested and managed by MANAGER.

12. Confidentiality. All reports and documents relating to SERS and the Fund which MANAGER may prepare and deliver hereunder shall be confidential and shall become the property of SERS and shall not be published, circulated, or used in any manner by MANAGER without SERS' prior written approval, except as required by law. All information relating to SERS, whether in written or spoken form, that SERS provides to MANAGER or that is learned by MANAGER in connection with providing services to SERS, shall be confidential and shall not be disclosed, published, circulated, or used in any manner by MANAGER without SERS' prior written approval, except as required by law.

MANAGER shall require the Affiliates, and its and the Affiliates' partners, directors, officers and employees to comply with the provisions of this Section 12 to the same extent as MANAGER. Any portfolio holding or transaction data that MANAGER provides to SERS in connection with this Agreement shall be treated as confidential by SERS and shall not be used for any purpose outside the terms of this Agreement, including, without limitation, effecting any trades or any short term trading strategy in any mutual fund for which MANAGER or its Affiliates serves as investment adviser.

13. Conflict of Interest. MANAGER covenants on behalf of itself, all Affiliates, and their respective partners, directors, officers and employees, that none of the aforementioned parties has an interest and shall not acquire any interest, direct or indirect, that would conflict in any material manner or degree with the performance of the services hereunder. MANAGER further covenants that in the performance of this Agreement, that neither it nor any of the aforementioned parties will knowingly employ any person having any such conflicting interest.

14. Soft Dollars Report.

15. Other Business. SERS acknowledges that MANAGER provides investment advisor services for other clients, and that such services do not, in and of themselves, constitute a conflict with

the performance of MANAGER's services hereunder. Provided the covenants of Section 13 above are not breached, and further provided that MANAGER and its partners, officers, employees and Affiliates comply with the "prohibited transaction" rules of ERISA, nothing in this Agreement shall prohibit MANAGER from rendering services similar to those provided herein for other clients. When investment opportunities occur which are consistent with the investment objectives of more than one client, MANAGER shall not favor any one client over another. Such investment opportunities shall be allocated in a manner deemed equitable to the particular clients involved based on such factors as their respective investment objectives and then current investment and cash positions. In the event two or more clients seek identical investments at the same time, MANAGER shall apply standardized allocation policies consistent with MANAGER's status as a fiduciary with respect to SERS and the Fund. A copy of such policies shall be furnished to SERS within a reasonable time after execution of this Agreement.

16. Assignment or Other Transfer. The rights and obligations of MANAGER under this Agreement, including any interest herein or any claim arising hereunder, may not be assigned by it, in whole or in part, whether to any Affiliate of MANAGER or to any other party or parties, and whether voluntarily or by operation of law, and whether by sale, merger, division, consolidation, encumbrance or sale of stock, or otherwise, without the prior written consent of SERS, which consent SERS may grant or withhold in its sole and absolute discretion. Any assignment or attempted assignment in contravention of this Section 16 shall be null and void *ab initio*.

17. Commonwealth Contract Provisions. In performing services hereunder, MANAGER shall comply with the Commonwealth contract provisions attached hereto and incorporated herein as Exhibit D. For purposes of Exhibit D, MANAGER shall be the "Contractor."

18. Maintenance, Preservation and Review of Records. MANAGER shall maintain such records, books and accounts pertaining to services and payments hereunder in accordance with generally accepted accounting principles consistently applied. All such records, books and accounts shall be maintained and preserved for the longer of: (a) the term of this Agreement, or (b) four (4) years after their creation. During such period, SERS or any other department or representative of the Commonwealth of Pennsylvania, from time to time upon reasonable notice, shall have the right to inspect, duplicate and audit such records, books and accounts for all purposes authorized and permitted by law. MANAGER may preserve such records, books and accounts in original form or on microfilm, magnetic tape, CD-ROM or any other generally recognized and accepted process.

MANAGER shall maintain an adequate system of controls to ensure that any transactions entered into on SERS' behalf comply with all applicable laws and regulations, that the financial information reported to SERS is accurate and complete and that MANAGER is in compliance with the terms of this Agreement at all times. At the request and in the sole discretion of SERS, MANAGER shall produce an annual report on its policies and procedures describing MANAGER's control structure for fiduciary and investment activities and provide MANAGER's written assertion of effectiveness of its control structure over said matters, signed by MANAGER's Chief Compliance Officer or legal counsel.

19. Notices. Any notice, demand, direction, instruction and other communications required or permitted hereunder shall be confirmed in writing and shall be sufficiently given for all purposes when sent (a) by certified or registered U. S. mail, postage prepaid, (b) by a nationally recognized courier service that maintains written verification of actual delivery, (c) by facsimile or email with a copy of the communication sent by first class U.S. mail, postage prepaid (provided that if the date of dispatch is not a business day, the facsimile or email shall be deemed to have been received at the opening of business of the addressee on the next business day) or, (d) by delivering the same in person to any party at the following addresses or such other addresses as may be designated from time to time by the parties:

If to SERS: COMMONWEALTH OF PENNSYLVANIA  
STATE EMPLOYEES' RETIREMENT SYSTEM  
30 North Third Street, Suite 150  
Harrisburg, Pennsylvania 17101-1716  
Attn: Executive Director  
Facsimile: (717) 783-7300

With copies to: COMMONWEALTH OF PENNSYLVANIA  
STATE EMPLOYEES' RETIREMENT SYSTEM  
30 North Third Street, Suite 150  
Harrisburg, Pennsylvania 17101-1716  
Attn: Chief Investment Officer  
Facsimile: (717) 772-3741

and

COMMONWEALTH OF PENNSYLVANIA  
STATE EMPLOYEES' RETIREMENT SYSTEM  
30 North Third Street, Suite 150  
Harrisburg, Pennsylvania 17101-1716  
Attn: Chief Counsel  
Facsimile: (717) 787-5751

If to MANAGER: UBS Global Asset Management (Americas) Inc.  
One North Wacker Drive  
Chicago, Illinois 60606  
Attn: Legal Department  
Facsimile: (312) 525-7490

20. Expiration and Termination.

(a) *Expiration.* This Agreement's initial term shall be five (5) years from the date first written above and this Agreement shall continue automatically for subsequent five (5) year terms for each extension at SERS' option unless terminated earlier as provided herein.

(b) *Termination.* MANAGER may terminate this Agreement by furnishing written notice to SERS not less than one hundred twenty (120) days prior to the effective date of termination, and SERS reserves the right to terminate this Agreement at any time, for any reason, by furnishing written notice to MANAGER, whereupon, and in either of such events MANAGER's fees for services under this Agreement shall be prorated and paid, provided that notwithstanding any other provision of this Agreement, SERS may withhold such payment of fees until MANAGER has fully complied, in SERS' sole discretion, with subsection (d) below.

(c) *Liability.* The termination or expiration of this Agreement shall not relieve MANAGER of any liability that may be incurred in connection with its performance or failure to perform its obligations under this Agreement which liability shall survive termination or expiration.

(d) *Final Report.* MANAGER shall furnish to SERS, within thirty (30) days of the effective date of termination or expiration of this Agreement or the voidance of this Agreement pursuant to Section 8(d), a final report on its investment activities and the status of the Fund's assets allocated to MANAGER in such form and format as requested by SERS' staff. Any and all of the Fund's assets in MANAGER's possession at the effective date of termination, expiration or voidance shall be returned to

SERS, or transferred as directed by SERS, immediately upon termination, expiration or voidance or as soon thereafter as is practicable considering MANAGER's obligations to preserve and enhance the financial integrity of the Fund.

21. Applicable Law. This Agreement shall be governed by and interpreted and enforced in accordance with the laws of the Commonwealth of Pennsylvania (without regard to any conflict of laws provisions) including Pennsylvania's Right-to-Know Law, 65 P.S. §§ 67.101-3104. MANAGER hereby (a) consents to exclusive jurisdiction in any court of the Commonwealth of Pennsylvania, any federal courts in Pennsylvania, and the Board of Claims ("Board of Claims") of the Commonwealth of Pennsylvania, hereby waiving any claim or defense that such forum is not convenient or proper and (b) agrees that any claim asserted against SERS shall only be brought before and subject to the exclusive jurisdiction of the Board of Claims pursuant to Section 1721 *et seq.* of Title 62 of Pa. Statutes. MANAGER agrees that the Board of Claims and any such court shall have *in personam* jurisdiction over it, and consents to service of process in any manner authorized by Pennsylvania law.

22. Reservation of Immunities. SERS hereby reserves all immunities, defenses, rights or actions arising out of its status as an instrumentality of a sovereign state or entity, or under the Eleventh Amendment to the United States Constitution, and no waiver of any such immunities, defenses, rights or actions shall be implied or otherwise deemed to exist by its entry into this Agreement, by any express or implied provision of this Agreement or by any actions or omissions to act of SERS or any representative or agent of SERS, whether taken pursuant hereto, prior to or after the entry by SERS into this Agreement.

23. Binding Effect. This Agreement shall inure to the benefit of and bind the parties hereto and their respective successors and assigns.

24. Amendment. No amendment or modification of this Agreement, other than as set forth in Section 2 hereof, shall have any force or effect unless it is in writing and signed by the parties hereto.

25. Counterparts. This Agreement may be executed in any number of separate counterparts, each of which shall be deemed an original, but the several counterparts shall together constitute but one and the same instrument.

26. Severability. If any one or more of the covenants, agreements, provisions or terms of this Agreement shall be held contrary to any express provision of law, or contrary to the policy of express law though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Agreement and shall in no way affect the validity or enforceability of the remainder of this Agreement or the rights of the parties hereto.

27. Headings. The headings and captions in this Agreement are for convenience and reference purposes only and shall not be construed or deemed to explain, modify, amplify or aid in the interpretation, construction or meaning of the provisions hereof.

28. Entire Agreement. Except as hereinabove expressly provided, this Agreement supersedes all prior contracts and undertakings, written or oral, between the same parties concerning the same subject matter.

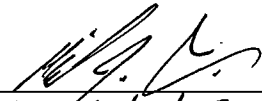
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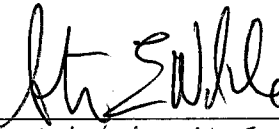
IN WITNESS WHEREOF, the parties hereto, each intending to be legally bound hereby, have caused this Management Agreement for U.S. Fixed Income Portfolio Management to be executed as of the date first above written.

ATTEST:

**UBS GLOBAL ASSET MANAGEMENT  
(AMERICAS) INC.**

Federal Tax Identification Number:

BY:  5/3/13  
NAME: Michael J. Talhoun Date  
TITLE: Assistant Secretary

BY:  5/3/13  
NAME: STEVEN E WILDE Date  
TITLE: MANAGING DIRECTOR

**COMMONWEALTH OF PENNSYLVANIA  
STATE EMPLOYEES' RETIREMENT SYSTEM**

Federal Tax Identification Number:

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_ Date  
TITLE: Chairman

Approved for form and legality:

Approved:

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
Office of Attorney General

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_ Date  
SERS Counsel

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_ Date  
TITLE: \_\_\_\_\_  
Office of General Counsel



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ATTEST:

**UBS GLOBAL ASSET MANAGEMENT  
(AMERICAS) INC.**

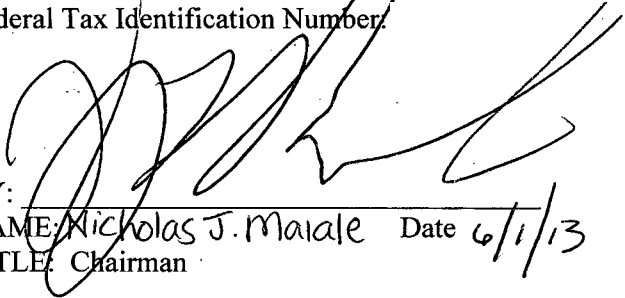
Federal Tax Identification Number:

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_ Date \_\_\_\_\_  
TITLE: \_\_\_\_\_

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_ Date \_\_\_\_\_  
TITLE: \_\_\_\_\_

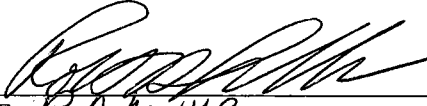
**COMMONWEALTH OF PENNSYLVANIA  
STATE EMPLOYEES' RETIREMENT SYSTEM**

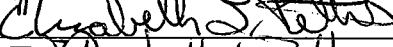
Federal Tax Identification Number:

BY:   
NAME: Nicholas J. Maiale Date 6/1/13  
TITLE: Chairman

Approved for form and legality:

Approved:

BY:   
NAME: Ramone  
TITLE: CDAG  
Office of Attorney General

BY:   
NAME: Elizabeth L. Potts Date 6/1/13  
SERS Counsel

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_ Date \_\_\_\_\_  
TITLE: \_\_\_\_\_  
Office of General Counsel

RECEIVED  
OFFICE OF GENERAL COUNSEL  
JUN 11 2013

IN WITNESS WHEREOF, the parties hereto, each intending to be legally bound hereby, have caused this Management Agreement for U.S. Fixed Income Portfolio Management to be executed as of the date first above written.

ATTEST:

**UBS GLOBAL ASSET MANAGEMENT  
(AMERICAS) INC.**

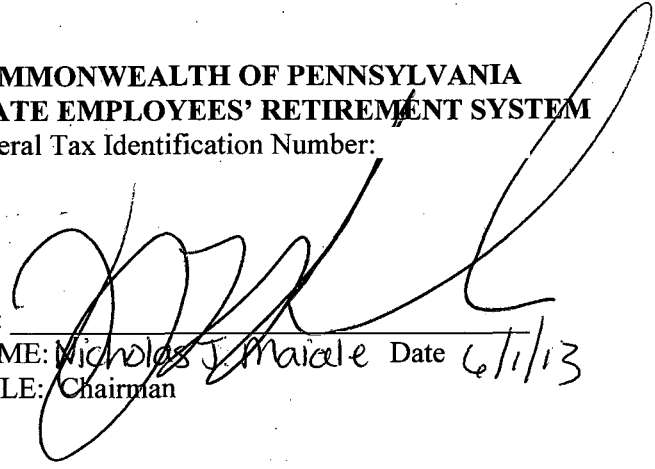
Federal Tax Identification Number:

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_ Date \_\_\_\_\_  
TITLE: \_\_\_\_\_

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_ Date \_\_\_\_\_  
TITLE: \_\_\_\_\_

**COMMONWEALTH OF PENNSYLVANIA  
STATE EMPLOYEES' RETIREMENT SYSTEM**

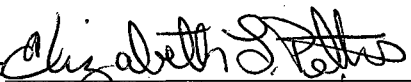
Federal Tax Identification Number:

BY:   
NAME: Nicholas J. Maiale Date 6/1/13  
TITLE: Chairman

Approved for form and legality:

Approved:

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
Office of Attorney General

BY:   
NAME: Elizabeth L. Pettis Date 6/1/13  
SERS Counsel


BY:   
NAME: Sharon E. Smith Date 5/21/13  
TITLE: Deputy General Counsel  
Office of General Counsel

Exhibit A



PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM

**Commonwealth of Pennsylvania  
State Employees' Retirement Board  
Statement of Investment Policy**

**Adopted April 21, 2004  
Amended April 29, 2009**

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**Commonwealth of Pennsylvania  
State Employees' Retirement Board  
Statement of Investment Policy**

**I. Introduction**

The State Employees' Retirement Fund ("Fund") was established in 1923 by an act of the Pennsylvania legislature. The purpose of the Fund is the accumulation of funds exclusively for the benefit of the members and beneficiaries of members of the State Employees' Retirement System ("SERS" or the "System") for the payment of withdrawal, retirement, disability, and death benefits as provided in Pennsylvania Consolidated Statutes Title 71, Part XXV ("Retirement for State Employees and Officers"). The Fund is under the exclusive control and management of an eleven member Board of Trustees ("Board"). Six members are appointed by the Governor and confirmed by the State Senate to four-year terms. Two members of the Senate are appointed by the President Pro Tempore of the Senate, and two members of the House by the Speaker of the House, and serve on the Board for the duration of the terms for which they were elected. The State Treasurer serves as a member of the Board, ex-officio.

The Statement of Investment Policy (the "Policy") was originally adopted by the Board on September 19, 1979 and was last revised by Board action on April 29, 2009.

**II. Statement of Purpose of Investment Policy**

This document specifically outlines the investment philosophy and practices of SERS and has been developed to serve as a reference point for the management of the System's assets. The purpose of this Policy is to formalize the Board's investment objectives and policies, and to define the duties and responsibilities of the various individuals and entities involved in the investment process. The assets of the SERS will be managed with the primary objective of the payment of benefit obligations to participants in the plans. The secondary objective of the Board's policy is to maximize return with acceptable risk considerations and sufficient liquidity so that employer contributions can be minimized. Therefore, it is crucial that the Board adopt a long-term plan by which the assets of the System will be managed and enhanced through prudent investments. This Policy is intended to ensure that the level of assets is adequate to cover the accumulated liabilities of the System. **This is an official policy document of SERS. Deviation from this document is not permitted without explicit written permission, in advance, from the Board.**

In developing this Policy, the Board understands and accepts its fiduciary obligations to the members of the System. These obligations are legal in nature, and are outlined in Title 71, Pennsylvania Consolidated Statutes, Section 5931, a copy of which is attached hereto as Appendix I.

**III. Prudent Investor Standard**

The Board's investment authority is governed by the "prudent investor" standard as set forth in Title 71, Pennsylvania Consolidated Statutes, Section 5931(a):

**Control and management of fund.** The members of the board shall be the trustees of the fund. Regardless of any other provision of law governing the investments of funds under the control of an administrative board of the State government, the trustees shall have exclusive control and management of the said fund and full power to invest the same in accordance with the provisions of this section, subject, however, to the exercise of that degree of

judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the funds, considering the probable income to be derived therefrom as well as the probable safety of their capital. The trustees shall have the power to hold, purchase, sell, lend, assign, transfer or dispose of any of the securities and investments in which any of the moneys in the fund shall have been invested as well as of the proceeds of said investments, including any directed commissions which have accrued to the benefit of the fund as a consequence of the investments, and of any moneys belonging to said fund, subject in every case to meeting the standard of prudence set forth in this subsection.

No provision of this Policy shall be construed in contravention of the Board's statutory investment authority found in Title 71, Pennsylvania Consolidated Statutes, Section 5931.

#### **IV. Fiduciary Status, Duties, and Responsibilities of Board, Staff, Investment Advisors, Other Agents, and State Treasurer**

SERS is one of the larger public pension funds in the United States. Due to its size and investment structure, its operational requirements are complex. In order to administer the System and carry out its investment obligations, the Board relies heavily on both staff and external contractors. Because of the number of parties involved, their roles as fiduciaries must be clearly identified. Such identification increases operational efficiency, ensures clear lines of responsibility, and reduces or eliminates duplication of effort.

##### **A. Board of Trustees**

Title 71, Pennsylvania Consolidated Statutes, Section 5931(e) provides, in part, as follows:

The members of the board, employees of the board, and agents thereof shall stand in a fiduciary relationship to the members of the system regarding the investments and disbursements of any of the moneys of the fund and shall not profit either directly or indirectly with respect thereto.

In exercising this fiduciary responsibility, the members of the Board, employees of the Board, and agents of the Board are governed by the "prudent investor" standard and the exclusive benefit standard. The exclusive benefit standard requires these parties to act solely within the interests of the plan's participants and beneficiaries, and for the exclusive purpose of providing benefits to participants and beneficiaries.

The Board may, when possible and consistent with its fiduciary duties imposed by law, including its obligation to invest and manage the Fund for the exclusive benefit of the members of the System, consider whether an investment in any project or business enhances and promotes the general welfare of the Commonwealth and its citizens. Where investment characteristics, including yield, risk, and liquidity, are equivalent, the Board's policy favors investments that will have a positive impact on the economy of Pennsylvania.

The members of the Board are responsible as trustees for the proper management of the assets of the Fund. The Board has the responsibility of establishing and maintaining broad policies and objectives for all aspects of the System's operations. Specifically with regard to investments, the Board seeks the recommendations of the staff and consultants prior to taking action. In carrying out these duties, the Board will be responsible for:

1. Reviewing and approving each year an Annual Strategic Investment Plan that sets forth the direction of the Fund and work plan initiatives for the coming two years. This Annual Strategic Investment Plan shall incorporate proposed percentage allocations to asset classes, portfolio component definitions and types and proportions of assets within each asset class.
2. Approving the engagement and termination of investment advisors. Staff and consultants will identify potential candidates. Potential advisors will be evaluated based on their ability to achieve the objectives outlined in the Annual Strategic Investment Plan and their demonstrated experience and expertise for the specific mandate. Board suggestions for potential advisors who meet these criteria will be evaluated by staff and consultants. While individual Board Members may meet with prospective advisors, all group meetings involving a quorum of Board Members for a presentation by prospective advisors shall be through formal Board meetings or Board Committee meetings. Staff and consultants are jointly responsible for carrying out the research and due diligence to identify qualified candidates, or support terminations, and make recommendations back to the Board.
3. Approving the engagement and termination of consultants.
4. Reviewing the investment performance of the Fund.
5. Reviewing and approving the Certified Annual Financial Report.
6. Reviewing and approving the annual actuarial report, assumptions and funding level and, reviewing and approving an actuarial experience study that is to be conducted no less than every five years.
7. Reviewing and approving the results of an asset liability study on a periodic basis, but not less than every five years.
8. Reviewing and adopting the proxy voting guidelines.
9. Oversight and monitoring of staff.

In discharging these responsibilities, the Board has delegated certain functions to the staff and to various contractors who provide professional services to the Board. All persons who act as agents of the Board shall adhere to the highest standards of professional integrity and honesty.

#### **B. State Employees' Retirement Board Staff**

The Executive Director is responsible for administrative matters relating to the operations of the System. The Chief Investment Officer is charged with the coordination of all investment activities and matters within the System. The Investment Office reports to the Board on emerging trends and issues of concern to public pension funds generally and to the Fund in particular. The Investment Office is responsible to the Board to review and analyze the current investment climate, and to recommend adjustments with respect to this Policy that are appropriate to take optimum advantage of new conditions and strategies as they arise in the market place. To ensure that the goals and objectives of the Board are being fulfilled, the Investment Office also reviews and analyzes the philosophies, policies, and strategies employed

by the investment advisors, evaluating the appropriateness of their decision-making processes and their investment styles in relation to present and projected investment horizons.

The Chief Investment Officer of the System is charged with the following responsibilities:

1. To manage, on a day-to-day basis, the portfolio, its components and agents;
2. To authorize receipt or payment for the acquisition or disposition of investments;
3. To act as liaison on behalf of the Board with all investment related contractors;
4. To review and analyze all investment transactions for conformity to applicable laws, regulations, each advisor's investment strategy statement and this Policy;
5. To review investment proposals presented by investment advisors and where appropriate summarize and recommend the same for Board consideration;
6. To analyze and summarize for the Board pertinent information from relevant publications, discussions, meetings, and research on current investment related topics;
7. To respond to inquiries from the Board and Pennsylvania Legislature, the membership, the press, other governmental representatives, and the public concerning the investments of the Fund;
8. To prepare the Annual Strategic Investment Plan and perform analysis and recommendations for action to present to the Board for approval and implementation consistent with this Policy and achievement of the Board's investment objectives; and
9. To perform such other duties as may be required to implement this Policy.

#### **C. Chief Audit Executive**

The chief audit executive reports functionally to the Audit Committee and administratively to the Executive Director. The internal auditor is independent of the System's operational activity and is responsible for providing objective audit and review services for the entire System, including the Investment Office. The internal auditor's services emphasize the promotion of adequate and effective internal controls at a reasonable cost and result in suggested improvements that will lead to economies and efficiencies in the Systems' operations.

With the advent of the Sarbanes-Oxley Act of 2002, the Board recognized the need for, and to established an audit committee to provide additional oversight relating to the adequacy of internal controls applicable to financial reporting. The audit committee will meet quarterly to discuss audit related issues. The audit committee, at its discretion, may meet with the internal auditor in executive session. The audit committee may make recommendations for changes in internal controls for consideration by the Board but shall have no policy authority.

#### **D. Investment Advisors**

The Board continually seeks to employ investment advisors that possess superior capabilities in the management of assets of public retirement systems. The Fund has carefully documented its investment processes, including those related to hiring advisors to manage the Fund's



investments. Those processes are available for review on the Fund's intranet. Each advisor has full discretion to carry out its investment mandate subject to the investment strategy statement contained in the investment management agreement and will be expected to conduct business on behalf of the System in accordance with the mandate for which they were retained. It is the Board's policy to limit the allocation of Fund investments such that no more than 15% of the total market value of Fund assets should be invested in any one investment product offered by an investment advisor, except where management of such investments is of a passive nature (e.g., index funds). Notwithstanding any of the limitations contained in this section, no liquidation of an investment shall be required solely due to changes in market value.

Each advisor's benchmark will reflect that advisor's particular style or tactical role in SERS' investment process. Each benchmark will be clearly specified, measurable and replicable. Benchmarks do not have to be published or widely recognized; they may be "customized" for a particular investment style or styles. The benchmark shall be determined in advance of funding by mutual agreement between the advisor, staff and consultant. In the event of a change in management style, agreed upon change in an advisor's strategy, availability of a better benchmark construction methodology, or changes to or additions in indices, an advisor's benchmark may be modified by mutual consent between the advisor, staff and consultant. Despite the foregoing, it is recognized that benchmarks in the investment industry may fail to capture the investment nuances of an investment advisor, which leads to tracking error relative to the benchmark.

The Board further requires those public markets investment advisors selected and working on its behalf to perform the following activities:

1. To recommend potential changes in their mandate which, in their best professional judgment, are in the best interests of the Fund to meet the investment objectives. Such recommendations include, but are not limited to:
  - a. the allocation of funds among the asset classes;
  - b. specific investment opportunities regarding the acquisition, retention, and disposition of investments;
  - c. the addition, deletion, or modification of authorized investments;
  - d. comment on corporate governance issues.
2. To execute investment transactions on behalf of the Board in a manner that maximizes the investment value of each transaction from the viewpoint of the Fund, utilizing such brokers and dealers as they deem appropriate to obtain the best execution capabilities and/or valuable information with respect to the economy and the affairs of corporations at the lowest total cost to the Fund.
3. To report to the Board at least quarterly through the Investment Office, with the exact frequency and format of reporting to be determined by the Investment Office, on the composition and relative performance of the investments in their designated portfolios; the economic and investment outlook for the near and long term; significant changes in the portfolio during the preceding period; and the reasons for any significant differences between the performance of their portfolios and the appropriate market indices or metrics.

4. To make themselves available as needed for meetings with the Board, staff, or agents of the Board regarding investment matters.
5. To comply at all times with all laws, regulations, contractual investment guidelines and reporting requirements as determined by staff.
6. To perform such additional activities as detailed in each advisor's investment management agreement with SERS.

#### **E. General Investment Consultant**

The Board's general investment consultant acts as a fiduciary to the Fund, providing reports to the Board on emerging trends and issues of concern to public pension funds generally and to the Fund in particular. The general investment consultant also analyzes and makes recommendations with respect to the Board's asset allocation and investment structure, policies, the investment advisors' implementation of policy and strategy, the appropriate investment horizon for the Fund given its actuarial characteristics, and provides such other research as may be required from time to time.

In addition to the general investment consultant, the Board may retain other investment consultants as required for specialized needs, such as for particular asset classes or unique investment projects. These specialty consultants will report to the Board on emerging trends and issues that are germane to their respective assignments and that are of concern to public pension funds generally and to the Fund in particular. Within the scope of their assignments, the specialty consultants will also analyze and make recommendations with respect to this Policy, the investment advisors' implementation of policy and strategy, and provide such other research as may be needed from time to time.

The general and specialty consultants should be free of conflicts of interest or, where they potentially exist, make complete and total disclosure to the Board.

#### **F. Alternative Investment Consultant**

The alternative investment consultant acts as a fiduciary to the Fund, and will provide non-discretionary alternative investment consulting services. The alternative investment consultant will assist staff in performing due diligence investigations on prospective alternative investment opportunities; assist staff with identifying and accessing top-tier and first time/nascent funds; recommend specific alternative investments to SERS and maintain an alternative investment database. The alternative investment consultant will also participate in the development and refinement of alternative investment policies, objectives, strategies, benchmarking, risk assumptions and asset mix appropriate for each sub-asset class; as well as perform qualitative and quantitative portfolio oversight procedures and prepare performance measurement. The alternative investment consultant will make presentations to the Board supporting investment recommendations as they arise, and review performance at least semi-annually.

The alternative investment consultant should be free of conflicts of interest or, where they potentially exist, make complete and total disclosure to the Board and obtain pre-clearance from the Board.

#### **G. Real Estate Consultant**

The real estate consultant acts as a fiduciary to the Fund, and will provide non-discretionary real estate investment consulting services. The real estate consultant will assist staff in performing due diligence investigations on prospective real estate opportunities, assist staff with identifying and accessing top-tier funds, recommend specific real estate investments to SERS and maintain a real estate database. The real estate consultant will also participate in the development and refinement of real estate policies, objectives and strategies, benchmarking, risk assumptions and asset mix appropriate for each sub-asset class; as well as perform qualitative and quantitative portfolio oversight procedures and prepare performance measurement. The real estate consultant will make presentations to the Board supporting investment recommendations as they arise, and review performance at least semi-annually.

The real estate consultant should be free of conflicts of interest or, where they potentially exist, make complete and total disclosure to the Board and obtain pre-clearance from the Board.

#### **H. Portfolio Evaluation Advisor**

The general investment consultant, or another third party approved by the Board as a portfolio evaluation advisor, will provide quarterly investment performance evaluation and analysis to the Board. The portfolio evaluation advisor will provide to the Board comparative performance measurement against appropriate benchmarks, at the total fund, asset class, sub-asset class and advisor levels for all asset classes except real estate and alternative investments.

These benchmarks will be defined and presented in each quarterly performance report. They are hereby incorporated by reference.

#### **I. State Treasurer**

The State Treasurer serves as the custodian of the Fund, pursuant to Title 71, Pennsylvania Consolidated Statutes, Section 5931(c). In this capacity, the State Treasurer is responsible for the safe physical custody of investment instruments and the safe custody of any book-entry investment instruments that are held in depositories on behalf of the Commonwealth. As custodian, the State Treasurer is also responsible for preparing and delivering securities for settlement as authorized by the Board, attending to corporate actions, maintaining a book of record for these securities, facilitating an annual examination of these securities and books, and for preparing payment for securities transactions upon presentation of warrants properly signed and authorized. The State Treasurer may enter into a contract with a sub-custodian bank to assist in the execution of these responsibilities.

The State Treasurer is responsible for the temporary investment of cash balances until funds are required to meet disbursements or to acquire investments.

#### **J. Actuarial Consultant**

Pursuant to Title 71, Pennsylvania Consolidated Statutes, Section 5902(j), the Board engages an actuary to perform a valuation of the various accounts of the SERS on an annual basis within six months of the close of each calendar year. In every fifth year, the Board shall have the actuary conduct an actuarial investigation and evaluation of the system based on data including the mortality, service, and compensation experience provided by the Board annually during the preceding five years concerning the members and beneficiaries.

## **V. Investment Objectives**

The State Employees' Retirement Fund is a mature pension plan. The appropriate investment horizon is intermediate to long-term (ten to twenty years) with due consideration of the characteristics of the Fund's liabilities and liquidity requirements.

The objectives of the Fund are to provide benefit payments to participants and beneficiaries at the lowest cost to the Commonwealth and to fund the program through a carefully planned and executed investment program. The Fund seeks to produce the highest return on investment that is consistent with acceptable investment risks and sufficient liquidity that will permit the Fund to meet the System's benefit obligations and secondarily, control the cost of the Fund to the taxpayers. The investment program is premised on modern portfolio theory that states that taking incremental risk will be rewarded. The Board is aware that the high volatility of many classes of investments means that the reward to risk premise may not be fully realized in periods as long as ten years.

The Board, with the help of the staff and consultants, is charged with building a portfolio by carefully assessing the risk and return potential of the global capital markets, and making those investments that are institutionally investable and appear able to contribute to the Fund's long term objectives and goals.

However, investment results can be volatile. SERS' own experience has shown that periods as long as a decade may not produce predicted results. Yet avoidance of investment risk is certain to produce a cost burden for taxpayers beyond acceptable levels.

Consistent with achieving these objectives the Board has established the following goals relative to investment performance:

- Achieve a net total return equivalent to the actuarial interest rate assumption, or preferably in excess of this rate in order to improve the funded ratio of the Fund through investment earnings and favorably impact future employer contribution rates.
- Achieve a net total long term return that meets or exceeds an appropriate, composite Plan benchmark index on a five to ten year rolling time horizon. The composite benchmark index will be based on the asset allocation set forth in the Strategic Plan approved by the Board annually.

## **VI. Investment Guidelines**

The allocation of funds to various types of investment is of utmost importance in structuring an efficient portfolio designed to meet the Fund's investment objectives. In order to assure the most beneficial allocation of funds, the Board shall, with the advice of SERS investment staff, consultants and investment advisors, adopt an Annual Strategic Investment Plan that will be revised and updated yearly. This plan will set forth the target asset allocation and investment design for each sector of the Fund and identify work initiatives to be pursued over the near term. Furthermore, each investment advisor shall abide by specific investment guidelines that will be consistent with this Policy and the Annual Strategic Investment Plan so as to better ensure that the Fund's broad

investment objectives will be met. The advisors' specific investment guidelines may be amended from time to time by mutual written consent of the staff and the advisor.

The Annual Strategic Investment Plan shall serve as the controlling guide in the allocation of funds to various types of investments to provide appropriate diversification of the Fund's assets over the investment horizon. Diversification is the Board's most important risk management tool. No asset class performs well in all time periods, and different asset classes react differently during the various stages of economic cycles. Economic cycles can generally be categorized as rising or falling growth and rising or falling inflation. Many factors affect global economic cycles (e.g., fiscal, political, environmental, supplies of labor and materials) and they are often unpredictable. As a result, a well diversified investment portfolio is the best tool to achieve long-term target investment returns. If at any time the economic, fiscal, or investment environment should change significantly during the investment horizon, it shall be the duty of the staff, investment advisors, and consultants to so inform the Board and, if warranted, recommend modifications to the Annual Strategic Plan or adjustment to the allocation of investment assets.

In the application and implementation of this Policy and the Annual Strategic Investment Plan, the Chief Investment Officer has the authority to interpret the investment strategy statements to meet individual portfolio needs and to determine the appropriateness of any investment. On material policy issues and dollar amounts, the Chief Investment Officer, in consultation with the Board Chairman, will evaluate and determine the appropriateness of any investment. All interpretations of material policy issues and dollar amounts will be reported at the next regularly scheduled Board meeting.

The Advisor's Investment Strategy Statements, the Derivatives Policy Statement, the Real Estate Statement of Investment Policy and the Alternative Investments Statement of Investment Policy compliment this Policy covering these strategies and asset classes. See §XIII hereof for a list of documents incorporated by reference into this Policy.

## **VII. Prohibited Transactions**

Investment advisors are prohibited from entering into any transactions on behalf of the Fund that are not expressly authorized by this Policy or by specific investment advisor guidelines. All advisors and consultants shall disclose any and all economic positions that may conflict with SERS' investment objectives and guidelines. Transactions not expressly authorized by this Policy shall be subject to Section VI, paragraph 3 of this Policy.

## **VIII. Investment Advisor Evaluations**

The Board endeavors not to make adverse retention decisions about investment advisors based upon performance absent at least three years of performance data, recognizing that investment strategies are best assessed over full market cycles.

The Board's time horizon to review performance trends shall normally be over full market cycles, although the trend in investment experience over other time periods may be judged important. Any extreme or unusual events or trends will be considered when evaluating intermediate and short-term investment results. Public Markets Advisor Retention Guidelines have been developed in order to assist staff in applying consistent criteria to evaluate investment advisors and are related to this Policy.

Notwithstanding the above, the staff will review advisor performance, portfolio positioning, and transactions at least annually.

## **IX. Corporate Governance Standards**

Good corporate governance promotes responsible business practices that serve as an integral component to a corporation's long-term value creation process and are an indispensable element of an effective corporate risk management program.

SERS is committed to improve corporate governance practices of the companies within the SERS portfolio. SERS' involvement includes: the development and annual updating of the Board approved proxy-voting policy, voting proxies, active participation in groups working to improve and enhance corporate governance practices and ad hoc responses to important issues that affect the value of the portfolio, such as letters responding to regulatory and legislative proposals.

Annually, the proposed updates to the proxy voting policies shall be prepared by the Investment Office and submitted to the Board for approval. In the annual update of the policies, the Investment Office shall seek to develop best practices. Best practices shall be developed through relationships with groups working to improve and enhance corporate governance practices and input that focuses on improving corporate governance practices from other prominent plan sponsors.

In addition, SERS monitors and, where appropriate, incorporates best corporate governance practice recommendations from organizations into the proxy voting guidelines. As good corporate governance practices are not static, the annual proxy voting modifications attempt to reflect the current trends in the marketplace.

### **A. Proxy Voting Procedures**

Stock proxies are voted in accordance with the following procedures:

1. The custodian bank forwards to SERS' proxy servicer or advisor proxy statements for securities that SERS owns, excluding securities that are on loan, or investments in the form of pooled funds and limited partnerships.
2. SERS' proxy servicer or advisor will vote all proxies in accordance with the Board's proxy voting guidelines, except those where a specific concern has been raised by a Board Member, advisor, consultant, or staff member.
3. The proxy servicer or advisor may also vote any proxy involving other issues essentially the same as those on which the Board's proxy voting guidelines are well defined.
4. With regard to proxies requiring special attention under the Board's proxy voting guidelines, as well as special issues not covered or anticipated by the proxy voting guidelines, proxies and all pertinent reference material shall be sent to the Chief Investment Officer, who will evaluate the issues with respect to the intent of the proxy voting guidelines. On issues not covered by the proxy voting guidelines, controversial, high-profile, and contested change of control issues, the Chief Investment Officer will consult with the Board's chairman to determine how such proxies will be voted. The Chief Investment Officer will then direct the proxy servicer or advisor to vote the proxies accordingly.
5. The Chief Investment Officer shall regularly report to the Board the types of special issues that are being considered or that have been voted by the Chief Investment Officer.
6. The Chief Investment Officer shall cause to be maintained by SERS' proxy servicer, or advisor, a listing of proxy votes cast in a calendar year. This report, along with all individual actions, shall be available for public inspection on SERS' Internet web site.

#### **B. Corporate Actions**

The custodian bank has standing instructions to forward notices of all corporate actions received, such as dividends, stock splits, mergers, acquisitions, spin-offs or class action suits to SERS or its investment advisors.

#### **X. Trading and Brokerage Practices**

The Board delegates the responsibility for the selection of brokerage firms to its investment advisors, provided that the investment advisors select and utilize brokers in accordance with Section IV, D-2 ("best execution") of this Policy. Notwithstanding this practice, the Board reserves the right to enter into a brokerage commission recapture programs, and to establish goals for directed commissions. Provided that the advisors' investment processes are not affected so as to adversely impact the Fund or place the Fund in a disadvantageous position relative to the advisors' other accounts, advisors may be requested to direct a percentage of their brokerage activity on behalf of SERS. The Board will select the brokerage firms that are designated to receive such directed commissions, and will communicate this information to the advisors.

The Board also seeks to have advisors direct trades through minority owned firms and reserves the right to establish proposed trading targets. However, the responsibility for the selection and use of minority brokerage firms is delegated to the investment advisors.

Finally, all things being equal, the Board seeks to have investment advisors trade through Pennsylvania-based brokers.

Efforts to monitor and control trading costs will be ongoing, and may include the periodic use of formal trading cost analyses.

#### **XI. Public Access to Records**

Records of investment transactions are maintained by the System at its office located at 30 North Third Street, Harrisburg, PA 17101. Requests for public inspection or copies of documents that are a matter of public record will be honored in a manner consistent with the Pennsylvania Right-to-Know Law (RTKL), 65 P.S. §§ 101 - 3104, and SERS' Right-To-Know Law Policy regarding the dissemination of public information. Inquiries should be directed to SERS' Right-to-Know Law Open-Records Officer. This Right-to-Know Law Policy is incorporated by reference into this Policy.

#### **XII. Procedures for Amending this Policy Statement**

This Policy may be amended from time to time by a majority vote of the Board.



### **XIII. Separate Documents Related to this Policy Statement**

The following documents are incorporated by reference into this Policy and as such are considered part of this Policy as though they were presented in entirety within this Policy:

1. SERS Annual Strategic Investment Plan  
(adopted annually by the Board)
2. Public Markets Investment Advisor Investment Strategy Statements  
(negotiated as part of the contracting process after Board appointment)
3. Real Estate Investment Policy Statement  
(adopted by the Board)
4. Alternative Investments Policy Statement  
(adopted by the Board)
5. Proxy Voting Guidelines  
(adopted annually by the Board)
6. Public Markets Advisor Retention Guidelines  
(reviewed by Board)
7. Right-To-Know Law Policy  
(adopted by the Board)
8. Derivatives Investment Policy Statement  
(reviewed by Board)
9. Portfolio Rebalancing Policy  
(reviewed by Board)
10. Advisor, Asset Class, and Fund Benchmarks as reported in the Quarterly Performance Report  
(reviewed by Board)
11. SERS Investment Policies and Procedures  
(approved by Chief Investment Officer)
12. SERS Securities Litigation Policy  
(adopted by Board)
13. SERS Securities Lending Policy  
(reviewed by Board)

#### **XIV. Glossary of Terms**

**Asset Allocation** – investment choice made among broad asset classes such as equities, fixed income securities, real estate, etc.

**Brokerage Commission** – payment for administrative costs of trading securities; the cost for execution.

**Brokerage Commission Recapture** – reimbursement to the Fund for a portion of the fee paid to a broker for executing a trade.

**Corporate Governance** – the procedures by which a corporation conducts its affairs.

**Corpus** – specifically, the investment portfolio of SERS.

**Fiduciary** – one who can exercise discretionary authority or can control or influence important aspects of a pension plan's management.

**Fixed Income Investment** – a security issued by a borrower that obligates the issuer to make specified payments to a holder over a specific period. May also be referred to as "debt" or "bonds".

**Net Total Return** – interest or dividend income plus any realized or unrealized capital gain (or loss) on an investment, net of any capital contributions or distributions from the corpus.

**Proxy** – an instrument empowering an agent to vote for a shareholder.

**Qualitative Oversight** – analysis that evaluates important factors that cannot be precisely measured, e.g., experience, caliber of management, investment philosophy and strategy.

**Quantitative Oversight** – analysis dealing with measurable factors, such as value of securities, the cost of capital, historical and projected patterns of sales, costs, profitability, returns, risk. Used in tandem with qualitative oversight to arrive at sound business and financial judgments.

**Risk** – the uncertainty of outcome or the likelihood of not meeting an objective.

**Short-Term Investment** – any fixed income investment with less than one year to maturity.

**Tracking Error** – the annual standard deviation of an advisor's performance results from the advisor's benchmark.

## APPENDIX I

Title 71, Pennsylvania Consolidated Statutes, Section 5931, specifies the investment authority of the State Employees' Retirement Board. The relevant investment sections of this legislation are reproduced here and incorporated into the Statement of Investment Policy as Appendix I. In the event of changes in the statutes, the amended statutes shall control.

### Section 5931. Management of fund and accounts

- (a) Control and management of fund. – The members of the board shall be the trustees of the fund. Regardless of any other provision of law governing the investments of funds under the control of an administrative board of the State government, the trustees shall have exclusive control and management of the said fund and full power to invest the same in accordance with the provisions of this section, subject, however, to the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the funds, considering the probable income to be derived therefrom as well as the probable safety of their capital. The trustees shall have the power to hold, purchase, sell, lend, assign, transfer or dispose of any of the securities and investments in which any of the moneys in the fund shall have been invested as well as of the proceeds of said investments, including any directed commissions which have accrued to the benefit of the fund as a consequence of the investments, and of any moneys belonging to said fund, subject in every case to meeting the standard of prudence set forth in this subsection.
- (b) Crediting of interest. – The board, annually, shall allow the required interest on the mean amount for the proceeding year to the credit of each of the accounts. The amount so allowed shall be credited thereto by the board and transferred from the interest reserve account.
- (c) Custodian of fund. – The State Treasurer shall be the custodian of the fund.
- (d) Payments from fund. – All payments from the fund shall be made by the State Treasurer in accordance with requisitions signed by the secretary of the board, or his designee, and ratified by resolution of the board.
- (e) Fiduciary status of board. – The members of the board, employees of the board and agents thereof shall stand in a fiduciary relationship to the members of the system regarding the investments and disbursements of any of the moneys of the fund and shall not profit either directly or indirectly with respect thereto. The board may, when possible and consistent with its fiduciary duties imposed by this subsection or other law, including its obligation to invest and manage the fund for the exclusive benefit of the members of the system, consider whether an investment in any project or business enhances and promotes the general welfare of this Commonwealth and its citizens, including, but not limited to, investments that increase and enhance the employment of Commonwealth residents, encourage the construction and retention of adequate housing and stimulate further investment and economic activity in this Commonwealth. The board shall, through the Governor, submit to the General Assembly annually, at the same time the

board submits its budget covering administrative expenses, a report identifying the nature and amount of all existing investments made pursuant to this subsection.

- (f) Name for transacting business. – By the name of “The State Employees’ Retirement System” or “The State Employees’ Retirement System” all of the business of the system shall be transacted, its fund invested, all requisitions for money drawn and payments made, and all of its cash and securities and other property shall be held, except that, any other law to the contrary notwithstanding, the board may establish a nominee registration procedure for the purpose of registering securities in order to facilitate the purchase, sale or other disposition of securities pursuant to the provisions of this law.
- (g) Deposits in banks and trust companies. – For the purpose of meeting disbursements for annuities and other payments in excess of the receipts, there shall be kept available by the State Treasurer an amount, not exceeding 10% of the total amount in the fund, on deposit in any bank or banks in this Commonwealth organized under the laws thereof or under the laws of the United States or with any trust company or companies incorporated by any law of this Commonwealth, provided any of such banks or trust companies shall furnish adequate security for said deposit, and provided that the sum so deposited in any one bank or trust company shall not exceed 25% of the paid-up capital and surplus of said bank or trust company.
- (h) Venture capital, private placement and alternative investments. – The board in its prudent discretion may make any venture capital investment, private placement investment or other alternative investment of any kind, structure or manner which meets the standard of prudence set forth in subsection (a).
- (i) Vehicles for authorized investments. – The board in its prudent discretion may make any investments which meet the standard of prudence set forth in subsection (a) by acquiring any type of interest in a business organization existing under the laws of any jurisdiction, provided that, in any such case, the liability of the State Employees’ Retirement Fund shall be limited to the amount of its investment.
- (j) Legislative declaration concerning certain authorized investments. – The General Assembly finds and declares that authorized investments of the fund made by or on behalf of the board under this section whereby the board becomes a joint owner or stockholder in any company, corporation association or other lawful business organization are outside the scope of the original intent of and therefore do not violate the prohibition set forth in section 8 of Article VIII of the Constitution of Pennsylvania.

**Exhibit B**

Exhibit C

**Exhibit D**

**COMMONWEALTH OF PENNSYLVANIA  
CONTRACT PROVISIONS**

- I. Term of Contract**
- II. Contractor Integrity Provisions**
- III. Non-Discrimination/Sexual Harassment Clause**
- IV. Contractor Responsibility Provisions**
- V. Assignment of Anti-Trust Claims**
- VI. Offset Provision**
- VII. Certification of Taxpayer Identification Number**
- VIII. The Americans With Disabilities Act**
- IX. Disadvantaged Business Information**
- X. Information Concerning Small Businesses In Enterprise Zones**
- XI. Recycled Content Products Provision**
- XII. Hold Harmless Provision**

## COMMONWEALTH CONTRACT PROVISIONS

### I. TERM OF CONTRACT

The term of the Contract shall commence on the Effective Date (as defined below) and shall end on the Expiration Date identified in the Contract, subject to the other provisions of the Contract.

The Effective Date shall be fixed by the Contracting Officer after the Contract has been fully executed by the Contractor and by the Commonwealth and all approvals required by Commonwealth contracting procedures have been obtained. The Contract shall not be a legally binding contract until after the Effective Date is affixed and the fully executed Contract has been sent to the Contractor.

The Commonwealth reserves the right, upon notice to the Contractor, to extend the term of the Contract for up to three (3) months upon the same terms and conditions. This will be utilized to prevent a lapse in Contract coverage and only for the time necessary, up to three (3) months, to enter into a new contract.

### II. CONTRACTOR INTEGRITY PROVISIONS (August 2010)

It is essential that those who seek to contract with the Commonwealth of Pennsylvania ("Commonwealth") observe high standards of honesty and integrity. They must conduct themselves in a manner that fosters public confidence in the integrity of the Commonwealth procurement process.

In furtherance of this policy, Contractor agrees to the following:

1. Contractor shall maintain the highest standards of honesty and integrity during the performance of this contract and shall take no action in violation of state or federal laws or regulations or any other applicable laws or regulations, or other requirements applicable to Contractor or that govern contracting with the Commonwealth.
2. Contractor shall establish and implement a written business integrity policy, which includes, at a minimum, the requirements of these provisions as they relate to Contractor employee activity with the Commonwealth and Commonwealth employees, and which is distributed and made known to all Contractor employees.
3. Contractor, its affiliates, agents and employees shall not influence, or attempt to influence, any Commonwealth employee to breach the standards of ethical conduct for Commonwealth employees set forth in the *Public Official and Employees Ethics Act, 65 Pa.C.S. §§1101 et seq.*; the *State Adverse Interest Act, 71 P.S. §776.1 et seq.*; and the *Governor's Code of Conduct, Executive Order 1980-18, 4 Pa. Code §7.151 et seq.*, or to breach any other state or federal law or regulation.
4. Contractor, its affiliates, agents and employees shall not offer, give, or agree or promise to give any gratuity to a Commonwealth official or employee or to any other person at the direction or request of any Commonwealth official or employee.
5. Contractor, its affiliates, agents and employees shall not offer, give, or agree or promise to give any gratuity to a Commonwealth official or employee or to any other person, the acceptance of which would violate the *Governor's Code of Conduct, Executive Order 1980-18, 4 Pa. Code §7.151 et seq.* or any statute, regulation, statement of policy, management directive or any other published standard of the Commonwealth.
6. Contractor, its affiliates, agents and employees shall not, directly or indirectly, offer, confer, or agree to confer any pecuniary benefit on anyone as consideration for the decision, opinion, recommendation, vote, other exercise of discretion, or violation of a known legal duty by any Commonwealth official or employee.



7. Contractor, its affiliates, agents, employees, or anyone in privity with him or her shall not accept or agree to accept from any person, any gratuity in connection with the performance of work under the contract, except as provided in the contract.

8. Contractor shall not have a financial interest in any other contractor, subcontractor, or supplier providing services, labor, or material on this project, unless the financial interest is disclosed to the Commonwealth in writing and the Commonwealth consents to Contractor's financial interest prior to Commonwealth execution of the contract. Contractor shall disclose the financial interest to the Commonwealth at the time of bid or proposal submission, or if no bids or proposals are solicited, no later than Contractor's submission of the contract signed by Contractor.

9. Contractor, its affiliates, agents and employees shall not disclose to others any information, documents, reports, data, or records provided to, or prepared by, Contractor under this contract without the prior written approval of the Commonwealth, except as required by the *Pennsylvania Right-to-Know Law, 65 P.S. §§ 67.101-3104*, or other applicable law or as otherwise provided in this contract. Any information, documents, reports, data, or records secured by Contractor from the Commonwealth or a third party in connection with the performance of this contract shall be kept confidential unless disclosure of such information is:

- a. Approved in writing by the Commonwealth prior to its disclosure; or
- b. Directed by a court or other tribunal of competent jurisdiction unless the contract requires prior Commonwealth approval; or
- c. Required for compliance with federal or state securities laws or the requirements of national securities exchanges; or
- d. Necessary for purposes of Contractor's internal assessment and review; or
- e. Deemed necessary by Contractor in any action to enforce the provisions of this contract or to defend or prosecute claims by or against parties other than the Commonwealth; or
- f. Permitted by the valid authorization of a third party to whom the information, documents, reports, data, or records pertain; or
- g. Otherwise required by law.

10. Contractor certifies that neither it nor any of its officers, directors, associates, partners, limited partners or individual owners has not been officially notified of, charged with, or convicted of any of the following and agrees to immediately notify the Commonwealth agency contracting officer in writing if and when it or any officer, director, associate, partner, limited partner or individual owner has been officially notified of, charged with, convicted of, or officially notified of a governmental determination of any of the following:

- a. Commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements or receiving stolen property.
- b. Commission of fraud or a criminal offense or other improper conduct or knowledge of, approval of or acquiescence in such activities by Contractor or any affiliate, officer, director, associate, partner, limited partner, individual owner, or employee or other individual or entity associated with:
  - (1) obtaining;
  - (2) attempting to obtain; or
  - (3) performing a public contract or subcontract.

Contractor's acceptance of the benefits derived from the conduct shall be deemed evidence of such knowledge, approval or acquiescence.

- c. Violation of federal or state antitrust statutes.
- d. Violation of any federal or state law regulating campaign contributions.
- e. Violation of any federal or state environmental law.
- f. Violation of any federal or state law regulating hours of labor, minimum wage standards or prevailing wage standards; discrimination in wages; or child labor violations.
- g. Violation of the *Act of June 2, 1915 (P.L. 736, No. 338)*, known as the *Workers' Compensation Act*, 77 P.S. 1 *et seq.*
- h. Violation of any federal or state law prohibiting discrimination in employment.
- i. Debarment by any agency or department of the federal government or by any other state.
- j. Any other crime involving moral turpitude or business honesty or integrity.

Contractor acknowledges that the Commonwealth may, in its sole discretion, terminate the contract for cause upon such notification or when the Commonwealth otherwise learns that Contractor has been officially notified, charged, or convicted.

11. If this contract was awarded to Contractor on a non-bid basis, Contractor must, (as required by *Section 1641* of the *Pennsylvania Election Code*) file a report of political contributions with the Secretary of the Commonwealth on or before February 15 of the next calendar year. The report must include an itemized list of all political contributions known to Contractor by virtue of the knowledge possessed by every officer, director, associate, partner, limited partner, or individual owner that has been made by:

- a. Any officer, director, associate, partner, limited partner, individual owner or members of the immediate family when the contributions exceed an aggregate of one thousand dollars (\$1,000) by any individual during the preceding year; or
- b. Any employee or members of his immediate family whose political contribution exceeded one thousand dollars (\$1,000) during the preceding year.

To obtain a copy of the reporting form, Contractor shall contact the Bureau of Commissions, Elections and Legislation, Division of Campaign Finance and Lobbying Disclosure, Room 210, North Office Building, Harrisburg, PA 17120.

12. Contractor shall comply with requirements of the *Lobbying Disclosure Act*, 65 Pa.C.S. § 13A01 *et seq.*, and the regulations promulgated pursuant to that law. Contractor employee activities prior to or outside of formal Commonwealth procurement communication protocol are considered lobbying and subjects the Contractor employees to the registration and reporting requirements of the law. Actions by outside lobbyists on Contractor's behalf, no matter the procurement stage, are not exempt and must be reported.

13. When Contractor has reason to believe that any breach of ethical standards as set forth in law, the Governor's Code of Conduct, or in these provisions has occurred or may occur, including but not limited to contact by a Commonwealth officer or employee which, if acted upon, would violate such ethical standards, Contractor shall immediately notify the Commonwealth contracting officer or Commonwealth Inspector General in writing.

14. Contractor, by submission of its bid or proposal and/or execution of this contract and by the submission of any bills, invoices or requests for payment pursuant to the contract, certifies and represents that it has not violated any

of these contractor integrity provisions in connection with the submission of the bid or proposal, during any contract negotiations or during the term of the contract.

15. Contractor shall cooperate with the Office of Inspector General in its investigation of any alleged Commonwealth employee breach of ethical standards and any alleged Contractor non-compliance with these provisions. Contractor agrees to make identified Contractor employees available for interviews at reasonable times and places. Contractor, upon the inquiry or request of the Office of Inspector General, shall provide, or if appropriate, make promptly available for inspection or copying, any information of any type or form deemed relevant by the Inspector General to Contractor's integrity and compliance with these provisions. Such information may include, but shall not be limited to, Contractor's business or financial records, documents or files of any type or form that refers to or concern this contract.

16. For violation of any of these Contractor Integrity Provisions, the Commonwealth may terminate this and any other contract with Contractor, claim liquidated damages in an amount equal to the value of anything received in breach of these provisions, claim damages for all additional costs and expenses incurred in obtaining another contractor to complete performance under this contract, and debar and suspend Contractor from doing business with the Commonwealth. These rights and remedies are cumulative, and the use or non-use of any one shall not preclude the use of all or any other. These rights and remedies are in addition to those the Commonwealth may have under law, statute, regulation, or otherwise.

17. For purposes of these Contractor Integrity Provisions, the following terms shall have the meanings found in this Paragraph 17.

a. "Confidential information" means information that a) is not already in the public domain; b) is not available to the public upon request; c) is not or does not become generally known to Contractor from a third party without an obligation to maintain its confidentiality; d) has not become generally known to the public through a act or omission of Contractor; or e) has not been independently developed by Contractor without the use of confidential information of the Commonwealth.

b. "Consent" means written permission signed by a duly authorized officer or employee of the Commonwealth, provided that where the material facts have been disclosed, in writing, by pre-qualification, bid, proposal, or contractual terms, the Commonwealth shall be deemed to have consented by virtue of execution of this contract.

c. "Contractor" means the individual or entity that has entered into this contract with the Commonwealth, including those directors, officers, partners, managers, and owners having more than a five percent interest in Contractor.

d. "Financial interest" means:

(1) Ownership of more than a five percent interest in any business; or

(2) Holding a position as an officer, director, trustee, partner, employee, or holding any position of management.

e. "Gratuity" means tendering, giving or providing anything of more than nominal monetary value including, but not limited to, cash, travel, entertainment, gifts, meals, lodging, loans, subscriptions, advances, deposits of money, services, employment, or contracts of any kind. The exceptions set forth in the *Governor's Code of Conduct, Executive Order 1980-18, the 4 Pa. Code §7.153(b)*, shall apply.

f. "Immediate family" means a spouse and any unemancipated child.

g. "Non-bid basis" means a contract awarded or executed by the Commonwealth with Contractor without seeking bids or proposals from any other potential bidder or offeror.

h. "Political contribution" means any payment, gift, subscription, assessment, contract, payment for services, dues, loan, forbearance, advance or deposit of money or any valuable thing, to a candidate for public office or to a political committee, including but not limited to a political action committee, made for the purpose of influencing any election in the Commonwealth of Pennsylvania or for paying debts incurred by or for a candidate or committee before or after any election.

### III. NONDISCRIMINATION/SEXUAL HARASSMENT CLAUSE (August 2010)

The contractor agrees:

1. In the hiring of any employee(s) for the manufacture of supplies, performance of work, or any other activity required under the contract or any subcontract, the Contractor, each subcontractor, or any person acting on behalf of the Contractor or subcontractor shall not, by reason of gender, race, creed, or color discriminate against any citizen of this Commonwealth who is qualified and available to perform the work to which the employment relates.
2. Neither the Contractor nor any subcontractor nor any person on their behalf shall in any manner discriminate against or intimidate any employee involved in the manufacture of supplies, the performance of work, or any other activity required under the contract on account of gender, race, creed, or color.
3. The Contractor and each subcontractor shall establish and maintain a written sexual harassment policy and shall inform their employees of the policy. The policy must contain a notice that sexual harassment will not be tolerated and employees who practice it will be disciplined.
4. The Contractor and each subcontractor shall not discriminate by reason of gender, race, creed, or color against any subcontractor or supplier who is qualified to perform the work to which the contract relates.
5. The Contractor and each subcontractor shall, within the time periods requested by the Commonwealth, furnish all necessary employment documents and records and permit access to their books, records, and accounts by the contracting agency and the Bureau of Minority and Women Business Opportunities (BMWBO), for purpose of ascertaining compliance with provisions of this Nondiscrimination/Sexual Harassment Clause. Within fifteen (15) days after award of any contract, the Contractor shall be required to complete, sign and submit Form STD-21, the "Initial Contract Compliance Data" form. If the contract is a construction contract, then the Contractor shall be required to complete, sign and submit Form STD-28, the "Monthly Contract Compliance Report of Construction Contractors", each month no later than the 15<sup>th</sup> of the month following the reporting period beginning with the initial job conference and continuing through the completion of the project. Those contractors who have fewer than five employees or whose employees are all from the same family or who have completed the Form STD-21 within the past 12 months may, within the 15 days, request an exemption from the Form STD-21 submission requirement from the contracting agency.
6. The Contractor shall include the provisions of this Nondiscrimination/Sexual Harassment Clause in every subcontract so that those provisions applicable to subcontractors will be binding upon each subcontractor.
7. The Commonwealth may cancel or terminate the contract and all money due or to become due under the contract may be forfeited for a violation of the terms and conditions of this Nondiscrimination/Sexual Harassment Clause. In addition, the agency may proceed with debarment or suspension and may place the Contractor in the Contractor Responsibility File.

### IV. CONTRACTOR RESPONSIBILITY PROVISIONS (October 2006)

- a. The Contractor certifies, for itself and all its subcontractors, that as of the date of its execution of this Bid/Contract, that neither the Contractor, nor any subcontractors, nor any suppliers are under suspension or debarment by the Commonwealth or any governmental entity, instrumentality, or authority and, if the Contractor cannot so certify, then it agrees to submit, along with its Bid, a written explanation of why such certification cannot be made.
- b. The Contractor also certifies, that as of the date of its execution of this Bid/Contract, it has no tax liabilities or other Commonwealth obligations.

- c. The Contractor's obligations pursuant to these provisions are ongoing from and after the effective date of the contract through the termination date thereof. Accordingly, the Contractor shall have an obligation to inform the Commonwealth if, at any time during the term of the Contract, it becomes delinquent in the payment of taxes, or other Commonwealth obligations, or if it or any of its subcontractors are suspended or debarred by the Commonwealth, the federal government, or any other state or governmental entity. Such notification shall be made within 15 days of the date of suspension or debarment.
- d. The failure of the Contractor to notify the Commonwealth of its suspension or debarment by the Commonwealth, any other state, or the federal government shall constitute an event of default of the Contract with the Commonwealth.
- e. The Contractor agrees to reimburse the Commonwealth for the reasonable costs of investigation incurred by the Office of State Inspector General for investigations of the Contractor's compliance with the terms of this or any other agreement between the Contractor and the Commonwealth, which results in the suspension or debarment of the Contractor. Such costs shall include, but shall not be limited to, salaries of investigators, including overtime; travel and lodging expenses; and expert witness and documentary fees. The Contractor shall not be responsible for investigative costs for investigations that do not result in the Contractor's suspension or debarment.
- f. The Contractor may obtain a current list of suspended and debarred Commonwealth contractors by either searching the internet at <http://www.dgs.state.pa.us/> or contacting the:

Department of General Services  
Office of Chief Counsel  
603 North Office Building  
Harrisburg, PA 17125  
Telephone No. (717) 783-6472  
FAX No. (717) 787-9138

#### **V. ASSIGNMENT OF ANTITRUST CLAIMS (October 2006)**

The Contractor and the Commonwealth recognize that in actual economic practice, overcharges by Contractor's suppliers resulting from violations of state or federal antitrust laws are in fact borne by the Commonwealth. As part of the consideration for the award of the Contract, and intending to be legally bound, Contractor assigns to the Commonwealth all right, title and interest in and to any claims the Contractor now has, or may acquire, under state or federal antitrust laws relating to the products or services which are the subject of this Contract.

#### **VI. OFFSET PROVISION (October 2006)**

The Contractor agrees that the Commonwealth may set off the amount of any state tax liability or other obligation of the Contractor or its subsidiaries to the Commonwealth against any payments due the Contractor under any contract with the Commonwealth.

#### **VII. CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER**

Execution of this Contract constitutes certification by the Contractor that:

- A. The number appearing on the Contract is the Contractor's correct taxpayer identification number (if no number is present, Contractor is waiting for a number to be issued) and,
- B. Contractor is not subject to backup withholding because: (i) Contractor is exempt from backup withholding, or (ii) Contractor has not been notified by the I.R.S. that it is subject to backup withholding as result of a failure to report all interest or dividends, or (iii) the I.R.S. has notified Contractor that it is no longer subject to backup withholding.

#### **VIII. THE AMERICANS WITH DISABILITIES ACT (October 2006)**

a. Pursuant to federal regulations promulgated under the authority of The Americans With Disabilities Act, 28 C.F.R. Section 35.101 et seq., the Contractor understands and agrees that it shall not cause any individual with a disability to be excluded from participation in this Contract or from activities provided for under this Contract on the basis of the disability. As a condition of accepting this contract, the Contractor agrees to comply with the "General Prohibitions Against Discrimination", 28 C.F.R. §35.130, and all other regulations promulgated under Title II of The Americans With Disabilities Act which are applicable to all benefits, services, programs, and activities provided by the Commonwealth of Pennsylvania through contracts with outside contractors.

b. The Contractor shall be responsible for and agrees to indemnify and hold harmless the Commonwealth of Pennsylvania from all losses, damages, expenses, claims, demands, suits and actions brought by any party against the Commonwealth of Pennsylvania as a result of the Contractor's failure to comply with the provisions of Subparagraph a. above.

#### **IX. DISADVANTAGED BUSINESS INFORMATION (March 2010)**

The Issuing Office encourages participation by small disadvantaged businesses as prime contractors, joint ventures and subcontractors/suppliers and by socially disadvantaged businesses as prime contractors.

Small Disadvantaged Businesses are small businesses that are owned or controlled by a majority of persons, not limited to members of minority groups, who have been deprived of the opportunity to develop and maintain a competitive position in the economy because of social disadvantages. The term includes:

- a. Department of General Services Bureau of Minority and Women Business Opportunities (BMWBO)-certified minority business enterprises (MBEs) and women business enterprises (WBEs) that qualify as small businesses; and
- b. United States Small Business Administration certified 8(a) small disadvantaged business concerns.
- c. Businesses that BMWBO determines meet the Small Business Administration criteria for designation as a small disadvantaged business.

Small businesses are businesses in the United States that are independently owned, are not dominant in their field of operation, employ no more than 100 full-time or full-time equivalent employees, and earn less than \$20 million in gross annual revenues (\$25 million in gross annual revenues for those businesses in the information technology sales or service business).

Socially disadvantaged businesses are businesses in the United States that BMWBO determines are owned or controlled by a majority of persons, not limited to members of minority groups, who are subject to racial or ethnic prejudice or cultural bias, but which do not qualify as small businesses. In order for a business to qualify as "socially disadvantaged", the offeror must include in its proposal clear and convincing evidence to establish that the business has personally suffered racial or ethnic prejudice or cultural bias stemming from the business person's color, ethnic origin or gender.

Questions regarding this Program can be directed to:

Department of General Services  
Bureau of Minority and Women Business Opportunities  
Room 611, North Office Building  
Harrisburg, PA 17125  
Phone: (717) 783-3119  
Fax: (717) 787-7052  
Email: [gs-bmwbo@state.pa.us](mailto:gs-bmwbo@state.pa.us)  
Website: [www.dgs.state.pa.us](http://www.dgs.state.pa.us)

A database of BMWBO-certified minority- and women-owned businesses can be accessed at <http://www.dgsweb.state.pa.us/mbewbe/VendorSearch.aspx>. The federal vendor database can be accessed at <http://www.ccr.gov> by clicking on *Dynamic Small Business Search* (certified companies are so indicated).

#### **X. INFORMATION CONCERNING SMALL BUSINESSES IN ENTERPRISE ZONES (March 2010)**

Exhibit D – Contract Provisions FINAL 10-25-10

The Issuing Office encourages participation by small businesses, whose primary or headquarters facility is physically located in areas the Commonwealth has identified as *Designated Enterprise Zones*, as prime contractors, joint ventures and subcontractors/suppliers.

The definition of headquarters includes, but is not limited to, an office or location that is the administrative center of a business or enterprise where most of the important functions of the business are conducted or concentrated and location where employees are conducting the business of the company on a regular and routine basis so as to contribute to the economic development of the geographical area in which the office or business is geographically located.

Small businesses are businesses in the United States that are independently owned, are not dominant in their field of operation, employ no more than 100 full-time or full-time equivalent employees, and earn less than \$20 million in gross annual revenues (\$25 million in gross annual revenues for those businesses in the information technology sales or service business).

There is no database or directory of small businesses located in Designated Enterprise Zones. Information on the location of *Designated Enterprise Zones* can be obtained by contacting:

Aldona M. Kartorie  
Center for Community Building  
PA Department of Community and Economic Development  
4th Floor, Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120-0225  
Phone: (717) 720-7409  
Fax: (717) 787-4088  
Email: akartorie@state.pa.us

#### **XI. RECYCLED CONTENT PRODUCTS PROVISION**

The Commonwealth of Pennsylvania State Employees' Retirement System has determined that the recycled content products provision is not applicable to this Contract for the type of service being provided by this Contractor. This determination was based on the fact that no material type products included on the Department of General Services "List of Products and Procurement Guidelines" are being requested under this Contract.

#### **XII. HOLD HARMLESS PROVISION (November 30, 2006)**

The Contractor shall hold the Commonwealth harmless from and indemnify the Commonwealth against any and all third party claims, demands and actions based upon or arising out of any activities performed by the Contractor and its employees and agents under this Contract, provided the Commonwealth gives Contractor prompt notice of any such claim of which it learns. Pursuant to the Commonwealth Attorneys Act (71 P.S. Section 732-101, et seq.), the Office of Attorney General (OAG) has the sole authority to represent the Commonwealth in actions brought against the Commonwealth. The OAG may, however, in its sole discretion and under such terms as it deems appropriate, delegate its right of defense. If OAG delegates the defense to the Contractor, the Commonwealth will cooperate with all reasonable requests of Contractor made in the defense of such suits.



EXHIBIT E