

OFAC Compliance Policy

I. Purpose And Intent

This Policy addresses compliance obligations with respect to controls on prohibited transactions imposed by the United States Department of the Treasury, Office of Foreign Assets Control. This Policy aims to create and implement thorough, targeted and reasonable procedures designed to mitigate the risk of NHRS engaging in Prohibited Transactions. This Policy applies to all investment transactions, payroll transactions and benefit payment transactions that NHRS initiates as well as investment transactions entered into on behalf of NHRS by external investment managers.

II. Definitions

- A. “Board” shall mean the Board of Trustees of NHRS
- B. “NHRS” shall mean the New Hampshire Retirement System.
- C. “OFAC” shall mean the Office of Foreign Assets Control.
- D. “Procedure” shall mean the compliance procedures established for each operational area as hereinafter provided.
- E. “Prohibited Transactions” shall mean any transaction that results in a violation of the rules and regulations promulgated by OFAC.
- F. “Sanctions List(s)” shall mean, collectively, the Specially Designated Nationals List (“SDN LIST”), the Foreign Sanctions Evader List (“FSE List” and the Sectoral Sanctions List (“SS List), each as issued and maintained by OFAC, a searchable version of which is located on the OFAC website at <https://sdnsearch.ofac.treas.gov>.

III. Governing Authority

RSA 100-A:15, I-a(1) and (2) provide that the Board is to discharge its duties solely in the interest of participants and beneficiaries for the exclusive purpose of providing benefits and incurring only reasonable expenses. The Board's fiduciary duty requires the NHRS to adhere to OFAC's regulations because failure to do so would violate federal law and possibly expose NHRS to civil and criminal penalties.

IV. OFAC Compliance Officer

The Associate Counsel and Compliance Officer is hereby designated as the OFAC Compliance Officer with such duties, responsibilities and authority as hereinafter provided.

V. Roles And Responsibilities

- A. *OFAC Compliance Officer* - The OFAC Compliance Officer is responsible for (i) providing advice regarding legal compliance with OFAC; (ii) monitoring compliance with this Policy, including Procedures established pursuant to it, (iii) creating and maintaining an OFAC Compliance Manual; and, (iv) conducting staff training and education with respect to this Policy. If it is determined that a violation of this Policy has occurred, the OFAC Compliance Officer shall notify the Chief Legal Counsel and the Executive Director.

- B. *Chief Legal Counsel* - The Chief Legal Counsel, in conjunction with the OFAC Compliance Officer, shall (i) determine when disclosure of actual and potential Prohibited Transactions is required; (ii) prepare disclosure submissions in accordance with OFAC regulations; and, (ii) submit an annual compliance report to the Board.

- C. *Executive and Management Staff* - The Investment Director, Human Resources Manager, Director of Finance and Director of Member Services are, with respect to their respective operational areas, responsible for (i) developing compliance Procedures; (ii) implementing the Procedures and training staff accordingly; (iii) monitoring compliance with this Policy and the Procedures; and (iv) recommending changes to the OFAC Compliance Officer.

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Investment Transactions

I. Risk Assessment

Investment transactions represent a greater risk of violations due to the difficulty with certain investments in identifying counterparties, beneficial owners and co-investors. Doing business with a sanctioned party indirectly or where the involvement of the sanctioned party is not readily apparent is more difficult to protect against. While automated screening by the asset custodian of individual, entity, or country names can help alert NHRS to possible red flags in transactions, identifying the indirect involvement of a sanctioned party may require extra scrutiny and due diligence. This may be particularly true for alternative investment and investments with tiered ownership structures.

II. Procedures

The Director of Investments will create and maintain Procedures to identify investment transactions prohibited by OFAC. In particular, the Procedures should provide as follows:

- A. *Reporting Violations* - All perceived OFAC violations shall be reported immediately to the OFAC Compliance Officer.
- B. *Divestment* – If it is determined that an OFAC violation has occurred, NHRS shall divest from any investment prohibited by OFAC as soon as reasonably possible.
- C. *Vendor Due Diligence*. The OFAC Compliance Officer should periodically obtain written summaries of the OFAC compliance policies and procedures utilized by investment service providers such as external investment managers, asset custodians and consultants and should review the same to assure that such service providers have established reasonable policies and procedures to assure compliance with OFAC regulations including, but not limited to, automated screening of all transactions involving assets of NHRS.
- D. *Vendor Agreements* - The Director of Investments, in conjunction with the Chief Legal Counsel and the OFAC Compliance Officer, should assure that investment-related service provider agreements contain provisions regarding OFAC compliance, including, but not limited to, appropriate representations, warranties, covenants and indemnifications consistent with industry standards.

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Payroll Transactions

I. Risk Assessment

Given the general make-up of the employee population of NHRS, payroll transactions present a limited risk of OFAC violations because employees are unlikely to live in sanctioned countries or appear as a “blocked person” on the Sanctions List. Moreover, because most payroll transactions are made by means of ACH or ETF, and the vendors clearing NHRS payroll checks utilize automated screening of all transactions, the likelihood of a Prohibited Transaction occurring is relatively low. Nevertheless, procedures should be implemented to assure compliance.

II. Procedures

The Human Resources Manager will create and maintain Procedures to assure that payroll transactions will not result in a Prohibited Transaction. In particular, the Procedures should provide for the following:

- A. *Reporting Violations* - All perceived OFAC violations shall be reported immediately to the OFAC Compliance Officer.
- B. *Payee Due Diligence* - The Human Resources Manager shall establish procedures for reviewing the name and address of each current employee and each new hire and, where appropriate, periodically search the Sanctions List to confirm that such persons are not “blocked persons”.
- C. *Vendor Due Diligence* - The OFAC Compliance Officer should periodically obtain written summaries of the OFAC compliance policies and procedures utilized by any vendor processing outgoing payroll transactions and confirm that each such vendor has established reasonable procedures to assure compliance with OFAC regulations including, but not limited to, automated screening of all payroll transactions.
- D. *Vendor Contracts* - The Human Resources Manager, in conjunction with the Chief Counsel and the OFAC Compliance Officer, should ensure that all agreements with vendors processing payroll transactions contain appropriate warranties, representations, covenants and indemnifications consistent with industry standards.

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Benefit Payment Transactions and Vendor Transactions

I. Risk Assessment

Given the general makeup of the NHRS beneficiary population, benefit payment transactions present a limited risk of violations of OFAC. NHRS beneficiaries are unlikely to live in sanctioned countries or appear as a “blocked person” on the Sanctions List. Moreover, because many benefit payment transactions are made by means of ACH or ETF, and the vendors clearing the checks utilize automated screening of all transactions, the likelihood of a Prohibited Transaction occurring is relatively low. Manual checks present slightly more risk and may require manual due diligence. In addition, most NHRS vendors are U.S. entities and, therefore, the risk of a Prohibited Transactions is small.

II. Procedures

The Director of Finance and the Director of Member Services will create and maintain Procedures to assure that benefit payment transactions will not result in a Prohibited Transaction. In particular, the Procedures should provide for the following:

- A. *Reporting Violations* - All perceived OFAC violations shall be reported immediately to the OFAC Compliance Officer
- B. *Payee Due Diligence* - The Director of Member Services shall establish procedures for reviewing the name and address of each beneficiary receiving a benefit payment and, where appropriate, perform a search of the Sanctions List to confirm that such beneficiaries are not “blocked persons”
- C. *Vendor Due Diligence* - The OFAC Compliance Officer should periodically obtain written summaries of the OFAC compliance policies and procedures utilized by any vendor processing benefit payments and confirm that each such vendor has established reasonable procedures to assure compliance with OFAC regulations including, but not limited to, automated screening of all benefit payment transactions.
- D. *Vendor Contracts* - The Director of Finance and the Director of Member Services, in conjunction with the Chief Counsel and the OFAC Compliance Officer, should ensure that all agreements with any vendors processing benefit payments contain appropriate warranties, representations, covenants and indemnifications consistent with industry standards.