

MEMORANDUM OF UNDERSTANDING  
BETWEEN

THE SAN FRANCISCO CITY AND COUNTY EMPLOYEES'  
RETIREMENT SYSTEM

AND

THE RETIREE HEALTH CARE TRUST FUND BOARD

This Memorandum of Understanding (“MOU”), effective as of [Month] [day], 2014, by and between the San Francisco City and County Employees’ Retirement System (“Retirement System”) and the Retiree Health Care Trust Fund (“Fund”), establishes the requirements and procedures for investment of Fund assets in the passive funds within the public market securities portion of the Retirement System’s investment portfolio.

WHEREAS, At its meeting on September 30, 2013, the Retiree Health Care Trust Fund Board (“RHCTF Board”) requested that its investment consultant research options for investment of Fund assets; and

WHEREAS, At its meeting on January 28, 2014, the RHCTF Board considered four investment options and requested further information on two options, including an option to invest in passive funds within the public market securities portion of the Retirement System’s investment portfolio; and

WHEREAS, At its meeting on May 22, 2014, the RHCTF Board considered and approved investing Fund assets in passive funds within the public market securities portion of the Retirement System’s investment portfolio; and

WHEREAS, The Retirement System is willing and able to assist the RHCTF Board with this requested investment arrangement, subject to the terms and conditions specified herein;

NOW, THEREFORE, the Retirement System and the Fund agree as follows:

1. Custodial Bank Account.

a. The RHCTF Board or its designee will establish one or more custodial accounts with Northern Trust, the Retirement System’s current custodian bank, for purposes of implementing the investment arrangement under this MOU (collectively, “~~RHCTF~~ Fund custodial account”). At this time, the Retirement System is conducting a Request for Proposals process for custodial bank services. If the Retirement System transitions to a new custodian bank during the term of this MOU, the Retirement System will notify the Fund of the change, and the RHCTF Board or its designee will have sole responsibility for establishing one or more new Fund custodial accounts with the new custodian bank.

b. The parties anticipate that the Fund's custodial account will be established as a sub-account under the Retirement System's custodial account, with the intent of allowing the Fund to access and invest RHCTF-Fund assets in the passive funds specified in this MOU on the same terms and conditions as the Retirement System. The Retirement System cannot guarantee, however, that the Fund will obtain the same investment terms and conditions as the Retirement System, including fees.

c. The RHCTF Board or its designee is solely responsible for Fund custodial account set up and maintenance, for determining the scope of services for that custodial account, and for paying all fees associated with the account. The Retirement System cannot guarantee specific services, terms, conditions or fees associated with the Fund's custodial account.

d. The Retirement System shall have no responsibility for monitoring, auditing, accounting or reporting regarding the Fund custodial account or Fund assets.

## 2. Investment Options.

a. The RHCTF Board or its designee may invest RHCTF-Fund assets in the passive funds within the public market securities portion of the Retirement System's investment portfolio. Currently, the public market securities portion of that portfolio contains the following passive funds:

- i. S&P 500 (Tobacco Free) Index;
- ii. Northern Trust MSCI EAFE; and
- iii. BlackRock U.S. Debt Index Fund.

The Retirement System agrees to notify the RHCTF-BoardFund, reasonably in advance where practicable, if it adds to or replaces these passive funds.

b. The RHCTF Board or its designee shall have sole responsibility for allocating RHCTF-Fund assets among that passive funds within the public market securities portion of the Retirement System's portfolio. Neither the San Francisco Retirement Board ("Retirement Board") nor the Retirement System shall have any authority or responsibility for recommendations or decisions regarding RHCTF-Fund asset allocation.

c. The RHCTF Board or its designee shall be responsible for directing the custodian regarding investment allocation or reallocation of Fund assets.

d. The RHCTF Board acknowledges and agrees that the Retirement Board has sole and exclusive authority over the Retirement System assets and investments, and that as a fiduciary, the Retirement Board will make investment decisions solely in the interests of the Retirement System members and beneficiaries. The RHCTF Board acknowledges and agrees that it has no role, authority or control over the Retirement

Board and Retirement System investment policies, objectives, asset allocation, or decisions, and that the investment policies, objectives, asset allocations, and decisions of the Retirement Board and Retirement System may not align with those of the RHCTF Board or the Fund. The RHCTF Board acknowledges and agrees that it will not involve itself in or attempt to influence the Retirement Board and Retirement System investment process or decision making; for example, it will not request modification to or addition of passive funds within the Retirement System's public market securities portfolio.

e. The RHCTF Board acknowledges and agrees that risk is inherent in the investment process. The performance of any particular passive fund or return on any investment under this MOU is not guaranteed. Past investment performance is not indicative of future investment performance, and the value of investments can fall as well as rise. The Retirement Board and Retirement System do not, and cannot, guarantee any expected return on the investments available to the Fund under this MOU or guarantee that there will not be investment losses.

3. Manager Fees. The Fund shall be responsible for all fees and costs associated with RHCTF-Fund assets and investments, including manager fees ~~of its Fund managers~~. The Retirement System cannot guarantee that the ~~Fund~~ managers will charge the Fund the same ~~manager~~ fee as they charge the Retirement System for investment in the passive funds under this MOU.

4. No Fiduciary Duty. The Retirement Board and the Retirement System shall have no fiduciary duty with regard to the Fund, Fund assets, the RHCTF Board or any beneficiaries of the RHCTF Fund.

5. Indemnification. The Fund shall indemnify, hold harmless, and defend the Retirement Board and Retirement System from and against any and all claims, damages, losses, liabilities, suits, costs, charges, expenses (including, but not limited to, reasonable attorneys' fees and court costs), judgments, fines and penalties resulting from any action, proceeding, suit, claim, or judgment suffered or incurred by the Retirement Board or Retirement System, or their officers, employees or agents, of any nature whatsoever, arising from or relating to the investment of Fund assets under this MOU or any other acts or omissions under this MOU.

6. Reimbursement for Retirement System Costs. The Fund understands and agrees that the Retirement System cannot expend Retirement System trust funds to cover costs associated with Fund investments. The Fund agrees to reimburse the Retirement System for any and all out of pocket costs and staff time spent on Fund investments, Fund administration, or other matters covered by this MOU.

7. Term. This MOU shall continue in effect until terminated, except as otherwise provided in this Section 7. Either party may terminate this MOU on sixty (60) days advance written notice to the other party.

a. If the RHCTF Board or its designee withdraws all assets invested in the passive funds within the Retirement System’s public market securities portfolio, the ~~RHCTF Board~~ Fund shall provide notice of the withdrawals to the Retirement System, and this MOU shall terminate automatically.

b. The investment arrangement under this MOU is premised on the understanding that the arrangement will not adversely effect the fees charged to the Retirement System or other aspects of the Retirement System’s investments and investment opportunities. If the Retirement System determines that the investment arrangement has resulted in such adverse effects, it may immediately terminate this MOU.

8. Notices. All notices or other communications required or desired to be given under this MOU shall be in writing, and shall be deemed to have been given if delivered by facsimile with telephone confirmation of receipt, or by overnight courier, or if mailed by first class registered or certified mail, postage prepaid, and addressed as follows:

To the Retirement System:

To the Fund:

Jay Huish  
Executive Director  
San Francisco City and County Employees’  
Retirement System  
30 Van Ness Avenue, Suite 3000  
San Francisco, CA 94102  
Fax No. (415) 487-7023

[Insert Contact Info]

IN WITNESS WHEREOF, the parties hereto have executed this MOU as of the date first referenced above.

\_\_\_\_\_  
Jay Huish, Executive Director  
San Francisco City and County Employees’  
Retirement System

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
Pauline Marx, President  
Retiree Health Care Trust Fund Board

\_\_\_\_\_  
(Date)