



Kern County Employees' Retirement Association

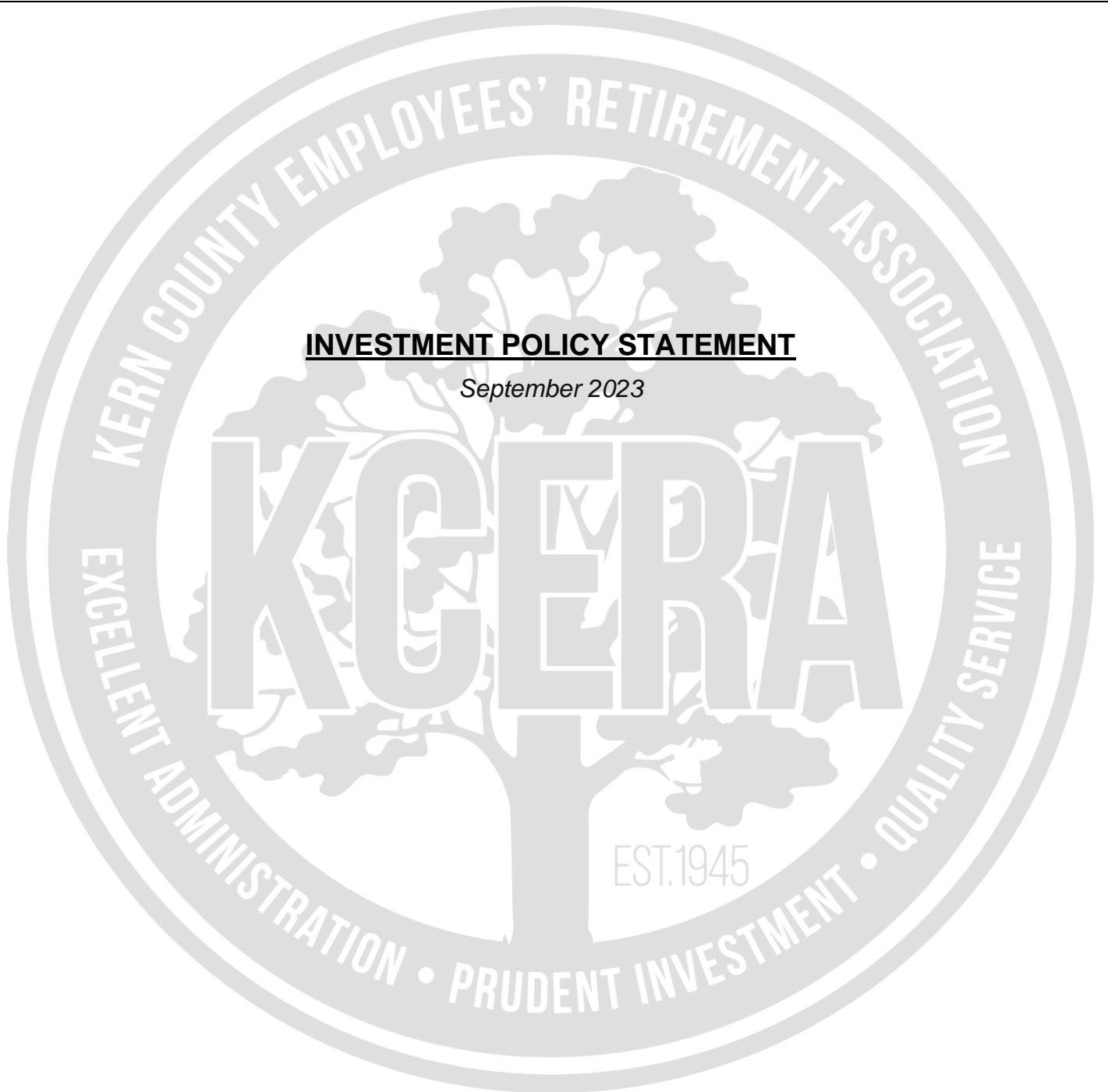
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**INVESTMENT POLICY STATEMENT**

*September 2023*

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## **MISSION STATEMENT AND PURPOSE**

### **Mission Statement**

The mission of the Kern County Employees' Retirement Association ("KCERA") is to prudently administer the retirement benefits, invest the assets of the Association, and provide quality membership services for eligible public employees, retirees and their beneficiaries.

### **Purpose**

This Investment Policy Statement establishes policies for the administration and investment of KCERA's plan assets ("Plan"). This policy formally documents the goals, objectives, and guidelines of the investment program, and is intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure prudence, consistency, and care.

The purpose of this policy is to set forth in writing:

1. An appropriate set of goals and objectives regarding the investment of the Plan;
2. The position of KCERA's board ("Board) with respect to the Plan's investment risk/return posture, including asset allocation; and
3. The establishment of investment guidelines.

Further, this policy seeks to ensure the investment of the Plan in a manner consistent with the County Employees Retirement Law of 1937 (commonly known as "the CERL," Government Code Section 31450 et seq.) and other applicable state and federal statutes.

### **BACKGROUND**

KCERA is governed by the CERL. Sections 31594 and 31595 of the CERL provide for prudent person governance of the Plan. Under this law, the type and amount of Plan investments as well as the quality of securities is not specifically delineated, rather the investments made are assumed to be in the best interest of the Plan such that others with similar information would acquire similar investments. These statutory provisions are set forth below:

It is the intent of the Legislature, consistent with the mandate of the voters in passing Proposition 21 at the June 5, 1984, Primary Election, to allow the Board of any retirement system governed by this chapter to invest in any form or type of investment deemed prudent by the Board pursuant to the requirements of Section 31595. It is also the intent of the Legislature to repeal, or amend as appropriate, certain statutory provisions, whether substantive or procedural in nature, that restrict the form, type, or amount of investments that would otherwise be considered prudent under the terms of that section. This will increase the flexibility and range of investment choice available to these retirement systems, while ensuring protection of the interests of their beneficiaries.

(Cal. Gov. Code §31594).

The Board has exclusive control of the investment of the employees' retirement fund. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system. Except as otherwise expressly restricted by the California Constitution and by law, the Board may, in its discretion, invest, or delegate the authority to invest, the assets of KCERA through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board.

The Board and its officers and employees shall discharge their duties with respect to the system:

- a) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.
- b) With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- c) Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

(Cal. Gov. Code §31595).

KCERA was established under the provisions of the CERL on January 1, 1945, by the Kern County Board of Supervisors, and its management is vested in a Board of retirement.

### **INVESTMENT OBJECTIVES**

The primary investment objectives for the Plan shall be:

1. Earn a long-term net of fees rate of return which is equal to or exceeds the Plan's assumed rate of return;
2. Earn a long-term net of fees rate of return which is equal to or exceeds the established benchmark ("Policy Benchmark"). The Policy Benchmark is identified in Appendix B; and
3. Earn a long-term net of fees rate of return which exceeds the long-term rate of inflation.

Rates of return are to be time-weighted total return.

## LONG-TERM STRATEGIC ASSET ALLOCATION

The long-term strategic asset allocation (herein referred to as “asset allocation”, “target asset allocation”, or “strategic asset allocation”) is one of the most important investment decisions the Board makes. The primary objective of the asset allocation decision is to establish an asset allocation which produces the highest expected investment return with a prudent level of risk.

The Board selects an asset allocation that is predicated on a number of factors, including:

1. Actuarial considerations of the Plan, including current and projected contributions, benefit payments, assets, liabilities, and funded status;
2. Appropriate levels of risk and return, as evidenced by various quantitative techniques, including mean-variance optimization, stress testing, and scenario analysis;
3. An assessment of potential future economic conditions;
4. Long-term capital market assumptions; and
5. Liquidity considerations.

The Board’s selected strategic asset allocation, including target weights and allowable ranges are illustrated in Appendix A.

### Rebalancing

From time to time the Plan’s actual asset allocation will deviate from the strategic asset allocation. Rebalancing can occur between asset classes, within an asset class, and between investment managers, with the objective of maintaining the strategic asset allocation exposures. Rebalancing or portfolio allocation changes can also occur in response to specific risks or anticipated changes in markets. The Chief Investment Officer shall determine appropriate rebalancing actions, and obtain the written consent of the Chief Executive Officer. The Chief Executive Officer has the authority to sign and execute any trade authorization, subscription, redemption, or related documentation in order to implement rebalancing actions. When rebalancing activity occurs, the Board shall be notified of such activity at the next regularly scheduled Board meeting. Rebalancing may occur through the buying and selling of physical investments or through the use of derivatives.

### Cash Flow Management

The Chief Investment Officer will monitor cash flow activity and maintain a cash flow forecast in order to ensure the payment of benefits, expenses, capital calls, and other investment activity, while also reducing friction from excess levels of cash. When liquidations of assets are necessary to meet cash flow needs, the Chief Investment Officer will determine the appropriate sources of liquidity and will obtain the written consent of the Chief Executive Officer. The Chief Executive Officer has the authority to sign and execute any trade authorization, redemption, or related documentation in order

to implement cash flow management actions. Investment managers should receive adequate notification so that cash can be raised efficiently.

## **INVESTMENT MANAGER GUIDELINES**

The Board has adopted the following guidelines to be used in limiting exposure to an investment manager (herein referred to as “Manager”). The Board may override these policies under special circumstances:

1. The maximum allocation to a single active Manager is 12% of the Plan;
2. The maximum allocation to a single active management product is 8% of the Plan; and,
3. No investment with any single investment strategy may exceed 10% of that Manager’s total assets under management.

There is no maximum allocation limitation for passive Managers or their passive investment products.

It is the intention of the Board to allow Managers full discretion within the scope of this policy, the operative fund documents, any Investment Management Agreement (“IMA”) or side letter agreement, and any laws or applicable federal and state statutes or regulations that supersede these documents. Investment guidelines for individual mandates are contained in each Manager’s IMA.

Unless specifically provided for in the manager’s operative fund documents or investment guidelines, the following transactions are generally prohibited: purchase of non-negotiable securities, short sales, transactions on margin, use of leverage and use of options.

## **RISK MANAGEMENT**

The Board recognizes it must accept risk to sufficiently grow assets to meet promised benefit payment obligations, and that taking risk needs to be balanced with capital preservation. The Board’s risk tolerance is a function of this perspective.

### **Risk**

Risk is a broad concept and can generally be thought of as the likelihood of an unfavorable outcome. Investment management is a process of taking risk (i.e. exposing assets to potentially unfavorable outcomes). A key component of taking risk is understanding the relationship between positive outcomes and negative outcomes, both in terms of likelihood and magnitude.

The Plan is exposed to numerous risks, and no single metric or measure encompasses the complexity of those risks. The risk management process identifies, measures, and evaluates risks, so that risks taken are intentional and prudent.

## **Risk Management Process**

The risk management process includes:

1. Identifying risk;
2. Measuring risk; and
3. Evaluating risk.

This process assists in determining what risks are acceptable and how to appropriately size them. The risk management process is integral to the investment process, whether it be selecting a strategic asset allocation, structuring an asset class, hiring a Manager, rebalancing the portfolio, or managing cash flows.

## **Risk Metrics**

The Board uses various metrics and tools to measure and understand risk. These are important elements in evaluating risk, and include standard deviation, tracking error, beta, upside capture, downside capture, stress testing, scenario analysis, and liquidity. In addition to specific metrics, various risk concepts can help understand and evaluate risk, including counterparty risk, operational risk, and execution risk.

## **Risk Reporting**

Risk metrics are included in the quarterly investment performance report. In addition, other measures of risk are presented to the Board on an ad hoc basis when deemed necessary by the Chief Investment Officer and the investment consultant. To appropriately evaluate risk, an understanding of economic, political, and financial market environments is helpful, thus an investment landscape with this type of information is presented to the Board in conjunction with the quarterly investment performance report.

## **INVESTMENT PERFORMANCE REVIEW**

The Board will review the investment results of the Plan quarterly. Investment performance reports will be prepared by the Plan's investment consultant. Performance will primarily be evaluated within the context of the Investment Objectives as set forth in this policy. Manager performance is to be evaluated as set forth in Appendix D.

## **CAPITAL EFFICIENCY**

The capital efficiency program seeks to improve the returns of the Plan by using derivatives in place of physical securities in traditional markets (equity, fixed income, commodities, etc.), and then utilizing a portion of the unencumbered cash to fund investments in the alpha pool. The capital efficiency program will add value when the alpha pool achieves net of fees and expenses returns that are above the cash funding rate. The Plan can use a third-party overlay provider to manage derivative exposure. The derivative exposure is collateralized with a combination of cash and investments.

## ASSET CLASSES

The Board has decided to invest in the following asset classes:

**PUBLIC EQUITY:** Publicly traded global equities is a core asset class and serves the primary goal of return generation. Regional exposures include domestic, international developed, and emerging markets (including frontier markets).

**FIXED INCOME:** Fixed income securities are a core asset class and serves the primary goals of liquidity as well as risk mitigation, at least to the extent that the inverse relationship between equities and bonds hold. A secondary goal is income generation and diversification.

Fixed income includes, but is not limited to, two broad sub-asset classes: core and credit. The core allocation emphasizes the primary fixed income goals of liquidity and risk mitigation, while the credit allocation emphasize the secondary objectives of income generation, and diversification.

**COMMODITIES:** The primary goals of the commodities allocation are return generation, positive correlation to inflation, and diversification.

**HEDGE FUNDS:** The primary goals of the hedge funds allocation are diversification, return generation, and downside protection. The hedge funds allocation will diversify across hedge fund strategies (relative value, event driven, equity long/short, and directional), and is expected to have low correlation to public equities and fixed income. The hedge funds allocation should be semi-liquid, with the majority of assets liquid within 1 year, and will generally not be considered a short-term liquidity source.

### Objectives

1. Annualized return expectation of:
  - a. 75% 3-Month Treasury Bill + 300bps; and
  - b. 25% MSCI All Country World Index (Total Return Net).
2. Annualized forecast volatility between 4% and 7%;
3. Sharpe Ratio greater than 1.0; and,
4. Forecast Beta to MSCI All Country World Index of less than 0.3.

### Guidelines

- |                      |          |
|----------------------|----------|
| 1. Strategy          | Ranges   |
| a. Relative Value    | 20 - 40% |
| b. Event Driven      | 15 - 35% |
| c. Equity Long/Short | 10 - 30% |
| d. Directional       | 15 - 35% |

*For purposes of investment strategy ranges, funds are decomposed into their underlying strategies.*



2. No investment with any single Manager can represent more than 15% of the hedge funds allocation.

**ALPHA POOL:** The primary goal of the alpha pool is to generate a cash-plus return through strategies that have low beta exposure, medium to high alpha, and expectations of downside protection. The alpha pool is expected to have low correlation to public equities and fixed income. The alpha pool is a key component of the capital efficiency program.

### **Objectives**

1. Annualized return expectation of 3-Month Treasury Bill + 300bps;
2. Annualized forecast volatility between 3% and 6%; and,
3. Forecast Beta to MSCI All Country World Index of less than 0.2.

**MIDSTREAM:** The primary goals of the midstream allocation are return generation, income generation, and diversification. A secondary goal is the potential for positive correlation to inflation.

**CORE REAL ESTATE:** The primary goals of the core real estate allocation are income generation, positive correlation to inflation, and diversification.

**OPPORTUNISTIC:** The primary goal of the opportunistic allocation is return generation. Opportunistic investments are intended to take advantage of specific market conditions, or investments that are opportunistic in nature, and may include expansion of investments in the current asset allocation or entry into strategies outside of the asset allocation following education regarding the potential investment.

### **Objectives**

- Return expectation at least 3% higher than the assumed rate of return

### **Guidelines**

- Individual investments may not exceed 3% of Plan at time of purchase.

**PRIVATE MARKETS:** The primary goals of the private market allocations are generally consistent with their public market counterparts noted herein, with the additional expectation of higher returns. The expectation of higher returns is a function of the illiquidity, differentiated sources of return, and increased complexity in private markets versus public markets. Private market investments are illiquid and investment horizons can reach 10-15 years or more.

Private markets include three broad sub-asset classes; private equity, private credit, and private real assets (including private real estate).

**CASH:** The primary goals of cash are liquidity and operational efficiency. Cash exposure is defined as physical cash adjusted by the net notional exposure of (a) overlay positions, and (b) derivatives positions for the capital efficiency program. Holding some level of physical cash is necessary for the smooth operation of the Plan. The cash exposure should be minimized and an overlay program may be utilized to reduce the potential drag on performance. Holding physical cash is an important component of the capital efficiency program.

## **ADMINISTRATIVE PRACTICES**

### **Review and Revisions**

The investment consultant or the Chief Investment Officer shall first advise the Chief Executive Officer and then the Board of any restrictions within this policy which may prevent the investment program from meeting the goals and objectives set forth herein. Any violation of this policy discovered by the investment consultant or the Chief Investment Officer shall be reported first to the Chief Executive Officer and subsequently to the Board at the next regularly scheduled Board meeting.

The Board reserves the right to amend this policy at any time deemed necessary, or to comply with changes in state or federal law, or regulations.



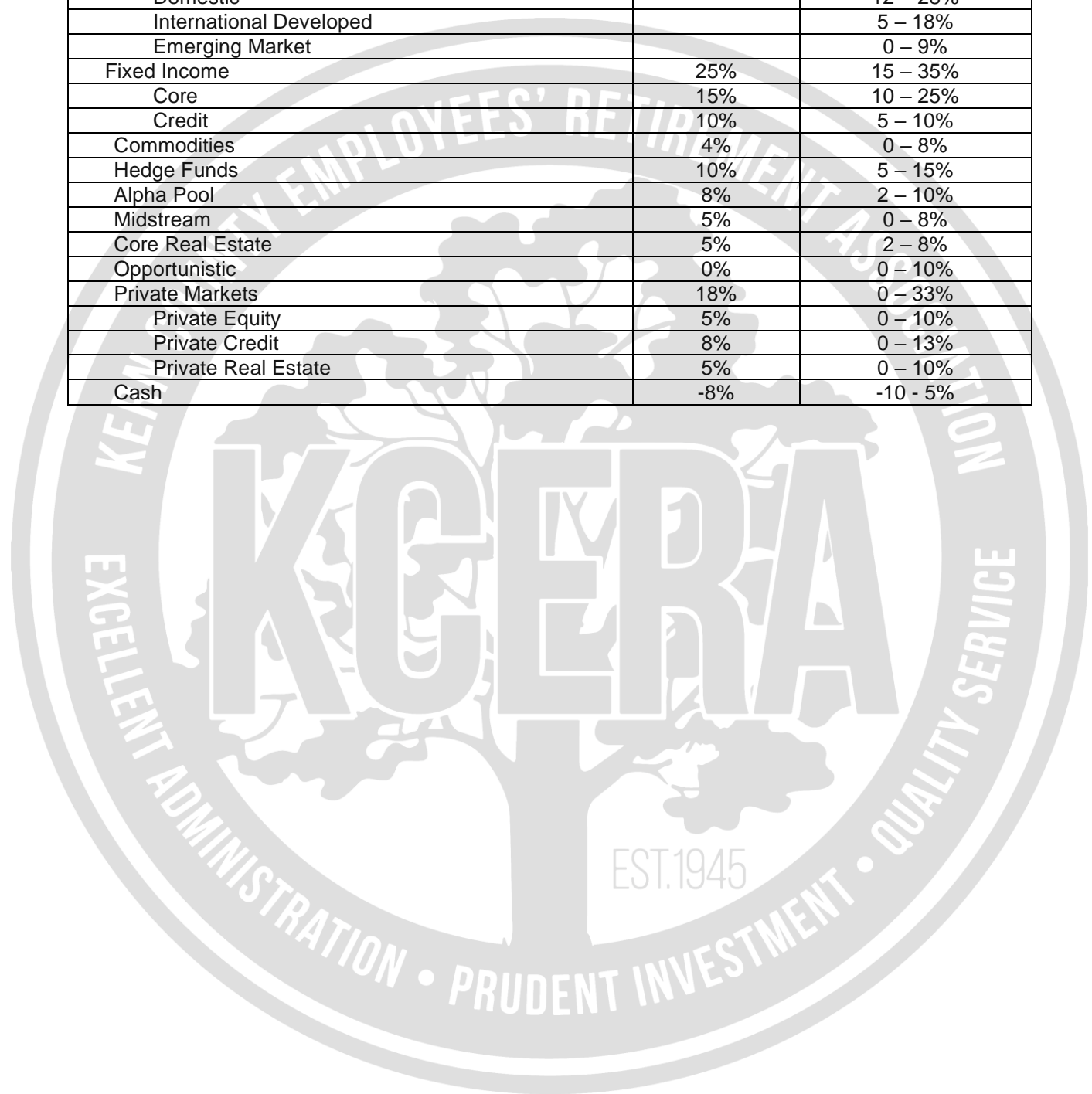
## **POLICY REVIEW AND HISTORY**

- 1) This policy was:
  - a) Adopted by the Board on April 9, 2014.
  - b) Amended by the Board on March 9, 2016; March 13, 2019; May 1, 2019; April 1, 2020; December 9, 2020; April 13, 2022; and September 13, 2023.



## APPENDIX A – ASSET ALLOCATION AND ALLOWABLE RANGES

Asset Class	Target	Range
Public Equity	33%	23 – 45%
Domestic		12 – 28%
International Developed		5 – 18%
Emerging Market		0 – 9%
Fixed Income	25%	15 – 35%
Core	15%	10 – 25%
Credit	10%	5 – 10%
Commodities	4%	0 – 8%
Hedge Funds	10%	5 – 15%
Alpha Pool	8%	2 – 10%
Midstream	5%	0 – 8%
Core Real Estate	5%	2 – 8%
Opportunistic	0%	0 – 10%
Private Markets	18%	0 – 33%
Private Equity	5%	0 – 10%
Private Credit	8%	0 – 13%
Private Real Estate	5%	0 – 10%
Cash	-8%	-10 - 5%



## APPENDIX B – POLICY BENCHMARK

Asset Class	Weight	Benchmark
Equity	33.0%	MSCI All Country World Investable Market Index (Total Return Net)
Fixed Income	25.0%	Blend †
Core	15.0%	3% ICE BofAML 7-10 Year US Treasury Index 4% ICE BofAML US Treasury 10+ 4% Bloomberg Barclays US Aggregate Total Return Value Unhedged USD Index 4% Bloomberg US Corporate Credit 1-3 Year Index
Credit	10.0%	5% Securitized (50% Bloomberg Non-Agency CMBS Index; 33.33% Bloomberg ABS Index; 16.67% JP Morgan CLOIE AAA Index) 2.5% Morningstar LSTA Leverage Loan Index 2.5% JP Morgan Emerging Market Bond Index Global Diversified
Commodities	4.0%	Bloomberg Commodity Index
Hedge Funds	10.0%	7.5% 3-Month Treasury Bill + 300bps & 2.5% MSCI All Country World Index (Total Return Net)
Alpha Pool	8.0%	3-Month Treasury Bill + 300bps
Midstream	5.0%	Alerian Midstream Energy Index
Core Real Estate	5.0%	NCREIF-Open End Diversified Core Equity
Opportunistic	0.0%	Assumed rate of return + 300bps
Private Equity	5.0%	Actual time-weighted Private Equity returns ††
Private Credit	8.0%	Actual time-weighted Private Credit returns ††
Private Real Estate	5.0%	Actual time-weighted Private Real Estate returns ††
Cash	-8.0%	3-Month Treasury Bill

† Fixed Income Benchmark is a blend of the fixed income sub-asset class benchmarks and corresponding target weights.  
 †† The Policy Benchmark uses actual private market asset class weights each rounded to the nearest whole percentage point. The difference in actual weight versus target is allocated to the private market's public market "equivalent" (private equity to public equity; private credit to core fixed income and private real estate to core real estate).

## APPENDIX C – INVESTMENT PHILOSOPHY

### Governance

- Governance is the process of establishing and maintaining effective decision-making authority, responsibility, and accountability.
- Effective governance adds value and is a critical element of a successful investment program.
- An effective governance framework includes delegation of decision-making authority to the most capable resources.
- An essential role of the Board is to establish, maintain, and monitor clear and consistent policies of operation.

### Risk

- The primary investment risk for the Plan is that long-term investment returns, together with reasonable and sustainable contributions, are insufficient to meet financial obligations over the long-term.
- Achieving investment goals requires investment risk taking and accepting that losses can and will likely occur.
- Investment management is risk management and the two are inherently linked. Risk and long-term returns are strongly correlated.
- Risk is multi-faceted and not fully quantifiable.
- Investment returns are fueled by multiple sources of risk.

### Asset Allocation

- The long-term strategic asset allocation is the key determinant of the Plan's overall risk and return. Structure and Manager selection impact returns on the margin.
- The liability profile, sponsor position, funded status, and tolerance for adverse outcomes, should form the basis for establishing an appropriate level of risk for the Plan.
- The global opportunity set is dynamic, and a tactical approach to identifying opportunities can add value. However, a well-defined and adequately resourced process needs to be present.

### Investment Horizon

- The long-term nature of the liabilities generally implies a long-term investment horizon. That said, at times short-term market conditions should be considered and balancing the short-term with the long-term is appropriate.
- Having a long-term investment horizon is an advantage, if utilized appropriately.
- A long-term investment horizon can lend itself to investing in illiquid assets and the opportunity to earn higher returns.

## **Diversification**

- Diversification improves the stability of investment returns and the long-term risk-adjusted return of the portfolio.
- Diversification spreads risk across many dimensions including but not limited to, asset class, strategy, industry, market, style, geography, timeframe, and economic sensitivity.

## **Market Efficiency, Structure, and Manager Selection**

- Structure should not cause an asset class to meaningfully deviate from its intended role or purpose.
- Markets are competitive and dynamic. Different markets have varying levels of efficiency, and some markets are more conducive to excess returns than others.
- Skill to generate active risk-adjusted returns over a benchmark (alpha) is rare and difficult to identify in advance and consistently capture.
- Value can be added through Manager selection, provided that Manager selection is well resourced with skill, experience, and focus, and utilizes a rigorous and consistent due diligence process.
- Passive investments reduce some forms of risk and cost, and potentially improve net returns. Utilizing passive investments in both efficient and inefficient markets can be an appropriate decision.

## **Costs**

- Fees, expenses, and transaction costs can have a significant impact on long-term compounded returns and must be clearly justified and carefully managed.
- Investments should be evaluated on an expected net of fees basis. However, an understanding that fees are certain, while returns are not, should be appreciated.

## **Other**

- Value is created by building an organization with in-depth knowledge and experience in global markets and draws on the expertise of a network of external partners.
- A successful investment program requires adequate resources, expertise, focus, and consistency in approach.
- Resources are constrained. Determining appropriate areas to focus and deploy resources is critical to adding value.
- The Plan's people and partners drive success. Develop and retain internal capital, foster a collaborative team-oriented culture that values integrity, excellence, and humility.
- Seek arrangements which ensure alignment of interest with agents and partners and collaborate broadly.
- Attractive risk-adjusted returns can be achieved by being an early adopter in strategies, assets, markets, technologies, and approaches.
- Derivatives and leverage can be efficient tools when utilized prudently.

## **APPENDIX D – MANAGER DUE DILIGENCE, SELECTION, MONITORING AND TERMINATION**

This policy establishes the guidelines for selecting, monitoring, and terminating Managers. This policy aims to retain a high degree of flexibility in how it is applied to Managers. The goal is to implement a process which finds a balance between two undesirable outcomes:

1. Retaining Managers with no value-adding capabilities; and,
2. Terminating Managers with value-adding capabilities

Due to the significant costs involved in replacing Managers, and due to the substantial probability of selecting a value-detracting Manager as a replacement for an existing Manager, this policy is somewhat biased toward avoiding terminating Managers with value-adding capabilities.

### **Manager Search Process – Public Markets**

1. **Initiation and Evaluation:** The Chief Investment Officer will coordinate with the investment consultant regarding due diligence. A written due diligence report will be produced, which articulates the opportunity, rationale, and risk of the investment. Due diligence may include on-site visits or may be performed virtually via video conference.
2. **Investment Committee Approval:** A recommendation memo will be presented to the Investment Committee. With the guidance of the Chief Investment Officer and the investment consultant, the Investment Committee will determine whether to approve the investment and to recommend the investment to the Board. At times, timing considerations will require that an investment be recommended directly to the Board and will not be presented to the Investment Committee.
3. **Board Approval:** A recommendation memo will be presented to the Board for final approval. It is generally understood that the approval is subject to negotiating acceptable terms and conditions with the Manager.

### **Manager Search Process – Private Markets**

The Private Markets program will be managed according to an annual plan produced by the investment consultant whose main components will encompass an update on the private markets program, a recap of prior year activity, a review of the Plan's private market strategy, a review of the annual pacing plan, and a forward calendar of prospective Managers or strategies. The annual plan will serve as a guide to ensure that target allocations are managed, proper diversification is implemented, and overall private market investments are in line with portfolio goals. It is recognized that market environments can change and deviations from the annual plan may be necessary.

The overall search process will be generally in line with public markets:



1. **Initiation and Evaluation:** Guided by the pacing plan and forward calendar, the Chief Investment Officer will coordinate with the investment consultant regarding due diligence. A written due diligence report will be produced, which articulates the opportunity, rationale, and risk of the investment. Due diligence may include on-site visits or may be performed virtually via video conference.
2. **Investment Committee Approval:** A recommendation memo will be presented to the Investment Committee. With the guidance of the Chief Investment Officer and investment consultant, the Investment Committee will determine whether or not to approve the investment and to recommend the investment to the Board. At times, timing considerations will require that an investment be recommended directly to the Board and not be presented to the Investment Committee.
3. **Board Approval:** A recommendation memo, will be presented to the Board for final approval. It is generally understood that the approval is subject to negotiating acceptable terms and conditions with the Manager.

### **Contracting – Public and Private Markets**

Managers shall acknowledge in writing their recognition and acceptance of their role as a fiduciary to the Plan and adherence to an industry-accepted standard of care, which may be established by contract or operation of law. Managers must further agree to adhere to appropriate federal and state legislation governing the Plan and agree to be covered by appropriate and adequate insurance coverage.

Managers retained by the Board shall be compensated by a formula contained in the manager's operative fund documents or Investment Management Agreement. No public markets Manager retained by the Board shall receive a payment of commission or other fees on a particular investment transaction; provided that, performance fees paid to Managers, as documented and agreed to by and between KCERA and the Manager are allowed. Further, Managers must disclose to staff any indirect compensation received in addition to its fees as a result of servicing the Plan. Additionally, alternative Managers will be required to disclose fee information per §7928.710 and §7514.7.

### **Ongoing Monitoring – Public and Private Markets**

Manager evaluation relies on the ongoing review of qualitative and quantitative factors. These factors will be monitored on an ongoing basis in order for the Chief Investment Officer and the investment consultant to apprise the Board of changes which could warrant a change in the Manager's suitability. A key objective of this policy is the timely identification of signs of adverse changes in a Manager's organization or investment process. Factors to monitor include performance, attribution, key contributors and detractors from performance, portfolio positioning and exposures, key positions and investment thesis, changes in the investment team or process, changes in investment product line-up, assets under management and capital flows, administrative or operational changes, and other potential changes in the business.

No less than quarterly the investment consultant reviews each traditional public market Manager of the Plan and produces a written summary, which is provided to staff. In the case of alternative Managers including private market Managers, a review and written summary is produced at least annually. In the case where no investment consultant formally covers the investment, staff will produce a written summary.

Value-adding Managers will experience adverse circumstances, such as underperformance, personnel changes, and loss of assets under management. When Managers experience such events, staff and the investment consultant will evaluate whether appropriate action was taken by the Manager, what impact the action could have, and what other actions may be considered.

### **Termination – Public Markets**

The Board may terminate a Manager for any reason. The Chief Investment Officer or investment consultant may recommend to the Investment Committee if a Manager should be terminated, and upon approval by the Investment Committee, a recommendation for termination will be presented to the Board for final approval.

Should a situation arise whereby a Manager is no longer deemed appropriate for the Plan by the Chief Investment Officer, with concurrence from the investment consultant, and there is insufficient time to present the issue to the Investment Committee or Board, pursuant to the Board of Retirement Charter or Investment Committee Charter, the Board authorizes the Chief Investment Officer, with the written consent of the Chief Executive Officer and advice from the investment consultant, to terminate and replace the Manager with an appropriate “alternate strategy” as expeditiously as possible and in accordance with reasonable due diligence procedures. The “alternate strategy” is intended to be employed temporarily until a permanent replacement can be presented to the Board. When such activity occurs, the Board shall be notified as appropriate, either between Board meetings or at the next regularly scheduled Board meeting. For purposes of this document, “alternate strategy” refers to cash, derivatives, or a low-cost index fund employing a similar investment objective as the terminated Manager.

### **Manager reporting requirements**

#### *All Managers*

- Updated Form ADV - Part 2 on an annual basis

#### *All public markets*

- Monthly account statement and NAV
- Monthly gross and net performance
- Performance commentary at least quarterly
- Positioning, exposure or risk report at least quarterly
- Audited Annual Financial Statements (for fund investments)

#### *Public market investments through separately managed accounts*

- Each quarter, managers shall provide a letter certifying compliance with the portfolio guidelines from the Investment Management Agreement, and compliance with regulatory requirements. Managers are required to advise staff and the investment consultant in writing of any violation.
- Annually, managers shall provide a written report detailing the name of each brokerage institution which received commissions from the Plan as the result of the discretionary trading authority bestowed upon the manager by the Board. The report shall also include for each brokerage firm: the number of shares, average cost per share traded, and the commissions paid.
- Managers are required to advise staff and the investment consultant in writing of any need for changes to the portfolio guidelines; and
- Managers are required to comply with the reporting requirements of the Trading Policy, as detailed in Appendix E
- Managers are required to comply with the reporting requirements of the Asset Pricing Policy, as detailed in Appendix G

*Private markets*

- Quarterly account statement and NAV
- Quarterly performance measures including IRR, and multiples
- Quarterly update of contributions, distributions, and uncalled capital
- Quarterly performance commentary
- Quarterly fund composition, positioning, or exposure reports
- Audited Annual Financial Statements (for fund investments)

## APPENDIX E – TRADING POLICY

The Board has determined that trading costs represent a significant expense to the Plan. The Board has therefore established policies in order to control these costs, and to monitor the level and effectiveness of the trading activity of the Plan.

### Best Price and Execution Standard

1. Notwithstanding anything to the contrary, all trading of securities will be placed by Managers with broker-dealers with the aim of obtaining the best price and best execution, taking into account all factors influencing best execution, as well as the value of all services received or savings obtained by the Plan related thereto, or by the Managers, for the benefit of the Plan.
  - a. The policy of best price and best execution is intended to mean that Managers shall use professional judgment in the selection of broker-dealers and the commissions paid. Managers should be prepared to provide evidence that they are attempting to deliver investment results at the lowest possible level of transaction costs, including the market impact of their trades, and considering the value of all services provided to the Plan for its commission dollars.
  - b. The policy of best price and best execution is intended to provide the most favorable overall results for the Plan.
  - c. Broker-dealers, as referenced herein, include firms which customarily perform trades for an institutional clientele. Such broker-dealers may trade on the floor of the various national and regional stock exchanges or may trade in the third and fourth markets performing transactions outside of the securities exchanges.
2. Inasmuch as trading costs contribute to the gains and losses on the securities held by the Plan, and therefore contribute to the portfolio performance of each Manager, all trades will be placed by Managers at their discretion. Such trades may include fixed income transactions placed on an agency basis. All such trades will be placed within the following general guidelines, consistent with the best price and best execution standard.
  - a. Managers may direct a portion of total annual transactions to broker-dealers who provide the Managers with research. In selecting among these broker-dealers to execute transactions, the Managers shall consider all factors relative to best execution. Such factors should include, but are not limited to, the following:
    - i. price of security;
    - ii. the commission rate;
    - iii. size and difficulty of the order;
    - iv. reliability, integrity, and financial condition of broker-dealer;
    - v. general execution and operational capabilities or competing broker-dealers;

- vi. Manager's investment style; and
  - vii. brokerage and research services provided.
3. When placing trades with broker-dealers, Managers will emphasize minimizing commission costs directly and not seeking sources of value to the Plan through ancillary research services. In selecting these broker-dealers to execute transactions, the Manager will consider all factors relative best execution. Such factors should include, but are not limited to, the following:
- a. price of security;
  - b. the commission rate;
  - c. size and difficulty of the order;
  - d. reliability, integrity, and financial condition of broker-dealer;
  - e. general execution and operational capabilities or competing broker-dealers; and,
  - f. the Manager's investment style.

### **Trading Analysis**

For separately managed account investments, Managers will allow to be performed an analysis of the trading costs of their respective account with the various classes of trading described herein. The Board may engage third parties to independently evaluate the Manager's trading costs and practices to assess whether or not they are achieving best execution. This analysis will be provided to staff no less than every three years.

1. The analysis will summarize and evaluate the cost effectiveness of the various broker-dealers utilized by the Manager, specifically reporting commissions charged per share traded, and an estimate of the total costs incurred in these transactions.
2. The analysis will evaluate instances of higher commissions per share with respect to the many factors affecting best execution and shall consider other services or research provided to the Manager.
3. The analysis will report trading performance by broker-dealer and by investment management account.

## APPENDIX F – PROXY VOTING POLICY

Because the proxy vote is an asset of the Plan, it must be managed prudently and for the exclusive benefit of the Plan. It is the intent of this policy to lay out a broad set of guidelines within which proxies must be voted to maximize shareholder value.

### Guidelines

For all equity oriented separately managed accounts, a proxy voting service provider is retained to vote all proposals submitted to stockholders in accordance with this policy. All commingled investment fund proxies are voted by the respective Manager of each fund in accordance with the Manager's proxy guidelines.

Due to the significant resources required to properly manage a proxy voting program, the Board has chosen to delegate the proxy voting decision to a third-party provider of proxy voting services and to follow that provider's detailed proxy voting guidelines.

The obligations of the third-party provider are as follows:

1. With regard to timely execution of specified proxy votes on the Plan's behalf, including corporate account set up, vote execution reporting and record keeping, and compliance with U.S. SEC and Department of Labor ERISA standards, as applicable, the third party shall carry out its duties and obligations to vote the Plan's proxies in accordance with the standards of fiduciary responsibility set forth in the CERL;
2. The third-party shall cast votes after careful consideration of the issues; and
3. The third-party shall describe the rationale for its votes.

The overarching and universal guideline is that proxies must be voted in the best interest of the Plan and its beneficiaries and in order to maximize shareholder value. In following this broad, all-encompassing guideline, the third-party provider shall follow its own detailed guidelines, which provide specific instruction on how to vote proxies in alignment with and support of the following key principles:

1. A board of directors that serves shareholder interests;
2. Transparency and integrity in financial reporting;
3. A strong link between compensation and performance; and
4. A governance structure that clearly supports shareholder interests.

The third-party provider's detailed guidelines may change over time. A copy of the current guidelines shall be maintained by staff.

### Monitoring

The third-party service provider shall provide monthly reports to staff, which include a list of all proxies voted on behalf of the Plan, along with the rationale for the votes. On an

annual basis, staff will provide the Board with a consolidated report summarizing the previous year's proxy voting activity.



## APPENDIX G – ASSET PRICING POLICY

This policy provides a process for the valuation of securities in separately managed accounts where the prices listed by the Plan's master custodian bank ("Custodian") are substantially different from the Manager's prices for those same securities. The Board recognizes that there are coverage limitations for security prices as provided by the Custodian's pricing matrix and third-party pricing provider prices. In those situations, where pricing is disputed between the Manager and the Custodian, the approach outlined in this policy will be implemented.

The Custodian will provide official pricing for all of the Plan's separately managed accounts with the following exceptions:

1. Issue specific market values may be priced by the Manager where no reliable third-party pricing source is available; and
2. Disputed issue prices may use the price provided by the Manager when the Manager provides the average of at least three dealer prices (bid-side).

In the case of disputed issue prices, staff may, in accordance with this policy, direct the Manager to provide its price to the Custodian and may direct the Custodian to accept the Manager's price as the official price for that issue. Valuation documentation should contain the following:

1. Sources and/or quantitative calculation used to determine the respective issue prices;
2. Percentage difference between Manager's price relative to the price generated by the master trustee bank; and
3. Aggregate percentage of the portfolio's market value for the securities priced by the Manager.

Monthly reports including the above documentation must be sent by the Manager to staff, the Custodian, and the investment consultant five days after receipt of the statement from the Custodian.

Securities held in commingled accounts are valued according to the pricing policy of the individual commingled fund Manager.

All Managers shall provide a copy of their pricing policy and pricing matrix to staff.



## APPENDIX H – MANAGER RECONCILIATION REQUIREMENTS

The Board seeks to ensure greater accuracy through the implementation of a reconciliation reporting process. The Plan's separately managed account Managers shall provide written acknowledgment of the accuracy of the Custodian's records, and it is the responsibility of the Manager to reconcile with the Custodian all discrepancies in cash and holdings. The reconciliation report will list the assets and liabilities of the account that have discrepancies for both the number of shares/par value and pricing. The Manager's reconciliation report must be received by staff within 30 days of the close of the reporting month.

For traditional Managers who charge incentive fees, the Managers are responsible for reconciling its portfolio return and benchmark calculation. The reconciliation report will provide the Manager's monthly returns as well as the incentive fee calculation for the quarter. The report will show both gross and net-of-fees returns. The manager's reconciliation report must be received by staff along with the invoice billed for the quarter.

