August 31, 2023

Members, Board of Retirement
Employee Bargaining Units
Requesting News Media
Other Interested Parties

Subject: Meeting of the Kern County Employees' Retirement Association Investment Committee

Ladies and Gentlemen:

A meeting of the Kern County Employees' Retirement Association Investment Committee will be held on Tuesday, September 5, 2023 at 8:30 a.m. in the KCERA Boardroom, 11125 River Run Boulevard, Bakersfield, California, 93311.

How to Participate: Listen to or View the Board Meeting

To listen to the live audio of the Board meeting, please dial one of the following numbers (for best audio a landline is recommended) and enter ID# 854 0153 1316

- (669) 900-9128; U.S. Toll-free: (888) 788-0099 or (877) 853-5247

To access live audio and video of the Board meeting, please use the following:

- https://us02web.zoom.us/j/85401531316?pwd=bGNjc3lpZG1ydWRHWjVSN1RiRnBYZz09
- Passcode: 046843

Items of business will be limited to the matters shown on the attached agenda. If you have any questions or require additional service, please contact KCERA at (661) 381-7700 or send an email to administration@kcera.org.

Sincerely,

Dominic D. Brown
Chief Executive Officer

Attachments

AGENDA:

All agenda item supporting documentation is available for public review on KCERA's website at www.kcera.org following the posting of the agenda. Any supporting documentation that relates to an agenda item for an open session of any regular meeting that is distributed after the agenda is posted and prior to the meeting will also be available for review at the same location.

AMERICANS WITH DISABILITIES ACT
(Government Code §54953.2)

Disabled individuals who need special assistance to listen to and/or participate in the meeting of the Board of Retirement may request assistance by calling (661) 381-7700 or sending an email to administration@kcera.org. Every effort will be made to reasonably accommodate individuals with disabilities by making meeting materials and access available in alternative formats. Requests for assistance should be made at least two (2) days in advance of a meeting whenever possible.

CALL TO ORDER

ROLL CALL (IN PERSON)

AB 2449 REMOTE APPEARANCE(S)

Items 1 and/or 2 withdrawn from agenda if no trustees will have a need to appear via teleconference:

The first two items on the agenda are reserved for trustees who have a need to appear via teleconference due to a "just cause" need or an "emergency circumstance." Trustees who have notified this Committee before agenda-posting will be called upon and will provide a general description of their need to attend via teleconference as allowed by law. Trustees who were not able to notify the Committee in advance of posting and have a need to attend via teleconference will state their notification or request when called upon to do so. All trustees appearing via teleconference will need to disclose any adult person(s) present in the room of their remote location and their relationship to such person(s). Trustees appearing remotely are reminded to keep their camera on throughout the meeting.

1. JUST CAUSE CIRCUMSTANCE(S):

   a) The following Trustee(s) have notified the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code § 54953).

      - NONE

   b) Call for Trustee(s) who wish to notify the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code § 54953).

2. EMERGENCY CIRCUMSTANCE(S):

a) The following Trustee(s) have requested the Committee approve their attendance of this meeting via teleconference due to an "Emergency Circumstance." (See Government Code § 54953).

- NONE

b) Call for Trustee(s) requesting the Committee approve their attendance of this meeting via teleconference due to an "Emergency Circumstance." (See Government Code § 54953).

TAKE ACTION ON REQUEST(S) FOR REMOTE APPEARANCE

3. Update on status of investment manager on-site due diligence compliance review presented by Chief Investment Officer Daryn Miller, CFA – HEAR PRESENTATION

4. Discussion and appropriate action on updated Investment Policy Statement (IPS) presented by Scott Whalen, CFA, and Chief Investment Officer Daryn Miller, CFA – APPROVE; RECOMMEND ADOPTION OF UPDATED INVESTMENT POLICY STATEMENT TO THE BOARD OF RETIREMENT

5. Discussion and appropriate action on recommendation for Japan Equity Investment Managers presented by Scott Whalen, CFA, Chief Investment Officer Daryn Miller, CFA, and Investment Analyst II Rafael Jimenez – RECOMMEND THE BOARD OF RETIREMENT APPROVE LAZARD ASSET MANAGEMENT AND DALTON INVESTMENTS AS JAPAN EQUITY INVESTMENT MANAGERS; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW

6. Discussion and appropriate action on transition manager recommendation presented by Scott Whalen, CFA, Chief Investment Officer Daryn Miller, CFA, and Senior Investment Officer Geoff Nolan – RECOMMEND THE BOARD OF RETIREMENT APPROVE BLACKROCK AS TRANSITION MANAGER; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW

PUBLIC COMMENTS

7. The public is provided the opportunity to comment on agenda items at the time those agenda items are discussed by the Committee. This portion of the meeting is reserved for persons to address the Committee on any matter not on this agenda but under the jurisdiction of the Committee. Committee members may respond briefly to statements made or questions posed. They may ask a question for clarification and, through the Chair, make a referral to staff for factual information or request staff to report back to the Committee at a later meeting. Speakers are limited to two minutes. Please state your name for the record prior to making a presentation.

REFERRALS TO STAFF, ANNOUNCEMENTS OR REPORTS

8. On their own initiative, Committee members may make a brief announcement, refer matters to staff, subject to KCERA's rules and procedures, or make a brief report on their own activities.

9. Adjournment

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Memorandum from the
Office of the Chief Investment Officer
Daryn Miller

Date: September 5, 2023

To: Trustees, Investment Committee

From: Daryn Miller, Chief Investment Officer

Subject: **On-site Due Diligence Compliance Update**

SUMMARY

On a periodic basis the investment staff performs a comprehensive review of all investment-related policy requirements to ensure that KCERA is in compliance with applicable policies.

During June 2023, the investment staff performed a policy compliance review. Upon completion of this review, the investment staff noted that KCERA was out of compliance with the Investment Policy Statement (IPS) requirement regarding on-site due diligence by the Investment Consultant. The policy states that "The Investment Consultant will meet on-site with each manager at least once every three years."

The onsite due diligence non-compliance that staff identified generally falls into three categories:

1. Legacy private market investments, where the Plan does not intend to reinvest, and investments are nearing the end of their life (3)
2. In-person meetings occurred with a manager, but were held at an off-site location, not on-site at the manager's office. For example, at a conference or event venue (3)
3. Meetings that were held virtually (10)

Note: Figures in parenthesis indicates number of instances identified.
The Plan has a total of 89 unique fund/strategy investments, with a total of 63 managers.

Given the onset of COVID-19 and the mandatory travel restrictions that were imposed by federal and state health officials, the findings on manager due diligence non-compliance was not surprising.

The COVID-19 pandemic radically accelerated the adoption of video conferencing. Many meetings that were held via phone conversation pre-COVID-19, are now done via video conferencing, and many meetings that were held in-person pre-COVID-19, are now also done via video conferencing. In a post-COVID-19 world, video conferencing has become the dominant form of communication with managers.

While we recognize appropriate situations for on-site meetings remain, and there is value that can be extracted from those meetings, we believe it should not be a policy requirement. Thus, investment staff looks to reflect this change through a revision to the IPS, which adds the flexibility to perform manager due diligence via video conferencing, as well as other avenues, but eliminates the on-site requirement.

KCERA

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Presented by:

Daryn Miller, CFA

Chief Investment Officer

Updating the Investment Policy Statement (IPS)

01. Removing inconsistencies and improving policy language

02. Updating manager due diligence and removing watch list

03. Updating asset class descriptions, asset allocation target, ranges, and benchmarks

04. Clearly stating hedge return objective

General Policy Language

- General wordsmithing and streamlining throughout the entirety of the IPS to improve consistency, clarity and promote the reader's understanding. This goal is achieved through:
    - Use of abbreviated references to "KCERA" and the "Plan"
    - Consistency in the use of uppercase and lowercase characters
    - Removing language that is redundant and/or unnecessary to concisely
    - Improving the use "goals" and "objectives"
    - Adding more descriptive language where necessary to enhance clarity

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Rebalancing and Risk Management

- **Rebalancing**
  - Clarifying the use of derivatives, which may not fully collateralized due to Capital Efficiency program
- **Risk Management**
  - Improving description of the risk management process
  - Consolidating steps in the risk management process

Asset Classes and Administrative Practices

- **Asset Classes**
    - Improving description of asset classes where necessary, including the addition of language to better understand the goals and characteristics of specific asset classes within the context of the entire Plan
    - Incorporating Fixed Income changes from recently approved asset allocation
    - Adding return objective for hedge funds
    - For hedge funds and alpha pool reducing return objective from +400bps to +300bps, reflecting higher interest rate environment
- **Administrative Practices**
    - Enhancing language around notification of IPS violations to the Board

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Asset Allocation Target, Ranges, and Policy Benchmark

- **Asset Allocation Target and Range**
  - Updating Asset Allocation targets and fixed income sub-asset class to reflect changes approved at the August 2023 Board of Retirement meeting
  - Updating Ranges in response to the new Strategic Asset Allocation approved at the August 2023 Board of Retirement meeting
- **Policy Benchmark**
  - Updating Policy Benchmark in response to the new Strategic Asset Allocation approved at the August 2023 Board of Retirement meeting
  - Changing the re-allocation of private real estate underweight from core fixed income to core real estate to better align beta exposure.

Investment Philosophy and Statutory References

- **Investment Philosophy**
  - Fine-tuning Investment Philosophy and eliminating redundancy
- **Statutory References**
  - Updating code sections where needed to reflect current code

Manager Due Diligence

- **Due Diligence**
  - Consolidating the “Initiation” and “Evaluation” steps, and streamlining search process
  - Revising requirements for onsite due diligence to include virtual due diligence assessments via video conference
  - Increasing consistency between public markets and private markets due diligence, where appropriate
  - Adding requirement for written summary for strategies where no investment consultant is formally providing coverage
  - Removing requirement for investment consultant on-site due diligence at least every three years.
  - Improving readability around Contracting
- **Watch List**
  - Eliminating the investment manager “Watch List” concept

Manager Reconciliation Requirements

- **IPS - Appendix H**
  - Streamlining the process of receiving and reviewing the reconciliations provided by Managers

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www.kcera.org

INVESTMENT POLICY STATEMENT

~~April~~ September ~~2022~~2023

Table of Contents

MISSION STATEMENT AND PURPOSE

Mission Statement

The mission of the Kern County Employees’ Retirement Association (“KCERA”~~ or “Plan”~~) 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 ~~the Kern County Employees’ Retirement Association’s~~KCERA’s p~~P~~lan assets (“Plan”). This policy formally documents the goals, objectives, and guidelines of the i~~I~~nvestment p~~P~~rogram, 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 ~~and goals~~ regarding the investment of the Plan’s assets;~~ and~~
2. The position of ~~the~~ KCERA’s b~~B~~oard (“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

~~The Kern County Employees’ Retirement Association (“~~KCERA~~”)~~ is governed by the ~~County Employees Retirement Law of 1937~~ CERL. ~~It is also governed by California Government Code~~ Sections 31594 and 31595 of the CERL~~, which~~ 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~~ounty Employees' Retirement Law~~ 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 ~~and goals~~ 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 ~~single~~ most important investment decision the Board makes. The primary objective of the asset allocation decision~~policy~~ is to establish~~provide~~ an asset allocation which produces the highest expected investment return with~~in~~ a prudent level of risk ~~tolerance~~.

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 ~~approved asset classes,~~ 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~~, or~~ in response to specific risks or anticipated changes in markets. The Chief Investment Officer shall determine appropriate rebalancing actions, and obtain the ~~expressed~~ 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 ~~fully collateralized~~ 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 ~~expressed~~ 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 "M~~m~~anager"). The Board may override these policies under special circumstances:

1. The maximum allocation to a single active ~~m~~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 ~~m~~Manager's total assets under management.

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

It is the intention of the Board to allow ~~m~~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. ~~Specific i~~Investment guidelines for individual mandates are contained in each ~~m~~Manager's ~~Investment Management Agreement~~ 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~~in~~ taking risk (i.e. exposing assets to potentially unfavorable outcomes). A key component of taking risk is ~~the~~ understanding ~~of~~ 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~~, measured, understood,~~ and prudent.

Risk Management Process

The risk management process includes

1. I~~i~~dentifying risk;
2. ~~understanding risk;~~
3. M~~m~~easuring risk; and
4. E~~e~~valuating risk.

This process assists in determining what risks are acceptable and how to appropriately size them. The risk management process is integral to ~~all aspects of~~ the investment process, whether it be selecting a strategic asset allocation, structuring an asset class, hiring a ~~m~~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~~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~~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 ~~objective~~ 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 ~~objectives~~ goals of liquidity as well as risk mitigation, at least to the extent that the inverse relationship between equities ~~stocks~~ and bonds ~~of the past few decades continues to~~ hold. A secondary ~~objective~~ goal is income generation and diversification.

Fixed income includes, but is not limited to, ~~3~~ two broad sub-asset classes:~~;~~ core and~~,~~ credit~~, and emerging market debt~~. The core allocation emphasizes the primary fixed income ~~objective~~ goals of liquidity and risk mitigation, while the credit allocation~~and emerging market debt~~ emphasize the secondary objectives of income generation, and diversification.

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

HEDGE FUNDS: The primary ~~objectives~~ 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 ~~will have a low~~ expected to have low correlation to ~~core asset classes including~~ public equities and fixed income~~bonds~~. The hedge funds allocation should~~will~~ be semi-liquid, with the majority of assets liquid within 1 year, and will generally not be considered ~~as~~ a short-term liquidity source.

Objectives

1. Annualized return expectation of:
    a. 75% 3-Month Treasury Bill + 300bps;
    ~~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 M~~m~~anager can represent more than 15% of the hedge funds allocation.

ALPHA POOL: The primary goal~~objective~~ 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~~fer good~~ downside protection. The alpha pool is ~~will have a low~~ expected to have low correlation to ~~core asset classes including~~ public equities and fixed income~~bonds~~. The alpha pool is a key component of the capital efficiency program.

Objectives

1. Annualized return expectation of 3-MonthTreasury Bill + ~~4~~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~~objectives~~ of the midstream allocation are return generation, income generation, and diversification. A secondary goal~~objective~~ is the potential for positive correlation to inflation~~sensitivity~~.

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

OPPORTUNISTIC: The primary goal~~objective~~ of the opportunistic allocation is return generation. Opportunistic~~Such~~ 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~~objectives~~ of the private market~~s~~ allocations are generally consistent with their public market counterparts noted herein, with the additional expectation of higher returns. The expectation ~~for~~ of higher returns is a function of the illiquidity, differentiated sources of return, and increased complexity~~, and administrative burden~~ 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~~3~~ broad sub-asset classes~~areas~~; private equity, private credit, and private real assets (including private real estate).

CASH: The primary goals~~objectives~~ 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~~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 ~~I~~investment ~~P~~program from meeting~~obtaining~~ the goals and objectives~~ and goals~~ set forth herein. Any violation of ~~the investment guidelines or other sections of~~ this policy discovered by the ~~Investment Consultant~~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; and April 13, 2022.

APPENDIX A – ASSET ALLOCATION AND ALLOWABLE RANGES

Asset Class	Target	Range
Public Equity	33~~7~~%	23~~32~~ – 45~~6~~%
Domestic		12~~6~~ – 28~~7~~%
International Developed		5~~8~~ – 18%
Emerging Market		0~~1~~ – 9%
Fixed Income	25~~4~~%	15~~20~~ – 35~~4~~%
Core	15~~4~~%	10~~2~~ – 25%
Credit	10~~6~~%	5~~3~~ – 10~~9~~%
~~Emerging Market Debt~~	~~4%~~	~~1 – 7%~~
Commodities	4%	0 – 8~~6~~%
Hedge Funds	10%	5 – 15%
Alpha Pool	8~~5~~%	2~~0~~ – 10~~7~~%
Midstream	5%	0 – 8~~7~~%
Core Real Estate	5%	2~~3~~ – 8~~7~~%
Opportunistic	0%	0 – 10%
Private Markets	18~~5~~%	0 – 33~~0~~%
Private Equity	5%	0 – 10%
Private Credit	8~~5~~%	0 – 13~~0~~%
Private Real Estate	5%	0 – 10%
Cash	-8~~5~~%	-10~~7~~ - 5%

APPENDIX B – POLICY BENCHMARK

Asset Class	Weight	Benchmark
Equity	33~~7~~.0%	MSCI All Country World Investable Market Index (Total Return Net)
Fixed Income	25~~4~~.0%	Blend †
Core	15~~4~~.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~~6~~.0%	5% Securitized (50% Bloomberg Non-Agency CMBS Index; 33.33% Bloomberg ABS Index; 16.67% JP Morgan CLOIE AA Index) ~~Intercontinental Exchange Bank of America US High Yield Master II Index~~ 2.5% Morningstar LSTA Leverage Loan Index 2.5% JP Morgan Emerging Market Bond Index Global Diversified
~~Emerging Market Debt~~	~~4.0%~~	~~50% J.P. Morgan Emerging Market Bond Index Global Diversified &~~ ~~50% J.P. Morgan Government Bond Index-Emerging Markets Global Diversified~~
Commodities	4.0%	Bloomberg Commodity Index
Hedge Funds	10.0%	7.5% 3-Month Treasury Bill + 4300bps & 2.5% MSCI All Country World Index (Total Return Net~~Gross~~)
Alpha Pool	8.0%	3-Month Treasury Bill + 4300bps
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%	A~~a~~ctual time-weighted Private Equity returns ††
Private Credit	8~~5~~.0%	A~~a~~ctual time-weighted Private Credit returns ††
Private Real Estate	5.0%	A~~a~~ctual 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~~fixed income~~).

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 ~~The most important~~ role of the Board is to establish, maintain, and monitor clear and consistent policies of operation.
- ~~The investment program requires adequate resources, expertise, focus, and consistency in approach~~

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~~ Risk and long-term returns are strongly correlated.
- Risk is multi-faceted and not fully quantifiable.
- Investment ~~Financial asset~~ 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~~; s~~. Structure and ~~investment m~~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 ~~and return objectives~~ for the Plan.
- The global opportunity set is dynamic, and a tactical approach to identifying opportunities can add value.~~;~~ H~~h~~owever, 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.~~;~~ T~~t~~hat 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 means that at any given time a particular asset class or market, as a standalone investment, performed better than a diversified portfolio~~
- Diversification spreads risk across many dimensions including but not limited to, asset class, strategy, industry, market, style, geography, time~~-~~frame, 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.~~;~~ D~~d~~ifferent 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 ~~m~~Manager selection, provided that ~~m~~Manager selection is well resourced with skill, experience, and focus, and utilizes a rigorous and consistent ~~manager~~ due diligence process.
- Passive investments reduce some forms of risk and cost, and potentially improve net returns~~;~~ ~~u~~Utilizing passive investments in both efficient and inefficient markets~~,~~ can be an appropriate decision.

Costs

- Fees, ~~and~~ 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.~~;~~ H~~h~~owever, an understanding that fees are certain, while returns are not, should be appreciated.
- ~~Transaction costs can be impactful, and a clear philosophy, and process can help mitigate unwarranted costs~~

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.
- ~~Internal r~~Resources are constrained.~~;~~ D~~d~~etermining appropriate areas to focus and deploy resources is critical to adding value.
- The Plan's people and partners drive success.~~;~~ D~~d~~evelop 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 ~~m~~Managers. This policy aims to retain a high degree of flexibility in how it is applied to ~~m~~Managers. The goal is to implement a process which finds a balance between two undesirable outcomes:

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

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

Manager Search Process – Public Markets

1. ~~Initiation: The Chief Investment Officer will coordinate with the Investment Consultant to initiate a search process.~~
2. Initiation and Evaluation: The Chief Investment Officer will coordinate with the ~~Investment Consultant~~investment consultant regarding due diligence. ~~will produce investment 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. ~~materials for all managers to be considered. Every manager that the Chief Investment Officer and Investment Consultant recommend to the Board must have undergone on-site due diligence not more than one year prior to the recommendation to the Investment Committee. On-site due diligence is to be conducted by the Investment Consultant. The Investment Consultant will produce a written summary recommendation report, which is to be presented to the Investment Committee. The Investment Consultant's report will provide the rationale for retaining the recommended manager, and will also indicate the manager's role in the portfolio.~~
3. 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 consultant, the Investment Committee will determine whether ~~or not~~ to approve the investment~~recommendation~~ and to recommend the investment to the Board. At times, timing considerations will require that an investment ~~recommendation is~~ be recommended directly to the Board~~,~~ and will not be presented to the Investment Committee.
4. Board~~Final~~ Approval: A~~The Investment Committee's~~ 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 ~~m~~Manager.

Manager Search Process – Private Markets

The Private Markets program will be managed according to an annual ~~business~~ plan produced by the ~~Investment Consultant~~investment consultant whose main components will encompass an update on the private markets program, a recap of prior year activity, ~~an analysis of the investment environment,~~ a review of the Plan's private market ~~investment~~ strategy, a review of the annual pacing plan, and a forward calendar of prospective ~~m~~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 pubic markets:

1. Initiation and Evaluation: Guided by the pacing plan and forward calendar, the Chief Investment Officer will coordinate with the ~~Investment Consultant~~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.~~to move forward with a recommendation for a private market investment. The Investment Consultant will produce an investment due diligence report, which should contain at minimum, rationale for committing to the manager and the role the investment will play within the private markets allocation~~.
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~~investment consultant, the Investment Committee will determine whether or not to approve the investment~~recommendation~~ and to recommend the investment to the Board. At times, timing considerations will require that an investment ~~recommendation is~~ be recommended directly to the Board~~,~~ and ~~will~~ not be presented to the Investment Committee.
3. Board ~~Final~~ Approval: A~~The Investment Committee's~~ 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 ~~m~~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, ~~to which the manager will be held to a fiduciary relationship between the manager and the Board,~~ which may be established by contract or operation of law. ~~(e.g., by registration of the manager as an investment advisor with the U.S. Securities and Exchange Commission)~~. 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~~s~~.

Manager~~'~~s 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 ~~m~~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, ~~m~~Managers must disclose to ~~Staff~~staff any indirect compensation received in addition to its fees as a result of servicing the Plan. Additionally, alternative ~~investment m~~Managers will be required to disclose fee information per §~~6254.26~~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~~investment consultant to apprise the Board of changes which could warrant a change in the ~~m~~Manager's suitability. A key objective of this policy is the timely identification of signs of adverse changes in a ~~m~~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~~investment consultant reviews each traditional public market Manager~~investment~~ of the Plan and produces a written summary, which is provided to ~~Staff~~staff. In the case of alternative Managers including private market Managers ~~investments~~, 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. ~~The Investment Consultant will also meet on-site with each manager at least once every three years.~~

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

~~**Watch-List – Public Markets**~~

~~The Board desires to hold managers accountable for the performance of the assets over which they exercise discretion. The Board shall establish and maintain an official manager watch-list ("Watch-List). If a manager fails to accomplish the investment objectives over a full market cycle (typically three to five years), the manager may be placed on the Watch-List or terminated.~~

~~The Chief Investment Officer or Investment Consultant may recommend to the Investment Committee if a manager should be placed on the Watch-List. Managers that~~

~~the Board places on the Watch-List will continue to be monitored by the Board until it is determined that removal from the Watch-List or termination of the manager is warranted.~~

~~Factors that may warrant being placed on the Watch-List include but are not limited to, changes within a manager's organization, significant deviations in performance from expectations, changes in investment philosophy or process, and style drift.~~

Termination – Public Markets

The Board may terminate a ~~m~~Manager for any reason. The Chief Investment Officer or ~~Investment Consultant~~investment consultant may recommend to the Investment Committee if a ~~m~~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 ~~m~~Manager is no longer deemed appropriate for the Plan ~~for any reason~~ by the Chief Investment Officer, with concurrence from the ~~Investment Consultant~~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 ~~expressed~~ written consent of the Chief Executive Officer and advice from the ~~Investment Consultant~~investment consultant, to terminate and replace the ~~m~~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 ~~Investment Committee and 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 ~~m~~Manager.

Manager reporting requirements

All ~~m~~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~~letter~~ 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~~staff and the ~~Investment Consultant~~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~~staff and the ~~Investment Consultant~~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 ~~letter~~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 ~~m~~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 ~~m~~Managers, for the benefit of the Plan.
    a. The policy of best price and best execution is intended to mean that ~~m~~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 ~~m~~Manager, all trades will be placed by ~~m~~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 ~~m~~Managers with research. In selecting among these broker-dealers to execute transactions, the ~~m~~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. ~~m~~Manager's investment style; and
        vii. brokerage and research services provided.

3. When placing trades with broker-~~/~~dealers, ~~m~~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 ~~m~~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 ~~m~~Manager's investment style.

Trading Analysis

For separately managed account investments, ~~m~~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 ~~m~~Manager's trading costs and practices to assess whether or not they are achieving best execution. This analysis will be provided to ~~Staff~~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 ~~m~~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 ~~m~~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 ~~(“Proxy”)~~ 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 ~~P~~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 ~~P~~proxies are voted by the respective ~~m~~Manager of each fund in accordance with the ~~m~~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~~staff.

Monitoring

The third-party service provider shall provide monthly reports to ~~Staff~~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~~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 ~~m~~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 ~~m~~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 ~~m~~Manager where no reliable third~~-~~-party pricing source is available; and
2. disputed issue prices may use the price provided by the ~~m~~Manager when the ~~m~~Manager provides the average of at least three dealer prices (bid-side).

In the case of disputed issue prices, ~~Staff~~staff may, in accordance with this policy, direct the ~~m~~Manager to provide its price to the Custodian and may direct the Custodian to accept the ~~m~~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 ~~m~~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 ~~m~~Manager.

Monthly reports including the above documentation must be sent by the ~~m~~Manager to ~~Staff~~staff, the Custodian, and the ~~Investment Consultant~~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 ~~m~~Manager.

All ~~m~~Managers shall provide a copy of their pricing policy and pricing matrix to ~~Staff~~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 M~~m~~anagers shall provide written acknowledgment of the accuracy of the Custodian's records, and it is the responsibility of the ~~m~~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 ~~m~~Manager's reconciliation report must be received by ~~Staff~~staff within 30 days of the close of the reporting month.

For traditional ~~m~~Managers who charge incentive fees, the ~~m~~Managers are responsible for reconciling its portfolio return and benchmark calculation~~ to ~~. ~~the Investment Consultantinvestment consultant~~. The reconciliation report will provide the ~~m~~Manager's monthly returns~~, the Investment Consultantinvestment consultant'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~~staff along with the invoice billed for the quarter.

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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

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-MonthTreasury 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; and April 13, 2022.

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 AA 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 pubic 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.

Date: September 5, 2023

To: Trustees, Investment Committee

From: Daryn Miller, CFA, Chief Investment Officer
Rafael A. Jimenez, Investment Analyst II

Subject: **Japan Equity Investment**

RECOMMENDATION

Japan public equity is an attractive opportunity given a) positive fundamentals and structural change including corporate governance reform that creates the opportunity to unlock shareholder value, and b) *cheap* valuations on both an absolute basis and relative to other developed market peers.

Staff recommends a $100M investment in the *Lazard Japanese Equity* strategy ("Lazard") and a $50M investment in the *Dalton Japan Long Only* strategy ("Dalton") subject to negotiating terms and conditions. The funding source for the allocation to Japanese equity will primarily be *Mellon DB SL World ex-US Index Fund*.

CORE-SATELLITE

Staff believes a "core-satellite" approach allows the Plan to capture the breadth of the Japan opportunity while minimizing potential overlap between managers. The "core" manager (Lazard) is characterized by investing across the Japanese market-cap spectrum with an emphasis on large-cap stocks. Given the exposure to larger companies, Lazard can be expected to exhibit a higher correlation to the benchmark than the "satellite" manager (Dalton). Lazard is expected to invest in companies that are positioned to benefit from the structural changes in Japan and incorporate engagement in its investment philosophy. Dalton is expected to employ a more active approach to corporate engagement as the manager will focus on identifying companies in the small and mid-cap (SMID) space where the investment team can leverage its resources to maximize value for minority shareholders.

The investment strategies employed by Lazard and Dalton are complementary to each other on both a quantitative and qualitative basis. The strategies have historically exhibited a negative correlation of excess returns over continuous and rolling time periods.

INTERNATIONAL DEVELOPED EQUITY ALLOCATION

The Plan's long-term strategic asset allocation includes a 33% allocation to Global Public Equity. International Developed Equity is a sub-asset class within Global Public Equities. The Plan's Global Public Equity allocation is benchmarked to the MSCI ACWI IMI index, and the International Developed Equity allocation is benchmarked to the MSCI World ex U.S. IMI index. As of July 31st, Japan represents 5.96% of the Global Public Equity benchmark

The recommended investments in Lazard and Dalton will have effects on portfolio risk at both the equity level and Plan level, which staff has modeled and analyzed through the Venn portfolio risk analytics system.

Please find Exhibits in the Appendix section at the end of this memorandum.

Assuming the investment in Lazard and Dalton is funded through a partial redemption of the passive Mellon World ex-US Index Fund, historical volatility of the equity composite portfolio is reduced from 16.70% to 16.30%. In addition, the

Public Equity historical tracking error increases from 1.34% to 1.56%. The Plan expects to be compensated for the additional level of tracking error risk through a higher return from both Japan equity beta and active management.

Current Allocation

	Market Value	% of Intl. Dev. Equity Portfolio
International Developed Equity		
Mellon DB SL World ex-US Index Fund	543,635,634	82.90%
Cevian Capital II	39,766,590	6.06%
American Century Non-US Small Cap	72,375,070	11.04%
Total International Developed Equity	655,777,294	

*Market Values as of 7/31/2023

Proposed Allocation

	Market Value	% of Intl. Dev. Equity Portfolio
International Developed Equity		
Mellon DB SL World ex-US Index Fund	393,635,634	60.03%
Cevian Capital II	39,766,590	6.06%
American Century Non-US Small Cap	72,375,070	11.04%
Lazard Japanese Equity	100,000,000	15.25%
Dalton Japan Long Only	50,000,000	7.62%
Total International Developed Equity	655,777,294	

*Market Values as of 7/31/2023

THE JAPAN OPPORTUNITY

Corporate Governance Reform: The foundation for stronger corporate governance can be traced back to the implementation of Japan's Shareholder Stewardship Code in 2014, which was followed by the Tokyo Stock Exchange (TSE) introducing a Corporate Governance Code in 2015. The adoption of these codes established principles for institutional investors to behave as responsible financial stewards of capital. Prior to the introduction of these documents, Japanese institutional investors were criticized for being too lenient with corporations and overtly passive in their policies (e.g., blindly voting in line with management). Prior to Prime Minister Abe, it was notoriously difficult to persuade management to enact changes for the benefit of shareholders.

The TSE has been proactive at enacting further governance reform with the objective of improving capital efficiency and the investability of publicly traded Japanese corporations. In 2022, the TSE restructured the exchange into three sections (Prime, Standard and Growth) in an effort to use the listing requirement of each section to improve corporate value and promote sustainable growth. In 2023, the TSE released further guidance for Prime and Standard-listed companies in order to avoid being delisted.

The TSE's latest initiative includes language around improving dialogue with shareholders and conducting management that is conscious of the cost of capital and share prices. The latter is exemplified through the TSE's requirement for companies with a price-to-book ratio (P/B) below 1 to disclose their action plans to increase this ratio. The TSE is not looking for companies to resort to temporary measures to strengthen shareholder returns. Instead, it is the intention of the exchange to incentivize companies to generate returns on invested capital that exceed the cost of capital in order to achieve sustainable growth over the longer term.

Shareholder Value and Engagement: The recent history of corporate governance reforms has been the catalyst for corporate Japan to turn its attention to the minority shareholder. The TSE reforms in particular have increased management's receptiveness toward engagement and created an environment whereby investors, including investment managers, can work collaboratively with companies to increase shareholder value. Management of Japanese companies is increasingly looking to investment managers for guidance on improving capital efficiency as these companies seek to comply with listing requirements set forth by the TSE.

Investors have the ability to be at the forefront of these improvements through building constructive relationships with management and active engagement. Japanese companies, which have historically been cash-rich, are committed to returning cash back to shareholders in the form of dividends and share buybacks in an effort to simultaneously improve capital efficiency and improve shareholder returns. Furthermore, Japanese companies have also seen improvements in ROE through net profit margin improvement as corporations have been receptive to both passing on higher prices to the consumer and cost reduction. Investors can expect further ROE improvement as improvements in capital allocation lead to a higher asset turnover ratio.

This year's annual general meeting (AGM) season between shareholders and Japanese executives has perhaps been the most active in the country's history. Japanese companies are receiving more shareholder proposals than ever before, including an increasing number of companies receiving proposals for the first time. The increasing number of companies being engaged by activist investors is congruent with the number of activist funds that have entered Japan.

Valuation: Japanese valuations are one of the cheapest relative to other developed market countries and on an absolute basis compared to its own history. It is important to note that the Japanese equity market has experienced robust EPS growth over the last decade, but valuations have been adversely affected by price multiple contraction over the same period. EPS growth in Japan over the last decade is comparable to the S&P 500 and significantly exceeds the growth of MSCI Europe. However, the contraction of P/E multiples have resulted in the current depressed valuations for Japan. Valuations look attractive given the potential combination of continued earnings growth and multiple expansion.

Inefficient Market: Japan is characterized by being an inefficient market that an effective active manager can exploit to generate alpha. Many Japanese stocks lack sell-side coverage. Research analysts provide coverage for approximately 55% of TOPIX constituents, whereas 100% of S&P 500 companies and 98% of MSCI Europe companies have sell-side coverage.

Additional Tailwinds: The Japanese market is subject to additional macro-economic, geographic, and regulatory tailwinds which could provide further support for the investment thesis. The introduction of inflation to an economy marked by decades of deflation is of significance for the potential positive effects on equity returns and the Japanese Yen. Japan's core inflation rate came in at 3.3% for the month of June, marking the 15^{th} straight month that inflation has remained above the Bank of Japan's (BOJ) 2% target. This year's *Shunto* negotiations between major corporations and unions resulted in a wage increase of 2.1%, which is more than double the market expectation going into the negotiation. This is important as the Shunto negotiations have been regarded as a determining factor for the BOJ to normalize monetary policy. If the inflationary trend remains moderate it could prove to be a tailwind for equities as corporations pass on higher prices to the consumer and revenues and profits grow.

The BOJ has embraced inflation and maintained its ultra-loose monetary policy in an effort to allow higher prices to become entrenched in the economy. In the July BOJ Monetary Policy Meeting, the central bank announced "greater flexibility" in its approach to Yield Curve Control (YCC). The BOJ will allow the yield on 10-year JGBs to fluctuate 50 bps on either side of its 0% target but will purchase JGBs at 1%. This effectively expands the tolerance band by an additional 50 bps. The "flexibility" has been construed by many as a precursor to monetary policy tightening and elimination of negative interest rate policy. An adjustment to Japan's short-term interest rate target should prove constructive for the Japanese Yen as the interest rate differential between Japan and the rest of the world should result in the Yen strengthening.

Data from China has demonstrated that the re-opening of their economy following the COVID-19 pandemic has been muted and growth has failed to meet investor expectations. China's slower than expected recovery, geopolitical tensions, and supply chain restructuring have resulted in allocators shifting capital out of China and into Japan. This backdrop should prove to be supportive for fund flows into Japan – a country that is under-owned in institutional portfolios relative to the MSCI ACWI index.

The Kishida administration has announced reforms (Basic Policies for Economic and Fiscal Management and Structural Reform 2023) in an effort to transform Japan into an "asset management nation". The government is creating incremental demand for equities by incentivizing the transition of assets from cash deposits to investment; a shift that can help with the creation and preservation of wealth in an inflationary environment. The policy has the potential to result in additional fund flows and a positive impact on valuations as Japanese investors increase their allocation to domestic equity.

LAZARD JAPANESE EQUITY – ANALYSIS

Firm: Lazard Asset Management LLC ("Lazard") is a wholly owned subsidiary of Lazard Frères & Co. LLC, which was founded in 1848. Lazard's asset management division was established in 1970 and in 2000 merged with the other subsidiaries in order to better serve its clients. Lazard is headquartered in New York, New York and maintains affiliate offices in 17 countries across the world, consistent with the ability to offer the benefits of an international network and global perspective. The firm has 932 employees, including 320 investment professionals.

Lazard currently manages approximately $203B in assets and $3.7B in dedicated Japanese equity strategies. The Lazard Japanese Equity strategy represents $1.5B in assets under management (AUM) and has a track record dating to 1998. Lazard's specializes in relative value global equity investing; 61% of firm AUM is invested in global, international, and emerging markets equity strategies. Institutional clients represent 71% of Lazard's AUM, including $15B managed for domestic public fund clients.

Investment Philosophy & Performance: The investment philosophy for Lazard can be described as a core approach that is not restricted to either a *value* or *growth* style that seeks to earn a return greater than TOPIX through the identification of asymmetric payoff opportunities. Investment opportunities are identified through a fundamental, valuation discipline that considers the downside of each potential investment relative to the upside. The strategy seeks to understand the scenario discounted by a stock's market price and targets the inclusion of securities with a maximum 20% downside potential, but at least 50 – 60% upside potential. Fundamental analysis identifies the company-specific catalysts for value creation. The strategy has historically rotated between exposure to both growth and value depending on where the potential for asymmetric return exists. The strategy is characterized by its flexible investment approach, lower volatility than the broader Japanese market, and integration of Japanese and Western perspectives.

Lazard's portfolio is structured in a manner such that holdings can be classified into three pillars, each with its own thesis. The first pillar consists of high-quality companies that are competitive in the international landscape thereby providing a more diverse source of revenue generation. In this pillar, the team identifies undervalued companies that possess catalysts for growth. The second pillar is comprised of companies with strong domestic demand, pricing power and differentiated businesses. The team focuses on creating value for these corporations and its shareholders through engagement on corporate governance and capital allocation. The final and smallest pillar by portfolio holdings is the designated exposure to banks. Banks are positioned to benefit from returning capital to shareholders and potential macro-economic tailwinds, such as the transition from deflation to inflation.

The strategy incorporates an all-cap mandate to achieve its objective of identifying opportunities for asymmetric return generation. Historically, the portfolio has maintained a market cap profile that is consistent with TOPIX – primarily a large-cap strategy (74.8%) with some exposure to the mid-cap segment (20.7%) as of the end of Q2. The portfolio construction process results in the selection of 45 – 65 companies that reflect the team's highest conviction ideas. Historical concentration in the 10 largest positions has ranged between 29.2% and 35.3%.

The past 10 years of investment performance demonstrate that the Lazard Japanese Equity strategy has been able to generate solid investment results in a consistent and repeatable manner during periods of both growth and value outperformance. The strategy has been able to achieve a consistent pattern of returns with lower volatility than the market, as evidenced by the attractive active risk or risk that can be attributed to active management decisions. The strategy has delivered performance in the top decile over 3 and 5-year trailing periods relative to peers and an information ratio of 1.11 between January 2020 and December 2022. The commitment to pursuing asymmetric return opportunities is evidenced by the strategy's ability to capture more than 110% of the market's upside in the previous 3, 5, and 10-year trailing periods, while capturing less than 100% of the market's downside over the same time periods.

Portfolio Managers & Team: June-Yon Kim is the lead Portfolio Manager for the Lazard Japanese Equity strategy and has been with Lazard since 2019. Mr. Kim counts on 27 years of investment experience and assumed the role of lead portfolio manager on April 1st, 2023. Prior to his appointment as lead Portfolio Manager, he was the co-lead Portfolio Manager for four years alongside Timothy Griffen. Mr. Kim is American and is based out of Tokyo, Japan.

The Japanese Equity team consists of 8 investment professionals, including 5 members who are based out of Tokyo. The team is organized by sector coverage which allows each analyst to become an expert within their respective sector and foster relationships with the management of companies they cover. The analysts based in Japan speak the language and have a deep understanding of Japanese culture, which allows the team to engage more constructively and exert greater influence over corporate governance initiatives.

Compensation for the Japanese Equity team consists of an annual salary and discretionary bonus predicated on performance relative to the benchmark and the applicable peer group. The team engages in a revenue sharing arrangement with Lazard which allows for more direct alignment of incentives with the strategy. The team's annual salaries are deducted from the revenue share pool and bonuses are sourced from the remaining profit as determined by the principals of the team. Most Lazard investment professionals receive a portion of their compensation in deferred awards of Lazard restricted stock units, which creates the opportunity for employees to share in the continued success of the firm and align the interest of employees even more closely with the clients they serve.

Vehicle and Terms: Staff recommends the investment in Lazard to be structured in a separately managed account (SMA) vehicle. In an SMA, the Plan will hold the underlying securities that the portfolio holds. Lazard has proposed a competitive management fee of 30 basis points on all assets.

Risks and Considerations: Key person risk is an evident consideration for the strategy based on the role that Mr. Kim assumes in the investment decision-making process. This risk is partially mitigated by the tenure of the Japanese Equity Team, including the presence of Timothy Griffen with whom Mr. Kim served as co-lead portfolio manager.

DALTON JAPAN LONG ONLY – ANALYSIS

Firm: Dalton Investments ("Dalton") is a value-oriented, global investment management firm committed to capital preservation and long-term growth. Dalton was established in 1999 and the firm has been focused on Asian and Global equities since inception. The firm is headquarters in Los Angeles, California and maintains foreign affiliates in Tokyo, Hong Kong, Mumbai, and Sydney.

Dalton currently manages approximately $3.3B across a range of strategies for a diverse group of clients, including institutions, pension funds, foundations, and family offices. The Dalton Japan Long Only strategy represents $2,328M in assets under management and has a track record dating to July 1996. Pension clients represent 28.78% of Dalton's total AUM.

Dalton is employee-owned and intends to remain so in perpetuity. The firm believes in the importance of young, talented members of its team becoming owners of the business in order to promote the alignment of interest with the success and continuity of the firm. The firm has 38 employees; 17 employees are dedicated investment professionals.

<u>Investment Philosophy & Performance</u>: The investment philosophy for Dalton can be described as a value approach to investment with a focus on identifying companies with a strong *alignment of interest* between management and shareholders. The investment opportunities that exhibit the highest alignment with minority shareholders tend to be in "owner-operator" companies. In order to achieve the alignment of interest between management and minority shareholders, Dalton seeks to invest in companies where senior management and/or the founders own a significant amount of stock in the companies which they operate. Dalton's mantra is that a management team with a material investment in the company it operates results in decision-making and capital allocation policies that benefit all stakeholders, including the minority shareholder. The corporate governance reforms that have been promoted by the Japanese government and TSE have allowed for the expansion of Dalton's investable universe beyond owner-operators and into select "salary man" companies. The structural reform over the last several years has encouraged the firm's investment team to be more robust in its approach to engagement and also improved the receptiveness of Japanese corporations to constructive collaboration with Dalton to maximize the value of their corporation. Dalton's investment in salary man companies is driven by the opportunity to enhance the alignment of interest, thereby maximizing value for the minority shareholder and compounding stock return.

Dalton employs a value investment approach and aims to invest in companies with a track record of effective capital management and rewarding minority shareholders, and in companies that exhibit a significant "margin of safety" to valuation. Portfolio construction is a fundamental, bottom-up process that considers the intrinsic value of each potential investment. Dalton's investment philosophy places significant importance on capital preservation and will only invest capital in securities that trade at a material discount to intrinsic value.

The strategy is not limited to investing in any particular segment of the Japanese market-cap spectrum; however, the strategy has historically maintained a large exposure to small and mid-cap companies and a significant underweight to large-cap companies. The concentration in small and mid-cap companies is driven by the alignment of interest that tends to be manifested in smaller companies where owner-operators are incentivized to adopt shareholder-friendly behavior. The gradual increase in exposure to large-cap companies has coincided with the expansion of Dalton's investment universe to salary man companies. It's important to note that the vast majority of excess return relative to the MSCI Japan Index can be attributed to the strategy's exposure to small and mid-cap stocks. Although the team has identified an increasing number of opportunities in larger companies, the expectation is for most investment ideas to continue to come from the small and mid-cap portion of the market cap spectrum. In order to minimize the potential for security overlap with Lazard, the recommendation is for Dalton's mandate to include a constraint that prevents investment in companies with a market capitalization in excess of $25B.

The strategy's guidelines permit between 24 – 40 securities to be held in the portfolio and the historical concentration in the 10 largest positions is 50%. The portfolio includes an allocation to a closed-end fund, Nippon Active Value Fund (NAVF). The closed-end fund was launched in 2020 with the intention of implementing a more activist approach to engagement with Japanese companies. NAVF primarily invests in companies with market capitalizations under $1B that create private equity co-investment opportunities through leveraged buyout (LBO) acquisitions. Exposure to NAVF has historically been sized at a portfolio weight of 5%.

The past 10 years of investment performance demonstrate that the Dalton Japan Long Only Strategy has been able to generate solid investment results on both an absolute basis and relative to its benchmark. The team at Dalton has been able to generate alpha in years where both a bias toward value and growth have outperformed the broader index. The strategy has been able to achieve attractive risk-adjusted returns by maintaining a conservative level of active risk. The commitment to capital preservation and prudent investment of capital is evidenced by the strategy's downside capture ratio consistently below 95 in the previous 3, 5, and 10-year trailing periods. Furthermore, investors in the strategy have been able to achieve an asymmetrically positive return profile that captures more of the upside relative to the broader market and less of the downside.

Portfolio Managers & Team: James B. Rosenwald III, CFA is the Chief Investment Officer at Dalton Investments and the Senior Portfolio Manager for the Japan Long Only strategy. Mr. Rosenwald has 41 years of investment experience and has been the key decision maker since inception in 1996. Mr. Rosenwald is based out of Los Angeles, California and is responsible for directing the firm's Asia research staff, including the Japan research team based in Tokyo.

The Japan research team counts on 5 designated analysts based out of Tokyo that are "on-the-ground". A strong local presence is instrumental to the implementation of a successful investment strategy given the cultural nuances of investing in Japan. The analysts on the research team are of Japanese origin and possess excellent command of not only the language, but also the culture. This allows the team to engage in a constructive manner during the ongoing face-to-face meetings with management of portfolio companies. The Japan research team collaborates closely with the Asia ex-Japan team to better understand the opportunity set and headwinds for Japanese companies conducting business throughout Asia.

The portfolio manager's compensation is a combination of an annual salary and bonus. It's important to note that Mr. Rosenwald owns 51% of Dalton Investments through Rosenwald Capital Management. The firm's investment analysts are compensated through the combination of a moderate fixed salary and a discretionary bonus payment, which for a successful analyst could amount to multiples of their base salary.

One of the most important pillars of Dalton's investment philosophy is the *alignment of interest* between the management of portfolio companies and shareholders. Dalton applies the same philosophy to its own investment team who have a significant portion of their wealth invested in the firm's strategies alongside clients. Dalton is able to achieve this alignment of interest by asking its investment professionals to invest at a minimum 50% of their annual pre-tax bonus compensation into Dalton strategies. Approximately 2% of the firm's total AUM is accounted for by Dalton employees.

Vehicle and Terms: Staff recommends the investment in Dalton to be structured in a Delaware Statutory Trust (DST) commingled vehicle, for which the Plan would be the seed investor. Staff has negotiated a competitive fee structure that has the potential to become more attractive as new investors enter the fund. In order to limit overlap with the core manager, staff recommends the mandate include a constraint that prevents investment in companies with a market capitalization greater than $25B.

Risks and Considerations: There is a clear degree of key person risk inherent in the strategy based on the reliance on Mr. Rosenwald as the key decision-maker. This concern is marginally mitigated through the culture that Mr. Rosenwald has fostered and tenure of the Japan Research Team, particularly the integration of Shiro Hayashi (Director of Japan Research).

RISK TO THE JAPAN THESIS

The risks to our investment thesis include foreign currency risk, broader macro-economic risk, and the concern that developments on corporate governance reform fail to lead to permanent change.

Similar to the Plan's other investments in Global Public Equity, the investments in Japan will be pursued on a currency unhedged basis. The interest rate differential between Japan and the U.S. and other economic factors have driven the recent Yen depreciation. The weaker Yen has proven to be a tailwind for export-driven companies as Japanese goods have become comparatively cheaper than global competitors and earnings are repatriated. Inbound tourism has also been a beneficiary of a weaker Yen as Japan becomes a cheaper travel destination. Investors can expect for the interest rate differential to compress as both the U.S. and Japan pursue the *normalization* of their monetary policy. However, the risk that Yen weakness persists is a headwind for investors in an unhedged strategy. The investment team is currently evaluating the suitability of implementing a foreign currency overlay strategy at a broader Plan level, but a decision has not been made at this time.

Additional macro-economic considerations that could pose downside risk include Japan's Debt-to-GDP ratio, sensitivity to the global economy, and inflation. Japan has historically maintained high levels of sovereign debt relative to its GDP, which is a concern as the debt needs to be serviced and repaid. The possibility exists for interest payments to increase as interest rates rise, however this risk is mitigated by the notion that any BOJ rate hike will be measured and gradual. Furthermore, the vast majority of Japanese government bonds (approximately 92% in 2021) are held by domestic investors, and more than half are held by the BOJ. The Japanese economy is more cyclical than other developed countries and exhibits greater sensitivity to the global economy. The cyclicality of Japan is largely driven by the export-centric nature of its economy and exposure to foreign revenue. This risk is partially mitigated by thoughtful exposure to export-oriented and domestic-oriented companies, which can be achieved through exposure to the entirety of the market cap spectrum. It should also be noted that while inflationary pressures in Japan are currently above the BOJ's target, the current level of inflation is conducive to growth and consumption provided that the level remains moderate. Japan Exchange Group (JPX) CEO, Hiromi Yamaji, has stated that the market is positioned to absorb future BOJ rate hikes if accompanied by stable inflation.

Another risk to the investment thesis is the potential that the structural reform initiatives are fleeting and result in a false dawn. Global investors have historically been under-allocated to Japanese equity as a sequence of macroeconomic reforms and valuation compression have led to uninspiring investment results. However, there is conviction that recent developments will be fruitful. The framework for stronger corporate governance, introduced by Abenomics, has been established and is gaining momentum. Japanese companies are committed to improving shareholder returns and the potential for the return of excess capital is immense. Furthermore, transformation is being institutionalized as evidenced by the TSE's reforms. Japanese companies have dealt with the headwind of a strong yen for decades. However, due to accommodative monetary policy, Japanese companies have become more competitive in the global landscape and the currency headwind has become a tailwind. The introduction of inflationary pressure in a country marked by persistent deflation is also constructive as it could lead to increased consumption and investment.

INVESTMENT PROCESS

Staff launched a Request for Proposal (RFP) with the objective of hiring an investment manager(s) to provide dedicated exposure to a long-only publicly traded Japanese active investment strategy. The RFP was launched on February 10th, 2023, and the deadline for submission was on March 8th, 2023. The RFP received submissions from 21 investment managers for 23 individual strategies. Staff conducted preliminary conversations with all the managers who met the minimum requirement set forth by the RFP to understand the strategy's team, investment philosophy and process. Staff identified the strategies that warranted further consideration through a combination of qualitative and quantitative factors. Staff conducted an additional interview with 8 managers to better understand historical performance, risk considerations, and environments where the strategy can be expected to under or overperform. Staff identified finalists for the *Core* and *Satellite* allocations and communicated the short list of potential managers to Verus, who separately undertook their own assessment of the strategies. Staff arrived at an investment decision after thoughtful consideration of performance, expected future performance, investment methodology and the complementary aspects of each manager. Verus' is supportive of Staff's investment recommendation and arrived at a conclusion independently of Staff.

VERUS

Verus undertook an independent assessment of the recommended managers to determine their institutional quality and provided a complementary memorandum that is supportive of Staff's recommendation. The Verus memorandum is appended to this document.

SUMMARY

Japan has long been regarded by global investors as a futile destination for equity investment. Following the burst of the Japanese asset price bubble over three decades ago, Japan has been viewed as a poor destination for capital given the sub-optimal capital structure of its corporations, poor corporate governance, and lack of importance placed on shareholder value. However, corporate Japan is undergoing structural change that is reversing these precedents and transforming the Japanese landscape into one that is rich for equity investment on the basis of: corporate governance reform driven by Japan's primary stock exchange, the potential for shareholder value maximization through corporate engagement, and attractive valuation. Furthermore, the thesis for investing in Japan is supported by broader macro-economic tailwinds that are either currently in motion or can be expected to develop in the short to intermediate time horizon. The recommended core-satellite investment allows the Plan to capture the present opportunity in Japan and earn a return consistent with or potentially greater than the objective of the Public Equity allocation.

APPENDIX

Equity Level Risk (Analysis Period June 2020 – July 2023)

Historical Performance	Current Equity Portfolio	Proposed Equity Portfolio
Volatility (Analysis Period)	16.70%	16.30%
Tracking Error (Analysis Period)	1.34%	1.56%
Max Drawdown (Analysis Period)	-25.02%	-24.79%

Forecast Performance	Current Equity Portfolio	Proposed Equity Portfolio
Volatility	15.67%	15.32%

Plan Level Risk (Analysis Period June 2020 – July 2023)

Historical Performance	Current Plan Portfolio	Proposed Plan Portfolio
Volatility (Analysis Period)	9.37%	9.45%
Tracking Error (Analysis Period)	2.75%	2.71%
Max Drawdown (Analysis Period)	-12.66%	-12.96%

Forecast Performance	Current Plan Portfolio	Proposed Plan Portfolio
Volatility	8.18%	8.25%

Correlation of Excess Return

Analysis Period Jan 2013 - Dec 2022

Excess Return Correlation	Lazard Japanese Equity	Dalton Japan Long Only
Lazard Japanese Equity	1.00	
Dalton Japan Long Only	**-0.35**	1.00

Analysis Period Jan 2013 - Dec 2015

Excess Return Correlation	Lazard Japanese Equity	Dalton Japan Long Only
Lazard Japanese Equity	1.00	
Dalton Japan Long Only	**-0.12**	1.00

Analysis Period Jan 2016 - Dec 2019

Excess Return Correlation	Lazard Japanese Equity	Dalton Japan Long Only
Lazard Japanese Equity	1.00	
Dalton Japan Long Only	**-0.39**	1.00

Analysis Period Jan 2020 - Dec 2022

Excess Return Correlation	Lazard Japanese Equity	Dalton Japan Long Only
Lazard Japanese Equity	1.00	
Dalton Japan Long Only	**-0.52**	1.00

Memorandum

To:	Board of Retirement, Kern County Employees' Retirement Association
cc:	KCERA Investment Staff
From:	Scott J. Whalen, CFA, CAIA, Executive Managing Director and Senior Consultant
Date:	September 5, 2023
RE:	Dedicated Japan Equity Mandate

Background and Evaluation Process

KCERA's investment strategy includes a policy allocation to global equity of 33%. Japan makes up approximately 6% of the global equity opportunity set on a market-cap-weighted basis, which means that approximately 2% of KCERA's total policy portfolio is allocated to Japan equity.

Late last year, KCERA Investment Staff launched a research initiative to explore the potential value of introducing a Japan-only equity mandate to increase the allocation to Japan equity within the portfolio. Based on that research, Staff identified two areas where a Japan-only mandate is expected to add incremental value;

1) Outperforming Beta where Japan is expected to exceed a cap-weighted global benchmark, given cheap absolute and relative valuations, combined with a number of positive trends, e.g., regulatory, governance, earnings; and

2) A rich alpha opportunity, given a relatively inefficient market and the opportunity to create value through corporate engagement.

Once Staff became convinced of the validity of the investment thesis, they turned their attention to implementation. A thorough RFP-based investment manager search and a detailed implementation analysis was carried out in multiple stages, including:

- Review of 25 separate investment strategy proposals from 23 managers;
- 19 introductory manager calls;
- Deep quantitative analysis;
- 8 follow-up calls;
- 4 due diligence interviews;
- Manager structure analysis; and
- Mandate sizing analysis.

Based on this work, Staff is recommending $150 million dedicated Japan-only equity mandate split between two complementary managers.

Verus Participation

Verus supported KCERA Investment Staff through the evaluation process by providing requested quantitative data to augment KCERA-generated statistics, conducting independent due diligence on finalist candidates, and providing insight and additional analytical rigor to the manager structure and mandate sizing decisions.

Verus Position

Verus has been constructive on the Japan story for several years and have advocated for a Japan-only equity mandate for those of our clients that have expressed interest. Following our review of the evaluation work of KCERA's Investment Staff and the independent work conducted by Verus research, we are supportive of Staff's recommendation.

investment, legal, accounting or tax investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other "forward-looking statements." No assurance can be given that future results described or implied by any forward-looking information will be achieved. Investing entails risks, including possible loss of principal.
Verus – also known as Verus Advisory™.

Verus

Memorandum

To: Board of Retirement, Kern County Employees' Retirement Association
cc: KCERA Investment Staff
From: Scott J. Whalen, CFA, CAIA, Executive Managing Director and Senior Consultant
Date: September 5, 2023
RE: Transition Management

Background

At the August 9th meeting of the KCERA Board of Retirement, the Board approved an adjustment to the Plan's strategic asset allocation. Verus and KCERA Investment Staff are recommending the use of a dedicated transition manager as a best practice to ensure the transition event is conducted as efficiently as possible and transition cost is minimized.

KCERA Investment Staff is further recommending BlackRock as the preferred provider for this particular transition event, based largely on BlackRock's focused expertise in fixed income and the fact that this transition will be focused on movement within this asset class. Verus concurs with this recommendation, based on our due diligence of BlackRock's transition management capabilities, summarized below.

Due Diligence Review

FIRM BACKGROUND AND HISTORY

BlackRock was founded in 1988, initially focusing on risk management and fixed income asset management for institutional clients. The transition management ("TM") service offering was launched in 1993 and today provides transition services ranging from comprehensive cost analysis and interim asset management to full fiduciary transition management.

TRANSITION MANAGER SERVICES OVERVIEW

BlackRock considers the development and growth of their TM service as a natural extension of the index and active investment management business they are best known for. The BlackRock Transition Management Team consists of 62 professionals located in six offices worldwide (San Francisco, New York, London, Budapest, Hong Kong and Tokyo), all operating on a proprietary global technology platform, named Aladdin. Aladdin acts as the operational core of BlackRock's TM service, organizing the transition coordinators, trading research, trading desks and compliance teams.

BlackRock's live trading desks across 24 countries is critical to the success of their TM service. Maintaining in-house trading and operations staff on the ground in multiple markets around the world enables access to liquidity and supports operational efficiency and also preserves client confidentiality.

BlackRock uses the T-standard benchmark to measure performance of each transition event. This is an industry standard measure of implementation shortfall and provides the clearest measure of overall cost of a transition event. Following a transition event, BlackRock will provide fully attributed performance using the T-standard benchmark for comparative purposes.

BlackRock is competitive with respect to commissions component of the overall fee. However, there could be an additional cost for project management, depending on the complexity of the transition, which will need to be negotiated. All rates and charges are fully disclosed and agreed upon prior to the assignment.

AREAS OF EXPERTISE/DIFFERENTIATION

BlackRock was one of the first organizations to establish a dedicated team to offer transition management services. While this group is separate and distinct from the rest of the organization, it can leverage the trading and execution services established to support various groups firmwide.

They are the only transition manager that trades from a buy side perspective, meaning that they use an asset manager model when planning transition events. They complete all trades on an agency-only basis and use their affiliated broker dealer, BlackRock Execution Services (BES), to allow for commission recapture.

BlackRock highlights the continuing development of their technology, including improvements to their proprietary platform, Aladdin, as a competitive advantage. This includes the development of custom solutions focused on a total portfolio approach, emphasizing portfolio construction and asset allocation strategies. This holistic approach is useful when planning a multi-asset transition such as the one KCERA will be undertaking.

POTENTIAL CONCERNS

BlackRock is one of the largest asset managers in the world with over $9 trillion of AUM. Given that asset management dwarfs the transition management business, a concern would be the prioritization of asset management trades over transition management. This concern is mitigated by BlackRock’s well-documented and detailed compliance and conflict-of-interest protocols and procedures.

Recommendation

BlackRock offers a robust trading platform with a global footprint and has broad expertise trading across all asset classes and specific expertise in fixed income. In addition, their long history in the transition management space and their holistic approach establishes them as a premier provider of transition management services. We concur with Staff’s recommendation to use BlackRock Transition Management Services for its upcoming transition event.