

Executive Team:

Dominic D. Brown, CPA, CFE
Chief Executive Officer

Daryn Miller, CFA
Chief Investment Officer

Jennifer Zahry, JD
Chief Legal Officer

Matthew Henry, CFE
Chief Operations Officer



Board of Retirement:

Dustin Contreras, Chair
Joseph D. Hughes, Vice-Chair
Jordan Kaufman
Ajaib Gill
Rocio Mosqueda
David Couch
John Sanders
Rick Kratt
Jeff Frapwell
Tyler Whitezell
Chase Nunneley, Alternate
Robb Seibly, Alternate

July 30, 2026

Trustees, Board of Retirement
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 Wednesday, August 5, 2026, 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 and enter ID# 858 3909 6131:

- (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/85839096131?pwd=jzuNgyCYroujhavKkQXL50o2dBNttB.1>
- Passcode: 782104

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

Dominic D. Brown
Chief Executive Officer

Attachments

❖ **KCERA Board Agenda Notifications:** Sign up [here](#) on the KCERA website.

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 Section 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)

SB 707 REMOTE APPEARANCE(S)

Item 1 withdrawn from agenda if no trustee(s) request to appear remotely:

1. Trustee(s) who have notified the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code Section 54953.8.3).

PUBLIC COMMENTS

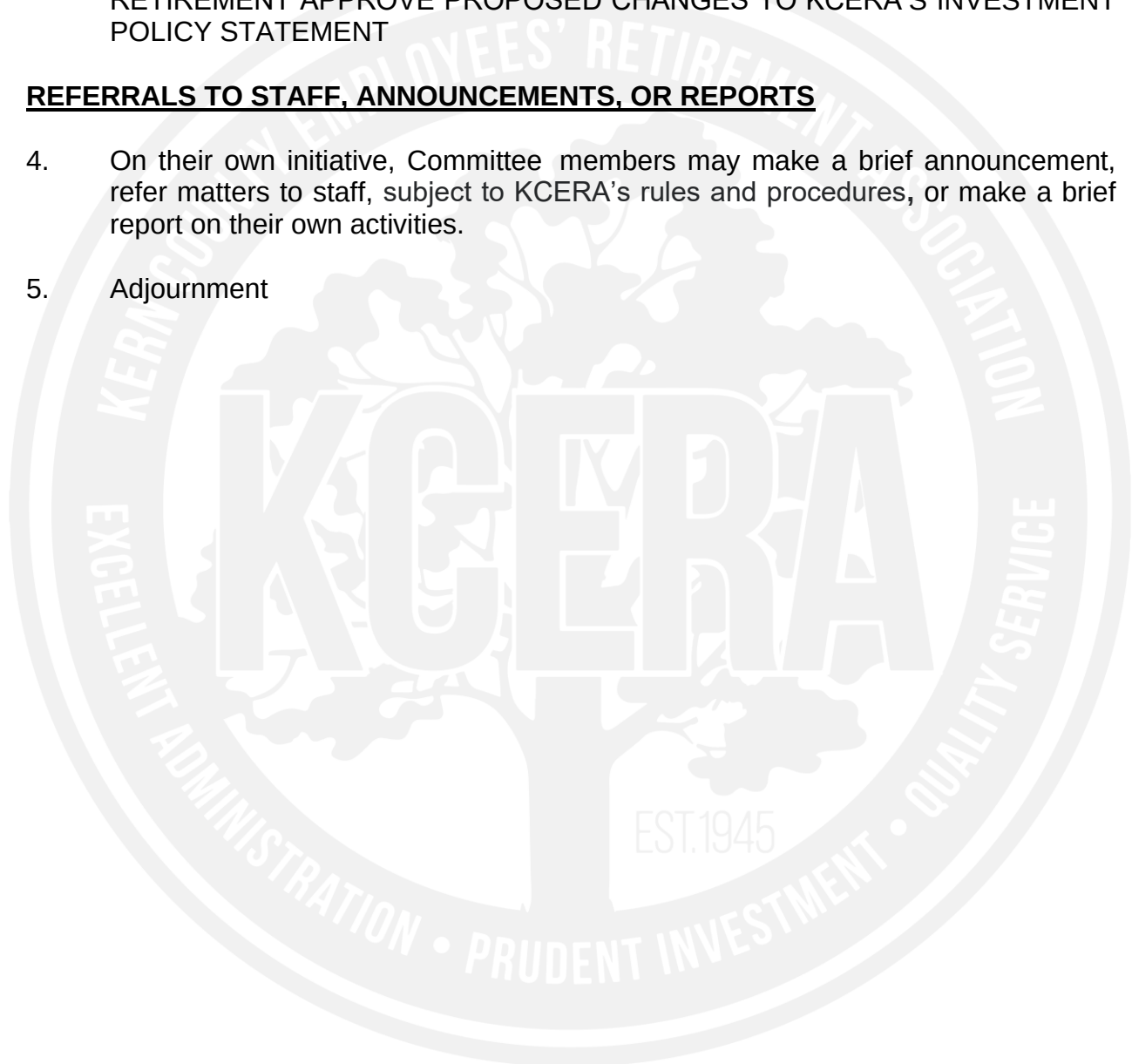
2. The public is provided the opportunity to comment on agenda items at the time those agenda items are discussed by the Committee. This portion of the meeting is reserved for persons to address the Committee on any matter not on this agenda but under the jurisdiction of the Committee. Committee members 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.

MATTERS FOR CONSIDERATION

3. [Presentation and trustee education regarding Capital Efficiency Deep Dive](#), including discussion and appropriate action on proposed updates to KCERA's Investment Policy Statement, by Chief Investment Officer Daryn Miller and Investment Consultants Scott Whalen and Brian Kwan, Cerity Partners – HEAR PRESENTATION; RECEIVE EDUCATIONAL TRAINING (30 MINUTES TRUSTEE EDUCATION CREDIT); RECOMMEND THE BOARD OF RETIREMENT APPROVE PROPOSED CHANGES TO KCERA'S INVESTMENT POLICY STATEMENT

REFERRALS TO STAFF, ANNOUNCEMENTS, OR REPORTS

4. 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.
5. Adjournment





Capital Efficiency Deep Dive

Presented by:

Daryn Miller, CFA

Chief Investment Officer

Introduction

What is Staff seeking to achieve with this analysis?

- Evaluate the Capital Efficiency program to determine if it is meeting its goals and objectives
- Analyze performance and risks
- Identify areas of concern
- Consider potential changes and opportunities for improvement

What is Capital Efficiency?

- At the highest and most simple level, the Capital Efficiency program embraces Plan level leverage to improve returns
 - Efficient exposure to beta allows for pursuit of highest conviction alpha sources
 - Leverage, operation, and execution risks are accepted in exchange for improved returns



Contents

- Executive Summary
- Capital Efficiency Program History
- Program Refresher
- Exposure
- Alpha Pool
- BlackRock Short Duration
- Summary and Considerations
- Recommendation
- Appendix

Executive Summary

- The Capital Efficiency program has generally achieved its objectives
- The size of the Capital Efficiency program has been adjusted primarily in response to changes in cash funding rates
 - As cash interest rates spiked in 2022, the Plan was moved from a net negative cash balance to a positive cash balance
- The Alpha Pool added value
 - +8.28% annualized, since inception (“SI”)
 - +4.94% annualized, after cash financing cost, SI (Jul. 2020 – Jun. 2026)
- The Policy benchmark for the Alpha Pool should be updated

Capital Efficiency Program

Per the Investment Policy Statement (IPS)



Primary Goals

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, and/or commodities) and then utilizing a portion of the unencumbered cash to fund investments in the Alpha Pool.



Adding Value

The Capital Efficiency program will add value when the Alpha Pool achieves returns (net of fees and expenses) that are above the cash funding rate.

Capital Efficiency Program History



Timeline

- Presented concept at Board Strategic Planning Session
- Education session with the Investment Committee

- Capital Efficiency Beta Diversified and Alpha Pool increased to 8%

- Alpha Pool reduced to 2.5%
- Alpha Pool deep dive

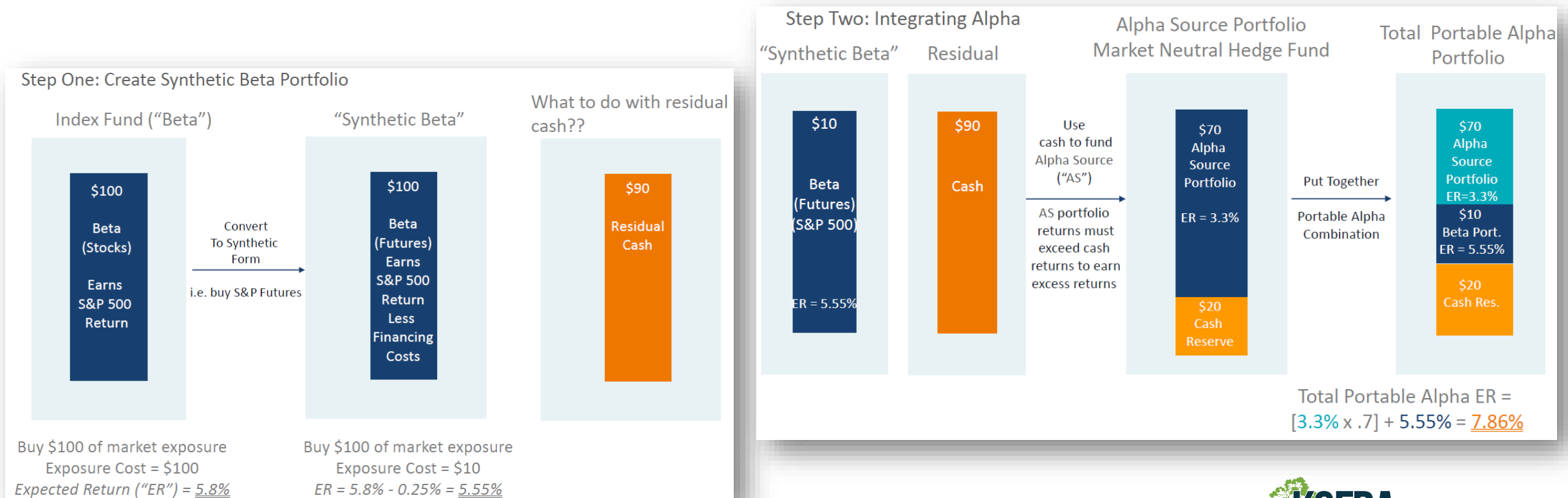
- Discussion and Concept Approval at Investment Committee
- Board Approved Strategic Asset Allocation, which included Capital Efficiency
- First Alpha Pool investment

- Alpha Pool reduced to 4%



Capital Efficiency Refresher

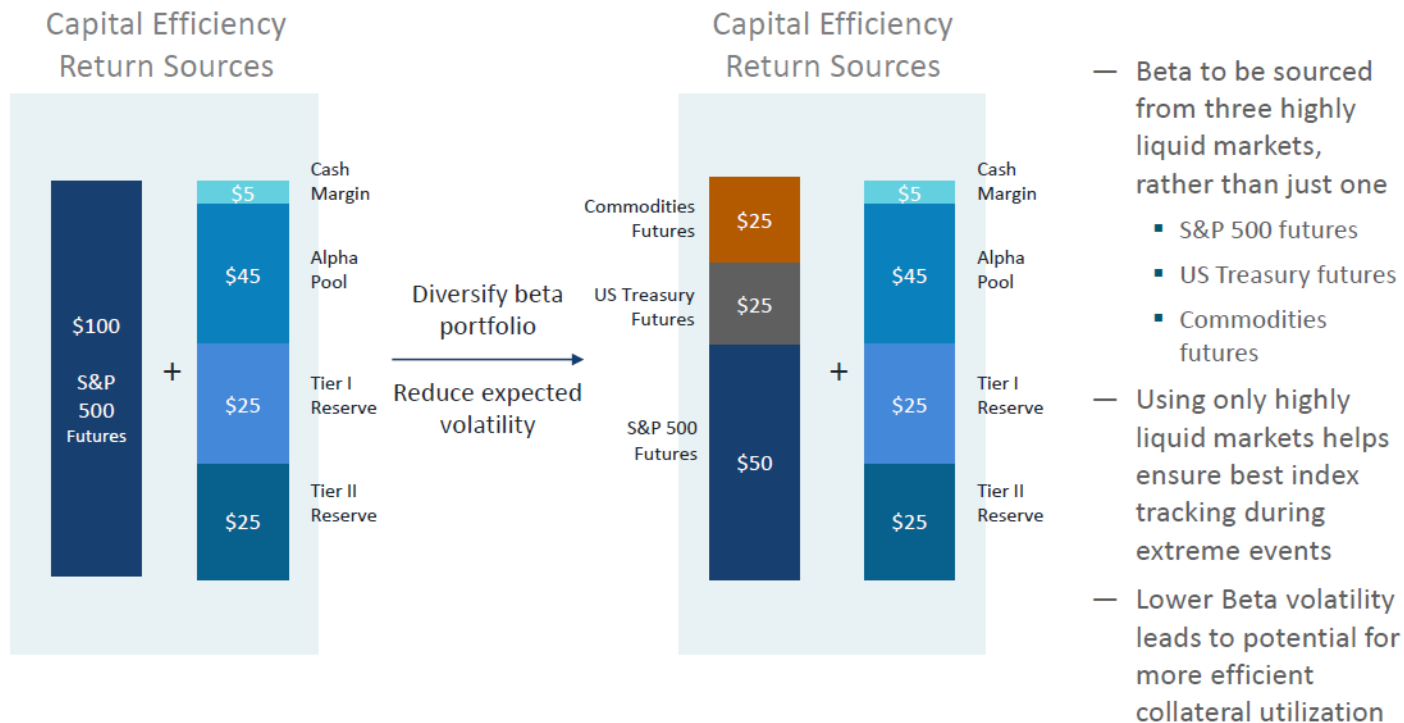
- The slides below were presented to the IC and Board in 2019 and 2020 as part of education and then approval
- The slides outline the basic concept behind Capital Efficiency



Capital Efficiency Refresher, cont.

- The slide below was presented to the IC and Board in 2022 when the

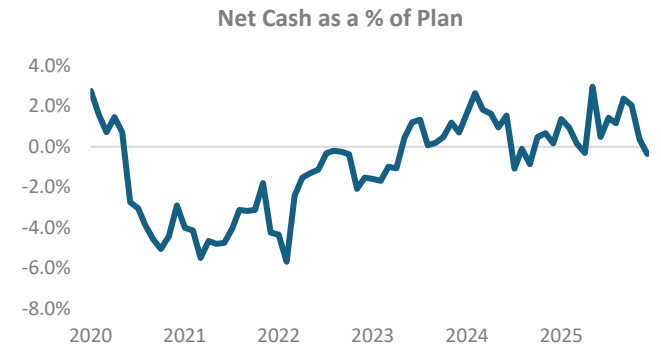
Diversifying Beta beyond S&P 500



underlying beta exposure was broadened, diversifying away from just equity beta, to also include rates and commodities betas. The Board approved the improved diversification to the program design.

Capital Efficiency Program Details

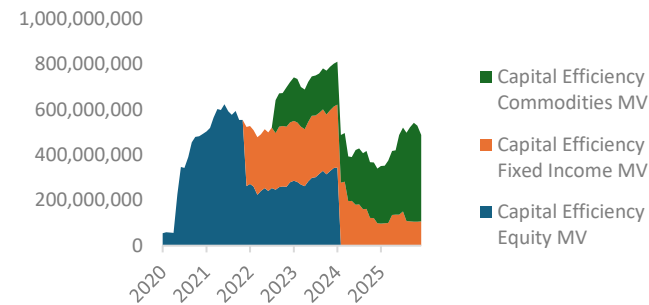
- The Capital Efficiency program has 2 main components that work together (Beta & Collateral)
- Beta
 - Beta: S&P 500 futures, US Treasury futures, Commodity futures
- Collateral
 - The capital that is held which backs the Beta futures exposure
 - There are multiple layers of collateral including Cash, Short Duration, and the Alpha Pool
- By design, as collateral is shifted from Cash to the Alpha Pool the Net Cash position of the Plan turns negative
- In 2022 and 2023, following a series of Federal Reserve interest rate hikes that caused cash rates to spike from ~0.25% to ~5.25%, staff shifted Net Cash from a negative to positive position
 - The Plan's cash allocation earned 4.2%, 6.0%, and 4.7% in 2023, 2024, and 2025, respectively.



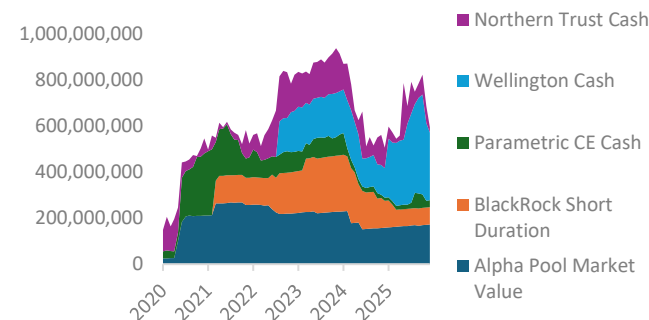
EXPOSURE

- The Capital Efficiency program is a combination of beta and collateral exposure
 - Beta: equity futures (S&P 500), fixed income futures (US Treasuries), and/or commodities futures
 - Collateral: Alpha Pool, BlackRock Short Duration, Parametric Cash, Wellington Cash, and Northern Trust Cash
- Collateral and Beta should be approximately equal
 - At times, the program has been overcollateralized, meaning we hold more cash than beta futures (2023 to 2025)

Capital Efficiency Beta Market Value

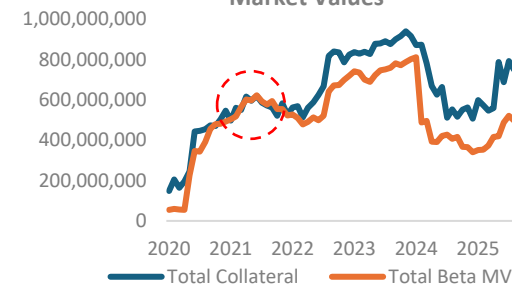


Capital Efficiency Collateral Market Value

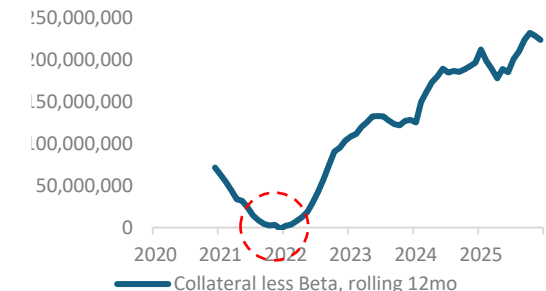


- During ramp-up, the Capital Efficiency program was overcollateralized
- In 2021-early 2022, collateral levels normalized consistent with program design (red dashed circles below)
- In mid-2022, the cash collateral level was increased to take advantage of higher cash returns
 - As cash was increased, fixed income exposure was reduced consistent with our view for higher yields (lower bond prices)
- The average overcollateralization since mid-2022 has been ~\$160M

Capital Efficiency Collateral & Beta Market Values



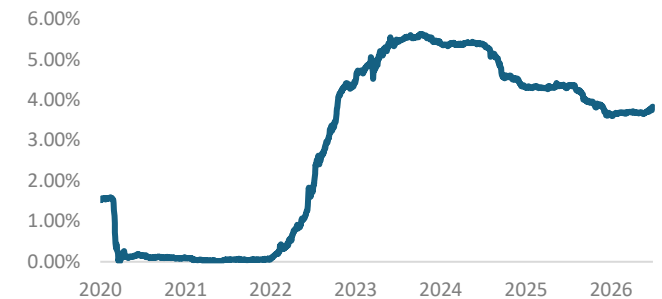
Collateral less: Beta rolling 12mo



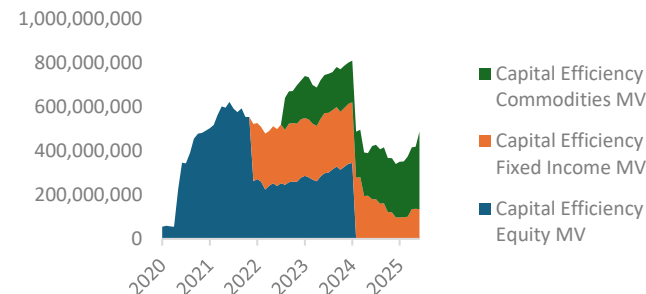
EXPOSURE CONT.

- The Beta composition was shifted in 2024
 - Equity beta was removed in 2024 due to higher cash financing spread cost
 - As a reminder equity futures have 2 “cost” components 1) the underlying cash financing rate, and 2) an additional spread over the cash rate (*for simplicity, we ignore futures roll and transaction costs here*)
 - Cash financing costs moved higher as the Fed hiked interest rates. Interest rate volatility also caused the financing spread to increase:
 - Average financing spread 2020-2023 was 2bps
 - Average financing spread 2023-2025 was 82bps
 - Treasuries and Commodities were impacted by higher cash from spread
- Financing costs have declined following Fed rate cuts
- Spread has declined at a slower rate
 - Trailing 12-month spread peaked at 137bps in May 2025 and has since declined to 87bps as of June 2026

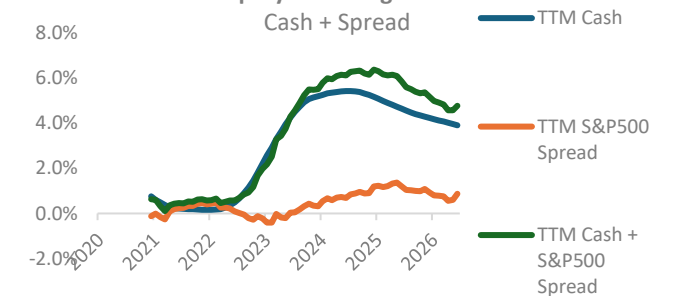
90-day T-Bill



Capital Efficiency Beta Market Value

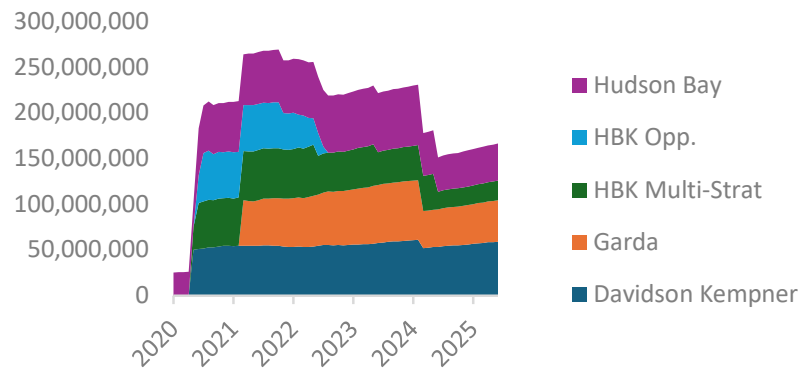


Equity Financing Costs
Cash + Spread



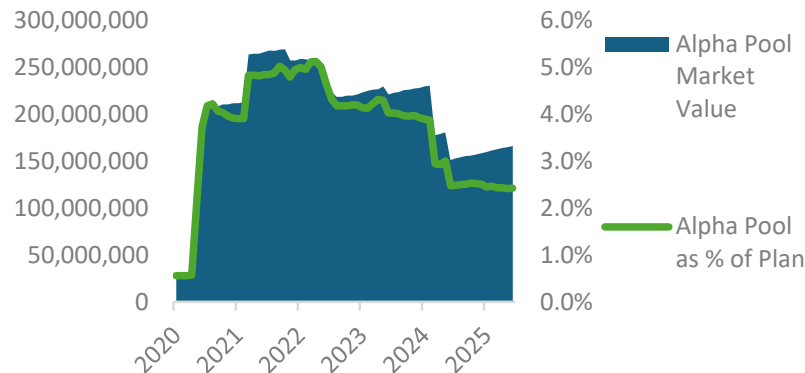
Alpha Pool Allocation

Alpha Pool Market Value by Hedge Fund



- The Alpha Pool consists of 4 Hedge Funds
 - Max funds were 5 funds—one fund has been fully redeemed (HBK Opportunities)
 - Peak Alpha Pool market value was \$269M (3/31/22)
 - Current market value is \$172M (6/30/26)
- The Alpha Pool size peaked at 5.2% of Plan assets in September 2022, but has since been managed lower
 - As of June 2026, Alpha Pool was 2.3% of Plan—modestly below the 2.5% target
 - The Alpha Pool target was initially 5%, was increased to 8%, and then reduced to 4% and now 2.5%

Alpha Pool



ALPHA POOL PERFORMANCE

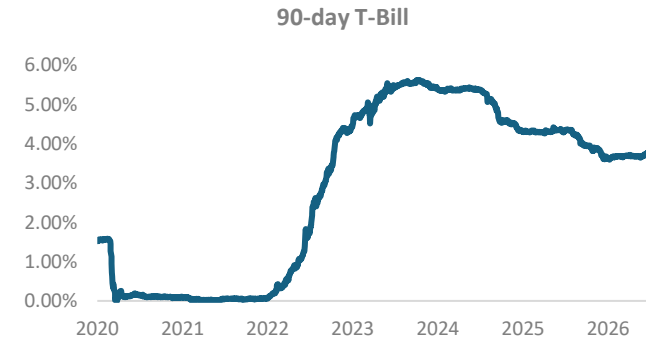
Alpha Pool Returns -- two methodologies

Period	Albourne Return (a)	Cerity Return (b)	Difference
2020	8.63%	8.72%	-0.10%
2021	6.55%	6.83%	-0.28%
2022	5.29%	0.98%	4.32%
2023	7.67%	-1.63%	9.29%
2024	7.15%	2.75%	4.40%
2025	9.91%	8.49%	1.42%
2026(c)	3.59%	3.40%	0.19%
3-yr	8.16%	4.85%	3.31%
5-yr	8.27%	4.43%	3.84%
SI(d)	8.28%	4.94%	3.34%

(a) Albourne Return is the actual return of the Alpha Pool
 (b) Cerity Return is the actual return of the Alpha Pool less cash financing charge.
 (c) YTD through 6/30/2026. Includes est. for June 2026
 (d) Inception Aug. 2020

Source: Albourne, Cerity, Staff.

<< return difference, when cash was ~zero, was small
 << return difference, when cash was ~zero, was small
 << as the Fed hiked interest rates the difference increased



- Alpha Pool returns have been solid
- Since inception 8.28% annualized (+87M) or 4.94% after a cash financing charge is included
- Returns are calculated 2 different ways
 - The “Albourne Return”:** actual returns of the hedge funds in the Alpha Pool with corresponding weights. This is the typical way to calculate performance, and this is the methodology used in the quarterly Albourne performance reports
 - The “Cerity Return”:** the calculation starts* with the Albourne Return for each hedge fund in the Alpha Pool and then subtracts a cash financing charge. This is the methodology used in the quarterly Cerity performance report. The Cerity Return should be lower than the Albourne Return.

**Note: in the initial quarters of the Alpha Pool, the Cerity Return lagged performance for some hedge funds, causing timing differentials*

ALPHA POOL PERFORMANCE CONT.

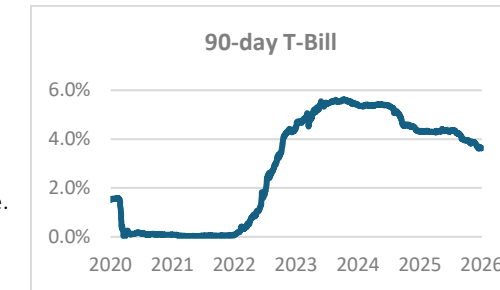
Alpha Pool Returns vs Policy Benchmark

Period	Albourne Return (a)	Cerity Return (b)	Benchmark (c)	Albourne Return vs Bench.	Cerity Return vs Bench.
2020	8.63%	8.72%	1.29%	7.34%	7.43%
2021	6.55%	6.83%	3.05%	3.50%	3.78%
2022	5.29%	0.98%	4.50%	0.79%	-3.52%
2023	7.67%	-1.63%	8.17%	-0.50%	-9.79%
2024	7.15%	2.75%	8.41%	-1.26%	-5.66%
2025	9.91%	8.49%	7.30%	2.61%	1.19%
2026(d)	3.59%	3.40%	3.29%	0.30%	0.10%
3-yr	8.16%	4.85%	4.44%	3.72%	0.41%
5-yr	8.27%	4.43%	5.91%	2.35%	-1.48%
SI(e)	8.28%	4.94%	6.08%	2.20%	-1.14%

(a) Albourne Return is the actual return of the Alpha Pool
 (b) Cerity Return is the actual return of the Alpha Pool less cash financing charge.
 (c) Benchmark: 3-Month T-Bill + 300bps
 (d) YTD through 6/30/2026. Includes est. for June 2026
 (e) Inception Aug. 2020

Source: Albourne, Cerity, Staff.

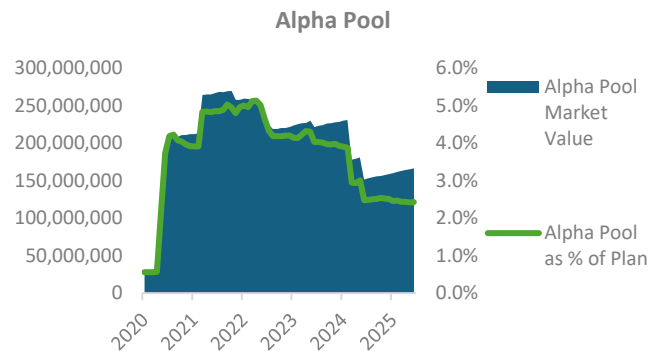
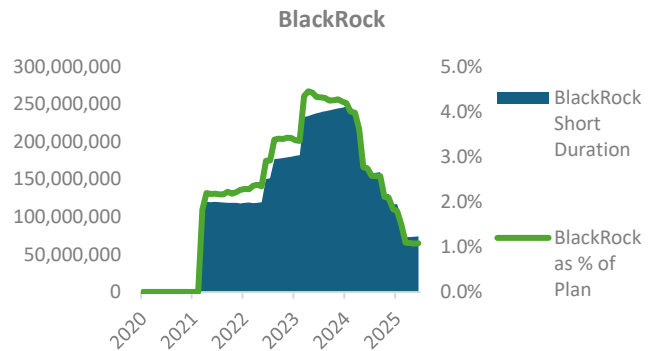
<< difficult year due to peak cash rates
 << difficult year due to peak cash rates



- The Alpha Pool Policy Benchmark is the 3-Month T-Bill + 300bps (“Cash + 300”)
- Upon reflection, setting the Policy Benchmark as the 3-Month T-Bill + 300bps was an error. The Alpha Pool return at the Total Plan Level, which is measured versus Policy in the Cerity performance report, is presented after deducting a cash financing charge from the return. **Therefore, the return is being lowered by the cash rate, and is then being compared to the cash rate plus 300bps**
- The appropriate Policy Benchmark for the Alpha Pool is 300bps. This will be a recommendation at the conclusion of this deep dive

BlackRock Allocation & Performance

- The BlackRock Short Duration investment is a key component of the Capital Efficiency Program
 - The size of the allocation is typically a function of the Alpha Pool size, but in the higher interest rate environment of 2023-2025 it was also utilized as a cash investment option

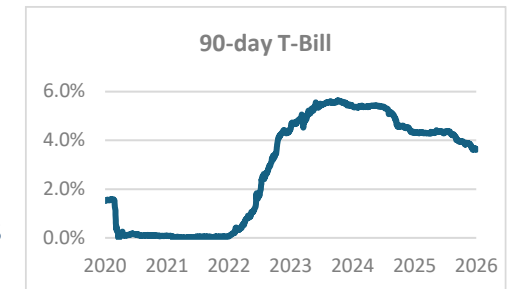


- Performance has been solid. After underperforming in 2022 as cash rates advanced rapidly, the strategy has since outperformed.
 - 3-year +5.81% annualized vs. +4.67% for the benchmark; +113bps alpha
 - Since inception, +4.18% annualized vs. +3.66% for the benchmark; +51bps alpha
- Returns in 2023 & 2024 benefited from high cash rates

BlackRock Short Duration vs Policy Benchmark

Period	BlackRock Short Duration	Benchmark (a)	Return vs Bench.
2020	n/a	n/a	n/a
2021	-0.13%	0.02%	-0.15%
2022	0.25%	1.46%	-1.20%
2023	6.39%	5.02%	1.38%
2024	6.36%	5.25%	1.11%
2025	5.27%	4.18%	1.09%
2026(b)	2.18%	1.84%	0.34%
3-yr	5.81%	4.67%	1.13%
SI (c)	4.18%	3.66%	0.51%

- +6.39% in 2023
- +6.36% in 2024
- As the Fed cut interest rates, the BlackRock returns have come down.



(a) Benchmark: 90 Day U.S. T-Bill

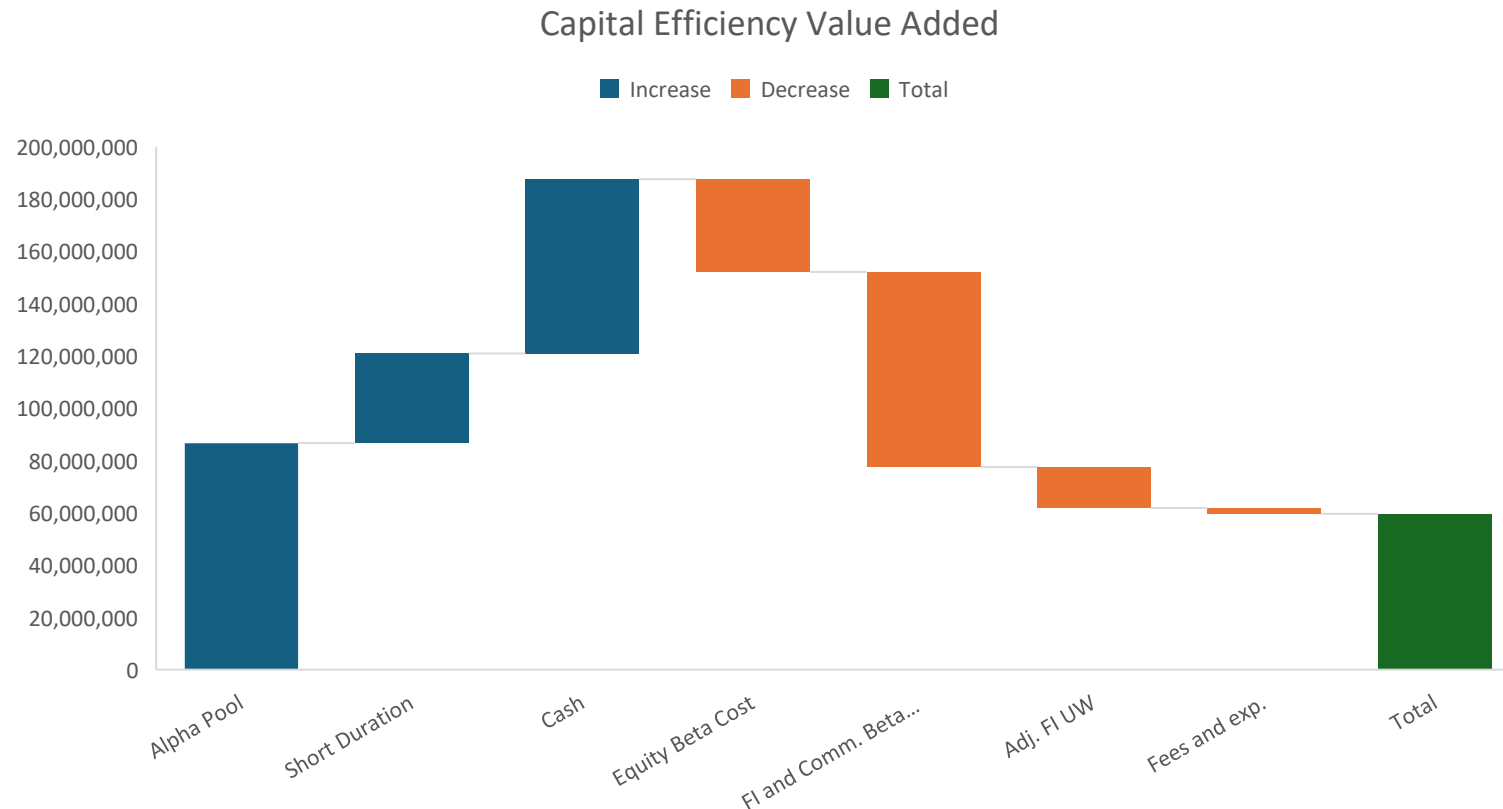
(b) YTD through 6/30/2026

(c) Inception Sept. 2021

Source: BlackRock, Cerity.

Aggregating the Components

- An aggregation of all the Capital Efficiency components shows the value that has been added (or detracted)
 - 60M in value added over the past 6 years (July 2020 to June 2026)



July 2020 - June 2026

Aggregating the Components, cont.

- Looking at annual value add shows the program added between 8bps to 28bps each year
 - The 2020 and 2026 returns are annualized, as the program contributed to only half of each of those years
- Years with higher contribution to the Total Plan is primarily a function of Capital Efficiency program size (larger = more value to the Total Plan)
 - 2023 was the strongest year, in terms of total value add, as the Capital Efficiency program was larger (4.2% of Plan) and the Alpha Pool and Short Duration portfolios performed well
 - 2026 YTD is so far the weakest year, as the Capital Efficiency program is smaller (2.4% of Plan on average) and the Alpha Pool program return has not been as strong

	Alpha Pool	Short Duration	Cash	Equity Beta Cost	Fixed Income and Commodity Beta Cost	Fees and Expense	Adjustment: Fixed Income UW	Total	Plan Assets	Annualized Contribution to Total Plan
2020 (a)	6,859,308	0	209,664	-500,954	0	-63,974	0	6,504,044	4,634,535,230	0.28%
2021	14,400,775	-149,198	427,016	-2,851,974	0	-423,962	-102,558	11,300,100	5,318,589,654	0.21%
2022	13,289,304	529,357	4,175,578	-5,573,394	-4,865,572	-473,349	-993,656	6,088,268	5,250,641,207	0.12%
2023	16,635,187	12,294,775	20,455,782	-14,596,700	-21,367,580	-512,201	-85,976	12,823,287	5,309,341,102	0.24%
2024	14,284,904	14,099,137	19,923,559	-11,966,582	-22,731,971	-419,894	-3,210,684	9,978,468	5,847,051,955	0.17%
2025	15,124,417	5,776,712	12,593,959	0	-16,337,561	-199,704	-7,273,316	9,684,507	6,451,639,817	0.15%
2026 (b)	6,070,425	1,624,737	8,950,447	0	-9,338,502	-81,772	-4,006,738	3,218,597	7,211,980,998	0.09%
TOTAL	86,664,320	34,175,518	66,736,005	-35,489,604	-74,641,185	-2,174,855	-15,672,928	59,597,271		0.17%

(a) Jul - Dec 2020

(b) Jan - Jun 2026 (est.)

Source: KCERA calculations



Risks

- A discussion on Capital Efficiency would not be complete without covering the risks associated with the program
- Key risks include:
 - Alpha pool performance (i.e., outperforming cost of financing)
 - Mitigant: careful due diligence and selection of funds to add to the Alpha Pool--Albourne is a resource and actively participates in the process.
 - Beta tracking error
 - Mitigant: continual evaluation and management of beta exposure supported by research and analysis from Parametric.
 - Correlation
 - Mitigant: there are 3 betas (equity, rates, and commodities). In a growth or risk-off/liquidity driven regime, stocks and commodities historically have been positively correlated, while rates were inversely correlated. In an inflation driven regime, stocks and rates historically have been positively correlated, while commodities were inversely correlated.
 - Potential margin calls/liquidity
 - Mitigant: the program has been carefully designed with cash reserves (Northern Trust cash, Parametric cash, and BlackRock short duration)—all three provide sources of liquidity if needed. In addition, the Wellington mandate is operated with liquidity headroom, providing additional flexibility. Lastly, core fixed income could be utilized as a source of liquidity if needed.



Summary and Considerations

- As interest rates increased in 2022, the Capital Efficiency program has been actively managed
 - Alpha Pool size was scaled in response to financial markets
 - Beta composition was shifted to reduce cost
- Higher cash rates and higher spread created a more challenging environment for the Capital Efficiency program
- With the decline in cash rates and spreads declining, the Capital Efficiency program is in a more favorable environment
 - We continue to monitor the spread component in equity futures
- The Policy benchmark for the Alpha Pool should be updated from Cash + 300bps to 300bps since the Alpha Pool return is being reduced by the cash rate



Recommendation

- Update the **Investment Policy Statement (IPS)**, specifically, the Alpha Pool Policy Benchmark from 3-Month Treasury Bill + 300bps to 300bps (redline and clean versions of the IPS follows this presentation)
 - The Cerity quarterly Investment Performance Report (IPR) will utilize the 300bps benchmark
 - The Albourne quarterly performance report will continue to utilize the 3-Month Treasury Bill + 300bps benchmark
 - Implement the Policy Benchmark change effective the start of the current fiscal year -- July 1, 2026



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INVESTMENT POLICY STATEMENT

May 2026

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MISSION STATEMENT AND PURPOSE

Mission Statement

Kern County Employees' Retirement Association's ("KCERA") mission is to expertly administer retirement benefits, prudently invest the assets of the Association, and provide quality membership services to 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, is 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, ~~and commodities markets, 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 emphasizes the secondary objectives of income generation, and diversification.

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

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

Objectives

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

Guidelines

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

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

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

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

Objectives

1. Annualized return expectation of 3-Month Treasury Bill + 300bps

1.a. For the Policy benchmark calculation, the alpha pool benchmark is 300bps (the cash component is not included in the alpha pool Policy benchmark, because cash is backed out of the alpha pool return in the Total Plan performance report);

2. Annualized forecast volatility between 3% and 6%; and,
3. Forecast Beta to MSCI All Country World Index of less than 0.2.

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.

Objectives

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

Guidelines

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

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

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

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

ADMINISTRATIVE PRACTICES

Review and Revisions

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

investment consultant or the Chief Investment Officer shall be reported first to the Chief Executive Officer and subsequently to the Board at the next regularly scheduled Board meeting.

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



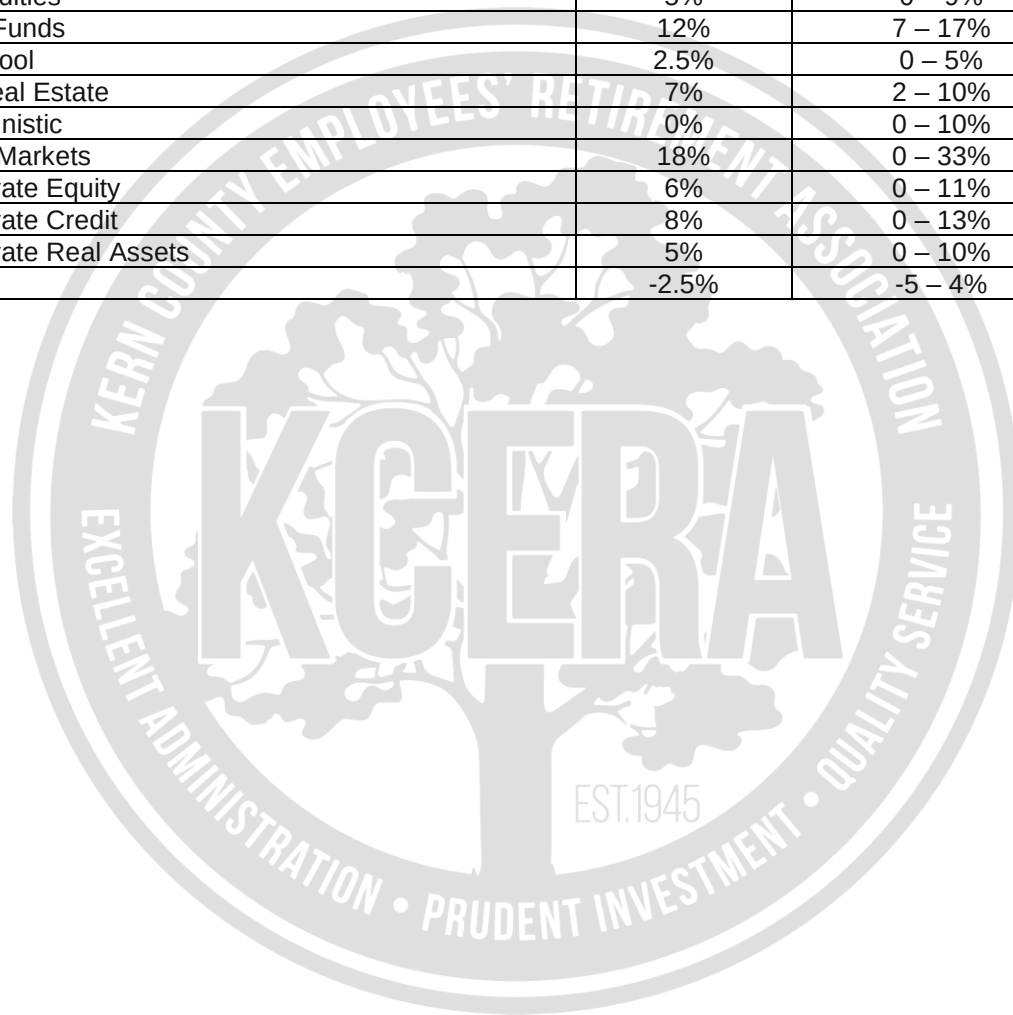
POLICY REVIEW AND HISTORY

- 1) This policy was:
 - a) Adopted by the Board on April 9, 2014.
 - b) Amended by the Board on March 9, 2016; March 13, 2019; May 1, 2019; April 1, 2020; December 9, 2020; April 13, 2022; September 13, 2023; September 11, 2024; April 9, 2025; November 5, 2025; December 10, 2025; and May 6, 2026.



APPENDIX A – ASSET ALLOCATION AND ALLOWABLE RANGES

Asset Class	Target	Range
Public Equity	34%	24 – 46%
Domestic		12 – 29%
International Developed		5 – 19%
Emerging Markets		0 – 10%
Fixed Income	23%	13 – 33%
Core	13%	8 – 23%
Credit	10%	5 – 15%
Commodities	5%	0 – 9%
Hedge Funds	12%	7 – 17%
Alpha Pool	2.5%	0 – 5%
Core Real Estate	7%	2 – 10%
Opportunistic	0%	0 – 10%
Private Markets	18%	0 – 33%
Private Equity	6%	0 – 11%
Private Credit	8%	0 – 13%
Private Real Assets	5%	0 – 10%
Cash	-2.5%	-5 – 4%



APPENDIX B – POLICY BENCHMARK

Asset Class	Weight	Benchmark
Equity	34.0%	MSCI All Country World Investable Market Index (Total Return Net)
Fixed Income	23.0%	Blend [†]
Core	13.0%	3% ICE BofAML 7-10 Year US Treasury Index 2% ICE BofAML US Treasury 10+ Index 4% Bloomberg Barclays US Aggregate Total Return Value Unhedged USD Index 4% Bloomberg US Corporate Credit 1-3 Year Index
Credit	10.0%	5% Securitized (50% Bloomberg Non-Agency CMBS Index; 33.33% Bloomberg ABS Index; 16.67% JP Morgan CLOIE AAA Index) 2.5% Morningstar LSTA Leverage Loan Index 2.5% JP Morgan Emerging Market Bond Global Diversified Index
Commodities	5.0%	Bloomberg Commodity Index
Hedge Funds	12.0%	9% 3-Month Treasury Bill + 300bps & 3% MSCI All Country World Index (Total Return Net)
Alpha Pool	2.5%	3-Month Treasury Bill + 300bps
Core Real Estate	7.0%	NCREIF Fund Index - Open End Diversified Core Equity (Net)
Opportunistic	0.0%	Assumed rate of return + 300bps
Private Equity	6.0%	Actual time-weighted Private Equity returns ^{††}
Private Credit	8.0%	Actual time-weighted Private Credit returns ^{††}
Private Real Assets	5.0%	Actual time-weighted Private Real Assets returns ^{††}
Cash	-2.5%	3-Month Treasury Bill Index

[†] 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 assets 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 a 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 deep 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 for 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.

Delegation

The Board has delegated the authority to select and terminate investment managers to the Chief Investment Officer, within the parameters and constraints set forth in this policy and with concurrence from the applicable investment consulting firm.

Parameters and Constraints – Selection and Termination

The authority delegated to the Chief Investment Officer by the Board to select investment managers will be constrained by a maximum investment size defined as a percentage of total plan assets. The authority delegated to the Chief Investment Officer to terminate investment managers is not constrained and is fully delegated.

Asset Class	Selection Threshold	Termination
Hedge Funds	1.0%	Fully delegated
Private Markets	1.0%	Fully delegated
Opportunistic	1.0%	Fully delegated
Co-investments ¹	0.5%	Fully delegated
All other investments	1.0%	Fully delegated

¹Co-investments must be with managers where the Plan has previously made an investment.

The authority delegated to the Chief Investment Officer by the Board to select and terminate investment managers may be rescinded by the Board for any of the following reasons:

- The current Chief Investment Officer either leaves the job position of Chief Investment Officer or leaves employment with KCERA.
- The current consultant is replaced for an asset class (delegated authority will be rescinded for that asset class only).
- If overall KCERA Investment Staff positions fall below 50% of authorized positions.

The Board maintains discretion to reinstitute delegated authority previously rescinded by the Board.

Staff will develop procedures describing the criteria and processes to be used in conducting investment manager due diligence, including due diligence meetings, and arriving at staff decisions and recommendations; and will review said procedures with the Investment Committee from time to time.

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. **Internal Investment Committee Approval:** Members of the investment team will review proposed investments presented by team members. The Chief Investment Officer will have the final decision-making authority to select an investment manager, subject to the parameters and constraints in this Appendix D, or recommend an investment to the Investment Committee and/or Board of Retirement.
3. **Investment Committee Notification:** For investments within the Chief Investment Officer's delegated authority, the Investment team will promptly notify Investment Committee members of the selected investment manager and confirm that the selection complies with the delegated authority described in this Appendix D.
4. **Board of Retirement Notification:** At the next available Regular Board meeting, the Chief Investment Officer will report the investment managers selected under delegated authority that have completed the contracting process.

Manager Search Process – Private Markets

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

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

1. **Initiation and Evaluation:** Guided by the pacing plan and forward calendar, the Chief Investment Officer will coordinate with the investment consultant regarding due diligence. A written due diligence report will be produced, which articulates the opportunity, rationale, and risk of the investment. Due diligence may include on-site visits or may be performed virtually via video conference.
2. **Internal Investment Committee Approval:** Members of the investment team will review proposed investments presented by team members. The Chief Investment Officer will have the final decision-making authority to select an investment manager, subject to the parameters and constraints in this Appendix D, or recommend an investment to the Investment Committee and/or Board of Retirement.
3. **Investment Committee Notification:** For investments within the Chief Investment Officer's delegated authority, the Investment team will promptly notify Investment Committee

members of the selected investment manager(s) and confirm that the selection complies with the delegated authority described in this Appendix D.

4. Board of Retirement Notification: At the next available Regular Board meeting, the Chief Investment Officer will report the investment manager(s) selected under delegated authority that have completed the contracting process.

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 Cal. Gov. Code §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.

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.
- 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
- Annual performance commentary
- Annual 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 an analysis of trading costs of the account. The Board may engage third parties to independently evaluate the Manager's trading costs and practices, to assess whether or not the Manager is 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 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.

When requested by staff, the asset pricing report will include the above information. The report must be sent by the Manager to staff, the Custodian, and the investment consultant five days after receipt of the request.

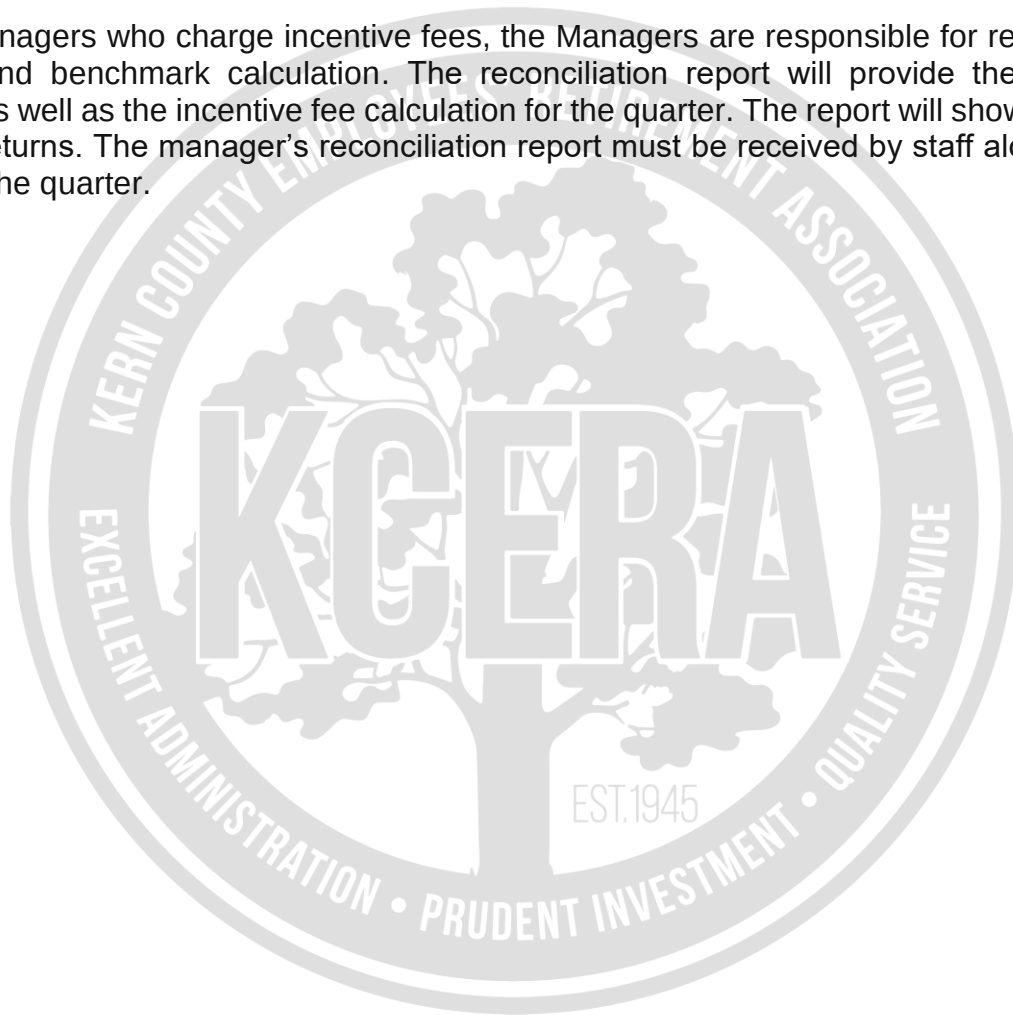
Securities held in commingled accounts are valued according to the pricing policy of the individual commingled fund Manager.

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.





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INVESTMENT POLICY STATEMENT

May 2026

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MISSION STATEMENT AND PURPOSE

Mission Statement

Kern County Employees' Retirement Association's ("KCERA") mission is to expertly administer retirement benefits, prudently invest the assets of the Association, and provide quality membership services to 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, is 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 equity, fixed income, and commodities markets, 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 emphasizes the secondary objectives of income generation, and diversification.

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

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

Objectives

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

Guidelines

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

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

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

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

Objectives

1. Annualized return expectation of 3-Month Treasury Bill + 300bps

- a. *For the Policy benchmark calculation, the alpha pool benchmark is 300bps (the cash component is not included in the alpha pool Policy benchmark, because cash is backed out of the alpha pool return in the Total Plan performance report);*
2. Annualized forecast volatility between 3% and 6%; and,
3. Forecast Beta to MSCI All Country World Index of less than 0.2.

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.

Objectives

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

Guidelines

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

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

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

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

ADMINISTRATIVE PRACTICES

Review and Revisions

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

investment consultant or the Chief Investment Officer shall be reported first to the Chief Executive Officer and subsequently to the Board at the next regularly scheduled Board meeting.

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



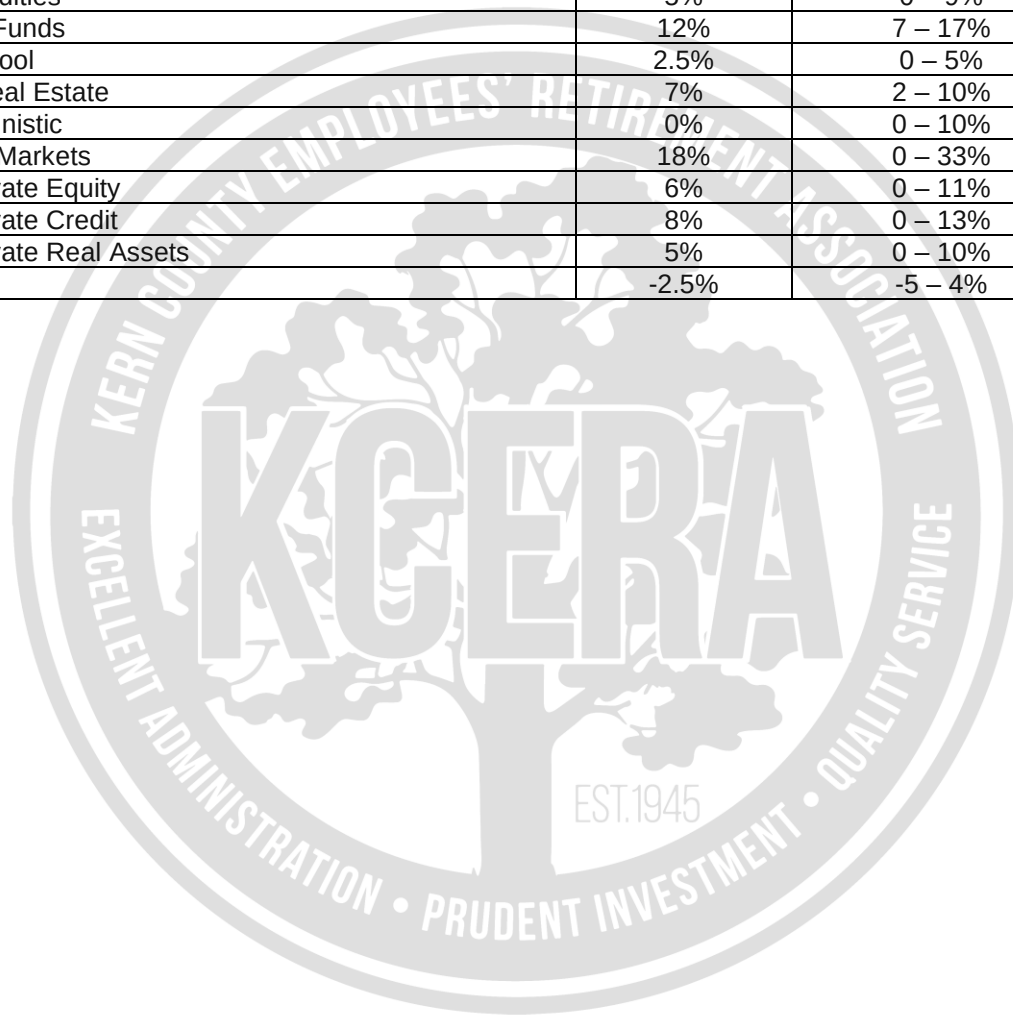
POLICY REVIEW AND HISTORY

- 1) This policy was:
 - a) Adopted by the Board on April 9, 2014.
 - b) Amended by the Board on March 9, 2016; March 13, 2019; May 1, 2019; April 1, 2020; December 9, 2020; April 13, 2022; September 13, 2023; September 11, 2024; April 9, 2025; November 5, 2025; December 10, 2025; and May 6, 2026.



APPENDIX A – ASSET ALLOCATION AND ALLOWABLE RANGES

Asset Class	Target	Range
Public Equity	34%	24 – 46%
Domestic		12 – 29%
International Developed		5 – 19%
Emerging Markets		0 – 10%
Fixed Income	23%	13 – 33%
Core	13%	8 – 23%
Credit	10%	5 – 15%
Commodities	5%	0 – 9%
Hedge Funds	12%	7 – 17%
Alpha Pool	2.5%	0 – 5%
Core Real Estate	7%	2 – 10%
Opportunistic	0%	0 – 10%
Private Markets	18%	0 – 33%
Private Equity	6%	0 – 11%
Private Credit	8%	0 – 13%
Private Real Assets	5%	0 – 10%
Cash	-2.5%	-5 – 4%



APPENDIX B – POLICY BENCHMARK

Asset Class	Weight	Benchmark
Equity	34.0%	MSCI All Country World Investable Market Index (Total Return Net)
Fixed Income	23.0%	Blend [†]
Core	13.0%	3% ICE BofAML 7-10 Year US Treasury Index 2% ICE BofAML US Treasury 10+ Index 4% Bloomberg Barclays US Aggregate Total Return Value Unhedged USD Index 4% Bloomberg US Corporate Credit 1-3 Year Index
Credit	10.0%	5% Securitized (50% Bloomberg Non-Agency CMBS Index; 33.33% Bloomberg ABS Index; 16.67% JP Morgan CLOIE AAA Index) 2.5% Morningstar LSTA Leverage Loan Index 2.5% JP Morgan Emerging Market Bond Global Diversified Index
Commodities	5.0%	Bloomberg Commodity Index
Hedge Funds	12.0%	9% 3-Month Treasury Bill + 300bps & 3% MSCI All Country World Index (Total Return Net)
Alpha Pool	2.5%	300bps
Core Real Estate	7.0%	NCREIF Fund Index - Open End Diversified Core Equity (Net)
Opportunistic	0.0%	Assumed rate of return + 300bps
Private Equity	6.0%	Actual time-weighted Private Equity returns ^{††}
Private Credit	8.0%	Actual time-weighted Private Credit returns ^{††}
Private Real Assets	5.0%	Actual time-weighted Private Real Assets returns ^{††}
Cash	-2.5%	3-Month Treasury Bill Index

[†] 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 assets 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 a 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 deep 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 for 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.

Delegation

The Board has delegated the authority to select and terminate investment managers to the Chief Investment Officer, within the parameters and constraints set forth in this policy and with concurrence from the applicable investment consulting firm.

Parameters and Constraints – Selection and Termination

The authority delegated to the Chief Investment Officer by the Board to select investment managers will be constrained by a maximum investment size defined as a percentage of total plan assets. The authority delegated to the Chief Investment Officer to terminate investment managers is not constrained and is fully delegated.

Asset Class	Selection Threshold	Termination
Hedge Funds	1.0%	Fully delegated
Private Markets	1.0%	Fully delegated
Opportunistic	1.0%	Fully delegated
Co-investments ¹	0.5%	Fully delegated
All other investments	1.0%	Fully delegated

¹Co-investments must be with managers where the Plan has previously made an investment.

The authority delegated to the Chief Investment Officer by the Board to select and terminate investment managers may be rescinded by the Board for any of the following reasons:

- The current Chief Investment Officer either leaves the job position of Chief Investment Officer or leaves employment with KCERA.
- The current consultant is replaced for an asset class (delegated authority will be rescinded for that asset class only).
- If overall KCERA Investment Staff positions fall below 50% of authorized positions.

The Board maintains discretion to reinstitute delegated authority previously rescinded by the Board.

Staff will develop procedures describing the criteria and processes to be used in conducting investment manager due diligence, including due diligence meetings, and arriving at staff decisions and recommendations; and will review said procedures with the Investment Committee from time to time.

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. **Internal Investment Committee Approval:** Members of the investment team will review proposed investments presented by team members. The Chief Investment Officer will have the final decision-making authority to select an investment manager, subject to the parameters and constraints in this Appendix D, or recommend an investment to the Investment Committee and/or Board of Retirement.
3. **Investment Committee Notification:** For investments within the Chief Investment Officer's delegated authority, the Investment team will promptly notify Investment Committee members of the selected investment manager and confirm that the selection complies with the delegated authority described in this Appendix D.
4. **Board of Retirement Notification:** At the next available Regular Board meeting, the Chief Investment Officer will report the investment managers selected under delegated authority that have completed the contracting process.

Manager Search Process – Private Markets

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

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

1. **Initiation and Evaluation:** Guided by the pacing plan and forward calendar, the Chief Investment Officer will coordinate with the investment consultant regarding due diligence. A written due diligence report will be produced, which articulates the opportunity, rationale, and risk of the investment. Due diligence may include on-site visits or may be performed virtually via video conference.
2. **Internal Investment Committee Approval:** Members of the investment team will review proposed investments presented by team members. The Chief Investment Officer will have the final decision-making authority to select an investment manager, subject to the parameters and constraints in this Appendix D, or recommend an investment to the Investment Committee and/or Board of Retirement.
3. **Investment Committee Notification:** For investments within the Chief Investment Officer's delegated authority, the Investment team will promptly notify Investment Committee

members of the selected investment manager(s) and confirm that the selection complies with the delegated authority described in this Appendix D.

4. Board of Retirement Notification: At the next available Regular Board meeting, the Chief Investment Officer will report the investment manager(s) selected under delegated authority that have completed the contracting process.

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 Cal. Gov. Code §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.

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.
- 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
- Annual performance commentary
- Annual 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 an analysis of trading costs of the account. The Board may engage third parties to independently evaluate the Manager's trading costs and practices, to assess whether or not the Manager is 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 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.

When requested by staff, the asset pricing report will include the above information. The report must be sent by the Manager to staff, the Custodian, and the investment consultant five days after receipt of the request.

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

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.

