KCERA
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

May 9, 2024

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

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

Ladies and Gentlemen:

A meeting of the Kern County Employees' Retirement Association Investment Committee will be held on Tuesday, May 14, 2024 at 8:30 a.m. in the KCERA Boardroom, 11125 River Run Boulevard, Bakersfield, California, 93311.

How to Participate: Listen to or View the Board Meeting
To listen to the live audio of the Board meeting, please dial one of the following numbers (for best audio a landline is recommended) and enter ID# 811 6604 6184

- (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/81166046184?pwd=eXRLZnlqVnNqbWVLMmZQVms1SXVkUT09
- Passcode: 165264

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

Sincerely,

Dominic D. Brown
Chief Executive Officer

Attachments

AGENDA:

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

AMERICANS WITH DISABILITIES ACT
(Government Code §54953.2)

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

CALL TO ORDER

ROLL CALL (IN PERSON)

AB 2449 REMOTE APPEARANCE(S)
Items 1 and/or 2 withdrawn from agenda if no trustee(s) request to appear remotely:

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

      - NONE

   b) Call for Trustee(s) who wish to notify the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code § 54953) – RECEIVE/HEAR REQUEST(S); NO COMMITTEE ACTION REQUIRED

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

      - NONE

   b) Call for Trustee(s) requesting the Committee approve their attendance of this meeting via teleconference due to an "Emergency Circumstance". (See Government Code § 54953) – TAKE ACTION ON REQUEST(S) FOR REMOTE APPEARANCE DUE TO EMERGENCY CIRCUMSTANCE

3. Presentation on equity deep dive presented by Scott Whalen, CFA, Verus, Chief Investment Officer Daryn Miller, CFA, and Senior Investment Analyst Rafael Jimenez – HEAR PRESENTATION

4. Response to referral directing staff to update policies to delegate manager selection and termination to the Chief Investment Officer within parameters selected by the Investment Committee presented by Governance Consultants Julie Becker and David Forman, Aon, Chief Executive Officer Dominic Brown, and Chief Investment Officer Daryn Miller, CFA – RECOMMEND THE BOARD OF RETIREMENT APPROVE PROPOSED PARAMETERS AND POLICY UPDATES

PUBLIC COMMENTS

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

REFERRALS TO STAFF, ANNOUNCEMENTS OR REPORTS

6. 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.

7. Adjournment

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Public Equity Review

Presented by:

Daryn Miller, CFA

Chief Investment Officer

Rafael A. Jimenez

Senior Investment Analyst

May 2024

Introduction and Objective

What is Staff seeking to achieve with this analysis?

- Evaluate the Public Equity Portfolio to determine if the asset class is serving its goal within the greater KCERA Investment Program
- Communicate to trustees the efficacy of the asset class to meet the primary objective of return generation
- Understand the Public Equity Portfolio’s risk and return drivers, and relative factor exposures
- Contemplate strategic considerations for potential structural improvement
- Identify areas of concern that will dictate potential initiatives and actions

Executive Summary

- The Public Equity Portfolio maintains an underweight to Domestic Equity and an overweight to International Developed Equity.
  - The allocation to International Developed is primarily attributed to the Japan country overweight and is based on Staff conviction that excess return can be generated through regional exposure (Beta) and manager selection (Alpha).
  - Domestic Equity positioning is the result of earnings and price multiple considerations.
- Staff has been effective at determining and managing underlying manager exposures to meaningfully reduce risk factor exposures relative to MSCI ACWI IMI.
- No factor exposures deviate meaningfully from the Policy Benchmark, but the Portfolio has a modest tilt toward smaller companies and lower valuations – Both *compensated* equity risk factors.
- The Portfolio has a more conservative risk profile than the Policy Benchmark as evidenced by volatility, drawdown, Beta, and VaR.
- The Portfolio has less Tracking Error relative to a peer universe of similar Public Plans.

Contents

- Public Equity Policy Benchmark
- Positioning and Market Value (as of 12/31/23)
- Investment Manager changes in previous 3 years
- Performance and Attribution
- Factor Exposure vs Policy Benchmark
- Risk
- Strategic Considerations
- Appendix

Total Plan Investment Objectives

The mission of the KCERA Investment Program is to prudently invest the asset of the Plan on behalf of its stakeholders in accordance with the Investment Policy Statement (IPS).

Objective One

Earn a long-term net of fees rate of return which is equal to or greater than the Plan's assumed rate of return of 7.0%.

Objective Two

Earn a long-term net of fees return which is equal to greater than the Plan's blended Policy Benchmark

Objective Three

Earn a long-term net of fees return which exceeds the long-term rate of inflation.

We invest in Public Equity for capital appreciation, diversification among asset classes, and as an inflation hedge.

Public Equity serves the core purpose of return generation toward the Plan's stated 7.0% return and can be expected to earn a return that exceeds the long-term rate of inflation.

Public Equity Policy Benchmark

MSCI ACWI INVESTABLE MARKET INDEX (ACWI IMI)

- The index is comprehensive and covers approximately 99% of the global equity opportunity set across the market cap spectrum in both Developed Markets and Emerging Markets countries.

- ACWI IMI can be further divided into three regional indices.
  - Domestic Equity
    - MSCI USA IMI
  - International Developed Equity
    - MSCI World ex U.S. IMI
  - Emerging Markets Equity
    - MSCI Emerging Markets IMI

- ***The KCERA Equity Portfolio mirrors this structure.***

MSCI USA IMI: Domestic Equity represents **61.42%** of the Policy Benchmark

MSCI World ex US IMI: International Developed Equity represents **27.71%** of the Policy Benchmark

MSCI Emerging Markets IMI: Emerging Markets Equity represents **10.87%** of the Policy Benchmark

Regional weights as of December 31st, 2023

Positioning & Market Values

KCERA REGIONAL EXPOSURE VS POLICY BENCHMARK

	Market Value	Active/Passive	% of Portfolio	% of Policy Index	Relative Regional Weight (%)
Equity	**1,804,667,591**				
MSCI AC World IMI (Net)					
Domestic Equity	**922,021,064**		**51.1**	**61.42**	**-10.33**
MSCI USA IMI					
Equity Beta Exposure	67,962,000	*Passive*			
Mellon DB SL Stock Index Fund	579,000,969	*Passive*			
PIMCO StocksPlus	126,366,009	*Passive*			
AB US Small Cap Value Equity	93,666,254	*Active*			
Geneva Capital Small Cap Growth	55,025,832	*Active*			
International Developed Equity	**684,112,752**		**37.9**	**27.71**	**10.20**
MSCI World ex U.S. IMI (Net)					
Mellon DB SL World ex-US Index Fund	415,298,504	*Passive*			
Cevian Capital II	44,029,220	*Active*			
American Century Non-US Small Cap	60,360,821	*Active*			
Dalton Japan Long Only	55,270,144	*Active*			
Lazard Japanese Equity	109,154,063	*Active*			
Emerging Markets Equity	**198,533,775**		**11.0**	**10.87**	**0.13**
MSCI EM IMI (Net)					
DFA Emerging Markets Value I	87,548,956	*Active*			
Mellon Emerging Markets Stock Index Fund	110,984,819	*Passive*			

Domestic Equity: The Portfolio is **underweight** Domestic Equity 10.33% relative to the regional exposure in MSCI ACWI IMI.

International Developed Equity: The Portfolio is **overweight** International Developed Equity 10.20% relative to the regional exposure in MSCI ACWI IMI.

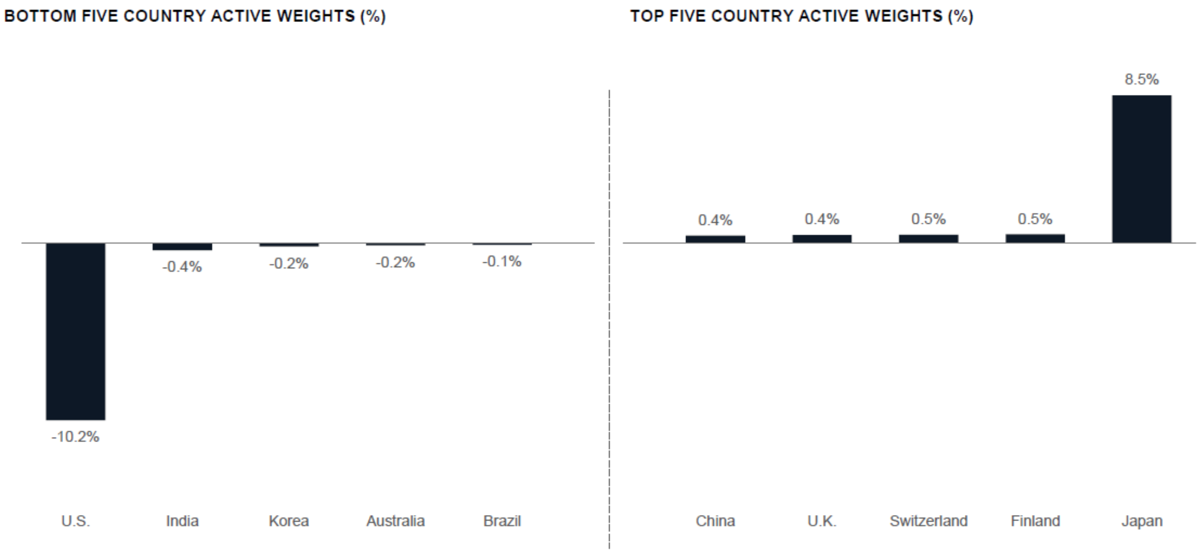
Emerging Markets Equity: The Portfolio exposure to Emerging Markets Equity is largely in line (+0.13%) with the regional exposure in MSCI ACWI IMI.

At the regional level, the Portfolio underweight to Domestic Equity can be attributed to the underweight exposure to large cap domestic equity.

The overweight to International Developed Equity can be primarily attributed to the overweight country exposure to Japan. At the policy benchmark level, there is an 8.5% overweight to Japan.

As of December 31st, 2023. Source: KCERA.

Active Country & Sector Weights



Country Active Weights: The largest country overweight is to Japan and is a result of the dedicated allocations to Lazard Japanese Equity and Dalton Japan Long Only. Additional positive country active weights are modest and can be attributed to active managers in the International Developed Equity Portfolio.

The largest country underweight is to the U.S. Additional negative country active weights are modest and can be attributed to the active manager in the Emerging Markets Equity Portfolio.

Sector Active Weights: At the GICS sector level, the Public Equity Portfolio has an overweight to Industrials and Materials relative to the Policy Benchmark. The most acute underweight is to Information Technology and Health Care.

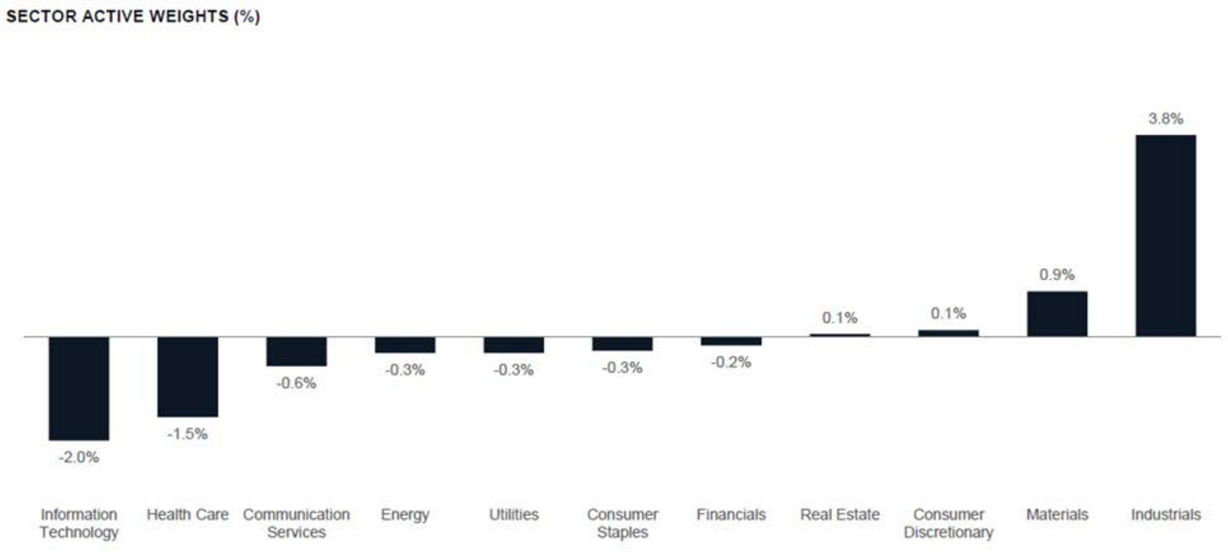
Overweight to Industrials and Materials driven by Japan country exposure and stock selection in Cevian Capital II.

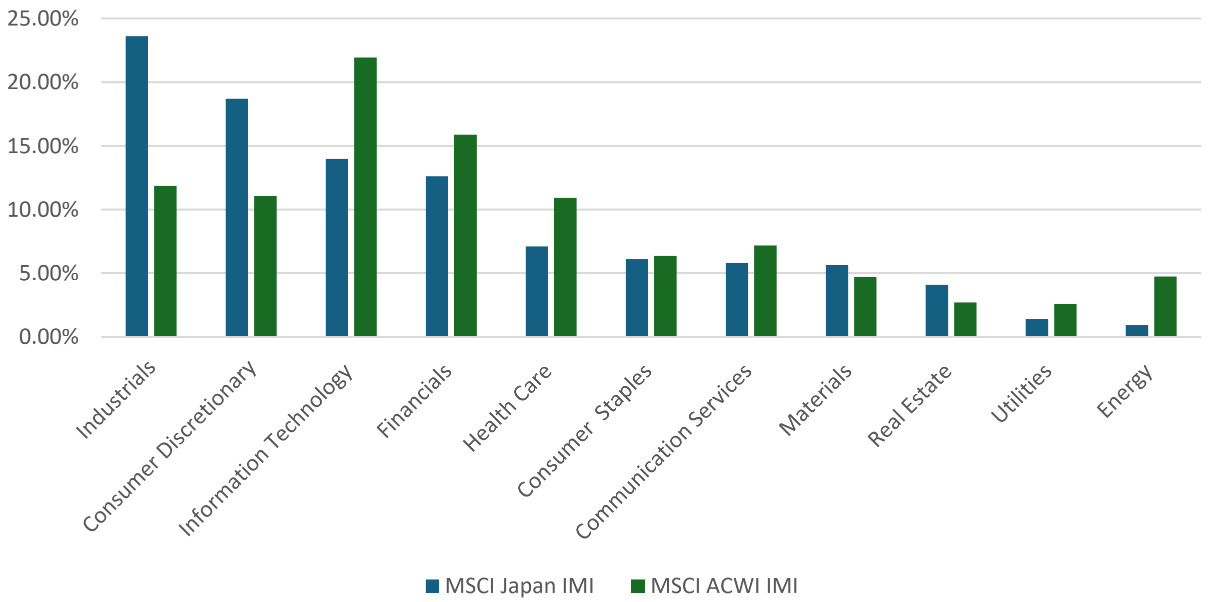
Underweight to Information Technology (IT) and Healthcare can be attributed to the U.S. country exposure. IT and Healthcare represent the first and third largest sector in the U.S. respectively.

As of December 31st, 2023. Source: Goldman Sachs

KCERA
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Active Country & Sector Weights, cont.





Country Active Weights: The largest country overweight is to Japan and is a result of the dedicated allocations to Lazard Japanese Equity and Dalton Japan Long Only. Additional positive country active weights are modest and can be attributed to active managers in the International Developed Equity Portfolio.

The largest country underweight is to the U.S. Additional negative country active weights are modest and can be attributed to the active manager in the Emerging Markets Equity Portfolio.

Sector Active Weights: At the GICS sector level, the Public Equity Portfolio has an overweight to Industrials and Materials relative to the Policy Benchmark. The most acute underweight is to Information Technology and Health Care.

Overweight to Industrials and Materials driven by Japan country exposure and stock selection in Cevian Capital II.

Underweight to Information Technology (IT) and Healthcare can be attributed to the U.S. country exposure. IT and Healthcare represent the first and third largest sector in the U.S. respectively.

As of December 31st, 2023. Source: Goldman Sachs

*Japan Active Weight As of April 30th, 2024. Source: MSCI

Investment Manager Changes

Changes over the past 3 years

January 2021 ACI Non-US Small Cap

Termination of Fidelity Intl. Small Cap due to organizational issues and lack of conviction in strategy; subsequent replacement with American Century.

August 2021 BlackRock Alpha Tilts

Terminated manager as part of an initiative to minimize unnecessary portfolio complexity and related cost, and due to manager underperformance. Proceeds allocated to passive fund.

September 2021 Mellon Dynamic US Equity

Terminated manager as part of an initiative to minimize unnecessary portfolio complexity and related cost, and due to underperformance. Proceeds allocated to passive fund.

November 2023 Lazard Japanese Equity

Intentional country OW to Japan equity based on thesis of a) valuation, b) structural reform, and c) potential macroeconomic tailwinds. +100M to Lazard as the *Core* manager in a Core-Satellite structure.

November 2023 Dalton Japan Long Only

Intentional country OW to Japan equity based on thesis of a) valuation, b) structural reform, and c) potential macroeconomic tailwinds. +50M to Dalton as the *Satellite* manager in a Core-Satellite structure.

November 2023 AB Emerging Markets Strategic Core

Terminateed manager due to underperformance and lack of conviction in the strategy. Staff is in the process of a replacement search for an Emerging Markets active manager.

Performance and Attribution

How has the Portfolio performed relative to the Policy Benchmark?
What are the drivers of performance and sources of excess return?

Exposure Type (Benchmark)	Performance: Active Return	Performance: Type	Notes
Global Equity (MSCI ACWI)	+	Stock Selection	• Stronger performance driven by stock selection
U.S. Equity (Russell 1000)	–	Factor Driven	• Weaker performance driven by factors (primarily market and small size exposures)
International Developed Equity (MSCI World ex. U.S.)	+	Stock Selection	• Stronger performance driven by stock selection
EM Equity (MSCI EM)	+	Factor Driven	• Stronger performance driven by factors (primarily value exposures)

*As of December 31st, 2023. Source: Goldman Sachs
Goldman Sachs analysis does not rely on the respective IMI indices for MSCI ACWI, MSCI World Ex US, or MSCI EM. The IMI indices are more comprehensive and target approximately 99% of each region's market capitalization. IMI indices can be expected to have more exposure to small cap securities. Performance attribution for Domestic Equity is relative to the Russell 1000 index. Staff expects the results of this analysis to be directionally similar and help explain the structural drivers of performance.

Overall positive performance over the past 5 years, primarily driven by manager selection, while market exposure and size factors detracted.

- The Public Equity Portfolio generated an excess return of **+0.11%** net-of-fees relative to MSCI ACWI during the 5-year period ending December 31st, 2023.
  - Performance was driven by manager selection.
- The Domestic Equity Portfolio generated an excess return of **-0.57%** net-of-fees relative to Russell 1000.
  - Performance was driven by factor exposure to small companies and lower market beta.
- The International Developed Equity Portfolio generated an excess return of **+1.43%** net-of-fees relative to MSCI World ex US.
  - Performance was driven by manager selection.
- The Emerging Markets Equity Portfolio generated an excess return of **+1.05%** net-of-fees relative to MSCI EM.
  - Performance was driven by factor exposure to companies with lower valuations.

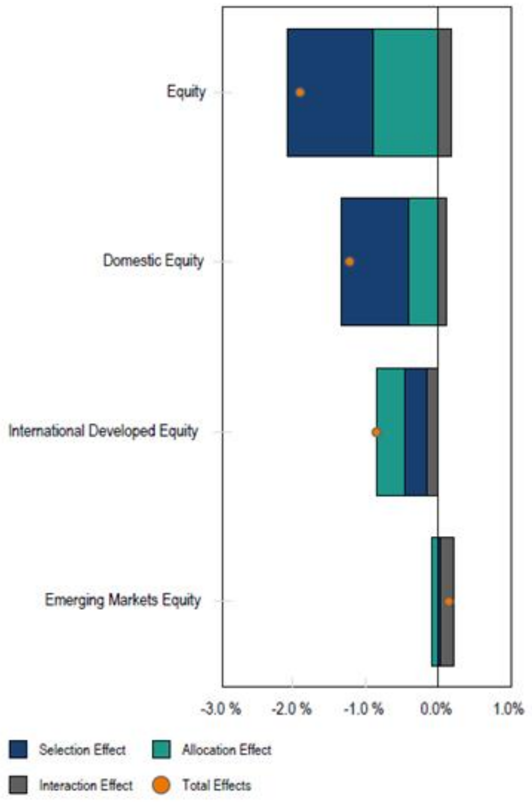
Performance and Attribution, cont.

1-Year Analysis (Net-of-Fees)

Total Fund
Attribution Analysis - Asset Class Level (Net of Fees)

Kern County Employees' Retirement Association
Period Ending: December 31, 2023

Attribution Effects



Performance Attribution

	1 Yr
Wtd. Actual Return	19.7
Wtd. Index Return	21.6
Excess Return	**-1.9**
Selection Effect	-1.2
Allocation Effect	-0.9
Interaction Effect	0.2

Attribution Summary

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Domestic Equity	24.0	25.6	-1.7	-0.9	-0.4	0.1	-1.2
International Developed Equity	16.1	17.2	-1.1	-0.3	-0.4	-0.1	-0.8
Emerging Markets Equity	13.5	11.7	1.8	0.0	-0.1	0.2	0.2
Equity	**19.7**	**21.6**	**-1.9**	**-1.2**	**-0.9**	**0.2**	**-1.9**

Performance over the past year was challenging as manager selection and allocation both detracted.

- The Public Equity Portfolio generated an excess return of **-1.9%** net-of-fees relative to the Policy Benchmark during the 1-year period ending December 31st, 2023.
  - Performance was driven by manager selection and regional allocation.
- The Domestic and International Developed Equity Portfolios detracted from relative performance.
  - Active small cap managers demonstrated negative benchmark-relative performance.
- The Emerging Markets Equity Portfolio generated an excess return of **+1.8%** net-of-fees relative to the Regional Benchmark.
  - Active managers demonstrated positive benchmark-relative performance as the exposure to companies with lower valuations benefitted.

*As of December 31st, 2023. Source: Verus

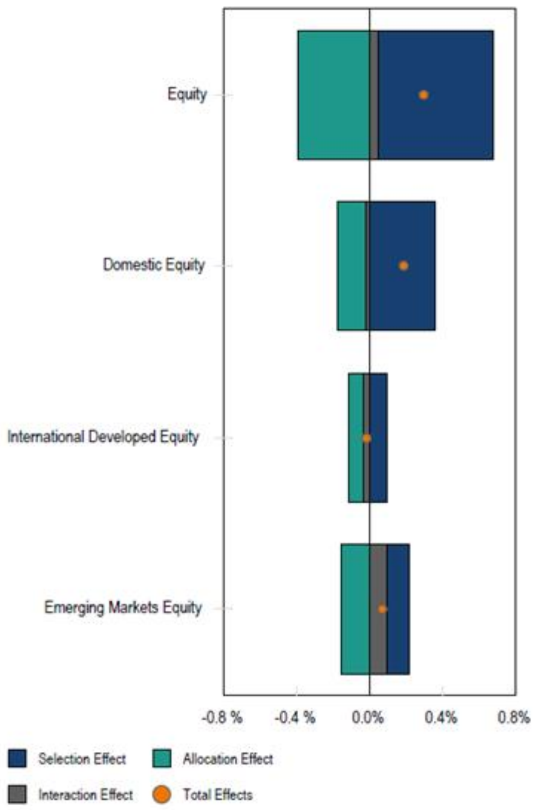
Performance and Attribution, cont.

3-Year Analysis (Net-of-Fees)

Total Fund
Attribution Analysis - Asset Class Level (Net of Fees)

Kern County Employees' Retirement Association
Period Ending: December 31, 2023

Attribution Effects



Performance Attribution

	3 Yrs
Wtd. Actual Return	5.8
Wtd. Index Return	5.5
Excess Return	**0.3**
Selection Effect	0.6
Allocation Effect	-0.4
Interaction Effect	0.0

Attribution Summary

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Domestic Equity	8.9	8.3	0.6	0.4	-0.2	0.0	0.2
International Developed Equity	4.1	3.7	0.3	0.1	-0.1	0.0	0.0
Emerging Markets Equity	-2.1	-3.7	1.6	0.1	-0.2	0.1	0.1
Equity	**5.8**	**5.5**	**0.3**	**0.6**	**-0.4**	**0.0**	**0.3**

Performance over the past 3 years was positive, driven by manager selection and partially offset by allocation.

- The Public Equity Portfolio generated an excess return of **+0.3%** net-of-fees relative to the Policy Benchmark during the 3-year period ending December 31st, 2023.
  - Performance was driven by manager selection.
- While the Portfolio was able to generate positive excess return in each of the Regional Portfolios, geographical allocation was a detractor to relative performance.
- Domestic Equity and Emerging Markets Equity were contributors to relative performance at the aggregate Portfolio level.
  - Active managers benefitted from defensive positioning and emphasis on valuation in a higher interest rate environment.

*As of December 31st, 2023. Source: Verus

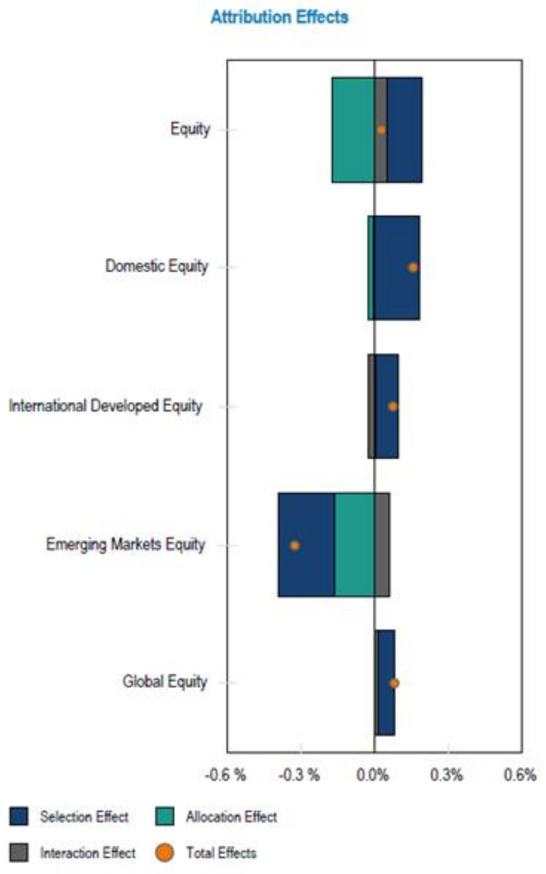
KCERA
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Performance and Attribution, cont.

5-Year Analysis (Net-of-Fees)

Total Fund
Attribution Analysis - Asset Class Level (Net of Fees)

Kern County Employees' Retirement Association
Period Ending: December 31, 2023



Performance Attribution

	5 Yrs
Wtd. Actual Return	11.5
Wtd. Index Return	11.5
Excess Return	**0.0**
Selection Effect	0.1
Allocation Effect	-0.2
Interaction Effect	0.1

Attribution Summary

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Domestic Equity	15.1	14.8	0.3	0.2	0.0	0.0	0.2
International Developed Equity	8.5	8.2	0.3	0.1	0.0	0.0	0.1
Emerging Markets Equity	2.8	4.5	-1.6	-0.2	-0.2	0.1	-0.3
Global Equity	3.9	5.3	-1.5	0.1	0.0	0.0	0.1
Equity	**11.5**	**11.5**	**0.0**	**0.1**	**-0.2**	**0.1**	**0.0**

Performance over the past 5 years was inline with the benchmark. Manager selection was additive, while allocation detracted.

- The Public Equity Portfolio generated an excess return of **+0.0%** net-of-fees relative to the Policy Benchmark during the 5-year period ending December 31st, 2023.
  - Manager selection was a positive contributor to relative performance and regional allocation was a detractor.
- The Domestic and International Developed Equity Portfolios contributed positively to relative performance and demonstrated positive manager selection.
  - Regional allocation to Domestic Equity was additive to aggregate portfolio performance during drawdown from COVID-19 pandemic.
- The Emerging Markets Equity Portfolio was a detractor to relative performance and demonstrated negative manager selection and regional allocation effects.
- The Public Equity Portfolio previously maintained a regional allocation to Global Equity. It was determined that a dedicated global allocation does not provide significant excess returns over a regionally segregated allocation. The Board approved re-allocation in February 2020.

*As of December 31st, 2023. Source: Verus

Active Manager Performance

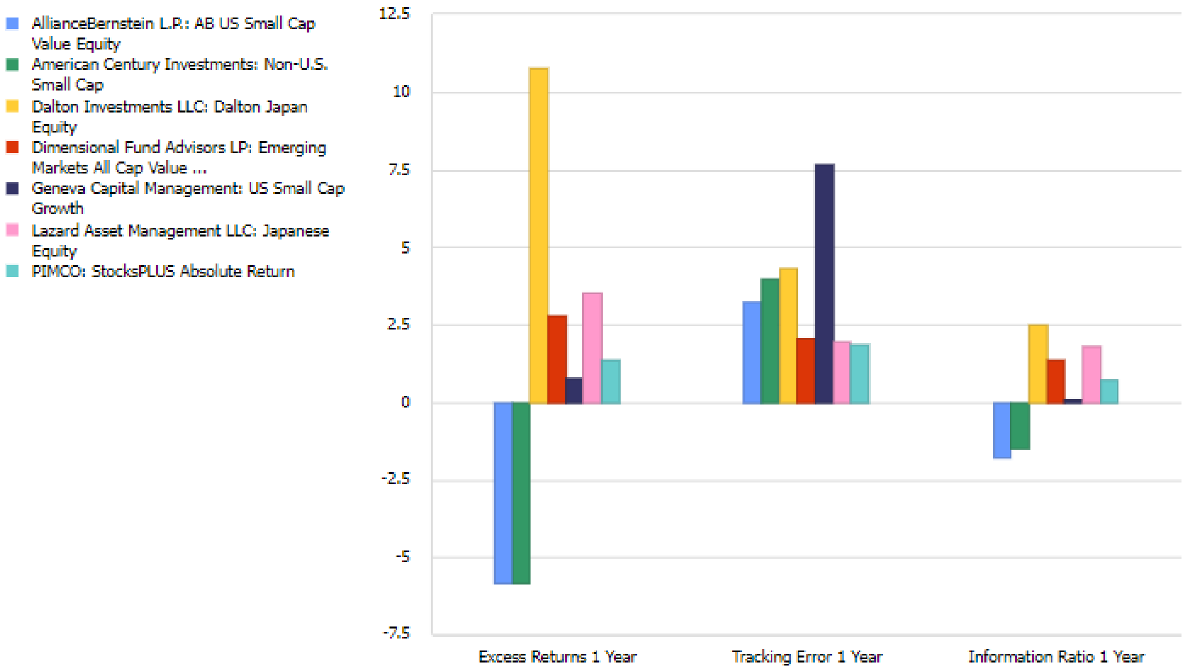
1-Year Analysis

- Analysis includes the hypothetical performance of the following managers for which KCERA was not invested the entire 1-year period:
  - Dalton Japan Equity
  - Lazard Japanese Equity

- Cevian Capital II is not included. The manager hedges all exposure back to US Dollars and the most appropriate index, MSCI Europe (Hedged), is not available for analysis.

- American Century Investments is based on user-entered representative account data. The manager runs a tailored mandate that excludes EM exposure.

As Of: December 31, 2023



	VT	RM	Excess Returns 1 Year	Tracking Error 1 Year	Information Ratio 1 Year
AllianceBernstein L.P.	SA	GF	-5.84	3.23	-1.81
American Century Investments	CF	GF	-5.81	3.96	-1.47
Dalton Investments LLC	SA	GF	10.78	4.31	2.50
Dimensional Fund Advisors LP	SA	GF	2.78	2.06	1.35
Geneva Capital Management	SA	GF	0.79	7.66	0.10
Lazard Asset Management LLC	SA	GF	3.54	1.98	1.79
PIMCO	SA	GF	1.36	1.84	0.74

Results displayed in USD using Spot Rate (SR). Manager Preferred Benchmark

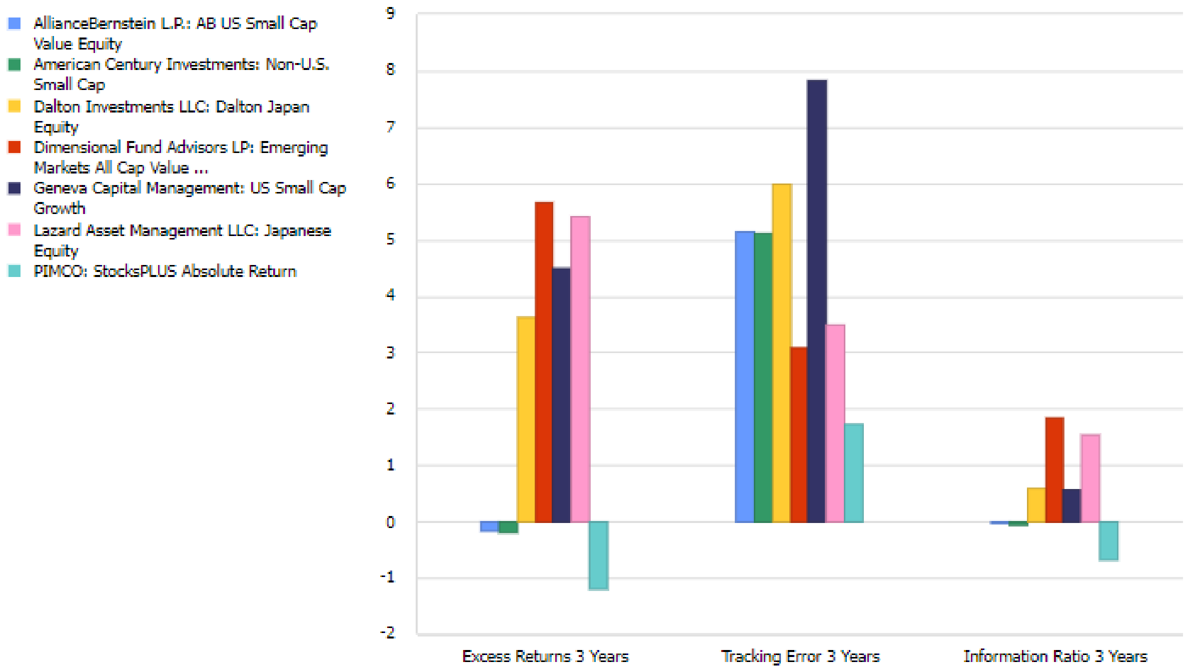
**Source: eVestment*
Based on gross-of-fees composite data provided to eVestment

Active Manager Performance, cont.

3-Year Analysis

- Analysis includes the hypothetical performance of the following managers for which KCERA was not invested the entire 3-year period:
    - Dalton Japan Equity
    - Lazard Japanese Equity
- Cevian Capital II is not included. The manager hedges all exposure back to US Dollars and the most appropriate index, MSCI Europe (Hedged), is not available for analysis.
- American Century Investments is based on user-entered representative account data. The manager runs a tailored mandate that excludes EM exposure.

As Of: December 31, 2023



	VT	RM	Excess Returns 3 Years	Tracking Error 3 Years	Information Ratio 3 Years
AllianceBernstein L.P.	SA	GF	-0.17	5.16	-0.03
American Century Investments	CF	GF	-0.19	5.13	-0.04
Dalton Investments LLC	SA	GF	3.65	5.98	0.61
Dimensional Fund Advisors LP	SA	GF	5.67	3.09	1.83
Geneva Capital Management	SA	GF	4.51	7.83	0.58
Lazard Asset Management LLC	SA	GF	5.42	3.51	1.54
PIMCO	SA	GF	-1.19	1.75	-0.68

Results displayed in USD using Spot Rate (SR).

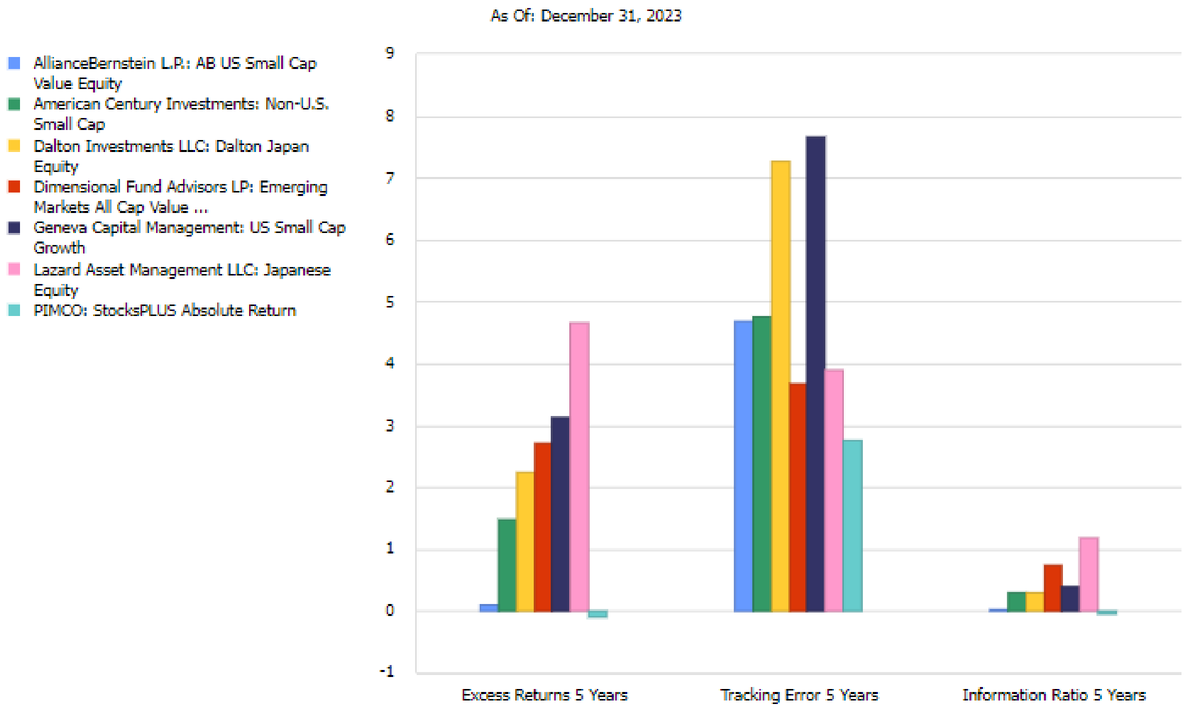
Manager Preferred Benchmark

**Source: eVestment*
Based on gross-of-fees composite data provided to eVestment

Active Manager Performance, cont.

5-Year Analysis

- Analysis includes the hypothetical performance of the following managers for which KCERA was not invested the entire 5-year period:
    - Dalton Japan Equity
    - Lazard Japanese Equity
    - American Century
- Cevian Capital II is not included. The manager hedges all exposure back to US Dollars and the most appropriate index, MSCI Europe (Hedged), is not available for analysis.
- American Century Investments is based on user-entered representative account data. The manager runs a tailored mandate that excludes EM exposure.



	VT	RM	Excess Returns 5 Years	Tracking Error 5 Years	Information Ratio 5 Years
AllianceBernstein L.P.	SA	GF	0.12	4.70	0.02
American Century Investments	CF	GF	1.49	4.77	0.31
Dalton Investments LLC	SA	GF	2.25	7.29	0.31
Dimensional Fund Advisors LP	SA	GF	2.72	3.69	0.74
Geneva Capital Management	SA	GF	3.14	7.66	0.41
Lazard Asset Management LLC	SA	GF	4.68	3.90	1.20
PIMCO	SA	GF	-0.10	2.76	-0.03

Results displayed in USD using Spot Rate (SR). Manager Preferred Benchmark

**Source: eVestment*
Based on gross-of-fees composite data provided to eVestment

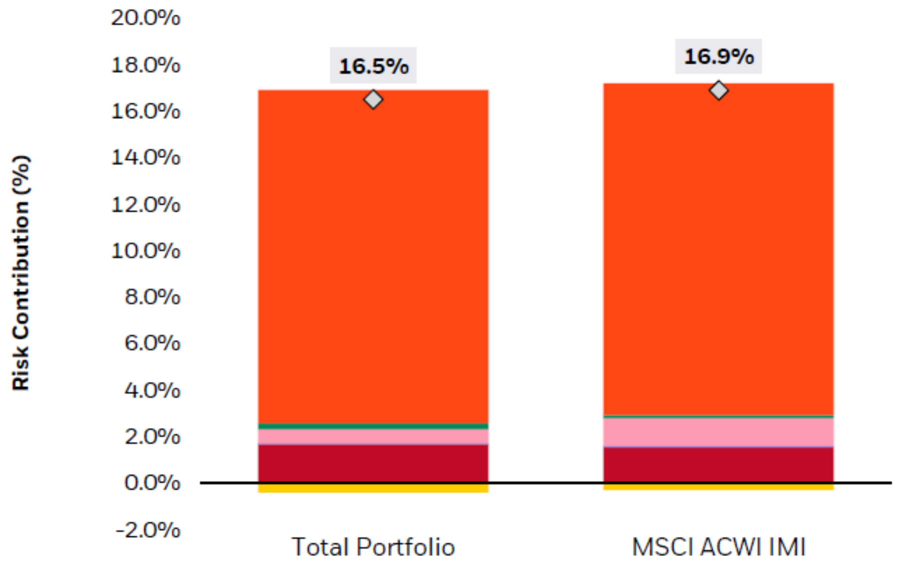
Over the past 5-years, StocksPLUS has not produced a positive excess return or a positive Information Ratio.

Factor Exposure vs Policy Benchmark

<u>Total Public Equity Portfolio</u>

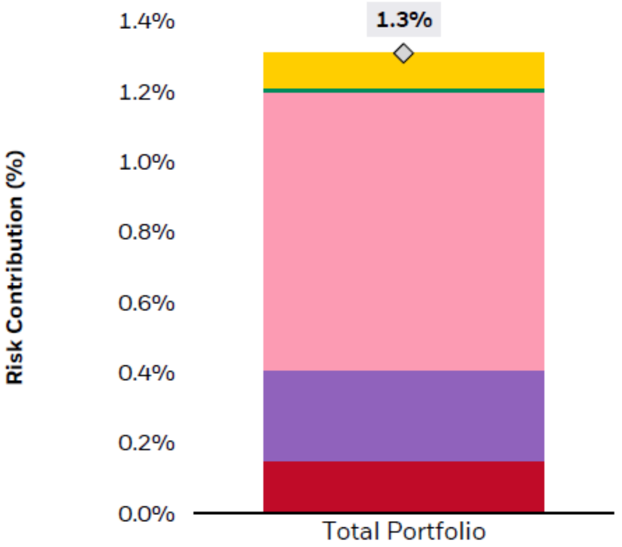
Benchmark: MSCI ACWI IMI

Portfolio Risk (%)



	Total Portfolio	MSCI ACWI IMI
Market	14.3%	14.3%
Style	-0.4%	-0.3%
Sector	0.3%	0.1%
Country	0.6%	1.2%
Idiosyncratic	0.1%	0.1%
FX	1.7%	1.5%
Other	0.0%	-0.0%
◇ Total	16.5%	16.9%

Active Risk (%)



	Total Portfolio
Market	-
Style	0.1%
Sector	0.0%
Country	0.8%
Idiosyncratic	0.3%
FX	0.2%
Other	-
◇ Total	1.3%

- A ***Factor*** is an investment characteristic with which asset risk and return is correlated.
- Active Factor Tilts greater than 0.2 on an absolute level are considered meaningful risk deviations from the benchmark.
- It is ideal for Active Risk to be primarily driven by *Idiosyncratic*, or manager-specific, attributes.

- The Public Equity Portfolio has **less** risk than the Policy Benchmark.
- Tracking Error is primarily driven by Country Risk, followed by Idiosyncratic Risk.
- No factors represent a significant deviation from the benchmark. However, active tilts are consistent with exposure to smaller companies and lower valuations.

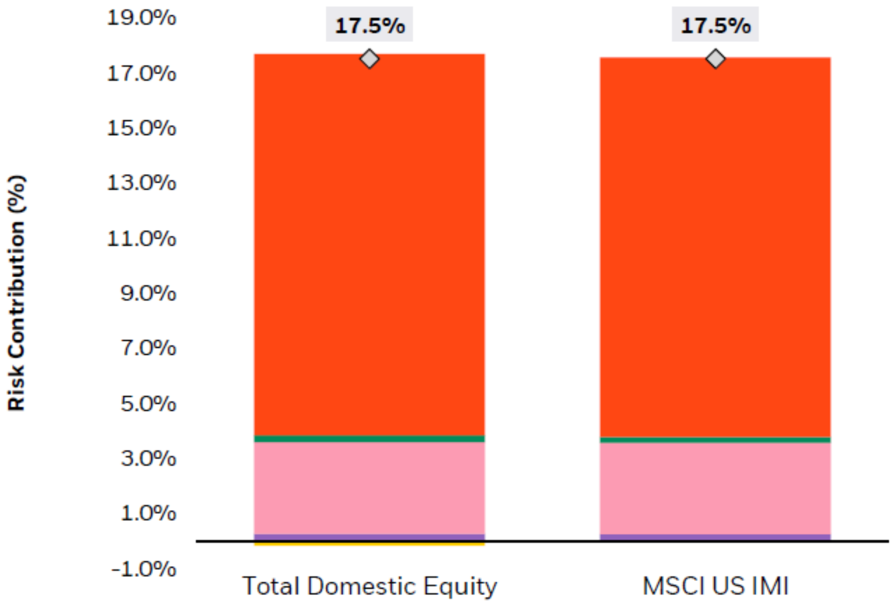
As of December 31st, 2023. Source: BlackRock
Holdings Based Analysis, see page 38 in Appendix for more details.

Factor Exposure vs Policy Benchmark

Domestic Equity Portfolio

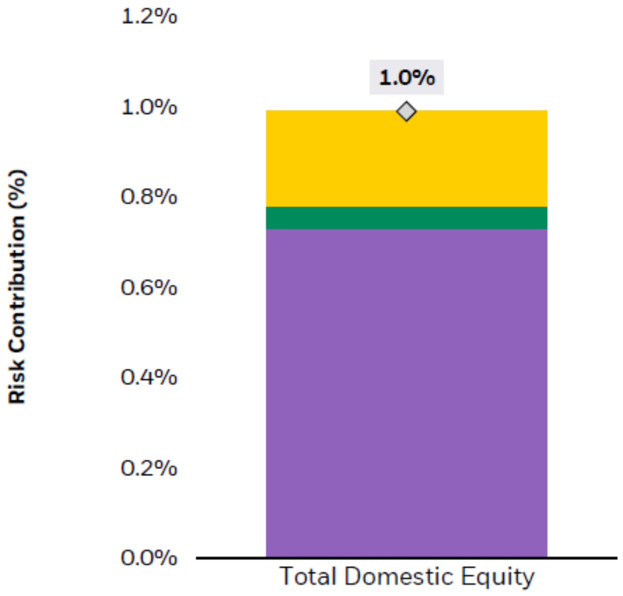
Benchmark: MSCI USA IMI

Portfolio Risk (%)



	Total Domestic Equity	MSCI US IMI
Market	13.9%	13.8%
Style	-0.2%	-0.1%
Sector	0.3%	0.2%
Country	3.3%	3.3%
Idiosyncratic	0.2%	0.2%
FX	0.0%	0.0%
◇Total	17.5%	17.5%

Active Risk (%)



	Total Domestic Equity
Market	-
Style	0.2%
Sector	0.1%
Country	-
Idiosyncratic	0.7%
FX	-
◇Total	1.0%

- Domestic Equity Portfolio Risk is **in line** with the Policy Benchmark.
- The largest contributor to tracking error is Idiosyncratic Risk and is driven by small cap active management.
- No style factors deviate meaningfully from the index.
  - However, active factor tilts are consistent with exposure to smaller companies and lower valuations.
- Size exposure is driven by Alliance Bernstein and Geneva.
- Value exposure is driven by Alliance Bernstein.

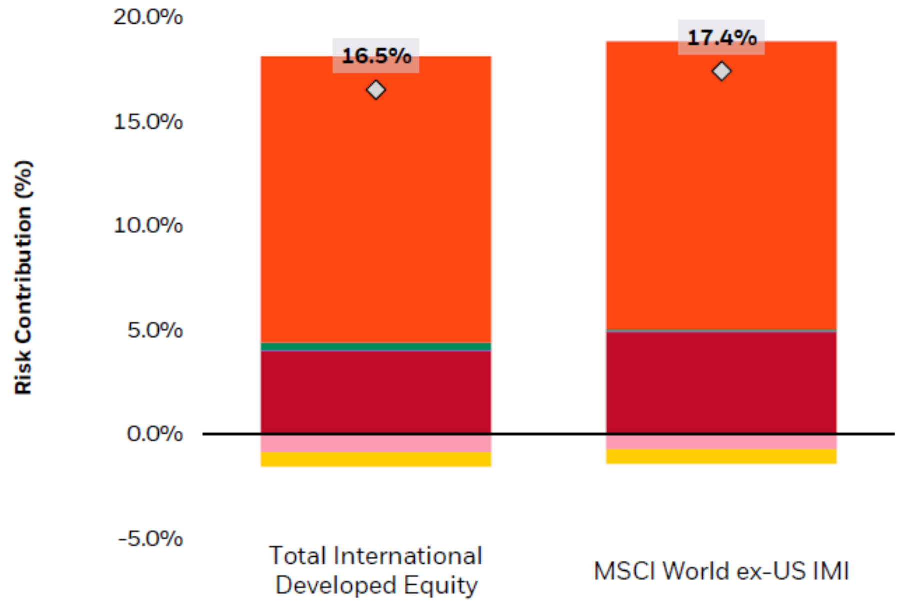
As of December 31st, 2023. Source: BlackRock

KCERA KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Factor Exposure vs Policy Benchmark

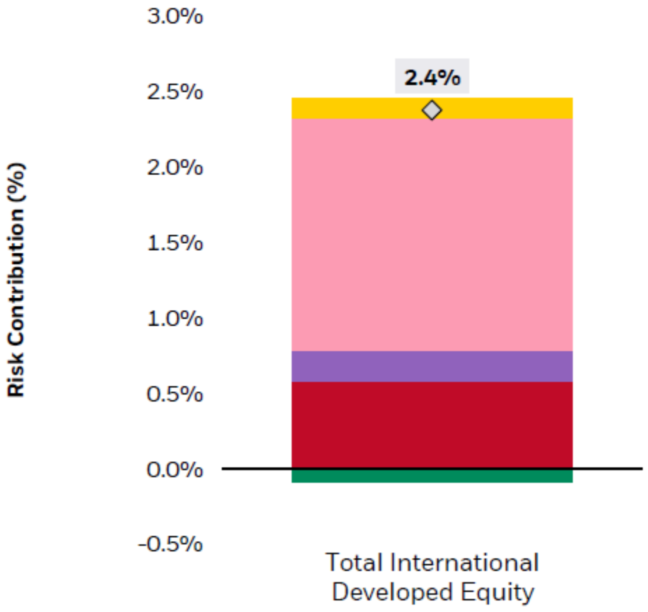
International Developed Equity Portfolio
Benchmark: MSCI World ex US IMI

Portfolio Risk (%)



	Total International Developed Equity	MSCI World ex-US IMI
Market	13.7%	13.8%
Style	-0.7%	-0.7%
Sector	0.4%	0.1%
Country	-0.9%	-0.7%
Idiosyncratic	0.1%	0.0%
FX	4.0%	4.9%
◇Total	16.5%	17.4%

Active Risk (%)



	Total International Developed Equity
Market	-
Style	0.1%
Sector	-0.1%
Country	1.5%
Idiosyncratic	0.2%
FX	0.6%
◇Total	2.4%

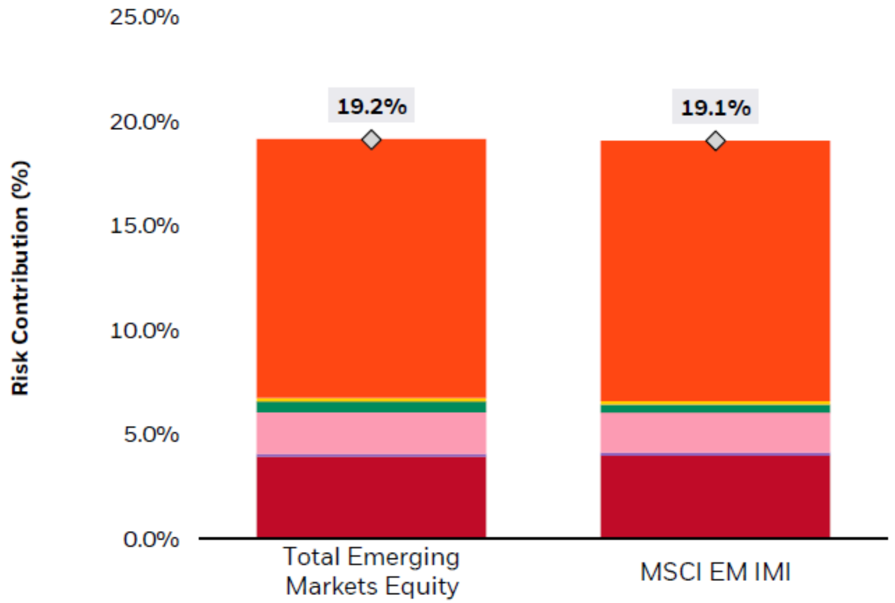
- The International Developed Equity Portfolio has **less** risk than the Policy Benchmark.
- The largest contributor to tracking error is Country Risk, followed by FX Risk, and is driven by the Japan overweight.
  - The portfolio has a **+16.9%** active weight to Japan at the regional level.
- No style factors deviate meaningfully from the index.
  - The most prominent active factor tilts include Momentum and Dividend Yield.
- Positive momentum exposure is exhibited by all the portfolio's active managers.
- Negative dividend yield exposure is driven by Lazard and Dalton.
  - Japanese companies have historically not paid a dividend, although this is changing with corporate governance reform.

As of December 31st, 2023. Source: BlackRock

Factor Exposure vs Policy Benchmark

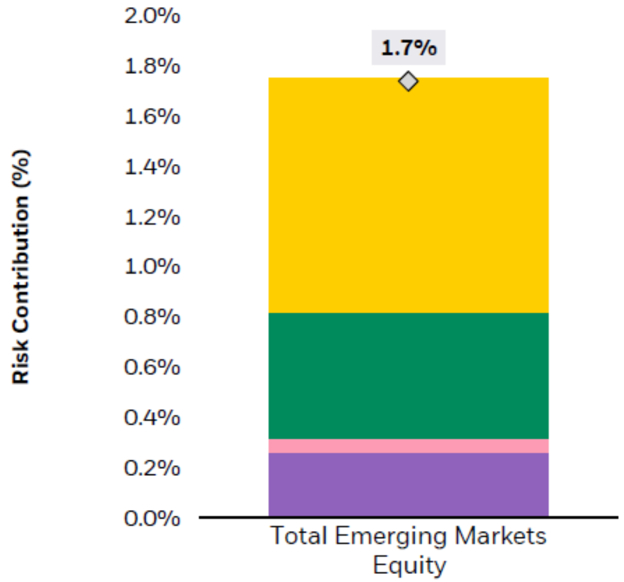
Emerging Markets Equity Portfolio
Benchmark: MSCI EM IMI

Portfolio Risk (%)



	Total Emerging Markets Equity	MSCI EM IMI
Market	12.4%	12.5%
Style	0.2%	0.2%
Sector	0.5%	0.4%
Country	2.0%	1.9%
Idiosyncratic	0.1%	0.1%
FX	3.9%	4.0%
◇Total	19.2%	19.1%

Active Risk (%)



	Total Emerging Markets Equity
Market	-
Style	0.9%
Sector	0.5%
Country	0.1%
Idiosyncratic	0.3%
FX	-
◇Total	1.7%

- The Emerging Markets Equity Portfolio has **more** risk than the Policy Benchmark.
- The largest contributor to tracking error is Style and is driven by Dimensional.
  - The manager exhibits an intentional tilt toward valuation, size, and profitability.
- Value and Dividend Yield style factors represent a meaningful deviation from the benchmark.
- Additional factor tilts include Earnings Yield (positive) and Growth (negative).
  - These factor exposures are consistent with the investment strategy of the only active manager in the Regional Portfolio.

As of December 31st, 2023. Source: BlackRock

Risk

January 2019 – December 2023

Performance and Risk

Monthly · Jan 2019 - Dec 2023 · Common Benchmark

	KCERA Equity Portfolio	MSCI ACWI IMI Net Total Return Index
Volatility	17.86%	18.27%
Max drawdown	-24.62%	-25.72%
VaR (95%)	8.15%	8.21%
VaR (97.5%)	8.95%	9.17%
VaR (99%)	11.60%	11.60%
Beta To Benchmark	0.97	–
Downside Capture	95.91%	–
Upside Capture	97.91%	–

The Public Equity Portfolio exhibits less risk than the Policy Benchmark, consistent with the other risk approaches used.

Historical Drawdown

Monthly · Jan 2019 - Dec 2023

Source: Venn Risk Analytics

Additional information on risk modeling approach can be found on page 38 in the Appendix.

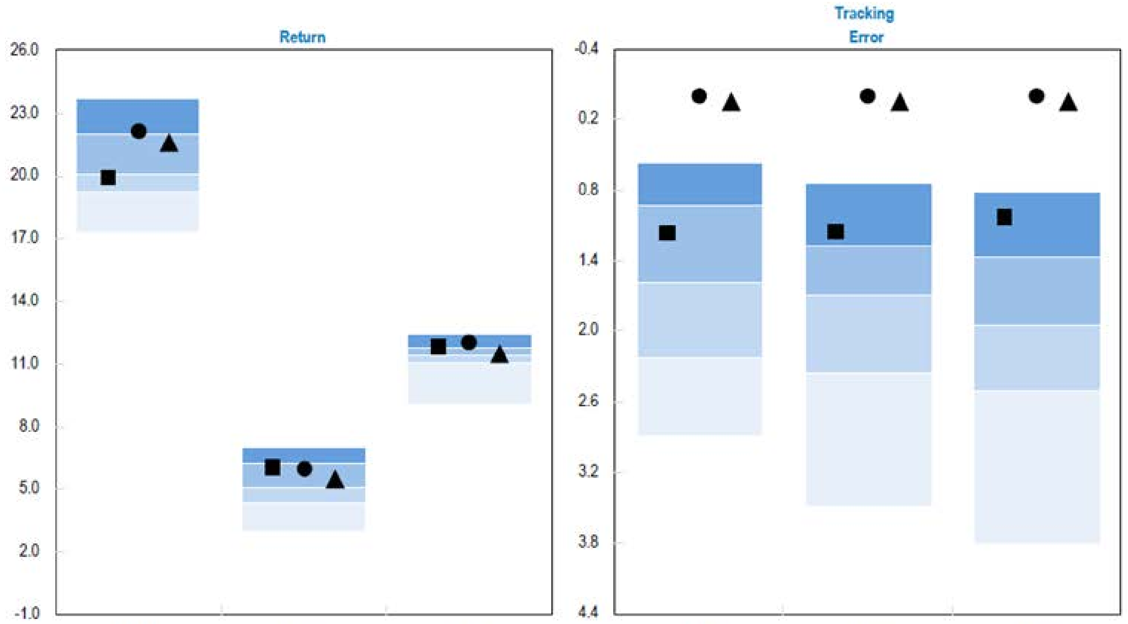
Strategic Considerations

Tracking Error

How much tracking error is appropriate?

Equity — Kern County Employees' Retirement Association

Risk Profile: Trailing 3 & 5-Yr Risk Metrics Peer Comparison — Period Ending: December 31, 2023



	1 Yr	3 Yrs	5 Yrs	1 Yr	3 Yrs	5 Yrs
■ Equity	19.9 (54)	6.1 (29)	11.8 (19)	1.2 (32)	1.1 (23)	1.0 (18)
● MSCI AC World IMI Index	22.2 (23)	6.0 (35)	12.0 (13)	0.0 (1)	0.0 (1)	0.0 (1)
▲ MSCI AC World IMI Index (Net)	21.6 (37)	5.5 (39)	11.5 (44)	0.1 (1)	0.0 (1)	0.0 (1)
5th Percentile	23.7	7.0	12.5	0.6	0.7	0.8
1st Quartile	22.0	6.3	11.7	0.9	1.3	1.4
Median	20.1	5.1	11.5	1.6	1.7	1.9
3rd Quartile	19.2	4.4	11.1	2.2	2.4	2.5
95th Percentile	17.4	3.0	9.1	2.9	3.5	3.8
Population	34	24	23	34	24	23

Parentheses contain percentile rankings. InvMetrics Public DB Total Equity

*As of December 31st, 2023. Source: Verus

- Verus ran an analysis of the Public Equity Portfolio's tracking error relative to the Policy Benchmark over different time periods:
  - 1 Year Tracking Error **1.2%**
  - 3 Year Tracking Error **1.1%**
  - 5 Year Tracking Error **1.0%**
- The median Plan had a tracking error of 1.6%, 1.7%, and 1.9% respectively over 1, 3, and 5 years.
  - Over the 5-year period, KCERA tracking error is approximately half that of the median peer.
- Relative to a peer universe of other Public Plans with more than 1B in assets, KCERA tracking error is in the 32nd, 23rd, and 18th percentile, respectively.
- Should Staff consider pursuing additional active risk in exchange for a higher expected return?

KCERA
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

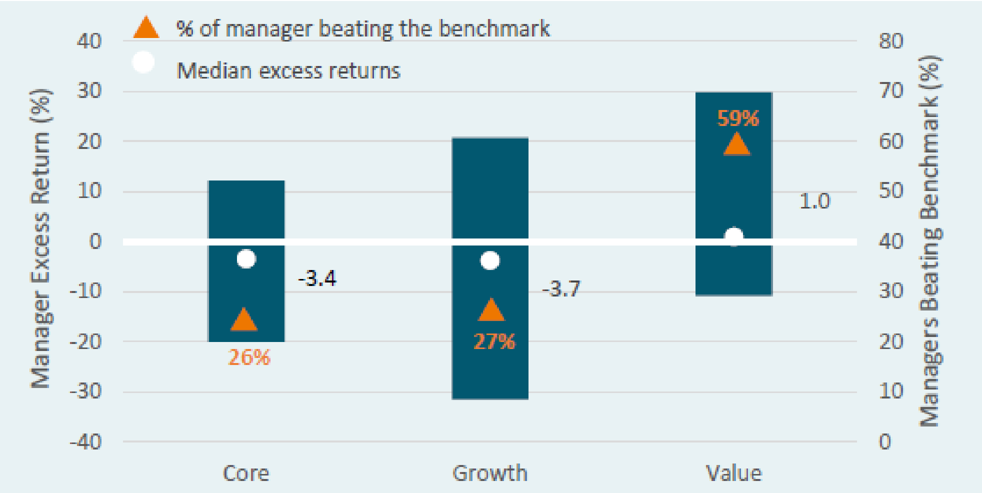
Strategic Considerations, cont.

Active vs Passive Management
U.S. Large Cap

- Data indicates that U.S. Large Cap Equity is a largely efficient asset class.
- The ability to generate excess return is constrained given that asset prices are a more complete reflection of available information.
    - Asset class efficiency can be attributed to company coverage, index concentration, and trading volumes.
- Active management data suggests that a cohort of managers have been successful at generating alpha over shorter time horizons but the ability to consistently generate excess returns diminishes over longer time horizons.

- Given the concentration in U.S. Large Cap, a manager's ability to overweight positions requires an underweight to the stocks with the largest weight.
    - This can be a headwind to performance when the mega-cap stocks are driving returns.
- An Equity Long-Short (ELS) strategy allows the flexibility to short names and removes the need to underweight mega-cap stocks to express an active weight.
- An ELS strategy in U.S. Large Cap can provide a greater opportunity to express alpha-generating views.

U.S. LARGE CAP UNIVERSE – EXCESS RETURNS (YEAR-TO-DATE)



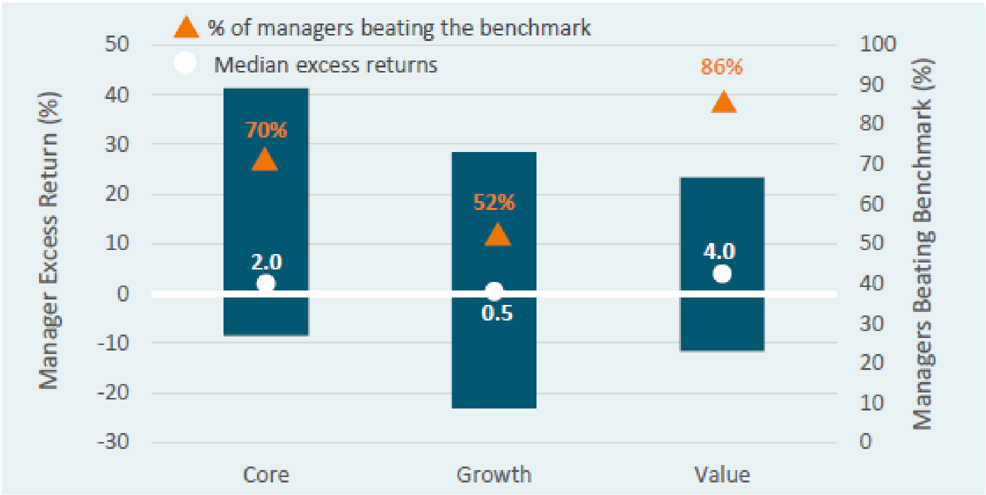
Source: eVestment, as of 9/30/23, gross of fees

Strategic Considerations, cont.

Active vs Passive Management
U.S. Small Cap

- Data indicates that U.S. Small Cap Equity active managers have demonstrated greater proficiency in generating meaningful excess return over both short- and long-term time horizons.
- Active management appears to be more effective in domestic small cap than in domestic large cap.
- The ability to generate alpha in the asset class can be attributed to a broader number of stocks in the investment universe, lack of sell-side analyst coverage, and lower institutional ownership.

U.S. SMALL CAP UNIVERSE –EXCESS RETURNS (YEAR-TO-DATE)



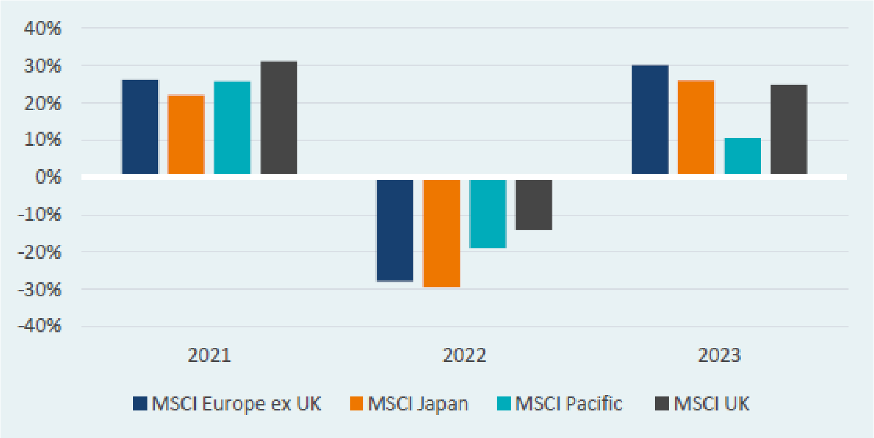
Source: eVestment, as of 9/30/23, gross of fees

Strategic Considerations, cont.

Active vs Passive Management
International Developed Equity

- Historical data reflects a generally weak relationship between incremental risk-taking and excess return generation among International Developed Equity active managers.
- Investors in the asset class must be aware of heterogeneous macroeconomic conditions and geopolitical influences.
  - There can be a notable spread of return among the regions in the asset class.
- Excess return can be achieved through stock selection and regional exposure.
- Portfolio maintains a dedicated overweight to Japan relative to the Policy Benchmark:
  - 2023 MSCI Japan Return (EWJ) +17.26%
  - 2023 MSCI World ex US IMI Return (IDEV) +13.01%
  - 2024 Q1 MSCI Japan Return +30.44%
  - 2024 Q1 MSCI World ex US IMI Return +19.17%

INTL. DEVELOPED REGIONAL RETURNS



Source: eVestment, as of 9/30/23

KCERA
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Strategic Considerations, cont.

Active vs Passive Management
Emerging Markets Equity

- Fundamentals, macroeconomic conditions, and geopolitical influences drive material differences in country-level performance.
- Historical data suggests that there is a positive relationship between incremental risk-taking and incremental return generation in Emerging Markets Equity.
- The asset class is attractive for active management given the degree of information asymmetry, higher growth potential, and the ability for a manager capitalize on specialized knowledge in a specific country or sector.

	Worst Performer, Annual Return (%)		Best Performer, Annual Return (%)		Return Difference (%)
2000	Indonesia	-62.2	Czech Republic	1.3	63.5
2001	Egypt	-41.3	Russia	55.5	96.8
2002	Turkey	-35.8	Czech Republic	43.7	79.5
2003	Malaysia	26.6	Thailand	143.5	116.9
2004	Thailand	-1.2	Colombia	132.4	133.6
2005	Malaysia	2.3	Egypt	161.6	159.3
2006	Turkey	-7.2	China	82.9	90.1
2007	Taiwan	8.4	Peru	94.4	86.0
2008	Russia	-73.9	Colombia	-25.1	48.8
2009	Czech Republic	26.5	Brazil	128.1	101.6
2010	Hungary	-9.6	Thailand	55.7	65.3
2011	Egypt	-46.9	Indonesia	6.0	52.9
2012	Brazil	0.0	Turkey	64.2	64.2
2013	Peru	-29.8	Taiwan	9.1	38.9
2014	Russia	-46.3	Egypt	29.3	75.6
2015	Colombia	-41.8	Hungary	36.3	78.1
2016	Egypt	-11.5	Brazil	66.2	77.7
2017	Egypt	5.1	Poland	54.7	49.6
2018	Turkey	-41.4	Peru	1.6	43.0
2019	Chile	-16.9	Russia	50.9	67.8

Average of Worst Performers (%) **-19.9**

Average of Best Performers (%) **59.6**

Average Return Difference (%) **79.5**

Source: Dimensional Fund Advisors

Strategic Considerations, cont.

Active vs Passive Management
Public Equity Portfolio

- **72.0%** of the Public Equity Portfolio is passively managed.
- **83.9%** of the Domestic Equity Portfolio is passively managed.
    - Active management is reserved for Small Cap and is consistent with expectations for Large Cap to be efficient.
- **60.7%** of the International Developed Equity Portfolio is passively managed.
    - Portfolio has regional overweight to Japan.
    - Investment Staff believes, there is an opportunity to generate excess return through Japan *Beta* in addition to *Alpha* from active management.
- **55.9%** of the Emerging Markets Equity Portfolio is passively managed.
    - Given the inefficiency of the asset class, an increase in active management could be expected to be beneficial.

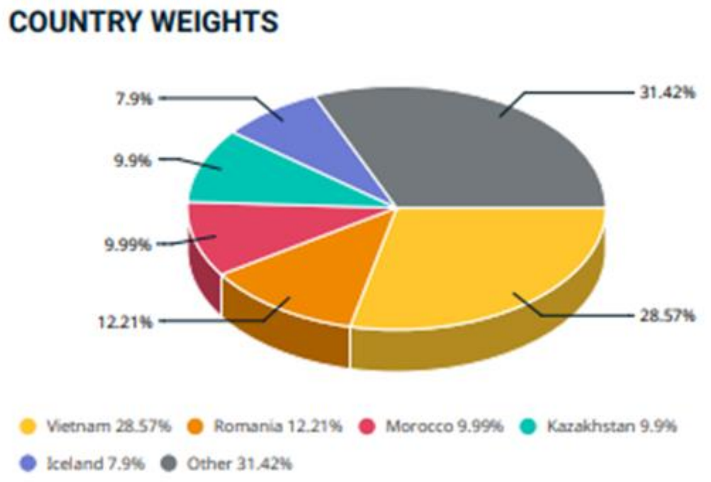
		Passive Mgmt.	Active Mgmt.
Total Public Equity		72.0%	28.0%
Domestic Equity		83.9%	16.1%
International Developed Equity		60.7%	39.3%
Emerging Markets Equity		55.9%	44.1%

Strategic Considerations, cont.

Should the Public Equity Portfolio consider an allocation to Frontier Markets?

- Frontier Markets, also known as pre-emerging markets, are less advanced capital markets in the developing world.
- Frontier Markets are investable, but risks include political instability, poor liquidity, inadequate regulation and large currency fluctuations.
- Frontier Markets would represent an "off-benchmark" investment that would add tracking error as the region is not included in the Policy Benchmark.

- Pros:
  - Diversification
  - High growth potential driven by demographics and increasing consumption
  - The opportunity to invest in a market that may develop and mature over time
- Cons:
  - Limited information
  - Lack of regulation
  - Currency Risk
  - Liquidity Risk
  - Geopolitical Risk
  - Sizing—the appropriate size from a risk perspective, might be too small to "move the needle" and warrant the effort



*As of March 29th, 2024. Source: MSCI

Strategic Considerations, cont.

Foreign Currency Risk (FX)

- As of December 31st, 2023, there is approximately 880M of FX exposure in the Public Equity Portfolio.

- Unhedged International Equity risk and return has two components:
  - The return of the security in its local currency
  - The return of the underlying foreign currency relative to the US Dollar
- Unhedged ownership of foreign securities includes the *embedded* ownership of a portfolio of currencies that is short the US Dollar.
- The long-term expected return of the foreign currency portfolio is **0** but the embedded currency portfolio adds volatility and can result in deeper drawdowns.
  - Currency Risk is **uncompensated**

- A currency overlay program can improve the risk-adjusted returns of the Portfolio.
- Should a currency overlay program be active or passive? Should an overlay program be concerned with managing the currency risk in both Developed and Emerging Markets?
- Staff has been working on this initiative and anticipates providing an introduction to currency management at an upcoming BOR meeting with a potential recommendation to follow.

Source: Verus

Strategic Considerations, cont.

Hedge Funds
Should the Public Equity Portfolio consider Hedge Fund investments?

- In 2019, Staff re-classified Cevian Capital II from the Hedge Fund Portfolio into the International Developed Equity Portfolio.
  - Cevian is a long-only activist hedge fund that builds substantial minority ownership positions in a limited number of publicly traded companies to create value for shareholders through operational improvement.
  - Cevian has consistently been one of the Portfolio's strongest performers.

- Should Hedge Fund investments be limited to long-only mandates? Is there a case for Equity Long-Short (ELS)?
  - An ELS mandate broadens the opportunity for alpha generation.
  - ELS has historically generated higher-risk-adjusted returns through lower volatility.

- Should the Public Equity Portfolio consider further investments in Hedge Funds?
- What investment characteristics should serve as prerequisite for inclusion in the Public Equity Portfolio?
  - Beta to Policy Benchmark
  - Correlation to Policy Benchmark
  - Risk Profile
  - Leverage

KCERA
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Strategic Considerations, cont.

Fund and Fee Structures
Separately Managed Accounts (SMA) vs Funds?

- In an SMA, the investor is the owner of the underlying securities held by the strategy.
  - Greater transparency and liquidity
  - The portfolio can be tailored to the unique specifications and constraints of the investor
  - Investing through an SMA structure typically requires higher investment minimums
  - SMAs require an increased operational effort

- In a Fund, the investor owns a proportionate share of “pooled” assets in the portfolio.
  - Investing in a Fund may require a lower investment minimum
  - Can result in reduced expenses relative to an SMA, but Funds have additional expenses (admin, legal, audit), and economies of scale matter
  - The portfolio cannot be customized to the investor’s specifications
  - Limited transparency and liquidity

- The decision to invest in a strategy through an SMA or Fund is the result of Staff’s cost-benefit analysis, which also includes considerations around securities lending.

- Investment Managers can charge a flat management fee or a management fee + an incentive fee over a performance hurdle
  - Do performance fees increase the alignment of interest between the manager and investor?
  - Do performance fees serve as an incentive for managers to generate alpha **or** do they incentivize risk-taking?

Strategic Considerations, cont.

In-House Security Trading

- Should Staff consider managing equity exposure in-house instead of through an external manager?

- Internal security trading would require the appropriate infrastructure:
  - A brokerage relationship
  - Security level fundamental research and market structure research
  - Robust training on the trading system
  - Professional Liability Insurance
  - Time from Staff to construct and manage the re-balancing process

- Pros:
  - Cost reduction

- Cons:
  - Subscribing to a data provider for the necessary periodic index composition
  - Learning curve and human capital associated with managing the process
  - Potential for trading errors and increased tracking error

- The implicit costs associated with an internal security trading process may exceed the implicit cost of an external passive manager

Questions

Appendix

Investment Managers

Equity Beta Exposure: The manager provides passive exposure to the S&P 500 synthetically through equity futures. The strategy is structured to provide notional exposure with minimal capital requirement in combination with tactical exposure to the index that can be long or short. This structure allows the Plan to achieve a target net exposure and facilitates implementation of the Alpha Pool provided that the rate of return exceeds the financing cost. The tracking error of a passive strategy through futures can be expected to be greater than through physical securities.

Mellon DB SL Stock Index: The manager provides passive exposure to the S&P 500 through full replication of the benchmark. Tracking error relative to the index is expected to be minimal and can be attributed to securities lending proceeds, corporate actions, equitization effects, and administrative expenses.

PIMCO StocksPLUS: The strategy provides passive exposure to the S&P 500 Index through index futures contracts and aims to generate alpha by investing unencumbered cash in a short duration portfolio of fixed income securities. The strategy is structured to capture the return of the S&P 500 synthetically, while active management of the fixed income portfolio seeks to add incremental return above the benchmark. The benefit of using index instruments is the minimal capital requirement necessary to fund the desired equity exposure, allowing capital to be invested in an alpha strategy. The manager generates an excess return if the bond portfolio outperforms the money market financing cost.

AB US Small Cap Value Equity: The strategy invests in domestic small companies that possess both an attractive valuation and compelling company- and/or industry-level upside catalysts. The manager believes that macroeconomic or idiosyncratic concerns cause investors to react emotionally and underestimate long-term fundamentals, causing securities to become mispriced. The strategy capitalizes on these short-term inefficiencies through identifying undervalued companies relative to their long-term cash earnings power that possess an investment catalyst that will force recognition of mispricing. Catalysts can include a shift in management's receptiveness to implement initiatives that will create shareholder value or an improvement in the supply/demand balance of a company's end market.

Geneva Capital Small Cap Growth: The manager invests in high-quality domestic small cap companies characterized by sustainable growth records, low leverage, and superior corporate management teams. A central principle of the strategy is that qualitative characteristics are as important as quantitative characteristics and there is a focus on identifying passionate and innovative management teams. Investment candidates must be industry leaders and possess a sustainable competitive advantage that is supportive of above average growth. Quantitative considerations for investment include earnings and growth rate hurdles, low debt to capital, above average margins, and high return on equity and return on asset ratios.

Mellon DB SL World ex-US Index: The manager provides passive exposure the MSCI World ex U.S. IMI Index (Net Dividend) through full replication of the MSCI EAFE Index in combination with the MSCI Canada Index. Tracking error relative to the index is expected to be minimal and can be attributed to securities lending proceeds, composition differences, corporate actions, equitization effects, and administrative expenses.

Investment Managers

Cevian Capital II: The strategy invests in a concentrated portfolio of companies domiciled in Europe, although the securities may trade on a domestic exchange. The manager seeks to generate alpha by establishing substantial minority ownership positions in undervalued companies in order to effectuate corporate improvement. The manager's ability to create corporate value is driven through activism and Board representation. As of December 31st, 2023, Cevian is on the Board of 10 of their 14 portfolio companies. The strategy is differentiated through its Hedge Fund structure and Private Equity focus on operational improvement.

American Century Non-US Small Cap: The manager invests in Developed Markets small cap companies outside the U.S. that exhibit improving fundamentals and accelerating growth. The manager's investment philosophy is that accelerating growth in revenues and earnings is more highly correlated to stock price performance than the absolute level of growth. The strategy is anchored to an investment framework centered around Inflection, Sustainability, Earnings Gap, and Valuation (ISGV). The process is designed to uncover stocks that outperform as earnings growth accelerates, market expectations rise, and price multiples expand.

Dalton Japan Long Only: The manager invests in Japanese equities primarily in the small and mid-cap segment of the market cap spectrum and opportunistically in large-cap companies. The strategy employs a value approach that focuses on identifying companies that align the interest of shareholders with management. Given the explicit focus on maximizing shareholder value, the manager relies on a robust engagement framework to drive corporate improvement. The ongoing corporate governance reform in Japan is a tailwind for the strategy and has expanded the opportunity set to companies that are candidates for privatization.

Lazard Japanese Equity: The manager invests in Japanese equities predominantly in the large-cap segment of the market cap spectrum. The investment philosophy for the strategy can be described as a core approach that is not restricted to an explicit growth or value style and seeks to generate alpha through identification of asymmetric payoff opportunities – investments with more upside potential than downside risk. The strategy has historically rotated between growth and value depending on where the asymmetric return opportunity exists. The manager maintains a designated allocation to banks which can be expected to be a tailwind as Japanese monetary policy normalizes.

DFA Emerging Markets Value: The strategy is centered around an investment philosophy based on theoretical and empirical evidence that targets higher expected returns through exposure to *compensated* equity factors. The investment process is systematic and invests in value stocks across the entire market cap spectrum. The manager constructs a diversified portfolio of more than 3,000 holdings with an emphasis on exposure to value, size, and profitability. Relative to the benchmark, the strategy can be expected to exhibit a bias toward small-cap companies and the lowest third of stocks by price-to-book. Additional alpha is generated through efficient portfolio management and the incorporation of daily data in trading.

Mellon Emerging Markets Stock Index: The manager provides passive exposure to the MSCI Emerging Markets Index (Net Dividend) through full replication of the benchmark. Tracking error relative to the index is expected to be minimal and can be attributed to securities lending proceeds, composition differences, tax liability considerations, corporate actions, equitization effects, and administrative expenses.

KCERA
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Risk Modeling Approaches:

Holdings-Based Analysis: The Holdings-Based Analysis (HBA) produced by BlackRock utilizes their proprietary Aladdin risk management system and is a representation of the composition of the Public Equity Portfolio as of December 31st, 2023. Output of the HBA, including calculations of active risk and relative factor exposures, is based on a 180 month/15-year lookback period for each security. A holdings-based style analysis is a “bottom-up” approach in which the characteristics of a portfolio are derived from the characteristics of the securities it contains relative to the index benchmark.

Returns-Based Analysis: The Returns-Based Analysis (RBA) produced by Goldman Sachs is based on the composition of the Public Equity Portfolio as of December 31st, 2023, and the historical net-of-fees return of each investment manager using 60 months/5 years of data. A returns-based approach is to regress the portfolio’s historical returns against the returns of a passively constructed reference portfolio that represents a particular investment style.

Venn Risk Modeling: Venn is a risk analytics system by Two Sigma Investor Solutions that is used by Staff to assist in systematically identifying, assessing, monitoring, and reporting on portfolio risk at the asset class or aggregate portfolio level. Venn relies on user-entered return data and utilizes 18 different factors to run regression analysis to determine which factors are significant and will run Ordinary Least Squares (OLS) multiple linear regression.

KCERA
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

www.kcera.org

11125 River Run Blvd. Bakersfield, CA 93311

Kern County Employees' Retirement Association

Governance — Delegation Policy Discussion

Julie Becker, Partner

Benita Falls Harper, Associate Partner

David Forman, Consultant

May 14, 2024

Background and Objectives

Board of Retirement meeting November 1, 2023	Investment Committee meeting February 5, 2024	Investment Committee meeting Today
The delegation of investment duties was discussed. The matter was referred to the Investment Committee for further development and options for implementation.	Delegation was approved in concept, pending adjustments and additional parameters raised by the Investment Committee. The Investment Committee directed Staff and Aon to return with recommended revisions to KCERA policies for consideration.	This presentation aims to facilitate further discussion regarding policy revisions related to delegation of authority to select and terminate investment managers.

Proposed Policy Revisions

We recommend that the below changes be made to policy documents to reflect the delegation policy and associated parameters and constraints. These edits have been made to the redlined and clean policy documents found in the Appendix.

Policy Document	Revisions
Investment Policy Statement	• Added that Board has delegated the authority to select and terminate investment managers • Added parameters and constraints, including size thresholds and conditions for rescinding delegated authority • Edited manager search process for both public and private markets • Added language from Due Diligence and Service Provider Selection Policy related to reviewing decision and recommendation procedures • Removed public markets termination approval time constraint exception
Board of Retirement Charter	• Edited the Board's responsibility to appoint and terminate investment managers to only include those that fall outside of parameters and constraints established in the IPS

Proposed Policy Revisions (continued)

We recommend that the below changes be made to policy documents to reflect the delegation policy and associated parameters and constraints. These edits have been made to the redlined and clean policy documents found in the Appendix.

Policy Document	Revisions
Due Diligence and Service Provider Selection Policy	• Removed some manager due diligence language to avoid inconsistency, as this is covered in detail in the IPS • Moved language to IPS related to reviewing investment manager decision and recommendation procedures
Monitoring and Reporting Policy	• Added that the CIO Report will include information about the investment changes made under the Chief Investment Officer's delegated authority

Proposed Policy Revisions (continued)

We recommend that the below changes be made to policy documents to reflect the delegation policy and associated parameters and constraints. These edits have been made to the redlined and clean policy documents found in the Appendix.

Policy Document	Revisions
Investment Committee Charter	• Edited the Investment Committee's responsibility to select and terminate investment managers that fall outside parameters and constraints • Added emergency situation where the CIO may terminate an investment manager outside the parameters and constraints with concurrence of the investment consulting firm in a situation that could likely put the Fund at undue risk
Chief Executive Officer Charter	• Added responsibility to ensure that delegated authority relative to the selection and termination of investment managers is exercised within the parameters and constraints set by the Board

Thresholds for Selection and Termination

The authority delegated to the Chief Investment Officer by the Board to select and terminate investment managers will be constrained by a maximum investment size defined as a percentage of total plan assets.

Asset Class	Selection Threshold	Termination Threshold
Hedge Funds	1.0%	2.0%
Private Markets	1.0%	2.0%
Opportunistic	1.0%	2.0%
Co-investments*	0.5%	1.0%
All other investments	2.0%	4.0%

* Limited to co-investment opportunities where the Plan has previously made an investment with the investment manager.

For selection of managers above the threshold amounts, a recommendation memo will be presented to the Investment Committee, followed by a recommendation to the full Board for approval.

Parameters and Constraints to Delegated Authority

Additional parameters are in place to ensure that the investment team has sufficient internal and external resources.

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

1. The current Chief Investment Officer either leaves the job position of Chief Investment Officer or leaves employment with KCERA.

2. The current consultant is replaced for an asset class (delegated authority will be rescinded for that asset class only).

3. 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.

Manager Search Process

Initiation and Evaluation

- CIO will coordinate with investment consultant for due diligence.
- A written due diligence report will be produced.

Internal Investment Committee Approval

- Investment team will review proposed investments.
- CIO will have the final decision-making authority to select or recommend an investment.

Investment Committee Notification

- For investments within the CIO’s delegated authority, IC members will be promptly notified when an investment manager is selected.

Board of Retirement Notification

- At the next available Regular Board meeting, the CIO will report the investment managers selected under delegated authority that have completed the contracting process.

Investment Committee Notification

The Investment Committee will be notified when the Internal Investment Committee selects an investment, and the applicable investment consulting firm concurs with the investment.

The notification shall be provided promptly following concurrence of the investment by the applicable investment consultant.

Illustrative example of Investment Committee Notification:

- *On March 10, 2024 the Internal Investment Committee met and approved a $30 million commitment to ABC Fund IV. Cambridge Associates completed due diligence and provided staff with a supporting recommendation memo for the investment.*
- *ABC Fund IV is a healthcare services focused middle-market buyout strategy and will be part of the KCERA private market program, specifically the Private Equity allocation.*

Board of Retirement Notification

The CIO Report will be used as the formal communication tool to communicate changes in investments. A CIO Report will be implemented at the Investment Committee, where such report does not currently exist.

Illustrative example from the CIO Report:

- *On March 10, 2024, a $30M commitment to ABC Fund IV was approved by the Internal Investment Committee. ABC Fund IV will be part of the Plan's Private Equity allocation.*

Next Steps

1. If the proposed policy changes receive approval, submit revised policy documents to the Board for final approval; otherwise, make necessary adjustments and resubmit to the Investment Committee.
2. Implement changes.
3. Per the Board's request, continue to research other potential areas of delegation.

Appendix I
Policy Documents – Redline

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

INVESTMENT POLICY STATEMENT

September 2023

Table of Contents

MISSION STATEMENT AND PURPOSE 3
BACKGROUND 3
INVESTMENT OBJECTIVES 4
LONG-TERM STRATEGIC ASSET ALLOCATION 5
INVESTMENT GUIDELINES 6
RISK MANAGEMENT 6
INVESTMENT PERFORMANCE REVIEW 7
CAPITAL EFFICIENCY 7
ASSET CLASSES 8
ADMINISTRATIVE PRACTICES 10
APPENDIX A – ASSET ALLOCATION AND ALLOWABLE RANGES 12
APPENDIX B – POLICY BENCHMARK 13
APPENDIX C – INVESTMENT PHILOSOPHY 14
APPENDIX D – MANAGER DUE DILIGENCE, SELECTION, MONITORING AND TERMINATION 16
APPENDIX E – TRADING POLICY 21
APPENDIX F – PROXY VOTING POLICY 23
APPENDIX G – ASSET PRICING POLICY 25
APPENDIX H – MANAGER RECONCILIATION REQUIREMENTS 26

MISSION STATEMENT AND PURPOSE

Mission Statement

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

Purpose

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

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

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

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

BACKGROUND

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

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

(Cal. Gov. Code §31594).

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

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

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

(Cal. Gov. Code §31595).

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

INVESTMENT OBJECTIVES

The primary investment objectives for the Plan shall be:

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

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

LONG-TERM STRATEGIC ASSET ALLOCATION

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

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

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

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

Rebalancing

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

Cash Flow Management

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

INVESTMENT MANAGER GUIDELINES

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

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

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

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

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

RISK MANAGEMENT

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

Risk

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

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

Risk Management Process

The risk management process includes:

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

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

Risk Metrics

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

Risk Reporting

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

INVESTMENT PERFORMANCE REVIEW

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

CAPITAL EFFICIENCY

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

ASSET CLASSES

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

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

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

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

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

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

Objectives

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

Guidelines

1. Strategy — Ranges

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

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

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

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

Objectives

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

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

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

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

Objectives

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

Guidelines

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

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

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

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

ADMINISTRATIVE PRACTICES

Review and Revisions

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

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

POLICY REVIEW AND HISTORY

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

APPENDIX A – ASSET ALLOCATION AND ALLOWABLE RANGES

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

APPENDIX B – POLICY BENCHMARK

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

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

APPENDIX C – INVESTMENT PHILOSOPHY

Governance

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

Risk

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

Asset Allocation

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

Investment Horizon

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

Diversification

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

Market Efficiency, Structure, and Manager Selection

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

Costs

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

Other

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

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

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

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

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

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 and terminate investment managers will be constrained by a maximum investment size defined as a percentage of total plan assets.

Asset Class	Selection Threshold	Termination Threshold
Hedge Funds	1.0%	2.0%
Private Markets	1.0%	2.0%
Opportunistic	1.0%	2.0%
Co-investments[1]	0.5%	1.0%
All other investments	2.0%	4.0%

[1]Co-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 constrains in this Appendix D, or recommend an investment to the Investment Committee and/or Board of Retirement. ~~A recommendation memo will be presented to the Investment Committee. With the guidance of the Chief Investment Officer and the investment consultant, the Investment Committee will determine whether to approve the investment and to recommend the investment to the Board. At times, timing considerations will require that an investment be recommended directly to the Board and will not be presented to the Investment Committee.~~
3. ~~2.~~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. ~~3.~~4. ~~Board Approval~~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. ~~A recommendation memo will be presented to the Board for final approval. It is generally understood that the approval is subject to negotiating acceptable terms and conditions with the Manager.~~

Manager Search Process – Private Markets

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

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

1. Initiation and Evaluation: Guided by the pacing plan and forward calendar, the Chief Investment Officer will coordinate with the investment consultant regarding due diligence. A written due diligence report will be produced, which articulates the opportunity, rationale, and risk of the investment. Due diligence may include on-site visits or may be performed virtually via video conference.
2. 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 constrains in this Appendix D, or recommend an investment to the Investment Committee and/or Board of Retirement. ~~A recommendation memo will be presented to the Investment Committee. With the guidance of the Chief Investment Officer and investment consultant, the Investment Committee will determine whether or not to approve the investment and to recommend the investment to the Board. At times, timing considerations will require that an investment be recommended directly to the Board and not be presented to the Investment Committee.~~
3. 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. ~~2.~~4. ~~Board Approval~~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. ~~A recommendation memo, will be presented to the Board for final approval. It is generally understood that the approval is subject to negotiating acceptable terms and conditions with the Manager.~~

Contracting – Public and Private Markets

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

Managers retained by the Board shall be compensated by a formula contained in the manager's operative fund documents or Investment Management Agreement. No public markets Manager retained by the Board shall receive a payment of commission or other fees on a particular investment transaction; provided that, performance fees paid to

Managers, as documented and agreed to by and between KCERA and the Manager are allowed. Further, Managers must disclose to staff any indirect compensation received in addition to its fees as a result of servicing the Plan. Additionally, alternative Managers will be required to disclose fee information per §7928.710 and §7514.7.

Ongoing Monitoring – Public and Private Markets

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

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

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

~~**Termination – Public Markets**~~

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

~~Should a situation arise whereby a Manager is no longer deemed appropriate for the Plan by the Chief Investment Officer, with concurrence from the investment consultant, and there is insufficient time to present the issue to the Investment Committee or Board, pursuant to the Board of Retirement Charter or Investment Committee Charter, the Board authorizes the Chief Investment Officer, with the written consent of the Chief Executive Officer and advice from the investment consultant, to terminate and replace the Manager with an appropriate "alternate strategy" as expeditiously as possible and in accordance with reasonable due diligence procedures. The "alternate strategy" is intended to be employed temporarily until a permanent replacement can be presented to the Board. When such activity occurs, the Board shall be notified as appropriate, either~~

~~between Board meetings or at the next regularly scheduled Board meeting. For purposes of this document, "alternate strategy" refers to cash, derivatives, or a low-cost index fund employing a similar investment objective as the terminated Manager.~~

Manager reporting requirements

All Managers

- Updated Form ADV - Part 2 on an annual basis

All public markets

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

Public market investments through separately managed accounts

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

Private markets

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

APPENDIX E – TRADING POLICY

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

Best Price and Execution Standard

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

vi. Manager’s investment style; and
vii. brokerage and research services provided.

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

Trading Analysis

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

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

APPENDIX F – PROXY VOTING POLICY

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

Guidelines

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

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

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

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

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

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

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

Monitoring

The third-party service provider shall provide monthly reports to staff, which include a list of all proxies voted on behalf of the Plan, along with the rationale for the votes. On an annual basis, staff will provide the Board with a consolidated report summarizing the previous year’s proxy voting activity.

APPENDIX G – ASSET PRICING POLICY

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

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

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

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

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

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

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

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

APPENDIX H – MANAGER RECONCILIATION REQUIREMENTS

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

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

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

BOARD OF RETIREMENT CHARTER

INTRODUCTION

1) The Board consists of nine members and two alternates. Subject to the provisions of the Act, the Board is responsible for the administration and oversight of KCERA and is committed to carrying out its responsibilities in a manner consistent with the highest standards of fiduciary practice. In keeping with this commitment, the Board has established this charter to guide its conduct and operations.

DUTIES AND RESPONSIBILITIES

2) The Board has various powers and responsibilities under the Act. These include but are not limited to:
   a) Making Regulations, consistent with the Act, which will become effective when approved by the Board of Supervisors. (§31525, §31526, & §31527)
   b) Approving all qualified members who apply for service retirement or delegating the authority for such approvals to the Chief Executive Officer or other personnel[1]. (§31670)
   c) Determining the merits of applications for disability benefits, making necessary determinations of service and permanency of injury. (§31720)
   d) Annually approving cost-of-living adjustments. (§31870.1 & *Ventura* Settlement Agreement)
   e) Approving the distribution of supplemental funds pursuant to the SRBR Policy. (§31618)
   f) Approving the annual actuarial valuation and the actuarial assumptions contained therein, and the determination of supplemental funds, upon the advice of the actuary and other experts as required, and recommend adoption by the Board of Supervisors of such changes in the rates of interest, in the rates of contributions of members, and in county and district appropriations, as necessary. (§31611)
   g) Ensuring a financial audit is conducted at least annually. (§31593)
   h) Appointing an Chief Executive Officer. (§31522.2)
   i) Appointing a custodian. (§31596)

[1] The Board has elected to delegate such authority to the Chief Executive Officer. See *Chief Executive Officer Charter*.

3) The Board also has certain powers and responsibilities under Article XVI section 17 of the California Constitution.

4) The Board believes that effective governance demands that the Board, directly or through its committees, also carry out the added responsibilities set out in the remainder of this charter.

POLICY & DECISION MAKING

5) The Board can most effectively oversee KCERA through the establishment of prudent policies and controls. Accordingly, the Board is responsible for adopting policies pertaining to material aspects of KCERA's activities. Examples of such policies appear throughout the remainder of this Charter.

GOVERNANCE

6) The Board shall:
   a) Approve, and amend as necessary, Regulations and governance policies to support and promote appropriate governance practices.
   b) Approve charters describing the roles and responsibilities of key parties involved in the governance and management of KCERA.
   c) Elect a Chair and a Vice Chair.
   d) Designate a Secretary to the Board.[2]
   e) Establish the committee structure of the Board.
   f) Provide appropriate opportunities and resources for board education.
   g) Evaluate the performance of the Board on a regular basis.

INVESTMENTS

7) The Board has exclusive control of the administration and investment of the Fund and shall invest the assets of the Fund in accordance with the fiduciary standards imposed by law. In keeping with this requirement, the Board will:
   a) Approve a written investment policy statement and all other material investment policies of the Fund.
   b) Approve investment manager mandates (i.e. dollar amount and asset class).
   c) Regularly review that any delegation of authority or discretion to investment staff, investment managers, the Investment Committee, and investment advisors is prudent and consistent with industry best practices.

8) The Board shall participate in asset allocation studies as required.

BENEFITS ADMINISTRATION

[2] Under the Regulations, the Board has designated the Chief Executive Officer to serve as Secretary to the Board.

9) The Board shall:

a) Provide staff with strategic direction concerning the nature and quality of services and communications to be provided to plan members and beneficiaries.

b) Ensure appropriate processes and procedures are in place to provide for disability benefit hearings and appeals.

c) Approve policies and review any service quality benchmarks that may be established to guide the effective administration and delivery of member services.

d) Act on member appeals of decisions made by Management, as applicable.

PLANNING AND OPERATIONS

10) The Board shall:

a) Review and approve the strategic plan, and other material plans of KCERA, including for example, those pertaining to stakeholder relations and plan sustainability.

b) Approve the annual Operating Budget and any changes thereto.

c) Ensure that all required contributions to the Fund are collected in a timely manner.

d) Ensure that all required distributions from the Fund are made in a timely manner.

e) Approve the location of KCERA's operations and associated leases or purchase agreements.

f) Monitor that appropriate operational control policies are in place to provide secure, efficient and accurate delivery of member services and protect the confidentiality of member data.

FINANCIAL, ACTUARIAL AND ACCOUNTING

11) The Board shall:

a) Approve the establishment of accounting and actuarial policies and any changes thereto.

b) Approve the annual financial statements.

c) Review the qualifications and independence of the financial auditor.

d) Ensure actuarial valuations, experience studies, and audits are conducted on a regular basis.

e) Ensure special investigations or audits are performed, as necessary.

RISK MANAGEMENT

12) The Board is responsible for ensuring Management establishes an appropriate system of risk management that addresses risks including but not limited to those pertaining to investments, funding, insurance, and technology.

LITIGATION

13) The Board shall be responsible for approving the commencement, conduct, settlement, and termination of all material litigation involving KCERA, with the advice of the Chief Executive Officer and legal counsel.

HUMAN RESOURCES

14) The Board shall:

a) Appoint and may terminate the Chief Executive Officer.

b) When it believes it would be appropriate to do so, meet with finalist candidates identified by the Chief Executive Officer for the positions of Chief Operations Officer, Chief Investment Officer, and Chief Legal Officer and advise the Chief Executive Officer when he or she is selecting individuals for such positions.

c) Approve any human resource policies that may be developed and recommended to the Board by the Chief Executive Officer.

d) Regularly review with the Chief Executive Officer the staffing, compensation, and succession planning needs of KCERA.

e) Periodically review the performance of the Chief Executive Officer.

STAKEHOLDER COMMUNICATIONS

15) The Board shall be responsible for adequate and appropriate communications between KCERA and its stakeholders. Accordingly, the Board will:

a) Establish a spokesperson for KCERA or otherwise authorize individuals to communicate on behalf of the Board.

b) Establish policies or plans to guide material communications and disclosure to stakeholders.

c) Establish policies to guide Board proposals on state or local legislation.

d) Approve the Comprehensive Annual Financial Report.

SERVICE PROVIDERS

16) The Board shall appoint, and may terminate the:

a) Actuary.

b) Actuarial auditor.

c) Financial auditor.

d) Legal counsel.

e) Custodian. (§31596)

f) Investment managers that fall outside the parameters and constraints that have been delegated to the Chief Investment Officer as set forth in the most recently adopted Investment Policy Statement (including investment managers and partners, transition managers, securities lending managers, and commission recapture brokers).

g) Investment consultants retained to advise the Board.

h) Other service providers where the total value of the services to be rendered during a 12-month period exceeds $50,000.

MONITORING AND REPORTING

17) The Board shall work with staff to develop a system of reporting that effectively supports the Board in exercising its oversight responsibilities.

18) As part of the above, the Board shall establish a monitoring and reporting policy and any other necessary policies to set out the nature and frequency of reports to be provided to the Board and its committees by staff and service providers.

POLICY REVIEW AND HISTORY

19) This charter shall be reviewed at least every five years.

20) This charter was:

a) Adopted by the Board on November 14, 2001.

b) Amended on January 28, 2004; June 23, 2004; September 27, 2006; August 27, 2008; July 28, 2010; December 12, 2012; April 13, 2016; March 11, 2020; August 11, 2021; and April 13, 2022.

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

DUE DILIGENCE & SERVICE PROVIDER SELECTION POLICY

BACKGROUND

1) KCERA retains many different types of service providers to assist with the investment and administration functions. Given the different services involved and their relative importance, the role of the Board and staff in selecting, appointing, and terminating service providers will differ. This policy is intended to provide general guidance concerning these roles.

GUIDELINES

2) The roles involved in the procurement of service providers will be allocated in the manner illustrated in Table I.

3) In general, the Board or its committees will play a relatively more active role in the selection of those service providers that:
   a) Advise or work with the Board directly; e.g. the actuary and independent fiduciary counsel.
   b) Serve as an independent check on the operations of KCERA; e.g. the financial auditor.
   c) May have a material impact on the performance of KCERA; e.g. investment managers.

4) In the interest of organizational efficiency and effectiveness, the Board recognizes that the Chief Executive Officer should be allowed autonomy and authority to select service providers that do not meet the criteria in paragraph 3 above, provided the Chief Executive Officer complies with applicable laws, policies, controls, and procedures.

5) The Board may depart from the prescribed allocation of roles (set out in Table 1) by formal motion when it determines that it is in the best interests of KCERA to do so.

6) In cases when the Board or a board committee appoints a service provider, staff will nevertheless be expected to provide the Board or committee with a recommendation. Staff may employ the services of consultants and advisors to assist staff in performing any due diligence supporting its recommendations.

7) When recommending service providers for appointment, staff shall provide adequate background information and analysis to demonstrate that sufficient due diligence was performed, consistent with applicable policies, procedures, and fiduciary standards. In the case of investment manager recommendations, such information shall include a discussion of any relevant drawbacks of finalist firms that were not recommended, as appropriate. Any trustee seeking additional information about a finalist firm that was not recommended may review any available staff documentation and analysis at KCERA's office.

8) Staff or consultants will conduct follow-up on-site due diligence for certain service providers that have been retained by KCERA with the general frequencies set out below:
   a) Investment consultant – approximately every five years.
   ~~b) Investment managers – approximately every three years.~~
   ~~c)~~b) Other service providers – as deemed necessary by staff or the Board, reflecting perceived risk exposure.

9) Staff shall annually provide the Board with a three-year calendar of scheduled ~~on-site~~ due diligence meetings~~visits~~, and shall ensure the Board is provided a summary report on the results of each meeting~~visit~~.

~~10) Every investment manager that the Staff and Investment Consultant recommend be appointed by the Board must have undergone an on-site due diligence visit, to be conducted jointly by the CIO and Investment Consultant. Exceptions to this requirement are as follows:~~
   ~~a) The CIO and the Investment Consultant shall not be required to jointly hold an on-site due diligence meeting with a manager if they each have already independently performed on-site due diligence with the manager in question (in accordance with established procedures for on-site due diligence) not more than six months prior to recommending the manager to the Investment Committee for appointment.~~
   ~~b) The CIO and the Investment Consultant, with the concurrence of the Chief Executive Officer, may hold separate on-site due diligence meetings with a prospective investment manager if they are unable to jointly do so for scheduling or other reasons, and re-scheduling the on-site due diligence meeting would unduly delay the search process.~~

~~11) Notwithstanding the above, Investment staff may:~~

a) ~~In consultation with the Chief Executive Officer, and independently of the Investment Consultant, conduct on-site due diligence meetings with investment managers already retained by KCERA, for the purposes of ongoing oversight and monitoring;~~

b) ~~Independently meet with any investment manager, outside of the context of a formal manager search, in order to become familiar with the manager's products, methods, or capabilities.~~

~~12)Staff will develop procedures describing the criteria and processes to be used in conducting investment manager due diligence, including on-site due diligence visits, and arriving at staff recommendations; and will review said procedures with the Investment Committee from time to time.~~

~~13)~~10) Where staff has the authority to appoint a service provider, staff shall nevertheless be responsible for ensuring:

a) All reasonable due diligence is performed reflecting the materiality of the services in question, and

b) All applicable policies and procedures are followed.

~~14)~~11) The Board or the Chief Executive Officer shall establish an evaluation period in cases when it would be prudent to limit communications between current or prospective service providers and KCERA board members. (See the Board's *Evaluation Period Policy* for details.)

POLICY REVIEW AND HISTORY

~~15)~~12) This policy will be reviewed at least every five years.

~~16)~~13) This policy was:

a) Adopted by the Board on March 14, 2001.

b) Amended on June 23, 2004; July 13, 2005; September 26, 2007; August 27, 2008; August 26, 2009; June 15, 2011; December 12, 2012; April 13, 2016; October,10, 2018; August 11, 2021; and April 13, 2022.

Table I: Roles in Service provider Selection					
Service provider	**Conduct Due Diligence**	**Identify Interview Candidates**	**Interview Finalists, if Required**	**Recommend (Appointment & termination)**	**Appoint/ Terminate**
Audit, Actuarial, and Legal					
Legal Counsel (Fiduciary)	Staff	Staff	Board	Staff	Board
Financial Auditor	Staff	Finance Committee	Finance Committee	Finance Committee	Board
Plan Actuary	Staff	Staff	Board	Staff	Board
Actuarial auditor	Staff	Staff	Staff	Finance Committee	Board
Accountants for special investigations by Finance Committee	Staff or Finance Committee	Staff or Finance Committee	Finance Committee	N/A	Finance Committee
Investments					
Custodian (incl. securities lending & commission recapture)	Staff/Inv. Consultant	Staff/ Inv. Consultant	Staff/Inv. Consultant	Staff	Board
Investment Consultants (incl. proxy voting)	Staff	Investment Committee	Board	Staff	Board
Investment Mgrs. (public & private markets)	Staff/ Inv. Consultant[1]	Staff/Inv. Consultant	Investment Committee	Staff/Consultant to IC IC to Board	Board
Human Resources & Legal					
HR Consultant (Director-related projects)	Staff	Staff	Admin. Committee	N/A	Admin. Committee
HR Consultant (Other projects)	Staff	Staff	Chief Executive Officer	N/A	Chief Executive Officer
Operations					
IT Consultants (material projects)	Staff	Staff	Staff	Staff to Admin. Comm. Admin. Comm. to Board	Board
IT Consultants (non-material)[2]	Staff	Staff	Staff	Staff	Chief Executive Officer
Other Service providers (non-materia)l[2]	Staff	Staff	Staff	Staff	Chief Executive Officer

[1] To be performed jointly for prospective managers; staff may do so independently subsequent to the appointment of managers and outside of formal search processes.
[2] "Non-material" to include contracts with a cost not to exceed $50,000.

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

MONITORING AND REPORTING POLICY

BACKGROUND AND PURPOSE

1) In keeping with the duty of the Board to oversee the activities and performance of KCERA, the Board has established this Monitoring and Reporting Policy, which sets out the Board's expectations concerning the routine reports it is to receive on a regular basis.

GUIDELINES

2) The Board shall be provided with the routine reports outlined in Appendix 1 with a frequency also set out in Appendix 1. The Board may be provided other ad hoc reports as determined by Management or as directed by the Board.

3) Requests for the Board to be provided additional routine reports on a regular basis shall require board approval and an amendment to Appendix 1 of this policy.

POLICY REVIEW AND HISTORY

4) This policy shall be reviewed at least every five years.
5) This policy was:
   a) Adopted by the Board on July 13, 2005.
   b) Amended on September 26, 2007; August 26, 2009; December 12, 2012; April 13, 2016; October 10, 2018; March 11, 2020; February 10, 2021; August 11, 2021; and April 13, 2022.

APPENDIX 1

GOVERNANCE

Report Name	Frequency	Prepared By	Description
1. Board Performance Evaluation	Annually	Governance Consultant	Summarizes the results of the Board's performance self-evaluation, including follow-up actions.
2. Chief Executive Officer Evaluation	Annually	Admin. Committee	Summarizes the performance assessment of the Chief Executive Officer.
3. Annual Governance Report	Annually	Governance Consultant	A summary confirmation of compliance with governance policies of the Board.
4. Trustee Education Report	Semi-Annually	Chief Executive Officer and Governance Consultant	Summarizes the activities of the Board with respect to education, including trustee compliance with the Board Education policy. Will be posted to the KCERA website as required by law.
5. Service Provider Evaluations	Periodically[1]	Varies according to provider	Where feasible, performance evaluations of key service providers will be performed by staff or outside experts.

INVESTMENTS AND FUNDING

Report Name	Frequency	Prepared By	Description
6. Investments Reports	Monthly (consent agenda)	Chief Executive Officer	Report showing KCERA asset allocation, cash flow position, and investment fees for the month.
7. Investment Performance	Quarterly	Investment Consultant	Report on investment performance for total fund, for each asset class, and by investment manager. Provides analysis based on return over various periods (3 months, 1 year, 5 year, etc.), and seeks to identify sources of returns.
8. Investment Manager Compliance	Annually	Investment Managers	Affirmation by investment managers that they are investing the plan assets in accordance with their mandate, investment agreement, regulatory requirements, and KCERA policy.

[1] See the *Service Provider Evaluation Policy* for details on the time frame.

Report Name	Frequency	Prepared By	Description
9. Trading Cost Analysis	Every 3 years	3rd party provider	Analysis of trading costs of manager accounts.
10. Report of the CIO	Monthly	CIO	Report on the status of the portfolio, including information about the investment~~s~~ changes within the Chief Investment Officer's delegated authority.
11. Proxy Voting	Annually	Chief Executive Officer	Confirms compliance with the Board's Proxy Voting Policy, and summarizes how KCERA exercised its voting rights in public companies.
12. Securities Lending	Monthly (consent agenda)	Custodian	Summary of KCERA's securities lending activities, including additional income earned, collateral received, and risk factors impacting collateral.
13. Class Action Securities Litigation and Proceeds Report	Quarterly (consent agenda)	Custodian	Summary of securities litigation class actions filed and of the proceeds received.
14. Actuarial Valuation	Annually	Actuary	Summarizes the results of the actuarial valuation for KCERA, together with any recommendations.
15. Asset/Liability Study	Every 3-5 years	Investment Consultant	A study of the relationship between KCERA's assets and liabilities.
16. Actuarial Experience Study	Every 3 years	Actuary	Review of appropriateness of long-term economic assumptions (e.g. investment return, wage & price inflation) and demographic assumptions (e.g. disability/ mortality rates).
17. Actuarial Audit	Every 3-5 years**	3rd party actuary	An independent review of the validity of the analyses and methodologies used in preparing KCERA's actuarial valuation.

** And/or when a significant benefit or assumption change is adopted. A change in actuaries, however, shall satisfy the requirement for an actuarial audit.

ADMINISTRATION AND OPERATIONS

Report Name	Frequency	Prepared By	Description
18. Benefits & Activities Report	Monthly (consent agenda)	Chief Executive Officer	Report on a) members retired from service, deceased retirees, and deceased active members; and b) production statistics concerning member service activities.
19. Service Retirement Application Approvals Report	At the next public meeting of the Board after retirement	Chief Executive Officer	Report on service retirement applications approved by the Chief Executive Officer. (§31670)
20. Strategic/ Business Plan Status	Annually	Chief Executive Officer	Summarizes the status of each initiative contained in business plan.
21. Budget Variance	Monthly (consent agenda)	Chief Executive Officer	Compares actual spending to the operating budget, including explanations for material variances.
22. External Financial Audit	Annually	Auditor	Confirms that the financial statements present fairly, in all material respects, the financial status of KCERA, in accordance with generally accepted accounting principles.
23. Annual Comprehensive Financial Report (ACFR)	Annually	Chief Executive Officer	Reviews the operations and activities of KCERA during the last fiscal year. The financial statements shall be part of the ACFR and indicate the financial position of KCERA
24. Cost Effectiveness	Annually	Chief Executive Officer	Reporting on cost effectiveness will include: • KCERA's administrative costs in relation to the limits set out in the Act (i.e. the 21 basis point limit); and • Excerpt from the Annual Comprehensive Financial Report detailing all investment costs incurred by KCERA.
25. Report of the Chief Executive Officer	Monthly	Chief Executive Officer	Update on all significant activities occurring within KCERA.

Report Name	Frequency	Prepared By	Description
26. Report of the Chief Legal Officer	Monthly	Chief Legal Officer	Update on significant litigation, potential litigation, and on changes or potential changes to legislation affecting KCERA; updates on lawsuits involving the other 37 Act Systems.
27. Corrections of Errors in Benefit Payments	At least annually	Chief Executive Officer	A summary of corrections made to benefit payments exceeding $500.
28. Due Diligence Schedule	At least annually (consent agenda)	Chief Executive Officer	A three-year schedule of on-site due diligence visits of KCERA's service providers, as required by the Due Diligence & Service Provider Selection Policy.
29. Due Diligence Report	After each due diligence visit (consent agenda)	Investment Consultant or Chief Executive Officer	A report on each due diligence visit, undertaken by staff and/or the investment consultant, of KCERA's key service providers.
30. Reports on internal controls	Annually	Auditor or Chief Executive Officer	Update on KCERA financial and operational internal controls, including any significant changes and improvements to such over the year.
31. Disabilities Report	Monthly (consent agenda)	Chief Executive Officer	Report of current disability retirement applications and appeals of KCERA board decisions.

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

INVESTMENT COMMITTEE CHARTER

INTRODUCTION

1) The Board is responsible by law for the investment of the assets of KCERA and in doing so is subject to fiduciary duties. In keeping with its responsibilities, the Board will retain authority over all major investment policy decisions. It has, however, established the Investment Committee of the Board to assist in the development of investment policies and the selection and oversight of investment managers and investment consultants. The Investment Committee will be comprised of not less than four trustees and one alternate member.

2) This charter provides additional detail concerning the duties and operations of the Investment Committee.

COMMITTEE OPERATIONS

3) The Investment Committee shall operate as follows:
   a) The presence of a majority of Investment Committee members shall constitute a quorum.
   b) All actions of the Investment Committee shall be approved by the Board to be effective, unless otherwise provided herein.
   c) All actions of the Investment Committee shall be by an affirmative vote of a majority of the members present at a meeting of the Investment Committee, provided a quorum is present.
   d) The Investment Committee shall meet as deemed necessary by the Investment Committee or Chair of the Investment Committee, in consultation with the Chief Executive Officer.
   e) The meetings of the Investment Committee shall be open to the public and noticed and held in accordance with the Brown Act.
   f) The Investment Committee shall keep minutes of its meetings.
   g) The Chief Executive Officer will serve as the staff contact for the Committee.

COMMITTEE RESPONSIBILITIES

Investment Policy

4) The Investment Committee shall periodically review the investment policy statement and all other material investment policies of the Fund and provide recommendation to the Board, as appropriate.

5) The Investment Committee shall oversee periodic asset allocation studies.

Selection and Termination of Investment Managers

6) The Investment Committee:

   a) Shall review from time-to-time staff's procedures describing the criteria and processes to be used in conducting investment manager due diligence.

   b) Shall review recommendations by staff and the investment consultant concerning the appointment and termination of investment managers that fall outside the parameters and constraints that have been delegated to the Chief Investment Officer as set forth in the Investment Policy Statement and provide recommendations to the Board.

   c) May meet with any investment manager of the Fund to review any concerns about the manager's continued suitability to manage the assets of the Fund. Such meetings may be prompted by the Board, staff, investment consultant or the Investment Committee.

Selection of Investment Consultants

7) The Investment Committee shall determine investment consultant finalists to be interviewed by the Board after considering the recommendations and analysis of staff.

Emergency Situations

8) Notwithstanding paragraph 6 b) above, the Investment Committee may terminate an investment manager after considering the analysis and recommendations of the Chief Investment Officer, with concurrence of the Investment Consultant, if it is reasonable to expect that delaying such decision pending a Board meeting would likely put the Fund at undue risk.

9) The Chief Investment Officer may terminate an investment manager outside the delegated parameters and constraints, with the concurrence of the Investment Consultant, if it is reasonable to expect that delaying such a decision pending an Investment Committee meeting would likely put the Fund at undue risk.

~~11)~~10) The Investment Committee or staff shall ~~promptly~~ report to the Board at the next available Board meeting any investment manager termination carried out in accordance with paragraph 8 or 9 above.

Other Duties

~~12)~~11) The Investment Committee shall:

a) Be available to advise the Board and staff as required.

b) Report regularly to the Board on its activities.

c) Perform any other duties assigned to it by the Board.

POLICY REVIEW AND HISTORY

~~13)~~12) This charter will be reviewed at least every five years.

~~14)~~13) This charter was:

a) Adopted by the Board on March 24, 2004.

b) Amended on June 23, 2004; September 27, 2006; September 12, 2012; April 13, 2016; August 11, 2021; and April 13, 2022.

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

CHIEF EXECUTIVE OFFICER CHARTER

INTRODUCTION

1) The Board of Retirement will appoint a Chief Executive Officer who will serve at its pleasure. The Chief Executive Officer is the most senior executive of KCERA and is not subject to county civil service and merit system rules.

DUTIES AND RESPONSIBILITIES

Leadership and Policy Analysis

2) The Chief Executive Officer will provide leadership for staff in implementing the programs necessary to achieve the goals and objectives established by the Board. The Chief Executive Officer will manage the day-to-day affairs of KCERA in accordance with policies established by the Board, and may delegate duties to senior management and staff as necessary. In so doing, the Chief Executive Officer will solicit advice and counsel from the Board, the Chair, or individual trustees, as appropriate.

3) The Chief Executive Officer will provide support to the Board and its committees in establishing all policies of the Board including identifying and analyzing issues requiring Board policies or strategies, and providing well-supported recommendations for consideration by the Board or its committees. The Chief Executive Officer will be responsible for ensuring that all policies and strategies are properly implemented.

Authority

4) The Chief Executive Officer shall operate in a manner consistent with all Board policies and applicable legislation. Subject to any limitation set out in such policies and legislation, the Chief Executive Officer is authorized to:
   a) Manage the day-to-day operations of KCERA;
   b) Select and terminate the senior executives of KCERA including the Chief Operations Officer, Chief Investment Officer, and Chief Legal Officer; and, subject to review by legal counsel, offer employment to such personnel (see paragraph 12 below);
   c) Develop and establish human resource staff positions and corresponding job specifications, as necessary for the proper administration and management of

KCERA and in furtherance of operational risk mitigation, which will be reported annually to the Administrative Committee as further set forth in the *Human Resources Report Protocol,* Appendix A of the Administrative Committee Charter.

d) Hire service providers where:
   i) The Board has not specifically retained the authority to hire such service providers; and
   ii) The total value of the services to be rendered by the service provider over a 12-month period is not more than $50,000 (see paragraph 16 below);

e) Approve all qualified members who apply for service retirement and report such retirements to the Board at the next public meeting of the Board after retirement (§31670);

f) Resolve and settle disputes involving the over- or under-payment of:
   i) Benefit payments to a member, provided such payment does not exceed $20,000, consistent with the *Overpayment and Underpayment of Member Benefits Policy* and subject to review by Legal Counsel.
   ii) Contributions made by a member, provided such payment does not exceed $5,000, consistent with the *Overpayment and Underpayment of Member Contributions Policy* and subject to review by Legal Counsel.

g) Settling and compromising claims and controversies (not directly involving over or under payments) on behalf of the Board and/or KCERA relating to benefits, personnel, and other legal matters.

h) Notwithstanding f) above, if the present value of the settlement, claim, or compromise to be made by KCERA exceeds $20,000, or the settlement or compromise involves multiple current or future KCERA members or beneficiaries, then such settlement or compromise shall require Board approval.

<u>Governance</u>

5) The Chief Executive Officer will:

a) Recommend governance policies and charters to ensure appropriate board governance practices.

b) Assist the Board in implementing its governance policies, charters, and the Regulations.

c) Coordinate trustee education and travel.

d) Serve as Secretary to the Board.

Risk Management

6) The Chief Executive Officer is responsible for monitoring, managing, and/or mitigating material risks to KCERA, including those pertaining to investments, funding, and operations. In keeping with this responsibility, the Chief Executive Officer will recommend risk management policies concerning all material aspects of KCERA, and oversee staff's implementation of such policies. The Chief Executive Officer will furthermore approve and implement any necessary risk management procedures to support the above policies.

Investments

7) The Chief Executive Officer is responsible for the KCERA investment program and for providing oversight of investment staff.

8) The Chief Executive Officer, delegating to the Chief Investment Officer as appropriate, will:

    a) Recommend to the Board a written investment policy statement and other material investment policies necessary to properly invest the assets of KCERA.

    b) Coordinate asset allocation studies.

    c) Execute portfolio rebalancing and portfolio transitions.

    d) Ensure appropriate due diligence is performed in connection with investment managers and other investment-related service providers.

    ~~d)~~e) Ensure that delegated authority relative to the selection and termination of investment managers is exercised within the parameters and constraints set by the Board.

    ~~e)~~f) Remain abreast of investment trends, issues and opportunities that may have implications for the investment program of KCERA.

Benefits Administration

9) The Chief Executive Officer will:

    a) Recommend to the Board, as necessary, policies and service quality benchmarks to ensure effective administration of member benefits.

    b) Ensure accurate payment of benefits to members, and address problems or errors in accordance with established policies and procedures (e.g. *Overpayment and Underpayment of Member Benefits Policy*).

    c) Prepare or oversee the preparation of all member communications in accordance with applicable policies and plans.

    d) Manage the disability application and appeal processes in accordance with applicable policies and procedures.

    e) Recommend annual cost-of-living adjustments to the Board.

f) Maintain accurate records of member accounts.

Operations

10) The Chief Executive Officer will:

a) Recommend to the Board, as appropriate, policies to ensure effective operations.

b) Develop and recommend a strategic plan and other material plans to the Board, including updates, as necessary.

c) Recommend the annual Operating Budget to the Board.

d) Authorize payments related to the administration of KCERA, consistent with the Operating Budget and internal controls of KCERA.

e) Account for and ensure appropriate collection, deposit and distribution of funds as required.

f) Develop and implement operational controls, and procedures.

g) Ensure the appropriate design, acquisition, implementation, and maintenance of all technological systems required to administer KCERA.

h) Maintain the records of KCERA in a permanent and readily accessible format.

Finance, Actuarial and Accounting

11) The Chief Executive Officer will:

a) Recommend to the Board, as appropriate, financial, accounting, and actuarial policies.

b) Implement appropriate internal financial controls to safeguard the assets of KCERA.

c) Coordinate financial audits, actuarial valuations, actuarial experience studies, actuarial audits, and any other audits that may be required.

d) File in the office of the County Auditor and with the Board of Supervisors an Annual Comprehensive Financial Report which will exhibit the financial condition of KCERA at the close of the preceding June 30th and its financial transactions for the fiscal year ending on that day (§31597.1).

Human Resources

12) The Chief Executive Officer is responsible for hiring, directing, and terminating all personnel of KCERA. This includes but is not limited to:

a) Selecting and terminating the Chief Operations Officer, Chief Investment Officer, and Chief Legal Officer, providing an opportunity to the Board to interview candidates and provide input.

b) When appropriate, and subject to review by legal counsel, offering employment to the above personnel.

c) Ensuring KCERA's human resource practices are consistent with applicable legislation, agreements, and County requirements.

d) Regularly assessing the human resource needs of KCERA and establishing human resource positions and corresponding job specifications, appropriate human resource programs, succession plans, and procedures to address them.

Litigation

13) The Chief Executive Officer will:

a) Determine settlements and compromises within his/her authority as specified in paragraphs 4 e) and f) above and report to the Board accordingly.

b) In consultation with the Chief Legal Officer, advise the Board concerning the commencement, conduct, settlement, and termination of all litigation involving KCERA that exceeds the authority of the Chief Executive Officer.

c) Coordinate with the Chief Legal Officer on all legal proceedings involving KCERA.

d) Develop and implement plans to comply with court rulings.

Communications

14) The Chief Executive Officer will:

a) Ensure effective and timely communications with stakeholders on matters relating to the administration of KCERA.

b) Recommend communications and disclosure-related plans or policies to the Board for approval.

c) Serve as spokesperson for KCERA, conferring with the Chair in advance if the issue in question is significant.

d) In consultation with the Chief Legal Officer, recommend for Board approval any legislative proposals to be initiated, supported or opposed by the Board.

Appointment of Service Providers

15) The Chief Executive Officer will perform or cause to be performed all due diligence for Board-appointed service providers, as listed in paragraph 16 of the Board Charter, and will provide the Board with appropriate recommendations.

16) The Chief Executive Officer may hire other service providers, consistent with the Operating Budget and other policies of the Board, provided that:

a) The Board has not specifically retained the authority to hire such service providers; and

b) The total value of the services to be rendered by the service provider over a 12-month period is not more than $50,000.

Monitoring and Reporting

17) The Chief Executive Officer will provide the Board with relevant, appropriate and timely information to enable it to properly carry out its oversight responsibilities. Furthermore, the Chief Executive Officer will apprise the Board in a timely manner of all significant issues, concerns, or developments pertaining to KCERA, and provide recommended courses of action as appropriate.

18) The Chief Executive Officer will regularly monitor and report to the Board on the following issues:

a) Implementation and continued appropriateness of all KCERA policies.

b) The funded status of KCERA and all issues that may reasonably have a significant impact on such status.

c) The investment performance of the Fund, the component asset classes, and the investment managers retained to manage the assets of the Fund.

d) The findings of any internal audits that may be performed.

e) Compliance by employees and KCERA service providers with the policies of KCERA.

f) The activities and performance of key service providers including the actuary, the financial auditor, the investment consultant, legal counsel, and the custodian.

g) The performance of Management.

h) The accuracy and timeliness of all payments due to and payable by KCERA.

i) KCERA's compliance with applicable laws and regulations.

j) In conjunction with the Chief Legal Officer, the status of all legal proceedings involving KCERA.

k) The status of the strategic plan, and any other material plans.

POLICY REVIEW AND HISTORY

19) This charter will be reviewed at least every five years.

20) This charter was:

a) Adopted by the Board on November 14, 2001.

b) Amended on January 28, 2004; June 23, 2004; September 27, 2006; July 28, 2010; December 12, 2012; April 13, 2016; March 11, 2020; August 11, 2021; April 13, 2022; and December 14, 2022.

Appendix II
Policy Documents – Clean

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

INVESTMENT POLICY STATEMENT

September 2023

Table of Contents

MISSION STATEMENT AND PURPOSE 3
BACKGROUND 3
INVESTMENT OBJECTIVES 4
LONG-TERM STRATEGIC ASSET ALLOCATION 5
INVESTMENT GUIDELINES 6
RISK MANAGEMENT 6
INVESTMENT PERFORMANCE REVIEW 7
CAPITAL EFFICIENCY 7
ASSET CLASSES 8
ADMINISTRATIVE PRACTICES 10
APPENDIX A – ASSET ALLOCATION AND ALLOWABLE RANGES 12
APPENDIX B – POLICY BENCHMARK 13
APPENDIX C – INVESTMENT PHILOSOPHY 14
APPENDIX D – MANAGER DUE DILIGENCE, SELECTION, MONITORING AND TERMINATION 16
APPENDIX E – TRADING POLICY 21
APPENDIX F – PROXY VOTING POLICY 23
APPENDIX G – ASSET PRICING POLICY 25
APPENDIX H – MANAGER RECONCILIATION REQUIREMENTS 26

MISSION STATEMENT AND PURPOSE

Mission Statement

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

Purpose

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

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

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

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

BACKGROUND

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

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

(Cal. Gov. Code §31594).

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

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

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

(Cal. Gov. Code §31595).

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

INVESTMENT OBJECTIVES

The primary investment objectives for the Plan shall be:

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

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

LONG-TERM STRATEGIC ASSET ALLOCATION

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

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

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

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

Rebalancing

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

Cash Flow Management

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

INVESTMENT MANAGER GUIDELINES

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

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

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

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

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

RISK MANAGEMENT

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

Risk

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

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

Risk Management Process

The risk management process includes:

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

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

Risk Metrics

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

Risk Reporting

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

INVESTMENT PERFORMANCE REVIEW

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

CAPITAL EFFICIENCY

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

ASSET CLASSES

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

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

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

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

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

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

Objectives

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

Guidelines

1. Strategy — Ranges

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

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

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

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

Objectives

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

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

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

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

Objectives

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

Guidelines

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

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

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

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

ADMINISTRATIVE PRACTICES

Review and Revisions

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

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

POLICY REVIEW AND HISTORY

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

APPENDIX A – ASSET ALLOCATION AND ALLOWABLE RANGES

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

APPENDIX B – POLICY BENCHMARK

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

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

APPENDIX C – INVESTMENT PHILOSOPHY

Governance

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

Risk

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

Asset Allocation

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

Investment Horizon

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

Diversification

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

Market Efficiency, Structure, and Manager Selection

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

Costs

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

Other

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

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

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

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

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

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 and terminate investment managers will be constrained by a maximum investment size defined as a percentage of total plan assets.

Asset Class	Selection Threshold	Termination Threshold
Hedge Funds	1.0%	2.0%
Private Markets	1.0%	2.0%
Opportunistic	1.0%	2.0%
Co-investments[1]	0.5%	1.0%
All other investments	2.0%	4.0%

[1]Co-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 constrains 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 pubic markets:

1. Initiation and Evaluation: Guided by the pacing plan and forward calendar, the Chief Investment Officer will coordinate with the investment consultant regarding due diligence. A written due diligence report will be produced, which articulates the opportunity, rationale, and risk of the investment. Due diligence may include on-site visits or may be performed virtually via video conference.

2. 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 constrains 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.

Contracting – Public and Private Markets

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

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

Ongoing Monitoring – Public and Private Markets

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

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

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

Manager reporting requirements

All Managers

- Updated Form ADV - Part 2 on an annual basis

All public markets

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

Public market investments through separately managed accounts

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

Private markets

- Quarterly account statement and NAV
- Quarterly performance measures including IRR, and multiples
- Quarterly update of contributions, distributions, and uncalled capital
- Quarterly performance commentary

- Quarterly fund composition, positioning, or exposure reports
- Audited Annual Financial Statements (for fund investments)

APPENDIX E – TRADING POLICY

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

Best Price and Execution Standard

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

vi. Manager's investment style; and
vii. brokerage and research services provided.

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

Trading Analysis

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

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

APPENDIX F – PROXY VOTING POLICY

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

Guidelines

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

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

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

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

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

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

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

Monitoring

The third-party service provider shall provide monthly reports to staff, which include a list of all proxies voted on behalf of the Plan, along with the rationale for the votes. On an annual basis, staff will provide the Board with a consolidated report summarizing the previous year's proxy voting activity.

APPENDIX G – ASSET PRICING POLICY

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

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

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

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

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

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

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

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

APPENDIX H – MANAGER RECONCILIATION REQUIREMENTS

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

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

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

BOARD OF RETIREMENT CHARTER

INTRODUCTION

1) The Board consists of nine members and two alternates. Subject to the provisions of the Act, the Board is responsible for the administration and oversight of KCERA and is committed to carrying out its responsibilities in a manner consistent with the highest standards of fiduciary practice. In keeping with this commitment, the Board has established this charter to guide its conduct and operations.

DUTIES AND RESPONSIBILITIES

2) The Board has various powers and responsibilities under the Act. These include but are not limited to:
   a) Making Regulations, consistent with the Act, which will become effective when approved by the Board of Supervisors. (§31525, §31526, & §31527)
   b) Approving all qualified members who apply for service retirement or delegating the authority for such approvals to the Chief Executive Officer or other personnel[1]. (§31670)
   c) Determining the merits of applications for disability benefits, making necessary determinations of service and permanency of injury. (§31720)
   d) Annually approving cost-of-living adjustments. (§31870.1 & *Ventura* Settlement Agreement)
   e) Approving the distribution of supplemental funds pursuant to the SRBR Policy. (§31618)
   f) Approving the annual actuarial valuation and the actuarial assumptions contained therein, and the determination of supplemental funds, upon the advice of the actuary and other experts as required, and recommend adoption by the Board of Supervisors of such changes in the rates of interest, in the rates of contributions of members, and in county and district appropriations, as necessary. (§31611)
   g) Ensuring a financial audit is conducted at least annually. (§31593)
   h) Appointing an Chief Executive Officer. (§31522.2)
   i) Appointing a custodian. (§31596)

[1] The Board has elected to delegate such authority to the Chief Executive Officer. See *Chief Executive Officer Charter*.

3) The Board also has certain powers and responsibilities under Article XVI section 17 of the California Constitution.

4) The Board believes that effective governance demands that the Board, directly or through its committees, also carry out the added responsibilities set out in the remainder of this charter.

POLICY & DECISION MAKING

5) The Board can most effectively oversee KCERA through the establishment of prudent policies and controls. Accordingly, the Board is responsible for adopting policies pertaining to material aspects of KCERA's activities. Examples of such policies appear throughout the remainder of this Charter.

GOVERNANCE

6) The Board shall:
   a) Approve, and amend as necessary, Regulations and governance policies to support and promote appropriate governance practices.
   b) Approve charters describing the roles and responsibilities of key parties involved in the governance and management of KCERA.
   c) Elect a Chair and a Vice Chair.
   d) Designate a Secretary to the Board.[2]
   e) Establish the committee structure of the Board.
   f) Provide appropriate opportunities and resources for board education.
   g) Evaluate the performance of the Board on a regular basis.

INVESTMENTS

7) The Board has exclusive control of the administration and investment of the Fund and shall invest the assets of the Fund in accordance with the fiduciary standards imposed by law. In keeping with this requirement, the Board will:
   a) Approve a written investment policy statement and all other material investment policies of the Fund.
   b) Approve investment manager mandates (i.e. dollar amount and asset class).
   c) Regularly review that any delegation of authority or discretion to investment staff, investment managers, the Investment Committee, and investment advisors is prudent and consistent with industry best practices.

8) The Board shall participate in asset allocation studies as required.

BENEFITS ADMINISTRATION

[2] Under the Regulations, the Board has designated the Chief Executive Officer to serve as Secretary to the Board.

9) The Board shall:

a) Provide staff with strategic direction concerning the nature and quality of services and communications to be provided to plan members and beneficiaries.

b) Ensure appropriate processes and procedures are in place to provide for disability benefit hearings and appeals.

c) Approve policies and review any service quality benchmarks that may be established to guide the effective administration and delivery of member services.

d) Act on member appeals of decisions made by Management, as applicable.

PLANNING AND OPERATIONS

10) The Board shall:

a) Review and approve the strategic plan, and other material plans of KCERA, including for example, those pertaining to stakeholder relations and plan sustainability.

b) Approve the annual Operating Budget and any changes thereto.

c) Ensure that all required contributions to the Fund are collected in a timely manner.

d) Ensure that all required distributions from the Fund are made in a timely manner.

e) Approve the location of KCERA's operations and associated leases or purchase agreements.

f) Monitor that appropriate operational control policies are in place to provide secure, efficient and accurate delivery of member services and protect the confidentiality of member data.

FINANCIAL, ACTUARIAL AND ACCOUNTING

11) The Board shall:

a) Approve the establishment of accounting and actuarial policies and any changes thereto.

b) Approve the annual financial statements.

c) Review the qualifications and independence of the financial auditor.

d) Ensure actuarial valuations, experience studies, and audits are conducted on a regular basis.

e) Ensure special investigations or audits are performed, as necessary.

RISK MANAGEMENT

12) The Board is responsible for ensuring Management establishes an appropriate system of risk management that addresses risks including but not limited to those pertaining to investments, funding, insurance, and technology.

LITIGATION

13) The Board shall be responsible for approving the commencement, conduct, settlement, and termination of all material litigation involving KCERA, with the advice of the Chief Executive Officer and legal counsel.

HUMAN RESOURCES

14) The Board shall:
   a) Appoint and may terminate the Chief Executive Officer.
   b) When it believes it would be appropriate to do so, meet with finalist candidates identified by the Chief Executive Officer for the positions of Chief Operations Officer, Chief Investment Officer, and Chief Legal Officer and advise the Chief Executive Officer when he or she is selecting individuals for such positions.
   c) Approve any human resource policies that may be developed and recommended to the Board by the Chief Executive Officer.
   d) Regularly review with the Chief Executive Officer the staffing, compensation, and succession planning needs of KCERA.
   e) Periodically review the performance of the Chief Executive Officer.

STAKEHOLDER COMMUNICATIONS

15) The Board shall be responsible for adequate and appropriate communications between KCERA and its stakeholders. Accordingly, the Board will:
   a) Establish a spokesperson for KCERA or otherwise authorize individuals to communicate on behalf of the Board.
   b) Establish policies or plans to guide material communications and disclosure to stakeholders.
   c) Establish policies to guide Board proposals on state or local legislation.
   d) Approve the Comprehensive Annual Financial Report.

SERVICE PROVIDERS

16) The Board shall appoint, and may terminate the:
   a) Actuary.
   b) Actuarial auditor.
   c) Financial auditor.
   d) Legal counsel.

e) Custodian. (§31596)

f) Investment managers that fall outside the parameters and constraints that have been delegated to the Chief Investment Officer as set forth in the most recently adopted Investment Policy Statement (including investment managers and partners, transition managers, securities lending managers, and commission recapture brokers).

g) Investment consultants retained to advise the Board.

h) Other service providers where the total value of the services to be rendered during a 12-month period exceeds $50,000.

MONITORING AND REPORTING

17) The Board shall work with staff to develop a system of reporting that effectively supports the Board in exercising its oversight responsibilities.

18) As part of the above, the Board shall establish a monitoring and reporting policy and any other necessary policies to set out the nature and frequency of reports to be provided to the Board and its committees by staff and service providers.

POLICY REVIEW AND HISTORY

19) This charter shall be reviewed at least every five years.

20) This charter was:

a) Adopted by the Board on November 14, 2001.

b) Amended on January 28, 2004; June 23, 2004; September 27, 2006; August 27, 2008; July 28, 2010; December 12, 2012; April 13, 2016; March 11, 2020; August 11, 2021; and April 13, 2022.

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

DUE DILIGENCE & SERVICE PROVIDER SELECTION POLICY

BACKGROUND

1) KCERA retains many different types of service providers to assist with the investment and administration functions. Given the different services involved and their relative importance, the role of the Board and staff in selecting, appointing, and terminating service providers will differ. This policy is intended to provide general guidance concerning these roles.

GUIDELINES

2) The roles involved in the procurement of service providers will be allocated in the manner illustrated in Table I.

3) In general, the Board or its committees will play a relatively more active role in the selection of those service providers that:
   a) Advise or work with the Board directly; e.g. the actuary and independent fiduciary counsel.
   b) Serve as an independent check on the operations of KCERA; e.g. the financial auditor.
   c) May have a material impact on the performance of KCERA; e.g. investment managers.

4) In the interest of organizational efficiency and effectiveness, the Board recognizes that the Chief Executive Officer should be allowed autonomy and authority to select service providers that do not meet the criteria in paragraph 3 above, provided the Chief Executive Officer complies with applicable laws, policies, controls, and procedures.

5) The Board may depart from the prescribed allocation of roles (set out in Table 1) by formal motion when it determines that it is in the best interests of KCERA to do so.

6) In cases when the Board or a board committee appoints a service provider, staff will nevertheless be expected to provide the Board or committee with a recommendation. Staff may employ the services of consultants and advisors to assist staff in performing any due diligence supporting its recommendations.

7) When recommending service providers for appointment, staff shall provide adequate background information and analysis to demonstrate that sufficient due diligence was performed, consistent with applicable policies, procedures, and fiduciary standards. In the case of investment manager recommendations, such information shall include a discussion of any relevant drawbacks of finalist firms that were not recommended, as appropriate. Any trustee seeking additional information about a finalist firm that was not recommended may review any available staff documentation and analysis at KCERA's office.

8) Staff or consultants will conduct follow-up on-site due diligence for certain service providers that have been retained by KCERA with the general frequencies set out below:
   a) Investment consultant – approximately every five years.
   b) Other service providers – as deemed necessary by staff or the Board, reflecting perceived risk exposure.

9) Staff shall annually provide the Board with a three-year calendar of scheduled due diligence meetings, and shall ensure the Board is provided a summary report on the results of each meeting.

10) Where staff has the authority to appoint a service provider, staff shall nevertheless be responsible for ensuring:
   a) All reasonable due diligence is performed reflecting the materiality of the services in question, and
   b) All applicable policies and procedures are followed.

11) The Board or the Chief Executive Officer shall establish an evaluation period in cases when it would be prudent to limit communications between current or prospective service providers and KCERA board members. (See the Board's *Evaluation Period Policy* for details.)

POLICY REVIEW AND HISTORY

12) This policy will be reviewed at least every five years.
13) This policy was:
    a) Adopted by the Board on March 14, 2001.
    b) Amended on June 23, 2004; July 13, 2005; September 26, 2007; August 27, 2008; August 26, 2009; June 15, 2011; December 12, 2012; April 13, 2016; October,10, 2018; August 11, 2021; and April 13, 2022.

TABLE I: ROLES IN SERVICE PROVIDER SELECTION

SERVICE PROVIDER	CONDUCT DUE DILIGENCE	IDENTIFY INTERVIEW CANDIDATES	INTERVIEW FINALISTS, IF REQUIRED	RECOMMEND (APPOINTMENT & TERMINATION)	APPOINT/ TERMINATE
AUDIT, ACTUARIAL, AND LEGAL					
Legal Counsel (Fiduciary)	Staff	Staff	Board	Staff	Board
Financial Auditor	Staff	Finance Committee	Finance Committee	Finance Committee	Board
Plan Actuary	Staff	Staff	Board	Staff	Board
Actuarial auditor	Staff	Staff	Staff	Finance Committee	Board
Accountants for special investigations by Finance Committee	Staff or Finance Committee	Staff or Finance Committee	Finance Committee	N/A	Finance Committee
INVESTMENTS					
Custodian (incl. securities lending & commission recapture)	Staff/Inv. Consultant	Staff/ Inv. Consultant	Staff/Inv. Consultant	Staff	Board
Investment Consultants (incl. proxy voting)	Staff	Investment Committee	Board	Staff	Board
Investment Mgrs. (public & private markets)	Staff/ Inv. Consultant[1]	Staff/Inv. Consultant	Investment Committee	Staff/Consultant to IC IC to Board	Board
HUMAN RESOURCES & LEGAL					
HR Consultant (Director-related projects)	Staff	Staff	Admin. Committee	N/A	Admin. Committee
HR Consultant (Other projects)	Staff	Staff	Chief Executive Officer	N/A	Chief Executive Officer
OPERATIONS					
IT Consultants (material projects)	Staff	Staff	Staff	Staff to Admin. Comm. Admin. Comm. to Board	Board
IT Consultants (non-material)[2]	Staff	Staff	Staff	Staff	Chief Executive Officer

[1] To be performed jointly for prospective managers; staff may do so independently subsequent to the appointment of managers and outside of formal search processes.
[2] "Non-material" to include contracts with a cost not to exceed $50,000.

Other Service providers (non-materia)l[2]	Staff	Staff	Staff	Staff	Chief Executive Officer

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

MONITORING AND REPORTING POLICY

BACKGROUND AND PURPOSE

1) In keeping with the duty of the Board to oversee the activities and performance of KCERA, the Board has established this Monitoring and Reporting Policy, which sets out the Board's expectations concerning the routine reports it is to receive on a regular basis.

GUIDELINES

2) The Board shall be provided with the routine reports outlined in Appendix 1 with a frequency also set out in Appendix 1. The Board may be provided other ad hoc reports as determined by Management or as directed by the Board.

3) Requests for the Board to be provided additional routine reports on a regular basis shall require board approval and an amendment to Appendix 1 of this policy.

POLICY REVIEW AND HISTORY

4) This policy shall be reviewed at least every five years.
5) This policy was:
   a) Adopted by the Board on July 13, 2005.
   b) Amended on September 26, 2007; August 26, 2009; December 12, 2012; April 13, 2016; October 10, 2018; March 11, 2020; February 10, 2021; August 11, 2021; and April 13, 2022.

APPENDIX 1

GOVERNANCE

Report Name	Frequency	Prepared By	Description
1. Board Performance Evaluation	Annually	Governance Consultant	Summarizes the results of the Board's performance self-evaluation, including follow-up actions.
2. Chief Executive Officer Evaluation	Annually	Admin. Committee	Summarizes the performance assessment of the Chief Executive Officer.
3. Annual Governance Report	Annually	Governance Consultant	A summary confirmation of compliance with governance policies of the Board.
4. Trustee Education Report	Semi-Annually	Chief Executive Officer and Governance Consultant	Summarizes the activities of the Board with respect to education, including trustee compliance with the Board Education policy. Will be posted to the KCERA website as required by law.
5. Service Provider Evaluations	Periodically[1]	Varies according to provider	Where feasible, performance evaluations of key service providers will be performed by staff or outside experts.

INVESTMENTS AND FUNDING

Report Name	Frequency	Prepared By	Description
6. Investments Reports	Monthly (consent agenda)	Chief Executive Officer	Report showing KCERA asset allocation, cash flow position, and investment fees for the month.
7. Investment Performance	Quarterly	Investment Consultant	Report on investment performance for total fund, for each asset class, and by investment manager. Provides analysis based on return over various periods (3 months, 1 year, 5 year, etc.), and seeks to identify sources of returns.
8. Investment Manager Compliance	Annually	Investment Managers	Affirmation by investment managers that they are investing the plan assets in accordance with their mandate, investment agreement, regulatory requirements, and KCERA policy.

[1] See the *Service Provider Evaluation Policy* for details on the time frame.

Report Name	Frequency	Prepared By	Description
9. Trading Cost Analysis	Every 3 years	3rd party provider	Analysis of trading costs of manager accounts.
10. Report of the CIO	Monthly	CIO	Report on the status of the portfolio, including information about the investment changes within the Chief Investment Officer's delegated authority.
11. Proxy Voting	Annually	Chief Executive Officer	Confirms compliance with the Board's Proxy Voting Policy, and summarizes how KCERA exercised its voting rights in public companies.
12. Securities Lending	Monthly (consent agenda)	Custodian	Summary of KCERA's securities lending activities, including additional income earned, collateral received, and risk factors impacting collateral.
13. Class Action Securities Litigation and Proceeds Report	Quarterly (consent agenda)	Custodian	Summary of securities litigation class actions filed and of the proceeds received.
14. Actuarial Valuation	Annually	Actuary	Summarizes the results of the actuarial valuation for KCERA, together with any recommendations.
15. Asset/Liability Study	Every 3-5 years	Investment Consultant	A study of the relationship between KCERA's assets and liabilities.
16. Actuarial Experience Study	Every 3 years	Actuary	Review of appropriateness of long-term economic assumptions (e.g. investment return, wage & price inflation) and demographic assumptions (e.g. disability/ mortality rates).
17. Actuarial Audit	Every 3-5 years**	3rd party actuary	An independent review of the validity of the analyses and methodologies used in preparing KCERA's actuarial valuation.

** And/or when a significant benefit or assumption change is adopted. A change in actuaries, however, shall satisfy the requirement for an actuarial audit.

ADMINISTRATION AND OPERATIONS

Report Name	Frequency	Prepared By	Description
18. Benefits & Activities Report	Monthly (consent agenda)	Chief Executive Officer	Report on a) members retired from service, deceased retirees, and deceased active members; and b) production statistics concerning member service activities.
19. Service Retirement Application Approvals Report	At the next public meeting of the Board after retirement	Chief Executive Officer	Report on service retirement applications approved by the Chief Executive Officer. (§31670)
20. Strategic/ Business Plan Status	Annually	Chief Executive Officer	Summarizes the status of each initiative contained in business plan.
21. Budget Variance	Monthly (consent agenda)	Chief Executive Officer	Compares actual spending to the operating budget, including explanations for material variances.
22. External Financial Audit	Annually	Auditor	Confirms that the financial statements present fairly, in all material respects, the financial status of KCERA, in accordance with generally accepted accounting principles.
23. Annual Comprehensive Financial Report (ACFR)	Annually	Chief Executive Officer	Reviews the operations and activities of KCERA during the last fiscal year. The financial statements shall be part of the ACFR and indicate the financial position of KCERA
24. Cost Effectiveness	Annually	Chief Executive Officer	Reporting on cost effectiveness will include: • KCERA's administrative costs in relation to the limits set out in the Act (i.e. the 21 basis point limit); and • Excerpt from the Annual Comprehensive Financial Report detailing all investment costs incurred by KCERA.
25. Report of the Chief Executive Officer	Monthly	Chief Executive Officer	Update on all significant activities occurring within KCERA.

Report Name	Frequency	Prepared By	Description
26. Report of the Chief Legal Officer	Monthly	Chief Legal Officer	Update on significant litigation, potential litigation, and on changes or potential changes to legislation affecting KCERA; updates on lawsuits involving the other 37 Act Systems.
27. Corrections of Errors in Benefit Payments	At least annually	Chief Executive Officer	A summary of corrections made to benefit payments exceeding $500.
28. Due Diligence Schedule	At least annually (consent agenda)	Chief Executive Officer	A three-year schedule of on-site due diligence visits of KCERA's service providers, as required by the Due Diligence & Service Provider Selection Policy.
29. Due Diligence Report	After each due diligence visit (consent agenda)	Investment Consultant or Chief Executive Officer	A report on each due diligence visit, undertaken by staff and/or the investment consultant, of KCERA's key service providers.
30. Reports on internal controls	Annually	Auditor or Chief Executive Officer	Update on KCERA financial and operational internal controls, including any significant changes and improvements to such over the year.
31. Disabilities Report	Monthly (consent agenda)	Chief Executive Officer	Report of current disability retirement applications and appeals of KCERA board decisions.

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

INVESTMENT COMMITTEE CHARTER

INTRODUCTION

1) The Board is responsible by law for the investment of the assets of KCERA and in doing so is subject to fiduciary duties. In keeping with its responsibilities, the Board will retain authority over all major investment policy decisions. It has, however, established the Investment Committee of the Board to assist in the development of investment policies and the selection and oversight of investment managers and investment consultants. The Investment Committee will be comprised of not less than four trustees and one alternate member.

2) This charter provides additional detail concerning the duties and operations of the Investment Committee.

COMMITTEE OPERATIONS

3) The Investment Committee shall operate as follows:
   a) The presence of a majority of Investment Committee members shall constitute a quorum.
   b) All actions of the Investment Committee shall be approved by the Board to be effective, unless otherwise provided herein.
   c) All actions of the Investment Committee shall be by an affirmative vote of a majority of the members present at a meeting of the Investment Committee, provided a quorum is present.
   d) The Investment Committee shall meet as deemed necessary by the Investment Committee or Chair of the Investment Committee, in consultation with the Chief Executive Officer.
   e) The meetings of the Investment Committee shall be open to the public and noticed and held in accordance with the Brown Act.
   f) The Investment Committee shall keep minutes of its meetings.
   g) The Chief Executive Officer will serve as the staff contact for the Committee.

COMMITTEE RESPONSIBILITIES

Investment Policy

4) The Investment Committee shall periodically review the investment policy statement and all other material investment policies of the Fund and provide recommendation to the Board, as appropriate.
5) The Investment Committee shall oversee periodic asset allocation studies.

Selection and Termination of Investment Managers

6) The Investment Committee:
    a) Shall review from time-to-time staff's procedures describing the criteria and processes to be used in conducting investment manager due diligence.
    b) Shall review recommendations by staff and the investment consultant concerning the appointment and termination of investment managers that fall outside the parameters and constraints that have been delegated to the Chief Investment Officer as set forth in the Investment Policy Statement and provide recommendations to the Board.
    c) May meet with any investment manager of the Fund to review any concerns about the manager's continued suitability to manage the assets of the Fund. Such meetings may be prompted by the Board, staff, investment consultant or the Investment Committee.

Selection of Investment Consultants

7) The Investment Committee shall determine investment consultant finalists to be interviewed by the Board after considering the recommendations and analysis of staff.

Emergency Situations

8) Notwithstanding paragraph 6 b) above, the Investment Committee may terminate an investment manager after considering the analysis and recommendations of the Chief Investment Officer, with concurrence of the Investment Consultant, if it is reasonable to expect that delaying such decision pending a Board meeting would likely put the Fund at undue risk.
9) The Chief Investment Officer may terminate an investment manager outside the delegated parameters and constraints, with the concurrence of the Investment Consultant, if it is reasonable to expect that delaying such a decision pending an Investment Committee meeting would likely put the Fund at undue risk.
10) The Investment Committee or staff shall report to the Board at the next available Board meeting any investment manager termination carried out in accordance with paragraph 8 or 9 above.

Other Duties

11) The Investment Committee shall:

a) Be available to advise the Board and staff as required.

b) Report regularly to the Board on its activities.

c) Perform any other duties assigned to it by the Board.

POLICY REVIEW AND HISTORY

12) This charter will be reviewed at least every five years.

13) This charter was:

a) Adopted by the Board on March 24, 2004.

b) Amended on June 23, 2004; September 27, 2006; September 12, 2012; April 13, 2016; August 11, 2021; and April 13, 2022.

Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Tel (661) 381-7700 • Fax (661) 381-7799
Toll Free (877) 733-6831
TTY Relay (800) 735-2929
www.kcera.org

CHIEF EXECUTIVE OFFICER CHARTER

INTRODUCTION

1) The Board of Retirement will appoint a Chief Executive Officer who will serve at its pleasure. The Chief Executive Officer is the most senior executive of KCERA and is not subject to county civil service and merit system rules.

DUTIES AND RESPONSIBILITIES

Leadership and Policy Analysis

2) The Chief Executive Officer will provide leadership for staff in implementing the programs necessary to achieve the goals and objectives established by the Board. The Chief Executive Officer will manage the day-to-day affairs of KCERA in accordance with policies established by the Board, and may delegate duties to senior management and staff as necessary. In so doing, the Chief Executive Officer will solicit advice and counsel from the Board, the Chair, or individual trustees, as appropriate.

3) The Chief Executive Officer will provide support to the Board and its committees in establishing all policies of the Board including identifying and analyzing issues requiring Board policies or strategies, and providing well-supported recommendations for consideration by the Board or its committees. The Chief Executive Officer will be responsible for ensuring that all policies and strategies are properly implemented.

Authority

4) The Chief Executive Officer shall operate in a manner consistent with all Board policies and applicable legislation. Subject to any limitation set out in such policies and legislation, the Chief Executive Officer is authorized to:
   a) Manage the day-to-day operations of KCERA;
   b) Select and terminate the senior executives of KCERA including the Chief Operations Officer, Chief Investment Officer, and Chief Legal Officer; and, subject to review by legal counsel, offer employment to such personnel (see paragraph 12 below);
   c) Develop and establish human resource staff positions and corresponding job specifications, as necessary for the proper administration and management of

KCERA and in furtherance of operational risk mitigation, which will be reported annually to the Administrative Committee as further set forth in the *Human Resources Report Protocol,* Appendix A of the Administrative Committee Charter.

d) Hire service providers where:
   i) The Board has not specifically retained the authority to hire such service providers; and
   ii) The total value of the services to be rendered by the service provider over a 12-month period is not more than $50,000 (see paragraph 16 below);
e) Approve all qualified members who apply for service retirement and report such retirements to the Board at the next public meeting of the Board after retirement (§31670);
f) Resolve and settle disputes involving the over- or under-payment of:
   i) Benefit payments to a member, provided such payment does not exceed $20,000, consistent with the *Overpayment and Underpayment of Member Benefits Policy* and subject to review by Legal Counsel.
   ii) Contributions made by a member, provided such payment does not exceed $5,000, consistent with the *Overpayment and Underpayment of Member Contributions Policy* and subject to review by Legal Counsel.
g) Settling and compromising claims and controversies (not directly involving over or under payments) on behalf of the Board and/or KCERA relating to benefits, personnel, and other legal matters.
h) Notwithstanding f) above, if the present value of the settlement, claim, or compromise to be made by KCERA exceeds $20,000, or the settlement or compromise involves multiple current or future KCERA members or beneficiaries, then such settlement or compromise shall require Board approval.

<u>Governance</u>

5) The Chief Executive Officer will:
   a) Recommend governance policies and charters to ensure appropriate board governance practices.
   b) Assist the Board in implementing its governance policies, charters, and the Regulations.
   c) Coordinate trustee education and travel.
   d) Serve as Secretary to the Board.

Risk Management

6) The Chief Executive Officer is responsible for monitoring, managing, and/or mitigating material risks to KCERA, including those pertaining to investments, funding, and operations. In keeping with this responsibility, the Chief Executive Officer will recommend risk management policies concerning all material aspects of KCERA, and oversee staff's implementation of such policies. The Chief Executive Officer will furthermore approve and implement any necessary risk management procedures to support the above policies.

Investments

7) The Chief Executive Officer is responsible for the KCERA investment program and for providing oversight of investment staff.

8) The Chief Executive Officer, delegating to the Chief Investment Officer as appropriate, will:
   a) Recommend to the Board a written investment policy statement and other material investment policies necessary to properly invest the assets of KCERA.
   b) Coordinate asset allocation studies.
   c) Execute portfolio rebalancing and portfolio transitions.
   d) Ensure appropriate due diligence is performed in connection with investment managers and other investment-related service providers.
   e) Ensure that delegated authority relative to the selection and termination of investment managers is exercised within the parameters and constraints set by the Board.
   f) Remain abreast of investment trends, issues and opportunities that may have implications for the investment program of KCERA.

Benefits Administration

9) The Chief Executive Officer will:
   a) Recommend to the Board, as necessary, policies and service quality benchmarks to ensure effective administration of member benefits.
   b) Ensure accurate payment of benefits to members, and address problems or errors in accordance with established policies and procedures (e.g. *Overpayment and Underpayment of Member Benefits Policy*).
   c) Prepare or oversee the preparation of all member communications in accordance with applicable policies and plans.
   d) Manage the disability application and appeal processes in accordance with applicable policies and procedures.
   e) Recommend annual cost-of-living adjustments to the Board.

f) Maintain accurate records of member accounts.

Operations

10) The Chief Executive Officer will:

a) Recommend to the Board, as appropriate, policies to ensure effective operations.

b) Develop and recommend a strategic plan and other material plans to the Board, including updates, as necessary.

c) Recommend the annual Operating Budget to the Board.

d) Authorize payments related to the administration of KCERA, consistent with the Operating Budget and internal controls of KCERA.

e) Account for and ensure appropriate collection, deposit and distribution of funds as required.

f) Develop and implement operational controls, and procedures.

g) Ensure the appropriate design, acquisition, implementation, and maintenance of all technological systems required to administer KCERA.

h) Maintain the records of KCERA in a permanent and readily accessible format.

Finance, Actuarial and Accounting

11) The Chief Executive Officer will:

a) Recommend to the Board, as appropriate, financial, accounting, and actuarial policies.

b) Implement appropriate internal financial controls to safeguard the assets of KCERA.

c) Coordinate financial audits, actuarial valuations, actuarial experience studies, actuarial audits, and any other audits that may be required.

d) File in the office of the County Auditor and with the Board of Supervisors an Annual Comprehensive Financial Report which will exhibit the financial condition of KCERA at the close of the preceding June 30th and its financial transactions for the fiscal year ending on that day (§31597.1).

Human Resources

12) The Chief Executive Officer is responsible for hiring, directing, and terminating all personnel of KCERA. This includes but is not limited to:

a) Selecting and terminating the Chief Operations Officer, Chief Investment Officer, and Chief Legal Officer, providing an opportunity to the Board to interview candidates and provide input.

b) When appropriate, and subject to review by legal counsel, offering employment to the above personnel.

c) Ensuring KCERA's human resource practices are consistent with applicable legislation, agreements, and County requirements.

d) Regularly assessing the human resource needs of KCERA and establishing human resource positions and corresponding job specifications, appropriate human resource programs, succession plans, and procedures to address them.

<u>Litigation</u>

13) The Chief Executive Officer will:

a) Determine settlements and compromises within his/her authority as specified in paragraphs 4 e) and f) above and report to the Board accordingly.

b) In consultation with the Chief Legal Officer, advise the Board concerning the commencement, conduct, settlement, and termination of all litigation involving KCERA that exceeds the authority of the Chief Executive Officer.

c) Coordinate with the Chief Legal Officer on all legal proceedings involving KCERA.

d) Develop and implement plans to comply with court rulings.

<u>Communications</u>

14) The Chief Executive Officer will:

a) Ensure effective and timely communications with stakeholders on matters relating to the administration of KCERA.

b) Recommend communications and disclosure-related plans or policies to the Board for approval.

c) Serve as spokesperson for KCERA, conferring with the Chair in advance if the issue in question is significant.

d) In consultation with the Chief Legal Officer, recommend for Board approval any legislative proposals to be initiated, supported or opposed by the Board.

<u>Appointment of Service Providers</u>

15) The Chief Executive Officer will perform or cause to be performed all due diligence for Board-appointed service providers, as listed in paragraph 16 of the Board Charter, and will provide the Board with appropriate recommendations.

16) The Chief Executive Officer may hire other service providers, consistent with the Operating Budget and other policies of the Board, provided that:

a) The Board has not specifically retained the authority to hire such service providers; and

b) The total value of the services to be rendered by the service provider over a 12-month period is not more than $50,000.

Monitoring and Reporting

17) The Chief Executive Officer will provide the Board with relevant, appropriate and timely information to enable it to properly carry out its oversight responsibilities. Furthermore, the Chief Executive Officer will apprise the Board in a timely manner of all significant issues, concerns, or developments pertaining to KCERA, and provide recommended courses of action as appropriate.

18) The Chief Executive Officer will regularly monitor and report to the Board on the following issues:
   a) Implementation and continued appropriateness of all KCERA policies.
   b) The funded status of KCERA and all issues that may reasonably have a significant impact on such status.
   c) The investment performance of the Fund, the component asset classes, and the investment managers retained to manage the assets of the Fund.
   d) The findings of any internal audits that may be performed.
   e) Compliance by employees and KCERA service providers with the policies of KCERA.
   f) The activities and performance of key service providers including the actuary, the financial auditor, the investment consultant, legal counsel, and the custodian.
   g) The performance of Management.
   h) The accuracy and timeliness of all payments due to and payable by KCERA.
   i) KCERA's compliance with applicable laws and regulations.
   j) In conjunction with the Chief Legal Officer, the status of all legal proceedings involving KCERA.
   k) The status of the strategic plan, and any other material plans.

POLICY REVIEW AND HISTORY

19) This charter will be reviewed at least every five years.

20) This charter was:
   a) Adopted by the Board on November 14, 2001.
   b) Amended on January 28, 2004; June 23, 2004; September 27, 2006; July 28, 2010; December 12, 2012; April 13, 2016; March 11, 2020; August 11, 2021; April 13, 2022; and December 14, 2022.

Legal Disclosures and Disclaimers

Consulting services provided by Aon Consulting, Inc. (“ACI”). The information contained herein is given as of the date hereof and does not purport to give information as of any other date. The delivery at any time shall not, under any circumstances, create any implication that there has been a change in the information set forth herein since the date hereof or any obligation to update or provide amendments hereto.

This document is not intended to provide, and shall not be relied upon for, accounting, legal or tax advice or investment recommendations. Any accounting, legal, or taxation position described in this presentation is a general statement and shall only be used as a guide. It does not constitute accounting, legal, investment, and/or tax advice and is based on ACI’s understanding of current laws and interpretation.

This document is intended for general information purposes only and should not be construed as advice or opinions on any specific facts or circumstances. The comments in this summary are based upon ACI’s preliminary analysis of publicly available information unless otherwise noted. The content of this document is made available on an “as is” basis, without warranty of any kind. ACI disclaims any legal liability to any person or organization for loss or damage caused by or resulting from any reliance placed on that content. ACI reserves all rights to the content of this document. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of ACI.

Aon Consulting, Inc.

200 E. Randolph Street

Suite 700

Chicago, IL 60601