

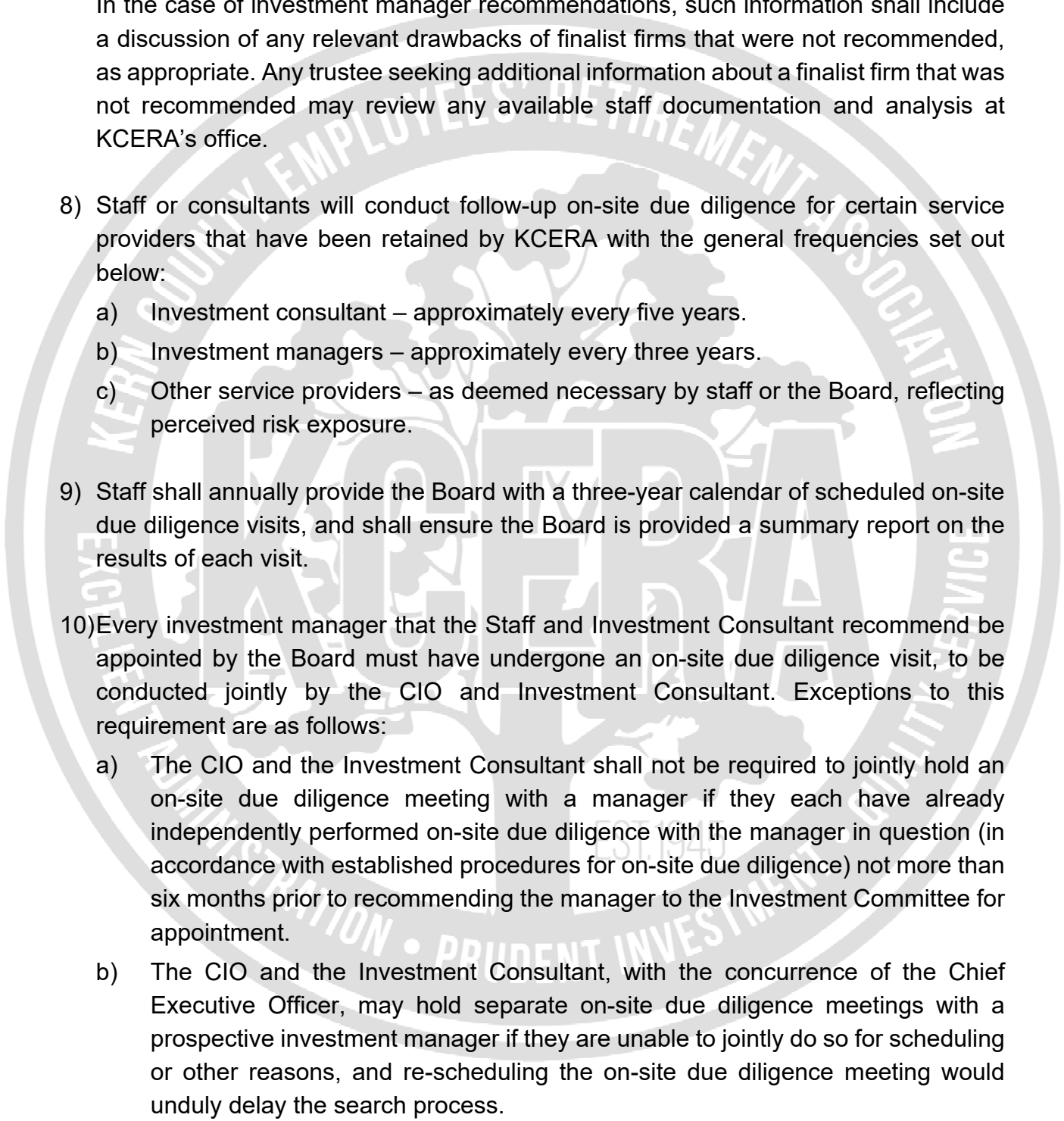
DUE DILIGENCE & SERVICE PROVIDER SELECTION POLICY

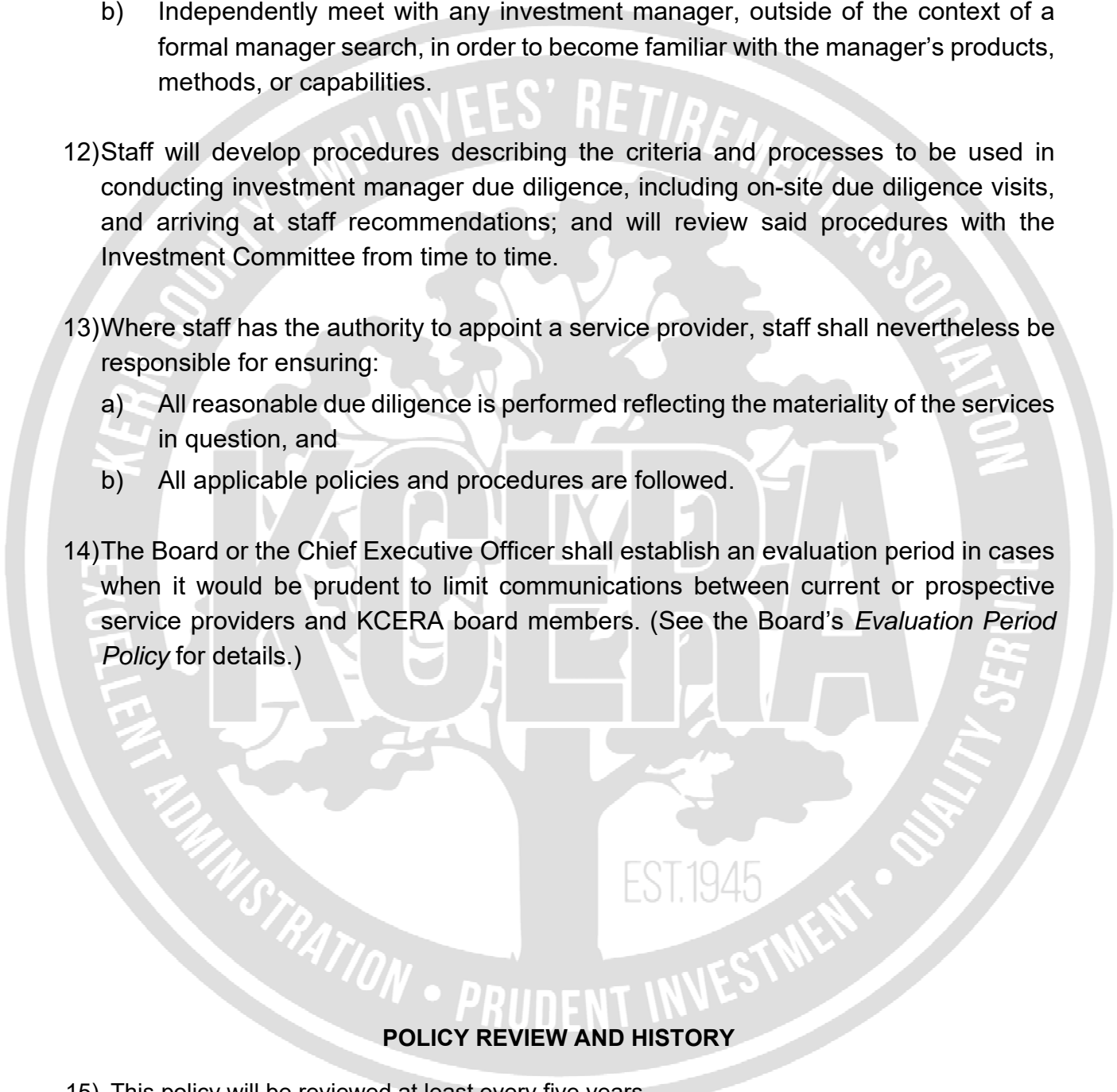
BACKGROUND

- 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.

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- 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) 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 visits, and shall ensure the Board is provided a summary report on the results of each 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:

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- 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) 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) 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) This policy will be reviewed at least every five years.
- 16) 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-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.