



KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

INVESTMENT POLICY STATEMENT

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MISSION STATEMENT AND PURPOSE

Mission Statement

THE MISSION OF THE KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION IS TO PRUDENTLY ADMINISTER THE RETIREMENT BENEFITS AND TO PROVIDE QUALITY MEMBERSHIP SERVICES FOR ELIGIBLE PUBLIC EMPLOYEES, RETIREES AND THEIR BENEFICIARIES.

Purpose

The Retirement Board of the Kern County Employees' Retirement Association (the "Board") has adopted this document to serve as a framework for investment policy making and investment objective setting within the context of applicable California laws. The statements contained in this document are intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure prudence and care are maintained in the execution of the investment program.

The purpose of this Investment Policy Statement ("Investment Policy") is to set forth in writing:

1. An appropriate set of objectives and goals regarding the investment of the Kern County Employees' Retirement Association's assets (also referred to as "KCERA", the "Fund", or the "Plan"); and
2. The position of the Board with respect to KCERA's risk/return posture, including allocation of assets, and establishment of investment guidelines.

A further purpose of this Investment Policy is to ensure the investment of KCERA's assets in a manner consistent with the County Employees Retirement Law of 1937 (Government Code Section 31450 et seq.) and other applicable state and federal statutes.

BACKGROUND

The Kern County Employees' Retirement Association is governed by the County Employees Retirement Law of 1937. It is also governed by California Government Code Sections¹ 31594 and 31595, which provide for prudent person governance of the Plan. Under this law, the type and amount of Plan investments as well as the quality of securities is not specifically delineated, rather the investments made are assumed to be in the best interest of the Plan such that others with similar information would acquire similar investments. These statutory provisions are set forth below:

¹ All statutory references are to the California Government Code unless otherwise stated.

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 County Employees' Retirement Law on January 1, 1945, by the Kern County Board of Supervisors, and its management is vested in a Board of retirement.

The specific responsibilities of the Board include:

1. Establishing and implementing investment policy;

2. Recommending employee and employer contribution rates to the Board of Supervisors based on annual actuarial studies;
3. Accepting and acting on service-connected disability applications;
4. Authorizing disbursement of KCERA funds for the payment of retirement benefits; and
5. Establishing policy for the operation of KCERA.

INVESTMENT PHILOSOPHY

The Board is committed to:

1. Protecting the corpus of the Fund;
2. Managing the Fund in a prudent manner recognizing risk and return trade-offs;
3. Earning adequate investment returns in order to protect and pay the benefits promised to the participants with a minimum amount of associated risk;
4. Maintaining sufficient liquidity to fund expenses and benefit payments as they come due; and
5. Complying with applicable law.

INVESTMENT GUIDELINES

It is the intention of the Board to allow the investment managers (also referred to herein as “managers”) full discretion within the scope of these mutually agreed upon investment guidelines, the operative fund documents, terms set forth in any Investment Management Agreement or side letter agreement, and any laws that supersede either of these documents.

Liquidity

Staff² will monitor KCERA’s cash flow on a regular basis, and sufficient liquidity shall be maintained to fund benefit payment outflows. When withdrawals become necessary, Staff will notify the investment managers as far in advance as possible to allow them sufficient time to acquire necessary liquid reserves. Staff and Investment Consultant shall review the cash flow requirements with the Board as appropriate and shall take such requirements into consideration in their investment decisions.

Proxy Voting

For all funds held by KCERA’s custodian, a proxy voting service provider is retained to vote all

² Within this Investment Policy and attached Appendices, “Staff” refers to the Chief Investment Officer together with the Executive Director and/or the Assistant Executive Director.

proposals submitted to stockholders in accordance with the Proxy Voting Policy Guidelines set forth in Appendix E – Proxy Voting Policy, attached hereto and incorporated by reference. All commingled investment fund proxies are voted by the respective manager of each fund in accordance with the manager’s proxy guidelines. Reporting of proxy voting and oversight by the Board is dictated by the Proxy Voting Policy.

Trading and Execution

The investment managers shall use their best efforts to obtain execution of orders through responsible brokerage firms at the most favorable prices and competitive commission rates as set forth in Appendix D - Trading Policies, attached hereto and incorporated by reference. Recognizing the primary importance of best execution, an investment manager may accept instruction from the Board to place transaction orders with a particular broker-dealer provided that such instruction is in writing and contains the Board’s representation that such instruction is permitted by the Plan's underlying instruments, are in the interests of Plan participants and beneficiaries, and will not result in a violation of the "prohibited transactions" provisions of County Employees Retirement Law of 1937.

Derivatives – Traditional Public Market Strategies

There are two permitted strategies that can be implemented with derivatives. Investment managers may use derivatives in these strategies when it is more efficient and/or less costly than investing in the underlying physical securities.

1. Substitution - When the characteristics of a derivative instrument are sufficiently similar to that of the cash market instruments and/or provides a more favorable risk/return profile, the derivative instrument may be “substituted” for the cash market instrument.
2. Risk Control - When characteristics of the derivative are sufficiently parallel to that of the cash instrument that an opposite position from the cash instrument can be taken in the derivative instrument to alter the exposure to or the risk (volatility) of the cash instrument. This strategy is particularly useful to manage risk without having to sell the cash instrument. Derivative instruments are particularly useful in managing the strategic asset allocation of the Fund.

Manager Guidelines

1. The manager shall have full discretion to direct and manage the investment and reinvestment of assets in accordance with this document, applicable federal and state statutes and regulations, the operative fund documents, and any Investment Management Agreement or side letter executed by KCERA and the manager.
2. The manager shall have full discretion to establish and execute transactions through accounts with one or more broker/dealer firms as it may select. The firm will attempt to obtain "best available price and most favorable execution" with respect to all portfolio transactions.
3. 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.

4. The manager must provide prompt notification to KCERA of any changes in the firm's organizational relationships, professional staff, or services that impact the service of the account, including:
 - a. a significant change in investment philosophy;
 - b. a loss of one or more key management personnel;
 - c. a new portfolio manager on the KCERA account;
 - d. a change in ownership of the firm;
 - e. a change in the ownership structure of the firm; and
 - f. any occurrence which might potentially impact the management, professionalism, integrity, organizational structure or financial position of the management firm.
5. Each investment managers is expected to promptly notify the Board if their organization becomes subject to any civil or criminal suit or complaint or investigation by any governmental or regulatory body. Failure to provide immediate notification to KCERA of any such action may be grounds for immediate termination.

KCERA has adopted the following general guidelines to be used in limiting exposure to any single manager or product. The Board may override these policies under special circumstances:

1. The maximum allocation to a single active manager in its own investment products is 12%, i.e., a single manager could manage up to 12% of the aggregate market value of the Fund.
2. The maximum allocation to a single active management product is 8%.
3. There is no maximum allocation limitation for passive managers or their passive investment products.
4. No investment with any single manager may exceed 10% of that manager's total assets under management.

Specific investment guidelines for individual mandates are contained in each manager's Investment Management Agreement, as applicable.

INVESTMENT OBJECTIVES

The primary investment objectives for KCERA's assets shall be:

1. **Funding Benefits:** To earn a long-run rate of return in support of the obligation to pay all promised benefits.
2. **Long-Term Growth of Capital:** To emphasize long-term growth of principal while avoiding excessive risk. To the extent it is prudent to do so, short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.
3. **Preservation of Purchasing Power:** To achieve returns in excess of the rate of inflation over the

investment horizon in order to preserve purchasing power of Fund assets.

The specific investment objectives of KCERA's assets will be for the asset value, exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a rate of return (time-weighted total return) in excess of the established benchmarks over a full market cycle (typically 3-5 years), net of fees.

The Total Fund is to exceed a custom index made up of 23% Russell 3000 Index, 22% MSCI ACWI ex. US Index, 29% Barclays Aggregate Bond Index, 5% NCREIF Property Index, 6% Bloomberg Commodity Index, 10% (75% [3-month T-bills + 4.0%] + 25% [MSCI ACWI]), and 5% Russell 3000 Index + 300 basis points per year.

ASSET ALLOCATION

General

KCERA adopts and implements an asset allocation policy that is predicated on a number of factors, including:

1. An actuarial valuation of the Fund's assets and liabilities, including funded status, contributions and benefit payments;
2. Historical and expected long-term capital market risk and return behavior;
3. An assessment of future economic conditions, including inflation and interest rate levels; and
4. The current and projected funding status of the Plan.

The Plan's asset allocation, including approved asset classes, target percentages, and allowable ranges are illustrated in Appendix A, Asset Allocation and Allowable Ranges, attached hereto and incorporated by reference.

Rebalancing

Portfolio rebalancing shall be conducted in order to meet two distinct objectives. The first is to maintain long-term strategic asset allocation targets approved by the Board. In meeting this first objective, the Chief Investment Officer, with the expressed written consent of the Executive Director, shall periodically rebalance the portfolio to generally maintain the strategic allocation target weights, typically within ± 5 percentage points and always within the allowable ranges as set forth in Appendix A. Special consideration will be given to illiquid asset classes. When such rebalancing activity occurs, the Investment Committee and the Board shall be notified of such activity at the next regularly scheduled meeting.

The second objective is to utilize portfolio rebalancing to add value to the overall portfolio through the implementation of tactical biases, the aim of which is to take advantage of uncommon market pricing opportunities caused by significant market dislocations. In meeting this objective, the Board, in

conjunction with the jointly delivered advice of the Investment Consultant and Chief Investment Officer, may authorize adjusting the asset allocation away from the target allocation but still within allowable ranges as set forth in Appendix A of this Investment Policy.

Rebalancing may occur through the buying and selling of physical securities or through the use of fully collateralized derivatives.

Opportunistic Investments

Opportunistic investments will be considered on a case-by-case basis when presented jointly by KCERA's Chief Investment Officer and Investment Consultant. Such investments are intended to take advantage of specific market conditions and may include expansion of investments in KCERA's current asset allocation or entry into strategies outside of the asset allocation following education regarding the potential investment. Opportunistic investments will be limited to no greater than 10% of the total portfolio at time of purchase. Investments in individual strategies identified as opportunistic may not exceed 3% of the total portfolio at time of purchase.

INVESTMENT PERFORMANCE REVIEW AND EVALUATION

It is the objective of the Board to review the investment results of the Fund quarterly. Performance comparisons will be made against a representative performance universe and the investment objectives set forth in this Investment Policy.

The Board and Staff, with the assistance of the Investment Consultant, shall periodically review qualitative developments at each investment manager. This evaluation may include: changes in ownership, personnel turnover, adherence to investment style and philosophy, and any other qualities the Board, Staff and/or Investment Consultant deem appropriate in accordance with Appendix F – Manager Monitoring and Evaluation and Policy and Guidelines, attached hereto and incorporated by reference.

The Board desires to hold each investment manager accountable for the performance of the assets over which they exercise discretion. If an investment manager fails to accomplish the investment objectives as set forth in this Investment Policy over a full market cycle (typically three to five years), the investment manager may be placed on KCERA's Watch-List. The Board will continue to monitor the investment results until it is determined that removal from probationary status or termination of the investment manager is warranted. The Board reserves the right to terminate investment managers if they violate this Investment Policy, experience personnel or organizational changes, or if the Board determines that a change of investment managers is in the best interest of the Plan.

Should a situation arise whereby a manager is no longer deemed appropriate for the Fund for any reason 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 expressed written consent of the Executive Director 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 Investment Committee and the Board shall be notified at the next regularly scheduled meeting. For purposes of this document, “alternate strategy” refers to cash or a low-cost index fund employing a similar investment objective as the terminated manager.

ADMINISTRATIVE PRACTICES

Communication and Reporting of Investment Managers

The investment managers are responsible for frequent and open communication in writing with the Board on all significant matters pertaining to investment policies and the management of KCERA's assets, including the following:

1. Along with the quarterly report, each investment manager must include a copy of their individual portfolio guidelines and a letter certifying guideline compliance for the quarter under review;
2. Investment managers are required to advise the Board in writing of any violation or any need for changes to this Investment Policy or the manager’s specific investment guidelines; and
3. All investment managers must provide an updated ADV Form - Part 2 on an annual basis.

Compensation of Investment Managers

Each investment manager retained by KCERA shall be compensated by a formula contained in the manager’s operative fund documents or Investment Management Agreement. No investment manager retained by KCERA shall receive a payment of commission or other fees on a particular investment transaction. Further, each investment manager must disclose to the Board any indirect compensation received in addition to its fees as a result of servicing the Fund.

Brokerage Disclosure

Each investment manager retained by KCERA shall provide a written quarterly report detailing the name of each brokerage institution which received commissions from KCERA as the result of the discretionary trading authority bestowed upon the investment 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.

Acknowledgment and Representations

The investment managers shall acknowledge in writing their recognition and adherence to an industry-accepted standard of care to which the manager will be held and a fiduciary relationship between the manager and the manager’s client, which may be established by contract or operation of law (e.g., by

registration of the manager as an investment advisor with the U.S. Securities and Exchange Commission). Investment managers must further agree to adhere to appropriate federal and state legislation governing KCERA and agree to be covered by appropriate and adequate insurance coverages.

Review and Revisions

The Investment Consultant or the Chief Investment Officer shall first advise the Executive Director and then the Board of any restrictions within this Investment Policy which may prevent the investment manager(s) from obtaining the objectives and goals set forth herein. Any violation of the investment guidelines or other sections of this Investment Policy Statement discovered by the Investment Consultant or the Chief Investment Officer in the preparation of its regular performance review shall likewise be reported first to the Executive Director and subsequently to the Board.

The Board reserves the right to amend the Investment Policy at any time they deem such amendment to be necessary, or to comply with changes in federal law as these changes affect the investment of Plan assets.

APPENDIX A – ASSET ALLOCATION AND ALLOWABLE RANGES

Asset Class	Target Percentage	Minimum Percentage	Maximum Percentage
Domestic Equity	23%	10%	33%
All Cap	5%	0%	33%
Large Cap	14%	10%	25%
Small Cap	4%	0%	8%
Non-US Equity	22%	12%	32%
Developed	18%	12%	32%
Emerging Markets	4%	0%	8%
Fixed Income	29%	19%	39%
Core+	18%	15%	39%
High Yield / Specialty	6%	2%	10%
Emerging Markets	4%	0%	8%
TIPS	3%	0%	6%
Real Estate	5%	0%	10%
Core	3%	0%	10%
Value-Add	2%	0%	4%
Commodities	6%	0%	8%
Hedge Funds	10%	0%	15%
Private Equity	5%	0%	10%
Opportunistic Investments	0%	0%	10%
Cash	0%	0%	5%
Total	100%		

APPENDIX B – MANAGER BENCHMARKS

	<u>Asset Class</u>	<u>Sub-Class</u>	<u>Style/Manager*</u>	<u>Benchmark</u>
Domestic Equity	23.0%			Russell 3000
All Cap		5.0%		DJ US Total Stock Market Index
All Cap (Passive) - Mellon			5.0%	DJ US Total Stock Market Index
Large Cap		14.0%		S&P 500
Core - Mellon			5.0%	S&P 500
Core - PanAgora			3.0%	S&P 500
Core - PIMCO			3.0%	S&P 500
Core - T. Rowe			3.0%	S&P 500
Small Cap		4.0%		R2000
Growth - Henderson Geneva			2.0%	R2000G
Value – Alliance Bernstein			2.0%	R2000V
International Equity	22.0%			MSCI ACWI ex US
Developed Large		18.0%		MSCI EAFE
Core - BlackRock			5.3%	MSCI EAFE
Core - Fidelity			5.3%	MSCI EAFE
Core - Fidelity (Small Cap)			2.0%	S&P Dev ex. US SC
Core - JPMorgan			5.3%	MSCI EAFE
Emerging Markets		4.0%		MSCI EM IMI
EM - DFA			2.0%	MSCI EM IMI
EM - Vontobel			2.0%	MSCI EM IMI
Fixed Income	29.0%			BC AGG
Core +		18.0%		BC AGG
Mellon			6.0%	BC AGG
PIMCO			5.0%	BC AGG
Western			5.0%	BC AGG
High Yield		4.0%		BofA ML HY Master II
Western			4.0%	(50% BC HY B-rated, 2%) + (50% BC HY BB-rated, 2%)
Specialized strategy (ABS)		2.0%		tbd
TCW			2.0%	tbd
Emerging Markets		4.0%		JPM EMBI Global
Gramercy			2.0%	JPM EMBI Global
Stone Harbor			2.0%	JPM EMBI Global
TIPS		3.0%		BC US TIPS Index
Mellon			3.0%	BC US TIPS Index
Real Estate	5.0%			ODCE
Core		5.0%		ODCE
Core - ASB			1.5%	ODCE
Core - JP Morgan			1.5%	ODCE
Value-Added - Invesco			2.0%	ODCE
Commodities	6.0%			DJ UBS Commodities
Commodities		6.0%		Bloomberg Commodities Index
(Passive) - BlackRock			2.0%	Bloomberg Commodities Index
(Active) - Gresham			2.0%	Bloomberg Commodities Index
(Active) - Wellington			2.0%	Bloomberg Commodities Index
Hedge Funds	10.0%			(0.75 x (T-Bills + 400 bps)) + (0.25 x MSCI ACWI)
Private Equity	5.0%			R3000 + 300 bps
Private Equity		5.0%		R3000 + 300 bps
Opportunistic	0.0%			Actuarial Assumed Rate + 300 bps
Total	100.0%	100.0%	100.0%	

*Style/manager target percentages are included as guidelines and for the purpose of macro-attribution analysis only. There are no policy compliance implications for style/manager variances, as long as the sub-class allocations remain within the ranges specified in Appendix A.

APPENDIX C – RISK MANAGEMENT POLICY

Introduction

While the Board recognizes it must accept risk within the investment process, it is committed to ensuring that all key risks taken are intentional, measured and understood by the Board. The Board also recognizes that to grow assets sufficiently to meet promised benefit payment obligations, it must balance risk taking with capital preservation and that its risk tolerance will be a function of this perspective. It is the policy of the Board that a risk management framework shall be developed and maintained via its risk management policy which will ensure that risks undertaken by the Board and Staff, and the applicable risks undertaken by external parties that assist Board in performing its duties are identified, understood, assessed and effectively managed.

Investment Risk Management Policy

I. Purpose

The Risk Management Policy is designed to ensure that an effective risk management process is in place to monitor the risk of KCERA's investment portfolios. The objective of the Risk Management Policy is to ensure that risk taken is prudent and properly managed and to minimize the likelihood of the loss of capital. The Risk Management Policy also sets forth the roles of the Board, Staff, and the Investment Consultant(s).

II. Responsibilities

A. The Board

1. The Board is responsible for setting the long term asset allocation targets and rebalancing ranges for the Fund. As part of this decision making process, the Board will consider the expected risk associated with the current allocation and various alternative allocations.
2. When setting the long-term, strategic asset allocation, the Board will consider risks from different perspectives that may include:
 - a) Standard deviation
 - b) Relative risk (tracking error)
 - c) Scenario analysis
 - d) Liquidity needs
 - e) Leverage
 - f) Counterparty risk
 - g) Operational risk

B. KCERA Staff

1. KCERA Staff will provide oversight, coordination and support to the risk management

- process.
2. KCERA Staff, in conjunction with the Board's Investment Consultant(s), will be responsible for reviewing and evaluating new investment initiatives, products and processes, to ensure adequate risk identification, assessment and management.
 3. KCERA Staff, in conjunction with the Board's Investment Consultant(s), will seek to enhance the Board's awareness and understanding of the key risks faced by the Board.

C. Investment Consultant(s)

1. The Investment Consultant(s) will be responsible for maintaining sufficient risk measurement and monitoring tools to provide regular analysis on the investment risks of the Fund.
2. As part of their research and reporting processes, the Investment Consultant(s) will review relevant risk exposures.
3. Risk reporting will be produced and presented to the Board on a quarterly basis.

APPENDIX D – TRADING POLICIES

Background

The Board has determined that trading costs represent a significant expense to the Fund. 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 Fund.

Best Price and Execution Standard

- I. Notwithstanding anything to the contrary, all trading of securities will be placed by investment 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 Fund related thereto, or by the managers, for the benefit of the Fund and its beneficiaries.
 - 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 Fund for its commission dollars.
 - B. The policy of best price and best execution is intended to provide the most favorable overall results for the Fund.
 - 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.
- II. Inasmuch as trading costs contribute to the gains and losses on the securities held by the Fund, 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:
 1. price of security
 2. the commission rate
 3. size and difficulty of the order
 4. reliability, integrity, and financial condition of broker-dealer
 5. general execution and operational capabilities or competing broker-dealers

6. manager's investment style
 7. brokerage and research services provided.
- B. When placing trades with broker/dealers, managers will emphasize minimizing commission costs directly and not seeking sources of value to the Fund 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:
1. price of security
 2. the commission rate
 3. size and difficulty of the order
 4. reliability, integrity, and financial condition of broker-dealer
 5. general execution and operational capabilities or competing broker-dealers
 6. the manager's investment style.

Trading Analysis

The manager will perform, or allow to be performed, an analysis of the trading costs of their respective account with respect to the various classes of trading described herein. This analysis will be provided to the Board on a quarterly basis as part of the manager's performance report.

- I. 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.
- II. 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.
- III. The analysis will report trading performance by broker-dealer and by investment management account.

The Board may periodically engage third parties to independently evaluate manager's trading costs and practices to assess whether or not they are achieving best execution.

APPENDIX E – PROXY VOTING POLICY

Purpose

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

Guidelines

Due to the significant resources required to properly manage a proxy voting program, KCERA 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 KCERA'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 KCERA'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 KCERA Staff and are incorporated herein by reference.

Monitoring

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

APPENDIX F – MANAGER MONITORING AND EVALUATION POLICY AND GUIDELINES

The Manager Monitoring and Evaluation Policy (“MMEP”) aims to retain a high degree of flexibility in how it is applied to managers in different asset classes, styles, market environments, and time periods. The goal is to implement a process which finds a balance between two undesirable outcomes:

1. Managers with no value-adding capabilities are retained
2. Managers with positive value-adding capabilities are terminated.

Due to the significant costs involved in replacing managers, and due to the substantial probability of selecting a non-positive value-adding manager as a replacement for an existing manager, the MMEP is somewhat biased toward avoiding terminating managers with positive value-adding capabilities.

The objective of this MMEP is to identify on a timely basis signs of adverse changes in a manager’s organization or investment process. Monitoring, which encompasses the analysis of both qualitative and quantitative factors, reflects the ongoing process of managing the relationship with an investment manager.

Qualitative Factors to Monitor

The manager selection process relies heavily upon qualitative analysis in identifying the fundamental factors in a manager’s organization and investment process which are necessary, though not sufficient, for superior long-term investment performance. At the time a manager is hired, the rationale for retaining the manager is outlined and the manager’s role in the investment program is clearly established. The monitoring process is intended to keep the Board apprised of changes in the manager’s organization subsequent to being hired. The monitoring process should keep the Board up-to-date with changes in each manager’s:

1. Investment philosophy and style
2. Investment process
3. Key portfolio management team members
4. Ownership structure
5. Client base, products, and level of assets under management
6. Level of commitment to the product type invested in by KCERA.

In order to remain current with changes in each manager’s organization, frequent and meaningful communication with the manager is critical. Communication with a manager includes, but is not limited to, the following:

1. Quarterly and annual reports from managers, including commentaries regarding investment strategies and active deviations from the benchmark

2. Face-to-face meetings, as appropriate
3. Client conferences, as appropriate.

Meeting agenda items include a clear articulation of strategies recently employed; the purpose and effectiveness of those strategies; and an update on the current strategy and outlook.

Each manager should be evaluated by Staff and the Investment Consultant(s), as appropriate. The qualitative evaluation criteria includes, but is not limited to, the following:

1. Organization
2. Investment philosophy and process
3. Resources
4. Trading capabilities
5. Fees

Even the most positive value-adding investment management firms 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(s) will evaluate whether appropriate action was taken by the manager, what impact the action could have upon the portfolio in the future, and what other actions may be considered.

Factors to Monitor

Key analyses include:

1. Return and risk analysis of the portfolio relative to an appropriate benchmark
2. A detailed analysis of the relative strengths and weaknesses of the manager versus other managers with similar styles
 - a. Annualized since inception, five year, three year, one year, year-by-year, and year-to-date periods
 - a. Portfolio characteristics comparisons of the portfolio and the benchmark
 - b. Attribution analysis of active manager returns

Factors Which Trigger an In-Depth Evaluation

Provided that the manager selection process and MMEP are both followed in a disciplined fashion, factors leading to an in-depth evaluation are expected to be triggered infrequently.

Key triggering factors may include:

1. Adverse changes experienced within a manager's organization:
 - a. A change in key investment professionals
 - b. A change in investment style
 - c. Focus shifts away from the Plan's product type to other products
 - d. A change in ownership structure
 - e. Assets under management exceed the capacity of investment process to remain effective
 - f. Significant gain/loss of clients over a short time period
2. Sustained and significant return underperformance relative to an appropriate benchmark:
 - a. Long term underperformance
 - b. Rolling 5-year returns which are below the benchmark for 3 of 4 consecutive quarters
 - c. Sharp, shorter-term underperformance which is inconsistent with expected volatility
3. A manager's style or strategy is no longer appropriate for the investment program
4. A request by the Board

Documentation Guidelines

A file should be maintained for each of the managers, to include:

1. Legal documents
2. Investment management guidelines
3. Correspondence
4. Due Diligence documentation supporting decision to hire manager
5. Board Minutes confirming decision hire manager
6. Performance results, attribution, and analysis

APPENDIX G – ASSET PRICING POLICY – SEPARATE ACCOUNTS

The purpose of this policy is to provide a process for the valuation of securities managed in separate account vehicles where the prices listed by KCERA’s master custodian (“Custodian”) are substantially different from the investment manager’s prices for those same securities. The KCERA recognizes that there are coverage limitations for security prices as provided by the Custodian bank’s matrix pricing and third party pricing provider prices. In those situations where pricing is disputed between the investment manager for KCERA’s assets and KCERA’s Custodian, the approach outlined in this policy will be implemented.

The Custodian will provide official pricing for all of KCERA’s separate 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 be deferred to 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 Appendix G, 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 involved Consultant five (5) days after receipt of the statement from the KCERA’s Custodian.

COMMINGLED ACCOUNTS

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

APPENDIX H – INVESTMENT MANAGER RECONCILIATION REQUIREMENTS

The Kern County Employees' Retirement Association ("KCERA") seeks to ensure greater accuracy through the implementation of a reconciliation reporting process. KCERA's investment managers (where applicable) shall provide written acknowledgment of the accuracy of the Custodian Bank's records and the performance results provided by KCERA's Investment Consultant(s). All investment managers are to provide their pricing policies including a list of sources used.

Manager / Custodian Reconciliation

For separately managed accounts, managers are responsible for reconciling its records to KCERA's custodian bank. It is the responsibility of the manager to reconcile with the custodian any and 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 KCERA within 30 days of the close of the reporting month.

Manager / Investment Consultant Reconciliation

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

Annual reports from investment managers may cover (where applicable):

1. Pricing policy.
 - a. The investment managers shall provide KCERA with their valuation techniques used over the past year. The document shall indicate whether their valuation is based on Over the Counter transactions or public exchanges. KCERA should be notified of any exceptions to the policy.
2. An annual external audit report.
3. SSAE 16, minimum SOC 1, Type 2 report or equivalent information.

APPENDIX I – SECURITIES LITIGATION POLICY

Purpose

The Board of Retirement of the KCERA adopts this policy to establish procedures and guidelines for monitoring and participating in securities class actions when appropriate to protect KCERA's interests.

Principle

As a public pension plan and institution shareholder, KCERA is frequently a class member in securities class actions that seek to recover damages resulting from alleged wrongful acts or omissions of others.

The enactment by Congress of the Private Securities Litigation Reform Act (“PSLRA”) in 1995 allows institutional investors and other large shareholders to seek lead plaintiff status in securities class actions. Since enactment of the PSLRA, it has been demonstrated that participation as lead plaintiff by large, sophisticated shareholders (particularly institutional shareholders) has resulted in lower attorney's fees and larger recoveries on behalf of shareholders. In addition, institutional shareholders frequently negotiate corporate governance improvements in a troubled company that may serve to reduce a recurrence of wrongful activity.

The United States Securities and Exchange Commission has commented that the governing board of a public pension system has a fiduciary duty to monitor securities class actions in which the system has an interest, and to participate as lead plaintiff where such participation is likely to enhance the recovery by members of the class.

Policies

1. The Board of Retirement has determined that generally there is little or no value added to the pension fund from being a lead plaintiff in securities litigation. The Board of Retirement shall consider becoming a lead plaintiff in a particular securities litigation case where: (1) the estimated loss to the KCERA exceeds \$2 million; (2) no institutional investor has petitioned the court to become lead plaintiff; and (3) lead plaintiff status is recommended by KCERA's General Counsel and a Securities Litigation Monitoring Firm (SLMF) retained by KCERA.
2. The Board of Retirement shall retain at least one Securities Litigation Monitoring Firm to assist its Custodian in monitoring and identifying those cases in which the KCERA has a direct interest as owner of the underlying securities. The SLMF(s) retained to perform such monitoring services shall be solely responsible for any and all attorney time, expenses and other costs incurred to fulfill its duties under a monitoring agreement. Such agreement will not authorize the initiation of any litigation on KCERA's behalf, and will acknowledge that KCERA retains sole discretion regarding whether to pursue litigation and which securities litigation firm will initiate such litigation on KCERA's behalf.
3. For those investment managers with which KCERA invests Fund monies through an investment vehicle placing direct ownership of securities in a name other than the KCERA's, the Staff shall include, as part of its due diligence process in the selection and monitoring of such managers, an inquiry as to the manager's policies and procedures regarding securities litigation to ensure that KCERA's interests are being protected.

Administration of the Securities Litigation Policy

Responsibilities of KCERA's Custodian – U.S. and Non-U.S. Securities

1. Maintenance of Records - Custodian shall maintain records of all Class Action documentation received by Custodian, and all documents generated by Custodian relating to a Class Action.
2. Opting Out of the Class - Custodian shall review all Class Action notices received by Custodian and report to the KCERA any deadlines for opting out of the Class. Custodian shall not opt out of any class, but rather take whatever action is necessary to include KCERA in the class, unless otherwise instructed by the KCERA's Executive Director, on advice of counsel.
3. Submittal of Claims - Custodian shall timely submit claims on KCERA's behalf in all Class Actions where KCERA is a member of the class at issue and the class action claims administration is handled by a U.S. Claims Administrator. Custodian shall notify KCERA of each claim submitted in a format acceptable to KCERA. For class actions involving non-U.S. securities for which Custodian does not have the authority to file, Custodian will send KCERA's Investment Manager informational notifications for "Opt In" or "Group Action" events.
4. Disposition of Recovered Monies - Custodian shall return any monies recovered in class action securities litigation on KCERA's behalf to the account holding the security that was the subject of the litigation. If such account is no longer open, Custodian shall place recovered monies into KCERA's STIF account.
5. Reports - Custodian shall provide KCERA with a quarterly report that provides the following for each Class Action:
 - a. The name of the action;
 - b. The claim deadlines for filing claims, objections, and opting out)
 - c. The claim status (i.e., filing date, date claim will be filed);
 - d. The account number and account name;
 - e. The class period;
 - f. The account number and account name paid;
 - g. The amount paid in satisfaction of the judgment or in accordance with settlement; and
 - h. The date monies distributed in satisfaction of a judgment or settlement and the date monies deposited.
6. Coordination with KCERA's Securities Litigation Monitoring Firm(s) - Custodian will work with and provide information to KCERA's Securities Litigation Monitoring Firm(s) for purposes of securities litigation monitoring as directed by KCERA's Executive Director or his/her designee.

Monthly reports shall include all Class Actions in which KCERA has not opted out of the class for which funds under a judgment or settlement have not been received.

Responsibilities of KCERA's Securities Litigation Monitoring Firm(s) (SLMF)

1. Coordination with KCERA's Custodian – A SLMF retained by KCERA will work with and coordinate with KCERA's Custodian for purposes of securities litigation monitoring as directed by KCERA.
2. Case Evaluation and Recommendation – A SLMF retained by KCERA, upon KCERA's request, will provide an evaluation of any case identified by KCERA, including an evaluation as to the legal merits of the case, adverse impacts on KCERA, and a recommendation as to what action, if any should be taken by KCERA.
3. Verify Filing of Claims – A SLMF, retained by KCERA, will verify that Custodian has timely submitted claims on KCERA's behalf in all Class Actions in which KCERA is a member of the class.
4. Case Monitoring – SLMF will monitor KCERA's investment portfolio in securities traded on all global stock exchanges in connection with claims for damages against such persons, entities, companies or associations who may be liable for damages suffered by KCERA as a result of breach of fiduciary duty, fraud, misrepresentation, or other violations of applicable laws.
5. Reports - SLMF shall provide the Executive Director or his/her designee with a quarterly report describing the status of each case the SLMF evaluated KCERA's holdings for that quarter and other monitoring efforts the SLMF has taken on KCERA's behalf.

Responsibilities of KCERA's Executive Director

Executive Director shall:

1. review reports provided by Custodian and SLMF(s);
2. direct Custodian when to opt out of a class;
3. present and make recommendations to the Board of Retirement regarding whether to consider lead plaintiff status in securities litigation;
4. review and monitor Custodian's compliance with filing and reporting duties;
5. review SLMFs compliance with the monitoring and reporting duties; and
6. submit reports to the Board of Retirement on class action securities litigation on at least a quarterly basis.

The Executive Director may delegate some or all of the duties listed above to KCERA staff to assist in the performance of these duties.

APPENDIX J – PLACEMENT AGENT POLICY

Purpose

This Policy sets for the circumstances under which the Kern County Employees’ Retirement Association (“KCERA”) shall require the disclosure of payments to Placement Agents in connection with KCERA investments in and through its Investment Managers. KCERA adopts this Policy to require broad, timely, and updated disclosure of all Placement Agent relationships, compensation, and fees. The goal of this Policy is to bring transparency to Placement Agent activity in connection with KCERA’s investments and to help ensure that all investment decisions are made solely on the merits and in a manner consistent with the Board of Retirement’s fiduciary duties.

This policy is intended to supplement any applicable provisions of state or federal law, which shall govern in the event of any inconsistency.

Definitions

As used in this Policy, the following terms are defined as follows:

1. “Placement Agent” as used in this policy is defined in Government Code section 7513.8. (See attached Exhibit A.)
2. “External Manager” as used in this policy is defined in Government Code section 7513.8. (See attached Exhibit A.)
3. “Board” means the Board of Retirement of the Kern County Employees’ Retirement Association, including elected alternates.

Application

This Policy applies to all agreements with External Managers that are entered into after the date this Policy is adopted. This Policy also applies to existing agreements with External Managers if, after the date this Policy is adopted, the agreement is amended in any way. In the case of an amendment, the disclosure provisions of this Policy shall apply to the amendment and not to the original agreement.

Disclosure Regarding Placement Agent Relationship

Each External Manager is responsible for providing, in a form acceptable to the KCERA’s Executive Director and its legal counsel, a statement that the External Manager has not used a Placement Agent in connection with KCERA’s investment, or if the External Manager has used a Placement Agent, a statement disclosing the following:

1. Whether the External Manager, or any of its principals, employees, agents or affiliates has compensated or agreed to compensate, directly or indirectly, any person (whether or not employed by the External Manager) or entity to act as a Placement Agent in connection with any investment by KCERA;

2. A resume for each partner, officer, or principal of the Placement Agent (and any employee providing similar services) detailing the person's education, professional designations, regulatory licenses, and investment and work experience. If any such person is a current or former KCERA Board member, employee or Consultant or a member of the immediate family of any such person, this fact shall be specifically noted;
3. A description of any and all compensation of any kind provided, or agreed to be provided, to the Placement Agent including the nature, timing and value thereof;
4. A description of the services to be performed by the Placement Agent and a statement as to whether the Placement Agent is utilized by the External Manager with all prospective clients or only with a subset of the External Manager's prospective clients;
5. A representation that the fee is the sole obligation of the External Manager and not of KCERA, the investment vehicle, or any investor(s) in the investment vehicle;
6. The name(s) of current or former KCERA Board members, employees, or consultants or member(s) of the immediate family of any such person that are employed or receiving compensation of any kind provided, or agreed to be provided, directly or indirectly, from the Placement Agent;
7. The name(s) of any current or former KCERA Board members, employees or consultants who suggested the retention of the Placement Agent;
8. A statement whether the Placement Agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association or any similar state regulatory agency, or any similar regulatory agency in a country other than the United States, and the details of that registration or explanation as to why no registration is required;
9. A statement whether the Placement Agent, or any of its affiliates, is registered (or is required to be registered as of a date certain) as a lobbyist with any state or national government; and
10. A copy of any and all agreements between the External Manager and the Placement Agent that relate to any activities affecting KCERA.

The External Manager shall represent and warrant the accuracy of the information disclosed to KCERA and has an on-going obligation to update any such information within ten (10) business days of the change in information.

Disclosure of Campaign Contributions and Gifts

Each Placement Agent shall, prior to acting as a Placement Agent, disclose to KCERA (1) all campaign contributions made by the Placement Agent to any elected KCERA Board member during the prior 24-month period and the date on which such contribution was made and (2) all gifts, as defined in Government Code section 82028, given by the Placement Agent to any KCERA Board member, employees or consultants or immediate family members of any such person during the prior 24-month period and the date on which such gift was given. Additionally, any subsequent campaign contribution or gift made by the Placement Agent to any KCERA Board member, employee or consultant during the time the Placement Agent is receiving compensation in connection with a KCERA investment shall also be disclosed. The External Manager shall be responsible for communicating this disclosure requirement to its Placement Agent.

Enforcement of Policy

Any External Manager or Placement Agent that violates this Policy shall not solicit new investments from KCERA for five (5) years after the violation was committed. However, this prohibition may be reduced by a majority vote of the KCERA Board of Retirement at a public session upon a showing of good cause.

KCERA shall not enter into any agreement with an External Manager that does not agree in writing to comply with this Policy.

In the event a Placement Agent is expected to receive compensation in connection with KCERA's investment with an External Manager, the Executive Director, or his/her designee, will so notify the Board in a written memorandum prior to execution of an agreement with the External Manager. If an External Manager breaches this Policy, the Executive Director, or his/her designee, will notify the Board in a timely manner.

PLACEMENT AGENT POLICY – EXHIBIT A

Government Code section 7513.8. Definitions

As used in this section and Sections 7513.85, 7513.86, 7513.87, 7513.9, and 7513.95:

(a) "Board" means the retirement board of a public pension or retirement system, as defined in subdivision (h) of Section 17 of Article XVI of the California Constitution.

(b) "External manager" means either of the following:

(1) A person who is seeking to be, or is, retained by a board or an investment vehicle to manage a portfolio of securities or other assets for compensation.

(2) A person who manages an investment fund and who offers or sells, or has offered or sold, an ownership interest in the investment fund to a board or an investment vehicle.

(c)(1) "Investment fund" means a private equity fund, public equity fund, venture capital fund, hedge fund, fixed income fund, real estate fund, infrastructure fund, or similar pooled investment entity that is, or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, owning, holding, or trading securities or other assets.

(2) Notwithstanding paragraph (1), an investment company that is registered with the Securities Exchange Commission pursuant to the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.) and that makes a public offering of its securities is not an investment fund.

(d) "Investment vehicle" means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, managed by an external manager in which a board is the majority investor and that is organized in order to invest with, or retain the investment management services of, other external managers.

(e) "Person" means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

(f) (1) "Placement agent" means any person directly or indirectly hired, engaged, or retained by, or serving for the benefit of or on behalf of, an external manager, or an investment fund managed by an external manager, and who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with the offer or sale to a board or an investment vehicle, either of the following:

(A) In the case of an external manager within the meaning of paragraph (1) of subdivision (b), the investment management services of the external manager.

(B) In the case of an external manager within the meaning of paragraph (2) of subdivision (b), an ownership interest in an investment fund managed by the external manager.

(2) Notwithstanding paragraph (1), an individual who is an employee, officer, director, equity holder, partner, member, or trustee of an external manager and who spends one-third or more of his or her time, during a calendar year, managing the securities or assets owned, controlled, invested, or held by the external manager is not a placement agent.