

## **SERVICE PROVIDER EVALUATION POLICY**

### **BACKGROUND**

- 1) In keeping with good fiduciary practice, KCERA recognizes the need to ensure mechanisms exist for regularly evaluating the performance of its service providers. This policy sets out various guidelines intended to facilitate evaluations.
- 2) While KCERA shall exercise prudence and care in overseeing all of its service providers, this policy applies to those service providers which KCERA deems to be "Key Service Providers". These include:
  - a) The consulting actuary
  - b) The auditor
  - c) The investment consultants
  - d) The custodian
  - e) Legal counsel
- 3) Investment managers shall be evaluated according to investment policies and practices that have been developed by KCERA in consultation with its investment consultants.

### **GUIDELINES**

- 4) KCERA's Key Service Providers provide sophisticated services and advice. Accordingly, overseeing such service providers is complex and requires a combination of subjective and objective methods.
- 5) With the exception of the auditor, Management shall be responsible for determining the most effective methods for evaluating Key Service Providers and for performing the evaluations, and shall regularly inform the Board of the methods and results. The Finance Committee, consistent with its Charter, shall be responsible for reviewing the engagement of the financial auditor approximately every five (5) years with regards to performance, internal quality control procedures, fees, qualifications, and independence; and for making recommendations to the Board. In so doing, the Finance Committee may seek appropriate support from Management.

- 6) Notwithstanding anything contained herein, the frequency of service provider evaluations shall be subject to the limitations of staff time and resources.

#### Subjective Evaluation Methods

- 7) Key service providers shall periodically be evaluated on the basis of subjective criteria such as responsiveness, communications, quality of advice, and service quality.
- 8) KCERA Management may use surveys, discussion guides, or other tools it deems appropriate to help conduct such evaluations. The Chief Executive Officer shall determine which staff members shall participate in the evaluation of each service provider.
- 9) KCERA Management may solicit input from the Board regarding the performance of Key Service Providers using surveys or other appropriate tools.
- 10) It is expected that some of KCERA's Key Service Providers will occasionally administer their own proprietary surveys to assess their clients' satisfaction levels. In such cases, KCERA Management may elect to participate in the service provider's survey and may consider the results of such an assessment as part of the Service Provider's periodic evaluation.
- 11) The Chair and the Chief Executive Officer may meet with the service provider in question to review evaluations and discuss any actions that may arise from the evaluation. Committee chairs may also participate in the meetings as set out below:
- a) Review of investment consultant – Investment Committee Chair
  - b) Review of actuary – Finance Committee Chair
  - c) Review of auditor – Finance Committee Chair
  - d) Review of custodian – Administrative Committee Chair
  - e) Review of Legal counsel – Administrative Committee Chair

#### Objective Evaluations

- 12) In addition to subjective evaluations, Management may periodically undertake objective evaluations of Key Service Providers, as appropriate, and will inform the Board of its findings.
- 13) Objective evaluations of Key Service Providers may address issues including, but not limited to, technical proficiency, accuracy, cost effectiveness, and independence. Where feasible, such evaluations may involve assistance from independent third-party experts.

14) Methods for evaluating technical proficiency may include, but are not limited to, the following:

- a) Periodically retaining an actuarial auditor to audit the actuarial methods and accuracy of the consulting actuary;
- b) Periodically reviewing peer assessments of the financial auditor; and
- c) Obtaining independent evaluations of the investment consultant and the custodian. For example, the investment consultant may assist in evaluating the custodian, and other specialized consultants may exist that evaluate investment consultants.<sup>1</sup> Alternatively, KCERA may consider any independent evaluations that may be published by industry trade journals such as Plan Sponsor Magazine or Pension and Investments Magazine.

15) Management will strive to periodically evaluate the independence and objectivity of Key Service Providers by requesting that Key Service Providers:

- a) Disclose actual or potential conflicts of interest;
- b) Indicate compliance with industry or regulatory standards or guidelines concerning conflicts of interest (e.g. the guidelines for independence set out by the U.S. Securities and Exchange Commission concerning investment consultants);<sup>2</sup> or
- c) Disclose any other information that may indicate an impediment to the service provider's objectivity.

#### Requests for Proposals (RFP) for Current Service Providers

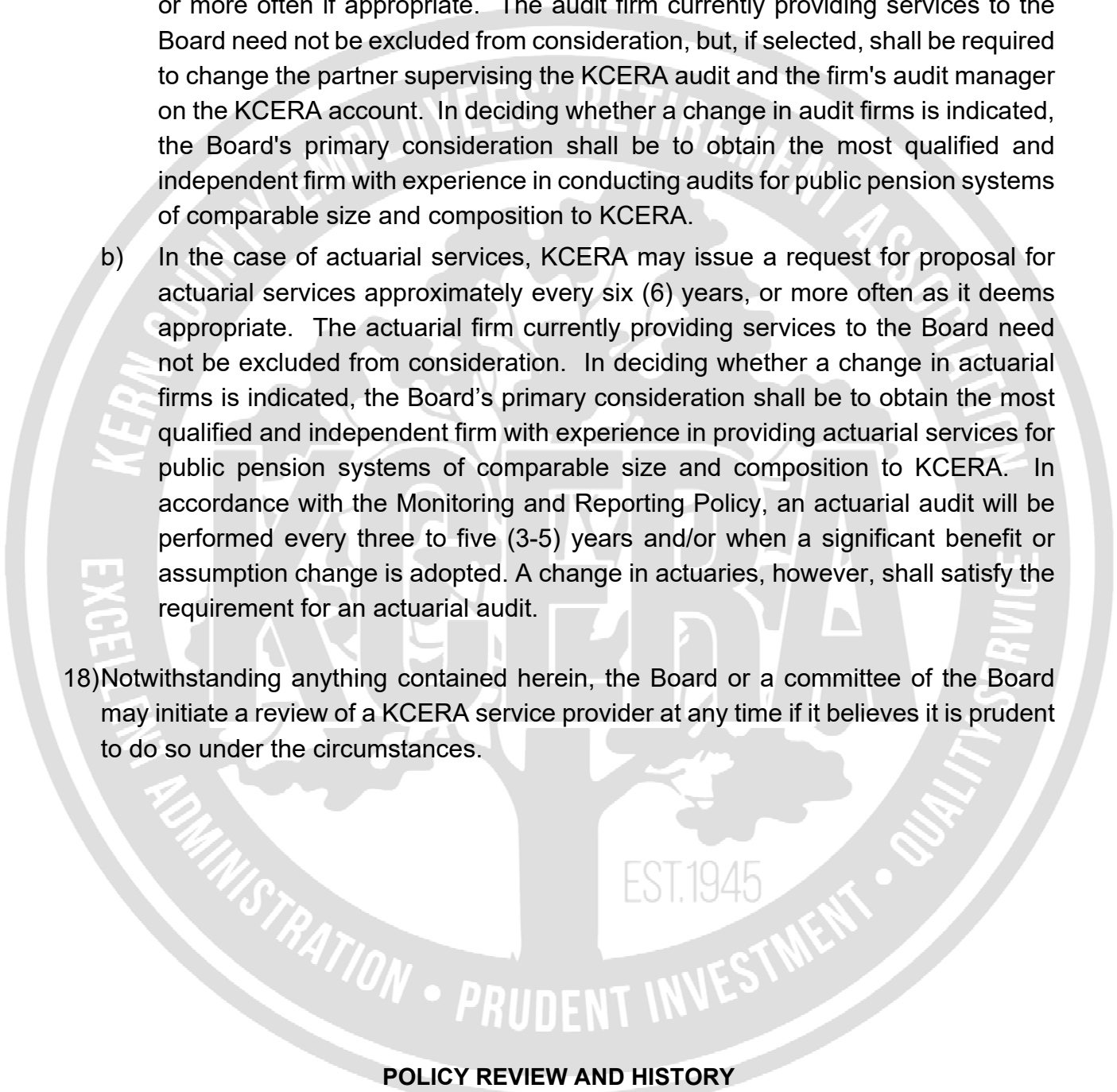
16) All relationships with Key Service Providers will be formally reviewed from time-to-time to determine whether a RFP or other suitable undertaking (e.g. issuing requests for information or undertaking other research) should be initiated to confirm the suitability of the current relationship or to seek an alternative supplier. The timing of such reviews will be staggered to reflect available time and resources within KCERA, but should generally occur approximately every five years. In each case, following such reviews, Management will provide a recommendation to the Board as to whether an RFP or other undertaking should be initiated.

17) Notwithstanding paragraph 16 above, the following provisions specifically address audit and actuarial services:

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<sup>1</sup> Management is currently unaware of any consultants that specialize in evaluating investment consultants, but will monitor the marketplace for such services.

<sup>2</sup> U.S. Securities and Exchange Commission, Selecting & Monitoring Pension Consultants: Tips for Plan Fiduciaries.

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- The seal of the Kern County Board of Administration is a large, circular watermark in the background. It features a central tree with a bird perched on a branch. The text around the seal includes "KERN COUNTY BOARD OF ADMINISTRATION" at the top, "EXCELLENCE IN ADMINISTRATION" on the left, "PRUDENT INVESTMENT" at the bottom, "QUALITY SERVICE" on the right, and "EST. 1945" at the bottom center.
- a) In the case of audit services, the Board and Finance Committee wish to periodically obtain a fresh perspective on the preparation and presentation of the annual financial statements and review of internal controls. To do so, a request for proposals for audit services may be issued approximately every six (6) years, or more often if appropriate. The audit firm currently providing services to the Board need not be excluded from consideration, but, if selected, shall be required to change the partner supervising the KCERA audit and the firm's audit manager on the KCERA account. In deciding whether a change in audit firms is indicated, the Board's primary consideration shall be to obtain the most qualified and independent firm with experience in conducting audits for public pension systems of comparable size and composition to KCERA.
- b) In the case of actuarial services, KCERA may issue a request for proposal for actuarial services approximately every six (6) years, or more often as it deems appropriate. The actuarial firm currently providing services to the Board need not be excluded from consideration. In deciding whether a change in actuarial firms is indicated, the Board's primary consideration shall be to obtain the most qualified and independent firm with experience in providing actuarial services for public pension systems of comparable size and composition to KCERA. In accordance with the Monitoring and Reporting Policy, an actuarial audit will be performed every three to five (3-5) years and/or when a significant benefit or assumption change is adopted. A change in actuaries, however, shall satisfy the requirement for an actuarial audit.
- 18) Notwithstanding anything contained herein, the Board or a committee of the Board may initiate a review of a KCERA service provider at any time if it believes it is prudent to do so under the circumstances.

#### **POLICY REVIEW AND HISTORY**

- 19) This policy will be reviewed at least every five years.
- 20) This policy was:
- a) Adopted by the Board on December 13, 2006.
  - b) Amended on June 27, 2007; September 26, 2007; December 12, 2012; April 13, 2016; August 11, 2021; and April 13, 2022.