
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

- 1) This policy will be reviewed at least every five years.
- 2) 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; April 13, 2022; and September 11, 2024.

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	Staff/Investment Committee	Staff/Consultant to IC IC to Board when applicable	Board/Staff where delegated
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.