

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (FCERA)
DUE DILIGENCE POLICY**

I. INTRODUCTION

- 1) The Board of Retirement of FCERA (the "Board") recognizes and affirms its constitutional and statutory fiduciary duty to prudently administer the retirement system for the exclusive benefit of the members and their beneficiaries. Prudent administration requires the Board to ensure effective due diligence processes are in place with respect to existing and prospective service providers.
- 2) Due diligence shall be defined as those activities undertaken by FCERA or by agents of FCERA to determine:
 - a) The suitability of prospective FCERA service providers;
 - b) The continued suitability of current FCERA service providers;
 - c) The accuracy of information provided, and/or claims made, by current or prospective service providers about their services, capabilities, or other factors which may influence FCERA's decision to retain the service provider;
 - d) Changes in the service provider's personnel, ownership structure, strategies, or other attributes, which may affect the suitability of a service provider in the future; or
 - e) Appropriateness of fees.
- 3) All due diligence activities shall be conducted in compliance with the Brown Act, with confidential or proprietary information, deemed to be protected, being retained by the FCERA service providers.

II. PURPOSE

- 1) This policy is intended to be the primary document that articulates the Board's due diligence function.

III. GUIDELINES

- 1) General Due Diligence Provisions
 - a) The Retirement Administrator shall be responsible for performing or causing to be performed all necessary due diligence activities in connection with current or prospective service providers in accordance with the policies of this Board.
 - b) The Retirement Administrator shall ensure due diligence activities of FCERA are consistent with industry best practices for funds similar in size as FCERA, or, where feasible, exceed the practices of such funds. Due Diligence activities may include, and are not limited to:

- i. Analysis of performance records, financial statements, technical standards and practices, and advisor reports filed with federal and state governments;
 - ii. Meetings and interviews;
 - iii. Research on industry trends and developments;
 - iv. On-site due diligence visits; and
 - v. Third-party evaluations.
- c) The Board expects the Retirement Administrator will subject all current and prospective service providers to appropriate levels of due diligence, which reflects the materiality of the service provider relations in question. The Board expects certain types of services providers will be subjected to high levels of scrutiny, including but not limited to:
- i. Investment managers
 - ii. General investment consultant
 - iii. Actuaries
 - iv. Custodians
 - v. External auditors
 - vi. External legal counsel(s)
- d) FCERA investments made through general partnerships will require prudent, cost effective due diligence at a requisite level which reflects their relatively small weighting within FCERA's portfolio. It is expected FCERA will rely primarily on its investment consultant(s) to perform such due diligence on FCERA's behalf.
- e) In determining the most effective and appropriate approaches for due diligence review, the Retirement Administrator will consult with FCERA's investment consultant and financial auditor, or any other advisors or consultants as the Administrator may deem appropriate.
- f) The Retirement Administrator is authorized to direct FCERA's investment consultant or financial auditor, or other advisors or consultants as the Administrator may deem appropriate, to conduct independent due diligence evaluations on FCERA's behalf, and to provide written reports of their findings to the Retirement Administrator and/or the Board. Should direction fall outside the scope of the agreement with the consultant or financial auditor, the Retirement Administrator has the authorization to incur additional fees, not to exceed \$50,000 per calendar year.

2) Current Service Providers - On-site Due Diligence

- a) The Retirement Administrator shall provide the Board an annual due diligence plan for current service providers, which delineate the on-site due diligence visits planned for each year and the parties leading the visits (i.e. staff or advisors). The Retirement Administrator will, in a timely manner, inform the Board of changes within the due diligence plan.
- b) On-site due diligence should occur on a three-year rotational basis, covering active managers based upon III. 1) b) above, excluding index managers:
 - i. Domestic and international equity managers;
 - ii. Fixed income, commodities, real estate managers; and
 - iii. Other managers which provide reasonable liquidity for redemption.
- c) More frequent on-site due diligence visits may be necessary if significant personnel changes, deterioration of investment returns, or unresolved issues relating to the manager, occur between triennial reviews.
- d) The Retirement Administrator, with the assistance of the general investment consultant, shall be responsible for ensuring detailed procedures are established to construct how due diligence visits are conducted, ensuring the visits are completed in a rigorous, consistent, and systematic manner.
- e) The Board believes periodically reviewing its contracts with primary service providers represents good fiduciary practice. The Board further recognizes the issuing of a Request for Proposal (RFP) on a required specified frequency, regardless of the circumstances, may not represent an efficient use of FCERA resources, and may have other unintended consequences. Accordingly, for each of the primary service providers listed below, contracts will be issued for a triennial period with, at the Board's discretion, two additional one-year periods may be issued. The Retirement Administrator will, at least every five years, provide the Board with a recommendation as to whether FCERA should formally review the contracts in question by issuing a RFP, or by initiating other appropriate forms of inquiry:
 - i. Actuary
 - ii. General Investment Consultant
 - iii. External legal counsel(s)
 - iv. Custodian
 - v. Financial auditor

- f) Notwithstanding the above paragraph III. 2) e), any Board member may recommend to the Board a specific service provider contract be reviewed using an RFP or other appropriate form of inquiry.

3) Prospective Service Providers – Due diligence

- a) Due diligence for prospective service providers may include the same processes used for current service providers, in addition to any other processes deemed appropriate by the Retirement Administrator, in consultation with the general investment consultant, for the following types of prospective service providers:
 - i. Investment managers
 - ii. General partners
 - iii. Investment consultants
 - iv. Custodians
- b) When recommending to the Board the engagement of an investment manager or service provider, the Retirement Administrator shall provide, or cause to be provided, the Board with a description of the conducted due diligence activities, confirming to the Board all FCERA due diligence policies and procedures were adhered.

4) Reporting

Following each due diligence visit, the Retirement Administrator shall provide, or cause to be provided, to the Board, at the next practicable regular Board meeting, a report summarizing the findings and recommendations of the reviewing team. The Retirement Administrator will report the prior year due diligence activities along with the annual on-site due diligence plan for the following year.

5) Quiet Periods

Upon the Board approving the initiation of a search for new investment managers or service providers, the Board will enter a “quiet period.” Board members are expected to refrain from any direct contact with prospective managers or service providers sought by the search, other than open meeting discussions, open meeting interviews, and on-site visits as described herein. The quiet period will end once a contract is signed or the Board formally cancels a search. These stipulations shall be included in all RFPs. Service providers who fail to honor the quiet-period may be subject to disqualification.

IV. POLICY REVIEW

- 1) The Board shall review this Due Diligence Policy at least every three (3) years, ensuring it remains relevant and appropriate. This policy may be amended from time to time by a majority of the Board.

V. POLICY HISTORY

The Board of Retirement adopted this policy on August 3, 2005.

The Board of Retirement reviewed and modified this policy on April 4, 2007, March 19, 2008, August 4, 2010, January 15, 2014, June 3, 2015, and February 21, 2018.

VI. Secretary's Certificate

I, Donald Kendig, the duly appointed Secretary of the Fresno County Employees' Retirement Association, hereby certify the adoption of this Policy.

February 21, 2018

Date of Action:

Donald C. Kendig

By: Retirement Administrator