

**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 diversify its investments and to regularly and thoroughly review each Investment Manager, Limited Liability Partnership, hedge fund, real estate manager, consultant, and other professional service provider. This enables the Board to effectively monitor the performance of its portfolio, aiming to maximize the rate of return while minimizing the risk of loss. The Board adopts this Due Diligence Policy to ensure effective due diligence processes are in place with respect to existing and prospective Investment Managers and other 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;
  - e) Appropriateness of fees;
  - f) Adherence to contractual terms and services.
- 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 coordinate with Staff and investment consultants as appropriate, in order to subject all current and prospective service providers to appropriate levels of due diligence, which reflects the impact on the Plan of the service provider in question. The Board expects certain types of service 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 private general partnerships will require prudent, cost-effective due diligence at a level appropriate for their weighting within FCERA's portfolio. Staff will coordinate with its investment consultants to perform such due diligence, particularly when considering operational characteristics.

- e) The Retirement Administrator is authorized to direct FCERA's investment consultants or financial auditor, or other service providers 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. Within a given fiscal year, should direction fall outside the scope of the agreements with the consultants, financial auditor, or other service providers, the Retirement Administrator has the authorization to incur additional contracted commitments, not to exceed \$50,000 per calendar year.

## 2) Current Investment Managers and Service Providers – Due Diligence

- a) The Retirement Administrator shall provide the Board an annual due diligence plan for current service providers, which delineate the anticipated due diligence calls and visits planned for each year, and will update the Board of any changes to the plan in a timely manner.
- b) Staff will establish a list of relevant contacts at each Investment Manager and maintain awareness of pertinent developments through manager reports, news reports, trade publications and in-person communication. Staff will initiate regular calls with each Investment Manager, keeping notes and reporting on any material developments.
- c) Investment Due Diligence will encompass significant determinants of successful contribution to the FCERA portfolio such as: Performance, People, Process, Parent (Ownership,) and Product. Staff will cooperate with its consultants to ensure a thorough due diligence review, particularly with respect to operational matters.
- d) In-person due diligence should take place at least once every three years:
  - i. Domestic and international equity managers;
  - ii. Fixed income, commodities, real estate managers; and
  - iii. Other managers which provide reasonable liquidity for redemption.
- e) More frequent due diligence visits may be deemed necessary if Staff or Board Trustees judge that developments so warrant such visits.
- f) 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) f), 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 Investment Managers or Service Providers – Due diligence

a) Due diligence for prospective service providers will include the same processes used for current service providers, plus any other processes deemed appropriate by the Retirement Administrator, in cooperation with any relevant investment consultant, appropriate to the scale of the investment and potential impact on the portfolio:

- i. Investment managers
- ii. General partners (in private investments)
- 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 followed.

### 4) Reporting

The Retirement Administrator shall provide, or cause to be provided to the Board, regular reports summarizing the findings and recommendations of Staff and Investment Consultants. The Retirement Administrator will report the prior year due diligence activities along with the annual onsite due diligence plan for the following year. Along with quarterly summaries of all due diligence activities. Any material adverse developments will be brought to the Board in a timely manner.

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 Board majority.

**V. POLICY HISTORY**

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

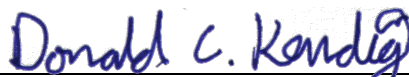
The Board of Retirement reviewed and modified this policy on April 4, 2007, March 19, 2008, August 4, 2010, January 15, 2014, June 3, 2015, February 21, 2018, August 5, 2020, and August 2, 2023.

**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.

August 2, 2023

***Date of Action:***



***By: Retirement Administrator***