



CERS

County Employees Retirement System

INVESTMENT PROCUREMENT POLICY

[Adopted: December 21, 2022]

INTRODUCTION

The Kentucky Revised Statutes mandate that the County Employees Retirement System (CERS) of the Commonwealth of Kentucky, through its Board of Trustees, ("Board") develop and adopt an investment procurement policy ("Policy") (KRS 78.790(6)). The Policy must be designed, in consultation with the Secretary of the Finance and Administration Cabinet, to meet best practices for the procurement of investment goods and services. This Policy functions in concert with other statutes, administrative regulations and guidelines detailing the requirements and parameters for investing trust funds. If any inconsistency exists between the law and this Policy, the law shall control.

The procurement procedures in this Policy will be implemented consistent with the Board's duty to procure the investment managers, goods and services needed to support the investment or management of CERS assets. The CERS Board has delegated investment authority to its Investment Committee, consistent with investment policies adopted by the Board.

A portion of CERS's funds are managed externally by investment managers specializing in mandates such as equities, bonds, other publicly traded securities, alternative investments, real estate, timberland and/or any other asset type authorized by Kentucky law. The Board is responsible for the procurement of services to carry out the investment or management of CERS assets.

Procurements for investment related goods and services will aim to promote competition and best value, giving due consideration to factors including, but not limited to, timing (including emergencies), execution, quality, service and price. Whenever CERS is considering an investment procurement, KPPA staff - rather than members of the Board and Investment Committee - will communicate directly with the principals of the potential vendor to ensure transparency, accountability and compliance with laws and Board policies, including those prohibiting the payment of fees or commissions to placement agents.

1. Definitions.

KPPA: means the Kentucky Public Pensions Authority

Alternative investments (alternatives): investments with General Partners or managers in assets such as timberland, private equity and infrastructure that are long-term and illiquid in nature.

Best and final price: request to submit a last and most competitive price to secure a contract.

Co-investment opportunities: an opportunity to invest in a company or property outside of an existing Limited Partnership. Co-investment opportunities arise when the General Partner wants to make an investment for the Partnership, but the total value of that investment is larger than the Partnership can hold. Co-investments generally have much more favorable economics than the investment in the Partnership and are usually only offered to Limited Partners who have expressed a desire to be offered these opportunities.

Evaluation factors/screening criteria: evaluation criteria that represent the key areas of importance in making a final determination, which shall always include cost/price, as well as other considerations weighted by importance.

External investment manager: a vendor selected by a competitive selection process who is approved by the Investment Committee, subject to ratification by the Board, to invest CERS funds in a manner specified by contract.

Final candidate pool: that subset of vendor(s) from which the final vendor is chosen to provide services to CERS under this Policy.

Competition and best value: seeking vendors that provide the best performance at the lowest cost (economic efficiency) giving due consideration to factors including, but not limited to, performance improvements (faster, more suitable), timing (including emergencies), execution, quality, trust, reputation, service and price.

Independent: having no conflicts of interest with CERS, its Board or staff members, or Kentucky Public Pensions Authority ("KPPA") staff members.

CERS Investment consultant: an external firm or individual retained to advise the Board and the Investment Committee and assist K P P A investment staff as outlined in this Policy or in the governing contract.

Minimum qualifications: the lowest threshold metric for determining whether a vendor is qualified to perform the necessary work.

Specialty investment consultant: an external firm or individual retained to advise the Board and Investment Committee and assist KPPA investment staff, as outlined in this Policy or in the governing contract, including recommending General Partners or managers for alternative investments.

Investment procurement: all contracts for the investment or management of assets of CERS undertaken in accordance with KRS 78.790(6) and this Policy.

Performance attribution: quantifies the relationship between a portfolio's returns and the active decisions of the portfolio manager.

Placement agents: a third party or firm identified in KRS 78.782(20) from receiving fees or commissions incident to an investment by CERS.

Qualitative analysis: a review of a potential vendor that uses unquantifiable information, such as the impact of vendor management expertise, processes and ownership structure on an investment.

Quantitative analysis: economic, business or financial reviews that aim to understand or predict behavior or events through the use of mathematical measurements and calculations, statistical modeling and research.

Quiet Period: a specified timeframe when Board members and staff are restricted in communications with potential vendors in designated procurements.

Request For Information (RFI): a document sent to vendors to request specific information or clarification on a service or product.

Request For Proposals (RFP): a document soliciting proposals for a procurement based on the terms listed in the offering document.

Request For Quotations (RFQ): an invitation to suppliers to bid on providing specific products or services.

2. External Manager Selection.

External investment managers are to be chosen through a competitive selection process coordinated by KPPA investment staff and based upon established criteria. The CIO will provide the Investment Committee with a candidate pool of up to three (3) Investment Managers who have met the screening and due diligence criteria. The Investment Committee will determine whether interviews with any potential Investment Manager(s) is required prior to the Committee selecting the new Investment Manager. The selection process, which typically involves the assistance of CERS's independent investment consultant, results in a recommendation of an investment manager(s). The recommendation will be made to the CERS Investment Committee for its review and approval, with ratification by the Board no later than at its next meeting.

Normally an open search process will be used when conducting a manager search. KPPA investment staff and/or the independent investment consultant will identify a list of suitable candidates that are appropriate for the mandate. The list of suitable candidates will be developed using a broad-based list of potential managers that meet the screening criteria.

An RFP, RFI or RFQ may also be used when conducting a manager search. The request may be sent directly to known vendors, will be listed on the KPPA website and may be advertised through other means such as financial media. Any advertisement will clearly state the mandate for which CERS is seeking a manager. The advertisement also will state certain minimum requirements that a manager must meet.

KPPA investment staff will provide a written report to the Investment Committee documenting the particulars of the search process that was performed, along with a recommendation on which manager KPPA investment staff proposes be hired. The report will include matters such as the screening criteria, the number of managers considered, the number of managers interviewed, the number of firms in the final candidate pool, the names of the firms in the final candidate pool, any prior CERS (or Kentucky Retirement Systems) history with the manager, references checked and summaries of other qualitative and quantitative analyses.

A. Determination of Screening Criteria

Screening criteria may include, but are not limited to: investment processes; investment fee schedule; investment products; dollar value and composition of assets under management; historical performance; years of experience; growth of firm; a manager's history with CERS (or Kentucky Retirement Systems); other client relationships (including experience with large public funds); ownership; the number and depth of investment professionals; research capabilities; structure of the proposed investment (separate account, commingled account, limited partnership, etc.); compliance with the federal Investment Advisers Act of 1940, as amended, and reporting consistent with the

Institutional Limited Partners Association (“ILPA”) standards. Other criteria may be added for any search.

B. Preliminary Screening

- 1) KPPA staff and/or the CERS investment consultant identify a preliminary list of firms that meet the initial set of screening criteria.
- 2) KPPA staff and/or the CERS investment consultant contact each firm on the preliminary list to determine if they are accepting new business and to obtain the most current information and any additional information, as required. Follow-up telephone calls, interviews or on- site visits are made as necessary.
- 3) Based upon the established criteria, KPPA staff and/or the CERS investment consultant narrows the preliminary list to a candidate pool.

C. Candidate Pool

- 1) KPPA staff and/or the CERS investment consultant conduct a more in-depth interview with each candidate. The interviews may be in person or telephonic/virtual which allows for the interaction with and evaluation of the person or persons who will be investing on behalf of CERS. Interview topics may include:
 - a) Investment process;
 - b) Any action or investigation concerning a candidate by a regulatory or civil or criminal enforcement agency;
 - c) Any SEC forms, other similar agency reports or prospectuses;
 - d) Qualifications of the firm's representatives, including the portfolio management team;
 - e) A list of institutional references;
 - f) Communication with the firm;
 - g) Employee compensation and ownership structure;
 - h) Availability of the contact person and portfolio manager to meet with KPPA investment staff and the Investment Committee and responsiveness to Board and staff concerns;
 - i) Validation of performance and the continued management by key individuals who will be responsible for fulfilling the assignment;
 - j) Accommodation of CERS's priorities;
 - k) Experience with large public funds;
 - l) Fee discussions;
 - m) Conflicts of interest, including the appearance of conflicts of interest. Potential or actual conflicts of interest must be evaluated during the due diligence

process and after engagement under the Board's Conflict of Interest and Confidentiality Policy and any applicable statutes and regulations. The KPPA investment staff will employ reasonable efforts to identify conflicts of interest affecting CERS trustees, employees and managers with respect to all investments.

- n) Placement agents. KPPA investment staff will employ reasonable due diligence to ensure that no fees or commissions are paid to a third party or firm pursuant to KRS 78.782(20) or Board policies.
- 2) Quantitative analyses also are conducted in addition to the qualitative analyses above. These analyses will include performance attribution and risk management.
 - 3) Additional due diligence factors may be necessary in selecting General Partners or managers for alternative investments (such as timberland, private equity and infrastructure) because of the long-term and illiquid nature of these types of investments. The additional factors include particular considerations such as risk management; diversification; and legal and business matters.
 - a) CERS may engage independent specialized consultants to assist in the selection of these managers.
 - b) KPPA staff and/or consultants will narrow potential funds to seek best-in-class managers.
 - c) Any new fund offering by an existing manager (also known as a reup) will be evaluated consistent with the process described above (understanding that some of the materials and knowledge for conducting due diligence already may have been obtained based on the prior investment with the manager).
 - 4) KPPA staff and - if involved in the process - the CERS investment consultant (or any engaged specialty investment consultant), will reach a consensus regarding a manager for the final written recommendation to the Investment Committee. Any approval by the Investment Committee is subject to the review by and ratification of the Board, the completion of due diligence and the negotiation and execution of a contract.
 - a) It is critical that the terms of the contract accurately reflect the terms and conditions of the authorization. The process may involve highly specialized contract provisions, including investment guidelines, and result in protracted negotiations. KPPA investment staff may request the approval of the Investment Committee to retain outside counsel to assist in the contract process.
 - b) The investment manager must certify that no fees or commissions are paid to a third party or firm prohibited, either by KRS 78.782(20) or Board policies, from

receiving fees or commissions incident to an investment by CERS.

- D. An approval of a manager by the Investment Committee is to be reported to the Board no later than at its next meeting for review and ratification.

3. Co-Investment Opportunities.

Co-Investment opportunities occurring from General Partners, funds, or other investment managers already contained in the CERS portfolio and previously approved by the Investment Committee and Board may be authorized by KPPA's Director Office of Investments ("CIO") in amounts up to 1.5% of the plan assets, considering the following:

- 1) The co-investments may be made alongside an existing General Partner, provided that the strategy and objective of the Partnership investing in the transaction are consistent with those of the Partnership in which CERS has an existing commitment.
- 2) Co-investments shall be made on the same (or better) terms and conditions as provided to the Partnership;

4. External Investment Consultant Selection.

External investment consultants are to be chosen through a competitive selection process coordinated by KPPA investment staff and based upon established criteria. The selection process shall result in a recommendation of a consultant to the Investment Committee for its review and approval, with ratification by the Board at its next meeting. Notwithstanding the above, the Investment Committee reserves the right to contract for its own Investment Consultant pursuant to KRS 78.782(2)(d).

CERS normally will use an open search process when conducting a consultant search. A list of suitable candidates will be developed by KPPA investment staff using a broad-based list of potential consultants that meet the screening criteria.

CERS also may use a request process such as an RFP, RFI or RFQ when conducting a consultant search. The request may be sent directly to known vendors, will be listed on the KPPA website and may be advertised through other means such as financial media. Any advertisement will clearly state the mandate for which CERS is seeking a consultant. The advertisement also will state certain minimum requirements that a consultant must meet.

KPPA investment staff will provide a written report to the Investment Committee documenting the particulars of the search process that was performed, along with a recommendation on which consultant staff proposes be hired. The report will include matters such as the firm name, screening criteria, the number of consultants considered, the number of consultants interviewed, the number of firms in the final candidate pool and their names, any prior CERS (or Kentucky Retirement Systems) history with the consultant, references checked and summaries of other qualitative and quantitative analyses.

A. Determination of Screening Criteria.

Screening criteria for an External Investment Consultant may include, but are not limited to: depth, breadth and experience in consulting similar plans, organizational strength, firm stability, key personnel, financial condition, industry reputation, client list, soundness and compatibility of investment philosophy and approach, breadth and capability of technological resources, research platform, risk reporting, fee proposal, size of public institutional, tax-exempt client AUM; size of pension fund client assets; consultant's history with CERS; other client relationships (including experience with large public funds); ownership; the number and depth of investment professionals; research capabilities; compliance with standard contractual provisions; compliance with the Chartered Financial Analyst (CFA) Institute Code of Ethics; compliance with Global Investment Performance Standards as administered by the CFA Institute; and reporting consistent with the Institutional Limited Partners Association standards. Other criteria may be added for any search.

B. Preliminary Screening.

- 1) KPPA investment staff will identify a preliminary list of firms that meet the initial set of screening criteria.
- 2) KPPA investment staff will contact each firm on the preliminary list to determine if they are accepting new business, would be interested in being a candidate, and to obtain the most current information and any additional information, as required. Follow-up telephone calls, interviews, or on-site visits are made as necessary.
- 3) Based upon the established criteria, KPPA investment staff narrows the preliminary list to a candidate pool.

C. Analysis.

- 1) KPPA investment staff will conduct a qualitative and quantitative analysis utilizing criteria developed by KPPA investment staff identified to meet the External Investment Consultant needs of the Agency.
- 2) KPPA investment staff will utilize, as necessary, additional diligence factors for consideration in selecting an External Investment Consultant. KPPA investment staff may conduct interviews, in- person or telephonic/virtual, which allows for the interaction with and evaluation of the person or persons who will be providing consulting services. References will be checked.
- 3) It is critical that the terms of the contract accurately reflect the terms and conditions of the authorization. The process may involve highly specialized contract provisions, including investment guidelines, and result in protracted negotiations. Staff may retain outside counsel to assist in the contract process.
- 4) KPPA investment staff will reach a consensus regarding an External Investment Consultant to be provided as a final written recommendation to the Investment Committee. Any approval by the Investment Committee is subject to the review and ratification of the board, the completion of due diligence and the negotiation and execution of a contract. An approval of an External Investment Consultant by the

Investment Committee is reported to the CERS Board no later than at its next quarterly meeting for review and ratification.

5. Procurement of investment analytical, professional, research and technical services.

KPPA investment staff will procure investment-related goods and services through one of the methods below. Nothing in this section shall apply to the procurement of ordinary goods and services that are common to other KPPA administrative functions.

- A. Procurement of goods and services costing **less than \$10,000** during a fiscal year will be determined by KPPA staff based upon best value comparing known vendors. In comparing vendors, staff will promote the highest level of competition.
- B. Procurement of goods and services costing **from \$10,000 to \$49,999** during a fiscal year will be determined by any two (2) of the following: the KPPA Executive Director Office of Investments or his/her designee, the CERS Chief Executive Officer ("CEO"), or any KPPA employee designated by CERS to act in its stead, based upon best value comparing at least three (3) known vendors, whose price quotations may be obtained by telephone, catalog, or internet. Any procurement made under this subsection shall be reported to the CERS CEO, or, if the CERS CEO is the person making the procurement decision, to the Chair of the Investment Committee.
- C. Procurement of goods and services **equal to or greater than \$50,000** in cost during a fiscal year will be determined by an RFP, RFI and/or RFQ for good or services being published. The request may be sent directly to known vendors; will be listed on the KPPA website; and may be advertised through other means, such as financial media, as appropriate to promote the highest level of competition. The request will describe the goods or services required, the type of information and data required of each vendor, the relative importance of qualifications and the evaluation factors to be used. After determining the best value of proposals received, a contract for goods or services with a vendor may be negotiated. If contract terms cannot be agreed upon with the highest-ranking vendor, negotiations may be conducted with other vendor(s) in the order of ranking as defined by the request. The evaluation of best value will be documented by KPPA investment staff. The documentation will include specifics of the process used in selecting the vendor. Those specifics may include: price, the number of vendors considered, the number of vendors interviewed, any prior CERS (or Kentucky Retirement Systems) history with the vendor, references checked and summaries of other qualitative and quantitative analyses.
- D. A price contract established by the Commonwealth of Kentucky, the U.S. General Services Administration or U.S. Communities (a national government purchasing cooperative) may be used so long as the vendor enters into a contract at or below the contract price and under the same terms and conditions.

An RFP, RFI and/or RFQ for goods or services may be published. The request may be sent

directly to known vendors; will be listed on the KPPA website; and may be advertised through other means, such as financial media, as appropriate to promote the highest level of competition. The request will describe the goods or services required, the type of information and data required of each vendor, the relative importance of qualifications and the evaluation factors to be used. After determining the best value of proposals received, a contract for goods or services with a vendor may be negotiated. If contract terms cannot be agreed upon with the highest-ranking vendor, negotiations may be conducted with other vendor(s) in the order of ranking as defined by the request. The evaluation of best value will be documented by KPPA investment staff. The documentation will include specifics of the process used in selecting the vendor. Those specifics may include: price, the number of vendors considered, the number of vendors interviewed, any prior CERS (or Kentucky Retirement Systems) history with the vendor, references checked and summaries of other qualitative and quantitative analyses.

- E. Exceptions to using the methods of procurement above may include, but are not limited to: goods and services available only from one or two uniquely qualified sources; advertisements and public notices; and copyrighted computer software. The reason for the exception will be documented.

6. Contract Renewal.

Contract renewals for contracts procured under Sections 2, 3 and 4 above, whether they be annual or longer-term agreements, use criteria such as the continued need of the vendor and/or asset class; level of trust; continuity of ownership, leadership and process; long-term performance; and competitiveness of fees. For contracts procured under Sections 2, 3 and 4 above, KPPA investment staff will submit a formal recommendation regarding the renewal of a contract to the Investment Committee for approval. The submission to the Investment Committee will include a description of the process used in making the recommendation to renew the contract. Any approval by the Investment Committee is subject to the review by and ratification of the Board, the completion of due diligence and the negotiation and execution of a contract, or contract renewal or extension.

Contract renewals for goods and services procured under Section 5 above, because the initial contract award did not have to be presented to the Investment Committee for approval, shall follow the procedures set forth in Section 5 for the awarding of the contract.

7. Emergency Procurement.

The existence of an emergency may cause an immediate need for managers, goods and/or services that cannot be procured through CERS's normal investment procurement procedures. The determination that an emergency exists is to be made by, and procurement actions approved by, any two of the following: Executive Director Office of Investments, the Deputy Director Office of Investments, the CERS CEO, or the CERS Investment Committee Chair. Thereafter, no later than at the next quarterly meetings of the Board and Investment Committee, the emergency and procurement actions incident to the emergency will be reported.

8. Quiet Period.

To ensure a competitive and fair procurement, KPPA staff, the Board and the Investment Committee members will follow a quiet period with potential vendors during specified timeframes. A quiet period is a specified timeframe when staff, the Board and Investment Committee members are restricted in communications with potential vendors in designated procurements. Staff assigned to the procurement are not covered by the quiet period and will notify the Board, Investment Committee and other staff upon initiation of a quiet period and a description of the types of vendors to whom it applies. During quiet periods, covered staff, the Board and Investment Committee members will not communicate with potential vendors or with an existing vendor on matters pertaining to the procurement, except during Board or Investment Committee meetings.

A quiet period will cease when the approval of a vendor has been ratified by the Board, or if the search process or quiet period are otherwise ended.

9. Other Laws and Policies that Comprise CERS Investment Procurement Policy.

This policy is to be implemented in conjunction and accordance with the laws and other policies that, cumulatively, establish the comprehensive CERS Investment Procurement Policy under which all CERS investment procurements are to be made. These laws and other policies are as follows, but are not limited to:

- A. Executive Branch Code of Ethics (KRS Chapter 11A);
- B. Board as fiduciary (KRS 78.790(1)(c));
- C. Pension Fund investment requirements (KRS 78.790);
- D. CERS conflict of interest prohibitions (KRS 78.745);
- E. CERS confidentiality requirement (KRS 78.745);
- F. Insurance Fund investment requirements (KRS 61.701 and 105 KAR 1:410); and
- G. County Employees Retirement System Board of Trustees Election Policy and Procedure, Statement of Bylaws and Committee Organization, Trustees Education Program, Conflict of Interest and Confidentiality Policy, Policy and Procedures Regarding Open Records Requests, CFA Code of Ethics and Standards of Professional Conduct, CFA Asset Manager Code of Professional Conduct, federal Investment Advisers Act of 1940, as amended, and CFA Code of Conduct for Members of a Pension Scheme Governing Body.

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CERTIFICATION OF ADOPTION BY BOARD OF TRUSTEES

This is to certify that this County Employees Retirement System Investment Procurement Policy was approved and adopted by the Board of Trustees of the County Employees Retirement System.



Betty A. Pendergrass, Chair
CERS Board of Trustees

Date: 01/10/2023




Ed Owens
CERS Chief Executive Officer

Date: 12/19/2023

CERTIFICATION OF FINANCE AND ADMINISTRATION CABINET

This certifies that the Investment Procurement Policy of the County Employees Retirement System of the Commonwealth of Kentucky, attached hereto, meets best practices for investment management procurement as specified KRS 78.790(6).



Holly M. Johnson
Secretary of the Finance and
Administration Cabinet
Commonwealth of Kentucky

Date: 1-3-2024