



## Board Investment Policy

# Investment Manager Monitoring and Communications Policy

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### I. Purpose

- A. To establish general guidelines for monitoring investment manager effectiveness and identifying issues of concern.
- B. To provide a process for the Investment Officer and Investment Consultant(s), with oversight by the Chief Executive Officer, to employ when making decisions and recommendations to the Board concerning manager retention and evaluation.

### II. Definition of Status

- A. The Investment Consultant(s) will classify the fund's managers into two status categories: **Good Standing** or **Under Review**. The Investment Consultant(s) will make this determination in accordance with this policy, and their professional and fiduciary judgment, taking into account specific circumstances affecting the manager and/or SJCERA's relationship.
  1. **Good Standing:** Managers that have met the performance objectives and other criteria established by the Board's Policies will be considered to be in Good Standing on the Quarterly Performance Report
  2. **Under Review:** Managers that fail to meet expectations in any of the five general areas specified below under monitoring procedures will be Under Review.

### III. Monitoring Procedures

- A. Managers will be monitored in the following areas:
  1. Investment performance (relative to a specific benchmark, objectives of the investment manager's fund and peer group as appropriate);
  2. Adherence to the firm's philosophy, process, and stated style;
  3. Organizational and personnel continuity;
  4. Guideline compliance,
  5. Proxy voting compliance; and
  6. Other appropriate considerations.
- B. Managers will be monitored on a continuous basis by the Investment Officer and the Investment Consultant(s) based on custodian's holdings reports, monthly performance, manager announcements, the custodian's reporting, consultant(s) evaluations, and other inputs, such as conference calls, in-person meetings, email exchanges and qualitative factors.
- C. SJCERA's Investment Consultant(s) will prepare a quarterly report for the Board summarizing these reviews and stating whether SJCERA's expectations have been met. Those managers meeting the expectations of the above criteria will be

categorized as in Good Standing.

#### IV. Review Criteria

- A. Managers may be placed **Under Review** if one or more of the criteria listed below are met:
1. **Under-performance:** A manager may be placed under review when the manager's net-of-fee performance falls below the agreed upon benchmark and/or when the investment manager does not perform as expected according to the mandate and investment style of the portfolio. A manager's expected tracking error will be used as a reference point in the short-term evaluation.
  2. **Adherence to Stated Philosophy, Process and Style:** A manager may be placed under review if the Investment Consultant believes there has been a substantive change in the manager's stated philosophy, process, or style.
  3. **Organizational Change:** A manager may be placed under review when there has been a material change in the manager's organizational structure, ownership or personnel, which the Investment Consultant determines requires more in-depth due diligence. This category shall also include instances where a firm may be under investigation by regulatory agencies.
  4. **Violation of Guidelines:** A manager may be placed under review when the manager is materially out of compliance with any of the criteria established in the manager's Investment Guidelines. Subject to review and discussion with the manager, the manager will be expected to bring the portfolio into compliance. The manager shall provide recommended revisions to the guidelines in writing to the Investment Consultant; however, SJCERA shall be under no obligation to accept such recommendations. The Board may grant exceptions on a case-by-case basis.
  5. **Other:** The Board of Retirement may place a manager Under Review for other reasons deemed appropriate, including insufficient responsiveness to requests for information, non-attendance at meetings, or any other reason deemed appropriate by SJCERA.
- B. Managers who are placed "Under Review" may not be eligible for additional funding and may also be subject to asset reductions.
- C. If the Investment Consultant determines that any review criteria will adversely impact the manager's ability to provide contracted investment services, the manager may be recommended for immediate termination.

#### V. Manager Notification

- A. Copies of this policy shall be made available to all SJCERA Investment managers.
- B. The Investment Consultant shall notify Managers in writing of their status should it fall Under Review.

## **VI. Reassessing Under Review Status**

- A. The Investment Officer and Investment Consultant will continue to monitor the manager on at least a quarterly basis, or more often if appropriate. The length of the review period may vary based on analysis and strategy.
- B. The Investment Consultant will determine the appropriate course of action up to and including recommendation for termination to the Board.
- C. In no event will a manager be returned to Good Standing until the manager meets the criteria for Good Standing.

## **VII. Termination**

- A. A recommendation to the Board for termination of the management contract will occur if there is a failure to correct or show improvement in the deficiencies that placed them in Under Review Status.
  - 1. If the Investment Consultant(s) believe(s) that immediate action is necessary due to evidence of a manager engaging in illegal or unethical practices, or for other extraordinary reasons that cause the Consultant to believe that continued management is contrary to fiduciary standards of prudence, the Investment Consultant is authorized by the Board to notify the manager in writing that trading on the account must cease immediately. Notice of such action and the termination recommendation will be presented to the Retirement Board for ratification at its next monthly meeting.
- B. Nothing in this policy shall be construed to conflict with SJCERA's right to terminate an investment manager pursuant to the terms of their applicable investment management agreement.

## **VIII. General Investment Guidelines / Restrictions**

- A. Each investment manager is expected to perform its fiduciary duties as a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims and to conform with all State and Federal statutes governing the investment of retirement funds. The following restrictions apply to each separate account manager:
  - 1. Purchases of securities issued by San Joaquin County without written consent from the Board.
  - 2. The manager shall promptly notify the Investment Officer and the Chief Executive Officer of any violation of the guidelines and provide an explanation of the limit that was exceeded, an evaluation of the situation, the recommended course of action and the status of the corrective action proposed.
  - 3. Whenever SJCERA invests in a commingled fund, rather than a separate account, the stated rules and regulations of the manager's commingled fund will

take precedence over the SJCERA Investment Policy Guidelines.

## **IX. Communications**

- A. Related to the monitoring and retention process, investment managers are expected to communicate with the Investment Consultant, Chief Executive Officer and Investment Officer as follows:
  - 1. Immediately
    - a. Violation of manager guidelines
    - b. Any organizational or personnel changes impacting SJCERA's account
    - c. Any purchases or sales that result in unusual gains or losses are to be reported in writing after each transaction
  - 2. Monthly
    - a. Monthly Performance and attribution
    - b. Positive certification of compliance with guidelines
  - 3. Quarterly
    - a. Current Strategy
    - b. Recent Investment Performance and attribution
    - c. Summary of Key Personnel Changes
    - d. New/Lost Accounts within the same mandate
  - 4. Annually
    - a. Presentation to the Board/staff/consultant (as requested).
- B. Additional information and reports may be required on a regular or ad hoc basis as requested by staff or consultant.

## **X. Reporting**

- A. The Investment Consultant(s) report allocations and performance to the Board at least quarterly.
- B. The Investment Consultant(s) present the Manager Monitoring Report to the Board at least quarterly
- C. The Investment Consultant/Staff report to the Board on changes related to the investment managers and significant deviations in the performance as warranted.

## **XI. Policy Review**

- A. Staff shall review this Policy at least once every three years to ensure that it remains relevant, appropriate, and in compliance. Any revisions or amendments to this policy must be approved by the Board of Retirement in accordance with the bylaws.

**XII. History**

05/30/2008	Adopted
10/06/2017	Revised
07/05/2018	Reviewed, no changes required; Staff updated format
10/12/2018	Added General Investment Guidelines/Restrictions language and Manager Strategy Summaries from other investment policies.
04/12/2019	Policy Review section amended to at least once every three years
07/10/2020	Revised to clarify Consultant and Investment Officer Roles, update procedures used to monitor investment managers, and remove Manager Strategy Summaries
07/14/2023	Expanded mandatory notifications to include Investment Officer, made other non-substantive changes
09/01/2023	Added proxy voting compliance to the monitoring areas list

**Certification of Board Adoption**

  
Clerk of the Board

09/01/2023

Date