



## Board Investment Policy

# Investment Roles and Responsibilities

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### I. Purpose

- A. To outline the legal authority and fiduciary responsibilities of the Board of Retirement in administering SJCEA.
- B. To assign specific roles to Staff and the Investment Consultant(s), thereby explicitly stating which responsibilities the Board has delegated.

### II. Legal Authority and Fiduciary Responsibilities

#### A. Introduction

1. The Board of Retirement (Board) of the San Joaquin County Employees' Retirement Association (SJCEA) has plenary authority and the fiduciary responsibility for investment of moneys and administration of SJCEA. The assets of a public pension or retirement system are held in trust, and the Board has exclusive control of the investment of SJCEA's Trust Fund (Fund) assets. (California Constitution Article XVI, Section 17.)

#### B. Legal Authority

1. Under the California State Constitution and the County Employees Retirement Law of 1937 (CERL), the Board is authorized to invest in any form or type of investment deemed prudent by the Board pursuant to the requirements of CERL Section 31595, which provides in part:
  - a. Except as otherwise expressly restricted by the California Constitution and by law, the Board may, in its discretion, invest, or delegate the authority to invest, the assets of the Fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board.

#### C. Fiduciary Responsibility

1. The Board and its officers and employees shall delegate their duties:
  - a. Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system;
  - b. With the care, skill, prudence, and diligence under the circumstances then prevailing that 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;

- c. By diversifying the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so; and
  - d. Recognizing that its duty to its participants and their beneficiaries takes precedence over any other duty.
2. In delegating its fiduciary duties, the Board will exercise prudent judgment and seek expert advice and guidance from the internal staff and external investment consultants. The Board's judgment will reflect the prevailing facts and circumstances. The Board recognizes the importance of maintaining a long-term perspective when setting policy and asset allocation.
3. SJCERA's investment policies collectively will serve as SJCERA's Investment Policy Statement (IPS) and govern all asset classes and establish the guidelines, policies and procedures for the management of SJCERA's diversified investment portfolio. The IPS is subject to applicable provisions of law and the applicable limitations and requirements of SJCERA's governance policies. The Board may amend, supplement or rescind its policies at any time at its discretion.

### **III. Governance: Roles and Responsibilities**

- A. The Board is responsible for formulating, adopting, and supervising the investment policies of SJCERA's investment program, including, but not limited to, the following decisions.
- 1. Board Investment-Related Responsibilities
    - a. The Board is responsible for setting SJCERA's investment philosophy, objectives, and risk tolerances, and for adopting the Trust Fund's asset allocation that forms the basis of the implementation of the investment program. This includes:
      - i. Decisions on which asset classes and benchmarks will be used in the investment programs;
      - ii. The allocation to each asset class;
      - iii. Risk tolerances for the total Trust Fund and individual asset classes;
      - iv. The operational policies that will implement the asset allocation; and

- v. The monitoring and reporting of the risk management and performance measurement of the investment program.
2. The Board is responsible for approving the specific policies required to implement the investment program.
3. The Board is responsible for the approval of the general and any specialty investment consultants to the investment program.
4. The Custodian maintains custody of SJCERA's assets and reports on all of SJCERA's assets. Given the importance of this role, the Board is responsible for the selection of the Custodian. SJCERA's finance staff will provide supporting analysis and input to the Board in making this decision.
5. SJCERA's external investment counsel reviews, edits and negotiates the legal documents and agreements related to investment contracts. SJCERA's Chief Executive Officer, Investment Officer (IO) and General Counsel, if any, screen and approve external investment counsel, in consultation with the Board as appropriate.

B. Investment Program Duties Delegated to Staff

1. Under the legal authority granted, the Board establishes the core operating principals of responsibility, accountability and transparency. Actions related to delegated authority should not result in any substantive change in the terms applicable to SJCERA's investments and agreements.
2. The Board grants to SJCERA's IO and staff as assisted by the appropriate advisors (e.g., investment and specialty consultants, actuary, legal counsel) the following authority and responsibilities:
  - a. Recommend a plan to implement the Board-approved asset allocation and related investment policies.
  - b. Rebalance assets to maintain the Board-approved asset allocation and risk limits.
  - c. Develop and manage requests for proposal (RFPs) for and recommend firms to serve as the general and specialty investment consultants, investment counsel and other advisors to assist in the implementation of the investment program.
  - d. Oversee and monitor the investment consultants' and other advisors' compliance with their contract, management of their workload and quality of Board requested activities.
  - e. Recommend firms to serve as the Custodian and, if appropriate, the securities lending agent;
  - f. Provide input to the Board on the finalist firms to serve as Investment Managers;

- g. Evaluate, analyze, and provide input on various investment topics and/or the investment program generally.
- h. Manage day-to-day investment operations;
  - i. Take action on time-sensitive, routine requests or administrative items related to SJCERA's investment program;
  - ii. Manage liquidity needs and rebalance the Trust Fund;
  - iii. Implement manager transitions;
  - iv. Manage major changes in Asset Allocation;
  - v. Address and resolve violations of investment manager guidelines;
  - vi. Work with investment counsel to include enhanced language in side letters related to Limited Partnership Agreements (LPA);
  - vii. Monitor and evaluate the work of the General Investment Consultant and other advisors to the investment program;
  - viii. Vote Fund/Manager level (not security level) proxies; and
  - ix. Amend LPAs or related documents for minor adjustments (e.g., closing dates or investment periods).
- i. Report on the use of delegated authority monthly or at a frequency to be determined by the Board.

### C. The Role of Investment Consultants

1. SJCERA will employ a General Consultant and specialty consultants, as needed, who serve as fiduciaries for the Trust Fund and work for the Board in a direct role as the independent experts. The consultants will also work for SJCERA's staff to provide Board requested reports e.g., risk-return analysis, investment manager performance and monitoring analysis and overall support.
2. The General Consultant and as appropriate, the Specialty Consultant(s) will:
  - a. Provide an Asset/Liability Study in conjunction with SJCERA's actuary;
  - b. Provide governance and policy development;
  - c. Provide global resources and deep research capabilities to perform due diligence on existing and potential investment managers, conduct manager searches, investigate investment strategies, research asset classes and examine additional topics related to SJCERA's investment program;
  - d. Monitor and report investment returns, benchmark returns, manager peer group rankings, portfolio risk(s), and active management risk;
  - e. Provide the Board and Staff with reports and analysis of material events

affecting the portfolio asset allocation, risk profile, and external managers;

- f. Analyze and advise on the annual and tri-annual Asset Allocation updates;
- g. Monitor portfolio performance attribution for the total Trust Fund and asset classes;
- h. Perform external manager tracking, manager peer group ranking and benchmark comparisons, performance reporting, and evaluation;
- i. Advise the Board with respect to the investment program in general;
- j. Negotiate, and monitor, manager fees and other outside vendor fees;
- k. Assist staff as requested.

#### IV. 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.

#### V. History

08/03/2017	Adopted
07/05/2018	Reviewed, no changes required; Staff updated format
04/12/2019	Policy Review section amended to at least once every three years
07/10/2020	Added Purpose section, removed outdated policy numbers, and clarified roles
07/14/2023	Aligned investment officer's delegated authority with existing practice to include RFPs and evaluating and providing input on investment topics, clarified staff and general counsel reference, made other non-substantive changes.

#### Certification of Board Adoption

  
Clerk of the Board

07/14/2023

Date