

**SAN FRANCISCO CITY AND COUNTY  
EMPLOYEES' RETIREMENT SYSTEM**

**REQUEST FOR PROPOSALS FOR**

**PROXY VOTING SERVICES FOR THE  
SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM**

**DATE: December 3, 2018**

**DEADLINE FOR SUBMISSION: January 4, 2019, 5:00 P.M. (PACIFIC TIME)**

# **San Francisco City and County Employees' Retirement System**

## **Request for Proposals for**

### **PROXY VOTING SERVICES FOR THE SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM**

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## **I. Introduction**

The San Francisco City and County Employees' Retirement System ("SFERS") is soliciting proposals from qualified professional proxy advisory firms to assist SFERS with the monitoring, analysis and execution of proxy voting. Proposers are expected to have strong a knowledge of shareholder and management proposals, proxy voting, and related reporting that is supported by robust industry research and broad coverage of both domestic and international companies.

The initial term of the contract under this Request for Proposals shall be three years. In addition, SFERS shall have two options to extend the term of a period of one year each extension, which SFERS may exercise in its sole, absolute discretion.

Established in 1922, SFERS is dedicated to securing, protecting and prudently investing pension trust (the "Trust") assets and administering a defined benefit pension fund for eligible members of the City and County of San Francisco (the "City"), San Francisco Unified School District, City College of San Francisco, and the Superior Court for the County of San Francisco. SFERS' Retirement Board (the "Retirement Board") and investment team oversee the investment of over \$24 billion in Trust assets in global public equities, fixed income and alternative investments.

The Retirement Board and SFERS' investment team conduct all investment activities in accordance with applicable laws and in accordance with investment policies and procedures adopted by the Retirement Board and in the sole interest of Trust beneficiaries. The Retirement Board generally meets once a month to set policy, review investment performance and consider new investment opportunities as presented by SFERS' investment team.

Four firms currently provide investment consulting services to SFERS. The general consultant has primary responsibility to serve as an advisor on matters related to asset allocation, investment policy, and the public markets portfolio (including global public equities and fixed income) as well as Trust policy implementation and oversight. The other three firms provide investment consulting services and monitoring services for the private markets portfolio (including private equity, private credit, absolute return, venture capital, real estate and other real assets). The Bank of New York Mellon (BNY) serves as custodian for the assets of the Trust.

## **II. Scope of Services**

The scope of services sought by SFERS is noted below. SFERS expects to vote approximately 2,000 U.S. ballots and 1,600 international ballots per year, and requires analysis on 1,500 U.S. proxies and 1,500 international proxies per year. The selected vendor is expected to provide, at a minimum,

1. Proxy analysis and electronic delivery of proxy analysis;
2. Proxy voting recommendations in accordance with Board approved Proxy Voting Guidelines;
3. Vote execution;
4. Record-keeping of proxy analysis, recommendations, and vote execution.
5. Recommended changes to SFERS' proxy voting guidelines on at least an annual basis;
6. Annual presentation of voting results to SFERS' Board of Trustees; and
7. Meet with Staff and the Retirement Board as required.

### **III. Submission Requirements**

#### **A. Blackout Period**

For the duration of the Request for Proposals process, SFERS and the Retirement Board will enter into a “blackout” period during which communications and meetings between interested parties (“Proposers”) and SFERS employees and Retirement Board members related to the subject matter of this Request for Proposals and any Proposer’s response to this Request for Proposals will be prohibited. This blackout will be effective immediately upon the release of this Request for Proposals, and will continue until the review and hiring of a consulting firm is completed.

This blackout will enable SFERS to treat all Proposers fairly during the Request for Proposals process and permit the unbiased review of responses.

Blackout conditions are outlined below:

- Proposers are to refrain from face-to-face meetings or communications with SFERS employees and Retirement Board members (communications include telephone conversations, letters and email), except as provided in Section V(B)(2) herein;
- This blackout remains in effect until the successful Proposer enters into a contractual agreement with SFERS; and
- Proposers may meet with SFERS employees or a Retirement Board member only if the meeting is limited to discussions that are not related to this Request for Proposals or any Proposer’s response to this Request for Proposals. SFERS’ Executive Director will be notified of such meetings and will maintain a log of all such meetings occurring during the “blackout” period for this Request for Proposals.

Nothing in this “blackout” policy shall limit a Proposer, who is currently engaged by

SFERS as a service provider, from engaging in all meetings and communications with SFERS employees required to effectively conduct SFERS' business under an existing engagement.

If you have any questions regarding the blackout conditions, please contact William J. Coaker Jr., Chief Investment Officer, at (415) 487-7001.

## **B. Time and Place for Submission of Proposals**

Proposals must be submitted and received by 5:00 p.m. (Pacific Time), on January 4, 2019, as follows: an electronic file via e-mail and eight (8) printed copies in a sealed envelope clearly marked "Proxy Services Proposal."

Proposals are to be delivered as follows:

### **Printed copies are to be sent to:**

Kurt Braitberg  
Managing Director of Public Markets  
Attn: Proxy Services Proposal  
San Francisco City and County Employees' Retirement System  
1145 Market Street, 7<sup>th</sup> Floor  
San Francisco, CA 94103

### **Electronic copies are to be sent to:**

Andrew Collins: [andrew.collins@sfgov.org](mailto:andrew.collins@sfgov.org)  
Kurt Braitberg: [kurt.braitberg@sfgov.org](mailto:kurt.braitberg@sfgov.org)

Late submissions will not be considered. Postmarks will not be considered in judging the timeliness of submissions. Proposals that are submitted by fax will not be considered. Timely submission of only an electronic version of the proposal is insufficient to timely submit the proposal.

## **C. Format and Content of Proposals**

COMPLETENESS, CLARITY, AND BREVITY ARE IMPORTANT. PROPOSERS SHOULD SUBMIT ALL INFORMATION REQUESTED IN THIS REQUEST FOR PROPOSALS IN THE SPECIFIED FORMAT. RESPONSES NOT MEETING FORMAT REQUIREMENTS OR THAT ARE INCOMPLETE IN ANY WAY MAY BE REJECTED. CANDIDATES ARE URGED TO READ THIS REQUEST FOR PROPOSALS CAREFULLY, TO TAKE CARE IN THE PREPARATION OF RESPONSES, AND TO CAREFULLY PROOFREAD THE FINAL VERSIONS FOR ACCURACY AND COMPLETENESS.

The Proposer's response to this Request for Proposal must be organized in the format listed below and detailed in Appendix A:

1. Introduction and Executive Summary
2. Organization, Personnel and Clients
3. Proxy Voting Services Fee Proposal

SFERS intends to award this contract to the firm that it considers will provide the best overall program services. SFERS reserves the right to accept other than the lowest priced offer and to reject any proposals that are not responsive to this Request for Proposals.

#### **IV. Evaluation and Selection Criteria**

##### **A. Minimum Qualifications -- Unless otherwise indicated, all qualifications must be met as of June 30, 2018.**

The Proposers must meet all of the following minimum qualifications, to SFERS' satisfaction, to be given further consideration for a contract award. The Proposer, within the response to this Request for Proposals, must establish minimum qualifications. Failure to satisfy all of the minimum qualifications, based on SFERS' sole judgment, will result in the rejection of the proposal.

1. As of June 30, 2018, the firm must have been in business at least five years providing services similar to those described in the Scope of Services section.
2. At least one key professional member of the firm assigned to SFERS' account must have a minimum of five years of experience in the areas described in the Scope of Services.
3. Firm should have access to staff with adequate experience to provide the services described in the Scope of Services.
4. The firm must carry errors and omissions insurance coverage or must have applied for such coverage by the submission date of the Request for Proposals. Errors and omissions insurance will be required throughout the duration of the contract.

## B. Selection Criteria

A selection committee will evaluate the proposals relative to each other generally in accordance with the criteria and weighting percentages itemized below.

<u>Component</u>	<u>Weighting Percentage</u>
1. Organization, Personnel and Clients	40%
2. Proxy Services	50%
3. Fee Proposal	10%

## V. Schedule

### A. Schedule of Events

<u>Action</u>	<u>Date</u>
Request for Proposals is issued and advertised	December 3, 2018
Deadline to submit written questions and requests for interpretation	December 10, 2018
Responses to written questions to be provided to all Proposers	December 17, 2018
Deadline for submission of Request for Proposals responses	January 4, 2019
Review of proposals, selection of finalists	To be determined
Retirement Board approval of successful Proposer	March 13, 2019
Contract negotiations commence	To be determined
New contract takes effect	To be determined

## **B. Explanation of Events**

1. This Request for Proposals will be posted on SFERS' website ([www.sfers.org](http://www.sfers.org)). All firms meeting minimum qualifications, as stated in Section IV, will be welcome to participate.
2. Any requests for information concerning the Request for Proposals must be in writing, and any substantive replies will be posted on the SFERS' website ([www.sfers.org](http://www.sfers.org)). No questions or requests for interpretation will be accepted after 5:00 pm on December 10, 2018.
3. In preparing their responses, Proposers should rely only on written material concerning this Request for Proposals issued by SFERS.
4. SFERS will respond to all candidates' written questions by December 17, 2018.

**Deadline for submission of the Request for Proposals response is 5:00 PM, Pacific Time, January 4, 2019.**

**No exceptions to this deadline will be granted.**

5. A committee will interview finalists (dates to be determined). SFERS expects that the lead consultant assigned to its account will make the final presentation and Proposers would be advised to mark their calendars accordingly. *SFERS reserves the right to change the date for these interviews at any time for any reason.*
6. All proposals submitted will be considered public documents. Any material that the candidate considers "Business-Confidential" should be so marked on the proposal.

## **C. Contract Award**

To be considered, all proposals must comply with the requirements and specifications outlined in this Request for Proposals.

SFERS will select a Proposer with whom SFERS will commence contract negotiations. The selection of any proposal shall not imply acceptance by SFERS of the terms of the proposal, which are subject to further negotiations. If a satisfactory contract cannot be negotiated in a reasonable period of time, SFERS, in its sole discretion, may terminate negotiations with the highest ranked Proposer and begin contract negotiations with the next highest ranked Proposer.

1. Termination – This Request for Proposals in no manner obligates SFERS or any



of its agencies to the eventual procurement of services described, implied or which may be proposed, until confirmed by a written contract. Progress toward this end is solely at the discretion of SFERS and may terminate at any time prior to the signing of a contract.

SFERS reserves the right to cancel this Request for Proposals at any time and to reject any and all proposals submitted in response to this Request for Proposals, if SFERS determines such action or actions are in its best interest.

2. Proposal Applicability – To allow sufficient time for contract negotiation, all fees and conditions stated in the proposal must be firm for a period of one hundred eighty (180) days from the deadline for submission of proposals.
3. Negotiation Requirements – SFERS reserves the right to negotiate a change in terms if, in its sole opinion, the representatives assigned by the consultant are not adequately meeting SFERS’ needs for this contract.
4. Legal Review – SFERS expects that all candidates will agree to be bound by the terms and conditions articulated in this Request for Proposals. For this reason, it is strongly recommended that Proposers have the terms and conditions contained herein reviewed with corporate counsel and that concerns be brought to the attention of SFERS’ investment team in a timely manner.
5. Governing Law – This procurement and any agreement with Proposers that may result shall be governed by the laws of the State of California and the City and County of San Francisco. Submission of a proposal constitutes acceptance of this condition.
6. Basis for Proposal – Only information supplied by the SFERS’ investment team in writing or in this Request for Proposals should be used in the preparation of proposals.
7. Proposal Preparation Cost – Any cost incurred by the Proposer in the preparation, transmittal or presentation of any proposal or material submitted in response to this Request for Proposals will be borne solely by the Proposer.
8. Proposer Qualification – SFERS may take such investigations as necessary to determine the ability of the Proposer to adhere to the items as identified within the questionnaire portion of this Request for Proposals. SFERS reserves the right to reject the proposal of any Proposer who, in SFERS’ opinion, is not a “responsible candidate” as defined as follows:

“Responsible candidate” means a candidate who submits a complete proposal and who has furnished, when required, information and data to prove that its financial resources, production and service facilities, personnel, service reputation and experience are adequate to make satisfactory delivery of the services described in the proposal.

9. Non-Discrimination in Contracts – All contracts are subject to the non-discrimination ordinance of the City and County of San Francisco. Contractors should note the provision prohibiting discrimination by contractors in the provision of benefits between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees.

## **VI. Terms and Conditions for Receipt of Proposals**

### **A. Errors and Omissions in Request for Proposals**

Proposers are responsible for reviewing all portions of this Request for Proposals. Proposers are to promptly notify SFERS, in writing, if the Proposer discovers any ambiguity, discrepancy, omission, or other errors in this Request for Proposals. Any such notification should be directed to SFERS promptly after discovery, but in no event later than five working days prior to the date for receipt of proposals. Modifications and clarifications will be made by addenda as provided below.

### **B. Inquiries Regarding Request for Proposals**

Inquiries regarding this Request for Proposals and all requests for written modification or clarification of this Request for Proposals, must be directed in writing to:

Kurt Braitberg  
Managing Director of Public Markets  
Attn: Proxy Voting Services Proposal  
San Francisco City and County Employees’ Retirement System  
1145 Market Street, 7<sup>th</sup> Floor  
San Francisco, CA 94103  
E-mail: [kurt.braitberg@sfgov.org](mailto:kurt.braitberg@sfgov.org)

### **C. Objections to Request for Proposals Terms**

Should a Proposer object on any ground to any provision or legal requirement set forth in this Request for Proposals, the Proposer must, not more than ten calendar days after this Request for Proposals is issued, provide written notice to SFERS setting forth with specificity the grounds for the objection. The failure of a Proposer to object as required under this paragraph shall constitute a complete and irrevocable waiver of any such objections.

### **D. Addenda to Request for Proposals**

SFERS may modify this Request for Proposals, prior to the proposal due date, by issuing written addenda. Addenda will be posted on SFERS' website ([www.sfers.org](http://www.sfers.org)). The Proposer shall be responsible for ensuring that its proposal reflects any and all addenda issued by SFERS prior to the proposal due date regardless of when the proposal is submitted. Therefore, SFERS recommends that Proposers consult the SFERS website frequently, including shortly before the proposal due date, to determine if they have received all addenda.

### **E. Term of Proposal**

Submission of a proposal signifies that the proposed services and prices are valid for one hundred eighty (180) calendar days from the proposal due date and that the quoted prices are genuine and not the result of collusion or any other anti- competitive activity.

### **F. Revision of Proposal**

A Proposer may revise a proposal on the Proposer's own initiative at any time before the deadline for submission of proposals. The Proposer must submit the revised proposal in the same manner as the original. A revised proposal must be received on or before the proposal due date.

In no case will a statement of intent to submit a revised proposal, or commencement of a revision process, extend the proposal due date for any Proposer.

At any time during the proposal evaluation process, SFERS may require a Proposer to provide oral or written clarification of its proposal. SFERS reserves the right to make an award without further clarifications of proposals received.

## **G. Errors and Omissions in Proposal**

Failure by SFERS to object to an error, omission, or deviation in the proposal will in no way modify this Request for Proposal or excuse the Proposer from full compliance with the specifications of this Request for Proposal or any contract awarded pursuant to this Request for Proposal.

## **H. Financial Responsibility**

SFERS accepts no financial responsibility for any costs incurred by a firm in responding to this Request for Proposal. Submissions of responses to this Request for Proposals and associated materials will become the property of SFERS and may be used by SFERS in any way SFERS deems appropriate.

## **I. Proposer's Obligations Under the Campaign Reform Ordinance**

Proposers must comply with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code ("Section 1.126"), which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or the board of a state agency on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six (6) months after the date the contract is approved.

The negotiation period begins with the first point of contact, either by telephone, in person, or in writing, when a contractor approaches any city officer or employee about a particular contract, or a city officer or employee initiates communication with a potential contractor about a contract. The negotiation period ends when a contract is awarded or not awarded to the contractor. Examples of initial contacts include: (i) a vendor contacts a city officer or employee to promote himself or herself as a candidate for a contract; and (ii) a city officer or employee contacts a contractor to propose that the contractor apply for a contract. Inquiries for information about a particular contract, requests for documents relating to a Request for Proposal, and requests to be placed on a mailing list do not constitute negotiations.

Violation of Section 1.126 may result in certain criminal, civil or administrative

penalties.

For further information, Proposers should contact the San Francisco Ethics Commission at (415) 252-3100.

#### **J. Sunshine Ordinance**

In accordance with San Francisco Administrative Code Section 67.24(e), contracts, contractors' bids, responses to requests for proposals and all other records of communications between the City and persons or firms seeking contracts shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person's or organization's net worth or other proprietary financial data submitted for qualification for a contract or other benefit until and unless that person or organization is awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

#### **K. Public Access to Meetings and Records**

If a Proposer is a non-profit entity that receives a cumulative total per year of at least \$250,000 in City funds or City-administered funds and is a non-profit organization as defined in Chapter 12L of the San Francisco Administrative Code, the Proposer must comply with the reporting requirements of that Chapter. The Proposer must include in its proposal (1) a statement describing its efforts to comply with the Chapter 12L provisions regarding public access to Proposer's meetings and records, and (2) a summary of all complaints concerning the Proposer's compliance with Chapter 12L that were filed with the City in the last two years and deemed by the City to be substantiated. The summary shall also describe the disposition of each complaint. If no such complaints were filed, the Proposer shall include a statement to that effect. Failure to comply with the reporting requirements of Chapter 12L or material misrepresentation in Proposer's Chapter 12L submissions shall be grounds for rejection of the proposal and/or termination of any subsequent agreement reached on the basis of the proposal.

#### **L. Reservations of Rights by SFERS**

The issuance of this Request for Proposals does not constitute an agreement by SFERS that any contract will actually be entered into by SFERS. SFERS expressly reserves the right at any time to:

- 1) Waive or correct any defect or informality in any response, proposal, or proposal procedure;

- 2) Reject any or all proposals;
- 3) Cancel the pending Request for Proposals at any point in the process;
- 4) Reissue a Request for Proposals;
- 5) Prior to the submission deadline for proposals, modify all or any portion of the selection procedures, including deadlines for accepting responses, the specifications or requirements for any materials, equipment or services to be provided under this Request for Proposals, or the requirements for contents or format of the proposals;
- 6) Procure any materials, equipment or services specified in this Request for Proposals by any other means; or
- 7) Determine that no project will be pursued.

**M. No Waiver**

No waiver by SFERS of any provision of this Request for Proposals shall be implied from any failure by SFERS to recognize or take action on account of any failure by a Proposer to observe any provision of this Request for Proposals.

**N. Local Business Enterprise Participation**

SFERS strongly encourages proposals from qualified “Local Business Enterprises (LBEs)” as defined in Chapter 14B of the San Francisco Administrative Code. If you desire to participate in the City’s Local Business Enterprise Program, which helps certain financially disadvantaged businesses increase their ability to compete effectively for City contracts, go to the “Vendor Information” tab and then link to the “Qualify to Do Business” Section on the Office of Contract Administration website at <https://sfgov.org/oca> for details and required forms.

**O. Chapters 12B and 12C: Nondiscrimination in Employment and Benefits**

The provisions of Chapters 12B and 12C of the San Francisco Administrative Code are incorporated by reference as though fully set forth herein. Such provisions prohibit discrimination by City contractors in employment, the use of property, the provision of public accommodations and in the provision of benefits to employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees.

Please refer to Appendix B regarding the requirements of San Francisco

Administrative Code Chapters 12B and 12C.

**P. Conflicts of Interest**

The successful Proposer will be required to agree to comply fully with and be bound by the applicable provisions of state and local laws related to conflicts of interest, including Section 15.103 of the City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 et seq. and Section 1090 et seq. of the Government Code of the State of California. The successful Proposer will be required to acknowledge that it is familiar with these laws; certify that it does not know of any facts that constitute a violation of said provisions; and agree to immediately notify the City if it becomes aware of any such fact during the term of the agreement.

Individuals who will perform work for the City on behalf of the successful Proposer might be deemed consultants under state and local conflict of interest laws. If so, such individuals will be required to submit a Statement of Economic Interests, California Fair Political Practices Commission Form 700, to the City within ten calendar days of the City notifying the successful Proposer that the City has selected the Proposer.

**VII. City Contract Requirements**

**A. Standard Contract Provisions**

The successful Proposer will be required to enter into a contract substantially in the form of Consulting Agreement, attached hereto as Appendix C. Failure to timely execute the contract, or to furnish any and all certificates, bonds or other materials required in the contract, shall be deemed an abandonment of a contract offer. The City, in its sole discretion, may select another firm and may proceed against the original selectee for damages. Full text of all referenced San Francisco municipal codes can be viewed on-line on the San Francisco homepage at [www.sfgov.org](http://www.sfgov.org). Go to the "Open Gov" tab and then link to "Legislation & Codes".

**B. Required Standard City Forms**

Before the City can award any contract to Proposer, the Proposer must file three mandatory standard City forms with SFERS. The required forms are:

- 1) IRS Form W-9 (Request for Taxpayer Identification Number and Certification);

- 2) Form P-25 (Business Registration Certificate and Tax Declaration); and
- 3) HRC Form 12B-101 (San Francisco Administrative Code Chapters 12B and 12C Declaration: Nondiscrimination in Contracts and Benefits).

Complete descriptions of these required forms are available on the Office of Contract Administration website at <https://sfgov.org/oca>. Go to the “Vendor Information” tab and then link to the “Qualify to Do Business” section. Additionally, these forms and their locations are listed in Appendix B of this Request for Proposals.

The three required forms are to be submitted under separate cover at the time the Proposer submits the proposal. If these forms are not filed at the time the Proposer submits the proposal, the proposal may be determined to be non-responsive and rejected.

Please submit one copy of the above forms at the time you submit your proposal. The forms must be submitted under separate cover in a **separate, sealed envelope** addressed to:

Jim Burruel  
Finance Manager  
Attention: Proxy Voting Services Proposal  
San Francisco City and County Employees’ Retirement System  
1145 Market Street, 7<sup>th</sup> Floor  
San Francisco, CA 94103

If a Proposer has previously completed and submitted the required forms to SFERS, the Proposer should not do so again unless the Proposer’s responses have changed.



## **APPENDIX A**

### **RFP QUESTIONS**

#### **Introduction and Executive Summary**

Submit a letter of introduction and executive summary of the proposal. A person authorized by your firm to obligate your firm to perform the commitments contained in the proposal must sign the letter. Submission of the letter will constitute a representation by your firm that your firm is willing and able to perform the commitments contained in the proposal.

#### **I. Organization, Personnel and Clients (40%)**

##### **A. Organization**

1. Please provide the following information about your organization:
  - a) An overview of the firm, including its history and any special expertise or experiences that would be relevant to SFERS.
  - b) A description of the ownership structure of the firm, which includes the parent company and any affiliated companies, joint ventures, and strategic alliances. If any near-term changes to the firm's corporate or organizational structure are anticipated, please also note them.
  - c) A list of all the owners of the firm (from largest to smallest with respect to ownership) and their ownership percentages. Please include individuals and all other entities.
  - d) A description of the firm's organizational structure, including all operating divisions and functional areas, and the number of employees within each area.
  - e) The location of the firm's headquarters and branch offices.
  - f) A current company annual report.
  - g) A copy of the firm's mission statement
  - h) Insurance coverage and limits for errors and omissions insurance, general liability insurance, and other insurance coverage as identified in the attached sample contract. Please include the name and address of the carrier(s).
  - i) Equal Employment Opportunity Employer Information Report Form EEO-1 on Workforce Composition (Section D).
  
2. Within the past three years, have there been any significant developments in your organization, such as changes in ownership, personnel, or any form of reorganizations?

3. How many years has your firm been providing proxy voting services to public pension plans? Other institutional investors? Please feel free to break out the two categories if appropriate.
4. Please list all services provided by the firm not related to proxy voting and the nature thereof.
5. As of June 30, 2018, please list the dollar revenues received by the firm for each of the past five (5) years, grouped by a) consulting services, b) asset management, and c) other sources of revenue. If the firm has an ultimate parent company, please list the percentage of total income that the firm's consulting services represent to the ultimate parent company for each of those years.
6. Does the firm, its affiliates, or the ultimate parent of the firm receive revenues, or any form of economic, business, or other form of indirect compensation, from investment managers or general partners for consulting services provided, software sold, attendance at conferences, access to manager databases, or for any other reason? If so, please list the names of all such sources of revenue as well as the dollar amounts received from each entity during 2017.
7. Please provide the dollar amounts and nature of all material beneficial relationships that the firm or any affiliate of the firm engages in with investment manager clients or general partner relationships.
8. Describe all relationships with investment managers where your firm or an affiliate receives revenues, non-cash, or in-kind benefits.
9. Describe all financial relationships with placement agents.
10. Describe any real or potential conflict arising from any business arrangement by your firm or an affiliate that competes with the interests of SFERS in a specific transaction it is considering and how your firm will manage them.
11. Please describe the firm's conflict of interest policy. Please include an explanation of how this policy, and any other measures taken by the firm, limits the likelihood that the client could receive investment or proxy voting advice that is not completely objective. Please provide the firm's code of ethics.
12. Does the firm serve as an investment manager for clients?
13. Does the firm sponsor fund of funds? If so, describe your fund of funds by year raised, size of fund, and focus of fund. Please also include your fee structure for managing fund of funds or other investment funds for clients.

14. Please detail any existing or potential conflicts between your consulting activities and any other of your firm's or client's activities.
15. Please explain in detail any potential conflicts of interest that would be created by the firm's representation of SFERS. Please include any activities of affiliated or parent organizations as well as other client relationships that may affect services to SFERS.
16. Please acknowledge in writing the following: "Our organization is a person, firm, or corporation registered as an investment advisor under the Investment Advisers Act of 1940, as amended." If yes, provide a copy of the latest Form ADV Parts I and II. If no, please explain why your firm is exempt from registration.
17. Within the last ten years, have your organization, employees, officers, or principals been involved in any business litigation or other legal proceeding relating to your consulting/advisor activities? In addition, has your organization been investigated by federal or state licensing or regulatory authorities? If so, provide an explanation and indicate the current status.
18. Is the firm a fiduciary as defined by ERISA? Is your firm willing to commit to serving in a fiduciary capacity?
19. Describe your future business plans with regard to Proxy Voting Services. Discuss the total number of accounts and assets that will be accepted. What is the average number of clients per consultant? How frequently do consultants tend to interact by telephone and in person with their clients? What is the average asset value under management per consultant? If growth is anticipated, how will the organization control the quality of service to clients? Identify the plans for additions to professional staff in relation to growth of accounts or assets.
20. What do you consider to be your firm's Proxy Voting Services strengths, and limitations? Describe your firm's competitive advantage over other Proxy Voting advisors.
21. Describe any significant innovations your firm has made in Proxy Voting services for institutional investors. Include names of key staff involved in these developments.
22. Does your firm perform industry or asset class analyses that have been provided to clients? If so, please submit an example of your work.
23. Include a description of the research and other technical resources, including on-line databases and computer-based models that you make available for your clients.

**B. Personnel**

1. Please identify the name(s) and office location of the primary individual(s) who would perform the requested services for SFERS. Please be sure to identify those individuals who would be involved in due diligence and research assignments for the SFERS account. For each person, please also provide a full résumé as well as the following information:

Name:

Title:

Role:

Office location:

Percent (%) of time spent on Proxy Voting Services:

Educational qualifications:

Spoken and written language proficiencies:

Tenure at Firm:

Years of Proxy Voting experience:

Years of overall investment experience:

Other firm duties (e.g., research/due diligence) and percent of time spent on such duties:

Total current number of assigned accounts:

Name, plan type, length of relationship, and size of each assigned client account:

2. Provide an estimate of the percentage of time the lead consultant, as well as other dedicated consultants, will spend on SFERS account.
3. Explain how the team dedicated to the SFERS’ account would function, including primary consultants, back up, research, due diligence, monitoring, etc.
4. Describe how responsibilities are delegated within the organization and how staff is evaluated.
5. What policies are in effect to control the workload as it relates to the number of clients serviced by each consultant? Is there a limit on the number of accounts that a consultant may handle?
6. Please indicate the turnover of Proxy Voting staff over the past five years as follows:

Name	Position	Years with the Firm	Date of Departure	Reason for Leaving

7. Please provide a brief description of the firm’s compensation arrangements for professional staff, including any incentive bonuses, sharing of profits and/or equity ownership. Specific compensation amounts need not be presented. What incentives are used to ensure key professionals do not leave the firm either as a group or individually?
8. Please describe the team’s experience orally presenting investment and proxy voting advice before a Board of Trustees, and any other types of public speaking engagements and experiences that such individuals may possess.
9. Please describe the team’s ability to educate trustees on Proxy Voting matters. What experience do the individuals have conducting educational workshops? What types of research materials does the firm develop or have available for clients? Please provide examples of educational materials utilized for client presentations.
10. How large is your organization (e.g., number of professional /administrative/technical support staff)? Who are the key people in your organization? Why are they key? How long have they worked together?

	2013	2014	2015	2016	2017
<b>Firm Administrative Personnel</b>					
<b>Firm Technical Personnel</b>					
<b>Firm Proxy Professionals</b>					
<b>Firm Other Professionals</b>					

### C. Clients

1. Please provide the following information about the firm’s Proxy Voting clients over the past five years (as of December 31, 2017).

	2013	2014	2015	2016	2017
<b>Total Proxy Voting Retainer Clients</b>					

2. Please list clients lost in the last five years. Were any of these clients lost due to conflicts of interest? If yes, please explain.

Name of Client	Client Type	Date Left (Mo/Year)	Retainer / Non-Retainer	Reason Left

3. Please list the primary consultant(s)' current clients and engagements by asset size, type of client and type of engagement (if other than Proxy Voting). Indicate what steps will be taken to assure that the primary consultant(s) has time to dedicate to SFERS.
4. Please identify three clients as references for whom your firm has provided Proxy Voting services. (Identify as Exhibit #1.) Please provide contact information, number of years as a client, and size and type of fund. Assume these clients will be contacted.
5. Does your firm have a formalized process of collecting feedback on customer satisfaction? If so, what metrics are captured? What have been the results for the past three years? What changes have been implemented as a result of feedback?

## II. Proxy Voting Services (50%)

### A. Interfacing with Third Parties

1. Information Feeds from Bank of New York Mellon (BNY). Describe any difficulties you have had with receiving data feeds from BNY, and how such difficulties were resolved. Describe any difficulties receiving data from BNY that are currently unresolved, and estimate when the issues will be corrected. Describe how SFERS' portfolio holdings would be monitored and updated.
2. Information Feeds from Other Custodians. Describe any difficulties you have had with receiving data from other custodians, and how such difficulties were resolved.
3. Proxy Feeds from Broadridge. State whether you receive proxy information from Broadridge. Describe any difficulties you have had receiving data from Broadridge, and how such difficulties were resolved. Describe any difficulties receiving data from Broadridge that are currently unresolved and estimate when the issues will be corrected.

### B. Reporting and Method of Delivery

1. Description of Reports and Sample Reports. Describe the types and frequencies of

reports SFERS should expect to receive from your firm. Please provide a representative example of a report your firm would provide for various types of proxy reports, such as: executive compensation, stock option plans, mergers and acquisitions, shareholder rights, environmental and social (E&S) topics, or other important proxy related matters.

2. Reports on Proxy Voting History. What reporting systems does your firm offer? Describe the types of reports clients receive. Please provide examples of client reports and be sure to include a report on proxy voting history.
3. Reports on Environmental and Social (E&S) Topics. Describe the type and frequency of reports that SFERS can expect to receive on E&S topics. Please describe the content available in such a report, such as the level of detail, breakdown of information by E&S issues, peer benchmarking data, and/or insight or analysis that is available. Please provide a representative example of a report on E&S topics.
4. Methods of Receiving Proxy Information. Describe how clients receive proxy information and recommendations, such as via the internet or other electronic means. State the systems requirements (hardware, software, network connectivity, database, utilities, etc.) for your proxy voting system. If you have web access, please provide access on a trial basis by providing log-in information.
5. Timeliness. State how many days prior to a shareholder meeting research is available to the client. State how many days after a shareholder meeting vote results are available to the client.

### **C. Objectivity**

1. Maintaining Objectivity in Making Recommendations. In making recommendations on how to vote proxies, as well as how you conduct analysis of a proxy issue, discuss in detail how your firm maintains independence and provides objective advice.
2. Bias or Factual Errors. What quality control procedures do you have in place? How many times have your reports or analyses been accused of or found to contain bias or factual inaccuracies in the past three years? Please explain.
3. Assessment of Environmental and Social Issues. In making recommendations on how to vote proxies on environmental and social (E&S) proposals, discuss how your firm evaluates their relevance and materiality. Describe how your firm evaluates proposals that may be related to political, religious values-based, and/or ethical issues.

## D. Scope of Proxy Services

1. Customizing Proxy Voting Advice. SFERS currently uses a proxy voting agent with custom voting features. The proxy agent makes recommendations in accordance with SFERS' Board adopted Proxy Voting Guidelines (see attached). Describe if/how your firm provides customized proxy voting advice to meet the needs and requirements of individual investors. Describe your experience applying a Board approved proxy policy to the issues of a specific policy? If you do not have such experience, would you apply a Board approved proxy policy to the issues of a specific policy?
2. Recommendations or Information Only. Does your firm make recommendations on proxy matters, or are your services limited to analyzing proxies?
3. Small Stocks. State your resources for analyzing proxies on less followed small and mid cap companies. State, by percent value, the level of coverage of research your firm provides for U.S. companies versus all publicly traded U.S. companies.
4. International Stocks. State your resources for analyzing and making recommendations on proxies for companies domiciled in international developed market countries. Differentiate between large and small cap international companies. Describe your resources – including personnel and information sources – to analyze proxies for large and small companies in different geographic regions outside the U.S, and how often your analysts visit the foreign countries of international companies. Describe the capabilities and resources you use to evaluate and translate proposals that are not published in English.
5. Emerging Market Stocks. State your resources for analyzing and making recommendations on proxies for companies domiciled in emerging market countries. Describe your resources – including personnel and information sources– to analyze proxies for large and small companies in different emerging market countries, and how often your analysts visit such countries.
6. Number of Securities. State the number of securities in your database separately for the following: U.S. companies; international developed market countries; emerging market countries.
7. Environmental and Social Issues. Describe your research, proxy services, and other capabilities around environmental and social (E&S) issues. Does your firm have customized proxy voting guidelines focused on E&S issues? If so, describe how these differ from your standard proxy voting guidelines. What resources do you provide clients related to E&S issues? Do you have dedicated staff focused on E&S issues? If so, how many? Provide the name and qualifications for the individual or individuals who lead this team.



8. Amendments to the Proxy Policy. Describe your experience making recommendations to amend a Board approved proxy policy and voting guidelines. If you do not have such experience, would you make recommendations to amend a proxy policy on an annual basis?
9. Securities on Loan. Can your firm track proxies for companies whose securities are on loan (securities lending)? If so, is your firm able to issue instructions to the lending agent to recall securities prior to the record date for proxy voting purposes?

#### **E. General Questions on Proxy Services**

1. Strengths of Your Proxy Services. Describe the strengths of your ability to deliver proxy services.
2. Limitations of Your Proxy Services. Describe any limitations in your ability to provide proxy services.
3. Enhancing Your Proxy Services. How do you plan to improve your proxy services?
4. Bundled and Unbundled Services. Do you provide an unbundled approach? If yes, state the various services (e.g., systems such as reporting of proxies voted, research and evaluating proxies, social investing related to proxy issues,) and describe any services that you offer that have not been discussed previously in this RFP.
5. Integration. Describe how you integrate your various services (see question 67) into one solution.
6. Training. Discuss any training you make available to clients as part of services provided and any conferences you regularly hold or sponsor.

#### **F. SFERS' Scope of Services**

1. Below is a list of services SFERS seeks from a proxy provider. State whether you will provide each of these services in a timely manner.
  - a. Proxy voting recommendations in accordance with Board approved Proxy Voting Guidelines.
  - b. Vote execution.
  - c. Record-keeping of proxy analysis, recommendations, vote execution.
  - d. Your organization's proxy voting manual and proxy voting guidelines.
  - e. An annual report of proxies voted and vote results, organized by region, theme and topic (including environmental and social topics).

- f. Monthly report of proxies voted and vote results of specified climate change related proposals.
- g. Recommend and implement changes to SFERS proxy voting guidelines on an annual basis.
- h. Annual presentation of voting results to SFERS' Board of Trustees.
- i. Annual analysis of key management and shareholder proposal trends.
- j. Analysis and recommendations related to current and emerging environmental & social (E&S) shareholder proposals.
- k. Additional meetings if required.

### **III. Fee Proposal (10%)**

1. SFERS expects to vote approximately 2,000 U.S. ballots and 1,600 international ballots per year and requires proxy analysis on approximately 1,500 U.S proxies and 1,500 international proxies per year. SFERS has 11 U.S. equity managers (7 are separate accounts), 7 international developed market equity managers (6 separate accounts), 4 emerging market equity managers (2 separate accounts), and 8 opportunistic equity managers (2 separate accounts).

Please provide the following:

- A. List, describe and state a fee amount for unbundled services.
- B. List and state a fee amount for bundled services.
- C. State the overage rate per unit for the following:
  - 1 – U.S. ballots over 2,000 annually.
  - 2 – International ballots over 1,600 annually.
  - 3 – U.S. proxies over 1,500 annually.
  - 4 – International proxies over 1,500 annually.

## **APPENDIX B**

### **REQUIRED VENDOR FORMS**

All required forms are available at [www.sfgsa.org](http://www.sfgsa.org) under the “How To Qualify To Do Business with The City” tab of the Office of Contract Administration Web site located at: <http://sfgsa.org/index.aspx?page=4762>

All vendors must fill out the first three forms before the City can do business with them:

IRS Form W-9 (Request for Taxpayer Identification Number and Certification); Form P-25 (Business Registration Certificate and Tax Declaration); and  
HRC Form 12B-101 (San Francisco Administrative Code Chapters 12B and 12C Declaration: Nondiscrimination in Contracts and Benefits)

1. IRS Form W-9 (Request for Taxpayer Identification Number and Certification)

This form provides the City with the vendor’s taxpayer identification number, which is then used to assign the vendor a City 5-digit vendor number:

<http://www.irs.gov/pub/irs-pdf/fw9.pdf>

2. Form P-25 (Business Registration Certificate and Tax Declaration)

This form is used to determine if the vendor is physically “doing business in San Francisco” and therefore is required to pay business taxes:

<http://sfgsa.org/Modules/ShowDocument.aspx?documentid=7624>

3. HRC Form 12B-101 (San Francisco Administrative Code Chapters 12B and 12C Declaration: Nondiscrimination in Contracts and Benefits)

This form is used by the City’s Contract Monitoring Division to determine if the vendor has employees and offers benefits to these employees. Depending on the vendor’s particular situation, the vendor may have to complete other forms. Forms and declarations are available after registering here:

<https://sfcitypartner.sfgov.org/>

**APPENDIX C**

**FORM OF CONSULTING AGREEMENT**

**CONSULTING AGREEMENT  
BETWEEN  
SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM  
AND**

[\_\_\_\_\_]

THIS Consulting Agreement (this "Agreement") is made this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ in the City and County of San Francisco (the "City"), State of California, by and between: [\_\_\_\_\_] ("Consultant") and the San Francisco City and County Employees' Retirement System (the "Retirement System").

**RECITALS**

WHEREAS, the Retirement System is a duly established and existing public retirement system created under the Charter of the City;

WHEREAS, the board of the Retirement System (the "Retirement Board") has plenary authority and fiduciary responsibility for investment of monies and administration of the Retirement System;

WHEREAS, the Retirement Board, through the Retirement System, seeks to retain a consultant to provide proxy voting services (the "Proposed Services");

WHEREAS, the Retirement System issued a request for proposal with respect to the Proposed Services ("RFP"), and as a result of the competitive selection process in connection with that RFP (the "RFP Process"), the Retirement System recommended, and the Retirement Board approved, selection of Consultant to provide the Proposed Services based on Consultant's representations during the RFP Process; and

WHEREAS, Consultant represents and warrants that it is qualified to perform the services required by the Retirement System under this Agreement;

Now, THEREFORE, in consideration of the promises and mutual covenants herein contained, Consultant and the Retirement System do hereby agree as follows:

1. **Term of the Agreement.** Subject to Section 8 of this Agreement, the term of this Agreement shall be from [\_\_\_\_\_, \_\_\_\_] to [\_\_\_\_\_, \_\_\_\_].
2. **Engagement.** The Retirement System hereby engages Consultant, and Consultant hereby accepts such engagement, to provide proxy voting services to the Retirement System in accordance with the terms and conditions of this Agreement and applicable

federal, state and local laws.

3. **Services.** In accordance with the Investment Policy, Objectives and Guidelines for the Retirement System attached hereto as Exhibit A and incorporated by reference as though fully set forth herein (the “Investment Policy Statement”), Consultant agrees to perform the non-discretionary Proxy Voting services for the Retirement System as described in the Schedule of Services attached hereto as Exhibit B and incorporated by reference as though fully set forth herein (the “Described Services”). Additional services will be provided only upon and in accordance with a written request by the Executive Director of the Retirement System (the “Executive Director”) or designee acting on behalf of the Retirement System (the “Additional Services,” together with the Described Services, the “Services”).
  
4. **Compensation.**
  - (a) **Fees.** For the full performance and the completion of the Services, Consultant shall be compensated as set forth in the Fee Schedule attached hereto as Exhibit C and incorporated by reference as though fully set forth herein (the “Fees”). The Fees include the compensation for professional services as well as travel and other out-of-pocket expenses, printing, delivery, secretarial and clerical support services and any other costs incurred as may be necessary to perform the Services in a professional manner. No charges shall be incurred under this Agreement nor shall any payments become due to Consultant until reports, services, or both, required under this Agreement are received from Consultant and approved by the Retirement System as being in accordance with this Agreement. The Retirement System may withhold payment to Consultant in any instance in which Consultant has failed or refused to satisfy any material obligation provided for under this Agreement. In no event shall the Retirement System be liable for interest or late charges for any late payments.
  
  - (b) **Fee Ceiling.** In no event shall the annual compensation amount under this Agreement exceed [\_\_\_\_\_] (\$[\_\_\_\_\_]).
  
  - (c) **Payment Does Not Imply Acceptance of Services.** The granting of any payment by the Retirement System, or the receipt thereof by Consultant, shall in no way lessen the liability of Consultant to replace unsatisfactory Services, although the unsatisfactory character of such Services may not have been apparent or detected at the time such payment was made. Services that do not conform to the requirements of this Agreement may be rejected by the Retirement System and in such case must be replaced by Consultant without delay.

**5. Fiduciary Responsibility.** Consultant represents and warrants that it is duly registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”), and will be registered as an investment adviser under the Advisers Act at all times during the term of this Agreement. Consultant represents and warrants that it has delivered to the Retirement System, at least five (5) business days prior to the date of this Agreement, Parts 1 and 2 of Consultant’s Form ADV (the “Disclosure Statement”). Consultant further represents and warrants that it will deliver to the Retirement System: (a) a copy of the Disclosure Statement it files with the Securities and Exchange Commission annually, within thirty (30) days of filing and (b) copies of any amendments to the Disclosure Statement it files with the Securities and Exchange Commission, within thirty (30) days of filing. Consultant acknowledges that this Agreement places it in a fiduciary relationship with the Retirement System. As a fiduciary, Contractor shall discharge each of its duties and exercise each of its powers (as those duties and powers are defined herein) with the competence, care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the course of any enterprise of like character and with like aims, in conformance with the California Constitution, Article XVI, Section 17, California Government Code Sections 31594 and 31595, San Francisco Charter Section 12.100 and with the customary standard of care of a professional investment consultant providing services to a United States employee pension trust (the “Standard of Care”). Consultant shall cause any and all of its employees, agents and representatives providing services in connection with this Agreement to exercise the same Standard of Care.

Consultant acknowledges that, to comply with the above-described fiduciary duties, it must maintain independence from all interests other than the interests of the Retirement System members and beneficiaries, as those interests are expressed by the Retirement Board. Consultant further acknowledges that the Retirement System staff acts as the agent for the Retirement Board in its relationship with Consultant, but is subordinate to the Retirement Board and cannot direct Consultant to consider interests contrary to those expressed by the Retirement Board. Consultant warrants that it will not delegate its fiduciary responsibilities under this Agreement.

Within the context of providing the Services, Consultant’s analysis may address tax, legal or other considerations related to various investment strategies or investments; *provided, however*, Consultant shall not provide or otherwise be responsible for the provision of tax advice or legal counsel. Consultant shall act in an advisory capacity only.

**6. Disclosures.**

(a) **RFP.** Consultant represents and warrants that its statements, dated [\_\_\_\_\_, \_\_\_\_], in its response to the RFP, are true and correct.

(b) **Disclosure of Interest.** Consultant shall fully disclose its direct or indirect

financial interests in any investment opportunity that it may recommend to the Retirement System in providing the Services. Consultant shall also disclose any other fact or relationship which would compromise or materially affect its ability to faithfully perform its duties under this Agreement.

- (c) **Intellectual Property.** The Services and deliverables that Consultant provides under this Agreement shall not infringe upon any patent rights, copyright, trade secret or any other proprietary right or trademark, or any other intellectual property rights of any other third party.

**7. Personnel.**

- (a) **Qualified Personnel.** Work under this Agreement shall be performed only by competent personnel under the supervision of and in the employment of Consultant. Consultant will comply with the Retirement System's reasonable requests regarding assignment or substitution of personnel, but all personnel, including those assigned or substituted at the Retirement System's request, must be supervised by Consultant. Consultant shall commit adequate resources to complete the services within the schedule specified in this Agreement.
- (b) **Key Personnel.** The Retirement System may designate in writing, from time to time, that certain personnel of Consultant are "key personnel." Consultant shall immediately notify the Retirement System in writing of any changes in key personnel within its organization.

- 8. Budget Authorization.** This Agreement is subject to the budget and fiscal provisions of the City's Charter. Charges will accrue only after prior written authorization certified by the City Controller, and any amount of the Retirement System's obligation hereunder shall not at any time exceed the amount certified for the purpose and period stated in such advance authorization. This Agreement will terminate without penalty, liability or expense of any kind to the Retirement System at the end of any fiscal year if funds are not appropriated for the next succeeding fiscal year. If funds are appropriated for a portion of the fiscal year, this Agreement will terminate, without penalty, liability or expense of any kind at the end of the term for which funds are appropriated. The Retirement System has no obligation to make appropriations for this Agreement in lieu of appropriations for new or other agreements. City budget decisions are subject to the discretion of the City Mayor and the City Board of Supervisors. Consultant's assumption of risk of possible non-appropriation is part of the consideration for this Agreement.

This Section 8 controls against any and all other provisions of this Agreement.

- 9. Invoices.** Consultant shall submit invoices for the Services in a form acceptable to the Retirement System. Consultant shall also furnish an itemized statement of services at the



end of each quarter. Consultant shall send invoices to (or to such other recipient or address as the Retirement System from time to time may specify in writing to Consultant in accordance with the notice provision in Section 21 of this Agreement):

[ \_\_\_\_\_ ]  
San Francisco City and County Employees' Retirement System  
1145 Market Street, 7<sup>th</sup> Floor  
San Francisco, CA 94103

Consultant shall also send electronic copies of such invoices to (or to such other recipient or address as the Retirement System from time to time may specify in writing to Consultant in accordance with the notice provision in Section 21 of this Agreement):

[ \_\_\_\_\_ ]

10. **False Claims.** The full text of Section 21.35 of the San Francisco Administrative Code, as amended ("False Claims Ordinance"), including the enforcement and penalty provisions, is incorporated into this Agreement. Consultant acknowledges that Consultant is subject to the False Claims Ordinance. Pursuant to the False Claims Ordinance, if Consultant submits a false claim, Consultant shall be liable for the statutory penalties set forth therein. Consultant is deemed to have submitted a false claim to the Retirement System if Consultant: (i) knowingly presents or causes to be presented to an officer or employee of the Retirement System a false claim or request for payment or approval; (ii) knowingly makes, uses, or causes to be made or used a false record or statement to get a false claim paid or approved by the Retirement System; (iii) conspires to defraud the Retirement System by getting a false claim allowed or paid by the Retirement System; (iv) knowingly makes, uses or causes to be made or used a false record or statement to conceal, avoid or decrease an obligation to pay or transmit money or property to the Retirement System; or (v) is a beneficiary of an inadvertent submission of a false claim to the Retirement System, subsequently discovers the falsity of the claim, and fails to disclose the false claim to the Retirement System within a reasonable time after discovery of the false claim.
11. **Taxes.** Consultant shall have the sole obligation to pay any taxes, including without limitation payroll taxes and California sales and use taxes, levied upon or as a result of this Agreement, or the services delivered pursuant under this Agreement.
12. **Independent Contractor.**
  - (a) **Independent Contractor Status.** In performing the Services, Consultant or any agent or employee of Consultant shall be deemed at all times to be an independent contractor and is wholly responsible for the manner in which it performs the services and work under this Agreement. Consultant or any agent or employee of

Consultant shall not have employee status with the Retirement System, nor be entitled to participate in any plans, arrangements, or distributions by the Retirement System pertaining to or in connection with any retirement, health or other benefits that the Retirement System may offer its employees. Consultant or any agent or employee of Consultant is liable for the acts and omissions of itself, its employees and its agents. Consultant shall be responsible for all obligations and payments, whether imposed by federal, state or local law, including, but not limited to, FICA, income tax withholdings, unemployment compensation, insurance, and other similar responsibilities related to Consultant's performing services and work, or any agent or employee of Consultant providing same. Nothing in this Agreement shall be construed as creating an employment or agency relationship between the Retirement System and Consultant or any agent or employee of Consultant.

- (b) **Payment of Taxes.** If any governmental authority should, nevertheless, determine that Consultant is an employee for purposes of collection of any employment taxes, then the Retirement System's payment obligations hereunder shall be reduced so that the aggregate amount of payments directly to the Consultant and to the applicable governmental authority does not exceed the maximum amount specified in Section 4 of this Agreement. Consultant shall refund any amounts necessary to effect that reduction.

### 13. Insurance.

- (a) Without in any way limiting Consultant's liability pursuant to Section 14 of this Agreement, Consultant must maintain in force, during the full term of the Agreement, insurance in the following amounts and coverages:
  - (1) worker's compensation, in statutory amounts, with employers' liability limits not less than \$1,000,000 each accident;
  - (2) commercial general liability insurance with limits not less than \$1,000,000 each occurrence, including without limitation combined single limit for bodily injury and property damage, including contractual liability, personal injury, products, completed operations and hired and non-owned automobiles;
  - (3) professional or fiduciary indemnity (errors and omissions) insurance in the aggregate minimum of \$10,000,000; and
  - (4) technology errors and omissions liability with limits of not less than \$1,000,000 each claim with respect to failure against programming errors, software performance, failure to perform work as agreed, and

errors and omissions in connection with the products and services provided.

- (b) Commercial general liability insurance policy must be endorsed to: (i) name as additional insured the Retirement System and its officers, agents, and employees; and (ii) provide that such policies are primary insurance to any other insurance available to the additional insureds, with respect to any claims arising out of this Agreement, and that insurance applies separately to each insured against whom claim is made or suit is brought.
- (c) All policies shall be endorsed to provide thirty (30) days' advance written notice to the Retirement System of cancellation for any reason, intended non-renewal, or reduction in coverages. Notices shall be sent to the Retirement System in accordance with Section 21 hereof.
- (d) Should any of the required insurance be provided under a claims-made form, Consultant shall maintain such coverage continuously throughout the term of this Agreement and, without lapse, for a period of five (5) years beyond the expiration or earlier termination of this Agreement, to the effect that, should occurrences during the contract term give rise to claims made after expiration or earlier termination of the Agreement, such claims shall be covered by such claims-made policies.
- (e) Should any of the required insurance be provided under a form of coverage that includes a general annual aggregate limit or provides that claims investigation or legal defense costs be included in such general annual aggregate limit, such general annual aggregate limit shall be double the occurrence or claims limits specified in this section.
- (f) Should any required insurance lapse during the term of this Agreement, requests for payments originating after such lapse shall not be processed until the Retirement System receives satisfactory evidence of reinstated coverage as required by this Agreement, effective as of the lapse date. If insurance is not reinstated, the Retirement System may, at its sole option, terminate this Agreement effective on the date of such lapse of insurance.
- (g) Before commencing any services under this Agreement, Consultant shall furnish to the Retirement System certificates of insurance and additional insured policy endorsements with insurers with ratings comparable to A-, VIII or higher, that are authorized to do business in the State of California, and that are satisfactory to the Retirement System, in form evidencing all coverages set forth herein. Consultant shall also furnish to the Retirement System such certificates and endorsements on an annual basis.

- (h) If Consultant will use any subcontractor(s) to provide services under this Agreement, Consultant shall require the subcontractor(s) to provide all necessary insurance and to name the Retirement System, its officers, agents and employees and the Consultant as additional insureds.
- (i) Approval of the insurance by the Retirement System shall not relieve or decrease the liability of Consultant hereunder.

**14. Indemnification.** Consultant shall indemnify and save harmless the Retirement System and its officers, agents and employees from, and, if requested, shall defend them against any and all loss, cost, damage, injury, liability, and claims thereof (a) arising directly or indirectly from any breach of any representation or warranty made by Consultant in this Agreement, (b) arising directly or indirectly from any breach of any covenant, agreement or obligation of Consultant contained in this Agreement, including without limitation breach of fiduciary duty, breach of the Standard of Care, breach of trust or breach of confidentiality, (c) arising directly or indirectly from any (i) bad faith, (ii) negligence, (iii) willful misconduct or (iv) improper or unethical practice in violation of law by Consultant or its agents or (d) for injury to or death of a person, including employees of Consultant or loss of or damage to property, arising directly or indirectly from Consultant's performance of this Agreement, including, but not limited to, Consultant's use of facilities or equipment provided by the Retirement System or others, regardless of the negligence of, and regardless of whether liability without fault is imposed or sought to be imposed on the Retirement System, except, in the case of each of subsection (c) and subsection (d) of this Section 14, to the extent that such indemnity is void or otherwise unenforceable under applicable law in effect on or validly retroactive to the date of this Agreement, and except, in the case of subsection (d) of this Section 14, where such loss, damage, injury, liability or claim is the result of the active negligence or willful misconduct of the Retirement System and is not contributed to by any act of, or by any omission to perform some duty imposed by law or agreement on Consultant, its subcontractors or either's agent or employee. The foregoing indemnities shall include, without limitation, reasonable fees of attorneys, consultants and experts and related costs and the Retirement System's costs of investigating any claims against the Retirement System. In addition to Consultant's obligation to indemnify the Retirement System, Consultant specifically acknowledges and agrees that it has an immediate and independent obligation to defend the Retirement System from any claim which actually or potentially falls within this indemnification provision, even if the allegations are or may be groundless, false or fraudulent, which obligation arises at the time such claim is tendered to Consultant by the Retirement System and continues at all times thereafter. Consultant shall indemnify and hold the Retirement System harmless from all loss and liability, including attorneys' fees, court costs and all other litigation expenses for any infringement of the patent rights, copyright, trade secret or any other proprietary right or trademark, and all other intellectual property claims of any person or persons in consequence of the use by the Retirement System, or any of its officers or agents, of

articles or services to be supplied in the performance of this Agreement.

**15. Limitation on Liability of the Retirement System.** The Retirement System's payment obligations under this Agreement shall be limited to the payment of the compensation provided for in Section 4 of this Agreement. Notwithstanding any other provision of this Agreement, in no event shall the Retirement System be liable, regardless of whether any claim is based on contract or tort, for any special, consequential, indirect or incidental damages, including but not limited to, lost profits, arising out of or in connection with this Agreement or the services performed in connection with this Agreement.

**16. Default; Remedies.**

- (a) Each of the following shall constitute an event of default ("Event of Default") under this Agreement:
- (1) Consultant fails or refuses to perform or observe any term, covenant or condition contained in any of the following sections of this Agreement:
    - (A) Section 10 (False Claims);
    - (B) Section 11 (Taxes);
    - (C) Section 13 (Insurance);
    - (D) Section 20 (Proprietary or Confidential Information);
    - (E) Section 25 (No Assignment or Subcontracting);
    - (F) Section 31 (Alcohol and Drug-Free Workplace); and
    - (G) Section 44 (Compliance with Laws).
  - (2) Consultant fails or refuses to perform or observe any other term, covenant or condition contained in this Agreement, and such default continues for a period of ten (10) days after written notice thereof from the Retirement System to the Consultant;
  - (3) Consultant (A) is generally not paying its debts as they become due, (B) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction, (C) makes an assignment for the benefit of its creditors, (D) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers of Consultant or of any substantial part of Consultant's property or (E) takes action for the purpose of any of the foregoing; or
  - (4) a court or government authority enters an order (A) appointing a

custodian, receiver, trustee or other officer with similar powers with respect to Consultant or with respect to any substantial part of Consultant's property, (B) constituting an order for relief or approving a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction or (C) ordering the dissolution, winding-up or liquidation of Consultant.

- (b) On and after any Event of Default, the Retirement System shall have the right to exercise its legal and equitable remedies, including, without limitation, the right to terminate this Agreement or to seek specific performance of all or any part of this Agreement. In addition, the Retirement System shall have the right (but no obligation) to cure (or cause to be cured) on behalf of Consultant any Event of Default; Consultant shall pay to the Retirement System on demand all costs and expenses incurred by the Retirement System in effecting such cure, with interest thereon from the date of incurrence at the maximum rate then permitted by law. The Retirement System shall have the right to offset from any amounts due to Consultant under this Agreement or any other agreement between the Retirement System and Consultant all damages, losses, costs or expenses incurred by the Retirement System as a result of such Event of Default and any liquidated damages due from Consultant pursuant to the terms of this Agreement or any other agreement.
- (c) All remedies provided for in this Agreement may be exercised individually or in combination with any other remedy available hereunder or under applicable laws, rules and regulations. The exercise of any remedy shall not preclude or in any way be deemed to waive any other remedy.

**17. Termination for Convenience.** The Retirement System shall have the option, in its sole discretion, to terminate this Agreement, at any time during the term hereof, for convenience and without cause. The Retirement System shall exercise this option by giving Consultant written notice of termination (the "Termination Notice"). The Termination Notice shall specify the date on which termination shall become effective.

Upon receipt of the Termination Notice, Consultant shall commence and perform, with diligence, all actions necessary on the part of Consultant to effect the termination of this Agreement on the date specified by the Retirement System and to minimize the liability of Consultant and the Retirement System to third parties as a result of termination. All such actions shall be subject to the prior approval of the Retirement System. Such actions shall include, without limitation, the cessation of performance of all services under this Agreement on the date(s) and in the manner specified by the Retirement System, the completion of performance of any service that the Retirement System designates to be completed prior to the date of termination specified by the Retirement

System or such other actions as directed by the Retirement System.

Within thirty (30) days following the termination date specified by the Retirement System, Consultant shall submit to the Retirement System an invoice, which shall provide details of all activities and services rendered through the date of termination.

**18. Rights and Duties upon Termination.** This Section 18 and the following sections of this Agreement shall survive termination of this Agreement:

- (a) Section 4(c) (Payment Does Not Imply Acceptance of Services);
- (b) Section 10 (False Claims);
- (c) Section 11 (Taxes);
- (d) Section 12 (Independent Contractor);
- (e) Section 13 (Insurance);
- (f) Section 14 (Indemnification);
- (g) Section 15 (Limitation on Liability of the Retirement System);
- (h) Section 20 (Proprietary or Confidential Information);
- (i) Section 22 (Ownership of Results);
- (j) Section 23 (Works for Hire);
- (k) Section 24 (Audit and Inspection of Records);
- (l) Section 39 (Modifications);
- (m) Section 40 (Administrative Remedy);
- (n) Section 41 (California Law; Venue);
- (o) Section 42 (Construction);
- (p) Section 43 (Entire Agreement); and
- (q) Section 46 (Severability).

Subject to the immediately preceding sentence, upon termination of this Agreement, this Agreement shall terminate and be of no further force or effect. Consultant shall transfer title to the Retirement System, and deliver in the manner, at the times, and to the extent, if any, directed by the Retirement System, any work in progress, completed work and other materials produced as a part of, or acquired in connection with the performance of this Agreement, and any completed or partially completed work which, if this Agreement had been completed, would have been required to be furnished to the Retirement System, in each case including without limitation any and all performance data of the Retirement System. Upon termination of this Agreement, Consultant agrees to cooperate with the Retirement System and any other consultant designated by the Retirement System in writing to ensure an orderly termination process.

**19. Prohibited Activities.**

- (a) Consultant represents and warrants that it does not and shall not knowingly employ, retain or compensate in any capacity: any employee, fiduciary, agent, consultant or other service provider of the Retirement System, or any member of the Retirement Board, who

either could influence the award of this Agreement or any competing agreement, or who does or will have any direct or indirect financial interest in this Agreement (“Interested Person”), and any spouse or economic dependent of any Interested Person.

(b) By executing this Agreement, Consultant certifies that it does not know of any fact which constitutes a violation of: (i) Section 15.103 of the Charter, (ii) Article III, Chapter 2 of the San Francisco Campaign and Governmental Conduct Code, as amended, (iii) Section 87100 et seq. of the Government Code or (iv) Section 1090 et seq. of the Government Code, and further agrees promptly to notify the Retirement System if it becomes aware of any such fact during the term of this Agreement. Consultant further acknowledges that individuals who will provide services under this Agreement may be deemed consultants under state and local conflict of interest laws. Consultant agrees to use its best efforts to require that such individuals submit a Statement of Economic Interests, California Fair Political Practices Commission Form 700, to the Retirement System within ten (10) calendar days of the Retirement System’s written request.

(c) Consultant further acknowledges that it is familiar with Section 3.216 of the San Francisco Campaign and Governmental Conduct Code, as amended (the “Gifts Ordinance”), which prohibits an officer or employee of the Retirement System from soliciting or accepting any gift from a person who the officer or employee knows or has reason to know is a restricted source. The Gifts Ordinance defines “restricted source” to mean: (i) a person doing business with or seeking to do business with the department of the officer or employee; or (ii) any person who during the prior twelve (12) months knowingly attempted to influence the officer or employee in any legislative or administrative action. Consultant certifies that it does not know of any facts that constitute a violation of those provisions and agrees that it will immediately notify the Retirement System if it becomes aware of any such fact during the term of this Agreement.

**20. Proprietary or Confidential Information.** Consultant understands and agrees that, in the performance of the work or services under this Agreement or in contemplation thereof, Consultant may have access to private or confidential information which may be owned or controlled by the Retirement System and that such information may contain proprietary or confidential details, the disclosure of which to third parties may be damaging to the Retirement System. Consultant agrees that all information disclosed by the Retirement System to Consultant shall be held in confidence and used only in performance of the Agreement. Consultant shall exercise the same standard of care to protect such information as a reasonably prudent consultant would use to protect its own proprietary data.

**21. Notices.** Unless otherwise indicated elsewhere in this Agreement, all written communications sent by the parties may be by U.S. mail, e-mail (with confirmation of receipt) or by fax (with confirmation of receipt), and shall be addressed as follows (or to such other recipient or address as either party from time to time may specify in writing to



the other party in accordance with this notice provision):

To the Retirement System: [\_\_]

To Consultant: [\_\_\_\_\_]

- 22. Ownership of Results.** Any interest of Consultant or its subcontractors, in drawings, plans, specifications, blueprints, studies, reports, memoranda, computation sheets, computer files and media or other documents prepared by Consultant or its subcontractors in connection with services to be performed under this Agreement, shall become the property of and will be transmitted to the Retirement System in a useable format (including electronic format) upon demand by the Retirement System; *provided, however*, Consultant may retain and use copies for reference and as documentation of its experience and capabilities. The Retirement System shall have the unrestricted authority to publish, disclose, distribute or otherwise use in whole or in part any reports, data or other materials prepared under this Agreement, crediting Consultant as the source.
- 23. Works for Hire.** If, in connection with services performed under this Agreement, Consultant or its subcontractors create artwork, copy, posters, billboards, photographs, videotapes, audiotapes, systems designs, software, reports, diagrams, surveys, blueprints, source codes or any other original works of authorship, such works of authorship shall be works for hire as defined under Title 17 of the United States Code, and all copyrights in such works are the property of the Retirement System. If it is ever determined that any works created by Consultant or its subcontractors under this Agreement are not works for hire under U.S. law, Consultant hereby assigns all copyrights to such works to the Retirement System, and agrees to provide any material and execute any documents necessary to effectuate such assignment. With the prior written approval of the Retirement System, Consultant may retain and use copies of such works for reference and as documentation of its experience and capabilities.
- 24. Audit and Inspection of Records.** Consultant agrees to maintain and make available to the Retirement System, during regular business hours, accurate books and accounting records relating to its work under this Agreement, including copies of all invoices. Consultant will permit the Retirement System to audit, examine and make excerpts and transcripts from such books and records, and to make audits of all invoices, materials, payrolls, records or personnel and other data related to all other matters covered by this Agreement, whether funded in whole or in part under this Agreement. Consultant shall maintain such data and records in an accessible location and condition for a period of not less than five (5) years after final payment under this Agreement or until after final audit has been resolved, whichever is later. The State of California or any federal agency having an interest in the subject matter of this Agreement shall have the same rights conferred upon the Retirement System by this Section 24.

25. **No Assignment or Subcontracting.** The services to be performed by Consultant under this Agreement are personal in character and Consultant shall perform the work contemplated with resources available within its own organization. Neither this Agreement nor any duties or obligations hereunder may be assigned, subcontracted or delegated by Consultant without prior written consent of the Retirement System.
26. **Non-Waiver of Rights.** The omission by either party at any time to enforce any default or right reserved to it, or to require performance of any of the terms, covenants, or provisions hereof by the other party at the time designated, shall not be a waiver of any such default or right to which the party is entitled, nor shall it in any way affect the right of the party to enforce such provisions thereafter.
27. **Local Business Enterprise Utilization.** Consultant shall comply with all applicable provisions of San Francisco Administrative Code Chapter 14B. Consultant is subject to the enforcement and penalty provisions in San Francisco Administrative Code Chapter 14B.
28. **Nondiscrimination Requirements.**
- (a) **Non Discrimination in Contracts.** Consultant shall comply with the provisions of Chapters 12B and 12C of the San Francisco Administrative Code, as amended, which are incorporated herein by reference. Consultant shall incorporate by reference in all subcontracts the provisions of Sections 12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code and shall require all subcontractors to comply with such provisions. Consultant is subject to the enforcement and penalty provisions in such chapters.
  - (b) **Nondiscrimination in the Provision of Employee Benefits.** Consultant shall comply with the provisions of San Francisco Administrative Code Section 12B.2. Consultant does not as of the date of this Agreement, and will not during the term of this Agreement, in any of its operations in San Francisco, on real property owned by the City, or where work is being performed for the Retirement System elsewhere in the United States, discriminate in the provision of employee benefits between employees with domestic partners and employees with spouses and/or between the domestic partners and spouses of such employees, subject to the conditions set forth in San Francisco Administrative Code Section 12B.2.
  - (c) **Condition to Agreement.** As a condition to this Agreement, Consultant shall execute and submit the “S.F. Administrative Code Chapters 12B and 12C Declaration: Nondiscrimination in Contracts and Benefits” form (form CMD-12B-101) with supporting documentation to the Retirement System.
29. **MacBride Principles – Northern Ireland.** The provisions of San Francisco

Administrative Code Section 12F, as amended, are incorporated herein by this reference and made part of this Agreement. By executing this Agreement, Consultant confirms that Consultant has read and understood that the City and County of San Francisco (the “City”) urges companies doing business in Northern Ireland to resolve employment inequities and to abide by the MacBride Principles, and urges San Francisco companies to do business with corporations that abide by the MacBride Principles.

30. **Tropical Hardwood and Virgin Redwood Ban.** Pursuant to San Francisco Environment Code Section 804(b), as amended, the City urges Consultant not to import, purchase, obtain, or use for any purpose, any tropical hardwood, tropical hardwood product, virgin redwood or virgin redwood wood product.
31. **Alcohol and Drug-Free Workplace.** The Retirement System reserves the right to deny access to, or require Consultant to remove from, the Retirement System’s or the City’s facilities agents of Consultant who the Retirement System has reasonable grounds to believe has engaged in alcohol abuse or illegal drug activity which in any way impairs the Retirement System’s ability to maintain safe work facilities or to protect the health and well-being of the Retirement System’s employees and the general public. The Retirement System shall have the right of final approval for the entry or re-entry of any such person previously denied access to, or removed from, the Retirement System’s or the City’s facilities. Alcohol abuse means possessing, furnishing, selling, offering, or using alcoholic beverages, or being under the influence of alcohol. Illegal drug activity means possessing, furnishing, selling, offering, purchasing, using or being under the influence of illegal drugs or other controlled substances for which the individual lacks a valid prescription.
32. **Compliance with Americans with Disabilities Act.** Consultant shall provide the services under this Agreement in a manner that complies with the Americans with Disabilities Act of 1990, as amended, including but not limited to Title II's program access requirements, and all other applicable federal, state and local disability rights legislation.
33. **Sunshine Ordinance.** Consultant acknowledges that under Section 67.24(e) of San Francisco Administrative Code, contracts, contractors’ bids, responses to requests for proposals and all other records of communications between the Retirement System and persons or firms seeking contracts, shall be open to public inspection immediately after a contract has been awarded. All information provided by Consultant that is covered by that ordinance (as it may be amended) will be made available to the public upon request.
34. **Limitations on Contributions.** By executing this Agreement, Consultant acknowledges that it is familiar with Section 1.126 of the San Francisco Campaign and Governmental Conduct Code, as amended, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material,

supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or the board of a state agency on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. The prohibition on contributions applies to each prospective party to the contract; each member of Consultant's board of directors; Consultant's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in Consultant; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by Consultant. Consultant must inform each such person of the limitation on contributions imposed by Section 1.126 of the San Francisco Campaign and Governmental Conduct Code and provide the names of the persons required to be informed to the Retirement System.

35. **Minimum Compensation Ordinance.** Consultant shall pay covered employees no less than the minimum compensation required by San Francisco Administrative Code Chapter 12P. Consultant is subject to the enforcement and penalty provisions in Chapter 12P. By signing and executing this Agreement, Consultant certifies that it is in compliance with Chapter 12P.
36. **Healthcare Accountability Ordinance.** Consultant shall comply with San Francisco Administrative Code Chapter 12Q. Consultant shall choose and perform one of the Health Care Accountability options set forth in San Francisco Administrative Code Chapter 12Q.3. Consultant is subject to the enforcement and penalty provisions in Chapter 12Q.
37. **Prohibition on Use of Public Funds for Political Activity.** In performing the services under this Agreement, Consultant shall comply with San Francisco Administrative Code Chapter 12G, as amended, which prohibits funds appropriated for this Agreement from being expended to participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure. Consultant is subject to the enforcement and penalty provisions in such chapter.
38. **First Source Hiring Program.** Consultant must comply with all of the provisions of the First Source Hiring Program, Chapter 83 of the San Francisco Administrative Code, that apply to this Agreement, and Consultant is subject to the enforcement and penalty provisions in Chapter 83

39. **Modifications.** This Agreement may not be modified, nor may compliance with any of its terms be waived, except by written instrument executed and approved in the same manner as this Agreement.
40. **Administrative Remedy.** All disputes, controversies or claims arising under or relating to this Agreement shall be settled by the Executive Director. The Executive Director's decision shall be deemed an exhaustion of all administrative remedies. However, the Executive Director's decision shall not preclude resorting to judicial remedy.
41. **California Law; Venue.** The formation, interpretation and performance of this Agreement shall be governed by the laws of the State of California. Venue for all litigation relative to the formation, interpretation and performance of this Agreement shall be in San Francisco.
42. **Construction.** All section headings in this Agreement are for reference only and shall not be considered in construing this Agreement. Terms such as "hereunder" or "herein" refer to this Agreement as a whole. Terms such as "include" or "including" shall be deemed followed by the words "without limitation." References to consents, approvals, determinations or other decisions of the Retirement System shall refer to the sole judgment of the Retirement System.
43. **Entire Agreement.** This Agreement contains the entire agreement between the parties, and supersedes all other oral or written provisions. The attached Exhibits A, B and C are a part of this Agreement.
44. **Compliance with Laws.** Contractor shall keep itself fully informed of the City's Charter, codes, ordinances and regulations of the City and of all state, and federal laws in any manner affecting the performance of this Agreement, and must at all times comply with such local codes, ordinances, and regulations and all applicable laws as they may be amended from time to time.
45. **Services Provided by Attorneys.** Any services to be provided by a law firm or attorney on behalf of the Retirement System must be reviewed and approved in writing in advance by the Office of the City Attorney of the City (the "City Attorney"). No invoices for services provided by law firms or attorneys, including without limitation, as subcontractors of Consultant, will be paid unless the provider received advance written approval from the City Attorney.
46. **Severability.** Should the application of any provision of this Agreement to any particular facts or circumstances be found by a court of competent jurisdiction to be invalid or unenforceable, then (a) the validity of other provisions of this Agreement shall

not be affected or impaired thereby, and (b) such provision shall be enforced to the maximum extent possible so as to effect the intent of the parties and shall be reformed without further action by the parties to the extent necessary to make such provision valid and enforceable.

- 47. Cooperative Drafting.** This Agreement has been drafted through a cooperative effort of both parties, and both parties have had an opportunity to have the Agreement reviewed and revised by legal counsel. No party shall be considered the drafter of this Agreement, and no presumption or rule that an ambiguity shall be construed against the party drafting the clause shall apply to the interpretation or enforcement of this Agreement.
- 48. Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be an original, but all of which counterparts shall together constitute one and the same instrument.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first referenced above.

**SAN FRANCISCO CITY AND COUNTY  
EMPLOYEES' RETIREMENT SYSTEM**

\_\_\_\_\_

By: \_\_\_\_\_  
[Name]  
[Title]

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**APPENDIX D**

**SFERS INVESTMENT POLICY STATEMENT**



# Investment Policy, Objectives and Guidelines for the San Francisco City and County Employees' Retirement System

## Mission Statement

San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension Trust assets, administering mandated benefit programs, and providing promised benefits.



Approved: October 11, 2017

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## **INTRODUCTION**

This document provides a framework for the management of the assets of the San Francisco City and County Employees' Retirement System ("SFERS" or the "System"). The purpose of the Investment Policy Statement ("IPS") is to assist the Retirement Board (the "Board") to effectively supervise and monitor the assets of SFERS (the "Plan"). Specifically, the IPS will address the following issues:

- The goals of the investment program;
- The policies and procedures for the management of the investments;
- Specific asset allocations, rebalancing procedures and investment guidelines;
- Performance objectives; and,
- Responsible parties.

The Board establishes this investment policy in accordance with applicable Local, State, and Federal laws. The Board members exercise authority and control over the management of the Plan, by setting policy that the Investment Staff executes either internally or through the use of external prudent experts with discretionary authority subject to policies established by SFERS. The Board oversees and guides the Plan and its policies subject to the following basic fiduciary principles:

- To act solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing contributions thereto, and defraying reasonable expenses of administering the Plan. The Board's duty to its participants and their beneficiaries shall take precedence over any other duty.
- To act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent expert acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character with like aims.
- To diversify the investments of the Plan so as to effectively trade off the risk of loss and appropriate rates of return. Diversification is applicable to the deployment of the assets as a whole, and does not preclude the use of concentrated investment styles.

The IPS is designed to allow for sufficient flexibility in the management oversight process to capture investment opportunities as they may occur and to establish reasonable parameters to ensure prudence and care in the execution of the investment program.

## **INVESTMENT GOALS**

SFERS' investment goals are:

- To provide SFERS participants with retirement benefits as required by City and County Charter and applicable laws. This will be accomplished through a carefully planned and executed long-term investment program.
- SFERS' assets will be managed on a total return basis. While SFERS recognizes the importance of the preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.
- On an annualized net-of-fee basis, over a full market cycle, the total portfolio will be expected to:
  1. Exceed the assumed actuarial rate of return (currently 7.5%) over rolling five-year periods; and/or,
  2. Exceed a weighted index based on SFERS' asset allocation policy and respective asset class component benchmarks over rolling five year periods by an appropriate amount.
- To undertake all transactions for the sole benefit of SFERS members and beneficiaries, and for the exclusive purpose of providing benefits to them, minimizing contributions to the Plan and defraying reasonable administrative expenses associated with the Plan.
- To set asset allocation policy in a manner that encompasses a strategic, long-term perspective of capital markets as well as the nature and structure of SFERS' liabilities. SFERS recognizes that a strategic long-term asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of the Plan's investment performance.
- To make decisions and follow investment policies which comply with "prudent expert" standards.

## **INVESTMENT POLICIES AND PROCEDURES**

The policies and procedures of SFERS' investment program are designed to maximize the probability that the investment goals will be fulfilled.

### **Asset Allocation Policy**

SFERS adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- A projection of actuarial assets, liabilities and benefit payments and the cost of contributions;
- Historical and expected long-term capital market risk and return behavior;
- An assessment of future economic conditions, including inflation and interest rate levels; and,
- The current and projected funding status of the Plan.

This policy provides for diversification of assets in an effort to maximize the investment return of the Plan consistent with market conditions and risk tolerance. Asset allocation modeling identifies asset classes the Plan will utilize and the percentage that each asset class represents of the total fund.

Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy, and that periodic revisions will occur. SFERS' Investment Staff ("Staff") and external consultants will monitor and assess the actual asset allocation versus policy and will evaluate any variation deemed significant.

Asset allocation policy shall be implemented through the use of investment managers (both internal and external) that will invest SFERS' assets subject to investment guidelines incorporated into the investment management agreements executed with authorized representatives of the System.

SFERS will also use passive management styles in market segments where there is a high degree of market efficiency, where low or no tracking error is desired, or to provide temporary exposure.

The long-term asset allocation targets and ranges for the investments of the Plan's assets are shown in the Appendix.

## **Environmental, Social, and Governance (ESG) Investment Policy**

Since it is necessary for adequate recognition to be given to the environmental, social and governance consequences of corporate actions and security and portfolio investment decisions to achieve maximum long term investment returns from System assets, and since the individual decisions of Staff, Managers, Consultants, and other System fiduciaries have to be made within a framework that reflects the particular environmental, social, and governance situation and concerns of the participants and the System, the Retirement Board has adopted Environmental, Social, and Governance Investment Policies and Procedures to guide the System. Environmental, social, and governance concerns to be addressed through investment policy shall follow the order of action as outlined in these policies. In no event shall these policies take precedence over the fiduciary responsibility of producing investment returns for the exclusive benefit of the participants. Exceptions to the restrictions on securities holdings outlined here may be made as needed to permit investment in commingled holdings deemed to be in the best interests of SFERS and its beneficiaries.

### **SFERS Environmental, Social, and Governance Values Statement**

As a significant institutional investor with a very long-term investment horizon and expected life, SFERS' success is linked to global economic growth and prosperity. Actions and activities that detract from the likelihood and potential of global growth are not in the long-term interests of the Fund. SFERS considers environmental, social and governance (ESG) factors in its investment process because they can influence both risk and return. ESG issues impact the sustainability, value and performance of SFERS' investments. The relevance of particular ESG issues may differ and vary in degree across companies, sectors, regions, asset classes and over time. Accordingly, consistent with the Retirement Board and staff's fiduciary responsibilities to act in the best interests of the members, retirees and beneficiaries of the Retirement System and with SFERS' role as a prudent long-term investor:

- 1) Retirement Staff will incorporate relevant ESG issues in SFERS' investment analyses and decision-making processes;
- 2) Retirement Staff will vote SFERS' US shareholder proxies and will maintain an active corporate governance program for SFERS' publicly traded equity investments with due consideration to ESG issues;
- 3) Investment recommendations in all asset classes will include information on and consideration of the manager's ESG policies and practices, focusing on the risks and standards relevant to the investment under consideration;

- 4) SFERS will seek appropriate disclosure on ESG issues by the entities in which it invests; and
- 5) SFERS will promote acceptance and implementation of its ESG values within the investment industry.

The investment restrictions approved by the Board based on these procedures are as follows:

#### Tobacco-Related Holdings

SFERS does not permit its managers (including internal management) to hold securities of US-based companies involved in the production of tobacco products. This restriction applies to both US equity holdings and to US corporate bond holdings. The Board will periodically review the impact of this restriction on its overall performance.

#### Sudan-Related Holdings

Because the US Congress and the State Department have found the Sudanese Government to be complicit in genocide in the Darfur region, SFERS does not permit its managers (including internal management) to hold securities of companies doing business in Sudan based on criteria established by SFERS. The Board will periodically review the impact of this restriction on its overall performance.

#### Thermal Coal

SFERS does not permit its managers (including internal management) to hold securities of companies that derive significant revenues from the mining of thermal coal based on criteria established by SFERS. The Board will periodically review the impact of this restriction on its overall performance.

#### Firearms

SFERS does not permit its managers (including internal management) to hold securities of companies that are involved in the manufacturing or retailing of firearms based on criteria established by SFERS. The Board will periodically review the impact of this restriction on its overall performance.

### **Investment Manager and Consultant Authority**

The investment managers shall have full discretion to direct and manage the investment and reinvestment of assets allocated to them for management on SFERS' behalf in

accordance with this document, applicable Local, State and Federal statutes and regulations, individual investment management agreements, approved investment guidelines, and executed contracts.

Consultants shall have no discretionary authority (unless such authority is delegated contractually by the Board and the Consultant) and shall be co-fiduciaries to the Plan. Consultants shall be responsible for making timely and appropriate recommendations on investment policy issues, for monitoring managers, and for reporting on manager and total fund performance (or asset class composite level performance for specialty consultants) on a quarterly basis. The Board and Staff will consider the comments and recommendations of Consultants in conjunction with other available information in making informed, prudent decisions.

### **Fiduciary Responsibilities**

All investments must be underwritten and assets managed by a qualified investment manager acting in a fiduciary capacity to SFERS. Once retained, an investment manager must acknowledge in writing the manager's fiduciary responsibility to SFERS and acknowledge the objectives and policies contained in this Policy. It is expected that, at all times, the manager(s) will conduct themselves as fiduciaries in conformance with the California Constitution, Article XVI, Section 17 and Charter Section 12.100, unless a lesser standard of fiduciary duty is necessary because of generally prevailing industry standards for an investment of that type and nature. Any such generally prevailing industry standard shall be established upon the written advice of the investment consultant responsible for that asset class.

### **Commission Recapture**

SFERS requires that active equity managers use good faith efforts to direct brokerage transactions for Plan assets under their management through designated commission recapture brokers. SFERS also encourages its fixed-income managers, on a "best effort" basis, to utilize the services of designated commission recapture brokerage firms. It is understood that the commission recapture brokerage firms must provide the best price and execution consistent with market conditions, bearing in mind the best interests of the Plan's beneficiaries and considering all relevant factors.

SFERS will monitor on an ongoing basis the services provided by the commission recapture brokers so as to assure that the investment managers are securing the best execution of SFERS' brokerage transactions.

All rebates or credits from commissions paid to the commission recapture brokers will be realized in cash and rebated back to the Plan.



### **Emerging Business Enterprises**

SFERS Staff, its investment managers, and its consultants shall make a good faith effort to retain and utilize the services and/or products of qualified Emerging Business Enterprises on a sub-contracting and/or joint venture basis when those services/products are provided consistent with the fiduciary responsibilities of the Board.

SFERS will also, to the extent possible, use and encourage the use by its managers of brokerage services offered by emerging brokerage firms, particularly certified San Francisco-based firms.

SFERS has also adopted a policy regarding emerging investment managers.

### **Proxy Voting**

SFERS acknowledges that the ownership of equities requires proxies to be voted, and that such voting rights are a tangible asset of the System. The System commits to managing its proxy voting rights with

the same care, skill, diligence and prudence as is exercised in managing its other assets, in the sole interest of the System's members and beneficiaries and in accordance with all applicable statutes.

The voting rights of individual stocks will be exercised by an assigned proxy provider under the supervision of the Investment Staff consistent with policy direction from the Retirement Board. The Board shall review the actions of the assigned proxy provider at least annually.

### **Custody of Assets**

With the exception of assets invested in commingled funds or assets invested in an investment program approved to use one or more Prime Brokers, the assets of the Plan shall be held in a custody/record-keeping account in a master custody bank located in a national money center and in the international sub-custodian banks under contract with the custodian bank.

Staff shall be responsible for reviewing the cost-effectiveness and performance of the custodian on a regular basis (at least every five years), with input from SFERS' consultants as needed.

## **Derivatives**

Derivatives may be employed by SFERS' investment managers (including internal managers) if permitted in the manager's written guidelines. The purpose of derivatives shall be to control portfolio risk, aid in liquidity management, augment return, and/or execute portfolio strategies in a timely and cost-effective manner. Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices or instruments including, but not limited to futures, forwards, options, options on futures and private swaps. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, executing a passive management style, maintaining exposure to a desired asset class while effecting asset allocation changes, and adjusting portfolio duration of fixed income portfolios.

Unless permitted to do so in their written guidelines, SFERS' investment managers are not allowed to utilize derivatives for speculative purposes, including creating leverage. SFERS' managers typically shall not borrow funds to purchase derivatives; any exceptions shall be specified in the investment manager's written guidelines. No derivatives positions can be established that create portfolio characteristics outside of portfolio guidelines. Managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

## **Short Sales and Leverage**

Short sales of securities and leverage may be allowed only if permitted in the investment manager's written guidelines, and shall typically be subject to expressed limits.

## **Rebalancing**

A rebalancing process, implemented on a regular basis when asset allocation ranges are breached, or when cash flows occur (e.g., for benefit payments or funding new investments), or for other reasons judged to be in the best interests of the Plan and its beneficiaries, will be used to maintain or to move asset allocations within their appropriate allowable ranges as delineated in the Appendix of this Investment Policy Statement.

The Chief Investment Officer ("CIO"), supported by the Managing Directors for Public Markets, Private Markets, Absolute Return, and Asset Allocation, Risk Management and Innovative Solutions, shall be responsible for undertaking rebalancing at the broad asset class level. The Senior Portfolio Managers ("SPMs") shall be responsible for making rebalancing recommendations to the appropriate Managing Director for their respective asset class(es) and for implementing those recommendations subject to approvals from the CIO. Rebalancing decisions will take into consideration a combination of various factors including but not limited to: cash needed for benefit payments and expenses, cash needed for investments, asset allocation shifts and weights relative to targets and permissible ranges, an assessment of capital markets conditions, and the performance, organizational

and investment attributes of individual managers, including each manager's status under SFERS' Manager Monitoring and Retention Policy.

When broad asset class ranges are breached, the System will rebalance assets such that asset allocation is brought to within the ranges specified in the Appendix. Subject to approval by the appropriate Managing Director and the CIO, Staff will also have discretion on how to redeploy assets within their asset class in accordance with applicable ranges. The Board recognizes that from time to time ranges may be breached for a period of time due to the absence of an appropriate manager and/or Staff judgment that an existing manager(s) should not be allocated additional assets, or when, in the judgment of Staff, market conditions are not favorable to rebalancing activities.

The CIO shall report to the Board monthly on the System's rebalancing activities, including any exceptions to policy.

### **Asset Class Definitions**

SFERS will utilize the following portfolio components to fulfill the asset allocation targets and total fund performance goals established elsewhere in this document.

**I. Capital Appreciation** – The Capital Appreciation portfolio will serve as the long term "growth" engine of the portfolio. This portfolio will be the primary source of return as well as risk (volatility) for the portfolio. The Plan's Capital Appreciation portfolio may be comprised of different market segments and approaches, including:

- **Public Market Equities** – SFERS anticipates that total returns to equities will be higher than total returns to fixed income securities over the long run, and may be subject to greater volatility. SFERS' equity holdings will be well diversified with respect to region, capitalization ranges and investment styles. The public market equity components in the Plan's asset allocation mix are:
  - **US Equities** – This segment of the portfolio will provide broadly diversified exposure to the US equity market, in both large and small cap market segments, as well as diversified exposure to different style segments (e.g., growth and value). Passive, enhanced passive, and active management strategies may be used in US equity holdings, including internal management by SFERS' Staff.
  - **International Equities** – This portfolio provides access to equity markets outside the US and consequently plays a significant role in diversifying SFERS' domestic equity portfolio. A core international segment will concentrate on larger companies in developed non-US equity markets while a small

capitalization segment will ensure exposure to the smaller companies that are primarily located in developed markets. Both passive and active management may be used in the core international equity portfolio, although active strategies will be emphasized. An emerging markets segment further diversifies the developed market segments by investing in developing markets that have lower correlations with developed economies. As specified in their investment guidelines, active managers may be given discretion to hedge currency exposure in their portfolios. The System may retain external experts to provide currency overlay management.

- **Global Equities** – A global stock portfolio will invest in both US and non-US companies, including emerging markets. Managers will have the discretion to allocate between US and non-US companies depending on their view of opportunities, valuations, and growth prospects.
- **Opportunistic and Specialty strategies** may also be included in the Public Market Equity segment for the purpose of enhancing return, managing risk, and/or taking advantage of management approaches or hybrid securities that embody equity as well as other characteristics.
- **Private Equity** – The Private Equity portfolio seeks to deliver long-term, risk-adjusted returns superior to those of comparable public markets. Investments in the asset class are achieved primarily through commingled fund and separate account partnerships managed by investors who focus on specific segments of the market. Private Equity investment strategies include buyout, venture capital, growth capital, and special situations. Other investment strategies that may be pursued on an opportunistic basis include direct / co-investments, secondary transactions, and other credit-based strategies such as mezzanine financing. Given the increased risk, illiquidity and management expense inherent in private investments, the Private Equity portfolio is expected to provide higher returns over the long term than publicly traded equity securities.
- The primary objective of the Private Equity portfolio is to provide a substantial return premium (300 basis points or more) over public equity markets over rolling 10-year periods. While potential investment returns can be high, Private Equity typically does not provide the same level of portfolio diversifying power and inflation-protection characteristics as Real Assets. SFERS' Private Equity team, in conjunction with the Private Equity Consultant, will present an annual Private Equity Portfolio Update no later than the December meeting of the Retirement Board. The annual Portfolio Update will provide an overview of Private Equity performance, activity, and initiatives.

**II. Capital Preservation** – The Capital Preservation portfolio is intended to provide “downside protection” to the portfolio in periods of financial market duress or disinflation by providing a stable return. Capital Preservation also aids in the diversification of the Plan’s assets. The Capital Preservation portfolio may be comprised of different market segments and approaches, including:

- **Public Market Fixed Income** – The primary role of the Fixed Income portfolio is to provide a stable, predictable income while diversifying SFERS’ investment portfolio. The portfolio includes Treasuries and publicly traded liquid credit. SFERS’ Fixed Income portfolio will be well diversified, and may include, but not limited to, both investment grade and non-investment grade holdings, US and non-US issues, developed and emerging market debt, mortgage-backed securities and direct mortgage holdings, and dollar and non-dollar denominated holdings. Internally managed fixed income as well as specialty managers may be utilized. Both passive and active management may be used in the Fixed Income portfolio. Currency exposure may be actively managed by the System’s Fixed Income manager(s) as specified in the manager’s guidelines. Opportunistic strategies may also be included in the Fixed Income portfolio for the purpose of enhancing return, managing risk, or taking advantage of management approaches or hybrid securities that embody fixed income as well as other characteristics.
- **Private Debt** – The Private Debt portfolio will invest in a variety of strategies, including US and non-US senior secured loans to small companies, mezzanine loans supporting LBO activity, structured lending (e.g., collateralized loan obligations), and venture debt for startup companies with low or negative free cash flow. The primary objective of Private Debt is to provide a return premium (150 basis points or more) over liquid high yield and bank debt strategies.
- **Cash** – Cash will be segmented into two categories:
  - **Cash needed for Payment of Benefits and Expenses** – This is cash that will be set aside for the specific purpose of paying benefits and expenses. This cash should generally not be used to meet capital calls or other investment funding requirements. The amount of cash “set aside” for this purpose should not be less than one or more than four months funding requirement, with a target of three months.
  - **Cash Available for Investment** – This is cash which is available for investment following SFERS’ Investment Guidelines contained herein. As a matter of principle, SFERS will strive to maintain a “zero cash” policy, i.e., all funds available for investment should be kept invested in accordance with

this Investment Policy. Cash Available for Investment should not exceed 5% of Plan assets, with a target of 0%.

**III. Diversifying Assets** – Inflation Hedges/Real Assets are assets that provide investors with a better hedge against loss of purchasing power than traditional asset classes including equities and bonds. Moreover, these strategies maintain lower correlation to traditional asset classes, providing diversification benefits. The Plan's Inflation Hedges/Real Assets portfolio may be comprised of different market segments and approaches, including:

- **Real Assets** – The Real Assets portfolio seeks to provide powerful portfolio diversification, high levels of current income, and protection against unanticipated inflation. SFERS' Real Assets team will focus on higher returning private investment strategies in real estate and natural resources rather than publicly traded securities such as TIPS, REITs, commodities indices, and natural resource equities. SFERS' Real Assets portfolio comprises investments via commingled fund and separate account partnerships, as well as direct and co-investments.

Private real estate is a global asset class that can provide portfolio diversification as well as attractive levels of current income and capital appreciation. Even when the core segment of the asset class is fairly or over valued in prime locations around the world, there are compelling investment opportunities in non-core and opportunistic real estate segments, particularly in less efficient niche property sectors or markets that can provide investors with more attractive risk-adjusted returns. SFERS' Real Assets team will seek to partner with exceptional managers who specialize in specific property types or geographic regions, favoring those who have the operating capabilities to improve assets and drive net operating income.

Private investment in natural resources – energy, metals and mining, timberland, and agriculture – provide attractive return prospects and significant portfolio diversification. Natural resources have historically had low correlation with traditional public market asset classes. Despite the long-term attractiveness of the global natural resources industry, market cyclicity and short-term price volatility can still exist. SFERS' Real Assets team will seek to partner with experienced investment managers who can take advantage of short-term price dislocations – which often react to factors unrelated to long-term industry fundamentals – to capture value and deliver superior returns.

SFERS' Real Assets team, in conjunction with the Real Assets Consultant, will present an annual Real Assets Portfolio Update no later than the December meeting of the Retirement Board. The annual Portfolio Update will provide an overview of Real Assets performance, activity, and initiatives.

- **Absolute Return** – SFERS' absolute return portfolio invests in commingled funds, co-investments and separate accounts. The objectives of the total portfolio are to generate an attractive absolute and risk-adjusted rate of return with low performance volatility and low correlation to global equity and fixed income markets, over a full market cycle; preserve capital during prolonged equity market drawdowns; and enhance total Fund alpha through exposure to sources of return and risk that differ meaningfully from traditional equity, fixed income and private market investments. The portfolio investment strategies trade in a wide range of securities and other instruments (including, but not limited to, equities and fixed income securities, currencies, commodities, futures contracts, options and other derivative instruments). Hence, absolute return has characteristics of both diversifying assets and capital preservation. The investment approach is to achieve broad diversification across global capital markets and strategies, which include Equity (10%-50%), Credit (10%-50%), Macro (0%-20%), Emerging Markets (0%-20%), Quantitative (0%-30%), Multi-Strategy (0%-30%), Special Situations/Other (0%-30%), and Commodities (0%-20%).

## **GENERAL INVESTMENT OBJECTIVES AND GUIDELINES FOR PUBLIC MARKET SECURITIES**

### **Public Market Equity Portfolios**

The public equity portfolios, both internal and external, will be managed on a total return basis following specific investment styles and will be evaluated against specific market benchmarks that represent their investment style. These benchmarks will be specified in the written investment guidelines governing each portfolio. In the case of active managers where such comparisons are applicable, investment results will also be compared to returns of a peer group of managers with similar styles. These benchmarks may also be modified, as appropriate to the manager's investment style, to exclude restricted stocks.

- SFERS' holdings by all managers in aggregate in a single stock shall not constitute more than 10% of the outstanding voting stock of any company.
- Unless authorized in guidelines, equity managers' cash holdings shall not exceed 10% of portfolio market value.
- American Depositary Receipts or other depository receipts listed on a major stock exchange or on the NASDAQ are permitted if specified in the managers' guidelines.
- Convertible securities may be held in equity portfolios if authorized in guidelines, and shall be considered equity holdings.
- Securities must be traded on a regulated stock exchange, or listed on the NASDAQ or a comparable foreign market operation.
- Up to 5% of the public equity portfolio may be invested in non-publicly traded securities.
- Forward or futures contracts for foreign currencies may be entered into for hedging purposes or pending the selection and purchase of suitable investments in or the settlement of any such securities transactions only in portfolios designated specifically to hold these types of securities (i.e., currency overlay).
- Index and enhanced index strategies shall have an expected allocation of 30%, with a range of 20%-75%.
- Active strategies that invest across many sectors and/or countries shall have an expected allocation of 35%, with a range of 0%-50%.
- Opportunistic and specialty strategies that invest primarily in one sector, country or region shall have an expected allocation of 35%, with a range of 0%-50%.
- The total public equity portfolio's expected US exposure shall be 50%, with a range of 30%-70%.
- The total public equity portfolio's expected Developed International exposure shall be 35%, with a range of 20%-50%.
- The total public equity portfolio's expected Emerging Markets exposure shall be 15%, with a range of 5%-30%.
- Long/short equity strategies shall be permitted subject to managers' guidelines.



- The total public equity portfolio's net long exposure shall be in a range of 75%-100%; gross long exposure shall be in a range of 75%-125%; and gross short exposure shall be in a range of 0%-25%.
- The total public equity portfolio shall have an expected tracking error target of 3%, with a range of 1%-4%.

Any exemption from these general guidelines requires the approval of the CIO, Managing Director for Asset Allocation, Risk Management, and Innovative Solutions, and General Consultant, and shall be reported to the Board.

### **Fixed Income Portfolios**

The internal and external fixed income portfolios will be managed on a total return basis, following specific investment styles and will be evaluated against specific market indices that represent a specific investment style or market segment. Where applicable, fixed income portfolio investment results will also be compared to returns of a peer group of managers investing with a similar style.

- Permissible securities shall include, but are not limited to, cash equivalents, forward foreign exchange contracts, currency futures, financial futures, government and government agency bonds, Eurobonds, mortgage backed securities (including collateralized mortgage obligations, commercial mortgages, commercial mortgage backed securities, asset-backed bonds), corporate bonds (including convertible bonds), or other securities specifically authorized by the Retirement Board and incorporated in the Manager's Investment Guidelines. If authorized in written guidelines, derivatives, including forward or futures contracts for foreign currencies, may be used to control risk and augment return, or to effect portfolio management decisions in a timely, cost-effective manner.

Any exemption from these general guidelines requires the approval of the CIO, Managing Director for Asset Allocation, Risk Management, and Innovative Solutions, and General Consultant, and shall be reported to the Board.

### **INVESTMENT MANAGER POLICY**

The selection of investment managers will be accomplished in accordance with all applicable Local, State and Federal laws and regulations. Each investment manager must function under a formal contract that delineates responsibilities, establishes guidelines, and articulates performance expectations.

Specific policies with respect to managers in non-public market segments are addressed in the Real Asset Investment Objectives, Policies and Procedures and the Private Equity Statement of Objectives, Policies and Procedures.

SFERS will utilize both internally and externally managed portfolios based on specific styles and methodologies. The external managers will be expected to acknowledge in writing that they are Plan fiduciaries and will have discretion and authority to determine investment strategy, security selection and timing within their assigned mandate, and subject to IPS guidelines and any other guidelines specific to their portfolio. Performance of each portfolio will be monitored and evaluated on a regular basis relative to a suitable benchmark and, where appropriate, relative to a peer group of managers with similar investment styles.

Investment managers, as prudent experts, will be expected to know SFERS' policies (as outlined in this and other appropriate documents) and any specific guidelines for their portfolios, and to comply with those policies and guidelines. It is each manager's responsibility to identify policies and guidelines that may have an adverse impact on performance, and to initiate discussion with Staff toward possible improvement of said policies or guidelines through Board action.

The Board and Staff will also review each investment manager's adherence to investment guidelines, and any material changes in the manager's organization (e.g., personnel changes, new business developments, etc.). The investment managers retained by SFERS will be responsible for informing the Board and Staff of all such material changes on a timely basis.

SFERS shall follow the Guidelines for Manager Monitoring and Retention in evaluating its fixed income and equity managers.

Investment managers under contract to SFERS shall have discretion to establish and execute transactions with any securities broker/dealer as the manager determines to be in the best interest of SFERS. The investment managers must obtain the best available prices and most favorable executions with respect to all portfolio transactions, keeping in mind SFERS' desire to transact with commission recapture and emerging brokers, as market conditions permit. Unless otherwise approved in writing, managers are prohibited from engaging in transactions with an affiliated broker/dealer.

### **Selection Criteria for Investment Managers**

Criteria will be established for each manager search undertaken by SFERS, and will be tailored to SFERS' needs in each search.

In general, eligible managers will possess attributes including, but not limited to, the following:

- The firm must be SEC-registered or exempt from registration. Firms claiming exemption from registration requirements must provide appropriate documentation and disclosures indicating reasons for exemption.
- The firm or its senior investment professionals must be experienced in managing money for institutional clients in the asset class/product category/investment style specified by SFERS.
- The firm must display a record of stability in attracting and retaining qualified investment professionals, as well as a record of managing asset growth effectively, both in gaining and retaining clients.
- The firm must have an asset base sufficient to accommodate SFERS' portfolio. In general, firms should have at least \$250 million of discretionary institutional assets under management, and SFERS' portfolio would generally make up no more than 20% of the firm's total asset base after funding. Exceptions may be made on a case-by-case basis.
- The firm must demonstrate adherence to the investment style sought by SFERS, and adherence to the firm's stated investment discipline.
- The firm's fees should be competitive with industry standards for the product category.
- The firm must comply with the "Duties of the Investment Managers" outlined herein and conform to CFA Institute/Global Investment Performance Standards for performance reporting.

When making a recommendation to retain a manager, any exceptions to these attributes for a recommended manager shall be noted to the Board in writing by Staff and the General Investment Consultant.

### **Criteria for Investment Manager Termination**

SFERS reserves the right to terminate an investment manager at any time for any reason.

Grounds for investment manager termination may include, but are not limited to, the following:

- Failure to comply with the guidelines agreed upon for management of SFERS' portfolio, including holding any restricted issues.
- Failure to achieve performance objectives specified in the manager's guidelines.
- Significant deviation from the manager's stated investment philosophy and/or process.
- Loss of key personnel or changes in ownership structure.
- Evidence of illegal or unethical behavior by the investment management firm or its principals.

- Lack of willingness to cooperate with reasonable requests by SFERS for information, meetings or other material related to its portfolios.
- Loss of confidence by the Board or Staff in the investment manager.
- A change in the Plan's asset allocation program, which necessitates a shift of assets to another sub-asset class or sector.

The presence of any one of these factors will be carefully reviewed by SFERS' Staff, but will not necessarily result in an automatic termination.

## **DUTIES OF RESPONSIBLE PARTIES**

### **Duties of the SFERS Board**

The Board will adhere to the following procedures in the management of SFERS' assets:

- The Board's primary responsibility is to set the policy framework in which the implementation of SFERS' investment program will take place. Staff will be responsible for the timely implementation and administration of the Board's policy decisions.
- The Board shall formally review SFERS' investment structure, asset allocation and financial performance at least every three years, or more frequently should capital markets or the financial condition of the Plan undergo a material, long-term change necessitating such a review. The review will include recommended adjustments to the long-term, strategic asset allocation to reflect any changes in applicable regulations, long-term capital market assumptions, actuarial assumptions or SFERS' financial condition.
- The Retirement Board shall review SFERS' investment results at least quarterly,<sup>1</sup> or more often as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks and peer group comparisons. The sources of information for these reviews shall include Staff, outside consultants, the custodian, the performance measurement provider, and SFERS' investment managers.
- The Board may retain investment consultants to provide such services as conducting performance and manager reviews, asset allocation, and investment research. The comments and recommendations of the consultants will be considered in conjunction with other available information to aid the Board in making informed, prudent decisions. In selecting external consultants, the Board shall consider the recommendations of Staff.
- The Board shall be responsible for taking appropriate action if investment objectives are not being met or if policies and guidelines are not being followed.
- The Board shall direct Staff to administer SFERS' investments in a cost-effective manner subject to Board approval. Investment-related costs include, but are not limited to, management, consulting and custodial fees, transaction costs and other administrative costs chargeable to SFERS.
- The Board shall be responsible for selecting a qualified custodian with advice from Staff, and from the Consultant(s) if directed by the Staff or the Board.

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<sup>1</sup> Performance of Private Equity and Real Assets is reviewed semi-annually.

- The Board shall provide oversight of the effectiveness of Staff's implementation of its policy directives.

### **Duties of the Investment Staff**

SFERS' Investment Staff plays a significant role in the management and oversight of the Plan, and is responsible for the timely implementation and administration of the Board's policy decisions. The Board shall monitor the performance of the Investment Staff in carrying out the duties, which include:

- Managing investment funds according to written investment guidelines as directed by the Board.
- Carrying out rebalancing activity in accordance with the policy stated in this document.
- Monitoring external managers for adherence to SFERS' written policies and guidelines, and in accordance with SFERS' Manager Monitoring and Retention Policy for Equity and Fixed Income. Reviews for portfolios managed by external managers will focus on:
  1. Compliance with the investment guidelines.
  2. Compliance with the terms of the contracts, and the manager's ability to provide the System with timely, accurate and useful information.
  3. Manager's ability to continue to achieve its objectives given its investment process and resources.
  4. Material changes in a manager's organization. This may include, but is not limited to changes in investment philosophy, personnel or ownership, acquisitions or losses of major accounts, etc. The manager will be responsible for advising SFERS' Staff of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance.
  5. Investment performance relative to each manager's stated performance benchmark(s) as set forth in the manager's investment guidelines as well as the manager's rankings in an appropriate peer group comparison.
  6. Manager's status under the Plan's policies related to Manager Monitoring and Retention.
- Providing due diligence, oversight, and investment recommendations regarding all investment portfolios, including real assets and private equity, with assistance from the respective Consultant(s).
- Identifying, measuring and evaluating risk in SFERS' holdings across all asset classes.
- Evaluating and managing relationships with the Consultant(s) to the Plan to ensure that the Consultant(s) are providing all the necessary assistance to Staff and the Board as set forth in their service contracts and meeting the needs of the System.
- Making recommendations to the Board regarding retention of Consultant(s).

- Conducting manager searches with assistance from Consultant(s).
- Managing portfolio restructurings resulting from manager terminations with the assistance of Consultants, managers, or other parties, as needed.
- Conducting, directing Consultants and/or managers to conduct, or participating in any special research required to manage the Plan more effectively and in response to any questions or issues raised by the Retirement Board.
- Reviewing the cost-effectiveness and performance of the custodian on a regular basis (at least every five years), with input from SFERS' Consultants as needed or as directed by the Board.
- Monitoring and reviewing the System's securities lending program (if any) on an ongoing basis.
- Monitoring on an ongoing basis the services provided by the commission recapture brokers so as to ensure that the investment managers are securing the best execution of SFERS' brokerage transactions.
- Supporting the Board in the development and approval of the Real Assets Annual Investment Strategy and Annual Investment Plan for Private Equity, implementing and monitoring the Plan, and reporting at least quarterly on investment activity and matters of significance.

### **Duties of the Investment Managers**

The duties of the Investment Managers shall include:

- Provide the Plan with a written agreement to invest within the guidelines established.
- Provide the Plan with proof of liability and fiduciary insurance coverage on an annual basis.
- Be an SEC-Registered Investment Advisor under the 1940 Act or exempt from registration, and be recognized as providing demonstrated expertise over a number of years in the management of institutional, tax-exempt assets within a defined investment specialty.
- Adhere to the investment management style, concepts and principles for which they were retained, including, but not limited to, developing portfolio strategy, performing research, and purchasing and selling securities.
- Execute all transactions for the benefit of the Plan with brokers and dealers qualified to execute institutional orders on an ongoing basis at the best net cost to the Plan, and, where appropriate, facilitate the recapture of commissions on behalf of the Plan.
- Reconcile monthly accounting, transaction and asset summary data with custodian valuations, and communicate and resolve any significant discrepancies with the custodian.

- Maintain frequent and open communication with the System on all significant matters pertaining to the Investment Plan, including, but not limited to, the following:
  1. Major changes in the Investment Manager's investment outlook, investment strategy and portfolio structure;
  2. Significant changes in ownership, organizational structure, financial condition or senior personnel;
  3. Any changes in the Portfolio Manager(s) or other personnel assigned to the Plan;
  4. Each client which terminates its relationship with the Investment Manager, and whose assets represent 5% or more of the firm's AUM and/or 10% or more of assets in the strategy in which SFERS invests, within 30 days of such termination;
  5. All pertinent issues which the Investment Manager deems to be of significant interest or material importance to its investment process; and
  6. Meet with the Staff or the Board on an as-needed basis.

#### **Duties of the Master Custodian**

The Master Custodian shall be responsible for the following actions:

- Provide complete global custody and depository services for the designated accounts.
- Manage, if directed by the Board, a Short-Term Investment Fund for investment of any cash not invested by managers, and ensure that all available cash is invested in this or other fixed income vehicles approved by the Board for this purpose. If the cash reserves are managed externally, full cooperation must be provided to the external cash manager.
- Provide in a timely and effective manner a monthly report of the investment activities implemented by the investment managers and the performance of each portfolio.
- Collect all income and principal realizable and properly report it on the periodic accounting statements.
- Provide monthly and fiscal year-end accounting statements for the portfolio, including all transactions; these should be based on accurate security values for both cost and market. These reports should be provided within acceptable time frames.
- Report to SFERS' Staff situations where accurate security pricing, valuation and accrued income is either not possible or subject to considerable uncertainty.
- Provide regular performance reports including performance attribution of SFERS' asset class composites and total assets, and a check on guideline compliance and



adherence to investment style and discipline; performance calculations shall conform to the CFA Institute's Global Investment Performance Standards.

- Reconcile monthly with SFERS investment managers on price variance and portfolio valuation.
- Provide assistance to the Plan to complete such activities as the annual audit, transaction verification or other unique issues as required by the Board.
- Manage a securities lending program to enhance income if directed to do so by the Board. The custodian may also be called upon to manage the cash collateral associated with the securities lending program. If a securities lending program is managed externally, full cooperation must be provided to the external securities lending agent.

### **Duties of the Investment Consultants**

The selection of Consultants will be accomplished in accordance with all applicable Local, State and Federal laws and regulations. Each Consultant shall be a co-fiduciary to the Plan, and must function under a formal contract that delineates responsibilities and appropriate performance expectations.

Consultants shall have no discretionary authority (unless such authority is delegated contractually by the Board and the Consultant). They shall be responsible for making timely and appropriate recommendations on investment policy issues, for monitoring managers, and for reporting on performance results on a quarterly basis. The Board and Staff will consider the comments and recommendations of Consultants in conjunction with other available information in making informed, prudent decisions.

Each Consultant shall abide by The Code of Ethics and The Standards of Professional Conduct established by the CFA Institute (formerly the Association for Investment Management and Research) in carrying out its responsibilities with respect to SFERS.

The General Investment Consultant shall be responsible for the following actions:

- Make recommendations to the Board and Staff regarding investment policy and strategic asset allocation, including sub-asset class structure.
- Assist SFERS Staff in the selection of qualified investment managers, and make recommendations to the Board and Staff on manager selection and manager guidelines.
- Assist Staff in the oversight of existing managers, including monitoring changes in personnel, organization, ownership, the investment process, compliance with guidelines, and other issues likely to affect performance.
- Assist Staff in the selection of a qualified custodian (including a securities lending agent and/or a cash manager) if directed by the Board and Staff.

- Prepare quarterly performance summaries regarding SFERS' manager, composite, and total plan results and make recommendations addressing any performance issues.
- Provide topical research and education on investment subjects that are relevant to SFERS.
- Other tasks as requested by the Board or Staff consistent with the function served by the General Investment Consultant.

The Real Assets Consultant shall be responsible for the following actions:

- Make recommendations to the Board and SFERS Staff regarding investment policy and strategic asset allocation as they pertain to real assets, and regarding public market securities that are affected by real assets-related issues.
- Assist SFERS Staff in the selection of qualified real assets investment managers and make recommendations to the full Board on manager selections. This will also include selection of managers of public market securities requiring real assets expertise.
- Assist SFERS Staff in the oversight of existing managers including monitoring changes in personnel, ownership and the investment process.
- Prepare a semi-annual performance report including performance of SFERS' real assets investment managers, including a check on guideline compliance and adherence to investment style and discipline.
- Provide topical research and education on real assets investment subjects that are relevant to SFERS.
- Other tasks as requested by the Board or Staff consistent with the function served by the Real Assets Consultant.

The Private Equity Investment Consultant shall be responsible for the following:

- Make recommendations to the Board and SFERS Staff regarding investment policy and strategic asset allocation as they pertain to private equity.
- Assist SFERS Staff in the selection of qualified private equity investment managers and make recommendations to the full Board for selections requiring Board ratification.
- Assist in the oversight of existing managers (including any public market securities managers related to the private equity portfolio), including monitoring changes in personnel, ownership and the investment process.
- Prepare a semi-annual performance report including performance of SFERS' private equity managers and total private equity holdings, program policy guidelines, and adherence to investment style and discipline.

- Provide topical research and education on investment subjects that are relevant to SFERS, especially those that relate to private equity.
- Other tasks as requested by the Board or Staff consistent with the function served by the Private Equity Consultant.

#### **Duties of the Proxy Consultant**

- Make recommendations to the Retirement Board regarding voting of proxies.
- Assist Staff in implementation of the Retirement Board's policy on voting proxies.
- Prepare an annual report documenting proxy voting activities performed on behalf of SFERS.

**Appendix  
Strategic Asset Allocation**

	Long-Term Target	Allowable Range	Composite Benchmark
Growth/Capital Appreciation	62%	45-70%	
<i>Global Equity</i>	<i>31%</i>	<i>25-50%</i>	<i>MSCI ACWI Investable Market Index (\$, ND)</i>
<i>Private Equity</i>	<i>18%</i>	<i>13-23%</i>	<i>75% Russell 3000/25% MSCI ACWI ex-US + 300 bps</i>
<i>Liquid Credit</i>	<i>3%</i>	<i>0-10%</i>	<i>Barclays Capital US Agg Index</i>
<i>Private Debt</i>	<i>10%</i>	<i>3-15%</i>	<i>50% Credit Suisse Leveraged Loan Index/50% BofA ML US HY BB-B constrained + 150 bps</i>
Diversifying Assets	32%	19-37%	
<i>Real Assets</i>	<i>17%</i>	<i>12-22%</i>	<i>50% NCREIF-ODCE/50% Cambridge Associates' NR Index</i>
<i>Absolute Return</i>	<i>15%</i>	<i>5-17%</i>	<i>90 Day T-Bill + 500 bps</i>
Capital Preservation	6%	3-15%	
<i>Treasuries</i>	<i>6%</i>	<i>3-10%</i>	<i>Barclays Intermediate US Treasury Index</i>
<i>Cash</i>	<i>0%</i>	<i>0-5%</i>	<i>91 day T-Bill</i>
Total Fund Composite	100%		Benchmarks Weighted by Strategic Allocation Targets
Illiquid Strategies	45%	30-50%	

Note: Asset Allocation Long-Term Targets Approved: September 13, 2017. The Interim Policy Benchmark will be based on actual asset allocation as of September 30, 2017, plus net additional capital deployment to Private Markets and Absolute Return. Recognition of changes from the Interim Policy Benchmark to the Long-Term Targets will be made by the General Consultant.