GUIDELINES FOR PUBLIC EQUITY AND FIXED INCOME MANAGER MONITORING AND RETENTION

Overview

The purpose of these guidelines is to establish general policies and procedures for monitoring investment manager effectiveness and to provide for a systematic and consistent process for SFERS Staff (“Staff”) and the General Consultant (“Consultant”) to employ when making decisions and recommendations to the Retirement Board (“Board”) concerning manager retention. Copies of this policy shall be incorporated into SFERS’ Investment Policy Statement as an Appendix.

On a semi-annual basis (based on information as of each June 30 and December 31), Staff will classify its public equity and fixed income managers into two categories: “Good Standing” or “Under Review”.

Good Standing: Managers which have met or exceeded the performance objectives and other criteria established by these Guidelines and those specified in their investment management contract and guidelines (separately managed accounts) or governing documents (commingled funds) will be considered to be in Good Standing.

Under Review: Managers will be placed Under Review if they fail to meet expectations or are determined to require additional monitoring and consideration based on one or more of the review criteria defined below.

While this policy establishes guidelines for manager monitoring, experience has shown that each manager's situation is unique, and must be assessed on an individual basis, considering any unique circumstances affecting the manager or its relationship with SFERS.

Nothing in this policy shall be construed as contrary to SFERS’ right to terminate an investment manager at any time, for any reason.

Monitoring Procedures

Managers will be monitored on a continuous basis by Staff and the Consultant in five areas:

- Investment performance (relative to a specific benchmark and appropriate peer group);
- Adherence to the manager’s philosophy, process, and stated investment style;
- Organizational and personnel continuity;
- Guideline compliance
- Other factors as determined by SFERS based on the manager and asset class including, but not limited to, the quality of reporting and responsiveness to information requests.
Under Review Criteria

A manager will be designated as Under Review if they are determined to require additional monitoring based on one or more of the criteria listed below:

- A manager's net of fee performance consistently falls below the agreed upon benchmark or net of fee performance consistently falls below the 50th percentile of an appropriate peer group (also measured net of fees). The evaluation will focus mainly on rolling 3- and 5-year periods. Additionally, the evaluation will consider the manager’s expected tracking error versus the agreed-upon benchmark among other measures of risk-adjusted performance. Substantial underperformance for periods less than 3 years may also cause a manager to be placed under review.

- Staff or Consultant believes there has been a material change in the manager’s investment philosophy, process, or style.

- Staff or Consultant believes there has been a material change in the manager's organizational structure, ownership, viability or personnel. This category shall also include instances where a firm may be under investigation by regulatory or law enforcement agencies.

- The manager is materially out of compliance with any of the criteria established in the manager’s guidelines. Subject to review and discussion, the manager will be expected to bring the portfolio into compliance. The manager shall provide recommended revisions to the guidelines in writing to Staff and Consultant, however SFERS shall be under no obligation to accept such recommendations. Subject to contract terms, the manager shall be responsible for reimbursing SFERS for any loss resulting from a material violation of guidelines.

- Other factors deemed material by Staff, including insufficient responsiveness to requests for information, attendance at meetings, or for any other reason as determined by SFERS.

The review process will require certain reporting and/or other actions to be taken by managers as described below, in order to return to Good Standing status. Managers who are placed Under Review are not eligible for additional funding and may also be subject to asset reductions. If Staff determines that either changes to the investment process or style, organizational changes or guideline violations will adversely impact the manager's ability to implement their strategy, the manager may be recommended to the Board for termination.
Manager Notification and Response

Staff shall notify managers in writing of their status should they fall Under Review. The notification shall indicate the reasons why the manager is under review, request information from the firm on the relevant matters or issues and ask for the manager’s input.

Once Staff has notified a manager in writing that it is Under Review, the manager must submit a response or, if needed, a plan of action within 15 calendar days of the notice. The response should provide complete answers to any questions posed by Staff in its Under Review notification, as well as cover the following:

- Reasons for the Under Review Criteria having been triggered, including detailed attribution analysis of any performance shortfalls;
- As relevant, any corrective steps that will be taken and the expected time horizon for completion; and,
- Any other information which may be useful for Staff assessment.

Upon receipt of the managers response, Staff, with input from the Consultant, will determine appropriate next steps such as further detailed monitoring and evaluation of the manager or a recommendation to reduce or terminate the allocation. Staff will also assess the progress of the manager in implementing any stated corrective plans on at least a quarterly basis, or more often if appropriate.

Depending upon Staff and Consultant analysis and the manager’s specific investment style and strategy, the Review period may vary. In no event will a manager be returned to Good Standing until the manager meets the performance criteria for Good Standing and, in Staff’s determination, has made necessary progress in implementing any required corrective steps.

Termination

Staff and/or the Consultant shall recommend to the Board the termination of a manager’s contract (or complete redemption if invested in a commingled fund) if:

- It is determined that the manager has failed to show evidence of correction of significant deficiencies;
- The manager has not shown, in the opinion of Staff and/or the Consultant, sufficient improvement;
- The deficiencies are perceived to be irresolvable within a reasonable amount of time, or
- Other pertinent factors
If Staff and the Consultant believe that immediate action is necessary due to evidence of a manager engaging in illegal or unethical practices, or for other extraordinary reasons that cause Staff and the Consultant to believe that continued management is contrary to fiduciary standards of prudence, Staff is authorized by the Board to notify the manager in writing that trading on the account must cease immediately (separately managed accounts) or submit a notice of full redemption (commingled fund). Notice of such action and the termination recommendation will be presented to the Board for action at its next monthly meeting.

Staff and/or the Consultant may recommend termination of a manager for other reasons than failure to meet Under Review criteria (e.g. the determination that the firm’s investment strategy is no longer relevant to the SFERS’ desired portfolio structure.)

**Reporting**

On a semi-annual basis (based on information as of each June 30 and December 31), Staff will provide a written summary for each of the managers categorized as Under Review to the Managing Director - Public Markets, the Managing Director - Asset Allocation, Risk Management and Innovative Solutions, the Chief Investment Officer (“CIO”), the Executive Director, the Consultant and each member of the Board. The report will include, but is not limited to, a performance summary, a due diligence summary, along with Staff commentary and recommendation(s). Any additions or deletions to the list along with the general circumstances (e.g. performance) will be noted in the CIO Report in the month following the addition or deletion.