



SERVICE PROVIDER SELECTION POLICY

Background and Purpose

- 1) The Service Provider Selection Policy is intended to establish general guidelines by which service providers will be selected, retained and terminated by the City and County of San Francisco Employees' Retirement System ("SFERS").

Policy Objectives

- 2) The objectives of this policy are to ensure that SFERS:
 - a) Makes prudent and sound service provider selection decisions;
 - b) Makes decisions regarding the appointment and termination of service providers in the best interests of the members and beneficiaries of SFERS;
 - c) Uses an efficient, diligent, and fair process to select and terminate service providers;
 - d) Obtains appropriate services a competitive cost; and
 - e) Adheres to City and County of San Francisco ("City") purchasing and contract requirements, to the extent they are consistent with objectives a) through d) above.

Definitions

- 3) "Named service providers" are defined to include actuarial firms, the Board's general investment consultant, asset class consultants, fiduciary consultants, custodian, record keeper, securities lending manager, investment managers and general partners, advisors providing governance-related assistance, consultants for the Deferred Compensation Plan, firms that provide the services of hearing officers and other service providers as may be determined by the San Francisco Retirement Board ("Board").

Roles and Responsibilities

- 4) The role of the Retirement Board with respect to the selection of service providers is to:
 - a) Establish appropriate policies;
 - b) Monitor compliance with these policies; and
 - c) Approve the appointment of the below named service providers based on the recommendation of the Executive Director:

- i. General investment consultant
 - ii. Asset class consultants
 - iii. Fiduciary consultants
 - iv. Advisors retained to provide governance-related assistance
 - v. Custodian and record-keeper
 - vi. Consultants for the Deferred Compensation Plan
 - vii. Target Date Fund Glidepath Manager for the Deferred Compensation Plan
 - d) In accordance with the Investment Policy Statement, approve the appointment of the below named service providers based on the recommendation of the Executive Director and concurrence of the general or asset class consultant:
 - i. Investment Managers
 - ii. General Partners and other private market or alternative investments
 - e) Approve the appointment of the Consulting Actuary based on the recommendation of the Actuarial Services Coordinator:
 - i. Consulting Actuary
 - f) Retain under contract the services of the State of California Office of Administrative Hearings ("OAH") or any other organization capable of furnishing experienced, competent and qualified hearing officers. Such organization shall appoint qualified hearing officers who shall hear and determine all applications for disability retirement (ordinary and industrial) and death allowances.
- 5) The Executive Director will be responsible for appointing service providers other than named service providers, consistent with the operating budget and other applicable policies of the Retirement Board and the City and County of San Francisco, and for keeping the Retirement Board apprised of such appointments, when material.
- 6) The Executive Director will be responsible for ensuring that staff performs all necessary search and due diligence activities in conjunction with the investment consultants or other external experts, as required, with the exception of search and due diligence activities involved in the selection of actuarial firms, which will be the responsibility of the Actuarial Services Coordinator.

The Search Process

General Guidelines

- 7) The appointment of all service providers will be made in the best interests of the members and beneficiaries of SFERS, in keeping with the fiduciary responsibilities of the Retirement Board and staff, and will be consistent with policies of the City and County of San Francisco.

- 8) The Retirement Board, Executive Director, Actuarial Services Coordinator and agents of SFERS will make a good faith effort to retain and utilize the services of local business enterprises, on a primary or sub-contract basis, when those services or products are provided consistent with the fiduciary responsibilities of the Retirement Board and staff.
- 9) The selection of all service providers will reflect a level of rigor that is commensurate with the importance and materiality of the service in question, and will be consistent with applicable City policy.
- 10) The Executive Director and the Actuarial Services Coordinator will consider as broad a universe of qualified service providers that is practical and reasonable given budgetary, staffing, time and other relevant constraints.

Named Service Providers

- 11) For all searches involving named service providers other than investment managers or general partners, the Executive Director or, in the case of actuarial firms, the Actuarial Services Coordinator, will prepare for Board approval a request for proposals or request for information containing, at a minimum:

- a) services sought;
- b) evaluation criteria and relative weightings; and
- c) search process timelines.

The Executive Director or, as appropriate, the Actuarial Services Coordinator will also provide the Board or its committees with any other pertinent information that will assist Board members in better understanding the search process.

- 12) In cases when the Executive Director believes that a qualified, competitive alternative to a particular named service provider, other than investment managers or general partners, does not exist, the Executive Director will provide the Retirement Board with a report describing the unique characteristics of the service provider and explaining why a *sole source* approach is necessary.
- 13) For investment managers or general partners, the following processes shall apply:
 - a) Defined Benefit – The Executive Director will manage the searches in accordance with the Manager Selection and Monitoring Policies, as approved by the Board. Due to their longer-term investment horizon and illiquid nature, the Retirement Board recognizes that designating service providers in the alternative and private market asset classes may follow a process different from that followed for designating other public market named service providers. The Executive Director will confirm compliance with the policies when recommending or approving investments and Staff will adhere to the monitoring processes as detailed in the Manager Selection and Monitoring Policies.

- b) Deferred Compensation – In partnership with Staff, the Deferred Compensation Consultant will lead the manager search process for investment managers, including Stable Value managers.
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- 14) Board members may suggest candidates to the Executive Director or, as appropriate, the Actuarial Services Coordinator, for consideration in any search process. In such cases, the Executive Director, Actuarial Services Coordinator, and the Board member in question will inform the Board of such suggestions. The Executive Director and Actuarial Services Coordinator will subject such candidates to the same search and screening criteria and processes as all other candidates under consideration.
 - 15) The Retirement Board, or a committee of the Board, will interview candidates recommended for the positions of consulting actuary, the Board’s general investment consultant, , custodian/record-keeper, fiduciary consultant, and Deferred Compensation Consultant, and Target Date Fund Glidepath Manager. If deemed prudent under the circumstances, this requirement may be waived by the Board.
 - 16) The Executive Director or, as appropriate, the Actuarial Services Coordinator, will provide the Retirement Board or a designated committee of the Retirement Board with periodic reports on the status of all search processes involving named service providers.
 - 17) Upon completion of the analysis and due diligence involved in a search process for a named service provider (other than an investment manager or general partner), the Executive Director or, as appropriate, the Actuarial Services Coordinator, will provide the Retirement Board or a designated committee of the Retirement Board with a report containing the following items where appropriate:
 - a) A recommended candidate or ranking of finalist candidates;
 - b) Confirmation of compliance with the evaluation criteria and search methodology contained in the request for proposals, or an explanation of any deviations that occurred;
 - c) A description of performance expectations and the proper time horizon for evaluation of results; and
 - d) A description of the expected performance monitoring and reporting efforts to be carried out with respect to the named service provider throughout the term of the contract, including the reporting to be provided to the Retirement Board.

Limited Communications Periods

- 18) The Board will initiate a limited communications during solicitation period (“Limited Communications Period”) when the Board initiates a search process resulting in the issuance of an RFP for the appointment of a new service provider or the expansion of a relationship with an existing service provider.

- 19) Limited Communications Periods will be instituted at a Board meeting, and written notification will be issued to all Board members not present at said meeting. A committee of the Board or the Executive Director also may institute a Limited Communications Period at their discretion, subject to ratification by the Board at its next meeting. The Executive Director will provide written notification to all board members of all black-out periods instituted between Board meetings as soon as possible, and Board members will comply with the black-out period restrictions upon receipt of the Executive Director's notification.
- 20) The initiation of a black-out period, and to the extent possible, the service providers or types of providers to which it applies, will be specified in the minutes of the Board meeting at which it was approved or ratified by the Board. Where it is not possible to specifically define the service providers or types of service providers to which the black-out period applies, Board members will make a good faith effort to comply with the intent of the quiet period provisions by taking all reasonable efforts to determine if service providers they may communicate with are potential candidates in a SFERS search process.
- 21) During black-out periods, Board members shall not communicate with the specified service providers on matters pertaining to SFERS, except during Board or committee meetings. Board members who need to communicate with such service providers for reasons unrelated to SFERS business agree to disclose such need in writing to the Executive Director and the Board prior to undertaking such communications. Disclosure to the Board shall be made in writing at a meeting of the Board. If time does not permit timely disclosure to the Board, the Board member shall then also disclose the intended communication to the President.
- 22) For the purpose of black-out period provisions, communications include but are not limited to meetings, telephone conversations, letters, and e-mail.
- 23) A black-out period will cease when a successful bidder enters into a contractual arrangement with the City and County of San Francisco or the search process is otherwise ended by the Board.

Contracts

- 24) The Executive Director will negotiate and execute all agreements approved in connection with service providers, with the exception of contracts with actuarial firms, which will be negotiated by the Actuarial Services Coordinator and executed by the Executive Director.
- 25) All contracts and similar arrangements for the engagement of service providers shall require that all parties act in compliance with relevant provisions of the San Francisco Charter and Administrative Code, such as Chapter 12B ("Non-discrimination in Benefits").
- 26) All contracts involving named service providers excluding investments will contain a requirement that the contract be subject to renewal at least every five years, at which time the Executive Director or, as appropriate, the Actuarial Services Coordinator will assess the continued appropriateness and cost-effectiveness of the service provider in question.
- 27) Notwithstanding anything to the contrary contained herein, contracts with investment managers or securities lending managers may be for an indefinite term.

- 28) Annually, the Executive Director and the Actuarial Services Coordinator will provide the Retirement Board a schedule of the contracts involving named service providers due for renewal in the coming year.

Monitoring and Reporting

- 29) All service providers will be subject to regular monitoring of performance and periodic reviews, as appropriate, throughout the term of their contract. Criteria for review may include, but are not limited to, performance, staff satisfaction, competitiveness of fees, quality of reporting, and accuracy of assumptions and forecasts.
- 30) The Executive Director or, as appropriate, the Actuarial Services Coordinator, will report regularly to the Retirement Board on all monitoring efforts involving named service providers, identifying any material issues or actions taken in a timely fashion.
- 31) All monitoring and reporting provisions contained in this policy serve as minimum requirements. If more stringent requirements are established within other SFERS policies, such requirements will prevail.
- 32) The Executive Director and, as appropriate, the Actuarial Services Coordinator will report to the Board any failures by named service providers to comply with the terms of their contract. This does not apply to investment managers, as the monitoring of their performance is covered through separate investment policies and procedures.

Policy Review

- 33) The Retirement Board will review this policy at least every five years to ensure that it remains relevant and appropriate.

Policy History

- 34) The Retirement Board adopted this policy on April 2, 2002.
- The Retirement Board reviewed and amended this policy on November 9, 2004; October 4, 2006; September 11, 2007; January 11, 2011, December 13, 2017, May 18, 2023, July 20, 2023 and November 13, 2024.