

Date: September 18, 2024
To: Board of Retirement
From: Doris L. Rentschler, Executive Director
Subject: Service Provider Evaluation Policy – 1st read, potential adoption

Recommended Action:

Provide Board direction regarding the Service Provider Evaluation Policy, or alternatively adopt as presented, or amended by the Board.

Direction from the Board is sought on the following items:

- Whether the Board wishes to retain, rather than delegate, the responsibility of evaluating key service providers.
- Whether the Board wishes to specify the occurrence of the key service provider evaluations – i.e., every other year, upon completion of the providers contract, etc.
- Alter the suggested frequency of issuing a Request for Proposals for key service providers.

Fiscal and Financial Impacts:

There is no fiscal impact to adopting this policy. There could be costs associated with the tools and processes used to evaluate service providers but such costs would be part of the annual budget adopted by the Board.

Strategic Plan Importance and Risk Assessment:

This item directly relates to the Board’s Strategic Plan (Goal 3, Objective C) to develop and implement a process to evaluate MCERA’s business operations and service providers.

Background and Discussion:

The Service Provider Policy provides guidelines for the periodical evaluation of key and core service providers to ensure their performance meets the needs of MCERA. Additionally, development of a service provider policy may lead to including performance measures in our service contracts that set and clarify expectations and provide specifics against which a provider may be measured both during and upon completion of a contract.

This policy makes a distinction between “Key” service providers and “Core” service providers. Key providers are those providers specifically reserved for appointment by the Retirement Board. The most common primary Key Service Providers are listed below:

- Actuarial firms
- Financial auditor
- Legal counsel

- Investment consultant
- Custodial bank
- Investment managers

Investment managers will be evaluated according to investment policies and practices developed by MCERA in consultation with its investment consultant, rather than the Service Provider Policy.

Core providers include providers of primary business services such as Information Technology, Pension Administration System, and other contracted services that are not Key service providers specifically reserved for appointment by the Board. The responsibility to evaluate core service providers lies with the Executive Director.

Section II. J2.i. of the Board of Retirement Charter gives the responsibility to “review, on a regular basis, the performance of the Board’s advisors and vendors, including at a minimum, the Actuary, Financial Auditor, Investment Consultant and Custodian” to the Board. The policy, as drafted, delegates that responsibility to the Executive Director, with input the Board. The Executive Director shall inform the Board of the methods and results of the evaluation of Key Service Providers.

Attachment(s):

1. Proposed Service Provider Evaluation Policy

SERVICE PROVIDER EVALUATION POLICY

I. PURPOSE AND BACKGROUND

The MCERA Board recognizes the need to regularly evaluate the performance of its service providers. This policy sets out guidelines intended to facilitate evaluations.

MCERA shall exercise prudence and care in the selection and oversight of all service providers. MCERA has two (2) primary groups of service providers “Key Service Providers” and “Core Service Providers”.

Key Service Providers are service providers appointed by the Board of Retirement, as specified in the Board of Retirement Charter, including but not limited to:

1. Actuarial firms
2. Financial auditor
3. Legal counsel
4. Investment consultant
5. Custodial bank
6. Investment managers
7. Securities lending managers
8. Directed commission brokers
9. Proxy-voting advisors

Investment managers shall be evaluated according to investment policies and practices developed by MCERA in consultation with its investment consultant, rather than this policy.

Core Service Providers includes providers of primary business services such as Information Technology, Human Resources, Pension Administration System, and other contracted services that are not Key Service Providers specifically reserved for appointment by the Board.

II. GUIDELINES

Key and Core Service Providers provide a wide variety of services and advice. The evaluation of those professional services is complex and may include both objective and subjective standards and methods. The Executive Director is responsible for determining the most effective methods to evaluate Key and Core Service Providers and for performing the

evaluations. The Executive Director shall inform the Board of the methods and results of the evaluation of Key Service Providers.

Notwithstanding anything contained herein, the frequency of service provider evaluations shall be subject to the limitations of staff time and resources. The type of service and/or the performance of a provider will determine when Service Providers are evaluated.

1. Service Providers shall periodically be evaluated on the basis of criteria such as technical proficiency, accuracy, cost effectiveness, independence, responsiveness, communications, quality of advice, and service quality.
2. MCERA management may use surveys, discussion guides, or other tools it deems appropriate to help conduct such evaluations. When needed, such evaluations may involve assistance from third-party experts. The Executive Director shall determine which staff members shall participate in the evaluation of each service provider.
3. MCERA management may solicit input from the Board regarding the performance of Key Service Providers using surveys or other appropriate tools.
4. It is expected that some of MCERA's Service Providers will occasionally administer their own proprietary surveys to assess their client's satisfaction levels. In such cases, MCERA management may elect to participate in the service provider's survey and may consider the results of such an assessment as part of the Service Provider's periodic evaluation.
5. The Chair and Executive Director may meet with the Key Service Provider to review evaluations and discuss any actions that may arise from the evaluation.

MCERA's evaluation measures may include, but are not limited to:

1. Technical proficiency and internal control measures may include:
 - a. Having an actuarial audit performed to assess the actuarial methods used and the accuracy of the consulting actuary;
 - b. Reviewing peer assessments of the financial auditor;
 - c. Obtain Service Organization Controls (SOC) reports or other relevant independent reports related to finance, security, process integrity, privacy and availability to assess risks involved with working with the Key Service Provider;
 - d. Obtain independent evaluations of the investment consultant and custodian. For example, the investment consultant may assist in evaluating the custodian bank, and

other specialized consultants may be utilized to evaluate the investment consultant. Alternately, MCERA may consider any independent evaluations that may be published by industrial trade journals such as Plan Sponsor Magazine, or Pension and Investments Magazine. Management may also perform “reference check” style inquiries with current or former clients of a Key Service Provider.

2. Independence and objectivity measures may include:
 - a. Requiring Providers to disclose actual or potential conflicts of interest;
 - b. Requiring Providers to indicate compliance with industry or regulatory standards or guidelines concerning conflicts of interest (e.g., the guidelines of independence set out by the U.S. Securities and Exchange Commission concerning investment consultants¹)
 - c. Requiring Providers to disclose any other information that may indicate an impediment to the service provider’s objectivity.
 - d. Evaluating enforcement actions or civil litigation that could adversely impact the services provided to MCERA. (Would knowledge of action or litigation have made a difference in the Board’s decision to procure services from said service provider?)

MCERA may use other evaluation methods and measures as appropriate.

Request for Proposals (RFP) for Current Service Providers

Periodically, all Service Providers will be reviewed to determine whether an RFP or other undertaking (e.g., RFI or other research) should be initiated to confirm the suitability of the current relationship with the Service Provider or to seek an alternative provider. The timing of such reviews will be staggered to reflect MCERA’s available time and resources, and should generally occur every five (5) years. In each case, following such reviews, management will recommend to the Board whether an RFP or other undertaking should be initiated.

Notwithstanding anything contained herein, the Board may initiate a review of a MCERA a Service Provider at any time if it believes it is prudent to do so under the circumstances.

III. POLICY REVIEW

The Board of Retirement shall review this policy at least every three (3) years, and make any modifications deemed necessary.

¹ U.S. Securities and Exchange Commission, Selecting & Monitoring Pension Consultants: Tips for Plan Fiduciaries.

IV. POLICY HISTORY

- a) The Board adopted this policy on [INSERT DATE].