POLICE AND FIRE RETIREMENT SYSTEM OF THE CITY OF DETROIT

MONITORING & DUE DILIGENCE POLICY
ADOPTED: June 23, 2011
AMENDED: June 3, 2021

**Per section 1.21 of the PFRS Combined Plan, Component I, made part of the Plan of Adjustment ("POA") and Exhibit B of the State Contribution Agreement (Governance Term Sheet), Investment Committee members shall comply with all Board governance policies and procedures, including the Ethics and Code of Conduct Policies, unless such compliance would violate the member's fiduciary duties or conflict with the provisions set forth in the Governance Term Sheet.[i]

[1] Eight Amended Plan for the Adjustment of Debts of the City of Detroit, Michigan, confirmed December 14, 2014.

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I. STATEMENT OF PURPOSE

The Board of Trustees (The "Board of "Trustees") and the Investment Committee of the Police and Fire Retirement System of the City of Detroit ("PFRS") recognize its statutory fiduciary duty to administer the retirement system prudently for the sole benefit of the members and their beneficiaries. Prudent administration requires the Board and Investment Committee to ensure effective investment monitoring and due diligence processes are in place with respect to existing and prospective service providers.

This Due Diligence Policy sets forth the guidelines governing the activities undertaken by PFRS or by agents of PFRS to determine:

a) The suitability of prospective service providers;
b) The continued stability of current service providers;
c) The accuracy of information provided, and/or claims made, by current or prospective service providers about their suitability, capability or other factors which may influence PFRS's decision to retain the service provider; or
d) Changes in the service providers ownership structure, personnel, investment philosophy, or other characteristics, which may affect the suitability of a service provider.

II. GUIDELINES

A. EVALUATION AND EDUCATION

At a minimum, on-site meetings provide Trustees, Committee Members and staff with opportunities to:

1. Evaluate an investment manager's entire staff and observe how the investment manager carries out its fiduciary responsibilities to PFRS;

2. Interview individuals who directly manage PFRS's accounts;

3. Evaluate the significance of personnel shifts or other organizational changes that may affect PFRS's accounts;

4. Observe the systems and controls utilized in the investment of the assets of PFRS;

5. Hold in-depth reviews regarding an investment manager's philosophy, style and approach to investing PFRS assets; and

6. Develop a better understanding of the significance of short-term periods of good or poor performance by a manager.

B. REGULAR DUE DILIGENCE RESPONSIBILITIES

1. General Due Diligence Provisions

a) The Chief Investment Officer shall be responsible for performing or causing to be performed regular due diligence on each manager and consultant engaged by PFRS in the ordinary course of business and shall keep the Board apprised of any important facts, industry trends and other

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events that reasonably may affect the Board's continued retention of such manager, consultant or investment.

b) Due Diligence activities may include, but are not limited to:

i. Analysis of performance records, financial statements, technical standards and practices, and advisor reports filed with federal and state governments
ii. Meetings and interviews
iii. Research on industry trends and developments
iv. On-site due diligence visits;
v. Meetings at the offices of PFRS or its consultants; or
vi. Third-party evaluations

C. REGULAR MANAGER PRESENTATIONS TO THE BOARD

Investment managers are to appear before the Board on a rotational basis from time to time. The Board or its designee shall arrange for presentations by the PFRS's investment managers at regular meetings, but not less than monthly.

D. ON-SITE DUE DILIGENCE EVALUATIONS

Regular, on-site due diligence evaluations shall be scheduled with traditional domestic and international equity, fixed income, and other managers which provide reasonable liquidity for redemption on a rotational basis every three to five years, unless otherwise approved by the Board. Evaluations may be necessary on a more frequent basis if there have been significant personnel changes, a deterioration of investment returns, industry concentration concerns or to the extent there are unresolved issues relating to a manager.

PFRS investments made through general partnerships, or other private investment vehicles, will require prudent, cost effective due diligence. In determining the most cost effective and appropriate approaches for due diligence review, the Chief Investment Officer may consult with PFRS investment consultant(s), or any other advisors or consultants as the Chief Investment Officer may deem appropriate. A combination of on-site visits, annual meetings, advisory board meetings, and other approaches for annual due diligence review will be used for these investments. Where attendance at the annual meetings is not possible, the Board shall request that the manager provide copies of all materials presented at the meetings.

The Board will be notified in advance of on-site due diligence meetings arranged by the Chief Investment Officer.

PFRS Board and Investment Committee members are encouraged, when appropriate, to visit managers. From time-to-time, Board members may desire to accompany the Chief Investment Officer or other designee on such visits. The Board shall coordinate all planned due diligence travel so as to maximize the effectiveness of the evaluations and minimize the cost of the necessary travel.

E. REPORTING

The Trustees, or the Board's designee, participating in an on-site due diligence evaluation shall provide an oral report to the Board at a future Board meeting, following the completion of the visit. Any material obtained during the evaluation shall be available to other Board members and staff for reference purposes. The Board shall retain a copy for not less than five (5) years following the completion of the visit.

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F. NEW INVESTMENT MANAGERS AND SERVICE PROVIDERS

Due diligence on new investment managers and service providers shall be performed as part of the selection process. The Board will perform or cause to be performed all necessary and reasonable due diligence with respect to the final slate of investment managers or services identified for on-going providers as well as other processes deemed reasonable by the Board after consultation with the investment consultant, PFRS's auditor, and/or other consultants the Board deems appropriate. The Board may direct such parties to independently perform due diligence activities and provide a written report of the results of such due diligence to the Board.

Once a formal search for a new investment manager or service provider has commenced, a due diligence "quiet period" shall be observed by all Trustees. The "quiet period" is defined as that time period when an investment manager is being evaluated or considered for a new investment until such time as a decision is made. During the "quiet period," Trustees shall not participate in any due diligence being conducted on any new investment manager or service provider.

G. EXPENSES

As provided by the Board's Travel and Expense Policy, PFRS shall reimburse Trustees and PFRS Staff for all reasonable and necessary expenses incurred in conducting due diligence evaluations as set forth in this Due Diligence policy and in accordance with the Travel and Expense Police.

III. <u>POLICY REVIEW</u>

The Board shall review this Due Diligence Policy at least every three years to assure its efficacy and relevance. This Policy may be amended from time to time by majority vote of the Board.

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