



CAPTRUST Financial Advisors FORMAL RESPONSE

2022 Annual Due Diligence Questionnaire For Discretionary Clients





SECTION ONE: INVESTMENT MANAGER MONITORING

CAPFinancial Partners, LLC (also “CAPTRUST”) has answered the questions below to make it easier for plan sponsors and investment committees who have contracted with CAPTRUST, as discretionary investment manager, to monitor their plan/account’s performance and investments. Additional questions are welcomed and may be directed to the plan/account’s lead consultant for clarification.

Firm

Have there been any changes to the management or ownership of the firm? If yes, please describe.

As previously discussed in last year’s edition, in June 2021, Kevin D. Barry, Chief Investment Officer left the firm. At the same time, Michael J. Vogelzang was named the Chief Investment Officer.

Michael J. Vogelzang, CFA®
Managing Director, Chief Investment Officer

Mike joined CAPTRUST in September 2019 through the acquisition of Boston Advisors where Mike was president and chief investment officer. At CAPTRUST he held the title of Chief Investment Strategist and principal before being named Chief Investment Officer (CIO).

Mike brings more than 30 years of portfolio management, market strategy, and investment research experience to the firm. As CIO, Mike oversees the Investment Group, which includes manager and security research, portfolio management, and a team of investment strategists. This group’s investment capabilities are supported by more than 30 additional investment professionals across the firm’s wealth and Institutional Solutions Groups, each of whom focuses on applying and customizing investment research and views to meet the needs of various clients. Prior to joining the firm from Boston Advisors, he held senior positions with Freedom Capital Management and Shawmut Investment Management. He began his investment career at The Boston Company.

Further, in October 2021, CAPTRUST announced the appointment of Robert Miller to the role of chief financial officer (CFO). At the same time, we also announced that Marc Hermer, CFA, has joined the firm in the newly created role of director of portfolio trading and implementation. Both executives are based at CAPTRUST’s headquarters in Raleigh, NC.

As CFO, Robert oversees the company’s financials, including all reporting, budgeting, allocation, and financial analysis. As part of CAPTRUST’s leadership team, Robert executes the firm’s strategic direction by implementing key initiatives, allocating resources, and evaluating potential acquisitions to align with the firm’s mission and broader strategy. Prior to joining the firm, Robert spent 17 years at Raymond James Financial in Tampa, FL. Most recently, he served as chief operating officer and chief financial officer for the Global Equities and Investment Banking Division of Raymond James & Associates. He also held the role of chairman and president of Raymond James International Holdings, where he managed the majority of Raymond James’s joint ventures and international operations—ranging from developed markets, including the UK and France, to emerging markets, including Argentina, Brazil, Turkey, and



India. Robert held several positions with American Express before Raymond James, including director of institutional risk analysis. Robert holds a Bachelor of Arts degree in economics and political science from the University of North Carolina at Chapel Hill and a Master of Business Administration degree from the Wharton School of Business, University of Pennsylvania.

Marc Hermer serves as a director of portfolio trading and implementation within CAPTRUST's Investment Group. He leads the investment and trading teams in all trade generation and execution processes, data management, and portfolio management functions. Prior to joining the firm, Marc led the overlay investment strategy team at Merrill Lynch, supporting the management and implementation of over \$500 billion of AUM across 600 model portfolios. He was the primary architect of Merrill's centralized wealth portfolio management platform and was responsible for developing new investment strategies and writing rebalancing algorithms. Marc holds a Bachelor of Arts degree in economics from Dartmouth College.

In June 2020, we announced an agreement with private equity firm, GTCR, LLC, for a long-term minority investment in CAPTRUST that provides capital to grow the business through mergers and acquisitions and build out infrastructure and capabilities. We chose GTCR as our capital partner because of their similar culture, ability to be a long-term partner and desire to have only a minority interest in CAPTRUST. A second tranche of investing was completed by GTCR in 2021, with CAPTRUST employees continued to own the majority of equity in the firm at about 63.5%, with the remaining 36.5% ownership allocated to GTCR.

Have there been any organizational changes to the firm that may impact the management of the plan/account? If yes, please describe.

No. From a growth standpoint, over the past five years, CAPTRUST has expanded its client base and increased the number of office locations, growing opportunistically. We are growing at a pace consistent with maintaining high levels of stewardship and client service.

CAPTRUST's long-term business plan is to leverage the firm's infrastructure, client offerings, and intellectual capital through a national network of skilled consultants working from district and local offices. We will grow by pursuing a combination of strong organic growth, recruitment of talented and experienced consultants, and selected acquisitions of independent firms. This, in addition to the significant upgrades in technology platforms will help keep CAPTRUST current and ahead of the curve from both investment research and client servicing standpoints.

Has there been a change to the firm's status as an investment adviser registered under The Investment Advisers Act of 1940?

☐ Yes ☒ No

Has the firm been the subject of an investigation by any regulatory and/or government agency? If so, please describe and send a copy of any documentation regarding the disposition of such investigation.

☐ Yes ☒ No



Has the firm been the subject of any routine examination by regulatory authorities or independent auditors? If so, please provide a summary of the circumstances and outcome of such examination and/or audits.

In Aug 2021, the SEC announced a limited scope exam which concluded on October 13, 2021. Deficiencies noted were procedural and were determined by the CCO to be immaterial, however, the firm promptly and thoroughly responded, addressing each deficiency with care. The procedural deficiencies (under Rule 206(4)-7) were noted in connection to the outside business activities (or “OBA”) and the appropriate disclosures of those activities. The Firm reviewed our internal practices to ensure that all OBAs are captured. As an initial enhancement, we increased our forensic testing of OBA disclosures from annual to *semi-annual*.

Has the firm been the subject of any litigation (settled, pending, or threatened)? If yes, please describe.

Yes. There have been only three lawsuits against CAPTRUST, in our 36 year history, relating to its investment advisory services. A brief description of the lawsuits and the decision are provided below and on the following page.

In 2015, a plan participant in a 401(k) Plan (which is sponsored by a client of CAPTRUST’s) filed a legal action against Prudential Retirement Insurance alleging that Prudential had charged excessive fees to the Plan (*Rosen v. Prudential Retirement Insurance and Annuity Company, et. al.*). In April 2016, CAPTRUST and the Plan Sponsor were joined as additional defendants in that action. CAPTRUST felt that the claims were totally baseless and retained a nationally recognized law firm with expertise in this type of litigation to represent its interests in the litigation. On December 30, 2016, the presiding judge dismissed all claims against all defendants with prejudice. The plaintiff appealed that dismissal; but subsequently withdrew its appeal as to CAPTRUST and its client. On March 22, 2017, the Second Circuit Court of Appeals issued an Order dismissing all claims against CAPTRUST and its client, with prejudice; i.e., the case ended in CAPTRUST's favor.

In August 2016, a 403(b) plan participant, which is sponsored by a private university client of CAPTRUST’s (the University) filed a class action lawsuit action against the University and The Retirement Plan Oversight Committee of the University in the U.S. District Court for the Southern District of New York alleging that the defendants had breached various fiduciary duties owed to the participants in two of the University's retirement plans (Civil Action No. 16-cv-6525). In December 2016, the Plaintiff amended his complaint: (i) naming three more University 403(b) plan participants as additional Plaintiffs; (ii) naming the head of the Oversight Committee of the University and CAPTRUST as additional Defendants; and (iii) revising its allegations with respect to the types of fiduciary breaches allegedly committed. The complaint does not specifically allege any wrongdoing by CAPTRUST; but lumps it together with the University and the University Oversight Committee. CAPTRUST unequivocally maintains that it properly fulfilled all of its fiduciary duties to its client, the retirement plans, and the plan participants. CAPTRUST has retained a nationally recognized law firm with expertise in this type of litigation to represent it and has directed those attorneys to aggressively defend CAPTRUST against all of the alleged claims filed against it. Both the University and CAPTRUST filed motions to dismiss all Counts alleged in the Complaint with the Court. Pursuant to motions filed by CAPTRUST, the



Court agreed and has either dismissed, with prejudice, or entered summary judgment in favor of CAPTRUST on all claims filed against it by Plaintiff. On January 12, 2021, the Plaintiff filed a blanket appeal of all of the Court's orders as to all defendants and the case is currently pending before the Second Circuit.

Further, most recently, in December 2019, a former client of CAPTRUST sued CAPTRUST in the U.S. District Court for the Northern District of Alabama, Southern Division (Civil Action No. 2:19-cv-2082-GMB). The lawsuit alleged that the client's assets were not appropriately invested by CAPTRUST and sought damages related to additional returns that could have been made if the assets had been invested differently. On February 4, 2020, the Court dismissed the lawsuit based on the parties' joint stipulation. The plaintiff subsequently filed an arbitration proceeding with the Financial Industry Regulatory Authority (FINRA). The parties reached settlement and the arbitration was subsequently withdrawn.

Have there been any material changes to the firm's fidelity bond insurance or error and omission insurance? If yes, please explain.

☐ Yes ☒ No

Have there been any changes to the firm's written fiduciary status as it relates to the plan/account? If yes, please explain.

☐ Yes ☒ No

Have there been any changes to the firm's roles and responsibilities as it relates specifically to the plan/account? If yes, please explain.

☐ Yes ☒ No

Have all sources of compensation been clearly disclosed?

☒ Yes ☐ No

Does the firm have any conflicts of interest with any of the plan/account's underlying investment managers or providers? If yes, please explain.

No, the firm does not have any conflicts of interest with the plan, the underlying investment managers, or providers to the plan. The firm's Form ADV Part 2 (disclosure brochure) has a detailed disclosure of all real and potential conflicts of interest, but none that have an impact on the plan.

Does the firm have information security measures in place to protect sensitive data? If so, what information security measures has the firm implemented?

Yes. CAPTRUST maintains a thoroughly documented information security strategy in place.

For more information, please reference the Information Security Brief through the link in email or by following the web address below:



https://file-us.clickdimensions.com/captrustadvisorscom-a7r8p/files/captrust-information-security-brief-for-rfp_35157.pdf?1626098963005

What are the investment manager's discretionary assets under advisement? What is the total number of plans/accounts with which the investment manager acts in a discretionary fashion?

As of 3.31.2022, CAPTRUST serves as an investment manager to \$63.2 billion institutional discretionary assets under management. The total number of institutional accounts/plans for which CAPTRUST serves as a discretionary investment manager is 1,555.

Personnel

Have there been any personnel changes to the Investment Committee that makes investment decisions impacting the plan/account? If so, please list names, title, and a brief description of the person's role.

☐ Yes ☒ No

In the duration of time since last year's questionnaire, CAPTRUST's Investment Committee remained unchanged. Michael Vogelzang is supported by Investment Committee members, David Hood, Sam Kirby CFA®, Christian Ledoux, CFA®, Matt Ogden, Ellen Shaer, CFA®, and Jim Underwood, CFA®.

Have there been any personnel additions or departures that directly affect the management of the plan/account?

☐ Yes ☒ No

Investment Process

Have there been any changes to the firm's capital market assumptions or tactical views? If yes, please list each change and a brief description. How do these views impact the plan/account?

Yes. CAPTRUST's capital market assumptions (CMAs) are generally reviewed and/or updated every 12-18 months, or when warranted by changes in market conditions. Our review of CMAs includes assessments of the valuations and return drivers of asset classes, e.g. price multiples for equities, levels of yields for fixed income, and an evaluation of asset classes relative to one another (equity risk premium).

Updates made for 2021 included:

- **Equities:** The post-pandemic economic recovery has propelled corporate earnings expectations sharply higher, sending equity markets soaring. Based on valuation levels, we believe much of the recovery momentum has been priced into current prices. Consequently, our return assumptions for equities remained mostly unchanged for 2021 as elevated growth expectations are offset by elevated valuations.



- **Fixed income:** Interest rates were low by historical standards, and this was exerting downward pressure on return expectations for fixed income. Our expected return for core fixed income was 2%, reflecting a base case assumption that interest rates gradually rise and the yield curve flattens (long-term rates less impacted by rising short-term rates).
- **Real assets:** Higher valuations relative to history caused us to maintain or slightly reduce our assumptions for future returns for public and private real estate, commodities, and core private real assets.
- **Alternatives:** With credit spreads near historic lows, we slightly pared back our return assumptions for alternatives.
- Risk assumptions begin with a historical (30-year lookback) quantitative calculation and are adjusted to reflect forward-looking qualitative assumptions.
- Asset class correlations have been updated to reflect data for up to the past 20 years.

	Change
U.S. ECONOMY	Return
U.S. Economic Growth (Nominal GDP)	2.25%
U.S. Economic Growth (Real GDP)	1.70%
U.S. Inflation (CPI)	0.55%
EQUITY MARKETS	Return
U.S. Large-Cap Equity	0.00%
U.S. Mid-Cap Equity	0.00%
U.S. Small-Cap Equity	0.00%
International Stocks-Developed Markets	-0.25%
International Stocks-Emerging Markets	0.00%
FIXED INCOME	Return
U.S. Short-Term T-Bills (Cash)	0.35%
U.S. Core Fixed Income	-0.10%
U.S. Intermediate-Term Treasury Bonds	0.50%
U.S. Long-Term Treasury Bonds	-0.10%
U.S. Investment Grade Corporate Bonds	-0.80%
U.S. Long-Term Corporate Bonds	-0.75%
U.S. High Yield Corporate Bonds	-2.05%
U.S. Municipal Bonds	-1.50%
Global Bonds	0.15%
Floating Rate Bonds	
Treasury Inflated-Protected (TIPS)	0.00%
REAL ASSETS	Return
U.S. Public Real Estate	0.00%
U.S. Core Private Real Estate	-0.25%
Commodities	-0.45%
Core Private Real Assets	0.00%

Have there been any changes to the investment process or philosophy of the firm?
If yes, please explain.

☐ Yes ☒ No



Have there been any changes to the manager due diligence process employed by the firm? If yes, please explain.

☐ Yes ☒ No

Have there been any changes to the process with which investment options are monitored? If yes, please explain.

☐ Yes ☒ No

Have there been any changes to the reporting for investment options? If yes, please explain.

☐ Yes ☒ No

Have there been any changes to the firm's standard Investment Policy Statement? If so, please describe.

☐ Yes ☒ No

SECTION TWO: INVESTMENT PROCESS MONITORING

The questions below are intended for plan sponsors and/or investment committees to complete to memorialize what they are doing from an investment process perspective to monitor the actions of their plan's investment manager.

Documentation and Communication

Does the investment manager clearly communicate any changes made to the investment options in the plan and the rationale for doing so?

☐ Yes ☐ No

Does the investment manager provide proper documentation of investment decisions made and house these documents in a secure and central place?

☐ Yes ☐ No

Does the investment manager clearly define its criteria for selection and ongoing monitoring of investment options through an Investment Policy Statement?

☐ Yes ☐ No

Are all investment decisions communicated in a timely fashion?



☐ Yes ☐ No

If a Qualified Default Investment Option (QDIA) is utilized in the plan, is the selection and rationale properly documented?

☐ Yes ☐ No

Disclosures

Does the investment manager acknowledge its fiduciary status in writing?

☐ Yes ☐ No

Are the roles and responsibilities of the investment manager clearly stated and documented in the plan's Investment Policy Statement? If there are areas where the investment manager does not take on discretion (e.g. individual annuity contracts, company stock), are those areas properly communicated and disclosed?

☐ Yes ☐ No

Does the investment manager have any conflicts of interest with any of the plan's underlying investment managers or providers?

☐ Yes ☐ No

Does the investment manager fully disclose all sources of compensation?

☐ Yes ☐ No

Investment Selection and Monitoring

Does the investment manager clearly define its criteria for selection and ongoing monitoring of investment options through an Investment Policy Statement? Are these procedures consistently applied to all investment options and any deviations from the process clearly explained?

☐ Yes ☐ No

Does the investment manager monitor the plan's investments on a periodic basis, but no less than annually?

☐ Yes ☐ No

Has the investment manager clearly communicated who makes investment decisions that impact the plan? Who has final say in investment decisions? What is the process involved in making these decisions? Does the investment advisor



periodically assess the plan's investment options and provider capabilities in an effort to optimize outcomes?

☐ Yes ☐ No

Lineup Construction

Does the investment lineup provide for a reasonable range of participant risk tolerances?

☐ Yes ☐ No

Is the lineup constructed with the intent to meet ERISA 404(c) requirements?

☐ Yes ☐ No

Does the investment lineup offer pre-diversified investment options, such as target date or risk-based portfolios that are based on reasonable risk/return assumptions?

☐ Yes ☐ No

If the investment advisor manages any diversified portfolios or models for the plan, are the underlying risk/return assumptions clearly communicated? Are all changes to diversified portfolios or models clearly communicated? How?

☐ Yes ☐ No