



CAPTRUST Financial Advisors

## Annual Due Diligence Questionnaire For Discretionary Clients



## SECTION ONE: INVESTMENT MANAGER MONITORING

CAPTRUST has proactively answered the questions below to make it easier for plan sponsors and investment committees to monitor CAPTRUST as their plan/account's investment manager.

### Firm

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

No.

**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.

**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.**

Yes. The U.S. Securities & Exchange Commission (SEC) District Office in Atlanta announced a routine SEC exam on Wednesday, 2.21.18. The examiners were onsite for the week of March 12, 2018. While onsite the examiners conducted interviews with senior and executive level managers and directors, and the exam was comprehensive. We were pleased because the examiners wanted to understand the institutional book of business (representing 97 percent of assets under advisement). The exam covered many areas, including requests for proposal (RFPs), fund changes, share class analysis (institutional and wealth), investment research, and custody. They were particularly interested in our acquisition strategy, due diligence around acquisitions, any conflicts associated with that business, as well as integration of acquisitions and solicitor relationships. We addressed any deficiencies noted. At CAPTRUST, we foster a culture of compliance and we expect that was apparent to examiners.



Prior to the exam mentioned above, in Summer 2014, CAPTRUST was the subject of a routine examination by the SEC. The exam was focused entirely on the firm's wealth management business (as opposed to its retirement plan or institutional advisory business). Specifically, the SEC examined the firm's (wealth) wrap fee programs. Deficiencies noted by examiners were mitigated and addressed with revised disclosures in the wrap and non-wrap (wealth) brochures (no material changes to the institutional/retirement plan advisory services brochure). All clients received revised disclosure brochures. During the 2014 exam, the SEC examiners did not inquire or review any of the firm's institutional business.

Additionally, each year we undergo several audits by independent third parties. We have our financial statements audited by an independent CPA firm; we are also subject to a custodial "surprise audit" and a review of our internal control procedures by an independent CPA; as well as an annual AML audit by an independent consulting firm.

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

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 plan participant in a 403(b) Plan (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 United States District Court for the Southern District of New York (Civil Action No. 16-cv-6525) alleging that the Defendants had breached various fiduciary duties owed to the participants in two of the University's retirement plans. In December 2016, the Plaintiff amended his complaint: (i) naming three more plan participants as additional Plaintiffs; (ii) naming the head of the Oversight Committee 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 merely lumps it together with the University and the Oversight Committee. CAPTRUST unequivocally maintains that it properly fulfilled all of its fiduciary duties to its client, the retirement plans, and the plans' 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 by Plaintiff. The time in which Plaintiff may appeal the Court's order has not yet expired.



**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.

**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 12.31.2019 CAPTRUST provided holistic discretionary investment manager services to approximately 828 accounts/plans representing over \$31.3 billion in assets under management.

## **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 2019, the below employees were added to the CAPTRUST Investment Committee.





➤ **Ryan Hill, CFA, Senior Manager, Private Markets Due Diligence**

Ryan joined CAPTRUST in 2018 and serves as a senior manager of investment research responsible for overseeing the firm's alternative investment manager research and conducting due diligence on investment strategies and funds to determine their suitability for clients. Prior to joining the firm, Ryan was a investment officer at The Minnesota State Board of Investment and has worked in the industry since 2000. Ryan received a Bachelor of Science degree in finance from Illinois State University, and a Master of Business Administration degree with a concentration in finance from University of Minnesota. He has earned the industry designation of Chartered Financial Analyst®.

➤ **Christine Safarikas, Analyst, IC Coordinator**

Part of CAPTRUST's Investment Group, Christine is an analyst, investment research, charged with assisting with compilation and analysis of investment data and reporting due diligence findings to clients. Christine holds the Chartered Financial Analyst® (CFA®) designation. She is based out of the Raleigh, North Carolina, office.

➤ **Ellen Shaer, CFA, Director, Investment Strategist**

Ellen joined CAPTRUST in 2013 and serves as a director, investment strategist. She is responsible for the selection and monitoring of individual investment solutions and reporting due diligence findings to clients. Ellen has worked in the financial services industry for more than 20 years; first as an investment banker and subsequently at a global macro hedge fund of funds. She earned her Bachelor of Science degree in economics from the Wharton School at the University of Pennsylvania and a Master of Business Administration degree from Columbia University Graduate School of Business. She also holds the Chartered Financial Analyst® (CFA®) designation.

➤ **Mike Vogelzang, CFA, Principal, Chief Investment Strategist, Single Security Portfolio Oversight**

Michael joined CAPTRUST from Boston Advisors in 2019. He serves as a principal and chief investment strategist focused on investment manager due diligence, asset allocation, and discretionary investment management for the firm's wealth management advisory business. Prior to joining the firm, Michael was president and chief investment officer of Boston Advisors. Before that he held senior positions with Freedom Capital Management and Shawmut Investment Management. He began his investment career at The Boston Company. Michael received a Bachelor of Arts degree in economics and political science from Calvin College and Boston University's Graduate School of Management. As an investment strategist, he is frequently invited to speak at industry conferences, interview in the financial media, and contribute articles to portfolio management journals. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Society of Boston.

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

☐ Yes ☒ No, however, please see response to the previous question.



## 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?**

Our last update of Capital Market Assumptions occurred in September 2019. Changes made to return expectations (relative to the prior assumptions) included:

- A slight reduction in U.S. economic growth (-0.5%) and inflation (-0.25%) expectations
- A slight reduction (-0.25%) in return expectations for International equities (developed and emerging markets)
- No changes occurred within expectations for U.S. equities, based upon the continued relative strength of the U.S. economy relative to other International markets
- A reduction in return expectations for most fixed income categories, ranging from -0.25% to -1.15%, following a continued decline in the level of interest rates. Forward returns for fixed income are generally highly correlated to the level of current yield
- Other categories, including real estate, commodities, and most other diversifying categories, were unchanged
- Risk/volatility assumptions were also unchanged

**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

### 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

## Asset Allocation Construction

**Does the asset allocation align with the parameters defined in the plan/account's IPS?**

☐ Yes ☐ No

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

☐ Yes ☐ No