Endowment and Foundation Services Proposal Lookbook

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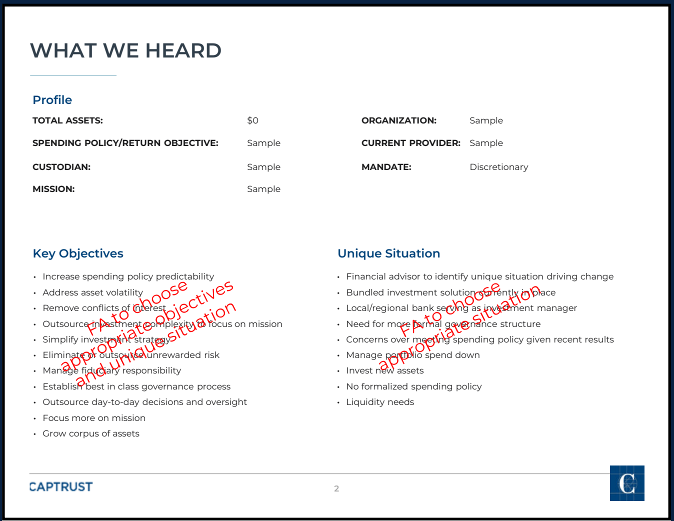
Please note the following:

- Content is updated on a quarterly basis, please obtain the most current content from Chelsea Batts-Wood or Kelly McGee.

Questions?

Please contact Chelsea Batts-Wood (Chelsea.Batts-Wood@captrust.com) or Kelly McGee (Kelly.McGee@captrust.com)

ENDOWMENT AND FOUNDATION SERVICES



WHAT WE HEARD

Profile

TOTAL ASSETS:	$0	**ORGANIZATION:**	Sample
SPENDING POLICY/RETURN OBJECTIVE:	Sample	**CURRENT PROVIDER:**	Sample
CUSTODIAN:	Sample	**MANDATE:**	Discretionary
MISSION:	Sample		

Key Objectives

- Increase spending policy predictability
- Address asset volatility
- Remove conflicts of interest
- Outsource investment complexity to focus on mission
- Simplify investment strategy
- Eliminate or outsource unrewarded risk
- Manage fiduciary responsibility
- Establish best in class governance process
- Outsource day-to-day decisions and oversight
- Focus more on mission
- Grow corpus of assets

FA to choose appropriate objectives and unique situation

Unique Situation

- Financial advisor to identify unique situation driving change
- Bundled investment solution currently in place
- Local/regional bank serving as investment manager
- Need for more formal governance structure
- Concerns over meeting spending policy given recent results
- Manage portfolio spend down
- Invest new assets
- No formalized spending policy
- Liquidity needs

FA to choose appropriate situation

ABOUT CAPTRUST

Presentation of Endowment and Foundation Services

ABOUT CAPTRUST

COMPANY HEADQUARTERS
Raleigh, NC

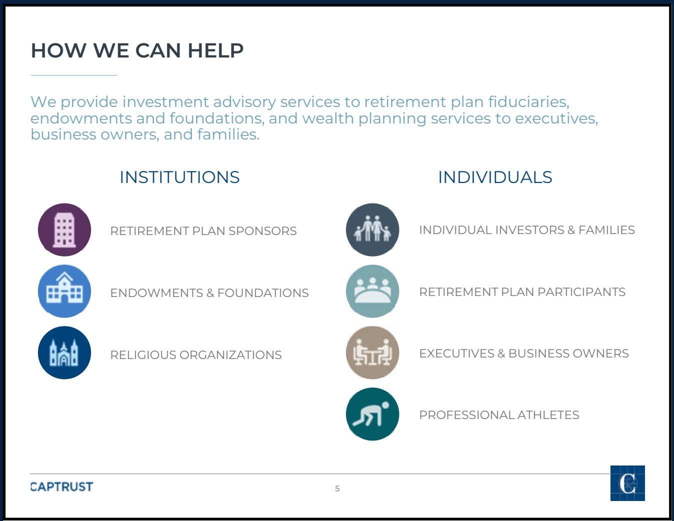
Corporate Structure and Ownership

- 36-year operating history
- Culture of employee ownership
- 1,088 employees
- More than 3,000 institutional clients
- $719 billion in client assets under advisement
- 98% client retention (average since 2009)

Locations

AKRON, OH
ALLENTOWN, PA
ALPHARETTA, GA
ATLANTA, GA
AUSTIN, TX (2)
BETHLEHEM, PA
BIRMINGHAM, AL
BOERNE, TX
BOSTON, MA (2)
CARPINTERIA, CA
CHARLOTTE, NC
CHESTERTON, IN
CHICAGO, IL
CLARKSTON, MI
COLUMBIA, MD
COLUMBIA, MO
CORPUS CHRISTI, TX
DALLAS, TX (2)
DAYTON, OH
DOYLESTOWN, PA
DRAPER, UT
FOLSOM, CA
GRAND RAPIDS, MI
GREENSBORO, NC
GREENSBURG, PA
GREENVILLE, SC
GREENWICH, CT
GREENWOOD VILLAGE, CO
HARRISONBURG, VA
HOUSTON, TX
JACKSON, MS
LAKE MARY, FL
LAKE SUCCESS, NY
LAS VEGAS, NV
LEWES, DE
LEXINGTON, KY
LEXINGTON, VA
LODI, CA
LONE TREE, CO
LYNCHBURG, VA
MINNEAPOLIS, MN
MONTGOMERY, AL
NASHVILLE, TN
NEW YORK, NY
NORTH MIAMI, FL
OKLAHOMA CITY, OK
PEACHTREE CITY, GA
PHOENIX, AZ
PITTSBURGH, PA
RALEIGH, NC
RICHMOND, VA
RIVERSIDE, CA
RIVERSIDE, NJ
ROANOKE, VA
ROSEVILLE, CA
SACRAMENTO, CA
SAN ANTONIO, TX (2)
SAN RAMON, CA
SANTA BARBARA, CA
SOUTHFIELD, MI
STOCKBRIDGE, GA
TAMPA, FL
UNIONTOWN, OH
VALENCIA, CA
WASHINGTON, DC
WAYZATA, MN
WEST CHESTER TOWNSHIP, OH
WEST DES MOINES, IA
WESTLAKE VILLAGE, CA
WILMINGTON, NC

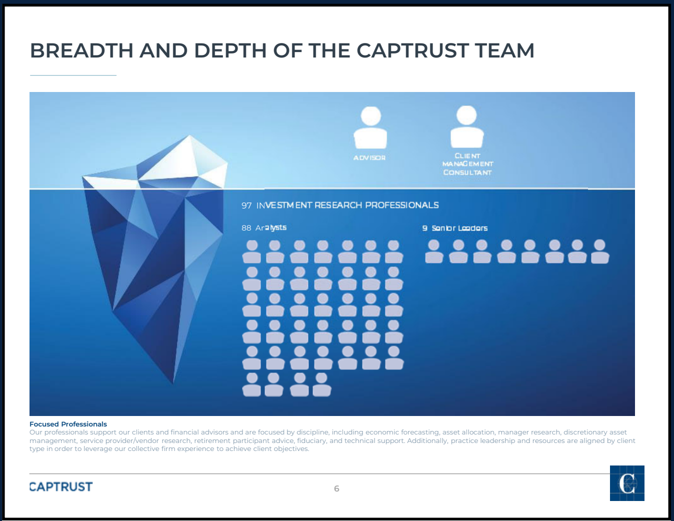
Data as of 12/31/2021



HOW WE CAN HELP

We provide investment advisory services to retirement plan fiduciaries, endowments and foundations, and wealth planning services to executives, business owners, and families.

INSTITUTIONS	INDIVIDUALS
RETIREMENT PLAN SPONSORS	INDIVIDUAL INVESTORS & FAMILIES
ENDOWMENTS & FOUNDATIONS	RETIREMENT PLAN PARTICIPANTS
RELIGIOUS ORGANIZATIONS	EXECUTIVES & BUSINESS OWNERS
	PROFESSIONAL ATHLETES



BREADTH AND DEPTH OF THE CAPTRUST TEAM

ADVISOR

CLIENT MANAGEMENT CONSULTANT

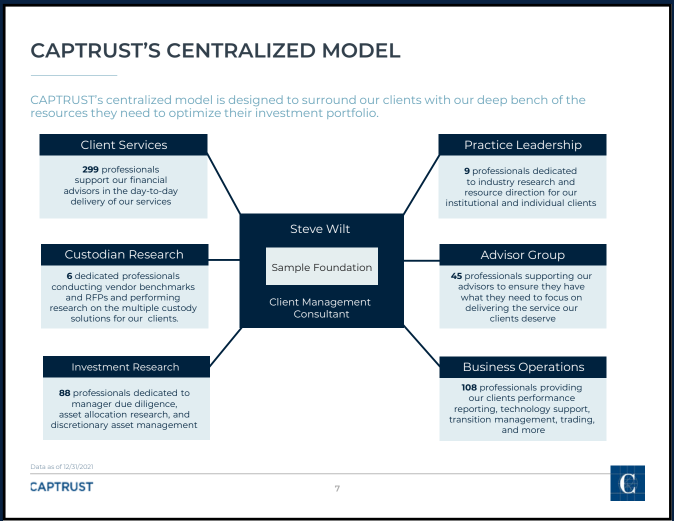
97 INVESTMENT RESEARCH PROFESSIONALS

88 Analysts

9 Senior Leaders

Focused Professionals

Our professionals support our clients and financial advisors and are focused by discipline, including economic forecasting, asset allocation, manager research, discretionary asset management, service provider/vendor research, retirement participant advice, fiduciary, and technical support. Additionally, practice leadership and resources are aligned by client type in order to leverage our collective firm experience to achieve client objectives.



CAPTRUST'S CENTRALIZED MODEL

CAPTRUST's centralized model is designed to surround our clients with our deep bench of the resources they need to optimize their investment portfolio.

Steve Wilt

Sample Foundation

Client Management Consultant

Client Services

299 professionals support our financial advisors in the day-to-day delivery of our services

Custodian Research

6 dedicated professionals conducting vendor benchmarks and RFPs and performing research on the multiple custody solutions for our clients.

Investment Research

88 professionals dedicated to manager due diligence, asset allocation research, and discretionary asset management

Practice Leadership

9 professionals dedicated to industry research and resource direction for our institutional and individual clients

Advisor Group

45 professionals supporting our advisors to ensure they have what they need to focus on delivering the service our clients deserve

Business Operations

108 professionals providing our clients performance reporting, technology support, transition management, trading, and more

Data as of 12/31/2021

OUR UNIQUE VALUE PROPOSITION

Aligned Interests

- Objective and unbiased investment advisors
- 100% of revenue is derived from client advisory services
- Dedicated subject matter experts by practice

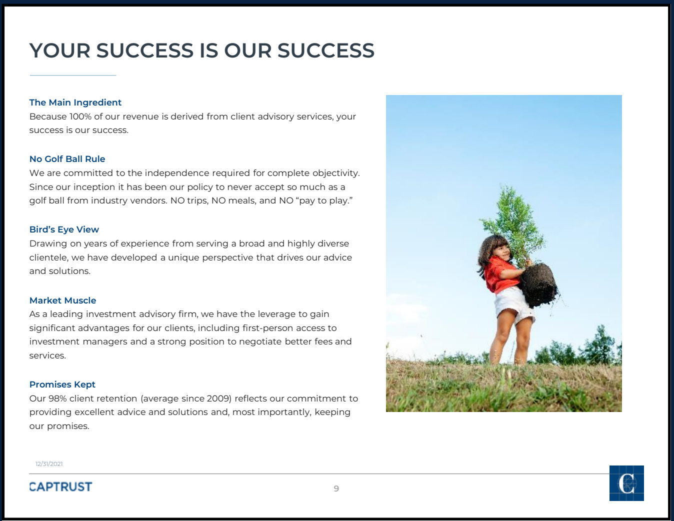
Unique Perspective

- Depth of resources
- Specialization by investor needs
- Industry leverage

Proven Results

- 3,500+ due diligence calls annually and 100+ on-site interviews
- 98% client retention (average since 2009)

12/31/2021



YOUR SUCCESS IS OUR SUCCESS

The Main Ingredient
Because 100% of our revenue is derived from client advisory services, your success is our success.

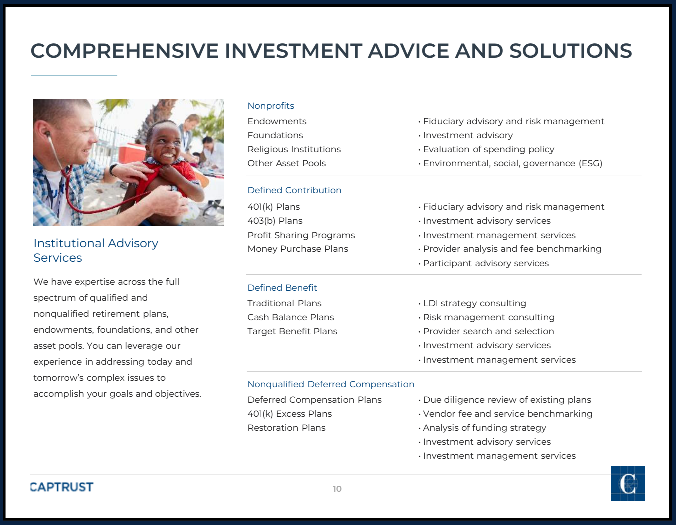
No Golf Ball Rule
We are committed to the independence required for complete objectivity. Since our inception it has been our policy to never accept so much as a golf ball from industry vendors. NO trips, NO meals, and NO "pay to play."

Bird's Eye View
Drawing on years of experience from serving a broad and highly diverse clientele, we have developed a unique perspective that drives our advice and solutions.

Market Muscle
As a leading investment advisory firm, we have the leverage to gain significant advantages for our clients, including first-person access to investment managers and a strong position to negotiate better fees and services.

Promises Kept
Our 98% client retention (average since 2009) reflects our commitment to providing excellent advice and solutions and, most importantly, keeping our promises.

12/31/2021



COMPREHENSIVE INVESTMENT ADVICE AND SOLUTIONS

Institutional Advisory Services

We have expertise across the full spectrum of qualified and nonqualified retirement plans, endowments, foundations, and other asset pools. You can leverage our experience in addressing today and tomorrow's complex issues to accomplish your goals and objectives.

Nonprofits

Endowments	· Fiduciary advisory and risk management
Foundations	· Investment advisory
Religious Institutions	· Evaluation of spending policy
Other Asset Pools	· Environmental, social, governance (ESG)

Defined Contribution

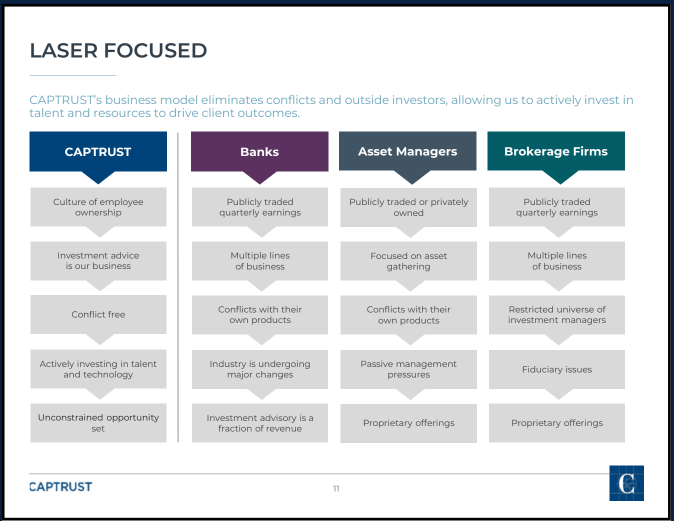
401(k) Plans	· Fiduciary advisory and risk management
403(b) Plans	· Investment advisory services
Profit Sharing Programs	· Investment management services
Money Purchase Plans	· Provider analysis and fee benchmarking
	· Participant advisory services

Defined Benefit

Traditional Plans	· LDI strategy consulting
Cash Balance Plans	· Risk management consulting
Target Benefit Plans	· Provider search and selection
	· Investment advisory services
	· Investment management services

Nonqualified Deferred Compensation

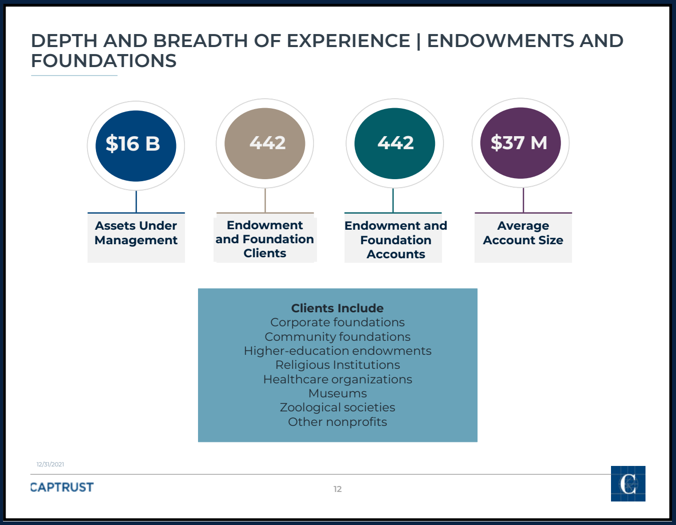
Deferred Compensation Plans	· Due diligence review of existing plans
401(k) Excess Plans	· Vendor fee and service benchmarking
Restoration Plans	· Analysis of funding strategy
	· Investment advisory services
	· Investment management services



LASER FOCUSED

CAPTRUST's business model eliminates conflicts and outside investors, allowing us to actively invest in talent and resources to drive client outcomes.

CAPTRUST	Banks	Asset Managers	Brokerage Firms
Culture of employee ownership	Publicly traded quarterly earnings	Publicly traded or privately owned	Publicly traded quarterly earnings
Investment advice is our business	Multiple lines of business	Focused on asset gathering	Multiple lines of business
Conflict free	Conflicts with their own products	Conflicts with their own products	Restricted universe of investment managers
Actively investing in talent and technology	Industry is undergoing major changes	Passive management pressures	Fiduciary issues
Unconstrained opportunity set	Investment advisory is a fraction of revenue	Proprietary offerings	Proprietary offerings

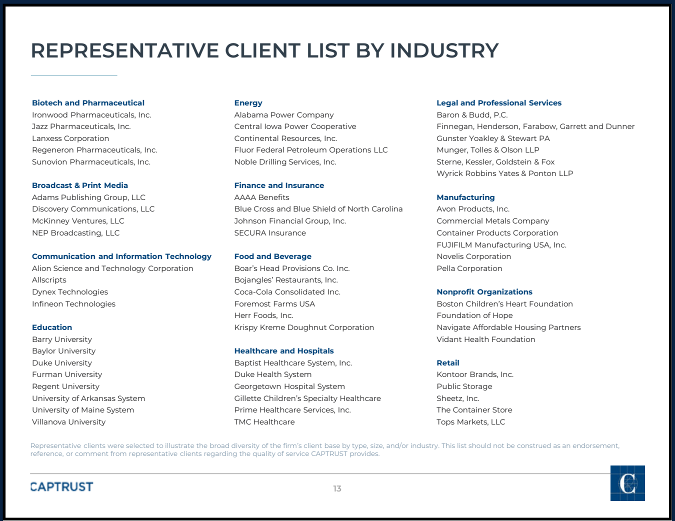


DEPTH AND BREADTH OF EXPERIENCE | ENDOWMENTS AND FOUNDATIONS

$16 B	442	442	$37 M
Assets Under Management	Endowment and Foundation Clients	Endowment and Foundation Accounts	Average Account Size

Clients Include
Corporate foundations
Community foundations
Higher-education endowments
Religious Institutions
Healthcare organizations
Museums
Zoological societies
Other nonprofits

12/31/2021



REPRESENTATIVE CLIENT LIST BY INDUSTRY

Biotech and Pharmaceutical
Ironwood Pharmaceuticals, Inc.
Jazz Pharmaceuticals, Inc.
Lanxess Corporation
Regeneron Pharmaceuticals, Inc.
Sunovion Pharmaceuticals, Inc.

Broadcast & Print Media
Adams Publishing Group, LLC
Discovery Communications, LLC
McKinney Ventures, LLC
NEP Broadcasting, LLC

Communication and Information Technology
Alion Science and Technology Corporation
Allscripts
Dynex Technologies
Infineon Technologies

Education
Barry University
Baylor University
Duke University
Furman University
Regent University
University of Arkansas System
University of Maine System
Villanova University

Energy
Alabama Power Company
Central Iowa Power Cooperative
Continental Resources, Inc.
Fluor Federal Petroleum Operations LLC
Noble Drilling Services, Inc.

Finance and Insurance
AAAA Benefits
Blue Cross and Blue Shield of North Carolina
Johnson Financial Group, Inc.
SECURA Insurance

Food and Beverage
Boar’s Head Provisions Co. Inc.
Bojangles’ Restaurants, Inc.
Coca-Cola Consolidated Inc.
Foremost Farms USA
Herr Foods, Inc.
Krispy Kreme Doughnut Corporation

Healthcare and Hospitals
Baptist Healthcare System, Inc.
Duke Health System
Georgetown Hospital System
Gillette Children’s Specialty Healthcare
Prime Healthcare Services, Inc.
TMC Healthcare

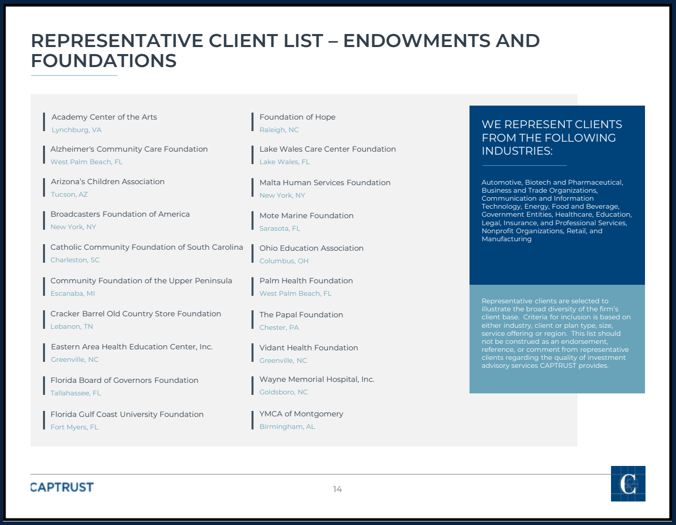
Legal and Professional Services
Baron & Budd, P.C.
Finnegan, Henderson, Farabow, Garrett and Dunner
Gunster Yoakley & Stewart PA
Munger, Tolles & Olson LLP
Sterne, Kessler, Goldstein & Fox
Wyrick Robbins Yates & Ponton LLP

Manufacturing
Avon Products, Inc.
Commercial Metals Company
Container Products Corporation
FUJIFILM Manufacturing USA, Inc.
Novelis Corporation
Pella Corporation

Nonprofit Organizations
Boston Children’s Heart Foundation
Foundation of Hope
Navigate Affordable Housing Partners
Vidant Health Foundation

Retail
Kontoor Brands, Inc.
Public Storage
Sheetz, Inc.
The Container Store
Tops Markets, LLC

Representative clients were selected to illustrate the broad diversity of the firm’s client base by type, size, and/or industry. This list should not be construed as an endorsement, reference, or comment from representative clients regarding the quality of service CAPTRUST provides.



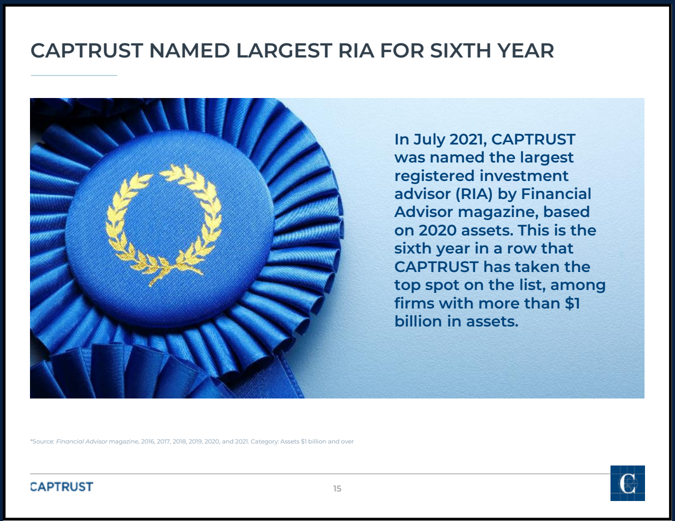
REPRESENTATIVE CLIENT LIST – ENDOWMENTS AND FOUNDATIONS

Academy Center of the Arts Lynchburg, VA	Foundation of Hope Raleigh, NC
Alzheimer's Community Care Foundation West Palm Beach, FL	Lake Wales Care Center Foundation Lake Wales, FL
Arizona’s Children Association Tucson, AZ	Malta Human Services Foundation New York, NY
Broadcasters Foundation of America New York, NY	Mote Marine Foundation Sarasota, FL
Catholic Community Foundation of South Carolina Charleston, SC	Ohio Education Association Columbus, OH
Community Foundation of the Upper Peninsula Escanaba, MI	Palm Health Foundation West Palm Beach, FL
Cracker Barrel Old Country Store Foundation Lebanon, TN	The Papal Foundation Chester, PA
Eastern Area Health Education Center, Inc. Greenville, NC	Vidant Health Foundation Greenville, NC
Florida Board of Governors Foundation Tallahassee, FL	Wayne Memorial Hospital, Inc. Goldsboro, NC
Florida Gulf Coast University Foundation Fort Myers, FL	YMCA of Montgomery Birmingham, AL

WE REPRESENT CLIENTS FROM THE FOLLOWING INDUSTRIES:

Automotive, Biotech and Pharmaceutical, Business and Trade Organizations, Communication and Information Technology, Energy, Food and Beverage, Government Entities, Healthcare, Education, Legal, Insurance, and Professional Services, Nonprofit Organizations, Retail, and Manufacturing

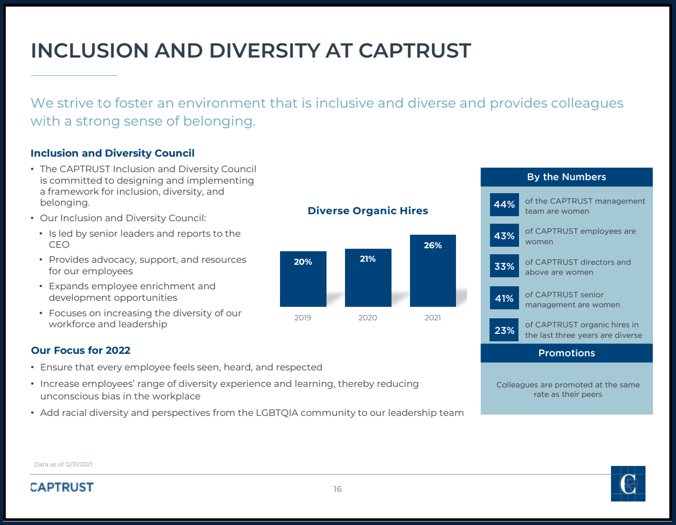
Representative clients are selected to illustrate the broad diversity of the firm’s client base. Criteria for inclusion is based on either industry, client or plan type, size, service offering or region. This list should not be construed as an endorsement, reference, or comment from representative clients regarding the quality of investment advisory services CAPTRUST provides.



CAPTRUST NAMED LARGEST RIA FOR SIXTH YEAR

In July 2021, CAPTRUST was named the largest registered investment advisor (RIA) by Financial Advisor magazine, based on 2020 assets. This is the sixth year in a row that CAPTRUST has taken the top spot on the list, among firms with more than $1 billion in assets.

*Source: *Financial Advisor* magazine, 2016, 2017, 2018, 2019, 2020, and 2021. Category: Assets $1 billion and over



INCLUSION AND DIVERSITY AT CAPTRUST

We strive to foster an environment that is inclusive and diverse and provides colleagues with a strong sense of belonging.

Inclusion and Diversity Council

- The CAPTRUST Inclusion and Diversity Council is committed to designing and implementing a framework for inclusion, diversity, and belonging.
- Our Inclusion and Diversity Council:
  - Is led by senior leaders and reports to the CEO
  - Provides advocacy, support, and resources for our employees
  - Expands employee enrichment and development opportunities
  - Focuses on increasing the diversity of our workforce and leadership

Diverse Organic Hires

Our Focus for 2022

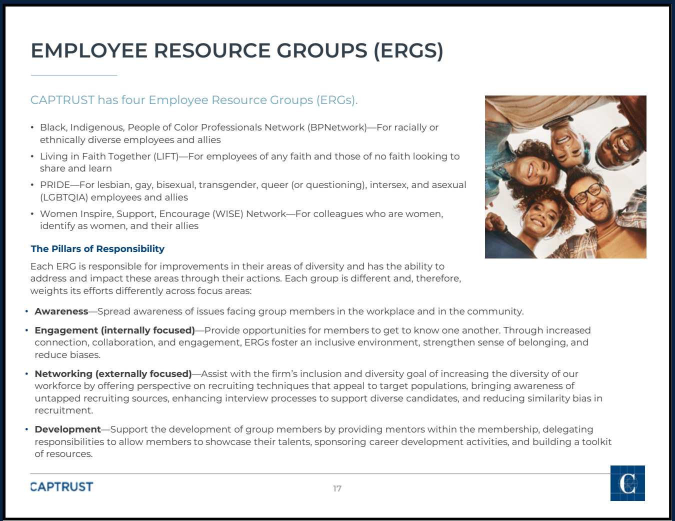
- Ensure that every employee feels seen, heard, and respected
- Increase employees’ range of diversity experience and learning, thereby reducing unconscious bias in the workplace
- Add racial diversity and perspectives from the LGBTQIA community to our leadership team

By the Numbers	
44%	of the CAPTRUST management team are women
43%	of CAPTRUST employees are women
33%	of CAPTRUST directors and above are women
41%	of CAPTRUST senior management are women
23%	of CAPTRUST organic hires in the last three years are diverse

Promotions

Colleagues are promoted at the same rate as their peers

Data as of 12/31/2021



EMPLOYEE RESOURCE GROUPS (ERGS)

CAPTRUST has four Employee Resource Groups (ERGs).

- Black, Indigenous, People of Color Professionals Network (BPNetwork)—For racially or ethnically diverse employees and allies
- Living in Faith Together (LIFT)—For employees of any faith and those of no faith looking to share and learn
- PRIDE—For lesbian, gay, bisexual, transgender, queer (or questioning), intersex, and asexual (LGBTQIA) employees and allies
- Women Inspire, Support, Encourage (WISE) Network—For colleagues who are women, identify as women, and their allies

The Pillars of Responsibility

Each ERG is responsible for improvements in their areas of diversity and has the ability to address and impact these areas through their actions. Each group is different and, therefore, weights its efforts differently across focus areas:

- **Awareness**—Spread awareness of issues facing group members in the workplace and in the community.
- **Engagement (internally focused)**—Provide opportunities for members to get to know one another. Through increased connection, collaboration, and engagement, ERGs foster an inclusive environment, strengthen sense of belonging, and reduce biases.
- **Networking (externally focused)**—Assist with the firm's inclusion and diversity goal of increasing the diversity of our workforce by offering perspective on recruiting techniques that appeal to target populations, bringing awareness of untapped recruiting sources, enhancing interview processes to support diverse candidates, and reducing similarity bias in recruitment.
- **Development**—Support the development of group members by providing mentors within the membership, delegating responsibilities to allow members to showcase their talents, sponsoring career development activities, and building a toolkit of resources.

CAPTRUST INFORMATION SECURITY

We educate all employees on the importance of information security and confidentiality. All employees must adhere to—and sign off on—our compliance and information security policies, as well as receive periodic training regardless of their role.

CAPTRUST adheres to stringent information security standards and policies.

- **Email security is a top priority.**
  - **We conduct internal email phishing susceptibility campaigns to raise awareness about the methods used most frequently by attackers.**
  - **Encrypted emails allow us to safely exchange sensitive information with clients.**
  - **Targeted threat protection limits the number of spear phishing and whaling campaigns reaching our users.**
- **Firewalls prevent unauthorized server access and allow us to monitor network traffic.**
- **Drive encryption using advanced encryption standards on smartphones, tablets, and laptops protects against data loss in the event a device is lost or stolen.**
- **Access to client information is restricted to employees who need it to conduct business.**
- **Endpoint security software protects our computer network from viruses and malware.**
- **Annual testing ensures the effectiveness of our security controls and alerts us to potential vulnerabilities.**
- **Ongoing monitoring of our network enables the detection of suspicious activity.**
- **Business continuity and disaster recovery plans outline procedures that would expedite our return to business as usual in the event of a significant business disruption.**

CYBERSECURITY IN FOCUS

On March 15, the U.S. Government Accountability Office urged the Department of Labor (DOL) to guide the retirement industry in protecting retirement plan participant accounts from online theft. On April 14, the DOL released guidance for plan sponsors, plan fiduciaries, recordkeepers, and plan participants on best practices for maintaining cybersecurity. The guidance helps plan sponsors and fiduciaries prudently select and monitor service providers.

Although no specific regulations outlining plan sponsors' responsibilities with respect to participant data security exist, plan fiduciaries have a responsibility to prudently select and monitor service providers for the sole benefit of plan participants and beneficiaries. To fulfill this duty, they should act to reduce the likelihood that their retirement plans will fall victim to a data breach or theft of plan assets. Fortunately, plan sponsors and participants can take a few simple steps to help reduce their risk.

PLAN DATA SHARING

Some service providers need access to little, if any, participant data. Even recordkeepers and third-party administrators may be obtaining more data than they need. Data sharing should be reviewed accordingly.

CYBERSECURITY INSURANCE

Such insurance protects the employer against cybersecurity breaches, but the retirement plan sponsor should confirm that this coverage extends to plan assets. The plan's fiduciary liability insurance policy should be reviewed to determine whether it provides cyber-liability coverage.

FOR PLAN PARTICIPANTS

ACCOUNT REGISTRATION

Work with your recordkeeper to identify participants who have not completed the registration process or have not set up dual-factor identification.

ACCOUNT MONITORING

Encourage participants to log in to their accounts at least once a month to monitor activity and to use strong passwords and change them regularly.

CONTACT INFORMATION

Communicate the importance of keeping contact information up to date with the recordkeeper and subscribing to notifications so participants can be alerted about any suspicious activity.

CYBERSECURITY IN FOCUS (CONTINUED)

The document "Tips for Hiring a Service Provider with Strong Cybersecurity Practices" was released by the DOL on April 14. The document features six tips to assist plan sponsors in meeting their fiduciary obligations under ERISA to prudently select and monitor service providers.

SECURITY STANDARDS AND PRACTICES

1 Confirm that the service provider has a formal, well-documented cybersecurity program in place that follows a recognized industry standard for information security. Look for a provider that uses a third-party auditor to review and validate cybersecurity.

2 Ask the provider how it validates its practices and what levels of security standards it has met and implemented. For example, understand distribution approval protocols being followed and the process for allowing changes to participant passwords and data.

TRACK RECORDS

3 Consider the available public information, including past security incidents, litigation, and legal proceedings related to the vendor's services.

4 Ask about past security breaches and how the provider responded to them.

INSURANCE

5 Confirm that the service provider has insurance policies that would cover losses caused by cybersecurity and identity theft breaches, including internal and external threats.

SERVICE PROVIDER AGREEMENTS AND CONTRACT TERMS

6 The provider's contract should require ongoing compliance with cybersecurity and information security standards. In addition to encompassing all the provisions listed here, contract terms should allow the plan sponsor the right to review audit results and spell out the service provider's obligation to keep private information protected against unauthorized access, loss, disclosure, modification, or misuse.

Service provider agreements should include procedures detailing how participant data will be protected and the degree to which the plan sponsor or participant will be notified and indemnified by the service provider for breaches.

Source: Employee Benefits Security Administration, U.S. Department of Labor, "Tips for Hiring a Service Provider with Strong Cybersecurity Practices"

OUR COMMITMENT TO OUR COMMUNITIES

We have a profound responsibility to share our success. We contribute time, money, and energy to our communities and assist those in need, particularly underprivileged children. Aspiring to our firm's mission to enrich the lives of our communities, the CAPTRUST Community Foundation, a registered 501(c)(3) charity, was organized in 2007 to provide CAPTRUST employees with more opportunities to participate as a group in community outreach efforts.

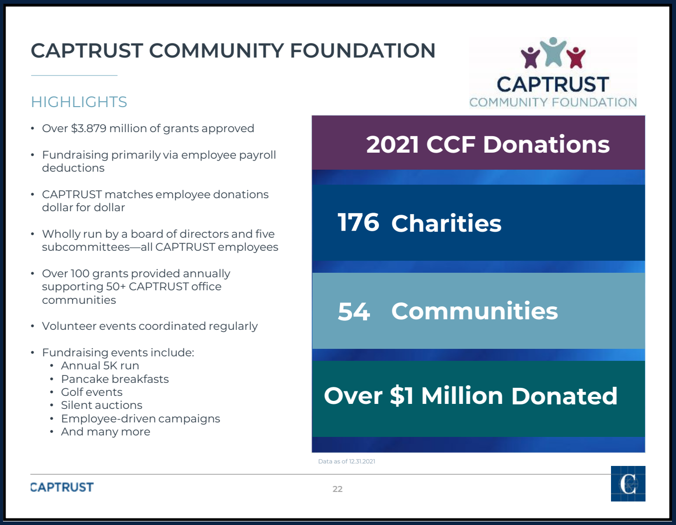
CAPTRUST COMMUNITY FOUNDATION

The goal of the Foundation is to support the appreciation of our communities by encouraging our teammates to contribute time and resources to local and national charities serving the needs of children.

CHARITY OF CHOICE RECIPIENTS

Note in the Pocket
TeamSmile
CORRAL
For a leg up in life.
KIDZNOTES
Collaborate. Inspire. Change.
read and feed
The Children's Home of Easton
SINCE 1885
children's flight of hope
WE FLY FOR THEIR LIVES
RMHC

CAPTRUST 21



CAPTRUST COMMUNITY FOUNDATION

CAPTRUST COMMUNITY FOUNDATION

HIGHLIGHTS

- Over $3.879 million of grants approved
- Fundraising primarily via employee payroll deductions
- CAPTRUST matches employee donations dollar for dollar
- Wholly run by a board of directors and five subcommittees—all CAPTRUST employees
- Over 100 grants provided annually supporting 50+ CAPTRUST office communities
- Volunteer events coordinated regularly
- Fundraising events include:
  - Annual 5K run
  - Pancake breakfasts
  - Golf events
  - Silent auctions
  - Employee-driven campaigns
  - And many more

2021 CCF Donations

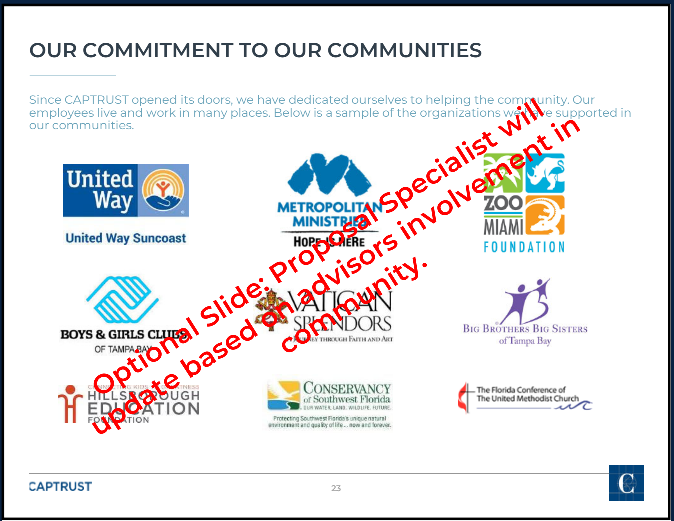
176 Charities

54 Communities

Over $1 Million Donated

Data as of 12.31.2021.

CAPTRUST 22



OUR COMMITMENT TO OUR COMMUNITIES

Since CAPTRUST opened its doors, we have dedicated ourselves to helping the community. Our employees live and work in many places. Below is a sample of the organizations we have supported in our communities.

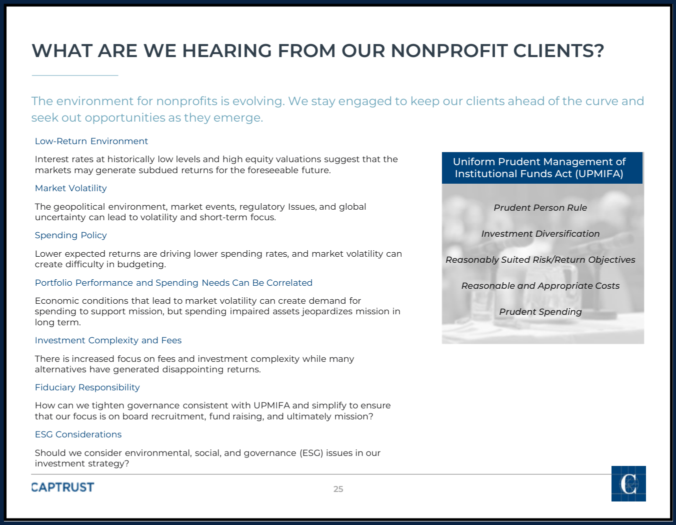
Optional Slide: Proposal Specialist will update based on advisors involvement in community.

United Way
United Way Suncoast
METROPOLITAN MINISTRIES
HOPE IS HERE
ZOO MIAMI FOUNDATION
BOYS & GIRLS CLUBS OF TAMPA BAY
VATICAN SPLENDORS
A JOURNEY THROUGH FAITH AND ART
BIG BROTHERS BIG SISTERS of Tampa Bay
CONNECTING KIDS TO GREATNESS
HILLSBOROUGH EDUCATION FOUNDATION
CONSERVANCY of Southwest Florida
OUR WATER, LAND, WILDLIFE, FUTURE.
Protecting Southwest Florida's unique natural environment and quality of life ... now and forever.
The Florida Conference of The United Methodist Church

CAPTRUST 23

WHAT ARE WE HEARING FROM OUR NONPROFIT CLIENTS?

Presentation of Endowment and Foundation Services



WHAT ARE WE HEARING FROM OUR NONPROFIT CLIENTS?

The environment for nonprofits is evolving. We stay engaged to keep our clients ahead of the curve and seek out opportunities as they emerge.

Low-Return Environment

Interest rates at historically low levels and high equity valuations suggest that the markets may generate subdued returns for the foreseeable future.

Market Volatility

The geopolitical environment, market events, regulatory Issues, and global uncertainty can lead to volatility and short-term focus.

Spending Policy

Lower expected returns are driving lower spending rates, and market volatility can create difficulty in budgeting.

Portfolio Performance and Spending Needs Can Be Correlated

Economic conditions that lead to market volatility can create demand for spending to support mission, but spending impaired assets jeopardizes mission in long term.

Investment Complexity and Fees

There is increased focus on fees and investment complexity while many alternatives have generated disappointing returns.

Fiduciary Responsibility

How can we tighten governance consistent with UPMIFA and simplify to ensure that our focus is on board recruitment, fund raising, and ultimately mission?

ESG Considerations

Should we consider environmental, social, and governance (ESG) issues in our investment strategy?

Uniform Prudent Management of Institutional Funds Act (UPMIFA)

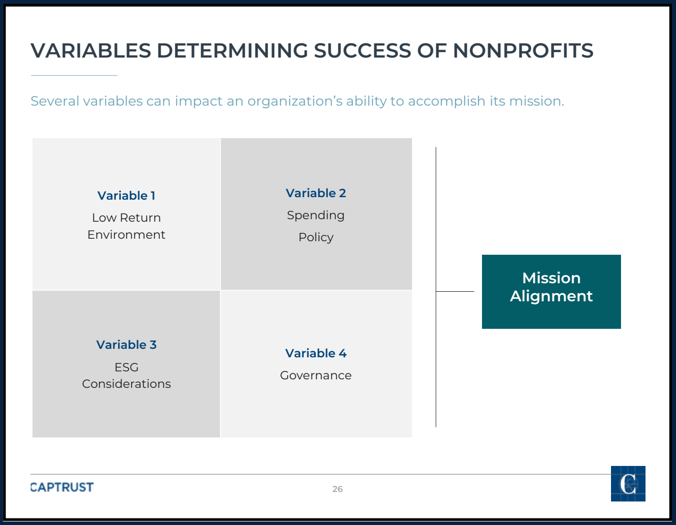
Prudent Person Rule

Investment Diversification

Reasonably Suited Risk/Return Objectives

Reasonable and Appropriate Costs

Prudent Spending



VARIABLES DETERMINING SUCCESS OF NONPROFITS

Several variables can impact an organization’s ability to accomplish its mission.

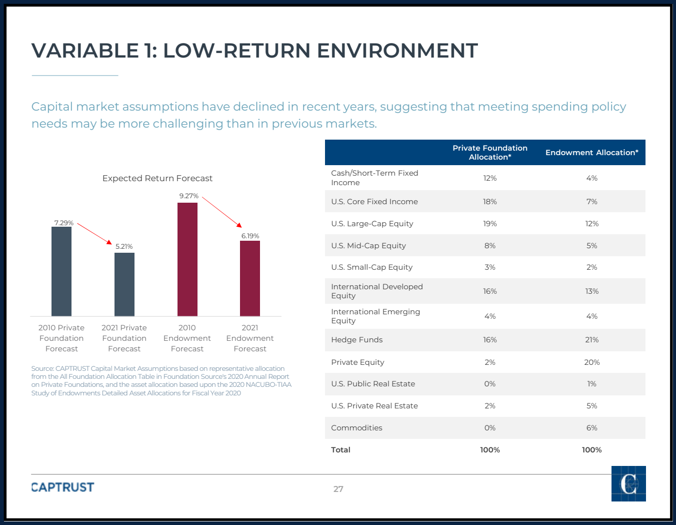
Variable 1
Low Return Environment

Variable 2
Spending Policy

Variable 3
ESG Considerations

Variable 4
Governance

Mission Alignment



VARIABLE 1: LOW-RETURN ENVIRONMENT

Capital market assumptions have declined in recent years, suggesting that meeting spending policy needs may be more challenging than in previous markets.

Expected Return Forecast

Source: CAPTRUST Capital Market Assumptions based on representative allocation from the All Foundation Allocation Table in Foundation Source's 2020 Annual Report on Private Foundations, and the asset allocation based upon the 2020 NACUBO-TIAA Study of Endowments Detailed Asset Allocations for Fiscal Year 2020

	Private Foundation Allocation*	Endowment Allocation*
Cash/Short-Term Fixed Income	12%	4%
U.S. Core Fixed Income	18%	7%
U.S. Large-Cap Equity	19%	12%
U.S. Mid-Cap Equity	8%	5%
U.S. Small-Cap Equity	3%	2%
International Developed Equity	16%	13%
International Emerging Equity	4%	4%
Hedge Funds	16%	21%
Private Equity	2%	20%
U.S. Public Real Estate	0%	1%
U.S. Private Real Estate	2%	5%
Commodities	0%	6%
Total	**100%**	**100%**

VARIABLE 2: SPENDING POLICY

Spending + Inflation + Administrative Expenses = Growth Expectation

5% + 2.5% + 0% = 7.5% (example)

Spending Needs Are Often Greater in Times of Market Stress

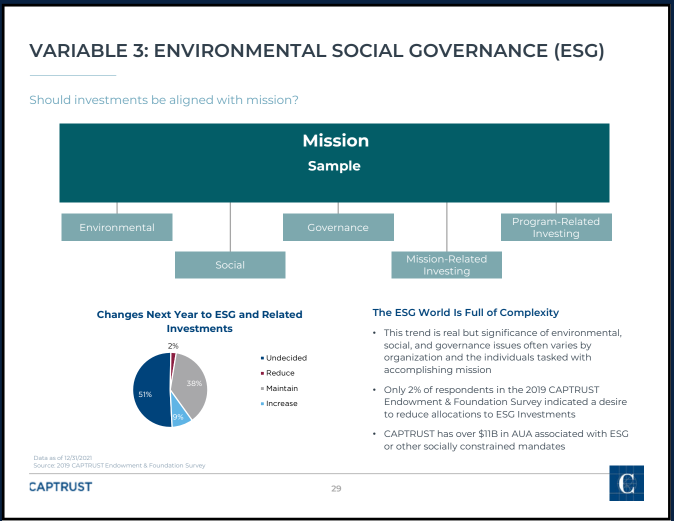
Mission-related needs are often at their highest when market volatility occurs, jeopardizing the long-term corpus of assets for perpetual pools of capital.

Spending Policy

Simple, rolling, corridor, inflation-adjusted, broad-based, income-based, and hybrid spending approaches exist, but they all have their pros and cons. Spending policy should be evaluated and must align with organizational objectives.

Budgeting

Heightened market volatility can lead to difficulty in budgeting under different spending policies.



VARIABLE 3: ENVIRONMENTAL SOCIAL GOVERNANCE (ESG)

Should investments be aligned with mission?

Mission

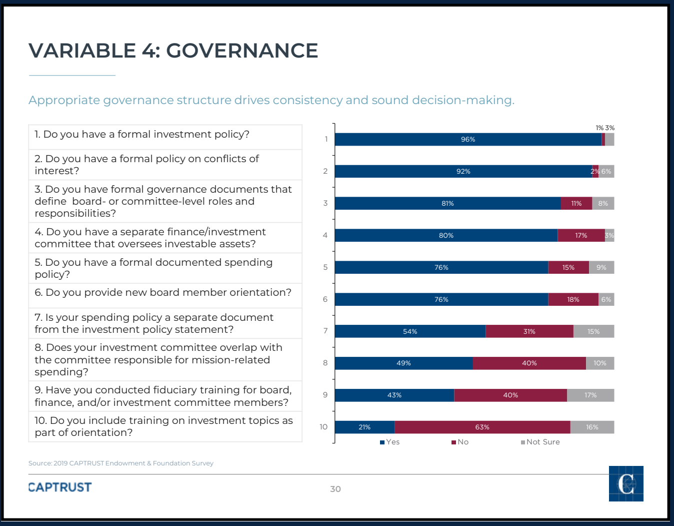
Sample

Changes Next Year to ESG and Related Investments

The ESG World Is Full of Complexity

- This trend is real but significance of environmental, social, and governance issues often varies by organization and the individuals tasked with accomplishing mission
- Only 2% of respondents in the 2019 CAPTRUST Endowment & Foundation Survey indicated a desire to reduce allocations to ESG Investments
- CAPTRUST has over $11B in AUA associated with ESG or other socially constrained mandates

Data as of 12/31/2021
Source: 2019 CAPTRUST Endowment & Foundation Survey



VARIABLE 4: GOVERNANCE

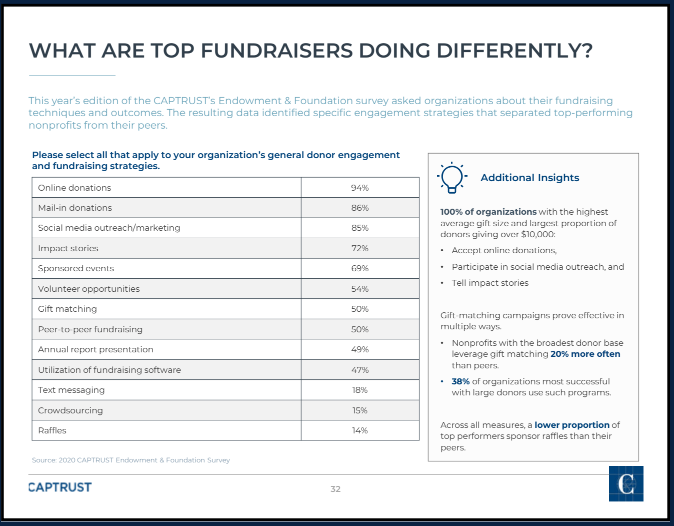
Appropriate governance structure drives consistency and sound decision-making.

1. Do you have a formal investment policy?
2. Do you have a formal policy on conflicts of interest?
3. Do you have formal governance documents that define board- or committee-level roles and responsibilities?
4. Do you have a separate finance/investment committee that oversees investable assets?
5. Do you have a formal documented spending policy?
6. Do you provide new board member orientation?
7. Is your spending policy a separate document from the investment policy statement?
8. Does your investment committee overlap with the committee responsible for mission-related spending?
9. Have you conducted fiduciary training for board, finance, and/or investment committee members?
10. Do you include training on investment topics as part of orientation?

Source: 2019 CAPTRUST Endowment & Foundation Survey

DONOR ENGAGEMENT

Presentation of Endowment and Foundation Services



WHAT ARE TOP FUNDRAISERS DOING DIFFERENTLY?

This year's edition of the CAPTRUST's Endowment & Foundation survey asked organizations about their fundraising techniques and outcomes. The resulting data identified specific engagement strategies that separated top-performing nonprofits from their peers.

Please select all that apply to your organization's general donor engagement and fundraising strategies.

Online donations	94%
Mail-in donations	86%
Social media outreach/marketing	85%
Impact stories	72%
Sponsored events	69%
Volunteer opportunities	54%
Gift matching	50%
Peer-to-peer fundraising	50%
Annual report presentation	49%
Utilization of fundraising software	47%
Text messaging	18%
Crowdsourcing	15%
Raffles	14%

Source: 2020 CAPTRUST Endowment & Foundation Survey

Additional Insights

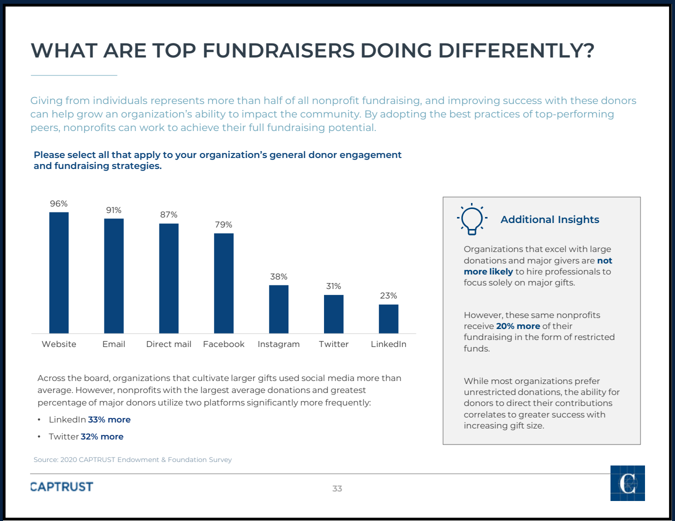
100% of organizations with the highest average gift size and largest proportion of donors giving over $10,000:

- Accept online donations,
- Participate in social media outreach, and
- Tell impact stories

Gift-matching campaigns prove effective in multiple ways.

- Nonprofits with the broadest donor base leverage gift matching **20% more often** than peers.
- **38%** of organizations most successful with large donors use such programs.

Across all measures, a **lower proportion** of top performers sponsor raffles than their peers.



WHAT ARE TOP FUNDRAISERS DOING DIFFERENTLY?

Giving from individuals represents more than half of all nonprofit fundraising, and improving success with these donors can help grow an organization's ability to impact the community. By adopting the best practices of top-performing peers, nonprofits can work to achieve their full fundraising potential.

Please select all that apply to your organization's general donor engagement and fundraising strategies.

Across the board, organizations that cultivate larger gifts used social media more than average. However, nonprofits with the largest average donations and greatest percentage of major donors utilize two platforms significantly more frequently:

- LinkedIn **33% more**
- Twitter **32% more**

Additional Insights

Organizations that excel with large donations and major givers are **not more likely** to hire professionals to focus solely on major gifts.

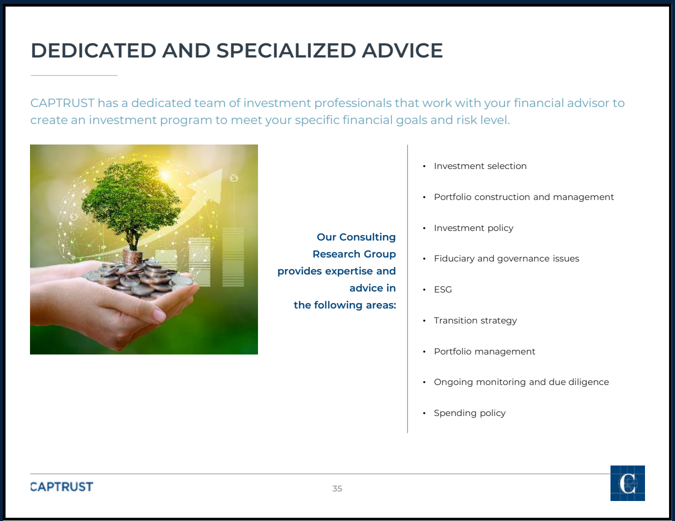
However, these same nonprofits receive **20% more** of their fundraising in the form of restricted funds.

While most organizations prefer unrestricted donations, the ability for donors to direct their contributions correlates to greater success with increasing gift size.

Source: 2020 CAPTRUST Endowment & Foundation Survey

OUR APPROACH

Presentation of Endowment and Foundation Services

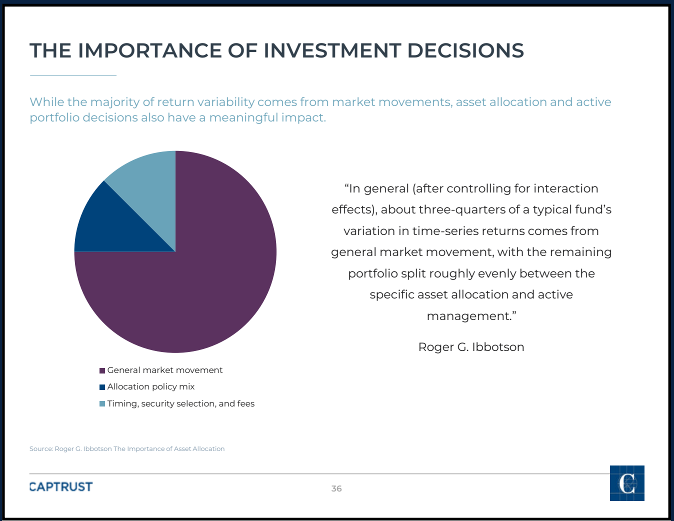


DEDICATED AND SPECIALIZED ADVICE

CAPTRUST has a dedicated team of investment professionals that work with your financial advisor to create an investment program to meet your specific financial goals and risk level.

Our Consulting Research Group provides expertise and advice in the following areas:

- Investment selection
- Portfolio construction and management
- Investment policy
- Fiduciary and governance issues
- ESG
- Transition strategy
- Portfolio management
- Ongoing monitoring and due diligence
- Spending policy



THE IMPORTANCE OF INVESTMENT DECISIONS

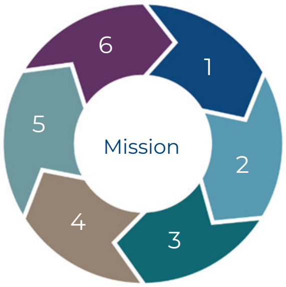
While the majority of return variability comes from market movements, asset allocation and active portfolio decisions also have a meaningful impact.

> "In general (after controlling for interaction effects), about three-quarters of a typical fund's variation in time-series returns comes from general market movement, with the remaining portfolio split roughly evenly between the specific asset allocation and active management."
>
> Roger G. Ibbotson

Source: Roger G. Ibbotson The Importance of Asset Allocation

INVESTMENT CONSULTING PROCESS – OUR STRATEGIC PARTNERSHIP

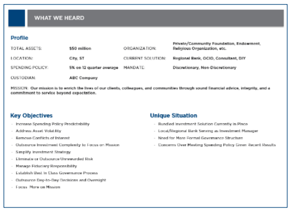
No two nonprofits are the same, so our approach to consulting is collaborative and follows a disciplines process.



STEP 1	Objective setting
STEP 2	Asset allocation
STEP 3	Investment policy development
STEP 4	Manager selection and due diligence
STEP 5	Monitor success and progress
STEP 6	Innovate and adapt as the world changes

STEP 1: OBJECTIVE SETTING

Our clients have unique goals and objectives, and our process starts with making sure we fully understand what you are trying to accomplish and the obstacles we must overcome.



WHAT WE HEARD

Profile

TOTAL ASSETS:	$50 million	ORGANIZATION:	Private/Community Foundation, Endowment, Religious Organization, etc.
LOCATION:	City, ST	CURRENT SOLUTION:	Regional Bank, OCIO, Consultant, DIY
SPENDING POLICY:	5% on 12 quarter average	MANDATE:	Discretionary, Non-Discretionary
CUSTODIAN:	ABC Company		

MISSION: Our mission is to enrich the lives of our clients, colleagues, and communities through sound financial advice, integrity, and a commitment to service beyond expectation.

Key Objectives

- Increase Spending Policy Predictability
- Address Asset Volatility
- Remove Conflicts of Interest
- Outsource Investment Complexity to Focus on Mission
- Simplify Investment Strategy
- Eliminate or Outsource Unrewarded Risk
- Manage Fiduciary Responsibility
- Establish Best In Class Governance Process
- Outsource Day-to-Day Decisions and Oversight
- Focus More on Mission

Unique Situation

- Bundled Investment Solution Currently in Place
- Local/Regional Bank Serving as Investment Manager
- Need for More Formal Governance Structure
- Concerns Over Meeting Spending Policy Given Recent Results

Analyze Current Investments

- Is the current manager lineup sound?
- Do any investment managers or asset classes require immediate attention?
- Are fees reasonable?

Review Contributions and Disbursements

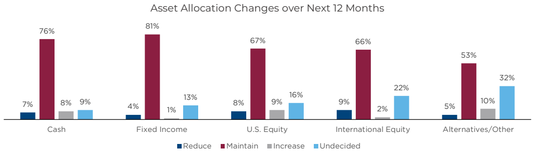
- How often is cash needed from the portfolio?
- Can the portfolio weather investment downturns and still meet liquidity needs?

Review Current Objectives and Constraints

- What are the long- and short-term goals for the fund?
- Are there any unique considerations that must be addressed?
- Is there an appropriate balance between volatility and magnitude of spending needs?

STEP 2: ASSET ALLOCATION

Asset allocation is the primary determinant of portfolio outcomes. CAPTRUST's 2019 Endowment & Foundation Survey demonstrates there is significant uncertainty around future allocation changes among nonprofits.



Review Current Asset Allocation

- Is there a way to improve the current asset allocation by creating more alignment with goals?
- Are there opportunities to add additional return or remove unrewarded risk?
- Is asset allocation aligned with spending needs?

Diversifying Asset Classes

- Do alternatives have a role in the asset allocation?
- How does the use of alternatives align with liquidity needs?
- What are peer organizations doing?

STEP 3: INVESTMENT POLICY DEVELOPMENT

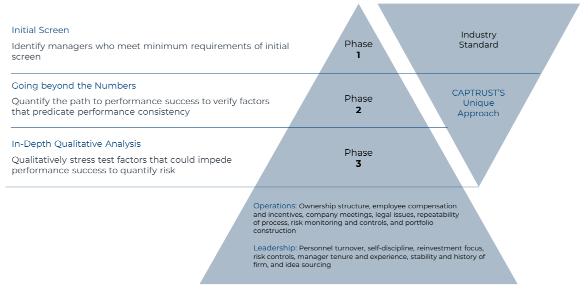
Establishing an investment policy statement (IPS) requires in-depth knowledge and understanding of objectives.

Ten Components of a Well-Written IPS:

1. Define the roles of all fiduciaries.
2. Identify income, cash flow, and liquidity needs.
3. Identify the time horizon for achieving goals.
4. Develop a statement of risk tolerance for the organization.
5. Identify specific asset classes to be utilized.
6. Define asset allocation policy and rebalancing guidelines.
7. List methodology of gauging success of the investment managers.
8. Describe the roles and responsibilities of all fiduciary parties.
9. Create a formal statement of investment objectives and target returns.
10. Conduct an annual review of the investment policy guidelines.

STEP 4: MANAGER SELECTION AND DUE DILIGENCE

Our unique investment selection process includes an exhaustive bottom-up review of an investment manager's strategy and all aspects of its business and organizational structure to identify and confirm best-of-breed investment solutions.



Initial Screen

Identify managers who meet minimum requirements of initial screen

Going beyond the Numbers

Quantify the path to performance success to verify factors that predicate performance consistency

In-Depth Qualitative Analysis

Qualitatively stress test factors that could impede performance success to quantify risk

Operations: Ownership structure, employee compensation and incentives, company meetings, legal issues, repeatability of process, risk monitoring and controls, and portfolio construction

Leadership: Personnel turnover, self-discipline, reinvestment focus, risk controls, manager tenure and experience, stability and history of firm, and idea sourcing

We leverage the scale of our business to gain access and cost-effective solutions with best-in-class asset managers across product types including, mutual funds, collective Investment trusts, separately managed accounts, and limited partnerships.

STEP 4: MANAGER SELECTION AND DUE DILIGENCE

Our selection process combines both quantitative and qualitative metrics to identify best-of-breed investment solutions.

Quantitative

Identify Appropriate Benchmark and Peer Group

- Return-based analysis
- Holdings-based style and risk analysis

Performance–Multiple Time Periods and Market Cycles

Excess Returns

- Excess return
- Tracking error
- Correlation
- R-squared

Risk-Adjusted Returns

- Significance
- Information ratio
- Alpha
- Beta
- Volatility
- Sharpe
- Sortino
- Omega
- Drawdown
- Up/down capture
- Non-normality

Holdings Based/ Multi-Factor

- Portfolio characteristics and trends
- Style, industry, currency, and country factor risks
- Non-factor security-specific risk
- Top active bets
- VaR and CVaR
- Scenario analysis
- Attribution

Qualitative

Firm Management

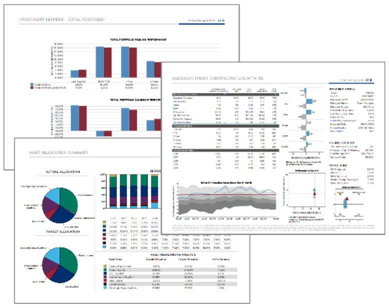
- Ownership structure
- Employee compensation and incentives
- Personnel turnover
- Sufficient resources
- Ability to attract new talent
- Stability and history of firm
- Legal issues

Investment Management Philosophy and Process

- Durable investment edge
- Philosophy
- Culture
- People
- Resources
- Alignment
- Repeatability of process
- Idea sourcing
- Portfolio construction methodology
- Risk management

STEP 5: MONITOR SUCCESS AND PROGRESS

Regular, consistent, and rigorous investment performance monitoring ensures successful execution of a successful investment strategy. With volatile capital markets, it's important to understand not only investment return outcomes, but also the fundamental drivers of performance.



Each quarter, CAPTRUST provides a comprehensive report based on current market conditions, allowing clients to make real-time investment decisions rather than waiting for months.

By combining a nuanced understanding of past performance with an active exploration of future opportunities, investors can maximize their ability to achieve successful outcomes.

STEP 5: MONITOR SUCCESS AND PROGRESS

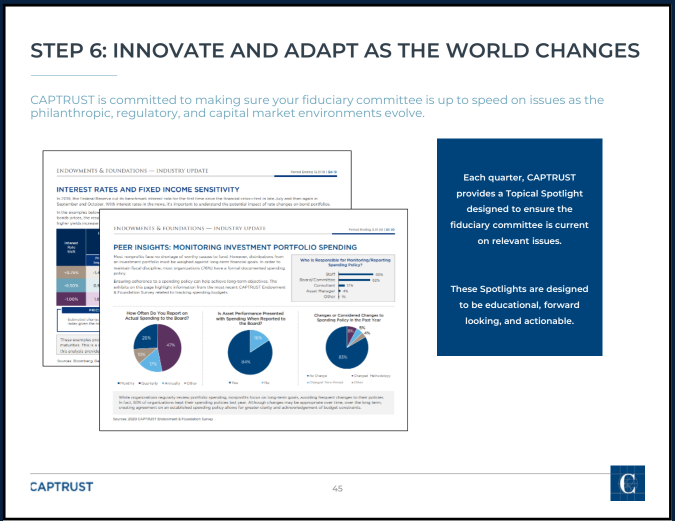
Our investment scoring system is designed to evaluate each investment's quarterly performance based on how well it meets the guidelines and objectives established in your fund's investment policy statement.

INVESTMENT	QUANTITATIVE								QUALITATIVE		TOTALS	
4th QUARTER 2021	RISK-ADJUSTED PERFORMANCE		PERFORMANCE VS. PEERS		STYLE		CONFIDENCE		FUND MGMT	FUND FIRM	OVERALL	TOTAL SCORE
	3 YEAR	5 YEAR	3 YEAR	5 YEAR	3 YEAR	5 YEAR	3 YEAR	5 YEAR				
Investment A	●	●	●	●	●	●	●	●	●	●	●	100
Investment B	▼	●	●	●	●	●	●	●	▼	●	⬢	67
Investment C	●	●	●	●	●	●	●	●	●	●	●	92

Methodology

- Each investment is evaluated on both quantitative and qualitative factors
- Measures such as style are evaluated to reach a quantitative score
- Subjective methods of assessing management issues determine the qualitative score (30 points)
- The sum of the values assigned to each category determines the total score

●	**In good standing**
▼	**Marked for review**
⬢	**Consider for termination**



STEP 6: INNOVATE AND ADAPT AS THE WORLD CHANGES

CAPTRUST is committed to making sure your fiduciary committee is up to speed on issues as the philanthropic, regulatory, and capital market environments evolve.

ENDOWMENTS & FOUNDATIONS — INDUSTRY UPDATE
INTEREST RATES AND FIXED INCOME SENSITIVITY
ENDOWMENTS & FOUNDATIONS — INDUSTRY UPDATE
PEER INSIGHTS: MONITORING INVESTMENT PORTFOLIO SPENDING

Each quarter, CAPTRUST provides a Topical Spotlight designed to ensure the fiduciary committee is current on relevant issues.

These Spotlights are designed to be educational, forward looking, and actionable.

CAPTRUST

SUB-ACCOUNTING EXPERTISE

CAPTRUST maintains significant flexibility when designing investor sub-accounting reports. While many organizations ask us to mimic their existing statements, we also help nonprofits implement new programs that fit their unique needs.

Efficiency

CAPTRUST connects with your organization's key personnel to establish timely and accurate processes. We invest the necessary time and effort at the outset of the relationship, so we're able to deliver timely–competitively priced–reporting on an ongoing basis.

Quality

Using electronic data transfers, we're able to reduce paperwork and stress on the part of the client's professional staff while maintaining flexible reporting capabilities that meet your needs.

Timeliness

Statements are generally ready within days of the information being available.

Focus on What's Important

We partner with stakeholders to ensure that all key elements of the process, including transactions, distributions, shareholder statements, distribution processing and other reports are functioning smoothly and accurately.

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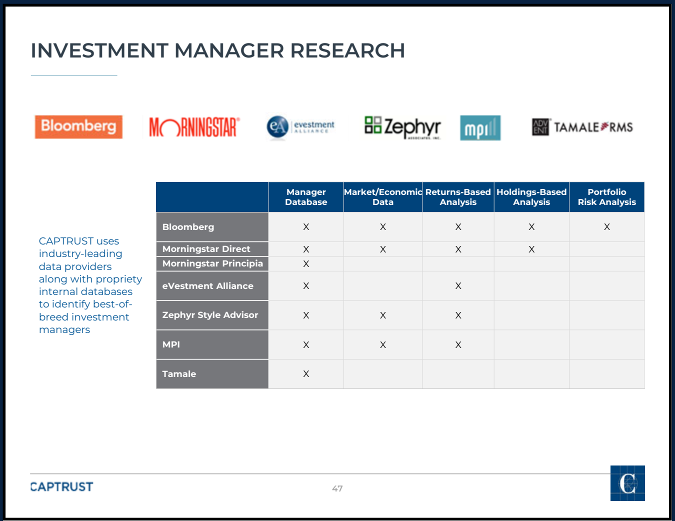
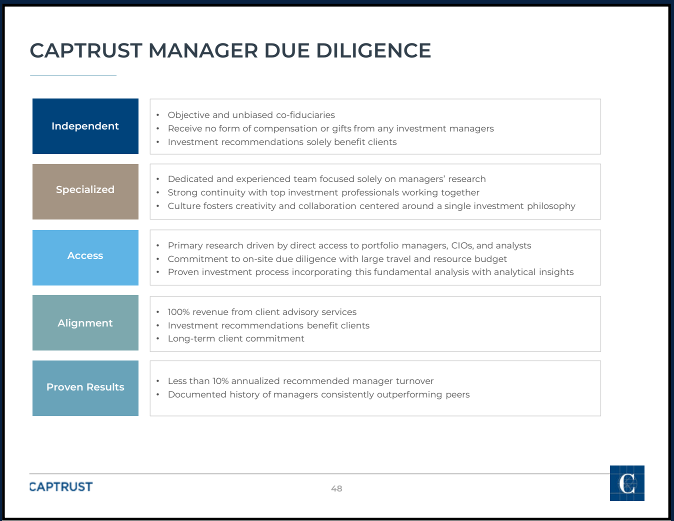


INVESTMENT MANAGER RESEARCH

CAPTRUST uses industry-leading data providers along with propriety internal databases to identify best-of-breed investment managers

	Manager Database	Market/Economic Data	Returns-Based Analysis	Holdings-Based Analysis	Portfolio Risk Analysis
Bloomberg	X	X	X	X	X
Morningstar Direct	X	X	X	X	
Morningstar Principia	X				
eVestment Alliance	X		X		
Zephyr Style Advisor	X	X	X		
MPI	X	X	X		
Tamale	X				

CAPTRUST



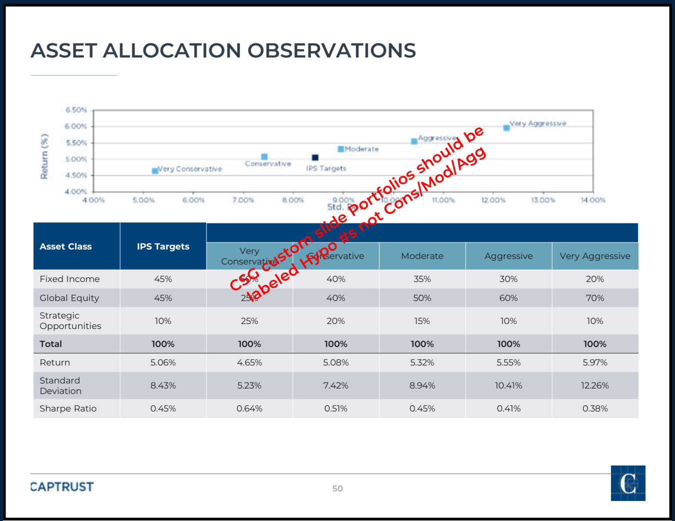
CAPTRUST MANAGER DUE DILIGENCE

Independent	• Objective and unbiased co-fiduciaries • Receive no form of compensation or gifts from any investment managers • Investment recommendations solely benefit clients
Specialized	• Dedicated and experienced team focused solely on managers' research • Strong continuity with top investment professionals working together • Culture fosters creativity and collaboration centered around a single investment philosophy
Access	• Primary research driven by direct access to portfolio managers, CIOs, and analysts • Commitment to on-site due diligence with large travel and resource budget • Proven investment process incorporating this fundamental analysis with analytical insights
Alignment	• 100% revenue from client advisory services • Investment recommendations benefit clients • Long-term client commitment
Proven Results	• Less than 10% annualized recommended manager turnover • Documented history of managers consistently outperforming peers

CAPTRUST

PORTFOLIO OBSERVATIONS AND EXPENSES

Presentation of Endowment and Foundation Services



ASSET ALLOCATION OBSERVATIONS

CSG custom slide Portfolios should be labeled Hypo #s not Cons/Mod/Agg

Asset Class	IPS Targets	Very Conservative	Conservative	Moderate	Aggressive	Very Aggressive
Fixed Income	45%	50%	40%	35%	30%	20%
Global Equity	45%	25%	40%	50%	60%	70%
Strategic Opportunities	10%	25%	20%	15%	10%	10%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Return	5.06%	4.65%	5.08%	5.32%	5.55%	5.97%
Standard Deviation	8.43%	5.23%	7.42%	8.94%	10.41%	12.26%
Sharpe Ratio	0.45%	0.64%	0.51%	0.45%	0.41%	0.38%

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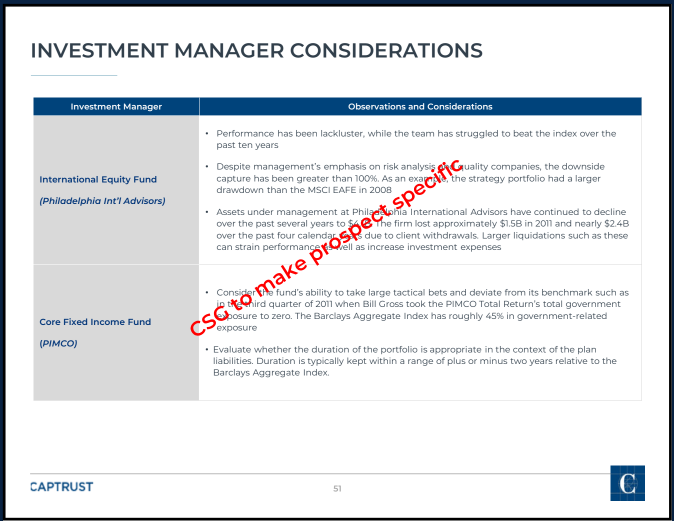

INVESTMENT MANAGER CONSIDERATIONS

Investment Manager	Observations and Considerations
International Equity Fund ***(Philadelphia Int'l Advisors)***	• Performance has been lackluster, while the team has struggled to beat the index over the past ten years • Despite management's emphasis on risk analysis and quality companies, the downside capture has been greater than 100%. As an example, the strategy portfolio had a larger drawdown than the MSCI EAFE in 2008 • Assets under management at Philadelphia International Advisors have continued to decline over the past several years to $4.1B. The firm lost approximately $1.5B in 2011 and nearly $2.4B over the past four calendar years due to client withdrawals. Larger liquidations such as these can strain performance as well as increase investment expenses
Core Fixed Income Fund ***(PIMCO)***	• Consider the fund's ability to take large tactical bets and deviate from its benchmark such as in the third quarter of 2011 when Bill Gross took the PIMCO Total Return's total government exposure to zero. The Barclays Aggregate Index has roughly 45% in government-related exposure • Evaluate whether the duration of the portfolio is appropriate in the context of the plan liabilities. Duration is typically kept within a range of plus or minus two years relative to the Barclays Aggregate Index.

CSG to make prospect specific

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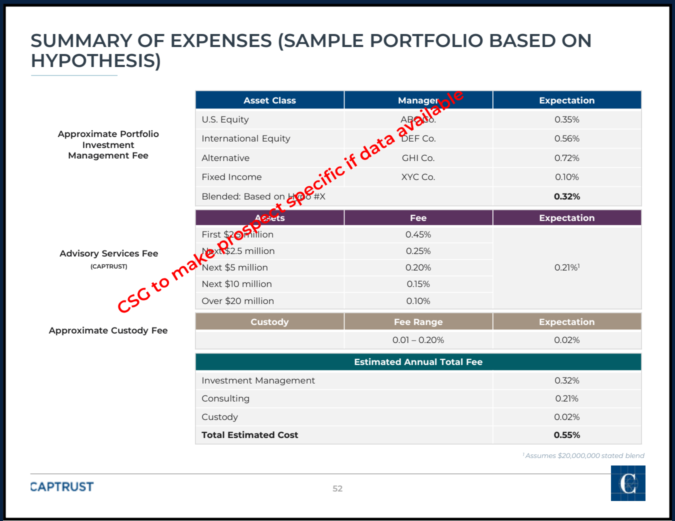

SUMMARY OF EXPENSES (SAMPLE PORTFOLIO BASED ON HYPOTHESIS)

Approximate Portfolio Investment Management Fee

Asset Class	Manager	Expectation
U.S. Equity	ABC Co.	0.35%
International Equity	DEF Co.	0.56%
Alternative	GHI Co.	0.72%
Fixed Income	XYC Co.	0.10%
Blended: Based on Hypo #X		**0.32%**

Advisory Services Fee (CAPTRUST)

Assets	Fee	Expectation
First $2.5 million	0.45%	0.21%[1]
Next $2.5 million	0.25%	
Next $5 million	0.20%	
Next $10 million	0.15%	
Over $20 million	0.10%	

Approximate Custody Fee

Custody	Fee Range	Expectation
	0.01 – 0.20%	0.02%

Estimated Annual Total Fee	
Investment Management	0.32%
Consulting	0.21%
Custody	0.02%
Total Estimated Cost	**0.55%**

CSG to make prospect specific if data available

[1] Assumes $20,000,000 stated blend

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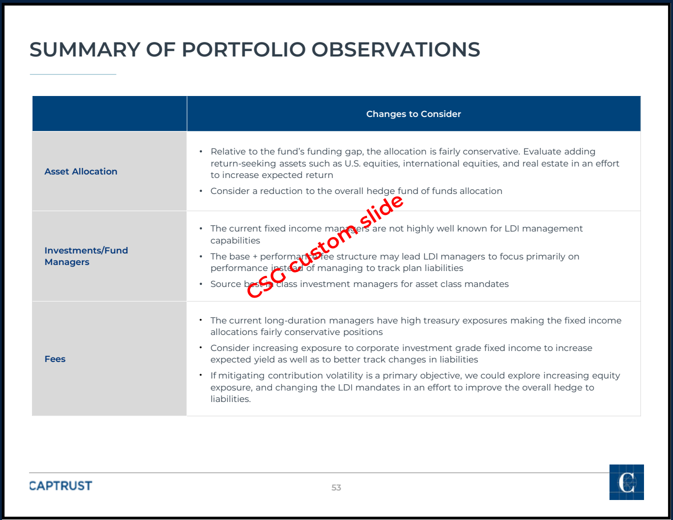
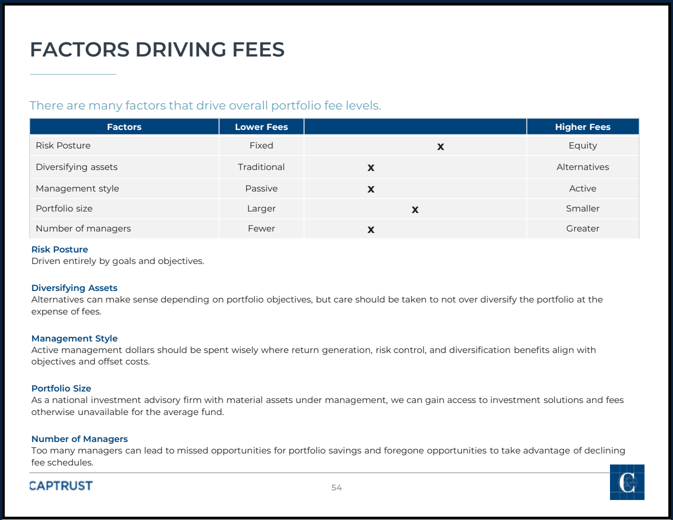


SUMMARY OF PORTFOLIO OBSERVATIONS

CSC custom slide

	Changes to Consider
Asset Allocation	- Relative to the fund's funding gap, the allocation is fairly conservative. Evaluate adding return-seeking assets such as U.S. equities, international equities, and real estate in an effort to increase expected return - Consider a reduction to the overall hedge fund of funds allocation
Investments/Fund Managers	- The current fixed income managers are not highly well known for LDI management capabilities - The base + performance fee structure may lead LDI managers to focus primarily on performance instead of managing to track plan liabilities - Source best-in class investment managers for asset class mandates
Fees	- The current long-duration managers have high treasury exposures making the fixed income allocations fairly conservative positions - Consider increasing exposure to corporate investment grade fixed income to increase expected yield as well as to better track changes in liabilities - If mitigating contribution volatility is a primary objective, we could explore increasing equity exposure, and changing the LDI mandates in an effort to improve the overall hedge to liabilities.

CAPTRUST



FACTORS DRIVING FEES

There are many factors that drive overall portfolio fee levels.

Factors	Lower Fees		Higher Fees
Risk Posture	Fixed	x	Equity
Diversifying assets	Traditional	x	Alternatives
Management style	Passive	x	Active
Portfolio size	Larger	x	Smaller
Number of managers	Fewer	x	Greater

Risk Posture
Driven entirely by goals and objectives.

Diversifying Assets
Alternatives can make sense depending on portfolio objectives, but care should be taken to not over diversify the portfolio at the expense of fees.

Management Style
Active management dollars should be spent wisely where return generation, risk control, and diversification benefits align with objectives and offset costs.

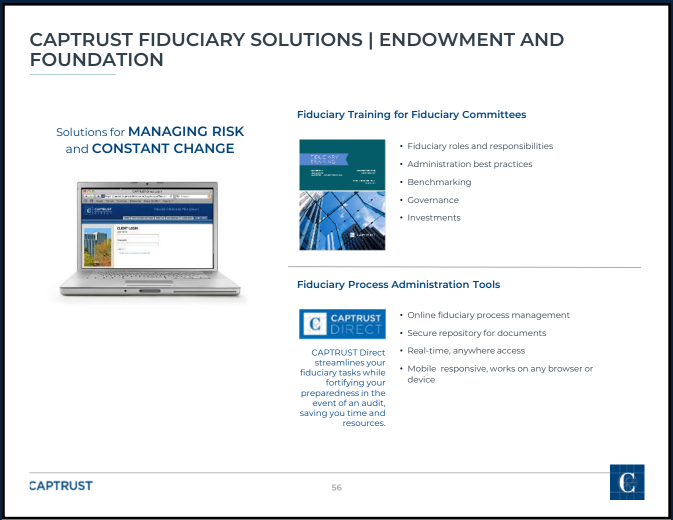
Portfolio Size
As a national investment advisory firm with material assets under management, we can gain access to investment solutions and fees otherwise unavailable for the average fund.

Number of Managers
Too many managers can lead to missed opportunities for portfolio savings and foregone opportunities to take advantage of declining fee schedules.

CAPTRUST

CAPTRUST FIDUCIARY SOLUTIONS

Presentation of Endowment and Foundation Services



CAPTRUST FIDUCIARY SOLUTIONS | ENDOWMENT AND FOUNDATION

Solutions for **MANAGING RISK** and **CONSTANT CHANGE**

Fiduciary Training for Fiduciary Committees

- Fiduciary roles and responsibilities
- Administration best practices
- Benchmarking
- Governance
- Investments

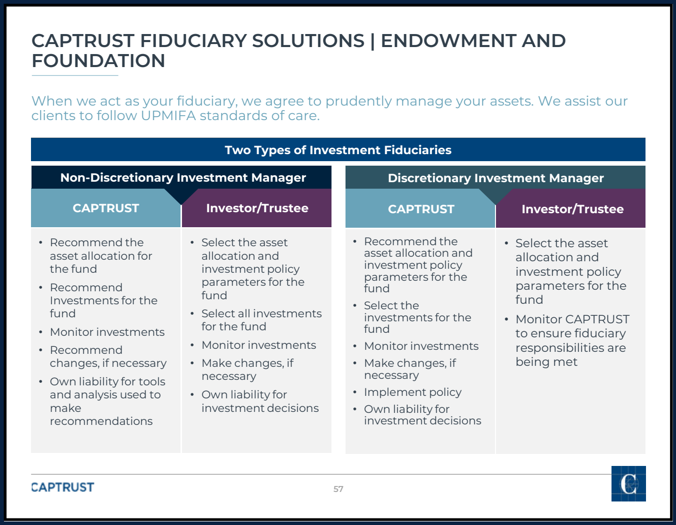
Fiduciary Process Administration Tools

CAPTRUST DIRECT

CAPTRUST Direct streamlines your fiduciary tasks while fortifying your preparedness in the event of an audit, saving you time and resources.

- Online fiduciary process management
- Secure repository for documents
- Real-time, anywhere access
- Mobile responsive, works on any browser or device

CAPTRUST



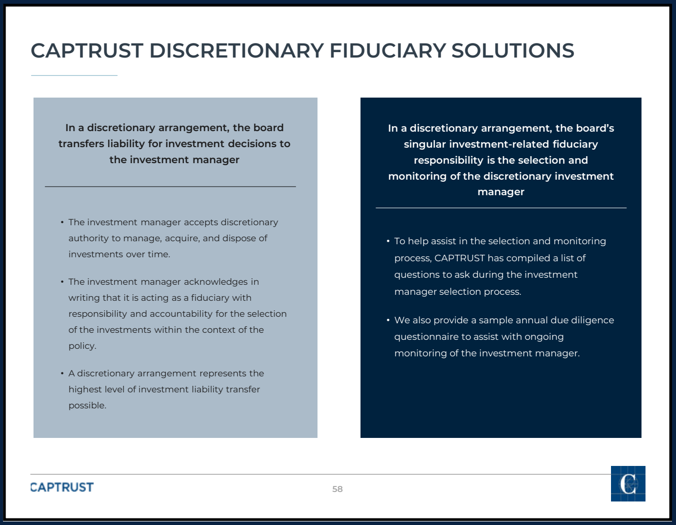
CAPTRUST FIDUCIARY SOLUTIONS | ENDOWMENT AND FOUNDATION

When we act as your fiduciary, we agree to prudently manage your assets. We assist our clients to follow UPMIFA standards of care.

Two Types of Investment Fiduciaries

Non-Discretionary Investment Manager		Discretionary Investment Manager	
CAPTRUST	**Investor/Trustee**	**CAPTRUST**	**Investor/Trustee**
• Recommend the asset allocation for the fund • Recommend Investments for the fund • Monitor investments • Recommend changes, if necessary • Own liability for tools and analysis used to make recommendations	• Select the asset allocation and investment policy parameters for the fund • Select all investments for the fund • Monitor investments • Make changes, if necessary • Own liability for investment decisions	• Recommend the asset allocation and investment policy parameters for the fund • Select the investments for the fund • Monitor investments • Make changes, if necessary • Implement policy • Own liability for investment decisions	• Select the asset allocation and investment policy parameters for the fund • Monitor CAPTRUST to ensure fiduciary responsibilities are being met

CAPTRUST



CAPTRUST DISCRETIONARY FIDUCIARY SOLUTIONS

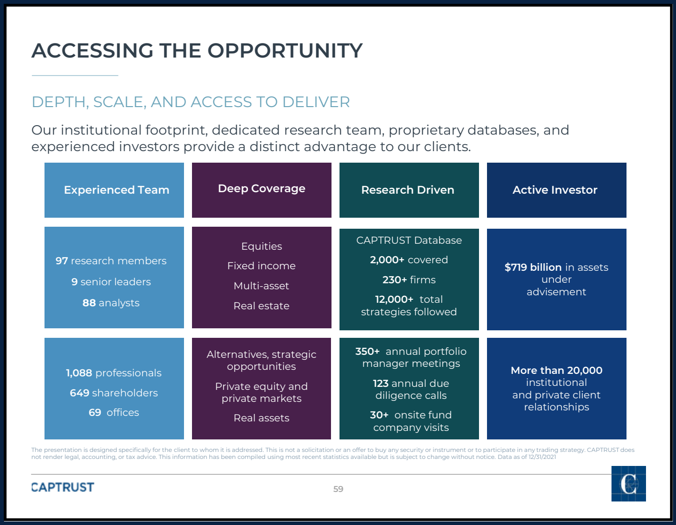
In a discretionary arrangement, the board transfers liability for investment decisions to the investment manager

- The investment manager accepts discretionary authority to manage, acquire, and dispose of investments over time.
- The investment manager acknowledges in writing that it is acting as a fiduciary with responsibility and accountability for the selection of the investments within the context of the policy.
- A discretionary arrangement represents the highest level of investment liability transfer possible.

In a discretionary arrangement, the board's singular investment-related fiduciary responsibility is the selection and monitoring of the discretionary investment manager

- To help assist in the selection and monitoring process, CAPTRUST has compiled a list of questions to ask during the investment manager selection process.
- We also provide a sample annual due diligence questionnaire to assist with ongoing monitoring of the investment manager.

CAPTRUST



ACCESSING THE OPPORTUNITY

DEPTH, SCALE, AND ACCESS TO DELIVER

Our institutional footprint, dedicated research team, proprietary databases, and experienced investors provide a distinct advantage to our clients.

Experienced Team	Deep Coverage	Research Driven	Active Investor
97 research members **9** senior leaders **88** analysts	Equities Fixed income Multi-asset Real estate	CAPTRUST Database **2,000+** covered **230+** firms **12,000+** total strategies followed	**$719 billion** in assets under advisement
1,088 professionals **649** shareholders **69** offices	Alternatives, strategic opportunities Private equity and private markets Real assets	**350+** annual portfolio manager meetings **123** annual due diligence calls **30+** onsite fund company visits	**More than 20,000** institutional and private client relationships

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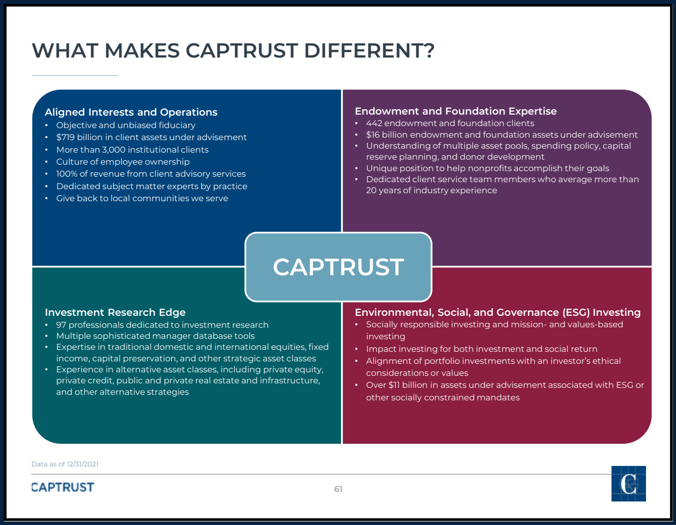
CAPTRUST

SUMMARY OF FEES AND SERVICES

Presentation of Endowment and Foundation Services



WHAT MAKES CAPTRUST DIFFERENT?

Aligned Interests and Operations

- Objective and unbiased fiduciary
- $719 billion in client assets under advisement
- More than 3,000 institutional clients
- Culture of employee ownership
- 100% of revenue from client advisory services
- Dedicated subject matter experts by practice
- Give back to local communities we serve

Endowment and Foundation Expertise

- 442 endowment and foundation clients
- $16 billion endowment and foundation assets under advisement
- Understanding of multiple asset pools, spending policy, capital reserve planning, and donor development
- Unique position to help nonprofits accomplish their goals
- Dedicated client service team members who average more than 20 years of industry experience

CAPTRUST

Investment Research Edge

- 97 professionals dedicated to investment research
- Multiple sophisticated manager database tools
- Expertise in traditional domestic and international equities, fixed income, capital preservation, and other strategic asset classes
- Experience in alternative asset classes, including private equity, private credit, public and private real estate and infrastructure, and other alternative strategies

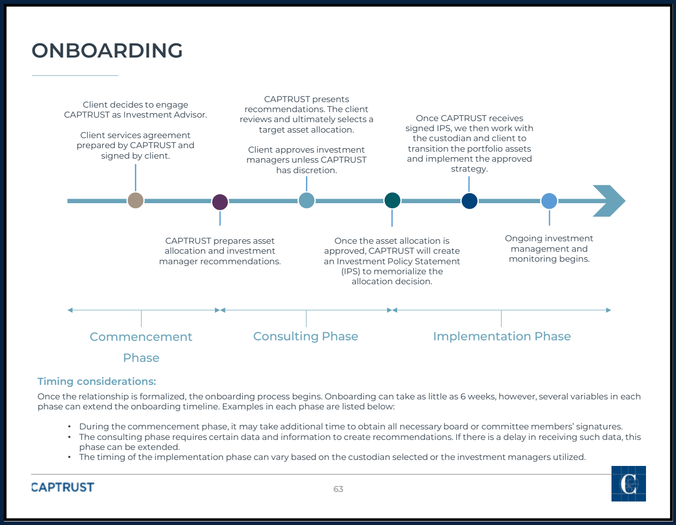
Environmental, Social, and Governance (ESG) Investing

- Socially responsible investing and mission- and values-based investing
- Impact investing for both investment and social return
- Alignment of portfolio investments with an investor's ethical considerations or values
- Over $11 billion in assets under advisement associated with ESG or other socially constrained mandates

Data as of 12/31/2021

NEXT STEPS

- Confirm goals, objectives, constraints, or other unique considerations
- CAPTRUST will work with the investment committee/board to develop long-term, disciplined investment strategy
- CAPTRUST to model specific portfolio allocation solutions
- CAPTRUST to implement (discretionary) or recommend (consulting) specific asset managers for fulfillment
- CAPTRUST to develop formal investment policy statement framework to:
    - Identify goals, objectives, and spending needs
    - Delegate responsibilities
    - Define time horizon and risk tolerance
    - Set asset allocation targets and guidelines
    - Determine rebalancing procedures
- Evaluate and negotiate expenses of investment managers and other service providers
- Initiate performance reporting relative to objectives



ONBOARDING

Client decides to engage CAPTRUST as Investment Advisor.

Client services agreement prepared by CAPTRUST and signed by client.

CAPTRUST prepares asset allocation and investment manager recommendations.

CAPTRUST presents recommendations. The client reviews and ultimately selects a target asset allocation.

Client approves investment managers unless CAPTRUST has discretion.

Once the asset allocation is approved, CAPTRUST will create an Investment Policy Statement (IPS) to memorialize the allocation decision.

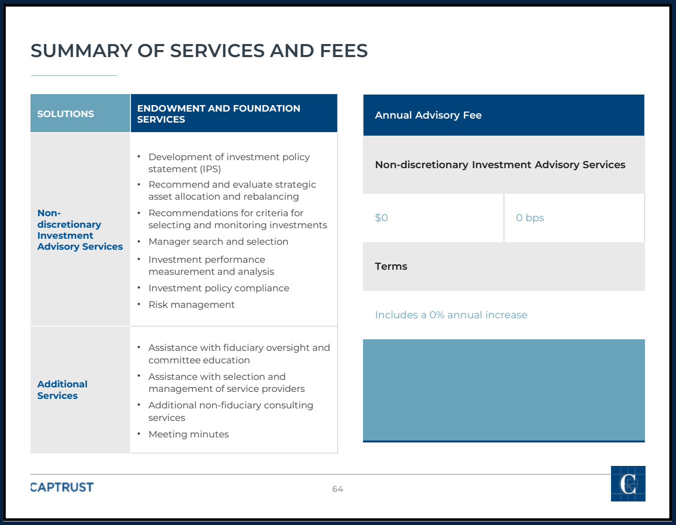
Once CAPTRUST receives signed IPS, we then work with the custodian and client to transition the portfolio assets and implement the approved strategy.

Ongoing investment management and monitoring begins.

Timing considerations:

Once the relationship is formalized, the onboarding process begins. Onboarding can take as little as 6 weeks, however, several variables in each phase can extend the onboarding timeline. Examples in each phase are listed below:

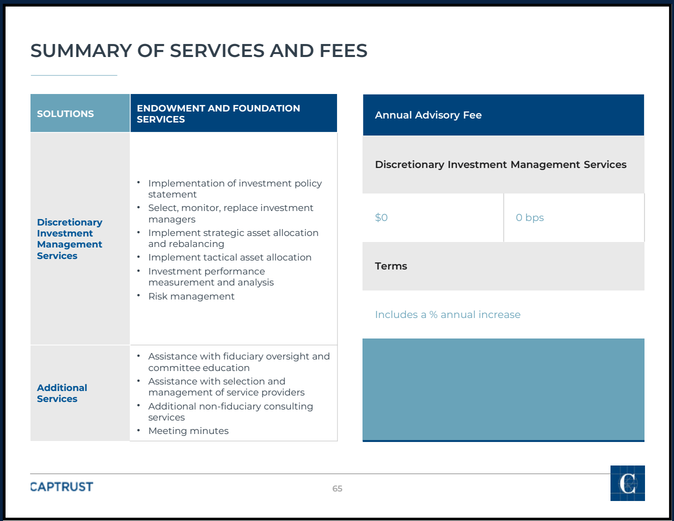
- During the commencement phase, it may take additional time to obtain all necessary board or committee members' signatures.
- The consulting phase requires certain data and information to create recommendations. If there is a delay in receiving such data, this phase can be extended.
- The timing of the implementation phase can vary based on the custodian selected or the investment managers utilized.



SUMMARY OF SERVICES AND FEES

SOLUTIONS	ENDOWMENT AND FOUNDATION SERVICES
Non-discretionary Investment Advisory Services	Development of investment policy statement (IPS) Recommend and evaluate strategic asset allocation and rebalancing Recommendations for criteria for selecting and monitoring investments Manager search and selection Investment performance measurement and analysis Investment policy compliance Risk management
Additional Services	Assistance with fiduciary oversight and committee education Assistance with selection and management of service providers Additional non-fiduciary consulting services Meeting minutes

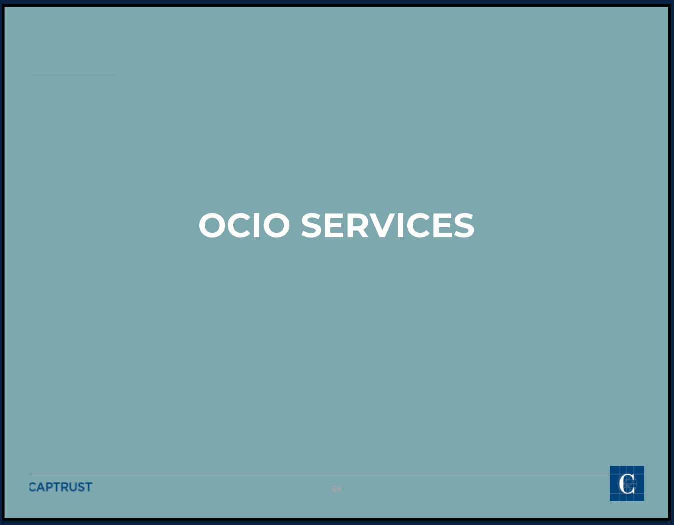
Annual Advisory Fee	
Non-discretionary Investment Advisory Services	
$0	0 bps
Terms	
Includes a 0% annual increase	



SUMMARY OF SERVICES AND FEES

SOLUTIONS	ENDOWMENT AND FOUNDATION SERVICES
Discretionary Investment Management Services	Implementation of investment policy statement Select, monitor, replace investment managers Implement strategic asset allocation and rebalancing Implement tactical asset allocation Investment performance measurement and analysis Risk management
Additional Services	Assistance with fiduciary oversight and committee education Assistance with selection and management of service providers Additional non-fiduciary consulting services Meeting minutes

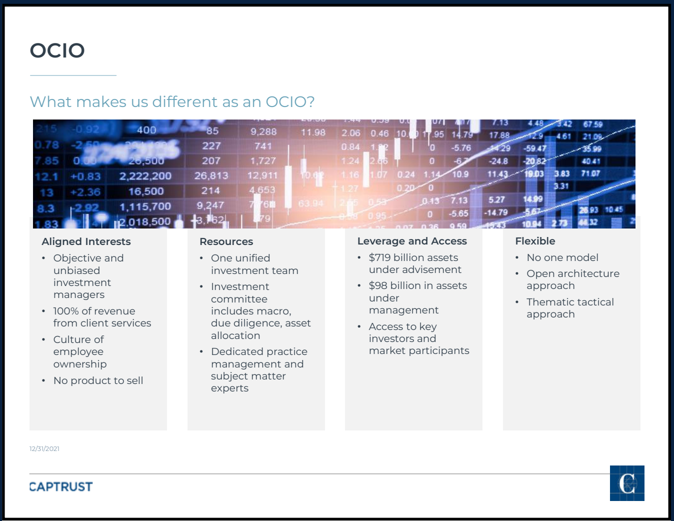
Annual Advisory Fee	
Discretionary Investment Management Services	
$0	0 bps
Terms	
Includes a % annual increase	



OCIO SERVICES

OUR OCIO APPROACH

Presentation of Retirement Advisory Services



OCIO

What makes us different as an OCIO?

Aligned Interests
- Objective and unbiased investment managers
- 100% of revenue from client services
- Culture of employee ownership
- No product to sell

Resources
- One unified investment team
- Investment committee includes macro, due diligence, asset allocation
- Dedicated practice management and subject matter experts

Leverage and Access
- $719 billion assets under advisement
- $98 billion in assets under management
- Access to key investors and market participants

Flexible
- No one model
- Open architecture approach
- Thematic tactical approach

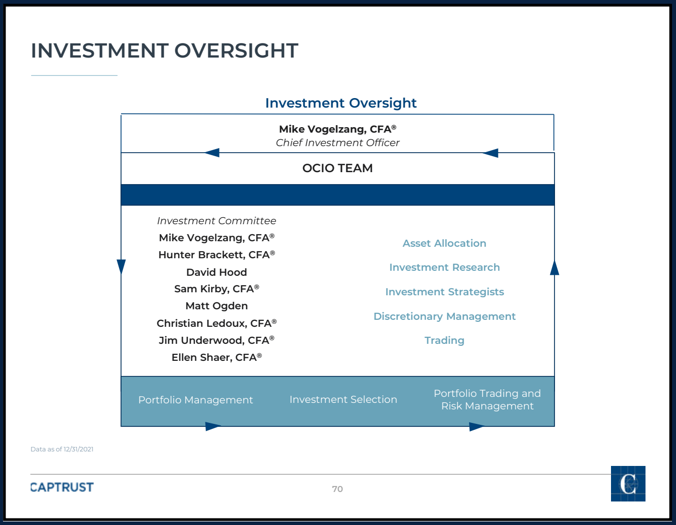
12/31/2021

A FIRM-WIDE COMMITMENT TO DISCRETIONARY MANAGEMENT

The depth, leverage, and stability to deliver

CAPTRUST Resources

- Asset allocation research
- Market research
- Manager research
- Quantitative research
- Fundamental research
- Firm-wide business line research
- Institutional investing research



INVESTMENT OVERSIGHT

Investment Oversight

Mike Vogelzang, CFA®
Chief Investment Officer

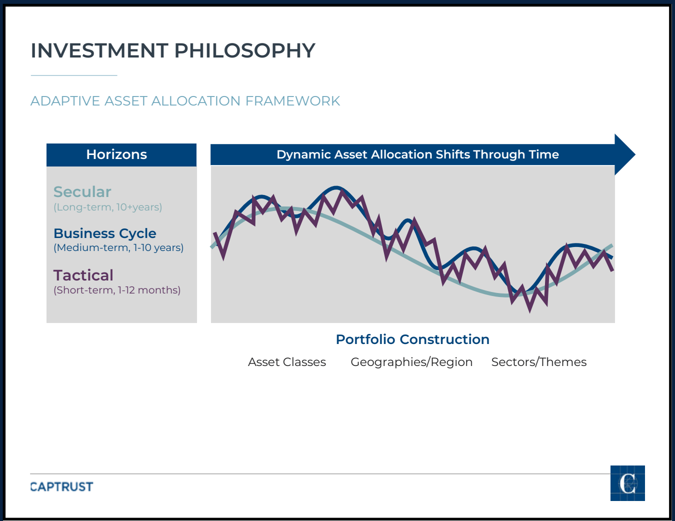
OCIO TEAM

Investment Committee
Mike Vogelzang, CFA®
Hunter Brackett, CFA®
David Hood
Sam Kirby, CFA®
Matt Ogden
Christian Ledoux, CFA®
Jim Underwood, CFA®
Ellen Shaer, CFA®

Asset Allocation
Investment Research
Investment Strategists
Discretionary Management
Trading

Portfolio Management
Investment Selection
Portfolio Trading and Risk Management

Data as of 12/31/2021



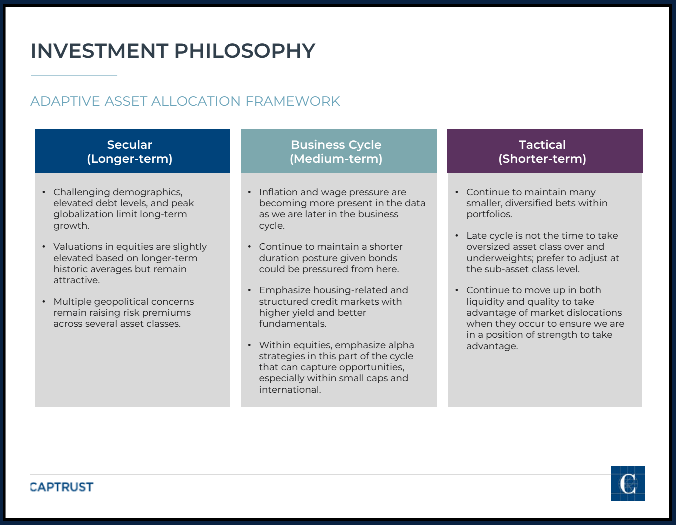
INVESTMENT PHILOSOPHY

ADAPTIVE ASSET ALLOCATION FRAMEWORK

Horizons
Secular
(Long-term, 10+years)
Business Cycle
(Medium-term, 1-10 years)
Tactical
(Short-term, 1-12 months)
Dynamic Asset Allocation Shifts Through Time

Portfolio Construction

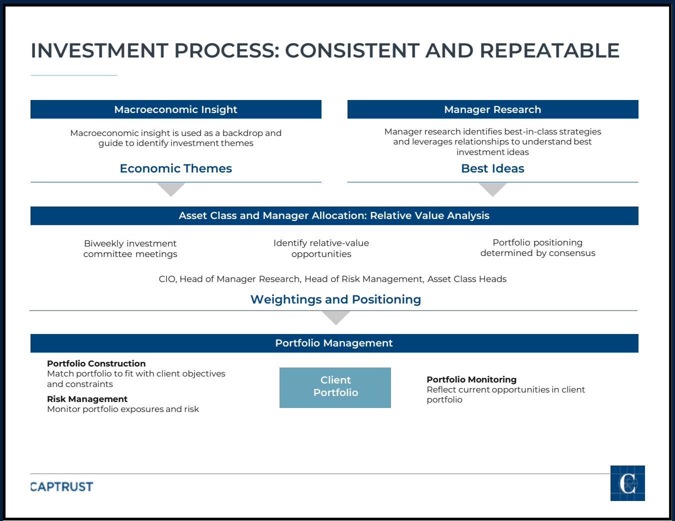
Asset Classes Geographies/Region Sectors/Themes



INVESTMENT PHILOSOPHY

ADAPTIVE ASSET ALLOCATION FRAMEWORK

Secular (Longer-term)	Business Cycle (Medium-term)	Tactical (Shorter-term)
• Challenging demographics, elevated debt levels, and peak globalization limit long-term growth. • Valuations in equities are slightly elevated based on longer-term historic averages but remain attractive. • Multiple geopolitical concerns remain raising risk premiums across several asset classes.	• Inflation and wage pressure are becoming more present in the data as we are later in the business cycle. • Continue to maintain a shorter duration posture given bonds could be pressured from here. • Emphasize housing-related and structured credit markets with higher yield and better fundamentals. • Within equities, emphasize alpha strategies in this part of the cycle that can capture opportunities, especially within small caps and international.	• Continue to maintain many smaller, diversified bets within portfolios. • Late cycle is not the time to take oversized asset class over and underweights; prefer to adjust at the sub-asset class level. • Continue to move up in both liquidity and quality to take advantage of market dislocations when they occur to ensure we are in a position of strength to take advantage.



INVESTMENT PROCESS: CONSISTENT AND REPEATABLE

Macroeconomic Insight

Macroeconomic insight is used as a backdrop and guide to identify investment themes

Economic Themes

Manager Research

Manager research identifies best-in-class strategies and leverages relationships to understand best investment ideas

Best Ideas

Asset Class and Manager Allocation: Relative Value Analysis

Biweekly investment committee meetings

Identify relative-value opportunities

Portfolio positioning determined by consensus

CIO, Head of Manager Research, Head of Risk Management, Asset Class Heads

Weightings and Positioning

Portfolio Management

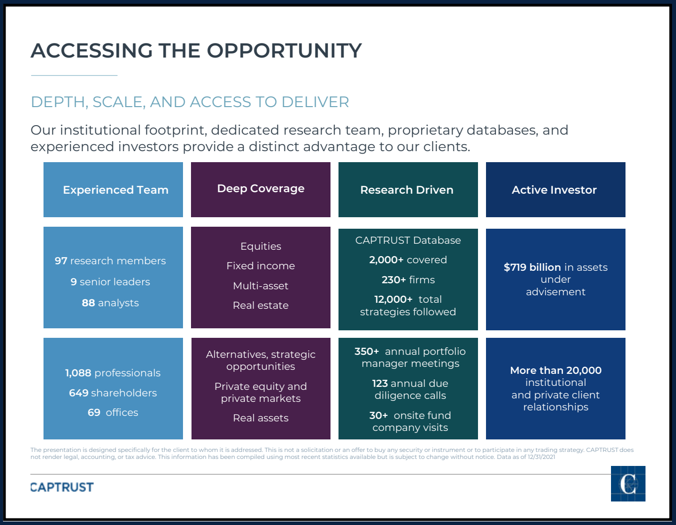
Portfolio Construction
Match portfolio to fit with client objectives and constraints

Risk Management
Monitor portfolio exposures and risk

Client Portfolio

Portfolio Monitoring
Reflect current opportunities in client portfolio

CAPTRUST



ACCESSING THE OPPORTUNITY

DEPTH, SCALE, AND ACCESS TO DELIVER

Our institutional footprint, dedicated research team, proprietary databases, and experienced investors provide a distinct advantage to our clients.

Experienced Team	Deep Coverage	Research Driven	Active Investor
97 research members **9** senior leaders **88** analysts	Equities Fixed income Multi-asset Real estate	CAPTRUST Database **2,000+** covered **230+** firms **12,000+** total strategies followed	**$719 billion** in assets under advisement
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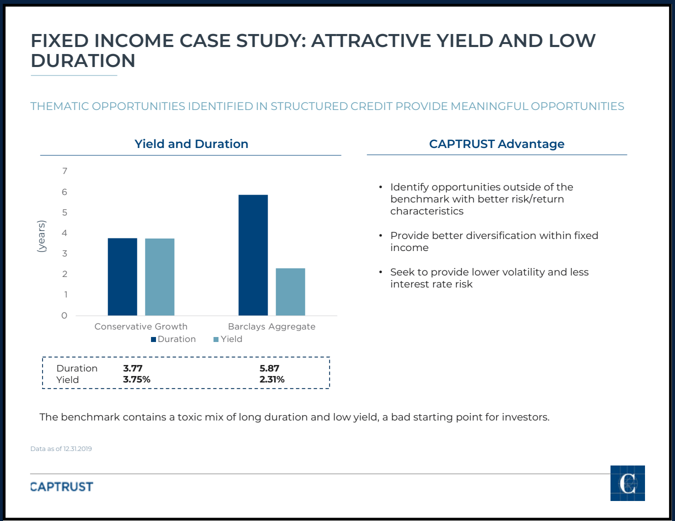

FIXED INCOME CASE STUDY: ATTRACTIVE YIELD AND LOW DURATION

THEMATIC OPPORTUNITIES IDENTIFIED IN STRUCTURED CREDIT PROVIDE MEANINGFUL OPPORTUNITIES

Yield and Duration

	Conservative Growth	Barclays Aggregate
Duration	**3.77**	**5.87**
Yield	**3.75%**	**2.31%**

CAPTRUST Advantage

- Identify opportunities outside of the benchmark with better risk/return characteristics
- Provide better diversification within fixed income
- Seek to provide lower volatility and less interest rate risk

The benchmark contains a toxic mix of long duration and low yield, a bad starting point for investors.

Data as of 12.31.2019

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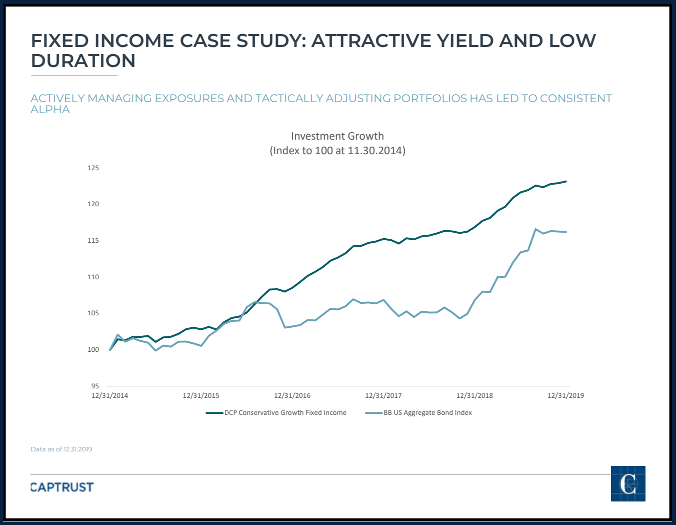

FIXED INCOME CASE STUDY: ATTRACTIVE YIELD AND LOW DURATION

ACTIVELY MANAGING EXPOSURES AND TACTICALLY ADJUSTING PORTFOLIOS HAS LED TO CONSISTENT ALPHA

Investment Growth
(Index to 100 at 11.30.2014)

Data as of 12.31.2019

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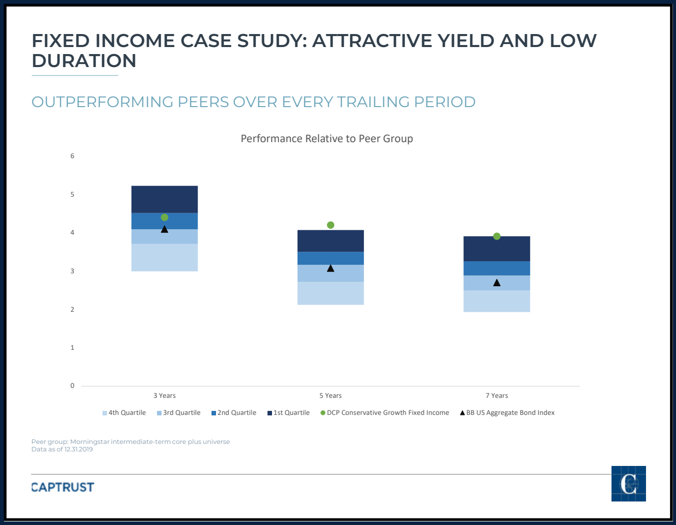

FIXED INCOME CASE STUDY: ATTRACTIVE YIELD AND LOW DURATION

OUTPERFORMING PEERS OVER EVERY TRAILING PERIOD

Performance Relative to Peer Group

Peer group: Morningstar intermediate-term core plus universe
Data as of 12.31.2019

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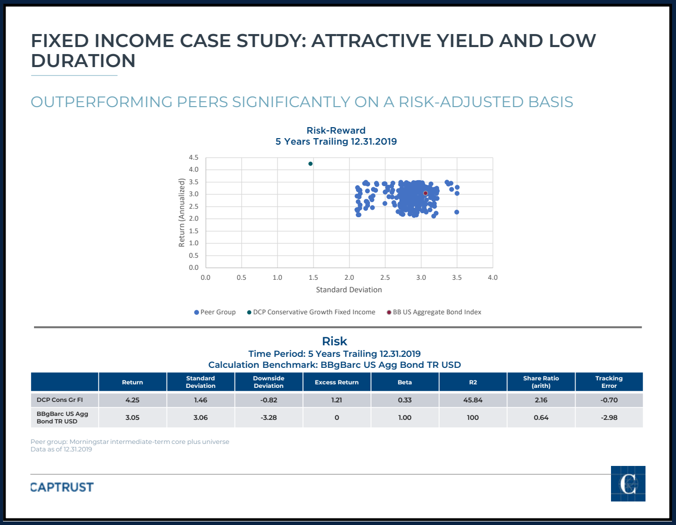

FIXED INCOME CASE STUDY: ATTRACTIVE YIELD AND LOW DURATION

OUTPERFORMING PEERS SIGNIFICANTLY ON A RISK-ADJUSTED BASIS

Risk-Reward
5 Years Trailing 12.31.2019

Risk
Time Period: 5 Years Trailing 12.31.2019
Calculation Benchmark: BBgBarc US Agg Bond TR USD

	Return	Standard Deviation	Downside Deviation	Excess Return	Beta	R2	Share Ratio (arith)	Tracking Error
DCP Cons Gr FI	4.25	1.46	-0.82	1.21	0.33	45.84	2.16	-0.70
BBgBarc US Agg Bond TR USD	3.05	3.06	-3.28	0	1.00	100	0.64	-2.98

Peer group: Morningstar intermediate-term core plus universe
Data as of 12.31.2019

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ESG BASED VALUES INVESTING

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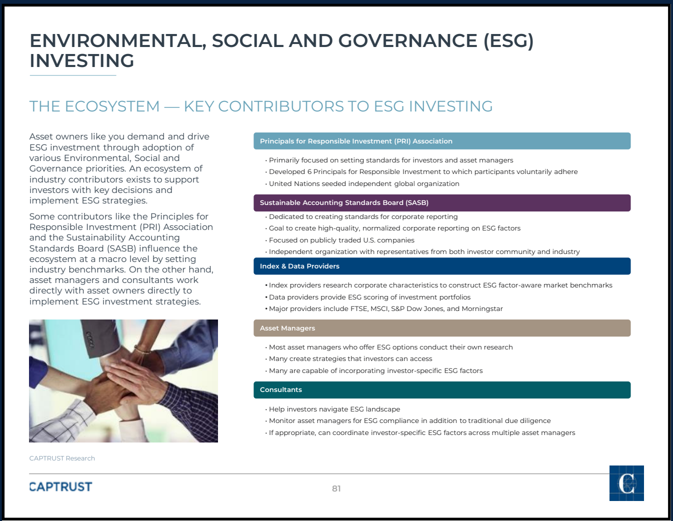
ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) INVESTING



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

THE ECOSYSTEM — KEY CONTRIBUTORS TO ESG INVESTING

Asset owners like you demand and drive ESG investment through adoption of various Environmental, Social and Governance priorities. An ecosystem of industry contributors exists to support investors with key decisions and implement ESG strategies.

Some contributors like the Principles for Responsible Investment (PRI) Association and the Sustainability Accounting Standards Board (SASB) influence the ecosystem at a macro level by setting industry benchmarks. On the other hand, asset managers and consultants work directly with asset owners directly to implement ESG investment strategies.

Principals for Responsible Investment (PRI) Association

- Primarily focused on setting standards for investors and asset managers
- Developed 6 Principals for Responsible Investment to which participants voluntarily adhere
- United Nations seeded independent global organization

Sustainable Accounting Standards Board (SASB)

- Dedicated to creating standards for corporate reporting
- Goal to create high-quality, normalized corporate reporting on ESG factors
- Focused on publicly traded U.S. companies
- Independent organization with representatives from both investor community and industry

Index & Data Providers

- Index providers research corporate characteristics to construct ESG factor-aware market benchmarks
- Data providers provide ESG scoring of investment portfolios
- Major providers include FTSE, MSCI, S&P Dow Jones, and Morningstar

Asset Managers

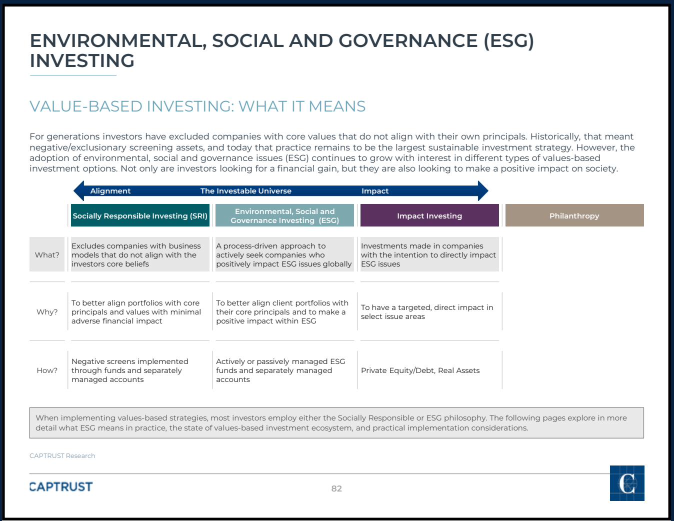
- Most asset managers who offer ESG options conduct their own research
- Many create strategies that investors can access
- Many are capable of incorporating investor-specific ESG factors

Consultants

- Help investors navigate ESG landscape
- Monitor asset managers for ESG compliance in addition to traditional due diligence
- If appropriate, can coordinate investor-specific ESG factors across multiple asset managers

CAPTRUST Research

CAPTRUST 81



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

VALUE-BASED INVESTING: WHAT IT MEANS

For generations investors have excluded companies with core values that do not align with their own principals. Historically, that meant negative/exclusionary screening assets, and today that practice remains to be the largest sustainable investment strategy. However, the adoption of environmental, social and governance issues (ESG) continues to grow with interest in different types of values-based investment options. Not only are investors looking for a financial gain, but they are also looking to make a positive impact on society.

Alignment ← The Investable Universe → Impact

	Socially Responsible Investing (SRI)	Environmental, Social and Governance Investing (ESG)	Impact Investing	Philanthropy
What?	Excludes companies with business models that do not align with the investors core beliefs	A process-driven approach to actively seek companies who positively impact ESG issues globally	Investments made in companies with the intention to directly impact ESG issues	
Why?	To better align portfolios with core principals and values with minimal adverse financial impact	To better align client portfolios with their core principals and to make a positive impact within ESG	To have a targeted, direct impact in select issue areas	
How?	Negative screens implemented through funds and separately managed accounts	Actively or passively managed ESG funds and separately managed accounts	Private Equity/Debt, Real Assets	

When implementing values-based strategies, most investors employ either the Socially Responsible or ESG philosophy. The following pages explore in more detail what ESG means in practice, the state of values-based investment ecosystem, and practical implementation considerations.

CAPTRUST Research

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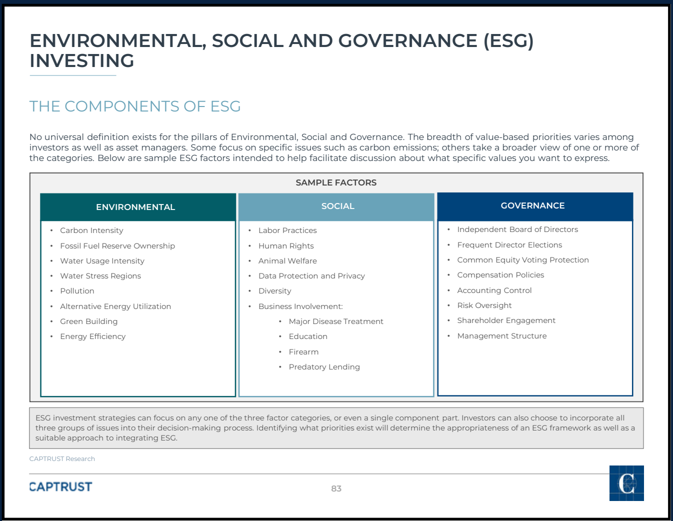


ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

THE COMPONENTS OF ESG

No universal definition exists for the pillars of Environmental, Social and Governance. The breadth of value-based priorities varies among investors as well as asset managers. Some focus on specific issues such as carbon emissions; others take a broader view of one or more of the categories. Below are sample ESG factors intended to help facilitate discussion about what specific values you want to express.

SAMPLE FACTORS

ENVIRONMENTAL

- Carbon Intensity
- Fossil Fuel Reserve Ownership
- Water Usage Intensity
- Water Stress Regions
- Pollution
- Alternative Energy Utilization
- Green Building
- Energy Efficiency

SOCIAL

- Labor Practices
- Human Rights
- Animal Welfare
- Data Protection and Privacy
- Diversity
- Business Involvement:
    - Major Disease Treatment
    - Education
    - Firearm
    - Predatory Lending

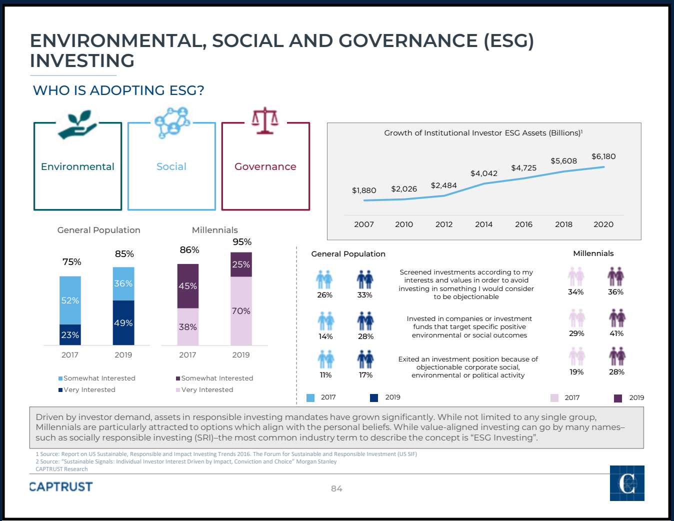
GOVERNANCE

- Independent Board of Directors
- Frequent Director Elections
- Common Equity Voting Protection
- Compensation Policies
- Accounting Control
- Risk Oversight
- Shareholder Engagement
- Management Structure

ESG investment strategies can focus on any one of the three factor categories, or even a single component part. Investors can also choose to incorporate all three groups of issues into their decision-making process. Identifying what priorities exist will determine the appropriateness of an ESG framework as well as a suitable approach to integrating ESG.

CAPTRUST Research

CAPTRUST 83



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

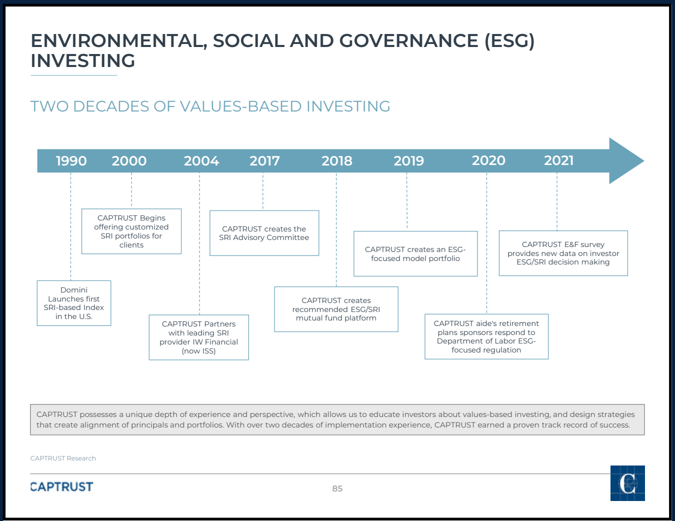
WHO IS ADOPTING ESG?

General Population 2017	General Population 2019		Millennials 2017	Millennials 2019
26%	33%	Screened investments according to my interests and values in order to avoid investing in something I would consider to be objectionable	34%	36%
14%	28%	Invested in companies or investment funds that target specific positive environmental or social outcomes	29%	41%
11%	17%	Exited an investment position because of objectionable corporate social, environmental or political activity	19%	28%

Driven by investor demand, assets in responsible investing mandates have grown significantly. While not limited to any single group, Millennials are particularly attracted to options which align with the personal beliefs. While value-aligned investing can go by many names–such as socially responsible investing (SRI)–the most common industry term to describe the concept is “ESG Investing”.

1 Source: Report on US Sustainable, Responsible and Impact Investing Trends 2016. The Forum for Sustainable and Responsible Investment (US SIF)
2 Source: “Sustainable Signals: Individual Investor Interest Driven by Impact, Conviction and Choice” Morgan Stanley
CAPTRUST Research

CAPTRUST 84



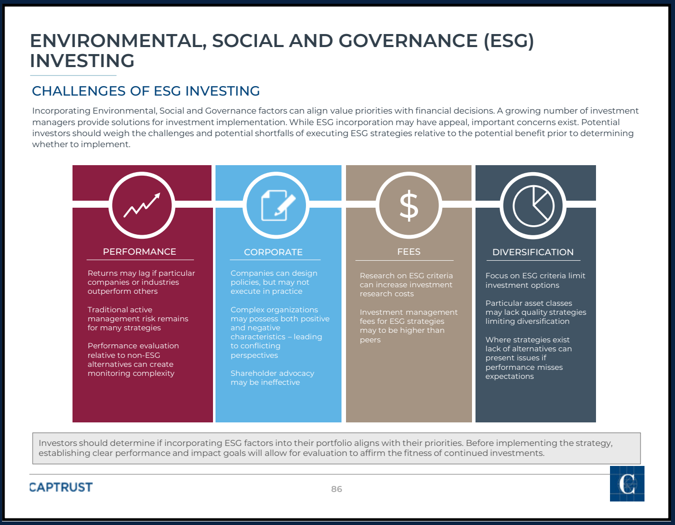
ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

TWO DECADES OF VALUES-BASED INVESTING

- 1990: Domini Launches first SRI-based Index in the U.S.
- 2000: CAPTRUST Begins offering customized SRI portfolios for clients
- 2004: CAPTRUST Partners with leading SRI provider IW Financial (now ISS)
- 2017: CAPTRUST creates the SRI Advisory Committee
- 2018: CAPTRUST creates recommended ESG/SRI mutual fund platform
- 2019: CAPTRUST creates an ESG-focused model portfolio
- 2020: CAPTRUST aide's retirement plans sponsors respond to Department of Labor ESG-focused regulation
- 2021: CAPTRUST E&F survey provides new data on investor ESG/SRI decision making

CAPTRUST possesses a unique depth of experience and perspective, which allows us to educate investors about values-based investing, and design strategies that create alignment of principals and portfolios. With over two decades of implementation experience, CAPTRUST earned a proven track record of success.

CAPTRUST Research



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

CHALLENGES OF ESG INVESTING

Incorporating Environmental, Social and Governance factors can align value priorities with financial decisions. A growing number of investment managers provide solutions for investment implementation. While ESG incorporation may have appeal, important concerns exist. Potential investors should weigh the challenges and potential shortfalls of executing ESG strategies relative to the potential benefit prior to determining whether to implement.

PERFORMANCE

Returns may lag if particular companies or industries outperform others

Traditional active management risk remains for many strategies

Performance evaluation relative to non-ESG alternatives can create monitoring complexity

CORPORATE

Companies can design policies, but may not execute in practice

Complex organizations may possess both positive and negative characteristics – leading to conflicting perspectives

Shareholder advocacy may be ineffective

FEES

Research on ESG criteria can increase investment research costs

Investment management fees for ESG strategies may to be higher than peers

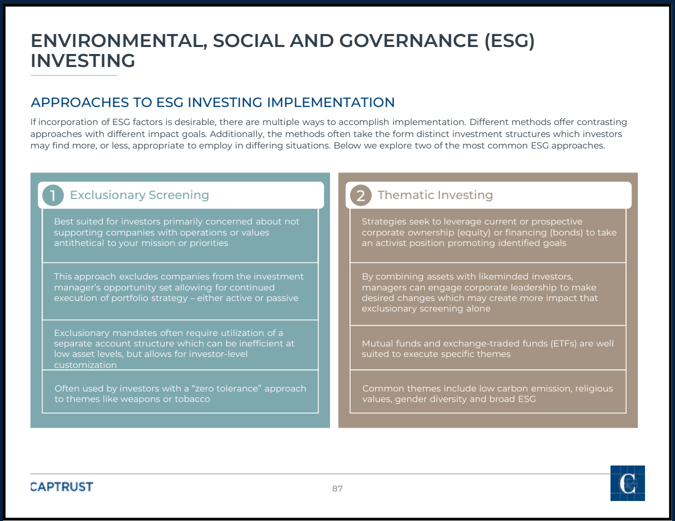
DIVERSIFICATION

Focus on ESG criteria limit investment options

Particular asset classes may lack quality strategies limiting diversification

Where strategies exist lack of alternatives can present issues if performance misses expectations

Investors should determine if incorporating ESG factors into their portfolio aligns with their priorities. Before implementing the strategy, establishing clear performance and impact goals will allow for evaluation to affirm the fitness of continued investments.

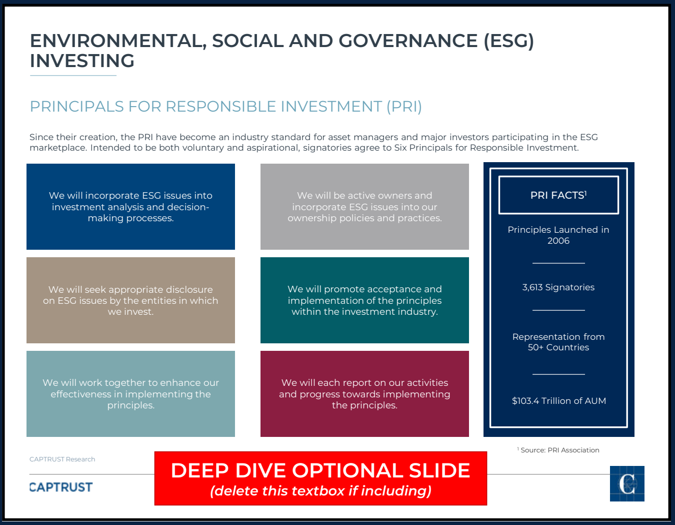


ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

APPROACHES TO ESG INVESTING IMPLEMENTATION

If incorporation of ESG factors is desirable, there are multiple ways to accomplish implementation. Different methods offer contrasting approaches with different impact goals. Additionally, the methods often take the form distinct investment structures which investors may find more, or less, appropriate to employ in differing situations. Below we explore two of the most common ESG approaches.

① Exclusionary Screening	② Thematic Investing
Best suited for investors primarily concerned about not supporting companies with operations or values antithetical to your mission or priorities	Strategies seek to leverage current or prospective corporate ownership (equity) or financing (bonds) to take an activist position promoting identified goals
This approach excludes companies from the investment manager's opportunity set allowing for continued execution of portfolio strategy – either active or passive	By combining assets with likeminded investors, managers can engage corporate leadership to make desired changes which may create more impact that exclusionary screening alone
Exclusionary mandates often require utilization of a separate account structure which can be inefficient at low asset levels, but allows for investor-level customization	Mutual funds and exchange-traded funds (ETFs) are well suited to execute specific themes
Often used by investors with a "zero tolerance" approach to themes like weapons or tobacco	Common themes include low carbon emission, religious values, gender diversity and broad ESG



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

PRINCIPALS FOR RESPONSIBLE INVESTMENT (PRI)

Since their creation, the PRI have become an industry standard for asset managers and major investors participating in the ESG marketplace. Intended to be both voluntary and aspirational, signatories agree to Six Principals for Responsible Investment.

We will incorporate ESG issues into investment analysis and decision-making processes.

We will be active owners and incorporate ESG issues into our ownership policies and practices.

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

We will promote acceptance and implementation of the principles within the investment industry.

We will work together to enhance our effectiveness in implementing the principles.

We will each report on our activities and progress towards implementing the principles.

PRI FACTS[1]

Principles Launched in 2006

3,613 Signatories

Representation from 50+ Countries

$103.4 Trillion of AUM

[1] Source: PRI Association

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DEEP DIVE OPTIONAL SLIDE
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1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS
SUSTAINABLE DEVELOPMENT GOALS

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

SUSTAINABLE DEVELOPMENT GOALS

In 2015 more than 150 leaders adopted the Sustainable Development Goals, a blueprint to achieve a better and more sustainable future for all. These goals aim to end poverty, hunger and inequality, take action on climate change and the environment, improve access to health and education and promote peace and justice by the year 2030. Since the adoption of the SDGs investors have allocated more dollars to ESG related strategies and asset managers have offered investors with more investments that aim to make a difference and align with client values.

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DEEP DIVE OPTIONAL SLIDE
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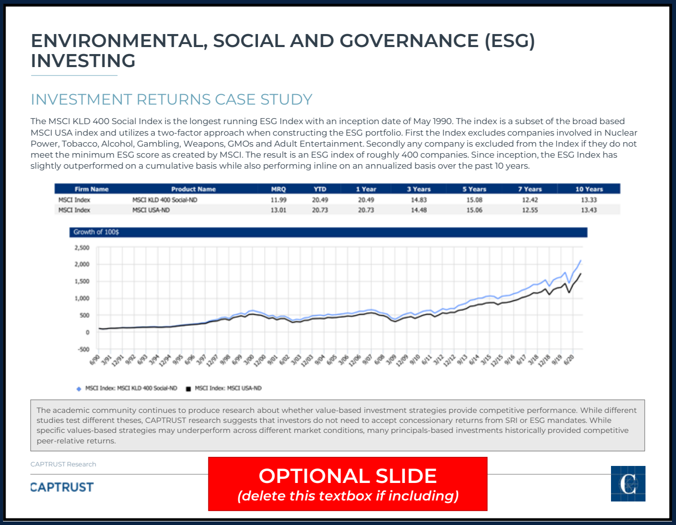
Growth of 100$
2,500
2,000
1,500
1,000
500
0
-500
6/90
3/91
12/91
9/92
6/93
3/94
12/94
9/95
6/96
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9/19
6/20
◆ MSCI Index: MSCI KLD 400 Social-ND
■ MSCI Index: MSCI USA-ND

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

INVESTMENT RETURNS CASE STUDY

The MSCI KLD 400 Social Index is the longest running ESG Index with an inception date of May 1990. The index is a subset of the broad based MSCI USA index and utilizes a two-factor approach when constructing the ESG portfolio. First the Index excludes companies involved in Nuclear Power, Tobacco, Alcohol, Gambling, Weapons, GMOs and Adult Entertainment. Secondly any company is excluded from the Index if they do not meet the minimum ESG score as created by MSCI. The result is an ESG index of roughly 400 companies. Since inception, the ESG Index has slightly outperformed on a cumulative basis while also performing inline on an annualized basis over the past 10 years.

Firm Name	Product Name	MRQ	YTD	1 Year	3 Years	5 Years	7 Years	10 Years
MSCI Index	MSCI KLD 400 Social-ND	11.99	20.49	20.49	14.83	15.08	12.42	13.33
MSCI Index	MSCI USA-ND	13.01	20.73	20.73	14.48	15.06	12.55	13.43

The academic community continues to produce research about whether value-based investment strategies provide competitive performance. While different studies test different theses, CAPTRUST research suggests that investors do not need to accept concessionary returns from SRI or ESG mandates. While specific values-based strategies may underperform across different market conditions, many principals-based investments historically provided competitive peer-relative returns.

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OPTIONAL SLIDE
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ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

SOCIALLY RESPONSIBLE INVESTING

CAPTRUST partners with Institutional Shareholder Services (ISS) to offer customized separate account portfolios based on the values of the client. Each separate account manager goes through the CAPTRUST qualitative and quantitative due diligence process and from there values-based exclusions are applied.

SCREENS INCLUDE MANY OF THE ESG AND FAITH BASED FACTORS INCLUDING:

- Abortion/abortifacients
- Carbon Reserves
- Fossil Fuel
- Nuclear weapons
- Adult entertain/pornography
- Catholic Values
- Gambling
- Oil Sands
- Alcohol
- Chemical weapons
- Global Sanctions
- Planned parenthood
- Animal Testing
- Civilian firearms
- GMOs
- Pork
- Animal welfare
- Cluster munitions
- Human Rights
- Predatory lending
- Anti-Corruption
- Coal Mining
- Hydraulic fracturing
- Renewable Energy
- Anti-personnel mines
- Contraceptives
- Incendiary weapons
- Stem cell research
- Arctic Drilling
- Depleted uranium
- Labor Rights
- Thermal Energy
- Biological weapons
- Environment
- Military equipment and services
- Tobacco
- Cannabis
- For-profit correctional facilities
- Nuclear Power
- White phosphorus weapons

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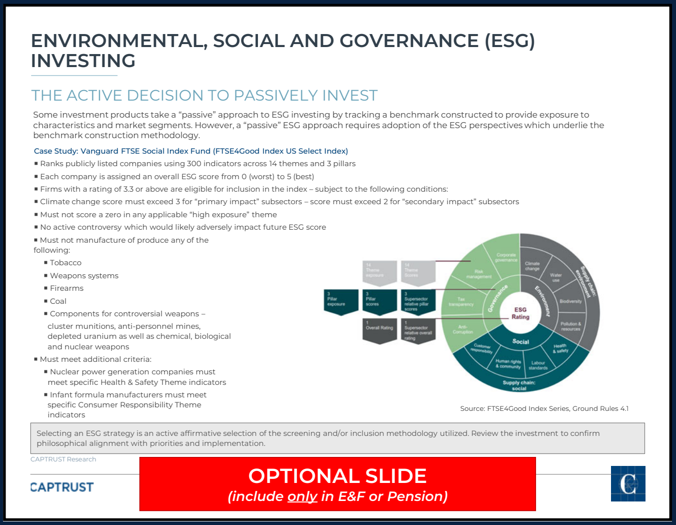
OPTIONAL SLIDE
(include only in institutional Religious)


14 Theme exposure
14 Theme Scores
3 Pillar exposure
3 Pillar scores
3 Supersector relative pillar scores
1 Overall Rating
1 Supersector relative overall rating
ESG Rating
Governance
Environment
Social
Corporate governance
Risk management
Tax transparency
Anti-Corruption
Climate change
Water use
Biodiversity
Pollution & resources
Supply chain: environment
Health & safety
Labour standards
Human rights & community
Customer responsibility
Supply chain: social

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

THE ACTIVE DECISION TO PASSIVELY INVEST

Some investment products take a "passive" approach to ESG investing by tracking a benchmark constructed to provide exposure to characteristics and market segments. However, a "passive" ESG approach requires adoption of the ESG perspectives which underlie the benchmark construction methodology.

Case Study: Vanguard FTSE Social Index Fund (FTSE4Good Index US Select Index)

- Ranks publicly listed companies using 300 indicators across 14 themes and 3 pillars
- Each company is assigned an overall ESG score from 0 (worst) to 5 (best)
- Firms with a rating of 3.3 or above are eligible for inclusion in the index – subject to the following conditions:
- Climate change score must exceed 3 for "primary impact" subsectors – score must exceed 2 for "secondary impact" subsectors
- Must not score a zero in any applicable "high exposure" theme
- No active controversy which would likely adversely impact future ESG score
- Must not manufacture of produce any of the following:
  - Tobacco
  - Weapons systems
  - Firearms
  - Coal
  - Components for controversial weapons – cluster munitions, anti-personnel mines, depleted uranium as well as chemical, biological and nuclear weapons
- Must meet additional criteria:
  - Nuclear power generation companies must meet specific Health & Safety Theme indicators
  - Infant formula manufacturers must meet specific Consumer Responsibility Theme indicators

Source: FTSE4Good Index Series, Ground Rules 4.1

Selecting an ESG strategy is an active affirmative selection of the screening and/or inclusion methodology utilized. Review the investment to confirm philosophical alignment with priorities and implementation.

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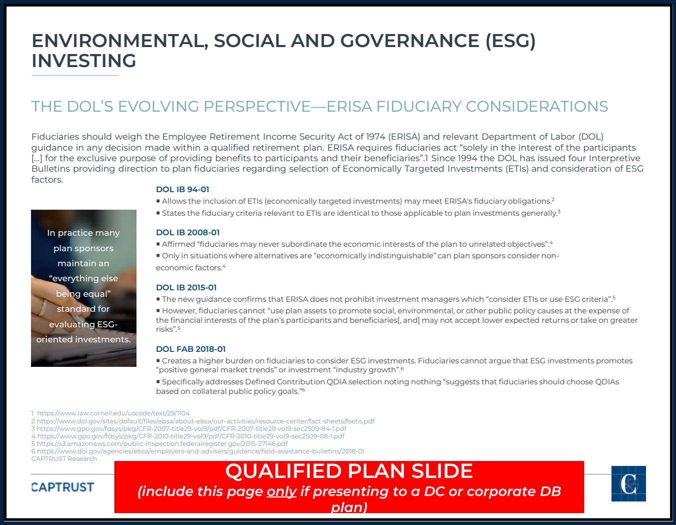
OPTIONAL SLIDE
(include only in E&F or Pension)



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

THE DOL'S EVOLVING PERSPECTIVE—ERISA FIDUCIARY CONSIDERATIONS

Fiduciaries should weigh the Employee Retirement Income Security Act of 1974 (ERISA) and relevant Department of Labor (DOL) guidance in any decision made within a qualified retirement plan. ERISA requires fiduciaries act "solely in the interest of the participants […] for the exclusive purpose of providing benefits to participants and their beneficiaries".1 Since 1994 the DOL has issued four Interpretive Bulletins providing direction to plan fiduciaries regarding selection of Economically Targeted Investments (ETIs) and consideration of ESG factors.

In practice many plan sponsors maintain an "everything else being equal" standard for evaluating ESG-oriented investments.

DOL IB 94-01

- Allows the inclusion of ETIs (economically targeted investments) may meet ERISA's fiduciary obligations.[2]
- States the fiduciary criteria relevant to ETIs are identical to those applicable to plan investments generally.[3]

DOL IB 2008-01

- Affirmed "fiduciaries may never subordinate the economic interests of the plan to unrelated objectives".[4]
- Only in situations where alternatives are "economically indistinguishable" can plan sponsors consider non-economic factors.[4]

DOL IB 2015-01

- The new guidance confirms that ERISA does not prohibit investment managers which "consider ETIs or use ESG criteria".[5]
- However, fiduciaries cannot "use plan assets to promote social, environmental, or other public policy causes at the expense of the financial interests of the plan's participants and beneficiaries[, and] may not accept lower expected returns or take on greater risks".[5]

DOL FAB 2018-01

- Creates a higher burden on fiduciaries to consider ESG investments. Fiduciaries cannot argue that ESG investments promotes "positive general market trends" or investment "industry growth".[6]
- Specifically addresses Defined Contribution QDIA selection noting nothing "suggests that fiduciaries should choose QDIAs based on collateral public policy goals."[6]

1 https://www.law.cornell.edu/uscode/text/29/1104
2 https://www.dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/fsetis.pdf
3 https://www.gpo.gov/fdsys/pkg/CFR-2007-title29-vol9/pdf/CFR-2007-title29-vol9-sec2509-94-1.pdf
4 https://www.gpo.gov/fdsys/pkg/CFR-2010-title29-vol9/pdf/CFR-2010-title29-vol9-sec2509-08-1.pdf
5 https://s3.amazonaws.com/public-inspection.federalregister.gov/2015-27146.pdf
6 https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2018-01
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QUALIFIED PLAN SLIDE

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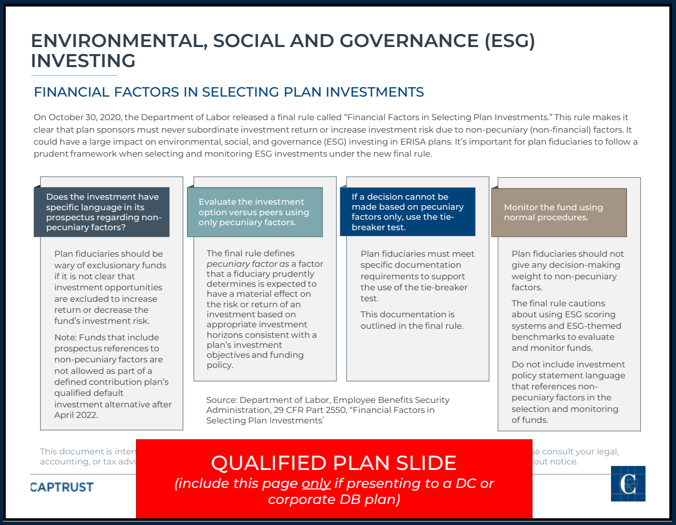

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

FINANCIAL FACTORS IN SELECTING PLAN INVESTMENTS

On October 30, 2020, the Department of Labor released a final rule called "Financial Factors in Selecting Plan Investments." This rule makes it clear that plan sponsors must never subordinate investment return or increase investment risk due to non-pecuniary (non-financial) factors. It could have a large impact on environmental, social, and governance (ESG) investing in ERISA plans. It's important for plan fiduciaries to follow a prudent framework when selecting and monitoring ESG investments under the new final rule.

Does the investment have specific language in its prospectus regarding non-pecuniary factors?

Plan fiduciaries should be wary of exclusionary funds if it is not clear that investment opportunities are excluded to increase return or decrease the fund's investment risk.

Note: Funds that include prospectus references to non-pecuniary factors are not allowed as part of a defined contribution plan's qualified default investment alternative after April 2022.

Evaluate the investment option versus peers using only pecuniary factors.

The final rule defines *pecuniary factor as* a factor that a fiduciary prudently determines is expected to have a material effect on the risk or return of an investment based on appropriate investment horizons consistent with a plan's investment objectives and funding policy.

If a decision cannot be made based on pecuniary factors only, use the tie-breaker test.

Plan fiduciaries must meet specific documentation requirements to support the use of the tie-breaker test.

This documentation is outlined in the final rule.

Monitor the fund using normal procedures.

Plan fiduciaries should not give any decision-making weight to non-pecuniary factors.

The final rule cautions about using ESG scoring systems and ESG-themed benchmarks to evaluate and monitor funds.

Do not include investment policy statement language that references non-pecuniary factors in the selection and monitoring of funds.

Source: Department of Labor, Employee Benefits Security Administration, 29 CFR Part 2550, "Financial Factors in Selecting Plan Investments"

This document is inten se consult your legal, accounting, or tax advi out notice.

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QUALIFIED PLAN SLIDE

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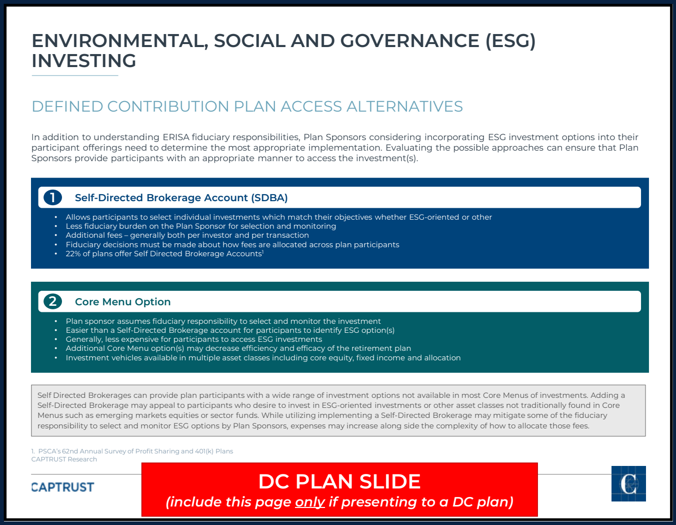

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING

DEFINED CONTRIBUTION PLAN ACCESS ALTERNATIVES

In addition to understanding ERISA fiduciary responsibilities, Plan Sponsors considering incorporating ESG investment options into their participant offerings need to determine the most appropriate implementation. Evaluating the possible approaches can ensure that Plan Sponsors provide participants with an appropriate manner to access the investment(s).

① Self-Directed Brokerage Account (SDBA)

- Allows participants to select individual investments which match their objectives whether ESG-oriented or other
- Less fiduciary burden on the Plan Sponsor for selection and monitoring
- Additional fees – generally both per investor and per transaction
- Fiduciary decisions must be made about how fees are allocated across plan participants
- 22% of plans offer Self Directed Brokerage Accounts[1]

② Core Menu Option

- Plan sponsor assumes fiduciary responsibility to select and monitor the investment
- Easier than a Self-Directed Brokerage account for participants to identify ESG option(s)
- Generally, less expensive for participants to access ESG investments
- Additional Core Menu option(s) may decrease efficiency and efficacy of the retirement plan
- Investment vehicles available in multiple asset classes including core equity, fixed income and allocation

Self Directed Brokerages can provide plan participants with a wide range of investment options not available in most Core Menus of investments. Adding a Self-Directed Brokerage may appeal to participants who desire to invest in ESG-oriented investments or other asset classes not traditionally found in Core Menus such as emerging markets equities or sector funds. While utilizing implementing a Self-Directed Brokerage may mitigate some of the fiduciary responsibility to select and monitor ESG options by Plan Sponsors, expenses may increase along side the complexity of how to allocate those fees.

1. PSCA's 62nd Annual Survey of Profit Sharing and 401(k) Plans
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DC PLAN SLIDE

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