ASSET CLASS RETURNS

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Q1 2024
Real Estate 8.69%	Real Estate 17.77%	Small-Cap Stocks 38.82%	Real Estate 30.38%	Strategic Opportunities 2.86%	Small-Cap Stocks 21.31%	International Equities 27.19%	Cash 1.87%	Large-Cap Stocks 31.43%	Large-Cap Stocks 20.96%	Real Estate 38.99%	Cash 1.46%	Large-Cap Stocks 26.53%	Large-Cap Stocks 10.30%
Fixed Income 7.84%	Mid-Cap Stocks 17.28%	Mid-Cap Stocks 34.76%	Large-Cap Stocks 13.24%	Real Estate 2.14%	Mid-Cap Stocks 13.80%	Large-Cap Stocks 21.69%	Fixed Income 0.01%	Mid-Cap Stocks 30.54%	Small-Cap Stocks 19.96%	Large-Cap Stocks 26.45%	Strategic Opportunities 0.85%	Mid-Cap Stocks 17.23%	Mid-Cap Stocks 8.60%
Large-Cap Stocks 1.50%	International Equities 16.83%	Large-Cap Stocks 33.11%	Mid-Cap Stocks 13.22%	Large-Cap Stocks 0.92%	Large-Cap Stocks 12.05%	Mid-Cap Stocks 18.52%	Strategic Opportunities -0.49%	Real Estate 28.92%	Mid-Cap Stocks 17.10%	Mid-Cap Stocks 22.58%	Fixed Income -13.01%	Small-Cap Stocks 16.93%	Small-Cap Stocks 5.18%
Cash 0.10%	Large-Cap Stocks 16.42%	International Equities 15.29%	Fixed Income 5.97%	Fixed Income 0.55%	Real Estate 7.56%	Small-Cap Stocks 14.65%	Real Estate -4.03%	Small-Cap Stocks 25.52%	International Equities 10.65%	Small-Cap Stocks 14.82%	International Equities -16.00%	International Equities 15.62%	International Equities 4.69%
Mid-Cap Stocks -1.55%	Small-Cap Stocks 16.35%	Strategic Opportunities 3.58%	Small-Cap Stocks 4.89%	Cash 0.05%	International Equities 4.50%	Real Estate 9.84%	Large-Cap Stocks -4.78%	International Equities 21.51%	Fixed Income 7.51%	International Equities 7.82%	Mid-Cap Stocks -17.32%	Real Estate 12.25%	Strategic Opportunities 1.84%
Strategic Opportunities -3.71%	Fixed Income 4.22%	Real Estate 2.47%	Strategic Opportunities 0.79%	Mid-Cap Stocks -2.44%	Fixed Income 2.65%	Fixed Income 3.54%	Mid-Cap Stocks -9.06%	Fixed Income 8.72%	Strategic Opportunities 2.72%	Strategic Opportunities 2.10%	Large-Cap Stocks -19.13%	Fixed Income 5.53%	Cash 1.29%
Small-Cap Stocks -4.18%	Strategic Opportunities 0.88%	Cash 0.07%	Cash 0.03%	Small-Cap Stocks -4.41%	Cash 0.33%	Strategic Opportunities 3.40%	Small-Cap Stocks -11.01%	Strategic Opportunities 4.37%	Cash 0.67%	Cash 0.05%	Small-Cap Stocks -20.44%	Cash 5.01%	Fixed Income -0.78%
International Equities -13.71%	Cash 0.11%	Fixed Income -2.02%	International Equities -3.87%	International Equities -5.66%	Strategic Opportunities 0.31%	Cash 0.86%	International Equities -14.20%	Cash 2.28%	Real Estate -5.29%	Fixed Income -1.54%	Real Estate -25.17%	Strategic Opportunities 2.95%	Real Estate -1.17%

Source: Markov Processes, Inc., Bloomberg, Mobius

- Small-Cap Stocks (Russell 2000 Index)
- Mid-Cap Stocks (Russell Mid-Cap Index)
- Large-Cap Stocks (Russell 1000 Index)
- Real Estate (Dow Jones U.S. Real Estate Index)
- Strategic Opportunities (HFRX Absolute Return Index)
- Cash (Merrill Lynch 3-Month Treasury Bill)
- International Equities (ACWI Ex-U.S. Index)
- Fixed Income (Bloomberg U.S. Aggregate Bond Index)

INVESTMENTS

CAPTRUST

Lisa Ivie Miller, AIF®

Agenda

Fiduciary Training: Investments

Purpose and Fiduciary Responsibility

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Purpose and Fiduciary Responsibility

- Plan fiduciaries must discharge their duties for the exclusive benefit of participants, with care, skill, prudence, and diligence.
- Plan fiduciaries face a range of investment questions, ranging from the broad (*which assets should we include in our plan menu?*) to the narrow (*which of these bond funds is the best fit for our plan?*).
- A working understanding of capital markets, asset classes, and plan investments can help fiduciaries:
  - Fulfill their obligations and act with care and prudence
  - Drive better decisions for the benefit of participants
  - Demonstrate a commitment to process excellence

Fiduciary Training: Investments

Capital Markets

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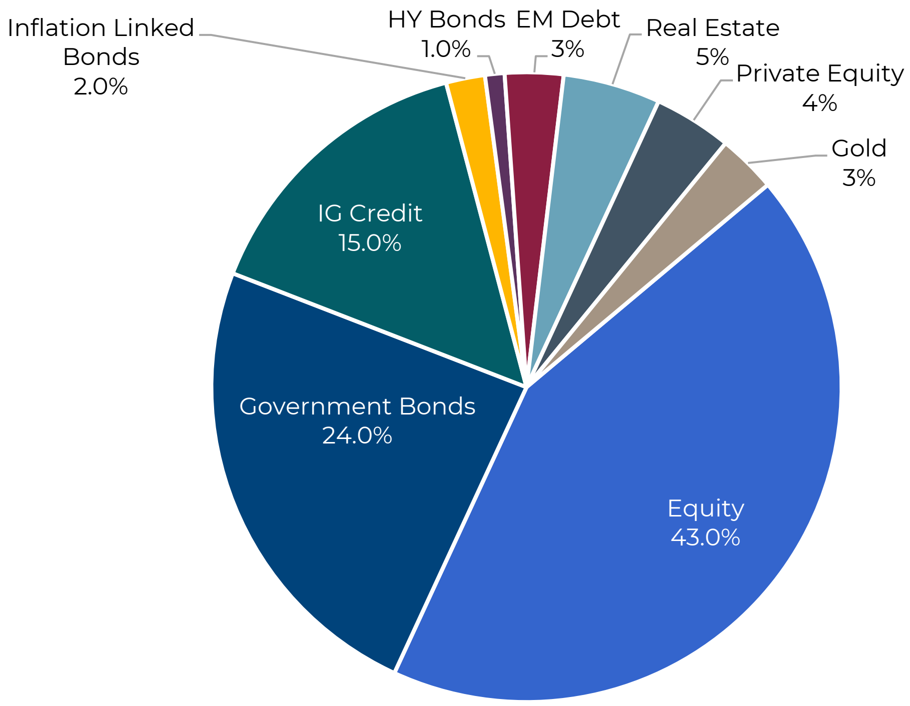
What Are Capital Markets?

Capital markets enable institutions (companies, municipalities, or nations) to raise money for long-term investments, to fund operations, or for any other use.

Two primary ways to raise capital are:

- The bond market—investors lend money in exchange for the promise of interest (and repayment of principal)
- The stock market—investors purchase a slice of ownership in a company

The total market value of global investable assets in 2020 was $250 trillion.



Source: Global Market Portfolios—State Street Global Advisors

Core Asset Classes

CASH	FIXED INCOME	EQUITY

• Investment in a vehicle with a duration of less than one year
• Typically used as a capital preservation vehicle
• Pays a rate of interest dictated by current short-term interest rates
• Examples:
  • Treasury notes
  • Treasury bills
  • Money market mutual funds
	• Investment in a debt vehicle offered by a government, governmental agency, or corporation with a maturity of greater than one year
	• Typically used as an income-producing asset
	• Returns based on interest paid by the bond and the current market value of the bond
	• Examples:
	  • U.S. treasury bonds
	  • Municipal bonds
	  • Foreign government bonds
	  • U.S. corporate bonds
	  • U.S. corporate high-yield bonds
	  • Fixed income mutual funds
		• Investment in the stock of a corporation anywhere in the world
		• Typically used as a growth vehicle
		• Returns based on the market value of each share of stock available
		• Examples:
		  • Common stock
		  • Large-cap equity funds
		  • Mid-cap equity funds
		  • Small-cap equity funds
		  • International equity funds
		  • Global equity funds

Fixed Income

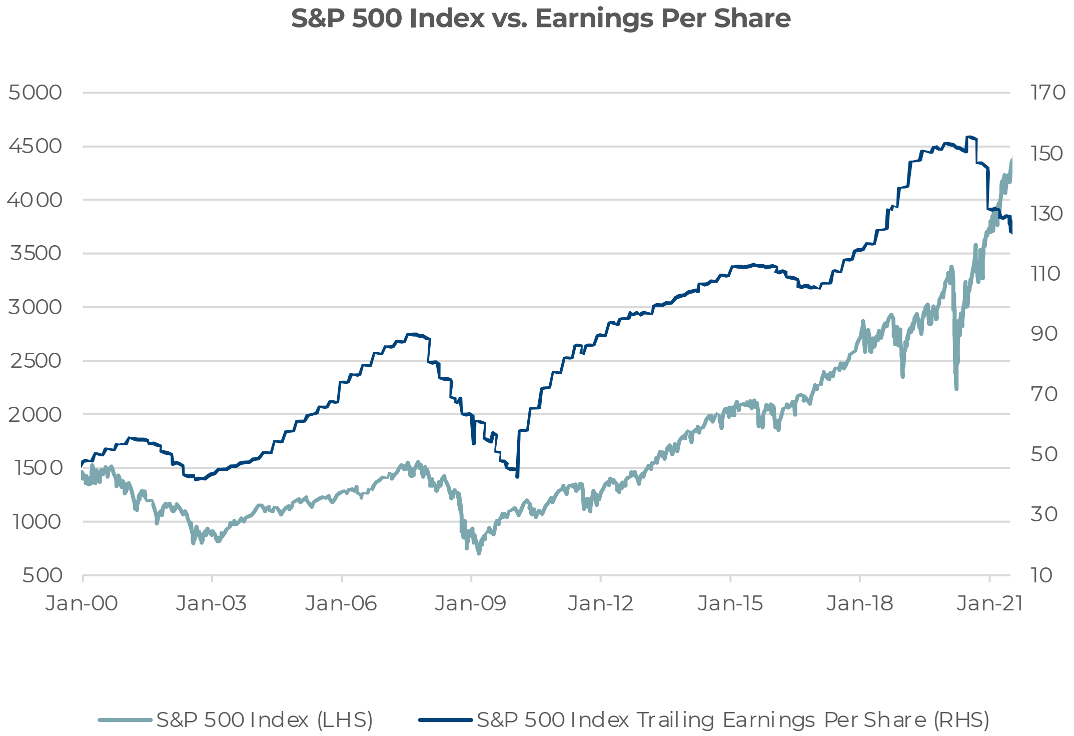
The bond's market value is determined by the difference between the bond's stated interest rate and current interest rates.

- If current rates are lower, the value of the bond increases.
- If current rates are higher, the value of the bond decreases.

Equities

Factors That Help Determine the Market Value of an Equity

- The company's expected future earnings
- Supply and demand for the company's stock
- The company's financial performance
- Macroeconomic conditions in company's homeland
- Macroeconomic conditions in company's sector



Source: Bloomberg

Diversification

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Portfolio Construction

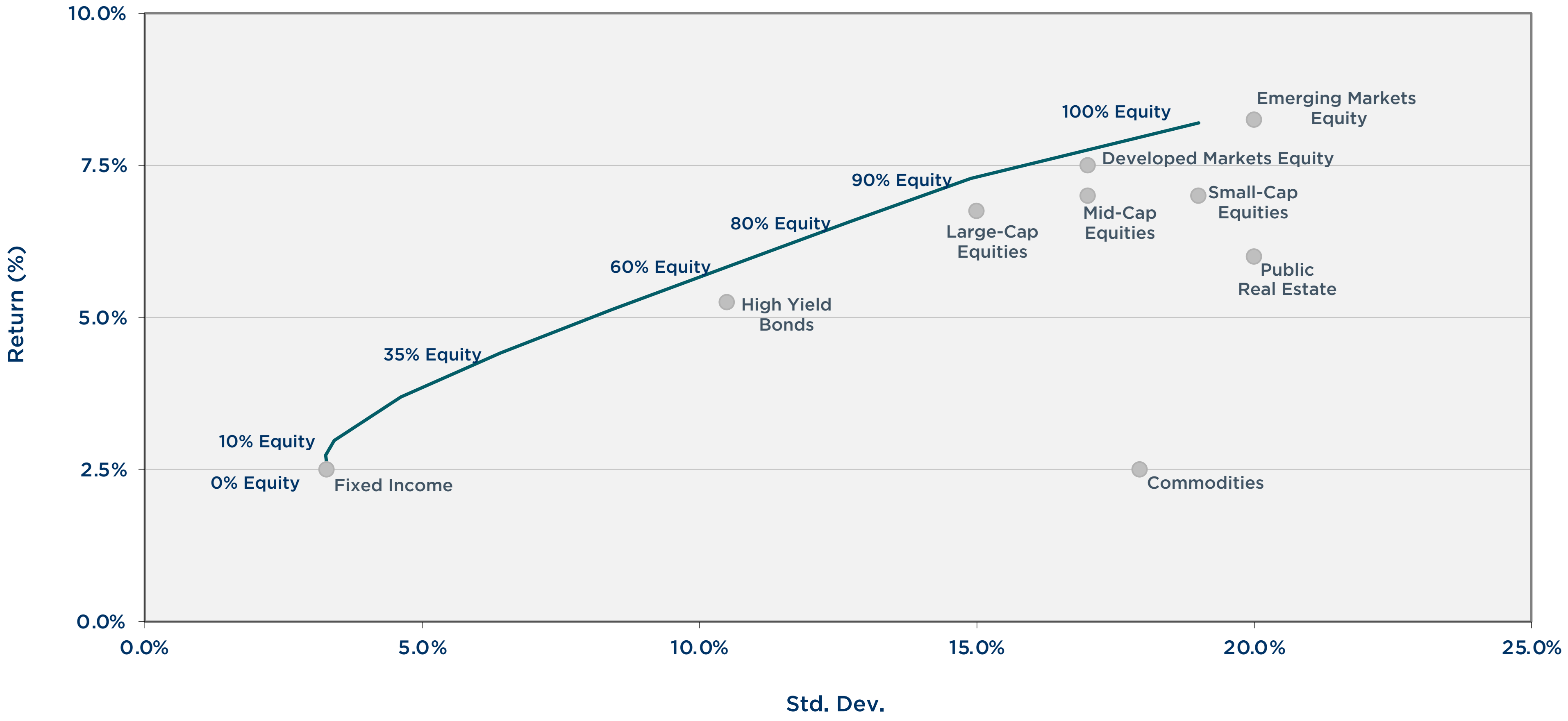
Investment risk is the probability of losses relative to the expected return of an investment.

SYSTEMATIC RISK	UNSYSTEMATIC RISK	DIVERSIFICATION

• Also known as market risk, it is inherent to the entire market or market segment
• Systematic risk cannot be mitigated through diversification
• Examples:
  • Interest rate movement
  • Economic performance
  • Political upheaval
	• Risk that is inherent to specific investments, industries, or market segments
	• Also known as diversifiable risk because it can be mitigated through diversification
	• Examples:
	  • Regulatory changes
	  • Management changes
	  • Technological enhancements
		• Utilizing a variety of investments that are unlikely to move in the same direction to reduce the unsystematic risk in a portfolio
		• A diversified portfolio invests in both multiple asset classes as well as multiple investments within each asset class

Portfolio Construction

Efficient Frontier



Source: CAPTRUST Investment Research

Fiduciary Training: Investments

Investment Style

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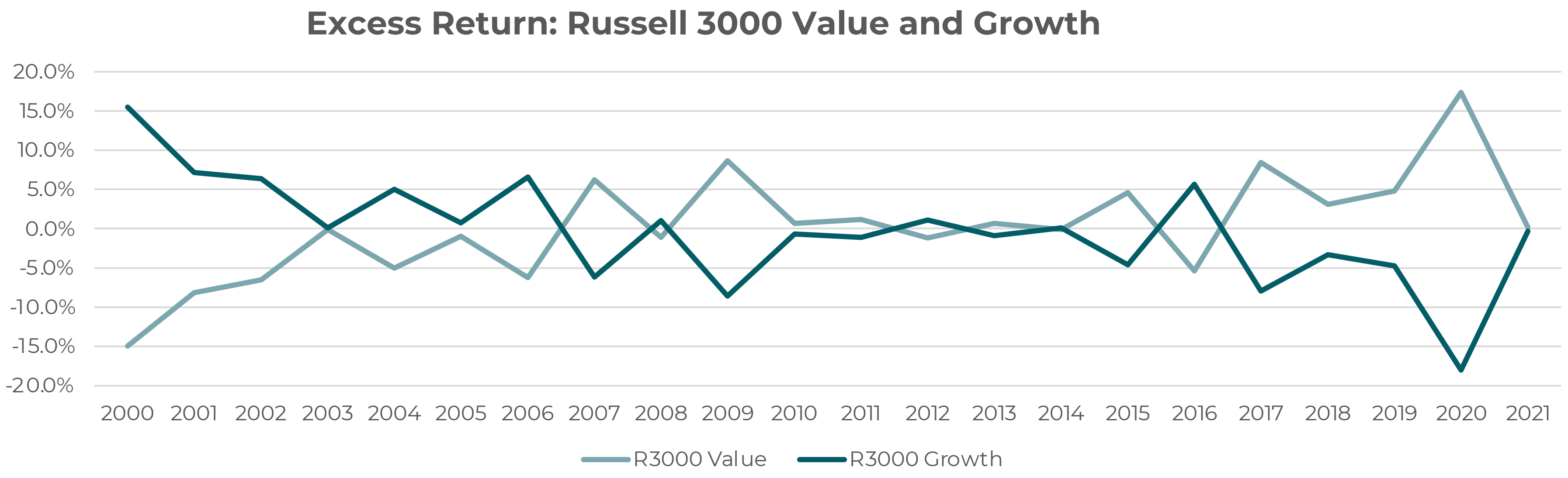
Investment Style

Style describes an investment manager's approach to stock selection and the attributes they find most attractive.

- **Value managers** seek diamonds in the rough—companies whose stock prices don't reflect their true fundamental value.
- **Growth managers** seek growing firms (as measured by sales, earnings, or cash flow) that often reinvest in their business (rather than paying dividends).



Source: YCharts

Fiduciary Training: Investments

Active vs. Passive

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Active vs. Passive Management

PASSIVE MANAGEMENT	ACTIVE MANAGEMENT

• Seeks to mirror characteristics of an index, with low cost and low tracking error
• Most major indices are constructed on a methodology that weights investments on a market capitalization basis
	• Seeks to outperform an index (net of fees), through higher returns and/or lower risk
	• Ways that a manager can be active:
	  • Own a specific security, or not
	  • Overweight/underweight a security
	  • Allocate to a sector, or not
	  • Overweight/underweight a sector

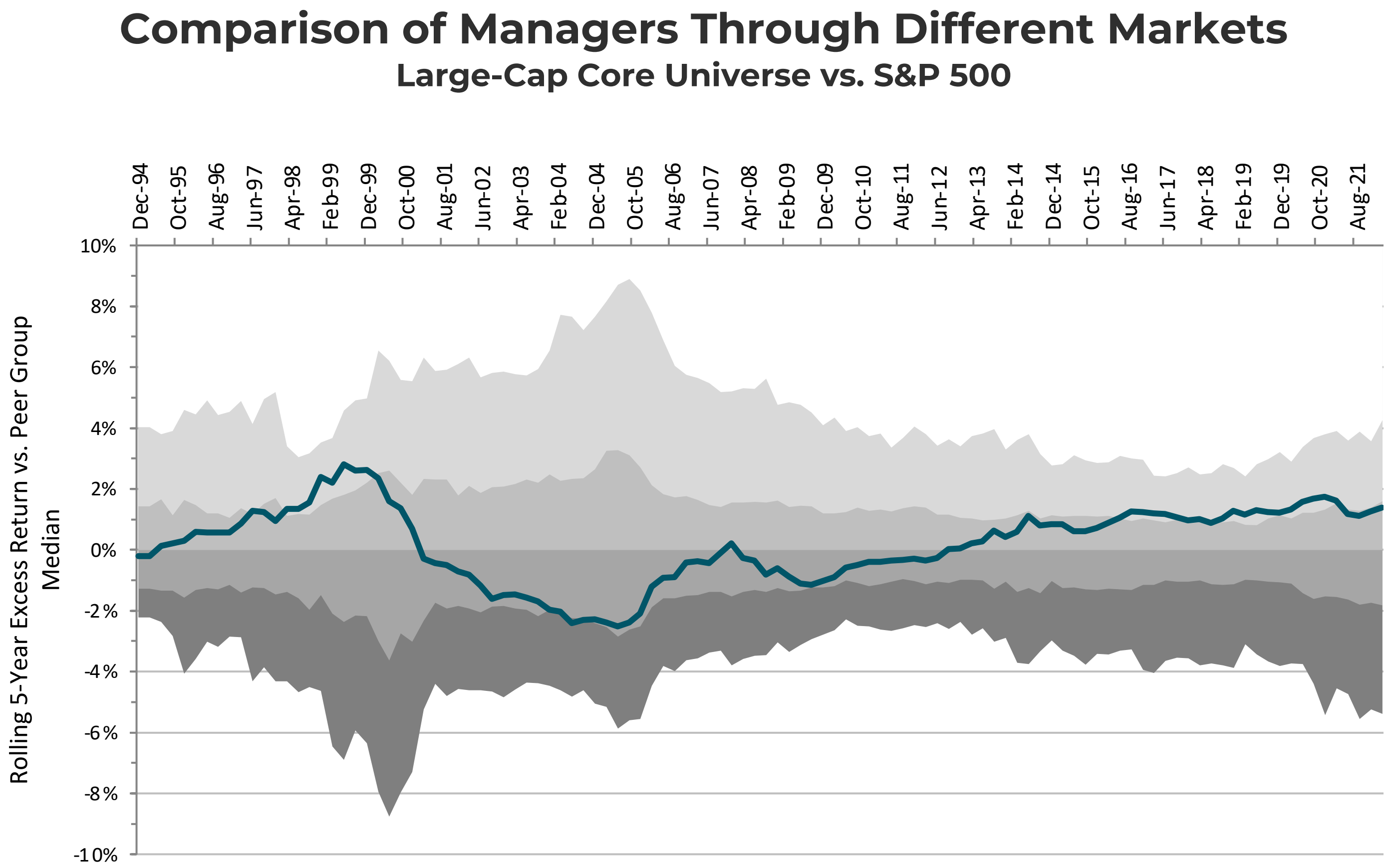
Fees Are Often a Driver in the Active vs. Passive Debate

Asset Class	Active		Passive	
	Asset-Weighted Average	20-Year Change	Asset-Weighted Average	20-Year Change
Equities	0.74%	-32%	0.07%	-69%
Fixed Income	0.56%	-33%	0.07%	-66%

Source: Investment Company Institute, "Trends in the Expenses and Fees of Funds, 2019."

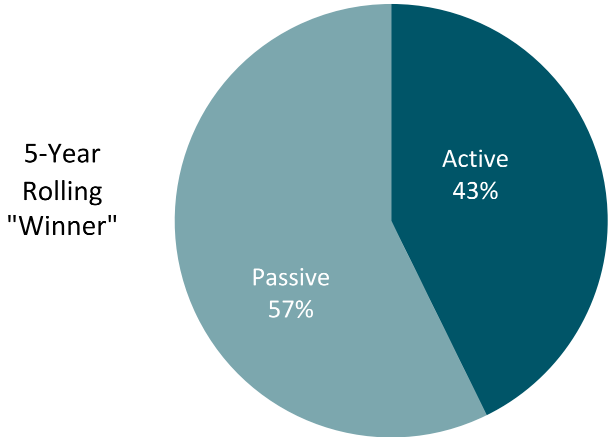
Both active and passive management fees have declined over the past 20 years.

Active vs. Passive



Left: *The rolling five-year universe quartile excess returns are shown (in grey) net of the median peer group expense. The passive excess return is shown in green net of the recommended passive expense ratio.*

Below: *Percentage of five-year rolling periods where passive/median active management—each net of median fees—produced a higher return.*



Source: eVestment
*All Returns Are Annualized

Fiduciary Training: Investments

Investment Policy and Monitoring

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Investment Policy Statement (IPS)

What is it?

- A document that outlines the roles, responsibilities, and processes for overseeing the plan investments and menu
- The IPS helps to address the following:
  - Party responsibilities
  - The process of selection
  - The process of monitoring
  - The process of replacing

Why is it important?

- The IPS is an integral part of fiduciary risk management. The document clearly outlines the procedures for selecting plan investments, the process for monitoring plan investments, and the process for making decisions.
- The document provides an outline of prudent processes to be used for plan investment oversight by the plan fiduciaries.

Investment Menu Construction

Returns

Tiered investment menus are an increasingly popular way to address the needs of varied participants present in a defined contribution plan—from disengaged to highly engaged participants. A typical tiered menu may include:

	ALLOCATION TIER	PASSIVE TIER	ACTIVE TIER	OTHER
ASSET CLASSES	• Target date fund <u>or</u> • Risk-based series	• Intermediate term bond • Domestic large-cap stocks • Domestic mid- & small-cap stocks • International stocks	• Capital preservation • Intermediate term bond • Large-cap value & growth • Mid-cap value & growth • International large-cap stocks • Small-cap value & growth	• Self-directed brokerage account • Mutual fund window
RATIONALE	• For disengaged participants who desire a pre-made diversified portfolio (do it for me) • May qualify as a qualified default investment alternative (QDIA) for auto-enrolled participants	• For participants who do not wish to take on active management risk in addition to market risk • For participants who want only low-cost market exposure • All major asset classes are represented (same as active)	• Gives participants the opportunity to outperform passive index options • All major asset classes are represented, so engaged participants can create diversified portfolios	• Optional tier • May not be appropriate for all defined contribution plans • Satisfies highly engaged investors without adding unnecessary options to the core lineup

Note that large plan sponsors (more than 10,000 participants) are more likely to utilize self-directed brokerage account options than smaller plan sponsors.

Investment Manager Selection

Understanding the Process Your Plan Is Using

Example: U.S. Large-cap Equity Managers

418 Strategies 368 eliminated due to the model criteria	**Test 1—Investment Return** CAPTRUST's proprietary model identifies managers adding significant value over a five-year period
50 Strategies 40 eliminated due to lack of consistency	**Test 2—Risk Management** The model focuses on consistency of returns (rather than absolute performance)
10 Strategies 7 eliminated based on fundamental evaluation and due diligence	**Test 3—Qualitative Review Team** • Rigorous bottom-up review of the investment strategy to identify a durable competitive advantage • Analyze all aspects of the team, business, and organizational structure
3 Strategies	**Selection** Managers are selected and optimized (if multiple managers are chosen)

Investment Monitoring/Statistics

Monitoring

In order to effectively monitor the investment options in your plan, CAPTRUST uses a number of metrics calculated on both three- and five-year time frames.

These statistics include:

- Risk adjusted returns—measure the level of return that an investment option would generate given a level of risk equivalent to the benchmark index
- Peer relative ranking—measures the percentile rank of an investment option's returns relative to other available options in that category
- R-squared—indicates the level of style purity of an investment option relative to the benchmark index
- Confidence ranking—indicates the consistent relative value add of the manager as compared to other available options in that category

In addition, CAPTRUST uses qualitative measures for the individual fund and the firm offering the investment.

Investment Monitoring/Statistics

The data is synthesized into a scoring system that is reviewed each quarter. This process ties the investments to the IPS and is important in establishing a sound fiduciary process based on modern portfolio theory.

INVESTMENT	QUANTITATIVE								QUALITATIVE		TOTALS	
	Risk-Adjusted Performance		vs. Peers Performance		Style		Confidence		Fund Management	Fund Firm	Overall	Total Score
	3 Yr	5 Yr	3 Yr	5 Yr	3 Yr	5 Yr	3 Yr	5 Yr				
Intermediate Term Bond MetWest Total Return Bond Plan	●	●	●	●	●	●	●	●	●	●	●	100
Moderate Allocation Vanguard Wellington Adm	●	●	●	●	●	●	●	●	●	●	●	100
Large Company Value Vanguard Windsor II Adm	●	●	▼	●	●	●	▼	●	●	●	●	88
Large Company Growth Vanguard PRIMECAP Admiral	●	●	●	●	●	●	●	●	●	●	●	100
Medium Company Value Goldman Sachs Mid Cap Value Ins	▼	●	▼	▼	●	●	▼	▼	●	●	●	81
Medium Company Growth T Rowe Price Mid Cap Growth	●	●	●	●	●	●	●	●	●	●	●	100
Foreign Large Blend Amer Funds EuroPac R6	●	●	●	●	●	●	●	●	●	●	●	100
Foreign Large Growth Oppenheimer Intl Growth I	●	●	●	●	●	●	●	●	●	●	●	99

Fiduciary Training: Investments

Target Date Funds

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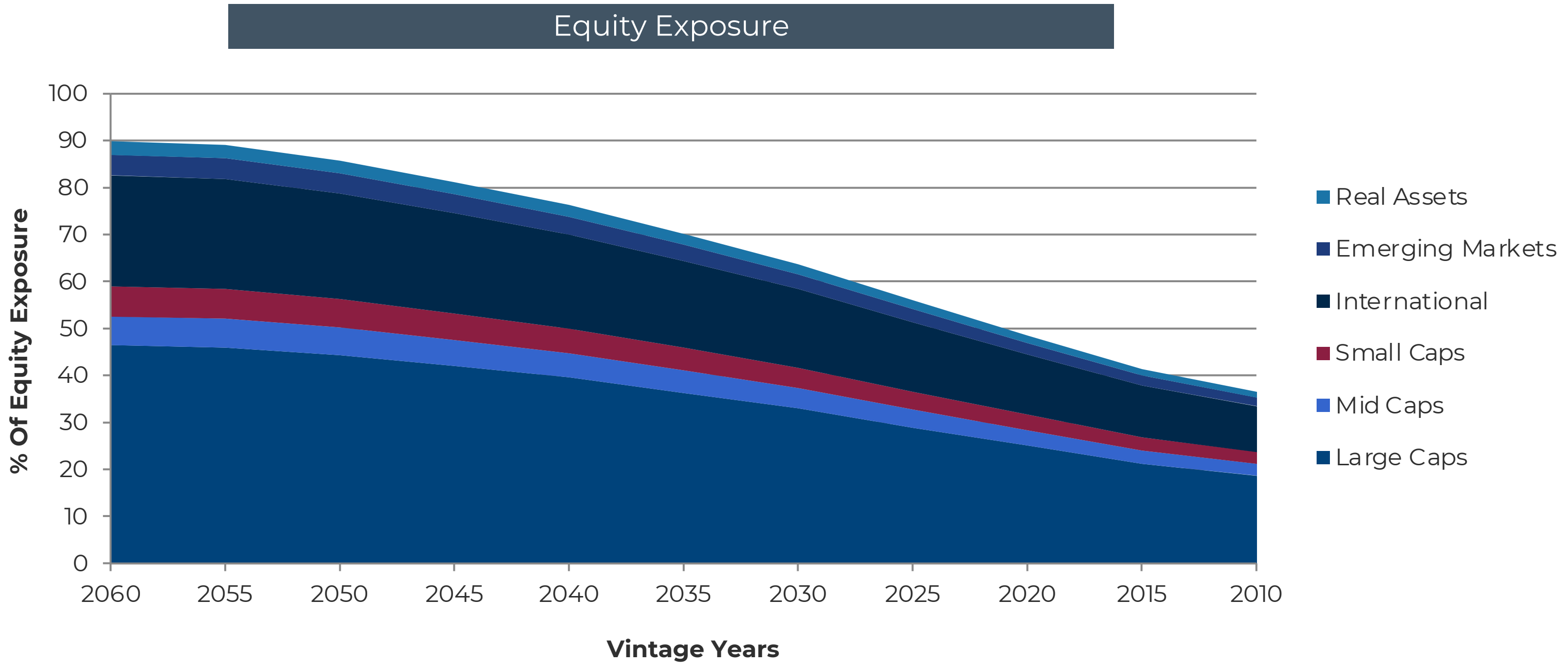
Target Date Funds

Target Date Fund Glidepath

Percentage of asset allocation invested in equities as the portfolio approaches its target date, or the anticipated year a person will reach retirement age. The portfolio reduces its equity allocation to a more conservative posture as it nears its target.



Sample: T. Rowe Price Target Date Funds

Sound Alike—Spelled Different

Target date funds have a number of things in common, but they also can have significant differences. These differences are what fiduciaries need to pay particular attention to when selecting a suite of target date funds.

- Is the glidepath to retirement or through retirement?
- What assumptions are the managers using?
  - Amount people are saving?
  - How long the money will remain in the fund after retirement?
  - What return assumptions are being applied?
  - How long are they projecting the money to last?

Fiduciary Training: Investments

Capital Preservation

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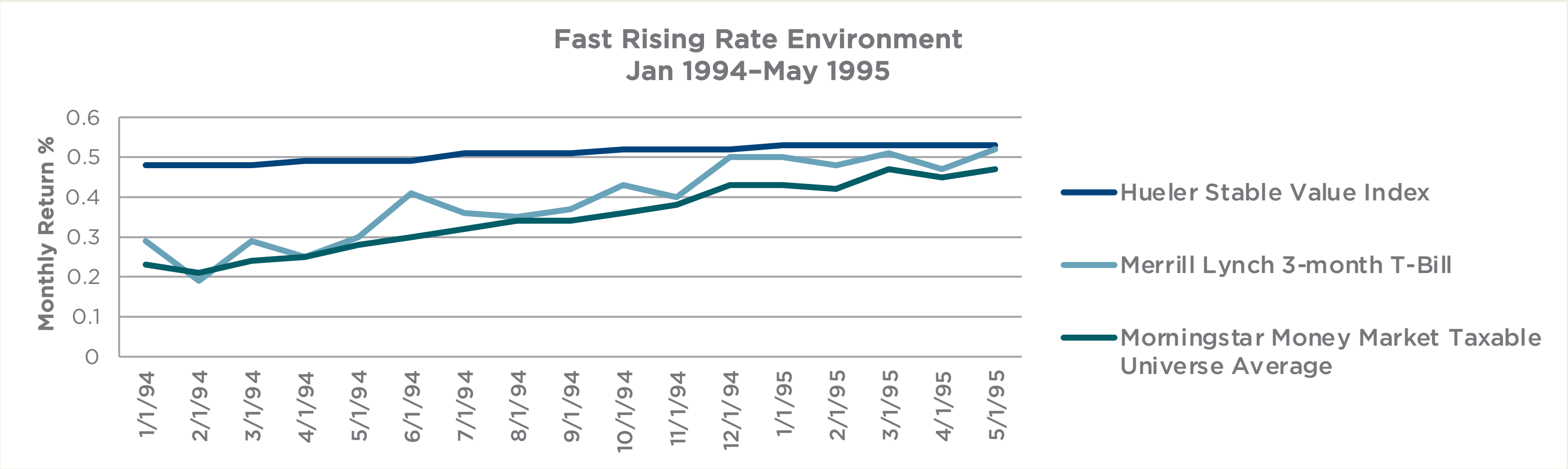
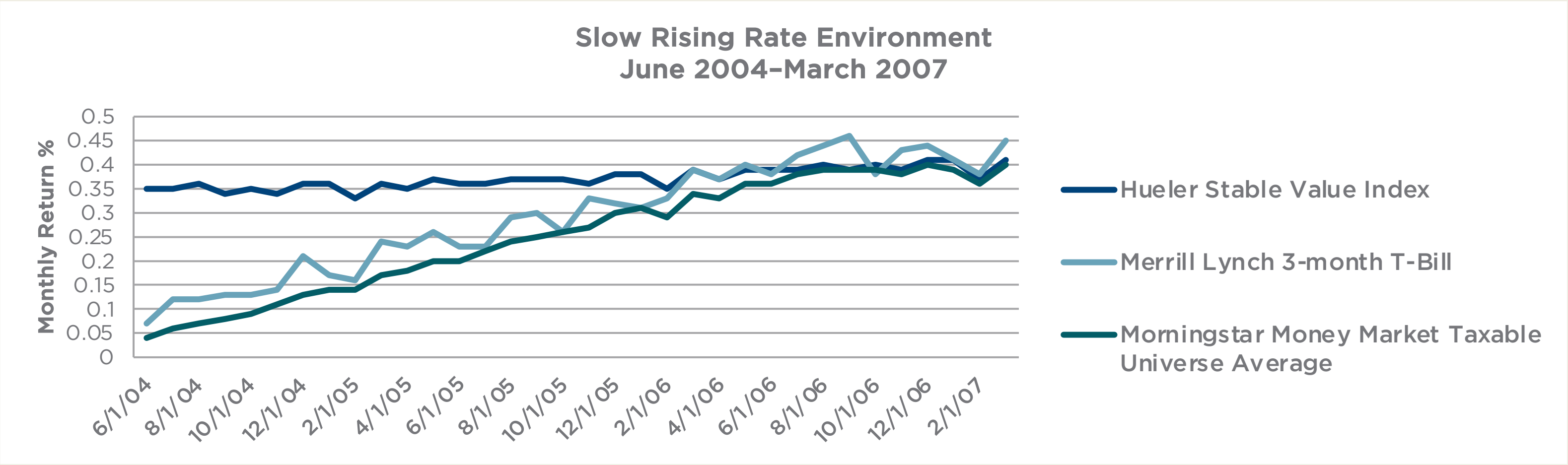
Capital Preservation

	Money Market Funds	Stable Value (Multi-Insurer CIT)*	Insurance Separate Account	General Account
Pros	• Low interest rate sensitivity • High quality portfolios (Tier 1) • Regulated by the SEC • Daily Liquidity	• Multi-insurer wrap diversification • Higher yield compared to money market funds • Book value accounting provides for a more stable, crediting rate versus money market funds • Principal is guaranteed by wrap providers	• More lenient wrap guidelines give managers more investment flexibility • Book value accounting provides for a more stable crediting rate • Principal is guaranteed by insurance company • Assets are segregated to provide insulation from claims made by general creditors	• Often provide attractive crediting rates relative to other product types • Crediting rates typically pre-announced and guaranteed for a period certain.
Cons	• Often, lower yields versus longer duration capital preservation options • $1 NAV not insured or guaranteed	• Liquidity constraints at the plan level, typically 12 month put • Higher interest rate sensitivity due to longer duration securities versus money market funds • Trading constraints at the participant level depending on other funds in the plan, equity wash provisions • Wrap fees add an additional layer of fees versus money market funds	• Liquidity constraints at the plan level; typically 12 month put or market value adjustment • Higher interest rate sensitivity due to longer duration securities versus money market funds • Trading constraints at the participant level depending on other funds in the plan, equity wash provisions • Single-insurer risk versus the multi-insurer diversification provided by collective stable value funds	• Lack of portfolio transparency • Guarantee is backed by the "claims paying ability" of a single insurer • Assets can be tied up in the event of insolvency
Other Factors	• Low yields • Consolidating industry • Fee claw-back provisions • Potential revenue sharing implications	• Consolidating industry, many providers terminating or closing funds • Managers are constrained by tighter wrap guidelines	• Limited availability on an investment-only basis • Smaller peer group compared to collective stable value funds or money markets • Investment minimums	• Availability limited to insurance company platforms • Portability constraints

*Stable Value option can also include Single Insurer CIT's

Money Market vs. Stable Value





In both sharp and gradual rising interest rate environments, stable value funds have historically kept pace with money market funds in terms of monthly return.

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