## Ann Masel

**Subject:** Police Fund Investment Interview - Cap Trust
**Location:** https://us02web.zoom.us/j/86599176585?pwd=M2N1L3h0TW55VVN0eUlBZlZ3blBHdz09

**Start:** Thu 1/7/2021 1:00 PM
**End:** Thu 1/7/2021 3:00 PM
**Show Time As:** Tentative

**Recurrence:** (none)

**Meeting Status:** Not yet responded

**Organizer:** Daniel Buckley

Hi there,
City Manager is inviting you to a scheduled Zoom meeting.

# Join Zoom Meeting

| | |
|---|---|
| Phone one-tap: | US: +13462487799,,86599176585#,,,,,,0#,,458843# or +12532158782,,86599176585#,,,,,,0#,,458843# |
| Meeting URL: | https://us02web.zoom.us/j/86599176585?pwd=M2N1L3h0TW55VVN0eUlBZlZ3blBHdz09 |
| Meeting ID: | 865 9917 6585 |
| Passcode: | 8S%UbW |

**Join by Telephone**
For higher quality, dial a number based on your current location.

| | |
|---|---|
| Dial: | US: +1 346 248 7799 or +1 253 215 8782 or +1 408 638 0968 or +1 669 900 6833 or +1 301 715 8592 or +1 312 626 6799 or +1 646 876 9923 or 888 475 4499 (Toll Free) or 833 548 0276 (Toll Free) or 833 548 0282 (Toll Free) or 877 853 5257 (Toll Free) |
| Meeting ID: | 865 9917 6585 |
| Passcode: | 458843 |

International numbers

Posted 12-23-2020 12:42 PM. Luis Barrera

NOTICE OF SPECIAL MEETING

AGENDA
CITY OF GALVESTON EMPLOYEES' RETIREMENT FUND
FOR POLICE
TO BE HELD AT **1:00 P.M. JANUARY 7, 2021**

Notice is hereby given in accordance with the Order of the Governor issued March 16, 2020, that the Board of Trustees of the City of Galveston Employees' Retirement Fund for Police will conduct the meeting by telephone/video conference in order to advance the public health goal of limiting face-to-face meetings (also called "social distancing") to slow the spread of the Corona Virus/COVID-19. There will be no meeting or pubic access to the location described above.

INSTRUCTIONS FOR PARTICIPATING IN THIS MEETING ARE PROVIDED BELOW.

1. Quorum Determination
2. Call to order
3. Open Public Forum/Comment Period
4. Presentation and discussion of CapTrust Investment Management Proposal
5. Reminder next meeting date Tuesday, February 2, 2021
6. Board members reports/comments
7. Adjournment

<u>Executive Session-Pursuant to Chapter 551, Subchapter D, Texas Government Code</u>
At any time during the meeting, the Board may convene in closed session to deliberate any of the matters listed on this agenda as authorized by Chapter 551 of the Texas Government Code, including Sections 551.071 (consultation with attorney), 551.072 (deliberation regarding real property), 551.073 (deliberation regarding prospective gifts), 551.074 (deliberation regarding personnel matters),or 551.087 (deliberation regarding economic development negotiations).

______________________________

Ann S. Masel, CPA
Administrator

**Please Note**
**Members of the City Council may be attending and participating in the discussion.**

**To call in to Zoom Meeting :**

**Or dial the following numbers and enter the:**
**Meeting ID: 865 9917 6585**
**Passcode: 458843**
**Phone: 1 346 248 7799 (Houston)**

**This written notice of the meeting agenda packet, are posted online at:**
**www.galvestontx.gov/agendacenter**

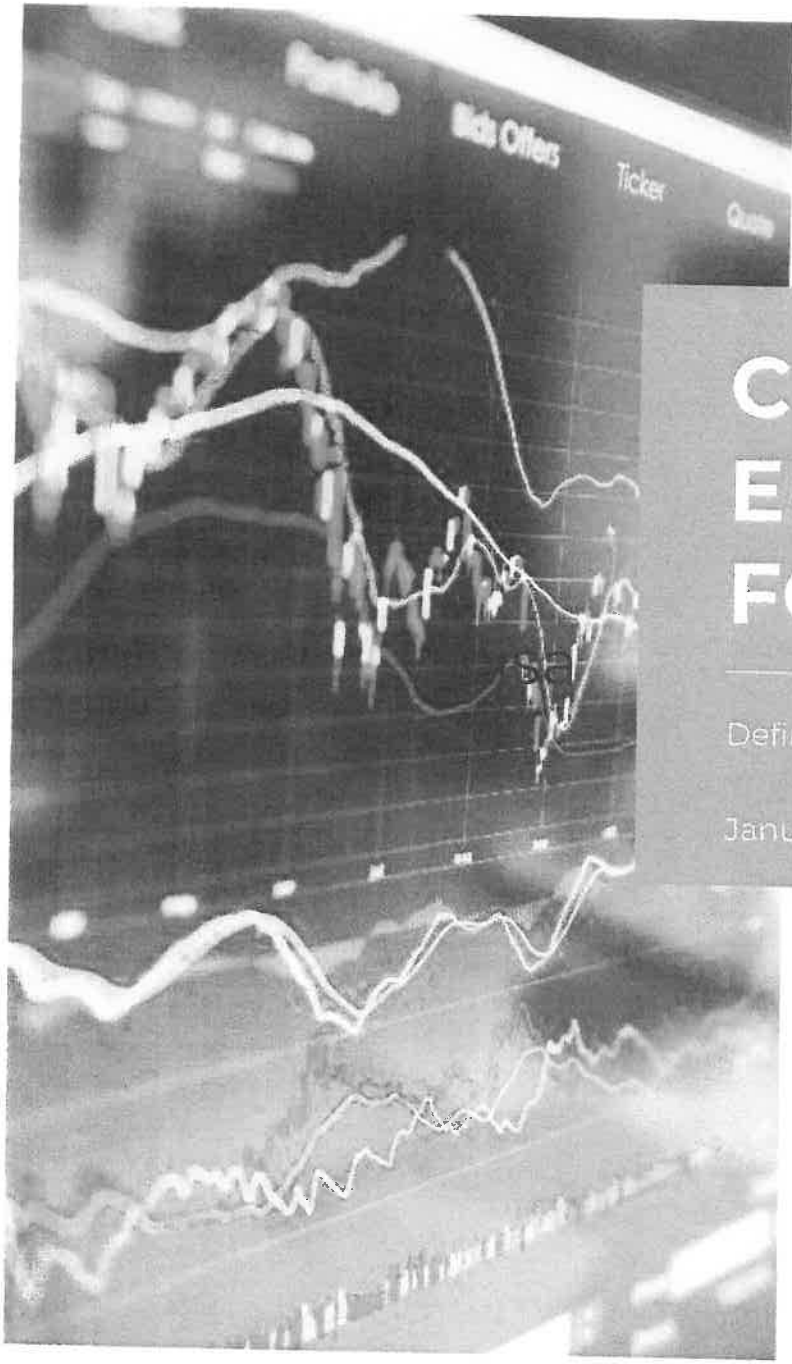
**The public will be permitted to offer public comments telephonically as provided by the agenda and as permitted by the presiding officer during the meeting**

**I certify that the above Notice of Meeting was posted in a place convenient to the public in compliance with Chapter 551 of the Texas Government Code on December________________________**

______________________________________________________________

**Janelle Williams, City Secretary**

**IN ACCORDANCE WITH THE PROVISIONS OF THE AMERICANS WITH DISABIITIES ACT (ADA), PERSONS IN NEED OF A SPECIAL ACCOMODATION TO PARTICIPATE IN THIS PROCEEDING SHALL, WITHIN THREE (3) DAYS PRIOR TO ANY PROCEEDING, CONTACT THE CITY SECTARY'S OFFICE, SUITE 201; 823 ROSENBERG; GALVESTON, TEXAS 77550; (409) 797-3510**




Presentation of Retirement Advisory Services

# CITY OF GALVESTON EMPLOYEES PLAN FOR POLICE

Defined Benefit Plan Services

January 7, 2021

Lisa Ivie Miller, AIF®
Principal | Financial Advisor

Madelon Leone, CFA®
Principal | Financial Advisor

Michelle Scarver, CPA
Vice President | Financial Advisor

Ben Napier, CFA®
Senior Manager | Investment Research

# PROVIDING RETIREMENT ADVICE IS OUR BUSINESS

CAPTRUST is an objective and unbiased retirement planning and investment advisory firm headquartered in Raleigh, North Carolina. CAPTRUST | Texas has five offices located within the state of Texas.

Over the last 34 years, CAPTRUST has grown from an entrepreneurial startup to one of the nation's leading retirement plan advisory firms.

We appreciate our relationship with the Galveston Police plan and to exploring the benefits of our continued partnership together.

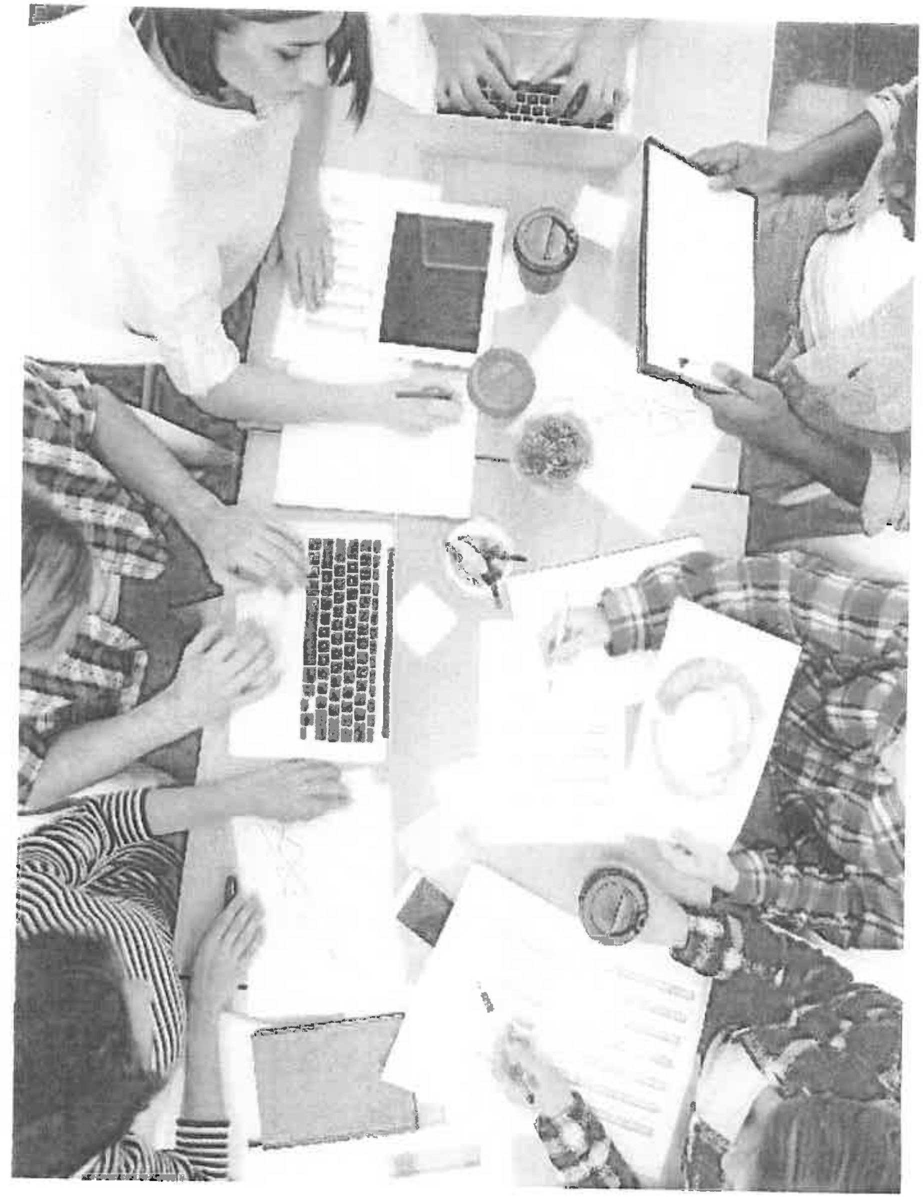
# TODAY'S AGENDA

I. **About CAPTRUST**

II. **Public Pension Landscape**

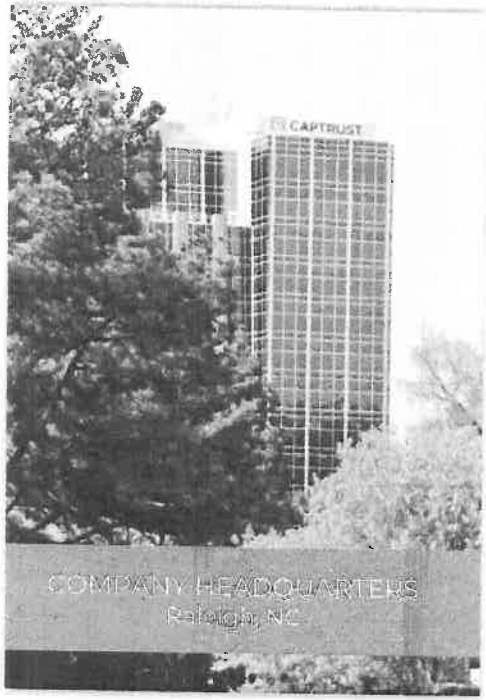
III. **History of Galveston Police/CAPTRUST Texas Relationship**

IV. **Portfolio Recommendations and Next Steps**



# ABOUT CAPTRUST

# ABOUT CAPTRUST



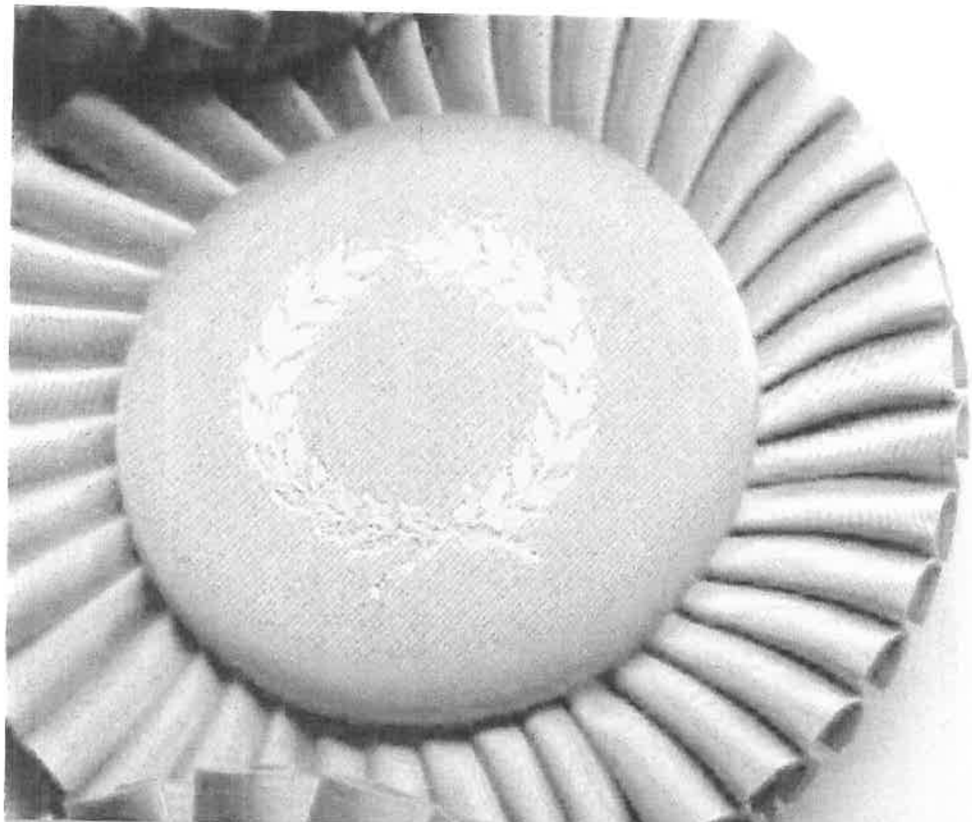

## Corporate Structure and Ownership

- 34-year operating history
- Culture of employee ownership
- 721 employees
- More than 2,000 institutional clients
- $408 billion in client assets under advisement
- 98% client retention (average since 2008)

## Locations

AKRON, OH
ALLENTOWN, PA
ATLANTA, GA
AUSTIN, TX
BETHLEHEM, PA
BIRMINGHAM, AL
BOSTON, MA
CHARLOTTE, NC
CHESTERTON, IN
CINCINNATI, OH
COLUMBIA, MO
CORPUS CHRISTI, TX
DALLAS, TX
DAYTON, OH
DES MOINES, IA
DETROIT, MI
GREEN, OH
GREENSBORO, NC
GREENWICH, CT
HARRISONBURG, VA
HOLLYWOOD, FL
HOUSTON, TX
JACKSON, MS
LAKE SUCCESS, NY
LEXINGTON, VA
LOS ANGELES, CA
LYNCHBURG, VA
MINNEAPOLIS, MN
MONTGOMERY, AL
NEW YORK, NY
ORLANDO, FL
PHILADELPHIA
DOYLESTOWN, PA
PHOENIX, AZ
PORTLAND, ME
RALEIGH, NC
RICHMOND, VA
RICHMOND-GLEN
ALLEN, VA
RIVERSIDE, CA
ROANOKE, VA
PHOENIX, AZ
SALT LAKE CITY, UT
SAN ANTONIO, TX
SAN RAMON, CA
SANTA BARBARA, CA
TAMPA, FL
WASHINGTON, DC
WILMINGTON, DE
WILMINGTON, NC

# CAPTRUST NAMED #1 U.S. ADVISORY FIRM FOR FIFTH CONSECUTIVE YEAR



The July 2020 issue of *Financial Advisor* magazine ranked CAPTRUST number one* among registered investment advisors (RIAs), making it our fifth year to achieve this distinction.

CAPTRUST Managing Director and Head of the Advisor Group Wilson Hoyle shares that firms like CAPTRUST that are withstanding the recent economic downturn are reinvesting in their business, especially technology. "I can assure you that other firms that aren't as durable are not looking to grow, they're looking to just sustain."

# ABOUT CAPTRUST: SERVICE TEAM

Financial Advisor

**Lisa Ivie Miller, AIF® – Principal | Financial Advisor**

Lisa joined CAPTRUST from South Texas Money Management in 2019. A native of Amarillo, Ms. Miller received her Bachelor of Science degree from West Texas A&M University and her Master of Science degree from Sam Houston State University. She worked for the late state senator Teel Bivins of Amarillo in his district and Capitol offices for seven years before beginning her career in governmental relations for a statewide firefighters' association and then for the law firm Hance Scarborough, LLP. In 2004, Governor Rick Perry appointed her to serve as the state's 7th firefighters' pension commissioner, a position she held until joining South Texas Money Management in late 2010.

Financial Advisor

**Madelon Leone, CFA® – Principal | Financial Advisor**

Madelon joined CAPTRUST from South Texas Money Management in 2019. She serves as a principal and financial advisor responsible for providing comprehensive wealth management to high-net-worth investors and corporate executives. Prior to joining the firm, Madelon served as a senior vice president, partner, and relationship manager at South Texas Money Management. She earned her Bachelor of Business Administration degree in finance from Texas A&M University.

Financial Advisor

**Michelle Scarver, CPA®, PFS – Vice President | Financial Advisor**

Michelle joined CAPTRUST from South Texas Money Management in 2019. She serves as a vice president, financial advisor responsible for providing comprehensive wealth management to high-net-worth investors and corporate executives. Prior to joining the firm, Michelle served as senior vice president and relationship manager at South Texas Money Management. She earned her Bachelor of Business Administration degree in accounting from Texas A&M University.

Investment Research

**Benjamin Napier, CFA® – Senior Manager**

Benjamin joined CAPTRUST from South Texas Money Management in 2019. He serves as a senior manager within the investment research group and is responsible for evaluating outside investment management organizations via qualitative interviews and statistical analysis. Prior to joining the firm, Benjamin served as executive vice president and director of manager research for South Texas Money Management. He earned his Bachelor of Business Administration degree in finance from Southern Methodist University and a Master of Business Administration degree in finance from Texas A&M University. Benjamin has been actively involved in managing investment portfolios for over 20 years.

# ABOUT CAPTRUST: INVESTMENT TEAM

Investment Research

**Christian Ledoux, CFA® – Director**

Christian joined CAPTRUST from South Texas Money Management in 2019. He serves as a director within the Consulting Research Group and specializes in equity research and portfolio management. Prior to joining the firm, Christian served as chief investment officer for South Texas Money Management, where he provided leadership, performance, and transparency to the portfolio management team and clients of the firm. He earned his Bachelor of Arts degree in business economics from the University of California at Santa Barbara.

Investment Research

**Grant Verhaeghe – Director**

Grant joined CAPTRUST in 2010 and is currently a senior director, asset-liability practice leader, responsible for leading the development of services for defined benefit plans, endowments, foundations, and other asset/liability-focused clients. Prior to joining the firm, Grant served as a vice president at Aon Investment Consulting, and he has worked in the industry since 1998.

Investment Research

**Mike Vogelzang, CFA® – Principal | Chief Investment Strategist**

Michael joined CAPTRUST from Boston Advisors in 2019. He serves as a principal and chief investment strategist focused on investment manager due diligence, asset allocation, and discretionary investment management for the firm's wealth management advisory business. Prior to joining the firm, Michael was president and chief investment officer of Boston Advisors. Before that he held senior positions with Freedom Capital Management and Shawmut Investment Management. He began his investment career at The Boston Company. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Society of Boston.

Investment Research

**Kevin Barry, CFA®, PRM – Chief Investment Officer**

As CAPTRUST's chief investment officer, Kevin leads the firm's investment team, the team responsible for investment manager due diligence, asset allocation, and discretionary investment management for CAPTRUST's institutional retirement plan and wealth management advisory businesses. He is a lifelong student of the capital markets and serves as a member of the Leadership Team. Most recently, Kevin served as chief investment officer and senior portfolio manager for Third Law Capital Management in New York. There, he developed macroeconomic investment themes, conducted fundamental security analysis, and implemented asset allocation, hedging, and risk management solutions for clients. Previously, he was a partner and portfolio manager at Caxton Associates, a global macro hedge fund. He has more than 20 years' experience in portfolio management, capital market strategy, and investment research.

# CAPTRUST'S CENTRALIZED MODEL

**Lisa Ivie Miller, AIF®**

**Galveston Police**

**Madelon Leone, CFA®**
**Michelle Scarver, CPA**

### Client Services

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

### Vendor Research

**4** dedicated professionals conducting vendor benchmarks and RFPs and performing research on the retirement plan providers our clients use

### Participant Advisory Service

**29** retirement counselors delivering personalized advice to plan participants and assisting our clients with education and communication campaigns

### Investment Research

**61** investment professionals dedicated to manager due diligence, asset allocation research, and discretionary asset management

### Practice Leadership

**8** professionals dedicated to industry research and resource direction for our defined contribution, defined benefit, nonqualified deferred compensation, and individual clients

### Advisor Group

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

### Business Operations

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

### ERISA and Plan Design Experts

**3** professionals averaging more than 20 years of retirement plan ERISA technical and plan design experience

# REPRESENTATIVE CLIENT LIST BY INDUSTRY

### Biotech and Pharmaceutical
Circassia Pharmaceuticals, Inc.
Ironwood Pharmaceuticals, Inc.
Jazz Pharmaceuticals, Inc.
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
Allscripts
Dynex Technologies
Infineon Technologies
North State Communications

### Education
Barry University
Baylor University
Duke University
Rice University
Regent University
University of Arkansas System
University of Maine System
Villanova University

### Energy
Alabama Power Company
Areva, Inc.
Central Iowa Power Cooperative
FirstEnergy Corporation
Great River Energy

### Finance and Insurance
General American Asset Management, LLC
Johnson Financial Group, Inc.
Perlmutter Investment Company, LLC
Vizo Financial Corporate Credit Union

### Food and Beverage
Boar's Head Provisions Co. Inc.
Bojangles' Restaurants, Inc.
Coca-Cola Bottling Co. Consolidated
Foremost Farms USA
Golden Corral Corporation
Herr Foods, Inc.

### Healthcare and Hospitals
Baptist Healthcare System, Inc.
Cincinnati Children's Hospital Medical Center
Duke Health System
Georgetown Hospital System
Gillette Children's Specialty Healthcare
Nicklaus Children's Health System

### Legal and Professional Services
Baron & Budd, P.C.
Gunster Yoakley & Stewart PA
Moore & Van Allen, PLLC
Wyrick Robbins Yates & Ponton LLP

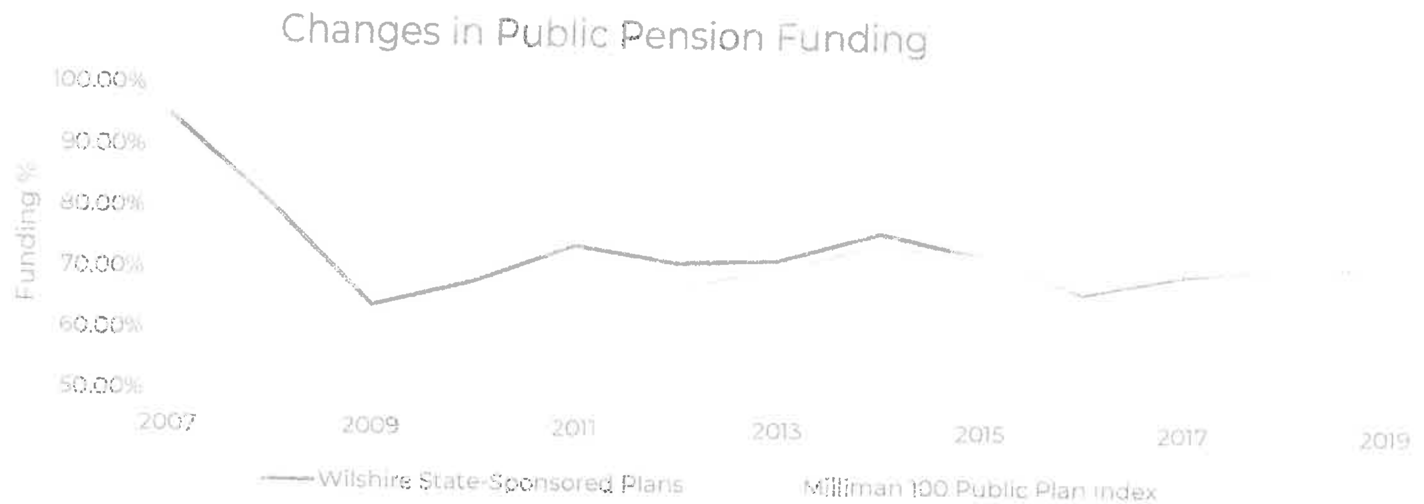
### Manufacturing
Avon Products, Inc.
Container Products Corporation
FUJIFILM Manufacturing USA, Inc.
Pella Corporation

### Public Service
Conroe Firefighters' Relief and Retirement Fund
Largo Municipal Police and Fire Retirement System
Fort Lauderdale Police and Firefighter Retirement System
Magnolia Fire Emergency Services District
San Benito Firefighters' Relief and Retirement Fund
Temple Firefighters' Relief and Retirement Fund
Weslaco Firefighters' Relief and Retirement Fund

### Retail
Dollar Tree, Inc.
Public Storage
Sheetz, Inc.
Tops Markets, LLC
The Container Store

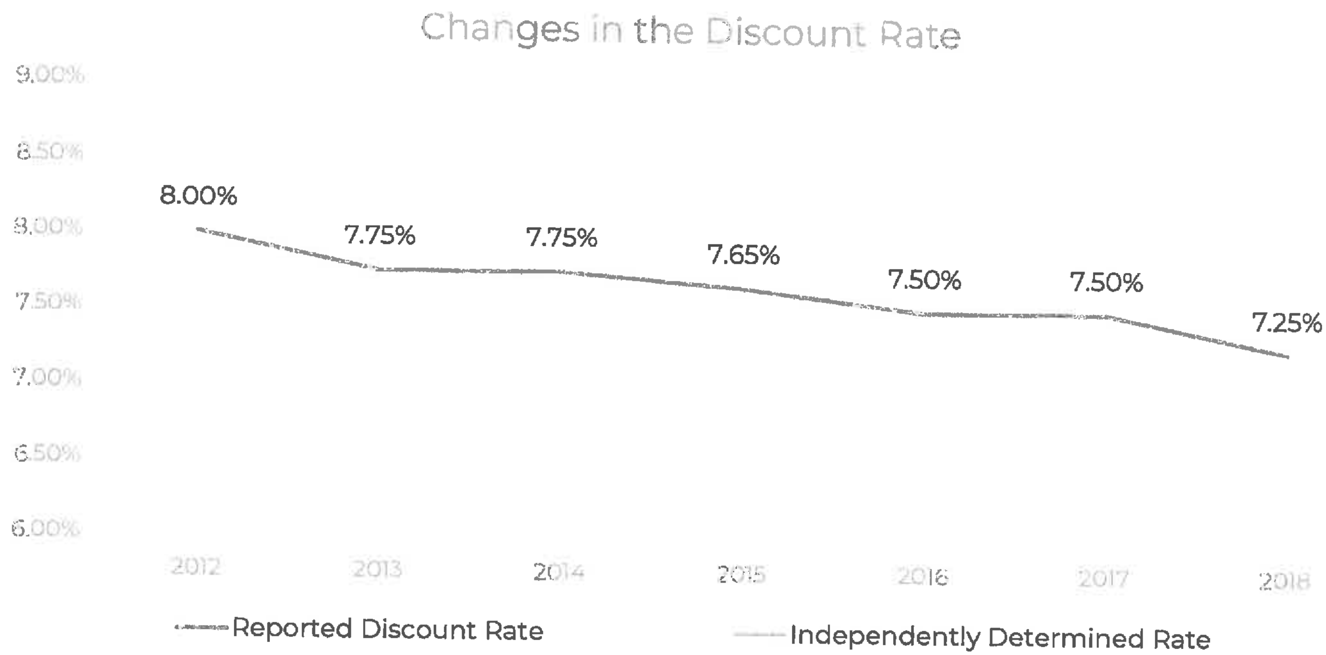
# PUBLIC PENSION LANDSCAPE

# IMPACT OF GASB 68




- The above chart illustrates the changes in funding of 131 pension plans measured by Wilshire, and the top 100 public plans measured by Milliman
- There was a steep decline in funded status after 2014 which derives from two major factors:
  - GASB 68 came into effect 6/15/2014, requiring some plan sponsors to discount liabilities using a lower discount rate
  - New RP-2014 mortality table was adopted by many plans, reflecting longer life expectancies than previously expected by RP-2000 table

# IMPACT OF GASB 68




- The median liability discount rate, now measuring long-term expected return, has shown a gradual decline since 2013.
- According to Milliman, 33% of plans studied lowered their long term-assumption from 2017 to 2018. 63% have lowered their assumption at least once since 2013.
- This reflects a widening view of declining investment returns over the next thirty years compared to historical performance.
- While long-term return assumptions have come down, they have not come down as much as Capital Market Assumptions would suggest.

*Source: Milliman 2018 Public Pension Funding Study*
*Independently-Determined rates used are derived from previous Milliman studies*

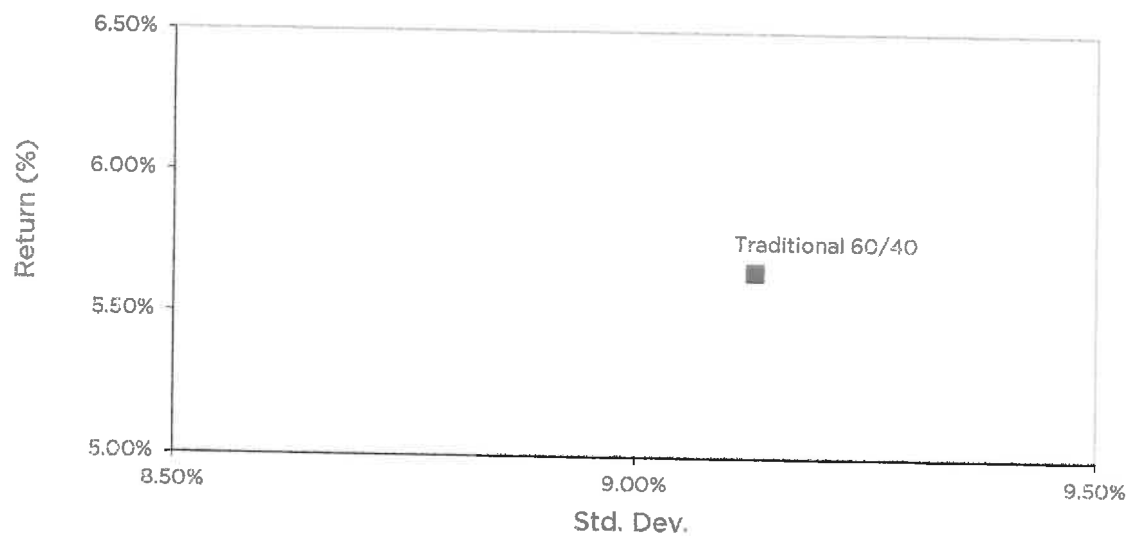
# OPTIONS TO IMPROVE FUNDED STATUS

The following are three options to improve reported funding amongst GASB pensions:

1. Re-Risk Portfolio
   - Adding more exposure to equity markets could result in a higher expected return on assets; however, could also create more volatility in the portfolio
2. Increase annual contributions
   - Increasing contributions could reduce the Net Pension Liability; however, will add expense on the balance sheet.
3. Modify discount rate
   - Raising the expected return on assets could improve the Plan's short-term funded status; however, missing the mark would amortize over the next 5 years, potentially increasing the Total Pension Liability.

# ASSET ALLOCATION - MOST IMPORTANT DECISION

Asset allocation is the primary determinant of portfolio outcomes. Care must be taken to align allocation with objectives while avoiding risk beyond tolerance.




### 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?

# CAPTRUST CAPITAL MARKET ASSUMPTIONS

| U.S. Economy | Return | Risk |
|---|---|---|
| U.S. Economic Growth (GDP) | 2.25% | - |
| U.S. Inflation (CPI) | 1.75% | - |
| **Equity Markets** | **Return** | **Risk** |
| U.S. Large-Cap Equity | 7.25% | 15.00% |
| U.S. Mid-Cap Equity | 7.50% | 17.30% |
| U.S. Small-Cap Equity | 7.50% | 19.30% |
| International Stocks-Developed Markets | 7.00% | 16.55% |
| International Stocks-Emerging Markets | 7.75% | 21.50% |
| **Fixed Income** | **Return** | **Risk** |
| U.S. Short-Term T-Bills (Cash) | 1.25% | 0.55% |
| U.S. Core Fixed Income | 2.10% | 3.40% |
| U.S. Intermediate-Term Treasury Bonds | 1.20% | 3.00% |
| U.S. Long-Term Treasury Bonds | 2.00% | 13.10% |
| U.S. Investment Grade Corporate Bonds | 3.10% | 6.15% |
| U.S. Long-Term Corporate Bonds | 3.85% | 9.40% |
| U.S. High Yield Corporate Bonds | 5.15% | 9.45% |
| U.S. Municipal Bonds | 3.40% | 4.20% |
| Global Bonds | 1.35% | 5.50% |
| Treasury Inflation-Protected Securities (TIPS) | 2.00% | 5.85% |
| **Real Assets** | **Return** | **Risk** |
| U.S. Public Real Estate | 5.75% | 20.40% |
| U.S. Core Private Real Estate | 6.00% | 12.00% |
| Commodities | 2.75% | 15.95% |
| Core Private Real Assets | 5.00% | 9.00% |
| **Strategic Opportunities** | **Return** | **Risk** |
| Core Private Equity | 9.75% | 10.00% |
| Hedged Strategies | 4.25% | 6.00% |
| Core Private Credit | 7.00% | 9.75% |

Formulating risk and return assumptions for asset classes offers investors a guide to the probable range of investment performance. These assumptions can guide the asset allocation process to meet your investment goals.

At CAPTRUST, we believe setting realistic capital market assumptions for a 7–10-year period helps manage expectations and better frame conversations for successful investment strategies.

Source: CAPTRUST Research as of May 2020

# HISTORY OF RELATIONSHIP

# HISTORY OF GALVESTON POLICE/CAPTRUST TEXAS RELATIONSHIP

Basis for review: Graystone had been the non-discretionary consultant for 20 years

| Graystone Asset Allocation 2017 | |
|---|---|
| Diversification | Over-Diversified |
| Sector Exposure | Under and Over-Weights |
| Transparency | Equities invested in mutual funds and ETF's; thousands of holdings with underlying fees; Active Fixed Income |
| Equities Passive | 60% (S&P 500 ETF, I-Shares MSCI EAFE; Vanguard Mid-Cap) |
| Fixed Income Active | 28% (Orleans, PIMCO Total Return, Legg Mason) |
| Alternatives | 10% (FBA Crescent, MFS Global, Wells Fargo Advisors (all funds < 0.70 bps) |
| Assumption | 8% |

| | |
|---|---|
| Graystone Consulting and Asset Management | 0.43 bps |
| Moody Custodial Bank | $36,000 |

# HISTORY OF GALVESTON POLICE/CAPTRUST TEXAS RELATIONSHIP

- May 2017 Board voted 9-0 to hire STMM under the Institutional Asset Management Program (IAMP) – an open architecture "Manager of Managers" program which utilizes Core Equity and Fixed Income active, fully discretionary, directly-managed strategies as foundational components of the portfolio.
    - With the Core/FI – only approach, additional managers would be added for further diversification at a later, more appropriate date.
- STMM worked with plan administrator and board to reduce custodial fees.
    - June 2017 Selected Schwab as custodian and negotiated zero trading costs for a 6-month period and no fees for custody of assets
    - Reviewed cash flow and formalized a cash management strategy.

Provided on-going support to board on legislative, actuarial and by-laws changes

September 2019 STMM merger with CAPTRUST

February 2020 discussed additional active managers for portfolio with the Investment Committee

June 2020 presented full board with overview of Texas Core changes and discussed adding managers for further diversification

| | |
|---|---|
| STMM Fee | 0.35 bps |
| Schwab Custodial Fee and Trading | 0.00 bps |

# TWO TYPES OF INVESTMENT FIDUCIARIES

## Two Types of Investment Fiduciaries

### Non-Discretionary Investment Manager

- 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

#### Investor/Trustee

- 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

### Discretionary Investment Manager

- 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

#### Investor/Trustee

- Select the asset allocation and investment policy parameters for the fund
- Monitor consultant to ensure fiduciary responsibilities are being met

# LASER FOCUSED

| 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 |

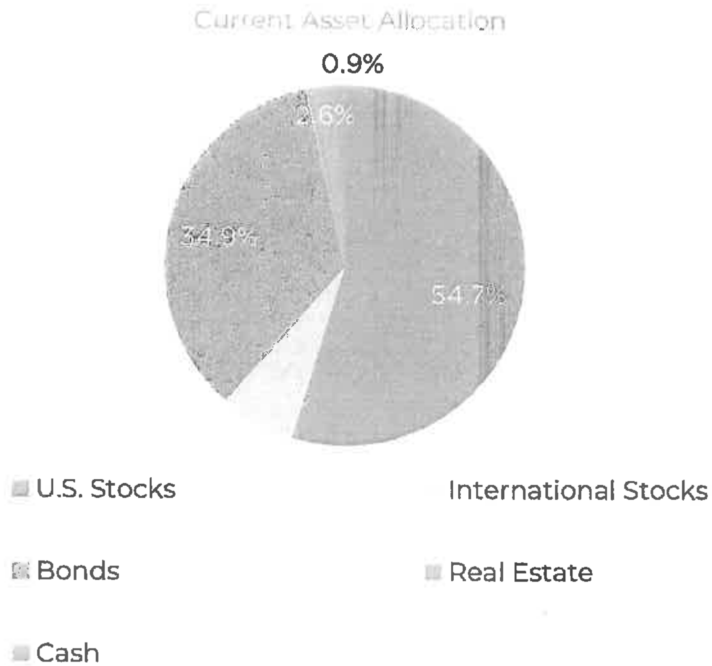
# PORTFOLIO REVIEW AND CONSIDERATIONS

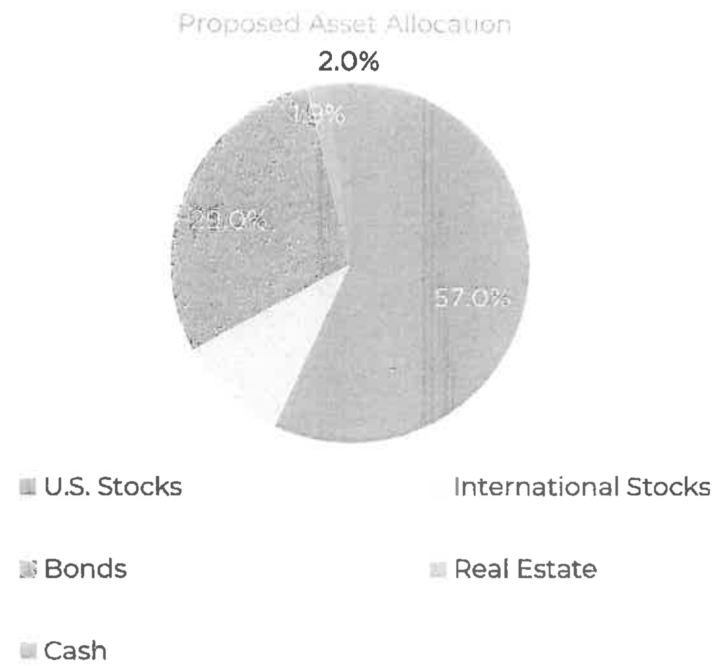
# INVESTMENT POLICY DEVELOPMENT

**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.

# DETAILED CONSOLIDATED INVESTMENTS



# THE CAPTRUST INVESTMENT EDGE

It's what
you can't see
that can hurt you.

Unlike firms that rely upon third-party reports, we conduct our research in the field with "boots on the ground" and direct access to senior portfolio managers. This approach provides valuable perspective on a fund's potential performance.

| Investment Due Diligence Calls | Portfolio Manager Interviews | Onsite Due Diligence Trips | Daily Monitoring | Stable Value/ Money Market Review |
|---|---|---|---|---|
| 3,500 annually | 300+ one-on-one visits annually | 100+ visits annually | 2,000+ Investment Funds | 50+ Products Evaluated Quarterly |

- In addition to maintaining a robust due diligence database of liability-driven investing fixed income managers, CAPTRUST investment professionals conducted 20+ interviews in this asset class alone over the past year
- With future investment earnings uncertain, CAPTRUST continuously explores capital markets to uncover new investment opportunities such as insurance-linked catastrophe bonds
- CAPTRUST works with managers to develop opportunities to profit from investment in direct real estate and private companies while maintaining the liquidity necessary to ensure benefits can be paid monthly

# MANAGER SELECTION AND DUE DILIGENCE

| | | |
|---|---|---|
| Initial Screen<br>Identify managers who meet minimum requirements of initial screen | Phase **1** | Industry Standard |
| Going beyond the Numbers<br>Quantify the path to performance success to verify factors that predicate performance consistency | Phase **2** | CAPTRUST'S Unique Approach |
| In-Depth Qualitative Analysis<br>Qualitatively stress test factors that could impede performance success to quantify risk | Phase **3** | |

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.

# RECOMMENDATION: ACTIVE/PASSIVE APPROACH

## City of Galveston Employees' Pension Plan for Police – December 17, 2020

| Account | Current | Proposal |
|---|---|---|
| **Total** | **$ 22,141,365** | **$ 22,141,365** |
| CAPTRUST Balanced 60/40 - Equity | $ 15,673,852 | $ 5,121,852 |
| CAPTRUST Balanced 60/40 - Bonds | $ 5,737,965 | $ 6,417,965 |
| CAPTRUST Balanced 60/40 - Cash | $ 729,547 | $ 149,547 |
| Schwab S&P 500 Fund | $ - | $ 5,122,000 |
| Nuance Mid Cap Value | $ - | $ 2,165,000 |
| Stephens Mid Cap Growth | $ - | $ 2,165,000 |
| Harding Loevner Intl Eq | $ - | $ 1,000,000 |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |
| -- | $ - | $ - |

| Portfolio Changes | Proposal |
|---|---|
| CAPTRUST Balanced 60/40 - Equity | $ (10,552,000) |
| CAPTRUST Balanced 60/40 - Bonds | $ 680,000 |
| CAPTRUST Balanced 60/40 - Cash | $ (580,000) |
| Schwab S&P 500 Fund | $ 5,122,000 |
| Nuance Mid Cap Value | $ 2,165,000 |
| Stephens Mid Cap Growth | $ 2,165,000 |
| Harding Loevner Intl Eq | $ 1,000,000 |
| -- | $ - |
| -- | $ - |
| -- | $ - |
| -- | $ - |
| -- | $ - |
| -- | $ - |

| Asset Class | Current | Proposal |
|---|---|---|
| Equities | 68.0% | 66.8% |
| Fixed Income | 25.9% | 29.0% |
| Cash/Cash Equivalents | 3.3% | 1.7% |
| Commodities | 0.0% | 0.0% |
| Real Estate | 2.8% | 2.4% |
| Other | 0.0% | 0.0% |
| **Total** | **100.0%** | **100.0%** |

| Region | Current | Proposal |
|---|---|---|
| United States | 86.0% | 84.2% |
| Developed | 10.0% | 13.0% |
| Emerging | 4.0% | 2.8% |
| **Total** | **100.0%** | **100.0%** |

| Market Cap | Current | Proposal |
|---|---|---|
| Large Cap | 73.0% | 69.9% |
| Mid Cap | 25.0% | 25.9% |
| Small Cap | 2.0% | 4.2% |
| **Total** | **100.0%** | **100.0%** |

| Sector | Current | Proposal |
|---|---|---|
| Communication Services | 10.0% | 9.5% |
| Consumer Discretionary | 12.0% | 9.4% |
| Consumer Staples | 7.0% | 8.2% |
| Energy | 4.0% | 2.4% |
| Financials | 14.0% | 14.0% |
| Health Care | 13.0% | 15.8% |
| Industrials | 6.0% | 8.1% |
| Information Technology | 23.0% | 23.3% |
| Materials | 5.0% | 3.1% |
| Real Estate | 4.0% | 3.5% |
| Utilities | 2.0% | 2.7% |
| **Total** | **100.0%** | **100.0%** |

# MONTHLY FLASH REPORT: SOUTH TEXAS CORE

## MONTHLY FLASH REPORT

TEXAS | NOVEMBER 2020

This monthly report is intended only for CAPTRUST clients who have given us discretionary trading authority over their investment portfolios. This report highlights market activity and portfolio characteristics, along with any portfolio actions taken as a result of our forward-looking tactical views. The opinions expressed in this report are subject to change.

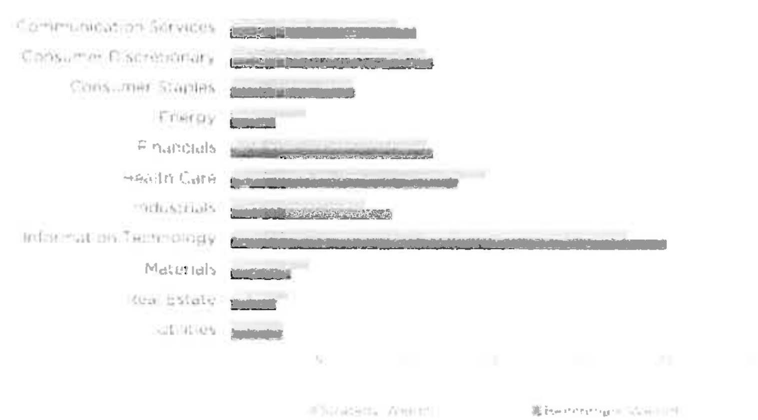
## MARKET REWIND

All asset classes posted gains in November. U.S. stocks rallied last month, driven by better-than-expected corporate earnings, positive developments on a COVID-19 vaccine, and an easing of U.S. election uncertainty. They remain the standout performer for the year. International developed stocks turned positive for the year, but they trail their U.S. counterparts due to sluggish economic growth and rising COVID-19 cases in Europe. Emerging market stocks continue to benefit from China's strong recovery and a weaker U.S. dollar.

Bonds rose slightly as interest rates remained at historically low levels. They have posted solid gains for 2020. While real estate recovered in November, it remains the laggard for the year due to concerns about the retail and office sectors. Strategic opportunities posted a modest gain for the month.

|  | November | YTD | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|---|
| **U.S. Stocks** | 10.95% | 14.02% | 17.46% | 13.21% | 14.00% |
| **International Stocks** | 13.88% | 5.56% | 10.22% | 3.87% | 7.53% |
| **Bonds** | 0.50% | 6.22% | 6.35% | 4.65% | 3.53% |

### Strategy Sector Weightings (%)




## FORWARD

Markets are focused on the deployment of a COVID-19 vaccine and the potential for further reopening of the economy next year. However, virus cases continue to rise as we enter the winter months, and another round of lockdowns is possible. In other words, the news may get worse before it gets better. Meanwhile, global central banks continue to support the economy with low interest rates and bond-buying programs. Now that the U.S. election has ended, we expect another round of fiscal stimulus in the coming months to support small businesses and consumers.

We are monitoring several other issues that could impact markets in the coming months. With a new administration set to take over in Washington, markets will be watching for policy changes. However, the balance of power in the Senate has not been decided yet. This will be critical to determine the future path of policy. Following the market's strong rebound from its lows in March, valuations are elevated, which could lead to more volatility if corporate earnings come in below expectations.

# MONTHLY FLASH REPORT: SOUTH TEXAS CORE

MONTHLY FLASH REPORT | [illegible] | NOVEMBER 2020

## Portfolio Contributors

| | NOVEMBER | |
|---|---|---|
| | Return | Contribution |
| Lam Research | 32.33% | 0.74% |
| T-Mobile | 21.33% | 0.68% |
| Devon Energy | 56.66% | 0.53% |
| Citigroup | 32.96% | 0.51% |
| SmileDirectClub | 38.20% | 0.50% |
| Raytheon Technologies | 33.01% | 0.49% |
| Broadcom | 14.85% | 0.47% |
| American Int'l Group | 22.07% | 0.46% |

## Portfolio Detractors

| | NOVEMBER | |
|---|---|---|
| | Return | Detraction |
| Tencent Holdings | -4.71% | -0.12% |
| Lowe's | -1.44% | -0.03% |
| CyrusOne | -1.60% | -0.02% |
| Utilities Sector SPDR | 0.74% | 0.02% |
| Watsco | 1.44% | 0.05% |
| Kroger | 5.03% | 0.06% |
| General Mills | 2.88% | 0.08% |
| Gilead Sciences | 4.35% | 0.08% |

## PORTFOLIO UPDATE

November was a particularly strong month for equities. The CAPTRUST Texas Core strategy gained 12.3%, outperforming its benchmark by nearly 1%. Growth stocks stalled and value stocks rallied, as hopes for a return to normalcy were kindled by successful data from two COVID vaccine makers. As we have telegraphed, we began tilting the portfolios more toward the *pandemic losers* now that a pathway to normalcy is clearer. We started in October with a reduction of our technology weighting and an increase in energy. We moved a little more in that direction in November with a trim of our overweight position in Amazon after strong year-to-date gains. With the proceeds we added to PRA Health and Gilead. Both should benefit from the end of the pandemic (as widespread drug development outside of COVID should resume).

### Increased Positions

| Name | Ticker | Sector |
|---|---|---|
| Gilead Sciences | GILD | Health Care |
| PRA Health Science | PRAH | Health Care |

### Decreased Position

| Name | Ticker | Sector |
|---|---|---|
| Amazon | AMZN | Con. Discretionary |

# NUANCE MID-CAP VALUE

| | |
|---|---|
| Tenure(s) | Since inception, 2014 |
| Quick Facts | • $2.3 billion Mid-Value Composite, $3.5 billion firm wide AUM<br>• 80% - 100% turnover (40% name turnover & 40%-60% managing weightings through trims and adds)<br>• 50 – 90 securities<br>• 7.5% maximum position size<br>• +/- 15% sector constraints around the Russell Midcap Value Index<br>• $250k minimum investment<br>• 0.80% asset-based fee<br>• GIPS compliant and verified track record by Absolute Performance Verification (March 2019) |
| History | Nuance was founded in 2008 by Scott Moore. While Scott had a very successful career with American Century prior to stepping out on his own, he was tired of overseeing tens of billions of dollars, managing the cash flows associated with big mutual funds and the singular mentality of growing assets. The two Nuance mandates will be capacity constrained at $1 billion for the concentrated strategy and $2 billion for the mid cap value. Mid Cap value is technically closed to new investors, but still available to CAPTRUST clients. |
| Ownership Structure | 100% employee owned with ownership across the senior investment and management team members. |

# NUANCE MID-CAP VALUE INVESTMENT PROCESS

### Quantitative Screening

- The universe of public companies are grouped into 68 sub-industries. These screens help identify leading business franchises by studying long-term capital spending habits, return on capital, and balance sheet strength over the prior 10-15 years. Leading businesses have less volatility in their return on capital, higher than peer average return on capital over the long-term and stronger balance sheets than their peers. They use different measures of balance sheet strength for different industries such as debt-to-EBITDAR for industrials and debt-to-total equity for utilities. They are seeking firms with strong financial strength that use leverage wisely.

### Competitive Analysis

- They are looking for firms with the wind at their backs and do not want to invest in firms that are losing market share. In doing so, they want to find businesses that have number 1 or number 2 market share positions in a specific niche industry with sustainable competitive positions. They will avoid companies that are considered in competitive transition (i.e., Xerox and Kodak in the old days, cable companies today) as past balance sheets are useless and want the company's competitive position to be sustainable with proven stability over a three-to-seven-year period.

### Financial Statement Analysis

- In performing their analysis, they are not trying to predict what is going to happen over the next quarter. The goal is to determine what are the sustainable and trough business returns on capital over time and to develop sustainable, "normal" earnings and cash flows. They want to be able to buy a company during a transitory negative event where earnings are well below normalized levels and want to buy at attractive valuations based on the normalized earnings for each company that they buy. Additionally, they want to identify potential risk items within the financial statements during this process.

### Valuation Study

- They study company specific valuations, comparable company valuations and industry takeover valuation multiples to derive a range of valuations for the company and industry. This helps them determine fair value and trough valuation targets, looking at a wide range of valuation metrics. While this is not a "deep value" approach to investing, they do want to buy during negative sentiment to get in at attractive valuations. The valuation process helps them identify upside potential and the downside risk of securities.

### Portfolio Construction

- The team seeks to buy stocks with an asymmetrical risk and return profile with minimal downside risk and good upside potential. They will typically be buying when sentiment is negative and current earnings power is below sustainable levels. The result is a portfolio of stocks with lower valuations and higher quality than the benchmark. Typically, dividend yield will be higher than the index. Stocks will be sold when they achieve or surpass the team's measure of fair value, when there are other ideas with better asymmetric risk/return profiles, or when the stock's competitive position or financial strength erodes.

# STEPHENS MID-CAP GROWTH

| | |
|---|---|
| Tenure(s) | All since inception |
| Quick Facts | • $342 million Mid Cap Growth Composite ($508mm strategy assets), $4.3 billion firm wide AUM<br>• 30% - 40% turnover<br>• 80 - 110 securities<br>• 2.5% maximum position size<br>• Sector constraints: +/- 50% around the benchmark<br>• $750,000 minimum investment. Institutional share class mutual fund available at $250,000<br>• 0.80% asset-based fee (0.89% for institutional class mutual fund)<br>• GIPS compliant and verified (Sep 2019) |
| History | Stephens Investment Management Group was formed in October 2004 by four original investment team members from AIM Capital Management. This team of four was responsible for the management of small and mid-cap growth strategies at AIM from September 1998 through August 2004. All the members of this team have been together for ten years and some have been together for over thirteen years. |
| Ownership Structure | Stephens Investments Holdings LLC, a family owned and privately held firm, owns the controlling interest in Stephens Investment Management Group. The four original team members have approximately 30% equity ownership in SIMG through phantom stock. |

# STEPHENS MID-CAP GROWTH INVESTMENT PROCESS

The **Stephens Mid Cap Growth** strategy invests in a combination of core growth companies and earnings catalyst companies. Core growth companies are high quality, established, well-managed companies with strong business franchises, with a competitive advantage within a growing market, and that exhibit sustainable, above-average revenue and earnings growth rates. Earnings catalyst companies are those with a significant positive business catalyst that may translate into accelerated earnings growth. The catalyst for change may be internal or external and may be a short or longer-term phenomena. The catalyst can lead to a period of better-than-expected revenue or earnings estimate revisions potentially leading to P/E expansion. Investors typically underestimate the magnitude and length of time that the catalyst impacts the company – a classic behavioral finance issue.

Each investment made must be supported by a well-documented, discrete investment thesis, which includes the key metrics that would confirm the thesis and metrics or events which would cause them to sell the stock. The research process includes the development of the investment thesis, finding objective, fundamental data to either support or refute the thesis, trying to identify an edge such as an informational advantage or relative experience, determining if there can be timely access to data to help monitor the thesis, determining if the distribution of outcomes is positively skewed and above consensus, and developing a meaningful sell strategy that is beyond just reacting to bad news. Once the research has been developed, the team meets to see if there is a consensus on the thesis and analysis and determines how the security might fit in with the rest of the portfolio.

The team incorporates behavioral finance into the process to take advantage of other investors' bad decisions and the market inefficiencies created as a result of those decisions. It can be used as a defensive measure to prevent them from falling into traps that other investors make or used as an offensive tool to help exploit the mistakes of others. These strategies would include identifying inflection points, approaching situations with an open mind and not anchoring to individual data points that may be preliminary, random or incorrect, and identifying situations where the potential outcomes are significantly above consensus and skewed positively. While valuation is a consideration in the process, they never initiate or eliminate a position based on value alone. Investors often miss great opportunities due to valuation fears as true growth companies can stay expensive for a long time.

Upon the purchase of any investment, the team identifies up front the criteria that will cause them to sell in order to limit their exposure to behavioral traps. Typical reasons would include the failure of the business model, a loss of competitive advantage, an exhausted catalyst, or decelerating earnings growth. Sometimes securities get sold for risk control or to maintain style purity. Other red flags that could lead to a sell are an earnings disappointment or negative earnings revision, management change, new competitors, a sell side downgrade or a major acquisition.

# HARDING LOEVNER INTERNATIONAL EQUITY

| | |
|---|---|
| Tenure(s) | Ferrill has served as the co-lead portfolio manager since 2011. Andrew joined Ferrill as the other co-lead portfolio manager in January 2019 after serving in the capacity of a paper portfolio manager since 2011. The other team members have been in support roles since 2011 and 2012, respectively. |
| Quick Facts | • $967 million composite assets, $12.9 billion in strategy assets, $73 billion total firm assets<br>• 15% average turnover<br>• 30-60 holdings<br>• 5% maximum individual security<br>• Sector weights limited to 25% at cost, industry weights at 15% maximum<br>• Individual country limits vary, with each given wide flexibility (e.g., Japan up to 40%, UK up to 30%, France/Germany/Netherlands/Switzerland up to 20%, etc...)<br>• $750,000 minimum investment<br>• 0.80% management fee<br>• GIPS compliant and independently verified separate account track record through 2018 |
| History | Harding Loevner was founded in 1989 by David Loevner and Dan Harding. Prior to forming the firm, the pair had worked for the Rockefeller Family Office. The firm is a global equity specialist, offering strategies that focus on international, international small cap, global, emerging markets and frontier markets. The firm has 35 investment professionals. |
| Ownership Structure | Harding Loevner has been 60% owned by Affiliated Managers Group, a public company, since 2009. The remaining 40% is owned by a broad group across HL's senior employees who are limited partners. Harding Loevner and each of AMG's affiliate managers operate independently from one another. |

# HARDING LOEVNER INTERNATIONAL EQUITY INVESTMENT PROCESS

Harding Loevner defines its investment style as quality growth. A company must exhibit a competitive advantage, having a strong position within an industry with a favorable global competitive structure as manifested by high and/or improving margins. The company must have a high-quality management team with a track record of successful management, especially regarding capital allocation, with a clearly articulated business strategy and a consistent regard for shareholders. Each company needs to exhibit financial strength with a business appropriate balance sheet, borrowing capacity and internal free cash flow generation. Lastly, each holding needs to exhibit sustainable growth in revenues, earnings and free cash flow

**Prospect Analysis**

Analysts to examine fundamental data on candidate companies to identify high-quality, growing companies that appear qualified for more in-depth analysis The analysts focus on quantitative metrics such as ROA, profit margins, cash flow generation, leverage, as well as the historical and anticipated growth in earnings, revenues, cash flows and assets. Qualitative factors include the competitive structure, the sustainability of their competitive advantage and the quality of the management.

**Research and Due Diligence**

The analysts dig deeper to gain a comprehensive understanding of their business models, growth potential and management quality. On-site company visits and one-on-one discussions with management are a regular component of the research process as a part of their investigation into the effectiveness of the company's leadership and the quality of its corporate governance. In 2016, the analyst team participated in approximately 1,500 company visits and/or management interviews. The team employs a Quality Assessment Framework that looks at ten factors to determine how well a company meets their quality-growth criteria. These factors focus on competitive advantages, quality management, financial strength and sustainable growth. Each company is given a score based on this rating system.

**Valuation Analysis**

A fair value is assessed using a variety of standardized methods including a multi-stage cash flow return on investment model and discounted cash flow analysis. The analyst will also establish fundamental mileposts for future business results that a company must achieve for the fair value estimate to remain valid. Lastly, the analyst will assign a rating to the stock (best buy, buy, hold or sell) based on its potential relative to the benchmark. There are approximately 325 stocks out of their universe that have been valued and rated by the analyst team using the above metrics. These are the only stocks that can be considered for investment by the portfolio management team.

The two co-lead portfolio managers are solely responsible for all buy and sell decisions for the model portfolio. Each co-lead constructs a separate sub-portfolio by selecting from the rated stocks. The two sub-portfolios are then merged to create the strategy's model portfolio. The goal is to construct a concentrated portfolio that exemplifies the firm's most compelling investment ideas while also ensuring sufficient diversification to control risk. The two paper portfolio managers also independently build a portfolio using the same guidelines, but client capital is not allocated to these paper portfolios. This provides the co-leads with alternative viewpoints of the available opportunity set and trains the paper pm's for future planning needs. A position cannot be sold without first having an in-depth conversation with the sponsoring analyst about the company's performance and its status with milepost achievement. The decision to sell or trim a position is typically make for one of the following reasons: The company is not meeting the mileposts established in the thesis, there are more attractive opportunities identified, or the holding is nearing the size limit of 5%.

# RECOMMENDATION: ACTIVE/PASSIVE EQUITIES APPROACH

## Trailing Returns

| Product Name | Q3 | YTD | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years |
|---|---|---|---|---|---|---|---|
| Schwab S&P 500 Index Fund | 8.92 | 5.57 | 15.15 | 12.25 | 14.08 | 12.60 | 13.66 |
| S&P 500 Index | 8.93 | 5.57 | 15.15 | 12.28 | 14.15 | 12.68 | 13.74 |
| | | | | | | | |
| Harding Loevner International Equity ADR Gross | 9.16 | 5.13 | 15.63 | 5.41 | 10.13 | 6.77 | 7.28 |
| Harding Loevner International Equity ADR Net | 8.99 | 4.60 | 14.85 | 4.70 | 9.37 | 6.03 | 6.52 |
| MSCI ACWI ex-US-ND Index | 6.25 | -5.44 | 3.00 | 1.16 | 6.23 | 3.18 | 4.00 |
| | | | | | | | |
| Nuance Mid-Cap Value Gross | 0.41 | -8.76 | -1.84 | 6.83 | 11.57 | 10.68 | 13.65 |
| Nuance Mid-Cap Value Net | 0.26 | -9.23 | -2.49 | 6.09 | 10.81 | 9.93 | 12.82 |
| Russell MidCap Value Index | 6.40 | -12.84 | -7.30 | 0.82 | 6.38 | 6.63 | 9.71 |
| | | | | | | | |
| Stephens Mid Cap Growth Strategy Gross | 6.63 | 17.00 | 27.07 | 19.92 | 10.70 | 14.11 | 15.93 |
| Stephens Mid Cap Growth Strategy Net | 6.50 | 17.35 | 27.22 | 19.31 | 18.04 | 13.44 | 15.18 |
| Russell MidCap Growth Index | 9.37 | 13.92 | 23.22 | 16.23 | 15.53 | 13.25 | 14.55 |

## Calendar Year Returns

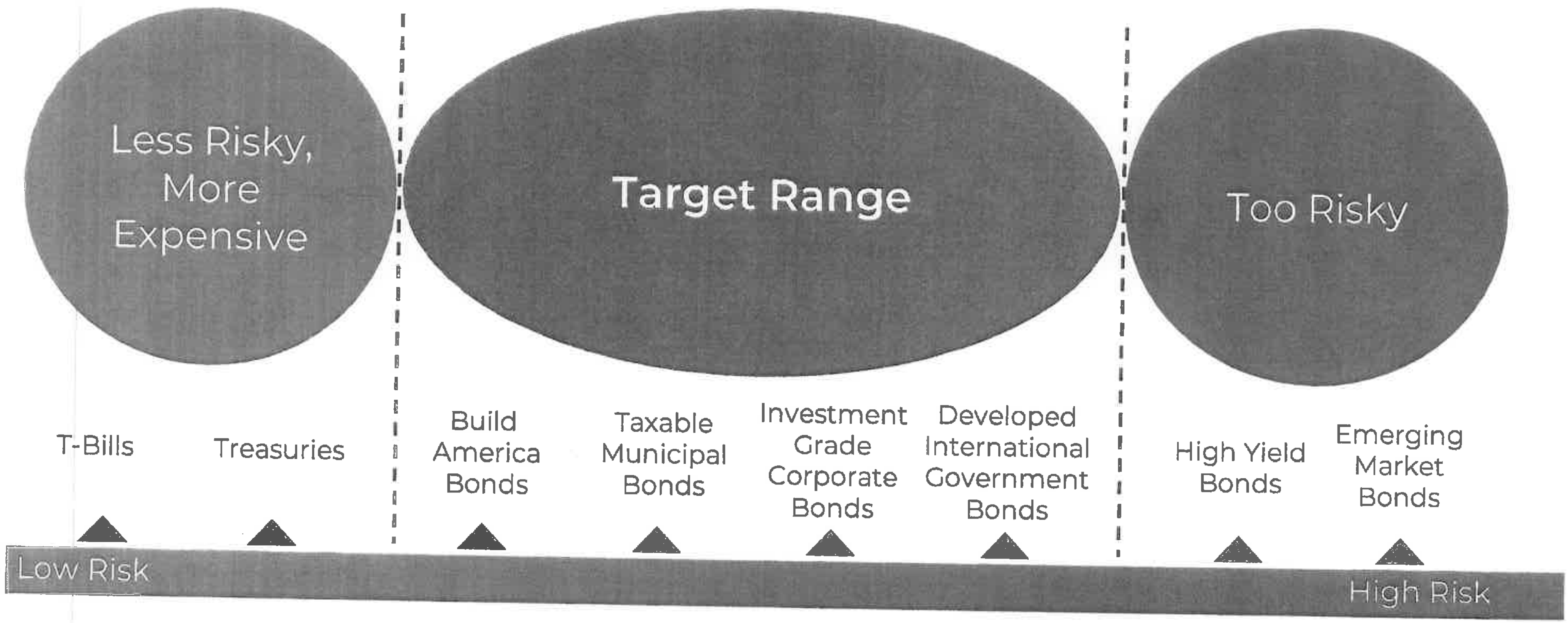
| Product Name | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Schwab S&P 500 Index Fund | 31.44 | -4.43 | 21.78 | 11.82 | 1.28 | 13.57 | 32.28 | 15.91 | 2.05 | 14.98 | 26.26 |
| S&P 500 Index | 31.49 | -4.38 | 21.83 | 11.96 | 1.38 | 13.69 | 32.39 | 16.00 | 2.11 | 15.06 | 26.46 |
| | | | | | | | | | | | |
| Harding Loevner International Equity ADR Gross | 23.58 | -13.37 | 29.67 | 4.33 | -0.61 | -0.16 | 14.93 | 19.85 | -10.43 | 16.98 | 35.76 |
| Harding Loevner International Equity ADR Net | 22.73 | -13.86 | 28.80 | 3.59 | -1.29 | -0.88 | 14.10 | 18.98 | -11.11 | 16.12 | 34.70 |
| MSCI ACWI ex-US-ND Index | 21.51 | -14.20 | 27.19 | 4.50 | -5.66 | -3.87 | 15.29 | 16.83 | -13.71 | 11.15 | 41.45 |
| | | | | | | | | | | | |
| Nuance Mid-Cap Value Gross | 32.51 | -4.19 | 16.22 | 21.86 | 2.95 | 9.79 | 35.46 | 22.01 | 4.05 | 21.07 | 38.70 |
| Nuance Mid-Cap Value Net | 31.64 | -4.88 | 15.40 | 21.05 | 2.34 | 9.13 | 34.25 | 20.61 | 3.39 | 20.01 | 38.23 |
| Russell MidCap Value Index | 27.06 | -12.29 | 13.34 | 20.00 | -4.78 | 14.75 | 33.46 | 18.51 | -1.38 | 24.75 | 34.21 |
| | | | | | | | | | | | |
| Stephens Mid Cap Growth Strategy Gross | 33.55 | 3.22 | 29.58 | 7.98 | -0.27 | 4.17 | 34.64 | 16.73 | 3.27 | 30.65 | 42.28 |
| Stephens Mid Cap Growth Strategy Net | 32.86 | 2.72 | 28.90 | 7.25 | -1.01 | 3.47 | 33.70 | 15.86 | 2.43 | 29.63 | 41.27 |
| Russell MidCap Growth Index | 35.47 | -4.75 | 25.27 | 7.33 | -0.20 | 11.90 | 35.74 | 15.81 | -1.65 | 26.38 | 46.29 |

# FIXED INCOME STRATEGY

**Allocation to fixed income helps to dampen equity market volatility**

- We build fixed income portfolios primarily with individual bonds. This helps create a predictable stream of income.
- Our extensive broker-dealer network provides access to the new issue bond market. New issue bonds often price at higher yields than bonds trading in the secondary market.
- Independent credit analysis is completed internally by the team to reduce the risk of bond defaults.
- We supplement individual bond positions with exchange-traded funds and mutual funds.
- Including funds in the portfolio improves diversification, liquidity, and provides potentially higher yielding opportunities.

# CAPTRUST | TEXAS FIXED INCOME RISK CONTINUUM

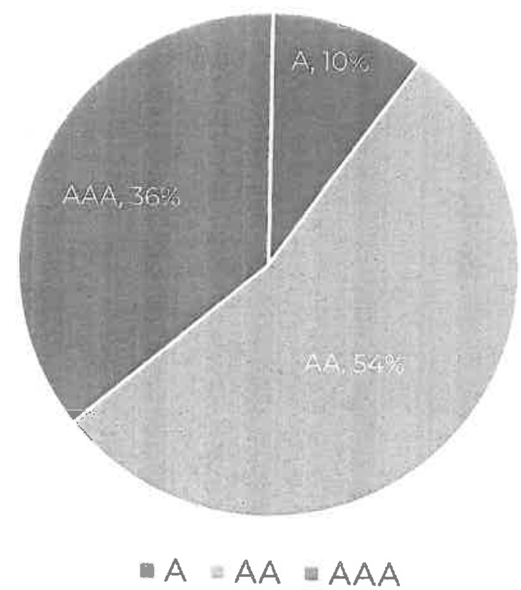



The risk continuum represents CAPTRUST Texas's investment criteria for taxable fixed income and may be subject to adjustment.

# FIXED INCOME 2020

| Fixed Income Portfolio Characteristics | |
|---|---|
| Average Years to Maturity | 4.22 |
| Average Coupon | 2.95% |
| Average Yield to Maturity | 2.30% |
| Modified Duration | 3.77 |
| Number of Issues | 31 |

Fixed Income Quality




This presentation is for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. CAPTRUST does not render legal, tax or accounting advice. This information has been compiled using data from sources believed to be reliable but cannot be guaranteed to be accurate or complete.

# OPTION: PASSIVE APPROACH

| Asset Class | Investment Name | Ticker | Value | % Assets | Total Cost Expense Ratio % | $ |
|---|---|---|---|---|---|---|
| Cash | Cash | -- | $95,000 | 0.5% | -- | -- |
| Fixed Income | Fidelity® US Bond Index | FXNAX | $5,671,500 | 29.9% | 0.03% | $1,418 |
| US Equity | Fidelity® 500 Index | FXAIX | $6,753,055 | 35.5% | 0.02% | $1,013 |
| US Equity | Vanguard Value ETF | VTV | $741,076 | 3.9% | 0.04% | $296 |
| US Equity | Vanguard Growth ETF | VUG | $1,028,243 | 5.4% | 0.04% | $411 |
| US Equity | Schwab Small Cap Index | SWSSX | $370,538 | 2.0% | 0.04% | $148 |
| US Equity | Vanguard Small-Cap ETF | VB | $370,538 | 2.0% | 0.05% | $185 |
| International Equity | Fidelity® International Index | FSPSX | $2,779,035 | 14.6% | 0.04% | $973 |
| International Equity | Fidelity® Emerging Markets Idx | FPADX | $1,191,015 | 6.3% | 0.09% | $1,024 |
| Total | | | $19,000,000 | 100.0% | 0.03% | $5,469 |

*Investment managers and fulfillment allocation is likely to change.*

| | | |
|---|---|---|
| CAPTRUST Fee | 0.28% | $53,200 |
| **Total Cost:** | **0.31%** | **$58,669** |

| | |
|---|---|
| Return | 5.72% |
| Risk | 10.92% |
| Sharpe Ratio | 0.41 |

# SUMMARY OF FEES AND ESTIMATED EXPENSES

For Institutional Use Only

Approximate Portfolio Investment Management Fee

| Asset Class | Current Portfolio | Recommendation | Passive Option |
|---|---|---|---|
| Global Equity | -0- | 0.20% | 0.03% |
| Fixed Income | -0- | -0- | 0.03% |
| Weighted Investment Mgt Fee | **-0-** | **0.20%** | **0.03%** |

Advisory Services Fee (CAPTRUST)

| Assets | Current Fee | Proposed Fee | Proposed Fee |
|---|---|---|---|
| Current Portfolio | **0.35%** | **0.28%** | **0.28%** |

| Estimated Annual Total Fee | Current Total Estimate | Recommendation Total Estimate | Passive Option Total Estimate |
|---|---|---|---|
| Investment Management (weighted) | -0- | 0.20% | 0.03% |
| Advisory Services Fee (consulting) | 0.35% | 0.28% | 0.28% |
| **Total Estimated Cost** | **0.35%** | **0.48%** | **0.31%** |

# OUR UNIQUE VALUE PROPOSITION

**With 34 years of continuous focus, learning, and reinvestment, we have developed compelling resources and expertise that we can translate into effective advice for our clients.**

as of 06/30/2020

### Aligned Interests

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

### Unique Perspective

- Depth of resources
- Industry leverage

### Proven Results

- 3,500+ due diligence calls annually and 350+ on-site interviews
- 358 service/fee benchmarking projects conducted in 2019
- More than 3 million institutional plan participants across all 50 states
- CAPTRUST currently serves 14 public service clients, representing approximately $1.2 billion in assets under advisement

# CONCLUSION AND NEXT STEPS

- According to CAPTRUST's Capital Market Assumptions, neither the Current Portfolio nor the IPS targets are expected to meet the Actuarial Return Assumption of 7%. An allocation needed to meet these return expectations may not align with the risk tolerance of the board.
- The proposed equity portfolio structure enhances the diversification within the equities through the addition of dedicated active mid-cap and international equity sleeves while also providing an indexed portion for additional low cost, broad based exposure.
- The proposed asset allocation structure increases the equity exposure by approximately 5% which modestly increases the expected return for the portfolio using the CAPTRUST Capital Market Assumptions.
- The overall fee structure increases slightly due to the addition of the new managers but should be offset by the alpha that those managers have been able to generate historically.
- Next steps: Determine discretionary or non-discretionary relationship; approve the CAPTRUST agreement; set-up additional custodial arrangements for selected managers; transition the assets over to those newly selected managers; full review of 2014 Investment Policy Statement.

# CONTACT US


## LISA IVIE MILLER, AIF®

**Principal | Financial Advisor**

5000 Plaza on the Lake, Suite 170
Austin, TX 78746
Lisa.Miller@captrust.com

## MADELON LEONE, CFA®

**Principal | Financial Advisor**

700 N. St. Mary's St,  Suite 100
San Antonio, TX 78205
Madelon.Leone@captrust.com

## MICHELLE SCARVER, CPA

**Vice-President | Financial Advisor**

700 N. St. Mary's St, Suite 100
San Antonio, TX 78205
Michelle.scarver@captrust.com


For more information about our firm, please visit our website for plan sponsors, captrust.com, or contact us toll-free at 800.216.0645.

As retirement specialists, we welcome the opportunity to design a customized program to ensure that you effectively meet your fiduciary obligations, efficiently manage your corporate assets, and successfully prepare your loyal employees for a comfortable retirement.

# APPENDIX

Presentation of Retirement Advisory Services

# CAPTRUST | TEXAS INDUSTRY INVOLVEMENT, LEADERSHIP AND ACCOLADES

CAPTRUST is a frequent speaker, panelist, sponsor, and attendee at national and regional events and has been asked to testify before the Department of Labor regarding retirement plan issues.

## Industry Leadership

- Published target date position paper in coordination with the Wharton School of Business
- Panelist on Investment Committee Institute's Target Date Funds Seminar
- Contributors to U.S. Government Accountability Office studies
- Member of the Retirement Advisor Council, an advocacy group whose membership is limited to 75 retirement plan advisors and advisory firm practice leaders
- Founding member of the National Association Plan Advisors (NAPA)
- Provided retirement-related testimony to the House Committees on Ways and Means and Education and Labor

## CAPTRUST Texas Industry Awards and Accolades

- South Texas Money Management (CAPTRUST Texas) named to *Barron's* Top Financial Advisors by State – 2019
- South Texas Money Management (CAPTRUST Texas) named to *Barron's* Top 100 Independent Advisors – 2017, 2018
- Jeanie Wyatt, CFA® and South Texas Money Management (CAPTRUST Texas) named to *Barron's* Top 100 Women Financial Advisors – 2016, 2018
- South Texas Money Management (CAPTRUST Texas) named to *Financial Times* Top 300 RIA Firms – 2017
- *Financial Planning* named South Texas Money Management (CAPTRUST Texas) as one of the Top 150 RIA Leaders – 2017
- Lisa Ivie Miller is an active member, committee member and presenter at the Texas Association of Public Employee Retirement Systems
- Lisa Ivie Miller is a presenter and conference organizer of the Texas Local Firefighters' Retirement Act (TLFFRA) Foundation Conference
- Lisa Ivie Miller is a founder and presenter of the TLFFRA Peer Review Training

### Select Industry Involvement

*PLANSPONSOR* National Conferences

*Institutional Investor* DC Forums

Plan Sponsor Council of America

Department of Labor/IRS Joint Sessions

*Pensions & Investments* DC Conferences