Introduction to Our OCIO Investment Process:

Building Long-Term Portfolios

In today's rapidly evolving investment landscape, institutional investors are increasingly relying on outsourced chief investment officer (OCIO) services to meet their long-term investment goals and objectives. Our OCIO investment team is committed to delivering multi-asset class solutions that add value for our clients through asset allocation and manager selection, disciplined portfolio construction, and rigorous governance. We will explore our portfolio construction process in a three-part series. This first thought piece details our investment philosophy that guides the portfolio construction process.

The Four Pillars of Our Investment Process

Our OCIO investment process aims to deliver long-term performance within a multi-asset portfolio using a disciplined investment process, while meeting a client's mission, objectives, and risk considerations.

The four pillars of our investment process include:

1. Rigorous Governance

Proper oversight and disciplined processes are essential to meet return goals, manage investment risk, and adapt to dynamic market conditions. Our governance framework is anchored by our OCIO Investment Committee and supported by specialized working groups for portfolio construction and manager selection that provide recommendations for the Investment Committee to review and consider. This governance structure ensures rigorous review, accountability, and continuous improvement at every stage of the investment process.

OCIO Investment Committee: The OCIO Investment Committee is the central decision-making body overseeing portfolio strategy, asset allocation, manager selection, and risk management. The eight voting members of the Investment Committee bring diverse institutional investment credentials and experience to our investment process. All major portfolio decisions, whether related to asset allocation, manager selection, or portfolio positioning, are made collaboratively, drawing on the collective insights and diverse backgrounds of committee members.

Portfolio Construction Working Group (PCWG): The PCWG focuses on short- and long-term portfolio construction inputs including tactical asset allocation decisions and portfolio implementation practices, ensuring the alignment of investment decisions with client objectives and needs.

Manager Selection Working Group (MSWG): The MSWG is responsible for conducting ongoing due diligence, research, and oversight of external investment strategies across both active and passive solutions.

This multi-layered approach ensures both breadth and depth in oversight, along with the ability to vet portfolio related decisions twice as a part of the governance process.

2. Asset Allocation Framework

Our disciplined portfolio construction process emphasizes long-term strategic asset allocation as the primary driver in long-term returns with opportunities to employ tactical asset allocation selectively and in measured degree to add incremental value over time.

Strategic Asset Allocation: Our asset allocation process defines the allowable asset classes that a client's portfolio is invested in to meet their long-term risk and return goals. For clients seeking to generate long-term returns, we complete a strategic asset allocation study that incorporates our Capital Markets Assumptions to estimate portfolio expected return and risk characteristics over intermediate and long-term time horizons.

Our strategic asset allocation framework combines investing across equities, fixed income, listed real assets, and alternatives including private capital strategies using return and risk expectations derived from our Capital Market Assumptions to align portfolios with client return requirements and risk tolerances. The underlying building blocks of our strategic asset allocation framework will be expanded upon in the next part of this series.

Tactical Asset Allocation: As a part of our ongoing portfolio construction process, we consider tactical asset allocation opportunities based on current macroeconomic and market conditions. Tactical asset allocation refers to deviations in asset allocation from strategic asset allocation targets implemented at the primary asset class or sub-asset class level. The objective of tactical asset allocation is to take advantage of relatively infrequent market dislocations and mispriced asset classes on a short to intermediate term basis (generally, six to 18 months). An example would include our underweighting equity exposure while overweighting fixed income exposure versus strategic targets during the early 2020 COVID market sell-off to protect capital during a period of increased macroeconomic and market uncertainty.

Tactical asset allocation decisions are continuously re-evaluated to ensure that the portfolios reflect the Investment Committee's best thinking at that point in time. The committee and working groups meet regularly to review economic and macro information, monitor changing market conditions, and execute timely adjustments.

3. Vehicle Selection Process

Portfolio construction across asset classes is determined through a vehicle selection process that is focused on identifying active or passive fund vehicles to reflect a desired exposure within the portfolios. Our views on the efficiency of the asset class and the opportunity for active management to outperform will determine the split between active and passive strategies within an asset class. For example, we allocate predominantly to passive vehicles for domestic large-cap exposure due to higher efficiency and lower frequency of active manager outperformance while we allocate to active strategies for domestic small cap exposure due to better prospects for active managers to outperform over time.

When selecting vehicles for passive exposures, we seek to triangulate the three objectives of lower cost, low tracking error to the index, and high vehicle liquidity. For active strategy implementation, our manager research team follows a disciplined approach to identify managers that are expected to add alpha over the long term. Our process focuses on the 4P's as noted below:

Parent and Firm: We review the organization's history and ownership, infrastructure, and growth of clients and assets over time.

People: We evaluate the personnel on the investment team and the firm's management. This includes their individual and collective investment experience and education, tenure and turnover, as well as compensation structure.

Investment Process: We consider investment

philosophy, buy and sell discipline, portfolio construction process and risk management process, portfolio characteristics, style drift, and strategy growth or decline.

Performance and Portfolio: We review the calendar and rolling returns, volatility (standard deviation), active return (excess return), active risk (tracking error), Sharpe Ratio, Information Ratio, factor exposures, upside and downside capture ratios to determine upside potential and downside protection, attribution, and style tilts.

We will expand upon our manager selection process and criteria in part three of this series.

4. Portfolio Implementation Process

Our portfolio implementation process integrates our asset allocation and vehicle selection disciplines with client-specific objectives, goals, restrictions, and sensitivities. Our Client Portfolio Managers represent a critical resource in our portfolio construction process to ensure specific client objectives, goals, restrictions, organizational missions, and sensitivities are met.

Some examples of client-specific needs that we commonly incorporate include all-passive implementation, liability-driven investing for corporate pension plans, and socially responsible investing (SRI) or minority and women owned manager allocation (MWBE) mandates.

Portfolio rebalancing is also a critical aspect of our portfolio implementation practice. We do not follow a time-period based rebalancing practice. Instead, our trading team constantly monitors portfolios for deviations with established targets (strategic and tactical) with rebalancing decisions reviewed by the PCWG and Investment Committee as portfolio drift thresholds are reached.

Conclusion

Our OCIO business is dedicated to delivering strong results for our clients by leveraging a rigorous governance structure, disciplined portfolio construction practices, and a disciplined portfolio implementation process. By harnessing the diverse experience of our investment team, our Investment Committee aims to design client portfolios to achieve their long-term objectives in an ever-changing investment environment.

If you have any questions about this report, please contact your relationship manager.

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