U.S. Bank Institutional Portfolio Management

U.S. Bank assumes fiduciary duty for the assets we manage. U.S. Bank, and the investment managers with whom we work, are bound to highly ethical fiduciary standards. Our philosophy includes our role as an unbiased, fiduciary investment advisor and custodian. Your portfolio will be managed within the framework of your investment policy statement and will reflect the research that U.S. Bank employs.

Investment Philosophy

At U.S. Bank, we believe our job is to help improve your odds of financial success. Our goal is to produce consistent, long-term investment results that meet or exceed our clients' expectations.

Our investment process centers on a highly collaborative approach:

- Asset allocation research, conducted by our Capital Markets Group
- Vehicle assessment and selection by our traditional and alternatives due diligence teams
- Institutional investment management, asset allocation and vehicle selection provided by the Institutional Investment Oversight Committee
- Portfolio construction implemented by your portfolio manager

Investment policy review and development

At the onset of an investment relationship, we have a dialogue with staff and other key stakeholders to gain a better understanding of your time horizon, return objectives, risk tolerance, income and liquidity needs, and any unique constraints or needs that you may have. We review your existing investment policy statement (IPS) to ensure that it properly reflects your objectives for risk and return and that it is based on realistic assumptions.

We will determine whether the document is comprehensive and flexible enough and if it contains internal inconsistencies. We will pay close attention to issues relating to asset allocation and investment style, as well as the benchmarks and standards set forth for evaluating performance. If needed, modifications to the IPS will be recommended. U.S. Bank believes that the IPS is a living document and should be reviewed and positively affirmed by key stakeholders at least annually.

Portfolio construction

Portfolio construction involves combining asset classes to populate investment portfolios. Our portfolio construction process involves reflecting on our economic outlook, assessing the strategic asset allocation output and engaging with our due diligence teams for their views on how to best represent asset classes we want to include, to ensure we capture our target risk premia.

Research and manager selection

U.S. Bank employs a manager platform that includes Separately Managed Accounts (SMAs), mutual funds and exchange traded funds (ETFs) from strategically selected outside managers, who are fully researched and vetted by a separate team of investment professionals. This robust selection process provides you with access to managers who specialize in specific asset classes and styles of investing, providing diversification to your portfolio. Our due diligence process ensures that we provide managers who consistently adhere to their stated investment guidelines and provide style-consistent performance.

We use a combination of proprietary and non-proprietary databases for our research. No managers are charged for inclusion. We subscribe to multiple databases (Morningstar, Factset, ETF.com and Bloomberg) to have robust coverage of funds, SMAs and ETFs. When we are interested in finding a new strategy, we have upwards of 30,000 products available. This approach allows us a truly scan-the-universe perspective from which we can apply qualitative and quantitative research to find strategies of interest.

We also emphasize intensive research practices to stay aware of crucial information and trends that may impact investment portfolios. Our investment practices are the result of an objective analysis of global markets and economies and available investment strategies. At U.S. Bank, you access relevant, objective, unbiased and market-responsive portfolio oversight which produces a strong investment solution.

Our Investment Strategy Committee meets weekly to discuss market and global policy events and to share key insights regarding the economy and capital markets (e.g., equities, fixed income, and real assets). Each group member presents their outlook on such things as:

- Domestic, developed foreign and emerging economies
- Inflation
- Domestic and global interest rates
- U.S. dollar relative to major currencies
- Federal Reserve and Central Bank target rates

Due diligence process

Our Due Diligence team utilizes a carefully developed, well-defined, and deliberate research process in selecting managers. Our initial four-step review is critical in helping to narrow down a broad range of potential options to a manageable number of quality choices that offer optimum potential for clients with various investment objectives. There are checkpoints in place through every step that solidify this investment process. Once managers are identified and selected for our platform, their ongoing performance and other management attributes are constantly monitored.

The due diligence professionals assess the track records of manager candidates, as well as other factors that require scrutiny:

Due diligence research factors
Quantitative factors
Performance history — reviewing the manager's track record in terms of absolute returns, relative returns, risk-adjusted returns and alpha — performance volatility versus its benchmark.
Assets under management — determining if the firm and the specific portfolio being considered has sufficient assets under management to properly diversify investment risk.
Strength of firm — typically, managers must have at least a five-year track record to be considered.
Qualitative factors
Purpose — the manager's investment objective and how it is achieved. We prefer managers who own a limited number of positions within a portfolio and that manager turnover carefully in order to limit tax implications for non-qualified investments.
Philosophy — how market prices, investor behavior, security valuation and other factors influence the manager's investment strategy. Taking the time to understand the thinking behind an investment approach is critical to determining how appropriate a manager is for our platform.
Process — the degree of conviction the manager has around the investment approach being used today. The goal is to assure that a level of consistency can be expected. We also review the factors that might justify a decision by the manager to alter their process.
People — assuring that those making day-to-day investment decisions have the experience necessary to execute and adhere to the process. Typically, we seek managers or management teams that have been in place for five years. They should be backed by a stable, experienced investment staff. Our internal team and third-party partners conduct candid and consistent interviews with each candidate firm to assure that objective standards are met. The goal is to identify managers that meet the defined investment directive and have convinced us that their capabilities match our investment standards.

Step 1: Define an investment directive

A critical starting point is to identify the specific investment directive that is to be fulfilled through the search process. Understanding the specific objectives and other parameters help lay the groundwork for a focused search process. Among the factors that help define additional steps of the due diligence process are:

- Investment objectives—capital appreciation, current income, etc.
- Asset class—mid-cap value, low-grade bonds, emerging market stocks, etc.
- Potential investment vehicles—mutual funds, separately managed accounts, exchange traded funds (ETFs), etc.
- Style characteristics desired in selected managers.
- Risk and return attributes that should be evident.
- Desired management approach related to factors such as how the investment is structured in comparison to its benchmark and the manager's security selection process.

Specifying this level of information related to the desired investment directives can significantly streamline the selection process and help match potential managers to the defined investment needs of our clients.

Step 2: Identify candidate firms to be studied

Using the specific direction identified in step one as a guideline, a rigorous search process begins. Potential candidates for consideration into our investment platform are identified using various industry databases as well as other industry sources and contacts that we have established over the years.

We can also compare broad information about the manager to our own selection criteria to help fine tune our screening process. In a typical search, 10 or more potential investment managers may be identified for more thorough examination in the next phase of the due diligence process.

Step 3: Assess quantitative and qualitative factors

The screening process continues by assessing the track records of manager candidates, as well as other factors that require more careful scrutiny by our due diligence professionals.

Quantitative Factors - a review of the record of the investment manager is often the first screen included in the process. This is particularly true when we study investment categories that have a large number of managers to choose from. The factors reviewed include:

- Performance history: Reviewing the manager's track record in terms of absolute returns, relative returns, risk-adjusted returns and alpha—performance volatility versus its benchmark.
- Assets under management: Determining if the firm and the specific portfolio being considered has sufficient assets under management to properly diversify investment risk.
- Strength of firm: Typically, managers must have at least a five-year track record to be considered, although some exceptions are made.

Qualitative Factors - effective due diligence process goes well beyond the numbers to look at other characteristics that meet our established criteria and match the specific investment directives identified in Step 1. Among the key aspects we consider are:

- Purpose: The manager's investment objective and how it is achieved. Generally, we prefer managers whose position sizes and turnover are consistent with the level of information in the process within a portfolio.
- Philosophy: How market prices, investor behavior, security valuation and other factors influence the manager's investment strategy. Taking the time to understand the thinking behind an investment approach and whether it offers competitive advantage is critical to determining how appropriate a manager is for our platform.

- Process: The unique aspects of the investment approach being used today. The goal is to assure that the firm should be able to execute its philosophy well and with ongoing consistency. We also review the factors that might justify a decision by the manager to alter their process.
- People: Assuring that those making day-to-day investment decisions have the experience necessary to execute and adhere to the process. Typically, we seek managers or management teams that have been in place for five years. They should be backed up by stable, experienced investment staff. Our internal team conducts candid and consistent interviews with each candidate firm to assure that objective standards are met. The thoroughness of this and the process step is at the heart of what makes our due diligence efforts matter. The goal is to identify managers that meet the defined investment directive and have convinced us that their capabilities match our investment standards.

Step 4: Identify and approve final candidates

After collecting all pertinent information on each potential management candidate, the Due Diligence team makes final recommendations to the Investment Management Executive Committee. This group carefully reviews all data and insights presented to it, questions the Due Diligence team and makes a final judgment on whether a specific manager meets our quality standards. Only after careful review and discussion by the committee will managers be added to the platform. It is important to note that managers are never selected by default. If no manager fits the investment directive or meets other criteria, then no manager will be recommended for the platform.

The frequency of in-house or on-site visits depends upon the manager’s philosophy and process. For instance, a more active manager with a small management and ownership base would warrant more office visits than an index fund managed by a very large, publicly traded firm. We will vary the face-to-face meetings based upon need.

Each manager is monitored and classified in one of the following four categories based upon information received by the U.S. Bank Asset Management Committee.

Recommended List

A manager resides in this category if they have been approved by the Asset Management Committee. This status indicates that there are no unexpected performance issues or structural issues with the firm or the investment management team. No extraordinary steps need to be taken.

Watch List

This is the status for those managers that have short-term issues. Typical issues that will prompt adding a manager to the Watch List include:

- Three consecutive, or three out of four quarters, of significant underperformance relative to the product’s benchmark, adjusted for style issues, as set out in the manager selection process
- Extreme performance in any quarter that might be indicative of style drift or other process breakdowns
- Investment personnel turnover for which the Asset Management Committee is generally comfortable with but for which U.S. Bank wants to watch more carefully for three to six months

The most likely course of action will be to review the manager for one additional quarter before placing it back on the Recommended List. No manager will be on the Watch List for more than two consecutive quarters. At the end of two quarters, the manager must be moved back to Recommended status, moved to the Hold List or terminated.

When one or more of these issues arises, the Asset Management Committee will be notified before the internal monthly meeting is held. The issue will be addressed at the meeting, and parameters will be established to define whether the manager is to be placed back on the Recommended List, moved to the Hold List or recommended for termination.

Client accounts may remain with the manager in question, and new accounts may be added cautiously. The Asset Management Committee will increase the scrutiny applied to each manager on the Watch List as follows:

- Discuss the issue at hand with the portfolio manager/investment consultant and set clear causation; identify any process or operational changes needed in response to the issues; determine expectations for the coming quarter (these expectations will be communicated in writing, either at the Asset Management Committee meeting or as soon as is practicable)
- The manager will be notified of the change in status.
- Have at least one conversation with the portfolio manager/investment consultant between the time of the Asset Management Committee meeting and the end of the quarter
- Follow up with the manager following the end of the next quarter to address the specific issues

Hold List

A manager will be put on the hold list when there are more significant issues. These issues are considerable enough for the Asset Management Committee to recommend that no additional accounts be opened with the manager until the issues are resolved, and include:

- Changes in the portfolio outside of the firm guidelines
- Unanticipated and unprepared manager changes
- Severe or prolonged underperformance
- Hold List managers may come from the Watch List or directly from the Recommended List. No manager will be on any combination of the Watch and Hold lists for more than four consecutive quarters. At the end of four quarters, the manager must be moved to the Recommended List or terminated.

If a manager is moved to the Hold List, the Asset Management Committee will be notified immediately regarding as many details as possible and a schedule of upcoming calls or on-site visits will be provided. The issue(s) will be addressed at the next Asset Management Committee meeting, or sooner, if possible, and parameters will be established to define whether and when the manager is to be placed back on the Recommended or Watch lists, or is to be recommended for termination.

The following actions will be performed by the Asset Management Committee:

- A new analyst opinion will be written within the first month of this status change and updates will be made to the manager interview as new information is made available
- If the initial review is negative, the manager may be recommended for immediate termination
- The manager will be notified of the status change
- The Asset Management Committee will check with the manager at least monthly for updates while the manager maintains this status
- A search for a replacement will begin

Termination

Once a manager is placed on the Watch List, they will be more closely monitored and reviewed more frequently. Specifically, the Asset Management Committee is looking for improvement in the factor or factors that caused the manager to be placed on the Watch List and is watching the other factors for any signs of degradation.

A manager will be recommended for termination if the Asset Management Committee sees further degradation in the factors above or feels that there will not be any significant improvement.

While these are our standards, we also coordinate our activities with your investment policy statement when making any manager changes to your portfolio.