

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:00 p.m. November 2, 2022
Council Briefing Center

AGENDA

- 1) Minutes of the October 5, 2022 Meeting
 - Motion

- 2) Director's Report
 - a) Retirements
 - Motion
 - b) Withdrawals
 - Motion
 - c) Deaths
 - Information
 - d) Expenditure Summary Report – September 2022
 - Motion
 - e) Schedule of Investments – September 2022
 - Information
 - f) Cash Reconciliation – October 2022
 - Information
 - g) Other Business
 - Asset Allocation Primer
 - Information
 - Beneficiary Option Code Changes
 - Motion
 - Morrison Street Fund VII
 - Motion

- 3) Other Business

- 4) Next Meeting – **Wednesday, December 7, 2022 at 1:00 p.m.**

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
October 5, 2022**

The meeting was called to order at 1:01 p.m.

Present: Jim Tieken, Joe Cavanaugh, Richard Czernik, Brian Brill, Jonathan Bingle, Brian Myers

Staff: Phill Tencick, Christine Shisler, Donald Brown, Tim Szambelan

Guests: Bill Reid, Bill Dowd, Dave Hanshaw, Jon Barnhart, Karen de Vera, Joe Ebisa

Board Member Search

Joe Cavanaugh moved and Richard Czernik seconded the motion to seat Brian Myers onto the SERS Board, replacing former Board member J.D. Morscheck. The motion passed unanimously.

Jonathan Bingle arrived at 1:19 p.m.

SageView Consulting – Actuarial Experience Study

SageView presented the 2017-2021 experience study. As a result of the plan's experience, changes to demographic assumptions were recommended for retirement rates, termination rates, and the mortality table. Changes to economic assumptions were recommended for inflation and salary increases. The change to actuarial methods recommended was to re-amortize the unfunded liability over a period of no longer than 25 years.

Joe Cavanaugh moved and Richard Czernik seconded the motion to accept the recommend changes. The motion passed unanimously.

Ms. Shisler requested the Board consider eliminating the Options A and B. These Options are rarely used and can be duplicated in guaranteed terms through Option C. No impact to the plan liability is expected. Participant impact should be minimal due to the low usage and availability of an alternative option.

Joe Cavanaugh moved and Richard Czernik seconded the motion effective January 1, 2023 to discontinue offering Options A and B. The motion passed unanimously.

Minutes of the September 7, 2022 Meeting

Joe Cavanaugh moved and Jonathan Bingle seconded the motion to approve the minutes of the September 7, 2022 meeting as presented. The motion passed unanimously.

Director's Report

Service Retirements

Name	Age	Retirement Date	Years of Service	Department
Timothy A. LaForce	63	10/04/2022	7.9	Water
Cynthia M. Brazington	63	12/07/2022	19.2	Accounting

Richard Czernik moved and Jonathan Bingle seconded the motion to approve the service retirements as presented on the October Retirement Transaction Report. The motion passed unanimously.

Withdrawals for October 2022

Name	Years of Service	Department
Sheldon K. Ahrendt	2.52	Parks & Recreation
Matthew J. Cavanagh	0.03	Solid Waste Management
Kristin M. Smith	0.35	Human Resources
Melissa A. Eggers	0.10	Mayor
Shiloh L. Deitz	2.23	IT Fund
Karin J. Janssen	4.23	Engineering Services
Christopher L. Bailey	0.80	Solid Waste Management
Michael C. Ormsby	5.19	Legal
Gregory J. Parker	0.11	Library

Richard Czernik moved and Jonathan Bingle seconded the motion to approve the requests for withdrawal as presented on the October Retirement Transaction Report. The motion passed unanimously.

Vesting

Name	Department	Years of Service
Carly E. Cortright	Neighborhood Services	19.4
Tessa C. Delbridge	Mayor	5.3 Portability
Nathan P. Gwinn	Planning Services	8.5
Jenna R. Ittner	Police	9.3
John T. Terhaar	Asset Management	7.8
Kyle P. Twohig	Engineering Services	9.3
Eric S. Zaas	Solid Waste Disposal	7.1

Deaths

Name	Date Retired	Age	Date of Death	Information
Janice L. Hall	07/17/2011	83	09/12/2022	No Further Benefits
Larry D. Winner	07/02/2002	77	09/17/2022	E Option Continues

Vesting and death information provided to the Board for review.

Expenditure Summary Report – August 2022

The Expenditure Summary Report was presented to the Board and discussed.

Richard Czernik moved and Jonathan Bingle seconded the motion to approve the August 2022 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – August 2022

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on August 31, 2022 was \$315.3 million with an estimated rate of return of -2.5% for the month.

Monthly Cash Reconciliation

The monthly cash reconciliation report was presented to provide the Board with additional insight into the ongoing liquidity, transactions, and cash position of the plan.

Other Business

There being no other business, the meeting adjourned at 2:02 p.m.

Phillip Tencick, Retirement Director

SERS Retirement Transaction Report

November 2022

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Jeffrey S. Braviroff	54	11/01/2022	2.8 Portability	Street Combined	E
2	Tonya R. Peone	52	11/01/2022	23.7	Communications Center	ST
3	Liesel E. Lehrhaupt	53	11/01/2022	5.0	Legal	ST
4	Russell D. Anderson	62	11/03/2022	31.2	Parks & Recreation	E
	Retirements YTD	73				
	2021 Total Retirements	66				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Scotty A. Nicol	0.4	Council	05/14/2022
2	Michael P. Perry	0.9	Engineering Services	05/14/2022
3	Paul M. Ingiosi	3.9	Finance	07/20/2022

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Alvey W. Pratt	01/02/1997	78	09/26/2022	No Further Benefits
2	Frances J. Bingham	05/05/2001	85	10/02/2022	No Further Benefits
3	Camilla J. Phillipson	03/01/1995	92	10/14/2022	E Option Continues
4	James A. Nunn	05/04/1999	74	10/21/2022	E Option Continues
5	James E. Joireman	07/02/2006	85	10/22/2022	E Option Continues
6	Berta Sherman	03/18/2019	93	10/22/2022	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2022 EXPENDITURE SUMMARY REPORT
SEPTEMBER 30, 2022

	2021 ACTUAL	2022 BUDGET	SEPTEMBER ACTUAL EXPENDITURES	2022 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	311,200.63	311,479.00	26,356.87	217,147.73	94,331.27	69.7%
Departmental Benefits	88,085.00	96,560.00	8,294.98	69,817.36	26,742.64	72.3%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(15,225.22)	(10,000.00)	(1,745.41)	(10,256.55)		
Postage/Supplies/Other	3,133.07	4,950.00	42.66	1,582.75	3,367.25	32.0%
State Audit Charges	12,432.82	15,000.00	2,662.76	9,320.82	5,679.18	62.1%
Contractual Services	131,620.94	175,000.00	9,456.00	120,278.68	54,721.32	68.7%
Travel	-	15,000.00	(66.72)	699.74	14,300.26	4.7%
Registration/Schooling	500.00	16,000.00	-	575.00	15,425.00	3.6%
Other Dues/Subscriptions/Membership	1,898.55	2,500.00	-	1,418.73	1,081.27	56.7%
Other Miscellaneous Charges	3,212.30	3,200.00	174.13	740.10	2,459.90	23.1%
Amortization	17,649.00	-	-	1,470.75	(1,470.75)	
TOTAL OPERATING EXPENDITURES	554,507.09	639,689.00	45,175.27	412,795.11	226,637.34	64.5%
INTERFUND EXPENDITURES						
Interfund - Centralized Purchasing	313.32	9,733.00	-	7,299.75	2,433.25	75.0%
Interfund - Centralized Accounting	1,764.00	2,136.00	-	1,602.00	534.00	75.0%
Interfund - My Spokane	885.25	1,125.00	-	843.75	281.25	75.0%
Interfund - Risk Management	607.00	571.00	-	428.25	142.75	75.0%
Interfund - Worker's Compensation	134.00	123.00	-	92.25	30.75	75.0%
Interfund - Reprographics	3,898.68	5,262.00	868.22	3,629.46	1,632.54	69.0%
Interfund - IT	38,532.25	46,237.00	3,854.08	30,842.41	15,394.59	66.7%
Interfund - IT Replacement	3,003.00	3,305.00	275.42	2,203.36	1,101.64	66.7%
TOTAL INTERFUND EXPENDITURES	49,137.50	68,492.00	4,997.72	46,941.23	21,550.77	68.5%
TOTAL ADMINISTRATIVE EXPENDITURES	603,644.59	708,181.00	50,172.99	459,736.34	248,188.11	64.9%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2022 EXPENDITURE SUMMARY REPORT
SEPTEMBER 30, 2022

	2021 ACTUAL	2022 BUDGET	SEPTEMBER ACTUAL EXPENDITURES	2022 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	30,993,999.10	33,500,000.00	2,753,087.28	24,378,851.02	9,121,148.98	72.8%
Pensions-Disability Payments	114,579.60	135,000.00	9,548.30	85,934.70	49,065.30	63.7%
Pensions-Survivor Annuity Benefits Payments	2,147,772.56	2,500,000.00	185,845.10	1,676,970.87	823,029.13	67.1%
TOTAL PENSIONS	<u>33,256,351.26</u>	<u>36,135,000.00</u>	<u>2,948,480.68</u>	<u>26,141,756.59</u>	<u>9,993,243.41</u>	72.3%
Refunds	741,018.82	1,000,000.00	157,413.18	1,069,176.78	(69,176.78)	106.9%
TOTAL EXPENSES	<u><u>34,601,014.67</u></u>	<u><u>37,843,181.00</u></u>	<u><u>3,156,066.85</u></u>	<u><u>27,670,669.71</u></u>	<u><u>10,172,254.74</u></u>	73.1%
INVESTMENT EXPENSE*						
Advisory Technical Service	557,485.34	565,000.00	6,375.27	317,378.89	247,621.11	56.2%

* investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.

SERS Schedule of Cash and Investments
September 30, 2022

10/27/2022

				Allocation		
				Target	Current	Diff.
		Type				
Cash Held by Treasurer	Cash		\$ 229,586			
US Bank	Short-term Inv		411,571			
Total Cash			641,157	0.0%	0.2%	0.2%
Sterling Capital	Total Return		23,684,882			
Total Total Return			23,684,882	10.0%	8.1%	-1.9%
Hotchkis & Wiley	High Yield - Mutual Fund		14,023,759			
Total High Yield			14,023,759	5.0%	4.8%	-0.2%
PIMCO Dynamic	Absolute Return		5,460,067			
Polar	LLC		8,714,286			
Post Limited Term High Yield	Ltd Partnership		6,469,912			
Rimrock Low Volatility	Ltd Partnership		10,190,963			
Total Absolute Return			30,835,228	8.0%	10.5%	2.5%
Total Capital Preservation			69,185,026	23.0%	23.5%	0.5%
Hotchkis & Wiley	LC Value - Mutual Fund		14,516,538			
MFS Growth	LC Growth - Mutual Fund		12,801,890			
Fidelity S&P 500 Index	LC Core - Mutual Fund		31,359,429			
Total US Large Cap			58,677,857	21.0%	20.0%	-1.0%
Sterling	MC Value		5,274,798			
Westfield MC Growth	MC Growth		4,318,101			
Fidelity MC Index	MC Core - Mutual Fund		2,516,770			
Champlain	SC Core		7,093,008			
Bridge City	SC Growth		6,539,395			
Allspring (FKA: Wells Fargo)	SC Value - Mutual fund		4,486,770			
Fidelity SC Index	SC Core - Mutual Fund		438,051			
Total US Small/Mid Cap			30,666,893	11.0%	10.4%	-0.6%
Total US Equities			89,344,750	32.0%	30.4%	-1.6%
Artisan	SMID Value - Mutual Fund		21,516,674			
Euro Pacific	LC Blend - Mutual Fund		17,317,891			
Fidelity International	LC Index - Mutual Fund		-			
Total International Large Cap			38,834,565	15.0%	13.2%	-1.8%
Trivalent	SC Value - Mutual Fund		9,902,120			
Total International Small/Mid			9,902,120	4.0%	3.4%	-0.6%
Vanguard EM Index	EM - Mutual Fund		412,958			
ABS Emerging Markets	Ltd Partnership		8,444,523			
Total Emerging Markets			8,857,481	3.0%	3.0%	0.0%
Total International Equities			57,594,166	22.0%	19.6%	-2.4%
Weatherlow Offshore	Ltd Partnership		19,980,761			
Royalty Opportunities I	Ltd Partnership		576,277			
Royalty Opportunities II	Ltd Partnership		296,357			
Total Long Biased			20,853,395	7.0%	7.1%	0.1%
Metropolitan Real Estate Partners	Ltd Partnership		70,317			
Morrison Street Fund VI	LP		6,178,626			
Morrison Street Income Fund	LP		2,689,429			
Morgan Stanley Prime	LLC		9,211,270			
Principal (REITs)	REITs		11,693,245			
Total Real Estate			29,842,887	9.0%	10.2%	1.2%
Contrarian Capital Fund I	Ltd Partnership		9,471,276			
Beach Point	Ltd Partnership		13,092,659			
Total Opportunistic Credit			22,563,935	7.0%	7.7%	0.7%
Contrarian EM Credit	LLC		4,336,622			
OrbiMed II	Ltd Partnership		156,569			
Total Special Opportunities			4,493,191	0.0%	1.5%	1.5%
Total Cash and Investments			\$ 293,877,350	100.0%	100.0%	0.0%
		Monthly Contributions	2,488,732			
		Monthly Pension	\$ (3,105,894)			
		As of August 31, 2022	\$ 315,295,048			
		Estimated Rate of Return	-6.6%			
Abs. Return and Total Return FI	Thesis 2017.1		54,520,110	18.0%	18.6%	0.6%
Equity and Special Situations	Thesis 2017.3		151,432,107	54.0%	51.5%	-2.5%

Cash Recon - Oct

Date	Transactions	Sources	Uses	Balance
9/28/2022	Beginning Balance			3,420,751.52
9/30/2022	September Pension Payments		(3,103,925.62)	316,825.90
9/30/2022	Distribution - Morgan Stanley PRIME	90,889.34		407,715.24
10/3/2022	Interest	3,855.38		411,570.62
10/11/2022	Payroll Contributions	952,254.24		1,363,824.86
10/13/2022	Distribution - Royaly Opps	58,171.18		1,421,996.04
10/20/2022	Distribution - Morrison Street Income Fund	67,416.42		1,489,412.46
10/20/2022	Redeposit Pension Payment	1,804.63		1,491,217.09
10/21/2022	Reissue Pension Payment		(1,564.01)	1,489,653.08
10/24/2022	Payroll Contributions	931,383.62		2,421,036.70
10/24/2022	Capital Call - Morrison Street Fund VI		(288,129.69)	2,132,907.01
10/26/2022	Trust Fees		(24,605.05)	2,108,301.96
10/26/2022	Ending Balance	2,105,774.81	(3,418,224.37)	2,108,301.96
	<u>Upcoming</u>			
10/27/2022	Sale - Fidelity S&P 500 Index	950,000.00		
10/31/2022	October Pension Payments		(3,021,999.28)	

ASSET ALLOCATION PRIMER

SERS Board Meeting

November 2, 2022



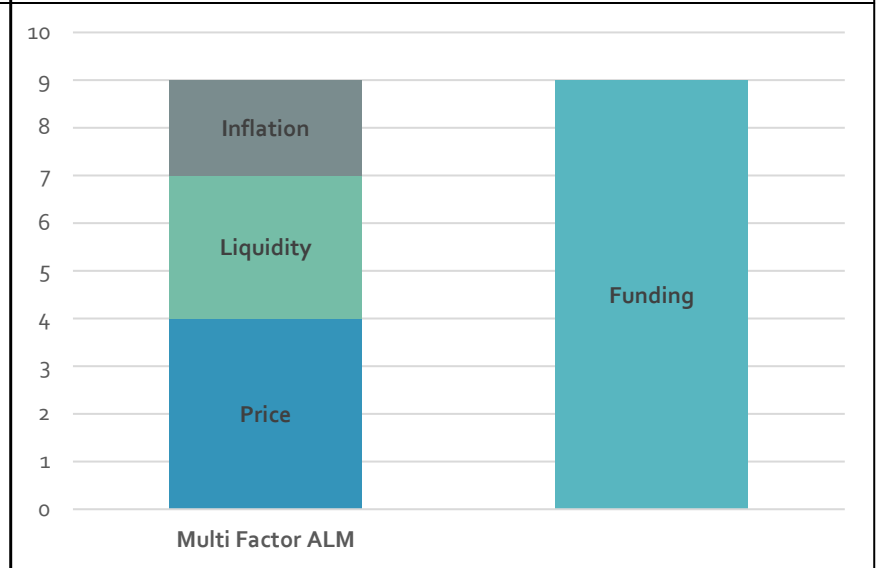
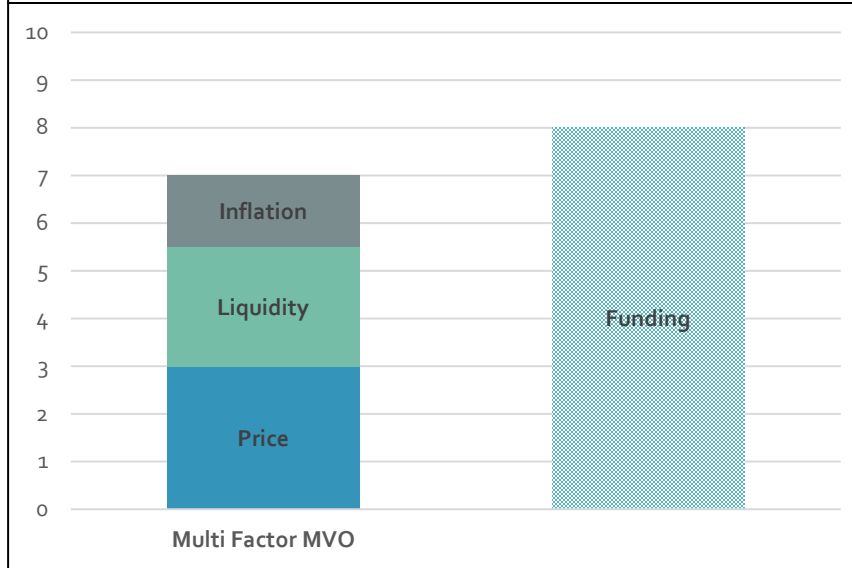
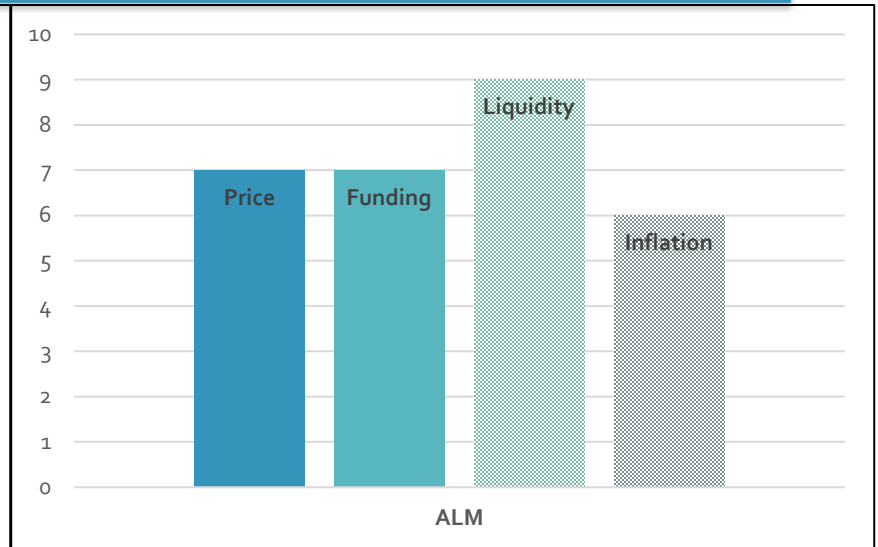
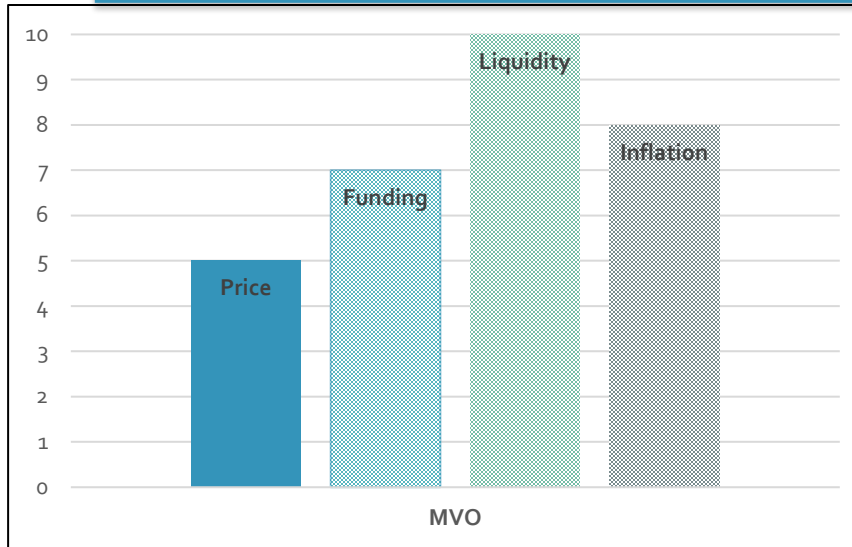
What is Asset Allocation?

- A mathematical model that attempts to minimize risk for a targeted level of return or maximize returns for a targeted level of risk.
- The model's output is the target asset class weightings.
- The output is dependent on the assumptions, constraints, and methodology used.

Asset Allocation Process

- 1) Select Model based on Risks
- 2) Determine Assumptions
 - A. Asset Classes
 - B. Capital Market Assumptions
 1. Returns
 2. Risks
 3. Correlations
 - C. Constraints
- 3) Run Asset Allocation Model
- 4) Review and Refine Output
- 5) Implementation

Asset Allocation Models



Assess Risk Factors

Investment Risk		Plan Risk
<u>Market Risks</u>	<u>Implementation Risks</u>	<u>Liability Risks</u>
<ol style="list-style-type: none"> 1. INTEREST RATES 2. <u>VOLATILITY</u> 3. INFLATION 4. <u>CREDIT</u> 5. STYLE 6. <u>LIQUIDITY</u> 7. DURATION 8. CURRENCY 9. Market Structure 10. Regulatory 11. Residual 	<ol style="list-style-type: none"> 1. <u>ASSET ALLOCATION</u> 2. <u>REBALANCING</u> 3. MANAGER SELECTION 4. <u>ACTIVE RISK</u> 5. FIDUCIARY 6. Principal/Agent 	<ol style="list-style-type: none"> 1. PLAN DESIGN 2. <u>INVESTMENT RISK (DISCOUNT RATE)</u> 3. FUNDING 4. Participant Behavior 5. INTEREST 6. LONGEVITY 7. Regulatory

- Optimizable risk factors in **GREEN**, (CURRENT FACTORS)
- Risk Factor Premiums in **RED**, (CURRENT FACTORS)
- Managed risk factors in **BOLD**

Asset Allocation Risk Factors

- Currently Optimized
 - Asset Allocation used as implementation model
 - Volatility used as single measure of risk
 - 7.5% used as target rate of return
- Factors Not Modeled
 - Interest Risk
 - Duration Risk
 - Inflation Risk
 - Alternate Rates of Return

Asset Classes

Equities

- Global
 - US
 - Large Cap
 - Value
 - Core
 - Growth
 - Mid Cap
 - Small Cap
 - International
 - Developed
 - Emerging
 - Frontier

Fixed Income

- Global
 - US
 - Government
 - Treasuries
 - Nominal
 - TIPS
 - Municipal
 - Gov't Backed
 - MBS
 - ABS
 - Corporate
 - Investment Grade
 - High Yield
 - International
 - Developed
 - Emerging

Alternatives

- Real Assets
 - Real Estate
 - REITs
 - Private Funds
 - Direct
 - Commodities
 - Infrastructure
- Hedge Funds
 - Absolute Return
 - Long/Short
 - Global Tactical
- Private Vehicles
 - Private Equity
 - Distressed Debt

Capital Market Assumptions

- Projected Market Conditions
 - Returns – The forecast annualized investment return for each asset class.
 - Risk – The volatility of the expected returns (e.g. how wide the range of outcomes is likely to be, or more simply, how likely you are to lose money).
 - Correlations – How the returns of one asset class are related to all other asset classes. This measures how much diversification each asset class provides in the portfolio.
- Historic vs. Forecast

Understanding Uncertainty

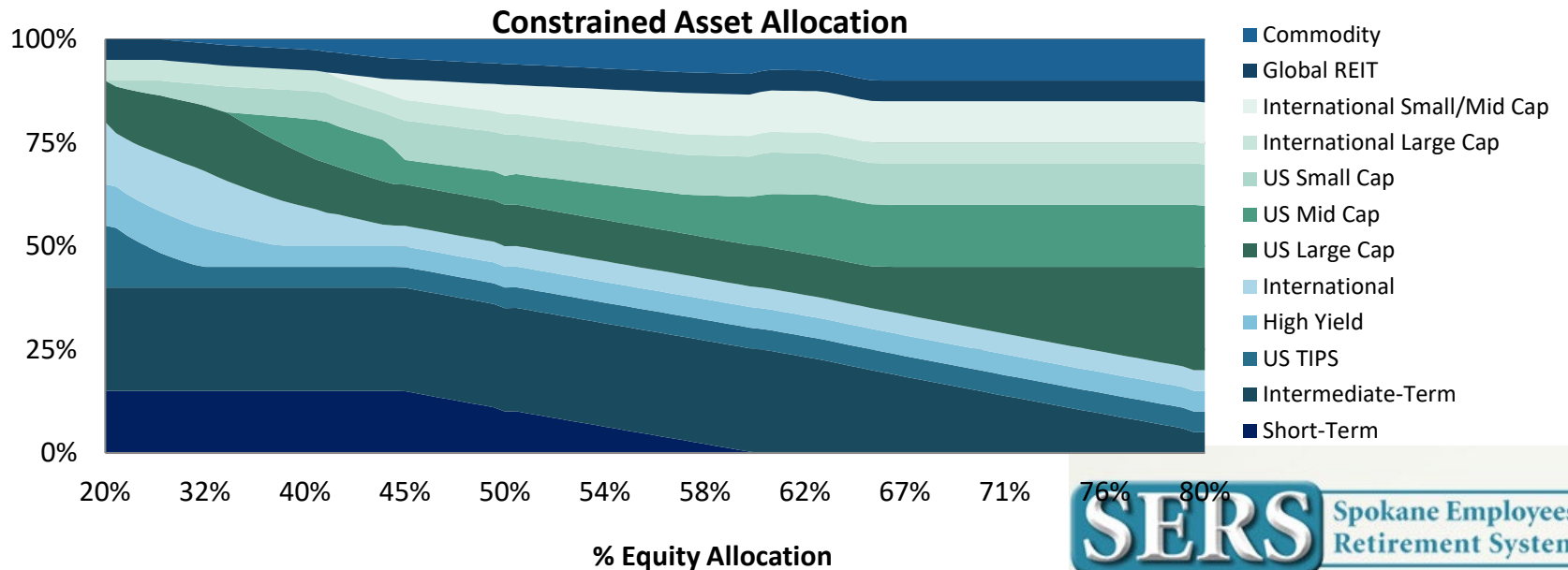
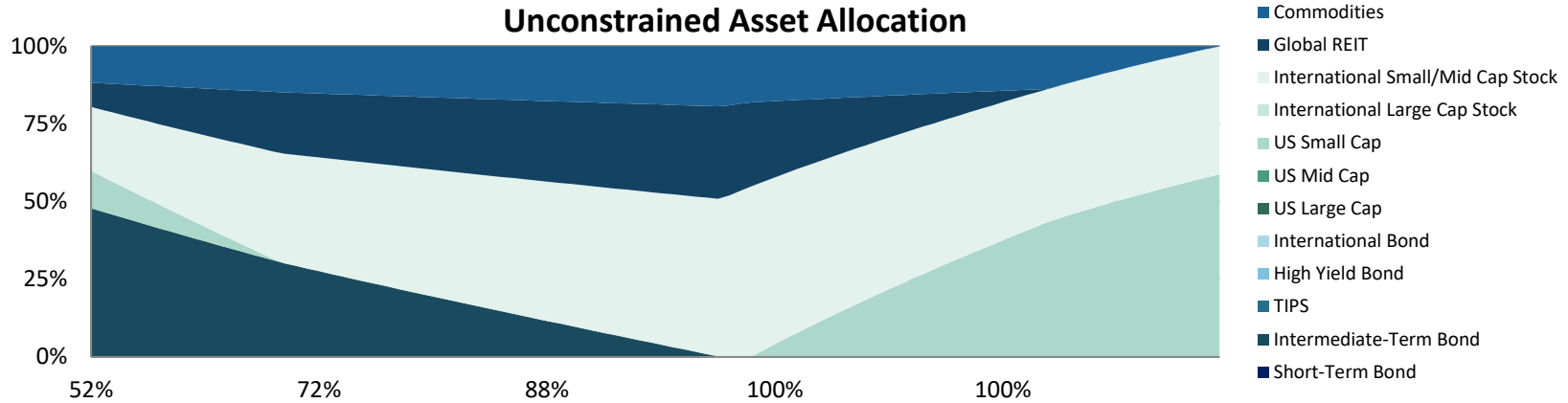
- Managing risk requires predicting future outcomes using data that measures past risk

	Bonds			Equities			Alternatives	
	<u>Aggregate</u>	<u>High Yield</u>	<u>Int'l</u>	<u>US Large Cap</u>	<u>US Mid Cap</u>	<u>US Small Cap</u>	<u>REITs</u>	<u>Commodities</u>
Forecast Return	8.3%	8.6%	6.6%	10.3%	12.4%	13.4%	10.3%	5.6%
Reliability	44%	22%	51%	31%	13%	30%	15%	42%
Forecast Risk	5.2%	7.9%	10.2%	16.9%	17.0%	25.0%	13.6%	12.7%
Reliability	42%	27%	29%	26%	29%	50%	25%	54%

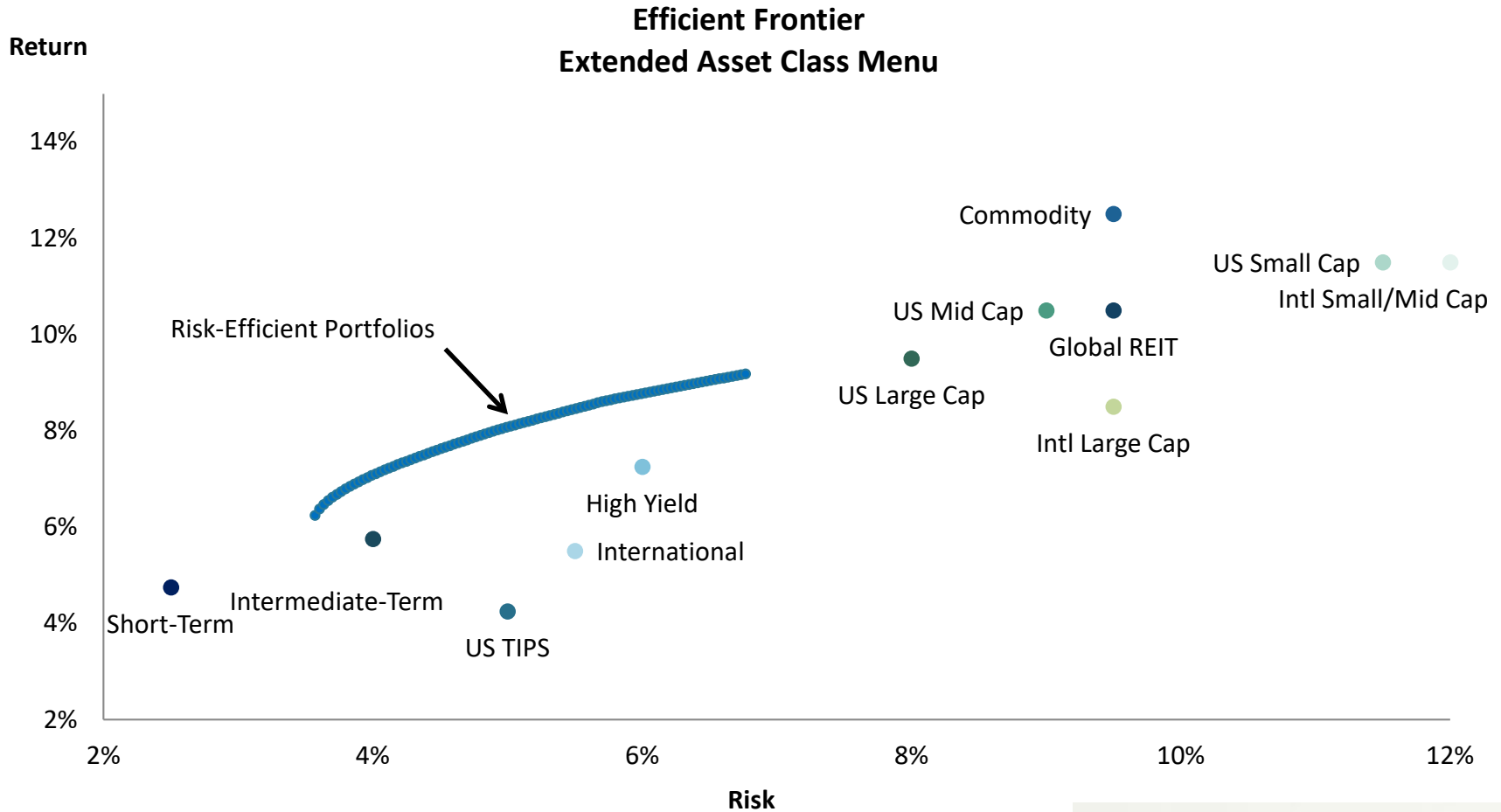
Capital Market Assumptions

	STRATEGIC (SEVEN-YEAR) ESTIMATES FOR 2022		SECULAR (20-YEAR) ESTIMATES FOR 2022	
	Annualized Return	Annualized Volatility	Annualized Return	Annualized Volatility
ULTRASHORT FIXED INCOME	1.6	0.7	3.0	0.7
EQUITIES	5.2	13.1	8.0	13.1
US Equities	4.1	14.1	8.4	14.1
US Large-Cap Growth	3.6	14.8	8.4	14.8
US Large-Cap Value	5.5	13.7	8.3	13.7
US Mid-Cap Growth	3.6	16.0	8.5	16.0
US Mid-Cap Value	6.2	14.5	8.7	14.5
US Small-Cap Growth	5.1	19.9	7.1	19.9
US Small-Cap Value	8.1	17.3	8.5	17.3
International Equities	5.6	14.7	7.2	14.7
European Equities	5.4	15.5	7.0	15.5
Japan Equities	5.7	20.1	6.9	20.1
Asia Pacific ex Japan Equities	7.0	18.4	7.1	18.4
Emerging & Frontier Market Equities	8.3	17.5	8.6	17.5
FIXED INCOME & PREFERRED	2.0	4.9	3.8	4.9
Short-Term Fixed Income	1.7	1.9	3.4	1.9
US Taxable Fixed Income	2.0	4.9	3.8	4.9
International Fixed Income	0.8	4.1	3.6	4.1
Inflation-Linked Securities	1.7	7.6	4.9	7.6
High Yield Fixed Income	3.6	7.5	5.4	7.5
Emerging Market Fixed Income	6.8	8.0	6.8	8.0
ALTERNATIVES	4.7	7.5	6.3	7.5
Real Assets	4.6	10.3	6.0	10.3
Real Estate/REITS	4.4	13.7	6.6	13.7
Commodities	3.0	15.0	3.9	15.0
Energy Infrastructure/MLPs	6.4	14.3	7.6	14.3
Absolute Return Assets	3.5	4.7	5.2	4.7
Equity Hedge Assets	5.2	6.8	6.6	6.8
Equity Return Assets	4.8	8.3	7.2	8.3
Private Investments	6.8	7.2	10.1	7.2
Private Real Estate	5.4	7.4	7.6	7.4
Private Equity	8.2	8.1	12.7	8.1
Private Credit	6.3	6.1	8.8	6.1

Constraints



Review Output

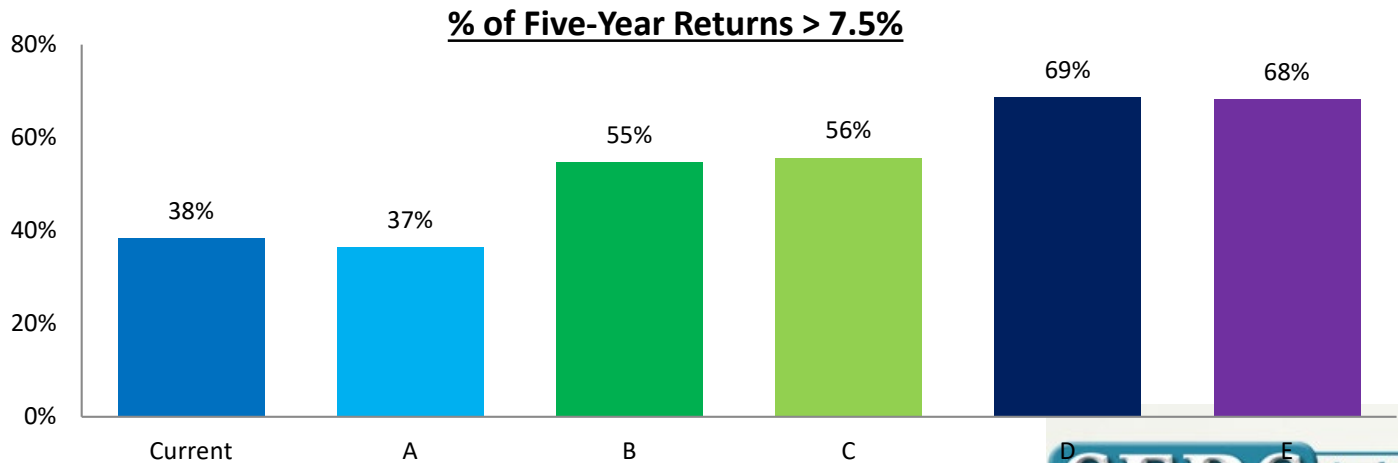
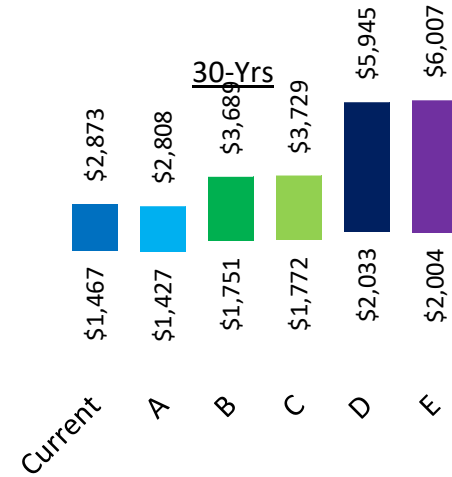
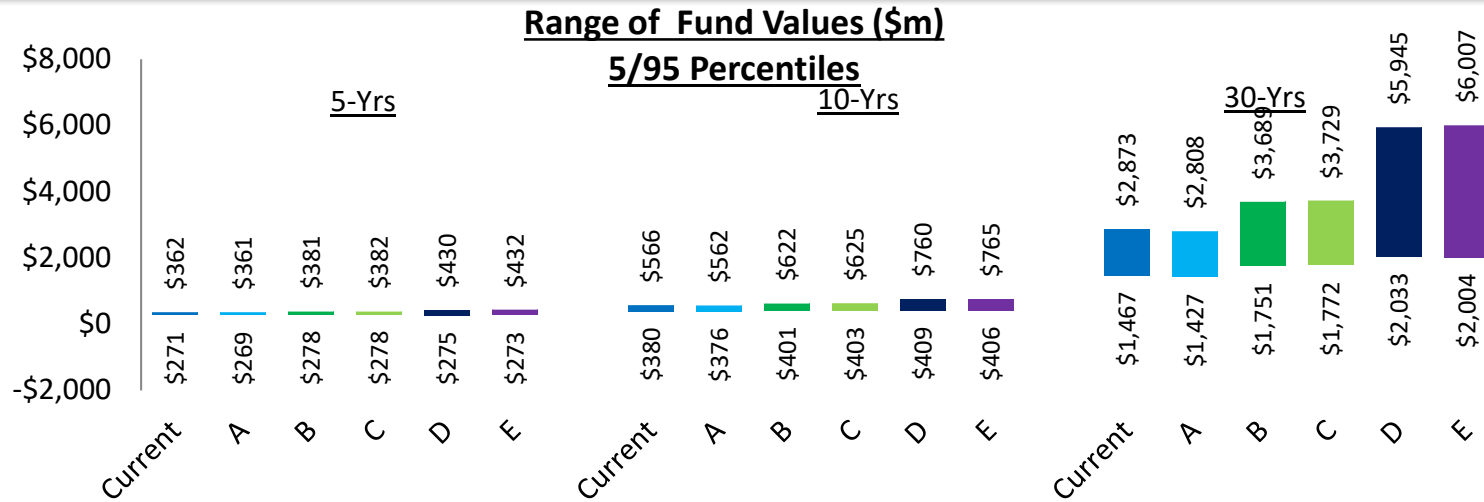


Review Output

Table of Results

		Current	Efficient Frontier Portfolios		
Equity +Alt. / Fixed Income		50/50	42/58	50/50	80/20
Fixed Income	Short-Term	0.0%	15.0%	10.0%	0.0%
	Intermediate-Term	0.0%	25.0%	25.0%	5.0%
	USTIPS	50.0%	5.0%	5.0%	5.0%
	High Yield	0.0%	5.0%	5.0%	5.0%
	International	0.0%	8.0%	5.0%	5.0%
Equity	US Large Cap	50.0%	12.0%	10.0%	25.0%
	US Mid Cap	0.0%	10.0%	7.0%	15.0%
	US Small Cap	0.0%	7.0%	10.0%	10.0%
	International Large Cap	0.0%	5.0%	5.0%	5.0%
	International Small/ Mid Cap	0.0%	0.0%	7.0%	10.0%
Alt.	Global REIT	0.0%	5.0%	5.0%	5.0%
	Commodity	0.0%	3.0%	6.0%	10.0%
Return		6.9%	7.3%	7.8%	9.2%
Risk		4.3%	4.2%	4.7%	6.7%
Return / Risk		1.59	1.74	1.66	1.36

Review Output



Implementation

- Sub-Asset Class Use
- Manager Selection
 - Active vs. Passive
 - Manager Searches
- Monitoring
- Rebalancing

SERS' Timeline

- October – Finalize Risks to Model
- November – Finalize Asset Class Assumptions
- December – Review Allocation Options

Section 03.05.210 Optional Allowance on Retirement

A member may elect to receive, in lieu of the retirement allowance, as provided for in [SMC 3.05.160](#), [SMC 3.05.165](#), [SMC 3.05.166](#) or [SMC 3.05.167](#), its actuarial equivalent in the form of a lesser retirement allowance, payable in accordance with the terms and conditions of one of the options set forth below. Election of any option must be made by written application filed with the retirement system and does not become effective unless approved by the board.

~~A.—Option A.~~

~~The lesser retirement allowance will be payable to the member throughout the member's life, provided that if the member dies before the member receives in annuity payments referred to in [SMC 3.05.160\(A\)\(1\)](#), [SMC 3.05.165\(A\)\(1\)](#), [SMC 3.05.166\(A\)\(1\)](#) or [SMC 3.05.167\(A\)\(1\)](#) a total amount equal to the amount of accumulated contributions as it was at the date of retirement, the balance of such accumulated contributions will be paid in one sum to the member's estate or to such person as the member shall nominate by written designation duly executed and filed with the retirement system.~~

~~B.—Option B.~~

~~The lesser retirement allowance will be payable to the member throughout the member's life, provided that if the member dies before the member receives in annuity payments referred to in [SMC 3.05.160\(A\)\(1\)](#), [SMC 3.05.165\(A\)\(1\)](#), [SMC 3.05.166\(A\)\(1\)](#) or [SMC 3.05.167\(A\)\(1\)](#) a total amount equal to the amount of accumulated contributions as it was at the date of retirement, the said annuity payments resulting from accumulated contributions will be continued and paid to the member's estate or such person as the member shall nominate by written designation duly executed and filed with the retirement system, until the total amount of annuity payments shall equal the amount of accumulated contributions as it was at the date of retirement.~~

C.A. Option C.

The member elects a "guaranteed period" of any number of years. If the member dies before the lesser retirement allowance has been paid for the number of years elected as the "guaranteed period," the lesser retirement allowance will be continued to the end of the "guaranteed period," and during such continuation be paid to the member's estate or to such person as the member shall nominate by written designation duly executed and filed with the retirement system.

D.B. Option D.

The lesser retirement allowance will be payable to the member throughout life and, after the death of the member, one-half of the lesser retirement allowance shall be continued throughout the life of, and paid to, the spouse of the member, named at time of retirement, if surviving.

E.C. Option E.

The lesser retirement allowance will be payable to the member throughout life, and after death of the member, it shall be continued throughout the life of, and paid to, the spouse of the member named at time of retirement, if surviving.

Once the form of payment in which the member's benefit has become effective (i.e., in either the retirement allowance as provided for in [SMC 3.05.160](#), [SMC 3.05.165](#), [SMC 3.05.166](#) or [SMC 3.05.167](#) or one of the ~~five-three~~ optional forms of benefit provided for above), the form in which that member's benefit is payable is irrevocable and cannot thereafter be changed at any time or for any reason.

Date Passed: ~~Monday, January 8, 2018~~TBD

Effective Date: ~~Wednesday, February 21, 2018~~TBD



MORRISON STREET CAPITAL, LLC

Hyas Group Product Summary

Available Products:	Morrison Street Fund VII, LP
Funding Vehicles:	Delaware Limited Partnership
Date of Publication:	October 20, 2022
Analyst:	Tom Breaden, CFA

Manager & Strategy Overview

Morrison Street Fund VII, L.P. (the “Fund”) is being sponsored by Morrison Street Capital, LLC (the “Manager” or “MSC”) to make equity investments in commercial real estate structured as preferred equity, structured equity, joint venture equity and direct equity. The Fund will take advantage of the Manager’s extended track record of providing small balance equity capital through multiple cycles which can be sourced through mortgage brokers and other intermediaries as well as directly from commercial real estate owners, operators and developers.

The Fund seeks to mitigate risk by focusing on both durable income as well as defensive equity structures such as preferred equity or structured equity, which provide a level of downside protection through subordination of some portion or all of the sponsor equity as a cushion to potential losses. Additionally, MSC has an extensive experience in sourcing and structuring equity investments which can provide upside potential through early redemptions and/or negotiated profit participation. The Fund may invest directly in commercial real estate equity as an owner or joint venture partner depending on the Manager’s assessment of market conditions and product type considerations. The Fund will not make investments in mezzanine debt or commercial real estate debt securities, as those strategies are reserved for Morrison Street Income Fund (“MSIF”).

The Manager was formed in 2002 by Norris, Beggs & Simpson Companies, a 90-year-old, privately held commercial real estate services firm, and Rance Gregory, an experienced private equity fund manager with a track record of investing on behalf of several national and international real estate funds. The Manager has acted or currently acts as the investment manager of 9 other private equity funds as well as two side-car accounts (collectively, the “Prior Funds”): Morrison Street Fund I (“Fund I”), with \$26.0 million of capital commitments; Morrison Street Fund II (“Fund II”), with \$56.7 million of capital commitments; Morrison Street Fund III (“Fund III”), with \$59.1 million of capital commitments; Morrison Street Fund IV (“Fund IV”), with \$54.9 million of capital commitments; Morrison Street Fund V (“Fund V”), with \$58.475 million of capital commitments; Morrison Street Fund VI (“Fund VI”), a fund with \$54.55 million of capital commitments; Morrison Street Debt Fund I (“Debt Fund I”), a \$15.0

million separate account that invested alongside Fund III; Morrison Street Debt Fund II (“Debt Fund II”), a \$15.7 million separate account that invested alongside Fund IV; Morrison Street CMBS Fund (“CMBS Fund”), a fund with \$18.0 million of capital commitments dedicated to investments in CMBS; MSDO, a fund with \$199.995 million of capital commitments; Morrison Street Debt Opportunities Fund II (“MSDO II”), a fund with \$142.1 million of capital commitments; Morrison Street Income Fund (“MSIF”), a fund with \$242.24 million in gross asset value (as of August 31, 2022). Funds I, II, III, IV, and V, Debt Fund I, Debt Fund II, and the CMBS Fund are fully realized and distributed. The assets of MSDO and MSDO II have been transferred to MSIF.

Investment Opportunity

Throughout its history, the Manager has designed series of closed-end investment funds for flexibility and adaptability to changing market conditions, as well as specific investment funds to respond to particular dislocations in the market. More recently in the MSDO/MSIF series of funds (MSDO, MSDO II and MSIF) the Manager created access to small balance commercial real estate debt, combining fixed rate mezzanine debt investments with the opportunity to invest in a limited amount of commercial real estate debt securities. The Manager utilizes the current yield component of mezzanine and B-note investments to seek solid income during stable market conditions yet maintains the ability to invest opportunistically in commercial real estate securities in times of market weakness or volatility.

Similarly, Fund VII is designed to focus on preferred equity and structured equity investments, which mitigate direct ownership risk through the subordination of some or all of the sponsor’s equity. The Fund will seek equity investment opportunities from capital constrained owners and/or broken capital structures. To the extent commercial real estate assets re-price within the investment period, the Manager may seek to negotiate additional profit participation in certain structured equity transactions, and/or take advantage of value-added equity opportunities directly. These decisions will be based on the Manager’s careful interpretation of broader economic data, local job and population trends, supply/demand fundamentals, pricing relative to replacement cost of buildings, transaction deal flow, market inefficiencies, and specific market and property cycles. Fund VII is designed to be flexible and adapt to changing market conditions in order to optimize the Fund’s risk adjusted returns.

Recommendation

The Hyas Group has a lengthy history of investing with MSC, with clients having invested in Funds IV, V, VI, and MSDO I (now Morrison Street Income).

Our long-term investment history and advisory role with MSC have validated the quality of research and underwriting capabilities at the firm. Not only have they demonstrated quality work upfront to reduce the risk inherent in any real estate investment, they have become increasingly well versed in deal structuring in order to help expedite the process of repossession should primary equity sponsors fail to execute on their strategy. In addition, they have often found that they can generate equity-like returns while incurring significantly less volatility than equity REITs.

MSC asserts that the current transactional environment may be improved relative to the 2020-2021 environment that was stymied by COVID, and that increasingly volatile market conditions may create a need for preferred equity as financing needs remain but banks become decreasingly willing or able to extend capital.

In terms of performance expectations, MSC estimates that the Fund could achieve a break-even IRR in 18 months from start and a 7.5% IRR in 30-33 months. The full-term return experience is estimated to stabilize around year six and beyond, wherein gross returns ranging from 10% to 17.5% may translate into net returns of 7.15% to 13.77%.

Philosophy

The Fund's guiding strategy when equity investing through a given cycle requires the Manager maintain a disciplined and thoughtful investment process while utilizing its experience to customize capital structures which the Manager believes can provide superior risk-adjusted returns. The Fund's strategy will capitalize on the Manager's longstanding position in the market as a reliable provider of equity capital for small to medium-sized transactions.

Process

The Manager has an extensive history providing preferred equity and structured equity through various market cycles with a disciplined investment process while also tailoring the investment structures to incorporate adequate risk mitigation. The preferred equity structure typically requires subordination of the common equity, providing a value cushion in the event market re-pricing coincides with the realization event for the investment. In general, a preferred equity investment will represent 30% to 80% of the total equity required for a given transaction. Assuming an equity investment with a 70% LTV loan where the preferred equity represents 50% of the total equity, the value of the property must decline by 15% at the time of realization before the preferred equity is impaired.

It is the Manager's experience that relatively modest leverage combined with extended investment periods significantly reduces exit risk as the common equity is provided adequate incentive and opportunity to defend its investment in the absence of a forced realization event. The flexibility to take a longer-term view of the potential hold period for an equity investment is invaluable to the Fund's ability to make prudent equity investments given the market conditions which are expected to exist during the Fund's investment period. Since 2003, Morrison Street Capital has completed 52 preferred equity investments totaling \$161.8 million. The average and median investment period in the Manager's preferred equity track record is 43 months.

The Manager has extensive experience customizing equity investment structures which it believes can provide an appropriate level of risk and return while also selectively capitalizing on opportunities presented by the pipeline of deal flow. In order to achieve superior risk-adjusted returns the Manager will generally emphasize investments for the Fund in properties utilizing modest leverage which provide current cash flow adequate to service any financing while also providing the Fund a cash return in the range of 6% to 10%; however, it is expected that the preferred equity investment pipeline will yield select opportunities for

structured equity or JV equity investments where profit potential and manageable risk coexist. This scenario will often involve a business plan with a risk profile which the Manager believes justifies the assumption of slightly more equity risk in exchange for an appropriate level of profit participation, as compared to a true preferred equity structure with a fixed return and a full subordination of the common equity. The resulting structure can address risk mitigation through alternating waterfalls for return of capital and profit participation such that the Fund's equity investments do not bear potential losses proportionately relative to the common equity.

The initial Investment Committee of the Fund will be comprised of Rance Gregory, Marcus Parker, David Dewey, Justin Dennett, David Elkins and Jan Robertson. Additional and/or emeritus members may include former partners/members of the Manager. The Investment Committee will review and approve Fund investments and dispositions. The Committee will meet regularly to determine Fund strategy and execution.

Personnel

Norris, Beggs & Simpson Companies currently is comprised of two primary subsidiaries: Morrison Street Capital (MSC) and NBS Real Estate Consulting, a commercial real estate consulting firm. MSC consists of 12 employees focused exclusively on investment management within the real estate asset class. The senior investment team at MSC averages 25 years of industry experience and 17 years with MSC. The team has been extremely stable with no significant turnover. The MSC team represents a diverse set of real estate backgrounds spanning acquisitions, finance, property management, leasing, investment sales, and mortgage banking. The Fund's Investment Committee will consist of senior members of MSC and Norris, Beggs & Simpson Companies. The initial Investment Committee will include Rance Gregory, Marcus Parker, David Dewey, Justin Dennett, David Elkins, and Jan Robertson. The six principal members of the investment committee of the Funds have over 170 years of combined real estate experience.

Rance Gregory, CEO

Rance Gregory is the founder and CEO of Morrison Street Capital. His transaction experience includes the acquisition, development, and asset management of commercial real estate investments throughout the United States and Japan. Prior to founding Morrison Street Capital, Mr. Gregory was a Vice President for Wall Street firms Donaldson, Lufkin & Jenrette and, subsequent to the merger, Credit Suisse First Boston, where he served as a Los Angeles-based principal of DLJ Real Estate Capital Partners.

During his Wall Street career, Mr. Gregory's responsibilities included managing deal teams through the comprehensive underwriting, due diligence, negotiation, and closing of residential, office, land, and entity acquisitions totaling over \$1.3 billion on behalf of successive \$660 million (equity) and \$1.2 billion (equity) real estate opportunity funds. His experience includes numerous complex transactions involving mezzanine debt, preferred equity, commercial mortgage backed securities, and direct investments in operating companies.

Since founding Morrison Street Capital in 2002, his firm has targeted inefficiencies in commercial real estate markets by investing in public debt, private equity and private debt on behalf of pension plans, foundations, endowments, corporations and high net worth individuals and families.

Mr. Gregory began his career in Washington, D.C. with LaSalle Partners, working as a real estate investment analyst responsible for underwriting office, parking and retail assets in the Mid-Atlantic region on behalf of corporate clients and tax-exempt pension funds. Mr. Gregory received his bachelor's degree in Political Science from Stanford University.

Marcus Parker, CFA, President & CCO

Marcus Parker serves as President and Chief Compliance Officer for Morrison Street Capital. For the past 14 years Mr. Parker has been responsible for company operations, Fund and investment structuring, and regulatory compliance. In addition, Mr. Parker serves on the Investment Committee.

Mr. Parker was formerly Vice President of Finance for Harsch Investment Properties, a privately held owner and operator of over 21 million square feet of commercial property in the western United States where he completed over \$1.5 billion in more than 90 real estate financing transactions. Mr. Parker has 24 years of diverse commercial real estate experience.

Mr. Parker received his bachelor's degree in finance from the University of Alaska, and his Master's degree in business administration from the University of Oregon. He is a CFA Charterholder, and is a member of NAIOP. Mr. Parker is a past president of the Portland Alternative Investment Association, has served as an adjunct professor at Portland State University, and participates in numerous speaking and teaching engagements for the University of Oregon, the University of Portland and various commercial real estate industry groups.

Justin Dennett, Chief Investment Officer

Justin Dennett serves as the Chief Investment Officer for Morrison Street Capital. For the past 18 years, Mr. Dennett has supervised all aspects of investment strategy, underwriting, structuring, and closing. Mr. Dennett has over 26 years of commercial real estate investment experience and has had direct responsibility for investing all Morrison Street Funds since inception.

Mr. Dennett was previously Manager of Investment Services for Unico Properties, a 50-year-old owner/operator of office buildings with holdings in Seattle, Portland, San Francisco and Boise. He was responsible for sourcing, underwriting and due diligence of new office investments as well as direct management of multiple asset dispositions. Mr. Dennett's background also includes an acquisitions analyst position with the L&B Group, a Dallas, Texas-based pension fund advisor. During his tenure, he represented public pension funds in the acquisition of office, industrial and retail properties throughout the western United States.

Mr. Dennett's transactional experience includes several complex pre-sale development investments as well as numerous joint venture arrangements and preferred equity and

mezzanine debt financings. Mr. Dennett holds a bachelor's degree in finance and real estate from Southern Methodist University and a J.D. from Lewis and Clark College.

David Tindall, Director of Originations

As Director of Originations for Morrison Street Capital, David Tindall's primary role is to source, underwrite and close investments for the Funds, with specific responsibility for establishing transaction pipeline development by maintaining relationship with lenders, mortgage bankers, joint venture partners, and borrowers.

Mr. Tindall joined Morrison Street Capital in 2005, after serving more than 8 years with Clarion Partners where he was responsible for investing client capital in multiple markets in the western United States. While at Clarion Partners, he participated in investing more than \$1.7 billion of equity in office, industrial, retail and multi-family assets primarily for U.S. pension fund clients. Prior to joining the acquisitions team, he spent several years as an Asset Manager of more than 2.3 million square feet of industrial projects in Southern California as well as multiple office buildings in Portland and Sacramento. His prior experience also includes work as a project manager overseeing the development, lease-up and sale of a speculative office project in Phoenix.

Mr. Tindall received his bachelor's degree in business administration from Georgetown University. He previously served as co-chair of the Urban Land Institute's (ULI) Young Leader's Group and a member of the executive committee of ULI's Seattle District Council.

David Dewey, Director of Asset Management

David Dewey is a Principal and the Director of Asset Management at Morrison Street Capital. He serves as a member of the Investment Committee. Mr. Dewey has led Morrison Street Capital's portfolio management/asset management team for the past 17 years. Mr. Dewey has over 23 years of experience in portfolio management, asset management, acquisitions, development, leasing, financing, loan workouts and restructurings, workouts and dispositions in various property types. During his tenure at Morrison Street Capital, Mr. Dewey has overseen all aspects of a diverse portfolio of equity, joint venture equity, preferred equity, and subordinate debt investments totaling in excess of \$3.4 billion in gross value.

Prior to joining Morrison Street Capital, Mr. Dewey was a Principal at Pension Consulting Alliance (PCA), where he helped PCA clients invest and manage their real estate portfolios by providing real estate consulting services including strategic planning, portfolio reviews, manager searches, investment advisor and partnership selection and due diligence, and topical real estate research as well as institutional client relations. During his tenure at PCA, Mr. Dewey was involved in and led due diligence efforts on more than \$4.8 billion of real estate investments on behalf of many of PCA clients such as CalSTRS, CalPERS, OPERF, and other institutional investors. This experience gives Mr. Dewey a unique perspective and an understanding of the needs of institutional real estate investors.

Mr. Dewey earned a Bachelor of Business Management degree from Brigham Young University's Marriott School of Management and a Master of Business Administration (MBA) degree with an emphasis in finance from the University of Oregon's Lundquist College of Business.

Portfolio and Risk Management

The Manager intends that the Fund will be designed to target the under-served market for preferred equity and structured equity in small and medium-sized transactions. The Manager will implement a plan to source and assemble a portfolio of equity investments diversified by product type and market with an emphasis on current income and defensive structures intended to provide the Fund an attractive overall risk-adjusted return. The Manager expects that the Fund's investments will generally be underwritten with anticipated hold periods of 3 to 7 years. Flexibility to postpone a planned realization event due to soft market conditions and hold the investment for up to 5 to 7 years should significantly mitigate exit risk given the transitional nature of the current market conditions.

Capital contributions to any one investment may not exceed \$15 million. The Fund's investment guidelines define primary target markets, investment types, product types and levels of stabilization. No more than 25% of the Fund's aggregate Capital Commitments will be invested in real estate assets outside the primary target categories (as set forth in "Investment Guidelines" of the Private Placement Memorandum). The Fund's investment guidelines also provide limitations on leverage and underwriting.

Price and Terms

The manager is targeting to raise \$50-\$100 million provided that the General Partner reserves the right to accept aggregate Commitments for more or less than this amount. Notwithstanding the foregoing, the General Partner will not accept Commitments in excess of \$150 million. The stated minimum investment is \$250,000. The General Partner (including its members and affiliates) will make a Commitment of at least \$1.0 million, to be invested pari-passu with the Fund's Limited Partners (the "G.P. Commitment"). The initial closing of the Fund (the "Initial Closing") will occur as soon as practicable, but no sooner than such time as the Fund has received a minimum of \$10.0 million in Commitments (including the GP Commitment of at least \$1.0 million). The Initial Closing may be an "Administrative Closing" at which subscriptions. The term of the Fund will be 10 years but may be extended at the discretion of the General Partner for up to two (2) additional 1-year periods if necessary to facilitate the completion or disposition of any remaining Fund investments. Proceeds returned to Partners related to an exit event that occurs within 36 months of the relevant investment that constitute a return of capital may be reinvested at the election of the General Partner, but not beyond the first anniversary of the Investment Period. Current income from Fund investments, other than distributions received as a return of capital due to a disposition or refinancing, will be distributed quarterly. Proceeds from dispositions and refinancing will be distributed as soon as practical after the Fund receives said proceeds, after retentions to fund expenses and reserves.

The Fund will pay the Manager an Investment Management Fee equal to 1.75% of Commitments beginning on the Initial Closing and ending on the expiration of the Investment Period. After the Investment Period, the Investment Management Fee will be 1.75% per year of Capital Contributions related to unrealized investments and associated expenses. The fee will be borne pro rata by each Investor based on the Investor's Commitment. The Investment Management Fees will be payable quarterly in advance. The Partners will bear all third party legal, accounting and other organizational expenses incurred in the formation of the General Partner and the Fund up to \$500,000. Capital contributions to pay these amounts will reduce each Partner's Commitment. Any organizational expenses in excess of this amount will be the responsibility of the Manager.

In addition to management fees, distributions from the Fund are structured as such:

- i. Return of Capital: 100% to the Limited Partner until the Limited Partner has received proceeds equal to (a) such Limited Partner's Capital Contributions attributable to such investment and all previously realized investments, and (b) such Limited Partner's Capital Contributions for the Investment Management Fees and other Fund expenses and estimated expenses allocable to such investment and all previously realized investments.
- ii. 8.0% Preferred Return: 100% to such Limited Partner until the Limited Partner has received a preferred return on amounts included in (i) above at a rate of 8.0% per annum, compounded annually (the "Preferred Return") from the date of such capital contributions.
- iii. General Partner Catch-up: 50% to the General Partner and 50% to such Limited Partner until the General Partner has received 20% of the sum of the distributed Preferred Return and distributions made pursuant to this clause (iii). In other words, the General Partner receives 50% of distributions under this section until it has received exactly 20% of all prior distributions of profit to the Limited Partner.
- iv. Remainder: Thereafter, 80% to such Limited Partner and 20% to the General Partner.

Performance

MSC has acted or currently acts as the investment manager of 11 other private funds and Accounts. Aggregated net returns across these have an average and median IRR of 9.89% and 10.81% respectively. On behalf of the Prior Funds, through June 30, 2022, the Manager has invested a total of \$705 million of investor capital across 175 investments totaling over \$5.12 billion in transaction value, diversified by geography, product type, investment type and property life cycle. In addition, it should be noted that through June 30, 2022, the Prior Funds have achieved 126 total realizations. These realizations include 89 investments involving some form of equity structure by one of the Manager's Prior Funds.

Operations

Investment Manager:

Morrison Street Capital, LLC
4949 Meadows Rd, Suite 490
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Attention: Heidi Morrow, CFA
Telephone: 503.952.0748
hmorrow@morrisonstreetcapital.com

Auditor:

Perkins & Co
1211 SW 5th Avenue, Suite 1000
Portland, OR 97204
Attention: Jared Holum
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jholum@perkinsaccounting.com

Strengths

Experience – The MSC team retains considerable institutional experience with underwriting and deal structuring within the small balance real estate market. The team’s deep operating experience is essential and allows them to take over any distressed property and manage through problem scenarios to protect investor capital and directly influence outcomes when needed.

Small/Mid Market Focus – Morrison Street operates in the small/middle markets that tend to be less efficient and less competitive than the large metropolitan markets. We believe these markets provide the opportunity for outsized returns.

Upside Potential – Morrison Street preferred equity securities are prepayable and subject to a minimum profit multiple typically in the range of 1.4x to 1.45x. Prepayments may be recycled into the Fund at what currently appears to be a regime of higher capital costs.

Multiple Payment Formats – Morrison Street has experience in multiple returns forms which preferred equity can assume. This includes pre-payment, paid as agreed, defaulted, and unrealized. Each of these scenarios, on average, has resulted in a double-digit IRR.

Capacity Management – The Firm has shown the discipline to manage fund sizes appropriately taking into consideration their focus on smaller regional markets and the cyclical opportunities available at the time of fundraising.

Ownership – Employees have significant economic ownership of the Firm which has resulted in very low turnover within the Firm.

Challenges

Default Risk & Economic Recession – We believe the strategy may thrive if it is able to navigate the concurrence of rising liquidity costs and declining real estate values. Management also has avoided realizing losses within its defaulted preferred equity investments and even achieving double-digit IRRs. This remains a risk nonetheless, especially if deteriorating conditions create default pressure.

Deflation Risks – Slightly less than one-half of the Fund’s expected IRR is expected to stem from capital appreciation, which may not be realized in a deflationary environment.

Macro Risks – The current opportunity set is one driven by a confluence of macro environmental conditions. As such, the specific opportunity may be time sensitive and susceptible to changing market conditions beyond MSC’s control.

Liquidity Risk – The investments made in this portfolio represent private investments with no readily available secondary market. Investors should be prepared to hold these investments through maturity. In addition, Morrison Street often focuses on less efficient small/middle markets which often have less liquidity than many of the larger metropolitan markets.

Keyman Risk – Rance Gregory retains significant influence over all investment decisions in the Fund. While we believe Rance has built out a highly experienced team, we continue to place much of our confidence specifically in Rance Gregory's leadership and decision making.

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Asset and plan activity information provided by plan recordkeeper. Vendor bids and corresponding information sourced from Request for Proposal responses. Expense information sourced from Morningstar.

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