October 2022

NEPC 2022 GOVERNANCE SURVEY

Key Findings

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EXECUTIVE SUMMARY

The Role of Most Trusted Advisor

- Most contacts representing investment organizations say that their most trusted advisor takes an active role in investment decisions for their organization: 43% say they take on the role of Partner, 26% Advisor and 12% Investment Manager.
- A minority see the role of their most trusted advisor as more passive: 4% as a Vendor and 15% as a Resource.
- A slight increase in the number of most trusted advisors taking on the role of Investment Manager is anticipated in the next 5-7 years.

The Investor Landscape

- Rising interest rates are anticipated to have the greatest impact on portfolio construction over the next 6 months (average rank 1.4), followed by an economic recession (average rank 2.1).
- The majority (80%) of contacts representing investment organizations say that it is important to incorporate Diversity, Equity & Inclusion in their investment programs. Strong opinions are equally common on both sides: 18% say that it is extremely important while 20% say that it is not important.
- Other key industry trends that contacts felt were important included:
  - Labor supply
  - Supply chain disruption
  - Geopolitical risks
  - Cybersecurity threats
  - The Energy Transition
  - European energy prices
  - China – (ESG issues & national debt level specifically)

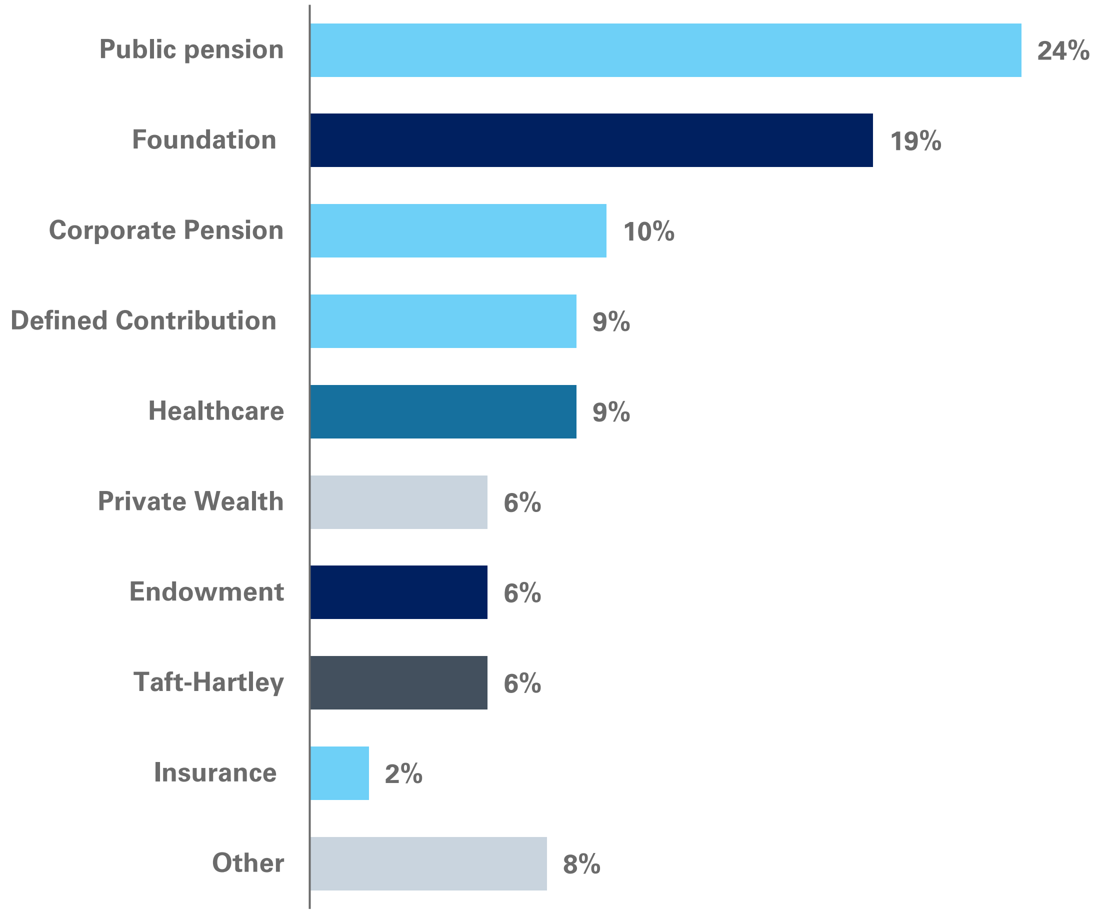
SECTION 1: INTRODUCTION

Organizations surveyed

A quarter (24%) of those who completed the survey represented 'Public Pension' organizations, 19% represented 'Foundations'. 'Insurance' was the smallest group represented by 2% of the survey respondents. Throughout the report we draw comparisons between the following types of organizations: Endowments, Foundations, Healthcare, Pension and Insurance, and Taft-Hartley.

A quarter of contacts surveyed work for public pensions organizations

% Representing each organization type



SECTION 2: THE ROLE OF THE ADVISOR

Most see their most trusted advisor as playing an active and integrated role in the business

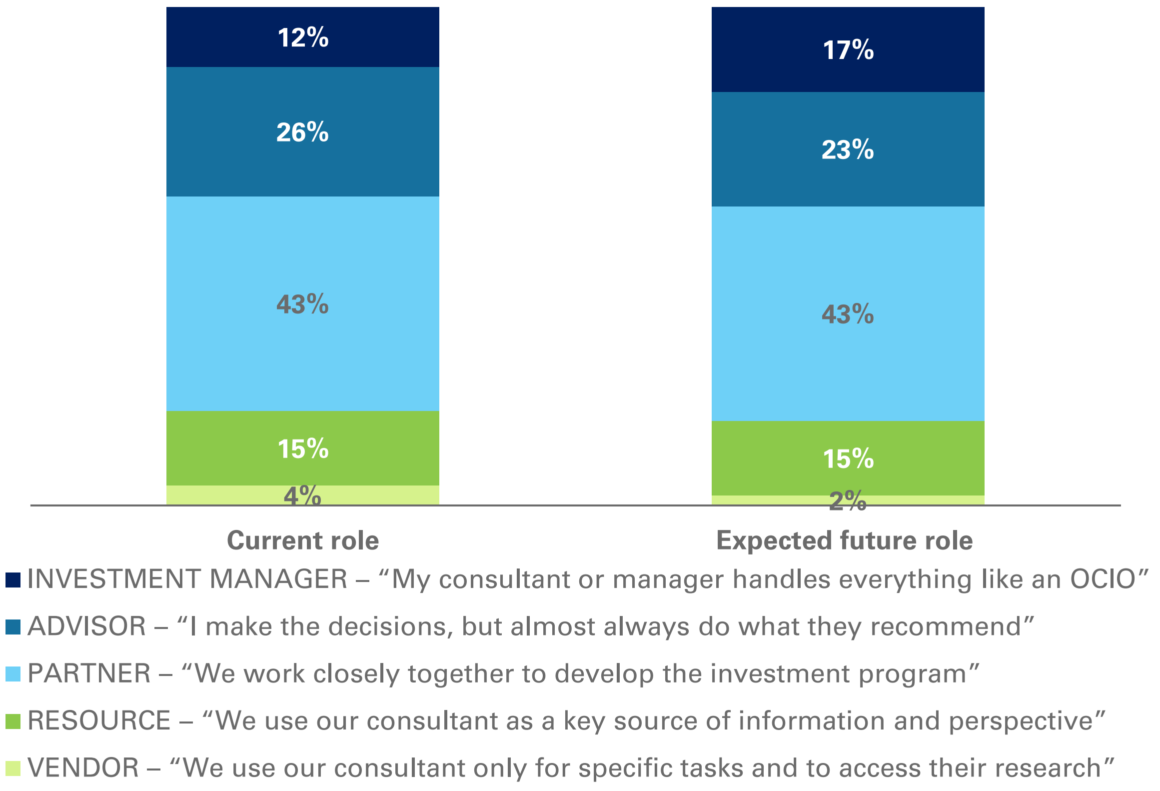
The role of the most trusted advisor is integral and integrated into most organizations, with playing an active part in the decisions being made. Over two in five (43%) say the most trusted advisor at their organization takes on the role of a partner, working closely to develop the investment program. A quarter (26%) say that they make the decisions themselves but that they almost always do what their most trusted advisor tells them, and just over one in ten (12%) say that their most trusted advisor handles everything like an OCIO.

Only a minority of contacts say that their relationship with their most trusted advisor is more transactional in nature, with the trusted advisor playing a much more passive role. Just 4% use their most trusted advisor only as a vendor (4%), while 15% use them as a resource for information only.

In general, the expectation is that the future role of the most trusted advisor will not change substantially over the next 5-7 years. However, an increase is anticipated in the proportion of most trusted advisors taking the most responsible role, performing as an investment manager that handles everything like an OCIO.

High degree of alignment between current and anticipated future role of most trusted advisor for organizations

% Role trusted advisor plays for organization



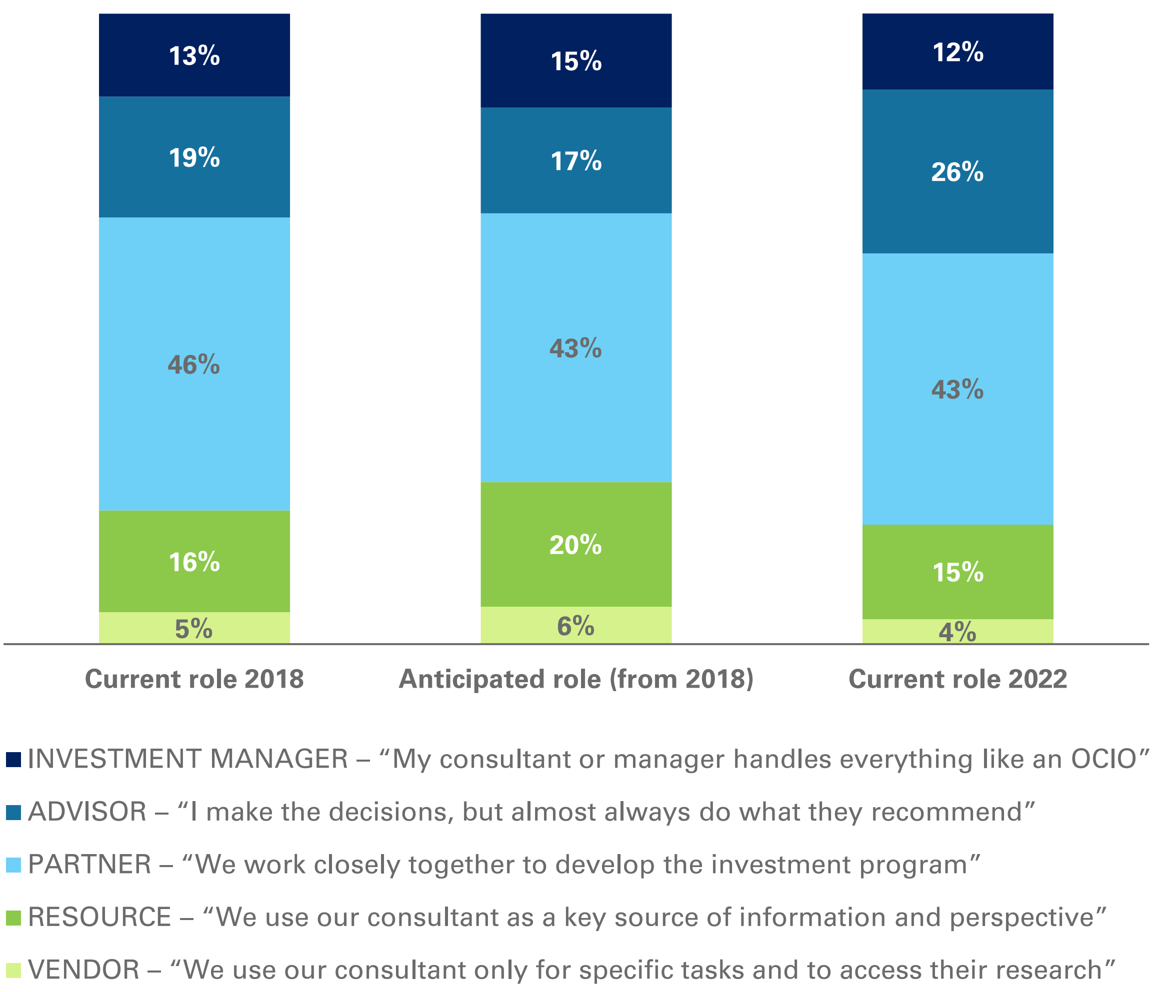
The anticipated increase in Investment Managers is not materializing

In 2018 almost half (46%) said that they saw the role of their most trusted advisor as a Partner. In 2018 the expectation was that this wouldn't change in the next 5-7 years and the 2022 survey (43%) supports this view. In fact, very little has changed. 2022 figures are all within +/- 3pp of 2018 figures, with the exception of Advisor, which has increased from 19% to 26% (despite contacts actually expecting this to decrease in 2018, from 19% down to 17%).

Similar to 2022 (albeit to a lesser extent), in 2018 contacts anticipated a slight increase in most trusted advisors acting as Investment Managers (2018 current role 13% vs 2018 anticipation for 5-7 years' time 15%). Four years on and the evidence paints a picture of stability with 12% currently performing the role Investment Manager, indicating that there are perhaps barriers in place between what's anticipated and the reality that plays out. We note later in this summary that certain market segments have seen more significant shifts, with a more pronounced move toward advisors as Investment Managers.

Four in five advisors take on an active role in developing the investment program

% Role trusted advisor plays for organization



Differences in role of most trusted advisor by organization type

Overall, the biggest differences seen in the perceived role of advisors were within Endowments and Foundations (E&Fs).

Endowments and Foundations

Those responding on behalf of E&Fs (26%) were much more likely to see their most trusted advisor as an Investment Manger than the average (12%).

Those representing E&Fs (32%) were also much more likely to anticipate that their most trusted advisor will perform the role of an Investment Manager in the next 5-7 years, compared to the average (17%).

Defined Contribution

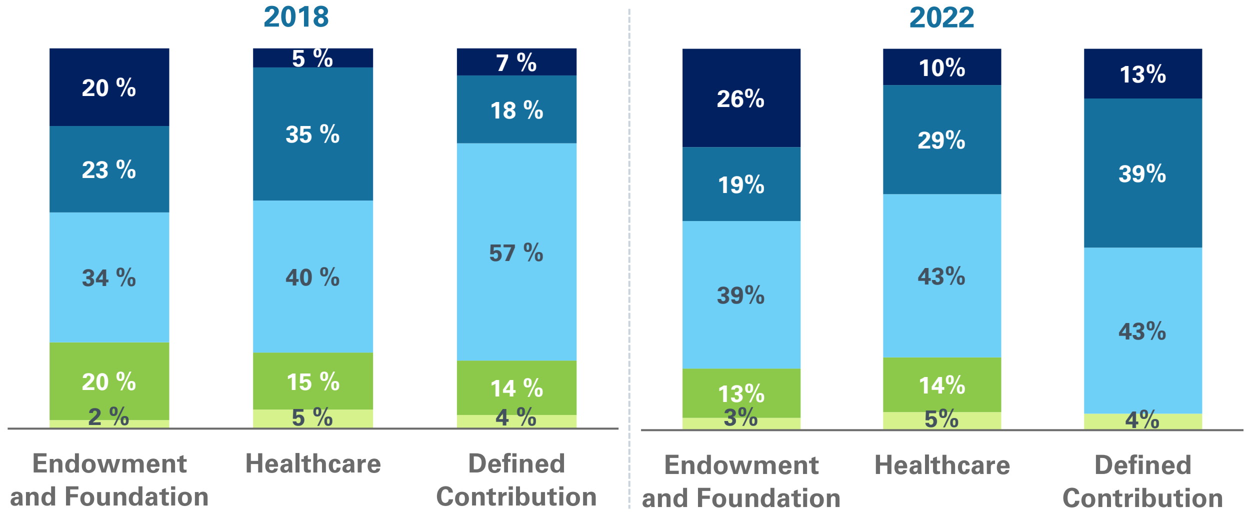
Those representing Defined Contribution (DC) organizations (13%) were more likely to see their most trusted advisor as an Investment Manager than the average (12%).

Those representing DC organizations (17%) were also much more likely to anticipate that their most trusted advisor will perform the role of an Investment Manager in the next 5-7 years.

Healthcare

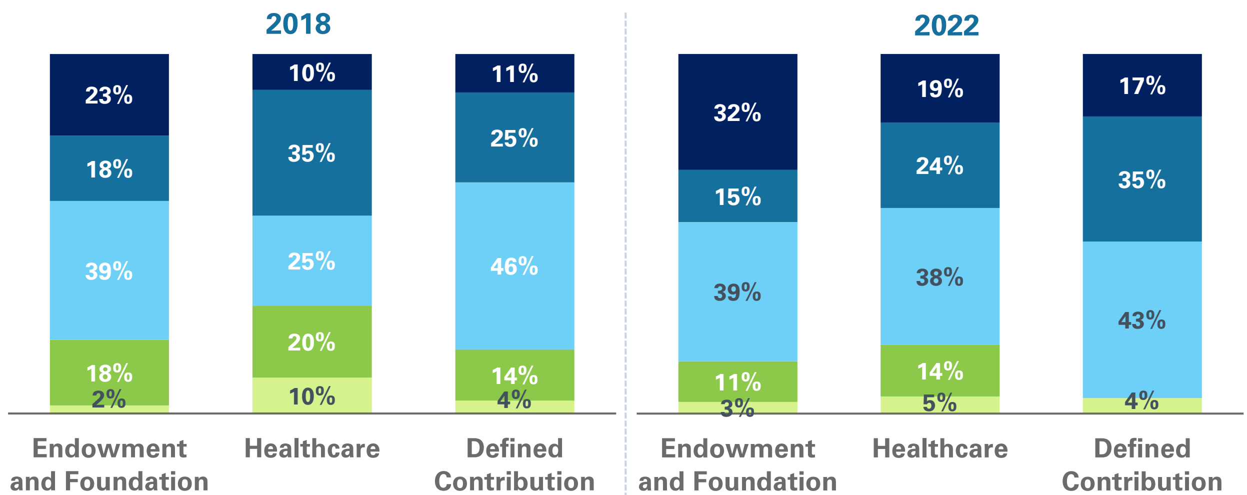
Those representing Healthcare (HC) organizations were also much more likely to see their trusted advisor as an Investment Manager (5% in 2018 vs. 10% in 2022), and anticipated that their most trusted advisor will perform the role of an Investment Manager in the next 5-7 years.

2B. Describe the current role your most trusted advisor plays for your organization:



- INVESTMENT MANAGER – “My consultant or manager handles everything like an OCIO”
- ADVISOR – “I make the decisions, but almost always do what they recommend”
- PARTNER – “We work closely together to develop the investment program”
- RESOURCE – “We use our consultant as a key source of information and perspective”
- VENDOR – “We use our consultant only for specific tasks and to access their research”

2C. Describe the anticipated future role of your most trusted advisor for your organization (in the next 5-7 years):



- INVESTMENT MANAGER – “I want my consultant or manager to handle everything like an OCIO”
- ADVISOR – “I will make the decisions, but almost always do what they recommend”
- PARTNER – “We will work closely together to develop the investment program”
- RESOURCE – “We will use our consultant as a key source of information and perspective”
- VENDOR – “We will use our consultant only for specific tasks and to access their research”

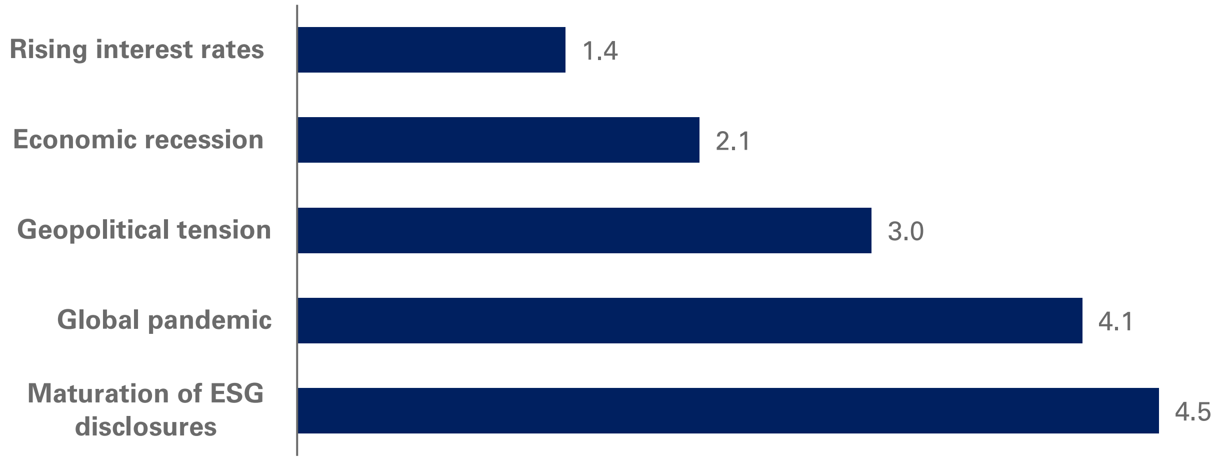
SECTION 3: THE INVESTOR LANDSCAPE & FUTURE PROOFING

Rising interest rates and economic recession are top of mind

Contacts ranked rising interest rates 1st (average rank 1.4) from a list of 5 macroeconomic factors that will have the greatest impact on their organizations' portfolio construction over the next 6 months. Economic recession ranked 2nd (average rank 2.1) and geopolitical tension ranked 3rd (average rank 3.0). As the immediate threat of the pandemic has eased, it features lower down the list in 4th place (average rank 4.1), with maturation of ESG disclosures coming in last (average rank 4.5).

Rising interest rates expected to have the greatest impact on portfolio construction

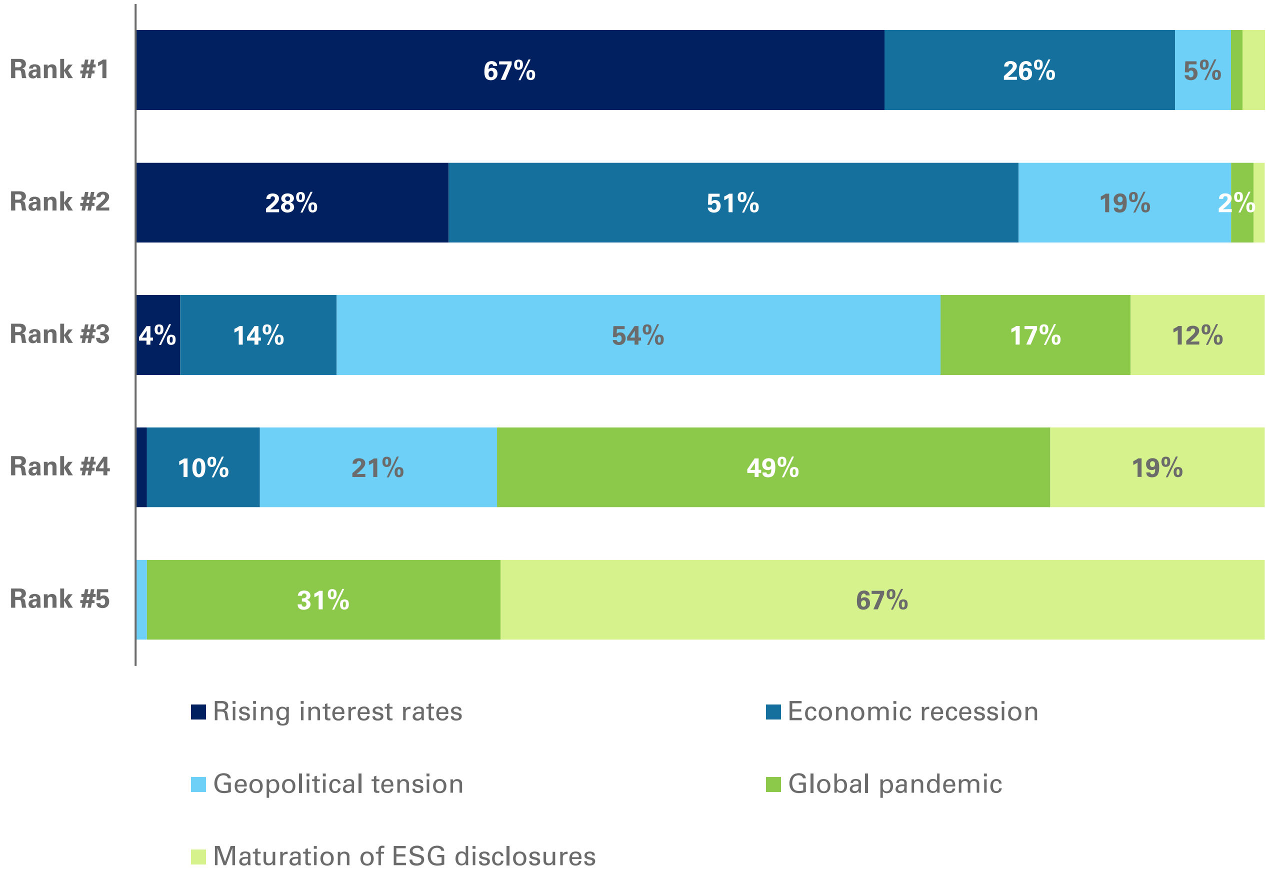
Average rank 1-5 of macroeconomic factors (1 greatest impact – 5 least impact)



Further analysis shows the certainty and alignment investors hold in their expectations. Two-thirds (67%) of contacts representing investment organizations agree that rising interest rates are the macroeconomic factor that will have the single greatest impact on their organizations' portfolio construction in the next 6 months. Half (51%) anticipate that economic recession will have the 2nd greatest impact. Investors are more certain about which factors will have the most and least impact (rank #1 and rank #5 both 67%).

Two thirds expect rising interest rates to have the greatest impact on their organizations' investment portfolios

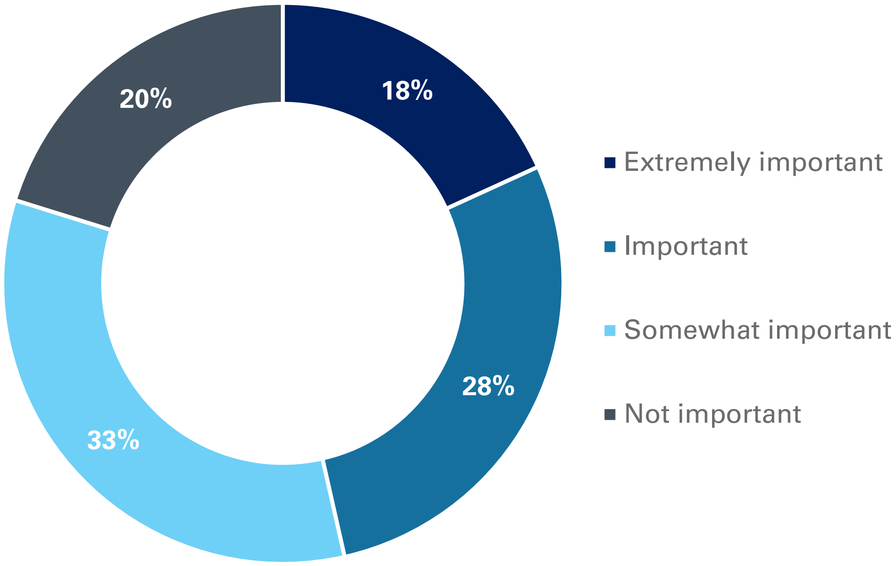
% Selecting ranks 1-5 across macroeconomic factors (1 greatest impact – 5 least impact)



Most acknowledge DEI issues as an important consideration for investment programs

Four in five (80%) contacts say that it is important to incorporate Diversity, Equity & Inclusion (DEI) in their investment program. One in five (18%) say it is extremely important, 28% say it is important and this contrasts to just 20% saying it is not important.

One in five contacts say incorporating DEI into their investment programs is extremely important



Those responding on behalf of E&Fs were asked if they had increased grants to organizations funding DEI in 2022. Those representing E&F organizations who said DEI was extremely important (25%) or important (45%) were, perhaps as expected, more likely to have increased grants to organizations funding diversity & inclusion in the past 12 months than those that said DEI was not important (10%).

Differences in DEI importance by organization

Endowments and Foundations

Two in five contacts representing E&Fs said incorporating DEI in their investment program is extremely important, which is aligned to the average overall (E&Fs 19% vs 18% overall). Just 16% of those representing E&Fs said it was not important compared to 20% overall.

Healthcare

Those representing HC organizations were much more likely to feel that representing DEI in their investment programs is of greater importance. Three in ten of those representing HC organizations said it was extremely important to include DEI in their investment programs, much more than overall (HC 29% vs 18% overall). Two in five said that it was important, again much higher than overall (HC 38% vs 28% overall).

Corporate Pension/ Insurance/ Defined Contribution/ Public Pension

Contacts representing Pension and Insurance organizations were slightly less likely to recognize the importance of incorporating DEI into their investment programs than the average overall. Almost a quarter said it was not important (DC/IN/DC/PP average 23% vs 20% overall).

Taft-Hartley

Contacts representing Taft-Hartley organizations were split on how important it is to incorporate DEI into their investment programs. Although a quarter think it is extremely important (TH 25% vs 18% overall), two in five thought it was not important, considerably more than the average overall (TH 38% vs 20% overall).

Other key industry trends that contacts felt were important

Contacts across organization types identified the following as important key up-and-coming industry trends (beyond those already identified in the survey).

- Labor supply
- Supply chain disruption
- Geopolitical risks
- Cybersecurity threats
- The Energy Transition
- European energy prices
- China – (ESG issues & national debt level specifically)

SECTION 4: PRACTICE GROUP-SPECIFIC QUESTIONS

SECTION 4A: ENDOWMENTS AND FOUNDATIONS

Human services and education are where most Endowments and Foundations organizations focus grant making activities in 2022

Human services and education are where most E&F contacts focus grant making activities in 2022. Diversity & Inclusion features 4th on the list of areas where grant making will be made in 2022, and 29% of E&F contacts say they have increased grants to DEI organizations in the past 12 months. Environmental causes rank further down at 7th on the list, and 18% of E&F contacts said that they had increased funding to organizations funding sustainability initiatives in the last 12 months.

The majority (84%) of contacts representing E&Fs said they are not planning to adjust their spending rate in 2022 for inflation or in response to the risk of recession. Sixteen percent of those representing E&F organizations said they were considering adjusting their spending rate.

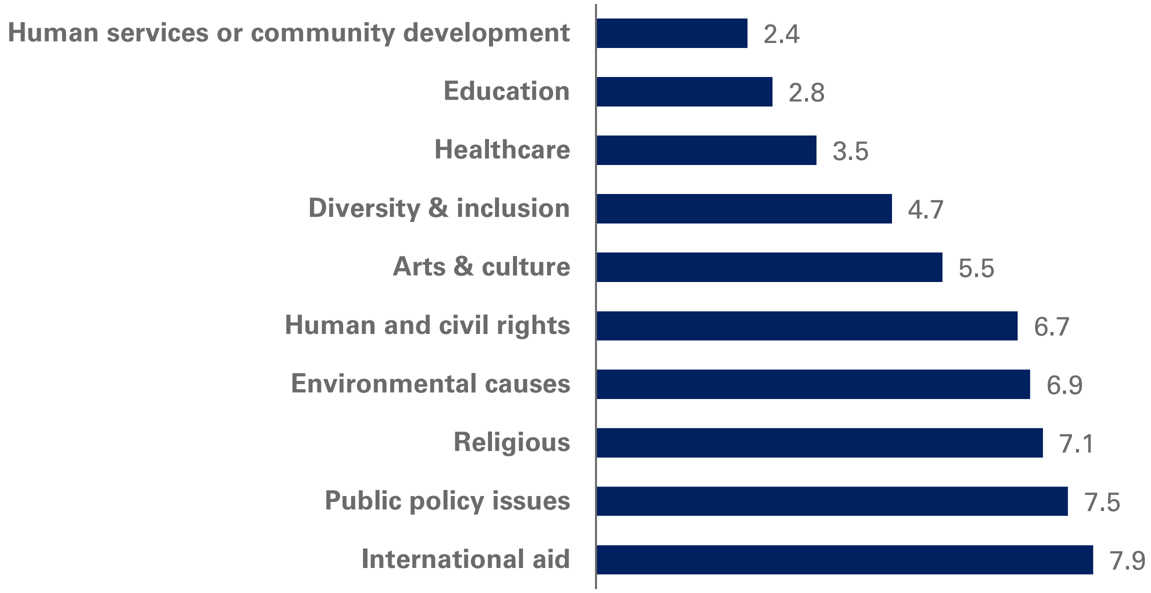
Of the 16% that said they were considering adjusting their spending rate, 60% said they were planning to adjust spending rate on financial aid or grants, 20% on faculty or admin salary commitments and another 20% on capital improvement projects.

Contacts representing E&Fs were fairly aligned on where the majority of their grant-making activities were focused in 2022. Human services or community development had the highest ranking (average 2.4) from the list of ten areas, followed by education (average 2.8) and healthcare (3.5). Seven in ten ranked human services or community development 1st or 2nd from the list of 10 areas and half (50%) ranked education either 1st or 2nd.

DEI ranked 4th (average rank 4.7). Those that increased grants in DEI ranked DEI slightly higher (average rank 3.9). Arts & culture ranks 5th on the list and thereafter there is little to distinguish between areas.

Grant-making activities in 2022 were focused on human services or community development, and education

Average rank 1-10 of where the majority of grant-making activities were focused in 2022 (1 most – 10 least)



Three in ten (29%) contacts representing E&Fs said they increased grants to organizations funding diversity & inclusion in the past 12 months. Those working as Investment Staff (29%) and Senior Executives (internal) (31%) were more likely than those working on the Board or Investment Committee (23%) to say that they had increased funding in diversity & inclusion programs in the past 12 months.

One in five (18%) contacts representing E&F organizations said they increased grants to organizations funding sustainability initiatives in the past 12 months. Those working as Investment Staff (21%) and those working on the Board or Investment Committee (23%) were more likely than to say that they had increased funding in sustainability initiative programs in the past 12 months than Senior Executives (internal) (14%).

The top three challenges that contacts representing E&Fs felt they are facing from a government perspective include: Development of a long-term strategy in a changing environment (52%), attracting or retaining staff or volunteers (45%), attracting board members/ succession planning (37%).

Increasing fundraising efforts (32%) and potential long-term shortfall from investment assets (29%) were the fourth- and fifth-most-selected challenges among the five challenges presented.

SECTION 4B: DEFINED CONTRIBUTION

Over half of contacts representing Defined Contribution organizations say they are likely to incorporate ESG

Of the contacts representing DC organizations, almost a quarter (22%) said that their organizations are very likely to incorporate ESG into their definition plan governance moving forwards. Three in ten (30%) said it was somewhat likely, 30% said unlikely and 17% were unsure.

Ten contacts representing DC organizations said they are considering OCIO. Of these ten contacts, three said their main focus was to reduce fiduciary risk, and seven said reducing fiduciary risk is not their main focus.

SECTION 4C: PRIVATE WEALTH

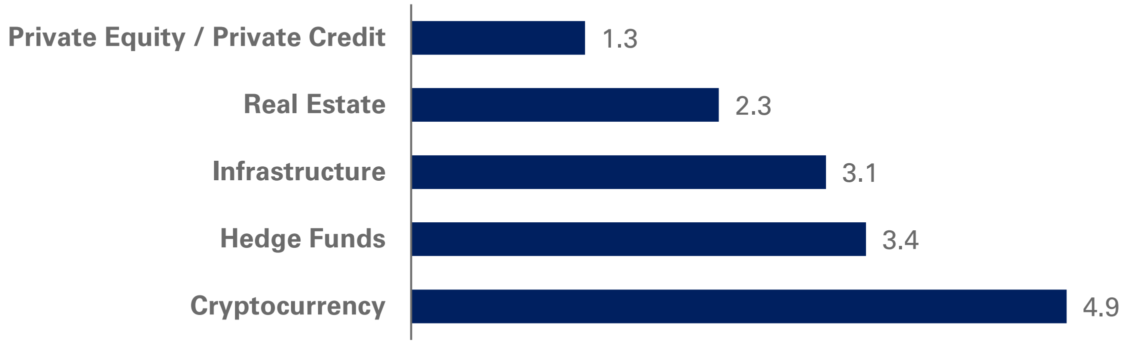
Private equity and real estate are the top-ranking alternative investment areas of interest to contacts representing Private Wealth organizations

Sixteen contacts representing private wealth organizations completed the survey. The areas of alternative investment they are most interested in are private equity (average rank 1.3) or credit and real estate (average rank 2.3).

Infrastructure (average rank 3.1) and Hedge Funds (average rank 3.4) occupy the middle ground in terms of interest. Little interest is expressed in cryptocurrency (average rank 4.9). In fact, 88% rank it last on their list of alternative investment areas that they are interested in.

Private equity / credit is the area of alternative investment that contacts representing private wealth organizations are most interested

Rank 1-5 alternative investment areas currently most interested in (1 most – 5 least)



The contacts representing Private Wealth organizations were then asked to rank their top concerns (1-3) about increasing allocations in alternative assets. Their key concern was that capital will be locked away for longer than expected based on recent industry trends (average rank 1.2). Four in five (81%) ranked this as their most pressing concern about increasing allocations in alternative assets.

Uncertainty around regulation and impending legislation ranked as the second greatest concern (average rank 2.3), and a lack of education and transparency ranked third (average rank 2.5).

SECTION 4D: PUBLIC PENSION & CORPORATE PENSION

Three in ten Public Pension & Corporate Pension contacts are considering increasing the amount invested in alternative investments

Three in five (60%) contacts representing Public Pensions or Corporate Pensions say that deterioration of funded status due to markets is their main concern regarding their pension plan over the next 12 months. One in five (20%) say their main concern is active management's ability to outperform, 10% economic weakness which could challenge the ability of my organization to make future contributions and 10% the ability to identify and invest in unique active managers (traditional and alternative).

Asked what investment changes contacts representing Public Pensions or Corporate Pensions are considering, half (49%) say they are considering maintain their current asset mix and not making a change. Three in ten (28%) are considering increasing the amount invested in alternative asset investments. Just over one in ten (14%) are considering increasing the amount invested in cash or fixed-income investments, while 8% are considering increasing the amount invested in public equities.

SECTION 5: ABOUT THE SURVEY

Contacts surveyed

A total of 247 contacts completed the survey. A quarter (26%) of the contacts completing the survey held an 'Investment Staff' position. Almost half (47%) were 'Senior Executives' (working internally as part of the organization). Just over a quarter (28%) held job titles on the 'Board or Investment Committee'. Also, the 2018 survey was completed by 215 contacts.

Half of contacts completing the survey held job titles as 'Senior Executives' with the organization

% Currently holding job titles

Types & value of investment programs represented

Endowments and Foundations (base size n=62)

A third (32%) of those responding on behalf of E&Fs were responding on behalf of Community Foundations investment programs, a quarter (26%) on behalf of Higher Education and again a quarter (23%) on behalf of Private Foundations investment programs.

Over half (56%) of contacts responding on behalf of E&Fs were representing investment programs valued at over $400m, and 40% were valued at over $750m.

A quarter (23%) of those responding on behalf of E&Fs were investment staff, 21% were on the Board or Investment Committee, while over half (56%) were Senior Executive, Internal.

Healthcare (base size n=21)

Most (62%) of those responding on behalf of HC organizations were responding on behalf of Operating Assets investment programs, a quarter (24%) were representing Endowment and Foundation investment programs.

Half of HC contacts (52%) were representing investment programs between the range $1bn-$3bn, while 19% were representing investment programs worth over $3bn.

Three-in-five (62%) of those responding on behalf of HC organizations were Investment staff. A quarter (24%) were Senior Executives (internal) and 14% were Board/ Investment Committee.

Corporate Pension/ Insurance/ Defined Contribution/ Public Pension (base size n=112)

Six contacts responded on behalf of Insurance organizations: five on behalf of Insurance Assets investment programs and one on behalf of Pensions Assets.

Seven in ten (69%) contacts representing pensions and insurance organizations were representing investment programs with a value over $1bn, and 30% were representing programs with a value over $5bn.

A quarter (24%) were Investment Staff, 46% were Senior Executives (internal) and 30% were Board/Investment Committee.

Taft-Hartley (base size n=16)

All sixteen contacts responding on behalf of Taft-Harley organizations were representing Pension investment programs. (None were responding on behalf of Annuity, Health & Welfare or Insurance investment programs).

Seven-in-ten (70%) contacts responding on behalf of Taft-Hartley organizations represented investment programs valued at over $1bn.

A quarter (25%) of those responding on behalf of Taft-Hartley organizations were Investment staff, 38% were Senior Executives (Internal) and again 38% were Board/Investment Committee.

DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

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The opinions presented herein represent the good faith views of NEPC as of the publication date and are subject to change at any time.

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