NEPC'S 4TH ANNUAL DEI PROGRESS REPORT

ACCOMPLISHMENTS AND BENEFITS

Part One: Marketplace Report

June 2024

Diversity at NEPC

Conviction in the Data

By KC Connors, CFA, CAIA, Partner, Diverse Manager Committee

As a firm, NEPC is committed to establishing itself as a pioneer in Diversity, Equity, and Inclusion (DEI). This has been true for NEPC from its early days. Our leadership thesis is that expanding diversity – among our employees and our manager lists – gives our clients access to a key driver of company resiliency and, potentially, investment alpha.

Diversity can be a complex or even controversial subject, and it has certainly inspired a lot of debates. To us, the sincerity of these debates underscores how meaningful diversity is, not just in our industry, but among our clients. Of course, every client has their own perspective and can choose, or not, to pursue diversity options in their own portfolios. But we cannot ignore that clients broadly expect us to pursue investment gains in a responsible way.

We also can't ignore the data. Diversity offers quantifiable advantages. McKinsey, which has been tracking company diversity and financial performance over four reports going back to 2015, summarizes:

> *"Companies in the top quartile for both gender and ethnic diversity in executive teams are on average 9 percent more likely to outperform their peers…. Meanwhile, those in the bottom quartile for both are 66 percent less likely to outperform financially on average."*
>
> https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-matters-even-more-the-case-for-holistic-impact

McKinsey's study is just one in a stream of data points that validates the benefits of diversity when pursued with rigor. In our experience, diversity isn't compromise. Our goal in pursuing diversity is to drive through any barrier that prevents us from finding investment managers or employees that grade highly against our criteria.

As a leading global investment consultant, we bear some responsibility for helping to define diversity within our industry, and to follow through on that responsibility by implementing and improving diversity programs within our walls. In this report, we will detail some of the ways we are following through on our diversity commitments, and the results we've been able to achieve.

Making gains in the realm of diversity demands patience, persistence, and commitment. We believe now, as we have throughout our history, that such a commitment will ultimately be a key element in adding value for our clients.

KCC

KC Connors, CFA, CAIA,
Partner, Diverse Manager Committee

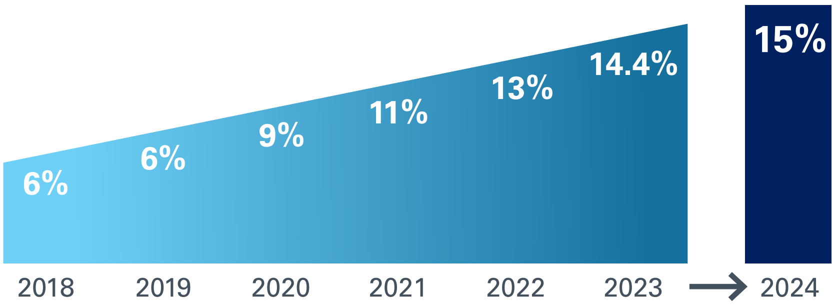
NEPC’s Diverse Manager Policy

Goals within Reach

NEPC’s DEI program centers around our long-term goal of 15% diverse manager representation by 2024. Once again in 2023, we made steady progress toward this goal, after increasing the number of diverse-owned managers on our Focus Placement List. We are currently on track to achieve our policy goal by the summer of 2024.

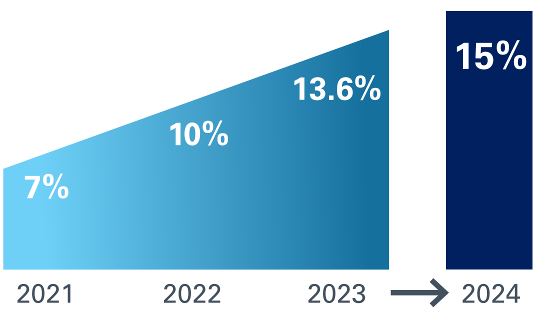
PUBLIC MARKET STRATEGIES

Goal: **15%** Diverse Manager representation by 2024 .... **Status:** ***On Track***



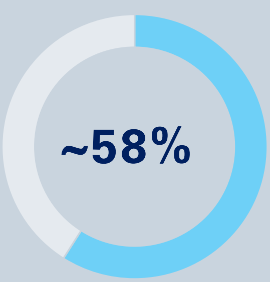
OCIO

Goal: **15%** Diverse Manager exposure by 2024 .... **Status:** ***On Track***



2023 RESULTS[1]

Robust Client Exposure to Diverse Strategies



of NEPC Clients use Diverse Manager(s)

of Client Assets with Diverse Firms

Client Strategies managed by Diverse Firms

[1]As of 12/31/2023

DEI Ratings

A Key Advance for 2023

Our most impactful diversity initiative for 2023 was the release of a new DEI rating system, modeled partly on our successful ESG ratings. These ratings are in response to demand from institutional clients, who have continued to press us for insight into how investment managers think about – and act upon – their diversity goals.

The improved DEI ratings move beyond evaluating ownership diversity to examining DEI standards for the workforce, portfolio management, governance, policies, and community impact. This more comprehensive review creates greater transparency and easier comparisons across a much wider range of diversity data. As of year-end 2023, we completed DEI ratings for 100% of all long-only public market managers on the Focus Placement List.

Clients can use the ratings to:

- Gather deeper, more nuanced insights into each manager's diversity initiatives.
- Uncover biases that may hinder diversity efforts and enhance the risk of blind-spots or groupthink.
- Seek a competitive edge as they pursue the performance advantages statistically associated with more-diverse corporate environments.

Effective DEI ratings are not easy to implement because of inconsistency in the amount or type of data received from managers. But persistence has made a difference: not only have we found ways to address technical challenges, we've also discovered that more managers are willing to provide data in more-consistent formats as time has passed.

Client reaction to the DEI ratings thus far has been positive. Even better, we have found that the ratings inspire dialogue with clients who have suggestions on possible additions or improvements. We intend to explore these suggestions and to sustain our commitment to provide better diversity data than our competition.

How do we define a diverse firm?[1]

Diverse-owned: A firm that's at least 50% owned by an underrepresented group

Diverse-led (significantly diverse): A firm that's 33%-to-50% owned by an underrepresented group

[1]NEPC recognizes U.S.-domiciled firms able to certify ownership by persons identifying with the following underrepresented groups: Black/African-American, Hispanic/Latinx, Asian/Pacific Islander, Native American/Alaskan Native, Women, Disabled Persons, Veterans and LGBTQ.

Bethesda Inc. TriHealth

Bethesda Inc. is a mission-aligned healthcare organization that must meet or exceed our expected risk-adjusted rate of return to ensure we may reinvest in our people, community, hospital facilities, and equipment. NEPC's comprehensive DEI Rating framework helps us methodically evaluate current and potential investment managers across asset classes without compromising these crucial investment objectives.

Chip Crowther
Chief Investment Officer
Bethesda Inc./TriHealth

RUSH

The RUSH University System for Health's Investment Office has successfully aligned its investment strategy with the organization's mission by incorporating diversity into its investment policy, team, and governance structure. With NEPC as our investment consultant, RUSH has been able to strategically invest in firms that are majority-owned by women and people of diverse backgrounds, as well as those who prioritize diversity of thought. As of December 2023, 24% of RUSH's portfolio is invested with diverse-owned investment managers, underscoring our commitment to fostering inclusivity and driving positive impact through our investment choices.

Alex Wiggins, CFA
Chief Investment Officer
RUSH

Building the Bridge from Ideas to Actions

Our Diverse Manager Policy has two main objectives

1. **Increase the number of diverse, 1- and 2-rated managers on our Focus Placement List (FPL).**
2. **Increase the visibility of diverse-owned managers.**

NEPC's **Explorer Program**, which has focused on expanding high-quality diverse representation on the FPL, has been the foundation of our DEI efforts for several years. As detailed on page 2 of this report, our pursuit of the Explorer Program has helped us make meaningful gains toward goal #1.

Over time, however, we realized we would need to do more to make more progress on goal #2. With that in mind, we initiated the **Explorer Program Pre-Conference Event** in 2023. We used the opportunity of our annual client conference to directly introduce interested clients to a select group of diverse-owned NEPC-rated managers, live and in person. This ultimately led to new partnerships and more client dollars allocated to diverse managers.

We also held the **5th Annual Equitable Manager Participation (EMP) Workshop** in 2023. The workshop invites the diverse manager community to openly engage NEPC on how to better strategically engage with the firm so that they may be eligible to access opportunities with NEPC clients. It's also a chance to learn more about NEPC's diverse manager committee and its DEI initiatives.

Finally, given our understanding of client needs and manager capabilities, we **worked directly with several diverse firms** to develop new products and solutions customized for NEPC clients. We have also continued to be **proactive in engaging with diverse managers** and attending, participating in, or organizing important industry events to promote better DEI practices.

We view these efforts as continuing to raise the bar for ourselves and our competitors as we strive to add value for our clients.

284 TOTAL DIVERSE MANAGER ENGAGEMENTS

275
MANAGER MEETINGS

9
CONFERENCES ATTENDED

- 2023 NYSIF Emerging Manager Conference
- 2023 Teacher Retirement System of Texas/ERS Allocator Hall Event
- 3 NASP Events
- 2 NEPC Events
- 2023 Grosvenor Emerging Manager Conference
- 2023 IDAC Summit

Industry Leadership

IDAC Highlights

NEPC isn't just a steward of our clients' assets; like all investment leaders, we bear a responsibility toward our industry and, more broadly, the proper functioning of markets. That's why our DEI efforts go beyond internal metrics and client-focused ratings and reach out into our industry community.

Our primary vehicle for industry leadership is IDAC – the national Investment Diversity Advisory Council. IDAC was originally founded as the brainchild of NEPC senior partners who wanted to amplify the conversation around diversity. In 2023, IDAC took significant steps toward being the leading proponent of goals and measurements for diversity initiatives within our industry.

IDAC Goes Independent

In 2023, IDAC was spun off from NEPC and became an independent entity, serving as an industry-wide platform for investment organizations to share best practices and document progress on DEI. NEPC Partner Sam Austin remains a member of the IDAC board and still provides leadership for the organization's initiatives.

The 2023 IDAC Annual Summit

NEPC participated in an eventful 2023 IDAC Annual Summit. The summit included speakers from across the industry who support IDACs key goals:

- Doubling the assets under management owned by diverse managers to 3% within the next five years.
- Delivering 10,000 new, diverse professionals into the finance industry within a decade.
- Developing new DEI disclosure standards.
- Establishing a digital resources library.

The IDAC Student Summit

IDAC held its first Student Summit in 2023. More than 30 diverse students in the investment field were offered an opportunity to learn about various occupations in the field and to receive direct mentoring from senior IDAC leaders.

Looking Ahead

Building on Success for 2024

A rigorous DEI program is one that treats DEI goals in the same manner as other critical corporate initiatives. As with other company goals, our DEI efforts are sponsored by executive leadership, which provides the business-specific and actionable targets and an appropriate amount of investment. From there, aspects of the program are evaluated, results are tracked, and improvements discussed.

We see 2024 as a year for evaluation and improvement. Now that our initial DEI goals are within reach, we are strategizing on new ways to build on our results. For example:

- We plan to create the third version of our Diverse Manager Policy in the coming months.
- We were pleased with the results for the Explorer Program Pre-Conference Event. We want to replicate it going forward to help increase diverse manager utilization across our platform for those clients who seek to benefit from it.
- We expect to lay the groundwork to establish both OCIO and FPL goals for 2025.
- We will be increasing our level of engagement with diverse-owned emerging managers in private markets.

Finally, as our diverse manager platform and internal databases continue to expand, we are exploring new ways to make more-data driven cases for investing with diverse managers. Many clients recognize the value of diversity generally but would benefit from more-detailed research into the best ways to incorporate diversity into their broader portfolios. This is a role we intend to embrace as we work toward a more intentional and actionable approach to diversity.

NEPC WORKPLACE DIVERSITY

Highlights

39%

racially diverse hires in 2023

56%

gender diverse hires in 2023

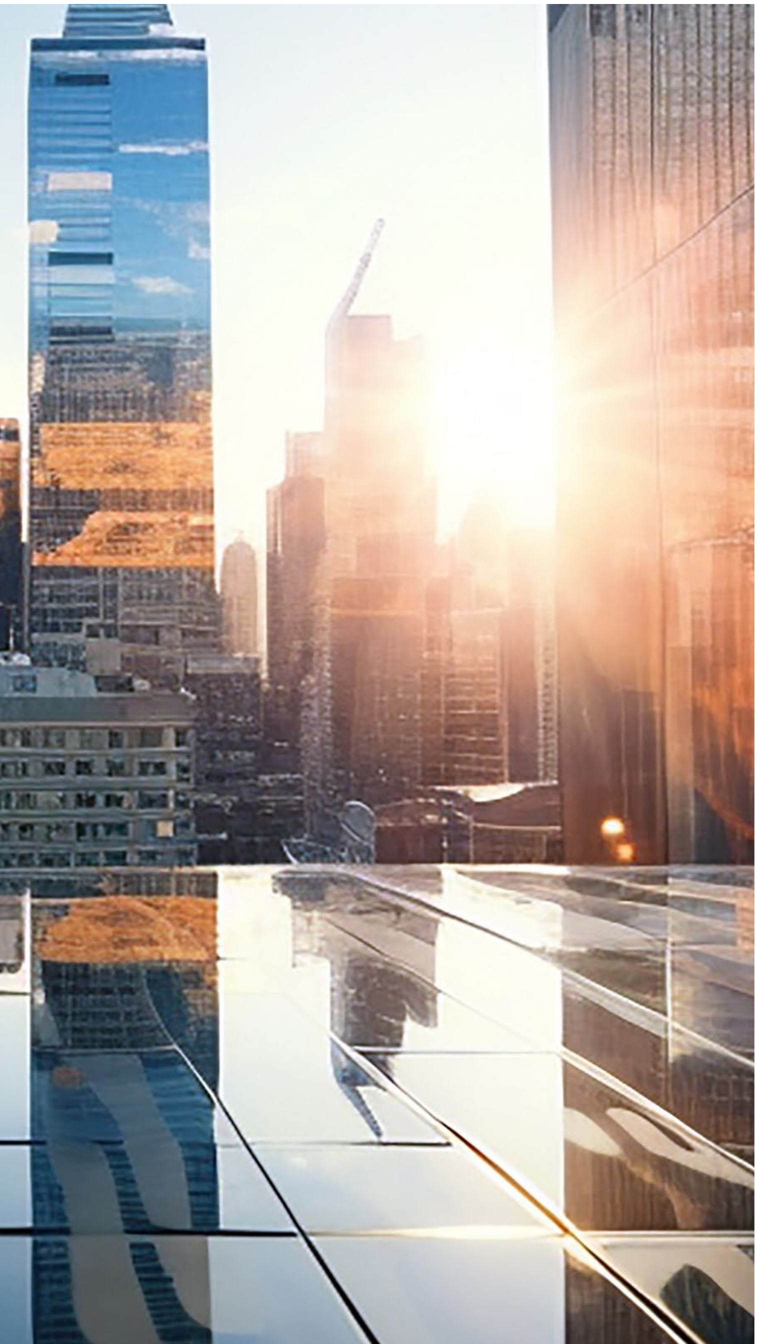
72%

of 2023 new hires were diverse based on gender, ethnicity or race

NEPC's DEI Progress Report – Part Two will provide additional data on the NEPC workplace and workforce

INTENTIONALITY

Actionable ways to implement a DEI lens



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.

The information in this report has been obtained from sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

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

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