

## 2022 SUSTAINABILITY REPORT



# Sustainability Report



**SUSTAINABILITY IS AT THE CORE OF THE TRANSFORMATIONAL IMPACT WE SEEK TO DELIVER TO OUR CLIENTS.** As fiduciaries, we believe that we can expand our clients' ability to implement their long-term missions through customized and client-specific incorporation of ESG and DEI factors.

# From Strategic's Management Committee

Dear clients, colleagues, and friends,

Strategic Investment Group was founded 35 years ago with the mission to act as an investment office for hire focused on delivering transformational impact to a small number of select clients. Our firm's longevity is a testament to our success in delivering on this mission. Our history is also a validation of two core principles that have been in place since our firm's establishment.

The first core principle is the value of diversity and the importance of incorporating different viewpoints. Our diverse team of founders established the culture of collaboration, teamwork, intellectual debate, and analytical rigor that characterizes Strategic and continues to be necessary to deliver long-term sustainable investment results for our client partners.

The second core principle is that no two clients are alike. We understand that our clients need to customize their portfolios to match their unique missions and organizational identities. For many of our clients, that means incorporating Environmental, Social and Governance ("ESG") and Diversity, Equity, and Inclusion ("DEI") objectives into their portfolios. The need for customization is why we dedicate ourselves to working with a small number of clients whose unique and evolving portfolio needs we understand in depth.

We believe that delivering on client objectives while being prudent stewards of capital and good citizens of the world requires a commitment to advancing diversity efforts and leveraging technology and innovation to help each client align their portfolios with their unique mission.

We are sharing this report to provide greater insights into the work we have been doing to deliver on those commitments and to more fully inform you of the approach we have taken across the firm, in our portfolios, and in our community. These developments have been made through the great dedication of our ESG and DEI Committees, which were each deliberately created with membership from across the firm to ensure that these priorities and initiatives were woven into all of our activities. We have accomplished a great deal through collaboration with our clients, investment managers, and friends in the investment community.

We are pleased to share these developments with you, but as in life, this is a journey and not a destination. We still have a great deal of work to do and are committed to the continued reflection and growth that has been a hallmark of our approach since our founding. We welcome your thoughts as we work together to multiply the impact we have made in our portfolios and in our communities.

With kindest regards,

The Strategic Management Committee

*Michelle McCloskey*  
Michelle McCloskey  
Executive Chair

*Eric Bendickson*  
Eric Bendickson, CFA  
Co-Chief Investment Officer

*Lauren Fitzgerald*  
Lauren Fitzgerald  
Chief Human Resources Officer

*Ken Grossfield*  
Kenneth Grossfield, CFA  
COO and General Counsel

*Nikki Kraus*  
Nicole Kraus, CFA  
Chief Client Officer

*Markus Krygier*  
Markus Krygier, Ph.D.  
Co-Chief Investment Officer

*Chris Lvoff*  
Christopher Lvoff, CFA, ASA  
Co-Chief Investment Officer

*Steve Mandella*  
Stephen Mandella  
Chief Financial Officer

# Strategic's Commitment to Sustainability

**S**trategic seeks to deliver transformational impact to our clients.

To accomplish this, we strive for superior investment performance, rigorous and disciplined portfolio execution, dynamic collaboration across all levels of the organization, and an intentional firm design with a conflict-of-interest free business model. We believe that our clients are making profound positive changes in the world, and by expanding their ability to implement their missions, we expand their ability to change the world.

Sustainability is at the core of that transformational impact. All our clients are investing to fulfill long-term missions with long-term horizon portfolios. This requires us as fiduciaries to thoughtfully consider any factor that may impact our investments, our clients, and our firm in the decades ahead. We define "sustainability" as the combination of factors and initiatives surrounding Diversity, Equity, and Inclusion ("DEI") activities and Environmental, Social, and Governance ("ESG") activities. In the pages that follow, we describe how we tackle complex DEI and ESG objectives. Most importantly, we never lose sight of *why* we tackle them. We do not consider responsibility for DEI and ESG objectives to be isolated functions. Rather, we take a holistic approach to incorporating accountability for these objectives at every level of our firm.

*We do not consider responsibility for DEI and ESG objectives to be isolated functions. Rather, we take a holistic approach to incorporating accountability for these objectives at every level of our firm.*

Throughout the report the staff data is as of November 1, 2022.

"Underrepresented Group" includes females, racial groups, the disabled, and veterans.

# Recent Highlights and Initiatives

- Michelle McCloskey joins as Strategic's new Executive Chair.**  
 Following a three-and-a-half-decade career in the investment management industry, Michelle joins us from her previous role as President of the Americas at Man Group and Man FRM. Michelle currently serves on the corporate board of Assured Guaranty and the Sanford Bernstein mutual fund board at Alliance Bernstein. With Michelle's addition to the team, 57% of our Board Members are female and 14% are from an underrepresented racial group.
- Early signatory of the CFA Institute's Diversity, Equity, and Inclusion Code.**  
 Strategic has set 5-year DEI goals, including the objective of increasing the diversity of our investment team by 20%. Strategic has already taken meaningful steps to achieve its DEI goals. Of our 104 employees:

<ul style="list-style-type: none"> <li>46% are female</li> </ul>	<ul style="list-style-type: none"> <li>27% are from an underrepresented racial group</li> </ul>
<ul style="list-style-type: none"> <li>43% of our employees at Director-level and above and 34% of our equity holders are female</li> </ul>	<ul style="list-style-type: none"> <li>100% of hires within the last 12 months add diversity to our team</li> </ul>

- **Strategic's manager diversity levels are more than double the industry average.** We survey our investment managers annually to determine the level of diversity in their firms and gain perspective on their efforts to promote DEI. The results of this year's survey confirm that Strategic's manager diversity levels are more than double the industry average, as measured by the Knight Foundation's 2021 Diversity of Asset Managers study<sup>1</sup>.
- **We use multiple lenses to measure ESG integration.** Strategic has always partnered with managers who thoughtfully integrate ESG factors with the objective of creating value for investors. Approximately 90% of managers in our clients' public equity, hedge fund, real estate, and private equity portfolios consider ESG factors in their investment process.
- **We align portfolios using custom-built strategies.** Strategic created an internally-managed active equity portfolio that tracks the S&P 500 while exhibiting improved ESG characteristics versus the index in order to meet a specific client need. The portfolio has achieved performance in line with the benchmark, within the required tracking error range, and with ESG metrics that greatly exceed the benchmark and the client's policy objectives. We believe that our strengths in technology, portfolio construction and execution, and client collaboration allow us to offer this customized solution ourselves much more efficiently than a third-party manager.
- **We measure and report our carbon emissions.** Consistent with our belief that to manage something you must be able to define and then measure it, we embarked on a journey to measure Scope 1, 2, and 3 carbon emissions and publicly report this data. Our cross-functional ESG Committee, tasked with driving progress and taking accountability for our ESG initiatives, has committed to leading these efforts. Steps to reduce and offset these emissions have already begun and are described in more detail in the pages that follow.
- **We are transitioning a client portfolio to complete fossil-fuel divestment by 2025.** Strategic has more than three decades of experience creating mission-aligned portfolios for clients. Recently, we partnered with investment managers to develop new fossil-fuel free investment vehicles, seed them with capital, and launch them for wider adoption. We have also expanded our relationships with, and gained access to, highly access-constrained managers focusing on decarbonization strategies and energy transition.
- **We are a thought leader in mission-aligned investing.** Strategic developed a framework to guide organizations in implementing responsible investment programs that has been published by the Association of Governing Boards of Universities and Colleges ("AGB") in 2022 in their books: *Endowment Management for Higher Education* and *Endowment Management for Foundations and Nonprofits*.
- **We have initiated new strategic partnerships.** Strategic became a member of Confluence Philanthropy, an organization representing more than \$96 billion in philanthropic assets under management that advances mission-aligned investing. We also engage with a number of other ESG-related initiatives such as Athena Alliance, Gratitude Railroad, and the Intentional Endowments Network.

*Approximately 90% of managers in our clients' public equity, hedge fund, real estate, and private equity portfolios consider ESG factors in their investment process.*



<sup>1</sup><https://knightfoundation.org/reports/knight-diversity-of-asset-managers-research-series-industry/>

## We “Walk the Walk” When It Comes to DEI in Our Business Practices.

*Today, 48% of our leadership positions are held by underrepresented groups. Our Board is 57% female, including the Executive Chair, and 14% of our Board members are from an underrepresented racial group.*

- **A commitment to increase diversity at Strategic.** We have established DEI initiatives with specific goals, including increasing the diversity of our investment team and equity holders. Today, 48% of our leadership positions are held by underrepresented groups. Our Board is 57% female, including the Executive Chair, and 14% of our Board members are from an underrepresented racial group. We are seeking to increase the number of investment professionals from underrepresented groups by 20% and strive for a gender balanced workforce by 2026, among other goals. We have made early progress, with 100% of our summer 2022 Investment Analyst hires and Investment Interns coming from underrepresented groups.
- **Proud to be an early signatory of the CFA Institute’s DEI Code.** As signatories, we are required to provide annual reporting on our efforts to further diversity and inclusivity within our own firm. However, as we highlighted above, our efforts go far beyond the requirements of the DEI Code. We are committed to reporting each year to our clients on our

progress in deepening DEI in our firm, our investments, and our community.

- **Forging partnerships with outside groups pushing for change.** Strategic engages with organizations whose mission is to advance careers and equality in the investment and finance industry for underrepresented groups. To that end, our professionals have:
  - Spoken at numerous events aimed at supporting underrepresented groups in finance careers, including the CFA Society of Philadelphia Diversity and Inclusion event, and the University of Notre Dame Women’s Investing Summit in 2019 and 2020, and have served as mentors to students who participate in Girls Who Invest.
  - Been recognized by NASDAQ as first movers supporting DEI in venture capital by Nasdaq’s Entrepreneurial Center’s Venture Equity Project (“VEP”). The VEP is a coalition of 10 leading academic institutions and global nonprofit organizations which aims to permanently reduce the barriers that exist in the flow of capital to entrepreneurs of color.

### Diversity at Strategic

In its 2021 study, the Knight Foundation confirmed that just 1.4% of the \$82 trillion in U.S.-based assets researched were managed by people other than White males. This imbalance runs counter to our belief that diverse teams make better decisions. Strategic has committed to joining many other financial firms taking responsibility for addressing this systemic issue.

Strategic has a cross-functional DEI Committee that is charged with driving progress and accountability on our initiatives, including the following specific internal 5-year goals.

- Increase number of investment professionals from underrepresented groups by 20%.
- Strive for a gender balanced workforce.
- Hire 50% female or members from underrepresented racial groups as Investment Summer Interns and entry-level Analyst.
- Increase the percentage of equity holders from underrepresented groups.
- Keep our percentage of female CFA Charterholders above the U.S. national average.
- Retain all employees who take parental and/or caregiver leave.
- Encourage the utilization of Volunteer Paid Time Off.
- Fund scholarships for forty students attending predominantly Black institutions with our Strategic Alpha Scholarship Program administered by The Thurgood Marshall College Fund.



Valentina Glaviano and Jeff Nasser were recognized on the Nasdaq Building in Time Square as first movers supporting equity in venture capital by Nasdaq's Entrepreneurial Center's Venture Equity Project (VEP) - July 13, 2022.

Strategic is also a proud corporate sponsor and partner of 100 Women in Finance, an organization whose mission is to empower women in the global finance industry to achieve their professional potential. We cover the cost of membership to interested employees and students at our college and university clients. In fact, Strategic's leadership on student memberships prompted 100 Women in Finance to now offer this benefit worldwide to student members.



## We Seek to Partner With Managers That Share Our Philosophy on DEI.

We survey our investment managers each year to determine the level of diversity in their firms and gain perspective on their efforts to promote diversity, equity and inclusion. For 2022, we gathered results from over 130 managers. To measure our progress, we benchmark the quantitative results of our survey against the Knight Foundation's Diversity of Asset Managers study.

The results of this year's survey, shown on page 6, confirm that Strategic's manager diversity levels are more than double the industry average. The 2022 results by asset class were also better than or equal to the 2021 measurement period. We believe this is a direct result of the heavy weight we place on manager values, culture, and team quality within our due diligence process.

While the above-average results and year-over-year gains are encouraging, we are committed to improving the level of investment with diverse managers. We have built a proprietary database of diverse investment firms across all asset classes that we use to source managers for our investment portfolios. The database has grown to include over 1,000 diverse prospects and we will continue to add to this.

We also actively work with our managers to understand their plans for increasing diversity, encourage concrete steps towards this goal, and monitor progress. Our efforts focus both on short-term goals (e.g., addressing hiring practices, pay equity, inclusiveness in the workplace), and long-term goals (e.g., increasing the pipeline of candidates from underrepresented groups and ensuring greater diversity of senior leaders and firm owners).

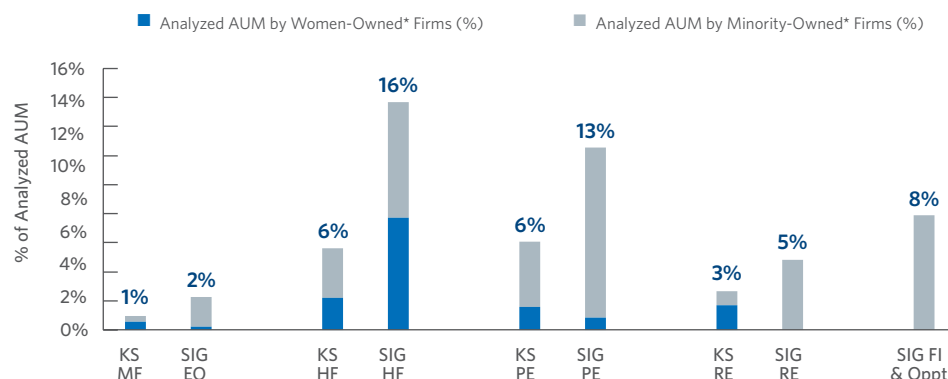
## The Six Principles of the CFA Institute's DEI Code<sup>2</sup>:

1. **Pipeline:** Expanding the diverse talent pipeline;
2. **Talent Acquisition:** Designing, implementing, and maintaining inclusive and equitable hiring and onboarding practices;
3. **Promotion and Retention:** Designing, implementing and maintaining inclusive and equitable promotion and retention practices to reduce barriers to progress;
4. **Leadership:** Using our position and voice to promote DEI and improve DEI outcomes in the investment industry. We will hold ourselves responsible for our firm's progress;
5. **Influence:** Using our role, position, and voice to promote and increase measurable DEI results in the investment industry;
6. **Measurement:** Measuring and reporting on our progress in driving better DEI results within our firm. We will provide regular reporting on our firm's DEI metrics to our senior management, our Board and CFA Institute.

<sup>2</sup> [https://www.cfainstitute.org/-/media/documents/code/dei/DEI-Code\\_2022](https://www.cfainstitute.org/-/media/documents/code/dei/DEI-Code_2022)

**EXHIBIT 1:**  
2022 Knight Foundation and Bella Research Group Study

Source: Lerner, Josh (2021). Diversifying Investments: A Study of Ownership Diversity and Performance in the Asset Management Industry. Knight Foundation & Bella Research Group.



As part of this engagement, we routinely ask about recruiting and retention progress, inquiring about specific goals and timelines for reaching them with regular follow-up. We discuss training, development, and the career mobility of people from underrepresented groups, and focus on a manager’s organizational structure, human resource professionals’ role at the firm, and overall employee relations.

Over time, we have seen meaningful change. Managers have been more forthcoming with information, have adopted practices espoused by us, and have engaged full-time professionals to advance these efforts. We are encouraged by this progress and are committed to continue these efforts.

**Our Community**

Strategic’s commitment to diversifying the financial industry extends beyond our firm and the managers with whom we invest. We have initiated educational programs, scholarships, and industry partnerships in an effort to foster interest and increase diverse representation in the industry.

In February of 2020, we partnered with the Thurgood Marshall College Fund (“TMCF”), which supports a network of public Historically Black Colleges and Universities and predominantly Black institutions throughout the United States. Through TMCF, we implemented the Strategic Alpha Scholarship program, which funds \$100,000 in scholarships in multiple years for 40 students attending predominantly Black institutions. Additionally, in 2021, our Head of Human Resources was nationally recognized by TMCF as a Partner in Diversity for Strategic’s efforts. The cohort consists of committed professionals who have dedicated their careers’ trajectory and focus to developing a workforce that champions equitable, diverse, and inclusive hiring initiatives and employee practices.

Strategic employees have long worked with the students of our higher education clients on financial industry education and initiatives. In an extension of these programs, we have partnered with a local high school and community college, both of which serve students from underrepresented groups, with the goal of spurring interest in the financial industry among a wide and diverse group of young minds. We host programs with students focusing on career exploration in the financial industry as well as personal finance topics.

We recognize that the financial industry has a long way to go. As Strategic operates between clients and managers, we are in a unique position to leverage the best practices and new ideas to further DEI efforts and are committed to sharing and collaborating on these initiatives. We remain dedicated to continuing and expanding current and new initiatives at all levels throughout our firm as well as with our external partnerships.

\* Per Knight Foundation & Bella Research Group study, firms are considered women-owned or minority-owned if at least 50 percent of firm ownership is held by women or minorities. Strategic’s percentages are based on received responses to Strategic’s Diversity Survey of asset class managers. Data is as of January 1, 2022.

## We Have More Than Three Decades of Experience Implementing ESG Mandates.

Mission-driven organizations that wish to implement challenging ESG mandates have chosen Strategic as their preferred partner since 1989. The timeline below provides perspective on Strategic's ESG initiatives over more than three decades.

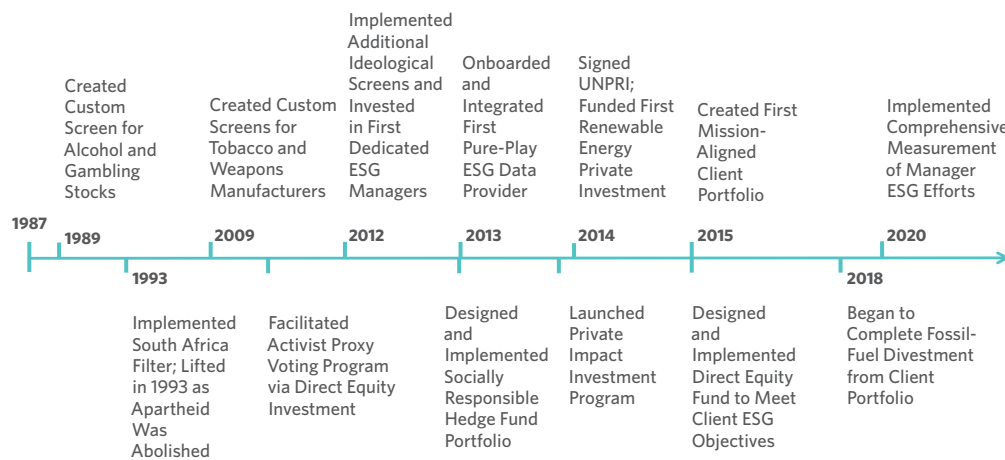
We take our role as a leading member of the OCIO industry seriously and are continually pushing for best industry practices. We believe that by raising the level of transparency and promoting alignment of interests in the OCIO space, asset owners (whether they are clients of ours or not) ultimately benefit. To that end, we have engaged with the industry to spread best practices in ESG investing and mission alignment. For a few examples, in the last year we have:

- Co-authored the book, published by AGB, an updated edition of *Endowment Management for Higher Education*, including a new chapter: "A Roadmap for Aligning Your Portfolio with Your Mission" and a new volume, *Endowment Management for Foundations and Nonprofits*.

- Participated in a webinar hosted by the National Association of College and University Business Officers ("NACUBO") discussing techniques and best practices for mission alignment.
- Engaged with managers to push further adoption and integration of sustainable investing practices (discussed in the case studies that follow).
- Spoken at the Higher Education Climate Summit hosted by Second Nature and Intentional Endowments Network in a session titled, *How to Build Consensus, Develop an IPS, and Allocate Capital for an Equitable, Low-Carbon Economy*.

*We believe that by raising the level of transparency and promoting alignment of interests in the OCIO space, asset owners (whether they are clients of ours or not) ultimately benefit.*

### EXHIBIT 2: Strategic's Sustainability Timeline





# Our Philosophy and Approach

*We have always offered concrete and transparent reporting, had honest discussions about progress toward defined objectives, and welcomed accountability.*

As signatories to the United Nations-supported Principles for Responsible Investment (“PRI”) since 2014, we support the integration of ESG factors into our investment processes as well as improvement in the ESG disclosure and transparency of securities issuers. We believe that ESG factors have always been value relevant and have increasing importance in an investment process. We believe:

- ESG integration has been foundational to the investment process at Strategic since inception.
- Successful ESG incorporation is integrated, value-relevant, and requires continuous innovation.
- Strategic has the long-term experience and technology infrastructure to effectively partner with our clients to deliver transformational impact.

Over more than three decades, we have watched responsible investing evolve from screen-based SRI exclusions into an entire industry with few metrics, little accountability, unclear priorities, and generic solutions. Managers and advisors that claimed the mantle of “sustainable investing” gathered record assets year

after year. Investors were often left disappointed that the reality did not match the hype.

At Strategic, we have always believed that to manage something you must be able to define and then measure it. We partner with investment managers and clients that share those beliefs. When aligning portfolios with an organization’s mission and objectives, we have always offered concrete and transparent reporting, had honest discussions about progress toward defined objectives, and welcomed accountability.

Recently, we have been encouraged to see regulators and industry participants take steps to require more accurate ESG disclosure. With additional government rulemaking on data transparency, we anticipate that firms that have made headlines with “greenwashing” practices, misleading diversity statistics, and deceptive marketing will end such practices.

We believe that asset owners are increasingly looking for a partner like Strategic with the organizational transparency, technology and data capabilities, and long-term experience to create and implement customized mission-aligned investing objectives and communicate the results to diverse stakeholders. That’s what we’ve been doing all along.

## Third-Party ESG Ratings

Like many industry participants, we have observed the lack of correlation in ESG ratings among third-party providers and the occasionally puzzling judgements they reach about the sustainability characteristics of attractive companies in our managers’ portfolios.

We do not think those ratings systems take into consideration many factors that we and our managers find important. For example, ratings often focus on where a company is now rather than on the profound changes to these businesses that our managers are making through their engagement and advocacy work; changes that ultimately improve the planet, our communities, and the financial returns those businesses can generate.

Instead of exclusively using third-party scoring, we have built a flexible ESG data reporting system that allows us to work with clients to specifically understand what issues they care about, determine the materiality of those issues on a company-by-company basis, identify the metrics that best describe those issues, and then build custom reporting.

We do not take a one-size-fits-all approach to mission alignment. Each organization is unique in its mission and in its investment needs. Our approach to ESG reporting reflects that fact.

## Our Managers Integrate ESG in a Value-Relevant and Customized Way.

At Strategic, we engage in a multifaceted approach to sustainability, focusing on understanding the many nuanced ways in which managers seek to add value and reduce risk for our clients through comprehensive integration and measurement. There is no “right” approach to ESG. Just as each client has a customized approach to ESG integration, each manager needs to find an approach that integrates with their own investment philosophy and process in a value-relevant way.

To assess this, we evaluate a manager’s holdings-level information, investment philosophy, and firm-wide actions to form a well-rounded view. We do this through:

- Regular conversations, ongoing dialogue, and formal investment and operational due diligence processes.
- Annual ESG questionnaires.
- Analysis of manager documents and reports on sustainability initiatives.

This information is used to report aggregated data to clients, monitor our managers over time, and enhance our own sustainability practices.

## How We Evaluate ESG Integration

We evaluate our managers based on three stages of the investment process: an initial identification of potentially attractive opportunities, further investment due diligence, and final portfolio construction. We categorize ESG integration in each of these three stages into four categories.

- **None:** limited or no incorporation of ESG factors in the investment process.
- **Partial Incorporation:** some consideration of material ESG factors.
- **Full Incorporation:** extensive consideration of material ESG factors.
- **Central Pillar:** ESG factors are a central pillar of the investment thesis.

In Appendix A we show the categorization results for our existing portfolios.

However, ESG integration does not stop with the decision to invest in a company. We believe managers can continue to add value to portfolio companies through active ESG engagement throughout the investment life cycle.

In Exhibit 3 below, we show the extent to which our portfolio managers engage with the companies in which they invest in.

**EXHIBIT 3:**  
Most of Our Managers Engage Directly with Portfolio Companies on ESG Issues



Data collection is only the first step for us. We also proactively engage with our managers, sharing aggregated data to help them better develop their own sustainability processes relative to their peers. During these discussions, we also encourage the incorporation of more sustainable practices like carbon emissions measurement, PRI membership, and ESG reporting.

With our managers, we discuss the ESG integration approach with the same rigor and depth as any other element of the investment process. We suggest advancements in procedure and policy and receive those suggestions in turn. No ESG integration strategy is perfect, which is precisely why we seek to continually improve our own. Some takeaways from these conversations include:

- Spurring our own research on (and measurement of) our firm’s carbon emissions (see Appendix B).
- Creating net-zero carbon emissions accounts for specific client-directed mandates.
- Helping one of our managers create their first ESG policy.

## We Help Clients with Challenging Mission-Related Investing Needs.

We do not take a one-size-fits-all approach to mission alignment, recognizing that each organization and its investment needs are unique. Here, we highlight two clients on their ESG journey and what we are doing to help them.

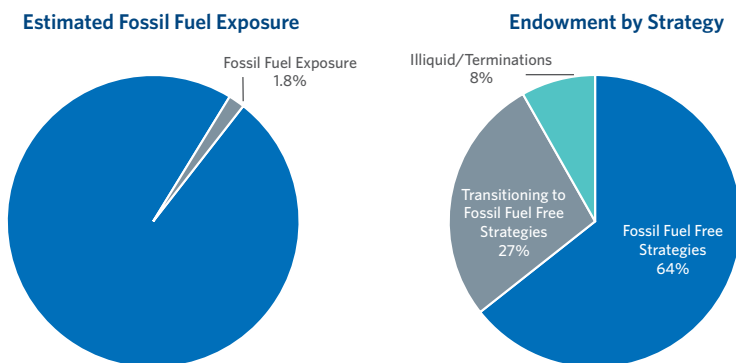
### Major U.S. University Pursuing Complete Fossil Fuel Divestment

We are working with a major U.S. university that decided to make their entire organization carbon neutral, including divesting from fossil fuels within their endowment.

**Dynamic Collaboration:** We worked with key stakeholders across the university to understand their needs, define the objective, set an aggressive five-year timetable for completion, and develop a reporting framework for ongoing accountability. Our actions have included:

- Presenting to the Board of Trustees on the process for developing an approach for responsible investing, including case studies from peer institutions.
- Working with the cross-university ESG taskforce, made up of members of the Investment Committee, Board of Trustees, Faculty, Students, Alumni, and members of the University Office of Sustainability to convene townhall meetings and collect community feedback.
- Advising on the creation of an Institutional Statement of Beliefs and Recommendations subsequently approved by the Board of Trustees. The Statement extends beyond just the endowment and into many aspects of the broader organizational mission.

**EXHIBIT 4:** Major U.S. University Pursuing Fossil-Fuel Divestment for >\$2.0B Endowment



**Rigorous Execution:** We have taken a customized, asset-by-asset approach to transforming their investment portfolio.

- We have partnered with managers to create new investment products that meet our client's current objective and also create opportunities for additional investors that share the goal of fossil-fuel divestment.
- We have developed an innovative portfolio-wide benchmarking approach that allows us to measure risk and attribute performance to a transitioning portfolio more concretely.
- We have developed a reporting framework that allows us to communicate progress to a wide range of stakeholders.

**Real Results:** Two years into a five-year transition window, we have transitioned over 60% of the total portfolio assets to completely fossil-fuel free strategies, across all asset classes (see Exhibit 4). We are actively working with managers on an additional 27% of the portfolio to create new strategies and solutions for our client. Lastly, a small portion of mostly illiquid assets has been identified for eventual runoff / liquidation.

#### **Private Foundation with Customized ESG Needs**

We work with a private grant-making foundation focused on community improvement in their local region. Beginning in 2013, they sought to expand their organizational impact by aligning their investment portfolio with their mission. They asked for our guidance in how to implement that objective.

**Dynamic Collaboration:** To do this, we:

- Worked closely with the Investment Committee, Board, and Staff over an 18-month period to discuss key considerations, formulate objectives, set expectations, and lay out an implementation plan for the Mission-Aligned Investment Portfolio;

- Collaborated with a stakeholder group throughout the course of a 5-year initial implementation/evaluation period, during which time we proposed, discussed, and implemented various mission-aligned investment strategies.

**Rigorous Execution:** To implement this mandate, we:

- Deployed proprietary portfolio-optimization tools to build an internally-managed active equity portfolio designed to match the returns of the S&P 500 with improved ESG characteristics.
- Sourced, performed due diligence, and allocated capital to dedicated impact and active equity managers that focus on driving ESG outcomes, not just incorporating ESG considerations into the portfolio.
- Built a total-portfolio ESG reporting system that combines security-level and manager-level ESG and impact characteristics.

**Real Results:** At the end of the initial implementation/evaluation period, having jointly scored the program a success, we agreed to continue partnering with the client to help them achieve their expanded goal of converting 75% of their total portfolio to impact investments by 2030. The directly-managed S&P 500 portfolio has achieved performance in line with the benchmark, within the required tracking error range, and with ESG metrics that greatly exceed the benchmark and policy objectives.

# About Strategic Investment Group

*Strategic has helped our clients achieve and surpass their goals, delivering transformational growth in their portfolios through our experience, insight, discipline, efficiency, cost-consciousness and sound governance.*

Strategic is an outsourced Chief Investment Officer (“OCIO”) pioneer, founded in 1987 as an “investment department for hire” to provide sophisticated, customized investment solutions to a select group of clients. Strategic was founded by the senior investment team from the World Bank, 50% of whom were women and 33% of whom were Hispanic/Latino. We have observed the importance of sound fiduciary governance and the merits of an open architecture platform built on the careful identification of skilled investment managers. We also understand that each investor is unique and requires portfolios tailored to its individual goals and risk preferences. Principles of investment excellence and exemplary service have guided us since our founding.

Strategic’s sole business focus has always been to provide comprehensive OCIO solutions. This singular focus is one of our many competitive advantages: we are not distracted by, or competing against, other lines of business, and we bring the full resources of our firm to each client.

Strategic has helped our clients achieve and surpass their goals, delivering transformational growth in their portfolios through our experience, insight, discipline, efficiency, cost-consciousness, and sound governance. We have built a team-oriented investment process that makes us uniquely qualified to act as a durable and stable investment office for our clients. Our clients’ success is our success.

## Community Engagement

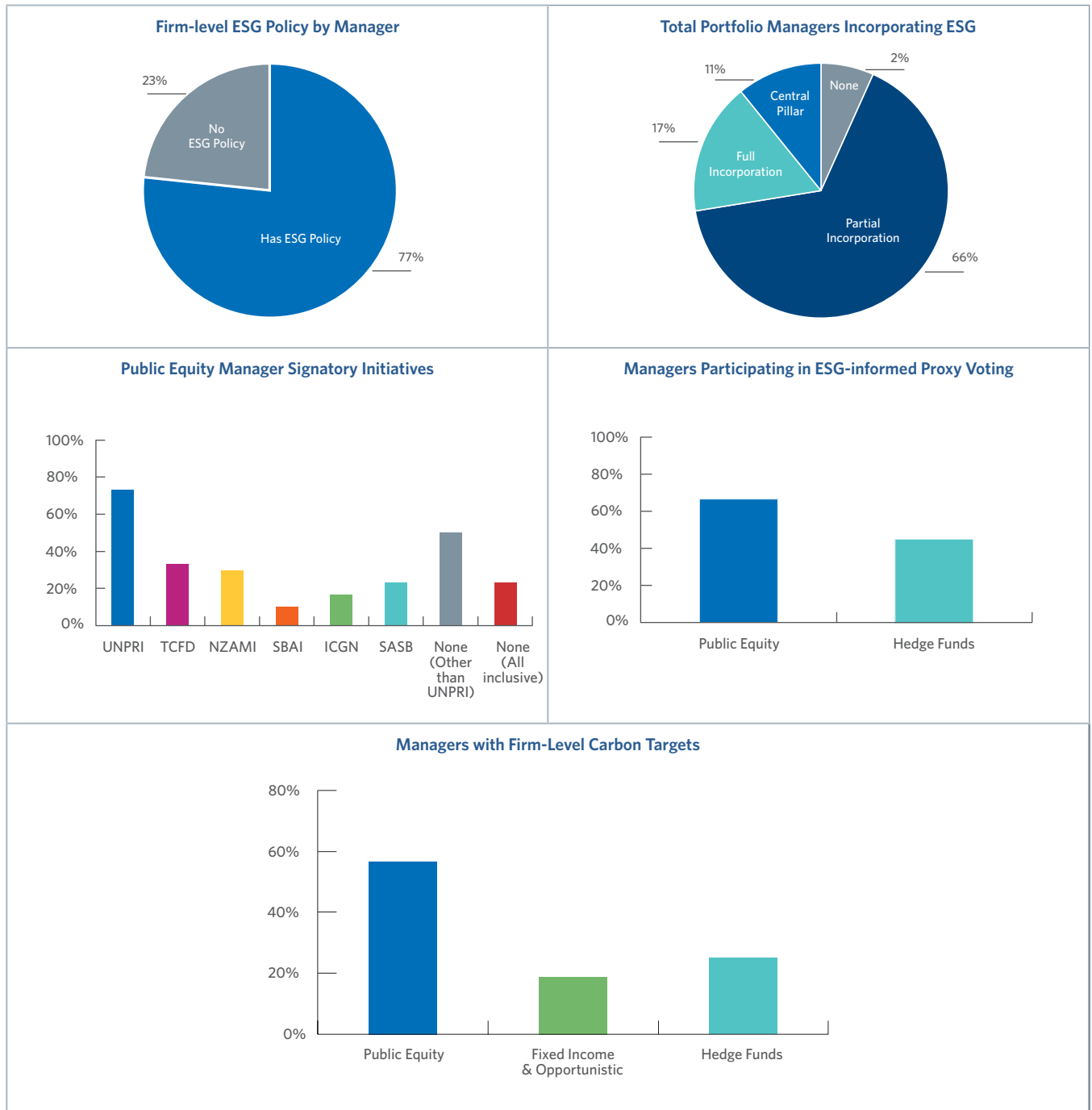
Our commitment to our community is illustrated by our employee engagement where we live and work. Some of the programs and initiatives in which we are engaged are:

- **Arlington Food Assistance Center (“AFAC”):** Strategic organizes teams of employees to volunteer at AFAC to help support their mission of providing Arlington County residents dignified access to nutritious supplemental groceries. On average AFAC serves over 3,000 individuals a week and volunteers helped with bagging, food distribution, sorting, and restocking.
- **High School and Community College outreach programs:** Strategic has initiated financial education programs focused on both careers in the industry and personal finance best practices. Our goal is to encourage diverse talent to consider careers in finance. Additionally, for our high school program, we cover the basics of personal finance to help students start off on a firm financial footing.
- **Salvation Army Angel Tree:** Angel Tree is a unique holiday assistance program that connects our employees with deserving local children (“Angels”). The employees shop for gifts on the Angels’ wish lists and coordinate delivery to the Arlington, Virginia Salvation Army. The gifts donated are often the only ones the children will receive for the holidays.
- **March Madness Tournament for Charity:** Each year we host a NCAA Men’s College Basketball March Madness Tournament for Charity. Employees try their luck choosing a winning “bracket.” Prizes are donations made in the winners’ honor to the local charity of their choice.
- **Strategic Matching Gift Program:** We match employee donations up to \$250 per year to charities. We double match for our employees who also volunteer at least 50 hours per year with the donor organization.
- **Paid Time Off Volunteerism (VTO):** All employees are eligible for up to three paid days off to volunteer.

## Appendix A - Manager ESG Integration

Strategic has always partnered with managers who thoughtfully integrate ESG factors with the objective of creating value for investors. We engage in a multifaceted approach, focusing on understanding the many nuanced ways in which managers seek to add value and reduce risk for our clients through comprehensive ESG integration and measurement. There is no "right" approach to ESG.

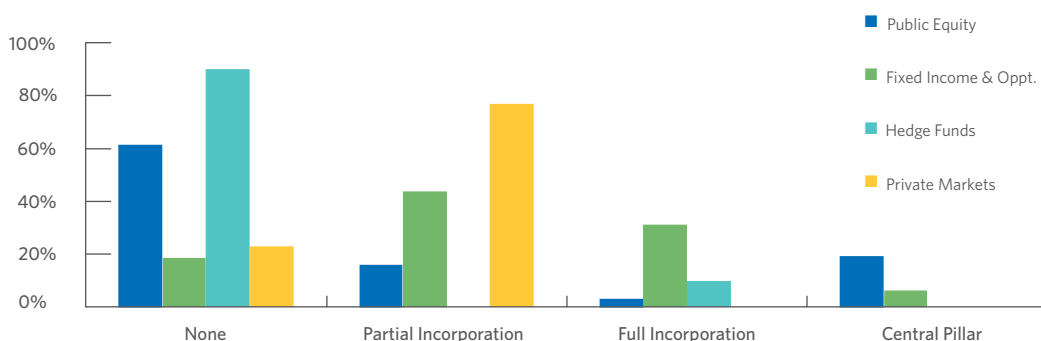
As part of the Annual ESG Questionnaire, we evaluate a manager's ESG policies, personnel, process, and capabilities. This information is used to report aggregated data to clients, monitor our managers over time, and enhance our own sustainability approach. Selected results of the 2021 survey are shown below.



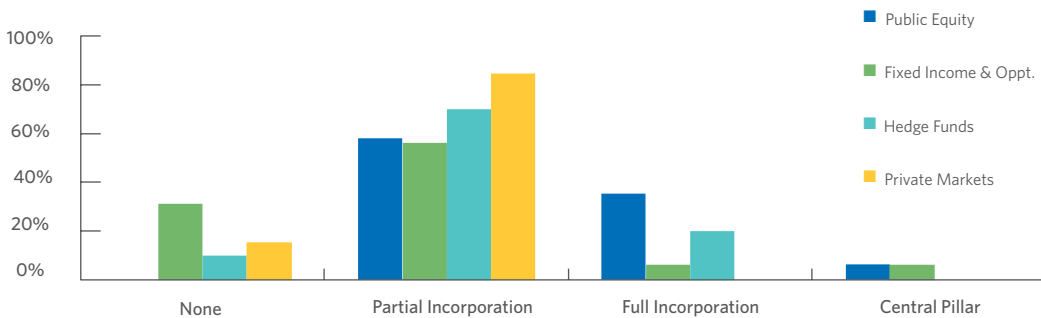
Our managers incorporate ESG into their investment processes in different ways and with different levels of emphasis in the pursuit of investment returns and risk reduction. We evaluate our managers based on three stages of the investment process: an initial identification of potentially attractive opportunities, further investment due diligence, and final portfolio construction. We categorize ESG integration in each of these three stages into four categories.

- **None:** limited or no incorporation of ESG factors in the investment process.
- **Partial Incorporation:** some consideration of material ESG factors.
- **Full Incorporation:** extensive consideration of material ESG factors.
- **Central Pillar:** ESG factors are a central pillar of the investment thesis.

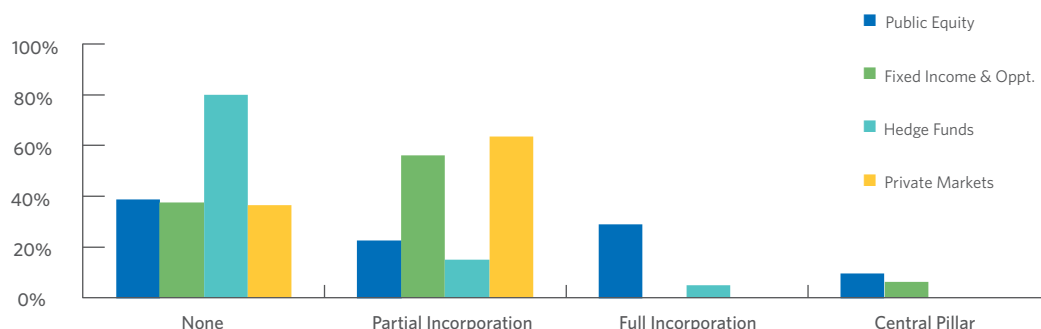
### ESG Incorporation in Initial Investment Identification



### ESG Incorporation in Due Diligence



### ESG Incorporation in Portfolio Construction



## Appendix B - Measuring and Managing Strategic's Carbon Emission

We believe that prudent stewardship of assets for future generations includes our planet's natural and biological assets. Climate change threatens our ability, and the ability of our clients, to implement our missions in our communities. As a result, we embarked on a journey to measure the Scope 1, 2 and 3 carbon emissions of our firm and commit to publicly reporting this data, along with our efforts to reduce and offset those emissions going forward.

Tons CO <sub>2</sub> e	2019	2020	2021
Scope 1 Emissions <sup>1</sup>	N/A	N/A	N/A
Scope 2 Emissions <sup>2</sup>	286	193	158
Scope 3 Emissions <sup>3</sup>	74	30	27
Total	360	223	185
Total Emissions Per Employee	3.6	2.2	1.7

<sup>1</sup> Direct emissions, from company-owned and controlled resources. This category is not applicable to Strategic.

<sup>2</sup> Indirect emissions, primarily the purchase of electricity.

<sup>3</sup> Indirect emissions that are the consequences of business operations (e.g., business travel).

This is only the beginning. We have begun internal conversations to set goals around emissions reduction and potential sponsorship of negative-carbon projects that ensure the sustainability of the natural assets we all rely upon.

Recent efforts to reduce our carbon emissions include:

- Enhance energy efficiency in our LEED Gold office building during the recent renovation, including installing LED lighting, light timers, and more efficient heating and cooling systems.
- Enhance our recycling and composting programs.
- Limit the use of disposable food service items.



# Strategic Investment Group

Strategic, a pioneer in dedicated Outsourced CIO (OCIO) solutions since 1987, offers a comprehensive service platform for managing customized portfolios for institutional and private investors. Our proprietary process combines active portfolio management, rigorous risk management, and open architecture manager selection.

Strategic functions as our clients' investment partner and co-fiduciary, effectively becoming an extension of their resources. Clients are then free to focus on their core businesses, while we focus on providing the highly specialized portfolio management expertise that clients need to meet their investment goals. Depending on a client's needs and preferences, Strategic can orchestrate the management of an entire portfolio comprising multiple asset classes, focus on specific asset classes, such as alternatives (e.g., venture capital/private equity, real estate, and/or hedge funds) or international investments, or manage strategies with high potential for adding value. Customized liability-driven investing (LDI) solutions, whether through an integrated total portfolio approach or a targeted long-duration strategy, are also available, as are solutions that address mission-related investment objectives.

We strive to build enduring partnerships with our clients by strengthening their investment programs through a dynamic, value-enhancing investment process, sound governance framework, and world class client service. Our mission is to empower investors through experience, innovation, and excellence.

For more information, please email us at [inquiries@strategicgroup.com](mailto:inquiries@strategicgroup.com).



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