METHODOLOGY OVERVIEW

Morningstar® ESG Pooled Employer Plan

A diligent investment process designed to support workplace retirement plans and their participants

Morningstar Investment Management LLC and Plan Administrators, Inc. (PAi) designed the Morningstar ESG Pooled Employer Plan to help people save for their retirement and with prudently selected investments that work to mitigate environmental, social, and governance (ESG) risks that could materially impact risk and return. As the plan's 3(38) fiduciary, Morningstar Investment Management acts as the investment manager, responsible for building and monitoring the plan's ESG investment lineup on an ongoing basis.

Our methodology is backed by a team experienced in asset allocation, manager selection, and portfolio construction.[1] Leveraging decades of research and intellectual property from Morningstar, Inc., our parent company, we build, manage, and monitor investment lineups and recommended investment lists designed to help plan sponsors fulfill their ERISA obligations and help plan participants save for retirement.

[1] Morningstar Research Services LLC, an affiliate of Morningstar Investment Management and a registered investment adviser, acts as a sub-adviser for certain services, including the analysis and ongoing monitoring of the securities for the Morningstar ESG PEP lineup.

Our approach[1]

We apply a disciplined approach when designing menus, selecting investments, and monitoring lineups and recommended lists for retirement plans.

Lineup Design

The main entities involved are the Pooled Plan Provider (PPP), trustee, and 3(38) investment manager. Let's take a closer look at each role:

- **Efficient lineups**
  We build plan lineups with behavioral finance concepts in mind in an effort to support better investor decision-making. For example, to avoid presenting plan participants with an excessive number of funds or creating unnecessary overlap, we aim to construct efficient lineups that provide sufficient choice without overwhelming participants.

- **Access to diversification**
  We believe achieving diversification[2] in any portfolio is key, which is why we work to ensure plan participants have access to investments that help them build a diversified retirement portfolio. We leverage our knowledge of historical asset-class characteristics to help us determine which asset classes we believe belong in plan lineups, allowing for the appropriate exposure and combination of those asset classes in participant portfolios.

  In our opinion, it's important to provide diversification within broad asset class categories—including U.S. equity and fixed-income funds, for example—and across those categories, too.

- **Long-term approach**
  There are always short-term leaders and laggards across and within investment categories. We believe a long-term approach best suits retirement investing for most people because retirement is a long-term goal. By providing a broad level of diversification across investment categories and adhering to long-term targets, our lineups are designed to moderate the short-term volatility that can occur in less diversified lineups or those designed to time the hot-performing segments of the market.

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2 Asset allocation and diversification are investment methods used to help manage risk. They do not ensure a profit or protect against a loss.

ESG Investing

To create a lineup that considers ESG factors for the Morningstar ESG Pooled Employer Plan, we focus on selecting funds that work to mitigate material environmental, social, and governance risks that could impact the risk and return of an investment. We do this while also meeting our rigorous selection criteria for retirement investments, including the consideration of the risk of loss and opportunity for gain of a fund in alignment with the plan's purpose, and assessing how those selections compare to available alternatives. This approach is supported by PAi's open architecture platform, which allows us to consider a wide range of investments, and to select those in which we have the highest conviction.

We define ESG risks as risks that can negatively impact the performance prospects of a security, be it a stock or bond. While ESG risk considerations will vary depending on the type of security and, if relevant, the underlying company, examples of financially material ESG risks include climate change-related factors such as a corporation's exposure to the real and potential economic effects of climate change, governance factors such as board composition and executive compensation, and workforce practices including workforce diversity and employee hiring, promotion, and retention.

To note, certain kinds of investments included in the lineup, such as TIPs or money market funds might be used when no ESG investment option exists. ESG factors aren't applicable to these types of investments.

What we look for in ESG investments:

- Funds that meet both our rigorous investment standards for all funds and the ESG risk evaluations discussed in this document.

- Funds that emphasize assessment of broad ESG risks in their investment process rather than prioritizing narrower themes such as the environment or gender equality. (This does not mean that our selected funds will ignore such themes but rather will consider them along with a range of ESG risks.)

- Funds that have fully integrated ESG factors into their investment process and are not simply using the guise of sustainability as a marketing ploy. That is, in the evaluation of investment processes discussed below, we seek funds for which ESG factors are decisive in security selection.

Investment Selection

We believe selecting appropriate fund options is just as important as the lineup design. Our knowledgeable investment team has several decades of combined experience evaluating fund managers, understanding the nuances of different strategies, and comparing managerial track records.

Our investment selection process

1. First, we narrow down the universe of funds by eliminating those that are least likely to be good prospects—perhaps because of their high expenses or excessive risk.

2. We then use a range of data points to determine whether funds are appropriate for retirement investing.

3. We evaluate each investment's style, structure, and performance, strongly favoring funds with positive Morningstar Analyst Ratings™ or Morningstar Quantitative Ratings™, which have been analyzed and determined by professionals in Morningstar's manager research group as indicators of funds' long-term potential.[3] The Morningstar Sustainability Rating is a quantitative measure of the financially material environmental, social, and governance (ESG) risks in a portfolio relative to a portfolio's peer group. This rating from Morningstar, Inc. is a historical holdings-based calculation using the company-level ESG Risk Rating from Sustainalytics, a leading provider of ESG research.

4. We assess the merit of funds' ESG factors, following a thorough process to assess each investment's approach to addressing financially material environmental, social, and governance risks.

5. Left with a list of top candidates, we conduct a qualitative review, assessing each fund and its manager to determine what we think its potential is for delivering competitive risk-adjusted results while also playing its designated role in both the plan menu and participants' portfolios.

Selecting ESG investments

Taking a closer look, we follow several key steps to integrate the consideration of ESG risks into our investment selection process.

How we do it:

We work to understand the fund's philosophy and process. We want to understand what managers are looking for in the companies they include in their funds. We get to know their processes, the tools they use, and how they assess their data. Along with understanding how they evaluate ESG risks, we want to confirm that securities with significant ESG risks are excluded from the portfolio (that is, that they are not touting that they consider ESG factors in their investment process but are effectively engaging in greenwashing).

We get to know how managers engage with the companies they invest in. We look for managers who find companies who are doing well and who hold those companies accountable to keep doing better. We feel this approach often leads to a more attractive investment for investors because those companies have the potential to perform better.

[3] The Manager Research group consists of various Morningstar, Inc. subsidiaries; in the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission.

[4] Whelan, T. & Fink, C. 2016. "The Comprehensive Business Case for Sustainability." Harvard Business Review. October 21, 2016. https://hbr.org/2016/10/the-comprehensive-business-case-for-sustainability

We check our findings against data and research. We seek out proof to help us vet the information we've gathered, leveraging the work of Morningstar analysts and data from Sustainalytics, a leading provider of ESG research and a subsidiary of Morningstar, Inc., along with the Morningstar Sustainability Rating, when available.

We keep an eye out for changes. As part of our ongoing monitoring process, we are alert for changes to such characteristics as performance and management. We also look out for changes to the fund's ESG factors or indicators such as the Morningstar Sustainability Rating, which helps identify ESG risks that pose a financially-material risk.

Ongoing Monitoring

We monitor and evaluate funds in the lineup on an ongoing basis using the same process used in the review and selection stage. We focus on specific issues that could change our opinion of the fund, including regulatory issues, management team updates, risk-adjusted performance, portfolio characteristics, and other factors.

Our review process can lead to one of three possible outcomes:

1. We remove the fund: If we find that a fund has been permanently impaired in some way, we will recommend that the fund be removed from the lineup.

2. We place the fund on a watch list: In less severe cases, we will place the fund on a watch list. These funds will be subject to increased scrutiny until the issues are either resolved or we decide to remove the fund from the lineup.

3. We take no action: If no issues arise in our review, we will take no action.

About Morningstar Investment Management

Our parent company, Morningstar, Inc., was founded on the simple idea that when people have good investment information, they can make better choices that help them achieve their financial goals. In the retirement solutions group at Morningstar Investment Management LLC, a subsidiary of Morningstar, Inc. and a registered investment adviser, our advocacy for the individual investor extends to the workplace retirement market where the responsibility for investing and saving now rests with employees. We are committed to helping those individuals save for retirement by providing products and services that range from a managed accounts service to custom models to target-date products and fiduciary services.

Morningstar's manager research group provides independent, fundamental analysis on managed investment strategies. The manager research group's investment research, ratings, and data is intended to complement internal due-diligence functions for institutional investors. Morningstar Analyst Ratings and Morningstar Sustainability Ratings are subjective in nature and should not be used as the sole basis for investment decisions. Morningstar Analyst Ratings are based on Morningstar's manager research group's current expectations about future events and therefore involve unknown risks and uncertainties that may cause such expectations not to occur or to differ significantly from what was expected. Morningstar Analyst Ratings are not guarantees nor should they be viewed as an assessment of a fund's or the fund's underlying securities' creditworthiness. The manager research group consists of various Morningstar, Inc. subsidiaries; in the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission.

Morningstar Investment Management has entered into a sub-advisory agreement with Morningstar Research Services LLC, an affiliate of Morningstar Investment Management and a registered investment adviser, pursuant to which Morningstar Research Services has agreed to perform certain services and other obligations of Morningstar Investment Management. Notwithstanding such sub-advisory agreement, Morningstar Investment Management (i) continues to be the responsible party for Fiduciary Services, (ii) continues to be the entity that it is the 3(21) fiduciary or 3(38) investment manager with respect to retirement plans, and (iii) is fully responsible for the proper performance by Morningstar Research Services of the services to be rendered by it under the sub-advisory agreement between Morningstar Investment Management and Morningstar Research Services. References to "we" or "our" in this document may refer to services undertaken by either Morningstar Investment Management or Morningstar Research Services.