

Investment Strategy: Frequently Asked Questions

The Boreal Waters Community Foundation (Boreal Waters or Foundation) was established in 1983 by visionary community leaders. It is a collection of hundreds of endowed funds created by individuals, families, private foundations, and businesses to enhance the quality of life in our region.

General Investment Strategy

WHO MANAGES THE ENDOWMENT?

- The Investment Committee is charged by the Board of Trustees (Board) with the responsibility of overseeing the endowment. The Investment Committee has an obligation to ensure that assets are managed in a manner that is consistent with the policies and objectives of the Foundation.
- Boreal Waters retained FEG Investment Advisors (www.feg.com) to provide investment counsel and services to the Investment Committee on aspects ranging from asset allocation, portfolio structure, and selecting investment managers to performance reporting, spending policy, and donor education.

HOW CAN I BE CONFIDENT THAT BOREAL WATERS WILL BE A GOOD STEWARD OF MY FUNDS?

- In seeking to attain the investment objectives for the endowment, the Foundation exercises prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the state of Minnesota. All investment actions and decisions must be based solely on the interest of the Foundation and the endowment. Fiduciaries must provide full and fair disclosure of all material facts regarding any potential conflict of interest.
- The Investment Policy Statement (IPS), serves as a strategic guide to the planning and implementation of the investment program. It is a highly customized document that is uniquely tailored to the preferences, attitudes, and situation of the Foundation. The IPS also establishes accountability for the various entities that may work on behalf of the Foundation. Most importantly, the IPS serves as a policy guide that can offer an objective course of action to be followed during periods of market disruption when emotional or instinctive responses might otherwise motivate less prudent actions.

IN WHAT TYPES OF ASSETS DOES BOREAL WATERS TYPICALLY INVEST (E.G., EQUITIES, BONDS)?

- › Assets generally fall into one of four categories. Each category serves a specific role and can provide diversification to market risk factors.

GLOBAL EQUITY	Stocks are the primary source of long-term capital appreciation. While having higher expected returns than fixed income, they also have higher expected volatilities. Sub-categories include both public and private equities.
GLOBAL FIXED INCOME	Bonds offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. They are comprised primarily of fixed income (debt) securities and can be categorized as either interest rate or credit sensitive. Sub-categories include both public and private debt.
REAL ASSETS	Real assets insulate from inflation shocks and provide a source of non-correlating returns with other assets. Categories include both public and private investments in real estate, natural resources, and infrastructure.
DIVERSIFYING STRATEGIES	Diversifying strategies provide diversification from systematic market risk, with the primary determinant of returns typically derived from manager skill (alpha) rather than the market (beta). Sub-categories include both liquid and semi-liquid, non-directional strategies that seek low correlations to the public equity and fixed income markets.

Management and Oversight

WHO SELECTS AND EVALUATES INVESTMENT MANAGERS FOR THE ENDOWMENT?

- › The Investment Committee is responsible for selecting investment managers for the endowment. In support of this function and in conjunction with FEG Investment Advisors, it evaluates products and strategies, which includes setting selection criteria, conducting searches, and performing due diligence. It also reviews contracts and fees for conformance with industry standards, communicates investment policies and objectives, and reviews investment managers for any significant changes in key personnel, philosophy, or performance of the firm.

WHAT IS THE ROLE OF THE BOARD IN OVERSEEING INVESTMENT DECISIONS?

- › The Board bears the overall fiduciary responsibility for the Foundation. As such, the Board is ultimately responsible for making decisions that affect the endowment. The Board created the Investment Committee to assist with discharging its day-to-day duties.

WHO SERVES ON THE INVESTMENT COMMITTEE?

- › **Matthew Vaillant**, NorthShore Bank
*Boreal Waters Board Treasurer
Investment Committee Chair*
- › **Tara Anderson**, Allete, Inc.
Boreal Waters Investment Committee
- › **Jeff Corey**, One Roof Housing
Boreal Waters Board Trustee
- › **Julian Zebot**, Maslon Law, LLP
Boreal Waters Board Trustee
- › **Kerstyn Hendricks**, National Bank of Commerce
Boreal Waters Board Chair
- › **Jon Hoel**, Miners National Bank of Eveleth
Chair, Eveleth Community Foundation Fund
- › **Nels Ojard**, Krech Ojard & Associates
Boreal Waters Board Trustee (Former)

Fees and Costs

WHAT IS THE UNDERLYING INVESTMENT MANAGEMENT FEE FOR THE ENDOWMENT?

WEIGHTED AVERAGE FEE FOR UNDERLYING INVESTMENTS As of June 30, 2025	
MARKET VALUE INTERNALLY MANAGED POOL	ANNUALIZED FEE
\$119,162,284	0.25%

HOW ARE INVESTMENT MANAGEMENT FEES COMMUNICATED TO FUND HOLDERS?

- › All pooled funds proportionally bear the costs associated with investment management fees. A fine line item reflecting all investment management fees charged to each fund is included on the fund's statement.

Risk Management

HOW DOES BOREAL WATERS BALANCE RISK AND RETURN IN ITS INVESTMENTS?

- The overall long-term investment objective is to achieve an annualized total return (net of investment management expenses), through appreciation and income, greater than the rate of inflation (as measured by the Consumer Price Index) plus any spending and administrative expenses, thus protecting the purchasing power of the assets. The assets are managed in a manner to support the primary investment objective, while at the same time attempting to limit volatility in year-to-year distributions.

HOW DIVERSIFIED IS BOREAL WATERS' ENDOWMENT?

- Asset allocation is one of the key determinants of the endowment's returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly beneficial. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories is based on the impact to the endowment, rather than judging asset categories on a stand-alone basis.
- The asset allocation is set within the following ranges.

ASSET ALLOCATION RANGES		
	MINIMUM	MAXIMUM
GLOBAL EQUITY	75%	95%
GLOBAL FIXED INCOME	5%	25%
REAL ASSETS	0%	10%
DIVERSIFYING STRATEGIES	0%	10%
CASH	0%	5%

HOW DOES BOREAL WATERS ADAPT ITS INVESTMENT STRATEGY TO MARKET VOLATILITY OR ECONOMIC DOWNTURNS?

- The Board and Investment Committee understand the long-term nature of the endowment and believe that investing in assets with higher return expectations outweighs their short-term volatility and risk. As a result, the majority of assets are invested in capital appreciation assets (e.g., equity or equity-like securities, including real assets).

Ethical and Social Considerations

HOW DOES BOREAL WATERS ALIGN ITS INVESTMENT STRATEGY WITH ITS MISSION AND COMMUNITY VALUES?

- The overall long-term investment objective is to achieve an annualized total return (net of investment management expenses), through appreciation and income, greater than the rate of inflation (as measured by the Consumer Price Index) plus any spending and administrative expenses, thus protecting the purchasing power of the assets. The assets are managed in a manner to support the primary investment objective, while at the same time attempting to limit volatility in year-to-year distributions.
- The purpose of the endowment is to accumulate a pool of assets sufficient to build capital for future use with the corresponding obligation to support current and future needs. While shorter-term investment results are monitored, adherence to a sound long-term investment policy, which balances short-term spending needs with preservation of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the Foundation.
- Boreal Waters embraces impact investing to maximize the positive effect on the community and further the Foundation’s mission with an initial focus on affordable housing. This effort is characterized by three key factors that include intentionality, positive social improvement, and a goal to generate a financial return on capital or, at minimum, a return of capital.

Performance and Reporting

WHAT HAS BEEN BOREAL WATERS’ AVERAGE RATE OF RETURN OVER THE LAST 3-, 5-, AND 10-YEARS?

NET OF FEE PERFORMANCE As of June 30, 2025			
	3-YEAR	5-YEAR	10-YEAR
BOREAL WATERS	13.8%	13.9%	7.5%
Past performance is not indicative of future results.			

HOW IS INVESTMENT PERFORMANCE COMMUNICATED TO FUND HOLDERS?

- Quarterly fund statements are issued, detailing year-to-date fund activity, including investments, administrative fees, contributions, and grants or scholarships.

Long-Term Sustainability

HOW DOES BOREAL WATERS PLAN FOR LONG-TERM SUSTAINABILITY AND GROWTH OF ITS ENDOWMENT?

Boreal Waters is committed to long-term endowment growth and sustainability through a strategic, diversified investment approach focused on perpetuity.

- **Diversified Investments:** Our investments span various sectors and asset classes to leverage market opportunities and mitigate volatility, creating a balanced, growth-oriented portfolio.
- **Long-Term Perspective:** We maintain a steady focus on long-term gains, avoiding reactionary moves to market changes and instead seizing opportunities in challenging times.
- **Regular Performance Reviews:** We routinely evaluate each asset's performance to ensure alignment with growth objectives, making adjustments to optimize returns.
- **Strategic Growth Initiatives:** We explore new investment opportunities that align with our mission, enhancing potential returns.

These strategies build a resilient endowment, securing financial stability for future generations.

Disclosures

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Index performance results do not represent any managed portfolio returns. An investor cannot invest directly in a presented index, as an investment vehicle replicating an index would be required. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

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Any return expectations provided are not intended as, and must not be regarded as, a representation, warranty or predication that the investment will achieve any particular rate of return over any particular time period or that investors will not incur losses.

Past performance is not indicative of future results.

Investments in private funds are speculative, involve a higher degree of risk, and are designed for sophisticated investors.

All data is as of June 2025 unless otherwise noted.