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Pending Recommendation to Replace Union Bank and D.A. Davidson with Mercer

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Karli, Natalia, and Angelina –

We have now been contacted by a couple former employees of the Foundation who have wanted to know if their SIMPLE IRA accounts were going to have to transfer to Mercer (Angelina was made aware of the first). Obviously, we have been able to connect the dots - which would indicate there is a pending recommendation that both Union Bank and D.A. Davidson be replaced by Mercer. I have been doing this for almost 30 years and while I have not ever personally lost a nonprofit client, I know a decision like this is typically made for one, two, or all three of the following reasons:

1. Poor Investment Performance: For the past 15+ years we have been dead right about the asset allocation of the Foundation's portfolio. During this period U.S. equities, in particular U.S. large growth equities, have far outperformed foreign equities and that is exactly how the Foundation's portfolio has been positioned: Underweight foreign equities, overweight U.S. equities with a bias toward large cap growth.

a. At the risk of getting a bit too granular, I point out two other items related to portfolio performance:

i. At the July of 2024 meeting I talked to the Investment Committee about the fact I thought the U.S. dollar would start to weaken and because of that, it might be a good time to allocate more of the portfolio to foreign equities. This is exactly what happened and year-to-date in 2025, foreign equities are materially outperforming U.S. equities.

ii. At the same meeting, I indicated an investment manager we were utilizing – Blackrock – recently exhibited rapidly deteriorating performance, I felt it would continue, and therefore they should be replaced.

Given the micromanaging approach employed by the Investment Committee Chair, I did not have the authority to act on either of these items and they were slated for further discussion at our next meeting which was scheduled for October of 2024. July of 2024 was the last time I was allowed to meet with the Investment Committee. Since then, there has been no material engagement about the portfolio with either the Investment Committee as a whole or the Chair. I recently again suggested to the Chair, Blackrock needed to be replaced given their continued materially poor performance and have received no response to that whatsoever.

2. Poor Service: To my knowledge, during my direct involvement with the Foundation for the past 16 years, our service and responsiveness has not been considered anything less than excellent.

3. Uncompetitive Fees: As the three of you know, while it was an accident, I was privy to the other finalists' proposed fee schedules. Mercer's was .25% with a minimum of \$40,000 annually. Based on the RFP's stated assets on which to price of \$12 million, that minimum would be more expensive than our proposed .30%, which would be

\$36,000 on \$12 million. Additionally, Mercer did not provide their third-party management fees which they were explicitly asked to do. Now, they could have subsequently provided that information and been asked to waive their minimum. However, if that was the case, shouldn't every finalist have been afforded that conversation?

I certainly could be missing something, but it seems difficult to see what the material and tangible reasons are for this recommendation.

Additionally, given this seemingly arbitrary and unsubstantiated recommendation, I would hope the Foundation, its Finance Committee and its Board of Directors have thoroughly considered the following:

1. There are No Competent Investment Firms or Individuals who Work at those Firms in the Lincoln Community. Whether it's Union Bank, D. A. Davidson or any other investment firm in Lincoln, this would seem to be the message being sent by: The Foundation for **LINCOLN** Public Schools.
2. Related to the point above – what message does it send about the Foundation's interest in being a true partner when it again, seems to be arbitrarily replacing Union Bank, who during my 16+ year association with the Foundation has been one of its strongest supporters both directly (financially) and indirectly by having a constant presence on the Board of Directors as well as the various committees. Regarding D.A. Davidson, our own Lisa Smith, who is a pillar of leadership in Lincoln's nonprofit community, is a past Chair of the Foundation's Board of Directors.
3. How important is a \$13 million portfolio in a community where they have no presence, going to be to a global consulting firm.

I will close with these last three items:

1. If this were a selfish endeavor, I would not be suggesting the replacement of Union Bank is a mistake as well. I will stand by the claim - 10 years from now there will be no material difference between the performance of Union Bank, D.A. Davidson and Mercer. Unless I am simply unaware of a material issue related to this decision, I truly believe it is not in the best interest of the Foundation.
2. I would appreciate the opportunity to discuss each of these items further with the three of you. However, if that is not possible I would say in summary: I hope the Foundation, its Finance Committee and its Board of Directors are asking themselves two very important questions: 1) are there really tangible and material reasons that support the decision to replace two organizations who have been very good long-term partners to the Foundation and 2) is this decision really in the best interest of the Foundation or has this come about due to the personal preference of an Investment Committee Chair, who may or may not be in that position a year or two from now.
3. It is not lost on me how much time each of you have put into this process. I appreciate and respect it very much and thank each of you for the additional time you are taking to read and consider these items.

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