IN THE CIRCUIT COURT OF THE STATE OF OREGON
FOR THE COUNTY OF MULTNOMAH

STATE OF OREGON, by and through Ellen F. Rosenblum, Attorney General for the STATE OF OREGON

Plaintiff,

v.

MONSANTO COMPANY, SOLUTIA, INC., PHARMACIA LLC, and Does 1-10

Defendants.

Case No. 18CV00540

Honorable Benjamin Souede

FILED
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4TH JUDICIAL DIST.

CONSENT GENERAL JUDGMENT

WHEREAS, Plaintiff, the State of Oregon, by its Attorney General, in this Action asserts various claims against Defendant (as defined herein) on Plaintiff's own behalf and acting in its *parens patriae* capacity on behalf of its citizens for alleged environmental impairments related to PCBs, including alleged natural resource damages and impairments to waterbodies and other natural resources;

WHEREAS, the Plaintiff and Defendant (collectively, the "Parties") have agreed to resolve their claims without the need for further litigation and agree to entry of this Consent General Judgment without trial or adjudication of any issue of fact or law, and to waive any appeal if the Consent General Judgment is entered by the Court as submitted by the Parties;

WHEREAS, Defendant, by entering into this Consent General Judgment, does not admit any allegations in the Complaint or to any wrongdoing, fault, violation of law, or liability of any kind on the part of any Defendant;

WHEREAS, the Parties discussed financial terms for payment of $800 million over an extended number of years, but have now agreed instead to the single immediate payment of $698 million referenced below;

WHEREAS, the Settlement Funds will be directed at environmental remediation or restitution projects as determined by the State in its sole discretion as provided herein related to restoring, maintaining and enhancing the quality of Oregon's air, land, water and other natural resources, and for payment of costs and expenses associated with the Action, including attorney's fees and other litigation expenses;

AND WHEREAS, the intention of the State in effecting this settlement is to fully and finally resolve the State's claims against Defendant as provided herein.

NOW, THEREFORE, without trial or adjudication of issues of fact or law, without this Consent General Judgment constituting evidence against Defendant or the State, and upon stipulation and consent of Defendant and the State, the Court finds that there is good and sufficient cause to enter this Consent General Judgment, and that it is therefore ORDERED, ADJUDGED, AND DECREED:

DEFINITIONS

1. As used in this Consent General Judgment, in addition to terms otherwise defined, the following terms shall have the defined meanings set forth below.

2. "Action" means the case captioned *State of Oregon v. Monsanto Company, et al.*, Case No. 81CV00540, filed in the Circuit Court of Oregon, Multnomah County.

3. "CERCLA" means the federal Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. §§ 9601 *et seq.*

4. "Claim" means all claims, demands, rights, damages, obligations, suits, debts, liens, contracts, agreements, and causes of action of every nature and description whatsoever, including

civil penalties, punitive damages (including the State's share of punitive damage awards pursuant to ORS § 31.735), attorney's fees, expert witness fees, expenses, and costs, whether ascertained or unascertained, suspected or unsuspected, existing now or arising in the future, known or unknown, both at law and in equity, on any theory whatever, whether legal, equitable, statutory, or regulatory, and regardless of the type or nature of damages claimed.

5. "Court" means the Multnomah County Circuit Court.

6. "Defendant" means Monsanto Company, Solutia, Inc., and Pharmacia LLC ("Old Monsanto Company"). Monsanto Company is an indirect wholly owned subsidiary of BCS US Holding, LLC, which is an indirect subsidiary of Bayer Corporation, a wholly owned indirect subsidiary of Bayer AG.

7. "Effective Date" means the date of entry of this Consent General Judgment in the register of the Court.

8. "PCBs" means polychlorinated biphenyls and any products that intentionally contain polychlorinated biphenyls, including any substance found in such products where such substance was released along with polychlorinated biphenyls, and any substances into which any of the foregoing were transformed through weathering, heating, degradation, or other chemical process.

9. "Person" means an individual, corporation, partnership, limited partnership, association, joint stock company, estate, legal representative, trust, unincorporated association, business, legal entity, government or any political subdivision or agency thereof.

10. "Plaintiff" or "State" means the State of Oregon.

11. "Released Claims" means all Claims arising out of or related to, directly or indirectly, the Defendant's manufacture, sale, distribution, testing, or marketing of PCBs, or the disposal or release of such PCBs, or damages caused by any of the above. "Released Claims" shall not include, and nothing in this Consent General Judgment will preclude: (a) liabilities under CERCLA or under

ORS § 465.255(1)(a), (b), or (c) for a Released Person's or Releasing Person's release, if any, of PCBs at or to the Portland Harbor Superfund Site, or at or from the Rhone-Poulenc site listed as ECSI Site ID 155; (b) the right of any city, county or other political subdivision or public entity within Oregon that is and remains a member of the settlement class in *City of Long Beach v. Monsanto Company et al.*, No. 2:16-cv-03493-FMO-AS (C.D. Cal.), to participate in and obtain its designated recovery under the class settlement approved by the court in that case; or (c) any Claim or action for breach of the obligations of this Consent General Judgment.

12. "Released Persons" means Defendant and any past or present Affiliate of Defendant, including but not limited to Bayer AG; Pfizer, Inc.; and Eastman Chemical Company. "Affiliate" means each and all past or present, direct or indirect, parent companies (including intermediate parents and ultimate parent companies and their direct or indirect subsidiaries), subsidiaries, affiliated companies, divisions, partnerships, and joint ventures, and any past, present, or future officer, director, shareholder, employee, partner, trustee, representative, agent, servant, insurer, attorney, predecessor, successor (including but not limited to successors by merger or acquisition), or assignee of any of the above.

13. "Releasing Persons" means:

(i) the State, including each of its officers acting in their official capacities, agencies, departments, boards, and commissions and any predecessor, successor, or assignee of any of the above; and

(ii) all cities, counties, and other political subdivisions and public entities within Oregon, including special districts, and all Persons or entities to the extent they are bringing a Claim in a private attorney general or *parens patriae* capacity (each of the foregoing set forth in this Paragraph 13(ii), a "Potential Claimant"), to the extent that the State Attorney General has the authority to release a Claim of the Potential Claimant without its prior written consent.

14. "Settlement Funds" is defined in Paragraph 17 below.

15. Nothing in this Consent General Judgment constitutes an admission or waives any arguments made by the Parties or the state agencies in this Action or other proceedings with respect to the extent or scope of the powers and authorities of, respectively, the Attorney General's Office, the Governor's Office, or the State proceeding in the State's capacity as *parens patriae*.

I. JURISDICTION AND VENUE

16. Defendant stipulates to the personal jurisdiction, subject matter jurisdiction, and venue of this Court for the purposes of the entry, modification and enforcement of this Consent General Judgment.

II. PAYMENT OF SETTLEMENT FUNDS

17. Monsanto Company, on behalf of Pharmacia LLC ("Old Monsanto Company") and Solutia, Inc. (pursuant to an indemnity agreement between Monsanto Company and Solutia, Inc.), as full and final settlement of the Action, shall pay the State the sum of Six Hundred Eighty-Eight Million US Dollars ($688,000,000) (the "Remaining Funds") in the manner provided in this Paragraph 17, which sum reflects a credit equal to Ten Million US Dollars ($10,000,000) for non-refundable amounts previously paid by Monsanto Company to the State for a total amount to be paid to the State under this Consent General Judgment of Six Hundred Ninety-Eight Million US Dollars ($698,000,000) (the "Settlement Funds"). If Monsanto Company fails to pay the full amount due as provided under this Paragraph 17, any unpaid amount shall bear interest from the date that is ten (10) days after the date due at the statutory post-judgment interest rate of nine percent per annum (9%) from the date due until paid.

If no appeal has been taken to the Court's entry of this Consent General Judgment, Monsanto will pay to the State the Remaining Funds thirty-one (31) days after the Effective Date in the manner set forth in Paragraph 19.

In the unlikely event that one or more appeals to the Court's entry of this Consent General Judgment is timely filed before the 31st day following the Effective Date (each, a "Timely Appeal"), then Monsanto will hold the Remaining Funds until the date that all Timely Appeals are resolved and the time for further appeal or review of such Timely Appeals has expired (the "Appeals Resolution Date"). If all Timely Appeals are resolved as of the Appeals Resolution Date in a manner that affirms the entry of this Consent General Judgment, then Monsanto will pay the Remaining Funds to the State within thirty (30) days of the Appeals Resolution Date, together with interest thereon determined in accordance with Exhibit A attached hereto for the period commencing on the 32nd day after the Court's entry of this Consent General Judgment through the date of Monsanto's payment of the Remaining Funds to the State. If the resolution of one or more Timely Appeals as of the Appeals Resolution Date has the effect of reversing or modifying the terms of this Consent General Judgment without the consent of the Parties, then Monsanto shall retain the Remaining Funds, and the effect of, and the Parties' rights and obligations under, this Consent General Judgment shall be as set forth in Paragraph 25.

18. The State agrees that, except for the portion thereof used to pay costs and expenses associated with the Action, including attorney's fees, expert fees and other litigation expenses (collectively "Costs and Expenses"), the Settlement Funds will be used for environmental remediation or restitutionary projects or environmental remediation or restitutionary purposes having a nexus or connection with the types of environmental harm alleged by the State (i.e., harm to air, water, soil, or natural resources) as determined by the State in its sole discretion. Such environmental remediation or restitutionary projects or purposes include restoring, maintaining and enhancing the quality of Oregon's air, land, water and other natural resources and will consist of projects having a nexus or connection with brownfields remediation or redevelopment, environmental or natural resource damage assessment or restoration, improvements to air and water

quality, cleanup of contaminated sites, remediation of impaired waterbodies, sediments, or soil, or restoration or protection of wildlife or wildlife habitats, including fish, aquatic life, marine mammal, or bird habitats, but may also include at the State's sole discretion other similar air, water, soil, or natural resource environmental remediation or restitutionary projects or purposes within the scope of the projects and purposes described above.

19. Payment of the Settlement Funds due under Paragraph 17 shall be made by electronic funds transfer pursuant to signed wiring instructions to be provided by the State Attorney General's Office.

III. RELEASES AND COVENANT NOT TO SUE

20. In exchange for the payment of the Remaining Funds to the State, (i) the Releasing Persons hereby fully and finally release and discharge the Released Persons, and each of them, from the Released Claims, (ii) the Releasing Persons hereby covenant not to sue or take any other civil or administrative action against any Released Person for any Released Claim, and (iii) the Releasing Persons' releases of the Released Persons from, and the Releasing Persons' covenant not to sue the Released Persons for, the Released Claims will constitute a dismissal of the Action with prejudice. In addition, as of the Effective Date the Releasing Persons hereby covenant not to sue or take any other civil or administrative action against any Released Person for any Released Claim; provided that the covenant not to sue or take other action effective as of the Effective Date shall be null and void and of no further force and effect (x) if this Consent General Judgment becomes null and void under the terms of Paragraph 25, or (y) upon Monsanto Company's failure to pay the Remaining Funds in accordance with this Consent General Judgment.

21. In the event the State (including any of its officers acting in their official capacities, agencies, departments, boards, or commissions) asserts a Claim against a Person who is not a Released Person and the Claim would be a Released Claim if asserted against a Released Person (a

"Third Person Claim"), the Released Persons are entitled to protection against contribution and/or indemnity actions or other claims asserted against them by such Person relating to such Third Person Claim to the fullest extent provided or allowable under any provision of federal, state, or local law, including but not limited to CERCLA § 113(f)(2), 42 U.S.C. § 9613(f)(2), ORS § 465.257, and ORS § 31.815, for the matters addressed in this Consent General Judgment and for all Released Claims. Among other things, the Parties agree, and the Court finds, that this Consent General Judgment constitutes a good-faith settlement and covenant not to sue within the meaning of ORS § 31.815, that it entitles the Released Persons to the protection of ORS § 31.815(1)(b), and that the State will give the notice described in ORS § 31.815(2) to any Person against whom the State asserts a Third Person Claim.

22. This Consent General Judgment is not intended to and does not release any claims the State may hold against any Person who is not a Released Person, and nothing in this Consent General Judgment shall prevent the State from asserting any Third Person Claim; provided, however, that the State will, as part of any settlement of any Third Person Claim, obtain a release from the defendant or defendants in the Third Person Claim, for the benefit of the Released Persons, of any claim for contribution or indemnification or other claim-over arising from or related to any Third Person Claim settled or released by the State in such settlement; provided that if State fails to obtain any release required by this Paragraph 22 with respect to a Third Person Claim, the State shall be liable only to Monsanto, and not any other Released Person, for such failure, and Monsanto's recovery of any damages for such failure may not exceed the amount awarded in damages to be paid by Defendant to the defendant or defendants in the Third Person Claim.

23. The Parties agree and acknowledge, and the Court finds, that this Consent General Judgment was entered into in good faith and the amount of the Settlement Funds provided for in Paragraph 17 is reasonable as of the Effective Date.

24. Defendant releases the State and its officers, employees, agents, and attorneys from the Released Claims of Defendant, if any, arising from or relating to the Action, other than a Claim, if any, arising from or related to an alleged breach of this Consent General Judgment

IV. OTHER TERMS

25. If (i) the Court does not enter this Consent General Judgment without modification (unless such modification is acceptable to both the State and Defendant in their individual discretion), or (ii) if the Court's entry of this Consent General Judgment is reversed or modified without the consent of the Parties, or (iii) any insolvency, state proceedings for dissolution or winding up, or any proceedings under Title 11 of the United States Code is commenced for Monsanto Company prior to payment in full of the Remaining Funds, or (iv) in any insolvency, state proceedings for dissolution or winding up, or any proceedings under Title 11 of the United States Code that is commenced for Monsanto Company an order or judgment for avoidance or recovery of the Remaining Funds is entered and becomes final and no longer appealable or reviewable and any Remaining Funds paid to the State have been returned pursuant to such order or judgment, this Consent General Judgment shall become null and void and of no further force and effect. In such instance, this Consent General Judgment and any negotiations, statements, communications, proceedings, and pleadings relating thereto, and the fact that the Parties agreed to the Consent General Judgment, shall be without prejudice to the rights of Plaintiff or Defendant, shall not be used for any purpose whatsoever in any subsequent proceeding in this Action or in any other action in any court or tribunal, and shall not be construed as an admission or concession by any Party of any fact, matter, or allegation. In the event that this Consent General Judgment does not become effective, or becomes null and void, Plaintiff and Defendant shall be restored without prejudice to their respective positions as if this Consent General Judgment had not been agreed upon or entered.

26. Each Party to this litigation shall bear its own attorney's and expert fees and costs.

27. For purposes of the identification requirement of Section 162(f)(2)(A)(ii) of the Internal Revenue Code, 26 U.S.C. § 162(f)(2)(A)(ii), payment of the Settlement Funds pursuant to Section II of this Consent General Judgment, except for the portion thereof used to pay Costs and Expenses, is restitution or for remediation of property or both. The State agrees to file any returns required by the Internal Revenue Service or other tax authorities reporting on payment of the Settlement Funds consistent with this Paragraph 27.

28. This Consent General Judgment represents the complete agreement as to each and every term agreed to by and among the Plaintiff and Defendant and supersedes (i) all prior agreements and understandings relating to the subject matter hereof, whether written or oral, and (ii) all purportedly contemporaneous oral agreements and understandings relating to such subject matter. The settlement contemplated by this Consent General Judgment is not subject to any condition not expressly provided for herein. In entering into this Consent General Judgment, no Party has made or relied on any warranty, promise, inducement or representation not specifically set forth herein. Neither Party will disclose any prior agreement or understanding (or draft thereof) relating to the subject matter hereof except pursuant to valid legal process or when required by a court of competent jurisdiction and, unless prohibited by valid legal process or such court, each Party will give the other Party reasonable notice and opportunity to object if a request for disclosure of any such material is made pursuant to legal process or if a court requires disclosure.

29. The provisions of this Consent General Judgment shall be construed in accordance with the laws of the State of Oregon, without regard to conflict of law principles.

30. This Consent General Judgment shall be binding according to its terms upon, and inure to the benefit of, Plaintiff and Defendant, and shall not give any legal or equitable right, remedy, or claim to any other Person, provided, however, that the release and covenant not to sue set forth in Paragraph 20 and the requirements of Paragraphs 21 and 22 shall be enforceable by the Released Persons. This Consent General Judgment does not limit the rights of any private party to

pursue any private remedies allowed by law; provided that this Consent General Judgment is not intended to create any private right of action by other parties.

31. The failure of Plaintiff or Defendant to exercise any rights under this Consent General Judgment shall not be deemed a waiver of any right or any future rights.

32. The headings in this Consent General Judgment are for the convenience of the reader only and shall not affect the meaning or interpretation of this Consent General Judgment.

33. None of the Parties shall be considered to be the primary drafter of this Consent General Judgment or any provision hereof for the purpose of any rule of interpretation or construction that might cause any provision to be construed against the drafter.

34. The undersigned representatives of the Parties certify that they are fully authorized to enter into and execute this Consent General Judgment and to bind that Party on whose behalf they are signing.

35. Neither the fact of, nor any provision contained in, this Consent General Judgment, nor any action taken hereunder shall constitute, be construed as, or be admissible in evidence as an admission of (i) the validity of any claim or allegation by Plaintiff, or of any defense asserted by Defendant in the Action; or (ii) any wrongdoing, fault, violation of law, or liability of any kind on the part of any Defendant or Released Person.

36. This Court retains jurisdiction of this Consent General Judgment to enforce its terms. The Parties may jointly seek to modify the terms of this Consent General Judgment, subject to the approval of the Court. This Consent General Judgment may be modified only by order of this Court.

SO ORDERED this 15th day of December, 2022.

HONORABLE BENJAMIN SOUEDE

APPROVED AND AGREED TO BY:

OREGON ATTORNEY GENERAL
Ellen F. Rosenblum

Lisa M. Udland

Lisa Udland
Deputy Attorney General
Oregon Department of Justice
100 SW Market Street
Portland, OR 97201

Date: 12/12/22

On behalf of the State

Monsanto Company

William B. Dodero
Vice President & Assistant General Counsel
Global Head Litigation
Bayer U.S. LLC
100 Bayer Boulevard
Whippany, NJ 07981
United States

Date: December 9, 2022

Monsanto Company as power of attorney for Pharmacia LLC

William B. Dodero
Vice President & Assistant General Counsel
Global Head Litigation
Bayer U.S. LLC
100 Bayer Boulevard
Whippany, NJ 07981
United States

Date: December 9, 2022

Monsanto Company as power of attorney for Solutia, Inc.

William B. Dodero
Vice President & Assistant General Counsel
Global Head Litigation
Bayer U.S. LLC
100 Bayer Boulevard
Whippany, NJ 07981
United States

Date: December 9, 2022

Exhibit A

In the event payment of the Remaining Funds is not due under Paragraph 17 until later than the 31st day after the Effective Date, the interest applicable to the Remaining Funds for the period commencing on the 32nd day after the Effective Date through the date of Monsanto's payment of the Remaining Funds to the State will be an annual rate equal to the average daily Secured Overnight Financing Rate ("SOFR") for the days beginning with the 32nd date after the Effective Date through the day prior to the date on which payment of the Remaining Funds is due under Paragraph 17 (or the day on which such funds are paid, if earlier than the day on which they are due).

Example: Assume the Remaining Funds are due and paid on the 91st day after the Effective Date, and that during the 59-day period from the 32nd to the 90th day after the Effective Date daily SOFR is 3% for 25 days, 3.5% for 20 days, and 4% for 14 days. The interest on the Remaining Funds would be an annual rate of 3.407% (i.e., the average daily SOFR for that period) and the actual interest owed on the Remaining Funds would be 0.560% (i.e., the 3.407% annual rate times 60/365, to reflect the portion of a year for which payment was not due subsequent to the 31st day after the Effective Date).

Enrolled
Senate Bill 1561

Sponsored by Senator STEINER, Representative HELM, Senator DEMBROW, Representatives BOICE, MARSH; Senators FINDLEY, GOLDEN, HANSELL, JAMA, PATTERSON, PROZANSKI, SMITH DB, SOLLMAN, TAYLOR, WOODS, Representatives DEXTER, GAMBA, HARTMAN, HOLVEY, KROPF, LEVY B, LIVELY, NELSON, NERON, NGUYEN D, NOSSE, OWENS, PHAM H, PHAM K, TRAN, WALTERS (Presession filed.)

CHAPTER ....

AN ACT

Relating to the administration of moneys received from the Monsanto settlement; creating new provisions; repealing ORS 466.445 and 466.447; and declaring an emergency.

Be It Enacted by the People of the State of Oregon:

SECTION 1. **(1) It is the intent of the Legislative Assembly in enacting sections 1 to 12 of this 2024 Act to:**

(a) Establish the Oregon Environmental Restoration Fund in the State Treasury, consisting of moneys paid to the state from the Monsanto Settlement Agreement;

(b) Provide for the investment of settlement funds and for the expenditure of earnings from those investments in an equitable, transparent and accountable manner; and

(c) Ensure that, consistent with the terms of the Monsanto Settlement Agreement, earnings are used to supplement efforts by recognized tribal governments, executive branch agencies and disproportionately impacted communities for environmental remediation or restitutionary projects or purposes having a nexus with environmental harms to air, water, soil or other natural resources or human health caused by environmental contamination, particularly the presence of PCB.

(2) It is the intent of the Legislative Assembly that projects or purposes for which allocations or transfers made under sections 1 to 12 of this 2024 Act be consistent with the terms of the Monsanto Settlement Agreement.

SECTION 2. **As used in sections 1 to 12 of this 2024 Act:**

(1) "Disproportionately impacted community" means communities that have been disproportionately impacted by PCB or other contaminants or that have been historically underrepresented in public processes regarding environmental laws or policies and as further defined by the Environmental Restoration Council by rule under section 7 of this 2024 Act.

(2) "Monsanto Settlement Agreement" means the settlement agreement between the State of Oregon and Monsanto Company, Pharmacia LLC and Solutia, Inc., effective December 15, 2022, and any modifications thereto.

(3) "PCB" has the meaning given that term in ORS 466.505.

SECTION 3. **(1) The Oregon Environmental Restoration Fund is established in the State Treasury, separate and distinct from the General Fund. The Oregon Environmental Restoration Fund consists of:**

(a) Proceeds from the Monsanto Settlement Agreement;

(b) Moneys transferred to the fund by the Legislative Assembly; and

(c) Other amounts deposited in the fund from any other public or private source.

(2) Moneys in the Oregon Environmental Restoration Fund are continuously appropriated to the Oregon Watershed Enhancement Board to be expended, consistent with the terms of the Monsanto Settlement Agreement, for the following purposes:

(a) To pay the expenses of the board and the Environmental Restoration Council incurred in the administration of sections 1 to 12 of this 2024 Act; and

(b) To carry out section 4 of this 2024 Act.

(3) Moneys in the Oregon Environmental Restoration Fund shall be invested as provided in ORS 293.701 to 293.857 and the earnings from such investments shall be credited to the fund.

(4) The Oregon Watershed Enhancement Board shall administer the Oregon Environmental Restoration Fund.

(5) In addition to services provided as the investment officer for the Oregon Investment Council under ORS 293.716, the State Treasurer shall provide accounting services specific to the Oregon Environmental Restoration Fund.

SECTION 4. (1) The Environmental Restoration Council shall, based on the advice of the State Treasurer, establish a long-term distribution policy for the Oregon Environmental Restoration Fund that seeks to maintain a stable real asset value over time while providing for the transfers described in subsections (3) and (4) of this section.

(2) No later than December 1 of each year, the Environmental Restoration Council shall determine the amounts that shall be transferred from the Oregon Environmental Restoration Fund by the Oregon Watershed Enhancement Board for the purposes of subsections (3) and (4) of this section. The amounts to be transferred shall be based on the balance of the Oregon Environmental Restoration Fund at the end of the prior fiscal year.

(3) First, the board shall transfer from the Oregon Environmental Restoration Fund the amount reasonably necessary to cover the costs of the board and the Environmental Restoration Council in the administration of sections 1 to 12 of this 2024 Act. The amount transferred under this subsection may not exceed 0.25 percent of the Oregon Environmental Restoration Fund balance at the end of the prior fiscal year, unless a greater amount is approved by the Environmental Restoration Council.

(4) Second, the board shall transfer from the Oregon Environmental Restoration Fund the amount determined pursuant to the long-term distribution policy developed under subsection (1) of this section, to be allocated as follows:

(a) Fifty percent shall be transferred to the State Agency Program Fund established under section 10 of this 2024 Act;

(b) Twenty-five percent shall be transferred to the Disproportionately Impacted Community Fund established under section 11 of this 2024 Act; and

(c) Twenty-five percent shall be transferred to the Tribal Nation Natural Resource Program Fund established under section 12 of this 2024 Act.

SECTION 5. (1) The Environmental Restoration Council is established in the Oregon Watershed Enhancement Board. The council consists of 11 members as follows:

(a) The Governor or the Governor's designee.

(b) The Director of the Department of Environmental Quality or the director's designee.

(c) The State Fish and Wildlife Director or the director's designee.

(d) The Director of the Oregon Health Authority or the director's designee.

(e) The Attorney General or the Attorney General's designee.

(f)(A) Six members, appointed by the Governor, who have expertise and a demonstrated interest in environmental remediation and the impacts from contamination to water, air or land on people or the environment. The Governor shall endeavor to appoint members with complimentary expertise under this paragraph.

(B) Of the members appointed under this paragraph, at least two must possess scientific expertise with the environmental or human health impacts of PCB or other similar substances in the environment.

(C) Council members appointed under subparagraph (B) of this paragraph need not reside in Oregon.

(g) A member of the Senate appointed by the President of the Senate to be a nonvoting advisory member of the council.

(h) A member of the House of Representatives appointed by the Speaker of the House of Representatives to be a nonvoting advisory member of the council.

(2) The term of office of each member of the council appointed by the Governor is four years, but a member serves at the pleasure of the Governor. A member is eligible for reappointment but may not serve more than two consecutive terms. If there is a vacancy for any cause, the Governor shall make an appointment to become immediately effective for the unexpired term.

(3) Each legislative member serves at the pleasure of the appointing authority and may serve as long as the member remains in the chamber of the Legislative Assembly from which the member was appointed.

(4) The Governor shall appoint a member of the council to serve as chairperson.

(5) A majority of the voting members of the council constitutes a quorum for the transaction of business.

(6) The council shall meet annually at the time and place specified by the chairperson or of a majority of the members of the council. The council may meet at other times and places as determined by the chairperson or a majority of the members of the council.

(7) The Oregon Watershed Enhancement Board shall provide staff support to the council. The board may enter into agreements with other state agencies to provide additional staff support to the council.

(8)(a) The council may create advisory committees as necessary to advise the council on carrying out the functions of the council.

(b) The council may appoint to an advisory committee any person that the council determines possesses expertise or information that may assist the council in the performance of its duties.

(9)(a) Voting members of the council, and members of an advisory committee appointed under subsection (8) of this section who are not members of the council, may be reimbursed for actual and necessary travel and other expenses incurred by the member in the performance of official duties in the same manner and amount as provided by ORS 292.495.

(b) Members of the council who are members of the Legislative Assembly are entitled to payment of compensation and expenses as provided in ORS 171.072, payable from funds appropriated to the Legislative Assembly.

(10) The council shall submit a report each biennium to the Governor and the Legislative Assembly in the manner provided by ORS 192.245. The report must describe the purposes for which moneys expended from the State Agency Program Fund established under section 10 of this 2024 Act, the Disproportionately Impacted Community Fund established under section 11 of this 2024 Act and the Tribal Nation Natural Resource Program Fund established under section 12 of this 2024 Act were used and the outcomes achieved by funding recipients.

(11) In accordance with the provisions of ORS chapter 183, the council may adopt rules necessary for the administration of the laws that the council is charged with administering.

SECTION 6. (1) The Environmental Restoration Council shall establish by rule procedures and criteria for approving allocations to state agencies that have a nexus with the projects and purposes described in the Monsanto Settlement Agreement from the State Agency Program Fund established under section 10 of this 2024 Act.

(2)(a) Allocations approved by the council under this section must be for projects or purposes that are consistent with the terms of the Monsanto Settlement Agreement and the strategic priorities established under section 9 of this 2024 Act.

(b) Allocations may be used to supplement existing programs or projects but may not be used to supplant moneys available from any other source.

(c) Allocations may be used as matching funds for federal moneys or moneys available from any other source.

(3) Rules adopted under this section shall include but need not be limited to:

(a) Procedures for soliciting and reviewing applications from state agencies;

(b) Criteria for projects or purposes funded by allocations, including desired outcomes; and

(c)(A) A requirement that each agency that receives an allocation from the State Agency Program Fund biennially report on the amount of allocated funds expended by the agency and the outcome of those expenditures.

(B) Reporting requirements:

(i) Must be developed after consultation with state agencies likely to receive proposed allocations under this section; and

(ii) As far as practicable, must be consistent with reporting requirements adopted under sections 7 and 8 of this 2024 Act.

(4) The Oregon Watershed Enhancement Board shall allocate amounts from the State Agency Program Fund established under section 10 of this 2024 Act at the direction of the council, in accordance with rules adopted by the council under this section.

SECTION 7. (1) The Environmental Restoration Council shall establish by rule a program to provide grants to public or private nonprofit entities to carry out projects that benefit disproportionately impacted communities. Rules adopted under this section shall include but need not be limited to:

(a) Procedures for soliciting and reviewing applications from public or private nonprofit entities;

(b) Eligibility criteria for nonprofit entities;

(c) Eligible purposes for which grants may be awarded;

(d) Guidelines for collaborations or partnerships between multiple entities; and

(e)(A) Reporting requirements for grant recipients.

(B) Reporting requirements:

(i) Must be developed after consultation with nonprofit entities likely to receive grants under this section; and

(ii) As far as practicable, be consistent with reporting requirements adopted under sections 6 and 8 of this 2024 Act.

(2) Grants awarded under this section:

(a) Must be awarded for projects or purposes that are consistent with the terms of the Monsanto Settlement Agreement and the strategic priorities established under section 9 of this 2024 Act.

(b) May be used to supplement existing programs or projects but may not be used to supplant moneys available from any other source.

(c) May be used as matching funds for federal moneys or moneys available from any other source.

(3) The council may contract with a third-party entity to implement and serve as the administrator of the grant program established under this section.

(4) Grants awarded under this section shall be paid out of the Disproportionately Impacted Community Fund established under section 11 of this 2024 Act by the Oregon Watershed Enhancement Board in accordance with rules adopted by the council under this section.

SECTION 8. (1) The Environmental Restoration Council shall establish by rule procedures for the transfer of moneys from the Tribal Nation Natural Resource Program Fund established under section 12 of this 2024 Act to federally recognized Indian tribes in this state at the beginning of each biennium.

(2) Transfers made pursuant to this section:

(a) Must be for projects or purposes consistent with the terms of the Monsanto Settlement Agreement.

(b) Must be made in equal amounts to each of the nine federally recognized Indian tribes in this state, unless a different proportion is provided for by the council by rule, consistent with recommendations of the Commission on Indian Services.

(c) May be used to supplement existing programs or projects but may not be used to supplant moneys available from any other source.

(d) May be used as matching funds for federal moneys or moneys available from any other source.

(3)(a) Rules adopted under this section shall include, but need not be limited to, a requirement that each federally recognized Indian tribe that receives a transfer from the Tribal Nation Natural Resource Program Fund biennially report on the amount of funds expended by the tribe and the outcome of those expenditures.

(b) Reporting requirements:

(A) Must be developed after consultation with tribal governments; and

(B) As far as practicable, must be consistent with reporting requirements adopted under sections 6 and 7 of this 2024 Act.

(4) The Oregon Watershed Enhancement Board shall transfer amounts from the Tribal Nation Natural Resource Program Fund established under section 12 of this 2024 Act in accordance with rules adopted under this section.

SECTION 9. (1) The Environmental Restoration Council, in consultation with state agencies described in section 6 (1) of this 2024 Act and the Environmental Justice Council, shall establish strategic priorities for amounts expended from the State Agency Program Fund established under section 10 of this 2024 Act and the Disproportionately Impacted Community Fund established under section 11 of this 2024 Act. Before adopting strategic priorities, the Environmental Restoration Council shall compile and review relevant data or other scientific information.

(2) Strategic priorities may include guidelines for distributing amounts on an annual or biennial basis, and for committing to funding projects for more than one biennium, as appropriate for facilitating program outcomes and continuity.

(3) Priorities established under this section are not subject to the requirements of ORS chapter 183.

(4) The council may only establish or amend priorities under this section after a public hearing and an opportunity for public comment.

SECTION 10. (1) The State Agency Program Fund is established in the State Treasury, separate and distinct from the General Fund. Interest earned by the fund shall be credited to the fund.

(2) Moneys in the State Agency Program Fund consist of moneys transferred to the fund under section 4 of this 2024 Act and moneys deposited or transferred into the fund from any other public or private source.

(3) Moneys in the State Agency Program Fund are continuously appropriated to the Oregon Watershed Enhancement Board for the purpose of making allocations in amounts and for durations approved by the Environmental Restoration Council under section 6 of this 2024 Act. To facilitate program outcomes and continuity, moneys in the fund may be committed for funding state agency projects or programs for multiple biennia.

(4) At the close of each biennium, any amounts in the State Agency Program Fund that are unexpended, unobligated and not subject to any conditions shall revert to the Oregon Environmental Restoration Fund established under section 3 of this 2024 Act.

(5) The Oregon Watershed Enhancement Board shall administer the State Agency Program Fund.

SECTION 11. (1) The Disproportionately Impacted Community Fund is established in the State Treasury, separate and distinct from the General Fund. Interest earned by the fund shall be credited to the fund.

(2) Moneys in the Disproportionately Impacted Community Fund consist of moneys transferred to the fund under section 4 of this 2024 Act and moneys deposited or transferred into the fund from any other public or private source.

(3) Moneys in the Disproportionately Impacted Community Fund are continuously appropriated to the Oregon Watershed Enhancement Board for the purpose of providing grants under section 7 of this 2024 Act, as directed by the Environmental Restoration Council.

(4) At the close of each biennium, any amounts in the Disproportionately Impacted Community Fund that are unexpended, unobligated and not subject to any conditions shall revert to the Oregon Environmental Restoration Fund established under section 3 of this 2024 Act.

(5) The Oregon Watershed Enhancement Board shall administer the Disproportionately Impacted Community Fund.

SECTION 12. (1) The Tribal Nation Natural Resource Program Fund is established in the State Treasury, separate and distinct from the General Fund. Interest earned by the fund shall be credited to the fund.

(2) Moneys in the Tribal Nation Natural Resource Program Fund consist of moneys transferred to the fund under section 4 of this 2024 Act and moneys deposited or transferred into the fund from any other public or private source.

(3) Moneys in the Tribal Nation Natural Resource Program Fund are continuously appropriated to the Oregon Watershed Enhancement Board for the purpose of making transfers to federally recognized Indian tribes under section 8 of this 2024 Act.

(4) At the close of each biennium, any amounts in the Tribal Nation Natural Resource Program Fund that are unexpended, unobligated and not subject to any conditions shall revert to the Oregon Environmental Restoration Fund established under section 3 of this 2024 Act.

(5) The Oregon Watershed Enhancement Board shall administer the Tribal Nation Natural Resource Program Fund.

SECTION 13. Notwithstanding section 4 of this 2024 Act, the Environmental Restoration Council shall first determine the amounts to be transferred under section 4 of this 2024 Act no later than December 1, 2025.

SECTION 14. Notwithstanding the term of office specified in section 5 (2) of this 2024 Act, of the members of the Environmental Restoration Council first appointed by the Governor under section 5 (1)(e) of this 2024 Act:

(1) Two shall serve a term of two years; and

(2) Two shall serve a term of three years.

SECTION 15. No later than September 15, 2073, the Environmental Restoration Council shall submit a report to the interim committees of the Legislative Assembly related to the environment in the manner provided by ORS 192.245. The report must evaluate and make recommendations as to whether the long-term distribution strategy developed by the council under section 4 of this 2024 Act should continue to seek to maintain a stable real asset value over time, notwithstanding the amendments to section 4 of this 2024 Act by section 16 of this 2024 Act, or whether the distribution strategy should seek to distribute amounts from the Oregon Environmental Restoration Fund so that no balance remains in the fund after a period of 50 years.

SECTION 16. Section 4 of this 2024 Act is amended to read:

Sec. 4. (1) The Environmental Restoration Council shall, based on the advice of the State Treasurer, establish a long-term distribution policy for the Oregon Environmental Restoration Fund that [*seeks to maintain a stable real asset value over time while providing*] **provides** for the transfers described in subsections (3) and (4) of this section.

(2) No later than December 1 of each year, the Environmental Restoration Council shall determine the amounts that shall be transferred from the Oregon Environmental Restoration Fund by the Oregon Watershed Enhancement Board for the purposes of subsections (3) and (4) of this section. The amounts to be transferred shall be based on the balance of the Oregon Environmental Restoration Fund at the end of the prior fiscal year.

(3) First, the board shall transfer from the Oregon Environmental Restoration Fund the amount reasonably necessary to cover the costs of the board and the Environmental Restoration Council in the administration of sections 1 to 12 of this 2024 Act. The amount transferred under this subsection may not exceed 0.25 percent of the Oregon Environmental Restoration Fund balance at the end of the prior fiscal year, unless a greater amount is approved by the Environmental Restoration Council.

(4) Second, the board shall transfer from the Oregon Environmental Restoration Fund the amount determined pursuant to the long-term distribution policy developed under subsection (1) of this section, to be allocated as follows:

(a) Fifty percent shall be transferred to the State Agency Program Fund established under section 10 of this 2024 Act;

(b) Twenty-five percent shall be transferred to the Disproportionately Impacted Community Fund established under section 11 of this 2024 Act; and

(c) Twenty-five percent shall be transferred to the Tribal Nation Natural Resource Program Fund established under section 12 of this 2024 Act.

SECTION 17. The amendments to section 4 of this 2024 Act by section 16 of this 2024 Act become operative on January 1, 2075.

SECTION 18. (1) For the biennium ending June 30, 2025, the Oregon Department of Administrative Services shall distribute moneys in the Polychlorinated Biphenyls Remediation and Restitution Account established under ORS 466.447 as described in subsection (2) of this section.

(2) There is allocated for the biennium ending June 30, 2025, from the Polychlorinated Biphenyls Remediation and Restitution Account, the amount of $5,000,000, to the Oregon Watershed Enhancement Board to implement sections 1 to 12 of this 2024 Act.

SECTION 19. Notwithstanding ORS 466.447, the Oregon Department of Administrative Services shall transfer all moneys in the Polychlorinated Biphenyls Remediation and Restitution Account established under ORS 466.447, except for the amount allocated under section 18 (2) of this 2024 Act, to the Oregon Environmental Restoration Fund established under section 3 of this 2024 Act, to be expended for the purposes described in section 3 of this 2024 Act.

SECTION 20. The Polychlorinated Biphenyls Remediation and Restitution Account established under ORS 466.447 is abolished. Any moneys remaining in the account on the operative date of this section shall be transferred to the Oregon Environmental Restoration Fund established under section 3 of this 2024 Act.

SECTION 21. ORS 466.445 and 466.447 are repealed.

SECTION 22. Section 20 of this 2024 Act and the repeal of ORS 466.445 and 466.447 by section 21 of this 2024 Act become operative on January 2, 2026.

SECTION 23. Notwithstanding any other law limiting expenditures, the limitation on expenditures established by section 7 (1), chapter 603, Oregon Laws 2023, for the biennium ending June 30, 2025, as the maximum limit for payment of expenses from fees, moneys or other revenues, including Miscellaneous Receipts but excluding lottery funds and federal funds, collected or received by the Oregon Watershed Enhancement Board, for operations, is increased by $1,322,956, to carry out the provisions of sections 1 to 12 of this 2024 Act.

SECTION 24. Notwithstanding any other law limiting expenditures, the limitation on expenditures established by section 1 (1), chapter 365, Oregon Laws 2023, for the biennium ending June 30, 2025, as the maximum limit for payment of expenses from fees, moneys or other revenues, including Miscellaneous Receipts but excluding lottery funds and federal funds, collected or received by the State Treasurer, for administrative services, is increased by $175,221, to carry out the provisions of sections 1 to 12 of this 2024 Act.

SECTION 25. Notwithstanding any other law limiting expenditures, the limitation on expenditures established by section 2 (3), chapter 452, Oregon Laws 2023, for the biennium ending June 30, 2025, as the maximum limit for payment of expenses from fees, moneys or other revenues, including Miscellaneous Receipts, the proceeds of bonds for the Orphan Site Account and federal funds from congestion mitigation and air quality grants, drinking water protection, laboratory accreditation and woodstove grants and for smoke monitoring laboratory services, but excluding lottery funds and federal funds not described in section 2, chapter 452, Oregon Laws 2023, collected or received by the Department of Environmental Quality, for land quality, is increased by $141,727, to carry out the provisions of sections 1 to 12 of this 2024 Act.

SECTION 26. Notwithstanding any other law limiting expenditures, the limitation on expenditures established by section 2 (7), chapter 590, Oregon Laws 2023, for the biennium ending June 30, 2025, as the maximum limit for payment of expenses from fees, moneys or other revenues, including Miscellaneous Receipts and including federal funds from the Pacific Coastal Salmon Recovery Fund, but excluding lottery funds and federal funds not described in section 2, chapter 590, Oregon Laws 2023, collected or received by the State Department of Fish and Wildlife, for the Habitat Division, is increased by $137,568, to carry out the provisions of sections 1 to 12 of this 2024 Act.

SECTION 27. This 2024 Act being necessary for the immediate preservation of the public peace, health and safety, an emergency is declared to exist, and this 2024 Act takes effect on its passage.

Passed by Senate March 4, 2024

....
Obadiah Rutledge, Secretary of Senate

....
Rob Wagner, President of Senate

Passed by House March 6, 2024

....
Dan Rayfield, Speaker of House

Received by Governor:

........................M.,..., 2024

Approved:

........................M.,..., 2024

....
Tina Kotek, Governor

Filed in Office of Secretary of State:

........................M.,..., 2024

....
LaVonne Griffin-Valade, Secretary of State

OREGON ENVIRONMENTAL RESTORATION COUNCIL
DISTRIBUTION POLICY FOR THE OR ENVIRONMENTAL RESTORATION FUND
STAFF REPORT I SEPTEMBER 30, 2025

REPORT PURPOSE: Information to support Oregon Environmental Restoration Council's development of a long-term distribution/spending policy for the Oregon Environmental Restoration Fund

COUNCIL DISCUSSION AND DECISION ON OCTOBER 9, 2025

- Discuss objectives for the Oregon Environmental Restoration Fund
- Make a recommendation to the Oregon Investment Council on an initial distribution policy

SUMMARY

The Oregon Environmental Restoration Council (OERC or "Council") is being asked to adopt an initial distribution policy, which outlines key spending targets for the Oregon Environmental Restoration Fund (OERF or "Fund"). The initial distribution policy will consist of a target biennial spend rate or amount and may also include a ceiling and/or a floor on the biennial disbursement amounts.

This distribution policy will be used to inform the Oregon Investment Council (OIC)'s development of an Investment Policy Statement, described below. The distribution policy and Investment Policy Statement are not set in stone; they can be reviewed and revised as new information or needs are identified by OERC.

An initial decision is needed at this October 9 meeting in order to meet the December 1, 2025 legislative deadline for determining the amounts to be transferred from the Oregon Environmental Restoration Fund to the three subfunds (SB1561 Section 13).

In anticipation of this time sensitive discussion, OERC Co-chairs and Vice-chair met with Treasury and their consultant Aon in August 2025 to discuss preliminary objectives for the Fund. In September 2025, Treasury and Aon developed and analyzed scenarios to help inform OERC's identification of a distribution policy. This information can be found the attached *Spending and Allocation Asset Analysis* (October 2025) and will be presented to OERC at the October 9 meeting with an opportunity to discuss and ask questions.

The following is a summary of information that will be presented during the October 9 OERC meeting.

BACKGROUND

The Oregon Environmental Restoration Fund (OERF or the "Fund") is operationally controlled and administered by the Oregon Watershed Enhancement Board. The Oregon Investment Council (OIC) oversees the formulation of high-level investment strategy to be implemented and managed by the staff at Oregon State Treasury (OST or "Treasury"). Note: In this document, "Council" will refer to the Oregon Environmental Restoration Council and OIC will refer to the Oregon Investment Council.

The Fund will be invested over the next 50 plus years to generate investment and interest income. Distributions will be determined by the Oregon Environmental Restoration Council on a biennial basis to three subfunds in allocations per SB1561. The objectives, policies, and procedures guiding the OIC and

Treasury's management and investment of the Fund are laid out in an Investment Policy Statement (IPS).

Investment Policy Statement

OIC creates and adopts the Investment Policy Statement (IPS) to provide high-level governance of the investments of the OERF. Based on the distribution policy, which informs the necessary return objective and risk level, OIC formulates policies in the IPS for the investment and reinvestment of funds under the control and administration of OERC.

The IPS will highlight roles and responsibilities, investment objectives, asset allocation guidelines, strategic role guidelines, performance measurement, and evaluation. An asset allocation study will be conducted every 3-5 years to determine the ideal mix of investments balancing risk and return.

The IPS will serve as a guide and general framework within which the Fund's assets are managed to achieve the near-term and long-term objectives of those assets.

Distribution Policy

SB1561 (Section 16) directs OERC to establish a long-term distribution policy that seeks to "maintain a stable real asset value over time while providing for transfers" to the subfunds. OERC's Long-Term Distribution Policy (also referred to as a "spending policy") will determine how much money OERC will disburse from OERF to each of the three subfunds biennially. The "distribution policy" is essentially the dollar or percent of the Fund that will be "distributed" each biennium. Treasury has developed some potential scenarios for OERC to consider in determining the distribution policy that utilize proposed objectives (provided by Council Co-Chairs and Vice-Chair) and proposed assumptions (provided by Treasury) outlined below. Once OERC has recommended a distribution policy to Treasury and OIC, OIC will draft and adopt an Investment Policy Statement for the OERF.

PROPOSED OBJECTIVES FOR THE OERF

1. Maximize the distribution to beneficiaries while protecting the corpus from depletion long term.
2. Provide a fixed/consistent biennial distribution to facilitate planning by Agencies, Tribes, and community partners.
3. Build a policy that would allow utilization of some of the corpus to be able to maintain consistent distribution in times of low/negative market returns; would include a limit on how much can be accessed in order to preserve purchasing power of corpus and a requirement to replenish the corpus in times of surplus market returns.
4. Provide distributions to beneficiaries as soon as possible.

PROPOSED ASSUMPTIONS

1. Baseline corpus = $560M (this reflects the amount remaining of the original settlement after costs and fees associated with the lawsuit have been deducted)
2. Accounting for 2.3% inflation will maintain the purchasing power of the Fund over time
3. Spend rate will include:
    a. Biennial distribution to three subfunds
    b. Program operating costs (maximum of 0.25% of balance in OERF per year unless otherwise approved by OERC)
4. It will take time for the funds to be fully invested in all of the assets and to generate the target ROI, perhaps up to 5-7 years. The amount available for distribution in the first few years of Fund operation will likely be lower than in future years.

5. If the distribution policy includes a floor for biennial distribution (a minimum distribution that can be released even if the market underperforms the target ROI), the spend rate and amount established as a floor must maintain at least a 50% probability of preserving the purchasing power of the fund over time in order to meet the Section 16 requirement to maintain a stable asset value over time

Note that the OERF earned $45M in interest between November 2023 and June 2025. Those funds sit in addition to the corpus of $560M.

OERC DISCUSSION AND DELIBERATION

OERC is being asked to review disbursement options to inform a distribution policy for the OERF and to set an initial spend rate and decide whether to establish a floor and/or ceiling for spending. Oregon State Treasury with the assistance of Aon has developed a range of scenarios that demonstrate the outcomes/effects of different spend rates on the biennial distribution amount and on the long-term financial health of the corpus. That information is presented in the attached *Spending and Allocation Asset Analysis* (September 2025).

A decision on the distribution policy is needed to ensure OERC meets the December 1, 2025 deadline of determining the first distribution outlined in SB1561 (Section 13). This can be considered a preliminary or interim decision in order to allow OIC to develop the Investment Policy Statement which is needed before funds can be invested. The distribution policy can and should be revisited and revised by OERC as needed. OERC may revisit and revise more frequently in the beginning years as the program gets designed and implemented.

A draft example/sample of a how the OERC distribution policy for the OERF might be documented is found on page 4 of this report.

A primer on distribution policies and investment strategies that may provide some helpful information on these concepts (*Spending Policy and Investment Strategy for Non-Profit Organization* (April 2025)) is included as a resource for OERC.

STAFF RECOMMENDATION TO OERC

Staff recommend that the OERC select from among the scenarios in the attached report to set an initial distribution policy that most effectively meets the objectives of OERC for the Oregon Environmental Restoration Fund and send to Oregon State Treasury for inclusion in the Investment Policy Statement.

RESOURCES ATTACHED

- Spending and Allocation Asset Analysis (October 2025)
- AON Issue Brief: Spending Policy and Investment Strategy for Non-Profit Organization (April 2025)

Oregon Environmental Restoration Council Policy Document

OREGON ENVIRONMENTAL RESTORATION FUND DISTRIBUTION POLICY

SAMPLE TEXT ONLY

Policy Title: Oregon Environmental Restoration Fund Distribution Policy
Policy#: xxx-x-xxx
Policy Contact: Oregon Environmental Restoration Program Manager
Approved By: xxxxxx
Effective Date: *Month Day Year*
Reason for Policy: This policy describes and implements the Oregon Environmental Restoration Fund (OERF or Fund) distribution rate resulting from the passage of SB 1561 (2024) and the need to determine a rate to maintain a relatively stable real asset value (i.e. inflation adjusted).

I. **AUTHORITY**: Senate Bill 1561 Section 4

II. POLICY STATEMENT:

It is the policy of the Oregon Environmental Restoration Council to set the Oregon Environmental Restoration Fund distribution rate at XX% of the Fund's average balance of the preceding three years.

III. **POLICY**:

At their *Month Year* meeting, the Oregon Environmental Restoration Council approved the Oregon Environmental Restoration Fund distribution policy. Under the policy, the maximum distribution rate is set at XX% of the Fund's average balance of the preceding three years. This is due to the passage of SB 1561 (2024), which directs the Oregon Environmental Restoration Council to biennially transfer money from the Oregon Environmental Restoration Fund to three subfunds while maintaining a relatively stable real asset value over time (i.e. inflation-adjusted) and to maintain intergenerational equity.

OREGON ENVIRONMENTAL RESTORATION COUNCIL
RULEMAKING FOR THE TRIBAL NATION NATURAL RESOURCE FUND
STAFF REPORT I SEPTEMBER 30, 2025

REPORT PURPOSE: Information to support OERC's initiation of rulemaking for the Tribal Nation Natural Resource Fund

COUNCIL DISCUSSION AND DELIBERATION ON OCTOBER 9, 2025

- Initiate rulemaking on the Tribal Nation Natural Resource Program Fund

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BACKGROUND
The Oregon Environmental Restoration Fund will function similarly to an endowment for the next 50 years. The settlement dollars will be managed by Oregon State Treasury, earning mostly investment and some interest income. On a biennial basis, Council will authorize OWEB to distribute that income to three sub-funds. Moneys in those sub-funds will be used for new projects and programs to restore Oregon's environment and benefit communities who have been harmed by PCBs and other toxins.

A **Tribal Nation Natural Resource Program Fund** will receive 25% of the biennial disbursement which will be paid out in equal amounts to each of the nine federally recognized Indian tribes in the state of Oregon who may use funds to invest in environmental restoration consistent with the terms of the Monsanto settlement

A **State Agency Program Fund** will receive 50% of the biennial disbursement to support the work of state agency projects or programs involving environmental restoration consistent with the Monsanto settlement terms.

A **Disproportionately Impacted Community Fund** will receive 25% of the biennial disbursement. A grant program will support projects and programs that directly benefit impacted communities.

The amount of money to be transferred to each sub-fund will be determined once Council has adopted a distribution policy in October 2025.

TRIBAL NATION NATURAL RESOURCE FUND
Engagement
The Governor's Natural Resources Office sent correspondence to the Chair of each federally-recognized Tribe in February 2025 informing them of the Oregon Environmental Restoration Fund and Tribal Nation Natural Resource Fund. Between February and September of 2025, OERP Staff met individually with natural and cultural resource staff of each Tribe to 1) share an overview and proposed steps and timeline for establishing the Tribal Nation Natural Resource Fund, and 2) hear how Tribes would like the process for providing input and recommendations on reporting requirements associated with expenditure of Tribal Nation Fund moneys to be structured.

Outcomes from Engagement
The following outcomes were documented from individual meetings with Tribes:

- General agreement that given the fairly straightforward structure of the Tribal Nation Natural Resource Fund (TNNRF), there may not be a need for a Rules Advisory Committee as part of the rulemaking process, however, Tribal partners would like to be informed about what participation might be expected by Tribes during rulemaking including how review and feedback on draft rules would be provided by Tribes.

- Request for clear guidance on eligible (and ineligible) activities that can be supported/paid for with TNNRF funds
- Recommendation that reporting requirements be kept as minimal/straightforward as possible while meeting the intent of SB 1561 Section 8
- Request for clarity on how funds can be utilized/managed by Tribes once transferred from the TNNRF including whether:
    - Funds received by Tribes will need to be fully spent each biennium
    - Tribes will be able to bank/accumulate funds over multiple biennia in order to be spent strategically on larger investments
    - Tribes would be able to reinvest funds through their own investment vehicles if they are not immediately being expended

PROPOSED NEXT STEPS & TIMELINES

Staff from the Oregon Environmental Restoration Program will coordinate responses to the questions and requests for information above and summarize those in a formal report to Tribes. The report will include draft guidelines describing proposed eligibility criteria, reporting requirements, and specifics of how funds can be used/managed by Tribes for review and comment by individual Tribes. Once staff have received input and recommendations from Tribes, a final draft version of Tribal Nation Natural Resource Fund guidelines will be shared back with Tribes.

These revised guidelines will form the basis of rulemaking on the Tribal Nation Natural Resource Fund which will be overseen by the Oregon Environmental Restoration Council. Staff will seek feedback from Tribes as to their interest/preference in participating in the rulemaking process.

PROPOSED RULEMAKING PROCESS AND TIMELINE

Below are the steps and estimated timeline for rulemaking on the Tribal Nation Natural Resource Fund. This information is based on requirements for rulemaking from the State of Oregon:

Rulemaking Action	Estimated Dates/Deadlines
Council authorization for rulemaking	October 9, 2025
Draft rules developed	October 2025
Tribal engagement to vet and provide feedback on draft rules	November-December 2025
Draft rules revised based on Tribal feedback; shared with Council	December 2025/January 2026
Notice filed with Secretary of State	January 16, 2026
Public comment materials posted	January 16, 2026
Notice to agency mailing list and legislators	January 16, 2026
Secretary of State's Bulletin	January 16, 2026
Public comment period	January 16 - February 16, 2026
Public Hearing	February 2026
Revisions to draft rules based on public comment	February 2026
Council adoption of rules	March 2026

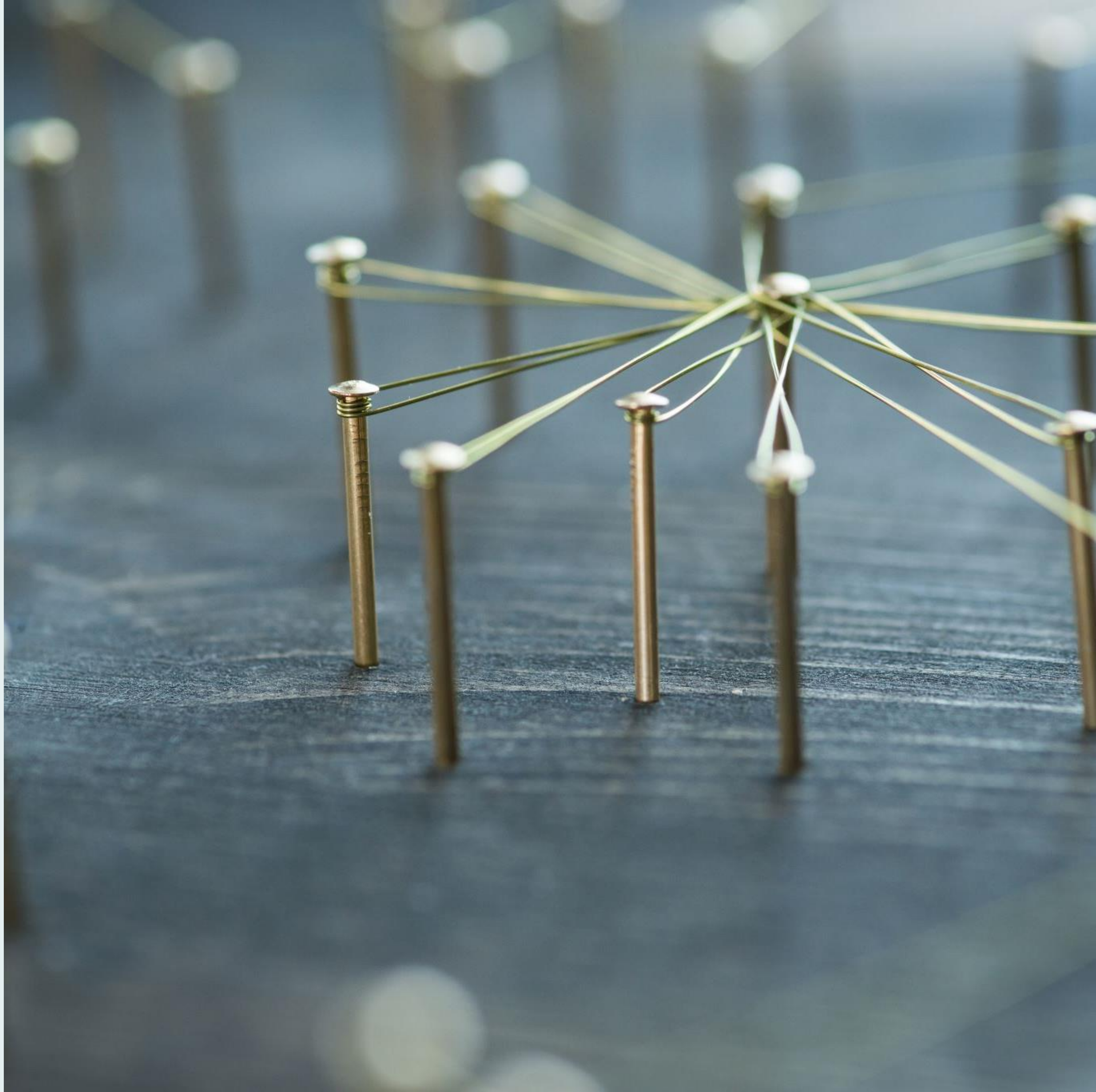
STAFF RECOMMENDATION TO OERC

Staff recommend that OERC authorize rulemaking for the Tribal Nation Natural Resource Fund.

OERF

Spending Study Analysis

October 2025



Investment advice and consulting services provided by Aon Investments USA Inc.

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1

Affirming Objectives and Key Considerations

Affirming Objectives and Key Considerations/Assumptions

Purpose of Study

Develop a long-term asset allocation and spending policy to meet the funding objectives of the Oregon Environmental Restoration Fund (OERF) while maintaining purchasing power over the next 50+ years.

Current Situation

AUM: $560 million

Goal: To have funds available into perpetuity and to maintain purchasing power over time

Required Return: To maintain purchasing power, a nominal return of approximately 6.3% - 7.3% is required if the Fund has a 4-5% spending policy

Cash Inflows: No cash inflows expected

Restrictions: None

Objectives

Today: OERC to determine a spending policy that best aligns with OERF's long-term objectives

Next Steps: OIC to adopt an asset allocation that best meets OERF's stated spending policy while preserving the portfolio's real value. The portfolio mixes outlined in the analysis range across return objective, risk tolerance, and liquidity profiles.

OST Staff and Aon have narrowed down the potential portfolio mixes to three options which may be finetuned further once the spending policy is determined.

- **Model Portfolio 1:** – Inflation + 3% Spending Policy Target
- **Model Portfolio 2a:** – Inflation + 4% Spending Policy Target
- **Model Portfolio 2b:** – Inflation + 4% Spending Policy Target, without Private Credit

Note: Model Portfolio 2a was used for spending modelling purposes throughout this presentation. Results are directionally similar for all portfolio mixes analyzed.

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Spending Policy Decision

Spending Methodologies

Impacts on Spending Volatility and Asset Growth

	Inflation-Based	Banded Inflation	Hybrid	Market-Value Based
Calculation	Base year spend x (1+CPI)	Base year spend x (1+CPI) with floor and ceiling based on prior year's market value	% weight of inflation based + % weight of market-value based policies	Percentage of prior years market values
Spending Volatility	Low	Low/Moderate	Low/Moderate	High
Depletion Risk	High	Low/Moderate	Moderate/High	Low
Considerations	Appropriate for those who require predictable spending and not concerned with preserving purchasing power	Appropriate for those who desire stable spending while limiting spending in market downturns and some degree of additional spending when markets are strong	Appropriate for organizations that generate significant revenue from sources that increase with inflation and draw heavily from their endowments. Most common for higher education. Spending volatility depends on the weight given to each component.	Appropriate for private foundations that require 5% spending and those that desire to preserve purchasing power. Calculating spending based on 3 or 5-year average market value will help lower spending volatility

Spending Model Assumptions

Monte Carlo Simulations Integrating Spending Policy and Investment Returns

Goals

- Stochastic analysis that integrates projected fund inflows, spending policy and investment returns to gain a better understanding of the likelihood of meeting OERF's goals
- Projects 5,000 annual simulations of spending and asset values, over the next 10 years
- The output consists of percentile values for asset values and spending for 95^{th} (most optimistic), 75^{th}, median (expected), 25^{th} and 5^{th} (most pessimistic) in both nominal and real terms
- Determine the probability of preserving purchasing power

Inputs

- Beginning asset value of $560 million as of 12/31/2025
- Model following scenarios;
  - Scenario 1: 4% spend with a $560 million principal floor
  - Scenario 2: 5% spend with a $560 million principal floor
  - Scenario 3: $30 million annual spend growing with 2.3% inflation
  - Scenario 4a: 4% spend with a $30 million annual spend ceiling and $15 million floor
  - Scenario 4b: First three years: $25m nominal spend a year

    Thereafter: 4% spend with a $30 million annual spend ceiling and $15 million floor
  - Scenario 5a: 5% spend with a $30 million annual spend ceiling and $15 million floor
  - Scenario 5b: First three years: $25m nominal spend a year

    Thereafter: 5% spend with a $30 million annual spend ceiling and $15 million floor
- Market Value based spending policies are applied to a 3-Year Market Value Average
- Spending policies are based on Model Portfolio 2a asset allocation mix
- Principal floor is the original principal value of $560 million
- Assume no cash inflows
- 2.3% expected inflation

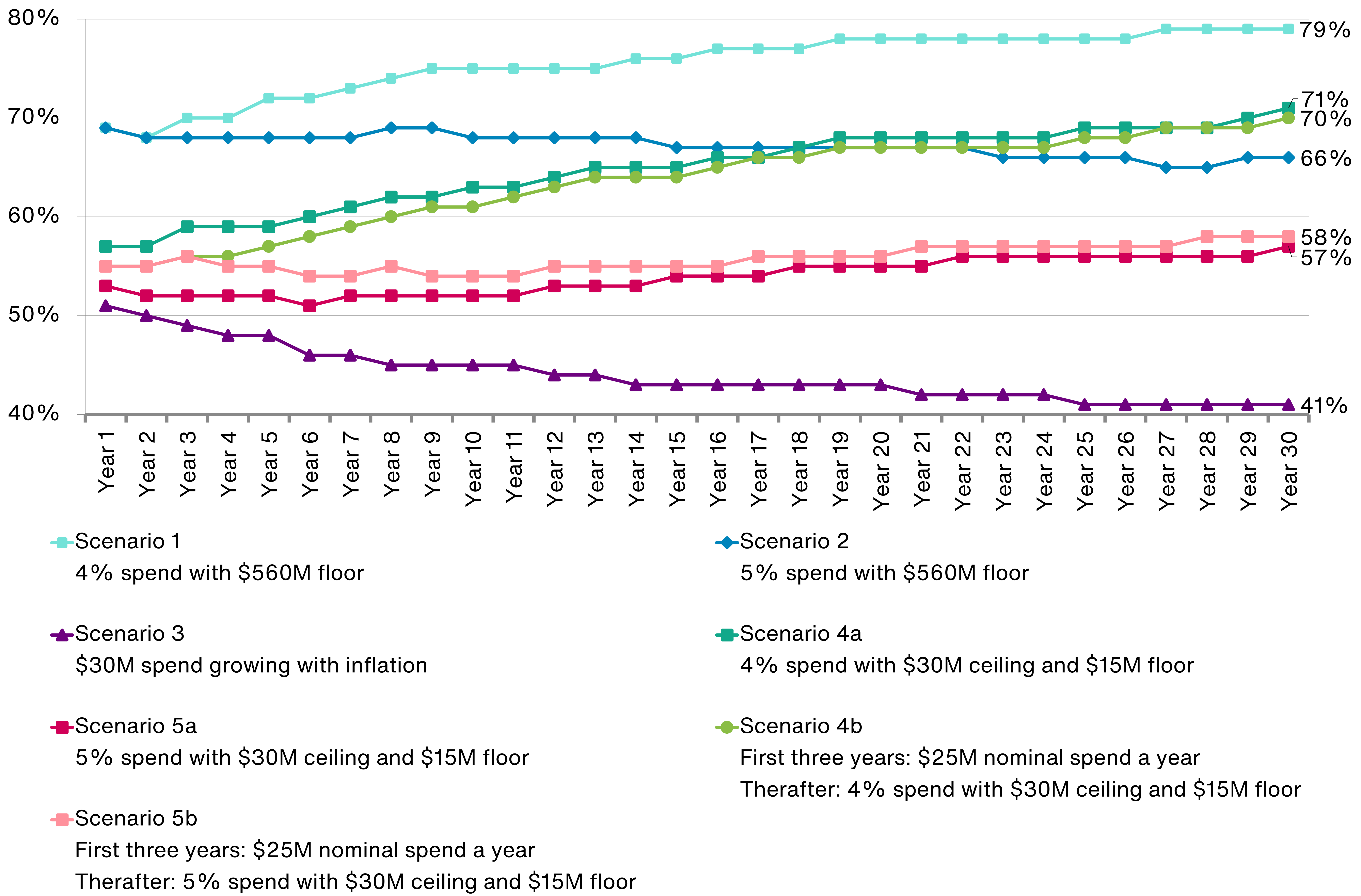
Summary of Spending Policy Results

Projections based Aon's 10 Year Capital Market Assumptions as of 3/31/2025	Real Asset Growth in Yr 10		Real Spend in Yr 10		Nominal Spend in Yr 10	Probability of Preserving Corpus in Yr 30*	Total Economic Value over 10 yrs		Total Cumulative Spend over 10 yrs	
$ (Millions)	Median	5th Percentile	Median	5th Percentile	Median	--	Median	5th Percentile	Median	5th Percentile
Scenario 1: 4% spend with a $560 million principal floor	$685	$428	$26	$0	$32	79%	$881	$521	$197	$93
Scenario 2: 5% spend with a $560 million principal floor	$639	$413	$30	$0	$38	66%	$872	$522	$233	$109
Scenario 3: $30 million annual spend growing with 2.3% inflation	$524	$200	$30	$30	$38	41%	$824	$500	$300	$300
Scenario 4a: 4% spend with a $30 million annual spend ceiling and $15 million floor	$631	$329	$24	$15	$30	71%	$856	$508	$225	$178
Scenario 4b: First three years: $25m nominal spend a year Thereafter: 4% spend with $30M ceiling and $15M floor	$623	$323	$23	$15	$30	70%	$852	$506	$229	$184
Scenario 5a: 5% spend with a $30 million annual spend ceiling and $15 million floor	$574	$299	$27	$15	$33	57%	$839	$507	$266	$208
Scenario 5b: First three years: $25m nominal spend a year Thereafter: 5% spend with $30M ceiling and $15M floor	$584	$303	$28	$15	$34	58%	$844	$506	$259	$203

Note: all ceilings and floors are expressed in real dollars (net of inflation)
Spending policies are based on Model Portfolio 2a asset allocation mix
*Based on Aon's 30-Year Capital Market Assumptions as of 6/30/2025

Color Key
The most optimal outcome
The least optimal outcome

Probability of Preserving Purchasing Power – 30 Year Projections



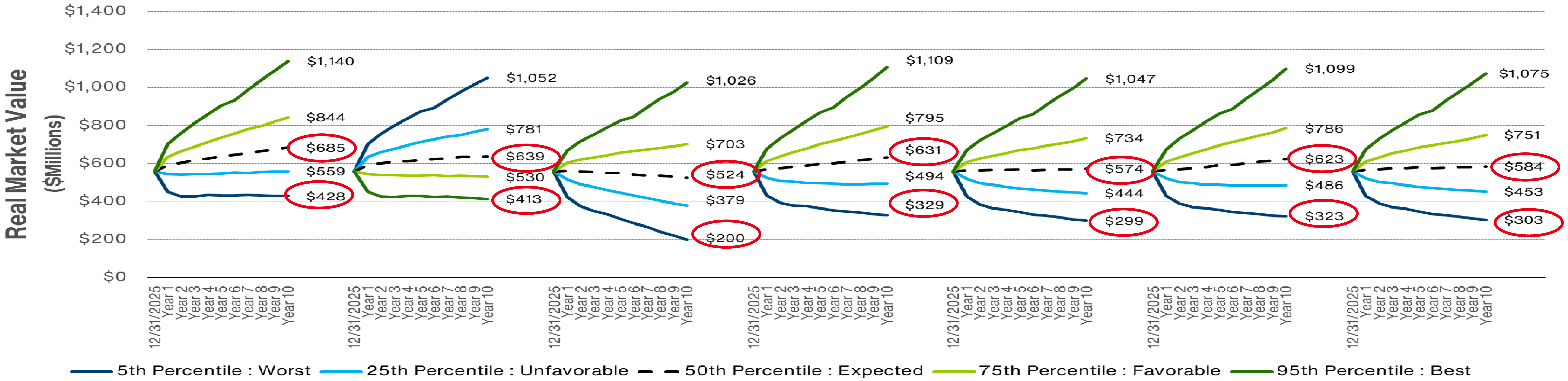
Key Takeaways

- All portfolios have high probabilities of maintaining purchasing power except Scenario 3
- Scenario 1 is expected to have the highest expected probability of 79% to maintain purchasing power followed by Scenarios 4a, 4b, and 2 at 71%, 70%, and 66%
- Scenarios 3 has the lowest expected probability of preserving purchasing power due to a high fixed payout amount regardless of market environment

Based on Aon's 30-Year Capital Market Assumptions as of 6/302025

Real Asset Growth (Today's Dollars)[1]

Scenario 1:	Scenario 2:	Scenario 3:	Scenario 4a:	Scenario 5a:	Scenario 4b:	Scenario 5b:
$560M floor with 4% spend	$560M floor with 5% spend	$30M spend growing with inflation	4% spend with $30M ceiling and $15M floor	5% spend with $30M ceiling and $15M floor	First 3 years: $25m nominal spend a yr, then 4% spend with $30M ceiling and $15M floor	First 3 years: $25m nominal spend a yr, then 5% spend with $30M ceiling and $15M floor

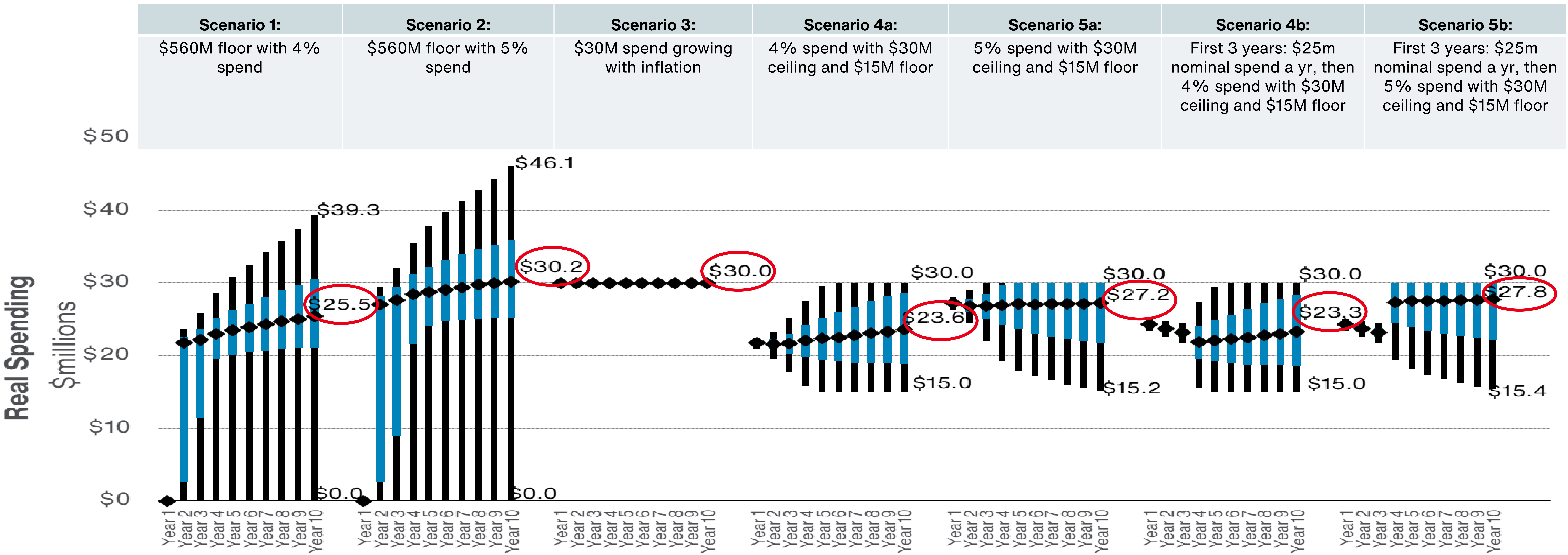


1) Starting market value $560 million as of 12/31/2025 with inflation expectation of 2.3%

Key Takeaways

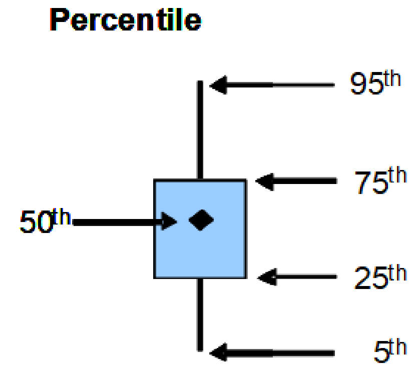
- Scenarios 1 and 2 are expected to grow the most in the median case on a real basis helped by the spending restrictions applied while providing the most downside protection
- Scenario 3 is expected to lose purchasing power in the median case due to the high spend amount with no restrictions
- Scenarios 4a and 4b expected growth and downside protection fall in the middle of range across the scenarios outlined
- Scenario 5a and 5b expected growth is the least in the median case, outside of scenario 3, as the spending policy allows for a spending floor of $15 million in down markets

Real Spending (Today's Dollars)



Key Takeaways

- Across all above spending policies, Scenario 2 is expected to payout the most with the median annual spend expected to grow from $27 million to $30 million on a real basis over 10 years
- Across all above spending policies, Scenario 3, inflation-based policy, is expected to payout $30 million while expected to deliver the most stable payout stream
- Scenarios 4a and 5a provide more stable payout streams than Scenarios 1 and 2 given the spending ceiling and floor restrictions applied while Scenarios 1 and 2 wont payout in stressed environments where the Fund's market value is expected to fall below the principal amount
- Scenarios 4b and 5b provide additional stability as the first three years payout is fixed at $25 million nominal



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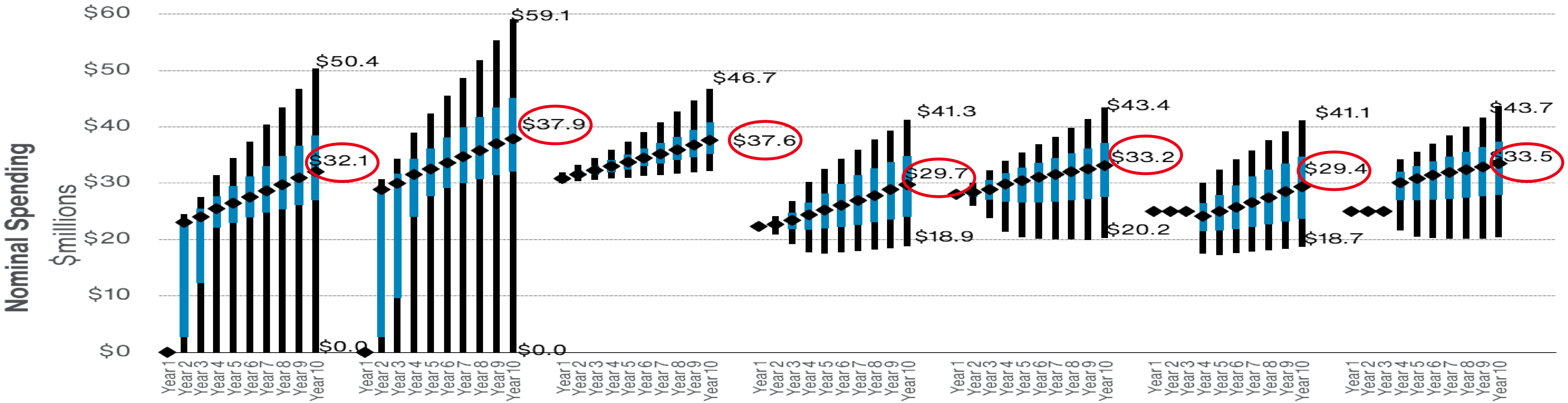
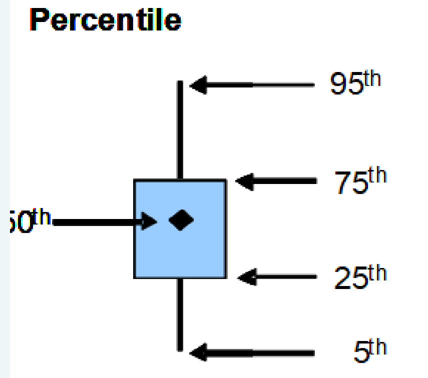
Nominal Spending

Scenario 1:	Scenario 2:	Scenario 3:	Scenario 4a:	Scenario 5a:	Scenario 4b:	Scenario 5b:
$560M floor with 4% spend	$560M floor with 5% spend	$30M spend growing with inflation	4% spend with $30M ceiling and $15M floor	5% spend with $30M ceiling and $15M floor	First 3 years: $25m nominal spend a yr, then 4% spend with $30M ceiling and $15M floor	First 3 years: $25m nominal spend a yr, then 5% spend with $30M ceiling and $15M floor



Key Takeaways

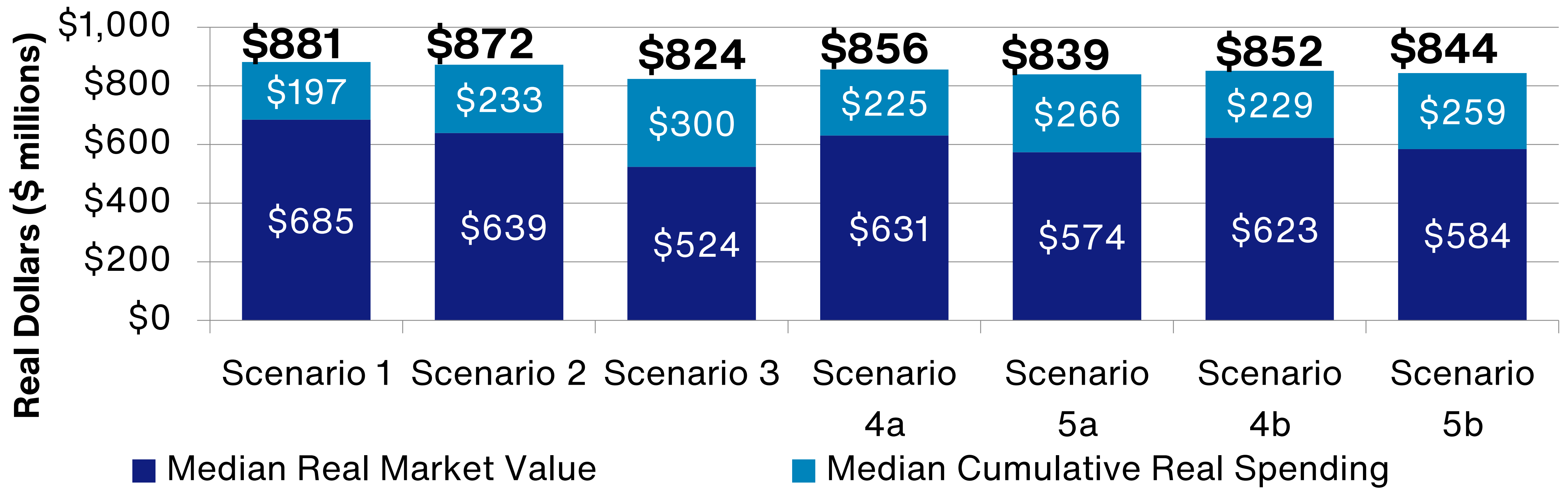
- Across all above spending policies, Scenario 2 is expected to payout the most with the median annual spend expected to grow from $30 million to $38 million on a nominal basis over 10 years
- Across all above spending policies, Scenario 3, inflation-based policy, is expected payout to grow based on long-term inflation from $31 million to $38 million while expected to deliver the most stable payout stream
- Scenarios 4a and 5a provide more stable payout streams than Scenarios 1 and 2 given the spending ceiling and floor restrictions applied while Scenarios 1 and 2 wont payout in stressed environments where the Fund's market value is expected to fall below the principal amount
- Scenarios 4b and 5b provide additional stability as the first three years payout is fixed at $25 million nominal



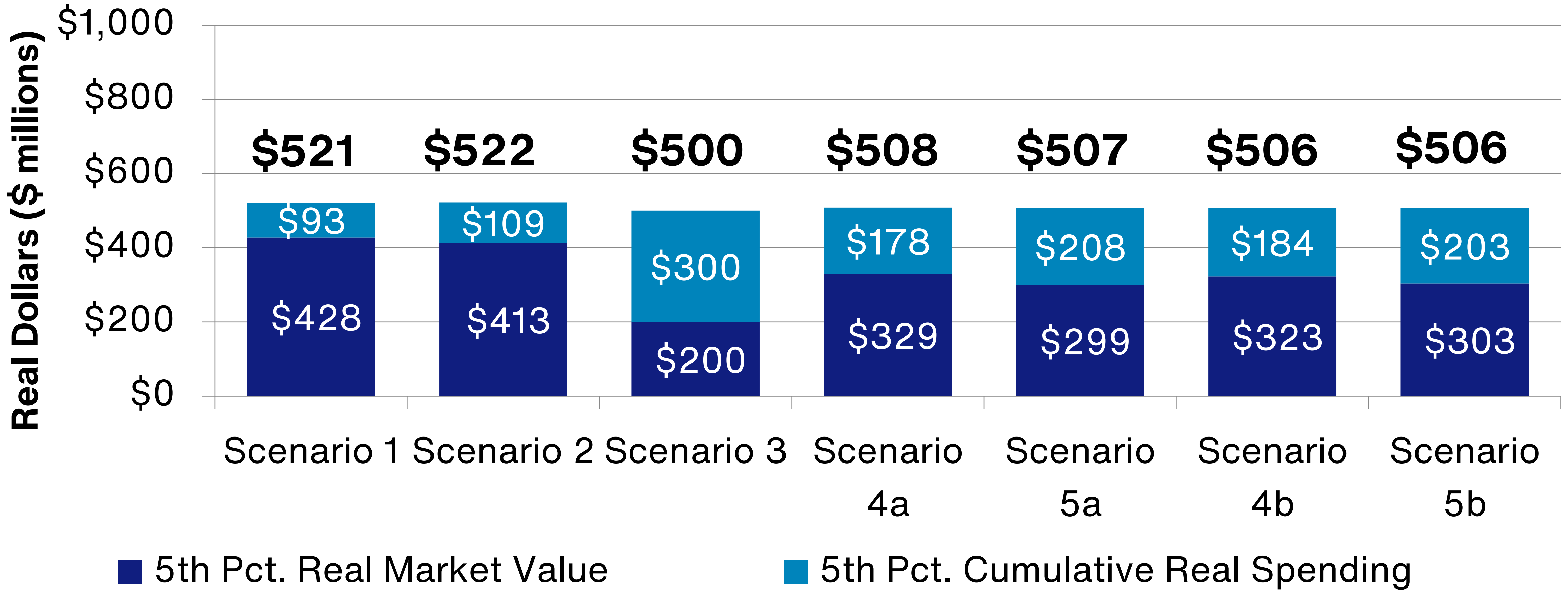
Economic Value – End of 10 Years

Cumulative Real Spending Plus Real Asset Values

Economic Value - Median



Economic Value - 5th Percentile



Key Takeaways

- In the median case, Scenarios 1 and 2 are expected to have the highest economic value (cumulative spending plus ending market value), after 10 years
- In the median case, Scenario 3 is expected to have the lowest economic value (cumulative spending plus ending market value), after 10 years since it is paying out the most with $300 million in cumulative spending
- Scenarios 1 and 2 are expected to provide the best downside (5th percentile) economic value, over the next 10 years

3

Appendix

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Asset Allocation Analysis

Investment Objectives – What are We Trying to Achieve?

Preserve Purchasing Power

4.0%	+	2.3%	≈	6.3%
Effective Spend Rate		**Inflation** Aon's 10-year assumption based on consensus estimates		**Required Return** allows purchasing power to be preserved

5.0%	+	2.3%	≈	7.3%
Effective Spend Rate		**Inflation** Aon's 10-year assumption based on consensus estimates		**Required Return** allows purchasing power to be preserved

- The required return objective will be driven by OERF's spending policy
- The analysis assumes expenses are paid as part of the spending policy

Proposed Allocations

Based on Aon's 10-Year Capital Market Assumptions as of 3/31/2025

	Aon MP #1	Aon MP #2a	Aon MP #2b
Public Equity	35%	40%	40%
Private Equity	10	15	17.5
Total Equity	**45%**	**55%**	**57.5%**
Multi-Asset Credit	10	10	10
Private Credit	5	5	--
Return-Seeking Fixed Income	**15%**	**15%**	**10%**
Open-End Real Assets	10	7.5	10
Closed-End Real Assets	--	--	--
Real Assets	**10%**	**7.5%**	**10%**
Hedge Funds	5	7.5	7.5
Liquid Alternatives	**5%**	**7.5%**	**7.5%**
Core Fixed Income	25	15	15
Risk-Reducing Assets	**25%**	**15%**	**15%**
Expected Nominal Return 10-Yr	**7.28%**	**7.64%**	**7.72%**
Expected Real Return 10-Yr	**4.87%**	**5.22%**	**5.30%**
Expected Volatility	**9.28%**	**10.78%**	**11.06%**
Sharpe Ratio	**0.386**	**0.366**	**0.363**
Illiquid Assets (>1 Yr. Lock)	**15%**	**20%**	**17.5%**

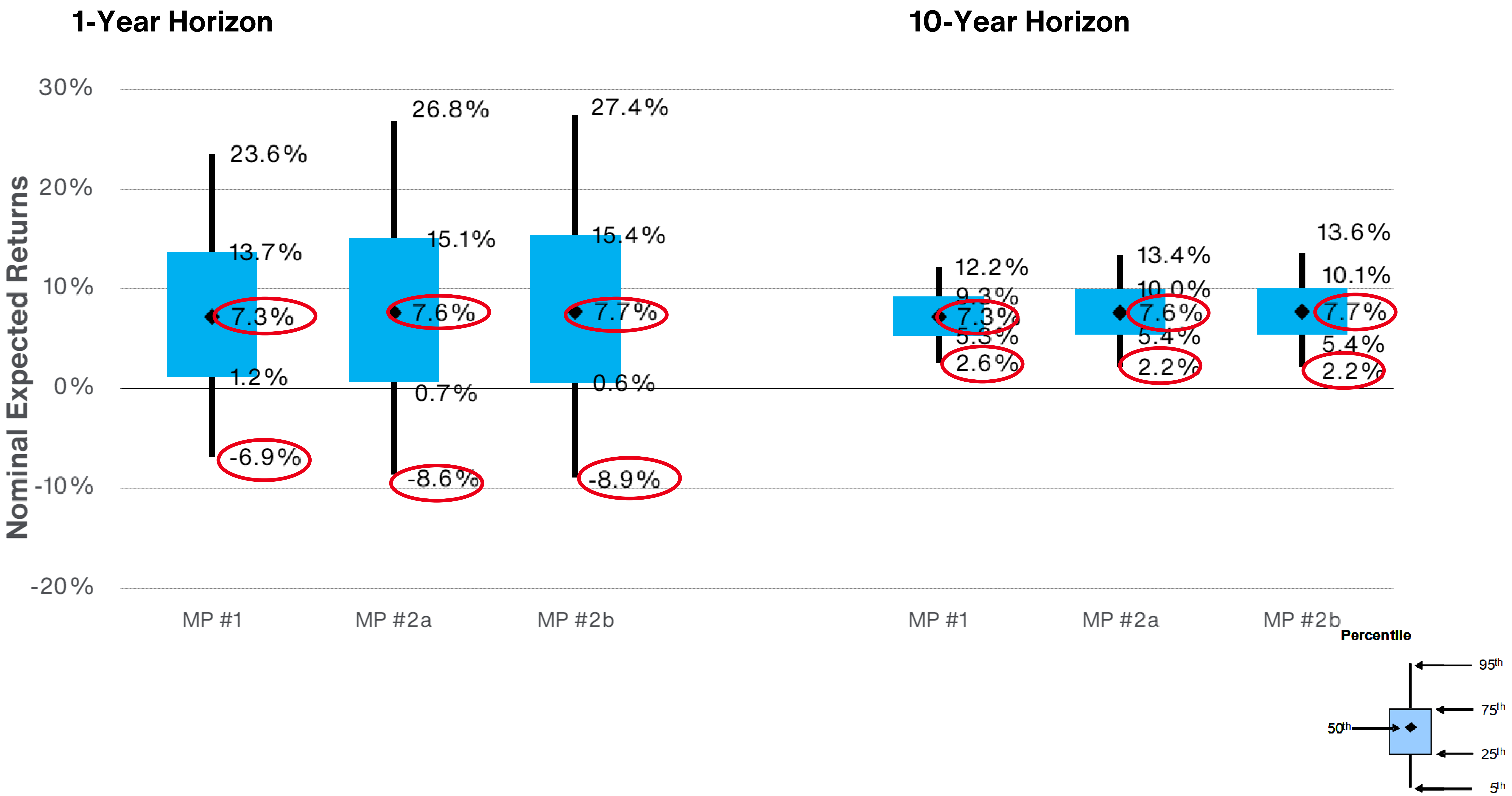
Key Takeaways

- Model Portfolio 1 is the most liquid portfolio with lowest level of risk and return across the three model portfolios
- Model Portfolio 2a is expected maintain the real value of portfolio with an expected real return above 5% with 20% exposure to illiquid assets (>1 Yr. Lock)
- Model Portfolio 2b is expected grow the real value of portfolio with an expected real return above 5.5% with a 17.5% allocation to illiquid assets (>1 Yr. Lock)
  - 2b has a slightly higher level of volatility than 2a as it's less diversified due to the removal of Private Credit from the portfolio

[1]Expected returns are using Aon Q1 2025 10 Year Capital Market Assumptions. CMAs contain projections about future returns on asset classes. Our CMA projections are designed to reflect the typical cost of implementing an investment program. Expected returns are calculated using weighted allocations of the underlying CMAs. Expected Returns are geometric (long-term compounded; rounded to the nearest decimal) assuming portfolio weights are rebalanced annually. Expected returns presented are models and do not represent the returns of an actual client account. Expected return calculation includes Aon's 2025 investment advisory fees of 0.01%. Your actual returns may differ from model returns presented based on your plan's individual fees/expenses. Aon's advisory fees are described in Part 2A of Aon's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages and additional definitions related to nominal returns, real returns, standard deviation for expected volatility and Sharpe ratio.

Distribution of Nominal Returns

Based on Aon’s 3/31/2025 Capital Market Assumptions



Key Takeaways

- Model Portfolio 1 provides the most downside protection over both 1 & 10-year time horizons
- Model Portfolio 2a and 2b provide higher expected return potential with similar downside risk over the 10-year period

[1]Expected returns are using Aon Q1 2025 10 Year Capital Market Assumptions. CMAs contain projections about future returns on asset classes. Our CMA projections are designed to reflect the typical cost of implementing an investment program. Expected returns are calculated using weighted allocations of the underlying CMAs. Expected Returns are geometric (long-term compounded; rounded to the nearest decimal) assuming portfolio weights are rebalanced annually. Expected returns presented are models and do not represent the returns of an actual client account. Expected return calculation includes Aon’s 2025 investment advisory fees of 0.01%. Your actual returns may differ from model returns presented based on your plan’s individual fees/expenses. Aon's advisory fees are described in Part 2A of Aon's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages and additional definitions related to nominal returns, real returns, standard deviation for expected volatility and Sharpe ratio.

Capital Market Assumptions

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—3/31/2025

The following capital market assumptions were developed by Aon's Global Asset Allocation Team and represent the long-term capital market outlook (i.e., 10 years) based on data at the end of the first quarter of 2025. The assumptions were developed using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecast and market data sources including, but not limited to MSCI, FactSet and Bloomberg. Our long-term assumptions for other asset classes are based on historical results, current market characteristics, and our professional judgment. Expected returns are using Aon 10 Year Capital Market Assumptions as of 3/31/2025. CMAs contain projections about future returns on asset classes. Our CMA projections are designed to reflect the typical cost of implementing an investment program. Expected returns are calculated using weighted allocations of the underlying CMAs. Expected Returns are geometric (long-term compounded; rounded to the nearest decimal) assuming portfolio weights are rebalanced annually. Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. Aon's advisory fees are described in Part 2A of Aon's Form ADV. Not a guarantee of future results.

Inflation – Expected Level (2.3%)

Based on Consensus Economics long-term estimates and our near-term economic outlook, we expect U.S. consumer price inflation to be approximately 2.3% during the next 10 years.

Real Returns for Asset Classes

Fixed Income		
Cash	1.4%	Over the long run, we expect the real yield on cash and money market instruments to produce a real return of 1.4% in a moderate to high-inflationary environment.
TIPS	2.0%	We expect intermediate duration Treasury Inflation-Protected Securities to produce a real return of about 2.0%.
Core Fixed Income (i.e., Market Duration)	2.5%	We expect intermediate duration Treasuries to produce a real return of about 1.8%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.7%, resulting in a long-term real return of 2.5%.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—3/31/2025

Fixed Income		
Core Plus Bonds	2.8%	Modeled as 20% 5 duration gov't bonds real return of 1.9% and 80% 5 duration corporate bonds real return of 3.1%
Long Duration Bonds – Government and Credit	3.4%	We expect Treasuries with a duration of ~14 to produce a real return of 3.2%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.2%, resulting in an expected real return of 3.4%.
Long Duration Bonds – Credit	3.6%	We expect Treasuries with a duration of ~12 years comparable to produce a real return of 3.2%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.4%, resulting in an expected real return of 3.6%.
Long Duration Bonds – Government	3.2%	We expect Treasuries with a duration of ~16 years to produce a real return of 3.2% during the next 10 years.
High Yield Bonds	3.6%	We expect intermediate duration Treasuries to produce a real return of about 1.8%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 1.8%, resulting in an expected real return of 3.6%.
Bank Loans	3.6%	We expect cash to produce a real return of about 1.4%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults) to be 2.2%, resulting in an expected real return of 3.6%.
Non-U.S. Developed Bonds: 50% Hedged	1.9%	We forecast real returns for non-US developed market bonds to be 1.9% over a 10-year period after adjusting for a 50% currency hedge. We assume a blend of one-third investment grade corporate bonds and two-thirds government bonds. We also produce assumptions for 0% hedged and 100% hedged non-US developed bonds.
Emerging Market Bonds (Sovereign; USD)	4.3%	We forecast real returns for emerging market sovereign bonds denominated in US dollars to be 4.3% over a 10-year period.
Emerging Market Bonds (Corporate; USD)	3.5%	We forecast real returns for emerging market corporate bonds denominated in US dollars to be 3.5% over a 10-year period.
Emerging Market Bonds (Sovereign; Local)	3.4%	We forecast real returns for emerging market sovereign bonds denominated in local currency to be 3.4% over a 10-year period.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—3/31/2025

Liquid Return-Seeking Fixed Income Institutional Quality	4.5%	We assume real returns from beta exposure to high yield, bank loans and emerging market debt to add 3.7% plus 0.8% from alpha for institutional quality managers, over a 10-year period.
Liquid Return-Seeking Fixed Income Universe	3.8%	We assume real returns from beta exposure to high yield, bank loans and emerging market debt to add 3.8%. We assume no alpha from universe funds, over a 10-year period.
Private Debt-Direct Lending	5.0%	The base building block is bank loans 3.6% + spread 1.4% (net of management fees and performance incentives). There is 100% leverage included in the assumption with the cost of financing at LIBOR +2.0%.
Equities		
Large Cap U.S. Equity	4.5%	This assumption is based on 1.03 beta to global equities plus inflation and real cash return
Small Cap U.S. Equity	4.7%	Adding a 0.2% return premium for small cap U.S. equity over large cap U.S. equity results in an expected real return of 4.7%. This return premium is theoretically justified by the higher risk inherent in small cap U.S. equity versus large cap U.S. equity and is also justified by historical data. In recent years, higher small cap valuations relative to large cap equity has reduced the small cap premium.
Global Equity (Developed & Emerging Markets)	4.7%	We employ a building block process to develop discounted cash flows using the developed and emerging markets that comprise the MSCI All-Country World Index. Our roll-up model produces an expected real return of 4.7% for global equity.
International (Non-U.S.) Equity, Developed Markets	4.2%	This assumption is based on 0.85 beta to global equities plus inflation and real cash return
Emerging Market Stocks	4.7%	This assumption is based on 1.14 beta to global equities plus inflation and real cash return
85% ACWI/15% Russell 3000	4.7%	Based on a mix of Global (Developed & Emerging Markets)/U.S. Large and Small Caps

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Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—3/31/2025

Alternative Asset Classes		
Low Beta (Defensive) Hedge Funds	2.3%	Encompasses defensive/low volatility hedge fund strategies with low correlations to risk assets. This assumption represents median manager performance. 1% base fee + 10% performance fee is deducted from the return expectation.
Low Beta (Defensive) Hedge Funds Institutional Quality	3.3%	Represent defensive/low volatility hedge fund strategies with low correlations to risk assets. 1% base fee + 7% performance fee is deducted from return expectations. To use this category the funds must be institutional quality.
High Beta (Return Enhancing) Hedge Funds	3.3%	Encompasses return enhancing/higher volatility hedge fund strategies with higher correlations to risk assets. The assumption represents median manager performance. 1% base fee + 10% performance fee is deducted from the return expectations.
High Beta (Return Enhancing) Hedge Funds Institutional Quality	5.3%	Represents return enhancing/higher volatility hedge fund strategies with higher correlations to risk assets. 1% base fee + 7% performance fee is deducted from return expectations. To use this category the funds must be institutional quality.
Direct Hedge Funds Universe	2.8%	Generic hedge fund investments which represents a portfolio of diversified strategies. We assume 50% defensive/50% return enhancing strategies. 1% base fee + 10% performance fee is deducted from the return expectations.
Direct Hedge Funds Institutional Quality	4.3%	Generic hedge fund investments which represents a portfolio of diversified strategies. We assume 50% defensive institutional quality/50% return enhancing institutional quality strategies. To use this category the funds must be institutional quality. 1% base fee + 7% performance fee is deducted from the return expectations.
Core Real Estate	3.5%	Our real return assumption for core real estate is based a gross income of about 3.9%, management fees of roughly 1%, 25% leverage and future capital appreciation near the rate of inflation during the next 10 years. We assume a portfolio of equity real estate holdings that is diversified by property and by geographic region.
Non-Core Real Estate	5.3%	Core real estate is levered approximately 100% as the base building block for this assumption. We subtract financing costs for the leverage and 2% management costs. We also assume nominal alpha of 2% over core real estate. We assume a 50/50 mix of value-add and opportunistic investments.
U.S. REITs	4.2%	Our real return assumption for U.S. REITs is based on income of about 4.0% and future capital appreciation near the rate of inflation during the next 10 years. REITs are a sub-set of U.S. small/mid cap equity universe.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—3/31/2025

Commodities	1.4%	Our commodity assumption is for a diversified portfolio of commodity futures contracts. Commodity futures returns are composed of three parts: spot price appreciation, collateral return, and roll return (positive or negative change implied by the shape of the future curve). We believe that spot prices will converge with CPI over the long run (i.e., 2.3%). Collateral is assumed to be Gov't cash (1.4%). Also, we believe the roll effect will be -2.3%, resulting in a real return of about 1.4% for commodities.
Private Equity	7.7%	Our private equity assumption reflects a diversified fund of funds with exposure to buyouts and venture capital
Open-End Infrastructure	5.6%	Our open-end infrastructure assumption assumes a mix of 65% core, 25% value-add and 10% opportunistic strategies. Return formulated through estimates of income and capital growth, leverage, debt costs, taxes and management expenses.
Closed-End Infrastructure	6.7%	Our closed-end infrastructure assumption assumes a mix of 50% value-add, 35% opportunistic and 15% private equity strategies. Return formulated through estimates of income and capital growth, leverage, debt costs, taxes and management expenses.
eLDI	3.9%	Combination of various long credit strategies (1/6 real estate debt, 1/3 securitized debt, 1/6 CMOs, 1/3 private placements).
Open-End Real Assets	4.9%	Combination of 50% Core Real Estate and 50% Open-End Infrastructure
Closed-End Real Assets	6.7%	Combination of 50% Non-Core Real Estate and 50% Closed-End Infrastructure

Volatility/Correlation Assumptions

Assumed volatilities are formulated with reference to implied volatilities priced into option contracts of various terms, as well as with regard to historical volatility levels. For asset classes which are not marked to market (for example real estate), we "de-smooth" historical returns before calculating volatilities. Importantly, we consider expected volatility trends in the future – in recent years we assumed the re-emergence of an economic cycle and a loss of confidence in central bankers would lead to an increase in volatility. Correlation assumptions are generally similar to actual historical results; however, we do make adjustments to reflect our forward-looking views as well as current market fundamentals.

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Expected Returns and Risks

3/31/2025 Assumptions (10-Year)

Equity	10-yr Expected Real Return[1]	10-yr Expected Nominal Return[1]	10-yr Expected Volatility[1]
Large Cap U.S. Equity	4.5%	6.9%	18.5%
Small Cap U.S. Equity	4.7%	7.1%	24.5%
Global Equity (Developed & Emerging)	4.7%	7.1%	17.7%
International (Non-U.S.) Equity (Developed)	4.2%	6.6%	18.8%
Emerging Markets Equity	4.7%	7.1%	22.0%
Fixed Income			
Cash (Gov't)	1.4%	3.7%	1.3%
TIPS	2.0%	4.3%	4.2%
Core U.S. Fixed Income (Market Duration)	2.5%	4.9%	5.1%
Long Duration Bonds – Gov't / Credit	3.4%	5.8%	9.9%
Long Duration Bonds – Credit	3.6%	6.0%	11.5%
Long Duration Bonds – Gov't	3.2%	5.6%	10.1%
High Yield Bonds	3.6%	6.0%	10.5%
Bank Loans	3.6%	6.0%	7.0%
Non-US Developed Bond (100% Hedged)	2.2%	4.6%	3.5%
Short Duration Bonds - Gov't	1.6%	3.9%	2.0%
Short Duration Bonds - Credit	2.2%	4.5%	2.3%
Intermediate Duration Bonds - Gov't	1.8%	4.1%	3.7%
Intermediate Duration Bonds - Credit	2.6%	5.0%	4.7%
Market Duration Bonds - Gov't (Model Portfolios)	1.9%	4.2%	4.5%
Core Plus - Fixed Income (Model Portfolios)	2.8%	5.2%	5.9%
STRIPS (25 Duration)	3.1%	5.5%	15.0%
Emerging Market Bonds (Sov. USD)	4.3%	6.7%	11.0%
Emerging Market Bonds (Corporate USD)	3.5%	5.9%	11.0%
Emerging Market Bonds (Sov. Local)	3.4%	5.8%	13.0%
Alternative Investments			
Hedge Funds - Direct (Universe)	2.8%	5.2%	5.2%
Hedge Funds - Direct (Institutional Quality)	4.3%	6.7%	5.2%
eLDI	3.9%	6.3%	6.0%
Private Real Estate (Core)	3.5%	5.9%	15.0%
Private Real Estate (Non-Core)	5.3%	7.7%	24.9%
U.S. REITs	4.2%	6.6%	18.5%
Infrastructure (Open-End)	5.6%	8.0%	12.5%
Infrastructure (Closed-End)	6.7%	9.2%	16.0%
Open-End Real Assets (Model Portfolios)	4.9%	7.3%	10.3%
Closed-End Real Assets (Model Portfolio)	6.7%	9.2%	16.1%
Private Equity	7.7%	10.2%	20.0%
Commodities	1.4%	3.7%	17.0%
Hedge Funds - Low Beta (Universe)	2.3%	4.7%	4.0%
Hedge Funds - High Beta (Universe)	3.3%	5.7%	8.0%
Hedge Funds - Low Beta (Institutional Quality)	3.3%	5.7%	4.0%
Hedge Funds - High Beta (Institutional Quality)	5.3%	7.7%	8.0%
Private Debt -- Direct Lending	5.0%	7.4%	9.7%
Timberland	2.5%	4.9%	11.9%
Farmland	3.1%	5.5%	15.0%
Liquid Return-Seeking Fixed Income (Institutional Quality)	4.5%	6.9%	8.8%
Liquid Return-Seeking Fixed Income (Universe)	3.8%	6.2%	8.4%
Insurance-Linked Securities (Catastrophe Bonds)	4.4%	6.8%	5.5%
85% ACWI/15% Russell 3000	4.7%	7.1%	17.9%
7-10 Yr Capital Efficiency	2.8%	5.2%	24.6%
Long Treasury Capital Efficiency	4.1%	6.5%	29.2%
Inflation	0.0%	2.3%	1.7%

[1] Expected returns are using Aon 10 Year Capital Market Assumptions as of 3/31/2025. CMAs contain projections about future returns on asset classes. Our CMA projections are designed to reflect the typical cost of implementing an investment program. Expected returns are calculated using weighted allocations of the underlying CMAs. Expected Returns are geometric (long-term compounded; rounded to the nearest decimal) assuming portfolio weights are rebalanced annually. Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. Aon's advisory fees are described in Part 2A of Aon's Form ADV. Not a guarantee of future results.

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Expected Nominal Correlations

3/31/2025 Assumptions (10-Year)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1 Large Cap U.S. Equity	1.00	0.93	0.98	0.78	0.70	0.09	-0.01	0.03	-0.03	0.06	-0.10	0.53	0.46	0.02	0.03	0.06	-0.04
2 Small Cap U.S. Equity		1.00	0.91	0.73	0.66	0.08	-0.02	0.02	-0.03	0.06	-0.09	0.50	0.43	0.01	0.02	0.06	-0.04
3 Global Equity (Developed & Emerging)			1.00	0.88	0.79	0.09	-0.01	0.03	-0.03	0.07	-0.10	0.58	0.46	0.02	0.02	0.06	-0.04
4 International (Non-U.S.) Equity (Developed)				1.00	0.73	0.05	-0.01	0.02	-0.03	0.06	-0.10	0.52	0.39	0.02	0.00	0.03	-0.05
5 Emerging Markets Equity					1.00	0.07	-0.02	0.03	-0.02	0.08	-0.10	0.62	0.38	0.02	0.01	0.05	-0.05
6 Cash (Gov't)						1.00	0.47	0.42	0.24	0.20	0.24	0.12	0.15	0.57	0.85	0.78	0.55
7 TIPS							1.00	0.52	0.47	0.40	0.47	0.06	-0.07	0.25	0.59	0.54	0.58
8 Core U.S. Fixed Income (Market Duration)								1.00	0.87	0.88	0.76	0.32	0.06	0.56	0.75	0.83	0.89
9 Long Duration Bonds - Gov't / Credit									1.00	0.91	0.95	0.12	-0.10	0.47	0.55	0.58	0.77
10 Long Duration Bonds - Credit										1.00	0.73	0.46	0.23	0.45	0.45	0.59	0.62
11 Long Duration Bonds - Gov't											1.00	-0.14	-0.34	0.43	0.55	0.50	0.79
12 High Yield Bonds												1.00	0.72	0.15	0.09	0.27	0.01
13 Bank Loans													1.00	0.10	-0.08	0.20	-0.28
14 Non-US Developed Bond (100% Hedged)														1.00	0.62	0.64	0.55
15 Short Duration Bonds - Gov't															1.00	0.91	0.90
16 Short Duration Bonds - Credit																1.00	0.82
17 Intermediate Duration Bonds - Gov't																	1.00
18 Intermediate Duration Bonds - Credit																	
19 Market Duration Bonds - Gov't (Model Portfolios)																	
20 Core Plus - Fixed Income (Model Portfolios)																	
21 STRIPS (25 Duration)																	
22 Emerging Market Bonds (Sov. USD)																	
23 Emerging Market Bonds (Corporate USD)																	
24 Emerging Market Bonds (Sov. Local)																	
25 Hedge Funds - Direct (Universe)																	
26 Hedge Funds - Direct (Institutional Quality)																	
27 eLDI																	
28 Private Real Estate (Core)																	
29 Private Real Estate (Non-Core)																	
30 U.S. REITs																	
31 Infrastructure (Open-End)																	
32 Infrastructure (Closed-End)																	
33 Open-End Real Assets (Model Portfolios)																	
34 Closed-End Real Assets (Model Portfolio)																	
35 Private Equity																	
36 Commodities																	
37 Hedge Funds - Low Beta (Universe)																	
38 Hedge Funds - High Beta (Universe)																	
39 Hedge Funds - Low Beta (Institutional Quality)																	
40 Hedge Funds - High Beta (Institutional Quality)																	
41 Private Debt -- Direct Lending																	
42 Timberland																	
43 Farmland																	
44 Liquid Return-Seeking Fixed Income (Institutional Quality)																	
45 Liquid Return-Seeking Fixed Income (Universe)																	
46 Insurance-Linked Securities (Catastrophe Bonds)																	
47 85% ACWI/15% Russell 3000																	
48 7-10 Yr Capital Efficiency																	
49 Long Treasury Capital Efficiency																	
50 Inflation																	

	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34
1 Large Cap U.S. Equity	0.05	-0.05	0.07	-0.10	0.38	0.40	0.57	0.77	0.77	0.15	0.33	0.44	0.70	0.26	0.33	0.39	0.50
2 Small Cap U.S. Equity	0.05	-0.06	0.06	-0.10	0.36	0.37	0.51	0.71	0.71	0.14	0.31	0.41	0.65	0.25	0.32	0.37	0.48
3 Global Equity (Developed & Emerging)	0.05	-0.06	0.07	-0.10	0.42	0.43	0.61	0.77	0.77	0.16	0.35	0.46	0.69	0.26	0.34	0.41	0.52
4 International (Non-U.S.) Equity (Developed)	0.04	-0.07	0.06	-0.09	0.38	0.41	0.60	0.64	0.64	0.13	0.33	0.42	0.57	0.23	0.29	0.37	0.47
5 Emerging Markets Equity	0.06	-0.06	0.07	-0.10	0.44	0.45	0.52	0.59	0.59	0.15	0.31	0.39	0.51	0.21	0.28	0.35	0.44
6 Cash (Gov't)	0.44	0.47	0.36	0.17	0.17	0.06	0.02	0.23	0.23	0.34	0.16	0.14	0.10	0.10	0.13	0.17	0.18
7 TIPS	0.48	0.56	0.46	0.39	0.17	0.02	-0.01	0.07	0.07	0.42	0.05	0.04	0.01	0.04	0.05	0.06	0.05
8 Core U.S. Fixed Income (Market Duration)	0.97	0.90	0.98	0.64	0.56	0.22	0.18	0.21	0.21	0.89	0.06	0.05	0.03	0.04	0.06	0.07	0.07
9 Long Duration Bonds - Gov't / Credit	0.78	0.83	0.82	0.91	0.40	0.10	0.10	0.09	0.09	0.79	0.01	0.00	-0.02	0.01	0.01	0.01	0.01
10 Long Duration Bonds - Credit	0.86	0.66	0.92	0.70	0.66	0.30	0.27	0.28	0.28	0.89	0.04	0.05	0.05	0.04	0.05	0.06	0.06
11 Long Duration Bonds - Gov't	0.63	0.85	0.66	0.97	0.16	-0.06	-0.03	-0.07	-0.07	0.62	-0.02	-0.04	-0.06	-0.02	-0.02	-0.03	-0.04
12 High Yield Bonds	0.41	-0.02	0.47	-0.18	0.82	0.62	0.61	0.68	0.68	0.51	0.22	0.28	0.38	0.17	0.22	0.26	0.32
13 Bank Loans	0.23	-0.31	0.24	-0.30	0.49	0.56	0.43	0.61	0.61	0.32	0.19	0.23	0.33	0.15	0.19	0.22	0.27
14 Non-US Developed Bond (100% Hedged)	0.56	0.53	0.53	0.37	0.30	0.14	0.16	0.17	0.17	0.49	0.06	0.06	0.03	0.04	0.05	0.07	0.07
15 Short Duration Bonds - Gov't	0.72	0.84	0.65	0.40	0.25	0.06	0.02	0.15	0.15	0.57	0.11	0.10	0.05	0.07	0.09	0.12	0.12
16 Short Duration Bonds - Credit	0.87	0.77	0.80	0.37	0.44	0.18	0.13	0.26	0.26	0.72	0.12	0.11	0.07	0.08	0.10	0.13	0.13
17 Intermediate Duration Bonds - Gov't	0.80	0.99	0.77	0.64	0.26	0.02	0.01	0.04	0.04	0.67	0.05	0.03	-0.01	0.02	0.03	0.05	0.04
18 Intermediate Duration Bonds - Credit	1.00	0.80	0.98	0.51	0.62	0.27	0.23	0.28	0.28	0.90	0.07	0.07	0.05	0.05	0.07	0.08	0.09
19 Market Duration Bonds - Gov't (Model Portfolios)		1.00	0.78	0.72	0.25	0.01	0.00	0.01	0.01	0.68	0.03	0.01	-0.03	0.01	0.02	0.03	0.02
20 Core Plus - Fixed Income (Model Portfolios)			1.00	0.55	0.67	0.30	0.26	0.30	0.30	0.93	0.07	0.07	0.06	0.05	0.07	0.08	0.09
21 STRIPS (25 Duration)				1.00	0.11	-0.08	-0.05	-0.08	-0.08	0.54	-0.03	-0.05	-0.07	-0.02	-0.03	-0.04	-0.05
22 Emerging Market Bonds (Sov. USD)					1.00	0.69	0.61	0.57	0.57	0.66	0.16	0.20	0.27	0.12	0.16	0.19	0.24
23 Emerging Market Bonds (Corporate USD)						1.00	0.60	0.48	0.48	0.36	0.14	0.19	0.28	0.10	0.13	0.16	0.21
24 Emerging Market Bonds (Sov. Local)							1.00	0.54	0.54	0.30	0.09	0.18	0.37	0.06	0.08	0.10	0.18
25 Hedge Funds - Direct (Universe)								1.00	1.00	0.36	0.31	0.38	0.55	0.23	0.30	0.36	0.44
26 Hedge Funds - Direct (Institutional Quality)									1.00	0.36	0.31	0.38	0.55	0.23	0.30	0.36	0.44
27 eLDI										1.00	0.10	0.11	0.12	0.07	0.09	0.11	0.13
28 Private Real Estate (Core)											1.00	0.96	0.45	0.14	0.18	0.81	0.83
29 Private Real Estate (Non-Core)												1.00	0.48	0.16	0.21	0.79	0.87
30 U.S. REITs													1.00	0.19	0.25	0.44	0.50
31 Infrastructure (Open-End)														1.00	0.78	0.70	0.51
32 Infrastructure (Closed-End)															1.00	0.60	0.66
33 Open-End Real Assets (Model Portfolios)																1.00	0.90
34 Closed-End Real Assets (Model Portfolio)																	1.00
35 Private Equity																	
36 Commodities																	
37 Hedge Funds - Low Beta (Universe)																	
38 Hedge Funds - High Beta (Universe)																	
39 Hedge Funds - Low Beta (Institutional Quality)																	
40 Hedge Funds - High Beta (Institutional Quality)																	
41 Private Debt -- Direct Lending																	
42 Timberland																	
43 Farmland																	
44 Liquid Return-Seeking Fixed Income (Institutional Quality)																	
45 Liquid Return-Seeking Fixed Income (Universe)																	
46 Insurance-Linked Securities (Catastrophe Bonds)																	
47 85% ACWI/15% Russell 3000																	
48 7-10 Yr Capital Efficiency																	
49 Long Treasury Capital Efficiency																	
50 Inflation																	

	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50
1 Large Cap U.S. Equity	0.59	0.46	0.40	0.82	0.40	0.82	0.41	0.02	0.02	0.56	0.59	0.03	0.99	-0.11	-0.11	0.08
2 Small Cap U.S. Equity	0.57	0.41	0.37	0.76	0.37	0.76	0.38	0.02	0.01	0.52	0.54	0.02	0.92	-0.10	-0.11	0.08
3 Global Equity (Developed & Emerging)	0.60	0.49	0.40	0.82	0.40	0.82	0.41	0.02	0.02	0.60	0.62	0.02	1.00	-0.11	-0.12	0.09
4 International (Non-U.S.) Equity (Developed)	0.52	0.49	0.35	0.67	0.35	0.67	0.35	0.02	0.02	0.55	0.57	0.01	0.87	-0.10	-0.11	0.11
5 Emerging Markets Equity	0.49	0.35	0.34	0.61	0.34	0.61	0.34	0.02	0.01	0.57	0.60	0.02	0.78	-0.11	-0.11	0.08
6 Cash (Gov't)	0.09	0.20	0.18	0.22	0.18	0.22	0.10	0.09	0.05	0.12	0.13	0.28	0.09	0.11	0.09	0.42
7 TIPS	-0.01	0.13	0.05	0.06	0.05	0.06	-0.09	0.06	0.04	0.01	0.02	0.13	-0.01	0.44	0.41	0.26
8 Core U.S. Fixed Income (Market Duration)	0.03	0.04	0.17	0.20	0.17	0.20	0.03	0.00	0.00	0.27	0.28	0.12	0.03	0.82	0.72	0.00
9 Long Duration Bonds - Gov't / Credit	-0.02	-0.02	0.06	0.09	0.06	0.09	-0.11	-0.03	-0.01	0.09	0.10	0.07	-0.03	0.89	0.94	-0.14
10 Long Duration Bonds - Credit	0.06	0.00	0.22	0.26	0.22	0.26	0.18	-0.02	-0.01	0.41	0.43	0.06	0.07	0.70	0.72	-0.11
11 Long Duration Bonds - Gov't	-0.08	-0.04	-0.07	-0.05	-0.07	-0.05	-0.32	-0.03	-0.01	-0.16	-0.16	0.07	-0.10	0.93	0.99	-0.15
12 High Yield Bonds	0.39	0.38	0.49	0.66	0.49	0.66	0.63	0.03	0.02	0.90	0.94	0.04	0.57	-0.11	-0.17	0.17
13 Bank Loans	0.33	0.22	0.44	0.59	0.44	0.59	0.88	0.03	0.01	0.79	0.82	0.05	0.46	-0.41	-0.37	0.16
14 Non-US Developed Bond (100% Hedged)	0.02	0.11	0.14	0.16	0.14	0.16	0.05	0.03	0.02	0.18	0.18	0.16	0.02	0.37	0.35	0.17
15 Short Duration Bonds - Gov't	0.04	0.14	0.11	0.14	0.11	0.14	-0.11	0.06	0.04	0.05	0.05	0.24	0.02	0.55	0.44	0.27
16 Short Duration Bonds - Credit	0.07	0.14	0.20	0.24	0.20	0.24	0.14	0.05	0.03	0.26	0.27	0.22	0.06	0.50	0.40	0.24
17 Intermediate Duration Bonds - Gov't	-0.03	0.06	0.02	0.04	0.02	0.04	-0.27	0.02	0.01	-0.05	-0.05	0.15	-0.04	0.86	0.73	0.06
18 Intermediate Duration Bonds - Credit	0.06	0.06	0.22	0.26	0.22	0.26	0.17	0.01	0.00	0.38	0.39	0.13	0.06	0.69	0.58	0.04
19 Market Duration Bonds - Gov't (Model Portfolios)	-0.04	0.03	-0.01	0.02	-0.01	0.02	-0.30	0.00	0.00	-0.07	-0.08	0.13	-0.06	0.91	0.80	0.01
20 Core Plus - Fixed Income (Model Portfolios)	0.07	0.04	0.24	0.28	0.24	0.28	0.18	0.00	0.00	0.42	0.43	0.11	0.07	0.71	0.62	0.00
21 STRIPS (25 Duration)	-0.09	-0.05	-0.08	-0.06	-0.08	-0.06	-0.29	-0.04	-0.02	-0.17	-0.18	0.05	-0.10	0.84	0.97	-0.18
22 Emerging Market Bonds (Sov. USD)	0.28	0.20	0.41	0.55	0.41	0.55	0.42	0.01	0.00	0.79	0.82	0.05	0.41	0.19	0.14	0.04
23 Emerging Market Bonds (Corporate USD)	0.24	0.26	0.33	0.47	0.33	0.47	0.50	0.01	0.01	0.73	0.76	0.02	0.43	-0.04	-0.07	0.06
24 Emerging Market Bonds (Sov. Local)	0.17	0.46	0.34	0.55	0.34	0.55	0.38	0.00	0.00	0.74	0.77	0.01	0.61	-0.02	-0.04	0.00
25 Hedge Funds - Direct (Universe)	0.50	0.37	0.77	0.94	0.77	0.94	0.53	0.03	0.02	0.69	0.71	0.07	0.77	-0.09	-0.10	0.13
26 Hedge Funds - Direct (Institutional Quality)	0.50	0.37	0.77	0.94	0.77	0.94	0.53	0.03	0.02	0.69	0.71	0.07	0.77	-0.09	-0.10	0.13
27 eLDI	0.12	0.09	0.27	0.34	0.27	0.34	0.26	0.00	0.00	0.48	0.49	0.10	0.16	0.63	0.58	0.00
28 Private Real Estate (Core)	0.31	0.10	0.17	0.32	0.17	0.32	0.17	0.02	0.01	0.19	0.20	0.04	0.35	-0.04	-0.05	0.09
29 Private Real Estate (Non-Core)	0.36	0.17	0.21	0.40	0.21	0.40	0.21	0.02	0.01	0.26	0.27	0.04	0.46	-0.05	-0.06	0.09
30 U.S. REITs	0.45	0.31	0.29	0.59	0.29	0.59	0.29	0.03	0.01	0.39	0.41	0.03	0.69	-0.07	-0.08	0.07
31 Infrastructure (Open-End)	0.24	0.08	0.14	0.24	0.14	0.24	0.13	0.02	0.02	0.15	0.15	0.03	0.26	-0.03	-0.03	0.06
32 Infrastructure (Closed-End)	0.31	0.10	0.17	0.31	0.17	0.31	0.17	0.02	0.01	0.19	0.20	0.04	0.34	-0.04	-0.04	0.08
33 Open-End Real Assets (Model Portfolios)	0.36	0.12	0.21	0.38	0.21	0.38	0.20	0.03	0.02	0.23	0.24	0.05	0.41	-0.05	-0.05	0.10
34 Closed-End Real Assets (Model Portfolio)	0.43	0.18	0.25	0.47	0.25	0.47	0.24	0.03	0.01	0.30	0.31	0.05	0.52	-0.06	-0.07	0.11
35 Private Equity	1.00	0.13	0.28	0.53	0.28	0.53	0.29	0.02	0.01	0.34	0.36	0.03	0.60	-0.09	-0.10	0.07
36 Commodities		1.00	0.21	0.38	0.21	0.38	0.20	0.09	0.07	0.37	0.39	0.06	0.49	-0.05	-0.07	0.42
37 Hedge Funds - Low Beta (Universe)			1.00	0.51	1.00	0.51	0.39	0.02	0.01	0.48	0.50	0.05	0.40	-0.09	-0.10	0.11
38 Hedge Funds - High Beta (Universe)				1.00	0.51	1.00	0.52	0.03	0.02	0.67	0.70	0.06	0.82	-0.08	-0.09	0.12
39 Hedge Funds - Low Beta (Institutional Quality)					1.00	0.51	0.39	0.02	0.01	0.48	0.50	0.05	0.40	-0.09	-0.10	0.11
40 Hedge Funds - High Beta (Institutional Quality)						1.00	0.52	0.03	0.02	0.67	0.70	0.06	0.82	-0.08	-0.09	0.12
41 Private Debt -- Direct Lending							1.00	0.03	0.01	0.70	0.73	0.03	0.41	-0.38	-0.34	0.14
42 Timberland								1.00	0.33	0.02	0.03	0.03	0.02	-0.04	-0.04	0.21
43 Farmland									1.00	0.01	0.01	0.01	0.02	-0.02	-0.02	0.13
44 Liquid Return-Seeking Fixed Income (Institutional Quality)										1.00	0.96	0.04	0.60	-0.15	-0.18	0.12
45 Liquid Return-Seeking Fixed Income (Universe)											1.00	0.04	0.62	-0.16	-0.18	0.13
46 Insurance-Linked Securities (Catastrophe Bonds)												1.00	0.02	0.03	0.03	0.12
47 85% ACWI/15% Russell 3000													1.00	-0.11	-0.12	0.09
48 7-10 Yr Capital Efficiency														1.00	0.94	-0.19
49 Long Treasury Capital Efficiency															1.00	-0.22
50 Inflation																1.00

Expected returns are using Aon 10 Year Capital Market Assumptions as of 3/31/2025. CMAs contain projections about future returns on asset classes. Our CMA projections are designed to reflect the typical cost of implementing an investment program. Expected returns are calculated using weighted allocations of the underlying CMAs. Expected Returns are geometric (long-term compounded; rounded to the nearest decimal) assuming portfolio weights are rebalanced annually. Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. Aon's advisory fees are described in Part 2A of Aon's Form ADV. Not a guarantee of future results. Correlations based on expected returns on previous page.
The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—6/30/2025

The following capital market assumptions were developed by Aon's Global Asset Allocation Team and represent the long-term capital market outlook (i.e., 30 years) based on data at the end of the second quarter of 2025. The assumptions were developed using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecast and market data sources including, but not limited to MSCI, FactSet and Bloomberg. Our long-term assumptions for other asset classes are based on historical results, current market characteristics, and our professional judgment. Expected returns are using Aon 30 Year Capital Market Assumptions as of 6/30/2025. CMAs contain projections about future returns on asset classes. Our CMA projections are designed to reflect the typical cost of implementing an investment program. Expected returns are calculated using weighted allocations of the underlying CMAs. Expected Returns are geometric (long-term compounded; rounded to the nearest decimal) assuming portfolio weights are rebalanced annually. Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. Aon's advisory fees are described in Part 2A of Aon's Form ADV. Not a guarantee of future results.

Inflation – Expected Level (2.3%)

Based on Consensus Economics long-term estimates and our near-term economic outlook, we expect U.S. consumer price inflation to be approximately 2.3% during the next 30 years.

Fixed Income		
Cash	1.5%	Over the long run, we expect the real yield on cash and money market instruments to produce a real return of 1.5% in a moderate to low-inflationary environment.
TIPS	2.0%	We expect intermediate duration Treasury Inflation-Protected Securities to produce a real return of about 2.0%.
Core Fixed Income (i.e., Market Duration)	2.6%	We expect intermediate duration Treasuries to produce a real return of about 1.8%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.8%, resulting in a long-term real return of 2.6%.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—6/30/2025

Fixed Income		
Core Plus Bonds	3.0%	Modeled as 20% 5 duration gov't with real return of 1.9% and 80% 5 duration corporate bonds with real return of 3.3%.
Long Duration Bonds – Government and Credit	3.5%	We expect Treasuries with a duration of ~16 years to produce a real return of 3.1%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.4%, resulting in an expected real return of 3.2%.
Long Duration Bonds – Credit	3.9%	We expect Treasuries with a duration of ~16 years to produce a real return of 3.1%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.8%, resulting in an expected real return of 3.7%.
Long Duration Bonds – Government	3.1%	We expect Treasuries with a duration of ~16 years to produce a real return of 3.1% during the next 30 years.
High Yield Bonds	3.9%	We expect intermediate duration Treasuries to produce a real return of about 1.8%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 2.1%, resulting in an expected real return of 4.0%.
Bank Loans	3.6%	We expect cash to produce a real return of about 1.5%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults) to be 2.1%, resulting in an expected real return of 3.6%.
Non-U.S. Developed Bonds: 50% Hedged	2.1%	We forecast real returns for non-US developed market bonds to be 2.1% over a 30-year period after adjusting for a 50% currency hedge. We assume a blend of one-third investment grade corporate bonds and two-thirds government bonds. We also produce assumptions for 0% hedged and 100% hedged non-US developed bonds.
Emerging Market Bonds (Sovereign; USD)	4.2%	We forecast real returns for emerging market sovereign bonds denominated in US dollars to be 4.2% over a 30-year period.
Emerging Market Bonds (Corporate; USD)	3.8%	We forecast real returns for emerging market corporate bonds denominated in US dollars to be 3.8% over a 30-year period.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—6/30/2025

Emerging Market Bonds (Sovereign; Local)	3.1%	We forecast real returns for emerging market sovereign bonds denominated in local currency to be 3.1% over a 30-year period.
Liquid Return-Seeking Fixed Income Institutional Quality	4.6%	We assume real returns from beta exposure to high yield, bank loans and emerging market debt to add 3.8% plus 0.8% from alpha for institutional quality managers, over a 30-year period.
Liquid Return-Seeking Fixed Income Universe	3.8%	We assume real returns from beta exposure to high yield, bank loans and emerging market debt to add 3.8%. We assume no alpha from universe funds, over a 30-year period.
Private Debt-Direct Lending	4.4%	The base building block is bank loans 3.6% + spread 0.8% (net of management fees and performance incentives). There is 100% leverage included in the assumption with the nominal cost of financing at LIBOR + 2.0%.
Equities		
Large Cap U.S. Equity	4.2%	This assumption is based on 1.03 beta to global equities plus inflation and real cash return
Small Cap U.S. Equity	4.7%	Adding a 0.5% return premium for small cap U.S. equity over large cap U.S. equity results in an expected real return of 5.0%. This return premium is theoretically justified by the higher risk inherent in small cap U.S. equity versus large cap U.S. equity and is also justified by historical data.
Global Equity (Developed & Emerging Markets)	4.4%	We employ a building block process to develop discounted cash flows using the developed and emerging markets that comprise the MSCI All-Country World Index. Our roll-up model produces an expected real return of 4.7% for global equity.
International (Non-U.S.) Equity, Developed Markets	3.9%	This assumption is based on 0.85 beta to global equities plus inflation and real cash return
Emerging Market Stocks	4.2%	This assumption is based on 1.14 beta to global equities plus inflation and real cash return
85% ACWI/15% Russell 3000	4.4%	Based on a mix of Global (Developed & Emerging Markets)/U.S. large and small caps

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—6/30/2025

Alternative Asset Classes		
Low Beta (Defensive) Hedge Funds	2.4%	Encompasses defensive/low volatility hedge fund strategies with low correlations to risk assets. This assumption represents median manager performance. 1% base fee + 10% performance fee is deducted from the return expectation.
Low Beta (Defensive) Hedge Funds Institutional Quality	3.4%	Represent defensive/low volatility hedge fund strategies with low correlations to risk assets. 1% base fee + 7% performance fee is deducted from return expectations. To use this category the funds must be institutional quality.
High Beta (Return Enhancing) Hedge Funds	3.4%	Encompasses return enhancing/higher volatility hedge fund strategies with higher correlations to risk assets. The assumption represents median manager performance. 1% base fee + 10% performance fee is deducted from the return expectations.
High Beta (Return Enhancing) Hedge Funds Institutional Quality	5.4%	Represents return enhancing/higher volatility hedge fund strategies with higher correlations to risk assets. 1% base fee + 7% performance fee is deducted from return expectations. To use this category the funds must be institutional quality.
Direct Hedge Funds Universe	2.9%	Generic hedge fund investments which represents a portfolio of diversified strategies. We assume 50% defensive/50% return enhancing strategies. 1% base fee + 10% performance fee is deducted from the return expectations.
Direct Hedge Funds Institutional Quality	4.4%	Generic hedge fund investments which represents a portfolio of top-tier diversified strategies. We assume 50% defensive institutional quality/50% return enhancing institutional quality strategies. To use this category the funds must be institutional quality. 1% base fee + 7% performance fee is deducted from the return expectations.
Core Real Estate	3.4%	Our real return assumption for core real estate is based a gross income of about 3.9%, management fees of roughly 1%, 25% leverage and future capital appreciation near the rate of inflation during the next 30 years. We assume a portfolio of equity real estate holdings that is diversified by property and by geographic region.
Non-Core Real Estate	4.9%	Core real estate is levered approximately 100% as the base building block for this assumption. We subtract financing costs for the leverage and 2% management costs. We also assume nominal alpha of 2% over core real estate. We assume a 50/50 mix of value-add and opportunistic investments.
U.S. REITs	4.0%	Our real return assumption for U.S. REITs is based on income of about 4.0% and future capital appreciation near the rate of inflation during the next 30 years. REITs are a sub-set of U.S. small/mid cap equity universe.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—6/30/2025

Commodities	1.5%	Our commodity assumption is for a diversified portfolio of commodity futures contracts. Commodity futures returns are composed of three parts: spot price appreciation, collateral return, and roll return (positive or negative change implied by the shape of the future curve). We believe that spot prices will converge with CPI over the long run (i.e., 2.3%). Collateral is assumed to be Gov't cash (1.5%). Also, we believe the roll effect will be -2.3%, resulting in a real return of about 1.4% for commodities.
Private Equity	7.6%	Our private equity assumption reflects a diversified fund of funds with exposure to buyouts and venture capital.
Open-End Infrastructure	5.6%	Our open-end infrastructure assumption assumes a mix of 65% core, 25% value-add and 10% opportunistic strategies. Return formulated through estimates of income and capital growth, leverage, debt costs, taxes and management expenses.
Closed-End Infrastructure	6.6%	Our closed-end infrastructure assumption assumes a mix of 50% value-add, 35% opportunistic and 15% private equity strategies. Return formulated through estimates of income and capital growth, leverage, debt costs, taxes and management expenses.
eLDI	4.2%	Combination of various long credit strategies (1/6 real estate debt, 1/3 securitized debt, 1/6 CMOs, 1/3 private placements).
Open-End Real Assets	4.8%	Combination of 50% Core Real Estate and 50% Open-End Infrastructure
Closed-End Real Assets	6.5%	Combination of 50% Non-Core Real Estate and 50% Closed-End Infrastructure

Volatility/Correlation Assumptions

Assumed volatilities are formulated with reference to implied volatilities priced into option contracts of various terms, as well as with regard to historical volatility levels. For asset classes which are not marked to market (for example real estate), we "de-smooth" historical returns before calculating volatilities. Importantly, we consider expected volatility trends in the future – in recent years we assumed the re-emergence of an economic cycle and a loss of confidence in central bankers would lead to an increase in volatility. Correlation assumptions are generally similar to actual historical results; however, we do make adjustments to reflect our forward-looking views as well as current market fundamentals.

Expected Returns and Risks

6/30/2025 Assumptions (30-Year)

	30-yr	30-yr	30-yr
Equity	Expected Real Return[1]	Expected Nominal Return[1]	Expected Volatility[1]
Large Cap U.S. Equity	4.2%	6.6%	18.3%
Small Cap U.S. Equity	4.7%	7.1%	24.4%
Global Equity (Developed & Emerging)	4.4%	6.8%	17.6%
International (Non-U.S.) Equity (Developed)	3.9%	6.3%	19.1%
Emerging Markets Equity	4.2%	6.6%	21.2%
Fixed Income			
Cash (Gov't)	1.5%	3.8%	1.9%
TIPS	2.0%	4.3%	4.5%
Core U.S. Fixed Income (Market Duration)	2.6%	5.0%	5.4%
Long Duration Bonds – Gov't / Credit	3.5%	5.9%	9.5%
Long Duration Bonds – Credit	3.9%	6.3%	11.4%
Long Duration Bonds – Gov't	3.1%	5.5%	9.9%
High Yield Bonds	3.9%	6.3%	10.6%
Bank Loans	3.6%	6.0%	7.5%
Non-US Developed Bond (100% Hedged)	2.2%	4.6%	4.0%
Short Duration Bonds - Gov't	1.6%	3.9%	2.4%
Short Duration Bonds - Credit	2.2%	4.6%	2.8%
Intermediate Duration Bonds - Gov't	1.8%	4.1%	4.0%
Intermediate Duration Bonds - Credit	2.9%	5.3%	5.3%
Market Duration Bonds - Gov't (Model Portfolios)	1.9%	4.2%	4.7%
Core Plus - Fixed Income (Model Portfolios)	3.0%	5.4%	6.4%
STRIPS (25 Duration)	3.2%	5.6%	15.1%
Emerging Market Bonds (Sov. USD)	4.2%	6.6%	11.5%
Emerging Market Bonds (Corporate USD)	3.8%	6.2%	11.3%
Emerging Market Bonds (Sov. Local)	3.1%	5.5%	13.3%
Alternative Investments			
Hedge Funds - Direct (Universe)	2.9%	5.3%	5.6%
Hedge Funds - Direct (Institutional Quality)	4.4%	6.8%	5.6%
eLDI	4.2%	6.6%	6.4%
Private Real Estate (Core)	3.4%	5.8%	15.2%
Private Real Estate (Non-Core)	4.9%	7.3%	25.2%
U.S. REITs	4.0%	6.4%	18.9%
Infrastructure (Open-End)	5.6%	8.0%	12.7%
Infrastructure (Closed-End)	6.6%	9.1%	16.3%
Open-End Real Assets (Model Portfolios)	4.8%	7.2%	10.6%
Closed-End Real Assets (Model Portfolio)	6.5%	9.0%	16.3%
Private Equity	7.6%	10.1%	20.2%
Commodities	1.5%	3.8%	16.9%
Hedge Funds - Low Beta (Universe)	2.4%	4.8%	4.3%
Hedge Funds - High Beta (Universe)	3.4%	5.8%	8.4%
Hedge Funds - Low Beta (Institutional Quality)	3.4%	5.8%	4.3%
Hedge Funds - High Beta (Institutional Quality)	5.4%	7.8%	8.4%
Private Debt -- Direct Lending	4.4%	6.8%	10.1%
Timberland	2.5%	4.9%	12.3%
Farmland	3.2%	5.6%	15.4%
Liquid Return-Seeking Fixed Income (Institutional Quality)	4.6%	7.0%	9.0%
Liquid Return-Seeking Fixed Income (Universe)	3.8%	6.2%	8.7%
Insurance-Linked Securities (Catastrophe Bonds)	4.1%	6.5%	7.5%
85% ACWI/15% Russell 3000	4.4%	6.8%	17.7%
7-10 Yr Capital Efficiency	2.0%	4.3%	24.9%
Long Treasury Capital Efficiency	4.0%	6.4%	28.4%
Inflation	0.0%	2.3%	1.7%

[1] Expected returns are using Aon 30 Year Capital Market Assumptions as of 6/30/2025. CMAs contain projections about future returns on asset classes. Our CMA projections are designed to reflect the typical cost of implementing an investment program. Expected returns are calculated using weighted allocations of the underlying CMAs. Expected Returns are geometric (long-term compounded; rounded to the nearest decimal) assuming portfolio weights are rebalanced annually. Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. Aon's advisory fees are described in Part 2A of Aon's Form ADV. Not a guarantee of future results.

Expected Nominal Correlations

6/30/2025 Assumptions (10-Year)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50
1 Large Cap U.S. Equity	1.00	0.93	0.98	0.78	0.70	0.09	-0.02	0.03	-0.03	0.07	-0.10	0.53	0.45	0.02	0.03	0.06	-0.04	0.06	-0.06	0.07	-0.10	0.37	0.40	0.57	0.75	0.75	0.16	0.33	0.44	0.68	0.26	0.33	0.39	0.50	0.59	0.46	0.38	0.80	0.38	0.80	0.41	0.02	0.01	0.56	0.58	0.02	0.98	-0.11	-0.11	0.08
2 Small Cap U.S. Equity		1.00	0.91	0.72	0.66	0.07	-0.02	0.03	-0.03	0.07	-0.10	0.50	0.42	0.01	0.02	0.05	-0.04	0.05	-0.06	0.06	-0.10	0.35	0.37	0.50	0.69	0.69	0.15	0.31	0.41	0.63	0.25	0.32	0.37	0.47	0.57	0.41	0.36	0.74	0.36	0.74	0.39	0.02	0.01	0.51	0.53	0.02	0.92	-0.10	-0.11	0.07
3 Global Equity (Developed & Emerging)			1.00	0.88	0.79	0.08	-0.02	0.03	-0.03	0.08	-0.11	0.57	0.46	0.02	0.02	0.06	-0.05	0.06	-0.06	0.07	-0.10	0.41	0.44	0.61	0.75	0.75	0.16	0.35	0.45	0.67	0.26	0.34	0.40	0.52	0.60	0.49	0.39	0.80	0.39	0.80	0.42	0.02	0.01	0.59	0.62	0.02	1.00	-0.11	-0.12	0.09
4 International (Non-U.S.) Equity (Developed)				1.00	0.73	0.04	-0.02	0.02	-0.03	0.07	-0.10	0.52	0.39	0.02	-0.01	0.03	-0.06	0.04	-0.07	0.06	-0.10	0.36	0.41	0.60	0.62	0.62	0.13	0.33	0.42	0.55	0.22	0.29	0.37	0.47	0.52	0.49	0.34	0.66	0.34	0.66	0.36	0.03	0.01	0.54	0.56	0.01	0.86	-0.10	-0.11	0.10
5 Emerging Markets Equity					1.00	0.07	-0.02	0.03	-0.02	0.09	-0.10	0.60	0.38	0.02	0.01	0.05	-0.05	0.06	-0.06	0.08	-0.10	0.43	0.45	0.52	0.58	0.58	0.15	0.30	0.39	0.50	0.21	0.27	0.34	0.43	0.50	0.35	0.32	0.60	0.32	0.60	0.34	0.02	0.01	0.56	0.58	0.01	0.78	-0.11	-0.11	0.08
6 Cash (Gov't)						1.00	0.46	0.42	0.24	0.20	0.24	0.11	0.14	0.56	0.86	0.77	0.56	0.44	0.47	0.36	0.16	0.16	0.06	0.01	0.21	0.21	0.33	0.15	0.14	0.09	0.10	0.13	0.17	0.17	0.09	0.19	0.17	0.20	0.17	0.20	0.08	0.08	0.05	0.11	0.12	0.26	0.08	0.12	0.09	0.38
7 TIPS							1.00	0.52	0.47	0.39	0.47	0.05	-0.08	0.23	0.58	0.53	0.58	0.47	0.57	0.45	0.39	0.17	0.02	-0.02	0.05	0.05	0.41	0.04	0.03	0.00	0.03	0.04	0.05	0.05	-0.01	0.12	0.04	0.05	0.04	0.05	-0.09	0.05	0.03	0.01	0.01	0.12	-0.02	0.45	0.42	0.25
8 Core U.S. Fixed Income (Market Duration)								1.00	0.87	0.89	0.75	0.34	0.09	0.56	0.74	0.83	0.88	0.97	0.88	0.97	0.62	0.58	0.23	0.19	0.22	0.22	0.89	0.06	0.05	0.03	0.04	0.06	0.07	0.07	0.03	0.04	0.17	0.20	0.17	0.20	0.05	0.00	0.00	0.29	0.30	0.11	0.03	0.81	0.70	-0.01
9 Long Duration Bonds - Gov't / Credit									1.00	0.89	0.95	0.13	-0.09	0.47	0.55	0.58	0.77	0.78	0.83	0.83	0.90	0.41	0.11	0.11	0.09	0.09	0.79	0.01	0.00	-0.02	0.01	0.01	0.01	0.01	-0.02	-0.02	0.06	0.09	0.06	0.09	-0.10	-0.03	-0.02	0.10	0.11	0.07	-0.03	0.89	0.93	-0.14
10 Long Duration Bonds - Credit										1.00	0.70	0.49	0.28	0.46	0.44	0.61	0.61	0.88	0.64	0.93	0.65	0.69	0.33	0.29	0.29	0.29	0.91	0.05	0.05	0.05	0.04	0.06	0.06	0.07	0.07	0.01	0.24	0.27	0.24	0.27	0.22	-0.02	-0.01	0.45	0.47	0.06	0.08	0.67	0.68	-0.10
11 Long Duration Bonds - Gov't											1.00	-0.15	-0.34	0.43	0.55	0.49	0.79	0.61	0.85	0.64	0.96	0.16	-0.06	-0.04	-0.07	-0.07	0.61	-0.02	-0.04	-0.06	-0.02	-0.02	-0.03	-0.04	-0.09	-0.04	-0.07	-0.06	-0.07	-0.06	-0.32	-0.03	-0.02	-0.16	-0.16	0.06	-0.10	0.93	0.99	-0.15
12 High Yield Bonds												1.00	0.74	0.16	0.08	0.29	0.00	0.44	-0.03	0.49	-0.18	0.82	0.63	0.62	0.66	0.66	0.52	0.21	0.27	0.37	0.17	0.22	0.25	0.32	0.38	0.38	0.48	0.64	0.48	0.64	0.64	0.04	0.02	0.90	0.94	0.03	0.57	-0.11	-0.17	0.16
13 Bank Loans													1.00	0.10	-0.08	0.23	-0.27	0.27	-0.30	0.27	-0.30	0.51	0.57	0.46	0.60	0.60	0.35	0.18	0.23	0.32	0.14	0.18	0.22	0.26	0.32	0.24	0.43	0.58	0.43	0.58	0.88	0.04	0.02	0.80	0.84	0.04	0.46	-0.40	-0.37	0.15
14 Non-US Developed Bond (100% Hedged)														1.00	0.62	0.63	0.55	0.56	0.53	0.53	0.36	0.30	0.14	0.17	0.16	0.16	0.49	0.06	0.05	0.02	0.04	0.05	0.06	0.07	0.01	0.10	0.13	0.15	0.13	0.15	0.05	0.04	0.02	0.18	0.18	0.15	0.02	0.37	0.35	0.15
15 Short Duration Bonds - Gov't															1.00	0.90	0.89	0.70	0.84	0.64	0.39	0.24	0.05	0.02	0.14	0.14	0.55	0.11	0.10	0.04	0.07	0.09	0.12	0.12	0.04	0.13	0.10	0.13	0.10	0.13	-0.11	0.05	0.03	0.04	0.04	0.22	0.02	0.55	0.43	0.24
16 Short Duration Bonds - Credit																1.00	0.80	0.88	0.75	0.81	0.35	0.46	0.19	0.14	0.26	0.26	0.72	0.11	0.11	0.06	0.08	0.10	0.13	0.13	0.07	0.12	0.20	0.24	0.20	0.24	0.16	0.05	0.03	0.28	0.29	0.20	0.06	0.49	0.38	0.21
17 Intermediate Duration Bonds - Gov't																	1.00	0.78	0.99	0.75	0.63	0.25	0.02	0.00	0.03	0.03	0.65	0.04	0.03	-0.01	0.02	0.03	0.05	0.04	-0.03	0.05	0.01	0.04	0.01	0.04	-0.27	0.01	0.01	-0.05	-0.05	0.15	-0.05	0.86	0.73	0.05
18 Intermediate Duration Bonds - Credit																		1.00	0.77	0.98	0.48	0.64	0.29	0.24	0.29	0.29	0.90	0.07	0.07	0.05	0.05	0.07	0.08	0.09	0.06	0.06	0.23	0.27	0.23	0.27	0.21	0.01	0.00	0.40	0.42	0.12	0.06	0.66	0.56	0.03
19 Market Duration Bonds - Gov't (Model Portfolios)																			1.00	0.76	0.71	0.24	0.00	0.00	0.01	0.01	0.66	0.03	0.01	-0.03	0.01	0.02	0.03	0.02	-0.04	0.03	-0.01	0.01	-0.01	0.01	-0.30	0.00	0.00	-0.08	-0.08	0.13	-0.06	0.91	0.80	0.00
20 Core Plus - Fixed Income (Model Portfolios)																				1.00	0.53	0.69	0.32	0.27	0.30	0.30	0.93	0.07	0.07	0.06	0.05	0.07	0.08	0.09	0.07	0.04	0.24	0.28	0.24	0.28	0.21	0.00	0.00	0.44	0.46	0.10	0.07	0.69	0.60	-0.02
21 STRIPS (25 Duration)																					1.00	0.11	-0.08	-0.05	-0.08	-0.08	0.53	-0.04	-0.05	-0.07	-0.02	-0.03	-0.04	-0.05	-0.09	-0.06	-0.08	-0.07	-0.08	-0.07	-0.29	-0.04	-0.02	-0.17	-0.18	0.04	-0.10	0.84	0.96	-0.19
22 Emerging Market Bonds (Sov. USD)																						1.00	0.69	0.61	0.55	0.55	0.68	0.15	0.20	0.26	0.12	0.16	0.18	0.23	0.27	0.19	0.40	0.53	0.40	0.53	0.44	0.01	0.01	0.79	0.82	0.05	0.40	0.19	0.13	0.03
23 Emerging Market Bonds (Corporate USD)																							1.00	0.61	0.47	0.47	0.37	0.14	0.19	0.27	0.10	0.13	0.16	0.21	0.24	0.26	0.32	0.46	0.32	0.46	0.51	0.01	0.01	0.73	0.76	0.02	0.43	-0.04	-0.07	0.06
24 Emerging Market Bonds (Sov. Local)																								1.00	0.52	0.52	0.32	0.08	0.17	0.36	0.06	0.08	0.10	0.17	0.17	0.45	0.33	0.53	0.33	0.53	0.41	0.01	0.00	0.74	0.77	0.00	0.60	-0.02	-0.04	-0.01
25 Hedge Funds - Direct (Universe)																									1.00	1.00	0.36	0.30	0.38	0.53	0.23	0.30	0.36	0.44	0.50	0.35	0.76	0.94	0.76	0.94	0.53	0.02	0.02	0.67	0.69	0.06	0.75	-0.09	-0.10	0.11
26 Hedge Funds - Direct (Institutional Quality)																										1.00	0.36	0.30	0.38	0.53	0.23	0.30	0.36	0.44	0.50	0.35	0.76	0.94	0.76	0.94	0.53	0.02	0.02	0.67	0.69	0.06	0.75	-0.09	-0.10	0.11
27 eLDI																											1.00	0.09	0.10	0.12	0.07	0.10	0.11	0.13	0.12	0.09	0.27	0.34	0.27	0.34	0.28	0.00	0.00	0.49	0.51	0.09	0.16	0.62	0.57	-0.02
28 Private Real Estate (Core)																												1.00	0.96	0.43	0.14	0.18	0.81	0.83	0.31	0.10	0.17	0.32	0.17	0.32	0.16	0.02	0.01	0.18	0.19	0.04	0.34	-0.04	-0.05	0.08
29 Private Real Estate (Non-Core)																													1.00	0.47	0.16	0.21	0.79	0.87	0.35	0.17	0.20	0.40	0.20	0.40	0.20	0.02	0.01	0.25	0.26	0.03	0.45	-0.05	-0.06	0.08
30 U.S. REITs																														1.00	0.19	0.24	0.43	0.48	0.44	0.30	0.27	0.56	0.27	0.56	0.28	0.02	0.01	0.38	0.39	0.02	0.68	-0.07	-0.08	0.06
31 Infrastructure (Open-End)																															1.00	0.78	0.70	0.51	0.24	0.07	0.13	0.24	0.13	0.24	0.13	0.01	0.01	0.14	0.15	0.03	0.26	-0.03	-0.03	0.06
32 Infrastructure (Closed-End)																																1.00	0.60	0.66	0.31	0.10	0.17	0.31	0.17	0.31	0.16	0.01	0.01	0.19	0.20	0.04	0.34	-0.04	-0.04	0.07
33 Open-End Real Assets (Model Portfolios)																																	1.00	0.91	0.36	0.12	0.20	0.38	0.20	0.38	0.19	0.01	0.01	0.22	0.23	0.05	0.40	-0.05	-0.05	0.09
34 Closed-End Real Assets (Model Portfolio)																																		1.00	0.43	0.18	0.24	0.46	0.24	0.46	0.24	0.02	0.01	0.29	0.30	0.05	0.52	-0.06	-0.07	0.10
35 Private Equity																																			1.00	0.13	0.27	0.53	0.27	0.53	0.29	0.01	0.01	0.34	0.35	0.02	0.60	-0.09	-0.10	0.06
36 Commodities																																				1.00	0.20	0.36	0.20	0.36	0.21	0.09	0.05	0.37	0.39	0.05	0.49	-0.05	-0.07	0.42
37 Hedge Funds - Low Beta (Universe)																																					1.00	0.51	1.00	0.51	0.38	0.02	0.01	0.47	0.49	0.04	0.39	-0.09	-0.10	0.09
38 Hedge Funds - High Beta (Universe)																																						1.00	0.51	1.00	0.51	0.02	0.01	0.65	0.68	0.05	0.80	-0.07	-0.09	0.10
39 Hedge Funds - Low Beta (Institutional Quality)																																							1.00	0.51	0.38	0.02	0.01	0.47	0.49	0.04	0.39	-0.09	-0.10	0.09
40 Hedge Funds - High Beta (Institutional Quality)																																								1.00	0.51	0.02	0.01	0.65	0.68	0.05	0.80	-0.07	-0.09	0.10
41 Private Debt -- Direct Lending																																									1.00	0.03	0.02	0.71	0.73	0.02	0.42	-0.37	-0.34	0.13
42 Timberland																																										1.00	0.33	0.03	0.03	0.02	0.02	-0.04	-0.04	0.21
43 Farmland																																											1.00	0.02	0.02	0.02	0.01	-0.03	-0.03	0.13
44 Liquid Return-Seeking Fixed Income (Institutional Quality)																																												1.00	0.96	0.03	0.59	-0.15	-0.18	0.11
45 Liquid Return-Seeking Fixed Income (Universe)																																													1.00	0.03	0.61	-0.16	-0.18	0.12
46 Insurance-Linked Securities (Catastrophe Bonds)																																														1.00	0.02	0.03	0.03	0.10
47 85% ACWI/15% Russell 3000																																															1.00	-0.11	-0.12	0.09
48 7-10 Yr Capital Efficiency																																																1.00	0.94	-0.18
49 Long Treasury Capital Efficiency																																																	1.00	-0.21
50 Inflation																																																		1.00

Expected returns are using Aon 10 Year Capital Market Assumptions as of 6/30/2025. CMAs contain projections about future returns on asset classes. Our CMA projections are designed to reflect the typical cost of implementing an investment program. Expected returns are calculated using weighted allocations of the underlying CMAs. Expected Returns are geometric (long-term compounded; rounded to the nearest decimal) assuming portfolio weights are rebalanced annually. Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. Aon's advisory fees are described in Part 2A of Aon's Form ADV. Not a guarantee of future results. Correlations based on expected returns on previous page.
The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Appendix: Glossary of Terms

Nominal Rate of Return: The amount of money generated by an investment before factoring in expenses such as taxes, investment fees, and inflation.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be amortized yield to maturity on a bond or the current income return.

Real Rate of Return: A return adjusted for inflation. For example, an investor earning 8% on a certificate of deposit during a period of 5% inflation is receiving a real rate of 3%.

Standard Deviation: A statistical gauge of risk which measures the spread of the difference of returns from their average. The more a portfolio's returns vary from its average, the higher the standard deviation.

Sharpe Ratio: This is a risk-adjusted measure calculated by using standard deviation and excess return to determine reward per unit of risk. In general, the higher the Sharpe Ratio, the better the fund's historical risk-adjusted performance. The Sharpe ratio is calculated by dividing the fund's annual excess return by the fund's annualized standard deviation.

Spending Policy and Investment Strategy for Non-Profit Organizations

April 2025

Key Points

- Uncertain inflation expectations threaten to erode the spending power of non-profits (NPs). For NPs with well diversified portfolios, we would not usually recommend wholesale changes to asset allocations.
- Spending policy choices influence the ability to grow the corpus, or total investments, so investors should carefully consider the appropriateness of their spending policies.
- Return enhancement and better diversification opportunities tend to be implemented in larger non-profits that have more access to private assets.
- Without the help of contributions, only the largest NPs with highest exposure to private assets are forecasted to grow purchasing power with spend rates of 5% or greater.

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Introduction[1]

Endowments, foundations, healthcare and other non-profit entities (collectively known as "NPs") are facing increased pressure from the recent inflationary environment that has raised operating costs and the level of funding required to support their missions. Even though inflation has moderated and is expected to fall further, it is unlikely that costs, broadly speaking, will decline to pre-pandemic levels. Most NPs generally desire to exist into perpetuity, to preserve purchasing power, in other words grow or maintain their investment portfolios in real terms (inclusive of the impact of inflation).

We often recommend non-profit investors conduct an Investment Checkup to ensure the asset allocation is aligned with the return needs of the organization. The current investment environment reflects recent inflation as well as a resetting of bond yields (fixed income return expectations). Most investment policies for institutional NPs have significant exposure to both public and private growth assets which serve as an effective long-term hedge against inflation.

NPs have three primary levers to use in managing their investment and spending programs:
1) Spending rate (e.g., the percentage of the portfolio spent each year, thus reducing the spending target from 5% to 4%); 2) Spending policy (e.g., type of spending methodology such as market value or inflation-based); and 3) Capital markets (providing return enhancement).

Public charities—a category that includes most educational endowments—are not (currently) constrained with regulatory minimum spending requirements, enabling more flexibility in designing a spending policy with the option to reduce their spending rate to less than 5% to preserve purchasing power. Larger NPs tend to have better diversification and more access to private assets which has the potential of enhancing investment returns.

Based on Aon's forecasts of expected return and inflation, NPs who constrain their spending rate to 4% or less should be well positioned to grow purchasing power. However, without fundraising/ donations we expect only the largest NPs, that tend to hold higher exposure to private assets, to be able to grow purchasing power with 5% spend rates.

This paper focuses on:

1. **Impact of Inflation on Preservation of Purchasing Power**
2. **Effective Spending Policy Development**
3. **Peer Group Forecasts of Purchasing Power Growth**

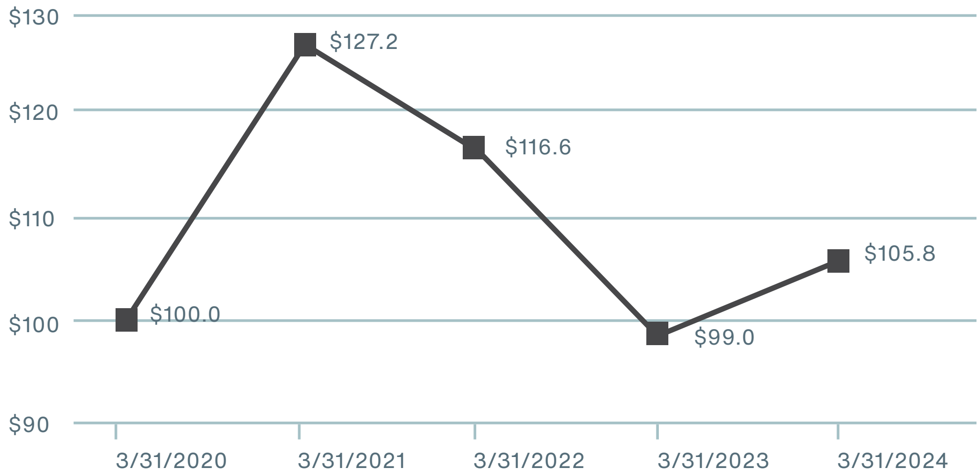
[1] Research and any opinions expressed are as of the date of this report's original publication, are based on available information, and are subject to change without notice. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results.

1 Impact of Inflation on Preservation of Purchasing Power

Over the 4-year period since the start of the COVID pandemic (2020), prices based on the Consumer Price Index (CPI) have risen cumulatively 21%. The last time inflation rose more, over a 4-year period, was December 1986 to November 1990. The impact of higher inflation has raised operating costs for NPs and reduced the real value of spending/grants that supports their missions.

Surprisingly, purchasing power may not have been negatively impacted for most NPs during this period. Despite a CPI increase of 21%, asset returns have been very strong which more than offset the impacts of inflation and spending. A hypothetical 70% equity/30% bond portfolio earned a cumulative return of nearly 55%, over the past 4 years. This implies that purchasing power would have **increased** approximately 6%, over the past 4 years, for NPs with a 5% spending policy (Exhibit 1).

Exhibit 1: Purchasing Power of Assets Increased Despite High Inflation[1]



[1]Source: MSCI ACWI and Bloomberg. Analysis based on asset allocation of 70% MSCI ACWI/30% Bloomberg U.S. Aggregate Bond Index.

Past Performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect our fees and expenses. Indices cannot be invested in directly. Please refer to Appendix for Index Definitions and other General Disclosures.

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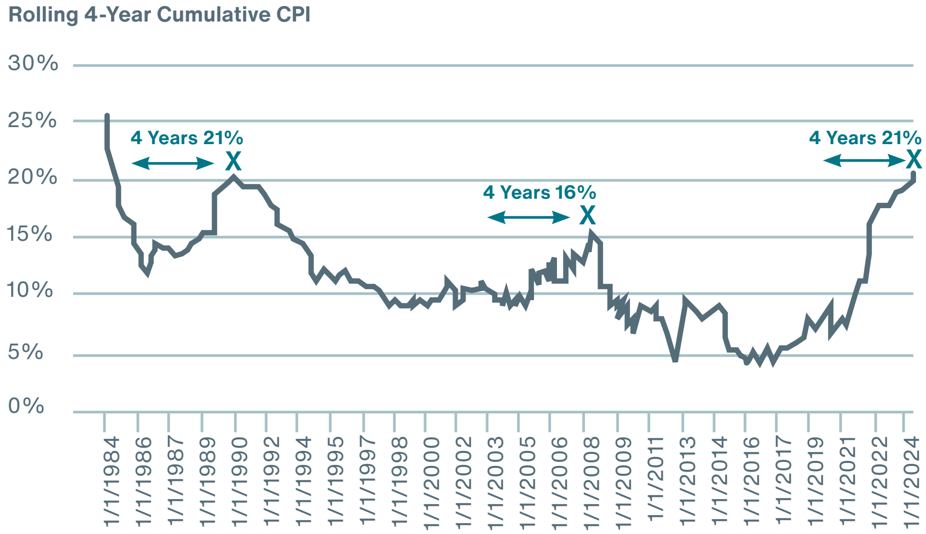
Using a hypothetical 70% stock/30% bond portfolio assuming a 5% spend rate, we examined how past high inflation environments would have impacted purchasing power over a similar 4-year time frame experienced during the COVID pandemic. There were only 3 periods since the early 1980s we could examine. 1) December 1986 to November 1990 2) August 2004 to July 2008 3) April 2020 to March 2024 (Exhibit 2). We did not examine periods back into the 1970s because investment markets were so different in that period (e.g., availability of high yield, emerging market debt, private markets, hedge funds, elimination of Bretton Woods, etc.).

Exhibit 2: Three Highest 4-Year Inflationary Periods Since the Early 1980s



Under these three scenarios, purchasing power was not negatively impacted in a significant way. The change in purchasing power over the three 4-year time frames ranged from -3% to +6%. For all three inflation scenarios examined, portfolio returns were strong thus offsetting most of the impacts of spending and inflation (Exhibit 3).

Exhibit 3: Growth of Purchasing Power in Past Inflationary Periods (5% Spend Rate)

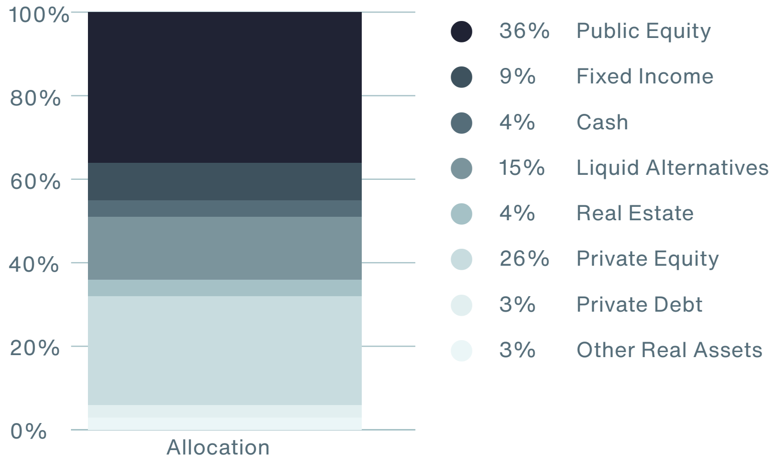
4-Year Inflationary Periods	Cumulative Inflation	Cumulative Investment Return[1]	Change in Purchasing Power
12/1/1986 to 11/30/1990	21.2%	41.3%	-3.0%
8/1/2004 to 7/31/2008	16.1%	40.8%	+0.1%
4/1/2020 to 3/31/2024	21.0%	54.4%	+5.8%

[1]Source: U.S. Bureau of Labor Statistics provided Consumer Price Index (Inflationary Data). MSCI ACWI and Bloomberg. Analysis based on asset allocation of 70% MSCI ACWI/30% Bloomberg U.S. Aggregate Bond Index.

Past Performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect our fees and expenses. Indices cannot be invested in directly. Please refer to Appendix for Index Definitions and other General Disclosures.

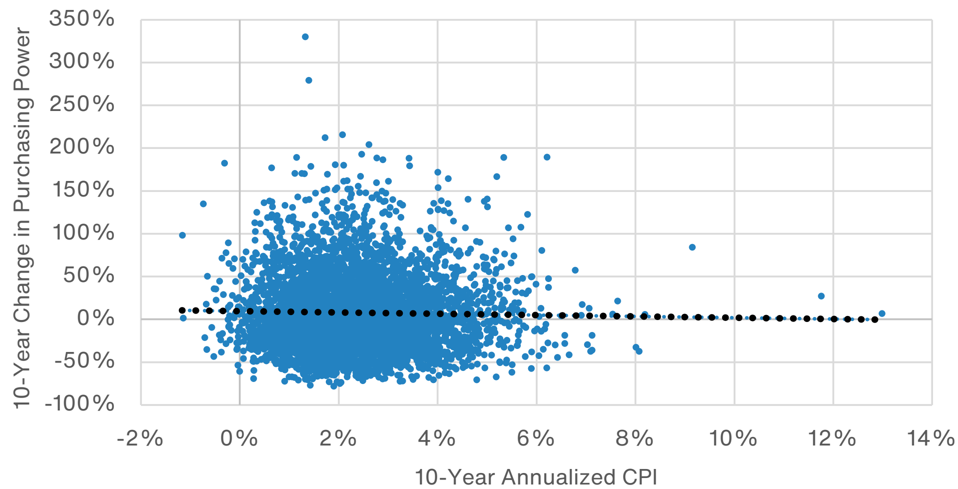
Should non-profit organizations expect to maintain purchasing power on a go-forward basis? Through stochastic simulations using Aon's capital market assumptions, over the next 10 years, we modelled a "typical" foundation portfolio based on the 2022 Council of Foundations peer group consisting of dollar weighted allocation of 171 private foundations (Exhibit 4).

Exhibit 4: 2022 Private Foundation Peer Group Allocation (Dollar Weighted)



For the private foundation peer group allocation, we found that inflation did not have a material impact on purchasing power, over the next 10-years based on 5,000 simulations of 10-year annualized CPI. The median expectation is that inflation will be 2.2% and purchasing power of the corpus will increase by 1%, assuming a spending rate of 5%. In pessimistic scenarios (5th percentile), there is the potential to lose as much as 50% of purchasing power. However, inflation does not seem to play a significant role as these extreme cases are not more likely to occur under high inflation regimes (Exhibit 5).

Exhibit 5: Projected 10-Year Purchasing Power Change for Private Foundation Peer Group[1]



[1]Source: Aon and Council on Foundations. 5,000 simulations of 10-year annualized CPI and 10-year change in purchasing power based on Aon's 3/31/2024 capital market assumptions and data from the Council on Foundations-Commonfund Study of Foundations 2022. While any third-party data used is considered reliable, Aon does not guarantee the accuracy or completeness of this information and cannot be held accountable for inaccurate data provided by third parties. Reliance upon information in this material is at the sole discretion of the reader.

The bottom line is we would not recommend any significant strategic asset allocation changes (e.g., adding explicit inflation hedging assets) to well diversified NP portfolios that contain significant allocations to growth assets. Growth assets (e.g., public equity and private assets) should serve as a good hedge against long-term inflation.

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2 Effective Spending Policy Development

A successful spending policy needs to balance the desires for stable spending, support of the organization's needs and/or mission, and maintain/grow the corpus over time (after inflation). Typical factors to consider when setting the parameters for the spending policy include:

- Whether the corpus is intended to exist into perpetuity
- Expected amount of donations to be received in the future
- How much spending volatility can be tolerated
- Asset volatility
- Expected investment returns
- Level of flexibility permitted to respond to changing conditions
- Regulatory requirements (i.e., UPMIFA regulations in each state)

The most common spending policies fit into two broad categories: **market value-based and inflation-based.** There are many different variations of these broad types. Elements of both approaches can be combined into a single **hybrid** spending policy.

Some organizations, such as private foundations, are mandated to spend at least 5% of market value to maintain their tax-exempt status. For those organizations, market value-based spending policies are the most popular choice. Entities without this restriction have more flexibility in their spending policy design. The desire to achieve stable support for the mission will move some organizations toward inflation-based policies. Organizations that have more discretion in spending decisions (e.g., higher tolerance for spending volatility) and want to grow the corpus over time should gravitate toward market value-based policies. Organizations that are somewhere in between may find hybrid policies best serve their needs, and they may also be more comfortable with a significant amount of year-to-year discretion in spending amounts.

Market value-based spending methods are most commonly used, particularly by private foundations that are mandated to spend at least 5% of market value to maintain tax-exempt status. This method calculates the spending level based on a percentage of the assets. The market value-based method produces the highest spending volatility; however, most market value-based spending policies employ smoothing by averaging the past three or five years of market value, which reduces spending volatility year to year. On the positive side, the corpus is most likely to be preserved because spending can change in response to market returns. Generally, spending is reduced when markets are poor and increases when markets are good. In this method, portfolio volatility has a direct impact on spending volatility. However, if the calculation is based on averaging past market values, there will be a lagged impact in periods of sharp market moves.

Inflation-based spending policies which use a fixed dollar amount as a starting point and grow with inflation. The greatest advantage of this method is that it produces very stable year-to-year spending levels. The major drawback is that it has the greatest risk of depleting the corpus. If markets experience large declines, spending continues to grow, placing an even greater strain on the value of the corpus.

Banded inflation ceiling and floor parameters can be added to inflation-based policies to prevent spending from falling below or rising above certain thresholds. They can be percentages or fixed dollar amounts, and they can be adjusted by an inflation factor. Ceilings and floors are additional smoothing mechanisms that help to avoid deep cuts when market values fall, but also restrain spending when market conditions are good.

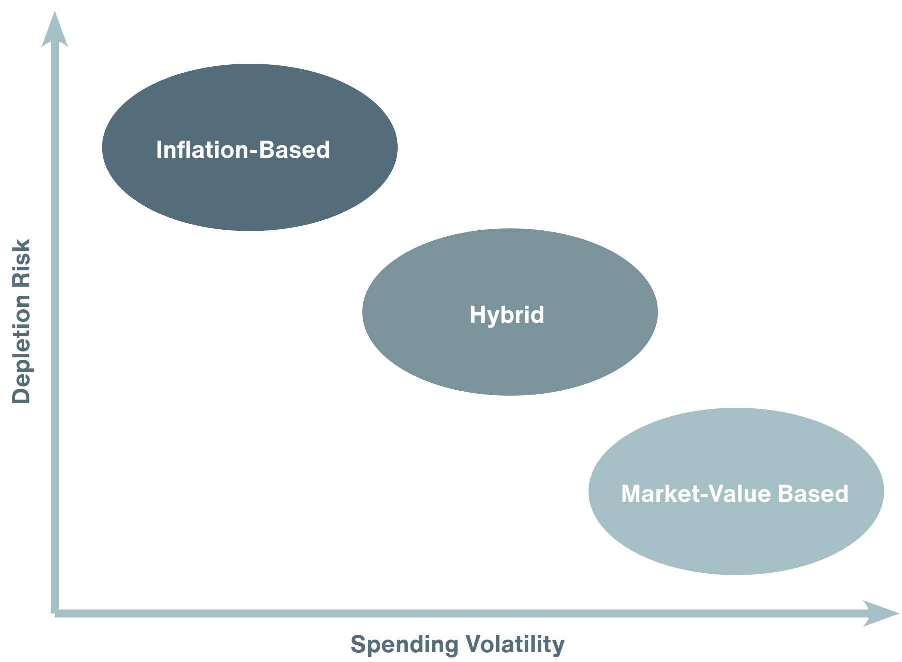
Hybrid spending policies can be customized by combining elements of both market value-based and inflation-based methodologies. Hybrid methods, thought to have been developed at Yale University (Tobin Rule), are more often used by large educational endowments because they tend to have more flexibility in spending policy requirements than private foundations. For example, a spending policy may be based 50% on the prior year's spending amount (adjusted for inflation) and 50% on some prior years' average market value. The net effect is lower year-over-year spending volatility than a purely market value-based policy and lower depletion risk than a purely inflation-based policy.

Income-based spending policies include those that are based on the distribution of income and dividends received while retaining the principal. We usually do not recommend these for two reasons. First, most asset mixes tend to produce less than adequate levels of income for spending needs, especially in a low-rate environment. Second, there may be temptation to allocate toward higher-yielding assets that are not as optimal from a total return standpoint, which can dampen long-term growth potential. Exhibit 6 provides a table that steers organizations toward the appropriate type of spending methodology.

Exhibit 6: Spending Methodologies

	Inflation-Based	Banded Inflation	Hybrid	Market-Value Based
Calculation	Base year spend x (1+CPI).	Base year spend x (1+CPI) with floor and ceiling based on prior year's market value.	Percentage weight of inflation based + Percentage weight of market-value based policies.	Percentage of prior year's market values.
Spending Volatility	Low	Low/Moderate	Low/Moderate	High
Depletion Risk	High	Low/Moderate	Moderate/High	Low
Considerations	Appropriate for those who require predictable spending and not concerned with preserving purchasing power.	Appropriate for those who desire stable spending while limiting spending in market downturns and allow some degree of additional spending where markets are strong.	Appropriate for organizations that generate significant revenue from sources that increase with inflation and draw heavily from their endowments. Most common for higher education. Spending volatility depends on the weight given to each component.	Appropriate for private foundations that require 5% spending and those that desire to preserve purchasing power. Calculating spending based on 3 or 5-year average market value will help lower spending volatility.

Exhibit 7: Implications of Various Spending Policies



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3 Peer Group Forecasts of Purchasing Power Growth

To preserve purchasing power without the help of contributions, a portfolio must earn approximately the **[spend rate + inflation] over the long-term**. Based on Aon's forecasted inflation of 2.2% (as of 9/30/2024), over the next 10 years, a portfolio would require a nominal return of 6.2% for a 4% spend rate and 7.2% for a 5% spend rate (Exhibit 8).

Exhibit 8: Nominal Return Required to Maintain Purchasing Over the Next 10 Years[1]

Spend Rate +	10-Year Forecast CPI =	Nominal Return Required
4.0%	2.2%	6.2%
5.0%	2.2%	7.2%

[1]Source: Aon's forecast of 2.2% 10-year annualized CPI is based on consensus estimates as of 9/30/2024.

Using Aon's 10-year capital market assumptions, we forecasted purchasing power growth for various NP peer groups determined by their current allocations. We found that all peer groups are forecast to grow their purchasing power with a 4% spend rate (assuming no contributions), over the next 10 years. Increasing the spend rate to 5% (assuming no contributions), only foundations and endowments with higher allocations to private assets are expected to grow purchasing power (Exhibit 9). The private foundations peer group performs relatively well because it is a dollar-weighted peer group which gives more weight to the largest foundations with the highest allocations to private assets.

Exhibit 9: Peer Group Allocations and 10-Year Forecasted Purchasing Power Growth[5,6]

Asset Classes	70% Stocks/ 30% Bonds[1*]	Private Foundations[2*]	<$50M Endowments[3*]	$101 to $250M Endowments[3*]	$501 to $1B Endowments[3*]	$1B to $5B Endowments[3*]
Public Equity[9]	70%	36%	60%	51%	44%	36%
Fixed Income[9]	30%	9%	23%	15%	10%	6%
Liquid Alts.	—	15%	4%	9%	11%	15%
Private Equity	—	26%	4%	12%	20%	26%
Real Estate	—	4%	3%	5%	6%	6%
Real Assets	—	3%	1%	2%	3%	4%
Private Debt	—	3%	1%	1%	2%	2%
Cash	—	4%	4%	5%	5%	5%
Total	100%	100%	100%	100%	100%	100%
10-Year Nominal Return (Gross)[6,7]	6.6%	7.5%	6.7%	7.1%	7.4%	7.5%
10-Year Real Return (Gross)[6,7]	4.3%	5.2%	4.4%	4.8%	5.1%	5.2%
10-Year Nominal Return (Net)[6,8]	6.1%	7.0%	6.2%	6.6%	6.9%	7.0%
10-Year Real Return (Net)[6,8]	3.8%	4.7%	3.9%	4.3%	4.6%	4.7%
10-Year Purchasing Power Growth with 4% Spend[4]	**1.9%**	**11.6%**	**3.4%**	**7.0%**	**10.5%**	**12.4%**
10-Year Purchasing Power Growth with 5% Spend[4]	**-8.2%**	**0.7%**	**-6.7%**	**-3.5%**	**-0.2%**	**1.4%**

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Conclusion

Non-profit organizations may face challenges from bouts of inflation, operating challenges post COVID and uncertain markets. Preserving purchasing power after the impacts of spending and inflation requires focus on spending policy and return enhancement opportunities.

We would not usually recommend wholesale changes to well diversified portfolios, based on recent inflation trends. Most NPs contain significant growth assets which will serve as a good long-term inflation hedge.

Spending policy type has some influence on the ability to grow the corpus. Market value-based policies reduce the likelihood of depleting the corpus, but they come with greater spending volatility.

Through peer group analysis, we found that the largest foundations/endowments are positioned to grow purchasing power, even with 5% spend rates, due to higher allocations of alternatives and private assets. Their smaller brethren have not embraced alternatives assets to the same degree because of limited opportunities and lack of resources. Without sufficient private assets, smaller NPs may not be able to grow purchasing power with spend rates at or above 5% without significant help from fundraising/donations.

Citations

[1] 70% Global Equity/30% U.S. Aggregate Bonds.

[2] 2022 Council of Foundations Survey. 171 private foundations (dollar weighted).*

[3] 2023 NACUBO Commonfund Study of Endowments (equal weighted).*

[4] 10-year purchasing power growth is shown as cumulative growth, net of spending. Spending is based on 3-year average market value with no contributions. The calculations utilize gross returns (does not include advisory fees).

[5] Based on Aon's 3/31/2024 10-year capital market assumptions. 10-year inflation forecasted at 2.2%.

[6] Expected returns are using Aon Q4 2024 10 Year Capital Market Assumptions as of 3/31/2024. CMAs contain projections about future returns on asset classes. Our CMA projections are designed to reflect the typical cost of implementing an investment program. Expected returns are calculated using weighted allocations of the underlying CMAs. Expected Returns are geometric (long-term compounded; rounded to the nearest decimal) assuming portfolio weights are rebalanced annually. Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns may differ from model returns presented based on your plan's individual fees/expenses. Aon's advisory fees are described in Part 2A of Aon's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages.

[7] Returns are shown gross of advisory fees.

[8] Returns are shown net of 50bps model advisory fees. Most investors will have significantly lower fees.

[9] Public equity and fixed income assume beta only returns (no alpha from active management).

*While any third-party data used is considered reliable, Aon does not guarantee the accuracy or completeness of this information and cannot be held accountable for inaccurate data provided by third parties. Reliance upon information in this material is at the sole discretion of the reader.

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