



RELIABILITY FIRST

Minutes

Board of Directors • Finance and Audit Committee

December 7, 2022 • 3:10 PM – 5:15 PM (ET)

Ritz Carlton,
Arlington, VA

Open Session

Call to Order – Chair Patrick Cass called to order a duly noticed open meeting of the Finance and Audit Committee (Committee) on December 7, 2022, at 3:32 p.m. (ET). A quorum was present, consisting of the following members of the Committee: Chair Patrick Cass, Scott Etnoyer, Nelson Peeler, Jennifer Sterling, and Joseph Trentacosta. A list of others present during the Committee meeting is set forth in Attachment A.

Appoint Secretary to Record Minutes – Chair Cass designated Beth Dowdell as the secretary to record the meeting minutes.

Antitrust Statement – Chair Cass advised all present that this meeting is subject to, and all attendees must adhere to, ReliabilityFirst's Antitrust Compliance Guidelines.

Approve Minutes – Chair Cass presented the draft minutes for the August 24, 2022 meeting, which were included in the agenda package. Upon a motion duly made and seconded, the Committee approved the minutes as presented.

Financial Update – Carol Baskey, RF's Manager and Treasurer Finance & Accounting, presented an overview of the 2022 Q3 Statement of Activities to advise the Committee of ReliabilityFirst's (RF) financial status and effective use of funds by identifying budget to actual trends. For the period ending September 30, 2022, RF was \$663K under budget. Major factors driving the under-budget variance were primarily open FTE positions that didn't get filled when anticipated, a decrease in meeting and travel expenses due to COVID impacts in the first part of the year, and timing of when projects were budgeted versus when they were completed. The Committee discussed how soon the effects of COVID will be going away, and a new steady state of the organization will be discussed during future Committee meetings.

Ms. Baskey also discussed some over budget factors that were partially offsetting the preceding variance. These amounts included unbudgeted contracts and consultants used for data analytics support, placement fees for an open VP position, a lease expansion and extension of the fifth-floor space impacting rent expenses, as well as an additional board approved independent director impacting professional service fees. The fifth-floor lease expansion was discussed further, and Tim Gallagher noted that the space is under a ten-year lease and is fully utilized. Budget projections are expected to be around \$707K under for the year ending December 31, 2022, due to the same reasons mentioned above.

Working Capital and Investment Analysis – Ms. Baskey shared a graph representing the operating cash and reserve levels. She noted that assessments came in each quarter and there was a smooth usage of funds during each quarter throughout the year. Ms. Baskey then opened the conversation up to Steve Mahoney, the RF Portfolio Manager from Glenmede, to discuss statistics and specifics regarding Glenmede and the performance of RF's investment portfolio.

Mr. Mahoney noted that Glenmede manages \$45B in overall assets and is a trust company that is regulated by the OCC (Office of the Comptroller of the Currency). Mr. Mahoney also noted that Glenmede uses electronic trading platforms to simplify and expedite the trading process, and their investment process adheres to OCC guidelines. Yield to Maturity in the RF portfolio is at 4.6% with a short duration of about 1.6 years, and no securities in the RF portfolio have a maturity date past three years.

Mr. Mahoney mentioned that recent market activity reflects that recession is looming and rates will increase in 2023, and as a result many corporate bonds in the RF portfolio are being moved to treasury securities. Mr. Mahoney also mentioned that spreads are tight due to the possibility of recession and RF's risk tolerance. Glenmede is keeping RF's portfolio very liquid, and this strategy will be kept over the next couple months. At 1.8% RF is generating a decent amount of estimated income at \$170K as of October 31, 2022. The mandate for the RF portfolio is income, so Glenmede is keeping investment timelines short and keeping the portfolio's risk low.

The duration in the RF portfolio is spread out evenly over time, and money will be invested into the same types of investments. The yield of the RF portfolio shows that it doesn't pay to move out to longer periods. Mr. Mahoney also mentioned the potential for the Fed to raise rates again by 50 basis points, and it is possible that there may be four hikes in the next several months going over 100 basis points. He stated cash will be around 5% by the time the Fed is done raising rates and the continual increase to yield will increase income by staying the course.

The Committee discussed the potential treatment of the RF portfolio if the Fed keeps raising the rates or if the inverse were to happen. Mr. Mahoney replied that Glenmede would continue to capitalize on investments to capture income. Additionally, some discussion occurred over wider market spreads due to recession and other potential scenarios and strategies. Mr. Mahoney mentioned that RF's core strategy is working, and losses to date were largely unrealized. Additional discussion ensued regarding market activities and how Glenmede would address specific situations regarding fund reinvestment, distressed securities, and addressing unrealized losses.

Review of Policies– Niki Schaefer, RF's Vice President & General Counsel, presented information regarding some of the policy improvement and reduction initiatives that were under way at RF. One example of this was the condensing IT policies from thirty down to nine. Ms. Schaefer also discussed the creation of a process around sunseting policies that are no longer relevant.

Ms. Schaefer noted that the Code of Conduct had been revised and now contains references to other policies. Ms. Schaefer noted the only substantive change included the language on

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prohibiting board member advocacy for the outcome of audit and enforcement actions. This review request came about after a comment made during a fiduciary training session noting that information was not written down on what can be done or said in context of an audit. The Committee then posed some additional questions regarding the advocacy policy, and Ms. Schaefer confirmed that the limits were put in place to prevent board members from influencing outcomes, but the policy still allows for questioning to obtain knowledge.

The Committee also discussed the Policy on Personnel Conflicts Related to Entity Employment and Certain Financial Interests in Entities, which sets limits to certain financial interests in entities. The policy allows staff members to have 401Ks and pensions with entities, but limits other investments to less than 5% of net worth, which must be disclosed as a potential conflict. Additionally, it was confirmed that employees cannot buy utility only stock, but utility stock can be part of a managed fund. The Committee also reviewed the Investment of Corporate Funds policy which incorporated no changes. A motion was duly made to approve the policies, and it was seconded and passed.

Finance and Audit Committee Charter, 2022 and 2023 Planner - Chair Cass led a discussion on the annual review of the Finance and Audit Committee Charter and revisions were proposed regarding several minor cosmetic changes. A motion was duly made to endorse the Finance and Audit Committee Charter, and it was seconded and passed to go to the full Board for approval.

Beth Dowdell, RF's Senior Director Corporate Services, presented and led a discussion on the 2022 Finance and Audit Committee Planner, which is used to monitor and track the Committee's performance of the specific duties set forth in the Finance and Audit Committee Charter. There were no outstanding responsibilities that the Committee needed to address, and the planner was accepted for 2022. The 2023 Finance and Audit Committee Planner was also discussed, and the Committee accepted it with no changes.

Next Meeting – Chair Cass noted that the next Committee meeting will be in April 2023.

Adjourn – Upon a motion duly made and seconded, Chair Cass adjourned the Committee meeting at 4:49 p.m. (ET).

The Committee then went into a closed session at 4:50 p.m. All guests that were not part of the Committee or RF excused themselves from the meeting at this time.

Closed Session

Review IRS Form 990 and Ohio Tax Filings – Chair Pat Cass discussed the 2021 IRS Form 990 (Form 990) tax filing and the 2021 Ohio Annual Report tax filing. He advised the Committee that he completed his review, and all his questions were answered to his satisfaction before filing. The Form 990 and the Ohio Annual Report were filed on November 14, 2022.

Enterprise Risk Management – Ms. Baskey led a discussion regarding RF’s Enterprise Risk Management (ERM) program. Ms. Baskey noted that the ERM program is a systematic and comprehensive way to look at risk, included Director level and above Risk Owners, and risks would be reviewed each quarter starting in 2023. Ms. Baskey also noted that the ERM process includes risk register templates that include detailed risks and controls that are summarized into risk groups and include inherent and residual risk rankings.

In 2022 enhancements to the ERM program included side by side inherent and residual risk heat maps (instead of residual risk only maps presented in prior years) and enhanced calculations to include an additional reputational factor. Ms. Baskey noted that this year there will be testing for control effectiveness, in addition to the historical testing for completion. RF will be using the assistance of a consultant to add an additional layer of independence to the testing results.

The conversation then moved to the top risks at RF. Discussion by the Committee included questions surrounding the order of the highest risk groupings and clarifications regarding the meaning around some of the top risks that were identified. After some discussion, it was determined that RF would go back to the Risk Owners for additional review and recalibration if necessary, and then RF will provide further clarification to the Committee’s questions during the April 2023 Committee meeting.

Executive Session (Finance and Audit Committee and Tim Gallagher) – Pat Cass and the Committee members held an executive session with Tim Gallagher to discuss confidential matters.

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Adjourn – Upon a motion duly made and seconded, Chair Cass adjourned the Committee meeting at 6:00 pm (ET).

As approved on this 5th day of April, 2023 by the
Finance and Audit Committee,



Niki Schaefer
*Vice President General Counsel & Corporate
Secretary*

Attachment A

Others Present During the Finance and Audit Committee Meeting

Tim Gallagher • ReliabilityFirst
Jeff Craigo • ReliabilityFirst
Marcus Noel • ReliabilityFirst
Niki Shaefer • ReliabilityFirst
Carol Baskey • ReliabilityFirst
Beth Dowdell • ReliabilityFirst
Matt Thomas • ReliabilityFirst
Erik Johnson • ReliabilityFirst
Joanna Burkey • Independent Director
Steve Mahoney • Glenmede (call in)