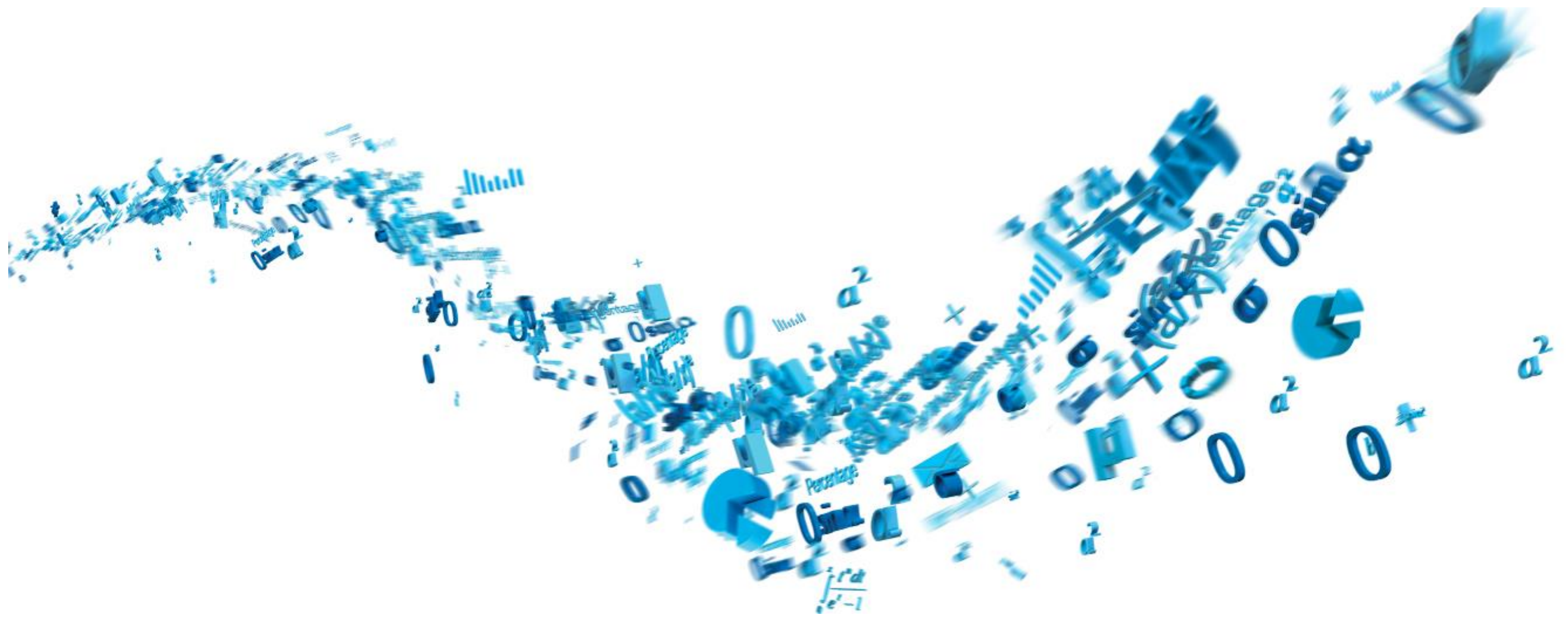

Pension Discussion Guide

Town of Wilton
May 11, 2022

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

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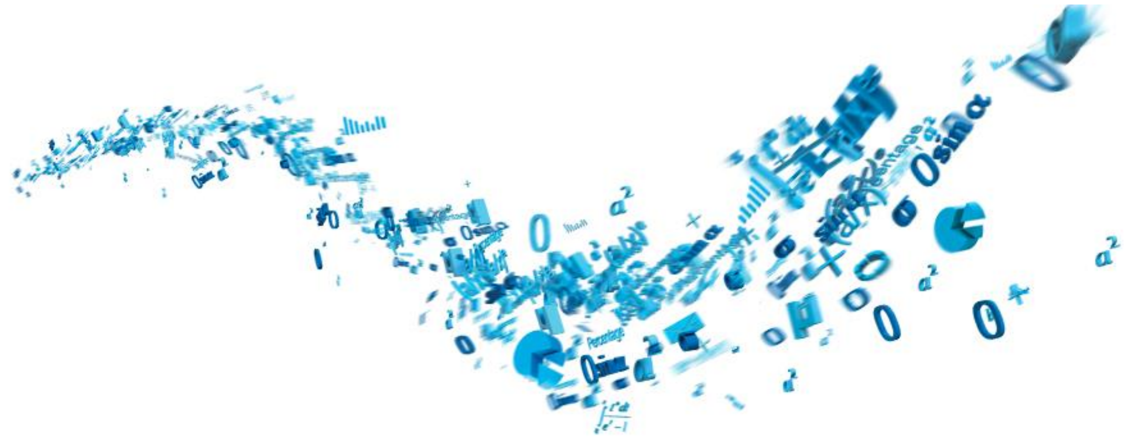
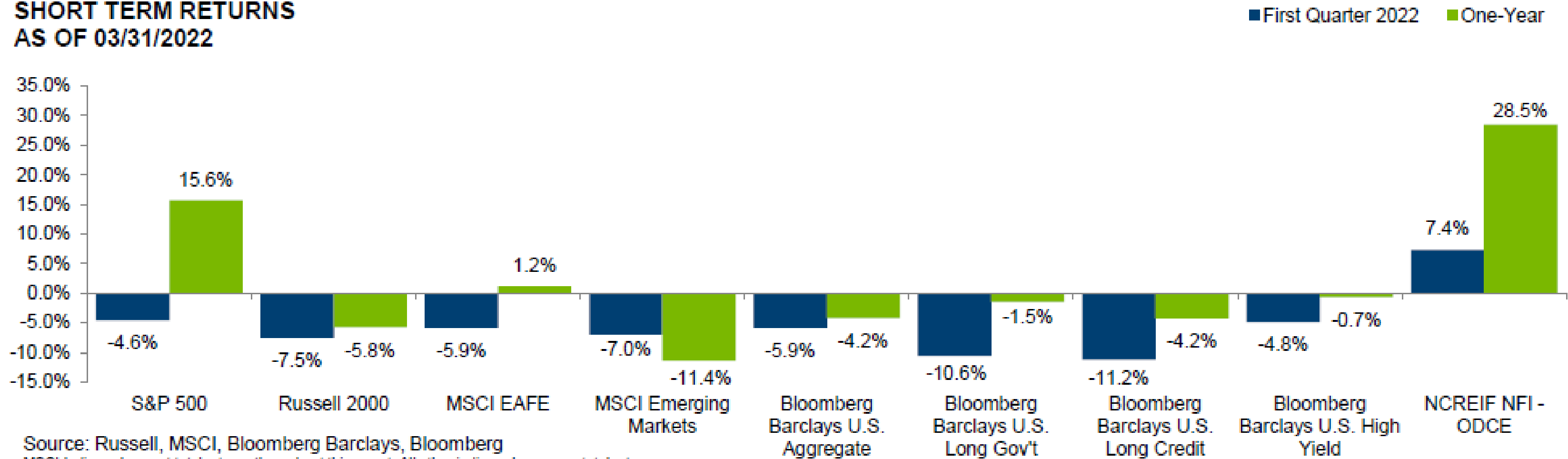
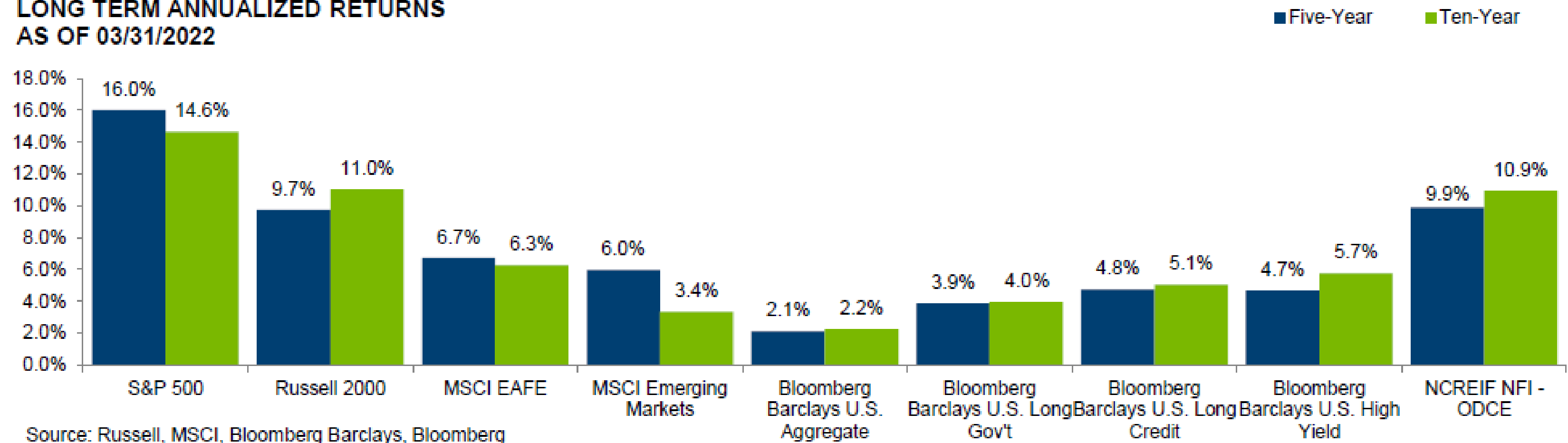


Executive Summary

Market Highlights



Source: Russell, MSCI, Bloomberg Barclays, Bloomberg
MSCI Indices show net total returns throughout this report. All other indices show gross total returns.



Source: Russell, MSCI, Bloomberg Barclays, Bloomberg

Note: MSCI Indices show net total returns throughout this report. All other indices show gross total returns.

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Market Highlights

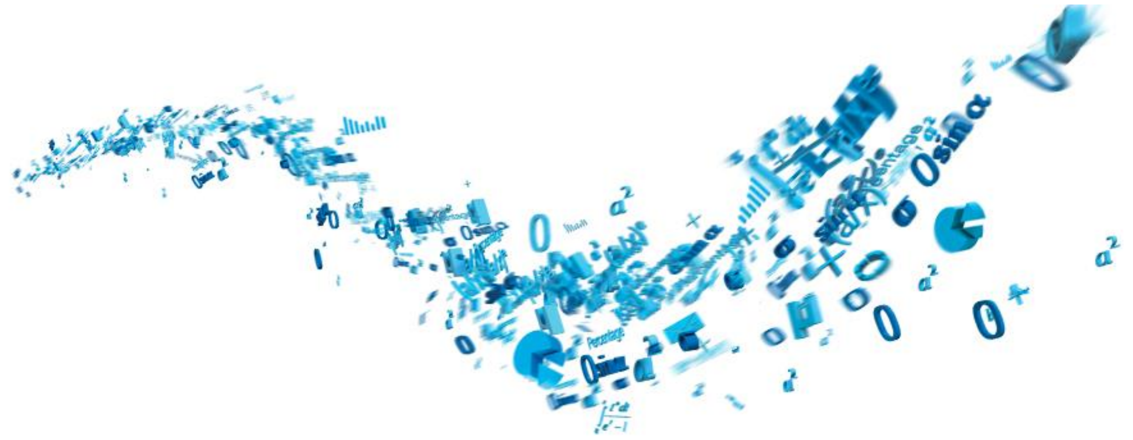
Returns of the Major Capital Markets						
Period Ending 03/31/2022	First Quarter	YTD	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity						
MSCI All Country World IMI	-5.47%	-5.47%	6.30%	13.49%	11.37%	9.95%
MSCI All Country World	-5.36%	-5.36%	7.28%	13.75%	11.64%	10.00%
Dow Jones U.S. Total Stock Market	-5.40%	-5.40%	11.67%	18.12%	15.31%	14.21%
Russell 3000	-5.28%	-5.28%	11.92%	18.24%	15.40%	14.28%
S&P 500	-4.60%	-4.60%	15.65%	18.92%	15.99%	14.64%
Russell 2000	-7.53%	-7.53%	-5.79%	11.74%	9.74%	11.04%
MSCI All Country World ex-U.S. IMI	-5.60%	-5.60%	-1.27%	7.87%	6.92%	5.78%
MSCI All Country World ex-U.S.	-5.44%	-5.44%	-1.48%	7.51%	6.76%	5.55%
MSCI EAFE	-5.91%	-5.91%	1.16%	7.78%	6.72%	6.27%
MSCI EAFE (Local Currency)	-3.73%	-3.73%	6.21%	8.23%	6.55%	8.61%
MSCI Emerging Markets	-6.97%	-6.97%	-11.37%	4.94%	5.98%	3.36%
Equity Factors						
MSCI World Minimum Volatility (USD)	-2.81%	-2.81%	10.09%	8.85%	9.47%	10.17%
MSCI World High Dividend Yield	0.46%	0.46%	10.30%	10.02%	9.06%	9.18%
MSCI World Quality	-8.41%	-8.41%	12.14%	18.70%	16.60%	13.72%
MSCI World Momentum	-5.63%	-5.63%	7.97%	16.49%	16.41%	14.01%
MSCI World Enhanced Value	-1.07%	-1.07%	5.09%	8.24%	7.02%	8.28%
MSCI World Equal Weighted	-5.11%	-5.11%	3.06%	10.35%	9.00%	9.18%
MSCI World Index Growth	-9.60%	-9.60%	9.43%	19.79%	16.91%	13.47%
Fixed Income						
Bloomberg Barclays Global Aggregate	-6.16%	-6.16%	-6.40%	0.69%	1.70%	1.04%
Bloomberg Barclays U.S. Aggregate	-5.93%	-5.93%	-4.15%	1.69%	2.14%	2.24%
Bloomberg Barclays U.S. Long Gov't	-10.57%	-10.57%	-1.46%	3.23%	3.88%	3.96%
Bloomberg Barclays U.S. Long Credit	-11.23%	-11.23%	-4.24%	4.37%	4.77%	5.07%
Bloomberg Barclays U.S. Long Gov't/Credit	-10.95%	-10.95%	-3.11%	4.23%	4.60%	4.72%
Bloomberg Barclays U.S. TIPS	-3.02%	-3.02%	4.29%	6.22%	4.43%	2.69%
Bloomberg Barclays U.S. High Yield	-4.84%	-4.84%	-0.66%	4.58%	4.69%	5.75%
Bloomberg Barclays Global Treasury ex U.S.	-6.49%	-6.49%	-8.72%	-0.85%	0.84%	-0.22%
JP Morgan EMBI Global (Emerging Markets)	-9.26%	-9.26%	-6.18%	0.52%	1.68%	3.45%
Commodities						
Bloomberg Commodity Index	25.55%	25.55%	49.25%	16.12%	9.00%	-0.70%
Goldman Sachs Commodity Index	33.13%	33.13%	64.55%	13.40%	9.98%	-3.31%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	-0.30%	-0.30%	3.87%	8.76%	6.48%	5.26%
HFRI Fund of Funds[2]	-2.70%	-2.70%	1.25%	5.88%	4.64%	3.93%
Real Estate						
NAREIT U.S. Equity REITS	-3.86%	-3.86%	26.49%	11.12%	9.63%	9.81%
NCREIF NFI - ODCE	7.36%	7.36%	28.46%	11.29%	9.88%	10.93%
FTSE Global Core Infrastructure Index	3.58%	3.58%	15.77%	10.23%	10.65%	10.32%
Private Equity						
Burgiss Private iQ Global Private Equity[3]			48.46%	23.39%	20.59%	16.50%

MSCI Indices show net total returns throughout this report. All other indices show gross total returns.

[1] Periods are annualized.

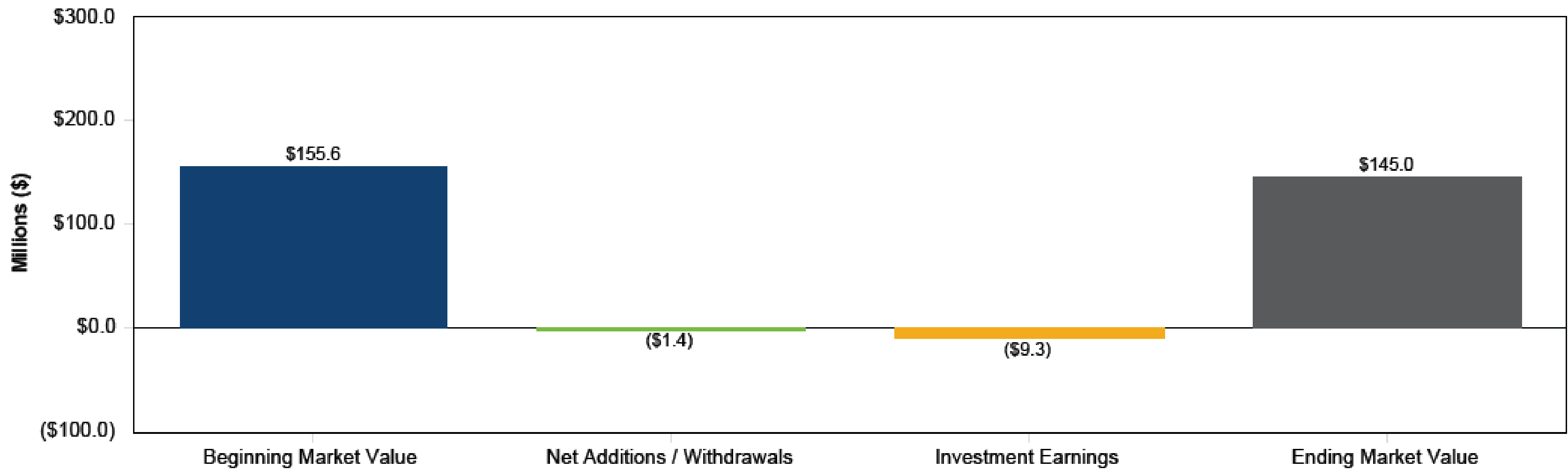
[2] Latest 5 months of HFR data are estimated by HFR and may change in the future.

[3] Burgiss Private iQ Global Private Equity data is as of June 30, 2021



Pension Performance Summary

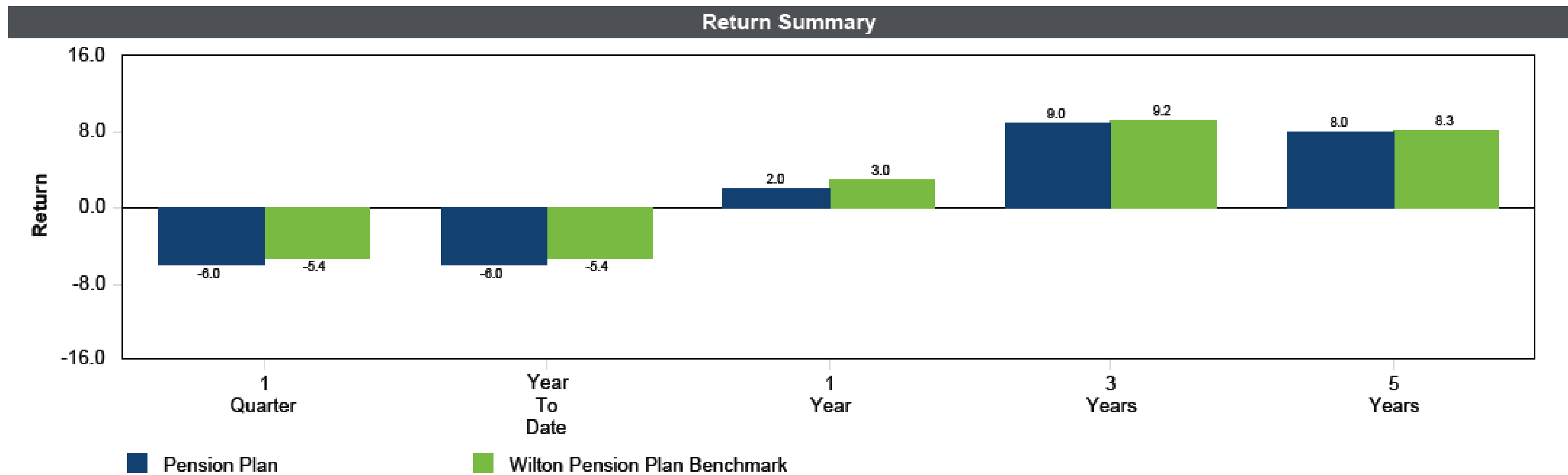
Total Plan Asset Summary

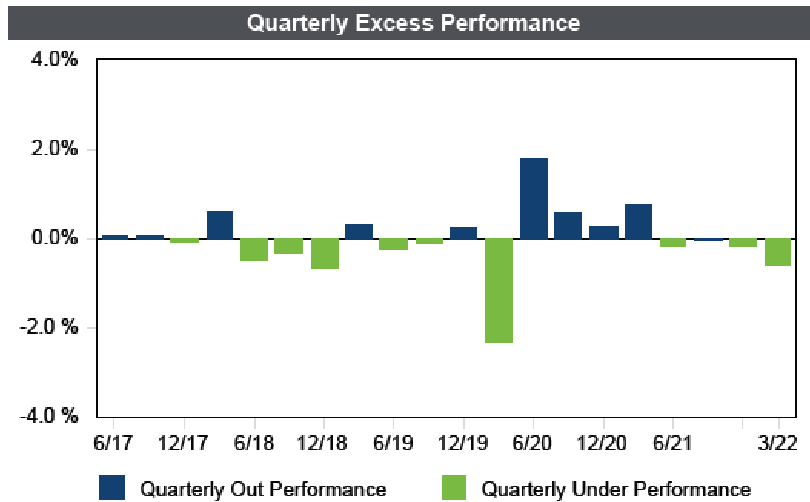


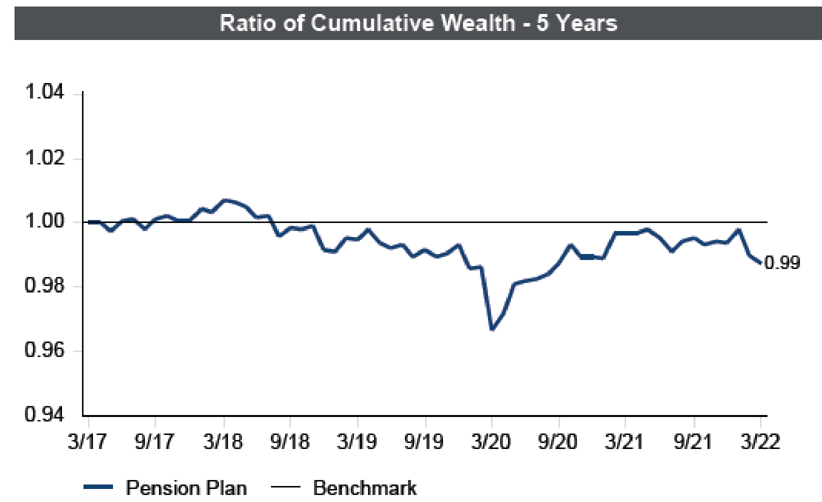
Summary of Cash Flow

	1 Quarter	1 Year	Since Inception	Inception Date
Beginning Market Value	155,625,741	145,951,215	73,939,906	
+ Additions / Withdrawals	-1,368,685	-3,878,481	-8,881,950	
+ Investment Earnings	-9,264,806	2,919,515	79,934,294	
= Ending Market Value	**144,992,250**	**144,992,250**	**144,992,250**	

Total Plan Performance Summary
As of March 31, 2022

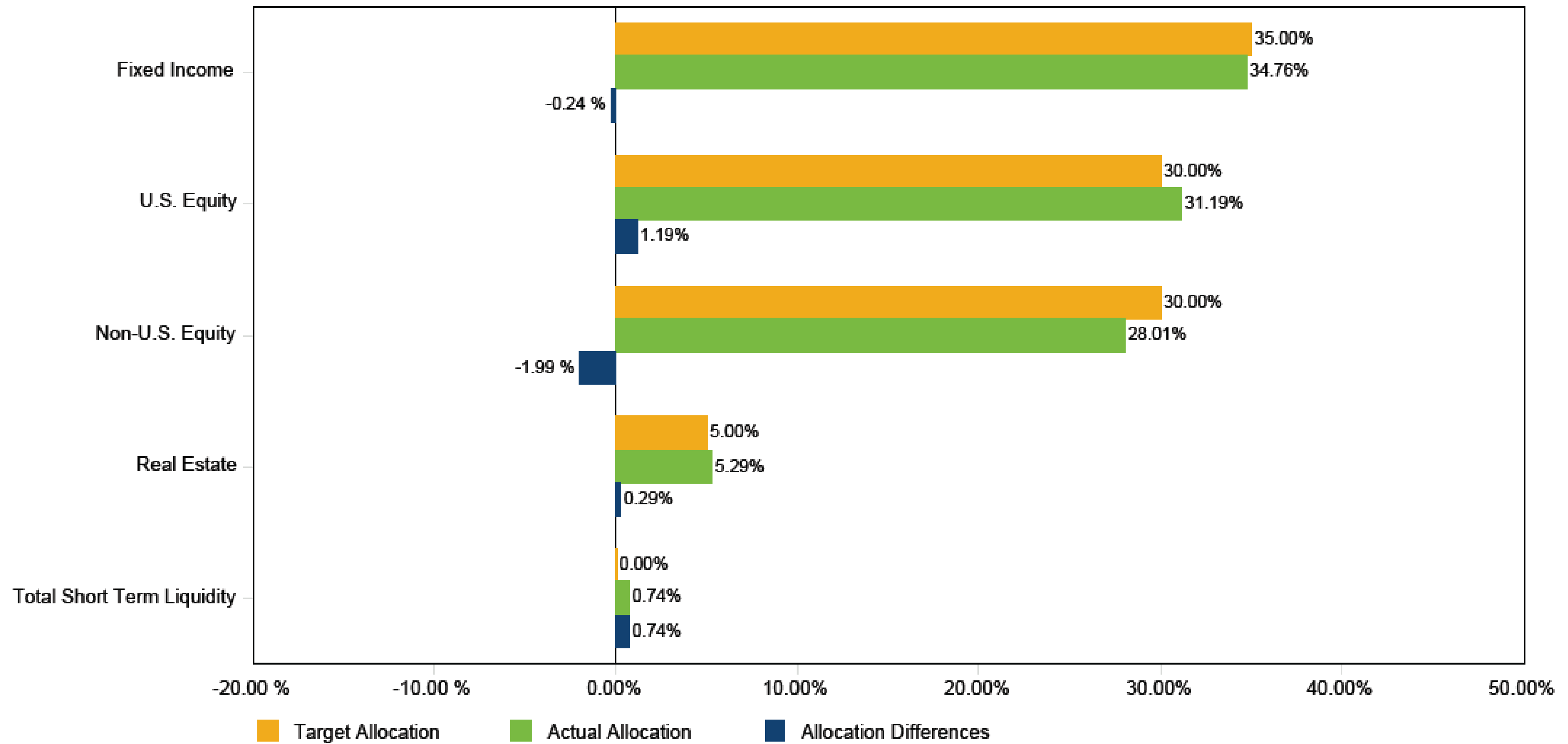




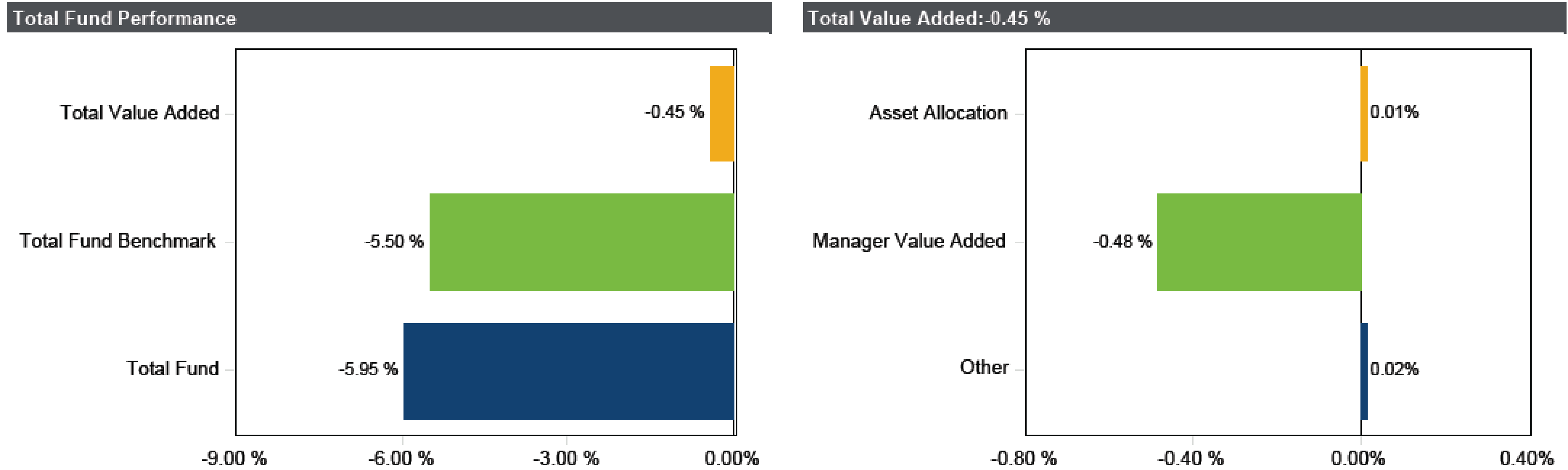


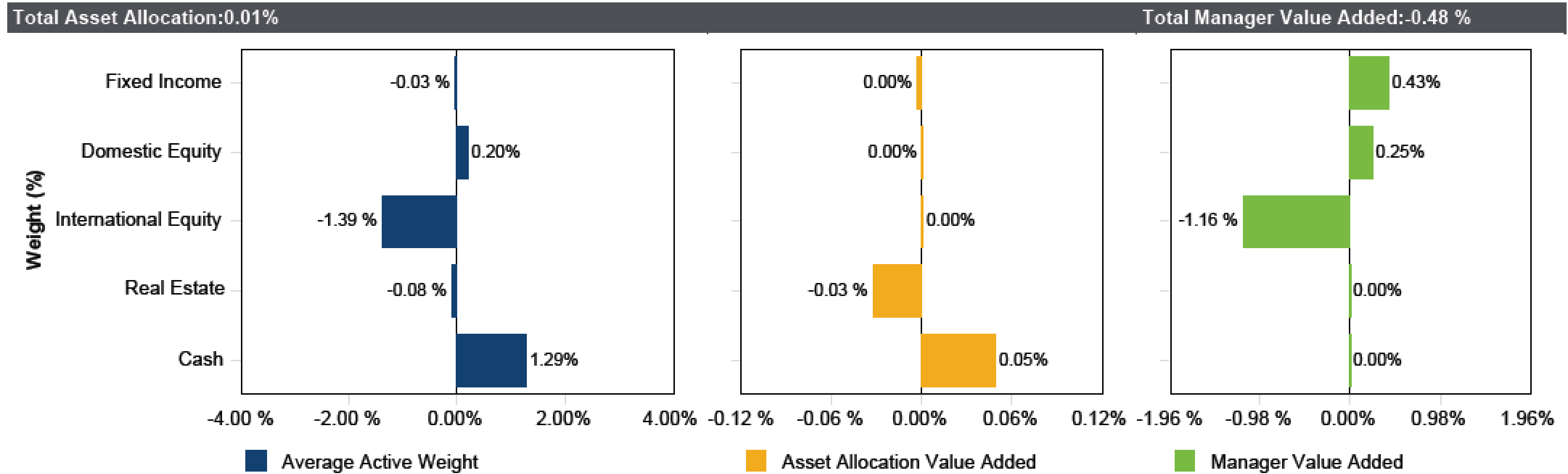
Asset Allocation
As of March 31, 2022

	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Differences (%)
Pension Plan	144,992,249.86	100.00	100.00	0.00
Fixed Income	**50,405,653.73**	**34.76**	**35.00**	**-0.24**
U.S. Equity	**45,224,058.84**	**31.19**	**30.00**	**1.19**
Non-U.S. Equity	**40,614,513.33**	**28.01**	**30.00**	**-1.99**
Real Estate	**7,673,990.38**	**5.29**	**5.00**	**0.29**



Pension Total Fund Attribution:
1 Quarter as of March 31, 2022





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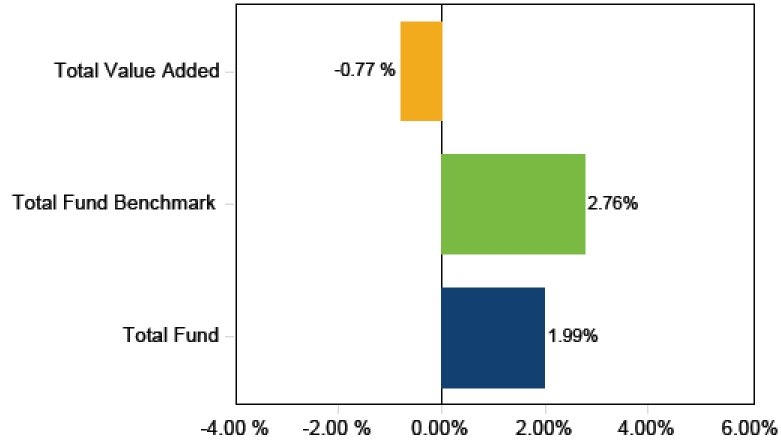
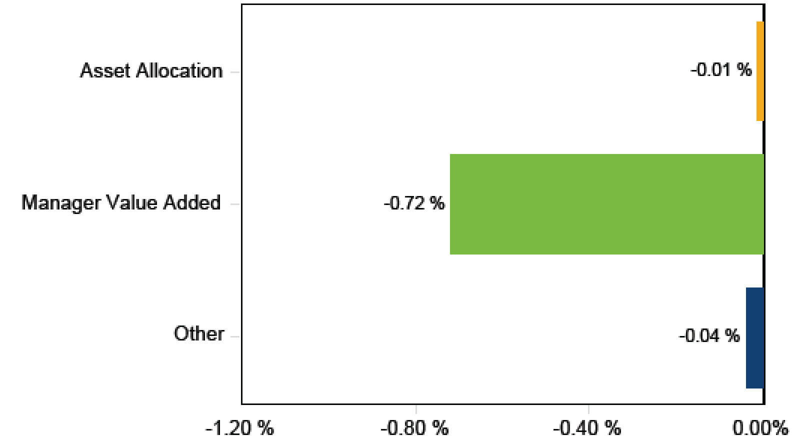
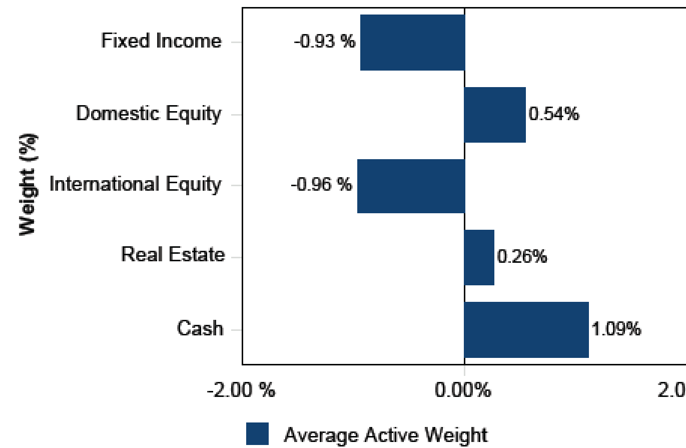
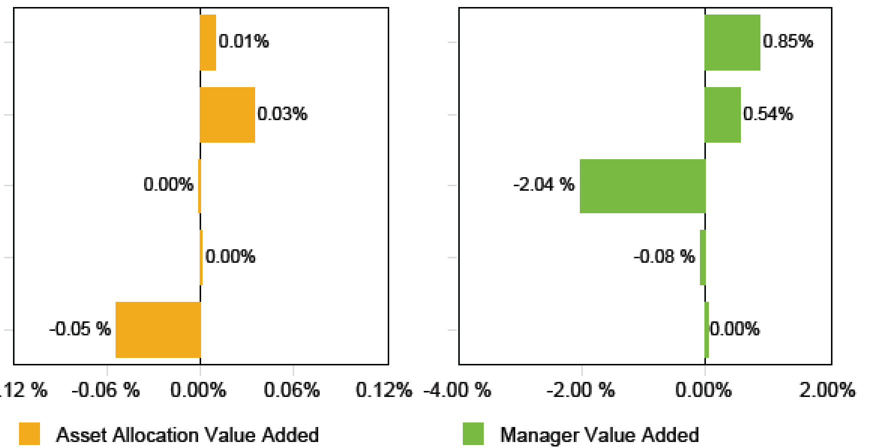
Pension Total Fund Attribution:
1 Year as of March 31, 2022

Pension Plan vs. Pension Att









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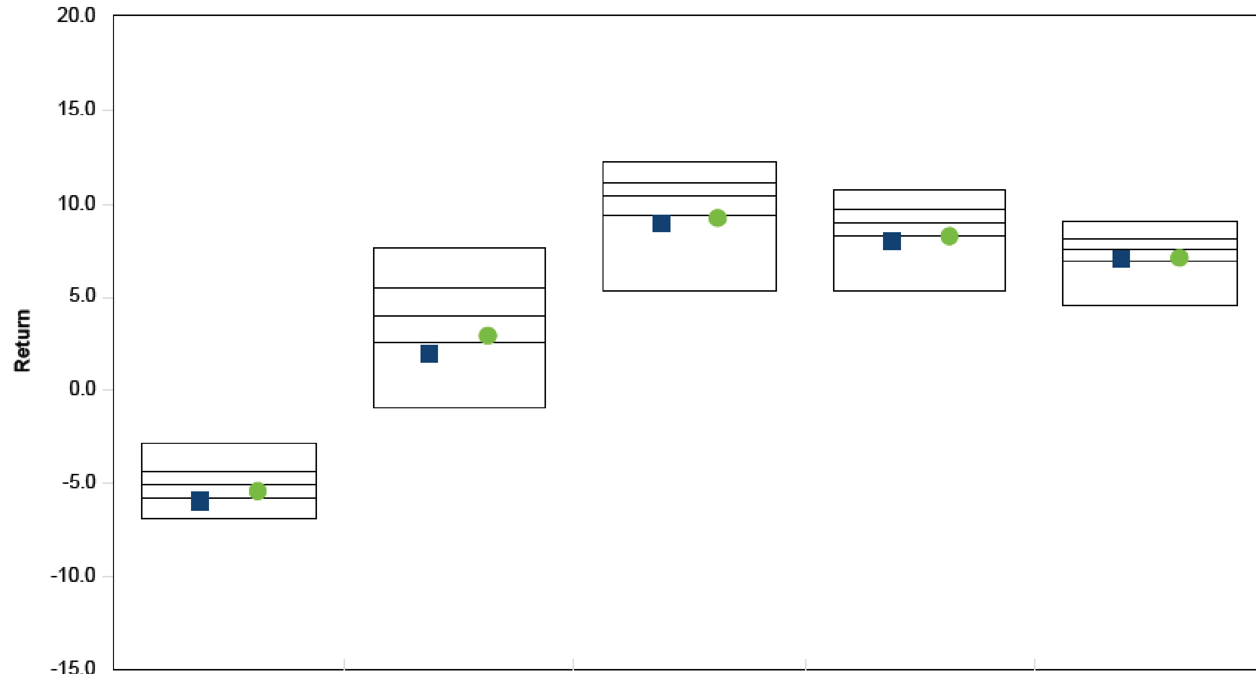
Plan Sponsor Peer Group Analysis

As of March 31, 2022



	1 Quarter	1 Year	3 Years	5 Years	7 Years
■ Pension Plan	-6.0 (81)	2.0 (82)	9.0 (80)	8.0 (80)	7.1 (72)
● Wilton Pension Plan Benchmark	-5.4 (58)	3.0 (72)	9.2 (79)	8.3 (75)	7.2 (71)
5th Percentile	-2.8	7.7	12.3	10.7	9.1
1st Quartile	-4.3	5.5	11.2	9.7	8.1
Median	-5.1	4.0	10.4	9.0	7.6
3rd Quartile	-5.8	2.6	9.4	8.3	7.0
95th Percentile	-6.9	-0.9	5.3	5.3	4.5
Population	362	359	349	332	305

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Performance as of March 31, 2022

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Pension Plan	144,992,250	100.0	100.0	-6.0	2.0	9.0	8.0	7.1	7.5	05/01/2012
Wilton Pension Plan Benchmark				*-5.4*	*3.0*	*9.2*	*8.3*	*7.2*	*7.6*	
Fixed Income	50,405,654	34.8	35.0	-4.7	-1.8	2.4	2.5	2.4	4.1	05/01/2008
Wilton Pension FI Hybrid BB				*-5.5*	*-3.6*	*1.9*	*2.3*	*2.0*	*3.5*	
Vanguard Total Bond Market Index Instl	6,765,572	4.7		-6.0 (52)	-4.1 (35)	1.7 (67)	2.1 (65)	1.8 (70)	2.0 (65)	12/01/2014
Blmbg. U.S. Aggregate				*-5.9 (48)*	*-4.2 (39)*	*1.7 (69)*	*2.1 (64)*	*1.9 (68)*	*2.0 (64)*	
IM U.S. Broad Market Core Fixed Income (MF) Median				-6.0	-4.2	1.9	2.3	2.0	2.2	
Metropolitan West Total Return Bond Pl	14,201,484	9.8		-6.2 (77)	-4.5 (85)	2.3 (58)	2.6 (62)	2.2 (64)	3.1 (39)	05/01/2012
Blmbg. U.S. Aggregate				*-5.9 (51)*	*-4.2 (67)*	*1.7 (88)*	*2.1 (88)*	*1.9 (90)*	*2.1 (93)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				-5.9	-3.7	2.4	2.7	2.5	3.0	
PGIM Total Return Bond R6	7,369,566	5.1		-6.5 (87)	-3.3 (26)	2.2 (62)	2.9 (29)	2.7 (33)	3.0 (31)	01/01/2015
Blmbg. U.S. Aggregate				*-5.9 (51)*	*-4.2 (67)*	*1.7 (88)*	*2.1 (88)*	*1.9 (90)*	*2.0 (90)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				-5.9	-3.7	2.4	2.7	2.5	2.7	
PIMCO Income Fund	10,576,044	7.3		-4.2 (44)	-1.5 (37)	-	-	-	-0.2 (35)	12/01/2020
Blmbg. U.S. Aggregate				*-5.9 (81)*	*-4.2 (83)*	-	-	-	*-5.5 (97)*	
IM Multi-Sector General Bond (MF) Median				-4.4	-2.2	-	-	-	-1.0	
Apollo Total Return Fund[CE]	5,776,727	4.0		-1.6 (5)	2.2 (2)	-	-	-	2.6 (8)	01/01/2021
50/50 ML Master II & Credit Suisse LLI				*-2.3 (12)*	*1.5 (5)*	-	-	-	*2.3 (8)*	
IM Multi-Sector General Bond (MF) Median				-4.4	-2.2	-	-	-	-2.0	
Aon Opportunistic Credit Fund[CE]	4,123,509	2.8		0.0	6.2	-	-	-	10.6	02/01/2021
*Opportunistic Credit Custom Index**				*0.0*	*3.5*	-	-	-	*4.1*	
Barings North American Private Debt Fund[CE]	1,592,753	1.1		0.0	-	-	-	-	7.2	11/01/2021
Cash Equivalents	1,074,034	0.7	0.0	0.0	0.0	0.6	0.9	0.7	0.5	05/01/2008
90 Day U.S. Treasury Bill				*0.0*	*0.1*	*0.8*	*1.1*	*0.9*	*0.5*	
Wells Fargo Government MM Fund	1,074,034	0.7		0.0	0.0	0.6	0.9	0.7	0.5	05/01/2012
90 Day U.S. Treasury Bill				*0.0*	*0.1*	*0.8*	*1.1*	*0.9*	*0.6*	

*As of January 2011, The Opportunistic Credit Custom Index consists of 12.5% Bloomberg U.S. Corporate High Yield Index, 12.5% S&P/LSTA Leveraged Loan Index, 25% HFRI RV: Fixed Income-Asset Backed Index, 25% HFRI ED: Distressed/Restructing Index and 25% Barclays U.S. CMBS 2.0 Index
**Aon Opportunities Credit Fund and Barings North American Private Debt Fund MVs as of prior quater. Apollo Total Return MV as of prior month.

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Performance as of March 31, 2022

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
U.S. Equity	45,224,059	31.2	30.0	-4.4	13.9	17.9	14.9	13.3	11.0	05/01/2008
Russell 3000 Index				*-5.3*	*11.9*	*18.2*	*15.4*	*13.4*	*11.0*	
Vanguard Institutional Index Fund Instl	33,387,251	23.0		-4.6 (14)	15.6 (18)	18.9 (14)	16.0 (13)	14.0 (9)	14.8 (9)	05/01/2012
S&P 500 Index				*-4.6 (10)*	*15.6 (1)*	*18.9 (4)*	*16.0 (3)*	*14.0 (3)*	*14.8 (2)*	
IM S&P 500 Index (MF) Median				-4.6	15.4	18.7	15.8	13.8	14.6	
Diamond Hill Small-Mid Cap Y	5,908,482	4.1		-3.1 (92)	10.7 (74)	13.2 (65)	8.9 (66)	8.8 (54)	11.9 (37)	05/01/2012
Russell 2500 Value Index				*-1.5 (68)*	*7.7 (95)*	*13.0 (66)*	*9.2 (60)*	*8.9 (54)*	*11.2 (53)*	
IM U.S. Mid Cap Value Equity (MF) Median				-0.6	12.5	13.9	9.6	9.0	11.4	
Eaton Vance Atlanta Capital SMID Instl	5,928,326	4.1		-4.7 (1)	7.4 (1)	14.5 (37)	14.3 (48)	13.1 (18)	14.1 (15)	05/01/2012
Russell 2500 Growth Index				*-12.3 (49)*	*-10.1 (63)*	*13.0 (60)*	*13.2 (57)*	*10.5 (65)*	*12.9 (42)*	
IM U.S. SMID Cap Growth Equity (MF) Median				-13.2	-7.4	13.3	14.1	11.4	12.4	
Non-U.S. Equity	40,614,513	28.0	30.0	-9.5	-8.1	6.4	6.4	5.2	2.6	05/01/2008
MSCI AC World ex USA Index (Net)				*-5.4*	*-1.5*	*7.5*	*6.8*	*5.2*	*2.8*	
American Funds EuroPacific Growth R6	10,521,105	7.3		-12.2 (100)	-9.4 (100)	8.4 (23)	8.0 (1)	6.2 (1)	5.6 (1)	07/01/2014
MSCI AC World ex USA Index (Net)				*-5.4 (35)*	*-1.5 (52)*	*7.5 (41)*	*6.8 (15)*	*5.2 (12)*	*3.9 (24)*	
IM International Large Cap Core Equity (MF) Median				-6.3	-1.3	7.1	6.0	4.5	3.2	
T. Rowe Price Overseas Stock Instl	11,662,106	8.0		-6.3 (47)	-0.6 (39)	8.9 (11)	7.2 (1)	-	-	07/01/2014
MSCI EAFE Index (Net)				*-5.9 (41)*	*1.2 (15)*	*7.8 (31)*	*6.7 (16)*	*5.1 (13)*	*3.9 (16)*	
IM International Large Cap Core Equity (MF) Median				-6.3	-1.3	7.1	6.0	4.5	3.2	
Templeton Instl Foreign Smaller Companies Fund Adv	5,120,149	3.5		-12.7 (100)	-8.8 (100)	4.7 (85)	5.1 (73)	4.5 (76)	6.0 (88)	05/01/2012
MSCI AC World ex USA Small Cap (Net)				*-6.5 (67)*	*0.0 (17)*	*10.2 (10)*	*7.9 (21)*	*7.2 (18)*	*7.4 (32)*	
IM International SMID Cap Core Equity (MF) Median				-5.7	-1.8	8.4	6.2	6.2	6.9	
GQG Partners Emerging Markets Equity	6,844,701	4.7		-7.9 (46)	-9.0 (37)	-	-	-	-8.2 (49)	01/01/2021
MSCI Emerging Markets Index				*-6.9 (37)*	*-11.1 (43)*	-	-	-	*-7.3 (44)*	
IM Emerging Markets Equity (MF) Median				-8.8	-12.7	-	-	-	-8.3	
William Blair Emerging Markets Leaders Fund; R6	6,466,453	4.5		-9.2 (54)	-16.1 (66)	-	-	-	-12.9 (72)	01/01/2021
MSCI Emerging Markets Index				*-6.9 (37)*	*-11.1 (43)*	-	-	-	*-7.3 (44)*	
IM Emerging Markets Equity (MF) Median				-8.8	-12.7	-	-	-	-8.3	

*As of January 2011, The Opportunistic Credit Custom Index consists of 12.5% Bloomberg U.S. Corporate High Yield Index, 12.5% S&P/LSTA Leveraged Loan Index, 25% HFRI RV: Fixed Income-Asset Backed Index, 25% HFRI ED: Distressed/Restructing Index and 25% Barclays U.S. CMBS 2.0 Index
**Aon Opportunities Credit Fund and Barings North American Private Debt Fund MVs as of prior quater. Apollo Total Return MV as of prior month.

Performance as of March 31, 2022

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Real Estate	7,673,990	5.3	5.0	-5.3	21.9	11.1	11.3	11.0	10.5	07/01/2012
Wilton Pension Real Estate				*-5.3*	*23.5*	*11.9*	*10.0*	*8.1*	*9.8*	
Cohen & Steers Institutional Realty Shares	6,151,400	4.2		-6.0 (68)	23.7 (54)	-	-	-	26.6 (43)	01/01/2021
FTSE NAREIT All Equity REITs				*-5.3 (55)*	*23.5 (58)*	-	-	-	*26.2 (51)*	
IM Real Estate Sector (MF) Median				-5.2	23.8	-	-	-	26.4	
Westbrook Real Estate Fund XI	1,522,590	1.1		2.7	12.0	-	-	-	10.2	02/01/2021

*As of January 2011, The Opportunistic Credit Custom Index consists of 12.5% Bloomberg U.S. Corporate High Yield Index, 12.5% S&P/LSTA Leveraged Loan Index, 25% HFRI RV: Fixed Income-Asset Backed Index, 25% HFRI ED: Distressed/Restructing Index and 25% Barclays U.S. CMBS 2.0 Index
**Aon Opportunities Credit Fund and Barings North American Private Debt Fund MVs as of prior quater. Apollo Total Return MV as of prior month.

Performance as of December 31, 2021

Lagged Fund Update

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Pension Plan	155,625,741	100.0	100.0	4.0	11.6	14.6	10.3	8.4	8.4	05/01/2012
Wilton Pension Plan Benchmark				*4.2*	*11.1*	*14.5*	*10.4*	*8.3*	*8.5*	
Fixed Income	53,767,410	34.5	35.0	0.4	1.3	5.1	3.9	3.3	4.6	05/01/2008
Wilton Pension FI Hybrid BB				*0.2*	*-1.4*	*4.8*	*3.7*	*2.9*	*4.0*	
Vanguard Total Bond Market Index Instl	7,363,615	4.7		-0.1 (41)	-1.7 (70)	4.8 (70)	3.6 (65)	3.0 (67)	3.0 (67)	12/01/2014
Blmbg. U.S. Aggregate				*0.0 (22)*	*-1.5 (65)*	*4.8 (72)*	*3.6 (69)*	*3.0 (66)*	*3.0 (63)*	
IM U.S. Broad Market Core Fixed Income (MF) Median				-0.1	-1.3	5.2	3.8	3.3	3.2	
Metropolitan West Total Return Bond Pl	15,145,932	9.7		-0.1 (56)	-1.1 (68)	5.6 (52)	4.1 (62)	3.3 (64)	3.9 (36)	05/01/2012
Blmbg. U.S. Aggregate				*0.0 (32)*	*-1.5 (80)*	*4.8 (86)*	*3.6 (88)*	*3.0 (90)*	*2.9 (93)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				0.0	-0.7	5.7	4.3	3.6	3.7	
PGIM Total Return Bond R6	7,882,456	5.1		0.3 (4)	-1.2 (72)	5.9 (47)	4.7 (24)	4.1 (22)	4.1 (22)	01/01/2015
Blmbg. U.S. Aggregate				*0.0 (32)*	*-1.5 (80)*	*4.8 (86)*	*3.6 (88)*	*3.0 (90)*	*3.0 (90)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				0.0	-0.7	5.7	4.3	3.6	3.6	
PIMCO Income Fund	12,412,066	8.0		0.2 (38)	2.6 (39)	-	-	-	3.8 (35)	12/01/2020
Blmbg. U.S. Aggregate				*0.0 (53)*	*-1.5 (98)*	-	-	-	*-1.3 (99)*	
IM Multi-Sector General Bond (MF) Median				0.1	1.5	-	-	-	2.4	
Apollo Total Return Fund	5,933,234	3.8		0.7 (13)	4.9 (9)	-	-	-	4.9 (9)	01/01/2021
50/50 ML Master II & Credit Suisse LLI				*0.7 (13)*	*5.4 (8)*	-	-	-	*5.4 (8)*	
IM Multi-Sector General Bond (MF) Median				0.1	1.5	-	-	-	1.5	
Aon Opportunistic Credit Fund	4,062,354	2.6		1.2	-	-	-	-	12.5	02/01/2021
*Opportunistic Credit Custom Index**				*0.4*	-	-	-	-	*5.3*	
Barings North American Private Debt Fund	967,753	0.6		-	-	-	-	-	7.2	11/01/2021
Cash Equivalents	1,647,382	1.1	0.0	0.0	0.0	0.8	0.9	0.7	0.5	05/01/2008
90 Day U.S. Treasury Bill				*0.0*	*0.0*	*1.0*	*1.1*	*0.9*	*0.6*	
Wells Fargo Government MM Fund	1,647,382	1.1		0.0	0.0	0.8	0.9	0.7	0.5	05/01/2012
90 Day U.S. Treasury Bill				*0.0*	*0.0*	*1.0*	*1.1*	*0.9*	*0.6*	

*As of January 2011, The Opportunistic Credit Custom Index consists of 12.5% Bloomberg U.S. Corporate High Yield Index, 12.5% S&P/LSTA Leveraged Loan Index, 25% HFRI RV: Fixed Income-Asset Backed Index, 25% HFRI ED: Distressed/Restructing Index and 25% Barclays U.S. CMBS 2.0 Index

Performance as of December 31, 2021

Lagged Fund Update

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
U.S. Equity	47,316,018	30.4	30.0	10.5	28.6	25.0	17.2	14.4	11.6	05/01/2008
Russell 3000 Index				*9.3*	*25.7*	*25.8*	*18.0*	*14.5*	*11.7*	
Vanguard Institutional Index Fund Instl	34,998,601	22.5		11.0 (17)	28.7 (8)	26.0 (9)	18.4 (12)	14.9 (10)	15.8 (9)	05/01/2012
S&P 500 Index				*11.0 (3)*	*28.7 (1)*	*26.1 (4)*	*18.5 (3)*	*14.9 (3)*	*15.8 (3)*	
IM S&P 500 Index (MF) Median				11.0	28.5	25.9	18.3	14.8	15.6	
Diamond Hill Small-Mid Cap Y	6,094,863	3.9		7.2 (81)	31.2 (38)	19.4 (38)	10.2 (50)	10.0 (35)	12.6 (22)	05/01/2012
Russell 2500 Value Index				*6.4 (93)*	*27.8 (82)*	*18.3 (52)*	*9.9 (63)*	*9.6 (50)*	*11.7 (53)*	
IM U.S. Mid Cap Value Equity (MF) Median				8.6	30.2	18.4	10.1	9.5	11.8	
Eaton Vance Atlanta Capital SMID Instl	6,222,554	4.0		9.7 (1)	22.2 (5)	22.3 (83)	16.6 (69)	14.8 (50)	15.1 (40)	05/01/2012
Russell 2500 Growth Index				*0.2 (74)*	*5.0 (73)*	*25.1 (59)*	*17.7 (60)*	*13.8 (64)*	*14.8 (43)*	
IM U.S. SMID Cap Growth Equity (MF) Median				2.6	9.6	26.6	19.0	14.6	14.5	
Non-U.S. Equity	44,859,843	28.8	30.0	0.3	3.8	14.2	10.5	7.4	3.4	05/01/2008
MSCI AC World ex USA Index (Net)				*1.8*	*7.8*	*13.2*	*9.6*	*6.6*	*3.3*	
American Funds EuroPacific Growth R6	11,987,874	7.7		-1.1 (100)	2.8 (100)	18.0 (1)	12.9 (1)	9.1 (1)	7.6 (1)	07/01/2014
MSCI AC World ex USA Index (Net)				*1.8 (75)*	*7.8 (75)*	*13.2 (46)*	*9.6 (22)*	*6.6 (28)*	*4.8 (29)*	
IM International Large Cap Core Equity (MF) Median				2.9	10.6	12.8	8.8	5.8	4.0	
T. Rowe Price Overseas Stock Instl	12,450,213	8.0		3.5 (27)	12.4 (18)	14.8 (16)	10.4 (5)	-	-	07/01/2014
MSCI EAFE Index (Net)				*2.7 (57)*	*11.3 (27)*	*13.5 (41)*	*9.5 (22)*	*6.8 (24)*	*4.9 (23)*	
IM International Large Cap Core Equity (MF) Median				2.9	10.6	12.8	8.8	5.8	4.0	
Templeton Instl Foreign Smaller Companies Fund Adv	5,865,435	3.8		0.5 (52)	10.7 (77)	14.0 (54)	10.1 (38)	7.3 (71)	7.7 (57)	05/01/2012
MSCI AC World ex USA Small Cap (Net)				*0.6 (50)*	*12.9 (47)*	*16.5 (14)*	*11.2 (17)*	*8.9 (28)*	*8.4 (31)*	
IM International SMID Cap Core Equity (MF) Median				0.6	12.7	14.1	9.2	7.8	7.8	
GQG Partners Emerging Markets Equity	7,435,674	4.8		-0.2 (36)	-2.4 (65)	-	-	-	-2.4 (65)	01/01/2021
MSCI Emerging Markets Index				*-1.2 (55)*	*-2.2 (64)*	-	-	-	*-2.2 (64)*	
IM Emerging Markets Equity (MF) Median				-1.0	-0.7	-	-	-	-0.7	
William Blair Emerging Markets Leaders Fund; R6	7,120,646	4.6		-2.4 (70)	-7.3 (86)	-	-	-	-7.3 (86)	01/01/2021
MSCI Emerging Markets Index				*-1.2 (55)*	*-2.2 (64)*	-	-	-	*-2.2 (64)*	
IM Emerging Markets Equity (MF) Median				-1.0	-0.7	-	-	-	-0.7	

*As of January 2011, The Opportunistic Credit Custom Index consists of 12.5% Bloomberg U.S. Corporate High Yield Index, 12.5% S&P/LSTA Leveraged Loan Index, 25% HFRI RV: Fixed Income-Asset Backed Index, 25% HFRI ED: Distressed/Restructing Index and 25% Barclays U.S. CMBS 2.0 Index

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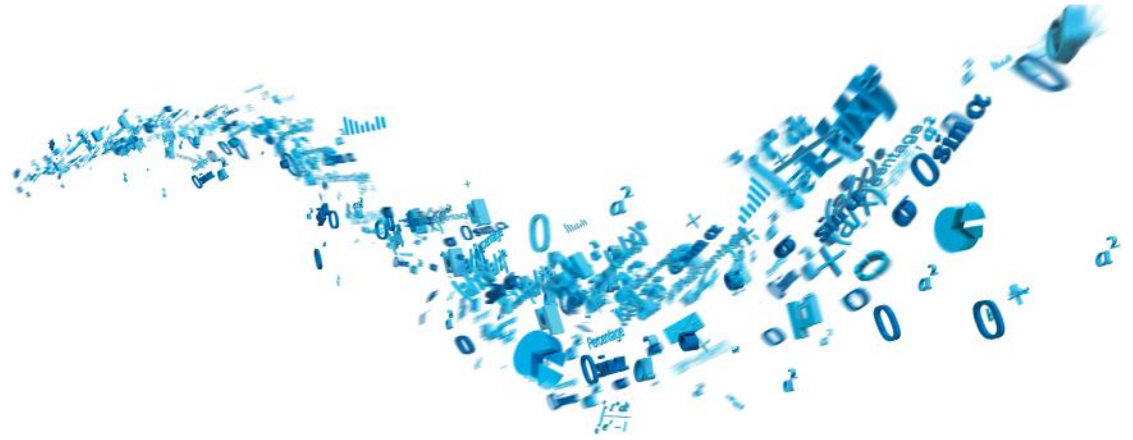
Performance as of December 31, 2021

Lagged Fund Update

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Real Estate	8,035,088	5.2	5.0	13.8	39.5	19.3	12.8	12.2	11.4	07/01/2012
Wilton Pension Real Estate				*16.2*	*41.3*	*20.1*	*11.4*	*9.7*	*10.7*	
Cohen & Steers Institutional Realty Shares	7,142,684	4.6		16.1 (38)	42.8 (32)	-	-	-	42.8 (32)	01/01/2021
FTSE NAREIT All Equity REITs				*16.2 (38)*	*41.3 (56)*	-	-	-	*41.3 (56)*	
IM Real Estate Sector (MF) Median				15.8	41.5	-	-	-	41.5	
Westbrook Real Estate Fund XI	892,404	0.6		0.4	-	-	-	-	9.1	02/01/2021

*As of January 2011, The Opportunistic Credit Custom Index consists of 12.5% Bloomberg U.S. Corporate High Yield Index, 12.5% S&P/LSTA Leveraged Loan Index, 25% HFRI RV: Fixed Income-Asset Backed Index, 25% HFRI ED: Distressed/Restructing Index and 25% Barclays U.S. CMBS 2.0 Index



Aon Medium Term Views

Core Views

*

The Ukraine crisis has increased stagflation risks

We started the year worried that persistent inflation and tightening monetary policy would create headwinds for equities. Higher energy prices from the Ukraine crisis, the inflation overrun and increased pressure on central banks are increasing stagflation risks. This does not make recession inevitable, but the risks of a sharper economic slowdown have certainly increased.

Uncertainty is very high

Any future developments in the conflict are unpredictable and the highly uncertain situation could persist for a while. The implication is that markets are likely to be very volatile and we cannot discount relief rallies as well as periods of market declines.

Focus on diversification* and defensive measures

We maintain our less constructive view on equities and have a defensive stance overall. Rising risks of an economic downturn, coupled with higher yields, has prompted our upgrade of core fixed income to neutral. Overall, we believe a continued focus on appropriate diversification through the use of alternative investments and taking a defensive stance in equities.

View shifts

Upgraded core fixed income view

Large moves in mid- and long-duration yields and the prospect of economic weakness has prompted the upgrade.

Credit views adjusted

Bank loans view lowered to reflect strong Q1 returns relative to HY bonds

Downgraded EAFE view

Particular exposure to the Ukraine crisis and the potential for more risk aversion has triggered our downgrade.

*Diversification does not ensure a profit nor does it protect against loss of principal. Diversification among investment options and asset classes may help to reduce overall volatility. The data and opinions referenced are as of 4/13/2022 and are subject to change due to client needs, suitability requirements and changes in the market or economic conditions that may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Actions

Moving fixed income duration towards neutral

– Our view is that rate rises are now adequately discounted and that downside risks to growth will prevent yields from going much higher in the medium term. Taking gains on being underweightt is important.

Credit market positioning

– Conservatism is appropriate in how much credit risk is appropriate. Spread valuations are more attractive but this is a credit-unfriendly environment.

Managing equity risks

- Some rebalancing on weakness is reasonable but not all the way to target.

Diversifiers* review

– This is a good time to see which of the existing diversifiers in a portfolio might be expected to perform well and whether some reinforcing is required.

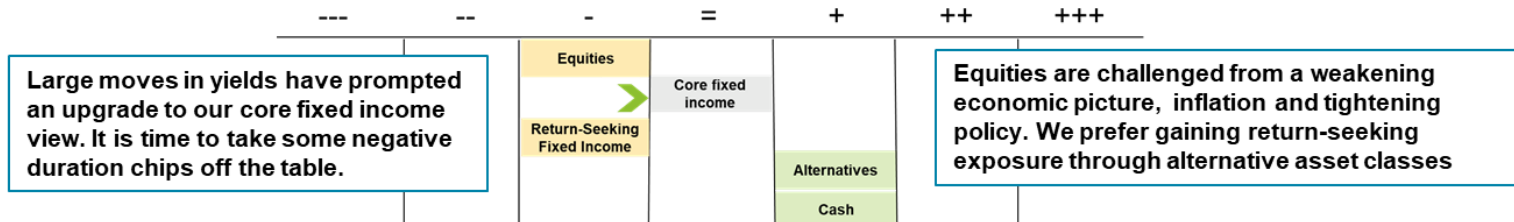
Objective

Portfolios should focus on managing the risk/reward challenge of current high asset valuations and high correlations between risk-assets.

*Diversification does not ensure a profit nor does it protect against loss of principal. Diversification among investment options and asset classes may help to reduce overall volatility. The data and opinions referenced are as of 4/13/2022, and are subject to change due to client needs, suitability requirements and changes in the market or economic conditions that may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

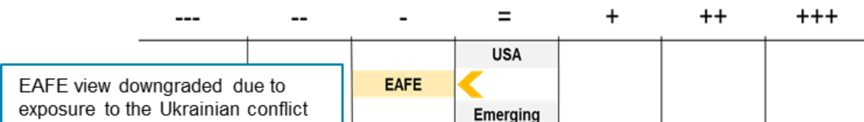
Recommended actions

Total Return Cross Asset Class Views



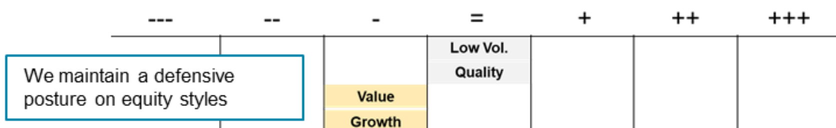
Relative Asset Class Views

Equity Regions

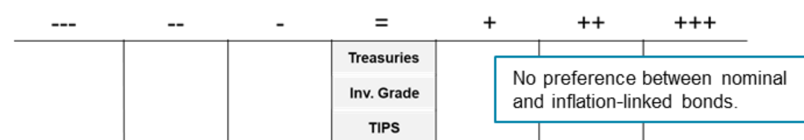


Return Seeking Credit

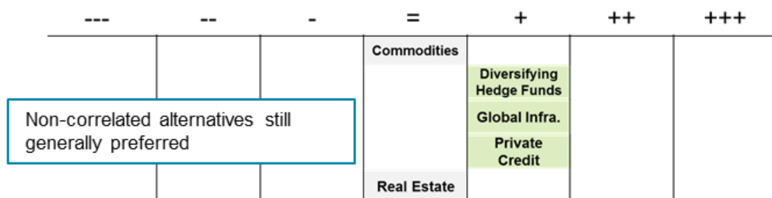
Equity Styles



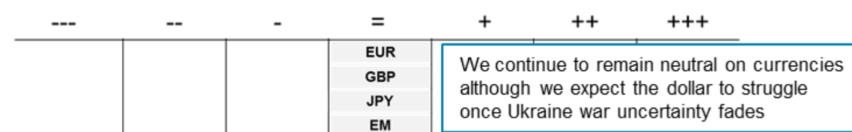
Core Fixed Income



Alternatives



Currencies versus USD



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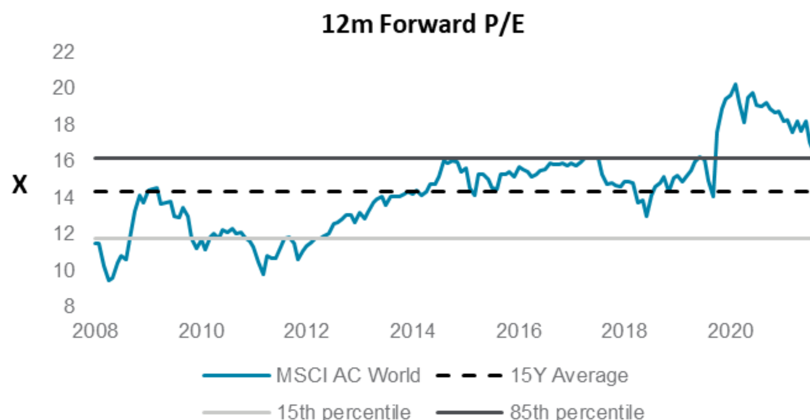
Equities

The outlook clouded by uncertainty and our less constructive view remains in place

- Following a strong year of returns, equity markets have suffered large declines in the first quarter of 2022 up to mid-March. Just as fears surrounding the Omicron variant of Covid were subsiding, Russia invaded Ukraine, sparking sharply higher oil prices and significant risk aversion. Of course, throughout the period, worries about multi-decade high inflation and the prospect of rapidly tightening monetary policy have persisted and have been exacerbated by the Ukrainian conflict. Whilst we still expect core inflation to peak soon and growth to moderate a little, the risk of higher and more persistent inflation, including food and energy, and lower growth has risen. The degree of uncertainty is very high, however.
- The market falls we have already seen have triggered better valuations, even as earnings forecasts have been revised lower, but we maintain our caution as the situation remains highly uncertain and impossible to predict. Relative to bonds, rising yields had started to alter the attraction of equities and markets were dropping sharply even before the Ukrainian crisis. At the same time, we must continue to track the stance of monetary policy, which is currently firmly in the tightening camp, with several interest rate increases expected this year. But these expectations could be challenged as the year progresses if growth starts to suffer.
- Overall, despite better valuations, the high degree of uncertainty and the prospect of economic challenges has prompted us to maintain our less constructive view on equities.

Source: Factset, Aon



Source: Factset, Aon

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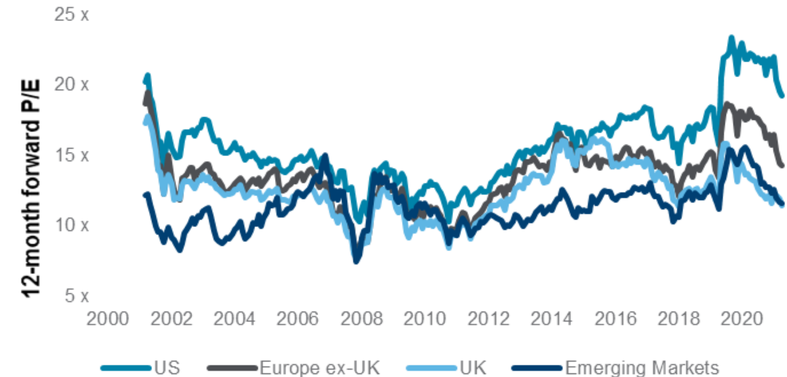
Equities
Remaining defensive and downgrading European view

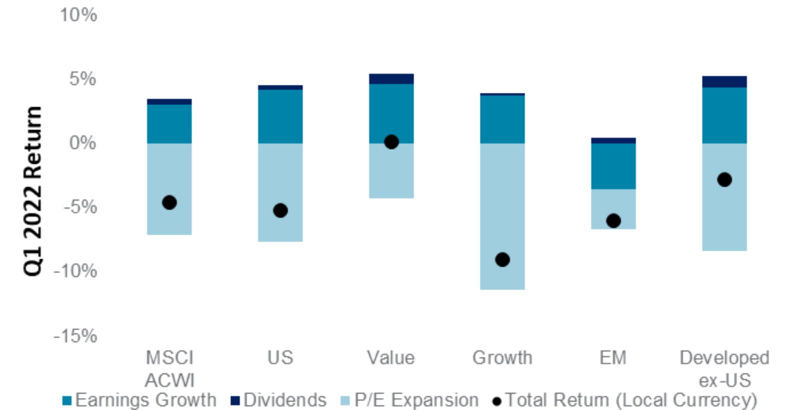
- In much of January and February, the prospect of higher interest rates and inflation triggered a sharp sell-off in technology stocks, especially in the US, which was part of the reason why growth stocks underperformed value stocks. More recently, the Ukrainian crisis pushed energy prices much higher and boosted the performance of commodity-related stocks – again, boosting value style equities. However, we remain neutral between value and growth over the medium-term.
- On the one hand, there is no doubt that higher interest rates are an important headwind for technology and growth stocks in general. But a weaker economic outlook has dampened mid- and long-duration yields and the more defensive nature of growth stocks could be beneficial in any downturn. On the other hand, beyond energy, a flatter yield curve and the prospect of weaker loan growth will likely limit profits for financial companies – the other important value sector. In terms of other styles, we continue to prefer low volatility and quality styles for their defensive properties during what is likely to be a highly volatile and directionless time in equity markets.
- In terms of the regional view, we think that a downgrade to the European view is warranted as this region is especially exposed to Russian energy, the impact of sanctions and refugee flows. Our emerging markets view remains neutral, although we note recent more expansionary policies from China. We believe that a generally more settled environment will be required for a more concerted improvement in EM returns, however.

Valuation gaps narrow during this year's market turmoil



Source: Factset, MSCI, Aon

US and Growth stocks sell-off most due to rising interest rates in January and February

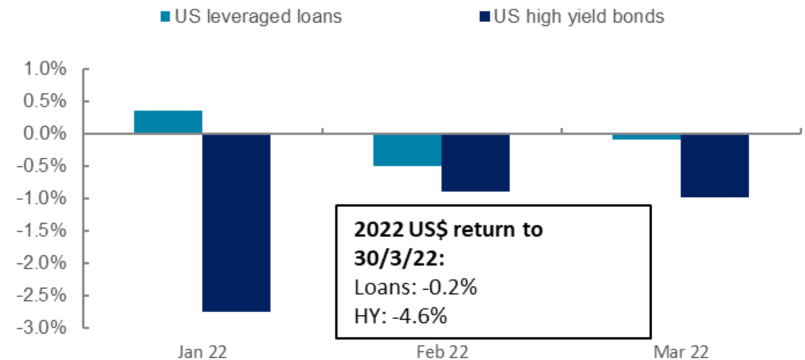


Source: Factset, MSCI, Aon. Changes in the 12-month forward P/E and earnings per share shown. Local currency returns and MSCI World Growth and Value indices shown.

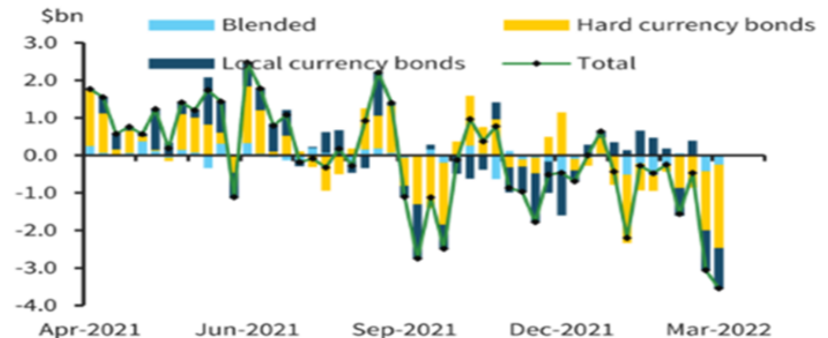
Return-Seeking Fixed Income

Remaining defensively positioned amongst credit sectors

- US HY bond credit spreads retraced more than half of their expansion in the year up to mid-March by the end of March as risk markets gained some composure on hopes of a Russia-Ukraine war resolution. However, HY bond yields are now above 6.5%, up from 4.3% at the start of the year. Leveraged bank loans have performed much better with their floating rate characteristic providing support.
- Whilst we do not think that current HY bond spreads fully reflect the risks of slowing economic growth, HY bonds and bank loan outlooks have become much more balanced. Our recent preference for bank loans, supported by the backdrop of expected US rate hikes, has worked well.
- US$ denominated emerging market (EM) debt has performed poorly so far this year as underlying US treasury yields have risen. They underperformed local EM debt which has a shorter duration and has proved more resilient with rallies in commodity-producing countries' currencies. EM debt valuations look cheap. However, the economic and geopolitical backdrop remains risky and so we are keeping defensively positioned for the time being.



Source: CS, ICE BofA



Source: EPFR Global, Morgan Stanley as of March 11, 2022.

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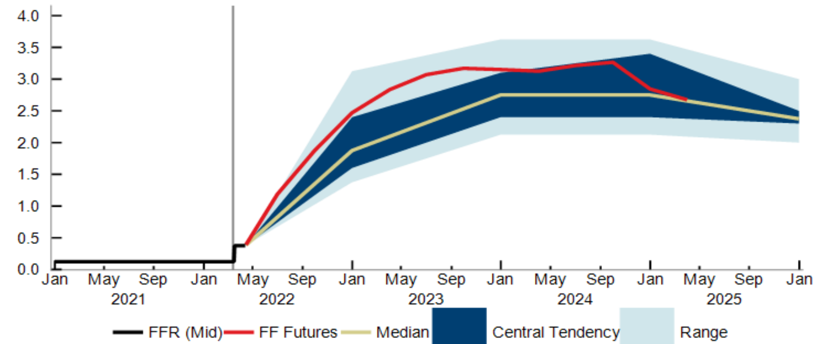
US Treasury Bonds
No longer obviously expensive

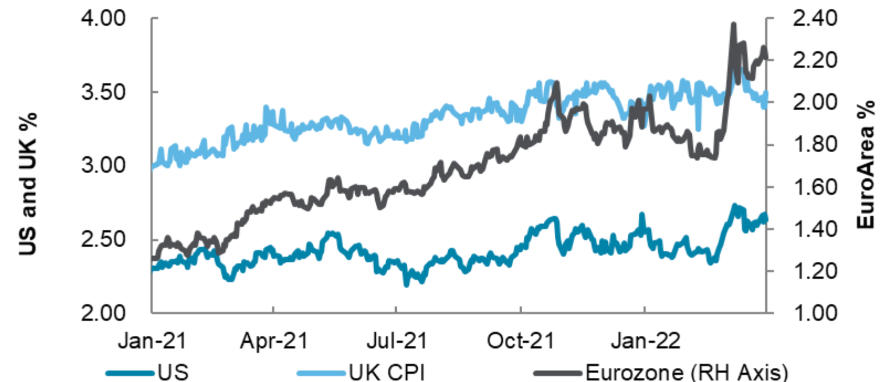
- We think that fixed sovereign bond yields, globally, are now starting to price in term premia: i.e. at some tenors the yield is slightly higher than our expectation of the average short-term rate over the life of the bond. Although in the shorter-term we think term premia, and hence yields, could rise more, we don't think US Treasury bonds are obviously expensive anymore.
- How many policy rate hikes necessary to reduce inflation is a big unknown, and markets are still grappling with the so-called 'terminal rate' level for policy rates (the level that they end up when the central bank is finished hiking). However, there is no guarantee that, even once central banks pause, that this terminal rate will be long-lasting. In recent times the longest the Fed has kept the target rate stable *after* a hiking cycle is 18 months (1997-98).
- The Russian attack on Ukraine has created a dilemma for markets. Whilst it raises global recession risks and may make central banks more cautious about hiking, it will also create further inflation. The issue is that isolated supply-side shocks shouldn't be inflationary in the medium-term. However, repeated ones risk starting to un-anchor inflation expectations.
- Forward-starting inflation swaps, which are sometimes used as a proxy for inflation expectations, have moved most dramatically in the Euro-Area, whilst CPI swaps in the US and UK seem to have peaked for now. These swap levels are now pricing in an environment where the central bank will achieve it's inflation target. (Note: the Federal Reserve targets the PCE deflator which tends to be less than the CPI).

US futures markets are now pricing in more rate hikes than the FOMC members are predicting



Source: Macrobond. Data as at 12 April 2022.

Forward-starting inflation swaps (5Yx5Y) suggest that markets believe inflation will be brought under control



Source: Bloomberg

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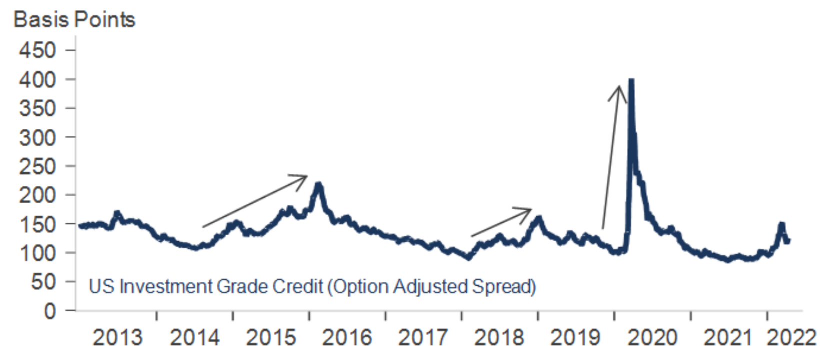
Investment Grade Credit

Damage so far limited but higher duration has raised sensitivity to rising rates

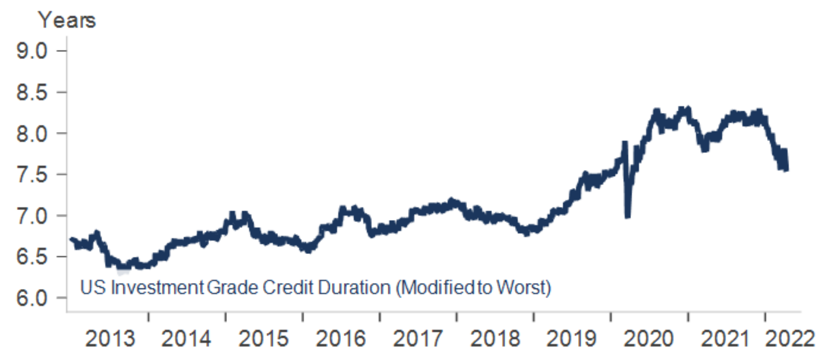
- As you would expect, the market uncertainty and volatility in the wake of the Ukraine crisis that began in late February has impacted credit in its wake. Initially, equities took more punishment, but credit soon followed.
- That said, the impact on credit markets has been relatively contained. Looking at investment grade credit, the pick up in credit spreads has been relatively modest compared to the previous drawdowns in recent years, and nothing like the sharp sell-off at the time of the Covid pandemic's onset in 2020. From the middle of March, a sizeable correction in spreads has also taken place.
- However, there are some important qualifiers to the moderate credit sell-off story. First, the damage to investors' returns has been larger than the spread-widening would imply due to the rise in duration of most investment grade portfolios thanks to the large fall in yields for the best part of the last decade (see chart on lower right). The rise in duration of most credit portfolios has meant that the recent rise in global bond yields has had more impact. Second, as a related development, the credit sell-off has been somewhat larger at longer durations, probably reflecting investors wanting to shorten duration and exposure to rising interest rates.
- It is still too early to be confident that investment grade credit markets have fully ridden out the dual challenges of the Ukraine crisis and rising interest rates.

Damage to credit from the Ukraine crisis has been mild compared to previous drawdowns



Source: ICE BofAML, MacroBond

Rising duration bigger problem when looking at total returns



Source: ICE BofAML, MacroBond

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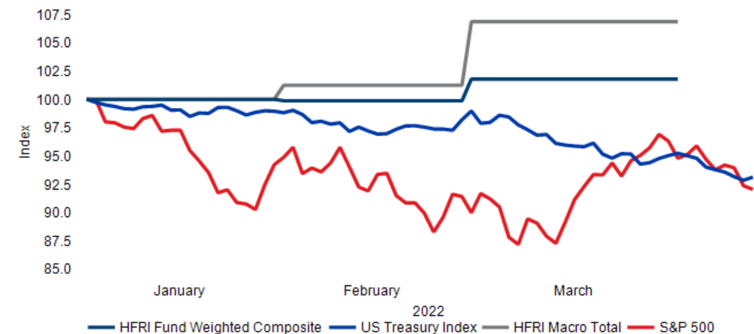
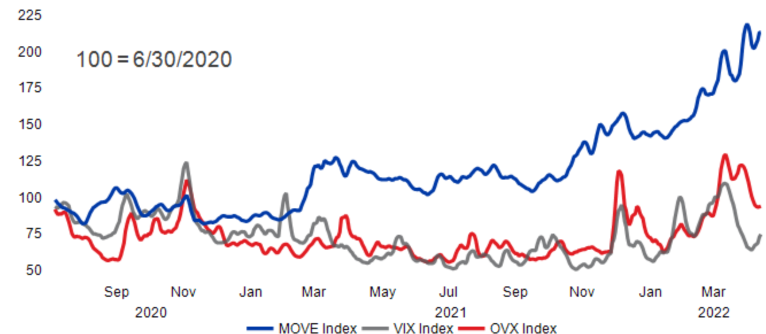
Alternatives
Hedge funds have performed well this year

- The interlocking shocks of Ukraine, higher inflation, and rapid central bank action repricing, have pushed equities and bonds to become more correlated. We investigate the historic relationship between equity and bond moves and comment on the portfolio risk that results from equity and bond market correlation on the next page.
- Portfolios that rely on equities and bond performance will have suffered through the first quarter, and will likely face a tougher time going forward. Gone are the days where simple beta exposure was a sure bet.
- However, this turmoil and volatility have created opportunities for asset classes that are not reliant on rising markets, for example hedge funds. Prior to the first quarter, these strategies lagged traditional 60% equity / 40% bond portfolio exposure, but they have more recently performed well as market volatility has picked up. The general increase in volatility has created opportunities in which these active strategies typically thrive. We believe that this improvement will not be isolated just to the first quarter but will continue over the medium term as markets adjust to the new realities of central banks quickly withdrawing liquidity.
- In addition to hedge funds, other alternatives which are less liquid than hedge funds are also likely to provide some diversification to portfolios – private real estate and infrastructure are two of our favoured choices at present.



Source: Bloomberg, 11 April 2022



Source: Bloomberg, CBOE VIX Index tracks equity market volatility implied by S&P500 Index options, ICE BofA MOVE Index tracks yield volatility implied by US treasury options, CBOE OVX Index tracks crude oil volatility implied by oil ETF options. As at 11 April 2022.

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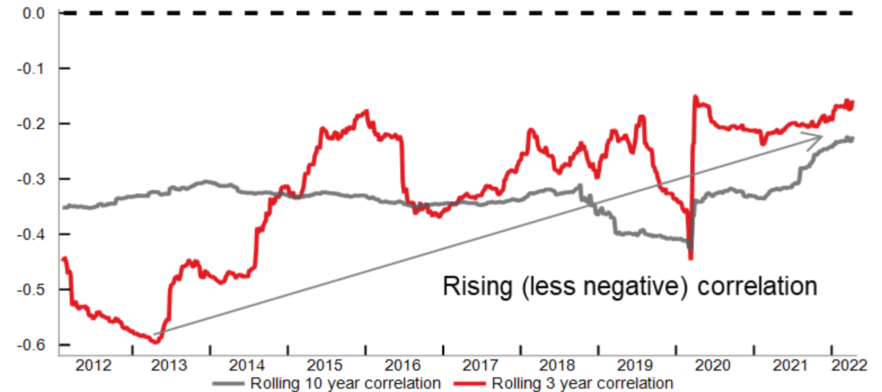
A Strong Case for Alternatives
Bonds don't always provide insurance

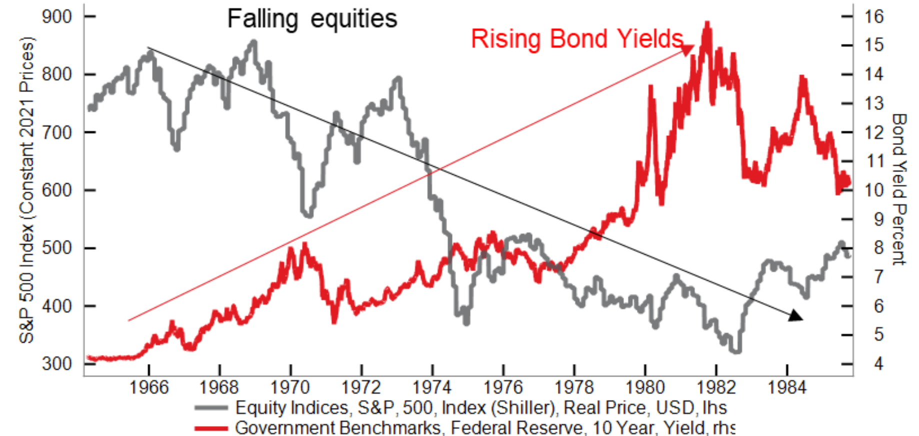
- Bond prices and equities tend to be negatively correlated when looking at daily or weekly returns over rolling periods of up to a decade. This means that in a week when equities go up, bond prices are more likely to go down (their yields rise) and vice versa. However, that correlation has been declining in recent years and is no longer significantly negative.
- We think that the correlation is dependent on whether market participants are more focused on inflation or growth, so the relationship is subject to 'regime shifts'.
- The bond/equity return correlation tends to be negative when markets are driven by bad prospects for the economy with lower profits, greater risk aversion, and lower equity prices, going hand in hand with interest rates cuts, which pushes bond prices higher. However, if the environment becomes inflationary or stagflationary (slower or negative growth accompanied by rising yields to fight inflation) that can create a bad environment for both equities and bond prices.
- Over the 1970s we saw a positive correlation between equity and bond prices. Bond yields tracked up and, with a slight lag, equity prices fell in real (after inflation) terms. We don't think the 1970s will repeat exactly. We see inflation topping out at much lower levels in this cycle, and bond yields won't reach anywhere near the highs of the 1980s. However, like the 1970s it is possible that further bouts of equity weakness may be accompanied by rising bond yields, particularly if it starts to look like much higher policy rates will be necessary to bring down inflation.

Short-term equity/bond return correlation has become less negative



Source: Macrobond. Data as at 12 April 2022

Rising bond yields in the 1970s caused equities to slide



Source: Macrobond. Data as at 12 April 2022

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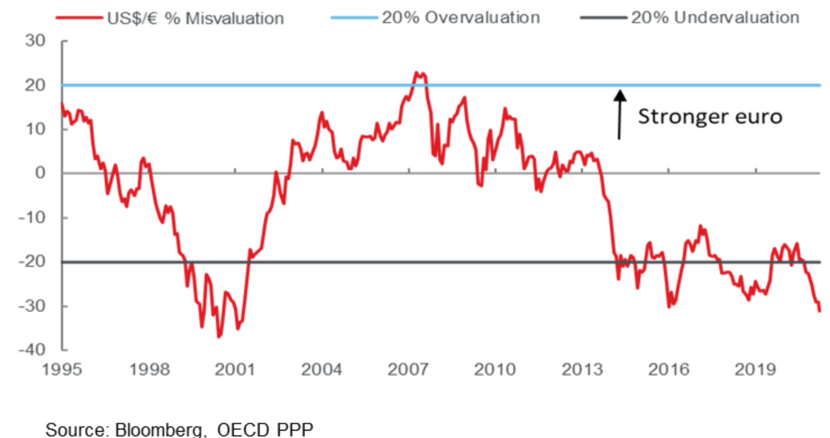
Currencies
Weak US dollar view still on hold

- The US dollar appreciated to almost $1.08 against the euro in reaction to the Russian invasion of Ukraine. This exchange rate corresponds to both 2020 Covid panic support levels and a key euro uptrend line.
- This reaction extended the US$'s 2021 rally vs € to more than a 10% move. The rally started when the Fed turned more hawkish in June and Fed hawkishness has increased since the war in Ukraine given the need for rate hikes to control boosted inflation. Apart from expectations of more interest rate hikes in the US than elsewhere, US growth is less negatively impacted by the war than other regions and particularly the Eurozone, which all acts to support the dollar.
- Having said that, we take the stance that the dollar's level now reflects these different interest rate and growth outlooks and therefore will not be supported much further, with speculative positioning already very positive on the dollar. An expensive dollar valuation and a deteriorating US current account support our conviction that the dollar will rather weaken over the medium-term. Tighter Eurozone fiscal integration triggered by Covid and then the war in Ukraine also reduce structural Eurozone worries.
- It is risky to position for dollar weakness given the war backdrop and the dollar's safe haven role and therefore we will delay moving to a negative dollar view against the euro and sterling for another quarter.
- The euro and sterling have performed similarly year-to-date but we are anticipating that the euro will be stronger than the pound once Ukrainian tensions reduce. Emerging market currencies have been under some pressure from geopolitical risks and risk-off sentiment but are attractive over the medium term too.



Global Equities Structure Review

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Guiding factors to construct the Public Equity portfolio

Factor	Description
Return Potential	▪ Maintain focus of delivering positive returns. Use various types of investment strategies ▪ Returns can be measured in either total return and/or excess returns/alpha space
Risk Mitigation / Diversification	▪ Risk can be measured in either absolute or relative (tracking error) terms ▪ Lower the risk as overall risk budget decreases ▪ Use various types of investment strategies with uncorrelated returns and complementary styles
Fee Efficiency	▪ Create a portfolio that will deliver the returns at a reasonable fee
Liquidity	▪ Ensure sufficient liquidity (and lower expected transaction costs), especially for corporate pension plans advancing down the glide path
Category / Vehicle Fit	▪ Investment strategies/vehicles that are appropriate for the size of the equity portfolio ▪ Fewer managers, use of funds for passive and factor portfolios (for corporate pension plans, source of de-risking across the glide path)
Investment Horizon	▪ Be cognizant of the dollar-weighted investment horizon of the equity portfolio
Other	▪ Take into account additional investor-specific circumstances/preferences not captured above (e.g., company stock position, etc.)

Best Thinking on Active Management

- Achieving success by using active management is difficult
  - Markets are generally efficient
  - Implementation through passive is prudent

- Success in using active management takes patience
  - Multi year endeavor
  - Will underperform during different parts of a market cycle

- Active management is best deployed in the broadest opportunity set with the fewest constraints
  - Higher levels of tracking error
  - Concentrated, best ideas portfolios
  - More ambiguous investment styles
  - No geographical constraints

Expected Returns and Alpha Expectations for Equity

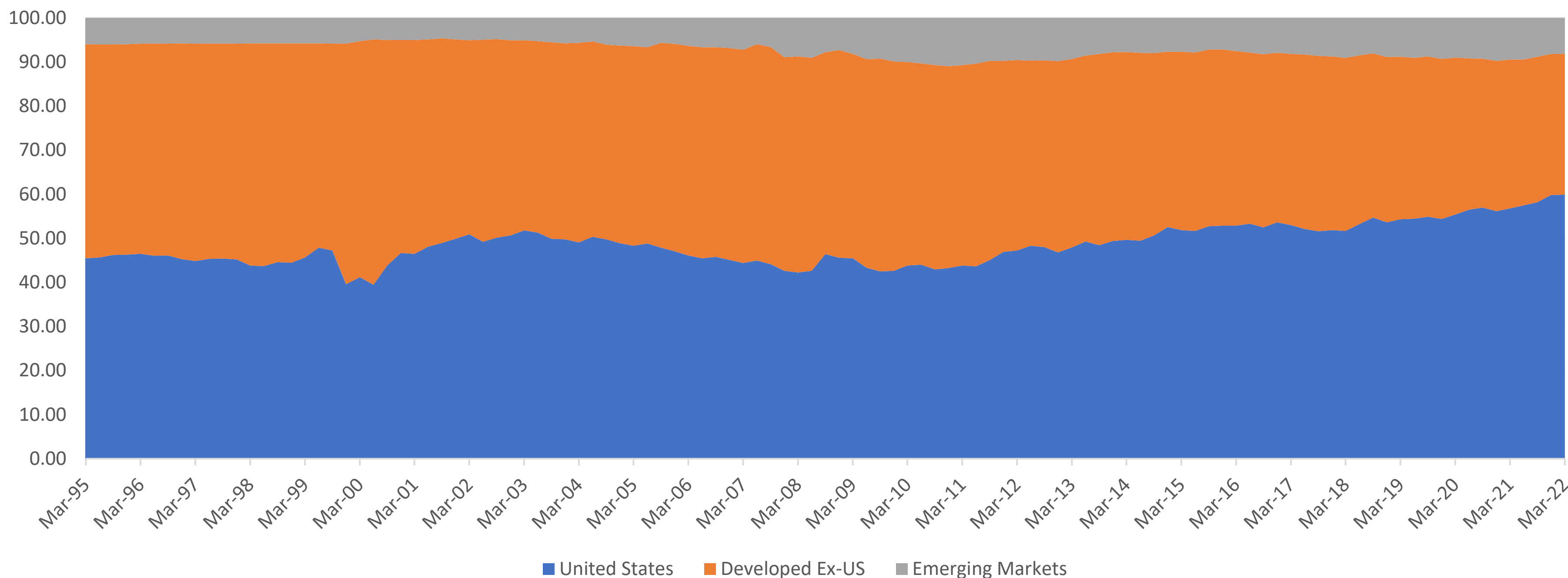
Asset Class	Capital Market Assumption	Alpha Expectation	Expected Volatility
Global Equity (unconstrained)	6.4%	1.25%	18.5%
Non-US Equity	6.6%	1.00%	20.0%
Emerging Markets	7.2%	1.00%	27.0%
US Large Cap	5.6%	0.25%	17.0%
US Small Cap	5.8%	0.25%	23.0%

Capital market assumptions and expected volatility are derived from 10-year 1Q2022 Aon Capital Market assumptions.

Alpha expectations are excess return expectations for buy-rated managers, net of fees. Assumptions are periodically reviewed and adjusted.

Expected returns are using AIUSA Q1 2022 10 Year Capital Market Assumptions (CMAs) as of 12/31/2021, which are projections about the future returns of asset classes. For asset classes that can be implemented passively, which includes most public assets, alpha and active management fees are not included in the return expectations. For asset classes that can only be implemented actively, such as hedge funds and private assets, we assume alpha and higher active manager fees. Expected returns are geometric (long-term compounded). 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. AIUSA's advisory fees are described in Part 2A of AIUSA's Form ADV. Not a guarantee of future results. See appendix for capital market assumptions disclosure pages.

Historical US/Non-US Equity Allocations
MSCI ACWI IMI Index

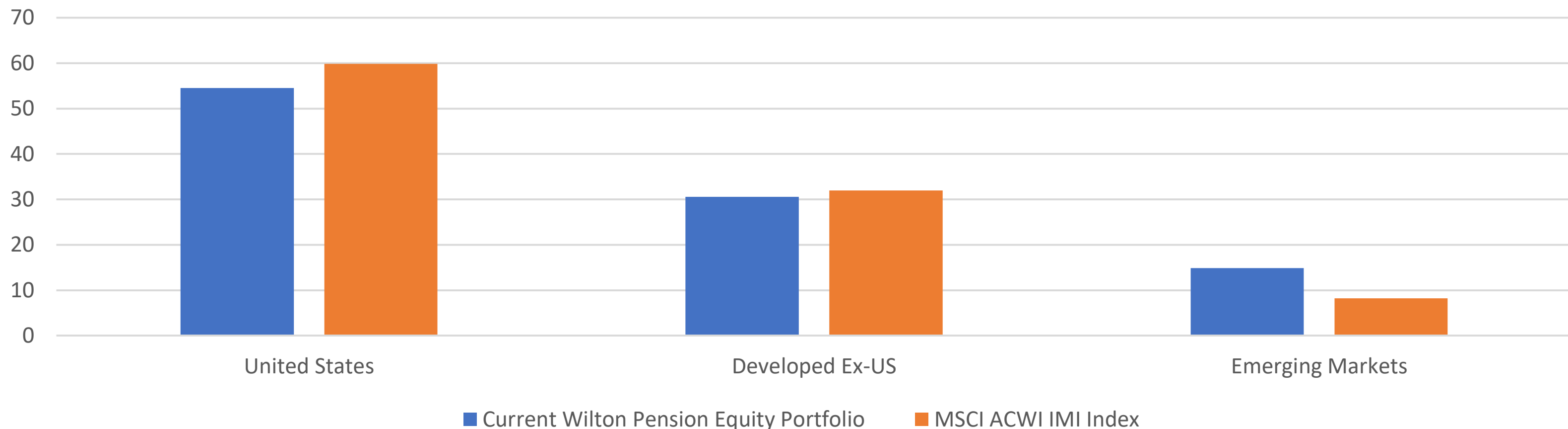


	6/30/1994	3/31/1995	3/31/2005	3/31/2009	3/31/2015	3/31/2022
United States	45%	45%	48%	45%	52%	60%
Developed Ex-US	49%	49%	45%	46%	40%	32%
Emerging Markets	6%	6%	6%	8%	8%	8%
	100%	100%	100%	100%	100%	100%

Source: Morningstar

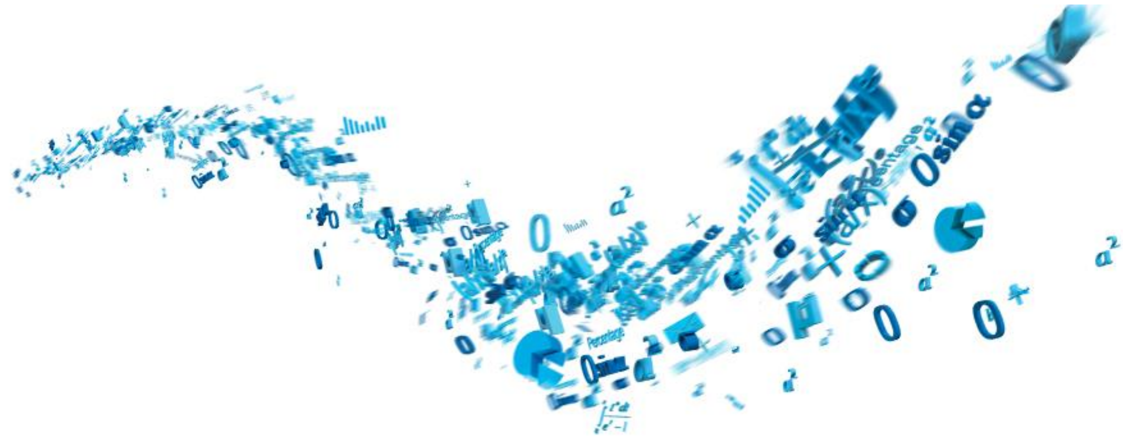
Portfolio Comparison
As of March 31, 2022

- The Town of Wilton Target Portfolio is underweight US Equity and overweight Emerging Markets versus the MSCI ACWI IMI



	Wilton Pension Equity Portfolio	MSCI ACWI IMI Index
United States	55%	60%
Developed Ex-US	31%	32%
Emerging Markets	15%	8%
	100%	100%

Source: Morningstar



Why Consider Shifting Target Allocation to an Overweight to the US over the Long-Term

Forward Looking – Where is the advantage?

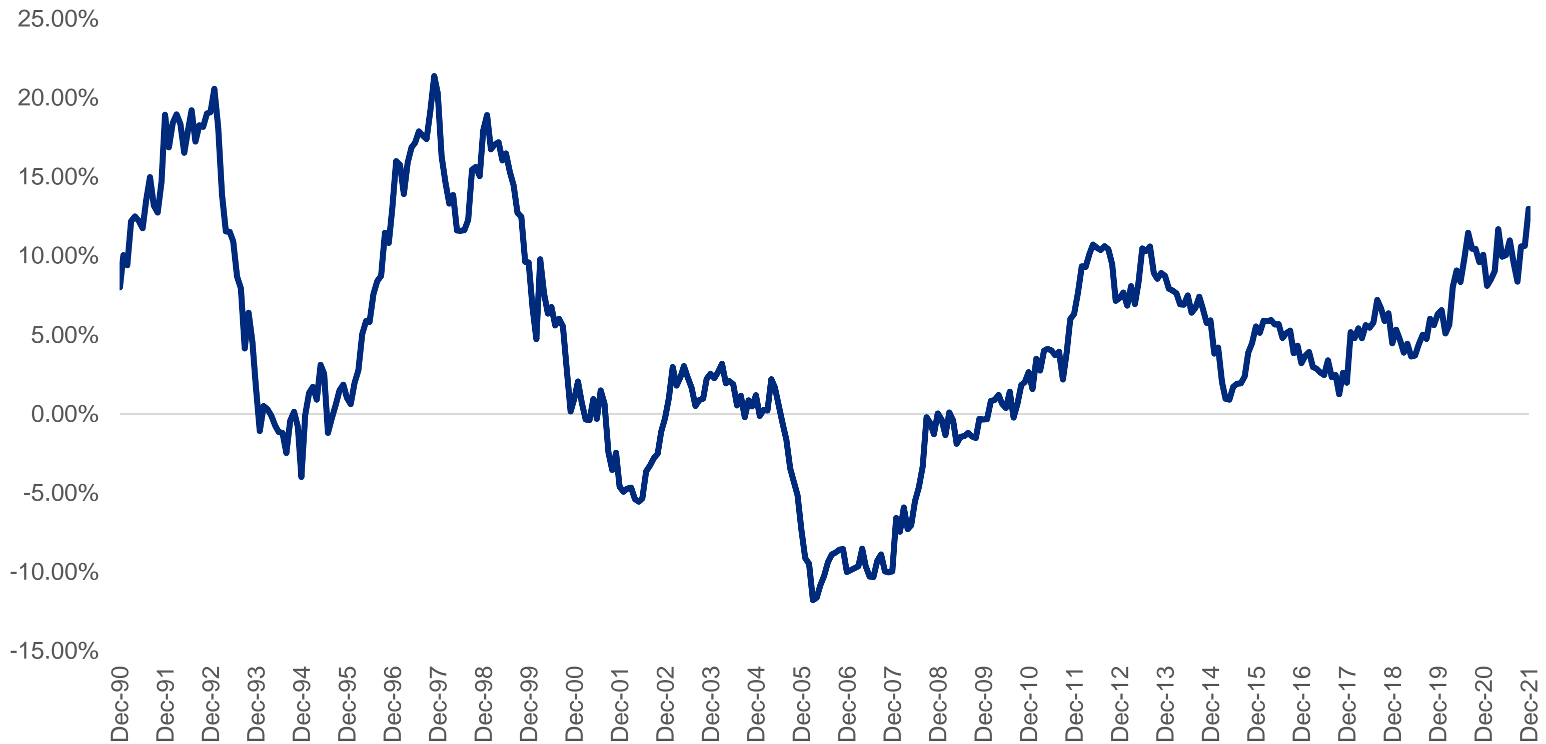
		Who has the edge?
Innovation		*US*
Stock fundamentals (Current Level)	*Sustainable ROE & Margins*	*US*
Stock fundamentals (Forward/Directional)	*Sustainable ROE and Margins*	=
Macroeconomic Advantage		*US*
Macroeconomic Forward/Directional		=
Currency Directional		*Non-US*
Sector Composition Current Advantage		*US*
Sector Composition Forward/ Directional		=
Valuations versus Fundamentals		=

- There are fundamental reasons why the US equity market could continue to outperform the Non-US equity markets
  - Innovation
  - Monetary policy
  - Corporate strength
  - Breadth of market
  - Currency movements

Fundamental Reasons for US Continued Outperformance

- **Innovation** and continued allocation of capital by private equity investors
  - Allow flexibility to have equity investors allocate a portion of their portfolio to the private markets to take advantage of late stage private companies
  - Sector make-up of the US equity markets in the near term
    - Favoring innovative areas like technology and healthcare
- **Monetary and fiscal policy** designed to put a greater emphasis on the stock market
  - Stock market's results are less tied to the general health of the economy
- Generally, US **corporate strength** is at record levels
  - US companies generally have higher profit margins and have exceeded their costs of capital
  - More dynamic labor markets in the US
  - Greater culture of stock buybacks
- The **breadth** of the US equity market is significant
  - While the US equity market has benefited from the growth style, the market has a high representation of value stocks that are selling at attractive valuations that will also benefit if a growth is out of favor
  - All sectors are represented in the US equity market
    - Large cap and small cap

Performance – US vs Non-US



Source: MSCI

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. Please refer to Appendix for Index Definitions and other General Disclosures.

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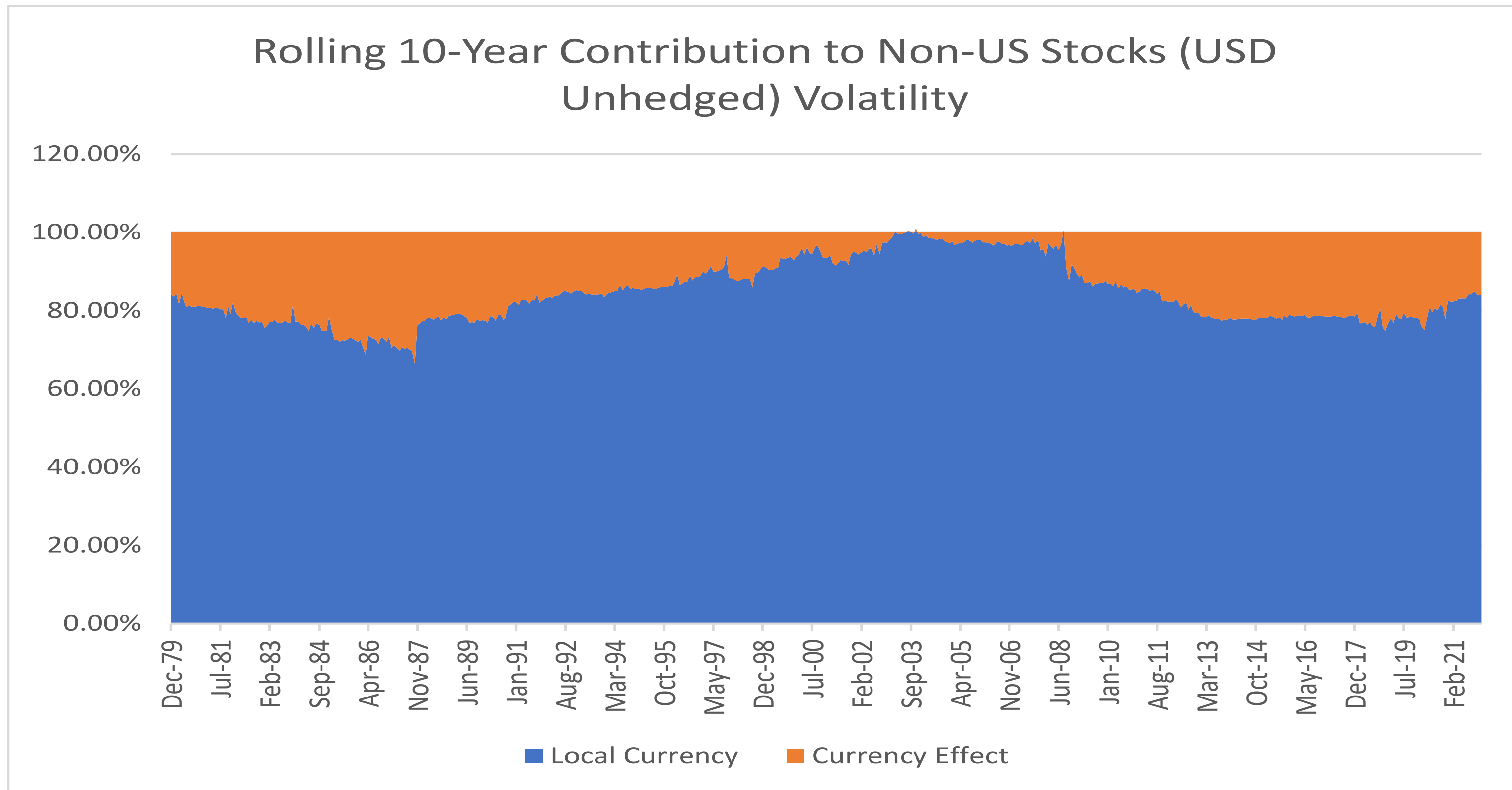
Long term results and currency – Impact for global mandates

Currency movements have accounted for about 15% of non-US stock volatility on average



Source: MSCI

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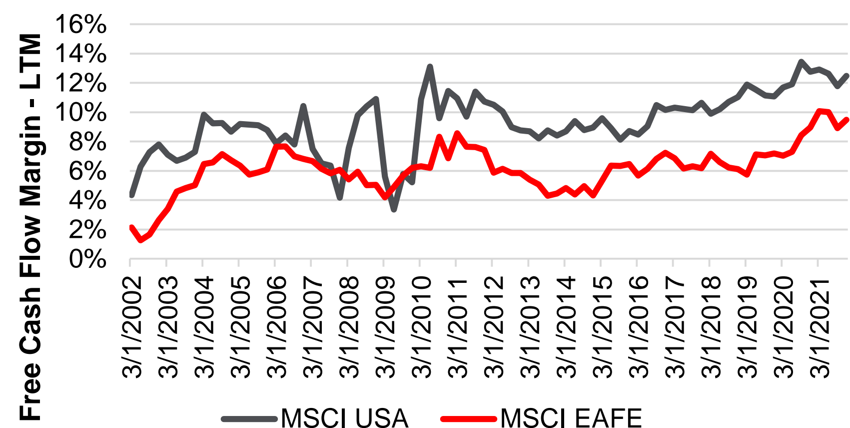
US – Reasons why it outperformed

- **Attribution Analysis**
  - US sector make-up versus MSCI EAFE
    - More tech in US which has performed well until recently
    - More financials and energy in MSCI EAFE, which has performed poorly
  - Individual stock performance
    - Strong returns from a concentrated group of US securities.
    - Rise in profits for US corporations relative to GDP
    - FCF margin increase versus non-US companies

Share of US Corporate Profits to GDP (as of 12/31/2021)

Source: Bureau of Economic Statistics

US Companies Generate Higher Cash Flow (as of 12/31/2021)

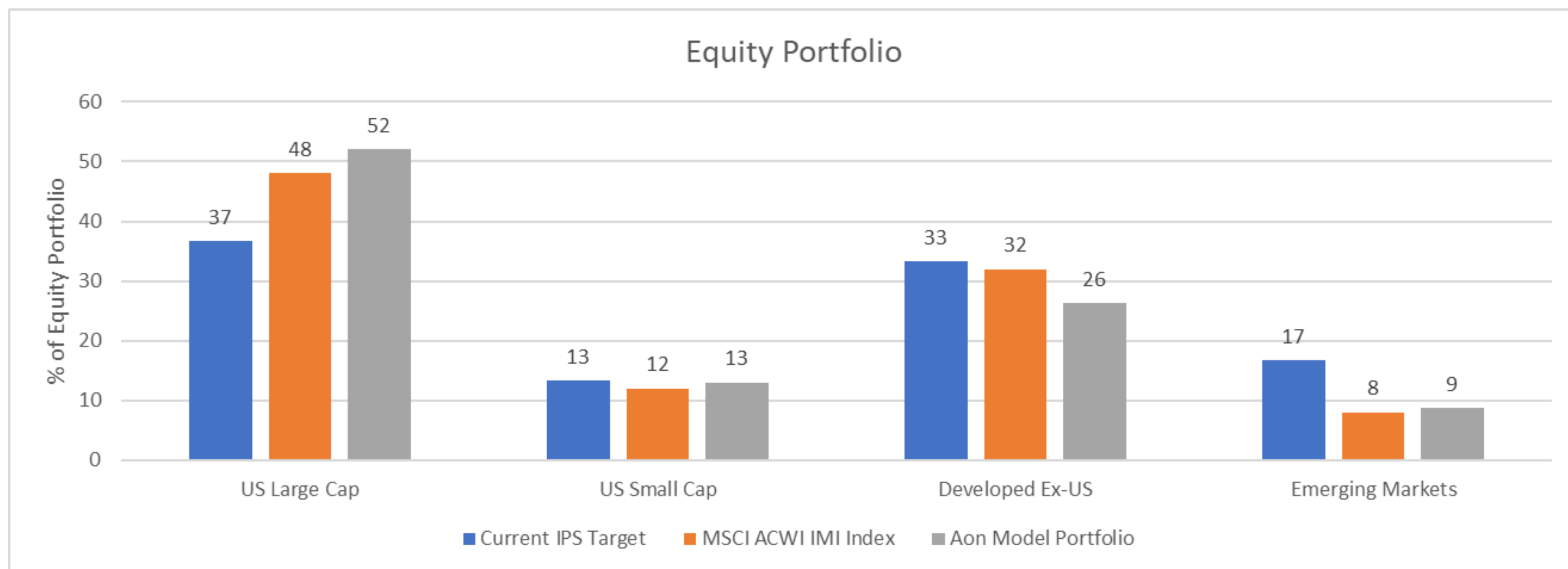


Source: Factset

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. Please refer to Appendix for Index Definitions and other General Disclosures.

Portfolio Comparisons

- Aon's Model Portfolio for Total Public Equity is 65% US Equity and 35% Non-US Equity



	Equity Portfolio Expected Returns		Total Pension Plan Expected Returns	
	10 Year	**30 Year**	**10 Year**	**30 Year**
Current IPS Target Weights	6.57%	7.15%	5.82%	6.43%
MSCI ACWI IMI Index	6.33%	6.92%	5.67%	6.27%
Model Portfolio	6.29%	6.89%	5.64%	6.25%

Expected Return Calculations using Aon's 1Q22 Capital Market Assumptions

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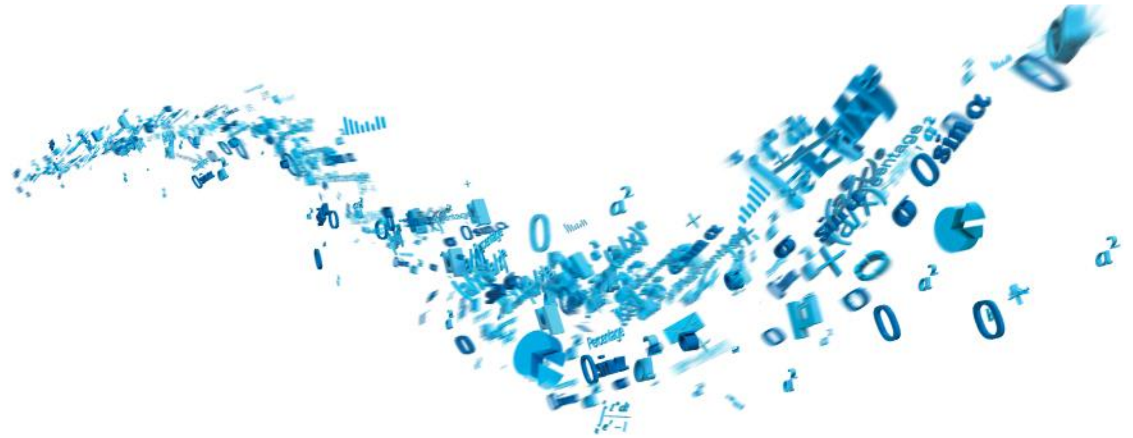

Legal Consulting & Compliance Update

AON

Second Quarter 2022

Aon Quarterly Update

Retirement Legal Consulting & Compliance

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8 Proposed RMD Rules Bring Changes to 403(b) Plans

9 Quarterly Roundup of Other New Developments

Editor's Note

The return of spring brings our readers a fresh bounty of trending topics, starting with the Department of Labor's (DOL's) view on plan investment in cryptocurrencies, a notable Supreme Court case involving defined contribution (DC) plans, and the latest in the actuarial equivalence cases.

For well over a decade, cryptocurrencies have been entering (and will continue to enter) the investment marketplace, making news (both positive and negative). Thus, it was only a matter of time before the DOL announced its views on cryptocurrencies as potential investments for DC plans, specifically the fiduciary concerns raised with cryptocurrency investments. We open this edition reporting on the recent DOL Compliance Assistance Release No. 2022-01 in which the DOL serves warning to DC plan fiduciaries to exercise extreme care in pursuing cryptocurrencies as investment options in their plans, with an additional and very specific warning that the DOL will investigate DC plans that offer these as plan investments. With that said, we are aware at this time of at least one major DC plan recordkeeper that announced that it will offer cryptocurrency investments to DC plan participants.

Our next two articles update our readers on the Supreme Court case *(Hughes v. Northwestern University)* and the status of the litigation challenging the actuarial equivalence factors used by the retirement plans named in the suits. The first article reports on the Supreme Court's decision to send back the *Hughes* case (an excessive fees case) to the lower court for reconsideration whether the plaintiff alleged facts which adequately show that a plan fiduciary failed to satisfy the duty of prudence with respect to regularly monitoring plan investments (and fees). Since our last update in the Third Quarter 2021 issue of the *Quarterly Update,* more actuarial equivalence cases have been filed. In this issue we provide you up-to-date information on the status of these cases with an easy-to-read summary at the end of the article.

This issue also includes an article reporting on the case of *Johnson v. Ballad Health* which serves as a reminder to plan fiduciaries of the importance of drafting and maintaining well-written summary plan descriptions (SPDs). Since courts will continue to look for ways to grant or extend benefits to plan participants based on poorly worded SPDs beyond what is written in plan documents, we provide this important update to our Third Quarter 2020 issue of our *Quarterly Update.*

On February 24, 2022, the Treasury Department and Internal Revenue Service issued proposed regulations on required minimum distributions (RMDs) impacting tax-qualified retirement plans, individual retirement accounts (IRAs), and 403(b) plans. We split our coverage of the proposed regulations into two articles: one covering tax-qualified retirement plans (more specifically DC plans, such as 401(k) plans) and IRAs and the other regarding 403(b) plans as our readers might sponsor one type of retirement plan but not both.

If you have any questions or need any assistance with the topics covered, please contact the author of the article or Tom Meagher, our practice leader.

Susan Motter
Associate Partner

DOL Warns 401(k) Plan Fiduciaries About Crypto Risks

by Himmat Dhaliwal and Mark Manning

The Department of Labor (DOL) recently issued Compliance Assistance Release No. 2022-01 with a warning to plan fiduciaries to "exercise extreme care" if offering cryptocurrencies within a defined contribution (DC) investment menu, including self-directed brokerage windows. This warning comes as the popularity and curiosity of cryptocurrencies continue to rise.

The Compliance Assistance Release raised specific concerns from the DOL due to the significant risks that cryptocurrencies may pose, including the risk of fraud, theft, and loss. Specifically, the DOL outlined five concerns:

1. **Speculative and Volatile Investments.** The Securities and Exchange Commission recently cautioned that an investment in cryptocurrencies is "highly speculative." Cryptocurrencies have experienced high levels of price volatility which can be harmful to participants.
2. **Challenges for Plan Participants to Make Informed Decisions.** Participants could easily be drawn to cryptocurrencies hoping for significant gains. Additionally, most participants are not equipped to fully understand the risks and other characteristics of cryptocurrencies.
3. **Custodial and Recordkeeping Concerns.** Cryptocurrencies are not held and record kept like traditional funds in a DC plan. They are currently held in digital wallets, which can be vulnerable to theft, or through derivatives such as futures.
4. **Valuation Concern.** The valuation of cryptocurrencies remains challenging, and there is no agreed-upon model to value these securities. Additionally, intermediaries may not adopt consistent accounting methods.
5. **Evolving Regulatory Environment.** Fiduciaries need to consider how regulatory requirements would apply to an offering of cryptocurrencies. It is important to note that these investments are not registered, do not have the same disclosures as traditional funds and trusts, and may often be used in illegal activity.

Cryptocurrencies emerged in early 2009, and since their introduction as an asset class, over 18,000 new cryptocurrencies have emerged. The market capitalization of these digital assets is worth over $2 trillion. Apart from being completely virtual, cryptocurrencies are different from other currencies because they use blockchain technology to ensure that all transactions are secure and verifiable.

Interestingly, the banking and financial industries have signaled some acceptance of cryptocurrencies. Several hedge funds have emerged, attracting significant inflows, and both Goldman Sachs and JP Morgan have also reopened their respective cryptocurrency trading desks. Currently, cryptocurrencies can be bought by individuals on exchanges and held in digital wallets or purchased through the futures market. Lastly, several exchange traded funds (or ETFs) and at least one mutual fund are available whose values are based on the price of cryptocurrencies through investments in futures or companies involved in developing or using blockchain technologies.

However, extreme volatility is the key barrier to wider adoption and makes the market appear far too speculative and immature from a fiduciary perspective. Furthermore, the potential for government and central bank intervention to limit the circulation of cryptocurrencies acts as a further barrier. Another key fiduciary risk is that the cryptocurrency market boom has led to a rise in "pump and dump" scams. These scams focus on artificially increasing the price of a specific cryptocurrency by attracting demand, usually from retail investors, and then selling at the newly inflated price. Even though the underlying blockchain technology has real-life uses, it is still difficult to make a persuasive case for investors to engage in today's cryptocurrency markets.

As a result of the concerns from the DOL and given the risks associated with cryptocurrencies, the Employee Benefits Security Administration will be conducting a review of plans that make cryptocurrency investments available to participants. Plan fiduciaries that make cryptocurrencies or related securities available to plan participants can be expected to be questioned about how they have fulfilled their fiduciary responsibilities of prudence and loyalty with regard to these investments. Additionally, without further guidance, plan fiduciaries will potentially need to determine if a brokerage window that allows investments in products whose value is derived from cryptocurrencies remains appropriate.

While exposure to cryptocurrencies in DC plans is likely non-existent in a core investment menu, there might be exposure to cryptocurrencies within a self-directed brokerage window. Aon Investments USA Inc. consultants are available to discuss how this might impact your plan. We will continue to monitor and report on this evolving matter.

Please see the applicable Disclosures and Disclaimers on page 13.

Lots of Choice Does Not Save Imprudent Plan Investments from Lawsuit

by Dan Schwallie

The Supreme Court vacated (cancelled) the decision of the Seventh Circuit Court of Appeals in *Hughes v. Northwestern University.* As reported in the **Fourth Quarter 2021** issue of our *Quarterly Update,* participants alleged that the University's 403(b) plan included investments with excessive investment fees and allowed excessive recordkeeping fees. The district court had granted the University's motion to dismiss the case, and the Seventh Circuit affirmed the dismissal. The Seventh Circuit found that similar low-cost funds were included in the wide range of options available to participants for investment under the plan and that there was no requirement for a sole recordkeeper. Plaintiffs appealed the Seventh Circuit decision to the Court. The Court likely accepted the appeal due to conflicting decisions from the Third and Eighth Circuits on virtually identical allegations.

The Court found the reasoning of the Seventh Circuit "flawed" because the Seventh Circuit had found, as a matter of law, that the availability of lower-cost institutional mutual fund shares along with higher-cost retail mutual fund shares for the same investments eliminated any concerns that the other plan options were imprudent. Applying the Court's holdings in *Tibble v. Edison,* in which the Court had concluded that a plan fiduciary has a continuing duty—separate and apart from the duty to exercise prudence when initially selecting investments—to monitor and remove imprudent trust investments, the Court noted that the Seventh Circuit focused on a plan fiduciary's obligation to provide a diverse "menu" of investment options, but that the Seventh Circuit erred in relying on participants' ultimate investment choices to excuse allegedly imprudent decisions by the University's plan fiduciaries. The Court noted that, "even in a defined-contribution plan where participants choose their investments, plan fiduciaries are required to conduct their own independent evaluations to determine which investments may be prudently included in the plan's menu of options." The Court further stated that, "If fiduciaries fail to remove an imprudent investment from the plan within a reasonable time, they breach their duty."

The Court also appeared to reject the Seventh Circuit's conclusion that "plan participants had options to keep the expense ratios (and, therefore, recordkeeping expenses) low" such that "[t]he amount of fees paid were within the participants' control." The Court remanded (sent back) the case to the Seventh Circuit to consider whether the participants have plausibly alleged a violation of the duty of prudence as articulated in *Tibble.*

The Court's decision strongly suggests that a plan sponsor should not rely on providing a large number of investment choices to participants as a way to reduce or eliminate the employer's (or other plan fiduciary's) responsibility to continually review the prudence of particular investment options offered under a plan. Although the case specifically concerns a 403(b) plan, which was sponsored by a not-for-profit institution, this Supreme Court decision has important implications for any fiduciary of defined contribution plans subject to the Employee Retirement Income Security Act of 1974, particularly considering the ongoing wave of excessive fee lawsuits that have been filed. It will be important to follow how the lower courts interpret the Court's decision in the *Hughes* case when evaluating future fiduciary breach claims.

Aon's Retirement Legal Consulting & Compliance consultants, along with Aon Investments USA Inc. consultants, are available to consult with plan sponsors on the implications of this Court decision as applied to current plan investments and the establishment of appropriate fiduciary processes to monitor plan investments and related fees.

Actuarial Equivalence Lawsuits: Current State of Play

by Jennifer Ross Berrian

As of the date of this *Quarterly Update,* 17 lawsuits have been filed against 14 different plan sponsors (two against AT&T, Rockwell Automation, and UPS) challenging the actuarial equivalence factors used by pension plans to calculate optional forms of benefits and early retirement reductions. Four new cases have been filed since our last report in the **Third Quarter 2021** issue of our *Quarterly Update.* Eight cases are ongoing, one has reached a tentative settlement, and eight have been dismissed.

New Cases

There have been four new cases filed since our last update. These cases include the following: *DuVaney v. Delta Airlines* (flat conversion factors adjusted based upon the age difference between the participant and the beneficiary); *Duke v. Luxottica* (1971 GAM/7%); *Urlaub v. Citgo* (1971 GAM/8%); and a new case filed against UPS, *Brown v. UPS* (1983 GAM/6% with others for grandfathered groups). All four cases are currently pending.

Pending Cases

In addition to the three cases listed above, there are currently four more active cases (five if you include the case that has reached a tentative settlement but has not received final court approval). Interesting highlights from these cases include the following.

- ***Belknap v. Partners Healthcare*** (1951 GAM projected to 1960/7.5%). The district court judge granted the defendants' Motion for Summary Judgment on March 4, 2022, and dismissed the case. Among other factors used to support the dismissal, the judge ruled that:
    - The defendants were properly following the terms of the plan when calculating benefits;
    - The Employee Retirement Income Security Act of 1974 (ERISA) contains no reasonableness requirement and doesn't specify factors to be used when calculating actuarially equivalent benefits;
    - If Congress had intended Section 204(c)(3) of ERISA (relating to determining the actuarial equivalence of an accrued benefit) to require actuarial equivalence to be calculated using reasonable actuarial assumptions, or in some other specific way, it could have done so; and
    - Courts should not be imposing a reasonableness standard that Congress chose to omit.

Unsurprisingly, the plaintiffs appealed the decision to the First Circuit Court of Appeals on March 16, 2022. This case continues, and we should hear more in the coming months.

- ***Masten v. MetLife*** (1971 GAM/6%). On February 21, 2022, the plaintiffs moved to certify a class for the case. The defendants will most likely object. The plaintiffs' proposed class includes all participants and beneficiaries who began receiving benefits from the plan that meet all of the following conditions:
    - They commenced receiving benefits on or after January 1, 2013;
    - Benefits were payable in the form of a joint and survivor annuity with survivor benefits between 50% and 100% of the participant's benefit;
    - Benefits were calculated entirely using the Traditional Part formula; and
    - Benefits were not calculated using two specific plan sections.
- ***Scott v. AT&T*** (tabular factors); ***Berube v. Rockwell Automation*** (1971 GAM/7%, UP-1984/6%, and tabular factors). The action continues in these two cases. Motions for Class Certification should be filed in both cases within the next several months.

Tentative Settlement

- ***Herndon v. Huntington Ingalls*** (1971 GAM/6%). The preliminary settlement agreement was approved by the court on January 31, 2022. The parties agreed to settle for $2.8M, minus attorneys' fees and costs, to be distributed pro rata to class members via increased future payments. The class includes all people commencing joint and survivor benefits on or after May 20, 2013, and before January 18, 2020. The plaintiffs' attorneys have requested attorneys' fees of $700,000 (25% of settlement amount) and costs and litigation expenses of $305,376.98. This case will not be over until the settlement (and requested attorneys' fees and costs) gets final approval from the district court judge. The final settlement hearing to either approve or deny the settlement and the amount of fees and costs is scheduled for May 9, 2022.

Dismissed

The following cases have been finalized and dismissed by the relevant court: *Cruz v. Raytheon* (tabular factors, 1971 GAM/PBGC interest rate, and 1971 TPF&C/7%); *Thorne (Smith) v. U.S. Bancorp* (tabular factors for early retirement reductions); *Brown v. UPS* (1983 GAM/6% and others for grandfathered group); *Torres v. American Airlines* (UP-1984/5%); *DuBuske v. PepsiCo* (tabular factors); *Duffy v. Anheuser-Busch* (UP-1984/6.5% or 7%); *Eliason v. AT&T* (tabular factors); and *Smith v. Rockwell Automation* (1971 GAM/7% and UP-1984/6%).

As the cases continue to wind their way through the court system, we took this opportunity to summarize the cases and their respective status to provide you a quick and efficient way to keep up to date with this litigation. With three new cases filed towards the end of 2021, it appears as if this litigation is going to continue until the courts finally decide a case on the merits (and all appeals are exhausted). While the dismissal of the case against Partners Healthcare was favorable to plan sponsors, that decision was immediately appealed, and it's unknown how the appellate court will decide the issues. We will continue to keep you updated.

Plan Sponsor	Date Filed	Mortality Table / Interest Rate	Chief Complaint	Current Status
NEW CASES FILED IN 2021 AND 2022				
Citgo	8/3/2021	1971 GAM / 8%	Option factors	Ongoing
Luxottica	11/1/2021	1971 GAM / 7%	Option factors	Ongoing
Delta Airlines	12/10/2021	Tabular factors	Option factors	Ongoing
UPS (two separate suits)	4/27/2022	1983 GAM / 6% Others for grandfathered groups	Option factors	Ongoing; initial case dismissed
PENDING CASES				
MetLife	12/30/2018	1971 GAM / 6%	Option factors	Ongoing
AT&T (two separate suits)	10/12/2020	Tabular factors	Option factors; early retirement factors	Ongoing; initial case dismissed
Rockwell Automation (two separate suits)	12/2/2020	1971 GAM / 7% UP-1984 / 6%	Option factors	Ongoing; initial case dismissed
Partners Healthcare	6/28/2019	1951 GAM / 7.5%	Option factors	District Court case dismissed; ruling appealed
TENTATIVE SETTLEMENT PENDING COURT APPROVAL				
Huntington Ingalls	5/20/2019	1971 GAM / 6%	Option factors	Preliminary settlement ($2.8M present value)
DISMISSED/SETTLED CASES				
Raytheon	6/27/2019	1971 GAM / 7% 1971 TPF&C / 7% Tabular factors	Option factors	Settled for $59M (40% of plaintiff's demand for benefit increases less attorneys' fees and costs)
American Airlines	12/11/2018	UP-1984 / 5%	Option factors	Settled after class action denial; case dismissed
PepsiCo	12/12/2018	Tabular factors	Option factors	Case dismissed
Anheuser-Busch	5/6/2019	UP-1984 / 6%	Option factors	Case dismissed
U.S. Bancorp	12/14/2018	Tabular factors	Early retirement factors	Case dismissed

Poorly Drafted SPD Language Can Result in a Fiduciary Breach

by Tom Meagher

While it has been long settled that the terms of the plan document should control any questions relating to plan benefits, the courts will continue to look for ways to extend coverage to plan participants based on poorly worded summary plan descriptions (SPDs). While we touched on this topic more generally in the **Third Quarter 2020** issue of our *Quarterly Update,* the concern is continuing and is underscored based on this recent case.

In the case of *Johnson v. Ballad Health* (E.D. Tenn. Jan. 24, 2022), the employee elected to participate in the employer's long-term disability plan. One of the provisions of that plan permitted an employee to "buy up" a benefit from 60% to 100% of covered monthly earnings, which the employee did. The employee subsequently filed for a disability benefit and sought a benefit equal to 100% of covered monthly earnings.

Since the long-term disability plan document had language that would serve to clarify that the buy-up option was limited to an overall benefit of 60% (and would not result in a 100% benefit), the court applied an "arbitrary and capricious" standard (meaning the court would defer to the plan administrator if the plan administrator has acted reasonably in interpreting the plan) and held for the employer.

However, that is not the end of the story. The Employee Retirement Income Security Act of 1974 requires that an SPD be written in a manner calculated to be understood by the average plan participant and that it be sufficiently accurate and comprehensive to reasonably apprise a participant of his or her rights and obligations under the plan. The court in *Ballad Health* went on to note that the SPD is therefore a fiduciary communication to plan participants and that the information provided in the SPD is a fiduciary activity. Thus, the court reasoned that an employer who furnishes an SPD that is misleading as to the benefits it intends to provide breaches fiduciary duties owed to participants, regardless of whether the statements were made intentionally or negligently.

In deciding the case in favor of the participant, the court noted that the SPD in this case included language that misled the employee into reasonably believing that selecting the buy-up coverage would entitle her to long-term disability benefits based on 100% of her covered monthly earnings. Given the unclear language, the court concluded that the employee reasonably believed that she had purchased the long-term disability coverage equal to 100% of covered compensation.

While employers continue to focus on ensuring that plan documents correctly describe plan benefits, they should not lose sight of the descriptions appearing in the SPD. While employers will likely always include provisions that indicate that the plan document will control, the *Ballad Health* case demonstrates that participants may still succeed in their claims when they allege a fiduciary breach relating to how the benefits are described in plan communications.

Aon's Legal Consulting & Compliance consultants are well equipped to draft plan terms and corresponding SPD language that is consistent and protective of the employer and plan fiduciary while being easy for participants to understand. Please do not hesitate to reach out to us if we may be of assistance.

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Proposed Regulations Limit Tax Deferral Strategies

by Hitz Burton

On February 24, 2022, the Internal Revenue Service (IRS) issued proposed regulations for required minimum distributions (RMDs) payable from tax-qualified retirement plans and individual retirement accounts (IRAs). As you may recall, a key component of the SECURE Act was to substantially limit certain long-standing tax deferral strategies previously available under defined contribution (DC) plans and IRAs when a participant (or IRA owner) would designate a non-spouse survivor beneficiary such as a child or grandchild.

Under pre-SECURE Act tax law, non-spouse beneficiaries of DC plan benefits could generally elect to take death benefits measured over their own life expectancies provided payments commenced no later than one year after the participant died or were distributed, in total, within five years. The SECURE Act limits application of the life expectancy rule (i.e., the one-year rule) by establishing a new rule mandating that payments be paid in full within 10 years (the 10-year rule) unless the designated beneficiary (i.e., the beneficiary affirmatively designated by the

participant or designated by the terms of the plan document) qualifies as an eligible designated beneficiary. An "eligible designated beneficiary" is a beneficiary designated under the terms of the plan who is the participant's surviving spouse, the participant's minor child, a chronically ill or disabled individual, or an individual not more than 10 years younger than the participant (or IRA owner).

The introduction of this new defined term "eligible designated beneficiary" will add significant complexity to DC plan administration. For example, how to measure the applicable 10-year period will vary based on the type of eligible designated beneficiary. A surviving spouse or sibling of the participant who is not more than 10 years younger will be an eligible designated beneficiary for life. But a minor child will be an eligible designated beneficiary only until he or she reaches the age of majority (assumed under this proposed rule to generally be age 21). After the participant's child reaches age 21, the 10-year rule applies. In an outcome that may surprise practitioners, the 10-year rule applies even if the child is chronically ill or disabled upon reaching age 21 if benefit payments commenced earlier and the child was not disabled or chronically ill at the time payments commenced.

Additional complexities include situations where the eligible designated beneficiary dies before the participant's entire vested death benefit is distributed. In this situation, the beneficiary of the eligible designated beneficiary is not eligible to receive payments over their life expectancy and the 10-year rule applies. Trust beneficiaries also create their own complexity. If the participant previously designated a trust with multiple beneficiaries as the designated beneficiary of a vested account balance, then the life expectancy rule can apply to the beneficiaries who qualify as eligible designated beneficiaries while other designated beneficiaries under the trust will need to take distribution under the 10-year rule.

These new RMD rules generally apply to the beneficiaries of DC plan participants and IRA owners where the participant dies after December 31, 2019. These new rules do not apply to the death benefit paid to non-spouse beneficiaries from defined benefit (DB) pension plans which continue to be subject to the minimum incidental death benefit rules. And, when finalized, these new rules will further differentiate the minimum distribution rules that apply to DC and DB plans.

If you would like help navigating the significant additional administrative complexity associated with these new proposed rules or address any required plan amendments, please reach out to Aon's Retirement Legal Consulting & Compliance consultants. Their contact information is included on the last page of this *Quarterly Update*.

Proposed RMD Rules Bring Changes to 403(b) Plans

by Dan Schwallie

The proposed Treasury regulations on required minimum distributions (RMDs), published in the Federal Register on February 24, 2022, make several notable changes to the RMD rules applicable to plans under Section 403(b) of the Internal Revenue Code (Code) through proposed changes to the 403(b) regulations and anticipate additional changes for such plans. The changes described below are intended to align 403(b) plan rules more closely with qualified plan rules and are proposed to be effective for calendar years beginning on and after January 1, 2022.

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Required Beginning Date

The proposed 403(b) regulations would expressly apply the definition of required beginning date (RBD) applicable to 401(k) and other qualified plans to 403(b) plans. This is generally not a change from existing 403(b) regulations. The RBD for 403(b) plan participants generally would be April 1 of the calendar year following the later of (i) the calendar year in which the participant attains age 72[1] and (ii) the calendar year in which the participant retires from employment with the employer maintaining the plan, but the RBD for a 5% owner would be April 1 of the calendar year following the calendar year in which the employee attains age 72 for a 403(b) plan that is not a governmental church plan. *However,* the proposed regulations would permit a 403(b) plan (as well as qualified plans) to uniformly provide that the RBD is April 1 of the calendar year following the calendar year in which the participant attains age 72.

Amounts Not Considered RMDs

The proposed 403(b) regulations would expressly apply the rules applicable to 401(k) and other qualified plans to determine amounts not included when determining whether the RMD requirement has been satisfied for a calendar year, rather than implicitly applying the rules for Individual Retirement Accounts (IRAs). Corrective distributions

[1] Age 70½ applies instead of age 72, wherever age 72 appears in this paragraph, for those employees born before July 1, 1949.

of contributions exceeding the annual addition limit, elective deferrals exceeding the annual limit, or matching contributions exceeding the actual contribution percentage (or ACP) limit are not considered part of an RMD, nor are loans that are treated as deemed distributions or permissible (90-day) withdrawals from an eligible automatic contribution arrangement considered part of an RMD.

Qualifying Longevity Annuity Contracts

The proposed 403(b) regulations would apply the rules for qualifying longevity annuity contracts (QLACs) applicable to 401(k) and other qualified plans, rather than applying the rules for IRAs. Thus, a major difference in the QLAC rules applicable to 403(b) plans is the detailed rules around payments after the death of the employee. Another difference is that the employer (rather than the trustee, custodian, or issuer) may rely on an employee's written representation (or such other form as may be prescribed by the Internal Revenue Service (IRS)), that QLAC premiums paid, which are not paid under a plan, annuity, or contract maintained by the employer or a related employer, do not exceed the limitations on QLAC premiums, unless the employer has actual knowledge to the contrary. A "related employer" is an entity that is treated as a single employer with the employer under Section 414(b), (c), (m), or (o) of the Code.

Anticipated Future Changes

In the preamble to the proposed RMD regulations, the Treasury Department (Treasury) and IRS note they are considering additional changes to further align the RMD rules for 403(b) plans to the rules for qualified plans. For example, each 403(b) plan (like each qualified plan) would be required to make RMDs calculated with respect to that plan, rather than rely on the employee to request distributions from another plan in an amount that satisfies the requirement. The thought is that such changes would treat similar employer-sponsored plans consistently and may facilitate compliance with the RMD rules. In anticipation of proposing such additional changes, the Treasury and IRS are requesting comments by May 25, 2022, on changes to the RMD rules for 403(b) plans, including:

- Administrative concerns;
- Differences between structure or administration that should be considered in applying RMD rules for qualified plans to 403(b) plans; and
- Transition rules that would ease the implementation of such potential changes.

Aon's Retirement Legal Consulting & Compliance consultants are available to provide assistance understanding how these new rules can affect administration of RMDs from your 403(b) plans.

Quarterly Roundup of Other New Developments

by Sandy Combs, Teresa Kruse, Mark Manning, and Jan Raines

Happenings on "The Hill"

Retirement savings plan legislation continues to be discussed in Congress, and supporters hope to see changes enacted to encourage plan participation and to position more Americans to better save for retirement. Most of the proposed legislation has bipartisan support, although prospects for passage in 2022 remain unclear. Recent proposals affecting retirement plans are summarized below.

- **Retirement Improvement and Savings Enhancement (RISE) Act of 2021.** This bill would establish an online "Retirement Lost and Found" database, expand SECURE Act's Pooled Employer Plan provision, increase termination force-out balances from $5,000 to $7,000, and simplify reporting and disclosure requirements.
- **Securing a Strong Retirement Act of 2021.** Often referred to as "SECURE 2.0," this bill would require automatic enrollment for 401(k) and 403(b) plans, allow 403(b) plans to participate in multiple employer plans and invest in collective investment trusts, create an online database for lost retirement accounts, remove the 25% cap on qualified longevity annuity contracts, and clarify the "free look" period to consider the annuity contract.
- **Auto Reenroll Act of 2022.** This bill would amend safe harbors in automatic enrollment plans to encourage employers to automatically reenroll nonparticipants at least once every three years.
- **Enhancing Emergency and Retirement Savings Act of 2022.** This bill would provide penalty-free personal expense distributions to those who experience unexpected emergencies. Distributions of up to $1,000 from tax-exempt retirement plans may be used for emergency personal expenses and are limited to one distribution in a calendar year. The bill would also allow repayment to plans of such distributions over a three-year period.
- **Lifetime Income for Employees Act of 2022.** This bill would modify qualified default investment alternative rules to allow annuity investments. More specifically, this bill would allow fiduciaries of defined contribution (DC) plans to default a portion of participants' accounts into annuity contracts upon providing certain notices to plan participants or beneficiaries and complying with certain prohibitions on liquidity restrictions.

Aon will continue to monitor and report on legislation as updates become available.

New Fiduciary Rules—The Final Countdown

It's been almost two years since the Department of Labor (DOL) reinstated its five-part test (originally issued in 1975) for determining whether a financial institution or investment professional is considered a fiduciary for providing "investment advice." (For more information, please see the **Fourth Quarter 2020** issue of our *Quarterly Update*.) Related to this ruling, the DOL also issued a prohibited transaction exemption (PTE 2020-02), which went into effect February 16, 2021. This PTE allows fiduciaries providing investment advice to receive compensation in exchange for providing that advice without violating Title I of the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code, both of which otherwise prohibit advisers from receiving compensation for advice that could create a conflict of interest. The DOL announced that certain portions of PTE 2020-02 were enforceable after January 31, 2022, but other parts (e.g., specific documentation and disclosure requirements related to rollover recommendations) would not be enforced until July 1, 2022.

The PTE also broadly defined a "rollover" to be a transfer of assets from: (i) a plan to an IRA; (ii) a plan to another plan; (iii) an IRA to a plan; (iv) IRA to another IRA; or (v) one type of account to another (this is not clear, but the DOL gives an example of movement from a commission-based account to a fee-based account). To be eligible for PTE 2020-02, advisers must acknowledge their fiduciary status in writing, disclose services and material conflicts of interest, adhere to Impartial Conduct Standards, adopt policies and procedures, document and disclose specific reasons for why the rollover recommendations are in the investor's best interest, and conduct an annual compliance review.

Plan sponsors and fiduciaries should understand how their recordkeeping or advice partners are addressing these matters, and how they are complying with PTE 2020-02. Aon's Retirement Legal Consulting & Compliance and Defined Contribution Plan consultants are available to assist with reviewing the adviser's policies, procedures, and actual practices to confirm they are in compliance with the DOL guidance regarding rollovers and PTE 2020-02.

Default to Roth—To Consider or Not to Consider

In an article recently published in Pensions & Investments,[1] Aon's Barb Hogg discusses why sponsors of DC plans with an automatic enrollment feature might want to consider defaulting participants to an after-tax Roth contribution, rather than a pre-tax contribution as has been historically used for automatic enrollment plans. One reason given for considering an after-tax Roth contribution is related to payouts of small balances (whether voluntary or involuntary), where participants less than age 59½ are subject to the 10% penalty tax for early withdrawals. With a pre-tax contribution default for automatic enrollment, participants could lose 10% of what they contributed, while the 10% penalty wouldn't apply to the after-tax Roth contributions (only to the earnings on those contributions). Although participants could roll over their payout to an IRA to avoid the 10% penalty, most workers with small balances tend to "take the money and run." A similar situation arises when a participant takes a hardship withdrawal.

Aon's Retirement and Defined Contribution Plan consultants are available to discuss plan design considerations, including the pros and cons of defaulting participants to after-tax Roth contributions in a DC plan with an automatic enrollment feature.

Want to Hear Some Good News?

In today's world, who doesn't want to hear some good news? After two years of the pandemic, continuing social/political division, current economic struggles, the "Great Resignation," and the ongoing situation in Ukraine, it seems safe to say that we can all use a dose of good news. The impact of all the aforementioned issues would seem to lower expectations that any "good news" might apply to the world of retirement. In fact, we might expect just the opposite—but keep reading.

Fidelity recently reported,[2] based on 23,700 corporate DC plans, record increases for 2021 in the average participant account balance ($130,700 for 401(k) plans and $115,100 for 403(b) plans) with 38% of participants in 401(k) plans and 34% of participants in 403(b) plans choosing to increase their deferral rates. It is encouraging to hear that many participants were not deterred by the events of the day.

In other good news, the Plan Sponsor Council of America's 64th Annual Survey[3] reflected that, for the first time, the most common default deferral rate in DC plans with automatic enrollment increased from 3% to 6%. A higher default deferral rate is one of the top contributors to retirement outcomes. Paired with automatic increases (which also saw an increase in the cap applied to auto-increase plans) has proven to effectively increase participant deferral rates over time. If your DC plan currently utilizes automatic enrollment, it may be a good time to review the plan's default deferral rate along with the automatic increase provisions. In addition, for participants who previously opted out of automatic enrollment or are deferring at a rate below the default deferral rate, it may be a good time to consider reenrolling those participants.

[1] Margarida Correia, *Plan sponsors wary of defaulting employees to Roth contributions, Pensions & Investments,* February 28, 2022

[2] Fidelity Investments, *Despite the "Great Resignation," Saving for Retirement Is Still a Priority, as Account Balances and Contributions Reach Record Levels, According to Fidelity,* February 17, 2022

[3] Plan Sponsor Council of America, *64th Annual Survey of Profit Sharing and 401(k) Plans,* December 15, 2021

So, take heart, not all news is bad! With all the struggles of the last two years, it is good to know that participants in retirement plans are, perhaps because of all these issues, saving more and growing their accounts. In addition, plan sponsors are improving plan design and actively helping plan participants achieve better retirement outcomes.

Aon's Retirement and Defined Contribution Plan consultants can assist with a plan design review to assess these and other provisions that may prove helpful in these efforts.

DOL Statement on Private Equity Investment

The DOL recently issued a Supplemental Statement addressing fiduciary issues related to investments of private equity in individual account plans (such as 401(k) plans) that are subject to ERISA. While private equity investments are rarely used in 401(k) plans, the DOL issued an Information Letter in June 2020 stating that plan fiduciaries may offer private equity investments within a managed asset allocation fund in an individual account plan.

The Supplemental Statement, issued in December 2021, was intended to caution fiduciaries on the use of private equities in individual account plans. While the statement does not change the fact that private equity can be included in a managed asset allocation investment, the DOL noted that plan fiduciaries need to follow a thorough process when determining whether to offer private equity. Moreover, plan fiduciaries should possess the necessary expertise (or hire an advisor that does) to make these decisions as private equity investments are more complicated and are subject to potential restrictions on liquidity, longer time horizons, and often have higher fees, among other potential complications.

Aon Investments USA Inc. has experience and knowledge with helping clients invest in private equities and can advise as to the process to be followed, possible investment structures, managed asset allocation funds, and as to whether or not private equities would make sense for a specific plan and its participants.

Retirement Plan Litigation Update

Retirement plan litigation has been prevalent over the past decade impacting corporate plan sponsors, financial institutions that are also plan sponsors, and universities sponsoring 403(b) plans. DC plan cases generally fall into the following three areas: inappropriate or imprudent investment choices, excessive fees, and self-dealing. Recently, several cases have been dismissed (in full or in part) or settled, including cases involving Land O'Lakes (settled for $1.8M and other remedies); T. Rowe Price (settled for $7M and other remedies); and Walgreens (settled for $13.75M and other remedies).

Plan sponsors seeking to reduce their litigation risk use a variety of strategies including improving their fiduciary process for plan governance, increasing the number of passive funds in their plans, and implementing better fee transparency. Developing a written record demonstrating the fiduciary process of monitoring these issues is an important risk mitigation strategy.

New Retirement Plan Cases

After a slowdown in the fourth quarter of 2021, new cases in the first quarter of 2022 have made up for the lull. Approximately 23 new cases were filed against plan fiduciaries with, no surprise here, excessive fee cases continuing to lead the way. Although the list of recently filed cases is only illustrative, it is intended to provide a summary of the types of claims being alleged against plan fiduciaries and their committees. Excessive fees cases this quarter were brought against Bessemer Trust Co.; Capital One Financial Corp.; The Children's Hospital Corp.; Dartmouth-Hitchcock Clinic; DISH Network Corp.; Exelon Corp.; Fluor Corp.; Hy-Vee, Inc.; L2Harris Technologies, Inc.; Mass General Brigham Inc.; Milliman, Inc.; Molina Healthcare, Inc.; Nokia of America Corp.; PPL Corp.; Ricoh USA, Inc.; Rollins, Inc.; Taylor Corp.; and Voya Financial, Inc., and no doubt others. In addition, cases were filed against Hyatt Corp. (failure to follow the plan document); Raytheon Co. (accrual of benefits); Transamerica Retirement Solutions, LLC (data breach); Velo Corp. of America (prohibitive transactions); and West Monroe Partners, Inc. (ESOP valuation).

Aon will continue to track these cases, and others, as they develop.

Please see the applicable Disclosures and Disclaimers on page 13.

Aon's Retirement Legal Consulting & Compliance Consultants

Tom Meagher
Senior Partner/Practice Leader
thomas.meagher@aon.com

Linda M. Lee
Project Manager
linda.lee.2@aon.com

Jennifer Ross Berrian
Partner
jennifer.ross.berrian@aon.com

Hitz Burton
Partner
hitz.burton@aon.com

Susan Motter
Associate Partner
susan.motter@aon.com

Dan Schwallie
Associate Partner
dan.schwallie@aon.com

Elizabeth Groenewegen
Associate Partner
elizabeth.groenewegen@aon.com

Beverly Rose
Partner
beverly.rose@aon.com

John Van Duzer
Associate Partner
john.van.duzer@aon.com

Clara Kim
Associate Partner
clara.kim@aon.com

Guest Authors

Thank you to the following colleagues who contributed articles to this quarter's publication.

Sandy Combs
Consultant
Aon Investments USA Inc.
sandy.combs@aon.com

Teresa J. Kruse
Senior Consultant
Aon Investments USA Inc.
teresa.kruse@aon.com

Jan Raines
Associate Partner
Aon Investments USA Inc.
jan.raines@aon.com

Himmat Dhaliwal
Investment Strategist
UK Wealth Solutions
himmat.dhaliwal@aon.com

Mark Manning
Associate Partner
Aon Investments USA Inc.
mark.manning@aon.com

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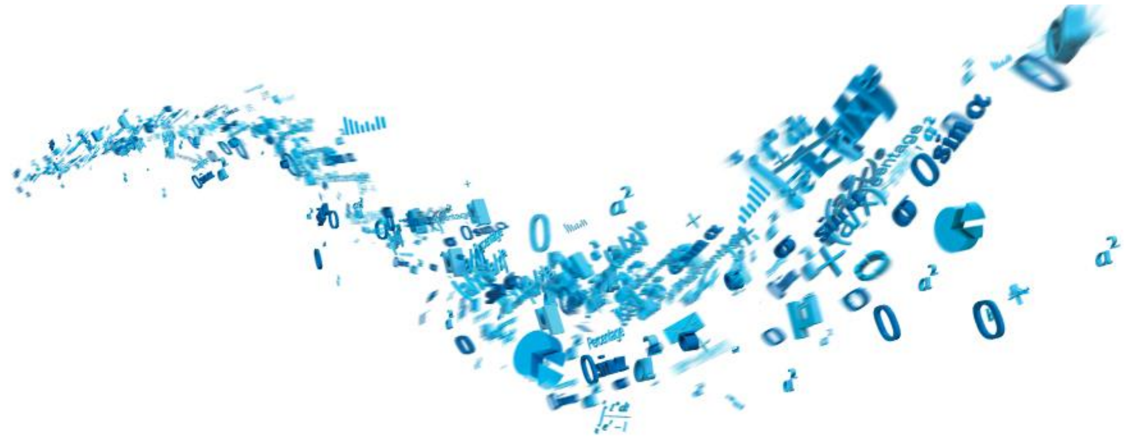


Appendix

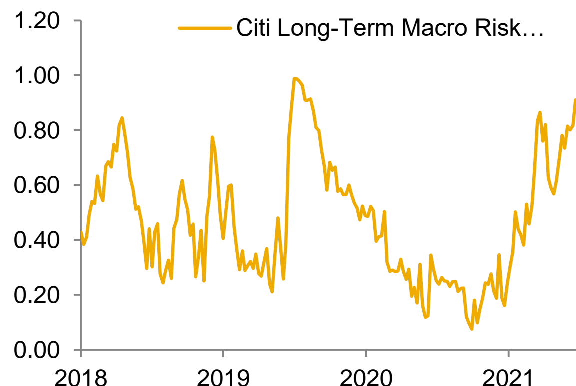
Economic highlights

Economic data was overshadowed by geopolitical risk during the first quarter. However, growth in the US remained robust with fourth quarter GDP supported by business inventories. Inflation remained elevated and continued to climb, with the focus for 2022 on how inflation will be impacted by the Russia-Ukraine conflict, as well as the monetary policy response. The Fed ended quantitative easing and raised rates by 0.25% in March. Geopolitical risks did not seem to influence the Fed's recent pivot, however, although GDP estimates were revised down as growth is expected to normalize. This raises questions as to whether or not the Fed can engineer a 'soft landing' with an economy already slowing and facing a fiscal drag.

The Bank of England also raised rates for the second consecutive meeting in March. The ECB ended its emergency bond buying program in March and has also announced its plan to reduce the asset purchases of its pre-pandemic purchasing program.

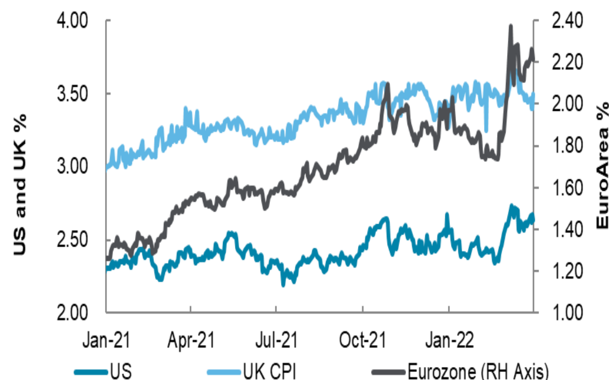
We still believe that developed world growth will continue to lose momentum over the coming year given recent political tensions and the spill-over effects into global trade and financial markets. The path forward for emerging economies may also be difficult should deglobalization accelerate.

As economies move beyond Covid, new macro risks have emerged



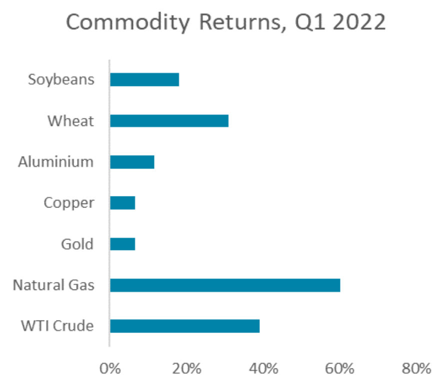
Source: Bloomberg, 12/4/22

Inflation Expectations are rising
Forward-starting inflation swaps (5Yx5Y)



Source: Bloomberg

The Ukraine conflict has pushed many commodity prices higher



Source: Bloomberg, active futures contracts

Economic highlights

USA

- US GDP in Q4 was 7% (quarter-over-quarter annualized), up from 2.3% in Q3. The headline number was supported by higher investment due to replenished inventories, although consumer demand started to slow, as seen in the February retail sales data.
- US annual headline inflation rose 8.5% year-over-year in March, its fastest pace in 40 years as prices rose across a broad range of items. Core CPI, which strips out food and energy costs, rose by 6.5% year-over-year. High energy prices are likely to remain a headwind to inflation in the near-term.
- As expected, the Fed raised its policy benchmark rate by 0.25% at the March FOMC meeting, making this the first hike since 2018. The most recent dot plot showed that FOMC members currently see six additional rate hikes for 2022, with the median federal funds rate at 1.9% by year-end. The market is expecting eight hikes. With QE officially ended in March, the FOMC has announced that it will start reducing the size of the Fed's $9tn balance sheet by up to $95bn a month.

Non-US Developed

- The Eurozone posted 0.3% quarter-on-quarter GDP growth in Q4. Many countries saw a slight uptick in coronavirus cases, which weighed on demand, while investment was additive to GDP. Meanwhile, inflation also continued to accelerate, hitting 5.8% in February, mainly due to jumping energy and food prices, but there were rising prices seen in many other categories as well. Although core inflation remained relatively contained at 2.7%, it is likely to rise further in coming months – the Ukraine crisis and associated sanctions leave key countries in Europe vulnerable to economic headwinds.
- In Japan, fourth quarter GDP was 4.6% over the quarter. Inflation was still muted, with annual CPI at 0.9% in February. However, economic data has started to slow more recently, with industrial production falling at the start of the year.
- UK GDP ticked down slightly to 1% for the fourth quarter. The Bank of England tightened policy again in Q1, increasing the benchmark rate by 25bps to 0.75% as CPI inflation hit 6.2% in February – a 30-year high.

Emerging Markets

- After enduring several months of negative headlines surrounding the housing sector, energy shortages, and regulatory crackdowns, the news flow in China was relatively calm. Chinese GDP was 4.0% (annualized) in the fourth quarter compared to 4.9% in Q3. China seems intent on maintaining a zero-Covid policy, which has triggered local lockdowns, but the authorities have also indicated that they will support the economy and financial markets.
- So far China has not taken an explicit stance on the Russia-Ukraine conflict. The Chinese president has made it clear that he has sympathy with the plight of Ukraine, but China has notably not imposed sanctions on Russia.
- Many EM economies are also grappling with the slowing of trade as a reaction to the Ukraine crisis whilst rising inflation is a growing threat for commodity-importing countries especially. On the other hand, commodity-exporting currencies have performed well such as the Brazilian real and South African rand.

View guidance

- - -	- -	-	=	+	++	+++
Large under-performance expected with highest conviction	More under-performance or stronger conviction	More likely to underperform	Weak conviction or no view on relative performance	More likely to outperform	More outperformance or stronger conviction	Large outperformance expected with highest conviction
• Target larger underweight • Bring forward selling plans and defer SAA buying implement-ation • Do not rebalance to target weight yet	• Target underweight • Bring forward selling plans and defer SAA buying implement-ation • Do not rebalance up to target weight yet	• Target small underweight to strategic weight • Prefer to avoid buying and selling on strength • Buying for SAA reasons fine, but add slowly or into weakness. • Consider partial rather than full rebalancing	• Target benchmark or strategic weight • Buying/ Selling both look ok coming from SAA changes or rebalancing	• Target small overweight to strategic weight • Prefer to accumulate • Selling for SAA reasons fine, but look to sell gradually • Slow rebalancing moves back to benchmark weight	• Target overweight • Bring forward buying plans and defer SAA selling implement-ation • Do not rebalance down to target weight yet	• Target larger overweight • Bring forward buying plans and defer SAA selling implement-ation • Do not rebalance to target weight yet

Third party data disclaimer – 1 of 2

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Explanation of US Capital Market Assumptions (10 Years)

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 fourth quarter of 2021. 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 forecasts. 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 Q1 2022 10 Year Capital Market Assumptions as of 6/30/2021. CMAs contain projections about future returns on asset classes. These do not assume additional alpha for active management strategies within these asset classes, and are modeled to represent a low nominal fee passive index, with the exception of hedge funds and private equity, where traditional passive investments are not available. Therefore, the model assumptions for hedge funds and private equity strategies include a higher model fee impact for these asset classes. You cannot invest in an asset class directly, or within the model asset classes assumed within the CMAs. CMAs do not include asset class fees or any underlying expense ratios. Expected returns are geometric (long-term compounded; rounded to the nearest decimal). 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 (2.4%)
Based on Consensus Economics long-term estimates and our near-term economic outlook, we expect U.S. consumer price inflation to be approximately 2.4% during the next 10 years.

Real Returns for Asset Classes
Fixed Income

- **Cash (-0.9%)** – Over the long run, we expect the real yield on cash and money market instruments to produce a real return of -0.9% in a moderate to high-inflationary environment.
- **TIPS (-1.2%)** – We expect intermediate duration Treasury Inflation-Protected Securities to produce a real return of about -1.2%.
- **Core Fixed Income (i.e., Market Duration) (-0.4%)** – We expect intermediate duration Treasuries to produce a real return of about -0.8%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.4%, resulting in a long-term real return of -0.4%.
- **Core plus Bonds (-0.2%)** – Modeled as 20% 5 duration gov't bonds real return of -0.8% and 80% 5 duration corporate bonds real return of -0.1%.

Explanation of US Capital Market Assumptions (10 Years)

- **Long Duration Bonds – Government and Credit (0.2%)** – We expect Treasuries with a duration comparable to the Long Government Credit Index to produce a real return of -0.2%. 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 0.2%.
- **Long Duration Bonds – Credit (0.3%)** – We expect Treasuries with a duration comparable to the Long Credit Index to produce a real return of -0.2%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.5%, resulting in an expected real return of 0.3%.
- **Long Duration Bonds – Government (-0.2%)** – We expect Treasuries with a duration of ~12 years to produce a real return of -0.2% during the next 10 years.
- **High Yield Bonds (0.7%)** – We expect intermediate duration Treasuries to produce a real return of about -0.8%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 1.5%, resulting in an expected real return of 0.7%.
- **Bank Loans (1.8%)** – We expect LIBOR to produce a real return of about -0.6%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults) to be 2.4%, resulting in an expected real return of 1.8%.
- **Non-US Developed Bonds: 50% Hedged (-0.7%) –** We forecast real returns for non-US developed market bonds to be -0.7% 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) (1.5%) –** We forecast real returns for emerging market sovereign bonds denominated in US dollars to be 1.5% over a 10-year period.
- **Emerging Market Bonds (Corporate; USD) (1.0%) –** We forecast real returns for emerging market corporate bonds denominated in US dollars to be 1.0% over a 10-year period.
- **Emerging Market Bonds (Sovereign; Local) (2.5%)** – We forecast real returns for emerging market sovereign bonds denominated in local currency to be 2.5% over a 10-year period.
- **Multi Asset Credit (MAC) (2.3%) –** We assume real returns from beta exposure to high yield, bank loans and emerging market debt to add 1.5% plus 0.8% from alpha (net of fees) over a 10-year period.
- **Private Debt-Direct Lending (4.2%) –** The base building block is bank loans 1.8% + spread 2.4% (net of management fees and performance incentives). There is 100% leverage included in the assumption with the cost of financing at LIBOR +1.8%.

Explanation of US Capital Market Assumptions (10 Years)

Equities

- **Large Cap U.S. Equity (3.1%)** – This assumption is based on our 10-year outlook for large cap U.S. company dividends and real earnings growth. Adjustments are made for valuations as needed.

- **Small Cap U.S. Equity (3.3%)** – 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 3.3%. 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) (3.9%)** – We employ a building block process similar to the U.S. equity model using the developed and emerging markets that comprise the MSCI All-Country World Index. Our roll-up model produces an expected real return of 3.9% for global equity.

- **International (Non-U.S.) Equity, Developed Markets (4.1%)** – We employ a building block process similar to the U.S. equity model using the non-U.S. developed equity markets that comprise the MSCI EAFE Index.

- **Emerging Market Stocks (4.7%)** - We employ a building block process similar to the U.S. equity model using the non-U.S. emerging equity markets that comprise the MSCI Emerging Markets Index.

- **Equity Risk Insurance Premium Strategies-High Beta (2.3%) –** We expect real returns from 50% equity + 50% cash of 1.4% plus 0.9% insurance risk premium over the next 10 years.

Alternative Asset Classes

- **Hedge Fund-of-Funds Universe (0.7%)** – The generic category “hedge funds” encompasses a wide range of strategies accessed through “fund-of-funds” vehicles. We also assume the ***median*** manager is selected and also allow for the additional costs associated with Fund-of-Funds management. A top-tier portfolio of funds (hedge fund-of-funds buy-list) could add an additional 1.2% in return at similar volatility based on alpha, lower fees and better risk management.

Explanation of US Capital Market Assumptions (10 Years)

- **Hedge Fund-of-Funds Buy List (2.0%)** – The generic category of top-tier “hedge funds” encompasses a wide range of strategies accessed through “fund-of-funds” vehicles. We assume additional costs associated with Funds-of-Funds management. To use this category the funds must be buy rated or we advise on manager selection.

- **Broad Hedge Funds Universe (2.1%)** – Represents a diversified portfolio of direct hedge fund investments. This investment will tend to be less diversified than a typical “fund-of-funds” strategy as there will be fewer underlying managers and will not include the extra layer of fees found in a Fund-of-Funds structure.

- **Broad Hedge Funds Buy List (3.3%)** – Represents a diversified portfolio of top-tier direct hedge fund investments. This investment will tend to be less diversified than a typical “fund-of-funds” strategy as there will be fewer underlying managers and will not include the extra layer of fees found in a Fund-of-Funds structure. To use this category the funds must be buy rated or we advise on manager selection.

- **Core Real Estate (3.1%)** -- Our real return assumption for core real estate is based a gross income of about 3.4%, 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 (5.0%)** – 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 3%. We assume a 50/50 mix of value-add and opportunistic investments.

- **U.S. REITs (2.9%)** – Our real return assumption for U.S. REITs is based on income of about 2.6% 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.

Explanation of US Capital Market Assumptions (10 Years)

- **Commodities (1.7%)** – 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., 2.4%). Collateral is assumed to be LIBOR cash (-0.6%). Also, we believe the roll effect will be near zero, resulting in a real return of about 1.7% for commodities.

- **Private Equity (6.0%)** – Our private equity assumption reflects a diversified fund of funds with exposure to buyouts, venture capital, distressed debt, and mezzanine debt.

- **Infrastructure (4.9%)** – Our infrastructure assumption is formulated using a cash flow based approach that projects cash flows (on a diversified portfolio of assets) over a 10 year period. Income and capital growth as well as gearing levels, debt costs and terms, relevant tax and management expenses are all taken into consideration. Our approach produces an expected real return of 4.9% for infrastructure.

- **Equity Risk Insurance Premium Strategies-Low Beta (1.6%) –** We assume real returns from cash -0.9% + 2.5% alpha.
- **Alternative Risk Premia (ARP) (3.3%) –** Real LIBOR -0.6% plus 3.9% alpha (net of fees)

- **eLDI (0.9%) –** Combination of various long credit strategies (1/6 real estate debt, 1/3 securitized debt, 1/6 CMOs, 1/3 private placements)

- **Closed-end Real Assets (5.7%) –** Combination of 50% Non-Core Real Estate and 50% 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.

Q1 2022 Assumptions (10-Year): Expected Returns and Risks

		10-yr Expected Real Return[1]	10-yr Expected Nominal Return[1]	10-yr Expected Volatility
	Equity			
1	Large Cap U.S. Equity	3.1%	5.6%	17.0%
2	Small Cap U.S. Equity	3.3%	5.8%	23.0%
3	Global Equity	3.9%	6.4%	18.5%
4	International Developed Equity	4.1%	6.6%	20.0%
5	Emerging Markets Equity	4.7%	7.2%	27.0%
	Fixed Income			
6	Cash (Gov't)	-0.9%	1.5%	1.0%
7	Cash (LIBOR)	-0.6%	1.8%	1.0%
8	TIPS	-1.2%	1.2%	3.5%
9	Core Fixed Income (Market Duration)	-0.4%	2.0%	4.0%
10	Core Plus Bonds			
11	Long Duration Bonds – Gov't / Credit	0.2%	2.6%	9.0%
12	Long Duration Bonds – Credit	0.3%	2.7%	10.0%
13	Long Duration Bonds – Gov't	-0.2%	2.2%	9.5%
14	High Yield Bonds	0.7%	3.1%	12.0%
15	Bank Loans	1.8%	4.2%	7.0%
16	Non-US Developed Bonds (0% Hedged)	-1.0%	1.4%	10.0%
17	Non-US Developed Bonds (50% Hedged)	-0.7%	1.7%	5.5%
18	Non-US Developed Bonds (100% Hedged)	-0.7%	1.7%	3.0%
19	Short Govt Bonds	-0.9%	1.5%	1.5%
20	Short Corporate Bonds	-0.5%	1.9%	2.0%
21	Intermediate Govt Bonds	-0.8%	1.6%	3.0%
22	Intermediate Corporate Bonds	-0.4%	2.0%	3.5%
23	25-year Government Bond	-0.4%	2.0%	11.5%
24	Emerging Market Bonds (Sovereign USD)	1.5%	3.9%	13.0%
25	Emerging Market Bonds (Corporate USD)	1.0%	3.4%	11.0%
26	Emerging Market Bonds (Sovereign Local)	2.5%	5.0%	14.0%
	Alternative Investments			
27	Broad Hedge Funds[2]	2.1%	4.5%	9.0%
28	Broad Hedge Funds[2](Buy List)	3.3%	5.8%	9.0%
29	Hedge Fund-of-Funds[3]	0.7%	3.1%	9.0%
30	Hedge Fund-of-Funds[3] (Buy List)	2.0%	4.4%	9.0%
31	eLDI	0.9%	3.3%	5.0%
32	Real Estate (Core)	3.1%	5.6%	15.0%
33	U.S. REITs	2.9%	5.4%	18.5%
34	Commodities	1.7%	4.1%	17.0%
35	Private Equity	6.0%	8.5%	25.0%
36	Infrastructure	4.9%	7.4%	14.5%
37	Multi Asset Credit	2.3%	4.8%	9.5%
38	ILS	1.9%	4.3%	5.5%
39	Equity Insurance Risk Premium - High Beta	2.3%	4.8%	11.0%
40	Equity Insurance Risk Premium - Low Beta	1.6%	4.0%	5.5%
41	Private Debt -Direct Lending	4.2%	6.7%	16.5%
42	Alternative Risk Premia (ARP)	3.3%	5.8%	9.5%
43	Closed-End Real Assets	5.7%	8.2%	15.5%
44	U.S. Inflation	0.0%	2.4%	1.0%

1) All expected returns are based on CMAs which contain projections about future returns on asset classes. These do not assume additional alpha for active management strategies within these asset classes and are modeled to represent a low nominal fee passive index, with the exception of hedge funds and private equity, where traditional passive investments are not available. Therefore, the model assumptions for hedge funds and private equity strategies include a higher model fee impact for these asset classes. You cannot invest in an asset class directly, or within the model asset classes assumed within the CMAs. CMAs do not include asset class fees or any underlying expense ratios. Expected returns are geometric (long-term compounded; rounded to the nearest decimal). 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.

2) Fund of hedge funds

3) Diversified portfolio of Direct hedge fund investments portfolio of Direct hedge fund investments.

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Q1 2022 Assumptions (30-Year): Expected Returns and Risks

		30-yr	30-yr	30-yr	
	Equity	**Expected Real Return[1]**	**Expected Nominal Return[1]**	**Expected Volatility**	**Sharpe Ratio**
1	Large Cap U.S. Equity	3.8%	6.2%	17.5%	0.263
2	Small Cap U.S. Equity	4.3%	6.7%	23.5%	0.217
3	Global Equity	4.6%	7.0%	19.0%	0.284
4	International Developed Equity	4.6%	7.0%	20.5%	0.263
5	Emerging Markets Equity	5.4%	7.8%	27.5%	0.225
	Fixed Income				
6	Cash (Gov't)	-0.7%	1.6%	1.5%	0.000
7	Cash (LIBOR)	-0.3%	2.0%	1.5%	0.267
8	TIPS	-0.6%	1.7%	3.5%	0.029
9	Core Fixed Income (Market Duration)	0.0%	2.3%	4.5%	0.156
10	Core Plus Bonds				
11	Long Duration Bonds – Gov't / Credit	0.4%	2.7%	9.5%	0.116
12	Long Duration Bonds – Credit	0.7%	3.0%	10.5%	0.133
13	Long Duration Bonds – Gov't	-0.1%	2.2%	9.5%	0.063
14	High Yield Bonds	1.6%	3.9%	12.5%	0.184
15	Bank Loans	2.4%	4.8%	7.5%	0.427
16	Non-US Developed Bonds (0% Hedged)	-0.4%	1.9%	10.5%	0.029
17	Non-US Developed Bonds (50% Hedged)	-0.3%	2.0%	6.0%	0.067
18	Non-US Developed Bonds (100% Hedged)	-0.4%	1.9%	3.5%	0.086
19	Short Govt Bonds	-0.6%	1.7%	2.0%	0.050
20	Short Corporate Bonds	0.1%	2.4%	2.5%	0.320
21	Intermediate Govt Bonds	-0.6%	1.7%	3.5%	0.029
22	Intermediate Corporate Bonds	0.3%	2.6%	4.5%	0.222
23	25-year Government Bond	-0.3%	2.0%	12.0%	0.033
24	Emerging Market Bonds (Sovereign USD)	1.6%	3.9%	14.5%	0.159
25	Emerging Market Bonds (Corporate USD)	1.3%	3.6%	11.5%	0.174
26	Emerging Market Bonds (Sovereign Local)	2.6%	5.0%	14.5%	0.234
	Alternative Investments				
27	Broad Hedge Funds3	2.4%	4.8%	10.0%	0.320
28	Broad Hedge Funds3 (Buy List)	3.8%	6.2%	10.0%	0.460
29	Hedge Fund-of-Funds2	1.1%	3.4%	10.0%	0.180
30	Hedge Fund-of-Funds2 (Buy List)	2.2%	4.6%	10.0%	0.300
31	eLDI	1.4%	3.7%	5.5%	0.382
32	Real Estate (Core)	3.1%	5.5%	15.5%	0.252
33	U.S. REITs	2.9%	5.3%	19.0%	0.195
34	Commodities	2.0%	4.3%	17.0%	0.159
35	Private Equity	6.4%	8.8%	25.5%	0.282
36	Infrastructure	5.1%	7.5%	15.0%	0.393
37	Multi Asset Credit	3.0%	5.4%	10.0%	0.380
38	ILS	1.7%	4.0%	7.5%	0.320
39	Equity Insurance Risk Premium - High Beta	2.9%	5.3%	11.0%	0.336
40	Equity Insurance Risk Premium - Low Beta	1.8%	4.1%	6.0%	0.417
41	Private Debt (Direct Lending)	3.9%	6.3%	17.5%	0.269
42	Alternative Risk Premia (ARP)	3.6%	6.0%	9.5%	0.463
43	Closed-End Real Assets	5.8%	8.2%	16.0%	0.413
44	U.S. Inflation	0.0%	2.3%	1.5%	0.467

1) All expected returns are geometric (long-term compounded; rounded to the nearest decimal) and net of investment fees
2) Fund of hedge funds
3) Diversified portfolio of Direct hedge fund investments

Q1 2022 Assumptions (10-Year): Expected Nominal Correlations

	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
1 Large Cap U.S. Equity	1.00	0.93	0.97	0.81	0.73	0.08	0.08	-0.03	0.02	-0.02	0.06	-0.13	0.58	0.43	0.07	0.06	0.00	0.44	0.43	0.58	0.67	0.54	0.67	0.54	0.34	0.65	0.45	0.46	0.62	0.35	0.01	0.07	-0.06	0.05	-0.13	0.58	0.02	0.58	0.93	0.35	0.33	0.19	0.07	0.52	0.08
2 Small Cap U.S. Equity		1.00	0.92	0.75	0.68	0.07	0.07	-0.03	0.02	-0.02	0.06	-0.13	0.55	0.41	0.06	0.05	0.00	0.41	0.40	0.52	0.62	0.50	0.62	0.50	0.33	0.61	0.43	0.41	0.60	0.34	0.00	0.06	-0.07	0.05	-0.13	0.54	0.01	0.62	0.86	0.33	0.32	0.18	0.07	0.50	0.08
3 Global Equity			1.00	0.91	0.84	0.07	0.07	-0.03	0.02	-0.02	0.07	-0.14	0.63	0.47	0.19	0.17	-0.01	0.47	0.47	0.62	0.65	0.52	0.65	0.53	0.36	0.64	0.48	0.48	0.63	0.35	0.00	0.06	-0.08	0.05	-0.14	0.63	0.02	0.57	0.90	0.38	0.34	0.21	0.07	0.54	0.09
4 International Equity				1.00	0.76	0.04	0.04	-0.04	0.01	-0.02	0.05	-0.13	0.57	0.42	0.41	0.36	-0.03	0.43	0.44	0.61	0.56	0.45	0.56	0.46	0.35	0.54	0.45	0.48	0.56	0.31	-0.02	0.03	-0.08	0.03	-0.13	0.58	0.01	0.46	0.75	0.35	0.29	0.18	0.06	0.50	0.09
5 Emerging Markets Equity					1.00	0.06	0.06	-0.03	0.02	-0.01	0.07	-0.13	0.64	0.46	0.19	0.17	0.00	0.48	0.47	0.54	0.47	0.38	0.47	0.38	0.32	0.50	0.42	0.35	0.53	0.29	0.00	0.05	-0.07	0.05	-0.13	0.61	0.01	0.43	0.68	0.37	0.28	0.21	0.08	0.46	0.08
6 Gov Cash						1.00	0.98	0.51	0.43	0.22	0.21	0.21	0.11	-0.04	0.09	0.25	0.59	0.16	0.06	0.02	-0.01	-0.01	-0.01	-0.01	0.13	0.08	0.12	0.19	0.08	0.12	0.86	0.75	0.56	0.45	0.17	0.06	0.23	0.32	0.16	-0.15	0.19	0.28	0.38	0.15	0.45
7 LIBOR Cash							1.00	0.50	0.43	0.22	0.21	0.21	0.12	-0.03	0.09	0.24	0.58	0.17	0.06	0.03	0.00	0.00	0.00	0.00	0.13	0.08	0.12	0.19	0.08	0.11	0.85	0.75	0.55	0.46	0.17	0.07	0.23	0.31	0.15	-0.14	0.19	0.29	0.38	0.15	0.44
8 TIPS								1.00	0.55	0.45	0.42	0.46	0.05	-0.09	0.05	0.12	0.27	0.15	0.00	-0.03	-0.10	-0.08	-0.10	-0.08	0.04	0.00	0.03	0.11	-0.02	0.04	0.63	0.54	0.61	0.50	0.41	0.01	0.11	0.12	0.01	-0.14	0.08	0.38	0.48	0.04	0.23
9 Core Fixed Income (Market Duration)									1.00	0.83	0.84	0.70	0.31	0.18	0.14	0.29	0.57	0.49	0.17	0.14	0.06	0.05	0.06	0.05	0.05	0.03	0.04	0.04	0.03	0.05	0.75	0.81	0.89	0.96	0.64	0.28	0.10	0.13	0.06	0.10	0.09	0.84	0.98	0.06	0.02
10 Long Duration Bonds – Gov't / Credit										1.00	0.97	0.93	0.19	0.07	0.13	0.24	0.45	0.37	0.09	0.10	0.02	0.02	0.02	0.02	0.00	-0.01	0.00	-0.02	-0.01	0.01	0.48	0.51	0.70	0.73	0.91	0.17	0.05	0.05	0.00	0.04	0.04	0.73	0.80	0.00	-0.14
11 Long Duration Bonds – Credit											1.00	0.80	0.40	0.31	0.13	0.24	0.44	0.53	0.21	0.20	0.18	0.15	0.18	0.15	0.04	0.04	0.04	0.00	0.06	0.05	0.44	0.53	0.62	0.78	0.78	0.37	0.05	0.09	0.08	0.23	0.06	0.83	0.86	0.06	-0.11
12 Long Duration Bonds – Gov't												1.00	-0.14	-0.27	0.11	0.21	0.40	0.10	-0.11	-0.06	-0.21	-0.16	-0.21	-0.16	-0.05	-0.08	-0.07	-0.05	-0.12	-0.05	0.48	0.41	0.72	0.56	0.99	-0.14	0.05	-0.02	-0.10	-0.25	-0.01	0.50	0.60	-0.07	-0.16
13 High Yield Bonds													1.00	0.87	0.19	0.21	0.14	0.77	0.62	0.60	0.64	0.52	0.64	0.52	0.25	0.39	0.32	0.37	0.44	0.25	0.09	0.25	0.02	0.37	-0.15	0.93	0.03	0.36	0.55	0.71	0.23	0.59	0.45	0.37	0.15
14 Bank Loans														1.00	0.09	0.09	0.03	0.57	0.57	0.44	0.67	0.54	0.68	0.55	0.18	0.29	0.23	0.22	0.35	0.19	-0.14	0.18	-0.21	0.31	-0.26	0.85	-0.01	0.23	0.40	0.83	0.15	0.51	0.37	0.27	0.07
15 Non-US Developed Bond (0% Hedged)															1.00	0.96	0.28	0.22	0.21	0.51	0.08	0.07	0.08	0.07	0.01	0.04	0.04	0.45	0.00	0.00	0.12	0.12	0.13	0.14	0.10	0.27	0.03	0.06	0.07	0.07	0.07	0.15	0.14	0.03	0.10
16 Non-US Developed Bond (50% Hedged)																1.00	0.53	0.27	0.22	0.48	0.07	0.06	0.07	0.06	0.02	0.04	0.05	0.42	0.00	0.01	0.29	0.29	0.27	0.28	0.19	0.27	0.07	0.10	0.08	0.05	0.09	0.26	0.27	0.04	0.15
17 Non-US Developed Bond (100% Hedged)																	1.00	0.26	0.10	0.11	0.01	0.01	0.01	0.01	0.05	0.01	0.04	0.08	0.00	0.04	0.64	0.62	0.57	0.56	0.37	0.13	0.14	0.16	0.05	-0.04	0.10	0.44	0.54	0.05	0.19
18 Hard Emerging Market Bonds																		1.00	0.69	0.65	0.56	0.45	0.56	0.46	0.18	0.29	0.23	0.24	0.31	0.18	0.22	0.40	0.22	0.53	0.08	0.80	0.04	0.29	0.42	0.45	0.19	0.62	0.59	0.27	0.06
19 Corporate Emerging Market Bonds																			1.00	0.62	0.58	0.47	0.58	0.47	0.16	0.28	0.22	0.27	0.28	0.15	0.03	0.14	-0.01	0.21	-0.11	0.72	0.02	0.25	0.40	0.47	0.17	0.34	0.25	0.24	0.07
20 Local Emerging Market Bonds																				1.00	0.55	0.44	0.55	0.45	0.12	0.35	0.21	0.47	0.21	0.11	0.01	0.10	-0.01	0.17	-0.06	0.73	0.01	0.32	0.53	0.36	0.21	0.30	0.21	0.21	0.00
21 Broad Hedge Funds - without fees (Universe)																					1.00	0.72	0.99	0.73	0.22	0.43	0.29	0.33	0.42	0.23	-0.13	0.08	-0.21	0.16	-0.19	0.69	0.01	0.37	0.62	0.56	0.22	0.31	0.19	0.34	0.06
22 Broad Hedge Funds - without fees (BuyList)																						1.00	0.73	0.99	0.17	0.35	0.24	0.27	0.34	0.19	-0.10	0.06	-0.17	0.13	-0.15	0.56	0.00	0.30	0.50	0.45	0.18	0.25	0.16	0.27	0.05
23 Hedge Funds Universe																							1.00	0.74	0.22	0.43	0.29	0.33	0.42	0.23	-0.13	0.08	-0.21	0.16	-0.19	0.69	0.01	0.37	0.62	0.56	0.22	0.31	0.19	0.34	0.06
24 Hedge Funds Buy List																								1.00	0.18	0.35	0.24	0.27	0.34	0.19	-0.10	0.07	-0.17	0.13	-0.15	0.56	0.00	0.30	0.51	0.45	0.18	0.26	0.16	0.28	0.05
25 Core Real Estate																									1.00	0.43	0.96	0.11	0.32	0.19	0.09	0.10	0.02	0.07	-0.06	0.21	0.03	0.23	0.34	0.14	0.13	0.11	0.07	0.85	0.09
26 REITs																										1.00	0.47	0.28	0.43	0.24	0.03	0.06	-0.03	0.05	-0.08	0.38	0.02	0.38	0.61	0.23	0.22	0.13	0.06	0.48	0.07
27 Private Real Estate (Non-Core)																											1.00	0.17	0.38	0.22	0.07	0.10	0.01	0.06	-0.07	0.29	0.03	0.30	0.44	0.18	0.17	0.12	0.07	0.89	0.09
28 Commodities																												1.00	0.14	0.10	0.14	0.13	0.05	0.06	-0.06	0.38	0.05	0.30	0.44	0.16	0.19	0.11	0.05	0.18	0.39
29 Private Equity																													1.00	0.32	0.01	0.07	-0.05	0.06	-0.12	0.39	0.02	0.37	0.59	0.28	0.22	0.16	0.07	0.45	0.07
30 Infrastructure																														1.00	0.07	0.09	0.01	0.06	-0.05	0.22	0.03	0.23	0.34	0.15	0.13	0.11	0.07	0.64	0.08
31 Short Govt Bonds																															1.00	0.86	0.89	0.72	0.40	0.03	0.20	0.24	0.08	-0.21	0.15	0.49	0.66	0.09	0.31
32 Short Corporate Bonds																																1.00	0.77	0.88	0.34	0.24	0.17	0.24	0.13	0.06	0.15	0.65	0.80	0.12	0.25
33 Intermediate Govt Bonds																																	1.00	0.79	0.64	-0.03	0.13	0.11	-0.01	-0.24	0.07	0.59	0.77	0.01	0.08
34 Intermediate Corporate Bonds																																		1.00	0.50	0.35	0.11	0.15	0.09	0.20	0.10	0.84	0.98	0.08	0.06
35 25-year Government Bond																																			1.00	-0.15	0.04	-0.03	-0.10	-0.24	-0.01	0.47	0.55	-0.08	-0.18
36 Multi Asset Credit																																				1.00	0.02	0.34	0.54	0.69	0.23	0.55	0.42	0.33	0.10
37 ILS																																					1.00	0.07	0.04	-0.03	0.04	0.07	0.09	0.03	0.10
38 EIRP - Low Beta																																						1.00	0.56	0.16	0.24	0.19	0.14	0.34	0.17
39 EIRP - High Beta																																							1.00	0.31	0.32	0.20	0.10	0.50	0.11
40 Private Debt - Direct Lending																																								1.00	0.10	0.39	0.26	0.21	0.01
41 ARP																																									1.00	0.12	0.10	0.20	0.11
42 eLDI																																										1.00	0.89	0.15	0.01
43 Core Plus Bonds																																											1.00	0.09	0.02
44 Closed-End Real Assets																																												1.00	0.11
45 Inflation																																													1.00

Expected Returns are models and do not represent the returns of an actual client account. This presentation is intended to document Aon's forward-looking expected returns for asset classes on a one- to ten-year time horizon. The views expected in this table are Aon's forward-looking expectations based on informed historical results. There can be no guarantee that any of these expectations will become actual results. This is not a managed portfolio and there are no actual assets associated with the model performance presented.

Correlations based on expected returns on previous page.

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MSCI All Country World IMI Index - A capitalization-weighted index of large, mid and small cap stocks representing 23 developed and 24 emerging market countries. The index is the broadest measure of the aggregate global stock market, covering approximately 99% of the global equity investment opportunity set.

Russell 3000 Index - Russell 3000 Index - A capitalization-weighted index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

MSCI EAFE Index - A capitalization-weighted equity index which captures large and mid cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 910 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI USA Index - A capitalization-weighted stock index that aggregates the MSCI U.S. Large Cap 300, Mid Cap 450, Small Cap 1,750 and Micro Cap Indices. This index represents approximately 99.5% of the capitalization of the U.S. Equity market and includes approximately 3,562 companies

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Aon Investments USA Inc.
200 E. Randolph Street
Suite 700
Chicago, IL 60601
ATTN: Aon Investments Compliance Officer

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