Pension Discussion Guide

Town of Wilton
August 11, 2021

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

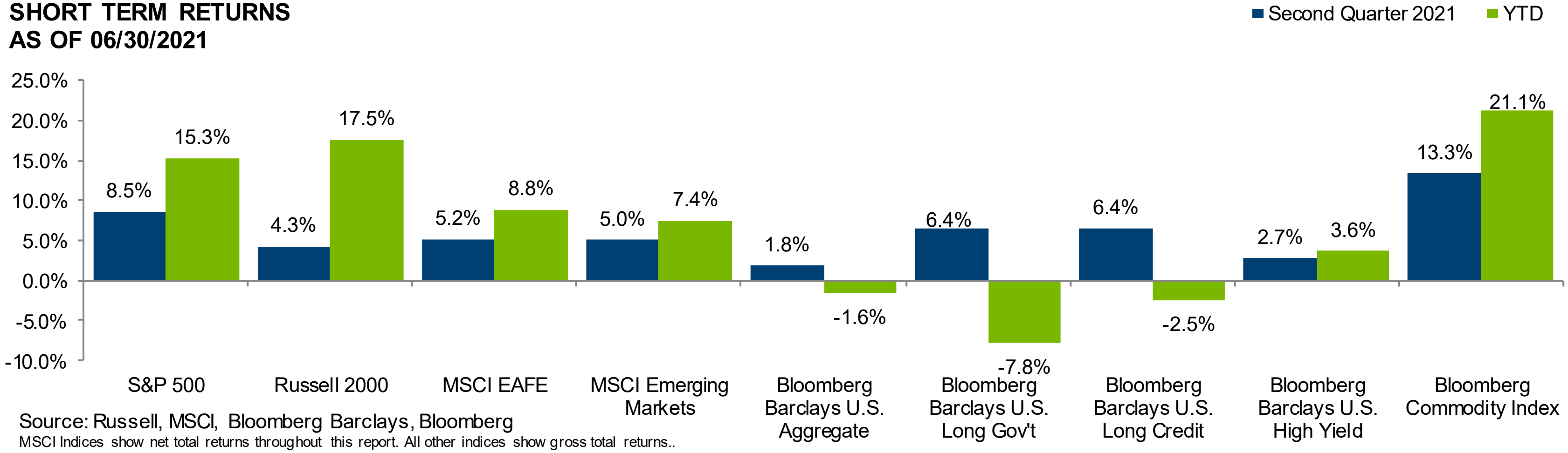
Empower Results®

Contents

Executive Summary

Market Highlights

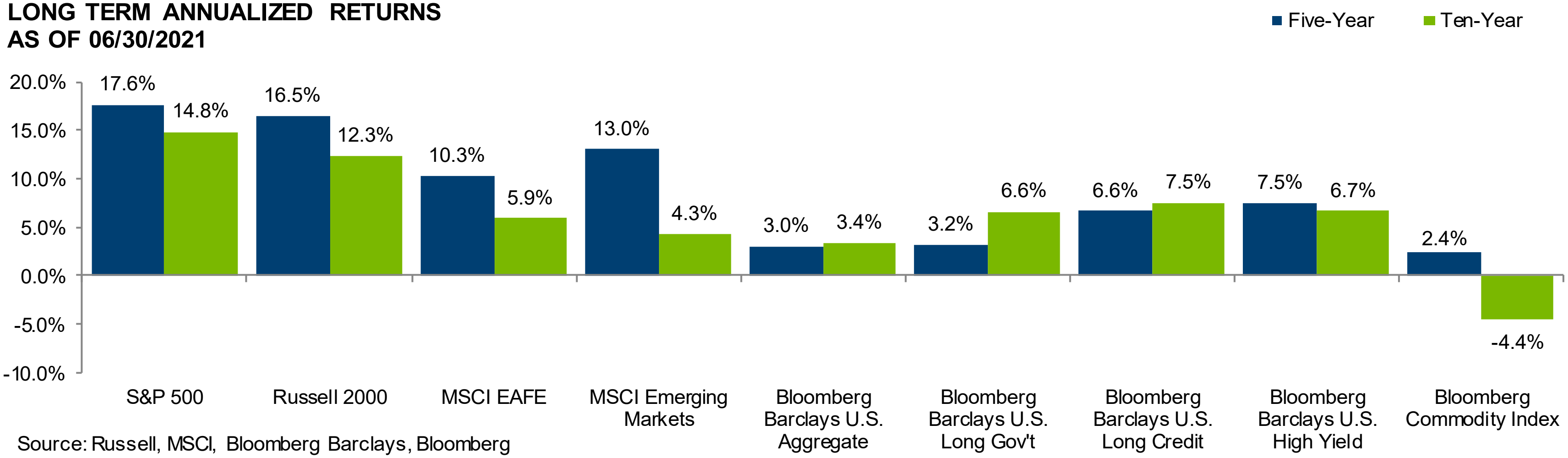
SHORT TERM RETURNS
AS OF 06/30/2021



Source: Russell, MSCI, Bloomberg Barclays, Bloomberg

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

LONG TERM ANNUALIZED RETURNS
AS OF 06/30/2021



Source: Russell, MSCI, Bloomberg Barclays, Bloomberg

Market Highlights

Returns of the Major Capital Markets

Period Ending 06/30/2021

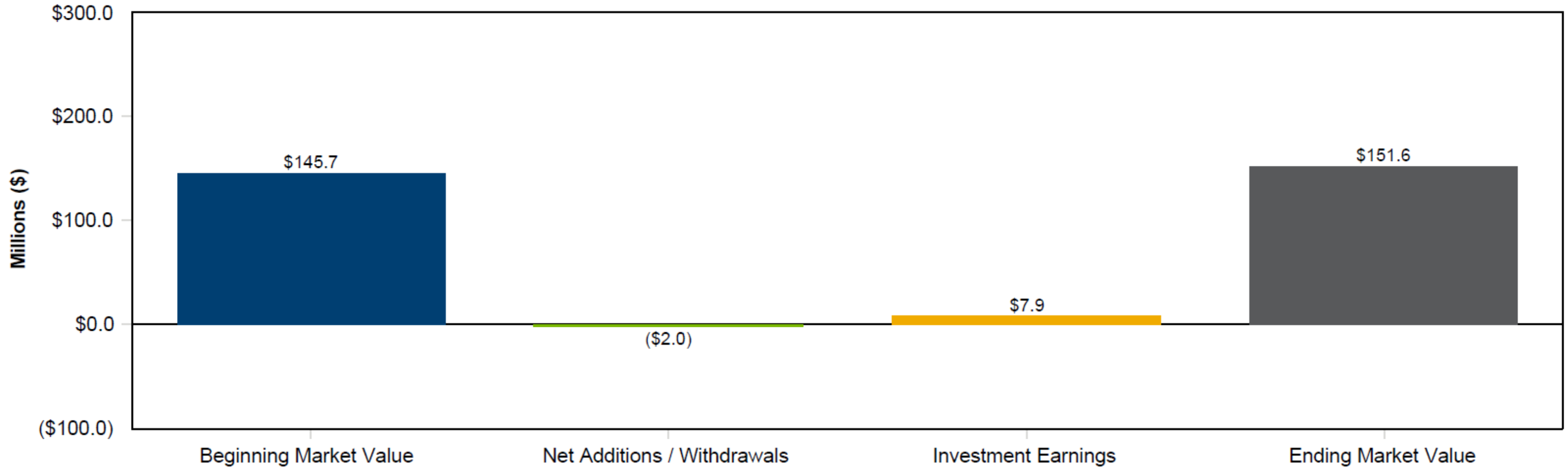
	Second Quarter	YTD	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity						
MSCI All Country World IMI	7.18%	12.68%	40.94%	14.24%	14.55%	9.90%
MSCI All Country World	7.39%	12.30%	39.26%	14.57%	14.61%	9.90%
Dow Jones U.S. Total Stock Market	8.29%	15.27%	44.29%	18.69%	17.86%	14.66%
Russell 3000	8.24%	15.11%	44.16%	18.73%	17.89%	14.70%
S&P 500	8.55%	15.25%	40.79%	18.67%	17.65%	14.84%
Russell 2000	4.29%	17.54%	62.03%	13.52%	16.47%	12.34%
MSCI All Country World ex-U.S. IMI	5.60%	9.58%	37.18%	9.42%	11.20%	5.65%
MSCI All Country World ex-U.S.	5.48%	9.16%	35.72%	9.38%	11.08%	5.45%
MSCI EAFE	5.17%	8.83%	32.35%	8.27%	10.28%	5.89%
MSCI EAFE (Local Currency)	4.79%	12.75%	27.08%	7.53%	10.01%	8.09%
MSCI Emerging Markets	5.05%	7.45%	40.90%	11.27%	13.03%	4.28%
Equity Factors						
MSCI World Minimum Volatility (USD)	5.96%	7.43%	19.13%	10.68%	9.13%	10.33%
MSCI World High Dividend Yield	4.41%	11.08%	28.42%	10.21%	9.73%	8.66%
MSCI World Quality	10.85%	14.17%	37.98%	21.00%	19.04%	14.53%
MSCI World Momentum	6.95%	7.46%	32.26%	17.52%	18.05%	14.52%
MSCI World Enhanced Value	2.78%	16.85%	38.41%	6.51%	10.42%	7.26%
MSCI World Equal Weighted	5.78%	12.39%	40.50%	10.90%	12.62%	9.17%
MSCI World Index Growth	10.95%	11.27%	40.00%	21.54%	19.94%	13.89%
Fixed Income						
Bloomberg Barclays Global Aggregate	1.31%	-3.21%	2.63%	4.23%	2.34%	2.05%
Bloomberg Barclays U.S. Aggregate	1.83%	-1.60%	-0.33%	5.34%	3.03%	3.39%
Bloomberg Barclays U.S. Long Gov't	6.43%	-7.82%	-10.42%	7.97%	3.18%	6.62%
Bloomberg Barclays U.S. Long Credit	6.45%	-2.49%	4.32%	10.73%	6.65%	7.55%
Bloomberg Barclays U.S. Long Gov't/Credit	6.44%	-4.64%	-1.86%	9.92%	5.45%	7.30%
Bloomberg Barclays U.S. TIPS	3.25%	1.73%	6.51%	6.53%	4.17%	3.40%
Bloomberg Barclays U.S. High Yield	2.74%	3.62%	15.37%	7.45%	7.48%	6.66%
Bloomberg Barclays Global Treasury ex U.S.	0.63%	-5.33%	2.86%	2.80%	1.05%	0.80%
JP Morgan EMBI Global (Emerging Markets)	3.93%	-1.00%	6.81%	6.48%	4.44%	5.34%
Commodities						
Bloomberg Commodity Index	13.30%	21.15%	45.61%	3.90%	2.40%	-4.44%
Goldman Sachs Commodity Index	15.72%	31.40%	57.37%	-2.72%	1.73%	-6.48%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	4.02%	10.03%	27.43%	8.69%	7.93%	5.12%
HFRI Fund of Funds[2]	2.68%	4.75%	18.07%	6.25%	6.09%	3.84%
Real Estate						
NAREIT U.S. Equity REITS	12.02%	21.96%	38.02%	10.10%	6.31%	9.41%
NCREIF NFI - ODCE	3.93%	6.10%	8.02%	5.52%	6.57%	9.60%
FTSE Global Core Infrastructure Index	2.81%	8.39%	20.44%	10.30%	9.22%	9.60%
Private Equity						
Burgiss Private iQ Global Private Equity[3]			27.32%	17.72%	16.13%	13.88%

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 at December 31, 2020

Pension Performance Summary

Total Plan Asset Summary

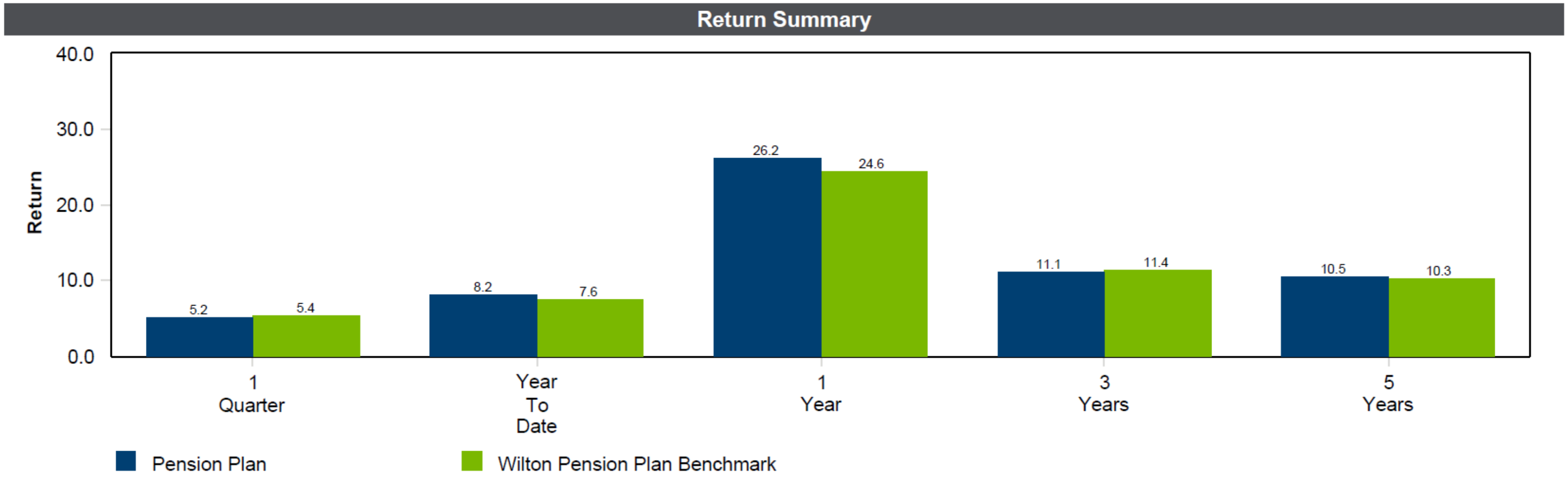
Change in Market Value
From April 1, 2021 to June 30, 2021

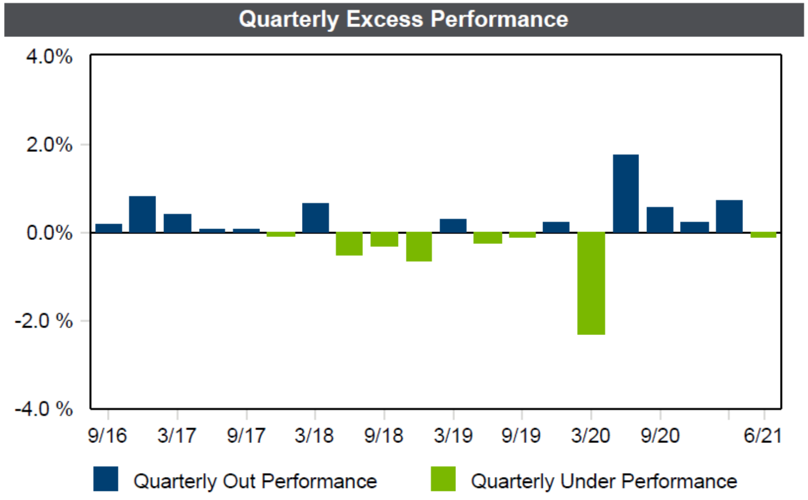


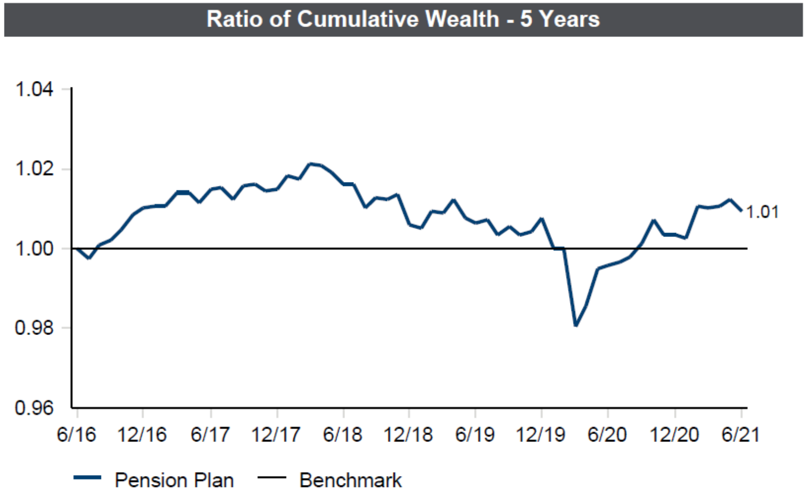
Summary of Cash Flow

	1 Quarter	1 Year	Since Inception	Inception Date
Beginning Market Value	145,679,861	124,112,862	73,939,906	
+ Additions / Withdrawals	-2,011,991	-5,167,331	-7,155,367	
+ Investment Earnings	7,920,231	32,642,570	84,803,563	
= Ending Market Value	**151,588,101**	**151,588,101**	**151,588,101**	

Total Plan Performance Summary



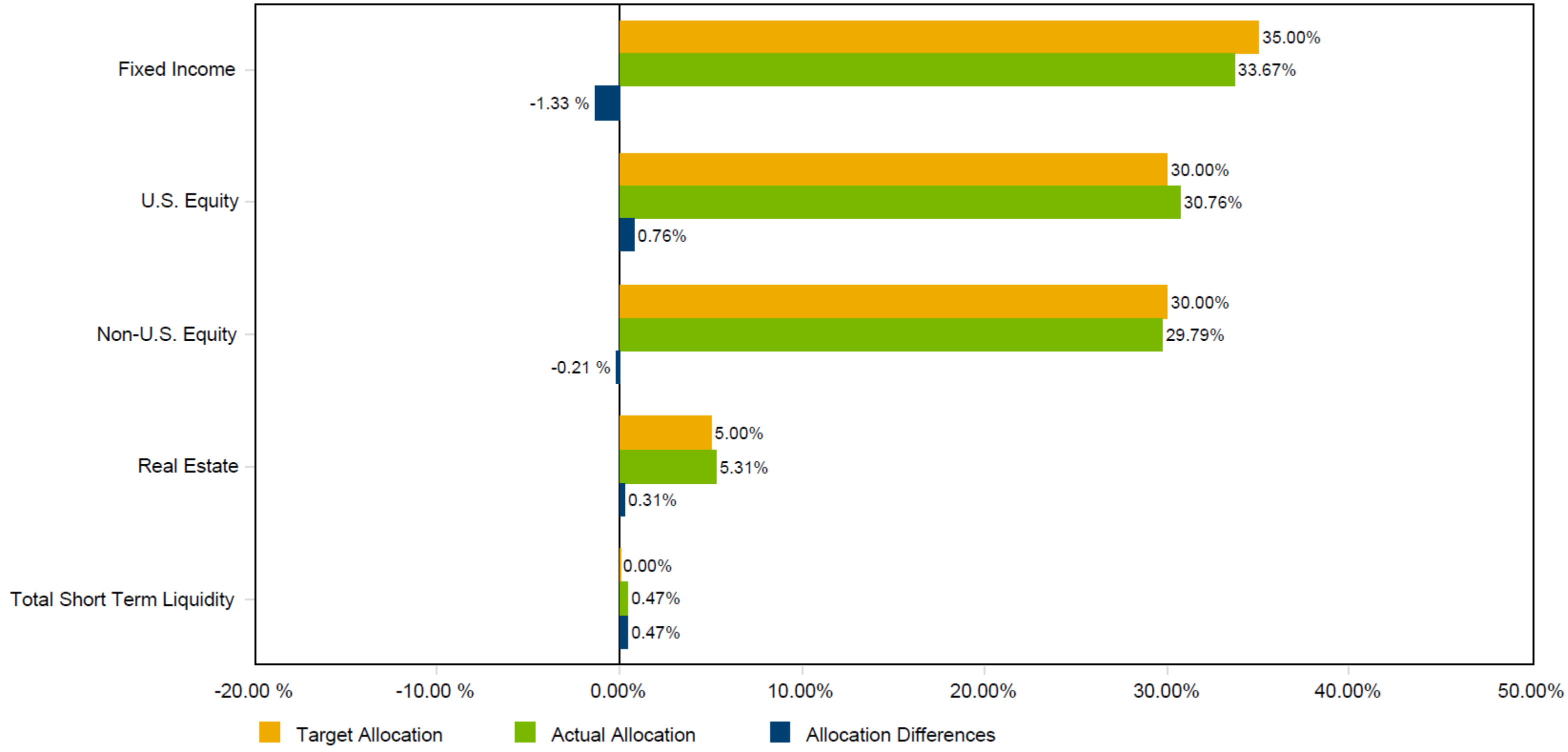




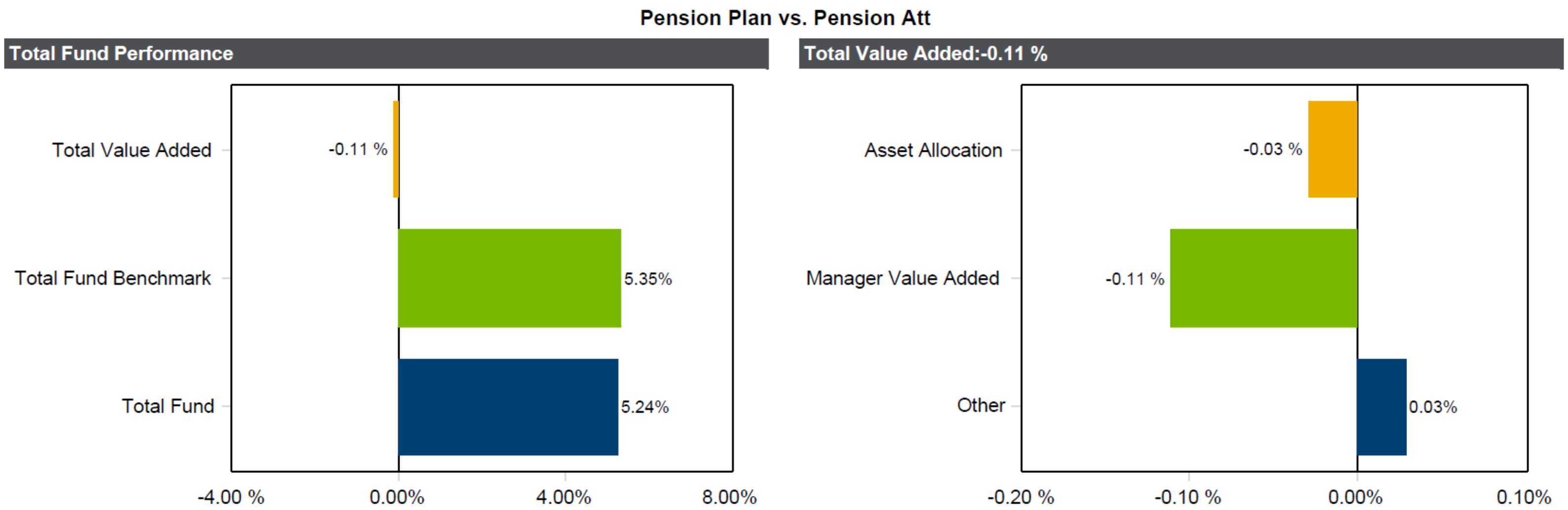
Empower Results®

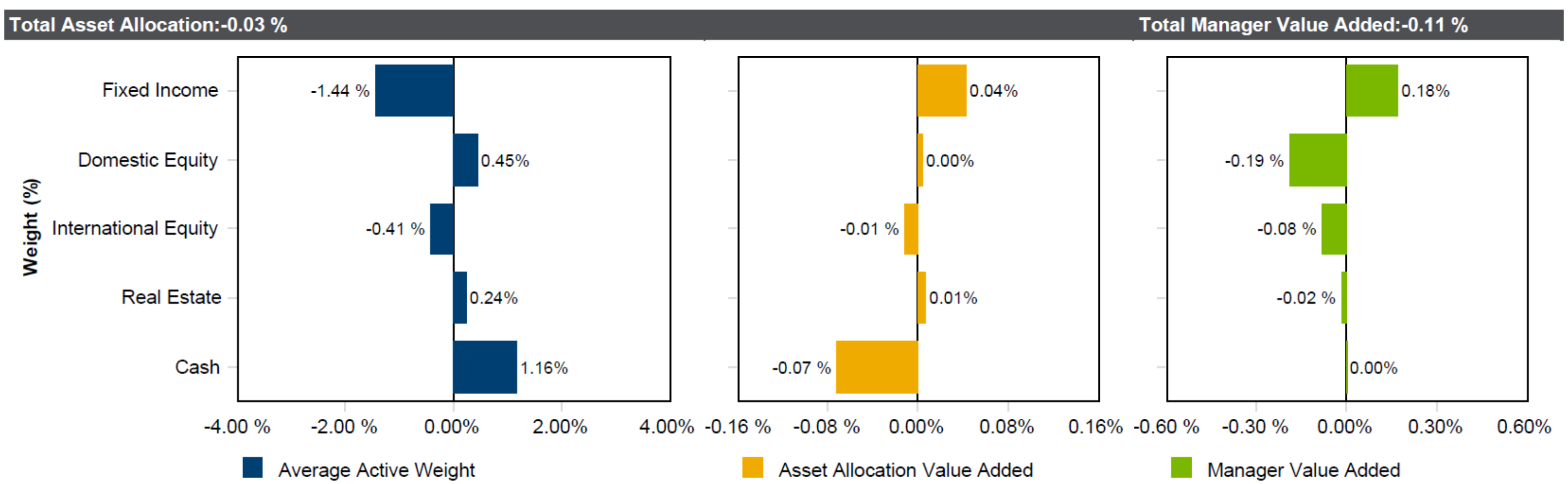
Asset Allocation as of June 30, 2021

	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Differences (%)
Pension Plan	151,588,100.80	100.00	100.00	0.00
Fixed Income	**51,034,807.51**	**33.67**	**35.00**	**-1.33**
U.S. Equity	**46,632,017.65**	**30.76**	**30.00**	**0.76**
Non-U.S. Equity	**45,155,480.61**	**29.79**	**30.00**	**-0.21**
Real Estate	**8,051,774.75**	**5.31**	**5.00**	**0.31**

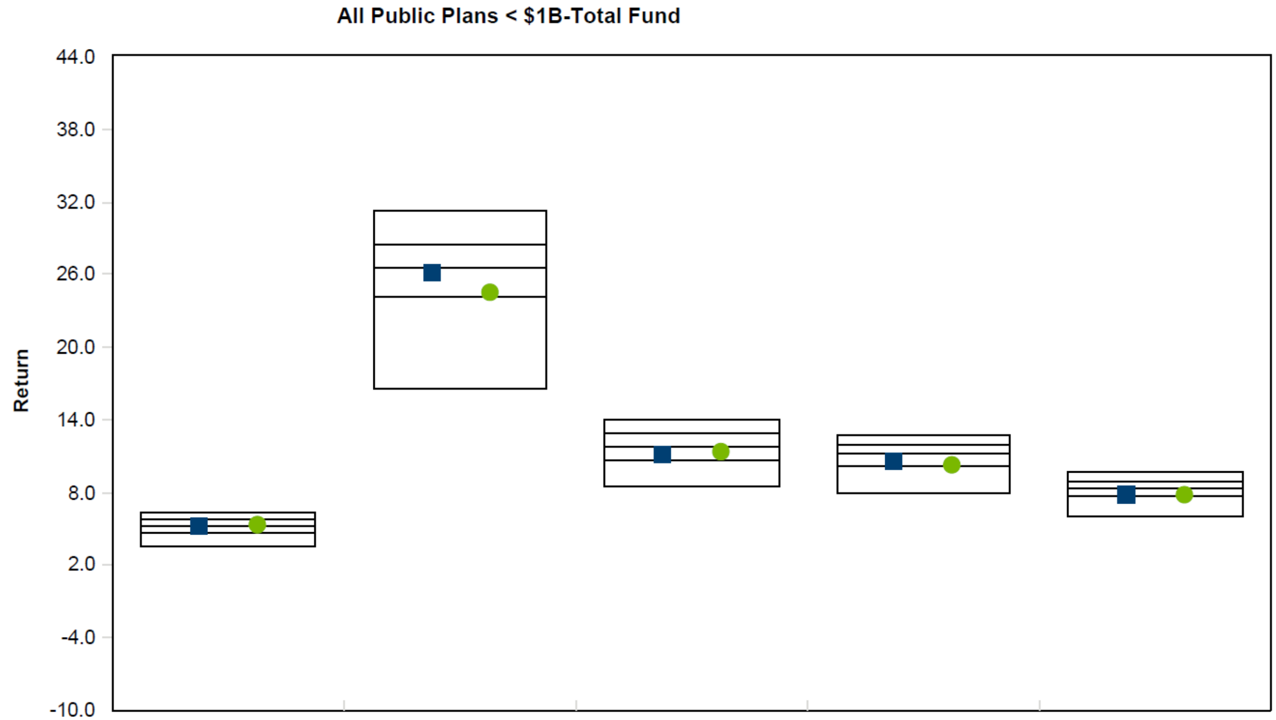


Pension Total Fund Attribution:
1 Quarter as of June 30, 2021





Plan Sponsor Peer Group Analysis
As of June 30, 2021



	1 Quarter	1 Year	3 Years	5 Years	7 Years
■ Pension Plan	5.2 (50)	26.2 (56)	11.1 (64)	10.5 (68)	7.8 (71)
● Wilton Pension Plan Benchmark	5.4 (46)	24.6 (71)	11.4 (60)	10.3 (71)	7.8 (70)
5th Percentile	6.3	31.3	14.0	12.8	9.8
1st Quartile	5.7	28.5	12.9	12.0	8.9
Median	5.2	26.6	11.8	11.2	8.3
3rd Quartile	4.7	24.1	10.6	10.1	7.7
95th Percentile	3.6	16.6	8.5	8.0	6.1
Population	403	397	368	352	312

Performance as of June 30, 2021

	Allocation			Performance(%)														
	Market Value ($)	%	Policy(%)	1 Quarter		Year To Date		1 Year		3 Years		5 Years		7 Years		Since Inception		Inception Date
Pension Plan	151,588,101	100.0	100.0	5.2		8.2		26.2		11.1		10.5		7.8		8.5		05/01/2012
Wilton Pension Plan Benchmark				*5.4*		*7.6*		*24.6*		*11.4*		*10.3*		*7.8*		*8.6*		
Fixed Income	51,034,808	33.7	35.0	2.3		0.4		3.5		5.2		3.8		3.2		4.7		05/01/2008
Wilton Pension FI Hybrid BB				*1.8*		*-1.6*		*0.1*		*5.2*		*2.9*		*3.0*		*4.1*		
Vanguard Total Bond Market Index Instl	6,504,172	4.3		2.0	(47)	-1.7	(84)	-0.4	(88)	5.4	(64)	3.0	(72)	-		3.2	(67)	12/01/2014
Blmbg. Barc. U.S. Aggregate				*1.8*	*(63)*	*-1.6*	*(77)*	*-0.3*	*(86)*	*5.3*	*(68)*	*3.0*	*(70)*	-		*3.2*	*(67)*	
IM U.S. Broad Market Core Fixed Income (MF) Median				2.0		-1.2		1.2		5.7		3.4		-		3.4		
Metropolitan West Total Return Bond Pl	15,140,687	10.0		1.8	(89)	-1.1	(73)	1.4	(88)	6.2	(43)	3.7	(73)	3.6	(57)	4.1	(35)	05/01/2012
Blmbg. Barc. U.S. Aggregate				*1.8*	*(87)*	*-1.6*	*(95)*	*-0.3*	*(100)*	*5.3*	*(86)*	*3.0*	*(96)*	*3.3*	*(83)*	*3.0*	*(96)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				2.2		-0.8		3.0		6.1		4.0		3.7		3.9		
PGIM Total Return Bond R6	7,859,458	5.2		3.1	(8)	-1.4	(86)	2.7	(52)	6.2	(41)	4.3	(36)	-		4.3	(25)	01/01/2015
Blmbg. Barc. U.S. Aggregate				*1.8*	*(87)*	*-1.6*	*(95)*	*-0.3*	*(100)*	*5.3*	*(86)*	*3.0*	*(96)*	-		*3.2*	*(92)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				2.2		-0.8		3.0		6.1		4.0		-		3.9		
PIMCO Income Fund	12,319,360	8.1		2.0	(61)	1.8	(41)	-		-		-		-		3.4	(40)	12/01/2020
Blmbg. Barc. U.S. Aggregate				*1.8*	*(65)*	*-1.6*	*(96)*	-		-		-		-		*-1.5*	*(98)*	
IM Multi-Sector General Bond (MF) Median				2.2		1.4		-		-		-		-		2.8		
Apollo Total Return Fund	5,912,590	3.9		0.4	(99)	1.9	(39)	-		-		-		-		1.9	(39)	01/01/2021
50/50 ML Master II & Credit Suisse LLI				*2.1*	*(57)*	*3.6*	*(9)*	-		-		-		-		*3.6*	*(9)*	
IM Multi-Sector General Bond (MF) Median				2.2		1.4		-		-		-		-		1.4		
Aon Opportunistic Credit Fund	3,298,539	2.2		9.5		-		-		-		-		-		12.4		02/01/2021
Opportunistic Credit Custom Index				*2.7*		-		-		-		-		-		*4.0*		
Cash Equivalents	714,020	0.5	0.0	0.0		0.0		0.0		1.2		0.9		0.7		0.5		05/01/2008
90 Day U.S. Treasury Bill				*0.0*		*0.0*		*0.1*		*1.3*		*1.2*		*0.9*		*0.6*		
Wells Fargo Government MM Fund	714,020	0.5		0.0		0.0		0.0		1.2		0.9		0.7		0.5		05/01/2012
90 Day U.S. Treasury Bill				*0.0*		*0.0*		*0.1*		*1.3*		*1.2*		*0.9*		*0.7*		

Empower Results®

Performance as of June 30, 2021

	Allocation			Performance(%)							
	Market Value ($)	%	Policy(%)	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
U.S. Equity	46,632,018	30.8	30.0	7.6	16.1	43.5	17.3	16.6	13.5	11.2	05/01/2008
Russell 3000 Index				*8.2*	*15.1*	*44.2*	*18.7*	*17.9*	*14.0*	*11.4*	
Vanguard Institutional Index Fund Instl	33,667,799	22.2		8.5 (22)	15.2 (6)	40.8 (11)	18.7 (15)	17.6 (14)	14.1 (10)	15.3 (9)	05/01/2012
S&P 500 Index				*8.5 (4)*	*15.3 (1)*	*40.8 (5)*	*18.7 (4)*	*17.6 (7)*	*14.1 (4)*	*15.3 (4)*	
IM S&P 500 Index (MF) Median				8.5	15.2	40.6	18.5	17.5	13.9	15.1	
Diamond Hill Small-Mid Cap Y	6,352,541	4.2		5.4 (37)	21.1 (48)	58.9 (29)	10.6 (45)	11.0 (61)	8.7 (52)	12.3 (26)	05/01/2012
Russell 2500 Value Index				*5.0 (45)*	*22.7 (31)*	*63.2 (18)*	*10.6 (45)*	*12.3 (37)*	*8.8 (51)*	*11.9 (48)*	
IM U.S. Mid Cap Value Equity (MF) Median				4.8	20.9	53.0	10.2	11.4	8.8	11.6	
Eaton Vance Atlanta Capital SMID Instl	6,611,678	4.4		5.3 (50)	14.2 (11)	42.9 (68)	15.5 (79)	16.0 (87)	14.4 (56)	15.1 (60)	05/01/2012
Russell 2500 Growth Index				*6.0 (33)*	*8.7 (57)*	*49.6 (43)*	*20.1 (47)*	*20.7 (52)*	*14.8 (50)*	*16.1 (42)*	
IM U.S. SMID Cap Growth Equity (MF) Median				5.3	8.8	46.6	19.5	21.0	14.8	15.6	
Non-U.S. Equity	45,155,481	29.8	30.0	5.2	7.6	37.2	10.4	12.2	6.8	3.8	05/01/2008
MSCI AC World ex USA Index (Net)				*5.5*	*9.2*	*35.7*	*9.4*	*11.1*	*5.3*	*3.5*	
American Funds EuroPacific Growth R6	12,005,633	7.9		7.0 (1)	6.5 (96)	40.1 (18)	13.8 (1)	14.5 (1)	8.7 (1)	8.7 (1)	07/01/2014
MSCI AC World ex USA Index (Net)				*5.5 (22)*	*9.2 (72)*	*35.7 (60)*	*9.4 (19)*	*11.1 (7)*	*5.3 (18)*	*5.3 (18)*	
IM International Large Cap Core Equity (MF) Median				4.5	9.6	37.8	8.2	9.9	4.4	4.4	
T. Rowe Price Overseas Stock Instl	11,782,972	7.8		3.8 (65)	10.1 (32)	35.7 (60)	8.6 (33)	11.2 (6)	-	-	07/01/2014
MSCI EAFE Index (Net)				*5.2 (31)*	*8.8 (86)*	*32.4 (75)*	*8.3 (49)*	*10.3 (26)*	*5.0 (30)*	*5.0 (30)*	
IM International Large Cap Core Equity (MF) Median				4.5	9.6	37.8	8.2	9.9	4.4	4.4	
Templeton Instl Foreign Smaller Companies Fund Adv	5,457,637	3.6		6.4 (20)	12.8 (40)	45.7 (36)	7.9 (39)	11.4 (36)	6.2 (50)	8.3 (47)	05/01/2012
MSCI AC World ex USA Small Cap (Net)				*6.4 (21)*	*12.2 (49)*	*47.0 (27)*	*9.8 (18)*	*12.0 (22)*	*7.1 (20)*	*8.8 (36)*	
IM International SMID Cap Core Equity (MF) Median				5.5	12.1	44.8	7.1	10.4	6.2	8.3	
GQG Partners Emerging Markets Equity	7,922,484	5.2		5.4 (47)	4.0 (86)	-	-	-	-	4.0 (86)	01/01/2021
MSCI Emerging Markets Index				*5.1 (49)*	*7.6 (58)*	-	-	-	-	*7.6 (58)*	
IM Emerging Markets Equity (MF) Median				5.1	8.1	-	-	-	-	8.1	
William Blair Emerging Markets Leaders Fund; R6	7,986,756	5.3		3.7 (76)	3.9 (87)	-	-	-	-	3.9 (87)	01/01/2021
MSCI Emerging Markets Index				*5.1 (49)*	*7.6 (58)*	-	-	-	-	*7.6 (58)*	
IM Emerging Markets Equity (MF) Median				5.1	8.1	-	-	-	-	8.1	

Performance as of June 30, 2021

	Allocation			Performance(%)							
	Market Value ($)	%	Policy(%)	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Real Estate	8,051,775	5.3	5.0	11.7	21.4	34.4	12.0	7.1	8.9	9.4	07/01/2012
Wilton Pension Real Estate				*12.0*	*21.3*	*34.0*	*11.9*	*7.1*	*8.9*	*9.4*	
Cohen & Steers Institutional Realty Shares	7,538,230	5.0		12.1 (48)	21.7 (39)	-	-	-	-	21.7 (39)	01/01/2021
FTSE NAREIT All Equity REITs				*12.0 (50)*	*21.3 (47)*	-	-	-	-	*21.3 (47)*	
IM Real Estate Sector (MF) Median				12.0	21.2	-	-	-	-	21.2	
Westbrook Real Estate Fund XI	513,545	0.3		11.5	-	-	-	-	-	11.5	02/01/2021

Barings North American Private Loan Fund II

Barings North American Private Loan Fund II

Firm and Fund

Firm

- In July 2016, Baring Asset Management Limited ("BAML") became an indirect, wholly-owned subsidiary of Babson Capital Management LLC ("Babson"), which changed its name to Barings LLC in September 2016
  - Both companies were acquired by Massachusetts Mutual Life Insurance Company ("MassMutual")—Babson in 1995 and BAML in 2005
- Barings has over $326 billion in assets under management globally across fixed income, alternative investments and equity markets
  - Barings' Global Private Finance Group consists of more than 70 investment professionals with the North American Private Finance team consisting of approximately 40 investment professionals—led by Ian Fowler and Adam Wheeler
- Barings is a wholly-owned indirect subsidiary of MassMutual, a leading mutually owned life insurance company
- The Firm's principal business office is located in Charlotte, NC

Fund

- Barings North American Private Loan Fund II is seeking to raise approximately $1.0 billion in commitments
- The Fund will seek to construct a diversified portfolio of directly originated private credit from North America, primarily investing in directly originated senior secured first lien loans as well as a basket allowing for up to 20% of primarily second lien and to a lesser extent junior capital investments
- The investment team will focus on middle-market companies ranging in size from approximately $10.0 million to $75.0 million of EBITDA—primarily targeting companies with $40.0 million to $50.0 million of EBITDA
- The Fund often seeks to invest with sector-focused managers, including those targeting the consumer, healthcare, industrial and business services sectors
- The portfolio will be diversified across more than 60 platform positions with loan facility sizes ranging from $25.0 million to $250.0 million

Barings North American Private Loan Fund II

Investment Evaluation

Experienced Team

- The Fund's portfolio managers are Ian Fowler and Mark Flessner, who have worked together for 17 years—both are also members of the North American Investment Committee (Ian is also a member of the European and Asia Pacific Investment Committees)
- The North American investment team, which consists of approximately 40 investment professionals located across three offices in North America, average 18.5 years of experience at the senior level and average 26 years of industry experience at the Investment Committee level

Deep Sponsor Relationships

- Barings has developed strategic relationships with private equity firms globally through providing consistent, predictable capital to middle-market sponsors over multiple decades
- MassMutual has committed more than $3.0 billion as a limited partner in over 200 North American buyout funds

Unique Investment Approach

- Barings consistently incorporate ESG considerations into its rigorous, bottom-up investment process
- The GPFG has been formally tracking ESG considerations in investment opportunities since 2015 and their transparent approach is demonstrated through the team's annual ESG report

Attractive Fund Terms

- Terms and conditions are mainly in line with expected market norms; however, we note the attractive management fee (0.80% per annum on invested capital) and carried interest (10%) terms

Barings North American Private Loan Fund II

Summary

Fund	Vintage Year	Fund Size	Capital Invested	# of Inv.	Inv. Realized	Realized Value	Unrealized Value	Total Value	Gross TVPI	Net TVPI	Gross IRR	Net IRR
European DL I	2015	€ 350.0	€ 602.0	36	18	€ 350.0	€ 317.0	€ 667.0	1.3x	1.2x	7.4%	7.3%
Global PLF I	2015	$777.0	$1,013.0	78	51	$812.0	$314.0	$1,126.0	1.3x	1.2x	9.1%	7.8%
Global PLF II	2016	$1,300.0	$1,589.0	92	32	$709.0	$971.0	$1,680.0	1.2x	1.2x	8.1%	7.1%
North American PLF I	2016	$1,822.0	$2,263.0	138	42	$807.0	$1,603.0	$2,410.0	1.3x	1.2x	14.4%	12.2%
European PLF II	2018	€ 1,520.0	€ 1,629.0	54	7	€ 289.0	€ 1,410.0	€ 1,699.0	1.1x	1.1x	9.4%	8.1%
Global PLF III	2018	$2,412.0	$2,269.0	103	5	$98.0	$2,206.0	$2,304.0	1.1x	1.1x	11.2%	10.0%
Total		**$8,181.0**	**$9,365.0**	**501**	**155**	**$3,065.0**	**$6,821.0**	**$9,886.0**				

Portfolio Characteristics

Vintage Year	2020	**Strategy**	Direct Lending
Target Geography	North America	**Target Industries**	Diversified
Average Investment Size	$25.0mn- $45.0mn	**Company Size**	$10.0mn-$75.0mn EBITDA
Target Number of Deals	60+	**Ownership**	Control/Influence Debt Tranche
Target / Hard Cap	$1,800.0mn / $2,000.0mn		

Terms, Conditions, and Fees

Sponsor Commitment	No stated GP commitment	**Preferred Return**	8% (1.5:1 leverage) 6% (1:1 leverage)
Investment Period`	3 years (1-year reinvestment)	**Term**	8 years
Limitations	See Review of Terms & Conditions	**Recycling Provision**	36-months from final close
Credit Line Usage	Subscription line < 3 months outstanding	**Valuations**	Quarterly FMV
Management Fee	0.80% p.a. of invested capital	**Incentive Fee & Waterfall**	10% European
Benchmark	Burgiss iQ US Senior Debt	**Target Return**	10%-12% (1.5:1 leverage) 8%-10% (1:1 leverage)

Investment Policy Statement

Empower Results®

Proposed Investment Policy Update

Asset Class	Minimum Weight	Target Weight	Maximum Weight	Benchmark Index
Domestic Equities Total	**20.0%**	**30.0%**	**40.0%**	**Russell 3000 Index**
Large Cap	10.0%	22.0%	32.0%	
Small Cap	0.0%	8.0%	20.0%	
International Equities Total	**20.0%**	**30.0%**	**40.0%**	**MSCI ACWI ex-U.S. Index**
International Developed	10.0%	20.0%	30.0%	
International Emerging	0.0%	10.0%	15.0%	
Fixed Income Total	**25.0%**	**35.0%**	**45.0%**	**Bloomberg Barclays U.S. Aggregate Index,~~Citigroup World Gov't Bond Index, S&P/LTSA Leveraged Loan Index~~**
~~Inflation Protected Fixed Income~~	~~0.0%~~	~~1.5%~~	~~3.0%~~	
Core Fixed Income	~~11.0%~~10.0%	~~21.0%~~20.0%	~~31.0%~~30.0%	
~~High Yield Fixed Income~~	~~0.0%~~	~~2.5%~~	~~5.0%~~	
~~Global Fixed Income~~	~~0.0%~~	~~5.0%~~	~~7.5%~~	
Credit Related Fixed Income	5.0%	10.0%	15.0%	
Private Debt	0.0%	5.0%	7.5%	
Real Estate	**0.0%**	**5.0%**	**7.5%**	**NCREIF**

Aon Medium Term Views

Recommended actions

Total Return Cross Asset Class Views

---	--	-	=	+	++	+++
		Core fixed income, Credit	Equities	Alternatives		

Equity view remains neutral but risks have risen

We still favor uncorrelated sources of returns from a risk-mitigation view

Relative Asset Class Views

Equity Regions

---	--	-	=	+	++	+++
			USA, EAFE	Emerging		

Regional views unchanged as the global recovery reaches a pivotal point

Improving virus containment and growth story is supportive for EM Asia

Credit

---	--	-	=	+	++	+++
		High Yield	USD EMD, Local EMD, Bank Loans	Selected ABS		

High valuations have prompted a downgrade to HY

EM assets stand to benefit from the global economic recovery and our outlook of US yields rising only gradually means that we are upgrading our EM debt view

Equity Styles

---	--	-	=	+	++	+++
		Low Vol., Growth	Quality, Value			

Value preferred to growth but only moderately

Core Fixed Income Duration*

---	--	-	=	+	++	+++
			Treasuries, Inv. Grade, TIPS			

We still lean negative on duration

No preference between nominal and inflation-linked bonds

Alternatives

---	--	-	=	+	++	+++
			Commodities, Real Estate	Diversifying Hedge Funds, Global Infra., Private Credit		

Non-correlated alternatives still generally preferred

Currencies versus USD

---	--	-	=	+	++	+++
			EUR, GBP, JPY, EM			

US dollar may be supported near-term by growth and interest rates, but we are less positive over the next few years

* Please refer to Page 11 for detailed global views
Please refer to the end of the document for interpretation guidelines

Equities

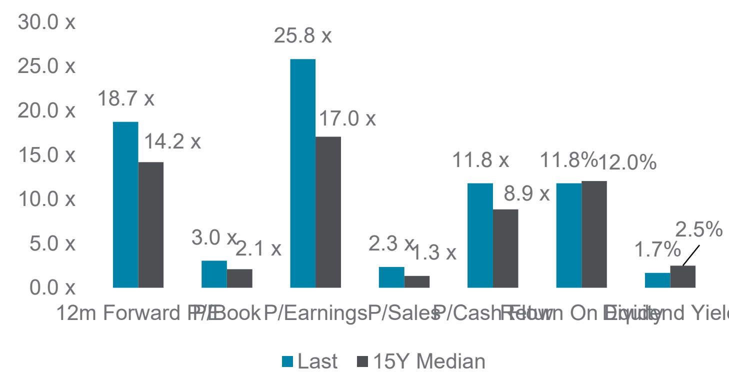
Conditions remain supportive from policy and recovery but risks have risen

- Equity markets trended higher over most of the second quarter as continued monetary and fiscal policy support, coupled with the easing of restrictions in many key economies, have all been supportive. The exception came in mid-June, when a less accommodative tone by the US Federal Reserve shook confidence, triggering a wobble in markets. Along with inflation worries, risks from virus variants and peaking stimulus are also beginning to rise now.
- In terms of valuations, there is no doubt that equities remain expensive relative to history but, while bond yields have risen this year, they remain broadly supportive. Earnings expectations for this year are unsurprisingly strong – over 38% expected EPS growth – but they are much more moderate for 2022 and 2023.
- Looking ahead over the coming months, we see few obvious triggers to a significant setback for equities – economic activity is likely to continue recovering, as is demand, and monetary and fiscal policy stimulus will likely remain in place. However, although inflation worries look overblown at the moment, they cannot be ignored, while the threat of variants also mean the pandemic impact will linger. Overall, we continue to moderately prefer equities to fixed income.

Earnings revisions pause and markets wobble

Source: Factset, Aon

MSCI World valuations are very expensive



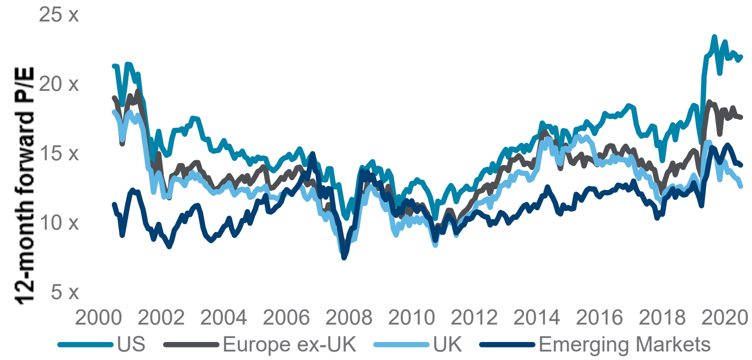
Source: Factset, Aon

Equities

Value preference remains but it is now a much closer call

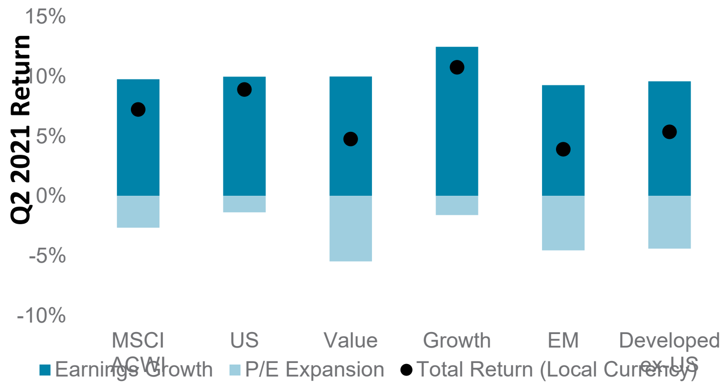
- The second quarter saw another rotation in equities, with US stocks outperforming, along with the technology sector and growth equities. The underlying drivers for this have been the prospect of huge US government stimulus at a time when further Covid waves were sweeping across Europe. The US equity market obviously has an outsized exposure to technology and growth, whilst Europe has higher exposures to the more traditional value sectors, such as financials, resources and industrials.
- In terms of future return drivers, vaccination rates in Europe have picked up and restrictions are being eased, boosting economic activity. Technology stocks are unlikely to suffer large declines in the near-term but are threatened by regulatory scrutiny and a new global taxation regime. We also note large valuation gaps between the major regions. On the negative side, we cannot see many tailwinds to equities once the recovery from the pandemic has run its course, which we expect towards the middle of next year.
- Overall, we have maintained our preference for value equities relative to growth, but the view is a marginal one. Equally, we have maintained our neutral stance on the major developed regions.

Large valuation gaps between markets



Source: Factset, MSCI, Aon

Value underperformed growth in Q2 but the catch-up is not yet over we believe



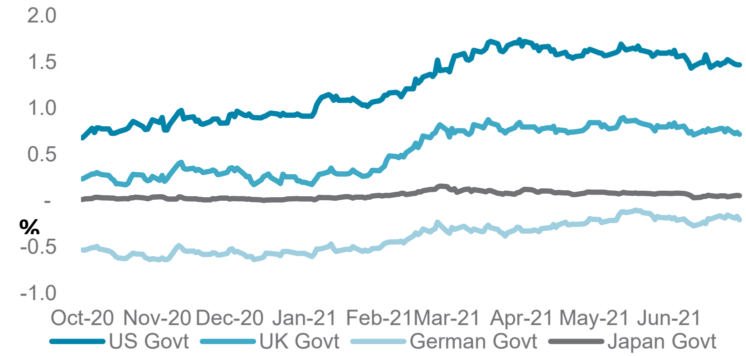
Source: Factset, MSCI, Aon. Changes in the 12-month forward P/E and earnings per share shown. Local currency returns and MSCI World Growth and Value indices shown.

Core fixed income

Inflation and peak Fed stimulus worries lead yields lower

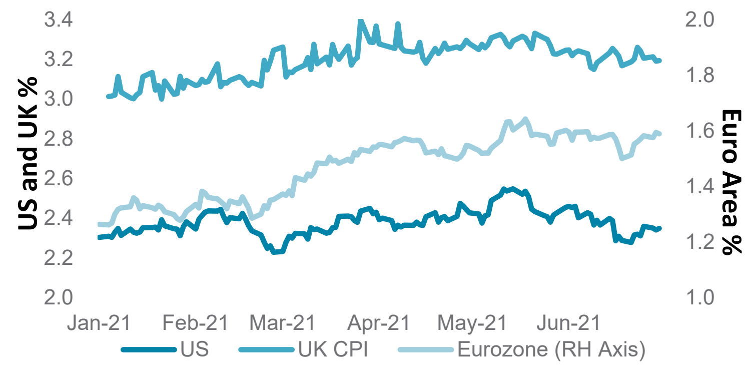
- We think Treasury yields will remain largely range-bound. We think inflation will remain elevated for now, keeping yields from going back to Q4 2020 levels, although further curve-flattening is likely.
- Medium-term inflation break-evens have fallen in the US, and we think they are around fair value now.
- We think the claims that there was a hawkish Fed "pivot" at the June FOMC meeting are overstated. Monetary policy will remain stimulatory over the medium term. Although asset purchases will be tapered, we still expect a slow pace of rate hikes. Fiscal policy could even potentially become contractionary after the 2022 mid-term elections if the Republicans regain control of Congress. However, with the further fall in yields over July, we think this is now priced in.
- The potential for new Covid-19 variants to prevent the global economy from normalising remains a risk and could also curtail activity in the US. We suspect that this would be more of a demand-side than supply-side shock and could also be a headwind for significantly higher yields.

Fall back in 10y yields has been small versus Q1 rise



Source: Bloomberg

US 5Y-5Y forward inflation break-evens have reduced



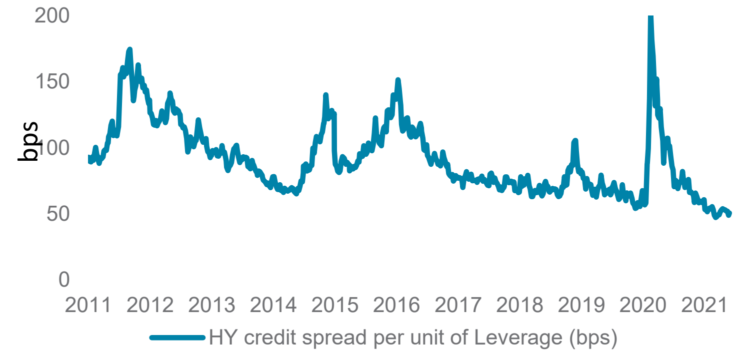
Source: Bloomberg

Credit

Downgrading high yield on precarious valuations, EM debt preferred

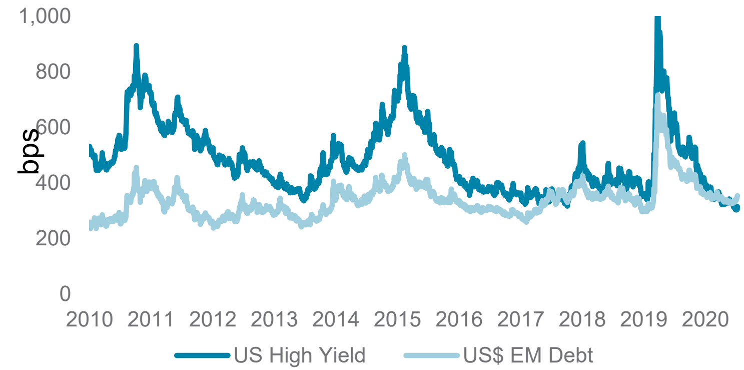
- In recent weeks. high yield (HY) bond yields have fallen to 3.8% (on a yield-to-worst basis) which is a 20-year low. We think that the prospect of reduced fiscal and monetary policy and flattening earnings as the economic recovery progresses leaves the HY pick-up in yield precarious. We are downgrading HY bonds to a single negative, meaning that we now prefer other areas of credit.
- For example, leveraged loans have a little more support from strong CLO demand and expectations that interest rates will rise at some stage so we are keeping our loan view unchanged at neutral.
- Meanwhile, EM debt continues to be pulled in two directions – boosted by the global economic recovery on the one hand but held captive by the risk of US treasury yield and US dollar rises on the other hand. EM debt has underperformed HY bonds over the last year and this is partly reflected in US$ EM credit spreads that appear more attractive compared to history.
- As we do not expect US bond yields to rise significantly, we are upgrading EM debt and remaining neutral between local and US$ EM bonds. Local debt is higher risk (more exposed to the dollar and any local EM worries) but also has more potential to benefit from the global economic recovery.

Tight HY spreads and high leverage leave HY bonds vulnerable



Source: BofA Securities

EM debt valuations less stretched than developed markets



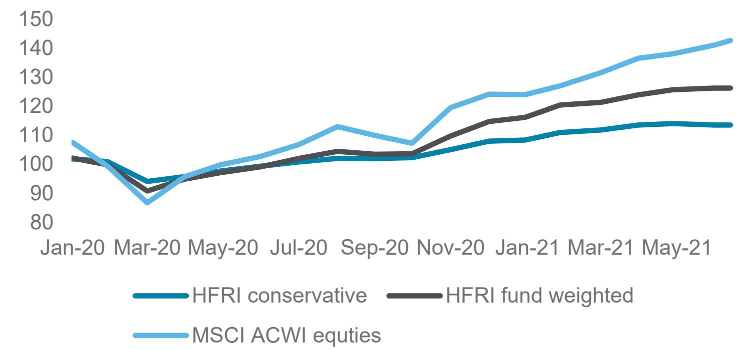
Source: Factset, JP Morgan

Alternatives

A diversifying hedge fund allocation continues to be recommended

- Hedge funds have lagged equities but have performed reasonably well in risk-adjusted terms since the start of the pandemic. The volatility of hedge fund returns is typically far lower than equity markets and this is so for the 2020/21 period where the diversifying hedge fund strategy basket's volatility (HFRI Conservative index) has been about a third of public equities.
- Our preference within the hedge fund universe is for manager funds that have lower average exposure to equity market beta and can therefore dampen portfolio volatility.
- Hedge funds will likely continue to face headwinds from central bank policy, which has kept yields low and had the added effect of suppressing overall market volatility and increasing cross asset class correlations. However, the likelihood of a divergent regional and sector recovery profile, based on vaccine roll-outs, government support and virus control, should present plenty of opportunities for the best hedge funds to shine.
- Overall, we believe that performance drivers look reasonable for hedge funds to deliver reasonable risk-adjusted returns, but as usual, manager selection is critical.

Hedge fund returns have been reasonable in risk-adjusted terms



Source: HFRI, Total returns shown

The hedge fund environment as we see it

Positives	Negatives
High economic uncertainty and divergent industrial/sector outlook	Central banks suppressing volatility
M&A activity buoyant, opportunities in merger arbitrage	Higher than average correlations across risky assets
Bifurcation in stocks and credit	High valuations and limits on price discovery
ESG trends creating new opportunities	

Source: Aon

Legal Consulting & Compliance Update

Aon Quarterly Update

Retirement Legal Consulting & Compliance

In this Issue

Editor's Note

Summer is still heating up, but fall is around the corner! As we look ahead, we continue to provide the latest on areas of interest to our readers.

Employers have long offered tax-free educational assistance benefits (up to a specified Internal Revenue Code (Code) limit) through a plan under Section 127 of the Code as a means to attract and retain key talent. We open this edition of the *Quarterly Update* with an article on recent legislation which modernizes Section 127 plans to include student loan repayment benefits through the end of 2025 and offers insights for potential plan designs.

Next, we offer two articles on potential risk mitigation strategies. As excessive defined contribution plan fee litigation cases continue to rise dramatically in frequency and severity, in-house legal and risk management departments look to ways to mitigate or eliminate risk. The first article provides advice regarding best practices for plan sponsors and plan fiduciaries to consider along with a discussion of fiduciary liability insurance coverage to avoid or mitigate risk and liability related to claims of excessive fees.

As the Internal Revenue Service (IRS) continues its "no ruling" (i.e., no private letter ruling (PLR)) policy in certain areas, upfront certainty with respect to specific tax transactions and related planning (e.g., compliance with the law) continues to be unavailable to taxpayers. While tax insurance is nothing new, many do not know that tax insurance can now be used as a tool to obtain tax certainty, even with respect to benefit plans. Our second article on risk mitigation covers how tax insurance can be used to mitigate financial risk in a variety of diverse tax situations, including retirement benefits, postretirement health funding, and executive benefits.

We continue to closely observe the Department of Labor's (DOL's) audit initiatives and related guidance. Our most recent article reports on plan sponsor and fiduciary cybersecurity responsibilities along with the DOL's elevated interest in cybersecurity and fiduciary compliance on audit. In addition, we include a separate article on the recent DOL guidance that clarifies that claimants under benefit plans subject to the Employee Retirement Income Security Act of 1974 may be entitled to have access to audio recordings (and transcripts) of conversations with plan and call center personnel made during claims processing.

The IRS issued PLR 202111004 in March 2021 provides an interesting planning opportunity for employers terminating a defined benefit (DB) plan with excess assets. This edition includes an article reporting on how excess assets from a DB plan termination that would otherwise return to the plan sponsor could be used to fund matching contributions in a defined contribution plan of the same plan sponsor, provided certain conditions are satisfied.

Finally, we close out this edition of the *Quarterly Update* with up-to-date reporting on the actuarial equivalence litigation, specifically on pending cases and settlements. As we know our readers have continued interest in this litigation, we will continue to monitor the courts and the actions of the parties.

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

Susan Motter
Associate Partner

Empower Results®

Modernizing Section 127 for Today's Education Benefits

by David Fairburn

Over the past five years, student loan repayment benefits have been in the news as a differentiated benefit offering that can be used to attract and retain key talent. The first programs began as a monthly amount (e.g., $100/month) towards the principal of an employee's student loan, typically with a lifetime maximum equal to five years of the monthly benefit. While this benefit has received attention from many employers, there has long been the hope that legislation would someday make it easier to provide this benefit in a tax-free way to employees.

Well in 2020, that day came—Twice!

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) included a provision expanding Section 127 of the Internal Revenue Code (Code) to include student loan repayment benefits as an eligible expense. Section 127 of the Code has historically been used to provide education assistance benefits like tuition assistance, but until the CARES Act, student loan repayment benefits were not one of the eligible expenses which could be offered under a Section 127 plan. This expansion of student loan repayment benefits under Section 127 allowed for student loan repayment benefits to be tax free to the employee up to $5,250 annually (this limit is combined with all benefits provided under the plan).

The catch? The provision was only in place through the end of 2020. Because many employers were dealing with disruptions related to the COVID-19 pandemic, this temporary provision did not result in a meaningful increase in those offering student loan repayment benefits to their employees.

In December 2020, Congress passed the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, which extended the expansion of Section 127 to include student loan repayment benefits through the end of 2025. Employers now have more medium-term certainty in the legislative landscape, and many have responded by analyzing potential new programs during 2021.

However, just because new legislation has created an opportunity with Section 127 plans does not mean that it is the right design for each organization. We suggest looking at the pros and cons of these plan designs, as well as integrated defined contribution/student loan designs, and other creative ideas like PTO cash-out plans or student loan guidance solutions.

From there, it is important to analyze the employee impact, cost, legal, and administrative considerations associated with each design. Does it make sense to provide the benefit to all employees or to limit eligibility based on service, business unit, or compensation level? How does the benefit align with your inclusion and diversity initiatives? Ultimately, the benefit should be designed in lockstep with your organization's goals, while also remaining compliant with the nondiscrimination testing requirements of Section 127 plans.

Finally, it may be time to review your existing Section 127 plan to make sure it is still providing value to employees and the organization. Many Section 127 plans for tuition assistance have been in place for decades, but with the rise of online learning and vendors that can offer easier access to affordable schooling options, it may make sense to change some features of the plan to reduce cost and improve outcomes for employees. This could include offering an affordable and standard set of pre-requisite classes, defining specific degree paths that are approved for reimbursement, or differentiating benefit levels based on the needs of the organization. At the end of the day, a modernization of your Section 127 plan to improve existing benefits and address student loans may be a win-win for employees and the organization.

Please contact your Aon consultant for more information on how we can help analyze the right design for your organization.

Excessive DC Plan Fee Litigation: Mitigation Strategies

by Jay Desjardins, Rick Jones, and Jan Raines

Excessive fee litigation cases in 401(k) and 403(b) retirement plans have risen dramatically in frequency and severity and have become a top concern of in-house legal and risk management departments, among others. The cases generally allege that plan fiduciaries breached their fiduciary duties under the Employee Retirement Income Security Act of 1974 (ERISA) by overpaying for third-party plan administration or investment services. Plaintiffs typically contend that fees are excessive relative to services and performance.

Excessive Fee Settlements of $10 Million and Greater

Since 2005 excessive fee litigation has grown significantly with plaintiffs' firms filing more than 275 lawsuits. In 2020 alone, there were at least 90 excessive fee cases, four times the average of each of the previous three years. Excessive fee litigation is expensive to defend and costly to settle—it is estimated that defendants only have about a 25% chance of winning motions to dismiss a plaintiff's claim and will likely settle if they are unsuccessful on a motion to dismiss—notwithstanding that defendants may have a defensible position to the plaintiffs' claims.[1] Approximately 85 cases have settlements for $1 million or higher, including over 45 that settled for $10 million or higher:

Settlement Amounts ($ in Millions)

Lockheed Martin	$62.0	BB&T	$24.0	Emory University	$16.8	University of Pennsylvania	$13.0
Boeing	$57.0	Anthem, Inc.	$23.7	Northrop Grumman	$16.8	Lowe's Companies	$12.5
ABB	$55.0	Regions Financial/ Morgan Asset Mgmt.	$22.5	Caterpillar Inc.	$16.5	Putnam Investments	$12.5
McKinsey & Co.	$39.5	American Airlines	$22.0	General Dynamics	$15.2	Northrop Grumman	$12.4
CIGNA	$35.0	Deutsche Bank Americas	$21.9	Vanderbilt University	$14.5	Allianz Asset Management	$12.0
Novant Health	$32.0	M&T Bank	$20.9	John Hancock	$14.0	Fidelity (FMR)	$12.0
Mass Mutual Life Ins. Co.	$30.9	Bechtel	$18.5	Fujitsu Technology and Business of America	$14.0	Oracle	$12.0
International Paper	$30.0	Mass. Institute of Technology (MIT)	$18.1	Johns Hopkins University	$14.0	Pacific Investment Management Co. (PIMCO)	$12.0
SunTrust Banks	$29.0	Wells Fargo	$17.5	New York Life Ins. Co.	$14.0	Duke University	$10.7
Fidelity (FMR)	$28.5	DeMoulas Super Markets (Market Basket)	$17.5	Franklin Resources/ Franklin Templeton	$13.9	Huntington Bancshares	$10.5
Ameriprise Financial	$27.5	Neuberger Berman	$17.0	Edison International	$13.2	National Rural Electric Cooperative Ass'n	$10.0
First Union	$26.0	Philips North America	$17.0	Columbia University	$13.0		

[1] Source: Investment News: Fiduciary insurance costs soar amid new 401(k) litigation (This site contains information that has been created, published, maintained, or otherwise posted by institutions or organizations independent of Aon. Aon does not endorse, approve, certify, or control these websites and does not assume responsibility for the accuracy, completeness, or timeliness of the information located there.)

To help mitigate this growing risk, plan sponsors and plan fiduciaries should adopt best practices and purchase fiduciary liability insurance coverage.

Fiduciary Best Practices

Benefit plan managers should consider adopting the following best practices:

- **Evaluate and Be Prepared to Defend Provider Choices.** The courts don't say you need to choose the cheapest provider, but you do have to be able to demonstrate diligence in selecting the provider you choose. In addition to outsourced chief investment officer relationships, a new alternative is available in the marketplace—pooled employer 401(k) plans (PEPs), and fiduciaries need to evaluate whether such an alternative plan service provider is right for their participants—and document the evaluation process.
- **Take Advantage of Third-party Services.** Engage the services of third-party professionals (investment, legal, accounting) who can advise the plan fiduciary on the considerations and add an objective voice to the conversation.
- **Put a Fiduciary Process in Place.** Follow a well-documented decision-making process and build a record proving that the plan fiduciary has acted with "care, skill, prudence, and diligence under the circumstances then prevailing," as required by ERISA, including:
  - Employers (or their plan fiduciaries) must keep detailed records and be able to produce meeting minutes if required, document meetings and materials reviewed, and note that discussions of considered changes occurred. These records are the proof that the plan fiduciary acted prudently and makes it possible for the plan fiduciary to defend its decision in court.
  - Monitor fund performance and fees and services associated with third-party service providers such as recordkeepers and investment advisors. Review plan documents and policies put in place and make sure they are followed. Perform a fee analysis along with a review of services every three to four years and a market assessment through an RFP process when necessary, and at the very least, every seven years.
  - Hold regular training and education sessions for fiduciaries.

Fiduciary Liability Insurance Scope of Coverage

If you have discretionary authority for the management or administration of an employee benefit plan that is subject to ERISA, or if you exercise any authority of control with respect to the management or disposition of the assets of an ERISA plan, then you are considered a fiduciary of that plan. Under ERISA, plan fiduciaries are personally liable for fiduciary failures, meaning that personal assets could be at risk.

Further, an ERISA fidelity bond will not offer protection against breaches of fiduciary duty. Under ERISA, plan fiduciaries and those who handle plan funds or assets must be bonded to protect the plan from losses caused by dishonest or fraudulent actions. But the very ERISA fidelity bonds that employers are legally required to purchase will not protect the employer or plan fiduciary from losses arising from breaches of fiduciary duty—such as the failure to manage plan expenses—or from plan administrative errors. These exposures require specific fiduciary liability insurance.

Fiduciary liability insurance is designed to provide coverage for:

- The employer/sponsor organization and its subsidiaries.
- Covered plans including:
  - Qualified retirement and health and welfare plans—e.g., pension (defined benefit and defined contribution plans) and welfare (such as medical, dental, life insurance, disability, and accident plans); and
  - Nonqualified plans—e.g., deferred compensation programs, excess benefit plans, and supplemental executive retirement programs.
- Insured persons—i.e., any natural person serving as a past, present or future director, officer, partner, or employee of the sponsor organization or a plan, in his/her capacity as a fiduciary, administrator, or trustee of a plan.
- Covered claims including:
  - Breach of fiduciary duty including violations of fiduciary obligations, responsibilities, or duties under employee benefits laws (including ERISA); and
  - Administration including acts, errors, or omissions in the administration of a plan, such as:
    - Advising, counseling, or giving notice to employees, participants, and beneficiaries;
    - Providing interpretations;
    - Handling records; and
    - Activities affecting enrollment, termination, or cancellation of employees, participants, and beneficiaries under the plan.

A common misperception concerning fiduciary liability policies is that the so-called "Benefits Due Exclusion" negates all coverage. This is simply not true. The Benefits Due Exclusion excludes from coverage those amounts due to a plan participant under the terms of the plan document. However, fiduciary liability policies still provide:

- Defense costs coverage;
- Full coverage if payable as a personal obligation of a natural person insured;
- Full coverage if the loss of benefits is caused by an administrative error; and
- Losses in the value of plan assets due to breaches of fiduciary duty (e.g., excessive fee litigation).

The Impact of Excessive Fee Litigation on the Fiduciary Liability Insurance Market

In response to this recent rise in both frequency and severity of excessive fee litigation, the fiduciary liability insurance marketplace has turned on its head, resulting in decreases in capacity as well as significant increases in pricing. Many insurers are mandating much higher retentions for excessive fee claims (or, in some instances, all forms of mass/class actions), particularly for insureds with plan assets greater than $500 million. Further, insurers are now requiring that insureds answer numerous supplemental application questions concerning their selection of third-party service providers, their procedure for assessing the reasonableness of associated fees, the plan's investment lineup including any proprietary funds, and the like.

To optimize renewal results, insureds should start the process early and be prepared to market their program among several insurers to generate competitive pricing, retention, and terms. Aon also recommends scheduling a call between the insured (including the head of HR/benefits) and the underwriters to communicate all steps taken by the insured to mitigate their risk against excessive fee litigation.

Therefore, by adopting benefit plan best practices in conjunction with purchasing fiduciary liability insurance protection, plan sponsors will have far fewer concerns about excessive fee litigation and other ERISA claims.

Consultants in Aon Investments USA Inc. and Financial Services Group (FSG)[2] are available to assist plan fiduciaries in meeting their obligations by providing investment advisory or management services, fiduciary oversight consulting services, and fee benchmarking or vendor searches for your defined contribution plans.

All descriptions, summaries, or highlights of coverage are for general informational purposes only and do not amend, alter, or modify the actual terms or conditions of any insurance policy. Coverage is governed only by the terms and conditions of the relevant policy.

Please see the applicable Disclosures and Disclaimers on page 13.

[2] Aon FSG is the premier team of executive liability brokerage professionals, with extensive experience in representing buyers of complex insurance products including directors' and officers' liability, employment practices liability, fiduciary liability, fidelity, and professional liability insurance. FSG's global platform assists clients in addressing their executive liability exposures across their worldwide operations. Aon FSG manages more than $3.7B in annual premiums, assists with annual claim settlements of approximately $4.0B over the last 5 years, and uses its unmatched data to support the diverse business goals of its clients.

Achieving Tax Certainty in an Era of IRS 'No Ruling' Policies

by Gary P. Blitz and Jessica Harger

It's no surprise to tax professionals that the Internal Revenue Service (IRS) "no ruling" policy continues to expand. The question our clients are now routinely facing is what to do to achieve that same upfront certainty with respect to the outcome of transactions, restructurings, and tax planning in the absence of a ruling. This issue is particularly relevant in the retirement and benefits field where the IRS has instituted a "no rulings" policy on a number of important issues. As an alternative, tax insurance is an effective tool that can provide certainty should a plan be out of compliance or in the event of unintended tax consequences. While tax insurance has been around since the 1980s and has been a trusted means of gaining comfort on tax exposures in M&A and financing transactions, many do not know that tax insurance can now be used where there is no third party, for example, in the restructuring of a benefits plan.

The potential exposure to our Fortune 500 clients if their tax planning is not respected is often in the hundreds of millions of dollars. IRS Revenue Procedure 2021-3 states the current "no ruling" policy. Of particular interest to our clients are:

- Whether, in connection with a transaction involving the establishment or amendment of a welfare benefit fund (including Voluntary Employees' Beneficiary Associations (VEBAs)), a transfer of assets between welfare benefit funds (including VEBAs), or a new or different use of assets of a welfare benefit fund (including a VEBA), (i) the employer, plan sponsor, welfare benefit fund (including a VEBA), or covered individuals must include any amount in gross income under Section 61 of the Internal Revenue Code (Code) or the tax benefit rule or (ii) the employer or welfare benefit fund (including a VEBA) have engaged in a sale or exchange of assets under Section 1001 of the Code; and
- Whether a transfer of assets between welfare benefit funds (including VEBAs), or a new or different use of assets of a welfare benefit fund (including a VEBA), results in a reversion to the employer for purposes of the excise tax under Section 4976 of the Code.

Regularly used as a tool to obtain tax certainty for situations involving U.S. federal, state, local, and foreign transactions, tax insurance is, in effect, the insurance version of a private letter ruling. If an insured tax position is successfully challenged by the IRS or another tax authority, the tax obligation is transferred to the insurers who will pay the additional income, excise, or other tax, interest, penalties, and contest costs, all subject to a gross-up for any tax on the insurance proceeds themselves. In this way, taxpayers can proceed with their restructurings and transactions knowing that if there is a successful tax authority challenge down the road, they will be economically made whole.

The typical tax insurance policy has a seven-year term and is issued on a noncancelable basis. This is generally viewed as sufficient to cover the applicable statutes of limitations. The policy itself typically contains very few exclusions—the principle being a misrepresentation by the insured, which is the same when applying for a ruling. Interestingly, tax insurance also can protect against an adverse interpretation of fact-based issues, such as "business purpose," which would traditionally be beyond the scope of any potential rulings.

Today's tax insurance market is deep. There are many "A-rated" insurance companies writing coverage, and now insurance programs of over $1.5 billion have become possible. This has broadened insurer appetite for complex tax risks and resulted in historically low pricing.

The potential applications are broad. Insurers routinely insure a wide range of potential tax exposures, including whether benefits plans have been properly administered or restructured under the applicable tax law. Practitioners should think about tax insurance as a solution for any subject on which they can provide an opinion or situations dependent on third-party valuations being respected. Off the table, of course, are aggressive tax shelters—what the tax world knows as transactions of interest or reportable or listed transactions.

While as noted above the potential applications are broad and often determined by the needs of our clients, we find that examples are the best way to demonstrate the potential application of tax insurance. Here are some other recent examples in the retirement and benefits space beyond just areas where rulings were historically sought.

- **Treatment of Employee Stock Plan under 280G.** The employee stock purchase program maintained by a large private manufacturing company raised several tax issues to a client considering its sale. The client was concerned that the tax characterization of payments would not be respected by the tax authorities and amounts were subject to Section 280G of the Code. Aon secured the policy that was part of the indemnification package to the ultimate acquirer.
- **Golden Parachute Excise Taxes under 280G.** A company emerging from Chapter 11 was sold to a public company. There was a potential golden parachute excise tax obligation of $10 million if the IRS did not respect the value of the nonsolicitation agreement agreed to by the former CEO. The estate was required to indemnify the departing CEO under his employment contract for this tax risk. As part of the proposed plan of reorganization, funds would have had to be withheld from creditors in escrow to fund the potential tax liability. Aon placed a tax insurance policy to insure against an IRS challenge (this tax insurance policy included the value of the nonsolicitation agreement). As a result, the size of the escrow was substantially reduced, and escrow proceeds were released to creditors to the extent of insurance limits.
- **409A Disqualification—Value of Underlying Stock on Exercise Date.** A leading IT advisory firm purchased a competitor. A few years prior, the target had granted stock options with a specified exercise price per share. At the time of the grant, the target obtained an outside advisor valuation report which valued the target at a lower value per share. Under Section 409A of the Code, a stock option having an exercise price less than the fair market value (FMV) of the stock on the option grant date results in adverse tax consequences for the option recipient and a tax withholding responsibility for the company. The buyer purchased a tax insurance policy to cover the risk that post-close, the IRS will successfully assert that Section 409A of the Code applied to the target's stock options—in other words, the exercise price of the options was actually less than the FMV of the target stock on the grant date.
- **Treatment of Replacement Options.** A company acquired by a private equity sponsor had outstanding stock option grants that were replaced with new stock option grants as part of a reorganization. The counsel to the seller was confident that the requirements of Section 409A of the Code were satisfied; while the counsel to the buyer was not quite as confident and advised the acquirer to seek indemnification from the seller. A tax insurance policy was used to protect the buyer in lieu of a seller-provided escrow and indemnity.
- **Treatment of Lapse Restriction Due to Merger.** A closely held publicly traded company was pursuing an acquisition of another publicly traded company. The shareholders of the company were participants in a restricted share plan that provided that the restrictions would lapse if the founding family's ownership fell below a specified level. As a result of the planned acquisition, the founding family's ownership would fall below the specific level, resulting in a taxable event. The shareholders sought certainty that the lapse of these restrictions as a result of the acquisition was not a compensable event. Aon placed a tax insurance policy to provide certainty in this regard.
- **Withdrawal Liability to Multiemployer Pension Plans under ERISA.** A large public company obligated to contribute to a multiemployer pension plan was selling key assets to a private equity firm. The transaction was structured as an asset sale intended to avoid withdrawal liability under Section 4204 of the Employee Retirement Income Security Act of 1974 (ERISA). Facing a fast-moving transaction, the seller obtained a tax insurance policy for any potential liability should the sale not be respected as an exempt asset sale rather than seeking indemnification from the buyer.

The narrowing of the IRS ruling policy is a trend that is likely to continue as the agency struggles to apply its limited resources to tax collections. Yet, taxpayers seek certainty before making a material tax move even when advisers can provide them with strong tax advice. Tax insurance can fill that void in a time efficient manner, and at a very cost-effective price.

The Aon Tax Insurance team is pleased to provide an update on the tax insurance market and discuss how tax insurance can add certainty to various situations. Please do not hesitate to contact Gary Blitz or Jessica Harger to arrange a call or a meeting. Their contact information is on the last page of this *Quarterly Update*.

DOL Continues to Focus on Cybersecurity—Renewed Audit Efforts

by Tom Meagher

As we reported in the **Second Quarter 2021** issue of our *Quarterly Update*, the Department of Labor's (DOL's) April 14 guidance identified the areas that plan fiduciaries should focus on to mitigate the risk that plan and participant data may be improperly used or disclosed—both within the employer's organization and with third-party service providers.

While we are aware of several employers that have been audited by the DOL prior to the April 14 guidance, it appears that the DOL has now elevated cybersecurity in terms of areas to examine on audit. In reviewing some of the recent DOL audit inquiries that have been received, it is clear that the DOL is focusing both on a plan sponsor's internal operations (e.g., how participant information and data are used or disclosed within the Human Resources or Benefits Department), and how such information is transmitted and/or used and disclosed by third-party service providers.

Among the questions being raised by the DOL on audit are the following: does the employer have a privacy and security policy and does the policy apply to data held by benefit plans (employers are requested to provide a copy of the policy); does the policy require that advanced authentication be used to access plan information; are technology systems regularly updated; are all personnel who come in contact with personally identifiable information (PII) trained on adequate protection of the information; do the plan service providers have policies on storing PII including where it is stored (e.g., laptops and portable storage devices), how long it is stored, and how it is eliminated; what are the service provider's processes and systems for dealing with cybersecurity threats and protection of PII; can the service provider explain the process that they follow, and is it understood by the plan fiduciaries; does the service provider carry cybersecurity insurance; and has the service provider experienced any security breaches?

These DOL audit questions are now coupled with the April 14 guidance wherein the DOL identifies 12 "best practices" for plan fiduciaries to evaluate when monitoring or selecting a service provider for their ERISA plans.

In view of the emphasis being given to cybersecurity by the DOL, we continue to recommend that clients work with their fiduciary committee to (i) establish a process for evaluating the administrative, physical, and technical safeguards that are in place and protecting plan and participant data within the employer organization; (ii) conduct a baseline assessment of the various uses and disclosures of plan and participant data—including mapping of such uses or disclosures both internally and to third-party service providers and reviewing the information being provided by third-party service providers regarding the safeguarding of plan and participant data; and (iii) develop a record of the process undertaken, the resources relied upon (both internal and external), and the actions taken (or not taken) based on an assessment of the risks involved.

Aon's team, which includes our cybersecurity specialists, is available to assist clients and their fiduciary committees through each or any stage of the process in an effort to build the record necessary to position the plan fiduciaries in the event of a DOL audit and to mitigate the risk of a future cybersecurity incident.

What Did I Hear You Say? New Guidance Regarding Audio Recordings Involving Plan Information

by Elizabeth Groenewegen

Recently issued guidance from the Department of Labor (DOL) clarifies that claimants under benefit plans subject to the Employee Retirement Income Security Act of 1974 (ERISA) may be entitled to have access to audio recordings (and telephone transcripts) of conversations with plan personnel made during their claims' processing. In an Information Letter published on June 21, 2021, the DOL analyzed a plan's denial of such a request under ERISA, and, in particular, DOL Regulations Section 2560.503-1 (the "Claim Procedure Rules"). Sponsors and fiduciaries of ERISA plans may wish to review their plan procedures in light of this new guidance. Failure to satisfy the Claim Procedure Rules could expose the plan to increased risk should the claim be litigated.

Background

Every employee benefit plan subject to ERISA is required to have a reasonable claims review process. When a participant's benefit claim has been denied, Section 503 of ERISA requires that the participant be offered "a full and fair review by the appropriate named fiduciary of the decision denying the claim." The Claim Procedure Rules further articulate what is required to meet this statutory obligation. When the Claim Procedure Rules are satisfied, a participant must exhaust the plan's claim administrative process before filing a lawsuit. Moreover, the plan administrator's determination generally will enjoy a deferential standard for judicial review (that is, the decision would stand unless the administrator "abused its discretion"). To the extent that the Claim Procedure Rules are not satisfied, a claimant may obtain the right to sue immediately (rather than be required to exhaust the plan's appeal procedure) and may have the plan administrator's decision subject to increased judicial scrutiny (rather than the deferential "abuse of discretion" standard that the plan administrator's decision might otherwise enjoy).

Claimant's Request

The Information Letter addresses the question of whether the plan fiduciary was entitled to deny the claimant's request for the audio recording and transcript of a telephone conversation between the claimant and a plan representative relating to the adverse benefit determination. The claimant's request had been denied on the grounds that the recording:

- Was made for quality assurance purposes;
- Was not created, maintained, or relied upon for claim administration purposes; and
- Therefore, was not part of the administrative record regarding the claim.

Analysis under the Claim Procedure Rules

Under the Claim Procedure Rules, a benefits claimant must be provided, on request, copies of all documents, records, and other information relevant to the claim. A document, record, or other information is relevant to the claim if it:

- Was relied upon in making the benefit decision;
- Was submitted, considered, or generated in making the benefit decision (regardless of whether the document, record or other information was relied upon in making the benefit determination);
- Demonstrates compliance with the administrative processes and safeguards required by the regulations; or
- Constitutes a statement of policy or guidance concerning the denied treatment option or benefit (regardless of whether such statement was relied upon in making the benefit determination) (Reference DOL Regulations Section 2560.503-1(m)(8)).

As noted above, information can be relevant for these purposes even if it was not created, maintained, or relied upon for claims administration reasons.

The DOL rejected the notion that a recording is exempt from being disclosed because it was generated for quality assurance purposes. For example, the DOL indicated that the recording could demonstrate compliance with the Claim Procedure Rules and safeguards—making it subject to a disclosure request as relevant information.

In a footnote, the DOL observed that the regulations require that a plan's claim procedures include "safeguards designed to ensure and to verify that benefit claim determinations are made in accordance with governing plan documents and that, where appropriate, the plan provisions have been applied consistently with respect to similarly situated claimants." This observation appears to have been key to the rejection of the plan's position that the recording need not be shared.

The DOL concluded that a recording of a conversation will not necessarily be excluded from disclosure because:

- The plan or claims administrator does not include the recording in its administrative record;
- The plan or claims administrator does not treat the recording or transcript as part of the claim activity history through which the insurer develops, tracks, and administers the claim; or
- The recording or transcript was generated for quality assurance purposes.

Take Away for Plan Fiduciaries

To the extent that conversations with benefit claimants are recorded by plan personnel (or third-party service providers), those conversations may be discoverable by claimants as part of the claims review and appeal process. Aon recommends that plan sponsors review how telephone contacts are being handled by service center personnel. Adequate training, clear instructions, and consistent processing of inquiries should help to mitigate any risks presented by this new guidance. Please contact your Aon consultant for assistance.

Terminated DB Plan Excess Assets Can Fund DC Plan Match

by Dan Schwallie

A recent private letter ruling (PLR) 202111004 from the Internal Revenue Service, dated March 19, 2021, provides an interesting planning opportunity for employers terminating a defined benefit (DB) plan having excess assets. The PLR indicates that excess assets from a DB plan termination that would otherwise return to the plan sponsor may be used to fund matching contributions in a defined contribution (DC) plan of that plan sponsor, provided certain conditions are satisfied. Beginning in 2006, it had generally been understood that such transferred assets could only be used to fund employer nonmatching contributions in a DC plan.

Effective for plan years beginning after 2005, Treasury Regulations under Section 401(m) of the Internal Revenue Code provide that employer contributions are not matching contributions if contributed before the elective contributions to which the matching contributions apply are made. “Elective contributions” could be pre-tax elective deferrals, Roth contributions, or after-tax employee contributions, if the plan provides the match on any or all of them. PLRs subsequently issued cited the regulation to the effect that a transfer of excess assets from a terminated DB plan to a DC “qualified replacement plan” (QRP) cannot be allocated to participants as matching contributions. However, PLR 202111004 permitted a QRP to fund matching contributions with respect to elective contributions, provided the elective contributions were made from payrolls paid prior to the date the excess assets were transferred to the QRP.

Funding of employer matching contributions in this way would only be possible for (all or a portion of) the year in which the transfer is made, and only employer nonmatching contributions could be funded for subsequent plan years. A DC plan that provides matching contributions on a payroll period basis would need to be timely amended to move to a year-end match, or to provide an additional discretionary match, to be able to fund matching contributions in the year of the excess asset transfer.

Whether funding matching contributions or only funding nonmatching contributions, a QRP reduces from 50% to 20% the excise tax on amounts that would otherwise be returned to the employer, and neither the excise tax nor employer federal income tax applies to the amount transferred to the QRP. Various requirements apply to a QRP, including that assets transferred to the QRP from the terminated DB plan must be allocated to the accounts of participants in the plan year in which the transfer occurs or be credited to a suspense account and allocated from such account to accounts of participants no less rapidly than ratably over the seven plan-year period beginning with the year of the transfer. Also, at least 95% of the active participants in the terminated DB plan who remain as employees of the employer after the plan termination must be active participants in the QRP. Certain other technical rules apply that are beyond the scope of this article.

Aon’s Retirement Legal Consulting & Compliance consultants can provide more information on these rules and are available to assist plan sponsors in terminating a DB plan and setting up a QRP to reduce excise and income taxes and fund DC plan contributions.

Actuarial Equivalence Lawsuits—Current State of Play

by Jennifer Ross Berrian

As reported previously, 11 lawsuits have been filed (now 13 if you include two against AT&T and two against Rockwell Automation) challenging the actuarial equivalence factors used by pension plans to calculate optional forms of benefits and early retirement reductions. As of July 14, 2021, five cases are ongoing, one has reached a tentative settlement, and seven have been settled or dismissed.

Pending Cases

There are currently five active cases (six if you include the case that has reached a tentative settlement). These cases include the following:

- ***Masten v. MetLife.*** On June 14, 2021, the court reached a decision regarding MetLife’s long-pending motion to dismiss. The court granted the motion in part and denied it in part, ruling that MetLife must defend allegations that it shortchanged participants’ retirement benefits by calculating their pensions using outdated life expectancy data. The court dismissed the plaintiffs' claim as untimely that MetLife had breached its fiduciary duty when it selected the mortality tables as conversion factors in 2012.

- ***Scott v. AT&T.*** This is the second case filed against AT&T as the first case (*Eliason v. AT&T*) was dismissed for lack of standing (none of the named plaintiffs suffered damages due to the allegations in the complaint). The *Scott* case continues moving forward; the parties participated in a scheduling conference on June 17, 2021. The court set deadlines for discovery, class certification, and pretrial motions. A pretrial motion hearing is scheduled for November 10, 2022; however, the pretrial conference and trial have not been scheduled yet.
- ***Berube v. Rockwell Automation.*** Like *Scott v. AT&T*, this is the second case filed against Rockwell Automation as the first case (*Smith v. Rockwell Automation*) was dismissed for lack of standing (none of the named plaintiffs suffered damages due to the allegations in the complaint). Currently pending is a summary judgment motion to dismiss the case. The court has granted the parties leave to engage in discovery while the summary judgment motion is pending.
- ***Belknap v. Partners Healthcare.*** The parties are still arguing over the defendants' motion to dismiss.
- ***Herndon v. Huntington Ingalls.*** The parties participated in a settlement conference on June 14, 2021. A three-day trial is scheduled to commence on November 8, 2021.

Tentative Settlement

- ***Thorne (Smith) v. U.S. Bancorp.*** On May 18, 2021, the court denied the plaintiffs' request to have the matter certified as a class action due to the fact that not all potential class members were negatively impacted by the claims made in the plaintiffs' complaint. The parties then began arguing about whether the plaintiffs should be able to try again to certify a class. In the midst of this, on June 22, 2021, the parties let the court know that they have reached a tentative settlement and were in the process of memorializing it in writing for court approval. This case is not over yet as the parties may not be able to agree in writing to settlement terms, and the court may not approve the settlement once it's memorialized.

Final Settlement

- ***Cruz v. Raytheon.*** The parties entered into a written settlement agreement on February 12, 2021 and requested approval from the court. On June 11, 2021, the court approved the settlement but modified the award of attorneys' fees and costs. The parties agreed on the class of participants that would receive the settlement and settled on 40% of the amount requested in the complaint. The plaintiffs' attorneys requested $8.9 million in fees and costs, which amount was to be deducted from the settlement amount to be awarded to the class. The court concluded that the fees were too high, reduced them to $5.5 million, and approved the settlement. One of the class members is currently contesting the revised attorneys' fee amount.

Dismissed

- ***Brown v. UPS.*** This case was dismissed on August 27, 2020, for failing to exhaust administrative remedies (e.g., the plaintiffs didn't follow the plan's claims procedure before filing their lawsuit). This case may reappear once the plan's administrative process is completed.
- ***Torres v. American Airlines.*** The parties voluntarily settled the case, and it was dismissed on July 17, 2020. The settlement occurred after the plaintiffs' request to certify the class was denied on May 26, 2020. The details of the settlement are unknown.
- ***DuBuske v. PepsiCo.*** The parties voluntarily dismissed the case on November 22, 2019, after the court granted the defendants' motion to dismiss.
- ***Duffy v. Anheuser Busch.*** The case was voluntarily dismissed by the parties on November 12, 2020. No further information is available.
- ***Eliason v. AT&T.*** This case was dismissed on September 28, 2020 due to lack of standing. None of the named plaintiffs had suffered damages due to the allegations in the complaint. The case was refiled with new named plaintiffs (See *Scott v. AT&T* above).
- ***Smith v. Rockwell Automation.*** This case was dismissed on January 19, 2021 due to lack of standing. None of the named plaintiffs had suffered damages due to the allegations in the complaint. The case was refiled with new named plaintiffs (See *Berube v. Rockwell Automation* above).

We continue to see cases settled or dismissed, but five (maybe six) are still pending. We will continue monitoring developments in the ongoing cases and keep you updated. In the interim, we have been working with a number of employers (and their legal counsel) to evaluate existing interest and mortality rates in light of the ongoing litigation in an effort to evaluate their reasonableness in determining plan benefits.

Quarterly Roundup of Other New Developments

by Sandy Combs, Teresa Kruse, and Jan Raines

Participant Data: Plan Asset?
As a result of an excessive fee suit brought against fiduciaries of a large corporation's 401(k) plan, a federal court recently considered a specific aspect of the alleged violations involving participant data and the use of that data by the plan's recordkeeper: is participant data a "plan asset" as defined by the Employee Retirement Income Security Act of 1974 (ERISA), and is the use of that data by the plan's recordkeeper for non-plan related services a breach of fiduciary duty? The question of whether plan data is a plan asset has come under scrutiny over the last few years, consistent with an ever-widening concern by the general public regarding how their personal data is handled, marketed, or used by organizations of all types.

Generally, participant data claims in defined contribution plans allege that third-party administrators and recordkeepers are using confidential participant data (name, address, email address, social security number, income, account balances, etc.) to cross-sell non-plan products. Plan fiduciaries are subject to strict fiduciary standards under ERISA that include selecting and monitoring the plan's recordkeeper and the services it offers; a fiduciary breach may subject fiduciaries to personal liability. As we know, fiduciaries must manage the plan for the exclusive benefit of plan participants and beneficiaries. In participant data claims, fiduciaries are alleged to have violated these fiduciary duties and engaged in prohibited transactions by allowing cross-selling of non-plan services by using plan assets. The validity of these claims hinges on whether or not participant data is, in fact, a plan asset under ERISA, and whether that treatment may cause a service provider to be considered a fiduciary under ERISA.

While courts have concluded in several recent cases that participant data is not a plan asset as defined by ERISA, this case differs in that the plaintiffs alleged that the recordkeeper was a fiduciary due to it having discretion over plan assets (i.e., plan data). The recordkeeper submitted a motion to dismiss these claims, claiming that participant data is not a plan asset and that the recordkeeper thus was not a plan fiduciary, which the district count granted. In particular, the court noted that the plaintiffs failed to provide any instances in the past where participant data was considered a plan asset by the court, and in this case, the court "could not conclude that it is a plan asset under ordinary notions of property rights" and, as such, no breach occurred.

The issue of protecting participant data is evolving. While the courts have, so far, generally been consistent in concluding that participant data is not a plan asset under ERISA, there have been settlements in excessive fee cases that included prohibitions against the use of participant data for non-plan purposes. While it appears that plaintiffs may face headwinds with participant data claims, it may be wise for plan fiduciaries to review existing service agreements with plan recordkeepers and consider implementing cross-selling restrictions.

CalSavers Not an ERISA Plan
The Ninth Circuit Court of Appeals affirmed that CalSavers is not preempted by ERISA. Circuit Judge Daniel Bress noted that CalSavers is not an ERISA plan because it is established and maintained by the State of California, not by an employer; it does not require employers to establish and operate their own ERISA retirement plans; and it does not have an impermissible reference to or connection with ERISA.

CalSavers is an automatic Roth IRA program that was created by the State of California in July 2019 to ease the growing concern that many workers do not have access to a retirement savings plan. State law requires private employers that do not offer a retirement program to enroll their eligible employees in the CalSavers program. California is not alone in this requirement; several other states have also created, or are in the process of creating, automatic IRA programs, or other programs to support retirement savings for private sector workers. You can find more information on these additional programs as reported in our **Fourth Quarter 2020** issue of the *Quarterly Update. Howard Jarvis Taxpayers Ass'n v. Cal. Secure Choice Ret. Sav. Program, No. 2:18-cv-01584-MCE-KJN (E.D. Cal. Mar. 10, 2020) (granted motion to dismiss).*

Matching Contributions "Arresting Development"
Deputy Sheriff Allison Schaber filed a class action lawsuit against Ramsey County, the Minnesota State Retirement System, and the executive director of its board of directors. Certain employees of Ramsey County participate in the Minnesota Deferred Compensation Plan (Plan)—a savings plan under Section 457 of the Internal Revenue Code for government employees. The lawsuit alleges that Ramsey County did not follow the Plan document or its own employment policies, when it failed to provide employer matching contributions to the Plan, rather it included the matching contributions in participants' paychecks as taxable income. Even after the issue was brought to the County and Plan administrator's attention, they did nothing to correct or change the process, allegedly breaching their fiduciary responsibilities. According to the lawsuit, this practice has gone on for years, which has resulted in the underfunding of employees' retirement accounts and caused participants to lose out on potential investment earnings on those contributions. While governmental or public entities are not subject to ERISA, most states follow similar guidelines, and in this situation, the lawsuit notes that fiduciaries of

Minnesota public-employee retirement plans are subject to fiduciary obligations under Minnesota law. While the standard of care for plan fiduciaries under Minnesota law is not identical to ERISA, it is substantially similar to make this lawsuit noteworthy.

This lawsuit is an important reminder that fiduciaries have an obligation to follow the plan document and to establish and regularly monitor administrative procedures. We will continue to follow this lawsuit and report on any future developments. Aon's Investment Plan consultants and Retirement Legal Consulting & Compliance consultants can assist in reviewing plan documents, administrative procedures, and other operational matters. *Schaber v. Ramsey County, No. 62-cv-21-1228 (D. Minn. Mar. 18, 2021).*

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. Defined contribution plan cases generally fall into the following three areas: inappropriate or imprudent investment choices; excessive fees; and self-dealing. Recently, several cases involving universities and other institutions have been dismissed (in full or in part) or settled, including cases involving: BlackRock (settled for $9.65M); Brenntag North America Inc. (settled for $2.3M); Columbia University (settled for $13M and other remedies); IBM (settled for $4.75M); Genentech Inc. (dismissed with leave to amend); and John Hancock (settled for $14M 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.

New Retirement Plan Cases

The pace of retirement plan cases being filed against plan fiduciaries is showing no signs of slowing up, as at least 19 new cases were filed this quarter. 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 continue to be the dominant theme as those cases were brought against Nextep, Inc.; Wood Group US Holdings, Inc.; Wesco Distribution, Inc.; Kimberly-Clark Corp.; The American National Red Cross; WakeMed (interestingly, settled the same day as the case was filed); University of Tampa; Bronson Healthcare Group, Inc.; and Humana Inc. Cases involving allegations of self-dealing were filed against N.Y. Life Ins. Co.; Russell Investment Management LLC/Caesars Holdings Inc.; and State Street Corp. In addition, cases involving failure to monitor service providers, fraud, operational failure, and money laundering were filed against The Northern Trust Co.; Comprehensive Cancer Services Oncology PC; Minn. State Ret. Sys. Program/Ramsey County; and Danske Bank, respectively. While the filing of these cases is illustrative of the types of claims being brought, it is important to note that these employers may have one or more defenses to such claims, so no conclusions should be drawn by reason of the filing of these lawsuits against any individual employer.

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

Please see the applicable Disclosures and Disclaimers on page 13.

Recent Publications

Midyear Changes to ADP/ACP Safe Harbor Plans

By Daniel Schwallie
Benefits Quarterly (Second Quarter 2021)

When guidance was issued in 2016 regarding midyear changes to ADP/ACP safe harbor plans, no one had an inkling that four years later hundreds of employers would implement midyear reductions or suspensions of safe harbor contributions to their ADP and/or ACP safe harbor plans due to the coronavirus pandemic of 2020. This article reviews and explains the guidance to date on midyear changes to ADP/ACP safe harbor plans.

Click **here** to read the article.

Aon's Retirement Legal Consulting & Compliance Consultants

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

Hitz Burton, Partner
hitz.burton@aon.com

Elizabeth Groenewegen, Associate Partner
elizabeth.groenewegen@aon.com

Clara Kim, Associate Partner
clara.kim@aon.com

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

Susan Motter, Associate Partner
susan.motter@aon.com

Beverly Rose, Partner
beverly.rose@aon.com

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

Dan Schwallie, Associate Partner
dan.schwallie@aon.com

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

Guest Authors

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

Gary P. Blitz, Co-CEO and Transaction Liability Practice Leader
M&A and Transaction Solutions
gary.blitz@aon.com

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

Jay Desjardins, Managing Director, Deputy National Fiduciary Liability Practice Leader
Aon Financial Services Group
jay.desjardins@aon.com

David Fairburn, Associate Partner
Retirement Solutions
david.fairburn.2@aon.com

Jessica Harger, Managing Director, Tax Insurance
M&A and Transaction Solutions
jessica.harger@aon.com

Rick Jones, FSA, EA, MAAA
Senior Partner
Retirement Solutions
rick.jones@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

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Disclosures and Disclaimers

The article was written by an Aon colleague aligned to Aon Investments USA Inc. ("Aon Investments"), and any investment advice and consulting services is therefore provided by Aon Investments. The information contained herein is given as of the date hereof and does not purport to give information as of any other date.

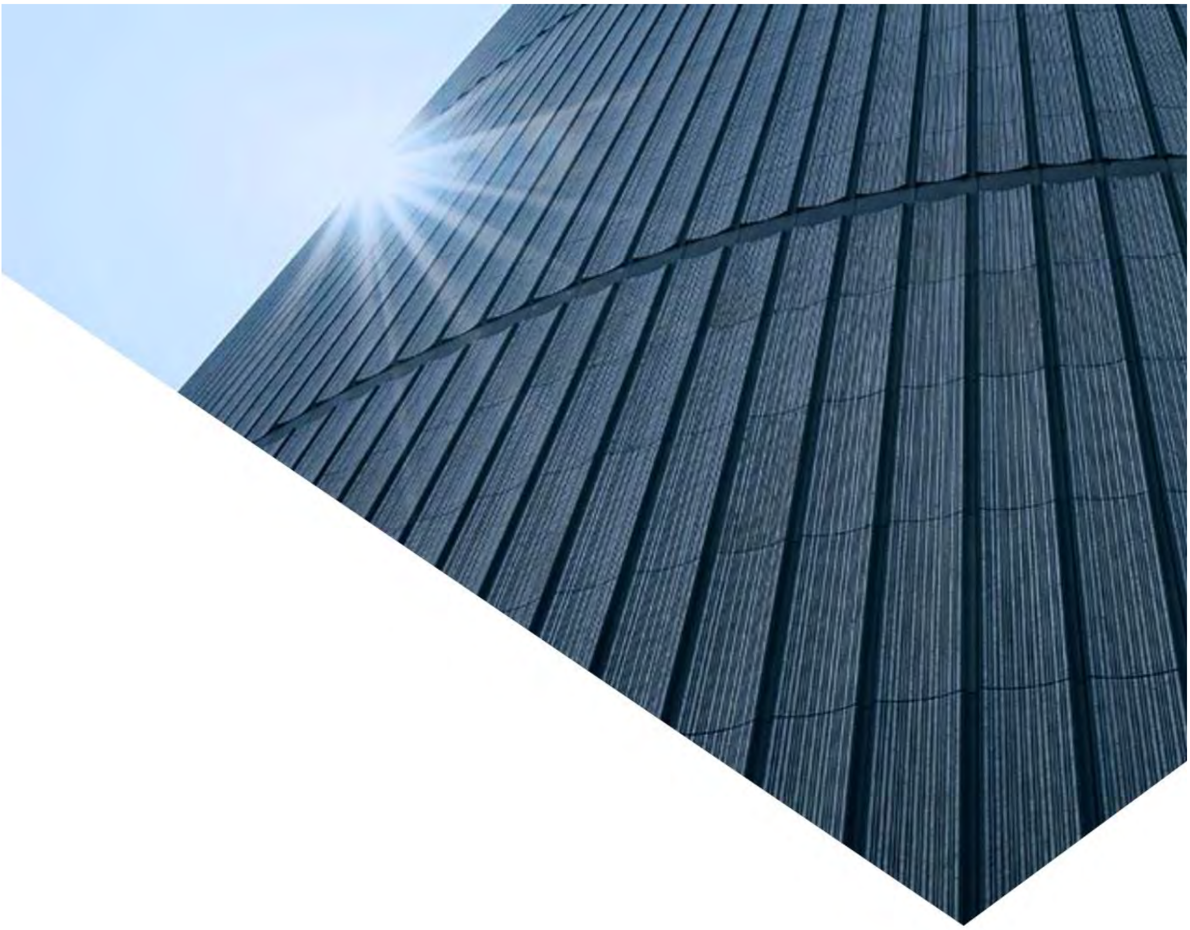
This document is intended for general informational purposes only and is not intended to provide, and shall not be relied upon for, accounting, legal or tax advice or investment recommendations.

Any accounting, legal, or taxation position described in this document is a general statement and shall only be used as a guide. It does not constitute accounting, legal, and tax advice and is based on Aon Investments' understanding of current laws and interpretation. Aon Investments disclaims any legal liability to any person or organization for loss or damage caused by or resulting from any reliance placed on that content. Aon Investments reserves all rights to the content of this article.

Aon Investments USA Inc. is a federally registered investment advisor with the U.S. Securities and Exchange Commission. Aon Investments is also registered with the Commodity Futures Trade Commission as a commodity pool operator and a commodity trading advisor and is a member of the National Futures Association.

Empower Results®

Appendix



Barings North American Private Loan Fund II, L.P.

A North American Direct Lending Fund

Private Credit InDetail

July 2021

Empower Results®

Empower Results®

Table of Contents

Executive Summary

Overview

Review Date	Rating
July 2021	Buy

We consider Barings LLC ("Barings" or the "Firm"), an indirect, wholly-owned subsidiary of Massachusetts Mutual Life Insurance Company ("MassMutual"), to be a leading global asset manager across various global credit strategies, including global fixed income and alternative investments. Barings' Global Private Finance business includes a dedicated direct origination team that invests in senior secured middle-market loans and mezzanine debt, and makes equity co-investments, primarily in companies located in North America, Europe, Australia and the developed Asia-Pacific region. Barings North American Private Loan Fund II, L.P. ("NAPLF II", "Fund II" or the "Fund") will continue the strategy successfully executed by Barings North American Private Loan Fund, L.P. ("NAPLF I" or "Fund I"), while incorporating ESG considerations into the rigorous, bottom-up investment process.

Fund	Vintage Year	Fund Size	Capital Invested	# of Inv.	Inv. Realized	Realized Value	Unrealized Value	Total Value	Gross TVPI	Net TVPI	Gross IRR	Net IRR
European DLI	2015	€ 350.0	€ 602.0	36	18	€ 350.0	€ 317.0	€ 667.0	1.3x	1.2x	7.4%	7.3%
Global PLF I	2015	$777.0	$1,013.0	78	51	$812.0	$314.0	$1,126.0	1.3x	1.2x	9.1%	7.8%
Global PLF II	2016	$1,300.0	$1,589.0	92	32	$709.0	$971.0	$1,680.0	1.2x	1.2x	8.1%	7.1%
North American PLF I	2016	$1,822.0	$2,263.0	138	42	$807.0	$1,603.0	$2,410.0	1.3x	1.2x	14.4%	12.2%
European PLF II	2018	€ 1,520.0	€ 1,629.0	54	7	€ 289.0	€ 1,410.0	€ 1,699.0	1.1x	1.1x	9.4%	8.1%
Global PLF III	2018	$2,412.0	$2,269.0	103	5	$98.0	$2,206.0	$2,304.0	1.1x	1.1x	11.2%	10.0%
Total		**$8,181.0**	**$9,365.0**	**501**	**155**	**$3,065.0**	**$6,821.0**	**$9,886.0**				

Sponsor and Timing

Location(s)	Charlotte, NC (HQ); Chicago; New York; London; Sydney; Hong Kong	**Parent**	Barings LLC
Ownership	Wholly-owned indirect subsidiary of MassMutual	**Founded**	BAML: 1762 / Babson: 1940 / Barings: 2016
Employees	1,700+	**Investment Staff**	GPFG: 75
Gross AUM (Mar 31, 2021)	$326.0 billion	**First/Final Close**	First Close: October 2020 Final Close: September 2021

Portfolio Characteristics

Vintage Year	2020	**Strategy**	Direct Lending
Target Geography	North America	**Target Industries**	Diversified
Average Investment Size	$25.0mn-$45.0mn	**Company Size**	$10.0mn-$75.0mn EBITDA
Target Number of Deals	60+	**Ownership**	Control/Influence Debt Tranche
Target / Hard Cap	$1.0bn / $1.5bn		

Terms, Conditions, and Fees

Sponsor Commitment	No stated GP commitment	**Preferred Return**	8% (1.5:1 leverage) 6% (1:1 leverage)
Investment Period`	3 years (1-year reinvestment)	**Term**	8 years
Limitations	See Review of Terms & Conditions	**Recycling Provision**	36-months from final close
Credit Line Usage	Subscription line < 3 months outstanding	**Valuations**	Quarterly FMV
Management Fee	0.80% p.a. of invested capital	**Incentive Fee & Waterfall**	10% European
Benchmark	Burgiss iQ US Senior Debt	**Target Return**	10%-12% (1.5:1 leverage) 8%-10% (1:1 leverage)

Empower Results®

Investment Manager Evaluation

Factor		Comments
Overall Rating	**Buy**	We consider Barings to be a leading global asset manager across various global credit strategies, including global fixed income and alternative investments. Barings' Global Private Finance business includes a dedicated direct origination team that invests in senior secured middle-market loans and mezzanine debt, and makes equity co-investments, primarily in companies located in North America, Europe, Australia and the developed Asia-Pacific region. Barings NAPLF II will continue the strategy successfully executed by Barings NAPLF I, while incorporating ESG considerations into the rigorous, bottom-up investment process.
Business	**3**	Barings is a wholly owned indirect subsidiary of MassMutual, a leading mutually owned life insurance company. Barings has over $326 billion in assets under management globally across fixed income, alternative investments and equity markets. Barings' Global Private Finance Group, which will manage the Fund, sits within the broader Fixed Income vertical and is the team responsible for the global direct lending efforts and investment activities. Approximately half of Baring's AUM are managed on behalf of MassMutual, which typically invests alongside the various Barings private credit funds and accounts.
Investment Staff	**3**	Globally, the investment staff consists of more than 70 investment professionals. The North American Private Finance Team consists of approximately 40 investment professionals located in Chicago, IL, Charlotte, NC, and New York, NY. The team is well integrated and centrally managed by the Global Private Finance Group leadership and support professionals. This central leadership consists of Eric Lloyd, Terry Harris, and John McNichols. The Fund's portfolio managers, Ian Fowler and Mark Flessner, have worked together for the past 17 years through multiple credit cycles.
Investment Process	**3**	Barings has significant experience in originating, arranging and structuring senior loans, unitranche, second lien, mezzanine and equity co-investments. The North American investment team sources investment opportunities through their established sponsor, banking, advisory and industry relationships. For an investment to be approved, a majority affirmative vote of the Investment Committee members is required. The portfolio managers will unanimously decide whether an approved investment will be allocated to the Fund.
Risk Management	**3**	Monitoring of a portfolio company is carried out by same members of the team who originally underwrote and closed the deal. Barings uses proprietary credit rating models and hold regular portfolio reviews to discuss and value each portfolio company security held. Barings has a watchlist working group, made up of a subset of the team, that has years of experience in workout and restructuring situations.
Performance Analysis	**3**	Since its inception in 2012, Barings' North American senior loan strategy has completed 479 platform investments totaling $15.1 billion of invested capital with $3.8 billion realized. Barings North American Private Loan Fund I has performed well across all three metrics, ranking in the first and second quartile across the net IRR and TVPI metrics and approximating the median in the net DPI metric.
T&C	**2**	The Fund is a closed-end fund organized as a Delaware limited partnership, with two alternative Cayman Islands exempted limited partnerships. Terms and conditions are mainly in line with expected market norms; however, we note the attractive management fee (0.80% on invested capital) and carried interest (10%) terms.
Operational Risk Solutions and Analytics	**A1 Pass**	Barings is a mature asset management business offering investment management services across a wide range of strategies. The manager demonstrates a well-controlled operating environment, including appropriate governance and oversight structures, regulatory compliance capabilities, and technology and security protocols. Barings' policies and procedures are comprehensive, well-documented, and subject to assurance reviews by both internal audit and annual reviews by an external audit firm.

Competitive Advantages

1. Global Platform

Barings has the infrastructure and resources of a $326 billion global asset manager with more than 1,700 employees and offices in more than 15 countries. Barings' Global Private Finance Group ("GPFG") consists of over 75 professionals "on the ground" in six different offices throughout the United States, Europe, Australia/New Zealand and developed Asia Pacific. These teams have been working together in their respective regions between 10 and 27 years. Each team has established personal relationships with local market participants, including private equity buyout firms, banks, and other industry sources.

2. Experienced Team

The Fund's portfolio managers are Ian Fowler and Mark Flessner, who have worked together for 17 years—both are also members of the North American Investment Committee (Ian is also a member of the European and Asia Pacific Investment Committees). The North American investment team, which consists of approximately 40 investment professionals located across three offices in North America, average 18.5 years of experience at the senior level and an average of 26 years of industry experience at the Investment Committee level.

3. Deep Sponsor Relationships

Barings has developed strategic relationships with private equity firms globally through providing consistent, predictable capital to middle-market sponsors over multiple decades. In addition, MassMutual has committed more than $3.0 billion as a limited partner in over 200 North American buyout funds.

4. Unique Investment Approach

Barings believes ESG is a key factor which can impact an investment's risk and returns over time. Barings consistently incorporate ESG considerations into its rigorous, bottom-up investment process. In addition to any deal specific third-party due diligence (accessible through MSCI and Sustainalytics ESG research), Barings utilizes internal expertise through its Sustainability, Compliance and Legal teams. The GPFG has been formally tracking ESG considerations in investment opportunities since 2015 and their transparent approach is demonstrated through the team's annual ESG report.

5. Attractive Fund Terms

Barings is offering investors attractive terms with a management fee that starts at 80 basis points per annum on invested capital and can be lowered based on aggregate capital allocations across Aon clients. In addition, Barings is offering a performance fee of only 10% over an 8% preferred return with a European-style distribution waterfall on the Onshore Fund and 1.5:1 leveraged Offshore Fund, while offering a performance fee of 10% over a 6% preferred return with a European-style distribution waterfall on the 1:1 leveraged Offshore Fund.

Potential Issues and concerns

Although we believe Barings North American Private Loan Fund II, L.P. offers a compelling investment opportunity, below we have listed concerns that should be considered prior to the investment decision. Following each is a list of potential mitigating factors that help reduce our level of concern.

1. Growth in Private Credit Competition

Given that regulations have made it difficult for banks to compete in middle-market lending, numerous new entrants have come to market with private credit funds. Competition for deals is likely to increase, and there could be pressure on pricing and structure.

Discussion: Although fundraising for direct lending funds has increased over the last few years, it does not appear to be in excess of the potential capacity for debt transactions. Private equity firms have record levels of dry powder to invest, which continues to drive demand for direct lending transactions. With increased supply in the private debt space, pricing could tighten on loans and structures could become more aggressive. Over the last few years, lending terms such as pricing and leverage have become more borrower friendly with more pressure on pricing and higher leverage levels. However, despite this competitive market, Barings was still able to generate attractive returns. Post-Covid, there was a market correction with more lender favorable terms. While pricing has come down a little since the second half of 2020, the market opportunity is still more attractive than it has been in the last few years. Additionally, Barings' relationships, reputation, and ability to write meaningful check sizes allow it to compete for opportunities beyond just on price alone.

2. Limited Fund Track Record

Barings has only launched one prior commingled fund focused on North American direct lending prior to this Fund.

Discussion: Barings has a track record in direct lending dating back to 2012, primarily with investments booked on MassMutual's balance sheet and shared alongside separately managed accounts with institutional investors. Barings raised Global Private Loan Fund I in 2015, which has performed well. Note that the track record presented in this report reflects deals completed since the inception of Barings' North American senior loan strategy in 2012.

3. Lack of Dedicated Workout Team

Barings' Global Private Finance Group does not have a dedicated team of professionals focused on performing workouts in situations where loans require a bankruptcy or restructuring event.

Discussion: Barings has over 27 years of experience investing in North American private finance. Importantly, the team, and Barings as an institution, have experience and a reputation with the market investing in North American private finance through multiple credit cycles. The team's capabilities are further supported by a diversity of background experience including portfolio due diligence, acquisition and integration; work out and restructuring; CLO issuance; and asset appraisal and collateral audit experience. Several team members also came from private equity backgrounds.

Barings' senior investment team members are responsible for running lead on monitoring all assets and would be responsible for leading a workout or restructuring process. Five members of the senior investment team have significant workout experience, including Salman Mukhtar, Mark Hindson, Brady Sutton, Matt Freund and Brianne Ptacek. In addition, the Barings Global Private Finance Group has a formalized relationship with the Barings Special Situations Group to provide incremental "fire power" and subject matter expertise for all situations involving workouts or restructurings—whether in court, out of court, or liquidations.

Strategy

Overview

Barings LLC is establishing Barings North American Private Loan Fund II, L.P., a Delaware limited partnership (the "Onshore Fund"), Barings North American Private Loan Fund II (Cayman), L.P., a Cayman Islands limited partnership (the "Cayman Fund") and Barings North American Private Loan Fund II-A (Cayman), L.P., a Cayman Islands limited partnership (the "Cayman-A Fund" and together with the Cayman Fund, the "Offshore Fund") (the Onshore Fund and the Offshore Fund are referred to collectively as the "Fund"). The primary purpose of the Fund is to make direct first lien senior secured loans to North American middle-market companies. The Fund is seeking approximately $1.0 billion in capital commitments (and approximately $1.8 billion of total capital including leverage). Barings plans to utilize leverage at the Fund level to increase the Fund's available capital.

The Fund's investment objective is to provide consistently attractive returns by investing primarily in directly originated North American first lien senior secured loans. These investments will typically be made in support of private equity sponsor-led transactions such as buyouts, recapitalizations and add-on acquisitions. Companies invested in by the Fund will typically be performing, well-established middle-market businesses that are located and conduct business predominately in the United States and/or, to a lesser degree, Canada, and operate across a diversified set of industries. Typically, companies invested in by the Fund will range in size from $10 million to $50 million of EBITDA. The Fund's investment strategy continues the strategy successfully executed by Barings North American Private Loan Fund, L.P.

Barings' Global Private Finance Group has incorporated ESG considerations as part of the investment process for several years. The investment team has declined deals based on poor environmental track records, social concerns and insufficient governance structures. Barings' Global Private Finance Group considers ESG factors in conjunction with all credit risks when evaluating an investment opportunity, including:

- *Environmental.* When considering environmental factors in a potential investment, Barings evaluates the impact of the company's operations on the ecosystem and the company's compliance with environmental regulations. Barings may also consider the impacts of climate change and environmental regulations upon the industry in which the company operates, if applicable. Barings considers these factors as part of a comprehensive review of potential risks to a company's long-term value proposition.
- *Social.* When considering social aspects of an investment opportunity, Barings evaluates a range of factors including the safety profile and labor standards of the borrower company and its suppliers. Additionally, as many middle-market businesses that the Firm evaluates can be service-oriented or require employees with specialized knowledge and skills, human capital management is an important factor that is assessed. Good practices of employee recruitment, training and retention are keys to a sustainable business model.
- *Governance.* A company's corporate governance structure determines the strategic direction, control and performance of the company, and thus it is an important focus in the underwriting process. The investment team does deep diligence on the portfolio company's management team, examining their qualifications, experience, incentives, potential conflicts of interest and succession plans. Additionally, Barings does deep diligence on the private equity sponsor backing the transaction, as the sponsor often provides governance oversight and may even make changes to key personnel on the board or senior management team of the portfolio company. The sponsor's track record, investment philosophy and exit strategy are all important factors considered. Lastly, Barings makes sure that the borrower company has adequate accounting and audit capabilities, and Barings carefully reviews the quality of earnings report provided by a leading accounting firm to assess the sustainability and accuracy of historical earnings as well as the achievability of future projections.

In 2016, Barings raised Fund I, its first pooled investment fund dedicated to investing primarily in directly originated North American first lien senior secured loans. Fund I held its final closing in October 2017. As of March 31, 2021, Fund I has invested over $1.5 billion across 90+ senior loan investments with a weighted average EBITDA (at close) of $43.2 million. As of March 31, 2021, Fund I has a gross running unlevered yield of 7.1%, a weighted average asset leverage position (at close) of 4.8x, and a loan-to-value ratio (at close) of 44.4%.

Sponsor

Overview

In March 2016, Baring Asset Management Limited ("BAML"), Babson Capital Management LLC ("Babson"), Wood Creek Capital Management, LLC ("Wood Creek") and Cornerstone Real Estate Advisers ("Cornerstone") announced their intention to combine under the Barings brand. BAML traces its roots to 1762 when the Baring brothers founded a merchant and banking firm in London. BAML was one of the first U.K. firms to form an investment department in 1955. Babson, through its predecessor, David L. Babson & Company, Inc., was founded in 1940. Both companies were acquired by Massachusetts Mutual Life Insurance Company—Babson in 1995 and BAML in 2005. In July 2016, BAML became an indirect, wholly-owned subsidiary of Babson, which changed its name to Barings LLC in September 2016.

1. Current Ownership:

- Barings is a wholly-owned indirect subsidiary of MassMutual, a leading mutually owned life insurance company.

2. Firm AUM: ~$326.0 billion

- The Firm's AUM is roughly equally divided across the Americas (31%), Asia Pacific (34%) and EMEA (35%) regions.
- In addition to the first lien senior secured funds summarized in the Executive Summary above, the Firm also manages the following funds:

Fund(s) Name	Vintage Year	Fund Size (mn)	Strategy
Tower Square I	2002	$634	N.A. Mezzanine Debt
Almack I	2005	€509	European Mezzanine Debt
Tower Square II	2005	$1,800	N.A. Mezzanine Debt
Tower Square III	2008	$1,600	N.A. Mezzanine Debt
Almack II	2009	€343	European Mezzanine Debt
Gateway I	2011	A$92	Asia Pacific Mezzanine Debt
Almack III	2011	€413	European Mezz/Unitranche Debt
Tower Square IV	2014	$917	N.A. Mezzanine Debt
Gateway II	2015	$177	Asia Pacific Mezzanine Debt
Middle Market CLO 2017	2017	$504	CLO
Barings BDC, Inc. (BBDC)	2018	TBD	BDC
Middle Market CLO 2018	2018	$404	CLO
Middle Market CLO 2019	2019	$400	CLO
European Private Loan Fund III	2021	TBD	European Senior Debt
Private BDC	2021	TBD	BDC
SBIC	2021	TBD	N.A. Senior/Unitranche/Mezz Debt
Global Private Loan Fund IV	2021	TBD	Global Senior Debt
Middle Market CLO 2021	2021	TBD	CLO
Perpetual BDC	2021	TBD	BDC

3. Investment Staff:

- Globally, the investment staff consists of more than 70 investment professionals. The North American Private Finance Team consists of approximately 40 investment professionals located in Chicago, IL, Charlotte, NC, and New York, NY. The team is well integrated and centrally managed by the Global Private Finance Group leadership and support professionals. This central leadership consists of Eric Lloyd, Deputy Head of Global Markets and Head of Global Private Fixed Income, Terry Harris, Head of Global Portfolio Management, and John McNichols, Head of Global Product Management. Terry Harris and John McNichols have a team of 13 product and portfolio support professionals who report to them and are dedicated to Global Private Finance.

Title	Number of Employees	Average Tenure at Firm	Average PE Experience
CEO	1*	8	31
Sr. Managing Director	2**	11	30
Managing Director	18	9	21
Director	11	6	15
Associate Director	12	4	8
Analyst	18	2	4

* Head of Private Assets
** Co-Heads of Global Private Finance Group

- The Sponsor's organizational chart is located in Exhibit A and investment staff chart is located in Exhibit B.

Senior Turnover / Additions, Compensation, and Retention

Barings reports that it has a very high retention rate of employees, especially investment professionals. Barings believes this is mainly driven by its culture of shared values of personal and professional integrity, teamwork, communication and transparency and unrelenting dedication to the interests of its clients.

Departures:

Name	Title	Tenure	Year Departed	Primary Role
Robert Erwin	Managing Director	15	2018	Origination
Paul Dias	Managing Director	17	2018	Underwriting
Christopher Dowd	Managing Director	17	2018	Origination
Katherine Florio	Director	14	2018	Underwriting
Andrew Oleksak	Director	7	2018	Underwriting
Matthew Foley	Director	5	2018	Underwriting
Bob Shettle*	Managing Director	21	2019	Co-Head of N.A. Private Finance

* North America Investment Committee Member

Additions:

Name	Title	Tenure	Year Joined	Primary Role
Sandeep Khorana	Managing Director	4	2017	Origination
Jessica Lee	Managing Director	4	2017	Origination
Joshua Garcia	Director	3	2018	Underwriting
Salman Mukhtar	Managing Director	2	2019	Sr. Investment Manager/Underwriting
Stephanie Krebs	Director	<1	2021	Underwriting

Compensation

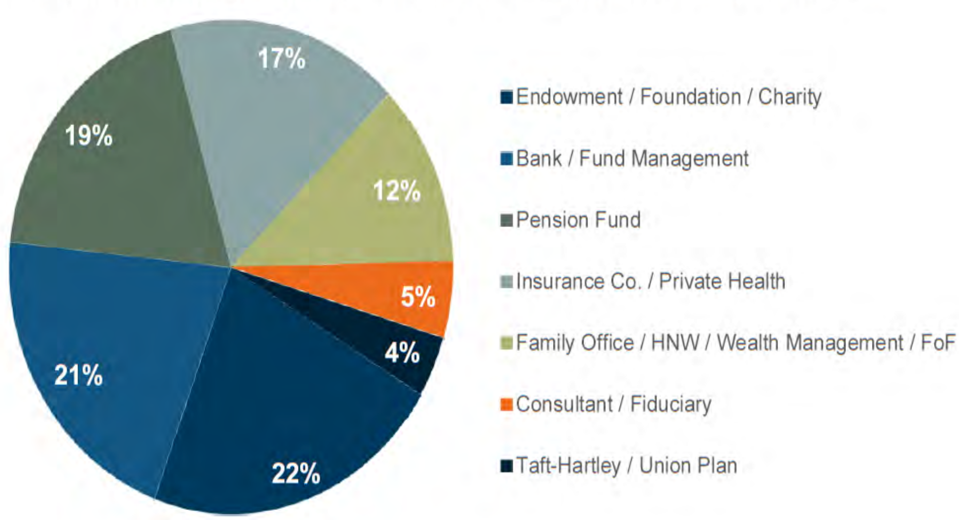
Compensation packages at Barings are structured such that key professionals have a vested interest in the continuing success of the Firm and are designed to promote appropriate sharing of financial results, align interests of employees, avoid excessive risk taking, and provide pay opportunities that will incentivize and retain high-performing employees. Investment performance is a critical component of their compensation scheme for investment professionals, as defined in the compensation philosophy as follows:

- *Base Salary.* The base salary component is generally positioned at mid-market. Increases are tied to market, individual performance evaluations and budget constraints.
- *Annual Bonus – Short-Term Incentive (STI).* The annual bonus pool applies to all associates in the Firm. The general STI pool is based upon a fixed percentage of Barings' earnings. Investment professionals are allocated their portion of the pool based on their relative investment performance to predefined benchmarks/indexes, divisional and individual performance relative to market and their annual evaluations. STI is typically paid in February/March following the performance year for which the award is based.
- *Long-Term Incentive (LTI).* Barings' long-term incentives are designed to share with participants the longer-term value created in the Firm and enhance retention of positions critical to the Firm's long-term success. Programs include deferred-cash based components, which can be tracked against Barings' earnings, Barings' investment products and other specific investment vehicles. The LTI awards are typically deferred with a four-year vesting and pay-out. To encourage retention of key investment employees, a voluntary separation of service will generally result in a forfeiture of unvested LTI awards. In addition, the long-term incentive plans are designed to tie a material portion of the incentive compensation received by executive officers directly to the long-term performance of the Firm, as measured by a phantom stock price.

There is no distinction between portfolio managers and analysts with respect to compensation. Barings' compensation philosophy is performance driven based upon market data, individual and overall Barings firm-wide performance for all individuals. This applies to the sharing of carried interest as well, which is allocated 50% to the investment team and 50% to the Firm to be used in the LTI plan. Global Private Finance Group leaders will determine the breakdown of carried interest across the investment team members based on merit.

Client Base

BARINGS NAPLF I CLIENT BASE AS A PERCENTAGE OF CAPITAL



Competitors

Antares Capital	Ares Management
Bain Capital Credit	Benefit Street Partners
Blackstone Group (GSO)	BMO Global Asset Management
Brightwood	Cerberus Capital Management
Churchill Capital Management	Crescent Capital Group
CVC	Deerpath Capital Management
Fortress Investment Group	Goldman Sachs
GoldPoint Partners	Golub Capital
HPS Investment Partners	KKR
Madison Capital Funding	Maranon Capital
Monroe Capital	New Mountain Capital
NXT Capital	Onex
Owl Rock Capital Partners	Portfolio Advisors
Stellus Capital Management	Twin Brook Capital Partners
White Oak Global Advisors	WhiteHorse Capital (H.I.G.)

Operational Risk Solutions and Analytics

Summary

An Aon specialist team reviewed the Sponsor's policies, procedures, and capabilities across a range of operations, middle and back office, and control functions including: (i) corporate governance, (ii) trade/transaction execution, (iii) cash controls, (iv) valuation, (v) compliance, regulatory, legal, and controls testing, (vi) counterparty risk oversight, (vii) business continuity/disaster recovery, and (viii) cyber security.

- Barings is a mature asset management business offering investment management services across a wide range of strategies. The manager demonstrates a well-controlled operating environment, including appropriate governance and oversight structures, regulatory compliance capabilities, and technology and security protocols. Barings' policies and procedures are comprehensive, well-documented, and subject to assurance reviews by both internal audit and annual reviews by an external audit firm.
- The rating consistent with those findings is an A1 Pass rating, defined in the Appendix.

Investment Process

Overview

Sourcing

The North American Investment team sources investment opportunities through their established sponsor, banking, advisory and industry relationships. A critical element in building its successful long-term track record has been its rigorous analytical process of evaluating investment opportunities, which includes consideration of numerous qualitative and quantitative factors. When considering an investment opportunity, Barings assesses the relative strength of the “three legs of the stool”, which are: 1) the issuer, 2) the ownership and 3) the capital structure.

1. The Issuer
    a. Barings focuses on performing, well-established middle-market companies that Barings believes have a strong reason to exist.
2. The Ownership
    a. Barings focuses primarily on transactions that are backed by private equity sponsors. Investments in non-sponsored transactions may be considered by the Fund based on appropriate risk-adjusted returns and consistency with the Fund’s objective. When choosing to invest alongside a sponsor, Barings focuses on the sponsor’s track record and the strategic and cultural fit with Barings. Given variations in sponsor quality, Barings created and employs a formal underwriting process of private equity sponsors.
    b. To make this underwriting process more objective, Barings implements an alphanumeric rating system for sponsors. The letter in the rating system represents the “tier” of the sponsor’s quality and relative importance to Barings, and the number represents frequency of deal flow seen from the sponsor.
3. The Capital Structure
    a. When considering the structure of a potential investment, Barings focuses on the illiquidity premium, the risk-adjusted return, and the proper structural protections.

Execution

The Team meets as a group twice a week for two separate standing meetings. The purpose of the first meeting is to review new investment opportunities and report on the progress of investment opportunities already in the pipeline. The second meeting addresses more in-depth screens and diligence discussions on specific investment opportunities in process. Both meetings involve the members of the Investment Committee. As new deal opportunities arise, deal teams are assigned and typically include a managing director, a director or associate director and an analyst.

Ultimately, a formal presentation is made at the standing weekly Investment Committee meeting and discussion ensues, followed by the Investment Committee vote to approve or decline the investment. It is not unusual for an approval to be subject to additional information or final agreement on the structure of the deal. For an investment to be approved, a majority of votes cast by the Investment Committee is required. The portfolio managers will unanimously decide whether an approved investment will be allocated to the Fund and, in the case of the Offshore Fund, subject to compliance with the tax guidelines and approval of the Independent Committee. Once the deal is completed, one of the members of the deal team is assigned lead responsibility for monitoring the portfolio company over the life of the investment.

Monitoring

Monitoring of portfolio investments is accomplished through several disciplined practices:

- Monitoring of a portfolio company is carried out by same members of the team who originally underwrote and closed the deal;
- Receipt and review of monthly portfolio company financial statements;
- Formal quarterly review and evaluation of each portfolio company;
- Regular interaction with the buyout firm that controls each portfolio company and with the management teams of each portfolio company;
- Regular meetings to discuss portfolio companies performing differently than expected (focused credits) and watchlist credits.

Barings believes that the quality of its relationships with buyout firms provides for a depth of access to portfolio companies and their management that might not be available otherwise. Barings typically receives monthly financials for each of its portfolio companies, and deal teams compare companies' actual performance to expected performance. If a portfolio company is underperforming from what was originally modeled when the investment closed, the team notes this trend and adds the credit to a review log of "focused credits" to be discussed at the regular watchlist review meetings. If Barings becomes aware of any latent issues, such as potential covenant breaks or other events that may cause underperformance, the team raises these issues for discussion with the Investment Committee. The team engages the sponsor as early as possible to address these issues and work together to seek corrective action.

Credits that are underperforming significantly compared to what was modeled are placed on a formal watchlist. Barings has a watchlist working group, made up of a subset of the team that has years of experience in work out and restructuring situations, who meet regularly as needed to discuss these credits. The working group agrees on a course of corrective action and receives regular updates on progress until the situation improves. The Investment Committee is apprised of all developments with watchlist credits early and frequently.

Importantly, given the broad scale of Barings' infrastructure, the team has significant resources to help them in their portfolio monitoring process. Barings has a portfolio management system called Everest, developed by Black Mountain, which houses data at each individual transaction level and holding level, and aggregates data up to the portfolio level to monitor performance and trends. One specific function of Everest is to produce tearsheets on each asset for the quarterly review process. The tearsheets display quarterly trends in financials, compare current metrics versus at close metrics such as EBITDA, leverage and loan-to-value, and provides space for commentary on recent developments and performance. The Global Private Finance Group includes four dedicated portfolio support professionals who assist the team with the input, maintenance and aggregation of this data. In addition, as of December 31, 2019, Barings as a firm has over 80 professionals dedicated to asset and fund administration, 55+ professionals dedicated to portfolio analytics and structuring, and 15+ professionals dedicated to legal and compliance, as well as a team of information technology professionals to help support these systems and processes.

All these capabilities allow Barings to continuously monitor portfolios for risk sensitivities, near-term market outlook and relative value, and to seek to address any negative issues well in advance of potentially adverse events. Lastly, these capabilities allow Barings to provide investors with customized reporting packages and regular portfolio reviews to inform them of portfolio performance and trends. Barings can customize the frequency, format and content of portfolio reporting to clients' specifications.

Investment Committee

The Investment Committee consists of six members: Eric Lloyd, Managing Director, Deputy Head of Global Markets and Head of Private Fixed Income; Terry Harris, Managing Director and Head of Global Portfolio Management; Ian Fowler, Managing Director, Fund Portfolio Manager and Co-Head of Global Private Finance; Adam Wheeler, Managing Director, Co-Head of Global Private Finance; Mark Flessner, Managing Director, Fund Portfolio Manager and Head of U.S. Senior Loan Portfolio Management; and Brian Baldwin, Managing Director. Collectively, this committee has over 155 years of industry experience, and each member averages approximately 26 years of industry experience. As noted above, a majority of votes cast is required by the Investment Committee for a new investment to be approved.

Eric Lloyd, Terry Harris, Ian Fowler and Adam Wheeler also sit on the European and Asia Pacific Investment Committees, affording them a unique perspective across all of Barings' investment geographies. Ian Fowler, Mark Flessner and Brian Baldwin have all worked together at prior firms including GE Capital, Freeport Financial and Harbour Group. Importantly, Ian Fowler and Mark Flessner, the Fund's Portfolio Managers, have worked together for the past 17 years through multiple credit cycles. Barings believes that the individual and shared experience of these six senior team members provides the Investment Committee with an appropriate balance of shared investment philosophy and difference of background and opinion.

Name	Title	Years with Firm
Eric Lloyd*	Head of Private Assets	8
Terry Harris	Head of Global Portfolio Management	8
Ian Fowler	Co-Head of Global Private Finance	9
Adam Wheeler	Co-Head of Global Private Finance	12
Mark Flessner	Portfolio Manager	9
Brian Baldwin	Managing Director	9

* Investment Committee Chair(s)

Investment Committee Voting

Name	Subset of Investment Committee	Full Investment Committee
Indication of Interest	X	
Letter of Intent		X
Final Underwriting		X
Add-On Capital		X

Valuations

Private credit assets are typically illiquid. Due to this, private credit instruments are rarely quoted by pricing vendors or broker quotes. If marks are made available, they may not be accurate.

Every asset is assigned an internal rating (PD) at acquisition. The deal analyst monitors the borrower's performance over the life of the loan and may make recommendations to adjust the PD to the relevant credit committee.

Use of IHS Markit

If an asset is quoted by IHS Markit, it will be considered as the primary pricing source only if the asset is cross held with another investment team whose primary valuation provider is IHS Markit.

Third-Party Valuation Service

Barings has engaged a third-party valuation service (TPVS) to perform an independent quarterly valuation of private credit assets and related instruments (e.g., equity) that may arise out of private credit team investments, generally as a result of restructuring of debt assets. Prior to each quarter end the private finance investment teams

Empower Results®

shall provide all relevant documentation to the TPVS who will then independently assess the value of each asset. The investment teams will assist the TPVS to ensure they have correctly understood the mechanics of each deal.

In the absence of any significant deal specific or macroeconomic news that would warrant an alternative approach, assets are held at cost until they are valued by the TPVS. Typically, this will be the first quarter end post acquisition. If the borrower has not provided an updated set of financial reporting two weeks prior to the first quarter end, the asset may be held at cost for the next quarter. Assets must be sent to the TPVS for the second quarter end even if no new financials for the underlying borrower have been received.

The TPVS applies two methods (synthetic rating analysis and re-underwriting analysis) to establish the rate of return a market participant would require (the "discount rate") as of the valuation date, given market conditions, prevailing lending standards and the perceived credit quality of the issuer. Future expected cash flows for each investment are discounted back to present value using these discount rates in the discounted cash flow analysis. The TPVS's valuations are typically provided as a range ("the range"), with the Barings Pricing and AIFMD Committee (BPAV Committee) overseeing the selection of which point is used within the range. The BPAV Committee shall set a standard approach to be applied consistently for the selection logic, with additional commentary to be provided by the investment team in any cases where they recommend deviation from the standard approach. For such exception cases, the BPAV committee will review this recommendation and determine the mark to be applied for each asset.

Prices shall be capped at the current call premium or 100.

If the investment team disagrees with the valuation range provided by the TPVS, team members may construct their own valuation using a model based on the International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines) or detailing expected recovery in the case of an asset entering into a default. This valuation will be reviewed by the BPAV Committee who will determine which valuation should be applied.

Seasoning

Certain portfolios may require an asset to be seasoned prior to acquiring it at a fair value. If the asset to be transferred has already been valued by the TPVS at the prior quarter end, the fair value price shall be the point within the TPVS valuation range approved by the BPAV Committee at such quarter end date, unless the BPAV Committee or the investment team believe this value is no longer accurate and a new valuation from the TPVS should be obtained.

If the asset has not previously been sent to the TPVS, it shall be sent to the TPVS for them to provide a valuation range prior to the trade being executed, even if new financials have not been received, with the selection of the point within the range reviewed and approved by the BPAV Committee as per a regular quarter-end valuation. If the date of the valuation provided by the TPVS is within one month of the next quarter end, this value shall be used for the following quarter.

New Issuance/Price Resets

If a borrower issues a new facility that is pari passu with the existing facility, the original facility's mark is reset to the cost price of the new facility (as the best updated evidence of a current valuation).

If a trade is observed between two non-Barings related third parties or Barings enters into a trade with a third party, the price of the asset and any pari passu facilities in the deal shall be reset to the trade price until the next quarter end.

Internal Model Outline

Barings maintains an internal index-based valuation model for private credit debt instruments for reference purposes. It is not used for marking the assets, but may be used as a basis of comparison to the price range provided by the TPVS. The model uses a combination of index spread movements since origination and PD change driven pre-defined spread tightening/widening.

Pricing Hierarchy

1. Third-party valuation service
2. Markit Partners (only applicable if cross held by another investment team)

3. Third-party broker quote

4. Other manual models

In certain bespoke situations typically relating to a restructuring, anticipated dissolution of the borrower, or where none of the above is appropriate in the opinion of the investment team, an internal asset specific valuation model may be prepared by the credit analyst for review by the relevant investment team's credit committee, and then the BPAV Committee. The model should be in line with IPEV Guidelines or an estimate of funds recoverable in the event of a borrower being wound up.

Fund Structure

Overview

Closed-end fund organized as a Delaware limited partnership as well as two Cayman Islands exempted limited partnerships.

- Sponsor: Barings LLC
- General Partner: Barings North American Private Loan Fund II Management LLC, a wholly-owned subsidiary of the Investment Manager
- Investment Manager: Barings LLC
- SEC registered investment adviser
- Placement Agent: N/A
- See Exhibit C for Structure Chart

Review of Terms & Conditions

Key Terms		Aon Comment	
Fund Target	Approximately $1.0 billion of equity commitments	**Neutral**	Moderate increase in fund size relative to preceding fund.
Sponsor Commitment	No stated GP commitment	**Neutral**	Aon prefers to see at least 2% of commitments provided by the GP. MassMutual will co-invest alongside every single deal up to 30% of total facility size, which makes up for the lack of an official GP commitment.
Commitment Period	3-year investment period	**Neutral**	
Term	8-year fund term. May be extended for up to two consecutive one-year periods by the General Partner.	**Neutral**	While we prefer to see Limited Partners (or the LPAC) have a vote regarding any such extension period, we recognize the initial Fund Term is shorter than the typical offering.
Recycling Provision	1-year reinvestment period after investment period	**Neutral**	
Key Person Provision	GP shall notify LPs with written notice promptly in the event fewer than 3 individuals (or their replacements) are serving as members of the Investment Committee prior to the end of the Investment Period	**Negative**	We prefer to see the Key Person provision tied to specific individuals or have a lower threshold for the triggering event. Also, we prefer to see an automatic suspension upon a triggering event.
No-Fault Remedies	None	**Negative**	The Fund allows for removal of the GP only upon a cause event.
Organization Expenses	Up to $1.5 million	**Neutral**	
Management Fee	0.80% p.a. of invested capital	**Positive**	The Management Fee is lower than market norm.
Management Fee Offset	100% of relevant fees received	**Neutral**	
Incentive Fee/Waterfall Distribution	10% performance fee over 8% preferred return for Delaware and Cayman Funds; 10% performance fee over 6% preferred return for Cayman-A Fund; European-style waterfall	**Positive**	10% carried interest is lower than market norm and the European-style waterfall is LP-friendly.

Key Terms		Aon Comment
Clawback	Yes, upon termination of Fund	Neutral
Vote to Change LPA	Simple majority of LPs	Neutral
LPAC Composition	Not less than 3 and not more than 7 LPs	Neutral
Investment Limitations	Less than 5% of investable capital may be invested in any single portfolio investment; less than 20% of investable capital may be invested in loans to borrowers in any single industry sector; less than 20% of investable capital may be invested in assets other than first lien senior secured loans; less than 10% of investable capital may be invested in loans denominated in Canadian Dollars; less than 5% of investable capital may be invested in equity co-investments; the Offshore Fund will use reasonable best efforts to comply with the provisions in the Tax Guidelines in making its investments	Neutral

Empower Results®

Performance

Summary (as of March 31, 2021)

Since its inception in 2012, Barings' North American senior loan strategy has completed 479 platform investments totaling $15.1 billion of invested capital with $3.8 billion realized.

Fund	Vintage Year	Fund Size	Capital Invested	# of Inv.	Inv. Realized	Realized Value	Unrealized Value	Total Value	Gross TVPI	Net TVPI	Gross IRR	Net IRR
European DL I	2015	€ 350.0	€ 602.0	36	18	€ 350.0	€ 317.0	€ 667.0	1.3x	1.2x	7.4%	7.3%
Global PLF I	2015	$777.0	$1,013.0	78	51	$812.0	$314.0	$1,126.0	1.3x	1.2x	9.1%	7.8%
Global PLF II	2016	$1,300.0	$1,589.0	92	32	$709.0	$971.0	$1,680.0	1.2x	1.2x	8.1%	7.1%
North American PLF I	2016	$1,822.0	$2,263.0	138	42	$807.0	$1,603.0	$2,410.0	1.3x	1.2x	14.4%	12.2%
European PLF II	2018	€ 1,520.0	€ 1,629.0	54	7	€ 289.0	€ 1,410.0	€ 1,699.0	1.1x	1.1x	9.4%	8.1%
Global PLF III	2018	$2,412.0	$2,269.0	103	5	$98.0	$2,206.0	$2,304.0	1.1x	1.1x	11.2%	10.0%
Total		**$8,181.0**	**$9,365.0**	**501**	**155**	**$3,065.0**	**$6,821.0**	**$9,886.0**				

Barings has generated a strong 12.2% net IRR and 1.2x multiple of invested capital in North American Private Loan Fund I.

Fund Level Performance Relative to Vintage Peers

The tables below summarize the Firm's performance of its prior funds. Performance of Barings' funds is compared to the Burgiss Private iQ U.S. Senior Debt peer universe as of March 31, 2021. Barings North American Private Loan Fund I has performed well across all three metrics, ranking in the first and second quartile across the net IRR and TVPI metrics and approximating the median in the net DPI metric.

Fund	Vintage Year	Net IRR	Benchmark Quartile	Global All PE Quartile
European DL I	2015	**7.3%**	3rd	4th
Global PLF I	2015	**7.8%**	1st	4th
Global PLF II	2016	**7.1%**	4th	4th
North American PLF I	2016	**12.2%**	1st	3rd
European PLF II	2018	**8.1%**	1st	3rd
Global PLF III	2018	**10.0%**	1st	3rd

Fund	Vintage Year	Net TVPI	Quartile	Global All PE Quartile
European DL I	2015	**1.2x**	2nd	3rd
Global PLF I	2015	**1.2**	2nd	3rd
Global PLF II	2016	**1.2**	3rd	4th
North American PLF I	2016	**1.2**	2nd	4th
European PLF II	2018	**1.1**	3rd	3rd
Global PLF III	2018	**1.1**	4th	4th

Fund	Vintage Year	Net DPI	Quartile	Global All PE Quartile
European DL I	2015	**0.6x**	2nd	2nd
Global PLF I	2015	**0.8**	1st	1st
Global PLF II	2016	**0.4**	2nd	2nd
North American PLF I	2016	**0.4**	3rd	2nd
European PLF II	2018	**0.2**	2nd	1st
Global PLF III	2018	**0.0**	4th	2nd

Empower Results®

North American Senior Loan Track Record

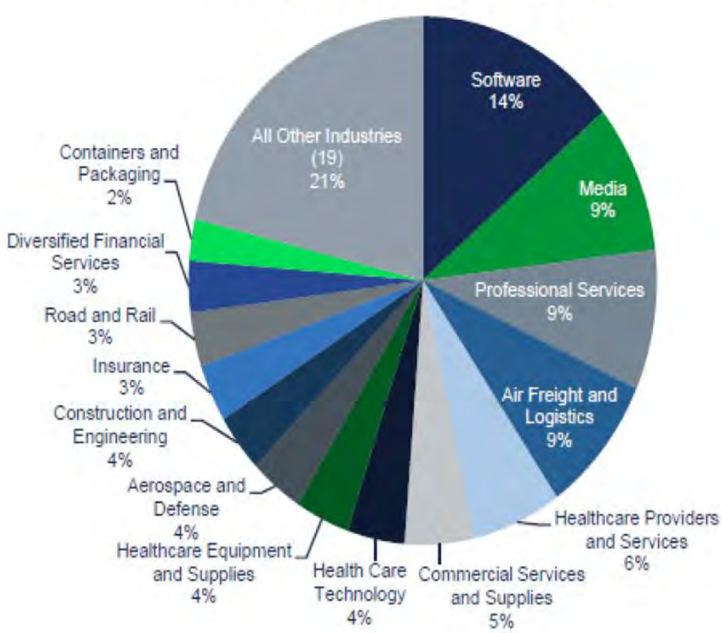
Year	Facility Size MM (USD)	Incremental Investment Amount (USD)	Hold %	Upfront Fee	Floor	Cash Margin / Coupon	All-in Spread (Rate at Close)	Origination Yield in USD (Rate at Close)	3/31/21 Gross IRR (Hedged to USD)	3/31/21 MOIC	LTM EBITDA (USD)	Senior Leverage	Total Leverage	Equity Contribution
2012	112.6	15.7	40.8%	1.60%	0.98%	5.61%	6.97%	7.30%	9.00%	1.12x	22.9	3.7x	4.2x	49.6%
2013	92.0	17.7	52.2%	1.43%	0.93%	4.69%	5.98%	6.23%	7.82%	1.08x	21.5	3.7x	4.4x	53.4%
2014	93.3	17.1	44.2%	1.55%	1.00%	5.27%	6.66%	6.89%	7.96%	1.09x	23.3	4.8x	5.4x	50.7%
2015	88.2	15.4	53.5%	1.44%	1.01%	5.94%	7.16%	7.54%	10.11%	1.14x	24.2	4.0x	5.0x	48.0%
2016	71.4	18.1	48.3%	1.91%	0.99%	6.97%	8.00%	8.77%	11.14%	1.18x	29.3	4.2x	5.0x	53.4%
2017	109.1	26.2	44.3%	1.74%	1.00%	5.83%	6.55%	7.88%	9.14%	1.15x	33.9	4.5x	5.3x	48.9%
2018	118.5	24.9	54.4%	1.80%	0.86%	5.62%	6.42%	8.63%	9.19%	1.18x	48.8	4.6x	5.2x	49.0%
2019	113.6	22.7	45.0%	1.73%	0.84%	5.44%	6.17%	8.48%	8.58%	1.12x	52.6	4.8x	5.4x	51.4%
2020	75.0	45.6	78.4%	2.06%	0.94%	5.46%	6.87%	7.40%	11.29%	1.06x	46.0	4.8x	5.2x	57.8%
2021	79.9	35.9	70.1%	1.88%	0.95%	5.54%	7.03%	7.23%	n/a	n/a	42.8	4.9x	5.3x	59.4%
Weighted Average:		**27.2**	**58.5%**	**1.84%**	**0.92%**	**5.61%**	**6.66%**	**7.92%**	**8.96%**	**1.03x**	**43.3**	**4.7x**	**5.2x**	**53.0%**

North American Senior Loan Track Record Diversification by Geography

Geography	# of Deals	Capital Invested	% of Cost
United States	532	$14,648.8	99.2%
Canada	10	102.2	0.7%
Australia	1	10.8	0.1%
Total	**543**	**$14,761.9**	**100.0%**

NAPLF I Diversification by Industry

INDUSTRY DIVERSIFICATION[2]



InDetail – Barings North American Private Loan Fund II
Performance as of 3/31/2021, unless noted otherwise

20

Please refer to the disclosures at the end of this report

North American Senior Loan Default History

Barings North American Private Finance Senior Loan Default History since Inception[1]						
Vintage Year	Total Invested	Investments	Default Count	Default Rate	Realized Losses	Loss Rate
2012	$94	6	0	0%	$0	0%
2013	$266	15	0	0%	$0	0%
2014	$324	19	0	0%	$0	0%
2015	$408	25	0	0%	$0	0%
2016	$707	36	1	2.8%	$0	0%
2017	$2,075	77	2	2.6%	$93	4.5%
2018	$2,805	104	1	1.0%	$0	0%
2019	$3,251	96	0	0%	$0	0%
2020	$4,599	101	0	0%	$0	0%
1Q21	$1,326	28	0	0%	$0	0%
TOTAL/WTD AVG	**$15,857**	**507**	**4**	**0.8%**	**$93**	**0.6%**

Annual Capital Deployment

The chart below shows the total capital deployment in North American senior loans made by Barings since the inception of the strategy. The Firm has consistently deployed north of $3.0 billion in each of the past four years.

Total Capital Deployment by Year
As of June 30, 2021

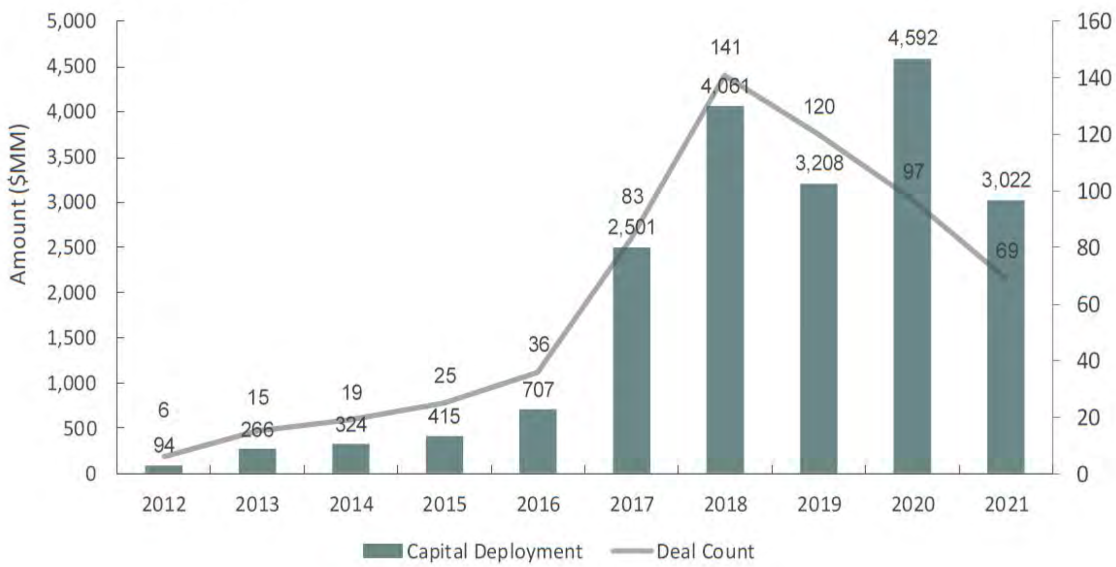


EXHIBIT A: Barings Organizational Chart

Global Private Finance—Organization

70+ Professionals Across 6 Offices

ERIC LLOYD
HEAD OF PRIVATE ASSETS

IAN FOWLER (CFA)
CO-HEAD OF GLOBAL PRIVATE FINANCE

ADAM WHEELER
CO-HEAD OF GLOBAL PRIVATE FINANCE

UNDERWRITING AND ORIGINATION

North America
24 Managing Directors and Directors
17 Associate Directors and Analysts

Europe
8 Managing Directors and Directors
9 Associate Directors and Analysts

Asia Pacific
1 Managing Directors and Directors
1 Associate Directors and Analysts

PORTFOLIO AND PRODUCT MANAGEMENT

TERRY HARRIS
HEAD OF PORTFOLIO MANAGEMENT

5 Managing Directors and Directors
2 Associate Directors and Analysts

TYLER GATELY
HEAD OF CLIENT PORTFOLIO MANAGEMENT

2 Managing Directors and Directors
3 Associate Directors and Analysts

INVESTMENT COMMITTEES

North America Investment Committee

Eric Lloyd (30)
Terry Harris (29)
Ian Fowler (32)
Adam Wheeler (27)
Mark Flessner (18)
Brian Baldwin (27)

Europe and Asia Pacific Investment Committee

Eric Lloyd (30)
Terry Harris (29)
Adam Wheeler (27)
Ian Fowler (32)
Mark Wilton (24)*
Shane Forster (25)**

North American Private Finance Team

IAN FOWLER, CFA (32)
CO-HEAD, MANAGING DIRECTOR

ADAM WHEELER (27)
CO-HEAD, MANAGING DIRECTOR

MANAGING DIRECTORS

Brian Baldwin (27)
Scott Chappell (26)
Christina Emery (18)
Mark Flessner (18)
Mark Hindson (25)
Steve Jarvis (25)
Sunny Khorana (21)
Justin Lay (18)
Jessica Lee (18)
Max McEwen (16)
Salman Mukhtar (20)
Brady Sutton (24)

DIRECTORS

Matt Freund, CFA (11)
Joshua Gracia (9)
Patrick Hartman (13)
Jeremy Henrich (14)
Anju Mathew (18)
Will Powers (20)
Brianne Ptacek (13)

ASSOCIATE DIRECTORS

Sam Arnie
Vinnie DiFilippo, CFA
Emily Foster
Wes Oakford
Brad Pye
Angela Zhao

ANALYSTS

Tyler Bankhead
Pinkney Beal
Cailin Bini
Mark Bugniazet
Grace Fedinets
Shane Hassett
Becca Jones
Andrew Markey
Daniel Stark

INTERNAL LEGAL COUNSEL

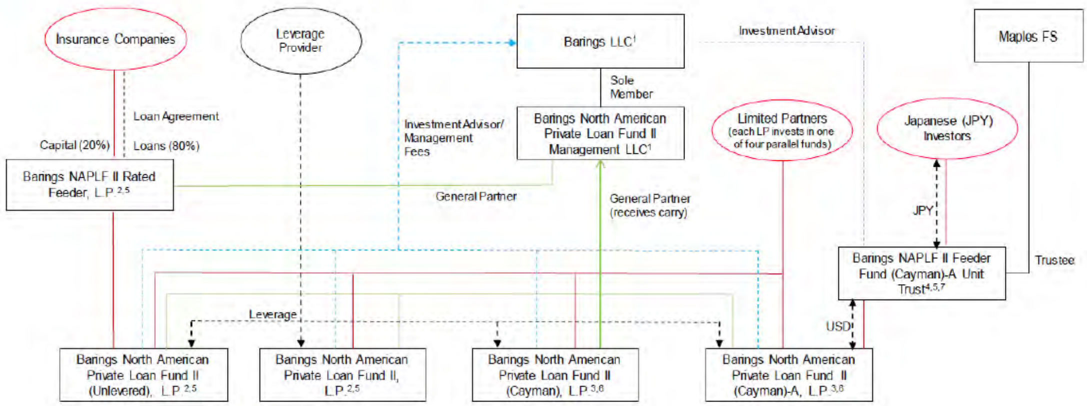
Andrew Gould (19)
Melissa Logan (12)
Amy Callow (14)
Kate Fletcher (11)
Luke Foster (12)
Owen Zingraff (13)

EXHIBIT B: Senior Investment Professional Staff Chart

Professionals	Title	Years at Firm	Relevant Prior Work Experience
Eric Lloyd*	Managing Director, Deputy Head of Global Markets, Head of Private Fixed Income	8	▪ Wells Fargo ▪ Wachovia ▪ B.S. in Finance, University of Virginia McIntire School of Commerce
Terry Harris*	Managing Director, Head of Global Portfolio Management	8	▪ Tower Three Partners ▪ Firstlight Financial Corporation ▪ GE Capital ▪ B.S. and M.B.A., Florida State University
Ian Fowler*	Managing Director, Co-Head of Global Private Finance, Portfolio Manager	9	▪ Harbour Group ▪ Freeport Financial LLC ▪ GE Capital ▪ B.A. (Honors), University of Western Ontario
Adam Wheeler*	Managing Director, Co-Head of Global Private Finance, Portfolio Manager	12	▪ AMP Capital Investors ▪ Rabobank Corporate Finance ▪ N.M. Rothschild & Sons ▪ PricewaterhouseCoopers ▪ B.Com and L.L.B., University of New South Wales ▪ G.D.M., Australian Graduate School of Management
Mark Flessner*	Managing Director, Portfolio Manager	9	▪ Harbour Group ▪ Freeport Financial LLC ▪ GE Capital ▪ B.S., Illinois State University ▪ M.B.A., Kellogg School of Management at Northwestern University
Brian Baldwin*	Managing Director	9	▪ Harbour Group ▪ Freeport Financial LLC ▪ GE Capital ▪ Heller Financial ▪ B.S. in Accounting, Illinois State University

* Indicates Investment Committee Members

EXHIBIT C: Barings North American Private Loan Fund II Structure Chart



Legend
1 – Delaware limited liability company
2 – Delaware limited partnership
3 – Cayman Islands Exempted Limited Partnership
4 – Cayman Islands Unit Trust
5 – Taxable as partnership for U.S. federal income tax purposes
6 - Taxable as corporation for U.S. federal income tax purposes
7 – Feeder fund for JPY/USD conversion

Appendix

Investment Rating Explanation

The comments and assertions reflect Aon views of the specific investment product and its strengths and weaknesses in general and in the context of Aon's View of the World and same vintage alternative choices.

- **Buy** – Aon recommends the investment for those client portfolios where it is a fit.
- **Qualified** – Aon believes the manager to be qualified to manage client assets.

Operational Due Diligence Rating Explanation

Rating	Definition
A1 Pass	Aon completed its review process and noted no material operational concerns within the areas it reviewed and finds that these aspects of the firm's operations largely align with a well-controlled operating environment.
A2 Pass	Aon completed its review process and the firm's operations within the areas Aon reviewed largely align with a well-controlled operating environment, with limited exceptions. Managers may be rated within this category due to resource limitations or asset class limitations or where isolated areas do not align with best practice.
Conditional Pass	Aon was unable to complete its review process due to incomplete information, policies and procedures that are under development or in transition, or for other reasons. Aon may review the rating if these items are addressed.
Fail	Aon completed its review process and noted material operational concerns that introduce the potential for economic loss or reputational risk exposure.

Disclaimer

Investment advice and consulting services provided by Aon Investments USA Inc. The information contained herein is given as of the date hereof and does not purport to give information as of any other date. The delivery at any time shall not, under any circumstances, create any implication that there has been a change in the information set forth herein since the date hereof or any obligation to update or provide amendments hereto.

This document does not constitute an offer of securities or solicitation of any kind and may not be treated as such, i) in any jurisdiction where such an offer or solicitation is against the law; ii) to anyone to whom it is unlawful to make such an offer or solicitation; or iii) if the person making the offer or solicitation is not qualified to do so. If you are unsure as to whether the investment products and services described within this document are suitable for you, we strongly recommend that you seek professional advice from a financial adviser registered in the jurisdiction in which you reside. We have not considered the suitability and/or appropriateness of any investment you may wish to make with us. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction, including the one in which you reside.

This document is not intended to provide, and shall not be relied upon for, accounting, legal or tax advice. Any accounting, legal, or taxation position described in this presentation is a general statement and shall only be used as a guide. It does not constitute accounting, legal, and tax advice and is based on Aon Investments' understanding of current laws and interpretation.

Aon Investments disclaims any legal liability to any person or organization for loss or damage caused by or resulting from any reliance placed on that content. Aon Investments reserves all rights to the content of this document. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Aon Investments.

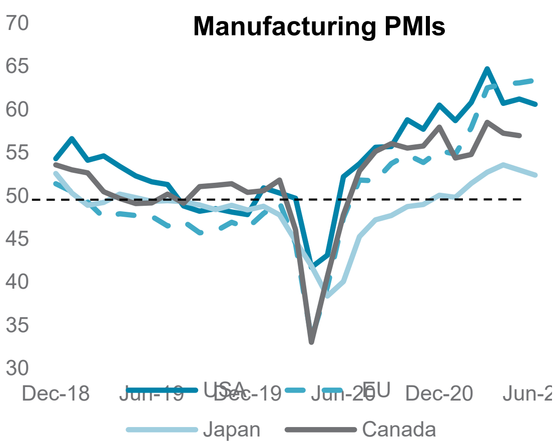
Aon Investments USA Inc. is a federally registered investment advisor with the U.S. Securities and Exchange Commission. Aon Investments is also registered with the Commodity Futures Trading Commission as a commodity pool operator and a commodity trading advisor, and is a member of the National Futures Association. The Aon Investments ADV Form Part 2A disclosure statement is available upon written request to:

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

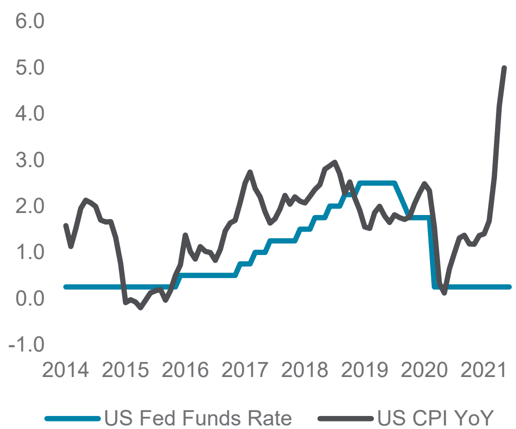
Economic highlights

Although economic activity continued to rebound in general over the past quarter, some worries began to emerge regarding the durability of the recovery. Firstly, inflation accelerated sharply and, although central banks have broadly been in agreement that this rise in prices is temporary, markets have become a bit more jittery. Secondly, this led to some minor tweaking of central bank language, implying that monetary policy would be tightened earlier than previous anticipated. Bond yields rose as a result. Also damaging to future growth expectations was the realisation that there would be a bill to pay for the extraordinary Covid support of the past year. Peak fiscal support and the subsequent clawback could create an important headwind. Finally, whilst vaccination programs have accelerated, new variants could lead to a difficult winter period and some further restrictions. We expect growth to return to moderate levels once the recovery has run its course.

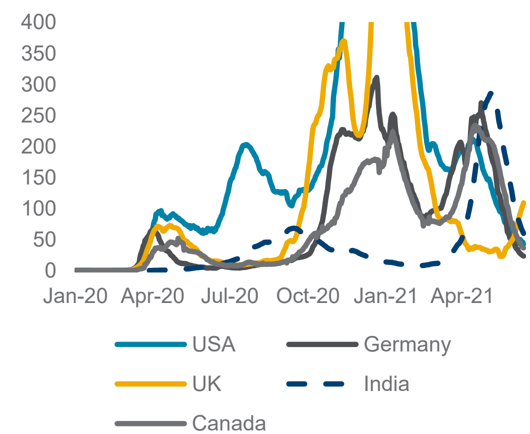
Economic activity continues to recover



…but inflation surges



Signs of another virus wave beginning?



Sources for charts: Factset

Economic highlights

USA

- The US economy continued to recover, with GDP growing at an annualized rate of 6.4% in Q1, compared with 4.3% in Q4 of last year. Meanwhile, the ISM indexes have remained strong throughout Q2.
- However, inflation indicators have also surged amid supply chain bottlenecks and signs that some sectors are struggling to find enough employees. The June ISM manufacturing prices paid index rose to an all-time high of 91.2 while the CPI measure for May was 5% - the fastest pace of inflation for nearly 13 years. Also notable was the rise in core inflation to 3.8%, which is the highest rate since 1992. Of course, an important driver of these high inflation figures is the comparison with the very weak data last year.
- The Fed has remained sanguine regarding inflation, stating that it thinks pressures will be temporary. However, it surprisingly indicated two rate increases in 2023 – earlier than previously thought – in their June meeting.
- Meanwhile, the government continued to discuss fresh stimulus bills, agreeing on a $715bn infrastructure bill, which is seen as paving the way for further measures over the coming months.

EAFE

- European vaccination programmes have accelerated rapidly over the quarter and infections have declined enough for many countries to begin easing restrictions. As a result, activity has been rebounding swiftly in recent months – for example, the composite PMI rose to 59.5 in June, the highest since 2006. Looking ahead, the risk is clearly fresh virus waves triggered by new variants, which will test the efficacy of the current vaccines.
- In Japan, Covid restrictions have remained in place in many major cities as the government has continued to grapple with infections. The economy has struggled as a result – whilst the manufacturing sector has been expanding moderately, the service sector contracted for the 17th consecutive month in June.
- In the UK, activity was weaker than previously thought in Q1, due to the second nationwide lockdown. Since then, activity has picked up strongly as restrictions have eased. While the vaccination programme has continued at pace, the new Delta variant has triggered another strong wave throughout the country. However, the early data is showing much lower hospitalisation and death rates, which has given the government greater confidence.

Emerging Markets

- The Chinese economy surged at a record pace of 18.3% in Q1, but the dataflow since then has indicated a moderation. This is partly due to base effects but also due to a virus outbreak in Guangdong province, which triggered lockdown measures, and continued semiconductor shortages. Looking ahead, we expect healthy economic performance in China, which should be supported by the demand recovery in the rest of the world.
- Meanwhile, the hugely damaging infection wave in India has begun to ease and restrictions have been eased as well. Nonetheless, a relatively low proportion of the population remains fully vaccinated and the country is vulnerable to future variants.
- Indeed, whilst most emerging markets continue to benefit from higher productivity, supportive demographics and a fast pace of development, many will be particularly exposed to the pandemic through lagging vaccination programmes. The announcement of vaccination sharing from the major developed economies is promising but more will be required in order to make the whole world resilient, and the pandemic can truly come to an end.

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

Appendix: Investment View Framework

Investment View

Fundamental	Valuation	Market Awareness
Analyze the core economic and underlying drivers of an asset class. For example: ▪ Economic Growth ▪ Earnings Growth ▪ Default Risk	Establish if the asset class is cheap or expensive given our fundamental outlook. For Example: ▪ P/E Ratio ▪ Credit Spreads ▪ Yield Levels	Establish if near-term drivers for the asset class are positive or negative. For Example: ▪ Technical Indicators ▪ Sentiment Surveys ▪ Futures/Options Positioning

Appendix: Index Definitions

MSCI All Country World Index - A capitalization-weighted index of stocks representing approximately 46 developed and emerging countries, including the U.S. and Canadian markets.

MSCI Emerging Markets Index - A capitalization-weighted index of stocks representing 26 emerging country markets.

MSCI US - A market capitalization-weighted index that is designed to measure the equity market performance of stocks in the USA.

JPM EMBI Global Diversified – Comprised of dollar-denominated Brady bonds, traded loans and Eurobonds issued by emerging market sovereign and quasi-sovereign entities. The Diversified version limits the weights of the index countries by only including a specified portion of those countries' eligible current face amounts of debt outstanding, providing for a more even distribution of weights within the countries in the index.

JPM GBI-EM Global Diversified - Designed to provide a comprehensive measure of local currency denominated, fixed-rate, government debt issued in emerging markets.

BofA Merrill Lynch High Yield - A market capitalization-weighted index that tracks the performance of U.S. dollar-denominated, below investment grade corporate debt publicly issued in the U.S. domestic market.

Trade weighted US Dollar (Federal Reserve) - A weighted average of the foreign exchange value of the U.S. dollar against a broad index currencies that circulate widely outside the country of issue.

VIX Index – Tracks the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

MSCI World Index - A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, representing 24 developed market country indices.

Russell 1000 Index - An Index that measures the performance of the largest 1,000 stocks contained in the Russell 3000 Index.

Russell 2000 Index - An Index that measures the performance of the smallest 2,000 stocks contained in the Russell 3000 Index.

MSCI EAFE Index - A capitalization-weighted index of stocks representing 22 developed countries in Europe, Australia, Asia, and the Far East.

HFRI Fund Weighted Composite Index – The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollar and have a minimum of $50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds.

S&P/LTSA Leveraged Loans Index – The S&P/LSTA Leveraged Loan Index is the first index to track the investable senior loan market. This rules-based index consists of US loan facilities in the syndicated leveraged loan universe.

Bloomberg Barclays Corporate Bond Index - An unmanaged index considered representative of fixed-income obligations issued by U.S. corporates.

Bloomberg Barclays Credit Index - An unmanaged index considered representative of fixed-income obligations issued by U.S. corporate, specified foreign debentures, and secured notes.

ML MOVE Index - The Merrill lynch Option Volatility Estimate (MOVE) Index is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options which are weighted on the 2, 5, 10, and 30 year contracts

ISM Purchasing Managers Index - The PMI® is a composite index based on the diffusion indexes of five of the indexes with equal weights: New Orders (seasonally adjusted), Production (seasonally adjusted), Employment (seasonally adjusted), Supplier Deliveries (seasonally adjusted), and Inventories. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change.

Appendix: Data Disclosures

BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

London Stock Exchange Group plc and its group undertakings (collectively, the “LSE Group”). © LSE Group [year]. FTSE Russell is a trading name of certain of the LSE Group companies. “FTSE®” “Russell®”, “FTSE Russell® are a trade mark(s) of the relevant LSE Group companies and is/are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company’s express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).

The HFRI Macro index is being used under license from Hedge Fund Research, Inc., which does not approve of or endorse the contents of this report.

Legal Disclosures and Disclaimers

Investment advice and consulting services provided by Aon Investments USA Inc. The information contained herein is given as of the date hereof and does not purport to give information as of any other date. The delivery at any time shall not, under any circumstances, create any implication that there has been a change in the information set forth herein since the date hereof or any obligation to update or provide amendments hereto.

This document does not constitute an offer of securities or solicitation of any kind and may not be treated as such, i) in any jurisdiction where such an offer or solicitation is against the law; ii) to anyone to whom it is unlawful to make such an offer or solicitation; or iii) if the person making the offer or solicitation is not qualified to do so. If you are unsure as to whether the investment products and services described within this document are suitable for you, we strongly recommend that you seek professional advice from a financial adviser registered in the jurisdiction in which you reside. We have not considered the suitability and/or appropriateness of any investment you may wish to make with us. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction, including the one in which you reside.

This document is not intended to provide, and shall not be relied upon for, accounting, legal or tax advice. Any accounting, legal, or taxation position described in this presentation is a general statement and shall only be used as a guide. It does not constitute accounting, legal, and tax advice and is based on Aon Investments' understanding of current laws and interpretation.

Aon Investments disclaims any legal liability to any person or organization for loss or damage caused by or resulting from any reliance placed on that content. Aon Investments reserves all rights to the content of this document. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Aon Investments.

Aon Investments USA Inc. is a federally registered investment advisor with the U.S. Securities and Exchange Commission. Aon Investments is also registered with the Commodity Futures Trading Commission as a commodity pool operator and a commodity trading advisor and is a member of the National Futures Association. The Aon Investments ADV Form Part 2A disclosure statement is available upon written request to:

Aon Investments USA Inc.

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