Pension Discussion Guide

Town of Wilton
August 10, 2022

Contents

Executive Summary

Market trends

Q1 2022

- **Ukraine war and monetary policy lift-off**
  - US CPI hits 8.6% by March
  - Omicron variant fades in impact

Q2 2022

- **Economic worries**
  - Fed raise rates by 75bps in June meeting
  - Q1 US GDP contracts by 1.6%. Consumer confidence plunges

Market Impact

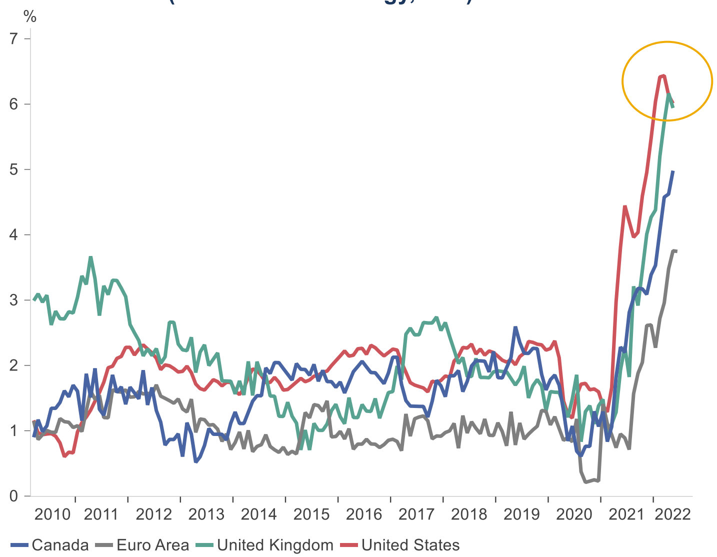
- **Yields surge**
  - 10y Treasury yields double from start of the year and by 150bps in Q2 alone
  - Yields fell back in June as economic worries grow
- **Equities enter bear market**
  - S&P 500 and many other markets down more than 20% from their peak
  - Energy stocks buck the trend as oil prices surge

Source: Macrobond and Bloomberg

Inflation should peak this year but may remain uncomfortably high

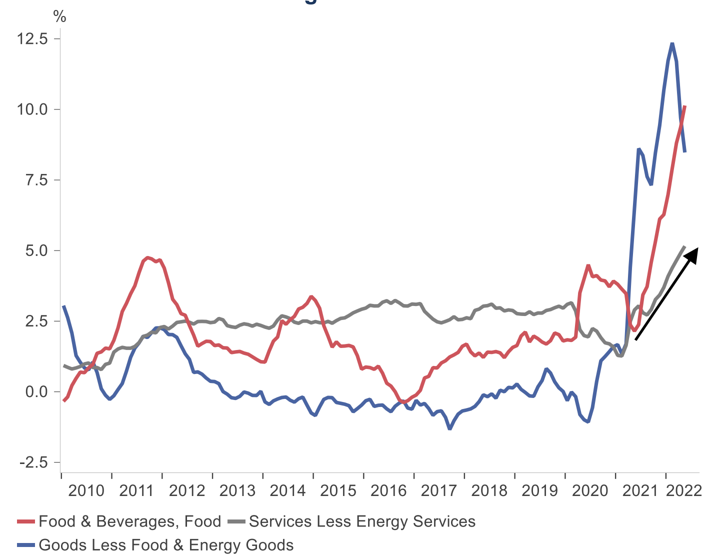
Core inflation figures may be approaching a peak...

Core Inflation (less food and energy, YoY)



... but rising services inflation hints at persistently high prices

Selected US inflation categories



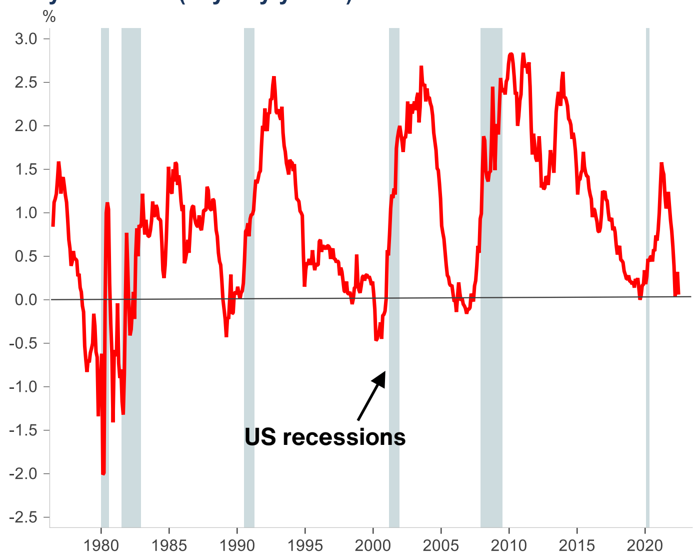
Source: Macrobond

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

A recession is on the cards and markets are hurting

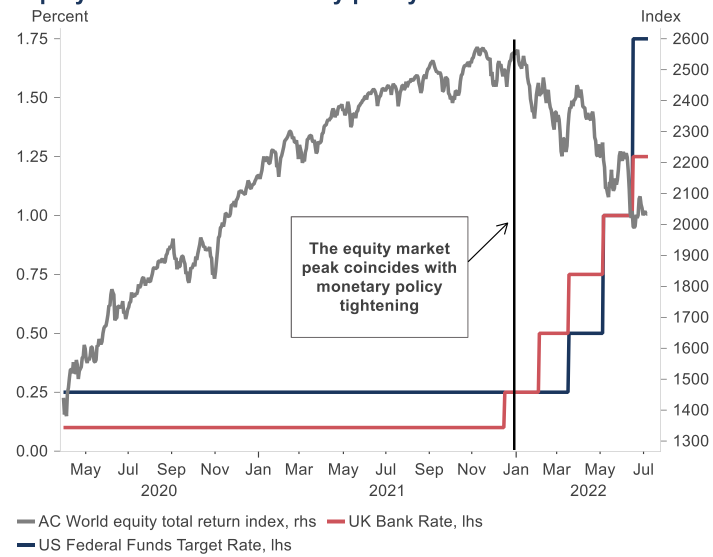
Flattening yield curves are hinting heavily that a slowdown is coming...

US yield curve (10y - 2y yields) and recessions



...and monetary policy tightening is a strong headwind to equities

Equity markets and monetary policy rates



Source: Macrobond

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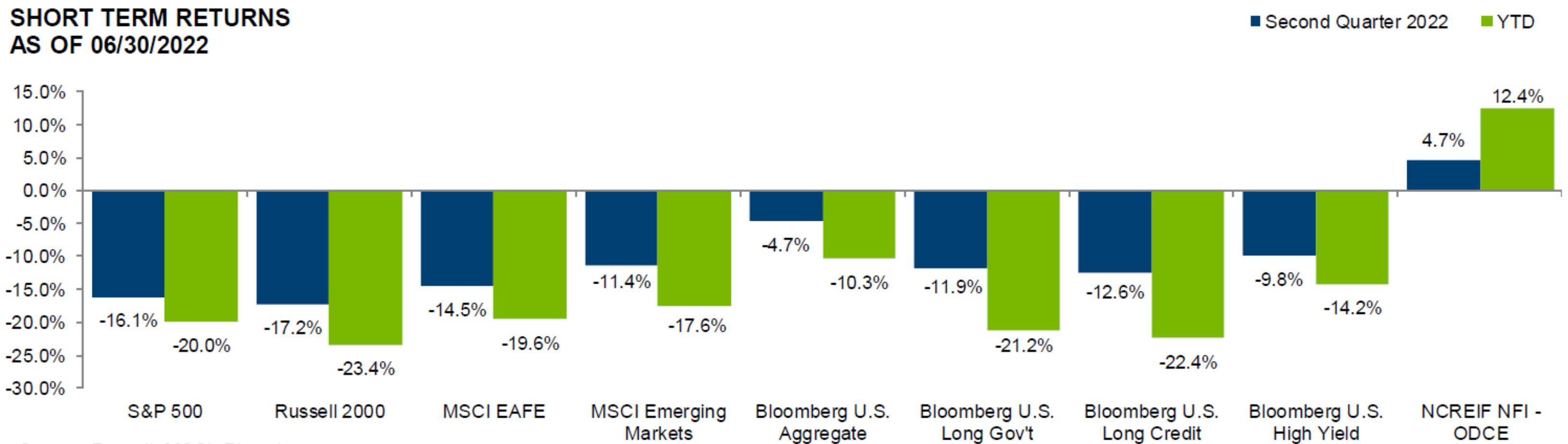
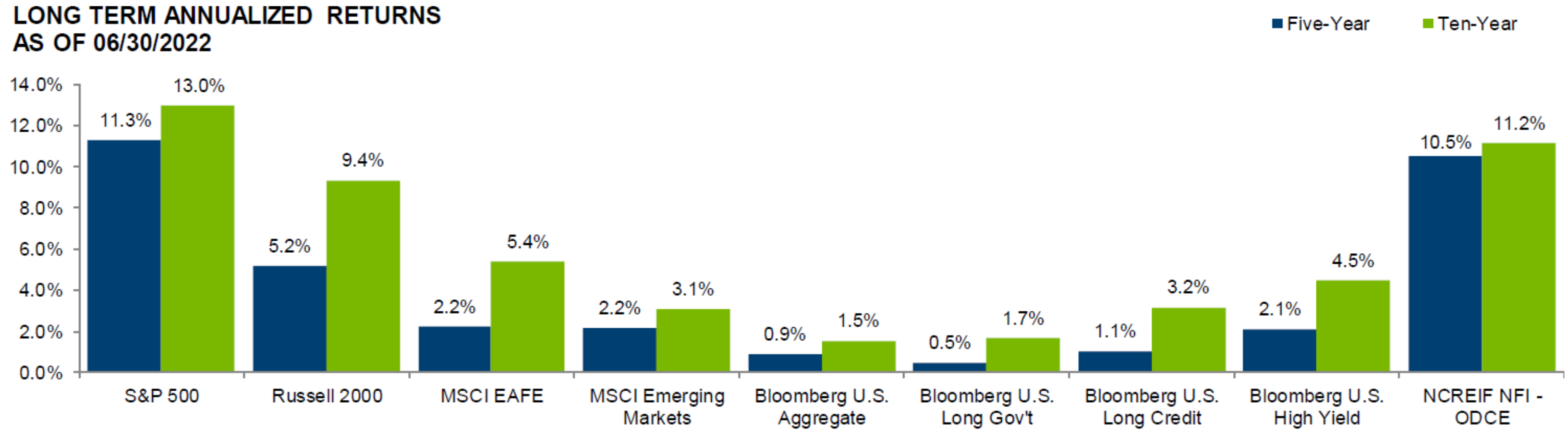
Market Highlights



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



Source: Russell, MSCI, Bloomberg

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

Market Highlights

Returns of the Major Capital Markets

Period Ending 06/30/2022

	Second Quarter	YTD	1-Year	3-Year[1]	5-Year[1]	10-Year[1]
Equity						
MSCI All Country World IMI	-15.83%	-20.44%	-16.52%	5.98%	6.70%	8.71%
MSCI All Country World	-15.66%	-20.18%	-15.75%	6.21%	7.00%	8.76%
Dow Jones U.S. Total Stock Market	-16.84%	-21.33%	-14.24%	9.61%	10.48%	12.47%
Russell 3000	-16.70%	-21.10%	-13.87%	9.77%	10.60%	12.57%
S&P 500	-16.10%	-19.96%	-10.62%	10.60%	11.31%	12.96%
Russell 2000	-17.20%	-23.43%	-25.20%	4.21%	5.17%	9.35%
MSCI All Country World ex-U.S. IMI	-14.28%	-19.08%	-19.86%	1.55%	2.50%	5.01%
MSCI All Country World ex-U.S.	-13.73%	-18.42%	-19.42%	1.35%	2.50%	4.83%
MSCI EAFE	-14.51%	-19.57%	-17.77%	1.07%	2.20%	5.40%
MSCI EAFE (Local Currency)	-7.83%	-11.27%	-6.59%	4.37%	4.27%	8.33%
MSCI Emerging Markets	-11.45%	-17.63%	-25.28%	0.57%	2.18%	3.06%
Equity Factors						
MSCI World Minimum Volatility (USD)	-9.54%	-6.01%	-6.01%	3.58%	6.55%	9.01%
MSCI World High Dividend Yield	-8.48%	-8.06%	-3.32%	5.61%	6.40%	8.36%
MSCI World Quality	-16.80%	-23.79%	-15.83%	10.16%	11.43%	12.01%
MSCI World Momentum	-17.98%	-22.60%	-17.21%	6.97%	10.48%	11.72%
MSCI World Enhanced Value	-11.97%	-12.92%	-10.00%	3.69%	3.72%	7.91%
MSCI World Equal Weighted	-15.62%	-19.93%	-17.78%	3.23%	4.29%	8.11%
MSCI World Index Growth	-21.14%	-28.71%	-22.22%	8.67%	10.32%	11.42%
MSCI USA Minimum Volatility (USD)	-9.15%	-12.56%	-3.21%	6.34%	9.64%	11.65%
MSCI USA High Dividend Yield	-7.45%	-8.84%	-0.84%	7.16%	8.44%	11.19%
MSCI USA Quality	-16.19%	-23.60%	-15.21%	11.05%	13.11%	13.86%
MSCI USA Momentum	-18.02%	-24.04%	-20.02%	5.88%	10.32%	13.44%
MSCI USA Enhanced Value	-12.85%	-16.12%	-11.31%	6.67%	7.14%	11.66%
MSCI USA Equal Weighted	-16.45%	-20.57%	-15.25%	7.72%	8.62%	11.84%
MSCI USA Growth	-22.94%	-29.88%	-21.80%	12.43%	14.09%	14.69%
Fixed Income						
Bloomberg Global Aggregate	-8.26%	-13.91%	-15.25%	-3.22%	-0.55%	0.11%
Bloomberg U.S. Aggregate	-4.69%	-10.35%	-10.29%	-0.93%	0.88%	1.54%
Bloomberg U.S. Long Gov't	-11.89%	-21.20%	-18.42%	-2.94%	0.50%	1.65%
Bloomberg U.S. Long Credit	-12.59%	-22.40%	-21.36%	-2.44%	1.05%	3.17%
Bloomberg U.S. Long Gov't/Credit	-12.27%	-21.88%	-20.14%	-2.32%	1.03%	2.63%
Bloomberg U.S. TIPS	-6.08%	-8.92%	-5.14%	3.04%	3.21%	1.73%
Bloomberg U.S. High Yield	-9.83%	-14.19%	-12.81%	0.21%	2.10%	4.47%
Bloomberg Global Treasury ex U.S.	-11.44%	-17.19%	-19.67%	-5.89%	-2.12%	-1.46%
JP Morgan EMBI Global (Emerging Markets)	-10.55%	-18.83%	-19.25%	-4.33%	-1.00%	2.05%
Commodities						
Bloomberg Commodity Index	-5.66%	18.44%	24.27%	14.34%	8.39%	-0.82%
Goldman Sachs Commodity Index	2.01%	35.80%	45.05%	14.69%	11.67%	-1.83%
Hedge Funds						
HFRI Fund-Weighted Composite[2]	-4.94%	-5.86%	-5.82%	6.10%	5.05%	4.96%
HFRI Fund of Funds[2]	-3.61%	-6.28%	-5.19%	4.05%	3.69%	3.78%
Real Estate						
NAREIT U.S. Equity REITS	-17.00%	-20.20%	-6.27%	4.00%	5.30%	7.39%
NCREIF NFI - ODCE	4.70%	12.42%	29.50%	12.66%	10.54%	11.16%
FTSE Global Core Infrastructure Index	-8.64%	-5.37%	2.88%	5.73%	7.78%	9.06%
Private Equity						
Burgiss Private iQ Global Private Equity[3]			35.76%	25.94%	21.26%	16.77%

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

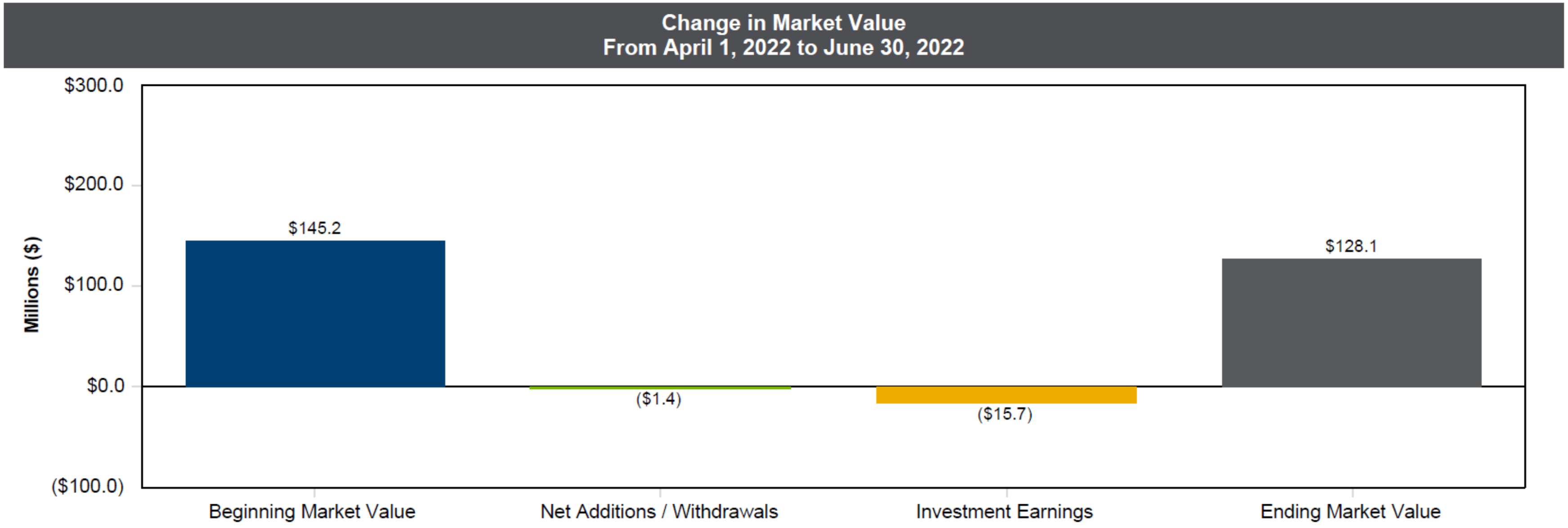
[1] Periods are annualized.

[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, 2021

Pension Performance Summary

Total Plan Asset Summary



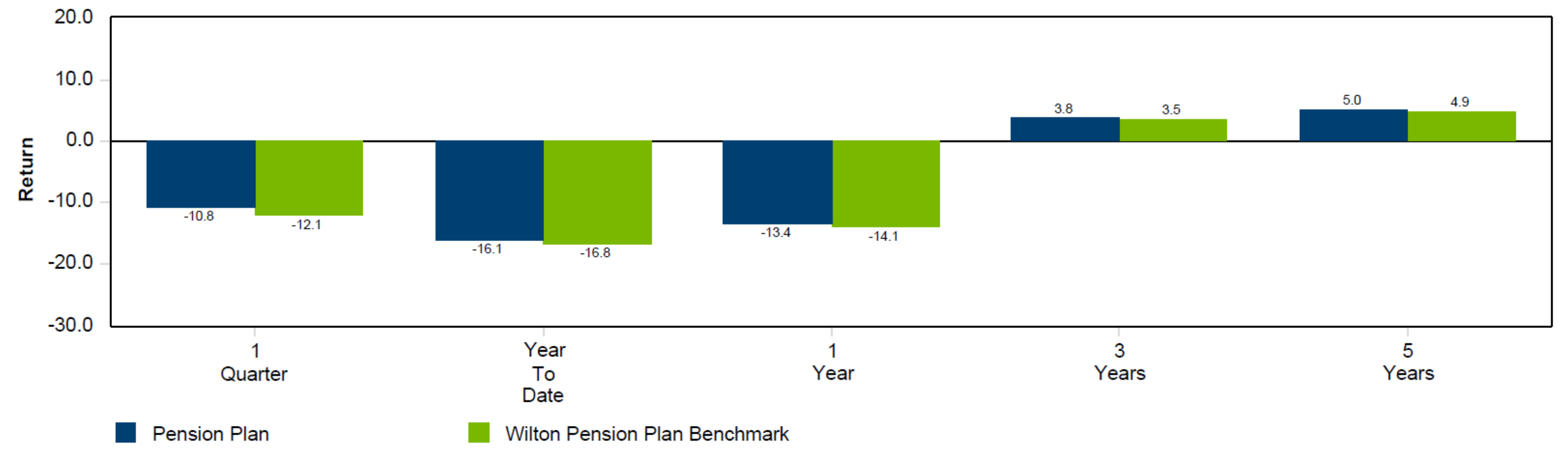
Summary of Cash Flow

	1 Quarter	1 Year	Since Inception	Inception Date
Beginning Market Value	145,175,520	151,736,569	73,939,906	
+ Additions / Withdrawals	-1,388,297	-3,576,242	-10,270,247	
+ Investment Earnings	-15,675,301	-20,048,404	64,442,263	
= Ending Market Value	**128,111,922**	**128,111,922**	**128,111,922**	

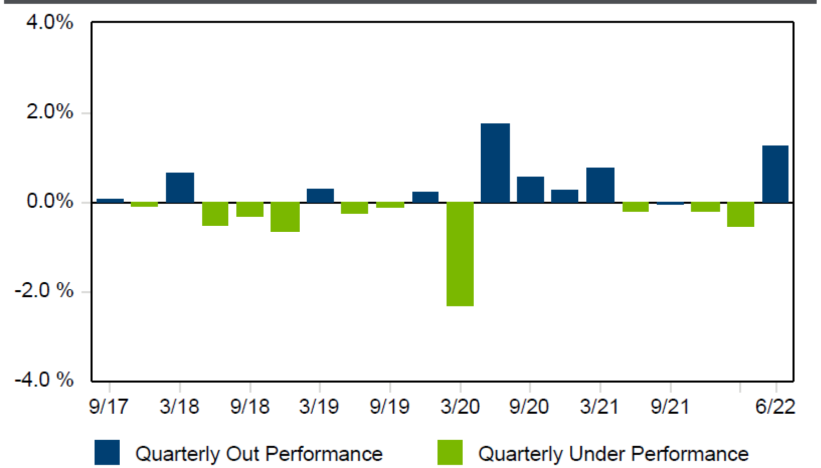
Total Plan Performance Summary

As of June 30, 2022

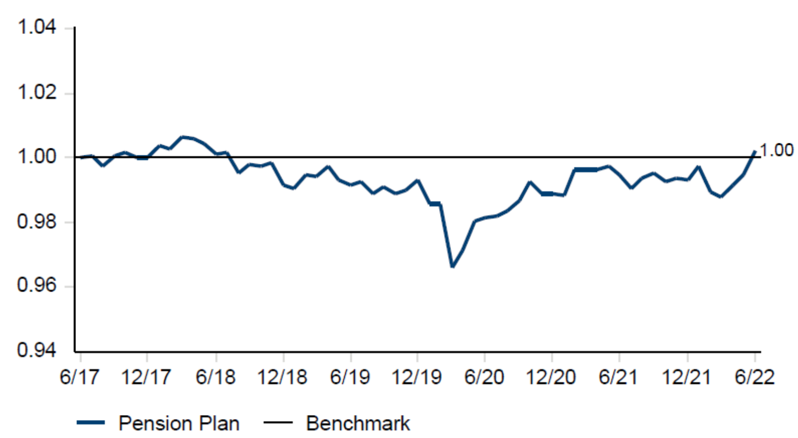
Return Summary



Quarterly Excess Performance



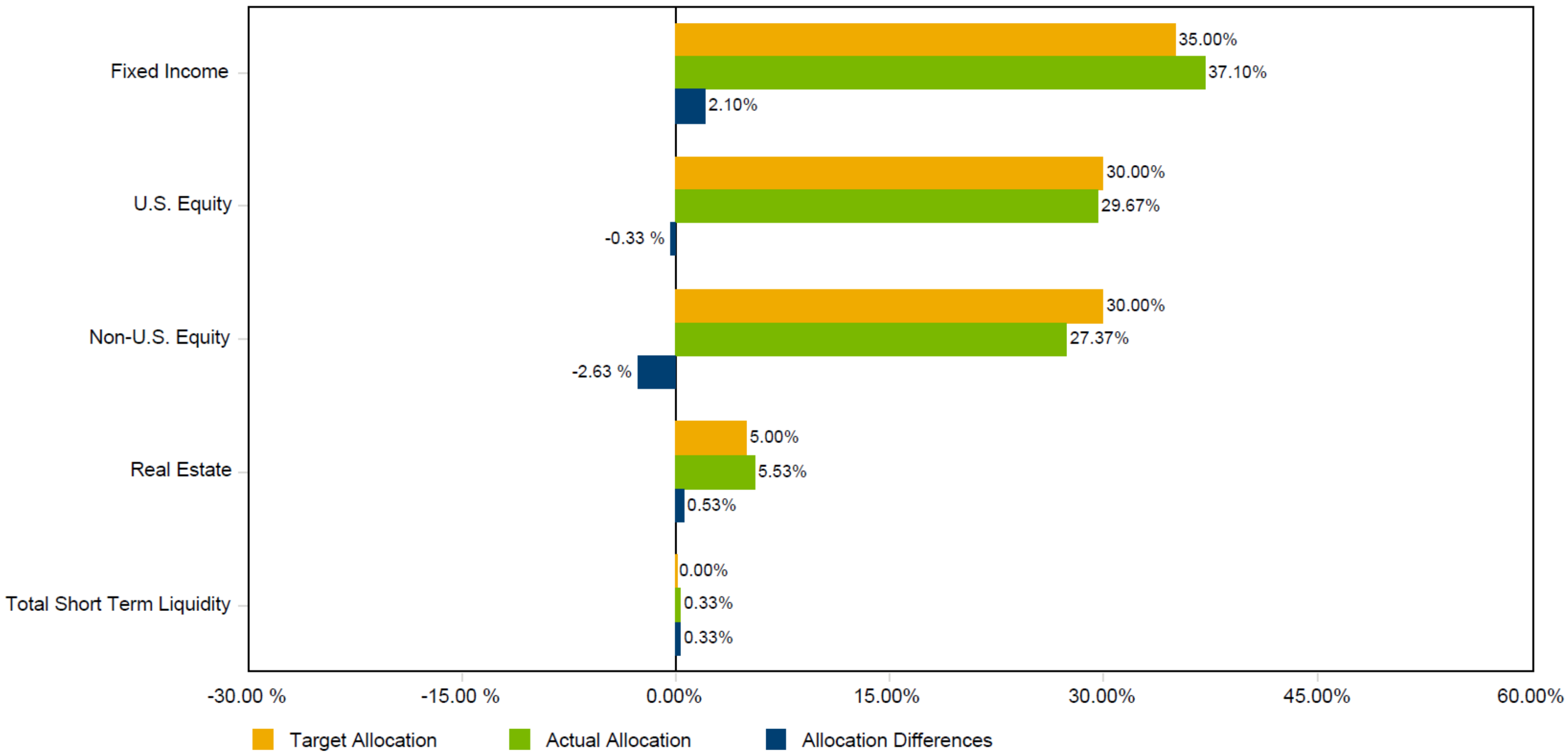
Ratio of Cumulative Wealth - 5 Years



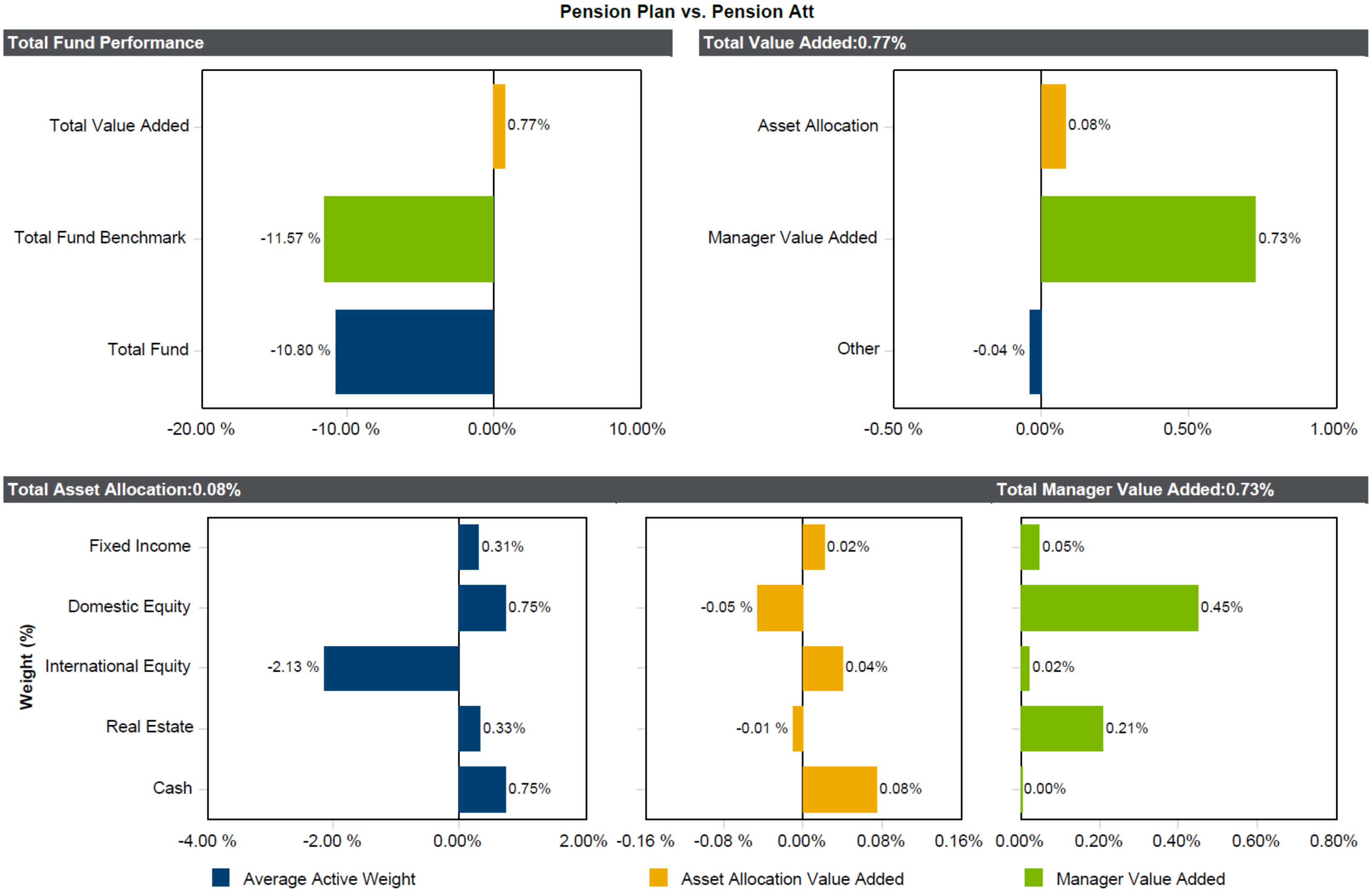
Empower Results®

Asset Allocation
As of June 30, 2022

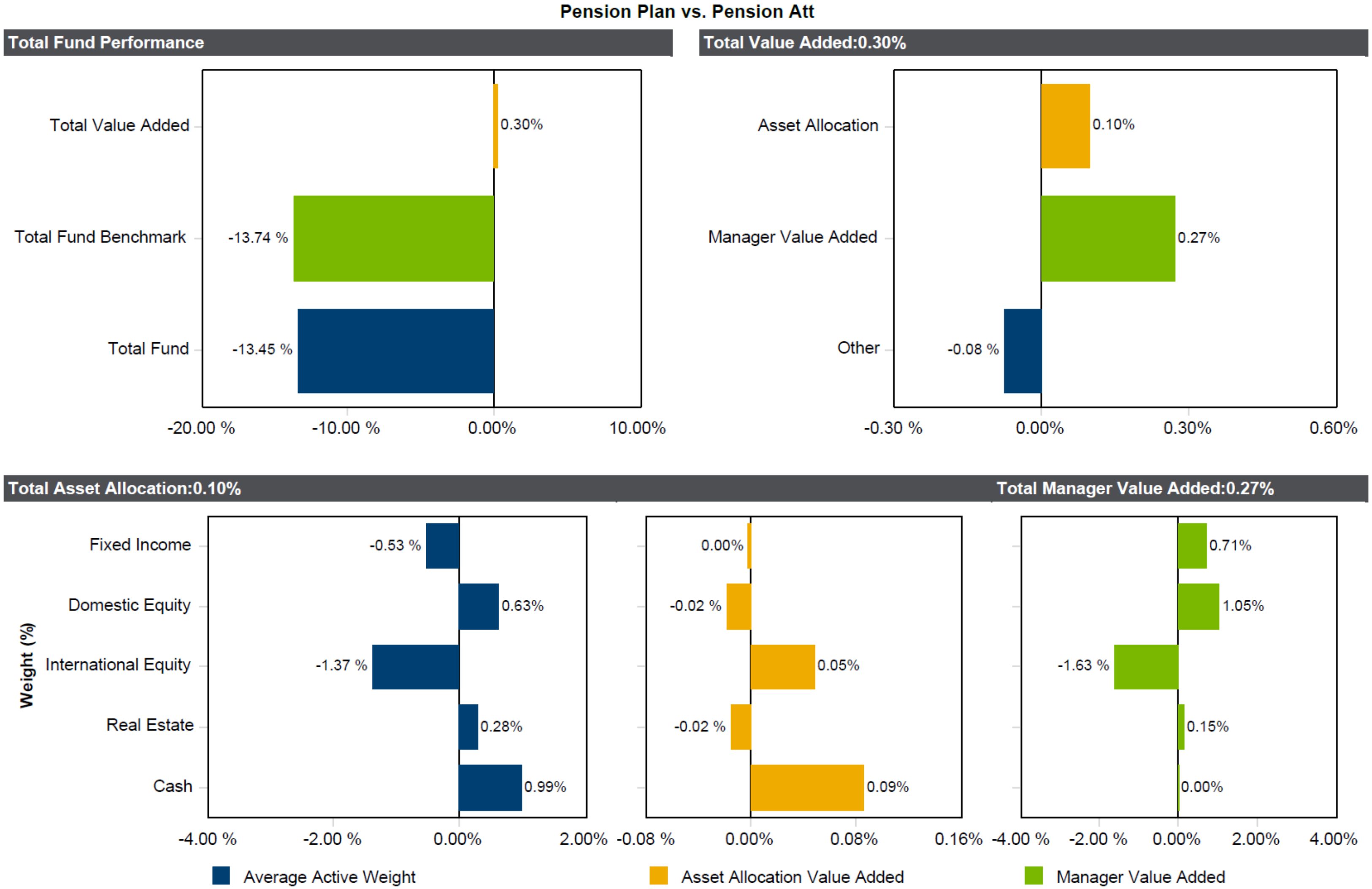
	Market Value ($)	Current Allocation (%)	Target Allocation (%)	Differences (%)
Pension Plan	128,111,921.96	100.00	100.00	0.00
Fixed Income	**47,527,694.58**	**37.10**	**35.00**	**2.10**
U.S. Equity	**38,009,761.61**	**29.67**	**30.00**	**-0.33**
Non-U.S. Equity	**35,068,335.63**	**27.37**	**30.00**	**-2.63**
Real Estate	**7,086,179.37**	**5.53**	**5.00**	**0.53**



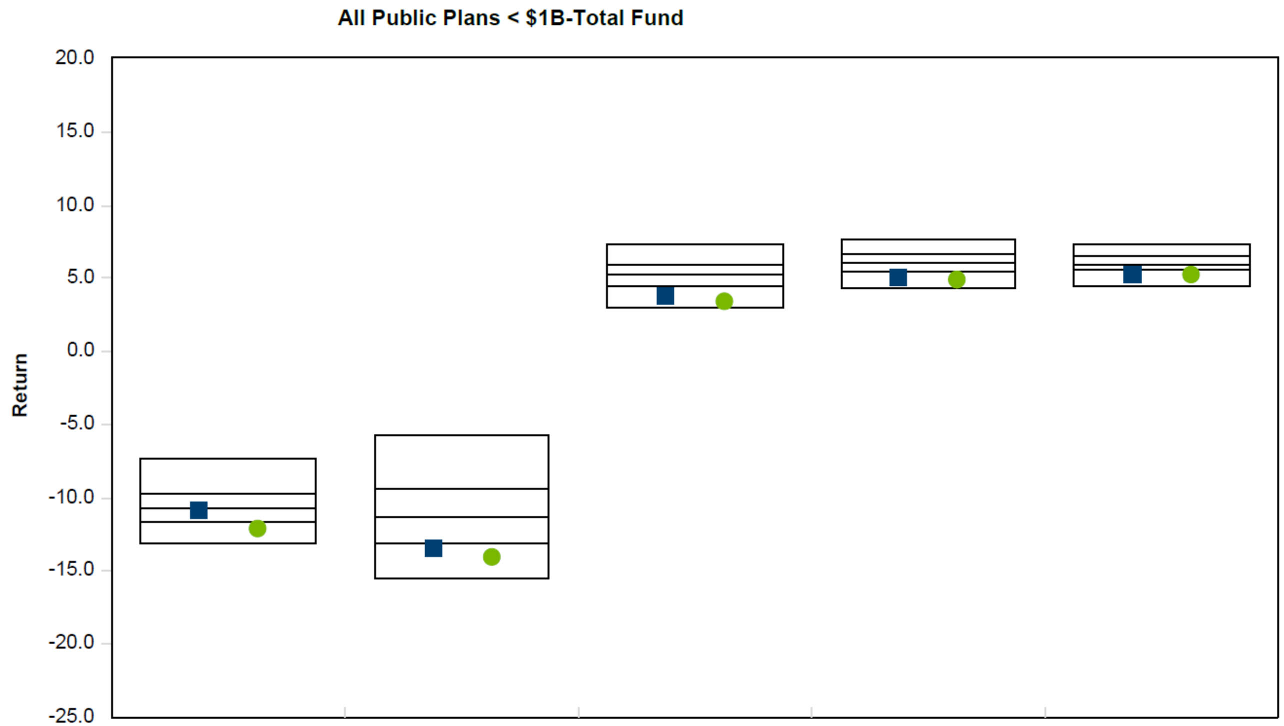
Pension Total Fund Attribution:
1 Quarter as of June 30, 2022



Pension Total Fund Attribution:
1 Year as of June 30, 2022



Plan Sponsor Peer Group Analysis
As of June 30, 2022



	1 Quarter	1 Year	3 Years	5 Years	7 Years
■ Pension Plan	-10.8 (54)	-13.4 (80)	3.8 (89)	5.0 (88)	5.3 (83)
● Wilton Pension Plan Benchmark	-12.1 (85)	-14.1 (86)	3.5 (93)	4.9 (89)	5.2 (84)
5th Percentile	-7.3	-5.8	7.3	7.6	7.3
1st Quartile	-9.6	-9.3	5.9	6.7	6.5
Median	-10.7	-11.3	5.2	6.1	6.0
3rd Quartile	-11.6	-13.1	4.5	5.5	5.6
95th Percentile	-13.1	-15.5	3.0	4.4	4.4
Population	483	480	463	445	415

Empower Results®

Performance as of June 30, 2022

	Allocation			Performance(%)							
	Market Value ($)	%	Policy(%)	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Pension Plan	128,111,922	100.0	100.0	-10.8	-16.1	-13.4	3.8	5.0	5.3	6.1	05/01/2012
Wilton Pension Plan Benchmark				*-12.1*	*-16.8*	*-14.1*	*3.5*	*4.9*	*5.2*	*6.1*	
Fixed Income	47,527,695	37.1	35.0	-4.5	-8.8	-8.1	0.0	1.4	1.9	3.7	05/01/2008
Wilton Pension FI Hybrid BB				*-6.2*	*-11.4*	*-11.2*	*-1.3*	*0.7*	*1.3*	*3.0*	
Vanguard Total Bond Market Index Instl	6,446,872	5.0		-4.7 (26)	-10.4 (36)	-10.4 (34)	-0.9 (58)	0.9 (57)	1.4 (64)	1.3 (63)	12/01/2014
Blmbg. U.S. Aggregate				*-4.7 (24)*	*-10.3 (32)*	*-10.3 (25)*	*-0.9 (59)*	*0.9 (55)*	*1.4 (64)*	*1.3 (62)*	
IM U.S. Broad Market Core Fixed Income (MF) Median				-5.2	-10.8	-10.9	-0.8	0.9	1.6	1.4	
Metropolitan West Total Return Bond Pl	13,391,181	10.5		-5.7 (48)	-11.6 (64)	-11.6 (67)	-0.7 (67)	1.1 (56)	1.5 (69)	2.4 (30)	05/01/2012
Blmbg. U.S. Aggregate				*-4.7 (15)*	*-10.3 (24)*	*-10.3 (28)*	*-0.9 (74)*	*0.9 (74)*	*1.4 (79)*	*1.6 (91)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				-5.7	-11.3	-11.1	-0.5	1.2	1.8	2.1	
PGIM Total Return Bond R6	6,874,866	5.4		-6.7 (80)	-12.8 (88)	-12.5 (84)	-1.3 (93)	1.1 (63)	2.0 (22)	1.9 (24)	01/01/2015
Blmbg. U.S. Aggregate				*-4.7 (15)*	*-10.3 (24)*	*-10.3 (28)*	*-0.9 (74)*	*0.9 (74)*	*1.4 (79)*	*1.3 (80)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				-5.7	-11.3	-11.1	-0.5	1.2	1.8	1.7	
PIMCO Income Fund	9,031,000	7.0		-5.2 (38)	-9.2 (30)	-8.5 (33)	-	-	-	-3.4 (33)	12/01/2020
Blmbg. U.S. Aggregate				*-4.7 (29)*	*-10.3 (50)*	*-10.3 (51)*	-	-	-	*-7.5 (77)*	
IM Multi-Sector General Bond (MF) Median				-5.8	-10.4	-10.2	-	-	-	-5.3	
Apollo Total Return Fund[CE]	5,602,739	4.4		-1.9 (7)	-3.4 (7)	-1.6 (3)	-	-	-	0.9 (2)	01/01/2021
50/50 ML Master II & Credit Suisse LLI				*-2.9 (13)*	*-5.1 (14)*	*-3.5 (8)*	-	-	-	*0.0 (5)*	
IM Multi-Sector General Bond (MF) Median				-5.8	-10.4	-10.2	-	-	-	-6.2	
Aon Opportunistic Credit Fund[CE]	3,801,863	3.0		0.0	0.0	2.8	-	-	-	8.7	02/01/2021
*Opportunistic Credit Custom Index**				*0.0*	*-1.5*	*-0.5*	-	-	-	*2.6*	
Barings North American Private Debt Fund[CE]	2,379,174	1.9		0.0	6.0	-	-	-	-	13.6	11/01/2021
Cash Equivalents	419,951	0.3	0.0	0.1	0.1	0.1	0.5	0.9	0.7	0.5	05/01/2008
90 Day U.S. Treasury Bill				*0.1*	*0.1*	*0.2*	*0.6*	*1.1*	*0.9*	*0.5*	
Wells Fargo Government MM Fund	419,951	0.3		0.1	0.1	0.1	0.5	0.9	0.7	0.5	05/01/2012
90 Day U.S. Treasury Bill				*0.1*	*0.1*	*0.2*	*0.6*	*1.1*	*0.9*	*0.6*	

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

Performance as of June 30, 2022

	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	38,009,762	29.7	30.0	-15.3		-19.0		-10.3		9.8		10.5		10.5		9.5		05/01/2008
Russell 3000 Index				*-16.7*		*-21.1*		*-13.9*		*9.8*		*10.6*		*10.4*		*9.4*		
Vanguard Institutional Index Fund Instl	27,709,200	21.6		-16.1	(28)	-20.0	(30)	-10.6	(26)	10.6	(19)	11.3	(16)	11.1	(7)	12.5	(7)	05/01/2012
S&P 500 Index				*-16.1*	*(13)*	*-20.0*	*(12)*	*-10.6*	*(4)*	*10.6*	*(6)*	*11.3*	*(3)*	*11.1*	*(1)*	*12.5*	*(1)*	
IM S&P 500 Index (MF) Median				-16.1		-20.0		-10.7		10.5		11.2		11.0		12.3		
Diamond Hill Small-Mid Cap Y	5,070,840	4.0		-14.2	(73)	-16.8	(90)	-9.8	(85)	6.3	(76)	5.4	(76)	6.3	(74)	9.9	(43)	05/01/2012
Russell 2500 Value Index				*-15.4*	*(99)*	*-16.7*	*(90)*	*-13.2*	*(96)*	*6.2*	*(77)*	*5.5*	*(75)*	*6.5*	*(73)*	*9.1*	*(78)*	
IM U.S. Mid Cap Value Equity (MF) Median				-13.1		-13.3		-7.0		7.9		6.8		7.5		9.9		
Eaton Vance Atlanta Capital SMID Instl	5,229,722	4.1		-11.8	(3)	-16.0	(2)	-10.0	(1)	6.7	(20)	10.4	(9)	10.6	(6)	12.3	(4)	05/01/2012
Russell 2500 Growth Index				*-19.6*	*(56)*	*-29.4*	*(61)*	*-31.8*	*(72)*	*3.7*	*(60)*	*7.5*	*(45)*	*7.1*	*(62)*	*10.2*	*(41)*	
IM U.S. SMID Cap Growth Equity (MF) Median				-18.5		-28.1		-26.4		4.7		7.3		7.2		9.7		
Non-U.S. Equity	35,068,336	27.4	30.0	-13.7		-21.8		-24.6		0.5		1.8		2.8		1.5		05/01/2008
MSCI AC World ex USA Index (Net)				*-13.7*		*-18.4*		*-19.4*		*1.4*		*2.5*		*2.9*		*1.7*		
American Funds EuroPacific Growth R6	8,979,372	7.0		-14.7	(71)	-25.1	(94)	-27.7	(100)	1.5	(61)	3.1	(16)	3.7	(11)	3.3	(1)	07/01/2014
MSCI AC World ex USA Index (Net)				*-13.7*	*(52)*	*-18.4*	*(34)*	*-19.4*	*(71)*	*1.4*	*(65)*	*2.5*	*(32)*	*2.9*	*(28)*	*1.9*	*(50)*	
IM International Large Cap Core Equity (MF) Median				-13.7		-19.2		-17.5		1.7		2.4		2.7		1.9		
T. Rowe Price Overseas Stock Instl	10,048,364	7.8		-13.8	(55)	-19.3	(53)	-17.6	(55)	2.9	(29)	2.7	(27)	-		-		07/01/2014
MSCI EAFE Index (Net)				*-14.5*	*(68)*	*-19.6*	*(57)*	*-17.8*	*(60)*	*1.1*	*(76)*	*2.2*	*(54)*	*2.7*	*(54)*	*1.8*	*(54)*	
IM International Large Cap Core Equity (MF) Median				-13.7		-19.2		-17.5		1.7		2.4		2.7		1.9		
Templeton Instl Foreign Smaller Companies Fund Adv	4,452,888	3.5		-13.0	(15)	-24.1	(75)	-25.5	(94)	-0.6	(59)	0.5	(51)	2.0	(52)	4.4	(-)	05/01/2012
MSCI AC World ex USA Small Cap (Net)				*-17.5*	*(91)*	*-22.9*	*(73)*	*-22.4*	*(71)*	*2.9*	*(18)*	*2.6*	*(4)*	*3.7*	*(10)*	*5.2*	*(-)*	
IM International SMID Cap Core Equity (MF) Median				-15.1		-20.3		-20.9		1.3		0.5		2.3		-		
GQG Partners Emerging Markets Equity	6,121,421	4.8		-10.6	(28)	-17.7	(43)	-22.7	(34)	-		-		-		-13.6	(52)	01/01/2021
MSCI Emerging Markets Index				*-11.3*	*(44)*	*-17.5*	*(40)*	*-25.0*	*(46)*	-		-		-		*-13.3*	*(50)*	
IM Emerging Markets Equity (MF) Median				-11.6		-18.8		-25.4		-		-		-		-13.5		
William Blair Emerging Markets Leaders Fund; R6	5,466,291	4.3		-15.5	(88)	-23.2	(78)	-31.6	(80)	-		-		-		-20.3	(87)	01/01/2021
MSCI Emerging Markets Index				*-11.3*	*(44)*	*-17.5*	*(40)*	*-25.0*	*(46)*	-		-		-		*-13.3*	*(50)*	
IM Emerging Markets Equity (MF) Median				-11.6		-18.8		-25.4		-		-		-		-13.5		

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

Performance as of June 30, 2022

	Allocation			Performance(%)							
	Market Value ($)	%	Policy(%)	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Real Estate	7,086,179	5.5	5.0	-10.8	-15.5	-2.7	6.3	8.5	8.7	9.0	07/01/2012
Wilton Pension Real Estate				*-14.7*	*-19.2*	*-5.9*	*5.5*	*6.2*	*7.4*	*7.8*	
Cohen & Steers Institutional Realty Shares	5,326,697	4.2		-13.4 (13)	-18.6 (18)	-4.4 (10)	-	-	-	10.6 (11)	01/01/2021
FTSE NAREIT All Equity REITs				*-14.7 (27)*	*-19.2 (26)*	*-5.9 (35)*	-	-	-	*9.3 (33)*	
IM Real Estate Sector (MF) Median				-15.8	-20.2	-6.8	-	-	-	8.6	
Westbrook Real Estate Fund XI[CE]	1,759,482	1.4		0.0	12.9	13.4	-	-	-	15.9	02/01/2021

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

Performance as of March 31, 2022

Lagged Fund Update

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Pension Plan	145,175,520	100.0	100.0	-5.9	2.1	9.0	8.0	7.1	7.5	05/01/2012
Wilton Pension Plan Benchmark				*-5.4*	*3.0*	*9.2*	*8.3*	*7.2*	*7.6*	
Fixed Income	50,400,468	34.7	35.0	-4.5	-1.6	2.5	2.6	2.4	4.1	05/01/2008
Wilton Pension FI Hybrid BB				*-5.5*	*-3.6*	*1.9*	*2.3*	*2.0*	*3.5*	
Vanguard Total Bond Market Index Instl	6,765,572	4.7		-6.0 (54)	-4.1 (40)	1.7 (68)	2.1 (64)	1.8 (68)	2.0 (64)	12/01/2014
Blmbg. U.S. Aggregate				*-5.9 (48)*	*-4.2 (41)*	*1.7 (69)*	*2.1 (64)*	*1.9 (66)*	*2.0 (64)*	
IM U.S. Broad Market Core Fixed Income (MF) Median				-5.9	-4.2	2.0	2.3	2.1	2.2	
Metropolitan West Total Return Bond Pl	14,201,484	9.8		-6.2 (77)	-4.5 (88)	2.3 (64)	2.6 (64)	2.2 (58)	3.1 (30)	05/01/2012
Blmbg. U.S. Aggregate				*-5.9 (54)*	*-4.2 (69)*	*1.7 (88)*	*2.1 (91)*	*1.9 (91)*	*2.1 (94)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				-5.9	-3.8	2.5	2.8	2.4	2.8	
PGIM Total Return Bond R6	7,369,566	5.1		-6.5 (90)	-3.3 (29)	2.2 (68)	2.9 (35)	2.7 (29)	3.0 (22)	01/01/2015
Blmbg. U.S. Aggregate				*-5.9 (54)*	*-4.2 (69)*	*1.7 (88)*	*2.1 (91)*	*1.9 (91)*	*2.0 (91)*	
IM U.S. Broad Market Core+ Fixed Income (MF) Median				-5.9	-3.8	2.5	2.8	2.4	2.6	
PIMCO Income Fund	10,576,044	7.3		-4.2 (40)	-1.5 (37)	-	-	-	-0.2 (33)	12/01/2020
Blmbg. U.S. Aggregate				*-5.9 (78)*	*-4.2 (76)*	-	-	-	*-5.5 (92)*	
IM Multi-Sector General Bond (MF) Median				-4.7	-2.4	-	-	-	-1.3	
Apollo Total Return Fund	5,775,886	4.0		-1.6 (8)	2.2 (4)	-	-	-	2.6 (10)	01/01/2021
50/50 ML Master II & Credit Suisse LLI				*-2.3 (16)*	*1.5 (8)*	-	-	-	*2.3 (10)*	
IM Multi-Sector General Bond (MF) Median				-4.7	-2.4	-	-	-	-2.3	
Aon Opportunistic Credit Fund	4,082,743	2.8		0.0	6.2	-	-	-	10.6	02/01/2021
*Opportunistic Credit Custom Index**				*-1.5*	*2.4*	-	-	-	*3.2*	
Barings North American Private Debt Fund	1,629,174	1.1		6.0	-	-	-	-	13.6	11/01/2021
Cash Equivalents	1,112,127	0.8	0.0	0.0	0.0	0.6	0.9	0.7	0.5	05/01/2008
90 Day U.S. Treasury Bill				*0.0*	*0.1*	*0.8*	*1.1*	*0.9*	*0.5*	
Wells Fargo Government MM Fund	1,112,127	0.8		0.0	0.0	0.6	0.9	0.7	0.5	05/01/2012
90 Day U.S. Treasury Bill				*0.0*	*0.1*	*0.8*	*1.1*	*0.9*	*0.6*	

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Performance as of March 31, 2022

Lagged Fund Update

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
U.S. Equity	45,224,059	31.2	30.0	-4.4	13.9	17.9	14.9	13.3	11.0	05/01/2008
Russell 3000 Index				*-5.3*	*11.9*	*18.2*	*15.4*	*13.4*	*11.0*	
Vanguard Institutional Index Fund Instl	33,387,251	23.0		-4.6 (21)	15.6 (29)	18.9 (17)	16.0 (17)	14.0 (10)	14.8 (11)	05/01/2012
S&P 500 Index				*-4.6 (14)*	*15.6 (1)*	*18.9 (6)*	*16.0 (4)*	*14.0 (4)*	*14.8 (2)*	
IM S&P 500 Index (MF) Median				-4.6	15.5	18.8	15.9	13.8	14.6	
Diamond Hill Small-Mid Cap Y	5,908,482	4.1		-3.1 (91)	10.7 (76)	13.2 (68)	8.9 (79)	8.8 (66)	11.9 (30)	05/01/2012
Russell 2500 Value Index				*-1.5 (70)*	*7.7 (90)*	*13.0 (70)*	*9.2 (76)*	*8.9 (66)*	*11.2 (64)*	
IM U.S. Mid Cap Value Equity (MF) Median				-0.4	12.6	13.6	9.9	9.5	11.7	
Eaton Vance Atlanta Capital SMID Instl	5,928,326	4.1		-4.7 (5)	7.4 (4)	14.5 (36)	14.3 (31)	13.1 (13)	14.1 (15)	05/01/2012
Russell 2500 Growth Index				*-12.3 (57)*	*-10.1 (75)*	*13.0 (63)*	*13.2 (42)*	*10.5 (53)*	*12.9 (31)*	
IM U.S. SMID Cap Growth Equity (MF) Median				-11.6	-4.9	13.6	12.8	10.7	12.4	
Non-U.S. Equity	40,614,513	28.0	30.0	-9.5	-8.1	6.4	6.4	5.2	2.6	05/01/2008
MSCI AC World ex USA Index (Net)				*-5.4*	*-1.5*	*7.5*	*6.8*	*5.2*	*2.8*	
American Funds EuroPacific Growth R6	10,521,105	7.2		-12.2 (100)	-9.4 (100)	8.4 (41)	8.0 (8)	6.2 (8)	5.6 (1)	07/01/2014
MSCI AC World ex USA Index (Net)				*-5.4 (26)*	*-1.5 (65)*	*7.5 (57)*	*6.8 (31)*	*5.2 (31)*	*3.9 (44)*	
IM International Large Cap Core Equity (MF) Median				-6.9	0.0	7.6	6.4	5.1	3.7	
T. Rowe Price Overseas Stock Instl	11,662,106	8.0		-6.3 (33)	-0.6 (62)	8.9 (28)	7.2 (9)	-	-	07/01/2014
MSCI EAFE Index (Net)				*-5.9 (28)*	*1.2 (33)*	*7.8 (44)*	*6.7 (32)*	*5.1 (43)*	*3.9 (41)*	
IM International Large Cap Core Equity (MF) Median				-6.9	0.0	7.6	6.4	5.1	3.7	
Templeton Instl Foreign Smaller Companies Fund Adv	5,120,149	3.5		-12.7 (96)	-8.8 (97)	4.7 (69)	5.1 (57)	4.5 (62)	6.0 (-)	05/01/2012
MSCI AC World ex USA Small Cap (Net)				*-6.5 (53)*	*0.0 (17)*	*10.2 (1)*	*7.9 (1)*	*7.2 (1)*	*7.4 (-)*	
IM International SMID Cap Core Equity (MF) Median				-6.1	-2.5	7.2	5.5	6.1	-	
GQG Partners Emerging Markets Equity	6,844,701	4.7		-7.9 (53)	-9.0 (40)	-	-	-	-8.2 (55)	01/01/2021
MSCI Emerging Markets Index				*-6.9 (42)*	*-11.1 (48)*	-	-	-	*-7.3 (50)*	
IM Emerging Markets Equity (MF) Median				-7.8	-11.7	-	-	-	-7.3	
William Blair Emerging Markets Leaders Fund; R6	6,466,453	4.5		-9.2 (61)	-16.1 (72)	-	-	-	-12.9 (77)	01/01/2021
MSCI Emerging Markets Index				*-6.9 (42)*	*-11.1 (48)*	-	-	-	*-7.3 (50)*	
IM Emerging Markets Equity (MF) Median				-7.8	-11.7	-	-	-	-7.3	

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Performance as of March 31, 2022

Lagged Fund Update

	Allocation			Performance(%)						
	Market Value ($)	%	Policy(%)	1 Quarter	1 Year	3 Years	5 Years	7 Years	Since Inception	Inception Date
Real Estate	7,824,353	5.4	5.0	-5.3	21.9	11.1	11.3	11.0	10.5	07/01/2012
Wilton Pension Real Estate				*-5.3*	*23.5*	*11.9*	*10.0*	*8.1*	*9.8*	
Cohen & Steers Institutional Realty Shares	6,151,400	4.2		-6.0 (68)	23.7 (55)	-	-	-	26.6 (41)	01/01/2021
FTSE NAREIT All Equity REITs				*-5.3 (54)*	*23.5 (57)*	-	-	-	*26.2 (48)*	
IM Real Estate Sector (MF) Median				-5.2	24.1	-	-	-	26.0	
Westbrook Real Estate Fund XI	1,672,953	1.2		12.9	23.2	-	-	-	19.6	02/01/2021

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Aon Medium Term Views

Core Views

Recession risks have come to the fore

An acceleration in the pace of monetary policy tightening, coupled with the impact on consumer confidence of persistently high inflation, has begun to swing expectations towards an impending global recession. Markets have renewed their downward trend whilst several interest rate hikes are still expected this year. For now, we believe that a recession will occur next year, but it will be a shallow one. Predicting these things is very difficult, however, and uncertainty continues to reign.

Traditional asset class outlook remains highly challenged

Extreme uncertainty, an impending slowdown or recession and persistent inflation are combining to create significant headwinds for the traditional asset classes. We remain cautious on equities and credit.

Focus on diversification* and defensive measures

We continue to recommend a focus on appropriate diversification through the use of alternative investments and on taking a defensive stance in equities.

View shifts

Upgraded US and Growth equity views

Peaking yields and weaker demand going forward prompt our view change

Upgraded low volatility view

Continued uncertainty and likely elevated market volatility supports this view change

*Diversification does not ensure a profit nor does it protect against loss of principal. Diversification among investment options and asset classes may help to reduce overall volatility. The data and opinions referenced are as of 6/30/2022, and are subject to change due to client needs, suitability requirements and changes in the market or economic conditions that may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Actions

Credit market positioning

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

Managing equity risks

– Some rebalancing on weakness is reasonable but not all the way to target. Further downside risk persists.

Diversifiers* review

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

Objective

Portfolios should focus on managing the risk/reward challenge of potentially high correlations between assets. We prefer alternative asset classes, given their potentially low correlation to both equities and bonds.

*Diversification does not ensure a profit nor does it protect against loss of principal. Diversification among investment options and asset classes may help to reduce overall volatility.
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Recommended actions

Total Return Cross Asset Class Views

---	--	-	=	+	++	+++
		Equities	Core fixed income	Alternatives		
		Return-Seeking Fixed Income		Cash		

Equities are challenged from a weakening economic picture, inflation and tightening policy. We prefer gaining return-seeking exposure through alternative asset classes

Maintaining a neutral duration view as the upside and downside risks to yields are more balanced now

Relative Asset Class Views

Equity Regions

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

Moving more defensive by upgrading US view

Return Seeking Credit

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

We prefer less credit sensitive, senior tranches in ABS

Equity Styles

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

Defensive stance on equity styles is strengthened with upgrades to low volatility and growth views

Core Fixed Income

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

No preference between nominal and inflation-linked bonds.

Alternatives

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

Non-correlated alternatives still generally preferred

Currencies versus USD

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

We think near-term US dollar strength will eventually fade

Please refer to the end of the document for interpretation guidelines.
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Equities

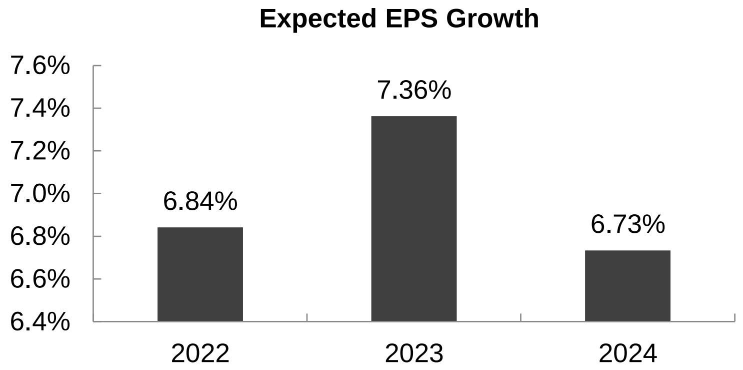
Rising recession risks are an important headwind to equity markets

- Global equity markets have fallen back sharply this year and Q2 continued this trend. However, while the falls in the first quarter were mainly about the start of monetary policy tightening and the start of war in Ukraine, the second quarter has been characterised by rising recession risk amid accelerating rate hikes by the central banks. We think that the odds of a global recession at some point over the next 18 months are high, which keeps us cautious on equities overall.
- Rising interest rates have knocked out one of the key supports for equities, but another key support – namely earnings – have not yet adjusted for a recessionary scenario in our view. Earnings revisions have slowed markedly this year but expected earnings growth for next year is still reflecting supportive conditions for company profits. We do not think these expectations will hold up as economic growth slows.
- From a valuation standpoint, global equities have clearly become much less expensive, with forward and trailing price-to-earnings ratios at levels not seen since before the pandemic. But these are based on those relatively healthy earnings estimates, so cheaper valuations are unlikely to be an adequate support in the coming year.
- Uncertainty remains significant and the degree of economic slowdown will matter, as will the trajectory of inflation and its impact on monetary policy. Overall, however, we remain cautious on equities.

Earnings revisions continue to lose momentum as markets plunge

Source: Factset, Aon

Profits improvement expected next year but these expectations are vulnerable



Source: Factset, Aon

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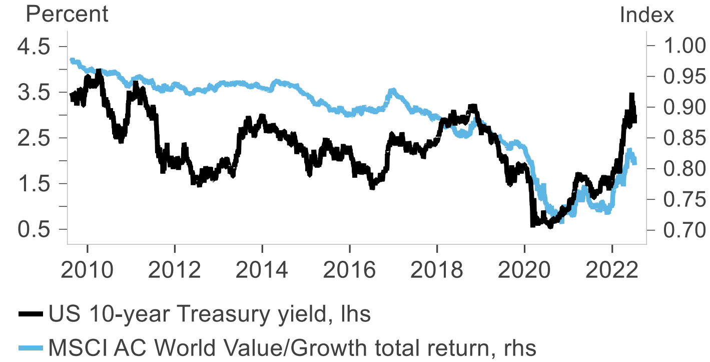
Equities

Downgrading value view versus growth equities, upgrading the US view

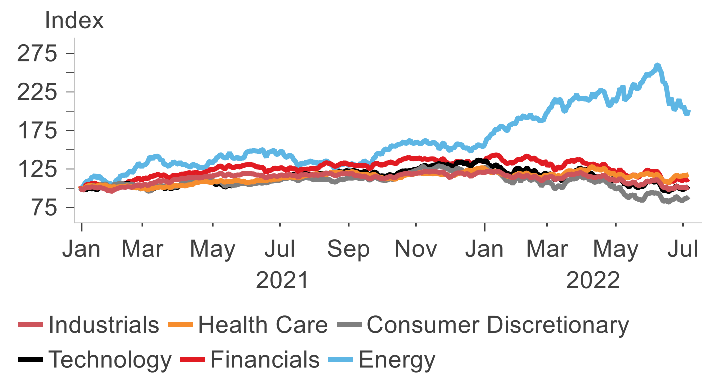
- After more than a decade of sharp underperformance, value stocks have been on a good run relative to growth stocks in the last 18 months. We think that this run may be coming to an end soon and we are now preferring growth to value equities.
- The primary reason for our decision to downgrade our view for value equities versus growth equities is the likelihood of a global recession in the next 18 months. Value equities tend to have more cyclical earnings patterns so weaker demand would impact profits for value companies more than growth companies. Equally, a recession would also mean that interest rates, which have been surging this year, may peak and fall back. This would start reducing the discount rate for the earnings of growth companies, which have been disproportionately affected as profits are projected further into the future than for value style equities.
- However, uncertainty is substantial and the nature of the value style rally matters. By far the biggest driver of value outperformance this year has been a huge rally in energy stocks as oil prices have responded to the conflict in Ukraine by moving significantly higher. This may continue for a while yet.
- We are reflecting our more defensive overall stance by upgrading our US equity view. The larger weighting to technology and growth style companies should mean that the market is more resilient in an economic downturn.

Rising yields spur value outperformance but interest rates are close to a peak now



Source: Macrobond

Sector performance this year has been very skewed towards energy stocks



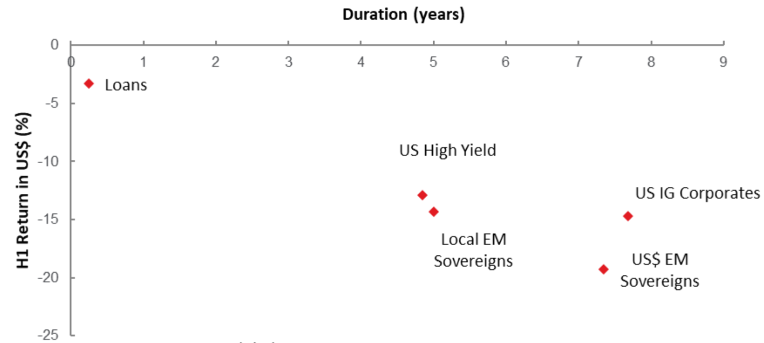
Source: Macrobond, MSCI World selected sector performance as at June 30 2022, reindexed, January 2021 = 100

Return-Seeking Fixed Income

Credit spreads have further to rise

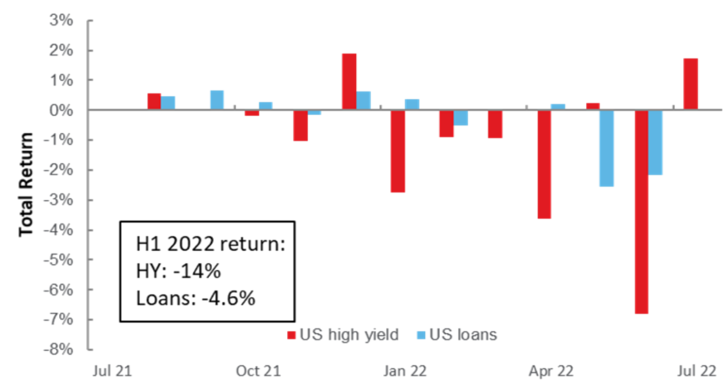
- Very poor returns this year have been much more about rising interest rates and the duration sensitivity of many credit segments rather than a large expansion in credit spreads.
- However, now that yields have moved sharply up and recessionary fears are building, we think that longer duration credit sectors will be at less of a disadvantage and lower quality credit sectors will underperform higher quality sectors as credit spreads continue to widen.
- Earnings estimates have remained fairly buoyant to date but we expect earnings downgrades and a pick-up in default rates to keep credit under pressure.
- Leveraged loans have significantly outperformed high yield bonds this year. However, loans have performed less well in the last month or two as there have been profit-taking from retail investors and less CLO issuance. We have decided to maintain our preference for loans over high yield bonds given current spread levels and loans' floating rate characteristics.
- Emerging market debt remains vulnerable to the global economic environment but it offers attractive real yields and signs of a Chinese economy recovery are supportive.
- Asset-backed securities have held up relatively well as we would expect, though not in all segments. We expect less credit-sensitive sectors to outperform.

Credit sectors with longer durations have underperformed in H1 due to the sharp rise in yields



Source: JP Morgan, SPGlobal

US leveraged loans have outperformed high yield bonds this year



Source: ICE BofA, SPGlobal, data as at Jul 11 2022

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US Treasury Bonds

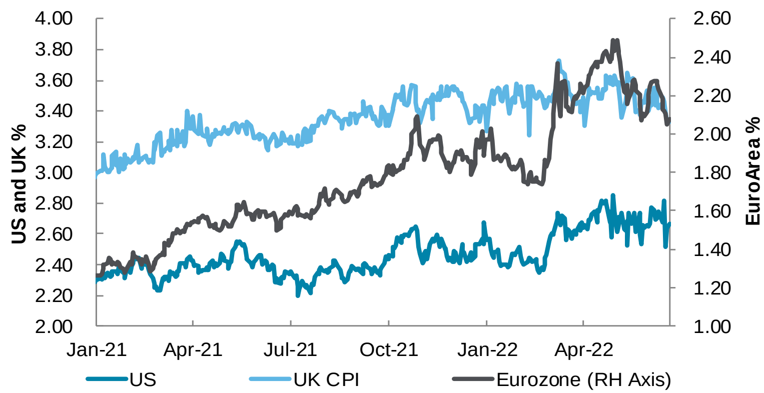
Fairly valued but could remain volatile

- The sell-off in Treasuries between December and early June was the biggest since 1994. However, yields are now rolling over, as markets shift their focus from inflation and rising policy rates to recession risks. We think that yields have probably peaked for this cycle, but that doesn't preclude continued volatility.
- For the moment, labour market activity suggests that the economy is reasonably strong. Higher prices have hit consumer confidence though, and other indicators such as purchasing managers surveys give a mixed picture about conditions. However, we see activity slowing significantly later this year and in to 2023. The sensitivity of inflation to a drop in economic activity though will determine how much the Fed will be able to cut rates if and when the economy slows.
- Forward-starting inflation swaps, which are sometimes used as a proxy for medium-term inflation expectations, are now pricing in an environment where the Fed will achieve it's inflation target. (Note: the Federal Reserve targets the PCE deflator which tends to be less than the CPI). Markets seem to be giving central banks the benefit of the doubt for the moment that they'll bring down inflation, but it might still require interest rate hikes into a slowing and possibly even contracting economy.
- Perhaps in acknowledgement of this scenario, the Federal Reserve has started to front load its policy tightening, raising rates by 75bps in the June meeting alone and hinting that another hike of the same magnitude may come in July.

Yields look to have peaked for this cycle

Source: Macrobond. Data as at 14 July 2022

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



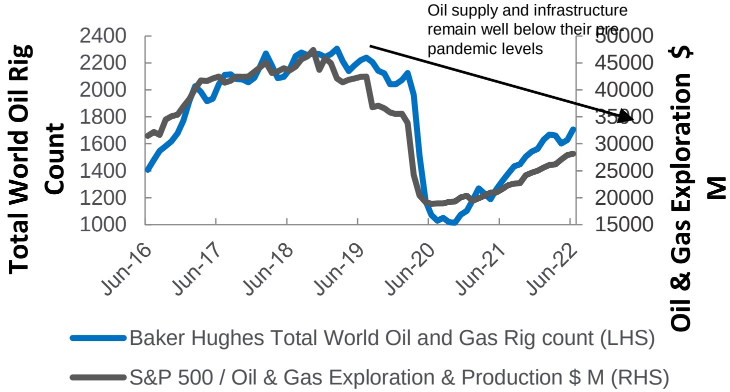
Source: Bloomberg as at 30 June 2022

Alternatives

Commodities look set to remain highly volatile

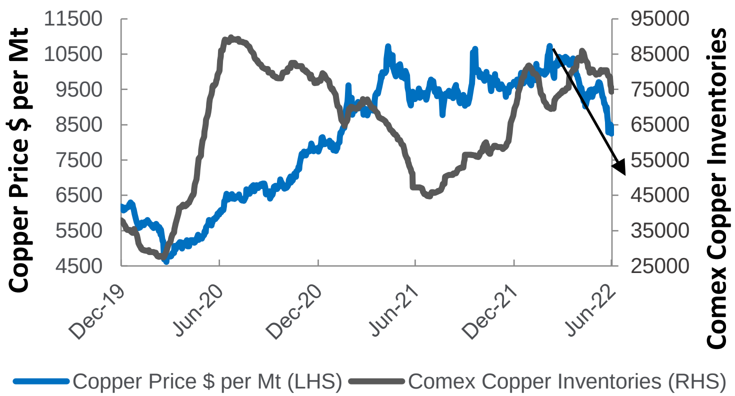
- Commodity prices have risen sharply over the last two years driven by surging demand after the relaxation of pandemic-related lockdowns, global inflation reaching multi-decade highs and raw material prices being pushed up by the ongoing conflict in Ukraine.
- Energy prices have been pushed up due to weak production and fears over natural gas supplies exported from Russia. We expect spot energy prices to remain above the levels priced by forward markets, and we believe that natural gas prices may rise further owing to the conflict in Ukraine. In the event of a recession, we expect oil prices to fall but proportionally less than previous economic slowdowns as the sector remains structurally tight, inventories are low and the impending transition to greener technologies will likely cause supply-side disruption to energy markets.
- Industrial metals have faired poorly in the short term, as fears over an economic slowdown have mounted. The sector could perform well over the medium term but remain very sensitive to short-term economic conditions and the success and speed of an energy transition.
- We continue to believe passive strategic commodity exposure does not offer much value given the strong run-up in prices and the sensitivity of metals to economic conditions but investment through active vehicles may provide diversification and benefit from potential supply and demand shocks within commodity markets.

The supply-side picture for energy markets remains tight



Source: Bloomberg. As at 30 June 2022

Copper prices have fallen despite low levels of inventories



Source: Bloomberg. As at 30 June 2022

Empower Results®

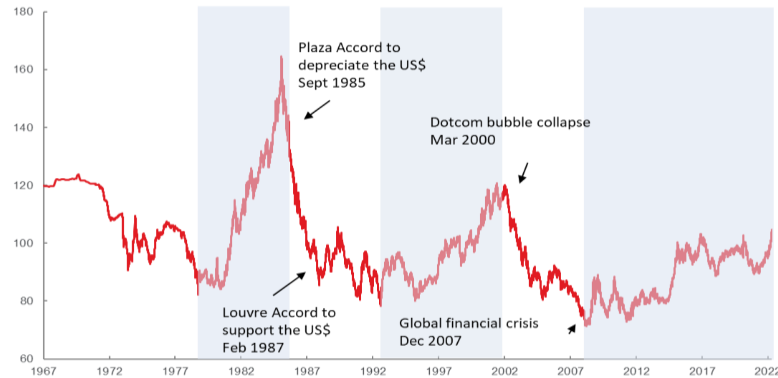
Currencies

Short-term US dollar tailwinds continue to oppose more medium-term headwinds

- Even though the European Central Bank intends to raise rates by 25bps in July and by more if necessary in September, the first rate hikes in more than a decade, these moves remain dwarfed by the 150bps of rate hikes in the US so far this year, half of which came just in the June meeting. Indeed, the Fed has remained determined to front-load rate hikes whilst the US labour market remains strong.
- This has caused the US Dollar Index to push ever higher. It has now rallied by 50% since 2008 and has extended its rally beyond previous cycle lengths (see top chart). The US dollar is now close to parity against the euro, a level last reached in 2002. The key 1$ = 1€ level may trigger some profit-taking and a short-term bounce, but it still remains too risky to oppose dollar strength as risks remain supportive of the dollar. The big risks are a global recession, escalation in the Ukraine war and natural gas shortages in the Eurozone if Russia cuts off supply to the region.
- The UK's weaker growth/inflation balance than in the US and political uncertainty after PM Johnson's resignation keeps sterling on the backfoot too.
- From a medium-term perspective, the structural drivers of the US dollar, such as its expensive valuation and current account deficit, remain dollar negative. However, near-term global economic uncertainty and an aggressive Fed mean that we remain neutral for now.

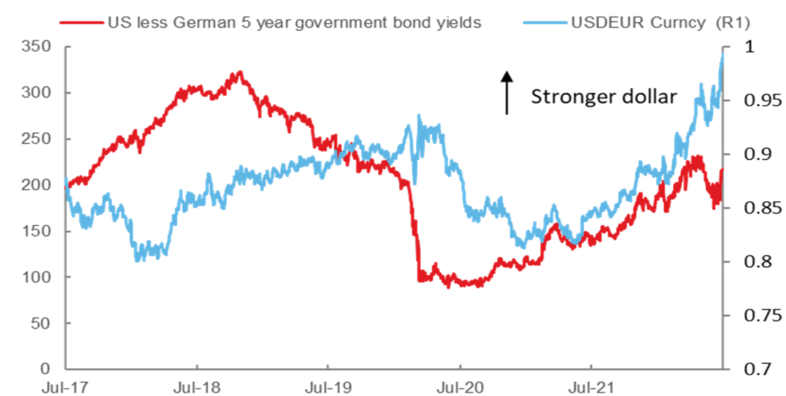
The unassailable rise of the US dollar since 2008

US Dollar Index



Source: Bloomberg. Shaded areas depict periods of US dollar rallies

The US dollar has risen above its 2020 peak against the euro as US yields re-gain their pre-Covid level vs German yields



Source: Bloomberg

Empower Results®

Legal Consulting & Compliance Update

Third Quarter 2022

Aon Quarterly Update

Retirement Legal Consulting & Compliance

In this Issue

Editor's Note

by Susan Motter

No doubt summer continues to be a scorcher! Meanwhile, the *Quarterly Update* team continues to deliver the latest on the hottest areas of interest to our readers.

Many employers have "red-hot" interest in diversity, equity, and inclusion (DEI) programs and the "Great Resignation" trend as these ultimately relate to an employer's ability to attract and retain employees for its workforce. At first glance, it may not be apparent how these issues intersect with employee benefit plan issues, particularly retirement plans. However, there is a growing trend among employers supporting DEI as a key element of their compensation and benefits programs. We open this edition with an article on how employers can support DEI through their retirement plans while attracting and retaining its needed workforce and achieving a retirement program that is equitable to all participants.

Department of Labor (DOL) and Internal Revenue Service (IRS) audits continue to occupy plan fiduciaries' concerns and efforts. Since the April 2021 DOL cybersecurity guidance, the DOL continues its laser focus on efforts to audit fiduciary processes as they apply to plan-related data security—all the while litigation involving data breaches and plan data have been increasing. We update our reporting in this edition with the latest cybersecurity developments in terms of DOL audit efforts and litigation. Most recently, in June 2022, the IRS rolled out a new pilot pre-examination retirement plan compliance program. This new IRS pilot program gives a plan sponsor a 90-days' "heads-up" prior to the IRS starting an audit. The pilot program allows the plan sponsor to identify and correct errors—potentially at a significantly lower cost—thus permitting the plan sponsor to preempt what otherwise may turn out to be a full-scale IRS audit.

Plan sponsors are aware that excessive fee litigation cases involving retirement plans continue to rise in frequency and severity. Not surprisingly, these cases have considerably affected the fiduciary liability insurance market—from decreases in coverage capacity to significant increases in pricing and retentions (i.e., deductibles). This edition of the *Quarterly Update* updates our prior reporting on how a pooled employer plan (PEP) can provide significant benefits to organizations that wish to provide retirement benefits to their employees, by outlining the benefits of joining a PEP from a number of perspectives including the cost of fiduciary liability insurance.

Plan sponsors have long considered adding and implementing certain provisions impacting the claims and appeals process for their employee benefit plans. Examples of these are a plan-specified claims limitation period to shorten the period of time during which a participant can raise a claim in federal court, or a requirement for mandatory arbitration. We close out this edition with two articles reporting on the latest attempts by plan sponsors to enforce these types of provisions and the issues a court will examine in determining whether these provisions are enforceable.

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.

Supporting DEI in Retirement Plans

by Matthew Bond and Tamara O'Brien

The Case for DEI in Compensation and Benefits Programs

Employers increasingly view support for diversity, equity, and inclusion (DEI) as a key element of their compensation and benefits programs. Half of respondents in **Aon's 2020 Health Survey** indicated they are currently adapting their benefits programs to more effectively support and advance DEI. In the 8th Edition of the **2022 Global HR Pulse Survey**, 64% of respondents said that a DEI-focused strategy was a priority, and 70% of those said they had a strategy in place with an approved budget. Key motivations for the trend include the following:

- **Cost Effectiveness While Improving Attraction, Engagement, and Retention of Employees.** The "Great Resignation" has intensified talent and turnover challenges for employers, and DEI is increasingly viewed as a differentiator by job candidates. Expressing an organization's DEI values through benefits offerings can help establish a human connection with the team, supporting employee engagement and lowering turnover.
- **Better Outcomes for Employees and Society.** By designing programs to be fair, equitable, efficient, and responsive to the needs of an increasingly diverse workforce, employers can produce better outcomes for employees and society in general.
- **Stronger Branding for the Organization.** By demonstrating the authenticity of its values to employees and other stakeholders, the organization's branding is strengthened.

DEI Challenges in Retirement Plans

Retirement plans are the second largest benefits expense for most employers, after health and wellness programs. However, retirement programs historically have tended to magnify socioeconomic disparities in wealth and income. The first step to achieving an equitable retirement program is understanding the barriers that diverse employees encounter when preparing for retirement. These may include:

- **Wage Gaps Impact Savings.** Women and people of color earn less than their peers on average, and these disparities persist at all income and education levels. However, retirement programs magnify these disparities. On average the gender pay gap is 18%, but the retirement income gap between men and women is 34%.
- **Barriers to Saving for Retirement.** Covering basic expenses, managing the burden of debt, establishing emergency savings, and competing financial priorities such as family and education often serve to further limit diverse employees' savings to a retirement plan. Match-only or primarily match-driven defined contribution plans result in lower retirement benefits provided to those who do not save or save below the match threshold. Black and Hispanic Americans disproportionally receive lower benefits from matched savings formulas, exacerbating the gap in retirement savings.
- **Shorter Total Service.** Women and people of color are more likely to engage in part-time work or experience more breaks in service over their career. This makes it more difficult for these groups to meet vesting requirements or qualify for early retirement eligibility/subsidies. Similarly, age- or points-graded formulas and plans only available to those hired before a certain date can also amplify inequities.
- **Differences in Longevity.** At retirement age, women are expected to live two years longer than their male peers. Women's greater longevity means that they need more savings to secure adequate lifetime income.

How to Support DEI Via Retirement Plans

The simple truth is decisions made the world the way it is, and better decisions can change it. At Aon, we are invested in recognizing the decisions that created the disparities in retirement plans, and in helping sponsors make better decisions to achieve more equitable outcomes. Evaluating your demographics and specific retirement programs through a DEI lens can reveal targeted opportunities to solve challenges through plan design, communications, investments, and advice.

We have seen in our work with plan sponsors that even thoughtful, well-designed plans may not provide the intended inclusive and equitable results if employee choices are disproportionately impacting specific groups of employees. Pairing a plan-level review with a participant-level study of behaviors and outcomes may provide additional powerful insights that help inform your next steps in aligning your benefits program with your company's values.

For example, tailored participant communications should be a central focus when delivering retirement benefits that support DEI values. Participants are looking for support and advice that take into account their lifestyle and personal financial challenges and opportunities. Also, Black and Hispanic employees indicate a connection to or commonality with their retirement advisor is important. As previously covered in the **First Quarter 2022** issue of our *Quarterly Update*, Aon's Pooled Employer Plan (PEP), an innovative 401(k) solution, provides customized materials on financial wellness for women, Black families, and the LGBTQ+ community. Select materials from our PEP Information Center are publicly available **here**.

Bringing DEI values to life in your organization's retirement plan has the potential to create better participant outcomes for all employees while creating returns for the company in terms of attraction, retention, and strengthening your brand. No matter where you are on your DEI journey, Aon's tools and expertise can empower you to better align your benefits with your values. If you'd like to learn more about how we can partner on this mission, reach out to your Aon consultant.

Cybersecurity Continues to Be a Hot Topic: DOL Audits and Litigation on the Rise

by Tom Meagher

It has now been over a year since the Department of Labor (DOL) released its guidance on how plan fiduciaries should fulfill their fiduciary responsibility to protect plan and participant data.

Since the release of the DOL's April 2021 guidance, we have observed a fair amount of activity involving data security and benefit plans. While the DOL has taken the position that its April 2021 guidance was nothing new and that the DOL always expected plan fiduciaries to protect plan data, we have seen a heightened awareness involving regulators and plaintiffs' attorneys to the prospect that failing to protect plan data may be a breach of a fiduciary's duty to the plan.

From an audit perspective, we have seen the DOL requesting employers to provide documentation supporting their fiduciary processes as they apply to plan-related data security and to describe what efforts they have made to reach out to the plan's third-party service providers. While the DOL has not necessarily been challenging the various safeguards that may be in place, they are looking to see that the fiduciaries are aware of their responsibility to protect plan data and that there is a process to monitor both internal and external plan-related safeguards.

Unfortunately, DOL audits are not the only areas of exposure that employers and their plan fiduciaries must address. There has been an increase in litigation involving data breaches and plan data. The most prominent cases focus on whether the fiduciary had a prudent process to protect plan and participant data and whether that process was followed. Most recently, on July 7, 2022, Colgate-Palmolive Co. was sued in the federal court for the Southern District of New York by a former employee (*Disberry v. Employee Relations Committee of the Colgate-Palmolive Co.*) who alleged that the plan administrator and recordkeeper did not have reasonable procedures in place to avert the theft of the employee's plan account balance, and that the procedures they had were not followed.

Similarly, in April 2022, several proposed class action lawsuits were commenced against Horizon Actuarial Services, LLC in the federal court for the Northern District of Georgia. These five class action lawsuits (*Sherwood v. Horizon Actuarial Services, LLC; Bedont v. Horizon Actuarial Services, LLC; Quan v. Horizon Actuarial Services, LLC; Hill v. Horizon Actuarial Services, LLC;* and *Torrano v. Horizon Actuarial Services, LLC*) were subsequently consolidated in May 2022. The complaints allege that there was a data breach in November 2021 at Horizon during which third parties apparently accessed data stored on the company's servers. The complaints state that the breach affected hundreds of thousands of current and former Horizon customers who were signed up for benefit plans through their employers. The complaint further alleges that data breach victims will now face a heightened risk of identity theft and fraud for years to come due to the defendant's alleged failure to safeguard their information. While Horizon may not be treated as an ERISA fiduciary based on its recordkeeping role, the situation is all too common in terms of plan fiduciaries outsourcing their recordkeeping to third parties. It will not take long for plaintiffs' attorneys to begin to allege (as they did in the *Colgate-Palmolive* case referenced above) that when employers fail to monitor the recordkeeper and its data security policies, the employers will have breached their fiduciary obligations to participants to protect plan and participant data.

While no employee benefit plan data can be completely safeguarded, there is an ability to mitigate the risk of a data breach. That effort to protect against the risk of a data breach is the type of process that the DOL is looking to see from plan fiduciaries—and what plaintiffs' attorneys hope not to see.

Aon's team of cybersecurity and plan governance experts has worked extensively in this area well before the April 2021 DOL guidance. As an experienced cybersecurity team, we can provide the type of assistance needed for plan fiduciaries to demonstrate a prudent process to monitor and protect plan and participant data from adverse DOL audit findings and participant claims of fiduciary breach.

IRS Pre-Audit Notification and Self-Correction Program for Retirement Plans

by Dan Schwallie

The Internal Revenue Service (IRS) is piloting a program under which a retirement plan sponsor will be notified in advance that its retirement plan has been selected for audit. The plan sponsor will be provided an opportunity to self-correct plan document errors and operational errors prior to the audit.

Notification Prior to the Audit

Under this IRS pilot program, which began in June 2022, the IRS will notify a retirement plan sponsor by letter that its plan has been selected for an upcoming audit (or "examination" in IRS parlance). The letter provides the plan sponsor a 90-day window to review the plan documents and operations to determine whether they satisfy current tax requirements. If the plan sponsor does not respond within 90 days, the IRS will contact the sponsor to schedule a full examination.

Self-Correction of Errors Prior to the Audit

Errors in plan documents or operations uncovered during the pre-audit review may be eligible for self-correction using the correction principles of the IRS Employee Plans Compliance Resolution System (EPCRS), currently described in Revenue Procedure 2021-30, which improved self-correction options. (Please see the article titled, "Updated IRS Program Improves Self-Correction Options," in the **Fourth Quarter 2021** issue of our *Quarterly Update*.) The IRS will review the plan sponsor's documentation of the self-corrections.

For errors that are not eligible for self-correction under EPCRS, the plan sponsor can request a closing agreement with the IRS. The fee structure applicable to the Voluntary Correction Program (VCP) of EPCRS will apply to the monetary sanction the plan sponsor pays under such closing agreement, rather than the potentially more costly sanctions that can be applied under the Audit Closing Agreement Program of EPCRS. VCP fees are based on plan asset amounts and are generally capped at $3,500.

If the IRS agrees the plan sponsor appropriately corrected the errors, the IRS will issue a closing letter to that effect. Otherwise, the IRS will conduct either a limited or full-scope examination. While not explicitly stated, it is understood that this program applies to 403(b) plans as well as 401(k) plans and other tax-qualified defined contribution and defined benefit plans.

Program Is Temporary, Subject to Evaluation

The IRS's stated goal of this pilot program is to reduce taxpayer burdens and reduce the time spent on retirement plan examinations. The IRS will evaluate the effectiveness of the program at the end of the pilot period and determine if the program should continue to be part of their overall compliance strategy. How long the pilot program will last was not specified.

Aon Can Provide Expedited Retirement Plan Compliance Reviews

For plan sponsors who receive the 90-day letter, Aon's Retirement Legal Consulting & Compliance consultants are available to provide an expedited review of plan documents and operational processes. Nevertheless, plan sponsors may wish to consider the more prudent approach of a nonreactive compliance review prior to receiving a 90-day letter. A nonreactive, pre-planned compliance review would include a sampling of participant data to uncover systemic operational errors and a more extensive examination of plan administration procedures of third parties or the plan sponsor. Aon recommends compliance reviews be conducted on a periodic basis, but especially when there are suspected compliance concerns, changes in recordkeepers or other plan administrators, and in anticipation of plan mergers or corporate transactions involving potential plan acquisitions.

Pooled Employer Plans Provide Cost Savings and Fiduciary Risk Reduction Opportunities

by Jay Desjardins and Rick Jones

Excessive fee litigation cases involving retirement plans have risen dramatically in frequency and severity and have put pressures on the fiduciary liability insurance market. These cases, which generally focus on fees that 401(k) and 403(b) plan participants pay for investment management or administration, have led to considerable changes in the fiduciary liability insurance marketplace, with decreases in capacity, and significant increases in pricing and retentions (i.e., deductibles).

Heightened Litigation Expected to Continue

Based on Aon's research, in 2020 alone, there were no fewer than 99 excessive fee cases in the United States, four times the average of each of the previous three years (2017–2019). In 2021, at least 55 excessive fee cases were filed, well below the pace of 2020 but still more than double the annual average. Defense counsel and industry experts suggest that the drop in filings in 2021 was due to the *Hughes v. Northwestern University* case then pending before the U.S. Supreme Court. In January 2022, the Supreme Court issued its decision, which largely favors plan participants. The *Northwestern* ruling could bolster plaintiffs' efforts and result in more excessive fee litigation and further exacerbate the challenging fiduciary liability insurance market.

Plans representing approximately 15% of the combined 401(k) and 403(b) market by assets have been subject to this litigation. This is not a "needle in a haystack" risk, and the fiduciary liability insurance marketplace is providing ample confirmation of that. Plaintiffs' attorneys do not only target "jumbo" plans ($1 billion or more in assets). According to Aon's research, between 2020 and 2021, over 40% of all claims filed have targeted plan sponsors with plan assets below the $1 billion "jumbo" plan threshold.

In this challenging climate, what can employers do to manage costs to avoid excessive fee claims and risks, minimize work for management teams, and improve retirements for participants?

Consider a Pooled Employer Plan (PEP)

A PEP is a 401(k) arrangement that allows unrelated businesses to participate in a plan managed by a pooled plan provider (PPP). The PPP is the fiduciary of the PEP and has discretion over plan administration and investments, which can reduce the administrative burden and risks for participating companies. Streamlining and delegating retirement plan administration to experts allows employers to focus on their core business and more strategic priorities, while still controlling plan design decisions to meet their human resources and workforce needs.

Employers May Now Participate in a PEP Instead of Sponsoring a Stand-Alone 401(k) Plan

The PPP is also responsible for selecting and monitoring third-party vendors, including trustees/custodians, recordkeepers, investment managers, and external advisors such as plan auditors. PEPs have emerged as an attractive alternative to traditional 401(k)s—reducing the work and risk involved in sponsoring a plan. Moreover, PEPs offer significant opportunities for economies of scale and improved retirements for American workers. In fact, we are seeing average savings realized following adoption of the Aon PEP among participating employers in excess of 40%. Much of that savings is typically realized by plan participants through lower charges to their accounts.

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Less work >
for management teams

Less risk >
for employers and fiduciaries

Lower costs >
and improved outcomes for employees

What Are the Benefits of Joining a PEP from a Fiduciary Liability Insurance Perspective?
While insurers are not yet willing to offer premium reductions, we anticipate they will do so within the next few years once PEPs have established a longer track record. Aon continues to engage in discussions with all major fiduciary liability insurers on this point. We believe that organizations should capitalize on the cost savings of PEPs while the market matures.

Virtually all insureds have seen dramatic increases in their fiduciary liability insurance retentions (i.e., the amount which the plan sponsors must pay before gaining access to the actual policy proceeds). For example, many fiduciary liability insurers are imposing retentions of $5 million or more for insureds who sponsor a 401(k) plan with assets of $500 million or more. One way to avoid paying such a large retention is to reduce the likelihood of being sued in the first place and joining a PEP should do just that.

Joining a PEP has also helped to alleviate the increased underwriting scrutiny that has become the norm as insurers now ask detailed questions related to third-party fees and expenses through so-called "Excessive Fee Questionnaires." For insureds that join a PEP we recommend that the PPP assist in responding to the Excessive Fee Questionnaire, to demonstrate the reduction in risk and expense which the participating employer enjoys by having joined the PEP.

Aon Is in the Business of Better Decisions
For a discussion on how effective a PEP could be for your organization, and a free side-by-side comparison of current 401(k) plan costs relative to the Aon PEP, we only need a few pieces of readily available information. If you have interest, or if you have any questions, please contact your Aon representative or either of the authors of this article (their contact information is included on page **12**).

Federal Court Declines to Enforce Specified Limitation Period

by Hitz Burton

In two companion opinions, *E. F. v. United Healthcare Ins. Co.* (attempt to enforce three-year limitation period) and *Anne A. v. United Healthcare Ins. Co.* (attempt to enforce 180-day limitation period), both issued March 30, 2022, the United States District Court for Utah rejected United Healthcare's efforts to enforce plan-specified limitation periods which sought to define (and shorten) the period during which participants could litigate an administrative denial of benefit coverage.

As you may recall, the Employee Retirement Income Security Act of 1974 (ERISA) does not specify a time period in which participants can bring a claim in federal court for benefits. As a result, federal courts typically look to underlying state contract law for an applicable limitation period. To mitigate risk and to shorten the period during which a participant can raise a claim in federal court, some plan sponsors have attempted to define a specific period of time during which litigation claims can be brought without being time-barred. To successfully enforce a plan-specified limitation period, the relevant plan document must explicitly describe the relevant period. It is further clear that the plan's summary plan description (SPD) should also describe the plan-specific claims limitation period.

It is also clear, however, that specific language in the legal plan document and the SPD is not sufficient. ERISA specifically requires a claim denial notice to include a description of any applicable time limits that the plan will attempt to enforce on a participant's right to file a claim for benefits in federal court. Among other considerations, the district court found that (i) it was more likely that a participant would read and understand the description of a limitation period in a brief denial notice versus a lengthy plan document; (ii) that the burden on the plan sponsor to add the relevant information to a claim denial notice was minimal; and (iii) that the documentary requirements regarding denial notices in the relevant ERISA regulations were unambiguous.

If you are attempting to effectively implement a plan-specified claims limitation period in your ERISA retirement or health and welfare plan, and you have questions or concerns about how to do so, please reach out to Aon's Retirement Legal & Consulting consultants for further advice and recommendations on how to best proceed.

Sixth Circuit Rejects Employer Attempt to Compel Arbitration

by Hitz Burton

The enforceability of mandatory arbitration agreements against claims made by one or more participants in a retirement plan covered by the Employee Retirement Income Security of 1974 (ERISA) continues to be frequently litigated. Recently, on April 27, 2022, in *Hawkins v. Cintas Corp.*, the Sixth Circuit Court of Appeals rejected an employer's attempt to compel arbitration of fiduciary breach claims brought by two participants in a tax-qualified defined contribution plan.

In *Hawkins*, the lead plaintiffs alleged that the plan sponsor breached its ERISA duties of loyalty and prudence when it failed to offer lower-cost indexed funds as a designated investment alternative under the plan. Based on the terms of an employment agreement signed by each plaintiff, and which included mandatory arbitration provisions, Cintas moved to have the case dismissed.

As we previously discussed in the **Third Quarter 2019** issue of our *Quarterly Update*, participant claims involving an ERISA retirement plan are typically either a claim for benefits or an allegation that a fiduciary breach under ERISA has occurred. A claim for benefits is usually specific to an individual's particular facts and circumstances—for example, a claim that a participant's matching contribution was not properly calculated. In contrast, fiduciary breach claims are typically brought by a participant on behalf of the plan itself rather than in an individual capacity and typically involve related claims for similarly situated participants.

Prior federal case law suggests that successful enforcement of a mandatory arbitration agreement against an individual claim for benefits is often possible. On the other hand, federal courts have generally been reluctant to enforce mandatory arbitration claims where one or more participants allege a breach of fiduciary duty under ERISA on behalf of the plan itself (as previously discussed in the **Second Quarter 2021** issue of our *Quarterly Update*). In rejecting the employer's motion to dismiss, the Sixth Circuit noted this exact distinction when it held that the participants' fiduciary breach claims were not covered by the arbitration provisions in their respective employment agreements because the breach of loyalty and prudence claims belong to the plan itself.

Plan sponsors interested in the broadest possible application of a mandatory arbitration provision might consider adding such provisions directly into the ERISA plan document as opposed to attempting to rely on provisions in an individual employment or other contractual agreement. In a 2019 decision, which was summarized in the **Fourth Quarter 2019** issue of our *Quarterly Update*, the Ninth Circuit Court of Appeals upheld mandatory arbitration provisions to dismiss ERISA fiduciary breach claims where such provisions were directly added to the plan document itself.

Employers interested in how to amend their retirement plans to add mandatory arbitration provisions and to effectively communicate those provisions to participants through a summary plan description and other benefit claims correspondence should contact Aon's Retirement Legal Consulting & Compliance consultants for additional advice on how best to update a specific retirement plan's provisions and related ERISA-covered communications.

Quarterly Roundup of Other New Developments

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

U.S. Bans Russian Securities

The U.S. Treasury Department (specifically, the Office of Foreign Assets Control) recently issued guidance clarifying the Presidential executive orders that were signed earlier this year regarding the purchase of Russian securities. The guidance noted that U.S. investors cannot purchase new securities or add to existing holdings of both debt and equities issued by an entity in the Russian Federation. However, U.S. investors are not required to sell or divest their current holdings. Additionally, U.S. investors are allowed to purchase shares in commingled trusts or mutual funds that continue to hold Russian securities if these securities don't represent a predominant position of assets in the portfolio.

As result of this guidance, institutional investors need to confirm that their investment managers are compliant with this guidance and understand how their investment managers are handling Russian securities, if any are owned. Over the last few months there have been liquidity issues and trading restrictions for investors which have created complications. Aon Investments USA Inc. can help committees understand if there is exposure to their portfolios that need to be addressed.

The Land of Missing Balances

As discussed in the **Second Quarter 2021** issue of our *Quarterly Update*, the Department of Labor (DOL) issued guidance in early 2021 regarding fiduciary best practices for locating missing participants. The flipside to having missing participants is that participants may have vested balances in their 401(k) plans that possibly have been left behind at prior employers. In a recent white paper issued by Capitalize, a financial services company, they estimated that as of May 2021, there were 24.3 million forgotten 401(k) accounts in the U.S., with $1.35 trillion of assets (representing 20% of the $6.7 trillion total assets in 401(k) plans.[1]

What can fiduciaries do to help solve this issue beyond following the DOL's best practices? Often recordkeepers will help by reaching out to new hires (or newly eligible employees) to remind these participants that they may be able to roll over the balance in their prior employer's plan into their new plan. But this is often a one-and-done communication. Plan fiduciaries may want to consider more frequent communications or reminders that a rollover option is available, and that in the long run, participants may be better off if their account balances are consolidated in one place. Also reminding the participants that they are likely paying administrative fees in their "old" accounts may be an incentive to get their attention.

Consider targeting participants who are more established in their careers (age 40 and over) but have been working with your organization for less than five years, or more senior participants who have been working with your organization for over 15 years but didn't start until they were in their 40s or 50s. Many of these employees may have balances in their prior employers' plans. Other participants to target may be those who were part of an acquisition, whose balances were not automatically transferred into your plan. These participants are the ones who likely have 401(k) plan balances elsewhere—and they just need that reminder that a rollover is possible and easy to facilitate. Getting rollover monies into your plan will not only help these participants but may help the plan overall—the more assets in the plan the more options fiduciaries may have to offer lower-cost investment funds/vehicles. This not only benefits those participants who rolled over their balances but also benefits all participants in the plan.

If participants aren't sure if they have retirement money in an old plan, you can refer them to their prior employer's human resources department, the prior employer's plan recordkeeper, the National Registry of Unclaimed Retirement Benefits, or the National Association of Unclaimed Property Administrators' database. Your participants will thank you for reminding them that they may have accounts that had ended up in the "Land of Missing Balances!"

Aon's defined contribution plan consultants are available to discuss strategies for addressing missing participants and facilitating communications to existing plan participants.

Saver's Credit—Can It Save Your Employees More Money?

The "Saver's Credit" was established under the Economic Growth and Tax Reconciliation Relief Act of 2001 and made permanent in the Pension Protection Act of 2006. However, it's a piece of legislation that gets little press—perhaps because it benefits low- to moderate-income earners, rather than higher-paid individuals. Even though it seems to get very little attention, it can actually save certain employees money by reducing their federal income taxes. A recent survey issued by the Transamerica Center for Retirement Studies found that while awareness of the Saver's Credit has increased from 23% in 2007 to 48% in 2021, and the number of tax filers claiming the Saver's Credit increased from 5.9 million in 2007 to 6.2 million in 2021, there are still a great many employees who are not taking advantage of this tax savings.[2]

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[1] Capitalize, *The True Cost of Forgotten 401(k) Accounts*, June 2, 2021

[2] Transamerica Center for Retirement Studies, *22nd Annual Transamerica Retirement Survey*, April 2022

Single federal income tax filers or those married filing jointly with 2022 adjusted gross income of up to $34,000 or $68,000, respectively, who are contributing to a 401(k) (or similar) plan or IRA (other than rollover contributions) may be able to take advantage of the Saver's Credit. These employees have an opportunity to lower their federal income taxes by 50%, 20%, or 10% of the amount of their salary deferrals or voluntary after-tax employee contributions, depending on their income level.

Plan sponsors may want to consider a targeted communication campaign to alert the low- to moderate-income earners of this additional way to save money, especially in these difficult economic times. Providing real-life examples and using specific income levels (rather than terms like low- to moderate-income levels) may grab employees' attention and allow them to take advantage of this tax savings opportunity.

Investment Manager Must Face DOL's 401(k) Plan Lawsuit

A federal judge in the U.S. District Court for the Southern District of New York recently denied a motion to dismiss a lawsuit brought by the DOL against an investment manager and the fiduciaries of a corporate-sponsored profit sharing plan. The profit sharing plan investments were managed by Ruane Cunniff & Goldfarb, Inc. using a concentrated, low turnover strategy. One of the stocks held in the plan plummeted in value causing significant losses over a two-year period. While the investment manager had investment discretion regarding plan assets, the fiduciary committee was aware of the investment strategy and concentration of holdings.

The complaint alleges that the defendants violated their fiduciary duties of diversification, loyalty, and prudence by inadequately diversifying investments.[3] Of specific concern was that one of the individual stocks held by the plan represented approximately 45% of the portfolio prior to collapsing. Additionally, the fiduciaries allegedly did not follow the plan document by failing to have a written investment policy statement as well as failing to monitor the investment advisor. It is also noteworthy that in this case, the DOL is the plaintiff suing for the breach of fiduciary duty and also has raised claims against the employer along with individual members of the employer's retirement plan and compensation committee. There are other plaintiff claims against the employer and plan fiduciaries.

While this case will proceed, it is important to remember that fiduciaries have a duty to diversify assets, follow the plan document, and monitor service providers consistent with their obligations under the Employee Retirement Income Security Act of 1974 (ERISA). Aon Investments USA Inc. can help fiduciary and investment committees with evaluating their plan governance processes and other aspects of meeting their fiduciary obligations. *Walsh v. Ruane Cunniff & Goldfarb, Inc., 19-CV-9302 (ALC) (S.D.N.Y. Mar. 28, 2022).*

Fiduciary Follies

Aon Investments USA Inc. offers fiduciary training sessions for retirement plan committees to help them become fully familiar with their fiduciary obligations. Within the context of our training, we note that there is little risk in being a good fiduciary; rather, the risk lies in being a bad fiduciary. Below are examples of consequences that were levied against companies and/or fiduciaries as the result of a fiduciary breach.

- **Missing Contributions.** Bicallis, LLC and its owner did not forward employees' payroll deductions or employer matching contributions to the plan from October 2017 through December 2019. The court ordered the company and owner to restore more than $150,000 in missing contributions and earnings to the plan; and the company and its owner have been barred from serving as a plan fiduciary in the future. The court also appointed an independent fiduciary to administer the plan. *Hererra v. Bicallis, LLC et al., 1:2021cv01746 (D. Md. July 13, 2021).*
- **Failure to Monitor Stock Value.** Kurt Manufacturing Co. failed to monitor the determination of the value of the employer stock and overpaid for shares of the company's employee stock ownership plan (ESOP) in 2011. The U.S. District Court ordered the trustee to restore $8.4 million to the plan and pay a penalty of over $800,000 for violating ERISA. Board members and senior executives of the company were ordered to pay a penalty of over $200,000; and senior executives are barred from serving as fiduciaries to the ESOP and other retirement plans in the future. *Walsh v. Reliance Trust Co. et al., 17-CV-04540 (SRN/ECW) (D. Minn. Jan. 5, 2022).*

If you would like to schedule fiduciary training for your committee or your executives, please contact your Aon consultant.

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, among others. 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 corporations, universities, and other institutions have been dismissed (in full or in part) or settled, including cases involving: Coca-Cola Consolidated Inc. (settled for $3.5M and other remedies); John Hancock (dismissed); Seventy Seven Energy Inc. (settled for $15M); Washington University (settled for $7.5M and other remedies); and Wells Fargo & Co. (settled for $32.5M).

[3] Diversification does not ensure a profit, nor does it protect against loss of principal. Diversification among investment options and asset classes may help to reduce overall volatility.

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. To the extent helpful, Aon has a team that can review your plan governance as it applies to plan fees, investments, and decision-making processes.

New Retirement Plan Cases

Retirement plan cases continue to be filed and, in many cases, proceed to trial. 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 fee cases this quarter were brought against Clean Harbors Environmental Services, Inc.; DaVita Inc.; DENSO International America, Inc.; Grifols Shared Services North America, Inc.; NFP Retirement, Inc.; O'Reilly Automotive, Inc.; and Reyes Holdings, LLC. In addition, cases were filed against International Business Machines Corp. (mortality tables); Horizon Actuarial Services, LLC (data breach); United Airlines, Inc. (retirement benefits); and United Parcel Service of America, Inc. (retirement benefits). Lastly, a non-ERISA lawsuit was filed against Newport Group, Inc.; Symetra Financial Corp.; and the African Methodist Episcopal Church and others for mismanagement of plan assets.

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

Please see the applicable Disclosures and Disclaimers on page 13.

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Appendix

Empower Results®

Economic highlights

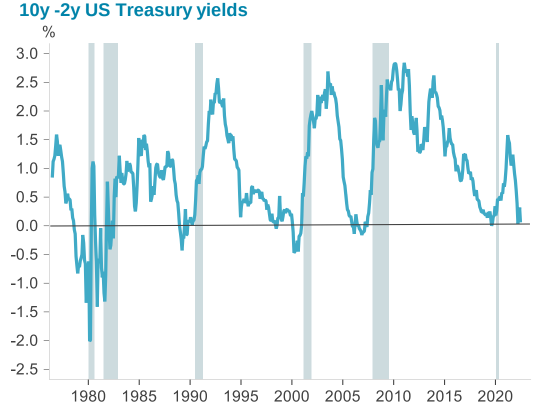
In Q2 2022 capital markets were dominated by geopolitical uncertainty and higher interest rates amidst soaring inflation. U.S. CPI inflation remained at a 40-year high as it rose by 8.6% in May, whilst inflation hit multi-decade highs across the G7. Globally, major central banks continued to move forward with normalizing easy monetary policy. The U.S. Federal Reserve (Fed) increased its benchmark interest rate by 75bps to a range of 1.50-1.75%, the largest rate increase since 1994. Fed chair Jay Powell indicated that a rate hike of 50bps or 75bps is also imminent at the July meeting.

The Bank of England increased its benchmark interest rate for the second time this quarter, with the policy rate sitting at 1.25%, its highest level in 13 years. The ECB has moved closer to beginning monetary policy tightening as well.

We now think that a global recession is probable at some point over the coming year. Meanwhile, we believe that inflation will peak this year in the developed world but will remain uncomfortably high for a period, gradually trending down towards 3% by the end of next year. The U.S. looks to be a little ahead in this peaking process than other countries at the moment.

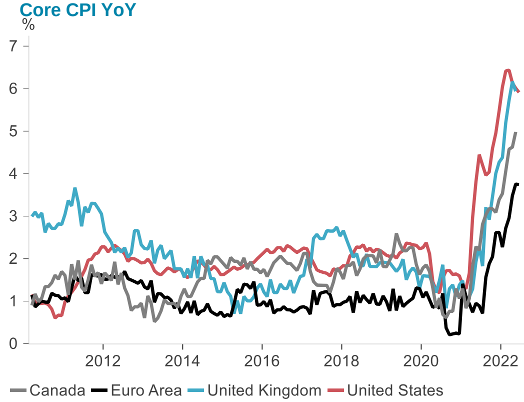
US yield curve flattening pointing to a significant slowdown in the economy

10y -2y US Treasury yields

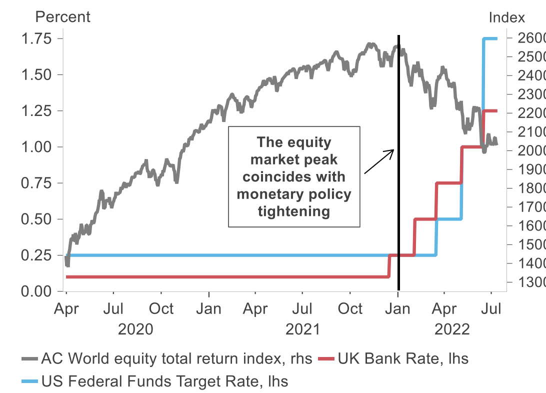


Headline inflation is still accelerating but some peaking in US core rates

Core CPI YoY



Expectations of monetary tightening have accelerated as markets have fallen



Source: Macrobond

Economic highlights

USA

- US GDP contracted by 1.6% (quarter-over-quarter annualized) in Q1, following strong growth in the previous quarter. The major driver of the contraction was a significant trade deficit, but inventory accumulation also lagged due to ongoing supply chain issues. However, domestic demand excluding these elements continued to be strong. Meanwhile, consumer confidence fell back precipitously over the quarter and the ISM measures of activity are also reflecting a slowdown over Q2.
- US annual headline inflation rose by 9.1% in June, which was stronger than expected, whilst core inflation rose at a 0.7% monthly rate. Re-accelerating energy prices were an important factor in this continued inflation pressure, but there was also a 0.7% monthly increase in services inflation, which signifies a broadening out of inflation.
- The Federal Reserve accelerated its monetary policy tightening programme by raising the Fed Funds Rate by 75bps in the June meeting – the biggest rate hike in one meeting since 1994. Furthermore, Fed members are expecting several further aggressive rate hikes this year as their concern over entrenched inflation grows.

Non-US Developed

- Eurozone GDP grew by a better than expected 0.6% on the quarter in Q1, but French and Scandinavian economic activity contracted. Meanwhile, inflation hit a record high in May of 8.1% from 7.4% in the previous month. Rising prices were seen in a broad range of categories, implying that the inflation problem is no longer only being driven by high energy and food prices. The ECB, who has been reluctant to begin tightening monetary policy for much of this year, has started to alter their view. President Lagarde signalled that the central bank might raise rates by 50bps in September "if the inflation outlook persists or deteriorates", in addition to a planned 25bps hike in July
- Japanese core inflation excluding fresh food hit 2.1% in April and May, due to energy prices, but the BoJ continues to be focused on avoiding deflation and are not yet ready to tighten policy.
- UK GDP grew by 0.8% in Q1, but the monthly activity indicators have been hinting at a gathering slowdown as inflation hit a 40-year high of 9.1% in May. The BoE raised rates twice in successive meetings over the quarter and now expects a recession over the coming year.

Emerging Markets

- Chinese GDP grew by 4.8% in Q1 but the main focus over the quarter was ongoing strict lockdowns as the government continued to pursue a zero-Covid policy. Towards the end of Q2, the monthly activity indicators revealed a rebound as lockdown restrictions began to be lowered. The government's purchasing managers' index rose to 50.2, for example, which is the first time that growth was indicated by the measure since February.
- The supply chain disruptions and high energy prices caused by Chinese lockdowns and the conflict in Ukraine are creating mounting headwinds across the major emerging market economies, but activity has not been as severely affected by rising US interest rates as was seen in the taper tantrum of 2013.
- Nonetheless, many emerging market currencies have been falling sharply this year due to those headwinds and a stronger U.S. dollar. This process will likely continue this year as the Fed remains aggressive and the risk of currency crises cannot be ignored as the global economy moves towards recession.

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

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