Nevada System of Higher Education

Third Quarter 2020 Discussion Guide

November 13, 2020

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Discussion Topics

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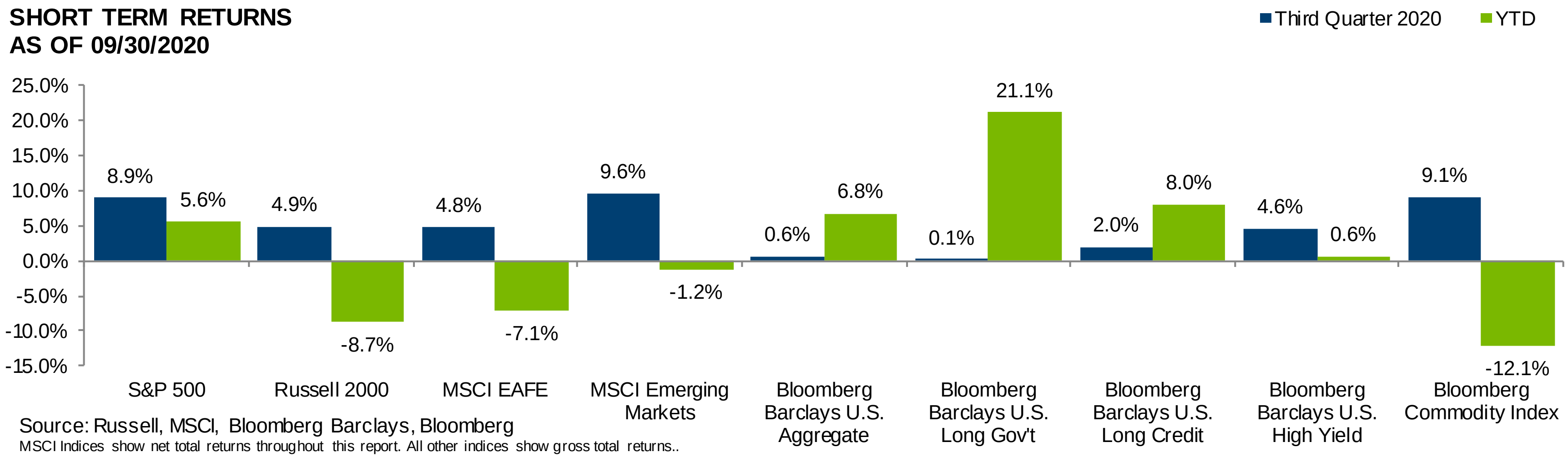
Discussion Topics

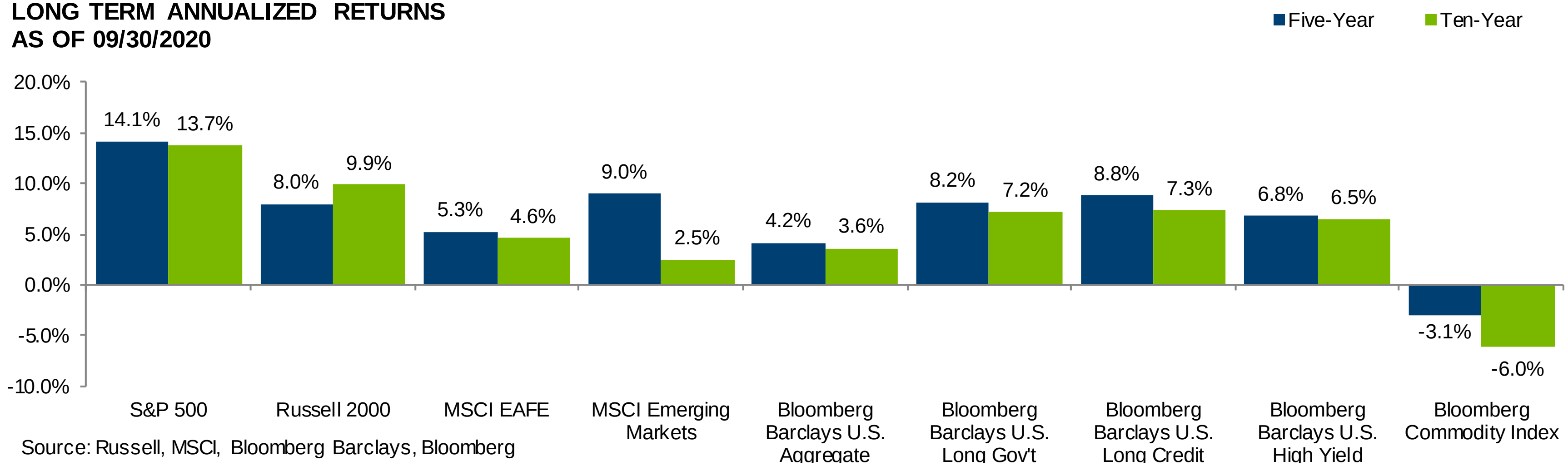
Market Highlights

SHORT TERM RETURNS
AS OF 09/30/2020



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

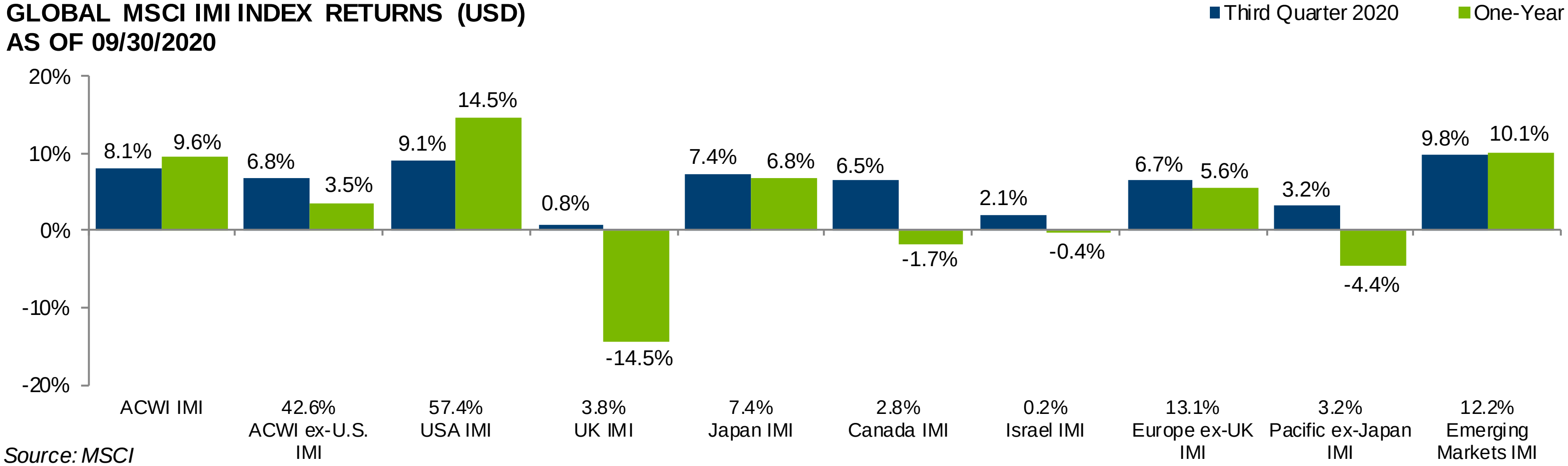
LONG TERM ANNUALIZED RETURNS
AS OF 09/30/2020



Source: Russell, MSCI, Bloomberg Barclays, Bloomberg

Global Equity Markets

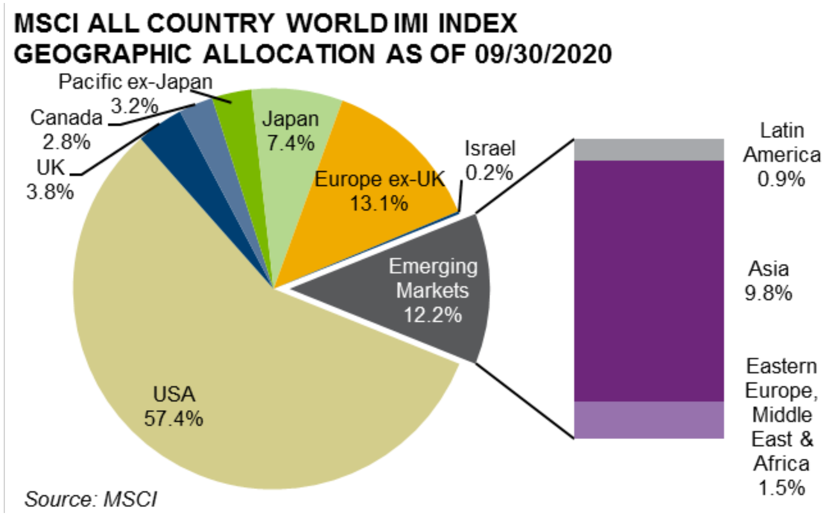
GLOBAL MSCI IMI INDEX RETURNS (USD)
AS OF 09/30/2020



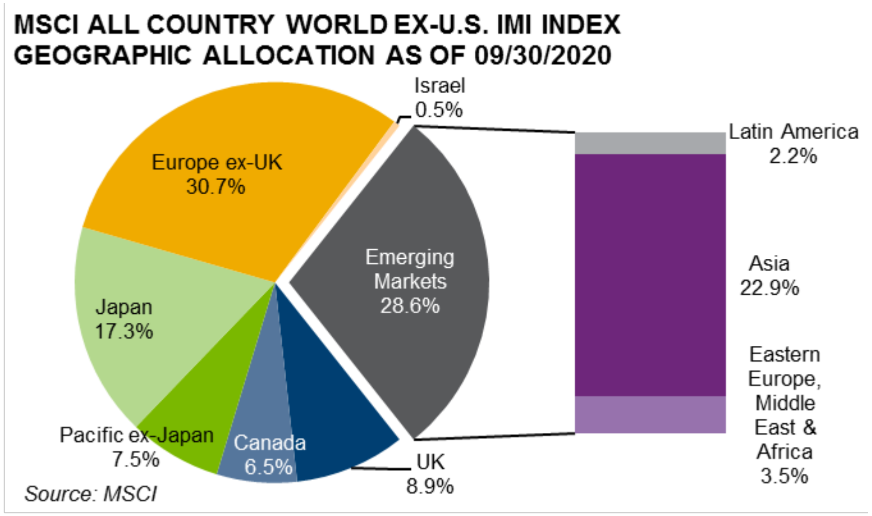
Source: MSCI

- Global equities continued their rebound during the third quarter as they broke through their pre-pandemic all time highs in early September. This performance was supported by optimism over progress in COVID-19 vaccine trials and supportive monetary and fiscal policies. However, rising fears of a second wave coronavirus outbreak and failure to agree to further fiscal stimulus reversed some of the equity market's gains, bringing the MSCI AC World Investable Market Index's local currency return over the quarter to 6.9%. Depreciation of the U.S. dollar further pushed up the returns to 8.1% in USD terms.
- Emerging Markets equities were the strongest performers with a return of 9.8% over the quarter, supported by strong returns from the consumer discretionary and information technology sectors. Chinese equities continued their strong performance, boosted by the government's successful containment of COVID-19, despite increasing U.S.-China tensions.
- UK equities were the worst performer, returning 0.8% over the quarter. The UK's economy contracted by 19.8% during the second quarter, the worst Q2 contraction of any major developed economy. Heightened Brexit uncertainty also weighed on UK equities, as trade negotiations continue ahead of the end of the transition period in December.

Global Equity Markets



- The two exhibits on this slide illustrate the percentage that each country/region represents of the global and international equity markets as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index, respectively.



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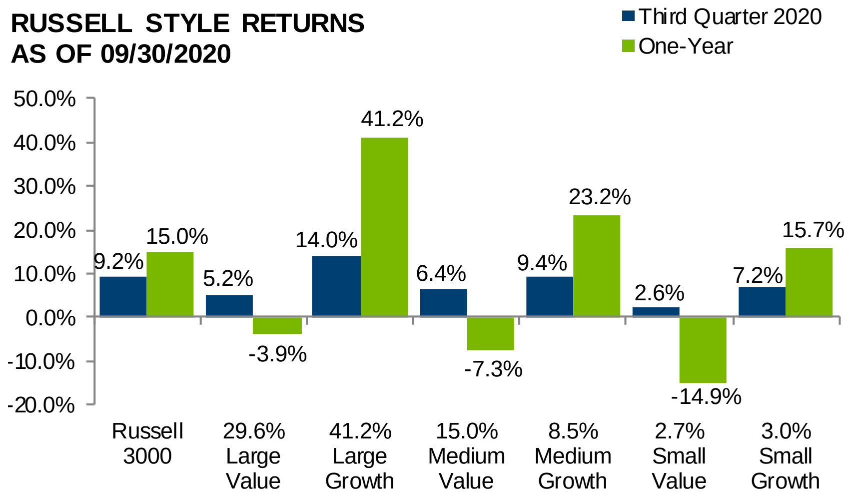
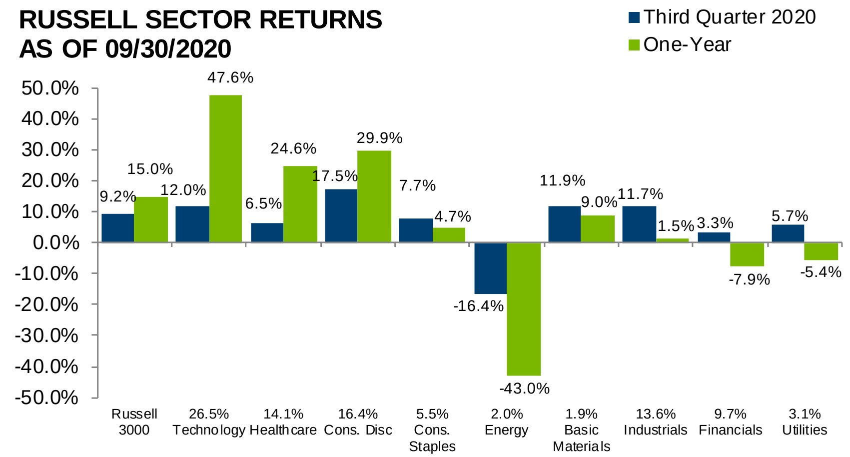
U.S. Equity Markets



Source: Russell Indexes



Source: Russell Indexes. Russell introduced Telecommunications and Real Estate as new sectors on 09/30/2020. Returns for the new sectors have been excluded due to the lack of historical data.

- U.S. equities ended the quarter above the pre-pandemic high set in February 2020, as rebounding economic data and strong performances from big tech stocks continued to push equity markets higher. The U.S. unemployment rate fell to 8.4% in August, down from April's all-time high of 14.7%, with jobless claims data suggesting that over half of the jobs lost since the start of the pandemic have now been recovered. However, an acrimonious election campaign ahead of November's presidential election and deadlocked congressional negotiations over a new fiscal stimulus package cast a shadow over the market. The Russell 3000 Index rose 9.2% during the third quarter and 15.0% over the one-year period.
- Except for energy, all sectors generated positive returns during the quarter. Consumer discretionary was the best performing sector with a return of 17.5% while the energy sector fell by 16.4%.
- Small cap stocks underperformed both large and medium cap stocks over the quarter, whilst value stocks continued to underperform their growth counterparts during the third quarter.

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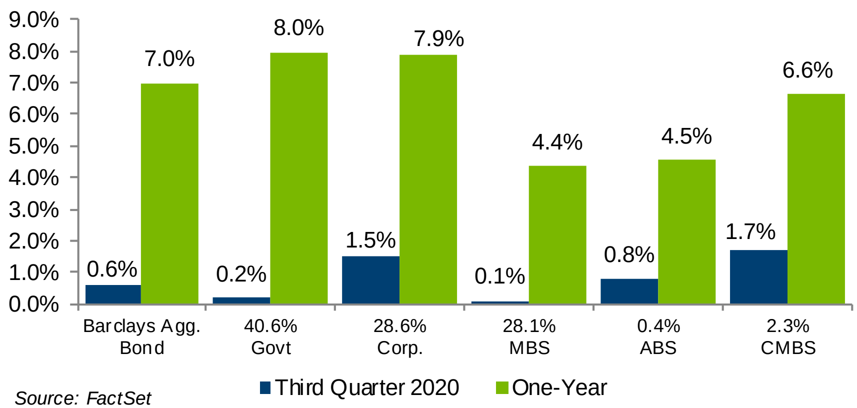
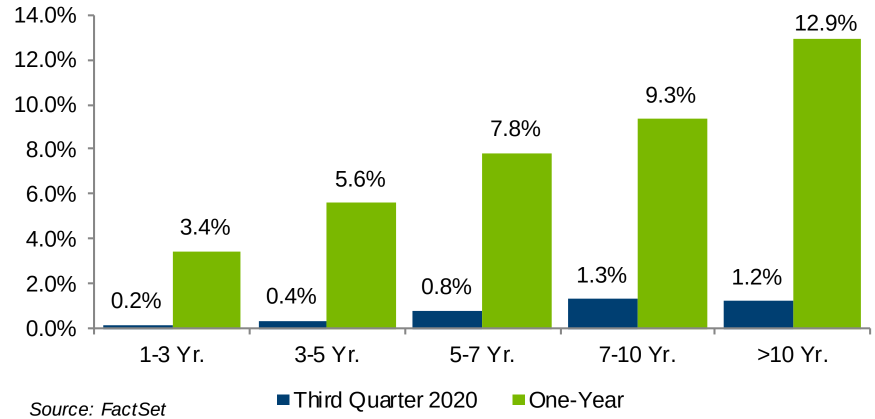
U.S. Fixed Income Markets

BLOOMBERG BARCLAYS AGGREGATE RETURNS BY SECTOR AS OF 09/30/2020



Source: FactSet

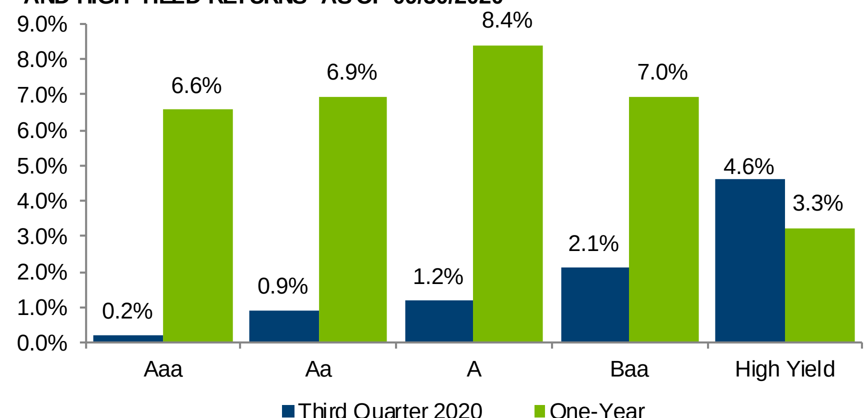
BLOOMBERG BARCLAYS AGGREGATE RETURNS BY MATURITY AS OF 09/30/2020



Source: FactSet

- The Bloomberg Barclays U.S. Aggregate Bond Index rose by 0.6% during the third quarter.
- CMBS bonds were the best performer during the third quarter with a return of 1.7%, followed by corporate bonds which rose by 1.5%.
- Bonds with 7-10 year maturities performed the best during the third quarter with a return of 1.3%.
- The Federal Reserve (Fed) continued to buy corporate bonds through its $750 billion corporate lending facility, ensuring that demand remains high
- High yield bonds rose by 4.6%. Within investment grade bonds, Baa bonds outperformed with a return of 2.1%.

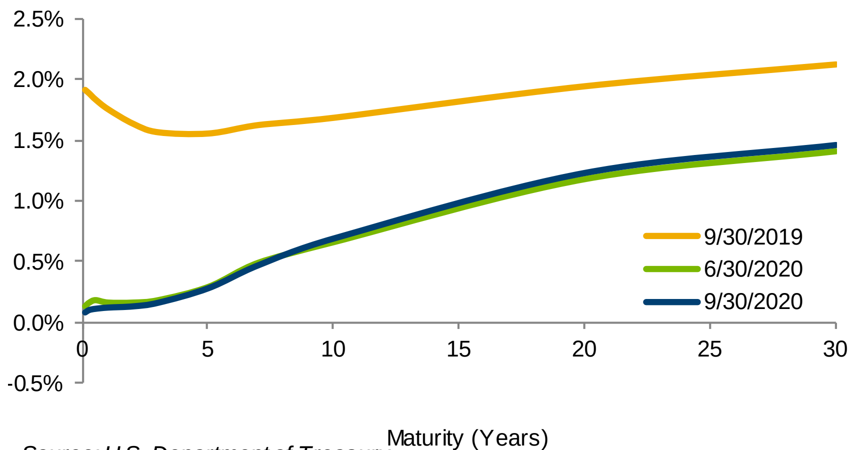
BLOOMBERG BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS AS OF 09/30/2020



Source: FactSet

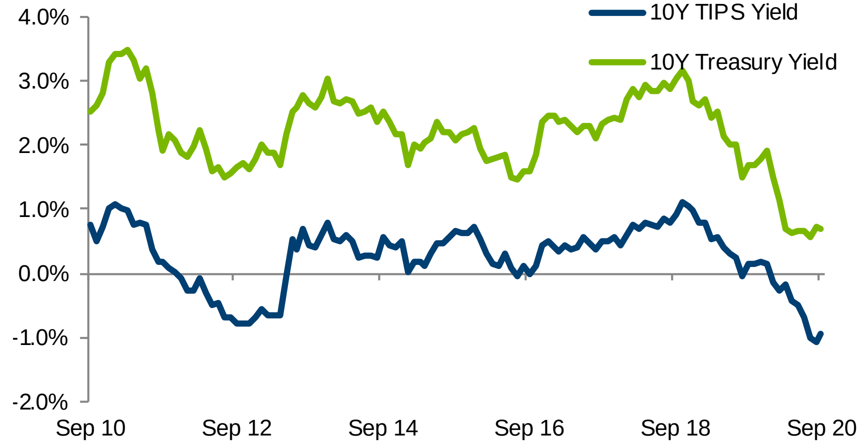
U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



Source: U.S. Department of Treasury

U.S. 10-YEAR TREASURY AND TIPS YIELDS



Source: U.S. Department of Treasury

- The U.S. nominal yield curve slightly steepened over the quarter, but overall yields were broadly unchanged. The U.S. Federal Reserve projected that it would keep interest rates near zero until at least 2023.
- During the quarter, the Fed announced a major policy shift by adopting an “average inflation targeting” approach. Under this new approach the Fed will seek an average of 2.0% inflation over time by allowing inflation to run above the target to make up for periods where inflation ran below the target. Since inflation has recently run below the target, a period of higher inflation could be tolerated under the approach without the Fed having to tighten monetary policy.
- The 10-year U.S. treasury yield ended the quarter 3 bps higher at 0.69% and the 30-year yield increased by 5 bps to 1.46%.
- The 10-year TIPS yield fell by 26 bps over the quarter to -0.94%. Breakeven inflation rose across the curve, with the short end rising by a greater extent. The Fed’s new “average inflation targeting” approach, the continued relaxation of lockdown measures and the anticipation of further fiscal stimulus raised inflationary expectations over the quarter.

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Credit Spreads

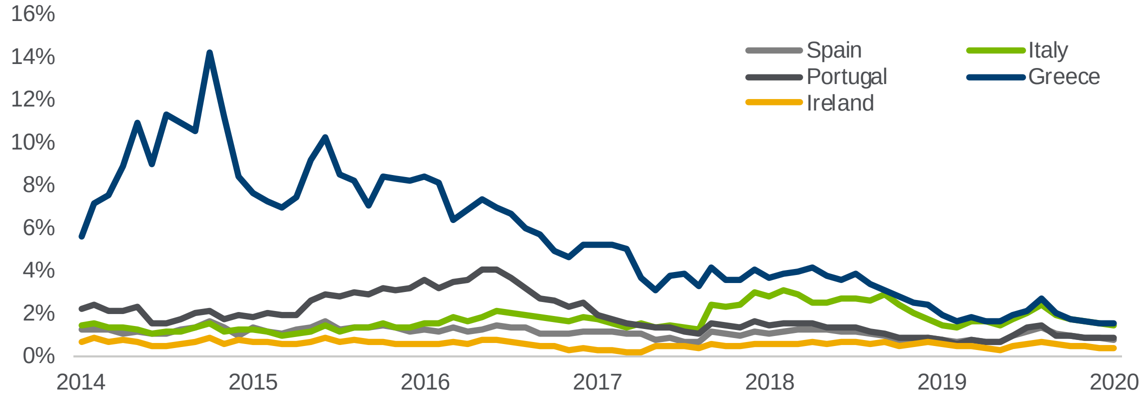
Spread (bps)	09/30/2020	06/30/2020	09/30/2019	Quarterly Change (bps)	One-Year Change (bps)
U.S. Aggregate	60	68	46	-8	14
Long Govt	0	1	1	-1	-1
Long Credit	188	202	167	-14	21
Long Govt/Credit	111	120	95	-9	16
MBS	61	70	46	-9	15
CMBS	106	132	70	-26	36
ABS	41	68	37	-27	4
Corporate	136	150	115	-14	21
High Yield	517	626	373	-109	144
Global Emerging Markets	334	393	312	-59	22

Source: FactSet, Bloomberg Barclays

- Credit markets generally performed well as spreads continued to fall, especially in the riskier credit areas. However, like equity markets, growing concerns over rising COVID-19 cases and uncertainty with regards to the next round of fiscal stimulus caused spreads to widen in September. Overall, credit spreads over U.S. treasuries narrowed over the quarter.
- Riskier areas of credit, such as U.S. high yield bonds and emerging market debt, performed the best. High yield credit spreads narrowed significantly in Q3 2020, decreasing by 109 bps, whilst global emerging markets spreads narrowed by 59 bps during the third quarter of 2020.

European Fixed Income Markets

EUROZONE PERIPHERAL BOND SPREADS (10-YEAR SPREADS OVER GERMAN BUNDS)

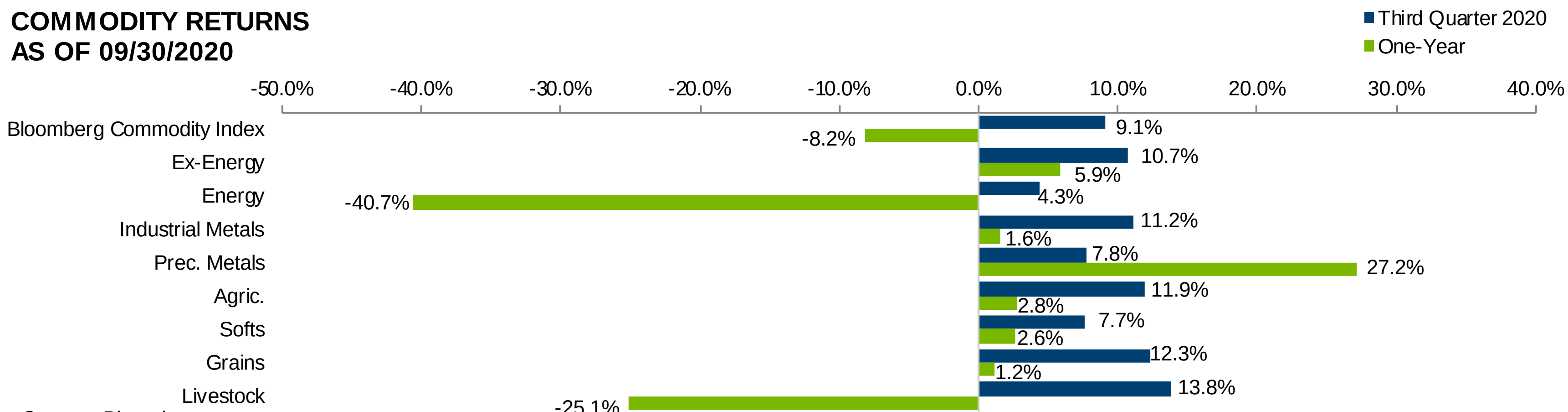


Source: FactSet

- European government bond spreads over 10-year German bunds continued to narrow across the Euro Area. European Union leaders struck a deal on a €750 billion coronavirus recovery package, which the European Commission will fund by borrowing in the capital markets for the first time. Elsewhere, the Eurozone witnessed a second consecutive month of deflation, putting pressure on the European Central Bank to allow inflation to overshoot its target in the future.
- German bund yields fell by 5 bps to -0.53% during the quarter. In Q2 2020 the Eurozone economy suffered the sharpest drop in growth since its inception, with GDP contracting by 12.1% on a quarter-on-quarter basis. Spain, which is one of the worst hit countries by the COVID-19 pandemic, was the worst performing major Eurozone economy over the quarter as it contracted by 18.5%.
- Italian government bond yields fell the most at 37bps to 0.87%, whereas Spanish and Portuguese government bond yields fell by 22bps and 21bps to 0.25% and 0.26%, respectively.

Commodities

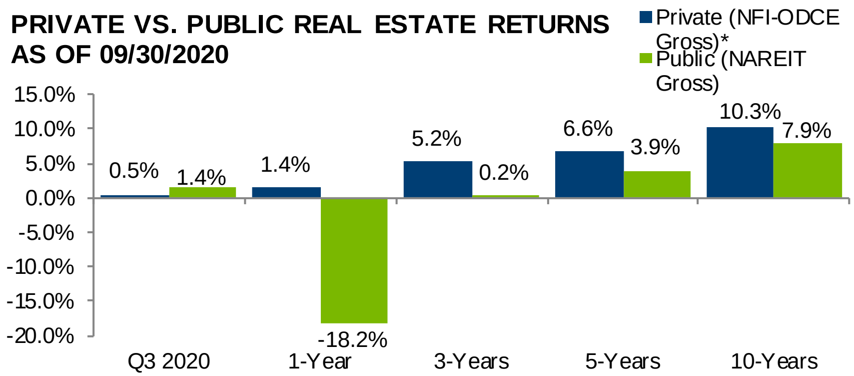
COMMODITY RETURNS
AS OF 09/30/2020



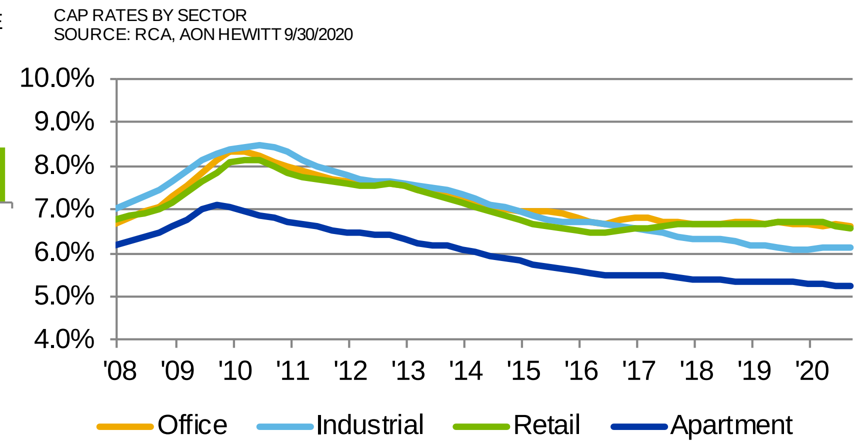
Source: Bloomberg
Note: Softs and Grains are part of the wider Agriculture sector

- Commodities started the quarter off strong before falling back in tandem with equity markets in September. Despite the poor performance in September, the Bloomberg Commodity Index returned 9.1%.
- The energy sector rose by 4.3% during the quarter. Oil had another turbulent quarter with prices seeming to stabilize in July and August as OPEC agreed to scale back its production cuts from 9.7 million barrels per day to 7.7 million barrels per day until the end of the year. However, WTI crude prices fell by 5.6% in September as OPEC reduced its demand expectations for the rest of 2020 to 90.2 million barrels per day as global coronavirus cases continued to grow.
- The price of Brent crude oil fell by 0.5% to $40.9/bbl. whilst WTI crude oil spot prices rose by 2.4% to $40.2/bbl. On a one-year basis, the energy sector is down by 40.7%.
- Livestock was the best performing sector, rising by 13.8% during the third quarter of 2020.

U.S. Commercial Real Estate Markets



**Third quarter returns are preliminary*
Sources: NCREIF, FactSet

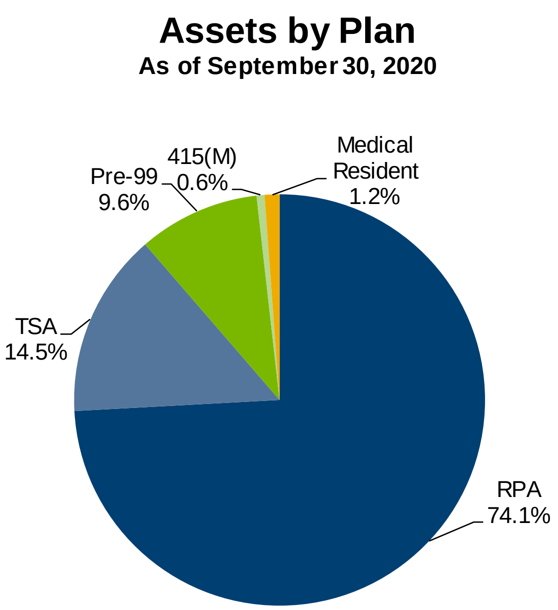


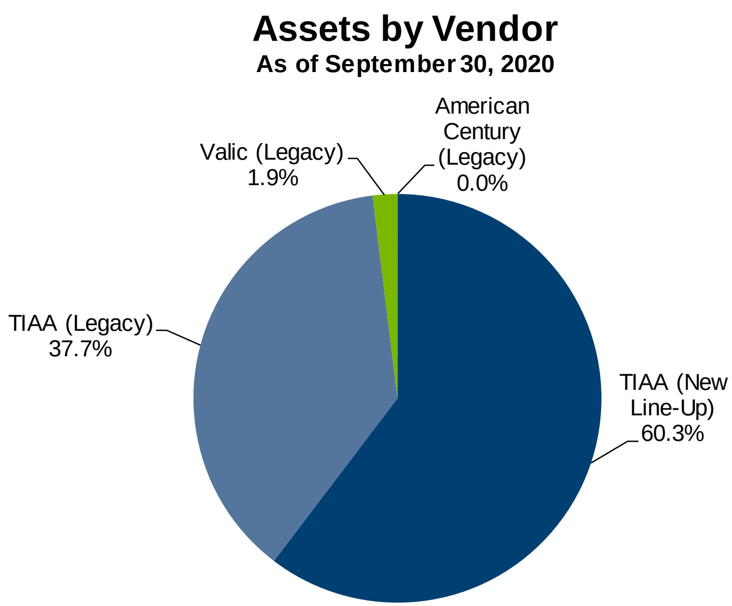
- U.S. Core Real Estate returned 0.48%* over the third quarter, equating to a 1.4% total gross return year-over-year, including a 4.0% income return. Shelter in place orders and social distancing practices have most severely impacted the retail and hotel property sectors. Property valuations have begun to price in the loss of cash flow as a result of COVID-19. Transaction volume has contracted -57% YoY through Q3 2020, and price discovery continues to be limited.
- Global property markets, as measured by the FTSE EPRA/NAREIT Developed Real Estate Index, returned 2.3% (USD) in aggregate during the third quarter and experienced a cumulative decline of -19.1% YTD. REIT market performance was driven by Asia Pacific (2.0% USD), North America (0.9% USD) and Europe (3.1% USD). The U.S. REIT markets (FTSE NAREIT Equity REITs Index) returned 1.4% in the third quarter. The U.S. 10-year treasury bond yields rose by 3bps to 0.69% during the quarter.
- The coronavirus fueled market volatility in the stock and bond markets has created a situation of uncertainty for private real estate pricing. Public markets are searching for the right pricing level in light of the global pandemic, and how it will affect the regional and global economies. Implied volatility continues to signal elevated levels of uncertainty concerning public market implied valuations. Considering this situation, we are recommending that investments with pre-specified assets be postponed. Private market transactions based on appraisal valuations lag the most current information, and they do not fully reflect the current market conditions.
- We are proactively evolving our investment strategy. In the post-coronavirus world, supply chains may move back to North America which will require corresponding real estate infrastructure. Demand for last mile logistics, already a key investment theme, will accelerate. Live and work preference changes will create opportunities. Interest rates are likely to remain lower for even longer, making real estate a very compelling alternative to fixed income investments.
- Blind pool funds offer a potential to have capital available when the new opportunity set presents itself. Those strategies need careful review in light of the changing market dynamics. Strategies that worked previously in a growth-oriented market may not be appropriate for what may be more opportunistic style investing. Regions, countries and property types all need to be reevaluated.

*Indicates preliminary NFI-ODCE data gross of fees

Discussion Topics

Asset Allocation





As of 9/30/2020

Plan	RPA		TSA		Pre-99		415(M)		Medical Resident		Total	
	$	%	$	%	$	%	$	%	$	%	$	%
TIAA (New Line-Up)	$ 1,767,810,569	64.7%	$ 361,762,351	67.7%	$ 40,827,779	11.6%	$ 21,459,760	93.5%	$ 32,427,830	75.2%	$ 2,224,288,289	60.3%
TIAA (Legacy)	$ 922,786,611	33.8%	$ 154,104,746	28.8%	$ 311,131,768	88.3%	$ 1,494,051	6.5%	$ 155,936	0.4%	$ 1,389,673,112	37.7%
Valic (Legacy)	$ 42,237,696	1.5%	$ 18,813,828	3.5%	$ -	0.0%	$ -	0.0%	$ 10,527,709	24.4%	$ 71,579,233	1.9%
American Century (Legacy)	$ -	0.0%	$ -	0.0%	$ 343,731	0.1%	$ -	0.0%	$ -	0.0%	$ 343,731	0.0%
Total	**$ 2,732,834,876**	**100.0%**	**$ 534,680,925**	**100.0%**	**$ 352,303,278**	**100.0%**	**$ 22,953,811**	**100.0%**	**$ 43,111,476**	**100.0%**	**$ 3,685,884,366**	**100.0%**
Other Assets*											$ 1,718,078	0.0%
Grand Total	**$ 2,732,834,876**	**74.1%**	**$ 534,680,925**	**14.5%**	**$ 352,303,278**	**9.6%**	**$ 22,953,811**	**0.6%**	**$ 43,111,476**	**1.2%**	**$ 3,687,602,444**	**100.0%**

*Other Assets includes Loans and TIAA-CREF Money Market.

Source: TIAA

Tier I(a) Watch List

Tier I (a)

	1. Underperformed During Trailing 5 Years	2. Underperformed in 3 of 4 Trailing Calendar Quarters	3. Diverged from Strategy and/or Portfolio Characteristics	4. Adverse Change in Portfolio Manager	5. Weak Manager Research Rating	6. Significant Organizational Change	Watch List Status			
							3rd Quarter 2020	2nd Quarter 2020	1st Quarter 2020	4th Quarter 2019
Vanguard Target Retirement Income Trust Plus	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2015 Trust Plus	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2020 Trust Plus	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2025 Trust Plus	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2030 Trust Plus	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2035 Trust Plus	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2040 Trust Plus	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2045 Trust Plus	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2050 Trust Plus	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2055 Trust Plus	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2060 Trust Plus	No	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2065 Trust Plus*	No	No	No	No	No (Buy)	No				

Negative tracking of greater than 0.2% constitutes underperformance for the Plan's target date retirement funds.

- **Notes on Table:** Changes in Watch List designations from the previous quarter are highlighted in red.
- **Yellow-Level Watch List.** An investment fund goes on the Watch List with a yellow designation when two of the above occur, or when item numbers 4, 5, or 6 occur.
- **Orange-Level Watch List**. An investment fund goes on the Watch List with an orange designation when it has been on the yellow watch list for two consecutive quarters or when three of the above occur.
- **Red-Level Watch List.** An investment fund goes on the Watch List with a red designation when it has been on the orange watchlist for two consecutive quarters or when four of the above occur. When an investment fund is placed on the Watch List with a red designation, a formal fund review will be conducted and a recommendation for action will be made.

* Since-inception returns were used since this fund does not have a trailing five-year return.

Tier I Watch List

Tier I

	1. Underperformed During Trailing 5 Years	2. Underperformed in 3 of 4 Trailing Calendar Quarters	3. Diverged from Strategy and/or Portfolio Characteristics	4. Adverse Change in Portfolio Manager	5. Weak Manager Research Rating	6. Significant Organizational Change	Watch List Status			
							3rd Quarter 2020	2nd Quarter 2020	1st Quarter 2020	4th Quarter 2019
Vanguard Target Retirement Income - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2015 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2020 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2025 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2030 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2035 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2040 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2045 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2050 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2055 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2060 - Instl.	Yes	No	No	No	No (Buy)	No				
Vanguard Target Retirement 2065 - Instl.*	Yes	No	No	No	No (Buy)	No				

Negative tracking of greater than 0.2% constitutes underperformance for the Plan's target date retirement funds.

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* Since-inception returns were used since this fund does not have a trailing five-year return.

Tier II Watch List

Tier II

	1. Underperformed During Trailing 5 Years	2. Underperformed in 3 of 4 Trailing Calendar Quarters	3. Diverged from Strategy and/or Portfolio Characteristics	4. Adverse Change in Portfolio Manager	5. Weak Manager Research Rating	6. Significant Organizational Change	Watch List Status			
							3rd Quarter 2020	2nd Quarter 2020	1st Quarter 2020	4th Quarter 2019
Vanguard Total Bond Market Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Total International Bond Index Fund	Yes	No	No	No	No (Buy)	No				
Vanguard Total Stock Market Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Institutional Index Fund	No	No	No	No	No (Buy)	No				
Vanguard FTSE Social Index Fund	Yes	No	No	No	No (Buy)	No				
Vanguard Extended Market Index Fund	No	No	No	No	No (Buy)	No				
Vangaurd Total International Stock Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Developed Market Index Fund	Yes	No	No	No	No (Buy)	No				
Vanguard Emerging Markets Stock Index Fund	No	No	No	No	No (Buy)	No				
Vanguard Federal Money Market Fund	Yes	No	No	No	No (Buy)	No				
T. Rowe Price Stable Value Common Trust Fund A	Yes	Yes	No	No	No (Buy)	No				
TIAA Traditional - RC	No	No	No	No	No (Buy)	No				
TIAA Traditional - RCP	No	No	No	No	No (Buy)	No				
PIMCO Total Return Fund	No	No	No	No	No (Buy)	No				
DFA Inflation-Protected Securities	No	No	No	No	No (Buy)	No				
American Century High Income	Yes	No	No	No	No (Buy)	No				
T. Rowe Price Instl. Large Cap Growth Fund	No	No	No	No	No (Buy)	No				
Diamond Hill Large Cap	No	No	No	No	No (Buy)	No				
William Blair Small/Mid Cap Growth Fund	No	Yes	No	No	No (Buy)	No				
DFA U.S. Targeted Value	Yes	No	No	No	No (Buy)	No				
Dodge & Cox Global Stock Fund	Yes	No	No	No	No (Buy)	No				
Harding Loevner International Equity Instl.	No	Yes	No	No	No (Buy)	No				
MFS International Value Fund	No	No	No	No	No (Buy)	No				
Cohen & Steers Instl Realty Shares	No	No	No	No	No (Buy)	No				

Negative tracking of greater than 0.1% for domestic equities and fixed income or 0.3% for non-U.S. equities constitutes underperformance for the Plan's index funds.

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Tier I(a) Performance Summary

As of 9/30/2020

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Total Plan	**3,687,602,444**	**100.0**								**03/01/2014**
Tier I (a)	**927,245,055**	**25.1**								**03/01/2014**
Vanguard Target Retirement Income Trust Plus	23,059,593	0.6	3.1 (58)	4.7 (25)	7.5 (32)	5.9 (15)	6.1 (22)		5.6 (25)	09/01/2011
Vanguard Target Retirement Income Trust I			*3.1 (58)*	*4.7 (25)*	*7.5 (31)*	*5.9 (15)*	*6.1 (23)*	*5.7*	*5.6 (25)*	
Vanguard Target Retirement Income Trust II			*3.1 (58)*	*4.7 (25)*	*7.5 (32)*	*5.8 (16)*	*6.1 (23)*	*5.7*	*5.5 (25)*	
Vanguard Target Income Composite Index			*3.2 (55)*	*5.2 (10)*	*8.1 (12)*	*6.1 (11)*	*6.3 (20)*	*5.8*	*5.7 (23)*	
Vanguard Target Retirement 2015 Trust Plus	49,081,526	1.3	3.5 (84)	4.4 (27)	7.8 (48)	6.2 (11)	7.1 (42)		7.1 (22)	09/01/2011
Vanguard Target Retirement 2015 Trust I			*3.5 (85)*	*4.4 (28)*	*7.8 (49)*	*6.1 (11)*	*7.1 (44)*	*7.1*	*7.1 (23)*	
Vanguard Target Retirement 2015 Trust II			*3.5 (86)*	*4.3 (29)*	*7.7 (50)*	*6.1 (14)*	*7.1 (47)*	*7.1*	*7.1 (23)*	
Vanguard Target 2015 Composite Index			*3.5 (81)*	*4.9 (9)*	*8.4 (34)*	*6.4 (9)*	*7.4 (26)*	*7.2*	*7.3 (19)*	
Vanguard Target Retirement 2020 Trust Plus	89,809,932	2.4	4.5 (22)	3.9 (32)	8.6 (26)	6.6 (7)	8.0 (14)		8.0 (15)	09/01/2011
Vanguard Target Retirement 2020 Trust I			*4.5 (22)*	*3.9 (33)*	*8.6 (27)*	*6.6 (7)*	*8.0 (14)*	*7.9*	*8.0 (15)*	
Vanguard Target Retirement 2020 Trust II			*4.5 (22)*	*3.9 (33)*	*8.6 (27)*	*6.6 (8)*	*8.0 (14)*	*7.9*	*7.9 (16)*	
Vanguard Target 2020 Composite Index			*4.6 (20)*	*4.6 (9)*	*9.3 (6)*	*6.9 (5)*	*8.3 (1)*	*8.1*	*8.2 (1)*	
Vanguard Target Retirement 2025 Trust Plus	111,610,099	3.0	5.2 (30)	3.7 (38)	9.2 (30)	7.0 (12)	8.7 (14)		8.6 (15)	09/01/2011
Vanguard Target Retirement 2025 Trust I			*5.1 (31)*	*3.7 (38)*	*9.2 (30)*	*7.0 (12)*	*8.7 (16)*	*8.5*	*8.6 (15)*	
Vanguard Target Retirement 2025 Trust II			*5.2 (30)*	*3.7 (39)*	*9.1 (31)*	*7.0 (12)*	*8.7 (17)*	*8.4*	*8.6 (16)*	
Vanguard Target 2025 Composite Index			*5.2 (28)*	*4.3 (18)*	*9.9 (13)*	*7.3 (8)*	*9.0 (3)*	*8.7*	*8.8 (5)*	
Vanguard Target Retirement 2030 Trust Plus	142,120,503	3.9	5.7 (35)	3.3 (36)	9.5 (28)	7.2 (13)	9.2 (23)		9.1 (17)	09/01/2011
Vanguard Target Retirement 2030 Trust I			*5.7 (36)*	*3.3 (37)*	*9.5 (28)*	*7.1 (14)*	*9.2 (23)*	*8.9*	*9.1 (18)*	
Vanguard Target Retirement 2030 Trust II			*5.7 (34)*	*3.3 (36)*	*9.5 (28)*	*7.1 (15)*	*9.2 (23)*	*8.9*	*9.1 (19)*	
Vanguard Target 2030 Composite Index			*5.8 (31)*	*3.9 (19)*	*10.2 (13)*	*7.5 (10)*	*9.5 (17)*	*9.1*	*9.3 (9)*	
Vanguard Target Retirement 2035 Trust Plus	154,437,451	4.2	6.3 (63)	2.9 (37)	9.8 (31)	7.3 (17)	9.6 (27)		9.6 (16)	09/01/2011
Vanguard Target Retirement 2035 Trust I			*6.3 (63)*	*2.9 (37)*	*9.8 (31)*	*7.3 (17)*	*9.6 (27)*	*9.4*	*9.6 (16)*	
Vanguard Target Retirement 2035 Trust II			*6.2 (64)*	*2.9 (37)*	*9.8 (31)*	*7.2 (18)*	*9.6 (28)*	*9.4*	*9.5 (17)*	
Vanguard Target 2035 Composite Index			*6.4 (41)*	*3.5 (22)*	*10.5 (17)*	*7.6 (12)*	*9.9 (20)*	*9.6*	*9.8 (12)*	

Note: Trust II through October 31, 2017; Trust I through October 25, 2018; Trust Plus thereafter.

Tier I(a) Performance Summary (cont'd.)

As of 9/30/2020

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Vanguard Target Retirement 2040 Trust Plus	141,345,306	3.8	6.8 (58)	2.5 (38)	10.1 (32)	7.4 (16)	10.1 (25)		9.9 (15)	09/01/2011
Vanguard Target Retirement 2040 Trust I			*6.8 (58)*	*2.5 (38)*	*10.1 (32)*	*7.4 (16)*	*10.1 (25)*	*9.7*	*9.9 (15)*	
Vanguard Target Retirement 2040 Trust II			*6.8 (57)*	*2.5 (38)*	*10.1 (32)*	*7.3 (17)*	*10.1 (25)*	*9.7*	*9.9 (15)*	
Vanguard Target 2040 Composite Index			*6.9 (43)*	*3.0 (26)*	*10.7 (25)*	*7.7 (11)*	*10.3 (12)*	*9.9*	*10.1 (11)*	
Vanguard Target Retirement 2045 Trust Plus	114,494,660	3.1	7.3 (45)	2.1 (41)	10.3 (34)	7.4 (16)	10.2 (20)		10.0 (17)	09/01/2011
Vanguard Target Retirement 2045 Trust I			*7.3 (45)*	*2.1 (44)*	*10.3 (34)*	*7.4 (16)*	*10.2 (20)*	*9.7*	*10.0 (17)*	
Vanguard Target Retirement 2045 Trust II			*7.3 (45)*	*2.1 (44)*	*10.3 (35)*	*7.4 (16)*	*10.2 (20)*	*9.7*	*9.9 (17)*	
Vanguard Target 2045 Composite Index			*7.5 (28)*	*2.6 (32)*	*10.9 (26)*	*7.7 (13)*	*10.5 (10)*	*10.0*	*10.2 (13)*	
Vanguard Target Retirement 2050 Trust Plus	67,109,547	1.8	7.4 (47)	2.2 (36)	10.4 (31)	7.4 (18)	10.2 (19)		10.0 (16)	09/01/2011
Vanguard Target Retirement 2050 Trust I			*7.4 (48)*	*2.2 (36)*	*10.4 (31)*	*7.4 (18)*	*10.2 (20)*	*9.8*	*10.0 (16)*	
Vanguard Target Retirement 2050 Trust II			*7.4 (54)*	*2.1 (36)*	*10.3 (32)*	*7.4 (18)*	*10.2 (20)*	*9.7*	*9.9 (16)*	
Vanguard Target 2050 Composite Index			*7.5 (36)*	*2.6 (31)*	*11.0 (27)*	*7.7 (14)*	*10.5 (9)*	*10.0*	*10.2 (13)*	
Vanguard Target Retirement 2055 Trust Plus	25,527,675	0.7	7.4 (47)	2.2 (35)	10.4 (34)	7.4 (25)	10.2 (26)			09/01/2011
Vanguard Target Retirement 2055 Trust I			*7.4 (48)*	*2.2 (35)*	*10.4 (34)*	*7.4 (25)*	*10.2 (26)*		*10.0 (19)*	
Vanguard Target Retirement 2055 Trust II			*7.4 (49)*	*2.1 (35)*	*10.4 (36)*	*7.4 (26)*	*10.2 (26)*	*9.7*	*9.9 (20)*	
Vanguard Target 2055 Composite Index			*7.5 (40)*	*2.6 (27)*	*11.0 (28)*	*7.7 (17)*	*10.5 (10)*	*10.0*	*10.2 (16)*	
Vanguard Target Retirement 2060 Trust Plus	8,388,409	0.2	7.4 (62)	2.2 (40)	10.5 (49)	7.5 (25)	10.3 (37)		9.3	04/01/2012
Vanguard Target Retirement 2060 Trust I			*7.4 (60)*	*2.2 (40)*	*10.4 (50)*	*7.4 (26)*	*10.2 (38)*		*9.3*	
Vanguard Target Retirement 2060 Trust II			*7.4 (62)*	*2.2 (41)*	*10.4 (50)*	*7.4 (27)*	*10.2 (38)*		*9.3*	
Vanguard Target 2060 Composite Index			*7.5 (44)*	*2.6 (19)*	*11.0 (33)*	*7.7 (20)*	*10.5 (20)*		*9.5*	
Vanguard Target Retirement 2065 Trust Plus	260,353	0.0	7.4 (53)	2.2 (41)	10.4 (51)	7.5 (25)			7.9 (26)	08/01/2017
Vanguard Target Retirement 2065 Trust I			*7.4 (63)*	*2.2 (41)*	*10.4 (52)*	*7.5 (25)*			*7.9 (26)*	
Vanguard Target Retirement 2065 Trust II			*7.4 (50)*	*2.2 (41)*	*10.4 (52)*	*7.5 (25)*			*7.9 (27)*	
Vanguard Target 2065 Composite Index			*7.5 (44)*	*2.6 (19)*	*11.0 (33)*	*7.7 (20)*			*8.1 (20)*	

Note: Trust II through October 31, 2017; Trust I through October 25, 2018; Trust Plus thereafter.

Tier I Performance Summary

As of 9/30/2020

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Tier I	**153,259,584**	**4.2**								**02/01/2014**
Vanguard Target Retirement Income - Instl.	8,677,837	0.2	3.1 (55)	4.7 (1)	7.5 (33)	5.8 (19)	6.1 (42)		5.4 (36)	07/01/2015
Vanguard Tgt Ret Inc;Inv (VTINX)			*3.1 (55)*	*4.6 (1)*	*7.4 (35)*	*5.8 (20)*	*6.0 (42)*	*5.6*	*5.3 (37)*	
Vanguard Target Income Composite Index			*3.2 (54)*	*5.2 (1)*	*8.1 (26)*	*6.1 (1)*	*6.3 (40)*	*5.8*	*5.6 (32)*	
Vanguard Target Retirement 2015 - Instl.	17,628,746	0.5	3.4 (90)	4.3 (28)	7.8 (48)	6.1 (12)	7.1 (46)		5.9 (32)	07/01/2015
Vanguard Tgt Ret2015;Inv (VTXVX)			*3.5 (84)*	*4.3 (28)*	*7.7 (56)*	*6.1 (17)*	*7.0 (56)*	*7.0*	*5.9 (34)*	
Vanguard Target 2015 Composite Index			*3.5 (81)*	*4.9 (9)*	*8.4 (34)*	*6.4 (9)*	*7.4 (26)*	*7.2*	*6.2 (25)*	
Vanguard Target Retirement 2020 - Instl.	19,249,834	0.5	4.5 (25)	3.9 (35)	8.5 (30)	6.6 (8)	8.0 (15)		6.6 (9)	07/01/2015
Vanguard Tgt Ret2020;Inv (VTWNX)			*4.5 (22)*	*3.9 (36)*	*8.5 (33)*	*6.5 (11)*	*8.0 (22)*	*7.8*	*6.6 (18)*	
Vanguard Target 2020 Composite Index			*4.6 (20)*	*4.6 (9)*	*9.3 (6)*	*6.9 (5)*	*8.3 (1)*	*8.1*	*6.9 (1)*	
Vanguard Target Retirement 2025 - Instl.	24,980,858	0.7	5.2 (30)	3.6 (41)	9.1 (32)	6.9 (13)	8.7 (17)		7.0 (10)	07/01/2015
Vanguard Tgt Ret2025;Inv (VTTVX)			*5.2 (30)*	*3.6 (42)*	*9.0 (33)*	*6.9 (15)*	*8.6 (21)*	*8.4*	*7.0 (12)*	
Vanguard Target 2025 Composite Index			*5.2 (28)*	*4.3 (18)*	*9.9 (13)*	*7.3 (8)*	*9.0 (3)*	*8.7*	*7.3 (5)*	
Vanguard Target Retirement 2030 - Instl.	21,011,393	0.6	5.7 (34)	3.2 (41)	9.4 (29)	7.1 (16)	9.1 (29)		7.3 (24)	07/01/2015
Vanguard Tgt Ret2030;Inv (VTHRX)			*5.7 (35)*	*3.2 (40)*	*9.4 (29)*	*7.0 (18)*	*9.1 (32)*	*8.8*	*7.3 (26)*	
Vanguard Target 2030 Composite Index			*5.8 (31)*	*3.9 (19)*	*10.2 (13)*	*7.5 (10)*	*9.5 (17)*	*9.1*	*7.6 (10)*	
Vanguard Target Retirement 2035 - Instl.	14,848,183	0.4	6.2 (64)	2.8 (38)	9.7 (35)	7.2 (19)	9.6 (29)		7.6 (30)	07/01/2015
Vanguard Tgt Ret2035;Inv (VTTHX)			*6.3 (57)*	*2.8 (38)*	*9.7 (35)*	*7.2 (22)*	*9.5 (32)*	*9.3*	*7.5 (32)*	
Vanguard Target 2035 Composite Index			*6.4 (41)*	*3.5 (22)*	*10.5 (17)*	*7.6 (12)*	*9.9 (20)*	*9.6*	*7.9 (14)*	

Note: Investor class shares through June 30, 2016; Institutional class shares thereafter.

Tier I Performance Summary (cont'd.)

As of 9/30/2020

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Vanguard Target Retirement 2040 - Instl.	12,718,623	0.3	6.8 (59)	2.4 (42)	9.9 (35)	7.3 (24)	10.0 (27)		7.8 (29)	07/01/2015
Vanguard Tgt Ret2040;Inv (VFORX)			*6.8 (58)*	*2.4 (40)*	*10.0 (34)*	*7.3 (25)*	*10.0 (28)*	*9.6*	*7.8 (34)*	
Vanguard Target 2040 Composite Index			*6.9 (43)*	*3.0 (26)*	*10.7 (25)*	*7.7 (11)*	*10.3 (12)*	*9.9*	*8.1 (11)*	
Vanguard Target Retirement 2045 - Instl.	13,002,131	0.4	7.3 (46)	2.0 (47)	10.2 (38)	7.3 (18)	10.2 (21)		7.9 (21)	07/01/2015
Vanguard Tgt Ret2045;Inv (VTIVX)			*7.4 (44)*	*2.1 (41)*	*10.3 (35)*	*7.3 (19)*	*10.1 (22)*	*9.7*	*7.9 (22)*	
Vanguard Target 2045 Composite Index			*7.5 (28)*	*2.6 (32)*	*10.9 (26)*	*7.7 (13)*	*10.5 (10)*	*10.0*	*8.2 (10)*	
Vanguard Target Retirement 2050 - Instl.	13,514,823	0.4	7.3 (55)	2.0 (39)	10.2 (39)	7.3 (24)	10.2 (26)		7.9 (24)	07/01/2015
Vanguard Tgt Ret2050;Inv (VFIFX)			*7.4 (55)*	*2.1 (37)*	*10.3 (37)*	*7.3 (25)*	*10.1 (31)*	*9.7*	*7.9 (25)*	
Vanguard Target 2050 Composite Index			*7.5 (36)*	*2.6 (31)*	*11.0 (27)*	*7.7 (14)*	*10.5 (9)*	*10.0*	*8.2 (10)*	
Vanguard Target Retirement 2055 - Instl.	6,748,546	0.2	7.4 (50)	2.1 (37)	10.2 (39)	7.3 (31)	10.2 (29)		7.9 (28)	07/01/2015
Vanguard Tgt Ret2055;Inv (VFFVX)			*7.4 (49)*	*2.1 (36)*	*10.3 (39)*	*7.3 (33)*	*10.1 (39)*	*9.7*	*7.9 (36)*	
Vanguard Target 2055 Composite Index			*7.5 (40)*	*2.6 (27)*	*11.0 (28)*	*7.7 (17)*	*10.5 (10)*	*10.0*	*8.2 (11)*	
Vanguard Target Retirement 2060 - Instl.	767,370	0.0	7.4 (62)	2.1 (44)	10.3 (63)	7.4 (29)	10.2 (42)		7.9 (37)	07/01/2015
Vanguard Tgt Ret2060;Inv (VTTSX)			*7.4 (62)*	*2.1 (45)*	*10.3 (65)*	*7.3 (31)*	*10.1 (47)*		*7.9 (39)*	
Vanguard Target 2060 Composite Index			*7.5 (44)*	*2.6 (19)*	*11.0 (33)*	*7.7 (20)*	*10.5 (20)*		*8.2 (24)*	
Vanguard Target Retirement 2065 - Instl.	111,240	0.0	7.4 (62)	1.9 (51)	10.1 (69)	7.3 (30)			7.7 (44)	08/01/2017
Vanguard Tgt Ret2065;Inv (VLXVX)			*7.4 (63)*	*2.0 (49)*	*10.1 (68)*	*7.3 (52)*			*7.7 (49)*	
Vanguard Target 2065 Composite Index			*7.5 (44)*	*2.6 (19)*	*11.0 (33)*	*7.7 (20)*			*8.1 (20)*	

Note: Investor class shares through June 30, 2016; Institutional class shares thereafter.

Tier II Performance Summary

As of 9/30/2020

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Tier II	**1,112,882,911**	**30.2**								**03/01/2014**
Vanguard Total Bond Market Index Fund - Inst.	60,759,440	1.6	0.6 (86)	7.0 (40)	7.0 (50)	5.3 (40)	4.2 (57)	3.6 (66)	5.2 (30)	10/01/1995
Performance Benchmark			*0.7 (83)*	*7.0 (42)*	*7.1 (46)*	*5.3 (38)*	*4.3 (53)*	*3.7 (61)*	*5.3 (24)*	
Vanguard Total International Bond Index Fund - Adm.	2,430,543	0.1	1.1 (87)	3.5 (46)	2.1 (80)	5.1 (5)	4.3 (21)		4.2 (13)	06/01/2013
Blmbg. Barc. Global Agg ex-USD Flt Adj RIC Cpd (H)			*1.1 (87)*	*3.6 (43)*	*2.3 (78)*	*5.3 (4)*	*4.6 (16)*		*4.5 (11)*	
Vanguard Total Stock Market Index Fund - Inst.	56,590,252	1.5	9.2 (50)	5.5 (52)	15.0 (52)	11.7 (55)	13.7 (50)	13.5 (44)	7.9 (27)	08/01/1997
Performance Benchmark			*9.2 (50)*	*5.5 (52)*	*15.0 (52)*	*11.7 (55)*	*13.7 (50)*	*13.5 (44)*	*7.9 (28)*	
Vanguard Institutional Index Fund - Inst. Plus	176,558,246	4.8	8.9 (7)	5.6 (10)	15.2 (7)	12.3 (10)	14.1 (7)	13.7 (8)	7.6 (1)	08/01/1997
S&P 500 Index			*8.9 (6)*	*5.6 (14)*	*15.1 (9)*	*12.3 (8)*	*14.1 (7)*	*13.7 (7)*	*7.6 (3)*	
Vanguard FTSE Social Index Fund - Adm.	4,122,853	0.1	10.6 (34)	9.2 (40)	20.7 (38)	14.7 (36)	15.5 (35)	14.9 (29)	5.7 (69)	06/01/2000
FTSE 4Good U.S. Select Index			*10.6 (33)*	*9.3 (39)*	*20.8 (37)*	*14.8 (35)*	*15.7 (33)*	*15.1 (27)*		
S&P 500 Index			*8.9 (54)*	*5.6 (52)*	*15.1 (52)*	*12.3 (48)*	*14.1 (45)*	*13.7 (40)*	*6.4 (49)*	
Vanguard Extended Market Index Fund - Inst.	53,809,530	1.5	9.9 (39)	3.8 (85)	13.0 (81)	8.1 (93)	11.3 (90)	12.1 (86)	8.5 (69)	08/01/1997
Performance Benchmark			*9.9 (39)*	*3.7 (85)*	*12.9 (81)*	*8.0 (93)*	*11.1 (90)*	*12.0 (86)*		
Vanguard Total International Stock Index Fund - Inst.	11,091,678	0.3	6.5 (56)	-4.8 (60)	3.8 (57)	1.3 (58)	6.3 (49)		4.4 (66)	12/01/2010
Performance Benchmark			*6.7 (56)*	*-5.1 (61)*	*3.7 (57)*	*1.3 (58)*	*6.4 (48)*		*4.4 (66)*	
Vanguard Developed Market Index Fund - Inst.	58,866,969	1.6	5.6 (66)	-5.7 (64)	2.1 (61)	0.9 (60)	5.8 (53)	5.0 (45)	5.3 (46)	02/01/2010
Performance Benchmark			*6.0 (63)*	*-6.0 (67)*	*2.1 (61)*	*0.9 (60)*	*5.8 (52)*	*4.9 (45)*	*5.2 (47)*	
Vanguard Emerging Markets Stock Index Fund - Inst.	40,486,950	1.1	9.0 (53)	-1.4 (48)	9.8 (48)	2.5 (40)	8.2 (46)	2.3 (49)	7.0 (69)	07/01/2000
Performance Benchmark			*9.0 (54)*	*-1.7 (50)*	*9.5 (49)*	*2.5 (40)*	*8.2 (46)*	*2.3 (49)*	*7.1 (67)*	
Vanguard Federal Money Market Fund - Inv.	58,370,626	1.6	0.0 (16)	0.4 (20)	0.9 (19)	1.5 (19)	1.1 (18)	0.6 (20)	2.8 (27)	11/01/1989
FTSE 3 Month T-Bill			*0.0 (7)*	*0.6 (11)*	*1.0 (11)*	*1.6 (15)*	*1.2 (16)*	*0.6 (18)*	*2.8 (40)*	
T. Rowe Price Stable Value Common Trust Fund A	10,664,965	0.3	0.5 (26)	1.6 (31)	2.1 (28)				2.1 (29)	02/01/2018
Hueler Stable Value Index			*0.6 (14)*	*1.7 (14)*	*2.4 (15)*				*2.4 (11)*	
TIAA Traditional - RC	151,119,256	4.1	1.0 (1)	3.0 (1)	4.0 (1)	4.0 (1)	4.1 (1)	4.2	4.4	08/01/2005
Hueler Stable Value Index			*0.6 (14)*	*1.7 (14)*	*2.4 (15)*	*2.3 (10)*	*2.1 (8)*	*2.1*	*2.8*	
TIAA Traditional - RCP	92,834,301	2.5	0.8 (4)	2.4 (1)	3.2 (1)	3.3 (1)	3.4 (1)	3.4	3.7	06/01/2006
Hueler Stable Value Index			*0.6 (14)*	*1.7 (14)*	*2.4 (15)*	*2.3 (10)*	*2.1 (8)*	*2.1*	*2.7*	
PIMCO Total Return Fund - Inst.	26,482,754	0.7	1.5 (24)	7.8 (16)	7.4 (39)	5.2 (45)	4.7 (23)	4.0 (38)	7.2	06/01/1987
Blmbg. Barc. U.S. Aggregate			*0.6 (86)*	*6.8 (53)*	*7.0 (53)*	*5.2 (44)*	*4.2 (58)*	*3.6 (64)*	*6.3*	

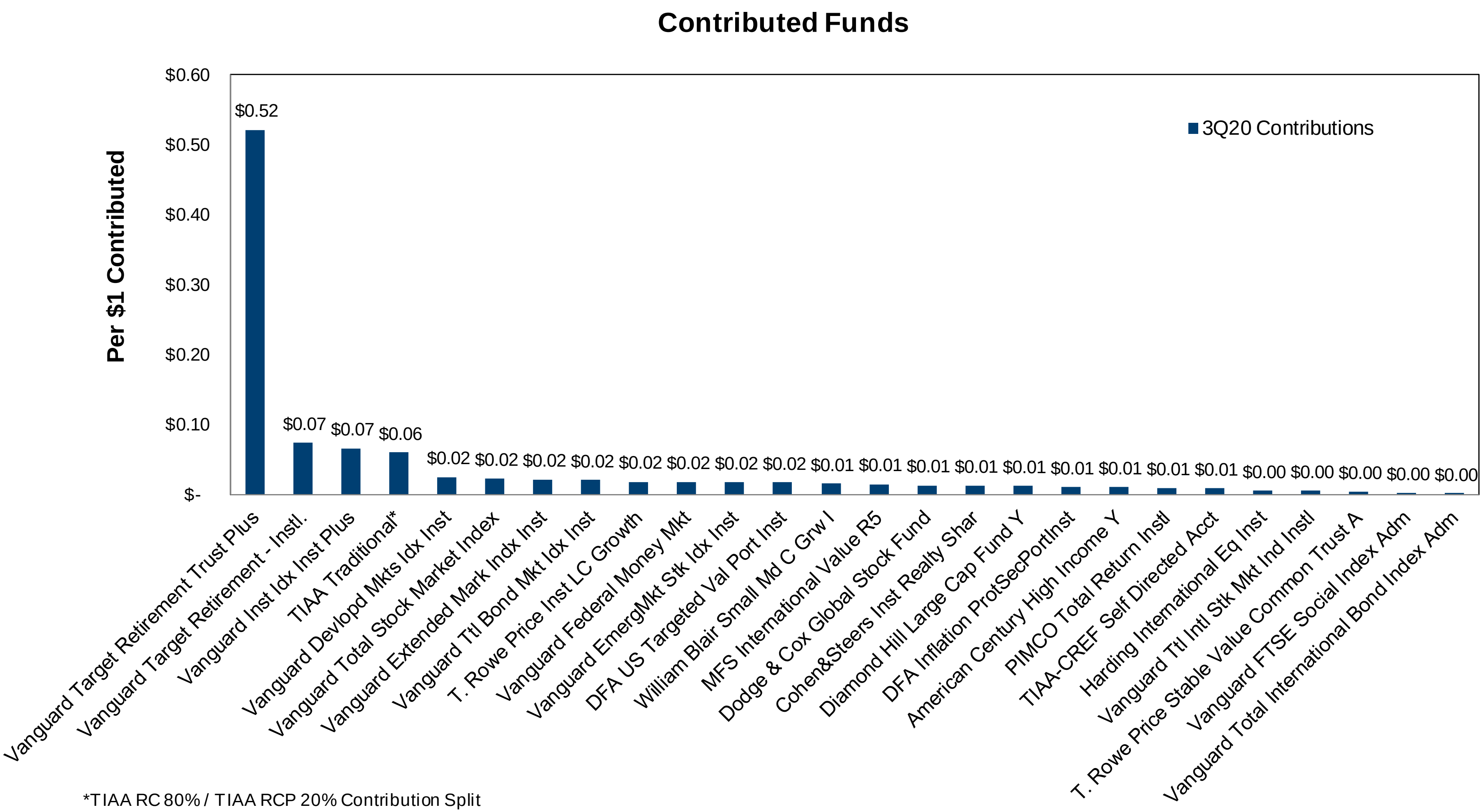
Tier II Performance Summary (cont'd)

As of 9/30/2020

	Allocation		Performance(%)							
	Market Value ($)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
DFA Inflation-Protected Securities Portfolio - I	32,272,539	0.9	3.3 (30)	9.8 (14)	10.4 (16)	6.0 (10)	4.7 (18)	3.7 (11)	4.6 (20)	10/01/2006
Blmbg. Barc. Global Inflation-Linked: U.S. TIPS			*3.0 (47)*	*9.2 (24)*	*10.1 (20)*	*5.8 (22)*	*4.6 (20)*	*3.6 (15)*	*4.4 (29)*	
American Century High Income - Y	29,326,938	0.8	5.5 (12)	0.8 (22)	3.2 (26)	3.9 (28)	6.5 (11)		5.5 (6)	01/01/2013
ICE BofAML US High Yield Master II Constrained			*4.7 (38)*	*-0.4 (52)*	*2.2 (49)*	*3.8 (28)*	*6.6 (9)*		*5.2 (16)*	
T. Rowe Price Instl. Large Cap Growth Fund	47,079,797	1.3	11.5 (61)	23.5 (50)	35.8 (48)	21.1 (47)	20.6 (17)	18.1 (13)	11.7 (7)	11/01/2001
Russell 1000 Growth Index			*13.2 (24)*	*24.3 (44)*	*37.5 (38)*	*21.7 (40)*	*20.1 (25)*	*17.3 (25)*	*10.0 (36)*	
Diamond Hill Large Cap - Y	28,849,294	0.8	9.8 (2)	-5.2 (11)	2.5 (11)	6.3 (12)	10.7 (5)		11.9 (4)	01/01/2012
Russell 1000 Value Index			*5.6 (34)*	*-11.6 (60)*	*-5.0 (61)*	*2.6 (58)*	*7.7 (53)*		*10.1 (39)*	
William Blair Small/Mid Cap Growth Fund - I	35,175,773	1.0	8.3 (58)	9.2 (60)	13.8 (70)	13.9 (54)	14.6 (45)	14.9 (25)	11.3 (19)	01/01/2004
Russell 2500 Growth Index			*9.4 (44)*	*11.6 (50)*	*23.4 (48)*	*13.4 (59)*	*14.2 (52)*	*14.1 (37)*	*10.4 (33)*	
DFA U.S. Targeted Value - I	31,868,932	0.9	4.0 (47)	-21.8 (82)	-15.1 (86)	-5.8 (82)	2.5 (73)	7.3 (58)	9.0	03/01/2000
Russell 2500 Value Index			*3.5 (56)*	*-18.4 (23)*	*-12.6 (34)*	*-2.7 (42)*	*4.6 (27)*	*8.0 (40)*	*8.5*	
Dodge & Cox Global Stock Fund	25,435,291	0.7	2.9 (92)	-14.6 (94)	-5.3 (86)	-1.5 (94)	6.4 (84)	7.3 (66)	4.3 (86)	05/01/2008
MSCI AC World Index (Net)			*8.1 (40)*	*1.4 (57)*	*10.4 (60)*	*7.1 (60)*	*10.3 (58)*	*8.5 (58)*	*5.4 (66)*	
Harding Loevner International Equity Instl.	13,133,219	0.4	8.6 (42)	3.6 (44)	14.0 (37)	5.3 (40)	10.2 (22)	6.9 (28)	6.4	06/01/1994
MSCI AC World ex USA Growth (Net)			*10.2 (17)*	*7.3 (21)*	*17.5 (17)*	*7.3 (28)*	*10.2 (24)*	*6.4 (44)*		
MFS International Value Fund - R6	38,522,317	1.0	8.6 (2)	9.6 (1)	17.8 (1)	10.1 (1)	12.0 (1)	11.0 (1)	8.0 (1)	06/01/2006
MSCI AC World ex USA Value (Net)			*2.3 (95)*	*-17.6 (100)*	*-10.8 (98)*	*-5.1 (100)*	*2.1 (97)*	*1.5 (100)*	*1.4 (100)*	
Cohen and Steers Instl. Realty Shares	27,030,449	0.7	2.9 (27)	-10.3 (22)	-10.0 (20)	5.7 (8)	7.0 (13)	9.4 (13)	11.2 (8)	03/01/2000
FTSE NAREIT Equity REIT Index			*1.4 (63)*	*-17.5 (77)*	*-18.2 (79)*	*0.2 (73)*	*3.9 (67)*	*7.9 (56)*	*10.0 (62)*	
Tier III	**30,900,738**	**0.8**								**03/01/2014**
Mutual Fund Window	30,900,738	0.8								
Orphan Accounts	**1,461,596,077**	**39.6**								
TIAA Orphan Accounts	1,389,673,112	37.7								
VALIC Orphan Accounts	71,579,233	1.9								
American Century Orphan Accounts	343,731	0.0								
Other Assets	**1,718,078**	**0.0**								**03/01/2014**
Loans	309,313	0.0								
Loans Deemed Distributed	545,949	0.0								
Plan Loan Default Fund	862,817	0.0								

Total Plan Contributions

As of 9/30/2020

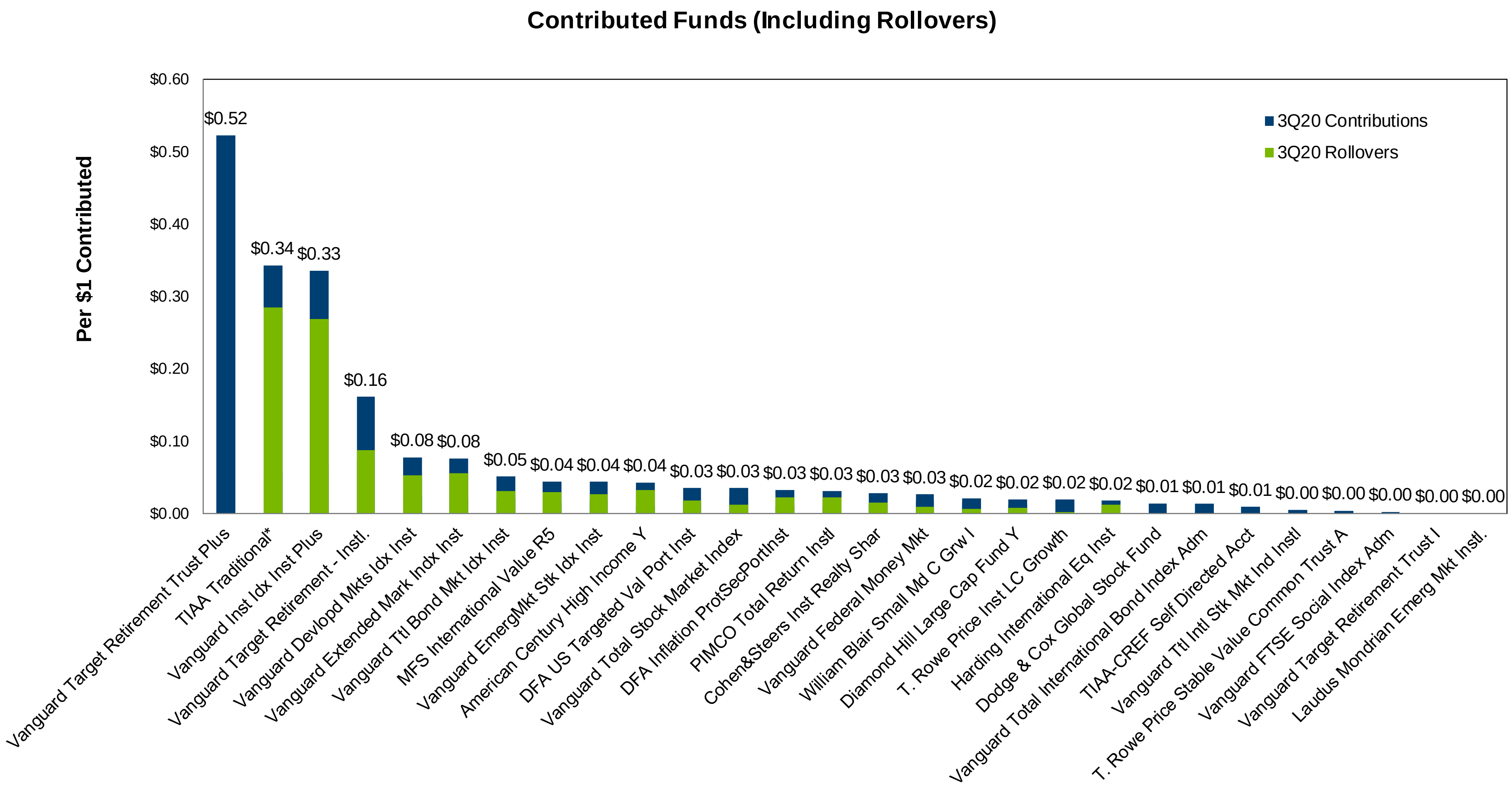


*TIAA RC 80% / TIAA RCP 20% Contribution Split

Source: TIAA

Total Plan Contributions (Including Rollovers)

As of 9/30/2020



*TIAA RC 60% / TIAA RCP 40% Contribution and Rollover Split

Source: TIAA

Quarterly Participant Transfers

As of 9/30/2020

Investment	Transfers In	Transfers Out	Net Transfers	Ending Balance (9/30/2020)	Number of Participants
Vanguard Target Retirement Trust Plus Funds	$3,424,108	($12,066,415)	($8,642,308)	$927,245,055	4,286
Vanguard Target Retirement Mutual Funds	$944,396	($2,527,294)	($1,582,899)	$153,259,584	1,777
Vanguard Total Bond Market Index Inst	$4,254,063	($1,217,464)	$3,036,598	$60,759,440	1,069
Vanguard Total Int'l Bond Index Fund Adm	$379,786	($36,485)	$343,301	$2,430,543	78
Vanguard Total Stock Market Index Inst	$799,313	($3,016,633)	($2,217,320)	$56,590,252	476
Vanguard Institutional Index Inst	$4,846,103	($5,893,554)	($1,047,452)	$176,558,246	1,674
Vanguard FTSE Social Index Fund	$558,167	($500,920)	$57,248	$4,122,853	61
Vanguard Extended Market Index Inst	$1,655,151	($2,599,862)	($944,712)	$53,809,530	1,263
Vanguard Total International Stock Index Inst	$113,005	($569,141)	($456,136)	$11,091,678	158
Vanguard Developed Markets Index Ins	$1,426,902	($1,534,903)	($108,000)	$58,866,969	1,299
Vanguard Emerging Markets Stock Index Inst	$1,188,185	($951,404)	$236,781	$40,486,950	1,437
Vanguard Federal Money Market Inv	$9,195,304	($8,883,456)	$311,849	$58,370,626	232
T. Rowe Price Stable Value Common Trust A	$1,096,097	($703,062)	$393,035	$10,664,965	360
TIAA Traditional	$6,853,232	($2,084,216)	$4,769,015	$243,953,556	1,681
PIMCO Total Return Instl	$1,073,417	($915,184)	$158,233	$26,482,754	580
DFA Inflation Protected Securities Portfolio Inst	$3,035,954	($451,224)	$2,584,731	$32,272,539	1,007
American Century High Income	$1,004,964	($460,677)	$544,287	$29,326,938	885
T. Rowe Price Inst LC Growth	$4,586,483	($3,327,949)	$1,258,534	$47,079,797	401
Diamond Hill Large Cap Fund Y	$1,487,071	($1,234,566)	$252,505	$28,849,294	1,056
William Blair Small Md C Grw I	$680,746	($1,895,465)	($1,214,719)	$35,175,773	1,157
DFA US Targeted Val Port Inst	$1,377,366	($1,087,146)	$290,220	$31,868,932	1,267
Dodge & Cox Global Stock Fund	$1,297,144	($765,671)	$531,472	$25,435,291	684
Harding International Equit Inst	$941,249	($67,960)	$873,289	$13,133,219	616
MFS International Value R6	$1,749,270	($1,426,458)	$322,812	$38,522,317	1,306
Cohen & Steers Inst Realty Shares	$650,044	($828,987)	($178,942)	$27,030,449	1,481
Mutual Fund Window	$1,035,620	($607,041)	$428,579	$30,900,738	56
Total	**$55,653,139**	**($55,653,139)**	**$0**	**$2,224,288,289**	

Source: TIAA

Historical Quarterly Participant Transfers

As of 9/30/2020

	1Q19		2Q19		3Q19		4Q19		1Q20		2Q20		3Q20	
Investment	Net Transfers ($M)	# of Part.	Net Transfers ($M)	# of Part.	Net Transfers ($M)	# of Part.	Net Transfers ($M)	# of Part.	Net Transfers ($M)	# of Part.	Net Transfers ($M)	# of Part.	Net Transfers ($M)	# of Part.
Vanguard Target Retirement Trust Plus	-$15.23	4,044	-$16.42	4,014	-$13.94	4,157	-$13.05	4,140	-$26.63	4,112	-$13.49	4,129	-$8.64	4,286
Vanguard Target Retirement Mutual Funds	-$5.36	1,498	-$4.07	1,541	-$2.75	1,730	-$2.84	1,743	-$7.23	1,601	-$2.97	1,615	-$1.58	1,777
Vanguard Total Bond Market Index Inst	$2.76	952	$1.53	978	$3.25	1,025	$2.11	1,024	$4.37	1,019	$1.24	1,062	$3.04	1,069
Vanguard Total Int'l Bond Index Fund Adm	--	--	--	--	--	--	--	--	$0.80	2	$1.08	49	$0.34	78
Vanguard Total Stock Market Index Inst	-$1.44	599	-$0.70	566	-$1.18	523	-$0.46	504	-$1.84	476	-$0.73	491	-$2.22	476
Vanguard Institutional Index Inst	$5.59	1,578	$4.71	1,590	$1.42	1,611	$2.16	1,596	-$1.42	1,586	$0.54	1,647	-$1.05	1,674
Vanguard FTSE Social Index Fund	$0.54	43	$0.19	43	$0.43	45	$0.15	46	-$0.34	49	-$0.01	59	$0.06	61
Vanguard Extended Market Index Inst	-$0.71	1,104	$1.88	1,121	$1.38	1,154	$0.62	1,180	$0.07	1,185	$0.23	1,244	-$0.94	1,263
Vanguard Total International Stock Index Inst	$0.44	171	-$0.19	169	-$0.40	164	-$0.06	162	$0.59	162	-$0.27	164	-$0.46	158
Vanguard Developed Markets Index Ins	$2.82	1,171	$4.33	1,190	$1.79	1,221	$2.51	1,232	$1.12	1,237	$0.96	1,277	-$0.11	1,299
Vanguard Emerging Markets Stock Index Inst	$1.15	1,395	$1.60	1,394	$1.08	1,404	$1.30	1,394	$0.15	1,385	-$0.01	1,426	$0.24	1,437
Vanguard Federal Money Market Inv	-$1.62	214	$0.91	210	$0.78	212	$1.29	217	$27.46	206	$4.00	247	$0.31	232
T. Rowe Price Stable Value Common Trust A	$1.06	202	$1.09	236	$0.86	268	$0.73	288	$1.23	306	$1.42	337	$0.39	360
TIAA Traditional	$3.90	1,741	$5.74	1,735	$4.66	1,769	$3.13	1,714	$5.16	1,724	$6.26	1,710	$4.77	1,681
PIMCO Total Return Instl	$0.02	738	-$0.42	699	$0.10	652	$0.09	631	$0.40	569	$0.80	581	$0.16	580
DFA Inflation Protected Securities Portfolio Inst	$0.49	903	$1.49	918	$1.70	953	$1.56	953	$1.33	963	$0.84	989	$2.58	1,007
American Century High Income	$1.39	880	$1.18	879	$0.72	885	$0.41	875	$0.09	871	-$0.18	892	$0.54	885
T. Rowe Price Inst LC Growth	$1.61	388	-$3.91	389	-$0.03	389	-$1.13	381	-$0.37	368	$1.41	387	$1.26	401
Diamond Hill Large Cap Fund Y	-$1.32	989	$0.10	947	$0.31	996	$0.54	1,025	-$0.69	1,023	-$0.09	1,041	$0.25	1,056
William Blair Small Md C Grw I	$0.83	1,048	-$0.25	1,053	$0.32	1,046	$0.20	1,070	-$1.08	1,081	-$1.15	1,138	-$1.21	1,157
DFA US Targeted Val Port Inst	$0.61	1,177	$0.54	1,184	-$0.12	1,208	-$0.03	1,210	-$0.24	1,195	$0.13	1,247	$0.29	1,267
Dodge & Cox Global Stock Fund	-$2.76	788	-$1.12	758	-$0.94	774	-$0.76	744	-$2.14	663	$0.06	658	$0.53	684
Harding International Equit Inst	$0.59	783	-$0.10	799	-$0.58	730	-$0.65	690	-$0.85	589	$0.15	584	$0.87	616
MFS International Value R6	-$1.04	1,251	-$1.23	1,252	$0.64	1,267	$0.81	1,262	-$0.52	1,266	-$0.30	1,319	$0.32	1,306
Cohen & Steers Inst Realty Shares	-$0.02	1,464	$0.76	1,454	$0.35	1,468	$0.82	1,455	$0.26	1,435	-$0.17	1,470	-$0.18	1,481
Mutual Fund Window	$5.70	46	$2.37	49	$0.16	52	$0.58	53	$0.33	52	$0.26	54	$0.43	56
Total	**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**	

Net Transfers In (Darker shades represent larger transfers while lighter shades represent smaller transfers)
Net Transfers Out (Darker shades represent larger transfers while lighter shades represent smaller transfers)

Source: TIAA

Annual Investment Fee Monitoring & Transparency – As of 9/30/2020

Investment Option	Market Value	Total Expense (%)	Total Expense ($)	Revenue Sharing (%)	Revenue Sharing ($)	Mgmt. Fee (%)	Mgmt. Fee ($)	Administrative Fee (%)	Administrative Fee ($)	Total Fee (%)	Total Fee ($)
Vanguard Target Retirement Income Trust Plus	$23,059,593	0.06%	$13,836	0.00%	$0	0.06%	$13,836	0.039%	$8,993	0.10%	$22,829
Vanguard Target Retirement 2015 Trust Plus	$49,081,526	0.06%	$29,449	0.00%	$0	0.06%	$29,449	0.039%	$19,142	0.10%	$48,591
Vanguard Target Retirement 2020 Trust Plus	$89,809,932	0.06%	$53,886	0.00%	$0	0.06%	$53,886	0.039%	$35,026	0.10%	$88,912
Vanguard Target Retirement 2025 Trust Plus	$111,610,099	0.06%	$66,966	0.00%	$0	0.06%	$66,966	0.039%	$43,528	0.10%	$110,494
Vanguard Target Retirement 2030 Trust Plus	$142,120,503	0.06%	$85,272	0.00%	$0	0.06%	$85,272	0.039%	$55,427	0.10%	$140,699
Vanguard Target Retirement 2035 Trust Plus	$154,437,451	0.06%	$92,662	0.00%	$0	0.06%	$92,662	0.039%	$60,231	0.10%	$152,893
Vanguard Target Retirement 2040 Trust Plus	$141,345,306	0.06%	$84,807	0.00%	$0	0.06%	$84,807	0.039%	$55,125	0.10%	$139,932
Vanguard Target Retirement 2045 Trust Plus	$114,494,660	0.06%	$68,697	0.00%	$0	0.06%	$68,697	0.039%	$44,653	0.10%	$113,350
Vanguard Target Retirement 2050 Trust Plus	$67,109,547	0.06%	$40,266	0.00%	$0	0.06%	$40,266	0.039%	$26,173	0.10%	$66,438
Vanguard Target Retirement 2055 Trust Plus	$25,527,675	0.06%	$15,317	0.00%	$0	0.06%	$15,317	0.039%	$9,956	0.10%	$25,272
Vanguard Target Retirement 2060 Trust Plus	$8,388,409	0.06%	$5,033	0.00%	$0	0.06%	$5,033	0.039%	$3,271	0.10%	$8,305
Vanguard Target Retirement 2065 Trust Plus	$260,353	0.06%	$156	0.00%	$0	0.06%	$156	0.039%	$102	0.10%	$258
Vanguard Target Retirement Income - Instl.	$8,677,837	0.09%	$7,810	0.00%	$0	0.09%	$7,810	0.039%	$3,384	0.13%	$11,194
Vanguard Target Retirement 2015 - Instl.	$17,628,746	0.09%	$15,866	0.00%	$0	0.09%	$15,866	0.039%	$6,875	0.13%	$22,741
Vanguard Target Retirement 2020 - Instl.	$19,249,834	0.09%	$17,325	0.00%	$0	0.09%	$17,325	0.039%	$7,507	0.13%	$24,832
Vanguard Target Retirement 2025 - Instl.	$24,980,858	0.09%	$22,483	0.00%	$0	0.09%	$22,483	0.039%	$9,743	0.13%	$32,225
Vanguard Target Retirement 2030 - Instl.	$21,011,393	0.09%	$18,910	0.00%	$0	0.09%	$18,910	0.039%	$8,194	0.13%	$27,105
Vanguard Target Retirement 2035 - Instl.	$14,848,183	0.09%	$13,363	0.00%	$0	0.09%	$13,363	0.039%	$5,791	0.13%	$19,154
Vanguard Target Retirement 2040 - Instl.	$12,718,623	0.09%	$11,447	0.00%	$0	0.09%	$11,447	0.039%	$4,960	0.13%	$16,407
Vanguard Target Retirement 2045 - Instl.	$13,002,131	0.09%	$11,702	0.00%	$0	0.09%	$11,702	0.039%	$5,071	0.13%	$16,773
Vanguard Target Retirement 2050 - Instl.	$13,514,823	0.09%	$12,163	0.00%	$0	0.09%	$12,163	0.039%	$5,271	0.13%	$17,434
Vanguard Target Retirement 2055 - Instl.	$6,748,546	0.09%	$6,074	0.00%	$0	0.09%	$6,074	0.039%	$2,632	0.13%	$8,706
Vanguard Target Retirement 2060 - Instl.	$767,370	0.09%	$691	0.00%	$0	0.09%	$691	0.039%	$299	0.13%	$990
Vanguard Target Retirement 2065 - Instl.	$111,240	0.09%	$100	0.00%	$0	0.09%	$100	0.039%	$43	0.13%	$143
Vanguard Total Bond Market Index Fund	$60,759,440	0.04%	$21,266	0.00%	$0	0.04%	$21,266	0.039%	$23,696	0.07%	$44,962
Vanguard Total International Bond Index Fund - Adm.	$2,430,543	0.11%	$2,674	0.00%	$0	0.11%	$2,674	0.039%	$948	0.15%	$3,622
Vanguard Total Stock Market Index Fund	$56,590,252	0.03%	$16,977	0.00%	$0	0.03%	$16,977	0.039%	$22,070	0.07%	$39,047
Vanguard Institutional Index Fund - Instl. Plus	$176,558,246	0.02%	$35,312	0.00%	$0	0.02%	$35,312	0.039%	$68,858	0.06%	$104,169
Vanguard FTSE Social Index Fund - Adm.	$4,122,853	0.14%	$5,772	0.00%	$0	0.14%	$5,772	0.039%	$1,608	0.18%	$7,380
Vanguard Extended Market Index Fund - Instl.	$53,809,530	0.05%	$26,905	0.00%	$0	0.05%	$26,905	0.039%	$20,986	0.09%	$47,890
Vanguard Total International Stock Index Fund	$11,091,678	0.08%	$8,873	0.00%	$0	0.08%	$8,873	0.039%	$4,326	0.12%	$13,199
Vanguard Developed Market Index Fund	$58,866,969	0.05%	$29,433	0.00%	$0	0.05%	$29,433	0.039%	$22,958	0.09%	$52,392
Vanguard Emerging Markets Stock Index Fund - Instl.	$40,486,950	0.10%	$40,487	0.00%	$0	0.10%	$40,487	0.039%	$15,790	0.14%	$56,277
Vanguard Federal Money Market Fund	$58,370,626	0.11%	$64,208	0.00%	$0	0.11%	$64,208	0.039%	$22,765	0.15%	$86,972
T. Rowe Price Stable Value Common Trust Fund A	$10,664,965	0.48%	$51,192	0.00%	$0	0.48%	$51,192	0.039%	$4,159	0.52%	$55,351
TIAA Traditional - RC & RCP	$243,953,556	0.46%	$1,122,186	0.15%	($365,930)	0.31%	$756,256	0.039%	$95,142	0.35%	$851,398
PIMCO Total Return Fund	$26,482,754	0.46%	$121,821	0.00%	$0	0.46%	$121,821	0.039%	$10,328	0.50%	$132,149
DFA Inflation-Protected Securities Portfolio	$32,272,539	0.11%	$35,500	0.00%	$0	0.11%	$35,500	0.039%	$12,586	0.15%	$48,086
American Century High Income	$29,326,938	0.59%	$173,029	0.00%	$0	0.59%	$173,029	0.039%	$11,438	0.63%	$184,466
T. Rowe Price Instl. Large Cap Growth Fund	$47,079,797	0.56%	$263,647	0.00%	$0	0.56%	$263,647	0.039%	$18,361	0.60%	$282,008
Diamond Hill Large Cap	$28,849,294	0.55%	$158,671	0.00%	$0	0.55%	$158,671	0.039%	$11,251	0.59%	$169,922
William Blair Small/Mid Cap Growth Fund	$35,175,773	1.10%	$386,933	0.15%	($52,764)	0.95%	$334,170	0.039%	$13,719	0.99%	$347,888
DFA U.S. Targeted Value	$31,868,932	0.36%	$114,728	0.00%	$0	0.36%	$114,728	0.039%	$12,429	0.40%	$127,157
Dodge & Cox Global Stock Fund	$25,435,291	0.62%	$157,699	0.10%	($25,435)	0.52%	$132,264	0.039%	$9,920	0.56%	$142,183
Harding Loevner International Equity Instl.	$13,133,219	0.81%	$106,379	0.15%	($19,700)	0.66%	$86,679	0.039%	$5,122	0.70%	$91,801
MFS International Value Fund	$38,522,317	0.63%	$242,691	0.00%	$0	0.63%	$242,691	0.039%	$15,024	0.67%	$257,714
Cohen and Steers Instl. Realty Shares	$27,030,449	0.75%	$202,728	0.00%	$0	0.75%	$202,728	0.039%	$10,542	0.79%	$213,270
Mutual Fund Window	$30,900,738	0.00%	$0	0.00%	$0	0.00%	$0	0.039%	$12,051	0.04%	$12,051
Total	$2,224,288,289	0.18%	$4,083,391	-0.02%	($463,829)	0.16%	$3,619,562	0.039%	$867,472	0.20%	$4,487,034
Without Brokerage	$2,193,387,551	0.19%	$4,083,391	-0.02%	($463,829)	0.17%	$3,619,562	0.039%	$855,421	0.20%	$4,474,983

Source: TIAA

Morningstar Model Portfolios – RC Performance

As of 9/30/2020

	Performance(%)						
	1 Quarter	Year To Date	1 Year	3 Years	5 Years	Since Inception	Inception Date
RC							
Very Conservative RC	2.4	4.8	6.3	5.2	5.2	4.5	04/01/2014
Very Conservative Benchmark RC	*2.0*	*4.6*	*6.2*	*5.1*	*5.1*	*4.4*	
Conservative RC	3.4	3.0	6.2	4.9	6.1	4.9	04/01/2014
Conservative Benchmark RC	*3.1*	*2.9*	*6.1*	*5.2*	*6.3*	*5.2*	
Moderately Conservative RC	4.8	4.0	8.2	6.3	8.1	6.6	04/01/2014
Moderately Conservative Benchmark RC	*4.0*	*2.3*	*6.7*	*5.7*	*7.3*	*5.9*	
Moderate RC	5.1	1.5	6.9	5.7	8.1	6.4	04/01/2014
Moderate Benchmark RC	*4.7*	*0.9*	*6.3*	*5.7*	*8.0*	*6.3*	
Moderately Aggressive RC	5.8	1.2	7.6	6.1	8.9	6.8	04/01/2014
Moderately Aggressive Benchmark RC	*5.5*	*0.2*	*6.6*	*5.8*	*8.7*	*6.6*	
Aggressive RC	6.5	-0.2	7.3	6.5	9.7	7.3	04/01/2014
Aggressive Benchmark RC	*6.4*	*-0.3*	*7.3*	*6.0*	*9.5*	*7.1*	
Very Aggressive RC	6.8	-1.1	7.1	5.9	9.9	7.3	04/01/2014
Very Aggressive Benchmark RC	*6.9*	*-2.2*	*6.3*	*5.7*	*9.8*	*7.1*	
RC Ex-TIAA							
Very Conservative RC Ex-TIAA	2.2	6.0	7.0	5.1	4.8	4.1	04/01/2014
Very Conservative Benchmark RC Ex-TIAA	*1.9*	*6.3*	*7.6*	*5.6*	*5.1*	*4.4*	
Conservative RC Ex-TIAA	3.3	4.5	7.4	5.3	6.2	5.0	04/01/2014
Conservative Benchmark RC Ex-TIAA	*3.1*	*4.7*	*7.7*	*5.9*	*6.4*	*5.2*	
Moderately Conservative RC Ex-TIAA	4.6	4.5	8.4	6.2	7.8	6.3	04/01/2014
Moderately Conservative Benchmark RC Ex-TIAA	*4.0*	*3.7*	*7.9*	*6.2*	*7.4*	*5.9*	
Moderate RC Ex-TIAA	5.1	2.0	7.1	5.9	7.9	6.2	04/01/2014
Moderate Benchmark RC Ex-TIAA	*4.8*	*2.0*	*7.2*	*6.1*	*8.1*	*6.3*	
Moderately Aggressive RC Ex-TIAA	5.7	1.2	7.5	5.8	8.5	6.5	04/01/2014
Moderately Aggressive Benchmark RC Ex-TIAA	*5.6*	*0.6*	*6.9*	*6.0*	*8.6*	*6.6*	
Aggressive RC Ex-TIAA	6.4	-0.1	7.4	5.9	9.4	6.9	04/01/2014
Aggressive Benchmark RC Ex-TIAA	*6.3*	*-0.6*	*6.9*	*5.9*	*9.3*	*6.9*	
Very Aggressive RC Ex-TIAA	6.8	-1.2	7.0	5.8	9.8	7.2	04/01/2014
Very Aggressive Benchmark RC Ex-TIAA	*6.9*	*-2.2*	*6.3*	*5.7*	*9.8*	*7.1*	

Morningstar Model Portfolios – RC Allocations

As of 9/30/2020

RC

Fund Name	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
American Century High Income Y	7%	9%	5%	5%	4%	-	-
Cohen & Steers Instl Realty Shares	-	-	4%	3%	3%	3%	4%
DFA Inflation-Protected Securities I	9%	7%	7%	5%	3%	4%	-
DFA US Targeted Value I	-	3%	-	5%	6%	8%	10%
Diamond Hill Large Cap Y	-	3%	-	3%	8%	12%	4%
Dodge & Cox Global Stock	-	-	-	3%	6%	6%	12%
Harding International Eq Inst	-	-	3%	3%	4%	4%	7%
MFS International Value R6	7%	3%	12%	3%	9%	7%	3%
PIMCO Total Return Instl	-	-	-	-	-	-	-
T. Rowe Price Stable Value Fund	10%	7%	5%	4%	-	-	-
TIAA Traditional	40%	34%	30%	22%	15%	7%	-
Vanguard Developed Markets Idx Instl	-	5%	-	10%	7%	13%	14%
Vanguard Emerging Mkts Stock Idx I	-	3%	3%	5%	7%	9%	11%
Vanguard Extended Market Idx I	3%	3%	10%	7%	9%	11%	8%
Vanguard Institutional Index Instl Pl	3%	10%	15%	18%	15%	16%	24%
Vanguard Total Bond Market Index I	21%	13%	6%	4%	4%	-	-
William Blair Small-Mid Cap Gr I	-	-	-	-	-	-	3%

RC Ex-TIAA

Fund Name	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
American Century High Income Y	7%	9%	5%	5%	5%	-	-
Cohen & Steers Instl Realty Shares	-	-	3%	3%	3%	3%	4%
DFA Inflation-Protected Securities I	9%	8%	6%	5%	3%	3%	-
DFA US Targeted Value I	-	3%	3%	5%	6%	8%	10%
Diamond Hill Large Cap Y	-	3%	-	4%	9%	9%	4%
Dodge & Cox Global Stock	-	-	-	-	7%	8%	13%
Harding International Eq Inst	-	-	3%	4%	3%	3%	7%
MFS International Value R6	6%	3%	11%	3%	9%	11%	3%
PIMCO Total Return Instl	-	-	-	-	-	-	-
T. Rowe Price Stable Value Fund	24%	19%	15%	11%	7%	4%	-
Vanguard Developed Markets Idx Instl	-	5%	-	10%	7%	10%	13%
Vanguard Emerging Mkts Stock Idx I	-	3%	3%	5%	7%	9%	11%
Vanguard Extended Market Idx I	3%	4%	9%	7%	9%	11%	8%
Vanguard Institutional Index Instl Pl	3%	8%	14%	19%	14%	17%	24%
Vanguard Total Bond Market Index I	48%	35%	28%	19%	11%	4%	-
William Blair Small-Mid Cap Gr I	-	-	-	-	-	-	3%

*Full allocation history can be found in the Appendix of Aon's Quarterly Investment Review.

Morningstar Model Portfolios – RC Benchmarks

As of 9/30/2020

RC Benchmarks

Index	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Blmbg. Barc. Global Inflation-Linked US TIPS	11%	7%	7%	5%	3%	3%	-
Blmbg. Barc. US Agg. Bond	29%	20%	13%	10%	6%	3%	-
Blmbg. Barc. US Corp HY	7%	6%	5%	3%	3%	-	-
Citi Treasury Bill 3 Mo.	3%	3%	-	-	-	-	-
FTSE NAREIT All Equity REITs	-	-	3%	3%	3%	3%	4%
MSCI EAFE GR	4%	8%	12%	16%	20%	24%	27%
MSCI EM GR	-	3%	4%	6%	8%	10%	13%
Russell 1000 Growth	-	3%	7%	8%	9%	11%	12%
Russell 1000 Value	3%	7%	7%	12%	14%	16%	18%
Russell 2000 Growth	-	-	3%	3%	3%	4%	5%
Russell 2000 Value	-	3%	3%	3%	4%	5%	6%
Russell Mid Cap Growth	3%	3%	3%	3%	5%	6%	6%
Russell Mid Cap Value	-	3%	3%	6%	7%	8%	9%
TIAA Traditional	40%	34%	30%	22%	15%	7%	-

RC Ex-TIAA Benchmarks

Index	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Blmbg. Barc. Global Inflation-Linked US TIPS	11%	8%	6%	5%	3%	3%	-
Blmbg. Barc. US Agg. Bond	72%	56%	44%	32%	21%	10%	-
Blmbg. Barc. US Corp HY	7%	6%	5%	3%	3%	-	-
Citi Treasury Bill 3 Mo.							
FTSE NAREIT All Equity REITs	-	-	3%	3%	3%	3%	4%
MSCI EAFE GR	4%	8%	12%	16%	20%	24%	27%
MSCI EM GR	-	3%	4%	6%	8%	10%	13%
Russell 1000 Growth	-	3%	7%	8%	9%	11%	12%
Russell 1000 Value	3%	7%	7%	12%	14%	16%	18%
Russell 2000 Growth	-	-	3%	3%	3%	4%	5%
Russell 2000 Value	-	3%	3%	3%	4%	5%	6%
Russell Mid Cap Growth	3%	3%	3%	3%	5%	6%	6%
Russell Mid Cap Value	-	3%	3%	6%	7%	8%	9%

*Full allocation history can be found in the Appendix of Aon's Quarterly Investment Review.

Morningstar Model Portfolios – RCP Performance

As of 9/30/2020

	Performance(%)						
	1 Quarter	Year To Date	1 Year	3 Years	5 Years	Since Inception	Inception Date
RCP							
Very Conservative RCP	2.1	4.4	5.5	4.8	4.9	4.2	04/01/2014
Very Conservative Benchmark RCP	*1.8*	*3.6*	*5.1*	*4.3*	*4.5*	*3.9*	
Conservative RCP	3.5	2.4	5.5	4.7	5.8	4.6	04/01/2014
Conservative Benchmark RCP	*3.2*	*2.6*	*5.7*	*4.9*	*5.9*	*4.9*	
Moderately Conservative RCP	4.8	3.8	7.6	5.9	7.7	6.2	04/01/2014
Moderately Conservative Benchmark RCP	*4.1*	*2.1*	*6.3*	*5.5*	*7.0*	*5.6*	
Moderate RCP	5.4	2.3	7.6	5.9	8.0	6.3	04/01/2014
Moderate Benchmark RCP	*5.0*	*1.4*	*6.8*	*5.8*	*8.0*	*6.2*	
Moderately Aggressive RCP	6.4	1.5	7.9	6.2	8.9	6.8	04/01/2014
Moderately Aggressive Benchmark RCP	*5.7*	*0.2*	*6.5*	*5.8*	*8.6*	*6.5*	
Aggressive RCP	7.2	1.8	9.3	6.6	9.8	7.3	04/01/2014
Aggressive Benchmark RCP	*6.5*	*-0.3*	*7.2*	*6.0*	*9.5*	*7.0*	
Very Aggressive RCP	7.7	-0.1	8.3	6.0	10.0	7.3	04/01/2014
Very Aggressive Benchmark RCP	*7.1*	*-1.8*	*6.6*	*5.8*	*9.9*	*7.2*	
RCP Ex-TIAA							
Very Conservative RCP Ex-TIAA	2.0	7.1	8.0	6.0	5.4	4.6	04/01/2014
Very Conservative Benchmark RCP Ex-TIAA	*1.8*	*5.9*	*7.1*	*5.4*	*5.0*	*4.3*	
Conservative RCP Ex-TIAA	3.4	5.3	8.1	5.7	6.4	5.2	04/01/2014
Conservative Benchmark RCP Ex-TIAA	*3.2*	*4.3*	*7.3*	*5.6*	*6.3*	*5.1*	
Moderately Conservative RCP Ex-TIAA	4.7	5.0	8.7	6.7	8.1	6.4	04/01/2014
Moderately Conservative Benchmark RCP Ex-TIAA	*3.9*	*3.1*	*7.2*	*5.9*	*7.2*	*5.8*	
Moderate RCP Ex-TIAA	5.3	3.3	8.4	6.4	8.2	6.4	04/01/2014
Moderate Benchmark RCP Ex-TIAA	*4.9*	*1.9*	*7.2*	*6.1*	*8.1*	*6.3*	
Moderately Aggressive RCP Ex-TIAA	6.4	2.1	8.4	6.4	8.9	6.7	04/01/2014
Moderately Aggressive Benchmark RCP Ex-TIAA	*5.8*	*0.8*	*7.1*	*6.1*	*8.7*	*6.6*	
Aggressive RCP Ex-TIAA	7.3	1.1	8.6	6.4	9.7	7.2	04/01/2014
Aggressive Benchmark RCP Ex-TIAA	*6.6*	*-0.5*	*7.0*	*5.9*	*9.4*	*6.9*	
Very Aggressive RCP Ex-TIAA	7.6	-0.3	8.0	5.9	9.9	7.3	04/01/2014
Very Aggressive Benchmark RCP Ex-TIAA	*7.1*	*-2.0*	*6.4*	*5.8*	*9.8*	*7.1*	

Morningstar Model Portfolios – RCP Allocations

As of 9/30/2020

RCP

Fund Name	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
American Century High Income Y	6%	6%	5%	5%	5%	-	-
Cohen & Steers Instl Realty Shares	-	-	3%	3%	3%	3%	4%
DFA Inflation-Protected Securities I	9%	8%	6%	4%	3%	-	-
DFA US Targeted Value I	-	3%	3%	5%	6%	7%	9%
Diamond Hill Large Cap Y	3%	11%	-	3%	10%	12%	12%
Dodge & Cox Global Stock	-	3%	-	3%	4%	3%	4%
Harding International Eq Inst	-	-	3%	3%	5%	5%	7%
MFS International Value	-	3%	8%	3%	5%	4%	-
PIMCO Total Return Instl	27%	16%	8%	3%	-	-	-
TIAA Traditional	40%	32%	25%	16%	10%	5%	-
Vanguard Developed Markets Idx Instl	4%	4%	3%	10%	10%	15%	19%
Vanguard Emerging Mkts Stock Idx I	-	3%	4%	5%	7%	9%	12%
Vanguard Extended Market Idx I	-	3%	9%	7%	9%	12%	14%
Vanguard Federal Money Market Inv	4%	-	-	-	-	-	-
Vanguard Institutional Index Instl Pl	-	-	13%	18%	15%	18%	19%
Vanguard Total Bond Market Index I	-	5%	6%	9%	5%	7%	-
Vanguard Total International Bond Market Index	4%	3%	4%	3%	3%	-	-
William Blair Small-Mid Cap Gr I	3%	-	-	-	-	-	-

RCP Ex-TIAA

Fund Name	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
American Century High Income Y	6%	7%	3%	3%	4%	-	-
Cohen & Steers Instl Realty Shares	-	-	4%	4%	3%	3%	4%
DFA Inflation-Protected Securities I	10%	8%	5%	4%	3%	-	-
DFA US Targeted Value I	-	3%	-	4%	6%	7%	9%
Diamond Hill Large Cap Y	-	3%	-	4%	11%	12%	12%
Dodge & Cox Global Stock	-	-	-	3%	3%	3%	4%
Harding International Eq Inst	-	-	3%	3%	5%	5%	7%
MFS International Value	5%	3%	11%	3%	5%	4%	-
PIMCO Total Return Instl	-	-	-	3%	4%	-	-
Vanguard Developed Markets Idx Instl	-	6%	-	10%	11%	15%	19%
Vanguard Emerging Mkts Stock Idx I	-	3%	3%	5%	7%	9%	12%
Vanguard Extended Market Idx I	3%	4%	12%	8%	9%	12%	14%
Vanguard Federal Money Market Inv	3%	-	-	-	-	-	-
Vanguard Institutional Index Instl Pl	3%	8%	14%	17%	14%	18%	19%
Vanguard Total Bond Market Index I	65%	55%	40%	29%	15%	9%	-
Vanguard Total International Bond Market Index	5%	-	5%	-	-	3%	-
William Blair Small-Mid Cap Gr I	-	-	-	-	-	-	-

*Full allocation history can be found in the Appendix of Aon's Quarterly Investment Review.

Morningstar Model Portfolios – RCP Benchmarks

As of 9/30/2020

RCP Benchmarks

Index	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Blmbg. Barc. Global Inflation-Linked US TIPS	9%	8%	6%	4%	3%	-	-
Blmbg. Barc. US Agg. Bond 1-3 Years	19%	14%	10%	8%	5%	4%	-
Blmbg. Barc. US Corp HY	6%	5%	4%	3%	3%	-	-
Blmbg. Barc. US Long Gov't./Credit	5%	5%	4%	5%	3%	4%	-
Citi Treasury Bill 3 Mo.	3%	-	-	-	-	-	-
Blmbg. Barc. Global Agg ex-USD Flt Adj RIC Cpd	8%	6%	6%	4%	3%	-	-
FTSE NAREIT All Equity REITs	-	-	3%	3%	3%	3%	4%
MSCI EAFE GR	4%	8%	12%	16%	20%	24%	27%
MSCI EM GR	-	3%	4%	6%	8%	10%	13%
Russell 1000 Growth	-	3%	7%	8%	9%	11%	12%
Russell 1000 Value	3%	7%	7%	12%	14%	16%	18%
Russell 2000 Growth	-	-	3%	3%	3%	4%	5%
Russell 2000 Value	-	3%	3%	3%	4%	5%	6%
Russell Mid Cap Growth	3%	3%	3%	3%	5%	6%	6%
Russell Mid Cap Value	-	3%	3%	6%	7%	8%	9%
TIAA Traditional	40%	32%	25%	16%	10%	5%	-

RCP Ex-TIAA Benchmarks

Index	Very Conservative	Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive	Very Aggressive
Blmbg. Barc. Global Inflation-Linked US TIPS	10%	8%	5%	4%	3%	-	-
Blmbg. Barc. US Agg. Bond	60%	47%	37%	29%	18%	10%	-
Blmbg. Barc. US Corp HY	6%	5%	4%	3%	3%	-	-
Citi Treasury Bill 3 Mo.	6%	4%	3%	-	-	-	-
Blmbg. Barc. Global Agg ex-USD Flt Adj RIC Cpd	8%	6%	6%	4%	3%	3%	-
FTSE NAREIT All Equity REITs	-	-	3%	3%	3%	3%	4%
MSCI EAFE GR	4%	8%	12%	16%	20%	24%	27%
MSCI EM GR	-	3%	4%	6%	8%	10%	13%
Russell 1000 Growth	-	3%	7%	8%	9%	11%	12%
Russell 1000 Value	3%	7%	7%	12%	14%	16%	18%
Russell 2000 Growth	-	-	3%	3%	3%	4%	5%
Russell 2000 Value	-	3%	3%	3%	4%	5%	6%
Russell Mid Cap Growth	3%	3%	3%	3%	5%	6%	6%
Russell Mid Cap Value	-	3%	3%	6%	7%	8%	9%

*Full allocation history can be found in the Appendix of Aon's Quarterly Investment Review.

Morningstar Model Portfolios – Static Allocation Performance

As of 9/30/2020

	Performance(%)						
	1 Quarter	Year To Date	1 Year	3 Years	5 Years	Since Inception	Inception Date
RC							
Very Conservative RC (Static)	2.3	5.2	6.5	5.1	5.1	4.5	04/01/2014
Very Conservative Benchmark RC (Static)	*1.9*	*3.6*	*5.2*	*4.6*	*4.8*	*4.2*	
Conservative RC (Static)	3.5	3.7	7.0	5.5	6.5	5.4	04/01/2014
Conservative Benchmark RC (Static)	*3.2*	*2.5*	*5.7*	*5.2*	*6.2*	*5.1*	
Moderately Conservative RC (Static)	4.0	1.8	6.3	5.7	7.4	6.1	04/01/2014
Moderately Conservative Benchmark RC (Static)	*3.9*	*1.3*	*5.4*	*5.4*	*7.1*	*5.7*	
Moderate RC (Static)	5.2	1.3	7.1	6.2	8.5	6.7	04/01/2014
Moderate Benchmark RC (Static)	*4.8*	*0.3*	*5.6*	*5.6*	*7.9*	*6.2*	
Moderately Aggressive RC (Static)	5.7	-0.1	6.8	6.1	9.2	7.1	04/01/2014
Moderately Aggressive Benchmark RC (Static)	*5.5*	*-0.7*	*5.5*	*5.7*	*8.5*	*6.5*	
Aggressive RC (Static)	6.5	-0.4	7.7	6.6	10.2	7.8	04/01/2014
Aggressive Benchmark RC (Static)	*6.3*	*-1.4*	*5.8*	*5.9*	*9.2*	*6.9*	
Very Aggressive RC (Static)	7.0	-2.9	6.1	5.6	10.0	7.2	04/01/2014
Very Aggressive Benchmark RC (Static)	*7.0*	*-3.0*	*5.2*	*5.6*	*9.6*	*7.0*	
RCP							
Very Conservative RCP (Static)	2.4	4.8	6.4	5.1	5.0	4.3	04/01/2014
Very Conservative Benchmark RCP (Static)	*1.8*	*3.3*	*4.9*	*4.3*	*4.5*	*3.9*	
Conservative RCP (Static)	3.4	3.4	6.6	5.2	6.2	5.1	04/01/2014
Conservative Benchmark RCP (Static)	*3.2*	*2.4*	*5.5*	*5.0*	*6.0*	*4.9*	
Moderately Conservative RCP (Static)	4.0	1.8	6.3	5.5	7.3	5.9	04/01/2014
Moderately Conservative Benchmark RCP (Static)	*3.9*	*1.4*	*5.4*	*5.3*	*6.9*	*5.5*	
Moderate RCP (Static)	5.1	1.5	7.2	6.1	8.4	6.6	04/01/2014
Moderate Benchmark RCP (Static)	*4.7*	*0.4*	*5.6*	*5.5*	*7.8*	*6.0*	
Moderately Aggressive RCP (Static)	5.7	0.0	6.9	6.1	9.1	7.0	04/01/2014
Moderately Aggressive Benchmark RCP (Static)	*5.5*	*-0.7*	*5.5*	*5.6*	*8.4*	*6.4*	
Aggressive RCP (Static)	6.5	-0.4	7.7	6.6	10.2	7.8	04/01/2014
Aggressive Benchmark RCP (Static)	*6.3*	*-1.3*	*6.0*	*6.0*	*9.3*	*6.9*	
Very Aggressive RCP (Static)	7.0	-2.9	6.1	5.6	10.0	7.2	04/01/2014
Very Aggressive Benchmark RCP (Static)	*7.0*	*-3.0*	*5.2*	*5.6*	*9.6*	*7.0*	

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Discussion Topics

Vanguard Target Retirement Trusts/Funds

- Each of the Vanguard Target Retirement Trusts/Funds posted a positive absolute return that closely approximated the return of its respective performance benchmark during the third quarter
  - The longer-dated, more equity-heavy Target Retirement 2065 Trust II returned 7.4%
  - The Target Retirement Income Trust II, with its greater proportion of fixed income assets, returned 3.1%
- For the twelve months ended September 30, 2020, all the Target Retirement Funds posted a positive absolute return but exhibited a modest level of tracking error
  - The Target Retirement 2065 Trust II returned 10.4%, while the Target Retirement Income Trust II returned 7.5%
  - Relative underperformance was due to a combination of allocation differences, expenses, underlying fund tracking, and fair value pricing adjustments
- Longer-term results continued to exhibit a modest level of tracking error but ranked favorably among their respective peer-group averages
  - Fair value pricing adjustments along with the impact of statistical sampling and the underlying component Fund's investment management fees detracted from results
- The Vanguard Target Retirement Funds remain "Buy" rated by our Global Investment Management Research Team

T. Rowe Price Stable Value Common Trust Fund

- The Fund registered "Orange" on the Watch List during the third quarter
  - Due to the Fund's historical underperformance relative to its benchmark over the trailing five-year period and in three of the four most recent trailing calendar quarters
- The Fund's performance trailed the return of its benchmark, the Hueler Stable Value Index, by 0.1 percentage point during the third quarter
- The Fund's relative underperformance was primarily attributable to:
  - Shorter duration positioning relative to the Barclays Intermediate U.S. Aggregate Bond Index as rates moved lower
  - A 5% allocation to cash during the current low interest rate environment.
- For the twelve months ended June 30, 2020, the Fund generated a return of 2.1% versus the benchmark's return of 2.4%
- Longer-term annualized performance remained adverse relative to the Fund's performance benchmark but ranked favorable relative to its peer group median
- The strategy remains "Buy" rated by our Global Investment Management Research Team
- We continue to closely monitor the Fund's positioning and performance but recommend the Committee take no action as the investment team remains consistent and continues to execute on its historic philosophy and process

William Blair Small-Mid Cap Growth Fund

- On September 14, 2020, Mark Thompson, associate portfolio manager and research analyst, was promoted to co-portfolio manager
- Mr. Thompson's promotion initiates the succession plan for Mike Balkin, who will retire from the firm at the end of 2020
  - Ward Sexton will remain co-portfolio manager on the strategy, which will ensure continuity and consistency of the philosophy and process
- Mr. Thompson's research coverage will be absorbed by the existing sector analysts on the U.S. Growth Team
  - A new small cap generalist research analyst has been named to help with new idea generation and stock coverage
- We retain our "Buy" rating for the William Blair Small Cap Growth Fund and recommend no action at this time
- A detailed Flash Report is included under section 4 of this presentation

September 2020

Flash Report

William Blair Investment Management, LLC – Small Cap Growth Portfolio Management Team Change

Recommendation

We are retaining our "Buy" rating for the William Blair Small Cap Growth strategy and recommend clients make no changes at this time. We believe Mark Thompson is a natural choice to succeed Mike Balkin as co-portfolio manager for the Small Cap Growth strategy given his tenure on the team as an associate portfolio manager and as a small cap generalist research analyst. Additionally, Ward Sexton will remain co-portfolio manager on the strategy, which will ensure continuity and consistency of the philosophy and process. While we typically prefer a longer transition period for portfolio manager changes, we believe the communicated time period is adequate in this instance given Mr. Thompson's high level of involvement with the U.S. Growth Team for 14 years and Mr. Sexton's tenure of 19 years with the team.

If you have any questions, please contact a member of Aon Investment's Investment Manager Research team.

Background

On September 14, 2020, Aon's Investment Manager Research team was informed of a change to the portfolio management team for the William Blair Small Cap Growth strategy. Mark Thompson, associate portfolio manager and research analyst - U.S. small cap generalist, was promoted to co-portfolio manager, joining portfolio managers Ward Sexton and Mike Balkin on the strategy.

Mr. Thompson's promotion to co-portfolio manager initiates the succession plan for Mr. Balkin, who will retire from the firm at the end of 2020 to pursue an opportunity outside the asset management industry.

Mr. Thompson has been with the William Blair U.S. Growth Team for 14 years, including serving as associate portfolio manager on the Small Cap Growth strategy for seven years. Mr. Thompson's research coverage will be absorbed by the existing sector analysts on the U.S. Growth Team and a new small cap generalist research analyst has been named to help with new idea generation and stock coverage.

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Discussion Topics

Flash Report

William Blair Investment Management, LLC – Small Cap Growth Portfolio Management Team Change

Recommendation

We are retaining our "Buy" rating for the William Blair Small Cap Growth strategy and recommend clients make no changes at this time. We believe Mark Thompson is a natural choice to succeed Mike Balkin as co-portfolio manager for the Small Cap Growth strategy given his tenure on the team as an associate portfolio manager and as a small cap generalist research analyst. Additionally, Ward Sexton will remain co-portfolio manager on the strategy, which will ensure continuity and consistency of the philosophy and process. While we typically prefer a longer transition period for portfolio manager changes, we believe the communicated time period is adequate in this instance given Mr. Thompson's high level of involvement with the U.S. Growth Team for 14 years and Mr. Sexton's tenure of 19 years with the team.

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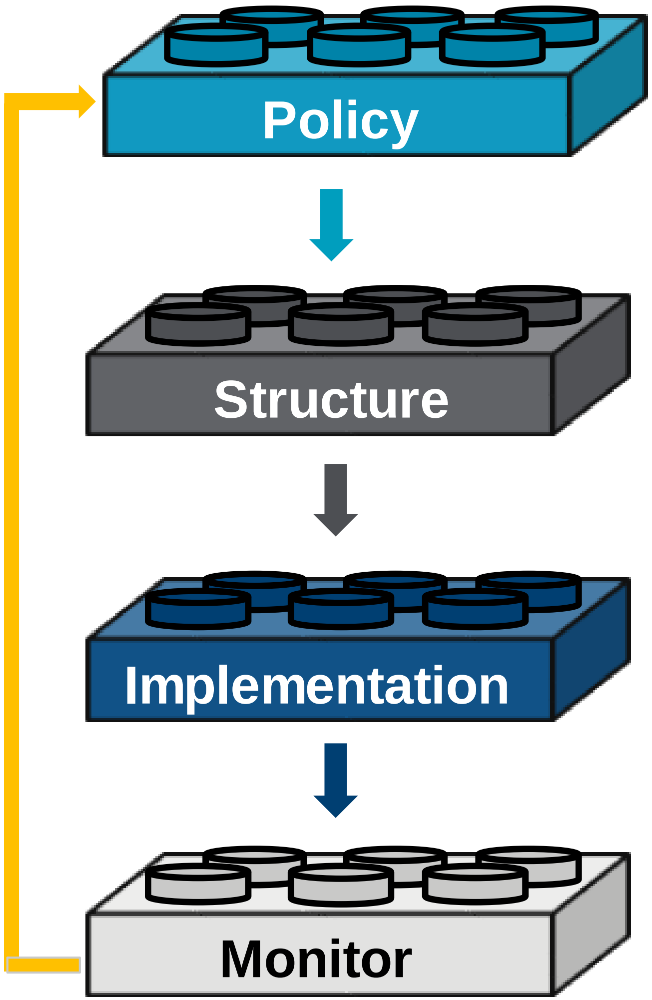
Discussion Topics

The Building Blocks of a Plan's Investment Structure



Today's Discussion

- Define and categorize plan objectives
- Maintain long-term focus

- Number of options offered
- Education on option implementation
  - Off-the-Shelf vs. Custom
  - Active vs. Passive
  - Style, Asset Class, or Objective-Based
  - Single or Multi-Manager

- Finalize investment options within structure
  - Investment Manager Selection
  - Vehicle Type
  - Fees

- Ongoing monitoring and maintenance for better participant outcomes

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Investment Structure – Why Structure Matters

Defined contribution participants are responsible for key actions that influence their own outcomes

Savings Behavior

Investment Choices

The structure of a defined contribution plan's investment lineup can have a significant **impact** on the choices people make, and ultimately their **success.** For these reasons, we believe in two key principles relating to investment menu structure:

Streamline Investment Options

Facilitate Smart Decisions

Streamline investment options *as much as possible*

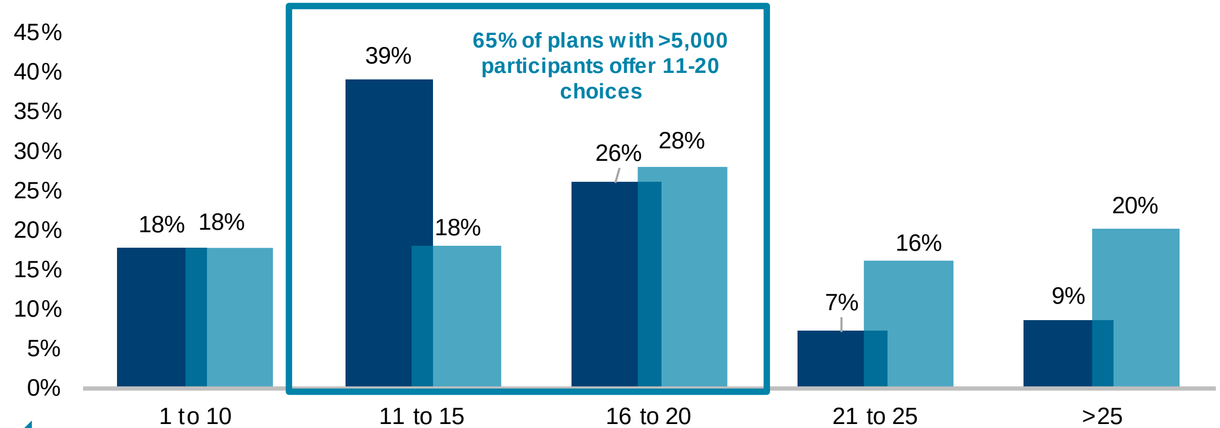
- *Target date funds as default*
  - *Participants can choose one fund and "forget it"*
- *A core lineup of passive and/or active strategies*
  - *To build customized investment portfolios*

Facilitate smart decisions

- *Design can nudge participants to act in their best long-term interest*
- *Participants seek forms of help for making decisions*
- *Good governance leads to a strong investment menu*

What is the Right Number of Funds to Offer?

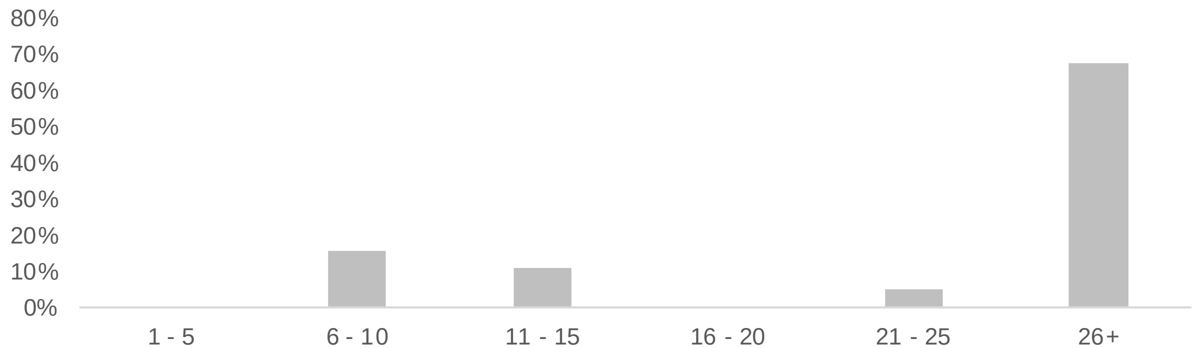
Number of Investment Options: Distribution of Results[1]



The trend in recent years has been for plans to reduce the number of options available to DC participants

■ = 401(k) Plans with >5,000+ Participants ■ = All 401(k) Plans

2018 Vanguard Survey of Higher Education Plans (2500+ Participants)



Plan sponsors continue to grapple with the right number of fund choices…

More Choice

- Large Menu
- More Fund Options
- Specialized Mandates

Less Choice

- Menu Consolidation
- Fewer Fund Options
- Broader Mandates

[1]Source: Plan Sponsor Council of America "61st Annual Survey – PSCA's Annual Survey of Profit Sharing and 401(k) Plans." 2018

Defining Lineups by Regulation and Objectives

The **Pension Protection Act of 2006** defined what could be a qualified default investment alternative (QDIA)

ERISA 404(c) compliance only requires a minimum of 3 investment options within a core lineup (Stock, Bonds, Cash

The **SECURE Act of 2019** encouraged plan sponsors to pursue expanded retiree optionality and income disclosures

- We believe there are five key categories, based on objectives, for investment lineups:

Regulation	Objective	Definition
Pension Protection Act of 2006 (PPA 2006)	**Asset Allocation**	A professionally designed multi-asset class investment solution
ERISA 404(c)	**Capital Preservation**	An asset class exposure seeking stability of principle with a conservative yield on capital
	Income	An asset class producing returns through dividends and interest payments (predominantly high-quality fixed income)
	Growth	An asset class exposure seeking long-term capital growth through investments in stocks
SECURE Act of 2019	**Retirement Income**	Investment solution designed to help facilitate distributions and/or protect purchasing power of accumulated savings for participant in payout

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Regulation meaningfully impacts DC Lineup Usage

Plan Defaults

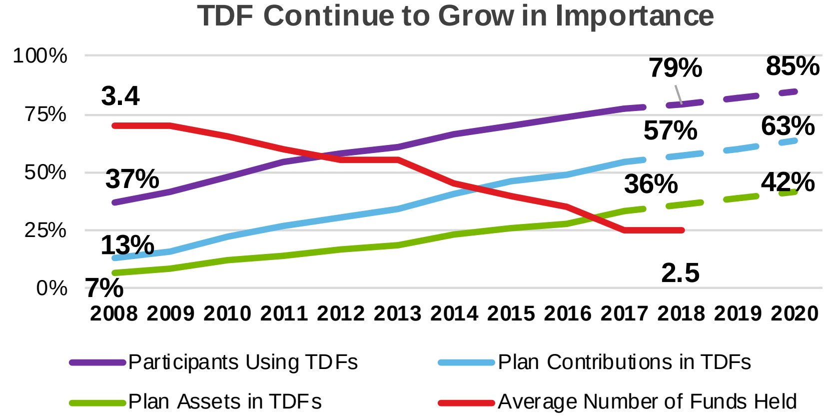
- The ***Pension Protection Act of 2006 (PPA)*** defined what investments are eligible Qualified Default Investment Alternative (QDIA)
- Aon prefers TDFs as a plan's QDIA over balanced funds, managed accounts, target risk funds, or stable value

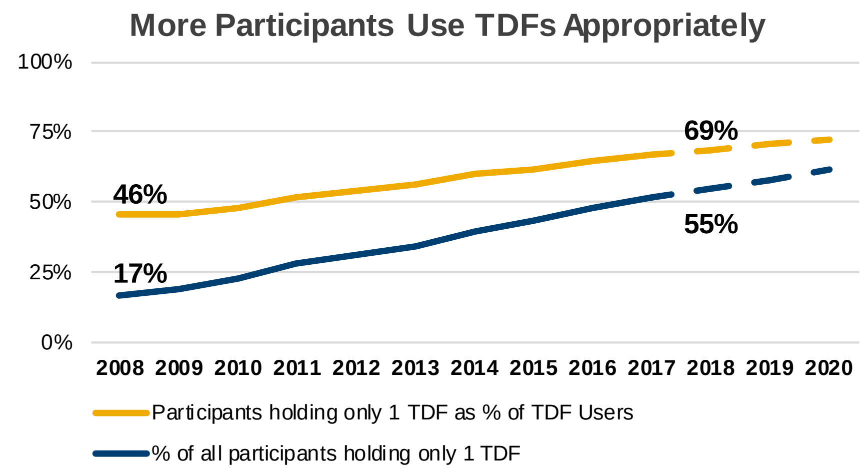
Core Menu

- Growth in target date funds will continue to apply pressure to the role, usage, and fee leverage of core funds within a DC investment structure
- ***ERISA 404(c)*** compliance only requires a minimum of 3 investment options within a core lineup (e.g., stock, bonds, and cash)
- *Integrating the core options will allow the plan to stem the tide and gain control over asset class availability and fee leverage*

Retirement Income

- The ***SECURE Act provides enhancements to fiduciary protections*** and mitigates administrative barriers to offering annuities in DC Plans
- ***QDIA options now address retiree objectives***, as new solutions seek to include managed spending or even guaranteed income components





For illustrative purposes only.
Source: *Vanguard's How America Saves, 2019.*

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Asset Class Prevalence

- In the table below, we detail the asset classes of funds commonly available to participants within 403(b) defined contribution retirement plans

Investment Option Type[1]:	Plans with 1,000+ Participants	All Plans
Balanced Fund/Asset Allocation	71.4%	69.2%
Target Retirement Date/Lifecycle	66.3	63.3
Cash Equivalents	60.2	55.3
Real Estate	57.1	53.3
Emerging Markets (Active)	45.9	45.5
U.S. Stock (Indexed)	50.0	40.6
U.S. Stock (Active)	44.9	39.8
U.S. Bonds (Indexed)	54.1	39.6
U.S. Bonds (Active)	42.9	38.2
Non-U.S. Stock (Active)	43.9	35.7
ESG (Socially Responsible)	44.9	34.3
Non-U.S. Stock (Indexed)	45.9	33.1
Non-U.S. Bonds (Active)	33.7	27.6
Stable Value/Capital Preservation	29.6	20.8
Target Risk/Lifestyle	16.3	20.8
Sector Fund(s) Other than Real Estate	15.3	13.5
Self-Directed Brokerage Window	25.5	12.4
Other	1.0	0.4

[1]Source: Plan Sponsor Council of America "11th Annual Survey – PSCA's Annual 403(b) Plan Survey reflecting 2018 plan experience."

Current Investment Structure

Fund Options Available by Tier and Objective

- There are opportunities to streamline the investment lineup while still maintaining a well diversified set of options for participants

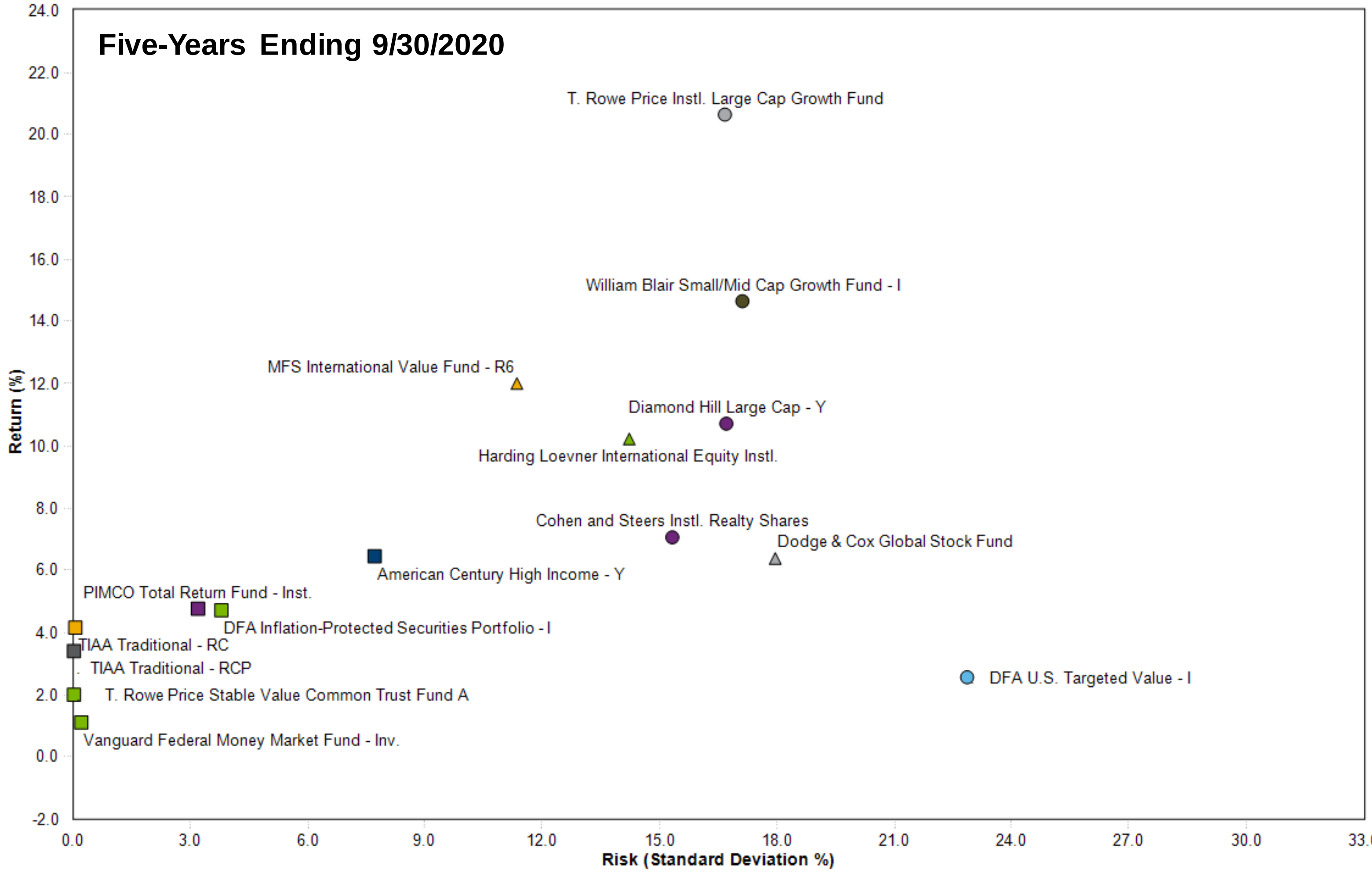
Objective

- Asset Allocation
- Capital Preservation
- Income
- Growth
- Retirement Income

Savings Phase

1 Professionally Managed	2 Wanting Low-Cost Access	3 Looking to Outperform
Target Retirement Funds	Total U.S. Bond Index	Federal Money Market Fund
	Total Int. Bond Index	Stable Value Fund
	Total U.S. Stock Mkt. Index	Guaranteed Fixed Return Annuity
	S&P 500 Index	Inflation-Protected Bond Fund
	FTSE Social Index	Core-Plus Bond Fund
	Extended Market Index	High-Yield Bond Fund
	Total Int. Stock Index	Large-Cap Value U.S. Stock Fund
	Developed Stock Index	Large-Cap Growth U.S. Stock Fund
	Emerging Mkts. Stock Index	SMID-Cap Value U.S. Stock Fund
		SMID-Cap Growth U.S. Stock Fund
		Global Stock Fund
		International Value Stock Fund
		International Growth Stock Fund
		Real Estate Fund

Do Offerings Span the Risk Spectrum? – Active Funds



- The Plans' actively managed investment options provide participants with ample opportunity to form well-diversified portfolios, given a reasonable range of risk and return circumstance

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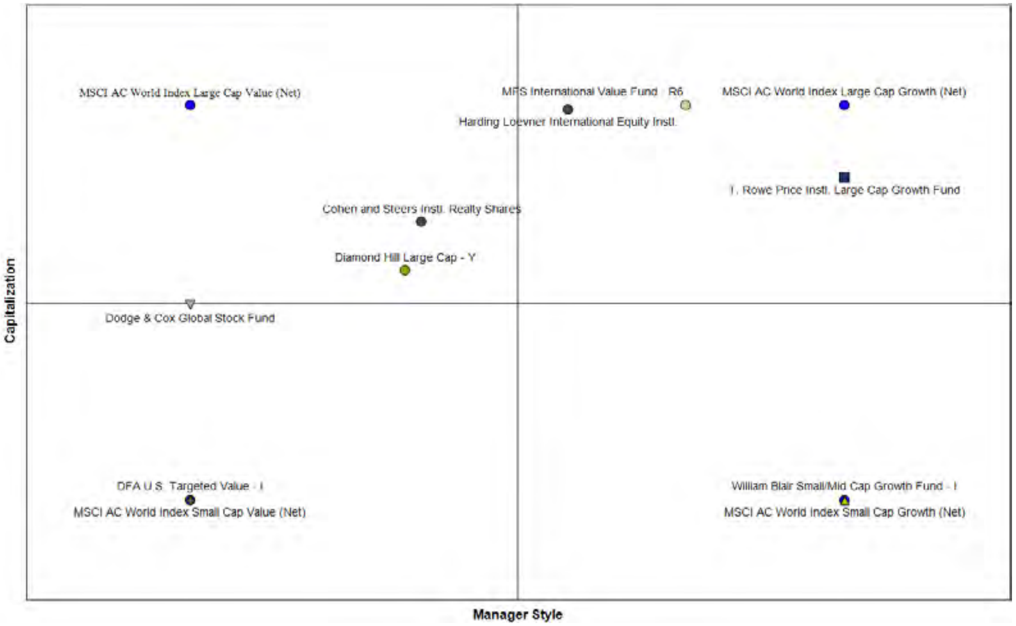
Are Different Styles and Capitalizations Offered?

Five-Years Ending 9/30/2020

Style Analysis – Active Funds



- An effective and efficient way for participants to reduce loss, and thereby increase return, is to diversify their investment portfolios
- As illustrated above, participants are offered a broad selection of U.S. equity funds across investment styles (growth and value) and the market capitalization spectrum (large and small)

Correlation Table
Tier II Investment Options

- The five-year correlation among NSHE's investment options is shown below
- Correlations above **0.7** are shown in red, between **0.3 and 0.7** in yellow, and below **0.3** in green

5 Years Ending September 30, 2020

	Fund	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1	Vanguard Total Bond Market Index Fund	1.00																							
2	Vanguard Total International Bond Index Fund	0.79	1.00																						
3	Vanguard Total Stock Market Index Fund	-0.06	0.11	1.00																					
4	Vanguard Institutional Index Fund	-0.05	0.11	1.00	1.00																				
5	Vanguard FTSE Social Index Fund	-0.06	0.10	0.99	0.99	1.00																			
6	Vanguard Extended Market Index Fund	-0.05	0.13	0.96	0.94	0.95	1.00																		
7	Vanguard Total International Stock Index Fund	0.03	0.12	0.88	0.88	0.88	0.85	1.00																	
8	Vanguard Developed Market Index Fund	-0.01	0.08	0.89	0.89	0.89	0.86	0.99	1.00																
9	Vanguard Emerging Markets Stock Index Fund	0.15	0.19	0.76	0.77	0.76	0.73	0.92	0.86	1.00															
10	Vanguard Federal Money Market Fund	0.19	0.16	-0.14	-0.13	-0.13	-0.16	-0.17	-0.16	-0.18	1.00														
11	T. Rowe Price Stable Value Common Trust Fund A	0.38	0.24	-0.07	-0.07	-0.05	-0.07	-0.14	-0.13	-0.14	0.68	1.00													
12	TIAA Traditional - RC	-0.05	-0.10	0.02	0.02	0.00	0.02	0.03	0.03	0.03	-0.39	-0.29	1.00												
13	TIAA Traditional - RCP	-0.04	-0.06	0.03	0.03	0.01	0.03	0.05	0.05	0.06	-0.40	-0.32	0.98	1.00											
14	PIMCO Total Return Fund	0.92	0.76	0.12	0.12	0.12	0.12	0.23	0.20	0.30	0.10	0.33	0.00	0.00	1.00										
15	DFA Inflation-Protected Securities Portfolio	0.83	0.70	0.23	0.23	0.22	0.23	0.26	0.22	0.37	0.02	0.27	0.01	0.02	0.82	1.00									
16	American Century High Income	0.15	0.31	0.79	0.77	0.78	0.82	0.83	0.82	0.77	-0.15	-0.09	0.14	0.14	0.34	0.37	1.00								
17	T. Rowe Price Instl. Large Cap Growth Fund	-0.06	0.03	0.93	0.93	0.94	0.88	0.84	0.85	0.73	-0.14	-0.05	-0.02	-0.02	0.13	0.21	0.70	1.00							
18	Diamond Hill Large Cap	-0.10	0.10	0.97	0.97	0.97	0.94	0.88	0.88	0.77	-0.13	-0.11	0.02	0.04	0.08	0.16	0.81	0.87	1.00						
19	William Blair Small/Mid Cap Growth Fund	0.00	0.17	0.92	0.90	0.91	0.95	0.78	0.80	0.64	-0.10	-0.01	-0.04	-0.04	0.17	0.24	0.76	0.88	0.88	1.00					
20	DFA U.S. Targeted Value	-0.19	0.05	0.91	0.89	0.89	0.96	0.81	0.82	0.69	-0.16	-0.18	0.05	0.07	-0.03	0.09	0.77	0.77	0.93	0.85	1.00				
21	Dodge & Cox Global Stock Fund	-0.13	0.04	0.92	0.92	0.92	0.90	0.94	0.94	0.85	-0.16	-0.17	0.08	0.10	0.09	0.13	0.84	0.85	0.95	0.81	0.91	1.00			
22	Harding Loevner International Equity Instl.	0.06	0.11	0.84	0.85	0.84	0.80	0.96	0.95	0.88	-0.21	-0.13	0.01	0.04	0.24	0.28	0.77	0.81	0.83	0.75	0.75	0.87	1.00		
23	MFS International Value Fund	0.16	0.18	0.85	0.86	0.84	0.79	0.89	0.90	0.79	-0.17	-0.01	0.00	0.03	0.30	0.35	0.69	0.82	0.80	0.79	0.68	0.78	0.93	1.00	
24	Cohen and Steers Instl. Realty Shares	0.36	0.52	0.72	0.71	0.70	0.72	0.68	0.67	0.63	0.03	0.19	0.15	0.16	0.52	0.50	0.70	0.60	0.70	0.70	0.66	0.66	0.64	0.68	1.00

Diversification Relative to Peers
As of September 30, 2020

- Participants have portfolio allocations that are noticeably different from peers as highlighted in yellow in the table below:

Investment Option Type:	NSHE*	Plans with 5,000+ Participants	All Plans
U.S. Stock (Active)	6.4%	20.4%	20.9%
U.S. Stock (Indexed)	13.1	15.8	15.4
Non-U.S. Stock (Active)	3.5	3.3	3.6
Non-U.S. Stock (Indexed)	5.0	2.2	2.1
Company Stock	0.0	15.3	14.0
Total Stock	**27.9**	**57.0**	**56.0**
U.S. Bonds (Active)	2.5	4.3	4.4
U.S. Bonds (Indexed)	2.7	5.9	5.5
Non-U.S. Bonds (Active)	0.1	0.3	0.3
TIPS	1.5	0.4	0.4
Stable Value/Fixed Annuity	11.4	6.2	6.4
Cash Equivalents	2.6	3.5	3.4
Total Fixed Income	**20.9**	**20.6**	**20.4**
Balanced/Lifestyle	0.0	3.5	3.2
Target Retirement Date	48.6	16.6	17.8
Self-Directed	1.4	1.1	1.3
Real Estate	1.2	0.3	0.4
Sector Fund(s) Other than Real Estate	0.0	0.0	0.1
Other	0.0	0.7	0.7
Total	**100.0%**	**100.0%**	**100.0%**

Source: Plan Sponsor Council of America "61st Annual Survey – PSCA's Annual Survey of Profit Sharing and 401(k) Plans." 2018
*Excludes loans

Diversification Relative to Peers - Summary

- **Compared to peers, participants have allocated:**
  - ↑ A meaningfully higher percentage of assets to target retirement date funds
  - ↑ A higher percentage of assets to stable value / fixed annuity funds
  - ↑ A higher percentage of assets to TIPS and real estate funds
  - ↑ A lower percentage of assets to active U.S. stock funds

- **Considerations for the Committee:**
  1. Consolidate the passive large and SMID cap U.S. index fund options into the passive total U.S. stock market index fund
  2. Consolidate the developed and emerging market index fund options into the passive total non-U.S. stock market index fund
  3. Consolidate the active TIPS and real estate options into a new multi-asset inflation fund
  4. Consolidate the active high yield bond option into the core-plus bond fund
  5. Consolidate the active SMID cap value and growth U.S. equity options into a new active U.S. SMID cap "core" equity fund
  6. Consolidate the active non-U.S. value and growth equity options into a new active non-U.S. "core" equity fund

Alternative Investment Lineup

For Discussion Purposes

Objective

- Asset Allocation
- Capital Preservation
- Income
- Growth
- Retirement Income

	1 Professional Managed	2 Wanting Low-Cost Access	3 Looking to Outperform
Savings Phase	Target Retirement Funds	Total U.S. Bond Index	Federal Money Market Fund
	New Managed Accounts	Total Int. Bond Index	Stable Value Fund
	QDIA options can straddle savings and payout phases by including retirement income solutions or managed payout capabilities	Total U.S. Stock Mkt. Index	Guaranteed Fixed Annuity
		FTSE Social Index	Multi-Asset Inflation Fund
		Total Int. Stock Index	Core-Plus Bond Fund
			Large-Cap Value U.S. Stock Fund
			Large-Cap Growth U.S. Stock Fund
			SMID-Cap Core U.S. Stock Fund
			Global Stock Fund
			International Stock Fund
Spending Phase	Target Date Funds Built-In Retirement Income	Annuity Purchase Window	Longevity Insurance[1]
	Systematic Withdrawal		

Plan Features (Not Investment Choices)

[1]Solution can be offered either as in-plan or out-of-plan option.

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Index Fund Structure

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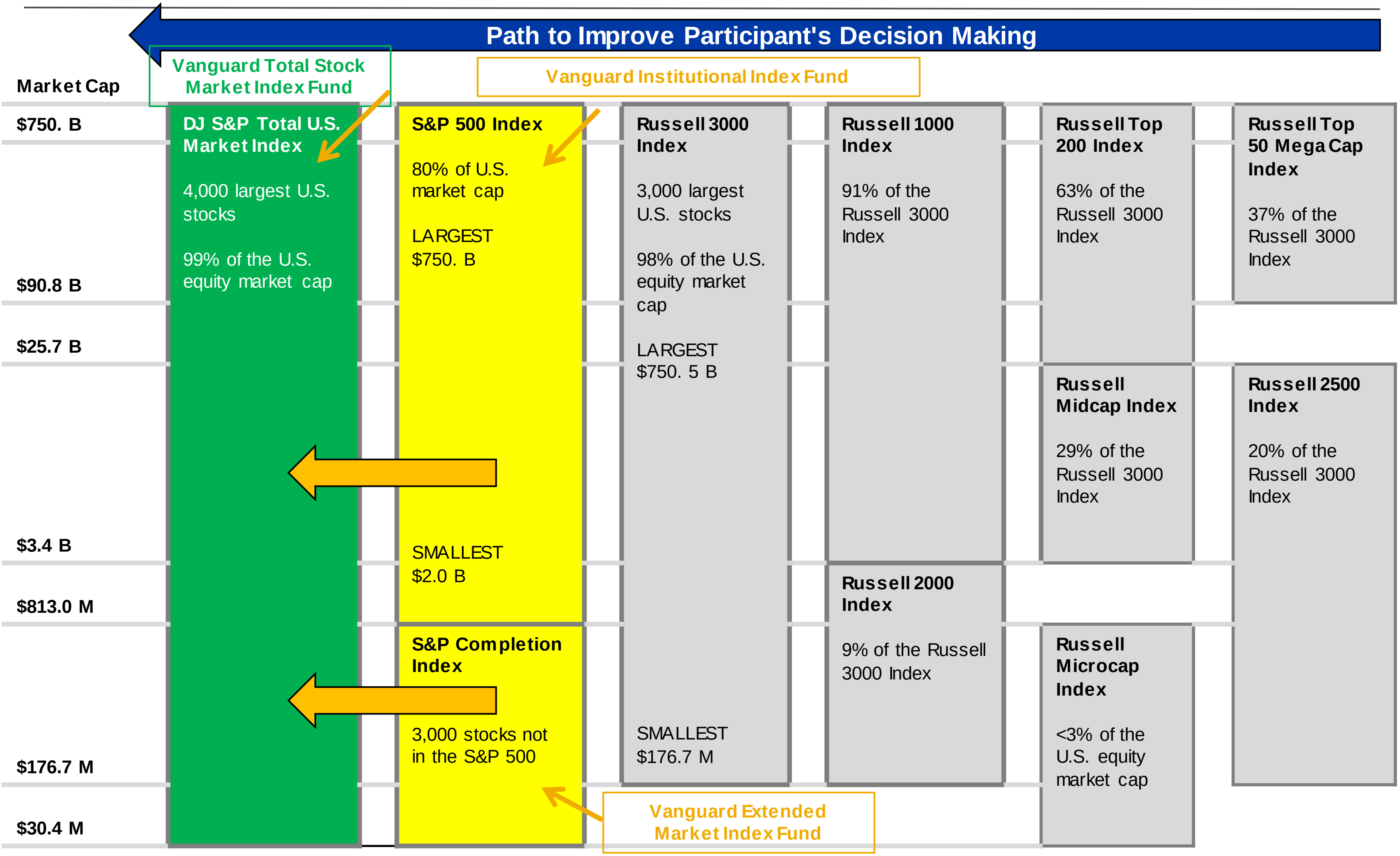
Passive U.S. Equity Options

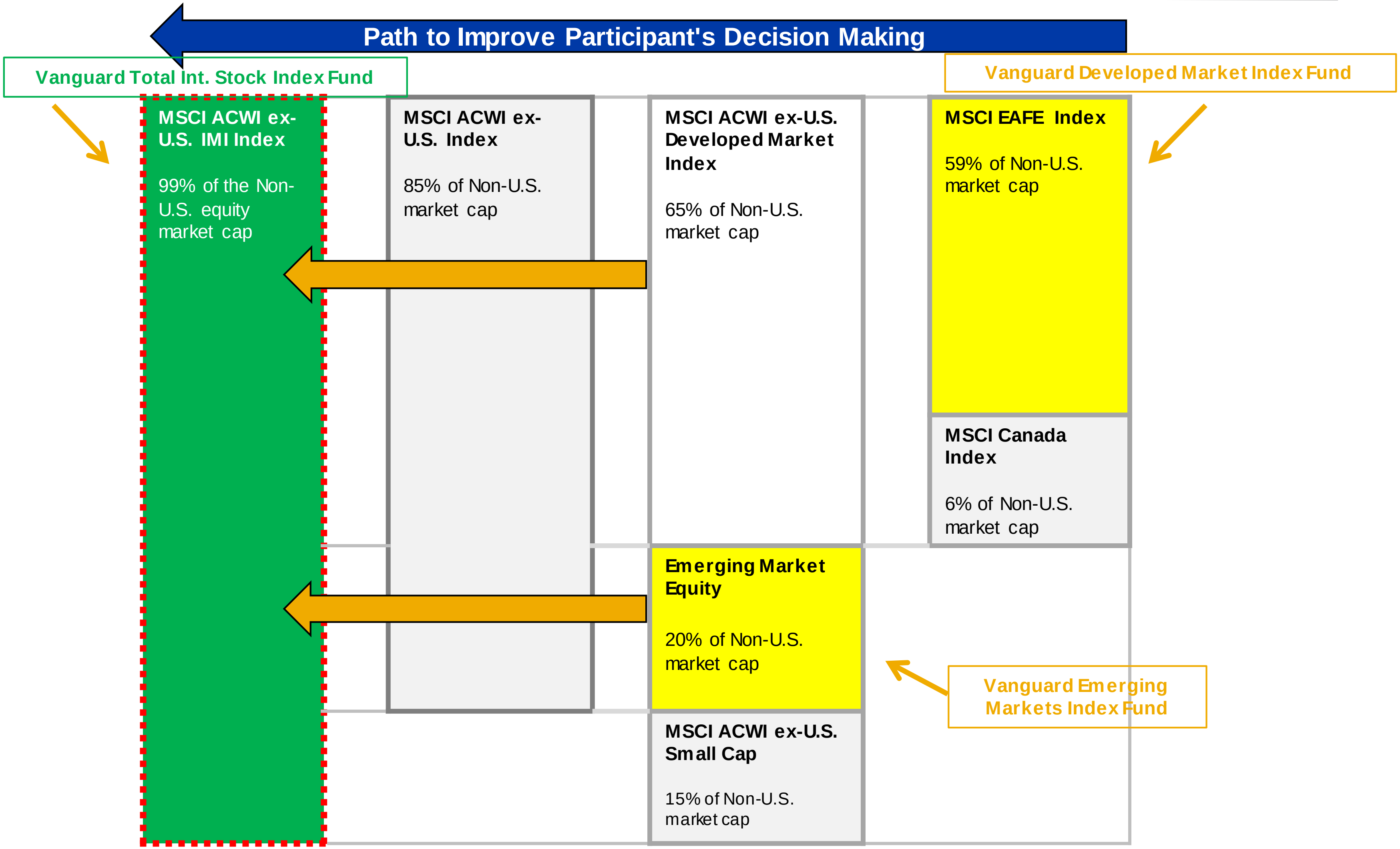
For Discussion Purposes



Source: Russell Investments and Standard & Poors

Passive Non-U.S. Equity Options

For Discussion Purposes



Source: MSCI

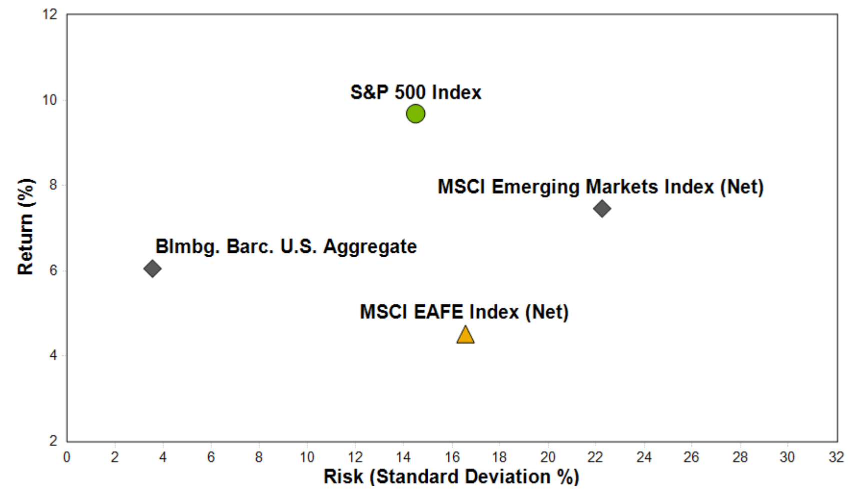
Empower Results®

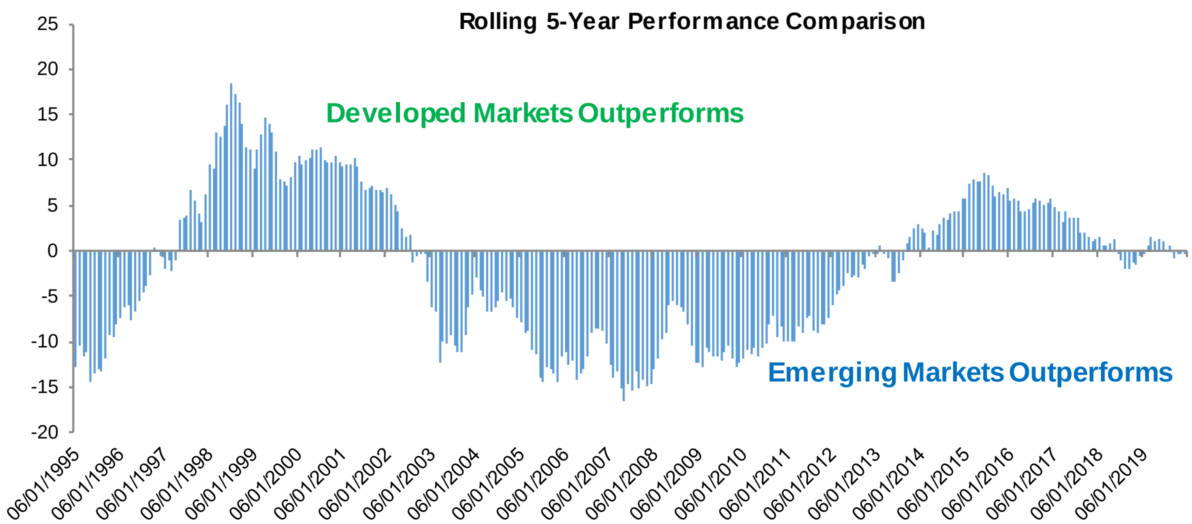
Impact of Participant Investment Selections

Developed vs. Emerging Markets

Saver Behaviors from 2008 to 2017

- The number of investments held by Savers has dropped from ***3.4* funds in 2008 to *2.5* at the end of 2018**
- From 1998 to 2013 ***Emerging Markets outperformed Developed Markets*** by average of ***3.0%***
- Since 2013, ***Developed Markets have outperformed Emerging Markets*** by an average of ***3.0%***
- Emerging Markets shows a 30-year average return of 7.5% but a standard deviation of 22.3%. Developed has an average return of 4.5% to their 16.6% standard deviation





Source: MSCI EAFE vs MSCI Emerging Market Index

Period	Largest Difference	Month End
1 Month	16.5%	August 1998
5 Year	18.5%	December 1998
10 Year	12.4%	December 2010
Average (5 Year)	***7.2%***	***May 2020***

Vanguard Index Funds
Lower Cost Share Class Options

As of September 30, 2020

Fund	Assets	Share Class	Fee ($)	Estimated Annual Savings
Vanguard Institutional Index Fund - Instl. Plus	$176,558,246	VIIIX @ 0.02%	$35,312	--
Vanguard Extended Market Index Fund - Inst.	$53,809,530	VIEIX @ 0.05%	$26,905	--
Vanguard Total Stock Market Index Fund - Inst.	$56,590,252	VITSX @ 0.03%	$16,977	--
Vanguard Total Stock Market Index Fund - Instl. Plus	$286,958,029	VSMPX @ 0.02%	$57,392	$21,802
Vanguard Developed Market Index Fund - Inst.	$58,866,969	VTMNX @ 0.05%	$29,433	--
Vanguard Emerging Markets Stock Index Fund - Inst.	$40,486,950	VEMIX @ 0.10%	$40,487	--
Vanguard Total International Stock Index Fund - Inst.	$11,091,678	VTSNX @ 0.08%	$8,873	--
Vanguard Total International Stock Index Fund - Instl. Plus	$110,445,597	VTPSX @ 0.07%	$77,312	$1,482

- The DC marketplace continues to trend towards broad “core” investment mandates
- Integrating the Plans’ passive equity mandates into “total” equity portfolios will reduce investment overlap, improve participant investment decisions, reduce costs, and simplify monitoring

For Committee Consideration

Simplicity Enhances the Likelihood of Success

Consolidate

Passive U.S. Equity Current State	Passive U.S. Equity Future State
U.S. Large Cap Index Vanguard Total Stock Market Index	**Total U.S. Stock Index** Vanguard Total Stock Market Index
U.S. Large Cap Index Vanguard Institutional Index	
U.S. SMID Cap Index Vanguard Extended Market Index	
Social Index Vanguard FTSE Social Index	**Social Index** Vanguard FTSE Social Index

Passive Non-U.S. Equity Current State	Passive Non-U.S. Equity Future State
Non-U.S. Equity Vanguard Total Int. Stock Index	**Total Int. Stock Index** Vanguard Total Int. Stock Index
Developed Non-U.S. Equity Vanguard Developed Market Index	
Emerging Markets Vanguard Emerging Market Index	

Recommendations for Approval:

1. Consolidate the *Vanguard Institutional Index and the Vanguard Extended Market Index Funds* into the Vanguard Total U.S. Stock Market Index fund

Maintain the Vanguard FTSE Social Index Fund (S&P 500)

2. Consolidate the *Vanguard Developed Market Index and the Vanguard Emerging Market Index Funds* into the Vanguard Total International Stock Market Index fund

Active Fund Structure

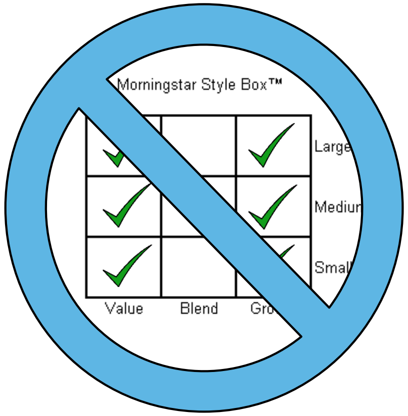
Depending on the economic environment, different investment philosophies can be in favor

Growth strategies:
- Focus on projected future earnings
- Concentrated in areas like information technology and health care

Value strategies:
- Focus on relative price
- Concentrated in areas like financials and consumer staples

1/1/1979 – 6/30/2020	Large Cap Russell 1000 Indexes	Small Cap Russell 2000 Indexes
Growth	51.6%	52.0%
Value	48.4%	48.0%

In recent years, fiduciaries have considered this principle opportunistically, especially when considering terminating or replacing an existing fund



- Historically, fiduciaries looked to offer options on both sides of the Morningstar Style Box at each capitalization level
- Research[1] shows that participants generally do not know when to favor value vs. growth investment strategies
- Based upon our experience, the DC marketplace continues to trend towards streamlined, style neutral investment menus

[1]Aon Hewitt's 2014 Joint Study with Financial Engines – *"Help in Defined Contribution Plans: 2006 through 2012 "*

Impact of Participant Investment Selections

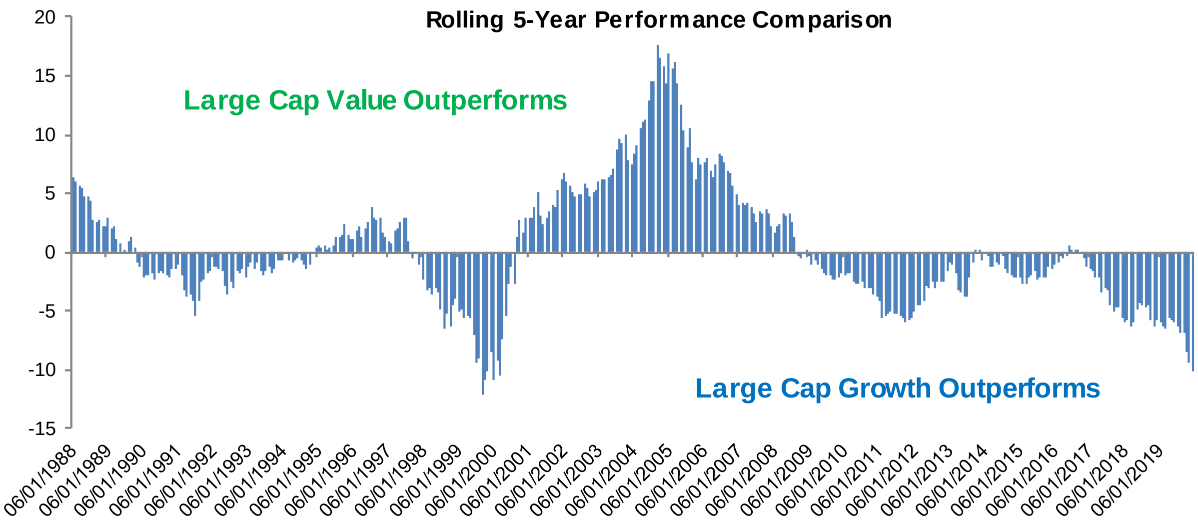
Growth vs. Value

Saver Behaviors from 2008 to 2017

- The number of investments held by Savers has dropped from ***3.4* funds in 2008 to *2.5* at the end of 2018**
- From 2001 to 2008 ***Value outperformed Growth*** by average of ***6.7%***
- Since 2008, **Growth outperformed Value** by an average of ***2.6%***
- Chances of selecting an equity option with only a Growth or Value focus is much higher and can lead to chasing returns

Average Working Tenure in Years at Employer		
Age	**Male**	**Female**
Over 25	**5.1**	**4.9**
25-34	2.9	2.7
35-44	5.0	4.7
45-54	8.1	7.1
55-64	10.2	10.1
Over 65	10.2	10.1

Source: *Bureau of Labor Statistics*



Period	Largest Difference	Month End
1 Month	14.2%	February 2001
5 Year	17.7%	February 2005
10 Year	7.7%	February 2010
Average (5 Year)	***3.9%***	***May 2020***

Source: *Russell 1000 Growth Index vs Russell 1000 Value Index*

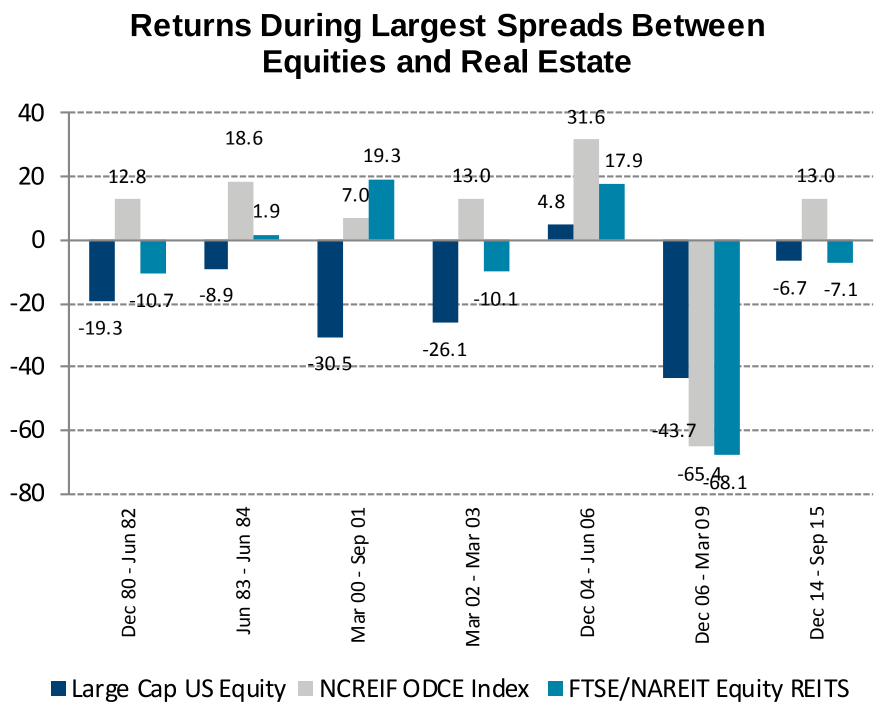
Actively Managed High Yield Bond Fund

- A high-yield bond is defined as a debt obligation with a bond rating of Ba or lower according to Moody's or BB or lower on the Standard & Poor's scale
  – In addition to being popularly known as “junk bonds,” they are also referred to as "below investment-grade"
- High-yield bonds offer investors higher long-term returns than investment-grade bonds, better bankruptcy protections than stocks, and portfolio diversification benefits
- Due to their credit quality, which is lower than that of instruments like U.S. Treasury bonds or high-grade corporate bonds, high yield bonds involve greater risk:
  – Higher Default Rates
  – More Volatility than Investment-Grade Bonds
  – More Interest Rate Risk than Stocks
- For most total return-oriented defined contribution plan participants, we recognize that a “core-plus” bond strategy is preferential to a dedicated high yield bond fund
  – When a dedicated high yield bond fund is offered, participants tend to exhibit irrational and detrimental trading behavior such as chasing returns during up markets and panicked selling during market downturns

Real Estate Investment Trusts (REITs)

Largest Spreads Between Equities and Real Estate

- A REIT strategy is generally not necessary for participants to form well-diversified portfolios
  – Small cap managers, especially those with a value orientation, have REITs within their universe of stocks to select from
  – In addition, publicly-traded REITs are also present in index fund investments.
- In the exhibits below, we summarize the historical performance of REITs during various periods of equity market downturns



Periods of Largest Spreads b/w U.S. Equity and Real Estate	Large Cap U.S. Equity	NCREIF ODCE Index	FTSE/NAREIT Equity REITS
Dec 80 - Jun 82	-19.3	12.8	-10.7
Jun 83 - Jun 84	-8.9	18.6	1.9
Mar 00 - Sep 01	-30.5	7.0	19.3
Mar 02 - Mar 03	-26.1	13.0	-10.1
Dec 04 - Jun 06	4.8	31.6	17.9
Dec 06 - Mar 09	-43.7	-65.4	-68.1
Dec 14 - Sep 15	-6.7	13.0	-7.1
Average	**-18.6**	**4.4**	**-8.1**

Multi-Asset Inflation Fund
Potential Diversification Benefits

- In recent years, the defined contribution marketplace has evolved to include more inflation sensitive products that are appropriate for core investment lineups
- Asset classes are generally selected opportunistically by active managers who seek to react and benefit from market conditions at any particular time rather than with a view to delivering a particular exposure at any particular time

Asset Class	Over the Short-Term	Over the Long-Term	Comments
Inflation-Linked Bonds (TIPS)	+	+++	Explicit hedge when held until maturity
REITs (Real Estate Equities)	-	++	Return characteristics are often dominated by equity beta, but could have higher sensitivity to inflation
Commodities	+++	++	Inflation shocks likely driven by supply / demand imbalances

Empower Results®

For Committee Consideration

Simplicity Enhances the Likelihood of Success

Add

Consolidate

Current State	Future State
Active Inflation Protection Current State	**Active Inflation Protection** Future State
TIPS DFA Inflation Protected Securities; **Real Estate** Cohen & Steers Realty Shares	**Multi-Asset Inflation Fund**
Active Fixed Income Current State	**Active Fixed Income** Future State
Core-Plus Bond PIMCO Total Return Fund; **High-Yield Bond** American Century High Income	**Core-Plus Bond** PIMCO Total Return Fund
Active U.S. SMID Cap Current State	**Active U.S. SMID Cap** Future State
U.S. SMID Cap Value DFA U.S. Targeted Value; **U.S. SMID Cap Growth** William Blair Small/Mid Cap Growth	**U.S. SMID Cap Core Equity**

Recommendations for Approval:

1. Offer a single active multi-asset inflation fund by consolidating the *DFA Inflation Protected Securities Fund* and the *Cohen & Steers Inst. Realty Shares Fund*
.
2. Consolidate the *American Century High Income Fund* into the PIMCO Total Return Fund
3. Offer a single active U.S. SMID cap "core" equity option by consolidating the *DFA U.S. Targeted Value and William Blair Small/Mid Cap Growth Funds* into a SMID Cap Core U.S. equity fund

Empower Results®

Add

Consolidate

For Committee Consideration

Simplicity Enhances the Likelihood of Success

Active Non-U.S. Equity
Current State

Non-U.S. Value
MFS International Value Fund

Non-U.S. Growth
Harding Loevner Intl. Equity

Active Non-U.S. Equity
Future State

Non-U.S. Core Equity

Recommendations for Approval:

1. Offer a single active non-U.S. “core” equity option by consolidating the *MFS International Value Fund* and the *Harding Loevner Intl. Equity Funds* into a SMID Cap Core non-U.S. equity fund

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Correlation Table

Tier II Investment Options

- The three-year correlation among NSHE's investment options is shown below
- Correlations above **0.7** are shown in red, between **0.3 and 0.7** in yellow, and below **0.3** in green

3 Years Ending September 30, 2020

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 Vanguard Total Bond Market Index Fund - Inst.	1.00															
2 Vanguard Total International Bond Index Fund - Adm.	0.77	1.00														
3 Vanguard Total Stock Market Index Fund - Inst.	-0.02	0.17	1.00													
4 Vanguard FTSE Social Index Fund - Adm.	-0.02	0.16	1.00	1.00												
5 Vanguard Total International Stock Index Fund - Inst.	0.00	0.19	0.91	0.91	1.00											
6 Vanguard Federal Money Market Fund - Inv.	0.17	0.19	-0.18	-0.19	-0.18	1.00										
7 T. Rowe Price Stable Value Common Trust Fund A	0.58	0.36	-0.09	-0.09	-0.16	0.45	1.00									
8 TIAA Traditional - RC	0.06	-0.07	-0.04	-0.05	-0.12	0.13	0.32	1.00								
9 TIAA Traditional - RCP	0.07	-0.05	-0.04	-0.05	-0.08	0.18	0.30	0.95	1.00							
10 PIMCO Inflation Response Multi-Asset Fund - Inst.*	0.25	0.45	0.80	0.80	0.88	-0.18	0.00	0.00	0.02	1.00						
11 PIMCO Total Return Fund - Inst.	0.94	0.80	0.14	0.14	0.17	0.09	0.54	-0.01	-0.01	0.43	1.00					
12 T. Rowe Price Instl. Large Cap Growth Fund	-0.03	0.12	0.96	0.96	0.85	-0.27	-0.14	-0.04	-0.04	0.74	0.12	1.00				
13 Diamond Hill Large Cap - Y	-0.04	0.19	0.98	0.97	0.92	-0.11	-0.08	-0.08	-0.08	0.80	0.13	0.90	1.00			
14 William Blair Small-Mid Cap Core Fund I*	0.01	0.25	0.95	0.93	0.87	-0.12	-0.04	-0.07	-0.08	0.82	0.19	0.89	0.94	1.00		
15 MFS Institutional International Equity Fund*	0.03	0.18	0.91	0.90	0.98	-0.13	-0.12	-0.14	-0.09	0.83	0.18	0.85	0.90	0.86	1.00	
16 Dodge & Cox Global Stock Fund	-0.07	0.17	0.93	0.93	0.96	-0.10	-0.13	-0.11	-0.10	0.84	0.12	0.86	0.96	0.90	0.93	1.00

*Fund has been included for illustrative purposes

Discussion Topics

October 2020

Are Managed Accounts More Efficient Than Target Date Funds?

Drastic growth in the prevalence, availability, and marketing of professionally managed solutions in defined contribution (DC) plans has accelerated the comparison between target date funds (TDF) and managed accounts (MA). We examined a model plan and analyzed the merits of both solutions by focusing on three areas:

The asset allocation of a commonly used TDF[1]	The model plan's participant asset allocations implemented with the MA provider with an assertion of 99% personalization[3]
The asset allocation of a commonly used MA[2]	

"Properly measured, the average actively managed dollar must underperform the average passively managed dollar, net of costs. Empirical analyses that appear to refute this principle are guilty of improper measurement."

— William Sharpe "The Arithmetic of Active Management", 1991

In our examination of the modeled plan, we found that MAs are a less efficient investment solution than TDFs in this examination, which we believe is representative of the broader universe of plans. More specifically, we conclude three main points:

1. **The degree of portfolio personalization should be examined more thoroughly.** The difference in glide paths between MAs and TDFs accounts for a considerable portion of "personalization," and personalization statistics may be inflated relative to the effect on participant portfolios.
2. **MA fees are high and erode ultimate performance and account balances.** The additional layer of fees from MAs creates a significant headwind to returns. Recordkeepers as distributors of MAs often retain a significant portion of fees and create an often-overlooked barrier to fee compression.
3. **Claims of value outside portfolio management have issues.** MA providers' claims of value from improved savings rates are often based on faulty logic, even sometimes claiming credit for services that are available without enrolling in MAs. This is especially problematic for older participants who are the primary users of MAs and often have much higher account balances, causing the fees from their MAs to be sizable relative to their contributions.

[1] Source: Vanguard TRF Quarterly Report December 2019 – Represents the largest TDF provider as of the date of publication.

[2] Source: Individual company financial statements. Cerulli Associates Q2 2018 - Represents the largest MA provider as of the date of publication.

[3] Source: Aon - Participant asset allocation data for this modeling is presented for illustrative purposes only. The participant data is drawn from actual client personalization information as an example of participant decisions within a plan that offers both TDF and MA options. Although your plan's actual participant personalization may vary from those presented in this analysis, we believe the data establishes the necessary assumptions as a standard to analyze the potential differences between the use of TDFs and MAs within a plan. Population includes 6,556 participants from a plan utilizing 99% personalization as of the date of publication.

AON Empower Results®

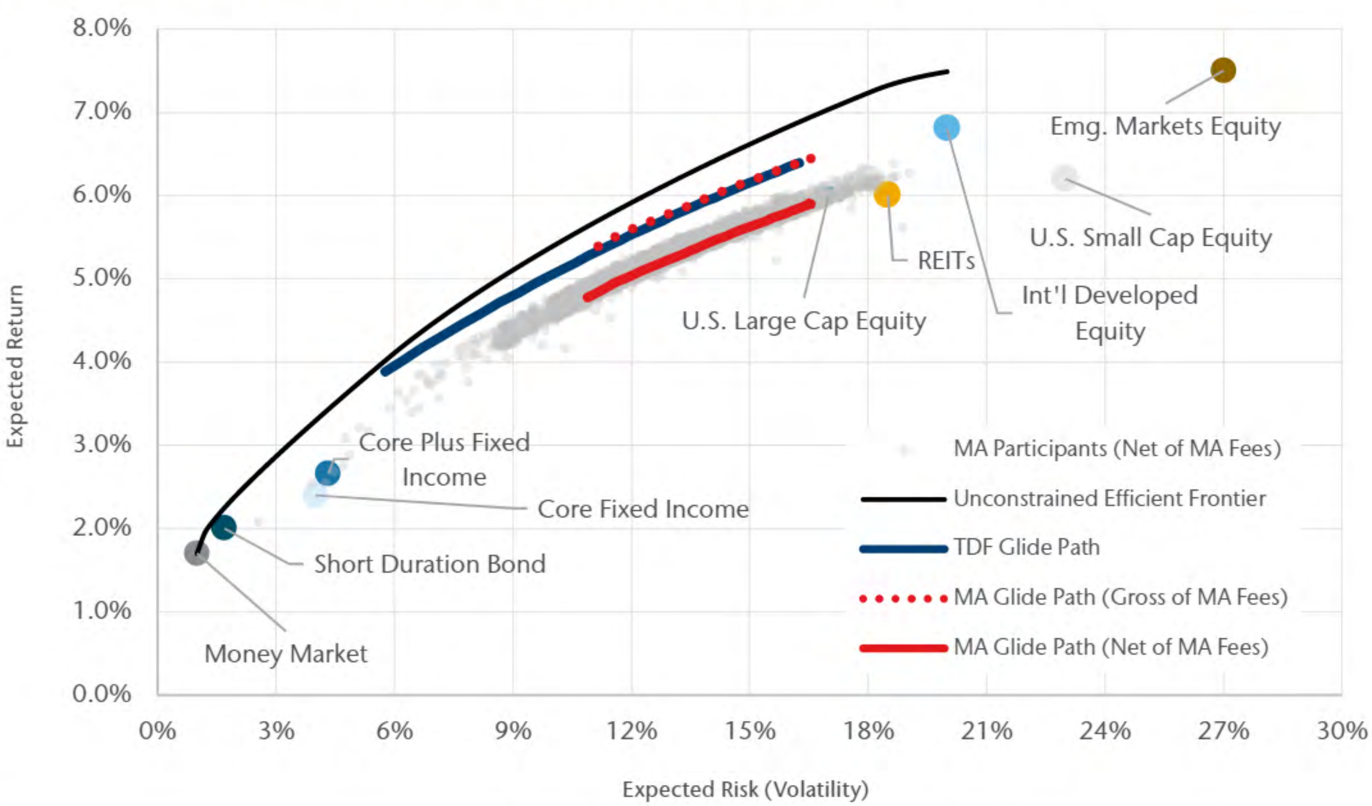
How High is the Fee Hurdle?

It was reasonable for many plan sponsors to install MAs in years past when TDFs were more expensive and there was a greater expectation of meaningful personalization and enhanced portfolio efficiency. Today, we find that the benefits of MAs for portfolio efficiency and personalization are typically small relative to the cost. Though there may be some MA participants who receive sufficient value for the additional fee, these findings advocate for continued use of TDFs for the majority of participants. Based on these findings, we believe plan sponsors should review their MA services and fees to ensure that participants receive value for the cost.

While ultimately selecting between two professionally managed investment solutions is a fiduciary decision, further work should be conducted on the potential value of other settlor related benefits to MAs. One example may be further contextualizing savings rates impacts relative to broader opportunities such as auto-escalation.

As technology improves, we may truly see MA providers move the DC industry forward as we eventually expect the invisible hand of economics to drive significant fee reductions for MAs. Until then, participants in MAs risk sacrificing retirement outcomes.

Efficiency of the TDF Glide Path, MA Glide Path, and MA Participants, Net of MA Fee



**The expected returns illustrated are calculated using Aon's Q1 2020 Capital Market Assumptions, please see CMA methodology at the end of this document for full disclosures.*

Call to Action

1. Determine your plan's risk tolerance and apply that risk tolerance to the selection of your professionally managed solutions to ensure they are aligned. Evaluate your plan and committee's risk capacity from both an ability and willingness to take investment risk.

2. If you offer MAs within your plan, further negotiate the cost of that service, including evaluating offerings at other recordkeepers to encourage competition.

3. After further negotiation, if fees are still not reasonable for the services being provided, then turn off managed accounts.

4. Reassess your recordkeeper's engagement strategy, recognizing their incentive to increase MA enrollment, and determine how to define true effectiveness of the MA program.

5. Analyze your plan's experience with the participants enrolled in MA to understand the drivers of asset allocation and the expected outcomes.

6. Advocate for standalone advice services without requirements to be accompanied by an offering of professional management services. This can produce similar advice for a participant at much lower total costs, which may be more appropriate for some populations.

Capital Market Assumptions Methodology

The following capital market assumptions were developed by Aon's Global Asset Allocation Team and represent the long-term capital market outlook (i.e., 10 years) based on data at the end of the fourth quarter of 2019. The assumptions were developed using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Our long-term assumptions for other asset classes are based on historical results, current market characteristics, and our professional judgment. Expected returns are using Aon's Q1 2020 10 Year Capital Market Assumptions as of 12/31/2019. CMAs contain projections about future returns on asset classes. These do not assume additional alpha for active management strategies within these asset classes, and are modeled to represent a low nominal fee passive index, with the exception of hedge funds and private equity, where traditional passive investments are not available. Therefore, the model assumptions for hedge funds and private equity strategies include a higher model fee impact for these asset classes. You cannot invest in an asset class directly, or within the model asset classes assumed within the CMAs. CMAs do not include asset class fees or any underlying expense ratios. Expected returns are geometric (long-term compounded; rounded to the nearest decimal). Expected returns presented are models and do not represent the returns of an actual client account. Your actual returns will be reduced by your advisory fees and other expenses you may incur as a client. Aon's advisory fees are described in Part 2A of Aon's Form ADV. Not a guarantee of future results.

Material uncertainty

Given that the future is uncertain, there is material uncertainty in all aspects of the Capital Market Assumptions and the use of judgment is required at all stages in both their formulation and application.

Allowance for active management

The asset class assumptions are assumptions for market returns, that is we make no allowance for managers outperforming the market. The exceptions to this are the private equity and hedge fund assumptions where, due to the nature of the asset classes, manager performance needs to be incorporated in our Capital Market Assumptions. In the case of hedge funds we assume average manager performance and for private equity we assume a high performing manager.

Inflation

When formulating assumptions for inflation, we consider consensus forecasts as well as the inflation risk premium implied by market break-even inflation rates. Fixed income government bonds

The government bond assumptions are for portfolios of bonds which are annually rebalanced (to maintain constant duration). This is formulated by stochastic modeling of future yield curves.

Inflation-linked government bonds

We follow a similar process to that for nominal government bonds, but with projected real (after inflation) yields. We incorporate our inflation profiles to construct nominal returns for inflation -linked government bonds.

Corporate bonds

Corporate bonds are modeled in a similar manner to government bonds but with additional modeling of credit spreads and projected losses from defaults and downgrades.

Other fixed income

Emerging market debt and high yield debt are modeled in a similar fashion to corporate bonds by considering expected returns after allowing for losses from defaults and downgrades.

Equities
Equity return assumptions are built using a discounted cash flow analysis. Forecast real (after inflation) cash flows payable to investors are discounted and their aggregated value is equated to the current level of each equity market to give forecast real (after inflation) returns. These returns are then converted to nominal returns using our 10 year inflation assumptions.

Private Equity
We model a diversified private equity portfolio with allocations to leveraged buyouts, venture capital, and mezzanine and distressed investments. Return assumptions are formulated for each strategy based on an analysis of the exposure of each strategy to various market factors with associated risk premia.

Real Estate/Property
Real estate/property Real estate returns are constructed using a discounted cash flow analysis similar to that used for equities, but allowing for the specific features of these investments such as rental growth.

Hedge funds
We construct assumptions for a range of hedge fund strategies (e.g. equity long/short, equity market neutral, fixed income arbitrage, event driven, distressed debt, global macro, managed futures) based on an analysis of the underlying building blocks of these strategies. We use these individual strategies to formulate a multi-strategy assumption which is quoted in the Capital Market Assumptions.

Currency movements
Assumptions regarding currency movements are related to inflation differentials.

Volatility & Correlations
Volatilities and correlations are based on historical data. Both volatilities and correlations can change significantly at times of market stress. This is captured by the model.

Please contact your Aon representative for more information on our Capital Market Assumptions.

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Empower Results®

Discussion Topics

Aon Quarterly Update

Fourth Quarter 2020

Retirement Legal Consulting & Compliance

In this Issue

Prior Issues

To access prior issues, **click here** and select "Newsletters"

Editor's Note

As we approach the close of 2020, we have much to reflect on, and this year indeed will be one that our readers, families, and communities will discuss in the years to come.

In the March Special Edition, we first reported on the game-changing value-added open multiple employer plan or Pooled Employer Plan (PEP). This edition begins with an update on the trends Aon sees in the marketplace, including real interest among employers in participating in PEPs, and reports on proposed rulemaking related to pooled plan providers.

We include an article on the proposed DOL rule intended to clarify an ERISA fiduciary's duties relating to the voting of proxies (and exercise of shareholder rights). And, in a case of déjà vu, we report on the DOL's reinstatement of its 1975 five-part test for determining when a financial institution or investment professional is considered a fiduciary for providing "investment advice" as well as other new guidance.

This edition includes two litigation-related articles. We provide an update related to the actuarial equivalence litigation now involving 12 lawsuits against large pension plans, including two case dismissals. We also discuss the revival of a federal case alleging a breach of fiduciary duties where the plan fiduciaries are alleged to have failed to diversify stock holdings of a former parent company.

Of particular note for plan sponsors wanting to address document and operational errors with their tax-qualified plans without unnecessarily exposing themselves to the IRS, we have an article that may be of particular interest. The article discusses the IRS's anonymous VCP submission process under which a plan sponsor can initially file a VCP submission anonymously and seek potential IRS approval of the plan sponsor's proposed corrections.

The IRS, DOL, and PBGC have been busy issuing new guidance in several areas of interest to our readers. We expand our coverage on the SECURE Act with two articles on DOL and IRS guidance on lifetime income disclosures, qualified birth and adoption in-service distributions, retirement plan participation by long-term, part-time employees, as well as discuss guidance related to the minimum permissible age for in-service distributions under a pension plan. We also include an article on the proposed regulations which clarify the rollover rules for qualified plan loan offset (or QPLO) amounts.

We have several other great articles that we think are timely, helpful, and that you will enjoy.

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
Aon

Empower Results®

Pooled Employer Plans: As We Learn More

by Beth Halberstadt and Meghan Lynch

There was a lot of press early this year on the value-add for open multiple employer 401(k) plans, or Pooled Employer Plans (PEPs). We believe PEPs will be a true game-changer for small and large businesses and employees' retirement savings. The ability for unrelated employers to join together to create a value-added retirement plan allows employers of all sizes to take advantage of scale and shift operational and fiduciary responsibility, as well as operational expertise, to the pooled plan provider (PPP).

As we get further into 2020, we are also seeing real interest from organizations of all sizes as they better understand the advantages of operational expertise and scale, as well as the risk mitigation in today's increasingly litigious environment. With growing concerns over plan-related litigation risk, the need for dedicated staff and consultants to support the complex regulatory burden of the Employee Retirement Income Security Act of 1974 (ERISA) and compliance with Department of Labor (DOL) rules and regulations has come. For this reason, alternative solutions like a PEP are attractive. What started out in the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) as a desire to make available more cost-effective retirement solutions to small and mid-market businesses, has attracted the attention of large plan sponsors as well.

PEPs will offer some major advantages for sponsors of individually designed plans:

- **Lower plan costs** resulting from the benefits of larger scale including recordkeeping, plan auditor, legal consultants, and investment management fees;
- **Improved and affordable access** to participant tools and services;
- **Reduced staff time commitments** related to plan management, compliance, and governance (i.e., transfer of many tasks such as government filings, plan audits, etc.) allowing companies to repurpose their talent on their core business;
- **Less fiduciary and litigation risk** since the PPP will retain virtually all administrative and fiduciary responsibility for operating the PEP; and
- **Improved governance** (i.e., overall process, speed to act, breadth of discussion) being developed and executed by professional staff dedicated to operating retirement plans as their full-time occupation.

When we surveyed employers about what they found most appealing about a PEP, 37% cited the *outsourcing of responsibility*.[1] We also have seen a potential to lower plan costs for plans ranging in size from $4 million to over $1 billion—the total Aon PEP costs were projected to be lower by more than 40% on average (based on the over 42 plan sponsors that we have modeled as of October 7, 2020).

Cost pressures on recordkeepers are a constant focus, leading many providers to consider outsourcing and/or leveraging offshore resources and technology. This requires more time and effort from plan sponsors to monitor the performance of their plan administration and satisfaction of their participants. In addition, the rise of cybercrime has increased pressure on plan sponsors and recordkeepers to ensure systems (and plan assets) are protected against attacks and other fraudulent actions. These competing demands on capital can slow down or prevent new innovations and capabilities from being offered in the market, especially to small and mid-size employers. Recordkeeper scale continues to be important in this arena as these competing demands between cost and innovation look to be with us indefinitely.

There has been dramatic growth in litigation across the retirement market. Litigation has focused on three main areas: (1) inappropriate investment options; (2) excessive fees; and (3) self-dealing in terms of using plan assets to benefit the plan sponsor. The lawsuits have evolved over time broadening their initial investment focus to broader areas of compliance, investment manager fee structures, and other new areas. This has resulted in plan sponsors having to increasingly focus on tighter governance practices despite being hamstrung by limitations imposed by their administrative vendors. While the largest of plans were always a target, recent data indicates that litigation is now an increasing reality for smaller plans as well.

Plan sponsors are more concerned today about fiduciary liability and, according to a recent *Hot Topics in Retirement and Financial Wellbeing* report by Alight Solutions (based on their annual survey to employers),

[1] Aon surveyed 420 employers during a January 22, 2020 webinar on the SECURE Act. The other appealing factors were: provide greater access 30%; gain scale 20%; rely on experts 13%. While offering a 401(k) or other retirement savings program is table stakes in the employee value proposition for most organizations, there are also risks every plan sponsor must consider. Risks such as cost pressures, if not addressed, could potentially lead to litigation risk; cyber risk is growing daily; and there are potentially new risks post-COVID we haven't identified yet.

61% of respondents believe the threat of plan-related lawsuits is a factor to the organization's ability to deliver new innovations to their plan participants. Growing litigation risk means more emphasis is being placed on plan governance and process documentation. Much like the defensive measures being taken by the medical community, these actions can increase ongoing administrative costs and drain the limited corporate resources that are needed to meet this ever-growing compliance burden.

On August 20, 2020, the DOL issued a Notice of Proposed Rulemaking (NPRM) surrounding PPP registration. While the NPRM is proposed and not final issued guidance, it does give PEP participating employers and PPPs an indication of what's to come and where the DOL stands on PPP transparency. At a high level, the NPRM requires the PPP entity to register with the DOL and the Treasury Department (Treasury) and provide a variety of representations and disclosures—including the new Form PR. Finally, PPPs will have ongoing supplemental filing and reporting requirements for outlined changes—meaning, ongoing PPP transparency is expected at the DOL and Treasury.

What might the new risks or business models/needs be in a post-COVID world? We have already changed the way we shop for everything from groceries to clothes, school supplies, and basic living necessities. The companies that have demonstrated nimbleness and flexibility have continued to grow in this new environment. As we continue to experience the dynamic changes in the way we consume or how and where we are employed (i.e., gig workforce), it will be critical that our retirement plan solutions become equally as nimble and are delivered in a safe and prudent manner.

Many have worked tirelessly for almost a decade to make this retirement benefit option a reality. Aon has brought together a team of retirement plan experts and partner vendors to launch a PEP on January 1, 2021 to meet the evolving needs of employers and employees in these unprecedented times where the risk landscape is changing rapidly. Please contact your Aon consultant to learn more about this new program and set up a discussion.

Please see the applicable Disclosures and Disclaimers on page **15**.

Proxy Voting under ERISA—New Developments for Plan Fiduciaries

by Tom Meagher

On September 4, 2020, the Department of Labor (DOL) published a proposed rule in the Federal Register intended to clarify an ERISA fiduciary's duties relating to the voting of proxies (and exercise of shareholder rights) on individual shares of stock held by employee benefit plans. (The rules do not apply to the voting of proxies involving shares of mutual funds—although the DOL has requested comments as to how the proposed rules might influence plans' exercise of shareholder rights for SEC-registered funds, or their selection of such funds as plan investments.) The proposed rules, if finalized, may require significant changes to a plan's fiduciary analysis and recordkeeping requirements for the voting of proxies involving plan investments.

As a starting point, the proposed regulations maintain the DOL's position that the fiduciary act of managing plan assets includes the management of voting rights (as well as other shareholder rights) and, therefore, fiduciaries are subject to the duties of loyalty and prudence when considering whether to vote proxies. In terms of who has responsibility for the plan's exercise of shareholder rights—including the voting of proxies—such responsibility lies exclusively with the plan trustee except to the extent that either: (i) the trustee is subject to the directions of a named fiduciary or (ii) the power to manage, acquire, or dispose of the relevant assets has been delegated by a named fiduciary to one or more investment managers.

The DOL notes in the preamble to the proposed regulations that fiduciaries must manage voting rights prudently and for the "exclusive purpose" of securing economic benefits for plan participants and beneficiaries. Such an analysis may or may not require a proxy vote to be cast. (In the DOL's view, there may have been a misunderstanding among plan fiduciaries that they must research and vote all proxies, causing some plans to expend their assets unnecessarily on matters not economically relevant to the plan.)

Under the proposed regulations, a plan fiduciary must vote a proxy where the fiduciary prudently determines that the matter being voted upon would have an economic impact on the plan. In undertaking such an evaluation, the proposed regulations indicate that the following factors should be considered: will the proxy vote affect the economic value of the plan's investment; what is the likely impact of the proxy vote in view of the size of the plan's holdings of the issuer; would the proxy vote be viewed as subordinating the financial interests of plan participants to non-pecuniary objectives; has the fiduciary investigated the material facts relating to the proxy vote; will the fiduciary maintain records of proxy voting to support decisions to vote; and has the fiduciary exercised prudence and diligence regarding the use of third parties advising on proxy voting. It, of course, follows that a plan fiduciary must not vote any proxy unless the fiduciary prudently determines that the matter being voted upon would have an economic impact on the plan after considering the above factors.

The proposed regulations cover certain other proxy-voting areas that should be of interest to plan fiduciaries:

- **Delegation to Investment Managers.** The proposed regulations require plan fiduciaries to monitor the proxy-voting decisions made by their investment managers to ensure such entities are voting, or refraining from voting, in a manner that maximizes investment returns and does not sacrifice economic benefits for non-pecuniary objectives. This may require the plan fiduciary to obtain documentation of the rationale for proxy-voting decisions so that fiduciaries can periodically monitor proxy-voting decisions made by third parties (including use of any proxy advisory firm).
- **Permitted Practices.** In recognizing the time and effort that could be expended in evaluating whether to vote proxies on individual stocks, the DOL's proposed regulations permit proxy-voting policies to establish parameters that may permit the process to move forward more efficiently and serve the plan's economic interests. Such policies may include, for example: (i) voting proxies in accordance with the voting recommendations of the issuer's management or with respect to particular types of proposals that the fiduciary has prudently determined are likely to have a significant impact on the value of the plan's investment; (ii) voting of proxies only on particular types of proposals (e.g., mergers and acquisitions) that the fiduciary has prudently determined are substantially related to the corporation's business activities or likely to have a significant impact on the value of the plan's investment; and (iii) refraining from voting on proposals or particular types of proposals when the plan's holding in a single issuer relative to the plan's total investment assets is below a quantitative threshold. The plan fiduciary is required to review any such proxy-voting policies at least once every two years.

While the regulations are in proposed form, they are anticipated to be on a fast track for final approval. Comments on the proposed regulations were required to be submitted by October 5, 2020, and the regulations are expected to be final before year end.

Please do not hesitate to reach out to Aon's Retirement Legal Consulting & Compliance consultants or Aon's investment consultants to discuss these issues and their implications to your plan's investment policies in more detail.

Everything Old is New Again: "New" Fiduciary Rules

by Jan Raines

On July 7, 2020, the Department of Labor (DOL) reinstated its five-part test issued in 1975 for determining when a financial institution or investment professional is considered a fiduciary for providing "investment advice." The DOL further clarified what is considered "investment advice" regarding individual retirement accounts (IRAs) and proposed a new prohibited transaction exemption allowing fiduciaries providing investment advice broader relief than current exemptions.

Five-Part Test. If the following five-part test is satisfied, then the advice will be considered "investment advice" and the financial institution or investment professional (not otherwise considered to be a fiduciary under the Employee Retirement Income Security Act of 1974 (ERISA)) providing the advice will be considered an "investment advice fiduciary."

1. The advisor renders advice to the plan as to the value of securities or other property or makes recommendations as to the advisability of investing in, purchasing, or selling securities or properties;
2. The advice must be provided on a regular basis;
3. That advice must be pursuant to a mutual agreement, arrangement or understanding with the plan, plan fiduciary, or IRA owner;
4. The advice serves as a primary basis (but not necessarily "the" primary basis) for investment decisions with respect to the plan or IRA assets; and
5. The advice will be individualized based on the particular needs of the plan or IRA.

The proposal also states that a person's status as an investment advice fiduciary is based on facts and circumstances, noting that if the institution or professional meets the five-part test and receives a fee or other compensation, it will be deemed an "investment advice fiduciary" under ERISA, and if providing investment advice to an ERISA-covered employee benefit plan, will be subject to ERISA fiduciary duties.

Clarification on IRA Advice. The DOL changed its tune and contradicted its own prior guidance, stating that IRA rollover advice is a recommendation to liquidate or transfer the plan's property to initiate the rollover. Meaning that advice on whether to take a distribution from a retirement plan and roll it over to an IRA (or roll it over to another employer's plan, or from one IRA to another) may be covered by the five-part test, if the advice is part of an ongoing relationship or the start of an ongoing relationship.

Proposed Exemption. Aligning with the SEC's Regulation Best Interest (issued in June 2019), described in the **Third Quarter 2019** issue of the *Quarterly Update*, the DOL issued a new proposed prohibited transaction class exemption allowing financial services companies and their investment professionals to (1) receive compensation while acting as "investment advice fiduciaries" and (2) execute certain principal transactions in which they could sell or purchase certain securities or other investments for retirement assets for which they act as investment advisers. However, fiduciary investment advice must still meet the three Impartial Conduct Standards issued in DOL Field Assistance Bulletin 2018-02:

- Provide advice in the best interest of investors (i.e., advice meets the prudence and loyalty fiduciary standards);
- Must charge only reasonable compensation; and
- Must not make any materially misleading statements about investment transactions and other relevant matters.

And in order to protect the interest of plans, participants and beneficiaries, and IRA owners, investment advice fiduciaries must:

- Disclose their status as an investment advice fiduciary to investors, provide an accurate, written description of their services and address material conflicts of interest, and provide an annual retrospective compliance review; and
- Document the reasons that recommendations to roll over employee benefit plan assets from a plan to an IRA or from one plan to another, are in the best interest of the investor.

The new proposed exemption will not cover advice arrangements that rely only upon robo-advice; however, it will cover "hybrid" robo-advice arrangements that involve advice generated by computer models in conjunction with interaction with an investment professional.

Investment advice fiduciaries could lose access to the proposed exemption for up to 10 years for certain criminal convictions regarding investment advice or for egregious conduct related to compliance with the exemption.

In view of the timing concerns associated with possible changes in the Administration following the election, the DOL allowed only 30 days for comments, much to the dismay of industry groups and other interested parties. However, even with this shortened comment period, the DOL heard from over 20 witnesses during a six-hour long virtual hearing. Not surprising, given the history of other attempts at passing similar rules, there were those who: argued against the package, urging the DOL to withdraw it; opposed the guidance, but offered suggestions; welcomed the guidance, but also offered improvements; and praised the guidance and urged it be finalized immediately.

Aon will continue to follow the DOL's proposal and report on any future updates.

Please see the applicable Disclosures and Disclaimers on page 15.

Two Actuarial Equivalence Lawsuits Dismissed, One Added

by Jennifer Ross Berrian

As reported previously, 11 lawsuits have been filed (now 12 if you include two against AT&T) challenging the actuarial equivalence factors used by pension plans to calculate optional forms of benefits and early retirement reductions. Since the last update, two more cases have been dismissed although one has now been refiled with new plaintiffs, leaving us with eight pending cases.

On August 27, 2020, the district court judge granted the defendants' Motion to Dismiss filed in *Brown v. UPS* for failure to exhaust available administrative remedies. The plaintiffs brought suit in federal court without making a claim under the plan's claims procedure in advance. The judge reiterated that exhaustion of a plan's claims procedure was required prior to filing a lawsuit and rejected the plaintiffs' arguments that a claim filing was not necessary due to the relief sought (reformation of plan terms) and the perceived futility of pursuing administrative remedies.

A month later, on September 28, 2020, the actuarial equivalence lawsuit against AT&T (*Eliason v. AT&T*) was dismissed by the district court judge. This case originally alleged that the early retirement factors used to compute early retirement benefits were not actuarially equivalent. However, the defendants were able to prove to the court that the factors used were based on the factors set forth in Section 417(e) of the Internal Revenue Code (Code). Use of the factors under Section 417(e) of the Code is required when calculating a lump-sum payment and are deemed to be reasonable and actuarially equivalent. These factors have been utilized by plaintiffs in other cases as the baseline for comparison between the amounts received by the plaintiffs using the factors in the plan and the contemporary factors produced using the 417(e) factors.

In addition, the plaintiffs in the AT&T case also alleged that the plan used a joint and survivor annuity factor to calculate joint and survivor annuity benefits that resulted in participants taking those benefits receiving less than the actuarial equivalent of the single life annuity. However, these factors were not used when the original plaintiffs' benefits were calculated as they all elected to receive their benefit in a lump sum (417(e) factors were used for their calculations). The plaintiffs attempted to add additional plaintiffs to the lawsuit whose benefits were calculated using the joint and survivor annuity factors, but the judge concluded that there was no harm to the original plaintiffs based on AT&T's use of the 417(e) factors. Thus, the original complaint suffered from a jurisdictional defect that could not be cured by adding additional plaintiffs after the litigation commenced. Following the decision, the plaintiffs' attorney noted that the court had not addressed the harm to the additional plaintiffs that were added after the start of the lawsuit. So, no surprise, on October 12, 2020, lawyers for the plaintiffs filed a new lawsuit against AT&T (*Scott v. AT&T*) in which new plaintiffs attempt to demonstrate that AT&T shortchanged their pensions by using outdated actuarial data that did not account for recent increases in lifespan, causing certain workers to have their benefits improperly reduced.

While we have seen a number of actuarial equivalence cases dismissed on procedural grounds, it appears to only be a matter of time before the courts start wrestling with the merits of these cases. Stay tuned!

Court Allows Non-Diversified Stock Fund Case to Proceed

by Hitz Burton

On August 11, 2020, in *Stegemann v. Gannett*, a split three-judge panel for the Fourth Circuit Court of Appeals reversed a lower federal court dismissal. The Court of Appeals in *Stegemann* found that plaintiffs' allegations that a plan sponsor and management committee violated the Employee Retirement Income Security Act of 1974 (ERISA) when they ignored or failed to timely act in response to the inherent risks associated with a non-diversified stock fund were sufficient to allow the litigation to continue.

By way of background, in connection with a corporate restructuring, Gannett assumed sponsorship of the 401(k) plan of TEGNA, its former parent company, in 2015. Prior to the Gannett spin-off from TEGNA, the plan, then sponsored and maintained by TEGNA, included an employer stock fund consisting of "qualified employer securities" exempt from ERISA's general investment diversification requirements. When Gannett assumed sponsorship of its former parent's plan, however, that same investment now constituted a non-diversified stock fund subject to ERISA's prudence and asset diversification requirements.

Understanding that the stock fund, as a non-diversified asset, carried additional risk for large investment losses, Gannett did not permit additional investments in the TEGNA stock fund following the June 2015 spin-off. Additionally, but only after the fund experienced comparatively poor investment returns for an approximate two-year period, Gannett allegedly decided to implement a forced liquidation of the TEGNA stock fund within 12 months or by no later than August 2018. As of August 2018, the intended liquidation had not yet been fully completed.

According to the plaintiffs, this change in status for the TEGNA stock fund attendant to the 2015 spin-off, meant that Gannett and the plan's fiduciaries should have liquidated the stock fund coincident with or shortly after the corporate restructuring. As support for their position, plaintiffs point to an employee matters agreement which called for a forced redemption of the TEGNA stock fund as well as various concerns or questions raised by the plan's outside auditors between 2015 and 2018.

While it is certainly true that a plan sponsor and fiduciaries may be subject to litigation where they are alleged to have sold a non-diversified plan investment "too soon" as occurred in connection with the corporate restructuring of RJ Reynolds and Nabisco (as previously covered in the **Second Quarter 2016** issue of the *Quarterly Update)*, it is perhaps reasonable to conclude here that Gannett's failure to implement a forced liquidation of the stock fund closer in time to the restructuring (e.g., within 12-18 months of June 2015) explains why a divided three-judge panel of the Fourth Circuit remanded the decision to the lower court and will permit additional discovery as to whether Gannett or plan fiduciaries violated ERISA.

While deliberate and thoughtful fiduciary processes cannot avoid all possible ERISA litigation, Aon's Retirement Legal Consulting & Compliance consultants are well versed on the types of procedural protections and plan governance that a plan sponsor and fiduciary charged with oversight on a non-diversified stock should evaluate. This evaluation should include a number of procedural safeguards including the possible appointment of an independent third-party ERISA investment fiduciary, possible plan amendments to support the action to be taken, as well as targeted communication strategies to plan participants, all of which are designed to be implemented over a discrete period of time. This process, if well documented, can be very helpful in avoiding litigation outright or to increasing the likelihood that any litigation filed will be quickly resolved at an initial pleading stage before a court, as the Fourth Circuit did here, permits potentially expensive and time-consuming discovery.

Anonymous Correction of Qualified Plan Issues—With IRS Approval!

by Tom Meagher and Beverly Rose

While most employers do their very best to comply with ERISA and the Internal Revenue Code to maintain the qualified status of their defined benefit or defined contribution plan, we know that no plan is perfect.

And, while employers may discover document or operational defects during a compliance review, merger and acquisition transaction, or during the normal operation of the plan, there is always a concern as to how best to address those issues. Although many failures may lend themselves to a fairly straightforward correction method, when the failure is unique, or the proposed correction method is not directly comparable to methods presented in guidance previously issued by the Internal Revenue Service (IRS), the employer may wonder how best to proceed. In these situations, the employer may be hesitant about disclosing the failure and proposed correction to the IRS without the ability to gracefully remove itself from the process if things do not work out as anticipated.

But all is not lost for employers wanting to make sure that their corrective action would be acceptable to the IRS. In the IRS Employee Plans Compliance Resolution System (Revenue Procedure 2019-19), the IRS permits anonymous filings to be submitted with respect to proposed corrective action involving qualified plans, 403(b) plans, SEPs, or SIMPLE IRA plans. These filings would be under the Voluntary Correction Program (VCP). Most importantly, the filing can be made without initially identifying the applicable plan, the plan sponsor, or the eligible organization but nonetheless can result in obtaining the IRS's potential approval of the correction method. If the employer does not agree with the IRS's response to the proposed correction method, the employer can remain anonymous but would lose the user fee.

The IRS anonymous submission requirements can be quite straightforward. At the time of the anonymous submission, information identifying the plan, or the plan sponsor is redacted. The submission is normally made on behalf of the plan sponsor by an authorized representative pursuant to an unsubmitted power of attorney form (IRS Form 2848) along with the required user fee. A fully executed IRS Form 2848 is required to be submitted once the IRS has responded to the submission and the plan sponsor has decided that it will move forward with the approved corrective action. Once the IRS and the authorized representative reach agreement with respect to the submission, the authorized representative will then need to identify the plan and plan sponsor and submit the executed Form 2848 to the IRS. If the identifying documents are not timely submitted, the matter will be closed.

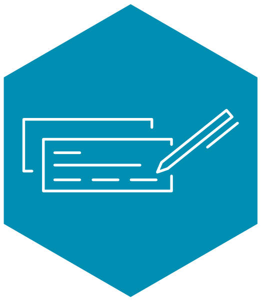
Despite the relative comfort an employer may have in using an anonymous submission, it is important to note that an anonymous submission does not "preclude or impede" an IRS examination of the sponsor or the plan during the pendency of the anonymous submission. Thus, for example, if the plan comes under IRS examination prior to the date the plan sponsor's identity is disclosed to the IRS, the plan sponsor will no longer be eligible under VCP. This treatment of anonymous submissions is distinct from the protection from IRS examination afforded a plan during a pending VCP submission where the plan sponsor's identity has been disclosed as part of the submission.

The opportunity to explore possible corrective actions without the need to identify the plan sponsor or the plan does provide a significant opportunity for employers to evaluate possible corrective actions without fear that they will be subject to IRS audit by reason of the filing. Moreover, since determination letters are not generally available except under very limited circumstances, the ability to obtain a compliance statement in support of certain corrective action may prove quite helpful if the IRS identifies a qualification failure during a future audit that has been addressed and the corrections approved by the IRS through the anonymous submission process.

To the extent you are evaluating possible corrective actions for your qualified plans, please feel free to reach out to one of Aon's Retirement Legal Consulting & Compliance consultants to discuss whether the anonymous submission approach would be helpful to addressing the issues.

Lifetime Income Illustration Guidance Issued

by Jennifer Ross Berrian



As part of the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act), Congress amended the law to require defined contribution (DC) plan sponsors to educate participants about the value of their account balances over their lifetimes. Amendments were made to the rules in the Internal Revenue Code (Code) and the Employee Retirement Income Security Act of 1974 (ERISA) regarding required annual DC plan statements. Plan sponsors will need to include illustrations of how participants' account balances translate into lifetime income streams. This disclosure will be required even if the plan does not offer lifetime income distribution options.

The Department of Labor (DOL) has issued interim final rules regarding the assumptions to be used when making these calculations and has issued model language that plan sponsors can use to explain the illustrations. Plan sponsors are required to provide the explanation but are not required to use the provided model language. The interim final rule will take effect on September 18, 2021 and will apply to plan statements issued after that date.

The following rules and assumptions are to be used when providing the information:

- The participant's account balance on the last day of the period is to be used to commence the calculation.
- All participants will receive information on both a single life annuity and a qualified joint and 100% survivor annuity regardless of the participant's marital status.
- The annuities will be assumed to commence on the last day of the period (the same day as the account balance is determined).
- Participants will be assumed to be age 67 (or their actual age if older) on the commencement date.
- Spousal beneficiaries will be assumed to be the same age as the participant.
- The interest rate will be the 10-year Constant Maturity Treasury (CMT) rate in effect on the first business day of the last month of the period to which the statement relates.
- The mortality table will be the applicable mortality table described in Section 417(e) of the Code that is in effect for the last month of the period to which the statement relates.
- Insurance loads and inflation adjustments are not factored into the calculations.
- There are special rules for plans that offer annuities as distribution and/or investment options.

The rules are interim and may be modified before they're finalized. The DOL has requested comments on specific provisions such as the date on which the interest rate is determined. We will continue to monitor these rules for changes and will keep you informed.

IRS Provides Guidance on SECURE Act and Miners Act

by John Van Duzer

On September 2, 2020, the Internal Revenue Service (IRS) released Notice 2020-68 (Notice), which offers helpful "Q&A" guidance on a number of issues relating to the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) and the Bipartisan American Miners Act of 2019 (Miners Act). This Notice provides welcome guidance for sponsors of qualified plans, sponsors of 403(b) and 457(b) governmental plans, and IRA holders.

Qualified Birth or Adoption Distributions
One important topic addressed in the Notice is the permissible in-service withdrawal opportunity for qualified birth or adoption expenses, introduced into law by the SECURE Act. The Notice clarifies that this benefit may be added to a qualified defined contribution plan, a 403(a) or (b) plan, a 457(b) plan, or an IRA (but may not be added to a defined benefit pension plan). In general, withdrawals may be up to $5,000 per child (and per parent), must be made within one year of the birth or adoption, and will not be subject to the 10% penalty tax on certain pre-age 59½ distributions.

The new guidance provides that these distributions are not treated as eligible rollover distributions, so the mandatory tax withholding and tax notice requirements are not applicable. Furthermore, a participant receiving this type of distribution must be permitted to make a repayment to the plan, assuming the participant is eligible to make a rollover contribution to the plan.

Plans are not required to provide for qualified birth or adoption distributions. For plans that don't, but nevertheless provide for other in-service distributions, a participant may elect to treat one of those other distributions as a qualified birth or adoption distribution, thereby avoiding any 10% penalty tax (assuming certain other requirements are satisfied).

Long-term, Part-time Employees' Participation in 401(k) Plan
The SECURE Act provides for (and requires) a new alternative service requirement applicable to 401(k) plans. In general, qualified plans are permitted to require that an employee earn one year of service and attain age 21, prior to becoming a plan participant. (Many plans include eligibility requirements that are less strict. Plans that do incorporate a one-year service requirement often require 1,000 hours of service to be performed during that year.)

Beginning in 2021, 401(k) plans must also consider 12-month periods during which an employee completes at least 500 hours of service. Furthermore, beginning in 2021 (so no earlier than the end of 2023), if an employee earns three consecutive "reduced service" years (i.e., years with at least 500 hours of service) that employee will be treated as having satisfied the service requirement. (Note that the one-year/1,000 hours of service requirement will continue to apply, if that requirement is satisfied first. Also note that a plan may impose an alternative two-year/100% vesting requirement, but this is not common.)

The SECURE Act limits the ability of plan sponsors to exclude "long-term, part-time employees" from eligibility, beginning as early as 2024. A 401(k) plan is now required to permit part-time employees who earn at least 500 hours of service each year over a three-consecutive-year period as satisfying the plan's service requirement.

The Notice clarifies that a Plan may continue to impose an age 21 eligibility condition, even if an employee has satisfied the three-year "reduced service" requirement. In addition, somewhat surprisingly, the Notice indicates that these "reduced service" years must be counted in determining a participant's vested percentage and that reduced service years prior to 2021 must be taken into account.

Minimum Age for In-service Distributions under Pension Plan
Prior to passage of the Miners Act, in-service distributions under a defined benefit or other pension plan were permitted to commence as early as age 62. This permitted distribution age has now been reduced to age 59½. (A similar change applies under Section 457(b) of the Internal Revenue Code, applicable to certain governmental plans.) Note that a pension plan is generally not required to permit in-service benefit commencement at all, and plans that do choose to allow this type of commencement may continue to require attainment of age 62 or any other age which is later than age 59½.

The Notice clarifies that even though these types of in-service distributions are now permitted from pension plans, a plan is not necessarily permitted to reduce its normal retirement age (NRA) down to age 59½. Rather, an NRA as young as age 62 is deemed permissible, but any NRA younger than 62 will be permitted only if the age is no earlier than the earliest age which is reasonably representative of the typical retirement age of the applicable industry.

Other Miscellaneous Changes
The Notice addresses other changes relating to the SECURE Act that may be significant to some plan sponsors. One such change provides a $500 tax credit for an employer with no more than 100 employees earning at least $5,000 of compensation. This credit is generally available in the first year that an "eligible automatic contribution arrangement" (EACA) is added to a qualified employer plan (e.g., 401(k) and 403(a) plans), and also in the following two years.

Another SECURE Act change removes the maximum age for IRA contributions, which prior to SECURE was age 70½. The Notice describes how the deduction for qualified charitable distributions is affected by the removal of the age restriction and also clarifies that post-age 70½ contributions may not be used to offset required minimum distributions, that are now required to commence at age 72 under SECURE.

Finally, so-called "difficulty of care" payments (relating to payments for qualified foster care that are generally excludable from a participant's income) are now included as "section 415 compensation" under a qualified plan. In addition, a taxpayer may elect to include these types of payments in order to increase the nondeductible contribution IRA limit, in situations where this limit would otherwise have applied to the taxpayer's IRA contribution.

Plan Amendments
In general, the SECURE Act permits qualified plans to delay adopting amendments until the end of the 2022 plan year, assuming that the Plan is administered to comply with current SECURE Act requirements and that any amendments are made retroactively effective. The Notice clarifies that this deadline (as well as an extended 2024 deadline for certain collective bargaining and government plans) applies to both required and discretionary amendments. Nonqualified plans—such as 403(b), 457(b), and IRAs—generally have comparable deadlines for amendments extending at least until the end of 2022.

Aon's Retirement Legal Consulting & Compliance group would welcome the opportunity to assist with any questions or needs you have relating to either (i) changes in the design of your plan relating to these new legal provisions or (ii) incorporating these design and legally required changes into a plan amendment. In some cases, there may be reasons to adopt some form of plan amendment (e.g., a "good faith" amendment) earlier than the legally permitted deadline. Please let us know if we can be of assistance.

IRS Relief for Midyear Safe Harbor Changes

by Dan Schwallie

The Internal Revenue Service (IRS) issued Notice 2020-52 (Notice) on June 29, 2020 (midyear) to address certain changes to the rules regarding midyear amendments to plans utilizing safe harbor designs with respect to actual deferral percentage and/or actual contribution percentage tests (i.e., ADP/ACP safe harbor plans). The Notice clarifies requirements that apply to a midyear amendment reducing contributions made only on behalf of highly compensated employees (HCEs). The Notice also provides temporary relief from certain requirements that would otherwise apply to a midyear amendment adopted between March 13, 2020 and August 31, 2020 to reduce or suspend safe harbor contributions in connection with the ongoing COVID-19 pandemic. These updates apply to ACP safe harbor 403(b) plans as well as to ADP/ACP safe harbor 401(k) plans.

Midyear Amendment Reducing Contributions to HCEs

A midyear amendment that reduces only contributions made on behalf of HCEs is not a reduction or suspension of safe harbor contributions because contributions made on behalf of HCEs are not safe harbor contributions under the applicable Treasury Regulations. However, such a midyear amendment is a midyear change to the plan's required safe harbor notice content. Therefore, an updated safe harbor notice, along with an election opportunity, must be provided to HCEs who are affected by the midyear change, determined as of the date the updated safe harbor notice is issued. The safe harbor notice and election opportunity requirements apply generally to changes that affect required safe harbor notice content and not just to reductions or suspensions of safe harbor contributions. In a footnote, the IRS points out that the Notice does not address the elimination of the safe harbor notice requirement for plans that satisfy the ADP/ACP safe harbor with safe harbor nonelective contributions rather than safe harbor matching contributions provided by the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act). For more information, please refer to our **Special Edition** of the *Quarterly Update*.

Temporary Relief for Amendment Reducing Safe Harbor Contributions Due to COVID-19

A plan amendment, adopted between March 13, 2020 and August 31, 2020, that reduces or suspends safe harbor matching contributions or safe harbor nonelective contributions during a plan year is excepted from the requirements that the employer either:

- Is operating at an economic loss for the plan year; or
- Has included in the plan's safe harbor notice for the plan year a statement that the plan may be amended during the plan year to reduce or suspend the safe harbor contributions and that the reduction or suspension will not apply until at least 30 days after all eligible employees are provided notice of the reduction or suspension.

A plan amendment, adopted between March 13, 2020 and August 31, 2020, that reduces or suspends safe harbor *nonelective contributions* during a plan year is excepted from the requirement that a supplemental notice about the suspension or reduction must be provided to eligible employees at least 30 days before the reduction or suspension is effective, provided that:

- The supplemental notice was provided to eligible employees no later than August 31, 2020; and
- The plan amendment is adopted not later than the effective date of the reduction or suspension of safe harbor nonelective contributions.

However, there is no relief with respect to the timing of the supplemental notice for a midyear reduction or suspension of safe harbor *matching contributions*. There is no relief because information communicated to employees about the plan's matching contributions has a direct effect on employee decisions regarding elective contributions (and, if matched, a direct effect on employee after-tax contributions).

Aon's Retirement Legal Consulting & Compliance consultants are available to assist plan sponsors in understanding how these updated rules may apply to their plans and administration.

New PBGC Rule Updates Assumptions Used to Pay Lump Sums

by Hitz Burton and Monica Gajdel

On September 9, 2020, the Pension Benefit Guaranty Corporation (PBGC) published final regulations announcing that the assumptions it uses, and, therefore, also used by certain defined benefit pension plans, to develop lump-sum payments will change. Effective for distributions after December 31, 2020, the PBGC will determine small amount lump-sum benefits payable by the agency using interest rate and mortality table assumptions under Section 417(e) of the Internal Revenue Code (Code) (417(e) assumptions). In addition, the PBGC will discontinue the publication of PBGC interest rate assumptions it has historically published for use in determining lump-sum benefits. Instead, the PBGC will replace the published interest rates with a lookup table which can be used to replicate the rates the PBGC would have produced after 2020, using an interest rate published monthly by the Internal Revenue Service (IRS).

This new final rule is particularly important to defined benefit pension plans that previously decided to preserve (or grandfather) the use of PBGC interest rates to pay lump sums (e.g., this is common in many plans that cover collectively bargained employees). Years ago, many, but not all, single employer pension plans decided to phase out use of PBGC assumptions to calculate lump sums in response to tax law changes included in the Retirement Protection Act of 1994 (RPA '94). RPA '94 mandated that single employer plans use 417(e) assumptions when paying lump-sum benefits.

Pension plans typically eliminated use of these PBGC assumptions in the late 1990s through a plan amendment made possible by temporary anti-cutback relief that has long since expired. Plans that decided not to make the transition to 417(e) assumptions approximately 20 years ago were then required to calculate lump-sum benefits on an ongoing basis under two sets of assumptions—with their legacy PBGC assumptions and with 417(e) assumptions—paying the larger lump sum. PBGC interest rates, which have generally been lower than corresponding rates under Section 417(e) of the Code (417(e) interest rates) recently, would then generally apply.

Plans using the PBGC assumptions for lump sums or other purposes will need to be evaluated to determine which assumptions should be utilized effective January 1, 2021. Some plan documents may contain language that simply refers to the assumptions used by the PBGC and thus the plan assumptions will automatically change to using the 417(e) interest rate, mortality table, or both. Though the current 417(e) interest rates are greater than those published by the PBGC, generally producing lower lump sums, the IRS indicated to the PBGC that such a change is not considered a cutback in benefits. However, sponsors should understand how this change will impact the lump-sum benefits payable to participants, including participants who are close to retirement or participants who recently received an estimate of their pension benefit. Based on current interest rates, lump-sum benefits in 2021 for some plans may be 10% to 40% lower than 2020 if a plan sponsor decides that the 417(e) assumptions will apply effective January 1, 2021. Given the size of this possible reduction, plan sponsors should evaluate whether some type of targeted communication to participants nearing normal retirement or who have recently received a benefit estimate may be appropriate.

In other cases, plan documents may refer to the PBGC interest rates that will be determined from the lookup table using the IRS interest rate in the future. For these situations, no change will essentially occur in the calculation of the lump sum or other benefits under the plan. The same assumptions and calculation will continue. The only change is the PBGC will not actually publish the interest rates effective January 1, 2021, and the rates will need to be determined from the lookup table provided in the final regulations.

Unfortunately, the plan language referring to the PBGC assumptions is typically not clear. A review of the language and use of the assumptions will likely be necessary to determine which assumptions are specified by the plan going forward—the PBGC assumptions changing to the 417(e) or the PBGC assumptions historically used to calculate lump sums (i.e., those which are not changing). In some cases, plan sponsors may wish to clarify plan language to ensure the reference is clear in the future.

Aon's Retirement Legal Consulting & Compliance group and actuarial consultants are familiar with this new PBGC final rule and can help plan sponsors evaluate their plans to determine whether a change in assumptions is applicable and possible changes to plan document language. We can also assist fiduciaries to effectively implement and communicate the change to ensure compliance and mitigate the risks of future ERISA claims or litigation.

Proposed Plan Loan Rollover Regulations Provide Relief

by Dan Schwallie

The Problem of Plan Loans When Participants or Plans Terminate

Many plan participants have outstanding loans from their 401(k), 403(b), or governmental 457(b) plans when either their employment terminates or the plan terminates, whether due to a corporate transaction or otherwise. Most plans require that plan loan repayments be made via payroll deduction, which cease when a participant terminates employment. A small minority of plans permit continued loan repayments by check or ACH directly to the plan's recordkeeper after a participant terminates employment (assuming the plan has not terminated). Failure to make any plan loan repayment when due results in a taxable *deemed distribution*, which is not eligible for rollover to another qualified employer plan or an individual retirement arrangement (IRA).

A plan may also provide that, if a participant terminates employment, the participant's obligation to repay the loan is accelerated and, if not immediately repaid, the loan is cancelled or treated as in default, with the participant's account balance being offset by the amount of the unpaid loan balance. Or the plan may provide for a *plan loan offset* upon the participant's termination of employment (or upon taking a distribution from the plan) without a repayment opportunity. Such *plan loan offset* is treated as an actual distribution from the plan equal to the unpaid loan balance rather than a deemed distribution. Unlike a deemed distribution, the amount of the plan loan offset distribution is eligible for tax-free rollover to another eligible retirement plan and is generally not subject to 20% federal income tax withholding. Prior to the Tax Cuts and Jobs Act of 2017 (TCJA), an indirect rollover of a plan loan offset amount had to be made within 60 days. The indirect rollover would require the participant to come up with the dollar amount of the plan loan offset and roll over that amount to another eligible retirement plan or IRA within the 60-day period. However, TCJA amended Section 402(c)(3) of the Internal Revenue Code (Code) to extend the period during which a *qualified plan loan offset* (QPLO) amount may be indirectly rolled over. Note that a plan is not required to offer a *direct rollover* with respect to such plan loan offset amount, and many do not.

Proposed Plan Loan Offset Rollover Regulations

Consistent with the TCJA amendments, the proposed regulations provide that a participant (or the participant's spousal distributee) with an eligible rollover distribution that is a QPLO amount may roll over any portion of the QPLO distribution to an eligible retirement plan, including another qualified retirement plan (if that plan permits) or an IRA, by the individual's deadline for filing income taxes, including extensions, for the year in which the QPLO occurs and the QPLO amount is treated as distributed. This TCJA rule is distinct from other federal tax provisions, such as the temporary three-year period permitted by the CARES Act, that may extend the period to roll over a plan loan offset. A plan loan offset amount that is not a QPLO must still be rolled over within 60 days.

The proposed regulations define a QPLO amount as a plan loan offset amount that satisfies each of the following three requirements:

1. Is distributed from a qualified employer plan solely by reason of the termination of the qualified employer plan, or the failure to meet the repayment terms of the loan from such plan because of the severance from employment of the employee (i.e., when the participant ceases to be an employee of the employer maintaining the plan, including if the participant's new employer becomes the employer maintaining the plan);
2. Relates to a plan loan that met the plan loan requirements of Section 72(p)(2) of the Code and Section 1.72(p)-1 of the Treasury Regulations immediately prior to the termination of the qualified employer plan or the severance from employment of the participant, whichever applies; and
3. Occurs within the period beginning on the date of the participant's severance from employment and ending on the first anniversary of that date.

A *qualified employer plan* for purposes of the proposed regulations means an employer plan qualified under Section 401(a) of the Code, an annuity plan under Section 403(a) of the Code, a 403(b) plan under Section 403(b) of the Code, and any governmental plan, whether qualified or not.

Taxpayers may rely on the proposed regulations with respect to plan loan offset amounts, including QPLO amounts, that are treated as distributions on or after August 20, 2020 until final regulations are published in the Federal Register.

Determining whether a plan loan offset amount is a QPLO amount is important to correctly report a plan loan offset amount as a QPLO amount using Code M in box 7 of IRS Form 1099-R. If the plan loan offset amount is not a QPLO amount, the offset should still be reported as an actual distribution, but without Code M in box 7 (nor should Code L be used, which is for a deemed distribution). The proposed one-year anniversary rule is intended to assist plan administrators by providing a bright-line rule for determining whether a plan loan offset amount following a severance from employment is a QPLO amount.

The interaction of loan defaults, deemed distributions, plan loan offsets, and qualified plan loan offsets can be complicated and confusing, and their interaction depends in large part on how the provisions of a plan are drafted to deal with them. Aon's Retirement Legal Consulting & Compliance consultants are available to assist plan sponsors in understanding how these concepts interact and how to administratively comply with these proposed regulations.

Quarterly Roundup of Other New Developments

by Sandy Combs, Teresa Kruse, and Bridget Steinhart

Fiduciary Committees Part 4—Fiduciary Investment Best Practice

The act of hiring an outside investment adviser for the defined contribution plan is a fiduciary decision. This means thoroughly researching the background, relevant experience, and qualifications of potential advisers with whom the committee may work and documenting the information relied upon and the decisions that are made. As fiduciaries, committee members should not blindly rely on the information and advice provided by outside experts because the committee members have an inherent responsibility to thoughtfully review the information and advice provided and make the ultimate decision. Be prepared, ask questions, or request additional information when needed.

As a fiduciary, it is important to remember there are three basic principles regarding positioning plan assets for investment: (1) long-term returns are key; (2) market timing does not pay; and (3) optimize risk and return. In an individual account plan, participants should be given the opportunity to construct a well-diversified portfolio that allows them to take on as much, or as little, risk as is comfortable for them. When fiduciaries are selecting asset classes to include in the plan, this decision needs to be deliberate, with the understanding that these options should provide the diversification participants need. Aon's best practice is to select one fund for each asset class available in the plan. This helps prevent participants from becoming overwhelmed with too many choices.

The Investment Policy Statement (IPS) can be thought of as a business plan for how fiduciaries select and monitor the investments in the retirement plan. Although a formal IPS is not required, it is usually the first thing the Department of Labor will request if your plan is audited. The IPS should include the roles and responsibilities of the committee and other parties, criteria for selecting and eliminating funds, proxy-voting guidelines, and guidelines for the committee when reviewing the investments. Include enough detail so that the plan fiduciaries have a plan to follow, but be careful to not make the IPS so specific that you are forced to make changes frequently. It is noteworthy that the only thing worse than not having an IPS is having an IPS and not following it.

Another of Aon's best practices regarding investments is to follow, and monitor, what funds or plan features are put in place. Monitor outside advisers. Monitor investment funds and fund managers. Follow the IPS, review it periodically, and make updates if needed.

This article completes our four-part series regarding Fiduciary Committees. Please refer to the **First Quarter 2020**, **Second Quarter 2020**, and **Third Quarter 2020** issues of the *Quarterly Update* to read the prior three pieces in this series.

If your committee has need to provide or update your fiduciary training, Aon has fiduciary experts who can help committees and their members understand their fiduciary responsibilities under the Employee Retirement Income Security Act (ERISA)—from both an administrative and an investment perspective.

Retirement Plan Website Design—What You Need to Know

Over the past several years, we have seen retirement plan features become more automated. Many of these automated functions, such as automatic enrollment and automatic deferral increases, have increased enrollment and helped participants save for retirement. But is it enough, and how does the recordkeeping provider's website influence participant decisions?

In a paper written by Saurahb Bhargava, Lynn Conell-Price, Richard Mason, and Shlomo Benartzi titled, "Save(d) by Design," the authors review how the design of participant websites can affect participant behavior. Specifically, could they change the website to encourage participants to make active elections? Three field studies were conducted to vary the design of an online enrollment interface for over 8,500 employees across 500 automatic enrollment retirement plans. The paper showed some of the following results when providing an enhanced web design to participants:

- More participants opted to personalize their savings rate;
- Savings rate amounts increased; and
- Participants became more aware of the retirement plan match amount.

This paper shows that the physical design of a participant website may help drive participant decisions and nudge participants into becoming more engaged in selecting the amount of their retirement savings. Fiduciaries who are looking for a more behavioral approach to retirement plan website design should pay attention to vendor websites and request demonstrations during vendor reviews. Aon's Defined Contribution Consulting practice can help with vendor searches and in the review of participant websites.

Retirement Plan Litigation Update

Retirement plan litigation has been prevalent over the past decade impacting corporate plan sponsors, plan fiduciaries, administrative committees, 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 financial institutions and universities have been dismissed (in full or in part) or settled, including:

- Universities
  - *Nicolas v. Trs. of Princeton Univ.* – Settled for $5.8M and other remedies
- Other Institutions
  - *Bhatia v. McKinsey & Co., Inc.* – Settled for $39.5M and other remedies

- *Casey v. Reliance Tr. Co.* – Settled for $6.3M
- *Obeslo v. Great-West Capital Mgmt., LLC* – Dismissed with prejudice

Plan sponsors seeking to reduce their litigation risk exposure use a variety of strategies including increasing the number of passive funds in their plans, continually reviewing recordkeeping and investment fees, and implementing better fee transparency.

Nicolas v. Trs. of Princeton Univ., No. 3:17-cv-03695 (D.N.J. July 28, 2020); Bhatia v. McKinsey & Co., Inc., No. 1:19-cv-01466-GHW-SN (S.D.N.Y. Aug. 10, 2020); Casey v. Reliance Tr. Co., No. 4:18-cv-00424 (E.D. Tex. Aug. 6, 2020); Obeslo v. Great-West Capital Mgmt., LLC, No. 1:16-cv-00230-CMA-SKC (D. Colo. Aug. 7, 2020).

IRS Guidance on COVID-19 Employee Layoffs/Rehires

Under current Internal Revenue Service (IRS) rules, a partial plan termination is presumed to have occurred when the turnover rate for a given year is 20% or more of total plan participants. The "turnover rate" generally is based on all of the facts and circumstances and does not include voluntary terminations but does include both vested and nonvested employees (as provided in Revenue Ruling 2007-43). In a partial plan termination, the employer must determine which participants require full vesting, as a result. This can be tricky in that participants who were "improperly" forfeited that year before the partial termination would have occurred are owed their forfeited amounts. So, what happens in 2020 with the COVID-19 environment and many employers laying off employees because of the pandemic? Are employees laid off due to COVID-19 and subsequently rehired prior to the end of 2020 treated as part of the turnover rate? The IRS issued *Coronavirus-related Relief for Retirement Plans and IRAs Questions and Answers* providing guidance on provisions of the CARES Act. Specifically, Q&A 15 indicates that employees laid off as a result of COVID-19 and subsequently rehired prior to the end of 2020 generally will not be treated as having an employer-initiated severance to be included in the turnover rate. For related information on layoffs versus furloughs please refer to the **Third Quarter 2020** issue of the *Quarterly Update*.

Three New ERISA Lawsuits Question Actively Versus Passively Managed TDFs

Actively managed target date funds (TDFs) are in the news for all the wrong reasons. Three new lawsuits question offering actively managed TDFs to retirement plan participants instead of less expensive passively managed options. Lawsuits against Quest Diagnostics, IQVIA Holdings, and Eversource follow a recent lawsuit filed by a participant in Costco's retirement plan claiming the fiduciaries of the plan breached their duties under ERISA by offering expensive and underperforming actively managed TDFs. These lawsuits have to play out, but raise the question of what fiduciaries can do to ward off this kind of lawsuit. Can actively managed TDFs be a prudent and safe offering in a retirement plan? The answers lie in the fiduciary duty of prudence and the process fiduciaries follow in choosing and monitoring a target date series. Proper process includes the following:

- Understanding the basics of TDFs—active versus passive management (and more);
- Benchmarking funds for performance and fees;
- Reviewing the risk profile and considering whether it's appropriate for plan participants;
- Regularly reviewing the performance of the target date series against DOL expectations;
- Monitoring the underlying investments in the fund to ensure that they align with participant disclosures; and
- Documenting the evaluation performed in choosing, monitoring, and retaining a target date series.

Offering an actively managed TDF over a less expensive passively managed version might be defended if fiduciaries demonstrate that the decision was informed and intentional. While fiduciary duties do not require that the lowest priced TDF series be chosen, executing and documenting a prudent and deliberate process may be beneficial in a challenge.

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.

- Participant personally identifiable data as a plan asset
  - *Berkelhammer et al. v. ADP TotalSource Grp., Inc.*
- Excessive fees (administration and/or investment fees)
  - *Albert v. Oshkosh Corp. et al.*
  - *Bailey et al. v. LinkedIn Corp. et al.*
  - *Soulek v. Costco Wholesale Corp. et al.*
  - *Gerken v. ManTech Int'l Corp. et al.*
  - *Kendall v. Pharm. Prod. Dev., LLC et al.*
  - *Hill et al. v. Mercy Health Corp. et al.*
  - *Maisonette v. Omnicon Grp. Inc. et al.*
  - *Santiago v. Univ. of Miami*

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

Berkelhammer et al. v. ADP TotalSource Grp., Inc., No. 2:20-cv-05696 (D.N.J. May 7, 2020); Albert v. Oshkosh Corp. et al., No. 1:20-cv-00901-WCG (E.D. Wis. June 16, 2020); Bailey et al. v. LinkedIn Corp. et al., No. 5:20-cv-05704 (N.D. Cal. Aug. 14, 2020); Soulek v. Costco Wholesale Corp. et al., No. 1:20-cv-00937 (E.D. Wis. June 23, 2020); Gerken v. ManTech Int'l Corp. et al., No. 3:20-cv-00350 (E.D. Va. May 15, 2020); Kendall v. Pharm. Prod. Dev., LLC et al., No. 7:20-cv-00071-D (E.D.N.C. Apr. 15, 2020); Hill et al. v. Mercy Health Corp. et al., No. 3:20-cv-50286 (N.D. Ill. Aug. 4, 2020); Maisonette v. Omnicon Grp. Inc. et al., No. 1:20-cv-06007-MKV (S.D.N.Y. July 31, 2020); Santiago v. Univ. of Miami, No. 1:20-cv-21784-MGC (S.D. Fla. Apr. 29, 2020).

Please see the applicable Disclosures and Disclaimers on page **15**.

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