QUARTERLY INDUSTRY INSIGHTS | HOSPITALS AND HEALTHCARE SYSTEMS

Q1 2024

Earle W. Allen, MBA, CEBS
Principal | Financial Advisor

Danny Lowe, MBA, RFC®
Senior Financial Advisor

Michael S. Pratico
Principal | Financial Advisor

Jan J. Rezler, QPFC
Senior Financial Advisor

Ellen R. Shaer, CFA
Director | Investment Strategist

SECTIONS

ABOUT CAPTRUST

ABOUT CAPTRUST

COMPANY HEADQUARTERS
Raleigh, NC

38-year
operating history

Culture
of employee ownership

1,554
employees

More than 3,500
institutional clients

$900 billion
total client assets

98%
client retention
(average since 2019)

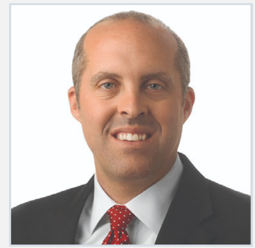
Data as of 12/31/2023

QUARTERLY INDUSTRY INSIGHTS PANELISTS

EARLE W. ALLEN, MBA, CEBS

212.227.7770 office

Earle.Allen@captrust.com email



DANNY LOWE, MBA, RFC®

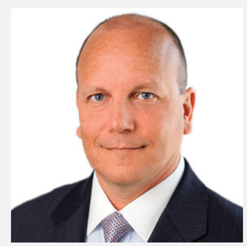
919.278.9790 office

Danny.Lowe@captrust.com email

MICHAEL S. PRATICO

617.488.2700 office

Mike.Pratico@captrust.com email



JAN J. REZLER, QPFC

616.839.8211 office

Jan.Rezler@captrust.com email

ELLEN R. SHAER, CFA

203.869.0033 office

Ellen.Shaer@captrust.com email

HOSPITALS AND HEALTHCARE SYSTEMS EXPERIENCE

Defined Benefit
- Cash Balance
- Pension Plan

Defined Contribution
- 401(a), 401(k), 403(b), 457(b)
- Money Purchase Plan
- Profit Sharing Plan

Non-Retirement Plan Assets
- Corporate Cash
- Endowment / Foundation
- Insurance Captive Pool
- Investment Portfolio

Nonqualified
- 409A
- 415(m)
- 457(b)
- 457(f)

- **445 retirement plans or asset pools**
- **$100 billion in assets**
- **20% hired us for employee advice**
- **25% hired us for discretion (3(38) or OCIO)**

30+ different providers or recordkeepers (top ten)

- Corebridge
- Empower
- Fidelity
- Lincoln
- Principal
- Schwab
- TIAA
- Transamerica
- US Bank
- Voya

REPRESENTATIVE CLIENT LIST – HOSPITALS AND HEALTHCARE

Adena Health System
Chillicothe, OH

Appalachian Regional Healthcare System
Boone, NC

Baptist Healthcare System
Louisville, KY

Brunswick Hospital Center
Amityville, NY

Cape Fear Valley Health System
Fayetteville, NC

Central Maine Healthcare
Lewiston, ME

Cincinnati Children's Hospital Medical Center
Cincinnati, OH

Englewood Hospital and Medical Center
Englewood, NJ

Hampton Regional Medical Center
Varnville, SC

Jefferson Regional Medical Center
Pine Bluff, AR

Lake View Memorial Hospital
Duluth, MN

Lankenau Medical Center
Wynnewood, PA

McGaw Medical Center of Northwestern University
Chicago, IL

Monadnock Community Hospital
Peterborough, NH

NCH Healthcare System
Naples, FL

Nicklaus Children's Health System
Miami, FL

Tanner Health System
Carrollton, GA

Valley Health System
Winchester, VA

WE REPRESENT CLIENTS FROM THE FOLLOWING INDUSTRIES:

Automotive, Biotech and Pharmaceutical, Business and Trade Organizations, Communication and Information Technology, Energy, Food and Beverage, Government Entities, Healthcare, Education, Legal, Insurance, and Professional Services, Nonprofit Organizations, Retail, and Manufacturing

Representative clients were selected to illustrate the broad diversity of the firm's client base by size, type, and industry. No direct or indirect compensation has been paid to these representative clients in connection to this or any other advertisement.

PEER PERSPECTIVE

TOP OF MIND CONCERNS

- Industry mergers and acquisitions
- Attracting and retaining talent
- Offering a competitive benefits and compensation program
- Harmonizing and communicating all benefits across all systems
- Cybersecurity threats and attacks
- Litigation

RETIREMENT PLAN FOCUS

General
- Retirement plan mergers due to acquisitions
- Increased focus on plan investments with industry and peer awareness due to heightened acumen
- Supporting needs associated with self-directed brokerage account population

Financial Advice and Wellness
- Succinctly communicating all benefit plans and resources for broader awareness
- Helping participants maximize financial benefit across all plans and benefits
- Access to unconflicted advice to make holistic decisions

Defined Contribution Plans
- Appropriate utilization of target date funds and if custom funds are an option
- The potential use of collective investment trusts
- Treatment of frozen or legacy assets within a plan
- Assessing the suitability of either a money market or stable value option

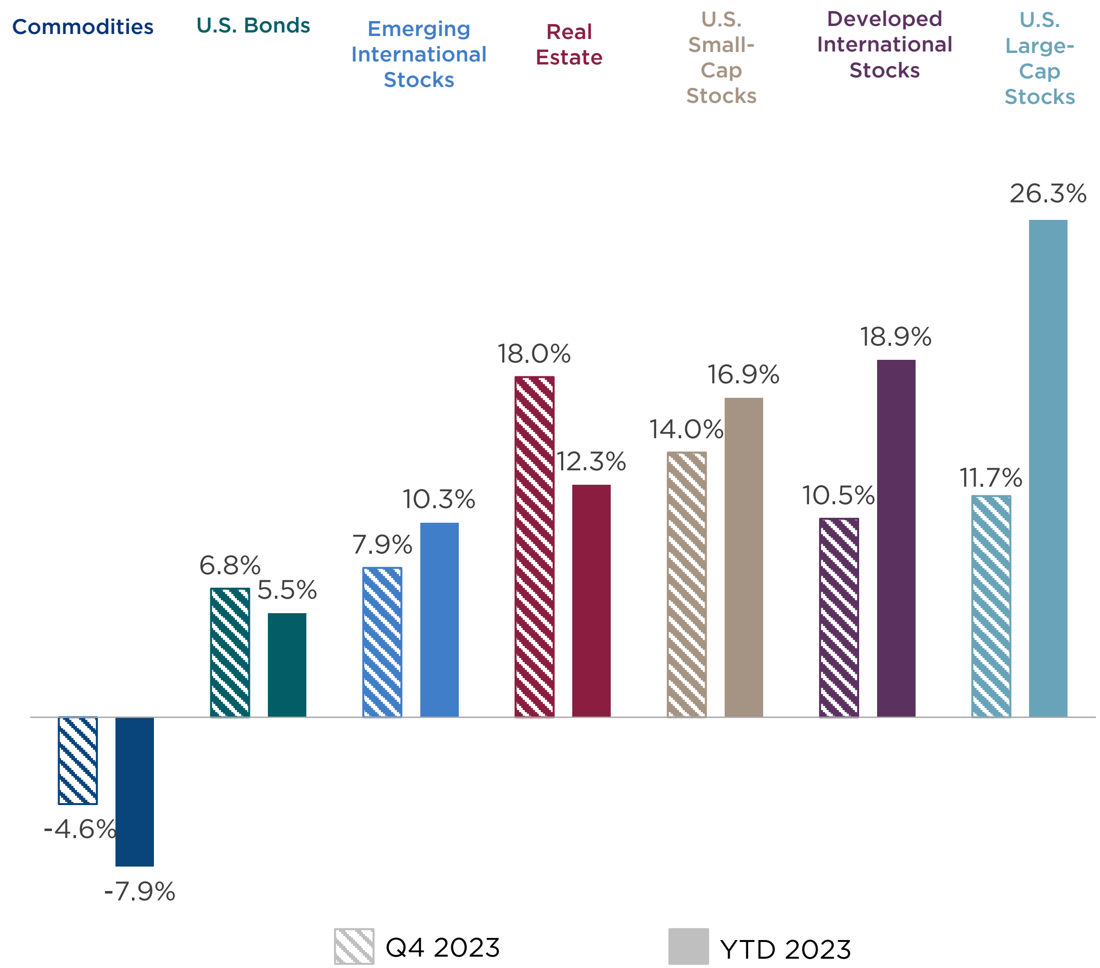
Nonqualified Plans
- Exploring expansion of eligibility
- Reviewing investment options
- Providing participant advice

MARKET COMMENTARY

RESETTING EXPECTATIONS

The higher-for-longer interest rate message reiterated by the Federal Reserve through the first three quarters of 2023 was essentially dismissed by investors late last year as inflation data showed continued easing. Consequently, expectations for future interest rate changes were reset significantly lower. Nearly all asset classes soared.

- Along the capitalization spectrum, the decline in rate expectations was most impactful to small-cap stocks. The small-cap value segment of the market benefited most, driven by sizable exposure to regional banks.
- Broader large-cap equities also surged, and multiple sectors within the index ended the quarter with double-digit gains. The interest-rate-sensitive real estate sector led the pack. Only the energy sector failed to gain ground, erasing its year-to-date achievements.
- Bond investors also captured the value of falling rate expectations, with fixed income markets recouping their modest year-to-date losses.
- Outside the U.S., international stock market gains were more minimal, but a weakening U.S. dollar filled the gap.
- Declining oil prices weighed heavily on commodity markets.



Asset class returns are represented by the following indexes: Bloomberg U.S. Aggregate Bond Index (U.S. bonds), S&P 500 Index (U.S. large-cap stocks), Russell 2000® (U.S. small-cap stocks), MSCI EAFE Index (international developed market stocks), MSCI Emerging Market Index (emerging market stocks), Dow Jones U.S. Real Estate Index (real estate), and Bloomberg Commodity Index (commodities).

DIGGING DEEPER: STOCKS AND BONDS

Equities

	Q4 2023	YTD 2023	Last 12 Months
U.S. Stocks	11.7%	26.3%	26.3%
• Q4 Best Sector: Real Estate	18.8%	12.4%	12.4%
• Q4 Worst Sector: Energy	-6.9%	-1.3%	-1.3%
International Stocks	10.5%	18.9%	18.9%
Emerging Markets Stocks	7.9%	10.3%	10.3%

Fixed Income

	12.31.23	9.30.23	12.31.22
1-Year U.S. Treasury Yield	4.79%	5.46%	4.73%
10-Year U.S. Treasury Yield	3.88%	4.59%	3.88%
	QTD 2023	**YTD 2023**	**Last 12 Months**
10-Year U.S. Treasury Total Return	6.87%	3.21%	3.21%

Equities – Relative Performance by Market Capitalization and Style

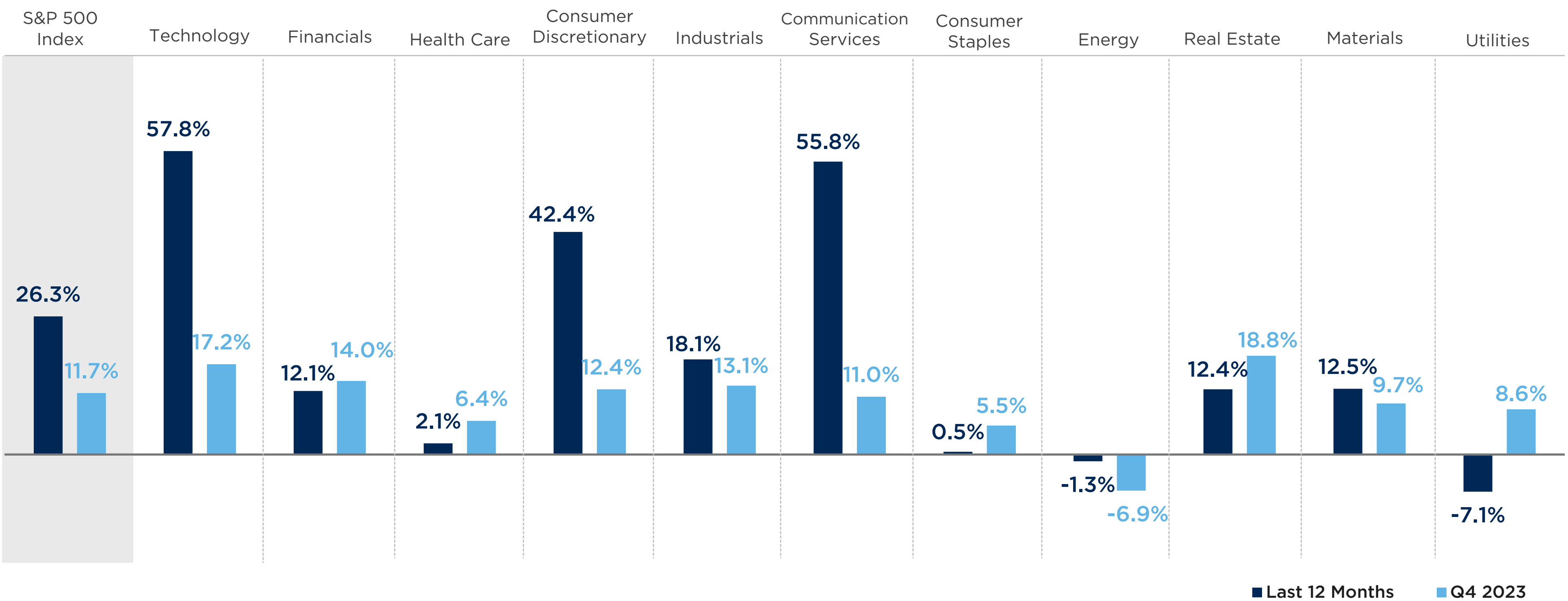
Q4 2023				YTD 2023				Last 12 Months			
	Value	Blend	Growth		Value	Blend	Growth		Value	Blend	Growth
Large	9.5%	11.7%	14.2%	Large	11.5%	26.3%	42.7%	Large	11.5%	26.3%	42.7%
Mid	12.1%	12.8%	14.5%	Mid	12.7%	17.2%	25.9%	Mid	12.7%	17.2%	25.9%
Small	15.3%	14.0%	12.7%	Small	14.6%	16.9%	18.7%	Small	14.6%	16.9%	18.7%

Sources: Morningstar, U.S. Treasury, Federal Reserve Bank of St. Louis. Asset class returns are represented by the following indexes: S&P 500 Index (U.S. stocks), MSCI EAFE Index (international developed market stocks), and MSCI Emerging Markets Index (emerging market stocks). Relative performance by market capitalization and style is based upon the Russell US Style Indexes except for large-cap blend, which is based upon the S&P 500 Index.

DIGGING DEEPER: U.S. EQUITY MARKETS

The S&P 500 Index is a market-capitalization-weighted index of U.S. large-cap stocks across a diverse set of industry sectors. The stocks represented in these 11 sectors generated a range of returns for the last 12 months and the most recent quarter.

Returns by S&P 500 Sector



	Technology	Financials	Health Care	Consumer Discretionary	Industrials	Communication Services	Consumer Staples	Energy	Real Estate	Materials	Utilities
Sector Weight	28.9%	13.0%	12.6%	10.9%	8.8%	8.6%	6.2%	3.9%	2.5%	2.4%	2.3%

Sources: Morningstar, S&P Global. All calculations are cumulative total return, not annualized, including dividends for the stated period. Past performance is not indicative of future returns.

DIGGING DEEPER: FIXED INCOME MARKET

Interest Rates	3 Months	2 Years	5 Years	10 Years	30 Years	Mortgage Rate
September 2023	5.55%	5.03%	4.60%	4.59%	4.73%	7.31%
December 2023	5.40%	4.23%	3.84%	3.88%	4.03%	6.61%
Change	-0.15%	-0.80%	-0.76%	-0.71%	-0.70%	-0.70%

U.S. Treasury yields moved lower this quarter with the expectation of a less-aggressive Fed in 2024. Mortgage rates moderated slightly, but remain high, contributing to a slowing housing market.

Core Fixed Income Index	Yield to Worst	Duration	Total Return Q4 2023	Spread	Treasury Rate	AA Spread	BBB Spread
September 2023	5.38%	6.06	6.82%	0.55%	4.83%	0.48%	1.44%
December 2023	4.51%	6.10		0.44%	4.06%	0.42%	1.19%
Change	-0.87%	0.04		-0.10%	-0.77%	-0.06%	-0.25%

Performance for core bonds was positive for the quarter as yields moved lower. Credit spreads narrowed slightly.

Long Credit Index	Yield to Worst	Duration	Total Return Q4 2023	Spread	Treasury Rate	AA Spread	BBB Spread
September 2023	6.16%	12.49	13.71%	1.36%	4.80%	0.84%	1.74%
December 2023	5.28%	12.70		1.19%	4.09%	0.75%	1.52%
Change	-0.88%	0.21		-0.17%	-0.71%	-0.09%	-0.22%

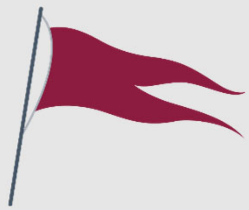
Performance for longer-maturity bonds was boosted by lower yields and nearly unchanged credit spreads.

Sources: Morningstar, FactSet, U.S. Treasury, Federal Reserve Bank of St. Louis, CAPTRUST Research

ECONOMIC OUTLOOK

The resolution of pandemic effects and successful monetary policy has led inflation downward toward the Federal Reserve's long-term 2% target. It's likely the Fed will start lowering rates in 2024, supporting an already robust labor market. Still, the lagging effects of rate hikes will be felt as consumers grapple with debt and housing affordability. These challenges could be offset by artificial intelligence-led productivity gains.

HEADWINDS



Consumer Challenges Ahead

- Credit card balances are high, and excess savings have been mostly depleted. Despite higher borrowing costs, consumers continue to spend and are now facing high interest payments on loans.

Housing Market Upended

- In 2023, higher interest rates created an inventory shortage and pushed home prices higher. Although mortgage rates have declined, it will take time for housing affordability to return to historical norms.

Election Uncertainty

- While markets generally perform well in election years, market leadership can be fluid, especially when candidates have fundamentally different policy agendas.

Investor Optimism Creates Risk

- The prospect of lower interest rates has inspired high optimism, which may drive volatility if reality falls short of expectations.

TAILWINDS

Economic Soft Landing

- As inflation wanes to pre-pandemic levels without having spurred a recession, a soft landing seems likely. Fed rate cuts and a lower inflationary environment could drive economic growth.

Inflation-Adjusted Wage Growth

- Real wage growth remained positive in 2023, leaving consumers better positioned to tackle rising debt.

Productivity-Fueled Growth

- The potential for operational efficiency and revenue enhancement has driven heavy investment in artificial intelligence across industries. Widespread implementation over the next decade has the potential to boost productivity growth above long-term averages, thereby increasing gross domestic product (GDP).

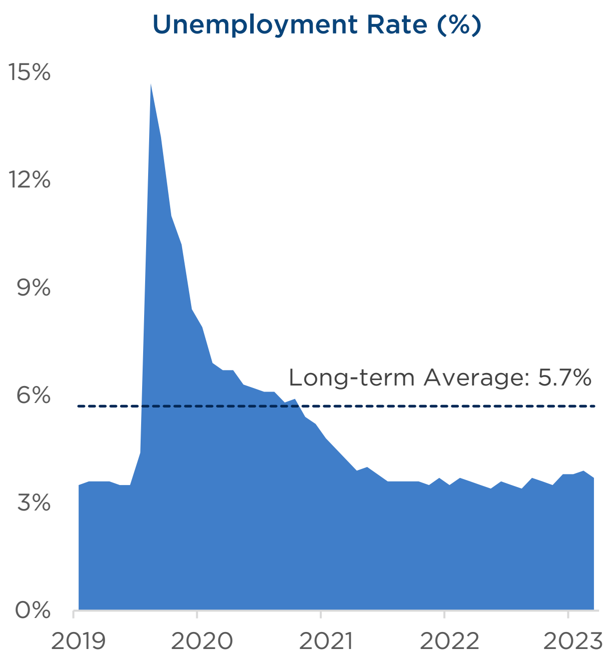
Uptick in Government Funding

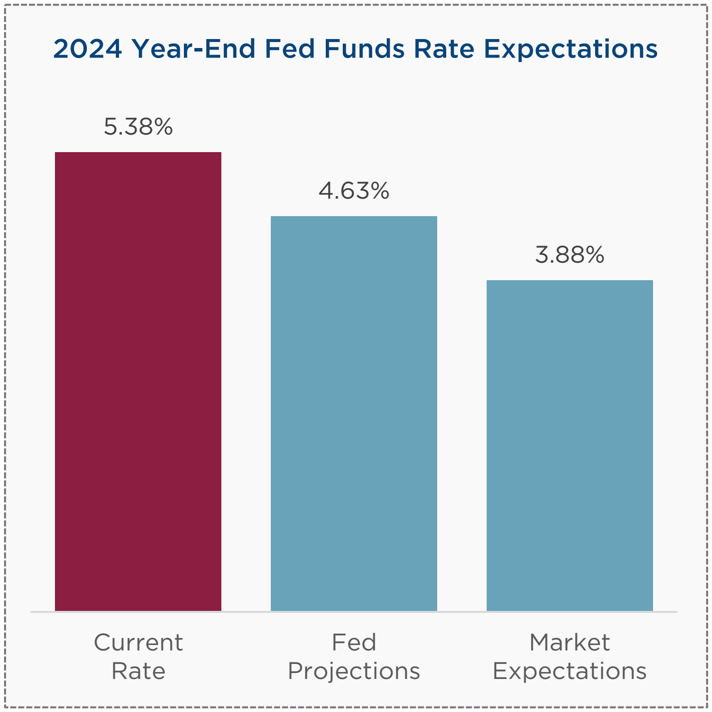
- Funds from programs targeting infrastructure and clean energy will be deployed in 2024, adding liquidity to the economy.

While many of the risks faced in 2023 have been resolved positively, it is still prudent for investors to move forward with caution. Investor optimism is near all-time highs and may create disappointment, which is another reason to remain vigilant, diversified, and prepared for volatility.

IS A SOFT LANDING ON THE HORIZON?

As 2023 progressed, economic stability overtook recessionary fears. With inflation now receding, the Federal Reserve's *higher-for-longer* monetary policy stance has eased. Investors now expect an economic soft landing and interest rate cuts in 2024, although the pace remains uncertain. Market expectations and Fed projections are currently misaligned.





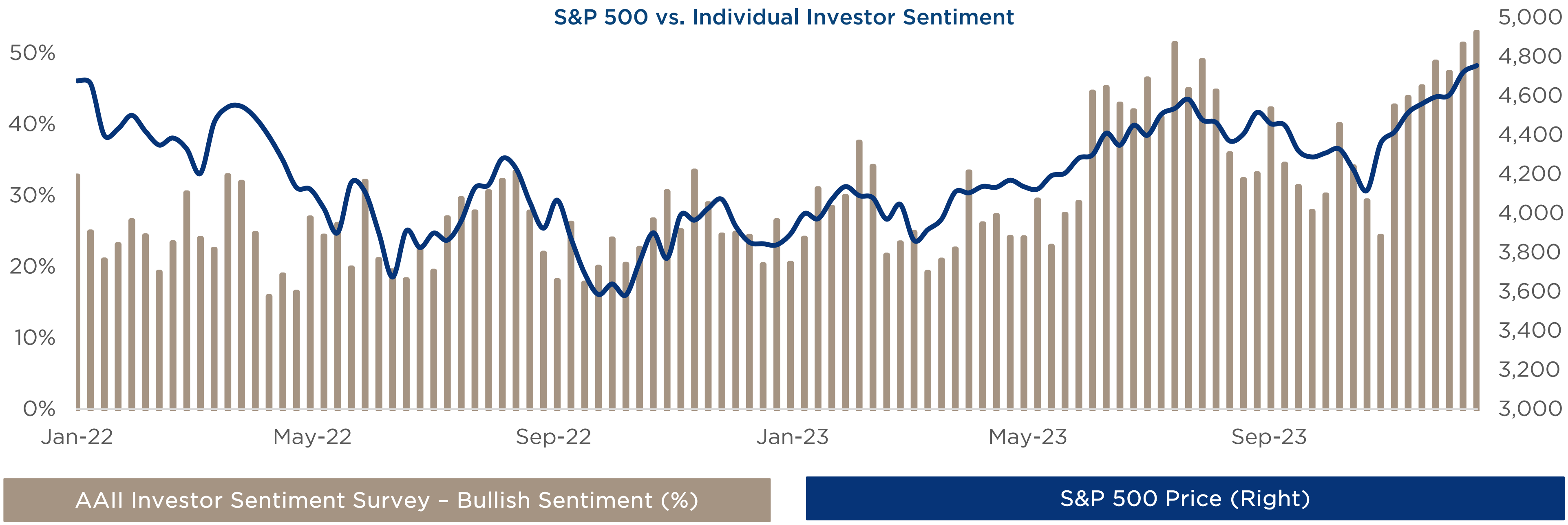
INVESTOR EXPECTATIONS

Generally, the Fed's actions are reactionary, with policies responding to economic outcomes. However, proactive interest rate cuts may be the only way to reconcile market expectations with current economic strength and earnings growth estimates. Despite increased odds of a soft landing, the number and degree of rate cuts could fall short of investor expectations, thereby increasing market volatility.

Sources: U.S. Bureau of Economic Analysis, FactSet, CAPTRUST Research. Data as of 12.29.2023

INVESTOR SENTIMENT BUOYS MARKETS

Market movements are driven primarily by investor expectations. For instance, after a challenging 2022, investors were largely pessimistic, expecting a recession to weigh on stocks in 2023. As the outlook improved, so did investor expectations. Sentiment and equity prices climbed in tandem. Now, the question becomes: Are the markets priced to perfection, or will they falter by expecting perfection?



INVESTOR OPTIMISM

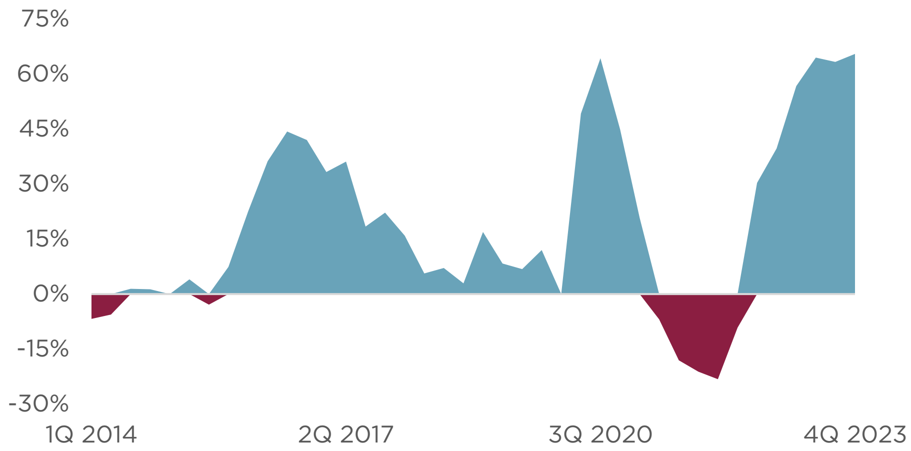
Bullish sentiment, as measured weekly by the American Association of Individual Investor (AAII) survey, is the expectation that stocks will rise in the next six months. Sentiment rose steadily in the fourth quarter of 2023, reaching a near-all-time high of 52%. This optimism is fueled by investor expectations for a soft landing and proactive Fed interest rate cuts in 2024. However, with this much conviction in a single outcome, it is possible that any shortfall—in either the pace or magnitude of rate cuts or the glidepath to a soft landing—could create an outsized market response.

Sources: American Association of Individual Investors, FactSet, CAPTRUST Research. Data as of 12.30.2023

2024 KNOWN UNKNOWNS

Questions about the U.S. consumer will be the primary focus of 2024, given the rise in credit card debt, the decline in excess personal savings, and the resumption of student loan payments. However, additional known unknowns could have an outsized impact on the economic landscape. Commercial real estate borrowers face a wall of maturities that will likely need refinancing, and national elections are scheduled in 2024 for countries representing 60% of global GDP.

Refinancing Conditions
Tightening Lending Standards

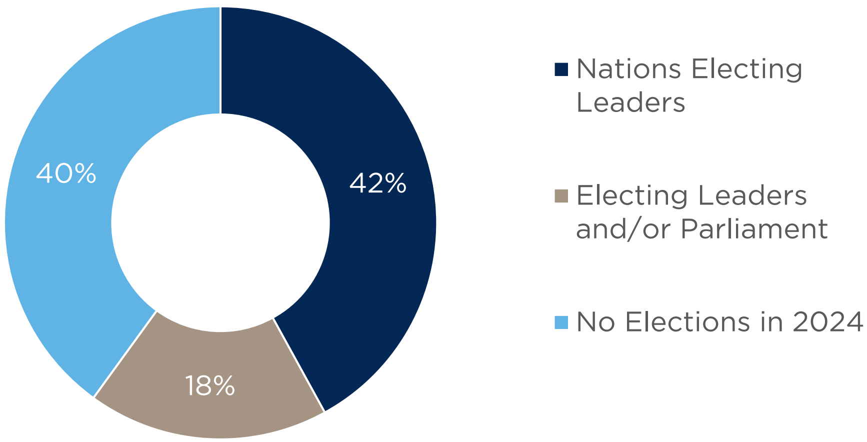


Approximately 65% of respondents to the Fed's "Senior Loan Officer Survey" projected tightening lending standards on multifamily and other commercial real estate loans in 2024.

Nearly $700 billion in U.S. commercial real estate debt matures in 2024, with banks holding the largest outstanding share.

U.S. regulators note that commercial real estate is the leading risk to financial stability.

Election Uncertainty
Percent (%) of Global GDP



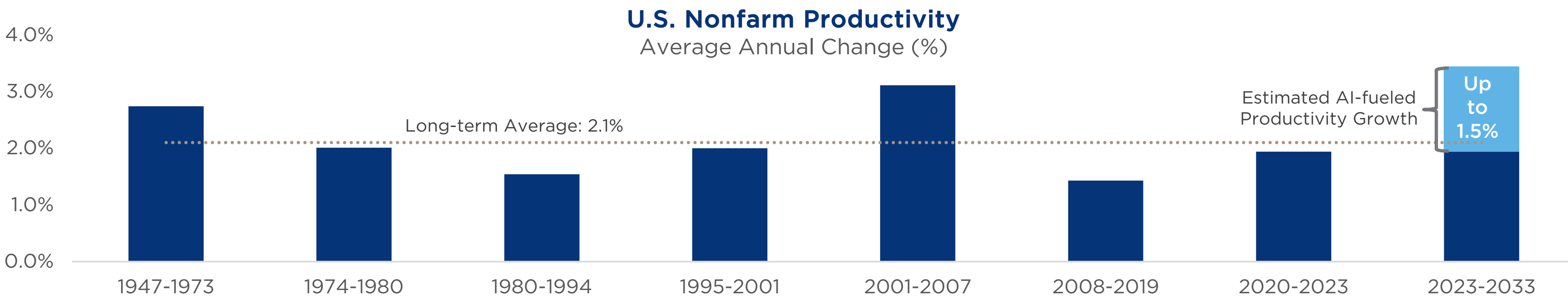
While the U.S. presidential election will undoubtedly garner the most attention, pundits predict more voters will participate in national elections in 2024 than any year in history. This uptick has the potential to reshape the global economic and geopolitical landscapes.

Geopolitical hot spots Taiwan, Russia, Ukraine, and Pakistan are all scheduled to elect new leaders in 2024. A national election in Mexico could impact near-shoring and immigration policies.

Sources: Federal Reserve Board, "Senior Loan Officer Opinion Survey on Lending – October 2023;" CRED iQ, Bloomberg, Allianz, CAPTRUST Research

THE POWER OF PRODUCTIVITY

Productivity is a silent driver of economic prosperity. In simple terms, productivity can be defined as the same number of individuals producing more goods or services. Few variables are more impactful to improving a country's standard of living. Hence, the prospect of a productivity increase from using generative artificial intelligence (AI) has prompted major investment across industries. While the impact of these advancements won't be fully realized for a decade or more, their sheer potential has driven markets higher.



PRODUCTIVITY IN ACTION

Generative AI has the potential to turn every company into a technology company by automating labor tasks, expediting training processes, anticipating problems, and supporting solutions.

CUSTOMER SUPPORT

- One study found customer support agents handled 13.8% more inquiries per hour with AI support resources.
- The quality of outcomes modestly improved, and the learning curve for new agents was accelerated.

BUSINESS PROFESSIONALS

- Another study found professionals across industries wrote business documents 59% faster using AI support resources.
- Independent evaluators found AI-supported documents provided higher quality content.

COMPUTER PROGRAMMING

- A third study found experienced computer programmers were 126% more productive, completing projects in less than half the time using AI support resources.
- Project quality was unchanged.

Sources: U.S. Bureau of Labor Statistics, National Bureau of Economic Research, MIT Economics, Goldman Sachs, GitHub Copilot, CAPTRUST Research

ASSET CLASS RETURNS

Period Ending 12.31.23 | Q4 23

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Small-Cap Growth 29.09%	Fixed Income 7.84%	Mid-Cap Value 18.51%	Small-Cap Growth 43.30%	Mid-Cap Value 14.75%	Large-Cap Growth 5.67%	Small-Cap Value 31.74%	Large-Cap Growth 30.21%	Cash 1.87%	Large-Cap Growth 36.39%	Large-Cap Growth 38.49%	Mid-Cap Value 28.34%	Cash 1.46%	Large-Cap Growth 42.68%
Mid-Cap Growth 26.38%	Large-Cap Growth 2.64%	Small-Cap Value 18.05%	Mid-Cap Growth 35.74%	Large-Cap Value 13.45%	Fixed Income 0.55%	Mid-Cap Value 20.00%	International Equities 25.62%	Fixed Income 0.01%	Mid-Cap Growth 35.47%	Mid-Cap Growth 35.59%	Small-Cap Value 28.27%	Large-Cap Value -7.54%	Mid-Cap Growth 25.87%
Mid-Cap Value 24.75%	Large-Cap Value 0.39%	International Equities 17.90%	Small-Cap Value 34.52%	Large-Cap Growth 13.05%	Cash 0.05%	Large-Cap Value 17.34%	Mid-Cap Growth 25.27%	Large-Cap Growth -1.51%	Small-Cap Growth 28.48%	Small-Cap Growth 34.63%	Large-Cap Growth 27.60%	Mid-Cap Value -12.03%	International Equities 18.85%
Small-Cap Value 24.50%	Cash 0.10%	Large-Cap Value 17.51%	Large-Cap Growth 33.48%	Mid-Cap Growth 11.90%	Mid-Cap Growth -0.20%	Small-Cap Growth 11.32%	Small-Cap Growth 22.17%	Mid-Cap Growth -4.75%	Mid-Cap Value 27.06%	International Equities 8.28%	Large-Cap Value 25.16%	Fixed Income -13.01%	Small-Cap Growth 18.66%
Large-Cap Growth 16.71%	Mid-Cap Value -1.38%	Mid-Cap Growth 15.81%	Mid-Cap Value 33.46%	Fixed Income 5.97%	International Equities -0.39%	Mid-Cap Growth 7.33%	Large-Cap Value 13.66%	Large-Cap Value -8.27%	Large-Cap Value 26.54%	Fixed Income 7.51%	Mid-Cap Growth 12.73%	International Equities -14.01%	Small-Cap Value 14.65%
Large-Cap Value 15.51%	Mid-Cap Growth -1.65%	Large-Cap Growth 15.26%	Large-Cap Value 32.53%	Small-Cap Growth 5.60%	Small-Cap Growth -1.38%	Large-Cap Growth 7.08%	Mid-Cap Value 13.34%	Small-Cap Growth -9.31%	International Equities 22.66%	Mid-Cap Value 4.96%	International Equities 11.78%	Small-Cap Value -14.48%	Mid-Cap Value 12.71%
International Equities 8.21%	Small-Cap Growth -2.91%	Small-Cap Growth 14.59%	International Equities 23.29%	Small-Cap Value 4.22%	Large-Cap Value -3.83%	Fixed Income 2.65%	Small-Cap Value 7.84%	Mid-Cap Value -12.29%	Small-Cap Value 22.39%	Small-Cap Value 4.63%	Small-Cap Growth 2.83%	Small-Cap Growth -26.36%	Large-Cap Value 11.46%
Fixed Income 5.89%	Small-Cap Value -5.50%	Fixed Income 4.22%	Cash 0.07%	Cash 0.03%	Mid-Cap Value -4.78%	International Equities 1.51%	Fixed Income 3.54%	Small-Cap Value -12.86%	Fixed Income 8.72%	Large-Cap Value 2.80%	Cash 0.05%	Mid-Cap Growth -26.72%	Fixed Income 5.53%
Cash 0.13%	International Equities -11.73%	Cash 0.11%	Fixed Income -2.02%	International Equities -4.48%	Small-Cap Value -7.47%	Cash 0.33%	Cash 0.86%	International Equities -13.36%	Cash 2.28%	Cash 0.67%	Fixed Income -1.54%	Large-Cap Growth -29.14%	Cash 5.01%

Source: Morningstar

- Small-Cap Value Stocks (Russell 2000 Value)
- Small-Cap Growth Stocks (Russell 2000 Growth)
- Large-Cap Growth Stocks (Russell 1000 Growth)
- Large-Cap Value Stocks (Russell 1000 Value)
- Mid-Cap Growth Stocks (Russell Mid-Cap Growth)
- Mid-Cap Value Stocks (Russell Mid-Cap Value)
- International Equities (MSCI EAFE)
- Fixed Income (Bloomberg U.S. Aggregate Bond)
- Cash (Merrill Lynch 3-Month Treasury Bill)

INDEX PERFORMANCE

Period Ending 12.31.23 | Q4 23

INDEXES	Q4 2023	YTD	2022	2021	2020	2019	2018	1 YEAR	3 YEARS	5 YEARS	10 YEARS
90-Day U.S. Treasury	1.37%	5.01%	1.46%	0.05%	0.67%	2.28%	1.87%	5.01%	2.15%	1.88%	1.25%
Bloomberg Government 1-3 Year	2.55%	4.32%	-3.81%	-0.60%	3.14%	3.59%	1.58%	4.32%	-0.08%	1.28%	1.05%
Bloomberg Intermediate Govt	3.97%	4.30%	-7.73%	-1.69%	5.73%	5.20%	1.43%	4.30%	-1.83%	1.03%	1.24%
Bloomberg Muni Bond	7.89%	6.40%	-8.53%	1.52%	5.21%	7.54%	1.28%	6.40%	-0.40%	2.25%	3.03%
Bloomberg Intermediate Govt/Credit	4.56%	5.24%	-8.23%	-1.44%	6.43%	6.80%	0.88%	5.24%	-1.63%	1.59%	1.72%
Bloomberg Intermediate Credit	5.60%	6.94%	-9.10%	-1.03%	7.08%	9.52%	0.01%	6.94%	-1.28%	2.44%	2.46%
Bloomberg Aggregate Bond	6.82%	5.53%	-13.01%	-1.54%	7.51%	8.72%	0.01%	5.53%	-3.32%	1.10%	1.81%
Bloomberg Corporate IG Bond	8.50%	8.52%	-15.76%	-1.04%	9.89%	14.54%	-2.51%	8.52%	-3.29%	2.63%	2.95%
Bloomberg High Yield	7.16%	13.44%	-11.19%	5.28%	7.11%	14.32%	-2.08%	13.44%	1.98%	5.37%	4.59%
Bloomberg Global Aggregate	8.10%	5.72%	-16.25%	-4.71%	9.20%	6.84%	-1.20%	5.72%	-5.51%	-0.32%	0.38%
Bloomberg U.S. Long Corporate	14.01%	10.93%	-25.62%	-1.13%	13.94%	23.89%	-7.24%	10.93%	-6.57%	2.86%	3.90%
S&P 500	11.69%	26.29%	-18.11%	28.71%	18.40%	31.49%	-4.38%	26.29%	10.01%	15.68%	12.03%
Dow Jones Industrial Average	13.09%	16.18%	-6.86%	20.95%	9.72%	25.34%	-3.48%	16.18%	9.39%	12.47%	11.07%
NASDAQ Composite	13.56%	43.42%	-33.10%	21.39%	43.64%	35.23%	-3.88%	43.42%	5.22%	17.73%	13.64%
Russell 1000 Value	9.50%	11.46%	-7.54%	25.16%	2.80%	26.54%	-8.27%	11.46%	8.86%	10.90%	8.39%
Russell 1000	11.96%	26.53%	-19.13%	26.45%	20.96%	31.43%	-4.78%	26.53%	8.98%	15.51%	11.80%
Russell 1000 Growth	14.16%	42.68%	-29.14%	27.60%	38.49%	36.39%	-1.51%	42.68%	8.87%	19.49%	14.85%
Russell Mid-Cap Value Index	12.11%	12.71%	-12.03%	28.34%	4.96%	27.06%	-12.29%	12.71%	8.37%	11.15%	8.26%
Russell Mid-Cap Index	12.82%	17.23%	-17.32%	22.58%	17.10%	30.54%	-9.06%	17.23%	5.92%	12.67%	9.42%
Russell Mid-Cap Growth Index	14.55%	25.87%	-26.72%	12.73%	35.59%	35.47%	-4.75%	25.87%	1.31%	13.81%	10.56%
MSCI EAFE	10.47%	18.85%	-14.01%	11.78%	8.28%	22.66%	-13.36%	18.85%	4.54%	8.69%	4.77%
MSCI ACWI ex U.S.	9.82%	16.21%	-15.57%	8.29%	11.13%	22.13%	-13.78%	16.21%	2.04%	7.59%	4.32%
Russell 2000 Value	15.26%	14.65%	-14.48%	28.27%	4.63%	22.39%	-12.86%	14.65%	7.94%	9.99%	6.75%
Russell 2000	14.03%	16.93%	-20.44%	14.82%	19.96%	25.52%	-11.01%	16.93%	2.22%	9.97%	7.15%
Russell 2000 Growth	12.75%	18.66%	-26.36%	2.83%	34.63%	28.48%	-9.31%	18.66%	-3.50%	9.22%	7.16%
MSCI Emerging Markets	7.93%	10.27%	-19.74%	-2.22%	18.69%	18.90%	-14.25%	10.27%	-4.71%	4.07%	3.04%
Dow Jones U.S. Real Estate Index	17.98%	12.25%	-25.17%	38.99%	-5.29%	28.92%	-4.03%	12.25%	5.30%	7.34%	7.70%
HFRX Absolute Return Index	1.33%	2.95%	0.85%	2.10%	2.72%	4.37%	-0.49%	2.95%	1.96%	2.59%	1.97%
Consumer Price Index (Inflation)	0.45%	3.30%	6.44%	7.19%	1.32%	2.31%	2.00%	3.30%	5.64%	4.09%	2.78%
BLENDED BENCHMARKS	**Q4 2023**	**YTD**	**2022**	**2021**	**2020**	**2019**	**2018**	**1 YEAR**	**3 YEARS**	**5 YEARS**	**10 YEARS**
25% S&P 500/5% MSCI EAFE/70% BB Agg	8.22%	11.15%	-14.08%	6.13%	10.87%	14.96%	-1.55%	11.15%	0.45%	5.25%	4.66%
30% S&P 500/10% MSCI EAFE/60% BB Agg	8.65%	12.84%	-14.35%	8.27%	11.56%	16.79%	-2.44%	12.84%	1.52%	6.40%	5.35%
35% S&P 500/15% MSCI EAFE/50% BB Agg	9.08%	14.55%	-14.64%	10.44%	12.18%	18.63%	-3.34%	14.55%	2.60%	7.52%	6.02%
40% S&P 500/20% MSCI EAFE/40% BB Agg	9.51%	16.28%	-14.96%	12.64%	12.75%	20.48%	-4.25%	16.28%	3.66%	8.64%	6.68%
45% S&P 500/25% MSCI EAFE/30% BB Agg	9.93%	18.02%	-15.28%	14.87%	13.25%	22.33%	-5.17%	18.02%	4.73%	9.73%	7.32%
60% S&P 500/40% Bloomberg Barclays Agg	9.74%	17.67%	-15.79%	15.86%	14.73%	22.18%	-2.35%	17.67%	4.71%	9.98%	8.10%

TOPICAL SPOTLIGHTS

KEY NUANCES AND MECHANICS OF PENSION PLAN TERMINATION

The recent market environment has made defined benefit (DB) plan termination a hot topic of conversation. Plan termination is an involved process, likely taking 18-24 months. To be prepared and delivered in a timely manner, it requires a resolution, plan amendments, participant notices, government filings, and annuity bids. Here, we explain key mechanisms of plan termination.

Termination ready?

YES, if hard frozen and fully funded

NO, if underfunded

Make contributions to be fully funded.

Consider partial PRT to reduce participants.

Consider lump sums for select active and term-vested participants.

Consider a small group annuity purchase (liftout) for retirees.

Board approves termination and timeline is developed.

Actuary sends out benefit election notices (lump sum vs. annuity) to participants.

If final lump-sum take rate is greater than the preliminary, there may be a beneficial reduction in:

- Annuity liability
- Interest-rate sensitivity for remaining assets
- Annuity purchase costs
- LDI strategy expense

Modify asset allocations. Immediately target 100 percent liability-driven investments (LDI) to hedge liabilities, which will remain interest rate sensitive until lump-sum discount rate is finalized.

Using the finalized lump-sum discount rate and preliminary lump-sum take rates

Expected lump-sum payments are hedged with cash.

Remaining payouts in the form of annuities will remain interest rate sensitive.

New asset allocation targets for cash and LDI

Determine annuity providers to be considered. Third-party firms can help.

Make final annuity provider selection.

LDI allocation is liquidated to purchase annuities, and lump sums are paid out from cash.

Until the plan has officially terminated:

- Continue administering ongoing plan.
- Prepare for a PBGC audit.

Plan is officially terminated.

Continue maintaining ERISA-compliant records.

The post-termination surplus reversion to the sponsor is subject to a punitive excise tax of 20-50%. Strategically, the surplus could be transferred to a qualified retirement plan (QRP), like a 401(k), 403(b), or DB, or used to fund a new QRP.

HIGHLIGHTS FROM OUR LATEST CAPITAL MARKET ASSUMPTIONS

CAPTRUST periodically updates its capital market assumptions (CMAs) to align with the evolving investment landscape. This involves a mix of quantitative and qualitative analyses of economic conditions, policies, and other variables. Here's an overview of our updated expectations compared to 2022.

Economy

We've reduced our inflation forecast to 2.3%, anticipating a further decline to 2%. Real GDP growth expectations are now at 1.9% due to interest rate headwinds.

Equity

We remain optimistic about long-term domestic equities and expect them to outperform international shares.

Fixed Income

Expectations for fixed income returns have increased overall, with a normalizing yield curve favoring shorter-duration issues over long-term ones.

Alternatives

Our alternatives assumptions have largely remained stable. This year, we've raised our hedged equity performance expectations, reflecting a higher risk-free-rate environment.

	Return			Risk		
	2022	2023	Change	2022	2023	Change
U.S. Economy						
Economic Growth (Real GDP)	2.10%	1.90%	-0.20%	2.70%	2.70%	-
Inflation (CPI)	2.60%	2.30%	-0.30%	1.25%	1.25%	-
Equity Markets						
Large-Cap Equity	7.25%	7.25%	-	15.50%	15.10%	-0.40%
Mid-Cap Equity	7.50%	7.50%	-	17.80%	16.80%	-1.00%
Small-Cap Equity	7.50%	7.50%	-	19.80%	19.60%	-0.20%
Developed International Stocks	6.25%	6.25%	-	17.00%	16.30%	-0.70%
Emerging International Stocks	7.25%	7.25%	-	22.00%	22.00%	-
Fixed Income						
Cash	2.30%	3.40%	1.10%	1.00%	1.00%	-
Core Fixed Income	3.70%	4.60%	0.90%	3.70%	3.90%	0.20%
Long-Term Treasury Bonds	3.90%	4.20%	0.30%	12.30%	13.70%	1.40%
Investment Grade Corporate Bonds	4.10%	5.00%	0.90%	5.60%	5.70%	0.1%
Long-Term Corporate Bonds	4.90%	5.00%	0.10%	9.30%	9.50%	0.20%
High-Yield Corporate Bonds	5.70%	6.20%	0.50%	8.40%	8.50%	0.10%
Alternative Investments						
Public Real Estate (R/E)	6.50%	6.50%	-	18.60%	19.90%	1.30%
Private R/E: Opportunistic	8.50%	8.50%	-	22.30%	23.90%	1.60%
Commodities	2.60%	2.60%	-	15.00%	15.20%	0.20%
Core Private Real Assets	6.50%	6.50%	-	13.40%	15.50%	2.10%
Private Equity: Direct	10.25%	10.25%	-	18.60%	18.10%	-0.50%
Hedged Equity	5.40%	6.00%	0.6%	11.60%	11.30%	-0.30%
Core Private Credit	7.10%	7.30%	0.20%	10.00%	10.00%	-

CMAs are not intended to represent exact market predictions. Instead, they are best estimates for potential annualized growth over a 7- to 10-year period, likely covering a full market cycle. Coupled with other factors and your organization's needs, your CAPTRUST advisor can help craft a suitable investment plan.

CAPITAL MARKET ASSUMPTIONS: CHANGE IMPLICATIONS

Changes in capital market assumptions (CMAs) tend to be incremental. Thus, institutional investors benefit from the ability to maintain a long-term perspective. An increase in fixed income return expectations coupled with an increase in asset class correlations leads to a slight increase in expected returns for most portfolios. However, investors should consider the many roles that bonds play in their portfolio beyond their contribution to total return.

CMAs provide an input for asset allocation decisions, but modest annual changes should not upend long-term investment policies. For many pension plan sponsors, despite lower return expectations, bonds' primary role is hedging pension liabilities. Your CAPTRUST financial advisor can help contextualize your investment strategy, goals, and objectives within the current market outlook.

		Portfolio A	Portfolio B	Portfolio C
Allocation Weightings	LDI Fixed Income	70%	50%	30%
	U.S. Large-Cap Equity	20%	40%	60%
	Hedged Strategies	10%	10%	10%
Return Forecast	2022	5.50%	6.06%	6.50%
	2023	5.60%	6.12%	6.57%
	Change	**0.10%**	**0.06%**	**0.07%**

Plan sponsors should consider whether the updated CMAs suggest reevaluating the expected return on assets used for accounting and actuarial purposes.

ADDITIONAL ROLES

Liability Hedging

- LDI strategies hedge funded status volatility created by interest rate movement.
- If interest rates fall, bonds appreciate as liabilities increase, helping to preserve funding status.
- If rates rise, funding generally improves; most plans maintain less interest rate exposure than their liabilities.

Diversification

- Historical fixed income returns demonstrate a low correlation to equity returns.
- Both our previous and new capital market assumptions expect this low correlation to persist.
- By diversifying with bonds, investors can reduce overall portfolio volatility.

2024 PREDICTIONS: NEW OPPORTUNITIES ABOUND

2024 will be shaped by the evaluation and adoption of new retirement plan features, investments, and solutions, plus a renewed focus on service providers, discretion, and financial wellness.

FORWARD FOCUS

- Financial wellness and plan design conversations will merge as discussions around student loan debt, emergency savings, and automatic portability increase.
- Plan sponsors will spend time on the evaluation of retirement income products and solutions designed to meet participant needs in the decumulation phase.
- The use of managed accounts across the industry will increase as the demand for personalization continues, specifically in the qualified default investment alternative (QDIA) space.

SERVICE PROVIDERS IN THE SPOTLIGHT

- SECURE 2.0 Act provisions will gain traction as service providers roll out new processes and services.
- Cybersecurity will be on plan sponsors' minds as they grapple with recent data breaches and litigation.
- The new fiduciary rule will be finalized by the Department of Labor (DOL), potentially impacting the way service providers interact with participants, particularly with regard to rollovers.
- Plan sponsors will continue to outsource retirement plan responsibilities through 3(38) and 3(16) discretionary services.

REGULATION, REGULATION, AND SOME LEGISLATION?

- The DOL will launch a participant lost-and-found database, provide guidance around emergency savings accounts, and focus on increasing the efficiency of participant disclosures.
- IRS guidance will continue. This may include guidance on student loan matching while also finalizing approaches to plan forfeitures and electronic disclosure.
- Collective investment trusts (CITs) in 403(b) legislation will finally cross the finish line.

FIDUCIARY UPDATE

Retirement plan fiduciaries should be mindful of recent regulatory guidance that may be relevant to their plans.

THE DEPARTMENT OF LABOR'S FIDUCIARY RULE

On October 31, the Department of Labor (DOL) issued a proposed rule, the Retirement Security Rule, expanding ERISA's fiduciary protections to more retirement investors. The proposed rule aims to:

- Make rollover advice, including one-time advice, a fiduciary act that must be made in the best interest of the investor.
- Define anyone who gives advice, including one-time advice, to plan sponsors regarding plan investments as *fiduciaries* under ERISA.
- Replace the existing five-part test that defines who is an investment fiduciary under ERISA with a three-part test. The current *regular basis* prong of the five-part test has been a concern for years.

It is clear from the DOL's guidance that the primary target of this rule is advice and sales efforts in the context of retirement plan distributions. The DOL wants to protect retirement plan investors who have accumulated substantial account balances from receiving rollover advice on those assets that is not in their best interest.

The DOL's last effort in this area was overturned by the Court of Appeals in 2018. The proposed rule has a 60-day public comment period. A spirited debate can be anticipated.

LONG-TERM PART-TIME EMPLOYEES

On November 24, the Internal Revenue Service issued proposed regulations on the treatment of long-term part-time (LTPT) employees, which was addressed in provisions of both the SECURE Act and SECURE 2.0.

- The most urgent plan sponsor action associated with these regulations is for safe harbor plans. Plan sponsors should review their 2024 notices for potential necessary updates and to confirm notices are being sent to newly eligible LTPT employees.
- The proposed regulations were silent on 403(b) plans. Thus, it remains unclear how these new rules will interact with existing 403(b) universal availability rules. Fortunately, the new 403(b) LTPT rules are not effective until 2025.
- Given the extensive time-tracking and unique vesting issues that would be involved in including LTPT employees, plan sponsors may want to review and revise plan designs to permit all employees to defer, considering any potential impact to testing or budget.

HARDSHIP WITHDRAWALS AND LOANS ON THE RISE

Surveys from Vanguard, Fidelity, and Empower all show loan activity and hardship withdrawals for plan participants meeting or exceeding prepandemic levels. There have been several recent initiatives through legislation to make retirement plan assets more easily accessible in times of need. As additional SECURE 2.0 Act provisions become available, plan sponsors should consider their plan's current withdrawal and loan statistics as they consider the potential need for additional withdrawal options.

NOTABLE SURVEY FINDINGS

EMPOWER

- In the third quarter of 2023, hardship withdrawals and loans reached an eight-quarter peak. Over the past year, the proportion of participants taking a loan went up by 14%, and the proportion taking a hardship withdrawal went up by 46%.
- 27% of those surveyed said they were likely to take a loan or hardship withdrawal in the next six months.

FIDELITY

- 2.3% of participants took a hardship withdrawal in the third quarter of 2023, compared to 1.8% in 2022.
- 2.8% of participants took a loan in 2023 vs. 2.4% in 2022.
- The primary reasons for taking a distribution were avoiding foreclosure or eviction and paying for medical expenses.

VANGUARD

- Hardship withdrawals in 2022 exceeded the levels seen from 2018 through 2021.
- In 2022, about 25% of participants with a household income between $30,000 and $99,999 had a loan, and 12% of participants with an income of more than $150,000 also did.
- This study also found that avoiding foreclosure or eviction and paying medical expenses were the primary reasons for hardship withdrawals.

After saving for retirement, paying down debt and building emergency savings were the highest priorities for participants.

Participant savings rates have remained steady for the past few years despite increased withdrawal and loan activity.

Source: Vanguard, "How America Saves." Empower, "Empowering America's Financial Journey™ 2023." Fidelity, "Q3 2023 Retirement Analysis."

BACK TO BASICS: THE SAFE HARBOR IRA

SECURE 2.0 Act increases the mandatory distribution limit from $5,000 to $7,000, effective 01.01.2024. Mandatory distributions are used as a tool for *small balance force-outs* of terminated employees and have been allowable by Congress since 2001. In 2004, the DOL established safe harbor rules for plan sponsors to satisfy their fiduciary requirements related to mandatory distributions. These safe harbor conditions describe a fiduciary's duties with respect to the selection of a safe harbor IRA and the investment of funds in connection with automatic rollovers.

WHAT IS A MANDATORY DISTRIBUTION?

Plan sponsors are permitted to force out terminated participants' small balances (those under $7,000) if their plan allows for it. Participants are notified of the distribution and afforded options depending on their balance and the plan document.

Settlor Decision

WHAT IS AN AUTOMATIC ROLLOVER?

Account balances between $1,000 and $7,000 must be rolled over to an IRA that the plan sponsor has selected if a participant does not select an alternative distribution option (i.e., a rollover to a new employer's plan).

Regulatory Requirement

WHAT IS A SAFE HARBOR IRA?

A safe harbor IRA is created when a retirement plan elects to force out a participant's small balance. The selected IRA provider and default investment must meet specific conditions to afford a plan sponsor the safe harbor relief.

Fiduciary Decision

SAFE HARBOR IRA CONDITIONS

1. The value of the rollover does not exceed the maximum amount of $7,000.
2. Default distribution is to an IRA.
3. Participants are provided with a Summary Plan Description describing the plan's automatic rollover provisions and details surrounding the program and provider.
4. The rollover does not create a prohibited transaction as part of the selection of the IRA and the investment of funds.
5. The plan fiduciary enters into a written agreement with the IRA provider, who invests the funds with a state or federally regulated financial institution that:
    - I. Preserves principal
    - II. Provides a reasonable rate of return
    - III. Bears reasonable expenses

Examples of Default Investments for Safe Harbor IRAs:
Stable value funds, FDIC-protected cash sweep accounts, and money market funds

FIDUCIARY TRAINING: CYBERSECURITY BEST PRACTICES

Qualified retirement plans have increasingly been targets of cyber criminals. Plan fiduciaries have a responsibility to make prudent decisions regarding the selection of service providers and to follow a process to mitigate future risk. To help plan fiduciaries fulfill these obligations, the DOL developed specific cybersecurity guidance, which recommends the following practices for selecting and monitoring service providers.

ENSURE THE SERVICE PROVIDER IS FOLLOWING DOL GUIDELINES, INCLUDING:

- Maintaining a formal, well-documented cybersecurity program
- Conducting prudent annual risk assessments
- Engaging a reliable third party to annually audit security controls (i.e., SOC reports)
- Clearly defining and assigning information security roles and responsibilities
- Ensuring appropriate security reviews and independent security assessments for any assets or data that are stored or managed by a third-party provider

There are several ways this can be accomplished. Invite a representative from your recordkeeping provider to speak to your committee about their process. Periodically review cybersecurity reports and information on the provider's website. Document these steps as you incorporate them into your process.

REVIEW YOUR SERVICE PROVIDER CONTRACT FOR THE FOLLOWING:

- Specified provisions for information sharing and confidentiality
- An outlined process for notification of security breaches
- Indemnification verbiage in the event of cybersecurity breach or fraud
- References to cybersecurity insurance coverage requirements
- Participant action requirements and indemnification policies
- Requirement for annual independent audit

ADDITIONAL PLAN SPONSOR CONSIDERATIONS

Plan sponsors should confirm that they have implemented internal processes and controls to restrict access to plan data and other sensitive information. They may wish to seek specific cyber insurance policies or create riders to existing policies in the case of a breach.

2024 PREDICTIONS: NEW YEAR, NEW OPPORTUNITIES, AND NEW IDEAS

Below are some of the nonqualified plan trends we expect to see in 2024 and beyond.

1

RETENTION NEEDS AND TAX CONCERNS CONTINUE TO DRIVE DEMAND

Recruiting and retention challenges will likely result in sustained discussions about start-up nonqualified plans or design enhancements to improve existing plans. The threat of rising individual tax rates directed primarily toward high earners could also propel plan demand.

2

FINANCING EFFICIENCY TAKES CENTER STAGE

Corporate tax rates may be pushed higher over the short and intermediate terms as 2017 tax cuts approach expiration and the federal budget deficit continues to expand. In this environment, plan sponsors may want to explore the efficiency of different nonqualified plan financing options.

3

BUNDLING ACCELERATES

Plan sponsors will almost certainly continue to seek bundled administrative experiences between their qualified and nonqualified plans. As a result, the recordkeeper partnership and consolidation trend is likely to persist.

4

INVESTMENT MENUS GROW UP

Trends in qualified plan investment management, including collective investment trusts, target-date funds, and discretion, don't always translate to the nonqualified space and will likely result in future diversity among lineups. The lack of a fiduciary requirement for nonqualified plans and differences in eligibility will also support menu divergence.

5

EDUCATION, ADVICE, AND MORE

The shift from communication to education and, ultimately, to wealth advice will accelerate. Sponsors will look to improve the overall participant experience for their top talent, including offering robust financial planning services.

DISCLOSURE

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