FIDUCIARY TRAINING: SELECTING AN AUDITOR

Under federal law, retirement plans with 100 or more participants must submit audited financial statements when they file their annual Form 5500. If your retirement plan must have an annual audit, hiring an independent qualified public accountant is one of the plan administrator's most important fiduciary responsibilities. A well-performed audit is a vital protection for both employers' and employees' interests, helping plans remain compliant and protecting employees' retirement savings from negligence and mistakes.

KEY FACTORS IN AUDITOR SELECTION

INDEPENDENCE

Auditors should not have any financial or other conflicts of interest with respect to the plan or plan sponsor that would affect their ability to render an objective opinion about the plan's financial condition.

LICENSING

Retirement plan auditors must be licensed or certified as public accountants by a state regulatory authority.

EXPERIENCE

Look for an experienced certified public accountant (CPA), obtain references, and discuss the auditor's work on similar retirement plans. One of the most common reasons for a deficient audit report is the auditor's failure to test areas that are unique to retirement plans, often due to a lack of experience.

COST

Base your hiring decision on an assessment of all relevant factors, including quality and experience with retirement plans, not just cost.

WHAT TO EXPECT DURING AN AUDIT

ENGAGEMENT LETTER

This a contract between the auditor and plan sponsor. It outlines the scope of the audit, the responsibilities of both parties, timing, and cost.

PLAN SPONSOR RESPONSIBILITIES

The plan sponsor will provide the auditor with all necessary documents, such as the plan document, amendments, financial statements, and other records upon request.

OUTSIDE PARTIES

The third-party service provider that performs recordkeeping services for the plan will need to make records and documentation available and will often act as a liaison between the plan sponsor and the auditor.

LITIGATION AND REGULATORY UPDATE

Supreme Court Opens Doors to More Litigation

What Happened: The Supreme Court has issued a decision that will make virtually all retirement plan fiduciaries subject to being sued for committing a prohibited transaction (PT). *Cunningham v. Cornell University* (S. Ct. 4.17.25)

- ERISA's definition of a PT is sweeping, including most business transactions that retirement plans engage in as part of their necessary operations. This includes services as basic and essential as 401(k) plan recordkeeping.
- However, an extensive list of prohibited transaction exemptions (PTEs) permits these necessary services.

The issue addressed in the *Cornell* decision was whether a PT claim must initially allege that no exemptions apply or, alternatively, whether fiduciaries are required to prove that an exemption does apply.

Why It Matters: Under this decision, once a PT claim is made, the burden is on plan fiduciaries to prove that an exemption applies.

Expected Impact: Placing the responsibility for raising PT exemptions on fiduciaries dramatically lowers the bar for plaintiffs to make PT claims that will survive motions to dismiss.

Fiduciaries Win Challenges to Underperforming Investments

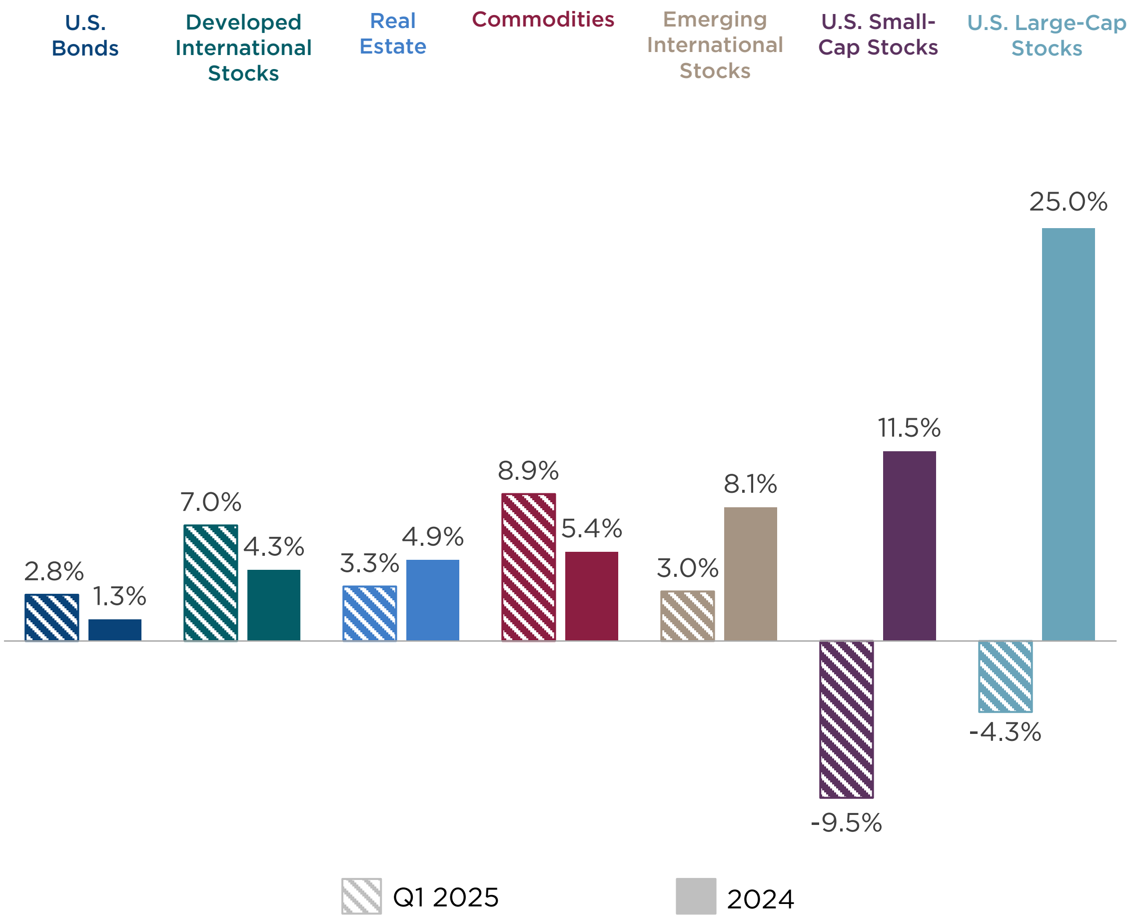
This quarter, several suits alleging that plan fiduciaries breached their duty of prudence by retaining underperforming investments have been resolved in the fiduciaries' favor. The following are highlights.

- *Johnson v. Russell Investments Trust Company* (S.D. Fla. 2025): Russell and Royal Caribbean Cruises were sued for retaining Russell Investments target-date funds. The judge noted:
    - Underperformance in a five-year snapshot of a fund that is supposed to grow for 50 years does not show that the fund is objectively imprudent.
- *Partida v. Schenker, Inc*. (N.D. Cal. 2025): Schenker was sued for retaining an underperforming fund. The judge noted:
    - There is nothing presumptively imprudent about a retirement plan retaining investments through periods of underperformance as part of a long-term strategy.
- *Enstrom v. SAS Institute.* (E.D. N.C. 2025): SAS Institute was challenged for retaining underperforming investments. The judge noted:
    - Fiduciary duties require prudence, not prescience.
    - The challenged funds generally provided returns within 1 to 2 percentage points of the plaintiff's handpicked comparator. Alleged underperformance of between 1 and 4 percent of a benchmark fails to state a plausible ERISA claim.

OUTLOOK DIVIDES GLOBAL MARKETS

Global equities started the year off strong but ended the quarter on a cautious note as policy rhetoric dominated the narrative. Performance varied by region. In the U.S., equities were pressured by a reevaluation of growth prospects. Overseas, new growth-oriented policies offset tariff uncertainty, boosting returns for a potentially reinvigorated Europe.

- Domestic equities moved lower on weak consumer and business sentiment. Mega-cap technology and consumer discretionary stocks were most exposed to the momentum unwind.
- International stocks rallied on improving growth prospects, dollar weakness, and lower valuations relative to U.S. equities.
- Bonds yields moved lower in anticipation of slower economic activity but were limited by competing factors, including a Fed pause, fiscal policy and inflation uncertainty, and rising rates across Europe.
- Commodities benefited from dollar weakness. Investors turned to gold amid economic uncertainty and energy as an inflation hedge.
- Real estate gained as rates moved lower, though economic uncertainty remained a headwind.



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). Past performance is no guarantee of future results. Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly. Please refer to index definitions and other important disclosures provided at the end of this presentation.

DIGGING DEEPER: STOCKS AND BONDS

Equities

	Q1 2025	2024	Last 12 Months*
U.S. Stocks	-4.3%	25.0%	8.3%
• Q1 Best Sector: Energy	10.2%	5.7%	2.5%
• Q1 Worst Sector: Consumer Discretionary	-13.8%	30.1%	6.9%
International Stocks	7.0%	4.3%	5.4%
Emerging Markets Stocks	3.0%	8.1%	8.6%

*Last 12 Months: 3.31.2024 through 3.31.2025

Fixed Income

	3.31.25	12.31.24	3.31.24
1-Year U.S. Treasury Yield	4.03%	4.16%	5.03%
10-Year U.S. Treasury Yield	4.23%	4.58%	4.20%
	Q1 2025	**2024**	**Last 12 Months***
10-Year U.S. Treasury Total Return	3.99%	-1.73%	3.93%

*Last 12 Months: 3.31.2024 through 3.31.2025

Equities – Relative Performance by Market Capitalization and Style

Q1 2025				2024				Last 12 Months			
	Value	Blend	Growth		Value	Blend	Growth		Value	Blend	Growth
Large	2.1%	-4.3%	-10.0%	Large	14.4%	25.0%	33.4%	Large	7.2%	8.3%	7.8%
Mid	-2.1%	-3.4%	-7.1%	Mid	13.1%	15.3%	22.1%	Mid	2.3%	2.6%	3.6%
Small	-7.7%	-9.5%	-11.1%	Small	8.1%	11.5%	15.2%	Small	-3.1%	-4.0%	-4.9%

Sources: Bloomberg, U.S. Treasury. 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. Past performance is no guarantee of future results. Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly. Please refer to index definitions and other important disclosures provided at the end of this presentation.

ECONOMIC OUTLOOK

The forward path of the U.S. economy reflects a wide range of possible outcomes as the impact of fiscal policy initiatives remains uncertain. While it is not unusual for changes to take place in the first year of a new president's term, the pace and scale of recent policy shifts is unprecedented. Data pointing to slowing economic activity suggests that consumers and businesses are on hold. Greater clarity on trade and the size and timing of tax cuts could be a catalyst for future economic growth.

HEADWINDS

Fiscal Policy Drag

- Economic activity may stall if the uncertainty around changes in U.S. trade policy continues, further delaying investment decisions.
- The goal of tariffs, government efficiency initiatives, and immigration reform is to promote national interests. However, these policies could require businesses to adjust operations significantly.

Waning Sentiment

- Consumer and business sentiment has faded in anticipation of higher costs. Yet, any changes to pricing are more likely to create a one-time shift than to drive persistent price increases.

Fed Pause

- The Federal Reserve has adopted a wait-and-see approach; they are following the data and monitoring the impact of fiscal outcomes before making further changes to monetary policy.

TAILWINDS

Pro-Growth Policy Initiatives

- Regulatory reform and tax cuts are intended to drive growth and profitability. This could be positive for U.S. consumers and businesses. While timing remains unknown, Congress will likely want to move quickly to maintain election momentum.
- The administration's move toward lower spending could help alleviate debt pressures. But with the impact of tax reform and monetary policy uncertain, the transition could be choppy.

Favorable Consumption Outlook

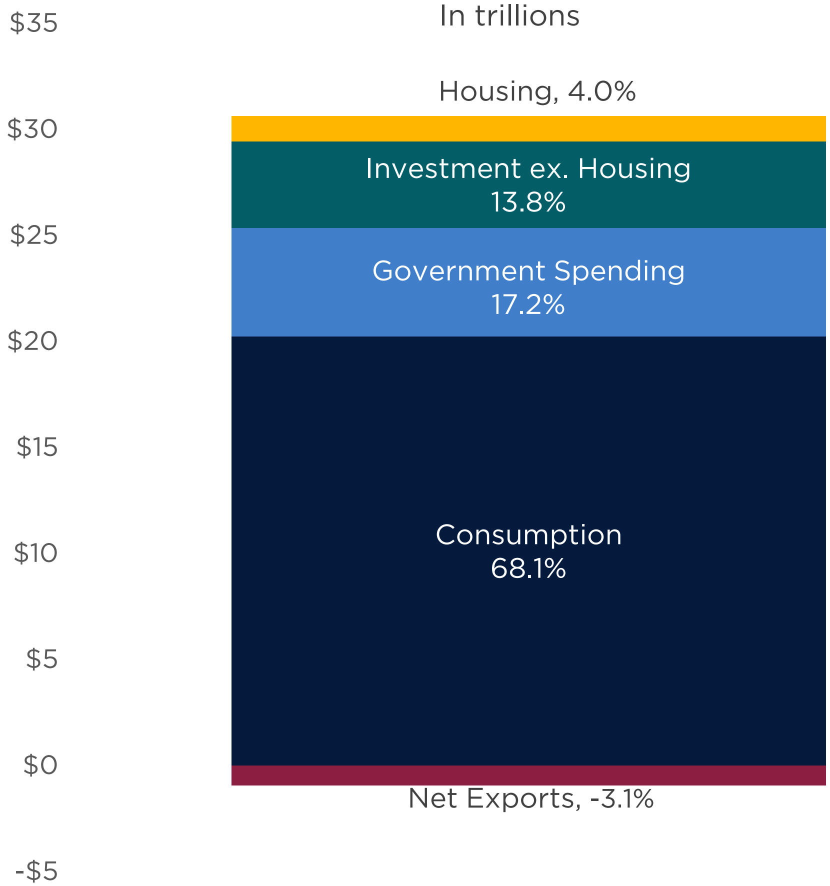
- A labor market with low unemployment and steady job creation is key for continued consumer spending. Consumers may spend more freely if rates fall and tax cuts are enacted.
- Corporate profits remain firm as companies optimize margins and incorporate incremental AI-related efficiencies. AI should drive meaningful productivity gains in the coming years, expanding profitability and overall growth.

Fiscal policy uncertainty has muddled the economic outlook. Given the wide range of potential outcomes, investors should prepare for multiple paths by remaining diversified and exercising prudence in the coming months.

CONTRIBUTORS TO ECONOMIC GROWTH

Economic growth has decelerated in recent months as fiscal policy uncertainty has altered business and consumer spending patterns. While the odds of a recession have increased, we do not believe a recession is inevitable. A review of the categories that are captured within gross domestic product (GDP) can provide insight into future economic resilience.

Components of GDP
In trillions



Sources: Bureau of Economic Analysis, CAPTRUST research

GOVERNMENT SPENDING

Although the Department of Government Efficiency (DOGE) has dominated headlines with spending cuts and layoffs, its $140 billion in estimated savings is just 2% of the $7 trillion federal budget. Social Security, Medicare, Medicaid, and national defense make up nearly 70% of government spending and are unlikely to be impacted.

NET EXPORTS

In February, the Atlanta Fed forecast a first quarter GDP decline, sending investors into a frenzy. However, the forecast was influenced by a surge in imports—a detractor from GDP—as U.S. businesses ramped up foreign buying ahead of tariffs. Tariffs could ultimately subtract 1% to 2% from GDP. Nonetheless, the scare associated with the early 2025 surge in imports should quickly normalize.

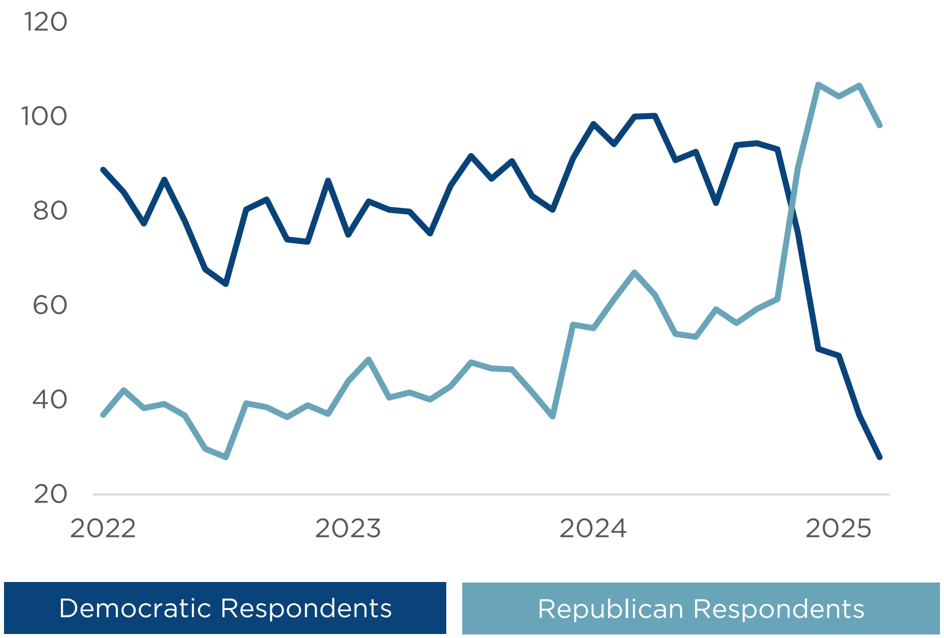
CONSUMPTION

While other components of GDP create concerns, most recessions are driven by a slowdown in consumption, which accounts for nearly 70% of GDP. A labor market with low unemployment and wage growth provides support for continued consumer spending. Additionally, lower rates and potential tax cuts could provide additional spending capacity, helping to offset growth challenges elsewhere.

IS POLICY UNCERTAINTY NEARING AN END?

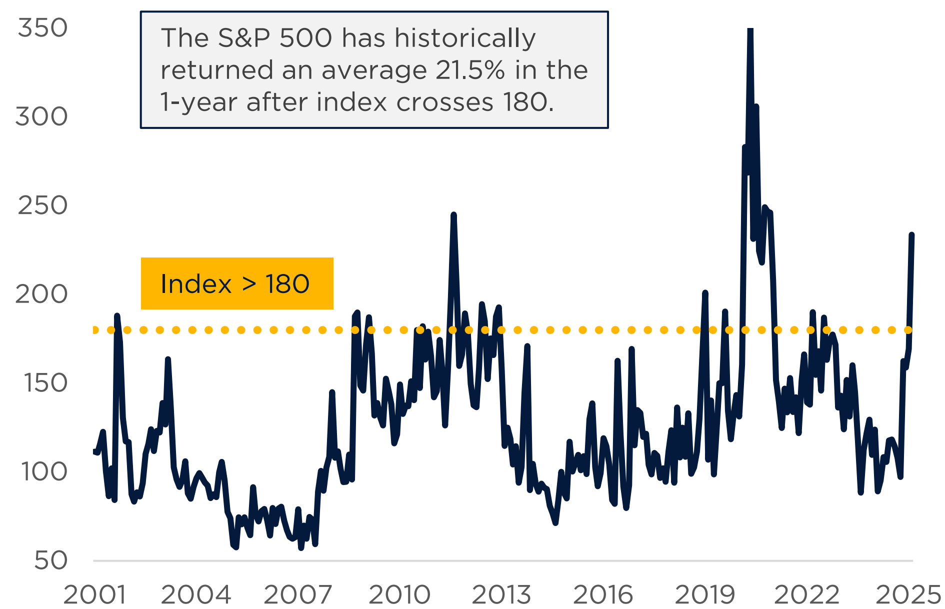
It is not unusual for markets to experience volatility in the first year of a new president's term, as proposals and new policies create questions. The new administration is advancing multiple proposals simultaneously, sending uncertainty soaring. This chaotic state is only sustainable so long as voters remain confident.

U.S. Consumer Expectations by Political Affiliation



Consumers have shown concern about the impact of President Trump's policy initiatives. Unsurprisingly, Democratic respondents have been skeptical since Inauguration Day. However, Republican respondents also recently have shown signs of concern, indicating the grace period for policymakers may be ending.

Economic Policy Uncertainty Index



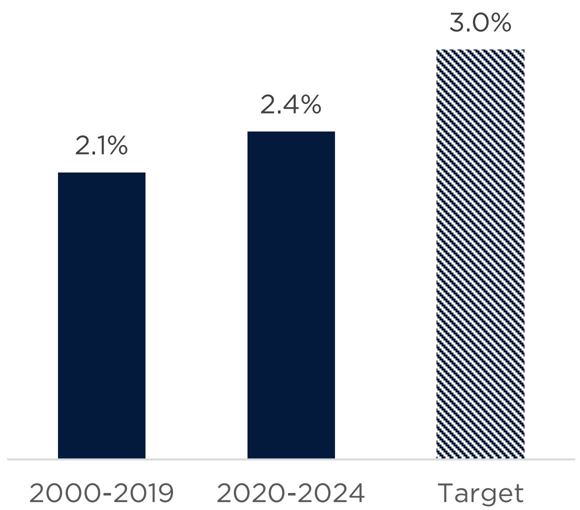
The U.S. Economic Policy Uncertainty Index spiked in February, reaching levels last exceeded during the COVID-19 crisis. While markets generally weaken during periods of uncertainty, the average one-year return following peaks of policy uncertainty has been a robust 21.5% gain.

Sources: University of Michigan Consumer Survey, policyuncertainty.com, Strategas, CAPTRUST research

FISCAL AND MONETARY SWAP

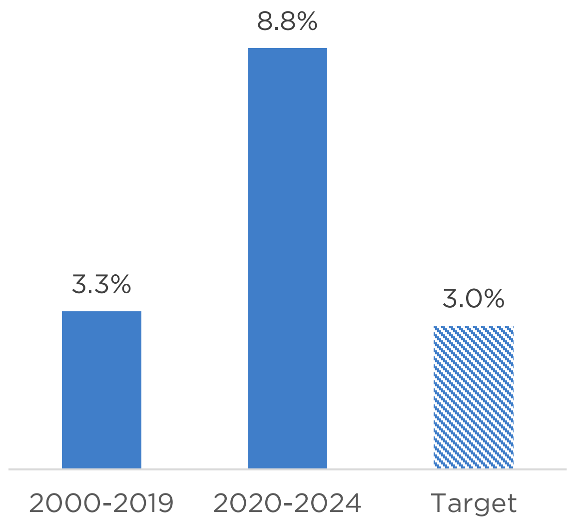
The past several years have been marked by restrictive monetary policy and looser fiscal policy, something the new administration is reversing. Treasury Secretary Bessent has laid out a “3-3-3 plan” he believes will stabilize the U.S. economic foundation. His targets include sustained 3% real economic growth, fiscal deficit of 3% or less of GDP, and three million additional barrels per day of domestic oil production.

Real Economic Growth (GDP)



Policy initiatives focused on tax cuts, deregulation, domestic investment, and productivity are designed to gradually accelerate U.S. economic growth.

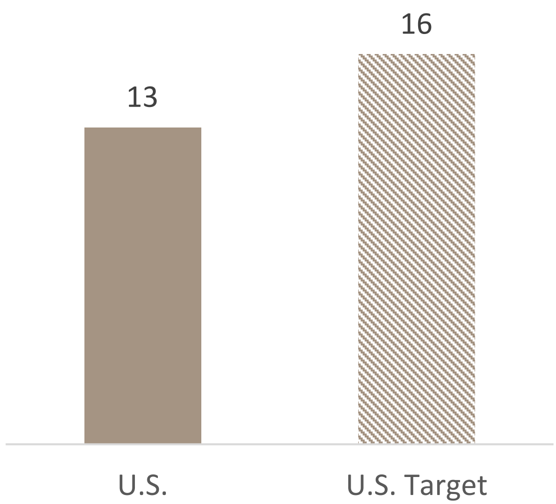
Federal Deficit as % of GDP



Current deficit levels are unsustainable and need to be addressed. Yet fiscal policies aimed at gradually reducing the deficit to pre-pandemic levels have been a source of near-term economic concern.

Average Domestic Oil Production

Millions of Barrels per Day



Increasing oil production is designed to improve energy independence and moderate inflation, allowing monetary policy to gradually ease.

Treasury Secretary Bessent seems much more focused on the 10-Year Treasury yield than the fed funds rate

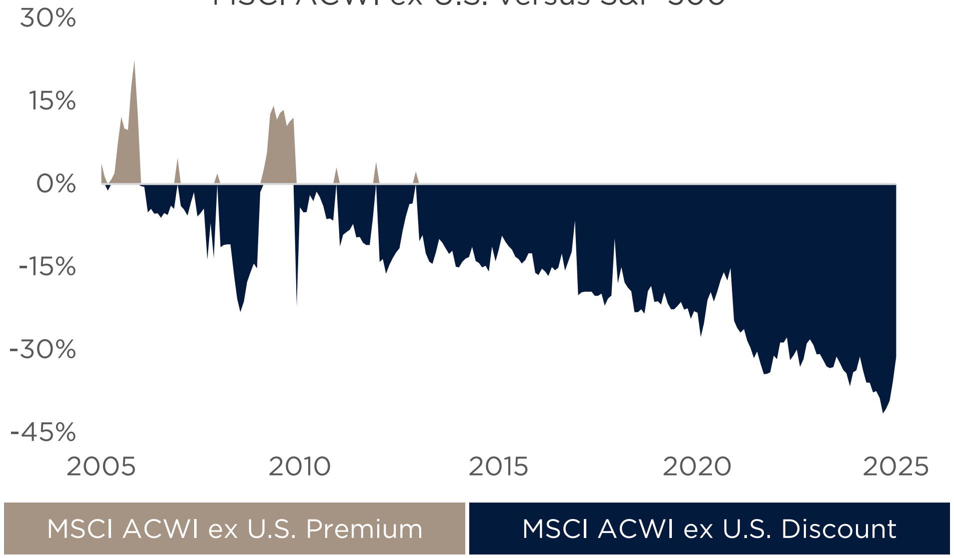
Sources: Bureau of Economic Analysis, U.S. Office of Budget and Management, U.S. Energy Information Administration, CAPTRUST research

UNLOCKING THE VALUE OF FOREIGN STOCKS

A value trap is an investment that remains cheap because it lacks a catalyst to unlock its value. The locked value is often rooted in complacency, something European stocks have experienced for two decades. Cheap energy from Russia, goods and services from China, and defense from the U.S. have covered for a lack of growth-oriented policies across Europe. However, these foreign support legs are in question, forcing European policymakers to look inward.

Global Equity Valuation Discrepancy

MSCI ACWI ex U.S. versus S&P 500



European Commission: Competitiveness Compass

OUTLINE IMPERATIVES	DEFINED ENABLERS
Close the Innovation Gap	Simplification
	Coordination
Decarbonization/ Competitiveness	Lower Barriers
	Skills/Quality Jobs
Reduce Dependencies	Access to Capital

- Over the last 15 years, foreign stocks have traded at growing discounts to their U.S. counterparts, hindered by inconsistent growth, poor policy coordination, and ineffective corporate governance.
- The European Commission's "competitiveness compass," a strategic framework to boost the competitiveness of the EU member states, combined with shareholder-friendly policies in Japan, could provide a catalyst to the unlock potential value of non-U.S. stocks.
- While actions speak louder than words, the initial step by Germany to loosen the country's constitutional restrictions on borrowing is a powerful initial action.

Sources: U.S. Bureau of Labor Statistics, American Immigration Council, Brookings Institute, CAPTRUST research