

FIDUCIARY UPDATE



EXECUTIVE ORDER ON ALTERNATIVES IN DEFINED CONTRIBUTION PLANS

On August 7, the president issued an executive order titled “Democratizing Access to Alternative Assets for 401(k) Plans.”

- Alternative assets include private equity, debt, and real estate; cryptocurrency; commodities; infrastructure; and lifetime income investment strategies such as longevity-risk-sharing pools.
- The order directs the Department of Labor (DOL) to clarify its position on alternative assets, including digital assets, by February 2026. (Note: The DOL already rescinded prior restrictive guidance related to cryptocurrency).
- The order mentions the possibility of making alternative assets available in an asset allocation fund, but not as a stand-alone investment.
- The order doesn’t alter existing law, so fiduciary duties under ERISA still apply—without exception for alternative investments.



IRS FINAL REGULATIONS ON CATCH-UP ELECTIONS

On September 15, the Internal Revenue Service (IRS) issued final regulations related to catch-up contributions under SECURE Act 2.0. Here are some key highlights:

- The IRS did not delay the effective date for the mandatory Roth catch-up contribution requirement. Plan sponsors should prepare to implement this change by the start of 2026.
- Employers that are part of a controlled group or affiliated services group may combine employee compensation across entities to determine if Roth catch-up contributions are required.
- The IRS clarified rules regarding the correction needed for failing to comply with the mandatory Roth catch-up requirement.
- Plan amendments are due for most plans by 12.31.26, in addition to amendments for the CARES Act and the first SECURE Act.

Please visit <https://www.captrust.com/secure-2-0-act/> for additional SECURE Act 2.0 updates.

ARTIFICIAL INTELLIGENCE, AUTHENTIC OVERSIGHT

As artificial intelligence (AI) becomes a growing topic, plan sponsors may question whether and how it could support their fiduciary roles. Plan sponsors’ fiduciary duties should guide how sponsors approach these new tools. In practice, this may involve focusing on areas such as safeguarding participant and plan data, validating information, and documenting how AI is used.



PROTECT

SAFEGUARD DATA

Exposing participant or plan data could raise compliance issues and reduce confidence.

- Be cautious about entering participant or plan data into public AI tools.
- Consider tools designed to meet your firm’s enterprise security standards.

What plan sponsors may encounter:

- Uploading a plan document into an AI tool to summarize sections
- Entering participant questions into public chatbots



DOCUMENT

DOCUMENT USAGE

Lack of documentation may make it harder to show a prudent fiduciary process.

- Capture in committee minutes how AI was used, including if AI transcribed or drafted minutes.
- Reflect on whether governance policies reference AI in support tasks.

What plan sponsors may encounter:

- AI-transcribed or generated meeting minutes
- Drafting governance policy language for committee review



VERIFY

VALIDATE OUTPUTS

Relying on incomplete or inaccurate outputs may impact fiduciary judgment.

- AI may summarize or draft materials, but outputs can contain errors and still require review. Fiduciary judgment remains with plan sponsors.

What plan sponsors may encounter:

- Benchmarking fees or comparing RFP bids
- Generating performance summaries or dashboards for committee review

QUESTIONS SPONSORS CAN ASK THEMSELVES

- Protect – Did we keep participant and plan data safe?
- Document – Did we document how AI was used in our process?
- Verify – Did we double-check AI outputs against trusted sources?

It’s also important for plan fiduciaries to understand how AI will be used by their plans’ service providers.

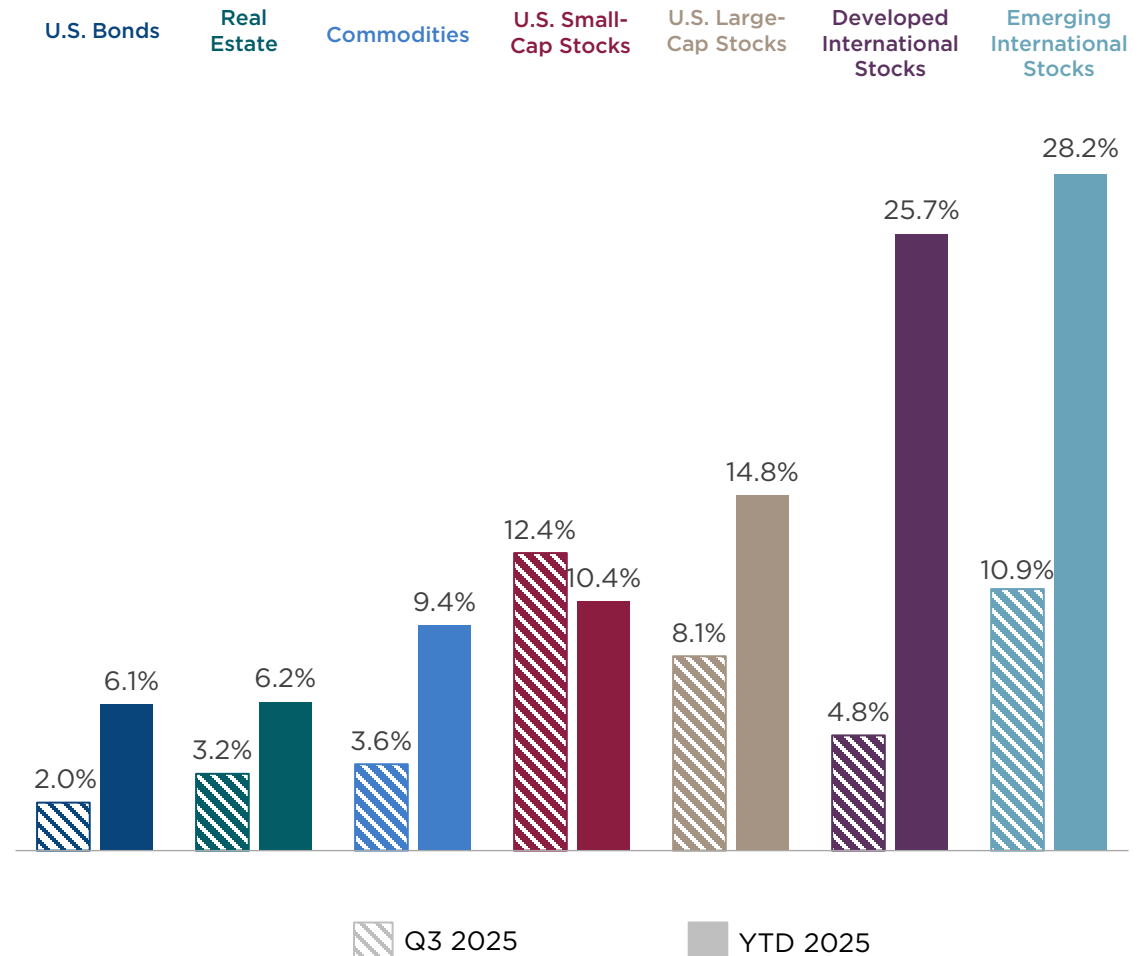




MARKETS FOCUSED ON THE POSITIVES IN STRONG QUARTER

Markets rallied in the third quarter as trade tensions abated, AI-infrastructure investment abounded, and the Federal Reserve delivered its first cut of 2025. While signs of U.S. labor market softening raised concerns, other indicators point toward economic stability. U.S. market breadth improved, and dollar weakness helped international stocks.

- U.S. stocks posted a strong quarter, buoyed by tech spending, expectations for additional rate cuts, and solid earnings as tariff costs were largely mitigated.
- AI investment, an easing regulatory backdrop, and reduced trade frictions lifted emerging market stocks, with China leading the way.
- Bonds generated modest returns, underpinned by falling short-term yields and a pivot toward Fed rate cuts, despite fiscal-debt concerns and an uptick in inflation.
- Commodities rebounded, led by gold’s impressive rally as investors sought safe-haven assets amid economic and geopolitical uncertainty.
- Real estate moved higher on falling rate expectations.



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 the index definitions and other important disclosures provided at the end of this presentation.



DIGGING DEEPER: STOCKS AND BONDS

Equities

	Q3 2025	YTD 2025	Last 12 Months*
U.S. Stocks	8.1%	14.8%	17.6%
• Q3 Best Sector: Technology	13.2%	22.3%	28.2%
• Q3 Worst Sector: Consumer Staples	-2.4%	3.9%	0.5%
Developed International Stocks	4.8%	25.7%	15.6%
Emerging Markets Stocks	10.9%	28.2%	18.2%

*Last 12 months: 9.30.2024 through 9.30.2025

Fixed Income

	9.30.25	6.30.25	9.30.24
1-Year U.S. Treasury Yield	3.68%	3.96%	3.98%
10-Year U.S. Treasury Yield	4.16%	4.24%	3.81%
	Q3 2025	YTD 2025	Last 12 Months*
10-Year U.S. Treasury Total Return	1.84%	7.01%	1.46%

*Last 12 months: 9.30.2024 through 9.30.2025

Equities: Relative Performance by Market Capitalization and Style

	Q3 2025			YTD 2025			Last 12 Months				
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth		
Large	5.3%	8.1%	10.5%	Large	11.7%	14.8%	17.2%	Large	9.4%	17.6%	25.5%
Mid	6.2%	5.3%	2.8%	Mid	9.5%	10.4%	12.8%	Mid	7.6%	11.1%	22.0%
Small	12.6%	12.4%	12.2%	Small	9.0%	10.4%	11.7%	Small	7.9%	10.8%	13.6%

Sources: Morningstar, 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 on the Russell US Style Indexes except for large-cap blend, which is based on 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 the index definitions and other important disclosures provided at the end of this presentation.

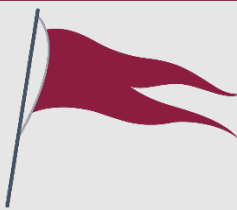
ECONOMIC OUTLOOK

The U.S. economy continues to exceed expectations, supported by fiscal stimulus and a long-awaited Fed rate cut. Despite tariff concerns and stubborn inflation, businesses are plowing profits into investments for the future, and consumers continue to spend. Yet a long list of uncertainties remains, including unproven payoffs from AI investments, the future path of rate cuts, geopolitical conflicts, and political tensions.

HEADWINDS

Labor Market Equilibrium

- The labor market is in a relatively fragile state of balance, as both the supply of and demand for workers has decreased. Weakness is not widespread, but public sector layoffs are a risk.



Consumer Concerns

- Sentiment has weakened as consumers grapple with a softening labor market, unknown tariff impacts, and political tensions. Still, retail spending remains positive, driven by higher-income households.

Elevated Investment, Elevated Expectations

- As innovation and investment continue at a rapid pace, valuations for AI-related stocks have climbed. Expectations are lofty, and any setbacks could bring outsized impacts.
- The One Big Beautiful Bill Act (OBBBA), the largest fiscal package in a decade, will exacerbate an already-concerning public debt burden.

TAILWINDS

Corporate Profitability Provides Catalyst

- Corporations have managed to drive earnings higher despite higher input prices and tariff uncertainty. Strong fundamentals support elevated equity prices and ongoing investment.



- Investment in AI infrastructure continues to rise, supported by corporate earnings growth and tax incentives. Massive capital spending supports the economy today, while the prospect of productivity gains brightens the outlook.

Fiscal and Monetary Policy Rescue

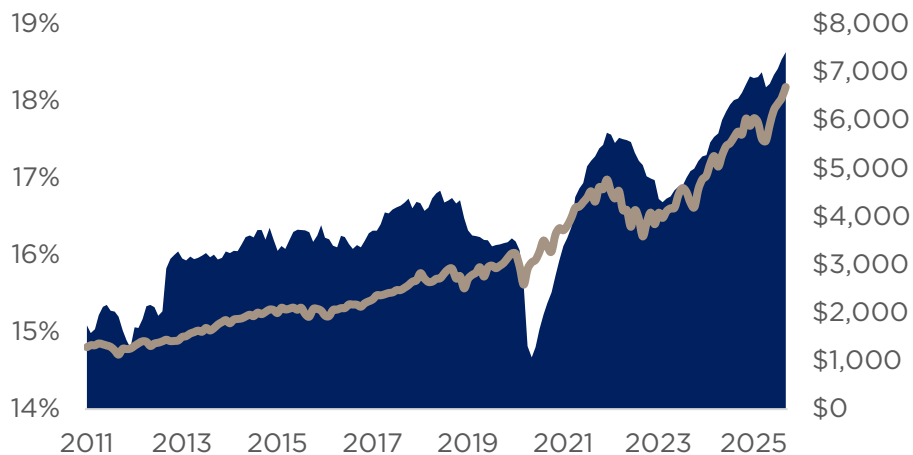
- The OBBBA will provide near-term fiscal stimulus to consumers, small businesses, and corporations through far-reaching tax breaks and incentives.
- Meanwhile, the Federal Reserve has begun easing monetary policy, prompted by labor market conditions. Although rate cuts during periods of strength are unusual, investors are optimistic that September's cut is the first of many.

Financial markets are seemingly priced to perfection in an imperfect world. Because the full impact of rapid innovation and fast-moving policy is difficult to predict, investors should focus on the longer term and keep their portfolios aligned.

MARGINS DRIVE INVESTMENT, GROWTH

This year, the U.S. economy and markets have performed better than expected. Corporations have grown revenue and earnings despite tariff-related cost pressures. This has translated to robust capital spending, set to accelerate due to tax bill incentives. When strong fundamentals provide companies with the means and confidence to invest, the economy and markets can often power through headwinds.

S&P 500 Operating Margins Continue to Trend Higher

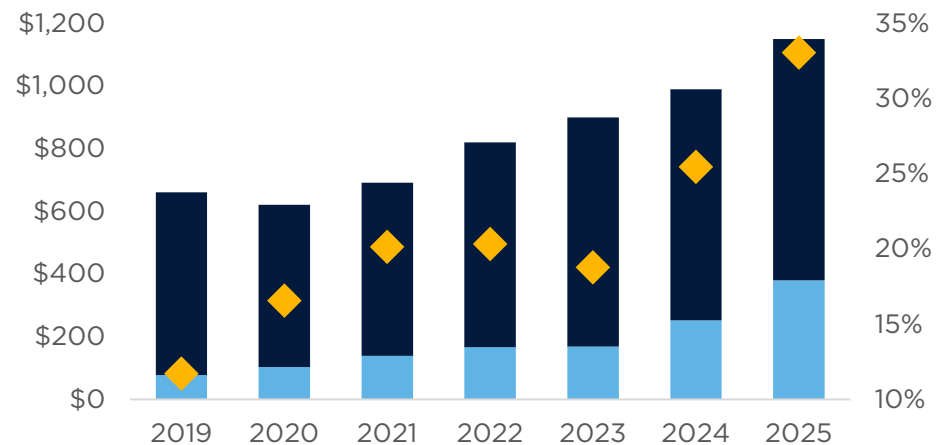


Fwd 12-Mo Operating Margin %

S&P 500 Price

- Companies have absorbed rising input costs and tariff pressures through strategic price pass-through, supply chain optimization, cost management, and productivity gains.
- Margin expansion has amplified earnings growth, supporting equity prices even at above-average valuations.

Capital Spending Growth Driven by Magnificent Seven & AI



Mag 7 Capex

Remaining S&P Capex

Mag 7 as % of S&P

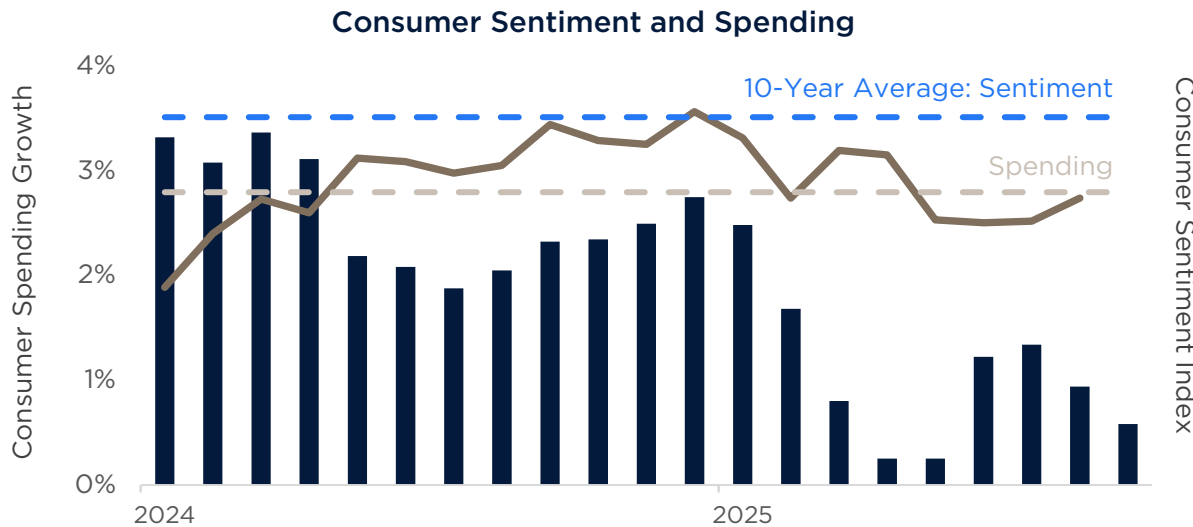
- The Magnificent Seven have more than tripled capital spending since 2020, with profitability fueling investment. Both are contributing to broader economic growth.
- Magnificent Seven's share of capex has climbed, amplifying sensitivity to this cohort. For companies with more modest free cash flow, returns from aggressive AI spending will be critical.

Corporations are driving an investment-led growth cycle as profits fund reinvestment.

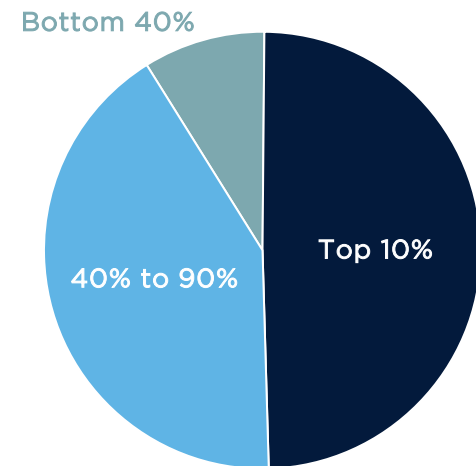
Sources: Strategas, FactSet, CAPTRUST research. Data as of September 30, 2025.

THE TWO-TRACK CONSUMER

Consumers face high interest rates, stubborn inflation, and a cooling labor market, but spending remains firm. Consumer spending rose 2.7% in August as second-quarter GDP growth accelerated to 3.8%. But this strength is uneven. Higher-income and older Americans continue to spend, while lower-income and younger household are squeezed. Can affluent households continue to drive economic growth until relief reaches the mass market?



Spending by Household Income Decile



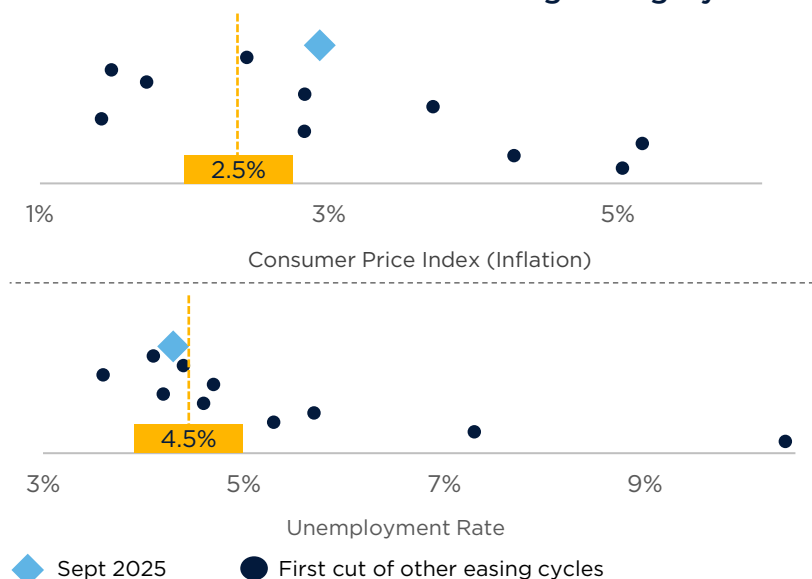
- Consumer spending growth remains near its 10-year average in stark contrast to the University of Michigan Consumer Sentiment Survey, which has fallen to lows last seen during the Financial Crisis.
- However, the U.S. consumer, the workhorse of economic growth, is increasingly split. High earners are spending more, while lower-income households are making do with less. The top 10% of wage earners now represents nearly half of consumer spending, while the bottom 40% makes up less than 10%.
- Affluent households can sustain momentum in the near term, but broader participation provides a stronger foundation for growth. The OBBBA will provide support in early 2026, causing paychecks and tax refunds to rise. Falling interest rates would also provide help in the form of lower credit card and auto payments.

Sources: Moody's, Bloomberg, The Wall Street Journal, U.S. Bureau of Economic Analysis, University of Michigan, CAPTRUST research.

CUTTING INTO STRENGTH: POLICY INSURANCE OR INFLATION RISK?

The Fed’s interest rate cut on September 17 is noteworthy, as it comes at a time of relative economic strength. Stock indexes are hovering near all-time highs, growth remains strong, and the unemployment rate remains near multidecade lows. The rationale for the cut was risk management and a rate recalibration to extend growth conditions. Will this insurance cut keep the economy on solid footing or reignite inflation?

Economic Indicator Levels During Easing Cycles



Conditions During First Cut of Fed Easing Cycle

	Inflation Above 2.5%	Unemployment Below 4.5%	S&P Within 1% of Highs	Loose Financial Conditions
1982			✓	
1984			✓	
1989			✓	
1995	✓	✓	✓	
2001		✓	✓	✓
2019		✓		✓
2020		✓		✓
2024	✓	✓		✓
2025	✓	✓	✓	✓

UNPRECEDENTED MIX OF SIGNALS

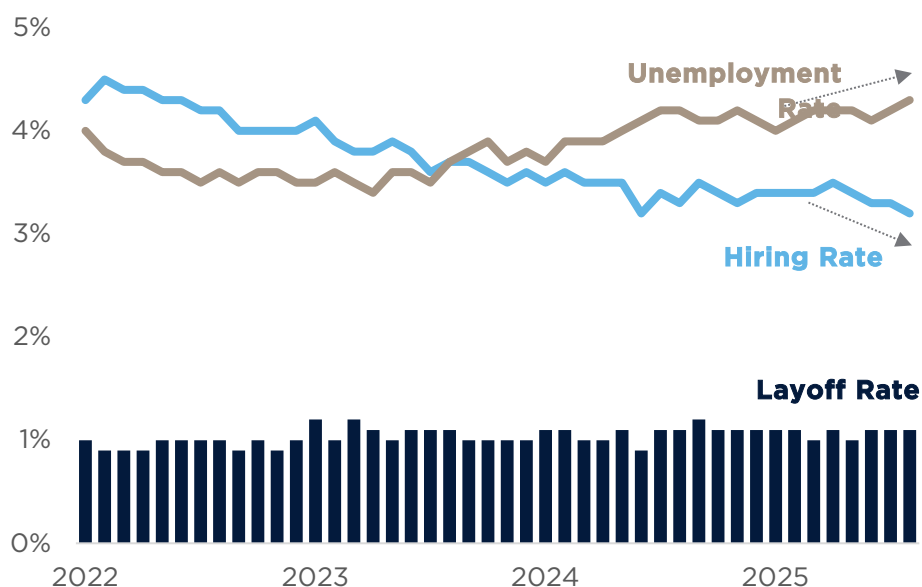
- It is not uncommon for the first cut of monetary easing cycle to occur with: 1) inflation above the Fed’s 2% target, 2) a strong labor market, 3) the S&P 500 near all-time highs, or 4) supportive financial or borrowing conditions.
- What is unusual is for an easing cycle to begin when all four are true. The September cut represents the first time in the modern era that the Federal Reserve has initiated an easing cycle when each of these indicators points toward economic strength.
- Fed Chair Powell admitted that this is an “unusual situation.” Inflation and hiring progress will determine if this bold move pays off.

Sources: Bureau of Labor Statistics, Federal Reserve Bank of Chicago, Federal Reserve Bank of St. Louis, CAPTRUST research.

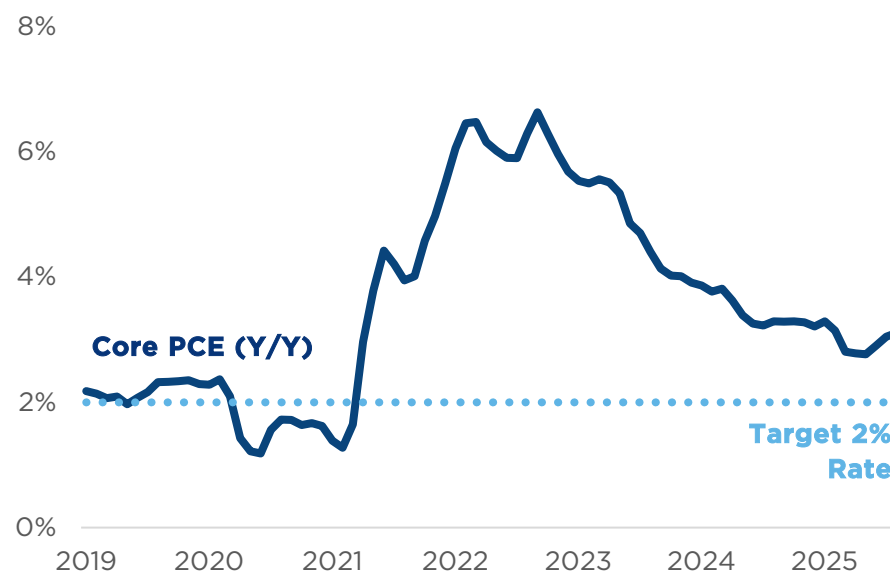
WALKING A POLICY TIGHTROPE

As 2025 comes to an end, the Federal Reserve confronts a difficult balancing act. On one side, inflation remains stubbornly above its 2% target, aggravated by tariffs on autos and apparel. Meanwhile, the labor market shows signs of deceleration. As investors mull the timing and magnitude of additional rate cuts, which economic risk will win the Fed’s focus?

A Low Turnover Labor Market



Inflation Ticked Up in the Third Quarter



- U.S. job openings reached 7.2 million in August, roughly matching the number of job seekers. Both hiring and firing appear stalled, and the unemployment rate rose as new entrants sought work.
- Fed Chair Powell called conditions “unusual.” Labor demand and supply both slowed sharply, raising risks to the downside.

- Personal consumption expenditures (PCE), the Fed’s preferred measure of inflation, has stalled above its 2% target and ticked higher in Q3, underscoring persistent price pressures.
- Cutting rates too quickly risks reigniting inflation, while a delay could lock in labor market weakness. As Powell noted, “Two-sided risks means there’s no risk-free path.”

Sources: U.S. Bureau of Labor Statistics, CAPTRUST research. Data as of September 30, 2025.