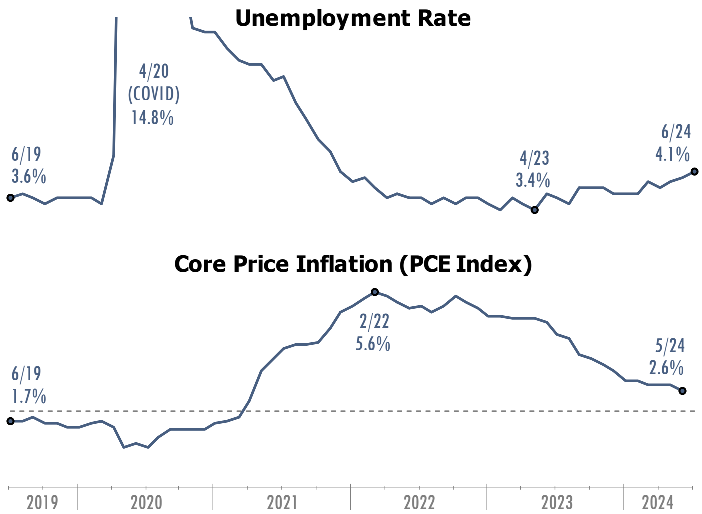
Bellwether CONSULTING

Your Quarterly Update on the Financial Markets
June 30, 2024

MARKET Recap

The US Economy: “Slowly Slowing”

Economic growth slowed in the first quarter, revised downward to a 1.4% annualized rate as data received after quarter-close showed decelerations in consumer spending, exports, and government spending along with an acceleration in imports. Consumption expenditures continued to slow in April and May, leading to downward revisions in forecast growth for the second quarter.

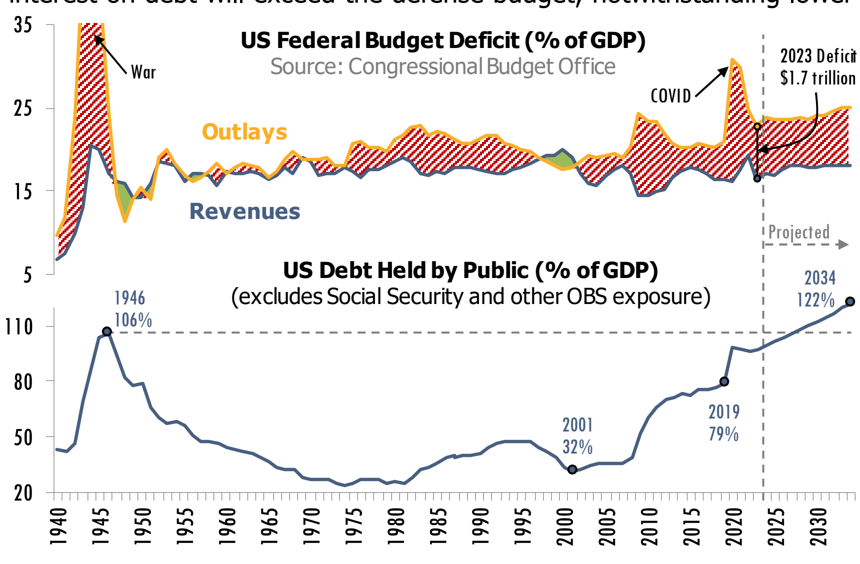


Core inflation moderated after the unanticipated spurt experienced in January and February, resuming its march back toward the Fed’s 2% target. The economy continues to add jobs, but at a slower pace with more moderate wage growth, pushing the unemployment rate up to a benign but not rock-bottom 4.1%. All of this suggests it’s time for the Fed to ease off the brake, and we join the consensus expectation that the first rate cut will occur at their September meeting. That said, the Fed is likely to remain cautious. Speaking at the European Central Bank Forum on Central Banking on July 2nd, Fed Chairman Powell noted that recent data “suggest that we are getting back on the disinflationary path.”

While Fed-watching dominates the short-term outlook for markets, it is fiscal policy that, in our view, will dominate the long term. Each year the Congressional Budget Office releases its 10-year forecast of revenue, outlays, and debt. This year’s edition is particularly poignant with US election looming, and particularly concerning as post-COVID spending drives debt to unprecedented levels. The outlook is gloomy, driven by interest on debt, outlays for Social Security and Medicare, and increased defense aid for Ukraine, Israel, and Taiwan.

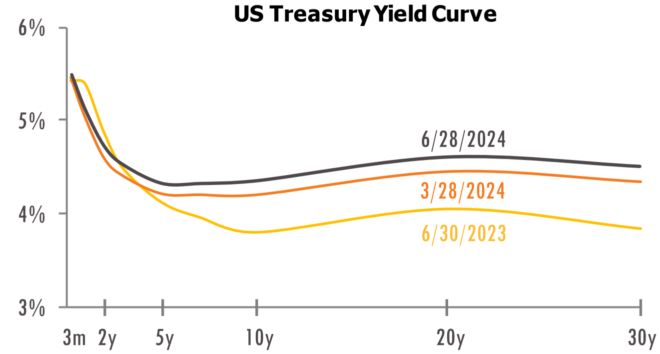
It is not the level of debt *per se* that is most concerning; Japan’s debt exceeds 250% of GDP and one would not consider Japan an economic disaster zone. It is the gradual loss of flexibility and control that threatens to hamstring future administrations (including the upcoming one). By 2025, interest on debt will exceed the defense budget, notwithstanding lower projected levels of interest rates and higher projected defense spending. Social Security, Medicare, interest, and defense absolutely crowd out other spending. Administrations will, at some point, not be able to respond to world events without risking the wrath of bond vigilantes.

The notion that either party will bring US finances under control “without touching Social Security or Medicare” is mathematically absurd. Yet both parties claim they can. Clearly, the US currently lacks a political process capable of dealing with the budget. Investors would do well to pay less attention to the Fed and more to fiscal policy as taxation and spending, not monetary policy, will come to dominate longer-term growth, inflation, and employment.



The US Bond Market

A relative calm enveloped bond markets for much of the second quarter, but only after a volatile first few weeks. Strong labor market numbers and a sticky inflation print fueled a sell-off in fixed income securities. The US Treasury 10-year key rate climbed almost 50 basis points in the first half of April. At the same time, high yield spreads widened nearly 25 basis points. Both movements quickly reversed. Beyond the 1-year maturity, the yield curve netted around 12-17 basis points of incremental yield quarter-over-quarter. The movement in credit spreads ended up modest as well. High yield spreads widened incrementally from 3.15% to 3.21%, overall.



Market expectations for rate cuts continue to shift with the incoming economic data. At the end of the first quarter, three rate cuts appeared likely by year-end. With inflation still a concern and prospects for economic growth uncertain, two rate cuts are the current base case according to Fed Funds futures. The first rate cut is expected at the September meeting. In the past, the Fed has been careful about changing the course of monetary policy ahead of the US presidential election. However, the Fed has been on the path towards a rate cut for several meetings; deciding the exact timing of the first rate cut is rather a course correction.

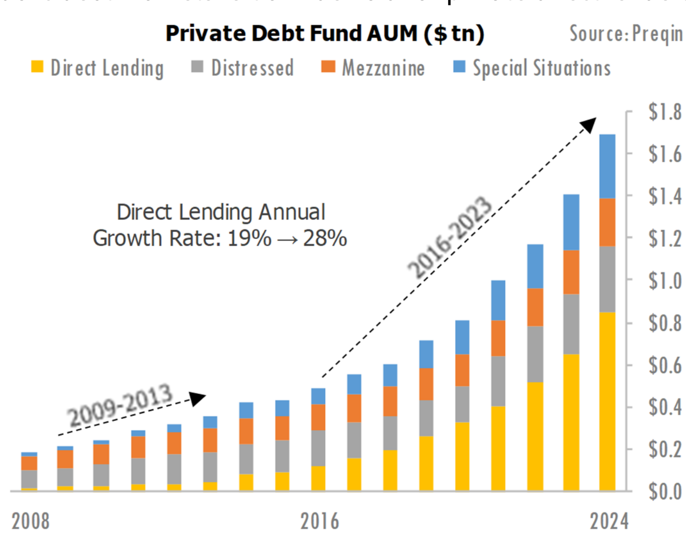
US Bond Index Returns	
Bloomberg Idx	**2Q24**
Aggregate	0.07%
Short Gov't	1.10%
Interm. Gov't	0.58%
Long Gov't	-1.80%
TIPS	0.79%
Municipal	-0.02%
Interm. Credit	0.73%
Long Credit	-1.68%
High Yield	1.09%
(CS) Lev. Loan	1.87%
MBS	0.07%

Despite yields moving the wrong way for issuers, the volume of new supply remained strong. Investment grade corporate bond issuance receded from the huge first quarter flow, but well ahead of the average run rate for the past two years. High yield bond issuance slowed little, continuing at twice that of 2023 and four-fold the rate of 2022.

The US Bond Aggregate Index barely eked out a gain for the quarter. Although yields did not move much, the slight steepening and modest increase in yields overall pushed longer-duration bond portfolios into negative returns. Shorter-term, higher quality portfolios posted okay performance but lagged cash equivalents.

Leveraged loans led other major US Bond indices in Q2, a trend in place since the initial waning of the pandemic. These floating-rate credit securities have flourished under a regime of rising rates, a flattening (and inverting) yield curve, and robust credit. Direct lending funds have done even better, and have enjoyed unfettered deal flow from companies in need of financing and investors eager for debt investments offering an attractive risk-return profile and track record.

Private debt constitutes a growing but small (0.5%) region of the US investment universe. Within this niche, distressed debt once commanded the lion's share of assets under management ("AUM"). Mezzanine debt followed well behind; direct lending and special situations round out the private debt opportunity set. A disintermediation of private lending from banks becoming more conservative and increasing barriers to access public debt markets left a wide void for private direct lenders to fill. Since 2018, direct lending has represented the largest share of private debt AUM, and it has grown to outweigh the combined total of the other private debt sectors. While fundraising has eased from its pandemic-infused peak, the space continues to attract investors, asset managers, and (most importantly) companies in need of convenient and flexible loans.



While leveraged loans and private debt funds will both continue to present attractive opportunities while Treasury yields remain inverted and corporate defaults remain low, the downside is more difficult to assess. Many private debt managers tout average loss rates that are negative, as in the recovery rate under a default event was more than 100%. Plugging this track record in as the downside scenario paints a glowing picture. The private debt market has changed and, though the pandemic presented a major dislocation, a sustained downturn has yet to truly test this niche as it exists today.

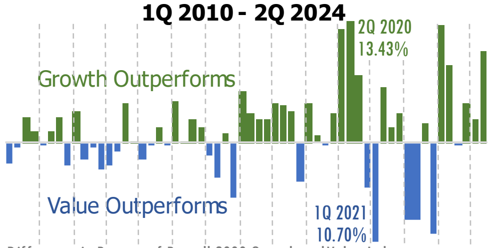
The US Stock Market

After broad negative results in April, the US stock market rallied to post mixed returns in Q2. Early-quarter concern over stubbornly high inflation readings gave way to improving conditions and building confidence that the Fed would, in fact, cut rates by the end of the year – even if only twice. The S&P 500 and the Nasdaq Composite ended the quarter firmly in the black, with both indices hitting new all-time intra-day highs in the final session of the quarter. Although gaining ground in June, the narrower Dow Jones Industrial Average declined for the quarter as a whole. Even though Apple had a strong turnaround, the 30-stock index was dragged lower by Salesforce and Intel, among others.

US Stock Indices - Total Returns

Largecaps	2Q24	Midcaps	2Q24
S&P 500	4.28%	S&P Midcap 400	-3.45%
Russell 1000	3.57%	Russell Midcap	-3.35%
Growth	8.33%	Growth	-3.21%
Value	-2.17%	Value	-3.40%
Broad Markets		**Smallcaps**	
S&P 1500	3.66%	S&P Smallcap 600	-3.11%
Russell 3000	3.22%	Russell 2000	-3.28%
Growth	7.80%	Growth	-2.92%
Value	-2.25%	Value	-3.64%

Growth v Value in the Russell 3000
1Q 2010 - 2Q 2024



Difference in Returns of Russell 3000 Growth and Value Indexes
Source: FTSE Russell

Growth stocks extended their lead, particularly in large caps. Growth outperformance in the Russell 3000 was over 10%, one of the wider margins in more than a decade. Old patterns reemerged as the Magnificent 7 drove the strong tilt to growth in large caps and carried the broader market to positive returns. Just days before the quarter closed, Amazon completed a 4-year comeback, breaking $2 trillion in market cap for the first time since 2020. While the firm is facing strong challengers in retail sales (Walmart, Target, etc.) and cloud platforms (Microsoft, Google) along with an antitrust battle in the US, investors cheered the firm's improving profitability and capacity to compete successfully. It currently holds a buy rating from 95% of the analysts who follow it [FactSet].

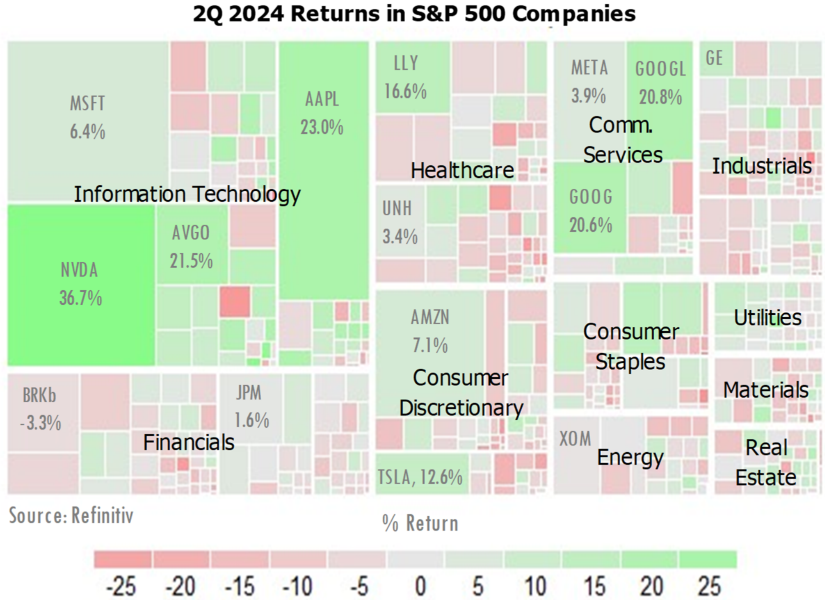
Performance dispersion across market sectors continued. The spread of over 10% between the best and worst sectors in the S&P 500 was largely due to the Magnificent 7. As AI continued to be the common theme for Q2 outperformers, investors appear to be going all in on the transformative technology. With the annual reconstitution of the Russell indices after market close on June 28th, the Magnificent 7 accounted for almost 25% of the market cap of the Russell 3000 [FTSE Russell]. The reconstitution affects a broad swath of investors as managers of indexed mutual funds and ETFs will realign portfolios to reflect the new reality. Hand-in-hand with increased exposure to growth, AI, and technology is decreased exposure to more value-oriented, cyclical industries like industrials and financials.

S&P 500 Sector Components - Total Returns

Sector	2Q24	Sector	2Q24
Info Tech	13.81%	Real Estate	-1.91%
Comm Services	9.37%	Financials	-2.03%
Utilities	4.66%	Energy	-2.42%
Consumer Stpls	1.35%	Industrials	-2.90%
Consumer Discr	0.65%	Materials	-4.50%
Health Care	-0.96%		

The expanding reach of the AI investment theme was also in evidence. While firms in the financials and health care sectors have been seeing the impact for some quarters, utilities joined the party in Q2 with surprisingly strong performance. Not only was it one of the best-performing sectors in large caps, it was the top-returning sector down market as well. Considered a defensive play, utilities stocks typically lead during challenging markets when investors look for safe havens. Recently, however, firms in the sector are advancing on increasing demand for electricity, fueled by power requirements of the data centers critical to AI. Primary beneficiaries include mid-cap firms Vistra Corp and NRG Energy, which posted Q2 returns of 23.8% and 16.6%, respectively. Other trends supporting the surge in utilities are the return of offshore manufacturing to the US and increasing semiconductor production [Wall Street Journal].

2Q 2024 Returns in S&P 500 Companies



Source: Refinitiv

The materials sector trailed, with mid-cap materials the worst performer of all. Manufacturers of construction products were especially hard hit. Higher interest rates have made both construction and mortgages expensive. In May, housing starts fell to their lowest level in 5 years.

International Markets

Performance moderated in Q2, even as inflation continued to drop and global central banks began to lower interest rates. According to the World Bank, while expectations remain for a soft landing by the end of 2024, one in four developing economies will be poorer than it was on the eve of the pandemic. Geopolitical tensions and European parliamentary elections in the EU, Britain, and France were market drivers. Developed markets finished flat, while emerging market performance was mixed, depending on the region.

Unhedged Foreign Markets Indices - Total Returns

Stocks	2Q24	Bonds	2Q24
MSCI ACWI ex-US	0.96%	Global Aggregate	-1.10%
EAFE (Developed)	-0.42%	Pan-Euro	-1.35%
Emerging Markets	5.00%	Asian-Pacific	-3.11%
Europe	0.55%	Eurodollar	1.03%
Japan	-4.27%	Other Currencies	-6.87%
China	7.09%		
Latin America	-12.20%		

Asia

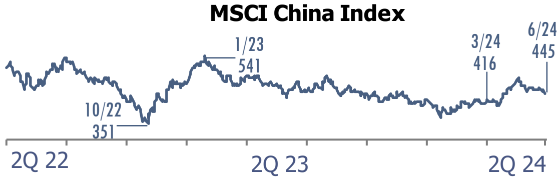
China's economy showed resilience in the first quarter of 2024. GDP growth exceeded expectations and reached 5.3% year-over-year despite facing mixed performance in key sectors. However, subsequent developments in retail sales, industrial production, and the property market reveal a more nuanced picture of its economic health.

Retail sales rebounded modestly with a 3.7% increase in May, signaling a tentative recovery in consumer spending. Yet, this improvement falls short of igniting robust economic growth. In the manufacturing sector, industrial production expanded by 5.6% in May, a slower pace compared to April. This growth moderation suggests challenges despite China's efforts to strengthen domestic manufacturing through significant investments to boost output and reduce dependence on foreign technologies. The Purchasing Managers' Index (PMI) also showed weakness as it fell to 49.5 in May, indicating a contraction in manufacturing for the second consecutive month. Meanwhile, China continues to grapple with persistent issues in its property market, with government measures failing to restore buyer confidence amidst ongoing price declines.

Externally, China faces renewed pressure from Western governments accusing it of saturating global markets with inexpensive goods, prompting tariffs on electric vehicles, solar cells, steel, and aluminum. This pressure may have accelerated exports which rose 7.6% from a year earlier as companies rushed to preempt potential tariff increases. Looking ahead, while certain economic indicators show signs of improvement, persistent challenges in the property and manufacturing sectors pose ongoing risks to China's economic outlook for the remainder of 2024.

Mixed economic data took Chinese markets on a rollercoaster ride. After stocks reached new lows in January, the Chinese government stepped up its stock-buying to stabilize the markets and influence market indices. In addition, the government announced "9 Key Points" to improve China's capital markets. Among the measures were initiatives to control the supply of IPOs, encourage companies to pay dividends, improve corporate governance, and promote bank and trust products to allocate more to equities. These changes have encouraged foreign investors to begin to return to China. Markets responded favorably. They continued to gain at the beginning of May as trading resumed after a holiday and China's leader Xi Jinping began his first visit to Europe in nearly five years and as GDP exceeded expectations and brought hope for an economic revival. The MSCI China Index peaked on May 20th but gave back some of the gains after disappointing manufacturing and services data was reported and returned 7.1% for the quarter.

MSCI China Index



Japan's government maintained its view that the economy continues to recover moderately but warned of downside risks from elevated overseas interest rates that may ultimately weigh on global growth. The economy appeared to be on uneven ground after its first contraction in two quarters in Q1. Economists expect a rebound in Q2, though rising prices of household goods continue to impact consumption. The increase in private consumption and exports appears to be pausing, while business investment, another key component of domestic demand, shows signs of picking up, the report said.

The Japanese equity market returned -4.3% this quarter. Investors became concerned about the harm the yen's continued slide may do to the economy by increasing import costs and diminishing consumers' purchasing power. The yen weakness was primarily driven by the strength of the US dollar, which was supported by a stronger US economy and the expectation of a "higher for longer" interest rate scenario.

Americas

Canadian stocks struggled in Q2 as foreign investors continued to sell off Canadian holdings. May's reading showed headline inflation rising 2.9%, year-over-year, with core measures rising as well. The disappointing inflation print led to a lack of confidence by investors that the Bank of Canada can effectively deal with inflation. The MSCI Canada Index was down 2% with a performance of the financial services and technology sectors driving lower returns. Shopify was a leading detractor in tech. The stock fell 14.2% as investors remained concerned about the Canadian e-commerce company's pledge to maintain its marketing spend, thus increasing operating costs and lowering profits. Bank of Montreal and Toronto Dominion Bank also hurt index performance. Credit costs continue to rise in the banking sector and many banks experienced higher impaired loans as a percent of total loans nearly across the board as credit performance continues to deteriorate.

The worsening fiscal situation in Brazil, coupled with external uncertainties, caused the country's stock market to plummet from a record high to the worst performance among major markets in 2024. The MSCI Brazil Index dropped -12.2% for the quarter and nearly -19% year-to-date. Poor performance extended to the currency market as the Brazilian real fell by about 11.3% against the dollar in Q2. An increase in the perception of Brazil's risk among investors has driven the deterioration in the real, especially after uncertainties regarding the management of economic and monetary policies. To compensate for the risk, the market demands higher interest rates, and the rates on ten-year contracts in the country rose above 12% in June. At the beginning of the year, they were at 10.3%.

Selected Exchange Rates vs US$		
Currency	**Exchange Rate**	**% Δ Qtr.**
Chines yuan (CNY)	7.266	0.55%
Euro (€)	0.934	0.99%
Japanes yen (¥)	160.950	6.31%
British pound (£)	0.790	-0.35%
Brazilian real (B$)	5.558	11.26%
Canadian dollar (C$)	1.369	1.01%
Mexican peso (M$)	18.248	10.38%

IMF as of 6/28/24

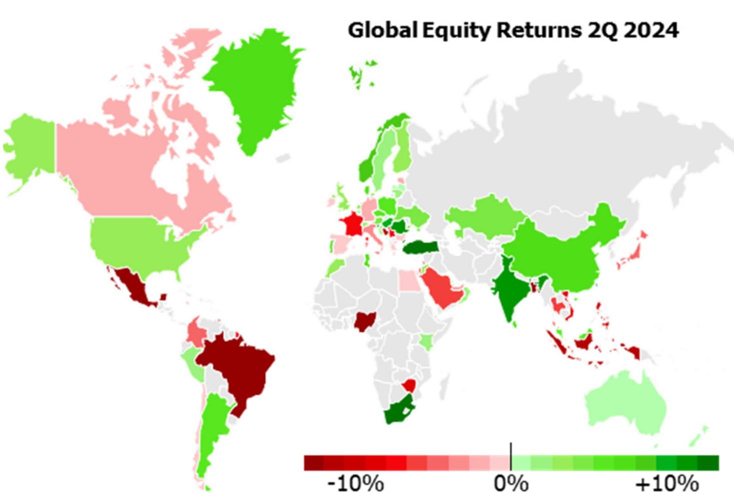
Amid broader Latin American challenges in Q2, Mexico's market mirrored regional trends highlighted by the MSCI Latam Index's negative performance at -12%. Mexico's markets have been influenced by the weakening Brazilian real surpassing 5.5 per USD due to inflation pressures and fiscal uncertainty. The market was also negatively impacted by the presidential elections in early June that scored a surprisingly strong victory for the country's ruling party. The scale of the gains for the Morena party and its allies took markets by surprise, with investors fearing the results would pave the way for the ruling coalition to pass constitutional reforms without opposition support. The MSCI Mexico Index was down -16%.

Europe

In June, the European Central Bank (ECB) cut interest rates for the first time since 2019. The benchmark rate was cut by 25 basis points after a 9-month period where rates were at their highest levels since the inception of the euro. The ECB had kept monetary policy tight due to the post-pandemic surge in inflation. With inflation levels dropping and a weak Eurozone economy, the ECB started the process of easing rates.

However, the ECB acknowledged that elevated wage growth has kept price pressure strong, notably within the services sector. This includes everything from medical care and haircuts to restaurants and concert tickets, and remains elevated at 4.1%. The central bank expects inflation to remain above its 2% target for the rest of 2024, implying that additional rate cuts are likely to be gradual. Analysts expect the ECB to leave rates unchanged at its next meeting in mid-July. Despite the lowering of policy rates, the fallout from both European parliamentary elections and the announcement of snap French elections meant that European sovereign yields rose, and European government bonds delivered negative returns in Q2.

Equity markets were mixed for the period. The MSCI Europe Index finished up 0.55%, but it was held back by returns in Germany and France. In Germany, Europe's largest economy, industrial production declined with cars, machinery production and electrical equipment all falling more than 5%. The reduction in natural gas flows from Russia continues to negatively impact manufacturing and weigh on stock market performance. The MSCI Germany Index fell 1.39%. In France, investors sold off equities in response to President Macron's call for a snap election, the outcome of which may lead to significant policy shifts. The French equity market was down 6.4% in June and fell 7.5% for the quarter. This was offset somewhat by performance in Portugal, Denmark and Austria which rose 8.5%, 7.5%, and 7.1%, respectively, as tourism and construction spending picked up.



Despite the political upheaval of an upcoming election, the MSCI UK Index returned 3.7% in Q2. Large cap stocks did particularly well, especially in the industrial and financial sectors. Aerospace and defense firm Rolls Royce advanced on the surge in international travel. Rising geopolitical tensions have also helped its defense division as NATO members continue to promise bigger military budgets to counter Russia's threat. The financial services sector did well too with banks benefitting from a rise in retail deposits and interest rates remaining "higher for longer."

Focus On: A Matter of Fact Sheets

In the United States, mutual fund fact sheets adhere to basic SEC and FINRA regulations that mandate the disclosure of specific elements such as fund objectives, risk profiles, performance metrics, and costs. This is intended to ensure all fact sheets provide a baseline level of detail that supports transparency and comparability across funds.

Outside the US, similar detailed disclosures are required – but with some interesting differences. Placing a heavier emphasis on risk and liquidity measures, for example, fact sheets in the EU reflect a focus on investor insulation from market volatility and financial crises. Including detailed information on asset allocation strategies and past fund performance, materials in Japan cater to local preferences for in-depth data. Incorporating unique elements like a risk-o-meter and the explicit impact of the expense ratio on returns, sheets in India foster a deeper understanding of investment risk and cost efficiency.

In the US, fund fact sheets are an afterthought for many plan sponsors; it is easy to accept what the recordkeeper or fund manager provides. Perhaps some don't know that another option even exists. While off-the-shelf fact sheets meet regulatory requirements for informing participants (an important step in achieving the 404(c) safe harbor), their effectiveness is often materially diluted by vendors seeking to maximize standardization and minimize liability. Even modest customization presents an opportunity for plan sponsors to communicate the thoughtful design of the investment program and better enable their plan's participants to make informed investment decisions.

Evolution

Originally designed as straightforward financial statements, early mutual fund fact sheets typically included detailed asset listings, liability summaries, and performance metrics such as net asset value changes and annual returns. Created for an audience well-versed in financial terminology, these sheets were technical, packed with figures, and devoid of any interpretive guidance that might assist a novice investor. With the birth of the 401(k) plan, there emerged a pressing need to adapt these guides for a broader, less financially savvy audience. This prompted the addition of basic annual and quarterly performance data along with brief descriptions of the investment strategies. However, the resulting pages still heavily resembled traditional financial statements—minimalist, tabular, and primarily quantitative.

The reengineering of fact sheets as more informative and user-friendly tools was influenced by subsequent regulatory changes. The Pension Protection Act of 2006 pushed for greater transparency in retirement plans, including detailed fees, risk assessments, and historical performance comparisons against benchmarks. These changes make it easier for participants to understand costs and performance. Fact sheet design has since evolved to incorporate more graphical representations of data, clearer headings, and explanatory text.

Fact Sheet Content From Abroad

UCITS (Europe)

The Synthetic Risk and Reward Indicator (SRRI) is required for UCITS fact sheets to provide a clear indication of risk-level for investors

1	2	3	4	**5**	6	7

Lower Risk ← → **Higher Risk**

Korea Investment Fund

A "strategy" section offers details beyond "investment objective"

- Seeks low P/E, low P/B, high dividend and new value stocks
- Invests in fundamental value, not in market trends or timing
- Buys and holds stock until instrinsic value is reflected in price

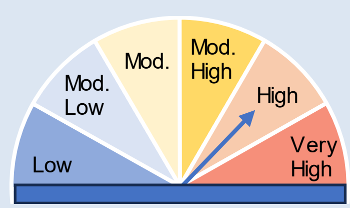
Mutual Fund (Canada)

A table with the best and worst return over any 3-month period within the past 6 years illustrates volatility in meaningful terms

	3-Month Period Return	3-Month Period Ending	$100 invested for the 3-month period, would have become:
Best	13.24%	6/30/2020	$113.24
Worst	-18.12%	3/31/2020	$81.88

Scheme (India)

The risk-o-meter also depicts the risk of the fund, but is re-evaluated each quarter and may change. The benchmark index risk may be shown.



Despite these improvements, many fact sheets still fail to effectively communicate even basic information about the fund. The lack of focus on and care in their content and design too frequently evidences the sublimation of their role as the important participant education to other, less participant-centric concerns. We would argue that, as the only detailed communication a 401(k) plan participant likely reads before deciding whether to invest in a fund, fact sheets deserve significantly more attention and evaluation – by recordkeepers, investment managers, and plan sponsors alike.

Anatomy

Although formatting and content vary, most fact sheets are produced quarterly and share these basic anatomy elements populated by text, tables, and/or charts:

Investment objectives explain how the strategy is managed and what types of securities are likely to be owned in the portfolio.

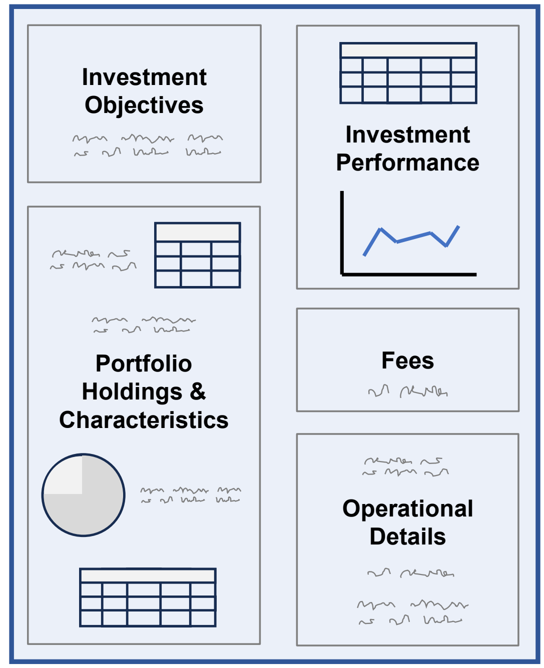
Investment performance shows the annual or trailing-period track record of gross and net returns, often against a benchmark index.

Portfolio holdings and characteristics vary by asset class and often include top ten holdings, allocations, and summary statistics.

Fees denote the fund's gross and net expense ratio; operating expenses may be broken out from management fees.

Operational details often note the fund inception date, assets under management, and the portfolio managers' names and tenure.

It is common for a fact sheet to include all share classes because the different share classes are invested uniformly in one commingled pool of assets. Most managers will publish their fact sheets two to four weeks after the end of the quarter. Some managers produce monthly fact sheets with more limited information that can be released without as much delay.



Principles of Good Design – Just the Facts, Ma'am

A good fact sheet does not need to include several pages of dense content. One or two easy-to-digest pages should be sufficient once the deadweight (e.g., footnotes) is cleaned up. A 1-page resume is the optimal length. A clear and concise recipe may fit on an index card. Don't let your fact sheets become a *Where's Waldo?* of pertinent information.

There is not one set approach to building an effective fact sheet, but there are universal principles. Following these basic tents of fact sheet design, you can avoid missteps and ensure helpful content ends up in the final document:

- **Plain English**: avoid legal and financial jargon
- **Non-redundant**: disclose what you need to only once
- **Meaningful**: must be relevant and additive to understanding the investment strategy
- **Non-disclamatory**: focus on what the strategy does, not what it doesn't do
- **Appropriate Tone**: maintain a neutral and professional tone without praise or criticism
- **Prioritized**: show the most important information first
- **Organized**: group related information together
- **Brief**: use fewer words

After reading the fact sheet, a participant should understand what to expect from the fund in terms of the objective(s) and behavior of the strategy. By following these principles, participants won't become easily lost or overwhelmed as they explore the available investment information.

A Holistic View

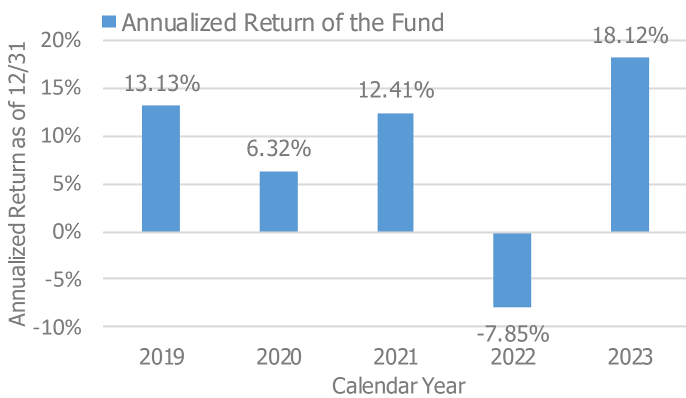
It's not impossible to find fact sheets that are already well-crafted and adhere to these principles of good design. However, a plan's investment lineup is built with a purpose in mind and populated with funds meant to complement each other in achieving that purpose. Helping participants understand why an investment option is offered and the utility it is intended to provide may require different language from one plan to another. Is the EM Equity fund the only exposure to emerging markets in the lineup? What differentiates the two bond funds? This is incredibly useful information to a participant that an investment manager's general investor fact sheet cannot contemplate.

Creating a fitting narrative for each fact sheet, minimizing clutter, and standardizing the documents across the plan lineup not only helps preserve the intended design of the lineup, it maximizes the utilization of that lineup by participants. It will also reduce the mental load on participants if you keep the fact sheets consistent across funds and across time. By standardizing elements, participants only need to learn how to interpret a fact sheet once. Some elements may be idiosyncratic, and that is okay. With most of the content consistent, the unique elements that remain will be highlighted, and participants will be more likely to devote the energy required to understand them.

Customization

Rewriting your plan's fund fact sheets is likely to require coordination from several stakeholders. The primary party you will need to rely on is your plan's recordkeeper. They are the gateway for packaging information and disseminating it to participants, and they must be comfortable that production of the enhanced fact sheets can be automated. Smaller plans working with less flexible recordkeepers may encounter restrictive limitations from the recordkeeper's systems and compliance personnel. Customization can be viewed as system inefficiency and often prompts a reflexive "no." For many-a-compliance-department, the more disclaimers and the more prominently they are displayed, the better. Meaningful content gets lost.

Performance Exhibit (Before)



Performance Exhibit (After)

	2023	2022	2021	2020	2019
Fund	18.12%	-7.85%	12.41%	6.32%	13.13%
Index	18.35%	-8.74%	12.38%	5.85%	14.22%
Excess	-0.23%	+0.89%	+0.03%	+0.47%	-1.09%

The recordkeeper needs to be involved up front as their approval of the final product will be required. Ask what sections or fields can be modified. Some elements may be fully customizable and others fixed or limited in the changes that can be applied. Push to remedy any misleading, erroneous, or unhelpful content until you have determined whether there is actually an intractable systems challenge in the way. Don't be satisfied with a big brand (e.g., Morningstar) piping in a firehose of unmanaged data points; that's no substitute for thoughtful, relevant design. When evaluating recordkeepers, make fact sheets a factor in your due diligence.

The fund manager can also be a productive resource for fact sheet revisions. They are likely to have a wealth of content updated quarterly for investor materials (e.g., fund commentary), on their website and for fact sheets produced in other regions. In a fact sheet for US investors, one manager describes a fund's investment objective as "…to seek total return consisting of capital appreciation and current income." Similar language can be found on countless fund fact sheets despite being generic to the point of being useless. However, on the fact sheet for Canadian investors, the same manager provides a detailed explanation for the types of securities typically held in the portfolio, their allocation ranges, and the characteristics emphasized by the manager. Substituting the more detailed description would be an easy and significant improvement.

To the extent you are able, organize the content from simple to more complex while avoiding footnotes and caveats that clutter and weaken the content. Use clear, concise language and graphical elements that are standardized across funds and across time. Present the facts cleanly without attempt to persuade; avoid positive and negative coloring of the facts. However, avoid being overly reductive; clarify potential points of confusion without relying on external context.

But in the end, regardless of how good or bad your default fact sheets are, creating entirely new ones from scratch is not practical (or likely to be permitted by your recordkeeper). Working within the limitations of what your recordkeeper can do and what the fund manager will provide is challenging but worthwhile. And perhaps most importantly, the more plan sponsors prioritize fact sheets, the more their retirement industry partners, peers, and vendors will too.

Building a Better Fact Sheet

Fact sheets in the US have evolved significantly from their origins as straightforward financial statements, adapting to regulatory changes and the needs of a broader, less financially savvy audience. But while progress has been made in their content and design, the basic fact sheet still too often falls short in fulfilling its role as the primary piece of participant education on their investment choices. Whether you are a large plan sponsor that vendors will work with to customize fact sheets or a smaller plan sponsor who will be afforded little, if any, flexibility, including a regular review of the fact sheets for the funds in your plan's investment lineup – with an eye to how they could help participants best utilize the investment choice you are giving them – is an important and productive component of your investment due diligence process.

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