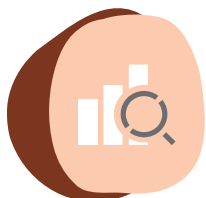


Market Commentary & Outlook

As of December 31, 2023



Market Commentary

Kevin Merrow, CFP®, CMFC®, CRPS®

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A resilient U.S. economy, together with a strong labor market, declining inflation, falling interest rates, and optimism the U.S. Federal Reserve (the "Fed") can guide the economy to a soft landing, fueled the markets' rally during the 4th quarter of 2023. In fact, the Fed may be poised to transition from hiking interest rates to cutting rates in 2024. This potential pivot was welcomed by investors.

An "Everything Rally" that began in November surpassed the market pullback experienced from July to late October, with the S&P 500 returning 11.4% for the 4th quarter. While most of the U.S. stock market's gains for the first nine months of 2023 were attributable to the "Magnificent Seven¹", a wider number of stocks rallied in the 4th quarter. Notably, small-cap stocks that had lagged for much of the year took off, with the Russell 2000 Index posting a 12.2% gain in the month of December alone. Foreign markets, excluding China, also rallied in the 4th quarter with the MSCI EAFE Index returning 10.4%. Despite China abruptly reversing course on its zero-COVID policies in December 2022, its economy has been slow to rebound as consumer confidence remains weak and its real estate crisis continues². The Chinese stock market, as measured by the CSI 300, declined 11% in 2023.

Looking at bonds, the strong rally in the 4th quarter helped this asset class avoid a third-consecutive year of negative returns. Optimism about declining inflation and the prospect of Federal Reserve interest rate cuts in 2024 catapulted the Bloomberg U.S. Aggregate Bond Index to a 6.8% return in Q4 and a full year return of 5.5%.

What's in store for 2024? Possible headwinds for the markets are wide-ranging. First, geopolitical risks in the Middle East, Russia and Ukraine, and China and Taiwan remain. Second, domestic risks include the impact of a contentious U.S. election campaign. Third, slowing economic growth, uncertainty about the growth rate of corporate earnings, and relatively expensive U.S. stock valuations are considerations for investors. Lastly, the Fed's ability to attain its goals of maintaining full employment and bringing down the annual inflation rate to 2.0% will be closely monitored.



Evaluation of Mutual Funds — It's More Than Just Performance

Neil Fentress

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When looking to complete a thorough evaluation of a mutual fund or portfolio of mutual funds, it's important to look at more than simply pure performance of those investments. While long-term performance should be part of any periodic review or selection process for a mutual fund, a fund's past performance does not guarantee any level of future success. Other factors are also very important, such as the fund's manager tenure, risk and volatility profile, fees and expenses, the parent company's strength/focus/outlook, and the often-overlooked aspect of evaluating how an individual mutual fund fits into your overall portfolio of retirement investments.

The importance of taking a long-term view when evaluating mutual funds cannot be understated, particularly as part of a retirement plan menu. Recent performance is often the first thing reviewed when evaluating a fund, but it is often not the most important aspect of the investment review. The historical returns of a fund may not have a lot of impact on how the investment will perform in the future or how it will fit into your retirement portfolio. Performance over several market cycles will allow for an evaluation of how the investment may perform in various economic environments. In addition to absolute returns, evaluating how a fund has performed compared to its peers and benchmark indices is essential to obtaining a full view of fund performance. Why a fund performed the way it did, known as performance attribution, is key to understanding the true performance characteristics of a fund. Finally, consideration of risk adjusted returns is needed to evaluate how a fund performed relative to the level of risk it took to achieve those returns. An investment that takes on a large amount of risk to achieve similar returns to its peers and benchmark probably isn't an ideal choice for a retirement plan.

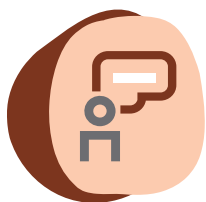
Another major consideration when evaluating a retirement plan investment is its expenses. Expenses can play a major role in the long-term return achieved by an investor. The cost of an investment will have a direct impact on its long-term performance given that expenses are deducted directly from the fund's return. Fund expense ratios can vary widely from asset class to asset class, but a goal of having a lower-than-average expense ratio for the peer group is preferred. All things being equal, the lower the cost of a fund the more attractive it is for long-term investing.

Additionally, assessing a fund's risk and its potential volatility are important items to review when evaluating a mutual fund. Both risk and volatility are considered in relation to a fund's objective and peer group. Generally, the more that a fund's price goes up and down, and the greater the swings, the higher the overall risk will be for that investment. Some asset classes are, by definition, riskier than others. An emerging markets equity fund would almost always be considered a higher risk and more volatile investment than an intermediate-term core bond fund. Nevertheless, it's crucial to compare a fund's risk and volatility measures to its peers or category to ensure it isn't taking on more risk or volatility than it should to achieve a competitive return. Strategic Plan Services incorporates risk measures such as Sharpe Ratio, Sortino Ratio, and Upside and Downside Capture Ratios into our Investment Policy. The combination of these and other metrics, paired with the performance data, allows for an evaluation of a fund's risk adjusted returns. While high returns are the objective of many investors, if the investment must take on much more risk to achieve that return, it probably isn't the optimal investment for a retirement plan.

An investment's stated objective, its management team, and tenure are significant factors when evaluating a fund. Verifying that the fund's strategy, investment objectives and management team have not materially changed in recent months is critical to ensuring that you are getting the investment approach that delivered the historical returns shown in investment reporting and the fund prospectus. Having an experienced management team and tenured group of research analysts to support them is crucial for long-term success. Understanding a fund's strategy and how the managers execute that strategy should play a significant role in evaluating fund performance. A fund not following its

stated investment objective might provide solid short-term returns during optimal market conditions, but chances are it will not perform as desired in other market conditions and may not be a good fit for your overall portfolio. For example, a large-cap value stock fund that invests heavily in small-cap growth companies might outperform its peers and benchmark for a period, but there is a good chance that it will significantly underperform in market conditions that don't favor small-cap growth investments. More importantly: is that fund fulfilling the role in your portfolio that you intended, or is it overlapping another fund in your investment lineup? A well-constructed portfolio of funds will offer a variety of asset classes, investment styles and diversified geographic options to help maximize portfolio performance.

The complexity of selecting and evaluating funds can be both daunting and time consuming for plan sponsors who are busy running a successful business. That is one reason ERISA laws allow plan sponsors to get professional advice (Section 3(21) of ERISA) or hire a manager to take over the investment evaluation and discretion (Section 3(38) of ERISA).



The Last Word

James Buccella, CHMC®

President, ADP Strategic Plan Services, LLC*

I would like to thank Neil Fentress for describing a very complicated and multi-faceted process of evaluating mutual funds for your retirement plan on one single page. This was no easy task. Often, and particularly when fund performance is up significantly, picking mutual funds appears simple. Coupled with the fact that funds in your plan don't change very often, it can look to the casual observer like nothing of consequence is happening. Like a duck gliding across a pond, I can assure you that, under the surface there is quite a bit of effort taking place.

For those who read Neil's piece and felt overwhelmed, let me assure you that SPS is taking up all of the evaluation aspects he outlined and more, through periodic written due diligence questionnaires, meetings with portfolio managers, evaluation of performance attribution results and other qualitative factors. Our staff is experienced, and the nearly \$19 billion in assets we manage or advise for 68,000 retirement plans gives us direct access to decision makers and senior managers at the fund companies represented in your portfolio. We maintain a written policy outlining our evaluation criteria that is updated at least annually, and we have our own subadvisor, Mesirow Financial, that does its own separate evaluations and provides us with advice and recommendations.

We also look at our clients' participant data in the aggregate to make sure that how your employees are situated for retirement relative to industry averages informs our decisions on which funds to use in each asset class. Finally, for the plans where SPS is the decision-making fiduciary, we continue to use our size and the rapid growth of our business to push fund companies to offer your plans lower investment cost share classes.

As always, we thank you for your trust in us.

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1 "Magnificent Seven": The name given to a group of stocks comprised of 7 companies: Apple, Amazon, Alphabet (Google's parent), Meta Platforms (Facebook's parent company), Microsoft, Nvidia and Tesla.

2 China's 2023 bank lending at record high, but economy still struggling By Judy Hua and Kevin Yao

Data provided by Morningstar, Inc.

S&P 500 Index: The index measures the performance of 500 widely held stocks in US equity market. Standard and Poor's chooses member companies for the index based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid 1989, this composition has been more flexible and the number of issues in each sector has varied. It is market capitalization-weighted.

NASDAQ Index: The index measures the performance of all domestic and international based common type stocks listed on the NASDAQ Stock Market. It includes common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests and tracking stocks. The index is market capitalization-weighted.

Russell 2000 Index : Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

VIX Index: VIX is the ticker symbol and the popular name for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

Consumer Price Index (CPI): a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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Nothing in this market update communication is intended to be, nor should be construed as, advice or a recommendation for a particular situation or plan. All investments involve risk, including loss of principal, and there is no guarantee of profits. There is no assurance that any fund will meet its stated objective. Past performance is no guarantee of future results.

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