TARGET DATE FUND COMMENTARY
3RD QUARTER, 2021

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Our mission is to enrich the lives of our clients, colleagues and communities through sound financial advice, integrity, and commitment to service beyond expectation.

J.P. MORGAN SMARTRETIREMENT

MEETING DATE: OCTOBER 19, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

Based on updated participant research, J.P. Morgan has decided to change its target date suite to better meet participants' needs in ways more aligned with actual participant behavioral patterns.

The first change involves merging the SmartSpending funds into the SmartRetirement series. With this change, J.P. Morgan is replacing the existing Income vintage of the glidepath with the SmartSpending spend-down strategy. The firm updated this research in 2021 and found three key insights:

1. It found that 42% of participants stay in their retirement plan three years after retirement, compared to 28% from J.P. Morgan's previous research.
2. 85% of participants are likely to stay in the plan if it offers a retirement income option.
3. 80% of participants rely on RMD to guide their spending in retirement.

Given these new insights, J.P. Morgan sought to enhance SmartRetirement to suit participant behaviors and demands better. J.P. Morgan believes it will achieve these objectives by transitioning SmartRetirement's in-retirement strategy to the SmartSpending framework.

The second change is an increase in SmartRetirement's equity allocation across the glidepath. The starting equity allocation will go from 91% to 94% and the at-retirement equity allocation will move to 40% from 32.5%. The overall increase in the equity allocation will be funded by a reduction in the fixed income allocation.

Within the equity portfolio, J.P. Morgan is increasing the U.S. equity exposure and the emerging markets equity exposure while the developed international and U.S. REIT exposures will be reduced. With the increase to U.S. equities, J.P. Morgan's U.S./non-U.S. split will change from 60% U.S./40% non-U.S. to 64% U.S./36% non-U.S. The team has a more favorable long-term view of the growth prospects for the U.S. economy compared to other international developed markets driven by younger demographics and America's position as a leader in the technology space. This theme also extends to emerging markets equities as information technology has become a more significant component and an important growth driver for many emerging economies, which is why J.P. Morgan increased the emerging markets equity allocation.

The other change within the equity portfolio is a reduction to the REIT allocation, which had been a strategic overweight relative to peers. However, the sector has experienced more volatility, increasing overall portfolio volatility, thus weighing on their performance. This reduction should bring J.P. Morgan closer in line to peers.

The fixed income portfolio reduction will be done pro-rata across investment grade, high yield, and emerging market bonds.

The SmartSpending integration and the glidepath change will go into effect on or about March 18, 2022.

We are not recommending any client action currently. We will be continuing the dialogue with J.P. Morgan to fully understand the participant experience within the SmartSpending framework and will provide relevant updates leading up to the change.

J.P. MORGAN SMARTRETIREMENT

MEETING DATE: OCTOBER 19, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

J.P. Morgan SmartRetirement Performance Update:
The J.P. Morgan SmartRetirement series struggled in the third quarter as it underperformed peers and the benchmark.

- SmartRetirement's underlying managers and tactical positioning were the primary detractors from performance.
- At the underlying manager level, J.P. Morgan's non-U.S. equity managers were the largest detractors.
- In general, the emerging markets equity managers struggled as that region was challenged by increased regulatory uncertainty in China.
- J.P. Morgan International Focus also weighed on results driven by a roughly 20% allocation to emerging markets.
- During the third quarter, J.P. Morgan held an overweight to equities broadly with a tilt towards cyclical stocks.
- This weighed on performance as markets rotated from cyclical sectors to lower beta sectors during the risk-off period in September.
- Somewhat helping performance, was the series' overweight to high yield bonds relative to core bonds as the latter was buoyed by investors continued to search for yield.
- J.P. Morgan's glidepath was also a slight contributor driven by its lower allocation to equities broadly and its larger allocation to high yield within fixed income.

Positioning Update:
J.P. Morgan is maintaining its pro-growth outlook and viewing the turbulence in the third quarter as a pause in growth rather than the beginning of a new trend. The firm expects consumer consumption and demand to remain strong in both the U.S. and Europe and support higher corporate earnings through the end of the year. In addition, while low inventory levels can be a short-term constraint, the level of capex needed to build those back up should be a longer-term tailwind for the economy and risk assets.

- Given this view, the SmartRetirement series continues to be broadly overweight equity and underweight fixed income.
- Within equity, the team implemented overweight positions in U.S. large-caps, Europe, and the U.K. to barbell the portfolio as U.S. large-caps should do well if interest rates fall or stay flat while Europe and the U.K. should do well if interest rates rise given the larger exposure to cyclical sectors, such as financials, materials, and industrials, in these markets.
- Within fixed Income, J.P. Morgan maintained its overweight to high yield bonds relative to investment grade.
- This position has been in place since mid-2020 and the team continues to have conviction in it.
- High yield bonds have exhibited lower volatility than equities and J.P. Morgan is seeing an improvement in quality within BB-rated bonds.

Note: Benchmark relative performance refers to fund performance compared to the S&P Target Date Indices.

J.P. MORGAN SMARTRETIREMENT BLEND MUTUAL FUNDS

MEETING DATE: OCTOBER 19, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

Based on updated participant research, J.P. Morgan has decided to change its target date suite to better meet participants' needs in ways more aligned with actual participant behavioral patterns.

The first change involves merging the SmartSpending funds into the SmartRetirement Blend series. With this change, J.P. Morgan is replacing the existing Income vintage of the glidepath with the SmartSpending spend-down strategy. The firm updated this research in 2021 and found three key insights:

1. It found that 42% of participants stay in their retirement plan three years after retirement, compared to 28% from J.P. Morgan's previous research.
2. 85% of participants are likely to stay in the plan if it offers a retirement income option.
3. 80% of participants rely on RMD to guide their spending in retirement.

Given these new insights, J.P. Morgan sought to enhance SmartRetirement Blend to suit participant behaviors and demands better. J.P. Morgan believes it will achieve these objectives by transitioning SmartRetirement Blend's in-retirement strategy to the SmartSpending framework.

The second change is an increase in SmartRetirement Blend's equity allocation across the glidepath. The starting equity allocation will go from 91% to 94% and the at-retirement equity allocation will move to 40% from 32.5%. The overall increase in the equity allocation will be funded by a reduction in the fixed income allocation.

Within the equity portfolio, J.P. Morgan is increasing the U.S. equity exposure and the emerging markets equity exposure while the developed international and U.S. REIT exposures will be reduced. With the increase to U.S. equities, J.P. Morgan's U.S./non-U.S. split will change from 60% U.S./40% non-U.S. to 64% U.S./36% non-U.S. The team has a more favorable long-term view of the growth prospects for the U.S. economy compared to other international developed markets driven by younger demographics and America's position as a leader in the technology space. This theme also extends to emerging markets equities as information technology has become a more significant component and an important growth driver for many emerging economies, which is why J.P. Morgan increased the emerging markets equity allocation.

The other change within the equity portfolio is a reduction to the REIT allocation, which had been a strategic overweight relative to peers. However, the sector has experienced more volatility, increasing overall portfolio volatility, thus weighing on their performance. This reduction should bring J.P. Morgan closer in line to peers.

The fixed income portfolio reduction will be done pro-rata across investment grade, high yield, and emerging market bonds.

The SmartSpending integration and the glidepath change will go into effect on or about March 18, 2022.

We are not recommending any client action currently. We will be continuing the dialogue with J.P. Morgan to fully understand the participant experience within the SmartSpending framework and will provide relevant updates leading up to the change.

J.P. MORGAN SMARTRETIREMENT BLEND MUTUAL FUNDS

MEETING DATE: OCTOBER 19, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

J.P. Morgan SmartRetirement Blend Performance Update:
The J.P. Morgan SmartRetirement Blend series struggled in the third quarter as it underperformed peers and the benchmark.

- With the exception of emerging markets, SmartRetirement Blend's equity portfolio is passively managed, and this proved to be a headwind on performance.
- The third quarter was a mixed period for equity markets as stocks were positive in July and August, but were negative in September, and volatility was elevated.
- As a result, the underlying equity indices SmartRetirement Blend is exposed to posted negative returns for the quarter.
- The series' fixed income managers were slightly positive to flat in the third quarter in concert with broader bond indices.
- The combined impact from SmartRetirement Blend's passive equity allocations and flat performance by the fixed income managers caused the series' manager selection effect to be a negative for the quarter.
- J.P. Morgan's tactical positioning also weighed on results.
- During the third quarter, J.P. Morgan held an overweight to equities broadly with a tilt towards cyclical stocks.
- This weighed on performance as markets rotated from cyclical sectors to lower beta sectors during the risk-off period in September.
- Somewhat helping performance, was the series' overweight to high yield bonds relative to core bonds as the latter was buoyed by investors' continued to search for yield.
- J.P. Morgan's glidepath was also a slight contributor driven by its lower allocation to equities broadly and its larger allocation to high yield within fixed income.

Positioning Update:
J.P. Morgan is maintaining its pro-growth outlook and viewing the turbulence in the third quarter as a pause in growth rather than the beginning of a new trend. The firm expects consumer consumption and demand to remain strong in both the U.S. and Europe and support higher corporate earnings through the end of the year. In addition, while low inventory levels can be a short-term constraint, the level of capex needed to build those back up should be a longer-term tailwind for the economy and risk assets.

- Given this view, the SmartRetirement Blend series continues to be broadly overweight equity and underweight fixed income.
- Within equity, the team implemented overweight positions in U.S. large-caps, Europe, and the U.K. to barbell the portfolio as U.S. large-caps should do well if interest rates fall or stay flat while Europe and the U.K. should do well if interest rates rise given the larger exposure to cyclical sectors, such as financials, materials, and industrials, in these markets.
- Within fixed Income, J.P. Morgan maintained its overweight to high yield bonds relative to investment grade.
- This position has been in place since mid-2020 and the team continues to have conviction in it.
- High yield bonds have exhibited lower volatility than equities and J.P. Morgan is seeing an improvement in quality within BB-rated bonds.

Note: Benchmark relative performance refers to fund performance compared to the S&P Target Date Indices.

J.P. MORGAN SMARTRETIREMENT PASSIVE BLEND CIT

MEETING DATE: OCTOBER 19, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

Based on updated participant research, J.P. Morgan has decided to change its target date suite to better meet participants' needs in ways more aligned with actual participant behavioral patterns.

The first change involves merging the SmartSpending funds into the SmartRetirement Passive Blend series. With this change, J.P. Morgan is replacing the existing Income vintage of the glidepath with the SmartSpending spend-down strategy. The firm updated this research in 2021 and found three key insights:

1. It found that 42% of participants stay in their retirement plan three years after retirement, compared to 28% from J.P. Morgan's previous research.
2. 85% of participants are likely to stay in the plan if it offers a retirement income option.
3. 80% of participants rely on RMD to guide their spending in retirement.

Given these new insights, J.P. Morgan sought to enhance SmartRetirement Passive Blend to suit participant behaviors and demands better. J.P. Morgan believes it will achieve these objectives by transitioning SmartRetirement Passive Blend's in-retirement strategy to the SmartSpending framework.

The second change is an increase in SmartRetirement Passive Blend's equity allocation across the glidepath. The starting equity allocation will go from 91% to 94% and the at-retirement equity allocation will move to 40% from 32.5%. The overall increase in the equity allocation will be funded by a reduction in the fixed income allocation.

Within the equity portfolio, J.P. Morgan is increasing the U.S. equity exposure and the emerging markets equity exposure while the developed international and U.S. REIT exposures will be reduced. With the increase to U.S. equities, J.P. Morgan's U.S./non-U.S. split will change from 60% U.S./40% non-U.S. to 64% U.S./36% non-U.S. The team has a more favorable long-term view of the growth prospects for the U.S. economy compared to other international developed markets driven by younger demographics and America's position as a leader in the technology space. This theme also extends to emerging markets equities as information technology has become a more significant component and an important growth driver for many emerging economies, which is why J.P. Morgan increased the emerging markets equity allocation.

The other change within the equity portfolio is a reduction to the REIT allocation, which had been a strategic overweight relative to peers. However, the sector has experienced more volatility, increasing overall portfolio volatility, thus weighing on their performance. This reduction should bring J.P. Morgan closer in line to peers.

The fixed income portfolio reduction will be done pro-rata across investment grade, high yield, and emerging market bonds.

The SmartSpending integration and the glidepath change will go into effect on or about March 18, 2022.

We are not recommending any client action currently. We will be continuing the dialogue with J.P. Morgan to fully understand the participant experience within the SmartSpending framework and will provide relevant updates leading up to the change.

J.P. MORGAN SMARTRETIREMENT PASSIVE BLEND CIT

MEETING DATE: OCTOBER 19, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

J.P. Morgan SmartRetirement Passive Blend Performance Update:
The J.P. Morgan SmartRetirement Passive Blend series struggled in the third quarter as it underperformed peers and the benchmark.

- With the exception of emerging markets, SmartRetirement Passive Blend's equity portfolio is passively managed, and this proved to be a headwind on performance.
- The third quarter was a mixed period for equity markets as stocks were positive in July and August, but were negative in September, and volatility was elevated.
- As a result, the underlying equity indices SmartRetirement Passive Blend is exposed to posted negative returns for the quarter.
- The series' fixed income managers were slightly positive to flat in the third quarter in concert with broader bond indices.
- The combined impact from SmartRetirement Passive Blend's passive equity allocations and flat performance by the fixed income managers caused the series' manager selection effect to be a negative for the quarter.
- J.P. Morgan's tactical positioning also weighed on results.
- During the third quarter, J.P. Morgan held an overweight to equities broadly with a tilt towards cyclical stocks.
- This weighed on performance as markets rotated from cyclical sectors to lower beta sectors during the risk-off period in September.
- Somewhat helping performance, was the series' overweight to high yield bonds relative to core bonds as the latter was buoyed by investors' continued to search for yield.
- J.P. Morgan's glidepath was also a slight contributor driven by its lower allocation to equities broadly and its larger allocation to high yield within fixed income.

Positioning Update:
J.P. Morgan is maintaining its pro-growth outlook and viewing the turbulence in the third quarter as a pause in growth rather than the beginning of a new trend. The firm expects consumer consumption and demand to remain strong in both the U.S. and Europe and support higher corporate earnings through the end of the year. In addition, while low inventory levels can be a short-term constraint, the level of capex needed to build those back up should be a longer-term tailwind for the economy and risk assets.

- Given this view, the SmartRetirement Passive Blend series continues to be broadly overweight equity and underweight fixed income.
- Within equity, the team implemented overweight positions in U.S. large-caps, Europe, and the U.K. to barbell the portfolio as U.S. large-caps should do well if interest rates fall or stay flat while Europe and the U.K. should do well if interest rates rise given the larger exposure to cyclical sectors, such as financials, materials, and industrials, in these markets.
- Within fixed Income, J.P. Morgan maintained its overweight to high yield bonds relative to investment grade.
- This position has been in place since mid-2020 and the team continues to have conviction in it.
- High yield bonds have exhibited lower volatility than equities and J.P. Morgan is seeing an improvement in quality within BB-rated bonds.

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