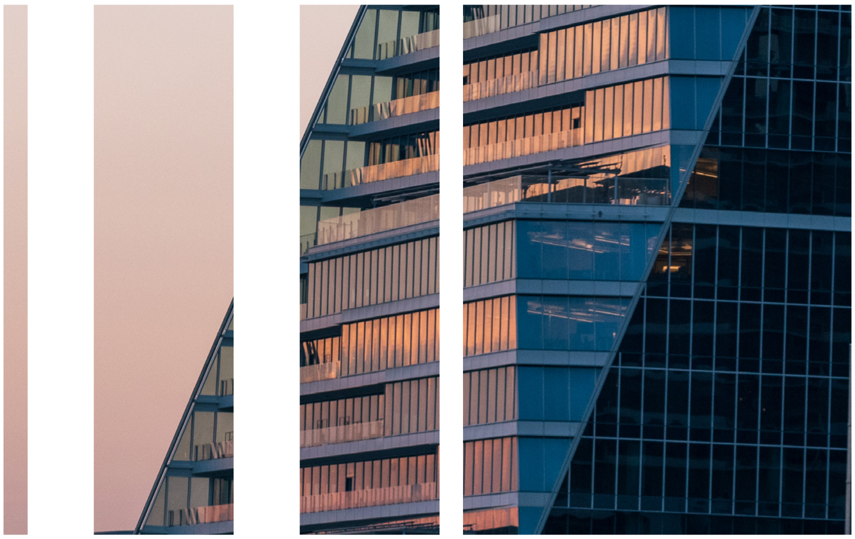


Fixed Income Has Evolved... Is Your Plan Menu Keeping Up?

Traditional fixed income and target date funds (TDFs) don't meet every participant's needs—especially as not all participants invest in TDFs, and core menus offer limited fixed income options. As participants' needs evolve and become more sophisticated, multi-sector fixed income strategies offer **flexibility, diversification** and **professional management,** filling a critical gap in retirement plan menus.

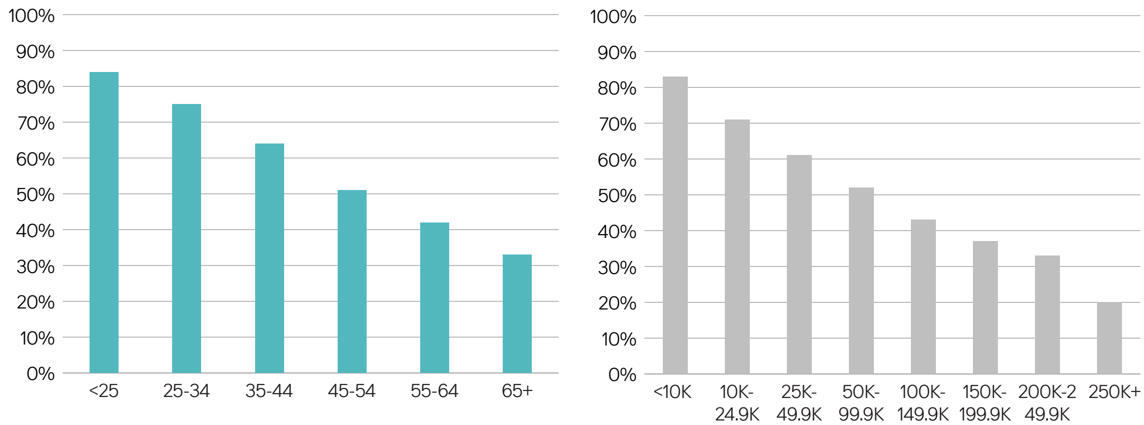
This publication explores how incorporating multi-sector fixed income into your plan menu can:

- Offer a professionally managed fixed income solution that adjusts to changing participant needs
- Enhance your plan menu by complementing core fixed income funds or offering a standalone option
- Support participants at every stage, from building savings to generating income in retirement

Participant Profiles Have Evolved—So Should Plan Lineups

Today, 63% of 401(k) plan assets are held by participants in their 50s or 60s[1] whose priorities have shifted from growth to income and capital preservation. Although many assume that TDFs are meeting everyone's needs and that employees remain in TDFs as they approach retirement, recent data shows that employees are increasingly making different choices (see display).

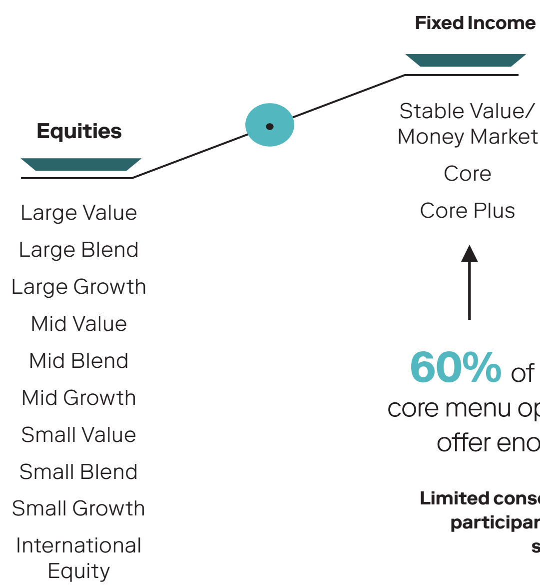
Vanguard Participants Holding a Single Target Date Fund, by Demographic[1]



Source: Vanguard, 2024.

Older Participants Are Skipping TDFs, but Core Menus Don't Serve Retirement Needs

According to Vanguard, more than half of older participants are not using target date funds,[2] so they most likely turn to the plan's core menu to build allocations. Most core menus are designed for accumulation, not for generating income and preserving capital in retirement. Equity options are abundant, but fixed income is typically limited to core, core plus, stable value and money market, making it hard to construct resilient retirement portfolios.



60% of older participants rely on core menu options, yet these may not offer enough investment choices.

Limited conservative options can leave older participants with too few ways to protect savings as they near retirement.

Why Menus Often Don't Work Today? The Rate Regime Has Shifted

Core and core-plus bond funds have long been the standard for retirement plan menus, but the post-zero-rate environment exposes their limits. As policy rates rose and volatility increased, benchmark duration extended and return dispersion widened, making legacy index-like exposures less suited to participant goals.

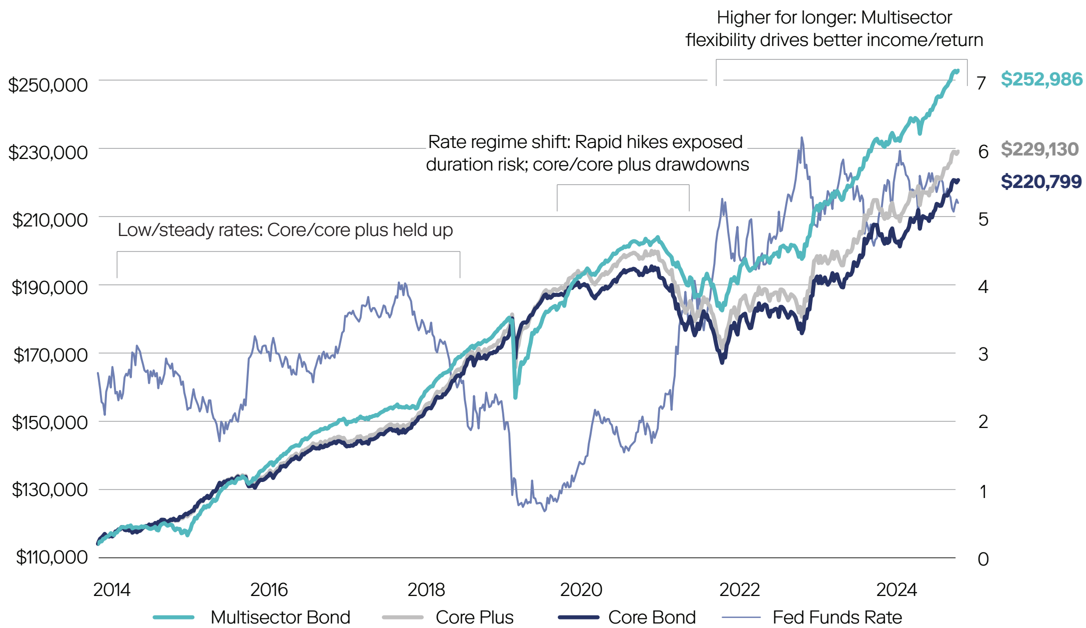
Multi-Sector's Post-Covid Advantage

Flexibility matters now. Multisector portfolios can recalibrate duration and allocate across high-quality sectors (e.g., investment grade credit, securitized, selective high yield) to pursue better income and total return with controlled drawdowns. For many plans, that added flexibility is a more effective complement to core than staying purely passive.

Illustration: Retirement Growth in a New Rate Environment

Starting balance: $115,000 at age 50; salary: $70,000; contributions: 10% ($7,000/year, ~$270 biweekly). With the fed funds rate no longer near zero and tighter policy shaping returns, the display below overlays fed funds to show how a more flexible fixed income approach—one that adjusts to the rates backdrop—can compound contributions more effectively than traditional core-only exposure.

Multisector Advantage in a Higher-Rate Regime[3]



Source: Morningstar and Federal Reserve Bank of St. Louis (FRED), as of September 30, 2025.
Past performance is no guarantee of future results.

Decumulation Portfolios

To improve potential retirement outcomes, we believe participants may need access to a broader array of fixed income options that can offer higher yields, better diversification across credit quality and more effective interest rate management.

Ways to Adjust Your Menu Design for the Decumulation Phase

Option 1: Expand the Core Menu to Include a Variety of Fixed Income Options

While adding individual fixed income options like high yield or emerging markets debt might be a solution, most participants find it difficult to manage and allocate across these choices effectively. **Constructing and rebalancing a diversified fixed income portfolio requires expertise and ongoing attention, which is often unrealistic for individuals nearing or in retirement.** As menus grow more complex, the risk of misallocation or missed opportunities increases.

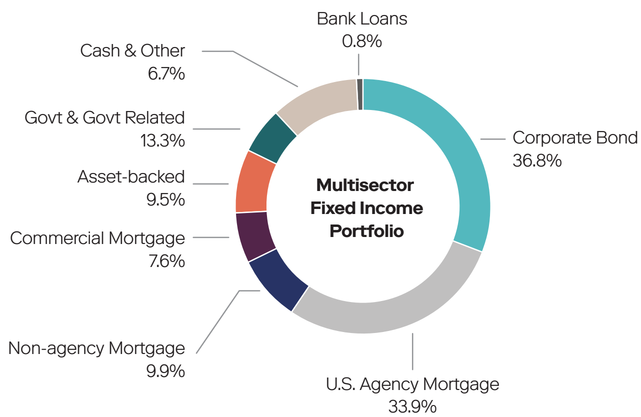
Option 2: Offer Managed Accounts

About 9% of older participants choose managed accounts, where a professional manager builds and maintains their portfolios. While managed accounts primarily use the plan's core menu, they often have the ability to access non-core funds—especially for the fixed income allocation—to help fully address participants' retirement needs. The addition of a multisector bond fund to the non-core plan menu provides the ability to build diversified portfolios without having to significantly increase the number of non-core investment options.

Option 3: Expand the Core Menu with a Single Professionally Managed Multisector Fund

Adding a professionally managed multisector fixed income fund to the plan's core menu can offer a streamlined solution for participants. This fund serves as a **flexible, diversified fixed income building block,** making it easier for participants to allocate to an option that better supports their retirement income and capital preservation needs.

Opportunity Set of Multisector Fixed Income



Multisector fixed income funds address the challenges we've discussed by **combining a broad range of fixed income sectors** such as high yield, emerging markets and investment-grade bonds within a **single, actively managed strategy.** This approach delivers the benefits of **diversification, improved return potential** and **risk management** without requiring participants to make complex allocation decisions themselves.

Unlike the retirement income vintages of many target date funds, which often retain high equity exposure even in retirement, **multisector fixed income funds focus on income and capital preservation.** However, similar to selecting a target date fund, participants benefit from a professional manager who actively adjusts allocations across bond sectors, credit qualities and duration, helping to manage risk and respond to changing market conditions.

Drilling Down on Multisector

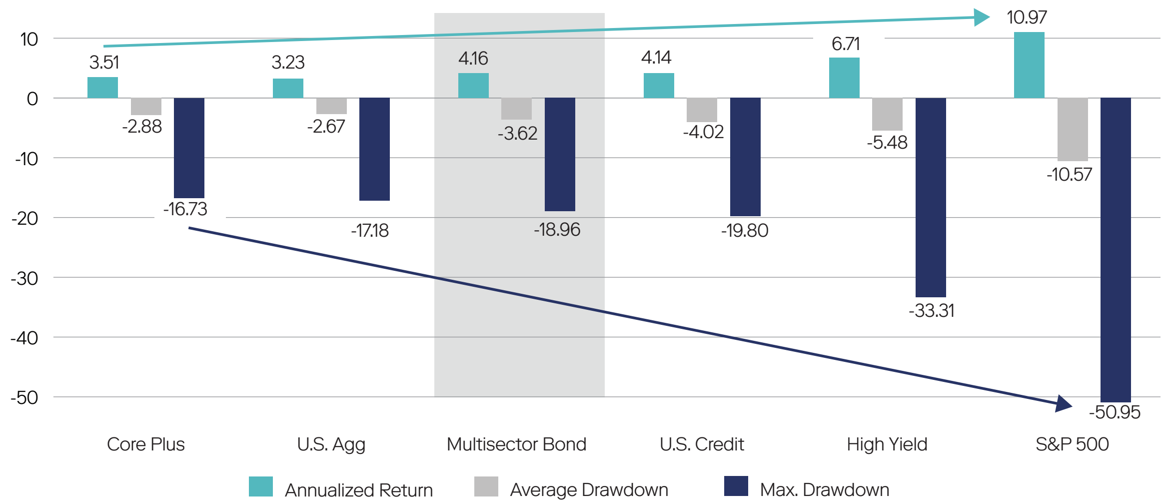
In our view, expanding the range of fixed income choices to include a multisector strategy not only aligns with the diversified approach seen in equity offerings, but also offers participants additional tools to construct well-rounded, income-generating portfolios that offer meaningful diversification and address the varying risk tolerance and income needs of plan participants.

A common argument for target date funds is that older participants may require their equity exposure to generate potential capital growth in order to maintain retirement income over time. However, multisector fixed income portfolios can include high yield and other diversifying assets to enhance total return potential while keeping drawdowns meaningfully lower than for equities.

Attractive Returns with Lower Drawdown Risk[4]

Performance and Risk

Last 20 Years Through September 30, 2025



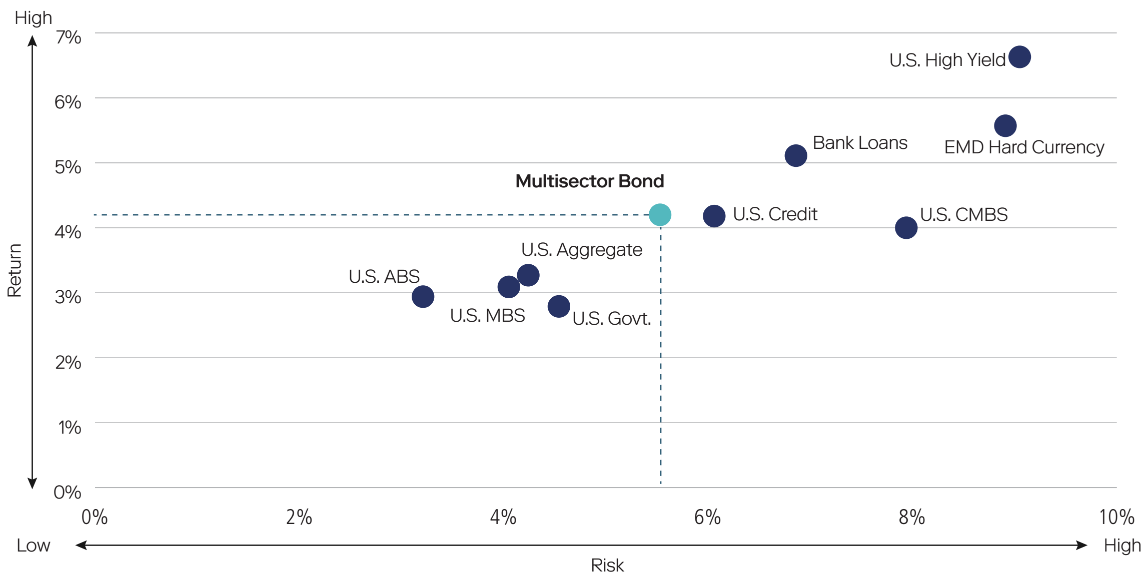
Source: Bloomberg and Morningstar, as of September 30, 2025. Returns are annualized. **Past performance is no guarantee of future results.**

Multisector Fixed Income: Enhanced Risk-Return Profile

Multisector funds not only simplify the participant experience, but also provide an attractive risk-return profile compared to both traditional core/core-plus funds and equities. They are designed to help preserve capital, generate income and manage volatility—key priorities for those approaching or in retirement.

Multisector Portfolios Have the Potential to Offer an Attractive Risk-Return Profile[5]

20-Year Risk/Return Profile



Source: Neuberger Berman, Bloomberg Barclays, ICE BofAML, JPMorgan and S&P/LSTA, as of September 30, 2025. Risk represents standard deviation. Index returns do not reflect the deduction of fees or expenses. Indices are unmanaged and cannot be invested indirectly. **Past performance is no guarantee of future results.**

Choosing the Right Multisector Strategy

Not all multisector managers take the same approach, and interest rates have structurally shifted. As you evaluate options, consider these guiding questions to align manager profile with your plan's objectives in today's environment:

Duration discipline	Does the manager operate within a defined range? How are interest rate views expressed and adjusted for the current rate regime given the longer index duration, and is that appropriate for retirement plans?
Risk hierarchy and tracking error	How does the manager approach risk management? Is a higher tracking error relative to a benchmark warranted for a participant, and how are credit exposures monitored across sectors?
Guardrails	How are sector concentration and duration risks monitored? What guardrails are in place and how are they enforced?
Derivatives use and transparency:	How are derivatives used (hedging, efficient exposure, liquidity management), and what are the risk controls (counterparty, margin, stress)?
Market structure signals	How is fed funds versus 10-year and rate volatility incorporated to deliver participant-friendly outcomes?
Opportunity set and guardrails	How expansive or limited is the manager's opportunity set, and to what extent does the manager employ that opportunity set?
Equity exposure	Does the multisector strategy avoid equities, recognizing that retirement plans offer equities separately and that fixed income is intended to serve distinct risk/return roles?
Retirement tax considerations	Given that retirement assets are tax sheltered until withdrawal, is a return seeking/total return fixed income approach more suitable than an income maximization focus?
Market structure signals	Over time, what has driven returns (duration, credit)? How have return contributions evolved with the market environment?

Multisector Fixed Income: The Missing Piece for Retirees:

Incorporating multisector fixed income into your plan menu offers several key benefits:

1. Offers a professionally managed fixed income solution that adapts to participants' evolving needs
2. Serves as a complement to traditional core and core-plus fixed income funds, or as a standalone option
3. Addresses the diverse needs of participants at every stage of their investment life cycle, from accumulation through retirement

[1] EBRI/ICI. 401(k) Plan Asset Allocation, Account Balances and Loan Activity in 2018, March 2021.

[2] Vanguard, How America Saves 2024, June 2025.

[3] Indices shown: Morningstar Multisector Bond category (Multisector Bond), Morningstar Intermediate Core-Plus category (Core Plus) and Morningstar Intermediate-Term Bond category (Core Bond).

[4] Indices shown: Morningstar Intermediate Core Plus category (Core Plus), Bloomberg U.S. Aggregate Bond Index (U.S. Agg), Morningstar Multisector Bond category (Multisector Bond), Bloomberg U.S. Credit Index (U.S. Credit) and Bloomberg High Yield Corporate Index (High Yield).

[5] Indices shown: Morningstar Multisector Bond category (Multisector Bond), Bloomberg U.S. Aggregate Bond Index (U.S. Aggregate), Bloomberg U.S. Mortgage Backed Index (U.S. MBS), Bloomberg Investment Grade Credit Index (U.S. Credit), Bloomberg Asset-Backed Securities Index (U.S. ABS), Bloomberg Commercial Mortgage-Backed Securities Index (U.S. CMBS), JP Morgan EMBI Global Diversified (EMD Hard Currency), S&P/LSTA Leveraged Loan Index (Bank Loans), Bloomberg U.S. Government Index (U.S. Govt.) and ICE BofA Merrill Lynch U.S. High Yield Master II Constrained Index (U.S. High Yield). It is not possible to invest directly in an unmanaged index.

INDICES DESCRIPTION

Bloomberg U.S. Aggregate Bond Index: The index measures the investment grade, U.S. dollar-denominated, fixed-rate, taxable bond market and includes Treasuries, government-related and corporate securities, mortgage-backed securities (MBS) (agency fixed-rate and hybrid adjustable rate mortgage (ARM) pass-throughs), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS) (agency and nonagency). This index is not subject to a fee.

Morningstar Multisector Bond category: Seeks income by diversifying their assets among several fixed income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds and high-yield U.S. debt securities. These portfolios typically hold 35% to 65% of bond assets in securities that are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

Morningstar Intermediate-Term Bond category: Intermediate-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and typically have durations of 3.5 to 6.0 years. These portfolios are less sensitive to interest rates, and therefore less volatile, than portfolios that have longer durations.

Morningstar Intermediate Core-Plus Bond category: Intermediate-term core-plus bond portfolios invest primarily in investment-grade U.S. fixed-income issues including government, corporate, and securitized debt, but generally have greater flexibility than core offerings to hold non-core sectors such as corporate high yield, bank loan, emerging-markets debt, and non-U.S. currency exposures.

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