

Beyond the Binary

Active, Passive, and Blended Approaches in DC Plans

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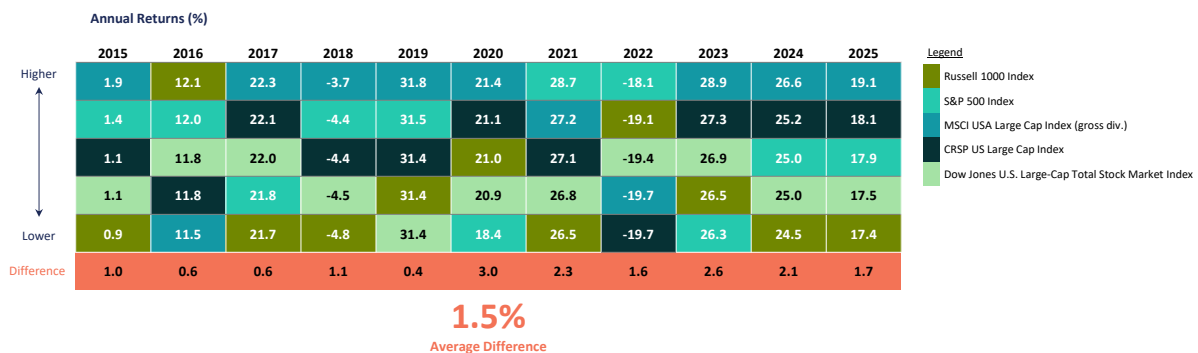


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Which US Large Cap Index is “The Market”?

None of them



In US dollars. Performance data shown represents past performance and is no guarantee of future results. All indices are gross dividends. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. MSCI data © MSCI 2026, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Dow Jones and S&P data © 2026 S&P Dow Jones Indices LLC, a division of S&P Global. CRSP data provided by the Center for Research in Security Prices, University of Chicago.

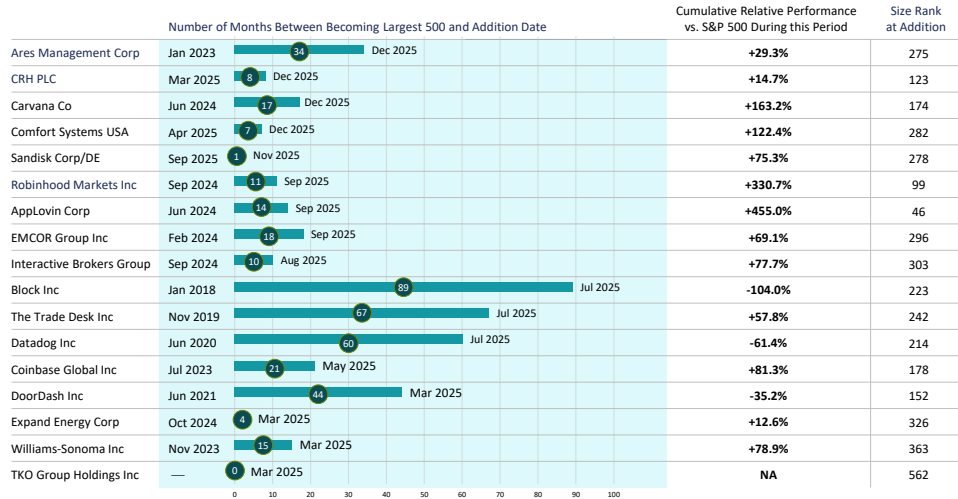
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Waiting Room: S&P 500 Additions in 2025

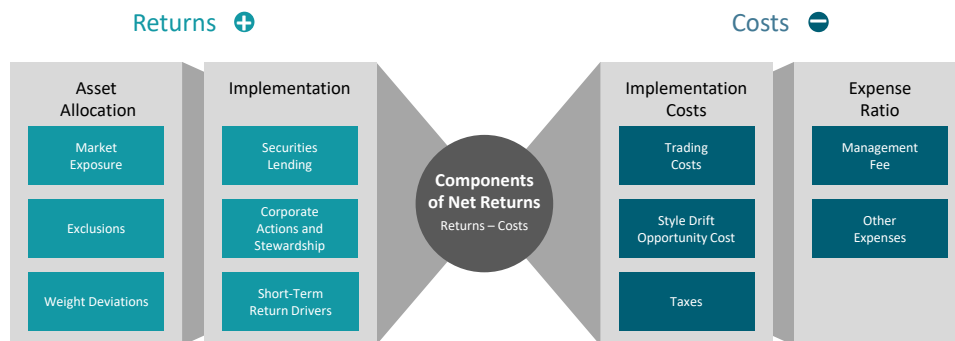
S&P 500 trackers left returns on the table as most stocks beat the index during their average waiting period of 25 months



Past performance is no guarantee of future results. In USD. The performance reflects the deduction of 0.40% to demonstrate the impact of fees on performance. No investor received the performance presented. Fees and expenses are not charged to individual securities and the net of fee performance is provided for illustrative purposes only to meet net of fee disclosure requirements. Source: Dimensional and FactSet. Excludes stocks added by corporate action. First Month in Largest 500 Stocks is the stock's first month in the top 500 stocks in the CRSP US Total Market Index ranked by market capitalization. Months Between Becoming Largest 500 and Addition Date is number of months difference between the First Month in Largest 500 Stocks and the Addition Month. Cumulative Relative Performance vs S&P 500 between First Month in Top 500 is based on monthly returns, excluding the month where the stock was added to the S&P 500. Size Rank at Addition is based on the company's size within the S&P 500 at the end of the stock's first month in the index. Named securities may be held in Dimensional accounts. S&P data © 2026 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

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Components of Net Returns



For illustrative purposes only. List is not intended to be comprehensive.

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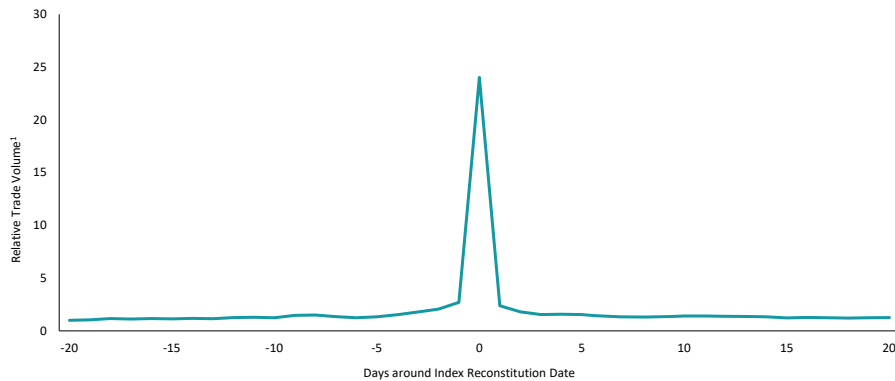


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Forced Trading Can Raise Costs

Higher than normal trading activity around the reconstitution date can drive up costs

AVERAGE RELATIVE TRADE VOLUME OF SECURITIES ADDED TO OR DELETED FROM THE S&P 500 INDEX: 2016–2025



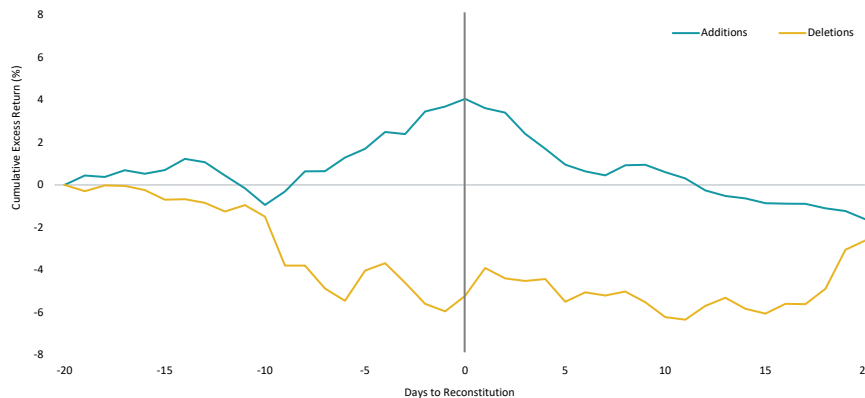
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Price Pressure Around Index Reconstitution

AVERAGE CUMULATIVE EXCESS RETURN OF INDEX ADDITIONS AND DELETIONS, JANUARY 2014–DECEMBER 2023



Past performance is no guarantee of future results. Sample includes all additions and deletions from 10 US indices for securities that are added to (or deleted from) an index. Sample is restricted to nonmigrating securities, which are stocks that are added to (or deleted from) an index and are not also deleted from (or added to) another index from the same index family on the same reconstitution date. See "Appendix: Index Migrations" for more information on what defines a migrating event for S&P, Russell, and CRSP indices and the indices included in the sample. Cumulative excess returns (CERs) are calculated as the cumulative sum of the daily excess returns for an individual security vs. its respective index from market close 20 trading days before reconstitution. Cumulative excess returns for deletions are multiplied by -1 before being averaged with cumulative excess returns of additions. Value-weighted average CERs are calculated by weighting the sets of CERs on a day by the securities' respective free-float market capitalizations as of the most recent month prior to reconstitution. Tesla's addition to the S&P 500 on December 18, 2020, is excluded. Indices are not available for direct investment; therefore their performance does not reflect the expenses associated with the management of an actual fund.

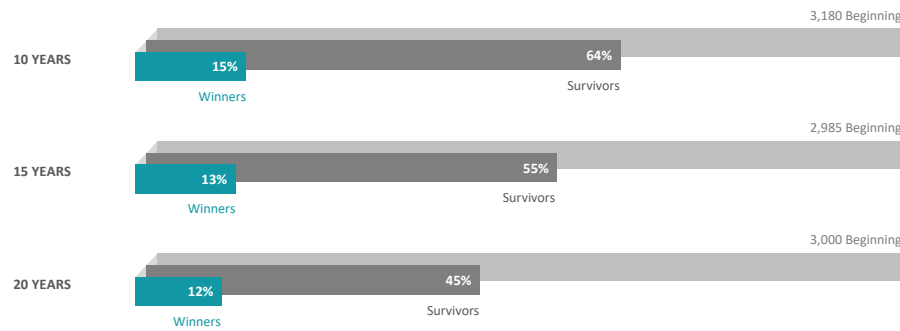
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Few Equity Funds Have Survived and Outperformed

US-domiciled equity fund performance periods ending December 31, 2025



Past performance is no guarantee of future results. The sample includes funds at the beginning of the 10-, 15-, and 20-year periods ending December 31, 2025. Survivors are funds that had returns for every month in the sample period. Winners are funds that survived and outperformed their benchmark over the period. US-domiciled, USD-denominated, non-Dimensional open-end and exchange-traded fund data is from Morningstar. See The Fund Landscape Appendix for more information. US-domiciled mutual funds and US-domiciled ETFs are not generally available for distribution outside the US.

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What matters most when evaluating active vs. passive strategies for your plan?

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It's a balancing act



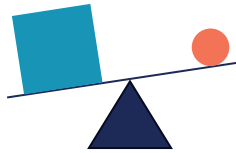
Plan sponsors' #1 reason why active:
Guard against losses when markets are volatile



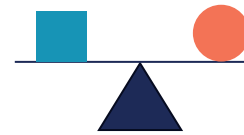
Plan sponsors' #1 reason why passive:
Stay close to benchmark performance



Active strategies



Passive strategies



Quantitative strategies

Scan to read:
How DC plans can
combine the best of
active and passive



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How would you characterize your plan's
current approach to active and passive
management?

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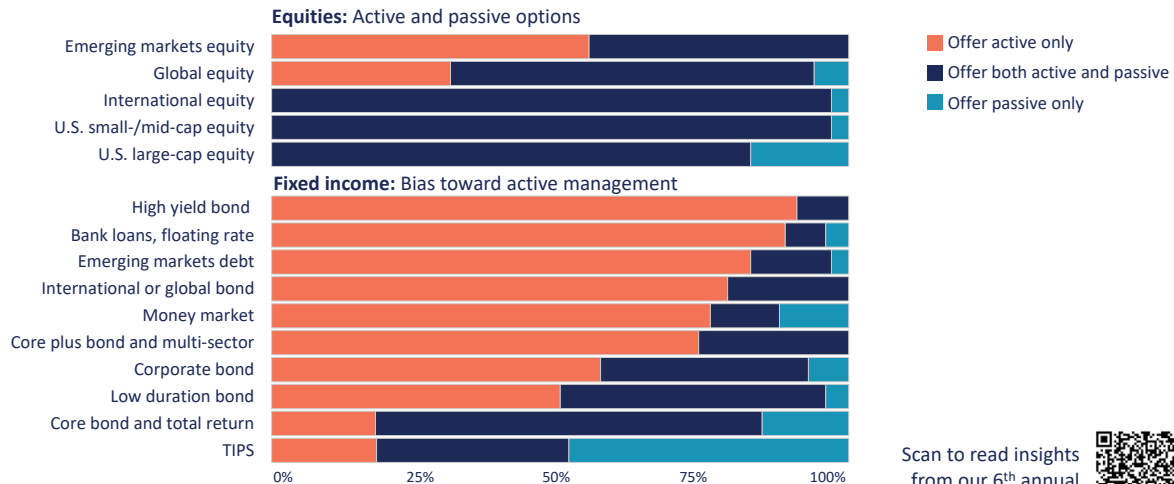
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Moving away from **either/or** to **and**

DC consultant and advisors' implementation preferences by strategy



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from our 6th annual
**Defined Contribution
Consultant Study**



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Where do you see the greatest opportunity to combine active and passive management?

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What Could be the Market Backdrop Over the Next 10 Years?

New Paradigm or Old Normal?

	Past Decade	Next Decade?	Opportunity for Active Managers
Interest rates & inflation	Low and stable	Higher and more volatile	✓
Energy supply & transition	Cheap and available	Shortages, decarbonization cost	✓
Globalization	Low trade barriers, optimized supply chains	Increasing barriers, resilience and autonomy	✓
Monetary & fiscal	Record stimulus, QE supporting risk assets	Government debt, QT, less liquidity	✓
Geopolitics	Relative stability	Unstable	✓
Artificial intelligence	Early-stage technology with few beneficiaries	Dominant disruptive force	✓
Capital expenditure	Low	Significant AI buildout	✓

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Typical DC Investment Menu Design

Active investment options have a role in the investment menu



According to our 2026 MFS DC Plan Sponsor Survey, the typical DC plan lineup spans 10 to 14 investment options, with the QDIA treated as a single selection.

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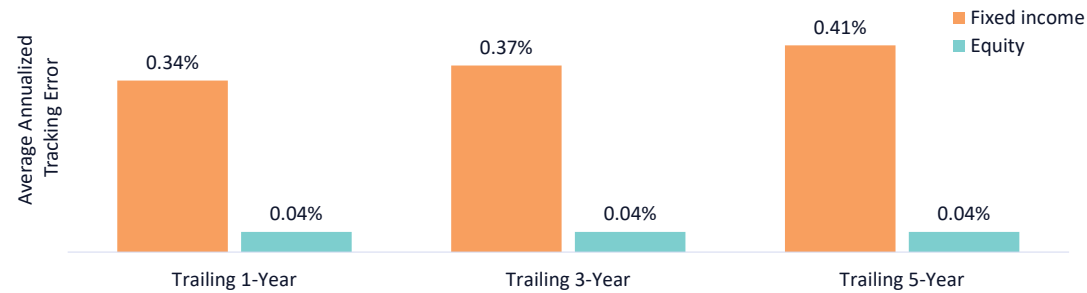


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Fixed income offers opportunity to exploit benchmark inefficiencies

Passive fixed income products exhibited higher levels of tracking error than equity peers¹

Average annualized tracking error for five largest passive funds in fixed income and equity categories with the most passive assets²



As of December 31, 2025. We define a passive fund as one identified as an "index fund" in the Morningstar Direct database. Sources: T. Rowe Price and Morningstar. All data analysis by T. Rowe Price. Please see vendor indices disclaimers for more information about the sourcing information: www.troweprice.com/marketdata.
¹ Tracking error calculations are relative to the prospectus benchmark for each passive fund.
² As of December 31, 2025, Morningstar's large blend category had the highest level of passive assets, amounting to about 51% of all passive equity assets. The five biggest large blend index funds by market capitalization made up 72% of passive assets in the category. Morningstar's intermediate core bond category had the highest level of passive assets, amounting to about 37% of all passive fixed income assets. The five largest intermediate core bond index funds made up 89% of passive assets in the category. © 2026 Morningstar, Inc. All rights reserved. Past performance is not a guarantee or a reliable indicator of future results.

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MFS 2026 DC Plan Sponsor Survey: Respondent Profile

All Respondents vs. Public Plan Respondents

PLAN SIZE KEY (TOTAL VALUE OF ASSETS IN PRIMARY DC PLAN)					NUMBER OF INVESTMENT OPTIONS								
					ALL						DB + DC	DC Only	Public Plans
	SMALL	Less than \$99 million	All Plans 14%	Public Plans 6%	0-9 OPTIONS	23%	19%	18%	23%	26%	23%	22%	27%
	MEDIUM	\$100 million to less than \$1 billion	19%	18%		10-14 OPTIONS	50%	52%	50%	54%	44%	57%	44%
	LARGE	\$1 billion to less than \$5 billion	32%	37%	15+ OPTIONS		28%	29%	32%	23%	30%	20%	34%
	MEGA	\$5 billion or more	35%	39%									

Source: MFS 2026 DC Plan Sponsor Survey. Top Left Q: Approximately what percentage of the employees in your organization who are eligible to participate in your DC plan are either currently contributing to or have a balance in the plan? Bottom Left Q: What is your DC plan participant's average deferral rate? Right Q: Counting a target date series as one, how many different investment options do you offer in the core menu in your DC plan? Please note, exclude the brokerage window from this information. For public plans, data reflects responses for plan sponsors who offer 457, "Other defined contribution plan(s)," and/or "Other non-qualified deferred compensation plans."

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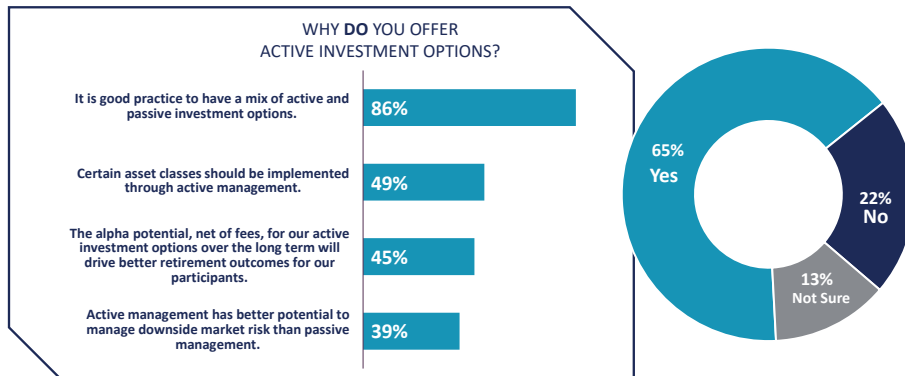


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The Role of Active Investments

Most plans offer active investments

DO YOU OFFER ACTIVE INVESTMENTS IN YOUR PRIMARY DC PLAN?



65% of plan sponsors already offer active investment options, valuing the blend of active and passive.

Source: MFS 2026 Plan Sponsor Survey, Public Plans. Q: Do you offer active investment options in your primary DC plan? Q: (If yes) Why do you offer active investment options? Q: (If no) Why don't you offer active investment options?

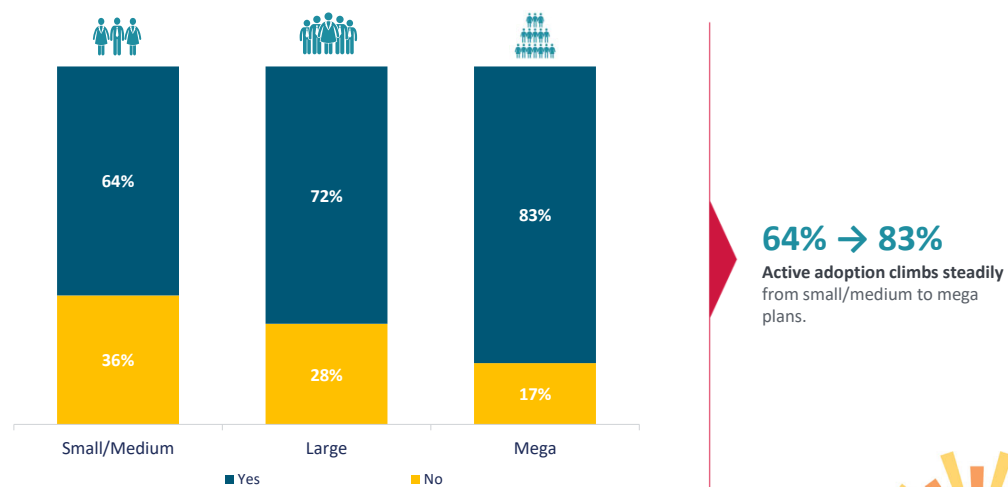
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Larger Plans Lead the Way on Active Investments

Adoption of active investment options increases with plan size



Source: MFS 2026 Plan Sponsor Survey, Public Plans. Q: Do you offer active investment options in your primary DC plan?

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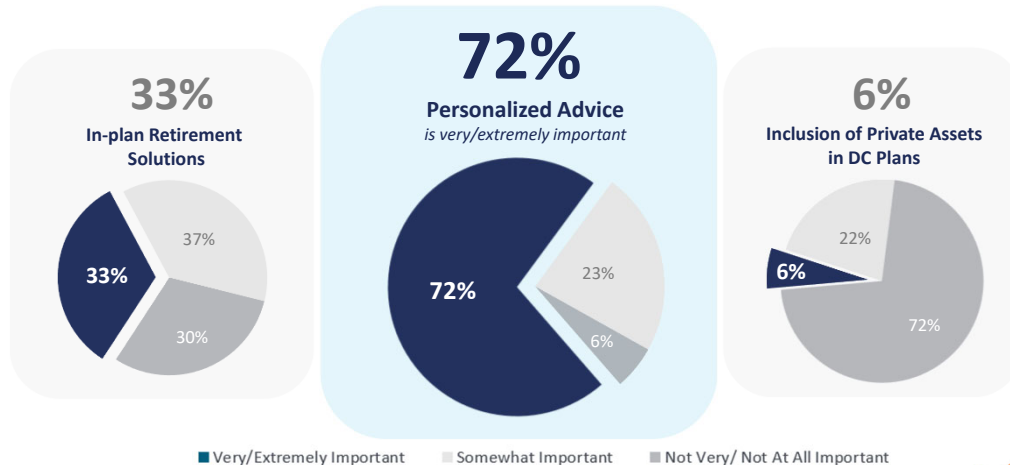


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Retirement is Personal

Personalized advice is key

HOW IMPORTANT DO YOU THINK THESE ITEMS ARE TOWARD DRIVING BETTER OUTCOMES FOR YOUR PARTICIPANT?



Source: MFS 2026 DC Plan Sponsor Survey, Public Plans. Q: On a scale of 1-10, how important do you think these items are toward driving better outcomes for your participant? Rankings reported in the following categories: 0-1: Not at all important, 2-3: Not Very Important, 4-6: Somewhat Important, 7-8: Very Important, 9-10: Extremely Important.

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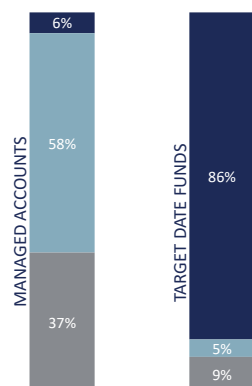


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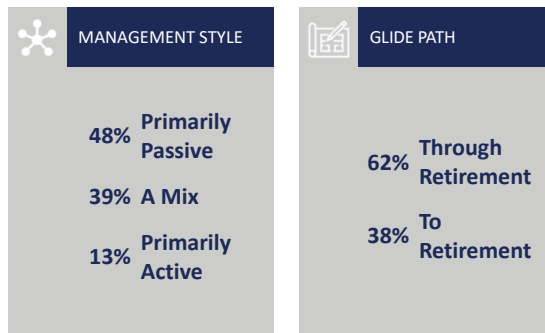
Target Date Funds

TDFs are the dominant QDIA option

DOES YOUR PRIMARY PLAN OFFER...



TYPES OF TDFs OFFERED



Public plans make greater use of active and blended management compared to all plans.

Source: MFS 2026 DC Plan Sponsor Survey, Public Plans. Q: Does your primary plan offer TDFs? Q: Does the plan offer managed accounts? Q: What type of TDFs do you have in your primary retirement plan?

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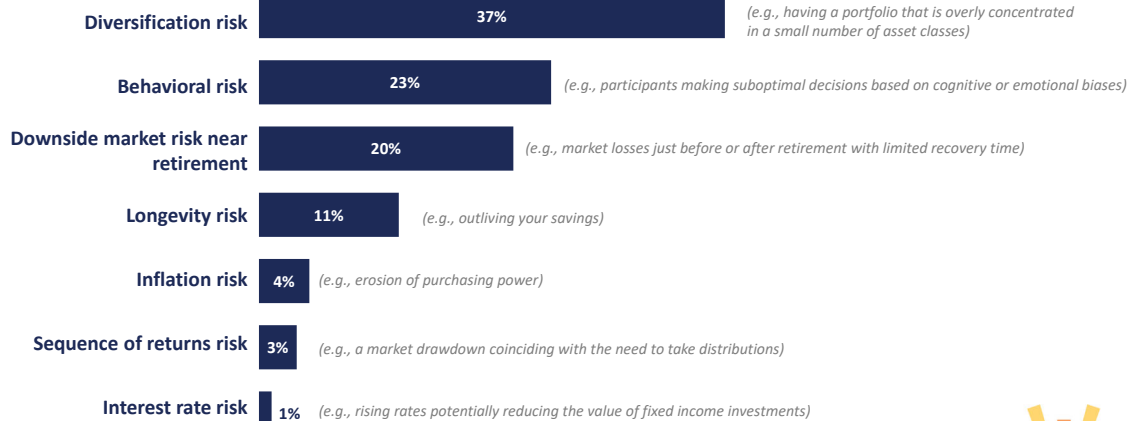


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What Risks Are TDFs Addressing?

Sponsors are most focused on the diversification benefits of TDFs

When thinking about the target date strategy you offer to participants, which risks are you best trying to address?
(% Ranked #1)



Source: MFS 2026 DC Plan Sponsor Survey, Public Plans. Q: When thinking about the target date strategy you offer to participants, which risks are you best trying to address? Please rank your top three choices. Percentages represent respondents who ranked each risk as #1 (most important).

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Sometimes either/or is appropriate...



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But other times, **either/or** ignores the potential benefits of **and**



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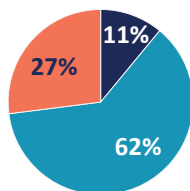


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Blend target date solutions gaining traction

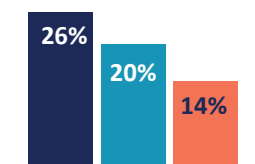
Target date management style

Market Shares



■ Blend ■ Passive ■ Active

3-Year CAGRs



Blend target date funds



Active management → potential opportunities for diversification & outperformance

and

Passive management → cost-effective exposure to more efficient asset classes or specific market segments

Scan to read:
Navigating the
evolving landscape of
target date solutions



Source: Sway Research, The State of the Target Date Market: Year-End 2025; as of 12/31/2025.

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Key Takeaways

- **Indexing is not exactly passive.**

Index design and implementation involve active decisions. The best parts of indexing are broad diversification and low costs, not tracking an index.

- **Active vs. passive doesn't have to be an either/or decision.**

A thoughtful DC lineup can use both, based on the role each investment plays in the plan. Some active strategies are diversified and low cost.

- **Blending can offer a practical middle ground.**

Combining passive exposure in more efficient market segments with active management where there may be greater opportunities for diversification and outperformance can allow sponsors to balance multiple objectives.

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Questions?

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2. Select "External QA/Survey."
3. Type your question and tap send.

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Appendix

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6th Annual DC Consultant Study methodology

Objective

Capture current views from the defined contribution **consultant** and **advisor** community on a wide range of **retirement and investment topics**

When?

Data collection took place from **January 12 to March 11, 2026**

Who?

36 of the leading consultant and advisor firms representing over **160,000 DC plan sponsor clients** and over **\$10.3T in DC plan assets¹**, which reflects 72% of the total \$14.2T DC plan market

- | | | |
|-------------------------------------|--|------------------------|
| ▪ Aon | ▪ Goldman Sachs Asset Management | ▪ Morgan Stanley |
| ▪ Bellwether Consulting | ▪ Gosselin Consulting Group | ▪ NEPC, LLC |
| ▪ Callan LLC | ▪ Higginbotham | ▪ Newport Group, Inc. |
| ▪ Cambridge Associates | ▪ Highland Associates | ▪ OneDigital |
| ▪ CAPTRUST | ▪ Highland Consulting Associates, Inc. | ▪ PlanPILOT |
| ▪ Cerity Partners | ▪ HUB RPW | ▪ Russell Investments |
| ▪ Clearstead | ▪ Intellicents | ▪ RVK |
| ▪ Commonwealth | ▪ LCG Associates, Inc. | ▪ Segal Marco Advisors |
| ▪ Curcio Webb | ▪ Marquette Associates | ▪ USI |
| ▪ Francis Investment Counsel | ▪ Marsh McLennan Agency | ▪ Verus Investments |
| ▪ Frost Bank | ▪ Meketa Investment Group | ▪ Willis Towers Watson |
| ▪ Gallagher Fiduciary Advisors, LLC | ▪ Mercer | ▪ Wilshire Associates |

¹32 of 36 firms provided total DC plan sponsor clients and AUA.

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Appendix: MFS 2026 DC Plan Sponsor Survey

US Respondents – Public Plans

TOTAL VALUE OF ASSETS IN PRIMARY DC PLAN

Less than \$99 million	6%
\$100 million to less than \$1 billion	18%
\$1 billion to less than \$5 billion	37%
\$5 billion to less than \$10 billion	17%
\$10 billion or more	22%

NUMBER OF INVESTMENT OPTIONS¹

0 to 9 Options	27%
10 to 14 Options	45%
15+ Options	28%

EMPLOYEES PARTICIPATING IN PRIMARY DC PLAN

Less than 100	0%
100 to 499	3%
500 to 999	3%
1,000 to 4,999	17%
5,000 to 9,999	19%
10,000 or more	58%

EMPLOYEE PARTICIPATION RATE²

Less than 50%	7%
50% to 89%	29%
90% +	64%

AVERAGE DEFERRAL RATE³

Less than 6%	8%
6% to 10%	72%
More than 10% +	19%

RESPONDENTS W/DB PLANS (54%)

CURRENT PLAN STATUS

Open to all employees	36%
Closed to new hires	24%
Plan frozen for all participants	41%

INTENDED FUTURE STRATEGY IF PLAN IS CURRENTLY FROZEN OR CLOSED

Continue plan in current state for foreseeable future	100%
Reopen the plan	0%
Terminate plan in near term	0%

PRIMARY DC PLAN GOVERNED BY ERISA?

Yes	87%
No	13%

Source: MFS 2026 DC Plan Sponsor Survey. Data reflects responses for plan sponsors who offer 457, "Other defined contribution plan(s)," and/or "Other non-qualified deferred compensation plans." ¹Q: Counting a target date series as one, how many different investment options do you offer in the core menu in your DC plan? Please note, exclude the brokerage window from this information. ²Q: Approximately what percentage of the employees in your organization who are eligible to participate in your DC plan are either currently contributing to or have a balance in the plan? ³Q: What is your DC plan participant's average deferral rate?

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Appendix: Index Migrations

S&P	Russell	CRSP
S&P 500: Additions (deletions) that are deleted from (added to) the S&P 400 or S&P 600 indices	Russell 2000: Additions (deletions) that are deleted from (added to) the Russell 1000 Growth or Russell 1000 Value indices	CRSP US Large Cap Growth: Additions (deletions) that are deleted from (added to) the CRSP US Small Cap or CRSP US Large Cap Value indices (or weights adjusted in either index)
S&P 400: Additions (deletions) that are deleted from (added to) the S&P 500 or S&P 600 indices	Russell 1000 Growth: Additions (deletions) that are deleted from (added to) the Russell 2000 or Russell 1000 Value indices (or weight adjusted in Russell 1000 Value Index)	CRSP US Large Cap Value: Additions (deletions) that are deleted from (added to) the CRSP US Small Cap or CRSP US Large Cap Growth indices (or weights adjusted in either index)
S&P 600: Additions (deletions) that are deleted from (added to) the S&P 400 or S&P 500 indices	Russell 1000 Value: Additions (deletions) that are deleted from (added to) the Russell 2000 or Russell 1000 Growth indices (or weight adjusted in Russell 1000 Growth Index)	CRSP US Mid Cap: Additions (deletions) that are deleted from (added to) the CRSP US Small Cap Index (or weight adjusted in the CRSP US Small Cap Index)
		CRSP US Small Cap: Additions (deletions) that are deleted from (added to) the CRSP US Large Cap Growth, CRSP US Large Cap Value, or CRSP US Mid Cap indices (or weights adjusted in either index)

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Appendix: The Fund Landscape

Data Sample

The sample includes US-domiciled, USD-denominated open-end and exchange-traded funds (ETFs) in the following Morningstar categories. Non-Dimensional fund data provided by Morningstar. Dimensional fund data is provided by the fund accountant. Dimensional funds or subadvised funds whose access is or previously was limited to certain investors are excluded. Index funds, load-waived funds, and funds of funds are excluded from the industry sample.

Methodology

The beginning samples include funds as of the start of the 10-, 15-, and 20-year periods. Surviving funds are those with return observations for every month of the sample period. Each fund is evaluated relative to its primary prospectus benchmark. Where the full series of primary prospectus benchmark returns is unavailable, non-Dimensional funds are instead evaluated relative to their Morningstar category index. Outperformers are funds that survived the sample period and whose cumulative net return over the period exceeded that of their respective benchmark. We aggregate funds with multiple share classes to the strategy level.

Morningstar Categories (Equity)

Equity fund sample includes the following Morningstar historical categories: Diversified Emerging Markets, Europe Stock, Foreign Large Blend, Foreign Large Growth, Foreign Large Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, Foreign Small/Mid Value, Global Real Estate, Japan Stock, Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Growth, Mid-Cap Value, Miscellaneous Region, Pacific/Asia ex-Japan Stock, Real Estate, Small Blend, Small Growth, Small Value, Global Large-Stock Blend, Global Large-Stock Growth, Global Large-Stock Value, and Global Small/Mid Stock.

Morningstar Categories (Fixed Income)

Fixed income fund sample includes the following Morningstar historical categories: Corporate Bond, High Yield Bond, Inflation-Protected Bond, Intermediate Core Bond, Intermediate Core-Plus Bond, Long-Term Bond, Intermediate Government, Long Government, Muni California Intermediate, Muni California Long, Muni Massachusetts, Muni Minnesota, Muni National Intermediate, Muni National Long, Muni National Short, Muni New Jersey, Muni New York Intermediate, Muni New York Long, Muni Ohio, Muni Pennsylvania, Muni Single State Intermediate, Muni Single State Long, Muni Single State Short, Muni Target Maturity, Short Government, Short-Term Bond, Short-Term Inflation-Protected Bond, Target Maturity, Ultrashort Bond, Global Bond, and Global Bond-USD Hedged.

Index Data Sources

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DOL Framework Considerations

Fiduciary Duties in Selecting Designated Investment Alternatives proposed rule

						
Factor	Performance	Fees	Liquidity	Valuation	Performance Benchmarks	Complexity
Consideration	- Risk-adjusted outcomes - Net of fees, over appropriate time horizon	- Reasonable relative to value - Lowest-cost not required	Sufficient liquidity to meet participant and plan needs	- Timely and accurate - Independent	- Right comparator - Reflects risk and strategy	- Understand or delegate - Implemented correctly
Active public markets: meet every criterion	✓	✓	✓	✓	✓	✓

ADDITIONAL CONSIDERATIONS

Selecting Investment Options & Managers

- Return potential for given risk over appropriate time horizon
- Diversification benefits with active + passive
- Governance considerations for additional liquidity, valuation or complexity concerns with private vehicles
- Ability to clearly communicate investment options to participants

Retaining or Replacing Managers

- Given long-term nature of retirement plans, often prudent to give greater weight to long-term performance
- Watch for process or philosophy drift
- Act when investment option is not serving its intended role in the plan lineup

Cycle Considerations

- Downside capture
- Should reflect participant outcome risk, not just volatility

Implications for investment menu design:

The rulemaking is asset-neutral and reinforces decisions should be made on a multi-factor basis. Fit for purpose matters, as does the focus on participant outcomes.

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