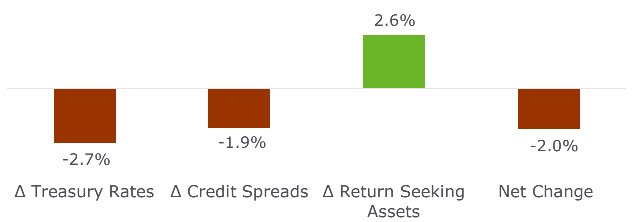
NEPC PENSION FUNDED STATUS MONITOR

JULY 2020

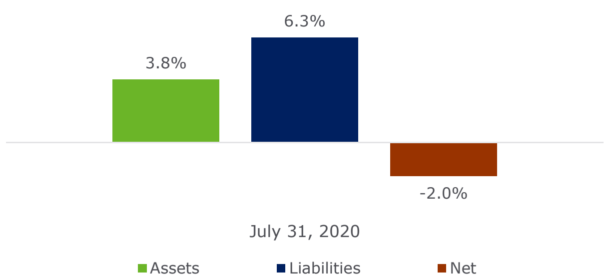
The typical corporate pension plan experienced a decrease in funded status in July, with plans that hedge interest-rate risk faring better than total-return plans. The funded status for a typical total-return plan declined by 2.0%, while an LDI-focused plan saw a modest increase of 0.5%, based on NEPC's hypothetical open- and frozen-pension plans. Gains were driven primarily by the continuing rally in equities, mitigated by increases in liabilities as Treasury rates and credit spreads declined.

HYPOTHETICAL OPEN/TOTAL-RETURN PLAN

Funded Status Attribution

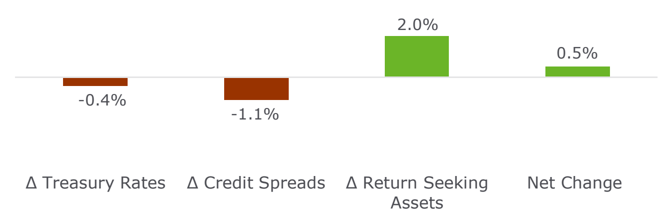


The funded status of the total-return plan dropped by 2.0%, as investment gains were offset by losses fueled by lower interest rates and contracting credit spreads, leading to an uptick in liabilities.

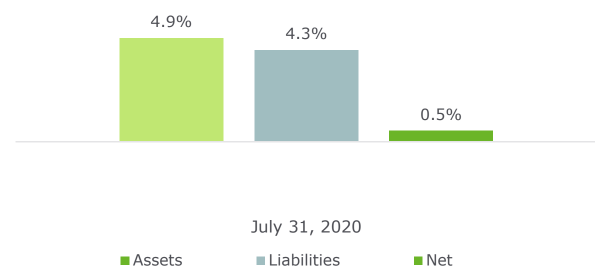


HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

Funded Status Attribution

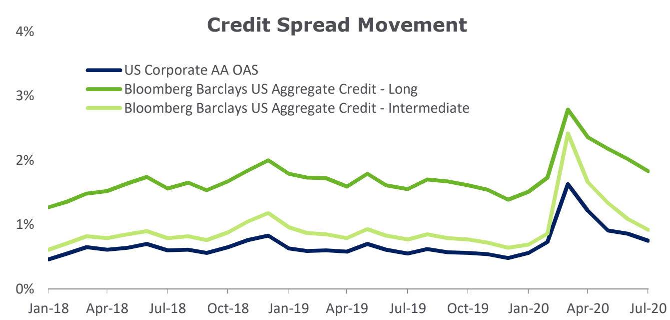


The LDI-focused plan increased by 0.5% in funded status as gains from risk and hedging assets offset the increase in liabilities. The plan is currently 75% hedged, as of July 31.



RATE MOVEMENT COMMENTARY

With the Federal Reserve keeping interest rates near zero, Treasury yields remained at historic lows in July. The Treasury yield curve flattened slighlty, with the 30-year bond falling 21 basis points to 1.20%. Credit spreads continued to contract, down 19 basis points on the long-end of the curve. As a result, the effective discount rate for the open total-return plan and the frozen LDI-focused plan fell by 35 basis points to an estimated 2.45% and 2.17%, respectively, at month end.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **101.5%** of PBO, as of July 31, 2020

RECENT INSIGHTS FROM NEPC

2020 Second Quarter Market Thoughts
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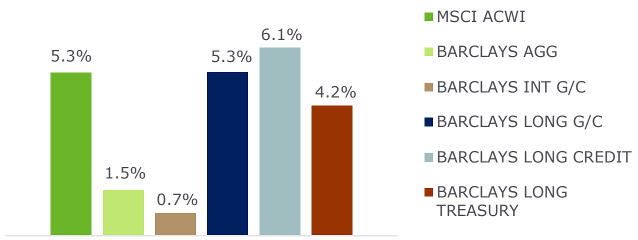
NEPC PENSION FUNDED STATUS MONITOR

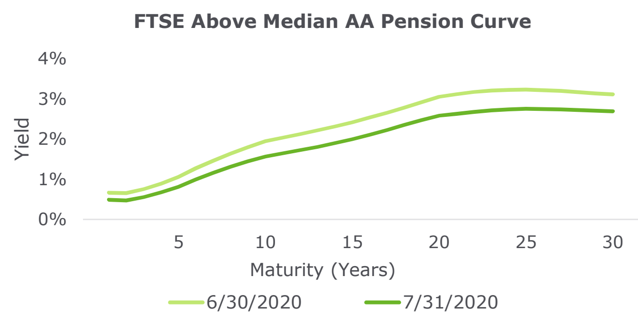
JULY 2020

PLAN SPONSOR CONSIDERATIONS

Risk assets enjoyed another strong month amid optimism around a vaccine for COVID-19, hopes of additional stimulus, and better-than-expected quarterly corporate earnings in the US. Within fixed income, credit spreads contracted further as the Fed remains committed to keeping Treasury rates at near-zero levels. For plan sponsors, debt issuance can be a source of liquidity at low rates, while they wait to see if relief for pension funds will be on the agenda for Congress this year. NEPC maintains its recommendation to rebalance in efforts to preserve plan-hedge ratios and adhere to long-term strategic allocations. We continue to maintain client glidepaths, while proactively advising clients on any market opportunities that may arise.

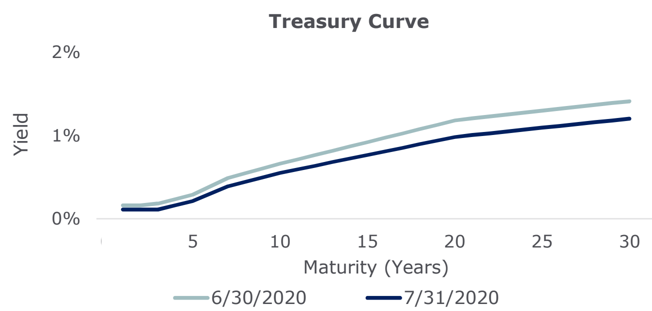
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





Equities continued their march upward with the S&P 500 gaining 5.6% in July. Emerging markets led performance, with returns of 8.9%, driven by a rally in Taiwanese stocks following an announcement that chip maker Intel Corp. may outsource production to Taiwan Semiconductor Manufacturing Company. Developed market stocks, excluding the US, rose 2.3%, according to the MSCI EAFE Index.

In fixed income, interest rates declined in July as the Fed stated its intention to keep rates low through 2021; the yield on the 30-year Treasury fell 21 basis points. The Barclays Long Treasury Index increased 4.2%, while the Barclays Long Credit Index returned 6.1% last month. However, gains from fixed income were offset by corresponding losses from lower discount rates, and a subsequent increase in liabilities.



DISCLOSURES

Liability returns are based on the FTSE Above Median Pension Discount Curve. Liabilities for the two hypothetical plans are based on sample benefit payments of two unique plans, set equal to stable duration targets as of December 31, 2018. The total-return plan reflects an open plan with a 15-year duration, while the LDI-focused plan represents a frozen plan with a 10-year duration. The benefit payments are not rolled forward each month to maintain the duration targets. No future benefit accruals or benefit payments are assumed in order to isolate the performance of plan's liabilities due to changes in interest rates. The funded status of each hypothetical plan was set at 90% funded as of December 31, 2018.

The total-return plan assumes an allocation of 60% global equity, 40% core bonds. The LDI-focused plan assumes an asset allocation of 40% global equity and 30% long credit, 20% long Treasuries, 10% intermediate government/credit, with a greater emphasis on hedging liability duration. Monthly rebalancing is assumed. We do not assume any fees, expenses, benefit payments or contributions are made during the year in order to isolate the impact of market returns on the hypothetical allocations.

NEPC's Retiree Buyout Index is estimated using midpoint annuity purchase rates published by Brentwood Advisors, discounted against the cash flows of a sample retiree population, and compared with the same discounted cashflows using the FTSE Above Median Pension Discount Curve. Actual annuity pricing may vary substantially based on multiple factors.

Asset benchmarks used to measure asset returns are sourced from FactSet: MSCI ACWI Index, Barclays Aggregate Index, Barclays Intermediate Gov/Credit Index, Barclays Long Gov/Credit Index, Barclays Long Credit Index, Barclays Long Treasury Index, Barclays US Aggregate Intermediate Credit spread, Barclays US Aggregate Long Credit spread, and US Corporate AA Option-Adjusted Spread.

Past performance is no guarantee of future results.