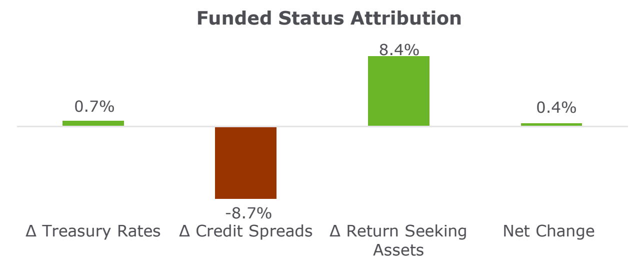
NEPC FUNDED STATUS PENSION MONITOR

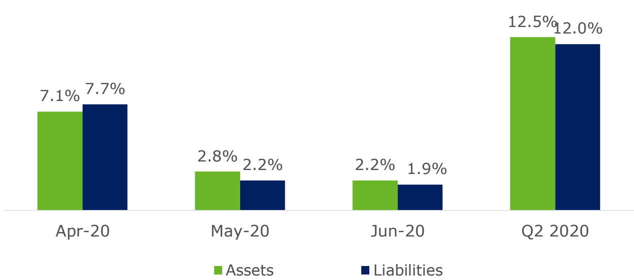
JUNE 30 2020

The funded status of a typical corporate pension plan increased in the second quarter as equities rebounded off of March lows, credit spreads contracted, and Treasury yields were little changed. The funded status of a total-return plan rose by around 0.4%. Funded status posted a bigger jump for plans with higher interest rate hedges, including corporate bonds. The hypothetical NEPC frozen pension plans recorded a 1.3% increase in funded status for the quarter.

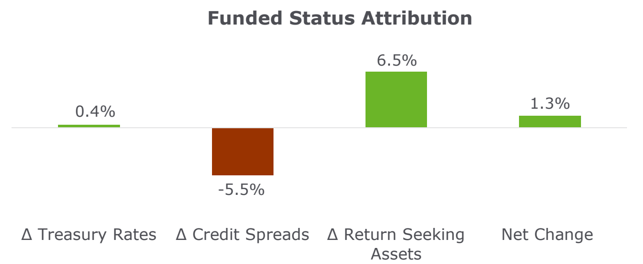
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



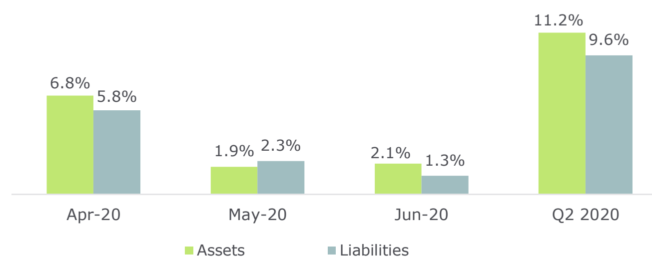
The funded status of a total-return plan fared worse than a hedged plan even as equities rebounded after restrictions related to the COVID-19 outbreak were eased; falling credit spreads fueled a 12% increase in liabilities.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

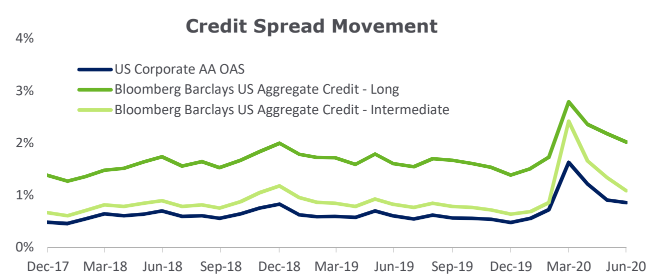


The LDI-focused plan saw less volatility in funded status as its higher credit hedge ratio protected it from contracting credit spreads and subsequent falling discount rates. The plan is 76% hedged, as of June 30.



RATE MOVEMENT

Discount rates for the open total-return plan fell 68 basis points to 2.80% for the three months ending June 30, while the discount rate of the frozen LDI-focused plan decreased 81 basis points to 2.52%, based on corporate bond yields. As a result, valuations for pension liabilities increased 12% from the prior quarter for the total-return plan and 9.6% for the LDI-focused plan. Treasury yields remained relatively level at historic lows, while credit spreads contracted sharply, especially on the short end, from wides seen at the end of March. With long credit spreads contracting 77 basis points, the Barclays Long Credit Index posted quarterly gains of 11.1%, boosting asset returns for plans with a credit-based LDI program.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **105.1%** of PBO, as of June 30.

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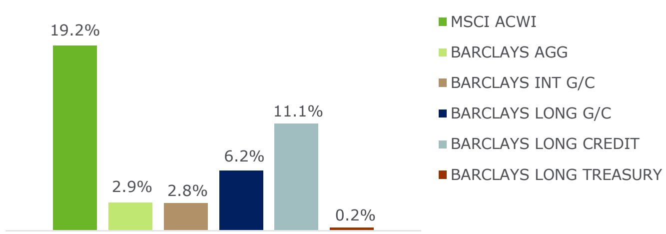
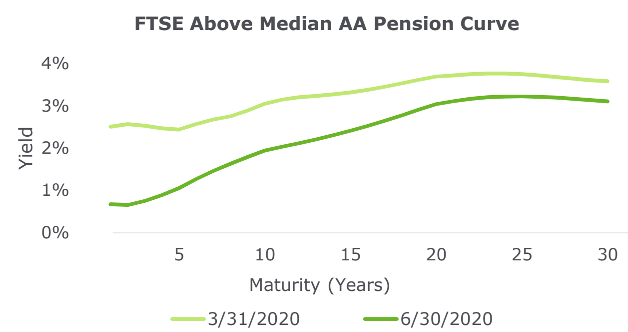
CONSIDERATIONS FOR PLAN SPONSORS

Equities rebounded sharply in the second quarter amid monetary and fiscal support as economies started gradually reopening after the COVID-19 lockdown. Risk assets, including equities and corporate debt, reversed losses from the first quarter, while Treasury rates remained low. For pension plans, the increase in liabilities offset the gains from equities. At NEPC, we continue to believe in hedging the interest-rate volatility in pension plans even at these low rates. Rates may fall further, increasing convexity at these lower rate levels. We anticipate continued volatility in the market and recommend maintaining a long-term focus.

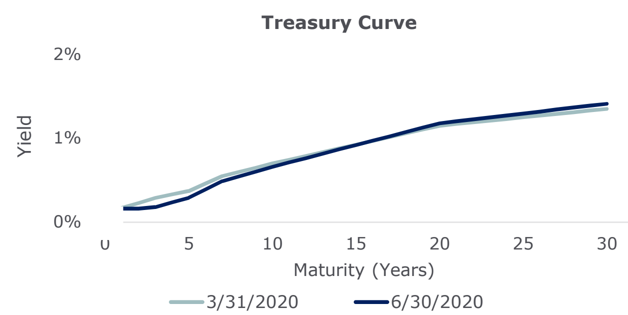
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





Economies rebounded as COVID-19 cases declined in many parts of the world and monetary and fiscal stimuli brought relief to affected individuals, companies and industries. US stocks rallied 20.5% in the second quarter, while international developed and emerging market equities gained 14.1% and 18.9%, respectively, during the same period; the MSCI ACWI increased 19.2%.

Treasuries stood mostly unchanged, hovering around historic lows, steepening slightly over the quarter, with long Treasuries returning 0.2% in the second quarter, according to the Barclays Long Treasury Index. AA corporate spreads contracted sharply from recent wides, falling 103 basis points at the intermediate part of the curve and 77 basis points on the long end; long credit gained 11.1% over the quarter, recouping losses from the first quarter.



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 Govt/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 compare 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.

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