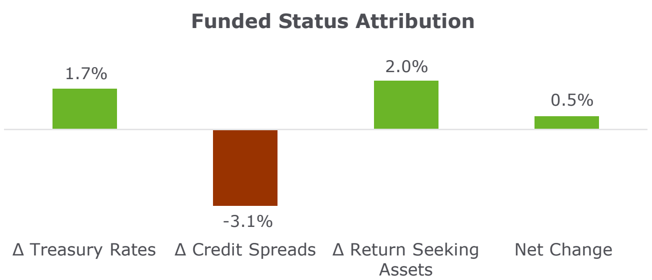
NEPC PENSION FUNDED STATUS MONITOR

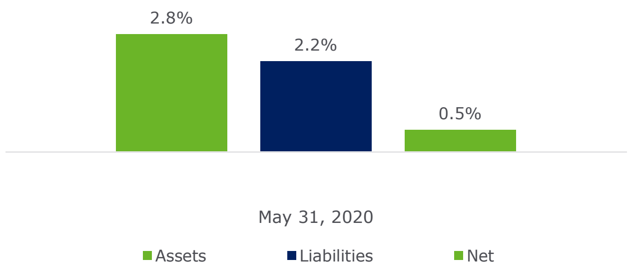
MAY 2020

The funded status of a corporate pension plans experienced marginal change during May. Gains were driven primarily by continued recovery in equity markets, as liabilities faced the negative impact of compressing credit spreads. The funded status for a typical total-return plan increased 0.5%, while an LDI-focused plan saw a decline of 0.4%, based on NEPC's hypothetical open- and frozen-pension plans.

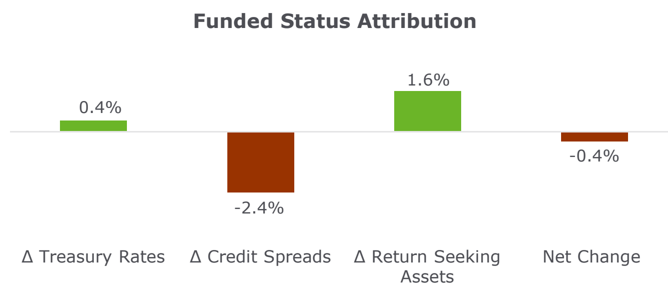
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



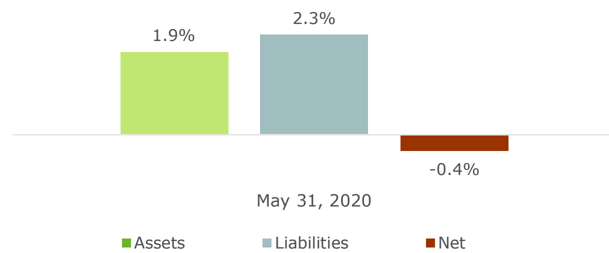
The funded status of the total-return plan increased by 0.5%, buoyed by the rebound in equities; however, gains were muted by increases in liabilities.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

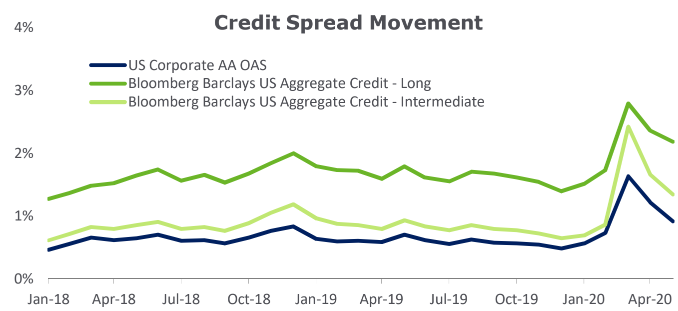


The LDI-focused plan experienced a 0.4% drop in funded status as gains from risk assets were unable to offset an increase in liabilities arising from contracting credit spreads. The plan is currently 75% hedged as of May 31.



RATE MOVEMENT COMMENTARY

Although Treasury yields remained low in May, the yield curve showed signs of steepening with the 30-year Treasury increasing 13 basis points to 1.41%, while the 10-year Treasury rose a mere 1 basis point to 0.65%. Credit spreads continued to contract, down 18 basis points on the long end and 32 basis points for securities with intermediate duration. The resulting discount rates were generally lower, depending on the demographics of each plan. The discount rate for the open total-return plan fell 13 basis points to 2.91% on May 31, while the discount rate of the frozen LDI-focused plan decreased 20 basis points to end the month at 2.63%. This resulted in an increase to each plan's liabilities of 2.2% and 2.3% for total-return and LDI-focused plans, respectively.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **103.8%** of PBO, as of May 31, 2020

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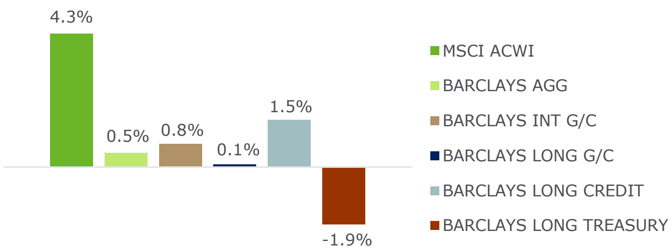
NEPC PENSION FUNDED STATUS MONITOR

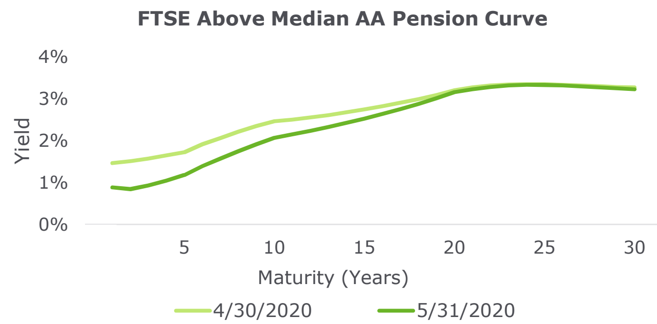
MAY 2020

PLAN SPONSOR CONSIDERATIONS

Equities continued to recover in May as many economies around the world, including the US, began to slowly reopen. Credit spreads contracted on the short end of the curve, while moving modestly lower on the long end. Plan contributions are delayed and funding relief is expected at some point. NEPC maintains its recommendation to rebalance in efforts to preserve plan-hedge ratios and long-term strategic allocations. We are revisiting client glidepaths in the wake of low Treasury rates, while proactively advising clients on any market opportunities that may arise.

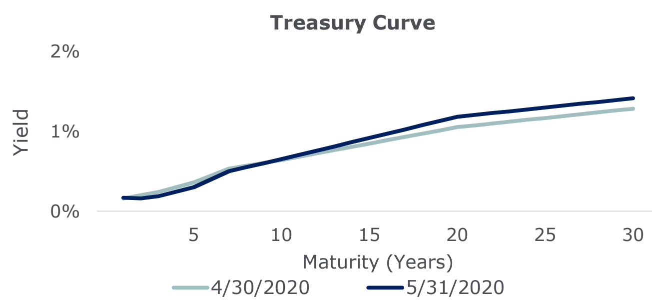
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





Within equities, the S&P 500 gained 4.8% in May, while non-US developed market stocks increased 4.4% during the same period. Emerging market equities lagged, returning 0.8% last month. The MSCI ACWI Index was up 4.3% in May.

Treasuries, which have been hovering around historic lows, saw some steepening with the long-end increasing 13 basis points last month. The Barclays Long Treasury Index was in the red with returns of -1.9% in May. Meanwhile, tightening in long and intermediate credit spreads, by 18 and 32 basis points, respectively, offset losses posted by Treasuries, leading to moderate gains for the month.



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.

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