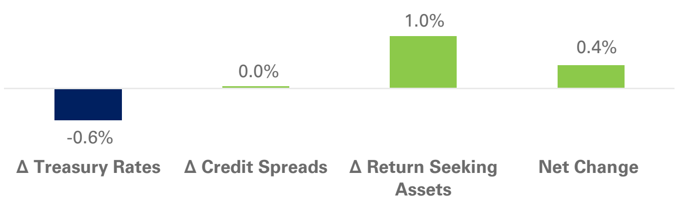
NEPC PENSION MONITOR

MAY 2021

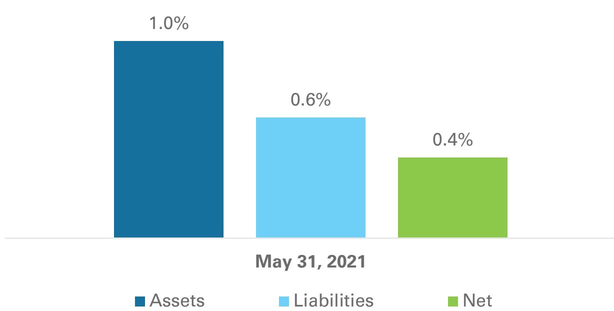
Corporate pension plans likely saw a modest improvement in funded status in May, driven by continuing gains in equity markets and moderate declines in Treasury rates and credit spreads. Total-return plans with higher equity allocations may have outpaced LDI-focused plans, depending on the plan liability duration. Based on NEPC's hypothetical open- and frozen-pension plans, the funded status of the total-return plan increased by 0.4%, while the LDI-focused plan rose 0.6%.

HYPOTHETICAL OPEN/TOTAL-RETURN PLAN

Funded Status Attribution

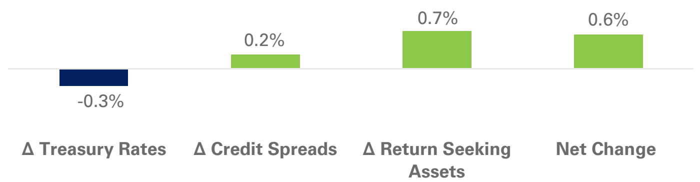


The funded status of the total-return plan rose 0.4% as strong equity performance continues to drive funded status upwards.

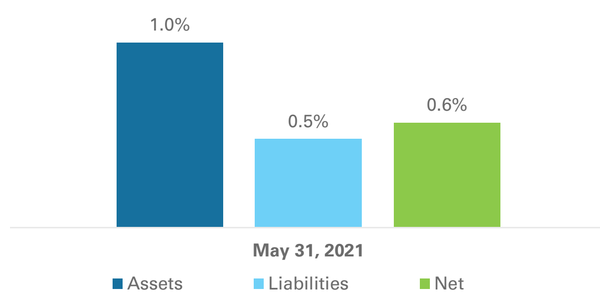


HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

Funded Status Attribution



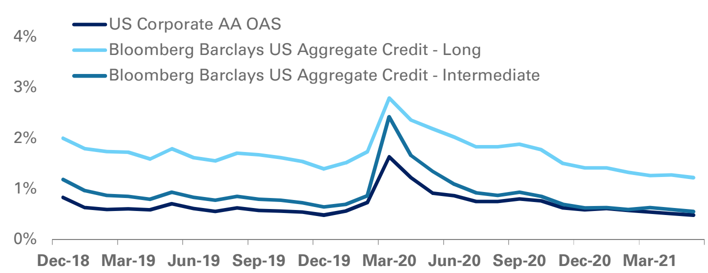
The funded status of the LDI-focused plan was up 0.6%, as gains from equities and credit exceeded liability growth. The plan is 88% hedged as of May 31.



RATE MOVEMENT COMMENTARY

Treasury yields fell modestly in May, with the biggest movements of seven basis points occurring at the five- and 10-year points. The 10-year Treasury fell to 1.58% while the 30-year Treasury fell by four basis points to 2.26%. Credit spreads edged tighter, and are hovering around their tightest levels in decades. The effect on pension discount rates was a four-basis point decrease in the rates used for NEPC's hypothetical pension plans, with the open total-return plan ending the month at 3.1% and the frozen LDI-focused plan landing at 2.83%. This slight drop in discount rates pushed estimated liabilities higher by 0.6% and 0.5%, respectively, for the total-return and LDI-focused plans.

Credit Spread Movement



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately 102.5% of PBO, as of May 31, 2021

RECENT INSIGHTS FROM NEPC

NEPC Market Outlook: Should Investors Be Bracing For a Tidal Wave of Inflation?
Click here to read

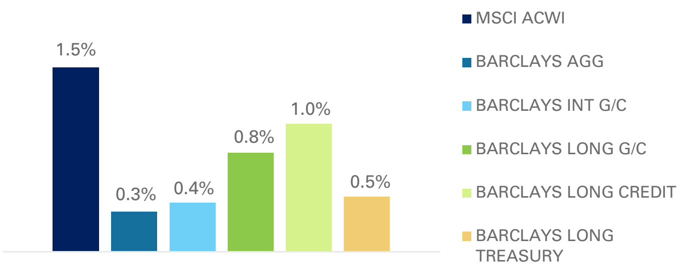
NEPC PENSION MONITOR

MAY 2021

PLAN SPONSOR CONSIDERATIONS

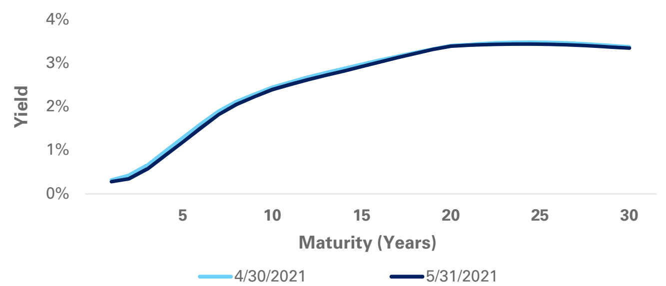
Equity markets continued their steady march upward amid an uptick in economic activity fueled by continuing **COVID-19** vaccinations and easing of restrictions related to the pandemic, and increased consumer spending bolstered by **federal stimulus programs.** The Treasury curve fell modestly in May, continuing its retreat from March 2021 highs. We are keeping our eye on legislation that may increase the corporate tax rate, affecting tax-deductible pension contributions. Despite fears of rising inflation, NEPC maintains its recommendation to adhere to plan hedge ratios and long-term strategic target allocations.

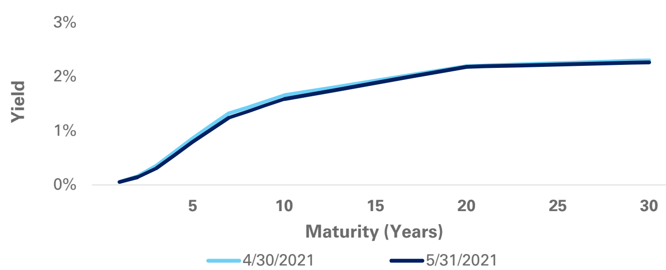
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT



Equity markets pushed higher amid bouts of volatility, with the S&P 500 increasing 0.7% in May. During the same period, the EAFE Index earned 3.3%, emerging market equities were up 2.3%, and the MSCI ACWI Index gained 1.5%.

Increasing demand resulted in a moderate decline in the Treasury curve in both the 10- and 30-year tenors, with the 30-year Treasury yield decreasing seven basis points in May, resulting in returns of 0.5% for the Barclays Long Treasury Index. Meanwhile, credit spreads tightened, leading to gains of 1% for the Barclays Long Credit Index last 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.