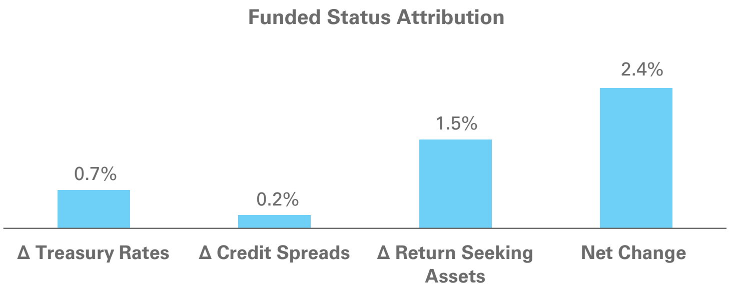
NEPC PENSION MONITOR

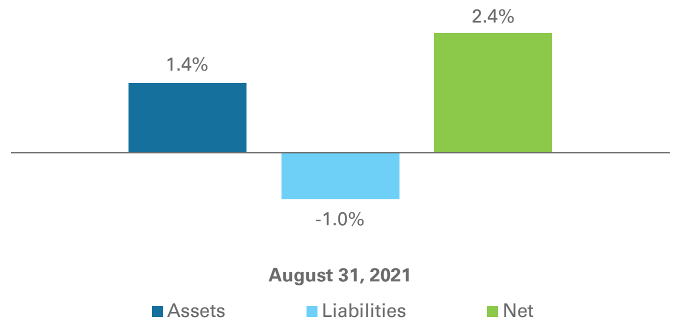
AUGUST 2021

In August, corporate pension plans likely experienced gains in funded status as interest rates improved marginally and equity performance was broadly positive. Rising rates led to lower estimated liabilities and negative performance for fixed-income mandates. Total-return plans with larger equity allocations likely experienced greater improvement in funded status relative to LDI peers. Based on NEPC's hypothetical open- and frozen-pension plans, the funded status of the total-return plan improved 2.4%, while the LDI-focused plan improved 1.7% last month.

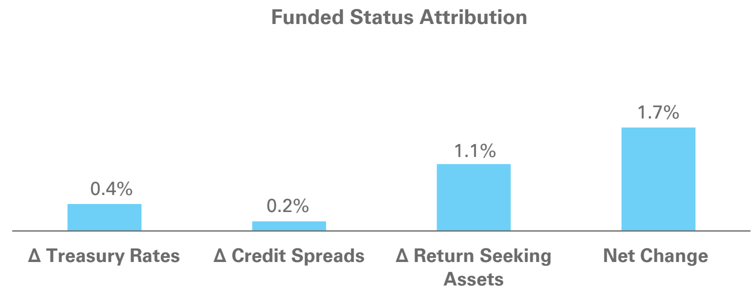
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



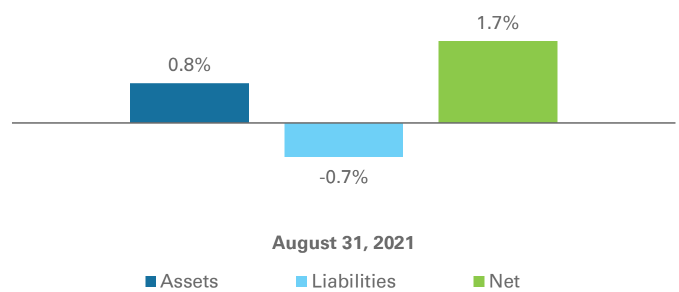
The funded status of the total-return plan improved 2.4% as gains increased asset values and rising interest rates lowered liabilities.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN



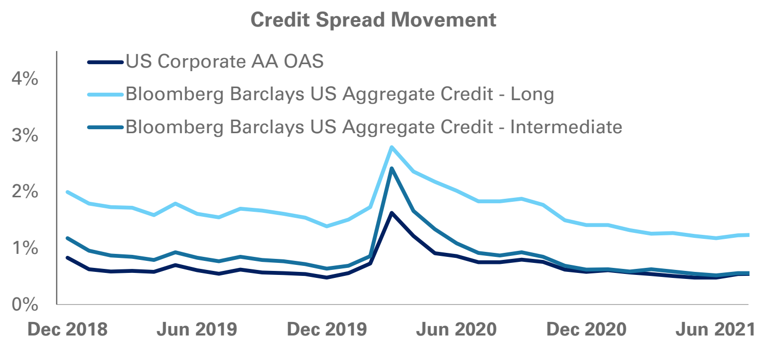
The funded status of the LDI-focused plan improved 1.7%, also benefitting from market dynamics. Liability hedging muted some of the gains from rising Treasury rates. The plan is 87% hedged as of August 31.



RATE MOVEMENT COMMENTARY

The Treasury curve rose in August with the 10-year Treasury up six basis points to 1.30% and the 30-year up three basis points to 1.92%. Credit spreads came in slightly during the month and remain near record tight levels.

These movements resulted in higher effective pension discount rates used for NEPC's hypothetical pension plans, each gaining six basis points. This resulted in effective discount rates of 2.77% and 2.55% for the open total-return plan and the frozen LDI-focused plan, respectively.



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately 103.0% of PBO, as of August 31, 2021

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Taking Stock: One Corporate Plan's Journey of Terminating Its Pension (Part 3)
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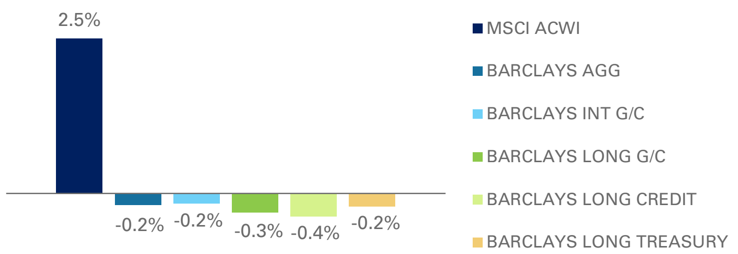
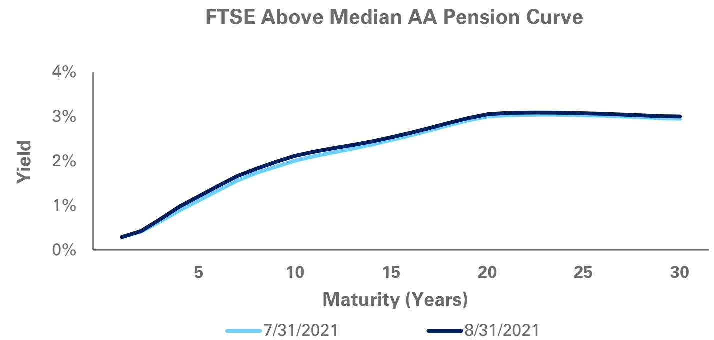
PLAN SPONSOR CONSIDERATIONS

The Federal Reserve signaled a tapering of bond purchases later this year, while an increase in the Fed Funds short-term rate is still expected in the later half of 2022. August saw a favorable environment for pensions sponsors, as both equity markets and interest rates rose. Plan sponsors should closely track their Plan's funded status for LDI glide path trigger de-risking. All investors should also consider rebalancing as a risk management tool. NEPC maintains its recommendation to adhere to plan hedge ratios and long-term strategic target allocations.

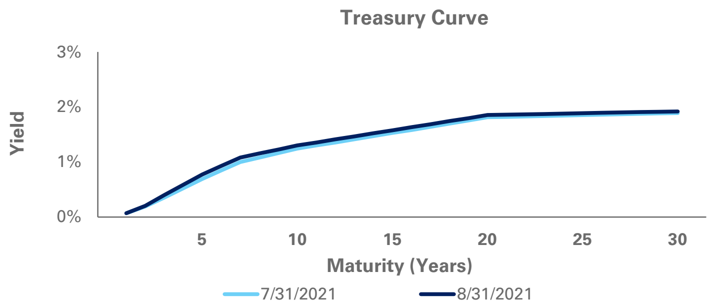
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





Equity markets were broadly positive during the month, with the S&P 500 leading the way, up 3.0% in August, benefitting from a strengthening dollar. Internationally developed markets were up 1.8% and emerging markets equities were up 2.6% as noted by the MSCI EAFE and MSCI EM indexes, respectively. Globally, the MSCI ACWI Index gained 2.5% last month.

Within fixed income, the Treasury curve marginally rose with the 10- and 30-year tenors up six and three basis points, respectively, and credit spreads were modestly lower during the month. This resulted in moderately negative returns with the Barclays Long Treasury Index down 0.2% and the Barclays Long Credit Index losing 0.4% in August.



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.