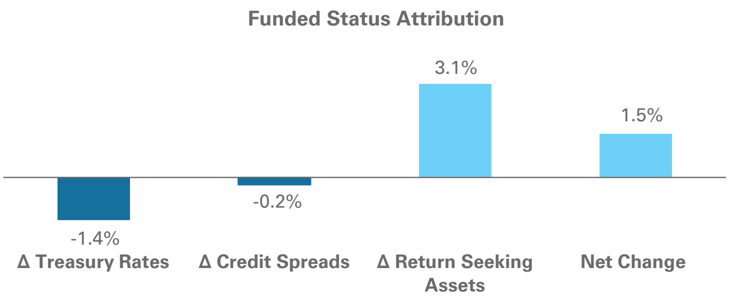
NEPC PENSION MONITOR

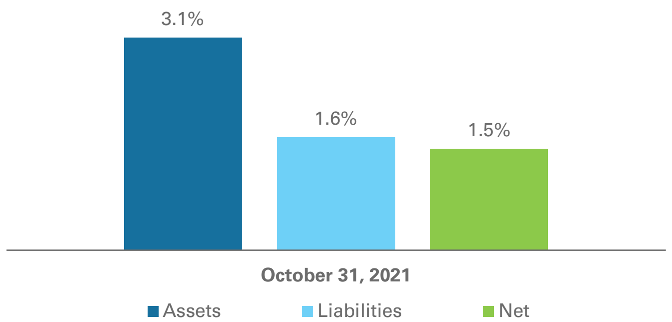
OCTOBER 2021

Corporate pension plans likely experienced gains in funded status in October as equities rebounded from a challenging September. Interest rates rose marginally in the middle of the yield curve, but fell at the long end, leading to a flatter profile and mixed results for fixed-income mandates. Total-return plans with larger equity allocations, and more intermediate-duration fixed income likely experienced a smaller improvement in funded status relative to LDI-focused peers holding longer-duration assets. Based on NEPC's hypothetical open- and frozen-pension plans, the funded status of the total-return plan increased 1.5%, while the LDI-focused plan improved 2.5% last month.

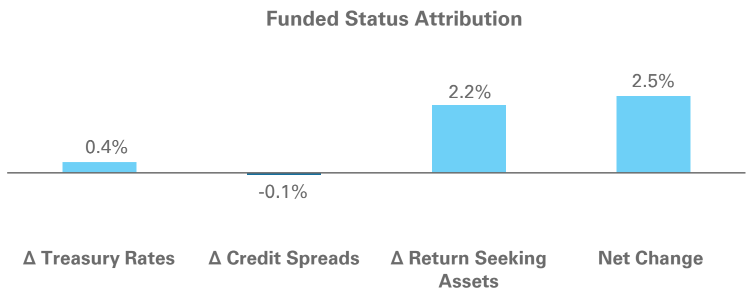
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



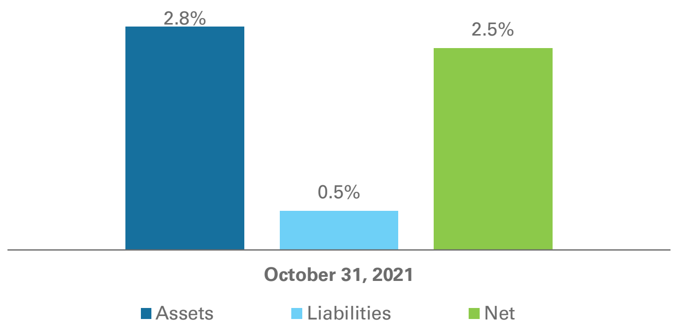
The funded status of the total-return plan improved 1.5% as equity market gains outpaced increasing liabilities.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN



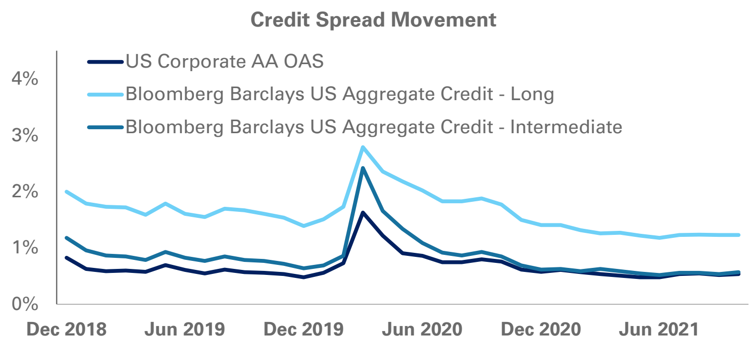
The funded status of the LDI-focused plan improved 2.5%, also benefitting from equity market strength and gains from long-duration bonds. The plan is 87% hedged as of October 31.



RATE MOVEMENT COMMENTARY

The Treasury curve flattened in October, with the 10-year note increasing three basis points to 1.55%, and the 30-year Treasury bond falling 15 basis points to 1.93%. The yield curve became inverted between the 20- and 30-year points of the curve. Credit spreads remained at extremely tight levels, with the intermediate credit spread widening modestly.

These movements at the long-end of the Treasury curve resulted in lower effective pension discount rates used for NEPC's hypothetical pension plans. The resulting discount rates for the open total-return plan fell nine basis points to 2.82%, while the rate for the frozen LDI-focused plan dropped four basis points to 2.65%.



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately **103.2%** of PBO, as of October 31, 2021

RECENT INSIGHTS FROM NEPC

NEPC's Defined Benefit Plan Survey: Past Decade Saw Pensions Increase LDI Allocations, Funded Status Improve Dramatically

Click here to read

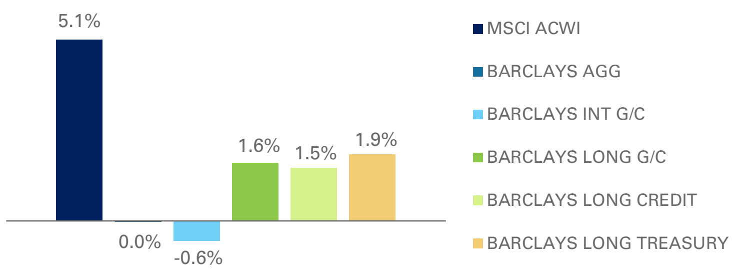
NEPC PENSION MONITOR

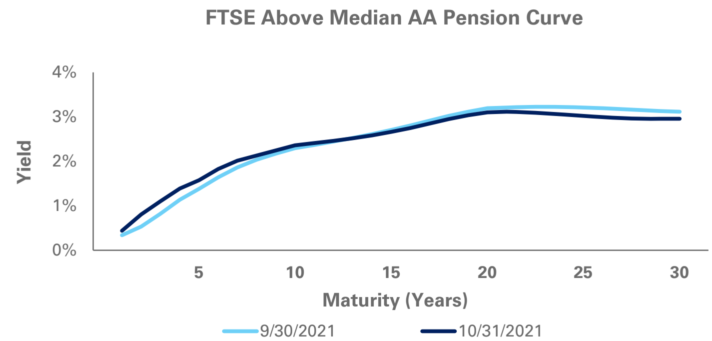
OCTOBER 2021

PLAN SPONSOR CONSIDERATIONS

The Federal Reserve signaled a tapering of bond purchases later this year, and the market is pricing in two rate hikes in the Fed Funds rate in 2022. The Infrastructure and Build Back Better bills remain in negotiations in Congress, with an extension in funding relief still possible. October provided a positive environment for pensions sponsors, as both equity markets and long-duration fixed income had positive returns. All investors should consider rebalancing as a risk management tool. With rates showing more volatility, plan sponsors should track their plan's funded status to maintain desired hedge ratios and monitor LDI glide path triggers. NEPC maintains its recommendation to adhere to plan hedge ratios and long-term strategic target allocations.

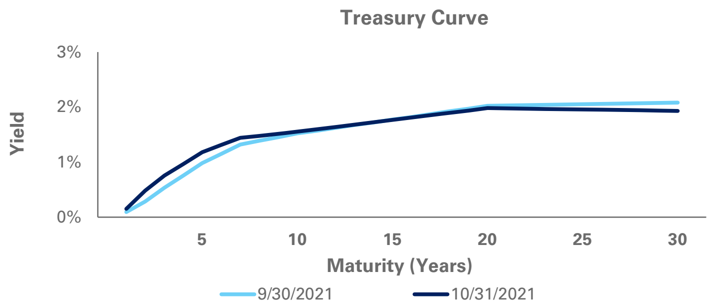
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





Equities rebounded after a tough September, with the S&P 500 Index leading the way with gains of 7% in October. International developed markets returned 2.5% and emerging markets equities were up 1%, according to the MSCI EAFE and MSCI EM indexes, respectively. Globally, the MSCI ACWI Index rose 5.1% last month.

Within fixed income, the Treasury curve flattened and inverted between the 20- and 30-year points, with the 20- and 30-year tenors falling four basis points and 15 basis points, respectively, while the 10-year Treasury rose three basis points. Intermediate credit spreads were modestly higher during the month while long credit spreads remained flat. This resulted in positive returns for long-duration fixed income, with the Barclays Long Treasury Index returning 1.9% and the Barclays Long Credit Index rising 1.5% in October.



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.