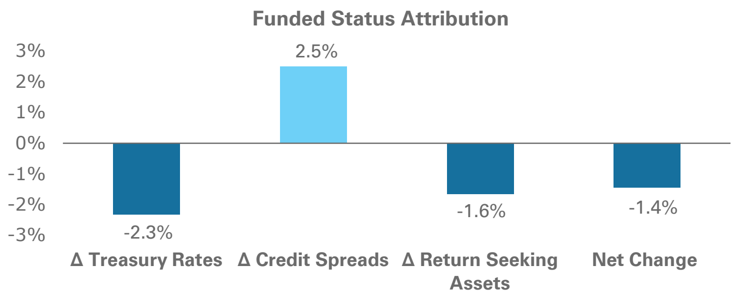
NEPC PENSION MONITOR

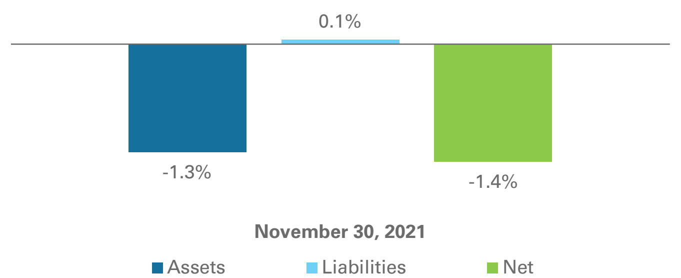
NOVEMBER 2021

Corporate pension plans likely experienced declines in funded status in November as equities fell towards the ends of the month amid fears of persistent inflation and the new Omicron variant. Interest rates dipped and flattened across the curve while credit spreads widened, resulting in positive returns for fixed-income mandates. Total-return plans with larger equity allocations and higher liability durations likely experienced a smaller improvement in funded status relative to LDI-focused peers holding more long-dated bonds. Based on NEPC's hypothetical open- and frozen-pension plans, the funded status of the total-return plan decreased 1.4%, while the LDI-focused plan declined 0.3% during the month.

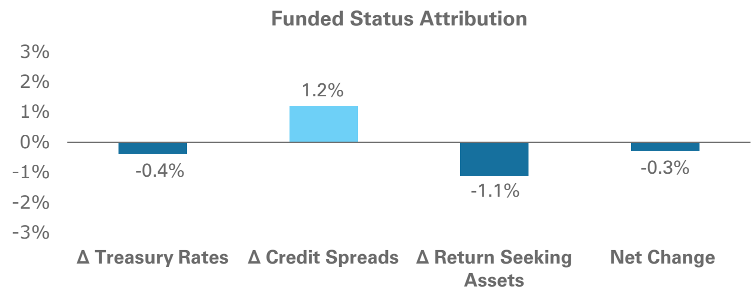
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



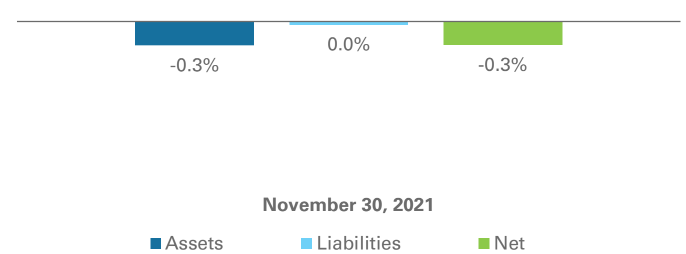
The funded status of the total-return plan fell 1.4% as depressed equity values and increasing liability valuations offset gains from wider credit spreads.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN



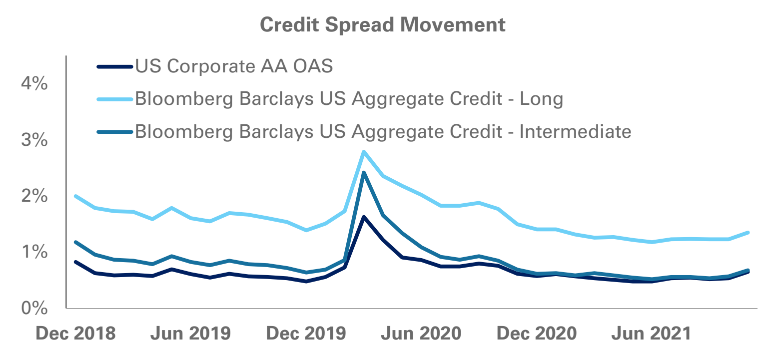
The funded status of the LDI-focused plan declined 0.3%, with gains from long-duration bonds offsetting losses in the equity market. The plan is 87% hedged as of November 30.



RATE MOVEMENT COMMENTARY

The Treasury curve fell and continued to flatten in November, with the 10-year note falling 12 basis points to 1.43%, and the 30-year Treasury bond down 15 basis points to 1.78%. The yield curve remains inverted between the 20- and 30-year points of the curve. Credit spreads widened off extremely tight levels, with the intermediate- and long-credit spreads widening 12 basis points and 13 basis points, respectively.

The drop in Treasury rates was offset by widening credit spreads, resulting in no change to the effective pension discount rates used for NEPC's hypothetical pension plans. The discount rate for the open total-return plan remained at 2.82%, and the rate for the frozen LDI-focused plan stayed level at 2.65%.



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately **103.7%** of PBO, as of November 30, 2021

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Taking Stock: Private Credit Stakes Its Claim In Portfolios
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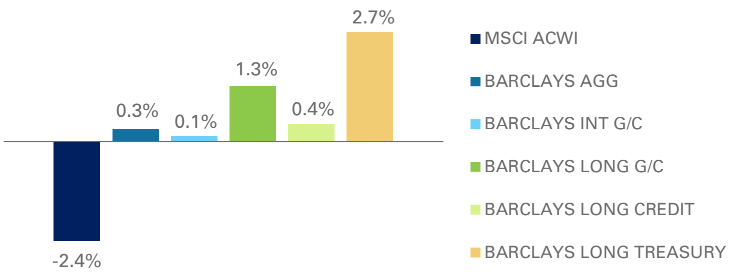
NEPC PENSION MONITOR

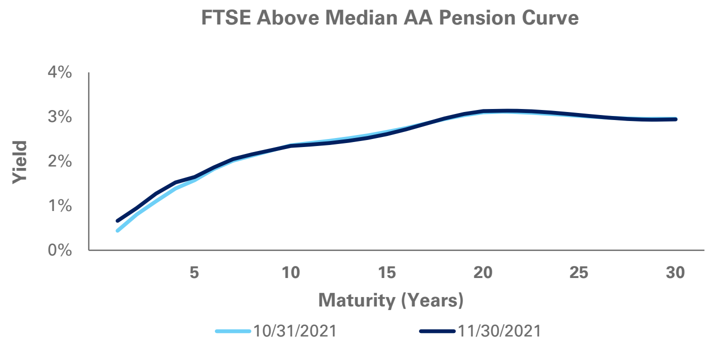
NOVEMBER 2021

PLAN SPONSOR CONSIDERATIONS

The Federal Reserve signaled that inflation could linger longer than anticipated, opening the door to the likelihood that tapering of bond purchases and increasing interest rates may occur sooner than originally anticipated. The Infrastructure Investment and Jobs Act was signed into law this month and, with it, an extension of the stabilized interest rates for pension funding calculations through 2031, which serves to lower required contributions for corporate pension plans. November provided mixed returns for pensions sponsors as equity markets fell, but long-duration fixed income posted gains. All investors should consider rebalancing as a risk management tool. With higher volatility in rates and equities, plan sponsors should remain diligent about maintaining hedge ratio ranges and monitoring LDI glide path triggers.

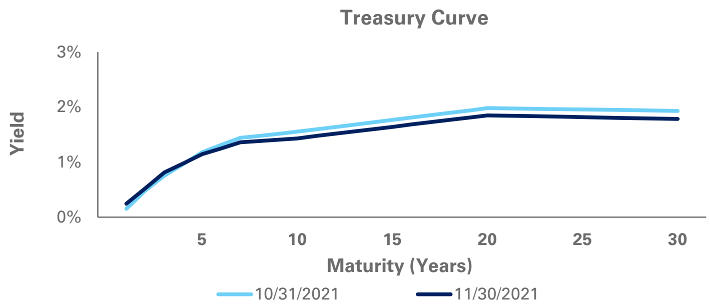
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





U.S. equities sold off at the end of the month, with the S&P 500 Index down 0.7% in November. During the same period, international developed markets fell 4.7%, while emerging markets equities lost 4.1%, according to the MSCI EAFE and MSCI EM indexes, respectively. Globally, the MSCI ACWI Index posted losses of 2.4% in November.

The Treasury curve fell and continued to flatten, and remains inverted between the 20- and 30-year points. The 20- and 30-year tenors dropped 13 basis points and 15 basis points, respectively, while the 10-year Treasury fell 12 basis points. Credit spreads widened in November, mostly offsetting the drop in interest rates. Long-duration fixed income posted gains, with the Barclays Long Treasury Index up 2.7% in November, while the Barclays Long Credit Index eked out a modest return of 0.4% in the same period.



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.