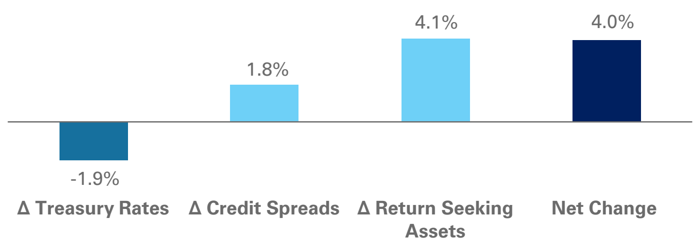
NEPC PENSION MONITOR

FOURTH QUARTER 2021

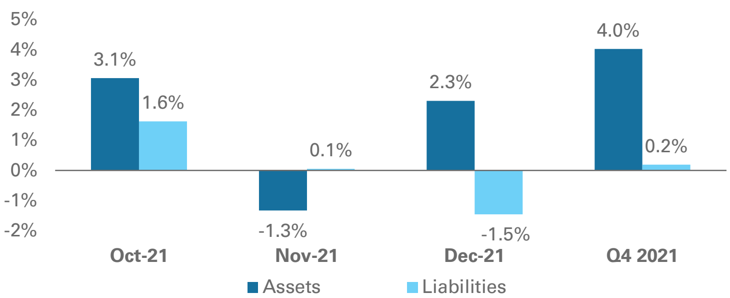
The funded status of most U.S. corporate pension plans increased in the fourth quarter, driven by strong asset class returns. With Treasury yields flattening and credit spreads inching higher, estimated plan liabilities based on long-duration fixed-income yields remained stable in the three months ended December 31. The equity market continued to see some spikes in volatility while continuing its march upwards. During the fourth quarter, the funded status of a total-return plan increased 4% and the LDI-focused plan funded status rose 4.5%.

HYPOTHETICAL OPEN/TOTAL-RETURN PLAN

Funded Status Attribution

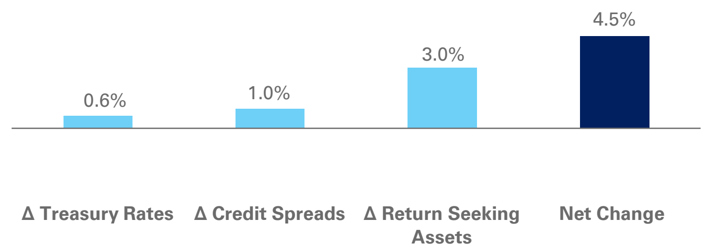


The funded status of the total-return plan increased in the fourth quarter as equity markets marched upwards and the yield curve flattened.

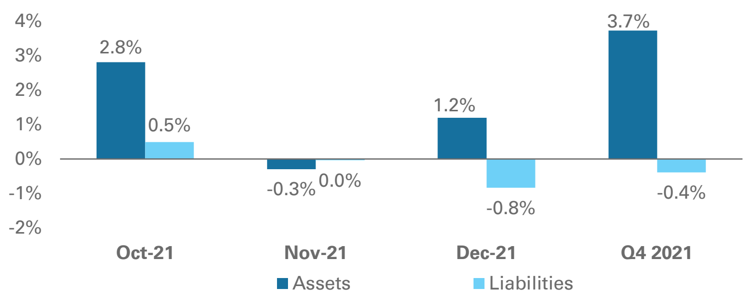


HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

Funded Status Attribution



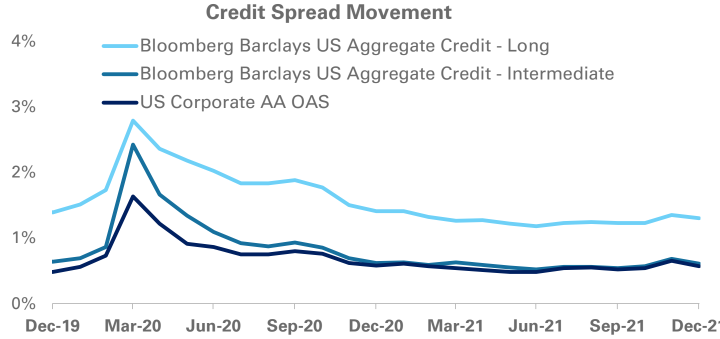
The LDI-focused plan saw an increase in funded status in the fourth quarter as long rates fell and equities increased at quarter end. The plan is 89% hedged as of December 31.



RATE MOVEMENT

Treasury rates flattened in the fourth quarter, with the 30-year Treasury retreating 18 basis points to 1.90%, and the two-year yield rising 45 basis points to 0.73% as of December 31. Long-credit spreads widened seven basis points in the final three months of the year to 1.30% but remain low compared to historical averages. These factors led to relatively flat discount rates for the quarter, with the rate for the open total-return plan falling just one basis point to 2.90% and the discount rate for the frozen LDI-focused plan increasing three basis points to 2.72% as of December 31.

Credit Spread Movement



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **104.2%** of PBO as of December 31, 2021.

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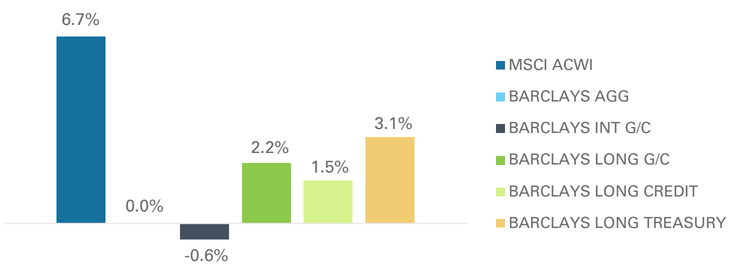
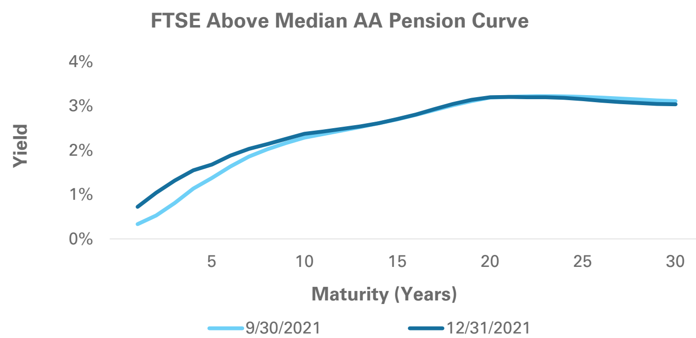
FOURTH QUARTER 2021

CONSIDERATIONS FOR PLAN SPONSORS

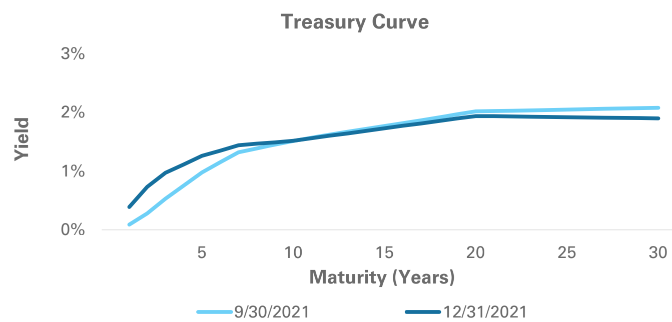
Fears of inflation and the new Omicron variant of the Coronavirus rattled markets in the fourth quarter, while ratcheting up volatility in equity and fixed-income markets. The Build Back Better bill failed to pass in the Senate, but a slimmed down version is still likely in 2022, with the potential for increased corporate taxes. The possibility of higher deductions, along with the new funding rates passed in ARPA and the Infrastructure bill, creates an incentive to delay pension plan contributions. For plan sponsors grappling with competing objectives and concerns around inflation, please reach out to your NEPC consultant to discuss the pros and cons of various approaches to derisking strategies.

MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





After pulling back in November, U.S. equities ended the year with a bang with the S&P 500 Index gaining 11% in the fourth quarter. The MSCI ACWI Index was up 4% last month and earned 6.7% for the three months ended December 31. Emerging market equities recovered 1.9% in December but ended the quarter in the red with losses of 1.3%.



Treasury yields experienced increased volatility for most of the quarter but the curve ultimately flattened by year end, with yields ending 18 basis points lower at the 30-year tenor, resulting in a gain of 3.1% in the fourth quarter, according to the Barclays Long Treasury Index. Corporate spreads widened over the quarter, rising seven basis points on the long end, fueling smaller gains of 1.5% in long credit, according to the Barclays Long Credit Index. Meanwhile, the short end of the Treasury curve increased 45 basis points signaling higher inflation, and producing losses for shorter-duration fixed income.

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 Govt/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 compare 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.