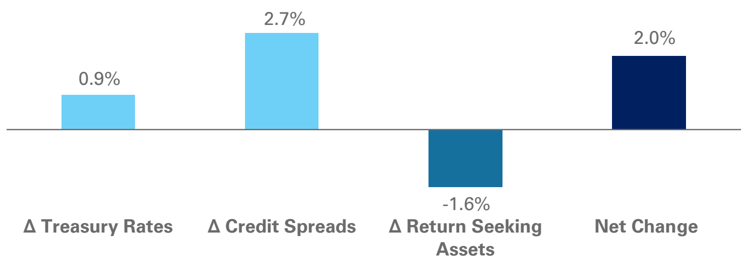
NEPC PENSION MONITOR

FEBRUARY 2022

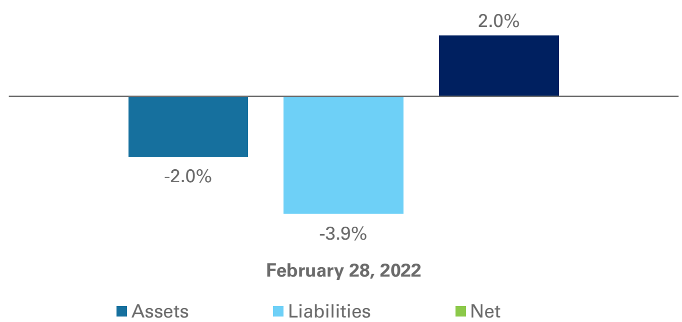
Corporate pension plans posted moderately positive results in February despite market turmoil fueled by Russia's invasion of Ukraine and speculation around the number of rate hikes by the Federal Reserve to fight inflation. Interest rates inched up while spreads widened significantly back to median levels, increasing pension discount rates and lowering liability valuations. Total-return plans with higher duration liabilities and lower fixed-income allocations may have experienced an increase in funded status compared to LDI-focused peers holding more long-dated bonds. The funded status of the total-return plan was up 2%, while the LDI-focused plan rose 0.2% in February, according to NEPC's hypothetical open- and frozen-pension plans.

HYPOTHETICAL OPEN/TOTAL-RETURN PLAN

Funded Status Attribution

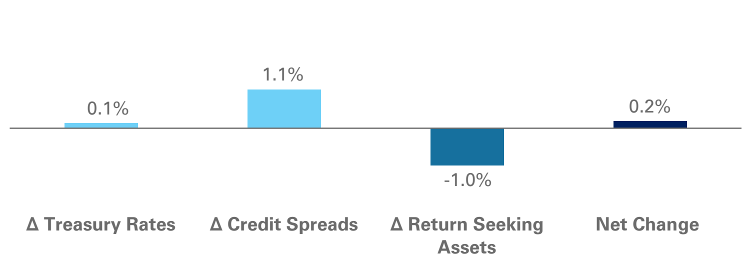


The funded status of the total-return plan increased by 2.0% as equity losses were offset by declining liability values.

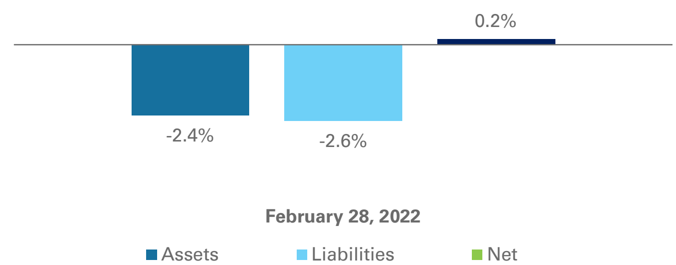


HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

Funded Status Attribution



The funded status of the LDI-focused plan gained 0.2%, with asset losses stemming from both equities and long-duration bonds offset by higher discount rates. The plan is 77% hedged as of February 28.

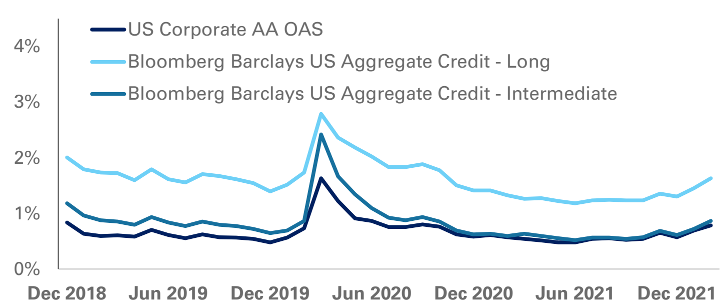


RATE MOVEMENT COMMENTARY

The Treasury curve rose, mostly at the short end and continued to flatten, with the two-year increasing 26 basis points to 1.44%, and the 10-year bond rising four basis points to 1.83%. The yield curve remains inverted between the 20- and 30-year points of the curve. Credit spreads widened meaningfully back to median levels, with the intermediate- and long-credit spreads widening 14 basis points and 18 basis points, respectively.

The uptick in Treasury rates and credit spreads resulted in an increase to the effective pension discount rates used for NEPC's hypothetical pension plans. The discount rate for the open total-return plan rose to 3.46%, while the rate for the frozen LDI-focused plan increased to 3.3%.

Credit Spread Movement



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately **106.1%** of PBO, as of February 28, 2022

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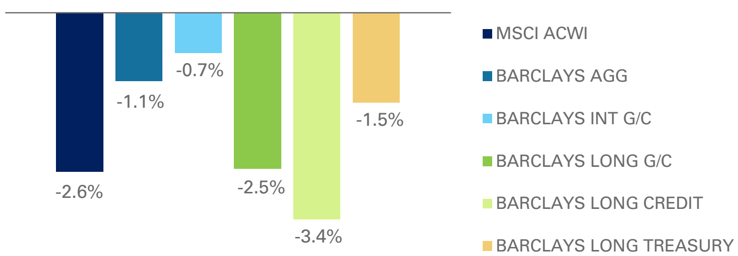
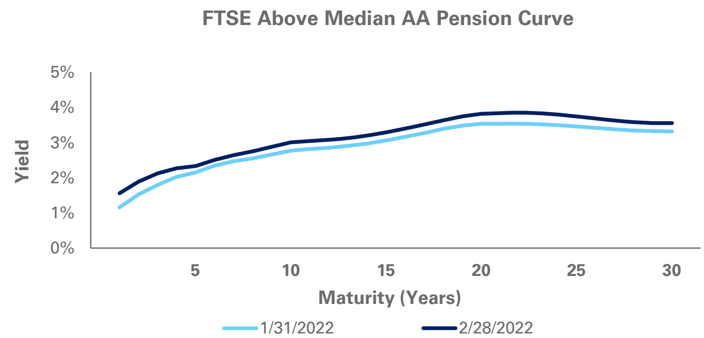
PLAN SPONSOR CONSIDERATIONS

Equities retreated in February amid heightened market volatility. The Treasury yield curve rose and flattened while credit spreads widened back to over median levels, offsetting each other in the funded status of a pension plan. While volatility in the near term may remain elevated, these types of conflicts, historically, do not have a sustained impact on markets – especially given Russia's limited role in the global economy and capital markets. Russia's influence on global energy markets can potentially impact near-term inflation, placing further upward pressure on energy prices in the absence of additional supply. With the expected uptick in interest rates and market volatility, plan sponsors should remain diligent about monitoring hedge ratio ranges and glide path triggers and consider rebalancing as a risk-management tool.

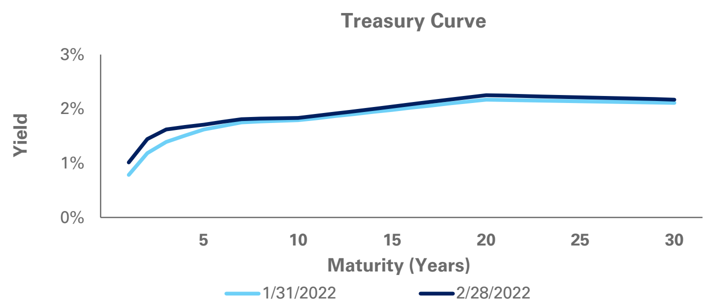
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





U.S. equities experienced a correction in February, with the S&P 500 Index falling 3.0% for the month; international developed markets also continued their march downward as the MSCI EAFE Index dropped 1.8%. Emerging market equities were down 3.0%, according to the MSCI EM Index, with Russia being a relatively small percent of the index. Globally, the MSCI ACWI Index fell 2.6% in February.

The Treasury curve broadly rose and continued to flatten as the short end of the curve saw a sharper increase. Credit spreads also widened meaningfully over the month. This resulted in negative returns for long-duration fixed income, with the Barclays Long Treasury Index dropping 1.5% while the Barclays Long Credit Index lost 3.4% in February.



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 reset at 100% funded as of December 31, 2021.

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.