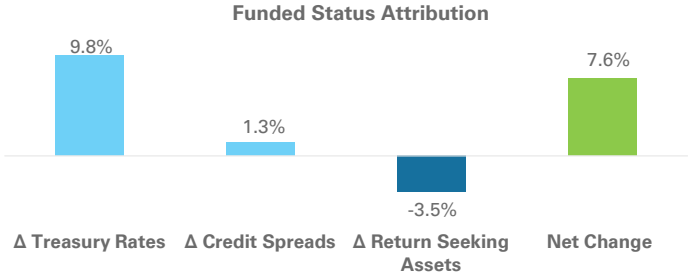
NEPC PENSION MONITOR

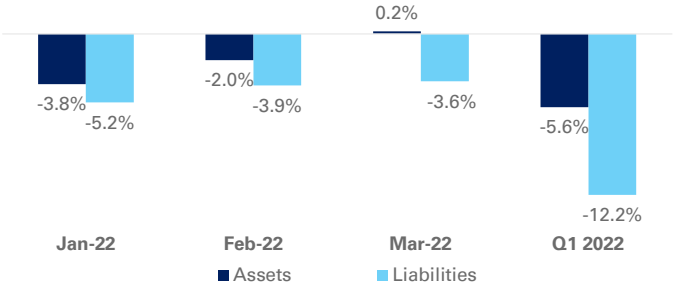
FIRST QUARTER 2022

Despite losses in equities and fixed income, the funded status of most U.S. corporate pension plans rose in the first quarter driven by higher Treasury yields. Concerns around persistent inflation and the war in Ukraine pushed equities into correction territory with losses of over 15%, before a partial recovery in March. In addition, the Federal Reserve began hiking interest rates in the quarter, resulting in an uptick in Treasury yields and credit spreads. As a result, estimated plan liabilities, based on long-duration fixed-income yields, fell in the three months ended March 31. Despite the volatility in the first quarter, the funded status of a total-return plan increased 7.6% and the LDI-focused plan rose 1.2%.

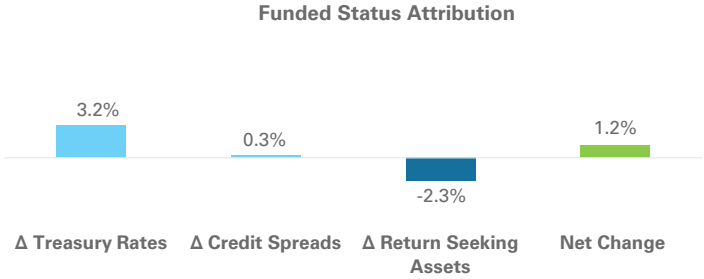
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



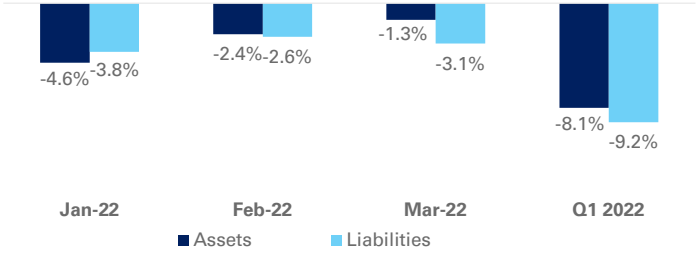
The funded status of the total-return plan increased 7.6% in the first quarter as higher yields and lower liabilities outpaced losses from equities.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

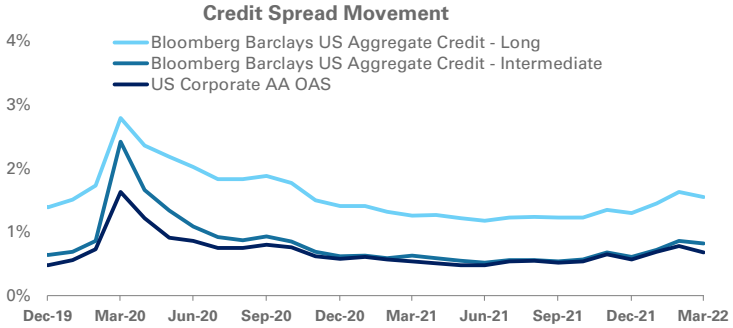


The LDI-focused plan saw funded status gain in the first quarter as interest rates increased and credit spreads widened, offsetting asset losses. The plan is 79% hedged as of March 31.



RATE MOVEMENT

As the Fed raised the Fed Funds rates for the first time since 2018, Treasury rates increased and flattened in the first quarter, with two- and 10-year points inverting at the end of March. The 30-year Treasury rose 54 basis points to 2.44%, and the 10-year yield jumped 80 basis points to 2.32% as of March 31. Long-credit spreads widened 25 basis points in the first three months of the year, ending the quarter close to median levels at 1.55%. This led to higher discount rates for the quarter, with the rate for the open total-return plan jumping 78 basis points to 3.68% and the discount rate for the frozen LDI-focused plan increasing 87 basis points to 3.59% as of March 31.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **104.9%** of PBO as of March 31, 2022.

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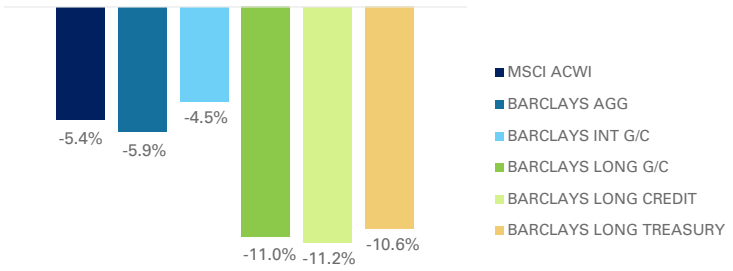
NEPC PENSION MONITOR

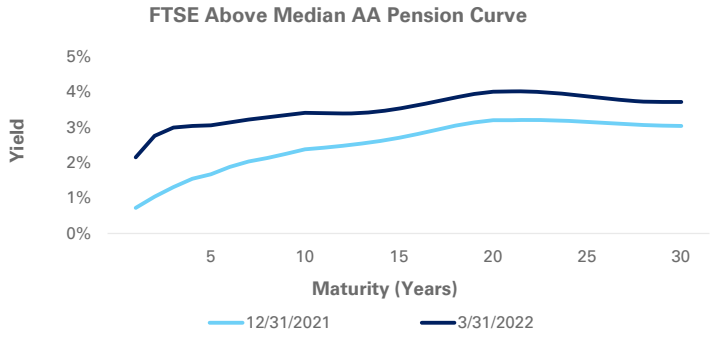
FIRST QUARTER 2022

CONSIDERATIONS FOR PLAN SPONSORS

Concerns over rising inflation and the war in Ukraine triggered a correction in equities in the first two months of the quarter. Markets were somewhat assuaged with the Fed raising the Fed funds rate. Subsequently, equities rallied in March, offsetting some of the losses of the two prior months. Plan sponsors are likely grappling with competing objectives and concerns around inflation as many pension plans are now well funded and also free from contribution requirements and PBGC variable rate premiums. The possibility of higher corporate tax rates (and deductions) in the newly proposed U.S. budget, along with the new funding rates passed in ARPA and the Infrastructure bill, creates an incentive to delay discretionary pension plan contributions. NEPC consultants are available to discuss various pension finance and derisking strategies.

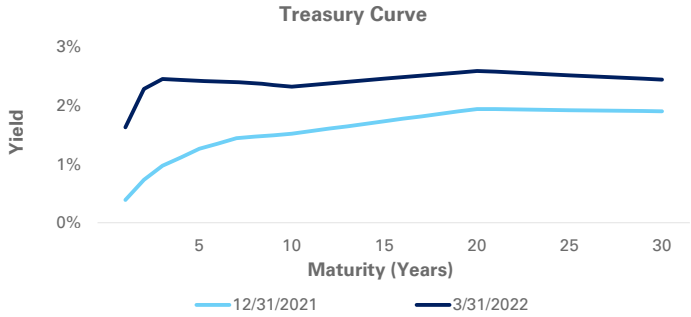
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





U.S. equities experienced a 15% correction in January and February fueled by concerns over inflation and disruptions in supply-chains caused by the war in Ukraine. The Fed stepped in to ease inflationary fears, sparking a rally in March with the S&P 500 gaining 3.7% in March, but still falling 4.6% in the first quarter. The MSCI ACWI Index was up 2.2% in March but fell 5.4% for the three months ending March 31; emerging market equities were harder hit, ending the quarter with losses of 7%.

Treasury yields increased and the yield curve flattened and then inverted with 30-year yields ending the quarter 54 basis points higher, resulting in a loss of 10.6% in the first quarter, according to the Barclays Long Treasury Index. Corporate spreads widened back to median levels over the quarter, fueling larger losses of 11.2% in long credit, according to the Barclays Long Credit Index.



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.