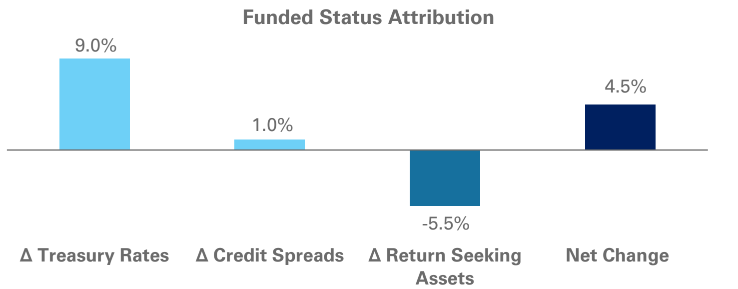
NEPC PENSION MONITOR

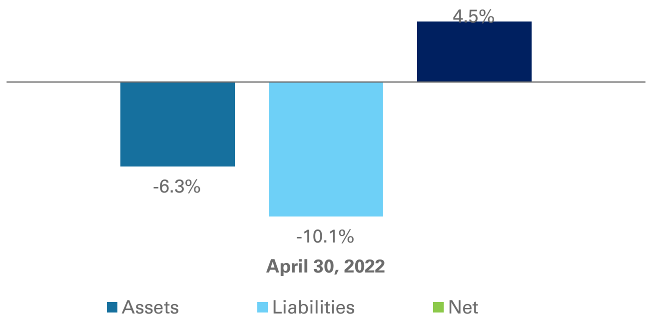
APRIL 2022

Total-return allocated corporate pension plans outpaced LDI plans in April, as interest rates ticked up and equity markets tumbled, fueled by fears of persistent inflation and the continuing war in Ukraine. Credit spreads also widened and are near or above 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 despite equity market losses, while LDI-focused peers holding more long-dated bonds may have seen a decline in funded status. NEPC's hypothetical open- and frozen-pension plans note a funded status gain of 4.5% for the total-return plan compared to the LDI-focused plan funded status, which fell by 1.3% in April.

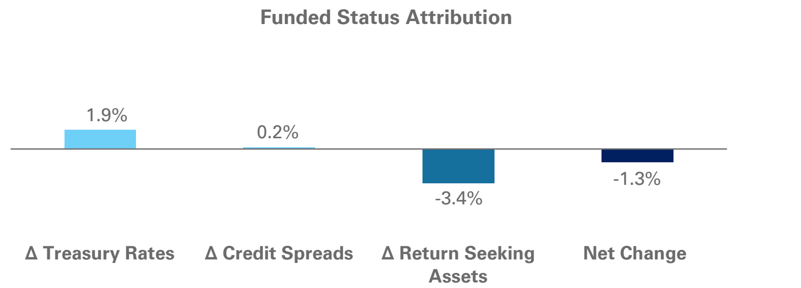
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



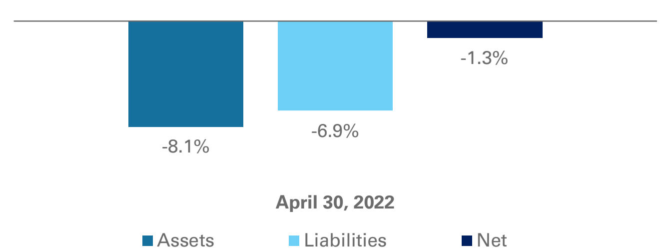
The funded status of the total-return plan increased by 4.5% as equity losses were offset by declining liability values.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN



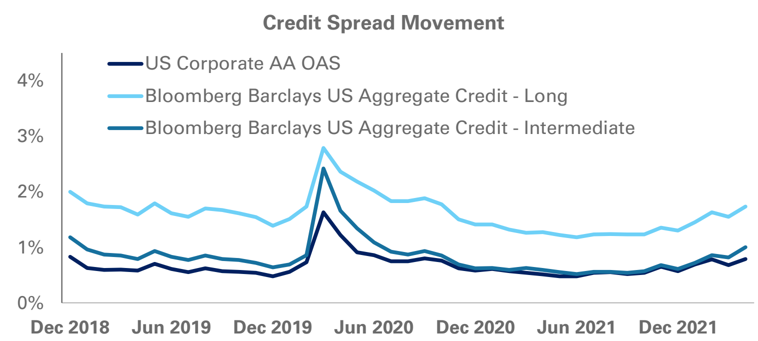
The funded status of the LDI-focused plan fell by 1.3%, with asset losses stemming from both equities and long-duration bonds offset by higher discount rates. The plan is 79% hedged as of April 30.



RATE MOVEMENT COMMENTARY

The Treasury curve rose in the two- and 10-year range and flattened, with the two-year increasing 42 basis points to 2.7%, and the 10-year bond rising 57 basis points to 2.89%. The yield curve inverted in late March at the two- and 10-year points on the curve, signaling the economy might be heading towards a recession. Credit spreads widened to median levels, with intermediate- and long-credit spreads increasing 18 basis points.

The uptick in Treasury rates and credit spreads resulted in higher effective pension discount rates used for NEPC's hypothetical pension plans. The discount rate for each plan rose 68 basis points with the open total-return plan rate rising to 4.36%, while the discount rate for the frozen LDI-focused plan increased to 4.27%.



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately **106.2%** of PBO, as of April 30, 2022

RECENT INSIGHTS FROM NEPC

Taking Stock: How to Hold on to Funded Status Gains?
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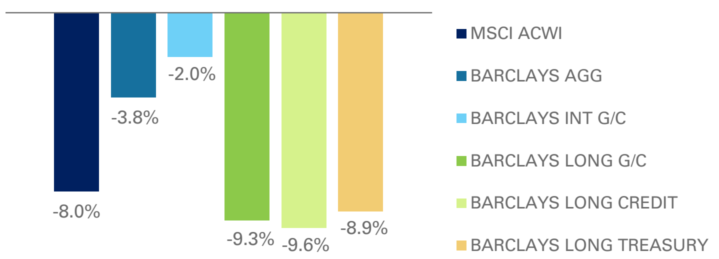
NEPC PENSION MONITOR

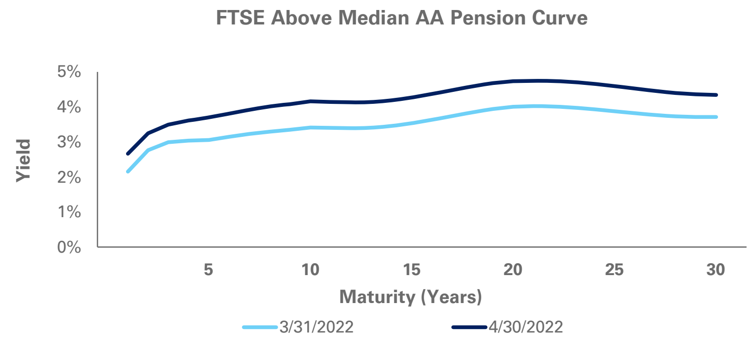
APRIL 2022

PLAN SPONSOR CONSIDERATIONS

Equity markets continued to retreat in April, spurred by fears of rising inflation and a negative GDP print for the first quarter. The ongoing war in Ukraine has disrupted supply chains for wheat and energy supplies. The Treasury yield curve increased and credit spreads widened over median levels, increasing liability discount rates of pension plans -- a positive for plan sponsors. At NEPC, we anticipate continued market volatility and the potential for market disruption with the Federal Reserve expected to significantly increase short-term rates. Plan sponsors should remain diligent about monitoring hedge ratio ranges as yields rise and durations shorten.

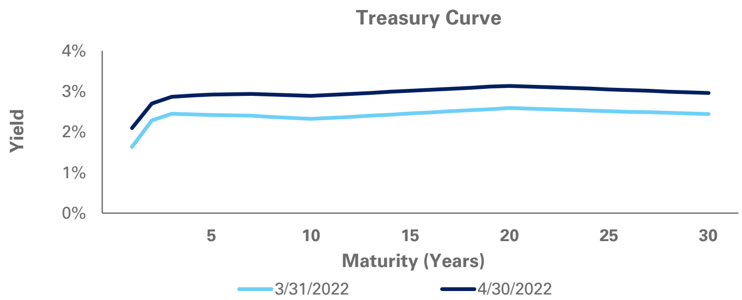
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





After a short reprieve early in the month, U.S. equities tumbled in April, with the S&P 500 Index falling 8.7% for the month; international developed markets were also in the red as the MSCI EAFE Index dropped 6.5%. Emerging market equities were down 5.6%, according to the MSCI EM Index, despite Russia being a relatively small percent of the index. Globally, the MSCI ACWI Index fell 8% in April.

The Treasury curve broadly rose and continued to flatten as inflation pushed yields higher. Credit spreads also widened meaningfully over the month. This resulted in another month of losses for long-duration fixed income, as the Barclays Long Treasury Index dropped 8.9% while the Barclays Long Credit Index was down 9.6% in April.



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.