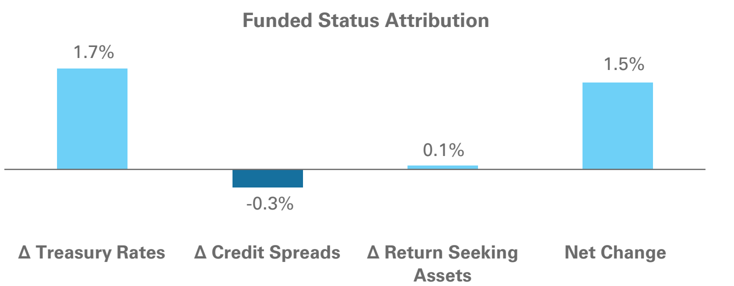
NEPC PENSION MONITOR

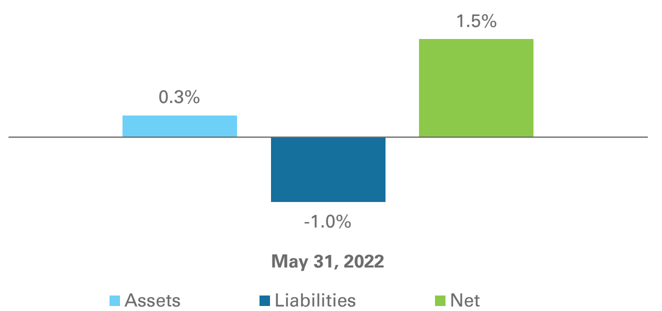
MAY 2022

The funded status of corporate pension plans was little changed in May despite tumultuous equity markets and persistent inflation fueled by supply-chain issues and fallout from the war in Ukraine. Equities were relatively flat for the month in spite of the spike volatility. Total-return allocated plans outpaced LDI plans in May, as their longer-duration liabilities declined. NEPC's hypothetical pension plans witnessed a funded status gain of 1.5% for the total-return plan and a modest 0.3% for the LDI-focused plan.

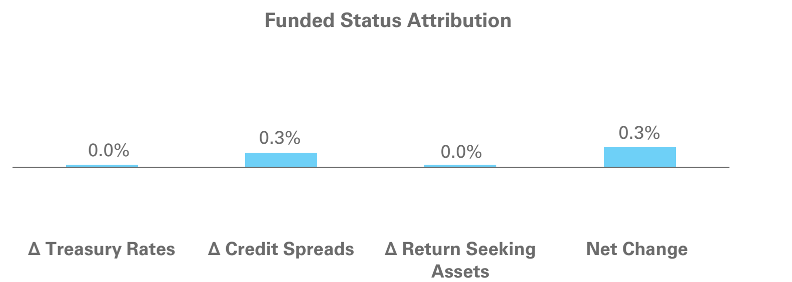
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



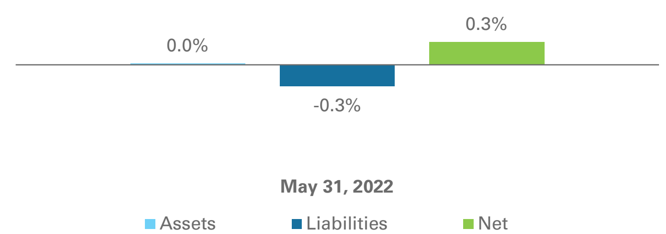
The funded status of the total-return plan increased by 1.5% as liabilities declined and asset returns held steady.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN



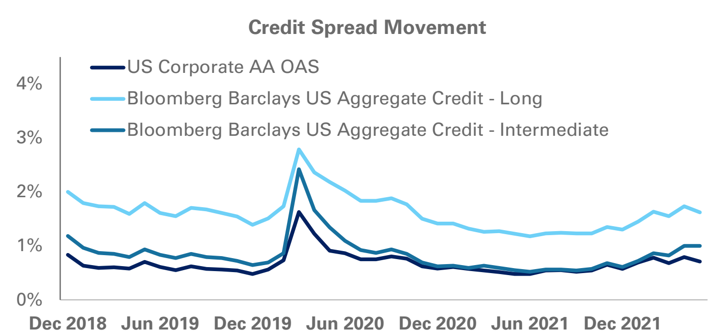
The funded status of the LDI-focused plan rose by 0.3%, with both asset and liability values relatively flat for the month. The plan is 80% hedged as of May 31.



RATE MOVEMENT COMMENTARY

The Treasury curve remained relatively flat after the two-year tenor, but steepened slightly at the long-end in May. The 10-year yield fell by four basis points to 2.85%, and the 30-year yield rose 11 basis points to 3.07%. Credit spreads backtracked a small amount but remain near median levels, with long-credit spreads retreating nine points.

The small movement in Treasury rates and credit spreads offset each other, resulting in little change to pension discount rates used to discount pension liabilities. The discount rates for NEPC's hypothetical pension plans rose just three and seven basis points, respectively, to 4.30% for the frozen LDI-focused plan and 4.43% for the open total-return plan.



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately **105.7%** of PBO, as of May 31, 2022

RECENT INSIGHTS FROM NEPC

Taking Stock: Effectively Investing in Emerging Markets
Click here to read

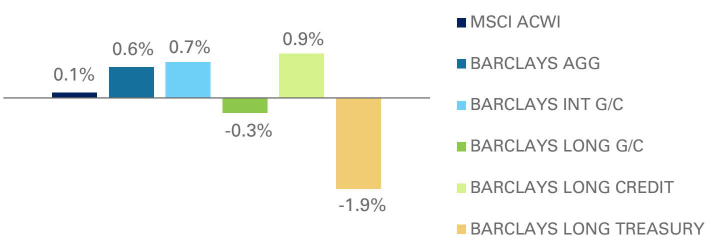
NEPC PENSION MONITOR

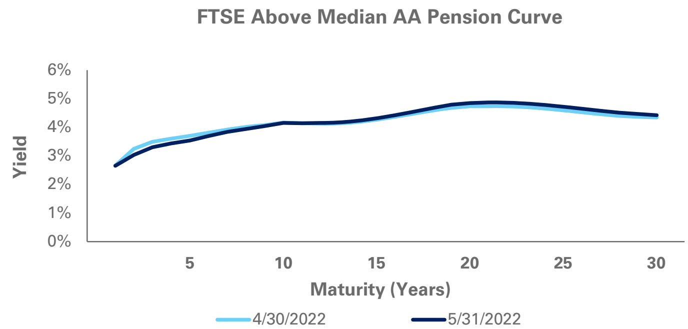
MAY 2022

PLAN SPONSOR CONSIDERATIONS

Equity markets remained volatile in May, fueled by persistent inflation and the Federal Reserve's resultant responses. The Treasury yield curve steepened slightly and credit spreads retreated near median levels, leaving the discount rate used essentially flat for the month. NEPC anticipates market volatility will remain as the Fed is expected to continue hiking short-term rates while allowing longer-term balance-sheet holdings to roll off. Plan sponsors need to stay diligent about monitoring hedge ratio ranges to avoid becoming overhedged to interest rates as yields increase. Finally, many LDI programs already include shorter-term investment-grade credit to address short-term liabilities; those that don't might consider adding short/intermediate investment-grade bonds for LDI hedging while capturing a much higher yield than last year.

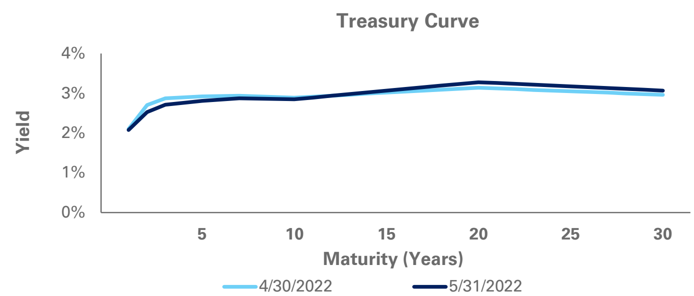
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





After a year-to-date drop of nearly 20% around bear market territory last month, U.S. equities recovered to end May relatively flat, with the S&P 500 Index rising 0.2% for the month. International developed markets were also in the black as the MSCI EAFE Index was up 0.7%. Similarly, emerging market equities gained 0.4%, according to the MSCI EM Index, and the MSCI ACWI Index inched up 0.1% in May.

The Treasury curve experienced some steepening while credit spreads declined modestly. The Barclays Long Treasury Index dropped 1.9% while the Barclays Long Credit Index rose 0.9% in May.



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.