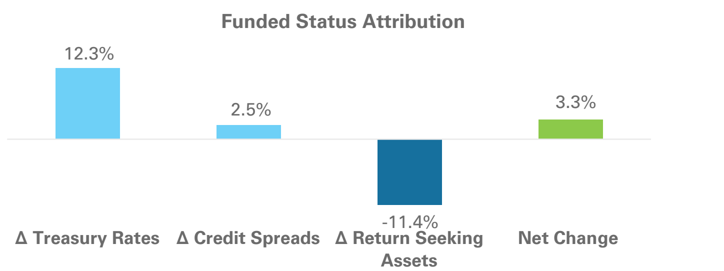
NEPC PENSION MONITOR

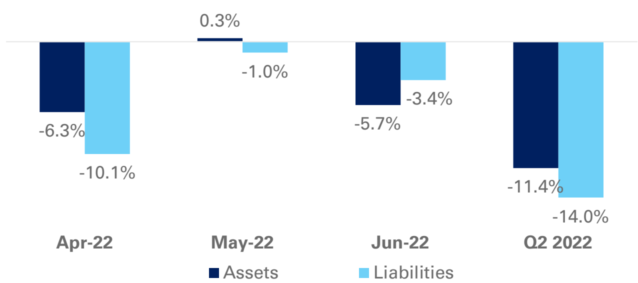
SECOND QUARTER 2022

Market turmoil continued in the second quarter as equities sold off 16% and interest rates jumped over 60 basis points as the Federal Reserve raised rates. Fears of entrenched inflation and a potential recession wreaked havoc in stocks while credit spreads widened. Asset levels of U.S. corporate pension plans declined as both equities and fixed income sold off. However, estimated plan liabilities fell significantly in the second quarter given the increase in Treasury yields and credit spreads. The funded status of a total-return plan increased 3.3% with lower allocations to long-duration fixed income, while the LDI-focused plan saw its funded status fall by 3.5%.

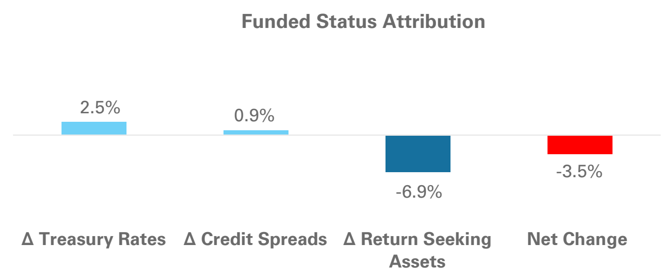
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



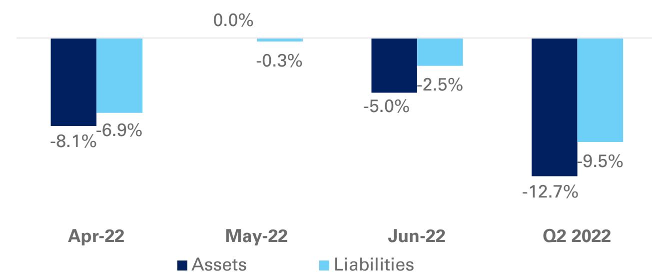
The funded status of the total-return plan increased by 3.3% in the second quarter as higher yields and lower liabilities outpaced losses in equities.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

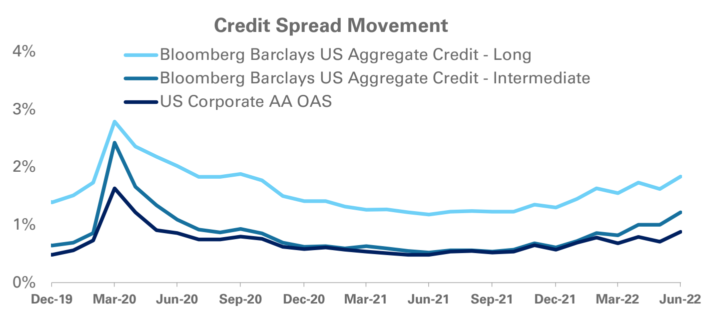


The LDI-focused plan saw a decrease in funded status in the second quarter as asset losses surpassed shrinking liabilities. The plan is 79% hedged as of June 30.



RATE MOVEMENT

Interest rates jumped in the second quarter, forcing the Fed to increase short-term interest rates by 50 and then 75 basis points. The 10-year Treasury yield rose to 3.48% in March from 2.32% and ended June at 2.97%. The 30-year Treasury yield had a similar trajectory, increasing 98 basis points to 3.43% before retreating to 3.12% at quarter end. Meanwhile, long-credit spreads were volatile, widening 29 basis points by quarter end to above median levels at 1.84%. The result of these movements increased discount rates for the quarter, with the rate for the open total-return plan jumping 98 basis points to 4.66% and the discount rate for the frozen LDI-focused plan increasing 97 basis points to 4.56% as of June 30.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **106.3%** of PBO as of June 30, 2022.

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Taking Stock: It's a Bear Market. Now What?
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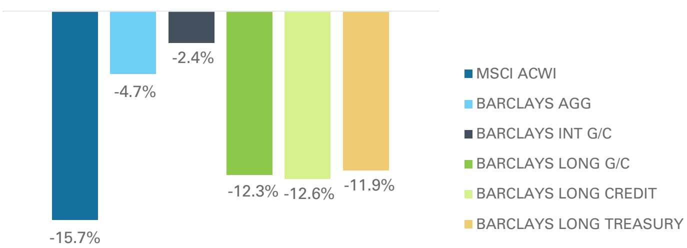
NEPC PENSION MONITOR

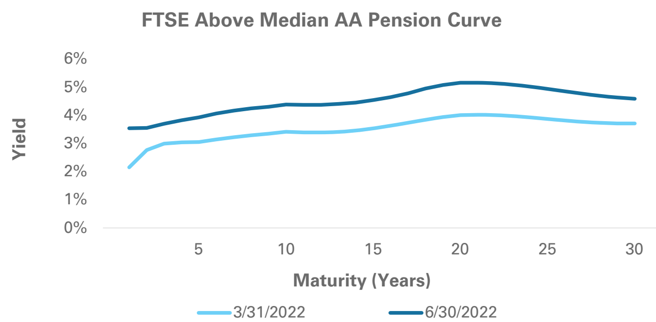
SECOND QUARTER 2022

CONSIDERATIONS FOR PLAN SPONSORS

Concerns over persistent inflation and fears of an economic recession fueled the continued retreat of the equity markets in the second quarter. Despite the Fed increasing short-term interest rates two times, inflation saw an 8.6% CPI print, and equities entered a bear market. Plan sponsors may be grappling with competing financial objectives, but recognize that many of their pension plans are now well funded and free from contribution requirements and PBGC variable rate premiums. NEPC consultants are available to discuss the benefits and cost of various pension finance and derisking strategies.

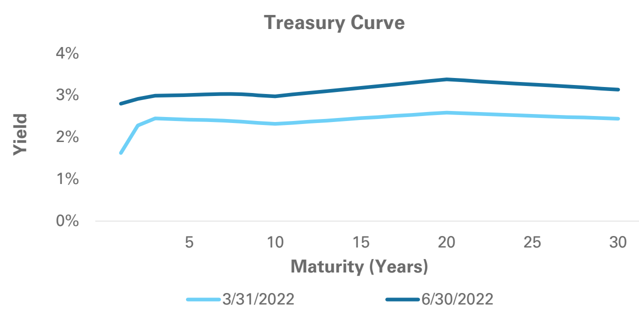
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





The U.S. equity market experienced further losses of 16% for the three months ended June 30, and has fallen over 20% since the beginning of the year. Non-U.S. developed countries were not immune from the economic fallout of the decline in the Russian oil production, with the MSCI EAFE dropping 14.5% and Emerging market equities ending the quarter in the red as well with losses of 11.4%. The Fed's intervention in the form of two substantial rate hikes seems to have eased some inflation fears in the last few weeks of June.

Treasury yields increased significantly and the yield curve flattened, with 30-year yields ending the quarter 67 basis points higher, resulting in a drop of 11.9% in the second quarter in the Barclays Long Treasury Index. Corporate spreads widened above median levels over the quarter, fueling larger losses of 12.6% 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.