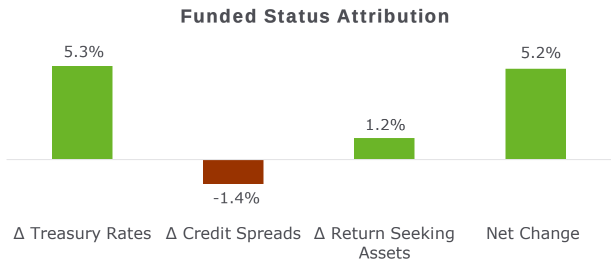
NEPC PENSION FUNDED STATUS MONITOR

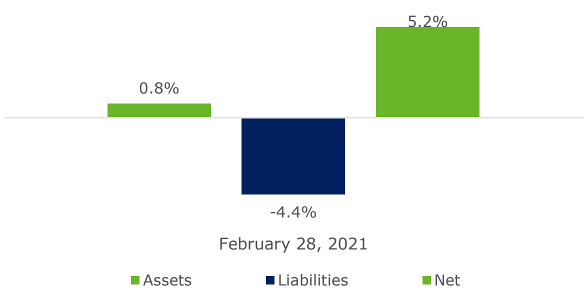
FEBRUARY 2021

Driven by an increase in Treasury rates and strong equity returns, the funded status of typical corporate pension plans improved in February. Total-return plans outpaced LDI-focused plans that hedge more interest-rate risk, as losses from fixed-income assets eroded gains from equities. While credit spreads remained mostly flat for the month, the Treasury curve increased and steepened, reducing plan liabilities. Based on NEPC's hypothetical open- and frozen-pension plans, the funded status of the total-return plan rose 5.2%, while the LDI-focused plan increased 1.9%.

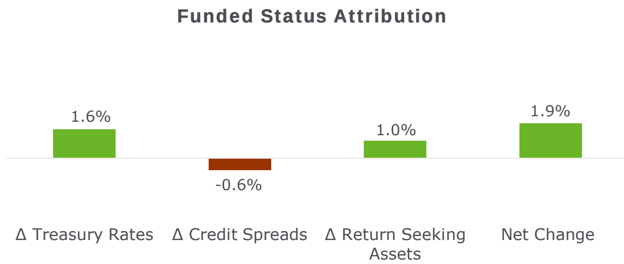
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



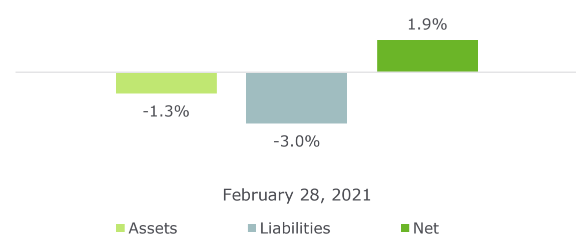
The funded status of the total-return plan increased 5.2%, driven by a decrease in liabilities and gains from risk assets.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

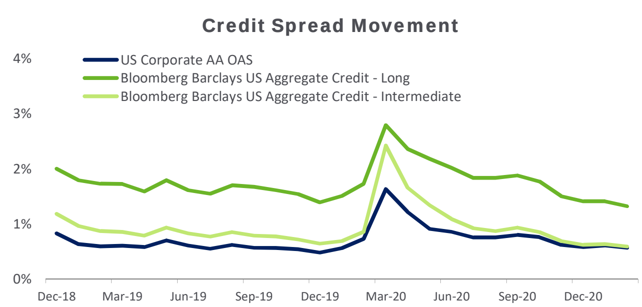


The funded status of the LDI-focused plan increased 1.9% as shrinking liability values were offset by losses from fixed-income mandates. The plan is 84% hedged, as of February 28.



RATE MOVEMENT COMMENTARY

Treasury yields continued to rise in February, with the 10-year increasing 33 basis points to 1.44% and the 30-year increasing 30 basis points to 2.17%. Credit spreads were relatively flat and remain near their tightest in decades. Pension discount rates of NEPC's hypothetical pension plans increased 26 basis points for each plan, with the open total-return plan ending the month at 3.04%, and the frozen LDI-focused plan landing at 2.76%. This jump in discount rates resulted in lower estimated liabilities of 4.4% and 3.0%, respectively, for the total-return and LDI-focused plan.



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately **102.3%** of PBO, as of February 28, 2021

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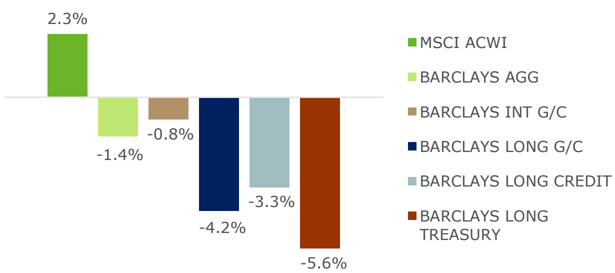
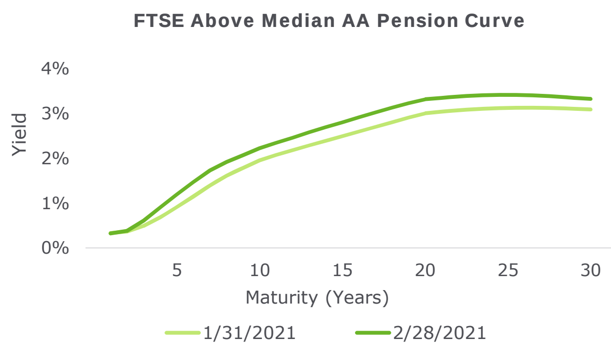
PLAN SPONSOR CONSIDERATIONS

Markets settled down on the back of a volatile January, and pushed higher, buoyed by the impending economic stimulus and ongoing inoculations. Two bills have been introduced that may offer some funding relief to plan sponsors on contributions. Single-employer pension plan funding relief—the *Emergency Pension Plan Relief Act of 2021* (EPPRA)—was proposed in the House in January with the intent to extend the current funding relief and increase the discount rates used for funding and contributions. Plan sponsors should keep in mind that the Treasury curve increased by 30 basis points at the mid- and long-points of the curve due to expectations for higher inflation. Despite the increase in rates, NEPC maintains its recommendation to adhere to plan hedge ratios and long-term strategic target allocations.

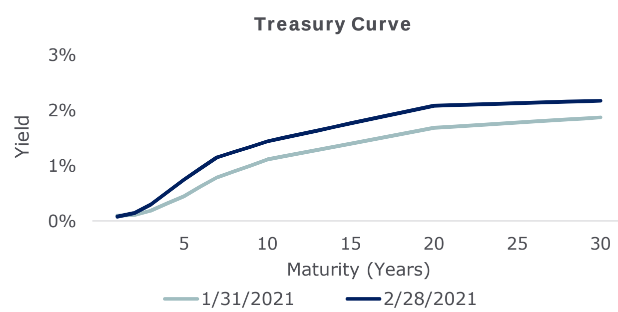
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





Optimism around the vaccine rollout and potential stimulus package led to gains of 2.8% from the S&P 500 in February, while the Russell 2000 gained 6.2%. During the same period, the EAFE Index earned 2.2%, emerging market equities were up 0.8%, and the MSCI ACWI Index gained 2.3%.

Expectations of economic growth and inflation drove the Treasury curve to rise at both the 10- and 30-year tenors, with the 30-year Treasury yield increasing 30 basis points, resulting in the Barclays Long Treasury Index falling 5.6% in February; during the same period, credit spreads remained essentially flat, resulting in losses of 3.3% for 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 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.

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