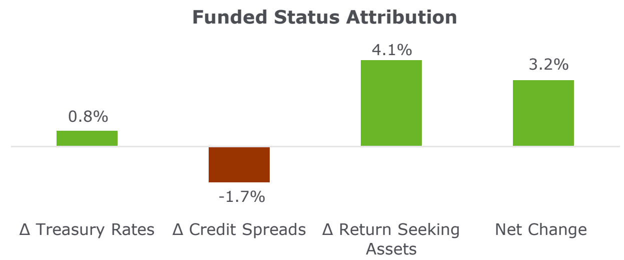
NEPC FUNDED STATUS PENSION MONITOR

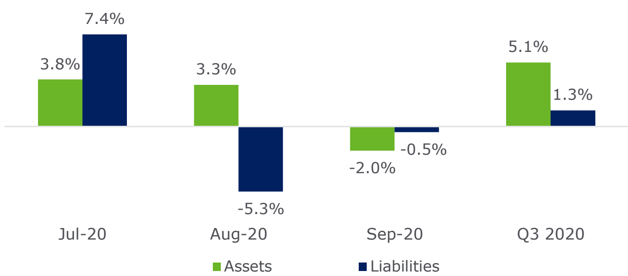
THIRD QUARTER 2020

Corporate pension plans in the United States experienced overall gains in funded status in the third quarter amid robust equity returns in July and August; funded status declined in September, driven by a pullback in the stock market. During the quarter, Treasury yields were mostly unchanged while credit spreads contracted, leading to an approximately 1% increase in estimated liability valuations. In this period, the funded status of a total-return plan increased 3.2%, also due to the strong showing by equities, outperforming the LDI-focused plan which rose 2.8%.

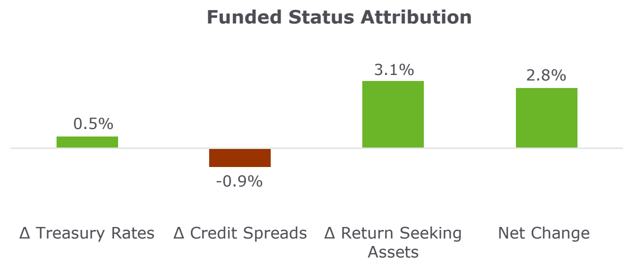
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



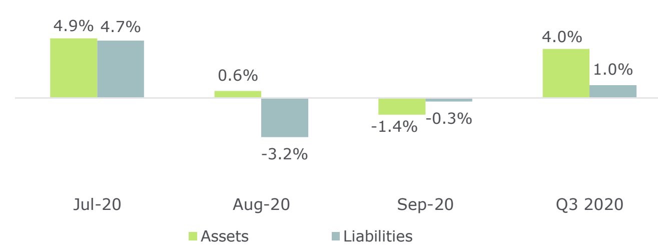
The funded status of the total-return plan improved as risk assets gained in the quarter.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

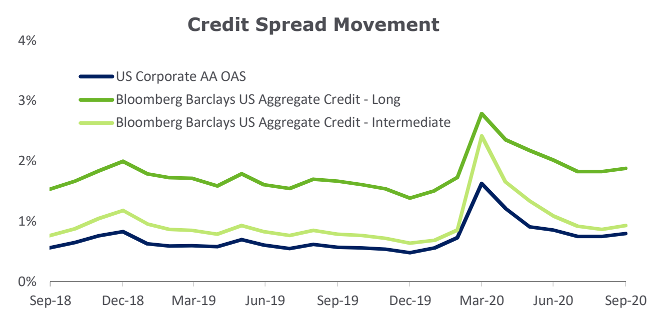


The LDI-focused plan saw a positive return in funded status from gains in risk assets, combined with protection from contracting credit spreads due to a higher credit hedge ratio. The plan is 78% hedged as of September 30.



RATE MOVEMENT

At its latest meeting, the Federal Reserve reiterated its intention to maintain low interest rates while also allowing for potentially higher inflation. Treasury yields remained relatively stable over the quarter with the 30-year Treasury rate increasing five basis points to 1.46%, as of September 30. Credit spreads contracted 14 and 16 basis points on the long and intermediate parts of the curve, respectively, resulting in lower discount rates for liabilities. The open total-return plan declined seven basis points in discount rate, ending the quarter at 2.73%; during the same period, the frozen LDI-focused plan experienced a fall of nine basis points to finish at 2.44%.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **102.8%** of PBO as of September 30.

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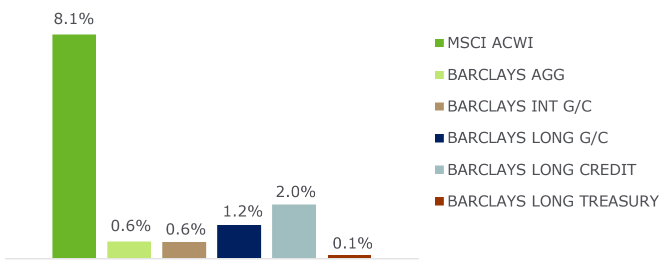
NEPC FUNDED STATUS PENSION MONITOR

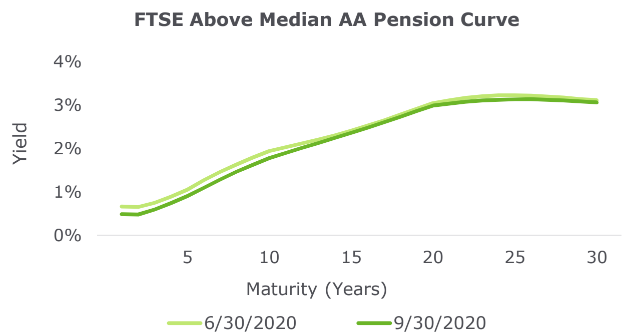
THIRD QUARTER 2020

CONSIDERATIONS FOR PLAN SPONSORS

The PBGC announced that plan contributions that are delayed until January 1, 2021, according to the CARES Act, could be used in the determination of funded status for PBGC variable rate premiums. However any other major pension funding relief from Congress in 2020 is connected with deadlocked fiscal stimulus, and seems unlikely. The Retiree Buyout Index continues to be low at 102%-to-103% of PBO, underscoring the possibility to transfer liabilities without incurring significant cost. Finally, with the U.S. presidential election approaching, we anticipate continued volatility in the market and recommend maintaining interest-rate hedges and a long-term focus on allocations.

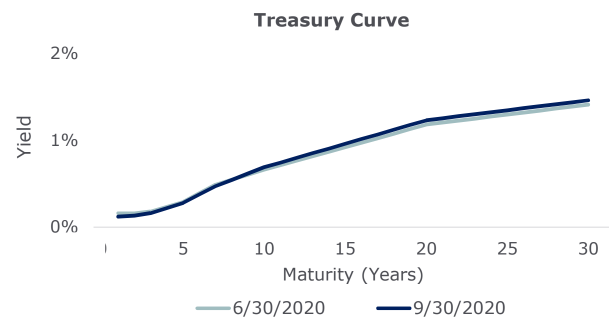
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





In September, equity markets underperformed for the first month since March and the onset of the pandemic. Intensifying fears over rising COVID-19 cases and a correction in technology stocks fueled losses of 3.8% in the S&P 500 Index; however, U.S. stocks still mustered gains of 8.9% in the third quarter. Similarly, the MSCI ACWI Index was down 3.8% last month but rose 8.1% for the three months ended September 30; emerging market equities lost 1.6% last month with third-quarter gains of 9.6%.

Treasuries were mostly unchanged, hovering around historic lows, with long Treasuries returning 0.1% in the third quarter, according to the Barclays Long Treasury Index. AA corporate spreads continued to contract over the quarter, tightening 14 basis points on the long end, as long credit gained 2% over the quarter, 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.

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