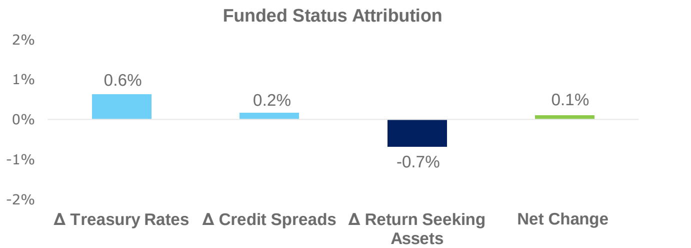
NEPC PENSION MONITOR

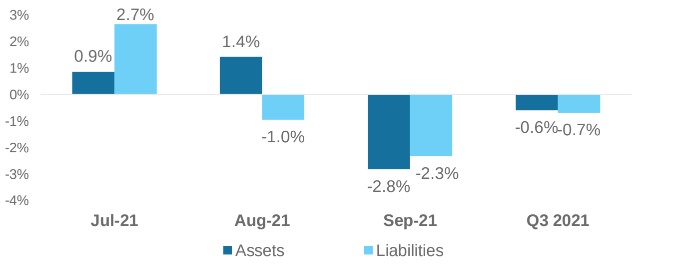
THIRD QUARTER 2021

Most U.S. corporate pension plans' funded status remained relatively flat in the third quarter, despite interest hedging techniques. With Treasury yields recovering from quarter-long lows and credit spreads inching higher over the three months ended September 30, estimated plan liabilities decreased, but so did asset returns. The equity market started to show some chinks in its armor as volatility increased. During the third quarter, the funded status of a total-return plan increased a modest 0.1%, underperforming the LDI-focused plan which increased 0.2%.

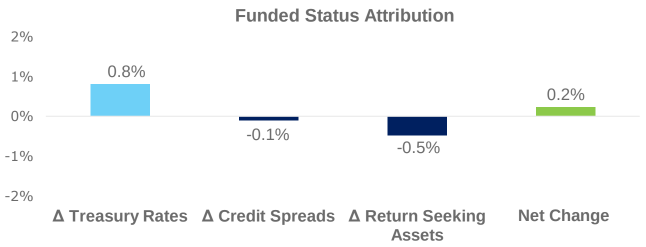
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



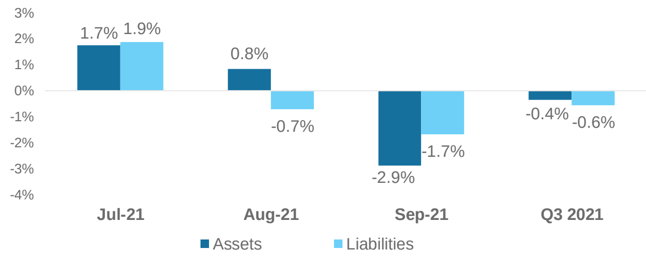
The funded status of the total-return plan remained flat over the quarter as equity markets backtracked and rates made a roundtrip during the quarter.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

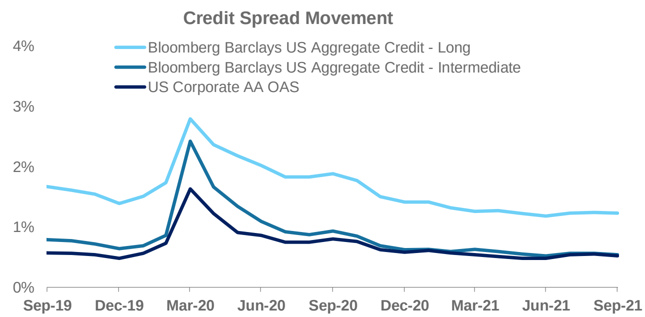


The LDI-focused plan saw a small increase in funded status over the quarter as yields ended relatively flat by quarter end. The plan is 86.5% hedged as of September 30.



RATE MOVEMENT

Treasury rates were volatile in the third quarter, but ended the quarter essentially flat. The 30-year Treasury point rose two basis points, with yields of 2.08% as of September 30. Long-credit spreads widened five basis points in the three months ended September 30 to remain just above historical lows. These factors combined to push discount rates slightly higher for the quarter, with the discount rate for the open total-return plan increasing four basis points to 2.91%; the discount rate for the frozen LDI-focused plan increased five basis points to 2.69% as of September 30.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **103.5%** of PBO as of September 30, 2021.

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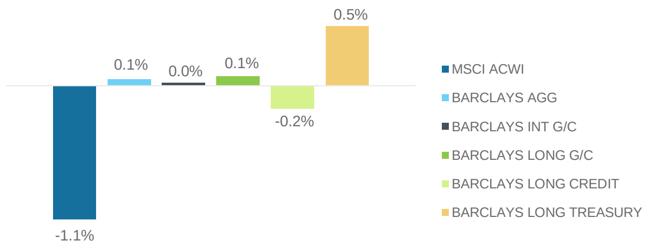
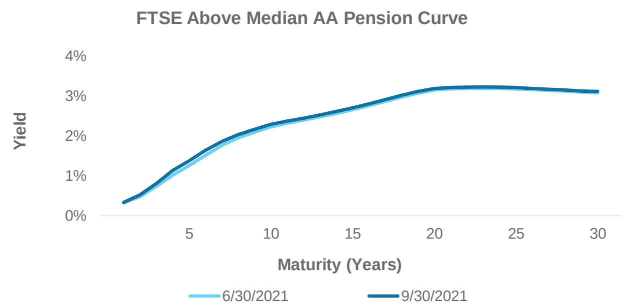
THIRD QUARTER 2021

CONSIDERATIONS FOR PLAN SPONSORS

In the U.S., the potential for increased taxes under consideration contributed to equity losses in September. The proposed Infrastructure bill has a pension relief provision that, if passed, will extend the 5% PPA rate corridor another five years, effectively ensuring that PPA discount rates cannot fall below 4.75% in the next 10 years. In addition, the Build Back Better bill may result in an increase in corporate tax rates, creating a possible incentive to delay contributions. As plan sponsors continue to grapple with the competing objectives of their pension plans, please reach out to your NEPC consultant to discuss the pros and cons of various approaches to derisking and hibernation strategies.

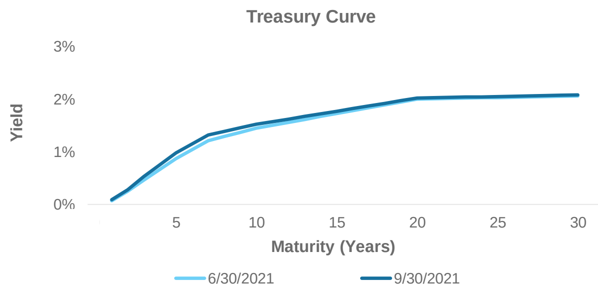
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





U.S. equities experienced their first monthly decline since January. The S&P 500 Index lost 4.7% in September, but gained 0.6% over the third quarter. The MSCI ACWI Index was down 4.1% last month, but down 1.1% for the three months ended September 30. Emerging market equities fell 4.0% last month with total losses of 8.1% in the third quarter, as Chinese regulatory actions and Evergrande debt concerns incited sell-offs.

Treasuries rallied for most of the quarter and then retreated in the last week, with yields ending only two basis points higher at the 30-year tenor, resulting in a gain of 0.5% in the third quarter, according to the Barclays Long Treasury Index. Corporate spreads began to widen from historical lows over the quarter, rising five basis points on the long end, fueling losses of 0.2% 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.