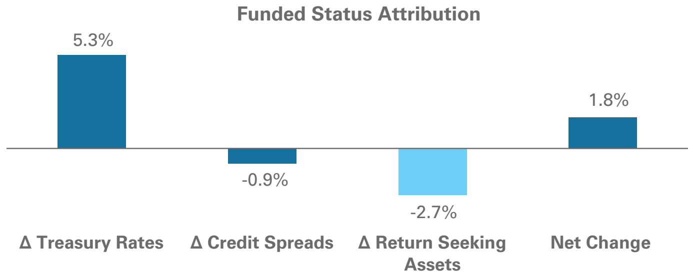
NEPC PENSION MONITOR

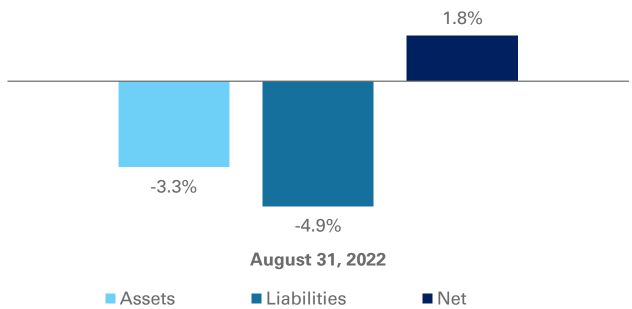
AUGUST 2022

Corporate pension plans saw mixed results in funded status in August amid rising discount rates and falling equities. The Federal Reserve met in Jackson Hole, WY for its yearly economic symposium, where Chair Jerome Powell remained steadfast in the central bank's commitment to fight inflation, even at the cost of "a sustained period of below-trend growth." The Treasury yield curve rose, flattened, and remained inverted between the one- and 10-year tenors as investors continued to grapple with the Fed's stance and its economic impact. Total-return plans outpaced LDI allocated plans due to a lower hedge of rising discount rates as Treasury rates rose and credit spreads were little changed. NEPC's hypothetical pension plans witnessed a funded status gain of 1.8% for the total-return plan compared to 0% for the LDI-focused plan.

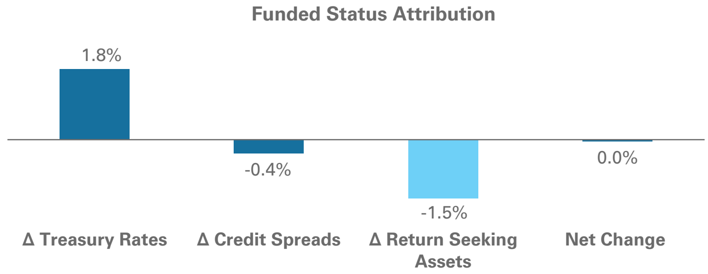
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



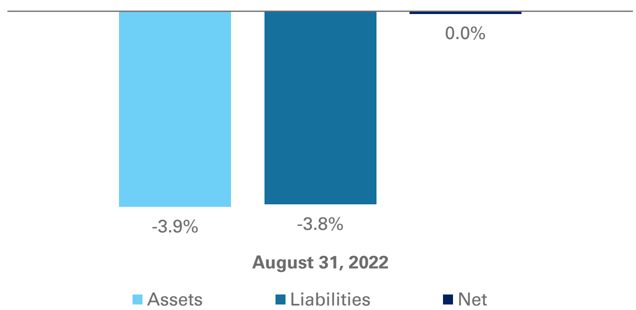
The funded status of the total-return plan increased by 1.8% due to the rise in Treasury rates.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN



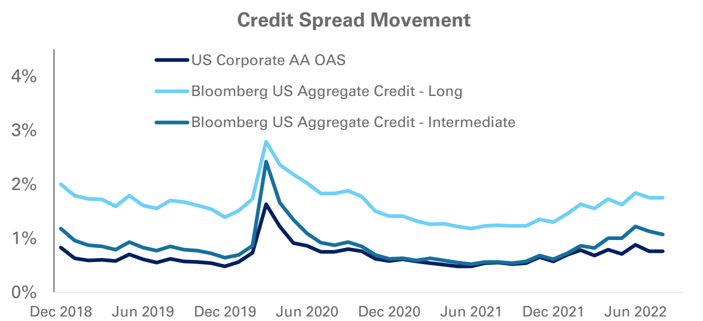
The funded status of the LDI-focused plan stayed flat as the rise in Treasury rates offset the drop in asset returns. The plan is 78% hedged as of August 31.



RATE MOVEMENT COMMENTARY

The Treasury curve climbed up and further flattened in August as investors digested the Fed's hawkish stance. The curve remains inverted from the one- to 10-year tenors. The 10-year yield was up 48 basis points to 3.15%, and the 30-year yield rose 27 basis points to 3.27%. Credit spreads showed little movement overall, as long-credit spreads were flat and intermediate spreads narrowed by six basis points.

The movement in Treasury rates and credit spreads resulted in an uptick in pension discount rates used to discount pension liabilities. The discount rates for NEPC's hypothetical pension plans rose 33 to 38 basis points with the open total-return plan rate rising to 4.67%, while the discount rate for the frozen LDI-focused plan increased to 4.58%.



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately **104.7%** of PBO, as of August 31, 2022

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Taking Stock: Fed Talks, the Jackson Hole Edition
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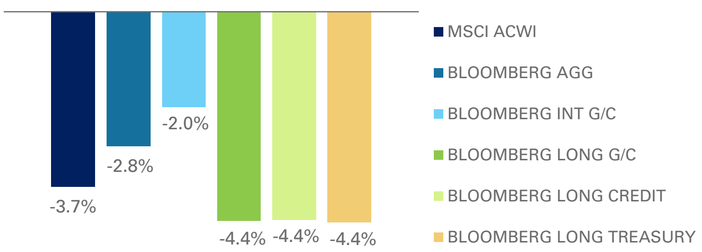
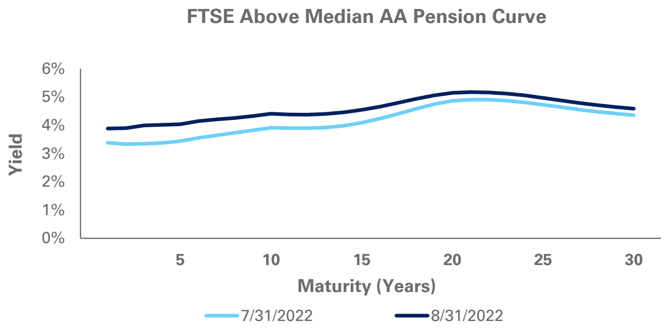
PLAN SPONSOR CONSIDERATIONS

Equity and fixed-income markets were largely negative in August. The Treasury yield curve inched up, straightened out and remained inverted between the one- and 10-year tenors. The rise in Treasury yields and flat credit spreads pushed up discount rates used for valuing pension liabilities. At NEPC, we anticipate continued volatility and the potential for market disruption with the Fed continuing to raise short-term rates to battle inflation pressures. Plan sponsors should remain diligent about monitoring the drivers of change in funded status versus expectations as equities and interest rates are likely to remain volatile. This includes closely monitoring hedge ratio ranges to avoid becoming overhedged to interest rates as yields increase.

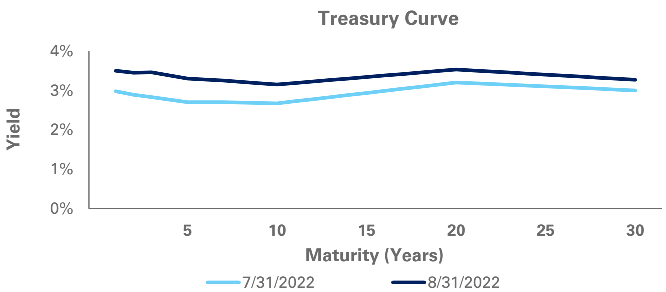
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





Equities in developed markets declined in August, with U.S. stocks losing 4.1%, according to the S&P 500 Index; during the same period, international developed markets were down 4.7%, as measured by the MSCI EAFE Index. Meanwhile, emerging market equities eked out gains of 0.4%, according to the MSCI EM Index; globally, the MSCI ACWI Index was down 3.7% in August.

The Treasury curve moved up and flattened over the month as markets reacted to the Fed's hawkish stance. The curve remains inverted from the one- to 10-year tenors. This resulted in negative returns for fixed income, particularly for longer durations, as the Bloomberg Long Treasury Index lost 4.4% and the Bloomberg Long Credit Index was down 4.4%.



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.