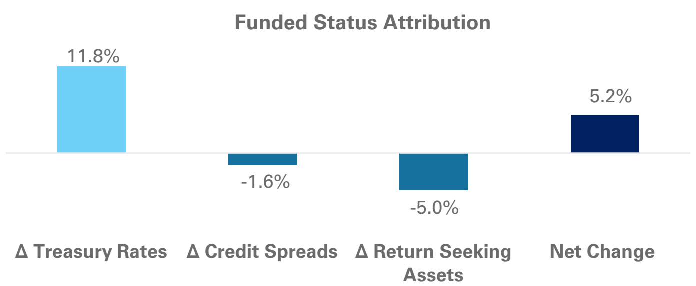
NEPC PENSION MONITOR

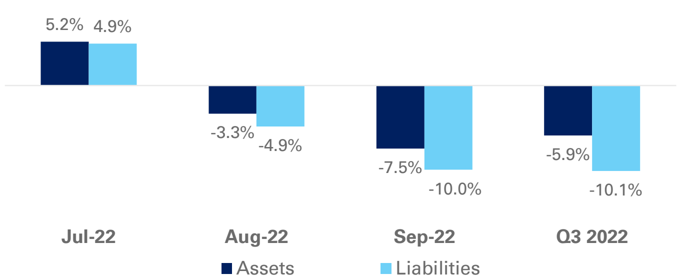
THIRD QUARTER 2022

Volatility rocked capital markets in the third quarter as equities declined 5% and short-term interest rates increased by over 150 basis points. During the quarter, the Federal Reserve hiked rates two times by 75 basis points each. In addition to the two rate hikes, Fed Chair Powell suggested that the U.S. economy could experience "some pain" from tighter monetary policy. The change in funded status of U.S. corporate pension plans varied depending on asset allocation, as both equities and fixed income sold off. Estimated plan liabilities based on long-duration fixed-income yields were lower in the third quarter, providing a bright spot for corporate pension plans. The funded status of a total-return plan increased 5.2% with lower allocations to long-duration fixed income, while the LDI-focused plan saw its funded status fall by 0.2%.

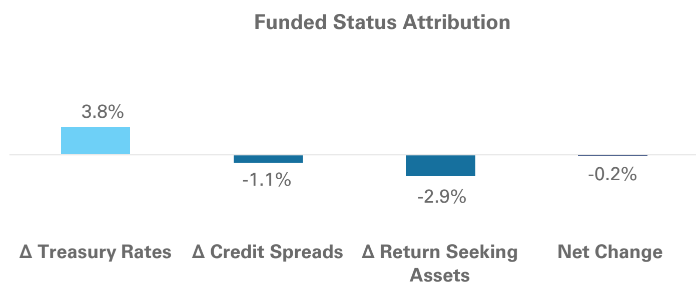
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



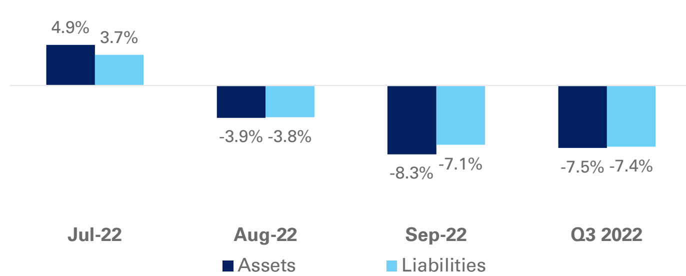
The funded status of the total-return plan increased 5.2% in the third quarter as higher yields and lower liabilities offset equity market losses.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

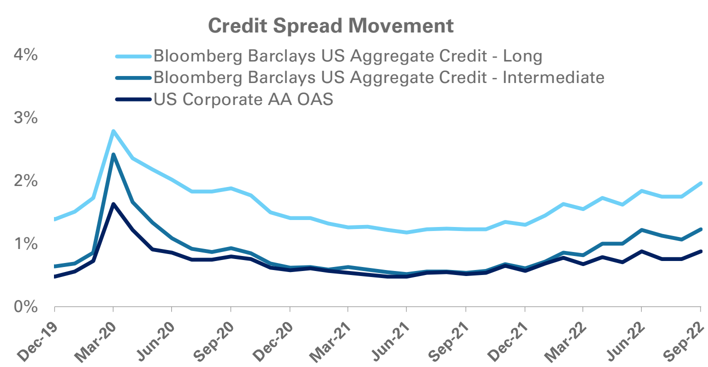


The funded status of the LDI-focused plan stayed relatively flat in the third quarter as asset losses offset the shrinking of liabilities. The plan is 78% hedged as of September 30.



RATE MOVEMENT

Short-term interest rates moved higher in the third quarter, largely due to the increase of 150 basis points in the Fed Funds rate. Longer-term interest rates were also higher as the 10-year Treasury yield increased to 3.8% as of September 30, up 82 basis points from June 30. The 30-year Treasury yield had a more muted increase of 65 basis points during the quarter. Long credit spreads widened 12 basis points for the three months ended September 30 as risk assets declined broadly. The combination of higher Treasury yields and widening credit spreads resulted in an increase in discount rates for the quarter, with the rate for the open total-return plan jumping 74 basis points to 5.4% and the discount rate for the frozen LDI-focused plan increasing 79 basis points to 5.35% as of September 30.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **106.4%** of PBO as of September 30, 2022.

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NEPC's 2022 Governance Survey Results
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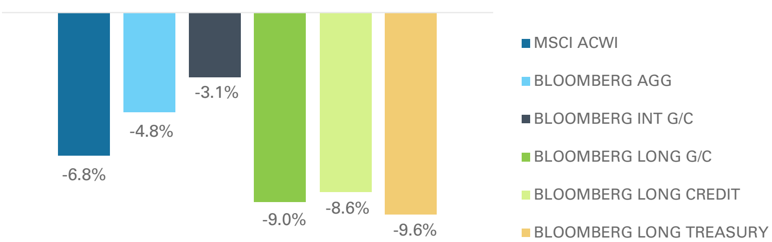
NEPC PENSION MONITOR

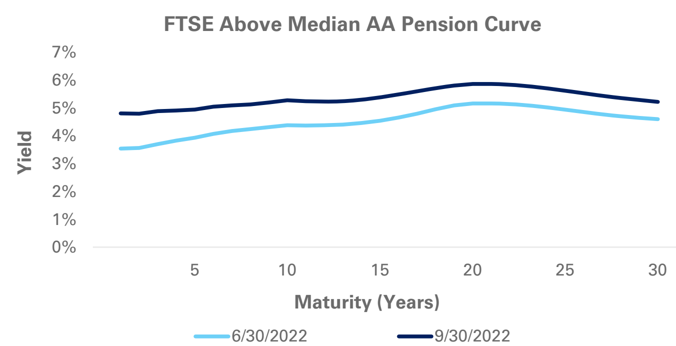
THIRD QUARTER 2022

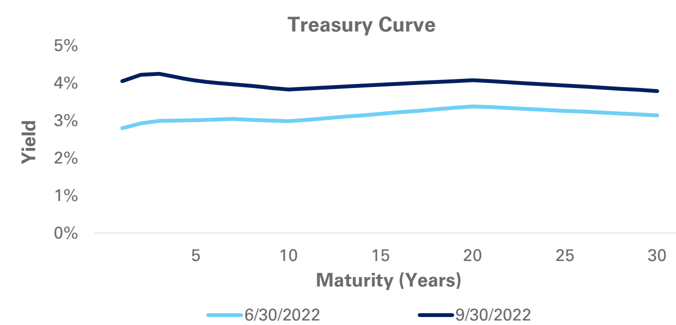
CONSIDERATIONS FOR PLAN SPONSORS

Equity and fixed-income markets continued to sell-off during the third quarter as a hawkish Fed propelled interest rates higher across the curve. Despite a steady spate of rate hikes, inflation remained stubbornly high as CPI increased 8.3% year-over-year. Plan sponsors may find the current market environment especially difficult as asset levels are down significantly, yet funded status levels may have improved due to the sharp rise in interest rates. For certain sponsors, higher funded status levels are also providing a tailwind in the form of lower contribution requirements and declining 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 declined 5% in the third quarter of 2022, bringing year-to-date losses to nearly 24%. Sustained inflation, a hawkish Fed, and fears of an economic recession contributed to the selloff. Non-U.S. equities also lagged with the MSCI EAFE down 9% for the three months ended September 30, while the MSCI Emerging Market Index fell 12% during the same period; the two indexes are down 27% so far this year through the end of the third quarter.

Treasury yields marched higher and the yield curve remained inverted. The 30-year Treasury yield inched up 65 basis points for the quarter, resulting in a loss of 9.6% for the Barclays Long Treasury Index. Corporate spreads widened modestly over the quarter, leading to a decline of 8.6% 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.