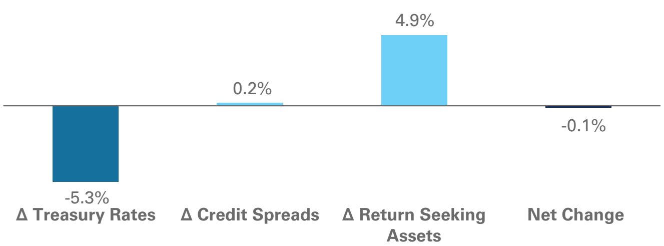
NEPC PENSION MONITOR

JANUARY 2023

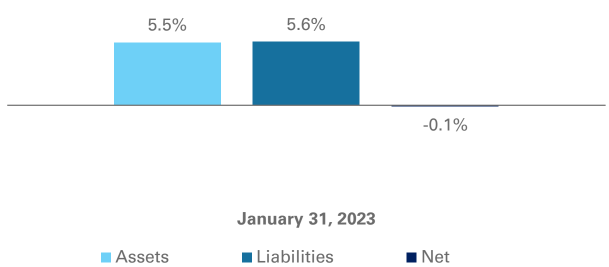
In January, a rally in public equities fueled gains in the funded status of many corporate pension plans despite falling liability discount rates. However, plans with lower hedge ratios may have experienced declines in funded ratio during the month. The Treasury yield curve declined and remained inverted between the one- and 10-year tenors. Total-return-focused plans experienced mixed results in funded status from lower discount rates and equity gains. Many LDI-oriented plans experienced funded status improvements due to positive equity returns and protection against the reversal in discount rates. NEPC's hypothetical pension plans witnessed a funded status reduction of 0.1% for the total-return plan compared to a gain of 2.6% for the LDI-focused plan.

HYPOTHETICAL OPEN/TOTAL-RETURN PLAN

Funded Status Attribution

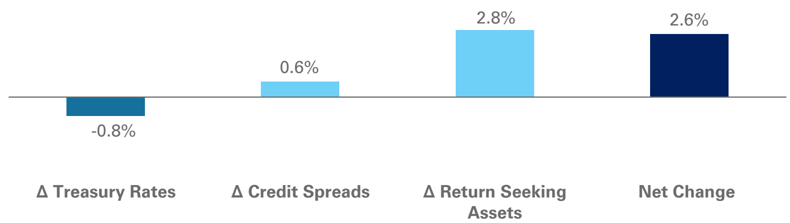


The funded status of the total-return plan was flat during the month as declining Treasury yields were offset by positive returns in equities.

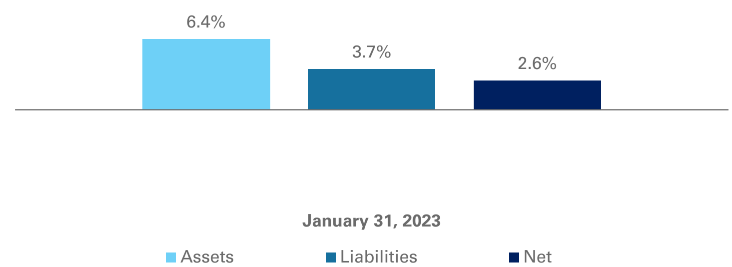


HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

Funded Status Attribution



The funded status of the LDI-focused plan increased 2.6% due to positive returns posted by equities. The plan is 82% hedged as of January 31.

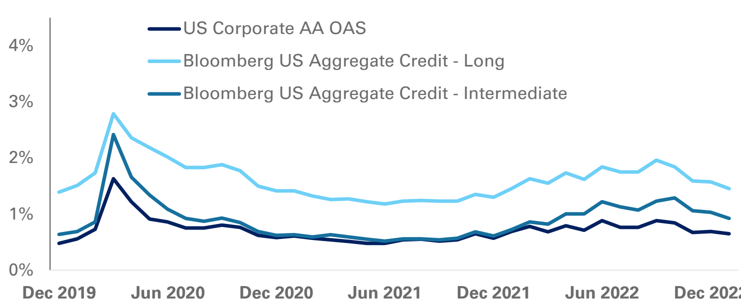


RATE MOVEMENT COMMENTARY

The Treasury curve declined at tenors greater than one year, and remained inverted from the one- to 10-year tenors. The 10-year yield decreased 35 basis points to 3.52% and the 30-year yield fell 32 basis points to 3.65%. Long-credit spreads tightened 11 basis points and intermediate spreads tightened 12 basis points.

The movement in Treasury rates and credit spreads resulted in a decrease in the pension discount rates used to discount pension liabilities. The discount rates for NEPC's hypothetical pension plans fell 38 basis points with the open total-return plan rate at 4.89%, while the discount rate for the frozen LDI-focused plan was 4.82%.

Credit Spread Movement



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately **104.4%** of PBO, as of January 31, 2023

RECENT INSIGHTS FROM NEPC

2023 Investment Manager Research Roundtable
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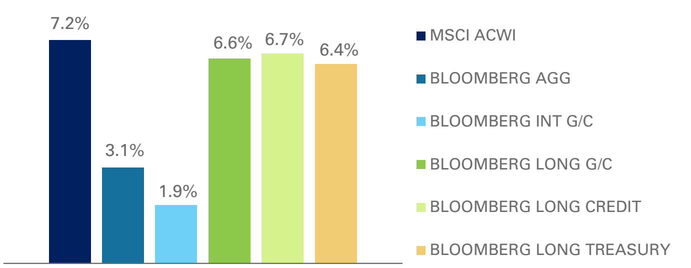
NEPC PENSION MONITOR

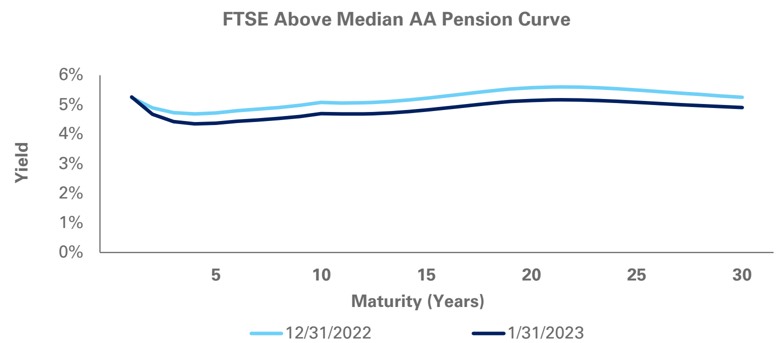
JANUARY 2023

PLAN SPONSOR CONSIDERATIONS

Equity and fixed-income markets were largely positive in January. Treasury yields generally declined, and the yield curve remained inverted between the one- and 10-year tenors. This resulted in lower discount rates used for valuing pension liabilities. At NEPC, we anticipate continued market volatility and the potential for market disruption. Plan sponsors should remain diligent about monitoring sources 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 with a flatter yield curve.

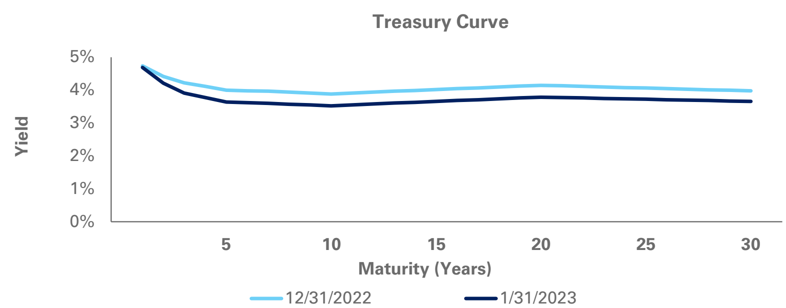
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





In January, U.S. equities were up 6.3%, according to the S&P 500 Index. Non-U.S. equity markets also delivered a robust performance with international developed markets returning 8.1%, according to the MSCI EAFE Index; emerging market equities gained 7.9%, according to the MSCI EM Index. Globally, the MSCI ACWI Index returned 7.2% in January.

The Treasury curve declined last month at tenors greater than one year and remained inverted from the one- to 10-year tenors. This resulted in gains for fixed-income markets, particularly for longer durations. During the same period, the Bloomberg Long Treasury Index was up 6.4% and the Bloomberg Long Credit Index rose 6.7%.



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.