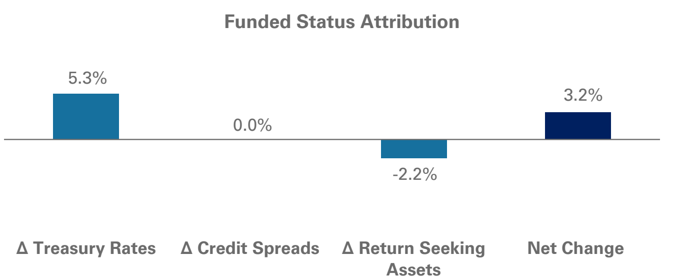
NEPC PENSION MONITOR

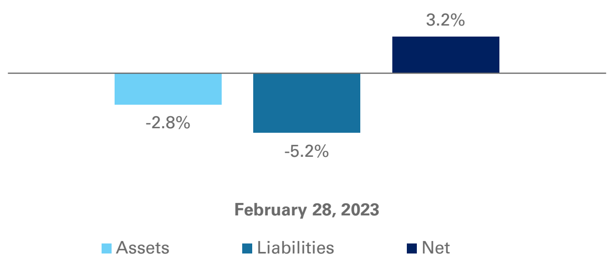
FEBRUARY 2023

In February, an increase in liability discount rates fueled improvements in the funded status of many corporate pension plans despite declines in the equity markets. However, plans with higher interest rate hedge ratios may have experienced a more muted change in funded ratio last month. The Treasury yield curve increased in February and remained inverted between the one- and 10-year tenors. Total-return-focused plans likely experienced gains in funded status from higher liability discount rates. Many LDI-oriented plans saw modest changes in funded status as declining liabilities were offset by equity market losses. NEPC's hypothetical pension plans witnessed a funded status increase of 3.2% for the total-return plan compared to an improvement of 0.1% for the LDI-focused plan.

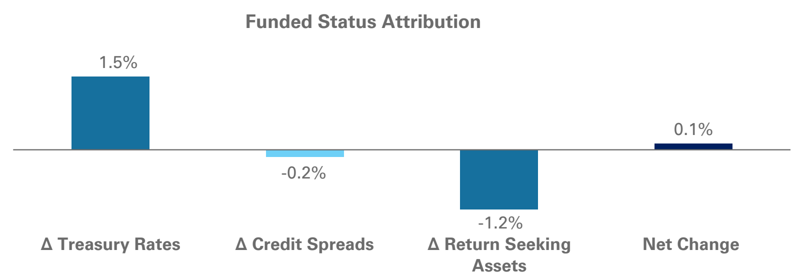
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



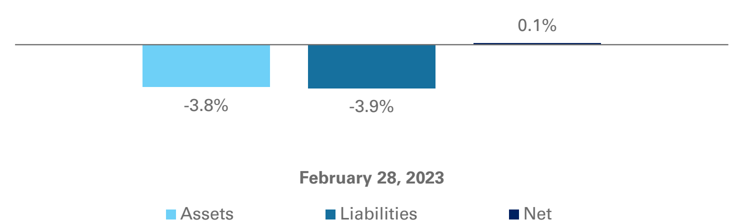
The funded status of the total-return increased 3.2% during the month as the impact of increased Treasury rates reduced liabilities in excess of equity market losses.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN



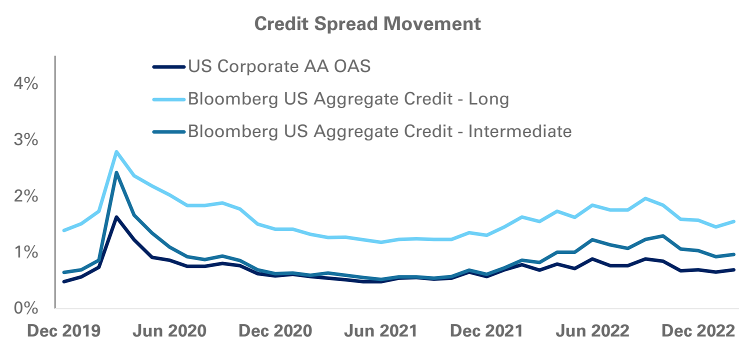
The funded status of the LDI-focused plan remained relatively flat due to higher credit spreads offsetting declining Treasury yields and equity returns. The plan is 82% hedged as of February 28.



RATE MOVEMENT COMMENTARY

The Treasury curve increased at all tenors during the month, and remained inverted from the one- to 10-year tenors. The 10-year yield increased 40 basis points to 3.92% and the 30-year yield rose 28 basis points to 3.93%. Rates for tenors up to 15 years have increased YTD while the 30-year tenor is down slightly YTD. Long-credit spreads widened 10 basis points during the month while intermediate spreads widened four basis points during February.

The movement in Treasury rates and credit spreads resulted in an increase in the pension discount rates used to discount pension liabilities. The discount rates for NEPC's hypothetical pension plans increased ~40 basis points with the open total-return plan rate at 5.27%, while the discount rate for the frozen LDI-focused plan was 5.24%.



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately **103.6%** of PBO, as of February 28, 2023

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2023 Investment Manager Research Roundtable
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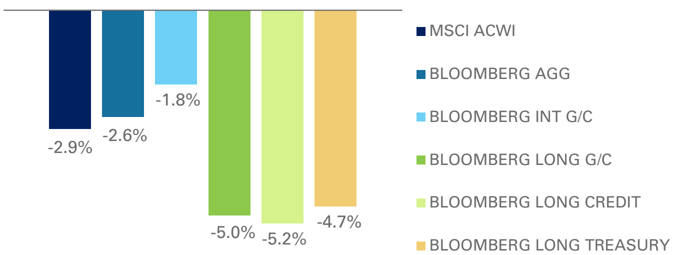
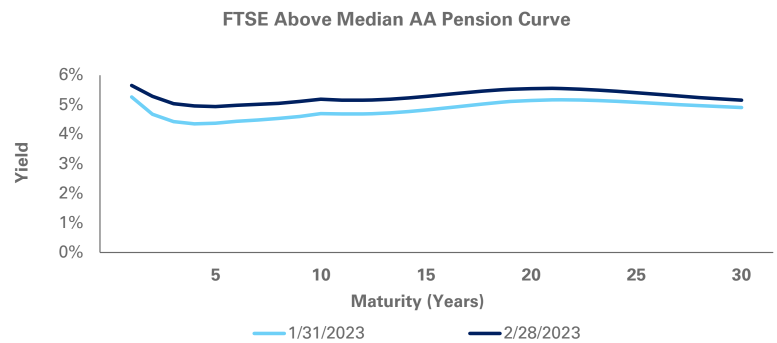
PLAN SPONSOR CONSIDERATIONS

Equity and fixed-income markets were largely negative in February. Treasury yields increased and the yield curve remained inverted between the one- and 10-year tenors. This resulted in higher 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.

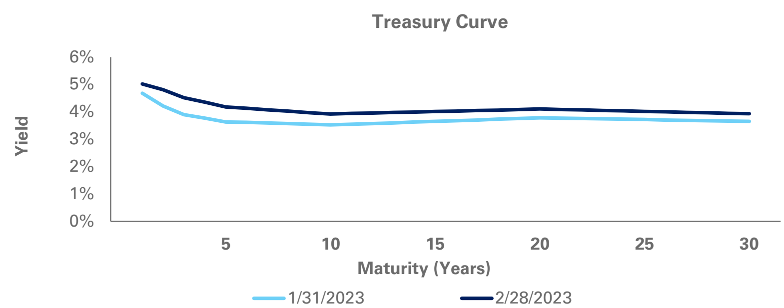
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





In February, U.S. equities were down 2.4%, according to the S&P 500 Index. Non-U.S. equity markets also lagged with international developed markets declining 2.1% in February, according to the MSCI EAFE Index. Emerging market equities were down 6.5% last month, according to the MSCI EM Index; global equities lost 2.9% during the same period, according to the MSCI ACWI Index.

The Treasury curve increased last month at all tenors and remained inverted from the one- to 10-year tenors. This resulted in losses for fixed-income markets, particularly for longer-duration assets. During the month, the Bloomberg Long Treasury Index was down 4.7% and the Bloomberg Long Credit Index declined 5.2%.



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.