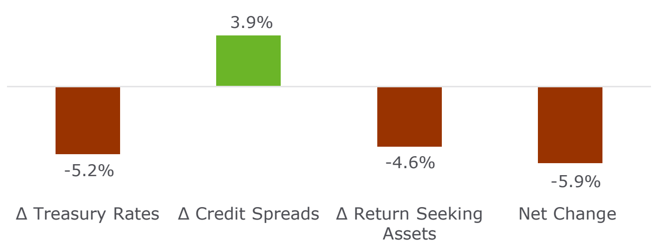
NEPC PENSION FUNDED STATUS MONITOR

FEBRUARY 29 2020

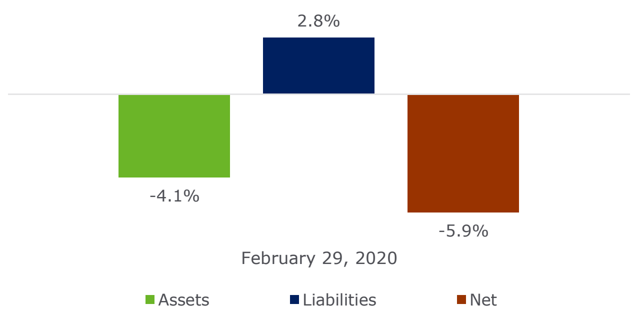
February resulted in a decline in funded status for typical corporate pension plans; funded status for total-return plans fell by around 5.9% and 3% for an LDI-focused plan, according to NEPC's hypothetical open- and frozen-pension plans.

HYPOTHETICAL OPEN/TOTAL-RETURN PLAN

Funded Status Attribution

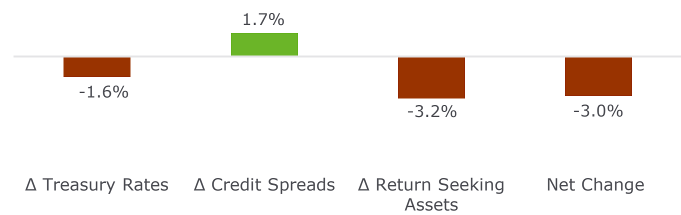


The funded status of total-return plans fell by 5.9% as equities nosedived amid escalating fears around the impact of the new Coronavirus; lower interest rates also resulted in higher liability valuations.

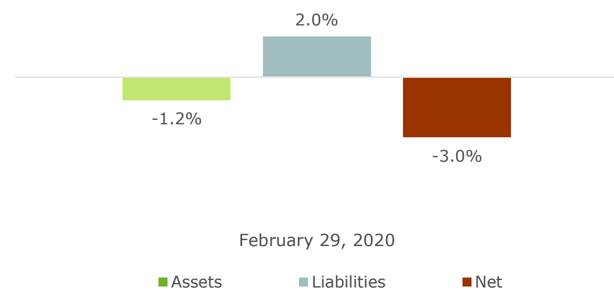


HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

Funded Status Attribution

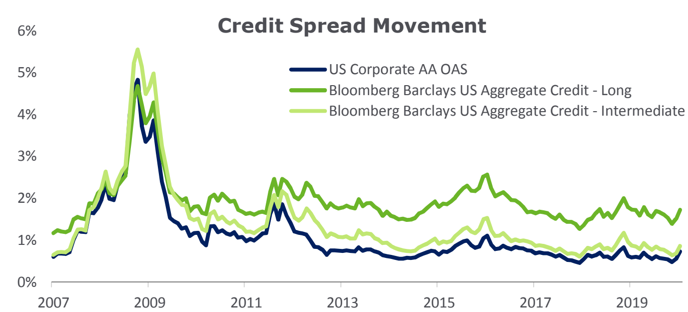


LDI-focused plans experienced a moderate decrease to funded status of 3% as bonds rallied amid a flight to quality. The plan is currently 71% hedged, as of February 29.



RATE MOVEMENT COMMENTARY

Treasury yields tumbled in February, with the 30-year Treasury falling 34 basis points. With spreads widening over the month, the estimated discount rate for the open total-return plan fell 16 basis points to 2.79% during the same period. Similarly, the discount rate of the frozen LDI-focused plan decreased 17 basis points to end the month at 2.59%. The lower discount rates resulted in an increase to estimated liability valuations of 2.8% and 2%, respectively, to total-return and LDI-focused plans with varying impact to liability duration. This increase in liability was accompanied by falling valuations of assets, largely attributable to the underperformance of equities. Portfolios that were positioned similarly to the total-return plan likely saw significant losses due to larger allocations to equities and smaller allocations to long-duration fixed income.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **105.6%** of PBO, as of February 29, 2020

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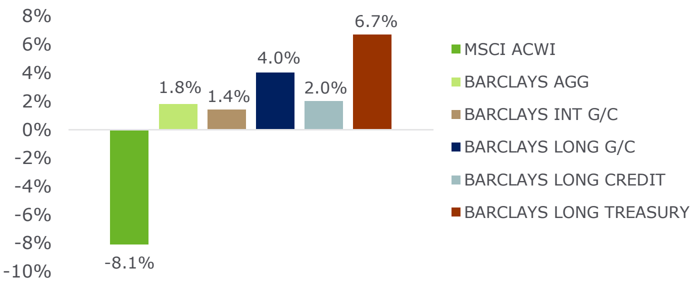
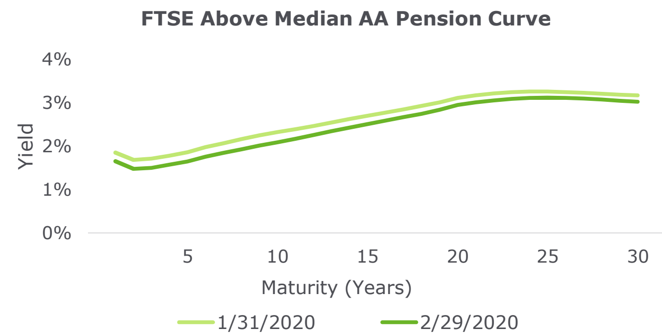
PLAN SPONSOR CONSIDERATIONS

February marked a particularly volatile month for capital markets with fears intensifying over the coronavirus pandemic; the CBOE Volatility Index shot up to 40.11, a new high since 2015. The funded status of most pension plans has likely taken a hit; however, long-duration fixed income outperformed for those hedging pension liabilities. Plan sponsors should maintain a long-term approach and be prepared for increased market volatility. During periods of market turmoil, NEPC can assist with monitoring glidepaths and advising clients on any opportuntities that may arise.

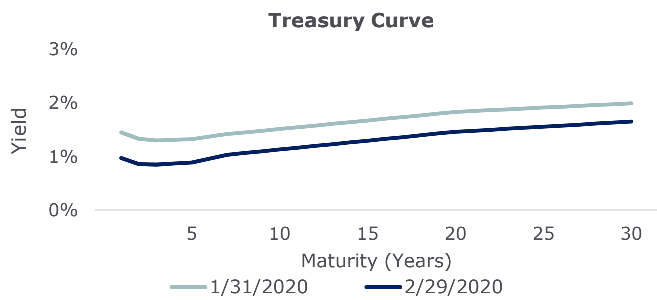
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





Global equities took a hard hit in February, reflecting heightened uncertainty around future earnings and the growth outlook for multinational corporations. Domestic stocks declined 8.2%, international developed market (excluding the US and Canada) equities fell 9% and emerging market stocks lost 5.3%.

Long Treasuries rallied, posting a 6.7% return in February, according to the Barclays Long Treasury Index, as Treasury yields fell 34 basis points at the long-end of the curve. Meanwhile, AA corporate spreads widened 17 basis points, partially offsetting liability losses from the drop in rates.



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.