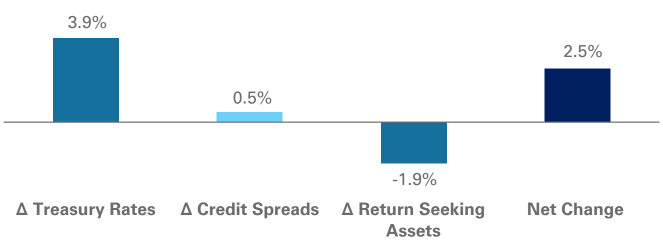
NEPC PENSION MONITOR

OCTOBER 2023

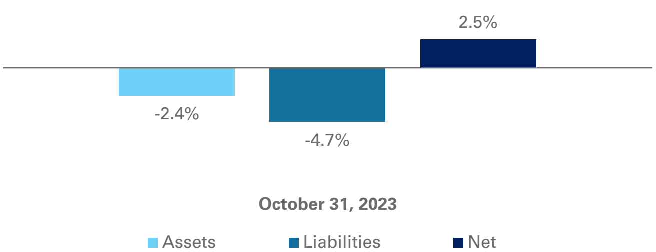
In October, pension plan sponsors experienced higher liability discount rates as Treasuries continue to rise. During this time, global public equities also posted losses. The Treasury yield curve rose across most tenors last month with the largest increases occurring at longer maturities. Total-return-focused plans likely experienced improvements in funded status due to the rise in discount rates. NEPC's hypothetical total-return pension plan experienced a funded status increase of 2.5% compared to a decline of 0.4% for the LDI-focused plan.

HYPOTHETICAL OPEN/TOTAL-RETURN PLAN

Funded Status Attribution

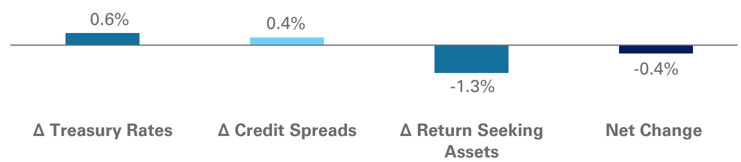


The funded status of the total-return plan increased due to lower liabilities from higher Treasury rates offsetting losses from return-seeking assets.

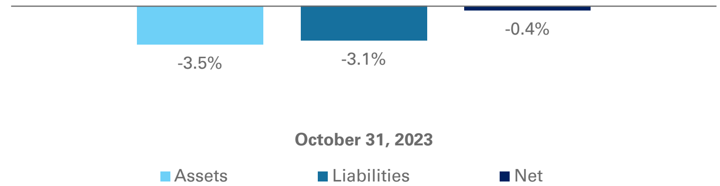


HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

Funded Status Attribution



The funded status of the LDI-focused plan modestly declined due to losses from return-seeking assets. The plan is 85.8% hedged as of October 31.

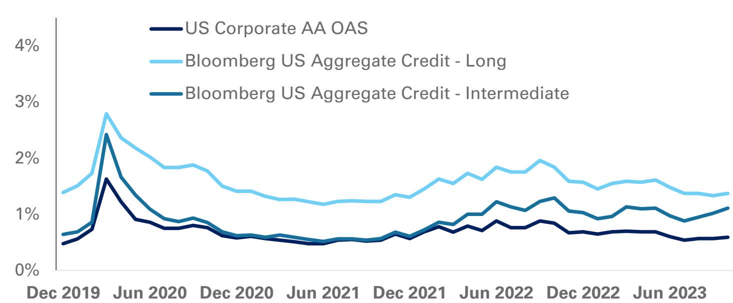


RATE MOVEMENT COMMENTARY

The Treasury yield curve increased by around 30 basis points in October, and remained inverted from the one- to 10-year tenors. The 10-year yield increased 29 basis points to 4.88%, while the 30-year yield rose 31 basis points to 5.04%. Rates across the yield curve have increased on a year-to-date basis.

The movement in Treasury rates and credit spreads resulted in higher pension discount rates used to discount pension liabilities. The discount rates for NEPC's hypothetical pension plans rose about 36 basis points to 6.25% for the open total-return plan, while the discount rate for the frozen LDI-focused plan was up around 35 basis points to 6.18%.

Credit Spread Movement



RETIREE BUYOUT INDEX

The Buyout Index for retirees is estimated to be approximately **104.2%** of PBO, as of October 31, 2023

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Taking Stock: Revisiting Investment Strategies in High Yield
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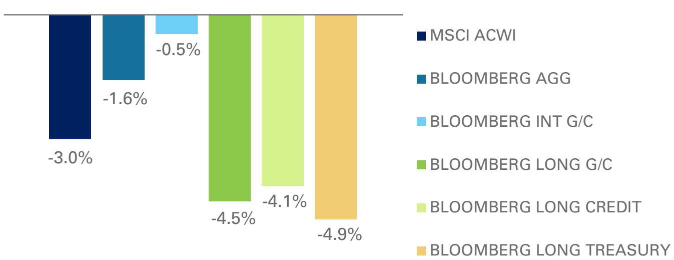
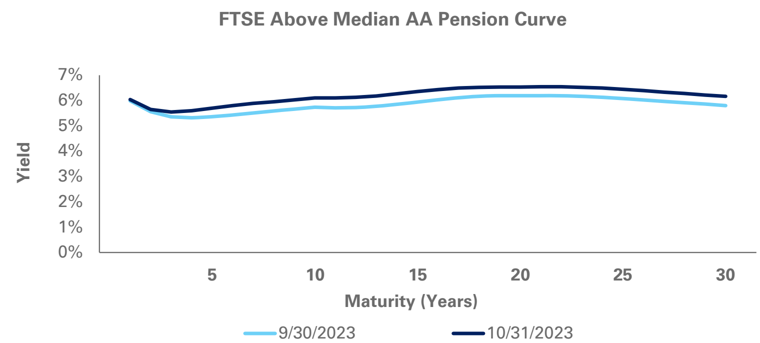
OCTOBER 2023

PLAN SPONSOR CONSIDERATIONS

The swoon in public equities continued in October, and long-dated fixed-income markets also posted losses due to an uptick in Treasury rates. Treasury yields picked up in October with the yield curve shifting higher, hitting year-to-date highs. Modest increases in credit spreads contributed to 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 longer-maturity rates with a flatter yield curve.

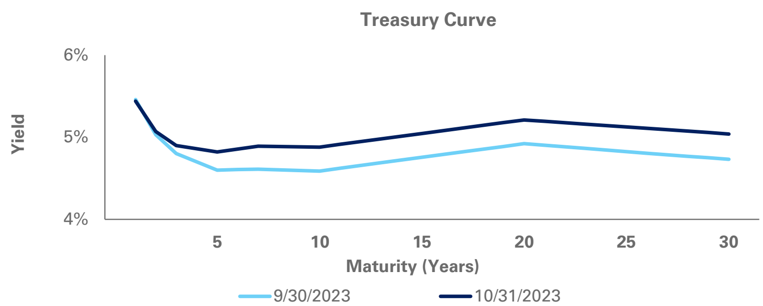
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





In October, U.S. equities lost 2.1%, according to the S&P 500 Index. During the same period, non-U.S. equities lagged U.S. stocks with international developed markets declining 4.1%, according to the MSCI EAFE Index. Emerging market equities were down 3.9% last month, according to the MSCI EM Index. Broadly, global equities declined 3% during the same period, according to the MSCI ACWI Index.

The Treasury curve increased by approximately 30 basis points from September to October at tenors 10 and greater and remained inverted from the one- to 10-year tenors. This resulted in losses for fixed-income markets, with long-credit fixed income experiencing modestly lower losses compared to long Treasuries. During the month, the Bloomberg Long Treasury Index declined 4.9% and the Bloomberg Long Credit Index lost 4.1%.



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 to 90% funded (Total-Return) and 100% funded (LDI-focused) as of December 31, 2022.

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.