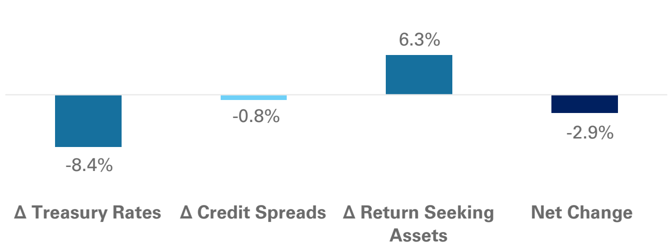
NEPC PENSION MONITOR

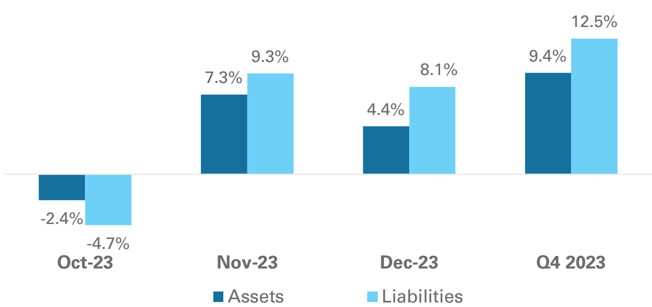
FOURTH QUARTER 2023

Decreases in Treasury rates fueled a reduction in liability discount rates and lower funded ratios for many U.S. corporate pension plans in the fourth quarter of 2023. Equities rallied in December and return-seeking assets contributed to an improvement in funded ratios; but those gains were offset by increases in liabilities driven by falling Treasury yields. During the quarter, global equity markets rose sharply as inflation eased and the Federal Reserve kept rates steady during the three months ended December 31, 2023. Estimated discount rates for pension liabilities, based on long-duration fixed-income yields, declined approximately 85 basis points. We estimate the funded status of our total-return plan decreased 2.9%, while our LDI-focused plan experienced a funded status increase of 3.3% in the fourth quarter.

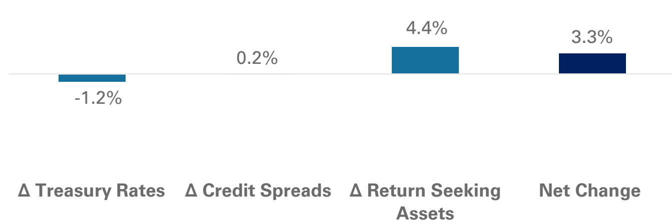
HYPOTHETICAL OPEN/TOTAL-RETURN PLAN



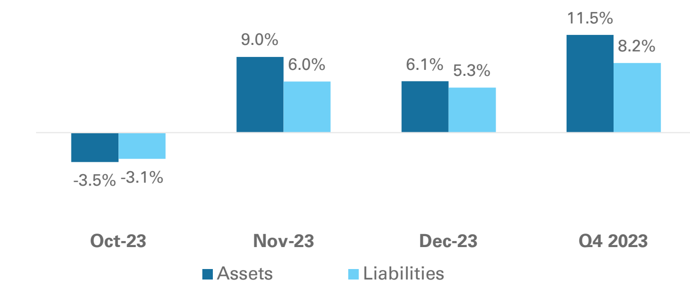
The funded status of the total-return plan decreased as Treasury yields dropped and credit spreads contracted. Losses from the liability increase exceeded gains in return-seeking assets.



HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

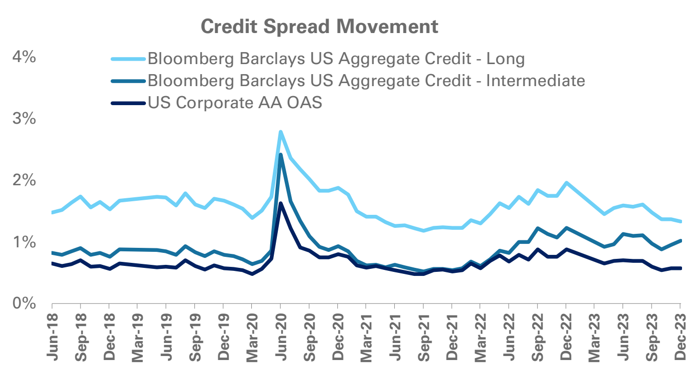


The funded status of the LDI-focused plan increased due to gains from return-seeking assets. The plan is 86% hedged as of December 31.



RATE MOVEMENT

Short- and long-term interest rates moved lower for the three months ended December 31. The 30-year Treasury yield decreased 70 basis points in the fourth quarter to 4.03%. In addition to the decrease in yields, there was a 16-basis point decline in long-credit spreads. During this period, lower Treasury yields resulted in a decrease in pension discount rates, with the rate for the open total-return plan decreasing 84 basis points to 5.05% and the discount rate for the frozen LDI-focused plan falling 85 basis points to 4.98% as of December 31.



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **102.7**% of PBO as of December 31, 2023

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Pension Risk Transfer 2.0, Part I: Going Back to the Basics
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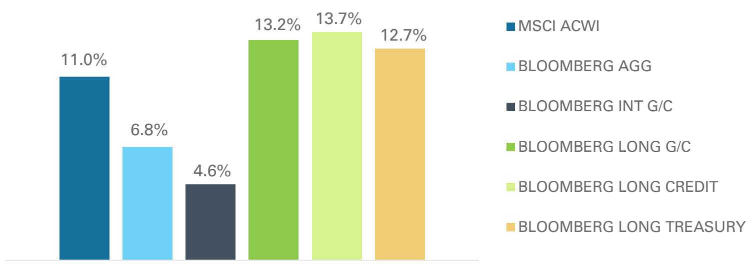
NEPC PENSION MONITOR

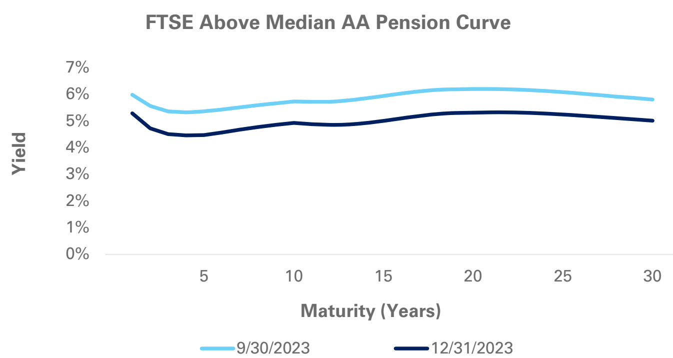
FOURTH QUARTER 2023

CONSIDERATIONS FOR PLAN SPONSORS

Equity and fixed-income markets were in the black in the fourth quarter of 2023. Despite their robust performance, the recent market environment has been challenging for plan sponsors as declining interest rates have generally been a headwind for plan funded status. Notably, long-term interest rates decreased by over 1% as of year-end from peak 2023 levels. Total-return plans may want to consider the impact of rate declines on plan liabilities and the role of LDI in light of such events. For certain plan sponsors, lower rates may increase liabilities and reduce funded status, which could lead to higher required contributions and PBGC variable-rate premiums. NEPC consultants are available to discuss the impact and cost of various pension finance and derisking strategies.

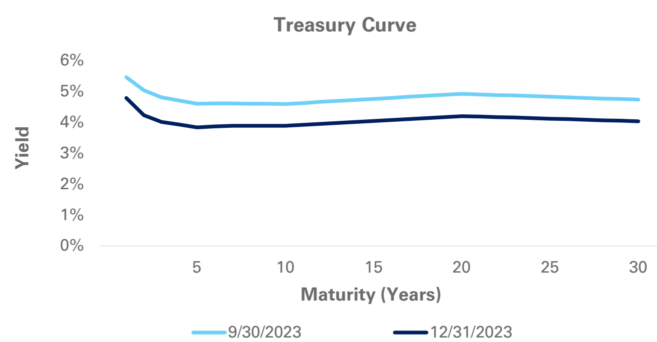
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





U.S. equities gained 11.7% in the fourth quarter of 2023. Non-U.S. developed market stocks modestly underperformed the U.S. as the MSCI EAFE increased 10.4% during the quarter; the MSCI Emerging Market Index rose 7.9% during the same period.

Treasury yields decreased and the yield curve remained inverted. The 30-year Treasury yield was 70-basis points lower for the quarter, resulting in a total return of 12.7% for the Bloomberg Long Treasury Index. During the same period, the Bloomberg Long Credit Index returned 13.7%.



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 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.