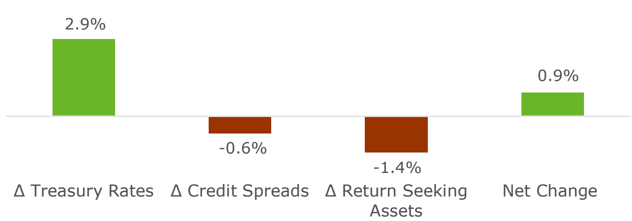
NEPC PENSION FUNDED STATUS MONITOR

OCTOBER 2020

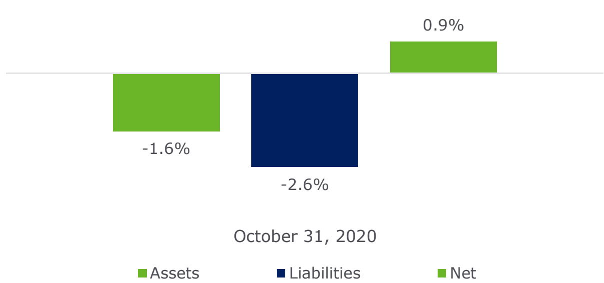
The funded status of a typical corporate pension plan saw small changes during October, with total-return plans outperforming LDI-focused plans that hedge interest-rate risk. With the downturn in equities and interest rates rising, the funded status for a typical total-return plan increased by 0.9%, while an LDI-focused plan saw a decrease of 0.2% based on NEPC's hypothetical open- and frozen-pension plans. Estimated liability valuations for both plans broadly decreased during the month.

HYPOTHETICAL OPEN/TOTAL-RETURN PLAN

Funded Status Attribution

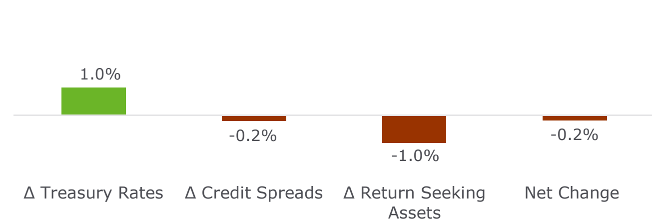


The funded status of the total-return plan increased by 0.9% driven by rising interest rates and despite a pullback in equities.

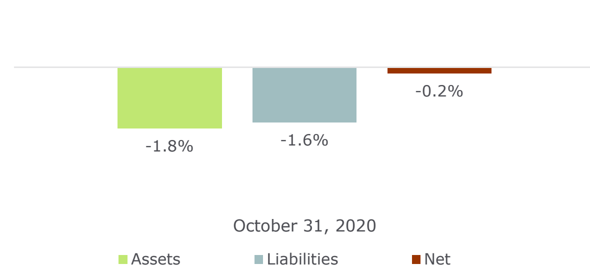


HYPOTHETICAL FROZEN/LDI-FOCUSED PLAN

Funded Status Attribution



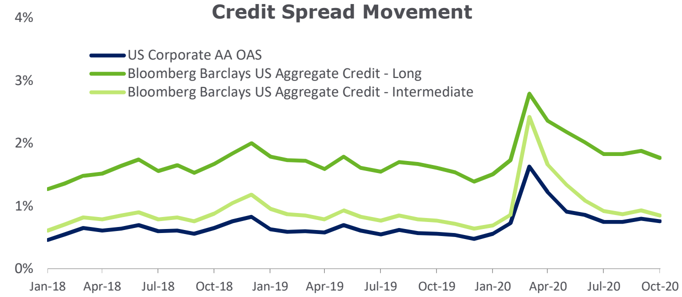
The funded status of an LDI-focused plan fell by 0.2% as losses from equities eroded gains from decreasing (hedged) liabilities. The plan is currently 78% hedged, as of October 31.



RATE MOVEMENT COMMENTARY

In October, Treasury yields rose and the yield curve steepened with the 30-year Treasury yield increasing by 19 basis points to 1.65%; credit spreads continued to contract. Discount rates for NEPC's hypothetical plans increased by 16 basis points for the open total-return plan, rising to 2.88% by the end of October; the discount rate of the frozen LDI-focused plan rose by 14 basis points to end the month at 2.57%. The resulting decrease to each plan's estimated liability value was 2.6% and 1.6% for the total-return and LDI-focused plans, respectively.

Credit Spread Movement



RETIREE BUYOUT INDEX

The Buyout Index for Retirees is estimated to be approximately **103.4%** of PBO, as of October 31, 2020

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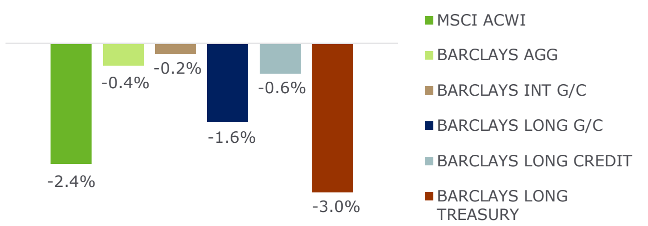
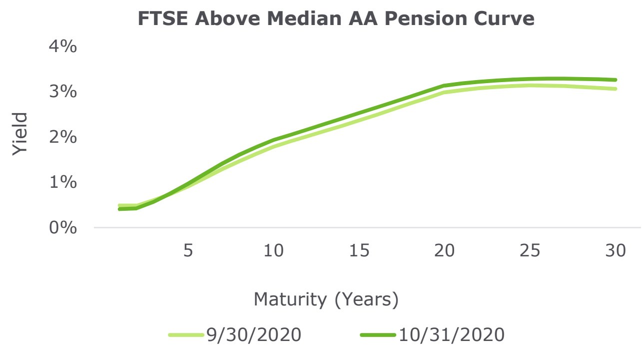
OCTOBER 2020

PLAN SPONSOR CONSIDERATIONS

Equities faltered in the last two weeks of October amid a wave of risk aversion as the rate of new COVID-19 cases escalated across the U.S. and Europe, and much anticipated additional fiscal stimulus failed to materialize. Treasury rates ticked up, but credit yields were largely unaffected as spreads continued to tighten. As seen in the recent NEPC DB Plan Flash Poll, plan sponsors have issued debt at these low rates to use as a source of liquidity, while pension-funding relief from Congress now seems unlikely in 2020. We maintain our recommendation to adhere to long-term strategic-target allocations and plan hedge ratios as post-election market volatility is expected.

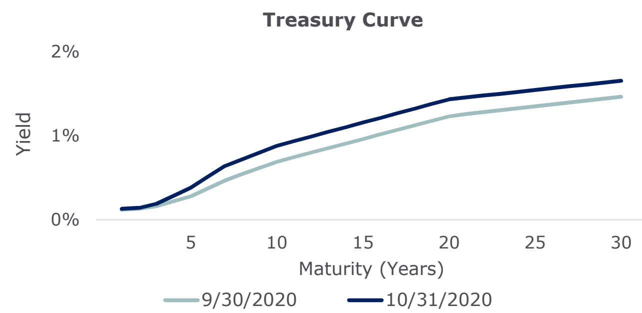
MARKET ENVIRONMENT AND YIELD CURVE MOVEMENT





Equities started October on a strong footing, only to reverse course mid-month as long-expected fiscal stimulus failed to materialize. As a result, the S&P 500 lost 2.7% last month. With Europe enforcing a second wave of lockdowns amid a sharp rise in COVID-19 cases, the EAFE Index fell 4% in October; emerging market equities gained 2.1%.

The Treasury curve steepened and interest rates rose in October, with the 30-year Treasury rising 19 basis points to 1.65%. During the same period, the Barclays Long Treasury Index posted a loss of 3%. Credit spreads continued to tighten, countering the rise in Treasuries, and the Barclays Long Credit Index fell 0.6% during the month.



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 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.