The Monthly Pension Review: June 2023

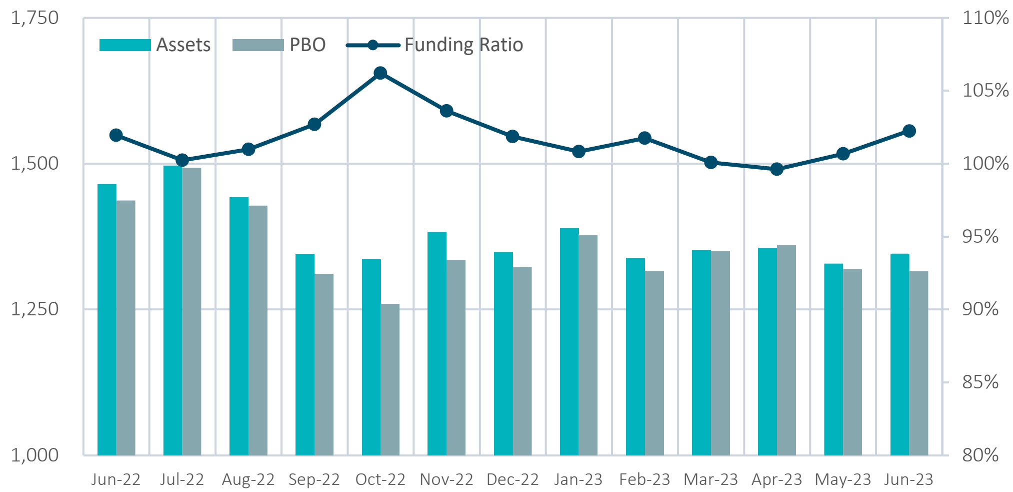
Funded status increases as equities have their best month of the year*

June Market Summary

- **Funded status increases by 1.6% through June** – Assets returned 1.8% while liabilities returned 0.3%.(1)
- **Equities post fourth consecutive positive month** – The S&P 500 Index returned 6.6% in June, the largest monthly return since October 2022, as excitement over artificial intelligence and a resilient U.S. economy boosted stocks.
- **The Long Credit Index yield fell by 6 basis points (bps) in June** – The yield decrease was primarily spread driven as long spreads tightened 13 bps.

Market Watch (2)	Dec-21	Dec-22	May-23	Jun-23
Funded Status	97.9%	101.9%	100.7%	102.2%
FTSE Discount Rate	2.63%	4.95%	4.89%	4.88%
Long Credit Yield	3.10%	5.59%	5.49%	5.42%
US 30Y TSY Yield	1.90%	3.96%	3.86%	3.86%
S&P 500	4,766	3,840	4,180	4,450

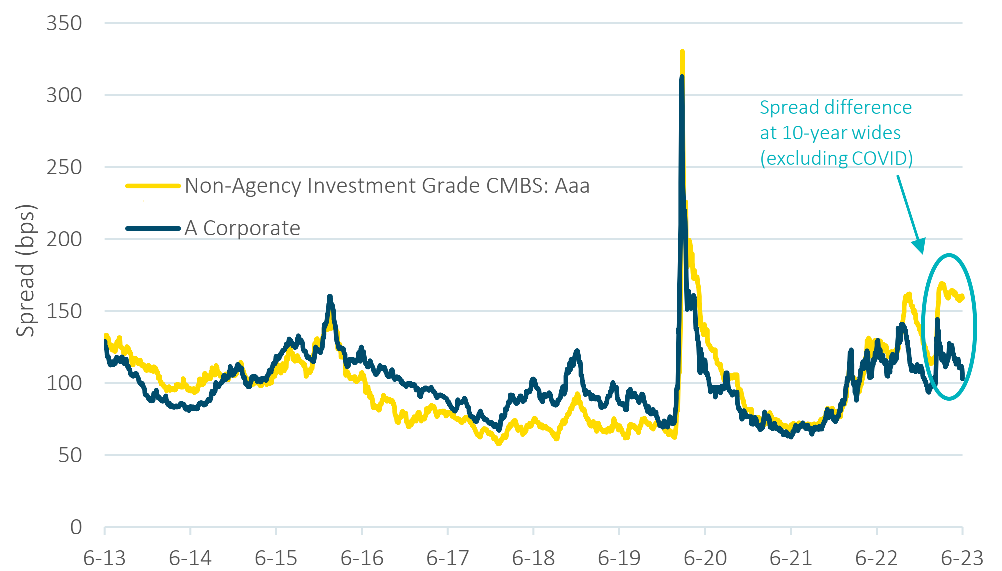
Milliman Pension Funding Index (June 2023)



SPOTLIGHT: LDI OPPORTUNITIES IN SECURITIZED CREDIT

- With the pension funding index at a June 2023 level of 102.2%, plan sponsors continue to consider increases to their fixed income portfolios as they progress along their glidepaths.
- For many plans, a move out of equity into fixed income can lead to additional concentration risk in traditional hedging assets like IG corporate bonds, as well as to potentially lower expected returns as plan sponsors move out of growth assets.
- To compensate for this, plan sponsors could consider adding diversifying corporate bond managers whose alpha generation is less correlated to existing managers, or to look to asset classes outside traditional corporate bonds that can help drive returns and add diversification.
- For instance, the higher spread/carry and expected return of comparably rated securitized credit can offset its lower correlation to liabilities compared to traditional credit. Securitized sectors such as commercial mortgage-backed securities, asset-backed securities and agency mortgage-backed securities present current opportunities for liability-driven investment (LDI) investors looking to further diversify their portfolios.
- For example, as of 6/30, AAA rated non-Agency CMBS spreads, with 30% credit enhancement and remote credit losses, generally trade 56 bps wider than single A rated corporate bonds (a 10+ year wide excluding levels during the 2020 pandemic).
- Pension plans looking to diversify their LDI portfolios can add a dedicated sleeve of securitized credit in their LDI benchmark or look for experienced LDI asset managers that have historically added value by investing in securitized credit when the relative value presents itself alongside traditional corporate credit.

AAA Non-Agency CMBS spreads 55+ basis points wide of A rated corporate credit



Source: Bloomberg.

*Based on monthly performance of the S&P 500 Index. Data from Bloomberg.

(1) Data from reference Bloomberg Indices. Funded status is in reference to Pension Funding Index of the top 100 US corporate pension plans sourced from Milliman.

(2) Funded Status source: Milliman. FTSE Discount Rate source: FTSE. Long Credit Yield source: Bloomberg. US 30Y TSY Yield source: Bloomberg. AAA Non-Agency CMBS and A Corporate source: Bloomberg.

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Market chart indices:
- AAA Non-Agency CMBS and A Corporate source: Index data from Bloomberg.

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(1) Funded Status for the current month is estimated and subject to change as final numbers are released. Data from reference Bloomberg Indices.
(2) The Long Credit yield corresponds to the Bloomberg Long Credit Index.