

The Monthly Pension Review: August 2024

PENSION FUNDED STATUSES CLIMB DESPITE EARLY-MONTH EQUITY DRAWDOWNS

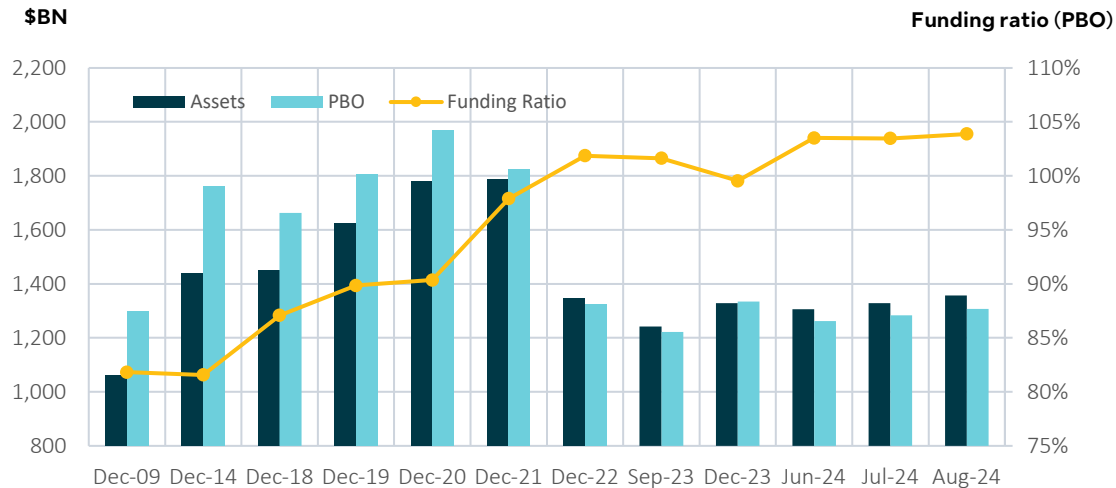


August Market Summary

- **Funded status increased slightly through August** – Assets returned 2.2% while liabilities returned 1.9%.⁽¹⁾
- **The S&P 500 Index returned 2.3% in August** – A sharp decline early in the month due to recession fears was followed by a swift recovery.
- **The Long Credit Index yield fell 13 basis points (bps) last month** – Treasury yields fell as the bond market continues to anticipate U.S. Federal Reserve rate cuts.

Market Watch	Dec-22	Dec-23	Jul-24	Aug-24
Funded Status ⁽¹⁾	101.9%	99.5%	103.5%	103.9%
FTSE Discount Rate	4.95%	4.76%	5.12%	4.91%
Long Credit Yield ⁽²⁾	5.59%	5.22%	5.49%	5.36%
US 30Y TSY Yield	3.96%	4.03%	4.30%	4.20%
S&P 500	3,840	4,770	5,522	5,648

Milliman Pension Funding Index (August 2024)¹



POTENTIAL BENEFITS OF INTERMEDIATE INVESTMENT GRADE PRIVATE CREDIT

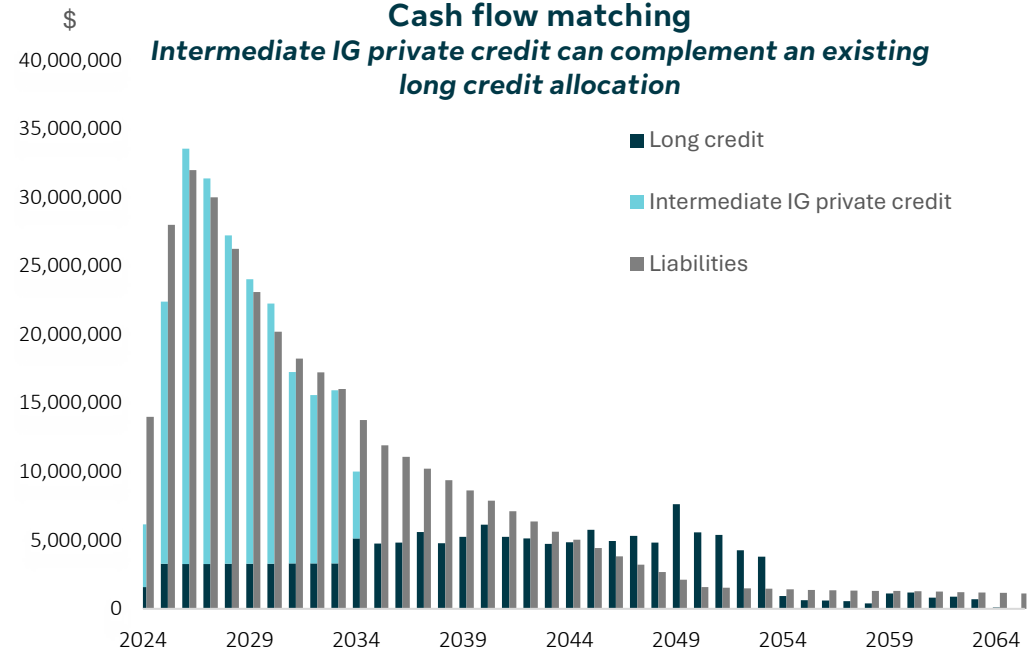
Investment grade (IG) private credit is an asset class typically utilized as an alternative to IG public credit. The former refers to debt issuance that normally carries an IG rating by a major rating agency, but in which borrowers are willing to pay a premium for the level of customization and additional privacy provided. IG private credit can offer numerous benefits to pension plans, including diversification from public, correlation to plan liabilities and a yield premium over equivalently rated public credit.

Investing in IG private credit offers plan sponsors access to a range of issuers and sectors outside of public markets. This can be critical for plan sponsors looking to reduce their concentration risk to names in the public markets and increase diversification. Additionally, IG private credit issues are typically priced relative to the interest rates and spreads underlying traditional IG public bonds, giving the former a direct connection to the discount curves used to value plan liabilities. Investors in IG private credit are compensated with additional yield for the complexity involved in sourcing, underwriting and monitoring these private deals. Critically, this yield premium does not imply additional credit risk, as the downside experience of this market compares favorably to public bond markets.

IG private credit is issued across a variety of tenors, making it suitable for different roles in a plan sponsor's portfolio. Depending on liability structure, intermediate duration IG private credit can be particularly attractive for sponsors. Intermediate IG private credit may offer an even higher yield premium over public, as these deals face less demand from life insurers who tend to dominate the market, and plan sponsors can also benefit from the additional cashflows generated through shorter dated maturities to help meet benefit payments.

Cash flow matching

Intermediate IG private credit can complement an existing long credit allocation



Long credit and intermediate IG private credit cash flows from Bloomberg Long Credit and Intermediate Credit indices, respectively (source: Bloomberg). Liabilities from representative SLC Management client account information.

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. Funded Status source: Milliman. FTSE Discount Rate source: FTSE. Long credit, US 30Y TSY yield, S&P 500 Index value 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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