

The Monthly Pension Review: November 2024

The S&P 500 Index had its best month of 2024 year to date

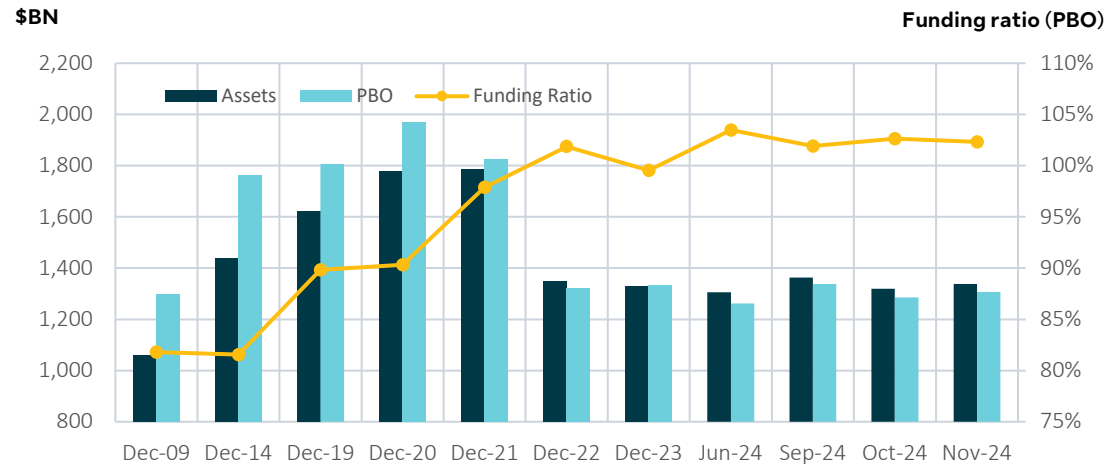


November Market Summary

- **Funded status fell slightly by 0.4% in November** – Assets returned 3.9% and liabilities returned 1.7%.¹
- **The S&P 500 Index rose 5.7% in November** – The index had its best month of 2024 year to date, with all sectors rising in the month after the election.
- **The Long Credit Index yield fell 14 basis points (bps) in November**– Long Treasury yields fell 12 bps.

| Market Watch | Dec-22 | Dec-23 | Oct-24 | Nov-24 |
|----------------------------------|--------------|--------|---------------|--------------|
| Funded Status ⁽¹⁾ | 101.9% | 99.5% | 102.7% | 102.3% |
| FTSE Discount Rate | 4.95% | 4.76% | 5.16% | 5.07% |
| Long Credit Yield ⁽²⁾ | 5.59% | 5.22% | 5.57% | 5.43% |
| US 30Y TSY Yield | 3.96% | 4.03% | 4.48% | 4.36% |
| S&P 500 | 3,840 | 4,770 | 5,705 | 6,032 |

Milliman Pension Funding Index (November 2024)¹

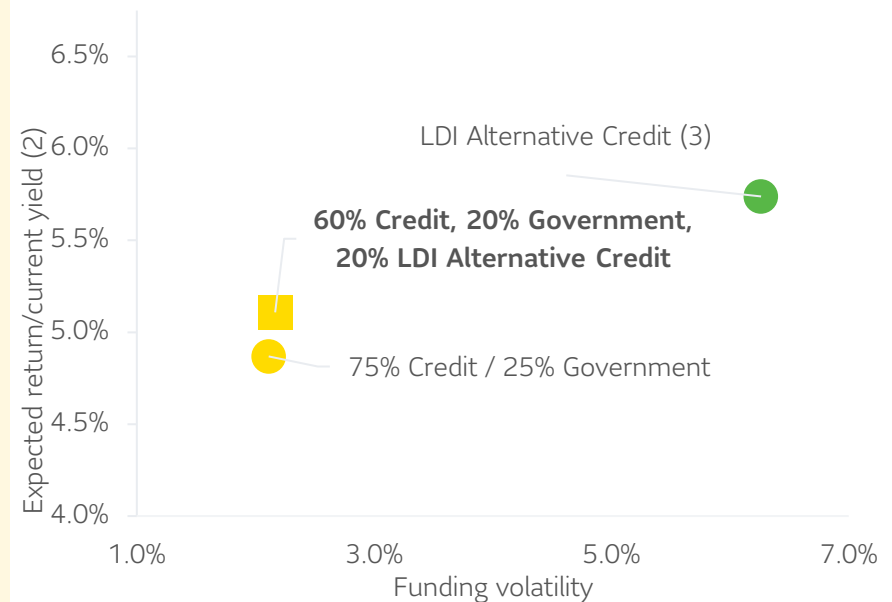


Alternative sources of credit in an LDI portfolio

Investment grade (IG) private credit, securitized fixed income, value-add real estate debt and other alternative credit sources have garnered interest from plan sponsors. These assets can serve as tools for liability-driven investment (LDI) portfolios, potentially supporting the growth and hedging goals of such strategies.

- IG private credit pays investors a spread premium over comparable public bonds due to the higher degree of customization and lower liquidity involved in private transactions. Additionally, IG private credit tends to have structural protections over public bonds, including collateral and maintenance financial covenants, that typically lead to lower defaults and downgrades. Finally, IG private credit can be an effective hedge as its yields exhibit strong correlation with typical liability discount rates.
- Securitized fixed income offers investors the ability to customize according to their desired risk and return characteristics, due to the wide range of securitized products available. These assets can offer excess spread as the interest rate received on the underlying assets will typically exceed what is offered on the securities issued. They can also contribute toward hedging efforts, with liquidity that supports benefit payments. In addition, a range of fixed and floating rate options are available to correspond to the investor's duration profile.
- Value-add real estate debt has strong return potential, often in line with expected returns for growth assets. From a liability hedging perspective, real estate debt provides long-term cash flows that can help meet benefit payments, although its pricing tends to be less correlated to liability discount rates compared to other fixed income variants.

Adding alternative credit to an LDI portfolio⁽²⁾



While these asset classes have many potential benefits for pension plans, plan sponsors should be aware of potential risks with alternative credit, including possible default risk and liquidity risk.

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, except for most recent month which is estimated based the return for representative pension plan asset allocation and prior month's liabilities adjusted for duration and change in discount rate. FTSE Discount Rate source: FTSE. Long credit, US 30Y TSY yield, S&P 500 Index value source: Bloomberg.

² Yield is not intended to convey the performance that will be earned by a particular investment or portfolio.

³ Asset class volatilities and US Value Add Real Estate Debt expected return from SLC Management Q3 2024 Strategic Expected Returns. Yields as of 11/30/2024. Credit represents a blend between the Bloomberg Intermediate Credit Index and the Bloomberg Long Credit Index. Government represents a blend between the Bloomberg Intermediate Government Index and the Bloomberg Long Government Index LDI Alternative Credit portfolio is 1/3 Intermediate IG Private Credit, 1/3 Bloomberg US Investment Grade CMBS, 1/6 US Value Add Real Estate Debt, and 1/6 BofA 10+ Year US Agency CMO. The above is for illustration purposes only.

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Market chart indices:

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

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