

LDI Highlights

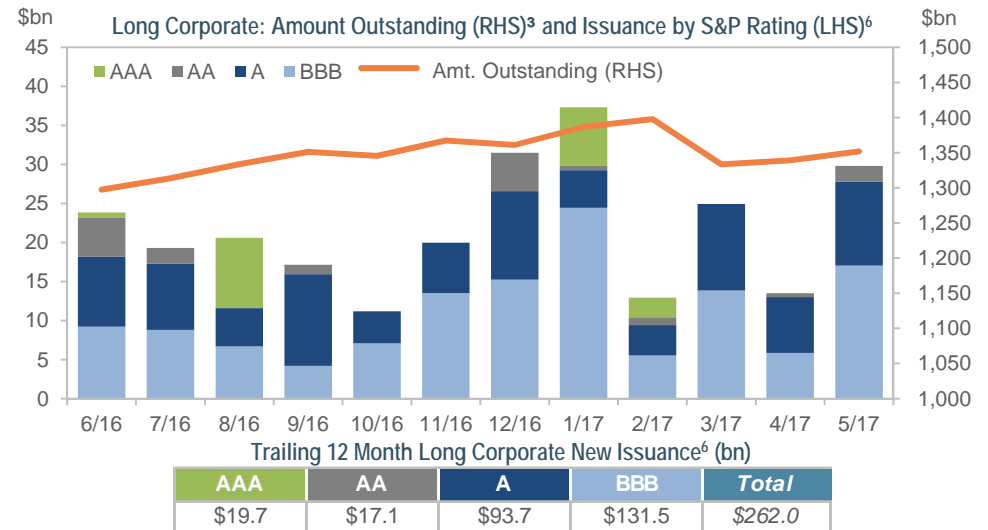
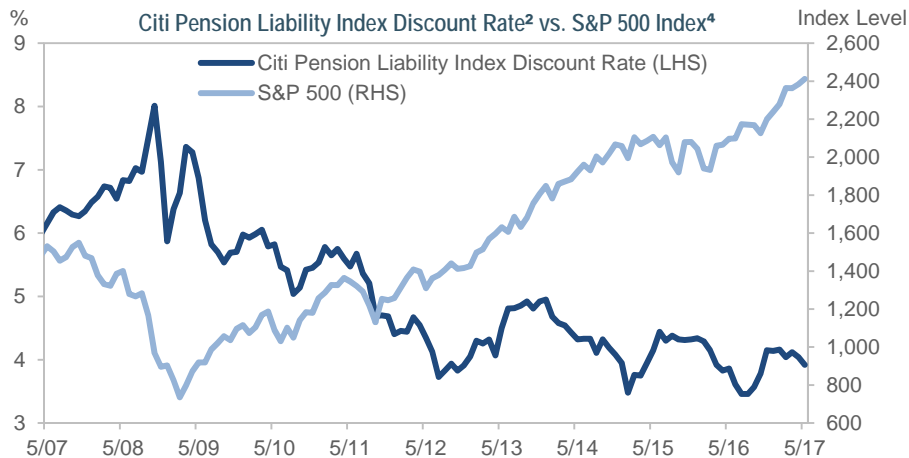
- Corporate pension funded status declined 1.1% during May, ending the month at 83.8%, and reversing much of the gains accumulated year-to-date.¹
 - The measure was pushed lower by discount rates that fell below 4% for the first time since the fall of 2016, while positive equity market returns did little to offset the drop.
- Long corporate yields ended the month at 4.29%, the year-to-date low, as strong demand persisted for longer-dated, higher yielding bonds.³
- Corporate issuance continued the monthly high-low trend during May, as \$154 billion was brought to the market, the second highest month of 2017.⁶
 - Year-to-date long corporate issuance, currently 20% of the total, remains elevated compared to its long-term average of 15%; 2% of the year-to-date total has greater than 30-years to maturity.

IR+M LDI Corner: Is 50 The New 30?

- In response to the current low-rate environment, it comes as little surprise that the US Treasury is considering issuing ultra-long bonds (greater than 30-years to maturity).
- From an investor perspective, we believe that this is a natural fit for plan sponsors looking to add duration to their portfolios. We have seen an uptick in STRIPs usage in the LDI space and ultra-long bonds could play a similar role.
- From a dealer perspective, the response to the news was less enthusiastic. The inability to hedge their exposure to ultra-long bonds with existing instruments is a concern for many, especially in a regulatory environment in which balance sheet costs have increased.
- Despite the tepid initial support from the dealer community, the Treasury is committed to studying the issue further. However, it remains to be seen if the buyer base would be sufficient to justify a new ultra-long tenor.

Rates Monitor	5/31/17	4/30/17	12/31/16
Citigroup Pension Discount Rate ² (%)	3.92	4.04	4.14
Bloom Barc Long Credit Yield ³ (%)	4.30	4.42	4.55
Bloom Barc Long Corporate Yield ³ (%)	4.29	4.42	4.54
Bloom Barc Long BBB Corp Yield ³ (%)	4.63	4.78	4.93
30 Year Swap Rate ⁴ (%)	2.42	2.52	2.63
Long BBB Corp. Yield ³ - Citi Pension Discount Rate ² (bps)	71	74	79

Glidepath Monitor	5/31/17	4/30/17	12/31/16	5/31/16	5/31/14
Funded Status ¹ (%)	83.8	84.9	83.3	78.4	83.6
Long Credit Rates ⁵ (%)	4.30	4.42	4.55	4.44	4.55
Long Credit Spreads ⁵ (bps)	164	167	167	210	151
Curve ³ (Long Cred - Int. Cred) (bps)	177	182	180	201	248
Curve ³ (Long G/C - Agg) (bps)	122	126	134	147	189



¹Milliman (Historical numbers revised as of 3/31/17); ²Citigroup; ³Bloomberg Barclays; ⁴Bloomberg; ⁵Long rates and long spreads represented by Bloomberg Barclays Long Credit Index yield and spread; ⁶JP Morgan
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