

LDI Highlights

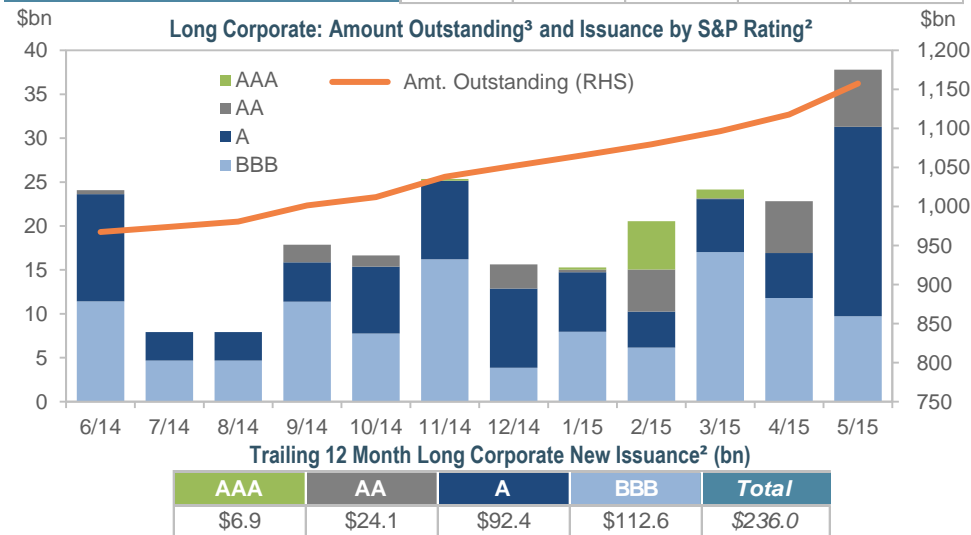
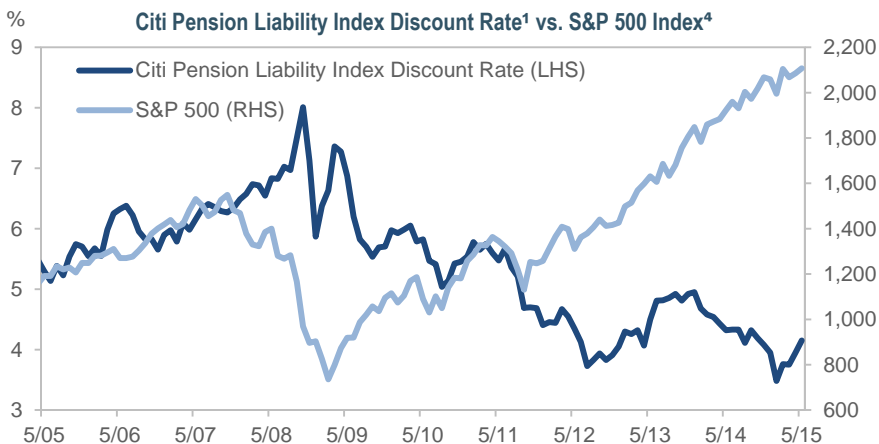
- Corporate pension funded status continued its upward momentum during May, rising 2% to 83%.
 - The S&P 500 Index returned 1.05% while the yield on AA-rated bonds within the Barclays Long Corporate Index rose 0.18% to 4.11%.
- \$149 billion of corporate bonds were issued during May, a new record monthly issuance total, surpassing the prior record set in March of this year.
 - Long corporate issuance made up over 25% of the total, versus an average of 15% over the past 15 years.
- On the heels of record issuance during May, long corporate spreads widened 8bps to 194bps³; the 10s30s credit spread curve steepened 2bps, ending the month at 52bps².

Rates Monitor	5/31/15	4/30/15	12/31/14
Citigroup Pension Discount Rate ¹ (%)	4.15	3.95	3.95
Barclays Long Credit Yield ³ (%)	4.58	4.41	4.40
Barclays Long Corporate Yield ³ (%)	4.60	4.43	4.42
Barclays Long BBB Corporate Yield ³ (%)	4.97	4.81	4.80
30 Year Swap Rate ⁴ (%)	2.63	2.53	2.70
Long BBB Corp. Yield ³ – Citi Pension Discount Rate ¹ (bps)	82	86	85

IR+M LDI Corner: It's All Relative

- As plan sponsors review the relative performance of their growth portfolios versus their hedging portfolios, many will find that strong long-bond returns drove their hedging portfolios to outperform in 2014.
- While we are always happy to see bonds perform well, comparing the returns of these two portfolios can be misleading as they have very different goals – for the hedging portfolio, the aim is typically risk reduction versus the plan liabilities, not total return.
- Emphasizing asset-only return rather than risk reduction is commonplace when reviewing LDI performance; however, strong returns alone do not necessarily indicate the success of the hedging portfolio.
- Rather, it is more telling to consider the hedging portfolio's performance relative to the performance of the liability it is designed to hedge. Framing the discussion in this manner is key to understanding the true value of an LDI program.

Glidepath Monitor	5/31/15	4/30/15	12/31/14	5/31/14	5/31/12
Funded Status ¹ (%)	83	81	83	84	78
Long Credit Rates ⁵ (%)	4.58	4.41	4.40	4.55	4.68
Long Credit Spreads ⁵ (bps)	193	186	185	151	237
Curve ³ (Long Cred - Int. Cred) (bps)	227	217	199	248	218
Curve ³ (Long G/C - Agg) (bps)	172	164	151	189	172



¹Citigroup; ²JP Morgan; ³Barclays; ⁴Bloomberg; ⁵Long rates and Long spreads represented by Barclays Long Credit Index yield and spread
 All data in the above commentary is as of 5/31/15. Yields are represented as of the aforementioned date and are subject to change. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations for, or projected returns of any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management.