INCOME RESEARCH + MANAGEMENT

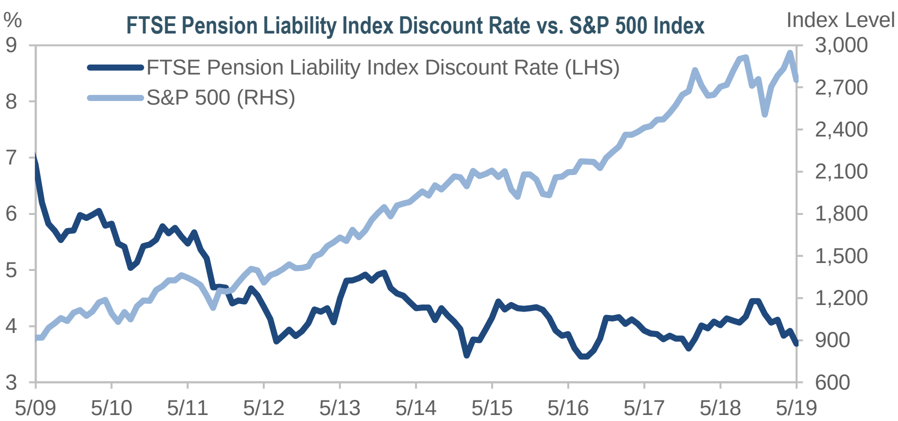
LDI MONITOR

May 31, 2019

LDI Highlights

- Weakness in risk markets and a drop in bond yields dragged on corporate pension funded status, which fell by 3.5% to end the month at 87.9%.
    - Weakness in equities also weighed on funded status, as the S&P 500 Index declined by over 6% during May.
    - Discount rates plunged by 22bps amid the significant rally in Treasury yields.
- Investment-grade issuers priced slightly over $30 billion in long-duration supply, an increase from the $23 billion printed in April.
- Trade tensions and concerns regarding global growth led to a risk-off tone, and long-end spreads widened by 21bps on the month.
- Spread curves steepened as the Treasury rally kept yield-sensitive buyers, which had anchored long-end spreads, on the sidelines.

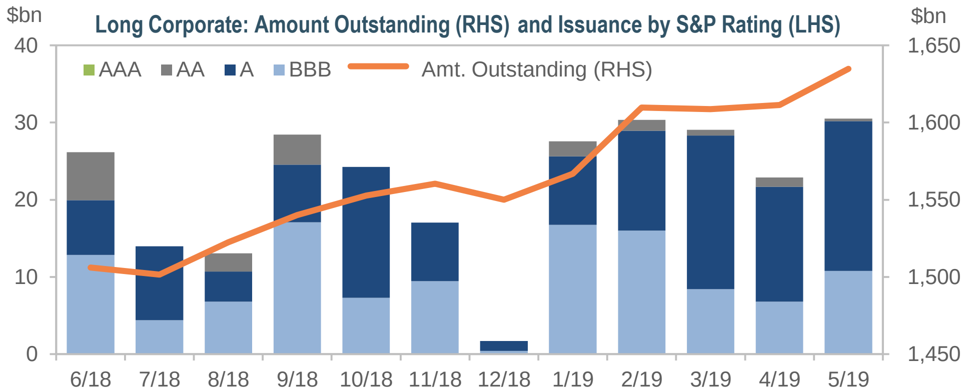
Rates Monitor	5/31/19	4/30/19	12/31/18
FTSE Pension Liability Discount Rate (%)	3.69	3.91	4.22
Bloom Barc Long Corporate Yield (%)	4.23	4.38	4.91
Bloom Barc Long Corporate A+ Yield (%)	3.79	3.98	4.40
Bloom Barc Long Corporate BBB Yield (%)	4.64	4.74	5.36
30 Year Swap Spread (bps)	-27	-24	-17



IR+M LDI Corner: A Securitized Middle Ground

- As plan sponsors have progressed along their glidepaths, we have seen increased interest in adding securitized allocations to their hedging portfolios. Securitized bonds are often seen as a diversifier to corporate credit, while still offering a yield spread over Treasuries.
- The challenge for many sponsors is building a truly diversified securitized portfolio, while still maintaining adequate duration to meet their hedging needs.
    - Shorter-duration securitized portfolios can utilize a broad array of best ideas; however, sponsors may need to compensate for the lack of duration.
    - The longer securitized universe is dominated by collateralized mortgage obligations (CMOs), which can lead to a concentrated portfolio or a less stable duration profile.
- For plan sponsors looking to find a middle ground, we believe that it is possible to construct well-diversified securitized portfolios with a duration profile in the 7-9 year range; long enough to help meet many sponsors' hedging goals while still utilizing a broad selection of best ideas in the securitized markets.

Glidepath Monitor	5/31/19	4/30/19	12/31/18	12/31/15
Funded Status (%)	87.9	91.4	89.4	81.7
Long Corporate Spreads (bps)	180	159	200	227
Curve (Long Corp - Int. Corp) (bps)	78	73	69	88



Trailing 12 Month Long Corporate New Issuance (bn)

AAA	AA	A	BBB	*Total*
$0.0	$18.1	$130.0	$116.9	$265.0

Sources: Milliman (Historical numbers revised as of 3/31/19), FTSE Russell (formerly Citigroup), Bloomberg Barclays, Bloomberg, and JPMorgan