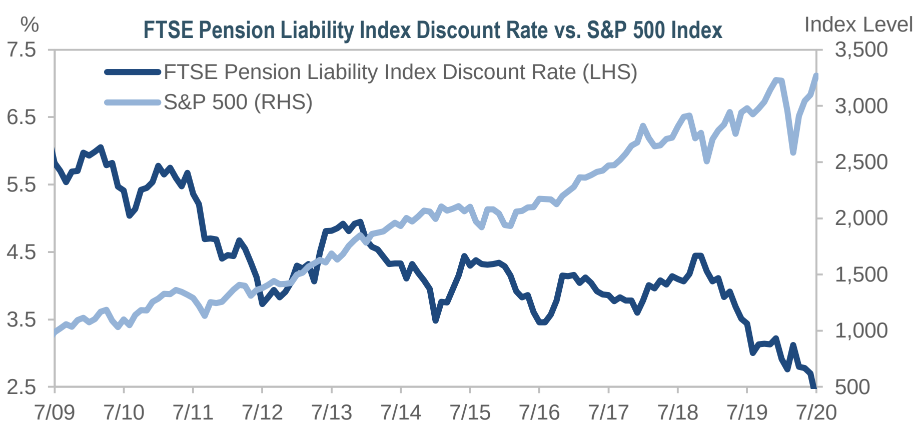
LDI MONITOR

July 31, 2020

LDI Highlights

- Corporate pension funded status fell by 2.4% during July to close the month at 81.1%, the lowest level in almost four years.
  - Discount rates declined by nearly 40bps to 2.31%, and was the primary driver of the decrease in funded status.
  - Positive risk asset performance was not enough to offset the fall in rates, with the S&P 500 Index returning approximately 5.6%.
- Long-duration issuance totaled roughly $27 billion; the year-to-date total of $409 billion was well-above the average annual total of only $211 billion.
- A healthy appetite for risk supported corporate credit markets, and long corporate spreads tightened by 20bps to close at 182bps.
  - Long corporate spreads were 177bps tighter than the March wides of 359bps, and just 2bps wider than the five-year average.

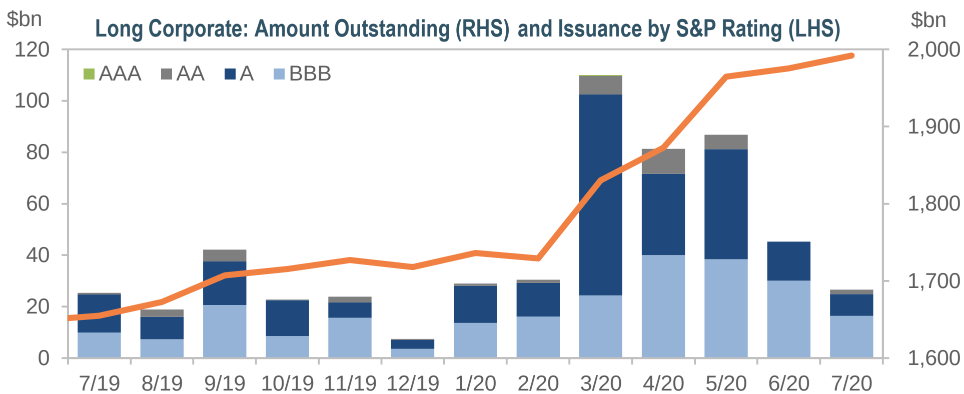
Rates Monitor	7/31/20	6/30/20	12/31/19
FTSE Pension Liability Discount Rate (%)	2.31	2.70	3.22
Bloom Barc Long Corporate Yield (%)	2.78	3.17	3.60
Bloom Barc Long Corporate A+ Yield (%)	2.37	2.75	3.25
Bloom Barc Long Corporate BBB Yield (%)	3.21	3.61	3.94
30 Year Swap Spread (bps)	-43	-50	-30



IR+M LDI Corner: Is It Time to Refinance Your Pension?

- Interest rates continued to drop and reached new historic lows – the 10-year Treasury rate closed July at an all-time low of 53bps, down 139bps year-to-date.
  - This may prompt plan sponsors to consider taking advantage of cheap financing rates by issuing debt to fund up their pension plans.
  - New issuance has historically slowed in the summer months, but regardless, demand has been healthy with deals multiple times oversubscribed.
- Rating agencies recognize that borrowing to fund pensions is akin to exchanging a floating rate for a fixed rate debt, hence no penalization to credit ratings.
- Sponsors can provide protection against interest rate and market volatility by placing the proceeds in Liability Driven Investing (LDI) strategies.
- An added benefit of reducing pension deficits is lowering variable rate PBGC premiums (currently 4.5% of unfunded benefits compared to 3.21% YTM on long BBB bonds).

Glidepath Monitor	7/31/20	6/30/20	12/31/19	12/31/15
Funded Status (%)	81.1	83.5	89.8	81.7
Long Corporate Spreads (bps)	182	202	136	227
Curve (Long Corp - Int. Corp) (bps)	80	83	66	88



Trailing 12 Month Long Corporate New Issuance (bn)

AAA	AA	A	BBB	*Total*
$0.2	$36.7	$252.6	$234.8	$524.2

Sources: Milliman (Historical numbers revised as of 4/30/19), FTSE Russell (formerly Citigroup), Bloomberg Barclays, Bloomberg, and JPMorgan