

The Monthly Pension Review: April 2023

Liabilities increase as discount rates continue to fall

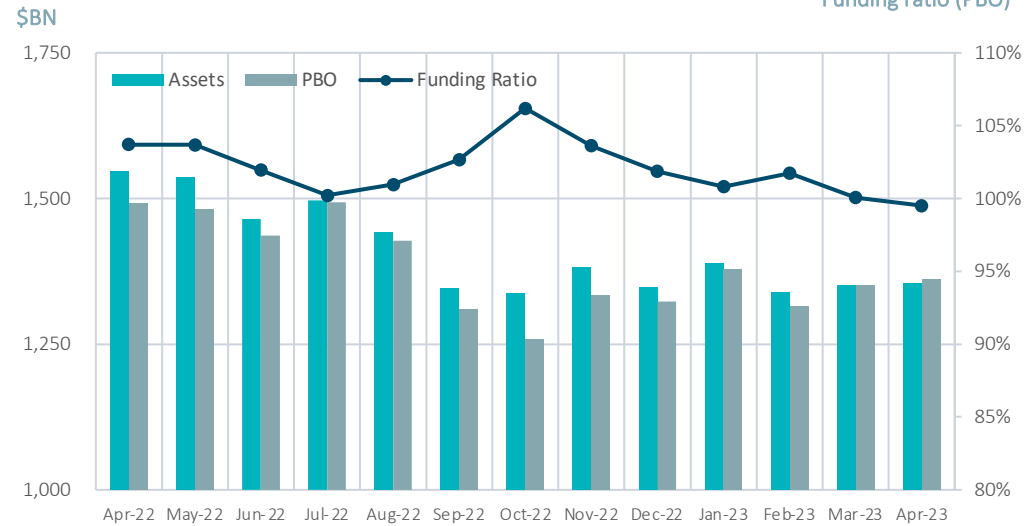


April Market Summary

- Funded status falls slightly by -0.5% through April – Assets returned 0.6% while liabilities returned 1.2%.⁽¹⁾
- Equities post consecutive positive months – The S&P 500 Index returned 1.6% in April as strong earnings from major tech companies in the last week of the month propelled the index.
- The Long Credit Index yield decreases by 4 basis points (bps) in April after falling 29 bps in March – Long spreads tightened just 2 bps through April.

Market Watch ⁽²⁾	Dec-21	Dec-22	Mar-23	Apr-23
Funded Status	97.9%	101.9%	100.1%	99.5%
FTSE Discount Rate	2.63%	4.95%	4.70%	4.66%
Long Credit Yield	3.10%	5.59%	5.28%	5.24%
US 30Y TSY Yield	1.90%	3.96%	3.65%	3.67%
S&P 500	4,766	3,840	4,109	4,169

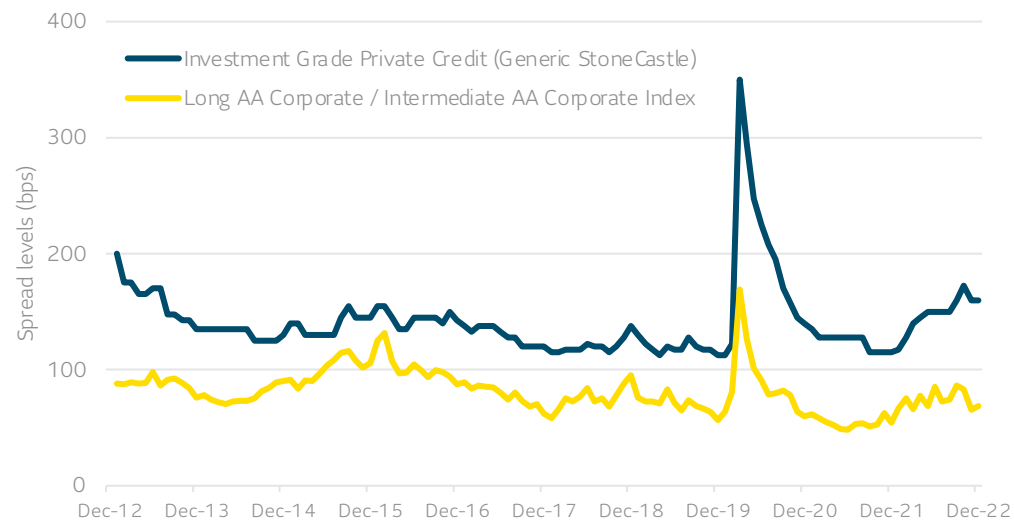
Milliman Pension Funding Index (April 2023)



SPOTLIGHT: DIVERSIFIED CREDIT IN AN LDI PORTFOLIO

- Last year, the average funded status of the top 100 corporate pension plans reached fully funded for the first time since early 2008. On the back of these gains, plan sponsors increased their fixed income allocations to over 51% of their total portfolio, according to the 2023 Milliman Corporate Pension Funding Study.
- While implementing a liability driven investing (LDI) framework can significantly decrease surplus volatility versus pension liabilities, a concentration in traditional hedging assets like public fixed income can lead to reduced portfolio diversification and lower expected returns as plan sponsors move out of growth assets.
- In response to this, we are seeing plan sponsors build more holistic liability hedging portfolio's that utilize LDI diversifiers such as investment grade private credit (IGPC), securitized credit, and/or commercial mortgage loans (CML). These LDI diversifiers seek to improve portfolio return through illiquidity premiums, structure/complexity premiums, sector diversification and name diversification versus public credit. This is particularly applicable within the intermediate duration space where both the breadth of diversifying options as well as the relative value available is often greater.
- IGPC often comes with a yield advantage and stronger covenants vs. public credit. And while long duration IGPC is becoming a popular hedging tool among pension plans, the intermediate space can often look even more inviting due to the flat nature of private credit spread curves, which are typically anchored in the long end by the demand from other long-term investors like life insurers.
- IGPC deals also exhibit strong correlation to AA corporate liability discount rates as they are typically priced off public market valuations. And while privates can often lag public market pricing, they track more closely when measured over longer time frames.

IGPC 10-year monthly spread correlation vs. AA Index = 0.8



Source: Bloomberg, StoneCastle securities, as of December 2022.

The Long AA Corporate / Intermediate AA Corporate Blended Benchmark is blended monthly to target the duration of the 50%/50% blend of the Long Corporate / Intermediate Corporate Indices. The Investment Grade Private Credit spreads are based on a 50/50 blend of 10-year A2 & BBB2 spreads provided by StoneCastle securities. Correlation data is measured based on monthly observations from 12/31/2012-12/31/2022

(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.

(2) Funded Status source: Milliman. FTSE Discount Rate source: FTSE. Long Credit Yield source: Bloomberg. US 30Y TSY Yield source: Bloomberg. S&P 500 source: Bloomberg. Long Corporate Index source: Bloomberg.

(3) Investment-grade credit ratings of our private placements portfolio assets are based on a proprietary, internal credit rating methodology that was developed using both externally-purchased and internally developed models. This methodology is reviewed regularly. More details can be shared upon request. There is no guarantee that the same rating(s) would be assigned to portfolio asset(s) if they were independently rated by a major credit ratings organization.

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Market chart indices:

- Historical spread correlation source: Index data from Bloomberg, Investment Grade Private Credit spread data from StoneCastle securities.

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(1) Funded Status for the current month is estimated and subject to change as final numbers are released. Data from reference Bloomberg Indices.

(2) The Long Credit yield corresponds to the Bloomberg Long Credit Index.