MONTHLY PENSION REVIEW: JUNE 2022

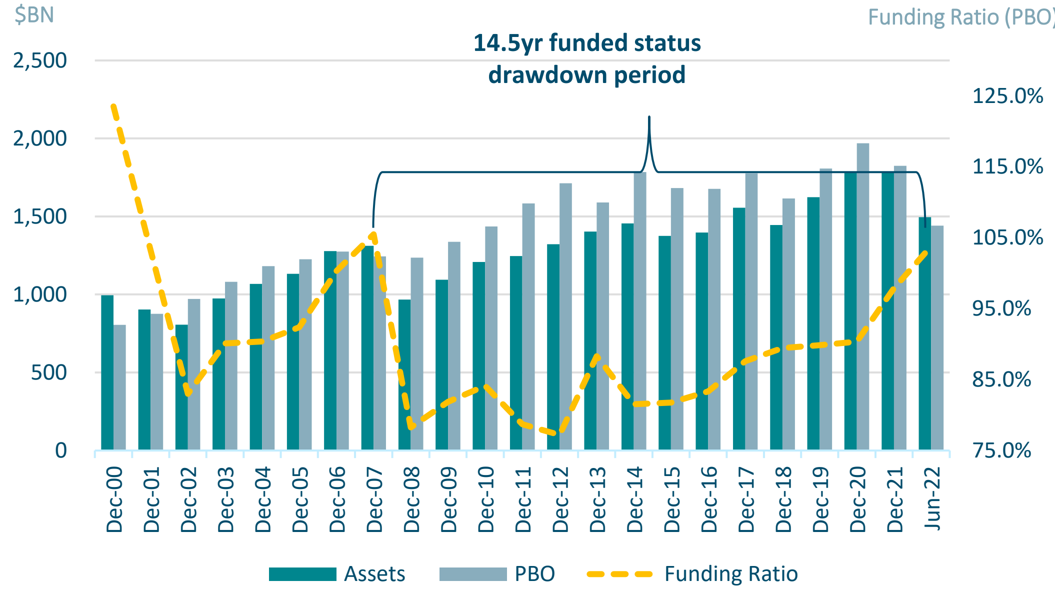
SELLOFF IN RISK ASSETS PUSHED FUNDED STATUS LOWER BY 3%

June Market Summary

- Funded status declined for the first time this year – the dip in assets due to poor equity returns overwhelmed the decline in liabilities driven by higher rates and wider credit spreads (1)
- U.S. equity markets experienced a sharp selloff in June – Higher than expected inflation data sank the S&P 500 index deeper into the red, returning -8.4% in June. Year-to-date, the index is now down -20.6%, its worst 1st half of the calendar year since 1970.
- The yield on the Bloomberg Barclays Long Credit Index increased 35 basis points (bps) – Long credit spreads widened 22 bps over the month while the underlying Treasury basis increased 13 bps.

Market Watch	Dec-2020	Dec-2021	May-2022	June-2022
Funded Status	90.3%	97.9%	107.0%	103.8%
FTSE Discount Rate (2)	2.23%	2.63%	4.09%	4.38%
Long Credit Yield (2)	2.78%	3.10%	4.74%	5.09%
US 30Y TSY Yield	1.64%	1.90%	3.05%	3.18%
S&P 500	3,756	4,766	4,132	3,785

Milliman Pension Funding Index (June estimate)



SPOTLIGHT: LIABILITY DRIVEN INVESTING (LDI) DIVERSIFIERS

- As plan sponsors de-risk to fixed income following recent funding improvement, adding alternative sources of credit can increase the expected return of a portfolio with minimal impact on funded status volatility (see chart to the right). Below, we look at a few different "LDI diversifiers" that we think can complement a plans hedging portfolio:

Investment Grade Private Credit

- Often comes with a yield advantage and stronger covenants vs. public credit. While long term public fixed income is becoming a popular hedging tool among pension plans, the intermediate space looks attractive to us at current valuations.

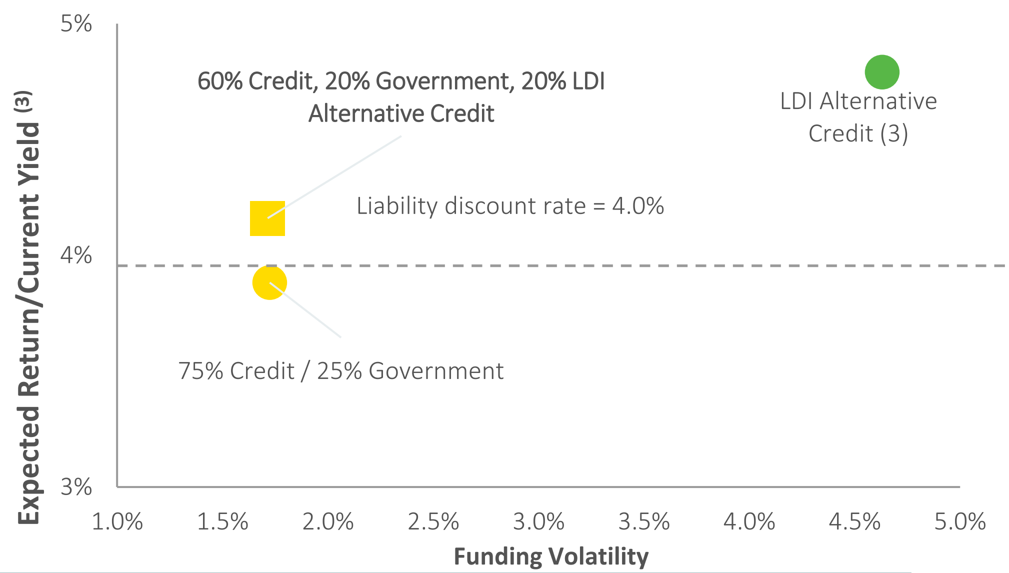
Securitized Credit:

- For those focused on hedging longer term liabilities we recommend looking at both Commercial Mortgage-backed securities and Collateralized mortgage obligations that can provide 10+ year stable cash flows. Additionally, Asset Backed Securities and Collateralized Loan Obligation's are typically issued on the front end of the curve and can be utilized for plans focused on income generation to meet benefit payments.

Real estate Debt

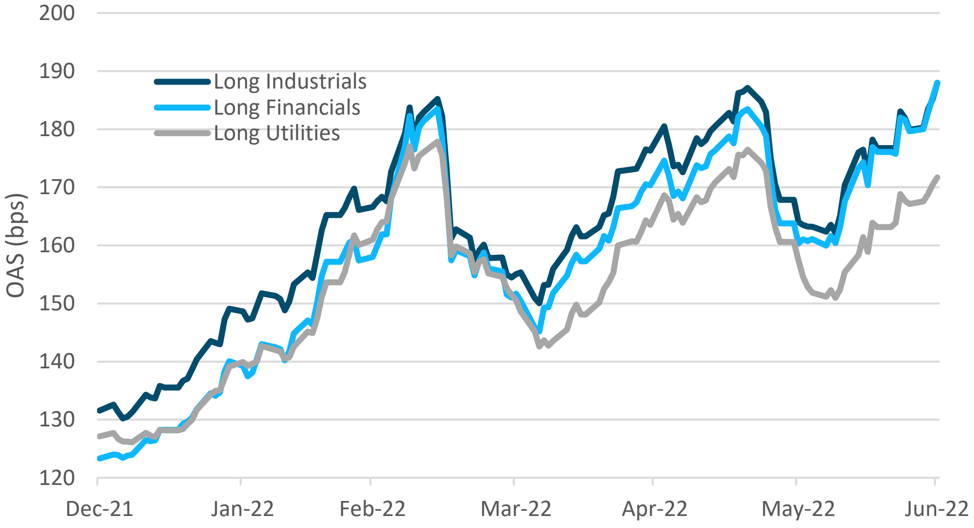
- This asset class typically has lower correlation to corporate profits, making it a good diversifier in an LDI portfolio. Additionally, income makes up the majority of total returns in this space.

LDI Diversifiers can improve expected return with minimal impact on volatility

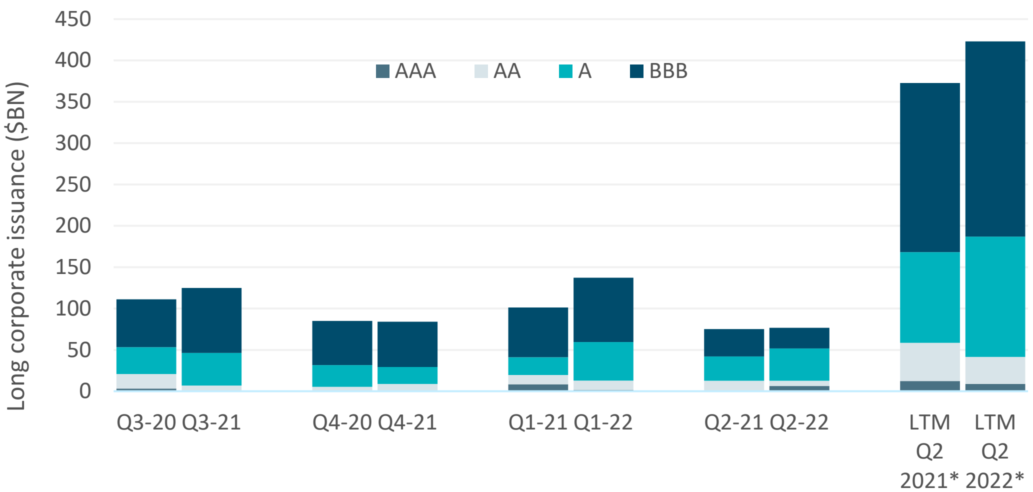


(1) Funded Status for the current month is estimated and subject to change as final numbers are released. Data from reference Bloomberg Indices. (2) The Long Credit yield corresponds to the Bloomberg Long Credit Index. (3) LDI Alternative Credit portfolio is 1/3 SLC Intermediate IG Private Credit, 1/3 Bloomberg US Investment Grade CMBS, 1/6 BGO US Value Add Real Estate Debt, and 1/6 BofA 10+ Year US Agency CMO. (4) Investment grade credit ratings of our private placements' portfolio 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. Although most U.S. dollar private placement investments have an external rating, for unrated deals, 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

The Long Credit Index spread is 52 basis points wider since the start of the year



Long Corporate Issuance came in slightly above Q2-2021 but slowed down in June amid volatility



*LTM = Last twelve months

Market observations: the rollercoaster continues

- After widening out 30 bps by mid-May, the Long credit index option-adjusted spread (OAS) snapped back 25 bps tighter in just 13 trading days as sentiment for a soft landing by the Fed lifted risk assets across the market.
- However, a hot consumer price index print in early June that came in above expectations sent the market back into a risk-off sentiment, resulting in a 22 bps selloff in Long Credit spreads.
- Quarter over quarter, Long Credit spreads were 29 bps wider. The index now sits at an OAS of 182 bps which is 52 bps wider since the start of the year.

SLC Management view:

- While there is potentially room for corporate credit spreads to move wider, we generally have a favorable view on current corporate credit valuations.
- We continued to focus on banks/financials in Q2 as they tend to benefit from monetary policy tightening/higher yields. The sector also dominated issuance this quarter pushing spreads wider which we viewed as a buying opportunity to add to our overweight positioning.

Implications for plan sponsors:

- Similar to last quarter, funded status for the average corporate defined benefit plan improved despite elevated market volatility and a selloff across most major asset classes.
- With funded status now above 100% for the average plan, we recommend de-risking and diversifying the LDI portfolio as plans consider adding to their fixed income sleeves.

Source: Bloomberg. A full list of data sources and indices can be found in the back of this presentation

Market observations: As vs BBBs

- After trading in a range between 40-50 bps during most of 2021 and early 2022, the spread between Long BBB and A rated issuers has widened out to ~70 bps at the close of the quarter.
- The underperformance of BBB's was particularly magnified in June during a period of risk off sentiment. Higher beta names and sectors that had been generally holding in with the rest of the market began to gap wider in the selloff.

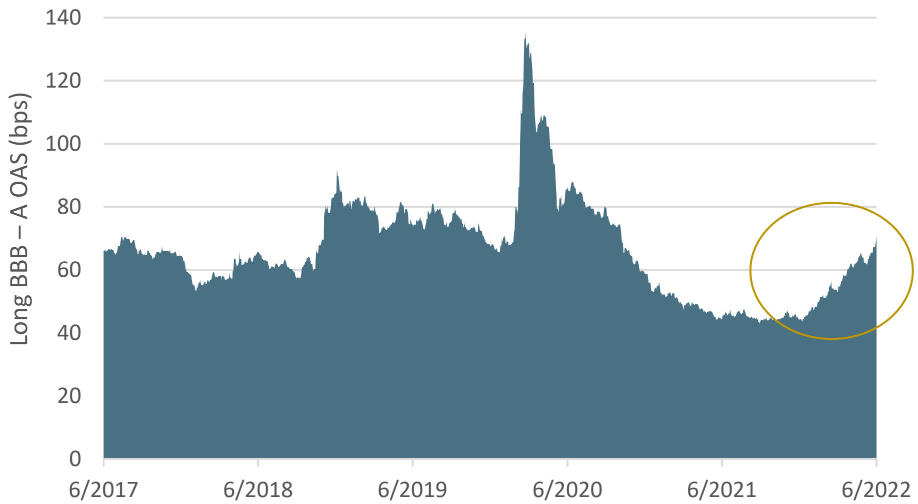
SLC Management's view:

- Within our typical long credit portfolios, we have been tactically adding BBB exposure throughout the year. After significantly reducing our BBB underweight from 8% to 1% in Q1, we continued to add to BBB issuers in Q2 and shifted to +2.5% overweight by the end of Q2.
- While BBB's have experienced recent underperformance, we think this has created an attractive entry point for certain higher beta issuers with strong fundamentals.

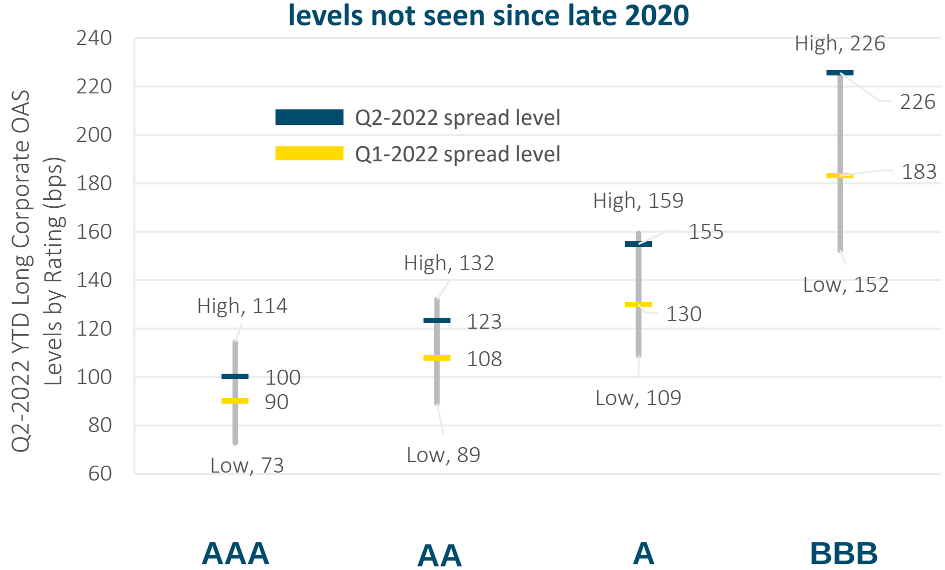
Implications for plan sponsors:

- With recession fears creeping in and the spread of BBBs widening, it is important to assess the credit spread hedge you are calculating given the AA quality discount curve used by most pension plans.
- The shifting dynamics of the credit markets emphasize the need for active management to tactically allocate across the ratings spectrum.

After a 1 year stretch of narrow trading ranges, Long BBB and A rated issuers began to widen this quarter



Long BBB spreads closed Q2 at 2022 YTD highs, levels not seen since late 2020



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Market observations: Bond market volatility and uncertainty

- The MOVE Index (a measure of bond market volatility) closed the quarter at 136 and is approaching recent 2020 highs of 164. Aside from 2020, these levels have not been seen since the Global Financial Crisis.
- The recent volatility has created a dynamic where more companies looking to issue bonds are either sitting on the sidelines or finding other ways to raise capital.
- We saw this manifest with Oracle recently as they tapped the bank loan market to fund an M&A as a result of the higher borrowing costs and heightened volatility in the bond market.

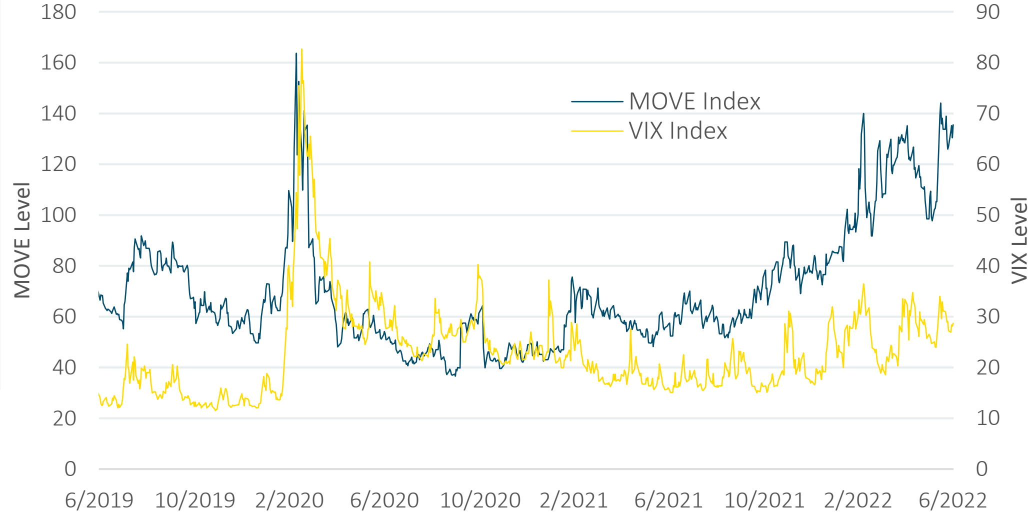
SLC Management's view:

- With many companies opting to wait to issue debt amid the volatility, our view is that issuance will likely be light in the near term, particularly now that we are in the summer months.
- While volatility creates uncertainty, the lack of issuance could be a catalyst for spreads to go tighter assuming demand remains stable.

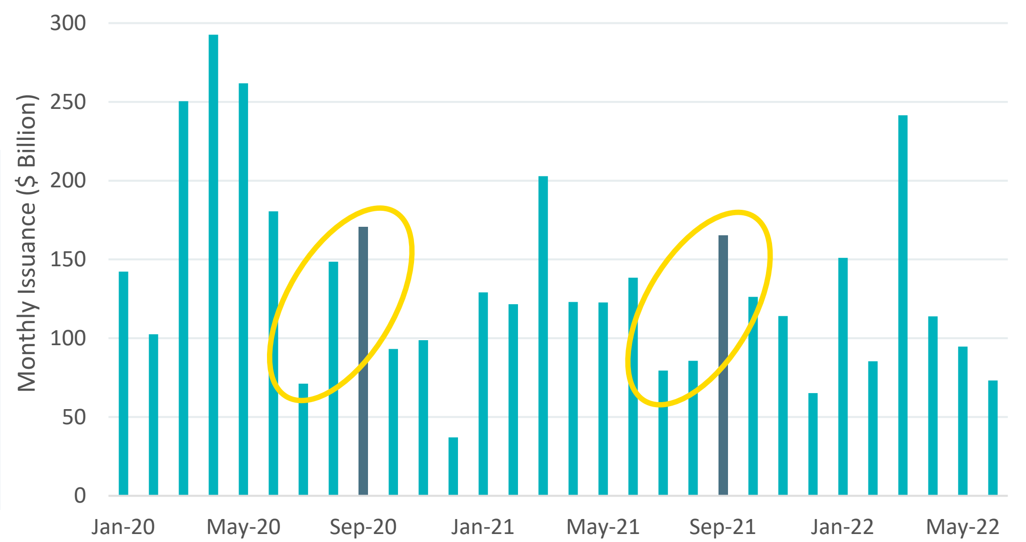
Implications for plan sponsors:

- With interest rate volatility approaching 15-year highs, recent funded status gains may be fleeting if rates start to rally.
- This emphasizes the importance of having a glidepath in place so plans can lock in gains as soon as funded status triggers are hit.
- As we saw in 2007, plans that waited too long to de-risk experienced double digit losses in funding during the Global Financial Crisis.

Bond volatility is pushing the market closer to 2020 pandemic levels of uncertainty



After slow months of summer new issuance, the market usually sees an uptick in September



Source: Bloomberg, SIFMA. A full list of data sources and indices can be found in the back of this presentation

Disclosure – Market Charts

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Market Chart Indices:

- Credit Rating sources: Bloomberg Long Aaa Corporate Index, Bloomberg Long Aa Corporate Index, Bloomberg Long A Corporate Index, Bloomberg Long BBB Corporate Index
- AA pension discount rate sources: FTSE Pension Discount Curve
- Average funded status source: Milliman
- Long end issuance source: Bloomberg
- Long Industrials, Utilities, Financials source: Bloomberg
- MOVE & VIX source: Bloomberg
- Monthly issuance source: SIFMA

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