The Monthly Pension Review: December 2022

Funded status fell despite higher rates and decreased liabilities due to negative investment performance

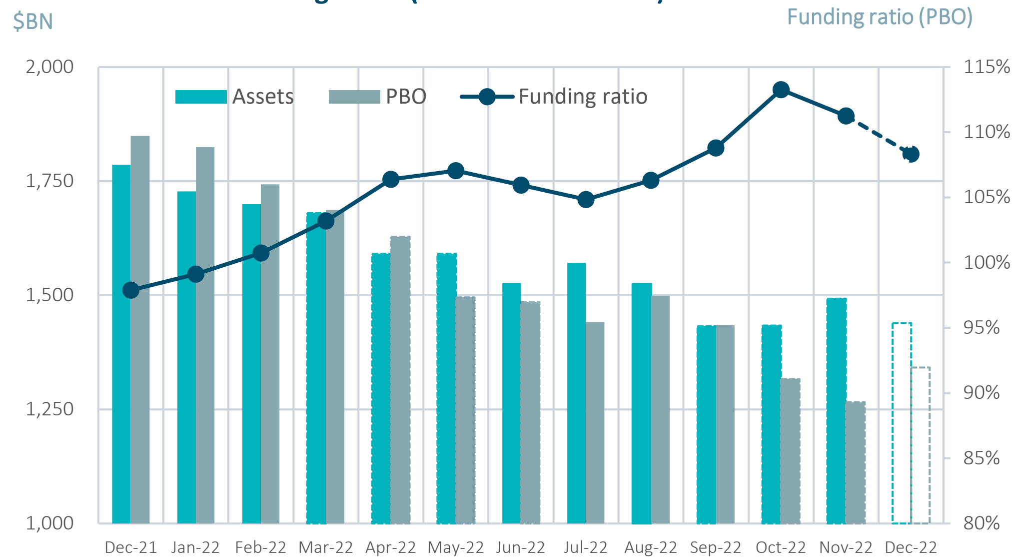
SLC Management

December Market Summary

- Funded status fell for the second straight month due to negative investment performance – Assets returned -3.6% while liabilities fell by 1.0%.[1]
- Equities posted their first negative month since September – The S&P 500 Index fell -5.9% in December, finishing the year down -19.4%, which is the worst annual return since 2008.
- The Long Credit index yield increased 12 basis points (bps) in December and finished the year at 5.6% – Credit spreads decreased 2 bps while the underlying Treasury basis increased by 14 bps. Long Credit yields are now 250 bps higher since the start of the year.

Market Watch [2]	Dec-20	Dec-21	Nov-22	Dec-22
Funded Status	90.3%	97.9%	111.2%	108.3%
FTSE Discount Rate	2.23%	2.63%	4.88%	4.95%
Long Credit Yield	2.78%	3.10%	5.46%	5.59%
US 30Y TSY Yield	1.64%	1.90%	3.74%	3.96%
S&P 500	3,756	4,766	4,080	3,840

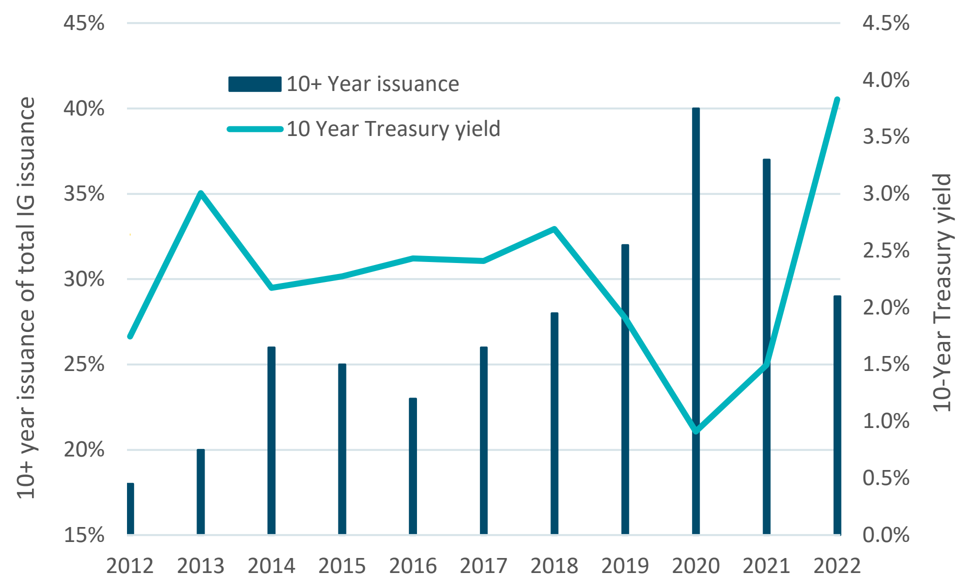
Milliman Pension Funding Index (December Estimate)



SPOTLIGHT: LIMITED U.S. SUPPLY FOR LDI INVESTORS?

- Overall U.S. investment grade issuance was down more than 15% in 2022 compared to 2021, with 45 days of zero issuance, the largest on record. The bulk of 2022 issuance came in Q1 as issuers looked to get ahead of interest rate hikes. By comparison, Q4 saw most issuers stay on the sidelines.
- As the 10-year Treasury yield hit a low of 0.5% in 2020, 10-plus-year issuance represented more than 40% of total issuance. However, in 2022 with the 10-year reaching levels above 4%, long issuance dropped under 30% back to 2018 levels.
  - Companies tend to borrow for longer when rates are low, issuing long maturity debt in order to lock in low borrowing costs.
  - The opposite is true when rates are high as companies shorten maturities to avoid paying high costs for too long.
- While back-end supply waned this year, most pension plans also saw the duration of their liabilities shorten, reducing the pressure to extend duration. This allowed many plans to utilize a broader array of intermediate duration hedging instruments outside of traditional long corporates and Treasuries.

Long Corporate new issuance slowed as Treasury yields skyrocketed

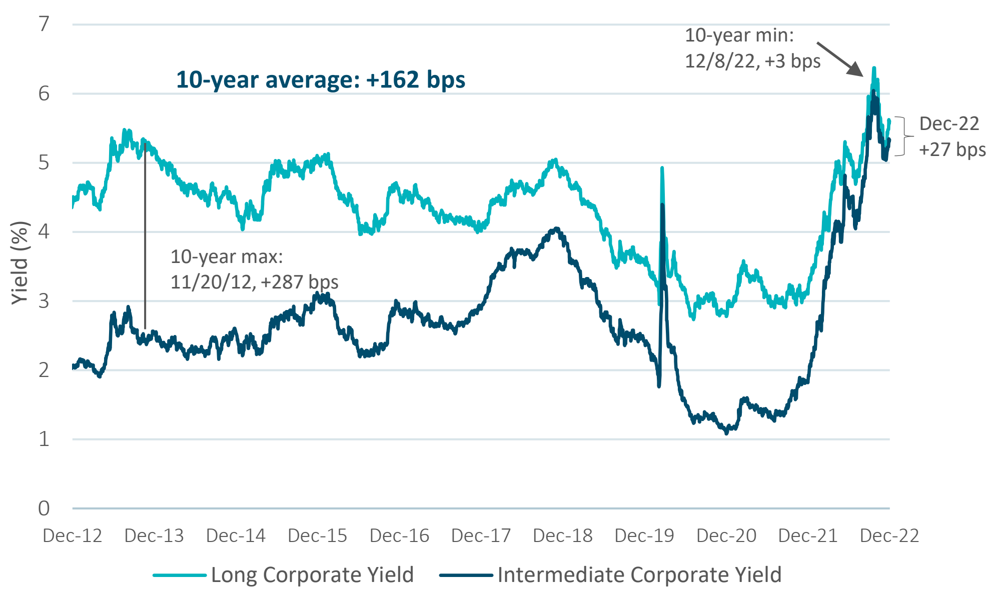


Source: Barclays.

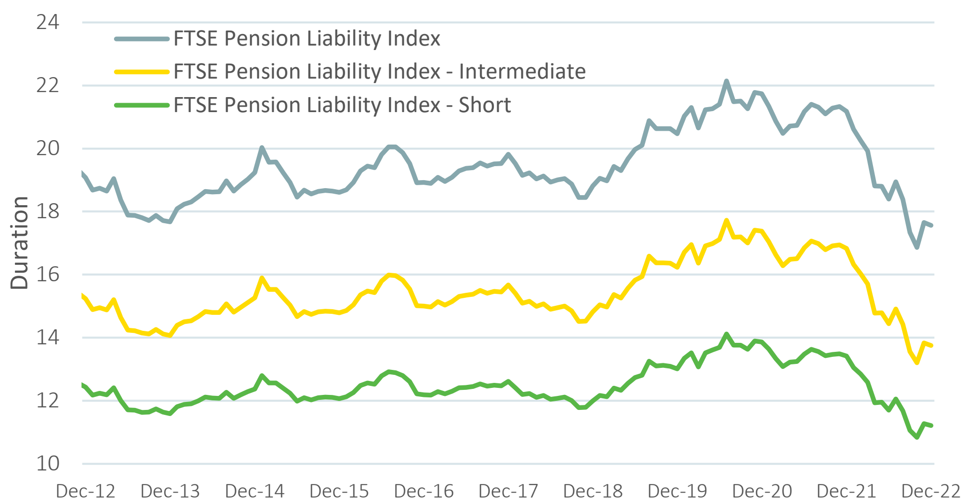
(1) Funded Status for the current month is estimated and subject to change as final numbers are released. Data from reference Bloomberg Indices. Funded status is in reference to the top 100 US corporate pension plans sourced from Milliman.

(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.

Opportunities in intermediate credit due to recent yield surge



Duration of FTSE Pension Liability Index



Market observations: Intermediate credit an attractive hedging tool for LDI investors

- The yield difference between the Bloomberg Long US Corporate Index and the Bloomberg Intermediate US Corporate Index hit a 10-year low of +3 bps on 12/8/2022, ending 2022 at +27 bps. Similarly, the spread difference between long and intermediate credit tightened almost 20 bps from 9/30 to 12/31.
- The duration of the FTSE Pension Liability Indices has fallen by three years on average since the beginning of 2022. All three indices hit a 10-year low at the end of October as the 10-year Treasury yield rose 275 bps since the start of 2022.

SLC Management view:

- We believe the current environment provides an attractive opportunity for plan sponsors to utilize intermediate credit exposure within their hedging portfolios.
- For those plans with a large existing allocation to long public credit, getting intermediate exposure through the investment grade private markets can help fulfil this need while providing additional credit diversification to public markets.
- Similarly, asset-backed securities and collateralized loan obligations that are typically issued on the front end of the curve can be utilized for plans focused on income generation to meet benefit payments.

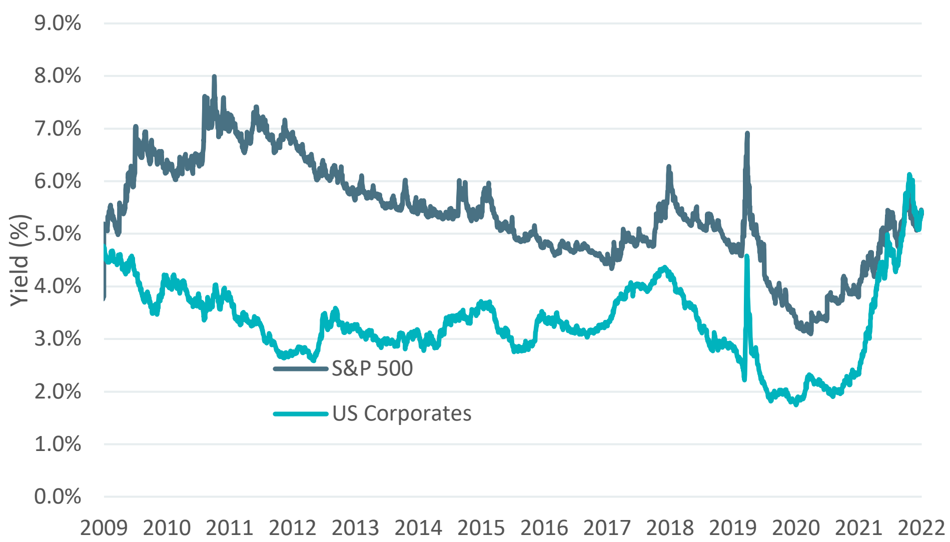
Implications for plan sponsors:

- As plans have become increasingly well funded and liability durations have shortened, many plan sponsors are looking for ways to hedge shorter duration key-rate buckets while also diversifying their existing credit portfolios.
- With demand for long duration credit increasing due to average new issuance duration shortening, relative value in the intermediate portion of the curve currently looks attractive compared to other areas of the market.

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

SLC-20230117-2682679

U.S. corporate bonds now at U.S. equity earnings levels



Long Corporate bond prices at 2008 levels as spreads remain tight

Market observations: bond demand to grow as yields are attractive relative to risk assets

- The Bloomberg U.S. Corporate Index hit a 10-year high of 6.1% in October, ending 2022 at 5.4%.
- As equity earnings yields also ended the year at 5.4%, U.S. investment grade corporates remain competitive compared to riskier assets.
- Long corporate dollar prices are still at 2008 lows while spreads remain tight.

SLC Management view:

- As funded statuses remain well above 100% for many plans, institutional investors and pension funds are expected to drive demand for investment grade corporate bonds as they continue to rotate out of equities.
- The addition of alternative sources of credit such as private credit, securitized credit or real estate debt as plans continue to de-risk can increase the expected return of a portfolio with minimal impact on funded status volatility.

Implications for plan sponsors:

- The continued low dollar price for long bonds provide investors with an attractive entry point at these discounted prices while also gaining downside protection from adverse credit events.

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

SLC-20230117-2682679

Disclosures

Nothing in this paper should (i) be construed to cause any of the operations under SLC Management to be an investment advice fiduciary under the U.S. Employee Retirement Income Security Act of 1974, as amended, the U.S. Internal Revenue Code of 1986, as amended, or similar law, (ii) be considered individualized investment advice to plan assets based on the particular needs of a plan or (iii) serve as a primary basis for investment decisions with respect to plan assets.

This document may present materials or statements which reflect expectations or forecasts of future events. Such forward -looking statements are speculative in nature and may be subject to risks, uncertainties and assumptions and actual results which could differ significantly from the statements. As such, do not place undue reliance upon such forward-looking statements. All opinions and commentary are subject to change without notice and are provided in good faith without legal responsibility.
Certain information contained herein has been obtained from published and non-published sources prepared by other parties, which in certain cases has not been updated through the date hereof. While such information is believed to be reliable for the purpose used herein, SLC does not assume any responsibility for the accuracy or completeness of such information and such information has not been independently verified by SLC.

Market Chart Indices:
- Long Corporate Spreads sources: Bloomberg Long Corporate Index
- AA pension discount rate sources: FTSE Pension Discount Curve
- Average funded status source: Milliman
- Long end issuance source: Bloomberg
- Moody's Baa spread source: Moody's
- MOVE source: Bloomberg
- Monthly issuance source: SIFMA
- Top sector downgrade table source: Bank of American Global Research, Bloomberg
- Rolling 5-year monthly correlations and YTD index returns for S&P 500 and U.S. Aggregate source: Bloomberg

SLC Management is the brand name for the institutional asset management business of Sun Life Financial Inc. ("Sun Life") under which Sun Life Capital Management (U.S.) LLC in the United States, and Sun Life Capital Management (Canada) Inc. in Canada operate.
Sun Life Capital Management (Canada) Inc. is a Canadian registered portfolio manager, investment fund manager, exempt market dealer and, in Ontario, a commodity trading manager.
Sun Life Capital Management (U.S.) LLC is registered with the U.S. Securities and Exchange Commission as an investment adviser and is also a Commodity Trading Advisor and Commodity Pool Operator registered with the Commodity Futures Trading Commission under the Commodity Exchange Act and Members of the National Futures Association. In the U.S., securities are offered by Sun Life Institutional Distributors (U.S.) LLC, an SEC registered broker-dealer and a member of the Financial Industry Regulatory Authority ("FINRA").
BentallGreenOak, InfraRedCapital Partners (InfraRed) are also part of SLC Management and Crescent Capital Group LP (Crescent) are also part of SLC Management.
Bentall Green Oak is a global real estate investment management advisor and a provider of real estate services. In the U.S., real estate mandates are offered by BentallGreenOak (U.S.) Limited Partnership, who is registered with the SEC as an investment adviser. In Canada, real estate mandates are offered by BentallGreenOak (Canada) Limited Partnership, BGO Capital (Canada) Inc. or Sun Life Capital Management (Canada) Inc. BGO Capital (Canada) Inc. is a Canadian registered portfolio manager and exempt market dealer and is registered as an investment fund manager in British Columbia, Ontario and Quebec.
InfraRed Capital Partners is an international investment manager focused on infrastructure. Operating worldwide, InfraRed manages equity capital in multiple private and listed funds, primarily for institutional investors across the globe. InfraRed Capital Partners Ltd. is authorized and regulated in the U.K. by the Financial Conduct Authority.
Sun Life Capital Management (Canada) Inc. is a Canadian registered portfolio manager, investment fund manager, exempt market dealer and, in Ontario, a commodity trading manager, and is the manager of the SLC Management Private Fixed Income Plus Fund, SLC Management Long Term Private Fixed Income Plus Fund, SLC Management Short Term Private Fixed Income Fund and the SLC Management Canadian Commercial Mortgage Fund.
Crescent Capital Group LP is a global alternative credit investment manager registered with the U.S. Securities and Exchange Commission as an investment adviser. Crescent is a leading investor in mezzanine debt, middle market direct lending in the U.S. and Europe, high-yield bonds and broadly syndicated loans.

Disclosures

Your purpose is our purpose

For institutional use only. Investing involves risk including the risk of loss of principal. The information provided does not constitute investment advice and should not be relied on as such. It should not be considered a solicitation to buy or sell a security. It does not take into account the investor's particular investment objectives, strategies, tax status or investment horizon. You should consult with your tax and financial advisor. All material has been obtained from sources believed to be reliable. There is no representation of warranty as to the accuracy of the information and SLC Management shall have no liability for decisions based on such information. The whole or any part of this work may not be reproduced, copied or transmitted or any of its concepts disclosed to third parties without SLC Management's express written consent.

(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.