

The Monthly Pension Review: August 2022

Selloff in risk assets lowered funded status by 0.5%



August Market Summary

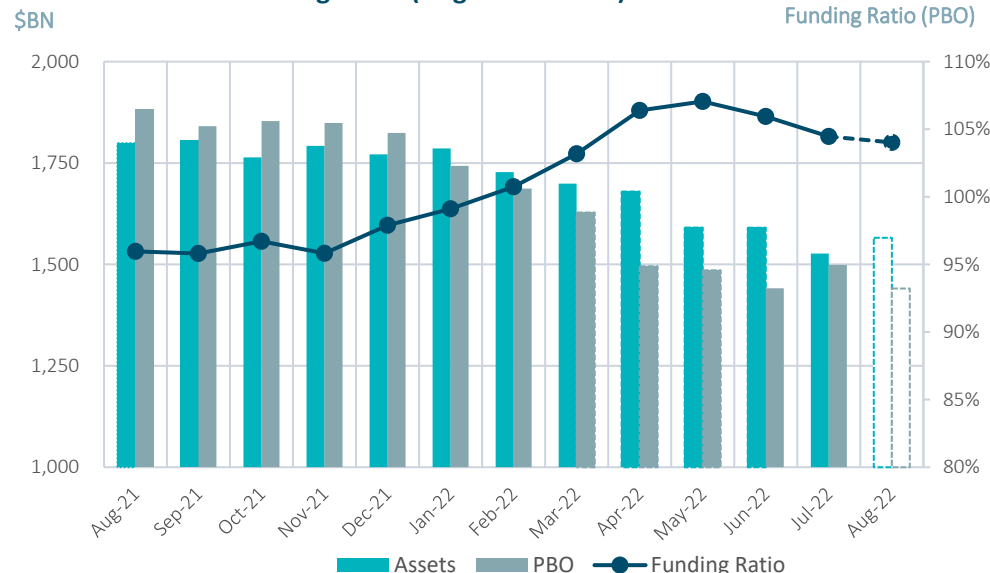
- Funded status fell by half a percent in August following a sell off in risk assets - Assets returned -4.3% while liabilities fell by 3.9%. ⁽¹⁾
- Equity markets gave back some of its July gains - After a 9% rally in July, the S&P Index fell by 4.2% in August. Year-to-date, the index is now down 17%.
- The yield on the Bloomberg Barclays Long Credit Index increased 38 basis points (bps) – Long credit spreads were roughly unchanged month-over-month, while the underlying Treasury basis increased by 38 bps.

Market Watch ⁽²⁾	Dec-20	Dec-21	Jul-22	Aug-22
Funded Status	90.3%	97.9%	104.5%	104.0%
FTSE Discount Rate	2.23%	2.63%	3.99%	4.34%
Long Credit Yield	2.78%	3.10%	4.77%	5.15%
US 30Y TSY Yield	1.64%	1.90%	3.01%	3.29%
S&P 500	3,756	4,766	4,130	3,955

SPOTLIGHT: WHY COMMERCIAL REAL ESTATE DEBT COULD MAKE SENSE FOR LDI INVESTORS

- Commercial Real estate has long been thought of as an inflation hedging asset, as property rents typically increase with the level of CPI over time.
- In addition to inflation protection, LDI Investors can utilize commercial real estate debt for their hedging portfolios that can provide both diversification as well as liability hedging characteristics. Below (and to the right) we look at a few different ways pension plans can gain exposure to this asset class.
- Conduit CMBS** – A bundle of 50-75 commercial mortgage loans diversified across multiple real estate sectors and securitized into a single bond. Conduit CMBS are issued as fixed rate notes that carry both interest and credit duration making them a natural hedge against corporate liability discount rates.
- Single asset single borrower CMBS** – Issued as a commercial mortgage loan on a single real estate asset or a portfolio of loans from a single borrower. These are typically structured as floating rate instruments and can be used for front end carry to meet benefit payments.
- Triple Net Lease** – Can be accessed via the private credit market or through public securitization, triple net lease involves a single tenant lease structure where the tenant is responsible for all insurance, taxes and maintenance costs. From an LDI perspective, these are fixed rate instruments with interest and credit duration and typically provide a yield premium to comparable corporate bonds due to their customized financing structures.
- Direct Lending/Private Real estate** – Usually smaller loan sizes that provide bespoke financing to individual properties. These transactions can be structured as fixed or floating rate and fall somewhere in between the “growth” and “hedging” bucket within an LDI portfolio.

Milliman Pension Funding Index (August Estimate)



How pension plans can gain exposure to commercial real estate oriented debt

Asset Class	Fixed Income Strategies
Conduit CMBS	<ul style="list-style-type: none"> Short/Intermediate Credit Core fixed income Dedicated securitized strategies Long Duration/LDI focused
Single asset single borrower CMBS	<ul style="list-style-type: none"> Short/Intermediate Credit Core fixed income Dedicated securitized strategies
Triple Net Lease	<ul style="list-style-type: none"> Private Fixed Income Short/Intermediate Credit Core fixed income Dedicated securitized strategies Long Duration/LDI Focused
Direct Lending/Private Real Estate	<ul style="list-style-type: none"> Dedicated private real estate debt strategies

(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

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