LGIMA Pension Solutions' Monitor

Market Update

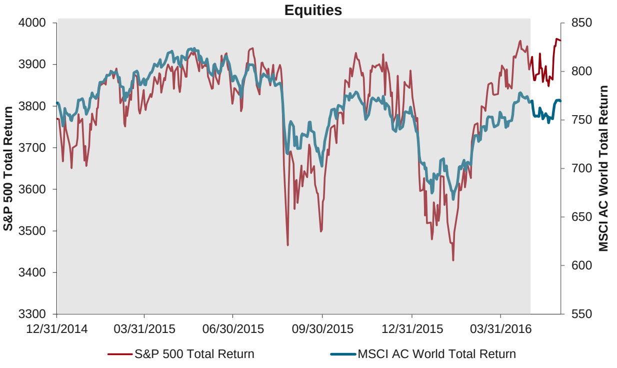
Overview

Confidence in the broader global economy has improved driven by higher oil prices and positive economic data; however uncertainty over geopolitics and Fed policy remains. Overall funded status for the average plan was unchanged over the month as slightly lower Treasury rates offset the modest increase in global equities and wider credit spreads.

Equities

After a rough start to 2016, the S&P 500 rally continued driven by positive US consumer spending, higher home prices, and stabilizing commodity prices. May capped a third month of gains in the S&P 500 (longest rally since June 2014).

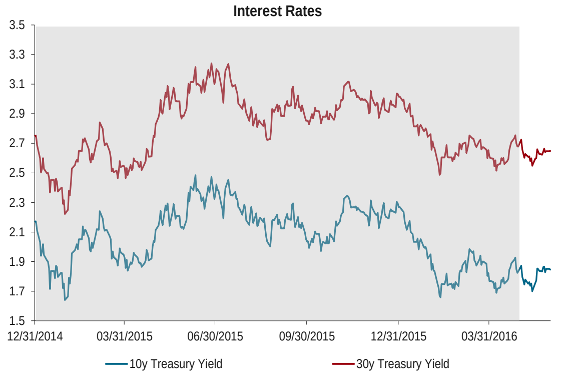
The S&P 500 TR Index increased 1.80% and the MSCI AC World TR Index increased 0.21% over the month of May, positively affecting pension funding ratios.



Interest Rates

Rates continued their muted sideways trading that began in April. In fact, the 30-year Treasury rate closed outside of a 2.58-2.70 range only three times in May. The April FOMC minutes were released on May 18th and had a surprisingly hawkish tone. While the Fed acknowledged that the global risks require "close monitoring", they stated that a June hike would be "likely" if economic conditions warranted such a move. This, coupled with additional hawkish statements from several Fed speakers (including Chair Yellen), helped flatten the yield curve modestly. Despite these hawkish comments, the markets are only pricing in a 24% chance of a Fed hike in June, due to fear of a repeat of most of 2015 (hawkish Fed messaging followed by no actual activity).

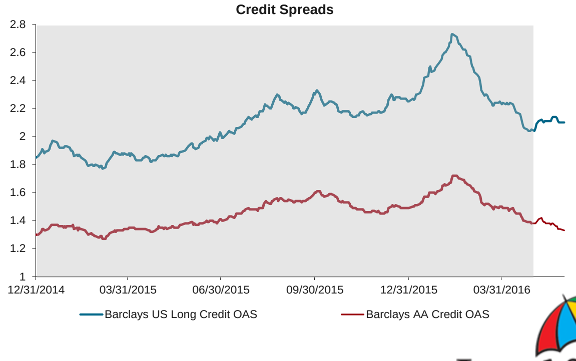
The 30-year Treasury rate decreased 3 basis points while the 10-year Treasury rate increased 1 basis points over the month. The decrease in longer dated interest rates had a negative contribution to pension funding ratios over May.



Credit

The credit market lost steam in May after reaching its tightest level since the summer of 2015. Dell came to market with a $20 billion deal to fund its acquisition of EMC. The books ballooned to $60 billion bolstered by $20-25 billion of orders from Asia and Europe. At $20 billion, the deal was the 4th largest transaction ever to hit the investment grade market.

The option adjusted spread (OAS) for Barclays Long Credit Index widened 5 basis points to 210 basis points over the month while the Barclays Long AA Credit Index tightened 5 basis points to 133 basis points over the same period. The overall widening in spreads (within the discount rate) had a positive contribution to pension funding ratios in May.



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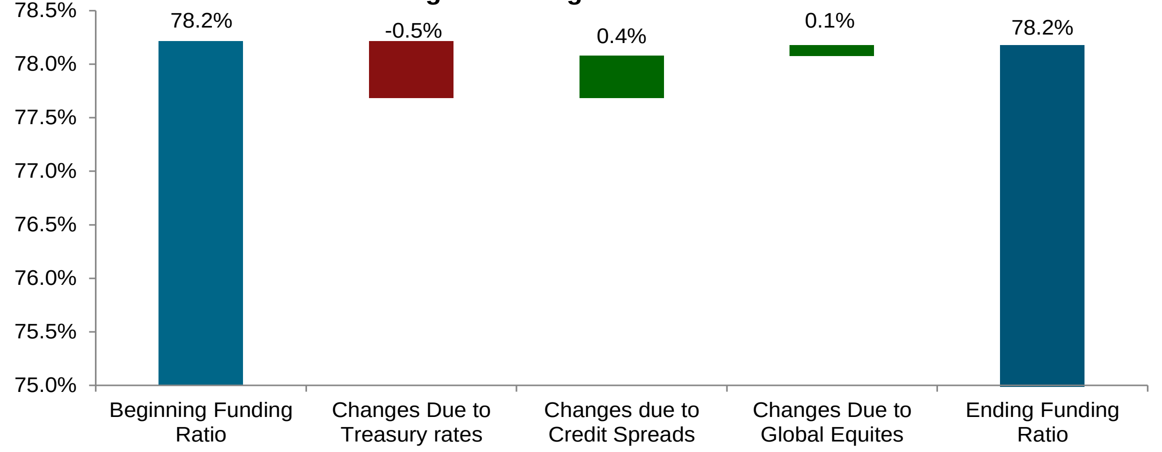
Funding Status Monitor

LGIMA estimates that pension funding ratios were unchanged at 78.2% over the month of May 2016. Global equity markets increased 0.21% and the S&P 500 increased 1.80%. LGIMA estimates plan discount rates increased 2 basis points, as Treasury rates fell 2 basis points while credit spreads widened 4 basis points[1]. Overall, liabilities for the average plan were up 0.19%, while plan assets with a traditional "60/40" asset allocation[2] increased 0.14%.

Funding Ratio Progression over the Month



[1] Discount rates based on a blend of the Bank of America Merrill Lynch Average US Pension Plan AAA-A and Bank of America Merrill Lynch Mature US Pension Plan AAA-A discount curves

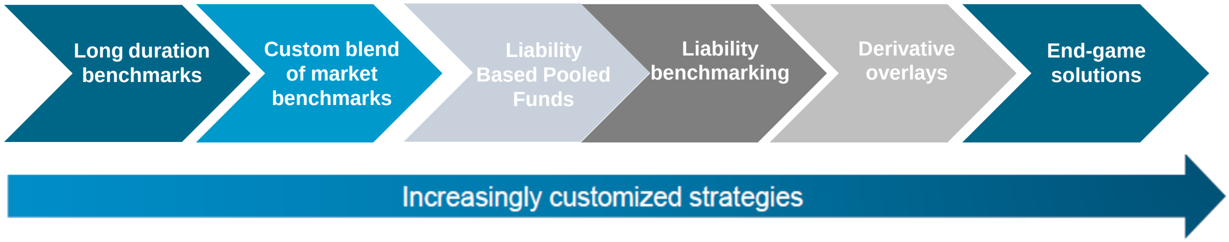
[2] For the average plan, LGIMA assumes a 60% allocation to MSCI AC World and a 40% allocation to Barclays Aggregate.

Strategy

What Clients Are Doing

- Continued interest in de-risking solutions including but not limited to extending duration using market-based benchmarks (15+ STRIPS etc.) and customized liability benchmarking/completion management frameworks
- Increased interest in LGIMA's liability based pooled fund offering for plans seeking a customized pooled fund solution
- Greater attention in end-game solutions as ongoing costs of administering a pension plan increase (i.e. higher PBGC premiums)
- Strong demand for derivative strategies to help shape funded status outcomes which can be used to:
  - Monetize decisions already made within a glide path using swaption and synthetic equity strategies
  - More easily gain equity exposure synthetically and gain discount rate exposure through cash bonds
  - Benefit from market pricing dislocations (i.e. skew and calendar events)
  - Many plans exploring risk premia swaps for hedge fund replication or factor completion

How LGIMA works with clients



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