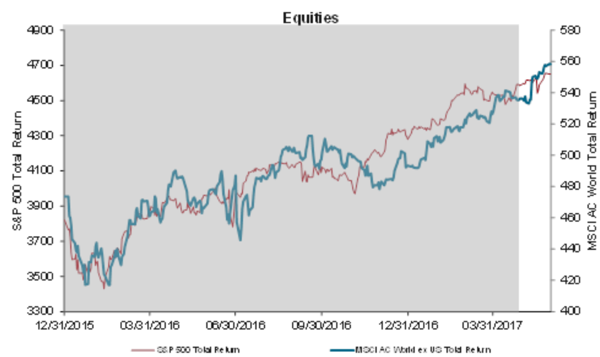
Market Update Overview

Pension funding ratios decreased slightly over the month of May. While the equity markets experienced modest gains, the fall in interest rates and slight tightening of credit spreads offset the benefit from equities on funded ratios. We estimate that the average plan's funding ratio decreased 0.3% over the month of May.

Equities

The S&P 500 Total Return index continued to reach all-time highs, returning 1.41% over the month. This performance is carried by continued expectations for policy legislation by the new administration, although a look into sector performance paints a competing narrative between exuberance and caution. Sector winners were carried by the largest technology companies on the one hand, while the interest rate sensitive Utilities and Consumer Staples signaled exhaustion from cyclically risky stocks on the other. Energy and Financials continued to lag. International equities rose by 3.3% as ongoing weakness in the US Dollar positively impacted returns for US-based investors.

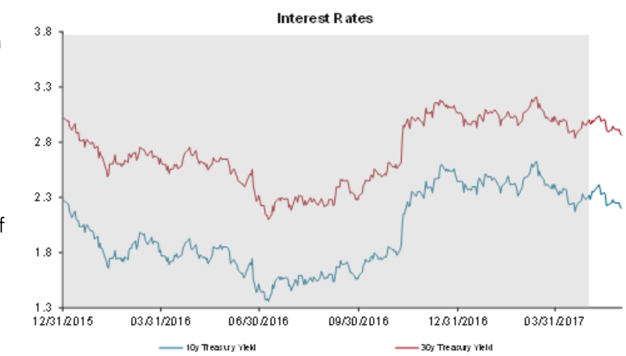
The rally in equities has had a positive impact on pension funding ratios over the month.



Interest rates

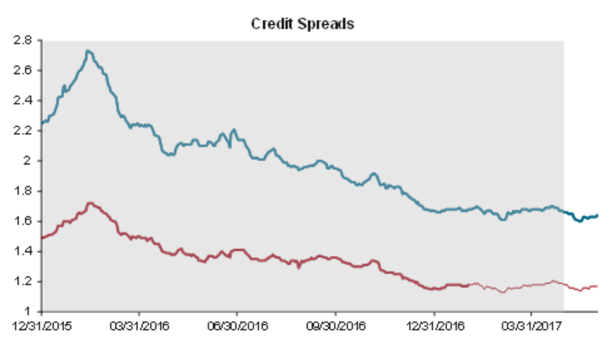
The May FOMC meeting had the Fed remaining mildly hawkish with the probability of a June hike climbing to nearly 100%. Rates sold off a few basis points in the days following the meeting, which also coincided with the orderly French election which saw Macron win by a wide margin. These moves were quickly reversed, however, in the wake of the somewhat surprising firing of FBI director James Comey and the subsequent rumors about further investigation into members of the Trump administration. These tensions eased somewhat towards the end of the month, but poor home sales numbers this week dragged rates even lower.

The 30-year and 10-year rates fell 9 basis points and 8 basis points to 2.86 and 2.20, respectively. Rates have had a negative impact on pension funding ratios over the month.



Credit

Expectations at the beginning of May for a modest $100-$120 billion of issuance proved too low. Ultimately, more than $150 billion of investment grade paper was issued during the month, which seemed to weigh on valuations toward the end of the month. Nonetheless, the Bloomberg Barclays Long Credit Index finished the month at 164 basis points, approximately 3 basis points tighter. Strong earnings, continued buying out of Asia, and economic data that appear to be pointing to a 2Q GDP bounce back were the primary factors driving the move tighter.



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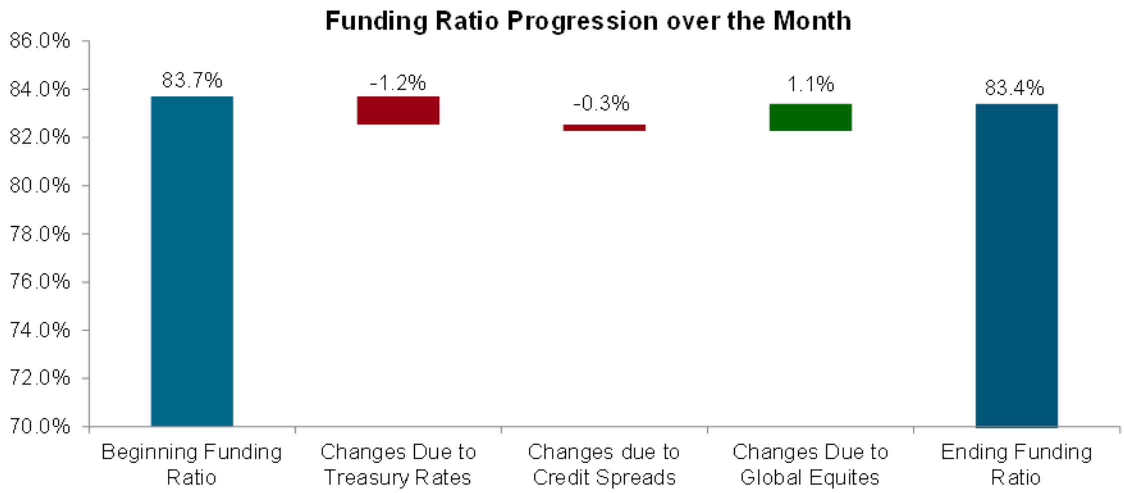
Funding Status Monitor

LGIMA estimates that pension funding ratios decreased 0.3% over the month of May, with modest losses driven mainly by a fall in the Treasury rate and a tightening in credit spreads, offsetting the gains in the global equity markets. LGIMA estimates plan discount rates fell 12 basis points, as Treasury rates fell by 9 basis points and credit spreads tightened by 3 basis points.[1] Overall, liabilities for the average plan were up 2.1%, while plan assets with a traditional "60/40" asset allocation[2] increased by 1.7%.[3]



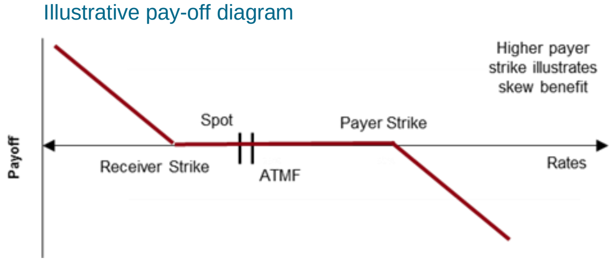
1: Discount rates based on a blend of the Bank of America Merrill Lynch Average US Pension Plan AAA-A and Bank of America Merrill Lynch Mature US Pension Plan AAA-A discount curves
2: For the average plan LGIMA assumes a 60% allocation to MSCI AC World and a 40% allocation to Barclays Aggregate.
3: Equity allocation is assumed to be in global equities

Strategies to benefit from recent market moves

Swaption Collar

- Implied interest rate volatility continues to move lower, however corporate defined benefit plans can take advantage of the current skew environment
- Plans can take advantage of the skew by selling high strike payer swaptions and use premium to purchase low strike receiver swaptions
- Should rates rise from current levels, plans will be legged into higher interest rate exposure and will be protected should rates fall from current levels

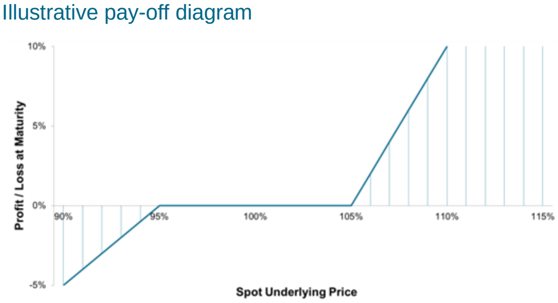
Illustrative pay-off diagram



Ratio Risk Reversal

- Plans could gain upside leverage while maintaining downside hedging protection in a zero premium up-front structure
- The trade simultaneously sells a 95% put and buys two 105% calls with 6 month expiry
- This strategy offers 2x upside exposure in a positive environment while providing 5% downside protection

Illustrative pay-off diagram



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