Market Update Overview

Pension funding ratios decreased slightly over the month of April. 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 0.2% over the month of April.

Equities

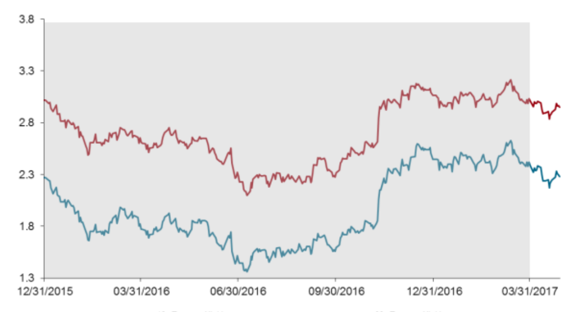
The S&P 500 Total Return Index had another period of strong gains, returning 1.03% over the month. Performance was driven primarily by diminished uncertainty in the French elections and continued positive expectations of US fiscal spending/policy legislation by the new administration. Overall, the index posted gains across nearly all sectors, with only energy and financials lagging behind. International equities also rose by 2.20% as weakness in the US dollar positively impacted returns for US-based investors.

The rally in equities has positively affected pension funding ratios over the month.

Interest rates

The curve steepened over the month, as the front end rallied more than the back end. There was a fair amount of rate movement over the month of April, with the 30-year dipping down to 2.84 on news of the US bombing Syria. However, rates crawled back up on revised expectations of corporate tax reform and the French election results meeting market expectations. Fed Chair Janet Yellen remains hawkish, which has led to forecasting of at least two more hikes this year.

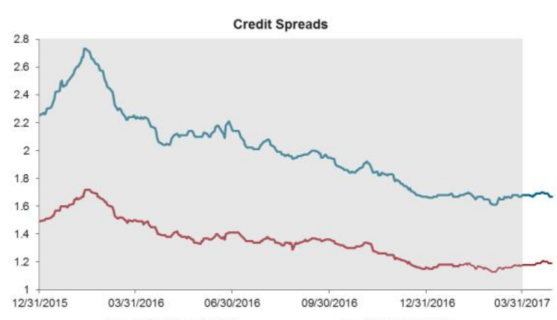
The 30-year and 10-year rates fell 6 basis points and 11 basis points to 2.95 and 2.28, respectively. Rates have had a negative impact on pension funding ratios over the month.



Credit

Credit markets were largely range-bound throughout April, but ended the month on a slightly stronger note after the first round of the French elections eased investor concerns of a Euro area breakup. Lower issuance volumes also contributed to the better tone. Just over $60 billion of investment grade paper was issued during April making it the lowest issuance month this year and $15 billion below April 2016. In the end, the Bloomberg Barclays Long Credit Index finished the month at 167 basis points, roughly 1 basis point tighter.

Credit spreads had little impact on pension funding ratios over the month.



Legal & General Investment Management America, Inc.
71 South Wacker Drive, Suite 800
Chicago, IL 60606
www.lgima.com

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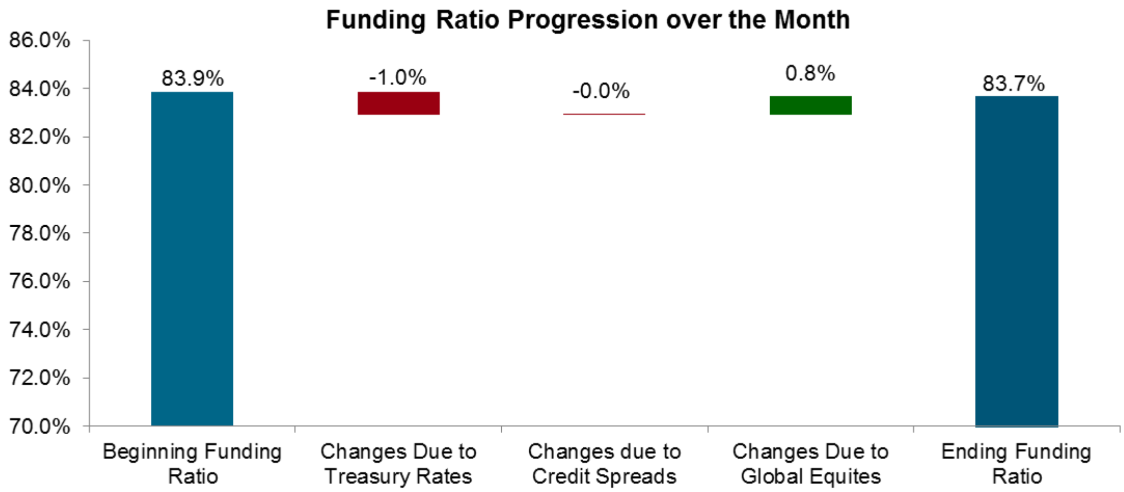
Pension Solutions' Monitor

April 2017

Funding Status Monitor

LGIMA estimates that pension funding ratios decreased 0.2% over the month of April, with modest losses driven mainly by a fall in the Treasury rate offsetting the gains in the global equity markets. LGIMA estimates plan discount rates fell 9 basis points, as Treasury rates fell by 8 basis points and credit spreads tightened by about 1 basis point[1]. Overall, liabilities for the average plan were up 1.47%, while plan assets with a traditional "60/40" asset allocation[2] increased by 1.27%[3].



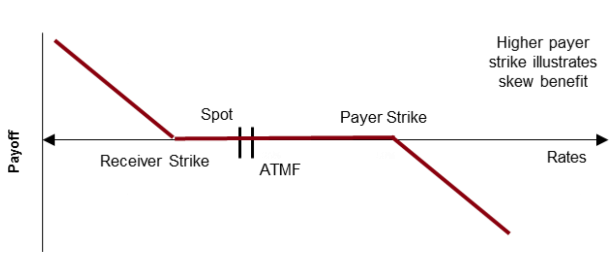
1: Discount rates based on a blend of the Bank of America Merrill Lynch Average US Pension Plan AAA-A and Bank of America Merrill Lynch Mature US Pension Plan AAA-A discount curves
2: For the average plan, LGIMA assumes a 60% allocation to MSCI AC World and a 40% allocation to Bloomberg Barclays Aggregate.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

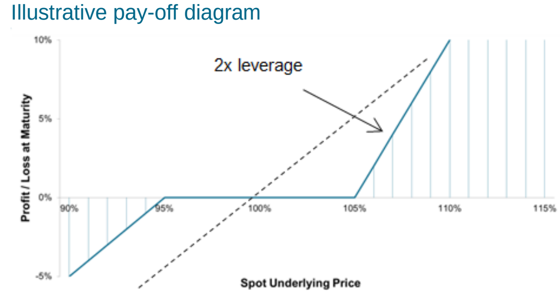
Illustrative pay-off diagram



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
- This strategy offers 2x upside exposure in a positive environment while providing 5% downside protection

Illustrative pay-off diagram



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