

LGIMA Pension Solutions' Monitor

Market Update

Overview

August saw moderate returns from global equity markets due to uncertainty in the US rates market and reduced expectations of further easing of monetary policy across the main central banks. US rates rose after relatively hawkish messages from the Fed regarding a potential September rate hike, focusing primarily on economic data. US Credit spreads continued to tighten, led by a technical bid from foreign investors.

Equities

Both global and US equity markets were modestly higher in August. Globally, gains were led by China and Germany. With moderating earnings expectations, economic data, and generally hawkish remarks from the Fed regarding a rate hike, US stocks remained largely unchanged.

The S&P 500 TR Index increased 0.14% and the MSCI AC World TR Index increased 0.39% over the month of August, contributing positively to pension funding ratios.

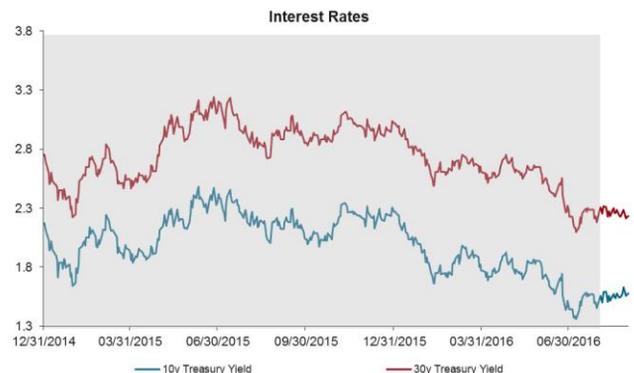


Interest Rates

US rates rose through August, as uncertainty of a September rate hike loomed. Many market participants interpreted comments from Fed officials as hawkish, doubling the market implied chance of a rate hike in September to 36% by the end of the month.

Economic data led to a small rise in rates, but the global hunt for yield (in an increasingly low/negative interest rate environment) seemingly kept a cap on the selloff.

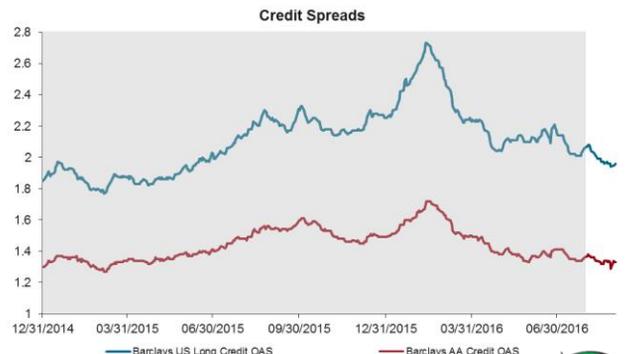
The 30 year Treasury rate increased 5 basis points while the 10 year Treasury rate increased 13 basis points over the month. The increase in rates had a positive contribution to pension funding ratios over August.



Credit

Credit spreads continued to tighten in August driven by a strong technical bid from foreign investors and a lack of major macroeconomic catalysts over the month. While IG issuance was surprisingly robust during a month that is typically quiet, demand for credit remains strong heading into September and ahead of the next Fed meeting, which is now "live" from the perspective of a possible rate hike.

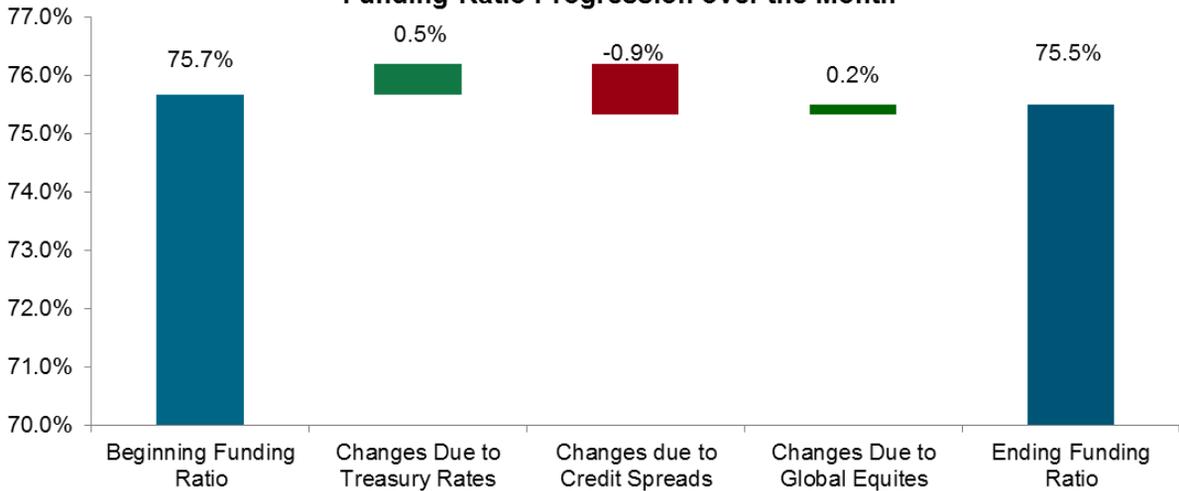
The option adjusted spread (OAS) for Barclays Long Credit tightened 10 basis points to 196 basis points while the Barclays Long AA Credit index tightened 3 basis points to 133 basis points over the month. The overall tightening in spreads (within the discount rate) had a negative contribution to pension funding ratios over August.



Funding Status Monitor

LGIMA estimates that pension funding ratios modestly decreased over August. Global equity markets increased 0.39% and the S&P 500 increased 0.14%. LGIMA estimates plan discount rates were unchanged, as Treasury rates rose 7 basis points while credit spreads tightened 7 basis points¹. Overall, liabilities for the average plan were up 0.40%, while plan assets with a traditional “60/40” asset allocation² decreased by 0.16%.

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.

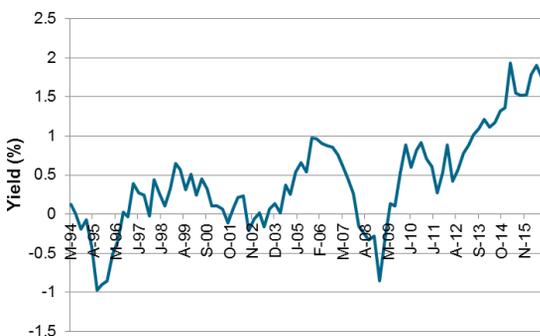
Market Commentary

Rates are low, but downside risk remains

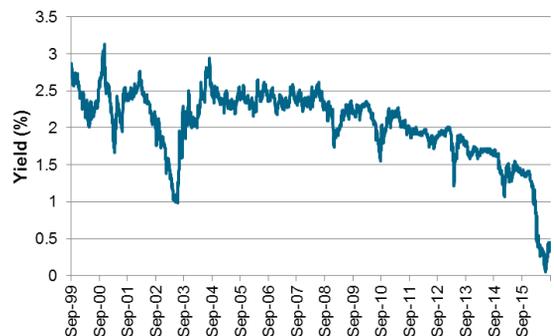
- Government yields across the developed world are significantly lower than US Treasury rates
- Flows from global investors could potentially moderate upward moves in US rates

Country	10Y	30Y	Moody's / S&P
USA	1.56	2.22	Aaa / AA+
Canada	1.01	1.62	Aaa / AAA
Germany	-0.07	0.48	Aaa / AAA
Britain	0.67	1.28	Aa1 / AA
Spain	1.06	2.16	Baa2 / BBB+
Switzerland	-0.47	-0.02	Aaa / AAA
Japan	-0.05	0.45	A1 / A+

30-year UST vs Bund spread



Japan 30-year yield



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