Market Update Overview

Pension funding ratios modestly increased over the month of February. While the equity markets reached all-time highs, 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 increased 0.1% over the month of February.

Equities

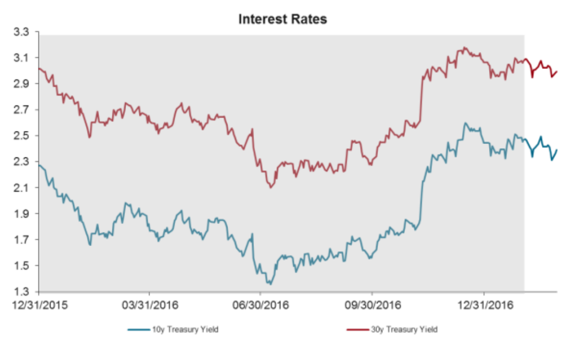
The S&P 500 Total Return index had another record setting month in February, posting a return of 3.97%. Markets have continued to react positively to expectations of spending and policy changes by the new administration. Healthcare, utilities and real estate outperformed while energy and materials lagged. Overall, the index posted gains across nearly all sectors, as markets have given the benefit of the doubt to unclear policy and regulatory changes. International equities also rose, posting a 1.61% gain.

The rally in equities has positively affected pension funding ratios.

Interest Rates

The curve flattened over the month, as the front end saw modest rate increases and the back end experienced a minor rally. Despite continued political uncertainty, the Fed continues to lean more hawkish, as Fed Chair Janet Yellen has identified each of the next three months as possible opportunities for a rate increase. The Fed has suggested they want to see more progress towards their 2% inflation target prior to a hike. In an interview after Tuesday's close, FOMC Vice Chair Dudley gave additional hawkish rhetoric that pushed the market-implied probability of a March hike above 50%.

The 30-year and 10-year rates both fell 6 basis points to 3.00 and 2.39, respectively. Rates have had a negative impact on pension funding ratios over the month.

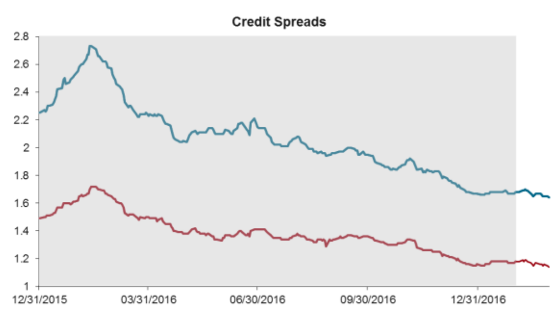


Credit

Credit spreads have mostly drifted sideways in 2017. In some sense, the lack of performance is understandable given that the pace of issuance only two weeks ago was running nearly 60% ahead of last year. And yet, as issuance has been slowing throughout February, it is surprising that credit isn't performing better, particularly with the equity market continuing to advance. This incongruence may stem from inconsistent foreign demand.

Over the month, the Bloomberg Barclay's US Long Credit Index and US AA Credit are both 4 basis points tighter, leaving the indices at 164 basis points and 114 basis points, respectively.

Tighter credit spreads had a negative impact on pension funding ratios over the month.



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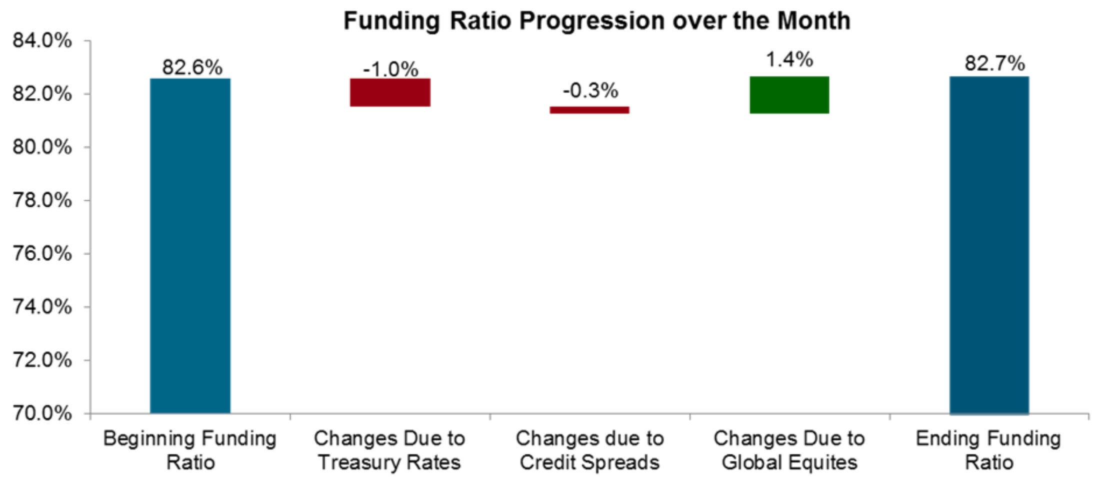
Funding Status Monitor

LGIMA estimates that pension funding ratios increased 0.1% over the month of February, with modest gains driven mainly by a rally in global equity markets of 2.85%. LGIMA estimates plan discount rates fell 11 basis points, as Treasury rates fell by 8 basis points and credit spreads tightened 3 basis points[1]. Overall, liabilities for the average plan were up 1.86%, while plan assets with a traditional "60/40" asset allocation[2] increased by 1.98%[3].



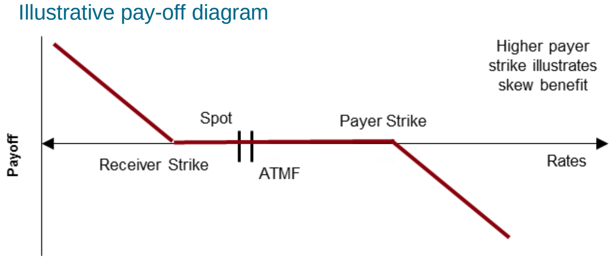
1: Discount rates based on a blend of the Bank of America Merrill Lynch Average US Pension Plan AAA-A and Bank of America Merrill Lynch Mature US Pension Plan AAA-A discount curves
2: For the average plan LGIMA assumes a 60% allocation to MSCI AC World and a 40% allocation to Barclays Aggregate.
3: Equity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

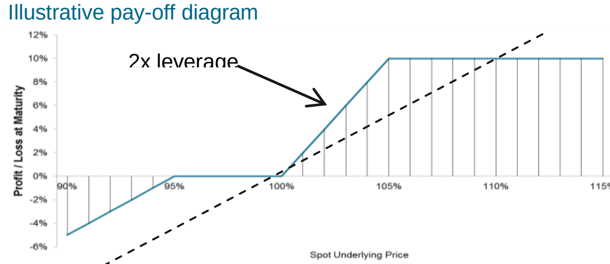
Illustrative pay-off diagram



Risk Reversal with 2x Call Spread

- 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 100%/105% call spreads.
- This strategy offers 2x upside exposure in a positive but low return environment (max payout of 10% for 5% market rise) while providing 5% downside protection.

Illustrative pay-off diagram



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