

US pension funding ratios increase over the third quarter of 2018

Legal & General Investment Management America, Inc. (LGIMA) announced today in its Pension Fiscal Fitness Monitor, a quarterly estimate of the change in health of a typical US corporate defined benefit pension plan, that pension funding ratios rose over the third quarter of 2018. LGIMA estimates the average funding ratio rose from 89.7% to 91.5% over the quarter based on market movements. LGIMA also anticipates further funding ratio gains from tax reform driven plan sponsor contributions, which will be disclosed in company filings (and subsequently reflected in this report) in the coming months.

The Pension Fiscal Fitness Monitor showed that pension funding ratios increased over the quarter. Global equity markets increased by 4.40% and the S&P 500 increased 7.71%. Plan discount rates increased by 4 basis points, as Treasury rates increased 22 basis points and credit spreads tightened 18 basis points. Overall, plan assets with a traditional “60/40” asset allocation increased 2.64%, resulting in a 1.8% increase in funding ratios over the third quarter of 2018.

Ciaran Carr, senior solutions strategist at LGIMA, said, “We estimate that funded ratio levels for the typical plan with a traditional asset allocation increased over the third quarter, largely due to positive equity performance.”

Carr added, “We continue to see an uptick in demand for more customized strategies to help hedge interest rate risk and lock in funding ratio gains. Completion management and multi-asset hedging strategies remain in high demand. More customized credit strategies have also continued to be popular this year as plans de-risking objectives have evolved further.”

The Pension Fiscal Fitness Monitor assumes a typical liability profile and 60% global equity/40% aggregate bond (“60/40”) investment strategy, and incorporates data from LGIMA research, Bank of America Merrill Lynch and Bloomberg.

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About LGIMA: Legal & General Investment Management America, Inc. (LGIMA) is a Chicago-based registered investment advisor which specializing in the design and management of investment solutions across active fixed income, index strategies, multi-asset and liability driven investment (LDI) for the US institutional market. With over \$175.5 billion in assets under management as of June 30, 2018, LGIMA is a wholly-owned subsidiary of Legal & General Investment Management (Holdings) Ltd. (LGIM(H)), which also owns its affiliates Legal & General Investment Management Ltd. and LGIM International Ltd. Legal & General’s worldwide assets under management are approximately \$1.3 trillion as of December 31, 2017. In May 2014, LGIMA became a wholly owned subsidiary of Legal & General Investment Management US (Holdings), Inc. (LGIMUS(H)) which is wholly owned by LGIM(H).

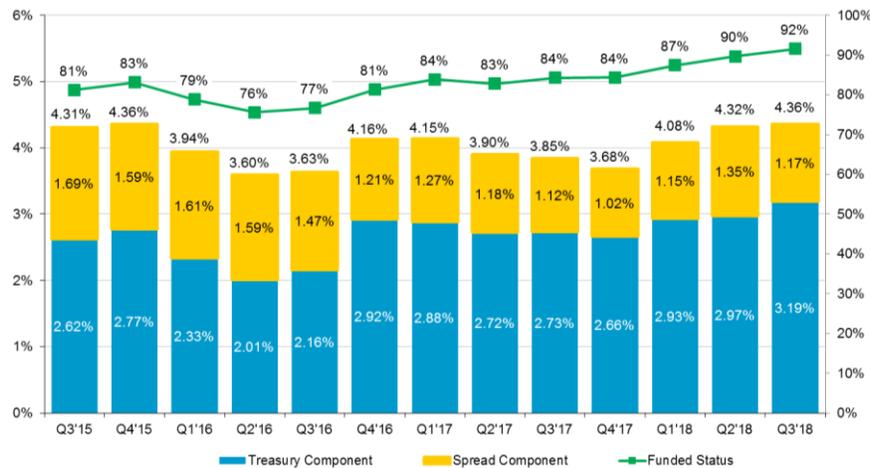
Pension funded status market summary:

- The decrease in liability values paired with positive asset portfolio returns (composed of a 60/40 mix of global equities and aggregate bonds), led to funded ratios increasing
- Equity markets increased, with global equities up 4.4% and the S&P 500 up 7.7%
- Treasury rates increased by 4 basis points while credit spreads tightened 18 basis points

Funded status risk	Q3 2018
Equities	↑
Interest rates	↑
Credit spreads	↓

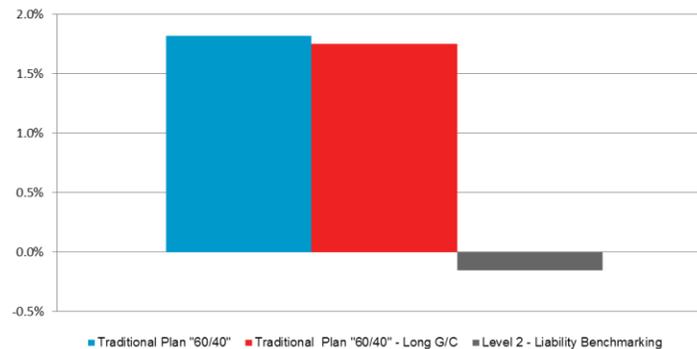
Source: LGIMA

Discount rates (end of quarter)



Source: LGIMA

Funding ratio performance of select pension investment strategies (over the quarter):



Source: LGIMA

The Pension Fiscal Fitness Monitor measures the historical market-related funding ratio performance of the traditional “60/40” investment strategy and highlights a few different approaches to implementation.

For each of the three approaches to implementation, we analyze how funding ratio performance would have changed for two different levels of equity exposure – 60% and 40%. We define two different LDI approaches as follows:

- Traditional: Allocating 60% to equities and 40% to either aggregate fixed income or Long G/C
- Level 2 LDI: Custom liability benchmark and derivative overlay designed within a total portfolio context
 - Level 2 implementation shown for comparison purposes and is chosen based upon the funding ratio of “a typical US corporate defined benefit pension plan” as of the beginning of the quarter

Traditional	Equity	LHA
60/40 Aggregate	60% MSCI AC World	40% Barclays Aggregate
60/40 Long G/C	60% MSCI AC World	40% Barclays Long Government/Credit
Level 2		
Level 2: 40% Equities / 90% IR Hedge	40% MSCI AC World	33% Barclays Long Credit A-AAA, 27% Treasuries and Futures

Disclaimers

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