

# Press Release

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## US pension funding ratios rose in the third quarter

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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 increased over the third quarter of 2016. LGIMA estimates the average funding ratio rose from 75.6% to 76.7% over the quarter.

The Pension Fiscal Fitness Monitor showed funded ratios increased over the quarter as assets grew more than pension liabilities. Global equity markets increased by 5.43% and the S&P 500 increased 3.85%. Plan discount rates fell 6 basis points, as Treasury rates increased 9 basis points and credit spreads tightened 15 basis points. Overall liabilities for the average plan were up 1.98%, while plan assets with a traditional "60/40" asset allocation increased 3.43%, resulting in a funding ratio increase of 1.1%.

LGIMA's Head of Solutions Strategy, Don Andrews, said, "We estimate that funded ratio levels for the typical plan with a traditional asset allocation increased by about 1.1% this quarter, primarily driven by stronger equity markets."

Andrews added, "Recent volatility in the equity and fixed income markets underscores the importance of establishing a comprehensive de-risking strategy. We continue to see significant interest from plans looking to mitigate funded ratio volatility via implementation of liability benchmarking, completion management, and option based hedging strategies, and would expect this demand to continue."

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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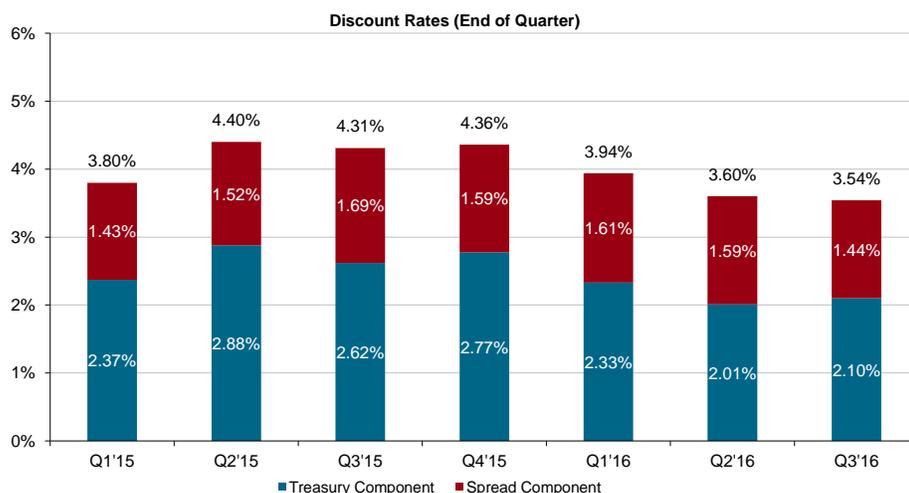
### Notes to editors:

**Notes to editors:** Legal & General Investment Management America, Inc. (LGIMA) is a Chicago-based registered investment advisor specializing in active fixed income, liability driven investment (LDI) and index strategies for the US institutional market. LGIMA was founded in 2006 as 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 \$790 billion. In May 2014, LGIMA became a wholly owned subsidiary of Legal & General Investment Management US (Holdings) (LGIMUS(H)) which is wholly owned by LGIM(H).

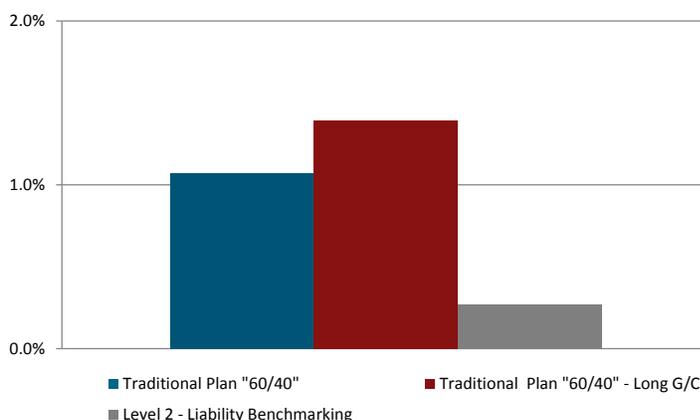
## Pension funded status market summary:

- Liability values increased over the quarter while asset portfolios (composed of a 60/40 mix of global equities and aggregate bonds) outperformed the return on liabilities, leading to an increase in funding ratios
- Equity markets increased, with global equities increasing 5.43% and the S&P 500 increasing 3.85% in the third quarter
- Average pension discount rate decreased 6 basis points over the third quarter; Treasury rates increased by 9 basis points while credit spreads tightened 15 basis points

Funded status risk	3rd quarter 2016
Equities	↑
Interest rates	↑
Credit spreads	↓



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



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/30% CS Hedge	40% MSCI AC World	38% Barclays Long Credit A-AAA, 22% Treasuries and Futures

## **Disclaimers**

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