LGIM America

1Q 2021

Pension Fiscal Fitness Monitor

US pension funding ratios increased over the first quarter of 2021

LGIM America 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 first quarter of 2021. LGIM America estimates the average funding ratio increased from 82.1% to 90.7% over the quarter based on market movements.

Equity markets saw persistent gains over the quarter with Global Equities increasing 4.7% and the S&P 500 increasing 6.2%. Further, plan discount rates were estimated to have increased by roughly 60 basis points in total, while plan assets with a traditional "60/40" asset allocation increased 1.4%. These changes resulted in an 8.6% increase in funding ratio over the first quarter of 2021.

Chris Wroblewski, Solutions Strategist, said, "We estimate that funding ratio levels for the typical plan with a traditional asset allocation increased over the first quarter, primarily due to higher discount rates leading to lower liability values paired with strong global equity performance."

Wroblewski added, "The first quarter continued to see strong equity returns, positively contributing to funded status gains. Additionally, the significant rise in Treasury yields over the quarter led to higher discount rates, and ultimately, drove liability values lower. Volatility experienced in the Treasury market shows the importance of decoupling risks that can impact pension plan funded status, such as interest rate and credit spread risk. Separating these risks can help plans design and implement a more appropriate LDI strategy. Adopting a completion framework is one way pension plans can manage uncompensated risk more effectively through volatile market environments."

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 LGIM America research, Bank of America Merrill Lynch and Bloomberg.

For further information, please contact:

Name:	Julia Sofo
Company:	Edelman
Email:	julia.sofo@edelman.com
Tel:	202.350.6656

About LGIM America

LGIM America (LGIMA) was founded in 2006 with the purpose of helping people achieve their long-term financial goals. We offer a range of strategies to help our institutional clients (corporations, healthcare agencies, non-profit, education, public plans and Taft-Hartley) manage their investment objectives, which can range from market-based alpha-oriented strategies to those that are designed to be more liability-centric, derivative overlays, or indexed solutions. Encouraging a diverse and inclusive environment coupled with a solutions-focused culture allows us to increase our breadth of knowledge and the likelihood of improved client outcomes and stronger financial performance. We have teams of experienced, innovative professionals committed to helping plan sponsors meet their pension promises, managing investment exposures efficiently to seek enhanced returns while mitigating risks, and working to generate returns while making a positive societal difference. As of December 31, 2020, LGIM America had $241 billion assets under management.

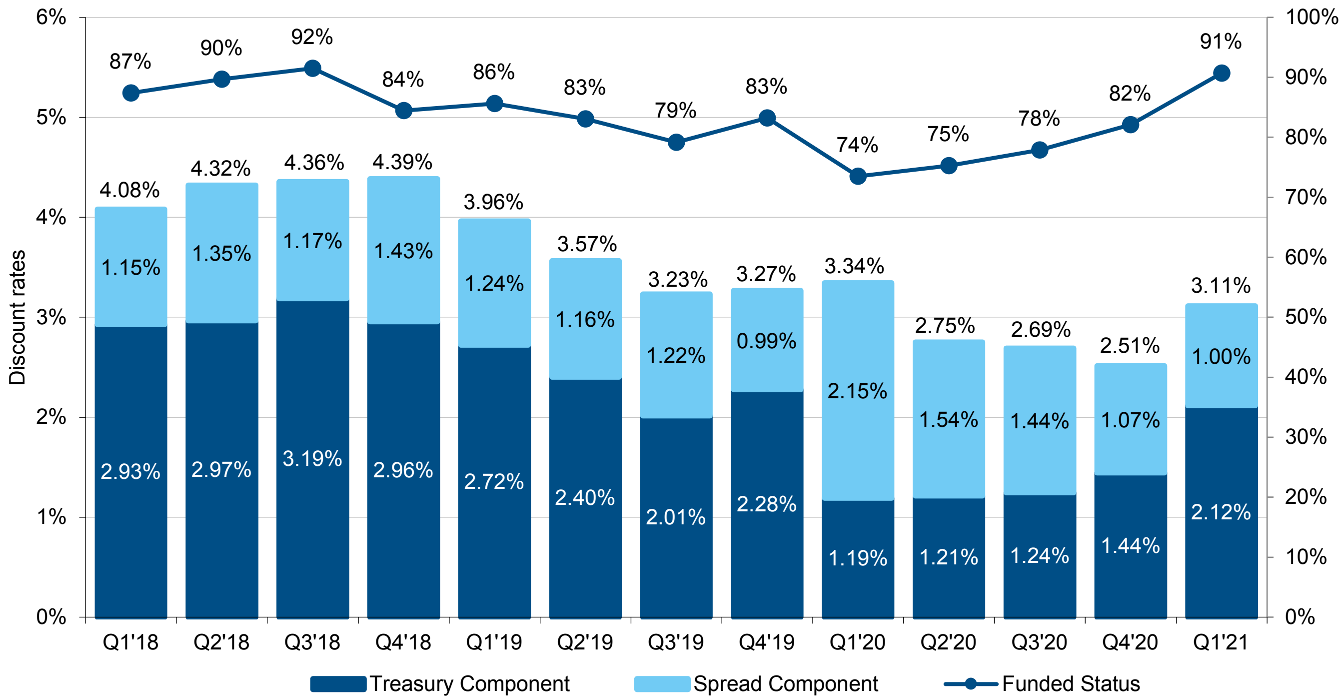
Pension funded status market summary:

- Positive asset portfolio returns (composed of a 60/40 mix of global equities and US Aggregate bonds) combined with a decrease in liability values resulted in increased funding ratios
- Equity markets were strong with global equities up 4.7% and the S&P 500 up 6.2%

Funded status risk	Q1 2021
Equities	↑
Interest rates	↑
Credit spreads	↓

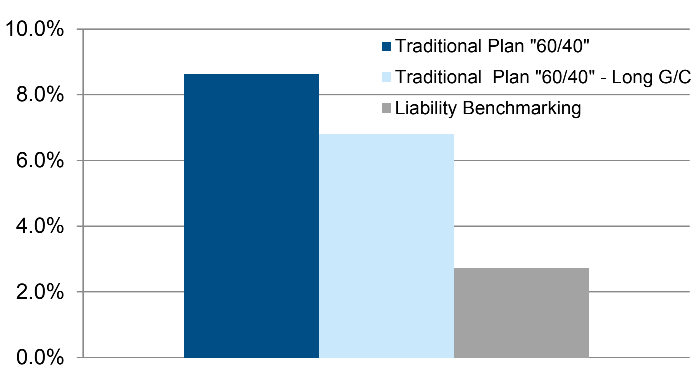
Sources: LGIM America, ICE indices and Bloomberg. Data as of March 31, 2021.

Discount rates (end of quarter)



Sources: LGIM America, ICE indices and Bloomberg. Data as of March 31, 2020.

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



Sources: LGIM America, ICE indices and Bloomberg. Data as of March 31, 2021.

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

LGIM America