



3Q 2020

Pension fiscal fitness monitor

US pension funding ratios increased over the third quarter of 2020

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 2020. LGIMA estimates the average funding ratio increased from 75.3% to 77.9% over the quarter based on market movements.

Equity markets saw a strong rally over the quarter with Global Equities increasing 8.25% and the S&P 500 increasing 8.93%. Plan discount rates were estimated to have fallen by 6 basis points in total. Treasury rates rose 3 basis points on average while A-AAA credit spreads tightened 9 basis points over the quarter.¹ Overall, plan assets with a traditional “60/40” asset allocation increased 5.22%, resulting in a 2.6% increase in funding ratios over the third quarter of 2020.

Katie Launspach, Senior Solutions Strategist at LGIMA, said, “We estimate that funding ratio levels for the typical plan with a traditional asset allocation increased over the third quarter, primarily due to strong global asset performance positively impacting plan assets.” Launspach added, “The third quarter saw a substantial increase in equity returns, which was the main driver of the improvement in funded status for pension plans. Volatile times like this show 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. Hedging more interest rate risk through a Completion framework and avoiding defaults and downgrades through active credit management are two ways that can help improve funded status outcomes in such volatile markets.”

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 LGIM America

Legal & General Investment Management America, Inc. (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. Our solutions-focused culture means that clients’ individual goals and objectives are directly aligned with customized solutions. We have teams of experienced, innovative professionals committed to helping plan sponsors meet their pension promises, managing investment exposures efficiently to potentially deliver enhanced returns while mitigating risks, and working to generate returns while making a positive societal difference. As of June 30, 2020, LGIMA had \$213 billion assets under management. For more information on LGIMA, visit www.lgima.com.

¹ Based on ICE BAML Pension indices.

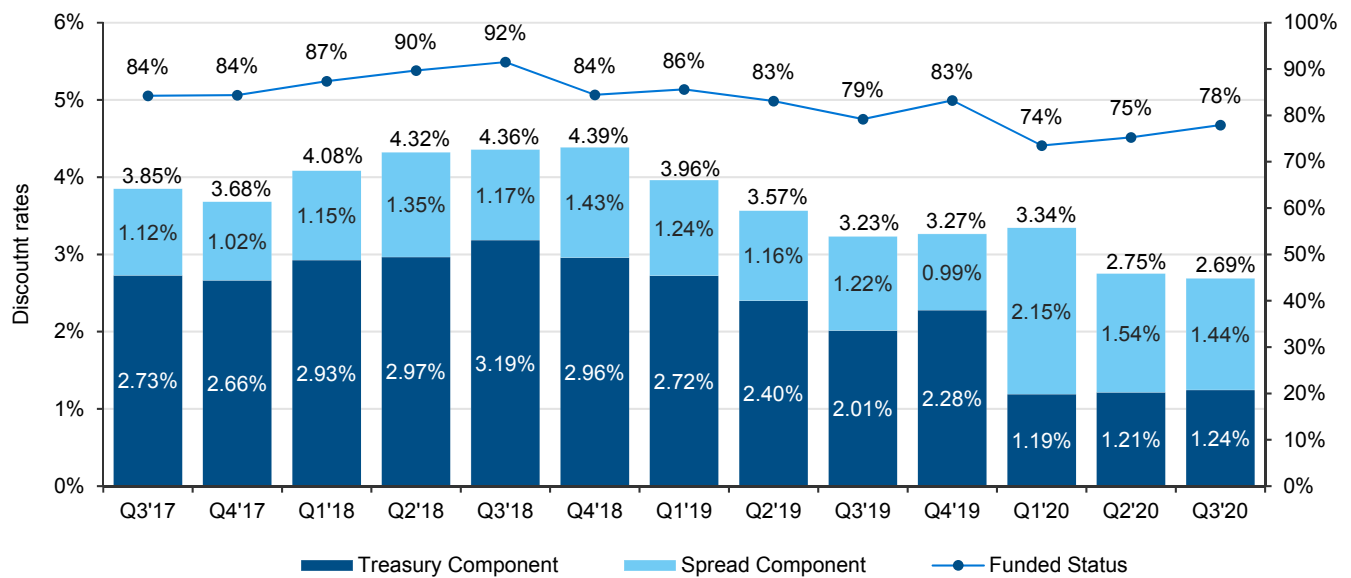
Pension funded status market summary:

- Positive asset portfolio returns (composed of a 60/40 mix of global equities and US Aggregate bonds) outperformed the rise in Liability values, resulting in increased funding ratios
- Equity markets were strong with global equities up 8.3% and the S&P 500 up 8.9%
- Treasury rates rose by 3 basis points as credit spreads tightened 9 basis points

Funded status risk	Q3 2020
Equities	↑
Interest rates	↑
Credit spreads	↓

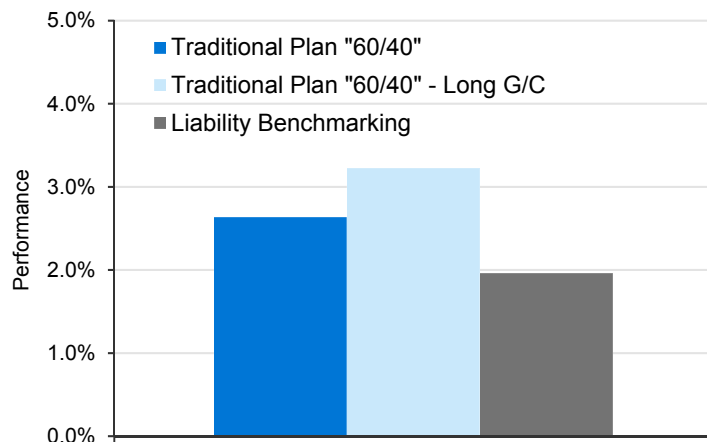
Sources: LGIMA, ICE indices and Bloomberg. Data as of September 30, 2020

Discount rates (end of quarter)



Sources: LGIMA, ICE indices and Bloomberg. Data as of September 30, 2020.

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



Sources: LGIMA, ICE indices and Bloomberg. Data as of September 30, 2020.

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

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These results are based on simulated or hypothetical performance results that have certain inherent limitations. Unlike the results in an actual performance record, these results do not represent actual trading. Because these trades have not actually been executed, these results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown.