LGIM America

4Q 2020

Pension Fiscal Fitness Monitor

US pension funding ratios increased over the fourth quarter of 2020

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 fourth quarter of 2020. LGIM America estimates the average funding ratio increased from 77.9% to 82.1% over the quarter based on market movements.

Equity markets saw a strong rally over the quarter with Global Equities increasing 14.8% and the S&P 500 increasing 12.2%. Plan discount rates were estimated to have fallen by 17 basis points in total. Treasury rates rose 20 basis points on average while A-AAA credit spreads tightened 37 basis points over the quarter. Overall, plan assets with a traditional "60/40" asset allocation increased 9.1%, resulting in a 4.2% increase in funding ratios over the fourth quarter of 2020.

Chris Wroblewski, Solutions Strategist at LGIM America, said, "We estimate that funding ratio levels for the typical plan with a traditional asset allocation increased over the fourth quarter, primarily due to strong global equity performance propelling asset growth ahead of plan liabilities."

Wroblewski added, "The fourth quarter continued to see strong equity returns, which was the main driver of the improvement in funded status for pension plans. The fourth quarter capped off a year of extraordinary market volatility with investors experiencing a dramatic downturn, quickly followed by an impressive recovery in asset prices. 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. The adoption of a more tailored fixed income allocation through a Completion framework can help protect funded status drawdowns and complement a plan's de-risking glidepath given unexpected market volatility."

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.

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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 September 30, 2020, LGIMA had $224 billion assets under management.

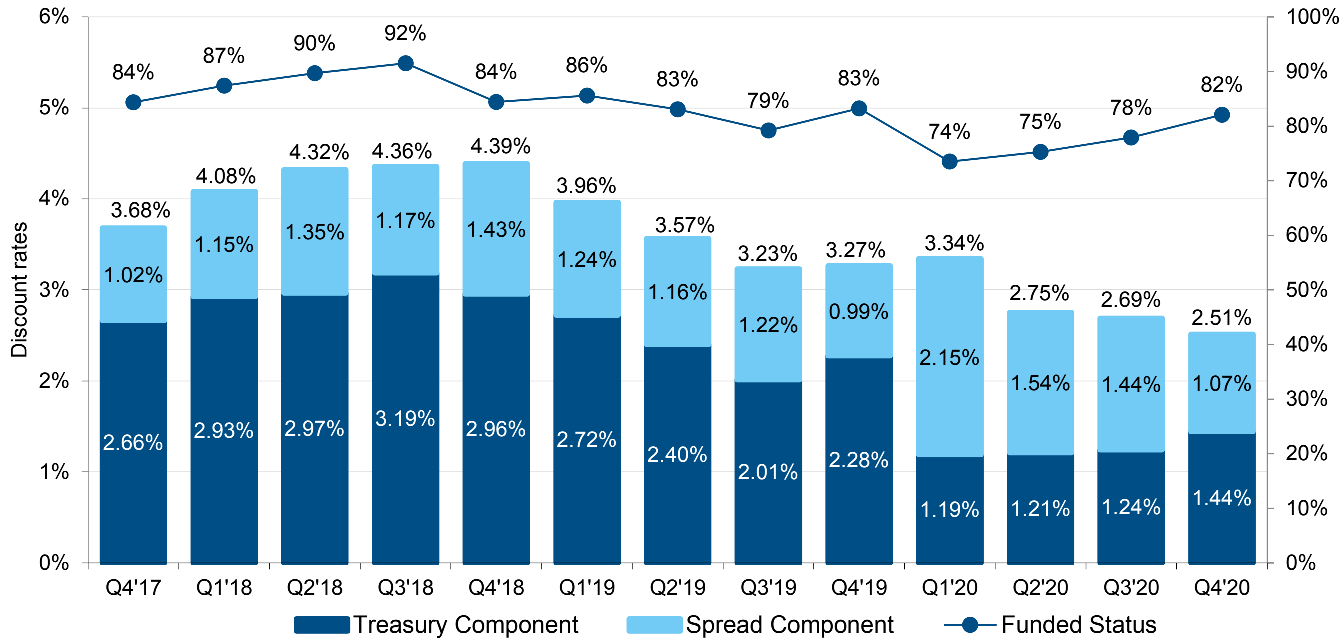
Pension funded status market summary:

- Positive asset portfolio returns (composed of a 60/40 mix of global equities and US Aggregate bonds) outperformed the rise in Liability values, resulting in increased funding ratios
- Equity markets were strong with global equities up 14.8% and the S&P 500 up 12.2%
- Treasury yields rose by 20 basis points as credit spreads tightened 37 basis points

Funded status risk	Q4 2020
Equities	↑
Interest rates	↑
Credit spreads	↓

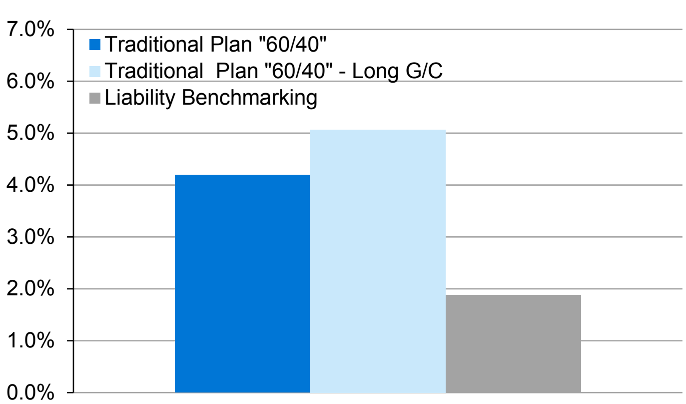
Sources: LGIMA, ICE indices and Bloomberg. Data as of December 31, 2020

Discount rates (end of quarter)



Sources: LGIMA, ICE indices and Bloomberg. Data as of December 31, 2020.

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



Sources: LGIMA, ICE indices and Bloomberg. Data as of December 31, 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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