US pension funding ratios decreased over the second quarter of 2019

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 decreased over the second quarter of 2019. LGIMA estimates the average funding ratio declined from 85.6% to 83.1% over the quarter based on market movements.

The Pension Fiscal Fitness Monitor showed that pension funding ratios regressed over the quarter. However, global equity markets increased by 3.80% and the S&P 500 increased 4.30%. Plan discount rates fell 40 basis points, as Treasury rates decreased 32 basis points and credit spreads tightened 8 basis points. This resulted in a 6.79% increase in plan liabilities. Overall, plan assets with a traditional “60/40” asset allocation rose 3.63%, resulting in a 2.53% decrease in funding ratios over the second quarter of 2019.

Ciaran Carr, senior solutions strategist at LGIMA, said, “We estimate that funding ratio levels for the typical plan with a traditional asset allocation decreased over the second quarter, primarily due to plan liabilities increasing at a faster pace than plan assets.”

Carr added, “We have noticed a greater interest from clients in utilizing derivative overlays more holistically across investment strategies. In particular, we have seen a wider interest in equity overlay investment strategies from clients wanting to replicate outright equity exposure, equitize cash, or implement some level of equity protection within their portfolio. Finding ways to efficiently reduce funded status volatility while respecting their de-risking glidepath continues to be a core objective of many defined benefit pension plans. This is in tandem with clients moving into more custom LDI strategies, where a more integrative approach can be adopted across each plan’s investment strategy to help manage and reduce risk where possible.”

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 registered investment advisor specializing in designing and managing investment solutions across active fixed income, index strategies, multi-asset, liability driven investment, and sustainable investment strategies for the US institutional market. With nearly $191 billion in assets under management as of March 30, 2019, LGIMA is a wholly-owned subsidiary of Legal & General Investment Management US (Holdings) Inc., which is in turn, wholly owned by Legal & General Investment Management (Holdings) Ltd. (LGIM(H)). LGIM(H) also owns our 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, 2018. For more information on LGIMA, visit http://www.lgima.com/.

Pension funded status market summary:

- Positive asset portfolio returns (composed of a 60/40 mix of global equities and US Aggregate bonds) were offset by increasing Liability values, resulting in decreasing funding ratios
- Equity markets rallied, with global equities up 3.80% and the S&P 500 up 4.30%
- Treasury rates decreased by 32 basis points as credit spreads tightened 8 basis points

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<th>Funded status risk</th>
<th>Q2 2019</th>
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<tr>
<td>Equities</td>
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<td>Interest rates</td>
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Source: LGIMA, ICE indices, and Bloomberg

Discount rates (end of quarter)

Source: LGIMA, ICE indices, and Bloomberg
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 Plan “60/40”

- 60% Aggregate
- 60% Long G/C

### Level 2 - Liability Benchmarking

- Level 2: 40% Equities / 90% IR Hedge

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Source: LGIMA, ICE indices, and Bloomberg
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.