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Adding Diversified Global Credit to U.S. Corporate Pensions

Global public credit markets have grown significantly in the last decade, creating an asset class that can assist pension plans in generating income in excess of traditional fixed income and dampening volatility from growth assets. We analyzed the average asset allocation of the largest 100 U.S. corporate pension plans and the impact of adding a market value weighted basket of global sub investment grade securities, denoted as Credit.

1. Credit offers diversifying benefits with a low correlation to the Traditional Fixed Income portfolio

Total Return Correlations (Jan 2006 – February 2021)

	Growth Assets	Traditional FI	Liability	Credit
Growth Assets	1.00			
Traditional FI	0.07	1.00		
Liability	0.30	0.92	1.00	
Credit	0.78	0.25	0.49	1.00

2. Making an allocation to Credit with a pro rata reduction of Equities (part of the Growth Assets) can reduce overall portfolio volatility and both funded ratio and funded status volatility

Portfolio Allocation

Asset Class	Current	→	Inc. Credit
FI - Long	47%		47%
Domestic EQ	21%	-8%	13%
Intl EQ	12%	-5%	8%
Global EQ	5%	-2%	3%
Private Equity	6%		6%
Real Estate	5%		5%
Credit	0%	+15%	15%
Cash	2%		2%

Portfolio Attributes (Annualized) Jan 2006 – Feb 2021

	Current	→	Inc. Credit
Volatility	9.9%	-1.1%	8.8%
Funded Status Vol[1]	8.3%	-1.3%	7.0%
Funded Ratio Vol[2]	8.2%	-1.3%	6.9%
Return	8.22%	-0.37%	7.85%

[1]Funded Status Vol = Annualized standard deviation of the monthly change in ((Assets-Liability)/Starting Asset Value).

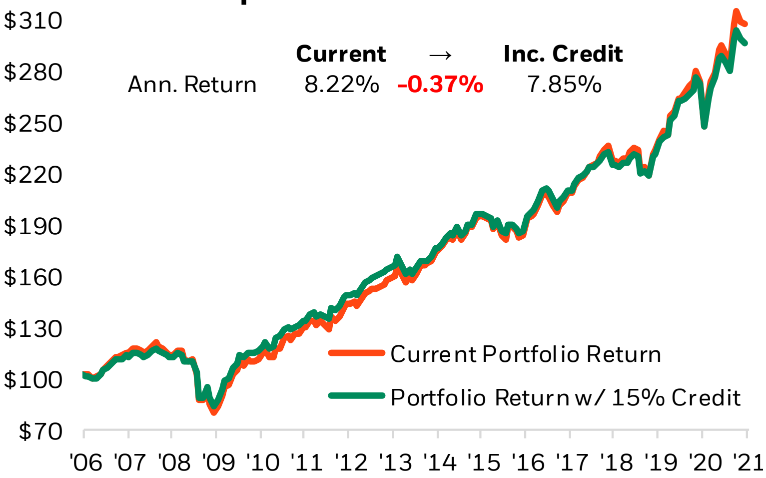
[2]Funded Ratio Vol = Annualized standard deviation of the monthly change in funded ratio (Asset / Liability). Analysis assumes a starting funded status of 100%.

3. Because Credit is more correlated to the Liability than other Growth Assets, adding additional amounts of Credit can reduce the portfolio's excess return volatility, as defined as the standard deviation of portfolio return less the liability return. Creating a portfolio that more closely tracks the Liability

% Total	% FI	% Growth	% Credit	Excess Ret Vol
100%	49%	36%	15%	7.1%
100%	49%	31%	20%	6.7%
100%	49%	26%	25%	6.4%
100%	49%	21%	30%	6.1%
100%	49%	16%	35%	5.9%
100%	49%	11%	40%	5.7%
100%	49%	6%	45%	5.5%

4. The addition of Credit can achieve the aforementioned points without a meaningful reduction in return

U.S. Corporate Pension Plan Return



There are a number of ways to integrate Credit into a portfolio. We believe the competitive return profile, relatively muted volatility, and diversification benefits make it an attractive strategic addition to a pension portfolio.

Asset Class	Index Name
FI - Long	Barclays Long Government/Credit Bond Index
Domestic EQ	Russell 1000
Intl EQ	MSCI World ex US
Global EQ	MSCI ACWI
Private Equity	S&P Listed Private Equity Index
Real Estate	Dow Jones U.S. Real Estate Index
Cash	Barclays 1-3 Month T-Bill Index
Liability	Barclays Long Corporate High Quality Index
Credit	Market value weighted index of Bloomberg Barclays US HY 2% Issuer Cap, Bloomberg Barclays Pan-European High Yield USD hedged, S&P/LSTA US Leveraged Loan, S&P/LSTA European Leveraged Loan USD hedged, JP Morgan EMBI Global, JP Morgan CEMBI , and JP Morgan JACI

Source: Barclays, JP Morgan, MSCI, Dow Jones and S&P as of 2/26/21. Index performance is shown for illustrative purposes only. Indexes are unmanaged. It is not possible to invest directly in an index. All performance shown in US dollars. The figures shown relate to past performance. **Past performance is not a reliable indicator of current or future results.**

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