Monthly pension update

SEPTEMBER 2018

DID YOU KNOW?

Following last month's high, yet again this month marks the highest funded status level we have seen achieved since we began our tracking back in December 2012.

FUNDED STATUS FAST FACTS

89%
FUNDED STATUS ROSE 0.6% THIS MONTH

+3.7% YTD
FUNDED STATUS INCREASE

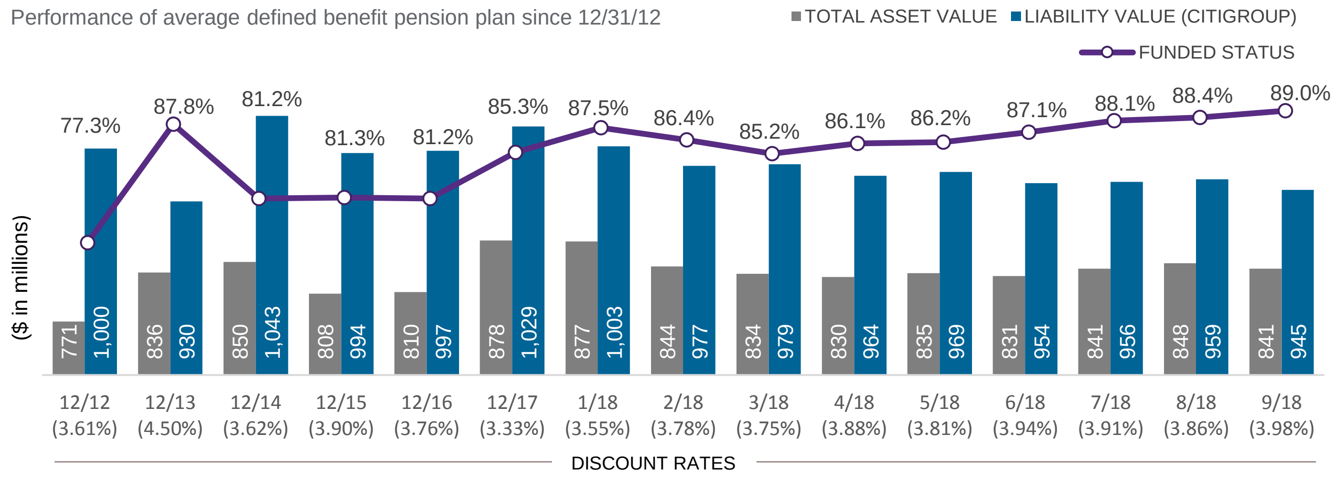
+65BPS
DISCOUNT RATE YEAR TO DATE CHANGE

MONTHLY CONTRIBUTIONS OF FUNDED STATUS CHANGE: **DISCOUNT AND TREASURY RATES**

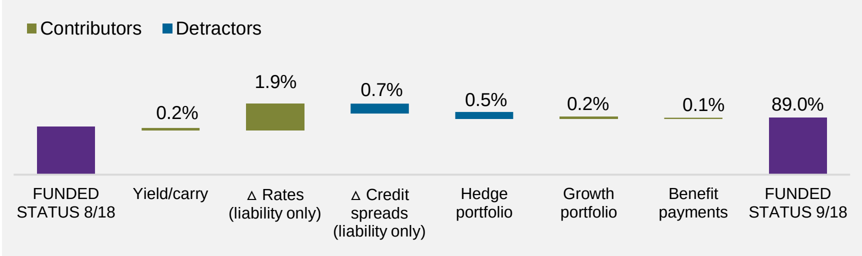
MONTHLY DETRACTORS OF FUNDED STATUS CHANGE: **CREDIT SPREADS**

HISTORICAL FUNDED STATUS

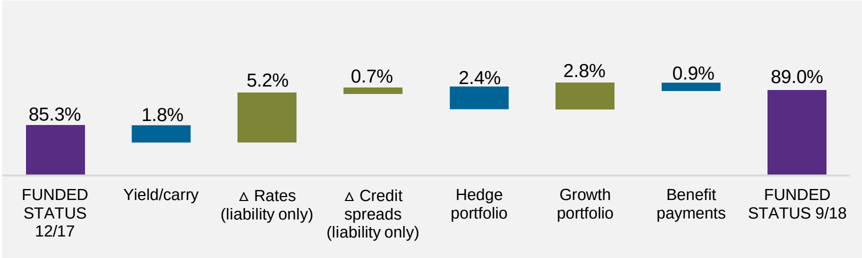
Performance of average defined benefit pension plan since 12/31/12



MONTHLY FUNDED STATUS ATTRIBUTION



YEAR TO DATE FUNDED STATUS ATTRIBUTION



Changes	Month	Year
Funded Status %	▲ 0.6%	▲ 3.7%
Discount Rate (bps)	▲ 12	▲ 65
Treasury Rates (bps)	▲ 20	▲ 56
Credit Spreads (bps)	▼ (8)	▲ 9
Liabilities (mm)	▲ (14.0)	▲ ($84.1)
Assets (mm)	▼ ($6.6)	▼ ($37.4)
Funded Status (mm)	▲ $7.4	▲ $46.7

Note: Arrow indicates effect on funded status.

Source: J.P. Morgan, Citigroup Discount Curve, Bloomberg. As of September 30, 2018. For illustrative purposes only. Past performance is not indicative of future results.

J.P.Morgan
Asset Management

MACROECONOMIC TRENDS IMPACTING PENSION PLANS

A breakdown of what you need to watch this month as you consider investment implications for your plan

GROWTH

Global economic growth remains solid but divergent. Fiscal stimulus continues to drive above-trend economic growth in the U.S., but the European data remains a bit soft, as evidenced by a further decline in the September PMI. That said, the European consumer should remain supported as the labor market continues to tighten and wage growth accelerates, potentially leading to a revival in manufacturing data as the calendar turns. At the current juncture, a resynchronization of global growth is needed – U.S. fiscal stimulus will run its course during the coming quarters, which will lead to a deceleration in global growth next year if the global economy more broadly fails to find its footing.

INFLATION

Globally, inflation is heating up as labor markets continue to tighten, wage growth shows signs of life, and oil prices push higher. That said, U.S. headline inflation cooled slightly in September. August headline CPI slowed slightly, up 2.3% y/y vs. 2.7% y/y in August. The core measures (ex food and energy) also cooled slightly to 2.2% year-over-year. European inflation is moderate as well, but remains higher than a year ago. Finally, while aggregate EM inflation remains tame, there is divergence beneath the surface. Inflation is not a problem yet, but if productivity growth fails to accelerate in line with wages, central banks will be forced to turn increasingly hawkish.

RATES

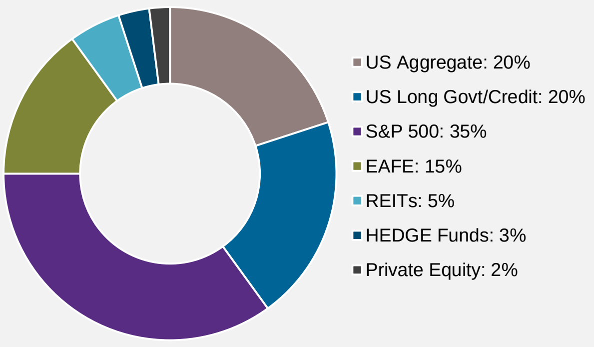
The FOMC hiked rates by 25bps to a range of 2-2.25% at the September meeting. In their new set of economic projections, the FOMC highlighted that they expect growth to be more robust this year and next year relative to their expectations in June, and that they would continue to increase the Fed funds rate through the end of 2020. Furthermore, they do not believe the unemployment rate will fall as fast as initially expected, and anticipate that it will remain below their long-run estimate for the foreseeable future. We still look for one more hike this year, and 2-3 hikes next year.

RETURNS

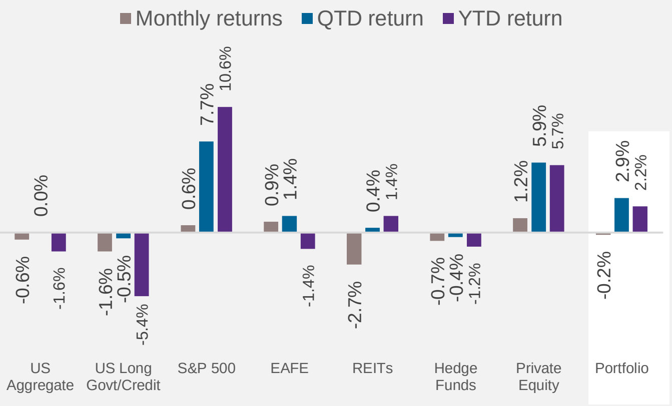
With rates rising and valuations elevated, we continue to believe that earnings will be the main driver of equity market returns. Expectations are for robust profit growth to continue through the end of the year, but earnings guidance has come under pressure as of late, and while still positive, estimates for 2019 earnings may be a bit too robust. Rising rates will put downward pressure on valuations, which means that earnings growth will be the main driver of returns going forward. This makes the 2019 profit story – one likely characterized by deteriorating margins and a slowing in revenue growth – increasingly important.

ASSET ALLOCATION & MARKET SNAPSHOT (As of 9/30/18)

PLAN ASSET ALLOCATION

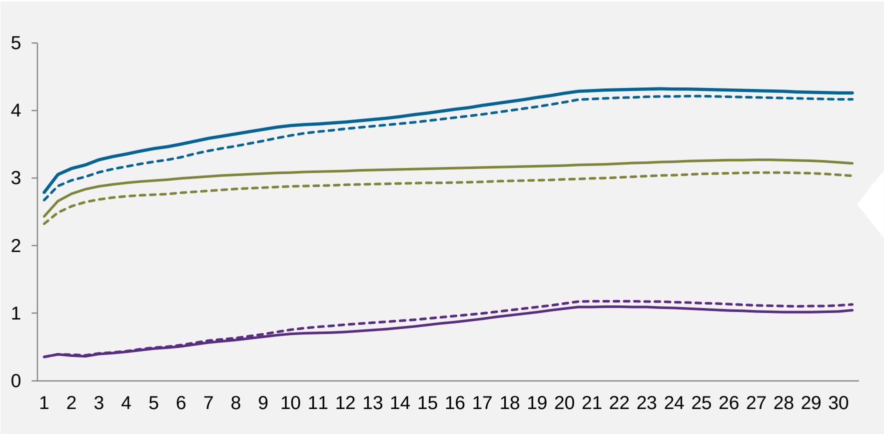


ASSET AND PORTFOLIO RETURNS



Source: J.P. Morgan, Citigroup Discount Curve, Bloomberg. As of September 30, 2018. For illustrative purposes only.
Past performance is not indicative of future results. For more information on our fixed income outlook, please visit our blog: http://blog.jpmorganinstitutional.com

YIELD CURVE CHANGES

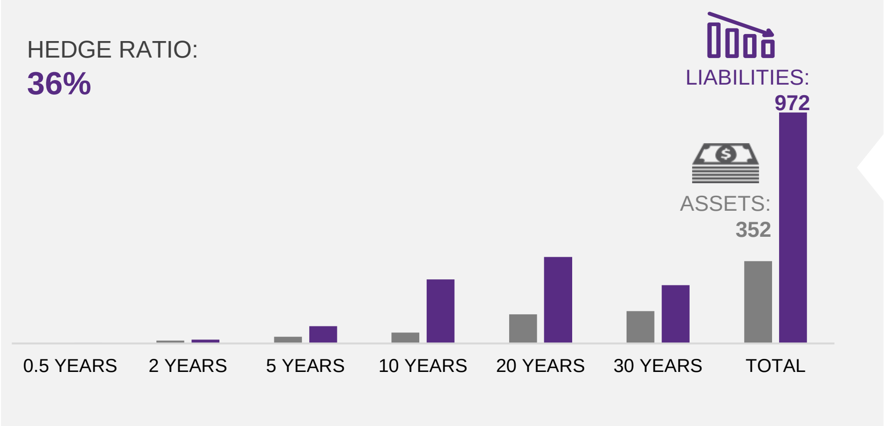


Over the month the treasury curve flattened while credit spreads widened, leaving discount rates down 5bps for the month.

INTERESTED IN A DEEPER DIVE ON FIXED INCOME?

Click here for all the charts you need to understand what is happening in the fixed income markets.

PLAN RISK ANALYTICS

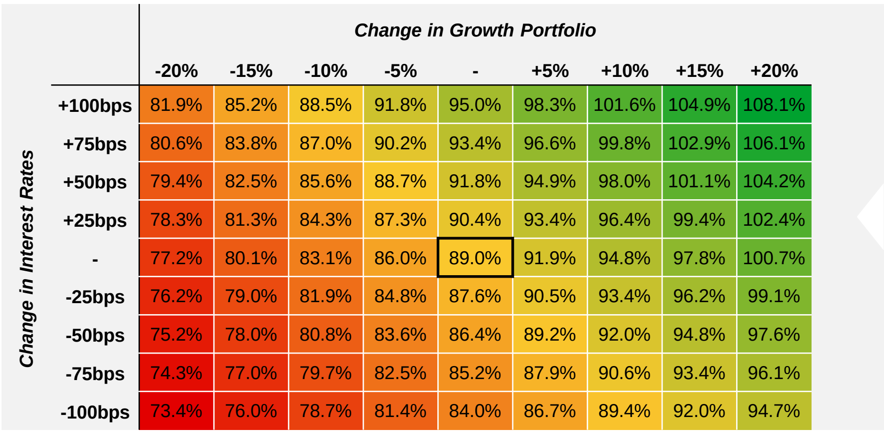


DURATION SENSITIVITY

The overall hedge ratio is defined as the ratio of asset dollar duration to liability dollar duration.

We estimate that this is approximately 36%.

We note that a higher hedge ratio, constructed with better key rate duration (KRD) matching along the curve would reduce funded status volatility. Matching the dollar duration of assets and liabilities across the curve structure would better insulate the plan against non-parallel yield curve movements.



Change in Interest Rates	*Change in Growth Portfolio*								
	-20%	-15%	-10%	-5%	-	+5%	+10%	+15%	+20%
+100bps	81.9%	85.2%	88.5%	91.8%	95.0%	98.3%	101.6%	104.9%	108.1%
+75bps	80.6%	83.8%	87.0%	90.2%	93.4%	96.6%	99.8%	102.9%	106.1%
+50bps	79.4%	82.5%	85.6%	88.7%	91.8%	94.9%	98.0%	101.1%	104.2%
+25bps	78.3%	81.3%	84.3%	87.3%	90.4%	93.4%	96.4%	99.4%	102.4%
-	77.2%	80.1%	83.1%	86.0%	89.0%	91.9%	94.8%	97.8%	100.7%
-25bps	76.2%	79.0%	81.9%	84.8%	87.6%	90.5%	93.4%	96.2%	99.1%
-50bps	75.2%	78.0%	80.8%	83.6%	86.4%	89.2%	92.0%	94.8%	97.6%
-75bps	74.3%	77.0%	79.7%	82.5%	85.2%	87.9%	90.6%	93.4%	96.1%
-100bps	73.4%	76.0%	78.7%	81.4%	84.0%	86.7%	89.4%	92.0%	94.7%

SCENARIO ANALYSIS

The heat map shows the change in funded status under different instantaneous interest rate and growth portfolio movements.

We note that reducing the allocation to equities and increasing the hedge ratio will likely narrow the change of possible outcomes and help limit downside funded status scenarios.

Source: J.P. Morgan, Citigroup Discount Curve, Bloomberg. As of September 30, 2018. For illustrative purposes only.
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Credit Risk: There is a risk that issuers and counterparties will not make payments on securities, repurchase agreements or other investments held by the strategy.

Such defaults could result in losses to the strategy. In addition, the credit quality of securities held by the strategy may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security and in shares of the strategy. Lower credit quality also may affect liquidity and make it difficult for the strategy to sell the security. The strategy may invest in securities that are rated in the lowest investment grade category. Such securities are considered to have speculative characteristics similar to high yield securities, and issuers of such securities are more vulnerable to changes in economic conditions than issuers of higher grade securities.

Interest Rate Risk: Bonds and other debt securities will increase or decrease in value based on changes in interest rates. If rates increase, the investment generally declines. On the other hand, if rates fall, the value of the investments generally increases. Your investment will decline in value if the value of the investment decreases. Securities with greater interest rate sensitivity and longer maturities tend to produce higher yields, but also are subject to greater fluctuations in value. Usually, the changes in the value of fixed income securities will not affect cash income generated, but may affect the value of your investment.

Derivatives may be riskier than other types of investments because they may be more sensitive to changes in economic and market conditions than other types of investments and could result in losses that significantly exceed an original investment. Many derivatives will give rise to a form of leverage. Derivatives are also subject to the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. The use of derivatives for hedging or risk management purposes or to increase income or gain may not be successful, resulting in losses.

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