

Corporate pension allocation changes

A preliminary analysis

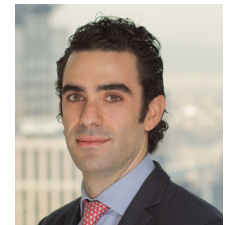
January 2019

WHILE MOST CORPORATIONS' 10-K FILINGS WILL NOT BE AVAILABLE UNTIL LATE FEBRUARY, WE ANALYZED PRELIMINARY DATA ON PENSION PLANS THAT HAVE FISCAL YEAR ENDS BETWEEN JUNE 30, 2018 AND OCTOBER 31, 2018. Examining how these sponsors have shifted their asset allocations, a clear de-risking trend emerges. We see a shift out of public equity (minus 8%-10% on average) with the bulk going into fixed income (up 8%-9% on average) and smaller shifts into alternatives. In some cases there is a formal change in the target allocation, but in other cases plans may have simply de-risked within the confines of their existing investment guidelines.

We will expect to see similar changes from the broader universe of calendar year plans, with the caveat that reported allocations may be strongly influenced by rebalancing activity over a volatile December.

On the topic of rebalancing, note the allocation changes below are in the face of positive equity and negative fixed income performance for each time period, so even a flat equity allocation likely reflects some rebalancing away.

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EXHIBIT 1: CHANGE IN ALLOCATION OVER THE FISCAL YEAR

Company	Fiscal year	2018 funded status (%)	2018 PBO/market cap (%)	2018 assets (\$mm)	Change in allocation over fiscal year					Fixed income target (%)			Public equity target (%)		
					% Fixed Income	% Equity	% Alts	2017	2018	Delta	2017	2018	Delta		
HP Inc.	10/31	89.7	29	10,018	↑ 18.1	↓ -23.3	↓ -0.1	60	70	+10	40	30	-10		
Navistar International Corp	10/31	64.7	101	2,162	↓ -1.7	↓ 0.0	↑ 1.5	ND	ND	NA	ND	ND	NA		
Deere & Company	10/28	104.1	28	12,602	↑ 8.0	↓ -10.6	↑ 1.0	27	34	+7	49	42	-7		
Hormel Foods Corporation	10/28	97.2	6	1,313	↑ 0.1	↓ -0.9	↑ 1.1	25-45	25-45	Unch	30-75	30-75	Unch		
Air Products and Chemicals, Inc.	9/30	91.9	8	2,685	↑ 16.0	↓ -17.0	↑ 1.0	32-42	44-54	+12	46-66	38-48	-8 to 18		
Becton, Dickinson and Co.	9/30	83.5	5	2,642	↑ 1.7	↑ 0.0	↓ -0.5	40	40	Unch	32	32	Unch		
The Walt Disney Company	9/29	87.8	8	12,728	→ 0.0	↓ -1.0	↑ 1.0	20-40	20-40	Unch	30-60	30-60	Unch		
Emerson Electric Co.	9/30	107.0	8	4,233	↑ 6.0	↓ -5.0	↓ -1.0	25-35	25-35	Unch	60-70	60-70	Unch		
Johnson Controls Intl plc	9/30	95.5	10	3,046	↑ 10.4	↓ -9.1	↓ -1.0	ND	ND	NA	ND	ND	NA		
Viacom, Inc.	9/30	85.2	7	543	↑ 3.0	→ 0.0	→ 0.0	24-50	24-50	Unch	55-75	55-75	Unch		
Visa Inc.	9/30	129.1	0	1,090	↓ -4.3	↑ 1.2	→ 0.0	25-35	25-35	Unch	50-80	50-80	Unch		
Campbell Soup Company	7/29	95.4	18	2,154	↑ 5.1	↓ -5.7	↓ -0.5	40	46	+6	47	42	-5		
Sysco Corporation	6/30	90.7	11	3,666	↑ 37.5	↓ -38.2	↑ 0.2	34	70	+36	48	30	-18		
Automatic Data Processing, Inc.	6/30	102.0	4	2,178	↑ 16.0	↓ -16.0	→ 0.0	35-45	35-45	Unch	45-75	45-75	Unch		
Twenty-First Century Fox, Inc.	6/30	86.2	2	1,297	→ 0.0	↑ 4.0	→ 0.0	27	28	+1	48	47	-1		
Plan weighted average		94.0	16.4	4,157	↑ 7.7	↓ -8.1	↑ 0.2								
Asset weighted average		94.1	18.9		↑ 9.0	↓ -10.5	↑ 0.4								

Source: Capital IQ, 10-K Filings, Bloomberg as of market close on January 4, 2019.

ND = Not Disclosed, NA = Not Applicable, Unch = Unchanged. Funded status based on U.S. plans only where data is available.

EXHIBIT 2: ONE-YEAR TOTAL RETURNS

Fiscal year end	S&P 500 (%)	U.S. Aggregate (%)	U.S. Long Gov/ Credit (%)
October 31	7.3	-2.1	-6.4
September 30	17.9	-1.2	-2.7
July 31	16.2	-0.8	-0.7
June 30	14.4	-0.4	-0.8

Source: Capital IQ, 10-K Filings, Bloomberg as of market close on January 4, 2019.

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