Monthly pension update

APRIL 2019

DID YOU KNOW?

Insurance companies in the pension risk transfer business typically invest less than 50% of their fixed income portfolios in corporates and treasuries*.

FUNDED STATUS FAST FACTS

91.0%
FUNDED STATUS **ROSE 1.9%** THIS MONTH

+3.8% YTD
FUNDED STATUS INCREASE

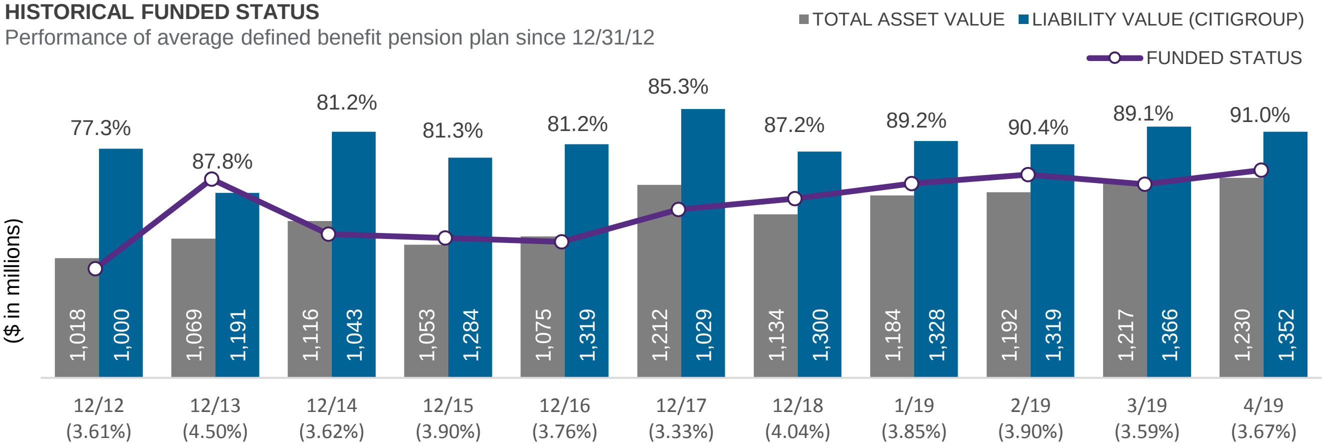
-37 BPS
DISCOUNT RATE YEAR TO DATE CHANGE

MONTHLY CONTRIBUTORS OF FUNDED STATUS CHANGE:
INTEREST RATES AND GROWTH ASSETS

MONTHLY DETRACTORS OF FUNDED STATUS CHANGE:
CREDIT SPREADS AND HEDGE ASSETS

HISTORICAL FUNDED STATUS

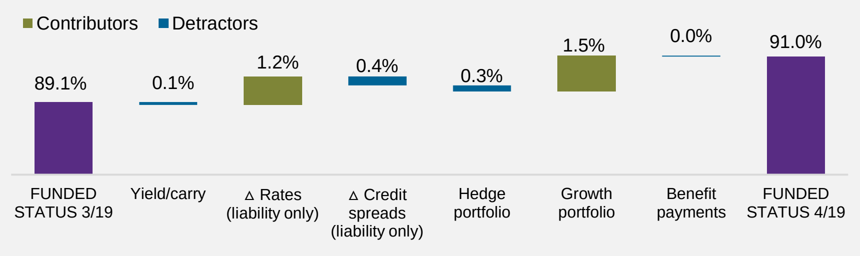
Performance of average defined benefit pension plan since 12/31/12



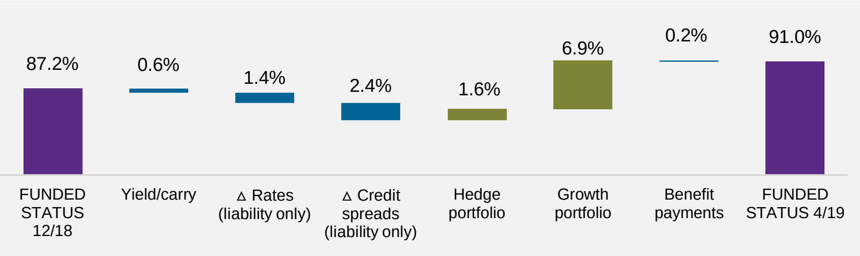
*Contact your J.P. Morgan representative to learn more about multi-sector fixed income strategies.

DISCOUNT RATES

MONTHLY FUNDED STATUS ATTRIBUTION



YEAR TO DATE FUNDED STATUS ATTRIBUTION



Changes	Month	Year
Funded Status %	▲ 1.9%	▲ 3.8%
Discount Rate (bps)	▲ 8	▼ (37)
Treasury Rates(bps)	▲ 11	▼ (13)
Credit Spreads (bps)	▼ (4)	▼ (25)
Liabilities (mm)	▲ ($14.0)	▼ $52.4
Assets (mm)	▲ $13.3	▲ $96.4
Funded Status (mm)	▲ $27.3	▲ $44.0

Note: Arrow indicates effect on funded status.

Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of April 30, 2019. 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

The global economy started 2019 on better footing than many expected, with the U.S. economy growing at a 3.2% q/q seasonally adjusted annual rate during the first quarter. This was close to a full percentage point higher than both the pace seen in 4Q18 and consensus estimates for 1Q19, and driven by strong contributions from net exports and inventories, two areas that may begin to soften in the coming quarters leading U.S. growth to decelerate to around 2%. Chinese 1Q19 GDP confirmed the move higher in the PMI last month and came in above expectations at 6.4% year-over-year, suggesting that some of their monetary and fiscal easing measures are making their way through the real economy. In Europe, growth remains sluggish but appears to be stabilizing, with the European economy expanding at a faster than expected 1.2% y/y pace. While risks to the global outlook remain, 1Q19 numbers were better than feared, and should allay any concerns of imminent recession.

INFLATION

Personal income data for March confirmed the subdued March CPI report, with headline PCE rising 1.5% year-over-year and core PCE rising 1.6% year-over-year, well below the Federal Reserve's (Fed) 2% inflation target. This release marked the weakest core PCE print since September 2017, a time in which the Fed also paused their rate hiking campaign. April inflation data based on CPI rose 2.0% y/y in April, with core CPI rising 2.1% y/y; although this month's release saw inflation edge higher, overall levels are subdued and should keep the Fed on hold for at least the next few months.

RATES

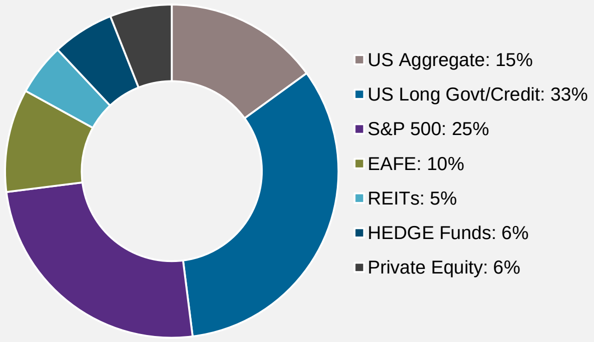
The Federal Reserve (Fed) left the federal funds target rate unchanged at a rate between 2.25%-2.50% following their May meeting. During the press conference, Chairman Powell repeatedly referenced the recent decline in inflation as "transitory," in the hopes of putting to rest market expectations for a rate cut later this year. However, given expectations for slower but moderate U.S. growth and inflation below 2%, it is looking less and less likely that the Federal Reserve will raise interest rates this year. That said, asset prices have moved off their 2018 lows, and with a tight labor market supporting a slow grind higher in wages, a rate hike, rather than a cut, still seems like the path of least resistance for Fed policy.

RETURNS

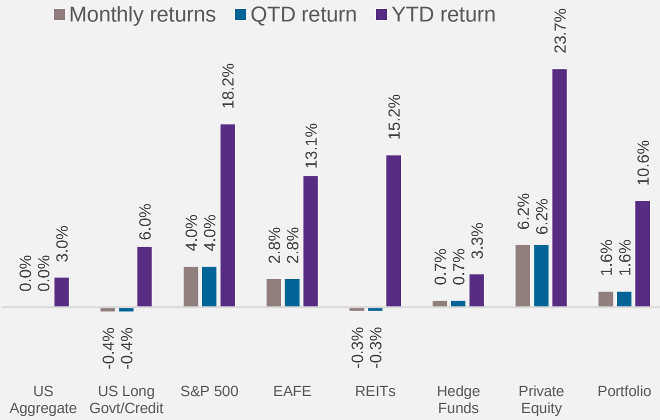
Equity market valuations have risen notably over the past few months, with the forward P/E ratio of the S&P 500 sitting at a level of 16.9x at the end of April. This is slightly above the long-term average, but does not suggest equity markets are overly expensive. While it is possible for valuations to rise from here, the most important driver of sustainable returns going forward will be earnings. With the 1Q19 earnings season slowly coming to a close, results so far have come in better than expected. S&P 500 earnings per share look to have grown by 2-3% y/y during the first quarter; while 2Q19 will see some headwinds from slower economic growth and a stronger dollar, an earnings recession seems unlikely.

ASSET ALLOCATION & MARKET SNAPSHOT (As of 4/30/19)

PLAN ASSET ALLOCATION

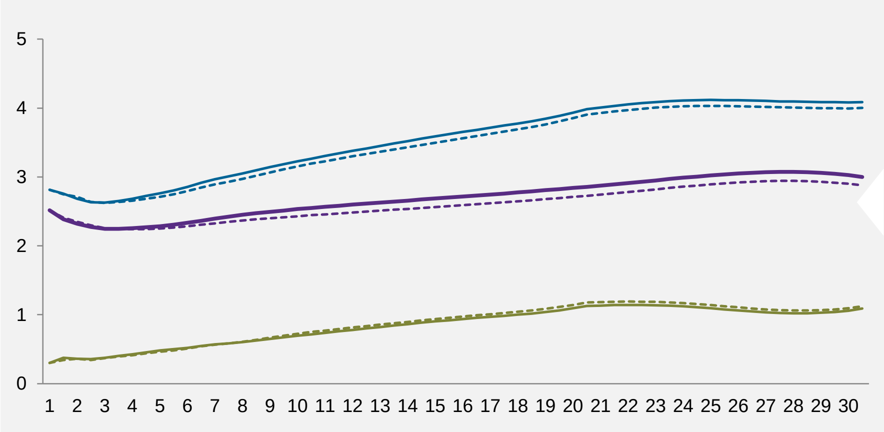


ASSET AND PORTFOLIO RETURNS



Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of April 30, 2019. 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

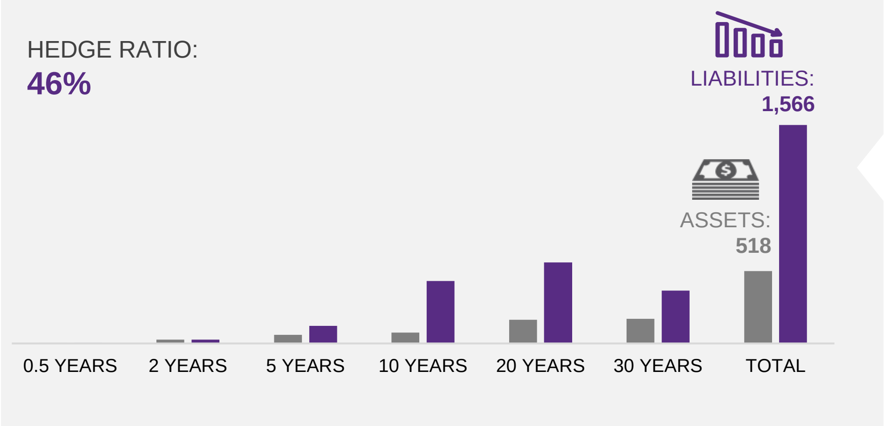


Over the month treasury rates rose across the curve while credit spreads tightened, leaving discount rates up 8bps

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 46%.

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	85.6%	88.4%	91.2%	94.0%	96.8%	99.6%	102.4%	105.2%	108.0%
+75bps	84.4%	87.1%	89.8%	92.5%	95.2%	97.9%	100.6%	103.3%	106.0%
+50bps	83.2%	85.8%	88.5%	91.1%	93.7%	96.3%	99.0%	101.6%	104.2%
+25bps	82.1%	84.7%	87.2%	89.8%	92.3%	94.8%	97.4%	99.9%	102.5%
-	81.1%	83.6%	86.0%	88.5%	91.0%	93.4%	95.9%	98.4%	100.9%
-25bps	80.1%	82.5%	84.9%	87.3%	89.7%	92.1%	94.5%	96.9%	99.3%
-50bps	79.2%	81.5%	83.9%	86.2%	88.5%	90.9%	93.2%	95.5%	97.9%
-75bps	78.3%	80.6%	82.9%	85.1%	87.4%	89.7%	91.9%	94.2%	96.5%
-100bps	77.5%	79.7%	81.9%	84.1%	86.3%	88.5%	90.8%	93.0%	95.2%

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, FTSE Pension Discount Curve, Bloomberg. As of April 30, 2019. For illustrative purposes only. Past performance is not indicative of future results.

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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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