Monthly pension update

OCTOBER 2019

DID YOU KNOW?

Both assets and liabilities are around 14% higher compared to the end of 2018, resulting in a YTD funded status change of only 0.3%.

FUNDED STATUS FAST FACTS

87.5%
FUNDED STATUS **ROSE 0.6%** THIS MONTH

+0.3% YTD
FUNDED STATUS INCREASE

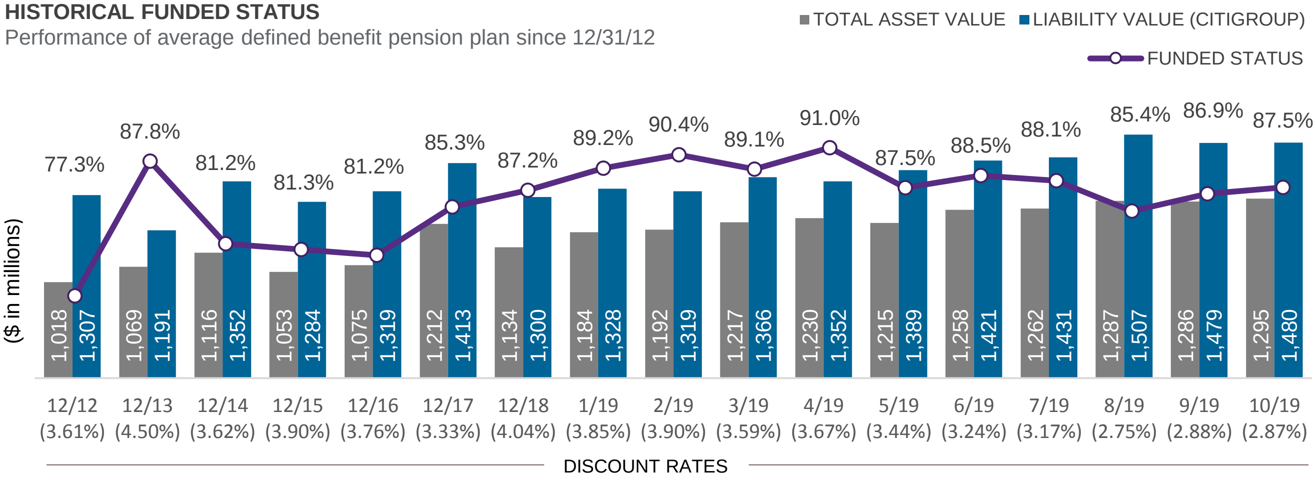
-118BPS
DISCOUNT RATE YEAR TO DATE CHANGE

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

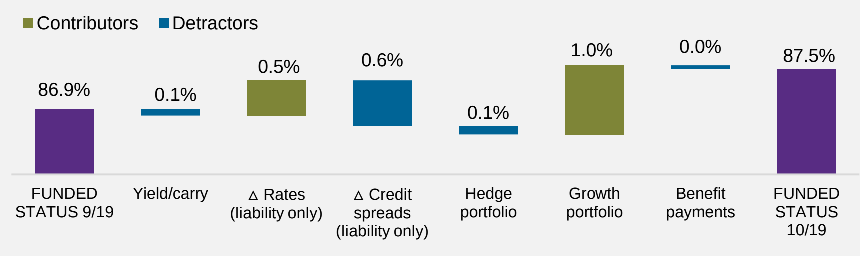
MONTHLY DETRACTORS OF FUNDED STATUS CHANGE:
CREDIT SPREADS AND HEDGE PORTFOLIO

HISTORICAL FUNDED STATUS

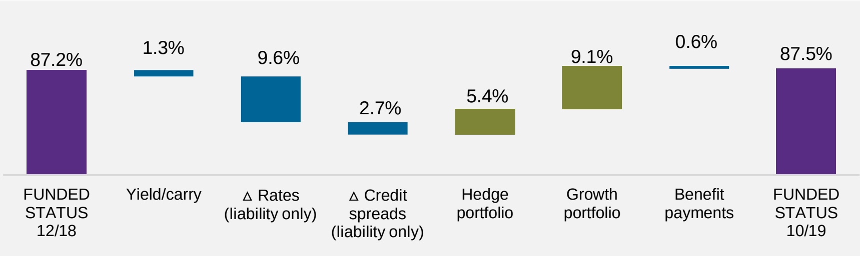
Performance of average defined benefit pension plan since 12/31/12



MONTHLY FUNDED STATUS ATTRIBUTION



YEAR TO DATE FUNDED STATUS ATTRIBUTION



Changes	Month	Year
Funded Status %	▲ 0.6%	▲ 0.3%
Discount Rate (bps)	▼ (2)	▼ (118)
Treasury Rates(bps)	▲ 5	▼ (91)
Credit Spreads (bps)	▼ (6)	▼ (27)
Liabilities (mm)	▼ $0.5	▼ $180.2
Assets (mm)	▲ $8.8	▲ $161.0
Funded Status (mm)	▲ $8.3	▼ ($19.2)

Note: Arrow indicates effect on funded status.

Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of October 31, 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

Global economic growth looks set to remain below trend into the end of the year, as manufacturing activity is muted and service sector activity has decelerated in recent months. In the U.S., the third quarter saw consumption continue at a robust clip, which helped to offset a second consecutive contraction in nonresidential fixed investment. Inventory growth has slowed, but remains at an above average pace, and the October PMI's highlighted that although inventories are gradually being drawn down, they will likely continue to drag on growth through the end of the year. That said, PMI data out of Southeast Asia has shown some signs of stabilization, which suggests that the broader manufacturing sector may follow suit over the coming months.

INFLATION

Around the world, inflation remains low but positive. Headline inflation in the U.S. is still below the Fed's 2% target, and while core inflation is higher, inflationary pressures are being held back by range bound commodity prices, lack of inflation in consumer goods, and a muted pass-through from wage growth to price inflation. With economic growth expected to remain below trend through the end of the year, inflation should remain relatively well contained. The risk is that wage growth begins to accelerate in a more meaningful way as economic growth returns to trend.

RATES

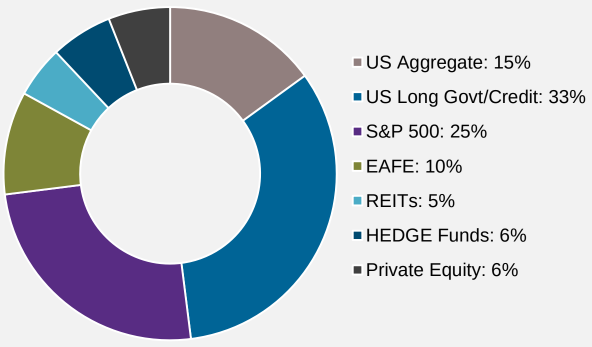
The Federal Reserve (Fed) cut rates at its October meeting, and sent a signal that their "mid cycle adjustment" is complete. While we are not completely dismissing the chance that the Fed cuts rates again before the end of the year, the hurdle appears high; if the economic data remains in line with its recent trend, the Fed will stay on hold, and only a notable deterioration would force the Fed to move. Importantly, if the data gets better, it seems unlikely that the Fed would hike, and as we look to next year, we believe it would take a significant change in the economic narrative for the Fed to act.

RETURNS

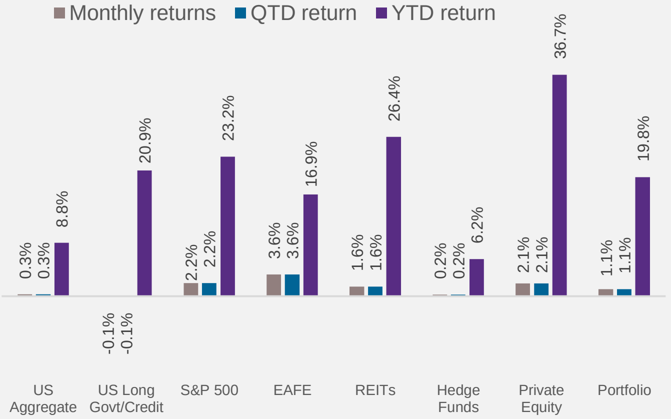
We remain of the view that earnings will be the main driver of returns going forward. The 3Q19 earnings season is nearly complete; with about 85% of companies reporting, we are currently tracking a -1.3% y/y growth rate. Importantly, if buybacks are excluded, year-over-year earnings growth is closer to -3%. Earnings should bounce back in 4Q19 due to favorable base effects, but the earnings environment in 2020 looks increasingly challenging. Consensus estimates are for 10% earnings growth on the back on expanding margins, which seems a bit too optimistic; rather, we believe earnings will grow 3-5%, resulting in mid-single digit returns for the year as a whole.

ASSET ALLOCATION & MARKET SNAPSHOT (As of 10/31/19)

PLAN ASSET ALLOCATION

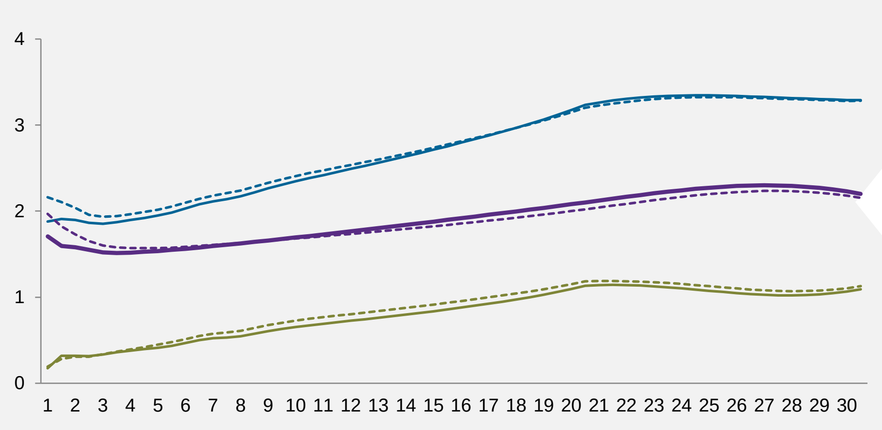


ASSET AND PORTFOLIO RETURNS



Source: J.P. Morgan, FTSE Pension Discount Curve, Bloomberg. As of October 31, 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 rates and spreads largely offset each other, leaving discount rates down 2bps

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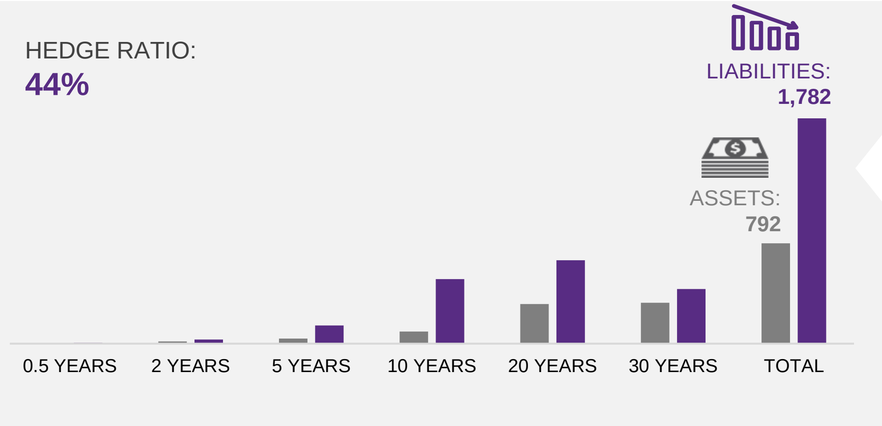
Click here for all the charts you need to understand what is happening in the fixed income markets.

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 44%.

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 Growth Portfolio								
Change in Interest Rates	**-20%**	**-15%**	**-10%**	**-5%**	**-**	**+5%**	**+10%**	**+15%**	**+20%**
+100bps	82.8%	85.5%	88.1%	90.7%	93.4%	96.0%	98.6%	101.3%	103.9%
+75bps	81.6%	84.1%	86.7%	89.2%	91.8%	94.3%	96.8%	99.4%	101.9%
+50bps	80.4%	82.8%	85.3%	87.8%	90.2%	92.7%	95.2%	97.6%	100.1%
+25bps	79.3%	81.7%	84.0%	86.4%	88.8%	91.2%	93.6%	96.0%	98.4%
-	78.2%	80.5%	82.8%	85.2%	87.5%	89.8%	92.1%	94.4%	96.7%
-25bps	77.2%	79.5%	81.7%	84.0%	86.2%	88.5%	90.7%	93.0%	95.2%
-50bps	76.3%	78.5%	80.7%	82.9%	85.0%	87.2%	89.4%	91.6%	93.8%
-75bps	75.4%	77.5%	79.7%	81.8%	83.9%	86.0%	88.2%	90.3%	92.4%
-100bps	74.6%	76.7%	78.7%	80.8%	82.9%	84.9%	87.0%	89.1%	91.1%

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 October 31, 2019. For illustrative purposes only.
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