MERCER

Defined Benefit OCIO solutions

working

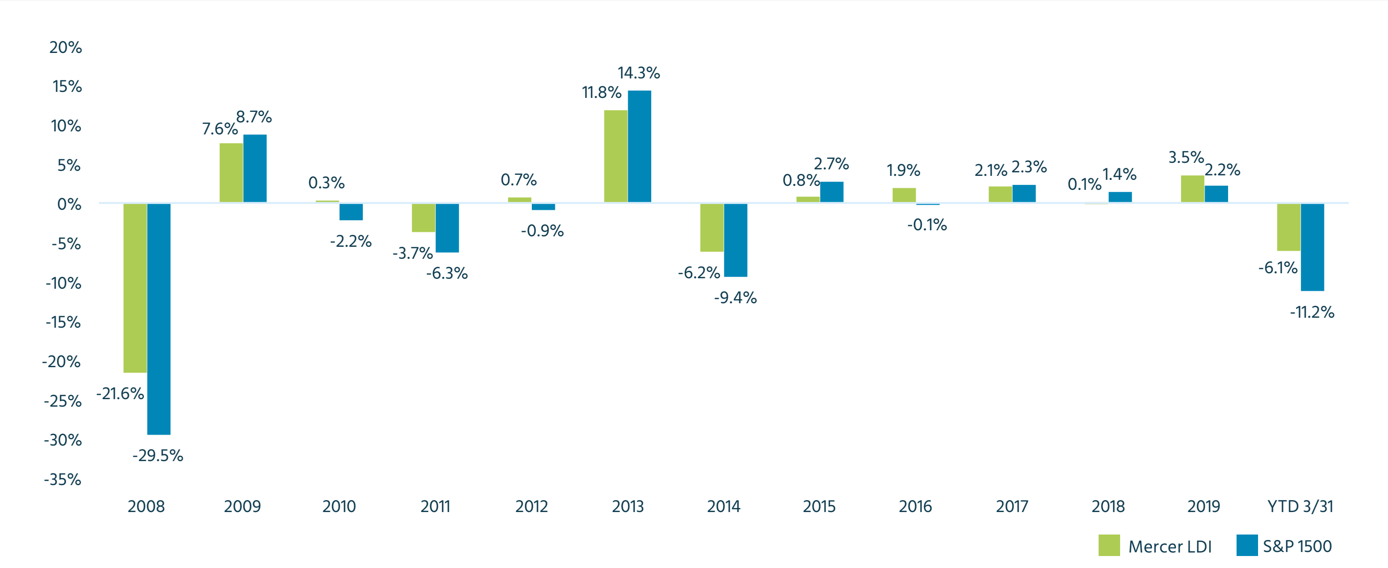
to seize emerging opportunities and manage risk in volatile markets

While the estimated aggregate funding level of US defined benefit (DB) plans sponsored by S&P 1500 companies decreased by 11% during 1Q 2020, reflecting record-low interest rates and sharp equity declines, the average funded status of Mercer's daily monitored DB OCIO clients in the US **performed 5% better** than the S&P 1500 peer group.

This builds on a long track record of funded status outperformance: Since 2008, the funded status performance for Mercer's daily monitored DB OCIO clients has exceeded the S&P 1500 benchmark by over 19%.[1]

[1] Past performance is no guarantee of future results. Please see Important Notices 1 for further information regarding Mercer's DB OCIO client funded status results.

Funded Status Performance | Mercer Aggregate Outperformance = 19.2%*



***Mercer Funded Status Performance** This analysis includes plans for whom Mercer built and managed a customized Liability Driven Investments (LDI) program and is based on calendar-year results. The analysis covered 5 plans for 2008, 9 plans for 2009, 9 plans for 2010, 16 plans for 2011, 23 plans for 2012, 27 plans for 2013, 37 plans for 2014, 47 plans for 2015, 59 plans for 2016, 64 plans for 2017, 65 plans for 2018 and 62 plans for 2019. The composition of the group changed each year to reflect the number of plans that were invested with Mercer in custom LDI solutions at the beginning and end of the year. Only plans with December 31 fiscal year ends were included to ensure consistency in reporting.

Funded status is based on fiscal year-end accounting disclosure information consistent with 10-K reports, as provided by the client's actuary.

The funded status ratio for each plan represents the ratio of assets to liabilities. The Mercer average funded status ratio has been calculated as the average funded status ratio across all applicable clients for each year.

S&P 1500 Funded Status Performance Mercer estimates the aggregate combined funded status position of plans operated by S&P 1500 companies on a monthly basis. For S&P 1500 companies that do not have a December 31 fiscal year end, this is based on projections of their reported financial statements adjusted from each company's financial year end to December 31 in line with financial indices. This includes US domestic qualified and non-qualified plans and all non-domestic plans.

Source of Financial Statement Data: 10-K reports filed by the companies in the S&P 1500, as provided by S&P Capital IQ, a Standard & Poor's business.

The Mercer Pension Discount Yield Curve is used to estimate the change in discount rates for adjusting aggregate liabilities. Please see the following link for further information: https://www.mercer.us/our-thinking/wealth/mercer-pension-discount-yield-curve-and-index-rates-in-us.html.

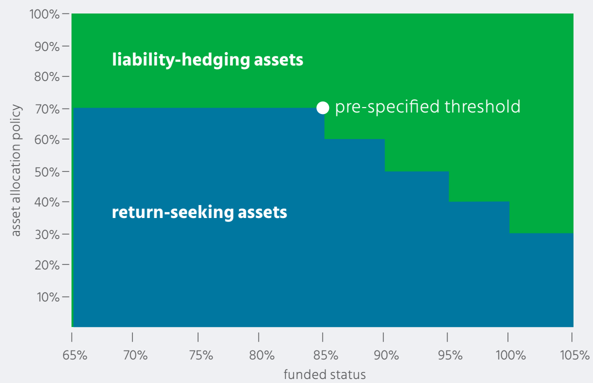
Funded status performance is presented for illustration purposes only. There is no assurance that LDI investment objectives will be achieved. All investments experience gain or loss. Funded status performance data shown in this presentation represents past performance, which is no guarantee of future results. Additionally, funded status performance is unable to take into account plan contributions that may materially impact funded status as well as possible accounting techniques or methods that may evolve over time in calculating funded status. Specific investments and asset allocations vary across the Mercer LDI clients and S&P 1500 plans, due to factors such as timing of investment decisions, investment objectives, risk tolerance, funded status levels and perception of investment opportunities. Actual funded status performance of S&P 1500 plans may significantly differ from the estimated data shown herein. The estimated S&P 1500 funded status is used to illustrate broad market conditions for the relevant time periods and, depending upon the portfolio strategy, allocation, and a variety of other factors, should only be used as a broad-based indicator of general LDI performance. Asset allocations of the LDI clients for the time periods indicated may have varied greatly from the average S&P 1500 asset allocations represented over the same time period. Mercer's LDI funded status performance for each individual LDI client available upon request.

Mercer's dynamic asset allocation approach has been one of the primary drivers of funded status improvements, as the following client case study demonstrates.[2]

Weathering market volatility

The sponsor of a frozen US pension plan with ~$800 million in assets has an ultimate goal of termination but, since 2017, has sought to minimize cash contributions while mitigating the downside risk of large required contributions. The importance of the Mercer strategy developed from these needs was put to the test once the COVID-19-related financial crisis began to take hold in 1Q 2020.

Following Mercer's strategic analysis of the plan in 2017, the client implemented a dynamic de-risking, dual-trigger glide path. The funded status of the plan drives the allocation to return seeking assets (e.g., equities), and the level of interest rates drives the interest rate hedge ratio target, as the following simplified illustration shows:



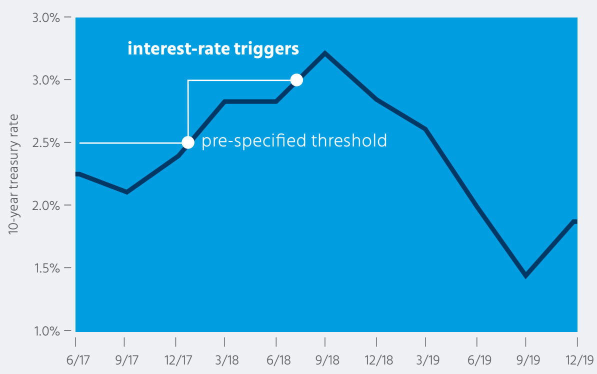


Chart explanation: When the funded status hits pre-specified thresholds, the plan's asset allocation is adjusted to reduce return-seeking assets and buy liability-hedging assets. Mercer also uses interest-rate triggers to reduce interest-rate risk as interest rates rise from historically low levels (and thus the opportunity for funded status improvement from rising rates diminishes). When interest rates rise above certain predetermined thresholds, the duration of the liability-hedging portfolio is extended to increase the interest-rate hedge ratio. As the Outsourced Chief Investment Officer (OCIO) for this client, we monitor the funded status and interest rate levels daily with a goal of ensuring market opportunities are captured before they may be fleeting, and, within that framework, dynamically manage the underlying assets.

Since implementing this strategy in 2017, we have executed multiple de-risking and interest rate triggers, putting the plan in a better position to weather market volatility. In addition, based on our internal dynamic asset allocation outlook, we adjusted the structure of the plan's liability hedge portfolio, recognizing that corporate bond credit spreads had fallen to levels where the risk/return tradeoff was less favorable to the plan. We significantly reduced the credit allocation within the liability hedge portfolio in December 2019 and January 2020, selling $90m of credit exposure in favor of US Treasury exposure. We anticipated this would potentially act as a tail-risk hedge against equity and credit valuations that could be entering a less favorable economic scenario at relatively high levels (versus historic valuations).

While we did not predict the sudden impact of the COVID-19 crisis that soon followed, we were dynamically adjusting the portfolio for developing risks that subsequently provided substantial downside protection in 1Q 2020, as credit spreads widened and US Treasury bonds outperformed US Corporate investment grade bonds by approximately 12% during the quarter.[3]

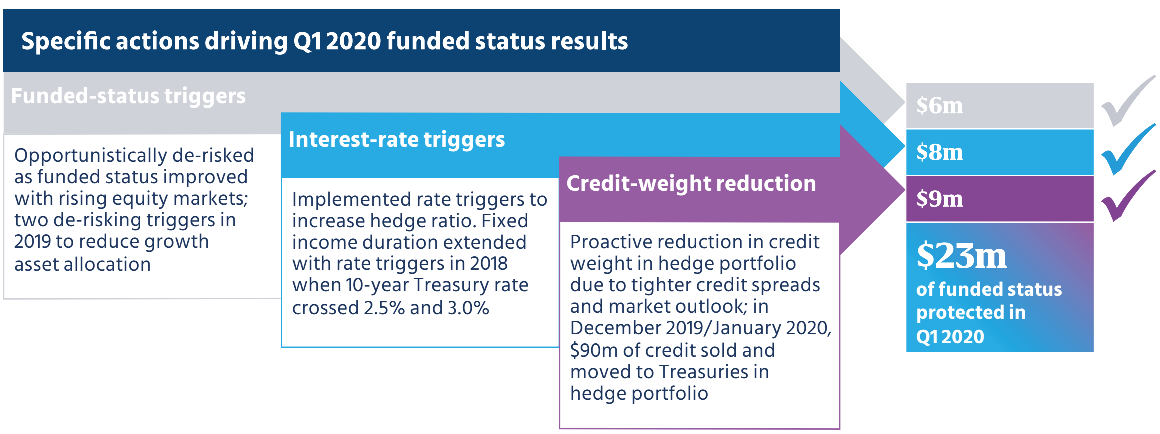
[2] This case study in this presentation illustrates Mercer's capabilities provided to certain clients. Client results will vary and there can be no guarantee of similar results. Please see Important Notices for further information.

[3] During Q1 2020, Bloomberg Barclays US Treasury Index returned approximately 6%, while Bloomberg Barclays US Corporate IG Index fell by approximately 6%.

Overall, the funded status triggers, interest-rate triggers and dynamic management of asset allocation in the liability hedge portfolio protected $23 million of the plan's funded status in the first quarter.

Mercer estimates that the actions described above resulted in preservation of $23 million in funded status compared to what the decline would have been during Q1 2020 had these actions not been taken. This estimate was derived by comparing the hypothetical returns for the plan assets assuming the asset allocation and hedge ratio prior to the funded status triggers, interest rate triggers and credit reduction had been in place during Q1 2020, and comparing that to the plan's asset allocation and hedge ratio in Q1 2020 reflecting these actions.

Client situation: Frozen DB plan with ~$800m in assets, 90% funded, on long-term path to plan termination, with objective to limit cash contributions while managing downside risk



Mercer OCIO's value added in volatile markets

As the global OCIO leader in assets under management (AUM) with well over a decade of OCIO experience, Mercer understands the challenges of managing pension assets through periods of market uncertainty and volatility. The first quarter of 2020 was a trying time for pension plan sponsors, and our clients in the aggregate again benefited from our approach and execution. We consider the following three drivers — foundational elements of our defined benefit OCIO platform — as having the greatest influence over our pension clients' recent funded status outperformance:

effective strategy

We help our clients build dynamic strategies, balancing program risk with cost outcomes to meet the sponsor's unique objectives.

dynamic asset management

The depth of our research and investment platform allows clients to take advantage of opportunities across the spectrum.

timely execution

With daily monitoring, our OCIO team is able to execute on emerging opportunities quickly.

The average annual excess return of our A-Rated managers has been 1.3% since inception.[4]

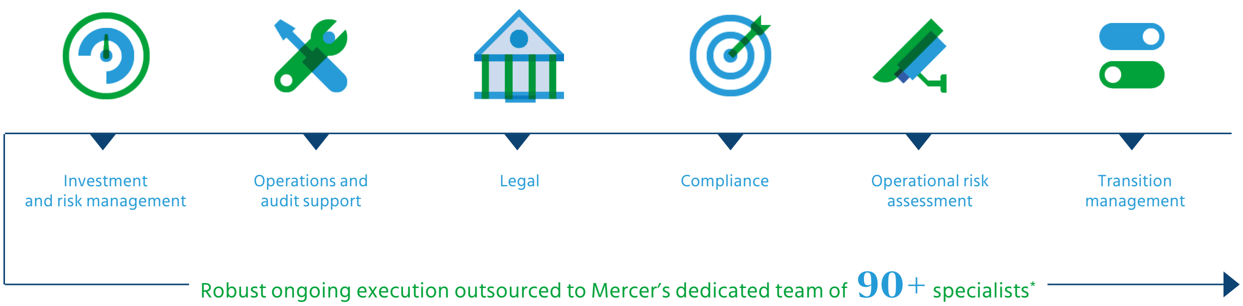
[4] Performance is gross of investment management fees and certain other expenses. Past performance is no guarantee of future results. Please see Important Notices 2 for further information on Value Added Disclosures and Manager rating methodology.

Differentiated OCIO governance model facilitates successful execution

Many plan sponsors do not have specialized resources nor the capacity to focus on pension plan investment management, as their internal staff's primary focus tends to be trained on the core business. Our OCIO approach brings dedicated manager research and oversight, scale and dynamic asset allocation to help promote the professional management of the pension plan and related risks.

- During March 2020, as Mercer and many other organizations across the globe responded to stay-at-home orders, our robust operational platform and trading teams continued to monitor plan strategies daily and execute rebalancing trades during a highly volatile market environment.

- Mercer's disciplined DB OCIO approach during 1Q 2020 kept client allocations within tolerance, while considering transaction costs. Trading volume in March across the firm was 600% higher than typical levels, with close to 2,100 trades executed on behalf of clients.



* As of December 31, 2019

During this unparalleled disruption to the financial markets and to businesses around the globe, the risks related to pension-plan management have been greatly heightened, and the benefits of our approach have been simultaneously amplified. Mercer has demonstrated that in markets such as these, a strong track record of success helps us potentially capture attractive market opportunities — and lessen downside risk — for our clients.

For more information

To discover how Mercer's demonstrated DB OCIO approach can apply a more focused strategy, deliver potentially better performance and improve implementation of strategy to your plan, please visit our website or contact your Mercer representative.

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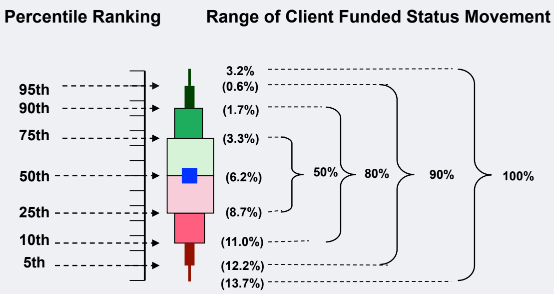
Important Notices

1. Mercer's DB OCIO 1Q 2020 client funded status results

The chart to the right shows the distribution of 1Q 2020 funded status change for Mercer's 96 daily monitored US DB OCIO clients. Individual client performance varies for many reasons including the details of the investment strategy, glide path, manager performance and other drivers.

Note: Mercer funded status results depicted in the chart on p. 2 are based on averages, not distribution of funded status change, as shown here.



Darkening shades of green indicate progressively more favorable outcomes for the plan sponsor.
Red is used in the same way to show progressively unfavorable results.
The funded status of the client case study presented here declined by 6.4%.

2. Value Added Disclosures

Measurement of value added through manager research recommendations as of December 31, 2019.

Mercer's Investment business has developed and implemented a methodology for measuring the value added through their manager research recommendations. This methodology and the results of the analysis, for periods to December 31, 2019, are presented below.

Measurement methodology

For most investment strategies that we research, we arrive at a rating on a four-tier scale in which the possible ratings are A, B+, B and C. When we formulate short lists of candidates for clients to consider in manager searches, these are generally drawn from the list of strategies rated A within the relevant product category. We first began maintaining formal ratings on this basis in 1995, replacing less formal methods in place, and have extended this to cover all product categories that we actively research, over the period since.

Our methodology for measuring the performance of our ratings entails calculating the average performance of the strategies that we rated A within each product category each quarter, based on the ratings as they stood at the end of the previous quarter. Therefore, there is no element of hindsight in the analysis. We then compound these quarterly results together to calculate performance over longer periods. Finally, we subtract the return for an appropriate and widely accepted benchmark index for the product category concerned to calculate value added. We also calculate a risk-adjusted measure of the value added known as the information ratio.

In essence, this methodology tracks the performance of a hypothetical Mercer client that is assumed to split its money evenly between all of the strategies rated A by Mercer within the product category concerned. This hypothetical client is assumed to have reviewed its manager lineup at the end of each quarter, based on the Mercer ratings as they stood at that point in time. A typical client would not invest in all strategies in all of the categories, as some may not be relevant to a particular client for a variety of reasons. Therefore, the actual added value of strategies selected by a client would vary from the results depicted here. The average value added for each product category is detailed in this report.

Three types of strategy are excluded from the analysis. Firstly, we exclude strategies that are sub-advised by other investment managers, to avoid double-counting. Secondly, where a manager offers two variants of what is essentially just one strategy, we only include one of these in the analysis (we used to use the one with the longer track record but in 2011 we assigned the decision on which track record to use to the researcher responsible for the strategy), once again to avoid double counting. Thirdly, if a strategy's track record relates to a benchmark that is materially different to the benchmark used in the analysis for the product category concerned, it will be excluded from the analysis to avoid distortions that could arise solely as a result of the non-standard benchmark.

Where a manager offers equity strategies in a typical long only format and a variant which includes the ability to short, we only include the long-only version.

For some product categories, where the use of custom benchmarks is prevalent, there is no single widely accepted benchmark that can be used as a basis for this analysis. We therefore use a slightly different methodology for these categories. In these cases, we carry out the analysis by first calculating value added each quarter for each track record relative to its custom benchmark, then calculating the average of these value added figures each quarter, and then compounding the quarterly value added figures to calculate value added over longer periods.

We have carried out these calculations for most of the product categories where we both maintain ratings and for which we have reliable performance data (currently 69 categories), going back in each case to when we first had a reasonable spread of ratings for the product category concerned.

Some important caveats All of the value added figures have been calculated by Mercer, but are based upon performance data provided to Mercer by the investment managers concerned. Mercer generally does not independently verify the performance information provided by investment managers.

The methodology described above does not allow for transaction costs that an investor would have incurred if it had actually changed its panel of investment managers every quarter in line with changes to the list of products rated A by Mercer within the product category concerned. In practice, the turnover of managers incurred by such an investor would have averaged about 15% per annum (the actual averages since inception for each product category are shown in the final section of the results). We have not attempted to estimate the transaction costs that would have been incurred as this would require assumptions on a number of factors, including the investor's cash flow position and how the changes had been implemented.

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Please see the following link for information on indexes:
https://www.mercer.com/content/dam/mercer/attachments/private/nurture-cycle/gl-2018-investment-management-index-definitions-mercer.pdf

