

# Guiding you through **bulls and bears**

2020 Defined Benefit OCIO Performance



welcome to brighter

# Defined benefit (DB) plan sponsors generally evaluate performance through two lenses:

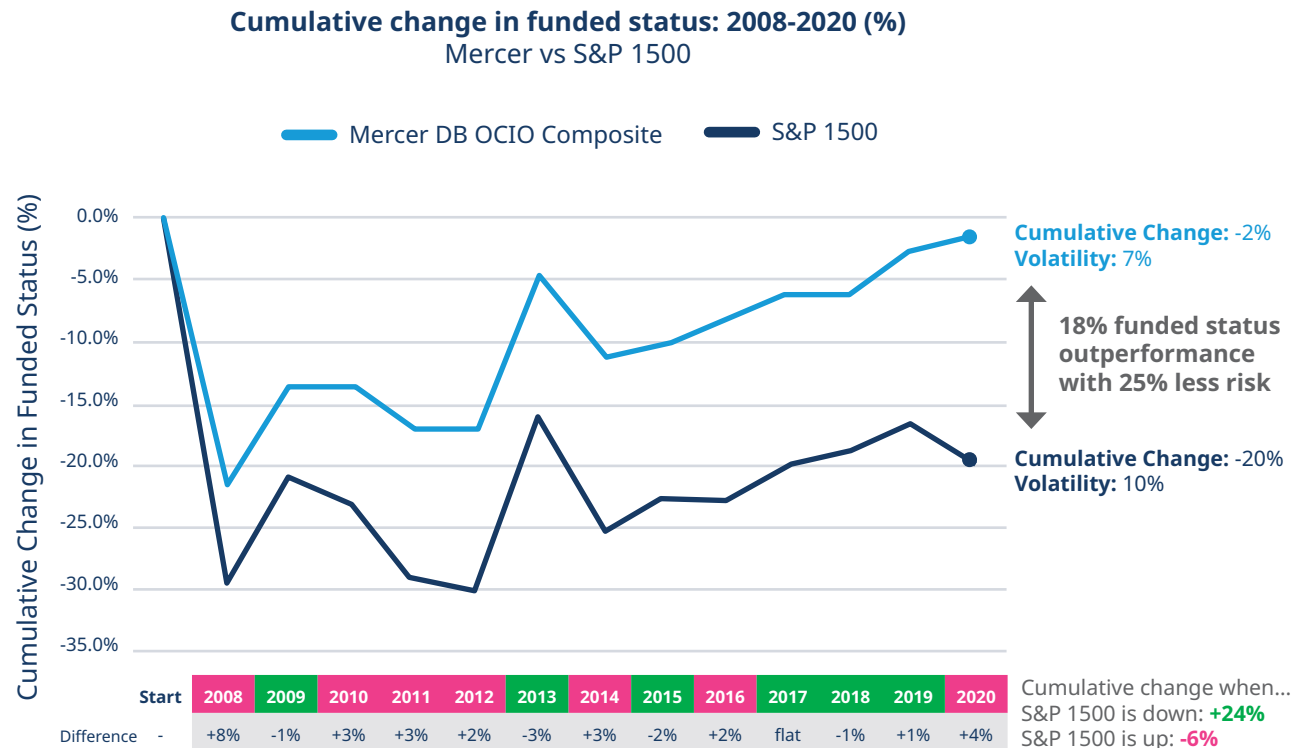
1. Funded status – did assets keep up with or outpace liabilities?
2. Assets – are the investments in my portfolio in line with or outperforming their benchmarks?

While results for each plan vary based on factors such as starting funded status, plan status (open, closed, frozen), and asset allocation, comparing aggregate client results against those of broad peer universes for each metric may be informative when evaluating a potential DB outsourced chief investment officer (OCIO) provider.

Mercer has a long history of helping DB OCIO plans achieve their objectives across both metrics.

## Funded status

Mercer’s DB investment philosophy balances investment performance to improve funded status and manage downside risk. Client results have been consistent with this approach, with funded status decreasing less when peers decline as well as experiencing less extreme swings than peers:

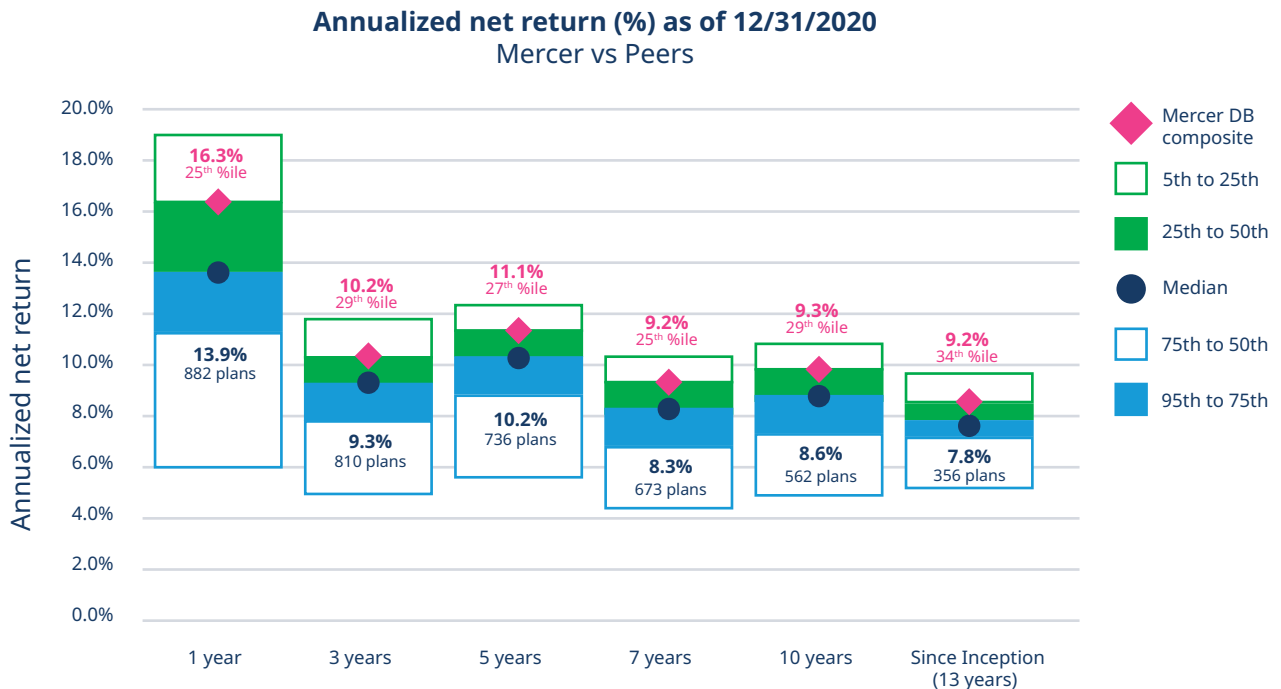


<sup>1</sup> Past performance is no guarantee of future results. Compares outcomes for Mercer's daily monitored DB OCIO liability-driven investment (LDI) clients against the S&P 1500 peer-universe aggregate. Pension plan funded status performance is estimated by Mercer. Please see Important Notices for further information about Mercer's DB OCIO clients' funded status results.

## Assets

Funded status performance can be viewed as a measure of how well investment strategy is working. Similarly, asset performance measures effectiveness of portfolio construction across asset allocation, manager alpha, and dynamic positioning and execution.

Mercer's DB client results show absolute and risk-adjusted outperformance versus peer averages, consistently ranking in the top one-third across 1-, 3-, 5-, 7-, and 10-year, as well as since-inception, basis:



### Risk-adjusted net return (Sharpe ratio)

<b>Mercer DB client composite</b>	1.2	0.9	1.2	1.1	1.2	0.7
<b>Median</b>	0.9	0.7	1.0	0.8	0.9	0.
Difference	+33%	+29%	+20%	+38%	+33%	-

<sup>2</sup> Performance shown is gross of both manager fees and Mercer fees but net of transaction costs such as commissions and custody costs for pooled vehicles in which the clients may invest. Had management fees been deducted, returns would have been lower. Performance results for individual client portfolios will vary due to possible inclusion of cash and cash equivalents; reinvestment of dividends, interest, and other earnings; and timing of investments and withdrawals, among other reasons. Returns will be further reduced by Mercer's fees and other expenses clients may incur. Actual fees may vary depending on, among other things, the applicable fee schedule, portfolio size, and/or investment management agreement. Further information regarding investment advisory fees is contained in our Form ADV, Part 2A. Past performance is no guarantee of future results. Actual results could differ materially. Investing in securities products involves risk, including possible loss of principal as the value of investments fluctuates. There are substantial risks associated with investments classified as alternative investments. Investors should have the ability, investing sophistication, and experience to bear the risks associated with such investments. Individual returns are available upon request. Sponsor of client composite ranking: Investment Metrics (IM). Percentile ranking in the All Corporate Plan Universe. IM plan sponsor universes include aggregate of all consenting plans, where plans assign their total plan peer groups to specific sponsor types.

Mercer DB client universe includes all prevailing legacy Mercer corporate DB LDI clients as of 12/31/20 and excludes legacy Pavilion and Summit clients acquired through acquisition. LDI DB clients are those discretionary DBs that include an allocation to an LDI strategy. Each LDI-focused plan's performance is measured against a benchmark as specified in the client's investment policy statement; benchmarks vary among LDI clients. Each account was managed by Mercer Investment, LLC ("Mercer"), utilizing either a manager-of-managers or a fund-of-funds format (or a combination of those formats). During the periods presented, managers utilized by Mercer for each account were rated as B+ or above.

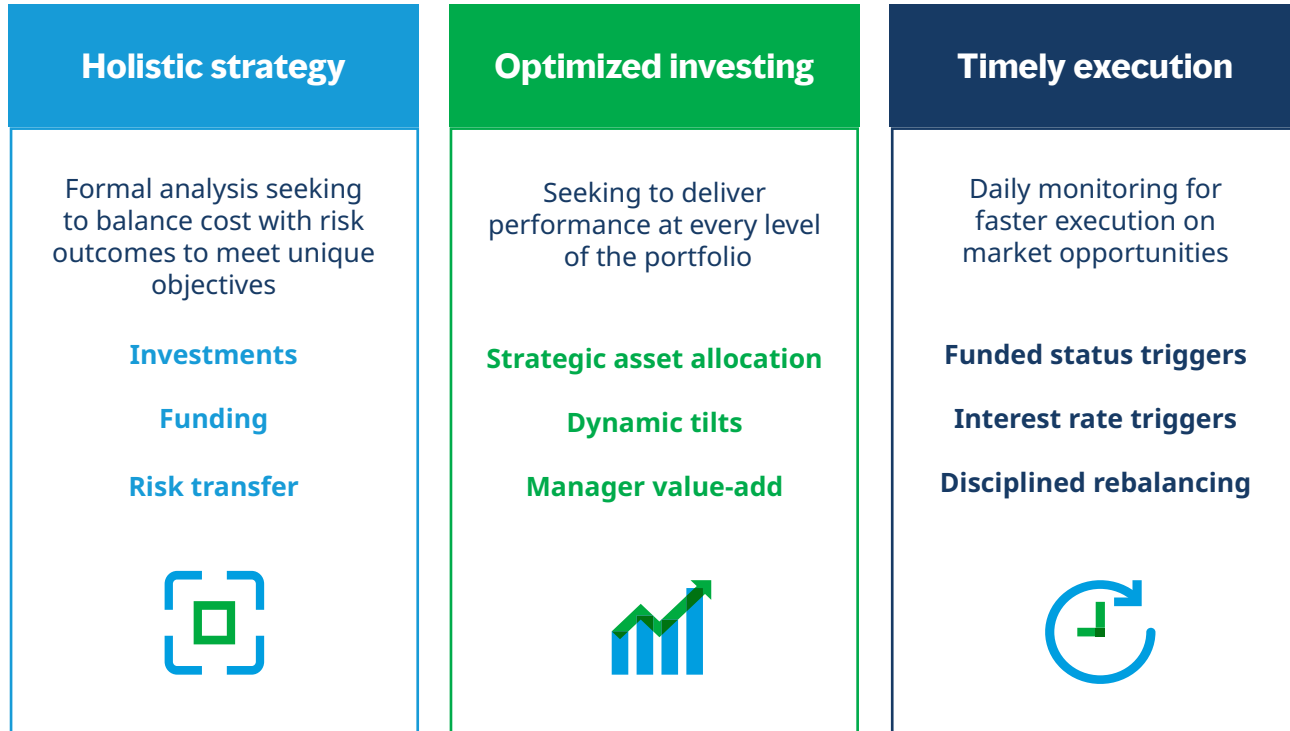
Peers are defined by Investment Metrics plan sponsor peer groups, which compare total investment plan performance against like sponsor-type peers.

Please see the Guide to Mercer's Investment Strategy Ratings [here](#).

## Putting it all together

Mercer has been tested through time as a DB OCIO, helping clients navigate periods of significant market uncertainty and volatility, including the global financial crisis of 2008–2009 as well as the COVID-19 pandemic.

Through these periods, we have found the following pillars crucial for an effective OCIO:



## For more information

To discover how Mercer’s personalized investment approach and long-term commitment to our global OCIO platform can apply a more focused strategy to your DB plan, potentially delivering better performance and improving execution, please **visit our website** or contact any member of your Mercer team.

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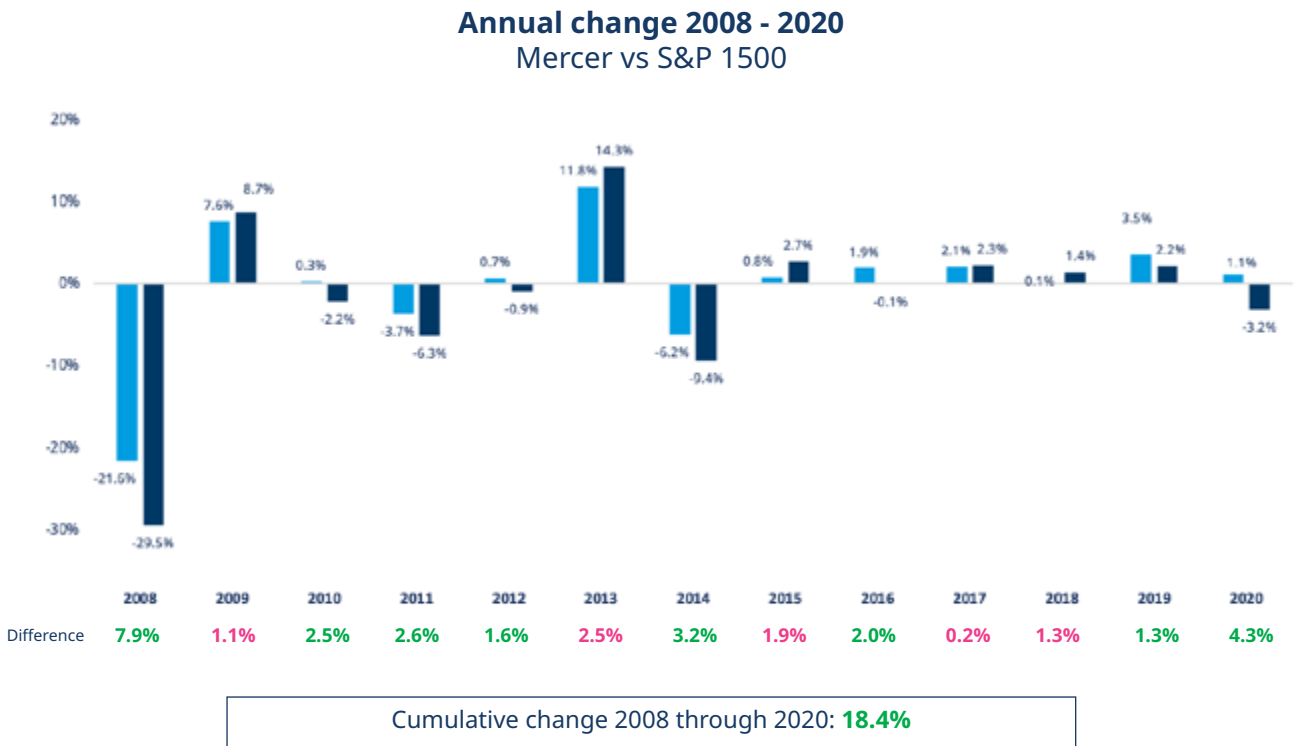
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## Mercer Funded Status Performance

This analysis includes plans for which Mercer built and managed a customized liability-driven investments (LDI) program. 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. For full years through 2019, only plans with 12/31 fiscal year-ends were included. 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.

For 2020 estimates, funded status performance for Mercer clients includes 90 US defined-benefit LDI plans that are monitored daily on the Mercer Dynamic De-Risking Solution platform. The 2020 results represent the average change in funded status from 12/31/2019 to 12/31/2020 for those clients.

Following is the annual change in pension plan funded status of Mercer's OCIO LDI clients versus the S&P 1500\*:



\* Pension plan funded status performance is estimated by Mercer. Please see S&P 1500 Funded Status Performance for more information about this calculation.

## 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 12/31 fiscal year-end, this is based on projections of their reported financial statements adjusted from each company's financial year-end to 12/31, in line with financial indices. This includes US domestic qualified and nonqualified plans, and all nondomestic plans. The source of financial statement data is 10-K reports filed by the companies in the S&P 1500, as provided by S&P Capital IQ, a Standard & Poor's business.

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 be used only 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 is available upon request.

## Mercer all corporate plan universe distribution

All corporate plan universe distribution					
	1 year	3 years	5 years	7 years	10 years
5 <sup>th</sup> percentile	19.6%	11.8%	12.3%	10.2%	10.5%
25 <sup>th</sup> percentile	16.3%	10.3%	11.2%	9.1%	9.5%
Median	13.9%	9.3%	10.2%	8.3%	8.6%
75 <sup>th</sup> percentile	11.4%	7.9%	9.1%	7.1%	7.6%
95 <sup>th</sup> percentile	5.9%	5.0%	5.4%	4.6%	4.8%
Number of plans	882	810	736	673	562
Mercer DB client composite return <sup>1</sup>	16.3	10.2	11.1	9.2	9.3
Mercer DB client composite percentile ranking <sup>2</sup>	<b>25</b>	<b>29</b>	<b>27</b>	<b>25</b>	<b>29</b>

Percentile ranking in the All Corporate Plan Universe

<sup>1</sup> All prevailing legacy Mercer corporate DB LDI clients as of 12/31/20; excludes legacy Pavilion and Summit clients acquired through acquisition. LDI DB clients are those discretionary DB clients that include an allocation to an LDI strategy.

<sup>2</sup> Source: Investment Metrics (IM). Percentile ranking in the All Corporate Plan Universe. IM plan sponsor universes include aggregate of all consenting plans, where plans assign their total plan peer groups to specific sponsor types.

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