

Corporate Pension Quarterly | 1Q 2024

# PRIVATE EQUITY: PRIMED FOR EVOLUTION

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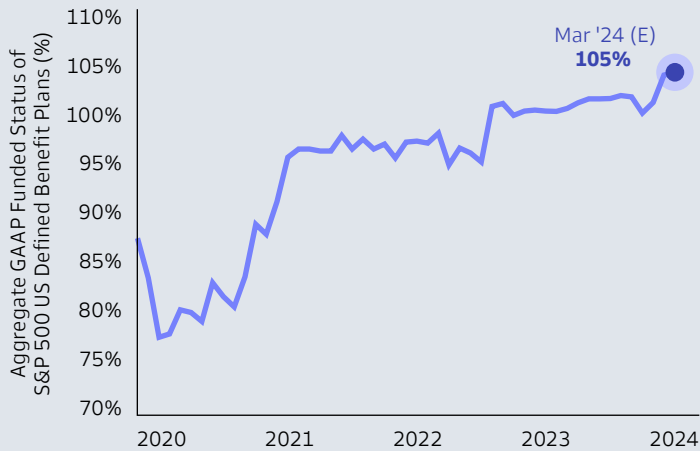


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# 1. QUARTERLY SNAPSHOT

## Historical Aggregate S&P 500 Funded Status<sup>1</sup>



Source: Goldman Sachs Asset Management. As of March 31, 2024. Funded status reflects monthly estimates. Exceptions apply to year-end data, which are actual.

- Our estimate of the funded status for the US corporate pension system increased in 1Q to 104.8% from 100.7% from year-end of 2023, largely driven by strong equity market performance and an increase in discount rates that subsequently decreased pension liability levels.
- US stocks continued to surge to new all-time highs. The first quarter was the S&P 500's best first quarter since 2019 and the index has had five consecutive positive months.
- As for interest rates, our estimate of corporate bond discount rates rose by 27 bps in 1Q, decreasing the value of aggregate pension liabilities by an estimated 3.2%.
- The economic outlook has remained stable, though US inflation prints ticked slightly higher in recent months. As a result, policy expectations have moderated. Our Goldman Sachs Global Investment Research team now forecasts two Fed rate cuts this year, beginning in July.

## Market Performance

| Asset Class   | 1Q 2024 Change | 2023 Change |
|---|----------------|-------------|
| <b>Asset Returns<sup>2</sup></b>                                  | <b>2.2%</b>    | <b>9.6%</b> |
| US Equity   | 10.6%          | 26.3%       |
| International Equity <sup>3</sup>                                 | 5.3%           | 17.3%       |
| Fixed Income <sup>4</sup>   | -1.7%          | 8.9%        |
| Discount Rate Proxy <sup>5</sup>                                  | +27 bps        | -28 bps     |
| Est. Change in Plan Liabilities Due to Discount Rate <sup>6</sup> | -3.2%          | 2.5%        |

Source: Goldman Sachs Asset Management and Bloomberg. As of March 31, 2024. Percentage changes represent total returns.

Source: MSCI, Bloomberg, and Goldman Sachs Asset Management. As of March 31, 2024. The economic and market forecasts presented herein have been generated by Goldman Sachs Asset Management for informational purposes as of the date of this document. They are based on proprietary models and there can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document. **Past performance does not guarantee future results, which may vary.**

1. GAAP funded status estimates are based on US plans (where specified) of defined pension plans within the S&P 500 (i.e., 238 companies with pension data per GS Asset Management research). 2. Average asset-weighted return of S&P 500 companies' US defined benefit plans. For 2023, uses average asset returns based on disclosed data. When not disclosed, estimates asset returns based on actual asset returns (in dollars) and average asset value. 3. Mix of MSCI EAFE and MSCI ACWI ex-US. 4. Mix of Corporates (Bloomberg US Aggregate Bond Index), High Yield (iShares US High Yield Index), Treasuries, and Long Credit (iShares Long US Credit Index). 5. Estimated Change in Plan Liabilities based on increase in estimated discount rate and duration of 12. For 2023, uses average change in discount rate change for December year-end filers. 6. Discount rate proxy measured by 50% Moody's AA Corporate Bond and 50% US Long Duration Corporate Bond. For 2023, uses average actuarial gains / losses as a percentage of starting Projected Benefit Obligation.

# 2. IN THE NEWS

## Recent Matters of Note

### Updates on Recent Annuitization-Related Activity

- Recently, there have been several notable lawsuits filed related to recent pension risk transfer (PRT) transactions. Two separate lawsuits were filed by retirees against the plan sponsor **AT&T Inc.** and **State Street Global Advisors**, alleging a violation of fiduciary duties as part of AT&T Inc.'s \$8 billion transaction in 2023. Similarly, four **Lockheed Martin Corp.** retirees filed a lawsuit against the sponsor, raising similar concerns. Lastly, in April, four **Alcoa** retirees sued the sponsor and **Fiduciary Counselors** related to four PRT transactions from 2018 - 2022.
- In addition, the Department of Labor had been tasked under the SECURE Act 2.0 with conducting a review of Interpretive Bulletin 95-1, which instructs plan sponsors as to factors which constitute a prudent selection process for selecting service providers in regards to PRTs. Any recommendations resulting from that review were to be issued by the end of 2023, although nothing has been released to date.

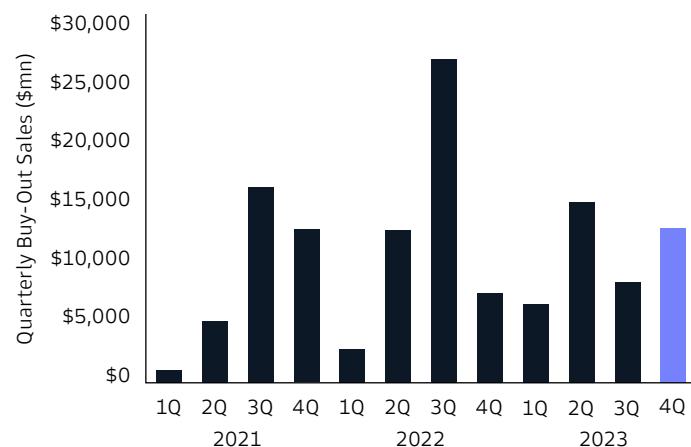
Source: Goldman Sachs Asset Management, company reports, and news releases. As of 1Q 2024.

### Takeaways from Our Annual Corporate Pension "First Take"

- For the 22<sup>nd</sup> consecutive year, we are reviewing the DB pension plans of every company in the S&P 500 based on information filed in their 10-K reports with the Securities and Exchange Commission. As in previous years, we have focused our initial "First Take" analysis on the 50 companies in the S&P 500 with the largest US DB plans by asset values.<sup>1</sup>
- Generally, plans are taking a variety of actions to capitalize on positions of strength.
- In terms of asset allocation, plans continued increasing allocations to fixed income in 2023. In our preliminary analysis, fixed income assets are an asset-weighted average of 53% of all assets.
- Expected return on asset assumptions rose for the first time in the 22 years we have tracked on the back of higher interest rates, averaging 6.3%.

## Elevated Annuitization Volume in 4Q 2023

The **Life Insurance Marketing and Research Association ("LIMRA")** reported that single premium buy-out sales for 4Q 2023 were \$12.5 billion, up 73% YoY. While the total dollar amount of buy-out sales in 2023 was below that of 2022, there were a record 850 pension risk transfer contracts in 2023, a 25% increase over 2022.



Source: LIMRA Group Annuity Risk Transfer Survey. As of 4Q 2023, latest available.

Source: Goldman Sachs Asset Management. As of March 31, 2024. Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or its securities. Goldman Sachs does not provide accounting, tax or legal advice. Please see additional disclosures at the end of this document. Company names and logos, excluding those of Goldman Sachs and any of its affiliates, are trademarks or registered trademarks of their respective holders. Use by Goldman Sachs does not imply or suggest a sponsorship, endorsement or affiliation. 1. For additional information, please see our March 2024 Pension Review "First Take" Report [here](#).

## Select Transactions Announced in 1Q

- **Verizon Communications Inc.** announced in March that it transferred \$5.9 billion of obligations across both of its US pension plans to **Prudential Insurance Co.** and **RGA Reinsurance Co.** The transaction covered 56,000 retirees. Verizon disclosed that it made contributions to the plan of about \$365 million prior to the transaction to keep funded status unchanged.
- In February, **Shell USA Inc.** announced that it purchased a group annuity contract from **Prudential Insurance Co.** to transfer \$4.9 billion in obligations. The transaction covers approximately 21,500 retirees.
- Lastly, in its 2023 Form 10-K, **Dow Inc.** disclosed that it transferred \$1.68 billion of its US and Canadian pension liabilities to an undisclosed insurer, funded from \$1.62 billion of plan assets.

Source: Company reports. As of 1Q 2024. The transactions shown above are not intended to be an exhaustive list. They are based on press releases and company reports observed during the quarter and are selected based on salience in the press.

# 3. PRIVATE EQUITY PERSPECTIVES

Private markets continue to be a large allocation for some corporate pension plans, especially for those who may be continuing to accrue benefits or have an overweight allocation following risk transfer activity. We sat down with Dan Murphy and Juliana Hadas from our Alternative Portfolio Solutions team to get the latest read on the private equity market.



**Dan Murphy**

Head of Alternative Portfolio Solutions  
Goldman Sachs Asset Management



**Juliana Hadas, CFA**

Senior Alternative Portfolio Solutions Strategist  
Goldman Sachs Asset Management

## What are your expectations for private equity activity in 2024, compared to the experience of 2023?

New deal activity has reverted to longer-term norms, coming off all-time highs. Looking ahead, we think the macro environment may support increasing activity – economies are stabilizing, CEO confidence is recovering, and financial conditions are improving. Deals may be done on more favorable terms as valuations are moderating to reflect a higher cost of capital.

Distribution activity has yet to recover – hindered by muted capital market receptivity, a pull-forward of exit activity to 2021, and moderating valuations. The median buyout portfolio company is currently held at a ~10% premium to the median exit multiple, compared to a historical 5% - 10% discount. To address the disconnect, we believe hold periods have been extending, to allow portfolio companies to grow into their valuations. Still, asset owners are seeking liquidity, so GPs are pursuing solutions to distribute capital. As such, we expect continuation fund transactions and structured solutions in the secondary market to remain popular and even tick up near-term.

## As you think about the next decade relative to the last one, what may be similar or different for private equity investing?

Private equity mostly delivered strong returns in the last decade, driven by operational improvements, multiple expansion, and leverage impacts. We believe these strong returns can continue, but the sources of value creation may change. With more costly leverage and limited multiple expansion, operational value creation may take center stage.

At the same time, value creation plans are likely to become more complex and costly to execute. In many cases, the investment thesis will need to be predicated on business transformation. Organic growth may play a bigger role, given higher financing costs for M&A activity. Because the costs of transformation tend to be front-loaded while the benefits accrue over time, GPs may

need to find ways to realize benefits faster. Execution timelines may need to speed up, with more of the work done during diligence and underwriting than post-acquisition, requiring closer and earlier collaboration between the GP's investment and operating teams.

## Are there secular trends or themes you think are particularly attractive in private markets going forward?

The long-term nature of private markets makes them well-suited to capitalizing on long-term secular trends, such as digitization, demographic shifts, and decarbonization. Digital transformation will impact most industries, in our view – offering investment opportunities to both support the development of new technologies, as well as facilitate their adoption across industries. In particular, we see potential for technologically-driven transformation across both business and consumer services, including wide applications in financial services. Aging populations globally are driving demand for healthcare services and innovative life sciences solutions, as well as real assets such as senior housing. Accelerating climate transition is creating demand for a wide range of solutions, including renewable energy and storage.

## What should LPs making new commitments be doing in their portfolios to capitalize on some of these structural changes?

Consistency is a core principle, as private markets do not lend themselves to market timing. A consistent program of new annual commitments can help maintain exposure at target and potentially mitigate volatility of cash flows over time.

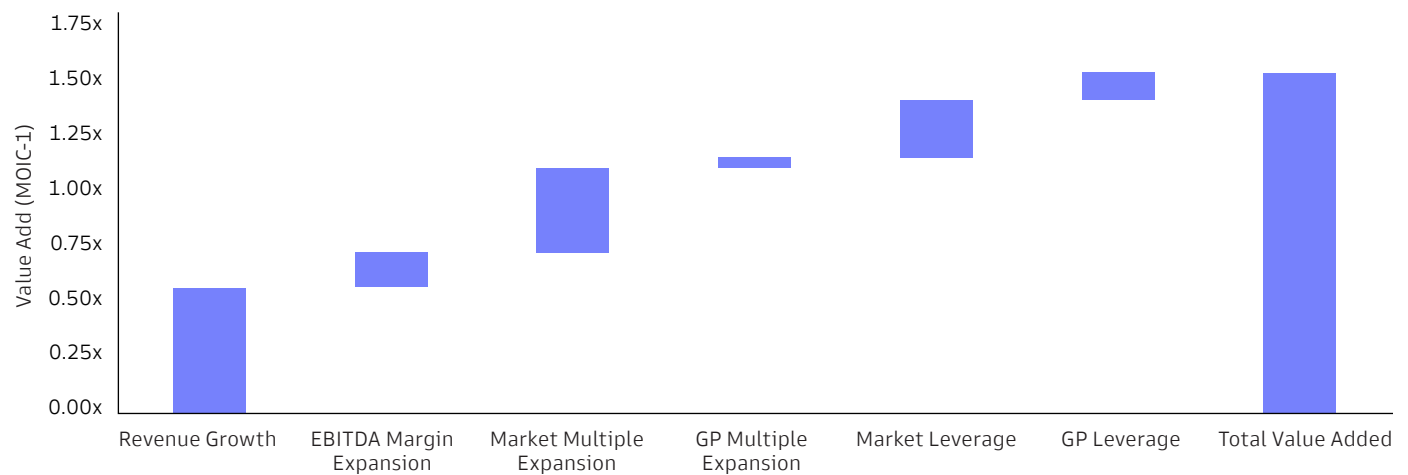
Another core principle is thoughtful manager selection. We believe managers should be evaluated not only for their historical value creation, but also for the ability to do so going forward in different market conditions. We believe the expertise to effect transformation should already be in GPs' arsenals, but GP teams should constantly seek to evolve and expand their skillset.

Source: Goldman Sachs Asset Management. As of April 2024. For discussion purposes only. "M&A" refers to Mergers and Acquisitions. "GP" refers to General Partner. "Digitization" refers to the process of converting analog information into a digital format. There is no guarantee that objectives will be met. **Past performance does not predict future returns and does not guarantee future results, which may vary.**

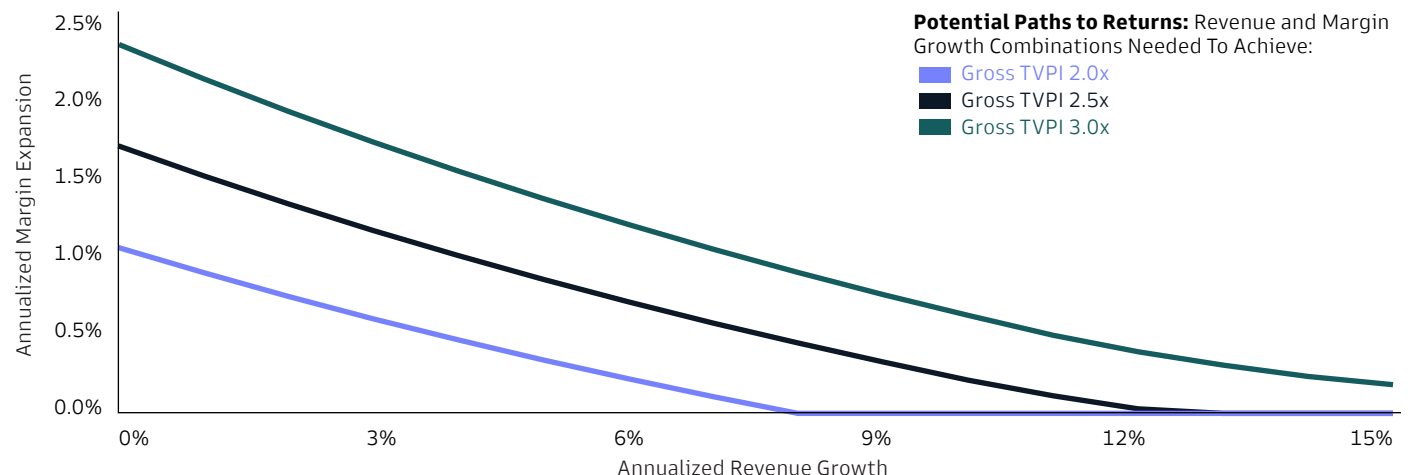
# 4. STRATEGY IN FOCUS: OPERATIONAL VALUE CREATION

As operational value creation takes center stage in driving private equity performance, we believe allocators should aim to understand the historical sources of a GPs' value creation, across operating fundamentals, market-wide dynamics, and financial structuring. LPs should assess a GPs' ability to grow underlying company fundamentals in the future, across different market conditions.

Private equity value creation in the past cycle (2008 – 2021) was driven by both operating improvements and multiple expansion



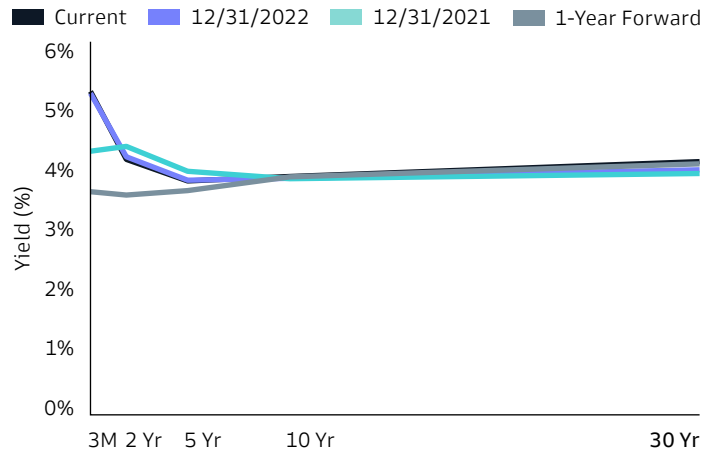
With a higher cost of capital and without multiple expansion, revenue and margin growth would be needed to drive return



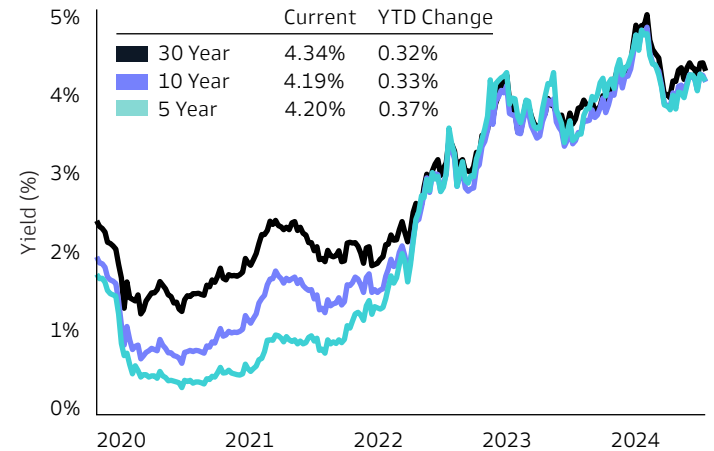
Source: Matteo Binfare, Gregory Brown, Andra Ghent, Wendy Hu, Christian Lundblad, Richard Maxwell, Shawn Munday, and Lu Yi, "Performance Analysis and Attribution with Alternative Investments", January 24, 2022 (top chart) and Goldman Sachs Asset Management (bottom chart). For illustrative purposes only. The performance is illustrative and does not represent any specific Goldman Sachs account or product and therefore does not represent the experience of any individual investor or investor account. This chart illustrates the combinations of annualized revenue growth and margin expansion that can help an investment achieve TVPI targets of 2.0x, 2.5x and 3.0x respectively, assuming no multiple expansion from deal entry to exit, a 10x entry multiple, a 50 / 50 (debt / equity) initial capital structure, and financing at rates with baseline (SOFR) of 5%. These assumptions are for illustrative purposes only and are not actual results. If any assumptions used do not prove to be true, results may vary substantially. "EBITDA" refers to Earnings Before Interest, Tax, Depreciation, and Amortization. "TVPI" refers to Total Value to Paid In. "MOIC" refers to Multiple on Invested Capital. There is no guarantee that objectives will be met.

# 5. MARKET MONITOR

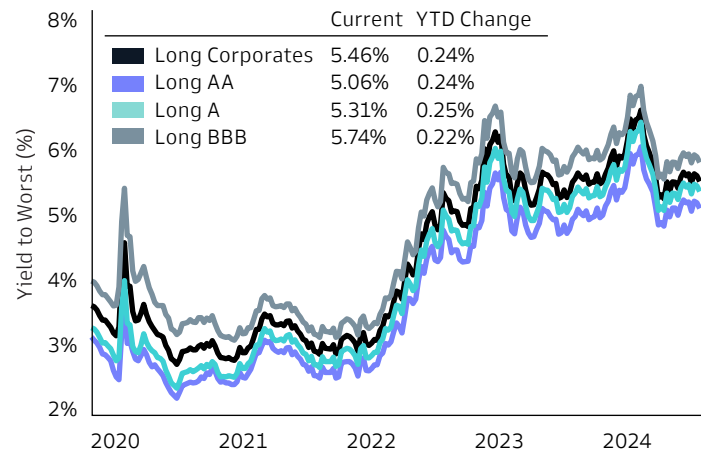
## US Treasury Nominal Yield Curves



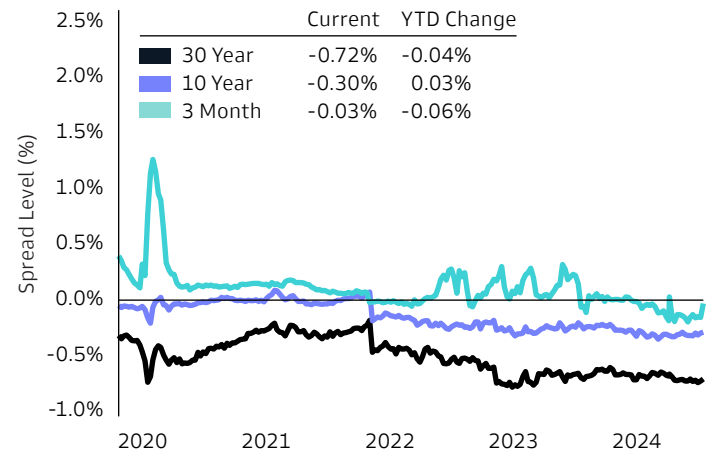
## Constant Maturity US Treasury Rates



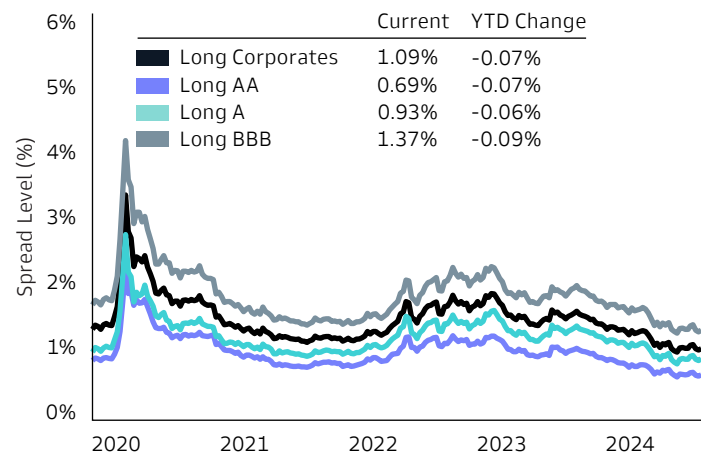
## Investment Grade Corporate Bond Nominal Yields



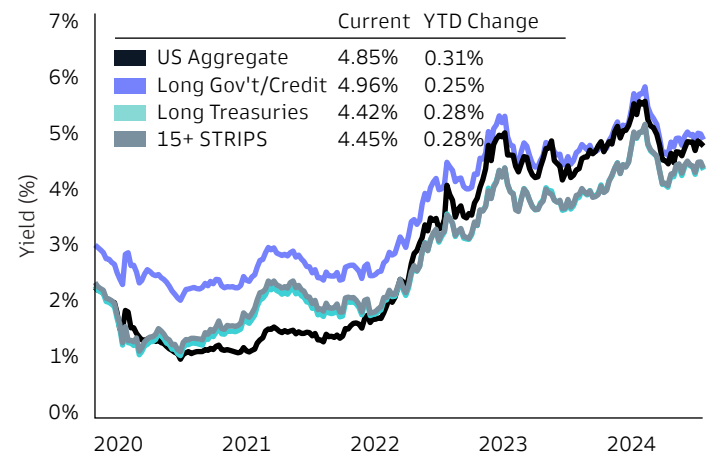
## US Treasury Nominal Interest Rate Swap Spreads



## Investment Grade Corporate Bond Nominal Spreads



## Additional Investment Grade Bond Nominal Yields



Source: Bloomberg, Goldman Sachs Asset Management. Long AA, Long A, and Long BBB refer to S&P credit ratings, referring to investment grade quality fixed income. "Constant Maturity U.S. Treasury Rates" are yields computed by the Federal Reserve reflecting average yields across debt securities for the same maturity. "Yield to Worst" refers to the lowest possible yield that may be received on a fixed income instrument without default. "15+ STRIPS" refers to long duration government-backed securities. Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or its securities. **Past performance does not guarantee future results, which may vary.** Figures estimated/unaudited as of 3/31/2024, and subject to potentially significant revisions over time. Actual returns may vary significantly from the performance information presented. Economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this document.

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## What We Do

We engage with institutional investors, combining our insight, advice and ability to identify solutions with investment products to help clients solve complex asset and risk management challenges. Whether evaluating portfolio construction, broader plan design questions or investment strategies, Goldman Sachs Asset Management has the resources and capabilities to help you assess, develop or manage a defined benefit strategy.

## Who We Are

We are tenured strategists, investors, former actuaries and counselors that offer unbiased advice and customized solutions for defined benefit plans and defined contribution programs.

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### Insights

Leveraging the insights of Goldman Sachs, we can help allocators make sense of a changing macro economic environment.

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### Advice

Harnessing the resources of our franchise, we can provide advice to enhance strategic asset allocation and uncover trends from global peers.

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### Solutions Identification

We can help allocators identify solutions to complex asset and risk management challenges.

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### Product Implementation

With breadth and depth across asset classes, we can deliver a range of products to meet unique client needs.

The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk. Reference to the term "partnership" is not intended to connote a type of organizational structure or any type of legal relationship with Goldman Sachs. Rather, the term "partnership" is intended to refer to a comprehensive relationship between Goldman Sachs and a client that incorporates a range of value-added services. Goldman Sachs Asset Management leverages the resources of Goldman Sachs & Co. LLC subject to legal, internal and regulatory restrictions.

# 7. LIBRARY

GSAM Insights  
March 8, 2024

## **Pension Review “First Take:” Taking Action**

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GSAM Insights  
February 26, 2024

## **Prudent Execution in Private Credit is Key for 2024**

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## **Challenges Women Face Saving for Retirement**

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GSAM Insights  
January 31, 2024

## **Healthcare Investment Diagnostic**

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## RISK CONSIDERATIONS

Equity securities are more volatile than bonds and subject to greater risks. Small and mid-sized company stocks involve greater risks than those customarily associated with larger companies.

Investments in fixed income securities are subject to the risks associated with debt securities generally, including credit, liquidity, interest rate, prepayment and extension risk. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. The value of securities with variable and floating interest rates are generally less sensitive to interest rate changes than securities with fixed interest rates. Variable and floating rate securities may decline in value if interest rates do not move as expected. Conversely, variable and floating rate securities will not generally rise in value if market interest rates decline. Credit risk is the risk that an issuer will default on payments of interest and principal. Credit risk is higher when investing in high yield bonds, also known as junk bonds. Prepayment risk is the risk that the issuer of a security may pay off principal more quickly than originally anticipated. Extension risk is the risk that the issuer of a security may pay off principal more slowly than originally anticipated. All fixed income investments may be worth less than their original cost upon redemption or maturity.

Investments in foreign securities entail special risks such as currency, political, economic, and market risks. These risks are heightened in emerging markets.

An investment in real estate securities is subject to greater price volatility and the special risks associated with direct ownership of real estate.

Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity.

Private equity investments are speculative, highly illiquid, involve a high degree of risk, have high fees and expenses that could reduce returns, and subject to the possibility of partial or total loss of fund capital; they are, therefore, intended for experienced and sophisticated long-term investors who can accept such risks. There can be no assurance that any objectives or targets stated in this material can be achieved; any targets provided are subject to change and do not provide any assurance as to future results. The ability of underlying funds to achieve their objectives or targets depends upon a variety of factors, not the least of which are political, public market and economic conditions. Any historical performance of individual partnerships shown is for informational purposes only and does not guarantee their future performance, which can vary considerably. The trading market for the securities of any portfolio investment of the underlying funds may not be sufficiently liquid to enable such funds to sell such securities when it believes it is most advantageous to do so, or without adversely affecting the stock price.

Alternative investments often are speculative, typically have higher fees than traditional investments, often include a high degree of risk and are suitable only for eligible, long-term investors who are willing to forgo liquidity and put capital at risk for an indefinite period. They may be highly illiquid and can engage in leverage and other speculative practices that may increase volatility and risk of loss.

Alternative Investments by their nature, involve a substantial degree of risk, including the risk of total loss of an investor's capital. Fund performance can be volatile. There may be conflicts of interest between the Alternative Investment Fund and other service providers, including the investment manager and sponsor of the Alternative Investment. Similarly, interests in an Alternative Investment are highly illiquid and generally are not transferable without the consent of the sponsor, and applicable securities and tax laws will limit transfers.

Volatility is a measure of variation of a financial instrument's price.

Yield to Worst (YTW) is the interest rate that makes the present value of a bond's cash flows equal to the bond's price or initial investment, calculated by making worst-case scenario assumptions (excluding issuer default) on the bond by calculating the returns that would be received if provisions, including prepayment, call, put, and sinking fund, are used by the issuer. The YTW on derivatives, Treasury futures, and interest rate swaps incorporate the impact of current funding rates (due to a change in data source, funding rates on Treasury futures were not incorporated on the YTW calculation from approximately early 2020 through 9-Nov-2022. Since November 9, 2022, funding rates on Treasury futures have been incorporated). On a portfolio level, the YTW is a characteristic of the portfolio based on its holdings as of a particular date and is considered a long-term bond yield expressed as an annualized rate of return, assuming the portfolio securities are called with the lowest yield after running to each potential call date. The YTW does not represent the performance yield for a portfolio and may increase or decrease depending on the present value of a bond's market price as well as the number and size of payments remaining. As of April 14, 2023, the YTW has been capped at 15% in order to provide a more prudent and conservative representation.

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Standard & Poor's (S&P) 500 Index is Standard & Poor's Composite Stock Prices Index of 500 stocks, an unmanaged index of common stock prices.

Bloomberg US Aggregate Bond Index represents an unmanaged diversified portfolio of fixed income securities, including US Treasuries, investment grade corporate bonds, and mortgage backed and asset-backed securities.

Bloomberg US Corporate Investment Grade Index includes publicly issued US corporate and specified foreign debentures and secured notes.

US Treasury Bond is a debt obligation backed by the United States government and its interest payments are exempt from state and local taxes. However, interest payments are not exempt from federal taxes.

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