



# Overview of Liability Hedging Approaches

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- **Corporate pension hedging solutions may be simple or customized**
  - Simple solutions utilize broad market instruments like long credit that resemble the pension liabilities
  - Customized solutions utilize a blend of various duration government/credit instruments calibrated to the Plan's funded ratio, return-seeking allocation, and overall interest rate and credit spread exposure
  
- **Based on AHIC's current market views, plan sponsors may consider applying tilts relative to target exposures to:**
  - Return-seeking vs. liability-hedging assets
  - Interest rate duration
  - Credit vs. government mix

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# Aon Approach to Liability Hedging

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## 1) AHIC Generally Favors a Customized Liability-Hedging Portfolio

- a) Long Credit tends to provide attractive risk/return properties relative to typical US corporate pension liabilities.
- b) Long Government or Treasury STRIPS may be beneficial at higher portfolio allocations to return-seeking assets, due to its diversifying properties, and its very long duration exposure.

## 2) Plan Sponsors Should Consider Risk/Reward of Under-Hedging

Plan sponsors concerned about the impact of rising interest rates on long duration fixed income may consider temporarily under-hedging the liability, but should consider the risk/reward tradeoffs of this action.

## 3) Plan Sponsors May Consider Phase-in Approaches to Long-Term/Strategic Hedging Portfolio

- a) “Hedge Path” transitions from shorter duration to longer duration as interest rates and/or funded level increase.
- b) “Credit Path” transitions from government/credit mix to primarily credit as return-seeking allocation decreases, while also allowing plan sponsors to incorporate views on credit spreads into the government/credit mix.

*Refer to “Aon Approach to Liability Hedging for Corporate Pensions” document for more details.*

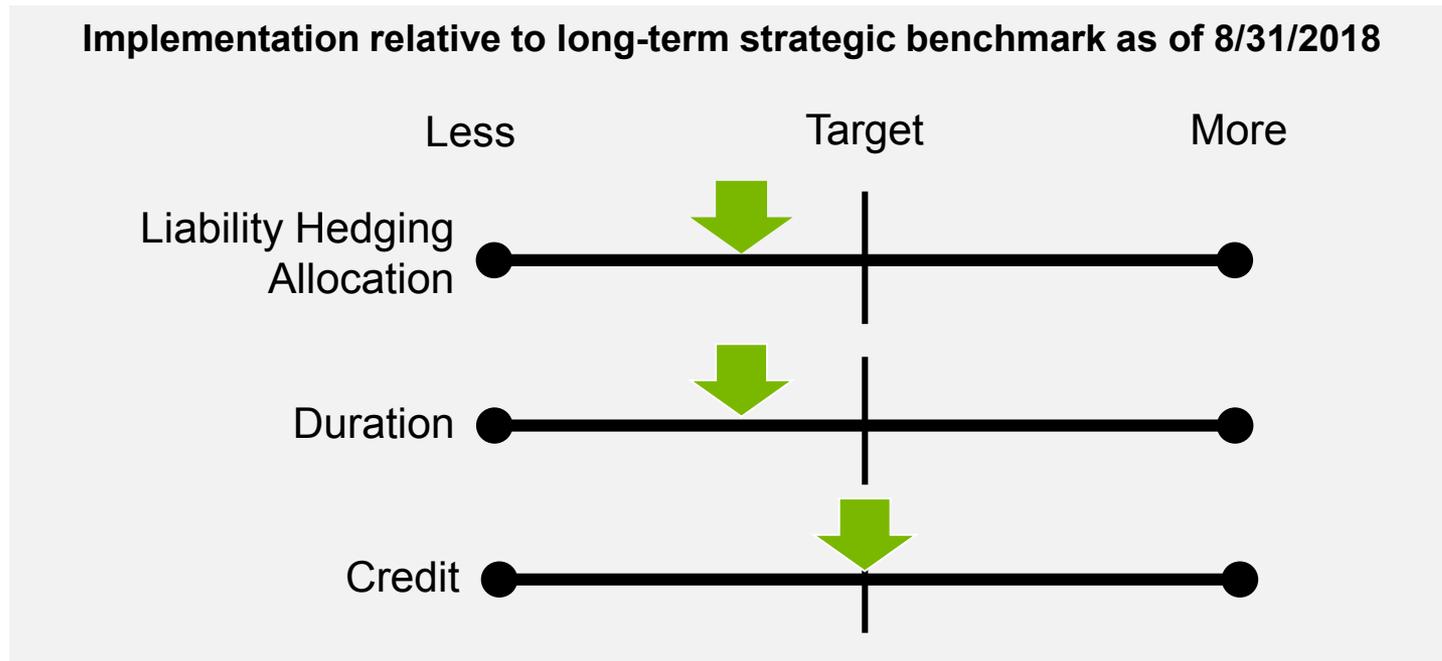
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# Liability Hedging Views

Liability Hedging Views Express our Desired Over/under Weights Relative to a Long-term Strategic Benchmark

## Fixed income views applicable to liability hedging as of 8/31/2018

- 1) Underweight liability hedging assets relative to return seeking assets and diversifying assets
- 2) Intermediate government bonds are preferred to long government bonds
- 3) No preference between credit and government bonds
- 4) Long credit spread is preferred to intermediate credit spread



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