

**PENSION BENEFIT GUARANTY CORPORATION
INVESTMENT POLICY STATEMENT – AUGUST 2023**

I. INTRODUCTION

The Pension Benefit Guaranty Corporation (“PBGC” or the “Corporation”) is a federal corporation created by the Employee Retirement Income Security Act (“ERISA”). PBGC insures the payment of benefits in private-sector defined benefit pension plans, subject to legal limits. PBGC receives premiums from plan sponsors for this insurance. When an underfunded single-employer plan terminates and PBGC becomes trustee, PBGC assumes responsibility to pay benefits to the plan’s participants, subject to ERISA’s maximum guarantee limits. The Corporation also trustees the plan’s assets and invests those assets in accordance with this Investment Policy Statement and statutory requirements.

This Investment Policy Statement was developed in consultation with PBGC staff, outside experts, and the PBGC Advisory Committee. It is supported by a comprehensive analysis of the impact of a range of economic, portfolio, and demographic risks on PBGC’s liabilities. The Board recognizes the unique characteristics of the Corporation as a guarantor of private defined benefit pension plans and the dynamic circumstances under which it operates.

The Investment Policy Statement established by the Board is consistent with the statutory purposes of the PBGC (29 USC 1302(a)) which are to:

- Encourage the continuation and maintenance of voluntary private pension plans,
- Provide for timely and uninterrupted payment of pension benefits to plan participants and beneficiaries, and
- Maintain premiums established by the Corporation at the lowest level consistent with carrying out PBGC’s obligations under ERISA.

II. SCOPE AND PURPOSE

a. Scope

This Investment Policy Statement (“IPS”) governs the investment program of the PBGC (the “Program”) and shall apply to all investment assets and portfolios that are held in the Trust Fund and the Revolving Fund.

b. Purpose

The purpose of the IPS is to provide a framework for the management of the assets held in the Trust Fund and the Revolving Fund. The IPS includes guidance on:

- Investment objectives and strategic considerations;
- Governance;
- Asset allocation targets, benchmarks, and related parameters; and
- Performance reporting and risk management.

III. INVESTMENT OBJECTIVES AND STRATEGIC CONSIDERATIONS

a. Investment Objectives

The investment objectives of the Program reflect mid-term and long-term investment horizons and accommodate current and projected financial requirements of the PBGC. These objectives are to:

- Satisfy existing liabilities and future claims when due.
- Maximize funded status within a prudent risk framework that is informed by PBGC's fixed obligations and asset composition of potential trustee plans.
- Utilize Liability Driven Investment (LDI) techniques to minimize the risk of future deficits.
- Meet or exceed the performance benchmarks for the Program over three- and five-year time periods on a net of fee basis.
- Diversify the investment assets base when useful for managing risk, taking into account that changes based on market-timing are inconsistent with the IPS.
- Maintain liability-hedging and return-seeking assets according to the target asset allocations in Table 1.

b. Strategic Considerations

PBGC's investment policy shall also be informed by the following:

- Many factors determine PBGC's ability to meet future claims, most of which are outside the control of the Corporation. PBGC does not control plan termination criteria, benefit guarantees, funding rules, or premium structure. These items are set by statute.
- PBGC's net position (total assets less total liabilities) in its single-employer program fluctuates over time. The Board recognizes that the surplus or deficit of the PBGC may not be addressed solely through the investment policy.
- The PBGC must be cognizant of future or contingent liabilities as well as those already booked. The extent and timing of plan terminations depends upon economic, industry, and/or company-specific conditions. The amount of losses will be affected by the severity of those events as well as by financial variables (stock market and interest rate

levels) that may also affect performance of PBGC's portfolio. Demographic shifts, mortality changes and updated actuarial tables can also change PBGC liabilities.

- The PBGC's investment policy, therefore, should consider systemic risk, asset-liability mismatch risk, demographic risk, and other appropriate risk factors. The PBGC should monitor these risk factors on a regular basis and take appropriate actions to protect assets and maintain prudent risk exposure consistent with the Investment Objectives. The focus should be on risk diversification for PBGC as a whole not only asset diversification.

IV. GOVERNANCE

a. Responsibilities

The Board is responsible for establishing the investment policy and for oversight of the Program. The Board Representatives may act on behalf of the Board Members for all purposes permitted under the PBGC bylaws.

The PBGC Director is responsible for the administration of the PBGC and the Program.

The Chief Financial Officer, through the Chief Investment Officer, has the overall management responsibility for implementing and monitoring the Program. The Chief Investment Officer and the Corporate Investment Department ("CID") staff have the day-to-day responsibility of implementing and monitoring the Program and of determining and managing the investment and operational risk of the Program consistent with this IPS. PBGC staff will be responsible for the hiring, firing, conducting due diligence and oversight, and contract management of the external professional money managers.

All discretionary investment decisions (other than short-term cash holdings in the Revolving Fund) will be managed by external professional money managers.

The Advisory Committee is responsible for advising the Corporation and the Board on investments.

b. Board Oversight of Investment Policy

The Board will review the Investment Policy Statement at least every two years and approve the Investment Policy Statement at least every four years. The Investment Policy Statement will be reviewed by PBGC staff quarterly and discussed with the Board no less than annually. The purpose of Board review is to ensure that the objectives of the Investment Policy continue to be aligned with PBGC's objectives and changing economic conditions and that PBGC is implementing the Investment Policy consistent with the investment objectives established by the Board.

c. Use and Oversight of External Advisors

All discretionary investments will be managed by external professional money management organizations. Managers will be selected based upon demonstrated performance, expertise, and

expense so that their investment strategies collectively implement the Investment Policy Statement. PBGC will hold the investment management firms accountable for implementation of their investment strategies within the guidelines as defined and periodically revised by PBGC. Short-term cash holdings in the Revolving Fund may be managed internally by PBGC. PBGC will evaluate the performance of investment managers against benchmarks decided by PBGC staff and acceptable to the external investment manager and consistent with industry-recognized performance benchmarks and other relevant industry standards.

As appropriate, the PBGC will remove assets from underperforming managers once managers have had sufficient time to meet their performance objectives, which as a rule is demonstrated over a full market cycle. PBGC will also remove assets from managers when PBGC no longer believes they will be able to meet their investment objectives (e.g., due to loss of key investment professionals, significant change in ownership, or organizational structure with potential negative consequences).

Investment management fees should be designed to compensate managers for their services as well as to minimize the cost to PBGC. Fee arrangements may be flat, asset-based, and/or performance-based. PBGC will seek to control costs without sacrificing quality or performance.

V. LIABILITY DRIVEN INVESTMENT, ASSET ALLOCATION TARGETS, BENCHMARKS, AND OTHER INVESTMENT PARAMETERS

a. Liability Driven Investment Asset Allocation

Trust Fund assets will be invested primarily in equities and fixed income securities in a manner consistent with all legal requirements and Program restrictions. Asset allocation will be based on a desire for the PBGC to have sound long-term performance, be fully funded and able to meet its long-term cash flow obligations while considering all risks. PBGC seeks to produce a return on investment that is based on levels of liquidity and investment risk that are prudent and reasonable to achieve its long-term goals. Prudent risk-taking is justifiable.

PBGC's LDI program is now in end state management. The asset classes permitted in the Program (Revolving Fund and Trust Fund combined), asset class targets and permitted allocation ranges, and the LDI hedge ratio target reflect the evolution in the Program's funded status as shown in Table 1. If the Single Employer Funded Ratio falls below 120%, PBGC will review its asset allocation.

Table 1: PBGC Single-Employer Policy Portfolio

Return-Seeking Assets Target	Liability-Hedging Assets Target	LDI Hedge Ratio¹
15	85	95

Return-Seeking and Liability-Hedging Asset Range: The allocation to Return-Seeking and Liability-Hedging assets can vary +/- 5% from the target (or midpoint) shown above to provide leeway for allocation fluctuations due to gains and losses.

LDI Hedge Ratio Range: The range for the LDI Hedge Ratio can vary +/- 5% from the target (or midpoint) shown above to provide leeway for the optional hedge in different market environments.

Sub-Asset Class:	Ranges
Return-Seeking Assets:	
U.S. Equities, including publicly traded U.S. REITS	0% to 15%
International Equities (Developed and Emerging), including publicly traded Global REITS	0% to 15%
U.S. and International Bonds (High Yield and Emerging Markets)	0% to 10%
Private Real Estate	0% to 3%
 Liability-Hedging Assets:	
U.S. and International Bonds (Nominal, Real and Developed) and Money Market	80% to 90%

Sub-Asset Classes must be invested consistent with the Return-Seeking Assets and Liability-Hedging Assets Ranges and Targets listed in Table 1.

Global REITS may not compose more than three percent of the PBGC Total Portfolio.

Global Bonds Portfolios in the Liability Hedging Assets allocation may not compose more than five percent of the PBGC Total Portfolio.

¹ LDI Hedge Ratio is calculated by dividing the assets dollar value of a basis point by the liabilities dollar value of a basis point.

PBGC staff shall not invest in other sub-asset classes not specifically mentioned above unless granted permission by the Board.

PBGC staff shall report monthly on sub-asset class allocations. PBGC staff is prohibited from holding outsized sub-asset class positions except when investing in US treasuries.

It is understood that events beyond the control of the Program or PBGC will sometimes cause changes in the asset allocation or cash flow of the Corporation. In such instances, PBGC will transition the portfolio to PBGC's established asset allocation and LDI hedged ratio targets as soon as prudently feasible. PBGC will develop a plan for transition of these newly-acquired assets based on their liquidity, market conditions (which does not include market timing under reasonable market conditions), and current valuations. Inherited private market assets shall not be included in asset allocation targets and shall be managed prudently for the benefit of PBGC.

Bonds rated below investment grade shall be of prudent credit quality and consider the timing of maturing benefit payments of PBGC's trustee plans.

Consistent with law and this Investment Policy Statement, Revolving Fund assets, including Single Employer and multiemployer premium revenues, shall be invested in U.S. Treasuries held in book entry form at the US Treasury. Assets in the Revolving Fund are held in a predominately buy and hold limited trading account. Also, the Revolving Fund will be invested in accordance with Federal investment policies prescribed within the Treasury Financial Manual.

b. Benchmarks

Appropriate benchmarks will be established by the PBGC in consultation with its investment managers and investment consultants. The PBGC staff shall advise the Board and the Board Representatives of the benchmarks selected and any changes in benchmarks.

c. Rebalancing

PBGC may rebalance the investment portfolio quarterly to keep its asset allocation consistent with this Investment Policy. The timing and size of rebalancing should consider current market conditions, liquidity needs of the Corporation, the cost of rebalancing, anticipated receipt of assets from newly-trusteed plans, and projected premiums. To avoid unnecessary transaction costs, cash flow to and from the Program, including assets received from newly-trusteed pension plans, should be used to rebalance back to the targeted percentage where possible.

d. Cash Management/Meeting Liquidity Requirements

PBGC must have sufficient low-risk, liquid assets available to meet PBGC's near-term benefit obligations and operational cash flow needs for at least one year. Premium payments to the Program will be considered when assessing cash flow needs. Examples of

sufficient low-risk, liquid assets are money market funds, high quality corporate bonds or treasury securities that mature within three years.

e. Risk Tolerance

The Board acknowledges that the Program will be subject to some investment risk necessary to achieve performance objectives that cannot be eliminated with diversification. PBGC staff will manage these risks through adherence to ethical standards, documentation and enforcement of internal controls, due diligence and manager oversight, and appropriate risk measurements and risk reporting mechanisms.

f. Permitted Activities and Delegations

The following activities and delegations are permitted by the Trust Fund only (except as explicitly noted) with the following conditions:

1. **Annuities:** The PBGC may purchase annuities with both Trust and Revolving Funds to pay benefits if supported by a cost/benefit analysis.
2. **Derivatives:** Derivatives may be utilized only to take or support positions relating to allowed asset classes for non-speculative purposes.
3. **Securities Lending:** Securities lending to generate income through a low risk collateral investment strategy is allowed, consistent with parameters established by the Board and investment policies and guidelines. Securities lending collateral is excluded from the calculation of asset allocation targets. PBGC staff will provide program performance and violation reporting to the Board.
4. **Proxy Voting:** The PBGC shall delegate authority to vote proxies to external investment managers and require that such managers meet fiduciary standards and maintain accurate records as to proxy voting. Proxy voting rights must be exercised in accordance with the fiduciary duties of loyalty and prudence. At least annually, managers will report their voting record to PBGC.
5. **Trading and Brokerage:** The PBGC shall delegate the responsibility of selecting brokerage firms to its investment managers. Investment managers shall select and utilize brokers in a manner to achieve best execution.
6. **Foreign Currency Management:** The PBGC and its investment managers may establish foreign currency positions as a consequence of foreign investment.
7. **Group Trust Investments:** Trust Fund assets may be invested in permissible asset classes through group trusts described in Rev. Rul. 81-100, as clarified and modified by Rev. Rul. 2011-1. Group trust investments are governed by the guidelines and restrictions contained in the group trust's prospectus, declaration of

trust, or other governing documents. Notwithstanding the foregoing, PBGC shall conduct all investment-related procurements, including but not limited to procurements for group trusts, under the Federal Acquisition Regulation.

g. Prohibited Activities

Unless permitted by the Board, the following activities are prohibited:

- 1. Leverage:** Utilizing any form of leverage, including the use of derivative contracts, to replicate leveraged positions. That is, derivatives shall not be utilized to leverage the portfolio beyond the maximum risk level associated with a fully invested portfolio of physical securities.
- 2. Speculations:** Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected.
- 3. Board Representation:** Accepting a seat on any company's board of directors by PBGC staff, or any financial advisor or investment manager acting on PBGC's behalf, except under extraordinary circumstances that warrant an exception from this policy. Should such circumstance arise, the Board will be consulted prior to the acceptance of such seat. In such circumstances, PBGC will designate an outside financial advisor or investment manager to accept such seat.

h. Other Requirements and Limitations

Additional Program requirements and limitations include (other than with respect to obligations of the United States or obligations that are guaranteed as to principal and interest by the United States):

- 1. Ownership Limit:** PBGC will limit its holding of any class of securities in any company to no more than five percent of the total outstanding securities of such class. If the PBGC should own more than five percent of such class of security, it should liquidate, or cause to liquidate, as soon as prudently feasible, sufficient securities to reduce its holding to no more than five percent of such class.
- 2. Security Exposure Limit:** No single investment security (single security that is identified by one CUSIP number or comparable identified code, for example, Exxon public stock) may represent more than five percent of Trust Fund assets of the Program.
- 3. Product Concentration Limit:** With the exception of passively managed investment vehicles seeking to match the returns of a broadly diversified market index and LDI completion mandates, no single investment may compose more than ten percent of Trust Fund assets.
- 4. Firm Concentration Limit:** Except for the investment manager(s) overseeing the Revolving Fund or those managing passive products, no single firm may

have discretionary investment authority over more than fifteen percent of Trust Fund assets of the Program.

- 5. Restricted Investments:** The PBGC and its investment managers shall take reasonable steps to avoid investments in companies representing highly likely and significant contingent liabilities.
- 6. Revolving Fund Restrictions:** The Revolving Fund will be invested exclusively in book entry US Treasury securities at Treasury unless granted permission by the Board to invest in other securities. Also, the Revolving Fund will be invested in accordance with Federal investment policies prescribed within the Treasury Financial Manual.

VI. PERFORMANCE REPORTING AND RISK MANAGEMENT

a. Performance Reporting

Monthly and quarterly investment reports will be prepared by PBGC and will be submitted by the Director to the Board. Quarterly investment performance reports will also be prepared for Advisory Committee meetings. PBGC's Annual Report will include fiscal year investment results.

b. Risk Management

The Board recognizes that the assumption of investment risk is necessary to meet Program objectives, and that such risk must be managed to ensure returns are proportional to market risk taken. The Corporation will invest in a broadly diversified portfolio of asset classes, strategies, and managers, as one of the principal means for managing the risk profile of the Program.

PBGC maintains the means to monitor, measure, and manage comprehensive investment risk to PBGC. PBGC staff will report to the Board no less than annually on its Program to measure and maintain prudent levels of risk. PBGC will monitor the Program's total allocation by manager and asset class. Any manager breach of guidelines in the contract will be reported quarterly to the Board.