Special Financial Assistance Final Rule
Permissible Investments

August 16, 2022
Agenda

• Previous Special Financial Assistance (SFA) Final Rule
• PBGC Webinars
• Permissible Investments
• Questions
## Recap – Previous SFA Final Rule Webinars

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 7, 2022</td>
<td>Special Financial Assistance Final Rule</td>
</tr>
<tr>
<td>July 28, 2022</td>
<td>Special Considerations for Plans that Applied Under the Interim Final Rule and Other Plans Currently Eligible to Apply</td>
</tr>
<tr>
<td>August 4, 2022</td>
<td>SFA Applications Under the Final Rule</td>
</tr>
</tbody>
</table>

Prior PBGC SFA webinars both recordings and presentation slides are available at: [https://www.pbgc.gov/arp-sfa/webinars](https://www.pbgc.gov/arp-sfa/webinars)
§4262.14 Permissible Investments
Such assistance shall be segregated from other plan assets, and shall be invested by the plan in investment grade bonds or other investments as permitted by regulations or other guidance issued by the Pension Benefit Guaranty Corporation.
SFA Permissible Investments Under Final Rule

• SFA assets and earnings:
  ▪ Are segregated from non-SFA assets and may be used any time
  ▪ May be used to make benefit payments and pay plan expenses
• Allowance for allocation to return-seeking assets (RSA) is up to 33%
• Remainder of SFA assets – at least 67% - must be allocated to investment grade fixed income (IGFI)
• Applicable on date that an application is filed under provisions of final rule
1. 33% limit must be met every time RSA are purchased
   • Automatic reinvestment of fund distributions not considered a purchase
   **AND**

2. 33% limit must be met once during past 12 months
   • Return differences in RSA and IGFI or downgrades of IGFI may put RSA over
     the 33% limit temporarily
   • Benefit payments can be used to rebalance
SFA Permissible Investments – General Concepts

- Broad, liquid markets
- Publicly/widely traded
- Common, simple investments
- Robust regulatory framework
- U.S. markets
- Derivatives used to gain exposure, not leverage
### SFA Permissible Investments – Definitions

<table>
<thead>
<tr>
<th>Investment Grade Fixed Income</th>
<th>Return-Seeking Assets</th>
<th>Permissible Fund Vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Debt securities</td>
<td>• Equities traded in U.S. markets (12(b) of 1934 Act)</td>
<td>• Mutual Funds</td>
</tr>
<tr>
<td>• Fixed rate</td>
<td>• Fixed income issued using 144A</td>
<td>• Exchange Traded Funds (ETFs)</td>
</tr>
<tr>
<td>• Registered under 1933 Act</td>
<td>• “Fallen angels”</td>
<td>• Collective Trusts</td>
</tr>
<tr>
<td>• Dollar-denominated</td>
<td></td>
<td>• Invested predominantly in permissible securities</td>
</tr>
<tr>
<td>• Investment Grade</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Fixed Income
  - Debt securities
  - Fixed rate
  - Registered under 1933 Act
  - Dollar-denominated
  - Investment Grade

- Return-Seeking Assets
  - Equities traded in U.S. markets (12(b) of 1934 Act)
  - Fixed income issued using 144A
  - “Fallen angels”

- Permissible Fund Vehicles
  - Mutual Funds
  - Exchange Traded Funds (ETFs)
  - Collective Trusts
  - Invested predominantly in permissible securities
PERMISSIBLE EXAMPLES

- Investment grade credit bonds registered under 1933 Act
- Treasuries
- Government-sponsored entity issues
- Investment grade municipal bonds
- Cash or equivalents
- Money market funds
- Sample permissible funds:
  - Aggregate bond index fund
  - Core bond fund with tilt toward credit bonds

NOT PERMISSIBLE EXAMPLES

- 144A securities & fallen angels
  - Except small portion in permissible fund vehicles
- High yield bonds
- Convertible bonds
- Preferred stock
- Collateralized loan obligations
- Annuity purchases
SFA Return Seeking Assets – What’s In and Out

PERMISSIBLE EXAMPLES

• Equities traded on U.S. exchanges
  ▪ Includes foreign companies
  ▪ Level II and III American Depositary Receipts (ADRs)
• Debt resold under 144A
• Fallen angels
• Sample permissible funds:
  ▪ U.S. large cap equity index fund
  ▪ U.S. active or passively managed fund

NOT PERMISSIBLE EXAMPLES

• Stocks traded over the counter
• Stocks traded on foreign exchanges
• Funds invested in foreign markets
  ▪ For example, EAFE
• High yield bonds, except fallen angels
• Bonds traded in foreign markets
• Emerging market debt funds
• Alternative investments
• Leverage
Condition on entire portfolio (SFA and non-SFA assets):

- Allocation to investment grade fixed income must be greater than or equal to one year of projected benefit payments and administrative expenses.
Questions?
Thank you!

Webpage: https://www.pbgc.gov/arp-sfa

For SFA Practitioner Related Questions or Requests for a Pre-Filing Consultation:

Email multiemployerprogram@pbgc.gov