FIXED INCOME

A Shorter Long Credit

June 14, 2024

On a recent trip through the southeast meeting with clients, plan sponsors and consultants, the team found itself in a familiar post-COVID setting (coffee shop) having a far reaching LDI conversation with a field consultant. As the discussion meandered through a variety of topics from Pension Risk Transfer to asset allocation, we ended up on the topic of liability hedging portfolios and the evolution of that portfolio for a closed and frozen plan with a duration that continues to shorten. The consultant made a very simple observation that intrigued us. He said, “The Long Credit Index is just too long for some of my clients.”

While this is certainly not a new concept, we were curious if the current array of solutions properly addresses this problem or if there might be a better alternative.

For the most part, issues of duration and curve exposure can be addressed via overlay management or custom blended benchmarks. These are very familiar and common approaches to meet the interest rate and spread duration needs of the liability hedging portfolio. Market benchmarks offer ample liquidity, and their standard adoption allows for better comparison of a manager’s relative performance. A drawback to the standard blending approach that is not often discussed is the mismatch in credit key rate exposure. Blending long and intermediate benchmarks allows a plan to match the average spread duration of its liabilities but uses key rates across the curve from as short as 1-year out to as long as 40+ years. This ultimately exposes closed and frozen plans to points on the curve longer than their liabilities.

We decided to explore the concept of a “shorter” Long Credit using maximum maturity constrained benchmarks to see how it may solve for the key rate conundrum. We compared two of these Indices with both the Long Credit Index and a sample blend of Intermediate and Long Credit. The tables on the next page show some of our key findings.

MetLife Investment Management

Maturity constrained benchmarks can potentially match top level statistics of a shorter liability at the expense of some issuer diversification.

Index	Duration (years)	Yield (%)	OAS (basis points)	Ticker Count
70/30 Blend	10.09	5.61	92	740
Ex 20+yrs	10.08	5.66	103	436
Ex 25+yrs	11.21	5.69	100	568
Long Credit	12.68	5.71	102	696

Source for all charts: MIM, Aladdin, as of May 31, 2024. Note: 70/30 Blend is 70% Bloomberg US Long Credit Index / Bloomberg US Intermediate Credit Index, which has a similar duration to the Ex 20+ US Long Credit index. Past performance is no guarantee of future results.

Avoiding key rate exposure to the longest portions of the Long Credit Index can potentially provide a better hedge for closed and frozen plans.

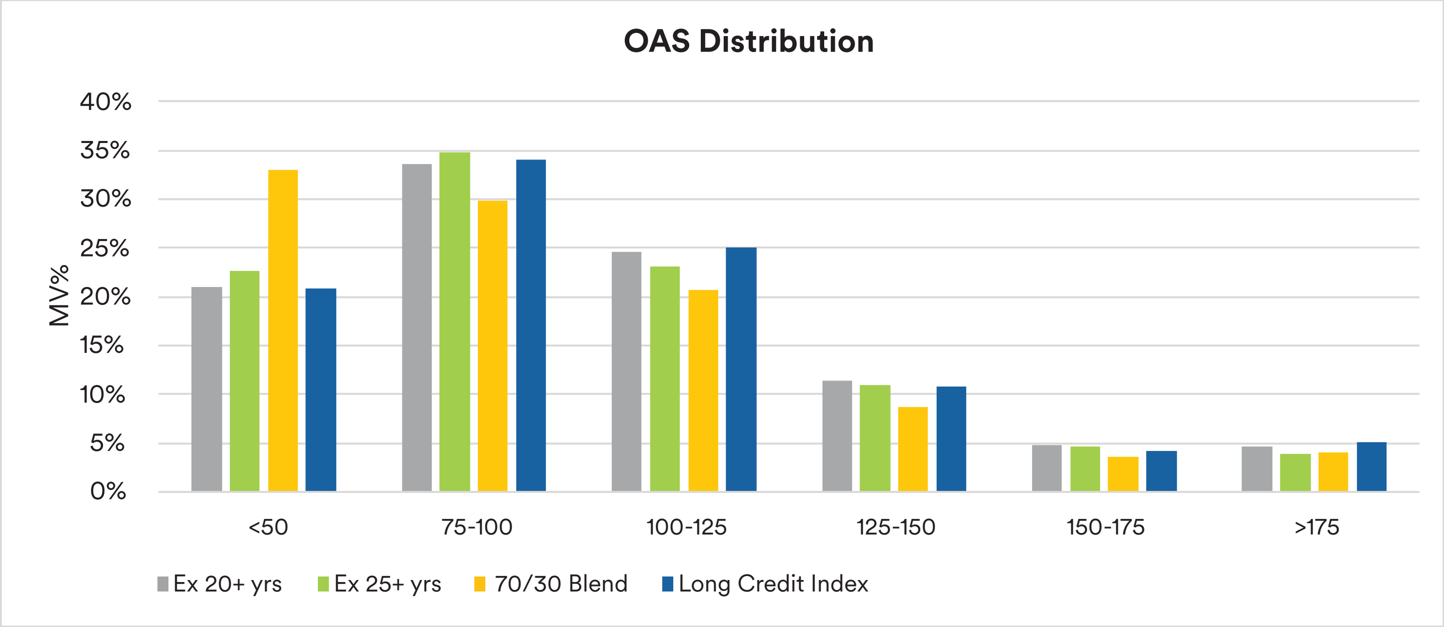
Key Rate Duration (KRD) Contribution													
Index	**3M**	**1Y**	**2Y**	**3Y**	**5Y**	**7Y**	**10Y**	**15Y**	**20Y**	**25Y**	**30Y**	**40Y**	**50Y**
70/30 Blend	0.01	0.08	0.17	0.36	0.58	0.79	1.38	1.83	1.81	1.87	0.94	0.23	0.04
Ex 20yr+	0.01	0.05	0.09	0.22	0.40	0.67	2.49	4.17	1.98	**0.00**	**0.00**	**0.00**	**0.00**
Ex 25yr+	0.01	0.05	0.09	0.22	0.39	0.65	2.01	3.24	3.15	1.41	**0.00**	**0.00**	**0.00**
Long Credit	0.01	0.05	0.09	0.21	0.39	0.64	1.69	2.62	2.58	2.67	1.34	0.33	0.06

Top-level sector exposures do not materially drift in maturity constrained indices.

	Market Value %			
Sector	**70/30 Blend**	**Ex 20+yrs**	**Ex 25+yrs**	**Long Credit**
Agency	8.61%	6.60%	5.50%	6.20%
IG Corp	88.01%	86.90%	89.20%	89.30%
Financial	20.91%	17.20%	16.80%	14.80%
Industrial	57.00%	59.90%	61.50%	62.70%
Utilities	10.07%	9.80%	10.90%	11.70%
Municipal Securities	3.38%	6.50%	5.20%	4.50%

The same can be said for credit quality, which is further supported by the lack of variability in the OAS distribution of the respective Index options.

	Market Value %			
Rating	**70/30 Blend**	**Ex 20+yrs**	**Ex 25+yrs**	**Long Credit**
AAA Rated	4.80%	3.50%	2.96%	2.92%
AA Rated	10.03%	10.30%	10.78%	11.00%
A Rated	41.40%	41.79%	40.76%	41.86%
BBB Rated	43.77%	44.42%	45.50%	44.23%



While we don't anticipate a wholesale shift from traditional market benchmarks or overlay management that are the mainstay of today's LDI playbook, we do believe it is worth discussing the fallbacks of the path well-trodden. Closed and frozen plans with recently improved funded status likely find themselves considering how to best protect their gains versus the liability. Given the historic flatness of the interest rate and credit curves, many of these plans have unknowingly benefitted from longer key rate exposure and a shorter Long Credit may very well have a role in their hedging solution.

Authors

Steve Mullin
Head of High-Grade Strategies

Steven Lucey
Portfolio Manager

Emma Maley
Investment Grade Portfolio Analyst

Disclaimer

This material is intended solely for Institutional Investors, Qualified Investors and Professional Investors. This analysis is not intended for distribution with Retail Investors.

This document has been prepared by MetLife Investment Management ("MIM")[1] solely for informational purposes and does not constitute a recommendation regarding any investments or the provision of any investment advice, or constitute or form part of any advertisement of, offer for sale or subscription of, solicitation or invitation of any offer or recommendation to purchase or subscribe for any securities or investment advisory services. The views expressed herein are solely those of MIM and do not necessarily reflect, nor are they necessarily consistent with, the views held by, or the forecasts utilized by, the entities within the MetLife enterprise that provide insurance products, annuities and employee benefit programs. The information and opinions presented or contained in this document are provided as of the date it was written. It should be understood that subsequent developments may materially affect the information contained in this document, which none of MIM, its affiliates, advisors or representatives are under an obligation to update, revise or affirm. It is not MIM's intention to provide, and you may not rely on this document as providing, a recommendation with respect to any particular investment strategy or investment. Affiliates of MIM may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned herein. This document may contain forward-looking statements, as well as predictions, projections and forecasts of the economy or economic trends of the markets, which are not necessarily indicative of the future. Any or all forward-looking statements, as well as those included in any other material discussed at the presentation, may turn out to be wrong.

All investments involve risks including the potential for loss of principle and past performance does not guarantee similar future results. Property is a specialist sector that may be less liquid and produce more volatile performance than an investment in other investment sectors. The value of capital and income will fluctuate as property values and rental income rise and fall. The valuation of property is generally a matter of the valuers' opinion rather than fact. The amount raised when a property is sold may be less than the valuation. Furthermore, certain investments in mortgages, real estate or non-publicly traded securities and private debt instruments have a limited number of potential purchasers and sellers. This factor may have the effect of limiting the availability of these investments for purchase and may also limit the ability to sell such investments at their fair market value in response to changes in the economy or the financial markets.

In the U.S. this document is communicated by **MetLife Investment Management, LLC (MIM, LLC)**, a U.S. Securities Exchange Commission registered investment adviser. MIM, LLC is a subsidiary of MetLife, Inc. and part of MetLife Investment Management. Registration with the SEC does not imply a certain level of skill or that the SEC has endorsed the investment advisor.

For investors in the UK, this document is being distributed by MetLife Investment Management Limited ("MIML"), authorised and regulated by the UK Financial Conduct Authority (FCA reference number 623761), registered address One Angel Lane 8th Floor London EC4R 3AB United Kingdom. This document is approved by MIML as a financial promotion for distribution in the UK. This document is only intended for, and may only be distributed to, investors in the UK who qualify as a "professional client" as defined under the Markets in Financial Instruments Directive (2014/65/EU), as per the retained EU law version of the same in the UK.

F**or investors in the Middle East**: This document is directed at and intended for institutional investors (as such term is defined in the various jurisdictions) only. The recipient of this document acknowledges that (1) no regulator or governmental authority in the Gulf Cooperation Council ("GCC") or the Middle East has reviewed or approved this document or the substance contained within it, (2) this document is not for general circulation in the GCC or the Middle East and is provided on a confidential basis to the addressee only, (3) MetLife Investment Management is not licensed or regulated by any regulatory or governmental authority in the Middle East or the GCC, and (4) this document does not constitute or form part of any investment advice or solicitation of investment products in the GCC or Middle East or in any jurisdiction in which the provision of investment advice or any solicitation would be unlawful under the securities laws of such jurisdiction (and this document is therefore not construed as such).

For investors in Japan: This document is being distributed by MetLife Asset Management Corp. (Japan) ("MAM"), 1-3 Kioicho, Chiyoda-ku, Tokyo 102-0094, Tokyo Garden Terrace KioiCho Kioi Tower, a registered Financial Instruments Business Operator ("FIBO") under the registration entry Director General of the Kanto Local Finance Bureau (FIBO) No. 2414, a regular member of the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association of Japan. As fees to be borne by investors vary depending upon circumstances such as products, services, investment period and market conditions, the total amount nor the calculation methods cannot be disclosed in advance. All investments involve risks including the potential for loss of principle and past performance does not guarantee similar future results. Investors should obtain and read the prospectus and/or document set forth in Article 37-3 of Financial Instruments and Exchange Act carefully before making the investments.

For Investors in Hong Kong S.A.R.: This document is being issued by MetLife Investments Asia Limited ("MIAL"), a part of MIM, and it has not been reviewed by the Securities and Futures Commission of Hong Kong ("SFC"). MIAL is licensed by the Securities and Futures Commission for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

For investors in Australia: This information is distributed by MIM LLC and is intended for "wholesale clients" as defined in section 761G of the Corporations Act 2001 (Cth) (the Act). MIM LLC exempt from the requirement to hold an Australian financial services license under the Act in respect of the financial services it provides to Australian clients. MIM LLC is regulated by the SEC under US law, which is different from Australian law.

MIMEL: For investors in the EEA, this document is being distributed by MetLife Investment Management Europe Limited ("MIMEL"), authorised and regulated by the Central Bank of Ireland (registered number: C451684), registered address 20 on Hatch, Lower Hatch Street, Dublin 2, Ireland. This document is approved by MIMEL as marketing communications for the purposes of the EU Directive 2014/65/EU on markets in financial instruments ("MiFID II"). Where MIMEL does not have an applicable cross-border licence, this document is only intended for, and may only be distributed on request to, investors in the EEA who qualify as a "professional client" as defined under MiFID II, as implemented in the relevant EEA jurisdiction. The investment strategies described herein are directly managed by delegate investment manager affiliates of MIMEL. Unless otherwise stated, none of the authors of this article, interviewees or referenced individuals are directly contracted with MIMEL or are regulated in Ireland. Unless otherwise stated, any industry awards referenced herein relate to the awards of affiliates of MIMEL and not to awards of MIMEL.

[1] MetLife Investment Management ("MIM") is MetLife, Inc.'s institutional management business and the marketing name for subsidiaries of MetLife that provide investment management services to MetLife's general account, separate accounts and/or unaffiliated/ third party investors, including: Metropolitan Life Insurance Company, MetLife Investment Management, LLC, MetLife Investment Management Limited, MetLife Investments Limited, MetLife Investments Asia Limited, MetLife Latin America Asesorias e Inversiones Limitada, MetLife Asset Management Corp. (Japan), and MIM I LLC, MetLife Investment Management Europe Limited and Affirmative Investment Management Partners Limited.

L0624041081[exp0625][All States]

MetLife Investment Management