

# The Aerospace Employees' Retirement Plan

## Frequently Asked Questions

As we move through these unprecedented times, you may have questions about AERP. It is important to know that the AERP employs a long-term strategic asset allocation process common to many pension plans. Short-term spikes in volatility do not alter the AERP's long-term strategy as it seeks to maximize returns within prudent levels of risk at the total portfolio level and not to rely on a single asset class.

The portfolio is invested in a diversified set of asset classes and strategies selected for long-term growth and capital preservation. In addition to assuring the ability to pay all benefits when due, this balanced approach seeks to preserve the inflation-adjusted purchasing power of plan benefits and maximize returns while taking reasonable and prudent levels of risk. The AERP's investment process employs long-term expectations of asset classes (return, risk and correlations) in setting its long-term strategic allocation.

Please know that the AERP is financially sound and will continue to pay all benefits when due, especially in these unique and challenging times.

### **How does AERP work?**

Under the AERP, you accrued both fixed benefits and variable benefits during your career. Your fixed benefit increases every year by a Cost of Living (COLA) adjustment of up to 2% every year (based on the consumer price index); the variable benefit (which is related to both the number of units you've earned during your career and the unit value) changes every year (up or down) depending upon the investment return on the AERP assets.

The variable unit value has increased more than 3% on an annualized basis since fiscal year 2009. (Note that benefits that increase during retirement through COLA or unit value increases are not common in corporate pensions plans and increase the value of your pension benefit.)

The AERP benefit structure was designed to both mitigate downside risk by providing a portion of the benefit that increases over time (via the fixed benefit) and to allow for growth potential albeit with some downside risk (via the variable benefit). The structure has worked as designed, with the average retiree seeing annualized growth of 3% - 4% in their benefit payments over time. There will be some fluctuation in benefit payments on a year over year basis due to the variable benefit.

The AERP unit value increases or decreases each year based on the return on assets in the variable benefit portfolio of the AERP trust (as of 9/30) in excess of or less than 4% (the hurdle rate). A hurdle rate in this range is a common feature of variable benefit plans of this nature.

## **How are AERP contributions for the company determined?**

The company is required to meet the ERISA minimum required contribution and seeks to contribute at a level where contributions are fully reimbursable.

## **How does the AERP value change when interest rates change?**

Interest rate fluctuations impact the value of AERP by affecting both the value of its liability, what is owed to participants, and its assets, what AERP owns. Generally speaking, the value of the plan's liability moves in the opposite direction of the interest rate changes. As interest rates rise, the discount rate used to value AERP's liability increases, which typically decreases the value of the liability. As part of the AERP asset allocation process, the benefits of having the assets be interest rate sensitive and move with the liabilities is taken into account. As the plan seeks to meet a variety of risk and return objectives, the asset portfolio does not match the liability moves on a 1 to 1 basis.

## **Who manages and is accountable for the performance of funds in the AERP?**

Per the AERP Plan Document, the Corporate Treasurer is responsible for asset allocation and investment strategy. NEPC, an independent investment consultant, assists with asset allocation, investment strategy, investment manager selection and performance monitoring. All asset allocation and investment strategy decisions are thoroughly evaluated by the Treasurer and Treasury staff. The Financial Advisory Panel (FAP), an independent advisory panel composed of outside investment experts, assists the Treasurer with best practice for ERISA plans of this size. The FAP was established by the Finance Committee of The Aerospace Corporation's Board of Trustees at its December 1985 meeting.

The AERP Committee (a board appointed committee) provides additional oversight for the administration of the plan and the investment management of the assets is satisfactory. The Treasurer periodically reports to the Finance and Strategic Planning Committee of the Board of Trustees. The Finance and Strategic Planning Committee monitors that the Treasurer is suitably performing his or her duties and responsibilities.

## **What funds do we have in the AERP?**

**The funds in the Plan as of May 31, 2020 are noted below, but are subject to change over time:**

### **Investment Manager**

#### **U.S. Equity**

BlackRock, Inc

Pzena Investment Management

### **Strategy**

S&P 500 Index Fund

U.S. Mid Cap Value Fund (active)

Northern Trust Asset Management	U.S. Extended Market Index Fund
Dimensional Fund Advisors	U.S. Small Cap Value Fund (quasi index)

### **International Equity**

Baillie Gifford Investment Management	Int'l Developed Market Growth Fund (active)
BlackRock, Inc	Int'l Developed Market Value Index Fund
Northern Trust Asset Management	Int'l Developed Market Index Fund
Dimensional Fund Advisors	Int'l Emerging Markets Fund (quasi index)

### **Fixed Income**

Pacific Investment Management Co. (PIMCO)	U.S. Intermediate Duration Fund (active)
BlackRock, Inc	U.S. Intermediate Duration Index Fund
Fidelity Investments	Global Multi-Credit Fund (active)
Northern Trust Asset Management	U.S. Short Duration Index Fund
NISA Investment Advisors	U.S. Long Duration (active)

### **Real Estate**

Morgan Stanley Investment Management	Prime Property Fund (active)
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### **Cash**

Northern Trust Asset Management	Collective Short-Term Investment Fund
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## **How do the investment returns for AERP compare with appropriate benchmarks, what are the benchmarks used and what is the current allocation?**

Beyond standard comparisons of specific fund performance against similar investments (e.g. Large Cap Funds), overall performance is also compared against other corporate pension plans. We also look at the variable unit value over time against inflation.

The investment results fluctuate above or below benchmark each year but tend to average out over longer periods. The AERP plan employs only conventional asset classes, including U.S. equities, international equities, fixed income and real estate. Both passive and active investment strategies are used.

The current asset allocation targets or benchmark for the AERP's Variable component have been in place since FY2016 and are:

- 51% Equity
  - 31% U.S. Equity
  - 20% International Equity
- 44% Fixed Income
- 5% Real Estate

The AERP's investment process employs long-term expectations of asset classes (return, risk and correlations) in setting its long-term strategic allocation. AERP's diversified asset allocation seeks to maximize returns within prudent levels of risk at a total portfolio level and not to rely on a single asset class.

### **Why doesn't the AERP's variable benefit portfolio return track closer to the S&P 500?**

The AERP's variable benefit portfolio invests in much more than just the S&P 500. As stated above, the AERP invests in multiple asset classes to create a diversified portfolio. The S&P 500 is a passive investment strategy comprising a single asset class - large cap U.S. equities. While the AERP invests in large cap U.S. equities, it also invests in mid cap and small cap U.S. equities. International equities, fixed income and real estate are also components of the diversified portfolio and both passive and active investment strategies are used.

### **Where can I find more information about AERP?**

Active Employees: Documents regarding AERP can be found at [info.aero.org](http://info.aero.org) Go to Services, Benefits, Retirement, AERP

Retired Employees: Documents can be found at [retirees.aerospace.org](http://retirees.aerospace.org)

