

Index	Estimated Weights %	Total Return		
		QTD %	YTD %	Last 12 Months %
Ryan Labs Cash	5	0.09	0.52	0.78
Lehman Aggregate	30	1.79	7.62	11.60
S&P 500	60	4.03	24.05	25.37
MSCI EAFE Int'l	5	0.76	30.56	38.42
Asset Allocation Model	100	3.27	18.82	21.26
Ryan Labs Liability (PPA)	100	-3.76	12.80	35.08
Assets – Liabilities (PPA)		7.03	6.02	-13.82
Ryan Labs Liability (FAS158)	100	2.03	14.71	34.67
Assets – Liabilities (FAS 158)		1.24	4.11	-13.41
Ryan Labs Liability (TSY)	100	-0.37	-15.11	-4.60
Assets – Liabilities (TSY)		3.64	33.93	25.86

Pension Protection Act (PPA) liabilities have returned 12.80% year-to-date as of 11/30/2009. The 2009 liability rally has been a significant issue for plan sponsors, especially for those that have not hedged the interest rate risk associated with the PPA yield curve. While assets have had strong YTD returns, it has only been this month that assets have begun to outperform the YTD liability return. The result is that plan funding ratios have only improved modestly over 2008 year end funding ratios, whereby the typical plan has a funded ratio of 70.57% as of November 30, 2009, up 3.58% from a year ago.

The typical U.S. pension portfolio, estimated at 65% equities and 35% fixed income, posted an 18.82% return year-to-date as of 11/30/2009. As we approach the end of the year, the S&P has continued its YTD rally. While liability returns have begun to show signs of leveling, trailing 12 month liability returns of 35.08% have been significant benchmarks to overcome.

Having seen 10-year AA credit rally by 13.32% this year and 10-year BBB credit rally by 30.29% this year, a tactical approach to Liability Driven Investing has gained popularity by plan sponsors heading into 2010. This is based on the theme that interest rates are currently too low to fully implement an LDI strategy. While a tactical approach (i.e., extending duration over a period of time) represents an improvement from a shorter duration benchmark, the premise that this decision is based on, “interest rates will rise,” should be analyzed.

Bloomberg News’ survey of 10-year Treasury yields forecast. Of the 62 economists that submitted their 2008 year end forecast, not a single economist guessed within 100 bps of where the 10-year would end. The lowest forecast was 3.35%, and the 10-year ended 2008 at 2.25%. The GS 2010 Investment Grade Credit Outlook forecasts credit yields continuing to fall “at least through the first quarter.” Additionally, Japan’s experience with zero interest rates has lasted more than a decade, oscillating +/-100 bps.

Historically, economists, analysts, and other interest rate forecasters have had a great degree of difficulty with achieving accuracy. Plan sponsors analyzing a tactical approach should examine the risk reward in an accounting cycle, and the impact if the trade does not develop during this cycle. Strategically hedging short, intermediate and long liabilities provides an insurance policy for the plan if the trade does not develop as foreseen. The end result is that the positive and negative implications of a tactical versus strategic approach towards LDI should be analyzed and quantified for each plan sponsor based on their balance sheet capacity to take on risk.

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**Ryan Labs Pension Protection Act Equal Weighted Index
(RL PPA Corp A to AAA Index)**

	Estimated Weights%	YTW¹ %	MDuration (Years)	YTD Returns %	Last 12 Month Returns %
2 Year Corporate	25	1.88	1.99	10.2	12.89
5 Year Corporate	25	3.37	4.41	13.27	19.02
10 Year Corporate	25	4.77	6.94	10.89	20.71
30 Year Corporate	25	5.77	12.80	9.91	28.88
RL PPA Index ²	100	4.68	15.88	12.80	35.08

**Ryan Labs FAS 158 Pension Protection Expense Equal Weighted Index
(RL FAS 158 Corp AA to AAA Index)**

	Estimated Weights%	YTW¹ %	MDuration (Years)	YTD Returns %	Last 12 Month Returns %
2 Year Corporate	25	1.88	1.92	7.03	9.46
5 Year Corporate	25	3.09	4.32	10.62	15.77
10 Year Corporate	25	4.46	7.36	2.42	12.23
30 Year Corporate	25	5.93	12.80	3.59	21.27
RL FAS158 Index ²	100	4.35	15.53	14.71	34.67

1. *Effective Annualized Yield to Worst*
2. *Equal Weighted Index*

Index	Weights	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	Nov'09
Ryan Labs Cash	5%	5.48	4.24	6.49	4.97	1.75	1.04	1.22	3.17	4.89	5.22	2.61	0.52
Lehman Aggregate	30%	8.69	-0.82	11.63	8.44	10.25	4.10	4.34	2.43	4.33	6.96	5.24	7.62
S&P 500	60%	28.55	21.03	-9.09	-11.86	-22.08	28.69	10.87	4.89	15.81	5.50	-37.01	24.05
MSCI EAFE Int'l	5%	20.24	27.32	-13.87	-21.11	-15.64	39.17	20.70	14.02	26.87	11.62	-43.06	30.56
Asset Allocation Model	100%	21.41	13.72	-2.50	-5.42	-13.49	20.04	8.93	4.61	12.26	6.35	-24.49	18.82
RL PPA Liability			-12.68	11.74	14.03	26.29	6.38	9.38	4.50	1.74	3.78	-0.71	12.80
Return Difference			26.40	-14.24	-19.45	-39.78	13.67	-0.45	0.11	10.51	2.58	-23.78	6.02
Funding Ratio (RL PPA)			139.67	121.87	101.09	69.24	78.14	77.82	77.90	85.95	88.08	66.99	70.57
Liabilities (TSY)	100%	16.42	-12.02	26.56	3.20	18.78	2.25	10.25	10.64	1.46	9.81	33.58	-15.11
Return Difference			4.98	25.74	-29.06	-8.61	-32.27	17.80	-1.32	-6.03	10.79	-3.46	-58.07
Funding Ratio (Economic)			107.26	138.65	106.81	97.90	71.30	83.71	82.71	78.20	86.52	83.79	47.37

Assumptions: Pension plan is fully funded on January 1, 1997 on Treasury valuation basis.

Normal costs = annual contributions

No benefit enhancements

Assets portfolio rebalanced monthly

The material presented and calculated here is based on information considered reliable. Ryan Labs does not represent that it is accurate or complete.

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