RYAN LABS ASSET MANAGEMENT

ASSET/LIABILITY WATCH

JANUARY 31, 2010

Index	Estimated Weights %	Total Return QTD %	Total Return YTD %	Total Return Last 12 Months %
Ryan Labs Cash	5	0.07	0.07	0.59
Lehman Aggregate	30	1.28	1.28	8.07
S&P 500	60	-3.60	-3.60	33.12
MSCI EAFE Int'l	5	-4.40	-4.40	40.38
Asset Allocation Model	100	-1.99	-1.99	24.21
Ryan Labs Liability (PPA)	100	1.97	1.97	26.30
Assets – Liabilities (PPA)		-3.96	-3.96	-2.09
Ryan Labs Liability (FAS158)	100	1.27	1.27	17.58
Assets – Liabilities (FAS 158)		-3.26	-3.26	6.64
Ryan Labs Liability (TSY)	100	3.01	3.01	-6.67
Assets – Liabilities (TSY)		-5.01	-5.01	30.88

PPA Liabilities continued to climb in the first month of 2010, returning 1.97% year-to-date as of 1/31/2010. Most of the dramatic return over the last 12 months was caused by the substantial tightening in corporate bond spreads, while a flattening yield curve in January caused further liability increases. After risk assets across the board posted impressive rallies over the last 12 months, the S&P 500 gave back almost 4% in January, although PPA liabilities continued their ascent.

The average U.S. pension portfolio in America, estimated at 65% equities and 35% fixed income, posted a –1.99% return for January 2010. However, over the past 12 months assets have climbed by 24.21%. Domestic equities were up 33.12% over the last 12 months while international equities have risen more 40.38% over the same time period. January was less kind. Domestic equities declined 3.60% for January, while international equity returns, as measured by the MSCI EAFE, fared even worse, losing –4.40%. Funding on a PPA basis deteriorated to 73.87%. Despite the impressive performance over the past 12 months of most pension plan assets, funding difficulties will continue to strain corporate cash flows across America.

With many asset classes posting such sharp rallies over the past 12 months, it has become exceptionally difficult to figure out the asset allocation puzzle. From an asset liability perspective, taking some gains off of the table and hedging out tail risk inherent in the funded status appears prudent. However, many plan sponsors' risk tolerances and risk taking ability do not reconcile. With more stringent funding rules taking hold, at-risk plans will be forced to contribute. Can plan sponsors afford the dollar volatility currently inherent in their funded status?

A common theme in the institutional community continues to be inflation and the timing of interest rates. At this juncture, inflation should be a far lower concern to sponsors with accrued liabilities. Rather, a double-dip in assets, a flattening yield curve, or other unforeseen idiosyncratic risks should be the cause for concern. If inflation comes back in a strong manner, the potential for higher discount rates will make present values of liabilities lower. In other words, most plan sponsors—with shorter assets than liabilities– are already very long a rising rate environment from an asset liability framework.

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Ryan Labs Pension Protection Act Equal Weighted Index (RL PPA Corp A to AAA Index)					
	Estimated Weights%	YTW[1] %	MDuration (Years)	YTD Returns %	Last 12 Month Returns %
2 Year Corporate	25	1.77	1.96	0.94	9.33
5 Year Corporate	25	3.47	4.33	1.67	13.57
10 Year Corporate	25	4.90	6.94	1.62	14.60
30 Year Corporate	25	5.95	12.62	0.96	16.04
RL PPA Index[2]	100	4.61	15.53	1.97	26.30

Ryan Labs FAS 158 Pension Protection Expense Equal Weighted Index (RL FAS 158 Corp AA to AAA Index)					
	Estimated Weights%	YTW[1] %	MDuration (Years)	YTD Returns %	Last 12 Month Returns %
2 Year Corporate	25	1.79	1.97	0.76	6.49
5 Year Corporate	25	3.20	4.21	1.71	10.18
10 Year Corporate	25	4.74	7.54	1.83	8.22
30 Year Corporate	25	6.05	12.69	0.82	16.33
RL FAS158 Index[2]	100	4.46	15.25	1.27	17.58

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

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Index	Weights	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	Jan'10
Ryan Labs Cash	**5%**	4.74	6.57	5.01	1.92	1.19	1.27	3.17	4.89	5.22	3.01	0.51	0.07
Lehman Aggregate	**30%**	-0.82	11.63	8.44	10.25	4.10	4.34	2.43	4.33	6.96	5.24	5.94	1.28
S&P 500	**60%**	21.04	-9.10	-11.89	-25.15	28.68	10.88	4.91	15.79	5.50	-37.01	26.45	-3.60
MSCI EAFE Int'l	**5%**	27.32	-13.87	-21.11	-15.64	39.17	20.70	14.02	26.87	11.62	-43.06	32.45	-4.40
Asset Allocation Model	**100%**	13.72	-2.50	-5.42	-13.49	20.04	8.93	4.61	12.25	6.35	-24.49	19.43	-1.99
RL PPA Liability		-14.21	11.80	14.39	27.91	6.56	10.06	4.32	1.23	3.54	5.03	15.56	1.97
Return Difference		27.93	-14.30	-19.81	-41.40	13.48	-1.13	0.29	11.02	2.82	-29.52	3.87	-3.96
Funding Ratio (RL PPA)		**166.57**	**145.26**	**120.11**	**81.23**	**91.50**	**90.56**	**90.81**	**100.69**	**103.44**	**74.37**	**76.86**	**73.87**
Liabilities (TSY)	**100%**	-12.02	26.56	3.20	18.78	2.25	10.25	10.64	1.46	11.29	33.53	-20.72	3.01
Return Difference		25.74	-29.06	-8.61	-32.27	17.80	-1.32	-6.03	10.79	-4.93	-58.02	40.16	-5.01
Funding Ratio (Economic)		**119.86**	**92.34**	**84.64**	**61.64**	**72.37**	**71.51**	**67.61**	**74.80**	**71.48**	**40.42**	**60.90**	**57.94**

Notes: RL PPA liability curve is the spot curve of the replication of IRS PPA curve (US credit A to AAA).
RL Treasury liability curve is the proxy for economic liabilities.

Assumptions :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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