

Index	Estimated Weights %	Total Return		
		QTD %	YTD %	Last 12 Months %
Ryan Labs Cash	5	0.01	0.10	0.42
Lehman Aggregate	30	1.04	2.84	8.34
S&P 500	60	1.58	7.05	38.83
MSCI EAFE Int'l	5	-1.73	-0.81	35.02
Asset Allocation Model	100	0.31	4.20	25.84
Ryan Labs Liability (PPA)	100	3.57	5.14	26.08
Assets – Liabilities (PPA)		-3.25	-0.94	-0.25
Ryan Labs Liability (FAS158)	100	4.39	5.97	23.38
Assets – Liabilities (FAS 158)		-4.07	-1.77	2.46
Ryan Labs Liability (TSY)	100	4.03	3.46	-5.04
Assets – Liabilities (TSY)		-3.72	0.74	30.87

PPA Liabilities skyrocketed in April leading to a year-to-date return of 5.14% through the first four months of 2010. Liabilities are still at much higher valuation levels compared with 12 months earlier due to the rapid compression of corporate bond spreads over the past year. With a tremendous rally across asset classes, plan sponsors are hoping the world has returned to “normal” rather than the “new normal”.

The average U.S. pension portfolio in America, estimated at 65% equities and 35% fixed income, has returned 4.20% so far this year, ending in April 2010. The average pension asset portfolio returned 25.84% over the last 12 months as the U.S. economy continues to show signs of improvement.. Domestic equities returned 38.83% over the last 12 months while international equities have returned 35.02% over the same time period. For the year, domestic equity returns were 7.05% as of 4/30/2010 while international equity returns, as measured by the MSCI EAFE, fared worse, losing –0.81%. Funding on a PPA basis ended February at 77.18 %. Funding has improved substantially over the past 12 months but plans still find themselves in a substantial deficit.

Pension plans may be in striking distance across the country and are looking for a way to get to a more neutral risk position. While funding has been substantially repaired compared with a year ago, plans still find themselves with negative leverage, demonstrating the need for more substantial contributions. While the positive leverage put on by alternative investors, banks, and other levered entities is a familiar topic, the negative leverage present in underfunded pensions rarely is mentioned. For example, if one has a dollar of liabilities, and only 50 cents in assets, the portfolio must return double the liability increase just to maintain their current dollar level of underfunding over a given time period. Continuing with the oversimplified example, if your 50 cent portfolio returns 10% for the year, but your liabilities carry a 5% yield, you did nothing to reduce the dollar deficit. Rather, that dollar deficit remained at 50 cents ($\$1.00 \times 5\% \text{ yield} = \1.05 in liabilities one year out; $\$0.50 \times 10\% \text{ return} = 0.55$ cents in assets, one year out).

Without considering the volatility of the liabilities, the asset allocation to neutralize risk is likely to be misguided. There is not necessarily a need to abandon the risk/reward tradeoff that high equity or alternatives allocation brings. By more effectively optimizing your fixed income portfolio alone, you can begin the process of de-risking your funding position. Downside risk continues to loom.

REGISTERED INVESTMENT ADVISOR

**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	1.75	1.89	1.64	8.70
5 Year Corporate	25	3.53	4.42	3.13	14.39
10 Year Corporate	25	4.77	6.93	3.63	18.75
30 Year Corporate	25	5.75	12.80	4.72	24.26
RL PPA Index ²	100	4.31	16.51	5.14	26.08

**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	1.65	2.00	1.80	8.07
5 Year Corporate	25	3.09	4.32	3.75	13.10
10 Year Corporate	25	4.37	7.40	5.09	15.79
30 Year Corporate	25	5.76	12.97	5.95	30.06
RL FAS158 Index ²	100	4.07	16.56	5.97	23.38

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

Index	Weights	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	Apr'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	0.10
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	2.84
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	7.05
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	-0.81
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	4.20
RL PPA Liability		-14.21	11.80	14.39	27.91	6.56	10.06	4.32	1.23	3.54	3.97	19.20	5.14
Return Difference		27.93	-14.30	-19.81	-41.40	13.48	-1.13	0.29	11.02	2.82	-28.46	0.23	-0.94
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	77.18
Liabilities (TSY)	100%	-12.02	26.56	3.20	18.78	2.25	10.25	10.64	1.46	11.29	59.13	-34.30	3.46
Return Difference		25.74	-29.06	-8.61	-32.27	17.80	-1.32	-6.03	10.79	-4.93	-83.02	53.73	0.74
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	67.78

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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