

Index	Estimated Weights %	Total Return		
		QTD %	YTD %	Last 12 Months %
Ryan Labs Cash	5	0.05	0.24	0.43
Lehman Aggregate	30	1.00	6.39	8.84
S&P 500	60	7.01	-0.13	13.82
MSCI EAFE Int'l	5	9.42	-4.73	6.65
Asset Allocation Model	100	4.98	1.84	11.62
Ryan Labs Liability (PPA)	100	2.23	12.91	17.76
Assets – Liabilities (PPA)		2.75	-11.07	-6.14
Ryan Labs Liability (FAS158)	100	0.76	12.74	16.57
Assets – Liabilities (FAS 158)		4.22	-10.90	-4.95
Ryan Labs Liability (TSY)	100	-0.71	16.90	11.79
Assets – Liabilities (TSY)		5.69	-15.06	-0.17

PPA liabilities gained another 2.23% in the month of July to finish with a YTD return of 12.91%. However, assets were able to outperform liabilities for the month, returning 4.98%. While the start of the 3rd Quarter shows a slight improvement of asset performance versus liabilities, 2010 continues to be a difficult year for domestic defined benefit pension plans.

The average U.S. pension portfolio in America, estimated at 65% equities and 35% fixed income, has returned 1.84% YTD through July 31, 2010. The average pension asset portfolio returned 11.62% over the last 12 months. Over this same time period, liabilities have rallied 12.91% YTD, and the trailing 12 months have seen liabilities on a PPA basis rise by 17.76%. Funding on a YTD PPA basis ended June at 70.23, up from the June month-end funding ratio of 68.40%.

With the PPA yield curve below 4.00%, the question of “is now the right time extend duration?” has become common in board rooms across the country. What should be noted is that the yield curve itself is steep, whereby as of July 31, 2010, the Ryan Labs 2-year Treasury Index is yielding .55%, the RL 10-year is at 2.91%, and the RL 30-year is yielding 3.98%. This difference of 343 basis points is above the historical average for 2 to 30 year spreads. Just because interest rates are expected to rise, doesn’t mean they will. A bear steepening, where short-yields rise and long rates stay flat or decline, is not outside of the realm of possibility.

Rather than try to predict where interest rates are going to be, a plan sponsor should base their decision to extend fixed income duration from the perspective of enterprise risk management. The most important question that a plan sponsor should know the answer to before making a tactical decision is “Can the plan sponsor financials support levels of surplus volatility that exist with a short duration strategy?” While it is easy to look at domestic pension liabilities and interest rates solely in the context of U.S. data, the 2nd largest industrial nation may provide a differing point of view and additional insight. The Japanese Government Bond (JGB) 10-year yield recently fell below 1% for the first time in 7 years. With global growth and inflation expectations on the decline, the JGB 10-year may continue to fall. These same economic pressures may prove to show that domestic yields can continue to tighten.

Trying to guess the direction of interest rates in the context of pension investing can prove to have significant negative impacts on a plan sponsor when the balance sheet cannot support the level of risk associated with this practice. Framing the question in the context of the impact of surplus volatility on the plan sponsor’s financials, rather than when and will interest rates rise, becomes a more prudent approach to investment decision making.

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

	<b>Estimated Weights%</b>	<b>YTW<sup>1</sup> %</b>	<b>MDuration (Years)</b>	<b>YTD Returns %</b>	<b>Last 12 Month Returns %</b>
2 Year Corporate	25	1.45	1.88	2.83	5.55
5 Year Corporate	25	3.02	4.48	7.08	11.22
10 Year Corporate	25	4.15	7.15	9.48	13.43
30 Year Corporate	25	5.34	13.11	11.56	14.57
RL PPA Index <sup>2</sup>	100	3.99	17.17	12.91	17.76

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

	<b>Estimated Weights%</b>	<b>YTW<sup>1</sup> %</b>	<b>MDuration (Years)</b>	<b>YTD Returns %</b>	<b>Last 12 Month Returns %</b>
2 Year Corporate	25	1.21	1.91	2.83	5.60
5 Year Corporate	25	2.60	4.31	7.11	10.84
10 Year Corporate	25	3.73	7.42	10.99	13.87
30 Year Corporate	25	5.42	13.18	11.68	16.71
RL FAS158 Index <sup>2</sup>	100	3.76	17.02	12.74	16.57

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

Index	Weights	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	07/'10
Ryan Labs Cash	5%	6.57	5.01	1.92	1.19	1.27	3.17	4.89	5.22	3.01	0.51	0.24
Lehman Aggregate	30%	11.63	8.44	10.25	4.10	4.34	2.43	4.33	6.96	5.24	5.94	6.39
S&P 500	60%	-9.10	-11.89	-25.15	28.68	10.88	4.91	15.79	5.50	-37.01	26.45	-0.13
MSCI EAFE Int'l	5%	-13.87	-21.11	-15.64	39.17	20.70	14.02	26.87	11.62	-43.06	32.45	-4.73
Asset Allocation Model	100%	-2.50	-5.42	-13.49	20.04	8.93	4.61	12.25	6.35	-24.49	19.43	1.84
RL PPA Liability		11.79	14.39	27.91	6.59	10.06	4.77	1.18	2.32	3.97	19.21	12.91
Return Difference		-14.29	-19.81	-41.40	13.45	-1.13	0.17	11.07	4.03	-28.46	0.22	-11.07
Funding Ratio (RL PPA)		149.13	123.31	83.40	93.92	92.95	92.80	102.96	107.01	77.72	77.87	70.23
Liabilities (TSY)	100%	26.56	3.63	17.36	1.04	11.40	12.23	0.17	11.53	59.13	-34.30	16.90
Return Difference		-28.79	-9.04	-30.86	19.01	-2.47	-7.62	12.08	-5.17	-83.62	53.74	-15.06
Funding Ratio (Economic)		100.20	91.46	67.41	80.09	78.32	73.00	81.80	78.01	37.02	67.29	58.62

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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