

Index	Estimated Weights %	Total Return		
		QTD %	YTD %	Last 12 Months %
Ryan Labs Cash	5	0.03	0.39	0.39
Barclays Aggregate Index	30	1.12	7.84	7.84
S&P 500	60	11.81	2.12	2.12
MSCI EAFE Int'l	5	3.37	-12.19	-12.19
Asset Allocation Model	100	7.60	3.26	3.26
Ryan Labs Liability (PPA)	100	5.42	21.13	21.13
Assets – Liabilities (PPA)		2.18	-17.87	-17.87
Ryan Labs Liability (FAS158)	100	2.89	22.48	22.48
Assets – Liabilities (FAS 158)		4.71	-19.22	-19.22
Ryan Labs Liability (TSY)	100	1.88	31.08	31.08
Assets – Liabilities (TSY)		5.72	-27.82	-27.82

As 2011 wound down, the markets caught a year-end tailwind and rallied hard. The S&P had a monster quarter, finishing up 11.81%. Equities across the board performed strongly, and the Ryan Labs traditional Asset Allocation Model finished up 7.60%. The 4th Quarter was certainly a strong one for equities. However, the 4th Quarter was strong for liabilities also, as rates continued to tighten.

For the 4th Quarter, RL PPA liabilities finished up 5.42%, and in December alone, the return was 6.57%. For the year, RL PPA liabilities were up 21.13%. The RL Asset Allocation Model returned 3.26% for the year, underperforming PPA liabilities by -17.87%. The model underperformed RL FAS liabilities by 19.22%, and underperformed RL Treasury liabilities by -27.82%.

The underperformance of assets versus liabilities saw pension funding levels take significant hits. RL PPA funding declined year-over-year by 11.37%, from 77.05% to 65.68%. On a Treasury valuation, funding levels declined from 67.22% to 52.95%, a 14.27% decline. Since we began tracking RL PPA returns, only the tech bubble bursting in '01/'02 and the credit crisis of 2008 were worse years for pension funding levels.

Rewinding to the beginning of the year, 2011 started with many people sharing the perspective that it would be a horrible year for fixed income. Interest rates would have to rise, long duration strategies were a horrible idea, Treasuries were the worst investment possible, and liability driven investing/pension risk management strategies were items that should not even be considered on the pension agenda. At the end of 2011, we are now looking back at the 4th significant funding decline since 2000 for a pension plan with a traditional asset-only investment framework.

The new year brings new beginnings. While there have been increases in the amount of ERISA plan sponsors implementing LDI strategies since the Pension Protection Act went into effect on January 1, 2008, there are still many others that have yet to assess and quantify the risk that the left tail poses to their pension plan and enterprise. With the start of 2012, plan sponsors have a new opportunity to analyze pension risk and determine whether LDI can play a role in reducing left-tail risk to enterprise. It also serves as an opportune time to revisit what LDI is, and what it is not.

LDI does not have a one size fits all solution., or 100% of your assets in a long duration fixed income portfolio. LDI does not have to be all or nothing. LDI is a customized approach to managing a pension plan's fixed income portfolio that is cognizant of the impact that liability risk has on the entire enterprise. It links the assets to the liabilities, while reducing key funding risks to pension plans and their sponsors. There are tactical ways to implement a risk management strategy for all funding levels, in all interest rate environments. For the fourth time in eleven years, we have seen an asset-only approach fail plan sponsors. The question now is, will it be five times in twelve years?

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	1.85	1.61	1.61
5 Year Corporate	25	2.98	4.63	4.71	4.71
10 Year Corporate	25	3.62	7.75	9.76	9.76
30 Year Corporate	25	4.63	13.73	16.55	16.55
RL PPA Index ²	100	3.83	15.26	21.13	21.13

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	0.99	1.76	2.19	2.19
5 Year Corporate	25	1.98	4.48	6.79	6.79
10 Year Corporate	25	3.20	7.66	12.68	12.68
30 Year Corporate	25	4.52	13.80	17.07	17.07
RL FAS158 Index ²	100	2.99	16.25	22.48	22.48

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

Index	Weights	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	12/'11
Ryan Labs Cash	5%	6.57	5.01	1.92	1.19	1.27	3.17	4.89	5.22	3.01	0.51	0.35	0.39
Barclays Aggregate	30%	11.63	8.44	10.25	4.10	4.34	2.43	4.33	6.96	5.24	5.94	6.54	7.84
S&P 500	60%	-9.10	-11.89	-25.15	28.68	10.88	4.91	15.79	5.50	-37.01	26.45	15.06	2.12
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	8.14	-12.19
Asset Allocation Model	100%	-2.50	-5.42	-13.49	20.04	8.93	4.61	12.25	6.35	-24.49	19.43	11.87	3.26
RL PPA Liability		7.72	15.40	24.17	7.30	11.22	5.95	2.36	2.39	10.44	6.34	13.73	21.13
Return Difference		-10.22	-20.82	-37.66	12.74	-2.29	-1.34	9.89	3.96	-34.93	13.10	-1.86	-17.87
Funding Ratio (RL PPA)		144.98	118.83	82.78	92.61	90.70	89.55	98.20	102.00	69.74	78.33	77.05	65.68
Liabilities (TSY)	100%	23.91	3.91	16.73	1.57	9.96	10.08	0.85	10.81	42.48	-25.71	9.41	31.08
Return Difference		-26.41	-9.33	-30.22	18.47	-1.03	-5.47	11.40	-4.46	-66.97	45.14	2.46	-27.82
Funding Ratio (Economic)		96.23	87.60	64.92	76.72	76.00	72.23	80.39	77.16	40.89	65.74	67.22	52.95

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

We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. This material

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