RYAN LABS ASSET MANAGEMENT

ASSET/LIABILITY WATCH

DECEMBER 31, 2012

Index	Estimated Weights %	Total Return		
		QTD %	YTD %	Last 12 Months %
Ryan Labs Cash	5	0.06	0.18	0.18
Barclays Aggregate Index	30	0.22	4.22	4.22
S&P 500	60	-1.01	13.41	13.41
MSCI EAFE Int'l	5	6.61	17.92	17.92
Asset Allocation Model	100	-0.13	11.08	11.08
Ryan Labs Liability (PPA)	100	-1.24	8.99	8.99
Assets – Liabilities (PPA)		1.11	2.09	2.09
Ryan Labs Liability (FAS158)	100	-3.32	10.47	10.47
Assets – Liabilities (FAS 158)		3.19	0.62	0.62
Ryan Labs Liability (TSY)	100	-1.09	2.81	2.81
Assets – Liabilities (TSY)		0.96	8.27	8.27

Happy New Year from all of us at Ryan Labs Asset Management. We wish you all a great 2013, fueled by lower liabilities and higher assets. 2012 ended with the 30 year Treasury at 2.95%, while the RL PPA Yield finished 2012 at 3.22%. The 30-year started the year at 2.98%, closing the year down by only 3 bps. The RL PPA Yield started 2012 at 3.79% and closed down 55 bps. The high for the year was 3.86% and the low for the year was 3.08%. When looking at the 30 year beginning and ending year yields, it does not seem that there was much volatility. However, the high yield for the 30-year during 2012 was 3.48%. The low yield for the 30-year was 2.46%. 102 basis points from peak to trough.

2012 pension funding improved, as tracked by the RL Asset/Liability Watch. Up 1%, pension funding improved from 66% at the end of 2011 to 67% at the end of 2012. With the model asset allocation having a strong year, up 11.08%, outperforming a typical ROA of 7.5% by 358 bps and the RL PPA return of +8.99% by 209 basis points, one might expect a more positive increase in funding. However, the negative leverage associated with a 67% funding ratio at the start of the year does not provide a fair fight for assets over liabilities. At this pace, it will be a long time before pension plans return to fully funded if the plan is relying on the hope of strong asset returns over the next 10 to 20 years.

Volatility brings with it opportunity. The lesson that the 30 year Treasury reminded us of in 2012 is that within periods of flat interest rates, the daily, weekly, and monthly volatility of rates provides an opportunity for plan sponsors to take advantage of as they move along their glide path. As A/L Watch tracks assets and liabilities monthly and quarterly, plan sponsors can look to do the same to know when it is time to further decrease risk.

Since MAP-21 and 24-month PPA segments are detached from the fixed income markets, and actuarial reports only come out once a year, plan sponsors that rely on these reports for glide path triggers are not relying on timely information that accurately reflects what the market realities are. Looking at your asset and liability valuations, tracking interest rates, and tracking performance portfolio returns in tandem, on a monthly basis can assist in taking advantage of intra-year volatility in the bond markets.

As we make our way out of the starting gates of 2013, the only certainty we have is that there is no certainty in the markets. We do not know if the RL PPA yield will finish 2013 another 55 basis points lower or higher than where we started this year. We do not know if there will be intra-year swings of +/- 100 bps or more over the course of the next 12 months. We do not know if the equity markets will have another strong year. We do not know if there will be any domestic, geopolitical, or other unforeseen events occurring in 2013. However, amidst all of this uncertainty, what we do know is that plan sponsors who have a strategy in place for when these events do occur are setting themselves up for a higher level of success than those that maintain a set it and forget it approach to asset allocation. If rates go up, if equities rally, if the performance portfolio does its job, if contributions come in, derisking the plan in a mark-to-market framework can assist in reducing pension volatility and the probability that the next ten years look like the last ten years.

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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	0.82	1.97	3.25	3.25
5 Year Corporate	25	1.69	4.69	8.25	8.25
10 Year Corporate	25	2.70	7.86	9.15	9.15
30 Year Corporate	25	4.13	14.38	10.99	10.99
RL PPA Index[2]	100	3.22	15.19	8.99	8.99

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	0.55	1.91	1.72	1.72
5 Year Corporate	25	1.33	4.60	5.49	5.49
10 Year Corporate	25	2.50	8.12	6.65	6.65
30 Year Corporate	25	3.79	15.12	8.59	8.59
RL FAS158 Index[2]	100	2.93	15.79	17.19	17.19

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

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Index	Weights	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	12/'12
Ryan Labs Cash	**5%**	7	5	2	1	1	3	5	5	3	1	0	0	0
Barclays Aggregate	**30%**	12	8	10	4	4	2	4	7	5	6	7	8	4
S&P 500	**60%**	-9	-12	-25	29	11	5	16	5	-37	26	15	2	13
MSCI EAFE Int'l	**5%**	-14	-21	-16	39	21	14	27	12	-43	32	8	-12	18
Asset Allocation Model	**100%**	-2	-5	-13	20	9	5	12	6	-24	19	12	3	11
RL PPA Liability		8	15	24	7	11	6	2	2	10	6	14	21	9
Return Difference		-10	-21	-38	13	-2	-1	10	4	-35	13	-2	-18	2
Funding Ratio (RL PPA)		**145**	**119**	**83**	**93**	**91**	**90**	**98**	**102**	**70**	**78**	**77**	**66**	**67**
Liabilities (TSY)	**100%**	24	4	17	2	10	10	1	11	42	-26	9	31	3
Return Difference		-26	-9	-30	18	-1	-5	11	-4	-67	45	2	-28	8
Funding Ratio (Economic)		**96**	**88**	**65**	**77**	**76**	**72**	**80**	**77**	**41**	**66**	**67**	**53**	**57**

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 has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, accounting, legal or tax advice.

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