RYAN LABS
ASSET MANAGEMENT

ASSET/LIABILITY WATCH

JUNE 30, 2013

Index	Estimated Weights %	Total Return		
		QTD %	YTD %	Last 12 Months %
Ryan Labs Cash	5	0.06	0.10	0.23
Barclays Aggregate Index	30	-2.33	-2.44	-0.69
S&P 500	60	2.36	12.63	17.92
MSCI EAFE Int'l	5	-0.74	4.47	19.15
Asset Allocation Model	100	0.85	7.03	11.46
Ryan Labs Liability (PPA)	100	-6.70	-9.28	-4.48
Assets – Liabilities (PPA)		7.55	16.32	15.94
Ryan Labs Liability (FAS158)	100	-8.01	-10.10	-8.84
Assets – Liabilities (FAS 158)		8.86	17.13	20.30
Ryan Labs Liability (TSY)	100	-6.14	-9.24	-10.49
Assets – Liabilities (TSY)		6.98	16.27	21.95

Over the past five years, like a playlist on repeat, Asset/Liability Watch has been reporting a downward trend in pension funding. At the onset of 2013, it looked as if the tide might be turning. By the end of the First Quarter, it definitively did. RL PPA funding had risen by six percentage points, from 67% on 12/31/12 to 73% on 3/31/31. As we are now at the half way point through the year, Q1 has repeated itself. Pension funding is up another 6% on the quarter, with a YTD funding improvement of 12 percentage points for a traditional asset allocation, rising from 67% to 79% on a RL PPA mark-to-market basis. This is a meaningful uptick in pension funding that while arguably is not driven by fundamentals, must not be ignored.

The traditional asset allocation has outperformed RL PPA liabilities by 16.32% YTD. The S&P 500 has led the way with a 12.63% YTD return, while PPA liabilities have declined in value by –9.28%. The asset allocation model return of 7.03% has led to such a meaningful outperformance of assets versus liabilities. While asset allocation returns stagnated over the past quarter at +0.85%, assets still outperformed liabilities by +7.55%. The RL PPA Index, with a liability duration of 14.03 years and priced on an equal weighted basis, widened by 58 basis points YTD, going from 3.22% to 3.80%.

Page 3 of Asset/Liability Watch tracks pension funding on an annual basis going back to 2000. When looking at this table, two data points jump out. First, the majority of funding ratios are in red, i.e., underfunded. Second, there is a significant range of funding ratios on this page, starting at 145% funded in 2000 as the high, and 66% funded as the low in 2011, i.e., extremely volatile. As quickly as funding improved by 12%, these gains may disappear in the next six months. Alternatively, this rally can continue or funding improvements can plateau at current levels.

As we've seen over these past 10 years, when volatility happens, it happens fast, and there is very little time to react. Once volatility begins, plan sponsors with traditional asset-only strategies have left themselves exposed to be pushed and pulled in whatever direction the markets decide to move. In any other area of corporate or public finance, hoping for a positive outcome versus strategically assessing probabilities of outcomes and making sure they fall within tolerable risk constraints would put a public or private entity at greater risk, strategically and as a fiduciary. If a plan sponsor has a plan in place prior to volatility, only then can the be proactive and increase the probability of successfully derisking their pension plan.

As funding has improved dramatically in the past 6 months, the June 30, 2013 Asset/Liability Watch hopes to serve as a strong reminder to take a moment to review your strategic and tactical asset allocation goals and objectives. While we are pleased with the strong performance asset returns and negative liability returns, history has shown what happens when maintaining traditional exposure to performance assets. Whether it's nominal, meaningful, or full derisking, strong performance returns and higher yields make a compelling argument to do to preserve funding ratio improvements.

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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	1.05	1.97	0.05	1.44
5 Year Corporate	25	2.49	4.58	-2.40	1.24
10 Year Corporate	25	3.62	7.76	-5.31	-1.17
30 Year Corporate	25	4.89	13.72	-8.50	-5.13
RL PPA Index[2]	100	3.80	14.03	-9.28	-4.48

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	0.75	1.94	0.04	0.77
5 Year Corporate	25	2.15	4.64	-2.55	-0.55
10 Year Corporate	25	3.37	8.05	-5.62	-3.26
30 Year Corporate	25	4.61	14.28	-8.71	-7.52
RL FAS158 Index[2]	100	3.48	14.40	-10.10	-8.84

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	6/'13
Ryan Labs Cash	**5%**	7	5	2	1	1	3	5	5	3	1	0	0	0	0
Barclays Aggregate	**30%**	12	8	10	4	4	2	4	7	5	6	7	8	4	-2
S&P 500	**60%**	-9	-12	-25	29	11	5	16	5	-37	26	15	2	13	13
MSCI EAFE Int'l	**5%**	-14	-21	-16	39	21	14	27	12	-43	32	8	-12	18	4
Asset Allocation Model	**100%**	-2	-5	-13	20	9	5	12	6	-24	19	12	3	11	7
RL PPA Liability		8	15	24	7	11	6	2	2	10	6	14	21	9	-9
Return Difference		-10	-21	-38	13	-2	-1	10	4	-35	13	-2	-18	2	16
Funding Ratio (RL PPA)		**145**	**119**	**83**	**93**	**91**	**90**	**98**	**102**	**70**	**78**	**77**	**66**	**67**	**79**
Liabilities (TSY)	**100%**	24	4	17	2	10	10	1	11	42	-26	9	31	3	-9
Return Difference		-26	-9	-30	18	-1	-5	11	-4	-67	45	2	-28	8	16
Funding Ratio (Economic)		**96**	**88**	**65**	**77**	**76**	**72**	**80**	**77**	**41**	**66**	**67**	**53**	**57**	**67**

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

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