RYAN LABS
ASSET MANAGEMENT

ASSET/LIABILITY WATCH
DECEMBER 31, 2013

Index	Estimated Weights %	Total Return		
		QTD %	YTD %	Last 12 Months %
Ryan Labs Cash	5	0.04	0.22	0.22
Barclays Aggregate Index	30	-0.14	-2.02	-2.02
S&P 500	60	9.92	29.60	29.60
MSCI EAFE Int'l	5	5.74	22.94	22.94
Asset Allocation Model	100	6.13	17.66	17.66
Ryan Labs Liability (PPA)	100	1.17	-7.33	-7.33
Assets – Liabilities (PPA)		4.96	25.00	25.00
Ryan Labs Liability (FAS158)	100	1.43	-9.60	-9.60
Assets – Liabilities (FAS 158)		4.70	27.27	27.27
Ryan Labs Liability (TSY)	100	-3.48	-14.84	-14.84
Assets – Liabilities (TSY)		9.61	32.51	32.51

2013 ended with the strongest one year gains in PPA funding, going back to 2000. Rising almost 27%, year-over-year the Ryan Labs PPA proxy funding ratio went from 67% to 85%, based on the sample asset allocation above. Performance assets across the board did their part to increase asset levels, and interest rates did their part in decreasing liability valuations. The resulting outperformance of assets versus liabilities was monumental, with an outperformance of 25.34% for assets versus PPA liabilities and 32.85% for assets versus liabilities valued at the Treasury curve.

The year ended with the beginning of Fed tapering, a new Fed Chairwoman (the first woman in history to lead this institution), the equity markets rallying, and pension plans feeling ecstatic about the performance asset windfall. Plans that had implemented an LDI strategy have begun the process of moving further along their glide path, and plans that have utilized a core fixed income approach are reassessing if the time is right to implement LDI. Across the board, there is a sense of relief that market gains did not subside as we ended the year, and a sense of how to rebalance portfolios in 2014.

One year ago, in the December 31, 2012 A/L Watch, we sent out the following message, “We wish you all a great 2013, fueled by lower liabilities and higher assets.” While we did not envision our wish being fulfilled to the degree that it was, we did envision a world where “plan sponsors have a strategy in place” for when a year like 2013 occurs. While assets have finished in the black in each of the past 5 years, they have only outperformed liabilities in 3 of those five years, and came very close to not outperforming liabilities in 2012. So what is a plan sponsor to do after seeing the model assets outperform RL PPA liabilities by over 25%? While there is no one size fits all answer, e.g., take 10% of your assets and move them into fixed income, there is a universal theme that all plan sponsors can modify to their unique situation. The theme is to reduce surplus (funding) volatility to fall within parameters that the income statement/ balance sheet, and risk budget can support.

XYZ Inc. currently has $25 million in one standard deviation funding volatility. ABC, LLC. also has $25 million in one standard deviation funding volatility. They both have 35% in fixed income and are 85% funded. XYZ Inc. has $150 million in cash, shareholders equity of $1.1 billion. ABC, LLC. has $12.5 million in cash and $42 million in shareholders equity. XYZ can clearly support the volatility associated with their pension plan, while a one standard deviation event wipes out all of ABC’s cash and a two standard deviation event is greater than their shareholder’s equity. XYZ chooses to increase fixed income by 5%, as they can afford the volatility that asset allocation provides. ABC increases their fixed income allocation to 50%, reducing volatility to more affordable levels and develops a contribution strategy to fully fund their pension plan within the next 5 years. Along with the contribution strategy, if the plan reaches fully funded status before 5 years is up they have their glide path in place, going up to 80% fixed income. While the two plans asset allocations are different, they are both working within their respective risk capacities. As we move forward in 2014, we do not know what the markets will give us, or what they will take away. All we know is that having a plan in place to make sure volatility falls within levels that the plan sponsor can support will yield a successful 2014 for DB plans.

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	0.90	1.89	1.11	1.11
5 Year Corporate	25	2.45	4.55	-0.52	-0.52
10 Year Corporate	25	3.86	7.81	-4.94	-4.94
30 Year Corporate	25	4.96	13.66	-8.08	-8.08
RL PPA Index[2]	100	3.83	14.22	-7.33	-7.33

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	0.71	1.88	0.76	0.76
5 Year Corporate	25	2.20	4.57	-1.31	-1.31
10 Year Corporate	25	3.69	7.91	-6.19	-6.19
30 Year Corporate	25	4.77	14.00	-9.09	-9.09
RL FAS158 Index[2]	100	3.64	14.50	-9.60	-9.60

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/'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	30
MSCI EAFE Int'l	**5%**	-14	-21	-16	39	21	14	27	12	-43	32	8	-12	18	23
Asset Allocation Model	**100%**	-2	-5	-13	20	9	5	12	6	-24	19	12	3	11	18
RL PPA Liability		8	15	24	7	11	6	2	2	10	6	14	21	9	-7
Return Difference		-10	-21	-38	13	-2	-1	10	4	-35	13	-2	-18	2	25
Funding Ratio (RL PPA)		**145**	**119**	**83**	**93**	**91**	**90**	**98**	**102**	**70**	**78**	**77**	**66**	**67**	**85**
Liabilities (TSY)	**100%**	24	4	17	2	10	10	1	11	42	-26	9	31	3	-15
Return Difference		-26	-9	-30	18	-1	-5	11	-4	-67	45	2	-28	8	33
Funding Ratio (Economic)		**96**	**88**	**65**	**77**	**76**	**72**	**80**	**77**	**41**	**66**	**67**	**53**	**57**	**79**

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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