RYAN LABS
ASSET MANAGEMENT

ASSET/LIABILITY WATCH

JULY 31, 2012

Index	Estimated Weights %	Total Return QTD %	Total Return YTD %	Total Return Last 12 Months %
Ryan Labs Cash	5	0.02	0.08	0.31
Barclays Aggregate Index	30	1.38	3.78	7.25
S&P 500	60	1.26	9.68	6.74
MSCI EAFE Int'l	5	1.15	4.57	-10.99
Asset Allocation Model	100	1.23	7.98	7.37
Ryan Labs Liability (PPA)	100	6.96	11.74	27.86
Assets – Liabilities (PPA)		-5.73	-3.76	-20.49
Ryan Labs Liability (FAS158)	100	6.03	17.26	33.76
Assets – Liabilities (FAS 158)		-4.80	-9.28	-26.39
Ryan Labs Liability (TSY)	100	3.76	8.16	32.76
Assets – Liabilities (TSY)		-2.53	-0.18	-25.39

As the months of 2012 move forward, pension funds that have maintained the traditional performance seeking asset allocation centered around a 65/35 type allocation, whereby the fixed income portfolio is invested versus the Barclays Aggregate Index, are their third "once in a lifetime, perfect storm" over the past eleven years ('01 to '02, '08 to '09, '11 to '12) Over this time frame, Ryan Labs surplus volatility analyses have shown that the twelve month periods ending January, February, March, April, May, June of 2012 have exposed plan sponsors to more left tail risk than the '08 to '09 Credit Crisis (Aug, Sep, Oct 2008 to 2009).

For the YTD and the trailing twelve months, asset performance has been in line with most plan sponsors' ROAs. +7.98% YTD and +7.37% over the trailing twelve months are in line with typical ROAS of 7% to 7.5%. However, when RL PPA liabilities are up 11.74% YTD and +27.86% for the trailing twelve months, it becomes apparent that 7% to 8% returns have absolutely nothing to do with economic pension funding. Over the past twelve years, annual RL PPA liability returns have ranged from +2.36% up to +24.17%.Eight out of twelve of these years, assets have underperformed liabilities ranging from –1.34% to –37.66%. Looking at Page 3 of AL Watch, it becomes apparent that the traditional asset allocation does not track liabilities well, approximating 13% average tracking error in the past ten years ending 12/31/11.

At the end of July 2012, RL pension funding has fallen to 63.74, down from 102% on 12/31/07, and down from 144.98% on 12/31/00. For the QTD, YTD, and trailing twelve months, the traditional asset allocation detailed above has returned –5.73%, -3.76%, and –20.49% versus RL PPA liabilities over the same time periods. The RL PPA yield-to-worst was 3.21% on July 31, 2012, down from 3.83% on December 31, 2011. Yields continue to fall as asset returns fail to keep up with liability returns.

The Pension Protection Act, GASB 68, and Moodys RFC on proposed Adjustments to US State and Local Government Reported Pension Data (whereby Moodys has stated that "Accrued actuarial liabilities will be adjusted based on a high-grade long-term corporate bond index discount rate") place continued emphasis on understanding and reducing the impact of pension liability volatility. Balance sheet and income statement pressure resulting from pension volatility impacts all types of defined benefit plans, through increased contributions, potential impact to credit ratings, and plan health.

While funding relief was provided in the Moving America Ahead for Progress in the 21st Century Act (MAP-21), the economics of pension investing remain the same. Assets have returns, liabilities have returns. When asset classes do not behave like liabilities, funding volatility occurs. Sometimes it is favorable, sometimes it is unfavorable. Over the past twelve and a half years, volatility has leaned towards the unfavorable side. We did not get to this point overnight, and solutions cannot be achieved overnight. However, steps can be taken to implement a long term deficit reduction strategy, focusing on initially managing volatility/left tail risk, and gradually reducing funding risk over time. This is the essence of LDI. Alternatively, we've seen time and time again that the asset-only framework does not add value, just volatility.

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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	0.78	1.84	2.40	1.90
5 Year Corporate	25	1.72	4.61	5.96	5.16
10 Year Corporate	25	2.77	7.76	7.13	10.15
30 Year Corporate	25	3.91	14.18	11.67	21.72
RL PPA Index[2]	100	3.21	16.13	11.74	27.86

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	0.51	1.89	1.37	1.61
5 Year Corporate	25	1.25	4.69	4.25	5.84
10 Year Corporate	25	2.21	7.95	6.64	12.58
30 Year Corporate	25	3.48	14.61	12.66	24.29
RL FAS158 Index[2]	100	2.83	16.75	21.53	37.02

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	07/'12
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	0.08
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	3.78
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	9.68
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	4.57
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	7.98
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	11.74
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	-3.76
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**	**63.47**
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	8.16
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	-0.18
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**	**52.86**

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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