

Index	Estimated Weights %	Total Return		
		QTD %	YTD %	Last 12 Months %
Ryan Labs Cash	5	0.06	0.12	0.14
Barclays Aggregate Index	30	1.59	3.99	5.16
S&P 500	60	5.75	14.55	27.32
MSCI EAFE Int'l	5	6.99	10.61	14.34
Asset Allocation Model	100	4.27	11.23	19.68
Ryan Labs Liability (PPA)	100	5.69	10.32	16.29
Assets – Liabilities (PPA)		-1.42	0.91	3.39
Ryan Labs Liability (FAS158)	100	3.31	14.26	17.56
Assets – Liabilities (FAS 158)		0.96	-3.03	2.12
Ryan Labs Liability (TSY)	100	-0.28	3.95	5.91
Assets – Liabilities (TSY)		4.55	7.28	13.77

Offense wins games, defense wins championships. With football season in full swing and baseball entering the post-season, the attention of sports enthusiasts around the nation have turned towards the scoreboard. Questions such as “Did you see the score of last night’s game?” and “Who won the game?” are permeating casual conversations. A/L Watch has spoken numerous times about the merits of a scoreboard for the pension plan, a Custom Liability Index that documents the returns of a plan’s liabilities versus the assets. However, this type of scoreboard doesn’t tell the whole story. While knowing the score is important towards understanding the success or failure of your game plan, having a strong game plan in place that takes into account your adversary’s strengths and weaknesses is the key driver of achieving victory. For a pension plan in the PPA, FAS 158, and/or GASB 68 era, having a Glide Path towards derisking in place can be the difference between having a game plan in place and flying by the seat of your pants.

At the end of the 3rd Quarter 2012, RL pension funding showed a slight increase from the end of 2011, with current funding at 66.22%, up from 65.68% year end 2011, 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 a negative -1.42%, +0.91%, and +3.39% versus RL PPA liabilities over the same time periods. The RL PPA yield-to-worst was 3.21% on August 31, 2012, down from 3.83% on December 31, 2011.

There are three drivers (not including plan design changes) of funding level improvement for a DB plan; 1) Strong performance portfolio returns, 2) PPA yields rising, and 3) Excess contributions into the plan. A Glide Path refers to having a plan in place for when any one or a combination of these three events occur that involves derisking the plan by increasing the fixed income allocation. This in turn increases the duration hedge, decreases tracking error versus liabilities, and reduces balance sheet surplus volatility.

There are many different ways that a Glide Path can be implemented. Of initial importance when shifting away from a shorter duration market benchmark towards a longer duration fixed income portfolio is to start with an allocation and duration that achieves risk reduction levels that fit in line with enterprise risk capacity and is in line with volatility tolerance. Some plans that are risk adverse may choose allocations of 75% and higher to fixed income while other plans that take a risk-on approach may have allocations as low as 30 to 40% fixed income. There is no one size fits all approach. However, there is an approach that can begin the process of reducing left tail risk and developing a game plan so that decisions can be made quickly, efficiently, and effectively when any of the three positive funding events occur.

The combination of a Glide Path and Custom Liability Index allow a plan sponsor to build a derisking foundation and report on the success while making adjustments to the asset allocation when necessary. Once you attain a lead in football, baseball, or pension funding, adapting the game plan to reduce the probability of losing that lead becomes a critical aspect of winning the game, winning a championship, and having a healthy pension plan.

REGISTERED INVESTMENT ADVISOR

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	0.60	1.92	2.93	3.56
5 Year Corporate	25	1.57	4.67	7.13	8.24
10 Year Corporate	25	2.79	7.83	7.51	8.90
30 Year Corporate	25	4.04	14.13	10.03	12.29
RL PPA Index ²	100	3.21	15.76	10.32	16.29

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	0.47	1.89	1.50	2.17
5 Year Corporate	25	1.23	4.70	4.62	5.69
10 Year Corporate	25	2.37	8.15	5.88	7.86
30 Year Corporate	25	3.68	14.85	9.32	12.37
RL FAS158 Index ²	100	2.83	16.75	22.27	27.92

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

Index	Weights	'00	'01	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	09/'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	0.12
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	3.99
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	14.55
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	10.61
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	11.23
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	10.32
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	.91
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	66.22
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	3.95
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	7.28
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	56.66

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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REGISTERED INVESTMENT ADVISOR

500 Fifth Avenue, Suite 2520
New York, NY 10110
www.ryanlabs.com

MAIN: 212.635.2300
TOLL FREE: 800.321.2301
FAX: 212.635.2309