

Research Affiliates, LLC and Ryan ALM, Inc Partner to Launch Fundamental Index®-based US Corporate Bond Indexes

New Indexes Extend Fundamental Index® Methodology into Fixed Income

Newport Beach, CA, and New York, NY, February [5], 2010 – Research Affiliates, LLC, and Ryan ALM, Inc., today announced the launch, effective January 1, 2010, of the RAFI US Corporate Bond Index Series for Investment Grade and High Yield. This series of investable, broad market indexes is the first to apply the Research Affiliates Fundamental Index® methodology for the creation and calculation of bond indexes.

"In seeking to test and extend the boundaries of the Fundamental Index methodology, we applied the approach to bonds looking at US Corporate Investment Grade and High Yield," said Research Affiliates founder Rob Arnott. "The results were compelling, further validating the methodology and offering investors a more efficient means of constructing a bond index or portfolio with superior risk/reward characteristics."

The Fundamental Index methodology has received numerous awards for innovation and index provider of the year. Currently there are more than 100 equity indexes available through the FTSE RAFI Index Series and more than 200 investment products and separate mandates currently being managed to the methodologies by investors, managers and fund sponsors globally.

In calculating the RAFI® US Corporate Bond Index Series, Research Affiliates provides its Fundamental Index methodology for the creation of an index using fundamental measures of company size. Ryan ALM Index Division applies the methodology to construct and calculate the indexes.

The RAFI US Corporate Bond Indexes start with a universe of 5,000 issues that are then given fundamental weights. Ryan ALM then selects issues that qualify under the index rules, shown below in Tables 1 and 2. A most unique feature of the index rules is the creation of three maturity cells (1–5 years, 5–10 years, and 10+ years) whereby each index only selects the single bond with the highest amount outstanding per issuer per maturity cell. For example, the 1–30+ year index series would have three maturity cells allowing for three issues of the same issuer if they qualify under the index rules. This ensures the greatest liquidity for each index such that investors can actually buy and duplicate the index portfolios, while maintaining exposure to the underlying duration and credit characteristics. Each index has been back-tested to December 31, 1999, and has demonstrated consistent performance versus comparable traditional bond indexes.

RAFI US Corporate Bond Index Series includes:

- RAFI US Investment Grade Corporate Master Index
- RAFI US Investment Grade Corporate Bond Index, 1–5 year
- RAFI US Investment Grade Corporate Bond Index, 1-10 year
- RAFI US Investment Grade Corporate Bond Index, 10 year +
- RAFI US Investment Grade Corporate Bond Index, 1-30 year
- RAFI US High Yield Bond Master Index

- [RAFI US high Yield Bond Index, 1-5 year](#)
- RAFI US High Yield Bond Index, 1-10 year
- RAFI US High Yield Bond Index, 1-30 year

Ron Ryan, CEO of Ryan ALM explains: “The RAFI US Corporate Bond Index Series is the result of a partnership leveraging the proven expertise of Research Affiliates in fundamental weights for indexes and Ryan ALM’s expertise in designing bond indexes that are more investable, liquid, and transparent than traditional bond indexes providing a “best fit” solution for fund sponsors. Traditional U.S. corporate bond indexes have thousands of bonds, most of which don’t trade, have low amounts outstanding, are hard to price, and lead to tracking errors that may result in poor risk/reward behaviors.”

Table 1. RAFI US Investment Grade Corporate Bond Index Series

Minimum Face Value	\$500 million (generally largest issue picked per issuer per maturity cell)
Rating Parameters	At least BBB by both Moody’s and S&P
Maturity Parameters	Five Index Series (Master, 1–5, 1–10, 10+, 1–30+ years)
Call Protection	Minimum of 3 years generally
Weightings	RAFI Fundamental Weights
Rebalancing	RAFI Fundamental Weights (annual rebalance) Index Rules (month-end rebalance)

Table 2. RAFI US High Yield Bond Index Series

Minimum Face Value	\$350 million (generally largest issue picked per issuer per maturity cell)
Rating Parameters	BB to B by both Moody’s and S&P, and split rated BBB/BB
Maturity Parameters	Four Three Index Series (Master, <u>1-5</u> , 1–10, 1–30+ years)
Call Protection	Minimum of 3 years generally
Weightings	RAFI Fundamental Weights
Rebalancing	RAFI Fundamental Weights (annual rebalance) Index Rules (month-end rebalance)

About Research Affiliates, LLC.

Research Affiliates, a global leader in innovative investing and asset allocation strategies, has operated worldwide from its base in California since 2002. Dedicated to solving complex investment issues, the firm creates innovative strategies that respond to the current needs of the market. Leveraging its strong research focus, Research Affiliates distributes products in partnership with some of the world's leading financial institutions. These affiliations take the form of direct asset management, sub-advisory services, and licensing agreements.

The firm is majority employee-owned and employs a team of 50 dedicated professionals. Research Affiliates offers advisory services, sub-advisory services, and custom solutions to meet a client's investment needs.

Approximately \$46 billion in assets are managed worldwide using investment strategies developed by Research Affiliates, as of December 31, 2009.

About Ryan ALM, Inc.

Ryan ALM, Inc. is both a bond index provider and bond asset management firm. Its Index Division (ALM Research Solutions, LLC) designs, maintains and delivers over 70 generic indexes designed by the firm. This includes the Ryan Treasury Yield Curve series (13 Auction maturities, 31 STRIPS and four PowerShares maturity ladder series), FAS 158 Yield Curves, ESG, Green and Corporate bond indexes. Moreover, Ryan ALM is a leader in designing Custom Liability Indexes for its clients. The Index Division primary architect is Ron Ryan, CFA who won the *William F. Sharpe Lifetime Index Achievement Award*. The Ryan ALM asset management division (Ryan ALM Advisers, LLC) manages bonds as index funds versus all the indexes they create (especially Custom Liability Indexes as Liability Index Funds) to provide a turnkey system. For more information, please visit www.RyanALM.com.

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