Ryan ALM, inc.

Asset/Liability Management

The Solutions Company

Ronald Ryan, CEO, CFA

The Ryan Letter

January 2007

Index	Returns YTD 2007	Estimated Weights
Liabilities :		
Market (Tsy STRIPS)	-1.19 %	100 %
IRS (Corporates)	0.34	
ROA (8% constant rate)	0.67	
Assets :		
Ryan Cash	0.41 %	5 %
Lehman Aggregate	-0.04	30
S&P 500	1.51	60
MSCI EAFE Int'l	0.68	5
Asset Allocation Model	0.95%	100 %
Assets – Liabilities		
Market	2.14%	
IRS	0.61	
ROA	0.28	

Based on the Asset Allocation above, 2007 started off quite well as assets significantly outperformed liability growth based on market value but much less so if liabilities are valued based on the IRS (PPA) and ASOP 27 rules. This demonstrates the **tremendous error in pricing liabilities at any discount rate except market rates**. Pension assets outgrew liabilities for January by about **2.14%** using market valuations (i.e. STRIPS); **0.61%** under the IRS Contribution rules (PPA Corporate rates); and only **0.28%** using the ASOP 27 methodology of a constant ROA (i.e. 8.00%). Most pension funds enjoyed a funded ratio surplus in 1999. However, this **funded ratio has been reduced by about -61% since 1999** (see table below and **GRAPHS** at end).

Total Returns

	2000	2001	2002	2003	2004	2005	2006	2007
Assets	- 2.50	- 5.40	-11.41	20.04	8.92	4.43	12.25	-1.19
Liabilities	25.96	3.08	19.47	1.96	9.35	8.87	0.81	0.95
Difference	-28.46	- 8.48	-30.89	18.08	-0.43	-4.44	11.44	2.14
Cumulative		-37.60	-73.40	- 60.08	-66.13	-76.75	-64.60	-61.15

God Bless Pension America !

Mergent and Ryan Agree to Bond Index Joint Venture

Mergent and Ryan ALM have entered into an agreement to produce bond indexes together. Given the vast data bases of Mergent and the index design talents of the Ryan index team, this strategic alliance should be quite prolific. Mergent has one of the largest bond data bases for US corporate and municipal bonds having acquired the rich Moody's terms and conditions data base. Moreover, Mergent prices over 1.2 million municipal bonds and over 50,000 corporate bonds daily. Most of the current bond indexes are quite large filled with issues that have poor liquidity. This leads to difficult pricing and duplication issues. What is needed is a new evolution of bond indexes that are transparent, accurate, liquid and purchasable. Already in the works is a series of bond indexes that best fit ETFs … (see PRESS RELEASE at end).

FAS 158 in Effect … Paves Way for LDI Strategies

FAS 158 (Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans) went into effect on December 15, 2006. It follows and supports the Pension Protection Act (PPA) of 2006 which was signed into law on August 17, 2006. For the first time, the discount rate methodology for valuing funding and accounting liabilities will be "*yield curve*" based. Paragraph 44A is a copy of FAS 106 paragraph 186 (for OPEB) which says:

The objective of selecting assumed discount rates is to measure the single amount that, if invested in a portfolio of high-quality debt instruments, would provide the necessary cash flows to pay the pension benefits when due. Notionally, that single amount (projected benefit obligation) would **equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same (matched) as the timing and amount of the expected future benefit payments**.

Most practioners know that to defease or pre-fund a liability you must use zero-coupon bonds. Why the pension industry has not embraced this is certainly one of the problems leading to our current dilemma. This now brings pension and OPEB liabilities from the footnotes onto the balance sheet resulting in an **estimated charge to equity of $334 billion** (Source: Merrill Lynch). This is Phase one. In Phase two, FASB will address the income statement treatment of pension expense. It is anticipated that forecasting an ROA on pension assets will be replaced in favor of actual returns thereby eliminating "phantom earnings" that currently exist from robust forecasts and the amortization of actuarial gain or loss from the error in such forecasts.

CA addresses Pension and OPEB Problems

The biggest crisis in the next decade might come from healthcare rather than pension liabilities. GASB mandates that city and state governments reveal their long-term unfunded liabilities for pension and health-care benefits (OPEB). Most OPEB benefits are paid on a pay-as-you-go basis rather be prefunded with assets. That is why this liability may be more dangerous than pensions. The State of California has created a Public Employee Post-Employment Benefit Commission to propose ways for addressing pension and health care obligations. Unfunded pension liabilities are $49 billion and OPEB between $40 and $70 billion for CalPERS and CalSTRS. The annual cost to California's state budget for pensions rose from $160 million in 2001 to $2.6 billion in 2006.

"Failure is not an option. Everyone has to succeed"… Arnold Schwarzenegger.

UAW to Manage Retiree Benefits ?!

GM and Ford are in negotiations with the UAW to shift the health-care liabilities over to the union. The goal is to find a way to restructure the US auto industry without resorting to bankruptcy court protection as the steel and airline industry did. Under this arrangement a union controlled retiree trust fund would remain solvent even in case one of the auto makers filed for bankruptcy protection. The model for this agreement may well come from the agreement between Goodyear and its largest union, United Steelworkers. Goodyear put in $700 million in cash plus $300 million in stock into a fund to fund a $1.2 billion health care liability. GM has a an estimated $55 billion retiree health care liability and Ford has $22 billion. And Chrysler $15 billion. Such a deal would make the UAW one of the largest private sector provider of health care in America with roughly one million dependents.

PBGC assumes Delta Pension

Delta Air Lines, the largest US airline in bankruptcy, turned over its pension to the PBGC in January with a deficit of about $3 billion. The PBGC estimates that it will be liable for almost $920 million, making this the sixth largest claim in the 32-year history of the PBGC. The PBGC took over 94 terminated pension plans in fiscal 2006 with $600 million in asets and $1.1 billion in liabilities.

FASB Interpretation Number (FIN) 48 … Income Tax Uncertainty

On January 17, FASB issued issued their FIN 48 “Accounting for Uncertainty in Income Taxes”. Any difference between the position taken on the tax return and the amount reported in the financial statements results in a tax liability for the unrecognized tax benefit. In addition, companies may have to accrue interest and penalties as if they underpaid their taxes. This should result in more volatile tax rates and earnings (Source: Credit Suisse).

Congratulations to Equities !

The 2006 performance of the major equity indexes (S&P 500 = 15.80%) was the fourth year of the current bull market. This is the longest period in U.S. history without a correction of at least 9% (Source: Shenkman Capital Management).

Where have all the AAA gone ?

A sad and secular trend in the U.S. credit markets is the loss of AAA corporate bonds. 30-years ago, we had most Bank, Telephone, Utility issuers as our core high-quality credits and just prior to that was our Railroads. Now we have only 7 Aaa/AAA corporate issuers left based upon debentures and not secured debt (Source: Mergent):

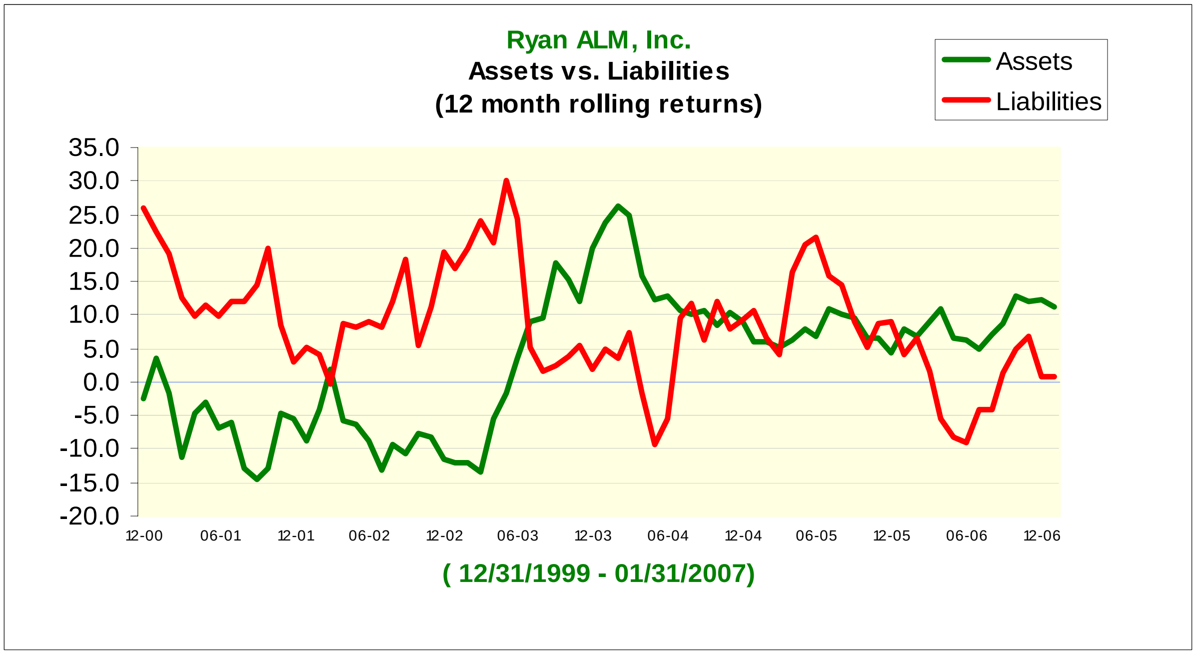
Berkshire Hathaway	Johnson & Johnson
Exxon	Mobil
GE	Toyota Motor
United Parcel Services	

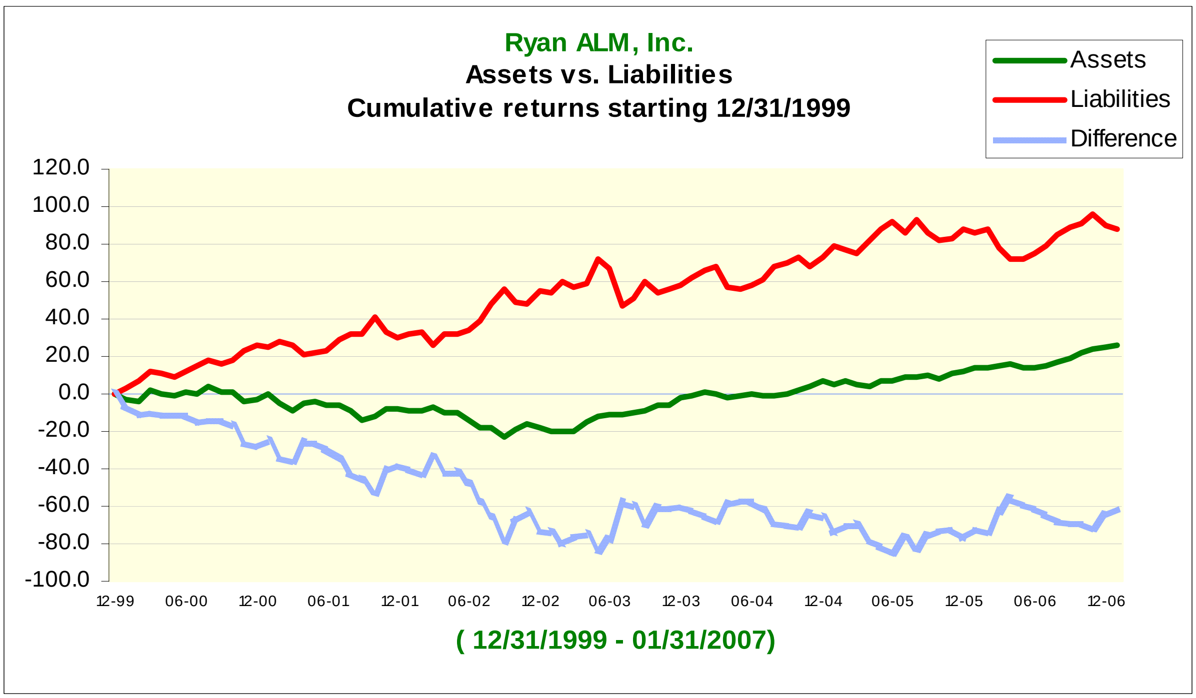
Congratulations! To Bob Herz of FASB

FASB chairman Robert Herz has been reappointed to a second five-term commencing on July 1, 2007. Mr. Herz is a champion of simplification and convergence in the financial reporting system. We applaud FASB recent actions in promoting and disclosing fair value on both pensions and Healthcare liabilities.

Pension Scoreboard

Based on the Ryan generic Liability Index and a static Asset Allocation, as shown on page 1, the following graphs show asset growth versus liability growth for rolling 12 month periods and cumulative growth since 1999. The cumulative growth difference is **-61.15%**.





Custom Liability Indexes

In 1991, my current product development team and I designed the first Liability Index. Since then we have developed hundreds of Custom Liability Indexes (CLI). Similar to snowflakes, no two pension funds are alike in that they have unique benefit payment schedules due to different labor forces, different mortality, different plan amendments, etc.. **The true objective of a pension is to fund liabilities at the lowest cost to the plan with prudent risk**. Without a Custom Liability Index it would be difficult, if not impossible, for assets to be managed vs. this liability objective. Until a CLI is installed as a set of economic books, the asset side is in jeopardy of managing vs. the wrong objective(s) … namely, generic market indexes. **If you outperform generic market indexes, but lose to the CLI … the plan loses !**

Ryan Indexes …Enhanced !

In March 1983, my index team and I at the Ryan Financial Strategy Group (RFSG) created the **1st Daily bond Index … Ryan Index.** The best way to understand the interest rate behavior of bonds is to use the Ryan Treasury constant maturity series for each Treasury *auction* series with two composite indexes … **Ryan Cash and Ryan Index.**

The daily reports on these indices have been greatly expanded and enhanced to over 130 daily pages + 10 pages of research and methodology including :

Yield History
Yield Spreads
Percentage Spreads
Returns

The best way to price (discount rate) and understand the interest rate sensitivity of **liabilities** is … the **Ryan Treasury STRIPS yield curve**. In March 1985, when STRIPS were born, my team and I at the Ryan Financial Strategy Group (RFSG) created the **1st STRIPS Index.**
To view all Ryan Indexes data go to : www.RyanIndex.com

Given the Wrong Index … you will get the Wrong Risk/Reward
Confucius

Pension Monitor
the latest pension articles and news from around the world

In order to closely watch the ever evolving tragedy of the Pension Crisis, we have designed the **Pension Monitor**. This web based site is a chronology of press clippings and research reports on what's happening with pensions throughout the world. Currently, there are over 2,000 press articles going back to 2002 (click on Pension Archive). We believe that this is the most comprehensive site for pension articles in the world today. To view, please go to :

http://www.pensionmonitor.com/

Mergent, Ryan ALM to Launch New Investible Benchmark Bond Indexes

NEW YORK, NY – February 8, 2007 – Mergent, Inc., a leading provider of critical business and financial data and Ryan ALM, Inc., an independent bond market research and asset management firm, today announced a partnership to develop and launch a series of fixed-income indexes that will be licensed for investment products such as exchange-traded funds and mutual funds.

"We're pleased to announce a partnership with Ronald Ryan, an innovative and award winning index designer with more than 40 years of bond market experience, to develop a unique family of indexes that will provide investors with a better way to invest in the bond market," said Jonathan Worrall, CEO of Mergent.

Ryan, CEO of Ryan ALM., is one of the world's leading experts on fixed-income investing and index construction. While working as Director of Fixed Income Research at Lehman Brothers during the 1970s and 1980s, he designed many of the popular Lehman Brothers bond indexes used today.

"Given the outstanding quality and depth of the Mergent data bases, we are excited about the ability to produce a new generation of bond indexes with the transparency, accuracy and purchasability the market demands and deserves," Ryan said.

About Mergent

Mergent, Inc., a Xinhua Finance company (TSE Mothers: 9399; OTC ADRs: XHFNY) is the preferred provider of business and financial data on global publicly listed companies. Currently headquartered in Charlotte, NC and New York City, with sales offices in key North American cities, Mergent also has a strong global presence, with offices in London, Shanghai, Tokyo, Toronto and Sydney. Mergent's databases contain detailed equity, debt and corporate action information on over 15,000 U.S. public companies, 20,000 non-U.S. public companies and all U.S. municipal bonds.

For more than a century Mergent has been providing solutions to clients in the investment management, academic, research and corporate information fields. Today, that unique experience is combined with leading-edge technology to form a robust, diverse product line that operates under Mergent's umbrella. These include; Mergent's Dividend Achievers Indices – the premier benchmark for long-term returns; Ford Equity Research – a leading independent investment research firm; Mergent Online – a powerful web-based research portal that provides critical business information to support daily research and analysis; Mergent Manuals, Handbooks and Investment Guides; in-depth municipal and corporate fixed-income data, as well as end-of-day evaluation pricing; EventsData – providing real-time information on corporate actions, dividend payouts, news and updates directly to clients desktops. For more information, visit our websites, www.mergent.com and www.dividendachievers.com.

About Xinhua Finance Limited

Xinhua Finance Limited is China's unchallenged leader in financial information and media, and is listed on the Mothers board of the Tokyo Stock Exchange (symbol: 9399) (OTC ADRs: XHFNY). Bridging China's financial markets and the world, Xinhua Finance serves financial institutions, corporations and re-distributors through four focused and complementary service lines: Indices, Ratings, Financial News and Investor Relations. Founded in November 1999, the Company is headquartered in Shanghai with 20 news bureaus and offices in 19 locations across Asia, Australia, North America and Europe. For more information, please visit www.xinhuafinance.com.

About Ryan ALM, Inc.

Ryan ALM, Inc. is both a bond index provider and an asset management firm. Its ALM Research Solutions division maintains and delivers the Ryan Treasury Index series (see www.RyanIndex.com) and numerous Custom Indexes for its clients. The Ryan ALM Advisers division manages assets versus liabilities as a turnkey system where Ryan creates Custom Liability Indexes and manages the assets as Liability Beta and Liability Alpha portfolios in an integrated Portable Alpha system named PALS. For more information, please visit www.RyanALM.com.

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