Ryan ALM, inc.

Asset/Liability Management *The Solutions Company*

Ronald Ryan, CEO, CFA

The Ryan Letter

February 2007

Index	Returns YTD 2007	Estimated Weights
Liabilities :		
Market (Tsy STRIPS)	2.77 %	100 %
IRS (Corporates)	0.67	
ROA (8% constant rate)	1.34	
Assets :		
Ryan Cash	0.81 %	5 %
Lehman Aggregate	1.50	30
S&P 500	-0.47	60
MSCI EAFE Int'l	1.51	5
Asset Allocation Model	0.29%	100 %
Assets – Liabilities		
Market	-2.48%	
IRS	-0.38	
ROA	-1.05	

Based on the Asset Allocation above, 2007 has been a roller coaster as assets significantly outperformed liability growth based on market value in January (2.14%) only to lose significantly in February (-4.66%). For the year, pension assets underperformed liabilities by about **-2.48%** using market valuations (i.e. STRIPS); **-0.38%** under the IRS Contribution rules (PPA Corporate rates); and **-1.05%** 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	0.29
Liabilities	25.96	3.08	19.47	1.96	9.35	8.87	0.81	2.77
Difference	-28.46	- 8.48	-30.89	18.08	-0.43	-4.44	11.44	-2.48
Cumulative		-37.60	-73.40	- 60.08	-66.13	-76.75	-64.60	-69.49

God Bless Pension America !

Stock Market Correction … A China

The stock market correction on Tuesday, February 27 was the single biggest decline in the US stock market since 9/11. All eyes are now focused on what happened and will it happen again. The China Shaghai Composite Index tumbled 8.84% on that date representing its largest fall in a decade. According to experts, this was an engineered drop in the China stock market. The Chinese government has become increasingly concerned about levels of speculative investment in its economy. The glut in investment money tends to drive up the cost of commodities and adds industrial capacity without actually producing anything of value. This could damage relations with foreign governments who face a glut of noncompetitive Chinese goods not to mention the average Chinese individual investor who is borrowing money to invest in this euphoria. The result of this stock frenzy has been absurd P/E multiples and numerous unprofitable firms. Sounds like the .com craze in America in the late 1990s. On Fe. 26, China's State Council launched a special task force to get security brokers to reduce such speculative investing. But the China stock market correction sent tremors throughout the world first in Europe and then America. Most experts agree that China will do this engineered correction again and again to reduce the "irrational exuberance" throughout its economy.

The Federal Deficit is Shrinking

You wouldn't know it from the reaction to President Bush's Fiscal 2008 Budget to spend $2.9 trillion but the Federal deficit is shrinking. Over the past three years the federal deficit has shrunk by 58%. The Congressional Budget Office (CBO), and not the White House, is estimating that the current fiscal year's deficit will fall to -$172 billion. That's not so bad considering Katrina relief spending, $30 billion for homeland security and a couple hundred billion to fight the war on terror. The White House is projecting that its new budget will eliminate the deficit by 2012 assuming the President's tax cuts are extended after 2010. The CBO predicts the deficit should remain below 1% of the GDP for the rest of the Bush Presidency which is well below the 40-year average of 2.4% of GDP.

GASB 45 Watch

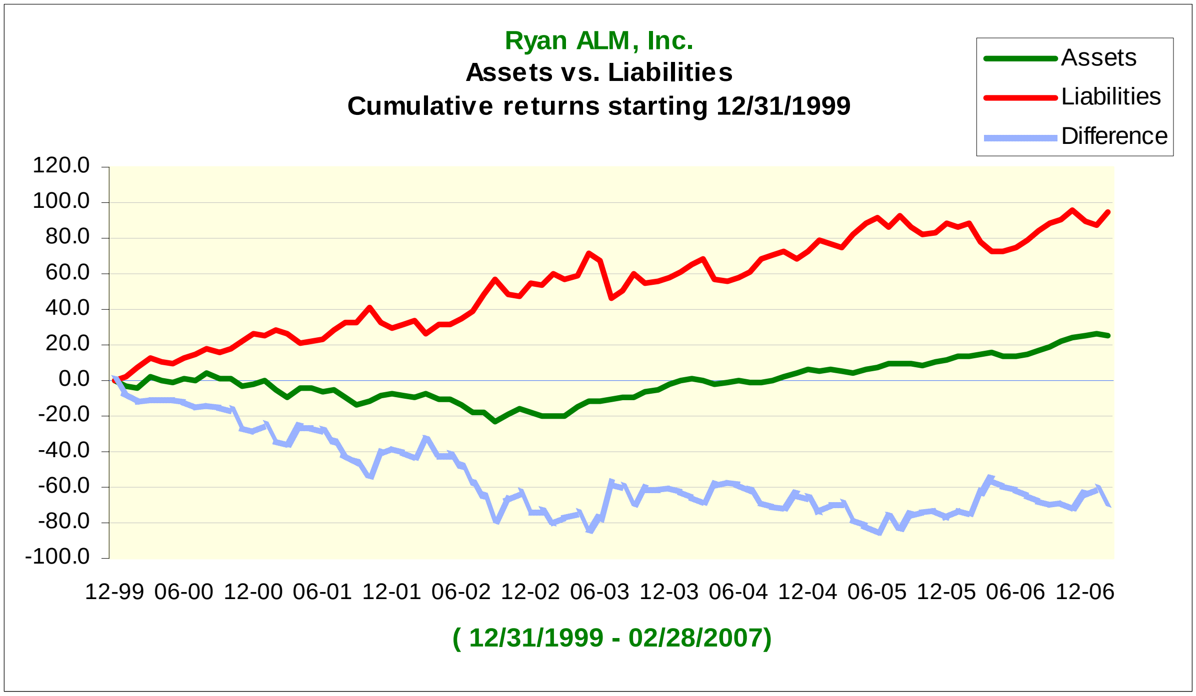
As GASB 45 requires disclosure of Healthcare liabilities, it is estimated that this deficit will far exceed the pension crisis. The main reason for this larger deficit is that most plans are on a pay-as-you-go basis instead of pre-funding as with pensions. There are no rules that require such pre-funding. This is a mistake. Even at today's historically low bond yields, a 15-year duration zero-coupon bond can be purchased for about 50 cents on the dollar. To say it correctly, plans can save about 50% of their healthcare costs by pre-funding. Just like the old commercial said, "you can pay me now or you can pay me later".

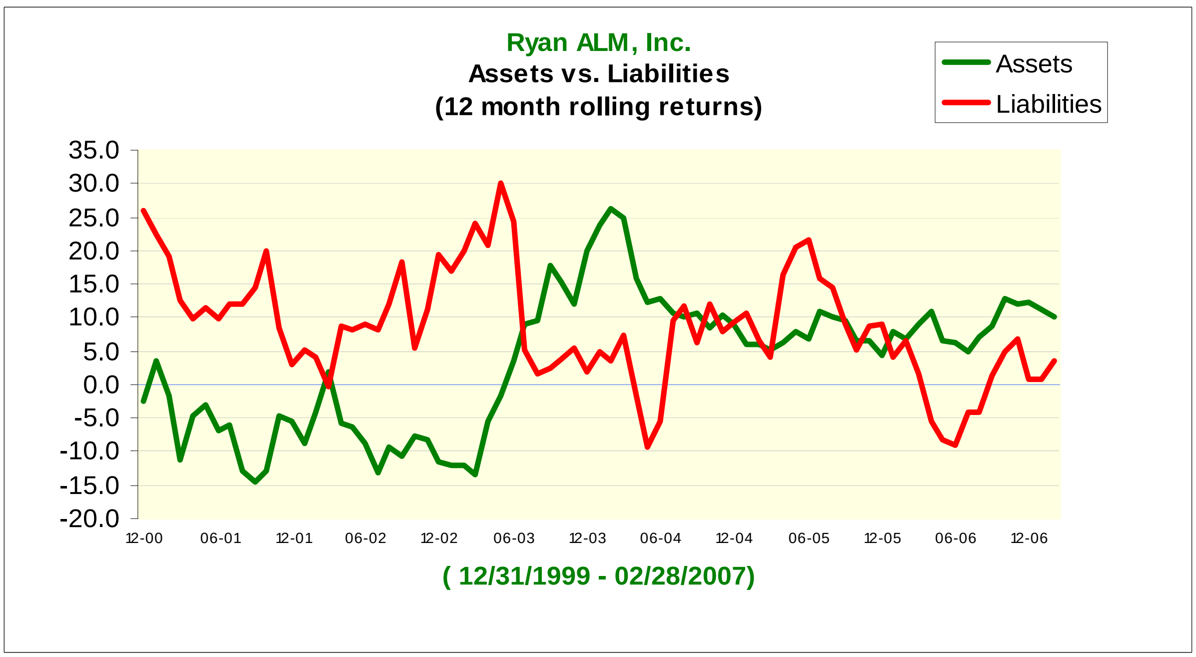
Davis Quits San Diego Pension Board

Peter Davis, who ran for Mayor in 2000 and 2004, resigned from the city's pension board citing differences with Mayor Jerry Sanders over a recent estimate of the pension deficit. Davis said he disagreed with the recent actuarial report that showed its deficit had decreased from $1.43 billion to $1 billion. According to ASOP 27 and GASB, Public Plans use their ROA as the Discount Rate to price liabilities. According to a NASRA study most plans use an 8.0% ROA and Discount Rate. Given that market rates are about 300 bps lower this would translate into undervaluing liabilities by 30% to 40% in most actuarial reports. However, assets did grow about 10% more than liabilities in 2006. Mr. Davis, give me a call.

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 **-69.49% suggesting any plan with a Funding Ratio below 169.50% at the end of 1999 is in a deficit position today**.





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 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).

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 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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