# Ryan ALM, inc.

## Asset/Liability Management

*The Solutions Company*

Ronald Ryan, CEO, CFA

# The Ryan Letter

## April 2007

| Index | Returns YTD 2007 | Estimated Weights |
|---|---|---|
| **Liabilities :** | | |
| Market (Tsy STRIPS) | 1.69 % | 100 % |
| IRS (Corporates) | 1.65 | |
| ROA (8% constant rate) | 2.66 | |
| **Assets :** | | |
| Ryan Cash | 1.70 % | 5 % |
| Lehman Aggregate | 2.05 | 30 |
| S&P 500 | 5.10 | 60 |
| MSCI EAFE Int'l | 8.87 | 5 |
| **Asset Allocation Model** | 4.22% | 100 % |
| **Assets – Liabilities** | | |
| Market | 2.53% | |
| IRS | 2.17 | |
| ROA | 1.56 | |

Based on the Asset Allocation above, for the year 2007, pension assets outperformed liabilities by about **2.53%** using market valuations (i.e. STRIPS); **2.17%** under the IRS Contribution rules (PPA Corporate rates); and **1.56%** 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 -62% since 1999** (see Graphs and Index disclosures on pages 3 and 4 ).

**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 | 4.22 |
| Liabilities | 25.96 | 3.08 | 19.47 | 1.96 | 9.35 | 8.87 | 0.81 | 1.69 |
| Difference | -28.46 | - 8.48 | -30.89 | 18.08 | -0.43 | -4.44 | 11.44 | 2.53 |
| Cumulative | | -37.60 | -73.40 | - 60.08 | -66.13 | -76.75 | -64.60 | -62.51 |

**God Bless Pension America !**

**Liability Indexes "Caveat Emptor"**

Given the awakening of the pension industry to an LDI trend, there are now several Liability Indexes being marketed. My team and I developed the 1st Liability Index in 1991. I have been on a crusade ever since to educate and support the pension industry on the critical benefits of an accurate Custom Liability Index. Our latest research … **Liability Indexes "Caveat Emptor"** explains in detail the differences and errors being made by these new Liability Indexes. In the end, we warn all pensions that … ***given the wrong index, you will get the wrong risk/reward***. You can view our latest research report by going to our web site **www.ryanalm.com**

**Litany of Public Pension Fiascos Grows**

There seems to be an avalanche of recent Public Pension announcements concerning the growth of pension deficits and the mismanagement of such funds :

**New Jersey** - Years of creative accounting and a lack of contributions (none from 1997 thru 2006) created an estimated $25 billion deficit. Actuaries have recommended a $2.3 billion contribution this year equal to 7% of the state budget (twice what Gov. Corzine recommended).

**Philadelphia** - Has a reported 60% Funded Ratio with an unfunded deficit of $3.9 billion. As a result, contributions have risen from $348 million last year to $419 this year and to $457 next fiscal year (proposed budget).

**Oklahoma** - Treasurer Scott Meachem said in a letter to Gov. Brad Henry that their pension problems are the number one financial threat to the state. Currently, the state's seven pension systems have an overall funding rate of 59.6% with an $11 billion unfunded liability. The Gov. agrees and has called for increases in state contributions.

**San Diego** - A dark cloud hangs over the city's financial future on how to pay off the $1 billion accumulated pension debt. For fiscal 2008 pension and healthcare benefits + pension contributions will cost the city about 57.5% of city payroll. It is estimated to climb to 66.8% of the payroll by fiscal 2012. These are shocking numbers as anything over 15% would be high.

**Kansas** - In an effort to reduce the KPERS deficit of $5.1 billion, the Kansas legislature just passed a Bill to increase the retirement age and employee contribution rates for employees hired after July 1, 2009.

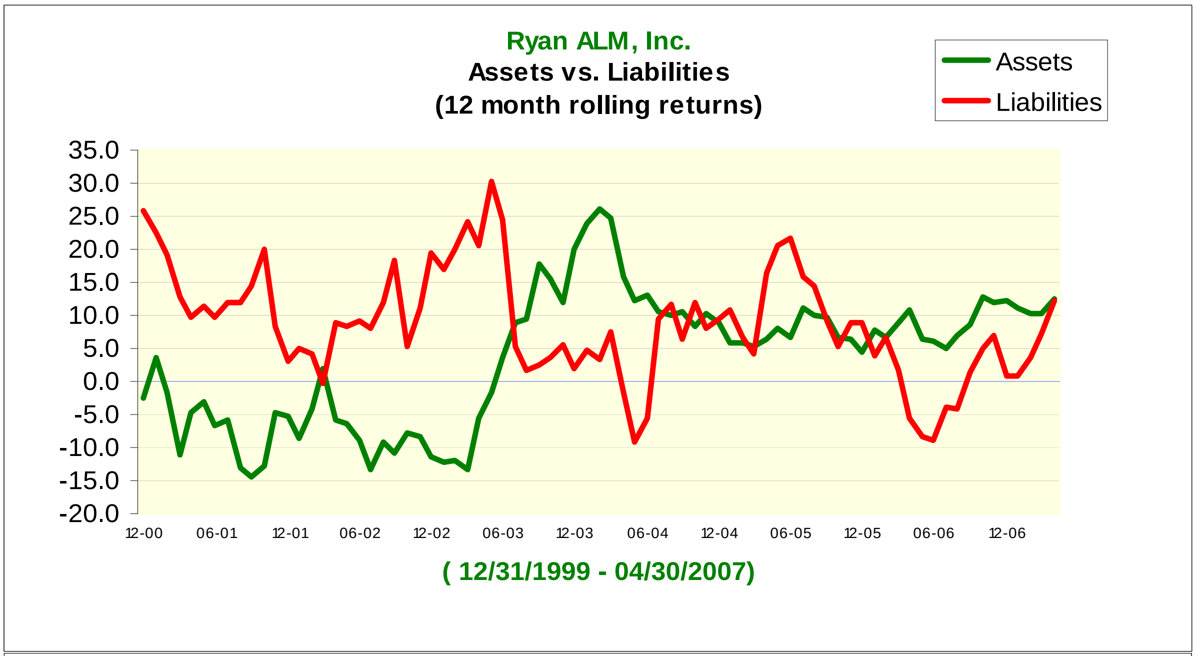
**Public Healthcare Benefits in Worst Shape ?**

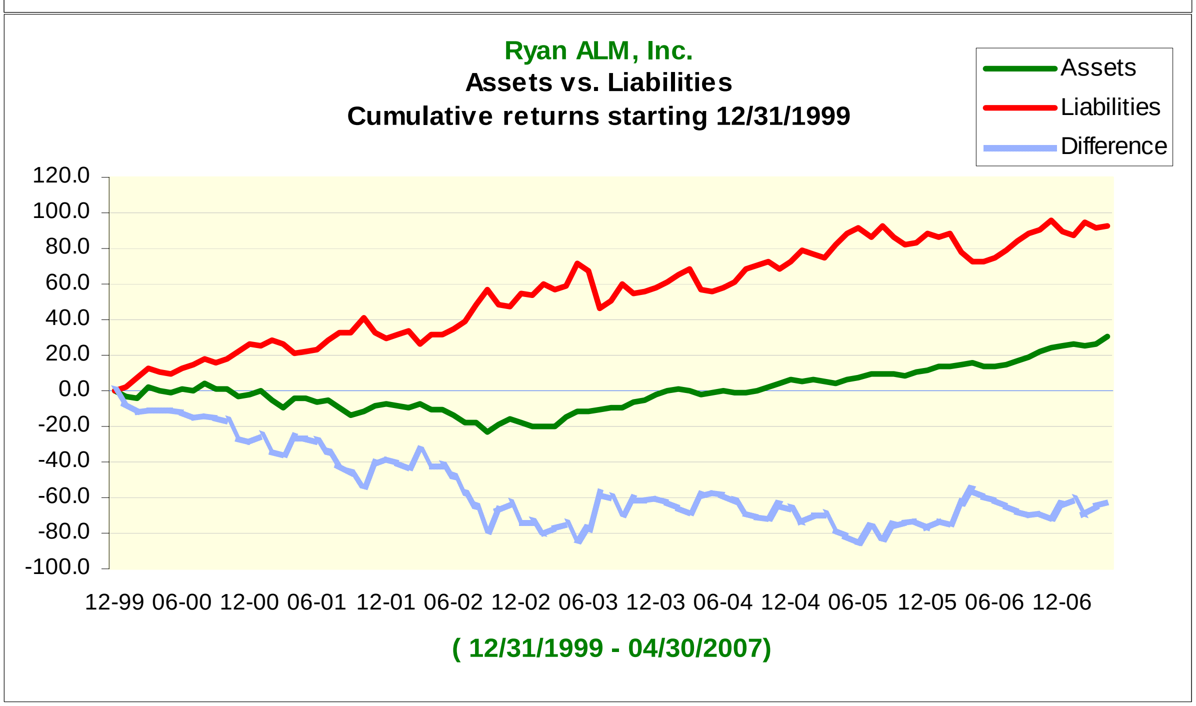
According to a report from the Cato Institute, states and municipalities face a $1.4 trillion deficit in OPEB obligations. Will this require property and state income taxes to increase? Will such healthcare benefits be reduced or rescinded?

## 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 **-64.53% suggesting any plan with a Funding Ratio below 164.53% at the end of 1999 is in a deficit position today**.

In order to closely watch the Pension Crisis, we have designed the **Pension Monitor**. We believe that this is the most comprehensive site for pension articles in the world today. To view, please click on : **http://www.pensionmonitor.com/**



**Custom Liability Indexes**

In 1991, my current product development team and I designed the first Liability Index using the Ryan STRIPS Indexes. 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. **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 (i.e. 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** as a *Treasury Yield Curve* index series for each auction maturity series (from Bills to Bonds). 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 :**

**Returns**
**Yield History**
**Yield Spreads**
**Percentage Spreads**

The best way to price (discount rate) and understand the interest rate sensitivity of **liabilities** is … the **Ryan Treasury STRIPS yield curve** known as the **LIABILITY BENCHMARK or LIABILITY INDEX**. In March 1985, when STRIPS were born, my team and I at the Ryan Financial Strategy Group (RFSG) created the **1st STRIPS Index.** Based upon these Ryan STRIPS indexes we created the **1st Liability Index in 1991** as the proper liability Benchmark for liability driven objectives (Pensions, Lotteries, NDT, Insurance Cos., etc.).

**To view all Ryan Indexes data go to : www.RyanIndex.com**

***Note: In October 2005, Ron Ryan terminated his license agreement with Ryan Labs to distribute and calculate the Ryan Indexes and Ryan STRIPS Indexes. Ron Ryan and Ryan ALM have no affiliation with Ryan Labs. Any use of the formulas, methodologies and data of any of the Ryan Indexes without Ron Ryan's written permission is prohibited.***

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

## 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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