Ryan ALM, inc.

Asset/Liability Management

The Solutions Company

Ronald Ryan, CEO, CFA

The Ryan Letter

November 2008

Index	Returns YTD 2008	Estimated Weights
Liabilities (Discount Rate) :		
Market (Tsy STRIPS)	19.03 %	100 %
PPA (Corporates)	0.26	
GASB (8% ROA rate)	7.27	
Assets :		
Ryan Cash	3.00 %	5 %
Lehman Aggregate	1.46	30
S&P 500	-37.65	60
MSCI EAFE Int'l	-46.29	5
Asset Allocation Model	-26.00 %	100 %
Assets – Liabilities		
Market	-45.03%	
IRS	-26.26	
ROA	-33.27	

Based on the Asset Allocation above, year to date 2008 pension assets **underperformed** liabilities by **-45.03%** using market valuations (i.e. STRIPS); lost by **-26.26%** under the IRS Contribution rules (PPA Corporate rates); and lost by **-33.27%** using the ASOP 27 methodology of a constant ROA (i.e. 8.00%). Such valuations show the significant difference in not using proper *market* valuations. Most pension funds enjoyed a funded ratio surplus in 1999. However, **assets have underperformed liabilities by about -152.21% since 1999** on a compounded index basis starting at 100 on 12/31/99!

(see Graphs and Index disclosures in Pension Scoreboard section)

Total Returns

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Assets	-2.50	-5.40	-11.41	20.04	8.92	4.43	12.25	6.82	-26.00
Liabilities	25.96	3.08	19.47	1.96	9.35	8.87	0.81	11.76	19.03
Difference:									
Annual	-28.46	-8.48	-30.89	18.08	-0.43	-4.44	11.44	-4.94	-45.03
Cumulative		-37.60	-73.40	-60.08	-66.13	-76.75	-64.60	-78.38	-152.21

God Bless Pension America !

November 2008 … Worst Month in Pension History !

As the Fed accommodated the Federal bailout and the economic stimulus by lowering interest rates on Treasuries to the lowest levels in history … it killed pensions! Pension liabilities behave like a portfolio of risk-free zero-coupon bonds. As a result, they are highly interest rate sensitive on their present value calculations. As interest rates go down, the present value of liabilities goes up. As page one illustrates, the **Ryan Liability Index** (generic index with average duration of 15 years) **grew 15.85% in the month of November and 19.03% YTD**. Moreover, the Ryan Liability Index posted cumulative growth of 150.79% since 12/31/99 for an annualized growth rate of 10.86 %. Hard to find an asset class with that growth rate for this decade. Believe it or not, it is hard to find an asset class that outperforms liabilities for the last 10 and 20 years! For more historical return information on the Ryan Liability Index go to: **www.RyanIndex.com/RyanIndexes**

Treasury Yields Lowest Ever !

On November 20, the Treasury yield curve (auction issues) recorded its lowest yields in the history of the Ryan auction data bases. The 30-year Treasury rallied 8 points on that day for a reduction in yield of 48 basis points. Yields moved even lower by month end for the 10 and 30-year Treasury auction issues. Here is our review:

Ryan Treasury Index	11/30/08 Yield	11/20/08 Yield	Lowest Previous Yield	Data Starts	YTD Return
2-year	**1.012%**	**0.97 %**	**1.97% (06/13/03)**	**08/24/73**	**6.91%**
5-year	**1.941%**	**1.88**	**2.02% (06/13/03)**	**08/28/79**	**11.62%**
10-year	**2.959%**	**3.01**	**3.11% (06/13/03)**	**11/01/77**	**18.23%**
30-year	**3.224%**	**3.49**	**3.94% (10/06/08)**	**12/31/79**	**22.37%**

State Street Blocks 401(k) Participants from Buying GM Stock

GM was blocked by State Street Bank & Trust from allowing participants in their two 401(k) plans to purchase GM common stock. State Street is the administrator and fiduciary for these two plans whose current assets amount to $11.7 billion for salaried employees and $8.6 billion for hourly employees. The 401(k) plans owned $1.4 billion in GM stock.

It's Official … U.S. Economy is in a Recession

The National Bureau of Economic Research, a panel of academic economists charged with the official designation of business cycles, made it clear that the U.S. has been in an economic recession since December 2007 when economic activity peaked.

Consumer Prices (CPI) fell in October by 1% … the biggest drop since 1947! Core CPI, which exclude food and energy, fell 0.1% for the first drop in 26 years! **New home construction** totaled 791,000 homes in October, the slowest pace since records began in 1959! **New home sales** fell 5.3% in October to an annual pace of 433,000, the lowest level since January 1991. **Orders for U.S. made durable goods** fell 6.2% in October, the largest decline in two years as orders for transportation goods fell 11.1%. **Consumer spending** fell 1% in October, the largest decline since September 2001.

Here Come the Treasuries!

On November 3, the Treasury announced its estimates of borrowing for the Oct. – Dec. quarter at $550 billion in marketable debt. This includes $260 billion for the Supplementary Financing Program (SFP). This borrowing is $408 billion higher than announced in July 2008. It also estimates borrowing $368 billion for the January – March 2009 quarter.

Stimulus Checks

The Treasury announced on October 31 that they had issued $95.038 billion in stimulus checks since the program started April 28.

China Announces $586 billion Economic Stimulus Package

China announced on Nov. 9 a huge fiscal stimulus package of nearly $600 billion (about 15% of their GNP). The money is to be spent by the end of 2010. Apparently, only 60% of this stimulus is actually new spending since the rest was already earmarked for earlier projects.

Pru Applies for U.S. Treasury's Capital Purchase

On December 4 Prudential Financial Inc., applied to participate in the U.S. Treasury capital purchase program. No further details were provided. Take the cookies when they are passed.

Bailout Update … Citigroup

The U.S. government provided yet another deal to shore up Citi's balance sheet. The Federal government will guarantee $306 billion of Citi assets under a loss-sharing agreement. The first $40 billion in losses on these troubled assets go to Citi. The next $5 billion in losses will hit the Treasury and the next $10 billion in losses will hit the Fed. Any more losses go to the Fed. Citi will also get a $27 billion equity injection as preferred stock with a yield of 8%. There is also a warrant to buy up to $2.7 billion of common stock at a strike price of $10.61 per share. This is in addition to the $25 billion received in October under the TARP rescue plan as preferred stock with a yield of 5%. Other terms include a cap on dividends of $0.01 per quarter and some executive compensation limitations (not disclosed as yet).

Bailout Update … GMAC

GMAC applies to become a bank holding company so it can tap into federal bailout funds approved by Congress in October. GMAC explained that this would enable them to accept customer deposits and open up additional funding alternatives. GMAC is launching cash-tender offers to buy or swap $38 billion of debt held by its mortgage business (Residential Capital) for cash, notes or preferred stock. This is intended to boost capital levels and reduce debt as part of its attempt to become a bank holding company. GMAC is 51% owned by Cerberus Capital Management and 49% by GM.

In God We Trust ! … (Not in our Financial Institutions)
U.S. Currency

Public Pension Watch

There seems to be an avalanche of recent Public Pension announcements concerning the growth of pension + OPEB deficits and the mismanagement of such funds. **Potential municipal bankruptcies are waiting to erupt across America due to budget crises stemming mainly from unaffordable pension and OPEB contributions!** As I have preached since 1991, the accounting and actuarial rules (GASB and ASOP 27) governing Public Pension plans are the start of the pension crisis since they do not *mark to market* the liabilities (market rates @ 3.70 to 4.00%). Instead, they value the liabilities at the ROA rate (discount rate @ 8.00%). Such a discount rate methodology *undervalues public pension liabilities today by 40 to 65%*. Moreover, they do not mark to market assets using a smoothing technique that can undervalue or overvalue assets. Currently, this method *overvalues assets*. As a result, reported funded ratios are not accurate and need to be reduced accordingly. These inappropriate rules have led to inappropriate … benefit decisions, contribution decisions and asset allocation decisions. It all links! Here is an update on some municipalities:

Cincinnati - The Cincinnati City Council agreed to a pension contribution of 17% of payroll or about $24 million which is the same as the current contribution rate. The city's growing pension unfunded liability could reach $1 billion by 2011. The pension fund's asset value plummeted from $2.68 billion to about $1.7 billion.

Colorado – The Colorado Public Employees Retirement Association (PERA) was 75.1% funded at the end of 2007 based on $41 billion in assets and $52.5 billion in liabilities. This was a pension deficit of $11 billion. Assets crashed to $31 billion by October 15. In 2007 PERA projected the pension would go broke by 2038 if it achieved a 7% return on investment.

Kentucky - The Kentucky Retirement Systems reports that they have a pension deficit of $32,813,410,245 as of June 30, 2008. Since then stocks are down over 25% and liabilities are up over 17%.

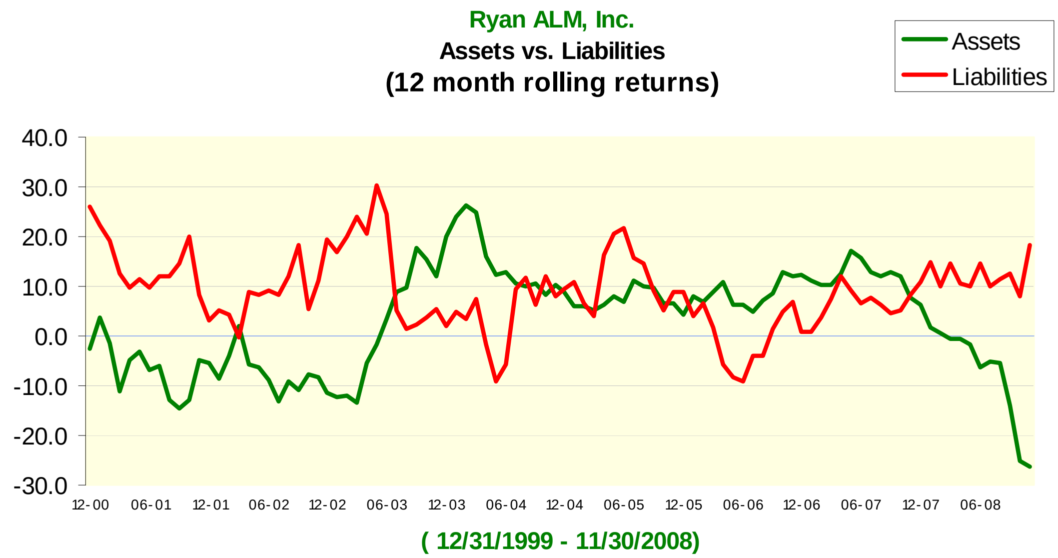
Louisiana – LA Teachers and Employees Retirement Systems (LASERS) are faced with $11.4 billion unfunded accrued liability based on a discount rate of 8.25% as of the fiscal year ending June 30, 2008. Pension assets totaled $8.4 billion for LASERS and $15 billion for Teachers.

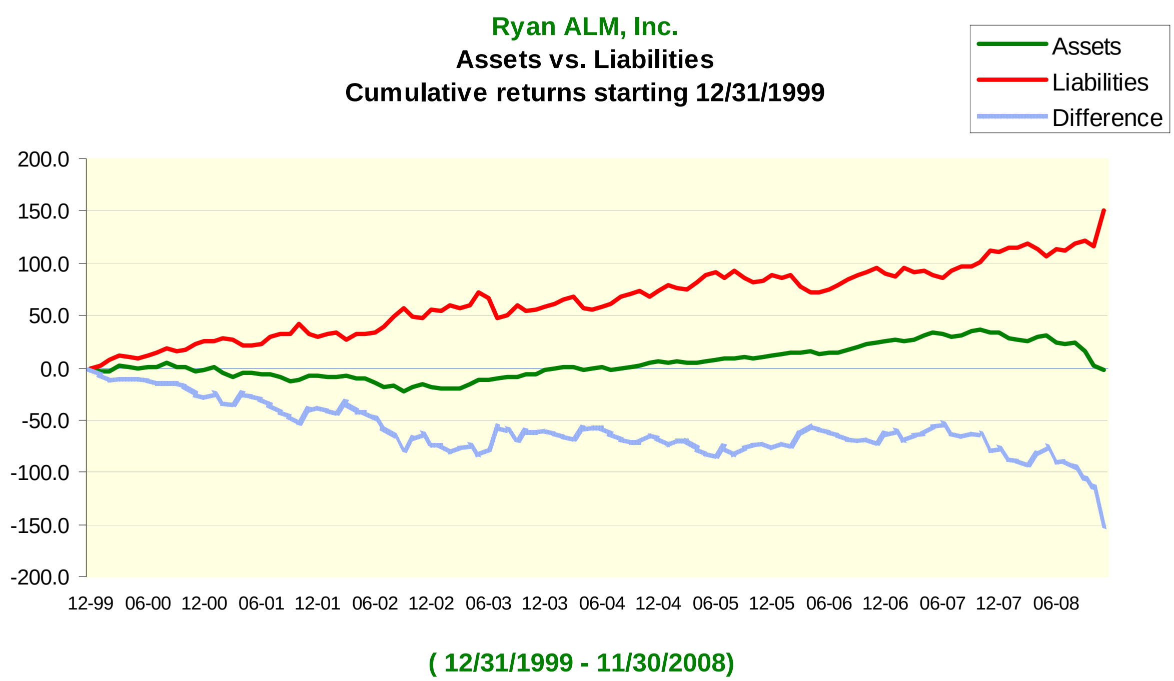
New Jersey - The Star Ledger reports that the State of New Jersey is "Insolvent or Bankrupt" due to pensions! The state pension fund has $118 billion in benefits with $57.8 billion in assets suggesting a pension deficit of over $60 billion. Governor Corzine plans to skip contributions until 2012 so as to not increase property taxes. The plan ROA and discount rate assumptions are 8.25%.

New York City - The Wall Street fiasco means a New York City fiasco in tax collections. Mayor Bloomberg is preparing for the worst. He has called for revoking a $400 property tax rebate, eliminating a 7.5% property tax reduction, reducing the municipal workforce by 3,000, cutting city agencies budgets by 7.5% and then raising sales and income taxes. But the mayor biggest problem is the five city pensions. According to the NY Post, **pension contributions to the five different employee-pension funds has risen from $1.1 billion in fiscal 2001 to $6.3 billion in fiscal 2009!**

Pension Scoreboard

The graphs below show asset vs. liability rolling 12 month and cumulative growth since 1999. The cumulative growth difference is **– 152.21% suggesting any pension Funded Ratio below 254.41 in 1999 has a deficit today!** As the Pension Crisis watchdog, we designed the **Pension Monitor** to capture world pension news: **http://www.pensionmonitor.com**





Indexes

Custom Liability Indexes

The best way to price (discount rate) and understand the interest rate sensitivity of liabilities is the **Ryan Treasury STRIPS yield curve indexes** 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.).

Since 1991, the Ryan team has 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 and 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 … the 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 100 daily pages + many pages of research and methodology including :

Returns
Yield History
Yield Spreads
Percentage Spreads

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

Index Funds

Liability Index Funds (Liability Beta Portfolio)

The best way to match assets to liabilities and reduce the volatility of the Funded Ratio is through a Liability Index Fund or Liability Beta Portfolio. Immunization is a popular strategy to match liabilities but has a mathematical problem in that it matches the *average duration* of liabilities instead of the entire *term structure* of liabilities. Only a Liability Index Fund correctly matches and fully funds each liability payment. This requires a Custom Liability Index. Ron Ryan was the inventor of both the Custom Liability Index and Liability Index Fund (Liability Beta Portfolio) concept.

ETFs

Powershares Launches ETF based on Ryan/Mergent 1-30 year Maturity Ladder Indexes

On October 11, 2007 Powershares launched a fixed income ETF based upon the Ryan/Mergent 1-30 year Treasury Maturity Ladder index. This index is an equal-weighted diversified portfolio of 30 distinct maturities. For more info on this ETF and index, please go to :

www. Powershares.com (click on fixed income portfolios)

KLD U.S. Corporate Bond Indexes

On August 7, 2008 KLD, Ryan ALM and Mergent launched a family of U.S. Environmental, Social and Governance (ESG) Corporate Bond Indexes. These are the ***First ESG Ratings Criteria as U.S. Corporate Bond Indexes***. These investable indexes are the first to apply environmental, social and governance (ESG) performance factors to a U.S. fixed income asset class. The KLD 1-3 Year U.S. Corporate Bond Index, KLD 1-5 Year U.S. Corporate Bond Index, and KLD 1-10 Year U.S. Corporate Bond Index are available for licensing as both generic and custom indexes. The KLD USCB series is the product of collaboration by three firms: KLD Research & Analytics, the leading ESG research and index provider since 1988; Ryan ALM as the fixed income index architect and calculation agent; and Mergent, the fixed income data provider. "These bond indexes provide an **additional asset class** for investors wanting to integrate KLD's ESG factors into their fixed income portfolios," said Peter Ellsworth, Business Development Manager for KLD Indexes. "Our clients have made it clear that environmental, social and governance issues are as important to fixed income investors as they are to equity investors." "The KLD USCB series provides index solutions that minimize ESG risk factors and limit exposure to any one issuer," said Ron Ryan, CEO of Ryan ALM. "Traditional bond indexes are market-weighted, so companies who issue more bonds gain a larger share of the overall index. The KLD USCB indexes are equal-weighted with a 5% cap, so no one issuer could ever become a significant weight factor," Ryan explained. "Moreover, the USCB indexes only use the largest issues of each issuer, which provides the best liquidity and pricing."