



MEMORANDUM

To: PCA Clients

Date: September 8, 2010

From: Pension Consulting Alliance, Inc.

RE: Revised 2010 Ten-Year Capital Market Assumptions - Due to Decline in Bond Yields

Due to recent declines in yields across the fixed income markets (as proxied by the broad Barclays Capital U.S. Universal Bond Index), PCA has determined it necessary to revise our capital market assumptions for core fixed income, TIPS, cash and inflation. This is the first time in history that PCA has made a mid-year revision of its long-term investment assumptions.

Fixed income yields have fallen significantly since publication of our original assumptions, from 4% to below 2.8%, a decline in yield of 30% over the course of 8 months (see below):

	<u>12/31/2009</u>	<u>3/31/2010</u>	<u>6/30/2010</u>	<u>8/31/2010</u>
Barclays Universal Yield	4.04%	3.81%	3.27%	2.77%

There is little mystery what drives long-term returns of bonds, absent changes in interest rates. It is yield, with an adjustment for defaults. In the absence of changing interest rates, the return to bonds (the bond market) is expected to approximate the current yield to maturity of the bond index. Since PCA does not attempt to forecast the level of long-term interest rates, our estimate of expected returns are driven by current yields.

The following table presents PCA's Revised 2010 Ten-Year Capital Market Assumptions:

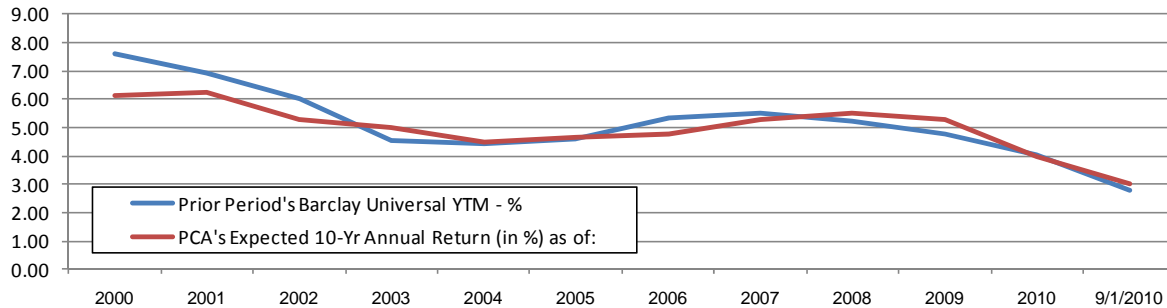
Asset Classification	Revised Expected Return*	Original Expected Return*	Change	Standard Deviation**
Cash	3.00	3.50	-0.50	2.0
Treasury Infl. Protected Securities	4.00	5.00	-1.00	6.0
Domestic Core Fixed Income	3.00	4.00	-1.00	4.5
Core Real Estate	7.25	7.25	0.00	10.0
Real Return	7.00	7.00	0.00	10.0
Domestic Equity	9.25	9.25	0.00	17.0
International Equity	9.75	9.75	0.00	20.0
Global Equity	9.50	9.50	0.00	17.5
Priv Equity/Venture Capital	12.50	12.50	0.00	25.0
Inflation	2.75	3.00	-0.25	2.0

* Annualized Average Arithmetic Expected Returns

** No change in standard deviation estimates from previously published assumptions

As can be seen from the following graph, there has been a very close relationship between PCA's 10-year expected return to bonds, and the yield to maturity of the fixed income index.

Bond Index Yield-to-Maturity Versus PCA Expected Bond Returns

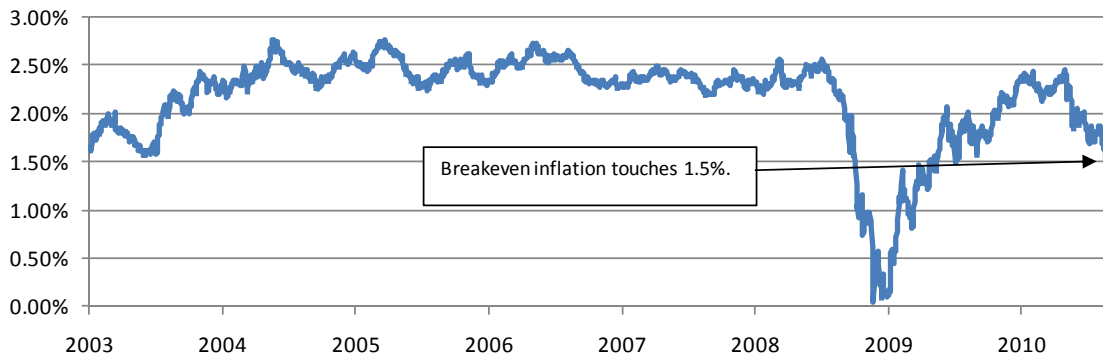


Source: LehmanLive: Barclays Capital U.S. Universal Index.

Therefore, given the recent drop in bond yields, PCA has lowered our long-term, forward looking fixed income return assumption to 3.0% from 4.0%. Likewise, we've dropped the expected cash return to 3.0% from 3.5%.

In addition to the sharp declines in bond yields, breakeven inflation rates have also fallen precipitously.

10 Year Breakeven Inflation (10 year nominal Treasury yield minus 10 year TIPS yield)



Source: www.ustreas.gov

Daily Yield Curve Rates (10 year nominal treasury yield minus 10 year TIPS yield)

While PCA remains convinced that inflation will likely reassert itself over the 10-year investment horizon of these capital market assumptions, we believe that inflation will come in modestly lower than our long-term expectations in the first half of 2010. Thus, we are reducing our estimate of 10-year inflation to 2.75% given the above trends.

Finally, the TIPS real coupon rates have declined, from 1.5% as of 12/31/2009 to less than 1% as of 8/31/2010. This decline, as well as the decline in expected inflation, has caused us to reduce the forward looking TIPS return assumption to 4% from 5%.