

Funding Liabilities: The New Asset Allocation Frontier



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Panel Detail:

Wednesday, April 28, 2010 11:00 AM – 12:15 PM

Speakers:

[David Fischer](#), Chief Investment Officer, Reinsurance Group of America Inc.

[Scott Hartz](#), Executive Vice President, General Account Investments, Manulife Financial Corp.

[Michael Simpson](#), Senior Vice President, Portfolio Management, Aegon Asset Management

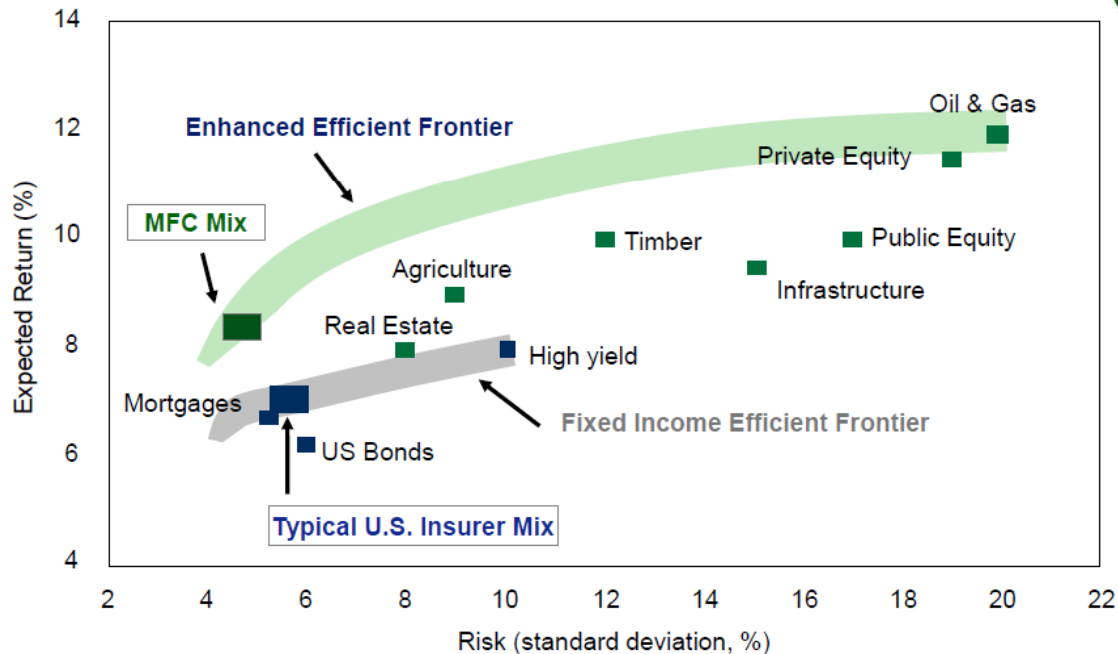
Moderator:

[Anne Walsh](#), Senior Managing Director, Guggenheim

Efficient Frontier for Tail of Liability

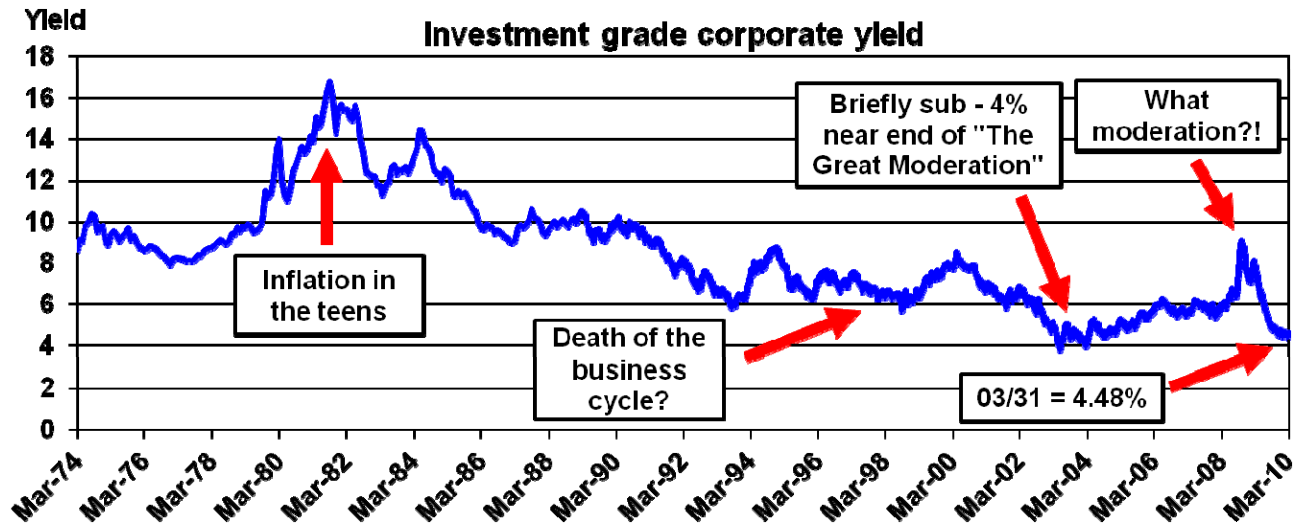


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Source: MFC Global Investment Management (illustration only).

Corporate bond yields very low

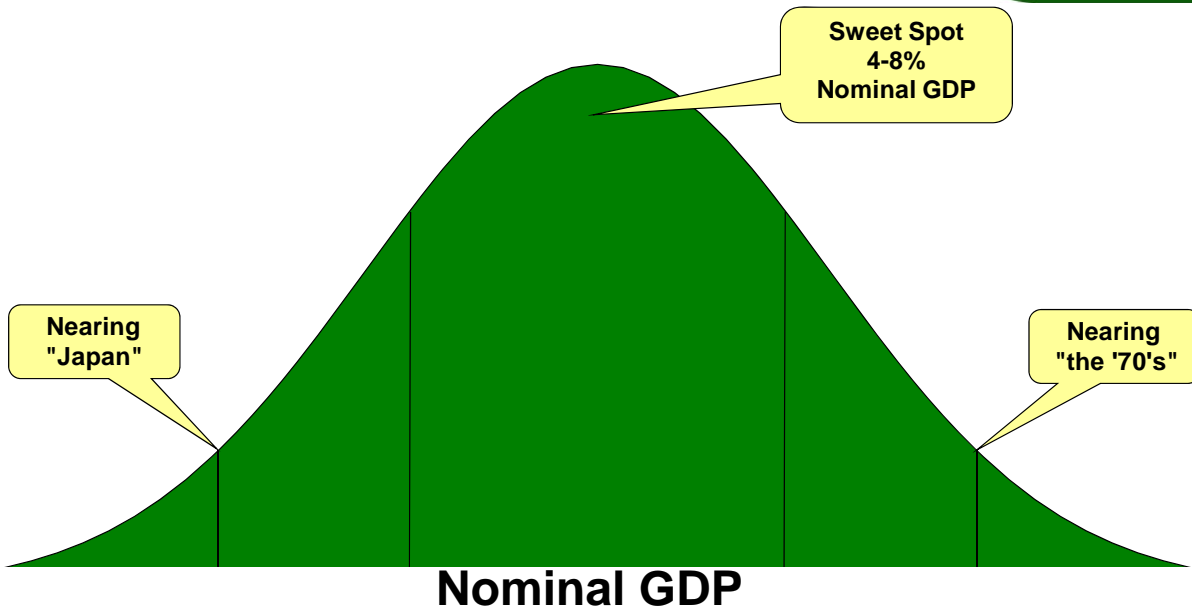


Source: Barclays Capital.

Bipolar economic future?

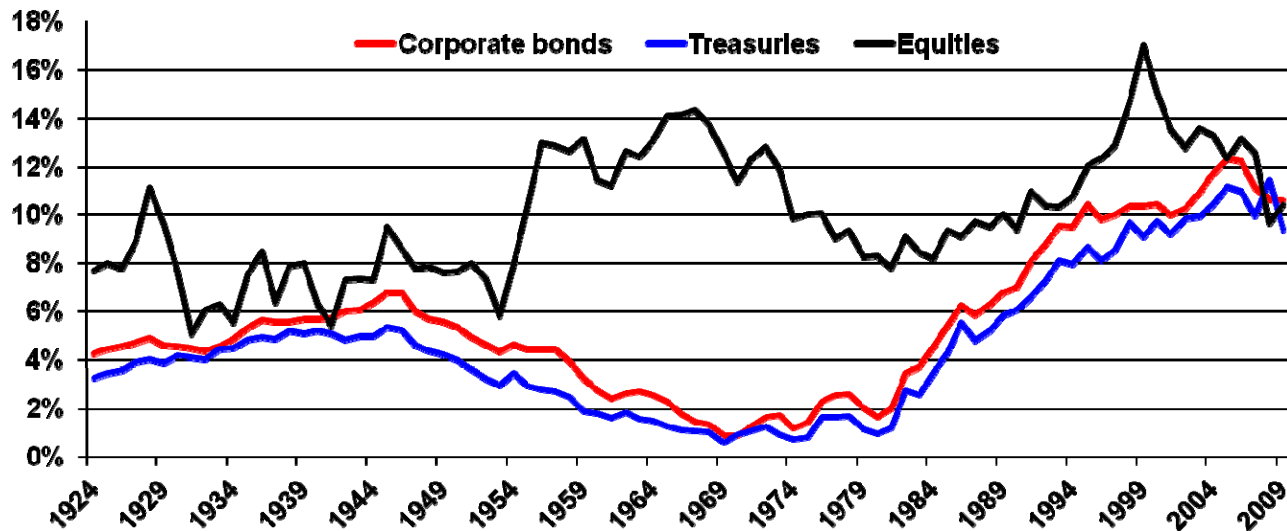


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Source: Reinsurance Group of America (RGA).

25 year rolling returns



Source: Deutsche Bank.

Alternative investments account for trillions in global pension assets

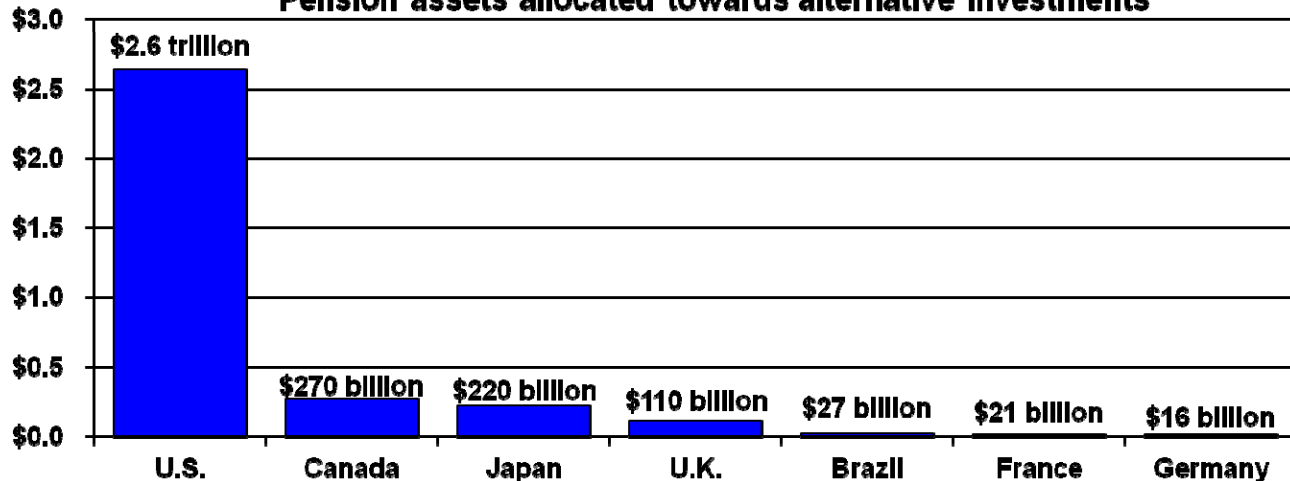
2009 year-end



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US\$ trillions

Pension assets allocated towards alternative Investments



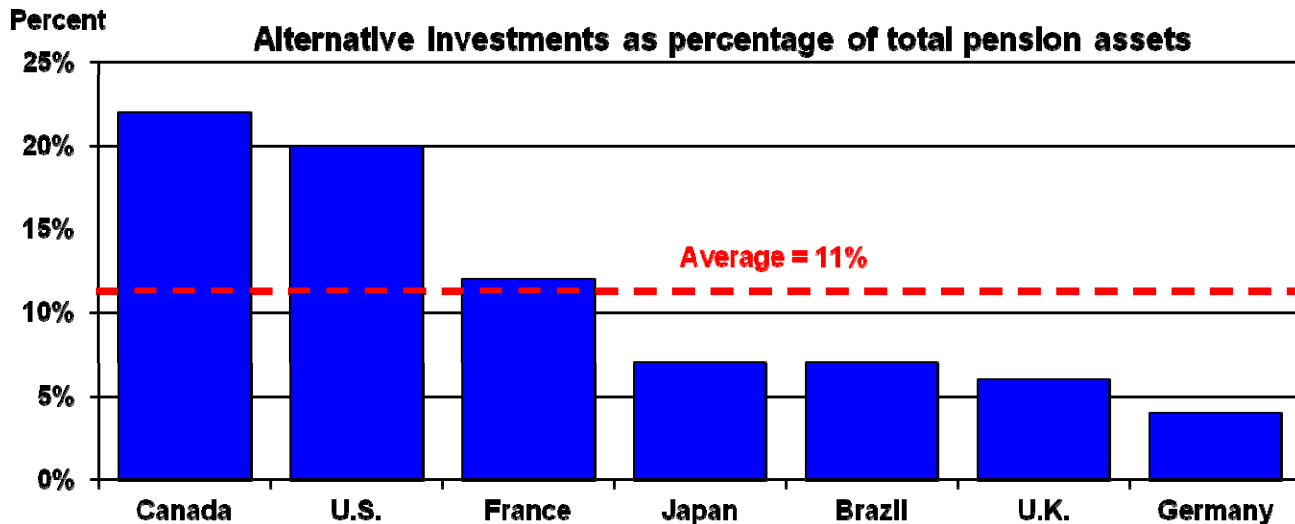
Source: Towers Watson 2010 Global Pension Asset Study.

Canada and U.S. hold large share of pension assets in alternative investments

2009 year-end



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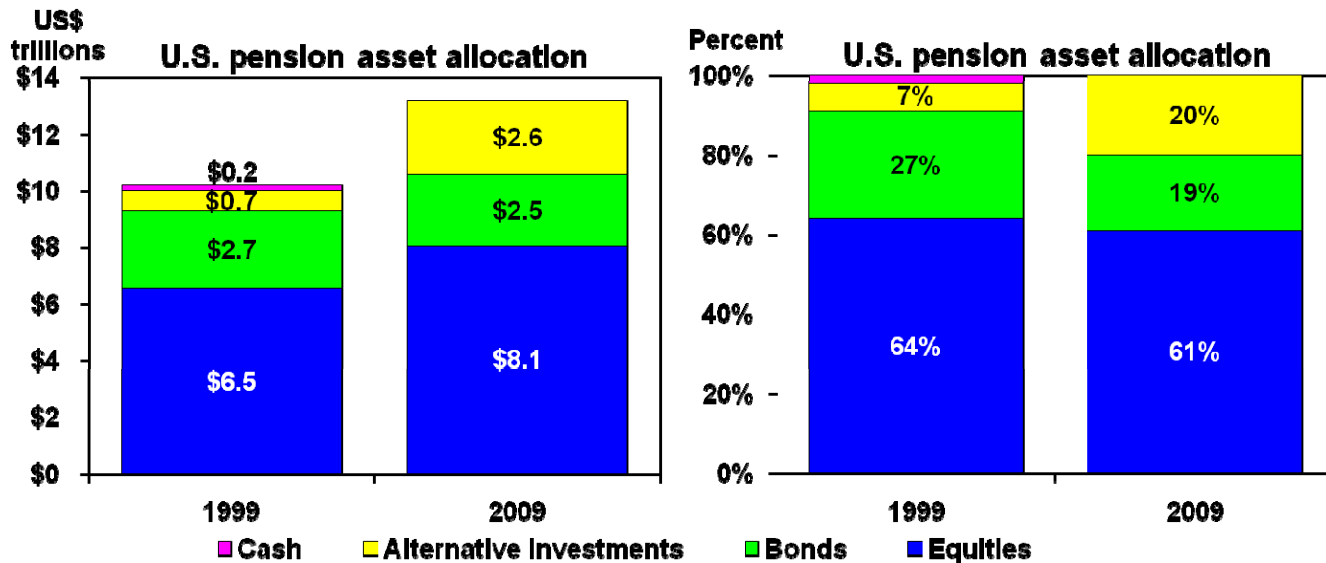
Source: Towers Watson 2010 Global Pension Asset Study.

Alternative investments grew from 7% to 20% of U.S. pension assets over last decade

Year-end: 1999 vs. 2009

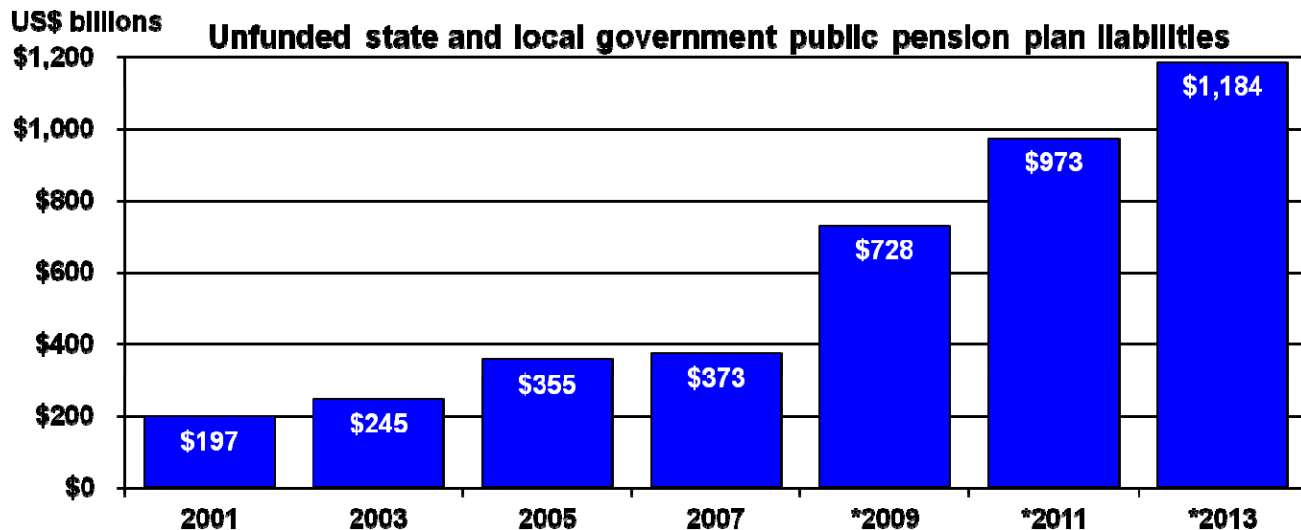


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Source: Towers Watson 2010 Global Pension Asset Study.

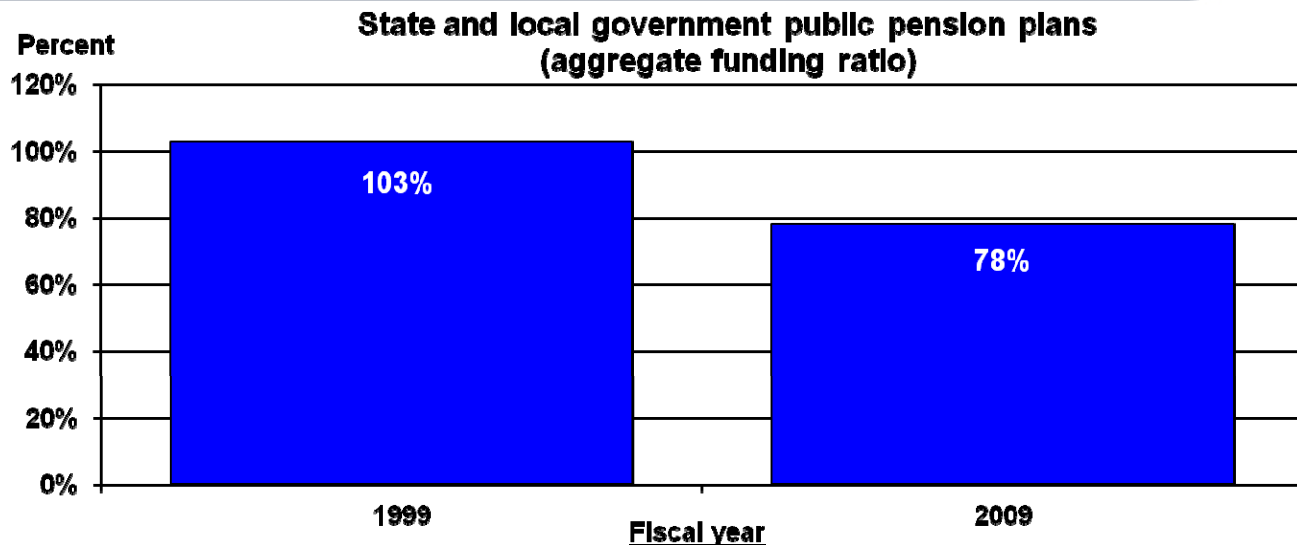
Unfunded liabilities of state and local government public pension plans set to rise



Source: Boston College Center for Retirement Research.

*Projections

State and local government public pension plan funding levels are down over last 10 years

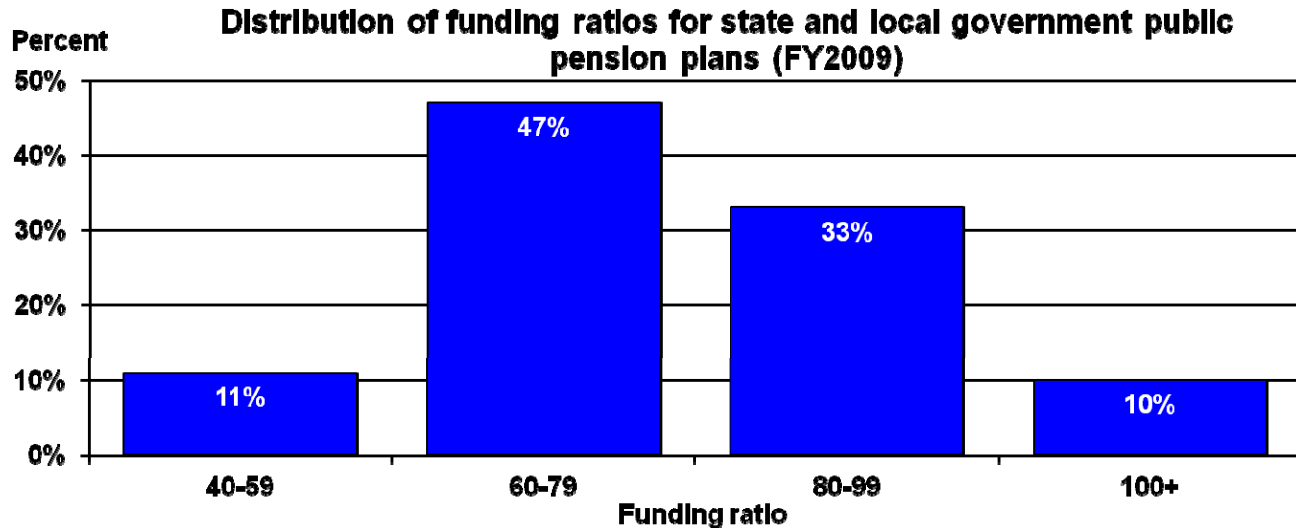


Source: Boston College Center for Retirement Research.

Majority of state and local government public pension plans are underfunded



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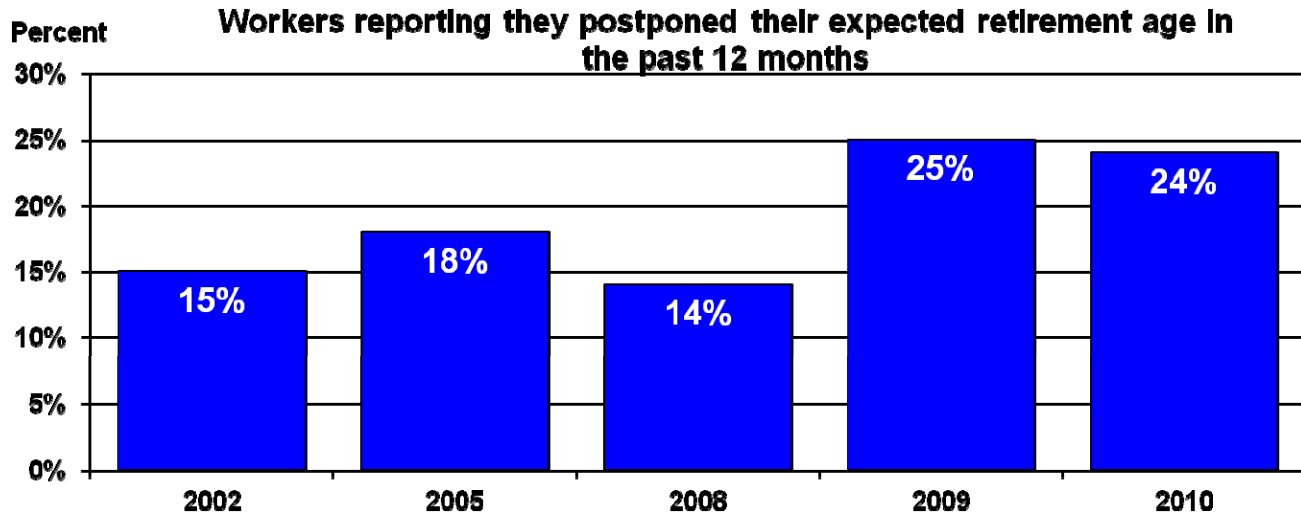


Source: Boston College Center for Retirement Research.

More and more workers are postponing their retirement

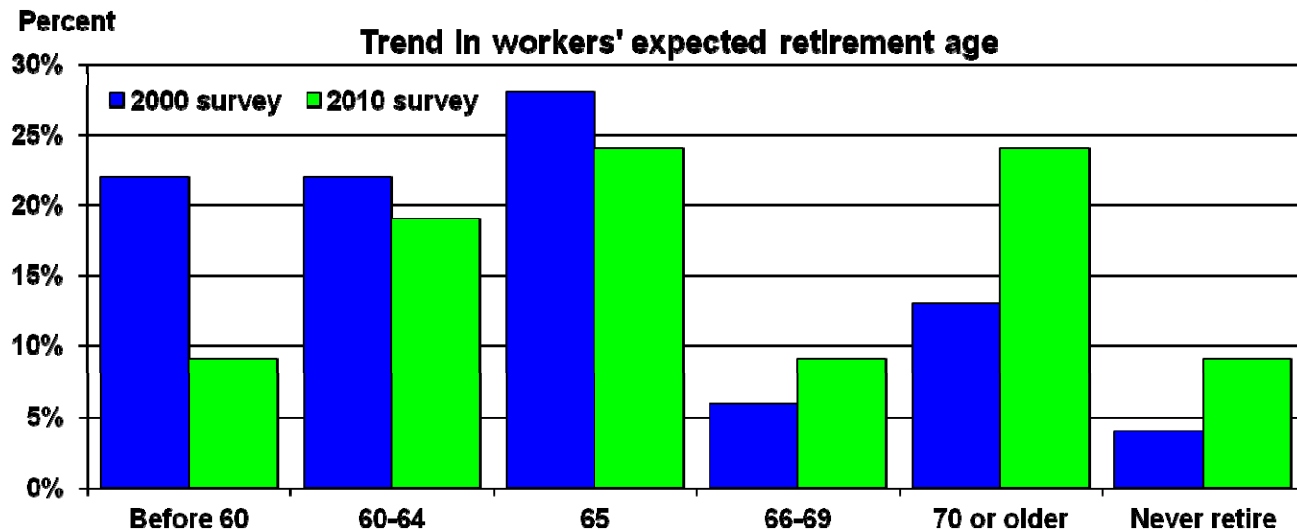


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Sources: Employee Benefit Research Institute and Matthew Greenwald & Associates, Inc., 2002-2010 Retirement Confidence Surveys.

Workers are postponing retirement



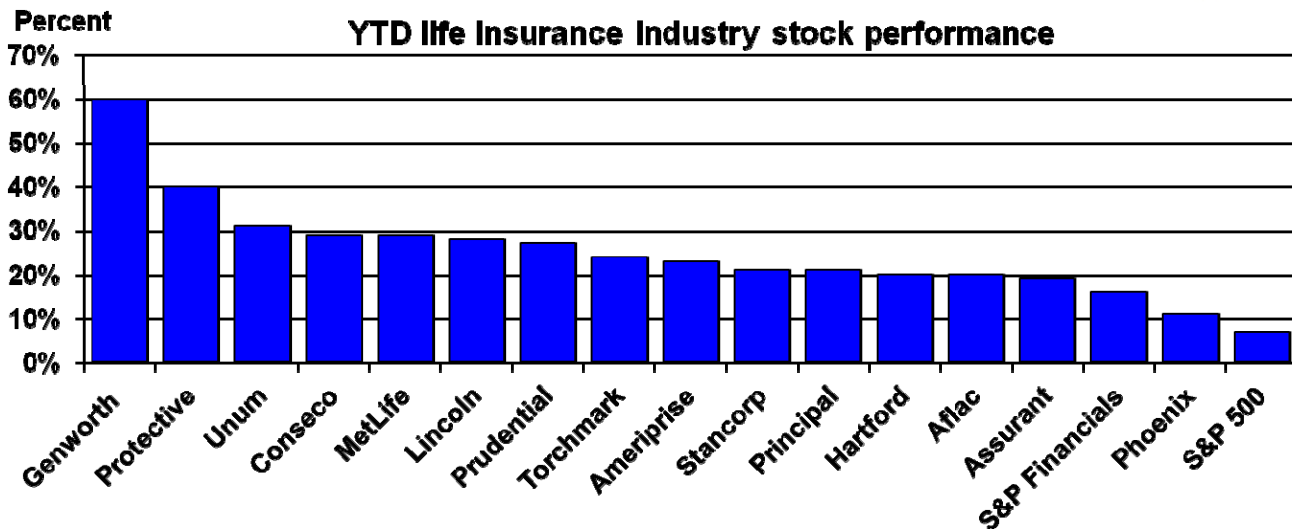
Sources: Employee Benefit Research Institute and Matthew Greenwald & Associates, Inc., 2000-2010 Retirement Confidence Surveys.

Life insurance stocks are up in 2010

YTD: January 1, 2010 — April 13, 2010

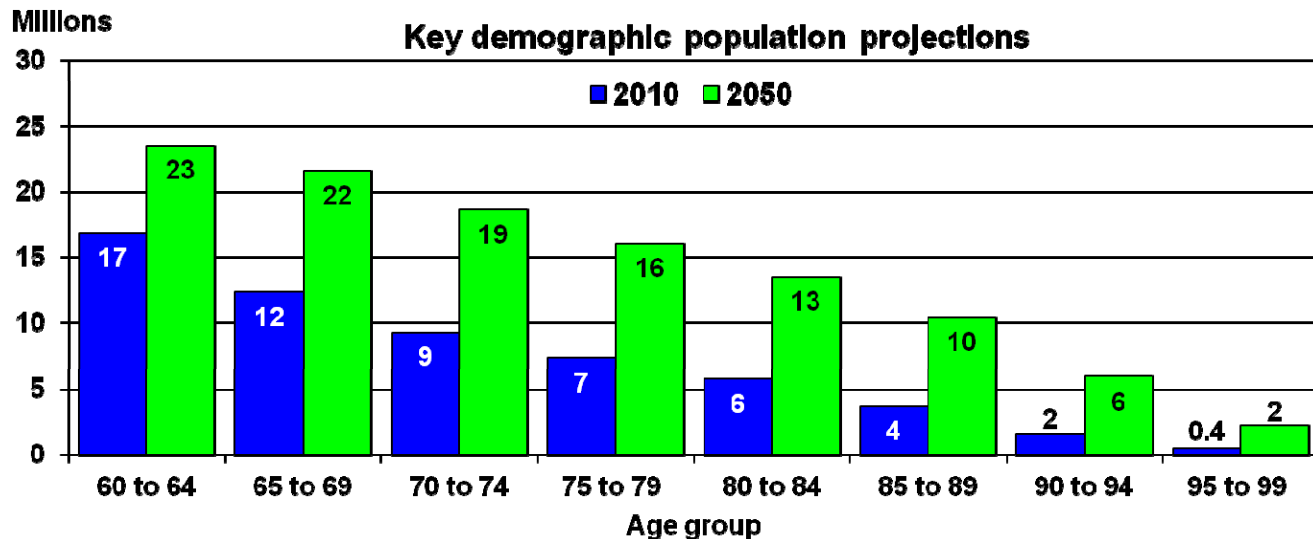


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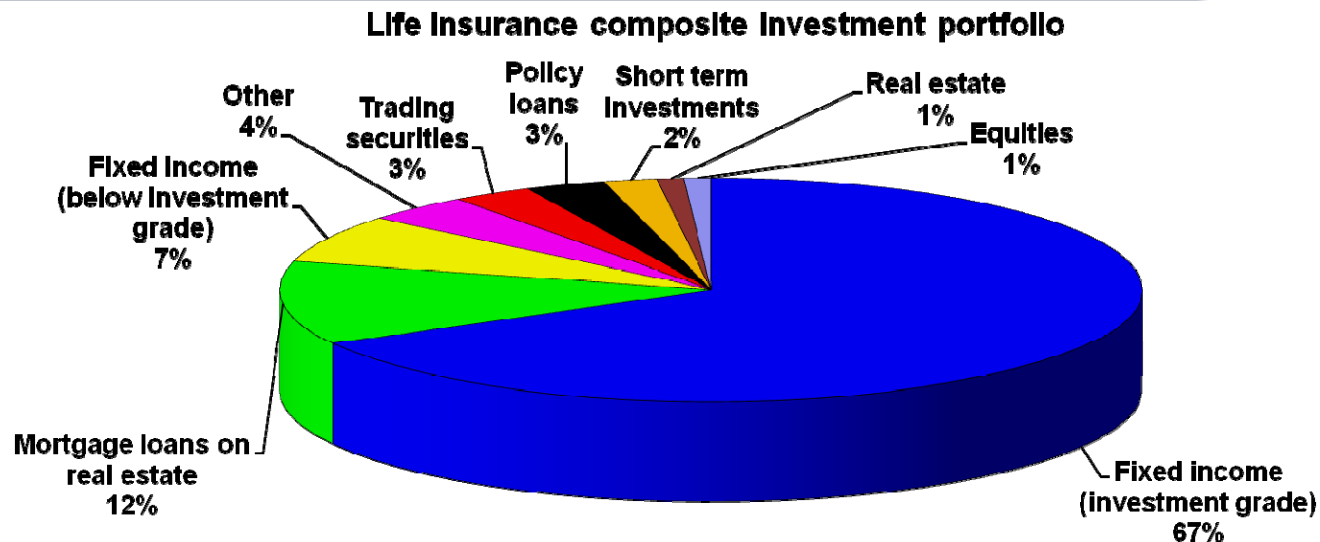
Source: Capital IQ.

Life insurance and annuity end-market demographics set to expand



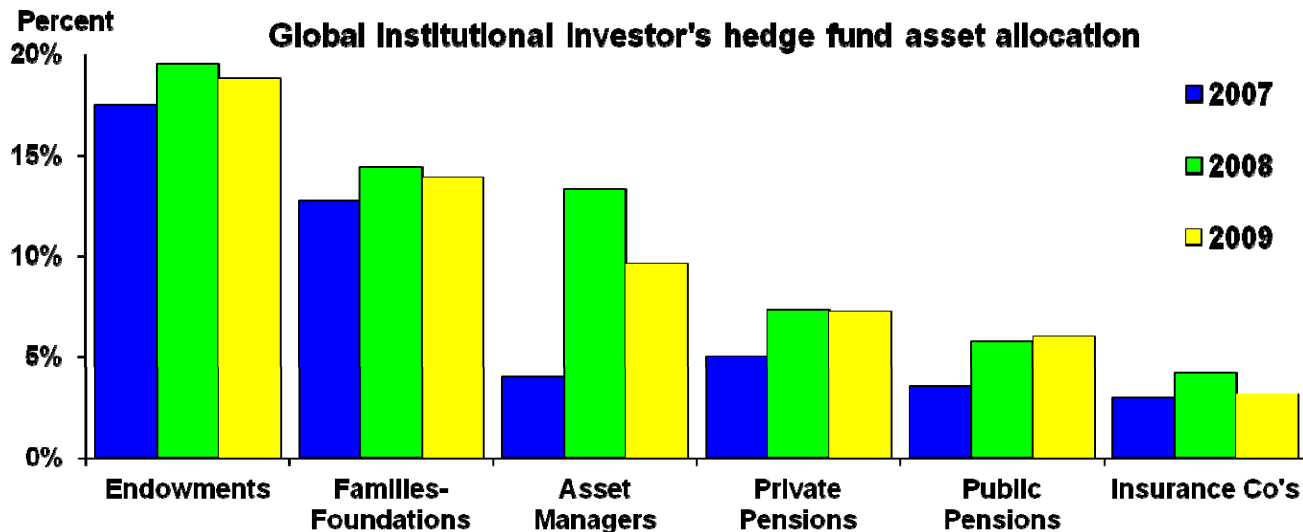
Source: Statistical Abstract of the United States (2008).

Life insurance investment portfolios comprised of primarily investment grade holdings



Sources: Company reports and Bank of America Merrill Lynch estimates, February 2010.

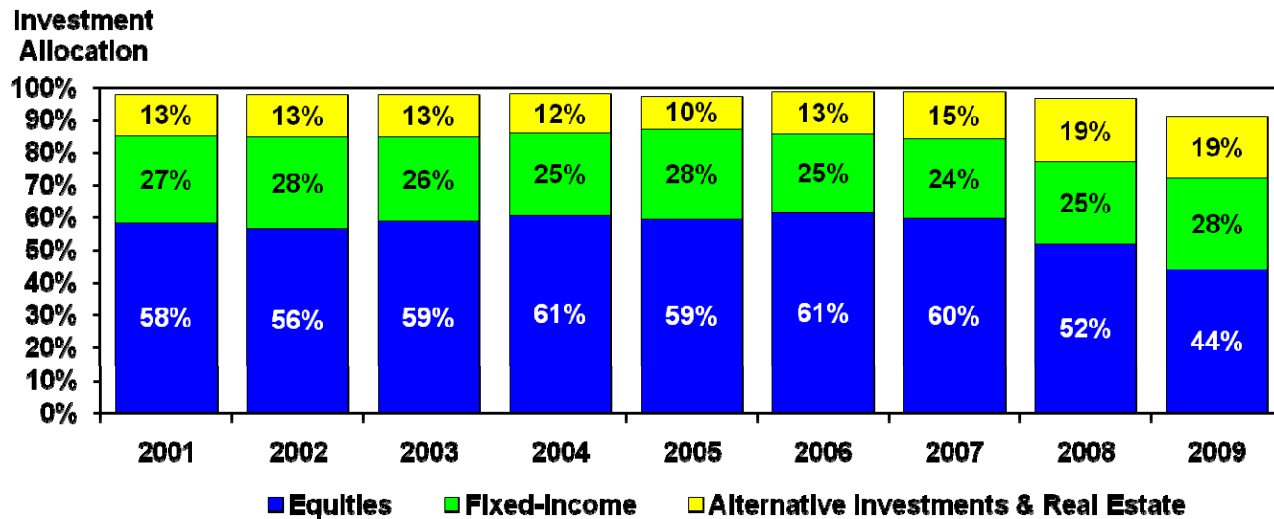
Institutional investors reduced exposure to hedge funds in 2009



Source: Preqin.

Alternative investments rise as share of investment allocation at CalPERS

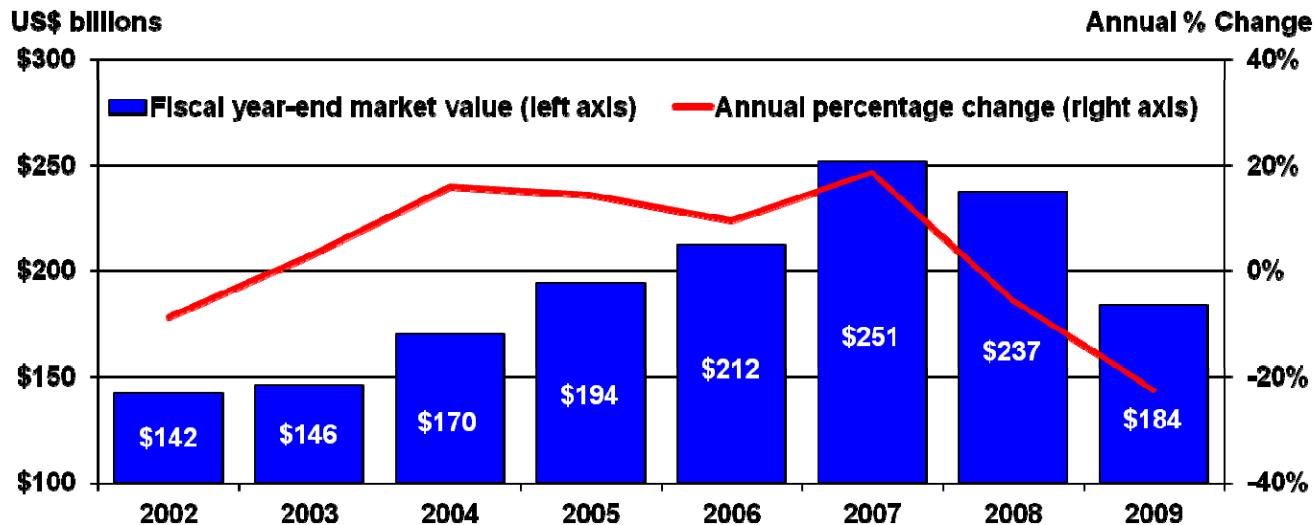
Fiscal year-end: 2001 — 2009



Source: CalPERS Comprehensive Annual Financial Report (2001-2009).

Market value of CalPERS public employees' retirement fund down 27% from peak in 2007

Fiscal year-end: 2002 — 2009



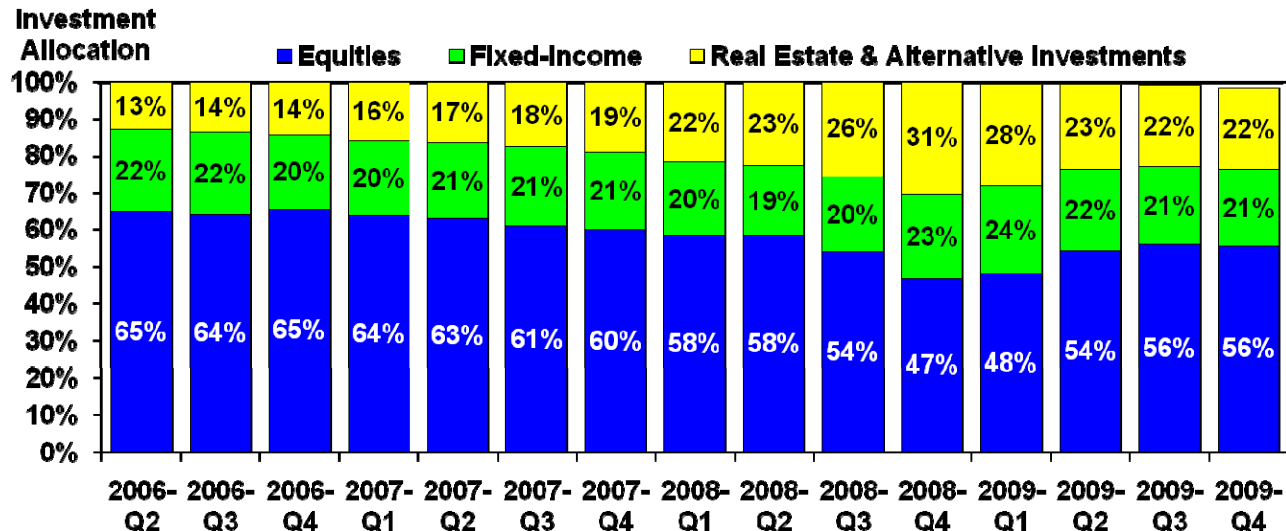
Source: CalPERS Comprehensive Annual Financial Report (2001-2009).

Evolution of CalSTRS portfolio

Quarterly Calendar: 2006Q2 — 2009Q4



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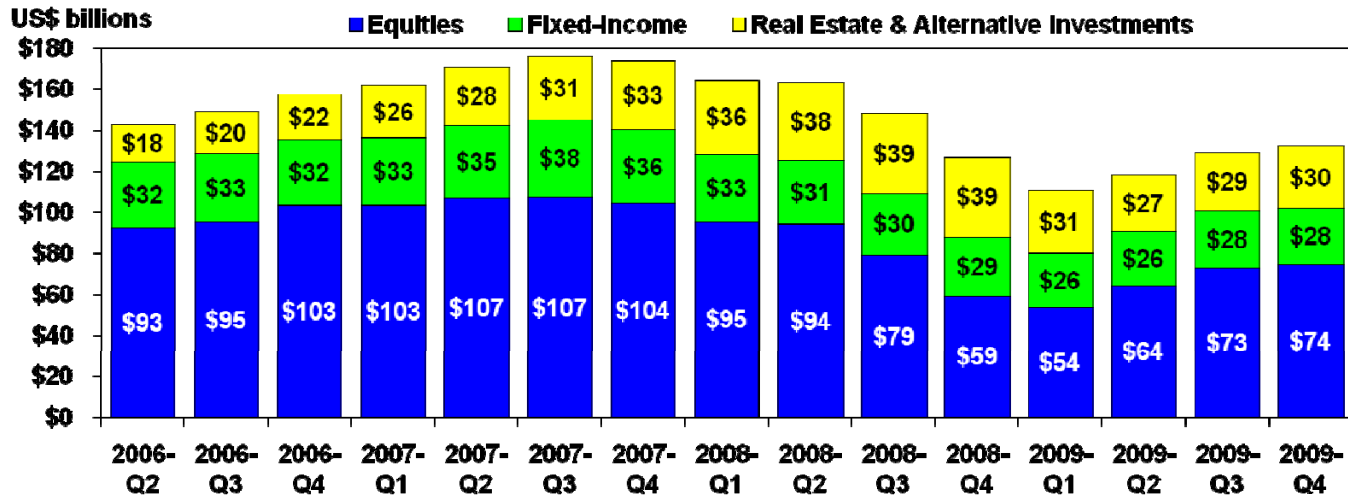
Source: CalSTRS Quarterly Activity Report.

CalSTRS market value recovering from 2009Q1 bottom: \$30+ billion in Alt-investments



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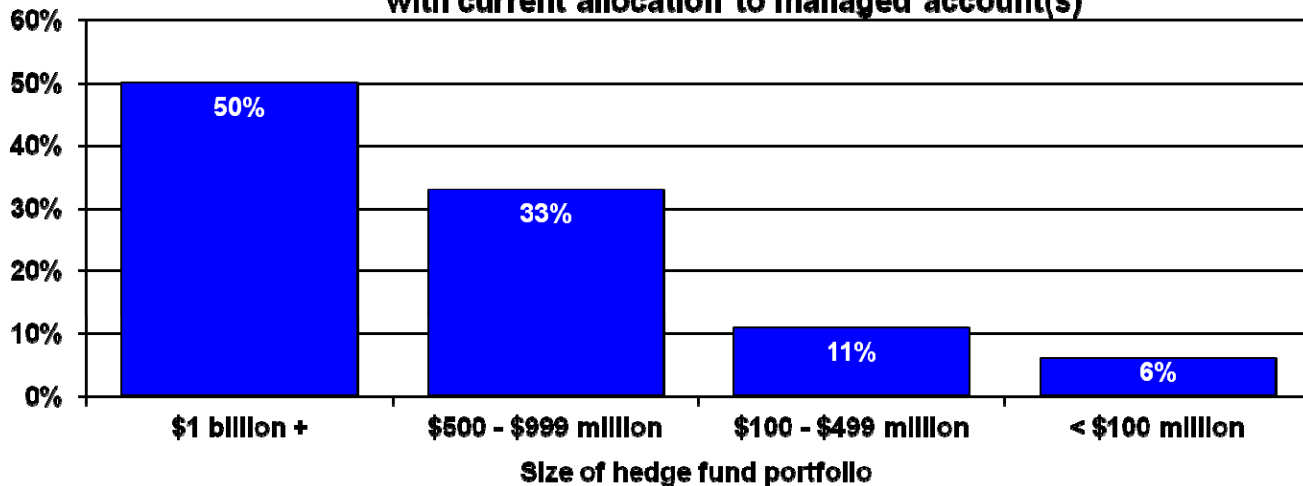
Quarterly Calendar: 2006Q2 — 2009Q4



Source: CalSTRS Quarterly Activity Report.

Large institutional investors taking interest in managed hedge fund accounts

**Proportion of North American and European Institutional Investors
with current allocation to managed account(s)**



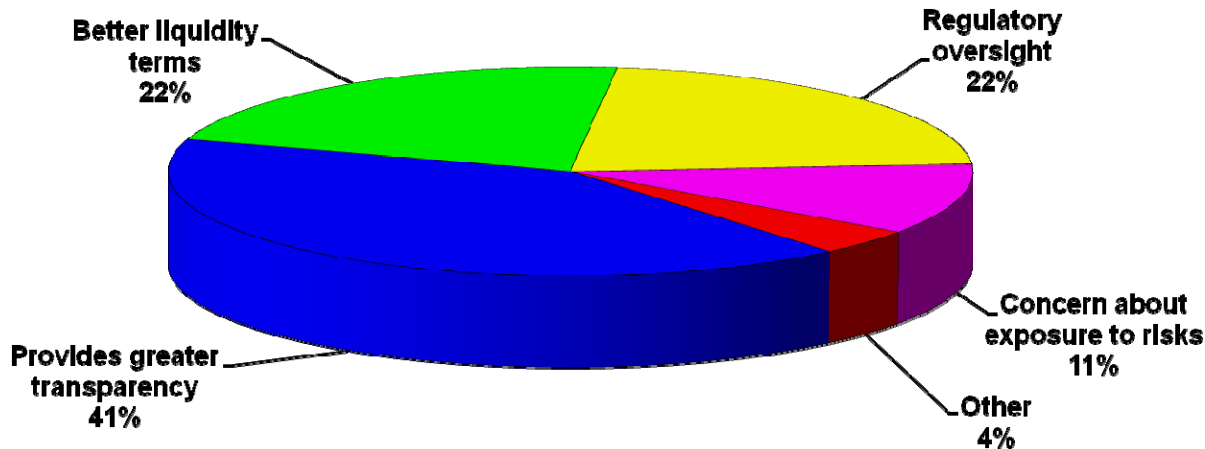
Source: Preqin February 2010.

Transparency and liquidity influencing shift toward managed hedge fund accounts



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Main reason stated by North American and European Institutional Investors for investing in managed hedge fund accounts



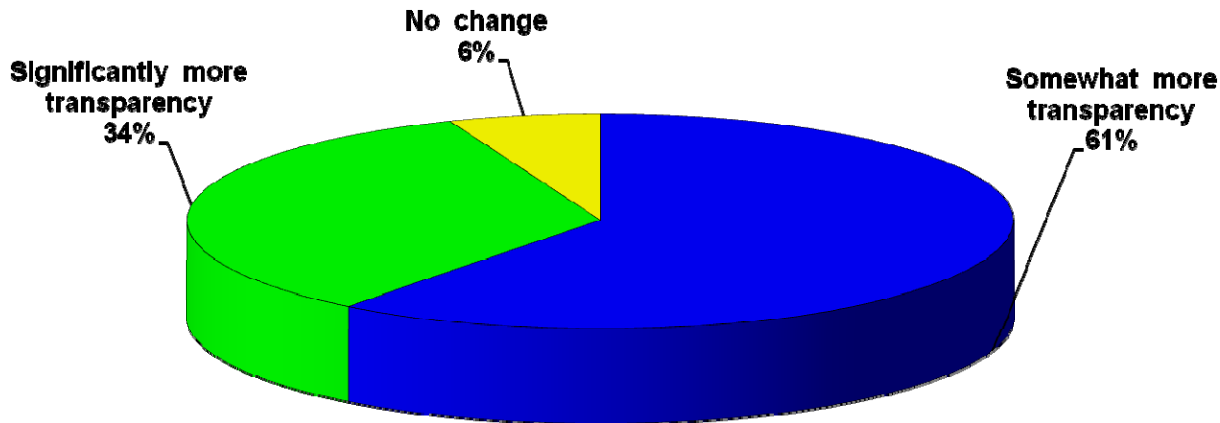
Source: Preqin February 2010.

Hedge fund investors are receiving greater transparency



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To what extent do hedge fund managers currently provide you with more transparency now than pre-September 2008?



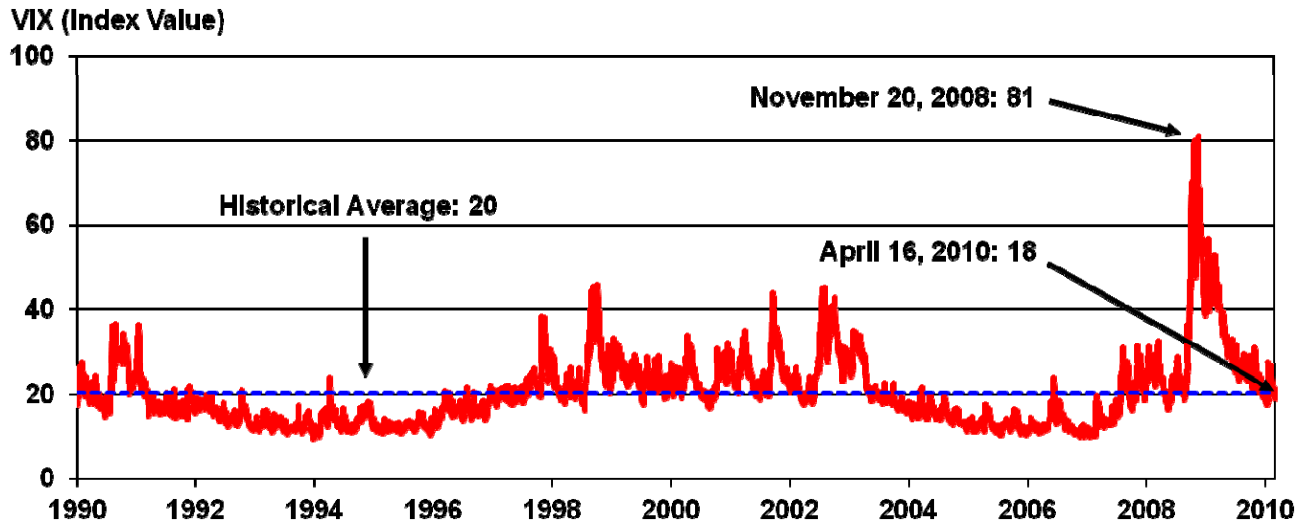
Source: Credit Suisse 2010 Global Hedge Fund Investor Survey.

Market volatility now below historical average

VIX Index (Daily): January 2, 1990 — April 16, 2010



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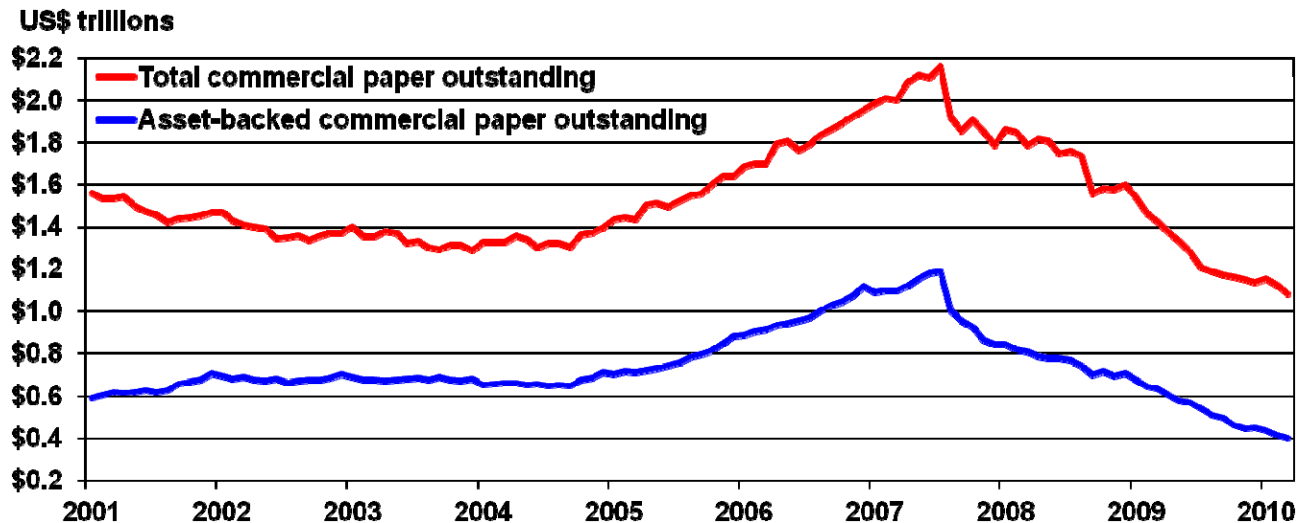
Source: Bloomberg.

U.S. commercial paper market still in free-fall

Monthly: Jan. 2001 — Mar. 2010



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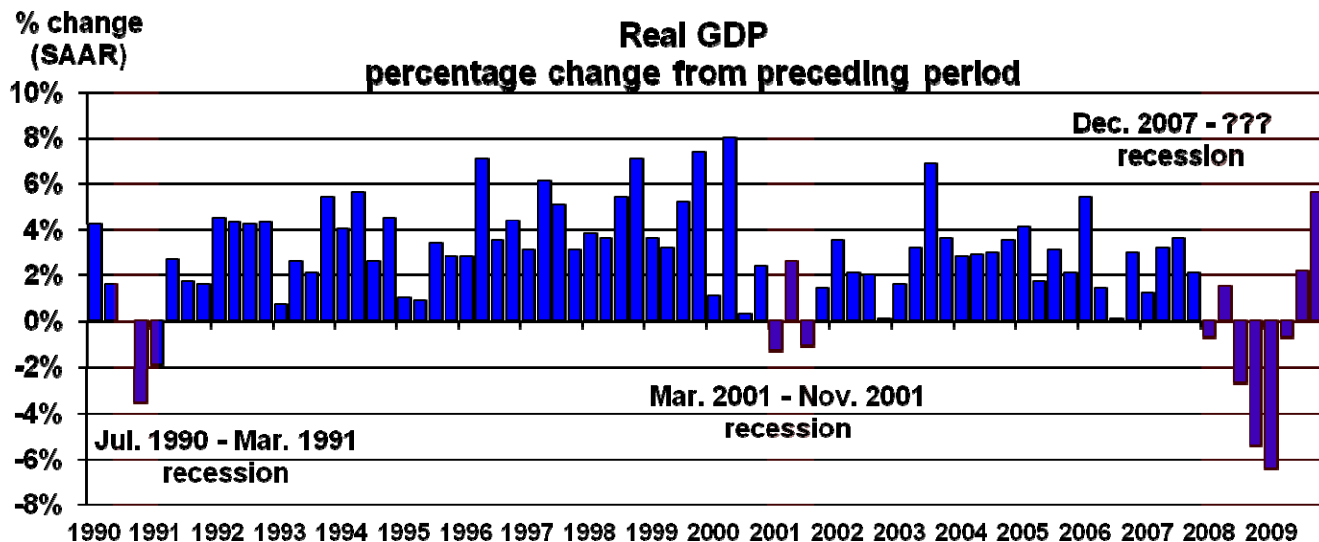
Source: Federal Reserve.

U.S. real GDP expanding as economy recovers

Quarterly: 1990Q1 – 2009Q4



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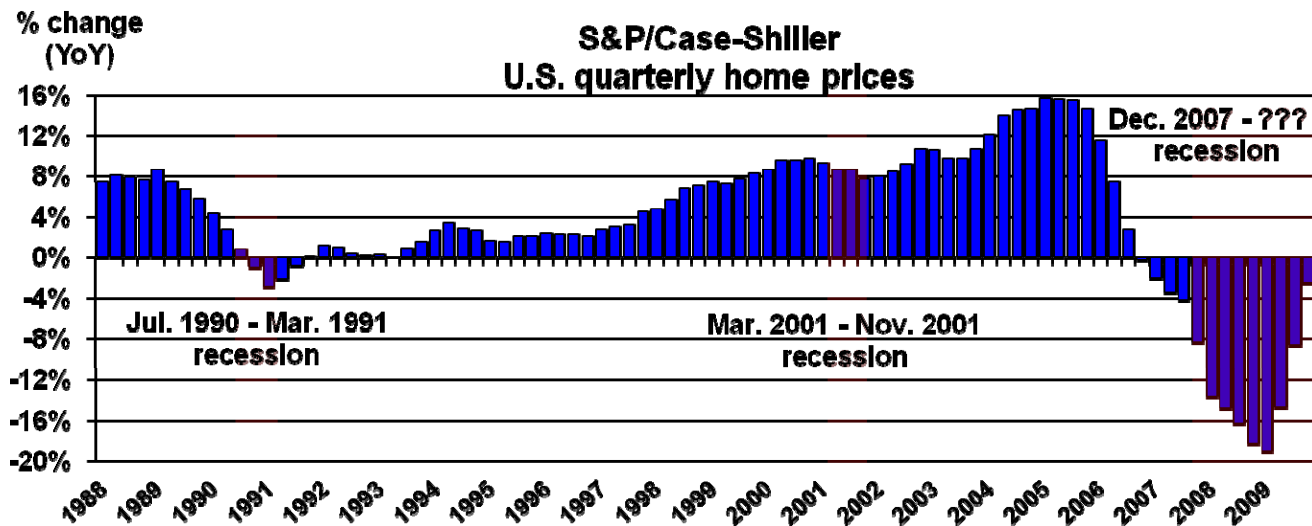
Sources: BEA, NBER.

Home prices may have touched bottom

Quarterly: 1988Q1 – 2009Q4



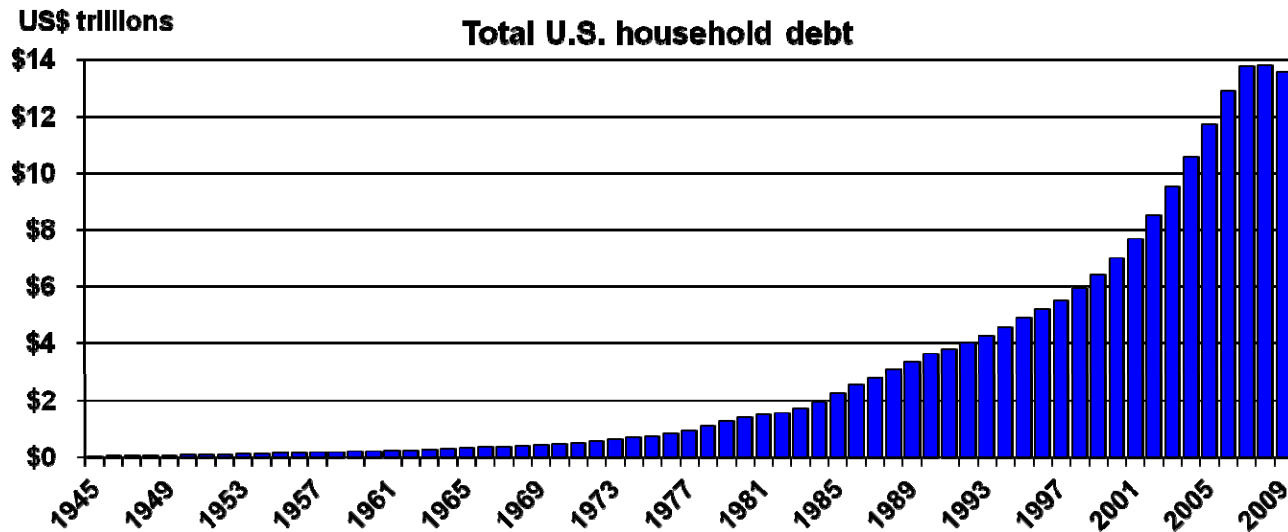
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Sources: S&P/FiServ, NBER.

2009: first time on record that total U.S. household debt fell year-over-year

Annual: 1945 – 2009



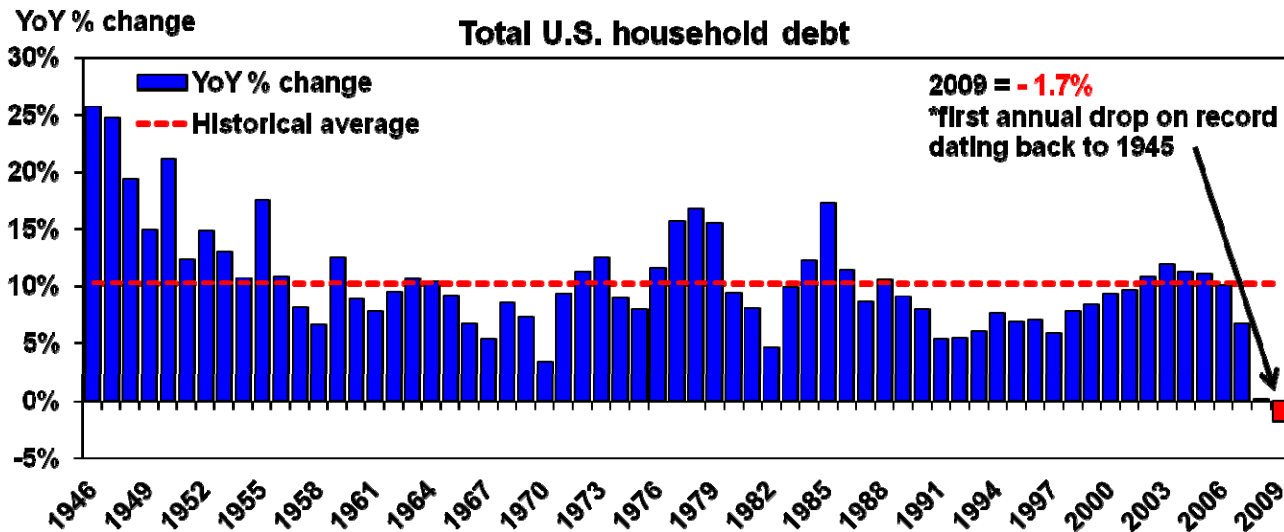
Source: Federal Reserve.

2009: first time on record that total U.S. household debt fell year-over-year

Annual: 1945 – 2009



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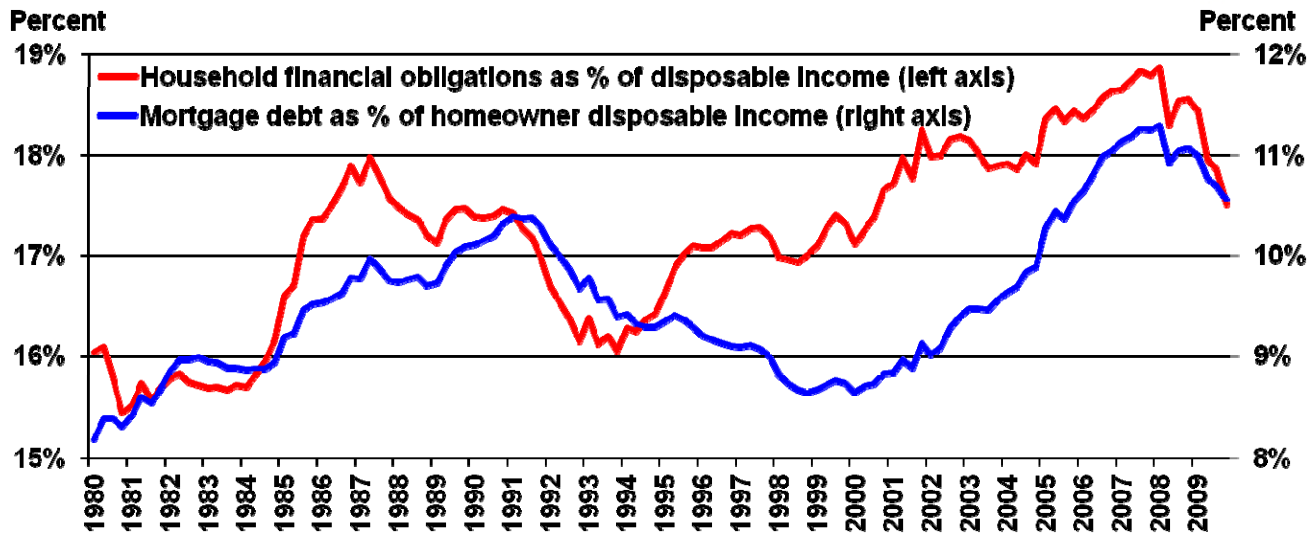
Source: Federal Reserve.

U.S. households now deleveraging

Quarterly: 1980Q1 – 2009Q4



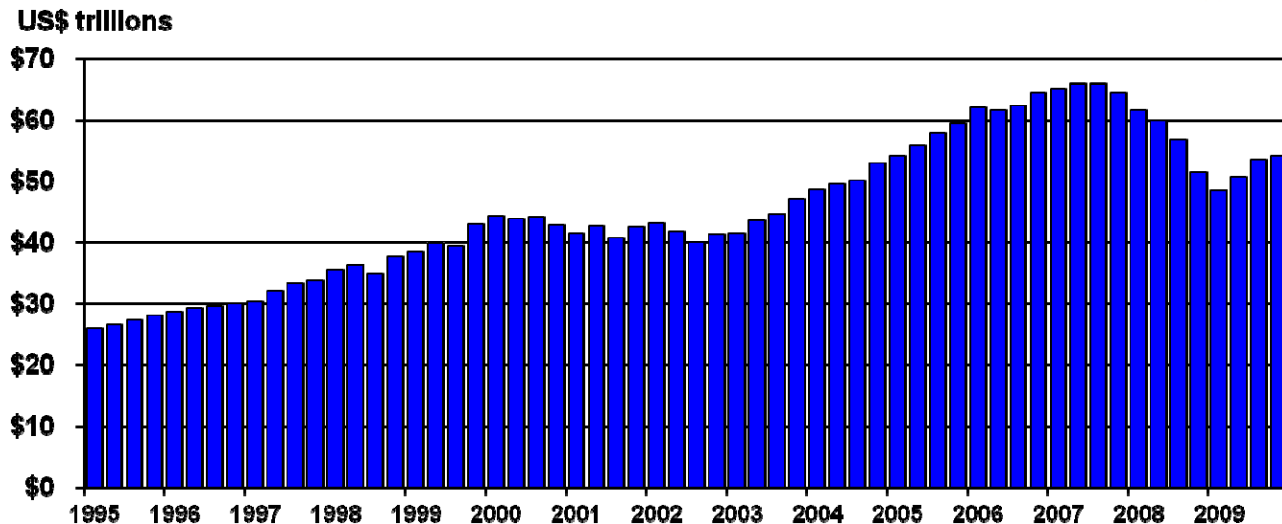
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Source: Federal Reserve.

U.S. household net worth beginning to rise

Quarterly: 1995Q1 – 2009Q4

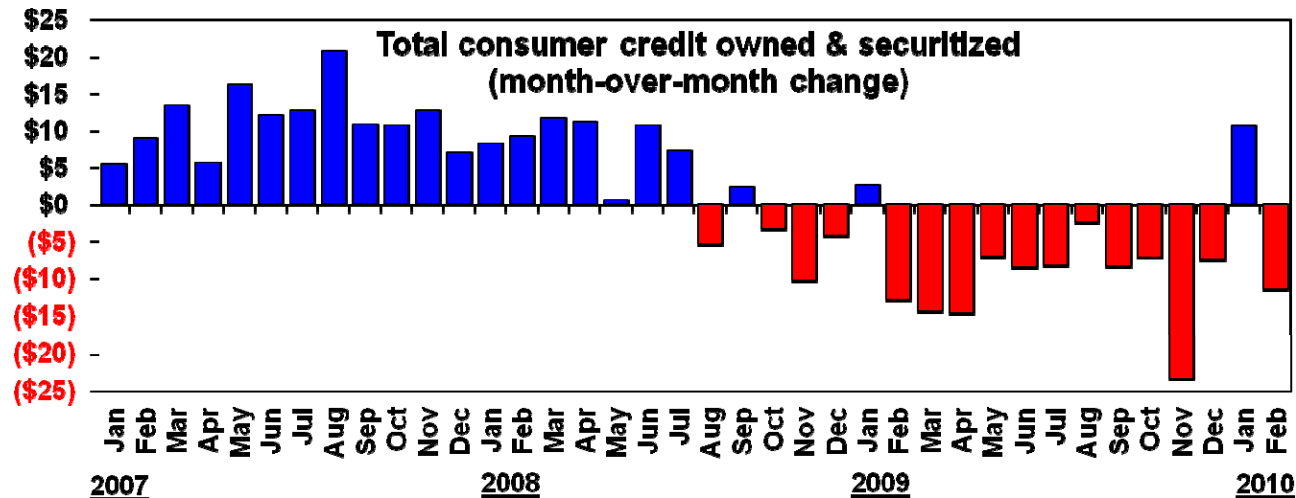


Source: Federal Reserve.

American consumers reluctant to take on additional debt

Monthly: Jan. 2007 – Feb. 2010

US\$ billions



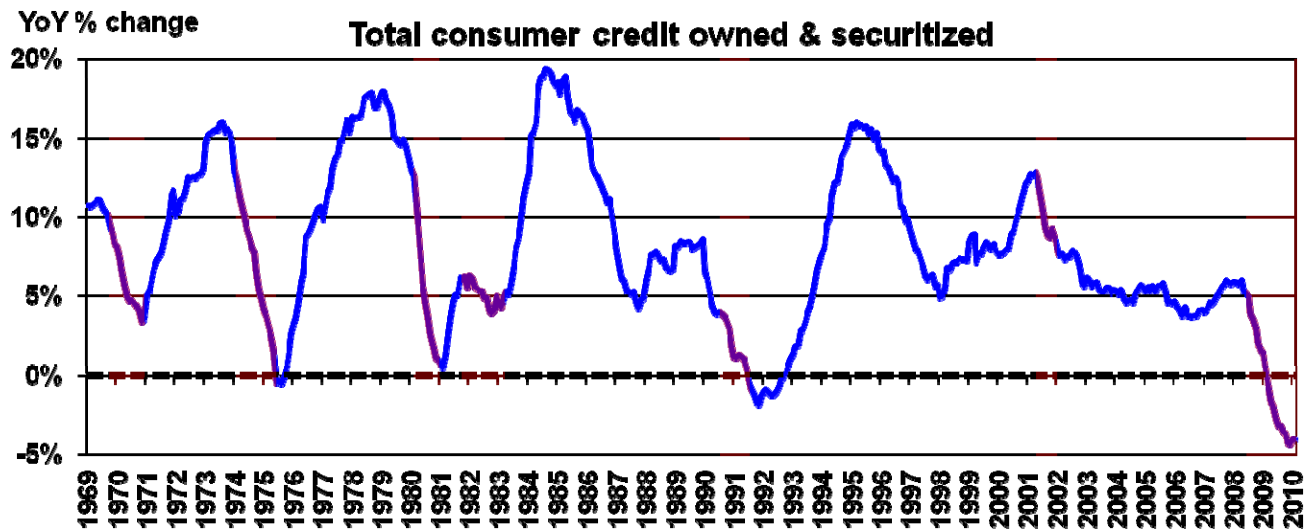
Source: Federal Reserve.

Does trough in consumer credit signal end of Great Recession?

Monthly: Jan. 1969 – Feb. 2010



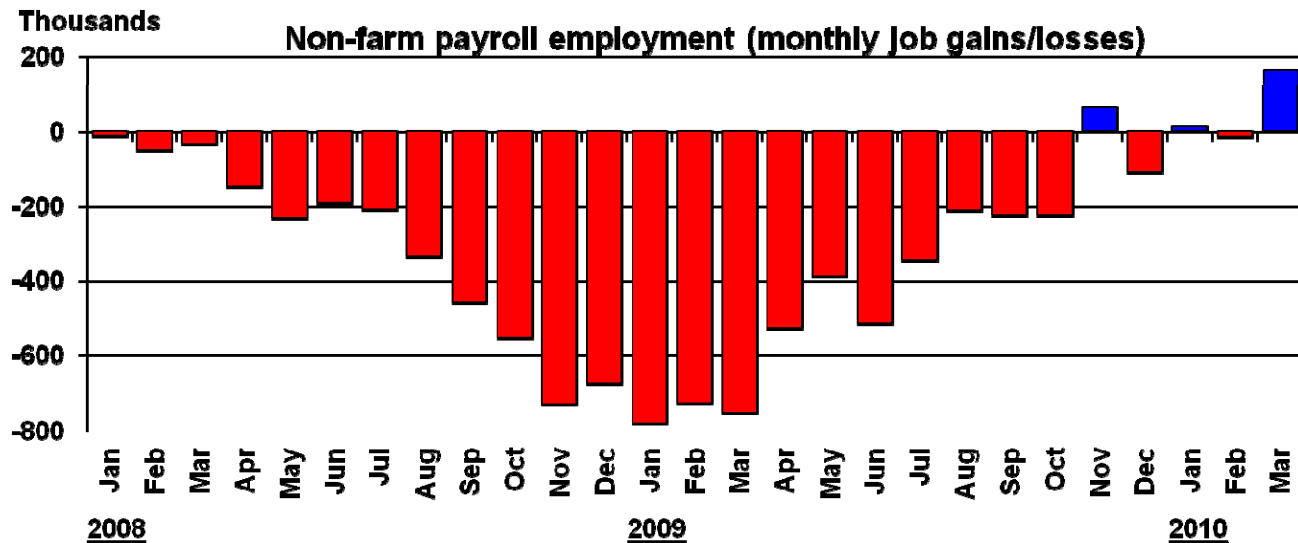
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Sources: Federal Reserve, NBER.

U.S. economy beginning to add jobs

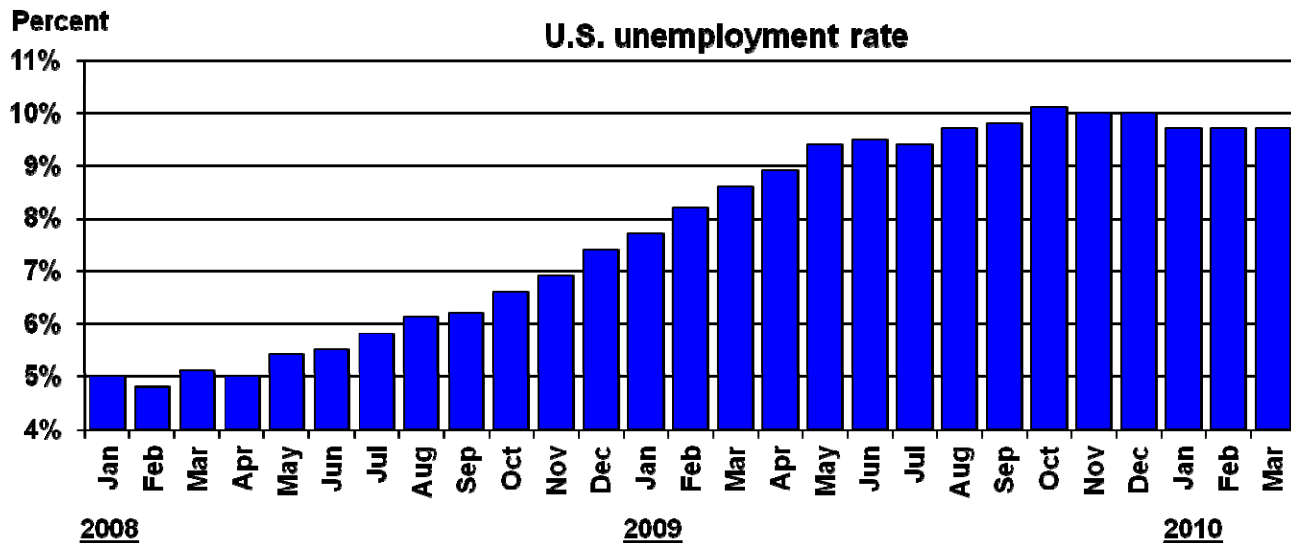
Monthly: Jan. 2008 – Mar. 2010



Source: BLS.

U.S. unemployment rate improving

Monthly: Jan. 2008 – Mar. 2010



Source: BLS.