

Date: February 1, 2013

Vol. X, No. 2

PRT: A Tactical View

We tend not to make market calls. However, our indicators signaled a top in bonds (low in rates) last July. At the same time we observe the struggle between the Fed vs. the titans.

Where will rates go once Ben stops buying?

LDI bond oriented portfolios work great in a declining rate market. Once rates reverse (which they already have) liabilities fall - along with bond prices. Plan sponsors must ask these questions:

- 1) Is low contribution volatility a desirable goal?
- 2) Is spending less shareholder equity on DB deficits a better goal?

From a tactical view, holding bonds in a rising rate market is like catching a knife in mid air - it could be risky. We use the tag line **"Think Strategic. Act Tactical"** for a reason.

What's it mean? We are entering a period of change from the last 5-7 years when plans exited equities to bonds for LDI mandates. The reversal is in: *rising rates and falling bond prices.*

LDI bond oriented allocations "lock losses". The only way to make up DB deficits is:

- 1) active risk managed alpha, or
- 2) cold hard shareholder cash.

Consider a Tactical Approach

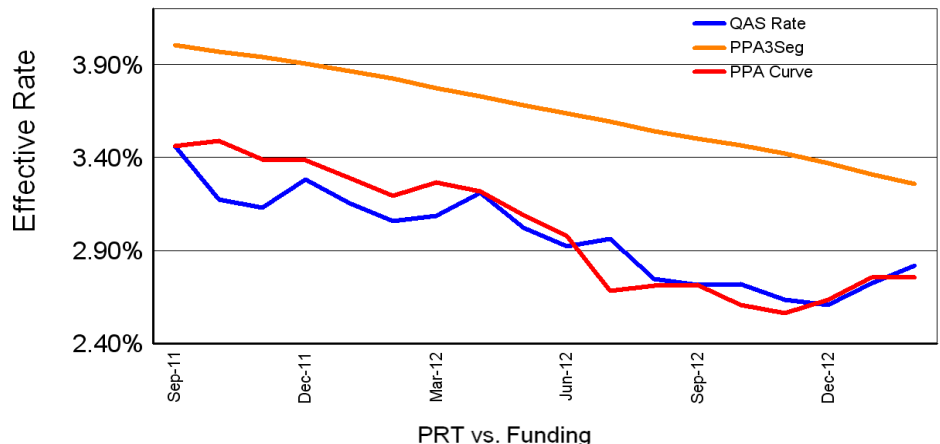
Tactical allocation means that overpriced assets are sold and replaced by underpriced assets. This PRT view is needed *now - not later*. The rate gap has closed and value is emerging. MAP-21 grants a contribution holiday. Take it...and **Take the PRT swap now**. Implement our Tactical PRT view:

Swap long LDI bonds for PRT annuities.

Our QAS PRT 1000 Index illustrates convergence of rates:

QAS Pension Risk Transfer 1000 Index©

Effective Rates 11-2011 to 02-2013 - Retirees



©Copyright 2004-2013 Qualified Annuity Services, Inc. All rights reserved

Conclusion:

Tactical PRT is an LDI bond swap that mitigates risk, minimizes shareholder losses, and accelerates recovery to full funding.

For information on custom PRT index modeling capabilities, please give us a call.

Get Informed. Think Strategic. Act Tactical.

For information contact Don Cunningham (513-772-4488) or Joe Cleary (201-447-3900) or QAS.

Date	Immediate Life Annuity	Deferred Life Annuity
December 1, 2012	2.69%	3.03%
January 1, 2013	2.80%	3.29%
February 1, 2012	2.91%	3.40%