

Bonds and Equities Serve Different Investment Objectives

Generate stable yields to match shorter-term liabilities

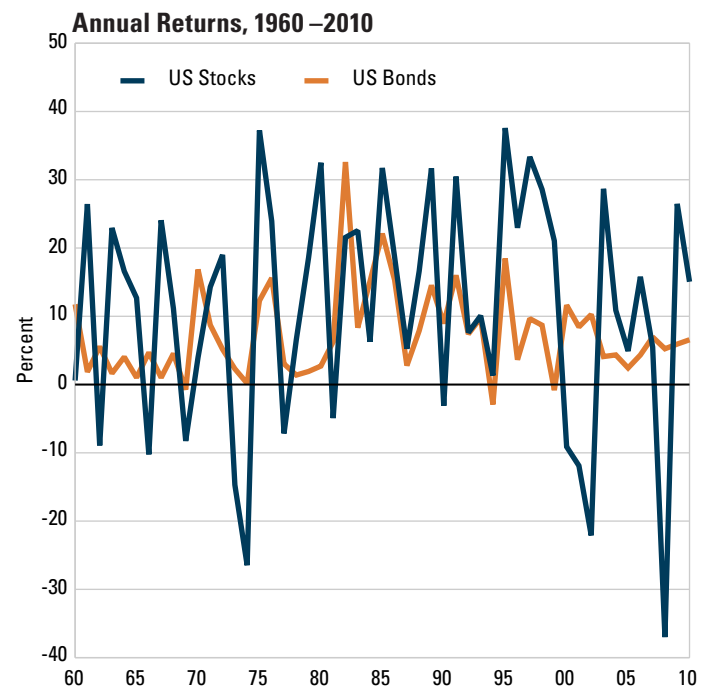
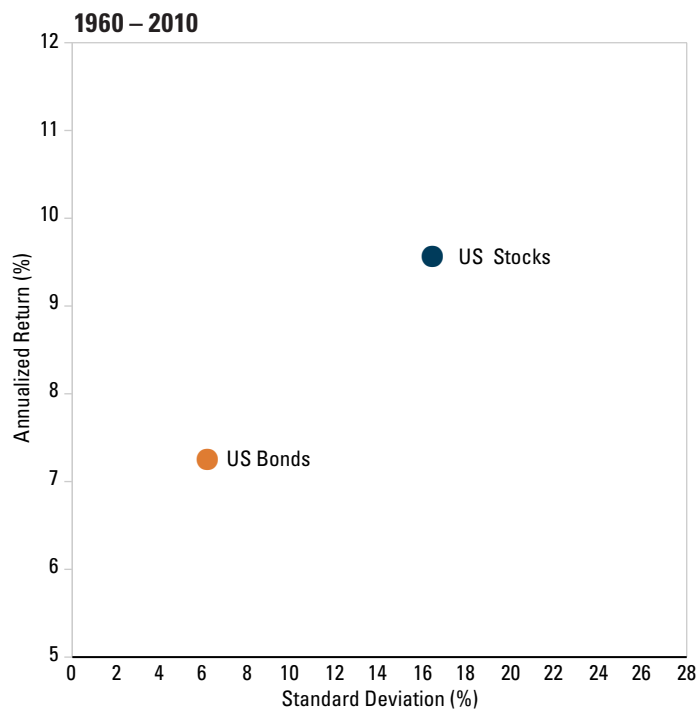
- Government Bonds
- Corporates
- Cash

Generate high-but-variable returns to achieve long-term payout objectives/grow surplus

- US equities
- Non-US equities
- Emerging markets

Asset
Allocation

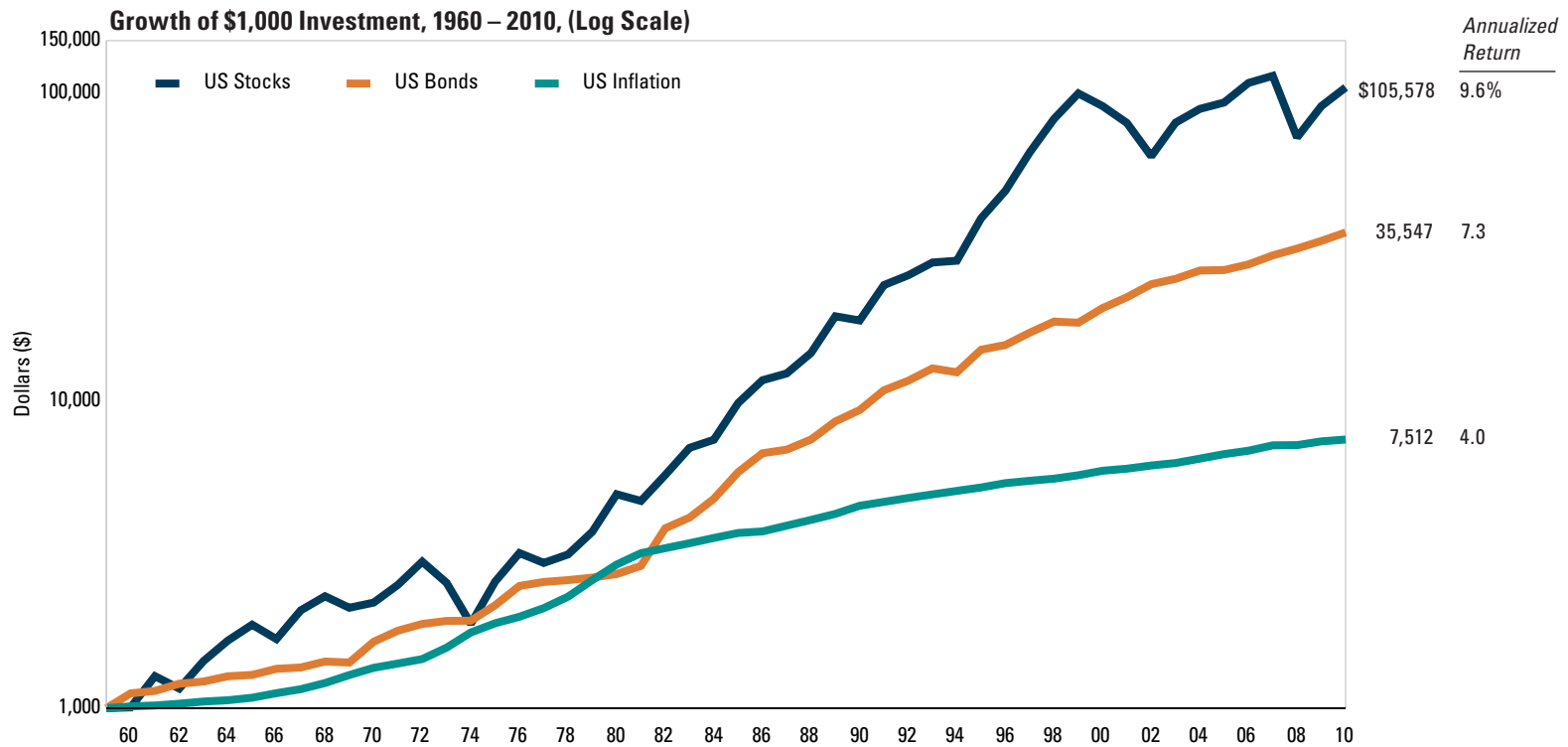
Stocks Provide Higher Returns with More Volatility (Risk)



US Stocks: S&P 500

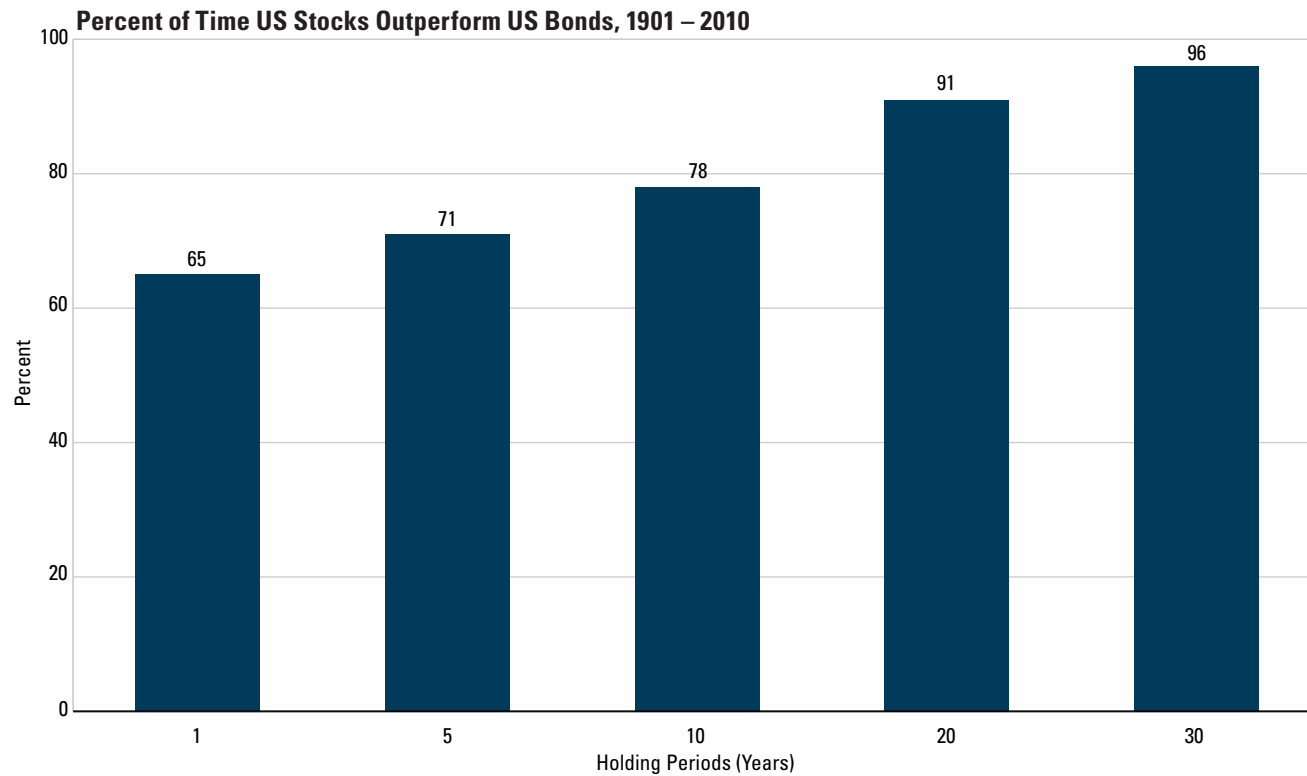
US Bonds: 1976 - 2010 Barclays Capital US Aggregate Bond, 1973 - 1975 Barclays Capital US Govt/Credit Bond, 1960 - 1972 Ibbotson US Intermediate Govt Bond

But Have Provided Much Higher Asset Growth Over the Long Term



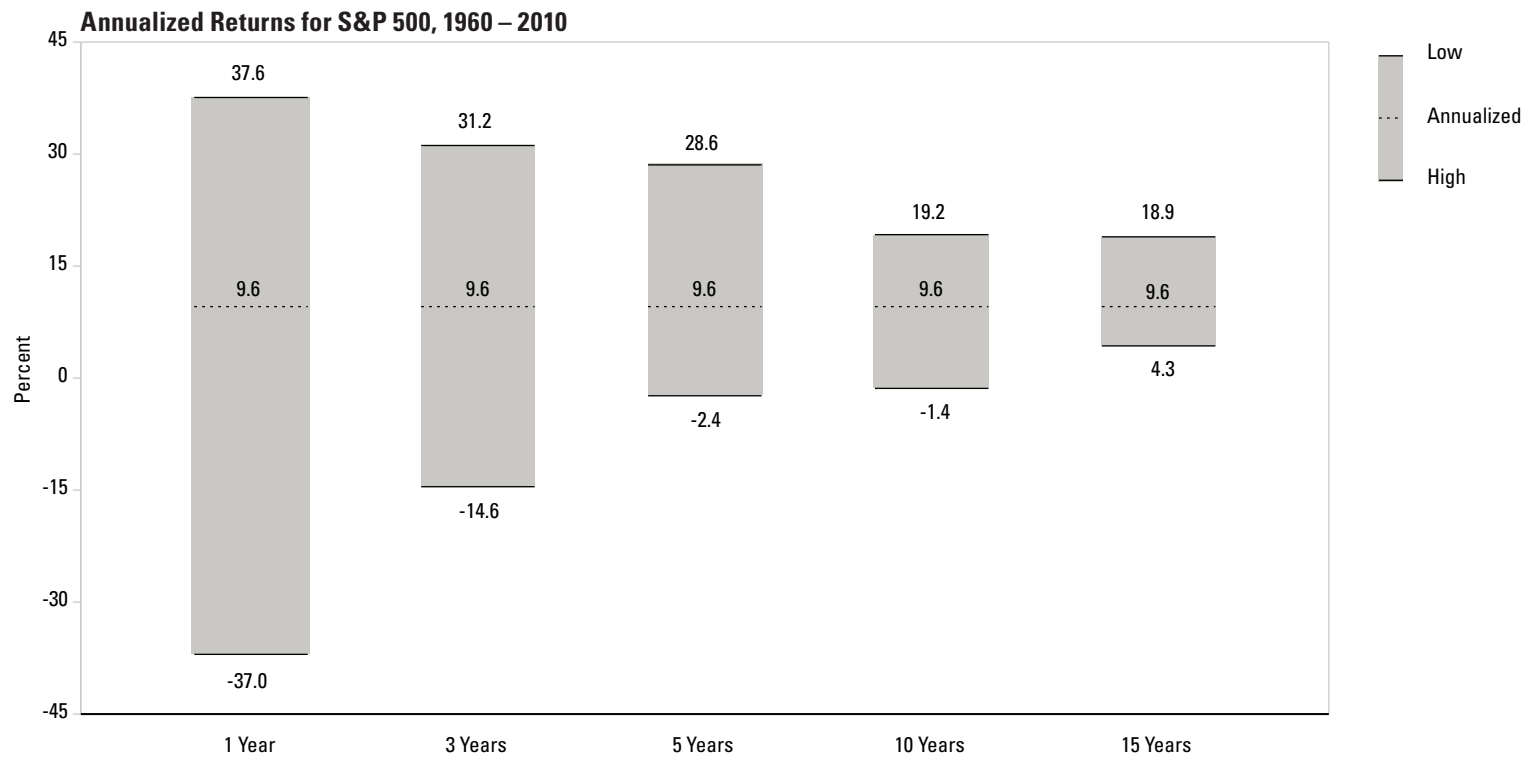
US Stocks: S&P 500
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 US Inflation: US CPI

Time Is an Asset Longer Time Horizons Favor Stocks

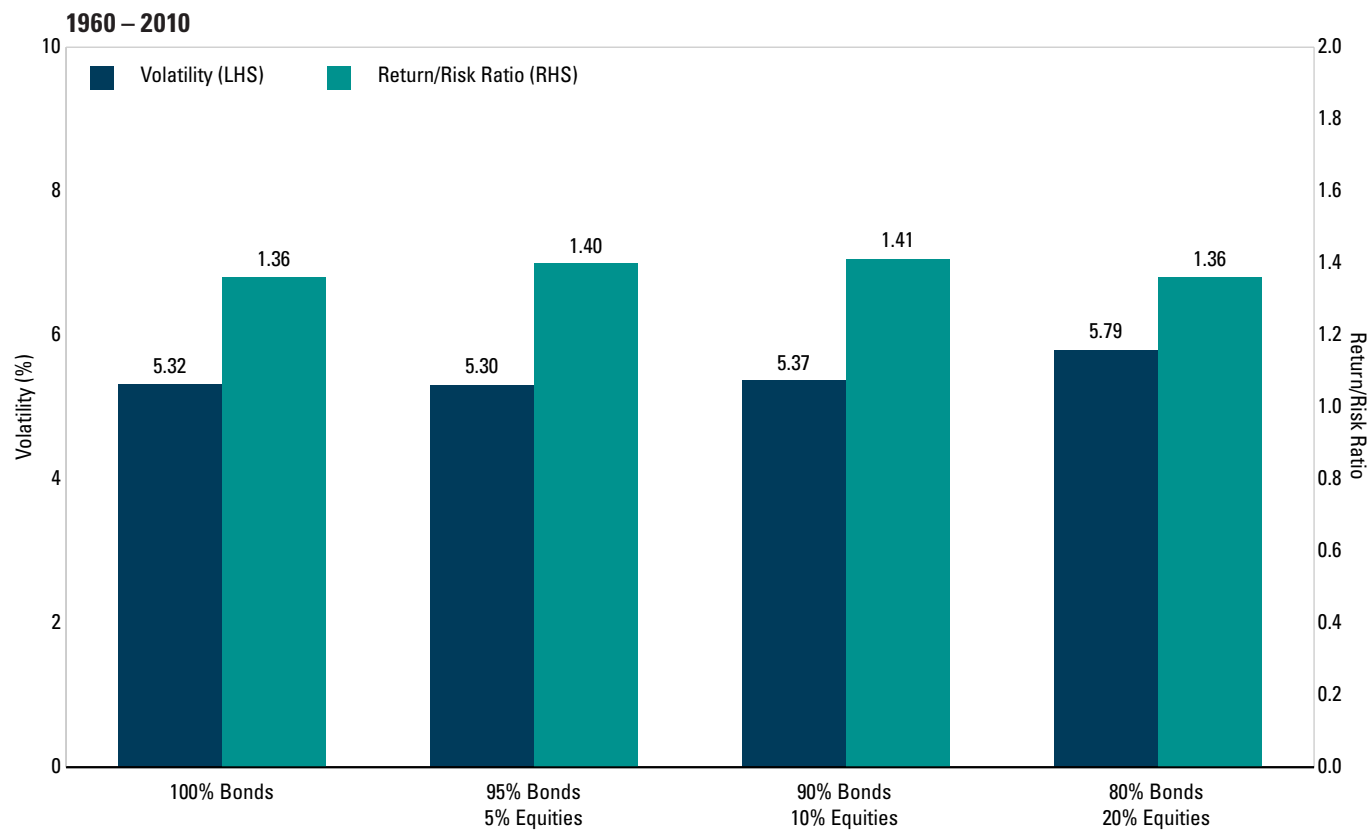


US Stocks: S&P 500
US Bonds: 1976 – 2010 Barclays Capital US Aggregate Bond, 1973 – 1975 Barclays Capital US Govt/Credit Bond, 1969 – 1972 Citigroup US High Grade Corporate, 1901 – 1968 S&P US High Grade Corporate Bond

Time Is an Asset Longer Time Horizons Shrink Distribution of Outcomes



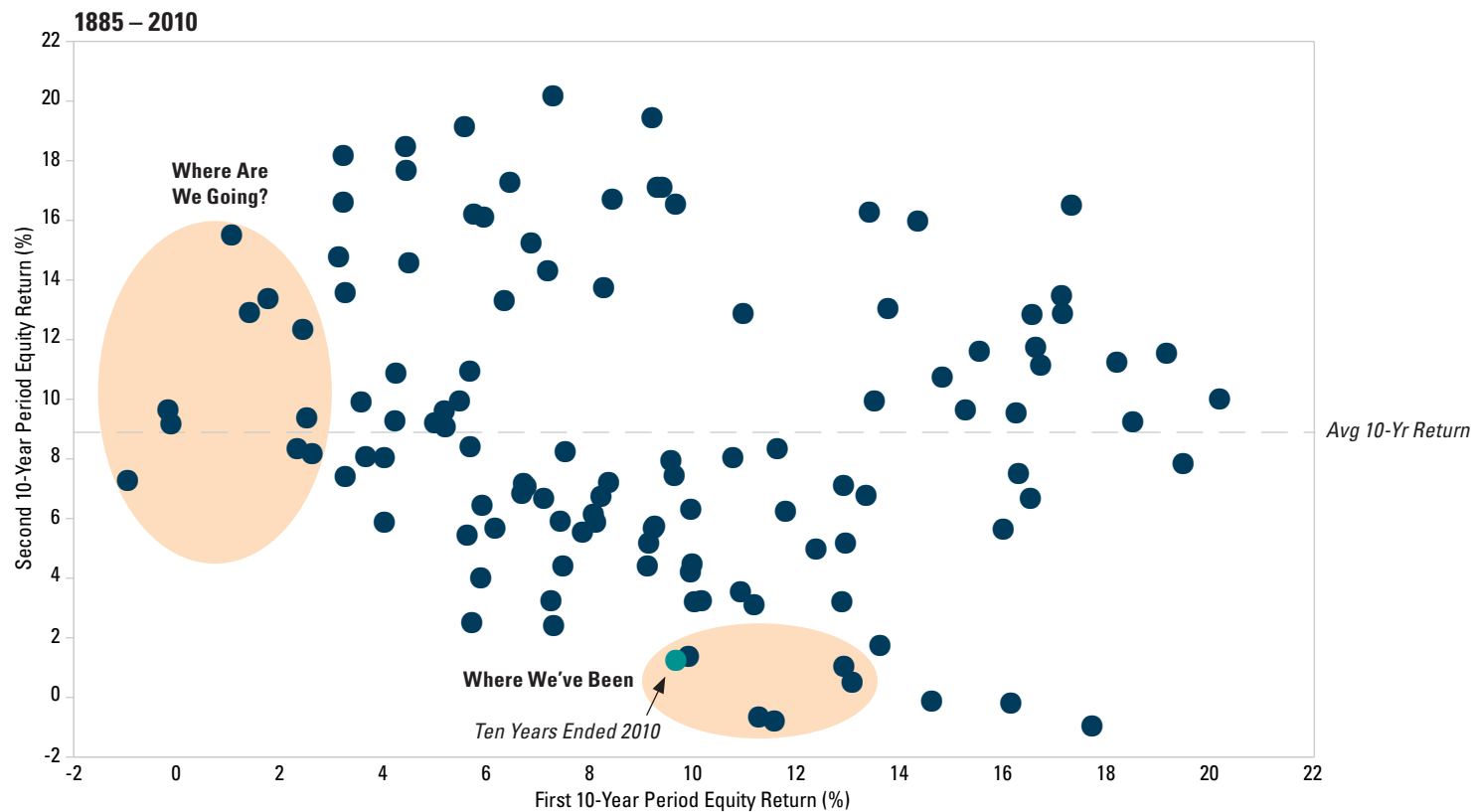
Adding Incremental Equity Exposure to a Bond Portfolio Has Minimal Impact on Volatility and Increases Return/Risk Ratio



Equities: S&P 500

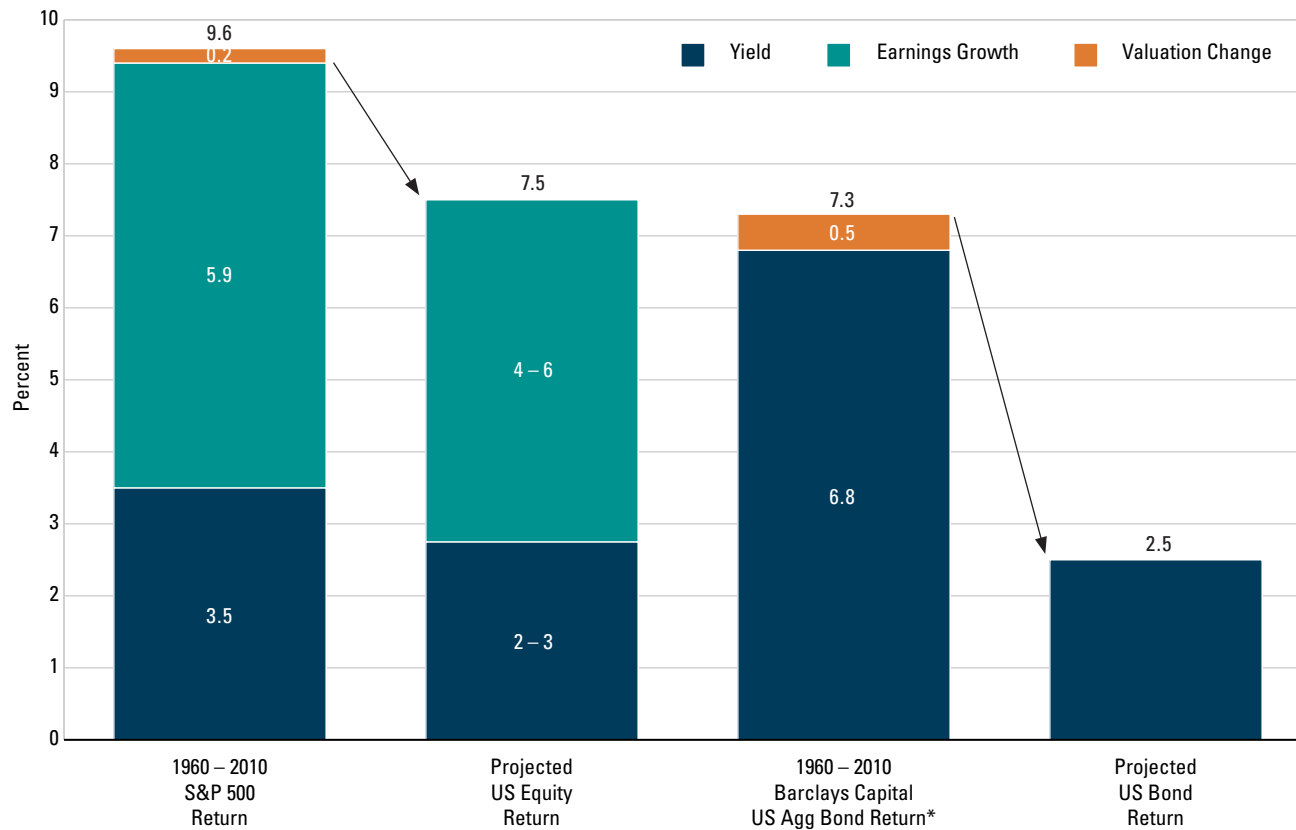
Bonds: 1976 – 2010 Barclays Capital US Aggregate Bond, 1973 – 1975 Barclays Capital US Govt/Credit Bond, 1960 – 1972 Ibbotson US Intermediate Govt Bond

Miserable Decades Tend To Be Followed by Normal Decades



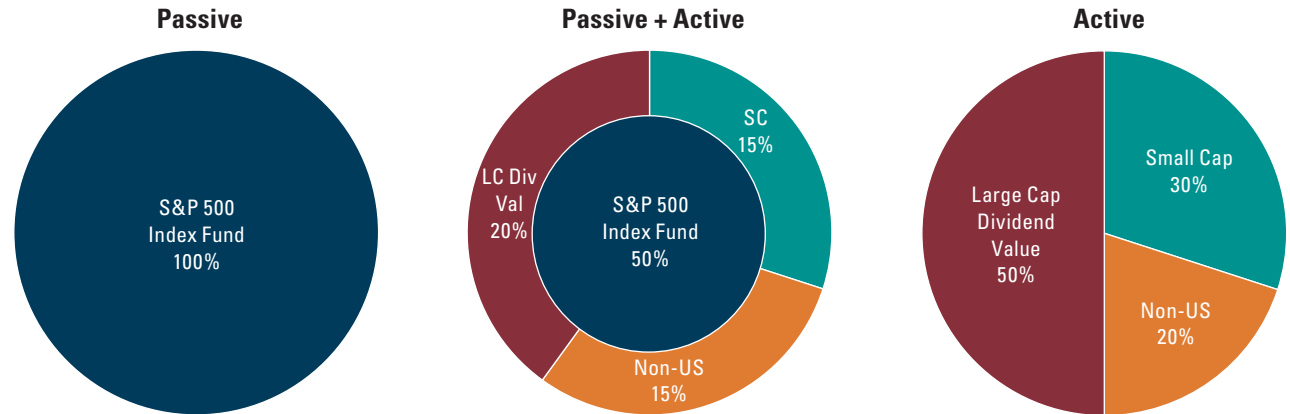
Sources: Cowles Commission, S&P, MSCI

Lower Expected Returns For Both Stocks and Bonds Going Forward



Projections based on Wellington Management five-year capital market expectations
 *1976 – 2010 Barclays Capital US Agg Bond, 1973 – 1975 Barclays Capital US Govt/Credit Bond, 1970 – 1972 Ibbotson Intm Govt Bond

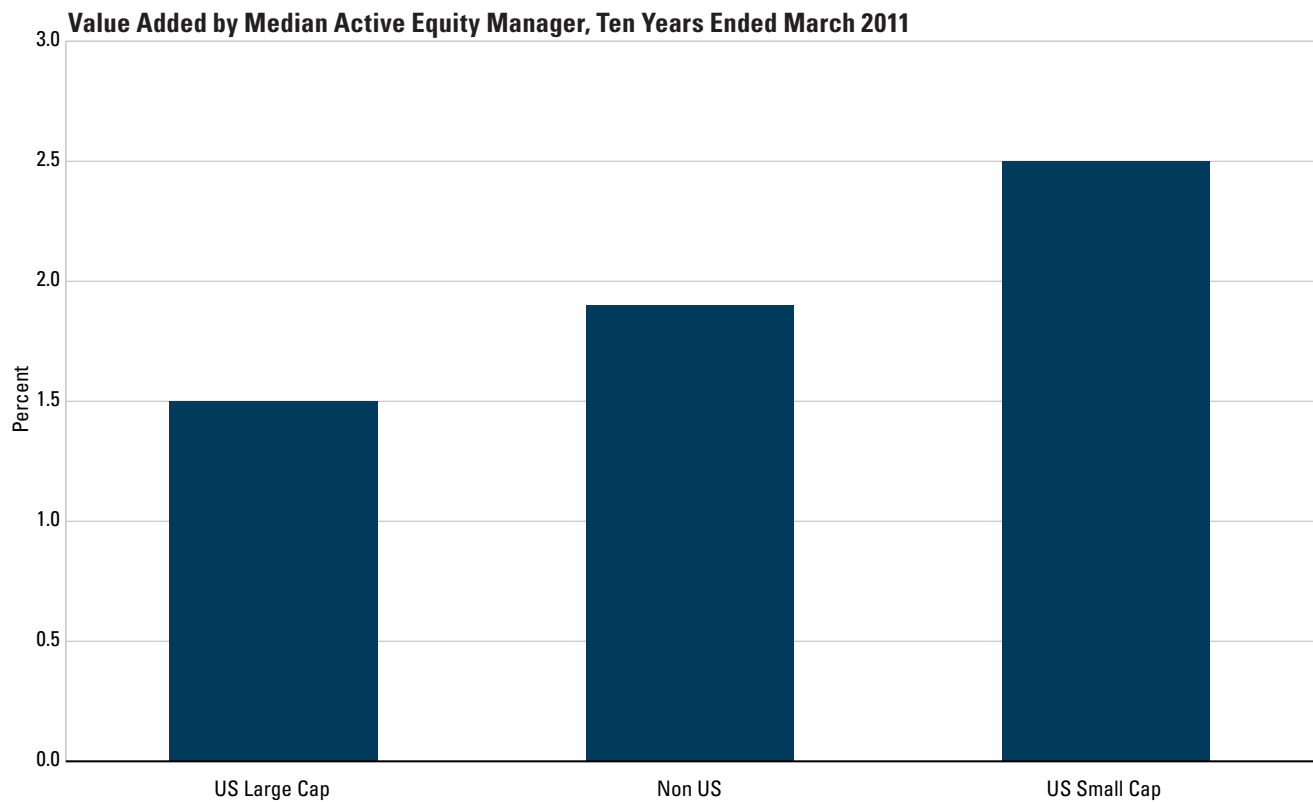
Potential Equity Structures



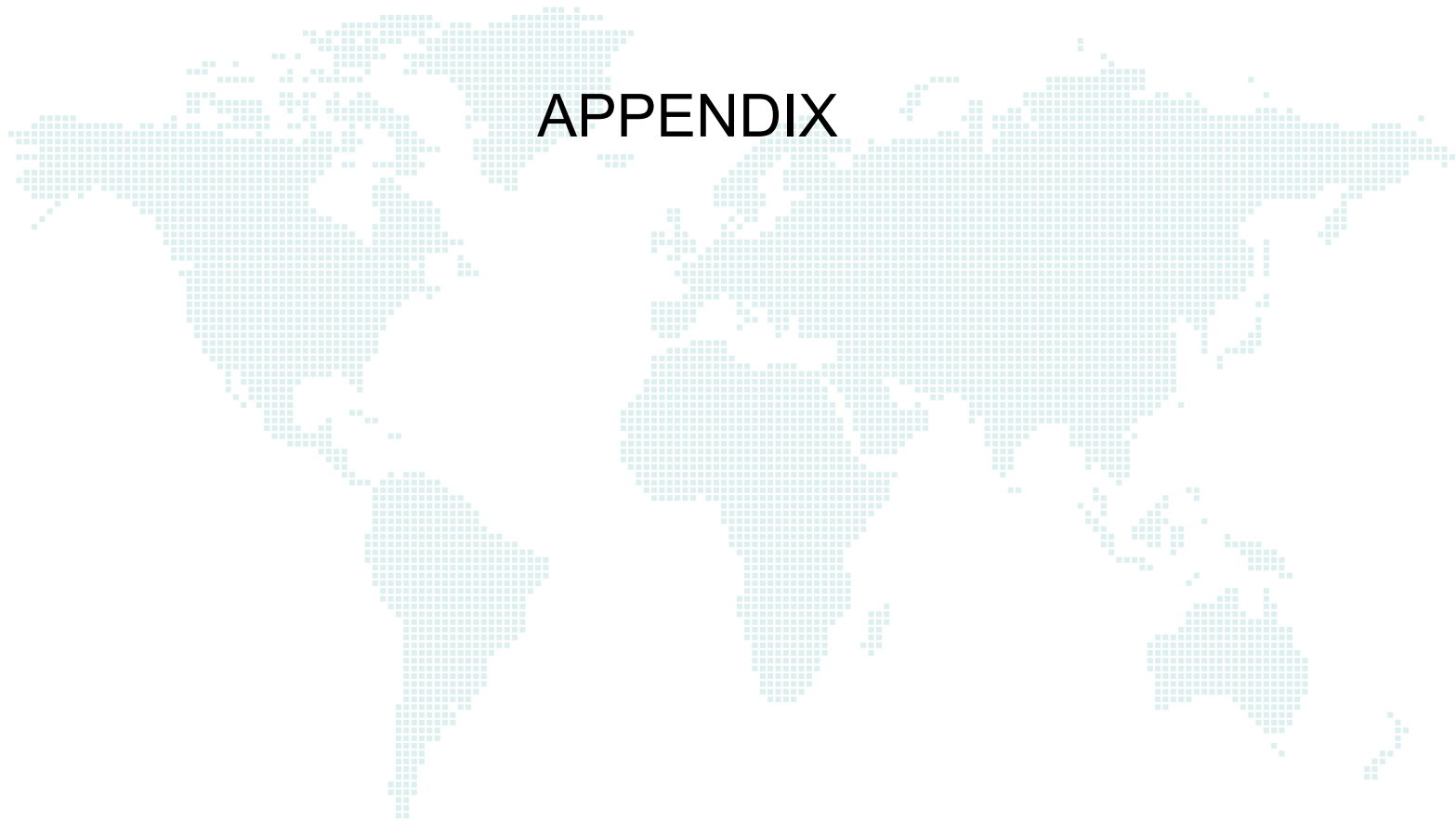
Current Yield	2.0%	2.2%	2.3%
Projected 5-Year Net Total Return*	7.4	7.8	8.1
Projected 5-Year Volatility (Std Dev)	16.0	16.7	17.5
Expected Turnover	10%	52%	89%
Estimated Fees	10 bps	70 bps	140 bps

*Returns are net of estimated management fees
 All figures annualized
 Projections based on Wellington Management capital market five-year expectations. Actual results may differ significantly from projections,
 See Asset Allocation Strategies Group Disclosure

The Case for Active Management



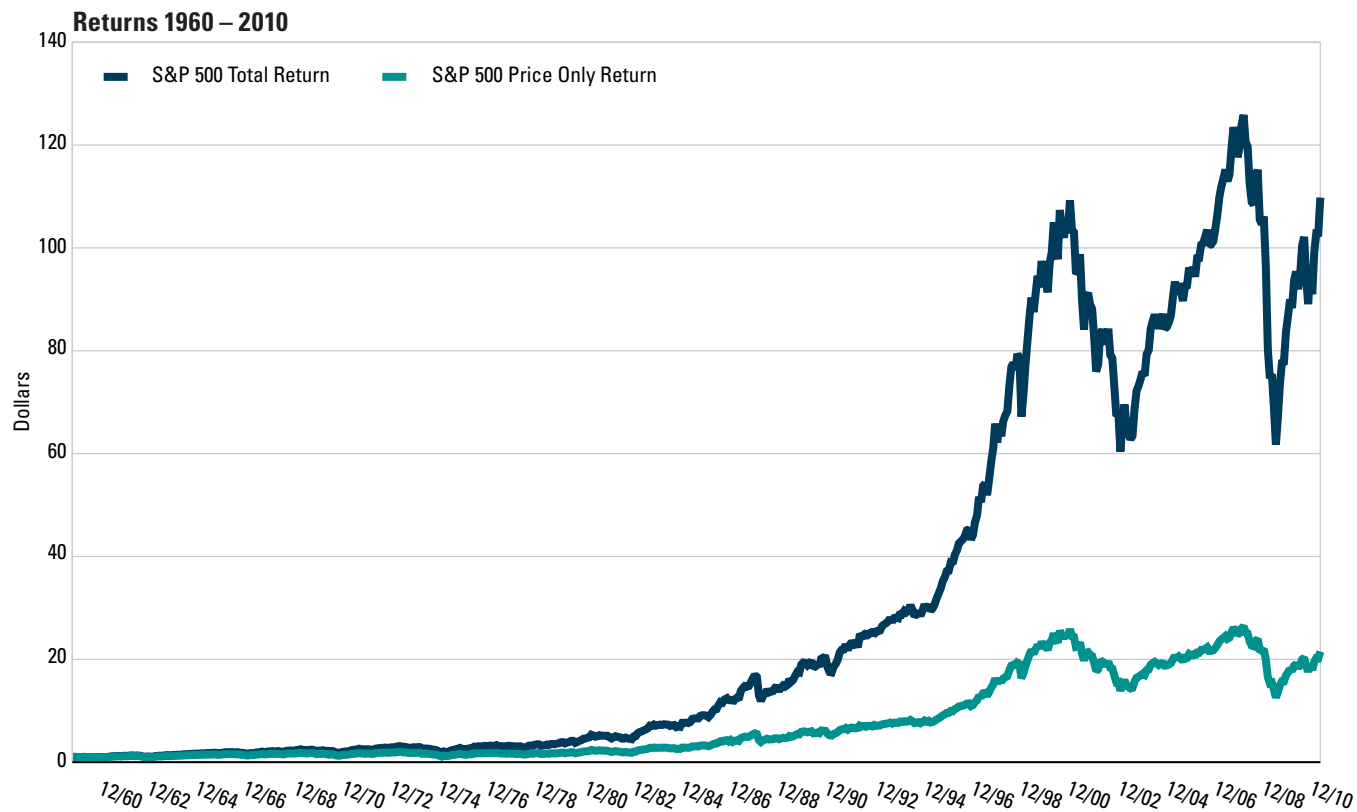
Source: Mercer Performance Analytics, annualized US\$ returns, gross of fees



APPENDIX

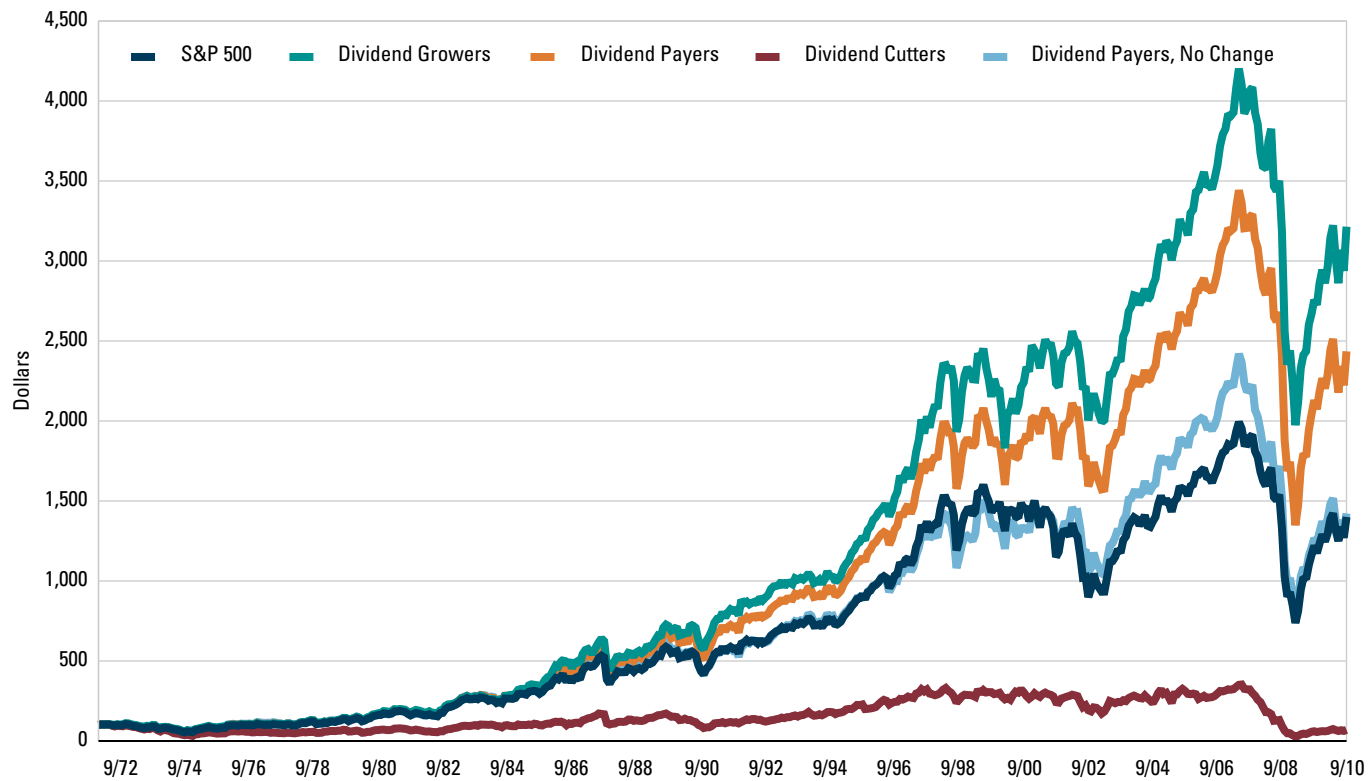
Value Equity Income

The Power of Dividends and Compounding



Source: Wellington Management

Dividend Growth Capital Allocation Matters



Source: Ned Davis Research
Market Weighted Total Return Indexes
January 1972 = US\$100

Equity Exposure Setting Appropriate Limits/Targets

Risk Management and ALM Framework Perspective

Define equity exposure as a percentage of surplus

Typical range: 20 – 40%

Investment Policy Statement and Regulatory Reporting Perspective

Define equity exposure as a percentage of admitted assets

Typical range: 5 – 10%

Asset Allocation Strategies Group Disclosure

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