ALIS™

TAILORED PENSION MANAGEMENT

Asset Liability Immunization Strategy (ALIS)

AN INNOVATIVE APPROACH TO ASSIST WITH THE MANAGEMENT OF PENSION PLANS

EXECUTIVE SUMMARY

- Advanced Capital Group's Asset Liability Immunization Strategy (ALIS) is a dynamic method for pension plan sponsors to stabilize their funding ratio and future contributions relative to traditional pension plan strategies.
- We de-risk a pension plan by creating a custom glidepath where a precise set of targeted asset allocations are determined and adjusted as the plan's funding ratio improves.
- Recognizing that all plans are different, our glidepath development begins with an understanding of the sponsor's long-term funding goals. From there, a dynamic glidepath based on the ability to accept risk and return is determined.
- Common strategies often rely on a pooled fixed-income product to construct the liability immunization strategy. Although an improvement over a total return strategy, pooled vehicles create the possibility of a duration mismatch in key duration segments due to the fund configuration. To counter that risk, ACG's fixed-income asset management team will work to develop a custom allocation which optimizes the match between your plan's liability and asset durations. This customization enhances the effectiveness of the plan's overall hedge ratio and immunizes the portfolio against any interest rate shocks due to duration mismatches. All asset management services are included in ACG's stated advisory fee thereby potentially eliminating a portion of your plan's management fees.

ALIS VERSUS TRADITIONAL PENSION PLAN MANAGEMENT

ALIS is a significant departure from the traditional maximum return generation approach to pension plan management.

Historically, the primary goal of most plan sponsors has been to maximize the return of their assets given a targeted risk level. While investment decisions were made to achieve the plan's expected rate of return, there is little attention paid to the relationship between the plan's assets and liabilities. The result lends itself to large swings in a plan's funded status, required contributions, and balance sheet stability.

By incorporating a dynamic glidepath approach, plan sponsors can control the impact of swings in investment returns, changes in liabilities due to interest rate movements and the impact of inflation on the plan over the long term.

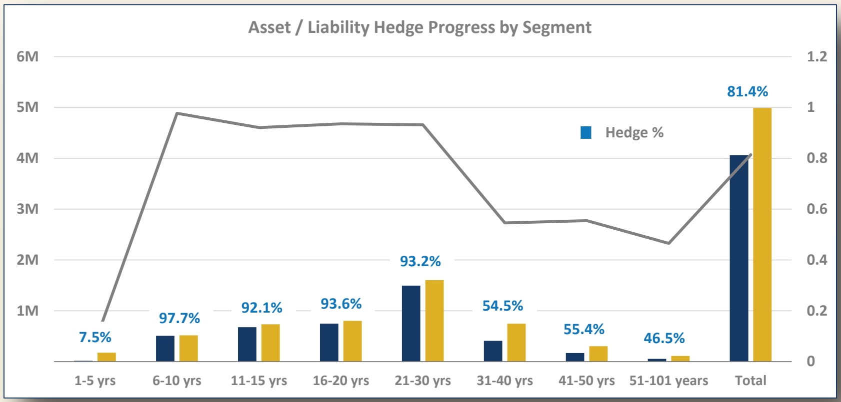
ASSET LIABILITY IMMUNIZATION STRATEGY (ALIS)

Traditionally, pension plan management has focused on maximizing returns. ALIS rethinks this approach, and instead aims at stabilizing the plan's funded ratio through the investment strategy, a dynamic asset allocation and cost-effective custom implementation. If the goal of a pension plan is to meet future promised liabilities, then the investing objectives should be focused on delivering that promise.

ALIS objectives differ among plan sponsors, depending on business conditions, funding policy, benefit status and the sponsor's overall risk tolerance. What plan sponsors have in common is a desire to minimize funding volatility and stabilizing their required contributions. ALIS accomplishes this by quantifying plan liabilities and more closely matching plan investment movements to changes in plan benefit obligations.

DURATION SEGMENT MATCHING

The most important aspect of effectively managing the ALIS strategy is matching the duration of the hedging assets with the duration profile of the plan specific liabilities. With data provided by the plan's actuary, our strategy professionals will provide our fixed-income asset managers with the plan's overall targeted liability duration profile and a breakdown of the liabilities by specific duration segments (1-5 years, 6-10 years, 11-15 years, 16-20 years, 21-35, etc.). Our investment managers will then allocate the necessary assets to match the weighted duration of each liability segment to counter any interest rate movements over time. As a result of the plan's liabilities being valued using a Corporate "AA" Curve, the overall asset portfolio will have a broad exposure to high-quality corporates as well as various government agency and treasury securities to match segment durations of the plan. Extreme long-term durations (over 20 years) will be hedged with a diversified portfolio of high-quality corporate securities, taxable municipal bonds and zero-coupon securities as appropriate.



CONCLUSION

As a plan sponsor who is implementing ALIS, all the risks inherent in managing a pension plan need to be considered. The implementation of a dynamic glidepath allows sponsors the ability to gradually move from an environment where return-seeking assets are dominant to a liability focused strategy as the plan becomes better funded, reducing the need to take on the risk of return-seeking assets. The dynamic glidepath also allows a plan sponsor to re-risk their portfolio if adverse market conditions, liabilities movements or corporate events alter the overall funding level of the plan and require a higher level of return-seeking assets to attain full funding.

ACG's ALIS approach is designed to be a tailored, cost-effective solution that is easy to implement for a plan sponsor. ACG's consultative approach and innovative client reporting help sponsors effectively manage their pension plan and improve corporate decision making.

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CAPITAL GROUP

Put our vision to work for you

We are passionate about fostering creative ideas and exploring new opportunities for the benefit of your clients. Contact us to learn how a customized relationship can help you succeed.

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