



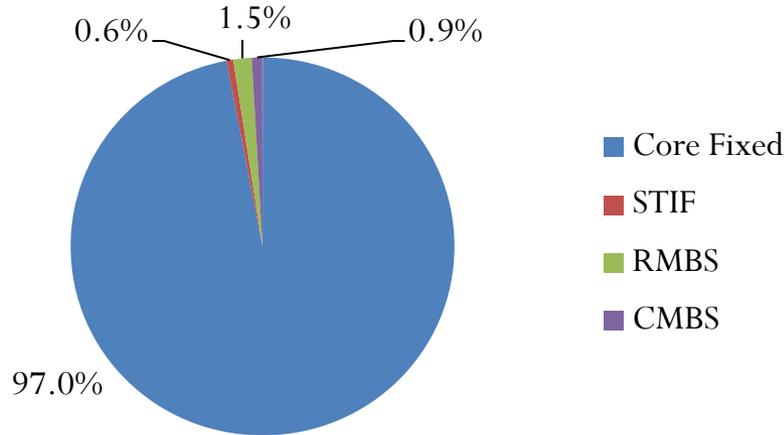
Fixed Income Overview

February 29, 2012

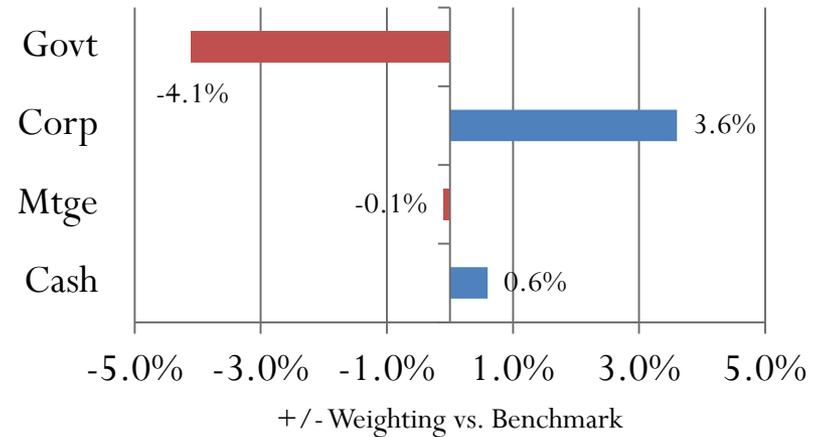
Fixed Income Profile

As of January 31, 2012

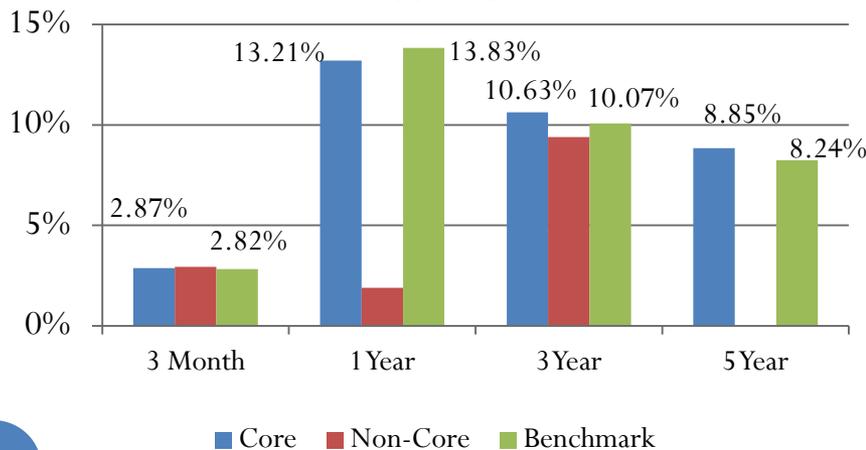
Allocation



Relative Weighting in Core Fixed



Returns



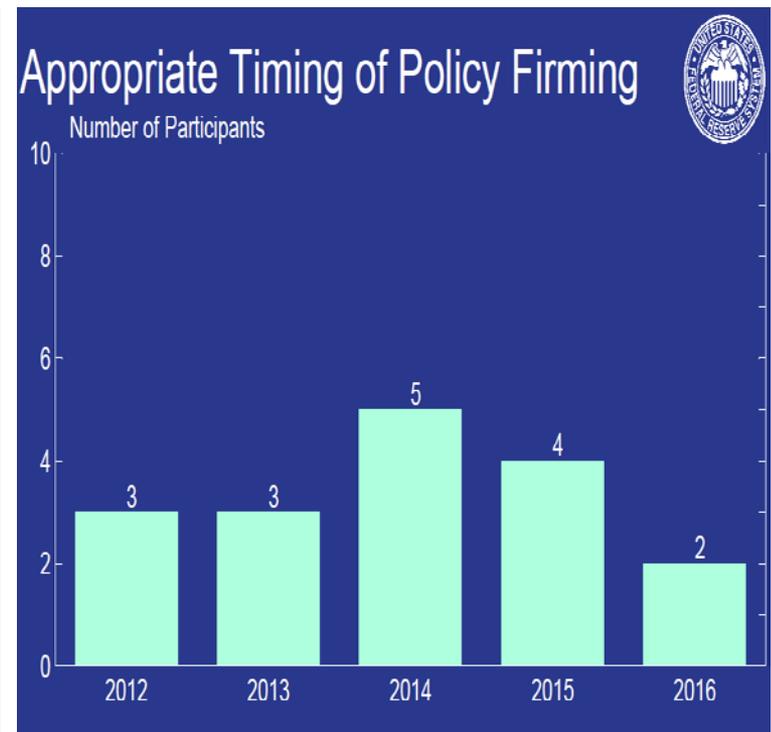
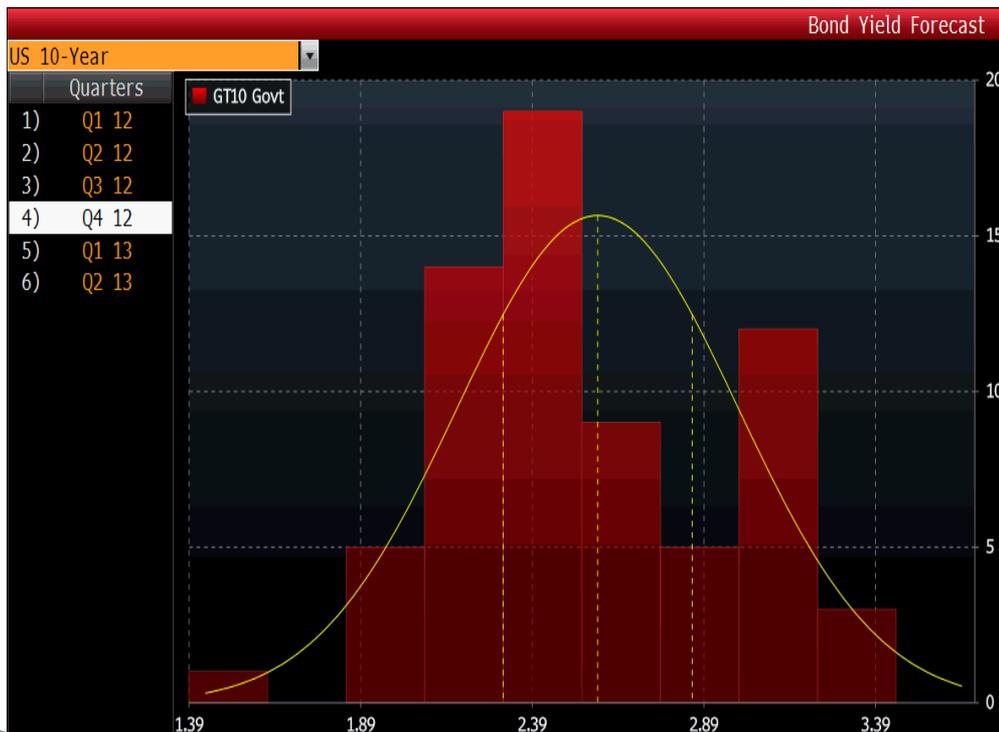
- Near term strategy remains focused of an overweight to corporate debt and a short relative duration position
- Cash exposures were a significant drag on performance given the strong absolute returns over the past year
- More than \$2 billion moved out of fixed income since the end of August

Treasury Yields Remain Range Bound at Historical Lows



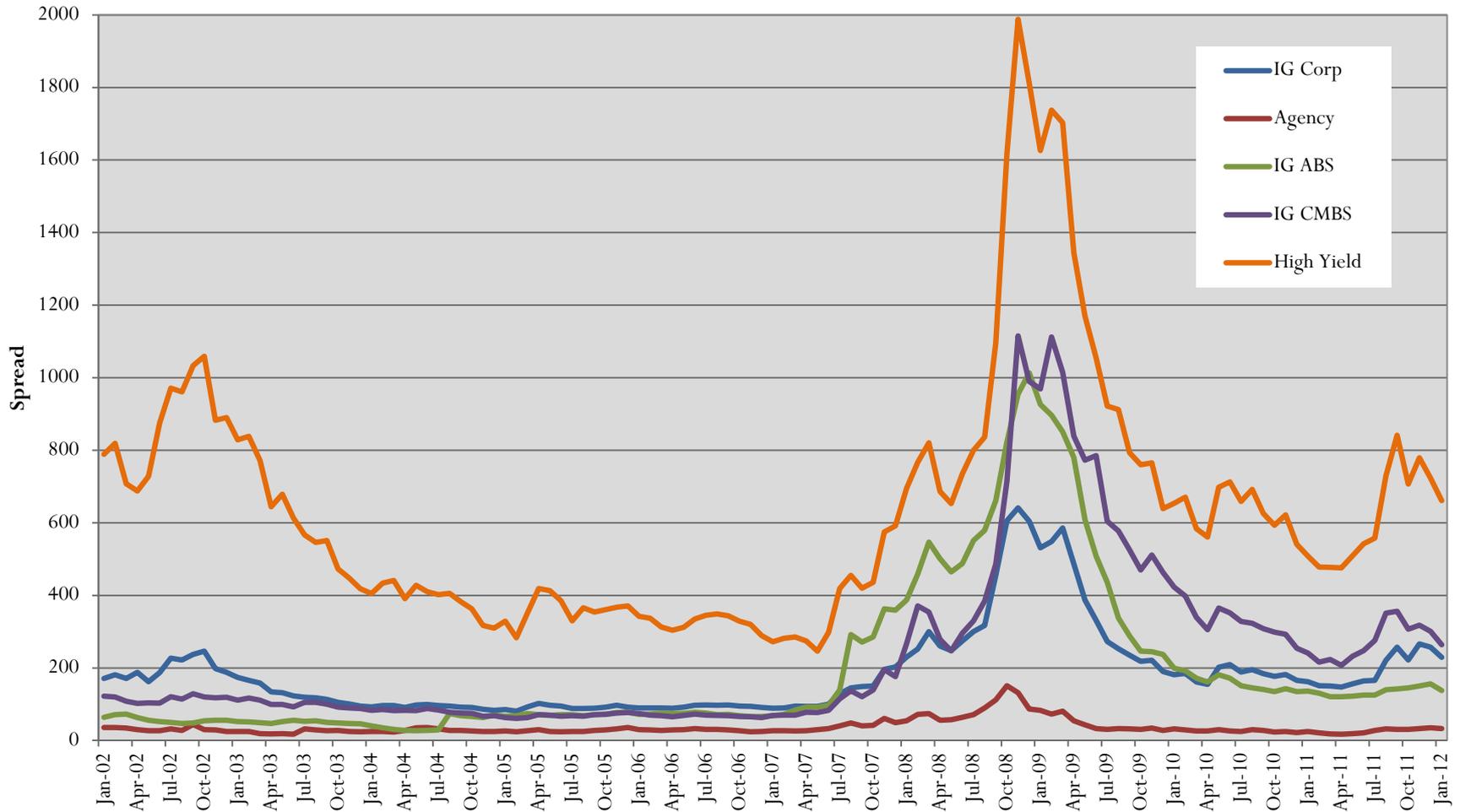
Higher Rates on the Horizon?

95) Graphs		Page 1/3 Bond Yield Forecast						
Composite View		Spread Type 2 Year - 10 Year					As of 02/08/2012	
		Market Yield	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
United States	1) US 30-Year	3.16	3.12	3.25	3.42	3.64	3.72	3.95
	2) US 10-Year	1.99	2.08	2.20	2.37	2.56	2.74	2.91
	3) US 2-Year	0.26	0.27	0.31	0.39	0.49	0.75	0.85
	4) US 3-Month Libor	0.51	0.50	0.48	0.47	0.48	0.57	0.58
	5) Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.38
Spread		1.73	1.81	1.89	1.98	2.07	1.99	2.06



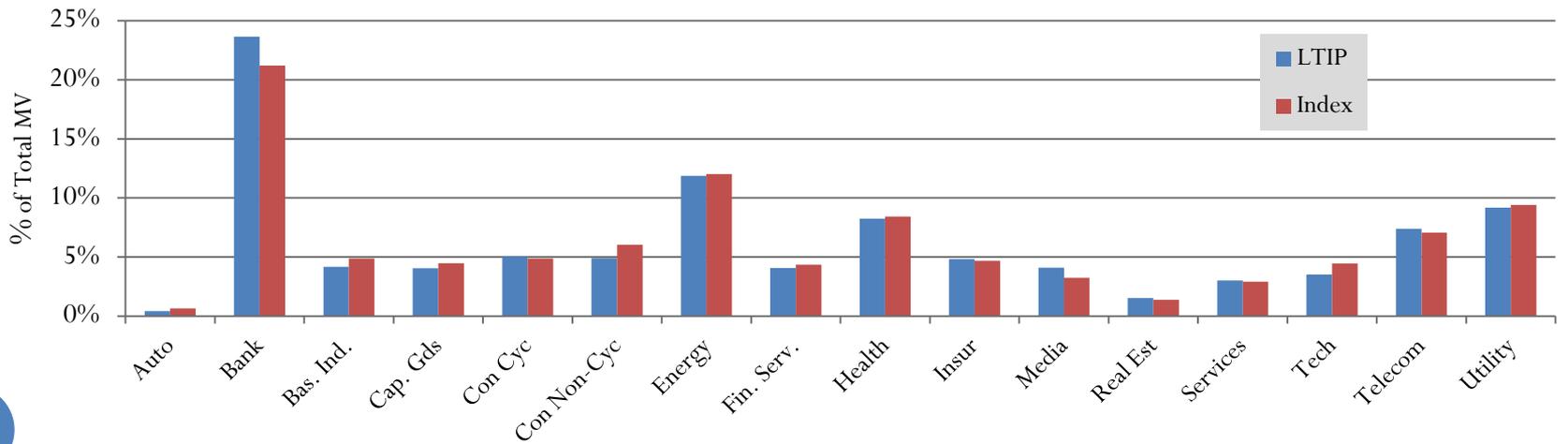
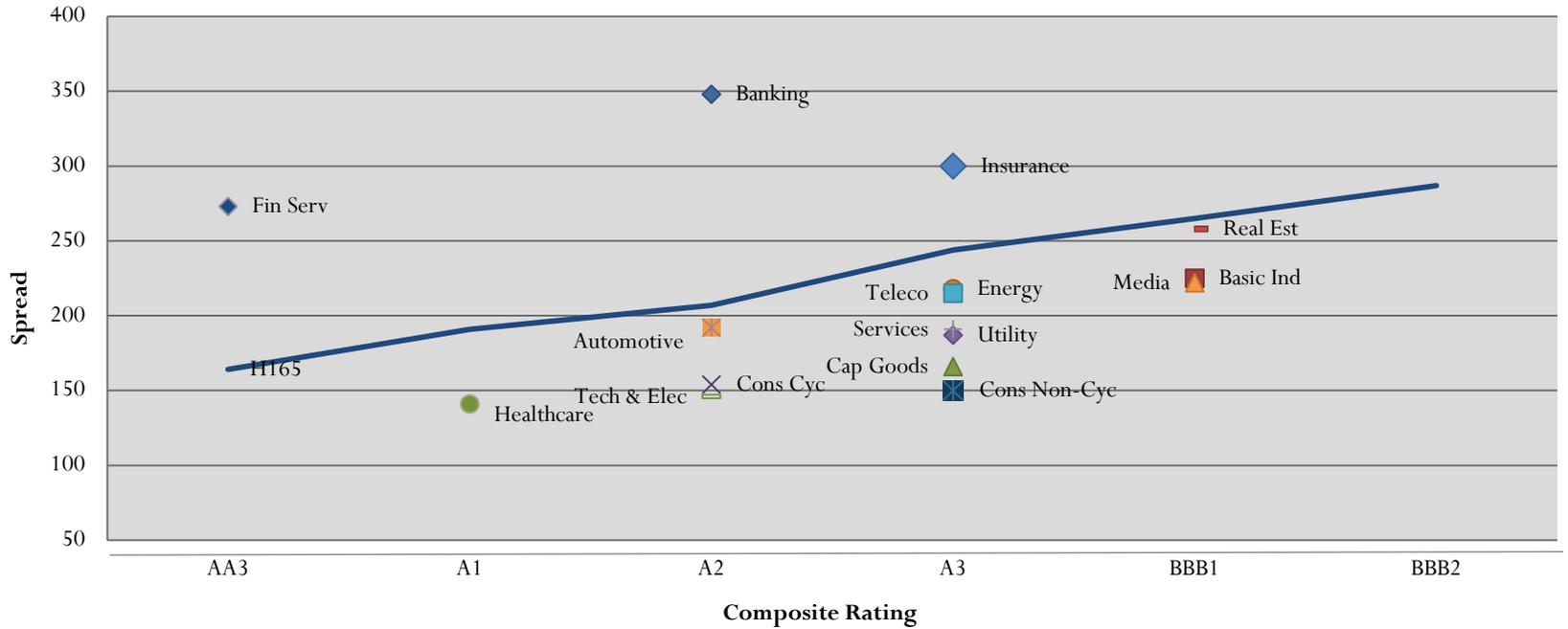
Fixed Income Credit Markets

10 Year Spread History

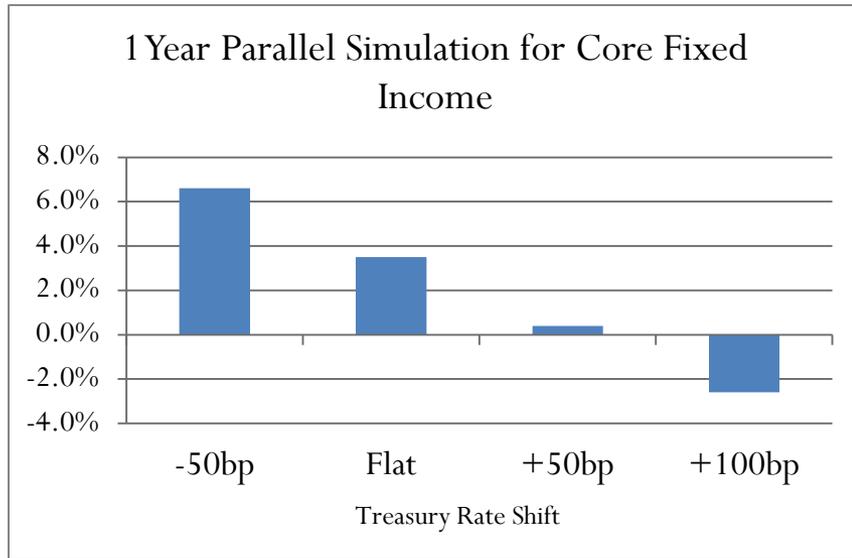


SOURCE: BofA Merrill Lynch Bond Indices

Corporate Relative Value and LTIP Allocation by Sector

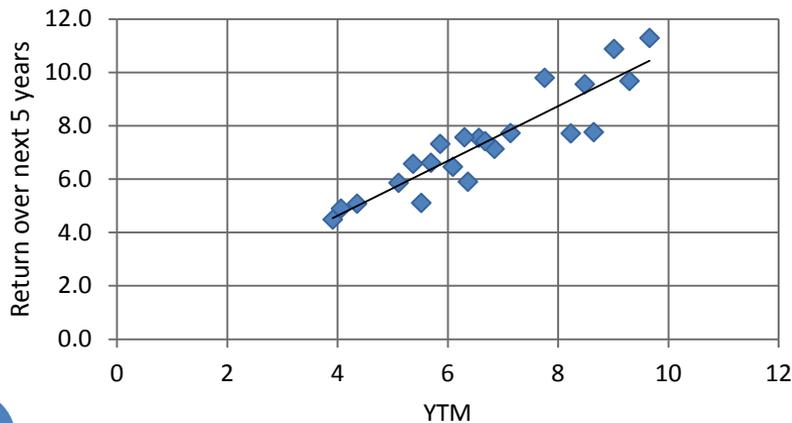


What Lies Ahead for Core Fixed Income?

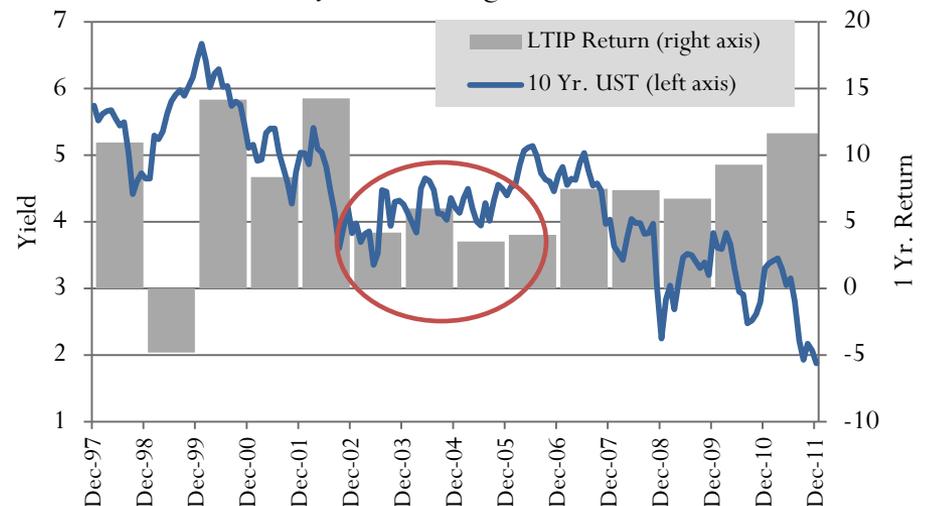


- The lack of income in the current rate environment leaves fixed income returns more vulnerable to rate increases than in the past
- Inflationary pressures appear very modest in the near term
- Return expectations over the next five years are 2.5% to 4%

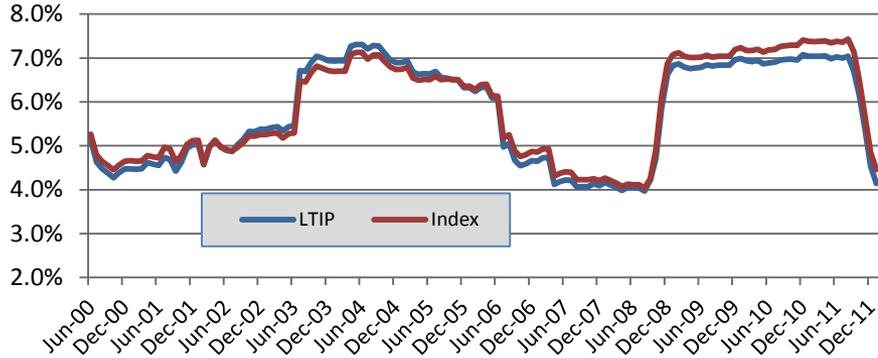
YTM versus Future 5-Year Realized Returns
1985-2011 BOAML Dom. Master



US Treasury Yield changes vs. LTIP Returns

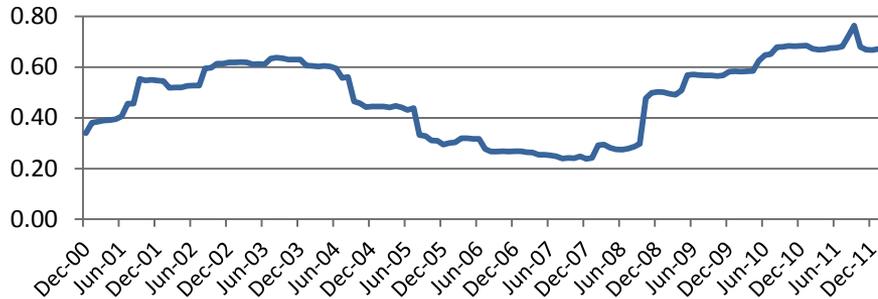


Core Fixed Income Trailing 3 Yr. Standard Deviation vs. Benchmark



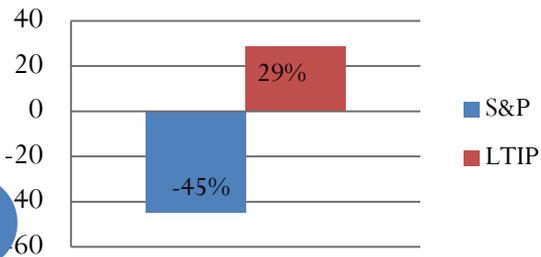
- Portfolio volatility remains consistent with the market
- The consistent tracking error range will allow for effective risk budgeting at the total plan level
- While near term return expectations are modest, the exposure to core fixed income still offers significant downside protection to public equity markets

Core Fixed Income Trailing 3 Yr. Tracking Error

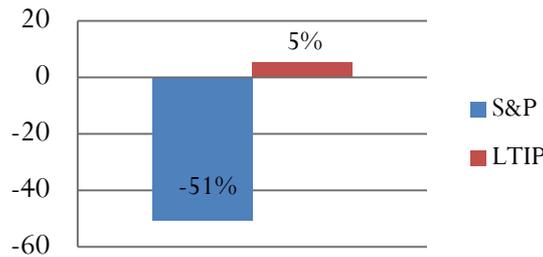


LTIP Performance During Recent Equity Bear Markets

August 2000 – September 2002
(Absolute Diff. 73%)



October 2007 – February 2009
(Absolute Diff. 56%)



April 2011 – September 2011
(Absolute Diff. 24%)

