



WHY ARE MY PENSION RESULTS DEPENDENT ON WHAT HAPPENS IN GREECE?



Our world is more interconnected
than ever



“This is not your father’s Oldsmobile”



* GM Ad campaign 1988

What, Me Worry?



* Alfred E. Neuman 1959

◎ What managers usually spend their time on:

- Fundamental Research
- Quantitative Metrics
- Technical Analysis

◎ What managers currently focus on:

- Public Policy
- International Affairs
- Demographics
- Investor Sentiment
- Central Banking

And there is plenty to worry about

- ◉ Euro Zone / PIIGS
- ◉ Municipal Budget Constraints
- ◉ 2012 Elections
- ◉ Fiscal Cliff
- ◉ Debt Ceiling
- ◉ Style Rotation
- ◉ U.S. Credit Downgrade
- ◉ Syria
- ◉ Iran / Israel
- ◉ Risk On / Risk Off
- ◉ Extreme Volatility
- ◉ Sector Rotation
- ◉ Flash Crash / High Frequency Trading
- ◉ Hedge Funds
- ◉ Lack of Consumer Confidence
- ◉ Disfunctional Gov't
- ◉ Regulatory Uncertainty

Diversification did not protect
you during the crisis

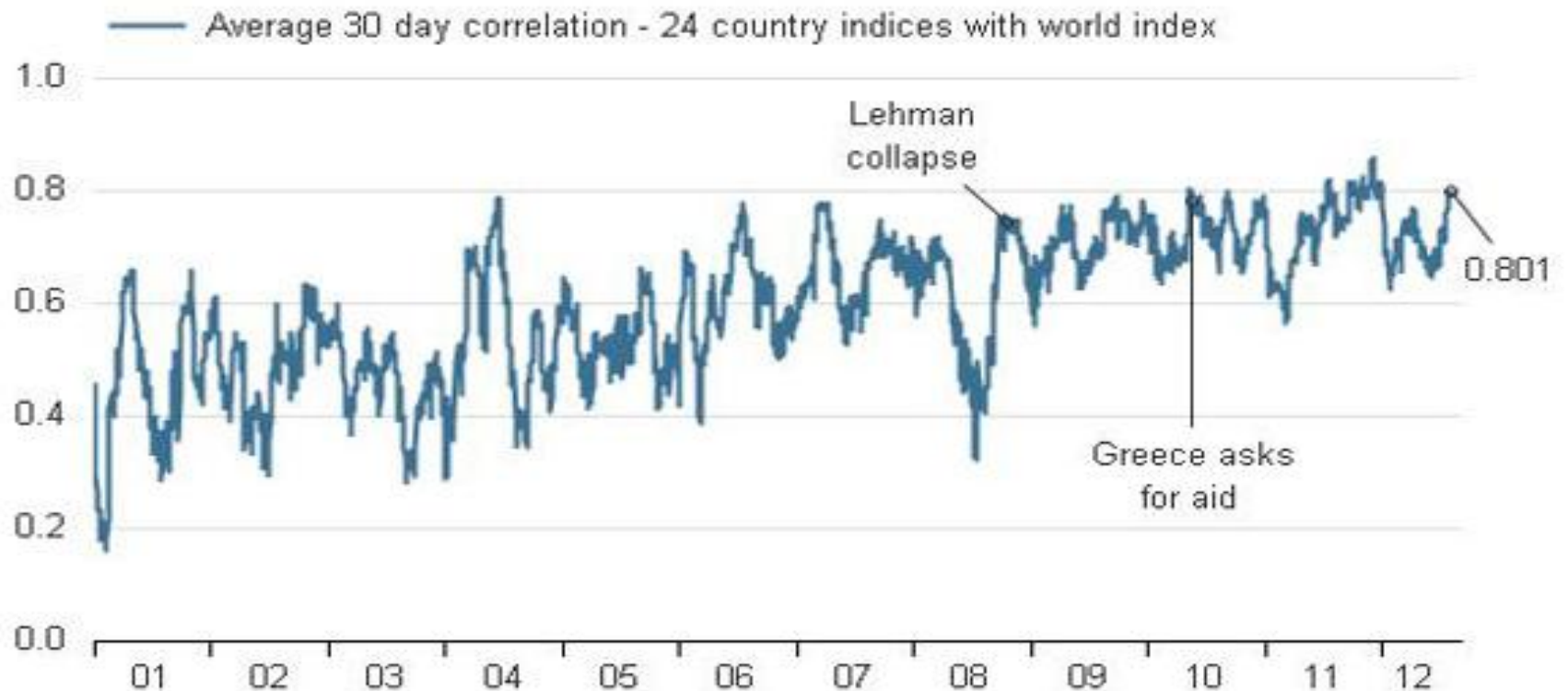
Returns by Asset Class: 2008

- ◎ (17.3%) Absolute Return
- ◎ (26.4%) High Yield
- ◎ (26.4%) Equity Long/Short
- ◎ (33.8%) Small / Micro Cap
- ◎ (36.3%) Value
- ◎ (37.3%) Real Estate
- ◎ (37.6%) Large / Mid Cap
- ◎ (38.4%) Growth
- ◎ (43.1%) Int'l Developed Mkts
- ◎ (53.2%) Int'l Emerging Mkts

When global stock markets are down more than 10%, their correlations quickly approach 1.00



Cross-country equity correlation

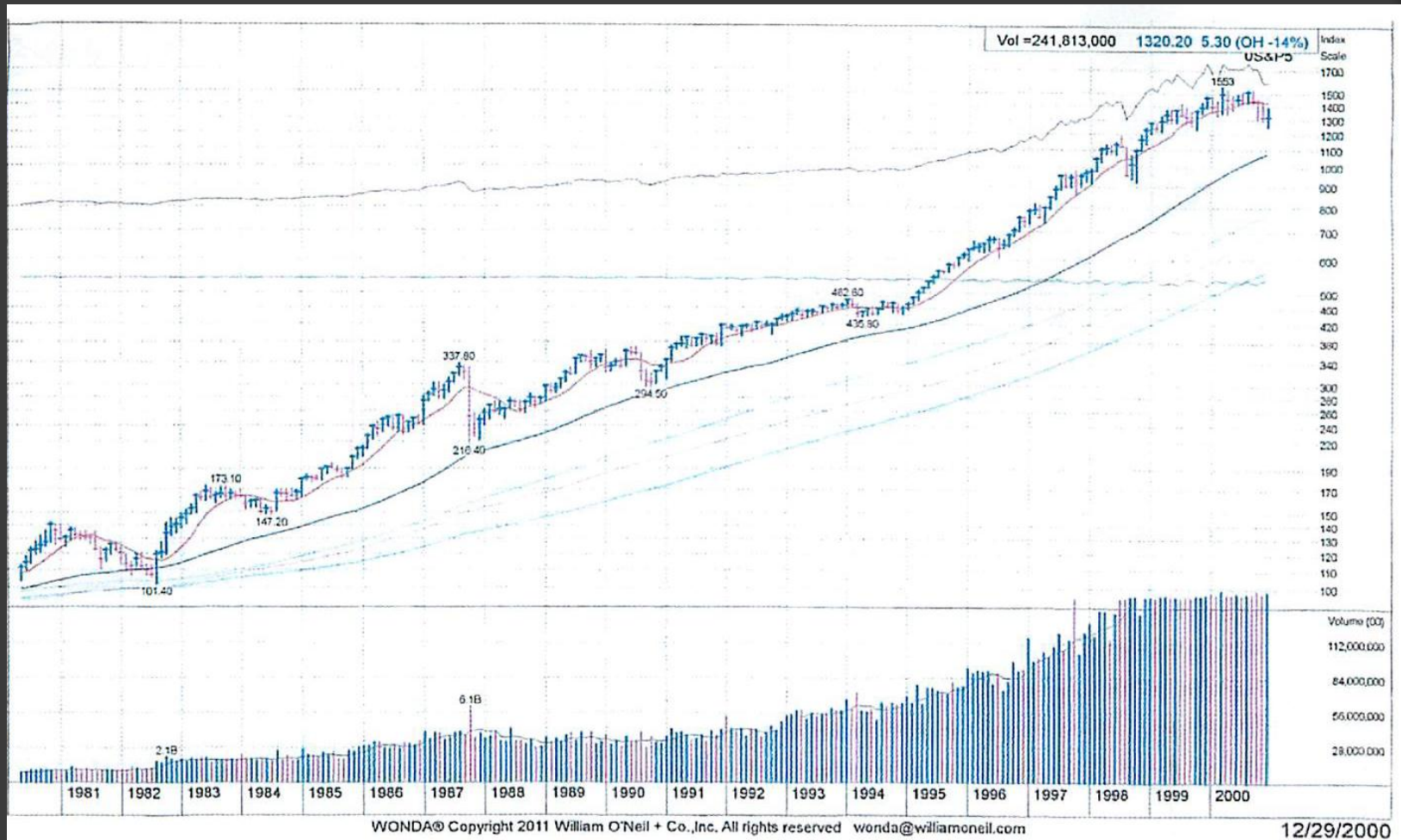


Source: Thomson Reuters Datastream

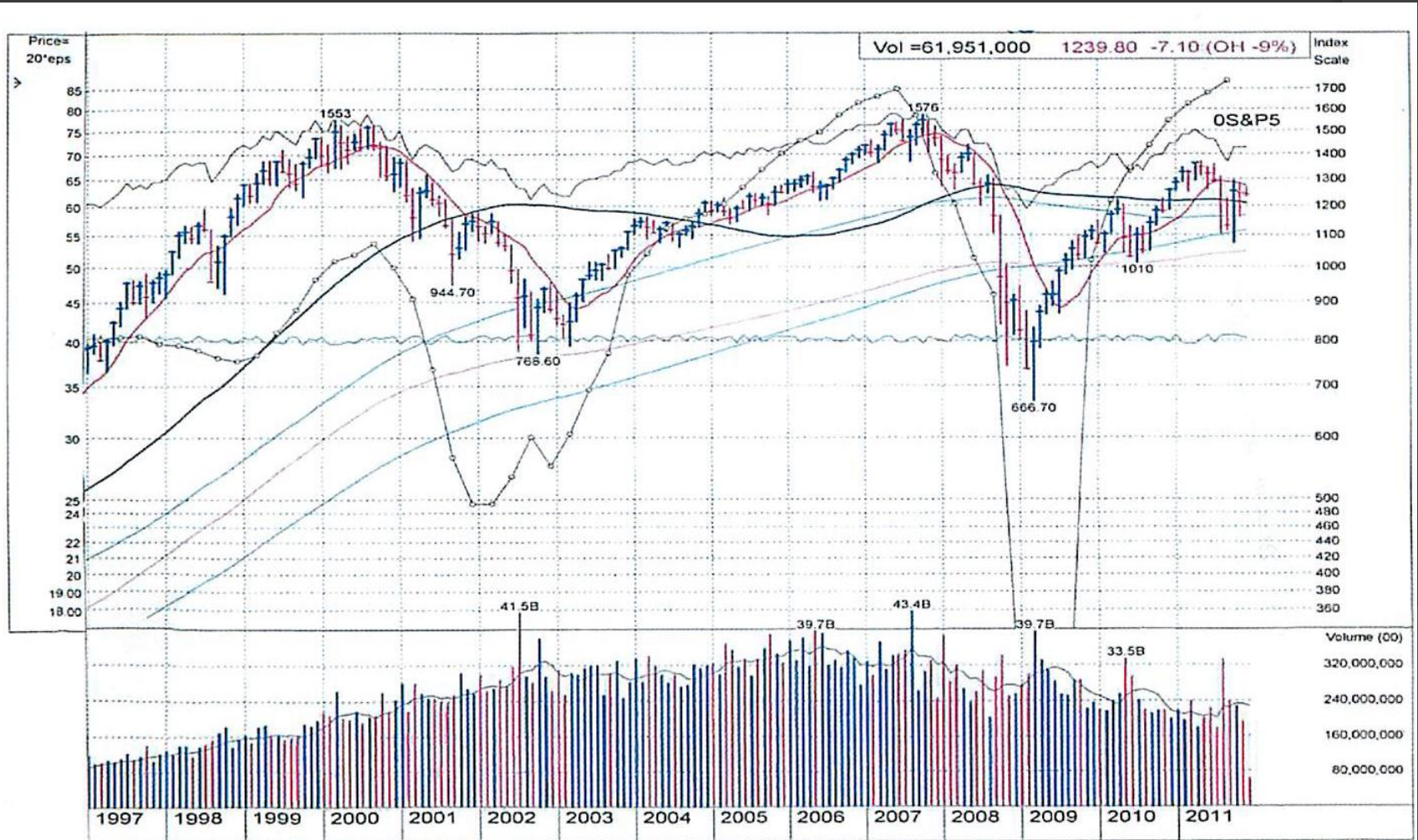
Reuters graphic/Scott Barber 8/7/2012

“Those who cannot remember the past are condemned to repeat it.”

Secular Bull Market

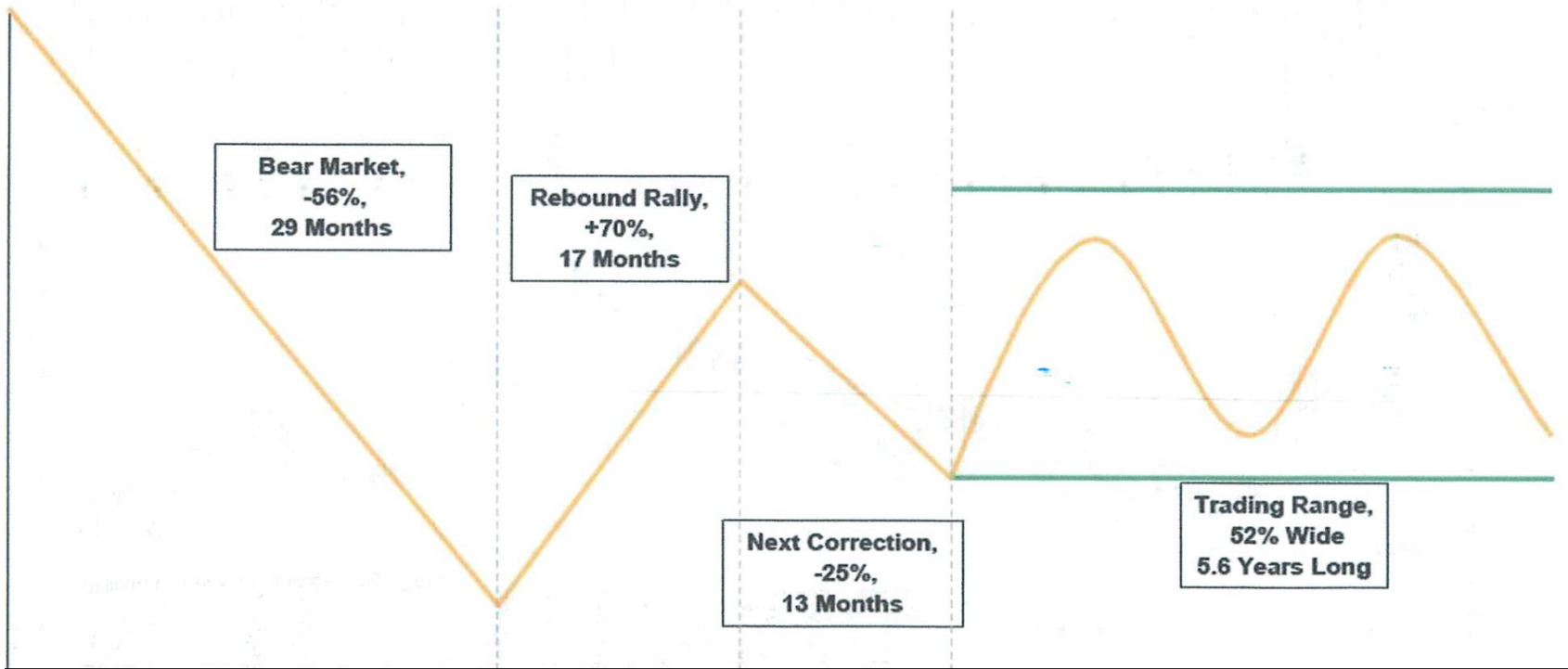


Secular Bear Market



Is this the “New Normal?”*

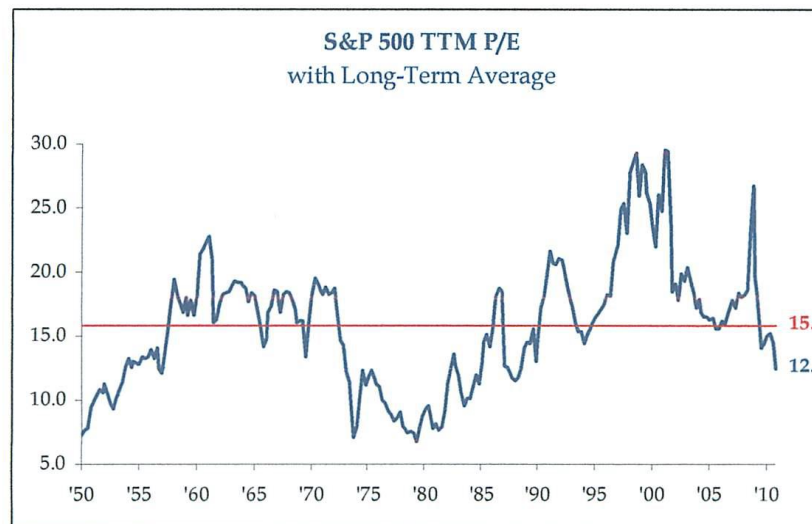
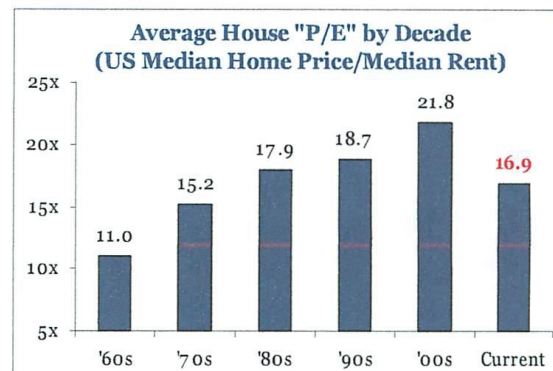
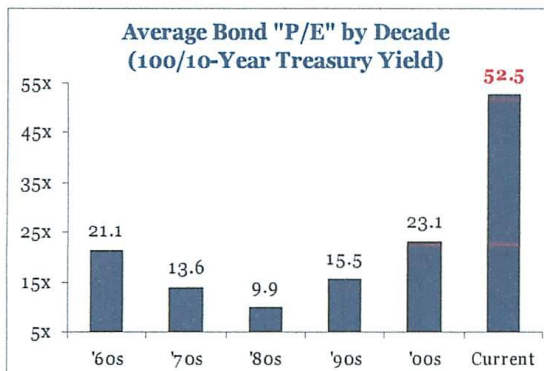
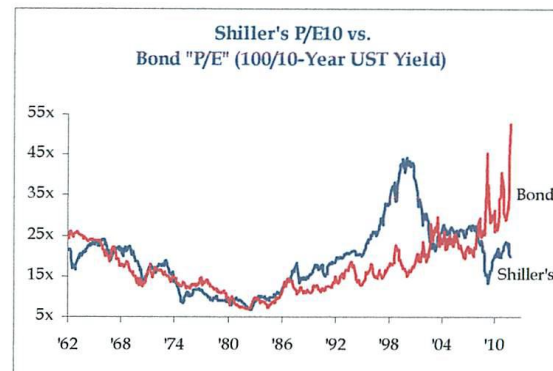
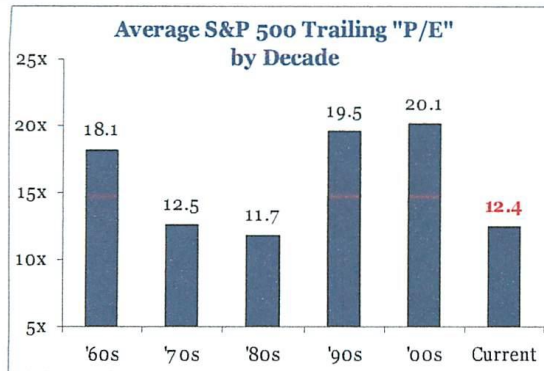
Composite 19 Secular Bear Markets



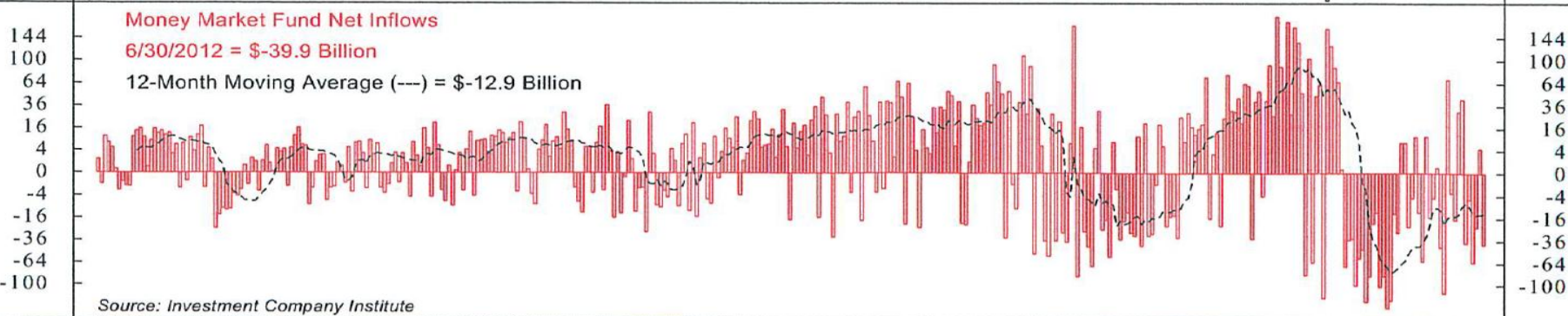
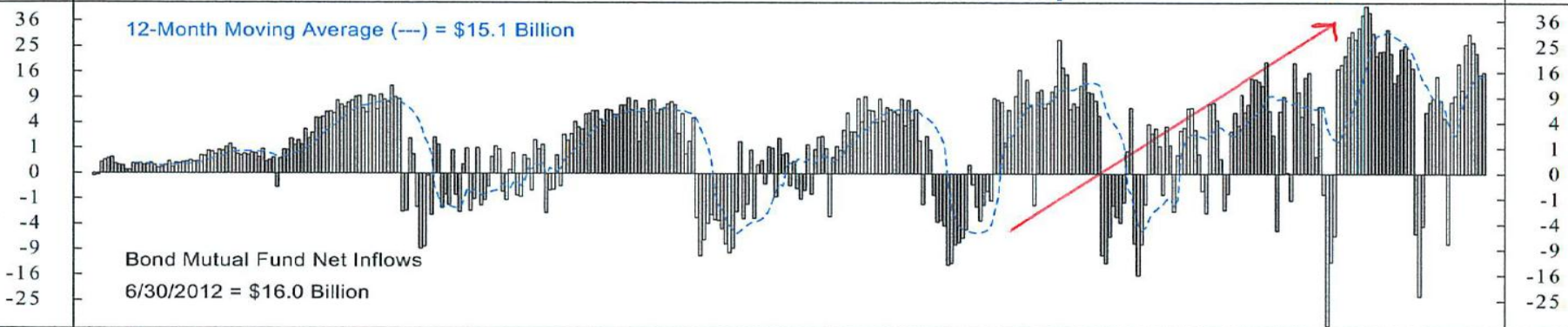
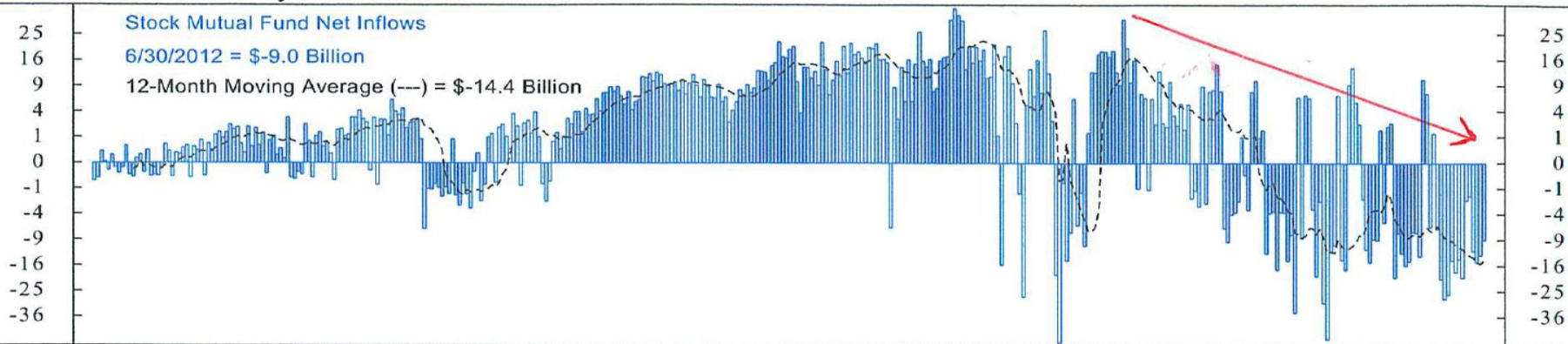
Source: Ritholtz.com, Morgan Stanley Europe

“Valuation does not matter when people want to buy and sell *risk*”

STOCKS REMAIN CHEAP RELATIVE TO OTHER ASSETS



Fund Flows by Asset Class

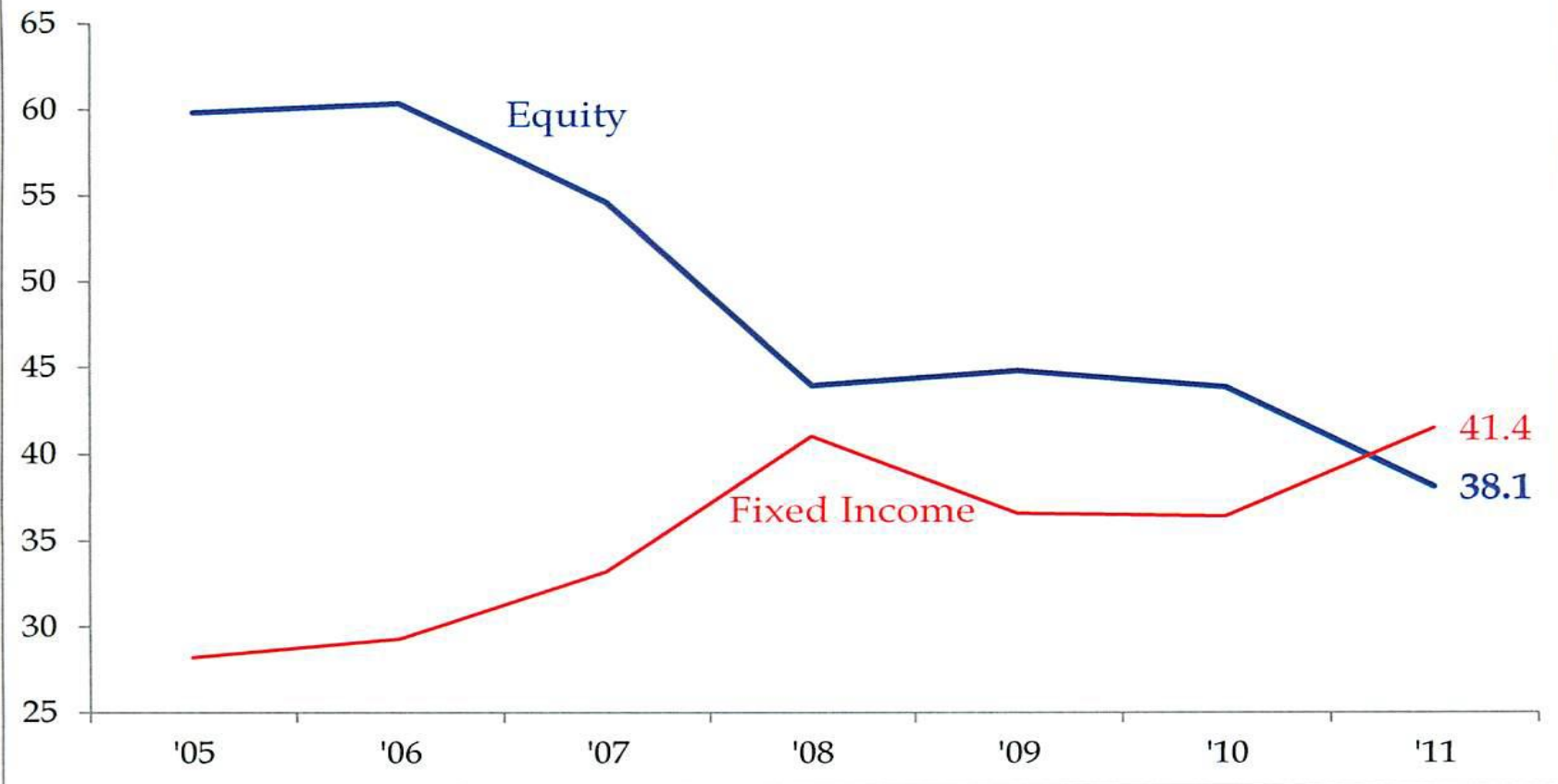


Source: Investment Company Institute

(AA86)

Pension Fund Asset Allocation (%)

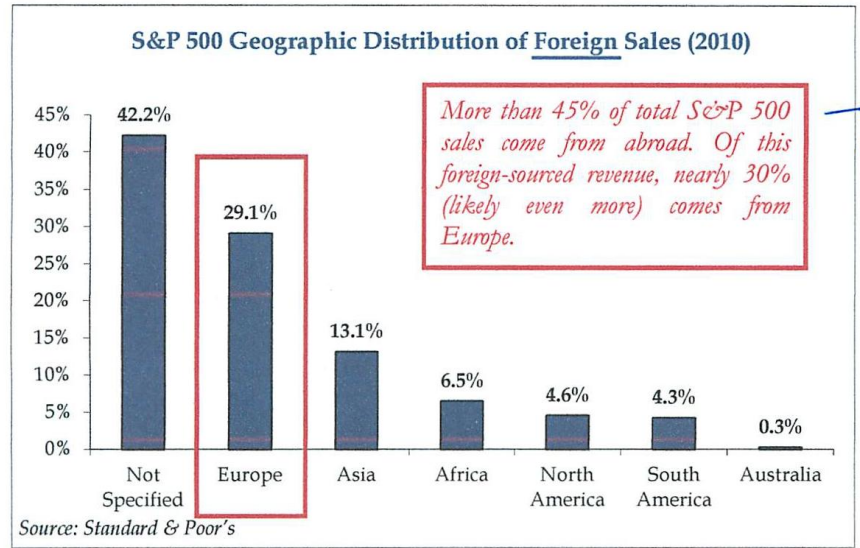
Source: Milliman 2012 Pension Funding Study



“We’re not in Kansas anymore”

-Dorothy

**OVER 45% OF TOTAL S&P 500 SALES COME FROM ABROAD;
NEARLY 14% FROM EUROPE**



S&P 500 Foreign Sales % Total Sales

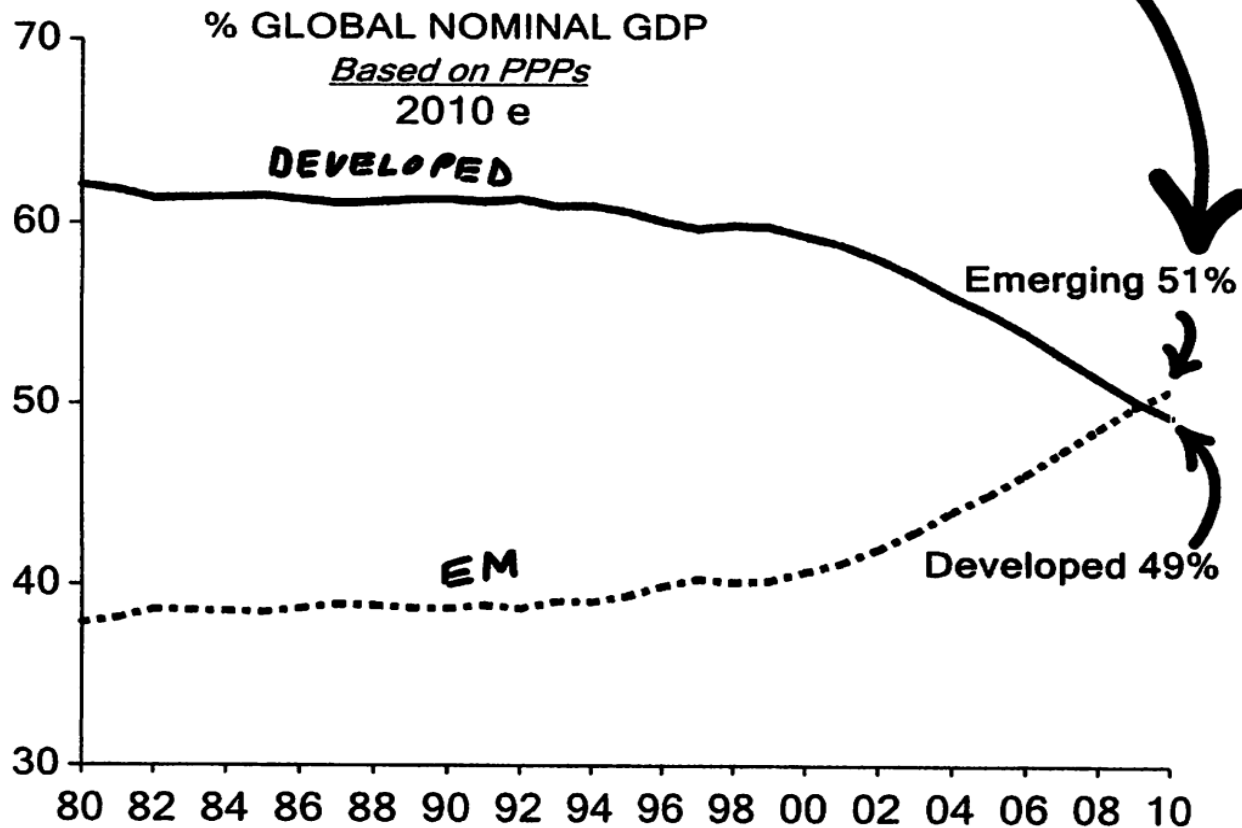
Sector	2010	2009	2008	2007	2006	2005	2004
Technology	56.3%	56.0%	55.3%	55.4%	53.5%	54.9%	61.2%
Materials	52.5%	52.1%	49.7%	47.0%	42.2%	40.8%	40.7%
Health Care	49.8%	47.2%	48.6%	44.5%	41.8%	37.5%	40.8%
S&P 500	46.3%	46.6%	47.9%	45.8%	43.6%	43.3%	43.8%
Staples	45.6%	46.6%	47.0%	39.1%	36.6%	37.5%	38.9%
Industrials	45.1%	44.2%	46.1%	44.1%	41.1%	39.7%	41.5%
Discretionary	43.0%	42.4%	44.1%	42.5%	38.8%	37.3%	35.0%
Energy	38.9%	43.7%	50.5%	55.7%	56.5%	56.6%	53.5%
Financials	37.1%	40.2%	34.1%	31.6%	29.9%	31.4%	32.1%
Utilities	NM	NM	52.2%	55.2%	63.6%	60.5%	58.5%
Telecom	NM	NM					

*NM = Not Enough Information Publicly Reported
Source: Standard & Poor's; Data derived from S&P 500 companies with full reporting information.

✓ Global Ad Agencies Flocking to Africa
WSJ 10/22/10

✓ Caterpillar Profits Soar on EMs
FT 10/23/10

EMs Driving Global Growth



Going Forward

- ⦿ The world has changed and will change again...and again, etc.
- ⦿ Are you invested for “what just happened” or “what is likely to happen” in the future?
- ⦿ Do you have a team (consultants, managers, etc.) who are dynamic, committed, passionate, flexible and with a historic perspective?
- ⦿ Is your asset allocation static over time? Should it be?
- ⦿ Are your return assumptions realistic?
- ⦿ Most plans have a long term horizon, make sure you are invested for it.