

WILSHIRE

COMPASS

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Setting New Standards in Fund Sponsor Information Systems and Investment Technology

Topics Inside:

2006 State Pension Survey

Wilshire and
CanadianMgrSearch Alliance

Compass 7, version 7.42

Users' Group Sessions

2006 Capital Market
Assumptions

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2006 Wilshire Report on State Retirement Systems: Funding Levels and Asset Allocation

Wilshire's 2006 State pension plan funding report, the eleventh on the financial condition of state-sponsored defined benefit retirement systems, includes 125 state retirement systems. Of these 125, 58 systems provided actuarial data on or after June 30, 2005. Wilshire estimates that the ratio of pension assets-to-liabilities, or *funding ratio*, for all 125 state pension plans was 87% in 2005, up from 86% in 2004. Of the 104 state retirement systems which provided actuarial data for 2004, pension assets and liabilities were \$1,538.8 billion and \$1,799.9 billion respectively. The funding ratio for these 104 state pension plans was 85% in 2004. Of the 104 state retirement systems that reported actuarial data for 2004, 87% of these funds are *underfunded*. The average underfunded plan has a ratio of assets-to-liabilities equal to 81%.

For the 58 state retirement systems that reported actuarial data for 2005, pension assets and liabilities were \$612.8 billion and \$762.4 billion, respectively. The funding ratio for these 58 state pension plans was 80% in 2005, up from 79% for the same plans in 2004. Of the 58 plans, 84% have market value of assets less than pension liabilities, or are *underfunded*. The average underfunded plan has a ratio of assets-to-liabilities equal to 77%.

State pension portfolios have a 67.7% average allocation to equities, including real estate and private equity, and a 32.3% allocation to fixed income. The 67.7% equity allocation is slightly higher than the 65.3% equity allocation in 2001. The increasing equity allocation suggests that pension plans remain committed to stocks. However, asset allocation varies widely by retirement system. Thirty-three of the 125 retirement systems have allocations to equity that equal or exceed 75%, and six have equity allocations below 50%. The 25th and 75th percentile range for equity allocation is 75% to 62%, respectively.

Wilshire forecasts a long-term median plan return equal to 7.7% per annum. This is 0.3 percentage points below the median actuarial interest rate assumption of 8.0%.

For the complete results of the report, please login to the client area of www.wilshire.com with your username and password and search the Resource Library. Should you have any questions, always feel free to contact any of the Compass Client Service team members.

Note: The information contained herein has been obtained from sources believed to be reliable. Wilshire Consulting gives no representations or warranties as to the accuracy of such information, and accepts no responsibility or liability (including for indirect, consequential or incidental damages) for any error, omission or inaccuracy in such information and for results obtained from its use.

Wilshire Associates and CanadianMgrSearch Alliance

Wilshire Associates and CanadianMgrSearch.com, Inc. (CMS), a Toronto area firm that delivers investment manager databases to clients via an internet-based product, announced an alliance which will allow the firms to cross sell certain of their products and services and to share databases.

This alliance provides Wilshire with an opportunity to further penetrate the Canadian market by having CMS introduce the Wilshire Compass product to its Canadian clients and prospects while also supplementing our current databases with information on Canadian-based money managers.

CMS was founded in 1999 by Bruce Friesen bringing together the latest in Internet technology and marrying it with the FACTS Canadian Investment Manager Directory which it purchased. Based in Oakville, Ontario, CMS provides services to over 125 organizations with assets totaling more than \$1.0 trillion. The database includes over CDN\$4.3 trillion total assets, nearly 175 money management firms with over 900 product profiles comprising approximately 85 percent of all Canadian managers accepting new business and over 2000 personnel profiles.

Adding the extensive databases maintained by Wilshire Compass will move CanadianMgrSearch into the forefront by providing Canadian plan sponsors, institutional consultants, insurance companies and high net worth clients and their advisors with the global investment manager information they need to make informed investment decisions, commented Bruce Friesen, the President of CanadianMgrSearch. By enabling those of our clients who need the deep analytics provided by Wilshire to move to the Compass platform, we also bring to the Canadian market the combination of the best global databases and analytical platforms, he noted.

For more information on this alliance, please feel free to contact John Lauer or any of the Compass Client Service team members.

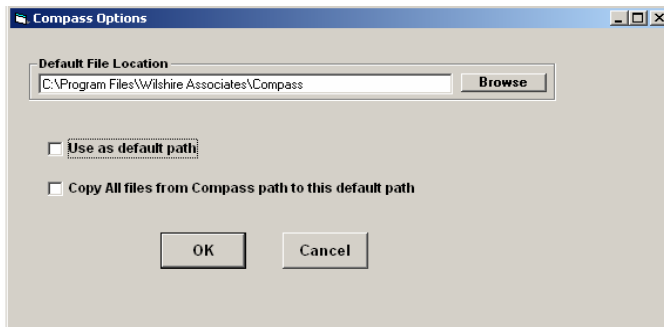
Wilshire Compass -- New Features

Many enhancements are included in the latest release of Compass 7, including:

- Wilshire Associates has begun collecting information on alternative investment products, such as hedge funds and hedge fund of funds. Managers are asked to fill out an additional section of the questionnaire if their product is considered to be an alternative investment vehicle. Information input in this section can be viewed via the new **Hedge Fund Resume**. Similar to the classic Product Resume, this new report provides users an overview of products that are considered to be alternative investment vehicles. The Hedge Fund Resume includes information from the new Odyssey questionnaire and can be found under the qualitative reports section in Manager Information.
- Three new one page reports have been added to the Manager Information Analytic. The **Peer Group Analysis** report allows users to view a product's total return, standard deviation of return, and information ratio compared to its peers over multiple time periods (qtr, one, three and five years) using both floating bar and rolling period analysis from the Universe analytic. The **Holdings Analysis** report allows a user to view a product's style, cumulative returns, and commonly used portfolio fundamentals over a 5 year time frame vs. a user selected benchmark. The **Attribution Analysis** report allows users to view a combination of the attribution analytics available in Compass such as the attribution details and summary.
- Any custom data series may now be used when running a **Performance Review** report.
- A new **Fund Fact** report is available in the Manager Information Analytic. The one page report provides basic Fund details, return/risk statistics, and contains five different graphs from Compass.

Wilshire Compass -- New Features

- New statistical ratios/measures have been added to the **Risk/Return** report available under the Manager Information Analytic. Items such as Index return/standard deviation, Largest Drawdown, Largest Drawdown Date Range, Largest Drawdown Recovery, and Up/Down Market Capture Ratios are available.
- An **On-line Database Refresh** utility has been added that allows databases to refresh tables that have become out of date or are not to up-to-date with the most recent database changes.
- User's can designate and save Compass files to a shared network drive allowing multiple users access. Examples of saved input files include saved manager/index lists, assumption tables, constraints, etc. Click on Tools and then Options from the drop-down menu. The following dialogue screen appears:
- Users may now select the most recent Wilshire defined universes via the Select Managers tab. If the current quarter universe is not yet available, Compass will default to the previous quarter's universe.
- **Custom Data** -- A new option, **Add Constant**, has been added to the Add Custom Data utility. This new feature can be found in the "Other" tab. Users may select one index and designate a constant to be added to the index. The constant is de-annualized and linked to the monthly performance of the index.
- Within the Universe Analytic, the universe that is selected to run is displayed in the upper left hand corner of the graph and now also at the bottom of the report. If additional managers are added to a universe the label will read "User Defined". If users would like to display their own definition of a particular universe they may check the *Override Universe Label* option and type in the desired name of the universe.



- **Asset Model** – Users now have the option of running analysis on a single portfolio over multiple time periods in both the **Distribution of Returns** and **Distribution of Market Values** simulation models.
- **Spending Model** -- Additional statistics have been added to the **Spending Model** reports. Minimum, maximum, average, median, and standard deviation have been added to the Market Value and Spending analytics.
- A user has the three options regarding their current selection of managers: 1) *Current Selection Not Used*, 2) *Plot Managers vs. Universe*, which will plot any managers selected from the Select Managers tab but not include them in the universe calculation, or 3) *Merge Managers with Universe* (past default).

Wilshire Compass 7 -- New Features

- Users may now view the definition and construction methodology of a particular index by right clicking on the index in the select indexes tab and choosing **Index Definition**. If a group of indexes are selected, right clicking in the selected indexes area will bring up definitions for all of the selected indexes.
- The graph displayed from any analytic can now be resized by scrolling the mouse over the edges of the graph and then click/drag to expand or contract the area of the graph.
- **Market Capture Ratios** have been added to the **Up/Down Performance** report. Market capture ratios are shown for one, three, five and ten year time periods as well as the three year capture ratios of each month/quarter during the specified date range.
- **Currency Conversion** - a new Currency Conversion utility is available in version 7.44. Select Options under the Tools menu. A list of available countries will be displayed. Select the country and click Convert. The conversion should take less than 30 seconds. Labels for which currency has been used are included on the main form and in the default reports.

If you are not yet running version 7.41 or have a need for the currency conversion, please contact any Compass Client Service team member to schedule an upgrade.

Future Users' Group Meetings

Looking ahead, we have scheduled two Users' Group Meetings in 2006. The primary purpose of each session is to provide "hands-on" training for Compass users. The training sessions will follow an interactive, case study format utilizing a variety of analytical tools to demonstrate how Compass can be used to address investment issues at various stages of the institutional investment process and within different segments of your investment program. The following locations and dates have been planned:

Chicago, IL May 18, 2006
Chicago Marriott O'Hare

New York, NY May 25, 2006
The Benjamin Hotel

If you are interested in attending either Users' Group meeting, please contact any of the Compass Client Service team members and we will forward an enrollment form to you.

2006 Technology Conference

The Wilshire Compass team is pleased to announce that we have finalized arrangements for the 2006 Investment Technology Seminar. The conference will be held **October 11-13, 2006** at the Silverado Resort in Napa, California.

Sessions will include broad investment topics and a number of Compass hands-on training sessions. Once the agenda is finalized, we will forward to you a seminar brochure and details on how to register for the event.

Please feel free to contact any of the Compass client service team should you have any questions. Mark your calendars!!

We hope to see you there!

2006 Wilshire Capital Market Assumptions

Wilshire's Expected Return Assumptions

Investment Categories	Total Return			Risk
	2005	2006	Change	
U.S. Stocks	8.00 %	8.25 %	0.25 %	17.00 %
U.S. Bonds	4.75	5.00	0.25	5.00
Cash Equivalents	3.00	3.00	0.00	1.00
Non-U.S. Stocks	8.00	8.25	0.25	19.00
Non-U.S. Bonds	4.50	4.75	0.25	10.00
Emerging Markets	8.00	8.25	0.25	25.00
High Yield Bonds	6.25	6.50	0.25	10.00
TIPS	4.25	4.75	0.50	6.00
Real Estate Securities (REITs)	7.00	6.25	-0.75	16.00
Direct Property	6.00	5.25	-0.75	10.00
Private Markets	11.00	11.75	0.75	30.00
Commodities	n.a.	5.25	n.a.	12.00
Hedge Funds: Portable Alpha	5.00	n.a	n.a.	n.a.
Inflation	2.50	2.25	-0.25	1.00
Total Return minus Inflation				
U.S. Stocks	5.50	6.00	0.50	
U.S. Bonds	2.25	2.75	0.50	
Cash Equivalents	0.50	0.75	0.25	
Stocks minus Bonds	3.25	3.25	0.00	
Bonds minus Cash	1.75	2.00	0.25	

Historical Returns vs. Wilshire Forward-Looking Assumptions

	Historical Returns				Wilshire Forecast
	1802-2005 *	1926-2005	High Inflation 1970-1979	Bull Market 1980-1999	
Total Return					
Stocks	8.2 %	10.4 %	5.9 %	17.8 %	8.3 %
Bonds	4.9	5.7	7.2	10.0	5.0
T-Bills	4.3	3.8	6.4	7.2	3.0
Inflation	1.4	3.0	7.4	4.0	2.3
Total Return minus Inflation					
U.S. Stocks	6.8	7.3	-1.5	13.8	6.0
U.S. Bonds	3.5	2.6	-0.2	6.0	2.8
T-Bills	2.8	0.8	-1.0	3.1	0.8
Stocks minus Bonds	3.3	4.7	-1.3	7.8	3.3

* Jeremy Siegel return history from 1802-2001 ("Stocks for the Long Run" McGraw-Hill 2002) updated to 2005 using S&P 500 Index and Lehman Aggregate Bond Index

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