



**Presented to:**



## **Global Outlook and Implications for Asset Allocation**

**January 7, 2010**

**Paul Podolsky, Portfolio Strategist**

One Glendinning Place  
Westport, CT 06880  
(203) 226-3030  
[www.bwater.com](http://www.bwater.com)

---

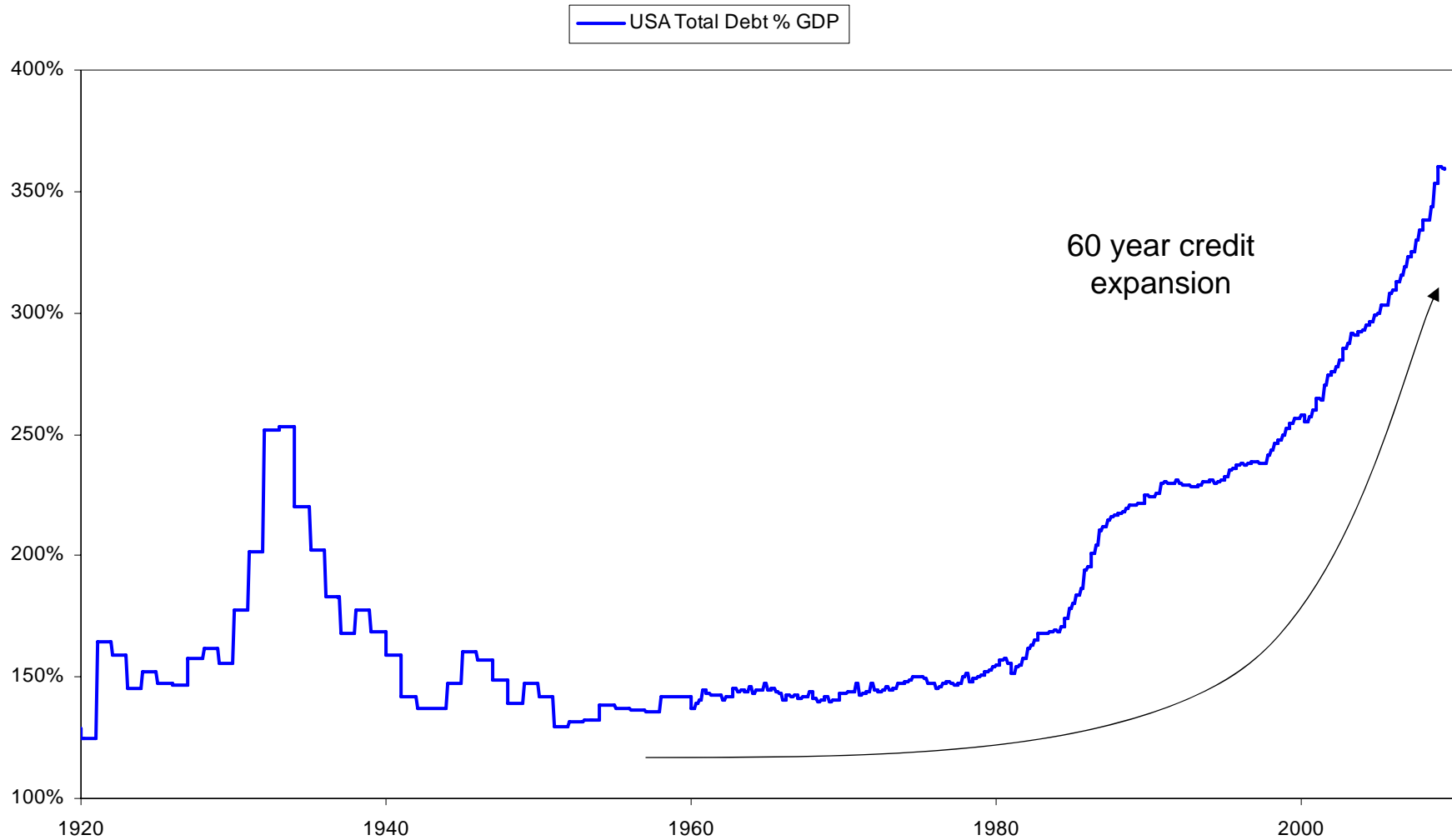
# AGENDA

- I. Market Outlook
- II. LAFPP's Asset Allocation

---

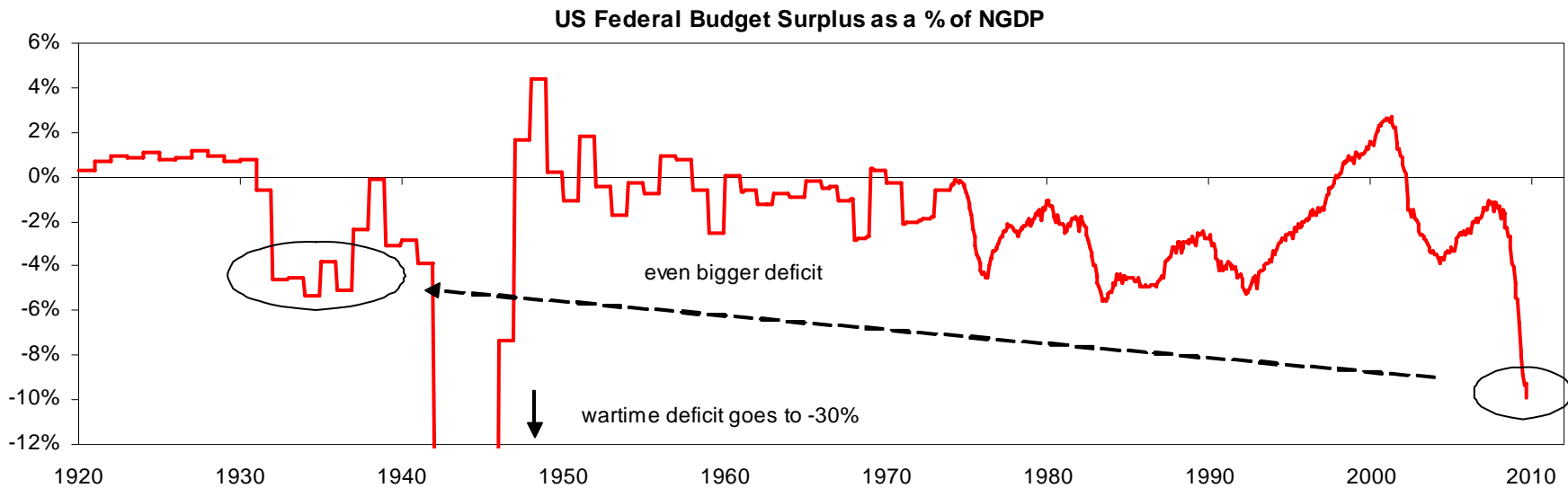
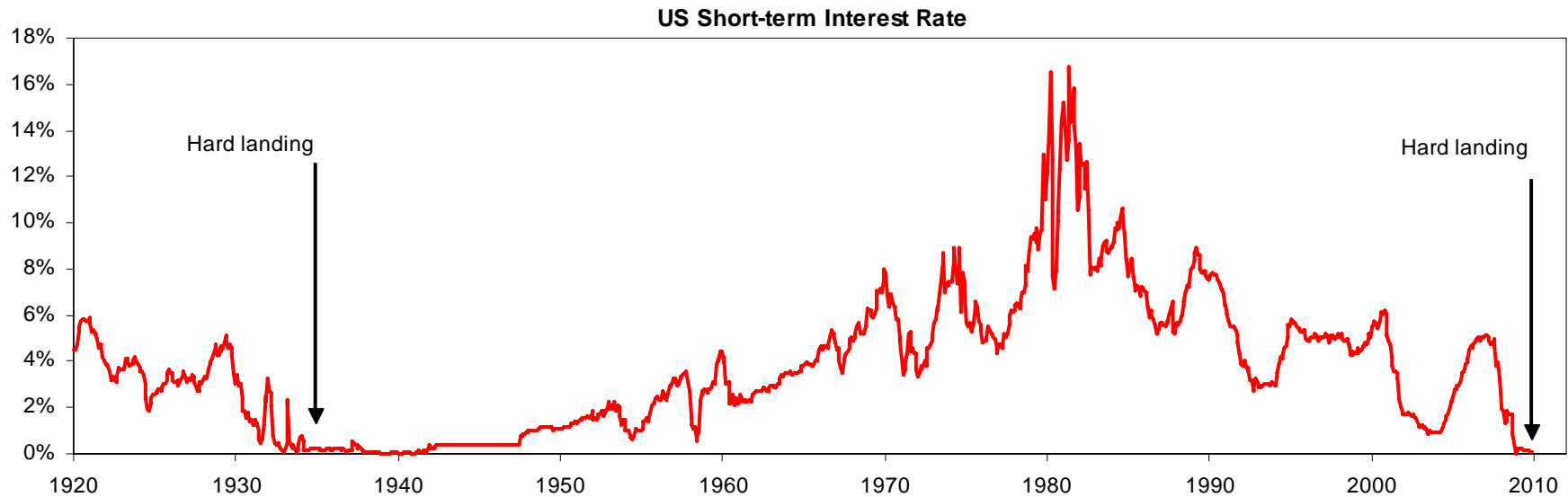
## I. Market Outlook

# SECULAR CREDIT EXPANSION, CONTRACTION

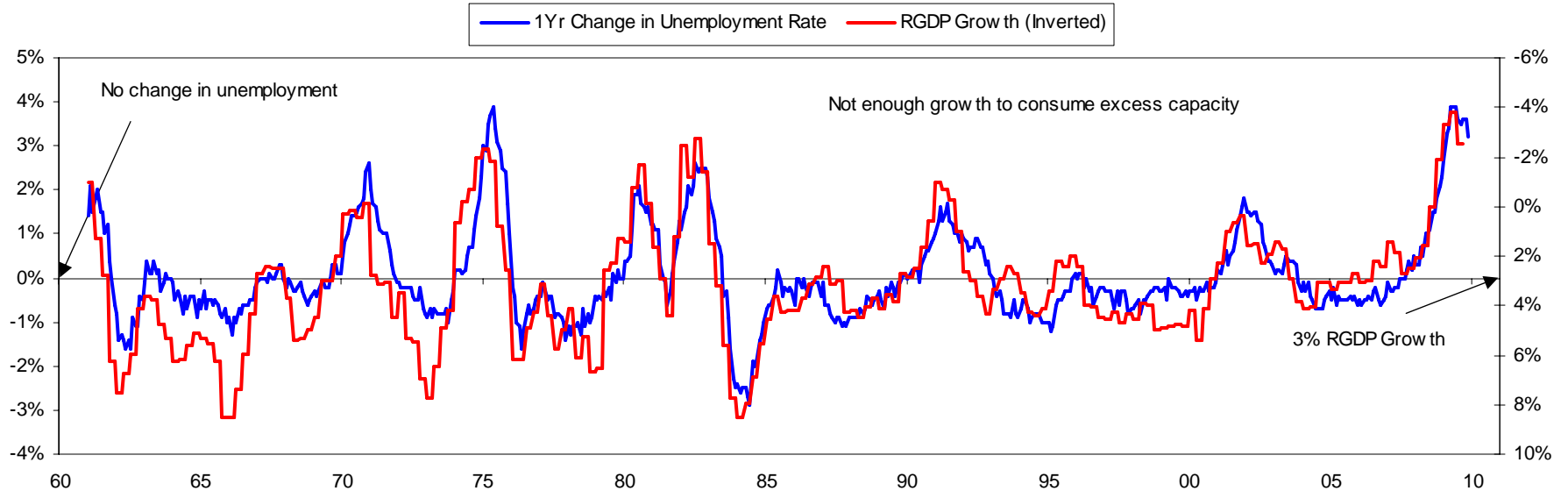
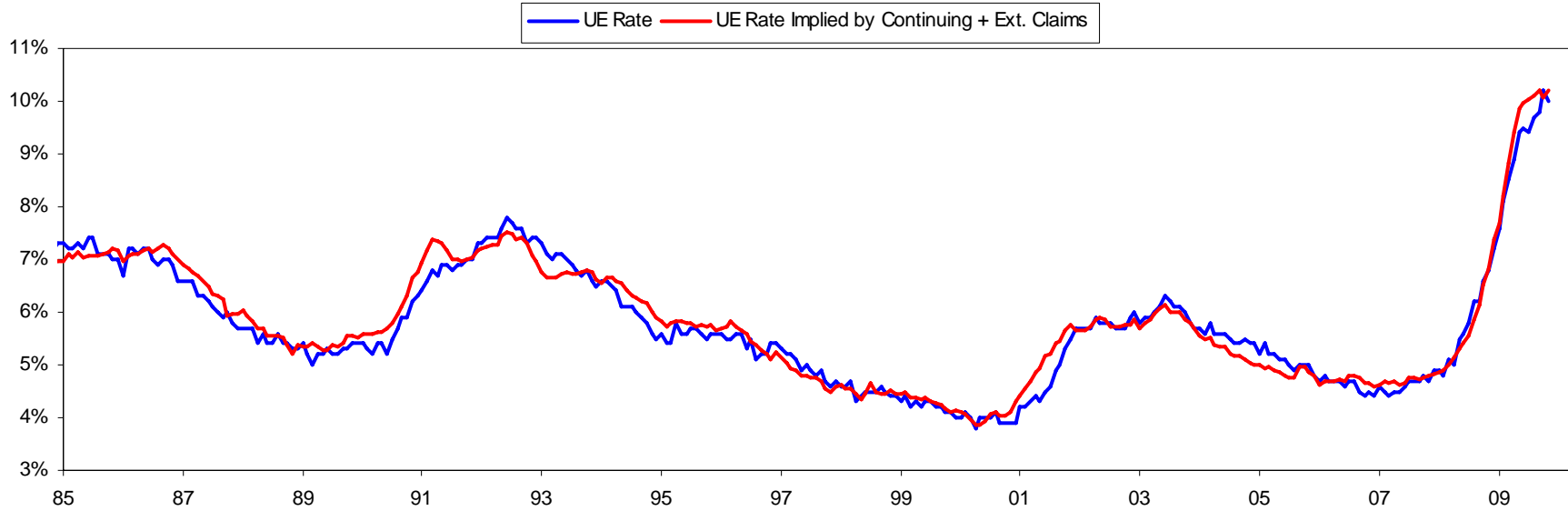


Source: Global Financial Data Inc. and Bridgewater Analysis.

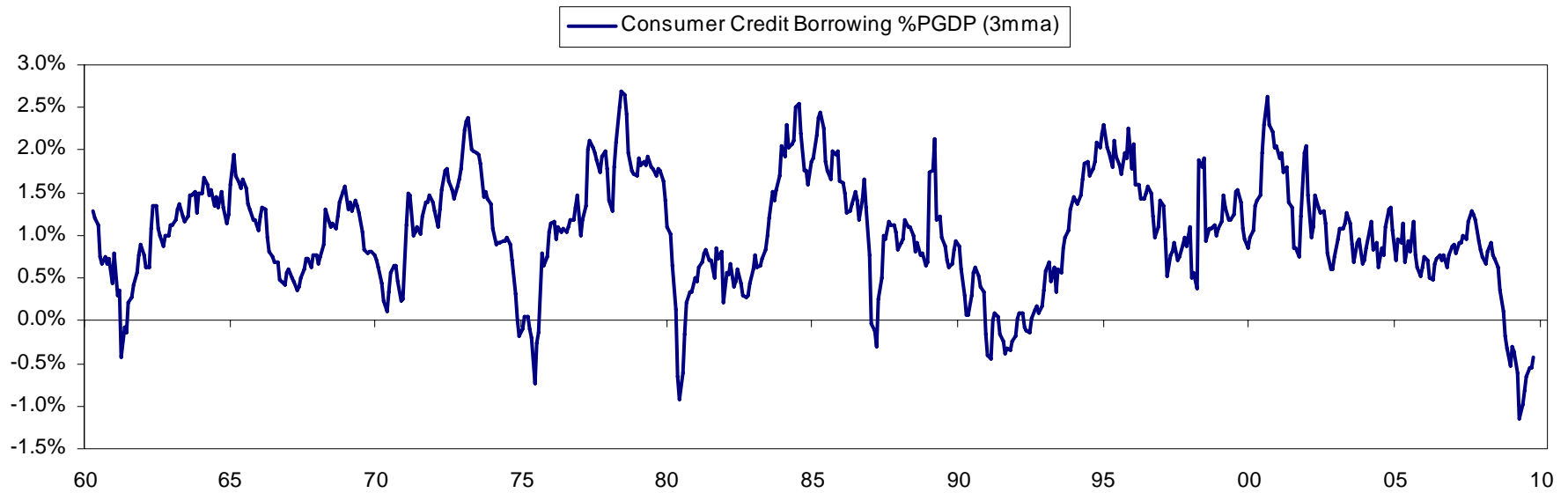
# 0% INTEREST RATE, CENTRAL BANK PRINTING AND LARGE GOVERNMENT DEFICITS



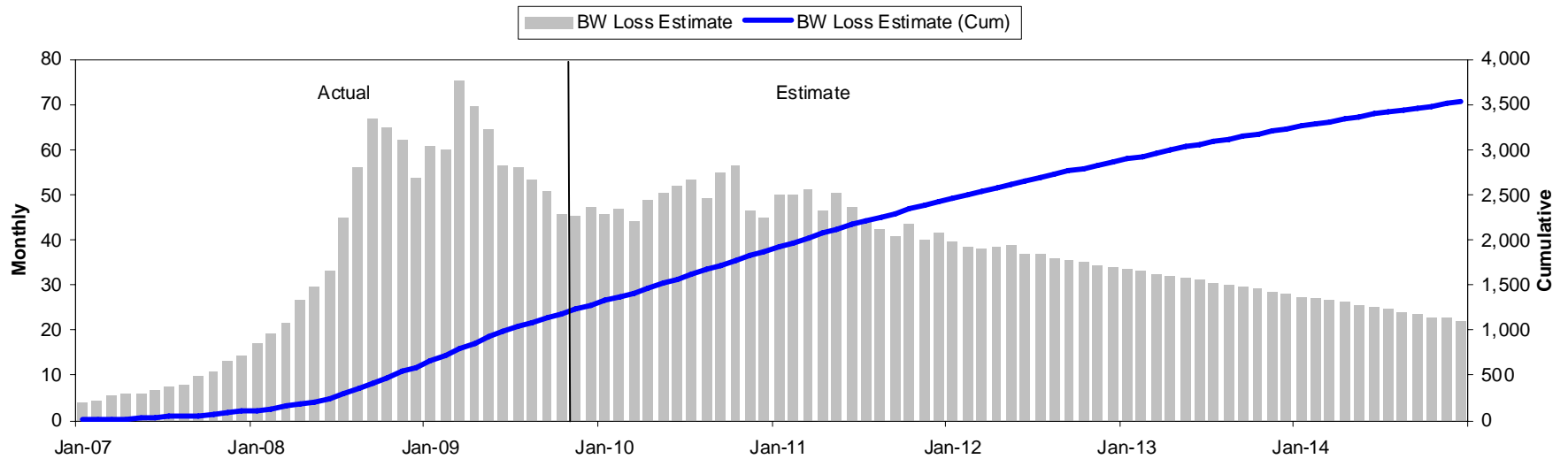
# STRUCTURAL IMPEDIMENTS TO RECOVERY



# WEAK CREDIT CREATION AND MORE LOSSES TO COME



All US Credit Assets Loss Curve, in US\$ Blns



---

## II. LAFPP's Asset Allocation

# ACHIEVING YOUR TARGET RETURN

## LAFPP Portfolio Total Return

*Since 1970*

10.1%

=

**Risk Free Rate**

6.1%

+

**Asset Allocation**

3.9%

+

**Tactical Shifts**

?

*Expected*

5.9%

=

2.0%

+

3.9%

+

?

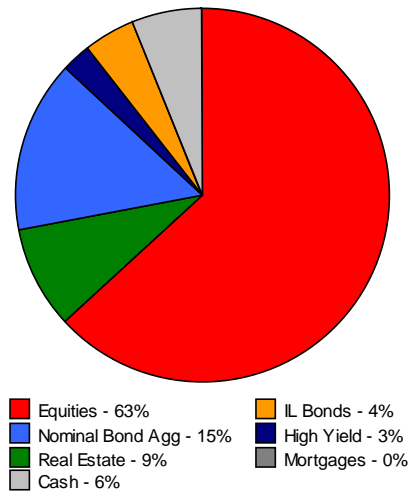


*Through Nov-2009*

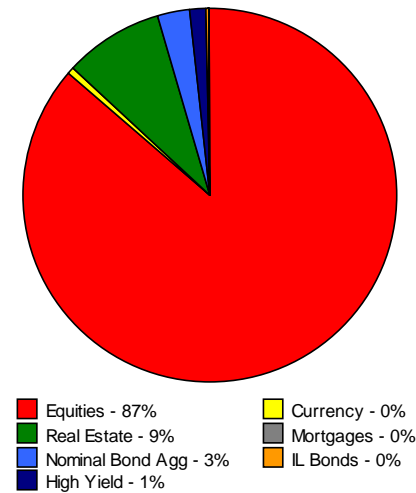
Expectations are based on Bridgewater Associates' understanding of global markets. There is no guarantee that the results shown can or will be achieved. WHERE SHOWN, HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING OR THE COSTS OF MANAGING THE PORTFOLIO. ALSO, SINCE THE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. The beta return since 1970 is calculated by subtracting the return of the Risk Free Rate since 1970 from the LAFPP Portfolio Total Return since 1970.

# PORTFOLIO CONCENTRATED IN EQUITIES

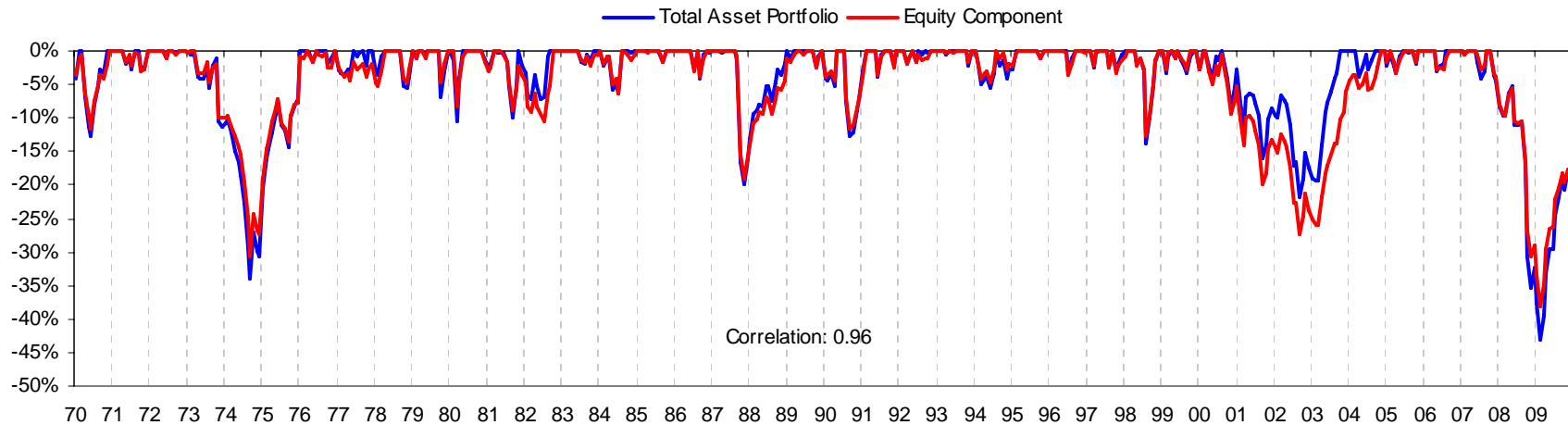
## LAFPP Beta Portfolio Dollar Weights



## LAFPP Beta Portfolio Risk Impact



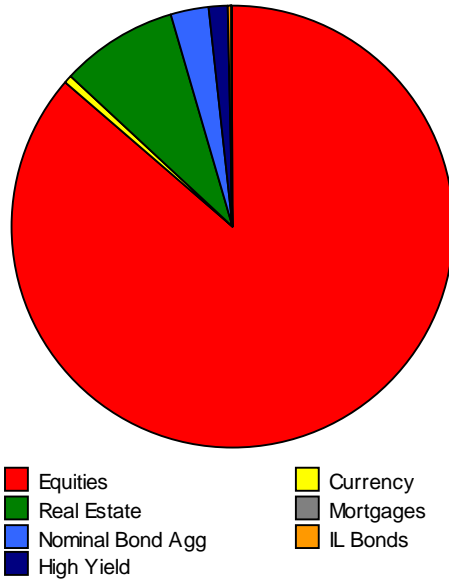
### Drawdowns



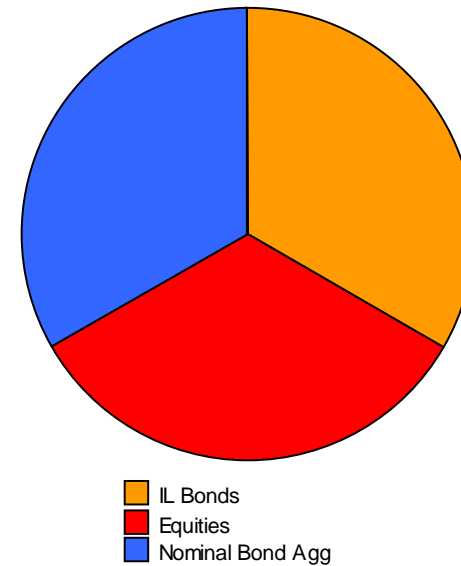
Past results are not necessarily indicative of future results. WHERE SHOWN, HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING OR THE COSTS OF MANAGING THE PORTFOLIO. ALSO, SINCE THE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN.

# LAFPP PORTFOLIO VS. DIVERSIFIED BETA PORTFOLIO

## LAFPP Beta Portfolio Risk Impact



## Sample Diversified Beta Risk Impact (Equal Risk Weight Equities, Nominals, ILs)



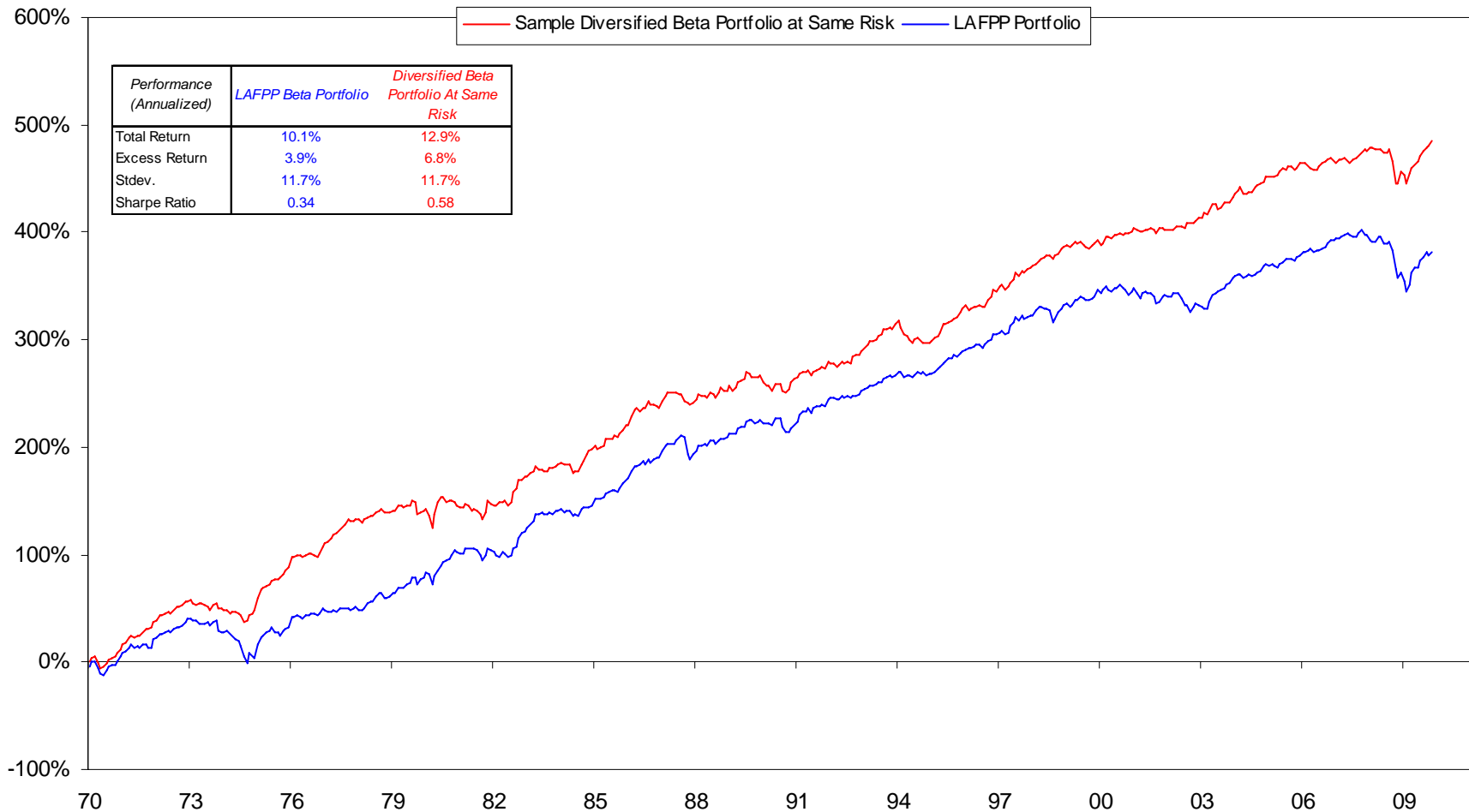
LAFPP Portfolio	
Expected Performance (Annualized)	
Total Return	6.0%
Excess Return	4.0%
Stdev.	12.9%
Sharpe Ratio	0.31

Diversified Beta (Risk-Matched to LAFPP)	
Expected Performance (Annualized)	
Total Return	8.3%
Excess Return	6.3%
Stdev.	12.9%
Ratio	0.49

Expectations are based on Bridgewater Associates' understanding of global markets. There is no guarantee that the results shown can or will be achieved.

# LAFPP PORTFOLIO VS. SAMPLE DIVERSIFIED BETA PORTFOLIO (SIMULATED AT SAME RISK)

**Cumulative Total Return (ln)**



Past results are not necessarily indicative of future results. WHERE SHOWN, HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING OR THE COSTS OF MANAGING THE PORTFOLIO. ALSO, SINCE THE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN.

---

# Appendix

---

## FUNDAMENTAL EQUATIONS

$$\text{GDP} = \text{Household} + \text{Capex} + \text{Government} + (\text{Exports} - \text{Imports})$$

↓

$$\text{Household Spending} = \text{Income} + \text{Financing}$$

↓ % of

$$\text{Government Spending} = \text{Taxes} + \text{Financing}$$

---

## Disclosures

Please read the following notes and disclosures as they provide important information and context for the research and performance presented herein. Additional information is available upon request except where the proprietary nature of the information precludes its dissemination.



# PORTFOLIO NOTES

This page contains the allocation information for the historical simulation of the Diversified Beta portfolio, from 1970 onwards, as well as forward looking assumptions for expected returns, volatility, tracking error, and correlations used in this analysis. The portfolio capital allocation weights (illustrated below) are estimates based either upon Bridgewater Associates' understanding of standard asset allocation (which may change without notice) or information provided by or publicly available from the recipient of this presentation. Asset class returns are actual market returns where available and otherwise a proxy index constructed based on Bridgewater Associates understanding of global financial markets. Information regarding specific indices and simulation methods used for proxies is available upon request (except where the proprietary nature of information precludes its dissemination). Results are hypothetical or simulated and gross of fees unless otherwise indicated. HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING OR THE COSTS OF MANAGING THE PORTFOLIO. ALSO, SINCE THE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN.

Correlation matrix, Sharpe ratios and return expectations based on Bridgewater assumptions. Beta volatilities estimated using historical data from the period 01/01/1970 - 11/01/2009.						Exposure Type														
Asset Class						AUSDvsUSD	CADvsUSD	CHFvsUSD	DKKvsUSD	EURvsUSD	GBPvsUSD	HKDvsUSD	JPYvsUSD	NOKvsUSD	NZDvsUSD	SEKvsUSD	SGDvsUSD	World Equities (Extended)	World IL Bonds (Extended)	Global Bond Aggregate (Extended)
Exposure	Asset Class	Exposure	Allocation	Return	Volatility	Ratio														
Asset	Currency	AUDvsUSD	0.00%	0.00%	11.73%	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Asset	Currency	CADvsUSD	0.00%	0.00%	6.44%	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Asset	Currency	CHFvsUSD	0.00%	0.00%	14.02%	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Asset	Currency	DKKvsUSD	0.00%	0.00%	12.93%	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Asset	Currency	EURvsUSD	0.00%	0.00%	13.12%	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Asset	Currency	GBPvsUSD	0.00%	0.00%	11.70%	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Asset	Currency	HKDvsUSD	0.00%	0.00%	5.10%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Asset	Currency	JPYvsUSD	0.00%	0.00%	13.55%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00
Asset	Currency	NOKvsUSD	0.00%	0.00%	11.76%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
Asset	Currency	NZDvsUSD	0.00%	0.00%	14.68%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00	0.00
Asset	Currency	SEKvsUSD	0.00%	0.00%	12.50%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00
Asset	Currency	SGDvsUSD	0.00%	0.00%	5.43%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00
Asset	Equities	World Equities (Extended)	14.96%	4.85%	16.18%	0.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	-0.20
Asset	Inflation-Linked Bonds	World IL Bonds (Extended)	51.63%	1.49%	4.95%	0.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.21
Asset	Nominal Bond Agg	Global Bond Aggregate (Extended)	34.15%	1.73%	5.76%	0.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.30	0.15

---

**Simulated Performance Disclosure:**

WHERE SHOWN, HYPOTHETICAL OR SIMULATED PERFORMANCE RESULTS HAVE CERTAIN INHERENT LIMITATIONS. UNLIKE AN ACTUAL PERFORMANCE RECORD, SIMULATED RESULTS DO NOT REPRESENT ACTUAL TRADING OR THE COSTS OF MANAGING THE PORTFOLIO. ALSO, SINCE THE TRADES HAVE NOT ACTUALLY BEEN EXECUTED, THE RESULTS MAY HAVE UNDER OR OVER COMPENSATED FOR THE IMPACT, IF ANY, OF CERTAIN MARKET FACTORS, SUCH AS LACK OF LIQUIDITY. SIMULATED TRADING PROGRAMS IN GENERAL ARE ALSO SUBJECT TO THE FACT THAT THEY ARE DESIGNED WITH THE BENEFIT OF HINDSIGHT. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN.

**Terminology:**

Value added (or excess return) is calculated by subtracting the official returns of each account's specified benchmark from the total return experienced by the account over a given period.

Volatility of value added (or tracking error) refers to the standard deviation of monthly value added over a given time period. Standard deviation of monthly value added is one possible measurement of portfolio risk.

Past value added and past volatility are not necessarily indicative of future value added and future volatility. There can be no assurance that the future value added and future volatility actually reflected in accounts will be at historical levels or levels either specified in the investment objectives or suggested by our forecasts.

Target volatility (or target tracking error) is an indication of the long-term expected volatility of value added.

Sharpe ratio is calculated by dividing the excess return above cash over a given period by the volatility of the excess return during the same period.

Information Ratio is calculated by dividing the excess return above a given benchmark over a given period by the volatility of the excess return during the same period.

Alpha: The risk taken by active managers above and beyond their passive, benchmark-replicating positions.

Beta: The risk in a portfolio that arises from passively holding asset classes.

Portfolio VaR: A measure of the amount of a total portfolio's risk, taking into consideration correlations within and across asset classes.

Var Share: A measure of the portion of a total portfolio's risk allocated to a particular return stream when all of its return streams are assumed to be fully correlated to each other.

CoVar Share: A measure of the portion of a total portfolio's risk allocated to a particular return stream when the cross correlations of all of the return streams are taken into account.

Drawdowns: Where shown, drawdowns are from previous peak.

**Expected Performance Disclosure:**

Where shown, expected performance is based on Bridgewater analysis of market data, quantitative research of the underlying forces that influence asset classes and our active management policies. The performance is for informational and educational purposes only and should not be relied upon as a prediction of future market performance or Bridgewater management performance. Reasonable people may disagree with the assumptions used and expectations developed there from and there is no guarantee the expectations shown can be achieved. Expected performance is considered hypothetical and is subject inherent limitations such as the impact of concurrent economic or geo-political elements not addressed in the analysis and market factors, such as lack of liquidity. Bridgewater Associates is not obligated to provide recipients hereof with updates or changes to such data. Investment decisions should not be made based upon expected results alone. Bridgewater Associates Inc. employees may have long or short positions in and buy or sell securities or derivatives referred to in this research. Those responsible for preparing this research receive compensation based upon various factors, including, among other things, the quality of their work and firm revenues.

**Volatility Disclosure:**

Expected or target volatility is one objective of Bridgewater's active management style. Statements regarding expectations or targets should not be considered a guarantee that such results will be achieved. Expected or target volatility is only one measure of risk. Discussions of risk management processes or theories contained herein should not be construed as a statement that Bridgewater has the ability to control risk or that the investments discussed are low risk.

**Individually Managed Accounts:**

Individually managed account performance will vary based on constraints, funding levels and other factors.

---

**Research/Outlook Disclosure:**

This research is based on Bridgewater Associates, Inc. proprietary research and analysis of global markets and investing. Bridgewater research utilizes (in whole and in part) data and information from public, private, and internal sources. Some internally generated information may be considered theoretical in nature and is subject to inherent limitations associated therein. Bridgewater considers the external sources reliable but does not assume responsibility for their accuracy. Major external private and public databases used include the International Monetary Fund, central monetary authorities of G-8 countries, the OECD, the Commerce Department, and external data vendors, such as DRI, DataStream, Compustat, Bloomberg, Lipper Tass, Worldscope and Morningstar.

The views expressed are solely those of Bridgewater Associates, Inc. and are subject to change without notice. Reasonable people may disagree. You should assume that Bridgewater Associates Inc. has a significant financial interest in one or more of the positions and/or securities or derivatives discussed. Bridgewater Associates Inc. employees may have long or short positions in and buy or sell securities or derivatives referred to in this research. Those responsible for preparing this research receive compensation based upon various factors, including, among other things, the quality of their work and firm revenues.

The research in this presentation is for informational and educational purposes only and is not an offer to sell or the solicitation of an offer to buy the securities or other instruments mentioned. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual investors. Investors should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, where appropriate, seek professional advice, including tax advice. Investment decisions should not be based solely on simulated, hypothetical or illustrative information. The price and value of the investments referred to in this research and the income therefrom may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Bridgewater Associates has no obligation to provide recipients hereof with updates or changes to such data. No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of Bridgewater Associates, Inc.®

**ERISA Investors**

None of the advice or recommendations related to the overall portfolio that Bridgewater may provide is intended to form the primary basis for any investment decisions with respect to the plan's assets. Recommendations and advice should be independently evaluated based on whatever other sources deemed appropriate, including legal and tax advice. Bridgewater may recommend one or more Bridgewater products in connection with our advice and recommendations, which would result in additional fees being paid to Bridgewater. Bridgewater's status as an ERISA fiduciary with respect to the management of any existing or future Bridgewater product(s) in which you invest would be (or continue to be) set forth in that product's applicable governing instruments.