

Fourteenth Annual National Pension and Institutional Investor Summit

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(AAFES)

***Panel: “Alternatives – What can they
provide?”***

Alternative Investments

AAFES



What is AAFES?

A retail organization for more than 113 years providing Soldiers, Airmen, National Guard members, Reservists, Families and retirees throughout the world with exceptional services and brand-name goods at competitive prices. AAFES motto is “Serving The Best Customers in the World” and “We go where you go!” Visit AAFES at www.aafes.com



AAFES by the Numbers

- **3,100+** — Number of retail outlets at Army and Air Force installations across the world in **30** countries.
- **11.6 million** — Number of active-duty troops, Reserves, National Guard members, retirees and their Families served by AAFES.
- **43,000+** — The number of AAFES civilian associates and managers around the world, including



AAFES by the Numbers

- **430+** — Number of AAFES associates deployed to the Middle East
- **3,600+** — Number of AAFES associates who have deployed since the start of the war on terror.
- **\$2.4 billion+** — Estimated total dividends contributed by AAFES to military Morale, Welfare and Recreation programs during the past 10 years.



AAFES Retirement Trusts

- Basic Retirement Annuity Plan (**BASIC**)
 - Established 1946
 - Purpose – Benefits full-timers.
 - Qualified Pension Trust
- Supplemental Deferred Compensation Plan (**EMP**)
 - Established 1969
 - Purpose – Maintain mobile executive workforce.
 - Grantor (Rabbi) Trust
- Post-retirement Medical, Dental and Life Plan (**PRM**)
 - Established 1961, converted to a Voluntary Employee's Beneficiary Association (VEBA) in 1993
 - Purpose – Medical/dental & life insurance benefits to qualified retirees.
 - Grandfathered: 31 Dec 1999 – 100% premium subsidy
 - After 01 JAN 2000 – same as active premium, currently 70% subsidy
 - 2X Life (15 years participation required)



Plans Funded Status at 30 NOV 2008

(In Millions)

	Basic	EMP	PRM	Total
Benefit Obligations	\$2,725	\$376	\$1,651	\$4,752
Plan Assets	<u>\$2,982</u>	<u>\$263</u>	<u>\$830</u>	<u>\$4,075</u>
Funded Status	\$257	(\$113)	(\$821)	(\$677)
Funded Ratio	109%	70%	50%	86%

Alternative Investments

AAPESE



Asset Allocation

- Experience Study
- Asset Liability Study (ALM)
- Efficient Frontier of Portfolio Alternatives
 - ◆ Using Wilshire's Capital Market Assumptions for return and risk
 - ◆ Correlation of Asset Classes
 - ◆ Evaluated for cash flow
 - ◆ Factors in ability to meet liabilities



Asset Allocation

	Basic & EMP	PRM
Domestic Equity	25%	25%
International Equity-Developed	10%	17%
International Equity-Emerging Markets	5%	5%
<i>Total Equity</i>	40%	47%
Investment Grade Fixed Income	19%	16%
High Yield Fixed Income	5%	5%
TIPS	9%	5%
<i>Total Fixed Income</i>	33%	26%
Real Estate	7%	7%
<i>Total Real Estate</i>	7%	7%
Private Equity	10%	10%
Commodities	5%	5%
Alternative Debt	5%	5%
<i>Total Opportunistic Investments</i>	20%	20%
Total Allocation	100%	100%
Return/Risk	0.80	0.75

Alternative Investments



Opportunistic Classes – Target Ranges

<u>Opportunistic Asset Classes</u>	<u>Range</u>	<u>Target</u>
Private Equity	0-12	10
Commodities:	0-7	5
<i>Timber</i>	0-4	2
<i>Agriculture</i>	0-2	1
<i>Futures</i>	0-4	2
Alternative Debt	0-7	5

Alternative Investments

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Sub Asset Classes – Alternative Investments

Opportunistic

➤ Private Equity (1987)

- ◆ Buyout
- ◆ Venture
- ◆ Special Situations

➤ Commodities (1992)

- ◆ Timberland (1992)
- ◆ Agriculture (1996)
- ◆ Futures (2007)

➤ Alternative Debt (2003)

- ◆ Mezzanine Debt (2003)
- ◆ Bank Loans (2007)
- ◆ Distressed Debt (2007)



Alternative Returns

	% Invested	Target %	Inception Return
Private Equity	6.0%	10.0%	18.8%
Agriculture	1.3%	1.0%	12.2%
Commodity Futures	2.0%	2.0%	-5.3%
Timberland	2.3%	2.0%	13.0%
Alternative Debt	4.8%	5.0%	-23.8%

Alternative Investments

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