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Fixed Income Investing in the Current Market Environment

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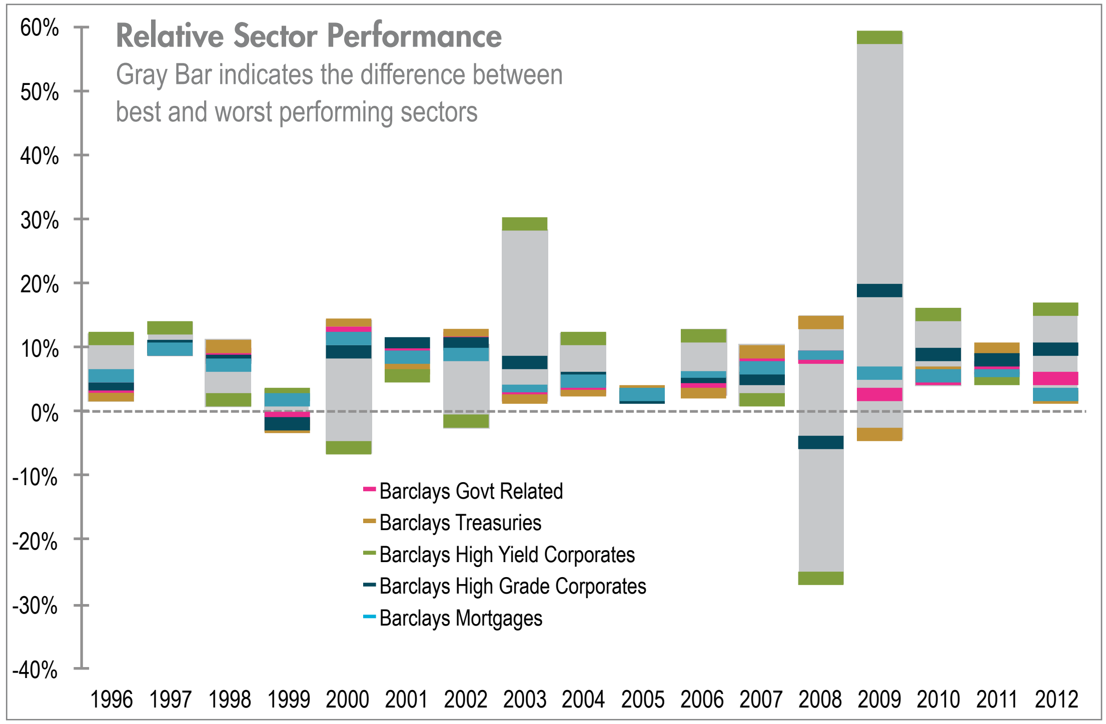
Investment Philosophy

- **Active Multi-Sector Approach**
  We actively manage portfolios across multiple bond market sectors aiming to take advantage of relative value opportunities. We look for opportunities to generate income and capital appreciation, while also limiting risk, in changing market environments.

- **Driven by Research**
  Our active approach emphasizes diversification and combines both macroeconomic analysis and comprehensive bottom-up credit research.

- **Methodical Risk Management**
  Managing risk factors is a critical component of our approach, and we seek out quality in all of the sectors in which we invest, including high yield bonds.

Taxable Bond Market Sector Performance



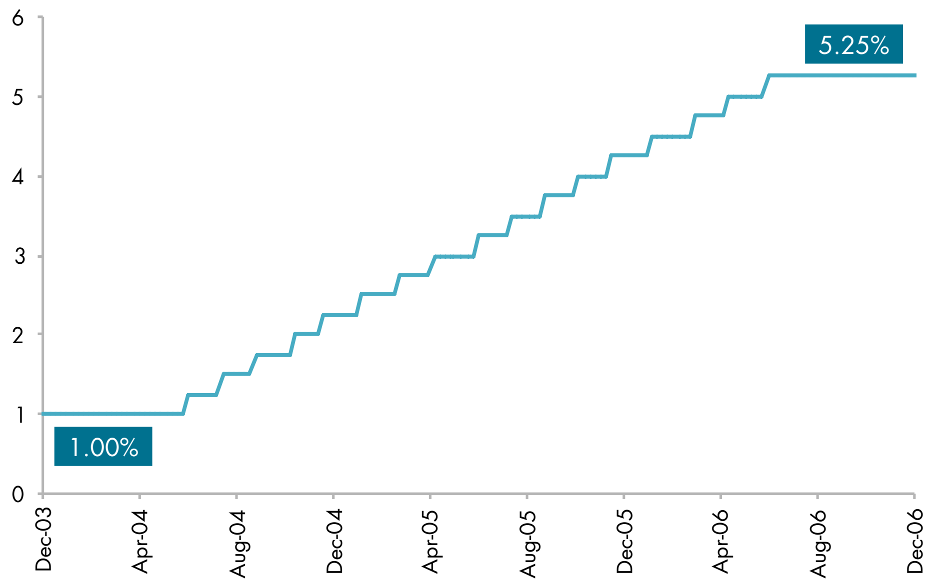
Source: FactSet
Bond sectors represented by Barclays Indices
Past performance is not a guarantee or a reliable indicator of future results. All investments contain risk and may lose value. Investing in the bond market is subject to certain risks including market, interest rate, issuer, credit, and inflation risk. High-yield, lower-rated, securities involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not.

Downside Risk Across Bond Market Sectors

PREVIOUS RISING RATE ENVIRONMENT

12/31/2003 - 12/31/2006

Federal Funds Target Rate



Bond Market Returns

Bond Market Sector	Avg. Annual Return (2004-2006)	Cumulative Return
BC Agency Index	3.35%	10.37%
BC Treasury Index	3.14%	9.71%
BC Mortgage Index	4.18%	13.05%
BC High Grade Corporate Index	3.79%	11.76%
BC Aggregate Index	3.70%	11.50%
BC 10-Year Municipal Bond Index	3.87%	12.05%

- Rising short-term rates do not necessarily lead to negative fixed income returns.

Source: Mellon, Federal Reserve

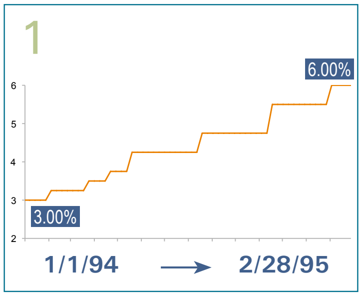
1983 represents the first full year when data was available for all indexes listed here. Data represents a variety of high quality bond indexes by Barclays Capital.

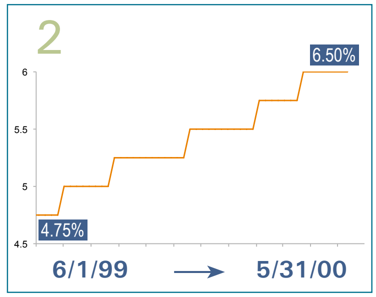
Past performance is no guarantee of future results.

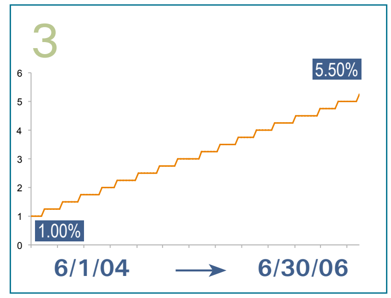
Fixed income investments are subject to interest, credit, and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.

Rising Interest Rates: An Historical Perspective

There have been <u>three</u> distinct periods of rising interest rates over the last 20 years







Source: Federal Reserve

Bond markets can prevail in a rising rate environment

- When investing in bonds, a ***total return perspective*** is needed. Historically, the income component has more than offset decreases in price. Income is always positive and is the most reliable part of a bond's return.

Barclays Aggregate Index posted positive cumulative returns in all three rising rates cycles

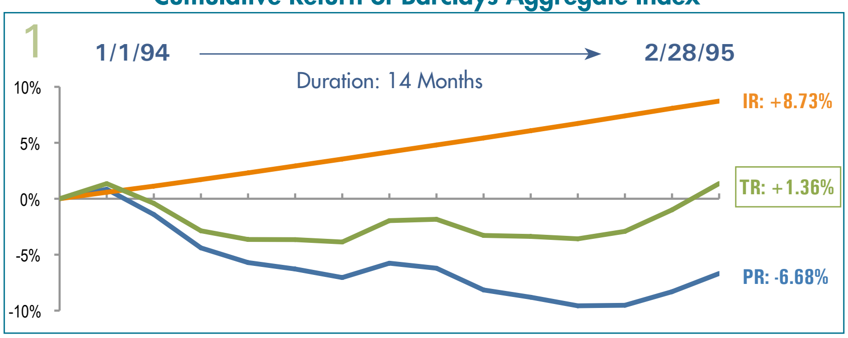
Price+Income +Interest Income = Total Return

IR: Income Return

TR: Total Return

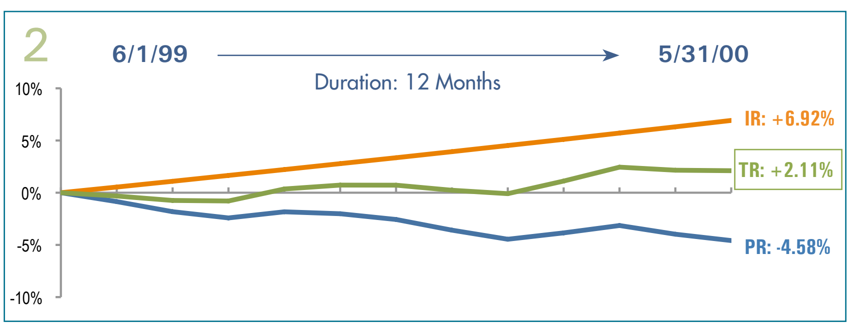
PR: Price Return

Cumulative Return of Barclays Aggregate Index



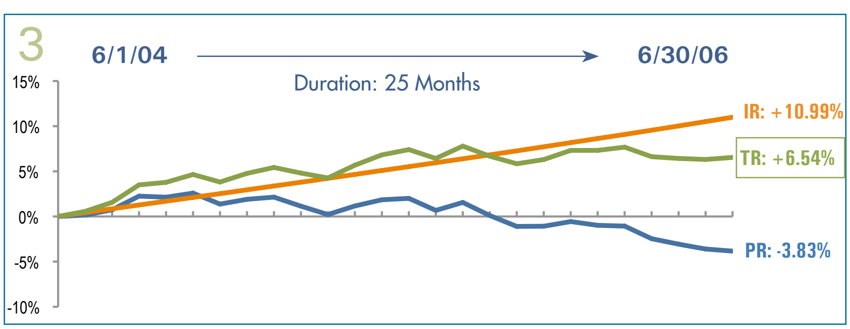
Change in Treasury Yields

	1/1/94 (%)	2/28/95 (%)	Change (bps)
2 Year	4.23	6.77	254
10 Year	5.79	7.21	142
30 Year	6.34	7.46	112
Fed Funds	3.00	6.00	300



Change in Treasury Yields

	6/1/99 (%)	5/31/00 (%)	Change (bps)
2 Year	5.40	6.69	129
10 Year	5.36	6.29	93
30 Year	5.68	6.01	33
Fed Funds	4.75	6.50	175



Change in Treasury Yields

	6/1/04 (%)	6/30/06 (%)	Change (bps)
2 Year	2.54	5.16	262
10 Year	4.65	5.13	48
30 Year	5.34	5.18	-16
Fed Funds	1.00	5.25	425

Source: Barclays Capital; Federal Reserve

Diversification Works

- A multi-sector approach is critical. Each subsector offers different risks and rewards through the cycle.

Bond Performance in Three Previous Rising Rate Environments

	Cumulative Total Return (1/1/94 - 2/28/95)	Cumulative Total Return (6/1/99 - 5/31/00)	Cumulative Total Return (6/1/04 - 6/30/06)
By Bond Type			
Barclays Aggregate Index	1.36%	2.11%	6.54%
U.S. Treasury Bonds	0.63%	3.33%	5.65%
U.S. Agency Bonds	0.80%	1.65%	5.97%
U.S. MBS: Agcy Fixed Rate MBS	3.15%	2.48%	7.29%
U.S. Investment Grade Corp. Bonds	1.14%	-0.02%	6.31%
U.S. High Yield Corp. Bonds	3.87%	-3.20%	16.64%
U.S. Municipal Bonds	0.68%	-0.80%	9.25%
By Maturity			
2 Year Treasury	3.18%	3.51%	3.13%
5 Year Treasury	0.22%	1.63%	2.00%
10 Year Treasury	-2.57%	-0.06%	4.23%
30 Year Treasury	-6.77%	0.61%	21.82%

Source: Barclays Capital

Potential impact of market timing

- It is impossible to time the market and know when to tactically move from bonds to cash.

Bond Performance in Three Previous Rising Rate Environments: Holding bonds until calendar year-end, performance is dramatically better.

	Cumulative Total Return (1/1/94 - 12/31/95)	Cumulative Total Return (6/1/99 - 12/31/00)	Cumulative Total Return (6/1/04 - 12/31/06)
By Bond Type			
Barclays Aggregate Index	14.26%	11.33%	11.43%
U.S. Treasury Bonds	13.68%	12.52%	10.02%
U.S. Agency Bonds	13.54%	11.76%	10.32%
U.S. MBS: Agcy Fixed Rate MBS	14.13%	11.64%	12.47%
U.S. Investment Grade Corp. Bonds	16.48%	8.87%	12.10%
U.S. High Yield Corp. Bonds	16.80%	-5.83%	24.80%
U.S. Municipal Bonds	11.18%	8.58%	13.73%
By Maturity			
2 Year Treasury	10.88%	9.30%	5.98%
5 Year Treasury	11.78%	10.95%	5.87%
10 Year Treasury	13.69%	10.71%	9.61%
30 Year Treasury	17.21%	11.74%	18.72%

Source: Barclays Capital

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Rising Interest Rates: An Historical Perspective

Unless your timing is consistently correct, staying in cash limits upside potential.

Annual Returns

Year	CG 3-Month T-Bill Index	Barclays 1-3 Year Govt./ Credit Index	Barclays Aggregate Bond Index
2012	0.07%	1.26%	4.21%
2011	0.08	1.59	7.84
2010	0.13	2.80	6.54
2009	0.16	3.83	5.93
2008	1.80	4.97	5.24
2007	4.74	6.83	6.97
2006	4.76	4.25	4.33
2005	3.00	1.77	2.43
2004	1.24	1.30	4.34
2003	1.07	2.81	4.10
2002	1.70	6.28	10.25
2001	4.09	8.78	8.44
2000	5.96	8.08	11.63
1999	4.74	3.15	-0.82
1998	5.05	6.98	8.69
1997	5.24	6.66	9.65
1996	5.25	5.14	3.63
1995	5.74	10.96	18.47
1994	4.22	0.55	-2.92
1993	3.07	5.55	9.75

Highest Returns

- A decision to stay in cash is a decision to forgo the substantially higher income that money would earn in taxable bonds.
- Investors that had broad exposure to different bond sectors generally would have outperformed cash by a wide margin.

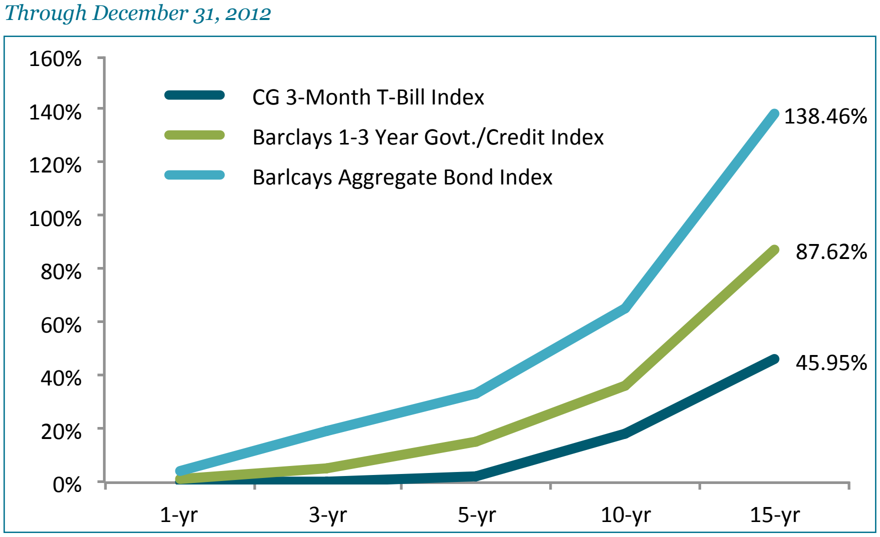
Annualized Returns

Through December 31, 2012

	CG 3-Month T-Bill Index	Barclays 1-3 Year Govt./ Credit Index	Barclays Aggregate Bond Index
3 Years	0.09%	1.88%	6.19%
5 Years	0.45	2.88	5.95
10 Years	1.69	3.13	5.18
15 Years	2.55	4.28	5.96

Cumulative Returns

Through December 31, 2012



Source:FactSet

The Power of Yield

Investors should not fear rising rates as much as they do

- Higher rates help offset the temporary loss in principal value
- A 100 basis point spike in rates results in a positive 2 year cumulative return
- As an active manager, we have the flexibility to take advantage of a rising rate environment

Ten Year Municipal Bond in Changing Interest Rate Scenarios

	Scenario #1 RATES INCREASE 2%	Scenario #2 RATES INCREASE 1%	Scenario #3 RATES UNCHANGED	Scenario #4 RATES DECREASE 1%
1 Year Cumulative Return	-9.6%	-3.1%	4.0%	11.7%
Gain/Loss per $1 MM	$(96,076)	$(31,133)	$39,721	$117,078
2 Year Cumulative Return	-4.0%	2.0%	8.4%	15.4%
Gain/Loss per $1 MM	$(39,758)	$19,908	$84,483	$154,406
3 Year Cumulative Return	1.7%	7.0%	12.7%	18.9%
Gain/Loss per $1 MM	$16,711	$70,062	$127,363	$188,928

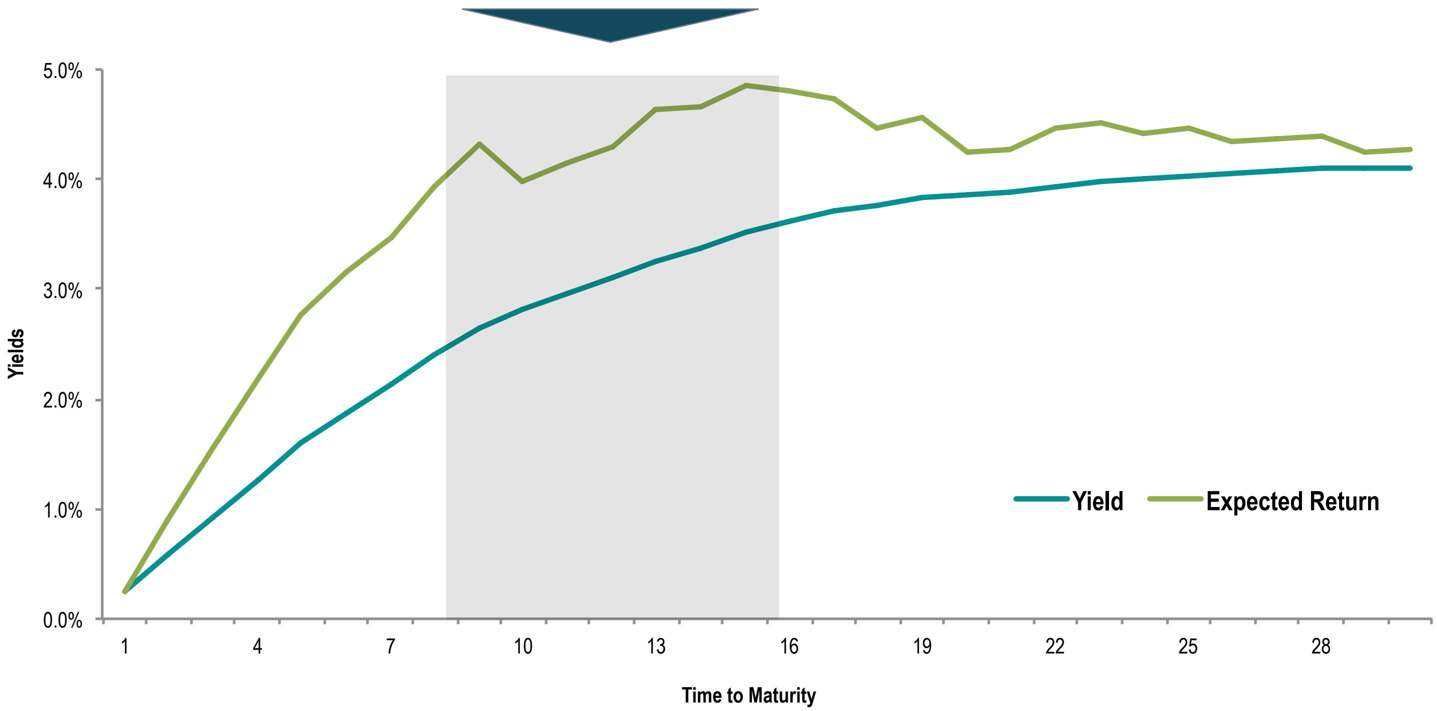
Source: Municipal Market Data

Assumes parallel shift of the yield curve occurs in the first year of the analysis. Assumes full effect of bond roll is calculated into returns. Assumes 5% AA-rated bond yield. Bond return is calculated using (price change + coupon) / beginning price. Calculations do not take into account the deduction of advisory fees and other expenses or other potentially material economic or market factors which could impact investment performance. No portion of the this illustration is guaranteed and the interest rate scenarios are not meant to be predictive. For informational purposes only; not intended to provide investment advice or recommendation to buy or sell any specific security. Data is believed to be from reliable sources but cannot be guaranteed.

Expected Return Opportunities

Municipal Bond Yield Curve

In the current environment, a municipal bond investor may achieve attractive expected returns on 8-15 year bonds vs. 30-year bonds without the associated volatility.



Expected return = yield plus return from roll down over a one-year holding period in a static interest rate environment.

Source: MMD AA Yields 6/30/13. Assumes non-callable bond. Assumes rates do not change during the life of the bond. Expected return is calculated using (price change + coupon / beginning price). Roll performance is an approximation that is implied by subtracting yield from total performance. Actual performance is not guaranteed.

	2 Years	5 Years	8 Years	10 Years	12 Years	15 Years	20 Years	30 Years
Yield	0.58%	1.59%	2.40%	2.81%	3.10%	3.51%	3.86%	4.11%
Roll	0.31%	1.18%	1.54%	1.17%	1.20%	1.34%	0.38%	0.16%
Expected Return	**0.89%**	**2.77%**	**3.94%**	**3.98%**	**4.30%**	**4.85%**	**4.24%**	**4.27%**

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