

OUR MISSION

Every day, our mission is to exceed, with integrity, passion and discipline, the expectations of our clients' overall investment experience.

The stock market continued its impressive rally throughout the month of April, resulting in new recovery highs for the major market indices. As of April 30th, the S&P 500 Index was approximately 80% above the March 2009 low while the Russell 2000 Index of small-cap companies was 112% above the low for the same period. A continuation of strong corporate earnings and further improvement in economic data, particularly among employment indicators, provided catalysts for the market gains. However, concerns re-emerged regarding the Greece debt crisis, and the potential for contagion to other European nations in poor fiscal health. The subsequent impact to investor confidence led to steep stock market losses, a plunge in the Euro currency, and a flight to safe-haven assets such as U.S. Treasury securities and gold. For the month of April, the Dow Jones Industrial Average ended up 1.53%, the S&P 500 ended up 1.58%, and the Russell 2000 Index ended up 5.66%.

The sovereign debt crisis developing in Europe has now entered a new phase, sparking the need for a massive bailout loan package totalling nearly \$1 trillion. While Greece was initially at the forefront of investor concerns as a result of heavy borrowing and generation of large fiscal deficits, fears have spread to other European nations such as Spain and Portugal as well. As a result, strains in the credit markets began to surface, which prompted the dramatic action and bailout package that was coordinated by eurozone countries, the International Monetary Fund, and the European Central Bank. As the credit crisis evolves, we anticipate that investors will continue to punish fiscally irresponsible countries across the globe by demanding higher sovereign debt yields.

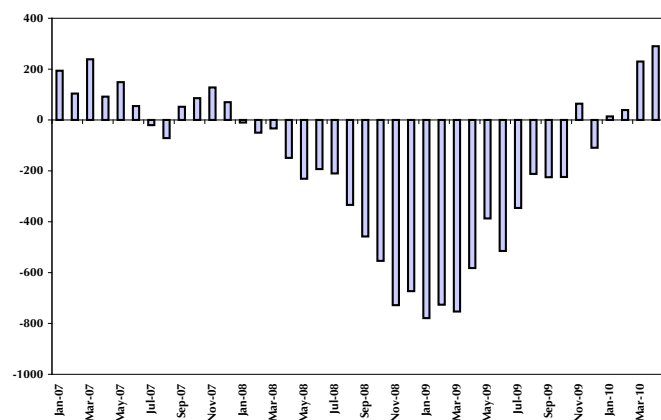
In fixed-income markets, the month of April began with an increase in yields, resulting in declining prices. The 10-year U.S. Treasury would ultimately breach the 4.00% yield level, which many investors regarded as a significant event. Market participants believed the economy was illustrating persistent signs of improvement and that the fiscal position of the U.S. Government would eventually be a detriment to fixed-income securities in the coming years. However, an increase in volatility can lead to rather abrupt changes, which occurred at the end of April. As previously discussed, sovereign debt

concerns in Europe began to rattle the fixed-income markets, and the result was a "flight to safety" characterized by the movement to purchase U.S. Treasury securities or improve the credit quality of bond holdings.

Ultimately, all sectors of the bond market would post positive results for the month. The best performing sectors for the month of April on a total return basis were U.S. Treasury securities, investment grade corporate debt, and high yield securities. U.S. Treasury securities continue to be a popular investment for investors seeking protection, while investment grade and high yield securities are attractive to investors willing to accept additional risk for higher potential cash flow. The fixed-income sectors that lagged during the quarter include government agency and mortgage-backed securities. The completion of government sponsored purchases of these securities during the first quarter and the overhang of the potential sales of these securities back into the market have dampened returns year-to-date.

Since the first quarter of 2010, which was the first quarterly increase in nonfarm payrolls since 2007, the economy has continued to add jobs at an impressive rate. In the most recent report, payrolls increased by 290,000 in April (see chart 1), which follows a gain of 230,000 jobs in March. Additionally, many economists are anticipating a boost to job creation in coming months as a result of temporary hiring by the government in order to conduct the 2010 Census. However,

Chart 1: Non-Farm Payrolls (in Thousands)

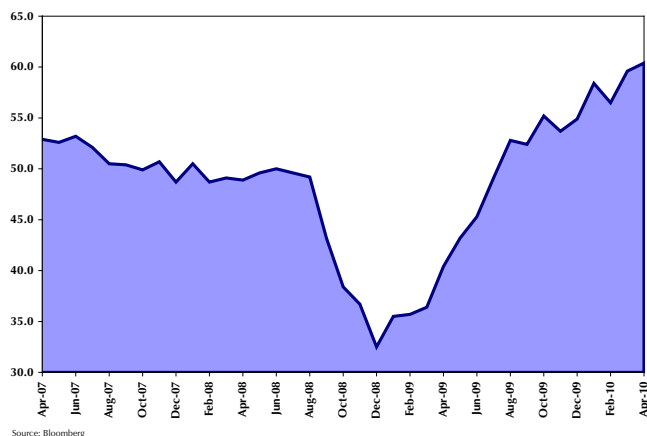


Source: Bloomberg

the unemployment rate remains elevated, and climbed to 9.9% during April from 9.7% in March. Although the unemployment rate remains below its recent peak of 10.1%, economists expect the rate to remain at high levels during the near-term as job gains encourage the unemployed that had previously given up searching for employment to enter the ranks of those searching for a job.

Numerous economic indicators confirm both the stabilization and advancement of the U.S. economy. The Institute for Supply Management Manufacturing Index (ISM) was reported at 60.4 during the month of April (see chart 2) and has been reported above 50 for the past nine consecutive months. Additionally, the ISM Non-manufacturing Index was reported at 55.4 in April, which follows three consecutive months above 50. ISM reading above 50 indicates expansion while a reading below 50 indicates contraction. Durable goods orders excluding the volatile transportation sector increased 2.8% in March compared to February, marking the fourth increase of the past five months. Additionally, a key indicator of business spending contained within the durable goods report has illustrated signs of substantial improvement in recent months.

Chart 2: ISM Manufacturing Index



In previous commentaries and progress reports, we have noted that corporate earnings have shown improvement primarily due to broad cost-cutting measures. However, there are now solid indications of revenue growth, which could provide another boost to corporate earnings. As of the time of this writing, approximately 85% of companies in the S&P 500 Index have reported earnings for the first quarter of 2010, and approximately 83% of company earnings beat

analysts' earnings expectations. Moreover, around 68% of companies reported positive surprises in sales growth, with an average year-over-year sales growth rate of 13%. Investors will continue to view sales growth as further evidence of the economic recovery and the sustainability in corporate earnings expansion.

Maintaining Defensive Position

While lingering uncertainties present challenges to the global economy, we believe opportunities in the equity markets will persist over the near-term future, but that volatility will continue as well. As a result, we stand ready to adjust our defensive position in order to manage risk for our clients. Due to readings from our investment models, we are maintaining a small defensive position in the applicable funds and portfolios.

Our investment models have also remained relatively consistent since we transitioned into 2010 across the dynamic of large-, mid-, and small-cap companies. We have maintained an overweight position in small-cap stocks, and we have also maintained an overweight in mid-cap stocks. Additionally, our models have continued to indicate a preference for value investments, and we have responded by maintaining an overweight allocation toward value investments across all capitalization ranges. In terms of sector exposure, we have maintained an overweight to the industrial materials and energy sector due to model indications. We are also overweight the consumer staples and healthcare sector, while being underweight the technology and utilities sector. We will continue to closely monitor market conditions and our internal investment models, making select tactical shifts as necessary to take advantage of opportunities and protect against downside risk.

Our fixed-income portfolios are positioned to accommodate the potential for a rising interest rate environment. The duration of our fixed-income portfolios remain slightly below that of our benchmarks, which should provide a benefit in a rising rate environment. In accordance with our models, we also continue to favor investment grade corporate bonds over government agency and U.S. Treasury securities.

Thank you for your interest in our investment management services. For more information on our portfolios or investment strategies, including fact sheets and prospectus, please contact us at Toll Free 866-633-3371.