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August 4, 2010

Ms. Lois Towey
City of Ormond Beach
22 South Beach Street
Ormond Beach, FL 32174

Dear Ms. Towey:

We have enclosed performance for your account for the period ending June 30, 2010. Relevant indices have been included for comparison purposes.

This quarter we saw a revival of the safe-haven bid for treasuries as the events in Europe weighed heavily on investors. With expectations for slower economic activity overseas continuing to mount, market participants began discussing the possibility of a “double dip” in the U.S. economy. However, Fed Chairman Bernanke recently noted that his expectation for GDP growth in 2010 is around 3.5% with subdued inflation. Economic indicators echo his comments as manufacturing has remained in expansionary territory and core CPI remains at very low levels.

The search for safety caused the yield on the 10-year Treasury to dip below 3% and finish the quarter at 2.95%. The yield on the 2-year Treasury fell 40 basis points to 0.62%, and the yield on the 30-year Treasury fell 80 basis points to 3.91%. Thus, the 2-30 yield spread ended the quarter much flatter at 329 basis points.

With the decline in rates, the bond market experienced positive performance as the Barclays Capital Aggregate Index returned 3.49% and the Barclays Capital Intermediate Government/Credit Index returned 2.97% this quarter. Spread product was generally out of favor this quarter as many investors preferred the safety of treasuries. The corporate sector was hit the hardest, exhibiting negative excess return of 225 basis points. Asset-backed securities and agencies followed with -8 and 0 basis points of excess return, respectively. The only positive gain was in mortgage-backed securities with an excess return of 1 basis point. Thus, the Aggregate Index ended the quarter with an excess return of -51 basis points.

The recent widening in spreads has presented an excellent opportunity for investors to add risk. In that regard, we are staying fully invested in spread product and remain underweighted in treasuries. Looking forward, we believe that spreads will tighten and are therefore maintaining our general risk profile in anticipation of improved credit conditions.

Please do not hesitate to contact us if you have any questions or comments.

Sincerely,

Janna Hamilton
Partner

JH/kr
Enclosure