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November 8, 2011

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 September 30, 2011. Relevant indices have been included for comparison purposes.

What an incredible quarter! It started on August 5th when Standard and Poor's announced that it lowered the long term sovereign credit rating on the United States to AA+ from AAA based on the opinion that fiscal plans fell short of what is necessary to stabilize the debt situation. Subsequently, the Federal Reserve pledged to maintain its benchmark short-term interest rate at a record low at least through mid-2013 in efforts to revive the weakening recovery. Then in September, the Federal Reserve announced the plan, "Operation Twist", which involves buying $400 billion of bonds with maturities of 6 to 30 years, while selling an equal amount of debt maturing in 3 years or less. The plan is intended to "put downward pressure on longer term interest rates and help make broader financial conditions more accommodative." Although economic data has been weaker than hoped, we still remain in expansionary territory and corporate earnings have been relatively strong.

After the initial announcement of "Operation Twist", the 10-year Treasury yield dropped as low as 1.71%, and ended the quarter at 1.93%, 123 basis points lower in the quarter. The 2-year Treasury yield dropped 21 basis points to 0.25%, and the 30-year Treasury yield plunged 146 basis points to 2.92%. Thus, the 2-30 yield spread flattened significantly to 267 basis points.

With the decline in rates, the bond market delivered positive performance with a return of 3.82% on the Barclays Capital Aggregate Index and a return of 2.39% on the Barclays Capital Intermediate Government Credit Index. Spread product was out of favor, as none of the four sectors delivered positive excess return. Corporate bonds were the hardest hit with -511 basis points of excess return, making it one of the worst quarters on record, rivaling the time period following the Lehman Brothers collapse. Mortgage-backed securities and agencies provided -221 and -49 basis points of excess return, respectively. Asset-backed securities were flat for the quarter providing no excess return. Thus, the Barclays Capital Aggregate Index delivered a negative excess return of -202 basis points.

We fully expect the recovery to continue and feel the market has overreacted and has reached extreme levels in many sectors. Thus, we are maintaining the duration of the portfolio marginally shorter than the benchmark. Additionally, we remain overweighted in corporate bonds with an emphasis on financials. Given the current low level of rates, we believe that rates will rise from here and spreads will contract to more normal levels.

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

Sincerely,

Janna Hamilton

Janna Hamilton
Partner

JH/cck
Enclosure