GH&A
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December 3, 2012

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, 2012. Relevant indices have been included for comparison purposes.

Is the third time the charm for the Fed's quantitative easing program? On September 13th, Federal Reserve Chairman, Ben Bernanke, announced QE3, which consists of an open-ended commitment to purchase $40 billion of mortgage debt every month. They also extended "Operation Twist" through the end of the year, selling short term bonds while buying longer maturity bonds and extended the plans to hold overnight interest rates near zero at least until 2015. US equities responded well to the news, boosting an already strong quarter, bringing total quarterly gains on the S&P 500 and DJIA of 5.8% and 4.3%, respectively.

After reaching a high of 1.87% mid-September, the 10-year Treasury yield ended the quarter at 1.64% representing an increase of 6 basis points over previous quarter end. The 2-year Treasury yield declined 7 basis points to 0.23%, while the 30-year Treasury yield rose 17 basis points to 2.83%. These moves caused the 2-30 year yield spread to steepen to 260 basis points.

Overall, the bond market delivered positive performance with a return on the Barclays Capital Aggregate Index of 1.59% and a return of 1.40% on the Barclays Capital Intermediate Government/Credit Index. Spread product outperformed as all sectors delivered positive excess return for the quarter. Corporate bonds were the leader by far with 324 basis points of excess return, followed by asset-backed securities with 77 basis points of excess return. Mortgage-backed securities and agencies delivered 71 basis points and 66 basis points of excess return, respectively.

We expect the recovery to continue and believe treasuries remain overvalued at these levels. Thus, we are maintaining the duration of the portfolio shorter than the benchmark. Although we remain overweighted in corporate bonds with the emphasis on financials, we have begun the process of trimming selective corporate positions so as to reduce the credit risk in the portfolio. Given the sustained low level of rates, we believe rates will rise from here and spreads will continue to contract.

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

Sincerely,

Janna Hamilton

Janna Hamilton
Partner

JH/brb
Enclosure