

Philosophy

Boyd Watterson is committed to pursuing fixed income results in excess of our benchmarks through active portfolio management. The foundation of our investment philosophy is based on fundamental economic and credit research conducted by highly experienced investment professionals. It is our belief that above-average returns can be achieved through duration management, exploiting changes in spread relationships and identifying undervalued sectors and securities while maintaining a high quality, liquid portfolio. The duration decision is based on a two-step process. First, the strategy assumptions create a bias with respect to relative duration management. Second, quantitative interest rate models provide analysis into the direction of interest rates. The strategy team reconciles the biases into a specific duration target. The resulting portfolio duration will range between +/- 35% of the prescribed benchmark, unless otherwise specified by the client. Our yield curve strategy is to manage the yield curve distribution vs. the index within the context of our duration strategy. This style of investing allows for the purchase of up to 5% of the total portfolio in securities rated B- or B3 at the time of purchase.

Process

Consistent examination of historical spread relationships is imperative as part of the sector allocation process. Identification of changing dynamics in the marketplace, which may lead to permanent or aberrant behavior between sectors, is also important. The underlying strategy assumptions normally lead to biases with regard to sector allocation, and historical spread relationships are then referenced to clarify and enhance the specifics of the sector allocation decision. Our underlying philosophy is to use a broad spectrum of investment alternatives in order to achieve optimal risk/reward characteristics. This style of investing allows for the purchase of up to a 5% weighting of below investment grade bonds. Security selection is facilitated by a rigorous examination of credit quality. A combination of internally and externally generated research is used in support of a given credit outlook. This process seeks to analyze credit quality in the context of actual security valuation. Credit-sensitive issues are concentrated in short and intermediate maturities.

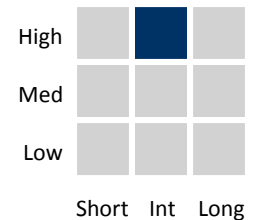
Profile

The Fixed Income Strategy Committee consists of four voting members. This team formulates a model portfolio for each product versus the appropriate benchmark. Each portfolio manager holds responsibility for a group of individual portfolios and is responsible for their adherence to the appropriate model. This process is designed to ensure consistency across all portfolios and to lower transaction costs by maximizing economies of scale. The process also helps facilitate efficient interaction with the broker/dealer community.

Composite Summary

Composite Assets	\$615.6 million
Composite Accounts	40
Strategy Assets	\$948.2 million
Strategy Accounts	578
Benchmark	Barclays Capital Intermediate Govt/Credit

Quality / Maturity



Portfolio Composition

	Composite*	Benchmark**
Average Duration	3.94 Years	3.95 Years
Average Maturity	4.27 Years	4.35 Years
Average Coupon	3.64%	3.05%
Average Yield to Maturity	1.64%	1.43%
Average Quality	Aa3	Aa2

Sector Allocation

	Composite*	Benchmark**
Treasuries	28%	56%
Agencies	10	11
Mortgage Backed	3	-
Corporate	56	27
Municipal	-	-
High Yield	-	-
CMBS	2	-
ABS	-	-
Other	1	5

Quality Allocation

	Composite*	Benchmark**
Aaa	44%	70%
Aa	9	5
A	27	14
Baa	21	11
Below Baa	-	-

Maturity Allocation

	Composite*	Benchmark**
0 - 1	6%	- %
1 - 3	28	39
3 - 5	36	26
5 - 10	30	35
10 - 15	-	-
15 - 20	-	-
Over 20	-	-

* Based on the model portfolio.

** Source: Capital Management Sciences.