



Boyd Watterson

A Titanium Asset Management Company

Total Return Core Fixed Income

December 2010

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 +/- 25% 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. The eligible securities include investment grade, high yield rated B- or B3 at the time of purchase, and non-U.S. dollar denominated securities rated B- or B3 at the time of purchase.

Process

Consistent examination of historical spread relationships is imperative in 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. Historical spread relationships are then referenced to clarify and enhance the specifics of the sector allocation decision. Under normal conditions, exposure to credit-sensitive and structured sectors will not exceed 3.0x vs. the respective benchmark sector weighting. We design the portfolios for the Enhanced Core product by building on core portfolio holdings such as treasuries, agencies and investment grade corporate bonds, then investing up to a 20% weighting of below investment grade securities and/or non U.S. dollar denominated bonds. Security selection is facilitated by an 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 six voting members. The committee formulates a model portfolio based on each of the major market indices. Each portfolio manager holds responsibility for a group of individual portfolios and is responsible for their adherence to the appropriate model. In addition, each manager has a primary and secondary sector focus in which they conduct the trading. This focus allows for greater expertise and efficiency in the management and trading process. 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	\$256.7 million
Composite Accounts	9
Core Assets	\$959.1 million
Core Accounts	223
Benchmark	Barclays Capital Aggregate

Quality / Maturity

High			
Med			
Low			
	Short	Int	Long

Portfolio Composition

	Composite*	Benchmark**
Average Duration	4.59 Years	4.80 Years
Average Maturity	6.08 Years	6.67 Years
Average Coupon	5.08%	4.25%
Average Yield to Maturity	3.54%	2.85%
Average Quality	AA-	AAA

Sector Allocation

	Composite*	Benchmark**
Treasuries	13%	34%
Agencies	2	8
Mortgage Backed	30	32
Corporate	32	19
High Yield	13	-
CMBS	7	3
ABS	-	-
Other	3	4

Quality Allocation

	Composite*	Benchmark**
AAA	57%	77%
AA	7	5
A	11	10
BBB	12	9
Below BBB	13	-

Maturity Allocation

	Composite*	Benchmark**
0 - 1	7%	- %
1 - 3	17	24
3 - 5	31	29
5 - 10	40	36
10 - 15	-	2
15 - 20	-	2
Over 20	6	8

Top Ten Holdings Composite*

	Composite*		Composite*
U S Treasury Notes	4.5%	FNMA	2.1%
U S Treasury Notes	4.0	FNMA	2.1
U S Treasury Notes	3.6	CD 2007-CD4 ASB	1.8
FNMA	3.4	FHLMC	1.8
Liquid Reserves	3.1	FNMA	1.7

* Based on the model portfolio. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities identified herein will be a part of the portfolio at the time you receive this report. ** Source: Capital Management Sciences.

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