

3rd Quarter 2009

## EQUITY-LIKE RETURNS FROM FIXED INCOME

Beginning in July of 2008, Monroe Vos began recommending that clients reduce their exposure to the equity market. These reductions helped protect our clients' assets as the stock market deteriorated over the second half of 2008 as the credit crisis deepened. As the stock market continued to fall in the first quarter of 2009, our clients were making money in their fixed income portfolios as interest rates fell. The PIMCO Total Return fund gained +4.97% in the fourth quarter of 2008 compared to a drop of -21.94% for the S&P 500 and gained another +1.49% in the first quarter of 2009, compared to the S&P 500 return of -11.01%.

By the beginning of 2009, most clients had reduced their equity exposure to 20% of their portfolio. Monroe Vos continued to recommend that clients allocate 80% of their assets to fixed income. As the stock market began to rally in March, Monroe Vos evaluated opportunities in equities and fixed income. We came to the conclusion that it was possible to achieve equity-like returns from the fixed income portfolio due to the opportunities that PIMCO was seeing in the corporate bond and agency MBS markets. Corporate bond spreads and high-yield bond spreads were at unprecedented levels. Monroe Vos preferred to invest in this area, given the uncertainty in the market and the economy, since these securities are higher in the capital structure and offer less risk than equities.

Through September 30, 2009, PIMCO has averaged 17% exposure to investment-grade corporate bonds and 2% exposure to high-yield corporate bonds. Clients should think of this exposure as an equity surrogate and if you add this exposure to the 20% invested in equities, clients' actually have about 35% exposure to the equity markets.

PIMCO has significantly reduced its exposure to agency MBS from a high of 76% earlier this year to 22% currently. Spreads tightened significantly in this area due to the purchase programs implemented by the Fed and PIMCO was up approximately 13% in this portion of their portfolio. PIMCO has repositioned the portfolio and increased the exposure to U.S. Treasuries and other government related securities because they feel that interest rates will remain low as the recovery will be weak and possibilities of a double-dip recession remain. PIMCO has also been repositioning risk in the high-yield and investment-grade corporate sectors by moving assets away from riskier credits in the financial sector to more stable credits in utilities, telecom, and energy.

Due to the outperformance from PIMCO relative to the Barclays Aggregate Bond Index and the outperformance of the equity managers relative to the S&P 500, Monroe Vos clients have been able to outperform a traditional 60% equity/40% fixed income portfolio with a 20% allocation to equities and an 80% allocation to fixed income with significantly less risk.

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## YTD through September 30, 2009

### 20% Equity Allocation

27% Return vs. 19% S&P 500

### 80% Fixed Income Allocation

-Approximate Return / Average Allocation from 12.31.08 – 9.30.09

16% Return / 17% Investment Grade Corporates

36% Return / 2% High-Yield

13% Return / 56% Agency MBS

4% Return / 17% Treasuries, Agencies, TIPS, and Cash

22% Return / 2% Foreign Non \$ - Developed

28% Return / 3% Emerging Markets

4% Return / 3% Other

12.71% Return / 100% Fixed Income vs. 5.72% BC Aggregate Bond Index

### Monroe Vos Model Portfolio

15.58% Return vs. 14.93% 60% S&P 500 / 40% BC Aggregate