

Dear Friends & Investors:

Summer is officially here. While the country endures a heat wave, investor worries are reaching a boiling point in regards to issues in Europe and fiscal debates in the U.S. Both need to be resolved quickly to avoid a market disruption.

Most investment grade bond indices “gave a little back” in June but produced strong results for the quarter and finished the first half of the year with solid numbers. Our fixed income investment strategies were no exception. Although our Core and Intermediate strategies both lagged their benchmarks in the second quarter, they remain in line with them year to date. For the quarter, Core returned 1.93% versus 2.30% for the Barclays Aggregate Index and Intermediate posted a 1.74% return compared to 2.13% for the Barclays Intermediate Government/Credit Index. We have positioned portfolios more defensively relative to interest rates this year, de-emphasizing the middle part of the yield curve and with a slightly shorter duration. We are very confident in the holdings and characteristics of these strategies and believe we have what will be needed to successfully steer the portfolio around the market potholes being created by the global economic crisis.

At the risk of sounding like a broken record, our enhanced index strategy just keeps on enhancing. It returned 0.93% for the second quarter compared to just 0.10% for the S&P 500 Index. It’s now beating the index by 126 basis points YTD and beating by an annualized 183 basis points over the last 5 years. With low interest rates and an attractive yield curve, we anticipate our approach will continue to perform well going forward. There is still time to board this enhanced indexing train.

We are grateful for all the inquiries and new business opportunities we’ve received from across the country and look forward to many more. As always, if you have any questions or desire additional information, please don’t hesitate to contact me.

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June 30, 2011	Q2	YTD	1 Year	3 Year	5 Year
Core Fixed	1.93%	2.73%	3.84%	8.20%	7.78%
Net of Fees	1.87%	2.61%	3.59%	7.95%	7.53%
Barclays Aggregate	2.30%	2.74%	3.94%	6.47%	6.53%
Intermediate Fixed	1.74%	2.59%	3.84%	7.28%	7.14%
Net of Fees	1.68%	2.47%	3.59%	7.03%	6.89%
Barclays Int G/C	2.13%	2.48%	3.78%	5.76%	6.09%
Enhanced Index	0.93%	7.29%	33.00%	6.14%	4.77%
Net of Fees	0.84%	7.12%	32.65%	5.79%	4.42%
S&P 500 Index	0.10%	6.03%	30.70%	3.34%	2.94%

Second Quarter Market Commentary

Fixed Income

Interest rates fell across all maturities during the second quarter as evidence of an economic soft patch grew. Compounding these growth concerns, worries related to the potential impact of the sovereign debt crisis in Europe escalated. Despite the conclusion of QE2 and the unlikelihood of a QE3, treasuries rallied with the intermediate portion of the curve showing the largest declines. In the process, the yield curve moved back out to its steepest level during this cycle. As economic concerns rose, corporate yield spreads widened and this sector of the market lagged on a duration adjusted basis. Looking forward, we continue to believe that rates are going through a bottoming process and will erratically rise as the economy improves in the second half. Reduction in commodity prices (especially gasoline) and some moderation in consumer deleveraging will be a positive to spending. In addition, we expect production will pick up as the supply disruptions from Japan fade away. There are also tax incentives for corporations to bring forward capital expenditures prior to their expiration at the end of the year. All of this should lead to better growth. However, any improvement will be modest and the Fed is not likely to begin raising interest rates at least until late 2012. This will help keep a lid on the overall increase in yields in the near-term. Ultimately, the curve will flatten and corporate spreads will tighten. We remain overweight credit and biased somewhat toward a barbelled maturity structure to take advantage of this move. Duration is just shy of the benchmark. This posture was a slight drag to performance in the second quarter, but we are confident it will add value over the next few years.

Equity

The stock market became more volatile during the second quarter and ended the period only slightly higher as investors began to worry about the global economic impact of a potential default by a European sovereign credit. Evidence of some slowing in the US economy also began to materialize, leading to concerns about the future for corporate earnings. After extending the rally from the first quarter into April, stocks fell more than 7% into mid-June driven by the desire to reduce risk in the face of so many economic uncertainties beginning to materialize. But, June ended on a positive note and inched out a small positive gain for the quarter. Large and midcap stocks performed better than small and growth generally outpaced value. As investors fretted over the economic expansion they also recognized that the likelihood the Fed would raise interest rates in the near-term was remote. In tandem to the pickup in volatility for stocks, interest rates moved lower. This decline in yields, along with the continued steep slope of the front end of the yield curve, helped the Enhanced strategy continue to outperform the benchmark. Short duration corporates also performed reasonably well and added value. With the Fed seeming to still be far from the next tightening cycle, we anticipate that the low cost of carry in the futures contracts and the steep yield curve will help our equity approach continue to perform relatively well.

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