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August 12, 2011

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 June 30, 2011. Relevant indices have been included for comparison purposes.

The European sovereign debt crisis is once again moving the markets. A cash-strapped Greece was faced with either defaulting on its debt or passing painful austerity measures necessary for receiving its next installment of the bailout package. Worries over the unresolved debt crisis and its effect on the European banking system drove stocks down and U.S. Treasury yields to new 2011 lows. However, on June 29th, the Greek Parliament approved the austerity bill despite massive protests, providing some relief for many global investors.

After touching a 2011 low of 2.85% in the middle of June, the 10-year Treasury yield ended the month at 3.16%, representing a 29 basis point decrease over the previous quarter-end. For the quarter, the 2-year Treasury yield plunged 32 basis points to 0.46%, while the 30-year Treasury yield dropped 12 basis points to 4.38%. Thus, the 2-30 yield spread widened to 392 basis points.

With the decrease in rates, the bond market delivered positive performance with a return of 2.29% for the Barclays Capital Aggregate Index and a return of 2.12% for the Barclays Capital Intermediate Government/Credit Index. Spread product was mixed as three of the four sectors delivered positive excess return. Mortgage-backed securities were the leader with 36 basis points of excess return, followed by asset-backed securities and agencies with 16 and 5 basis points of excess return, respectively. The corporate sector underperformed with a negative excess return of 32 basis points. Thus, the Barclays Capital Aggregate Index delivered a modest positive excess return of 9 basis points.

After maintaining a duration marginally longer than the benchmark for most of the year, we moved to a duration marginally shorter than the benchmark towards the end of the quarter, after rates had moved in our favor. Additionally, we remain overweighted in corporate bonds with an emphasis on financials. Given the current low level of rates, we believe that rates will trade in a narrow range with a bias higher as markets stabilize. Later in the year, we expect the yield curve to begin a new flattening trend as short rates rise more than long rates.

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

Sincerely,

Janna Hamilton
Partner

JH/kr
Enclosure