FIXED INCOME STRATEGY HIGHLIGHTS

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THE U.S. FIXED INCOME MARKETS

Brief Overview

The year opened with the ten-year Treasury yield above 3%, having risen by about 30 basis points during the fourth quarter of last year. With the economy gathering a degree of momentum and the Federal Reserve's tapering program in place, the consensus view at that time was that interest rates would continue to move higher in 2014. That was not the case in the first quarter. By early February, longer Treasury rates had dropped by about 40 basis points and subsequently traded in a narrow twenty basis point range for the remainder of the quarter. The ten-year Treasury yield closed the period at 2.74%. The rate decline was influenced in part by a flight to quality in reaction to anxiety over the Crimea and Middle East turmoil, and perhaps to an even greater extent, signs of slower global growth in emerging economies like China.

The uncertainty regarding the impact of the unusually cold winter on the U.S. recovery contributed to rising bond prices. Investors' favorable view of the fixed income markets has also been influenced by benign inflation with year-over-year price increases running well below the Fed's 2% target. We expect economic momentum to build as the weather warms with real GDP advancing closer to the 3% pace. A move in longer interest rates to modestly higher levels would not be surprising in this environment, but we are not expecting dramatically higher yields.

EXHIBIT I

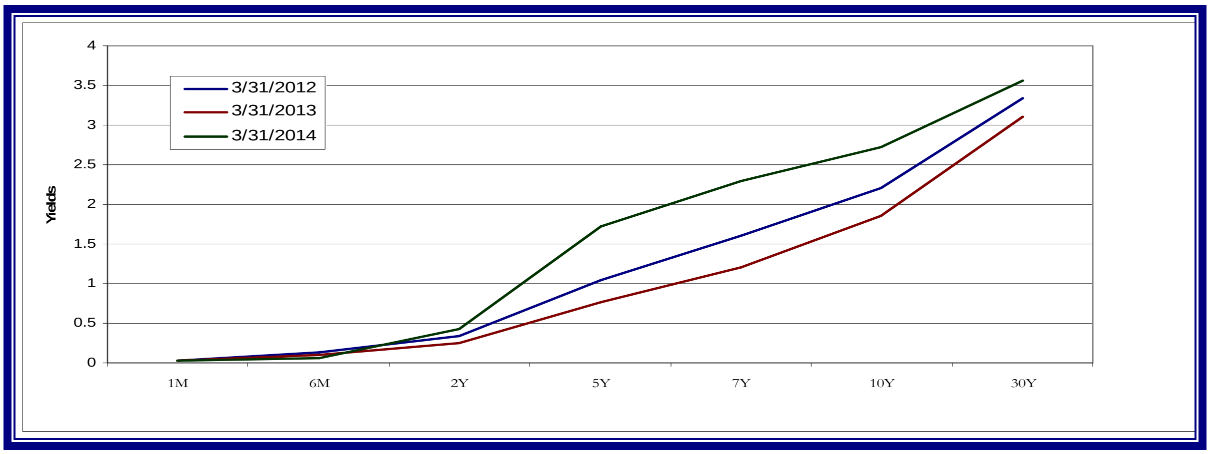
10-year Generic Treasury Yield

Source: Altman Investment Management Research and Bloomberg

Janet Yellen assumed the role as Chair of the Federal Reserve in January and is following the path of her predecessor. Tapering remains on target, with QE purchases of Treasuries and mortgage backed securities scheduled to end later this year. The Fed Chairman has emphasized that short rates will remain low and Fed policy will remain accommodative until unemployment declines to "an acceptable" level. She implied that a move to higher rates will ultimately be necessary, but also concluded that the labor market weakness will require Fed accommodation well into the future. Forward rates suggest that a Fed Funds rate increase is unlikely until perhaps the latter part of 2015.

EXHIBIT II

Active U.S. Treasury Yield Curve

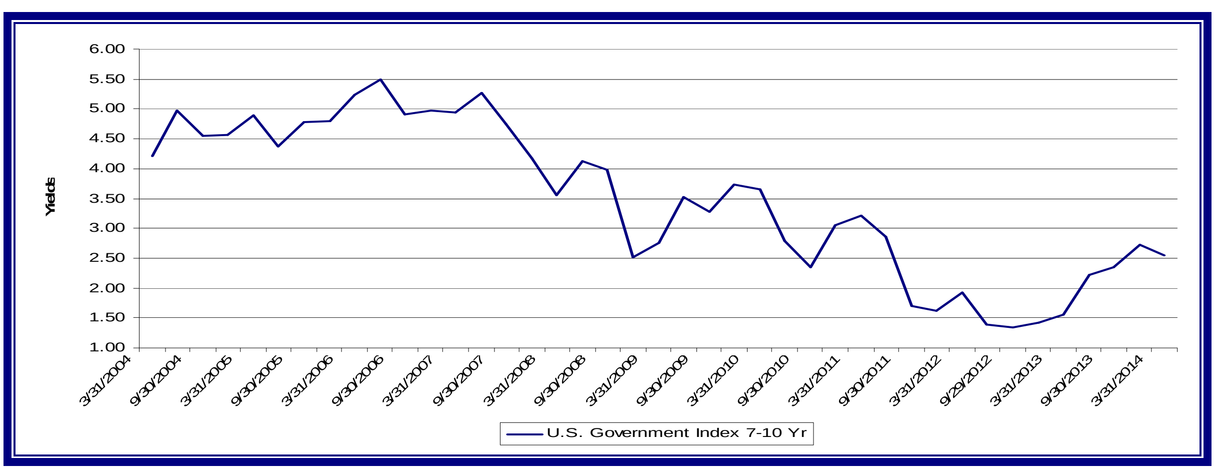


Source: Altman Investment Management Research and Bloomberg

The municipal market, as usual, followed the lead of the Treasury sector during the past quarter but has also been influenced by concerns regarding Detroit and Puerto Rico and, perhaps of most significance, limited new issue supply. Volume in the first three months totaled about $62 billion, a 25+% decline compared to the first quarter of 2013. Individual investors' appetite for reinvestment was bolstered in this low volume environment, while municipal mutual fund managers finally experienced a few weeks of modest inflows after months of weakness. With limited supply, the typical March-April selling pressure caused by investors raising funds for tax payments had not been significant this year.

EXHIBIT III

U.S. Government Index 7-10 year



Source: Altman Investment Management Research and Bloomberg

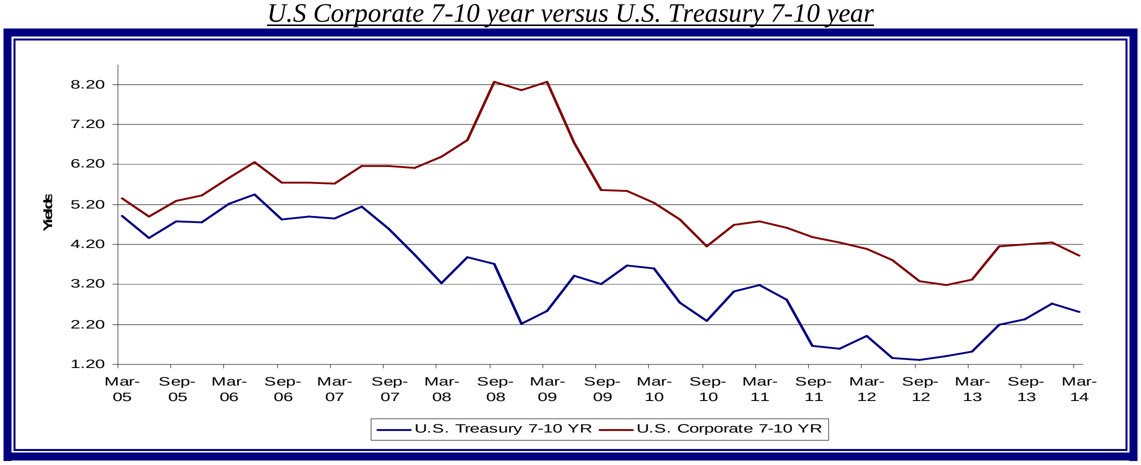
We anticipate that supply will increase modestly as the year progresses, but the level will be dramatically lower as compared to the $430 billion issuance levels experienced in 2010. Limited supply should drive demand for tax advantaged investments and should temper moves to higher rate levels in the municipal sector. However, we remain cautious given the low levels of nominal rates, especially in the shorter end of the yield curve where real returns are minimal. The five year prime municipal is yielding only about 73% of the like maturity Treasury rate, despite a 30 basis point rise in rates in this segment of the tax-exempt yield curve in March.

Portfolio durations are targeted below 3.5 years, or 15-20% below neutral. A barbell portfolio structure is preferred to dampen the negative impact of rate increases, especially in an environment where rising rates are accompanied by a flattening yield curve. These arrangements performed best during the latter part of the past quarter.

Corporate Securities - Yield Spreads

EXHIBIT IV

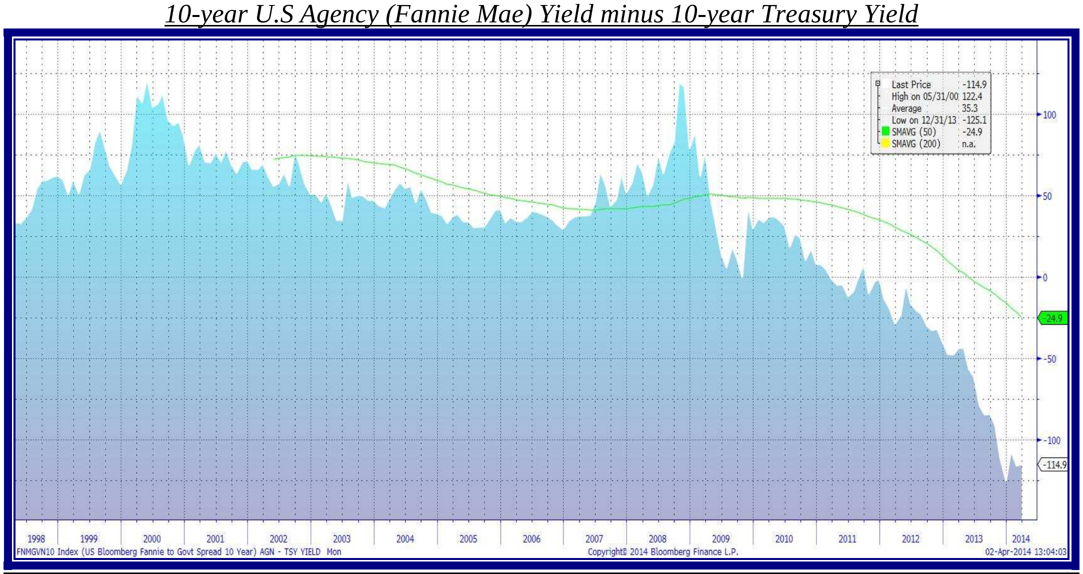
U.S Corporate 7-10 year versus U.S. Treasury 7-10 year



Source: Altman Investment Management Research and Bloomberg

EXHIBIT V

10-year U.S Agency (Fannie Mae) Yield minus 10-year Treasury Yield

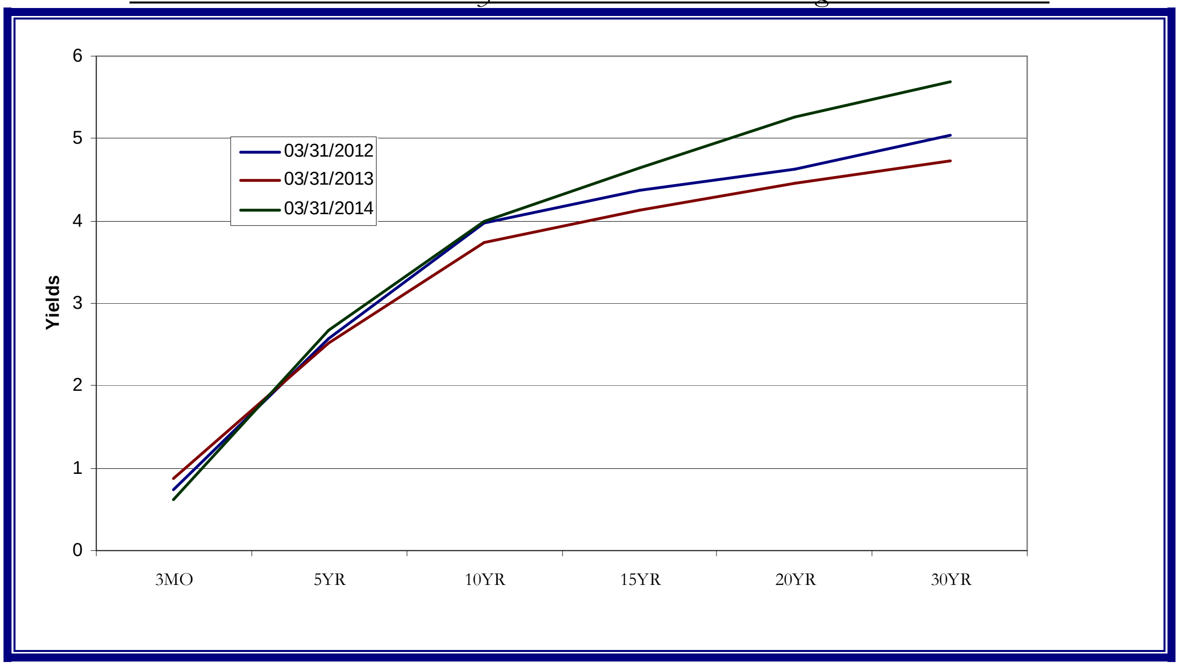


Source: Altman Investment Management Research and Bloomberg

Municipal Securities - Yield spreads

EXHIBIT VI

Fair Market Yield Curve History: Generic Muni- General Obligation Insured Curves



Source: Altman Investment Management Research and Bloomberg

EXHIBIT VII

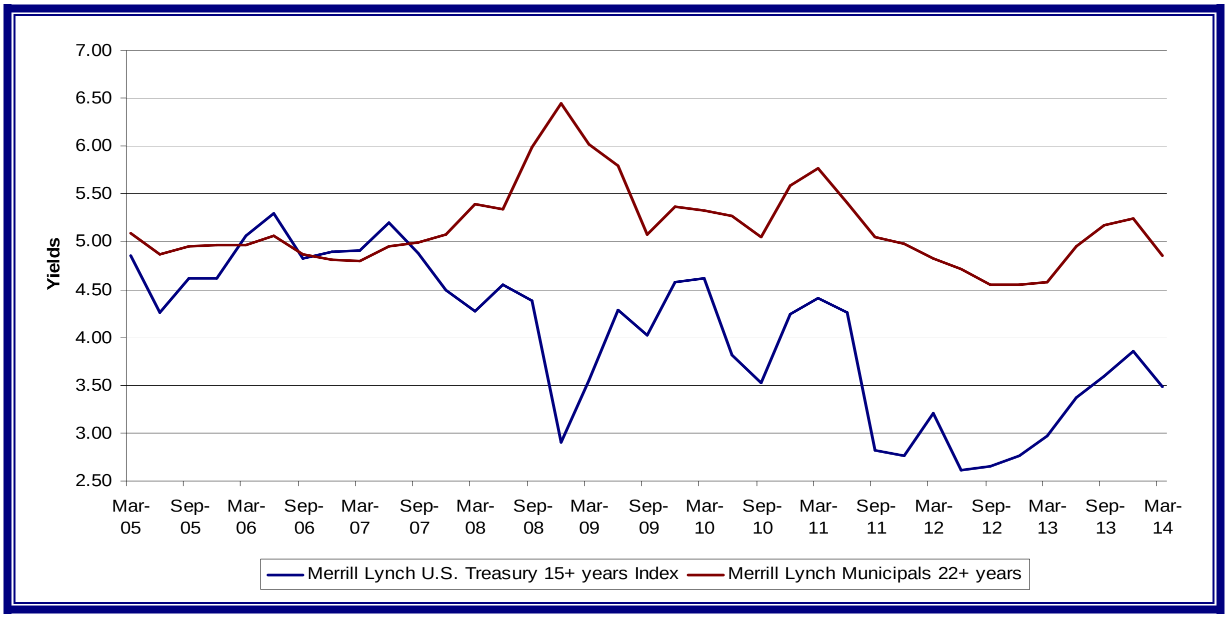
Fixed Income Sector Performance – Q1-2014

Fixed Income Sector Performance – 2014 Q1 - Sector	Rating	Maturity	Duration Mod Adj	Yield	Spread	Price Spread Avg	Trailing1 12Month Total Return
Treasury	Aaa/AAA	7.2	5.60	1.6%	N/A	$103.6	(1.53)%
Agency	Aaa/AA+	5.33	3.93	1.5%	5	$105.2	(.62)%
MBS	Aaa/AAA	6.60	5.50	3.0%	140	$103.8	.2%
Municipal	Aa3/A+	13.54	5.00	3.1%	150	$103.0	.3%
Corporate	A2/A-	9.80	6.50	3.2%	160	$107.4	1.40%
High Yield	B1/B	6.10	2.90	6.1%	450	$106.3	7.4%

Source: Altman Investment Management Research and Bloomberg

EXHIBIT VIII

Long Term Municipal to Treasury Spreads



Source: Altman Investment Management Research and Bloomberg

Summary:

Last quarter interest rate differentials, along the yield curve, between shorter and longer dated Treasury obligations flattened, as did the spreads between Treasuries and other fixed income sectors. Municipal bonds rallied, as strong demand caused by improving credit quality and a lack of supply of new issues placed downward pressure on tax exempt yields. Yields on U.S. Treasuries during the first quarter declined caused by strong demand for longer dated maturities. For example, yields on the 10-year Treasury notes were about 2.7% at the end of March 2014, as compared with a 3.1% yield at year end December 2013, while at the same time the yield on the 5-year Treasury remained almost the same, 1.72% at the end of March versus 1.74% at the end of December.

We believe fixed income yields will stay in a trading range during the remainder of 2014. The impact of a somewhat stronger U.S. economy on interest rates will be offset by inflation remaining closer to 1.5% in the shorter term, rather than the stated 2% goal of the Federal Reserve and by monetary policy which remains accommodative. The duration of our fixed income portfolios remains shorter than the "Intermediate Index". We continue to be selective in our establishment of new positions in both our taxable and tax exempt portfolios, focusing on securities in the short to intermediate maturity range.