



REAMS ASSET MANAGEMENT COMPANY

2009 Second Quarter Fixed Income Review

	Quarter Ending 6/30/09	Annualized					
		One Year	Two Years	Three Years	Five Years	Ten Years	Since Inception
Composite Performance							
Core Plus (6/81) - Gross	22.4%	6.8%	7.0%	7.0%	5.7%	6.3%	11.4%
Core Plus (6/81) - Net	22.4%	6.6%	6.8%	6.8%	5.6%	6.1%	NA
<i>Barclays Aggregate</i>	1.8%	6.1%	6.6%	6.4%	5.0%	6.0%	9.2%
Core Plus Full Discretion (1/97) - Gross	26.0%	10.8%	8.8%	8.5%	6.6%	7.2%	7.1%
Core Plus Full Discretion (1/97) - Net	25.9%	10.4%	8.5%	8.2%	6.3%	6.8%	6.8%
<i>Barclays Aggregate</i>	1.8%	6.1%	6.6%	6.4%	5.0%	6.0%	6.1%
Core (9/92) - Gross	18.2%	6.9%	7.9%	7.4%	5.8%	6.3%	6.8%
Core (9/92) - Net	18.1%	6.7%	7.6%	7.2%	5.6%	6.1%	NA
<i>Barclays Aggregate</i>	1.8%	6.1%	6.6%	6.4%	5.0%	6.0%	6.3%
Intermediate (11/89) - Gross	8.0%	7.8%	7.9%	7.3%	5.5%	6.1%	7.2%
Intermediate (11/89) - Net	8.0%	7.5%	7.6%	7.1%	5.3%	5.8%	NA
<i>Barclays Intermediate G/C</i>	1.7%	5.3%	6.3%	6.1%	4.6%	5.7%	6.6%
Long Duration (7/02) - Gross	22.3%	18.7%	13.9%	11.6%	9.1%		8.8%
Long Duration (7/02) - Net	22.2%	18.4%	13.6%	11.4%	8.9%		8.5%
<i>Barclays Long G/C</i>	2.8%	5.3%	6.1%	6.4%	5.6%		6.4%
Low Duration (7/02) - Gross	6.3%	7.4%	7.2%	6.9%	5.2%		4.9%
Low Duration (7/02) - Net	6.3%	7.3%	7.0%	6.7%	5.1%		4.7%
<i>Merrill Lynch 1-3 Yr. Treasury</i>	(0.1)%	4.4%	5.8%	5.6%	4.1%		3.6%
Real Return (8/04) - Gross	3.1%	5.1%	10.6%	8.6%			7.0%
Real Return (8/04) - Net	3.1%	5.0%	10.5%	8.6%			7.0%
<i>Barclays U.S. TIPS</i>	0.7%	(1.1)%	6.7%	5.8%			4.8%
Absolute Return (8/98) - Gross	39.9%	9.1%	6.9%	8.2%	8.1%	8.1%	9.0%
Absolute Return (8/98) - Net	39.9%	8.8%	6.7%	8.0%	7.9%	7.8%	8.7%
<i>LIBOR 3-Month Constant Maturity</i>	0.4%	2.5%	3.7%	4.3%	3.8%	3.7%	3.9%
<i>ML HY Master II Constrained</i>	23.1%	(3.0)%	(2.3)%	2.1%	4.1%	4.6%	4.2%

Past performance is not indicative of future performance. Please see important disclosure information in appendix.



Core Plus Fixed Income Review: Second Quarter 2009

- The Core Plus Composite performance was significantly above the benchmark during the second quarter of 2009. The biggest positive factors were the overweighting to high yield, investment grade credit and CMBS.
- Portfolio strategy remains concentrated in the investment grade credit sector with an emphasis in the finance sector where spreads remain at wide levels historically. Core Plus portfolios significantly benefited from this overweight position in investment grade credit as liquidity returned to the sector during the quarter and investors were compensated for taking an elevated risk profile. We anticipate credit fundamentals will steadily improve over time as we experience a period of slow economic growth. A slowly growing economy could also produce favorable supply technicals for the investment grade credit sector as demand for credit moderates.

While we still find CMBS to be an attractive asset class, the significant outperformance in this sector over the past four months led us to reduce the magnitude of the CMBS overweight. The result is a more balanced portfolio relative to our positioning in the previous quarter. While we continue to be underweighted in the Treasury sector, some of the proceeds from the CMBS sales have been re-invested in this sector. We continue to view the agency pass-through market as very unattractive and remain significantly underweighted.

Despite the very strong performance during the quarter in many of the sectors in which we are overweight, we remain convinced that steadily improving fundamentals will allow spreads to tighten further. The improvements will not be without setbacks, but we do not expect the extreme volatility of the previous nine months to return in the near term.

■ Core Plus Composite Characteristics: 6/30/09

	Core Plus	Barclays Aggregate	Sector Structure	Core Plus	Barclays Aggregate
Avg. Duration	4.6 Yrs.	4.3 Yrs.	Treasury	18.8%	25.7%
Avg. Maturity	6.9 Yrs.	6.7 Yrs.	Govt Related	0.3%	13.7%
Avg. Quality	A+	AA+	Mortgage-Backed	12.6%	41.4%
Convexity	0.36	-0.15	Asset-Backed	2.5%	0.5%
Yield to Maturity	7.4%	4.1%	Credit	59.0%	18.7%
			Foreign	0.0%	0.0%
Quality Structure	Core Plus	Barclays Aggregate	Money Market	6.8%	0.0%
AAA	37.4%	79.0%	TOTAL	100.0%	100.0%
AA	7.6%	3.8%			
A	21.9%	9.6%			
BBB	21.6%	7.6%			
Below Inv. Grade	11.5%	0.0%			
TOTAL	100.0%	100.0%			



Core Fixed Income Review: Second Quarter 2009

- The Core Composite performance was significantly above the benchmark during the second quarter of 2009. The biggest positive factors were the overweighting to investment grade credit and CMBS.
- Portfolio strategy remains concentrated in the investment grade credit sector with an emphasis in the finance sector where spreads remain at wide levels historically. Core portfolios significantly benefited from this overweight position in investment grade credit as liquidity returned to the sector during the quarter and investors were compensated for taking an elevated risk profile. We anticipate credit fundamentals will steadily improve over time as we experience a period of slow economic growth. A slowly growing economy could also produce favorable supply technicals for the investment grade credit sector as demand for credit moderates.

While we still find CMBS to be an attractive asset class, the significant outperformance in this sector over the past four months led us to reduce the magnitude of the CMBS overweight. The result is a more balanced portfolio relative to our positioning in the previous quarter. While we continue to be underweighted in the Treasury sector, some of the proceeds from the CMBS sales have been re-invested in this sector. We continue to view the agency pass-through market as very unattractive and remain significantly underweighted.

Despite the very strong performance during the quarter in many of the sectors in which we are overweight, we remain convinced that steadily improving fundamentals will allow spreads to tighten further. The improvements will not be without setbacks, but we do not expect the extreme volatility of the previous nine months to return in the near term.

■ Core Composite Characteristics: 6/30/09

	Core	Barclays Aggregate	Sector Structure	Core	Barclays Aggregate
Avg. Duration	4.7 Yrs.	4.3 Yrs.	Treasury	21.8%	25.7%
Avg. Maturity	7.2 Yrs.	6.7 Yrs.	Govt Related	0.7%	13.7%
Avg. Quality	AA-	AA+	Mortgage-Backed	15.0%	41.4%
Convexity	0.15	-0.15	Asset-Backed	1.3%	0.5%
Yield to Maturity	6.8%	4.1%	Credit	57.8%	18.7%
			Foreign	0.0%	0.0%
Quality Structure	Core	Barclays Aggregate	Money Market	3.4%	0.0%
AAA	41.5%	79.0%	TOTAL	100.0%	100.0%
AA	8.8%	3.8%			
A	26.3%	9.6%			
BBB	22.0%	7.6%			
Below Inv. Grade	1.4%	0.0%			
TOTAL	100.0%	100.0%			



Intermediate Fixed Income Review: Second Quarter 2009

- The Intermediate Composite performance was significantly above the benchmark during the second quarter 2009. The biggest positive factors were the overweighting to CMBS and investment grade credit.
- Portfolio strategy remains concentrated in the investment grade credit, CMBS, and MBS sectors. Credit exposure remains concentrated in the finance and industrial sectors where spreads remain at historically wide levels. Intermediate portfolios significantly benefited from this overweight position in investment grade credit as liquidity returned to the sector during the quarter and investors were compensated for taking on an elevated risk profile. We anticipate credit fundamentals will steadily improve over time as we experience a period of slow economic growth. A slowly growing economy could also produce favorable supply technicals for the investment grade credit sector as demand for credit moderates.

While we still find CMBS to be an attractive asset class, the significant outperformance in this sector over the past four months led us to reduce the magnitude of the CMBS overweight. The result is a more balanced portfolio relative to our positioning in the previous quarter. While we continue to be underweighted in the Treasury sector, some of the proceeds from the CMBS sales have been re-invested in this sector.

Despite the very strong performance during the quarter in many of the sectors in which we are overweight, we remain convinced that steadily improving fundamentals will allow spreads to tighten further. The improvements will not be without setbacks, but we do not expect the extreme volatility of the previous nine months to return in the near term.

■ Intermediate Composite Characteristics: 6/30/09

	Intermediate	Barclays Intermediate G/C	Sector Structure	Intermediate	Barclays Intermediate G/C
Avg. Duration	3.9 Yrs.	3.9 Yrs.	Treasury	9.7%	44.8%
Avg. Maturity	5.0 Yrs.	4.5 Yrs.	Govt Related	6.1%	25.6%
Avg. Quality	AA	AA+	Mortgage-Backed	26.5%	0.0%
Convexity	0.11	0.10	Asset-Backed	0.7%	0.0%
Yield to Maturity	6.1%	3.2%	Credit	53.0%	29.6%
			Foreign	0.0%	0.0%
			Money Market	4.0%	0.0%
			TOTAL	100.0%	100.0%
Quality Structure	Intermediate	Barclays Intermediate G/C			
AAA	46.9%	67.5%			
AA	8.8%	6.0%			
A	34.3%	15.1%			
BBB	7.8%	11.4%			
Below Inv. Grade	2.2%	0.0%			
TOTAL	100.0%	100.0%			



Long Duration Fixed Income Review: Second Quarter 2009

- The Long Duration Composite performance was significantly above the benchmark during the second quarter 2009. The biggest positive factors were the overweighting to investment grade credit and high yield.
- Portfolio strategy remains concentrated in the investment grade credit sector with holdings focused in the finance and industrial sectors where spreads remain at wide levels historically. Long Duration portfolios significantly benefited from these positions in the investment grade credit and high yield sectors as liquidity returned during the quarter and investors were compensated for taking an elevated risk profile. We anticipate credit fundamentals will steadily improve over time as we experience a period of slow economic growth. A slowly growing economy could also produce favorable supply technicals for the investment grade credit sector as demand for credit moderates.

The underweight duration is a by-product of our bottom-up security selection process. We have found more unique opportunities in the intermediate part of the yield curve at this time. The duration exposure is also consistent with our defensive view toward nominal interest rates.

Despite the very strong performance during the quarter in the investment grade credit and high yield sectors, we remain convinced that steadily improving fundamentals will allow spreads to tighten further. The improvements will not be without setbacks, but we do not expect the extreme volatility of the previous nine months to return in the near term.

■ Long Duration Composite Characteristics: 6/30/09

	Long Duration	Barclays Long G/C	Sector Structure	Long Duration	Barclays Long G/C
Avg. Duration	11.8 Yrs.	11.6 Yrs.	Treasury	17.7%	41.0%
Avg. Maturity	24.6 Yrs.	21.8 Yrs.	Govt Related	4.2%	14.2%
Avg. Quality	A	AA-	Mortgage-Backed	0.0%	0.0%
Convexity	1.57	1.02	Asset-Backed	0.0%	0.0%
Yield to Maturity	8.5%	5.6%	Credit	77.9%	44.8%
			Foreign	0.0%	0.0%
			Money Market	0.2%	0.0%
			TOTAL	100.0%	100.0%
Quality Structure	Long Duration	Barclays Long G/C			
AAA	25.1%	48.0%			
AA	4.5%	8.1%			
A	19.5%	22.8%			
BBB	41.6%	21.1%			
Below Inv. Grade	9.3%	0.0%			
TOTAL	100.0%	100.0%			



Low Duration Fixed Income Review: Second Quarter 2009

- The Low Duration performance was significantly above the benchmark during the second quarter 2009. The biggest positive factors were the overweighting to the investment grade credit and the CMBS sectors. Well structured MBS holdings also positively contributed to performance during the quarter.
- Portfolio strategy remains concentrated in the investment grade credit sector with an emphasis in the finance sector where spreads remain at wide levels historically. Low Duration portfolios significantly benefited from this overweight position in investment grade credit as liquidity returned to the sector during the quarter and investors were compensated for taking an elevated risk profile. We anticipate credit fundamentals will steadily improve over time as we experience a period of slow economic growth. A slowly growing economy could also produce favorable supply technicals for the investment grade credit sector as demand for credit moderates.

While we still find CMBS to be an attractive asset class, the significant outperformance in this sector over the past four months led us to reduce the magnitude of the CMBS overweight. The result is a more balanced portfolio relative to our positioning in the previous quarter. While we continue to be underweighted in the Treasury sector, some of the proceeds from the CMBS sales have been re-invested in this sector. We continue to view the agency pass-through market as very unattractive and remain significantly underweighted.

■ Low Duration Composite Characteristics: 6/30/09

	Low Duration	Merrill Lynch 1-3 Yr. US Treasury	Sector Structure	Low Duration	Merrill Lynch 1-3 Yr. US Treasury
Avg. Duration	2.9 Yrs.	1.9 Yrs.	Treasury	9.5%	100.0%
Avg. Maturity	3.6 Yrs.	2.0 Yrs.	Govt Related	16.5%	0.0%
Avg. Quality	AA+	AAA	Mortgage-Backed	25.3%	0.0%
Convexity	0.21	0.00	Asset-Backed	1.3%	0.0%
Yield to Maturity	4.8%	0.8%	Credit	44.1%	0.0%
			Foreign	0.0%	0.0%
			Money Market	3.3%	0.0%
			TOTAL	100.0%	100.0%
Quality Structure	Low Duration	Merrill Lynch 1-3 Yr. US Treasury			
AAA	56.4%	100.0%			
AA	6.1%	0.0%			
A	24.8%	0.0%			
BBB	9.5%	0.0%			
Below Inv. Grade	3.2%	0.0%			
TOTAL	100.0%	100.0%			



Real Return Fixed Income Review: Second Quarter 2009

- The Real Return Composite performance was significantly above the benchmark during the second quarter 2009. The biggest positive factor was sector exposure outside the TIPS market, with overweight positions in the investment grade credit and the CMBS sectors.
- We expect stabilization in the U.S. economy during the second half of 2009 as housing, inventories and capital spending are all bottoming while the financial sector heals. However, we expect the unemployment rate to remain high as consumption lags.

We anticipate the resumption of a “normal” 2.0-3.0% rate of inflation in the CPI, with the wave of deflation having passed through the economy in late 2008. However, the outlook for U.S. inflation remains extremely volatile. The potential for higher longer-term inflation has increased due to current monetary and fiscal policy. Shorter-term deflationary factors are still present.

■ Real Return Composite Characteristics: 6/30/09

	Real Return	Barclays US TIPS	Sector Structure	Real Return	Barclays US TIPS
Avg. Duration	4.1 Yrs.	4.2 Yrs.	Treasury	77.4%	100.0%
Avg. Maturity	8.7 Yrs.	10.5 Yrs.	Govt Related	0.0%	0.0%
Avg. Quality	AAA	AAA	Mortgage-Backed	8.0%	0.0%
Yield to Maturity	3.6%	2.2%	Asset-Backed	0.0%	0.0%
			Credit	7.6%	0.0%
			Foreign	0.0%	0.0%
			Money Market	7.0%	0.0%
			TOTAL	100.0%	100.0%
Quality Structure	Real Return	Barclays US TIPS			
AAA	92.6%	100.0%			
AA	2.9%	0.0%			
A	2.6%	0.0%			
BBB	0.0%	0.0%			
Below Inv. Grade	1.9%	0.0%			
TOTAL	100.0%	100.0%			



Absolute Return Fixed Income Product

■ The Absolute Return Product seeks to maximize total returns by systematically pursuing relative value opportunities throughout all sectors of the fixed income market. The firm's disciplined investment philosophy and process are used to identify and evaluate relative value opportunities and the "best ideas" are selected for use in Absolute Return portfolios. Although the product has historically focused on the high yield credit sector where attractive relative value opportunities have been plentiful, the Absolute Return strategy seeks opportunities in all sectors of the fixed income market including investment grade and high yield credit, governments, agencies, mortgage-backed, asset-backed, emerging market, and non-dollar securities. Unlike a hedge fund, the Absolute Return Product will not borrow money nor will it purchase securities on margin; however, derivative instruments such as futures, options and credit default swaps may be utilized to gain exposure and manage risk. Given the relative value and "best ideas" strategy, the Absolute Return Product is not managed against a benchmark. Average portfolio duration is generally between 0 to 6 years. The targeted annual return is LIBOR plus 200 basis points per annum (with lower volatility than the broad fixed income market) over a full market cycle.

■ Investment Philosophy

Volatility is a key driver of performance in the fixed income market. It is usually higher than commonly perceived and often mispriced in the marketplace. This core belief leads us to:

- Focus on long-term value and "total return"
- Employ macro and bottom-up strategies to uncover unique opportunities
- React opportunistically to valuation discrepancies and volatility in the bond market

■ Investment Process

Step One Determine whether the bond market is cheap or expensive by comparing the current real interest rate to historical rates

Step Two Focus on sectors offering relative value and select securities offering the highest risk-adjusted return

Step Three Continually measure and control exposure to security- and portfolio-level risks

For more information on Reams' Absolute Return Fixed Income Product, contact Tom Fink at (812) 372-6606 or tfink@reamsasset.com



Appendix

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) DISCLOSURE

Past performance is not indicative of future performance. Compliance with GIPS® has been verified firm wide for the period January 1, 1987 through March 31, 2009 by Ashland Partners & Company, LLP. Additionally, Core Plus, Core Plus Full Discretion, Core, Intermediate, and Absolute Return composites have received a performance examination from Ashland Partners & Company, LLP for the period January 1, 2002 through March 31, 2009 and the Low Duration composite has received a performance examination from Ashland Partners & Company LLP for the period July 1, 2002 through March 31, 2009. Verification for the most recent quarter is currently in progress, and as such, results for this period are subject to revision.

Absolute Return, Core Plus, Core, Intermediate, Long Duration and Real Return fixed income account management fees are 0.30% p.a. on the first \$50 million, 0.20% p.a. on the next \$50 million, and negotiable for accounts over \$100 million assets. Low Duration fixed income account management fees are 0.25% p.a. on the first \$50 million, 0.20% p.a. on the next \$50 million, and negotiable for accounts over \$100 million assets. Core Plus Full Discretion fixed income account management fees are 0.35% p.a. on all assets. Core Plus Fixed Income Composite includes all fully discretionary, tax-exempt, Core Plus Fixed Income separate accounts over \$20 million (38 portfolios, \$6.5 B, 71% of firm assets as of 6/30/09) and for comparison purposes is measured against the Barclays Capital U.S. Aggregate Bond Index as a general market indicator. Core Plus Full Discretion Fixed Income Composite includes all fully discretionary Core Plus Fixed Income institutional mutual fund accounts (1 portfolio, \$396 M, 4% of firm assets as of 6/30/09) and for comparison purposes is measured against the Barclays Capital U.S. Aggregate Bond Index as a general market indicator. Effective December 31, 2007 the name of the Core Plus Mutual Fund Composite was changed to Core Plus Full Discretion Fixed Income Composite. Core Fixed Income Composite reflects all discretionary Core Fixed Income separate accounts over \$20 million (13 portfolios, \$870 M, 10% of firm assets as of 6/30/09) and for comparison purposes is measured against the Barclays Capital U.S. Aggregate Bond Index as a general market indicator. Intermediate Fixed Income Composite includes all fully discretionary, tax-exempt, Intermediate Fixed Income separate accounts over \$20 million (7 portfolios, \$238 M, 3% of firm assets as of 6/30/09) and for comparison purposes is measured against the Barclays Capital U.S. Intermediate Government/Credit Index as a general market indicator. Absolute Return Fixed Income Composite includes all fully discretionary, tax exempt, Absolute Return fixed income separate accounts and institutional commingled fund accounts over \$500,000 (1 portfolio, \$139 M, 1% of firm assets as of 6/30/09) and for comparison purposes is measured against the Merrill Lynch LIBOR 3-Month Constant Maturity Index and the Merrill Lynch High Yield Master II Constrained Index as general market indicators. Effective October 1, 2007 the name of the High Yield Fixed Income Composite was changed to Absolute Return Fixed Income Composite. Long Duration Fixed Income Composite reflects all fully discretionary, tax-exempt, Long Duration Fixed Income separate accounts over \$20 million (3 portfolios, \$455 M, 5% of firm assets as of 6/30/09) and for comparison purposes is measured against the Barclays Capital U.S. Long Government/Credit Index as a general market indicator. Low Duration Fixed Income Composite includes all fully discretionary, tax-exempt, Low Duration Fixed Income separate accounts over \$5 million (4 portfolios, \$449 M, 5% of firm assets as of 6/30/09) and for comparison purposes is measured against the Merrill Lynch 1-3 Year Treasury Index as a general market indicator. Real Return Fixed Income Composite includes all fully discretionary, tax-exempt, Real Return Fixed Income separate accounts over \$5 million (2 portfolios, \$18 M, less than 1% of firm assets as of 6/30/09) and for comparison purposes is measured against the Barclays Capital U.S. TIPS Index as a general market indicator. The U.S. Dollar is the currency used to express performance. Derivatives (such as credit default swaps, credit default indices, options on CDX, currency forwards, structured notes, and CMO tranches) may be utilized in some products when a strategy is unavailable or not cost effective through the cash market. Derivatives used are strictly constrained by client investment policy. Reams Asset Management Company, LLC is an independent registered investment adviser. Reams Asset Management Company, LLC claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of composites and/or an Annual Disclosure Presentation, please contact David B. McKinney at (812) 372-6606.