



REAMS ASSET MANAGEMENT COMPANY

2009 Third Quarter Fixed Income Review

	Quarter Ending 9/30/09	Annualized					
		One Year	Two Years	Three Years	Five Years	Ten Years	Since Inception
Composite Performance							
Core Plus (6/81) - Gross	8.9%	23.4%	9.8%	8.6%	6.9%	7.2%	11.7%
Core Plus (6/81) - Net	8.9%	23.2%	9.6%	8.5%	6.7%	7.0%	NA
<i>Barclays Aggregate</i>	3.7%	10.6%	7.0%	6.4%	5.1%	6.3%	9.2%
Core Plus Full Discretion (1/97) - Gross	9.7%	28.2%	11.9%	10.4%	7.9%	8.1%	7.8%
Core Plus Full Discretion (1/97) - Net	9.7%	27.7%	11.6%	10.1%	7.6%	7.7%	7.4%
<i>Barclays Aggregate</i>	3.7%	10.6%	7.0%	6.4%	5.1%	6.3%	6.3%
Core (9/92) - Gross	7.8%	20.0%	10.2%	8.8%	6.8%	7.1%	7.1%
Core (9/92) - Net	7.8%	19.7%	9.9%	8.6%	6.5%	6.9%	NA
<i>Barclays Aggregate</i>	3.7%	10.6%	7.0%	6.4%	5.1%	6.3%	6.4%
Intermediate (11/89) - Gross	6.1%	16.3%	9.4%	8.3%	6.2%	6.6%	7.4%
Intermediate (11/89) - Net	6.0%	16.0%	9.1%	8.1%	6.0%	6.3%	NA
<i>Barclays Intermediate G/C</i>	3.3%	10.0%	6.5%	6.2%	4.7%	5.9%	6.7%
Long Duration (7/02) - Gross	16.3%	43.3%	19.2%	14.5%	10.7%		10.6%
Long Duration (7/02) - Net	16.3%	43.0%	18.9%	14.3%	10.5%		10.3%
<i>Barclays Long G/C</i>	8.5%	18.4%	8.6%	6.9%	6.0%		7.4%
Low Duration (7/02) - Gross	4.8%	14.2%	8.4%	7.7%	5.8%		5.4%
Low Duration (7/02) - Net	4.7%	14.0%	8.2%	7.5%	5.6%		5.2%
<i>Merrill Lynch 1-3 Yr. Treasury</i>	0.8%	3.5%	4.9%	5.2%	4.0%		3.6%
Real Return (8/04) - Gross	3.7%	12.4%	9.9%	8.4%	7.1%		7.5%
Real Return (8/04) - Net	3.6%	12.3%	9.3%	8.1%	6.8%		7.2%
<i>Barclays U.S. TIPS</i>	3.1%	5.7%	5.9%	5.6%	4.8%		5.2%
Absolute Return (8/98) - Gross	17.0%	36.0%	12.9%	12.3%	11.0%	9.6%	10.3%
Absolute Return (8/98) - Net	17.0%	35.7%	12.6%	12.1%	10.7%	9.3%	10.0%
<i>LIBOR 3-Month Constant Maturity</i>	0.2%	2.3%	3.1%	3.9%	3.8%	3.6%	3.8%
<i>ML HY Master II Constrained</i>	14.8%	22.7%	4.5%	5.6%	6.1%	6.2%	5.4%

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



Core Plus Fixed Income Review: Third Quarter 2009

- The Core Plus Composite performance was significantly above the benchmark during the third quarter of 2009. The most positive factor was the overweight in investment grade credit.
- During the second and third quarter of 2009, the Core Plus Composite benefited from an overweight position in the investment grade credit sector, with an emphasis in financial holdings. As individual corporate positions have risen in value, we harvested gains and redeployed the proceeds in some other attractively valued opportunities in the sector or into Treasury bonds in a move to reduce overall sector exposure. Reducing risk across the portfolios has been a priority as not only have risk spreads compressed in the non-Treasury sectors, but the absolute yield levels in these areas have declined to near historical trough levels. Notwithstanding the risk reduction, we remain overweight investment grade credit with an emphasis in specific themes that we expect to materially outperform.
- We have also harvested gains in our CMBS positions as this sector outperformed during the quarter. Although we remain underweight in the agency mortgage sector, we have found value in high coupon mortgage securities due to our expectation that prepayment speeds will remain low. We believe these securities will perform relatively well if Treasury rates rise. As a result of this view, our position in the total mortgage-backed sector has increased despite the reduced weighting in CMBS.

■ Core Plus Composite Characteristics: 9/30/09

	<u>Core Plus</u>	<u>Barclays Aggregate</u>	<u>Sector Structure</u>	<u>Core Plus</u>	<u>Barclays Aggregate</u>
Avg. Duration	4.5 Yrs.	4.4 Yrs.	Treasury	30.8%	26.0%
Avg. Maturity	6.5 Yrs.	6.6 Yrs.	Govt Related	0.0%	13.4%
Avg. Quality	AA-	AA+	Mortgage-Backed	24.0%	41.1%
Convexity	0.37	-0.24	Asset-Backed	5.2%	0.4%
Yield to Maturity	4.6%	4.2%	Credit	34.3%	19.1%
			Foreign	0.0%	0.0%
<u>Quality Structure</u>	<u>Core Plus</u>	<u>Barclays Aggregate</u>	Money Market	5.7%	0.0%
AAA	59.7%	78.3%	TOTAL	100.0%	100.0%
AA	5.3%	3.8%			
A	10.7%	9.8%			
BBB	14.9%	8.1%			
Below Inv. Grade	9.4%	0.0%			
TOTAL	100.0%	100.0%			



Core Fixed Income Review: Third Quarter 2009

- The Core Composite performance was significantly above the benchmark during the third quarter of 2009. The most positive factor was the overweight in investment grade credit.
- During the second and third quarter of 2009, the Core Composite benefited from an overweight position in the investment grade credit sector, with an emphasis in financial holdings. As individual corporate positions have risen in value, we harvested gains and redeployed the proceeds in some other attractively valued opportunities in the sector or into Treasury bonds in a move to reduce overall sector exposure. Reducing risk across the portfolios has been a priority as not only have risk spreads compressed in the non-Treasury sectors, but the absolute yield levels in these areas have declined to near historical trough levels. Notwithstanding the risk reduction, we remain overweight investment grade credit with an emphasis in specific themes that we expect to materially outperform.
- We have also harvested gains in our CMBS positions as this sector outperformed during the quarter. Although we remain underweight in the agency mortgage sector, we have found value in high coupon mortgage securities due to our expectation that prepayment speeds will remain low. We believe these securities will perform relatively well if Treasury rates rise. As a result of this view, our position in the total mortgage-backed sector has increased despite the reduced weighting in CMBS.

■ Core Composite Characteristics: 9/30/09

	Core	Barclays Aggregate	Sector Structure	Core	Barclays Aggregate
Avg. Duration	4.5 Yrs.	4.4 Yrs.	Treasury	35.1%	26.0%
Avg. Maturity	6.5 Yrs.	6.6 Yrs.	Govt Related	0.0%	13.4%
Avg. Quality	AA	AA+	Mortgage-Backed	24.1%	41.1%
Convexity	0.16	-0.24	Asset-Backed	4.1%	0.4%
Yield to Maturity	3.8%	4.2%	Credit	32.1%	19.1%
			Foreign	0.0%	0.0%
Quality Structure	Core	Barclays Aggregate	Money Market	4.6%	0.0%
AAA	65.0%	78.3%	TOTAL	100.0%	100.0%
AA	6.6%	3.8%			
A	10.2%	9.8%			
BBB	15.1%	8.1%			
Below Inv. Grade	3.1%	0.0%			
TOTAL	100.0%	100.0%			



Intermediate Fixed Income Review: Third Quarter 2009

- The Intermediate Composite performance was significantly above the benchmark during the third quarter of 2009. The most positive factor was the overweight in investment grade credit.
- During the second and third quarter of 2009, the Intermediate Composite benefited from an overweight position in the investment grade credit and CMBS sectors. Financial holdings were emphasized in the investment grade corporate sector. As individual corporate positions rose in value, we harvested gains and redeployed the proceeds in some other attractively valued opportunities in the sector or into Treasury bonds in a move to reduce overall sector exposure. Reducing risk across the portfolios has been a priority as not only have risk spreads compressed in the non-Treasury sectors, but the absolute yield levels in these areas have declined to near historical trough levels. Notwithstanding the risk reduction, we remain overweight investment grade credit with an emphasis in specific themes that we expect to materially outperform.
- As CMBS rose in value, we also harvested gains in this sector. Although we reduced our CMBS positions, we remain overweight in the sector. In addition to our remaining CMBS positions, we continue to see value in select call-protected, agency-wrapped mortgage-backed securities.

■ Intermediate Composite Characteristics: 9/30/09

	Intermediate	Barclays Intermediate G/C
Avg. Duration	3.4 Yrs.	3.9 Yrs.
Avg. Maturity	4.3 Yrs.	4.5 Yrs.
Avg. Quality	AA	AA+
Convexity	0.08	0.10
Yield to Maturity	4.2%	2.7%

Quality Structure	Intermediate	Barclays Intermediate G/C
AAA	53.5%	67.5%
AA	8.9%	6.0%
A	28.6%	14.9%
BBB	8.5%	11.6%
Below Inv. Grade	0.5%	0.0%
TOTAL	100.0%	100.0%

Sector Structure	Intermediate	Barclays Intermediate G/C
Treasury	18.0%	45.7%
Govt Related	5.5%	24.6%
Mortgage-Backed	19.4%	0.0%
Asset-Backed	5.6%	0.0%
Credit	45.7%	29.7%
Foreign	0.0%	0.0%
Money Market	5.8%	0.0%
TOTAL	100.0%	100.0%



Long Duration Fixed Income Review: Third Quarter 2009

- The Long Duration Composite performance was significantly above the benchmark during the third quarter of 2009. The most positive factor was the overweight in investment grade credit.
- During the third quarter of 2009, the Long Duration Composite benefited from an overweight position in the high yield sector and superior security selection in the investment grade credit holdings. Investment grade credit holdings remain concentrated in the financial and industrial sectors. As individual corporate positions rose in value during the quarter, we harvested gains and redeployed the proceeds in other attractively valued opportunities in the sector.
- The yield curve continues to be steep on an historic basis. As a result, we have increased our holdings in longer duration instruments to position the portfolio for an expected flattening of the yield curve. Duration remains roughly in line with the benchmark.

■ Long Duration Composite Characteristics: 9/30/09

	Long Duration	Barclays Long G/C	Sector Structure	Long Duration	Barclays Long G/C
Avg. Duration	12.2 Yrs.	12.2 Yrs.	Treasury	19.7%	38.5%
Avg. Maturity	26.3 Yrs.	22.4 Yrs.	Govt Related	11.1%	14.9%
Avg. Quality	A+	AA-	Mortgage-Backed	0.0%	0.0%
Convexity	1.69	1.11	Asset-Backed	0.0%	0.0%
Yield to Maturity	6.7%	5.1%	Credit	65.3%	46.6%
			Foreign	0.0%	0.0%
			Money Market	3.9%	0.0%
			TOTAL	100.0%	100.0%
Quality Structure	Long Duration	Barclays Long G/C			
AAA	34.7%	45.2%			
AA	1.7%	8.1%			
A	20.3%	23.5%			
BBB	33.2%	23.2%			
Below Inv. Grade	10.1%	0.0%			
TOTAL	100.0%	100.0%			



Low Duration Fixed Income Review: Third Quarter 2009

- The Low Duration performance was above the benchmark during the third quarter 2009. The most positive factor was the overweight in investment grade credit.
- During the second and third quarter of 2009, the Low Duration Composite benefited from an overweight position in the investment grade credit sector, with an emphasis in financial holdings. As individual corporate positions have risen in value, we harvested gains and redeployed the proceeds in some other attractively valued opportunities in the sector or into Treasury and ABS holdings in a move to reduce overall sector exposure. Reducing risk across the portfolio has been a priority as not only have risk spreads compressed in the non-Treasury sectors, but the absolute yield levels in these areas have declined to near historical trough levels. Notwithstanding the risk reduction, we remain overweight in investment grade credit with an emphasis in specific themes that we expect to materially outperform.
- We have also harvested gains in our CMBS positions as this sector outperformed during the quarter. Despite the reduced weight in CMBS, we remain significantly overweight in the mortgage-backed sector, with diversified holdings which we expect to perform well.

■ Low Duration Composite Characteristics: 9/30/09

	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	12.9%	100.0%
Avg. Maturity	3.5 Yrs.	2.0 Yrs.	Govt Related	15.8%	0.0%
Avg. Quality	AA+	AAA	Mortgage-Backed	23.0%	0.0%
Convexity	0.09	0.00	Asset-Backed	3.6%	0.0%
Yield to Maturity	3.5%	0.9%	Credit	39.9%	0.0%
			Foreign	0.0%	0.0%
			Money Market	4.8%	0.0%
			TOTAL	100.0%	100.0%
Quality Structure	Low Duration	Merrill Lynch 1-3 Yr. US Treasury			
AAA	59.6%	100.0%			
AA	6.5%	0.0%			
A	21.9%	0.0%			
BBB	8.9%	0.0%			
Below Inv. Grade	3.1%	0.0%			
TOTAL	100.0%	100.0%			



Real Return Fixed Income Review: Third Quarter 2009

- The Real Return Composite performance was significantly above the benchmark during the third 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.
- The U.S. economy is slowly improving in response to massive fiscal and monetary stimulus. While the bleeding has stopped, the patient is far from perfect health. We continue to expect the unemployment rate to remain high until recovery fully takes hold.
- 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, but a need to de-lever private and public balance sheets provides deflationary pressure. We anticipate the resumption of a “normal” 2.0-3.0% rate of inflation in the CPI, as the economy recovers.
- We continued to reduce our position in the CMBS sector to harvest the recent gains. The proceeds from the CMBS sales primarily have been re-invested in the TIPS sector.
- As the real yield curve steepened, we positioned the portfolio with a barbell strategy to benefit from a real yield curve flattening. Real yields are modestly attractive in 20-year TIPS, which have a real yield of 2.1%. Portfolio duration is being maintained near a benchmark level.

■ Real Return Composite Characteristics: 9/30/09

	Real Return	Barclays US TIPS	Sector Structure	Real Return	Barclays US TIPS
Avg. Duration	4.1 Yrs.	3.4 Yrs.	Treasury	85.7%	100.0%
Avg. Maturity	11.1 Yrs.	10.2 Yrs.	Govt Related	0.0%	0.0%
Avg. Quality	AAA	AAA	Mortgage-Backed	1.2%	0.0%
Yield to Maturity	1.5%	0.5%	Asset-Backed	0.0%	0.0%
			Credit	6.7%	0.0%
			Foreign	0.0%	0.0%
Quality Structure	Real Return	Barclays US TIPS	Money Market	6.4%	0.0%
AAA	93.4%	100.0%	TOTAL	100.0%	100.0%
AA	2.9%	0.0%			
A	2.7%	0.0%			
BBB	0.0%	0.0%			
Below Inv. Grade	1.0%	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 June 30, 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 June 30, 2009 and the Long Duration and Low Duration composites have received a performance examination from Ashland Partners & Company LLP for the period July 1, 2002 through June 30, 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 (35 portfolios, \$5.7 B, 61% of firm assets as of 9/30/09) 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, \$409 M, 4% of firm assets as of 9/30/09) 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, \$903 M, 10% of firm assets as of 9/30/09) 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, \$248 M, 3% of firm assets as of 9/30/09) 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, \$134 M, 1% of firm assets as of 9/30/09) 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, \$531 M, 6% of firm assets as of 9/30/09) 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, \$464 M, 5% of firm assets as of 9/30/09) 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, \$19 M, less than 1% of firm assets as of 9/30/09) 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.