



REAMS ASSET MANAGEMENT COMPANY

2010 Second Quarter Fixed Income Review

	Quarter Ending 6/30/10	Annualized					
		One Year	Two Years	Three Years	Five Years	Ten Years	Since Inception
Composite Performance							
Core Plus (6/81) - Gross	3.8%	17.9%	12.2%	10.5%	7.8%	7.4%	11.7%
Core Plus (6/81) - Net	3.7%	17.7%	12.0%	10.3%	7.6%	7.2%	NA*
Barclays Aggregate	3.5%	9.5%	7.8%	7.5%	5.5%	6.5%	9.2%
Core Plus Full Discretion (1/97) - Gross	4.0%	19.6%	15.2%	12.3%	8.9%	8.3%	8.0%
Core Plus Full Discretion (1/97) - Net	3.9%	19.2%	14.8%	11.9%	8.6%	8.0%	7.7%
Barclays Aggregate	3.5%	9.5%	7.8%	7.5%	5.5%	6.5%	6.4%
Core (9/92) - Gross	3.4%	15.0%	10.9%	10.2%	7.4%	7.2%	7.2%
Core (9/92) - Net	3.4%	14.8%	10.7%	10.0%	7.2%	7.0%	NA*
Barclays Aggregate	3.5%	9.5%	7.8%	7.5%	5.5%	6.5%	6.5%
Intermediate (11/89) - Gross	3.0%	13.2%	10.5%	9.6%	7.0%	6.8%	7.5%
Intermediate (11/89) - Net	2.8%	12.9%	10.2%	9.4%	6.8%	6.6%	NA*
Barclays Intermediate G/C	3.0%	8.3%	6.8%	7.0%	5.3%	6.1%	6.7%
Long Duration (7/02) - Gross	9.8%	28.0%	22.5%	17.9%	10.7%		10.9%
Long Duration (7/02) - Net	9.7%	27.7%	22.3%	17.7%	10.5%		10.6%
Barclays Long G/C	8.6%	16.5%	10.8%	9.4%	5.6%		7.6%
Low Duration (7/02) - Gross	1.3%	9.4%	8.4%	7.9%	6.3%		5.4%
Low Duration (7/02) - Net	1.3%	9.2%	8.2%	7.8%	6.2%		5.3%
Merrill Lynch 1-3 Yr. Treasury	1.2%	2.7%	3.5%	4.8%	4.2%		3.5%
Real Return (8/04) - Gross	4.1%	10.9%	7.9%	10.7%	7.4%		7.7%
Real Return (8/04) - Net	4.1%	10.7%	7.4%	10.3%	7.1%		7.5%
Barclays U.S. TIPS	3.8%	9.5%	4.1%	7.6%	5.0%		5.6%
Absolute Return (8/98) - Gross	4.4%	41.2%	24.1%	17.3%	13.8%	11.0%	11.3%
Absolute Return (8/98) - Net	4.4%	40.8%	23.8%	17.1%	13.6%	10.7%	11.1%
LIBOR 3-Month Constant Maturity	0.1%	0.4%	1.4%	2.6%	3.5%	3.2%	3.6%
ML HY Master II Constrained	0.0%	27.5%	11.2%	6.7%	7.2%	7.3%	6.0%

* Fees not entered into accounting system prior to 1994.

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



Core Plus Fixed Income Review: Second Quarter 2010

- As spreads widened in May and June, we increased our allocation to the corporate sector. The composite is overweight in the credit sector with holdings focused on bank, insurance and utility issues that we expect to outperform.
- Our weighting in Treasury securities declined during the quarter to make room in the composite for the additions in the corporate sector.
- We maintain a "barbell" positioning to take advantage of the historically steep yield curve. If the yield curve flattens further, as we anticipate it might, the composite should outperform.
- The composite is defensively positioned in MBS and, as a result, we are underweight the sector. Our focus is on 10-year amortization, low coupon, agency mortgage securities. We believe these shorter maturity securities have attractive spreads and a lower risk profile relative to other agency securities in the MBS sector.
- We maintain our overweight position in the ABS sector. The holdings in this sector are focused on auto finance, which is backed by solid collateral.

■ Core Plus Composite Characteristics: 6/30/10

	<u>Core Plus</u>	<u>Barclays Aggregate</u>	<u>Sector Structure</u>	<u>Core Plus</u>	<u>Barclays Aggregate</u>
Avg. Duration	3.5 Yrs.	4.3 Yrs.	Treasury	29.9%	32.1%
Avg. Maturity	5.6 Yrs.	6.5 Yrs.	Govt Related	3.5%	12.3%
Avg. Quality	AA	AA+	Mortgage-Backed	20.6%	37.1%
Convexity	0.39	-0.29	Asset-Backed	8.1%	0.3%
Yield to Maturity	3.2%	2.8%	Credit	29.5%	18.2%
			Foreign	0.0%	0.0%
<u>Quality Structure</u>	<u>Core Plus</u>	<u>Barclays Aggregate</u>	Money Market	8.4%	0.0%
AAA	66.2%	78.5%	TOTAL	100.0%	100.0%
AA	4.9%	4.2%			
A	11.9%	9.4%			
BBB	6.1%	7.9%			
Below Inv. Grade	10.9%	0.0%			
TOTAL	100.0%	100.0%			



Core Fixed Income Review: Second Quarter 2010

- The composite remains overweight in Treasury securities as we maintain a lower risk profile and also as a result of our “barbell” positioning to take advantage of the historically steep yield curve. If the yield curve flattens further, as we anticipate it might, the composite should outperform.
- After initially reducing some positions in April, we increased our allocation to the corporate sector as spreads widened in May and June. The composite is focused on bank, insurance, and utility issues that we expect to outperform.
- The composite is defensively positioned in MBS and, as a result, we are underweight the sector. Our focus is on 10-year amortization, low coupon, agency mortgage securities. We believe these shorter maturity securities have attractive spreads and a lower risk profile relative to other agency securities in the MBS sector.
- We maintain our overweight position in the ABS sector. The holdings in this sector are focused on auto finance, which is backed by solid collateral.

■ Core Composite Characteristics: 6/30/10

	Core	Barclays Aggregate	Sector Structure	Core	Barclays Aggregate
Avg. Duration	3.4 Yrs.	4.3 Yrs.	Treasury	36.5%	32.1%
Avg. Maturity	4.8 Yrs.	6.5 Yrs.	Govt Related	3.6%	12.3%
Avg. Quality	AA+	AA+	Mortgage-Backed	19.4%	37.1%
Convexity	0.18	-0.29	Asset-Backed	8.0%	0.3%
Yield to Maturity	2.4%	2.8%	Credit	23.9%	18.2%
			Foreign	0.0%	0.0%
Quality Structure	Core	Barclays Aggregate	Money Market	8.6%	0.0%
AAA	74.4%	78.5%	TOTAL	100.0%	100.0%
AA	5.0%	4.2%			
A	12.5%	9.4%			
BBB	7.9%	7.9%			
Below Inv. Grade	0.2%	0.0%			
TOTAL	100.0%	100.0%			



Intermediate Fixed Income Review: Second Quarter 2010

- Our Treasury position remains elevated as we maintain a lower risk profile and also as a result of our ‘barbell’ positioning to take advantage of the historically steep yield curve. If the yield curve flattens further, as we expect it to, the composite should outperform.
- The composite’s MBS holdings are targeted in CMBS and well call-protected MBS in unique areas of the market. For example, MBS holdings include multi-family agency securities with superior prepayment profiles, as well as 10-year amortization agency pass-throughs.
- We remain overweight in the ABS sector, where we continue to find value, particularly in the auto finance portion of this sector.
- We maintain a near index weight in the corporate sector, but our corporate holdings remain focused on bank, insurance, and industrial issues that we expect to outperform.

■ Intermediate Composite Characteristics: 6/30/10

	Intermediate	Barclays Intermediate G/C
Avg. Duration	3.6 Yrs.	3.9 Yrs.
Avg. Maturity	4.5 Yrs.	4.5 Yrs.
Avg. Quality	AA+	AA+
Convexity	0.04	0.21
Yield to Maturity	2.9%	2.1%

Quality Structure	Intermediate	Barclays Intermediate G/C
AAA	67.5%	71.1%
AA	6.9%	5.8%
A	16.0%	12.7%
BBB	8.7%	10.4%
Below Inv. Grade	0.9%	0.0%
TOTAL	100.0%	100.0%

Sector Structure	Intermediate	Barclays Intermediate G/C
Treasury	25.3%	53.4%
Govt Related	6.5%	20.5%
Mortgage-Backed	27.0%	0.0%
Asset-Backed	7.5%	0.0%
Credit	30.4%	26.1%
Foreign	0.0%	0.0%
Money Market	3.3%	0.0%
TOTAL	100.0%	100.0%



Long Duration Fixed Income Review: Second Quarter 2010

- The composite remains positioned with a 'barbell' in regard to yield curve exposure as we expect the historically steep yield curve to flatten. We find Treasury STRIPs as attractive long duration instruments from a valuation perspective and expect them to outperform coupon-bearing Treasurys once the flattening ensues.
- As spreads widened in May and June, we added to positions in the corporate sector bringing the composite to an overweight position relative to the index. We continue to find value in certain parts of the investment grade corporate market, particularly in the metals and energy sectors.
- We are underweight the government related sector as we reduced our overweight in the Build America Bond (BAB) issues during the quarter. Spreads in BAB issues did not widen as much as the corporate sector, leading to more attractive opportunities in corporates.

■ Long Duration Composite Characteristics: 6/30/10

	Long Duration	Barclays Long G/C	Sector Structure	Long Duration	Barclays Long G/C
Avg. Duration	11.4 Yrs.	12.8 Yrs.	Treasury	18.4%	41.3%
Avg. Maturity	29.0 Yrs.	23.2 Yrs.	Govt Related	7.5%	15.2%
Avg. Quality	A+	AA-	Mortgage-Backed	0.0%	0.0%
Convexity	3.01	2.46	Asset-Backed	0.0%	0.0%
Yield to Maturity	6.0%	4.8%	Credit	69.4%	43.5%
			Foreign	0.0%	0.0%
			Money Market	4.7%	0.0%
			TOTAL	100.0%	100.0%

Quality Structure	Long Duration	Barclays Long G/C
AAA	31.6%	47.5%
AA	2.5%	8.9%
A	18.2%	22.0%
BBB	38.8%	21.6%
Below Inv. Grade	8.9%	0.0%
TOTAL	100.0%	100.0%



Low Duration Fixed Income Review: Second Quarter 2010

- Our Treasury position remains elevated as we maintain a lower risk profile and also as a result of our 'barbell' positioning to take advantage of the historically steep yield curve. If the yield curve flattens further, as we expect it to, the composite should outperform.
- The composite's MBS holdings are targeted in well call-protected securities in unique areas of the market. For example, MBS holdings include multi-family agency securities with superior prepayment profiles, as well as seasoned 10-year amortization agency pass-throughs.
- We remain modestly overweight in the ABS sector, where we continue to find value in the auto finance and credit card portions of this sector.
- The composite is overweight in the credit sector with holdings focused on bank and insurance issues that we expect to outperform.

■ Low Duration Composite Characteristics: 6/30/10

	Low Duration	Merrill Lynch 1-3 Yr. US Treasury	Sector Structure	Low Duration	Merrill Lynch 1-3 Yr. US Treasury
Avg. Duration	2.1 Yrs.	1.9 Yrs.	Treasury	27.7%	100.0%
Avg. Maturity	2.6 Yrs.	1.9 Yrs.	Govt Related	15.7%	0.0%
Avg. Quality	AAA	AAA	Mortgage-Backed	20.7%	0.0%
Convexity	0.12	0.00	Asset-Backed	4.4%	0.0%
Yield to Maturity	2.2%	0.6%	Credit	29.2%	0.0%
			Foreign	0.0%	0.0%
			Money Market	2.3%	0.0%
			TOTAL	100.0%	100.0%
Quality Structure	Low Duration	Merrill Lynch 1-3 Yr. US Treasury			
AAA	70.0%	100.0%			
AA	4.8%	0.0%			
A	13.5%	0.0%			
BBB	7.9%	0.0%			
Below Inv. Grade	3.8%	0.0%			
TOTAL	100.0%	100.0%			



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Real Return Fixed Income Review: Second Quarter 2010

- The portfolio maintains a short duration position, which will help protect the portfolio if real yields move higher.
- The portfolio's position in nominal Treasurys is focused in the short end of the yield curve as real yields are currently negative in this portion of the curve.
- The TIPS holdings in the portfolio have a lower index ratio relative to the benchmark, providing better protection against a sharp deflationary move.
- We continue to hold part of the portfolio outside of the TIPS and Treasury sectors, with modest positions in corporate, ABS, and MBS sectors.

■ Real Return Composite Characteristics: 6/30/10

	Real Return	Barclays US TIPS	Sector Structure	Real Return	Barclays US TIPS
Avg. Duration	9.7 Yrs.	8.1 Yrs.	Treasury	77.6%	100.0%
Avg. Maturity	12.4 Yrs.	9.2 Yrs.	Govt Related	0.0%	0.0%
Avg. Quality	AAA	AAA	Mortgage-Backed	0.1%	0.0%
Yield to Maturity	2.3%	2.7%	Asset-Backed	1.3%	0.0%
			Credit	1.3%	0.0%
			Foreign	0.0%	0.0%
Quality Structure	Real Return	Barclays US TIPS	Money Market	19.7%	0.0%
AAA	98.7%	100.0%	TOTAL	100.0%	100.0%
AA	0.0%	0.0%			
A	0.0%	0.0%			
BBB	0.5%	0.0%			
Below Inv. Grade	0.8%	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, 2010 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, 2010, the Long Duration and Low Duration composites have received a performance examination from Ashland Partners & Company LLP for the period July 1, 2002 through March 31, 2010, and the Real Return composite has received a performance examination from Ashland Partners & Company, LLP for the period August 1, 2004 through March 31, 2010. 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 (32 portfolios, \$5.6 B, 57% of firm assets as of 6/30/10) 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, \$418 M, 4% of firm assets as of 6/30/10) 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 (14 portfolios, \$1.5 B, 15% of firm assets as of 6/30/10) 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 (6 portfolios, \$192 M, 2% of firm assets as of 6/30/10) 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, \$111 M, 1% of firm assets as of 6/30/10) 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 (4 portfolios, \$702 M, 7% of firm assets as of 6/30/10) 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 (6 portfolios, \$1.0 B, 10% of firm assets as of 6/30/10) 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, \$20 M, less than 1% of firm assets as of 6/30/10) 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.