CHANDLER ASSET MANAGEMENT

May 2010

Bond Market Review

A monthly review of fixed income markets

What's Inside

Since 1988, Chandler Asset Management has specialized in the management of portfolios of high quality, fixed income securities. Chandler's mission is to provide fully customizable, client-centered portfolio management that preserves principal, manages risk and generates income in our client's portfolios.

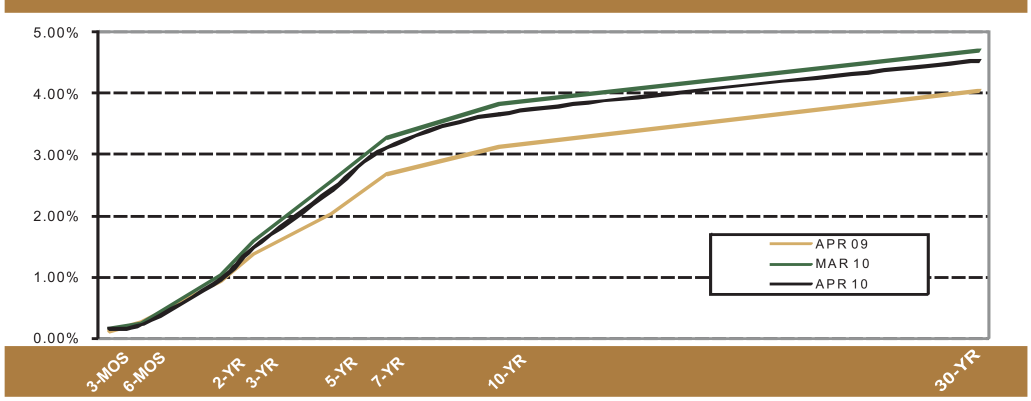
Market Summary

Interest rates declined in April as market participants focused on turmoil in Europe and concerns that the economic recovery may be derailed by sovereign debt concerns. However, economic data is strengthening and the all-important employment report indicates that jobs are becoming more plentiful in the US. The FOMC is being extremely careful that they do not harm the incipient economic upturn; to that end they have reiterated their pledge to keep financial conditions extraordinarily easy for the foreseeable future.

The April employment report showed a labor market that may be recovering as the economy gained 290,000 jobs and the previous month's report was revised higher. The most recent reading for Core CPI (ex food & energy) increased 1.1% on a year-over-year basis indicating that inflation remains under control. Other economic indicators have been mixed although they generally indicate a gradual economic recovery.

The Fed has begun differentiating between monetary policy and emergency liquidity measures put in place during the height of the financial crisis. The removal of these uncommon measures should be seen as a sign that the Fed believes the financial crisis has ended, rather than a comment on the strength of the economic recovery or the future path of monetary policy. Market speculation has now turned to the timing of eventual increases in the Fed Funds rate.

TREASURY YIELDS LOWER IN APRIL



Treasury yields ended the month lower as market participants grew concerned that deteriorating conditions in Europe might derail the global economic recovery.

YIELDS	4/30/10	3/31/10	Change
3 Month	0.15	0.15	0.00
2 Year	0.96	1.02	(0.06)
3 Year	1.48	1.58	(0.10)
5 Year	2.42	2.56	(0.14)
7 Year	3.11	3.28	(0.17)
10 Year	3.66	3.83	(0.17)
30 Year	4.53	4.71	(0.18)

New Faces at Chandler

We are all very pleased and excited to tell you about two new members of our team.

Sofia Anastopoulos has joined the firm as Vice President, Client Service in our new Chicago office. Ms. Anastopoulos' responsibilities there will include providing client service to a number of our existing relationships, as well as leveraging our past successes to expand our client base into the Midwest.

Ms. Anastopoulos brings with her over eleven years of experience in the financial services industry. Most recently, at the Government Finance Officers Association, she served as Senior Manager of the Research and Consulting Center, where she advised the Treasury and Investment Management Standing Committee, wrote numerous publications, and served as editor of the Treasury Management Newsletter.

Ms. Anastopoulos holds the designation of Chartered Financial Analyst®. She is a graduate of Northwestern University, and received a master of business administration from DePaul University in Chicago.

Don Penner has joined the firm as Vice President, National Accounts Manager, and will be in charge of developing the firm's retail distribution strategy as well as leveraging our past successes to expand our client base into other institutional spaces, including other national accounts and sub-advisory relationships.

Mr. Penner brings with him nine years of experience in the financial services industry. Prior to joining Chandler Asset Management, he was employed with Charles Schwab for three years as Director of National Accounts. He has also served as a Corporate Accounts Manager at Managers Investment Group and as Vice President of Institutional Sales at Fremont Investment Advisors.

Mr. Penner is a graduate of California State University, Chico, with a bachelor of arts degree in communications.

Both Sofia and Don possess great experience and a knowledge base that will provide benefits to all of our clients, as well as to our team. Please feel free to contact Don or Sofia at 800.317.4747. Don's email address is don.penner@chandlerasset.com. You can email Sofia at sofia.anastopoulos@chandlerasset.com.

About Chandler Asset Management
Chandler Asset Management is an independent, client-focused investment adviser managing over $5 billion for institutional investors including public agencies, healthcare providers, foundations, endowments, and corporations. We specialize in the management of investment-grade fixed income portfolios.

A Note on the European Debt Crisis

Market participants have recently focused upon concern over the sustainability of the debt burden of some countries, particularly the southern European nations of Greece, Italy, Spain, and Portugal. Events reached a head recently as market participants speculated over the possibility of a default on Greek debt and the spread of contagion to other European countries and around the world. Worries appear to have diminished somewhat as a result of $1 trillion package of loan guarantees and financial assistance provided by the European Central Bank and the International Monetary Fund.

The basis for concern revolves around extremely high budget deficits and debt burdens in some European countries. Market participants fear that as a result of sluggish economic growth these debt burdens will eventually prove to be unsustainable; these fears have prompted investors to demand much higher interest rates for these countries, further exacerbating the problem. Although the recent loan guarantees have provided a temporary solution to the problems facing Greece, Portugal, and other nations, long-term problems remain and the ultimate resolution remains uncertain.

For investors in US domestic fixed income, recent events have several implications. The first is that many of the debt problems facing Greece and the other European nations are also present in the United States, although to a lesser degree. Over the intermediate to long-term, the budget deficit and debt burden in the United States bears careful monitoring by fixed-income investors. Of more immediate interest is the extreme volatility that has been prompted as market participants vacillated between fear and relief over the European situation.

Recent volatility reiterates the importance of selecting and maintaining a long-term investment strategy. Over the course of months and years such volatile swings tend to balance themselves out, but investors that deviate from their strategy may find that they have sold at precisely the wrong moment. As always, a disciplined investment approach combined with stringent risk management will continue to produce the best results. Please do not hesitate to contact us if you have further questions about the current market conditions or would like to discuss the implications of the European situation in greater detail.

Editor's note: the continuation of the newsletter series on the Federal Reserve will appear in the June 2010 issue.

Consumer Prices

In March, the CPI showed that consumer prices increased 2.3% on a year-over-year basis. The year-over-year Core CPI (CPI less food and energy) increased at a 1.1% rate. Tame inflation readings reduce the pressure on the Fed to aggressively reverse their historically easy monetary policy. Despite a strengthening economy and an increased money supply, many economists believe that inflation will remain moderate over the next twelve months.

Retail Sales

In March, Retail Sales rose 7.9% on a year-over-year basis. Consumer spending appears to have rebounded from the depths of the recession, but has not yet reached the heights of the previous economic expansion. Consumers remain somewhat cautious due to job losses, home price declines, and a general tightening of credit standards.

Labor Markets

The April employment report showed that the economy gained 290,000 jobs and the previous months' report was revised much higher. Although the unemployment rate increased to 9.9%, the overall employment picture was significantly better than expected. Economists now hope that the employment situation has turned and that the economy can continue to add jobs in the months ahead. In the long run, the trend in the unemployment rate is likely to be the key to the strength and durability of the economic recovery.

Housing starts

Single-family housing starts declined 0.9% in March to 531,000. Recent data indicates a housing market that has stabilized, but remains weak.

Credit Spreads Wider

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.12	0.09	0.03
2-year AA corporate note	0.39	0.37	0.02
5-year AA corporate note	0.67	0.64	0.03
5-year Agency note	0.21	0.15	0.06

Source: Bloomberg

Data as of 4/30/2010

Mixed Economic Data

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(39.70) $Bln FEB 10	(36.95) $Bln JAN 10	(26.50) $Bln FEB 09
GDP	3.20% MAR 10	5.6% DEC 09	(6.40%) MAR 09
Unemployment Rate	9.90% APR 10	9.70% MAR 10	8.90% APR 09
Prime Rate	3.25% APR 10	3.25% MAR 10	3.25% APR 09
CRB Index	277.71 APR 10	273.34 MAR 10	222.39 APR 09
Oil (West Texas Int.)	$86.15 APR 10	$83.76 MAR 10	$51.12 APR 09
Consumer Price Index (y/o/y)	2.30% MAR 10	2.10% FEB 10	(0.40%) MAR 09
Producer Price Index (y/o/y)	6.00% MAR 10	4.40 FEB 10	(3.40%) MAR 09
Dollar / EURO	1.33 APR 10	1.35 MAR 10	1.32 APR 09

Source: Bloomberg

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