CHANDLER ASSET MANAGEMENT

May 2011

Bond Market Review

A MONTHLY REVIEW OF FIXED INCOME MARKETS

WHAT'S INSIDE

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

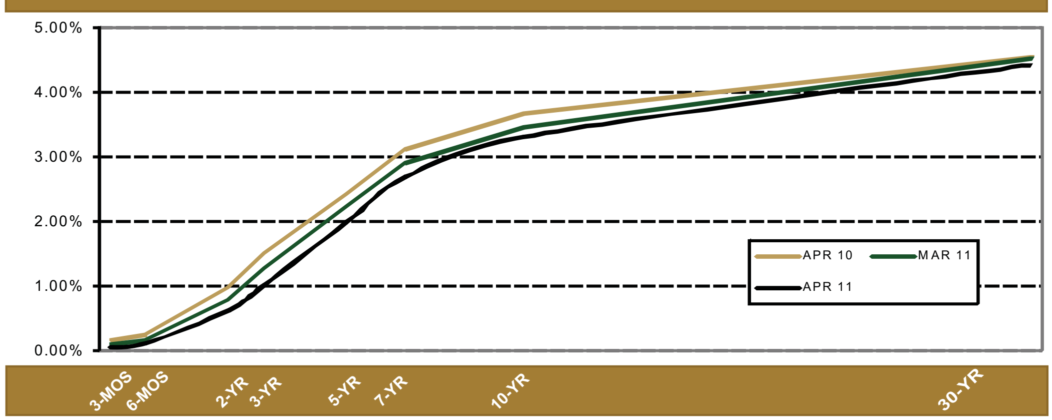
Market Summary

Treasury yields were lower in April as market participants reacted to slightly weaker economic data, and continued to debate the impact of unrest in North Africa and the Middle East, higher oil prices, and an eventual end to ultra-easy monetary policy.

Economic growth remains moderate, but overall, economic reports were slightly weaker than expected in the month of April. The employment picture was mixed, with a disappointing weekly jobless claims report, while the monthly non-farm payrolls report showed a surprisingly strong gain of 244,000. Inflation talk remained prevalent, but the Federal Reserve continues to believe that higher prices will prove "transitory." The housing market remains very weak and the impact of higher gas prices on consumer spending remains to be seen.

The Federal Reserve maintains its exceptionally easy monetary policy, and will conclude its scheduled asset purchase program in June, as previously announced. The next Fed meeting is June 22, and market participants will be watching closely for signs of what the Fed will do following the completion of its asset purchase program (QE2).

TREASURY YIELDS LOWER IN APRIL



Treasury yields ended the month lower, with yields on securities in the two to seven year range declining by more than shorter and longer term securities.

YIELDS	4/30/11	3/31/11	CHANGE
3 Month	0.04	0.09	(0.05)
2 Year	0.61	0.78	(0.17)
3 Year	1.00	1.26	(0.26)
5 Year	1.97	2.22	(0.25)
7 Year	2.67	2.89	(0.22)
10 Year	3.29	3.45	(0.16)
30 Year	4.41	4.51	(0.10)

Economic Roundup

Consumer Prices

In March, the CPI showed that consumer prices increased 2.7% on a year-over-year basis. The year-over-year Core CPI (CPI less food and energy) increased at a 1.2% rate. Although some producer prices have begun to increase, prices on consumer goods are not expected to increase sharply in the months ahead. The Federal Reserve has noted that it is monitoring commodity price increases but does not believe that they will flow through to sharply higher consumer prices.

Retail Sales

In March, Retail Sales rose 7.1% on a year-over-year basis. Consumer spending has rebounded from the depths of the recession and recent activity has been promising; however, activity is still far short of the heights of the previous economic expansion.

Labor Markets

The April employment report showed that the economy added 244,000 jobs, which was higher than expected. Meanwhile, the unemployment rate rose to 9.0% as more people searched for jobs. All in all, this was a good employment report, in contrast to recent reports on jobless claims. Market participants will now eagerly await next month's report to see if we are at the beginning of a new trend of greater job growth.

Housing Starts

Single-family housing starts rose 7.7% in March to 422,000, slightly better than February's report. Permits for new housing starts rose 11.2%, a good sign for housing starts in the months ahead. This report indicates that the housing market remains relatively weak.

Credit Spreads Mixed

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.21	0.12	0.09
2-year AA corporate note	0.31	0.33	(0.02)
5-year AA corporate note	0.49	0.54	(0.05)
5-year Agency note	0.29	0.34	(0.05)

Source: Bloomberg

Data as of 4/30/2011

Mixed Economic Data

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(45.8) $Bln FEB 11	(47.0) $Bln JAN 11	(39.7) $Bln JAN 10
GDP	1.8% MAR 11	3.1% DEC 10	3.7% MAR 10
Unemployment Rate	9.0% APR 11	8.8% MAR 11	9.8% APR 10
Prime Rate	3.25% APR 11	3.25% MAR 11	3.25% APR 10
CRB Index	370.56 APR 11	359.43 MAR 11	277.71 APR 10
Oil (West Texas Int.)	$113.93 APR 11	$106.72 MAR 11	$86.15 APR 10
Consumer Price Index (y/o/y)	2.7% MAR 11	2.1% FEB 11	2.3% MAR 10
Producer Price Index (y/o/y)	5.8% MAR 11	5.6% FEB 11	5.9% MAR 10
Dollar / EURO	1.48 APR 11	1.42 MAR 11	1.33 APR 10

Source: Bloomberg

Changed Form ADV Provides Investors More Effective Disclosure

For most investors who use investment advisers, the quarter ending March 31, 2011 marks the first period for which they will receive a Form ADV that is meaningfully different from what they are accustomed to. In July 2010, the Securities and Exchange Commission ("SEC") adopted the long awaited amendments to Form ADV, and related rules under the Investment Advisers Act of 1940 that are meant to substantially transform the disclosure investors get from advisers. The new rule requires advisers to deliver to clients and prospective clients a narrative brochure in "plain English" describing the adviser's business practices, conflicts of interest, risks, and disciplinary history – generally all information that is important for clients and prospective clients to either have as they select advisers, or to manage their existing adviser relationships. The changes, intended to provide more full and fair disclosure for investors, affect the format and content of the information advisers provide as well as requirements for updating and delivery.

Form ADV is used by investment advisers to register with the SEC and state securities authorities. Part 2A of Form ADV, formerly known as Form ADV, Part II, and commonly referred to as the "brochure," is the primary disclosure document that SEC registered investment advisers must provide to clients and prospective clients. Advisers must deliver the brochure to a client before or at the time the adviser enters into an advisory agreement with the client. As well, advisers must provide each client with an annual summary of material changes to the brochure and deliver either a complete updated brochure, or offer to provide the updated brochure. Brochures must be filed electronically and posted on the SEC's website (www.adviserinfo.sec.gov) so that they are easily accessible to clients.

What this Means for Investors

In the past the brochure consisted of a "check-the-box" format, where investment advisers completed a series of multiple-choice and fill-in-the-blank questions designed to show the advisers' qualifications, investment strategies, and business practices. Now, a narrative format has replaced the fill-in-the-blank layout. With the changes, the SEC intends to provide investors an easier approach to understand and compare advisers.

"Plain English" Clarity

SEC instructions call for the brochure, and its supplement, to be in a narrative response format, to appear immediately under the specific heading provided by the form for such item, as well as in the order prescribed by the form. Narrative responses are to be in "plain English." What plain English means for investors is:

- short sentences
- definite, concrete, everyday words
- active voice
- tables or bullet lists for complex material, whenever possible
- avoidance of legal jargon or highly technical business terms (with certain exceptions)
- no multiple negatives

Also, the new brochure contains enhanced disclosures on topics the SEC has identified as most relevant to investors, including a description of: the adviser's business, fees and compensation, performance-based fees and side-by-side management, methods of analysis and investment strategies and the consequent risks of loss, material disciplinary information, the adviser's code of ethics, possible conflict of its participation or interest in client transactions, and personal trading and so on.

The SEC also requires advisers to prepare and deliver brochure supplements to existing, new, and prospective clients disclosing résumé-like information on the specific individuals who will provide services to the clients. The compliance date for the brochure supplements is an additional four months. For investment advisers that are registered with the SEC as of December 31, 2010, and that have a fiscal year ending on December 31, 2010 through April 30, 2011, have until July 31, 2011 to begin delivering brochure supplements to new and prospective clients. They have an additional 60 days (until September 30, 2011) to deliver their brochure supplements to existing clients. Unlike the Part 2A, the supplements, also referred to as Part 2B of Form ADV, are not available on the SEC website and must be obtained directly from the adviser.

Investors Can Expect to Find Changes

Provided below is a summary of some of the new disclosure items.

Investors will find changes as early as the cover page. The cover page identifies the document as a brochure. An adviser that refers to himself or herself as a "registered investment adviser," must include on the cover a disclaimer that registration does not imply any particular level of skill or training. The cover page must also display the following legend:

"This brochure provides information about the qualifications and business practices of [firm name]. If you have any questions about the contents of this brochure, please contact us at [telephone number and/or email address]. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

> Additional information about [your name] also is available on the SEC's website at www.adviserinfo.sec.gov."

Material Changes

The next area where investors will find meaningful changes is in Item 2, Material Changes—an entirely new requirement. This section requires an adviser to provide a summary that identifies and discusses any material changes since the last annual update on the cover page of the brochure or on the page immediately following the cover page. Item 2 is designed to make clients aware of information that has changed since the prior year's brochure that may be important to them. This section should contain only as much information as is necessary to inform clients of the substance of the changes to the adviser's policies, practices or conflicts of interest so that they can determine whether to review the brochure in its entirety or to contact the adviser with questions about the changes.

The table of contents mandates a certain order and specified headings that the brochure must follow.

Greater Emphasis on Disclosing Risk to Investors

While the general intent of the changes is to clarify risks for investors, Item 8 specifically requires an adviser to describe its methods of analysis and investment strategies and to alert and explain that investing in securities involves a risk of loss that clients should be prepared to tolerate. Under this item, advisers must describe the material risks involved for each significant investment strategy or method of analysis they use and each particular type of security they recommend.

This disclosure may take the following form:

> "Securities investments are not guaranteed and a client may lose money on their investments. We ask that each client work with us to help us understand their tolerance for risk. Investors should be aware that investment prices may fluctuate as the securities are affected by economic and other factors. As a result, the value of your investment may increase or decrease."

Some of the risks investors of fixed income securities might see in this item include: market risk, interest rate risk, credit risk, reinvestment risk, call risk, prepayment risk, liquidity risk, inflation risk, and opportunity risk. Disclosure of every possible risk might numb the senses to the risks, so the SEC encourages disclosure of reasonably related risks.

Finally, for those advisers that employ strategies involving frequent trading, Item 8 requires a description of how such trading can affect investment performance, including the higher transaction costs associated with the strategy.

Investors should spend time understanding the risks an investment adviser identifies.

Disciplinary Information and Code of Ethics

Item 9 requires disclosure of any legal or disciplinary event that would be material to a client's (or prospective client's) evaluation of the integrity of the adviser or its management personnel. Lastly, Item 11 is the code of ethics disclosure and it does not differ much from the previous Part II.

Clients and other investors considering using investment advisers should start to notice the changes in the brochures for the period ending March 31, 2011. These changes are meant to give investors better information with which to make informed decisions about investment advisers.

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