

BOND MARKET REVIEW

A MONTHLY REVIEW OF
FIXED INCOME MARKETS



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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.

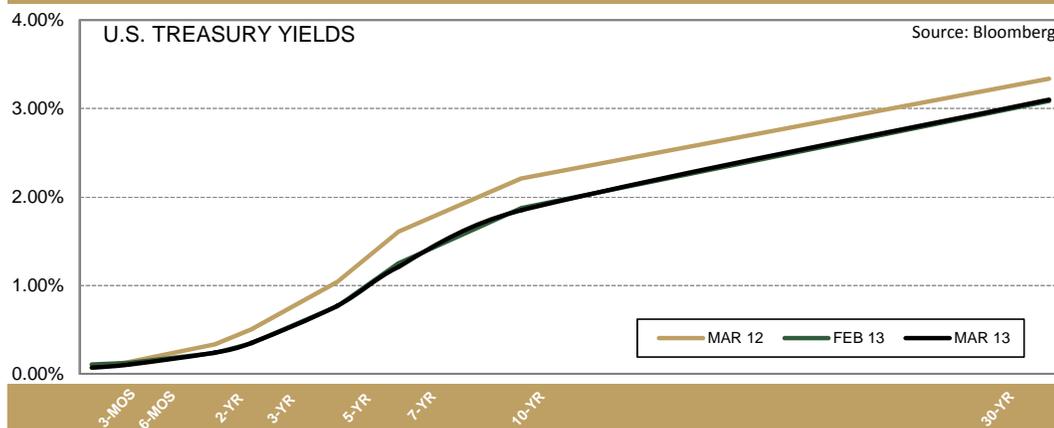
Market Summary

Recent data suggests economic growth remains modest. Job growth was weaker than expected in March. Nonfarm payrolls rose just 88,000 in the month, well below the consensus forecast of 193,000. The unemployment rate fell to 7.6% from 7.7% in February, but the decline was driven by a steep drop in the labor force. The average nonfarm payroll growth over the past 3 months has been 168,000 per month. Recent manufacturing trends have been mixed while housing trends remain favorable. Overall, economic data weakened in March relative to trends in February, which may suggest the impact of fiscal tightening (including sequestration which went into effect March 1) is beginning to ripple through the economy.

Yields remained within a relatively tight range at low levels in March. Overall, yields continue to be influenced by the Fed's accommodative monetary policy.

The Federal Open Market Committee left policy rates unchanged at its March meeting. Overall, the Fed provided a modestly better assessment of the economy and noted the labor market has improved in recent months. The Fed also highlighted the housing market has continued to strengthen, but fiscal policy has become more restrictive. In a press conference after the March FOMC meeting, Fed Chairman Bernanke indicated that at some point the central bank is likely to adjust the pace of its asset purchases. For the time being, the Fed continues to purchase mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month. The Fed is forecasting GDP growth of 2.3% - 2.8% and sees the unemployment rate falling to between 7.3% - 7.5% this year.

TREASURY YIELD CURVE CONTINUES TO BE INFLUENCED BY THE FED



Yields remained within a relatively tight range at low levels in March.

TREASURY YIELDS	3/31/2013	2/28/2013	CHANGE
3 Month	0.07	0.10	(0.03)
2 Year	0.24	0.24	0.00
3 Year	0.35	0.34	0.01
5 Year	0.77	0.76	0.01
7 Year	1.21	1.25	(0.04)
10 Year	1.85	1.88	(0.03)
30 Year	3.10	3.09	0.01

Source: Bloomberg

Economic Roundup

Consumer Prices

In February, overall CPI inflation rose to 2.0% on a year-over-year basis, up from 1.6% in January. The year-over-year Core CPI (CPI less food and energy) rose to 2.0% from 1.9%. The core inflation rate is currently in line with the Fed's long-term goal of 2.0% but remains below the trigger rate for policy action of 2.5%.

Retail Sales

In February, Retail Sales rose 4.6% on a year-over-year basis. On a month-over-month basis, Retail Sales rose 1.1% in February, exceeding the 0.5% consensus estimate. Overall, recent consumer spending trends have held up well in spite of headwinds from higher payroll taxes, rising gas prices, a delay in tax refunds, and ongoing uncertainty about the government's fiscal policy.

Labor Markets

The March employment report showed that payrolls increased by just 88,000 (well below the 193,000 consensus estimate). The unemployment rate fell to 7.6% from 7.7% in February driven by a steep decline in the labor force. Private payrolls increased 95,000 (vs. expectations of 200,000), while government jobs fell 7,000 in March. The net revisions in nonfarm payrolls for December and January were up 61,000. Overall, improvement in the labor market continues to be modest.

Housing Starts

Single-family housing starts rose slightly in February to 618,000, up from 615,000 in January. Multi-family starts rose 1.4% in February. Housing permits rose 4.6% in the month which was better than expected. In our view, recent data suggests that the housing market continues to improve.

Credit Spreads Were Virtually Unchanged in March

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.10	0.06	0.04
2-year A corporate note	0.54	0.52	0.02
5-year A corporate note	0.83	0.82	0.01
5-year Agency note	0.17	0.15	0.02

Source: Bloomberg

Data as of 3/31/13

Economic Data Continues to Indicate Slow Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(43.0) \$Bln FEB 13	(44.5) \$Bln JAN 13	(44.6) \$Bln FEB 12
GDP	0.4% DEC 12	3.1% SEP 12	4.1% DEC 11
Unemployment Rate	7.6% MAR 13	7.7% FEB 13	8.2% MAR 12
Prime Rate	3.25% MAR 13	3.25% FEB 13	3.25% MAR 12
CRB Index	296.39 MAR 13	292.95 FEB 13	308.46 MAR 12
Oil (West Texas Int.)	\$97.23 MAR 13	\$92.05 FEB 13	\$103.02 MAR 12
Consumer Price Index (y/o/y)	2.0% FEB 13	1.6% JAN 13	2.9% FEB 12
Producer Price Index (y/o/y)	1.7% FEB 13	1.4% JAN 13	3.4% FEB 12
Dollar/EURO	1.28 MAR 13	1.31 FEB 13	1.33 MAR 12

Source: Bloomberg

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The Chartered Financial Analyst® Designation and the Duties of an Investment Advisor

As an investment adviser registered with the Securities and Exchange Commission (SEC) through our Form ADV filings, we have taken on certain important duties that are not required of those who are not registered. Falling under the heading of “fiduciary duty,” every registered investment adviser (RIA) must act in the best interests of their clients individually and must place the client’s interests ahead of their own.

A comprehensive “laundry list” of fiduciary duties isn’t available within the governing law, which is the Investment Advisers Act of 1940. However, the Chartered Financial Analyst (CFA) Institute has created and approved The *Code of Ethics* and *Standards of Professional Conduct* that CFA® charterholders are required to uphold. The members of our firm who hold CFA charters are bound by the *Code of Ethics* and *Standards of Professional Conduct*, and everyone at Chandler believes in and upholds the principles of the *Code*.

The tenets of the Institute’s *Code of Ethics* include the following:

- *Act with integrity, competence, diligence, respect and in an ethical manner with the public, clients and prospective clients.*
- *Place the integrity of the investment profession and the interest of clients above personal interests.*
- *Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions and engaging in other professional activities.*
- *Practice and encourage others to practice in a professional and ethical manner.*
- *Promote the integrity of and uphold the rules governing capital markets.*

The CFA program is recognized worldwide as a comprehensive foundation for investment analysis and portfolio management.

- *Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.*

The Institute’s *Standards of Professional Conduct* elaborate on the principles of the *Code of Ethics*. The following are some of the requirements of the *Standards* with regard to section III: *Duties to Clients*:

A. Loyalty, Prudence and Care. *Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients’ interests before their employer’s or their own interests.*

B. Fair Dealing. *Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.*

C. Suitability.

1. *When Members and Candidates are in an advisory relationship with a client, they must:*

a. *Make a reasonable inquiry into a client’s or prospective client’s investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.*

b. *Determine that an investment is suitable to the client’s financial situation and consistent with the client’s written objectives, mandates, and constraints before making an investment recommendation or taking investment action.*

c. *Judge the suitability of investments in the context of the client’s total portfolio.*

2. *When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.*

D. Performance Presentation. *When communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.*

E. Preservation of Confidentiality. *Members and Candidates must keep information about current, former, and prospective clients confidential unless:*

1. *The information concerns illegal activities on the part of the client or prospective client,*

2. *Disclosure is required by law, or*

3. *The client or prospective client permits disclosure of the information.*

Clients Benefit from the Institute's Code of Ethics and Standards of Professional Conduct

In order to obtain the CFA designation, a candidate must gain command of a large body of knowledge focused on investment analysis, portfolio management, practical knowledge and ethics. The designation shows that its holder has completed a graduate degree level of study and has passed three sequential 6-hour examinations.

Due to its depth and comprehensiveness, the CFA program is recognized worldwide as a comprehensive foundation for investment analysis and portfolio management. Most industry professionals and many members of the public recognize the value of the designation. Equally important to the CFA Institute and to the public is the program's primary focus on ethics and professional conduct.

When a client retains an investment adviser who holds a CFA charter, the client can reasonably expect that the adviser will approach the portfolio in a methodical way that includes:

- First, a Charterholder has the depth and breadth of knowledge to understand fully the client's investment objectives, risk constraints and investment policy.
- Next, a Charterholder has specific training in structuring an investment plan designed to fulfill the client's objectives.
- And a methodology for evaluating, researching and selecting securities for inclusion in the portfolio is an integral part of their training.

Key to the process is that CFA charterholders are bound to execute the investment program in an ethical way that places the client's interests above their own while aligning with the client's needs. They will seek best execution on securities that are suitable for the individual client, and must treat all clients fairly in all of their dealings.

The CFA designation is globally recognized and attests to a charterholder's success in a rigorous and comprehensive study program in the field of investment management and research analysis. The CFA® or Chartered Financial Analyst® marks herein are trademarks owned by CFA Institute. For more information about the CFA Institute's Code of Ethics and Standards of Conduct, please visit the CFA Institute website at www.cfainstitute.org.

Equally important to the CFA institute and to the public is the program's primary focus on ethics and professional conduct.

We believe the CFA program combines the critical elements of knowledge and ethics to improve the quality of investment decision-making and the integrity of the investment industry. This is why we support our employees' participation in the program, and require that portfolio managers hold the CFA designation at the time they take on portfolio management responsibilities.

- Kay Chandler, CFA
President

RISKS AND OTHER IMPORTANT CONSIDERATIONS

This report is provided for informational purposes only and should not be construed as specific investment or legal advice. The information contained herein was obtained from sources believed to be reliable as of the date of publication, but may become outdated or superseded at any time without notice. Any opinions or views expressed are based on current market conditions and are subject to change. This report may contain forecasts and forward-looking statements which are inherently limited and should not be relied upon as an indicator of future results. Past performance is not indicative of future results. This report is not intended to constitute an offer, solicitation, recommendation or advice regarding any securities or investment strategy and should not be regarded by recipients as a substitute for the exercise of their own judgment.

Fixed income investments are subject to interest, credit, and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.