

June 27, 2013

## Turbulent Fixed Income Markets

Due to recent market movements, I wanted to take the opportunity to offer Chandler's interpretation of these developments. Fixed income portfolios declined in value during May and June as interest rates rose across the yield curve. Longer-term portfolios declined in value more than shorter-term portfolios. For example, the price of 2-year US Treasury notes fell about one-half point to a price of 104 as its yield rose 15 basis points from 0.21% to 0.36%, while the price of 10-year US Treasury notes fell nearly seven points to a price of 93.5 as its yield increased 83 basis points in yield from 1.67% to 2.50%.

The yield changes have been widely attributed to market participants revising their expectations as to when the Federal Reserve will begin reducing their bond purchases. Comments from Chairman Bernanke at a congressional hearing in May indicated that the Fed could begin reducing purchases at one of its "next few meetings." At the June meetings, Chairman Bernanke did not dismiss the interpretations of his previous comments, which then prompted another surge in interest rates.

The fixed income portfolios that Chandler manages saw short term declines in market value for the first time in the past several years; the declines were consistent with the overall market move. Additionally, the performance of the fixed income portfolios we manage have tracked closely to each of the portfolio's respective market benchmark for the quarter ending in June, as well as tracking above their benchmarks over longer time horizons. Encouragingly, this higher interest rate environment signifies that the new investments we make for you will be at significantly higher yields than just two months ago.

We have, for quite some time, managed the duration of the portfolios under our management to be slightly lower than their respective benchmark durations in order to mitigate the impact of possible increases in interest rates. We have been through volatile markets in the past and believe that our strategies are well positioned for this current market environment. We will, however, continually evaluate duration, sector allocation and term structure, making the necessary adjustments to keep our clients' portfolios positioned to meet their objectives.

Please call client service, your portfolio managers or me if you have any further questions, or if there is anything we can do to assist you in this turbulent market.

Thank you,



Martin Cassell, CFA  
CEO, Chief Investment Officer