CHANDLER ASSET MANAGEMENT

BOND MARKET REVIEW

March 2015

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.

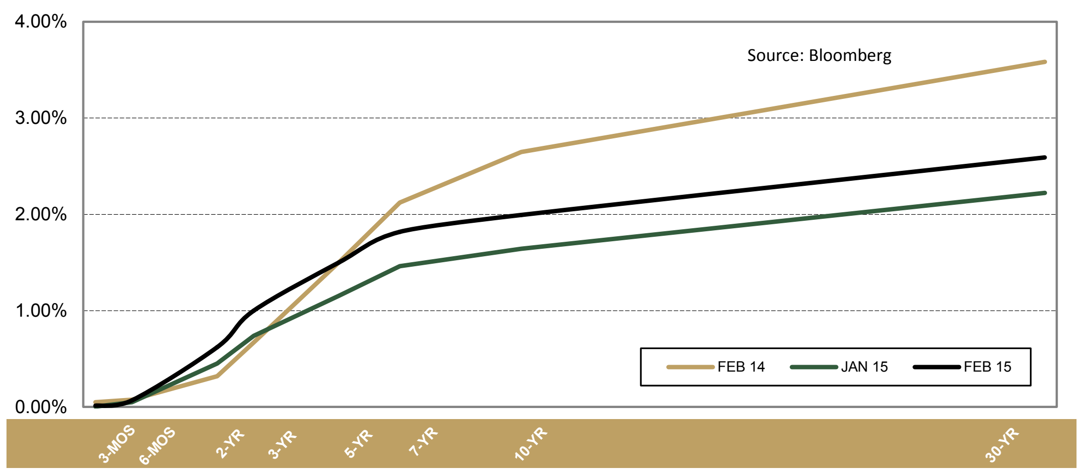
Market Summary

Job growth remained strong in February with nonfarm payrolls up 295,000, exceeding expectations of 230,000. The unemployment rate declined to 5.5% from 5.7%, though the labor participation rate also declined to 62.8% from 62.9%. Wages inched up 0.1%. Overall, there is still excess slack in the labor market, but it is improving. Meanwhile, manufacturing data has softened. We believe the strong U.S. dollar and sluggish economic growth abroad has had a dampening effect on U.S. manufacturing trends. U.S. consumer confidence remains strong, but consumer spending trends have been underwhelming. Housing data remains volatile. There have been pockets of weakness in recent economic data, but overall we believe the economy continues to grow slowly.

The outlook for monetary policy remains uncertain. Although the labor market is moving closer to a level consistent with the Fed's dual mandate, inflation remains below the Fed's 2.0% target. Fed policymakers have suggested that the possibility of a rate hike in June 2015 remains on the table, but with inflation low we believe the Fed faces no urgency to raise rates. Once the Fed has confidence that inflation expectations have either troughed or started to rebound, we believe there will be more pressure on the Fed to begin normalizing monetary policy. At this point, we still believe that the first fed funds rate hike is likely to take place sometime in the second half of this year. The next Federal Open Market Committee meeting will take place on March 17-18. Market participants will be looking closely at the Fed's March policy statement to see if the word "patient" is removed. Fed Chair Yellen linked the word "patient" to two meetings, implying that once the word is removed from the statement the first rate hike will be two meetings later.

The yield on the two-year Treasury note increased in February. Downward pressure on yields fueled by global economic concerns (and the subsequent flight to quality) eased during the month. Some of the tensions in January caused by global central banks' policy changes and turmoil in Greece abated in February. However, we believe ongoing uncertainty about the timing of the Fed's first interest rate hike will continue to fuel market volatility.

THE YIELD CURVE STEEPENED IN FEBRUARY



Downward pressure on yields fueled by global economic concerns (and the subsequent flight to quality) eased during the month.

TREASURY YIELDS	2/28/2015	1/31/2015	CHANGE
3 Month	0.01	0.00	0.01
2 Year	0.62	0.45	0.17
3 Year	1.00	0.74	0.26
5 Year	1.50	1.16	0.34
7 Year	1.82	1.46	0.36
10 Year	1.99	1.64	0.35
30 Year	2.59	2.22	0.37

Source: Bloomberg

Economic Roundup

Consumer Prices
In January, overall Consumer Price Index (CPI) inflation declined to -0.1% on a year-over-year basis from 0.7% in December. Headline inflation has fallen sharply over the past few months due to a precipitous decline in energy prices. The year-over-year Core CPI (CPI less food and energy) was unchanged at 1.6% in January.

Retail Sales
In January, retail sales rose 3.3% on a year-over-year basis, following the same year-over-year gain in December. On a month-over-month basis, retail sales declined 0.8% in January (below the consensus forecast for a 0.5% decline) after declining 0.9% in December. Gasoline sales were a drag on retail sales in both months due to lower prices.

Labor Market
Nonfarm payrolls rose by 295,000 in February, exceeding the consensus forecast of 230,000. January and December payrolls were revised down a net 18,000. Private payrolls rose by 288,000 in February, while government jobs rose by 7,000. The unemployment rate declined to 5.5% from 5.7%. A broader measure of unemployment called the U-6, which includes those whom are marginally attached to the labor force and employed part time for economic reasons, declined to 11.0% from 11.3%. However, the labor participation rate remains low and edged down to 62.8% in February from 62.9%. Wages also inched up just 0.1% (below expectations), following a 0.5% increase in January.

Housing Starts
Single-family housing starts declined 6.7% in January after increasing 7.9% in December.

Credit Spreads Tightened In February

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.19	0.14	0.05
2-year A corporate note	0.44	0.53	(0.09)
5-year A corporate note	0.55	0.71	(0.16)
5-year Agency note	0.06	0.13	(0.07)

Source: Bloomberg *Data as of 2/28/2015*

Economic Data Remains Indicative of Modest Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(41.8) $Bln JAN 15	(45.6) $Bln DEC 14	(38.8) $Bln JAN 14
GDP	2.2% DEC 14	5.0% SEP 14	3.5% DEC 13
Unemployment Rate	5.5% FEB 15	5.7% JAN 15	6.7% FEB 14
Prime Rate	3.25% FEB 15	3.25% JAN 15	3.25% FEB 14
CRB Index	224.08 FEB 15	218.84 JAN 15	302.43 FEB 14
Oil (West Texas Int.)	$49.76 FEB 15	$48.24 JAN 15	$102.59 FEB 14
Consumer Price Index (y/o/y)	(0.1)% JAN 15	0.8% DEC 14	1.6% JAN 14
Producer Price Index (y/o/y)	(3.1)% JAN 15	(0.4)% DEC 14	1.6% JAN 14
Dollar/EURO	1.12 FEB 15	1.13 JAN 15	1.38 FEB 14

Source: Bloomberg

The SEC Takes a Closer Look at Cybersecurity

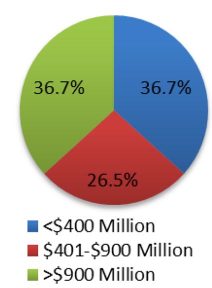
Since the advent of the Internet, cybersecurity has been a concern for individuals, corporations and governments. Cybersecurity has recently become more prominent as high profile organizations in the retail, entertainment, healthcare and financial services industries have been the subject of cyber-attacks and security breaches. While larger organizations tend to make headlines, smaller institutions are equally at risk.

Individuals have always been one of the main targets of phishing and other attempts at identity theft, but cyber-attacks have become more sophisticated as technology and use of the Internet have become more prevalent in society. The level and scope of cyber-attacks have evolved, occurring on a global scale with threats coming from cyber terrorists, government-sanctioned espionage and activist hackers. Cybersecurity has long been a concern for the authorities with the U.S. being a constant target. In his 2013 testimony to the Senate Committee on Homeland Security and Governmental Affairs, FBI Director Jim Comey stated that the FBI "anticipate[d] that in the future, resources devoted to cyber-based threats will equal or even eclipse the resources devoted to non-cyber based terrorist threats." The U.S. Securities and Exchange Commission (SEC) reiterated these remarks in a roundtable about cybersecurity held in March 2014.

While there are many motives for cyber-attacks, money has always been one of the primary causes of this criminal activity. In the financial system, where trillions of dollars are transacted daily, the SEC has expressed concerns over cybersecurity not just for corporate entities and investors, but the markets overall. In the March 2014 roundtable discussion, the SEC cited a 2012 survey of 46 securities exchanges in which more than half of the respondents reported to have been the target of a cyber-attack. Not too long ago the goal of maintaining "integrity" in the financial markets related to maintaining oversight and taking regulatory measures against bad actors in the industry. Today, this idea of maintaining integrity in the financial system has become more systemic, going all the way to the technology infrastructure of the financial industry.

During this same roundtable, SEC Chair Mary Jo White relayed that the SEC's concerns also extended to the entities that make up the financial system, including investment advisers. Shortly after the SEC's roundtable, the SEC's Office of Compliance Inspections and Examinations (OCIE) announced a Cybersecurity Examination Initiative to emphasize the serious nature of the threat of cyber-attacks and an effort to gather more information about cybersecurity firsthand through an examination of various financial entities.

Breakdown of Examined Investment Advisers By Assets Under Management (AUM)



Source: SEC. Based on approximations.

Mary Jo White noted the SEC has always been responsive to emerging issues related to data protection, such as its review of business continuity planning standards after the disruptions caused by Hurricane Sandy in 2013 and the adoption of Regulation S-ID to maintain standards for identity protection and verification. The Cybersecurity Examination Initiative represented a deeper dive in understanding how these institutions, including investment advisers, address risks relating to cybersecurity. As part of this effort, which began in 2014, the SEC conducted examinations of 49 registered investment advisers (RIAs) to evaluate a variety of cybersecurity-related policies, procedures and actual practices related to their preparedness, response and mitigation. This examination represented a small sample (49) out of nearly 11,000 registered investment advisers in 2014 with varying ranges of asset sizes. In February 2015, the SEC issued the results of this examination in a Risk Alert. A summary of key areas examined and the SEC's findings are provided in the table on the following page.

While the results of this examination are for a small segment of the much larger universe of investment advisers, the cross-section of registered investment advisers reflects varying levels of asset size and different business models. For example, while less than a third of examined investment advisers had a designated Chief Information Security Officer, many had delegated this responsibility to a different senior officer or utilize an outside vendor or consultant. In general, this information establishes an approximate baseline to the current state of the industry, and can provide investors areas to consider when working with an investment adviser.

This examination is a positive step to protecting investors and maintaining integrity in the markets, even as the SEC is still in the process of evaluating these findings. In the 2014 roundtable, SEC Commissioner Luis Aguilar noted "the constant threat of cyber -attack is real, lasting, and cannot be ignored." Furthermore, cybersecurity will continue to be an examination priority for the SEC going forward, which was included as one of their 2015 Exam Priorities.

The SEC Takes a Closer Look at Cybersecurity (CONTINUED)

Examination Areas	49 RIAs Examined
Have adopted written information security policies.	**83%**
Conducted periodic audits to determine compliance with written information security policies.	*57%*
Have written business continuity plans to address the impact of cyber-attacks or intrusions.	*51%*
Have written policies and procedures to determine whether they are responsible for client losses associated with cyber incidents.	*13%*
Referenced external standards and other resources to model their information security architecture and processes.	*53%*
Conducted periodic risk assessments, on a firm-wide basis, to identify cybersecurity threats, vulnerabilities, and potential business consequences.	**79%**
Require cyber security risk assessments of vendors with access to their firm networks.	*32%*
Reported that they have been the subject of a cyber-related incident.	**74%**
Reported receiving fraudulent emails seeking to transfer client funds.	*43%*
Reported incidents in which an employee or other authorized user engaged in misconduct resulting in the misappropriation of funds, securities, sensitive client, or firm information, or in damage to the firms' networks.	*4%*
Conducted firm-wide inventorying, cataloguing, or mapping of their technology resources with respect to the following areas:	
Physical devices and systems.	*92%*
Software platforms and applications.	*92%*
Network resources, connections, and data flows.	*81%*
Connections to firm networks from external sources.	*74%*
Hardware, data, and software.	*60%*
Logging capabilities and practices.	*68%*
Incorporated requirements relating to cybersecurity risk into their contracts with vendors and business partners.	**24%**
Maintain policies and procedures related to information security training for vendors and business partners authorized to access the firm networks.	*13%*
Used some form of encryption.	**91%**
Have designated a Chief Information Security Officer ("CISO").	**30%**
Maintained cybersecurity insurance.	**21%**

Source: OCIE "Cybersecurity Examination Sweep Summary", February 3, 2015. The information provided in this table is based on the SEC findings and any guidance contained herein only expresses the opinions of the SEC. We encourage you to read the SEC's Risk Alert for comprehensive details of OCIE's examination and findings at the SEC's website or by visiting http://www.sec.gov/about/offices/ocie/cybersecurity-examination-sweep-summary.pdf

At Chandler Asset Management, we are equally concerned about issues surrounding cybersecurity and have developed protocols to protect our clients, while monitoring industry guidance for best practices from both regulators and other subject matter experts. Our goal as a registered investment adviser is to ensure that all aspects of our compliance program, including matters of privacy and IT security, are reasonably designed to protect against and mitigate issues that arise in the course of business as part of our fiduciary responsibility to our clients.

- Daniel Baig
VP, Marketing