CHANDLER ASSET MANAGEMENT

June 2015

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.

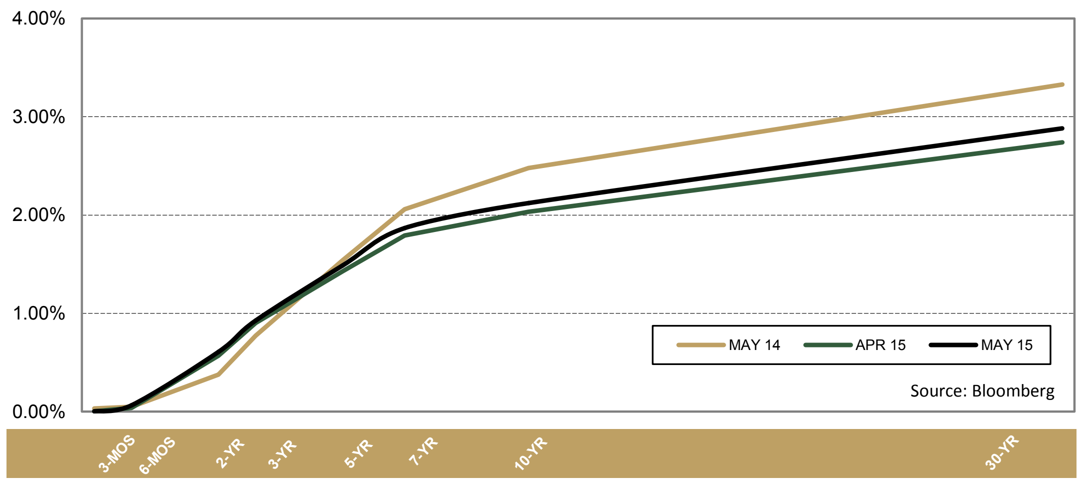
Market Summary

Job growth was stronger than expected in May, as nonfarm payrolls rose by 280,000, exceeding the consensus forecast of 220,000. April and March payrolls were also revised up a net 32,000. The unemployment rate inched up to 5.5% from 5.4% but the participation rate also increased to 62.9% from 62.8%. Wages rose 0.3%. Overall, the May employment report was solid but there is still excess slack in the labor market and other economic data remains somewhat soft. Manufacturing trends in particular remain sluggish. Housing data has been more favorable but also tends to be volatile. Meanwhile, consumer spending has been sluggish but may be picking up steam.

Although the May employment report was stronger than expected, we believe a June fed funds rate hike is unlikely. The most recent Beige Book report, prepared for the upcoming Federal Open Market Committee (FOMC) meeting, suggested economic growth trends slowed. In addition, the Personal Consumption Expenditures price index (PCE) was up just 0.1% in April on a year-over-year basis, well below the Fed's 2.0% target. The Core PCE index (which excludes food and energy prices) was up just 1.2% year-over-year in April. We believe these factors will keep the Fed on hold until later this year. In the meantime, we expect ongoing uncertainty about the timing of the first fed funds rate hike will continue to fuel financial market volatility. The next FOMC meeting will take place on June 16-17.

The yield on the two-year Treasury note rose slightly in May. Global bond yields have been somewhat volatile due to diverging global central banks' monetary policies.

THE YIELD CURVE STEEPENED IN MAY



The yield curve continued to steepen in May. German Bund yields rose sharply in the past month which has impacted global interest rates. Overall, financial market volatility fueled by diverging global central banks' monetary policies (both conventional and unconventional), concerns about a potential sovereign bond default in Greece, and technical supply factors have influenced global interest rates. Meanwhile, domestic economic data remains soft, and the timing of the first fed funds rate hike remains unclear. The European Central Bank continues to execute its bond-buying program and other global central banks are pursuing highly accommodative monetary policies.

TREASURY YIELDS	5/31/2015	4/30/2015	CHANGE
3 Month	0.00	0.00	0.00
2 Year	0.61	0.57	0.04
3 Year	0.93	0.90	0.03
5 Year	1.49	1.43	0.06
7 Year	1.87	1.79	0.08
10 Year	2.12	2.03	0.09
30 Year	2.88	2.74	0.14

Source: Bloomberg

Economic Roundup

Consumer Prices
In April, overall Consumer Price Index (CPI) inflation was -0.2% on a year-over-year basis after being -0.1% in March. Headline inflation fell sharply in recent months due to a precipitous decline in energy prices. The year-over-year Core CPI (CPI less food and energy) was unchanged at 1.8% in April.

Retail Sales
Following a string of disappointing monthly retail sales reports, the May retail sales report was strong, signaling a long-awaited pick-up in consumer spending. In May, retail sales rose 2.7% on a year-over-year basis, following a 1.5% gain in April. On a month-over-month basis, retail sales rose 1.2% in May after inching up just 0.2% in April.

Labor Market
The May employment report was stronger than expected, as nonfarm payrolls rose by 280,000, exceeding the consensus forecast of 220,000. April and March payrolls were also revised up a net 32,000. Private payrolls rose by 262,000 in May, while government jobs rose by 18,000. The unemployment rate inched up to 5.5% from 5.4% but the participation rate also increased to 62.9% from 62.8%. Wages rose 0.3% (higher than expected), following a 0.1% increase in April. On a year-over-year basis, wages were up 2.3% in May versus 2.2% in April. On a trailing 3-month basis ending May, payrolls rose by an average of 207,000 per month compared to the trailing 6-month average of 236,000.

Housing Starts
Overall, housing starts rose 20.2% in April to an annual rate of 1.135 million, significantly exceeding the consensus forecast of 1.029 million. Single-family starts rose 16.7% in April while multi-family starts rose 27.2%. Permits were also stronger than expected, up 20.5% in April. Overall, April housing starts were very strong and represent a meaningful pick-up in housing activity.

Credit Spreads Widened in May

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.16	0.22	(0.06)
2-year A corporate note	0.51	0.47	0.04
5-year A corporate note	0.74	0.68	0.06
5-year Agency note	0.16	0.18	(0.02)

Source: Bloomberg *Data as of 5/31/2015*

Economic Data Has Softened But Remains Indicative of Modest Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(40.9) $Bln APR 15	(50.16) $Bln MAR 15	(44.3) $Bln APR 14
GDP	(0.7)% MAR 15	2.2% DEC 14	(2.1)% MAR 14
Unemployment Rate	5.5% MAY 15	5.4% APR 15	6.3% MAY 14
Prime Rate	3.25% MAY 15	3.25% APR 15	3.25% MAY 14
CRB Index	223.17 MAY 15	229.49 APR 15	305.48 MAY 14
Oil (West Texas Int.)	$60.3 MAY 15	$59.6 APR 15	$102.71 MAY 14
Consumer Price Index (y/o/y)	(0.2)% APR 15	(0.1)% MAR 15	2.0% APR 14
Producer Price Index (y/o/y)	(4.4)% APR 15	(3.2)% MAR 15	3.1% APR 14
Dollar/EURO	1.10 MAY 15	1.12 APR 15	1.36 MAY 14

Source: Bloomberg