Fixed Income Review
4th Quarter 2009

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2009 Review:

In 2009, U.S. monetary authorities flooded the system with liquidity to stimulate the economy, government debt spiked, and gold, which many believe is a fear index, hit a new high. The U.S. savings rate rose, consumers retrenched by spending and borrowing less, unemployment rose above 10%, and the Consumer Price Index turned negative for the first time in 50 years. Despite all of these events, investor risk-taking was clearly back in style in 2009 in a big way following a dismal 2008. And fixed income, typically the boring and stodgy asset class, generated extremely strong returns.

While the riskiest slices of the fixed income market trounced stocks (i.e., high yield corporate bonds up more than 58% verses the S&P 500's 26%), higher quality bonds provided healthy double digit returns to investors. High grade corporate bonds returned 19%, Commercial Mortgages returned 28%, Municipals returned 13%, and Inflation Protected Treasuries returned 10%. U.S. Treasuries were the only fixed income sector to suffer negative returns, down almost 4%. On a tax-adjusted basis, Municipals were the clear winner in the high grade space. See **Chart 1** for a more detailed review of performance.

Driving the appetite for risk in 2009 was the search for yield. Due to paltry yields, the net assets held in U.S. money market funds dropped to their lowest level of the past two years. With easy monetary policy pushing interest rates and money market yields near zero percent, most assets found their way into bonds and bond mutual funds rather than stocks and stock funds. **Chart 2** shows the magnitude of dollar flows into bonds and bond mutual funds during the year.

One indicator that we monitor closely is the Bloomberg Financial Conditions Index, seen in **Chart 3**. It is commonly referred to as a stress gauge of the capital markets. This indicator combines various yield spreads and indices from the Money Markets, Fixed Income and Equity markets into a single normalized index. As the indicator highlights, the market's stress level reached unprecedented levels at the end of 2008, but has returned completely back to normal today. Much of this is due to the U.S. Government and Federal Reserve's intervention. It is important, however, not to confuse this indicator with the level of market risk. Rather, it is an indicator that the capital markets are functioning normally again.

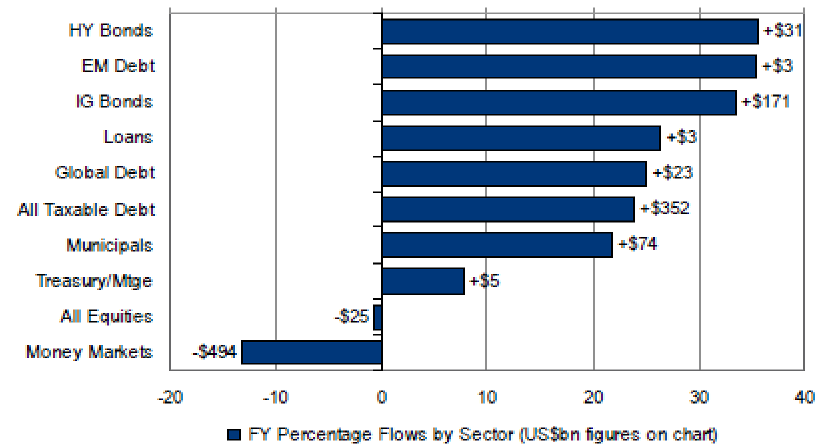
Several questions come to mind as we head into 2010, but two of the obvious ones that we are wrestling with are, have the capital markets completely shaken off the Great Recession of 2008-09, and have they come to far too fast.

Chart 1

	4Q09	2009 ytd
US TREASURY	-1.30%	-3.57%
US TIPs	0.90%	9.55%
US GOV'T AGENCY	-0.19%	2.48%
US HIGH GRADE CORPORATE	1.35%	18.68%
US HIGH YIELD CORPORATE	6.18%	58.21%
US PREFERRED STOCK, FIXED RATE	4.10%	20.07%
US CONVERTIBLE BOND	5.43%	45.63%
US MORTGAGE BACKED	0.57%	5.89%
GLOBAL GOV'T EX US (UNHEDGED)	0.07%	1.15%
US MUNICIPAL	-0.96%	12.91%

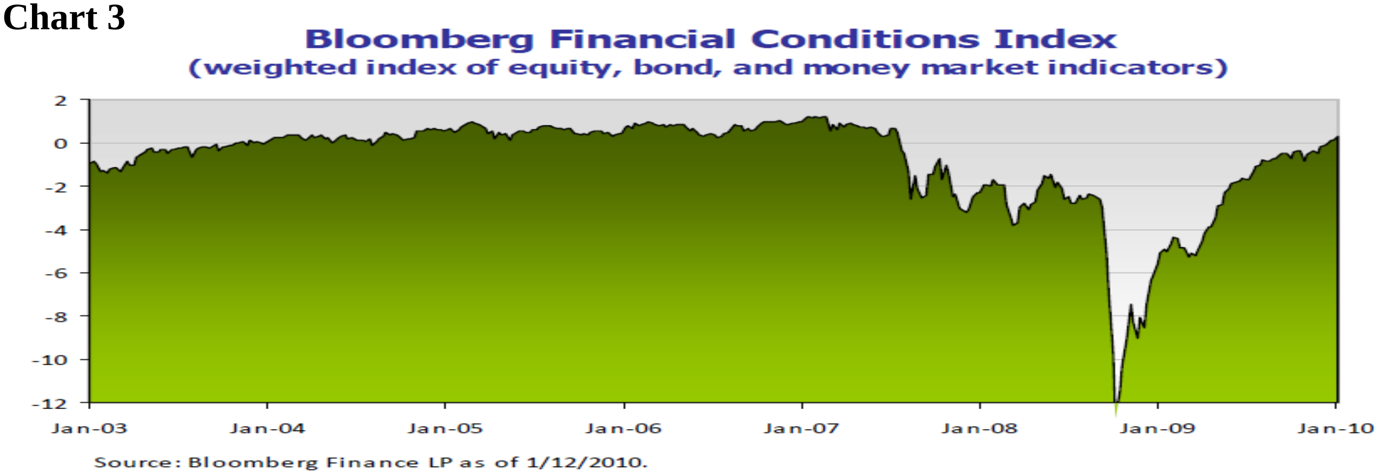
Source: Bloomberg, Merrill Lynch

Chart 2



Source: BofA Merrill Lynch Global Research, Lipper/AMG

Chart 3



2010 Outlook:

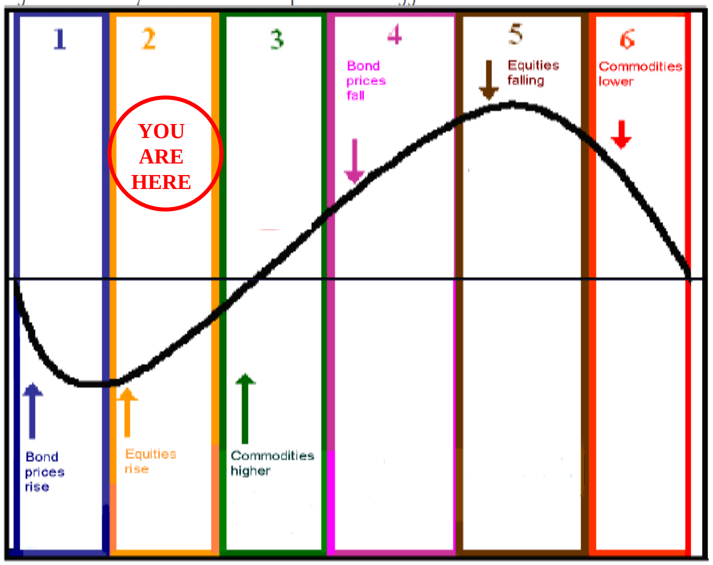
Although the percentage gains of 2009 are unlikely to be matched in 2010, we certainly do not expect a return to the crisis conditions of 2008 and early 2009. While many market professionals are looking for signs in stocks, commodities, emerging markets, or FX to guide their investment strategy for the year, we believe fixed income is the most important asset class to watch for 2010. Without a doubt, we believe interest rates will be the key focus for the year. Although there is a wide consensus calling for higher rates, there really is no consensus as to when, how quickly, or even if rates will rise in 2010.

Supporting our view that rates are set to rise, we point to the market cycle developed by John Murphy, which is shown in **Chart 4**. However, as we survey the economic landscape, we believe that interest rates will prove to be more sticky than most believe. While we may see periods of sharp movements in rates, as we saw in December, a more significant upward move is more likely later rather than sooner. Moreover, we've yet to see the Fed waiver from their pledge for low rates for an "extended period", and market expectations as measured by futures have yet to move upward. We, therefore, see rates remaining low for the short-to-intermediate term, which is likely to be most of 2010.

We see competing forces that will likely keep rates range bound for the short-to-intermediate term. Among the factors that pressure rates upward are government deficits, inflation expectations, and the eventual removal of easy monetary policy. Among the factors keeping a lid on rising rates are the continued deleveraging by banks and consumers, high unemployment and a still soft economy.

Chart 4

Figure 1: Market cycle model and 2009 price moves suggest an interest rate focus in 2010



Source: JJ Murphy – Intermarket Analysis, page 183.

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Performance & Strategy

Our Taxable Bond Composite navigated the market well in 2009 as our consistent overweight to corporate bonds for almost all of 2009 drove our composite to a 9.30% gross return for the year, more than 4% ahead of the benchmark. Turning to Municipal Bonds, our composite returned a respectable 6.26% gross return, but it did come up a little short of the broad benchmark by approximately 90 basis points. The underperformance is directly attributable to our portfolio's bias toward above average credit quality and principal protection, as lower quality municipal bonds rallied the most during the year. See **Charts 5** on for more detailed figures, as well as full disclosure pages (Please note, past performance does not guarantee future results. See full composite presentation attached.)

As we go into 2010, our strategy does not change very much from the 4th quarter. We continue to believe that the corporate bond and municipal bond sectors offer the greatest opportunity for outperformance. Other strategy highlights include:

• *Short term interest rates remain at historical lows as the Fed continues with easy monetary policy. However, a move up in short rates will be the first indicator that yields and longer interest rates are set to rise. We are watching short rates closely and will shorten portfolio durations when they begin to move up.*

• *Treasuries are likely to remain in a trading range for the short-to-intermediate term, but yields are heading higher in the longer term. We recommend an underweight position.*

• *Corporate bond spreads still remain above long term historical averages, despite the strong rally in 2009. They should continue to outperform Treasury bonds as corporate balance sheets continue to de-lever and become stronger. We maintain overweight.*

• *Mortgages continue to benefit from the Government buybacks and guarantees, however the program is set to end at the end of the first quarter 2010. Yields will most likely rise as the government pulls away from this market. We maintain an underweight.*

• *Municipal bond valuations remain above long term averages. Traditional tax-exempt municipals should benefit from the technical reduction in supply due to the Build America Bond program, as well as tax hikes proposed by the Obama administration. On an after-tax basis, Municipals will likely be the best performing asset class. We maintain an overweight position.*

Chart 6 highlights our current sector allocations and recent changes. ***by Matthew Guleserian, CFA***

Chart 5

Performance
December 31, 2009*
Total Return (%)

	Q4 2009	YTD 12/31/09	Since Inception*
Taxable Bond (Gross of fees)	0.71%	9.30%	6.51%
Taxable Bond (Net of fees)	0.55%	8.64%	5.85%
Barclay's Capital Intermediate Government/Credit	0.30%	5.24%	6.19%

	Q4 2009	YTD 12/31/09	Since Inception*
Muni Bond (Gross of fees)	-0.67%	6.26%	4.77%
Muni Bond (Net of fees)	-0.76%	5.85%	4.35%
Barclay's Capital 1-10 Year Muni Benchmark	-0.10%	7.16%	5.40%

**Inception: June 2006 (Cumulative)*
Past performance is not indicative of future results. Please see the full taxable bond and municipal bond disclosures on the following pages below.
Performance is preliminary

Chart 6

	UNDERWEIGHT	SMALL UNDERWEIGHT	NEUTRAL	SMALL OVERWEIGHT	OVERWEIGHT	RECENT CHANGE
TRADITIONAL FIXED INCOME:						
U.S. Treasuries		X				None
U.S. Agency		X				None
Corporate Bonds				X		Decrease
Mortgage-Backed Securities	X					None
ALTERNATIVE / HIGH INCOME:						
Treasury Inflation Protected			X			Increase
High Yield Corporate Bonds				X		None
Convertible Bonds			X			Decrease
Preferred Stock			X			None
International / Emerging Markets				X		None
MUNICIPAL BOND:						
Municipal Bonds				X		None
DURATION RECOMMENDATION:						
Duration			X			None

Taxable Bond Composite
Schedule of Returns
June 1, 2006 (date of inception) through December 31, 2008

	Gross Returns (%)	Net Returns (%)	Benchmark Returns [1] (%)	Standard Deviation [2] (bps)	Number of Accounts	Composite Assets at end of period ($ millions)	Total Firm Assets ($ millions)
2006[3]	4.1	3.8	4.4	NA	14	47.5	4,027.2
2007	6.8	6.1	7.4	42	15	49.3	4,124.5
2008	3.2	3.0	5.1	296	12	40.7	2,527.4

1. Benchmark returns have been obtained from an independent source and have not been examined by independent accountants.
2. Not applicable for partial year.
3. Partial year performance beginning June 1, 2006.

Taxable Bond Composite: Portfolios included in this composite seek to earn consistent, above average returns while taking a low risk approach to fixed income asset management. The fixed income investment philosophy focuses on constructing high quality portfolios with an intermediate-term maturity structure. The portfolio invests in taxable fixed income bonds including but not limited to US Treasuries, Agency bonds and corporate bonds. All securities purchased are investment grade. The composite includes fully discretionary bond portfolios. For comparison purposes, the Barclays Intermediate Government/Credit Index is used. The minimum fixed income value requirement for inclusion in the composite is $500,000. The composite was created in October 2008.

Lee Munder Investments Ltd. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

The investment management fee schedule is as follows: 0.65% on the first $1 million and 0.62% on assets above $1 million. Actual investment advisory fees incurred by clients may vary.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance. Performance results are presented gross and net of management fees and include the reinvestment of income. Net returns are calculated by applying the investment management fee schedule noted above to the gross returns of the accounts included in the composite. The annual composite dispersion presented is an asset weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding the policies for calculating and reporting returns is available upon request.

Lee Munder Investments, Ltd.'s compliance with the GIPS standards has been verified for the period July 1, 2002 through June 30, 2008 by Ashland Partners & Company LLP. The firm was verified for the period October 2000 through June 30, 2002 by another firm. A copy of the verification report is available upon request.

Past performance is not indicative of future results.

Municipal Bond Composite
Schedule of Annual Returns
June 30, 2006 (date of inception) through December 31, 2008

	Gross Returns (%)	Net Returns (%)	Barclays 1-10yr Municipal Bond Index [1] (%)	Standard Deviation (bps)	Number of Accounts	Composite Assets at end of period ($ millions)	Total Firm Assets ($ millions)
2006 [2]	2.45	2.22	3.15	NA	11	10.9	4,027.2
2007	4.52	4.11	4.79	47	13	13.4	4,124.5
2008	3.86	3.44	4.24	161	13	12.7	2,527.4

1. Benchmark returns have been obtained from an independent source and have not been examined by independent accountants.
2. Partial year performance for the period of June 30, 2006 through December 31, 2006.
3. Not applicable for partial year.

Municipal Bond Composite: Portfolios included in this composite seek to earn consistent, above average returns while taking a low risk approach to fixed income asset management. The fixed income investment philosophy focuses on constructing high quality portfolios with an intermediate-term maturity structure. Value is added through issue and sector selection. All securities purchased are investment grade. The composite includes fully discretionary, municipal bond portfolios. The minimum fixed income value requirement for inclusion in the composite is $500,000. The composite was created in January 2008.

Lee Munder Investments Ltd. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

The investment management fee schedule is as follows: 0.40% on the first $2.5 million, 0.35% on the next $2.5 million, and 0.30% on assets above $5 million. Actual investment advisory fees incurred by clients may vary.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance. Performance results are presented gross and net of management fees and include the reinvestment of income. Net returns are calculated by applying the investment management fee schedule noted above to the gross returns of the accounts included in the composite. The annual composite dispersion presented is an asset weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding the policies for calculating and reporting returns is available upon request.

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