



December's strong month for stocks came at the expense of bonds, with US stocks (MSCI World Index) and taxable US investment grade bonds (Barclay's Aggregate Index) finishing 2010 up 15.1% and 6.5%, respectively. Municipal bonds (Barclay's Municipal Index) fared worse returning 2.4% in 2010 after losing 4.5% in the fourth quarter alone on heightened state and municipality budget concerns.

Despite a difficult fourth quarter in fixed income, both stock and bond LMC composite strategies finished 2010 with positive returns, as detailed in the following charts: our Global Multicap composite returned 11.7% for the fourth quarter and 15.6% for the full year 2010, compared to 9.0% and 11.8% for the MSCI World Index; our Taxable Bond composite returned -1.3% in the fourth quarter and 7.0% for 2010, compared to -1.4% and 5.9% for the Barclay's Intermediate Government/Credit Index; our Municipal Bond composite returned -2.2% in the fourth quarter and 3.1% for 2010, compared to -1.9% and 3.1% for the Barclay's Municipal 1-10 year Index.

Looking back, the 10-year annualized return for the S&P 500 Index was 1.4% compared to the annualized return of 2.4% for the 3-month Treasury Bill—the worst 10-year stretch for US equities since the 1930s. While foreign equities fared much better, Europe ended the decade weakened by the financial crisis while Asian economies and markets strengthened significantly: the MSCI EAFE Index compounded 3.5% annualized returns for the past 10 years, while the MSCI Emerging Markets posted 15.9% annualized returns for the same period.

**Rolling Annualized Returns through December 31, 2010**

<b>Equity Returns</b>	<b>4Q 2010</b>	<b>2010</b>	<b>Since Inception*</b>
<b>Global MultiCap (Gross of Fees)</b>	11.7%	15.6%	0.3%
<b>MSCI World (Net) ***</b>	9.0%	11.8%	-3.7%
<b>Value Added</b>	<b>2.8%</b>	<b>3.8%</b>	<b>4.0%</b>
<b>Global MultiCap (Net of Fees)</b>	11.3%	14.0%	-1.2%
<b>Global MultiCap (Gross of Fees)</b>	11.7%	15.6%	0.3%
<b>S&amp;P 500</b>	10.7%	15.1%	-2.5%
<b>Value Added</b>	<b>1.0%</b>	<b>0.6%</b>	<b>2.8%</b>
<b>Global MultiCap (Net of Fees)</b>	11.3%	14.0%	-1.2%

<b>Fixed Income Returns</b>	<b>4Q 2010</b>	<b>2010</b>	<b>Since Inception**</b>
<b>Muni Fixed Income (Gross of Fees)</b>	-2.2%	3.1%	4.4%
<b>Barclays 1-10 yr Muni</b>	-1.9%	3.1%	4.9%
<b>Value Added</b>	<b>-0.3%</b>	<b>0.0%</b>	<b>-0.5%</b>
<b>Muni Fixed Income (Net of Fees)</b>	-2.3%	2.7%	4.0%
<b>Taxable Bond (Gross of Fees)</b>	-1.3%	7.0%	6.6%
<b>Barclays Intermediate Gov't Credit</b>	-1.4%	5.9%	6.1%
<b>Value Added</b>	<b>0.1%</b>	<b>1.1%</b>	<b>0.5%</b>
<b>Taxable Bond (Net of Fees)</b>	-1.5%	6.3%	6.0%

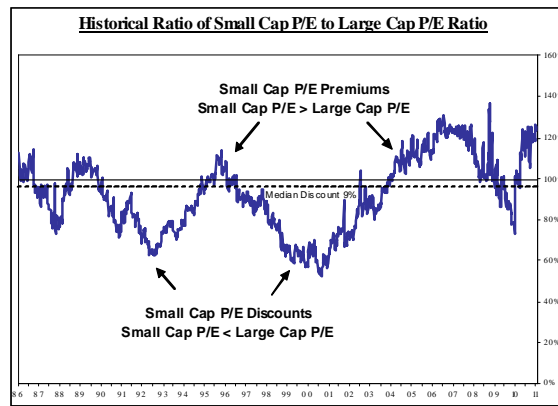
\*Global MultiCap inception date: September 2007 (Annualized). \*\*Muni Fixed Income and Taxable Bond inception date: June 2006 (Annualized).  
 \*\*\*Net dividends reinvested. Past performance is not indicative of future results. See below for full disclosure presentation.



LMCG's Global Multicap produced double-digit returns in the fourth quarter as the early cyclical asset classes continued their strong run. From the market lows of March 2009, we shifted into these more cyclical asset classes, moving from a "protection" to a "growth" phase. The portfolio was overweight small cap and US (rather than international) equities, and therefore benefited from these shifts.

During the quarter, small caps sharply outperformed their large cap counterparts: the Russell 2000 Index returned 16.3% compared to 10.8% for the S&P 500; internationally, the EAFE Small Cap returned 11.8% versus 6.6% for the EAFE index. The portfolio is currently 27% invested in small/mid cap equities in the US and abroad. We shifted into small caps to take advantage of what we believed was an oversold asset class.

This shift into small cap worked, as growth expectations continue to rise for smaller companies. One reason for rising growth expectations is weakness in the dollar—which drives more business here domestically, benefitting smaller companies that have much lower overseas exposure. With growth expectations moving higher in small cap stocks, valuations are starting to look stretched; as the chart below depicts, large cap stocks historically traded at a premium to small stocks, and today we see the opposite. We are aware of this, and in the near term will likely take profits in our small caps.



Source: Bloomberg and Factset

As we stated in last quarter's letter, we have a US bias to the portfolio and this contributed to outperformance in the quarter. The international markets lagged the US by quite a bit during the quarter and the issues for international and emerging market stocks should continue in 2011.

The European sovereign debt crisis will linger during the year and the austerity measures across Europe will certainly cause slower growth than we should see domestically. The positive aspect for European stocks is that they are trading at very reasonable valuation levels when compared to their large US counterparts. As for emerging markets, the credit tightening occurring in China and other emerging markets will lead to slower growth as these governments try to cool rapidly increasing inflation. In contrast to developed international markets, emerging markets are trading at frothy valuations. We remain underweight emerging markets in the portfolio, and our next likely move will be a reduction in the asset class.

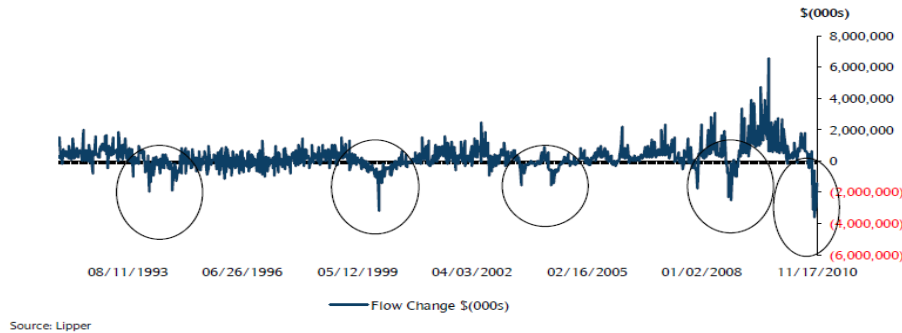
Dec 31, 2010		Strategic Allocation	Tactical Allocation	Shift	Relative
US Equities	<i>US Large Cap Core</i>	47.0%	50.0%		3.0%
	<i>US Small / Mid Growth</i>	8.0%	13.0%		5.0%
	<i>US Small / Mid Value</i>	8.0%	4.0%		-4.0%
	<b>TOTAL</b>	<b>63.0%</b>	<b>67.0%</b>		
Non-US Equities	<i>International Large Cap</i>	22.0%	16.0%	-2.0%	-6.0%
	<i>International Small Cap</i>	5.0%	10.0%	2.0%	5.0%
	<i>Emeraina Markets</i>	8.0%	5.0%		-3.0%
	<b>TOTAL</b>	<b>35.0%</b>	<b>31.0%</b>		
Other					
	<b>Cash</b>	<b>2.0%</b>	<b>2.0%</b>		<b>0.0%</b>
<b>GRAND TOTAL</b>		<b>100.0%</b>	<b>100.0%</b>		<b>100.0%</b>

Allocations are subject to change over time.

## Municipal Bonds

The municipal market saw a number of major transitions during 2010, most of which caused yields as a percentage of Treasury yields to rise; changes in rating agency philosophy, the end of the Build America Bond program, and higher long-term yields all impacted the municipal bond market during the year. However, the deluge of negative headlines surrounding state and municipal fiscal budgets finally took its toll and eventually led to record outflows from municipal bond funds in November. It was the first month of outflows for municipal bonds since the end of 2008 (see chart below).

### Municipal Bond Mutual Fund Flows



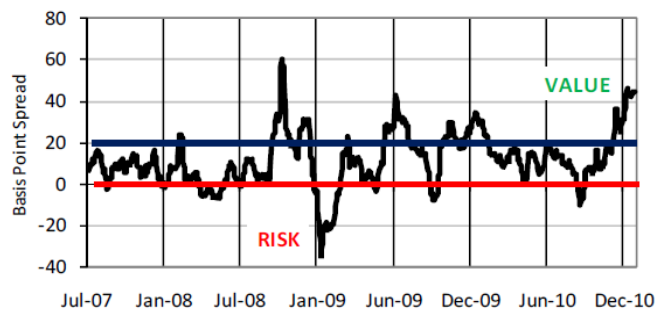
The funds outflows proved too great for the market to digest and, during the fourth quarter, the municipal market performed poorly on a relative and absolute basis. Yields on 30-year high grade municipals rose by almost 100 basis points compared to the approximately 60 basis point rise for the 30-year Treasury bond. The Barclay's Municipal Index lost 4.17% during the fourth quarter alone, marking the worst fourth quarter since 1980 and the worst of any quarter since 1994.

LMCG composite portfolios produced positive returns during 2010. Our portfolios benefitted from our bias for high quality general obligation and essential purpose revenue bonds. As we've maintained all year, we have avoided those sectors typically associated with higher levels of credit defaults, namely housing, healthcare and project revenue bonds. Similar to our taxable bond strategy, we recommended a slightly long duration position in 2010; this benefitted portfolios for most of the year, but eventually turned into a headwind. Many of the gains generated from our sector and quality bias were offset by the negative effects of our duration position during the final months of the year.

As we look to 2011, we continue with the quality and sector biases we initiated in 2010. We also continue with efforts to position portfolio durations neutral to the benchmark (4.56 years at 12/31/10) and are watching municipal credit fundamentals and fund flows closely to determine whether a shorter duration position is warranted. Municipal spreads are currently at levels not seen since the height of the credit crisis at the end of 2008 (see chart below). Since 2007, an extreme reading in this spread has provided investors a window of opportunity. At this time, however, we recommend a neutral duration position and have not yet concluded that this period of weakness has passed.

### 10yr Spread: Investment Grade Swap Index vs. MMA

(Source: Municipal Market Advisors, Inc.)



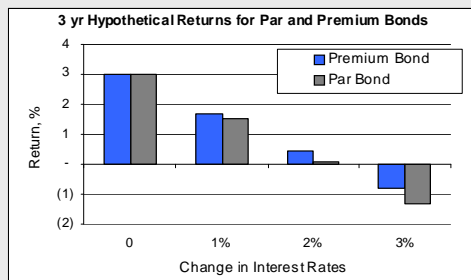


## Premium Bonds: Protecting Portfolios in Rising Interest Rate Environment

Our long-term outlook is that inflation and interest rates are likely moving higher. The dramatic rise in rates at the end of 2010 was likely a precursor to the volatility to come over the next several years. Another strategy we utilize, effective in a rising-rate environment, is to purchase premium bonds. Simply stated, premium bonds are those that carry above current market yielding coupons and thus are priced above par, e.g., \$105 or \$110 or higher. Investors are skeptical about buying bonds above par, but there are several great reasons to do so at certain times in the market.

In a rising interest rate environment, premium bonds are in fact less risky than par or discount bonds issued by the same issuer. Premium bonds retain their value better, as well as provide investors with a higher stream of income. A portfolio dominated by premium bonds will underperform benchmarks (which are typically based on par bonds) in a declining interest rate environment, such as what occurred in most of 2010. However, such a portfolio would tend to outperform benchmarks in a rising interest rate environment.

The chart below shows the hypothetical return fluctuations for par and premium municipal bonds issued by the Maryland State Transit Authority. Both bonds were issued on the same date, have the same maturity (07/01/2019) and the same original yield to maturity (3%). The only difference is that the premium bonds are sold at a higher dollar price and carry a higher coupon rate (5% vs. 3%).



Source: Bloomberg

Assuming both bonds were purchased today at the same yield to maturity, and interest rates remain the same over the next three years, both bonds would generate an identical 3% return. However, if interest rates begin to rise, the return for a par bond would deteriorate at a much faster pace. Due to a premium bond's higher coupon (and thus higher stream of cash flows returned to the investor), the premium bond has a shorter duration. As we know, shorter duration bonds are less sensitive to interest rate movements and thusly will be less affected by rising rates than the par bonds. Further, since the premium bond buyer receives a higher stream of cash flows sooner, the investor can reinvest more of his or her income cash at higher rates.

Premium bonds can clearly provide additional investor protection in a rising interest rate environment. We believe that investors would prefer this defensive structure as we look to 2011 and beyond.

## Taxable Bonds

The 30-year Treasury bond returned 7.9% in 2010, compared to the 41.2% in 2008 and -25.9% in 2009. Back-to-back extreme years are a fairly common event, which are then typically followed by a more mundane year. This pattern was also evident during the years of 1994/1995 and 1982/1983.

Credit had another solid year of returns. Investment grade corporate bonds (Barclay's Corporate Index) returned 9.0% in 2010, while high yield corporate bonds (Barclay's High Yield Index) returned 15.12%. Although neither of these corporate indices matched the stellar returns that they produced in 2009 (18.68% and 58.21%, respectively), both did outperform the 5.87% return of the Barclay's Treasury Index. In fact, high yield corporate bonds, with its slight 2-basis-point advantage in 2010, recorded its third consecutive year of outperforming the S&P 500 Index.



### Taxable Bonds (Cont.)

LMCG composite portfolios benefitted in 2010 from our overweight allocation to US Corporate bonds and underweight allocation to US Government bonds. We also recommended a slightly long duration position in 2010, which benefitted portfolios for most of the year but was a headwind at the end of the year. However, the gains generated during most of 2010 from our overweight to the corporate sector outweighed the negative effects of our duration position during the final months of 2010.

As we look to 2011, we remain constructive on corporate credit and maintain our overweight position. US corporations have continued to de-leverage and balance sheets look stronger than they have in years. The demand for US corporate debt continues to be very robust and, according to Bank of America Merrill Lynch Indices, the yield on US Corporate bonds is now lower than Global Corporate bonds for the first time on record. We are continuing with efforts to position portfolio durations neutral to the benchmark (3.91 years at 12/31/10) and are watching economic activity and Fed actions closely to determine when a shorter duration position is warranted.

### Commentary - "The Year 2042"

Many investors fled equity investments for safe assets during the worst of the financial crisis. What was the cost of being able to sleep well at night?

My 15-year-old daughter informed me over the holidays that, according to an ancient Mayan Indian forecast, the world will be ending in the year 2012. This may explain a lot about her recent behavior ... which is notably short-term oriented. For our investors, however, we'd like to focus your attention on a later date: the year 2042.

In February of 2009 we produced a video that is still posted on our website: "The Hidden Costs of Cash" warned of the long term damage to wealth caused by abandoning equities during the credit crisis. Our point was that historically, equity values have always rebounded sharply whether or not the economy improved slowly or robustly. On average, from market bottoms, equity markets returned roughly 45% over the following year. Selling equities into money market funds or gold to sleep better at night had the potential to create long term damage to net worth.

The global financial system is still not out of the woods, but here is one grim assessment of the cost of safety thus far.

In our video an investor named Harold, with a simple 65% stock / 35% bond allocation, decided in the disaster of March 2009 to move to cash to wait, perhaps, until the economy was better. Another investor named Maude remained invested ... and today she is obviously better-off. So just how significant, from our perspective in January 2011, were their past decisions? One useful exercise is to calculate how long it would take Harold to catch up again to Maude's wealth if he reinvested in his 65/35 portfolio and hired a very good active bond and stock manager. If you assume Harold's bond manager will add 1% more than Maude's index fund and Harold's stock manager will add 2% more per year, it is possible to calculate how long it will take Harold to recoup his losses.

The good news for Harold is that if he reinvests well today, back to his original allocation, he will be able to recoup that loss of wealth relative to Maude. Harold and Maude will again have the same net worth, but not until the year 2042, over 30 years from today. Obviously, it is important to sleep better at night ... but aren't there less expensive ways to get sleep?

If my daughter is right, however, then neither Harold nor Maude, nor you nor I, really need to worry much about investment and budgetary discipline.

We'll post the spreadsheet and calculations on [www.leemunder.com/newsandperspective](http://www.leemunder.com/newsandperspective). Or you can call your representative if you'd like a copy emailed.

Jeffrey P. Davis, CFA  
Chief Investment Officer



# Asset Allocation Highlights | Q4 2010

Asset Class	Forecast	4Q10 Returns*	12 Month Trailing*	Comments**
<b>Global Equities</b>				• The standout markets for 2010 include smaller emerging markets, non-Euro linked European markets. But US equities, even after eliminating currency effects, led in the first half and also to close out the year. We have reduced the attractiveness of US small cap stocks for valuation reasons and continue to be wary of emerging markets.
<i>US Large Cap (Russell 1000)</i>	+	6.7%	16.1%	
<i>US SMID Cap Growth (Russell 2500 Growth)</i>	=	7.5%	28.9%	
<i>US SMID Cap Value (Russell 2500 Value)</i>	-	7.7%	24.8%	
<i>Non-US Large Cap (MSCI EAFE)</i>	=	8.1%	7.8%	
<i>Non-US Small Cap (MSCI EAFE Small Cap)</i>	++	11.6%	22.0%	
<i>Emerging Markets All Cap (MSCI EMF)</i>	-	7.1%	18.9%	
<b>Fixed Income</b>				• We favor corporate bonds over US Government securities.  • We anticipate core inflation to remain below the Fed's target rate of 2.5%. However, portfolio durations are biased toward neutral as the Fed keeps monetary policy accommodative.  • Municipalities still struggling with budget issue
<i>US Muni Obligations (Barclays Muni Agg 1-10yr)</i>	=	-0.9%	3.0%	
<i>US Treasuries (Barclays Agg - Treasury)</i>	-	-1.8%	5.9%	
<i>US Agencies (Barclays Agg - Agency)</i>	-	-0.8%	4.4%	
<i>US Corporates (Barclays Agg - Corporate)</i>	+	-0.9%	8.8%	
<i>TIPS (Barclays Agg - TIPS)</i>	=	-1.5%	6.3%	
<i>High Yield (Barclays Agg - High Yield)</i>	=	1.8%	15.1%	
<i>Mortgages (Barclays Agg - MBS)</i>	-	-0.6%	5.4%	
<b>Other Asset Classes of Note</b>				• Since early June, 2010, food prices have soared creating one of the leading issues confronting policymakers in 2011 - are these pressures speculative or do they represent the reality of a very poor global year for farming globally?
<i>Powershares DB Agricultural Fund</i>		17.8%	22.4%	
<i>IPath DJ UBS Grains Fund</i>		21.6%	29.9%	
<b>Commodities</b>				• The secular demand for commodities is competing with the speculative and hedging demands of investors pushing prices significantly higher than normally seen at this stage of economic recovery. Food price pressure has emerged as an important commodity theme.
<i>Gold (S&amp;P GSCI Gold)</i>		2.6%	28.7%	
<i>Commodities (S&amp;P GSCI)</i>		9.4%	9.0%	
<i>Gas &amp; Oil (S&amp;P GSCI GasOil)</i>		3.9%	11.2%	
Agricultural Commodities				
<b>Currency USD/Euro</b>		-1.8%	11.4%	• An uneasy stability settled in on currency markets, although we expect the decline in the Euro relative to most currencies to continue.
<b>Currency USD/Yen</b>		3.0%	5.9%	
<b>US Treasury 10 year bond return</b>		-4.0%	8.0%	• Rising interest rates tends to precede a recovery, as well as heightened inflationary expectations.

\*Source: Factset

\*\* Long-term forecast, comments and asset allocations are formulated by the GMC team and reflect their most current outlook.

All Index data is sourced from FactSet.

## Global MultiCap Composite

### Schedule of Annual Returns

September 1, 2007 (date of inception) through December 31, 2009

	Gross Returns (%)	Net Returns (%)	Benchmark <sup>1</sup> (%)	S&P 500 (%)	Standard Deviation (bps) <sup>3</sup>	Number of Accounts	Composite Assets at end of period (\$ millions)	Total Firm Assets (\$ millions)
2007 <sup>2</sup>	3.49	2.99	0.88	0.25	NA	2	2.1	4,124.5
2008	-38.17	-39.10	-40.71	-37.00	NA	11	6.0	2,527.4
2009	36.54	34.56	30.01	26.45	128	32	21.5	4,365.1

1. Benchmark returns have been obtained from an independent source and have not been examined by independent accountants.

2. Partial year performance starting September 1, 2007.

3. Not calculated in 2007 because partial year performance. Not statistically significant in 2008 because insufficient number of portfolios in the composite for the year.

**Global MultiCap Composite:** Portfolios included in this composite are invested to achieve consistent returns above benchmark over a full market cycle. Primary emphasis is placed on investing in financially strong small, mid-sized and large capitalization companies both domestic and international with above average earnings growth potential, strong balance sheets, improving profitability and attractive valuations. The composite is measured against the GMC Strategic Blended Benchmark, an internally generated benchmark comprised of the following: for the period of 8/31/07 through 10/31/07, S&P 500 60%, Russell 2500 Growth 10%, Russell 2500 Value 10%, MSCI EAFE (Net) 15%, MSCI EMF (Net) 5%; for the period from 11/1/07 forward, S&P 500 55%, Russell 2500 Growth 10%, Russell 2500 Value 10%, MSCI EAFE (Net) 15%, MSCI EAFE Small Cap (Net) 3%, MSCI EMF (Net) 5%, 3-Month Treasury Bill 2%. On January 1, 2008, the benchmark was changed to the MSCI-World Index because it provides a more relevant and accessible measure of performance. Returns for the MSCI-World Index are net of all foreign withholding taxes from a U.S. tax perspective. The S&P 500 is included as supplemental information. The composite was created in January 2008.

Effective July 2009, the firm is defined for GIPS purposes as Lee Munder Capital Group, LLC ("LMCG") is an investment adviser registered with the Securities and Exchange Commission. In July 2009, LMCG became an affiliate of Convergent Capital, the Chicago-based diversified asset management holding company subsidiary of City National Corporation. Prior to July 2009, the firm was defined as Lee Munder Investments Ltd. ("LMIL"), a majority owned subsidiary of Lee Munder Capital Group and an investment adviser registered with the Securities and Exchange Commission. The firm maintains a complete list and description of composites, which is available upon request.

LMCG has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

The investment management fee schedule is as follows: 1.50% on the first \$1 million, 1.47% on the next \$1 million, 1.270% on the next \$3 million, and 1.02% on assets above \$5 million. This is the maximum fee schedule applicable to the strategy. 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, include the reinvestment of income and are net of foreign withholding taxes. Net returns are calculated by applying the fee schedule disclosed above to the monthly 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. LMIL'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 1, 2006 (date of inception) through December 31, 2009

	Gross Returns (%)	Net Returns (%)	Barclays 1-10yr Municipal Bond Index <sup>1</sup> (%)	Standard Deviation <sup>3</sup> (bps)	Number of Accounts	Composite Assets at end of period (\$ millions)	Total Firm Assets <sup>4</sup> (\$ millions)
2006 <sup>2</sup>	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	164	13	12.7	2,527.4
2009	6.28	5.86	7.16	132	18	18.5	4,365.1

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.

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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.

LMIL'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.

## Taxable Bond Composite

### Schedule of Annual Returns

June 1, 2006 (date of inception) through December 31, 2009

	Gross Returns (%)	Net Returns (%)	Benchmark Returns <sup>1</sup> (%)	Standard Deviation <sup>2</sup> (bps)	Number of Accounts	Composite Assets at end of period (\$ millions)	Total Firm Assets (\$ millions)
2006 <sup>3</sup>	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
2009	9.34	8.67	5.24	123	15	27.1	4,365.1

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.

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