

Quarterly Investment Review

Economic Commentary

Index Performance

<i>Periods Ending September 30, 2008</i>	<i>Current Quarter</i>	<i>Year-to-Date</i>
Lehman 10-Yr Municipal Bond Index	-1.53%	-1.18%
Lehman Aggregate Bond Index	-0.49%	0.63%
Lehman High Yield Index	-8.89%	-10.08%
Dow Jones Industrial Average	-3.71%	-16.59%
S&P 500 Index	-8.37%	-19.29%
Russell 2000 Index	-1.11%	-10.38%
NASDAQ Composite	-8.59%	-20.63%

As the market stopped to recognize the one-year anniversary of this so-called “subprime” crisis in August, nobody could imagine what lay ahead of us. In just a few short weeks we would witness the worst financial crisis of our generation and the largest most proactive policy response ever seen.

We observed one historic government “bailout” after another (Fannie Mae, Freddie Mac, AIG), massive coordinated central bank liquidity actions, and unprecedented access to the Federal Reserve window. But all of this in its entirety was not enough. The unthinkable began to happen. Lehman Brothers, a storied Wall Street firm, was allowed to fail; an event top regulators and government authorities would later come to regret. Merrill Lynch fire-sold itself to a large commercial bank and the solvency of the remaining two brokerage giants was called into question. Many venerable financial institutions saw the credit default swaps on their debt trade at distressed levels, reflecting the market’s skepticism of their long-term viability. Primary Reserve Money Market Fund, long considered a safe haven investment for retail and institutional investors, and two

other high profile funds run by Reserve Management, began to “break the buck” and investors headed for the door. Major commercial banks around the globe were hesitant to lend to one another. Credit markets seized up and investors clamored for some form of accelerated government intervention to counteract the powerful forces of deleveraging, a restrictive credit market environment, and the complete loss of confidence in the financial sector.

In what seemed like the darkest hour in modern financial history, the U.S. Government proposed a more comprehensive policy solution, the Troubled Assets Relief Program (TARP), a \$700 billion rescue package designed to attack the cause of the financial system’s stresses by removing illiquid assets from balance sheets and the uncertainty they create over solvency. A political firestorm ensued over the passage of such a bill, as a Main Street “bailout” of Wall Street was viewed as a non-starter by many fiscal conservatives in Congress. Amidst the political posturing and pandering several more casualties emerged. Washington Mutual, the largest U.S. thrift, declared chapter

Third Quarter 2008 Market Overview

Economy

- The deepening financial crisis increased credit costs worldwide and limited credit availability, and major Wall Street firms failed under the pressure.
- As credit markets seized up, the government stepped in with a proposed \$700 billion rescue package to help alleviate stresses on the financial system. Uncertainty surrounding the passage of this plan added to concerns that the U.S. may face a sustained recession.
- Risks to growth are increasing on the deteriorating jobs outlook, declining home prices, declining stock market and severe financial crisis.

Fed Action / Interest Rates

- The Fed kept the federal funds rate steady at 2% through September 30, with slowing economic growth and inflation continued concerns.
- The Fed expanded the size and scope of its liquidity operations to help financial institutions with overnight funding.

Bond Markets

- As perceived market risk increased, there was a massive flight to quality into Treasuries with 3-month T-Bills ending the quarter yielding only 0.80%.
- Credit spreads widened across the entire corporate spectrum to record levels.
- The municipal bond yield curve steepened with yields backing up to levels last seen in February 2008.

Equity Markets

- Volatility reached record levels this quarter and the S&P 500 Index ended the quarter down over 8%.
- Small cap stocks fared much better than large caps, ending the quarter down only 1%.
- As the global economy slowed, commodity prices dropped sharply, ending the long run of leadership for Energy and Materials stocks. These were the two worst performing sectors during the quarter by a wide margin.

11 bankruptcy, and Wachovia, the third largest bank in the U.S., was forced into the arms of another bank by regulators. In the end, the bill known as the Emergency Economic Stabilization Act of 2008 (EESA) was enacted. Too much was at stake, and doing nothing was not an option.

Looking back, the shock is not simply the scale and duration of this crisis but the fact that it caught so many western

policymakers and bankers by complete surprise. Will we ever fully know what went wrong? How could problems with subprime mortgages, being such a small sector of the global financial markets, provoke such dislocations? Why did it take so long for political and regulatory authorities to recognize the magnitude of the problem and the impact it was begin-

Continued on next page

Economic Commentary, continued

ning to have on Main Street? Who is to blame? Well the list is long: regulators who didn't understand what was happening; rating services who said yes because of ignorance; policy-makers who tried to make too much mortgage money available at ridiculous terms; investment bankers who supplied the legitimacy and avenue to float subprime debt; hedge funds who formulaically thought they had found the perfect investment; the Federal Reserve that kept interest rates too low for too long; the Executive Branch who placed people in position of regulatory power who were over their heads; and the public at large who, like in every bubble, enjoyed the ride and participated.

The risk from here is that just as this unprecedented credit correction was initially underestimated by many in the summer of 2007, the magnitude of the ultimate global fundamental downturn may not yet be fully appreciated. Economic and corporate prospects are sagging. Lending conditions will remain constrained as home prices still depreciate, and as the deleveraging process continues. The consumer's position will remain precarious as job losses mount and real wages continue to fall.

Corporations will likely hold back spending until consumer confidence is restored.

It feels as if this crisis has already run too many innings and taken too many unpredictable twists and turns, but the Government's financial rescue package (TARP) that allows government authorities to purchase up to \$700 billion in distressed mortgage assets should help the healing process to at least begin. The efficacy of this plan will likely be debated for months to come, and should not be construed as a panacea that cures all that ails the financial system, as it does not directly recapitalize the financial institutions. Immediately the plan is directed at stabilizing the financial system and winning the battle to restore confidence by reducing the likelihood of a large systemic failure, and counterparty risk. Later, as these distressed mortgage assets are purged from balance sheets, capital will eventually be freed for normal lending to resume. But this will take time. The deleveraging process will continue, there are more bank failures ahead, hedge funds are still without liquidity and many areas of the credit market will remain frozen until the plan has a chance to work.

It is times like these that can challenge even the most astute investor. We witnessed a massive fear driven flight to quality over the last several weeks. The psychological recovery from portfolio and issuer valuation damage of this extent will likely be measured in quarters rather than weeks. That said we fully understand that you may feel uneasy about your investments and the market as a whole. But there is no better time to remain steadfast in a longer-term investment approach. Keep in mind that over the last few decades this economy has survived many turbulent events (recessions, wars, terrorism, oil shocks, other real estate bubbles, major financial and corporate failures) and, just like with all other prior cycle downturns and crises in history, this too shall pass. There will be that crucial inflection point where confidence is restored and market participants believe they are being fully compensated for the risks that lie in front of them.

The current market environment has left asset valuations in many areas of the taxable, municipal and equity markets punished beyond what we believe the fundamentals would otherwise dictate, creating valuation opportunities that by almost any measure of historical context are attractive. At Gannett Welsh & Kotler, we maintain a disciplined, broad diversification approach and value-driven investment process, designed to eliminate the emotion of investing, while prudently capturing the value opportunities presented in the marketplace today. History shows us that patience by investors for that value will eventually be recognized and ultimately rewarded. We remain resolute in our investment approach and remind our clients across all of our strategies that in these more challenging market conditions your assets continue to be highly diversified and marketable.

Mary F. Kane, CFA
Vice President

Market Index Descriptions

Lehman Brothers 10-Year (1-Year, 5-Year) Municipal Bond Index

Unmanaged indexes composed of 7,545 (3,338, 5,220) investment grade municipal bonds with a minimum credit rating of Baa.

Schwab Municipal Money Fund

The Fund invests in municipal money market securities, from state issuers around the country and from municipal agencies, U.S. territories and possessions.

Lehman Brothers Aggregate Bond Index

Composed of 9,420 securities from LB Government/Corporate Bond Index, Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. Indexes rebalanced monthly.

Lehman Brothers Government/Credit Index

Composed of 4,623 securities from LB Government Index and the Lehman Brothers Credit Index. Issues must have at least one year to maturity. Indexes are rebalanced monthly.

Lehman Brothers High Yield Index

Composed of 1,487 fixed rate, publicly issued, noninvestment grade debt registered with the SEC.

Lehman Brothers 1-3 Year Government Index

Composed of 437 investment grade issues with maturities from 1 to (but not including) 3 years.

Merrill Lynch 15+ Years Municipal Index

Comprised of 5,452 investment grade municipal bonds with maturities that are 15 years or greater.

S&P 500 Index

A capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Russell Indexes

The Russell 2000 Index is a market weighted small capitalization index composed of the smaller 2,000 companies, ranked by market capitalization, of the Russell 3000 Index. The Russell 2500 Index consists of the smaller 2,500 companies, as ranked by total market capitalization, in the Russell 3000 Index. The Russell 3000 Index is composed of 3,000 U.S. companies ranked by market capitalization, representing approximately 98% of the U.S. equity market.

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GW&K Update

September 30, 2008

- Total Assets Under Management: \$7.4 Billion
- Total Employees: 78
- Total Investment Professionals: 26

We are pleased to share the news that GW&K has formally joined other distinguished boutique investment firms as a new partner of Affiliated Managers Group, Inc. (AMG). We have aligned ourselves with a strong and strategic partner to help us

navigate a successful path toward continued growth. Our new relationship with AMG allows us to operate independently and preserve the culture that our employees and clients value. Importantly, GW&K management continues to lead our business and will hold a direct equity participation in the growth of the firm to ensure the continuity of our leadership and of our quality services.

Tax Exempt Bond Strategies

Municipal Bond Strategy

Emphasizes bottom-up research with a goal of producing high after-tax returns while preserving and enhancing capital

Municipal Enhanced Yield Strategy

Long-term municipal bond approach emphasizes intense research with a goal to produce high after-tax income

Five-Year Municipal Bond Strategy

Seeks to preserve and enhance capital while protecting income stream by capitalizing on opportunities along the yield curve

Short-Term Municipal Bond Strategy

Through bottom-up research, seeks to earn higher after-tax returns than money market funds while managing risk

Nancy G. Angell, CFA, Senior Vice President

John B. Fox, CFA, Senior Vice President

Martin R. Tourigny, CFA, Vice President

Bruce M. Pickett, CFA, Vice President

The municipal market was unable to sidestep the turmoil in the broader credit markets this quarter as the seizing up of short-term lending in the last weeks of September triggered a significant spike in municipal yields across the entire curve. Normally, municipals enjoy a “flight to quality” status in times of financial stress, but that was not the case this time.

Tax-exempt money markets saw dramatic outflows as investors feared the “breaking of the buck” that occurred in a few taxable funds could also happen in the municipal arena. While short-term municipal rates climbed as high as 8%, the yield on 3-month Treasury bills touched levels as low as 0.02%.

The turbulence at the short end spilled over into the entire market, lifting municipal rates

“The long-term credit quality of the municipal market remains strong as states have demonstrated time and again that they have the ability and willingness to navigate tough economic times to ensure their access to the credit markets.”

across the board and causing the yield curve to steepen. All told, the municipal market suffered one of its worst quarters in twenty years, with all of the damage coming in the last three weeks of September. Though bonds that mature in 3–5 years actually squeaked out modestly positive total returns after factoring in the coupon, returns on the long end were off close

to 8%. The encouraging news is that municipal yields enter October at absolute levels not seen in over six years. Taxable equivalent rates of 7% are attainable in the 10-year maturity range. The long-term credit quality of the municipal market remains strong as states have demonstrated time and again that they have the ability and willingness to navigate tough economic times to ensure their access to the credit markets.

For the quarter, our **Municipal Bond Strategy** underperformed the Lehman 10-Year Index mainly due to our exposure to bonds longer than the Index. The curve steepened dramatically causing longer bonds to take the biggest hit. Rates on 5, 10 and 20 year AAA municipals increased 17, 30 and 63 basis points, respectively, over the quarter. Security selection also detracted from performance this quarter with negative hits from higher yielding sectors such as prepaid gas and healthcare.

The **Municipal Enhanced Yield Strategy** was most negatively impacted by market events but it performed better than the Merrill Lynch 15+ Year Index by 61 basis points. As credit spreads widened, our overweight to BBB bonds negatively affected performance. Looking forward, wider credit spreads and a historically steep curve have improved the relative attractiveness of this

Strategy with yields now over 120 basis points higher than the intermediate space.

For the quarter, the **Five-Year Municipal Bond Strategy** lagged the Index by 93 basis points primarily due to our slight barbell positioning in the steepening yield curve environment. Also affecting performance was an underweight to AAA prerefunded bonds (10% in the Strategy vs. 35% of the Index) that performed relatively well as credit spreads have widened. Looking ahead, the Strategy now affords an opportunity for conservative clients to obtain a decent yield of almost 4% in the shorter-intermediate space.

The **Short-Term Municipal Bond Strategy** performed in line with the Lehman 1-Year benchmark and strongly outperformed money market funds. On a net basis, the yields on 1, 2, and 4 year AAA municipals moved +40, -14, and -10 basis points, respectively. During the quarter, however, those movements reached peaks of -18, -65, and -71 basis points. While this level of volatility was greater than average for short municipals, it was still minor compared to the swings in the wider fixed income and credit markets.

During this period of rapidly changing economic signals, fundamental municipal bond research plays an important role in the investment process. At GW&K, we have always focused our research on the underlying credit, never relying on the backstop of bond insurance, always skeptical of the conclusions of the rating agencies, ever cognizant of the signals from the market. Our strategy remains focused on high quality, highly liquid municipal bond issuers based on our independent research, with or without any municipal bond insurance. The analysis includes quantitative, qualitative and relative value analysis with a goal to produce value added returns for our clients.

Tax Exempt Bond Strategies

Performance Ending 9/30/08 (%)*	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Municipal Bond	-2.40	-2.53	-1.06	2.20	2.68	3.89	5.44	1/1/93**
LB 10-Year Municipal Bond Index	-1.53	-1.18	0.55	2.83	3.20	4.47	5.60	
LB 5-Year Municipal Bond Index	0.66	1.78	3.72	3.52	2.81	4.25	4.87	
Municipal Enhanced Yield	-6.53	-7.31	-7.40	—	—	—	-0.75	4/1/06
Merrill 15+ Years Municipal Index	-7.14	-8.30	-7.69	—	—	—	-0.70	
Five-Year Municipal Bond	-0.27	0.49	2.24	3.11	2.70	—	2.67	6/1/03
LB 5-Year Municipal Bond Index	0.66	1.78	3.72	3.52	2.81	—	2.77	
Short-Term Municipal Bond	0.63	2.36	3.78	3.61	2.73	—	2.68	1/1/02
LB 1-Year Municipal Bond Index	0.62	2.76	4.20	3.57	2.59	—	2.73	
Schwab Municipal Money Fund***	0.36	1.33	2.24	2.77	2.12	—	1.81	

* Periods greater than one year represent annualized returns. Returns are gross of fees.

** Represents the effective date of GW&K's compliance with the Global Investment Performance Standards (GIPS), the recognized industry standard for performance reporting. Actual strategy inception date is 1/1/80.

*** Represents net of fee performance.

Taxable Bond Strategies

Total Return Bond Strategy

This multi-sector approach takes advantage of relative valuation among distinct bond sectors and seeks to generate high income and capital gain

Enhanced Core Bond Strategy

Offers broad market exposure across Treasury, Agency, Mortgage-Backed and Corporate sectors while seeking to provide strong income

Core Bond Strategy

A core multi-sector bond strategy that offers a more conservative profile by selecting investment grade securities only

Short-Term Taxable Bond Strategy

Through research and diversification, seeks to outperform money market funds while managing portfolio volatility

Mary F. Kane, CFA, Vice President

Nancy G. Angell, CFA, Senior Vice President

John B. Fox, CFA, Senior Vice President

A financial crisis of unprecedented proportion, along with continued declines in the U.S. housing market and a faltering economy had investors exiting all forms of “risky” assets. We witnessed one giant financial corporate failure after another and unprecedented distress within the financial sector. A massive flight to quality ensued. At one point three-month Treasury bills yielded little more than nothing, indicating the amount of severe stress and fear that came to grip the market. While the outlook for corporate profitability and global growth was weakening, the magnitude of the pace and extent of the stunning downturn in market performance caught most investment managers, other than the interminable bears, by surprise. September, in particular, turned out to be one of the most notable months in the his-

tory of the capital markets. The downturn exceeded any record over the last fifty years and was on the threshold of something not seen since the 1930’s.

It was a rough quarter for bond managers, as almost nothing other than being long Treasury bonds worked. The Lehman Aggregate Index returned a negative -0.5%. The Treasury market was the direct beneficiary of the flight to quality move returning (+2.3%). U.S. Agency debt (+1.0%) and conventional AAA mortgage-backed securities (+1.9%), performed relatively well as the Government moved to place both Fannie Mae and Freddie Mac into conservatorship. The problems on Wall Street hit the corporate bond sector hard. Credit spreads widened across the entire corporate spectrum to record levels. Most of the damage was done in September, as

collapsing credit markets and growing recession fears pushed borrowing costs higher. For the quarter, high grade corporate bonds returned -7.8% and high yield corporates were down -8.9%.

The **Total Return Bond Strategy** underperformed the Lehman Aggregate Index for the quarter by 191 basis points and outperformed the Blended Index by 218 basis points. The underperformance relative to the Lehman Aggregate Index was due primarily to our overweight position in investment grade corporate bonds and our allocation to the high yield sector (the Lehman Aggregate Index has no high yield securities). We were particularly hurt by our exposure to the Finance sector. The outperformance relative to the Blended Index was due to our higher quality BB rated emphasis in the high yield sector and our significant, approximate 20% exposure to AAA mortgage-backed securities (the Blended Index has no mortgage allocation).

The **Enhanced Core Bond Strategy** and **Core Bond Strategy** underperformed the Lehman Aggregate Index due primarily to our overweight exposure to investment grade corporate bonds that underperformed significantly. Our allocation to the banking and brokerage sectors hurt on a relative basis. The **Enhanced Core Bond Strategy** was also hurt on a relative basis due to the approximate 15% exposure

“...we are approaching an all time low in Treasury yields. On the other hand, the spreads for corporate bonds are sitting at their historical wide levels. Looking ahead twelve months, unless the world economy is in for a protracted slump beyond 2009, then the so-called ‘risky’ asset classes, like equities, and corporate bonds could generate higher returns.”

in the high yield sector as the Lehman Aggregate Index holds no high yield securities.

The **Short-Term Bond Strategy** lagged the Lehman Brothers 1-3 year Government Index for the quarter due to our exposure to high quality, investment grade corporate bonds, and shorter maturity AAA-mortgage backed securities that underperformed Treasuries and U.S. Agencies.

The inflation adjusted yield for the 10-year Treasury bellwether now stands at approximately 1.0%, well below its 50-year average of 2.4%. We may still see another leg down in interest rates as the market continues to price in the global recession scenario, continued liquidity scarcity and potential central bank easing. But we are approaching an all time low in Treasury yields. On the other hand, the spreads for corporate bonds are sitting at their historical wide levels. Looking ahead twelve months, unless the world economy is in for a protracted slump beyond 2009, then the so-called “risky” asset classes, like equities, and corporate bonds could generate higher returns.

We have been overweight the investment grade corporate bond sector, based upon our view of a mild economic downturn and highly attractive spread levels. Our emphasis continues to be in relatively defensive sectors where we believe the fundamentals will remain sound even in the event of an economic downturn.

Taxable Bond Strategies

Performance Ending 9/30/08 (%)*	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Total Return Bond	-2.40	-1.99	0.12	3.20	3.97	4.90	6.79	1/1/93**
Style Index***	-4.58	-4.49	-3.22	2.60	3.79	4.86	6.35	
LB Aggregate Bond Index	-0.49	0.63	3.65	4.15	3.78	5.20	6.20	
Enhanced Core Bond	-2.31	-1.58	0.92	3.38	3.58	—	5.37	10/1/99
LB Aggregate Bond Index	-0.49	0.63	3.65	4.15	3.78	—	5.83	
Core Bond	-1.72	-0.55	2.60	3.91	3.79	—	4.73	2/1/01
LB Aggregate Bond Index	-0.49	0.63	3.65	4.15	3.78	—	5.15	
Short-Term Taxable Bond	0.32	2.70	4.81	4.94	3.76	—	3.73	10/1/02
LB 1-3 Year Govt Bond Index	1.38	3.52	5.90	5.14	3.52	—	3.40	

* Periods greater than one year represent annualized returns. Returns are gross of fees.

** Represents the effective date of GW&K's compliance with the Global Investment Performance Standards (GIPS), the recognized industry standard for performance reporting. Actual strategy inception date is 1/1/88.

*** 60% LB Govt Credit / 40% LB High Yield

Equity Strategies

Diversified Equity Strategy

Combines growth & value disciplines and diversifies across large, mid, and small capitalization stocks

Small Cap Equity Strategy

Focuses on small companies with sustainable earnings growth in niche markets with lasting growth potential

Small/Mid Cap Equity Strategy

A core strategy that invests in both small and medium sized companies that offer sustainable earnings growth

Equity Dividend Plus Strategy

Invests in companies that pay above-average dividends and with the required balance sheet strength needed to sustain dividend payouts

Edward B. White, CFA, CIC, First Senior Vice President

Jeffrey W. Thibault, CFA, Vice President

Confidence not just in equities, but in financial systems throughout the world, has been eroded. Governments and central bankers are attempting to repair what has been damaged. We all wish them the very best in these endeavors. In our global economy, we are all increasingly in the same position and need to work successfully and cooperatively on the problem.

As portfolio managers of domestic equity portfolios, we can do our part by continuously assessing the likelihood that each company we invest in deserves the confidence we place in their products and management. We need to determine to what extent each company's future is dependent on what is beyond their control, and try to find as many companies as possible that can create successful outcomes in difficult scenarios. We need to be diversified, both by economic sector, size, dependence on foreign revenue sources, and by growth or value characteristics.

Maintaining our discipline of diversification was critically important for our equity strategies this quarter. In fact three of our strategies outperformed their benchmarks by a significant margin. Any exposure to small cap stocks helped as that group outperformed large caps by over 700 basis points. In addition, stocks with yields above their benchmark outperformed.

Neither we, nor anyone we have discussed the future with, have access to a crystal ball. We are all making judgments based on current events, and our knowledge of, and expectations derived from, our past experiences. Those companies and management teams that have exhibited the ability to operate through difficult times in the past are worth some extra effort on our part. New ideas can be exciting, but in the most challenging times they become more difficult to value. And, as always, cyclical businesses that depend on the overall level and

direction of the economy would seem to be under pressure well into next year.

Our economy is weakening, and stock market indices, such as the Standard & Poor's 500 Index, representing a broad aggregation of equities, are off more than 25% from last fall's highs. Under these circumstances, the rest of the world, and particularly emerging markets, will have a hard time growing. Domestic oriented, non-cyclical companies should be in relatively better position to weather whatever problems the economy has. We have increased our Consumer Staples holdings, and reduced Financial Services since last December. Slowing global growth has been a factor in declining energy prices, and we have decreased our Energy holdings.

Right now, to borrow a phrase from Jason Zweig, who writes *The Intelligent Investor* column for *The Wall Street Journal*, equity investors need cash and courage. In the extremely competitive world of portfolio management, one usually needs an edge: better information or intelligence. Now, cash and courage are what are needed most. Stocks of those companies that we have wanted to own, but did not buy because they always seemed too expensive, are not now. If we have cash, we can do some buying. If not, we should have the courage to remain invested, as this approach has reaped substantial benefits for those holding stocks coming out of periods of fearfully depressed prices.

Performance Disclosure

The composite performance results displayed herein represent the investment performance record of Gannett Welsh & Kotler, LLC (GW&K). The firm, defined as an SEC-registered investment adviser, was founded in 1974. GW&K is an affiliate of Affiliated Managers Group, Inc. (AMG), a Boston-based asset management holding company. GW&K is an independent operating company under the AMG umbrella of managers. GW&K has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

All results reflect the reinvestment of dividends and income. Performance is expressed in U.S. dollars and is based on calendar month end valuations.

Single asset segments of multi-asset portfolios are included in the composites. Prior to January 1, 2000, cash inflows on multi-asset portfolios may have temporarily resulted in an additional cash position that was not allocated to each portfolio segment during the investment time period. Performance for these segments has been modified to reflect the effect of cash using single asset portfolios as a proxy. Each segment of multi-asset portfolios is managed with its own cash account.

The *Diversified Equity* composite (created on 9/30/00) includes accounts with a minimum value of \$500,000. The *Small Cap Equity* composite (created on 9/30/00) includes accounts with a minimum value of \$250,000. The *Equity Dividend Plus* composite (created on 9/30/04) includes accounts with a minimum of \$250,000. The *Small/Mid Cap Equity* composite (created on 1/1/06) includes accounts with a minimum value of \$250,000. The *Total Return Bond* composite (created on 9/30/00) includes accounts with a minimum portfolio value of \$250,000. The *Enhanced Core Bond* and *Core Bond* composites (created on 6/30/04) include accounts with a minimum portfolio value of \$250,000. The *Municipal Bond* composite (created on 9/30/00) includes accounts with a minimum portfolio value of \$250,000. The *Municipal Enhanced Yield Bond* composite (created on 4/1/2006) includes accounts with a minimum portfolio size of \$250,000. The *Five-Year Municipal Bond* composite (created on 6/1/03) includes accounts with a minimum portfolio value of \$250,000. The *Short-Term Municipal Bond* composite (created on 1/1/02) includes accounts with a minimum portfolio value of \$150,000. The *Short-Term Taxable Bond* composite (created on 10/1/02) includes accounts with a minimum portfolio value of \$250,000.

Performance results factor in commission costs, but not management fees, which, if included, would reduce portfolio total return. To account for advisory fees, net performance reflects the deduction of the maximum fee GW&K would charge. The maximum annual fee is 1% for all strategies except .50% for the Five-Year Municipal Bond and .35% for the Short-Term Municipal Bond and the Short-Term Taxable Bond Strategies. Client fees may vary.

Effective 6/30/2008, the benchmark for the *Municipal Enhanced Yield Strategy* was retroactively changed from the Lehman Brothers 20 Year Municipal Index to the Merrill Lynch 15+ Years Municipal Index. The duration and maturity distribution of the composite more closely resembles that of the Merrill Lynch Index. The Strategy's

Equity Strategies

Performance Ending 9/30/08 (%)*	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Diversified Equity	-9.90	-18.76	-21.28	-2.68	5.07	5.56	9.46	1/1/93**
Standard & Poor's 500 Stock Index	-8.37	-19.29	-21.98	0.22	5.17	3.06	8.48	
Russell 2000 Index	-1.11	-10.38	-14.48	1.83	8.15	7.81	8.84	
Small Cap Equity	3.70	-9.34	-11.10	2.27	11.82	—	5.91	1/1/00
Russell 2000 Index	-1.11	-10.38	-14.48	1.83	8.15	—	4.77	
Equity Dividend Plus	-2.24	-15.48	-19.99	-0.54	—	—	5.49	11/1/03
Standard & Poor's 500 Stock Index	-8.37	-19.29	-21.98	0.22	—	—	4.09	
Small/Mid Cap Equity	-2.90	-14.36	-16.40	—	—	—	0.80	1/1/06
Russell 2500 Index	-6.72	-14.29	-17.99	—	—	—	0.34	

* Periods greater than one year represent annualized returns. Returns are gross of fees.

** Represents the effective date of GW&K's compliance with the Global Investment Performance Standards (GIPS), the recognized industry standard for performance reporting. Actual strategy inception date is 1/1/89.

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Total Annual Returns for Composites and Their Benchmarks (%)

Year	Municipal Bond		Lehman 10-Yr Muni	Municipal Enhanced Yield Bond		Merrill 15+ Yrs Muni	Five-Year Municipal Bond		Lehman 5-Yr Muni	Short-Term Municipal Bond		Lehman 1-Yr Muni	Schwab Muni Money Fund ²	Total Return Bond		Style Index ²	Lehman Aggregate	Enhanced Core Bond		Lehman Aggregate
	Gross	Net		Gross	Net		Gross	Net		Gross	Net			Gross	Net			Gross	Net	
1998	6.72	5.68	6.76											8.08	7.03	6.42	8.69			
1999 ¹	-1.90	-2.88	-1.25											0.82	-0.18	-0.33	-0.82	0.21	-0.04	-0.12
2000	10.70	9.62	10.76											9.77	8.70	4.77	11.63	11.36	10.28	11.63
2001	4.23	3.20	4.62											4.35	3.32	7.21	8.44	8.51	7.45	8.44
2002	8.64	7.58	10.17											5.51	4.47	6.04	10.25	7.16	6.11	10.25
2003 ¹	4.94	3.90	5.70				1.18	0.88	0.88	3.10	2.74	3.85	1.12	8.69	7.63	14.04	4.10	4.49	3.47	4.10
2004	4.00	2.98	4.15				2.95	2.44	2.72	1.16	0.81	1.06	0.82	6.09	5.05	6.88	4.34	4.96	3.93	4.34
2005	2.33	1.32	2.74				1.22	0.72	0.94	1.90	1.53	1.49	2.00	2.87	1.85	2.53	2.43	2.62	1.60	2.43
2006	4.61	3.58	4.71				3.50	2.99	3.34	3.57	3.21	3.20	3.03	4.91	3.88	6.94	4.33	4.78	3.75	4.33
2007	3.94	2.91	4.29	-0.07	-1.07	1.61	4.94	4.43	5.15	4.46	4.10	4.37	3.26	6.06	5.02	5.09	6.97	6.35	5.31	6.97

Year	Core Bond		Lehman Aggregate	Short-Term Taxable		Lehman 1-3 Yr Gov	Diversified Equity		S&P 500	Russell 2000	Small Cap Equity		Russell 2000	Small/Mid Cap Equity		Russell 2500	Equity Dividend Plus		S&P 500
	Gross	Net		Gross	Net		Gross	Net			Gross	Net		Gross	Net		Gross	Net	
1998							20.81	19.65	28.59	-2.55									
1999							28.60	27.39	21.04	21.26									
2000							17.61	16.48	-9.10	-3.02	-18.42	-19.28	-3.02	2.49					
2001 ¹	5.99	5.04	6.70				-19.14	-20.00	-11.89	-2.49	2.37	1.35	2.49						
2002 ¹	8.28	7.22	10.25	1.39	1.30	0.93	-25.08	-25.89	-22.10	-20.48	-11.25	-12.16	-20.48						
2003 ¹	3.63	2.60	4.10	2.84	2.48	2.01	33.43	32.19	28.68	47.25	52.64	51.27	47.25				7.39	7.22	6.17
2004	4.68	3.65	4.34	2.00	1.64	1.07	12.72	11.63	10.88	18.33	23.24	22.07	18.33				14.21	13.10	10.88
2005	2.62	1.71	2.43	2.10	1.71	1.73	8.63	7.57	4.91	4.55	11.47	10.39	4.55				8.23	7.18	4.91
2006	4.53	3.50	4.33	4.88	4.52	4.12	11.37	10.29	15.79	18.37	11.05	9.97	18.37	14.18	13.08	16.17	17.49	16.37	15.79
2007	7.17	6.12	6.97	6.53	6.17	7.10	3.59	2.57	5.49	-1.57	5.59	4.55	-1.57	4.54	3.51	16.17	-1.36	-2.35	5.49

¹Since inception partial year returns: Enhanced Core Bond since 10/1/1999; Core Bond since 2/1/2001; Short-Term Taxable since 10/1/2002; Five-Year Municipal Bond since 6/1/2003; Equity Dividend Plus since 11/1/2003.

²Represents net of fee performance.

³60% Lehman Govt Credit / 40% Lehman High Yield, rebalanced daily

Composite Information

Year	Total Firm Assets* (\$ mm)	# Portfolios / \$ Composite* Dispersion	Municipal Bond	Muni Enhanced Yield	Five Year Muni	Short-Term Muni	Total Return Bond	Enhanced Core Bond	Core Bond	Short-Term Taxable	Diversified Equity	Small Cap Equity	Small/Mid Cap Equity	Equity Dividend Plus
1998	\$2,932	# Portfolios / \$ Composite* Dispersion	854 / \$1,625,190 0.31				150 / \$153,514 0.360						164 / \$273,860 3.09	
1999	\$3,434	# Portfolios / \$ Composite Dispersion	1056 / \$2,027,506 0.469				159 / \$146,060 0.216	36 / \$19,044					190 / \$349,584 3.67	
2000	\$4,194	# Portfolios / \$ Composite Dispersion	1,384 / \$2,607,406 1.03				187 / \$176,524 0.51	43/\$25,003 0.19				202 / \$393,879 2.55	1 / \$709	
2001	\$4,956	# Portfolios / \$ Composite Dispersion	2,083 / \$3,263,339 0.37				218 / \$219,036 0.68	54 / \$33,982 0.23				207 / \$336,156 2.50	2 / \$1,032	
2002	\$5,322	# Portfolios / \$ Composite Dispersion	2,843 / \$3,872,610 0.50		10 / \$16,448 N/A	159 / \$170,208 0.49	81 / \$51,477 0.26	18 / \$24,410 0.26	3 / \$6,683 N/A	153 / \$211,732 1.42	9 / \$5,699 0.28			
2003	\$5,594	# Portfolios / \$ Composite Dispersion	3,062 / \$3,679,490 0.32	4 / \$4,115 N/A	32 / \$31,303 0.19	152 / \$154,593 0.38	99 / \$63,955 0.3	33 / \$38,507 0.33	7 / \$23,569 0.09	148 / \$228,651 1.34	12 / \$9,964 2.44			3 / \$1,220 N/A
2004	\$6,366	# Portfolios / \$ Composite Dispersion	3,360 / \$3,824,607 0.28	16 / \$22,807 0.53	27 / \$21,159 0.18	246 / \$208,357 0.95	151 / \$111,761 0.21	49 / \$56,843 0.22	25 / \$45,269 0.05	172 / \$285,099 0.92	24 / \$24,794 0.75			9 / \$3,905 0.5
2005	\$7,443	# Portfolios / \$ Composite Dispersion	4,030 / \$4,536,906 0.20	26 / \$30,190 0.20	38 / \$57,692 0.18	314 / \$235,562 0.18	194 / \$167,565 0.16	79 / \$83,547 0.13	29 / \$49,545 0.10	183 / \$298,030 1.01	76 / \$151,226 0.63			16 / \$7,254 0.09
2006	\$7,835	# Portfolios / \$ Composite Dispersion	4,542 / \$4,901,919 0.18	29 / \$46,581 0.28	19 / \$18,382 0.14	296 / \$209,342 0.18	213 / \$176,930 0.09	76 / \$73,115 0.15	27 / \$74,150 0.07	209 / \$356,033 0.98	87 / \$76,826 0.76	27 / \$17,942 N/A	34 / \$17,371 0.45	
2007	\$8,106	# Portfolios / \$ Composite Dispersion	4,666 / \$5,106,327 0.30	9 / \$17,189 0.19	24 / \$27,237 0.18	20 / \$21,255 0.11	282 / \$199,430 0.19	215 / \$195,833 0.16	80 / \$89,685 0.18	21 / \$43,064 0.07	198 / \$319,490 1.38	75 / \$120,355 0.78	35 / \$22,641 0.64	48 / \$22,826 1.14

*Represents end of period data.

Composite assets expressed in 000s.

Dispersion represents an asset-weighted standard deviation.

Performance Disclosure, continued

investment objectives and philosophy remain the same.

The performance results presented may not equate with the rate of return experienced by any particular GW&K portfolio due to differences in brokerage commissions, fees, position size in relation to account size and diversification among securities. Past performance is no guarantee of future results. A complete list and description of the firm's composites and calculation methodologies are available upon request by contacting GW&K Marketing at 617-236-8900.

GW&K assumes no responsibility for the accuracy of the data provided by outside sources. Sources for indexes and other external data: Bloomberg, Frank Russell Co. and Lehman Brothers.

Gannett Welsh & Kotler, LLC

222 Berkeley Street
Boston, Massachusetts 02116
Telephone: 617 236 8900
Fax: 617 236 1815
www.gwkinc.com

Annualized Performance Results Ending 9/30/08*

	Quarter		YTD		1 Year		3 Years		5 Years		10 Years		Since Inception		Inception Date
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Municipal Bond	-2.40	-2.65	-2.53	-3.26	-1.06	-2.05	2.20	1.19	2.68	1.66	3.89	2.87	5.44	4.41	1/1/93**
LB 10-Year Municipal Bond Index	-1.53		-1.18		0.55		2.83		3.20		4.47		5.60		
LB 5-Year Municipal Bond Index	0.66		1.78		3.72		3.52		2.81		4.25		4.87		
Municipal Enhanced Yield Bond	-6.53	-6.78	-7.31	-8.02	-7.40	-8.34							-0.75	-1.74	4/1/06
Merrill 15+ Years Municipal Index	-7.14		-8.30		-7.69								-0.70		
Five-Year Municipal Bond	-0.27	-0.39	0.49	0.11	2.24	1.73	3.11	2.60	2.70	2.19			2.67	2.16	6/1/03
LB 5-Year Municipal Bond Index	0.66		1.78		3.72		3.52		2.81		4.25		2.77		
Short-Term Municipal Bond	0.63	0.54	2.36	2.10	3.78	3.42	3.61	3.25	2.73	2.37			2.68	2.32	1/1/02
LB 1-Year Muni Bond Index	0.62		2.76		4.20		3.57		2.59		2.12		2.73		
Schwab Municipal Money Fund	0.36		1.33		2.24		2.77		2.12				1.81		
Total Return Bond	-2.40	-2.65	-1.99	-2.73	0.12	-0.88	3.20	2.18	3.97	2.95	4.90	3.87	6.79	5.74	1/1/93**
60% LB Govt Credit / 40% LB High Yield	-4.58		-4.49		-3.22		2.60		3.79		4.86		6.35		
LB Aggregate Bond Index	-0.49		0.63		3.65		4.15		3.78		5.20		6.20		
Enhanced Core Bond	-2.31	-2.56	-1.58	-2.32	0.92	-0.09	3.38	2.36	3.58	2.56			5.37	4.34	10/1/99
LB Aggregate Bond Index	-0.49		0.63		3.65		4.15		3.78				5.83		
Core Bond	-1.72	-1.97	-0.55	-1.29	2.60	1.58	3.91	2.88	3.79	2.76			4.73	3.70	2/1/01
LB Aggregate Bond Index	-0.49		0.63		3.65		4.15		3.78				5.15		
Short-Term Taxable Bond	0.32	0.24	2.70	2.43	4.81	4.44	4.94	4.58	3.76	3.40			3.73	3.37	10/1/02
LB 1-3 Year Govt Bond Index	1.38		3.52		5.90		5.14		3.52				3.40		
Diversified Equity	-9.90	-10.15	-18.76	-19.42	-21.28	-22.11	-2.68	-3.66	5.07	4.04	5.56	4.52	9.46	8.39	1/1/93**
Standard & Poor's 500 Stock Index	-8.37		-19.29		-21.98		0.22		5.17		3.06		8.48		
Russell 2000 Index	-1.11		-10.38		-14.48		1.83		8.15		7.81		8.84		
Small Cap Equity	3.70	3.45	-9.34	-10.04	-11.10	-12.01	1.26	1.26	11.82	10.73			5.91	4.86	1/1/00
Russell 2000 Index	-1.11		-10.38		-14.48		1.83		8.15				4.77		
Equity Dividend Plus	-2.24	-2.49	-15.48	-16.15	-19.99	-20.83	-0.54	-1.54					5.49	4.45	11/1/03
Standard & Poor's 500 Stock Index	-8.37		-19.29		-21.98		0.22						4.09		
Small/Mid Cap Equity	-2.90	-3.15	-14.36	-15.04	-16.40	-17.27							0.80	-0.20	1/1/06
Russell 2500 Index	-6.72		-14.29		-17.99								0.34		

*Returns of less than 1 year are not annualized.

**Represents the effective date of GW&K's compliance with the Global Investment Performance Standards (GIPS). Actual inception dates are: Municipal Bond (1/1/80); Total Return Bond (1/1/88); Diversified Equity (1/1/89).