

Quarterly Investment Review

Economic Commentary

Index Performance

Periods Ending June 30, 2010	Current Quarter	Year-to-Date
Barclays 10-Year Municipal Bond Index	2.68%	4.12%
Barclays Aggregate Bond Index	3.49%	5.33%
Barclays High Yield Index	-0.11%	4.51%
Dow Jones Industrial Average	-9.36%	-5.00%
S&P 500 Index	-11.43%	-6.65%
Russell 2000 Index	-9.92%	-1.95%
NASDAQ Composite	-11.84%	-6.63%

Already this decade, we have experienced three financial crises, all fueled by major bubbles—first technology, then housing and finally credit itself. None of these were predicted and worse, none were prevented. But that's not surprising—bubbles inflate into crises because they are overlooked, by both policymakers and investors. Some may fear the consequences of dealing with them, some are too busy reaping the benefits, and most are distracted by other concerns that receive more attention. Today's concerns take many forms: mounting fiscal deficits, out of control federal debt, increasing stress on state and local governments. We also have the European sovereign debt crisis, two wars, Iran, North Korea and a major oil spill off our shores. All compete for our attention. All concern us.

But we think one concern not fully recognized today is the loss of income. This is the next emerging financial crisis. And it is being fueled by fear. Fear of investing in stocks and longer-term bonds. Fear of investing in any risky asset. Fear of losing money.

A persistent decline in interest rates, and hence income, has been with us for many years. The chart on the next page shows the yield on 30-year Treasury bonds since 1980. Prior to 2000, returns were fabulous, but over the past ten years returns have declined and are more difficult to accept, and to live on. This downward trend of return on assets is what drove the use of leverage. The way to increase income was to manufacture it. Even the most conservative investors discovered the benefits of debt, made so cheaply available by the Federal Reserve, to enhance returns and restore income to more tolerable levels. But the ratcheting up of debt was unsustainable and eventually came crashing down in a massive cycle of deleveraging that remains in full swing. We have seen a decline in consumer debt levels since late 2008, yet it still remains a staggering \$2.4 trillion.

Today, we are left with lower returns but have no ability to lever them up, even if we had the appetite. Our economy is mature and saddled with uncomfortably high unemploy-

Second Quarter 2010 Market Overview

Economy

- The second quarter was weighed down by concerns over the European debt crisis and disappointing economic trends in the U.S., including falling retail sales and meager private sector job growth.
- Gold reached new highs of \$1,257 during the quarter as investors scurried to preserve their wealth in the face of heightened market volatility.
- Commodities, including oil, copper and natural gas, came under pressure as global economic uncertainty increased.

Fed Action

- The Fed left interest rates unchanged at 0–0.25%. They have maintained this low level since December 2008.
- The Fed downgraded their outlook for the economy and reiterated their commitment to keep rates at record lows for an "extended period."
- Core inflation remains near historic lows.

Bond Markets

- A renewed climate of risk aversion made Treasuries the most sought after investment vehicle and the best performing sector (+4.7%) in the taxable bond market.

- Rising economic concerns stopped the progress of the strong rally among high yield corporate bonds that began in late 2008.
- The municipal bond market posted solid returns in the second quarter, assisted by recalibrated rating scales and a global flight to quality.
- 10 year municipal yields declined 30 basis points and ended the quarter at 95% of Treasury yields, their cheapest relative valuation since April 2009.

Equity Markets

- Contending with fears of a new economic slowdown, deflation and the European debt crisis, fear trumped an appetite for risk this quarter and the markets responded accordingly.
- Following four consecutive positive quarters, with the DJIA rising 46% and crossing over the 11000 milestone in early April, equity markets reversed course with a correction of approximately 10%.
- The non-cyclical equity sectors, and those that tend to have more stable earnings, such as Utilities, Telecom and Consumer Staples, performed better in this uncertain economic environment.

ment. Our companies sit on a record amount of cash, waiting for more visibility before investing it back into their businesses. Our investor base is exhausted by the market volatility. And our aging population desperat-

ly wants to play it safe. So what do we do? Consumed with worry about another collapse followed by runaway inflation, we invest \$8.7 trillion in money market funds at an effective return of zero!

Continued on next page

30 Year Treasury Yields

A trend of declining yields over the last three decades



Source: U.S. Treasury

The economy is far from where it was in 2008 when fear of a systemic economic collapse was at its greatest, and those who wait for the all clear signal will get caught in a financial squeeze. How often clients bemoan the time they could get 8% returns in government bonds, then 7%, 6%, 5%, now 4%; as they go to 3%, will they look back wistfully at more opportunities lost?

Why won't we have inflation? In the past, the government promoted inflation so debt

could be paid back with cheaper dollars. Well, times are different. First, federal transfer payments (Social Security, etc.) are now indexed to inflation and would increase in lockstep with it. Second, the average maturity of government debt is only about 4 years, so the cost of borrowing would go up significantly with inflation. Lastly, the middle class would be wiped out.

There was a time, not so long ago, when one wage earner could provide for a family. By the 1970s, when inflation was impacting us all, two incomes were often necessary to support the household. Then this past decade, a third "earner" was tapped to contribute to the middle class lifestyle—the home. Families learned to re-mortgage houses as values rose, harvesting additional "income" to boost purchasing power and improve liquidity.

Well, that third earner has been laid off, as has the second in many instances. So where

is the cushion for the middle class? There is none. If the Consumer Price Index rises, the necessities of life will become more expensive, eating into disposable income.

But the government doesn't want deflation either as it too will erode income as well as hinder liquidity. We have talked and written about Japan's deflation struggles over the last twenty years, warning clients about its destructive nature. While the cost of goods and services declines, it also takes away the incentive to invest as asset values stagnate and income growth fails to keep pace with rising debt levels.

There is no denying that the economic news is less bullish than it was a few months ago, but we are not on the verge of collapse. A manufacturing recovery is well under way, corporate profits continue to improve and domestic labor productivity is still posting impressive gains.

In fact, this could be one of the best times to invest. Returns available today may not be within reach a year or two from now. Cash has become a false refuge and a potential disaster. It offers zero return and no obvious path back to a normal asset allocation. The markets, by contrast, still present value: a steep yield curve and wide credit spreads in fixed income, attractive valuations and earnings momentum in equities. The key though, is to invest. Invest for growth or invest for yield, but invest. Look to the future. Guard your income and don't surrender to fear.

Harold G. Kotler, CFA
Chief Executive Officer,
Chief Investment Officer

GW&K Update

June 30, 2010

- Total Assets Under Management: \$9.9 Billion
- Total Employees: 83
- Total Investment Professionals: 28

Tax Exempt Bond Strategies

GW&K Municipal Bond Strategy

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

GW&K Municipal Enhanced Yield Strategy

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

GW&K Five-Year Municipal Bond Strategy

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

GW&K 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, Co-Director of Fixed Income, Senior Vice President

John B. Fox, CFA, Co-Director of Fixed Income, Senior Vice President

Martin R. Tourigny, CFA, Vice President

Brian T. Moreland, CFA, Vice President

The municipal bond market posted solid returns in the second quarter, assisted by recalibrated rating scales and a global flight to quality. In April, Moody's and Fitch implemented a much-anticipated overhaul of their rating systems, mapping municipals to a "global" scale, resulting in widespread upgrades. Although the rating agencies stressed that a recalibration reflects no change in their assessment of a security's creditworthiness, the market was nevertheless buoyed by the nominal upgrades, driving credit spreads tighter. Larger forces, however, were dictating the general direction of the municipal market, as events in Europe triggered a worldwide flight to quality. At the end of June, 10 year municipal yields,

"We continued to improve credit quality in the portfolio... We have maintained our focus on State GO's and large essential service revenue bonds while staying clear of small local governments with much more vulnerable and volatile sources of payment."

though down 30 basis points for the quarter, stood at 95% of Treasury yields, their cheapest relative valuation since April 2009.

During the quarter, we continued to improve credit quality in the portfolio. We eliminated our entire exposure to prepay

gas bonds and Illinois GO's, replacing these holdings with higher conviction credits that still offered substantial value over generic AAA rated yields. This continues a two-year trend of upgrading the credit quality of our composite, mostly in response to the steady tightening of credit spreads. In fact, between these moves and the recent rating recalibrations, all of the bonds in our composite now carry at least a single-A rating. We have maintained our focus on State GO's and large essential service revenue bonds while staying clear of small local governments with much more vulnerable and volatile sources of payment. Our duration remains relatively neutral to the benchmark, mostly a function of the opportunities we see along the yield curve.

Our strategies had a successful quarter as each outperformed their respective benchmarks for the period. The **Municipal Bond Strategy**, with a return of 2.76%, benefited from our upgrading of credit quality in the composite as the market experienced a modest widening of credit spreads over the latter part of the quarter. A concentration of purchases in the 8–12 year area of the curve also helped performance given the relatively strong returns of the 10 year part of the curve versus the wings. Still, we continue to hold a strategic

exposure to bonds that are both longer and shorter than the index. While this has slightly detracted from relative performance, the portfolio flexibility we gain from maturity diversification outweighs the short-run performance consequences and remains a crucial tool to navigate the uncertainties of future rate moves.

The **Municipal Enhanced Yield Strategy** posted quarterly performance of 2.19% and remains ahead of the Index for the year to date. Rates declined on the long end of the yield curve with 30 year AAA yields lower by 15 basis points to end the quarter at 4.02%. Our meaningful overweight to BBB rated bonds within the Strategy and long duration positively affected performance. Looking forward, wide credit spreads and a steep curve continue to highlight the relative attractiveness of this Strategy with yields approximately 160 basis points higher than the intermediate space.

The **Five-Year Municipal Bond Strategy** had strong relative performance this period with a return of 2.19%, finishing 51 basis points ahead of the index. Outperformance was primarily due to an overweight in 7–10 year bonds that performed relatively well. For conservative investors, the Five-Year Strategy offers substantial value with yields 200+ basis points in excess of money market yields.

The **Short-Term Municipal Bond Strategy** returned 0.65% for the quarter as rates declined in the front end of the yield curve. One year AAA yields dipped 2 basis points to end the quarter at 0.30% and 3-year rates declined by 28 basis points to end the quarter at 0.82%. Relative performance for this Strategy was positively impacted by our longer duration and yield curve exposure. The municipal yield curve remains fairly steep at the front end, which should continue to benefit our Strategy versus the index.

Tax Exempt Bond Strategies

Performance Ending 6/30/10 (%) ¹	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
GW&K Municipal Bond	2.76	3.83	10.12	6.46	4.79	5.47	5.93	1/1/93 ²
Barclays 10-Year Muni Bond Index	2.68	4.12	9.58	6.59	4.91	5.82	6.00	
Barclays 5-Year Muni Bond Index	1.68	2.46	6.88	6.75	4.85	5.21	5.18	
GW&K Municipal Enhanced Yield	2.19	4.10	13.59	4.15			4.19	4/1/06
Merrill 15+ Year Muni Index	2.08	3.87	13.23	4.18			4.22	
GW&K Five-Year Municipal Bond	2.19	3.24	7.59	6.41	4.71		4.03	6/1/03
Barclays 5-Year Muni Bond Index	1.68	2.46	6.88	6.75	4.85		4.03	
GW&K Short-Term Municipal Bond	0.65	0.83	2.71	4.08	3.69		2.97	1/1/02
Barclays 1-Year Muni Bond Index	0.55	0.87	2.43	3.90	3.45		2.89	
Schwab Money Fund ³	0.00	0.00	0.02	1.33	1.95		1.54	

¹ Periods greater than one year represent annualized returns. Returns represent composites and are gross of fees. Please refer to the Performance Disclosure on page 6, which is an integral part of our presentation, for an explanation of our composite criteria, calculations and net of fee results.

² 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.

³ Represents net of fee performance.

Taxable Bond Strategies

GW&K 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

GW&K Enhanced Core Bond Strategy

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

GW&K Core Bond Strategy

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

GW&K Corporate Bond Opportunities Strategy

Seeks to maximize current income and longer-term capital appreciation by focusing on both high grade and high yield corporate bonds.

GW&K 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, Co-Director of Fixed Income, Senior Vice President

John B. Fox, CFA, Co-Director of Fixed Income, Senior Vice President

Just as optimism over a U.S. recovery was gaining traction, the financial markets abruptly reversed course, spooked by an escalation in the European fiscal crisis, a slowing in Chinese economic growth and uncertainty regarding U.S. financial regulation. Investors began to focus more attention on the headwinds still facing the economy such as private sector deleveraging, tighter credit conditions, the end to the inventory cycle upswing, and fiscal stimulus measures that are set to fade in the second half of this year. The result was a market beginning to expect the worst and bracing for a dreaded double dip scenario.

The renewed flare-up of risk aversion buoyed Treasury returns, which, at 4.7% for the quarter, were the highest in the taxable bond market. The mortgage-backed market continued to perform well (up 2.9%) given the absence of new mortgage origination and the implied backing of the federal government. U.S. Agencies also had solid performance (up 2.5%), but lagged Treasuries due to their shorter duration. Investment grade corporate spreads widened 43 basis points on concerns over corporate profitability. Although they were the second leading performer for the quarter (up 3.4%), they gave back their relative advantage over Treasuries

built since year end. High yield corporate bonds fared worse (down -0.11%), widening by 170 basis points to close the quarter at an average spread of 700 basis points over Treasuries. Higher quality corporates did better, as BB-rated securities (0.44%) outperformed lower-tier CCC securities (-1.36%) by a significant margin.

The **Total Return Bond Strategy** underperformed the Barclays Aggregate Index and the Blended Index by 163 and 43 basis points, respectively. The underperformance relative to the Aggregate Index was primarily due to our overweight position to high yield corporate bonds which underperformed the broader market during the quarter. The underperformance relative to the Blended Index was a result of an underweight in Treasuries. The **Enhanced Core Bond Strategy** and the

Core Bond Strategy underperformed the Barclays Aggregate Index by 72 and 44 basis points, respectively. Again, a significant underweight to Treasuries held back relative performance in both cases. Results for the year-to-date period for all three Strategies are largely in-line with their respective indices. The **Short-Term Bond Strategy** underperformed its benchmark by 24 basis points. An overweight to investment grade corporate bonds hurt on a relative basis as short-term U.S. Agencies and Treasuries both outperformed the corporate sector for the quarter. For the year, this strategy is ahead of the Barclays Government 1-3 Year Index by 52 basis points. The **Corporate Bond Opportunities Strategy** underperformed its benchmark by 42 basis points, driven by an overweight to high yield relative to the benchmark index.

During the quarter, we upgraded credit quality and increased our exposure to the long end of the yield curve. Neither move represented a major shift in our views. The increase in longer bonds brings us to neutral against our benchmark and was in response to the increased likelihood of a flattening of the curve. As part of this shift, we reduced our exposure to the corporate bond sector by approximately 5%.

Overall, we remain constructive on the corporate bond market. While the European debt crisis has clouded visibility around the global economic recovery, we do not believe it is enough to tip the U.S. economy into a double dip recession. Fundamentals are solid as companies are sitting on record amounts of cash and corporate profits continue to grow. Spreads have cheapened back to December 2009 levels, providing a further margin for error. Although we do expect heightened volatility to remain, valuations continue to be very attractive, particularly in high yield bonds with yields now north of 9% and defaults rates set to decline below their long-term average over the next year.

"Overall, we remain constructive on the corporate bond market... Fundamentals are solid as companies are sitting on record amounts of cash and corporate profits continue to grow."

Taxable Bond Strategies

Performance Ending 6/30/10 (%) ¹	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
GW&K Total Return Bond	1.86	5.11	15.52	9.48	6.84	6.78	7.56	1/1/93 ²
Style Index ³	2.29	5.13	16.26	7.16	6.10	6.93	7.04	
Barclays Aggregate Bond Index	3.49	5.33	9.50	7.55	5.54	6.47	6.50	
GW&K Enhanced Core Bond	2.77	5.66	14.32	9.58	6.87	6.94	6.81	10/1/99
Barclays Aggregate Bond Index	3.49	5.33	9.50	7.55	5.54	6.47	6.38	
GW&K Core Bond	3.05	5.33	11.77	9.78	6.92		6.34	2/1/01
Barclays Aggregate Bond Index	3.49	5.33	9.50	7.55	5.54		5.90	
GW&K Corporate Bond Opportunities	0.83	4.43	18.28				4.97	10/1/02
Style Index ⁴	1.25	4.98	21.85				7.25	
GW&K Short-Term Taxable	0.92	2.41	5.11	6.24	5.40		4.40	10/1/02
Barclays 1-3 Year	1.17	1.89	2.85	4.94	4.37		3.45	

¹ Periods greater than one year represent annualized returns. Returns represent composites and are gross of fees. Please refer to the Performance Disclosure on page 6, which is an integral part of our presentation, for an explanation of our composite criteria, calculations and net of fee results.

² 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.

³ 60% Barclays Govt Credit / 40% Barclays High Yield, rebalanced daily

⁴ 60% Barclays High Yield / 40% Barclays US Credit, rebalanced daily

Equity Strategies

GW&K Diversified Equity Strategy

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

GW&K Small Cap Equity Strategy

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

GW&K Small/Mid Cap Equity Strategy

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

GW&K Equity Dividend Plus Strategy

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

Daniel L. Miller, CFA, Director of Equities, Senior Vice President

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

Jeffrey W. Thibault, CFA, Vice President

Things could not have looked and felt any different this quarter compared to last! Strong first quarter gains by stocks of all sizes and styles were followed by a difficult second quarter. In a reversal from the previous three months, fear trumped investors' appetite for risk this quarter. Equities started off strong in April, but the mood abruptly turned pessimistic as fears of a new economic slowdown, deflation and the European debt crisis took hold. The market's subsequent decline more than erased the solid gains in the early part of the year, resulting in first half declines of -2.0% for the Russell 2000 Index and -6.7% for the S&P 500 Index.

Our Equity portfolios were all down on an absolute basis in the second quarter, but our relative performance was quite good. The same low quality, high beta, low ROE and

non-earning companies that did so well in the first quarter (and made it so hard for us to keep up) registered the biggest reversal of fortune. Our focus on high quality companies paid off, and we were able to protect principal on the downside as the market slid backward this quarter. Each of our Strategies beat its primary benchmark in the quarter, but more important, our long-term performance is solid.

Given dramatic shifts in investor psychology this period and volatile market activity, we were pleased that our **Small Cap Equity Strategy** finished the quarter in better shape than the Russell 2000 Index and is now ahead for the year to date as well. Our higher allocation to the lower risk groups contributed a large portion of our out-performance this quarter, and stock selection was also additive. In the small cap universe,

sectors most leveraged to the economy (Energy, Consumer Discretionary, and Materials) each finished down more than 13% and were the worst performers.

Our **Small/Mid Cap Equity Strategy** lost ground during the quarter, although it outperformed the benchmark quite nicely by 349 basis points and remains ahead of the Russell 2500 Index for the year-to-date, one year, and three year periods. Outperformance during the quarter came from successful stock selection across all sectors, but especially in the Technology and Consumer Discretionary groups. The portfolio benefited overall from its exposure to quality companies as investors shifted their focus back to fundamentals and valuations.

In our **Diversified Equity Strategy**, we had a slightly better result than the -11.4% quarterly return for the benchmark. We still see stress in many Financial stocks and have that as the most significant underweight in our portfolios. Utilities, offering steadier results in uncertain times, remain our largest overweighted sector. Reflecting our belief in the economic recovery, we also favored Industrials and Healthcare. Overall, we find excellent value in stocks at current prices.

Relative to the S&P 500 Index, our **Equity Dividend Plus Strategy** had a successful quarter, finishing the period nearly 500 basis points ahead of the Index. We have a more lim-

"Our focus on high quality companies paid off, and we were able to protect principal on the downside as the market slid backward this quarter. Each of our Strategies beat its primary benchmark in the quarter, but more important, our long-term performance is solid."

ited universe of stocks to choose from, given the high current yield target for this Strategy, but we remain intrigued by the dynamics—strong balance sheets, moderate and achievable growth expectations, and a yield on the portfolio more than twice the current yield on the S&P 500. Given our Strategy's bias, we favored the Utilities, Consumer Staples and Telecommunication Services sectors, and were underweight the Information Technology and Consumer Discretionary sectors, which aided relative performance.

The economic news is indeed less bullish than it was three months ago. Yet even if we have a sub-par economic recovery, the stock market's valuation is attractive at a very modest 12-13x earnings. We carefully watch earnings of our holdings and in the stock market in general. While earnings are never guaranteed in equities, so far we continue to see solid earning reports and very few pre-announcements of earnings disappointments by corporate America. Regardless of the overall economic outlook, our charge is to find high quality companies with the market positioning, management quality and financial strength to do well against their competition in any economic environment. Our track record shows that we continue to succeed in this endeavor!

Equity Strategies

Performance Ending 6/30/10 (%) ¹	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
GW&K Diversified Equity	-11.13	-7.95	14.37	-8.32	-0.94	-0.81	8.40	1/1/93 ²
Standard & Poor's 500 Stock Index	-11.43	-6.65	14.43	-9.81	-0.79	-1.59	7.10	
Russell 2000 Index	-9.92	-1.95	21.48	-8.60	0.37	3.00	7.42	
GW&K Small Cap Equity	-8.39	-1.34	21.42	-4.01	2.08	5.21	4.91	1/1/00
Russell 2000 Index	-9.92	-1.95	21.48	-8.60	0.37	3.00	3.15	
GW&K Equity Dividend Plus	-6.44	-2.05	19.41	-8.14	0.00		4.10	11/1/03
Standard & Poor's 500 Stock Index	-11.43	-6.65	14.43	-9.81	-0.79		1.74	
GW&K Small /Mid Cap Equity	-6.49	3.07	27.45	-3.97			2.07	1/1/06
Russell 2500 Index	-9.98	-1.69	24.03	-7.98			-0.37	

¹ Periods greater than one year represent annualized returns. Returns represent composites and are gross of fees. Please refer to the Performance Disclosure on page 6, which is an integral part of our presentation, for an explanation of our composite criteria, calculations and net of fee results.

² 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.

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. Composite portfolio income may be net or gross of withholding tax depending on the accounting methodology of the respective custodian bank. 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 from inception to 12/31/08, and a minimum value of \$250,000 from 1/1/09 forward. 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 value 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 *Corporate*

Bond Opportunities composite (created on 10/1/07) includes 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 value 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 for the Strategy. The maximum annual fee is 1% for all strategies except .55% for the Five-

Year Municipal Bond Strategy, .30% for the Short-Term Municipal Bond Strategy, .50% for the Short-Term Taxable Bond Strategy, and .65% for the Corporate Bond Opportunities Strategy and the Municipal Enhanced Yield Strategy. Client fees may vary.

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., Barclays Capital, Mellon, Charles Schwab, Standard & Poor's, and Factset.

GW&K Composite Information

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GW&K Municipal Bond	Number of Portfolios	1,384	2,083	2,843	3,062	3,360	4,030	4,542	4,666	4,372	5,067
	Composite Assets (\$000s)	\$2,607,406	\$3,263,339	\$3,872,610	\$3,679,491	\$3,824,607	\$4,536,906	\$4,901,919	\$5,106,328	\$4,914,450	\$5,907,279
	Dispersion	1.03	0.37	0.48	0.32	0.28	0.20	0.18	0.30	0.99	0.88
GW&K Municipal Enhanced Yield	Number of Portfolios							6	9	5	24
	Composite Assets (\$000s)							9,875	\$17,189	\$5,814	\$16,916
	Dispersion							N/A	0.19	0.55	0.73
GW&K Five-Year Municipal Bond	Number of Portfolios				4	16	26	29	24	9	9
	Composite Assets (\$000s)				\$4,115	\$22,807	\$30,191	\$46,581	\$27,237	\$8,720	\$5,919
	Dispersion				N/A	0.53	0.20	0.28	0.18	0.43	0.50
GW&K Short-Term Municipal Bond	Number of Portfolios			10	32	27	38	19	20	15	18
	Composite Assets (\$000s)			\$16,448	\$31,303	\$21,159	\$57,692	\$18,382	\$21,255	\$21,626	\$22,655
	Dispersion			N/A	0.19	0.18	0.18	0.14	0.11	0.25	0.40
GW&K Total Return Bond	Number of Portfolios	187	218	159	152	246	314	296	282	232	250
	Composite Assets (\$000s)	\$176,524	\$219,036	\$170,208	\$154,593	\$208,357	\$235,563	\$209,342	\$199,430	\$168,847	\$209,235
	Dispersion	0.51	0.67	0.41	0.38	0.95	0.18	0.18	0.19	0.72	0.82
GW&K Enhanced Core Bond	Number of Portfolios	43	54	81	99	151	194	213	215	166	184
	Composite Assets (\$000s)	\$25,003	\$33,982	\$51,477	\$63,955	\$111,761	\$167,566	\$176,930	\$195,833	\$136,889	\$170,917
	Dispersion	0.19	0.23	0.26	0.30	0.21	0.16	0.09	0.16	0.44	0.77
GW&K Core Bond	Number of Portfolios		9	18	33	49	79	76	80	78	140
	Composite Assets (\$000s)		\$8,547	\$24,410	\$38,507	\$56,843	\$83,547	\$73,115	\$89,685	\$96,129	\$134,490
	Dispersion		N/A	0.26	0.33	0.22	0.13	0.15	0.18	0.33	0.61
GW&K Corporate Bond Opportunities	Number of Portfolios								2	1	14
	Composite Assets (\$000s)								\$818	\$299	\$8,056
	Dispersion								N/A	N/A	N/A
GW&K Short-Term Taxable	Number of Portfolios			3	7	25	29	27	21	17	35
	Composite Assets (\$000s)			\$6,683	\$23,570	\$45,269	\$49,546	\$74,150	\$43,064	\$46,288	\$74,109
	Dispersion			N/A	0.09	0.05	0.10	0.07	0.07	0.21	0.19
GW&K Diversified Equity	Number of Portfolios	202	207	153	148	172	183	209	198	109	204
	Composite Assets (\$000s)	\$394,099	\$336,156	\$211,732	\$228,652	\$285,099	\$298,030	\$356,033	\$319,490	\$159,643	\$204,973
	Dispersion	2.55	2.50	1.39	1.34	0.92	1.01	0.98	1.38	1.07	1.24
GW&K Small Cap Equity	Number of Portfolios	1	2	9	12	24	76	87	75	26	39
	Composite Assets (\$000s)	\$709	\$1,032	\$5,699	\$9,964	\$24,795	\$151,227	\$76,826	\$120,355	\$64,791	\$107,667
	Dispersion	N/A	N/A	N/A	2.44	0.75	0.63	0.76	0.78	0.69	0.66
GW&K Equity Dividend Plus	Number of Portfolios				3	9	16	34	48	18	24
	Composite Assets (\$000s)				\$1,220	\$3,905	\$7,254	\$17,371	\$22,826	\$8,293	\$15,133
	Dispersion				N/A	0.57	0.09	0.45	1.14	0.21	0.21
GW&K Small/Mid Cap Equity	Number of Portfolios							27	35	18	19
	Composite Assets (\$000s)							\$17,942	\$22,641	\$8,382	\$11,499
	Dispersion							N/A	0.64	0.39	0.49
Total Firm Assets (\$mm)*		\$4,194	\$4,956	\$5,322	\$5,594	\$6,366	\$7,443	\$7,835	\$8,106	\$7,419	\$9,096

*Represents end of period data.

Dispersion: Represents an asset weighted standard deviation. Dispersion calculations require a minimum of five portfolios over the entire annual period. N/A indicates insufficient number of portfolios in the composite for entire period.

Market Index Descriptions

Barclays 10-Year (1-Year, 5-Year) Municipal Bond Index

Unmanaged indexes composed of 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.

Barclays Aggregate Bond Index

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

Barclays Government/Credit Index

Composed of securities from Barclays Government Index and the Barclays Credit Index. Issues must have at least one year to maturity. Indexes are rebalanced monthly.

Barclays U.S. Credit Index

Comprised of fixed rate, publicly issued corporate and non-corporate investment grade debt, rated BBB or higher.

Barclays High Yield Index

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

Barclays 1-3 Year Government Index

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

Merrill Lynch 15+ Years Municipal Index

Comprised of 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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Total Annual Returns for GW&K Composites and Their Benchmarks (%)

	2000	2001 ¹	2002 ¹	2003 ¹	2004	2005	2006 ¹	2007 ¹	2008	2009
GW&K Municipal Bond (Gross)	10.70	4.23	8.64	4.94	4.00	2.33	4.61	3.94	0.55	11.12
GW&K Municipal Bond (Net)	9.62	3.20	7.58	3.90	2.98	1.32	3.58	2.91	-0.45	10.04
Barclays 10-Year Muni Bond Index	10.76	4.62	10.17	5.70	4.15	2.74	4.71	4.29	1.52	9.85
Barclays 5-Year Muni Bond Index	7.72	6.21	9.27	4.13	2.72	0.94	3.34	5.15	5.78	7.40
GW&K Municipal Enhanced Yield (Gross)							5.95	-0.07	-11.89	22.60
GW&K Municipal Enhanced Yield (Net)							5.45	-0.72	-12.48	21.84
Merrill 15+ Year Muni Index							5.46	1.61	-11.95	21.65
GW&K Five-Year Municipal Bond (Gross)				1.18	2.95	1.22	3.50	4.94	4.27	7.32
GW&K Five-Year Municipal Bond (Net)				0.86	2.39	0.67	2.94	4.38	3.70	6.74
Barclays 5-Year Muni Bond Index				0.88	2.72	0.94	3.34	5.15	5.78	7.40
GW&K Short-Term Municipal Bond (Gross)			3.10	1.59	1.16	1.90	3.57	4.46	4.61	4.10
GW&K Short-Term Municipal Bond (Net)			2.79	1.28	0.86	1.59	3.26	4.15	4.30	3.79
Barclays 1-Year Muni Bond Index			3.85	1.71	1.06	1.49	3.20	4.37	4.57	3.49
Schwab Muni Money Fund ²			1.12	0.68	0.82	2.00	3.03	3.26	2.00	0.26
GW&K Total Return Bond (Gross)	9.77	4.35	5.51	8.69	6.09	2.87	4.91	6.06	-1.33	20.19
GW&K Total Return Bond (Net)	8.70	3.32	4.47	7.63	5.05	1.85	3.88	5.02	-2.32	19.05
Style Index ³	4.77	7.21	6.04	14.04	6.93	2.53	6.94	5.09	-8.24	23.51
Barclays Aggregate Bond Index	11.63	8.44	10.25	4.10	4.34	2.43	4.33	6.97	5.24	5.93
GW&K Corporate Bond Opportunities (Gross)								-0.03	-18.42	34.18
GW&K Corporate Bond Opportunities (Net)								-0.19	-18.98	33.37
Style Index ⁴								0.10	-17.53	39.90
GW&K Enhanced Core Bond (Gross)	11.36	8.51	7.16	4.50	4.96	2.62	4.78	6.35	1.63	16.22
GW&K Enhanced Core Bond (Net)	10.28	7.45	6.11	3.47	3.93	1.60	3.75	5.31	0.62	15.10
Barclays Aggregate Bond Index	11.63	8.44	10.25	4.10	4.34	2.43	4.33	6.97	5.24	5.93
GW&K Core Bond (Gross)		5.99	8.28	3.63	4.68	2.72	4.53	7.17	5.80	11.74
GW&K Core Bond (Net)		5.04	7.22	2.60	3.65	1.71	3.50	6.12	4.76	10.66
Barclays Aggregate Bond Index		6.70	10.25	4.10	4.34	2.43	4.33	6.97	5.24	5.93
GW&K Short-Term Taxable (Gross)			1.39	2.84	2.00	2.10	4.88	6.53	5.84	6.21
GW&K Short-Term Taxable (Net)			1.30	2.48	1.64	1.74	4.52	6.17	5.47	5.69
Barclays 1-3 Year Govt Bond Index			0.93	2.01	1.07	1.73	4.12	7.10	6.66	1.41
GW&K Diversified Equity (Gross)	17.61	-19.14	-25.08	33.43	12.72	8.63	11.37	3.59	-35.41	34.90
GW&K Diversified Equity (Net)	16.48	-20.00	-25.89	32.19	11.63	7.57	10.29	2.57	-36.13	33.65
Standard & Poor's 500 Stock Index	-9.10	-11.89	-22.10	28.68	10.88	4.91	15.79	5.49	-37.00	26.46
Russell 2000 Index	-3.02	2.49	-20.48	47.25	18.33	4.55	18.37	-1.57	-33.79	27.17
GW&K Small Cap Equity (Gross)	-18.42	2.37	-11.25	52.64	23.24	11.47	11.05	5.59	-29.87	31.14
GW&K Small Cap Equity (Net)	-19.28	1.35	-12.16	51.27	22.07	10.39	9.97	4.55	-30.64	29.92
Russell 2000 Index	-3.02	2.49	-20.48	47.25	18.33	4.55	18.37	-1.57	-33.79	27.17
GW&K Equity Dividend Plus (Gross)				7.39	14.21	8.23	17.49	-1.36	-29.79	23.57
GW&K Equity Dividend Plus (Net)				7.22	13.10	7.18	16.37	-2.35	-30.56	22.40
Standard & Poor's 500 Stock Index				6.17	10.88	4.91	15.79	5.49	-37.00	26.46
GW&K Small/Mid Cap Equity (Gross)							14.18	4.54	-35.56	38.31
GW&K Small/Mid Cap Equity (Net)							13.08	3.51	-36.28	37.03
Russell 2500 Index							16.17	1.38	-36.79	34.39

¹ Annual partial year returns: 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; Corporate Bond Opportunities since 10/1/07; Municipal Enhanced Yield since 4/1/06.

² Represents net of fee performance.

³ 60% Barclays Govt Credit / 40% Barclays High Yield, rebalanced daily

⁴ 60% Barclays High Yield / 40% Barclays US Credit, rebalanced daily

Annualized Performance Results Ending 6/30/10¹

	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	
GW&K Municipal Bond	2.76	2.51	3.83	3.32	10.12	9.05	6.46	5.41	4.79	3.76	5.47	4.43	5.93	4.89	1/1/93 ²
Barclays 10-Year Muni Bond Index	2.68		4.12		9.58		6.59		4.91		5.82		6.00		
Barclays 5-Year Muni Bond Index	1.68		2.46		6.88		6.75		4.85		5.21		5.18		
GW&K Municipal Enhanced Yield	2.19	2.03	4.10	3.77	13.59	12.87	4.15	3.48					4.19	3.52	4/1/06
Merrill 15+ Year Muni Index	2.08		3.87		13.23		4.18						4.22		
GW&K Five-Year Municipal Bond	2.19	2.05	3.24	2.96	7.59	7.01	6.41	5.84	4.71	4.15			4.03	3.47	6/1/03
Barclays 5-Year Muni Bond Index	1.68		2.46		6.88		6.75		4.85				4.03		
GW&K Short-Term Municipal Bond	0.65	0.57	0.83	0.68	2.71	2.41	4.08	3.77	3.69	3.38			2.97	2.66	1/1/02
Barclays 1-Year Muni Bond Index	0.55		0.87		2.43		3.90		3.45				2.89		
Schwab Money Fund	0.00		0.00		0.02		1.33		1.95				1.54		
GW&K Total Return Bond	1.86	1.61	5.11	4.60	15.52	14.41	9.48	8.41	6.84	5.79	6.78	5.74	7.56	6.50	1/1/93 ²
Style Index ³	2.29		5.13		16.26		7.16		6.10		6.93		7.04		
Barclays Aggregate Bond Index	3.49		5.33		9.50		7.55		5.54		6.47		6.50		
GW&K Enhanced Core Bond	2.77	2.52	5.66	5.14	14.32	13.22	9.58	8.51	6.87	5.82	6.94	5.89	6.81	5.77	10/1/99
Barclays Aggregate Bond Index	3.49		5.33		9.50		7.55		5.54		6.47		6.38		
GW&K Core Bond	3.05	2.80	5.33	4.82	11.77	10.69	9.78	8.72	6.92	5.87			6.34	5.30	2/1/01
Barclays Aggregate Bond Index	3.49		5.33		9.50		7.55		5.54				5.90		
GW&K Corporate Bond Opportunities	0.83	0.66	4.43	4.10	18.28	17.54							4.97	4.30	10/1/02
Style Index ⁴	1.25		4.98		21.85								7.25		
GW&K Short-Term Taxable	0.92	0.80	2.41	2.16	5.11	4.59	6.24	5.80	5.40	4.99			4.40	4.01	10/1/02
Barclays 1-3 Year	1.17		1.89		2.85		4.94		4.37				3.45		
GW&K Diversified Equity	-11.13	-11.38	-7.95	-8.43	14.37	13.26	-8.32	-9.26	-0.94	-1.93	-0.81	-1.80	8.40	7.34	1/1/93 ²
Standard & Poor's 500 Stock Index	-11.43		-6.65		14.43		-9.81		-0.79		-1.59		7.10		
Russell 2000 Index	-9.92		-1.95		21.48		-8.60		0.37		3.00		7.42		
GW&K Small Cap Equity	-8.39	-8.64	-1.34	-1.84	21.42	20.26	-4.01	-4.98	2.08	1.07	5.21	4.17	4.91	3.87	1/1/00
Russell 2000 Index	-9.92		-1.95		21.48		-8.60		0.37		3.00		3.15		
GW&K Equity Dividend Plus	-6.44	-6.69	-2.05	-2.54	19.41	18.26	-8.14	-9.08	0.00	-1.00			4.10	3.07	11/1/03
Standard & Poor's 500 Stock Index	-11.43		-6.65		14.43		-9.81		-0.79				1.74		
GW&K Small/Mid Cap Equity	-6.49	-6.74	3.07	2.56	27.45	26.25	-3.97	-4.94					2.07	1.05	1/1/06
Russell 2500 Index	-9.98		-1.69		24.03		-7.98						-0.37		

¹ Returns of less than 1 year are not annualized

² Represents the effective date of GW&K's compliance with the Global Investment Standards (GIPS). Actual strategy inception dates are: Municipal Bond (1/1/80);

Total Return Bond (1/1/88); Diversified Equity (1/1/89).

³ 60% Barclays Govt Credit / 40% Barclays High Yield, rebalanced daily

⁴ 60% Barclays High Yield / 40% US Credit, rebalanced daily

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