

## Economic Commentary

By Harold G. Kotler, CFA

**H**ow fast the years go. Another year of pulls and tugs. Governments around the world seem to lack leadership, U.S. unemployment continues to be uncomfortably high, interest rates remain at historic lows, and stock market volatility is driving most sane people insane. Yet even with all those disturbances, investing in the U.S. financial markets has been a positive experience for most. The equity markets were volatile but in the end, the S&P 500 Index finished the year up 2.1% and the Dow Jones Industrial Average ended up 8.4%. Treasuries provided impressive gains for the year. Two-year Treasury rates declined 36 basis points to return 1.5%, ten-year Treasury rates declined 142 basis points to return 17.2%, and thirty-year Treasury rates slid 144 basis points to return 35.6%.

Last March I wrote, "If I hear the word 'bubble' one more time, I will want to scream." I was referring to the "experts" who were telling bond investors that rates would rise and

*Continued on inside*

## Index Performance

| <i>Periods Ending December 31, 2011</i> | <i>Current Quarter</i> | <i>Year-to-Date</i> |
|---|------------------------|---------------------|
| Barclays 10-Year Muni Bond Index        | 3.23%                  | 12.32%              |
| Barclays Aggregate Bond Index           | 1.12%                  | 7.84%               |
| Barclays High Yield Index               | 6.46%                  | 4.98%               |
| Dow Jones Industrial Average            | 12.78%                 | 8.38%               |
| S&P 500 Index                           | 11.82%                 | 2.11%               |
| Russell 2000 Index                      | 15.47%                 | -4.18%              |
| NASDAQ Composite                        | 8.53%                  | -0.51%              |

## Fourth Quarter 2011 Market Overview

### Economy

- Despite strains in the global financial markets and concerns about slowing growth in Europe and China, domestic economic data displayed a positive trend.
- The employment picture improved as weekly claims for unemployment insurance trended lower throughout the quarter and the unemployment rate fell to 8.6%.
- Though home prices continue to decline, the housing sector showed signs of stabilization as new home sales improved slightly and housing inventory moved lower.
- After deteriorating for most of the year, consumer confidence rose and manufacturing data showed that the sector continued to improve.
- In late December, Congress approved a two-month payroll tax cut and unemployment benefit extension, temporarily avoiding a potential fiscal drag on GDP growth.

### Fed Action

- The FOMC left the target range for federal funds at 0–0.25% and committed to keeping short-term rates at exceptionally low levels at least through mid-2013.
- With the goal of placing downward pressure on longer-term interest rates and generating a stronger economic recovery, the Fed purchased approximately \$160bn intermediate and long-term U.S. Treasuries and sold approximately \$140bn short-term U.S. Treasuries as part of its "Operation Twist" program.
- The FOMC expects inflation will continue to moderate and remain subdued in 2012 and 2013.
- In response to European financial institutions difficulty in obtaining short-term funding, the Fed, along with five other major central banks, announced a coordinated action to provide liquidity support with the goal of easing strains in the financial markets.

### Bond Markets

- The Treasury market traded in a fairly tight range and posted positive returns as rates moved modestly lower across the yield curve.
- Increased risk tolerance led to significant high yield spread tightening. However, high grade corporate bond spreads experienced minimal spread tightening as investors continued to be concerned about the banking sector's exposure to the European debt crisis.
- The municipal bond market posted significant gains, bringing year-to-date returns on intermediate and longer-term bonds to double-digits. Rates across most of the curve ended the quarter at record lows; however, the municipal to Treasury ratio remained elevated which should provide a cushion against a potential rise in Treasury yields.

### Equity Markets

- Broad-based improvement in the domestic economic outlook drove stocks higher in the fourth quarter and investors were rewarded with double-digit gains. The Russell 2000 Index of small cap stocks posted one of the ten strongest quarters in the history of this index.
- All sectors showed solid positive results. Those linked most closely to global growth, such as Industrials, Materials and Energy, saw the sharpest rebound.
- Encouraged by stabilizing economic factors, investors were more willing to take on risk in the fourth quarter. For the year overall, it was the safer corners of the market, such as dividend paying companies and large cap blue chip stocks, that produced relatively strong performance.
- Wild volatility was ever present in 2011. Despite a strong fourth quarter finish, stock indexes ended the year not too far from where they started. Larger cap stocks posted modest gains and smaller cap stocks modest losses.

money will be lost in bonds. Oops. They were dead wrong! Bonds have posted one of the best years for returns in history. I concluded that letter saying, "Treasury's do not represent a looming bubble...." Since that time, the yield on the 10-year Treasury bond has declined from 3.47% to 1.88% and ten-year municipal bond yields have declined from 3.19% to 1.83%.

In June I wrote, "...the prevailing attitude today sees a double dip recession in every piece of disappointing economic news.... Maybe, just maybe, the slow improvements in the economic indicators mean just that—a slow economic recovery...." Oops. No double-dip recession as the economy continues to repair itself. True, the S&P has declined modestly since then, by -3.7%, but it has shown great resilience in weathering the storm.

Finally in September, I wrote "...avoid investing in short-term instruments... While principal is secure... return is vulnerable. What good is principal without return?" Today, yields continue to decline.

As we enter a new year, domestic concerns are focused on Europe and "contagion." Europe no doubt has problems, but there will be a solution. The events across the pond will not have a significant negative impact on the United States. We Americans are quite provincial and seem never to understand the social attitudes of our friends and foes. We entered into wars in Iraq and Afghanistan without a deep enough knowledge of their customs and habits; we only learned after we were in the middle of the quagmires. So too, with our European friends. We need to appreciate that close to 100 million people died in Europe between the two World Wars. The countries involved, then mortal enemies, now understand that it is better to struggle as a union than to draw back to selfish interests and let fate run its course. The European Union is young and is certainly far from perfect. We have all learned that a unified monetary structure without fiscal discipline does not work. How these different governments, economies and social habits fit together will be a work in progress.

There will be changes, obviously. Greece cannot compete with Germany, but maybe there will be adjustments, new levels of discipline to alleviate the friction. I find it ironic that those countries that fought to keep communism at bay through engaging in socialist policies are now struggling the most, and those countries that were behind "the Iron Curtain," having now tasted capitalism, are far healthier. The world does turn in funny ways.

The press misses the point of how manufacturing in the U.S. is being revitalized. According to the Boston Consulting Group, manufacturing labor costs in the U.S. and China may converge by 2015. Wages in China for skilled workers are rising 17% per year and the yuan is being slowly revalued upwards.

The trend of manufacturing staying in, or coming to, the U.S. is already discernable. Caterpillar is building a 600,000 square foot plant in Texas, while Ford, Chrysler, General Motors and Volkswagen are spending \$4 billion apiece re-tooling or building factories in the U.S. over the next four years. Additionally, the new UAW contract, which received hardly any press, brought down wages for new employees to \$15 per hour.

There is a wind shift, yet once again people are looking through their rear-view mirrors. America is coming back, even with a dysfunctional government and consumers in net savings. America is a global player taking advantage of global opportunities and bringing back businesses that used to be too expensive to be homegrown. There is no doubt that Europe's problems, a cheap dollar and costly shipping due to high energy prices added fuel to our recovery and will augment the recovery in the manufacturing sector. However, give credit where credit is due. Our entrepreneurial culture is alive and well. Corporate cash is higher than ever, our management teams are sophisticated and the global market awaits our products, skills and services.

Even with a struggling Europe, a slowing Chinese economy and other problems around the world, I believe American business will fare extremely well as an exporter as we diversify products, sales and services around the globe. The global economy may have slowed our growth, but it expanded the markets into which we can sell. I suspect the story of the next ten years will be one of how the American business community led the United States from a lackluster economy to one of vibrancy. It won't be the consumer leading the economy this time, nor the government (state or local), but good old fashioned business.

Please don't view the world through the news *du jour*. Don't look through the rear view mirror. Don't just see the negative news. Below the surface, change is occurring and the United States will be a major beneficiary.

Keep the faith.



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

## GW&K Update

December 31, 2011

|                                |                |
|--------------------------------|----------------|
| Total Assets Under Management  | \$12.9 Billion |
| Total Employees                | 93             |
| Total Investment Professionals | 30             |

# 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*

The municipal bond market posted significant gains in the fourth quarter. Even though their Treasury counterparts were generally unchanged, intermediate tax-exempt rates dropped approximately 40 basis points for the quarter, ending the year at record lows.

All year long, the municipal market showed remarkable resilience, proving the naysayers wrong at every turn. Many casual observers of our market predicted chaos for state budgets or that municipal bankruptcies would become an epidemic. None of this came to pass. Instead, states cut spending, raised revenues, reduced services, renegotiated public benefit contracts and trimmed their labor forces. The number of defaults was actually down from the last two years. The municipal market re-established itself as a reliable safe haven, keeping pace with the broader flight to quality in U.S. Treasuries while, at the same time, exhibiting much less volatility.

We spent much of the fourth quarter redeploying all the cash that we initially raised in August when rates had plummeted to historic lows. As supply came back to the market in the fall, we put the cash back to work under much better buying conditions. The spike in issuance drove rates higher and

**"We head into 2012 with tax-exempt rates at historic lows. Once again, we hear prognosticators claiming that interest rates have nowhere to go but up. This is hardly a given."**

many underwriters were forced to cheapen deals significantly. We were well positioned to take advantage of the many single-A and double-A rated deals that were priced to sell, their spreads ranging from 50 to 150 basis points above the benchmark curve.

We head into 2012 with tax-exempt rates at historic lows. Once again, we hear prognosticators claiming that interest rates have nowhere to go but up. This is hardly a given. The Fed has committed to keeping short-term rates anchored at zero through at least 2013 and has not ruled out another round of direct purchases of U.S. debt. A slowdown in Asia could easily weigh down domestic growth. Further meltdowns in Europe could bring about a new round of flight to quality trades. Any or all of these factors could lead to stable or lower rates.

None of which is to say that 2012 will replicate the returns we saw in 2011. But municipals should still play an important role in any portfolio as a safe haven from global turbulence, a relatively stable asset class in

## Investment Management Team

|                         |  |
|-------------------------|--|
| Nancy G. Angell, CFA    | Senior Vice President, Co-Director of Fixed Income |
| John B. Fox, CFA        | Senior Vice President, Co-Director of Fixed Income |
| Martin R. Tourigny, CFA | Senior Vice President                              |
| Brian T. Moreland, CFA  | Vice President                                     |

|  |    |
|--|----|
| Total Fixed Income Investment Professionals: | 21 |
| Average Years Experience:                    | 17 |
| Average Years with Firm:                     | 11 |

what could be a volatile election year and a cheaper alternative to similarly rated fixed income securities, notably U.S. Treasuries.

The **Municipal Bond Strategy** outperformed the Barclays 10-Year Index for both the fourth quarter and the year. Our longer maturities (10–15 years) proved to be the best performers as rates declined significantly in that area of the curve. Other positive contributors included underweighted positions in lower quality sectors including Tobacco, Gas, and BBB's (GWK 0% allocation), our tactical shift into cash in Q3 and subsequent redeployment in Q4, and overall trade execution. An underweight to zero coupon bonds was a benefit to performance in the fourth quarter but was a negative for the year as a longer duration and spread tightening aided this sector.

The **Municipal Enhanced Yield Strategy** posted strong absolute returns for both the fourth quarter and the full year. Our overweight to BBB bonds was a positive in the quarter as spreads tightened, particularly in the long-end of the curve. Our longer duration helped our relative performance against the Merrill Lynch 15+ Year Index in 2011 as long rates declined by over 100 basis points. Looking forward, wide credit spreads and a steep yield curve continue to highlight the relative attractiveness of this Strategy, which

boasts yields over 200 basis points higher than the intermediate space.

The **Five-Year Municipal Bond Strategy** outperformed the Barclays 5-Year Index for the quarter and the year. A modest duration overweight was employed to take advantage of value in the 6–8 year part of the curve. This portion of the strategy was the best performer, benefitting from higher curve roll and yield as well as a flattening of the yield curve. Performance was also positively impacted by the tactical raising and redeployment of cash in the second half of the year. The Five-Year Strategy continues to be an appropriate investment for those seeking a reasonable return with limited volatility.

The **Short-Term Municipal Bond Strategy** posted solid relative returns for the quarter and the year, finishing ahead of the Barclays 1-Year Index. Despite a modest steepening during the fourth quarter, the front end of the curve flattened considerably during the year. A modest overweight to bonds longer than the index drove our outperformance. Even with historically low yields short-term bonds continue to offer an alternative to near-zero money market rates.

# 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*

Fixed income investors experienced another volatile year, as the still-nascent global recovery was repeatedly set back by the full gamut of natural, economic, and political crises. The bond markets began a remarkable rally in March, as investors digested the devastating human and economic fallout from the Japanese earthquake. Against the backdrop of a massive supply chain disruption triggered by the earthquake, global growth forecasts were broadly revised downward, causing further distress in the European periphery. Global debt concerns mounted until, on August 5, Standard & Poor's stripped the U.S. of its AAA rating.

Ironically, the Treasury market continued to rally, and the ten-year Treasury yield touched a low of 1.72%, a level last reached only during the depths of the 2008 credit crisis. Aware of the downside risks to domestic growth, the Federal Reserve (Fed) reacted with the announcement of *Operation Twist*, a program designed to put downward pressure on interest rates. As investors began to discount a double-dip recession and chased the declining stock of truly riskless assets, risk markets suffered.

In the end, the Barclays Aggregate Index returned 1.12% for the quarter and 7.84% for the year. The solid results were propped up by a 35% weighting

to the Treasury sector, which returned 9.81% for the twelve month period due to the dramatic yield curve flattening. The long bond, the largest beneficiary of the Fed's buying as part of *Operation Twist*, returned a spectacular 35.60% for the year.

Investment grade corporate bonds lagged Treasuries with returns of 1.93% in the quarter and 8.15% on the year. Down-in-quality investment grade issuers generally outperformed. High yield issuers returned 6.46% and 4.98% for the quarter and year, respectively, with the higher quality issues (BB and B) performing better. Mortgage-backed securities also underperformed Treasuries in 2011, held back by their relative shorter duration during the substantial rate rally and the persistent threat of a potential wave of government-induced refinancings.

The **Total Return Bond Strategy** and the **Enhanced Core Strategy** both outperformed the Barclays Aggregate Index during the quarter due to our overweight to corporate bonds. The **Enhanced Core Strategy** came in just ahead of the Aggregate Index on the year, as our overweight to Local Authorities allowed us to outperform the Index despite our overweight to high yield and underweight to Treasuries. The **Total Return Bond Strategy** slightly underperformed the Aggregate Index for the year

## Investment Management Team

|                      |  |
|----------------------|--|
| Mary F. Kane, CFA    | Senior Vice President                              |
| Nancy G. Angell, CFA | Senior Vice President, Co-Director of Fixed Income |
| John B. Fox, CFA     | Senior Vice President, Co-Director of Fixed Income |

|  |    |
|--|----|
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due to our exposure to high yield bonds relative to an Index with no high yield component. The **Total Return Bond Strategy** outperformed the 60/40 blend of the Barclays Government/Credit and High Yield Indices due to our up-in-quality focus within high yield and our overweight and security selection within Local Authorities, which offset the underweight to Treasuries.

The **Core Bond Strategy** outperformed the Barclays Aggregate Index in the quarter due to our overweight to investment grade corporates, particularly BBB rated bonds. For the year, those BBB's, coupled with an overweight to Local Authorities, allowed us to outperform the Index despite our underweight to Treasuries.

The **Short-Term Bond Strategy** outperformed the Barclays 1-5 Year Government/Credit Index in the fourth quarter due to our overweight to investment grade corporates. However, the same overweight, with its corresponding underweight to Treasuries, caused

us to underperform on the year, despite strong performance and security selection from our overweighting Local Authorities.

The **Corporate Bond Opportunities Strategy** underperformed its benchmark, a 60/40 blend of the Barclays High Yield and Credit Indices, during the fourth quarter, as higher beta high yield issuers outperformed during that period. Despite this underperformance, we significantly outperformed the benchmark over the course of the year due to our up-in-quality bias within high yield and our allocation to Local Authorities, which are not represented in the benchmark.

Our focus in 2012 remains the identification of exploitable relative value opportunities across multiple sectors. Downside risks to all securities markets remain, be it a deleveraging in the Eurozone or an impending fiscal drag within our domestic economy. However, we maintain that the creditor European economies will agree to the fiscal consolidation necessary to preserve the Eurozone in which they have thrived. Domestically, consumer confidence has rebounded as labor conditions and pricing pressures have improved, and the Fed continues to demonstrate the ability to manufacture and manage our domestic recovery.

*"As investors began to discount a double-dip recession and chased the declining stock of truly riskless assets, risk markets suffered."*

# 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 Equity Dividend Plus Strategy

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

## 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 Small Cap Growth Strategy

*Utilizes fundamental research and quantitative screening to identify small companies with sustainable, above-average earnings growth in niche markets*

While investors fretted over the future of the Euro and continued political wrangling in the U.S. over debt and deficits, U.S. stocks posted very respectable double-digit gains in the fourth quarter of 2011. Driving this gain has been a fairly broad-based improvement in the domestic economic outlook. Positive signs were seen broadly in all segments of the economy, including employment, manufacturing and consumption. Even housing showed early signs of recovery late in the quarter.

Most of the quarter's gains came early, with double-digit advances in October. Markets then gyrated within a fairly narrow band the last two months of the quarter. When combining the quarter's gains with the difficult environment experienced during the first nine months of the year, we have ended 2011 not too far from where we started: stocks generally flat, with larger caps posting modest gains and smaller caps modest losses. The Russell 2000 Index posted one of the ten strongest quarters in the history of this index, but it was not enough for this small cap index to end the year in positive territory. All sectors with the exception of Financials saw large caps outperform their small cap cousins in 2011, resulting in the first time that large caps have beaten small caps since 2007.

Market gains this quarter were fairly broad, as all sectors showed solid positive results. The Industrials, Materials and Energy sectors showed the strongest performance, driven by the improved economic outlook and a strong rebound in oil prices.

Fourth quarter performance for our Equity strategies was strong across the board, with all of our strategies reporting double-digit gains that exceeded each of their respective benchmarks. We were particularly pleased with this relative performance, as our focus on less volatile, high qual-

ity names tends to make it more difficult for us to outperform in strong market environments. But this was more than offset by our strong stock selection in the quarter. 2011 was a volatile year and presented portfolio managers with some trying dips. For the full year period, all but one of our strategies outperformed

## Investment Management Team

Daniel L. Miller, CFA

*Senior Vice President, Director of Equities*

Edward B. White, CFA, CIC

*First Senior Vice President*

Jeffrey W. Thibault, CFA

*Senior Vice President*

Total Equity Investment Professionals:

10

Average Years Experience:

21

Average Years with Firm:

12

*"Quality companies tend to gain share in good times and bad times, as they tend to reinvest in their future regardless of the economic outlook. And investors tend to pay more for this quality when they are concerned for the future."*

their respective benchmarks by several percentage points. Only our Diversified Equity Strategy, with its multi-cap nature and thus its holdings of many smaller companies, slightly trailed its large cap benchmark.

We remain positive on our outlook for equities for numerous reasons. Most importantly, the list of economic indicators showing improvement is surprisingly large, with positive trends in the unemployment rate, manufacturing, consumer spending and housing. There has been significant improvement in the productivity of the U.S. labor force, which continues to close the gap versus lower cost countries such as China, so manufacturing jobs are coming back to the U.S.! Corporate America is in solid financial shape. As we have written in the past, improved corporate balance sheets and large cash balances will be used to invest in growth, acquire other companies, or pay out to shareholders in the form of share repurchases or dividends.

The risks of European recession driven by austerity policies and high interest rates on the sovereign debt of a growing list of countries does not portend well for profits, growth, stock markets or the Euro. But these risks are well articulated and seem well understood by investors. Not that these issues are minor by any means, but their impact on our domestic

economy should be relatively modest and shouldn't derail our continued recovery.

Stock market sentiment remains negative despite the market's strong fourth quarter rally. While investors continue to keep their cash on the sidelines, this has historically been a good contrary indicator of market performance. Eventually, as the economy continues to heal, investors will be willing to take on more risk and will come back to equities.

Our investment style, which is focused on investing in well managed companies with consistency of growth, is well suited for this environment where a prolonged and perhaps choppy multi-year recovery is likely. Quality companies tend to gain share in good times and bad times, as they tend to reinvest in their future regardless of the economic outlook. And investors tend to pay more for this quality when they are concerned for the future. We therefore remain optimistic about our ability to sustain our performance in the quarters and years ahead.

*"Fourth quarter performance for our Equity strategies was strong across the board, with all of our strategies reporting double-digit gains that exceeded each of their respective benchmarks."*

**Gannett Welsh & Kotler, LLC**

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

*Please refer to the attached GIPS-compliant presentation, which is an integral part of this presentation, for an explanation of our composite criteria and calculations.*

*This represents the views and opinions of Gannett Welsh & Kotler and does not constitute investment advice, nor should it be considered predictive of any future market performance. Data is from what we believe to be reliable sources, but it cannot be guaranteed. Opinions expressed are subject to change. **Past performance is not indicative of future results.***

## Tax Exempt Bond Strategies

| Performance Ending 12/31/11 (%) <sup>1</sup> | Quarter | YTD   | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception | Inception Date      |
|--|---------|-------|--------|---------|---------|----------|-----------------|---------------------|
| GW&K Municipal Bond                          | 3.40    | 12.97 | 12.97  | 9.24    | 6.38    | 5.63     | 6.13            | 1/1/93 <sup>2</sup> |
| Barclays 10-Year Muni Bond Index             | 3.23    | 12.32 | 12.32  | 8.68    | 6.33    | 5.90     | 6.16            |                     |
| Barclays 5-Year Muni Bond Index              | 1.45    | 6.93  | 6.93   | 5.90    | 5.72    | 4.88     | 5.18            |                     |
| GW&K Municipal Enhanced Yield                | 2.40    | 13.90 | 13.90  | 12.57   | 4.66    |          | 5.09            | 4/1/06              |
| Merrill 15+ Year Muni Index                  | 2.29    | 14.15 | 14.15  | 12.10   | 4.74    |          | 5.07            |                     |
| GW&K Five-Year Municipal Bond                | 2.34    | 8.92  | 8.92   | 6.75    | 5.89    |          | 4.45            | 6/1/03              |
| Barclays 5-Year Muni Bond Index              | 1.45    | 6.93  | 6.93   | 5.90    | 5.72    |          | 4.24            |                     |
| GW&K Short-Term Municipal Bond               | 0.27    | 1.92  | 1.92   | 2.40    | 3.25    | 2.75     | 2.75            | 1/1/02              |
| Barclays 1-Year Muni Bond Index              | 0.21    | 1.58  | 1.58   | 2.07    | 3.03    | 2.64     | 2.64            |                     |
| Schwab Money Fund <sup>3</sup>               | 0.01    | 0.01  | 0.01   | 0.09    | 1.10    | 1.31     | 1.31            |                     |

## Taxable Bond Strategies

| Performance Ending 12/31/11 (%) <sup>1</sup> | Quarter | YTD  | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception | Inception Date      |
|--|---------|------|--------|---------|---------|----------|-----------------|---------------------|
| GW&K Total Return Bond                       | 2.85    | 7.51 | 7.51   | 12.45   | 8.27    | 6.93     | 7.61            | 1/1/93 <sup>2</sup> |
| Style Index <sup>4</sup>                     | 3.29    | 7.29 | 7.29   | 13.37   | 7.04    | 7.14     | 7.12            |                     |
| Barclays Aggregate Bond Index                | 1.12    | 7.84 | 7.84   | 6.77    | 6.50    | 5.78     | 6.46            |                     |
| GW&K Enhanced Core Bond                      | 2.28    | 7.85 | 7.85   | 11.02   | 8.14    | 6.46     | 6.90            | 10/1/99             |
| Barclays Aggregate Bond Index                | 1.12    | 7.84 | 7.84   | 6.77    | 6.50    | 5.78     | 6.33            |                     |
| GW&K Core Bond                               | 1.79    | 8.03 | 8.03   | 9.10    | 8.04    | 6.38     | 6.40            | 2/1/01              |
| Barclays Aggregate Bond Index                | 1.12    | 7.84 | 7.84   | 6.77    | 6.50    | 5.78     | 5.91            |                     |
| GW&K Corporate Bond Opportunities            | 3.57    | 7.56 | 7.56   | 17.41   |         |          | 6.75            | 10/1/07             |
| Style Index <sup>5</sup>                     | 4.55    | 6.38 | 6.38   | 18.73   |         |          | 7.90            |                     |
| GW&K Short-Term Taxable                      | 0.88    | 2.69 | 2.69   | 4.14    | 4.95    |          | 4.10            | 10/1/02             |
| Barclays 1-5 Year US Gov/Credit Index        | 0.43    | 3.14 | 3.14   | 3.94    | 4.84    |          | 3.94            |                     |

## Equity Strategies

| Performance Ending 12/31/11 (%) <sup>1</sup> | Quarter | YTD   | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception | Inception Date      |
|--|---------|-------|--------|---------|---------|----------|-----------------|---------------------|
| GW&K Diversified Equity                      | 14.57   | 0.69  | 0.69   | 15.68   | 0.71    | 3.51     | 8.97            | 1/1/93 <sup>2</sup> |
| Standard & Poor's 500 Stock Index            | 11.82   | 2.11  | 2.11   | 14.11   | -0.25   | 2.92     | 7.82            |                     |
| Russell 2000 Index                           | 15.47   | -4.18 | -4.18  | 15.63   | 0.15    | 5.62     | 8.03            |                     |
| GW&K Small Cap Equity                        | 15.64   | 3.27  | 3.27   | 21.25   | 5.71    | 10.56    | 7.10            | 1/1/00              |
| Russell 2000 Index                           | 15.47   | -4.18 | -4.18  | 15.63   | 0.15    | 5.62     | 4.61            |                     |
| GW&K Equity Dividend Plus                    | 12.13   | 12.17 | 12.17  | 17.81   | 2.51    |          | 7.21            | 11/1/03             |
| Standard & Poor's 500 Stock Index            | 11.82   | 2.11  | 2.11   | 14.11   | -0.25   |          | 4.32            |                     |
| GW&K Small/Mid Cap Equity                    | 16.30   | 3.56  | 3.56   | 24.37   | 5.33    |          | 6.75            | 1/1/06              |
| Russell 2500 Index                           | 14.52   | -2.51 | -2.51  | 18.41   | 1.24    |          | 3.59            |                     |
| GW&K Small Cap Growth                        | 15.60   | 2.87  | 2.87   | 23.58   |         |          | 11.15           | 4/1/08              |
| Russell 2000 Growth Index                    | 14.99   | -2.91 | -2.91  | 19.00   |         |          | 4.71            |                     |

Gannett  
Welsh &  
Kotler, LLC

222 Berkeley Street  
Boston  
Massachusetts 02116  
617-236-8900  
www.gwkinc.com

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

<sup>2</sup> 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 dates are GW&K Municipal Bond, 1/1/80; GW&K Total Return Bond, 1/1/88; and GW&K Diversified Equity, 1/1/89.

<sup>3</sup> Represents net of fee performance

<sup>4</sup> 60% Barclays Gov Credit / 40% Barclays High Yield, rebalanced daily

<sup>5</sup> 60% Barclays High Yield / 40% Barclays Credit, rebalanced daily

# 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 claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. GW&K has been independently verified for the periods January 1, 1995 through December 31, 2010. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS Standards on a firm-wide basis, and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS Standards. Verification does not ensure the accuracy of any specific composite presentations. The *Diversified Equity* and *Municipal Bond* composites have been examined for the periods January 1, 1995, through December 31, 2010. The *Small Cap Equity* composite has been examined for the periods January 1, 2000, through December 31, 2010. The verification and performance examination reports are available upon request.

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 *Small Cap Growth Equity* composite (created on 4/1/08) 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 4/1/06) 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, .75% for the Corporate Bond Opportunities Strategy, and .65% for the Municipal Enhanced Yield Strategy. Client fees may vary.

Effective 5/1/11, the benchmark for the Short-Term Taxable Bond Strategy was changed from the Barclays 1-3 Year Government Bond Index to the Barclays 1-5 Year Government/Credit Index. While our strategy's investment objectives and process remain the same, the new benchmark includes corporate bonds which have always been an integral part of our taxable bond strategy.

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 as well as policies for valuing portfolios, calculating performance, and preparing compliant presentations is 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.

## Annualized Performance Results Ending 12/31/11 (%)<sup>1</sup>

|  | 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   |                     |
| <b>GW&amp;K Municipal Bond</b>               | 3.40    | 3.15  | 12.97 | 11.88 | 12.97  | 11.88 | 9.24    | 8.17  | 6.38    | 5.33  | 5.63     | 4.59 | 6.13            | 5.09  | 1/1/93 <sup>2</sup> |
| Barclays 10-Year Muni Bond Index             | 3.23    |       | 12.32 |       | 12.32  |       | 8.68    |       | 6.33    |       | 5.90     |      | 6.16            |       |                     |
| Barclays 5-Year Muni Bond Index              | 1.45    |       | 6.93  |       | 6.93   |       | 5.90    |       | 5.72    |       | 4.88     |      | 5.18            |       |                     |
| <b>GW&amp;K Municipal Enhanced Yield</b>     | 2.40    | 2.24  | 13.90 | 13.18 | 13.90  | 13.18 | 12.57   | 11.86 | 4.66    | 3.99  |          |      | 5.09            | 4.42  | 4/1/06              |
| Merrill 15+ Year Muni Index                  | 2.29    |       | 14.15 |       | 14.15  |       | 12.10   |       | 4.74    |       |          |      | 5.07            |       |                     |
| <b>GW&amp;K Five-Year Municipal Bond</b>     | 2.34    | 2.20  | 8.92  | 8.33  | 8.92   | 8.33  | 6.75    | 6.18  | 5.89    | 5.32  |          |      | 4.45            | 3.88  | 6/1/03              |
| Barclays 5-Year Muni Bond Index              | 1.45    |       | 6.93  |       | 6.93   |       | 5.90    |       | 5.72    |       |          |      | 4.24            |       |                     |
| <b>GW&amp;K Short-Term Municipal Bond</b>    | 0.27    | 0.20  | 1.92  | 1.62  | 1.92   | 1.62  | 2.40    | 2.10  | 3.25    | 2.94  | 2.75     | 2.45 | 2.75            | 2.45  | 1/1/02              |
| Barclays 1-Year Muni Bond Index              | 0.21    |       | 1.58  |       | 1.58   |       | 2.07    |       | 3.03    |       | 2.64     |      | 2.64            |       |                     |
| Schwab Money Fund                            | 0.01    |       | 0.01  |       | 0.01   |       | 0.09    |       | 1.10    |       | 1.31     |      | 1.31            |       |                     |
| <b>GW&amp;K Total Return Bond</b>            | 2.85    | 2.60  | 7.51  | 6.46  | 7.51   | 6.46  | 12.45   | 11.36 | 8.27    | 7.22  | 6.93     | 5.88 | 7.61            | 6.55  | 1/1/93 <sup>2</sup> |
| Style Index <sup>3</sup>                     | 3.29    |       | 7.29  |       | 7.29   |       | 13.37   |       | 7.04    |       | 7.14     |      | 7.12            |       |                     |
| Barclays Aggregate Bond Index                | 1.12    |       | 7.84  |       | 7.84   |       | 6.77    |       | 6.50    |       | 5.78     |      | 6.46            |       |                     |
| <b>GW&amp;K Enhanced Core Bond</b>           | 2.28    | 2.03  | 7.85  | 6.79  | 7.85   | 6.79  | 11.02   | 9.95  | 8.14    | 7.09  | 6.46     | 5.41 | 6.90            | 5.85  | 10/1/99             |
| Barclays Aggregate Bond Index                | 1.12    |       | 7.84  |       | 7.84   |       | 6.77    |       | 6.50    |       | 5.78     |      | 6.33            |       |                     |
| <b>GW&amp;K Core Bond</b>                    | 1.79    | 1.54  | 8.03  | 6.97  | 8.03   | 6.97  | 9.10    | 8.03  | 8.04    | 6.99  | 6.38     | 5.34 | 6.40            | 5.35  | 2/1/01              |
| Barclays Aggregate Bond Index                | 1.12    |       | 7.84  |       | 7.84   |       | 6.77    |       | 6.50    |       | 5.78     |      | 5.91            |       |                     |
| <b>GW&amp;K Corporate Bond Opportunities</b> | 3.57    | 3.38  | 7.56  | 6.83  | 7.56   | 6.83  | 17.41   | 16.66 |         |       | 6.75     |      | 6.75            | 6.06  | 10/1/07             |
| Style Index <sup>4</sup>                     | 4.55    |       | 6.38  |       | 6.38   |       | 18.73   |       |         |       | 7.90     |      | 7.90            |       |                     |
| <b>GW&amp;K Short-Term Taxable</b>           | 0.88    | 0.75  | 2.69  | 2.18  | 2.69   | 2.18  | 4.14    | 3.63  | 4.95    | 4.50  | 4.10     |      | 4.10            | 3.69  | 10/1/02             |
| Barclays 1-5 Year US Gov/Credit Index        | 0.43    |       | 3.14  |       | 3.14   |       | 3.94    |       | 4.84    |       | 3.94     |      | 3.94            |       |                     |
| <b>GW&amp;K Diversified Equity</b>           | 14.57   | 14.32 | 0.69  | -0.32 | 0.69   | -0.32 | 15.68   | 14.56 | 0.71    | -0.30 | 3.51     | 2.48 | 8.97            | 7.90  | 1/1/93 <sup>2</sup> |
| Standard & Poor's 500 Stock Index            | 11.82   |       | 2.11  |       | 2.11   |       | 14.11   |       | -0.25   |       | 2.92     |      | 7.82            |       |                     |
| Russell 2000 Index                           | 15.47   |       | -4.18 |       | -4.18  |       | 15.63   |       | 0.15    |       | 5.62     |      | 8.03            |       |                     |
| <b>GW&amp;K Small Cap Equity</b>             | 15.64   | 15.39 | 3.27  | 2.24  | 3.27   | 2.24  | 21.25   | 20.09 | 5.71    | 4.66  | 10.56    | 9.48 | 7.10            | 6.05  | 1/1/00              |
| Russell 2000 Index                           | 15.47   |       | -4.18 |       | -4.18  |       | 15.63   |       | 0.15    |       | 5.62     |      | 4.61            |       |                     |
| <b>GW&amp;K Equity Dividend Plus</b>         | 12.13   | 11.88 | 12.17 | 11.08 | 12.17  | 11.08 | 17.81   | 16.68 | 2.51    | 1.50  |          |      | 7.21            | 6.16  | 11/1/03             |
| Standard & Poor's 500 Stock Index            | 11.82   |       | 2.11  |       | 2.11   |       | 14.11   |       | -0.25   |       |          |      | 4.32            |       |                     |
| <b>GW&amp;K Small/Mid Cap Equity</b>         | 16.30   | 16.05 | 3.56  | 2.53  | 3.56   | 2.53  | 24.37   | 23.19 | 5.33    | 4.28  |          |      | 6.75            | 5.70  | 1/1/06              |
| Russell 2500 Index                           | 14.52   |       | -2.51 |       | -2.51  |       | 18.41   |       | 1.24    |       |          |      | 3.59            |       |                     |
| <b>GW&amp;K Small Cap Growth</b>             | 15.60   | 15.35 | 2.87  | 1.84  | 2.87   | 1.84  | 23.58   | 22.40 |         |       |          |      | 11.15           | 10.06 | 4/1/08              |
| Russell 2000 Growth Index                    | 14.99   |       | -2.91 |       | -2.91  |       | 19.00   |       |         |       |          |      | 4.71            |       |                     |

<sup>1</sup> Returns of less than 1 year are not annualized.

<sup>2</sup> 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).

<sup>3</sup> 60% Barclays Gov Credit / 40% Barclays High Yield, rebalanced daily

<sup>4</sup> 60% Barclays High Yield / 40% Barclays Credit, rebalanced daily

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

|  | 2011  | 2010  | 2009  | 2008 <sup>1</sup> | 2007 <sup>1</sup> | 2006 <sup>1</sup> | 2005  | 2004  | 2003 <sup>1</sup> | 2002 <sup>1</sup> |
|--|-------|-------|-------|-------------------|-------------------|-------------------|-------|-------|-------------------|-------------------|
| <b>GW&amp;K Municipal Bond (Gross)</b>                   | 12.97 | 3.83  | 11.12 | 0.55              | 3.94              | 4.61              | 2.33  | 4.00  | 4.94              | 8.64              |
| GW&K Municipal Bond (Net)                                | 11.88 | 2.81  | 10.04 | -0.45             | 2.91              | 3.58              | 1.32  | 2.98  | 3.90              | 7.58              |
| Barclays 10-Year Muni Bond Index                         | 12.32 | 4.05  | 9.85  | 1.52              | 4.29              | 4.71              | 2.74  | 4.15  | 5.70              | 10.17             |
| Barclays 5-Year Muni Bond Index                          | 6.93  | 3.40  | 7.40  | 5.78              | 5.15              | 3.34              | 0.94  | 2.72  | 4.13              | 9.27              |
| GW&K Municipal Bond Standard Deviation                   | 5.86  | 7.08  | 6.61  | 5.10              | 2.80              | 3.59              | 4.71  | 5.01  | 4.60              | 3.81              |
| Barclays 10-Year Muni Bond Index Standard Deviation      | 5.31  | 6.37  | 5.95  | 4.67              | 2.77              | 3.55              | 4.94  | 5.49  | 5.26              | 4.34              |
| Barclays 5-Year Muni Bond Index Standard Deviation       | 3.28  | 4.36  | 4.15  | 3.44              | 1.74              | 2.40              | 3.17  | 3.91  | 3.68              | 3.17              |
| <b>GW&amp;K Municipal Enhanced Yield (Gross)</b>         | 13.90 | 2.16  | 22.60 | -11.89            | -0.07             | 5.95              |       |       |                   |                   |
| GW&K Municipal Enhanced Yield (Net)                      | 13.18 | 1.50  | 21.84 | -12.48            | -0.72             | 5.45              |       |       |                   |                   |
| Merrill 15+ Year Muni Index                              | 14.15 | 1.44  | 21.65 | -11.95            | 1.61              | 5.46              |       |       |                   |                   |
| GW&K Municipal Enhanced Yield Standard Deviation         | 7.09  | 10.01 | 9.65  |                   |                   |                   |       |       |                   |                   |
| Merrill 15+ Year Muni Index Standard Deviation           | 7.16  | 9.97  | 9.48  |                   |                   |                   |       |       |                   |                   |
| <b>GW&amp;K Five-Year Municipal Bond (Gross)</b>         | 8.92  | 4.08  | 7.32  | 4.27              | 4.94              | 3.50              | 1.22  | 2.95  | 1.18              |                   |
| GW&K Five-Year Municipal Bond (Net)                      | 8.33  | 3.51  | 6.74  | 3.70              | 4.38              | 2.94              | 0.67  | 2.39  | 0.86              |                   |
| Barclays 5-Year Muni Bond Index                          | 6.93  | 3.40  | 7.40  | 5.78              | 5.15              | 3.34              | 0.94  | 2.72  | 0.88              |                   |
| GW&K Five-Year Municipal Bond Standard Deviation         | 4.01  | 4.85  | 4.56  | 3.45              | 1.80              | 2.44              |       |       |                   |                   |
| Barclays 5-Year Muni Bond Index Standard Deviation       | 3.28  | 4.36  | 4.15  | 3.44              | 1.74              | 2.40              |       |       |                   |                   |
| <b>GW&amp;K Short-Term Municipal Bond (Gross)</b>        | 1.92  | 1.21  | 4.10  | 4.61              | 4.46              | 3.57              | 1.90  | 1.16  | 1.59              | 3.10              |
| GW&K Short-Term Municipal Bond (Net)                     | 1.62  | 0.91  | 3.79  | 4.30              | 4.15              | 3.26              | 1.59  | 0.86  | 1.28              | 2.79              |
| Barclays 1-Year Muni Bond Index                          | 1.58  | 1.17  | 3.49  | 4.57              | 4.37              | 3.20              | 1.49  | 1.06  | 1.71              | 3.85              |
| Schwab Muni Money Fund <sup>2</sup>                      | 0.01  | 0.01  | 0.26  | 2.00              | 3.26              | 3.03              | 2.00  | 0.82  | 0.68              | 1.12              |
| GW&K Short-Term Municipal Bond Standard Deviation        | 0.88  | 1.42  | 1.31  | 1.15              | 0.43              | 0.42              | 0.28  | 0.55  |                   |                   |
| Barclays 1-Year Muni Bond Index Standard Deviation       | 0.59  | 1.22  | 1.16  | 1.12              | 0.56              | 0.62              | 0.59  | 1.00  |                   |                   |
| Schwab Muni Money Fund <sup>2</sup> Standard Deviation   | 0.05  | 0.29  | 0.39  | 0.26              | 0.26              | 0.32              | 0.22  | 0.10  |                   |                   |
| <b>GW&amp;K Total Return Bond (Gross)</b>                | 7.51  | 10.04 | 20.19 | -1.33             | 6.06              | 4.91              | 2.87  | 6.09  | 8.69              | 5.51              |
| GW&K Total Return Bond (Net)                             | 6.46  | 8.97  | 19.05 | -2.32             | 5.02              | 3.88              | 1.85  | 5.05  | 7.63              | 4.47              |
| Style Index <sup>3</sup>                                 | 7.29  | 9.98  | 23.51 | -8.24             | 5.09              | 6.94              | 2.53  | 6.93  | 14.04             | 6.04              |
| Barclays Aggregate Bond Index                            | 7.84  | 6.54  | 5.93  | 5.24              | 6.97              | 4.33              | 2.43  | 4.34  | 4.10              | 10.25             |
| GW&K Total Return Bond Standard Deviation                | 4.39  | 7.51  | 7.39  | 6.68              | 2.81              | 3.18              | 3.93  | 4.11  | 4.91              | 4.55              |
| Style Index <sup>3</sup> Standard Deviation              | 4.73  | 8.17  | 8.09  | 6.94              | 2.77              | 3.18              | 4.32  | 4.82  | 5.44              | 4.83              |
| Barclays Aggregate Bond Index Standard Deviation         | 2.78  | 4.17  | 4.11  | 3.97              | 2.77              | 3.21              | 4.07  | 4.28  | 4.20              | 3.35              |
| <b>GW&amp;K Enhanced Core Bond (Gross)</b>               | 7.85  | 9.18  | 16.22 | 1.63              | 6.35              | 4.78              | 2.62  | 4.96  | 4.50              | 7.16              |
| GW&K Enhanced Core Bond (Net)                            | 6.79  | 8.12  | 15.10 | 0.62              | 5.31              | 3.75              | 1.60  | 3.93  | 3.47              | 6.11              |
| Barclays Aggregate Bond Index                            | 7.84  | 6.54  | 5.93  | 5.24              | 6.97              | 4.33              | 2.43  | 4.34  | 4.10              | 10.25             |
| GW&K Enhanced Core Bond Standard Deviation               | 3.61  | 5.65  | 5.58  | 5.08              | 2.56              | 2.88              | 3.55  | 3.75  | 3.71              | 3.16              |
| Barclays Aggregate Bond Index Standard Deviation         | 2.78  | 4.17  | 4.11  | 3.97              | 2.77              | 3.21              | 4.07  | 4.28  | 4.20              | 3.35              |
| <b>GW&amp;K Core Bond (Gross)</b>                        | 8.03  | 7.58  | 11.74 | 5.80              | 7.17              | 4.53              | 2.72  | 4.68  | 3.63              | 8.28              |
| GW&K Core Bond (Net)                                     | 6.97  | 6.52  | 10.66 | 4.76              | 6.12              | 3.50              | 1.71  | 3.65  | 2.60              | 7.22              |
| Barclays Aggregate Bond Index                            | 7.84  | 6.54  | 5.93  | 5.24              | 6.97              | 4.33              | 2.43  | 4.34  | 4.10              | 10.25             |
| GW&K Core Bond Standard Deviation                        | 3.10  | 4.98  | 5.00  | 4.83              | 2.69              | 2.87              | 3.55  | 3.77  |                   |                   |
| Barclays Aggregate Bond Index Standard Deviation         | 2.78  | 4.17  | 4.11  | 3.97              | 2.77              | 3.21              | 4.07  | 4.28  |                   |                   |
| <b>GW&amp;K Corporate Bond Opportunities (Gross)</b>     | 7.56  | 12.16 | 34.18 | -18.42            | -0.03             |                   |       |       |                   |                   |
| GW&K Corporate Bond Opportunities (Net)                  | 6.83  | 11.45 | 33.37 | -18.98            | -0.19             |                   |       |       |                   |                   |
| Style Index <sup>4</sup>                                 | 6.38  | 12.47 | 39.90 | -17.53            | 0.10              |                   |       |       |                   |                   |
| GW&K Corporate Bond Opportunities Standard Deviation     | 7.06  | 12.44 |       |                   |                   |                   |       |       |                   |                   |
| Style Index <sup>4</sup> Standard Deviation              | 7.83  | 12.56 |       |                   |                   |                   |       |       |                   |                   |
| <b>GW&amp;K Short-Term Taxable (Gross)</b>               | 2.69  | 3.56  | 6.21  | 5.84              | 6.53              | 4.88              | 2.10  | 2.00  | 2.84              | 1.39              |
| GW&K Short-Term Taxable (Net)                            | 2.18  | 3.05  | 5.69  | 5.47              | 6.17              | 4.52              | 1.74  | 1.64  | 2.48              | 1.30              |
| Barclays 1-5 Year US Gov/Credit Index                    | 3.14  | 4.08  | 4.62  | 5.12              | 7.27              | 4.22              | 1.44  | 1.85  | 3.35              | 1.43              |
| GW&K Short-Term Taxable Standard Deviation               | 1.19  | 1.69  | 1.65  | 1.55              | 0.95              | 1.10              | 1.29  |       |                   |                   |
| Barclays 1-5 Year US Gov/Credit Index Standard Deviation | 1.62  | 2.48  | 2.50  | 2.38              | 1.69              | 1.88              | 2.33  |       |                   |                   |
| <b>GW&amp;K Diversified Equity (Gross)</b>               | 0.69  | 13.96 | 34.90 | -35.41            | 3.59              | 11.37             | 8.63  | 12.72 | 33.43             | -25.08            |
| GW&K Diversified Equity (Net)                            | -0.32 | 12.86 | 33.65 | -36.13            | 2.57              | 10.29             | 7.57  | 11.63 | 32.19             | -25.89            |
| Standard & Poor's 500 Stock Index                        | 2.11  | 15.06 | 26.46 | -37.00            | 5.49              | 15.79             | 4.91  | 10.88 | 28.68             | -22.10            |
| Russell 2000 Index                                       | -4.18 | 26.85 | 27.17 | -33.79            | -1.57             | 18.37             | 4.55  | 18.33 | 47.25             | -20.48            |
| GW&K Diversified Equity Standard Deviation               | 17.64 | 21.05 | 18.86 | 15.00             | 7.95              | 7.37              | 10.18 | 15.98 | 19.33             | 21.10             |
| Standard & Poor's 500 Stock Index Standard Deviation     | 18.71 | 21.85 | 19.63 | 15.08             | 7.68              | 6.82              | 9.04  | 14.86 | 18.07             | 18.55             |
| Russell 2000 Index Standard Deviation                    | 24.99 | 27.69 | 24.83 | 19.85             | 13.16             | 13.75             | 15.09 | 18.96 | 21.64             | 24.36             |
| <b>GW&amp;K Small Cap Equity (Gross)</b>                 | 3.27  | 31.62 | 31.15 | -29.87            | 5.59              | 11.05             | 11.47 | 23.24 | 52.64             | -11.25            |
| GW&K Small Cap Equity (Net)                              | 2.24  | 30.39 | 29.92 | -30.64            | 4.55              | 9.97              | 10.39 | 22.07 | 51.27             | -12.16            |
| Russell 2000 Index                                       | -4.18 | 26.85 | 27.17 | -33.79            | -1.57             | 18.37             | 4.55  | 18.33 | 47.25             | -20.48            |
| GW&K Small Cap Equity Standard Deviation                 | 21.38 | 23.80 | 20.51 | 16.13             | 10.23             | 11.63             | 13.85 | 15.88 | 18.98             | 22.06             |
| Russell 2000 Index Standard Deviation                    | 24.99 | 27.69 | 24.83 | 19.85             | 13.16             | 13.75             | 15.09 | 18.96 | 21.64             | 24.36             |
| <b>GW&amp;K Equity Dividend Plus (Gross)</b>             | 12.17 | 17.96 | 23.57 | -29.79            | -1.36             | 17.49             | 8.23  | 14.21 | 7.39              |                   |
| GW&K Equity Dividend Plus (Net)                          | 11.08 | 16.83 | 22.40 | -30.56            | -2.35             | 16.37             | 7.18  | 13.10 | 7.22              |                   |
| Standard & Poor's 500 Stock Index                        | 2.11  | 15.06 | 26.46 | -37.00            | 5.49              | 15.79             | 4.91  | 10.88 | 6.17              |                   |
| GW&K Equity Dividend Plus Standard Deviation             | 15.59 | 18.82 | 17.63 | 13.16             | 6.78              | 4.85              |       |       |                   |                   |
| Standard & Poor's 500 Stock Index Standard Deviation     | 18.71 | 21.85 | 19.63 | 15.08             | 7.68              | 6.82              |       |       |                   |                   |
| <b>GW&amp;K Small/Mid Cap Equity (Gross)</b>             | 3.56  | 34.33 | 38.31 | -35.56            | 4.54              | 14.18             |       |       |                   |                   |
| GW&K Small/Mid Cap Equity (Net)                          | 2.53  | 33.08 | 37.03 | -36.28            | 3.51              | 13.08             |       |       |                   |                   |
| Russell 2500 Index                                       | -2.51 | 26.71 | 34.39 | -36.79            | 1.38              | 16.17             |       |       |                   |                   |
| GW&K Small/Mid Cap Equity Standard Deviation             | 20.10 | 23.00 | 20.03 | 16.15             |                   |                   |       |       |                   |                   |
| Russell 2500 Index Standard Deviation                    | 23.40 | 26.80 | 24.25 | 19.37             |                   |                   |       |       |                   |                   |
| <b>GW&amp;K Small Cap Growth (Gross)</b>                 | 2.87  | 34.85 | 36.04 | -21.23            |                   |                   |       |       |                   |                   |
| GW&K Small Cap Growth (Net)                              | 1.84  | 33.59 | 34.78 | -21.88            |                   |                   |       |       |                   |                   |
| Russell 2000 Growth Index                                | -2.91 | 29.09 | 34.47 | -29.50            |                   |                   |       |       |                   |                   |
| GW&K Small Cap Growth Standard Deviation                 | 21.08 |       |       |                   |                   |                   |       |       |                   |                   |
| Russell 2000 Growth Index Standard Deviation             | 24.31 |       |       |                   |                   |                   |       |       |                   |                   |

<sup>1</sup> Annual partial year returns: 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 10/1/2007; Municipal Enhanced Yield since 4/1/2006; Small Cap Growth since 4/1/2008

<sup>2</sup> Represents net of fee performance

<sup>3</sup> 60% Barclays Gov Credit / 40% Barclays High Yield, rebalanced daily

<sup>4</sup> 60% Barclays High Yield / 40% Barclays Credit, rebalanced daily

The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Gross returns are used for the composite calculation. The standard deviation measure is presented annually, for periods where 36 monthly returns are available.

## 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

## 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

## 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 Equity Dividend Plus Strategy

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

### 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 Small Cap Growth Strategy

Utilizes fundamental research and quantitative screening to identify small companies with sustainable, above-average earnings growth in niche markets

## 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

An unmanaged index that covers the U.S. investment grade fixed rate bond market. It is comprised of securities from Barclays Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index.

### Barclays Government/Credit Index

An unmanaged investment grade index comprised of securities from Barclays Capital Government Index and the Barclays Capital Credit Index.

### Barclays 1-5 Year Government/Credit Index

An unmanaged index that includes medium and larger issues of U.S. investment grade corporate bonds and U.S. government bonds with maturities from one to five years.

### Barclays Credit Index

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

### Barclays High Yield Index

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

### 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 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. 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 Composite Information

|  |                           | 2011        | 2010        | 2009        | 2008        | 2007        | 2006        | 2005        | 2004        | 2003        | 2002        |
|--|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>GW&amp;K Municipal Bond</b>               | Number of Portfolios      | 7177        | 6,049       | 5,067       | 4,372       | 4,666       | 4,542       | 4,030       | 3,360       | 3,062       | 2,843       |
|  | Composite Assets (\$000s) | \$7,529,139 | \$6,475,367 | \$5,907,279 | \$4,914,450 | \$5,106,328 | \$4,901,919 | \$4,536,906 | \$3,824,607 | \$3,679,491 | \$3,872,610 |
|  | Dispersion                | 0.55        | 0.37        | 0.88        | 0.99        | 0.30        | 0.18        | 0.20        | 0.28        | 0.32        | 0.487       |
| <b>GW&amp;K Municipal Enhanced Yield</b>     | Number of Portfolios      | 79          | 52          | 24          | 5           | 9           | 6           |             |             |             |             |
|  | Composite Assets (\$000s) | \$51,392    | \$30,425    | \$16,916    | \$5,814     | \$17,189    | 9,875       |             |             |             |             |
|  | Dispersion                | 0.55        | 0.52        | 0.73        | 0.55        | 0.19        | N/A         |             |             |             |             |
| <b>GW&amp;K Five-Year Municipal Bond</b>     | Number of Portfolios      | 29          | 10          | 9           | 9           | 24          | 29          | 26          | 16          | 4           |             |
|  | Composite Assets (\$000s) | \$45,811    | \$7,212     | \$5,919     | \$8,720     | \$27,237    | \$46,581    | \$30,191    | \$22,807    | \$4,115     |             |
|  | Dispersion                | 0.34        | 0.39        | 0.50        | 0.43        | 0.18        | 0.28        | 0.20        | 0.53        | N/A         |             |
| <b>GW&amp;K Short-Term Municipal Bond</b>    | Number of Portfolios      | 14          | 21          | 18          | 15          | 20          | 19          | 38          | 27          | 32          | 10          |
|  | Composite Assets (\$000s) | \$32,287    | \$20,076    | \$22,655    | \$21,626    | \$21,255    | \$18,382    | \$57,692    | \$21,159    | \$31,303    | \$16,448    |
|  | Dispersion                | 0.29        | 0.14        | 0.40        | 0.25        | 0.11        | 0.14        | 0.18        | 0.18        | 0.19        | N/A         |
| <b>GW&amp;K Total Return Bond</b>            | Number of Portfolios      | 519         | 364         | 250         | 232         | 282         | 296         | 314         | 246         | 152         | 159         |
|  | Composite Assets (\$000s) | \$396,449   | \$272,765   | \$209,235   | \$168,847   | \$199,430   | \$209,342   | \$235,563   | \$208,357   | \$154,593   | \$170,208   |
|  | Dispersion                | 0.25        | 0.20        | 0.82        | 0.72        | 0.19        | 0.18        | 0.18        | 0.95        | 0.38        | 0.41        |
| <b>GW&amp;K Enhanced Core Bond</b>           | Number of Portfolios      | 284         | 247         | 184         | 166         | 215         | 213         | 194         | 151         | 99          | 81          |
|  | Composite Assets (\$000s) | \$259,566   | \$213,446   | \$170,917   | \$136,889   | \$195,833   | \$176,930   | \$167,566   | \$111,761   | \$63,955    | \$51,477    |
|  | Dispersion                | 0.21        | 0.21        | 0.77        | 0.44        | 0.16        | 0.09        | 0.16        | 0.21        | 0.30        | 0.26        |
| <b>GW&amp;K Core Bond</b>                    | Number of Portfolios      | 241         | 221         | 140         | 78          | 80          | 76          | 79          | 49          | 33          | 18          |
|  | Composite Assets (\$000s) | \$233,867   | \$201,798   | \$134,490   | \$96,129    | \$89,685    | \$73,115    | \$83,547    | \$56,843    | \$38,507    | \$24,410    |
|  | Dispersion                | 0.17        | 0.27        | 0.61        | 0.33        | 0.18        | 0.15        | 0.13        | 0.22        | 0.33        | 0.26        |
| <b>GW&amp;K Corporate Bond Opportunities</b> | Number of Portfolios      | 57          | 29          | 14          | 1           | 2           |             |             |             |             |             |
|  | Composite Assets (\$000s) | \$37,827    | \$17,868    | \$8,056     | \$299       | \$818       |             |             |             |             |             |
|  | Dispersion                | 0.35        | 0.26        | N/A         | N/A         | N/A         |             |             |             |             |             |
| <b>GW&amp;K Short-Term Taxable</b>           | Number of Portfolios      | 100         | 63          | 35          | 17          | 21          | 27          | 29          | 25          | 7           | 3           |
|  | Composite Assets (\$000s) | \$101,296   | \$105,661   | \$74,109    | \$46,288    | \$43,064    | \$74,150    | \$49,546    | \$45,269    | \$23,570    | \$6,683     |
|  | Dispersion                | 0.11        | 0.13        | 0.19        | 0.21        | 0.07        | 0.07        | 0.10        | 0.05        | 0.09        | N/A         |
| <b>GW&amp;K Diversified Equity</b>           | Number of Portfolios      | 185         | 198         | 204         | 109         | 198         | 209         | 183         | 172         | 148         | 153         |
|  | Composite Assets (\$000s) | \$205,503   | \$228,835   | \$204,973   | \$159,643   | \$319,490   | \$356,033   | \$298,030   | \$285,099   | \$228,652   | \$211,732   |
|  | Dispersion                | 0.38        | 0.57        | 1.24        | 1.07        | 1.38        | 0.98        | 1.01        | 0.92        | 1.34        | 1.39        |
| <b>GW&amp;K Small Cap Equity</b>             | Number of Portfolios      | 74          | 54          | 39          | 26          | 75          | 87          | 76          | 24          | 12          | 9           |
|  | Composite Assets (\$000s) | \$146,677   | \$138,572   | \$107,667   | \$64,791    | \$120,355   | \$76,826    | \$151,227   | \$24,795    | \$9,964     | \$5,699     |
|  | Dispersion                | 0.21        | 0.18        | 0.66        | 0.69        | 0.78        | 0.76        | 0.63        | 0.75        | 2.44        | N/A         |
| <b>GW&amp;K Equity Dividend Plus</b>         | Number of Portfolios      | 134         | 55          | 24          | 18          | 48          | 34          | 16          | 9           | 3           |             |
|  | Composite Assets (\$000s) | \$115,378   | \$54,917    | \$15,133    | \$8,293     | \$22,826    | \$17,371    | \$7,254     | \$3,905     | \$1,220     |             |
|  | Dispersion                | 0.48        | 0.74        | 0.21        | 0.21        | 1.14        | 0.45        | 0.09        | 0.57        | N/A         |             |
| <b>GW&amp;K Small/Mid Cap Equity</b>         | Number of Portfolios      | 32          | 26          | 19          | 18          | 35          | 27          |             |             |             |             |
|  | Composite Assets (\$000s) | \$26,579    | \$21,496    | \$11,499    | \$8,382     | \$22,641    | \$17,942    |             |             |             |             |
|  | Dispersion                | 0.24        | 0.63        | 0.49        | 0.39        | 0.64        | N/A         |             |             |             |             |
| <b>GW&amp;K Small Cap Growth</b>             | Number of Portfolios      | 12          | 3           | 1           | 1           |             |             |             |             |             |             |
|  | Composite Assets (\$000s) | \$7,334     | \$1,452     | \$360       | \$266       |             |             |             |             |             |             |
|  | Dispersion                | N/A         | N/A         | N/A         | N/A         |             |             |             |             |             |             |
| <b>Total Firm Assets (\$mm)*</b>             |                           | \$12,914    | \$10,973    | \$9,096     | \$7,419     | \$8,106     | \$7,835     | \$7,443     | \$6,366     | \$5,594     | \$5,322     |

\*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.