

# Quarterly Investment Review

## Economic Commentary

### Index Performance

Periods Ending June 30, 2009	Current Quarter	Year-to-Date
Barclays 10-Yr Municipal Bond Index	0.94%	4.38%
Barclays Aggregate Bond Index	1.78%	1.90%
Barclays High Yield Index	23.07%	30.43%
Dow Jones Industrial Average	11.96%	-2.01%
S&P 500 Index	15.93%	3.16%
Russell 2000 Index	20.69%	2.64%
NASDAQ Composite	20.33%	16.98%

To say the past two years have been a trying time for economies around the globe would be a colossal understatement. What began as a subprime crisis in the summer of 2007 rapidly evolved into a global economic meltdown the magnitude and duration of which have not been experienced since the Great Depression. Corporate profits all but disappeared (see chart next page), job destruction reached unprecedented levels, and the financial system appeared on the brink of collapse. Markets around the world reacted accordingly. Equities quickly entered bear market territory. Corporate bond yield spreads, especially among the lowest quality issuers, reached record levels that implied default rates never experienced in previous economic downturns. The flight to safety pushed U.S. Treasury rates to levels so low that they traded at yields below municipal bonds.

And when things seemed the bleakest in late 2008 and early 2009, markets reversed course. The riskiest of debt and equity classes have earned investors upwards of 50% off their lows. And U.S. Treasuries, tradition-

ally the safest of instruments, have registered losses of well over 20% in the first half of this year. So what has changed so dramatically over the last six months? Well the world didn't come to an end. Governments around the world, acting in unison of purpose, if not necessarily in action, have managed to stabilize the economic downturn through a range of fiscal and monetary actions too numerous to count. (Although some indeed have been counting and the total numbers well over 600.) No doubt mistakes were made. How could they not be? But more important than the mistakes, at least in the short run, are the positive results of these actions.

As the term "green shoots" has entered the vernacular, we have all become accustomed to hearing of these little sprouts of growth, stimulated by aggressive fiscal and monetary policy that should ultimately get the economy going in the right direction. These green shoots have also become too numerous to count. But it is too early to conclude that we are now out of the woods. The recovery remains mixed. Corporate profitability is still down, but surprisingly better than most

## Second Quarter 2009 Market Overview

### Economy

- The government's efforts to stabilize and stimulate the economy appear to be producing desired results as the rate of economic decline slowed this quarter.
- Though concerns about the potential for inflation continue to persist, economic data related to industrial production, capacity utilization, producer and consumer prices indicate that these fears may be misplaced.
- Though the pace of job losses appears to be slowing, non-farm payrolls fell 467k in June bringing the unemployment rate to 9.5%.

### Fed Action

- The Fed kept the federal funds rate steady at 0-0.25%, continuing its commitment to keeping interest rates low for an extended period of time.
- The Fed communicated that it believes the predominant risk is that inflation will be too low, not too high, over the next several years.

### Bond Markets

- U.S. Treasury yields continued to increase as risk aversion among bond investors continued to decline.

- Investment grade and high yield credit spreads tightened significantly as investors sought to take advantage of historically cheap valuations. Spreads continue to be wide on a historical basis signaling the potential for continued appreciation in the high grade and high yield corporate sectors as well as in municipal bonds.
- Large inflows of capital into the municipal market helped flatten the municipal curve and generate another strong quarter of performance.

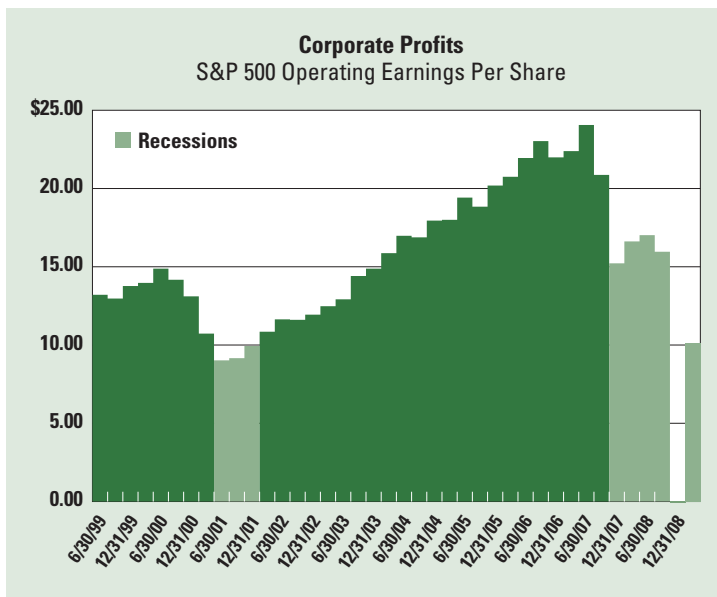
### Equity Markets

- Equities posted strong double digit gains as investors gained confidence from seeing early signs of an improving economy and showed a willingness to venture back into riskier market segments.
- As conditions started to improve in the credit markets, small cap stocks were the clear winners, posting their strongest returns since 2003. Large cap stocks turned in their strongest quarter since 1998.
- For both large and small cap stocks, Growth meaningfully outperformed Value in the first half of the year.

economists had expected. Indeed, many GDP estimates have been increasing the last couple months. Calls for the end of the recession are growing louder, and the timing sooner. But so far, much of this improvement has been driven by reinvestment in inventory and aggressive cost controls rather than improving end demand. Housing prices remain under pressure. Consumer balance sheets remain over-leveraged. Unemployment continues to

increase. But even these items have turned less negative. So into the vernacular has entered another term, the "second derivative." Well understood by statisticians, math junkies and hopefully most investment professionals, the second derivative has indeed turned positive! Really this just means that things are getting less bad. We see it in many statistics. Jobless claims are still high, but not as high. Consumer confidence is

*Continued on next page*



still low, but improving. Leading economic indicators are still negative but not as negative. Manufacturing indexes are still low, but better than they have been. Of course things do need to get less bad before they can improve.

And that is where we stand today. Markets have recovered dramatically on the heels of an economy where things are still bad, but not as bad as they were, and clearly not as bad as many feared. From here, the question we should all be asking is whether the economy is indeed improving, rather than just getting less bad. It is this answer

that will determine the direction of markets from here. There are many encouraging signs cropping up around the world. In fact, signs of improvement seem stronger in many of the world's emerging economies than they do at home. At the same time, we must carefully watch items that could derail a recovery. Energy and commodity prices have rallied strongly, creating a headwind against possible growth. Mortgage rates have ticked back up, making it more difficult for consumers to either refinance or purchase homes. And consumers have been saving more of their income rather

than spending it on products that would help the economy to grow. As we weigh these positives and negatives, we lean toward a positive view due to the sheer size of economic stimulus, the effects of which have only just started to be felt in the economic statistics we so look forward to seeing each day.

And when we do get this economic recovery, how concerned should we be about that dreaded inflation that we are hearing and reading so much about? As we stated in last quarter's Economic Commentary, we still believe deflation is a bigger risk than inflation. We remain in a deflationary environment. Capacity utilization is very low by historical standards, suggesting a large amount of economic growth is needed before pricing-led inflation is likely to occur. And with unemployment at 9.5%, wage-based inflation is also unlikely. Furthermore, despite the huge amount of money injected into the system, we have not seen an increase in bank lending or consumer borrowing that could lead to inflation. No doubt once the banks lend and the economy accelerates, we will need to see the stimulus dollars pulled out of the economy. But we believe that the Federal Reserve and the U. S. government have many tools at their disposal to do just that, and some tertiary programs have already closed without meaningful negative impact.

At GW&K, we tend to see the world in a favorable light. We see signs of improvement and we believe that inflation will stay under control. But we have no crystal ball. What we can say is that we will remain diligent in our evaluation of the economy, of inflation, and of markets. We will continue to look for distinctive investment opportunities in all of our markets. And we will position our portfolios with the conservatism and care that you expect of us.

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

**Market Index Descriptions**

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

Unmanaged indexes composed of 8,088 (3,332, 5,162) 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 8,866 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 4,601 securities from Barclays Government Index and the Barclays Credit Index. Issues must have at least one year to maturity. Indexes are rebalanced monthly.

**Barclays High Yield Index**

Composed of 1,566 fixed rate, publicly issued, noninvestment grade debt registered with the SEC.

**Barclays 1-3 Year Government Index**

Composed of 420 investment grade issues with maturities from 1 to (but not including) 3 years.

**Merrill Lynch 15+ Years Municipal Index**

Comprised of 5,728 investment grade municipal bonds with maturities that are 15 years or greater.

**S&P 500 Index**

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

**Russell Indexes**

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

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**GW&K Update**

**June 30, 2009**

- Total Assets Under Management: \$7.9 Billion
- Total Employees: 81
- Total Investment Professionals: 29

**New Municipal Bond Research Professional**

- Independent credit research has always been a cornerstone of our municipal bond investment process and risk management approach here at GW&K and our research analysts play an essential role in our decision making process.

We are pleased to welcome a new credit analyst to our Municipal Bond investment team. Sarah Angelos, Vice President, is an experienced analyst who has credit research responsibility across multiple sectors. Prior to joining GW&K, she was employed by Columbia Management Advisors as a senior analyst in their Tax-Exempt Group performing high yield credit research. She began her career at Moody's Investors Service where she covered a variety of credits and was a member of Moody's rating Committee.

# 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 continued to take steps toward normalization in the second quarter. Issuers sold new fixed rate debt at a pace that exceeded the same quarter last year amid solid demand from retail investors and record flows into open-end mutual funds. While the entire market was directionally strong in April and May before backing off in June, the magnitude of the rate moves this quarter varied significantly across different parts of the curve. The short end was essentially unchanged. Yields in the 10 year range were up 7–10 basis points while longer rates were down 15–25 basis points.

Although the market continues to improve, challenges persist causing many investors to cling to only the highest rated credits. Budget difficulties

*“The market dislocation we have witnessed since September has clearly reversed course. The pace of recovery remains uncertain but the eventual path seems clear—a flatter curve and tighter credit spreads. Both are opportunities that should be exploited.”*

facing state and local governments have increased headline risk as tax revenues continue to fall short of even downwardly revised estimates.

Credit spreads continue to reflect investor discomfort, especially in the intermediate part of the curve where retail buyers tends to dominate. While nearly 30 basis points

off its March high, the spread between 10yr A and AAA rated paper ended the quarter at 128 basis points, over four standard deviations away from its 20 year mean of 35 basis points. Prior to last summer, that spread never got higher than 58 basis points. The rational response to this is not to run and hide in pre-refunded paper, which is trading through the AAA scale. Instead, this should be viewed as an opportunity to lock in unprecedented levels on high quality fixed income instruments.

The market dislocation we have witnessed since September has clearly reversed course. The pace of recovery remains uncertain but the eventual path seems clear—a flatter curve and tighter credit spreads. Both are opportunities that should be exploited. While we cannot know for sure when each will finally materialize, the higher yields associated with both effectively compensates the patient investor to wait.

The **Municipal Bond Strategy** outperformed the Barclays 10-year Index by over 100 basis points this quarter bringing year-to-date performance to 4.77% for the strategy versus 4.38% for the index. Quarterly performance was driven mainly by a flattening of the yield curve. Earlier in the year, we adjusted our curve positioning to take advantage of what was a historically steep curve. Since this trade early

in the first quarter, the spread between 5 and 15 year paper has tightened approximately 60 basis points, positively affecting performance this year. Our A-rated exposure also aided performance as credit spreads tightened approximately 30 basis points this quarter in this rating category.

The **Municipal Enhanced Yield Strategy** has posted strong performance, up 4.73% and 12.36% for the quarter and year-to-date periods, respectively. During the quarter we increased our allocation to higher yielding paper from 25% to 30%. Our meaningful overweight to these BBB rated bonds and strong security selection within this segment positively impacted performance. Looking forward, wide credit spreads and a steep curve continue to highlight the relative attractiveness of this Strategy with yields approximately 140 basis points higher than the intermediate space.

The **Five-Year Municipal Bond Strategy** also outperformed its benchmark, posting performance of 0.97% versus 0.76% for the Barclays 5-Year Index. Outperformance was primarily due to an overweight in 7–10 year bonds that performed relatively well. An underweight to AAA pre-refunded bonds also helped as credit spreads tightened. For conservative investors, the 5-year part of the curve offers substantial value with yields 250 basis points in excess of money market yields.

The **Short-Term Municipal Bond Strategy** composite returned 0.73% for the quarter and 2.19% for the year to date. Rates declined in the front end of the yield curve with 1-year AAA yields declining by 10 basis points to end the quarter at 0.40% and 3-year rates declining by 2 basis points to end the quarter at 1.23%. Relative performance for this Strategy benefited from 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 6/30/09 (%)*	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
GW&K Municipal Bond	1.96	4.77	5.47	4.71	4.17	4.68	5.68	1/1/93**
Barclays 10-Year Muni Bond Index	0.94	4.38	5.58	5.01	4.54	5.32	5.79	
Barclays 5-Year Muni Bond Index	0.76	2.96	7.71	5.73	4.37	4.89	5.08	
GW&K Municipal Enhanced Yield	4.73	12.36	-0.17	1.77	—	—	1.46	4/1/06
Merrill 15+ Year Muni Index	4.55	11.59	-0.50	1.77	—	—	1.60	
GW&K Five-Year Municipal Bond	0.97	2.98	6.57	5.21	4.08	—	3.46	6/1/03
Barclays 5-Year Muni Bond Index	0.76	2.96	7.71	5.73	4.37	—	3.57	
GW&K Short-Term Municipal Bond	0.73	2.19	5.09	4.47	3.48	—	3.00	1/1/02
Barclays 1-Year Muni Bond Index	0.54	1.91	4.34	4.33	3.26	—	2.95	
Schwab Money Fund***	0.12	0.24	1.26	2.41	2.21	—	1.75	

\* Periods greater than one year represent annualized returns. Returns represent composites and are gross of fees. Please refer to the Performance Disclosure on page 5, which is an integral part of our presentation, for an explanation of our composite criteria, calculations and net of fee results.

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

\*\*\* Represents net of fee performance.

# Taxable Bond Strategies

## 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 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

Signs that the U.S. recession might be easing, along with a significant decrease of anxiety tied to the fear of a meltdown within the banking system, led to a substantial shift in risk tolerance and a stunning rally in corporate bond spreads.

We are only six months into 2009 and the high yield bond sector has returned 30.4%, recouping all losses incurred over 2008. This closes the best quarter (23.1%) and 6-month period in the 26-year history of the Barclays High Yield Index. During the quarter, lower quality bonds led the rally with CCC-rated securities returning 38.8%, while BB-rated securities returned 15.2%. High grade credit spreads tightened by over 200 basis points in the quarter, posting a solid total return of

8.8%. This sector outperformed comparable maturity Treasuries by 11.8% during this period. Lower quality led the rally in this sector as well, with BBB-rated securities returning 12.8% versus AA-rated securities that returned 5.5%.

The reversal of the risk aversion trade, coupled with an expected deluge of new Treasury supply to pay for the multitude of government rescue programs, caused interest rates to move steadily higher throughout most of the quarter. The yield curve steepened fairly significantly as the 30-year and 2-year Treasury moved up 80 basis points and 31 basis points, respectively. As a result, Treasuries were the poorest performing segment of the taxable bond market returning -3.0%. Mortgage-backed securities (0.7%) and U.S. Agency debt

(-0.2%) fared somewhat better than Treasuries, given their shorter duration profiles in a rising interest rate environment and as both sectors continued to benefit from ongoing Government purchases.

For the quarter, the **Total Return Bond Strategy** and **Enhanced Core Bond Strategy** both significantly outperformed the Barclays Aggregate Index due to the significant overweight exposure to corporate bonds, including a sizeable allocation to high yield securities. The **Total Return Bond Strategy** underperformed the Blended Index due to the higher quality high yield focus of this strategy relative to the market. The **Core Bond Strategy** also outperformed the Barclays Aggregate Index by a wide margin, once again driven by our sizeable overweight to investment grade corporate bonds and in particular our emphasis on BBB-rated securities. The **Short-Term Taxable Bond Strategy** also outperformed its benchmark driven by the heavy allocation to spread product, including high quality corporate bonds, U.S. Agencies, and short duration mortgage-backed securities which all outperformed Treasuries for the quarter.

We remain significantly underweight Treasuries and U.S. Agency securities, yielding approximately 2.4%, in favor of the higher yielding spread

*"We will continue to overweight the corporate bond sector over the near term with the expectation that spreads will continue to narrow as the economy gradually recovers."*

sectors. Despite the recent rally in spreads, corporate bonds are still trading near their all time wide levels of 1991 and 2002. Throughout the quarter we continued to selectively add to our corporate bond overweight across all of our strategies, bringing them to their maximum sector allocations. We will continue to overweight the corporate bond sector over the near term with the expectation that spreads will continue to narrow as the economy gradually recovers. In today's environment, within the high yield sector we continue to favor buying higher quality high yield paper for its more defensive characteristics and where the ability to raise capital is much stronger than these companies' lower-rated peers. For the investment grade credit sector, we continue to favor the lower tiers of this market segment where yields are still attractive and there is very little risk of default. We trimmed back our mortgage-backed securities exposure somewhat to make room for our corporate purchases. The Federal Reserve expanded its purchase program for this asset class earlier in the year rendering a strong rally in spreads to below their long-term historical average. We see little upside from this sector as the purchase program is well documented and fully priced into the market. When the Federal Reserve eventually reverses course on these purchase programs, this sector would be vulnerable to moderate spread widening.

## Taxable Bond Strategies

Performance Ending 6/30/09 (%)*	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
GW&K Total Return Bond	6.86	9.37	7.47	6.62	5.49	5.69	7.09	1/1/93**
Style Index***	9.90	11.68	2.38	4.63	4.68	5.56	6.51	
Barclays Aggregate Bond Index	1.78	1.90	6.05	6.43	5.01	5.98	6.32	
GW&K Enhanced Core Bond	5.76	7.41	8.35	6.98	5.45	—	6.07	10/1/99
Barclays Aggregate Bond Index	1.78	1.90	6.05	6.43	5.01	—	6.06	
GW&K Core Bond	4.31	5.30	10.10	7.87	5.96	—	5.71	2/1/01
Barclays Aggregate Bond Index	1.78	1.90	6.05	6.43	5.01	—	5.48	
GW&K Short-Term Taxable Bond	1.88	3.48	6.99	6.48	4.90	—	4.30	10/1/02
Barclays 1-3 Year Govt Bond Index	0.14	0.47	4.94	5.74	4.21	—	3.54	

\* Periods greater than one year represent annualized returns. Returns represent composites and are gross of fees. Please refer to the Performance Disclosure on page 5, which is an integral part of our presentation, for an explanation of our composite criteria, calculations and net of fee results.

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

\*\*\* 60% Barclays Govt Credit / 40% Barclays High Yield

# 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

Continuing the positive trend from March, equities turned in impressive double digit gains this quarter across growth and value styles and across the market capitalization spectrum. In fact the last three months was the strongest quarter for large cap stocks since 1998, and the strongest quarter for small cap stocks since 2003! The S&P 500 Index gained 15.9%, while the Russell 2000 Index, representing the small cap stock universe, posted a gain of 20.7%. The reasons for these strong returns include positive (albeit early) signs of an improving global economy as well as improving investor psychology. While the economy is by no means out of the woods, at the very least the fears of a systemic financial meltdown now appear quite unlikely. So investors have been bargain hunting, returning to stocks in a meaningful way for the first time in nearly two years. In fact equity market inflows in the second quarter reached an estimated \$42 billion!

Among larger capitalization stocks, both Growth and Value names performed equally well in this quarter, with advances of approximately 16%. But they got there in different ways. The large weighting in strong performing Financials helped the Russell 1000 Value Index, while the large weighting in the strong-performing Technology sector helped the Russell 1000 Growth Index. Among smaller capitalization names, growth stocks meaningfully outperformed value. The Russell 2000 Growth Index gained 23% in the quarter, while the Russell 2000 Value Index was up 18%. While Growth was still helped by Technology, small cap Financial companies did not do nearly as well as larger Financial names, and were thus responsible for the relative underperformance of the Russell 2000 Value Index.

We are generally pleased with our equity results during the strong market rally of this past quarter. Our Diversified Equity Strategy performed in line with

the S&P 500 Index, while our other strategies posted solid gains but trailed their benchmarks somewhat. Our stock selection was favorable and contributed positively to our returns this quarter. With our core approach and our preference for buying quality companies, our strategies will tend to underperform in rapidly rising market environments. Our longer-term performance remains comfortably ahead of benchmarks for all of our strategies.

We remain generally optimistic on the economic recovery, and therefore the outlook for equities. Our optimism is based on many things. First is the sheer magnitude of global fiscal and monetary stimulus, as governments around the world act to get world economies growing again. Second are the numerous "green shoots" showing up around the globe as measures of economic recovery. Lastly, the aggressive cost cutting among corporations has resulted in positive earnings surprise among many corporations, and has created a valuation underpinning beneath stocks. While these positive signs are encouraging, we are aware that the recovery is still fragile. We are carefully watching issues such as continued job losses, the rise of oil prices and the increase in interest rates to make sure they do not derail the recovery in these early stages. As always, our focus on quality companies that are leaders in their markets, and that sell at reasonable valuation levels, gives us confidence that our companies can weather the economic storm better than most.

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

Performance results factor in commission costs, but not management fees, which, if included, would reduce portfolio total return. To account for advisory fees, net performance reflects the deduction of the maximum fee GW&K would charge. The maximum annual fee is 1% for all strategies except .50% for the Five-Year Municipal Bond, Short-Term Municipal Bond and Short-Term Taxable Bond Strategies, and .65% for the Municipal Enhanced Yield Strategy. Client fees may vary.

Effective 6/30/2008, the benchmark for the Municipal Enhanced Yield Strategy was retroactively changed from the Lehman Brothers 20 Year Municipal Index to the

Continued on back page

## Equity Strategies

Performance Ending 6/30/09 (%)*	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
GW&K Diversified Equity	15.97	8.58	-22.21	-7.84	-0.98	0.93	8.05	1/1/93**
Standard & Poor's 500 Stock Index	15.93	3.16	-26.21	-8.22	-2.24	-2.22	6.67	
Russell 2000 Index	20.69	2.64	-25.01	-9.89	-1.71	2.38	6.62	
GW&K Small Cap Equity	17.73	6.57	-14.52	-5.95	0.88	—	3.31	1/1/00
Russell 2000 Index	20.69	2.64	-25.01	-9.89	-1.71	—	1.39	
GW&K Equity Dividend Plus	12.44	1.37	-17.68	-7.52	-0.22	—	1.61	11/1/03
Standard & Poor's 500 Stock Index	15.93	3.16	-26.21	-8.22	-2.24	—	-0.35	
GW&K Small/Mid Cap Equity	18.78	11.85	-18.27	-6.95	—	—	-4.20	1/1/06
Russell 2500 Index	20.27	6.52	-26.72	-9.31	—	—	-6.41	

\* Periods greater than one year represent annualized returns. Returns represent composites and are gross of fees. Please refer to the Performance Disclosure on page 5, which is an integral part of our presentation, for an explanation of our composite criteria, calculations and net of fee results.

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

	Municipal Bond		Barclays 10-Yr Muni		Municipal Enhanced Yield		Merrill 15+ Yrs Muni	Five-Year Municipal Bond		Barclays 5-Yr Muni	Short-Term Municipal Bond		Barclays 1-Yr Muni	Schwab Muni Money Fund <sup>2</sup>	Total Return Bond		Style Index <sup>3</sup>	Barclays Aggregate	Enhanced Core Bond		Barclays Aggregate
	Gross	Net	Gross	Net	Gross	Net		Gross	Net		Gross	Net			Gross	Net			Gross	Net	
1999 <sup>1</sup>	-1.90	-2.88	-1.25												0.82	-0.18	-0.33	-0.82	0.21	-0.04	-0.12
2000	10.70	9.62	10.76												9.77	8.70	4.77	11.63	11.36	10.28	11.63
2001	4.23	3.20	4.62												4.35	3.32	7.21	8.44	8.51	7.45	8.44
2002	8.64	7.58	10.17												5.51	4.47	6.04	10.25	7.16	6.11	10.25
2003 <sup>1</sup>	4.94	3.90	5.70					1.18	0.88	0.88	3.10	2.74	3.85	1.12	5.51	4.47	6.04	4.10	4.49	3.47	4.10
2004	4.00	2.98	4.15					2.95	2.44	2.72	1.16	1.23	1.71	0.68	6.09	5.05	6.88	4.34	4.96	3.93	4.34
2005	2.33	1.32	2.74					1.22	0.72	0.94	1.90	1.53	1.49	2.00	2.87	1.85	2.53	2.43	2.62	1.60	2.43
2006	4.61	3.58	4.71					3.50	2.99	3.34	3.57	3.21	3.20	3.03	4.91	3.88	6.94	4.33	4.78	3.75	4.33
2007	3.94	2.91	4.29	-0.07	-1.07	1.61		4.94	4.43	5.15	4.46	4.10	4.37	3.26	6.06	5.02	5.09	6.97	6.35	5.31	6.97
2008	0.55	-0.45	1.52	-11.89	-12.80	-11.95		4.27	3.75	5.78	4.61	4.25	4.57	2.00	-1.33	-2.32	-8.24	5.24	1.63	0.62	5.24

	Core Bond		Barclays Aggregate	Short-Term Taxable		Barclays 1-3 Yr Gov	Diversified Equity		S&P 500	Russell 2000	Small Cap Equity		Russell 2000	Small/Mid Cap Equity		Russell 2500	Equity Dividend Plus		S&P 500	
	Gross	Net		Gross	Net		Gross	Net			Gross	Net		Gross	Net		Gross	Net		Gross
1999							28.60	27.39	21.04	21.26										
2000							17.61	16.48	-9.10	-3.02	-18.42	-19.28	-3.02							
2001 <sup>1</sup>	5.99	5.04	6.70				-19.14	-20.00	-11.89	2.49	2.37	1.35	2.49							
2002 <sup>1</sup>	8.28	7.22	10.25	1.39	1.30	0.93	-25.08	-25.89	-22.10	-20.48	-11.25	-12.16	-20.48							
2003 <sup>1</sup>	3.63	2.60	4.10	2.84	2.48	2.01	33.43	32.19	28.68	47.25	52.64	51.27	47.25				7.39	7.22	6.17	
2004	4.68	3.65	4.34	2.00	1.64	1.07	12.72	11.63	10.88	18.33	23.24	22.07	18.33				14.21	13.10	10.88	
2005	2.62	1.71	2.43	2.10	1.71	1.73	8.63	7.57	4.91	4.55	11.47	10.39	4.55				8.23	7.18	4.91	
2006	4.53	3.50	4.33	4.88	4.52	4.12	11.37	10.29	15.79	18.37	11.05	9.97	18.37	14.18	13.08	16.17	17.49	16.37	15.79	
2007	7.17	6.12	6.97	6.53	6.17	7.10	3.59	2.57	5.49	-1.57	5.59	4.55	-1.57	4.54	3.51	1.38	-1.36	-2.35	5.49	
2008	5.80	4.76	5.24	5.84	5.47	6.66	-35.41	-36.13	-37.00	-33.79	-29.87	-30.64	-33.79	-35.56	-36.28	-36.79	-29.79	-30.56	-37.00	

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

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

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

## GW&K Composite Information

Year	Total Firm Assets* (\$ mm)	# Portfolios / \$ Composite Dispersion	Municipal Bond	Municipal Enhanced Yield	Five-Year Municipal	Short-Term Municipal	Total Return Bond	Enhanced Core Bond	Core Bond	Short-Term Taxable	Diversified Equity	Small Cap Equity	Small/Mid Cap Equity	Equity Dividend Plus
1999	\$3,434	# Portfolios / \$ Composite Dispersion	1056 / \$2,027,506 0.469				159 / \$146,060 0.216	36 / \$19,044				190 / \$349,584 3.67		
2000	\$4,194	# Portfolios / \$ Composite Dispersion	1,384 / \$2,607,406 1.03				187 / \$176,524 0.19	43 / \$25,003 0.19				202 / \$393,879 2.55	1 / \$709	
2001	\$4,956	# Portfolios / \$ Composite Dispersion	2,083 / \$3,263,339 0.37				218 / \$219,036 0.68	54 / \$33,982 0.23				207 / \$336,156 2.50	2 / \$1,032	
2002	\$5,322	# Portfolios / \$ Composite Dispersion	2,843 / \$3,872,610 0.50			10 / \$16,448 N/A	159 / \$170,208 0.49	81 / \$51,477 0.26	18 / \$24,410 0.26	3 / \$6,683 N/A	153 / \$211,732 1.42	9 / \$5,699 0.28		
2003	\$5,594	# Portfolios / \$ Composite Dispersion	3,062 / \$3,679,490 0.32		4 / \$4,115 N/A	32 / \$31,303 0.19	152 / \$154,593 0.38	99 / \$63,955 0.3	33 / \$38,507 0.33	7 / \$23,569 0.09	148 / \$228,651 1.34	12 / \$9,964 2.44		3 / \$1,220 N/A
2004	\$6,366	# Portfolios / \$ Composite Dispersion	3,360 / \$3,824,607 0.28		16 / \$22,807 0.53	27 / \$21,159 0.18	246 / \$208,357 0.95	151 / \$111,761 0.21	49 / \$56,843 0.22	25 / \$45,269 0.05	172 / \$285,099 0.92	24 / \$24,794 0.75		9 / \$3,905 0.5
2005	\$7,443	# Portfolios / \$ Composite Dispersion	4,030 / \$4,536,906 0.20		26 / \$30,190 0.20	38 / \$57,692 0.18	314 / \$235,562 0.18	194 / \$167,565 0.16	79 / \$83,547 0.13	29 / \$49,545 0.10	183 / \$298,030 1.01	76 / \$151,226 0.63		16 / \$7,254 0.09
2006	\$7,835	# Portfolios / \$ Composite Dispersion	4,542 / \$4,901,919 0.18		29 / \$46,581 0.28	19 / \$18,382 0.14	296 / \$209,342 0.18	213 / \$176,930 0.09	76 / \$73,115 0.15	27 / \$74,150 0.07	209 / \$356,033 0.98	87 / \$76,826 0.76	27 / \$17,942 N/A	34 / \$17,371 0.45
2007	\$8,106	# Portfolios / \$ Composite Dispersion	4,666 / \$5,106,320 0.30	9 / \$17,189 0.19	24 / \$27,237 0.18	20 / \$21,255 0.11	282 / \$199,430 0.19	215 / \$195,833 0.18	80 / \$89,685 0.18	21 / \$43,064 0.07	198 / \$319,490 0.78	75 / \$120,355 0.64	35 / \$22,641 0.64	48 / \$22,826 1.14
2008	\$7,419	# Portfolios / \$ Composite Dispersion	4372 / \$4,914,450 1.04	5 / \$5,814 0.55	9 / \$8,720 0.43	15 / \$21,626 0.25	232 / \$168,847 0.72	166 / \$136,889 0.44	78 / \$96,128 0.33	17 / \$46,288 0.21	109 / \$159,643 1.07	26 / \$64,791 0.69	18 / \$8,382 0.39	18 / \$8,293 0.21

\*Represents end of period data.

Composite assets expressed in 000s.

Dispersion represents an asset-weighted standard deviation.

## Performance Disclosure, continued

Merrill Lynch 15+ Years Municipal Index. The duration and maturity distribution of the composite more closely resembles that of the Merrill Lynch Index. The Strategy's investment objectives and philosophy remain the same.

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

GW&K assumes no responsibility for the accuracy of the data provided by outside sources. Sources for indexes and other external data: Bloomberg, Frank Russell Co., Barclays Capital and Merrill Lynch. This represents the views and opinions of GW&K and does not constitute investment advice, nor should it be considered predictive of any future market performance.

## Annualized Performance Results Ending 6/30/09\*

	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>	1.96	1.71	4.77	4.26	5.47	4.44	4.71	3.68	4.17	3.15	4.68	3.65	5.68	4.65	1/1/93**
Barclays 10-Year Muni Bond Index	0.94		4.38		5.58		5.01		4.54		5.32		5.79		
Barclays 5-Year Muni Bond Index	0.76		2.96		7.71		5.73		4.37		4.89		5.08		
<b>GW&amp;K Municipal Enhanced Yield</b>	4.73	4.57	12.36	12.02	-0.17	-0.81	1.77	1.11					1.46	0.80	4/1/06
Merrill 15+ Year Muni Index	4.55		11.59		-0.50		1.77						1.60		
<b>GW&amp;K Five-Year Municipal Bond</b>	0.97	0.84	2.98	2.73	6.57	6.05	5.21	4.69	4.08	3.57			3.46	2.95	6/1/03
Barclays 5-Year Muni Bond Index	0.76		2.96		7.71		5.73		4.37				3.57		
<b>GW&amp;K Short-Term Municipal Bond</b>	0.73	0.60	2.19	1.94	0.99	0.65	4.47	4.08	3.48	3.11			3.00	2.64	1/1/02
Barclays 1-Year Muni Bond Index	0.54		1.91		4.34		4.33		3.26				2.95		
Schwab Money Fund	0.12		0.24		1.26		2.41		2.21				1.75		
<b>GW&amp;K Total Return Bond</b>	6.86	6.61	9.37	8.85	7.47	6.42	6.62	5.58	5.49	4.45	4.65	4.65	7.09	6.04	1/1/93**
Style Index	9.90		11.68		2.38		4.63		4.68		5.56		6.51		
Barclays Aggregate Bond Index	1.78		1.90		6.05		6.43		5.01		5.98		6.32		
<b>GW&amp;K Enhanced Core Bond</b>	5.76	5.51	7.41	6.89	8.35	7.29	6.98	5.93	5.45	4.41			6.07	5.03	10/1/99
Barclays Aggregate Bond Index	1.78		1.90		6.05		6.43		5.01				6.06		
<b>GW&amp;K Core Bond</b>	4.31	4.06	5.30	4.79	10.10	9.03	7.87	6.81	5.96	4.92			5.71	4.67	2/1/01
Barclays Aggregate Bond Index	1.78		1.90		6.05		6.43		5.01				5.48		
<b>GW&amp;K Short-Term Taxable</b>	1.88	1.75	3.48	3.23	6.99	6.54	6.48	6.09	4.90	4.52			4.30	3.93	10/1/02
Barclays 1-3 Year	0.14		0.47		4.94		5.74		4.21				3.54		
<b>GW&amp;K Diversified Equity</b>	15.97	15.72	8.58	8.05	-22.21	-23.05	-7.84	-8.78	-0.98	-1.97	0.93	-0.08	8.05	6.99	1/1/93**
Standard & Poor's 500 Stock Index	15.93		3.16		-26.21		-8.22		-2.24		-2.22		6.67		
Russell 2000 Index	20.69		2.64		-25.01		-9.89		-1.71		2.38		6.62		
<b>GW&amp;K Small Cap Equity</b>	17.73	17.48	6.57	6.05	-14.52	-15.41	-5.95	-6.91	0.88	-0.13			3.31	2.28	1/1/00
Russell 2000 Index	20.69		2.64		-25.01		-9.89		-1.71				1.39		
<b>GW&amp;K Equity Dividend Plus</b>	12.44	12.19	1.37	0.86	-17.68	-18.55	-7.52	-8.46	-0.22	-1.21			1.61	0.60	11/1/03
Standard & Poor's 500 Stock Index	15.93		3.16		-26.21		-8.22		-2.24				-0.35		
<b>GW&amp;K Small/Mid Cap Equity</b>	18.78	18.53	11.85	11.32	-18.27	-19.14	-6.95	-7.90					-4.20	-5.17	1/1/06
Russell 2500 Index	20.27		6.52		-26.72		-9.31						-6.41		

\*Returns of less than 1 year are not annualized.

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

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