

Flexible Government Bond Strategy

INTRODUCTION

SKBA Capital Management, LLC (“SKBA”) was founded in 1989 as an independent investment advisory firm. In 1999, SKBA became an affiliate of Convergent Capital Management LLC (“CCM”). In 2003 CCM was acquired by City National Corporation.

Our investment philosophy and process are backed by uncompromising professional ethics and consistent investment discipline.

OUR COMMITMENT

- Challenge conventional thinking to discover real value.
- Develop unique economic perspectives by looking beyond single-point forecasts.
- Purchase inexpensive sectors and lock-in high yields or maintain short-duration portfolios when yields are low to reduce downside risk.
- In the long run, undervalued securities will outperform the market.

RESEARCH

SKBA employs a team approach to investing. Our research effort is centralized to ensure that investment ideas translate to each investment discipline.



DISCOVERING VALUE

SKBA brings the investor a strategic array of value-based investment solutions, backed by perspective, process and performance. Our objective is to outperform our benchmarks while maintaining appropriate risk exposure.

The Flexible Government Bond strategy is a portfolio of U.S. dollar-denominated fixed income securities which seeks to produce interest income, to preserve capital, to offset the erosion in purchasing power due to price inflation, and to exceed the total return of the Barclays Capital Government Bond Index. Only investment-grade government and agency issues as rated by Duff & Phelps, Moody’s, and Standard & Poor’s at the time of purchase are eligible for inclusion in the portfolio. The strategy team uses active interest rate anticipation and the analysis of quality spreads to determine the composition of issues held in a portfolio. The portfolio duration is set within a range of 3 to 8 years. Flexible Government Bond has been an active fixed-income strategy for SKBA since July 1, 1998.

PERFORMANCE As of 12/31/09

	Q4 2009	YTD	One Year	Three Years	Five Years	Seven Years	Ten Years	Since Inception (7/1/98)
Gross of Fees	-0.5%	0.2%	0.2%	6.5%	5.2%	4.7%	6.6%	6.0%
Net of Fees	-0.6%	0.0%	0.0%	6.2%	4.9%	4.4%	6.3%	5.7%
Barclays Capital Gov’t Bond	-1.0%	-2.2%	-2.2%	6.1%	4.9%	4.3%	6.2%	5.6%

Performance for periods greater than one year is annualized. Past performance is not indicative of future results.

MULTISCENARIO APPROACH

SKBA employs a multi-scenario, conditional-probability framework that forecasts future states of the economy and financial markets over two-year and five-year horizons. We utilize five scenarios, which ranked from highest to lowest rate of inflation are called: Return of Inflation, Stagflation, Historic Norm, Perfection, and Deflation. The real GDP growth associated with each scenario follows a different pattern. For example, “Perfection” combines the highest real growth environment with low inflation (but not deflation), whereas “Stagflation” describes the nearly opposite environment consisting of low real GDP growth (albeit positive) and the second highest inflation environment. The growth rate of nominal GDP may be similar between these two scenarios, but the consequences for financial markets are dramatically different. **This process is a unique analytical tool developed by SKBA** and is a key part of the process that enables us to estimate what the interest rate changes, yield curve changes, expected returns for bonds, and the risk of loss in bond portfolios might be.

SELL DISCIPLINE

We will sell a security or shorten duration when:

- No scenarios forecast acceptable two-year or five-year annual returns.
- Quality spreads are too narrow.
- Inflation rates are expected to rise and this is not anticipated by the market.
- Yield levels are too low to provide downside protection.

STRATEGY TEAM

Andrew W. Bischel, MBA, CFA
Shelley H. Mann
Josh J. Rothe, MBA

Flexible Government Bond Strategy

DISCLOSURE

❖ SKBA Capital Management, LLC ("SKBA") claims compliance with the Global Investment Performance Standards (GIPS®).

❖ SKBA, an investment advisory firm registered with the Securities & Exchange Commission, was founded in 1989 as an independent investment advisory firm. In 1999, SKBA became an affiliate of Convergent Capital Management LLC ("CCM"). In 2003 CCM was acquired by City National Corporation. SKBA manages a variety of equity, fixed-income and balanced assets for U.S. institutional and high net worth clients. Firm assets under management are defined as all actual, institutional and private client, accounts managed by SKBA.

❖ This composite contains all fee-paying fixed-only discretionary institutional and tax-exempt accounts that employ SKBA's Flexible Government Bond strategy. The Flexible Government Bond strategy is a portfolio of U.S. dollar-denominated fixed income securities that seeks to produce interest income, to preserve capital, to offset the erosion in purchasing power due to price inflation, and to exceed the total return of the Barclays Capital Government Bond Index. At the time of purchase, only investment-grade government and agency issues (including U.S. Treasury and government agency issues as well as mortgage-backed securities sponsored by these entities) are eligible for purchase. The strategy team uses interest rate anticipation and the analysis of quality spreads to determine the duration (which is set between 3 and 8 years) and composition of the portfolio.

❖ The U.S. Dollar is the currency used to express performance.

❖ To receive a full disclosure presentation that complies with the requirement of the GIPS standards and/or a list and description of the firm's composites, please e-mail clientservice@skba.com or call us at 415.989.7852 or follow the link to the Annual Disclosure Presentation on our website:

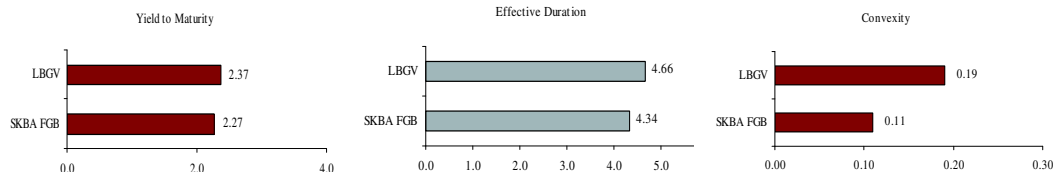
<http://www.skba.com/>



FIXED INCOME CHARACTERISTICS

As of 12/31/09

SKBA FGB = SKBA's Flexible Gov't Bond Strategy / Barclays Capital Government Bond Index



SKBA 5-YEAR MULTI-SCENARIO OUTCOMES & ESTIMATED RETURNS

As of: 12/31/09

5 Years to: 12/31/14

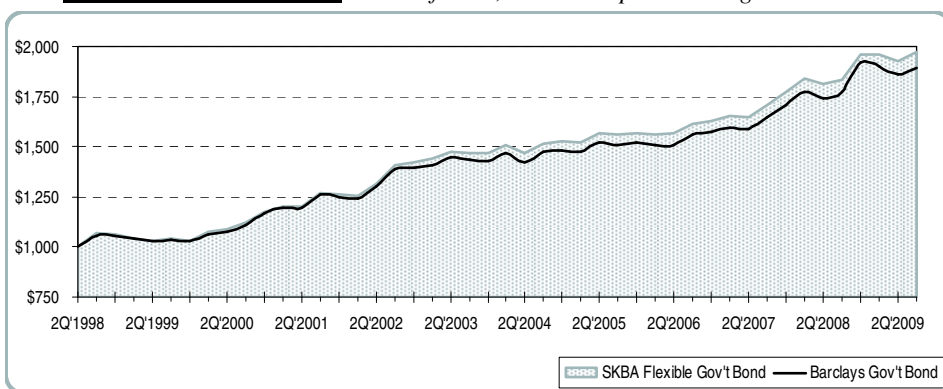
Forecast Scenarios	Return of Inflation	Stag-fla-tion	Historic Norm	Perfection	Deflation	
SKBA's Probabilities	8%	41%	33%	6%	13%	100.0%

Expected Values & Annualized Returns by Scenario*

	Today's Values 12/31/09	Estimated Future Values						Estimated Returns*
S&P 500	\$1,115	\$1,417	13.0%	0.9%	12.7%	27.4%	-4.4%	6.5%
30-Yr T-Bond	4.63%	5.3%	0.7%	1.9%	2.8%	3.0%	12.8%	3.5%
6 Month T'Bill	0.19%	3.7%	3.5%	3.1%	2.8%	2.6%	1.9%	2.8%

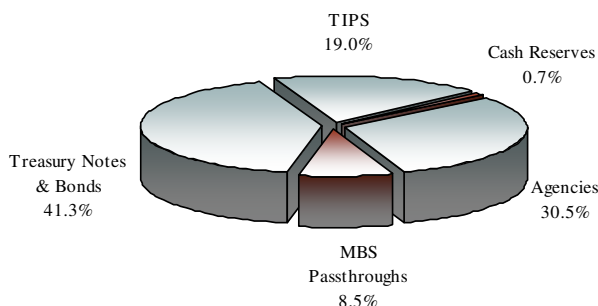
* Estimated Returns are subject to change and should not be viewed as a promise of future performance.

Value of \$1,000 Invested Gross of Fees, Since Inception through 12/31/09



SECTOR DIVERSIFICATION *

As of 12/31/09



* Percent of total fixed income holdings

The Fixed Income Characteristics and Sector Diversification are included as supplemental information and complements a full disclosure presentation, which can be obtained upon request.