

## 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. Effective May 2011 SKBA employee shareholders bought back a majority controlling share of the business from CCM, with CCM maintaining a minority stake.

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 9/30/11

	Q3 2011	YTD	One Year	Three Years	Five Years	Seven Years	Ten Years	Since Inception (7/1/98)
Gross of Fees	5.1%	7.8%	5.3%	6.9%	6.8%	5.7%	5.8%	6.3%
Net of Fees	5.1%	7.6%	5.1%	6.6%	6.5%	5.5%	5.6%	6.0%
Barclays Capital Gov’t Bond	5.9%	8.1%	5.6%	6.4%	6.6%	5.5%	5.5%	5.9%

*Performance for periods greater than one year is annualized. Past performance is not indicative of future results. 3Q 2011 data is currently undergoing examination and as such may be subject to change.*

### MULTI-SCENARIO 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. Rothé, MBA

# SKBA CAPITAL MANAGEMENT, LLC

PERSPECTIVE

PROCESS

PERFORMANCE

## 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. Effective May 2011 SKBA employee shareholders bought back a majority controlling share of the business from CCM, with CCM maintaining a minority stake. 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](mailto:clientservice@skba.com) or call us at 415.989.7852 or follow the link to the Annual Disclosure Presentation on our website:

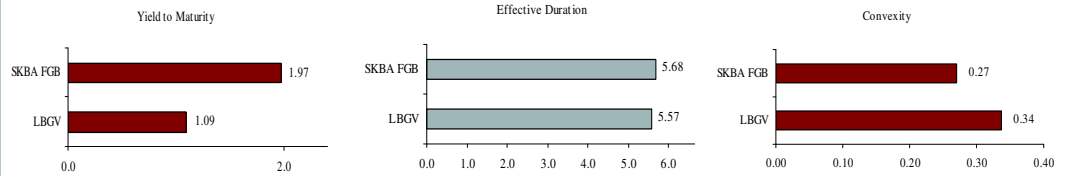
<http://www.skba.com/>



### FIXED INCOME CHARACTERISTICS

As of 9/30/11

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



### SKBA 5-YEAR MULTI-SCENARIO OUTCOMES & ESTIMATED RETURNS

As of: 09/30/11

5 Years to: 09/30/16

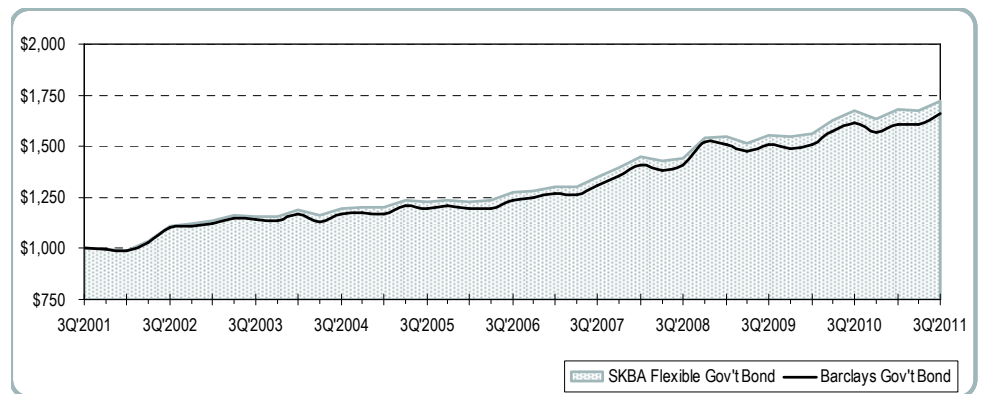
Forecast Scenarios	Return of Inflation	Stagflation	Historic Norm	Perfection	Deflation	
SKBA's Probabilities	6%	35%	36%	4%	19%	100.0%

#### Expected Values & Annualized Returns by Scenario\*

	Today's Values 09/30/11	Estimated Future Values						Estimated Returns*
S&P 500	\$1,131	\$1,705	16.1%	4.1%	17.1%	31.1%	3.1%	10.4%
30-Yr T-Bond	2.92%	5.0%	-5.2%	-4.1%	-3.2%	-3.6%	6.0%	-1.9%
6 Month T-Bill	0.05%	3.3%	3.0%	2.7%	2.4%	2.2%	1.5%	2.4%

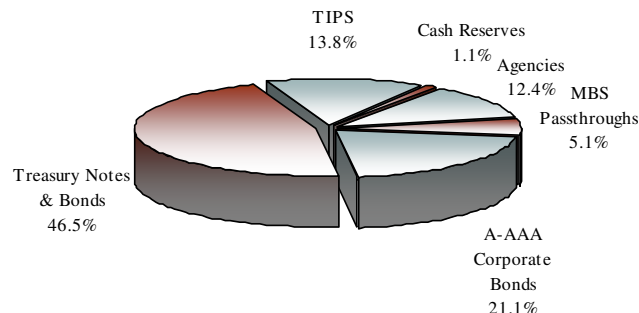
\* Estimated Returns are subject to change and should not be viewed as a promise of future performance.

### Value of \$1,000 Invested Gross of Fees, 10 years through 9/30/11



### SECTOR DIVERSIFICATION \*

As of 9/30/11



\* 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.



**SKBA CAPITAL MANAGEMENT, LLC  
FLEXIBLE GOVERNMENT BOND COMPOSITE  
ANNUAL DISCLOSURE PRESENTATION**

Year End	Total Firm	Composite Assets		Annual Performance Results				3-Yr Standard Deviation	
	Assets (millions)	USD (millions)	Number of Accounts	Composite Gross	Composite Net	Barclays Govt	Composite Dispersion	Composite	Barclays Govt
YTD									
9/30/11	504	79	9	7.8%	7.6%	8.1%	N.A.		
2010	645	77	10	5.9%	5.7%	5.5%	0.2%		
2009	546	68	9	0.2%	0.0%	(2.2%)	0.3%		
2008	395	53	Five or fewer	10.4%	10.1%	12.4%	N.A.		
2007	622	32	Five or fewer	9.0%	8.7%	8.7%	N.A.		
2006	707	29	Five or fewer	3.6%	3.3%	3.5%	N.A.		
2005	557	15	Five or fewer	2.8%	2.5%	2.7%	N.A.		
2004	517	15	Five or fewer	4.0%	3.7%	3.6%	N.A.		
2003	356	14	Five or fewer	3.3%	3.0%	2.4%	N.A.		
2002	257	15	Five or fewer	12.7%	12.4%	11.5%	N.A.		

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

***Flexible Government Bond 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. For comparison purposes the composite is measured against the Barclays Capital Government Bond Index. Prior to November 1, 2008 the Barclays Capital Government Bond Index was published by Lehman Brothers. As of January 1, 2000, institutional and tax-exempt fixed-only accounts with \$500,000 minimum market values at inception are included in this composite. The Flexible Government Bond Composite was created July 1, 1998. The Flexible Government Bond Composite was closed October 1, 2011.*

SKBA Capital Management, LLC ("SKBA") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. SKBA has been independently verified for the periods January 1, 1996 through September 30, 2011.

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. The Flexible Government Bond composite has been examined for the periods July 1, 1998 through June 30, 2011. The verification and performance examination reports are available upon request.

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. Effective May 2011 SKBA employee shareholders bought back a majority controlling share of the business from CCM, with CCM maintaining a minority stake. SKBA manages a variety of equity, fixed-income & balanced assets for U.S. institutional and high net worth clients. Firm assets under management are defined as all institutional & private client accounts managed by SKBA. A complete list of composite descriptions is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

Effective January 1, 2010, a significant cash flow (SCF) is defined as any inflow or outflow occurring during the calendar month which is equal to or greater than 35% of an account's beginning month value.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Standard Fee Schedule: For accounts up to \$25 million: 0.30% on the first \$3 million, 0.25% on the next \$12 million, 0.20% on the next \$10 million. For accounts over \$25 million: 0.20% on the first \$25 million, 0.15% on the next \$75 million. Actual investment advisory fees incurred by clients may vary.