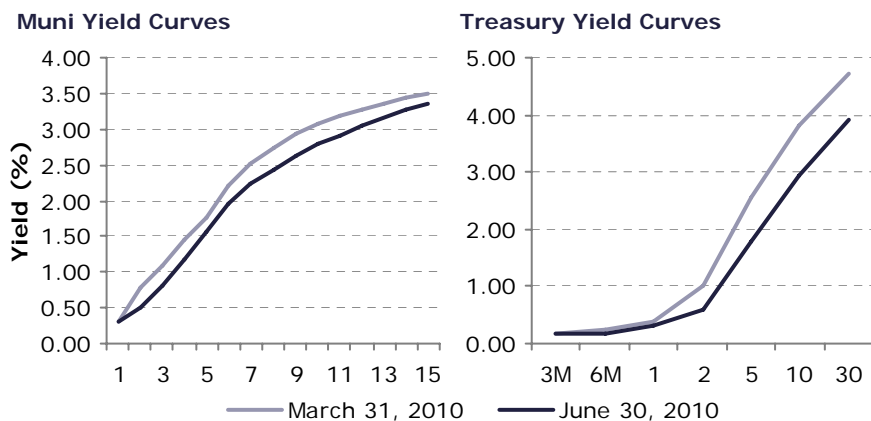


Market Commentary

Period Summary

Consumer confidence wavered over the first half of the year, influenced by mixed macroeconomic news along with concerns over the financial crisis in Europe and its potential impact on the U.S. economy. The second quarter ended with a flight to quality as the 10-year Treasury yield declined from 3.8% at the beginning of the quarter to 2.9% at quarter-end.



The 10-year municipal yield, in contrast, declined only thirty basis points to 2.79%, while credit spreads held firm. The increased issuance of Build America Bonds continued to limit the supply of tax exempts. That the tax exempt market was able to withstand the news about budget deficits at the state and local level can be attributed primarily to the limited supply of tax exempts, the prospect of an increase in tax rates and, somewhat paradoxically, the effect that the deteriorating fiscal condition of states had upon expectations for broader economic activity. As a result, the fixed income market outperformed equities, both for the second quarter and year-to-date, as the S&P 500 declined 11.4% in the second quarter and ended the first half of the year with a decline of 6.6%. This added to the large return advantage bond holders have enjoyed over the past ten-plus years, but it may also carry a warning.

Some media have tried to relate the problems of certain troubled states to those of Greece. We believe this comparison to be miscast, since 1) state and local debt service is relatively small as a percentage of budgets and gross state products, 2) state and local debt is long dated and not subject to the kind of rollover risk faced by Greece, Portugal, and Italy, for example, and 3) U.S. state and local government revenues, while falling in the recession, are still substantial and diverse. However, the fiscal imbalances facing states and municipalities are in fact real – and no more so than in California. Federal stimulus funds enabled some states to postpone necessary structural reform, while others addressed their budget gaps by reducing their workforce, cutting spending for fiscal years 2010 and 2011 and moving forward with pension reform. The new healthcare bill will create yet additional expenses and uncertainties. We believe that states will be forced into greater fiscal responsibility before they reach a crisis point, but some localities have already

Period Highlights

- Flight to quality led to outperformance of Treasuries.
- Reduced tax-exempt supply supported municipal values.
- Comparisons to Greece's troubles have not described the financial situation of the States in the proper perspective.

passed the point of no return. Credit vigilance has never been more important.

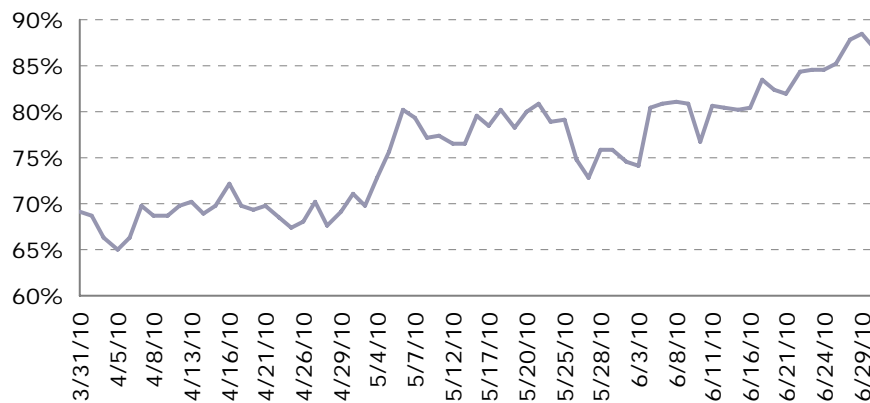
We believe concerns about a double dip in the U.S. economy are misplaced, but some slowing is clearly occurring. Job growth is way behind the pace of prior recoveries, which has resulted in slower consumption and lower consumer confidence. The impact from developments abroad and the potential fallout from the Gulf oil spill will combine with a thriftier consumer to keep GDP growth at low single digits.

These are trying times for bond investors – similar in some respects to 2003-04, a period that spawned the recent housing bubble. The historically low yields in the high grade bond market create the temptation to assume more risk in a search for higher yield, but we believe that now is not the time. Samson has maintained its strict credit philosophy by only investing in strong and stable municipal credits. As a result, in the first half of 2010 our portfolios achieved returns in line with the market, while taking less credit and interest rate risk.

We began the quarter with a target allocation to Treasuries and agencies, and the exposure was reduced at the end of the Quarter. We were concerned that municipal overvaluation could lead to underperformance vs. taxables on a total return basis. We maintained this tactical allocation until the relationship normalized. Per the chart below, municipal to Treasury yield ratios in the 5-year maturity rose from 69% to 87%.

- High grade taxable allocation outperformed municipals.

5 Year Municipal/Treasury Ratios



Although the commitment by many of the world's central banks to keep the banking system awash in liquidity for an "extended period" and signs of a slowing economy may keep bond yields from rising as quickly as we had expected, the ultra-low yields create a poor environment for finding value.

July 16, 2010

Data Sources: J.P. Morgan, Bloomberg®

The opinions expressed herein are solely attributable to Samson and should not be construed as an offer to buy or a solicitation to sell any securities. Inherent in any investment is the risk of loss. Past performance is not indicative of future results.