SAMSON CAPITAL ADVISORS

High Grade Core Intermediate Strategy

In the second quarter, high quality bonds benefited from a rise in investor concerns about the long-term viability of the economic recovery. The key drivers of this movement to bonds included:

- A renewed focus on the debt crisis in Greece
- Rising concerns that the calamity in Japan would negatively impact global GDP growth
- Weaker U.S. economic data
- The consequent decline in global equities and other risk assets that dominated most of the period

Yet, beneath the tranquil surface of positive fixed income returns, important sector cross currents are developing that warrant consideration as we look towards the second half of the year. The last month of the quarter witnessed a sharp divergence in the performance of key sectors within the investment grade marketplace:

- Though BBB corporate bonds generated a 2.39% return for the quarter, well in excess of higher rated corporates, they fell in value during the last month by -0.50%.
- Commercial Mortgage Backed Securities (CMBS), which generated a positive 1.62% return for the quarter, dropped -1.01% in the last 30 days of the period.
- Traditional Mortgage-Backed Securities (MBS) generated a healthy 2.28% for the quarter, but there was a noticeable divergence in the performance of GNMAs (backed by the full faith and credit of the U.S. Treasury) and FNMA and FHMC MBS (these issuers are also high quality, but they remain in Conservatorship). GNMA 30-year MBS generated a 2.92% return, while comparable FNMA and FHLMC returns were 2.21% and 2.32% respectively.
- Finally, though intermediate Treasuries provided a 2.23% return for the quarter, the index lost -0.08% for the last month of the period, with 10-year Treasuries leading the way down with a -0.65% return.

During a period when the economy's growth path is less certain, the market is increasingly distinguishing between sectors, penalizing sectors with either genuine or perceived vulnerabilities. As we have mentioned in prior commentaries, Samson is a value oriented fixed income investor and our style emphasizes quality and capital preservation. In that context, we reduced the overall risk of the portfolios we manage from both an interest rate and credit perspective. During the quarter we grew increasingly concerned about corporate debt rated A or better, largely on a valuation basis. Though corporate earnings have been healthy, spreads on corporate bonds had become too rich in our estimation given the uncertainties about the economy. As a result, we are maintaining a cautious posture to the

Performance Summary

		2Q '11	YTD	SI*
HGCI Comp	*Gross*	2.17%	2.89%	4.89%
	*Net***	2.08%	2.71%	4.52%
Barclays Int. Agg		2.17%	2.65%	5.18%
Ex BBB		2.15%	2.56%	5.10%
Ex BBB/CMBS/ABS		2.16%	2.52%	5.20%

*12/31/04-6/30/11
** Net of annual fees of 0.35%

Fixed Income Performance

	2009	2010	YTD 2011
U.S. TSY			
30 Year	-25.88%	8.72%	1.48%
10 Year	-9.76%	8.01%	3.21%
5 Year	-1.35%	7.02%	3.29%
Agy. MBS	5.89%	5.37%	2.87%
Muni 5 Yr	7.40%	3.40%	3.36%
Int. Agg	**6.46%**	**6.15%**	**2.65%**
Int. Corp.			
Aaa	1.00%	7.06%	2.84%
Aa	9.54%	6.29%	2.45%
A	15.67%	8.19%	3.09%
Baa	28.26%	9.44%	3.92%
ABS	24.72%	5.85%	2.42%
CMBS	28.45%	20.40%	3.71%
High Yield	58.21%	15.12%	4.89%
S&P 500	26.47%	15.08%	6.01%

Sector Allocation as of 6/30/11

Sector	HGCI	BC Int Agg	Overweight/ (Underweight)
Treasuries	17%	33%	(15%)
Agencies	8%	7%	2%
Mortgages	35%	37%	(1%)
Corporates	13%	17%	(4%)
Munis	13%		13%
Txble Munis	9%		9%
Multilaterals	4%		4%
Cash & Equiv	1%		1%
Other (CMBS, ABS)		7%	(7%)
Total	**100%**	**100%**	

Source: Barclays

sector on contribution to duration basis and will seek better opportunities to materially add to our corporate holdings.

Our capital preservation approach to investing led us to increase the quality of the MBS we purchase over the past several months. For example, we have increasingly emphasized GNMAs in our MBS purchases. GNMAs represent a modest portion of the overall MBS market, as the chart to the right shows. Our increased exposure to GNMAs over time has enhanced the quality of our portfolios and generated healthy returns.

We correspondingly increased our position in other spread sectors that we viewed as high quality and defensive, such as tax-exempt municipals. Despite significant concerns expressed about municipal credit quality in the media, which our firm has maintained are overstated, municipals actually outperformed intermediate corporate bonds for the 3 month period. High quality municipals cheapened relative to Treasuries throughout the quarter as the safe haven rally drove Treasury prices higher. Municipal price appreciation lagged Treasury price appreciation and we took advantage of the relative cheapening of this high quality sector to add to our positions.

Our firm's credit research shows meaningful improvement in many municipal issues and a turn in the municipal credit cycle. In fact, the data from Moody's and S&P support this conclusion though from divergent perspectives. Though Moody's continues to downgrade more municipal issuers than it upgrades, the trend in the relationship between the firm's downgrades and upgrades has shifted. As Moody's recently announced, "After peaking at 4.6:1 in the fourth quarter of 2010, the downgrade-to-upgrade ratio declined to 3.9:1 in the first quarter of 2011 and then to 3:1 in the second quarter."[1] Importantly, S&P has continued to upgrade more municipal issuers than it downgrades. The State of California, long a credit of concern to some, has moved from a negative to stable outlook. Even Illinois is showing an increase in tax revenues and genuine improvement in its credit profile. The improvement in even these credits, frequently in the headlines as paragons of the municipal market's "troubles," underscores that a broad based improvement in municipal credit is now underway.

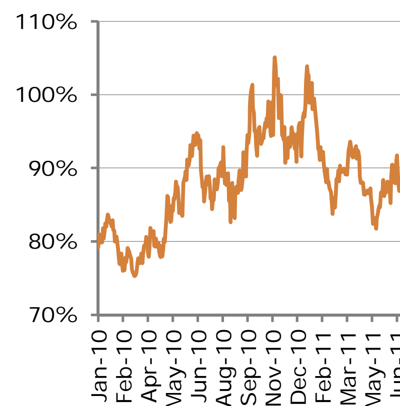
While many municipalities are able to raise taxes and improve their credit profile, it has been tougher going for the United States government. Budget talks at the time of this writing remain at an impasse and the early August deadline is fast approaching. Even if talks prove productive and the U.S. debt ceiling is raised, allowing the country to avoid default, it must diminish market perceptions of U.S. credit quality that default has become a game of brinkmanship in the United States. Our continued underweight to the sector reflects not only our interest rate concerns, but also our view that just because Treasuries are a large share of the benchmark does not mean we have to buy them in large quantities.

Yet, we do seek high quality replacements and during the quarter we have built positions in multilateral development bonds that are backed by many sovereign nations. In simple terms, in a world where all developed

MBS Market Composition

	Mkt Value ($MM)	%Mkt
GNMA	1,067,176	21%
FHLMC	1,532,625	30%
FNMA	2,291,550	45%
Hybrid ARM	171,774	3%
U.S. MBS	**5,063,126**	**100%**

10 Year Municipal/Treasury Ratios



Sources: Morgan Markets, Barclays

1 MOODY'S Investors Service, "Moody's: Preview of U.S. Public Finance 2nd quarter rating revision shows downgrades still dominate", 8 July 2011

sovereign credits have their problems, better to invest in a bond backed by several of them than any single issuer. The chart below shows the yield pick-up we are able to obtain in this sector vs. Treasuries while maintaining an AAA credit profile.

Multilateral Development Bonds as of 6/30/11

	Coupon	Maturity	Yield
Asian Development Bank	5.59%	7/16/2018	3.15%
U.S. Treasury	4.15%	8/15/2018	2.43%
European Investment Bank	4.00%	2/16/2021	3.50%
U.S. Treasury	3.63%	2/15/2021	3.11%

From a yield curve perspective, we continue to maintain a barbell strategy. As the chart to the right shows, the U.S. Treasury curve remains historically steep. While we do not believe the Federal Reserve will raise interest rates anytime soon, the Fed cannot lower rates any further – thus the next policy move is up (admittedly an event far in the future). This would likely lead to a flatter curve as typically happens in a Fed tightening environment. More important, we believe the current steepness of the curve is in excess of what is justified by either the likely course of inflation, or economic growth.

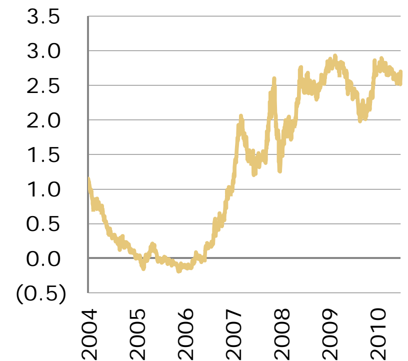
Looking forward, despite the tepid growth environment in the U.S. and the genuine concerns about the Eurozone, we believe the U.S. market, particularly Treasuries, remains somewhat overvalued. This is especially true on a real interest rate basis as shown in the chart to the right when we look at both short and longer term real rates (nominal rates adjusted for inflation). Nonetheless, we believe rates are not likely to rise sharply and as a result it makes sense to be fully invested at this time as cash rates are punitively low. The experience of the Japanese bond market since 2000 is particularly instructive.

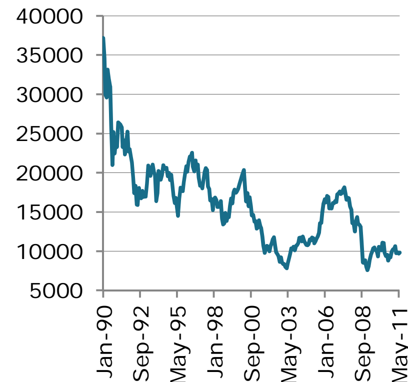
By the start of the 1990s, Japan had suffered the decline of its real estate market and a drop in equity prices that has yet to be recovered. As the chart on 5 and 10 year Japanese Treasury yields shows, yields have been low for a very long time. At various points since the early 1990s a strong case could have been made that even a modest recovery in Japan's economy meant low yielding government bonds were at great risk. This argument typically concluded with the very reasonable proposition that holding cash was better than holding bonds. In Japan, this argument was not only false, but costly in a quantifiable way when we examine the issue from the perspective of opportunity cost.

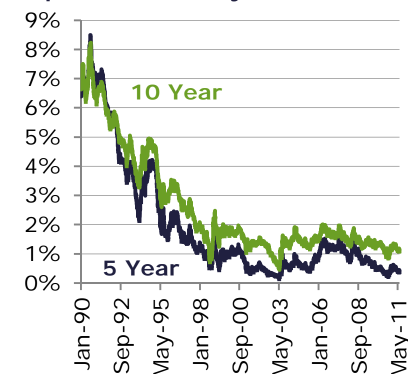
Cumulative Return of ML Japanese Government Bond Indices

	0-1 Year	1-10 Year
3 Year	0.97%	6.24%
5 Year	2.12%	11.90%
10 Year	2.08%	14.67%

The data table compares the trailing cumulative returns of the Merrill Lynch 1-10 Year Japanese Government Index (representing a fully invested bond portfolio) and the Japanese 0-1 Year Index (representing a cash portfolio). The data highlights that the opportunity cost of sitting on







Sources: Morgan Markets, Barclays, Bloomberg

cash for prolonged periods can be very high. While we are not suggesting that Japan's two decade malaise is predictive for the U.S., we do believe it highlights the reinvestment risk and opportunity cost investors assume when they exit fixed income and sit on large cash holdings waiting for rates to rise during uncertain times.

In that context, we will continue to use our value oriented investment process to navigate the cross currents of these times as we enter the 3rd quarter with an up in quality bias, a barbell yield curve position, and modestly shorter duration than our benchmark. Despite our concerns about rising interest rates, we believe they will likely be muted, and as a result, we will limit our cash exposures.

Jonathan Lewis
Principal

July 15, 2011

Data Sources: Morgan Markets®, Barclays Capital®, Bloomberg®

No representation or assurance is made that Samson High Grade Core Intermediate Strategy will or is likely to achieve its objectives, or will make a profit or will not sustain losses. Any statements regarding future events constitute only subjective views or beliefs, are not guarantees or projections of performance, should not be relied on, are subject to change due to a variety of factors, including fluctuating market conditions, and involve inherent risks and uncertainties, both general and specific, many of which cannot be predicted or quantified and are beyond our control. Future results could differ materially and no assurance is given that these statements are now or will prove to be accurate or complete in any way. Samson does not provide tax, accounting or regulatory advice. ANY TAX STATEMENT CONTAINED HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY PERSON, FOR THE PURPOSE OF AVOIDING TAX PENALTIES.

Past performance is not indicative of future results. Any benchmarks or indices shown are for illustrative purposes only, are unmanaged, assume reinvestment of income, and have limitations when used for comparison or other purposes because they may have volatility, credit or other material characteristics (such as number and types of securities) that are different from (HGCI). Certain information is based on third-party sources and, although believed to be reliable, it has not been independently verified and its accuracy or completeness cannot be guaranteed. This information is confidential, is intended only for intended recipients and their authorized agents and may not be distributed to any other person without our prior written consent.

High Grade Core Intermediate Composite
Schedule of Investment Performance for the Period 12/31/04–12/31/10
Primary Benchmark: Barclays Capital Intermediate Aggregate

	Total Firm	Composite Assets		Annual Performance Results				
	Assets	USD	Number of	Composite	Barclays Capital Int.	3 Year Std Deviation		Composite
Year End	(millions)	(millions)	Accounts	Gross	Aggregate	Composite	BC Int Agg	Dispersion
2010	7,122	149	17	4.95%	6.15%	3.43%	3.41%	0.14%
2009	6,516	125	15	5.97%	6.46%	3.45%	3.38%	0.13%
2008	4,525	94	9	3.66%	4.86%	3.26%	3.25%	0.15%
2007	3,653	33	Five or Fewer	8.10%	7.02%	2.28%	2.34%	N.A.
2006	3,105	45	Five or Fewer	4.33%	4.58%			N.A.
2005	2,588	52	6	1.95%	2.01%			N.A.

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year or lack of a full year or full three years of performance.

1) Definition of Firm: Samson Capital Advisors LLC (the "Firm"), founded in June 2004, is an SEC registered investment adviser as of May 2004. Samson provides investment management services.

2) Compliance Statement: Samson Capital Advisors claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Samson Capital Advisors has been verified for the periods June 1, 2004 through December 31, 2008 by Ashland Partners & Company LLP and from January 1, 2009 through December 31, 2009 by The Spaulding Group.

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 presentation. The High Grade Core Intermediate Composite has been examined for the periods December 31, 2004 through December 31, 2008. The verification and performance examination reports are available upon request.

This presentation of investment performance sets forth the time-weighted rates of returns for the High Grade Core Intermediate Composite (the "composite") for the period shown. Past performance is no guarantee of future results and may differ in future time periods.

3) Policies: Additional information regarding the Firm's policies and procedures for calculating performance, valuing portfolios, and preparing compliant presentations is available upon request.

4) Composite Description: The High Grade Core Intermediate Composite was created September 30, 2005. The Composite consists of all fully discretionary, fee paying separately managed accounts in the High Grade Core Intermediate style. The High Grade Core Intermediate strategy is a relative return focused mandate appropriate for investors with an indefinite investment horizon, seeking to maximize return with a lower degree of principal volatility than typical aggregate market strategies. The minimum account size for this composite is $2.5 million.

5) Benchmark: For comparison purposes, the composite is measured against the Barclays Capital Intermediate Aggregate Index.

The Barclays Capital U.S. Intermediate Aggregate Index is an unmanaged index that represents the U.S. domestic investment-grade bond market. It is comprised of the Barclays Capital Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. Please note that indices do not take into account any fees and expenses of investing in the individual securities that they track and that individuals cannot invest directly in any index. Data about the performance of these indices are prepared or obtained by NBM and include reinvestment of all dividends and capital gain distributions.

6) Reporting Currency: Composite returns are expressed in U.S. dollars.

7) Fees: Gross-of-fees returns are presented before management fees, but net of all trading expenses, custodial fees, and withholding taxes. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The collection of fees produces a compounding effect on the total rate of return net of management fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) quarterly fee assessment, (b) $1,000,000 investment, (c) portfolio return of 8% a year, and (d) 1.00% annual investment advisory fee would be $10,416 in the first year, and cumulative effects of $59,816 over five years and $143,430 over ten years. Additional information regarding the policies for calculating and reporting returns is available upon request. The management fee schedule is as follows: 0.40% on the first $10 million, 0.30% on the next $10 million, and 0.25% thereafter. Actual investment advisory fees incurred by clients may vary.

Net-of-fee performance is show net of model management fees (the highest charged to an account in the composite), all trading expenses, custodial fees, and withholding taxes.

8) Significant Flows: The composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month, after full investment.

9) Internal Dispersion: The measure of dispersion used in this presentation is the asset-weighted standard deviation of annual gross-of-fees returns of those portfolios that were included in the composite for the entire year. This calculation measures the fluctuation of the rates of return of portfolios with the Composite in relation to the average return. Dispersion is not shown for composites with 5 or fewer portfolios for a full year.

10) List of the Firm's Composites: In addition to the Composite, the Firm provides investment management services utilizing different strategies. A complete list of composite descriptions is available upon request.

11) Additional Disclosures: As of 7/1/09 portfolios are revalued for cash flows of 10% or more. Prior to 7/1/09 portfolios were not revalued for large flows.

Benchmarks are shown for illustrative purposes only, may not be available for direct investment, are unmanaged, assume reinvestment of income, and have limitations when used for comparison or other purposes because they may have volatility, credit, or other material characteristics (such as number and types of securities) that are different from the Strategy. Information is as of the date hereof unless otherwise indicated. Certain information is based on data provided by third-party sources and, although believed to be reliable, it has not been independently verified and its accuracy or completeness cannot be guaranteed. This information is confidential, is intended only for intended recipients and their authorized agents and may not be distributed to any other person without the Manager's prior written consent. Notwithstanding and foregoing, the recipient and their authorized agents may disclose to any and all persons, without limitation of any kind, the structure and tax aspects of the transactions described herein and all materials of any kind that are provided by Samson to the recipient related to such structure and tax aspects.

Beginning January 1, 2008, the composite definition was expanded to include accounts with mandates that allow for investment in securities which do not fall within the High Grade Core Intermediate style. For example, the mandate may allow for allocations to alternative sectors or an extension in duration outside the acceptable boundaries of the High Grade Core Intermediate style. At their time of inclusion, these portfolios had no allocation to these securities. Should these portfolios become invested in these securities, they will be removed from the composite.