

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 6/30/10

	Q2 2010	YTD	One Year	Three Years	Five Years	Seven Years	Ten Years	Since Inception (7/1/98)
Gross of Fees	4.3%	5.5%	7.5%	7.8%	5.7%	4.9%	6.6%	6.3%
Net of Fees	4.3%	5.4%	7.2%	7.6%	5.4%	4.7%	6.3%	6.0%
Barclays Capital Gov’t Bond	4.3%	5.4%	6.5%	7.6%	5.4%	4.6%	6.3%	5.9%

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. 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. 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:

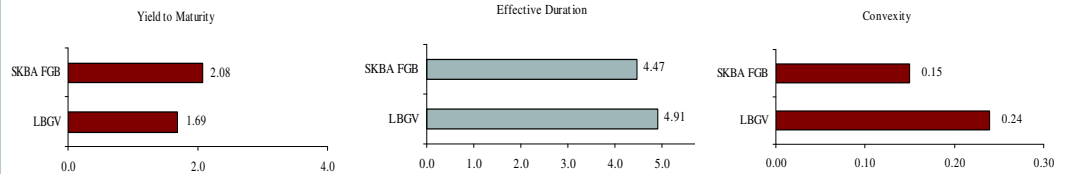
<http://www.skba.com/>



FIXED INCOME CHARACTERISTICS

As of 06/30/10

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



SKBA 5-YEAR MULTI-SCENARIO OUTCOMES & ESTIMATED RETURNS

As of: 06/30/10

5 Years to: 06/30/15

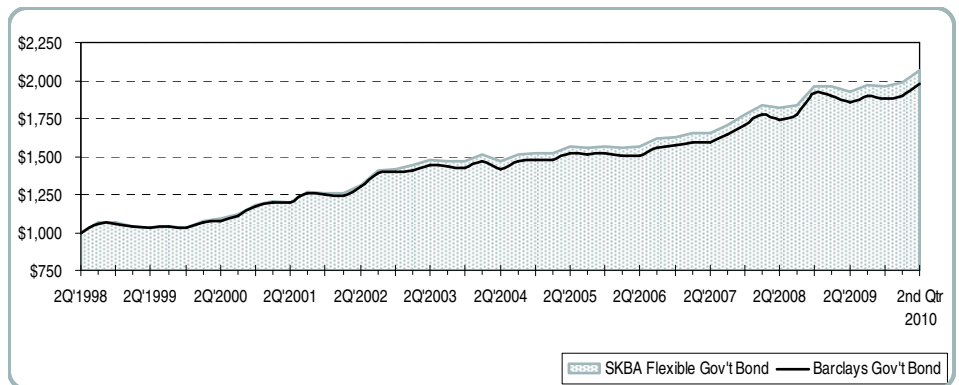
Scenario Forecasts	Return of Inflation	Stagflation	Historic Norm	Perfection	Deflation	
SKBA's Probabilities	7%	42%	26%	4%	22%	100.0%

Expected Values & Annualized Returns by Scenario*

	Today's Values 06/30/10	Estimated Future Values						Estimated Returns*
S&P 500	\$1,031	\$1,371	16.2%	3.6%	15.6%	30.9%	1.0%	8.0%
30-Yr T-Bond	3.91%	4.8%	-1.7%	-0.3%	1.3%	0.5%	10.4%	2.4%
6 Month T-Bill	0.21%	3.2%	3.2%	2.8%	2.4%	2.3%	1.7%	2.5%

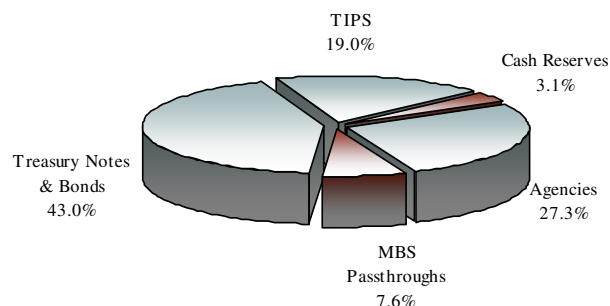
* Estimated Returns are subject to change and should not be viewed as a promise of future performance.

Value of \$1,000 Invested Gross of Fees, Since Inception through 6/30/10



SECTOR DIVERSIFICATION *

As of 6/30/10



* 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 Assets (millions)	Composite Assets		Annual Performance Results			
		USD (millions)	Number of Accounts	Composite Gross	Composite Net	Barclays Govt	Composite Dispersion
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.
2001	311	13	Five or fewer	7.1%	6.8%	7.2%	N.A.
2000	389	12	Five or fewer	14.0%	13.7%	13.2%	N.A.

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. 2Q10 data is currently undergoing examination and as such may be subject to change.

***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.*

SKBA Capital Management, LLC ("SKBA") has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

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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, accounts experiencing a significant flow equal to or greater than 35% of an account's beginning month value are removed for the month. Accounts excluded on significant flow grounds are re-included the first of the month after the 80% re-allocation of an inflow is completed, or for an outflow, the first of the month after which 30 days elapse past the significant flow date. Under the prior policy established on July 1, 2009, accounts experiencing a significant flow were excluded and re-included on a quarterly basis. Additional information regarding the treatment of significant flows is available upon request.

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. Additional information regarding policies for calculating and reporting returns is 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.

The Flexible Government Bond Composite was created on July 1, 1998. Compliance with GIPS has been verified firm-wide by Ashland Partners & Company LLP from January 1, 1996 through March 31, 2010. In addition, a performance examination was conducted on the Flexible Government Bond Composite beginning July 1, 1998.