

A MESSAGE FROM OUR PRESIDENT

Dear Friends:

Many of you have called over the past weeks to express your concern about us during the extensive wildfires here in San Diego County. Thank you.

Although the authorities required many of our staff members to evacuate their homes, we were relieved to find that none sustained any injury or property damage.

We are also grateful that our headquarters did not sustain any damage and that we were able to remain open for business during the fire. Although we were operating with minimal staff in the office, we successfully implemented our disaster recovery plan, thereby maintaining communication among all employees, and ensuring continuity in managing our clients' portfolios and servicing their accounts.

While we are thankful for the safety of the members of the Chandler Asset Management team and their families, at the same time, we are saddened by the devastating impact that the fires had on so many of our neighbors in the San Diego and southern California community.

Like you, we send all our good thoughts and wishes to all who have been hurt by the fires and their aftermath.

Warm regards,



Kay Chandler
President

9255 Towne Centre Drive
Suite 350
San Diego, CA 92121-3039
858.546.3737
800.317.4747
F 858.546.3741
www.chandlerasset.com

BOND MARKET REVIEW

A MONTHLY REVIEW OF
FIXED INCOME MARKETS



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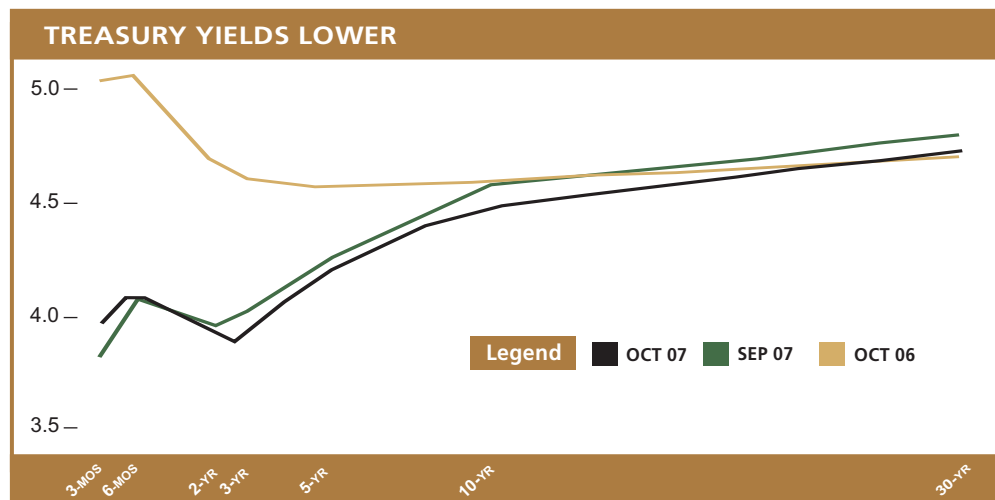
Since 1988, Chandler Asset Management has specialized in the management of portfolios of high quality, fixed income securities. Chandler's mission is to provide fully customizable, client-centered portfolio management that preserves principal, manages risk and generates income in our client's portfolios.

MARKET SUMMARY

Bond yields were mixed in October. The market's recent activity stems from concerns that difficulties in the housing and mortgage market will result in slower economic growth going forward. The yield curve flattened, as yields on short-term treasuries increased while those on longer-term securities rose. The global market volatility witnessed in August diminished last month, but market participants remain extremely sensitive to signs of housing, mortgage, and credit weakness.

The economy displayed moderate growth in October. The Non-Farm Payroll number was much stronger than expected, showing an increase of 166,000. Housing data has continued to weaken. Inflation readings have moderated, although they remain at the high end of the Federal Reserve's comfort zone. Going forward, market participants will continue to look for signs as to whether or not weakness in the housing and mortgage markets is reflected in the broader economy.

The FOMC lowered the federal funds rate and the discount rate 25 basis points at its October 31st meeting. The next scheduled FOMC meeting is on December 11th.



Treasury yields were mixed in October and the yield curve flattened as market participants attempted to ascertain the consequences of this summer's financial market volatility.

YIELDS	10/31/07	9/30/07	Change
3 Month	3.92	3.80	0.12
2 Year	3.91	3.95	(0.04)
3 Year	3.90	3.99	(0.09)
5 Year	4.16	4.23	(0.07)
10 Year	4.47	4.58	(0.11)
30 Year	4.75	4.83	(0.08)

YIELD SPREADS	10/31/07	9/30/07	Change
5yr - 2yr T-Note	0.25	0.28	(0.03)
10yr - 2yr T-Note	0.56	0.63	(0.07)

Source: Bloomberg

Brian: There has been a lot of news in the press recently regarding credit problems. How would you characterize the current state of the credit market?

Jayson: The credit market is still volatile. There are still concerns about the subprime mortgage market and financial companies that have exposure to subprime mortgages or other risky assets. There have also been large write downs by banks and brokerage firms due to the market stress and increasing defaults in the mortgage area. But the market is still functioning; good companies can still raise money. High quality corporate bonds still represent good investments.

Brian: What can an investor do in order to avoid credit market turmoil? Should they avoid corporate bonds completely?

Jayson: I would not avoid corporate bonds completely. There are many quality companies operating in the US today. The amount of yield received over comparable treasury securities has increased dramatically in the last year. That makes some high quality corporate bonds more attractive than they have been in quite a while. To minimize the current market turmoil one needs to own a diversified portfolio of assets and do their homework on any investment they are contemplating buying. They also must monitor their investments for the most current information, since markets move very quickly.

Brian: What process does Chandler use in order to select corporate securities? Is this working to help avoid risky corporate bonds?

Jayson: Chandler uses a very stringent process to look at corporate securities for investment. Not only do we monitor the current ratings by the nationally recognized rating agencies, but we will also call the analysts to speak with them to get more clarification on their analysis on the companies we own or are looking to purchase. We also look outside the nationally recognized rating agencies for independent research and analysis.

Monitoring corporate communications is also very important to understanding the companies we invest in. We not only monitor the filings of the companies by the SEC but also are actively involved in the conference calls. This allows us to get a very good understanding of the credit worthiness of the companies we own. Once we have analyzed all of this information, we then use a proprietary program to rank various corporate issuers according to their attractiveness. The goal is to identify strong, improving credits that we can hold in our portfolios.

Brian: What about company financials? Do you look closely at them before investing?

Jayson: At Chandler we do look at company financial reports on the companies in order to make more informed decisions. Some of the reports we look at are 10 Q and 10 K. These reports give more information than just earnings. They provide detailed balance sheet information and discussions by management on the performance of their business. We also use a third party research provider that performs detailed analysis of company financial statements.

Brian: What do you see going forward? Will corporate bonds be a good investment? Will volatility go away?

Jayson: I believe corporate bonds will be a good investment for portfolios over the long-term. Although some companies in the bond market are experiencing volatility, others have been relatively unaffected. Diversification is always important in a portfolio. A well diversified portfolio of corporate securities will help to mitigate the volatility by reducing the exposure of any one security in the portfolio. The current market volatility will subside over time, but it is going to take time. Balance sheets will improve, and so will corporate earnings, but this will be gradual and could take several quarters or more.

The real question is, what will be the effect on the economy? Although the economy still seems to be doing well, the full effect of credit market volatility may not be felt for several months. We will be monitoring the developments very closely and will make changes to the strategic allocation of our portfolios as conditions warrant.

Brian: Any last thoughts on the current market environment?

Jayson: In times of market stress, it is always prudent to go back and look at what your long-term goals and strategy are. For most investors, this is spelled out in your investment policy. This document can help guide you in times of market uncertainty and remind you about your long-term goals and the amount of risk you are able and willing to take in order to achieve these goals. If an investor does not have an investment policy I suggest you draft one, and if you have one, I urge you to review this not just during time of uncertainty, but also on a periodic basis to make sure your goals and strategy still meet your needs.

This volatile period will end as all market disruptions do and many lessons will be learned. As an investor, I advise you to take a long term approach and stick to your well thought out investment plan.

Jayson Schmitt, Vice President Portfolio Manager
Brian Perry, Vice President, Portfolio Specialist

CONSUMER PRICES

During September, the economy's headline inflation reading increased at a 2.8% year over year rate, higher than August's 2.0% rate. The year-over-year Core CPI (CPI less food and energy) rose at a 2.1% rate, the same as in August. While Core CPI remains at the upper-end of the Federal Reserve's comfort range, the trend in inflation data has been relatively positive over the last several months.

RETAIL SALES

During September, Retail Sales moved higher as the year-over-year growth rose to 5.0% from a revised growth rate of 3.8% in August. Over the last several months, Retail Sales trends are reflecting moderate consumer spending and most likely are showing the effects of the slowdown in the housing market and the tightening of credit standards.

LABOR MARKETS

The October non-farm payroll employment report showed an increase of 166,000 jobs, which was significantly above consensus expectations. The six-month average for non-farm payroll employment is now 118,000 jobs. October's employment report has lessened concern that the jobs market is weakening but market participants will continue to watch for signs that the housing slowdown is leading to employment weakness.

HOUSING STARTS

Single-family housing starts declined by 1.7% in September, to a 0.96 million annual pace. This follows August's reading of 0.98 million. Single family housing permits also declined for the sixth straight month. Recent data has supported the financial market concern that the decline in the housing market has not yet run its course.

CREDIT SPREADS WIDER

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	0.67	1.13	(0.46)
2-year AA corporate note	0.74	0.76	(0.02)
5-year AA corporate note	0.84	0.86	(0.02)
5-year Agency note	0.52	0.47	0.05

Source: Bloomberg

Data as of 10/31/07

MIXED ECONOMIC DATA

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(57.6) \$Bln AUG 07	(59.0) \$Bln JUL 07	(67.6) \$Bln AUG 06
GDP	3.9% SEP 07	3.8% JUN 07	1.1% SEP 06
Unemployment Rate	4.70% OCT 07	4.7% SEP 07	4.4% OCT 06
Prime Rate	7.50% OCT 07	7.75% SEP 07	8.25% OCT 06
CRB Index	351.01 OCT 07	333.67 SEP 07	305.87 OCT 06
Oil (West Texas Int.)	\$94.53 OCT 07	\$81.66 SEP 07	\$58.73 OCT 06
Consumer Price Index (y/o/y)	2.8% SEP 07	2.0% AUG 07	2.1% SEP 06
Producer Price Index (y/o/y)	4.4% SEP 07	2.2% AUG 07	0.9% SEP 06
Dollar / EURO	1.45 OCT 07	1.43 SEP 07	1.28 OCT 06

Source: Bloomberg

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