CHANDLER ASSET MANAGEMENT

December 2008

Bond Market Review

A MONTHLY REVIEW OF FIXED INCOME MARKETS

What's Inside

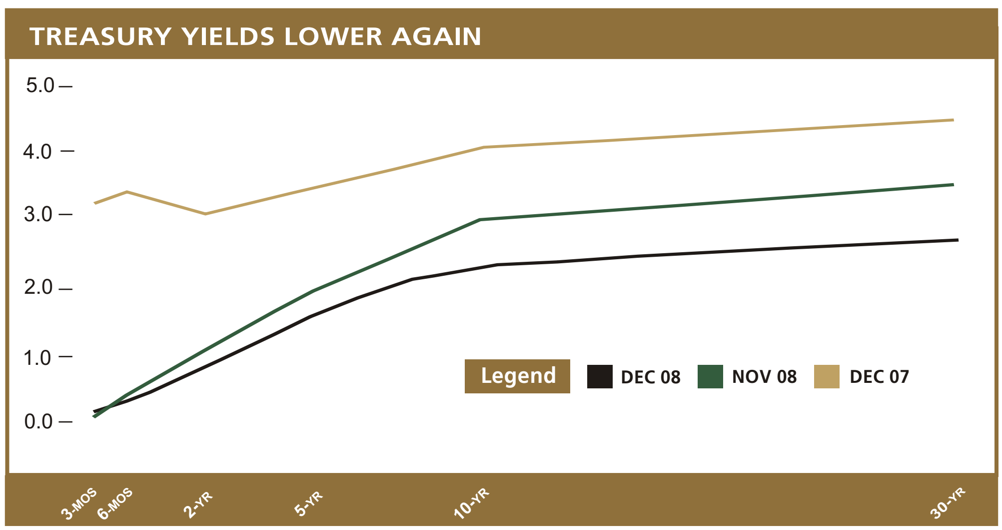
Since 1988, Chandler Asset Management has specialized in the management of portfolios of high quality, fixed income securities. Chandler's mission is to provide fully customizable, client-centered portfolio management that preserves principal, manages risk and generates income in our client's portfolios.

Market Summary

Treasury yields were lower again in December as worries about the credit crisis continued into year end. Weak holiday sales, falling home prices, and further job loss worries all contributed to a strong demand for Treasury securities leading to higher prices and lower yields.

On December 16th, the Federal Reserve lowered the federal funds rate to a target range of 0.00% to 0.25%. This represents the lowest level on record. The Fed said that its focus going forward will be "to support the functioning of financial markets and stimulate the economy." The Fed also said that "weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time." In addition to cuts in the federal funds rate, the Fed will continue to employ innovative and extraordinary measures to stabilize financial markets and reinvigorate the economy.

Uncertainty for the economic outlook is complicated due to the unknown impact of further fiscal stimulus coming from public policy makers.



Treasury yields were lower in December as market participants continued to have a strong demand for Treasuries. The yield curve retained its normal shape.

YIELDS	12/31/08	11/30/08	Change
3 Month	0.11	0.02	(0.09)
2 Year	0.76	1.00	(0.25)
5 Year	1.55	1.93	(0.39)
10 Year	2.25	2.96	(0.71)
30 Year	2.69	3.48	(0.80)

YIELD SPREADS	12/31/08	11/30/08	Change
5yr - 2yr T-Note	0.79	0.93	(0.14)
10yr - 2yr T-Note	1.49	1.96	(0.47)

Source: Bloomberg

December 2008

A Letter from our President

In the decades to come, much will be written about the numerous threads of risk and leverage that knotted together in 2008 to bring the US financial system close to destruction and to cause the obliteration of an enormous amount of personal and corporate net worth.

The financial chaos created an unprecedented flight to quality. US Treasury Bills yielded 0.0%, plus or minus a basis point or two. The yield on any bond that did not carry the explicit guarantee of the United States shot up as investors refused to take on any level of credit risk.

Fortunately, as the year wound down, various measures instituted by the Fed and the US Treasury began to take tenuous hold. Yield spreads narrowed. The FDIC helped out by increasing insurance on bank deposits. Even more significantly perhaps, the FDIC initiated a program of guaranteeing timely payment of principal and interest on certain corporate bonds issued under their Treasury Liquidity Guarantee Program, or TLGP.

We are pleased that our highly disciplined, consistent investment process continued to work well through this extremely difficult period. Investment results were strong for the year. Our sustained focus on safety and liquidity produced very attractive returns, despite the market turmoil. Client communication remained our top priority talking with and writing to our clients and friends about evolving market conditions.

We feel poised to have a great year in 2009. We are hopeful that market conditions will continue to improve, and confident that our value-added approach will continue to achieve our clients' goals of safety, liquidity and return.

Two major projects designed to enhance client service and streamline our investment decision-making process came to fruition in 2008. First, we began to offer secure online access to our clients, posting daily asset listings, all transactions month-to-date, as well as a stored history of all monthly and quarterly client reports. Next, we implemented the Charles River Development portfolio management system, or CRD. This state-of the-art trade management system offers "straight-through" processing of investment transactions, including pre- and post-trade compliance testing as well as documentation of bids and offers. In the hands of our Investment Team, CRD provides efficient, automated trading and portfolio analysis, allowing Team members to focus on high-level strategic thinking.

There are some exciting new developments on a company level, too. Three key members of our team were offered ownership shares in the firm in 2008. Ted Piorkowksi and Jayson Schmitt, both portfolio managers, and Nicole Dragoo, our Chief Operating Officer and Chief Compliance Officer will become shareholders in Chandler Asset Management early this year. As many of you know, Brian Perry was promoted to Investment Strategist during the year. Brian's key role in developing investment strategies and working with clients more than merited that change.

We also fulfilled a long-time dream of ours by acquiring our own building, a space that is large enough that we can grow significantly in our own home without concern about the ups and downs of the rental market. We expect to move in early February, and we will be sure to invite you to the open house!

Finally, we'd like to thank our many clients and friends for affording us the opportunity to be a part of your investment management program. We are excited at the prospects that the New Year will bring, and we sincerely wish you the bounty of peace, laughter, prosperity, friendship and gratitude.

Kind Regards,

Kay Chandler

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CHANDLER ASSET MANAGEMENT
CELEBRATING OUR 20TH YEAR

Consumer Prices

In November, the CPI increased by only 1.1% on a year-over-year basis, compared to October's 3.7% reading. The year-over-year Core CPI (CPI less food and energy) rose at a 2.0% y-o-y rate. Inflation has significantly moderated in recent months as lower energy prices and slowing economic growth have resulted in a slower pace of price increases. The Federal Reserve expects inflation to moderate further in the coming quarters.

Retail Sales

In November, Retail Sales declined at a year-over-year rate of -7.4%. This was the 5th consecutive monthly decline. Recently, consumers have sharply slowed their spending in reaction to financial market turmoil, a general tightening of credit standards, job loss worries, and the housing market contraction. Retail spending is expected to remain weak in the months ahead.

Labor Markets

The December non-farm payroll employment report showed a decrease of 524,000 jobs and the unemployment rate increased to 7.2%. The payroll data reflected the twelfth consecutive month of negative job growth. For all of 2008, the economy lost 2.6 million jobs, the worst calendar year decline since 1945. December's employment reports showed continuing deterioration in the labor markets.

Housing starts

Single-family housing starts declined by 16.9% in November, to a 441,000 annual pace. This was the lowest level since data collection began in 1959. This follows October's reading of 531,000. The fall in housing starts continues to support 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	0.76	2.11	(1.35)
2-year AA corporate note	2.10	2.26	(0.16)
5-year AA corporate note	2.11	2.45	(0.34)
5-year Agency note	0.99	1.23	(0.24)

Source: Bloomberg *Data as of 12/31/08*

Mixed Economic Data

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(57.19) $Bln OCT 08	(56.56) $Bln SEP 08	(56.33) $Bln OCT 07
GDP	(0.50%) SEP 08	2.8% JUN 08	4.8% SEP 07
Unemployment Rate	7.20% DEC 08	6.8% NOV 08	4.9% DEC 07
Prime Rate	3.25% DEC 08	4.00% NOV 08	7.25% DEC 07
CRB Index	229.54 DEC 08	242.20 NOV 08	358.71 DEC 07
Oil (West Texas Int.)	$44.60 DEC 08	$54.43 NOV 08	$96.00 DEC 07
Consumer Price Index (y/o/y)	1.1% NOV 08	3.7% OCT 08	4.3% NOV 07
Producer Price Index (y/o/y)	0.4% NOV 08	5.2% OCT 08	7.3% NOV 07
Dollar / EURO	1.40 DEC 08	1.27 NOV 08	1.46 DEC 07

Source: Bloomberg

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