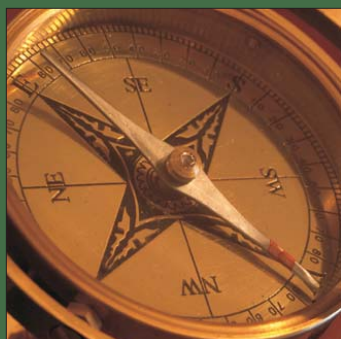


BOND MARKET REVIEW

A MONTHLY REVIEW OF
FIXED INCOME MARKETS



WHAT'S INSIDE

MARKET SUMMARY 1

YIELD CURVE

CURRENT YIELDS

TREASURY YIELD SPREADS

HIGHER OIL PRICES -
GLOBAL DEMAND & INFLATION
RISKS 2

ECONOMIC ROUND-UP 3

CREDIT SPREADS

ECONOMIC INDICATORS

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.

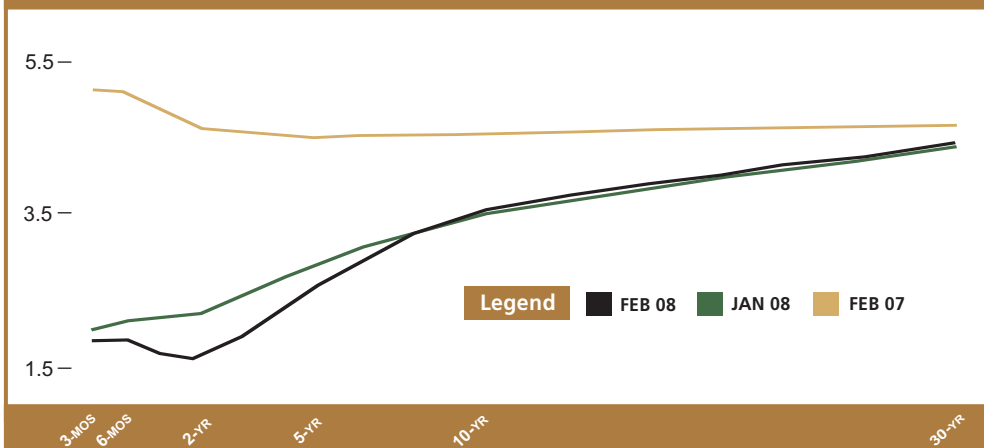
MARKET SUMMARY

Bond yields were lower in February. 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 global market volatility has continued, and market participants remain extremely sensitive to signs of housing, mortgage, and credit weakness.

The economy displayed slower growth in February. The Non-Farm Payroll number was weaker than expected, showing a decrease of 63,000 jobs. This was the second straight report that demonstrated negative job growth and increased fears that the economy may enter a recessionary period. Housing data has continued to weaken. Inflation readings have moved slightly higher, raising concerns that the recent decline in inflation may be ending. Going forward, market participants will continue to look for signs as to whether or not weakness in the housing, mortgage and credit markets is reflected in the broader economy.

The FOMC lowered the federal funds rate and the discount rate 75 basis points at an unscheduled meeting on January 22nd. It followed this move by lowering interest rates an additional 50 basis points at the regularly scheduled meeting on January 30th. The federal funds rate currently stands at 3.00%. The next scheduled FOMC meeting is on March 18th.

TREASURY YIELDS LOWER



Treasury yields were lower in February as market participants attempted to ascertain the consequences of financial market volatility, a housing-led economic slowdown and Federal Reserve interest rate cuts. The yield curve retained its normal shape.

YIELDS	2/29/08	1/31/08	Change
3 Month	1.84	1.95	(0.11)
2 Year	1.63	2.17	(0.54)
5 Year	2.50	2.82	(0.32)
10 Year	3.53	3.64	(0.11)
30 Year	4.42	4.35	0.07

YIELD SPREADS	2/29/08	1/31/08	Change
5yr - 2yr T-Note	0.87	0.65	0.22
10yr - 2yr T-Note	1.90	1.47	0.43

Source: Bloomberg

The price of crude oil has dominated news headlines for the past few years and has become a topic of further interest to consumers as of late. By the end of February, the focus on both gasoline and oil prices became even greater as the price of crude climbed to \$101.84 dollars per barrel, just surpassing its all time inflation adjusted peak of \$101.70 as calculated by the Energy Information Administration (EIA). As a result of the increased demand for oil, and a weakening dollar, higher gasoline prices have consumers digging even deeper into their pockets. There is continued concern by experts that prices will continue move higher, before the situation improves. So we must ask ourselves, are higher gasoline prices around to stay? That depends who you talk to, but, one thing is certain, the topic of oil and gasoline prices are definitely on the minds of the U. S. consumer.

Today Americans consume almost 21 million barrels of oil each day. According to the EIA, of the 21 million barrels consumed, approximately 9.8 million barrels are imported daily into the US from foreign countries which is a decrease of 0.125 million barrels per day from November 2007. The top sources of U. S. crude oil imports for December 2007 were Canada, Saudi Arabia, Venezuela, Mexico and Nigeria.

Currently, 84 million barrels of oil are consumed each day, which is equal to a quarter of the world's daily consumption. Demand for oil in the U. S. has not declined significantly, even with the increase of oil prices. American families continue to drive less fuel-efficient vehicles and do not rely heavily upon public transportation or carpooling. In contrast, when oil spiked during the 70's and early 80's, consumers responded to the crisis with conservation.

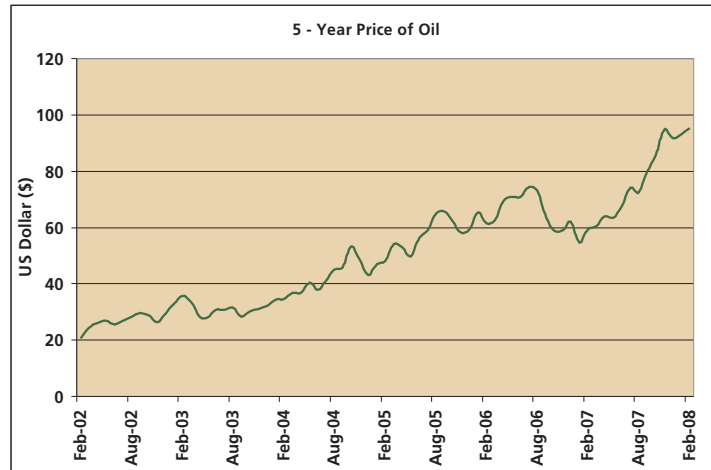
As China continues to produce more goods for export to the U. S., their consumption of oil has increased dramatically as well. China is now second in consumption at 6.4 million barrels a day, followed closely by Japan. Chinese consumption and its demand could double by 2020. Further demand in developing nations is also increasing and as a result of globalization. In an effort to meet increasing world demand, oil production is at or near maximum output rates of about 90%.

Higher Oil Prices Affect the Economy

Higher oil prices are a big problem for oil importing countries such as the U. S. since we rely so heavily upon outside nations for our energy needs and pay a premium to fulfill them. Does this mean that Americans will curb spending in other areas? Certainly if we are spending more for gasoline, consumers will be forced to cut spending on other goods and services. One of the affected areas has been the automobile industry. American auto makers, which produce larger less fuel-efficient vehicles, have been hit the hardest. Higher oil prices continue to drive up production and transportation costs as well. For the first time in nearly two decades of low food inflation, prices for products such as milk, eggs, bread and flour are rising sharply. Escalating oil and food prices can be dire for consumer confidence and could have negative implications on the U. S. economy.

As the Spring and Summer months approach, it is important to remember that many metropolitan areas have passed strict laws requiring special summer blends of gasoline that are less

likely to evaporate in hot months and have lower levels of pollution. These special gasoline blends generally are introduced in April and May and typically trigger price increases of roughly 30 cents a gallon in many parts of the country. Additionally, consumers tend to use more fuel during the Summer-driving months. As the warmer weather months near, demand will likely continue to increase as Americans take advantage of warmer driving conditions.



Source: Energy Information Administration, March 2008

Oil Prices and Inflation

The exceptional volatility in oil prices of recent months has increased the market's concerns about inflation. Expectations of higher inflation, mixed with concerns of a recession are now at the forefront of the Fed's discussions. Inflation worries are back in focus in a major way. In contrast when oil spiked during the 70's and early 80's, interest rates were also in the double digits. Due to the credit crisis and recessionary fears, the Fed has cut the current interest rates to 2.25%. As the Fed cuts rates, the dollar weakens. The weakening dollar becomes a greater concern since it raises the price of commodities such as oil and other imported goods.

CONSUMER PRICES

During January, the economy's headline inflation reading measured a 4.3% year-over-year rate. This elevated inflation level was mostly the result of higher food and energy prices. The year-over-year Core CPI (CPI less food and energy) rose at a 2.5% rate, higher than December's 2.4%. Although inflation readings remain somewhat elevated, the Fed continues to expect inflation to moderate as growth slows in the months ahead.

HOUSING STARTS

Single-family housing starts declined by 5.2% in January, to a 0.74 million annual pace. This follows December's reading of 0.78 million. The latest decline was the lowest level since March 1991. Recent data has supported the financial market concern that the decline in the housing market has not yet run its course.

RETAIL SALES

During January, Retail Sales increased slightly as the year-over-year growth improved to 3.9% from a revised growth rate of 3.7% in December. Over the last several months, Retail Sales trends are reflecting moderate consumer spending despite higher energy prices, the effects of the slowdown in the housing market, and the uncertainty in the financial markets.

LABOR MARKETS

The February non-farm payroll employment report showed a decrease of 63,000 jobs. This month's report was weaker than expected and is the second consecutive month of negative job growth. February's employment report validates the recent financial market concern about a slowing economy impacting the labor markets.

CREDIT SPREADS MIXED

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top-rated commercial paper	1.09	0.99	0.10
2-year AA corporate note	1.15	1.24	(0.09)
5-year AA corporate note	1.38	1.30	0.08
5-year Agency note	0.92	0.60	0.32

Source: Bloomberg

Data as of 2/29/08

ECONOMIC DATA

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(58.8) \$Bln DEC 07	(63.1) \$Bln NOV 07	(60.3) \$Bln DEC 06
GDP	0.6% DEC 07	4.9% SEP 07	2.1% DEC 06
Unemployment Rate	4.9% JAN 08	5.0% DEC 07	4.6% JAN 07
Prime Rate	6.00% FEB 08	6.00% JAN 08	8.25% FEB 07
CRB Index	412.69 FEB 08	369.46 JAN 08	312.39 FEB 07
Oil (West Texas Int.)	\$101.84 FEB 08	\$91.75 JAN 08	\$61.79 FEB 07
Consumer Price Index (y/o/y)	4.3% JAN 08	4.1% DEC 07	2.1% JAN 07
Producer Price Index (y/o/y)	7.4% JAN 08	6.3% DEC 07	0.1% JAN 07
Dollar / EURO	1.52 FEB 08	1.49 JAN 08	1.32 FEB 07

Source: Bloomberg

© 2008 Chandler Asset Management, Inc, An Independent Registered Investment Adviser.

The information contained herein was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. Opinions and forecasts regarding industries, companies, and/or the economy are all subject to change at any time, based on market and other conditions, and should not be construed as a recommendation.