VANDERBILT AVENUE ASSET MANAGEMENT

Third Quarter 2008

<u>Update on recent financial market and economic developments</u>

It is said that there is a silver lining to every cloud. Such is the case as we head into the ending of the third quarter of what has been a tumultuous period for stocks, bonds and the general economy.

We have weathered the potential and actual downfall of several leading financial institutions. Investors generally have recognized the schism that exists. Although the indices have fallen, they still stand, a testament that most people can be fooled some of the time, but not all of the time. Corrections are now underway as they should be. Good. We look forward to revitalization, which inevitably will recur.

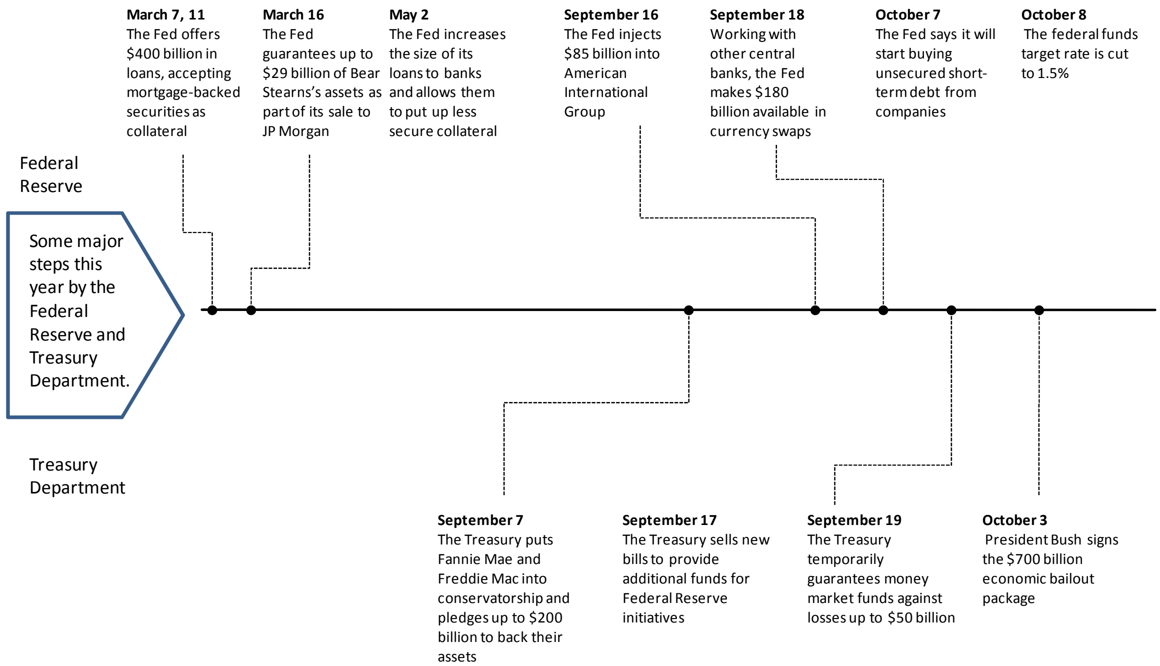
Over the September 6-7 weekend the US Treasury Department took over Fannie Mae and Freddie Mac. These entities were deemed too large to fail given the adverse ramifications that would have occurred for the financial markets and the economy. This takeover is positive for your portfolio from several perspectives. Whereas before there was an implied guarantee of government backing for these Agencies' securities, this bailout amounts to an explicit guarantee by the government for Fannie and Freddie's direct debt obligations, as well as guarantees on their mortgage-backed securities.

Two sectors in your portfolio-Fannie and Freddie mortgage-backed securities and direct debt obligations of these Agencies have had an immediate beneficial impact. This government backing caused yield spreads on these securities to narrow by approximately 40 to 50 basis points versus similar duration US Treasury issues.

There are no negative ramifications. Negative consequences were incurred by the common shareholders (who lost virtually their entire value) and the preferred stock investors (who lost 90-95% of their value).

September through October to date has been a historical time in terms of additional economic and financial events. Such events would include the Lehman bankruptcy, Bank of America's acquisition of Merrill Lynch, the rescue of American International Group (one of the world's largest insurers) by the Treasury Department with an $85 billion loan (which was subsequently increased), a $50 billion facility by the government to guarantee money market funds, the acquisition of Washington Mutual by JP Morgan, the purchase of Wachovia by Wells Fargo, the nationalization of several banking institutions in Europe, the introduction of the $700 billion rescue package by the Bush Administration, the purchase of commercial paper instruments by the Federal Reserve and the 50 basis point rate reduction by the major central banks in North America and Europe. In addition, stronger actions were implemented during the October 11-12 weekend with $250 billion earmarked for direct equity investments in banking institutions. In addition, the government will guarantee loans amongst banks as well as non-interest bearing deposits. The bailout package's objective is to restore liquidity to financial institutions and the credit markets. It is hoped that this will begin to infuse confidence to the credit markets. This fund will purchase distressed assets (mortgage and asset-backed securities) from financial institutions as well as make direct capital investments in them. The following chart provides a chronological time line of the major programs undertaken by the Treasury Department and Federal Reserve.

Chronological Time Line of Major Steps by the Federal Reserve and Treasury Department this Year



From a broader perspective, there should be additional benefits from the actions that were taken. Narrower spreads and lower mortgage rates will result in easier availability of mortgage funds for both original loans as well as for refinancing. This should aid the housing market, helping the broader credit markets in terms of liquidity and availability. Ultimately, this will have a beneficial impact upon sectors other than the Fannie Mae/Freddie Mac related securities.

The inclusion of asset-backed securities in the proposed bailout rescue plan may help this sector. These asset-backed securities represent a small percentage of your portfolio. These high quality securities have seasoned which means that a certain percentage of their original face value (or principal) has been redeemed at par over time. The receipt of interest income on these securities plus the principal amortization can result in a significant percentage of original cost being repaid-in some cases greater than original cost. We will look to sell where possible the smaller residual pieces of these securities that remain, even where amortization and interest income is less than par value, as we see investment opportunities elsewhere.

Unlike the consensus, we do not foresee an economic recession. Growth will slow during the second-half of 2008 as the stimulus from the government rebate checks fade and consumers feel the effects from a softening labor market and continued housing and credit market dislocations. However, a combination of expansive monetary and fiscal policies along with exports should continue to provide enough growth to enable our economy to weather any potential recession. Short-term inflationary pressures should recede in an environment of slower growth, continued weakness in the housing market and the recent decline in the prices of oil and other natural resource commodities.

Given the financial markets' turmoil and volatility, what is an investor to do now? A good case can be made for the benefits of diversification provided by high-quality short duration fixed income instruments. The non-correlation of returns between fixed income and equities, especially in severe stock market declines, is strong. The following table outlines equity and fixed income returns during relevant time periods.

Strategic Investment Allocation

Stocks	Bear Stock Markets	Bonds
(29.2)%	Dec 68 – Jun 70	2.2%
(42.6)	Jan 73 – Sep 74	4.6
(14.3)	Jan 77 – Feb78	1.5
(16.5)	Dec 80 – Jul 82	21.7
(29.6)	Sep 87 – Nov 87	2.3
(14.5)	Jun 90 – Oct 90	5.2
(13.4)	May 98 – Aug 98	4.7
(9.8)	Jan 00 – Nov 00	9.6
(20.4)	Jan 01 – Sep 01	8.4
(21.8)	Jan 02 – Oct 02	8.0
(23.5)	Oct 07 – Sep 08	2.7

- **Bonds have done comparatively well when stocks have not.**

We have weathered a number of market corrections during our career. It never feels good. It never feels like it is going to end. But opportunities to find value do present themselves during turmoil like this. Utilizing our rigorous and disciplined investment process, we intend to discover such situations.