

City of Richmond Heights

We ask.
listen
and solve

March 12, 2012

The Commerce Trust Company
A division of Commerce Bank



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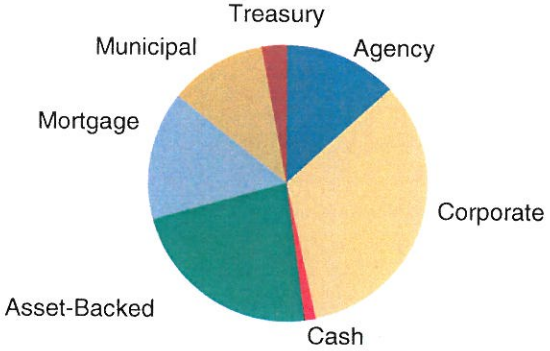
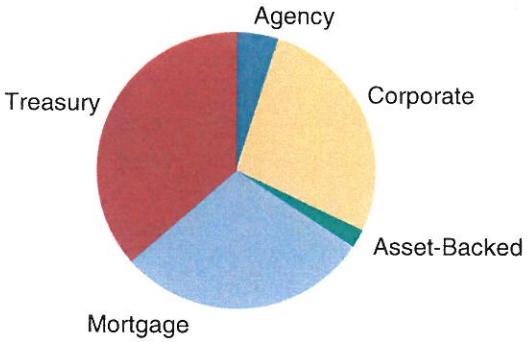
Portfolio vs. Benchmark Comparison – as of February 28, 2013

City of Richmond Heights



Asset Class	%
Treasury	2.91
Agency	13.05
Corporate	33.65
Asset-Backed	22.76
Mortgage	15.00
Municipal	11.39
Cash	1.24
Total	**100.00**

Barclays Capital Aggregate



Asset Class	%
Treasury	36.48
Agency	4.80
Corporate	27.21
Asset-Backed	2.17
Mortgage	29.34
Total	**100.00**

2.09%	YTM	1.85%
6.68	Maturity (yrs)	7.15
4.99	Duration (yrs)	5.22
AA-	Quality	AA+

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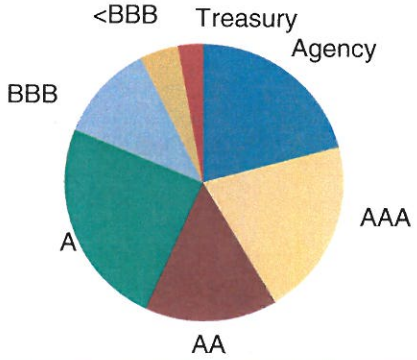
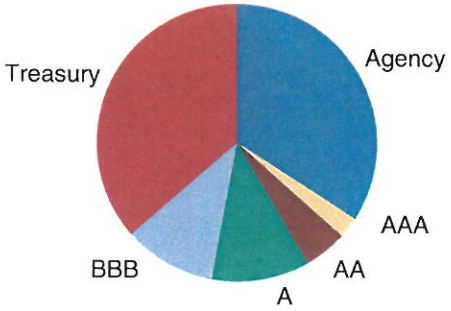
Portfolio Quality vs. Benchmark Comparison – as of February 28, 2013

City of Richmond Heights



Asset Class	%
Treasury	2.91
Agency	20.80
AAA	20.62
AA	15.36
A	24.34
BBB	11.43
<BBB	4.53
Total	**100.00**

Barclays Capital Aggregate



Asset Class	%
Treasury	36.48
Agency	34.14
AAA	2.44
AA	5.00
A	11.27
BBB	10.67
Total	**100.00**

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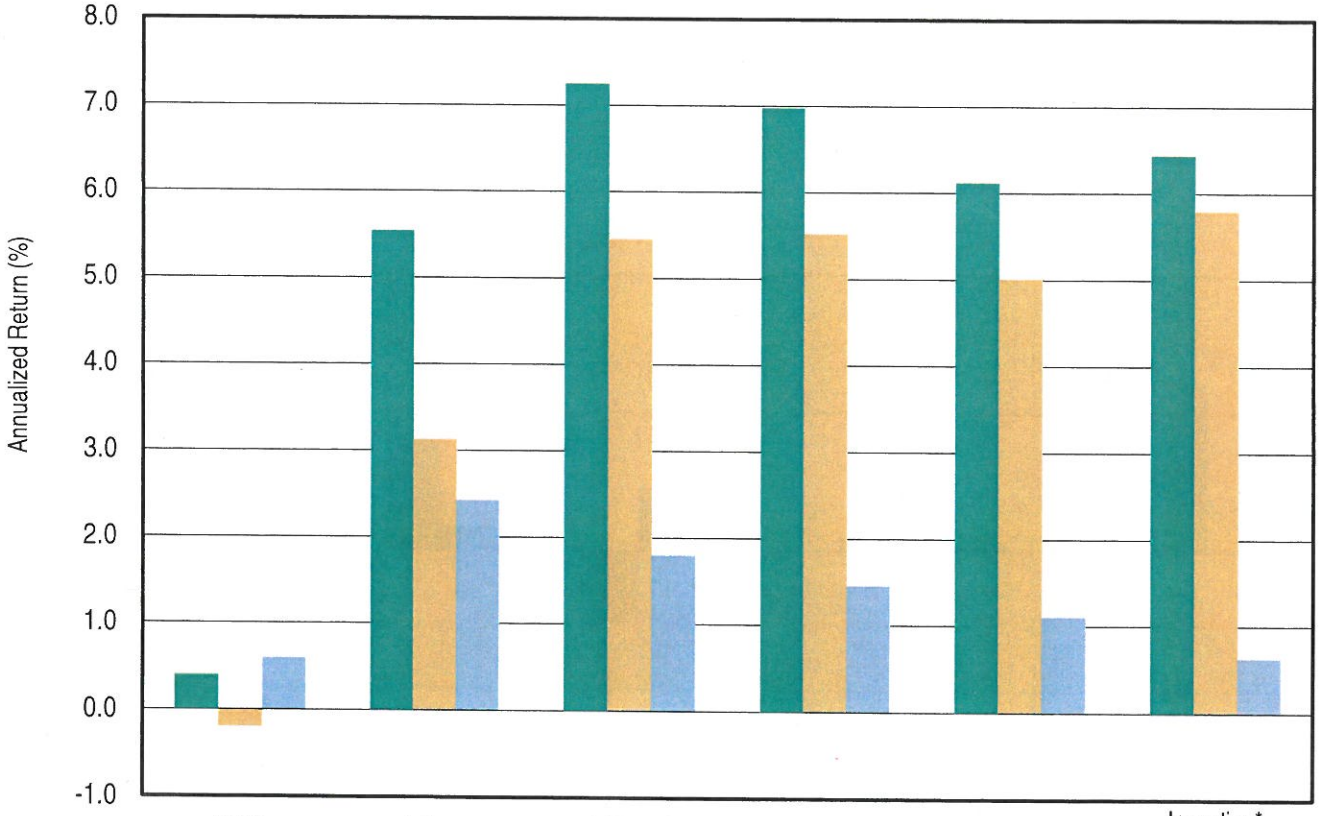
Portfolio Performance Comparison – as of February 28, 2013



	YTD	1 Year	3 Years*	5 Years*	10 Years*	Inception* (1/31/99)
City of Richmond Heights	0.40	5.54	7.25	6.98	6.12	6.44
Barclays Capital Aggregate	-0.20	3.12	5.45	5.52	5.01	5.80
Difference	0.60	2.42	1.80	1.46	1.11	0.64

*Returns for periods greater than one year are annualized, performance is gross of fees

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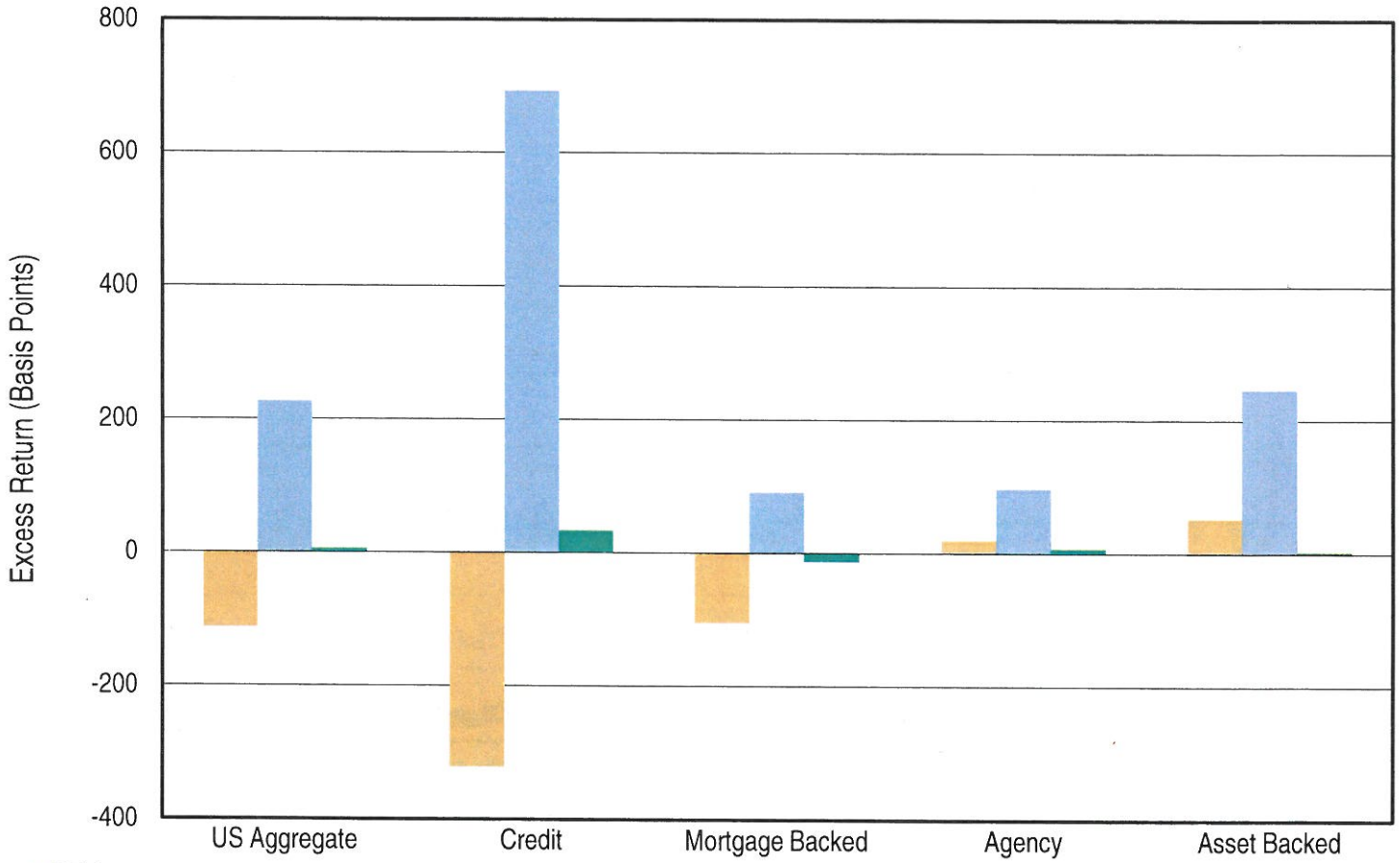
Duration Adjusted Excess Returns Relative to US Treasuries – as of February 28, 2013



	US Aggregate	Credit	Mortgage Backed	Agency	Asset Backed
2011	-114	-322	-106	19	52
2012	226	693	91	97	246
YTD 2013	5	33	-13	7	3

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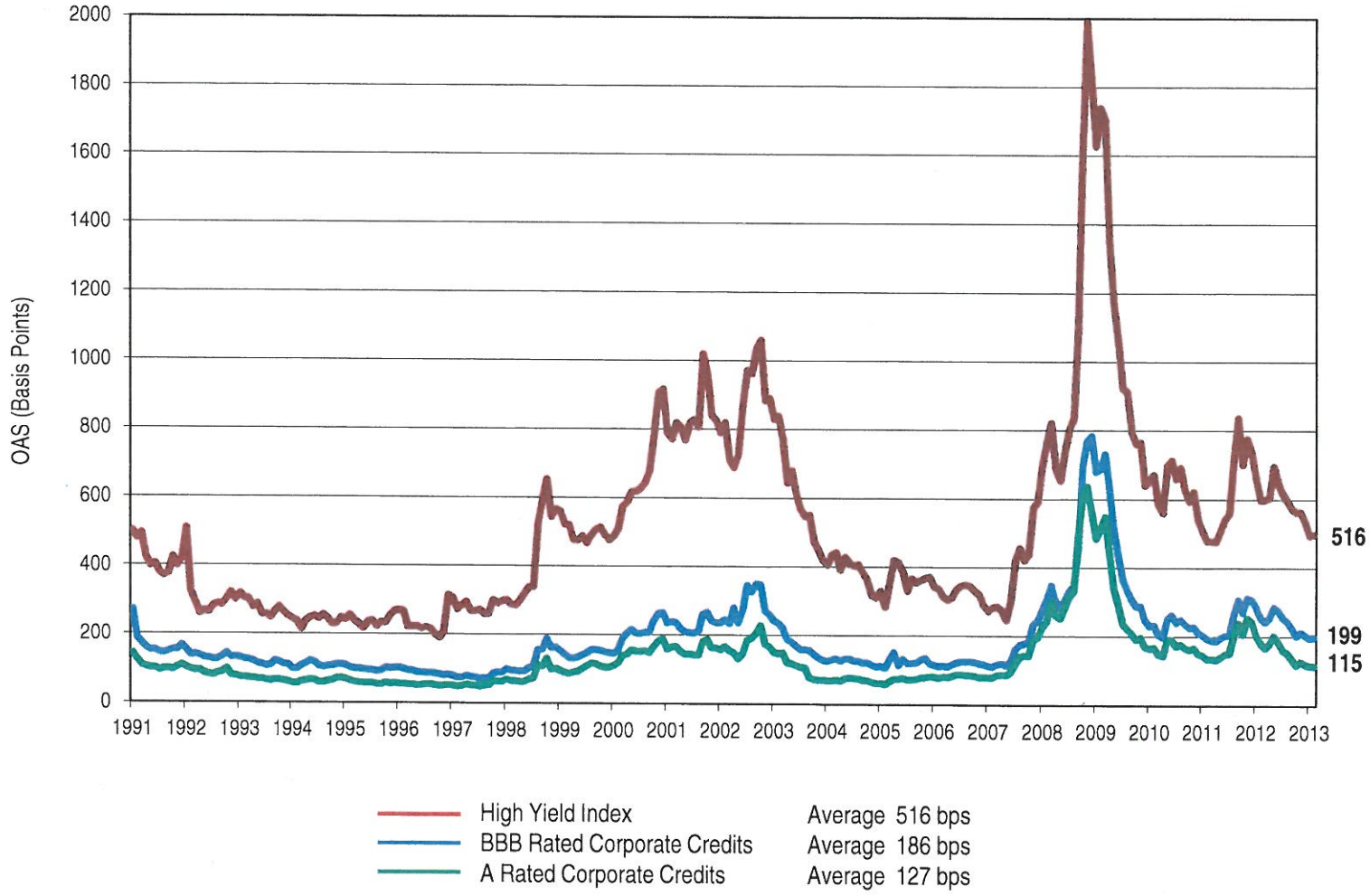
Corporate Credit Spreads – 01-31-91 through 2-28-13



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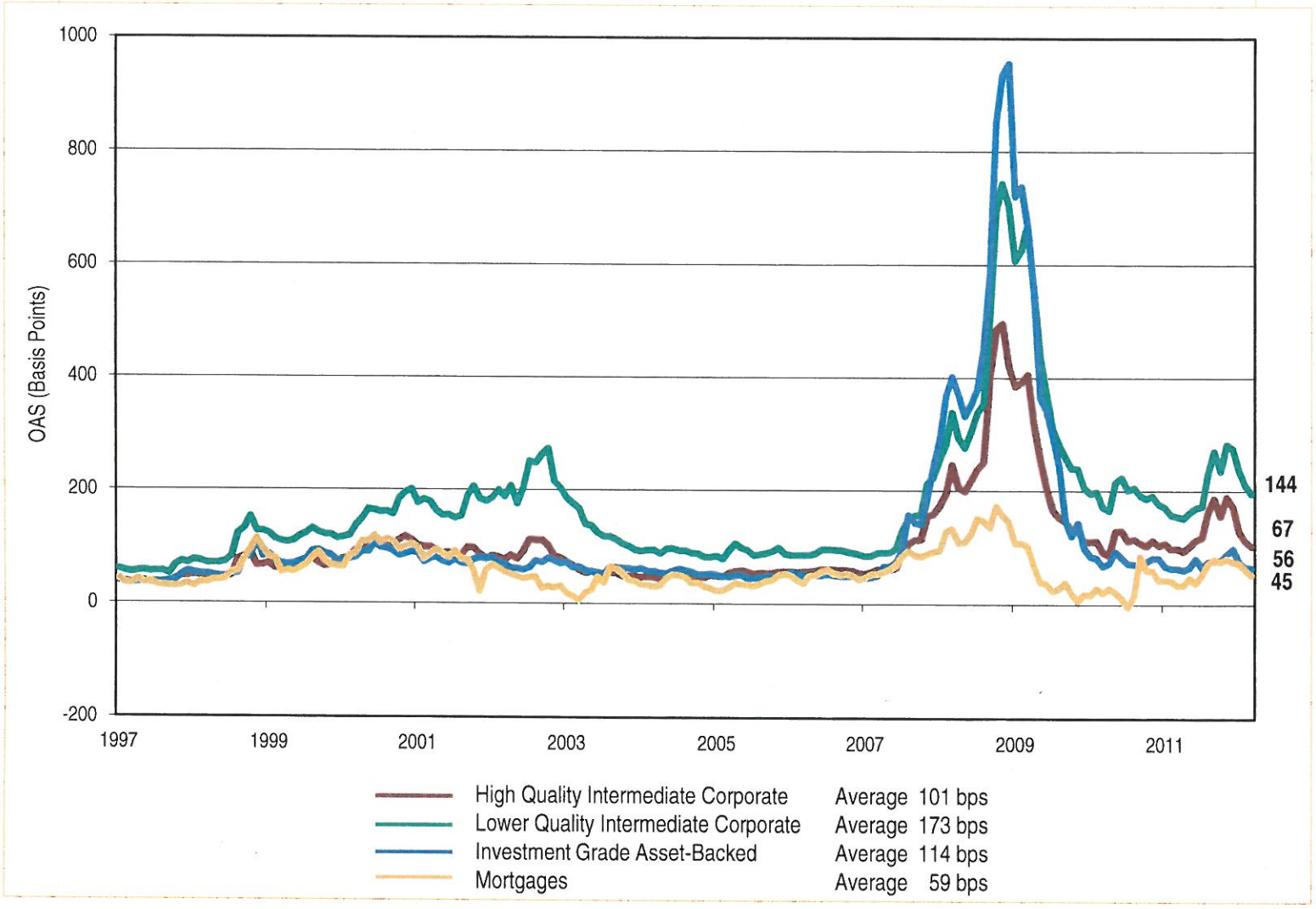
Sector Credit Spreads – 01-31-97 through 2-28-13



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Bond Market Total Returns

Market	2010	2011	2012	4Q12	Feb.	YTD
Master Index	6.43%	7.89%	4.53%	0.27%	0.52%	-0.20%
Corporate	9.52%	7.51%	10.37%	1.21%	0.71%	-0.02%
Treasuries	5.88%	9.79%	2.16%	-0.10%	0.59%	-0.36%
Agencies	4.61%	5.27%	2.44%	0.22%	0.41%	-0.03%
Mortgages	5.67%	6.14%	2.59%	-0.27%	0.35%	-0.17%
Asset-Backed	5.02%	1.43%	3.03%	0.53%	0.19%	0.35%
High-Yield	15.24%	4.50%	15.58%	3.18%	0.46%	1.85%
Municipal	2.25%	11.19%	7.26%	0.51%	0.43%	1.11%
2yr Treasury	2.28%	1.46%	0.28%	0.07%	0.07%	0.07%
5yr Treasury	6.76%	9.21%	2.27%	0.02%	0.70%	0.04%
10yr Treasury	7.90%	17.15%	4.18%	-0.21%	1.24%	-0.77%
30yr Treasury	8.65%	35.50%	2.48%	-1.17%	1.40%	-2.99%

Source: Bank of America/Merrill Lynch

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Where are we?

(Year-End Data)

	2007	2008	2009	2010	2011	2012
S&P 500	1,468.36	903.25	1,115.10	1,257.64	1,257.60	1,426.19
EAFE	2,253.36	1,237.42	1,580.77	1,658.30	1,412.55	1,604.00
Emerging Markets	1,245.59	567.04	989.47	1,151.38	916.39	1,055.20
10 Yr Treasury	4.03%	2.21%	3.84%	3.30%	1.88%	1.76%
Corporate Yields	5.79%	7.83%	4.89%	4.09%	3.88%	2.71%
Consumer Confidence	90.6	38.6	53.6	63.4	64.8	66.7
U.S. Unemployment	5.0%	7.3%	9.9%	9.4%	8.5%	7.8%
CPI % YoY	4.1%	0.1%	2.7%	1.5%	3.0%	1.7%
Commodity (Dow Jones-UBS)	185.0	117.2	139.2	162.4	140.7	139.1
Gold	$833.92	$882.05	$1,096.98	$1,421.40	$1,564.91	$1,675.35
U.S. GDP	2.2%	-3.3%	-0.1%	2.4%	2.0%	1.6%
World GDP	5.4%	2.8%	-0.6%	5.1%	3.8%	3.3%

Source: Bloomberg

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Economic Outlook

- Congress navigated the "Fiscal Cliff", by passing a limited tax increase; however, many issues were left unresolved. Lawmakers to prevent sequestration, or automatic spending cuts, from starting in March, fell short.

- With the worst case scenario for the Fiscal Cliff avoided and economic data continuing to point to broad-based, moderate growth, we expect near 2.0% GDP growth to continue in 2013, absent any additional "exogenous shocks". Longer term growth prospects remain subdued as governments and consumers continue the deleveraging process.

- Accordingly, the Fed is expected to hold the Funds rate at zero at least through 2013 (Fed minutes project mid-2015). Although longer yields could drift somewhat higher in 2013, modest economic growth and minimal wage inflation should keep rates lower for a longer period than many may expect.

- The economy's continued inability to achieve sustained above-trend growth, combined with growing impatience of persistently high unemployment, has resulted in the Fed taking more aggressive action to spur growth in the form of open-ended Quantitative Easing until employment shows sustained improvement.

- The mostly upbeat February Non-Farm Payroll report showed American employers continued to hire at a moderate pace. Payrolls expanded by 236,000 workers, following January increase of 119,000 while the unemployment rate rose fell to 7.7%. (Payroll gains have averaged 152,000/month in both 2011 and 2012.) The gains indicate that consumers will likely continue to spend, extending the three-year expansion in the face of a global economic slowdown and political gridlock in Washington over taxes and spending.

- Recent U.S. economic data releases have been generally positive and supported by some positive cyclical forces, including a massive global easing cycle. The uncertainty caused by European woes, China's hard landing, and peaking corporate profit margins, has faded somewhat. This has encouraged investors to begin to move funds back into stocks so far this year.

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APPENDIX

Portfolio Position Report

Portfolio: CITY OF RICHMON 2018
Pricing Date: 02/28/2013
Representative:

Currency: USD
LOTS COMBINED:

Levels	CUSIP9	Par (000)	Mkt Val (000)	% Held (MV)	Issuer Name	Coupon	Maturity	Quality	Mdys	S&P	YTM	Avg Life	Eff Dur	Conv (Par)	OAS
CASH		**170**	**170**	**1.239**		**0.120**	**0.083**	**Aaa**	**Aaa**	**AAA**	**0.113**	**0.083**	**0.085**	**0.000**	**0**
	000000CM9	170	170	1.239	CASH & EQUIVALENTS	0.120	03/31/2013	Aaa	Aaa	AAA	0.113	0.083	0.085	0.000	0
TSY		**355**	**399**	**2.910**		**4.407**	**11.086**	**Aaa**	**Aaa**	**AA+**	**1.303**	**11.128**	**8.329**	**0.802**	**0**
	912828CT5	50	53	0.387	UNITED STATES TREAS NTS	4.250	08/15/2014	Aaa	TSY	TSY	0.223	1.500	1.428	0.014	2
	912828FF2	175	204	1.486	UNITED STATES TREAS NTS	5.125	05/15/2016	Aaa	TSY	TSY	0.413	3.250	2.979	0.050	-1
	912810QA9	130	142	1.038	UNITED STATES TREAS BDS	3.500	02/15/2039	Aaa	TSY	TSY	2.980	26.000	18.565	2.175	2
AGY		**1,505**	**1,790**	**13.054**		**4.317**	**6.245**	**Aaa**	**Aaa**	**AA+**	**1.170**	**6.245**	**5.316**	**0.207**	**20**
	3133XLJP9	50	54	0.394	FEDERAL HOME LN BKS	5.500	08/13/2014	Aaa	AGY	AA+	0.195	1.417	1.415	0.014	-1
	3137EACM9	100	104	0.760	FEDERAL HOME LN MTG CORP	1.750	09/10/2015	Aaa	AGY	AA+	0.396	2.500	2.464	0.035	7
	3137EAAD1	200	234	1.704	FEDERAL HOME LN MTG CORP	5.250	04/18/2016	Aaa	AGY	AA+	0.450	3.167	2.899	0.047	4
	3135G0GY3	140	143	1.044	FEDERAL NATL MTG ASSN	1.250	01/30/2017	Aaa	AGY	AA+	0.689	3.917	3.838	0.079	13
	31359M7X5	120	143	1.044	FEDERAL NATL MTG ASSN	5.000	05/11/2017	Aaa	AGY	AA+	0.697	4.167	3.826	0.082	10
	31398ADM1	100	121	0.880	FEDERAL NATL MTG ASSN	5.375	06/12/2017	Aaa	AGY	AA+	0.719	4.250	3.891	0.085	11
	742651DK5	100	107	0.779	PRIVATE EXPT FDG CORP	2.250	12/15/2017	Aaa	AGY	AA+	0.899	4.833	4.567	0.113	19
	880591EC2	100	119	0.870	TENNESSEE VALLEY AUTH	4.500	04/01/2018	Aaa	AGY	AA+	0.964	5.083	4.584	0.118	21
	3133XXP50	180	216	1.578	FEDERAL HOME LOAN BANKS	4.125	03/13/2020	Aaa	AGY	AA+	1.385	7.000	6.223	0.226	17
	31331SZY2	125	153	1.118	FEDERAL FARM CR BKS	4.550	06/08/2020	Aaa	AGY	AA+	1.411	7.250	6.402	0.238	15
	31331VGZ3	135	173	1.261	FEDERAL FARM CR BKS	5.190	04/22/2021	Aaa	AGY	AA+	1.718	8.167	6.920	0.283	28
	3133X8EW8	55	71	0.521	FEDERAL HOME LN BKS	5.375	08/15/2024	Aaa	AGY	AA+	2.392	11.500	9.290	0.513	42
	880591CJ9	20	29	0.214	TENNESSEE VALLEY AUTH	6.750	11/01/2025	Aaa	AGY	AGY	2.622	12.667	9.519	0.563	58
	3133MAWE5	75	114	0.834	FEDERAL HOME LN BKS	7.125	02/15/2030	Aaa	AGY	AA+	3.130	17.000	11.769	0.887	73
	31359MGK3	5	8	0.055	FEDERAL NATL MTG ASSN	6.625	11/15/2030	Aaa	AGY	AA+	3.035	17.750	12.237	0.966	56
IND		**1,760**	**2,073**	**15.111**		**5.110**	**10.114**	**A3**	**A3**	**A**	**2.392**	**10.137**	**6.822**	**0.483**	**113**
	G65422AA8	35	36	0.262	NOBLE CORPORATION	5.875	06/01/2013	Baa1	Baa1	BBB+	1.664	0.250	0.252	0.001	157
	05565QBF4	65	68	0.497	BP CAP MKTS P L C	5.250	11/07/2013	A2	A2	A	0.494	0.667	0.676	0.004	36
	25156PAM5	75	80	0.581	DEUTSCHE TELEKOM INTL FIN B	4.875	07/08/2014	Baa1	Baa1	BBB+	0.805	1.333	1.316	0.012	61
	713448BM9	85	90	0.653	PEPSICO INC	3.100	01/15/2015	A2	Aa3	A-	0.465	1.917	1.830	0.022	22
	14912L5D9	130	132	0.961	CATERPILLAR FINL SVCS MTNS B	1.100	05/29/2015	A2	A2	A	0.583	2.250	2.213	0.029	30
	302182AF7	55	59	0.427	EXPRESS SCRIPTS INC	3.125	05/15/2016	Baa2	Baa3	BBB+	1.358	3.250	3.042	0.051	94
	20030NAG6	40	46	0.332	COMCAST CORP NEW	4.950	06/15/2016	A3	A3	A-	0.980	3.333	3.059	0.052	54
	035229DB6	45	54	0.392	ANHEUSER BUSCH COS INC	5.600	03/01/2017	A2	A3	A	1.281	4.000	3.578	0.073	72
	983024AM2	50	60	0.437	WYETH	5.450	04/01/2017	A1	A1	AA	1.051	4.083	3.678	0.077	48
	126650BH2	60	72	0.524	CVS CAREMARK CORPORATION	5.750	06/01/2017	Baa1	Baa2	BBB+	1.290	4.250	3.822	0.082	69
	91913YAM2	55	66	0.483	VALERO ENERGY CORP NEW	6.125	06/15/2017	Baa2	Baa2	BBB	1.500	4.333	3.832	0.083	90
	030955AM0	45	54	0.390	AMERITECH CAP FUNDING CORP	6.450	01/15/2018	A3	NR	A-	2.466	4.917	4.263	0.103	176
	428236AS2	50	57	0.414	HEWLETT PACKARD CO	5.500	03/01/2018	Baa1	Baa1	BBB+	3.160	5.000	4.323	0.107	243
	362320AZ6	75	95	0.693	GTE CORP	6.840	04/15/2018	A3	Baa1	A-	1.868	5.167	4.391	0.112	112
	459200GM7	100	135	0.987	INTERNATIONAL BUSINESS MACHS	7.625	10/15/2018	Aa3	Aa3	AA-	1.569	5.667	4.724	0.132	71
	055451AH1	45	59	0.427	BHP BILLITON FIN USA LTD	6.500	04/01/2019	A1	A1	A+	1.705	6.083	5.157	0.158	73
	35671DBF1	70	70	0.510	FREEPORT McMORAN 3.1% 3/15/	3.100	03/15/2020	Baa3	Baa3	N/A	3.123	7.083	6.377	0.231	189

Portfolio Position Report

Portfolio: CITY OF RICHMON 2018
Pricing Date: 02/28/2013
Representative:

Currency: USD
LOTS COMBINED:

Levels	CUSIP9	Par (000)	Mkt Val (000)	% Held (MV)	Issuer Name	Coupon	Maturity	Quality	Mdys	S&P	YTM	Avg Life	Eff Dur	Conv (Par)	OAS
	913017BR9	50	59	0.429	UNITED TECHNOLOGIES CORP	4.500	04/15/2020	A2	A2	A	2.054	7.167	6.210	0.226	82
	786514BS7	50	51	0.371	SAFEWAY INC	3.950	08/15/2020	Baa3	Baa3	BBB	3.689	7.500	6.539	0.247	238
	91911TAL7	45	49	0.357	VALE OVERSEAS LTD	4.625	09/15/2020	Baa1	Baa2	A-	3.590	7.583	6.378	0.242	228
	191216AR1	100	109	0.795	COCA COLA CO	3.150	11/15/2020	Aa3	Aa3	AA-	2.011	7.750	6.968	0.277	63
	891490AT1	30	44	0.323	TOSCO CORP	8.125	02/15/2030	A2	A1	A	4.181	17.000	11.008	0.802	184
	136375BN1	15	20	0.148	CANADIAN NATL RY CO	6.200	06/01/2036	A3	A3	A-	3.959	23.250	14.276	1.394	122
	539830AR0	10	13	0.093	LOCKHEED MARTIN CORP	6.150	09/01/2036	A3	Baa1	A-	4.459	23.500	13.802	1.343	174
	12189QAB6	80	101	0.736	BURLINGTON NORTH SANTA FE MT	6.530	07/15/2037	Baa1	A3	BBB+	4.759	24.417	13.889	1.365	204
	071813AX7	45	61	0.445	BAXTER INTL INC	6.250	12/01/2037	A2	A3	A	4.059	24.750	14.696	1.501	129
	58013MEF7	50	70	0.508	MCDONALDS CORP MED TERM NT B	6.300	03/01/2038	A2	A2	A	3.989	25.000	14.651	1.509	121
	501044CK5	75	97	0.704	KROGER CO	6.900	04/15/2038	Baa2	Baa2	BBB	5.049	25.167	13.495	1.334	234
	478160AT1	75	101	0.733	JOHNSON & JOHNSON	5.850	07/15/2038	Aaa	Aaa	AAA	3.789	25.417	15.472	1.637	98
	767201AL0	35	41	0.300	RIO TINTO FIN USA LTD	5.200	11/02/2040	A3	A3	A-	4.228	27.667	16.035	1.816	136
	037411AM7	20	27	0.200	APACHE CORP	7.375	08/15/2047	A3	A3	A-	5.108	34.500	15.523	1.876	228
UTIL		**475**	**586**	**4.275**		**5.636**	**17.399**	**A2**	**A2**	**A**	**3.100**	**17.208**	**10.958**	**1.017**	**109**
	30161MAD5	20	21	0.152	EXELON GENERATION CO LLC	5.350	01/15/2014	Baa2	Baa2	BBB	0.866	0.917	0.862	0.006	71
	264399EM4	15	17	0.125	DUKE ENERGY CAROLINAS LLC	5.300	10/01/2015	A1	A1	A	0.621	2.583	2.409	0.034	29
	695114CH9	55	68	0.493	PACIFICORP	5.650	07/15/2018	A2	A2	A	1.345	5.417	4.763	0.129	53
	26442EAA8	100	123	0.895	DUKE ENERGY OHIO	5.450	04/01/2019	A2	A2	A	1.862	6.083	5.261	0.162	88
	637432CT0	50	76	0.557	NATIONAL RURAL UTILS COOP FI	8.000	03/01/2032	A2	A2	A	4.230	19.000	11.592	0.928	174
	199575AV3	35	43	0.314	COLUMBUS SOUTHERN PWR CO	5.850	10/01/2035	Baa1	Baa1	BBB	4.409	22.583	13.745	1.307	170
	665772CG2	100	116	0.845	NORTHN STS PWR CO MINN	4.850	08/15/2040	A1	A1	A	3.908	27.000	16.724	1.886	101
	837004CE8	100	123	0.894	SOUTH CAROLINA ELEC & GAS CO	5.450	02/01/2041	A2	A3	A	4.108	27.417	16.174	1.807	123
FIN		**1,797**	**1,957**	**14.264**		**3.892**	**5.195**	**A2**	**A2**	**A**	**1.814**	**5.191**	**4.401**	**0.175**	**104**
	89114QAA6	120	121	0.886	TORONTO DOMINION BANK	1.375	07/14/2014	Aa3	Aa1	AA-	0.599	1.333	1.358	0.013	41
	14040HAV7	65	66	0.483	CAPITAL ONE FINL CORP	2.125	07/15/2014	Baa1	Baa1	BBB	0.866	1.417	1.353	0.013	67
	61747YCK9	100	106	0.772	MORGAN STANLEY	4.200	11/20/2014	A3	Baa1	A-	1.379	1.750	1.654	0.018	115
	755920AF2	17	18	0.132	RECEIPTS ON CORPORATE SECS	6.375	05/15/2017	Baa1	Baa1	BBB+	4.127	2.333	2.099	0.033	372
	001055AE2	90	96	0.699	AFLAC INC	3.450	08/15/2015	A3	A3	A-	0.818	2.500	2.371	0.033	51
	592173AC2	50	59	0.430	METROPOLITAN LIFE INS CO	7.700	11/01/2015	A2	A2	A	1.737	2.667	2.412	0.035	140
	29452PAB2	70	81	0.591	EQUITABLE LIFE ASSURN SOC U	7.700	12/01/2015	A2	A2	A-	2.421	2.750	2.483	0.036	208
	06406HBS7	80	84	0.613	BANK NEW YORK MTN BK ENT	2.500	01/15/2016	Aa3	Aa3	A+	0.809	2.917	2.782	0.043	44
	172967GG0	100	100	0.728	CITIGROUP INC	1.250	01/15/2016	A3	Baa2	A-	1.347	2.917	2.815	0.043	98
	05531FAG8	120	130	0.947	BB&T CORPORATION	3.200	03/15/2016	A2	A2	A-	0.931	3.000	2.811	0.043	49
	38141GER1	45	52	0.382	GOLDMAN SACHS GROUP INC	5.750	10/01/2016	A3	A3	A-	1.718	3.583	3.231	0.059	123
	693476BB8	50	58	0.421	PNC FUNDING CORP	5.625	02/01/2017	Baa1	Baa1	BBB+	1.670	3.917	3.575	0.071	112
	36962G2G8	85	98	0.715	GENERAL ELEC CAP CORP MTN BE	5.400	02/15/2017	A1	A1	AA+	1.460	4.000	3.630	0.073	91
	44106MAM4	45	51	0.373	HOSPITALITY PPTYS TR	5.625	03/15/2017	Baa3	Baa2	BBB-	2.704	4.083	3.575	0.073	214
	64952WBF9	130	133	0.967	NEW YORK LIFE GBL FDG MTN 14	1.650	05/15/2017	Aaa	Aaa	AA+	1.274	4.250	4.058	0.089	67
	78008SVD5	100	101	0.736	ROYAL BK OF CDA BD CDS	1.500	01/16/2018	Aa3	Aa3	AA-	1.343	4.917	4.714	0.119	61

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	46625HGY0	100	120	0.876	JPMORGAN CHASE & CO	6.000	01/15/2018	A2	A2	A	1.806	4.917	4.318	0.105	110
	59018YN64	50	62	0.450	MERRILL LYNCH CO INC MTN BE	6.875	04/25/2018	A3	Baa2	A-	2.466	5.167	4.391	0.112	171
	828807CD7	40	48	0.353	SIMON PPTY GROUP LP	5.650	02/01/2020	A3	A3	A-	2.406	6.667	5.770	0.180	119
	06051GEE5	50	60	0.436	BANK AMER CORP	5.875	01/05/2021	A3	Baa2	A-	3.153	7.833	6.520	0.253	179
	10112RAU8	65	69	0.503	BOSTON PPTYS LTD PARTNERSHIP	3.850	02/01/2023	Baa2	Baa2	A-	3.154	9.667	8.500	0.408	130
	084670BJ6	135	137	0.996	BERKSHIRE HATHAWAY INC DEL	3.000	02/11/2023	Aa2	Aa2	AA+	2.878	9.917	8.841	0.443	99
	949746JM4	90	106	0.774	WELLS FARGO & CO NEW	5.375	02/07/2035	A1	A2	A+	4.139	21.917	14.212	1.344	142
PASS		**165**	**185**	**1.346**		**5.364**	**3.507**	**Aaa**	**Aaa**	**AA+**	**1.763**	**3.507**	**1.836**	**-0.776**	**79**
	31405F4A7	20	22	0.161	FNMA POOL - 788417	5.000	09/01/2019	Aaa	AGY	AGY	0.457	2.250	1.647	-0.191	-1
	3128DY3N5	4	5	0.034	FHLMC GOLD POOL - D95305	7.000	08/01/2021	Aaa	AGY	AGY	0.681	2.667	1.879	-0.172	15
	31296SUG9	34	37	0.270	FHLMC GOLD POOL - A17783	5.000	12/01/2033	Aaa	AGY	AGY	2.223	3.333	1.697	-1.007	112
	31288JT30	25	28	0.206	FHLMC GOLD POOL - C79570	5.000	05/01/2033	Aaa	AGY	AGY	1.258	3.500	1.273	-0.988	24
	36202DQZ7	12	14	0.104	GNMA2 POOL - 003172	6.000	12/20/2031	Aaa	AGY	AGY	0.586	3.500	0.723	-0.730	-16
	36208WDF7	3	4	0.026	GNMA POOL - 462802	7.000	06/15/2028	Aaa	AGY	AGY	1.159	3.500	1.173	-0.556	36
	31292HGZ1	2	2	0.018	FHLMC GOLD POOL - C01116	7.500	01/01/2031	Aaa	AGY	AGY	0.841	3.500	0.970	-0.517	13
	36200KQT7	15	17	0.122	GNMA POOL - 603566	5.500	04/15/2033	Aaa	AGY	AGY	2.225	3.833	1.956	-0.914	115
	31297F2U6	12	13	0.095	FHLMC GOLD POOL - A27987	5.000	07/01/2034	Aaa	AGY	AGY	2.766	4.000	2.941	-0.771	154
	31292HXA7	6	7	0.048	FHLMC GOLD POOL - C01573	5.500	06/01/2033	Aaa	AGY	AGY	2.922	4.083	2.791	-0.737	173
	31390XVJ6	9	10	0.072	FNMA POOL - 659517	5.500	03/01/2033	Aaa	AGY	AGY	2.728	4.083	2.668	-0.749	158
	36291AD48	10	11	0.083	GNMA POOL - 622123	5.500	10/15/2033	Aaa	AGY	AGY	1.957	4.167	2.095	-0.956	82
	31391SQX1	9	10	0.074	FNMA POOL - 675570	6.000	12/01/2032	Aaa	AGY	AGY	2.597	4.167	2.501	-0.676	150
	31401JAR9	4	4	0.032	FNMA POOL - 709316	5.000	07/01/2033	Aaa	AGY	AGY	2.596	4.167	2.906	-0.865	135
ARM		**57**	**60**	**0.441**		**2.803**	**4.985**	**Aaa**	**Aaa**	**AA+**	**1.112**	**4.985**	**0.294**	**-0.033**	**83**
	31406LMX3	10	11	0.079	FNMA POOL - 813174	5.072	02/01/2035	Aaa	AGY	AGY	1.150	3.167	0.626	0.304	64
	31405XWK5	6	6	0.047	FNMA POOL - 802650	2.865	10/01/2034	Aaa	AGY	AGY	1.028	4.583	0.040	-0.147	78
	31406P3R8	7	7	0.054	FNMA POOL - 816308	2.379	02/01/2035	Aaa	AGY	AGY	0.825	4.583	0.160	-0.096	61
	3128JRKZ8	9	10	0.070	FHLMC POOL - 847512	2.729	01/01/2036	Aaa	AGY	AGY	1.200	5.333	0.278	-0.214	94
	31349SVX8	5	5	0.039	FHLMC POOL - 781530	2.354	05/01/2034	Aaa	AGY	AGY	1.210	5.333	0.147	-0.076	102
	31382RW25	2	2	0.015	FNMA POOL - 490365	2.330	12/01/2028	Aaa	AGY	AGY	1.994	5.417	0.179	0.005	189
	31406RA70	18	19	0.137	FNMA POOL - 817330	1.900	07/01/2035	Aaa	AGY	AGY	1.065	6.000	0.304	-0.062	82
CMO		**1,747**	**1,813**	**13.217**		**4.001**	**5.606**	**A2**	**A2**	**A**	**2.876**	**5.607**	**4.485**	**-0.749**	**144**
	85171WAA1	105	105	0.766	SLFMT 2012-2A A 2.22% 10/25/	2.220	05/25/2014	Aaa	NR	AAA	2.151	1.250	1.206	0.010	198
	760985VH1	36	37	0.272	RFSC 2003-RM2- AI	5.000	05/25/2018	Aa2	N/A	AA+	2.773	1.667	1.383	-0.145	230
	172973A33	5	5	0.038	CITICORP MTG 2004-005- 2A3	4.750	08/25/2034	A1	N/A	A+	2.431	1.750	1.289	-0.256	192
	31392FJG3	16	17	0.127	FNMA 2002-073- OE	5.000	11/25/2017	Aaa	AGY	AGY	0.327	1.833	1.559	-0.085	-3
	31392FZ34	15	16	0.117	FNMA 2002-082- XE	5.000	12/25/2017	Aaa	AGY	AGY	1.166	1.833	1.598	-0.080	77
	31392GVG7	48	51	0.371	FNMA 2002-094- HM	4.500	01/25/2018	Aaa	AGY	AGY	1.313	1.917	1.682	-0.076	90
	31394HYG0	51	54	0.393	FHLMC 2672- NH	4.000	09/15/2018	Aaa	AGY	AGY	1.187	2.000	1.644	-0.155	75
	31394JS40	4	4	0.031	FHLMC 2677- BC	4.000	09/15/2018	Aaa	AGY	AGY	1.170	2.000	1.650	-0.152	73
	31394AVW3	29	31	0.228	FNMA 2004-060- PA	5.500	04/25/2034	Aaa	AGY	AGY	1.811	2.083	0.336	-1.054	130

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	12667FW35	6	6	0.044	CWMBS 2005-05R- A2(U)	4.750	12/25/2018	A2	N/A	A	3.992	2.500	2.070	-0.527	N/A
	74958EAA4	21	22	0.160	RFMSI 2006-S12- 1A1(U)	5.500	12/25/2021	B2	B1	NR	3.803	2.500	1.930	-2.533	N/A
	31393EME6	50	52	0.376	FNMA 2003-084- PG(U)	5.000	03/25/2032	Aaa	AGY	AGY	2.578	2.583	2.000	-1.908	N/A
	16162WCK3	27	29	0.208	CHASE MTG FIN 2003-S13 A1	5.500	11/25/2033	A2	N/A	A+	3.216	2.667	1.759	-0.836	224
	9292275G7	16	16	0.118	WAMU 2003-S4- IVA1	4.000	02/25/2032	Aa1	N/A	AA+	3.523	3.000	3.263	-0.654	228
	31394XZ90	67	72	0.527	FHLMC 2790- TN	4.000	05/15/2024	Aaa	AGY	AGY	1.416	3.083	2.076	-0.519	51
	86359AD75	28	29	0.214	SASC 2003-020- 1A1	5.500	07/25/2033	A3	A3	AA+	3.833	3.250	2.526	-0.861	262
	55265KYF0	17	18	0.129	MASTER ASSET 2003-006- 2A1	5.500	07/25/2033	A1	N/A	A+	4.189	3.250	2.871	-0.751	298
	3133T42F2	20	23	0.169	FHLMC G030- I	7.500	04/25/2024	Aaa	AGY	AGY	2.213	3.250	1.889	-0.358	143
	76110HDB2	56	57	0.416	RALI 2003-QS10- A13	4.250	05/25/2033	Baa1	Baa1	BBB+	3.724	3.417	3.798	-0.905	256
	86359BVM0	28	28	0.207	SASC 2004-013- 1A2	5.500	07/25/2034	Ba2	Ba2	BBB+	5.043	3.417	3.507	-0.827	383
	31394ABD7	49	54	0.396	FNMA 2004-053- NC	5.500	07/25/2024	Aaa	AGY	AGY	2.263	3.583	2.641	-0.280	133
	76110HSV2	29	30	0.221	RALI 2004-QS5- A5(U)	4.750	04/25/2034	Ba3	Ba3	BB+	2.723	3.750	2.970	-4.763	N/A
	74927XAF9	39	37	0.268	RBSGC TR 2007-B- 2A1(U)	6.104	01/25/2037	N/A	Caa3	D	6.038	3.750	2.560	-3.601	N/A
	81743WAA9	105	105	0.763	SEQUOIA MTG 005- A	0.552	10/19/2026	Baa2	Baa2	B+	0.659	3.833	0.323	0.310	63
	863579RT7	51	46	0.338	SASC 2005-011- 3A1(U)	2.661	05/25/2035	Ca	Caa2	CC	3.539	4.000	2.000	-0.741	N/A
	12667FQS7	8	8	0.060	CWALT 2004-18CB- 3A1(U)	5.250	09/25/2019	Ba3	Ba3	BBB-	4.197	4.083	3.180	-0.778	N/A
	9393366P3	20	21	0.151	WAMU 2005-004- 4A1(U)	5.500	06/25/2020	Caa2	Caa1	CCC	4.034	4.917	3.670	-1.144	N/A
	05949ARU6	32	32	0.231	BA MTG SEC 2004-I- 2A2(U)	3.102	10/25/2034	B2	B1	N/A	2.446	5.167	2.750	0.157	N/A
	07384MG22	63	62	0.454	BEAR STEARNS 2004-001- 1A3	3.185	04/25/2034	Caa2	Caa2	BBB	2.969	6.000	0.880	0.253	281
	46627MEN3	50	45	0.327	JP MORGN ALT 2006-S1- 1A16	6.000	03/25/2036	C	N/A	CC	8.454	6.000	6.022	-0.173	681
	86359A3E1	121	123	0.897	SASC 2003-31A- 2A7	2.766	10/25/2033	Baa3	Baa3	A+	2.477	6.083	4.773	-0.382	89
	760985VL2	2	2	0.015	RFSC 2003-RM2- AII(U)	6.000	05/25/2033	N/A	N/A	NR	3.827	6.250	4.050	-1.430	N/A
	3137A6L67	125	134	0.974	FHLMC 3814- B	3.000	02/15/2026	Aaa	AGY	AGY	1.901	6.500	6.106	-1.641	46
	45660NY25	56	55	0.399	INDYMAC MBS 2004-AR6- 6A1	2.894	10/25/2034	B1	B1	BBB-	3.285	7.417	6.099	-0.019	150
	86359B3B5	41	38	0.281	SASC 2005-001- 6A1(U)	6.000	02/25/2035	Caa2	N/A	CCC	6.853	7.917	3.790	-4.066	N/A
	31397QUK2	140	152	1.106	FNMA 2011-006- PH	4.000	02/25/2041	Aaa	AGY	AGY	3.129	11.250	12.296	-1.345	68
	31393UPS6	35	42	0.308	FNMA 2003-117- KB	6.000	12/25/2033	Aaa	AGY	AGY	3.743	11.250	8.838	-0.354	176
	36242D6C2	36	37	0.266	GSR TRUST 2005-05F- 2A8(U)	5.500	06/25/2035	Baa3	Baa3	A+	4.095	12.583	8.130	0.415	N/A
	31393YF34	100	116	0.849	FNMA 2004-037- AL	4.500	06/25/2034	Aaa	AGY	AGY	3.046	13.667	12.082	-0.092	69
ABS		**2,405**	**2,365**	**17.242**		**2.091**	**3.877**	**Aa3**	**Aa3**	**AA**	**2.332**	**3.879**	**2.397**	**0.445**	**187**
	45254NJF5	32	32	0.234	IMPAC CMB 2004-004- 2A2(U)	4.760	09/25/2034	Caa2	Ba2	CCC	4.879	0.000	0.000	0.000	N/A
	03064PAB7	12	12	0.088	AMERICRDT AUTO 2011-3- A2	0.840	11/08/2014	Aaa	Aaa	N/A	0.601	0.083	0.063	-0.008	34
	55313YAB7	60	60	0.438	MMCA AUTO 2012-A- A2	0.810	08/15/2014	Aaa	Aaa	AAA	0.522	0.250	0.245	-0.015	33
	03064TAB9	53	53	0.388	AMERICRDT AUTO 2011-5- A2	1.190	08/10/2015	Aaa	Aaa	AAA	0.365	0.333	0.325	-0.005	24
	86359BY88	93	93	0.675	SASC 2005-NC1- A11	4.690	02/25/2035	Aa2	Aa2	AAA	5.690	0.500	0.508	-0.028	553
	301655AA4	74	74	0.543	EXETER AUTO 2012-1 A	2.020	08/15/2016	Aa2	N/A	AA	0.945	0.583	0.552	0.021	83
	55314MAC0	120	121	0.879	MMAF EQPT FIN 2011-A- A3	1.270	09/15/2015	Aaa	Aaa	N/A	0.743	0.750	0.706	0.005	58
	02528RAA7	47	47	0.344	AMERICAN CR AC 2012-2- A	1.890	07/15/2016	A1	N/A	A+	1.384	0.833	0.806	0.007	121
	02005ABC1	100	101	0.740	ALLY MSTR 2011-1- A2	2.150	01/15/2016	Aaa	Aaa	AAA	0.581	0.917	0.864	0.006	43

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	301658AA8	114	114	0.834	EXETER AUTO 2012-002- A	1.300	06/15/2017	Aa2	N/A	AA	1.014	1.083	1.060	0.012	81
	32057WAC8	124	124	0.906	FIRST INV AUTO 2012-2- A2	1.470	05/15/2018	Aaa	N/A	AAA	1.341	1.500	1.450	0.022	107
	57643LAL0	103	99	0.723	MASTER ASSET 03-OPT1- M2	2.977	12/25/2032	A2	Baa1	AA+	4.615	1.583	0.087	-0.003	457
	32058EAC7	145	145	1.057	FIRST AUTO TR 2013-1 A2	0.900	10/15/2018	Aaa	N/A	AAA	0.904	1.667	1.645	0.025	63
	76110VEC8	2	2	0.014	RFMSII 2000-HI2- AI5(U)	8.350	03/25/2025	Baa2	Baa2	A-	10.147	2.000	1.422	-0.020	N/A
	13975EAC7	135	135	0.987	CAPITAL AUTO 2013-1- A3	0.790	06/20/2017	Aaa	Aaa	AAA	0.697	2.750	2.731	0.061	34
	34528QCD4	135	135	0.984	FORD FLR PLN 2013-001- A1	0.850	01/15/2018	Aaa	Aaa	AAA	0.864	2.917	2.828	0.066	50
	14041NCQ2	65	74	0.537	CAP ONE MT 2006-3- A	5.050	12/15/2018	Aaa	Aaa	AAA	0.581	2.917	2.756	0.062	21
	42805RBL2	150	151	1.098	HERTZ 2013-001- A1	1.120	08/25/2017	Aaa	Aaa	N/A	1.008	3.250	3.203	0.060	56
	78447RAB3	135	135	0.984	SLMA 2013-A A2A 1.77% 5/17/2	1.770	08/17/2018	Aaa	Aaa	NR	1.768	5.500	5.218	0.148	90
	760985XK2	44	41	0.302	RAMP 2003-RS6- AI5	5.420	07/25/2033	Ca	Caa2	CC	6.872	5.667	4.796	-0.288	561
	86359AWR0	61	61	0.444	SASC 2003-AL2 3.3565% 1/2	3.357	01/25/2031	Ba1	Ba1	AA+	3.385	6.333	5.300	0.243	188
	07386HYF2	45	36	0.263	BS TRUST 2005-009- 25A1	2.814	11/25/2035	Caa3	Caa3	CCC	4.514	7.500	6.291	0.155	278
	61915RAA4	146	137	1.001	MORTGAGE IT TR 05-002- 1A1	0.462	05/25/2035	Baa2	Baa2	A+	1.326	7.500	2.805	2.948	127
	07325NCR1	130	140	1.021	BAY VIEW 2006-00A- 1A3	5.865	02/28/2041	Aaa	Aaa	AAA	4.891	9.417	6.512	-0.075	323
	073879MC9	108	107	0.780	BEAR STEARNS 2004-SD4- A1	0.652	08/25/2044	Aa1	Aaa	AA+	0.755	9.833	3.820	3.783	65
	843590DJ6	58	24	0.178	SO PACIFIC 98-2 6.74% 7/25	6.740	07/25/2029	B3	B3	B	50.600	10.583	0.569	0.009	4,999
	84751PBZ1	114	110	0.799	SURF TR 2004-BC1- M1	0.967	02/25/2035	A3	A3	AA	1.054	12.333	1.609	1.717	95
CMBS		**743**	**756**	**5.514**		**1.697**	**2.801**	**Aaa**	**Aaa**	**N/A**	**0.965**	**2.801**	**2.696**	**0.058**	**53**
	23305YAA7	76	77	0.564	DBUBS 2011-LC3- A1	2.238	08/12/2044	Aaa	Aaa	N/A	1.060	1.417	1.414	0.019	82
	92936CAA7	86	87	0.637	WFRBS CMBS 2011-C4- A1	1.610	06/17/2044	Aaa	Aaa	N/A	0.641	1.500	1.514	0.022	38
	617459AA0	76	77	0.561	MORG ST CAP 2011-C2- A1	1.480	06/17/2044	Aaa	Aaa	N/A	0.697	1.500	1.493	0.021	44
	36191YAY4	80	81	0.592	GSMS TRUST 2011-GC5- A1	1.468	08/10/2044	Aaa	Aaa	N/A	0.547	1.500	1.441	0.020	29
	36192BAW7	105	106	0.775	GSMS TRUST 2012-GC6- A1	1.282	01/10/2045	Aaa	Aaa	N/A	0.552	1.583	1.579	0.024	28
	61761AAX6	65	67	0.488	MORG ST BA ML 2012-C5- A2	1.972	08/15/2045	Aaa	Aaa	N/A	1.285	4.333	4.107	0.098	66
	94988HAB7	125	128	0.933	WF CMBS 2012-LC5 A2	1.844	10/15/2045	Aaa	Aaa	N/A	1.310	4.500	4.278	0.105	65
	36192PAF3	130	132	0.965	GS MTG SEC 2012-GCJ9- A2	1.762	11/10/2045	Aaa	Aaa	N/A	1.374	4.583	4.350	0.109	70
MUNI		**1,645**	**1,562**	**11.386**		**3.339**	**9.452**	**Aa3**	**Aa3**	**AA**	**2.475**	**7.924**	**6.503**	**0.287**	**108**
	743787R54	10	10	0.074	PROVIDENCE R I REF BDS 200	4.850	07/15/2013	A2	A2	AA-	1.913	0.417	0.372	0.002	179
	914331HS5	5	5	0.038	UNIVERSITY ILL CTFS PARTN	4.740	02/15/2014	Aa3	Aa2	AA-	1.079	1.000	0.947	0.007	91
	212474GB0	30	32	0.234	CONVENTION CTR AUTH R I RE	5.770	05/15/2014	Aa3	Aa3	AA-	1.385	1.250	1.159	0.010	121
	67908PAH9	40	43	0.313	OKLAHOMA ST CAPITOL IMPT A	5.180	07/01/2014	Aa2	Aa2	AA	0.320	1.333	1.298	0.012	13
	455114ER5	90	95	0.689	IND UNIV TXBL BAB 3.504% 10/	3.504	10/01/2014	A2	A2	NR	1.236	1.583	1.529	0.016	102
	649870FK3	55	60	0.435	NEW YORK ST HSG FIN AGY ST	5.220	09/15/2014	Aa2	N/A	AAA	1.146	1.583	1.464	0.015	93
	914331HT3	5	5	0.039	UNIVERSITY ILL CTFS PARTN	4.800	02/15/2015	Aa3	Aa2	AA-	1.303	2.000	1.884	0.023	105
	795830AP3	80	91	0.662	SALVATION ARMY TAXABLE REV	5.440	09/01/2015	Aa3	Aa3	AA-	1.073	2.500	2.316	0.032	75
	646464EB9	85	92	0.671	NEW LIBERTY MO HOSP DIST R	4.285	12/01/2015	A1	N/A	A+	1.579	2.750	2.591	0.038	123
	97689P4H8	5	5	0.038	WISCONSIN HSG & ECONOMIC D	5.727	09/01/2037	Aa2	Aa2	AA	5.605	3.000	7.835	-0.999	325
	791697DB8	140	153	1.116	ST LOUIS MO SPL ADMINISTRA	4.000	04/01/2016	Aa1	N/A	AA+	0.987	3.083	2.931	0.047	58
	46263RGH2	110	111	0.807	IPS MULTI-SCH BLDG CORP IN	3.000	01/15/2026	Baa2	Baa2	AA	2.978	3.917	9.472	-0.765	98

Portfolio Position Report

Portfolio: CITY OF RICHMON 2018
Pricing Date: 02/28/2013
Representative:

Currency: USD
LOTS COMBINED:

Levels	CUSIP9	Par (000)	Mkt Val (000)	% Held (MV)	Issuer Name	Coupon	Maturity	Quality	Mdys	S&P	YTM	Avg Life	Eff Dur	Conv (Par)	OAS
	438670WB3	100	111	0.811	HONOLULU HAWAII CITY & CNT	3.424	12/01/2017	Aa1	Aa1	N/A	1.159	4.750	4.415	0.107	46
	45746RAJ3	40	45	0.329	INLAND PROTN FING CORP FLA	4.500	07/01/2018	Aa2	Aa2	AA	2.088	5.333	4.796	0.129	127
	677521GP5	100	113	0.827	OHIO STATE THIRD FRONTIER	3.625	11/01/2020	Aa1	Aa1	AA+	1.898	7.667	6.837	0.269	53
	586494FB7	110	127	0.925	MENASHA WIS JT SCH DIST GO	4.375	03/01/2021	Aa3	N/A	AA-	2.548	8.000	6.854	0.277	112
	357172UY9	325	121	0.880	FREMONT CALIF UN HIGH SCH	0.000	08/01/2032	Aa1	Aa1	AAA	5.163	8.417	8.601	0.320	128
	215021LQ7	110	74	0.538	COOK CNTY ILL SCH DIST NO	0.000	12/01/2023	A1	A1	N/A	3.756	10.750	11.003	0.620	182
	95639RDW6	70	94	0.688	WEST VA HIGHER ED POL COMM	7.450	04/01/2030	A1	Aa3	A+	4.579	15.667	10.228	0.700	233
	03255MQB6	85	108	0.786	ANAHEIM CALIF PUB FING AUT	5.685	10/01/2040	Aaa	N/A	AAA	4.136	26.083	15.255	1.640	132
	6303614J9	50	67	0.485	NAPA VALLEY CALIF UNI SCH	6.507	08/01/2043	Aa3	Aa2	AA-	4.454	27.917	15.215	1.668	164
Total:		**12,824**	**13,716**	**100.000**		**3.631**	**6.861**	**Aa3**	**Aa3**	**AA-**	**2.091**	**6.684**	**4.986**	**0.195**	**106**

The Commerce Trust Company
A division of Commerce Bank, N.A.

Cheryl A. Osterhorn
Relationship Manager &
Assistant Vice President
314-746-7327
314-746-7256 (fax)
Email:Cheryl.Osterhorn@commercebank.com

July 21, 2003

Mr. Michael Schoedel
City of Richmond Heights
1330 S. Big Bend Blvd.
Richmond Heights, MO 63117

Re: City of Richmond Heights Police & Firemen's Pension Fund

Dear Mike:

In accordance with the recent correspondence with Steve Holmes and yourself, enclosed please find two copies of our newly published fee schedule. Upon Board approval, please execute both copies and return one to my attention.

Should you have any questions, please feel free to contact me.

Successor Custodian,

Cheryl A. Osterhorn
Assistant Vice President
Commerce Bank, N. A.
Investment Management Group

enclosure

ask listen solve

The Commerce Trust Company
A division of Commerce Bank, N.A.

Institutional Services

Investment Management Fee Schedule

For Fixed Income ERISA Separate Accounts

Services

- Assignment of a Relationship Manager and Portfolio Manager to your account
- Periodic consultation to assure that investment objectives meet identified needs
- Regular analysis and review of investment portfolio with recommendations in accordance with objectives
- Periodic investment performance reporting
- Custody of assets
- Execution and settlement of all security transactions
- Collection of dividend, interest and other income with automatic investment of cash balances
- Quarterly statement of assets and transactions
- Internet access to account information including statements on demand
- Preparation of IRS Form 1099R for participant distributions

Fee

- Based on current market value of total assets:

.30% on first	$10,000,000
.20% on next	$40,000,000
.15% on next	$50,000,000
.10% on remaining balance	

- Minimum Annual Fee $15,000

- *Fees are calculated based on the previous month-end market value and shall be charged directly to the account on a monthly basis unless otherwise expressed in writing.*
- *If the account invests in The Commerce Funds, the pro rata share of the investment advisory fees received by Commerce Bank, N.A. or its affiliates from The Commerce Funds is credited back to the account and reflected on the statement.*
- *As a provider of shareholder services (e.g., regulatory mailings, shareowner communications, etc.) for ERISA and other trust accounts invested in The Commerce Funds ("the Funds"), The Commerce Trust Company (a division of Commerce Bank, N.A.), may receive a fee from the funds of up to six basis points (0.06%) of the account's average daily net assets.*

Please consult current fund prospectus

City of Richmond Heights
Police & Fire Pension Fund
92-0032-01-8

Administrative Services and Fees

Trust Services	Fee	Frequency
☐ Unitized Accounting Services	$15,000	Annual Minimum
☐ Unitized Sub Account	$1,200	Annual Per Sub Account
☐ Insurance Contracts	$50	Annual Per Contract
☐ Duplicate Statement Requests	$10	Per Statement
☐ Performance Reports (Custody)	$100	Annual Per Account
☐ Fund Accounting Services	Custom Quote	
☐ Online Access With Toll-free Support	No Charge	
☐ Audit Confirmations/Letters	$15	Per Confirmation

Employee Benefit Plan Services	Fee	Frequency
N/A ☐ Participant Loans	$125	One Time
☒ Benefit Payments (includes 1099R & postage)		
☒ Periodic	$2.50	Per Item
☒ Lump Sum	$25	Per Item
N/A ☒ Prototype Document Services (includes SPD)		
☐ Non-Standardized Plan	$1,000	Per Item
☐ Standardized Plan	$750	Per Item
☐ Simplified Plan	$500	Per Item
N/A ☒ Plan Maintenance	$100	Annually

Depository Services	Fee	Frequency
☐ Check Issuance	$10	Per Item
☐ ACH items	No Charge	
☐ Account Ledger Overdrafts	Prime Interest Rate + 3%	
☐ Outgoing Wire Transfer	$15	Per Item
☐ International Wire Transfer	$50	Per Item

Extraordinary Services

Out-of-pocket expenses such as costs associated with special client requests, courier, overnight mail, etc. are borne by the client.

Fees will also be charged for extraordinary services based upon the work performed and responsibility assumed.

An Extraordinary Services Fee Schedule is available upon request and will be provided at the time services are engaged.

Comments or Special Services Not Described Above

This listing of services and their corresponding fees is intended to identify the routine services available. While being comprehensive, this list may inadvertently omit services for which you may have an interest. Please inquire as to the availability of any additional services not specifically identified herein.

Approved By: Rick Velick 8-11-03
(Client Signature) (Date)

Acknowledged By: Cheryl Westcott 7-21-03
(CTC Officer Signature) (Date)



Current Economic and Financial Market Conditions

We ask,
listen
and solve

Prepared by
Investment Policy Committee

Spring 2013: Issue 1

The Commerce Trust Company
A division of Commerce Bank

Economic Conditions and Outlook

Economy

- Congress navigated the "Fiscal Cliff", by passing a limited tax increase; however, many issues were left unresolved and lawmakers are working on a new budget to prevent sequestration, or automatic spending cuts, from starting in March.
- With the worst case scenario for the Fiscal Cliff avoided and economic data continuing to point to broad-based, moderate growth, we expect near 2.0% GDP growth to continue in 2013, absent any additional "exogenous shocks". Longer term growth prospects remain subdued as governments and consumers continue the deleveraging process.
- Accordingly, the Fed is expected to hold the Funds rate at zero at least through 2013 (Fed minutes project mid-2015). Although longer yields could drift somewhat higher in 2013, modest economic growth and minimal wage inflation should keep rates lower for a longer period than many may expect.
- The economy's continued inability to achieve sustained above-trend growth, combined with growing impatience of persistently high unemployment, has resulted in the Fed taking more aggressive action to spur growth in the form of open-ended Quantitative Easing until employment shows sustained improvement.
- The mostly upbeat January Non-Farm Payroll report showed American employers continued to hire at a modest pace. Payrolls expanded by 157,000 workers, following a revised December increase of 196,000 while the unemployment rate rose slightly to 7.9%. (Payroll gains have averaged 152,000/month in both 2011 and 2012.) The gains indicate that consumers will likely continue to spend, extending the three-year expansion in the face of a global economic slowdown and political gridlock in Washington over taxes and spending.
- Recent U.S. economic data releases have been generally positive and supported by some positive cyclical forces, including a massive global easing cycle. The uncertainty caused by European woes, China's hard landing, and peaking corporate profit margins, has faded somewhat. This has encouraged investors to begin to move funds back into stocks so far this year.

Equity Market

- Equities posted strong returns in 2012 after shrugging off European financial uncertainty, a slowing Chinese economy, decelerating earnings growth, and the fiscal cliff in the United States. With a partial solution to the fiscal cliff at year end, equities have gotten off to a good start in 2013.
- Based on trailing twelve-month earnings, stocks are trading at 14.4 times earnings, an attractive level given the low level of inflation. The S&P 500 operating earnings are expected to increase 2% to 4% in 2012 versus 15% in 2011.
- The S&P 500 dividend yield is 2.20% versus the 10 year Treasury yield at 1.89%. Typically, Treasuries yield 170% more than the S&P 500 yield. We believe equities offer an attractive alternative to fixed income and money markets. We expect 10% dividend growth in 2013 for the S&P 500, with the last 12 months having seen dividends grow at 16.4%.
- ECB assurance of liquidity to the European financial system has provided a nice rebound for international stocks since August 2012. International valuation levels look attractive with their generous dividend yields.

Economic Conditions and Outlook

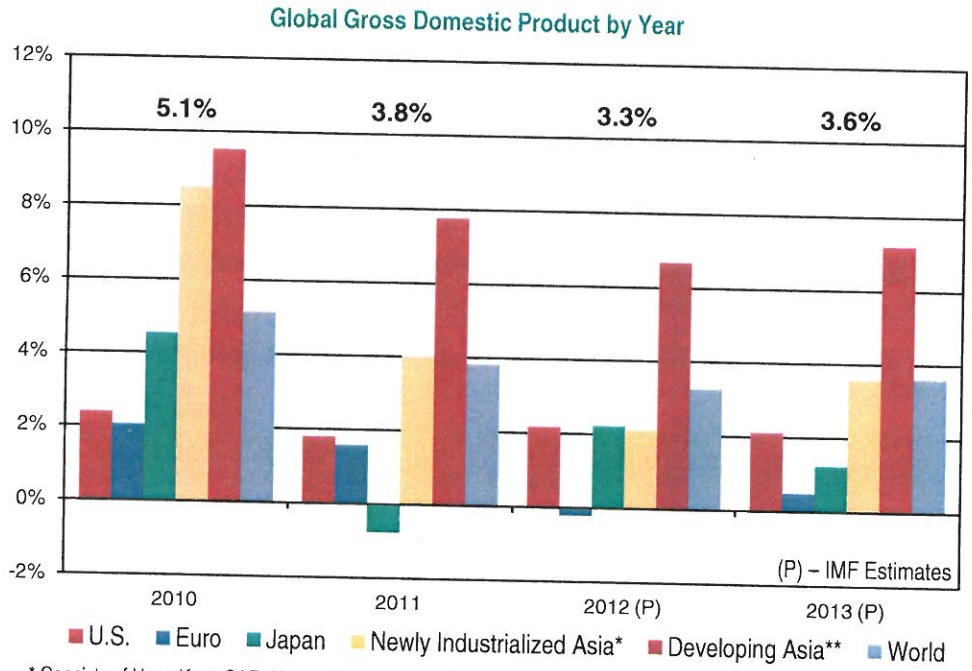
Fixed Income Market

- The majority of fixed income sectors reported negative returns for January as Treasury yields rose in response to economic data pointing to broad-based, moderate growth. Investor started to shift away from bonds and into equities as the worst case scenario for the "Fiscal Cliff" appears to have been avoided.
- If the economy gains more upward momentum and near-term fiscal uncertainties are resolved, the Fed could slow down its rate of bond purchases sooner than most investors expect.
- Low inflation is hurting the returns on TIPS. The U.S. TIPS index was down-0.68% for the month of January. Ten-year and longer maturities are showing a total return of -2.8%. Treasury yields have been trending higher over the past three months and TIPS spreads have not been narrow, leading to downward pressure on TIPS prices.
- Corporate bond yields are at record lows and returns are expected to be far more modest in 2013. Investors should expect coupon returns and receive little else in the way of returns.
- Merger and acquisition activity has picked up, leading to an increase in leveraged buyout risk for the corporate bond market. Buyout deals typically involve companies loading up with debt to finance these transactions. Recent examples include Dell agreeing to take itself private and H.J. Heinz agreeing to sell itself to Warren Buffett and a Brazilian private-equity firm.

Alternative Investments

- After a strong rebound in the third quarter, commodity index returns weakened in the fourth quarter of 2012. Energy and industrial metals may benefit from accelerating global activity in 2013.
- Global economic growth is expected to pick up this year which should bode well for oil demand. The supply of oil from the U.S. is expected to grow, and global inventories of oil could build if OPEC does not curb production.
- Gold has been in a trading range over the last year. With the undertaking of QE 3, and elections in the U.S. behind us, there appears to be no new positive catalyst in the near term. In the longer run, fiscal imbalances in the western world and geopolitical shocks should be supportive to gold as it is viewed as the currency of last resort. The opportunity cost to own gold is low when real yields are negative.
- Hedge Funds provide a source of returns that have modest or low correlations to traditional markets. Conservative hedge funds and managed futures strategies help offset the declines of equity portfolios.

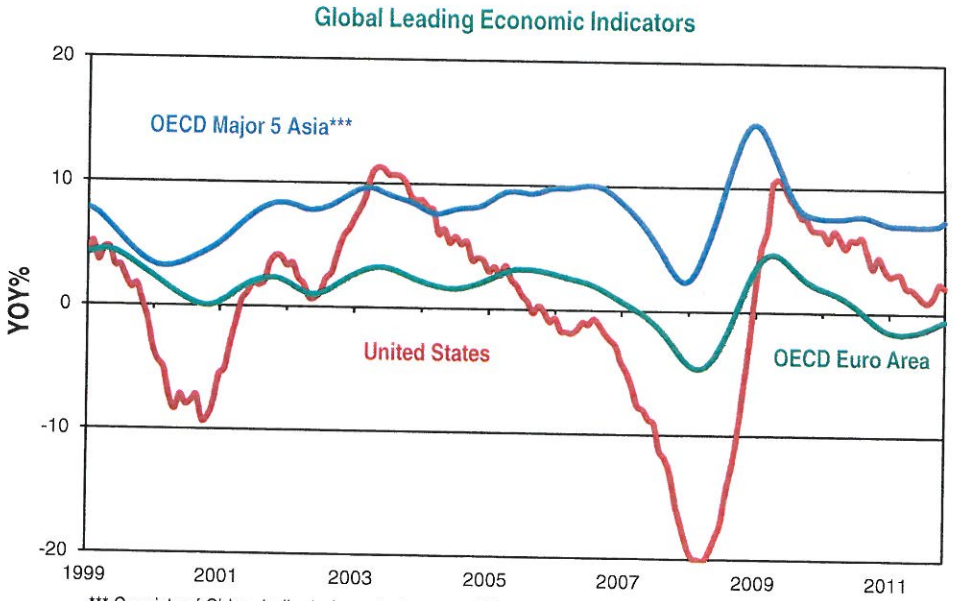
Global Economy



* Consists of Hong Kong SAR, Korea, Singapore and Taiwan Province of China
**Consists of China, India, Indonesia, Malaysia, Thailand, Vietnam, etc.

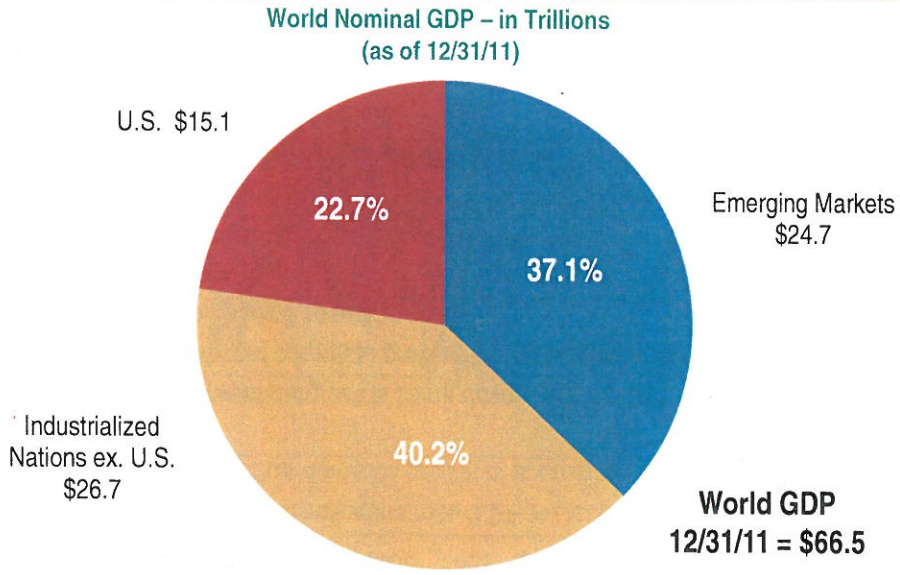
- The leading economic indicators in the U.S. slowed in 2012, and European forward forecasts suggest the continent is likely to remain near a recession level for a while.
- Forward indications for the Asian economies have also pointed toward growth rates measurable less than their recent peaks, while U.S. growth projection looks better.
- The deleveraging process that is occurring in the developed markets is holding back global growth. This deleveraging is impacting the growth rates of the emerging economies because the developed markets have less to spend.

- In 2012, there was a marked slowdown in global growth; Europe entered a recession early last year and the emerging Asian economies slowed from their historically high rates of growth, although China now appears to be improving.
- U.S. growth, on the other hand, has been relatively stable post its 2008-2009 recession, running at about 2.0% each year, since then.
- The International Monetary Fund expects world growth to pick up this year, but we feel they are likely too optimistic with regard to both a European rebound and U.S. growth expectations, however there have been sings of improvement recently.



*** Consists of China, India, Indonesia, Japan and Korea

Global Economy



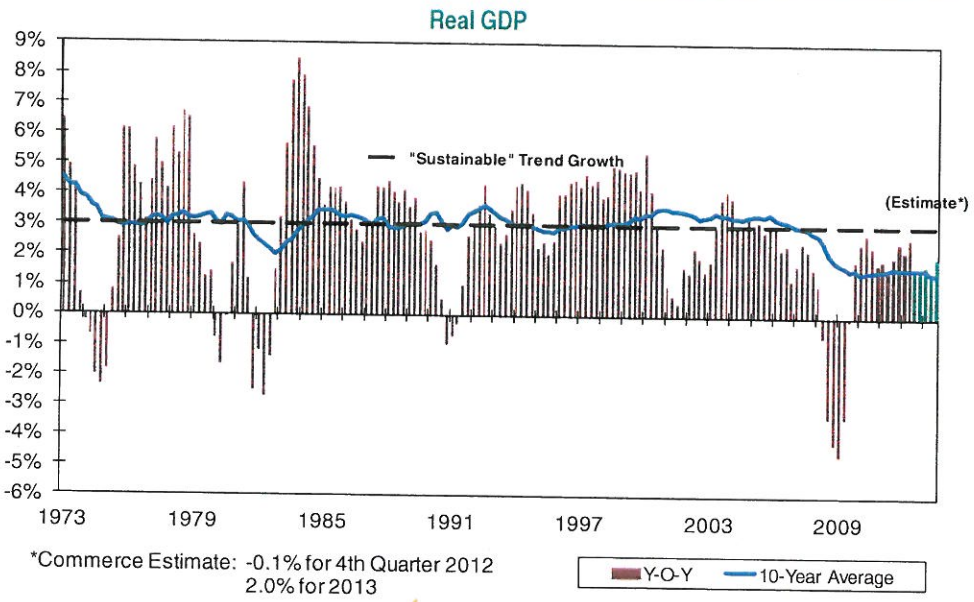
- The U.S. is still the world's largest economy, but its relative importance has declined due to the development of emerging economies. America will continue to have its own fiscal issues to address going forward.
- As a percentage of World Economic Output, the emerging market's GDP is now larger than the U.S.'s GDP – emerging market's weight has climbed from 22% to 37% while the U.S.'s weight has fallen from 30% to 23%, over the past decade.
- While emerging economies around the world are leading the way out toward ongoing global recovery, developed economies' financial markets are still trending at lower levels of growth.

- The EU appears to be moving slowly toward a solution to their fiscal problems. It does not have a political center that can make decisions fast and efficiently. However, stabilization plans show that the EU is choosing a path of closer political integration and financial backstops.
- Additional debt restructuring may still be needed in the peripheral EU economies. The Greece bailouts have not ended the crisis as these respites have proven to be temporary. Spain has now moved into the spotlight as the next bailout candidate, but financial stresses seem to have faded somewhat recently.

European Non-Financial Debt Overview

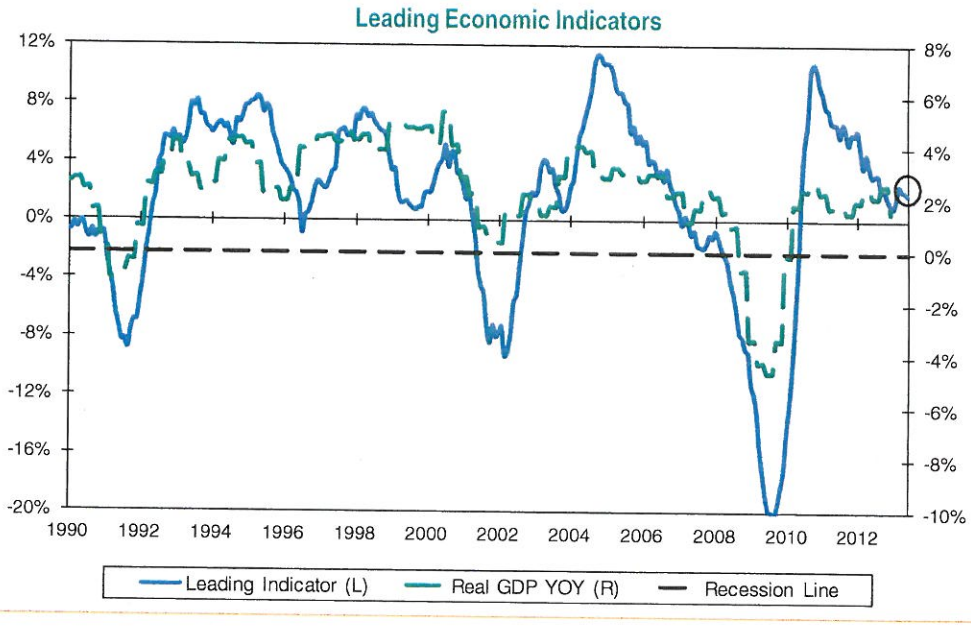
	% European GDP	% Debt/GDP	% Gov Debt/GDP	Budget Deficit
Greece	2%	267%	171%	-9%
Portugal	2%	356%	108%	-4%
Ireland	2%	663%	106%	-13%
Spain	12%	363%	69%	-9%
Italy	18%	314%	121%	-4%
Total/Average	**36%**	**393%**	**115%**	**-8%**
Germany & France (Avg)	**53%**	**301%**	**83%**	**-3%**
United States	**NA**	**279%**	**100%**	**-7%**

U.S. Economy

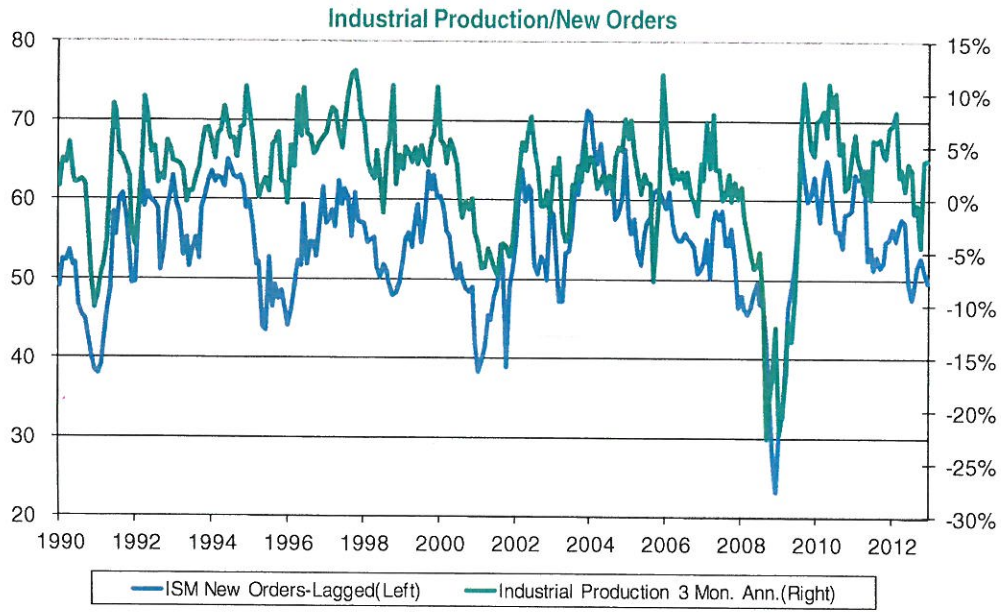


- U.S. leading economic indicators rose 0.5% in December, but remain stuck in a range forecasting slow domestic growth of approximately 2.0% well into 2013.
- This limited forward progress is being driven by a modest but steady rebound in employment, record corporate profitability, massive monetary accommodation, and near record deficit spending.
- The domestic ongoing indigenous deleveraging process, the continued European recession and its peripheral debt crisis, as well as the anxiety created by our elections and the fiscal cliff debate have acted as headwinds to our more normalized 3% growth potential.

- U.S. economic growth has averaged 3.0% annually since 1950, amid significant year to year volatility. Above average growth in the 1990's and early 2000's was driven primarily by excess borrowing in the banking and consumer sectors of the economy.
- Recent economic growth has been closer to 2% or below as our economy undergoes a long term (7-10 year) deleveraging process and we are now nearly five years through it.
- As economic growth remains below potential, we build an output gap. This gap has the effect of holding down inflation which affords the Federal Reserve the ability to keep interest rates low for an extended period.

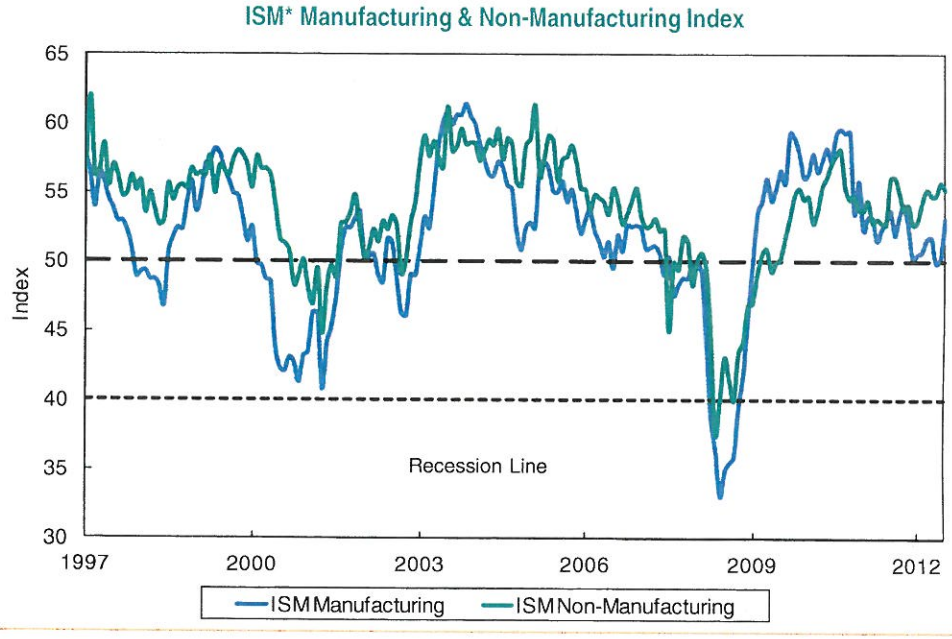


U.S. Economy – Service and Manufacturing



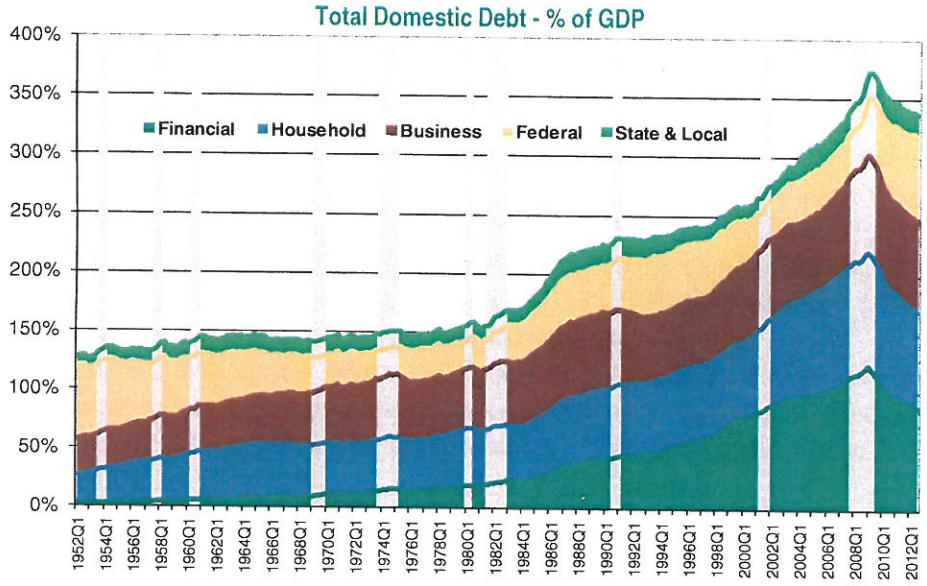
- In January, the ISM Manufacturing Index jumped to 53.1, higher than forecast, from 50.7 in December, staying well above the 50 level. This shows the economy is starting to gain traction. Measures of orders, production, and factory equipment showed gains. Readings below 50 signal economic contraction.
- The ISM Non-Manufacturing Index fell slightly to 55.2 in January, from 56.1 in December, indicating the economy is still moving forward. This index, which covers the majority of the private economy, remains above the 50 growth line and suggests improving, but uneven, conditions beyond manufacturing.

- Industrial production slipped by 0.1% in January following a 0.3% rise in December. Even so, rebounds in housing, autos and business investment should support gains in 2013, while challenges from Europe's recession and slower growth in Asia persist.
- We are in the extended process of handing off the manufacturing-led recovery to the service sector. The transition has been very choppy.
- Capacity utilization rose slightly to 79.1 in January. This compares with the average of 79.5 over the past 20 years. This is near the highest level since April 2008, as plant and equipment usage is steadily taking up the slack and has held relatively steady all year.



*ISM – Institute of Supply Management

U.S. Economy – The Deleveraging Process

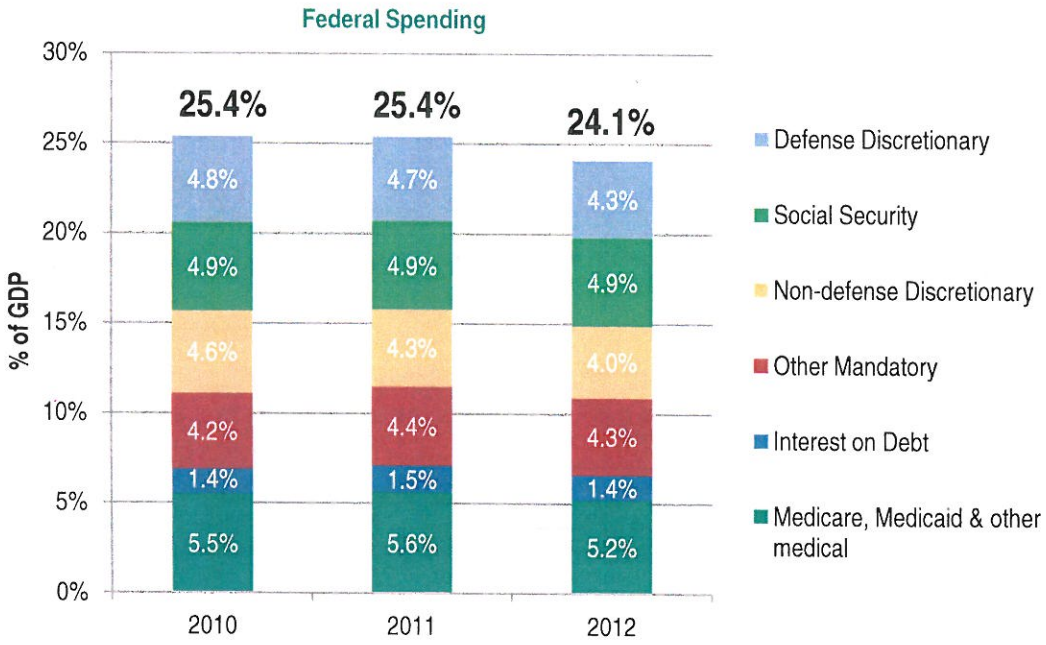


- Deleveraging is a prolonged four step process, which began in 2007.
- The first step was to heal the banking sector which has built capital and reduced their assets (lending).
- The second step was for domestic businesses to "right size" themselves which resulted in record levels of unemployment. But today corporations have record earnings and cash levels on their balance sheet with dramatically lower debt servicing cost.
- The third step has been occurring as consumers both pay down and default on their debt while state and local governments have cut back since in general they are mandated to run balanced budgets.
- The fourth and final step of the deleveraging process will occur when the federal government eventually and necessarily begins to address its deficit spending.
- As the economy contracted in 2008-2009 government stimulus and deficit spending were enacted in order to offset the declines in the real economy.
- Today we have been running federal deficits approximately 7% of GDP. The upcoming "Sequester" is a formulaic approach to lowering our current fiscal deficit via mandatory spending cuts.
- While everyone wants to reduce the deficit, no one wants to shock the economy towards a recession. The fiscal cliff was only partially addressed, on the tax side, while the spending problems are yet to be tackled.

Total Domestic Debt

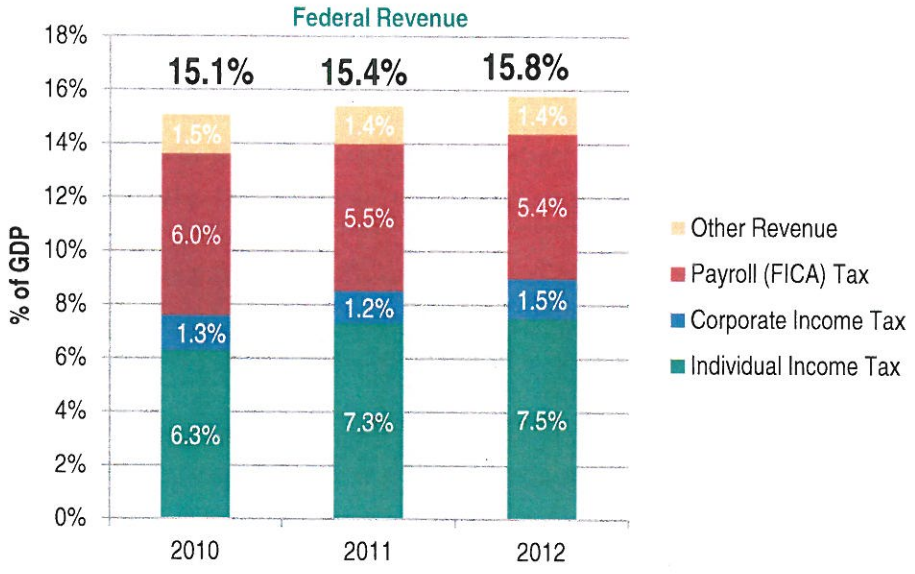
Debt Type	$ Billion	% of GDP-Peak (Year)	% of GDP-Current
Financial	13,796	123% (2009)	87%
Household	12,868	98% (2009)	81%
Business	12,130	83% (2009)	77%
Federal Government	11,279	71% (2012)	71%
State & Local Government	3,008	21% (2011)	19%
Total	**53,081**	**373% (2009)**	**336%**

U.S. Economy – Federal Spending vs. Revenue



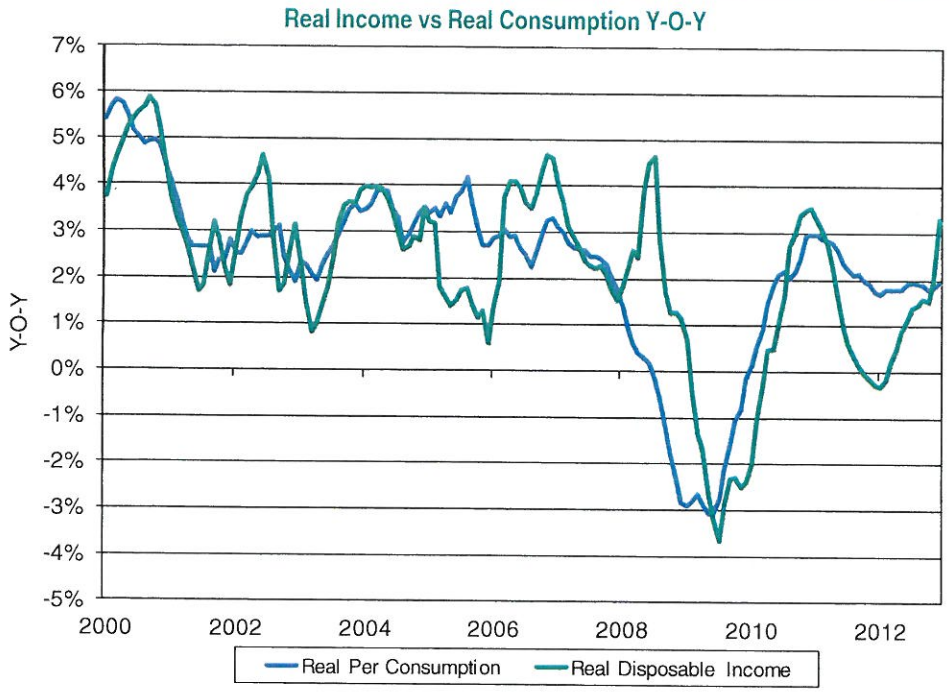
- Without reform, an aging population portends entitlements will claim an ever increasing share of the economy. This will represent a transfer payment from the young working segments to retirees.
- On average, society has been willing to provide the federal government with revenues totaling 19% of the economy. Revenues are currently disproportionately low, primarily because of the weak economy and extraordinary tax breaks enacted in an effort to stimulate economic growth.
- The only logical solution to close the budget gap will be to include some measure of tax increases, natural economic growth that will raise revenues, and with entitlement reform that dramatically lowers spending as a percent of GDP.

- According to the OMB, entitlement spending has decreased from 10.4% to 9.7% of GDP over the past two years and is projected to stay near 10% of GDP in 2013, largely driven by health care costs.
- Fortunately the interest on debt has remained flat despite the rapid increase in debt outstanding because of the dramatically lower interest rate environment.
- Still, discretionary spending would have to be eliminated to close the current budget deficit.

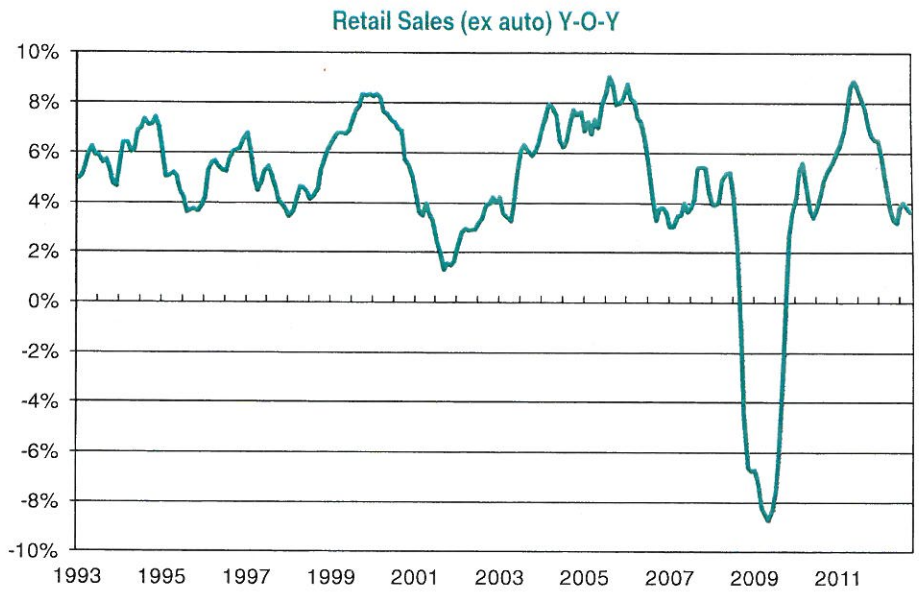


Source: Congressional Budget Office

U.S. Economy – Sales



- Retail sales rose in January at a sluggish 0.1%, inline with expectations. The gain followed a gain of 0.5% increase in December. Sales, excluding autos and gasoline, were up 0.2%.
- While Americans are still contending with a 7.9% unemployment rate, consumer spending is continuing to grow only slowly, which helps keep the economy moving forward.
- In December, personal income was up 2.6%, while spending increased by 0.2%. In the long run, consumption tracks income, and currently stagnant wages and slackening employment held back the biggest part of the economy.
- The difference between income and spending is savings. The savings rate increased to 6.5% in December, the highest level since May 2009. Household savings is the main source of future spending.
- Car purchases in December were reported at a 15.2 million annual pace, reflecting ongoing replacement of older vehicles. We expect car sales to continue to add to economic growth.



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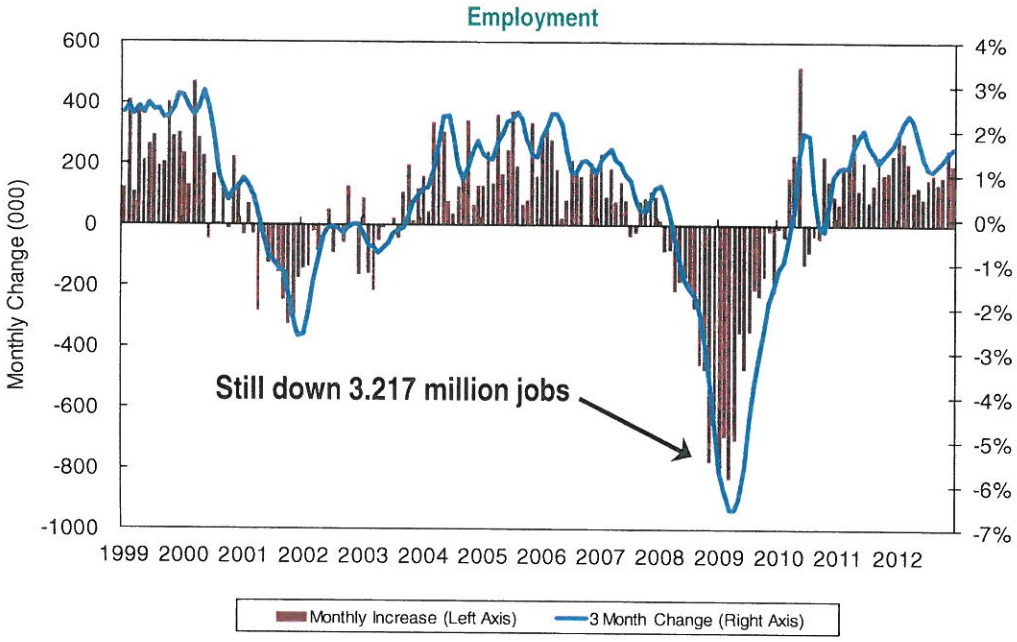
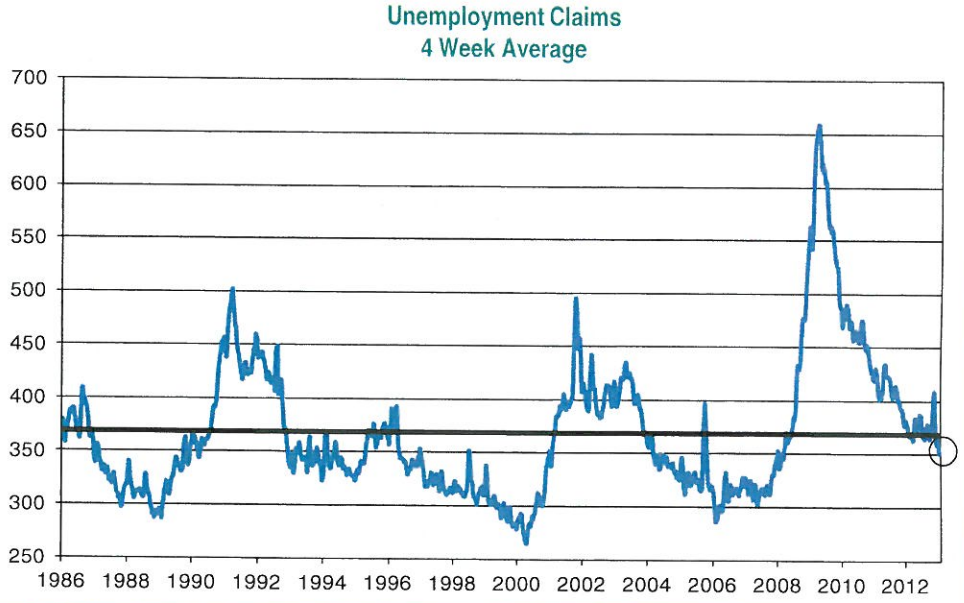
U.S. Economy – Employment



- January Non-Farm Payrolls reported 157,000 new jobs created during the month, while the unemployment rate rose to 7.9%. Private payrolls grew by 166,000. This was slightly less than expectations, but still supports the case for more Fed easing.
- The labor market has had 35 consecutive months of positive private payroll growth, and while it is slowly getting better, continued sub-par growth reinforces Bernake's prediction of a "frustratingly slow" recovery.
- Even though the economy has generated over 5 million jobs since February 2010, we lost 8.8 million during the recession. It will likely take 3-to-5 years of growth to get employment levels back to their prior peak and even longer to drive unemployment down to acceptable levels.

- Jobless claims fell to 341,000 for the week ending February 9, as employment improves slowly. This was the lowest level in five years, pointing to further improvement in the labor market. The 4-week moving average, a less volatile measure, dropped to 352,500 claims, close to a 5-year low.
- This data series can be volatile, but 400,000 for the four-week moving average is typically the dividing line between growth and recession.
- The job market has lost some momentum recently, but is still in positive growth territory, while unemployment remains elevated.



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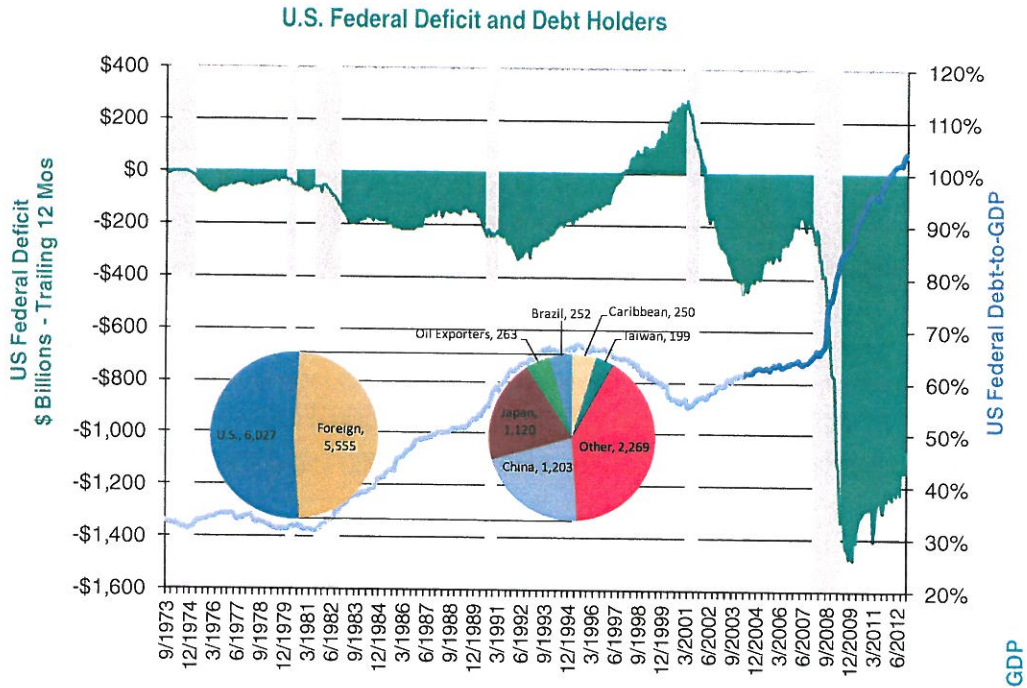
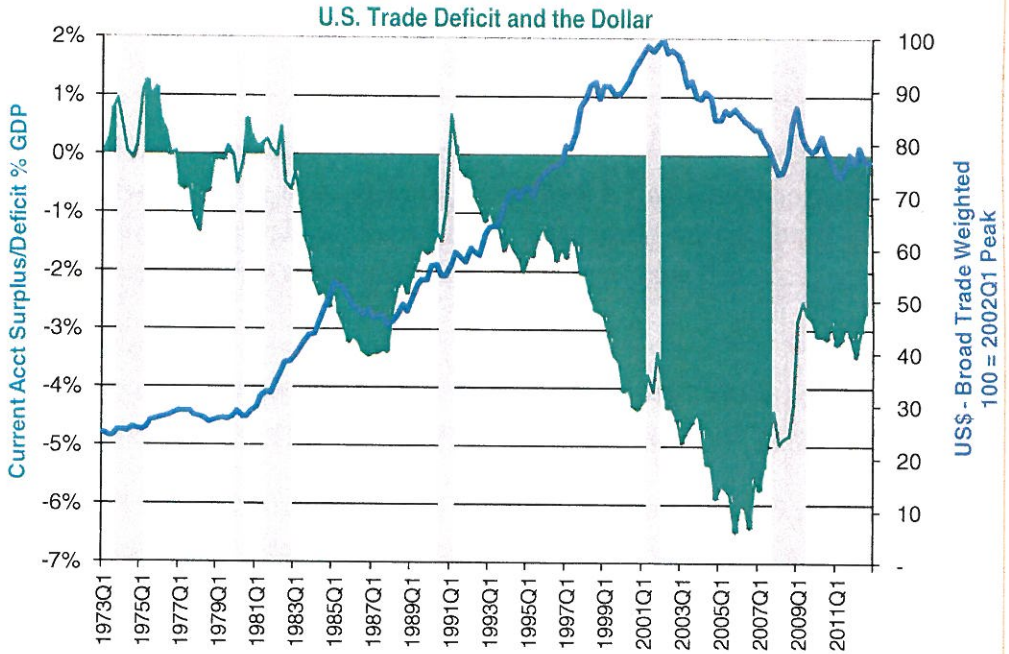
U.S. Economy – Global Impact



- The U.S. trade deficit narrowed by 20.7% to $38.5 billion as record petroleum exports helped shrink the deficit to the smallest in almost 3 years. This is a potential signal of a rebound in global growth.
- A relatively weak dollar has made American products more competitive for some U.S. manufacturers, which could partially offset the recent slowdown in global growth. As Asia stabilizes, orders for U.S. goods may grow.
- The European Central Bank held its key rate at a record low (0.75%) in January amid continued market turmoil and economic weakness. With Europe growth slowing, the peripheral debt crisis may cause the ECB to lower its key rate further. The Bank of England also kept their key rate unchanged at 0.5% in July and continues to pursue its ongoing QE programs.
- The Dollar Index has been in a range over the past two months as the Eurozone crisis continues to simmer. While the Fed and U.S. Treasury may publicly support a strong dollar, their current policies are clearly intended to weaken the currency.



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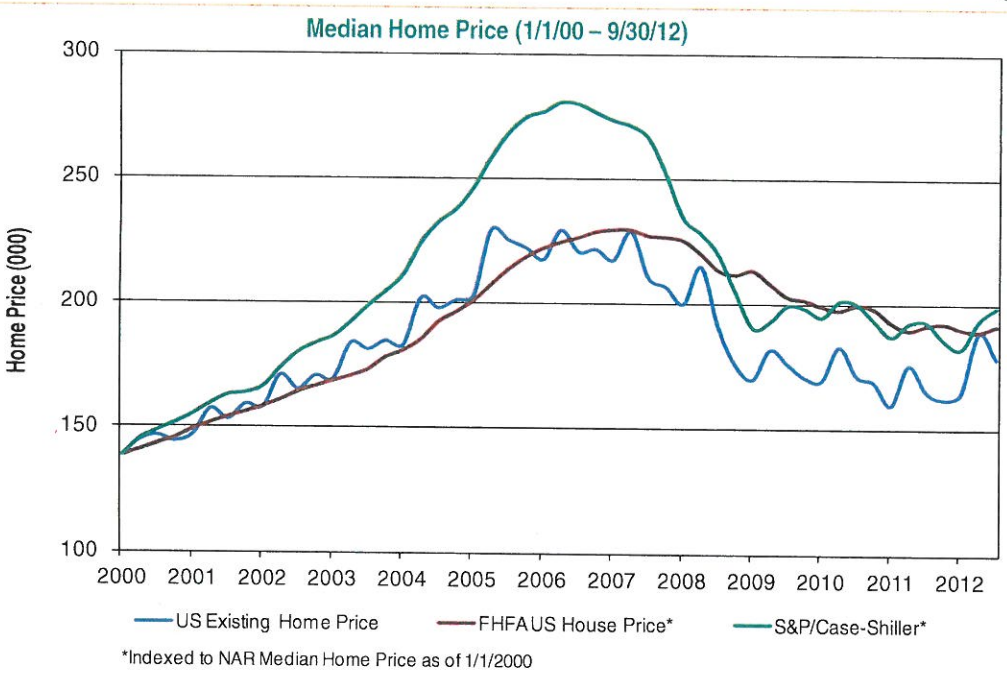
U.S. Economy – Housing

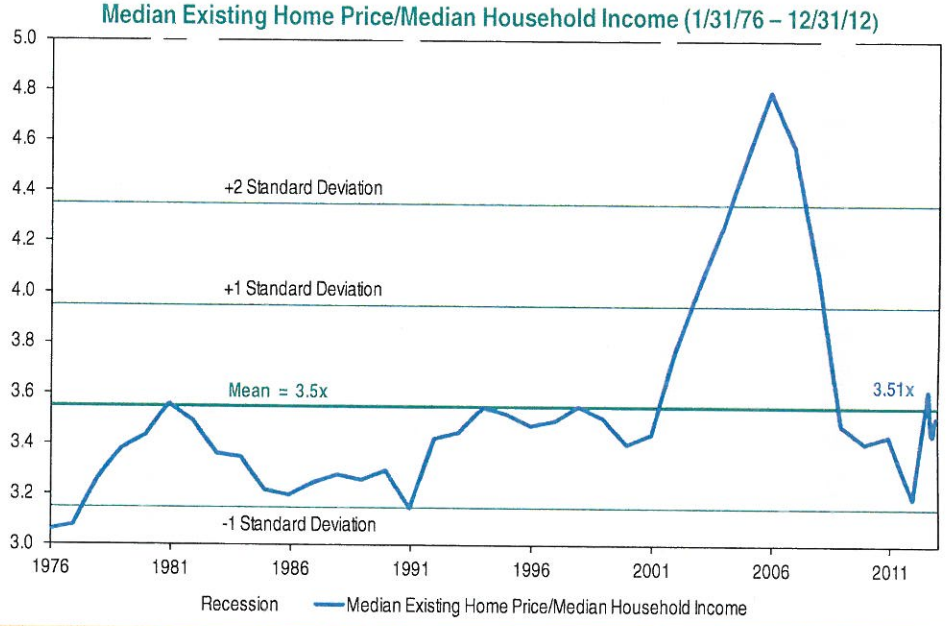


- New home sales fell by 7.3% to 369,000 units in December, even as the sector is showing signs of recovery. Competition from distressed properties and high unemployment are causing economic headwinds. Homes are remarkably affordable as mortgage rates and prices have declined, but credit restrictions and timid buyers are still limiting purchases. The industry had its best year since 2009, and continued improvement is expected in 2013.

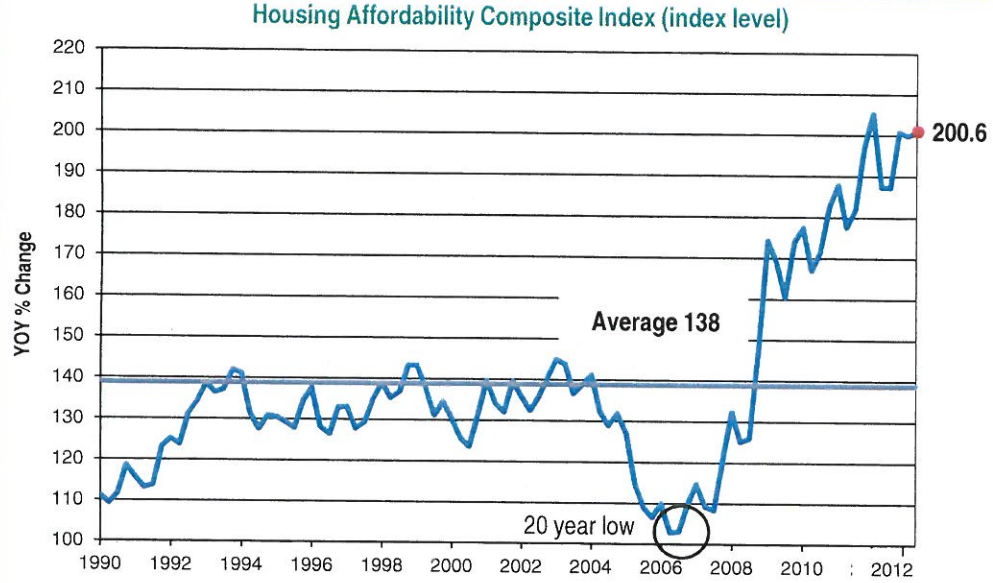
- Conforming mortgage rates are near all-time lows, but the glut of unsold properties on the market will continue to suppress house construction. A virtual shutdown in the non-prime mortgage sectors limits financing options.

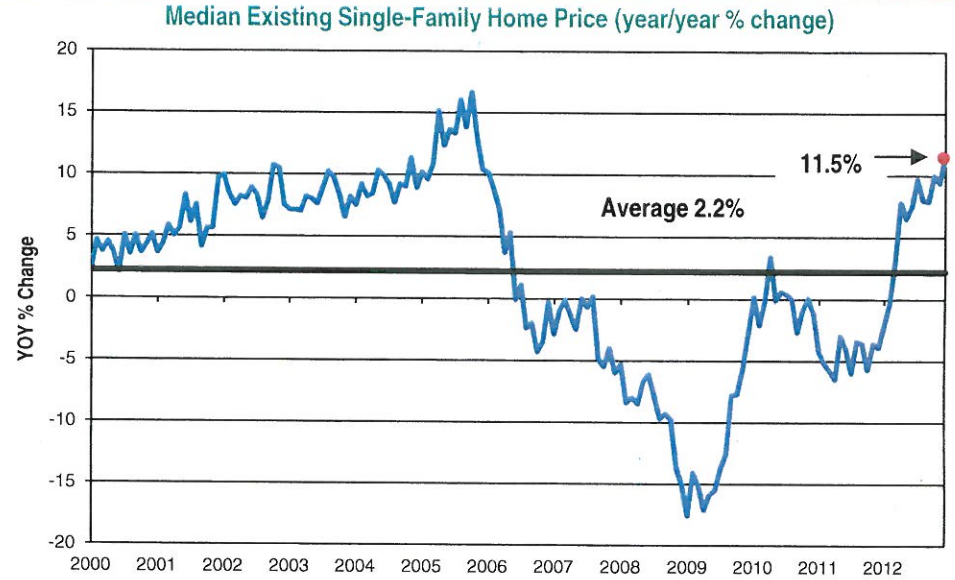
- Sales of existing homes fell 1.0% in December, mostly due to a lack of supply, extending a pattern of ups and downs that show the industry continues to be buffeted by consumer pessimism and unemployment at 7.9%; however, it is still near a two year high. The median prices continue to climb and jumped in December (+11.5% Y-o-Y) by the most since November 2005, as inventories dwindled.

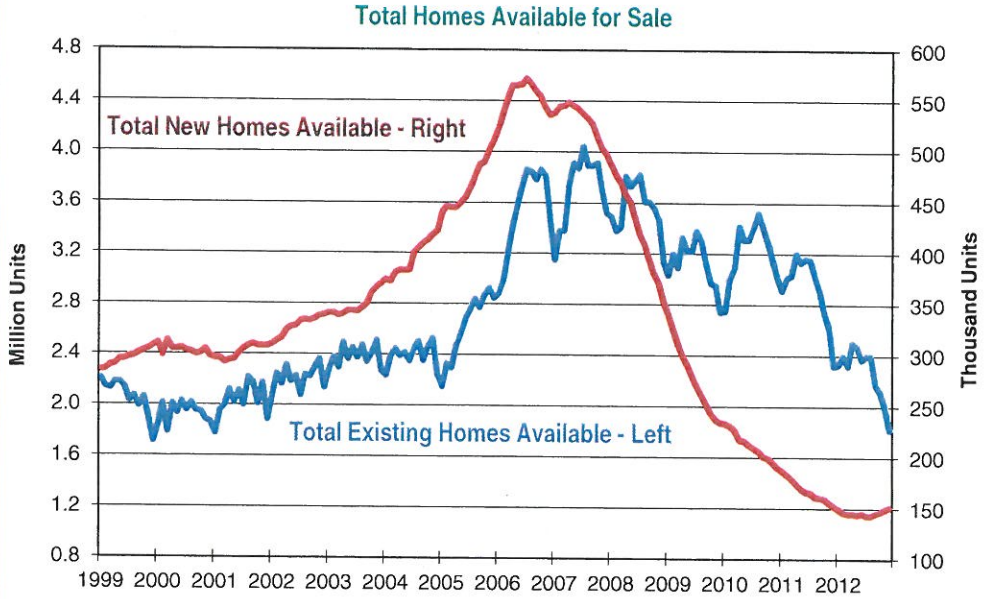
- Lower prices and mortgage rates will ultimately lead to stabilization in demand and a reduction in supply of existing housing. This is still likely several years away, although we are moving in the right direction. Tighter lending standards have certainly exacerbated the downturn, but recent credit thaws are evident.

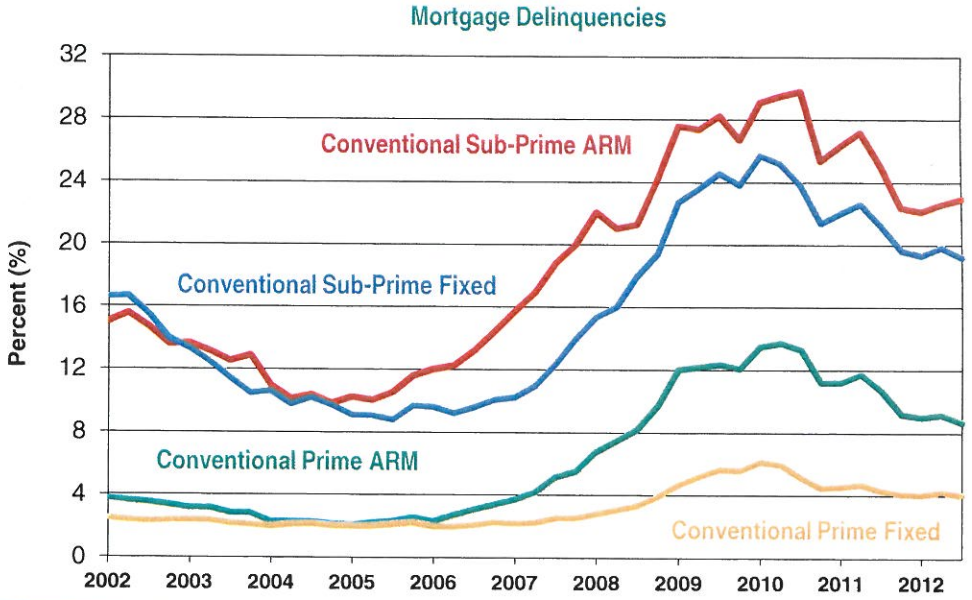


U.S. Economy – Housing



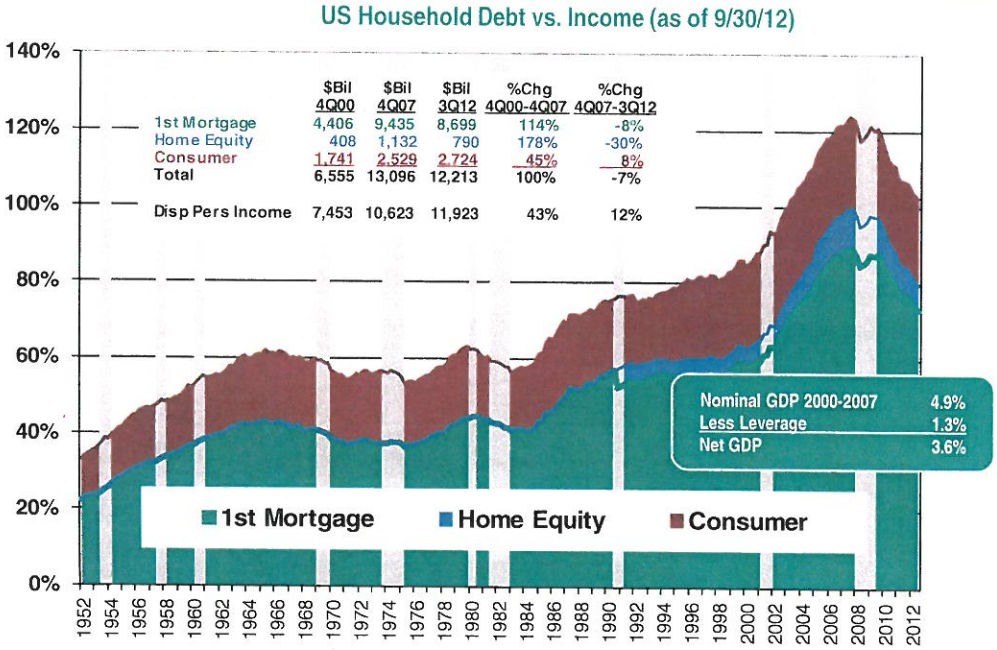






Source: Bloomberg/Commerce

U.S. Economy – Debt



- Excessive amounts of household debt was not just a U.S. problem, but it followed a similar pattern around the globe in the developed countries. Prior deleveraging periods have taken five to six years to run their course. We are now nearly five years into this cycle.

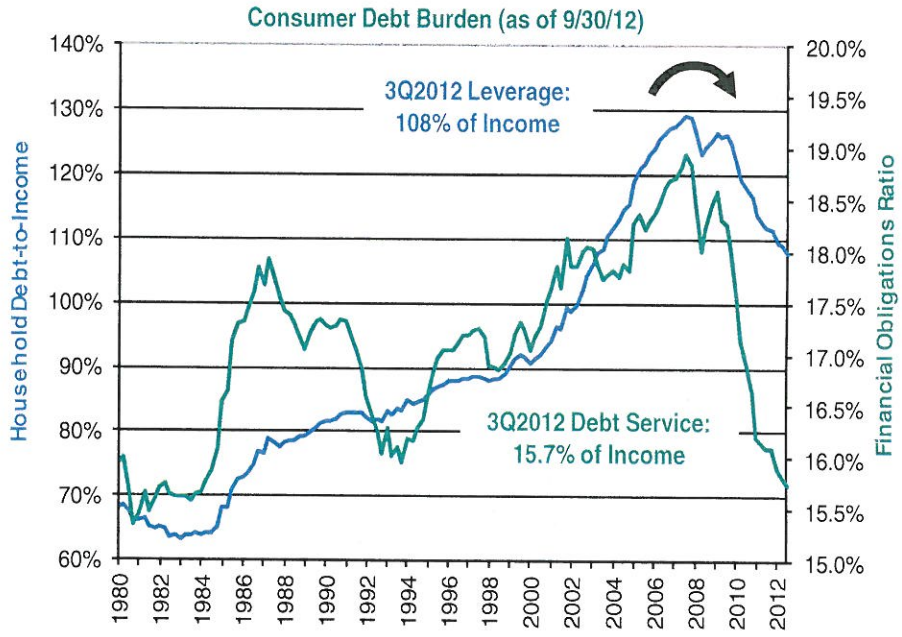
- Given the severity of this particular global headwind, many expect the emerging economies will continue to lead the developed world out of this synchronized recession.

- Debt destruction is generally deflationary unless monetary policy is overly accommodative, sparking an inflationary spiral. On the positive side, consumer debt burdens are quickly moving back to more sustainable levels.

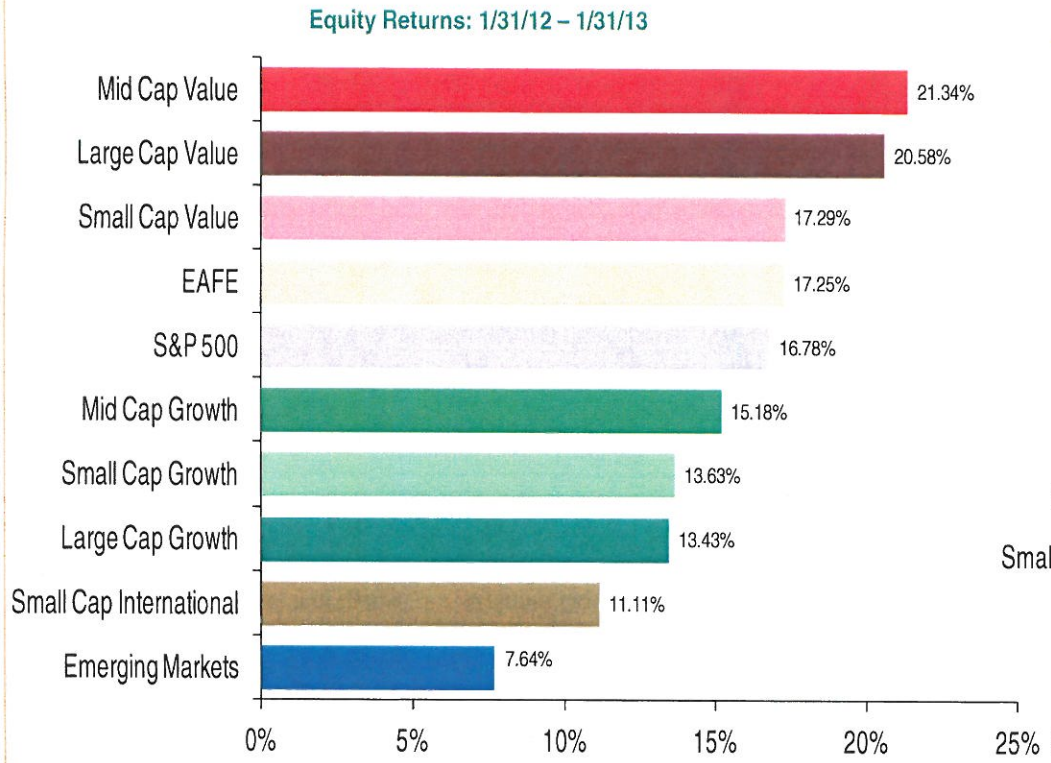
- The biggest reason that the increase in the money supply has not translated into inflation (yet) is because aggregate lending to consumers has been weak, but finally appears to be stabilizing, and actually moving up in some areas.

- From 2000 to 2007, much growth was simply "borrowed forward" by households, primarily in the form of a larger mortgage. More recently, debt levels have been shrinking as deleveraging continues. This is historically a long, drawn-out process, but is improving.

- Ultimately, the marginal household's increase in debt was unsupportable by either incomes or asset values (home prices). This debt headwind continues to impact growth, but at a more modest level than earlier in the cycle.

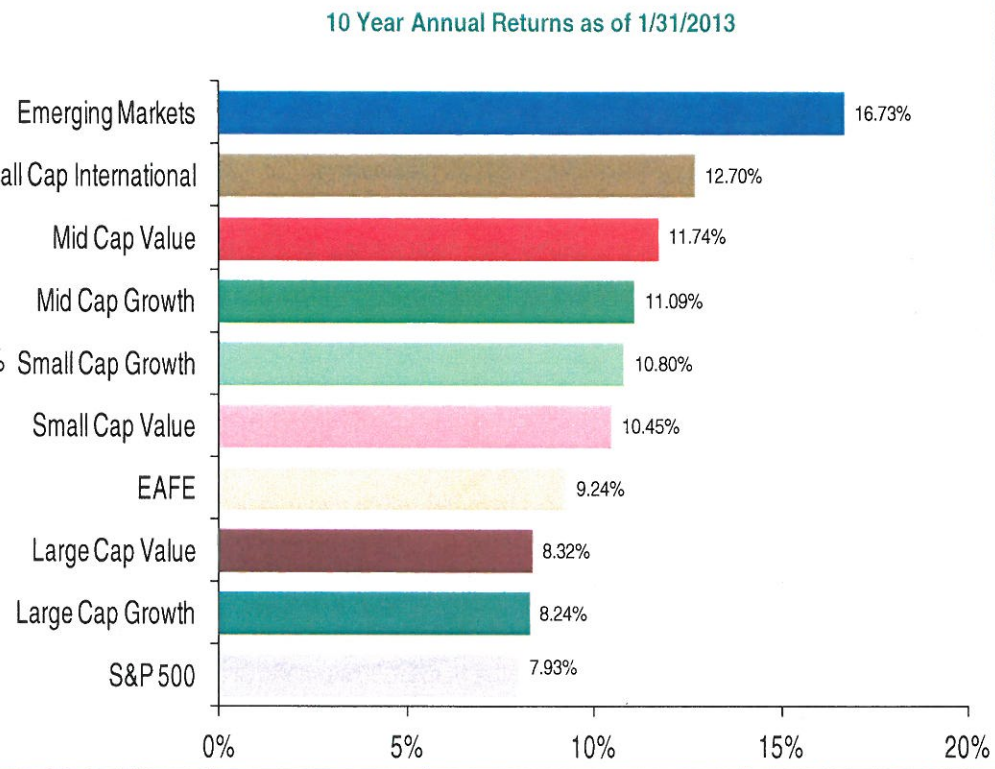


Equities – Returns

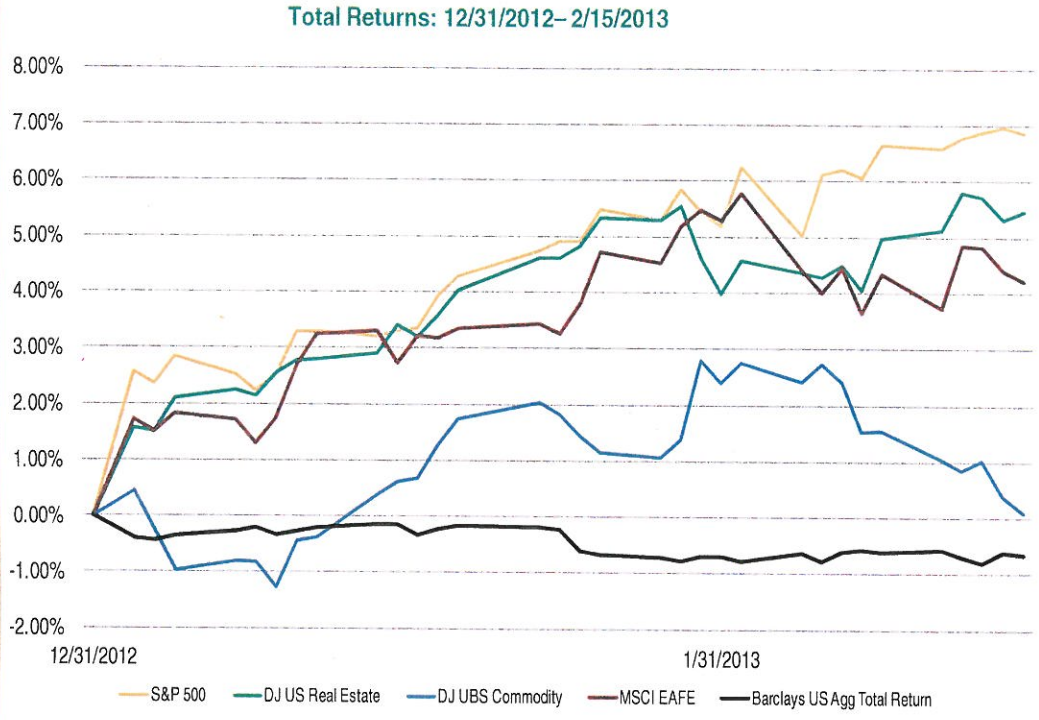


- Over the last 10 years, diversification away from the S&P 500 to higher risk areas of equity investments has been beneficial to equity performance.

- EAFE made a strong surge in the fourth quarter, beating out the S&P 500.

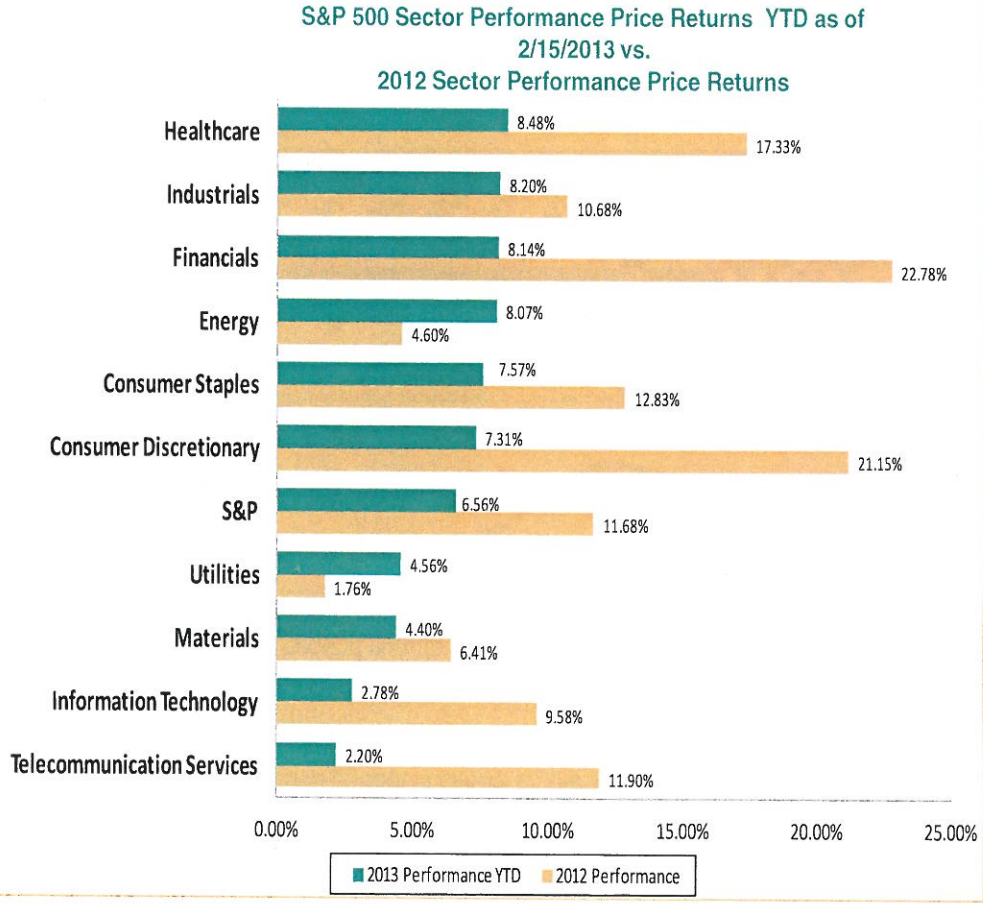


Equities – Returns



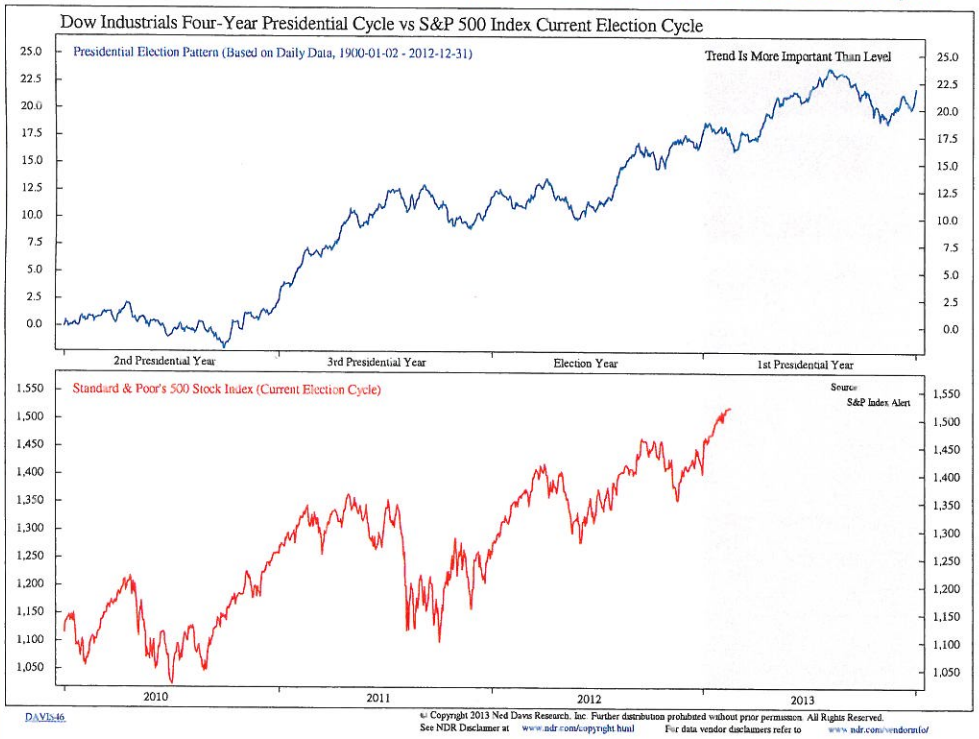
- Most asset classes have had impressive rallies from the June lows.

- Financials posted the worst performance in 2011 and rebounded to the top in 2012. Utilities posted the best performance in 2011 and have sunk to the bottom in 2012.



Equities

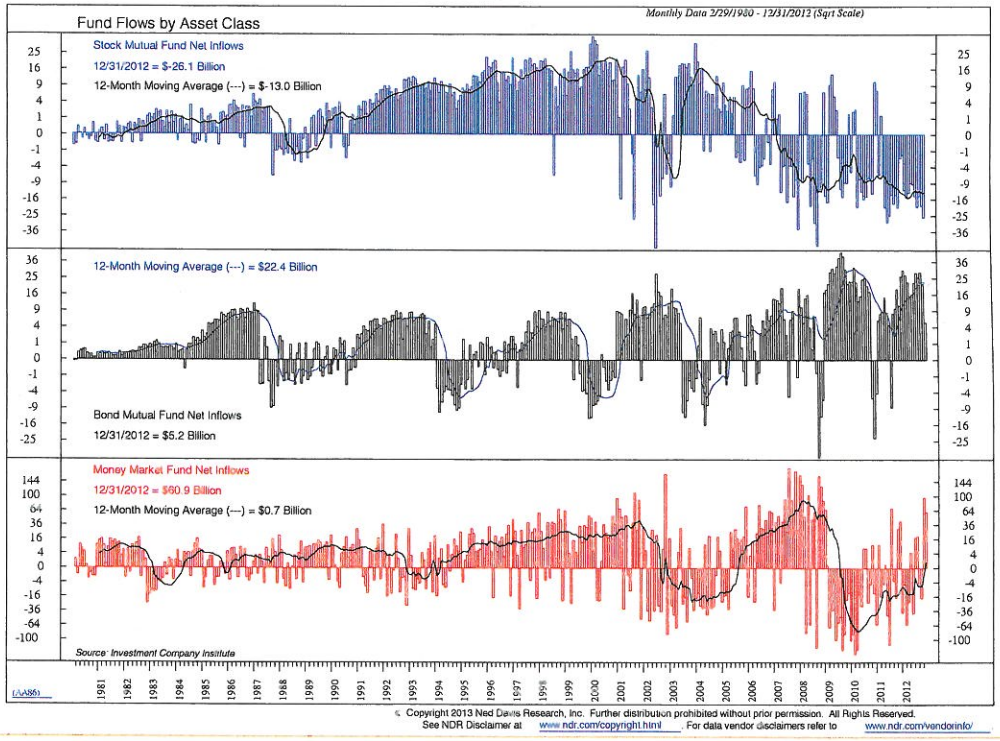
Dow Industrials Four-Year Presidential Cycle vs. S&P 500 Index Current Election Cycle



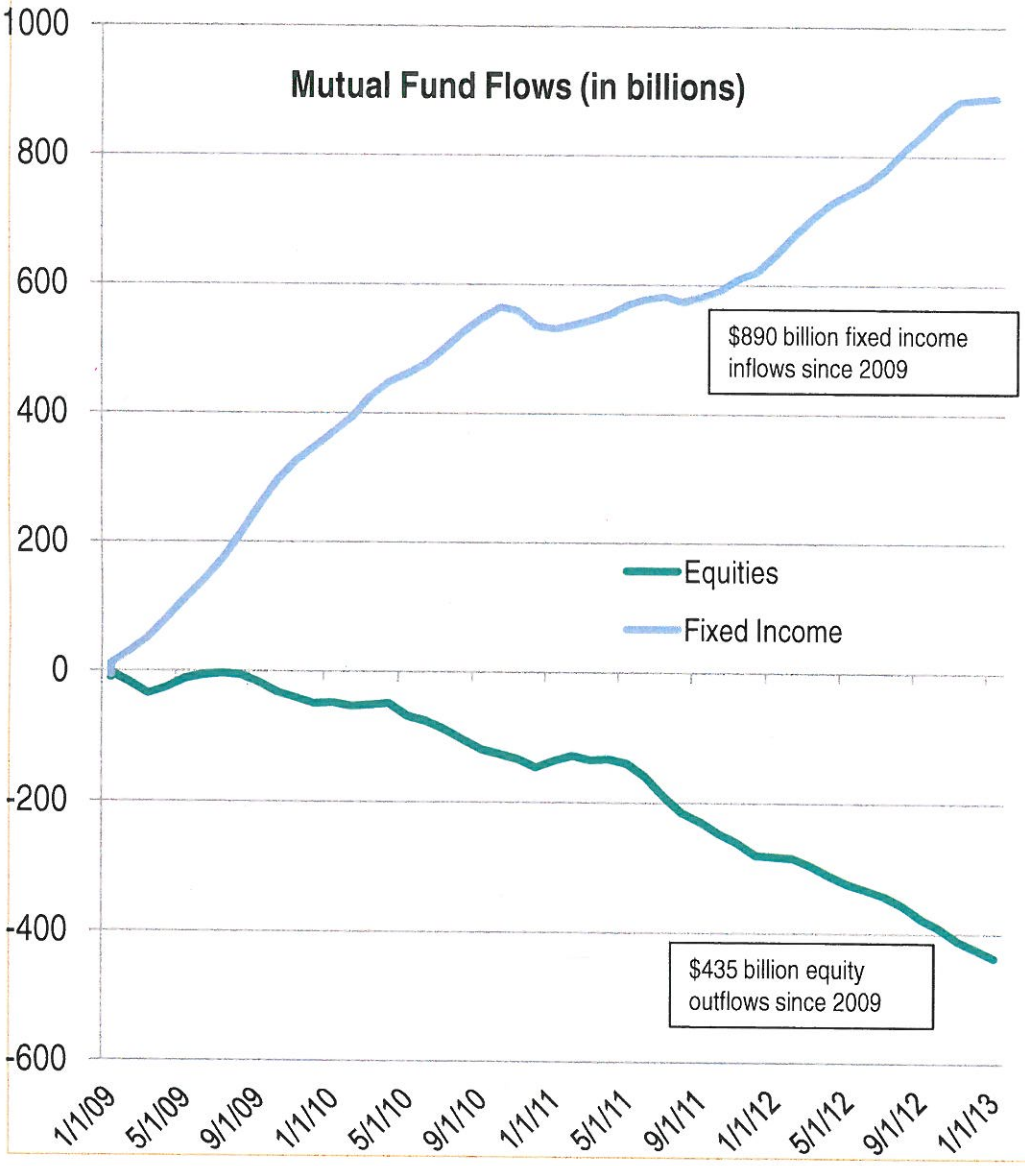
— The Presidential Election pattern is shown on the top half of the chart. Over the four year cycle, stocks increase 22%, but the majority of the rise is after the mid-term election. The pattern in the first year is flat in the first quarter with some strength in the second quarter. The bottom half of the chart reflects the S&P 500 average in the current presidential cycle.

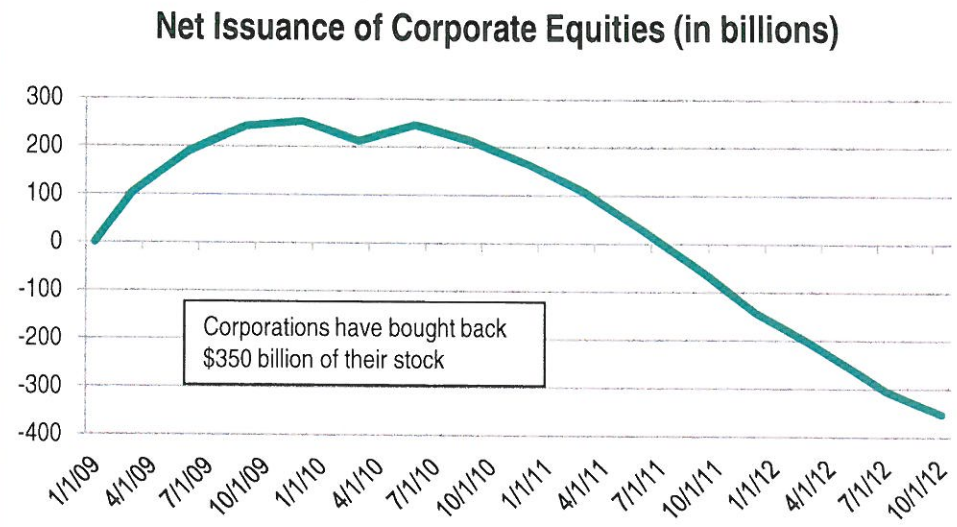
— Over the course of next year, we expect to see a shift in mutual fund flows away from bond funds and back to stock funds driving stock prices higher. Over the last 12 months, bond funds have had $22.9 billion inflows per month while stocks funds have experienced $12.5 billion outflows per month. In November, bond funds received $21.7 billion versus a $19.3 billion outflow in equity funds.

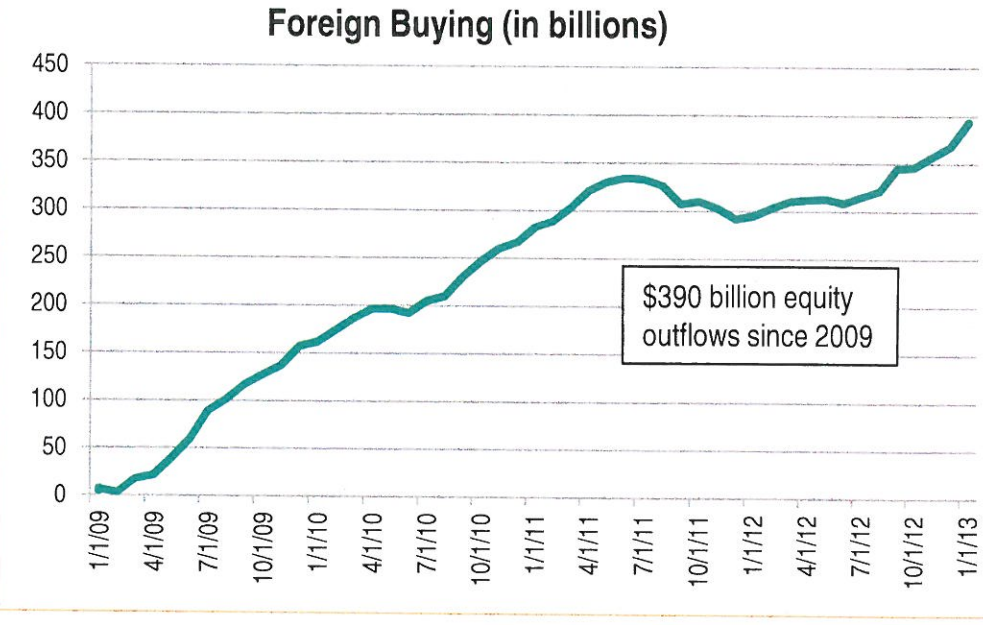
Fund Flows by Asset Class



If the Public is Selling Equities, Who is Buying?







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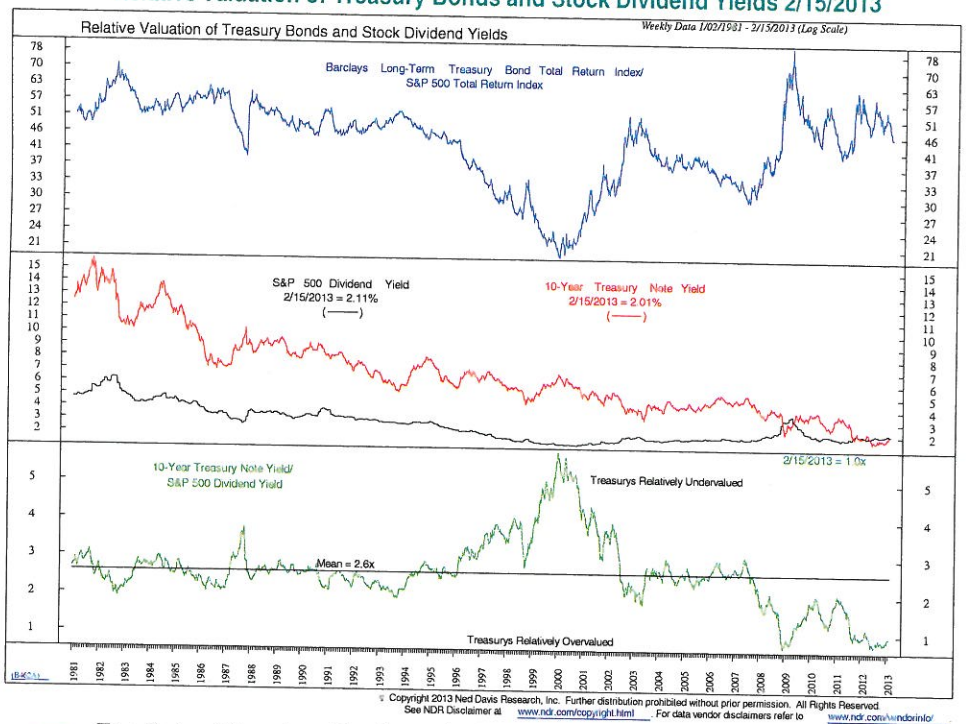
Equities – Valuation

Relative Valuation of Treasury Bonds and Stock Dividend Yields 2/15/2013

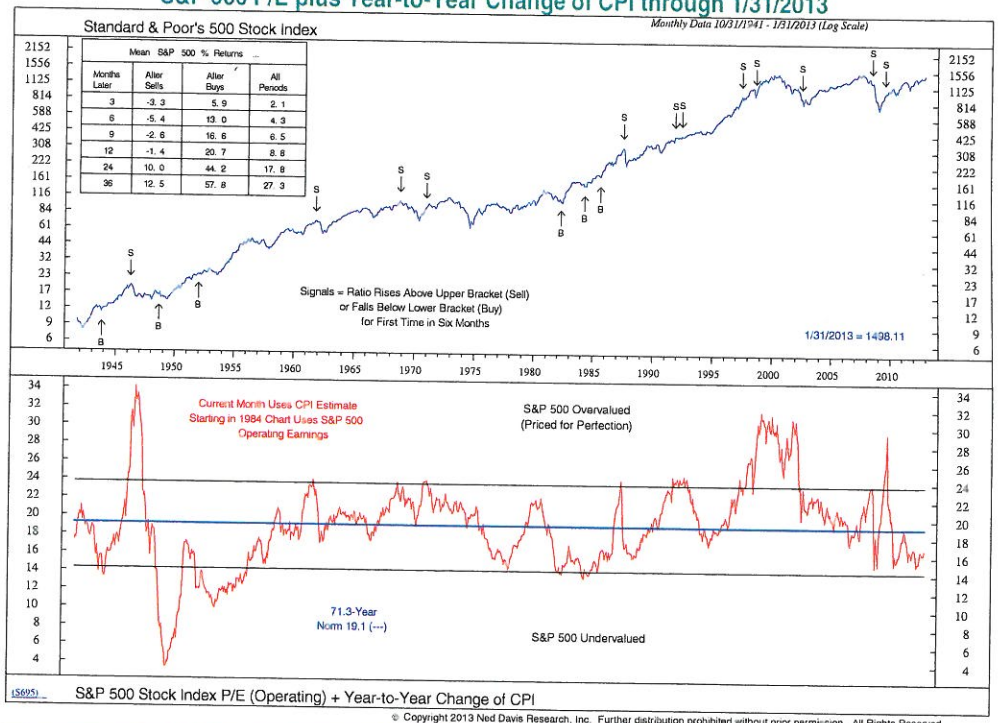


- The Rule of Twenty – The lower half of the chart takes the S&P 500 Operating P/E (14.4 times) and adds the current 12 month inflation rate (1.7%). Whenever the combined number is below 20, the market is undervalued.

- At the end of December, we were at 16.1 times, still at attractive valuation levels.

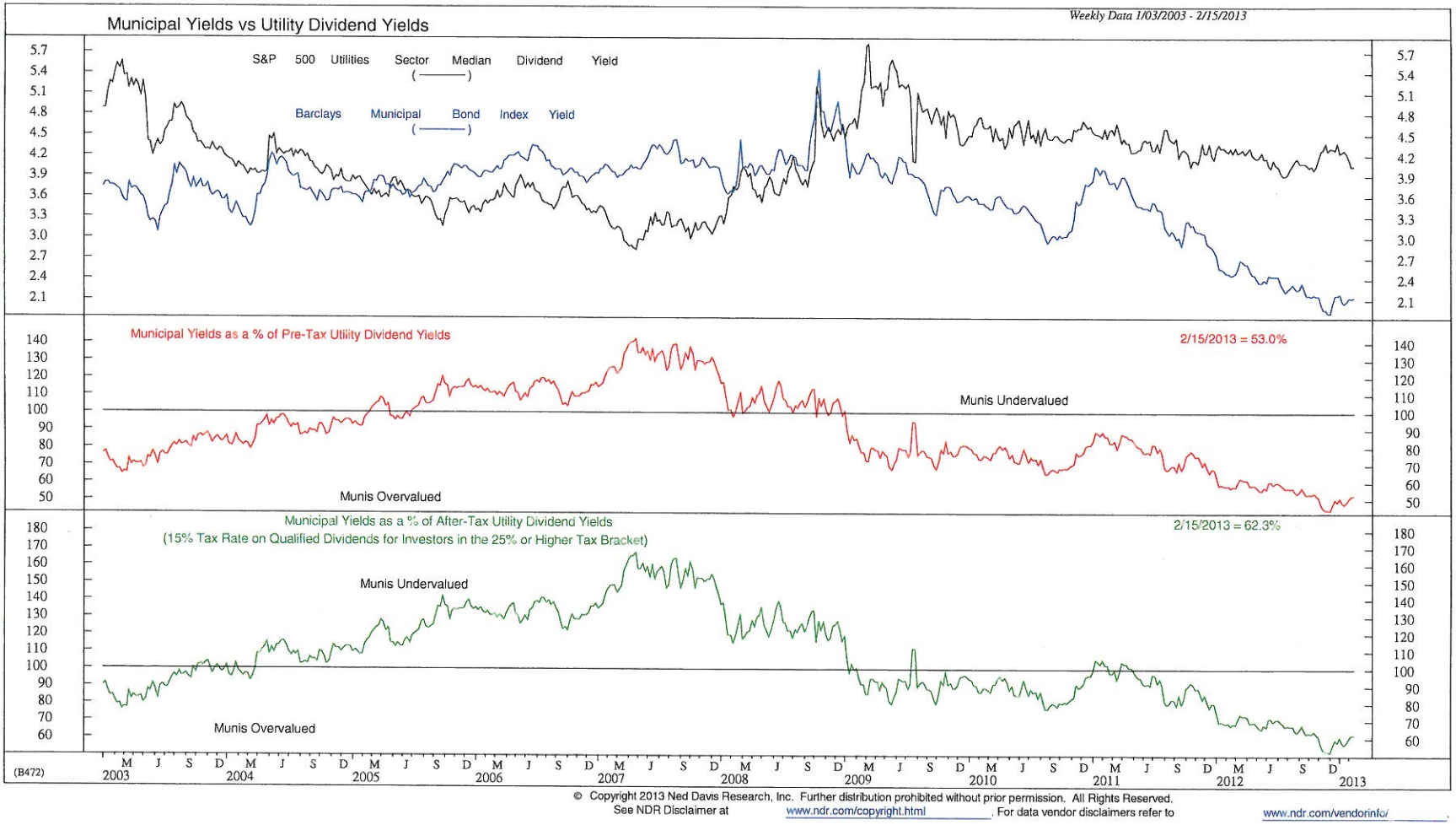
- The middle clip shows the 10-Year Treasury Note and the S&P 500 Dividend yield since 1981. Currently, the S&P 500 dividend yield is 2.20% versus 1.89% for the 10-Year Treasury Note. Except for a brief period at the end of 2008, Stocks have yielded more than bonds since the 1950's. than bonds. We expect dividend growth to be in the 7% range over the next several years, following 16.4% increase in 2012.

S&P 500 P/E plus Year-to-Year Change of CPI through 1/31/2013



With possible higher tax rates for dividends on the horizon, are high yielding stocks at risk?

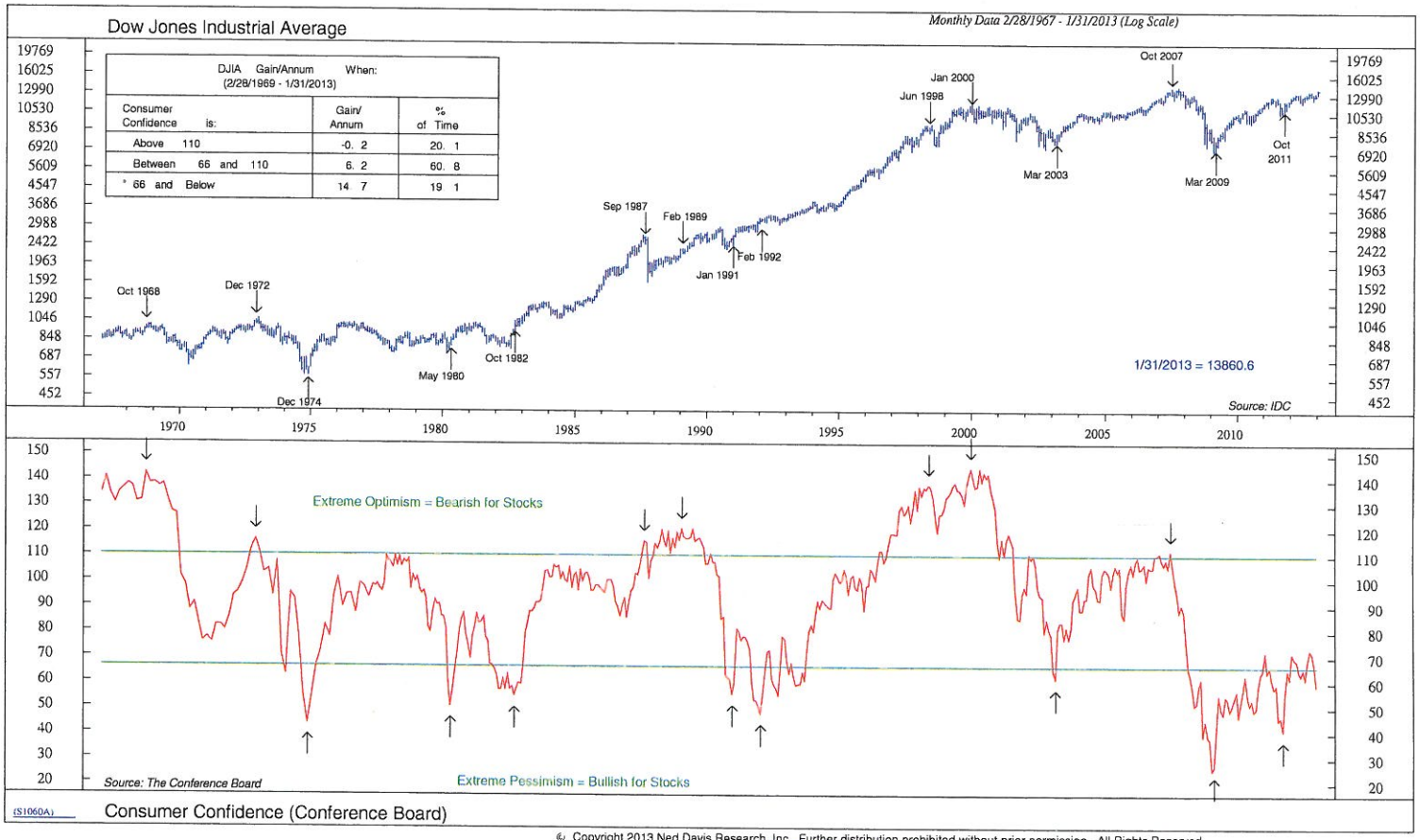
— The chart below plots the S&P Utilities Sector (a high yield proxy) median dividend yield (4.20%) versus the Barclays Municipal Bond Index yield (1.90%) for the last ten years. The lower portion of the chart plots municipal yields as a percent of after-tax utility dividend yields. Currently municipal yields are 58.0% of the 3.57% after tax utility yield.



— The new tax rate for 2013 is 20%, up from 15% in 2012. With the additional 3.8% health care tax, the top tax rate for dividends is 23.8%. On an after tax basis, municipal yields are only 65% of utilities, a historical low level.

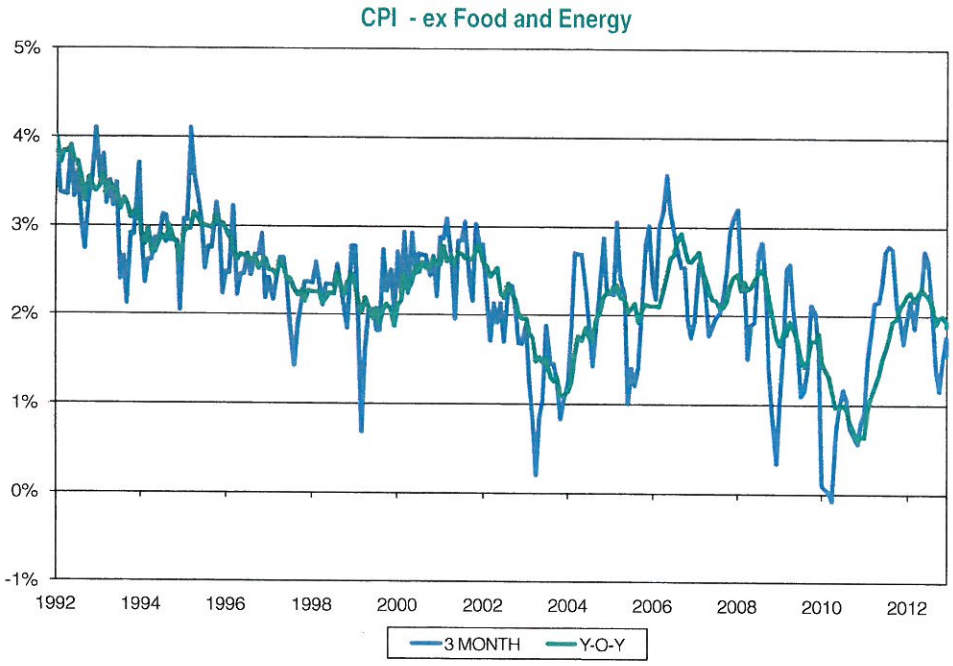
Equities – Sentiment

Dow Industrials Performance vs. Consumer Confidence through 1/31/2013

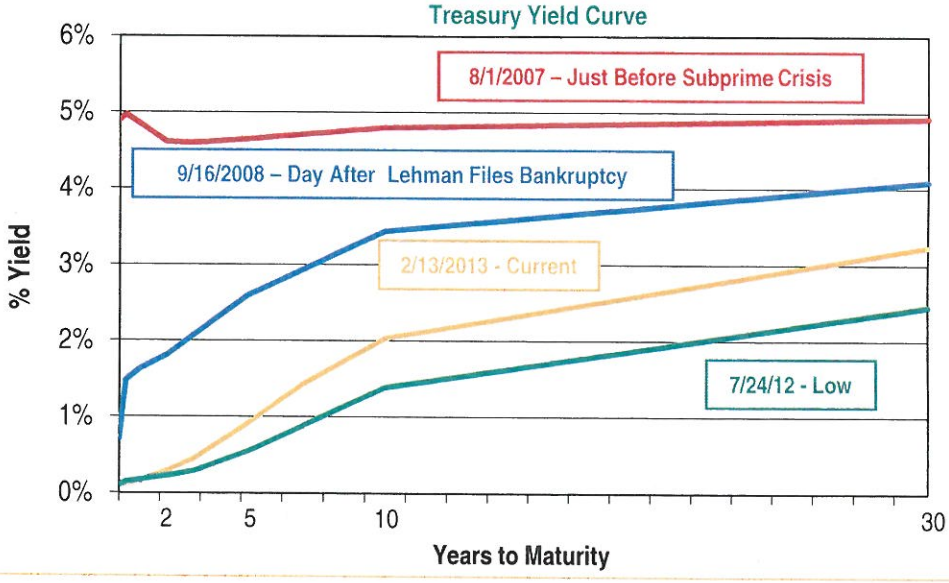


- Consumer confidence moved to a five year high in November, but slipped lower on fiscal cliff concerns. Consumer confidence is acting like it did in the early 1990s, another period when we had a financial crisis along with a housing slump.

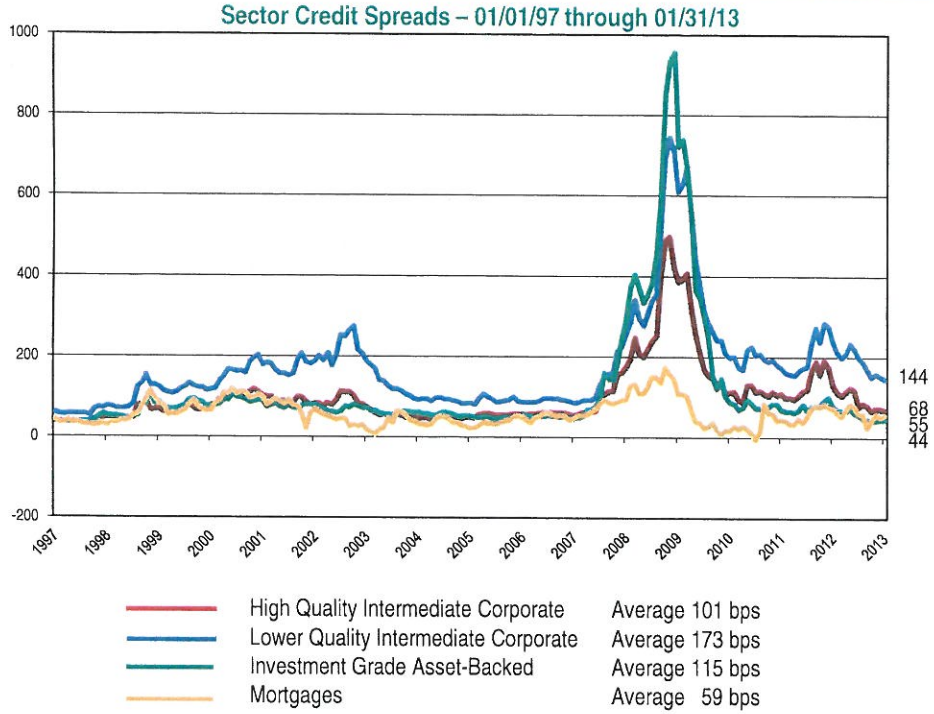
Fixed Income – Trend



- CPI increased 1.7% in 2012, which was more subdued than in 2011, when prices rose 3.0%. Core CPI was up 1.9% year-over-year. The Fed aims to keep core inflation around 2.0% a year.
- Initial surveys have the Consumer Price Index (CPI) coming in at 1.6% for January, after rising 1.7% in December.
- Tepid global growth and falling energy costs, including cheaper gasoline, are mitigating inflation risks.
- Federal Reserve policymakers are likely to maintain unprecedented easing measures while inflation holds below their target level and absent significant progress on reducing joblessness.
- The Core PCE Price Index is the Central Bank's preferred price gauge. In December the monthly number was flat for the second consecutive month. The year-over-year figure was reported at 1.4%, down slightly from the prior month. This level is still not high enough to raise much concern with the Federal Reserve.
- In January, Treasury rates were higher across yield curve, with most of the increase in the long end of the curve. This led to a steepening of the yield curve. The difference between 2- and 30-year Treasury yields moved from 270 basis points to 291 basis points at month-end.



Fixed Income – Returns



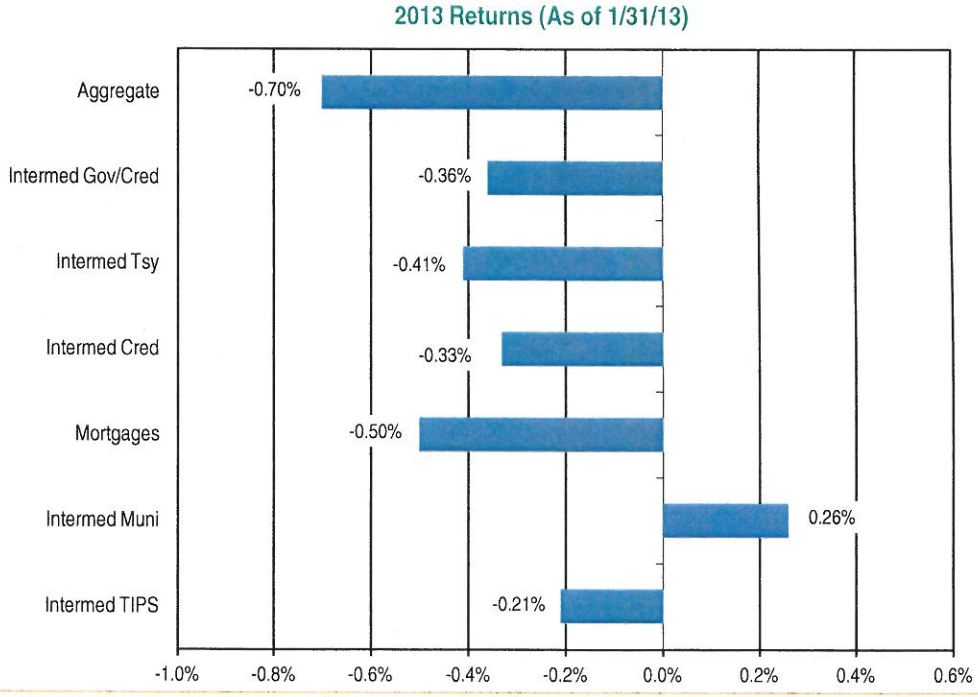
- Credit spreads tightened in January, for the second consecutive month. The spread on the Merrill Lynch U.S. Corporate Master Index decreased from 141 basis points at the end of December to 135 basis points at the end of January.

- Despite on-going deleveraging in the broad economy, nonfinancial corporates have started to re-leverage. Low cost of debt capital is starting to raise company interest in the debt market to fund M&A, capital expenditures, and payouts to equity investors (i.e., special dividends). Heinz and Dell transactions are examples of this recent trend.

- In January, the Barclays Aggregate Index was down -0.70%. Slightly higher interest rates offset the positive impact of tighter spreads.

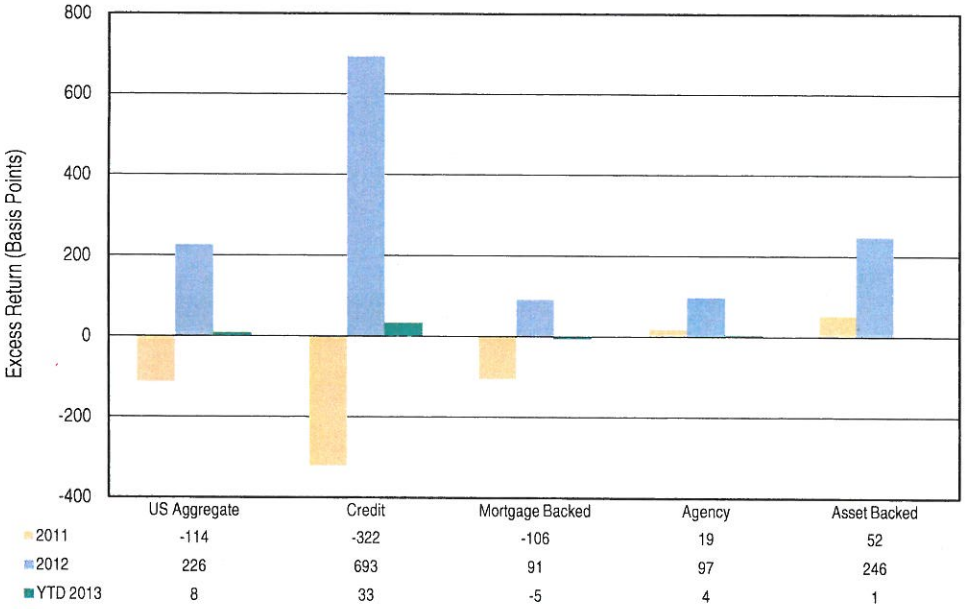
- High Yield was the top performing sector for January, and along with Emerging Market, the only fixed income sectors with positive returns for the month. Long Government was the laggard for the month.

- According to Lipper, the average taxable bond fund was up 0.4% for the month of January.

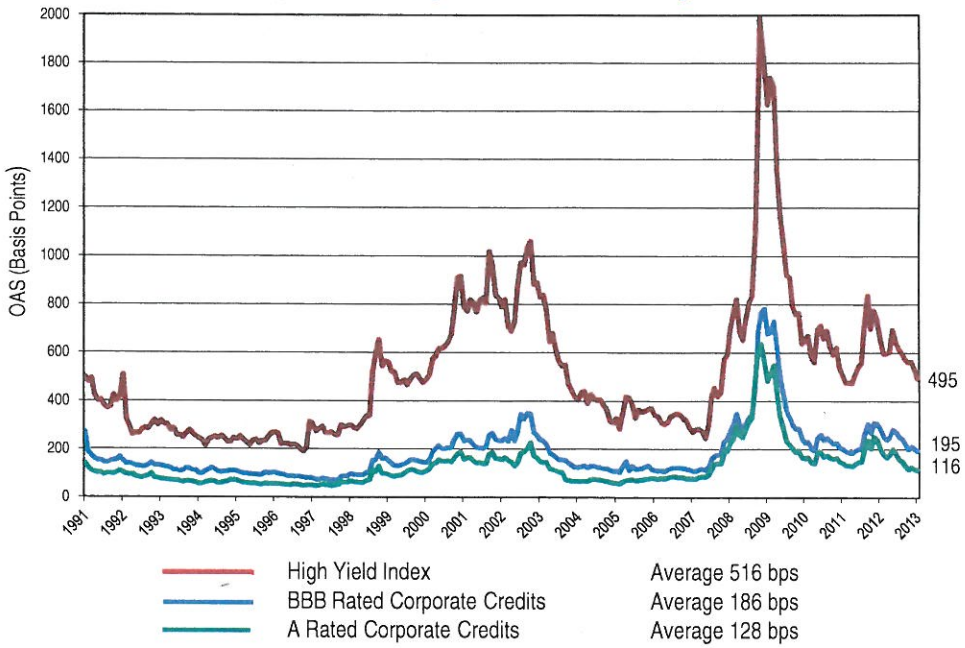


Fixed Income

Duration Adjusted Excess Returns Relative to US Treasuries – as of January 31, 2013



Corporate Credit Spreads – 01/01/91 through 01/31/13

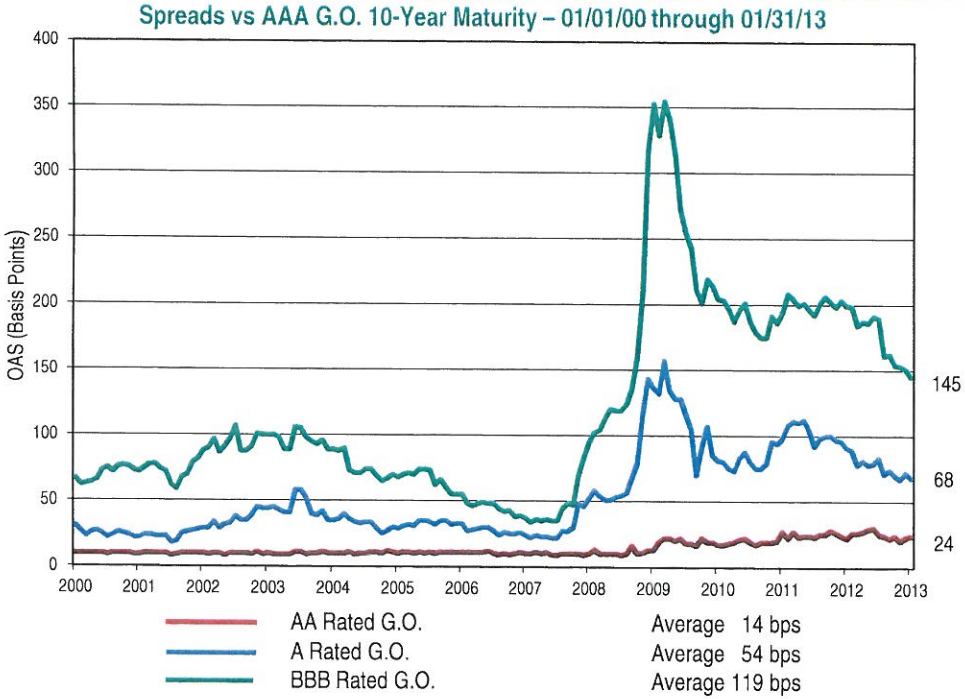


- Mixed results in terms of excess return for the various fixed income sectors in January. In the investment grade spectrum, lower quality (i.e., BBB) holdings on average continued to do better than higher quality.
- At the January 30th Federal Open Market Committee (FOMC) meeting, the Fed stated that it expects that, with appropriate policy accommodation, economic growth will proceed at a moderate pace and the unemployment rate will gradually decline toward acceptable levels. A somewhat more optimistic view on economic growth.
- The next FOMC meeting is scheduled for March 20th. Fed watchers will be monitoring comments about the potential for an early curtailment of QE activities.

Fed Funds Projections – as of February 13, 2013

	Implied Probabilities			Expected Rate
	0.00%	0.25%	0.50%	
Mar-13	44%	56%		0.14%
May-13	44%	56%		0.14%
Jun-13	45%	55%		0.14%
Jul-13	44%	55%	1%	0.14%

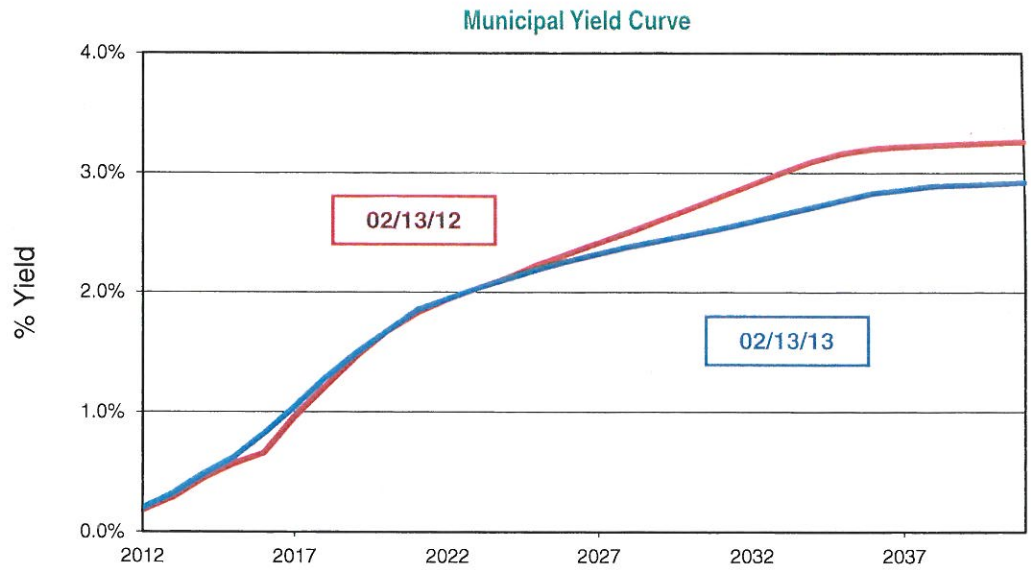
Fixed Income – Municipals



- The Barclays Municipal Bond Index was up 0.42% for the month of January.
- Across most maturities, on average, municipal bond AAA yields are no longer above Treasury yields. However, quality spreads are still wide, relative to pre-crisis averages.
- With discussions about broader tax reform expected in 2013, some volatility could be expected for municipal bonds if those discussion include going over the longevity of the federal tax exemption for municipal bonds. The 28% capping of tax-exempt value remains a threat.

Municipals as a Percent of Treasuries

	Current	Long-Term
1 Year	133.3%	70-80%
5 Year	91.1%	70-80%
10 Year	91.6%	80-85%
15 Year	85.9%	85-90%
20 Year	86.3%	85-90%
30 Year	90.4%	85-90%



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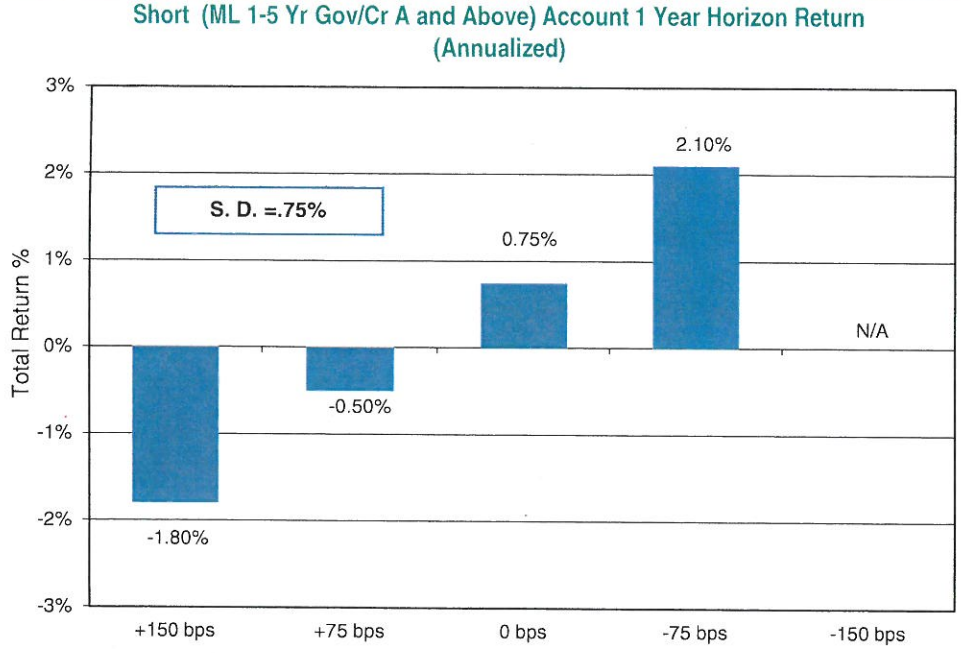
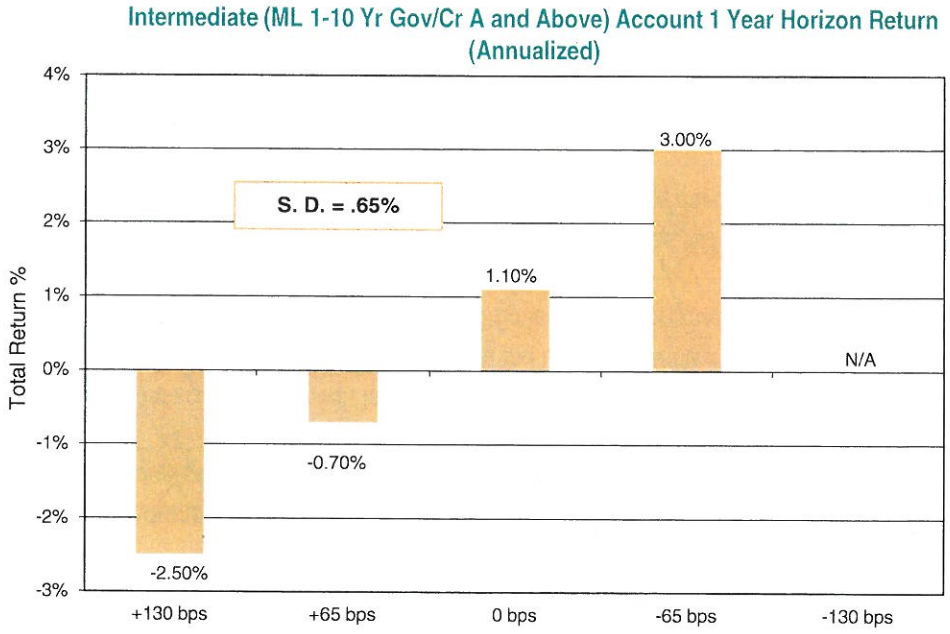
Fixed Income – Volatility



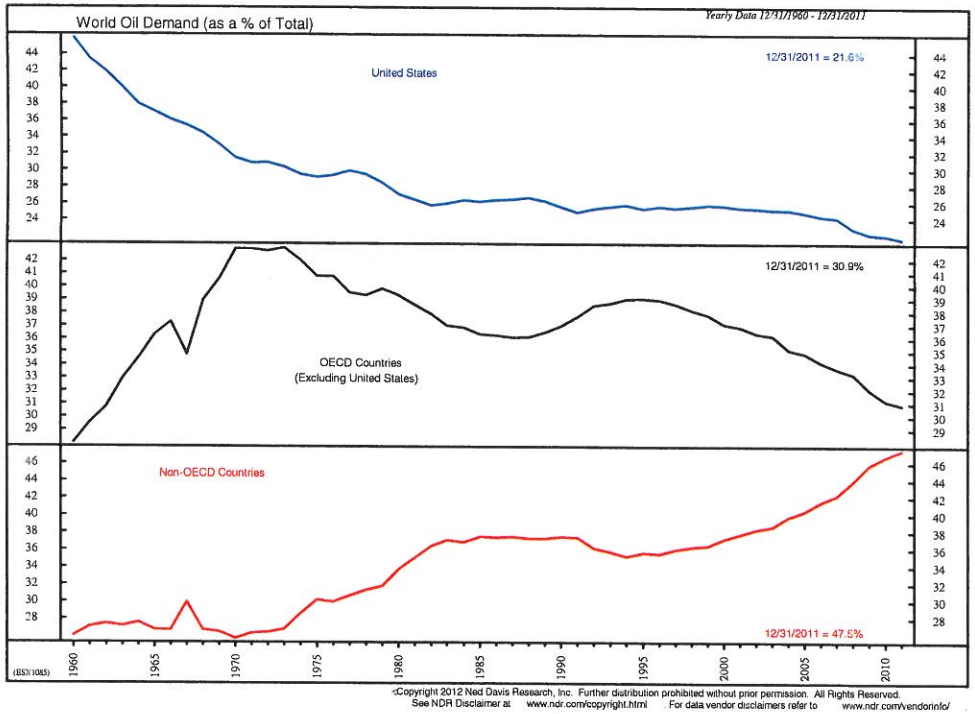
- Both charts on this page represent 95% of the expected total return outcomes over the next year for bond investors.
- The chart at the left is for a "short-term" bond account. The chart below is for an "intermediate" portfolio.
- As one would expect, the risk of loss in a short-term portfolio is modestly lower than that of a slightly longer portfolio at current interest rate levels.

- At current levels of short-and intermediate-term interest rates, yields only have to rise 50 basis points to generate a negative total return over the next 12 months.
- If interest rates stay unchanged for an entire year, 12- month returns on short-to-intermediate investment-grade portfolios are expected to be at the 0.75% - 1.10% level.
- Treasuries still appear to be overvalued on a relative basis versus the other sectors.



Alternative Investments

World Oil Demand



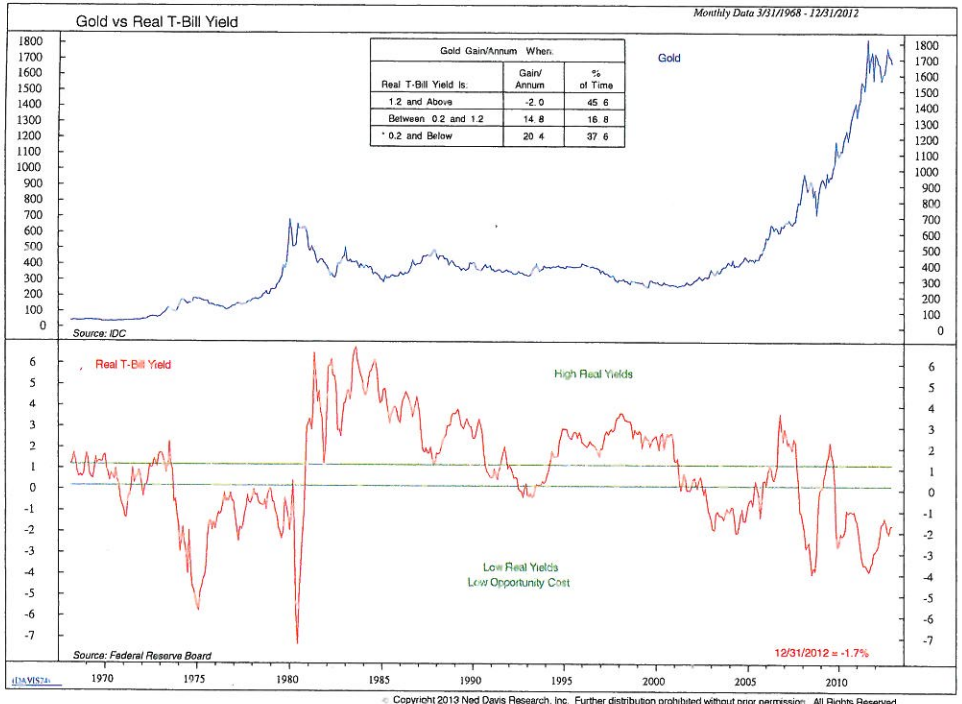
- The demand for oil from developing economies has been steadily rising. It now accounts for over 46% of the world's oil demand.
- Global economic growth is expected to pick up this year which should bode well for oil demand. The supply of oil from the U.S. is expected to grow, and global inventories of oil could build if OPEC does not curb production.
- Global growth prospects and demand for commodities will support prices if global economies stabilize. Demand from developing economies can sustain growth in commodity prices for years to come.

- The DJ UBS Commodity Index represents a basket of commodities and is based upon economic significance, diversification, continuity, and liquidity. The components include agriculture, energy, industrial metals, precious metals and livestock.
- After a strong rebound in the third quarter, commodity index returns weakened in the fourth quarter of 2012. Energy and industrial metals may benefit from accelerating global activity in 2013.

DJ UBS Commodity Index 1/05 – 1/13

Alternative Investments

Gold vs. Real T-Bill Yield as of 12/31/12

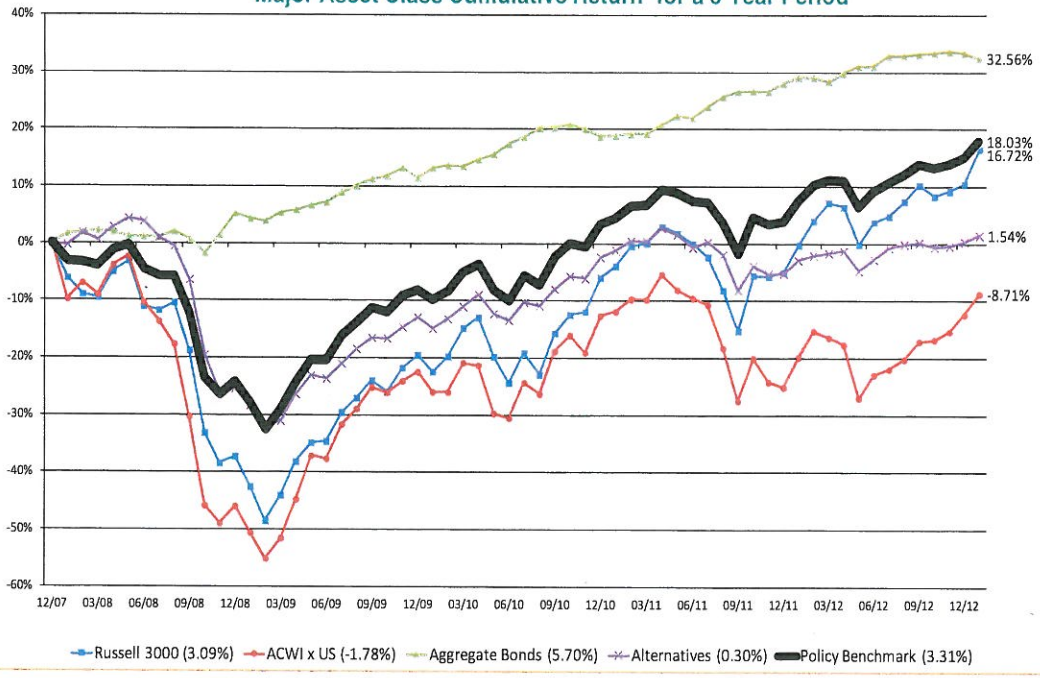


Gold Gain/Annum When:		
Real T-Bill Yield Is:	Gain/ Annum	% of Time
1.2 and Above	-2.0	45.6
Between 0.2 and 1.2	14.8	16.8
* 0.2 and Below	20.4	37.6

- Hedge Funds provide a source of returns that have modest or low correlations to traditional markets. Conservative hedge funds and managed futures strategies help offset the declines of equity portfolios.
- Combining assets that move in different patterns help smooth returns of a diversified portfolio and increase the portfolio's efficiency, or risk-adjusted return.

- Historically, when *real* yields are 0.2% or below, gold gains 20.4% annually as the opportunity cost of holding gold is low and investors seek inflation protection. The bull market in gold typically doesn't end until *real* interest rates are + 1.2% or higher.
- Gold has been in a trading range over the last year. With the undertaking of QE 3, and elections in the U.S. behind us, there appears to be no new positive catalyst in the near term.
- In the longer run, fiscal imbalances in the western world and geopolitical shocks should be supportive of gold as it is viewed as the currency of last resort.

Major Asset Class Cumulative Return for a 5 Year Period



The Commerce Trust Company
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Tactical Asset Allocation Recommendations – January 30, 2013

Equities/Fixed Income/Alternatives			
Equities	Underweight	Neutral	**Overweight**
Fixed Income	**Underweight**	Neutral	Overweight
Alternatives	Underweight	Neutral	**Overweight**
Equities			
Value/Growth	Emphasize Value	**Neutral**	Emphasize Growth
Large Cap/Mid Cap	Emphasize Large Cap	**Neutral**	Emphasize Mid Cap
Mid Cap/Small Cap	Emphasize Mid Cap	**Neutral**	Emphasize Small Cap
Domestic/International	Emphasize Domestic	**Neutral**	Emphasize International
Developed International/Emerging	Emphasize Developed	**Neutral**	Emphasize Emerging
Private Equity	Emphasize Traditional Assets	**Neutral**	Emphasize Private Equity
Fixed Income			
Taxable Bond Duration vs. Benchmark	Shorter	**Neutral**	Longer
Government/Corporate and Non-Government	Emphasize Government	Neutral	**Emphasize Corporate and Non-Government**
Domestic/International	**Emphasize Domestic**	Neutral	Emphasize International
Developed International/Emerging	Emphasize Developed	Neutral	**Emphasize Emerging**
Taxable Investment Grade/Taxable High Yield*	Emphasize Investment Grade	Neutral	**Emphasize High Yield**
Municipal Investment Grade/Municipal High Yield*	Emphasize Investment Grade	Neutral	**Emphasize High Yield**
Investment Grade/Preferred Stocks*	Emphasize Investment Grade	Neutral	**Emphasize Preferred Stocks**
TIPS/Conventional Bonds	Emphasize TIPS	Neutral	**Emphasize Conventional Bonds**
Alternatives			
Commodities	Underweight	Neutral	**Overweight**
Hedge Funds	Underweight	**Neutral**	Overweight
Real Estate	Underweight	**Neutral**	Overweight
Infrastructure	**Underweight**	Neutral	Overweight

2x Designates double overweight

Designates current recommendation

Designates developing trend

*Neutral allocation to this asset class is generally 0%

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Tactical Asset Allocation Recommendations Rationale – January 30, 2013

	Current Position	Rationale (Neutral indicates no value added bias)
Equities/Fixed Income/Alternatives		
Equities	**Overweight**	Valuation levels look attractive.
Fixed Income	**Underweight**	With yields at current levels, an underweighted position is recommended.
Alternatives	**Overweight**	Attractive option versus fixed income
Equities		
Value/Growth	**Neutral**	
Large Cap/Mid Cap	**Neutral**	
Mid Cap/Small Cap	**Neutral**	
Domestic/International	**Neutral**	
Developed International/Emerging	**Neutral**	
Private Equity	**Neutral**	
Fixed Income		
Taxable Bond Duration vs. Benchmark	**Neutral Trending Shorter**	Fed states rates on hold until late 2014, but stronger US economic growth could shorten the time frame.
Government/Corporate and Non-Government	**Emphasize Corp. and Non-Gov.**	Credit spreads are above long-term averages; maintaining exposure as recovery continues.
Domestic/International	**Emphasize Domestic**	Negative outlook for the Euro-zone with potential debt restructuring in peripheral countries.
Developed International/Emerging	**Emphasize Emerging**	Widening economic growth gap between Emerging Markets and Domestic Markets supports overweight.
Taxable Investment Grade/Taxable High Yield*	**Emphasize High Yield**	High Yield still relatively attractive compared with Investment grade corporates.
Municipal Investment Grade/Municipal High Yield*	**Emphasize High Yield**	State and local governments are making strides to get fiscal house in order.
Investment Grade/Preferred Stocks*	**Emphasize Preferred Stocks**	Preferred Stock yields are still attractive.
TIPS/Conventional Bonds	**Emphasize Conventional Bonds**	Modestly higher real yields and low inflation expectations point to better value in conventionals.
Alternatives		
Commodities	**Overweight**	Negative real US interest rates are positive for gold.
Hedge Funds	**Neutral**	
Real Estate	**Neutral**	
Infrastructure	**Underweight**	Strong recent performance reduces sector attractiveness.

*Neutral allocation to this asset class is generally 0%

The Power of Asset Allocation

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
38.36%	35.27%	35.18%	38.71%	66.41%	31.84%	14.02%	25.91%	56.28%	31.58%	34.54%	35.06%	39.38%	5.24%	78.50%	29.09%	8.27%	18.51%
37.18%	23.16%	34.37%	20.33%	51.29%	26.37%	13.93%	10.26%	48.54%	25.95%	21.36%	32.59%	16.23%	5.08%	58.77%	27.93%	7.84%	18.23%
34.93%	23.12%	31.78%	17.86%	43.09%	22.83%	8.96%	9.84%	46.03%	23.71%	14.02%	26.86%	11.82%	2.06%	46.29%	26.38%	5.80%	18.06%
33.98%	21.64%	30.49%	15.63%	33.16%	19.18%	8.44%	3.82%	42.71%	22.25%	12.65%	23.48%	11.42%	-19.87%	37.21%	24.76%	4.97%	18.05%
31.04%	21.37%	22.54%	8.69%	27.30%	11.63%	5.46%	3.58%	39.17%	20.70%	12.16%	22.25%	11.17%	-25.88%	34.47%	24.51%	2.64%	17.51%
25.75%	20.26%	20.26%	8.44%	24.35%	10.12%	4.46%	1.78%	38.07%	16.49%	12.10%	20.22%	7.67%	-28.93%	34.21%	18.86%	0.39%	17.32%
19.06%	17.48%	14.95%	5.31%	18.93%	7.01%	3.11%	-0.24%	37.13%	15.48%	7.05%	13.35%	7.40%	-35.65%	31.78%	18.86%	0.10%	15.81%
18.47%	13.73%	12.95%	5.08%	7.35%	6.20%	2.33%	-6.00%	30.03%	14.31%	5.26%	10.75%	7.04%	-36.85%	28.01%	16.72%	-1.37%	15.78%
15.33%	11.47%	12.84%	1.87%	4.90%	5.77%	-2.37%	-9.64%	29.75%	11.14%	5.15%	10.66%	6.96%	-37.74%	20.58%	15.51%	-1.65%	15.26%
15.27%	11.26%	9.65%	1.23%	2.39%	-5.79%	-5.59%	-11.43%	28.78%	9.15%	4.71%	9.21%	5.00%	-38.43%	19.69%	14.94%	-2.92%	14.59%
15.21%	6.36%	7.87%	-1.61%	0.39%	-11.75%	-9.23%	-15.52%	23.93%	6.30%	4.15%	9.07%	2.25%	-38.44%	18.91%	7.76%	-3.27%	4.21%
13.06%	6.03%	5.52%	-6.45%	-0.11%	-13.96%	-19 .51%	-15.66%	9.01%	5.82%	3.08%	4.86%	-0.17%	-38.53%	9.65%	6.56%	-5.51%	3.91%
11.55%	5.39%	2.06%	-17.50%	-0.82%	-22.42%	-20.15%	-27.41%	4.31%	4.34%	2.76%	4.33%	-1.43%	-43.39%	5.93%	5.89%	-12.13%	3.89%
6.09%	4.05%	-3.39%	-25.34%	-1.49%	-22.43%	-20.42%	-27.88%	4.10%	3.04%	2.43%	4.08%	-9.77%	-44.32%	5.24%	5.06%	-13.32%	0.11%
-5.21%	3.63%	-11.59%	-27.03%	-4.62%	-30.61%	-21.21%	-30.26%	1.14%	1.30%	1.58%	2.07%	-15.70%	-53.33%	0.21%	0.12%	-18.42%	-1.06

Large Cap Growth
Large Cap Value
Aggregate Bonds
T-Bills
Emerging Markets
Hedge Funds
Mid Cap Growth
Mid Cap Value
Intermediate Bonds
High Yield
EAFE
Commodities
Small Cap Growth
Small Cap Value
REITs

Glossary

Compound Annual Growth Rate (CAGR) - The year-over-year growth rate of an investment over a specified period of time. It's an imaginary number that describes the rate at which an investment would have grown if it grew at a steady rate. You can think of CAGR as a way to smooth out the returns.

Commodities - A physical substance, such as food, grains, and metals, which is interchangeable with another product of the same type, and which investors buy or sell, usually through futures contracts. The price of the commodity is subject to supply and demand.

Consumer Confidence Index - A survey by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future. The idea is that if the consumers are optimistic, they will tend to purchase more goods and services. This increase in spending will inevitably stimulate the whole economy.

Consumer Price Index (CPI) - A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living. Sometimes referred to as "headline inflation".

Discount Rate - The rate at which member banks may borrow short term funds directly from a Federal Reserve Bank. The discount rate is one of the two interest rates set by the Fed, the other being the Federal funds rate. The Fed actually controls this rate directly, but this fact does not really help in policy implementation, since banks can also find such funds elsewhere.

Federal Open Market Committee (FOMC) - The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of the board of governors, which has seven members, and five reserve bank presidents. The FOMC meets eight times per year to set key interest rates, such as the discount rate, and to decide whether to increase or decrease the money supply, which the Fed does by buying and selling government securities.

Gross Domestic Product (GDP) - The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Group Of Seven (G7) - Seven of the world's leading countries that meet periodically to achieve a cooperative effort on international economic and monetary issues.

ISM Manufacturing Index - A monthly index released by the Institute of Supply Management which tracks the amount of manufacturing activity that occurred in the previous month. This data is considered a very important and trusted economic measure. If the index has a value below 50, due to a decrease in activity, it tends to indicate an economic recession, especially if the trend continues over several months. A value substantially above 50 likely indicates a time of economic growth.

Leading Economic Indicator (LEI) - An economic indicator that changes before the economy has changed. Examples of leading indicators include production workweek, building permits, unemployment insurance claims, money supply, inventory changes, and stock prices. The Fed watches many of these indicators as it decides what to do about interest rates. There are also coincident indicators, which change about the same time as the overall economy, and lagging indicators, which change after the overall economy, but these are of minimal use as predictive tools.

Lipper Index - A mutual fund performance tracking and rating system. The Lipper Index allows an investor to compare a particular fund to other funds in its industry, or that utilize a similar investment style, in a variety of different categories.

Monetary Policy - The regulation of the money supply and interest rates by a central bank, such as the Federal Reserve Board in the U.S., in order to control inflation and stabilize currency. Monetary policy is one the two ways the government can impact the economy. By impacting the effective cost of money, the Federal Reserve can affect the amount of money that is spent by consumers and businesses.

Non-farm Payrolls - A statistic gathered by the U.S. Bureau of Labor Statistics, which represents the payroll data for the majority of the United States with the exception of a few categories of employees. The employees that are not included in this calculation include government employees, nonprofit employees, individuals who work within a private household, and farm employees. Once these categories are removed, the data represents about 80% of United States employees, and provides monthly information about salary which is used as an indicator of the health of the economy.

Personal Consumption Expenditures (PCE) - A measure of price changes in consumer goods and services. Personal consumption expenditures consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. It is essentially a measure of goods and services targeted toward individuals and consumed by individuals.

Price/Earnings Ratio (P/E) - The most common measure of how expensive a stock is. The P/E ratio is equal to a stock's market capitalization divided by its after-tax earnings over a 12-month period, usually the trailing period but occasionally the current or forward period. The higher the P/E ratio, the more the market is willing to pay for each dollar of annual earnings.

Producer Price Index (PPI) - An inflationary indicator published by the U.S. Bureau of Labor Statistics to evaluate wholesale price levels in the economy.

Sources: Investopedia.com & Investorwords.com