

INVESTMENT TEAM

Matthew J. Smith

President & Chief Investment Officer
MA, Case Western Reserve University
msmith@smithcapital.com

John A. Jenney

Vice President of Taxable Investments
BS, State University of New York
jjenney@smithcapital.com

COMPANY FACTS

- Founded in 1982
- 100% independently-owned
- Separately managed accounts
- Customized investment strategies
- Over \$2 billion AUM

INVESTMENT STRATEGIES

- Core Fixed
- Core Government
- Intermediate Core
- Intermediate Government
- Low Duration
- Cash Management
- Enhanced Fixed
- Tax-Sensitive

BROAD CLIENT BASE

- Corporations
- Public funds
- Pension plans
- Native American Indian tribes
- Insurance companies
- Foundations & endowments
- Healthcare institutions
- Individuals and family trusts

PERFORMANCE RESULTS

	Q1'11	1 yr.	3 yr.	5 yr.	10 yr.
SAC Gross	0.08	0.57	1.06	2.61	2.80
SAC Net	0.04	0.41	0.90	2.46	2.62
Blended Benchmark ¹	0.05	0.59	1.04	2.78	2.65

¹75% Barclays Capital 3-month Treasury Bill / 25% Barclays Capital 1-3 Year Government Index

OBJECTIVES

- The strategy seeks to outperform the 90-Day US Treasury Bill by up to 50 basis points on a net-of-fee basis over a 5-year market cycle
- Provides a high degree of liquidity with an asset allocation heavily weighted in short-term, investment-grade fixed income securities
- Asset allocation is driven by a two-tier approach: a 'top-down' view of global markets followed by SAC's qualitative and quantitative 'bottom-up' approach

INVESTMENT PHILOSOPHY

- Top-down duration management is maintained within a band relative to the benchmark. Decision-making points that determine band optimization are based on key macroeconomic data, sociopolitical issues, fundamental research reviewing credit rating sector reports, supply and demand analysis combined with the client's guidelines, diversification requirements, and portfolio benchmarks.
- Bottom-up yield curve exposure is actively managed by senior portfolio managers utilizing quantitative swap models based on historical yield spread relations, relative value, credit worthiness, and potential price and income appreciation of a particular sector and index in the context of our top-down view.

RISK MANAGEMENT STRATEGY

- Utilize a forward-looking approach. Identify, analyze, quantify, and prioritize the types of risk affecting portfolio investments across four dimensions: bottom-up, core, tail and liquidity risk.
- Diversify across multiple risk factors. Identify the acceptable level of risk the investor is willing to undertake to achieve a certain level of return. Target return contribution.
- Focus on risk factors, not just asset classes. Identify where we are within the risk cycle, seek asset classes that provide more upside or help to avoid or control downside volatility within the cycle.
- Analyze correlations and active risk for impact of market movements on portfolio risk targets.
- Utilize tactical indicators to capture sentiment and turning points.
- Add uncorrelated or negatively correlated assets as diversifiers during downturns, i.e., TIPS, cash, gold, and other commodities.

COMPOSITE STATISTICS

Characteristics	SAC	Blend ¹
Coupon (%)	1.66	0.47
Maturity (yrs.)	1.26	0.66
Duration (yrs.)	1.31	0.65
Yield (%)	0.84	0.27
Quality	Aa1/AA+	AAA
Annual Turnover (%)	164.40	0.00

Quality Distribution (%)	SAC	Blend ¹
Treasury	6.74	18.08
Agency	18.51	6.92
MBS	0.05	0.00
Aaa	18.21	0.00
Aa	6.39	0.00
A	4.73	0.00
Baa	0.00	0.00
C/E	45.37	75.00

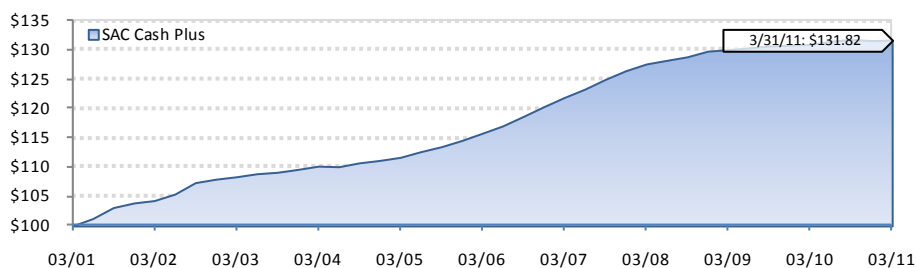
Sector Distribution (%)	SAC	Blend ¹
Treasury	5.99	93.25
TIPS	0.75	0.00
Agency	18.51	6.76
MBS/ABS/CMO	0.05	0.00
Prerefunded Municipal	22.78	0.00
Credit	6.55	0.00
C/E	45.37	0.00

Risk Statistics (3 Year)	SAC	Blend ¹
R ²	0.45	
Sharpe	1.58	1.30
Standard Deviation	0.38	0.44

ANNUAL PERFORMANCE

	SAC Gross Return	Blend ¹ Return	Dispersion (%)	# of Portfolios	AUM ² (mil\$)	% of Firm Assets	Total Firm Assets (mil\$)
2001	5.66	5.47	0.06	<5	59	6.4	917
2002	3.92	2.83	1.58	<5	69	6.3	1,096
2003	1.55	1.36	0.55	6	178	13.4	1,325
2004	1.41	1.24	0.16	6	173	12.5	1,379
2005	3.06	2.74	0.28	6	51	3.8	1,351
2006	5.04	4.68	0.12	7	84	4.9	1,719
2007	5.12	5.61	0.27	7	86	4.3	1,997
2008	2.65	3.33	0.46	7	81	4.1	1,993
2009	0.78	0.52	0.21	9	144	6.8	2,113
2010	0.60	0.72	0.96	20	221	10.8	2,039
Q1'11	0.08	0.05	1.46	19	190	9.1	2,088

GROWTH OF \$100 OVER 10 YEARS



¹75% of the Barclays Capital 3-month Treasury Bill Index and 25% of the Barclays Capital 1-3 Year Government Index. ²Smith Affiliated Capital's Cash Plus product line is designed to meet large cash-flow/operating requirements throughout our clients' fiscal year; therefore, the amount of assets under management within this single product line can fluctuate dramatically from quarter to quarter. Large increases or decreases are a matter of course and should not be construed as a gain or loss of a client relation. This fluctuation also affects SAC's overall assets under management.

Smith Affiliated Capital has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Smith Affiliated Capital (SAC) is a registered investment advisor specializing in separate account fixed income. Our strategy for all funds incorporates the articulation and management of the client's asset/liability mix, balancing liquidity needs with the generation of long-term gains. In the spirit of risk aversion and principal protection, SAC uses only call-protected, investment-grade securities.

The gross investment performance results reported are calculated after transaction costs but prior to the deduction of management fees. All returns have been calculated on an asset-weighted basis in U.S. dollars. The dispersion of the composite's individual annual account returns was measured as the standard deviation over the preceding 12 months. Cash Plus inception date: May 1990.

The investment advisory fees charged by SAC are described in Part II of its Form ADV. Since fees are deducted quarterly, the compounding effect will increase the impact of fees by an amount directly related to the gross account performance. For example, an account with a 1.0% annualized investment management fee—deducted quarterly and with a five-year annualized performance of 10% before fees—will have net annualized performance of 8.93%. SAC's fee is negotiated with the client, depending on account size, reporting requirements and other variables. The published fee schedule for the Cash Plus composite is as follows: 0.25% on first \$10 million and 0.20% thereafter.

The market composite was changed from 75% of the Lehman Brothers 1-3 Year Government Index and 25% of 90-Day T-Bills to the current benchmark beginning in the 2nd quarter 2002. This change was due to the addition of new larger accounts entering the strategy requiring a higher degree of liquidity.

Past results are not a guarantee of future results or trends. SAC's Investment Committee does not employ the use of derivative instruments such as options, futures, or swap agreements nor does it employ leveraging techniques or lend client portfolio securities to any broker, dealer, or financial institution in order to earn income return. The investment committee's goal is to seek the highest level of liquidity given the above-mentioned investment policies and strategies.

SAC makes every effort to place each account in an appropriate composite. Inclusion in the composite depends on several factors. SAC does not use model portfolios in its composite reporting. The basic rule for inclusion is the ability to align the new account with the similar traits and characteristics of those accounts currently within the composite. New accounts do not enter into a taxable composite until a minimum of a full three months of SAC management. Further detail is provided in SAC's Performance Measurement Commentary.

For more information about our products and services, please visit our website at www.smithcapital.com.

To speak with a SAC representative, please call (212) 644-9440 or e-mail info@smithcapital.com.