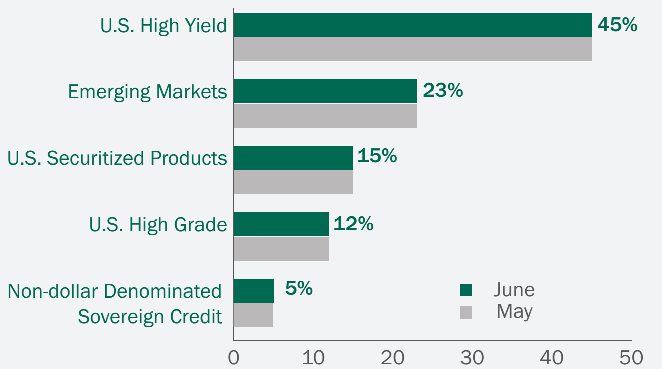
Fixed Income Asset Allocation Notes

PINEBRIDGE INVESTMENTS

JUNE 2010

TARGET ALLOCATION
As of June 7, 2010



This is a range and there can be no assurance that the target or range will be achieved.

Economic Overview

Markus Schomer, *Global Economic Strategist*

US

- The rebound in consumer spending wasn't built on solid footing, and we will likely see a renewed slowdown in the coming months.
- Inventory rebuilding and fiscal stimulus will likely fade over the summer.
- Private-sector employment growth slowed in May and should remain sluggish in the coming months, as uncertainty about the global recovery persists.
- We are still facing the main wave of fiscal tightening in the US, including possible spending cuts and tax hikes in the next two years.
- Our 2011 GDP growth forecast remains well below consensus.
- We do not expect a double dip recession in the US and the corporate sector is in great shape.

Global

- The global recovery is facing near term headwinds, which re-enforce the second half slowdown risk we have highlighted for a while. However, it looks like the pendulum is swinging too far into the bearish camp.
- The growth backdrop in Europe is deteriorating and more countries are opting for fiscal retrenchment (Germany and Italy are the latest).
- China's attempts to slow its overheating economy seem to have worked well, maybe too well, suggesting growth in Asia is set for a temporary slowdown as well.
- This is already evident in Japan, where the strong recovery in the first quarter is giving way to a moderation in the second.
- Altogether, the global economy remains in recovery mode, but is likely to experiencing a loss of momentum over the summer.
- The Bank of Canada is the latest central bank to join the still small group of monetary authorities that have started the process of policy normalization.
- Overall, the slowing global recovery momentum is easing inflationary pressures and with that, upward pressure on policy rates.
- We have been pushing out our rate-hike forecasts for most developed economies deeper into 2011 and the focus could shift back to monetary easing with the new Japanese government favoring a weaker Yen.

US High Grade

Robert Vanden Assem, *Managing Director, Head of Investment Grade Total Return Portfolio Management*

Fundamentals

Europe continues to weigh heavily on the broader investment grade market. Concern over US credits with international exposure has sent spreads wider in general. Nevertheless, positive earnings, as demonstrated by over 75% of S&P 500 companies' beating their estimates, highlight that the economy remains on the mend.

In the near term, looming bank regulation and the situation in the gulf are keeping credit markets under pressure. We are neutral on high-grade corporate fundamentals and trending neutral.

Valuations

The option adjusted spread (OAS) of the Barclays Credit Index widened 40 basis points in May, closing at 172 bps. Financials remain the standout sector in terms of relative value, yet will likely remain under pressure until the terms of the proposed bank regulation have been finalized. Widening in financials appears overdone, and the ratings agencies have softened their rhetoric with regard to potential downgrades based on capital requirements.

Moreover, as the situation with BP continues on and weighs on the energy space, opportunity to invest in credits that have widened in sympathy have appeared. Overall, select sectors and credits offer value. However, we are proceeding with caution, given all of the negative external factors currently impacting the market. We are neutral on high-grade valuations and trending neutral.

Technicals

While credit spreads have widened rather dramatically in the past month, the sharp decline in US Treasury yields has kept absolute yields low. Therefore, credit is less attractive to many balance sheet investors. Given the Fed's stance on rates, concern over bank regulation, the situation in the Gulf, and Europe, credit may leak wider over the near term.

From a supply standpoint, there was a total of US $27 billion in high grade fixed rate issuance during May, which is quite anemic and largely a result of the events previously mentioned. We are negative on high-grade technicals, and trending neutral.

US High Grade Bonds Allocation Decision:

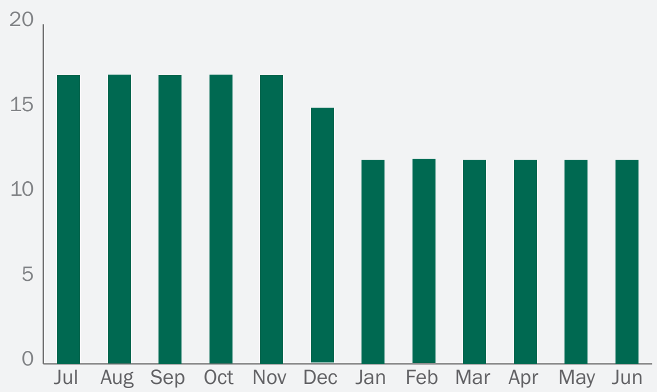
The broader market remains attractive on a historic basis with select sectors and credits offering value. As strong technicals continue to dominate, **we will leave our high grade allocation unchanged at 12%.**

The European crisis spread widening may now be the trigger to deploy the money on the sidelines. Although a pickup in supply by a refinance wave would put pressure on the basis, lack of that developing still leaves the MBS product well short of its demand. We are neutral on category technicals and trending positive.

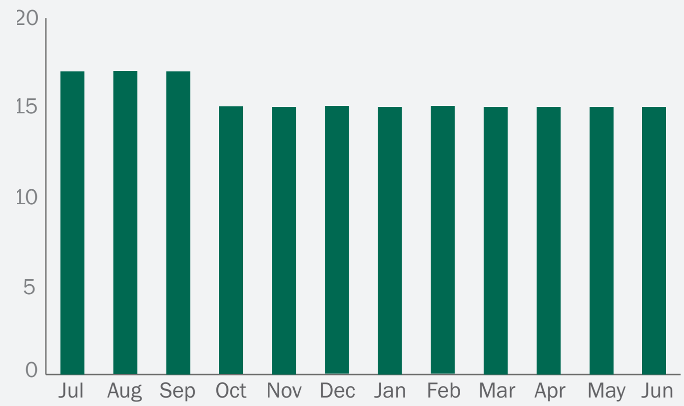
US Securitized Products Bonds Allocation Decision:

Amongst the massive flight to Treasuries, US MBS was the only asset class to post a positive excess return (2 bps) for the month according to the Barclays indices. We feel we are properly allocation to the category, **so we will keep our allocation to US Securitized Products unchanged at 15%.**

TARGET ALLOCATION — US INVESTMENT GRADE
July 2009 – June 2010



TARGET ALLOCATION — SECURITIZED PRODUCTS
July 2009 – June 2010



US Securitized Products

John Dunlevy, ***Managing Director, Securitized Products***

Fundamentals

The rally in rates during the month put pressure on the mortgage basis, as some feared another refinance wave. On the surface, more than half of all existing mortgages are 5.75% or higher but many of those are constrained and cannot refinance. The 10 year Treasury would need to move to the 2.80% range or lower to really spark a meaningful refinance wave. We are neutral on securitized products fundamentals and trending neutral.

Valuations

The Current Coupon basis stands at 82 bps; a five month high. This month, mortgage backed securities (MBS) spreads have become directional with Treasury rates. Agency MBS is now a good play for a view on higher rates. We are neutral and trending neutral on securitized products valuations.

Technicals

Notwithstanding continued worry about European contagion, MBS is weathering the storm. Many market participants were underweight mortgages going into the Fed exit in March. Spreads did not widen as much as they anticipated and stayed underweight in April.

Emerging Market Bonds

Rajeev Mittal, ***Managing Director, Head of Emerging Market Debt***

Fundamentals

EM growth data has continued to surprise on the upside, but perhaps a lot of the good news is now priced in. Even so, EM fundamentals are in much better shape than most G10 countries. We are neutral on EM fundamentals, and the outlook is neutral.

Valuations

EM spreads have moved back above the 200-day moving average, suggesting a more cautious approach to investing in EM external debt may be prudent. A quick look at history suggests valuations are fast becoming attractive, but the ghosts of the violent shake-out in October 2008 mean timing is of the essence before increasing exposure to EM. We are neutral on EM valuations and trending negative.

Technicals

Inflows have scaled back since the recent spike in risk aversion, but there have been no reports of outflows. Short-term positioning has cleaned up, and if the asset class can avoid redemptions, it stands to benefit from any resurgence in risk appetite. We are positive and trending neutral on EM technicals.

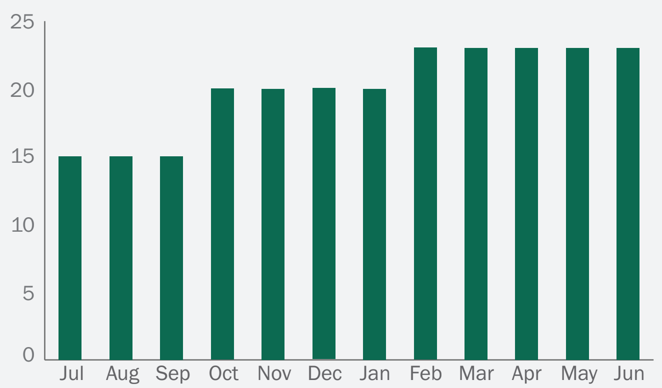
Emerging Markets Allocation Decision

The announcement of the European mega-bailout package had the unintended implication of making the consequences of the European debt crisis more global. Growth concerns and question marks over funding triggered a spike in risk aversion, but so far EM flows have remained positive — albeit way off the highs. We are comfortable with our current allocation to EM, so we **will leave our it unchanged at 23%.**

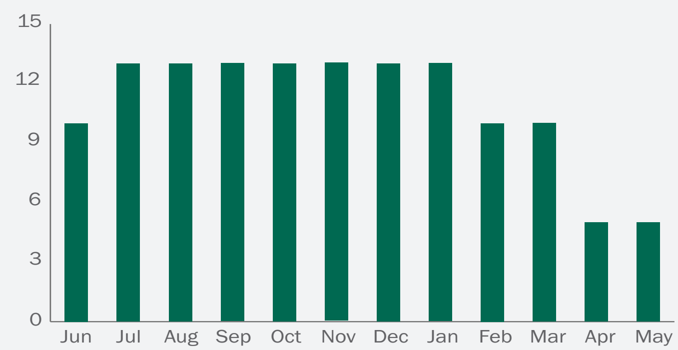
Non-US Dollar Denominated Bonds Allocation Decision:

The dollar outlook remains constructive among the G3 countries, as the macroeconomic picture remains supportive. Pro-growth/ commodity-linked currencies have experienced a market price correction rather than an economic one. We feel we are positioned properly in the category, **so we will leave our non-dollar allocation unchanged at 5%.**

TARGET ALLOCATION — EMERGING MARKETS
July 2009 – June 2010



TARGET ALLOCATION — NON-DOLLAR DENOMINATION
June 2009 – May 2010



Non-US Dollar Denominated High Grade Bonds

Anthony King, ***Managing Director, Non-Dollar High Grade Fixed Income***

Fundamentals

The backdrop for the euro remains unsupportive, while policy makers work towards some form of centralized fiscal policy. The 2011 growth-drag stemming from fiscal tightening is pressuring the currency to weaken.

Upcoming elections in Japan are building, for a weaker yen. Capital flow data remains an investment style in light of sovereign credit concerns supporting strong positive current account currencies. We are neutral on non-dollar fundamentals, and the outlook is negative.

Valuations

Pure valuation measures remain the dollar's key support, as investors react to trend change. Policy rate changes need to be priced in a less synchronized nature as we move into the second half. More aggressive Canadian/Australian rate profiles should support these currencies, while flattening their yield curves from the front end. We are neutral on category valuations, and the outlook is trending negative.

Technicals

Clearing out of risk positions has been both rapid and comprehensive with respect to higher-beta foreign exchange, with the Yen the key beneficiary of increased risk aversion. Speculative positioning remains the euro's biggest support. We are positive on non-dollar technicals, and trending positive.

US High Yield

John Yovanovic, ***Managing Director, High Yield Bonds***

Fundamentals

Our stance on fundamentals is unchanged as we wait for second quarter earnings. We expect more of the same with the exception of weaker results from Retail and Homebuilding (due to the expiration of the tax credit).

Balance sheets remain in good shape due to repair over the last four quarters. We are neutral and trending positive on high yield fundamentals.

Valuations

Spreads have retraced all the way back to late December 2009 levels of 677 OAS (134 bps wider). High yield credit has likely established this year's trading range (700 to 550 bps) and looks inexpensive again, due to solid fundamentals and lower default rates. We are positive and trending neutral on high yield valuations.

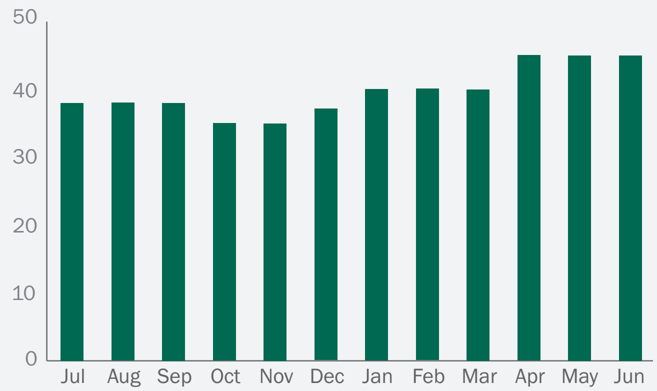
Technicals

Technicals were weak this month, due to more than US $3 billion of outflows from public funds. Primary issuance fell to around US $7 billion for the month, bringing it to US $117.8 billon year to date. Cash levels in public funds remain low, institutional accounts are small buyers, and hedge funds are not buying in size yet. Day-to-day trading is thin and following US equities, transaction costs are high. We are neutral on high yield technicals, but the outlook is volatile.

High-Yield Bonds Allocation Decision

May saw a complete reversal from April, with the same themes as February. Technicals are weak, due to continuing outflows from credit. Volatility due to the European debt crisis is roiling all US markets, causing another flight from risk. Valuations are back to beginning of the year levels. **We will keep our allocation to the category unchanged at 45%.**

TARGET ALLOCATION — HIGH YIELD
July 2009 – June 2010



Leveraged Loans

Julie Bothamley, Managing Director, Leveraged Loans

Leveraged Loans are part of the monthly allocation discussion. Allocations are made for those portfolios that follow the allocation guidance at client request.

Fundamentals

First-quarter earnings were in-line with or better than expectations. We are positive on leveraged loan fundamentals and trending neutral.

Valuations

May's price retrenchment has increased the attractiveness of loans. Leveraged loan valuations are positive and trending neutral.

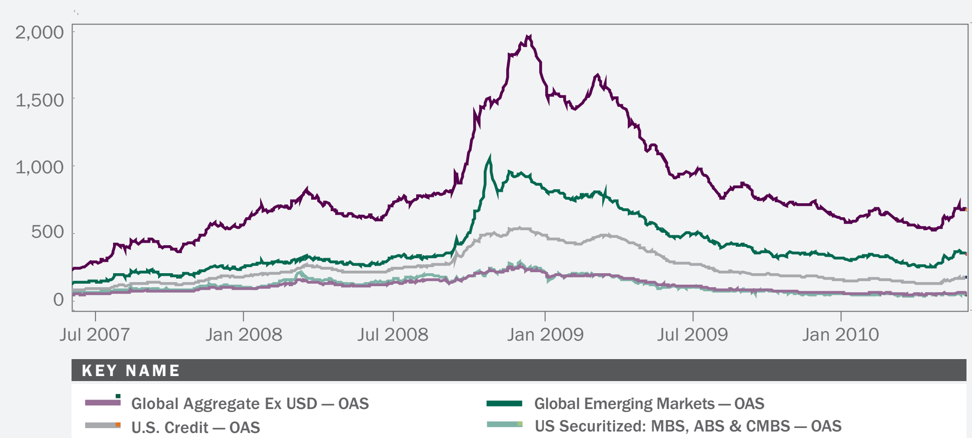
Technicals

Fund outflows during the month, coupled with lower refinancing activity, reduced demand. New issue volume continued, albeit at a slower pace, despite widening spreads. We are neutral on leveraged loan technicals and trending positive.

Leveraged Loans Summary

Anxiety over the EU and Gulf of Mexico crises resulted in decreased demand for loans and negative returns for the month. Fundamentals remain stable. Lower demand for loans together with issuers' ongoing need to refinance upcoming maturities should continue to support historically high cash margins.

OPTION ADJUSTED SPREAD (OAS)



Source: Barclays Capital as of June 8, 2010