GIA PARTNERS

4th Quarter 2011

Highlights

- **Markets remained gripped by the European financial crisis and were negatively affected by poor liquidity. Ultimately, safer government bonds outperformed credit in 2011;**
- **We believe the U.S. economy will perform better in 2012 than in 2011, but still below potential as housing struggles to recover and Europe imposes austerity;**
- **As western economies take action to resolve their debt and banking sector issues, conditions are propitious for an extended period of superior global growth, led by emerging markets.**

Markets

		Returns (%)	
GIA*	Average Quality	Q4-11	12 Months
Global High Yield Composite	**(BB-)**	**6.35**	**3.28**
Core Plus Composite	**(A)**	**2.40**	**5.77**
Core Composite	**(A+)**	**1.56**	**7.50**
**Returns are net of fees*			
Benchmark Bonds			
Barclay's U.S. Aggregate Index	(AA+)	1.12	7.86
Treasury	(AAA)	0.89	9.81
Credit	(A)	1.70	8.87
Mortgage	(AAA)	0.88	6.56
Government/Credit	(AA+)	1.18	8.72
BoA Merrill U.S. Corps & Yankees	(A)	1.64	7.21
BoA Merrill Corporate Master	(A-)	1.78	7.51
BoA Merrill High Yield	(B+)	6.17	4.50
JPM Emerging Markets EMBI+	(BB+)	5.25	9.20
JPM CEMBI Broad	(BBB)	4.69	2.96
JPM GBI-EM Global Diversified	(BBB+)	0.48	1.75
Citi Non-U.S. World Govt. Bonds	(AA+)	-0.48	5.17
Benchmark Equities			
S&P 500	NA	11.15	0.00
Nasdaq Composite	NA	7.86	-1.80
Russell 2000	NA	15.02	-5.45
MSCI EAFE	NA	2.86	-14.82
Europe	NA	4.88	-13.82
Japan	NA	-4.04	-16.21
MSCI Emerging Markets Equity	NA	4.08	-20.41

Markets

The U.S. economy rebounded in the fourth quarter, led by manufacturing and better-than-expected consumer spending. Improved data helped U.S. stocks and other "risk" markets recover from a dismal third quarter, although not enough to make 2011 a successful investment year for higher risk assets. The Fed continued its efforts to stimulate the economy with "Operation Twist", which helped bring long-term rates down and make U.S. treasuries the best performing asset class. The European sovereign debt crisis kept its grip on financial markets, holding back stock market returns and enhancing risk aversion. Emerging market economies slowed in the quarter contributing to fears of a global pause. In the end, the U.S. economy's bounce averted an abysmal year for global stocks and credit, yet external fears made "flight to quality" assets top performers.

The S&P 500 returned 11.15% for the quarter and 0.00% for all of 2011. This was best amongst global equity markets with European stocks up 2.86% for the quarter, but down -14.82% for the year and emerging market stocks up 4.08% in the quarter, but down -20.41% for the year. U.S. treasuries returned 0.89% for the quarter and 9.81% for all of 2011 with long treasuries contributing 29.93% for the year. Investment grade corporate bonds returned 1.78% for the quarter and 7.51% for the year. Corporate bonds outperformed treasuries by 82 basis points for the quarter, but underperformed by 367 basis points for all of 2011. Spreads widened by 78 basis points during the year due primarily to a 146 basis point widening in financials. Despite spread widening companies took advantage of low rates to issue $858 billion of new supply after two years of record issuance. Over the last three years, corporations issued nearly $2.7 trillion in new securities, equivalent to the total issuance over the previous 6 years.

The high yield market recovered strongly in the fourth quarter. For the quarter, the Bank of America Merrill Lynch (BACML) High Yield Cash Pay Index (J0A0) was up 6.17%, after being down 6.16% in the third quarter, and ended the year up 4.50%. The spread tightened 98 basis points in the quarter to 722 basis points, and the yield shrank from 9.32% to 8.25%. Defaults rose to 1.76%, but stayed well below their 4.2% historical average. Mutual fund flows showed an impressive $11.8 billion inflow in the quarter bringing total 2011 inflows to $13.5 billion. New issuance totaled $246 billion for the year which was the second highest amount ever after 2010's $302 billion.

Emerging market debt performance was mixed with sovereign debt enjoying the "flight to quality" trade out of corporate and local currency bonds, as well as from riskier European sovereigns. Dollar denominated sovereign debt returned 5.26% for the quarter and 9.20% for all of 2011. Corporate bonds, which enjoyed a strong first half-year, collapsed in the second half underperforming other credit markets. Emerging markets investment grade debt returned 3.68% for the quarter and 5.65% for the year, while high yield EM corporates returned 7.49% for the quarter, but were down -3.55% for the year. Local markets debt suffered from a decline in EM currencies in the second half of the year to return 0.48% for the quarter and -1.75% for the year. The withdrawal from market-making by many European banks had a detrimental impact on prices and liquidity in emerging markets corporate bonds.

Portfolios

Our *Global High Yield Composite* outperformed the Bank of America Merrill High Yield Cash Pay Index by 18 basis points in the quarter, but was behind by 122 basis points over the last 12 months. Poor liquidity affected financial markets in the fourth quarter, especially higher yielding sectors. Emerging markets debt was affected and corporate bonds were particularly hard hit, with EM underperforming the high yield market for the quarter and all of 2011. Our exposure to emerging markets remained near 30% of the portfolio during the quarter and for much of 2011. Although the portfolios managed to outperform during the quarter, EM contributed -215 basis points to the underperformance for all of 2011. Our high yield and investment grade holdings contributed 86 and 12 basis points respectively. Separately, the portfolio's cash exposure had a negative contribution of -5 basis points.

Our *Core Plus Composite* consists of portfolios that can hold up to 30% in securities rated below investment grade. The Composite outperformed the Barclays U.S. Aggregate Index by 128 basis points in the quarter, but was behind by 209

basis points over the last twelve months. Investment grade credit and high yield outperformed U.S. Treasuries during the quarter, but underperformed for the year. Within credit, investment grade outperformed high yield. Our Core Plus portfolios included exposure of nearly 25% to our Global High Yield strategy and 35% to investment grade credit, while being underweight treasuries and mortgages. For the quarter the strategy worked well with credit outperforming, although the Plus exposure delivered limited excess returns. For the year, the underperformance of credit versus treasuries led the portfolios to underperform.

Our *Core Composite* is an investment grade only composite managed against the Barclays Government/Credit Index. The portfolio outperformed the benchmark by 38 basis points during the quarter, but was behind by 122 basis points over the last twelve months. Investment grade corporate bonds outperformed treasuries by 82 basis points for the quarter, but underperformed by 367 basis points for all of 2011. Our Core portfolio was overweight credit during the quarter and all of 2011. With an allocation of roughly 55% corporates and 45% government bonds, the portfolio's performance conformed to the relative returns of corporate bonds and treasuries. Broken down, for the year corporate bonds contributed 50 basis points, but the underweight in treasuries combined with lower-than-index duration in the treasury component brought down overall performance.

Economy

The U.S. economy seems to have "kicked into gear" in the fourth quarter of 2011. At our last quarterly meeting, pessimism was rampant with pervasive talk of "double dip" recession and extended periods of substandard growth. Three months later, on the heels of better data, growth forecasts moved up and talk of recession disappeared. In the Wall Street Journal Economic Survey, forecasts for Q4 2011 growth declined every month from January through October. In November the average forecast increased from 2.0% to 2.5% and in December the average rose again to 2.8%. Q4's bounce raises questions about the underlying state of the economy and its likely performance in 2012.

Manufacturing provided a boost during the quarter aided by export orders, good auto demand, and government tax incentives. However, this improvement may not be sustainable. Many firms brought equipment purchases forward to take advantage of the bonus depreciation allowance, so like "cash for clunkers" or the "housing tax incentive", purchases may not reflect underlying investment demand. In addition, the dollar strengthened in the second half of the year, clipping some of the U.S. advantage in foreign markets. On the more favorable side, European financial institutions are capital constrained causing them to curtail lending, which may advantage U.S. manufacturers.

Housing data improved in the last quarter, but housing fundamentals remain daunting. Excess inventory, pending foreclosures, and restrictive lending suggest market-clearing prices and volumes are still months, if not years, away. Low mortgage rates and reductions in household debt service ratios provide a ray of light, but a full housing market recovery is unlikely over the next six months. For the economy to return to above-trend growth, the housing market must be a significant contributor.

The European debt crisis will likely put the Eurozone in recession in 2012. While austerity is inevitable, investment incentive programs could help mitigate the decline. The European Central Bank initiated a key program to aid bank funding, and the European Financial Stability Facility got expanded powers to help bank capitalization and sovereign lending. Each of these, along with other initiatives under discussion, may help the region contain the negative spiral by the middle of 2012.

Emerging markets, which implemented tightening measures in the first half of 2011 to curtail inflationary pressures, experienced weakness in Q4 and will likely reverse those measures in Q1. Growth will likely return, although perhaps not at the pace of 2010 and early 2011.

The combination of strong U.S. demand, weak European demand, and uncertain emerging markets demand makes for a challenging outlook. On balance, the U.S. will likely continue to grow, although not at the strong pace of Q4 2011. For

the next six months Europe's struggles will likely dominate economic and financial market conversations. As solutions are found, the global economy will be poised for periods of robust growth. Over the next six months, however, we believe growth will be modest.

Scenarios

We propose three scenarios for the U.S. economy over the next 6 months:

1. Our most likely case has the economy growing 2.0% to 2.5% in Q1 and Q2 2012. The U.S. economy has been slow to emerge from recession, but many of the drags are beginning to subside. Employment has begun to improve, even if slowly, and will likely not suffer meaningful deterioration over the next six months. Housing may not improve, but also will likely not deteriorate further. In the mean time, the Federal Reserve will remain accommodative and government spending will not decline until after the election. Consumers will likely continue their spending growth at about the same pace as GDP growth. All in, the economy grows but at a modest pace. PROBABILITY 60%

2. A second scenario has the economy declining to 0.0% to 1.0% growth due to an escalating European crisis, slower than expected growth in emerging economies, and a manufacturing slow down as tax incentives disappear. In this scenario there is no catalyst to keep Q4's pace on track and both fiscal and monetary stimulus fail to improve growth. PROBABILITY 20%

3. The third scenario has the economy recovering to trend growth of 3.0 to 3.5% over the next six months. For this scenario to occur, the European debt crisis would have to be resolved convincingly, inducing a sharp rise in confidence. In this environment, corporations would accelerate their investment plans and consumer spending would rise with confidence. Government stimulus would provide an added boost and emerging markets would resurrect their prior growth pace. PROBABILITY 20%

Market Outlook

In financial markets, like in the economy, attractive valuations in equity and credit markets are countered by the evolving European crisis and poor liquidity to produce a murky investment outlook. Corporate fundamentals globally remain strong providing a convincing back-drop for equity and credit markets, especially in high yield. At the same time, Europe's troubles and bank funding constraints will likely keep volatility elevated in early 2012. Evolving banking regulations, including the imposition of the "Volcker Rule" in the U.S., are limiting bank intermediation in financial markets, adding to challenges pricing securities. At a time like this, we believe it is important to adhere to the Firm's investment process and remain invested. In bonds, the lack of liquidity increases the yield premium investors require to move out of government bonds. For long term investors, that premium is a worthwhile investment, because the compensation is high relative to the underlying risk.

Commentary – Reasons for Optimism?

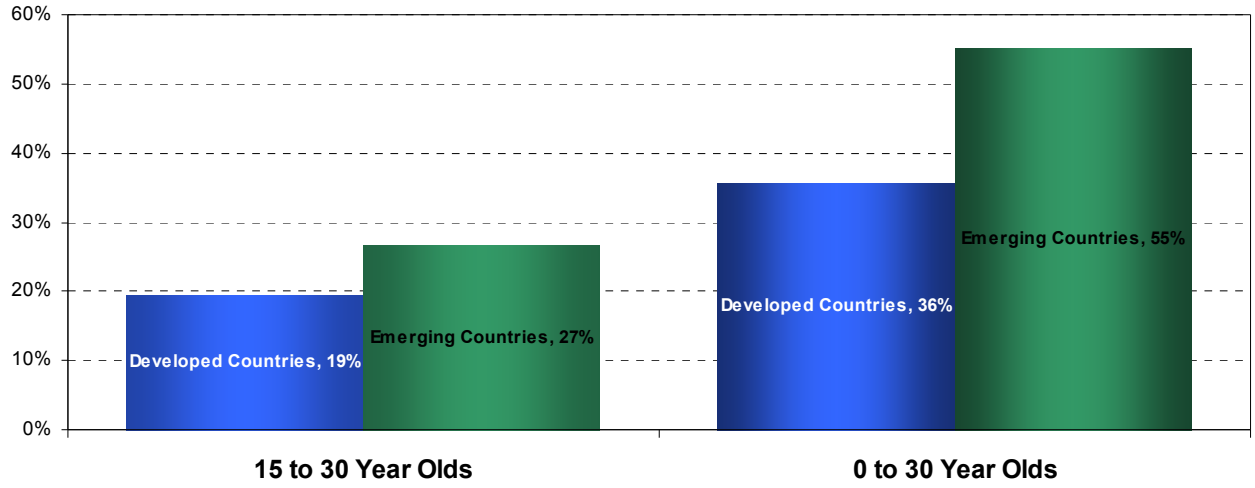
As we enter 2012 there is significant apprehension about global economics, the direction of policy in democracies, and the legitimacy of the capitalistic model of development. Unhappiness abounds after the world's severe recession two years ago and a largely unsatisfying recovery. We have argued in prior commentaries that there are favorable elements to many of the problems confronting the western world, particularly the discredited "social welfare" model. In fact, as the

largest economies move toward resolving their debt and banking sector challenges, one could argue the groundwork will be laid for an extended period of above trend growth, an economic super-cycle.[1]

Historically, periods of superior growth have been preceded by an alignment of conditions, many similar to what the world faces today. Preeminent among these is peace. While there are many countries where conflicts exist, it can be argued hostility is declining rather than increasing. The U.S. has withdrawn from Iraq and will likely wind down its Afghan presence. The Spring Revolutions will likely produce a new era of pluralistic government in the Middle East, even if through a slow and unsmooth process. Conflicts or stand-offs in other regions may not be resolved in the near-term, but they are unlikely to devolve into armed conflict either.

Other conditions for strong growth involve free trade, investment-led productivity improvements, and a growth engine. Despite differences, many countries have pursued trade agendas, often regionally or directly with trade partners. Even the recalcitrant U.S. Congress approved three trade agreements this fall. The free flow of goods guides production to the most efficient locations and technology facilitates this process by allowing less developed countries to implement modern manufacturing techniques and achieve low costs of production.

While we believe the U.S. economy may begin to perform better than expected, the engine for the super-cycle resides in emerging economies. Currently, emerging markets generate approximately 35% of global GDP, yet they have 82% of the people, or about 5.6 billion. Of those, 55% are 30 years old and younger and 27%, or 1.5 billion people, are in their peak productive and consuming years (Chart I).[2]

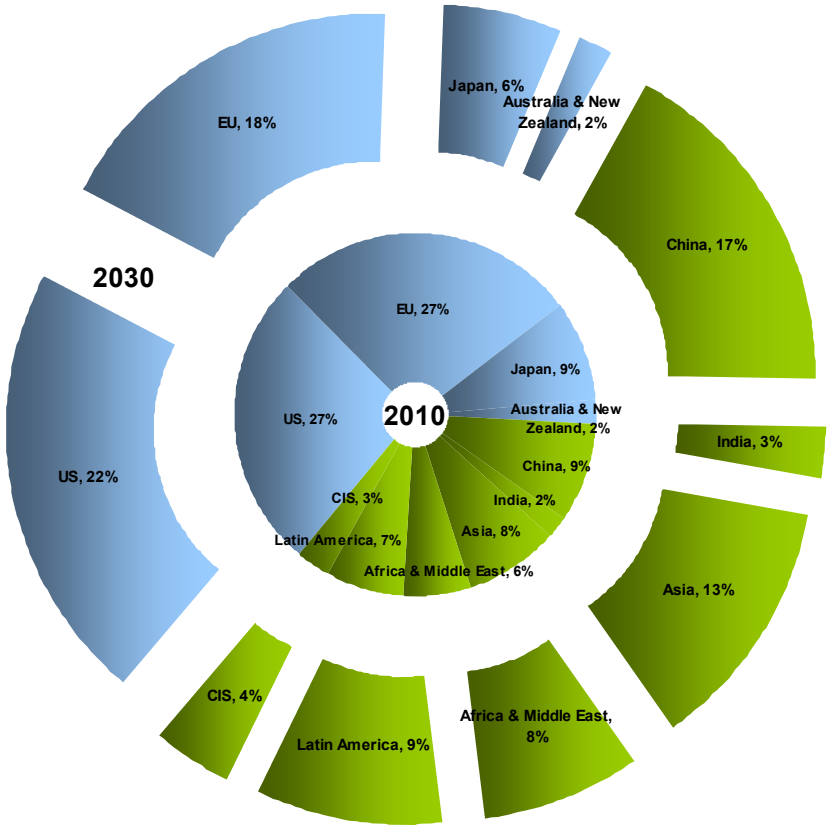


With vast advances in communications technology, information flows more quickly and people can both inquire and learn. While classical institution based learning will still take years to develop in emerging economies, rapid exchanges of information allow people to make more informed decisions. If we assume that 20% of the 15 to 30 year old people achieve middle class status over the next decade, 300 million people will begin to consume more goods and services.

Growth forecasts for 2012 for developed economies are modest. The U.S. and European Community are approximately the same size. With the U.S. growing approximately 2.0% and Europe declining slightly, the contribution of these huge regions to global growth will be modest. Emerging economies, on the other hand, are expected to grow at a reasonable pace. It is likely that, as occurred in 2011, most of global growth will come from emerging markets. Furthermore, using relatively conservative growth estimates, over the next 20 years, today's emerging economies will contribute more than

[1] The term "super-cycle" was used by Standard Chartered Bank in a presentation dated October 2011.
[2] U.S. Census Bureau.

50% of global GDP. Not surprisingly, China will likely lead this transition and become nearly as large as the European Community over that time span. Asia as a region will probably dominate global economic activity in 20 years, accounting for about 41% of global GDP (Chart II).[3]



Emerging market bond and equity markets performed poorly in 2011 due to many factors, primarily efforts by the largest economies to cool overheating economic activity. During 2012 and going forward, China, Brazil, India, and other economies can ease their restrictions to restore growth. In credit markets a combination of reduced liquidity and fund outflows contributed to underperformance, at a time when many companies delivered higher profits and cash flow. With global liquidity expected to be ample for an extended period and "safe haven" yields in U.S. treasuries and German government bonds below inflation, we believe money should return to emerging markets. In fact, we believe larger allocations to emerging markets will pay off handsomely over the next two to three investment cycles.

January 8, 2012

GIPS requires GIPS Disclosure Statement (please see attached disclosure)
GIPS requires GIA fee schedule disclosure "GIA's fees are (i) .35% annually for standard USA fixed income, (ii) .50% annually for enhanced fixed income and (iii) .75% annually for specialized products"

[3] International Monetary Fund, Standard Chartered Bank, and GIA estimates. Data as of December 31, 2010.

Important Information

GIA Partners, LLC ("GIA") is an SEC registered investment adviser.

This material is for information purposes only. It does not constitute an offer to or a recommendation to purchase or sell any shares in any security. Investors should consider the investment objectives, risks and expenses of any strategy or product carefully before investing.

Past Performance: The performance data quoted represents past performance. Past performance is not an indication of future performance, provides no guarantee for the future and is not constant over time. The value of an investment may fluctuate and may be worth more or less than its original cost when redeemed. Current performance may be lower or higher than the performance data quoted.

Forecasts and Market Outlook: The forecasts and market outlook presented in this material reflect subjective judgments and assumptions of the investment manager and unexpected events may occur. There can be no assurance that developments will transpire as forecasted in this material.

Management Fees, as well as account minimums and other important information are described in GIA's Form ADV - Part II. Since management fees are deducted quarterly, the compounding effect will be to increase the impact of such fees by an amount directly related to the account's performance. For example, an account with a 10% gross annual return and a 1% annualized management fee that is deducted quarterly will have a net annual return of about 8.9%.

*Important GIPS disclosures pertaining to composite performance may be found at the back of this letter.

Index Definitions

Barclays US Aggregate Index

The Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Barclays US Treasury Index

This index is the U.S. Treasury component of the U.S. Government index. Public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Barclays US Government/Credit Index

The Government/Credit Index includes securities in the Government and Credit Indices. The Government Index includes treasuries and agencies. The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

Barclays US Credit Index

This index is the U.S. Credit component of the U.S. Government/Credit index. Publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

Barclays US Mortgage Backed Securities Index

This index is the U.S. MBS component of the U.S. Aggregate index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Bank of America Merrill Lynch US Corporate & Yankees Index

The Bank of America Merrill Lynch US Corporate & Yankees Index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market by US and non-US corporations and non-US quasi-governments.

Bank of America Merrill Lynch US Corporate Index

The Bank of America Merrill Lynch US Corporate Index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

Bank of America Merrill Lynch US High Yield Master Cash Pay Only Index

The US High Yield Master Cash Pay Only Index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.

JP Morgan Corporate Emerging Markets Bond Index (CEMBI)

The CEMBI tracks total returns of US dollar-denominated debt instruments issued by corporate entities in Emerging Markets countries. Two variations are available: CEMBI Broad and CEMBI. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds. Both indices are also available in Diversified versions.

JP Morgan EMBI+ Index

The EMBI+ tracks total returns for U.S-dollar-denominated debt instruments of the emerging markets: Brady bonds, loans, Eurobonds. The EMBI+ currently covers 104 instruments across 15 countries.

JP Morgan Government Bond Index-Emerging Markets (GBI-EM)

The GBI-EM is the first comprehensive, global local Emerging Markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. Variations of the index are available to allow investors to select the most appropriate benchmark for their objectives.

Citigroup Non-US World Government Bond Index

The Index is comprised of foreign government bonds with maturities over one year.

S&P 500 Index

An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

Nasdaq Composite Index

An index that tracks the change in the total market value of all companies listed on the Nasdaq Stock Market.

Russell 2000 Index

An index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small cap stocks in the United States.

MSCI EAFE Index

The index is a capitalization weighted index that monitors the performance of stocks from Europe, Australasia and the Far East.

MSCI EAFE- Europe Index

The index is a capitalization weighted index that monitors the performance of stocks from Europe.

MSCI EAFE- Japan Index

The index is a capitalization weighted index that monitors the performance of stocks from Japan.

MSCI Emerging Markets Equity

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.