

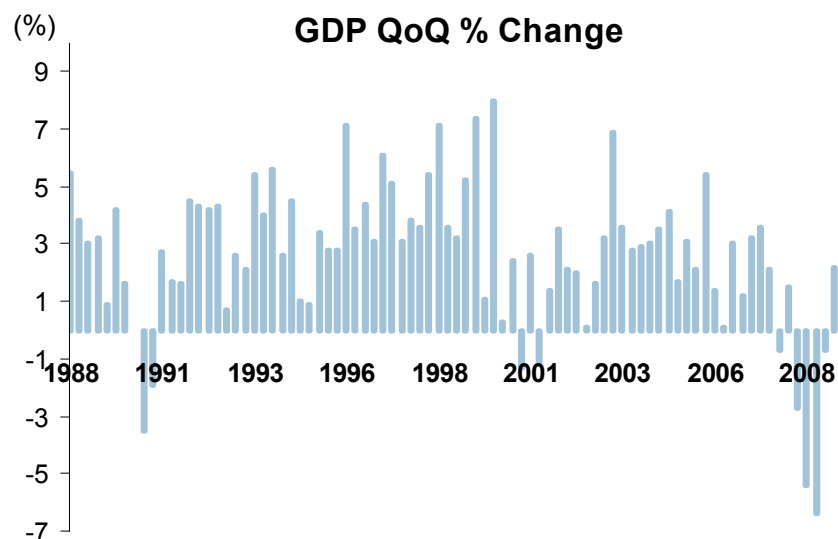
Silver Bridge

Q2 2010 Economic and Market Outlook

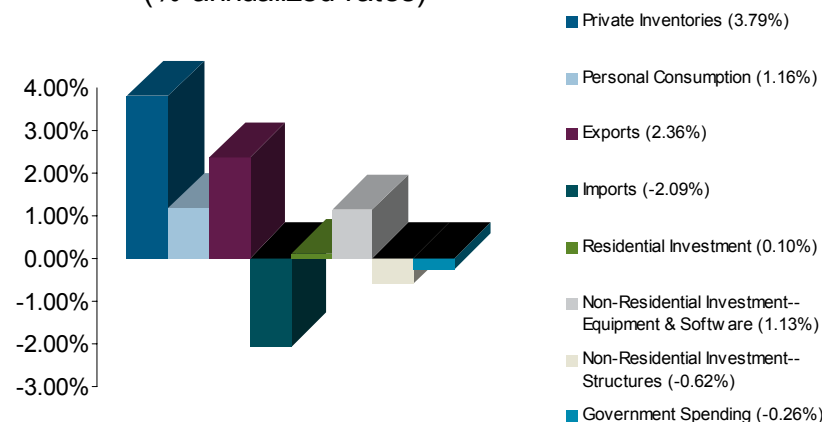


Take Me Out to the Ballgame

U.S. GDP Growth: Knocking the Cover Off the Ball



Q4 2009 GDP Growth Components
(% annualized rates)

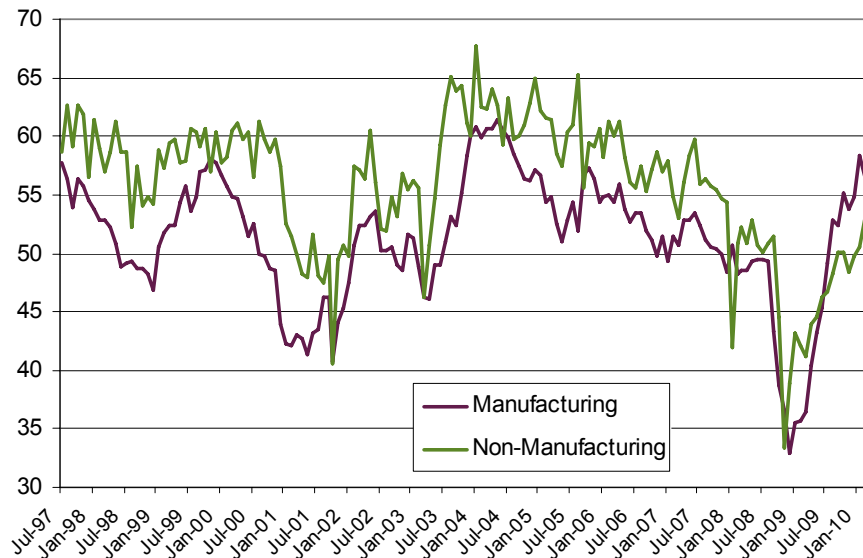


- U.S. GDP showed an impressive +5.6% annualized growth rate in Q4 2009, the largest quarter-to-quarter jump since 2003.
- These solid gains were driven by a rebuilding in business inventories, positive contributions from net exports, and a consumer spending revival after months of austerity.
- Only non-residential construction investment continues to drag on the economy, no surprise given the weakness still inherent in the commercial real estate market after years of overbuilding.
- This rebound in economic growth will likely continue throughout 2010, albeit at a more modest pace, with expectations for positive GDP growth of 3-4% in the first two quarters, followed by an expansion of 1-2% in the second half as the positive boost provided by fiscal and monetary stimulus measures fades.

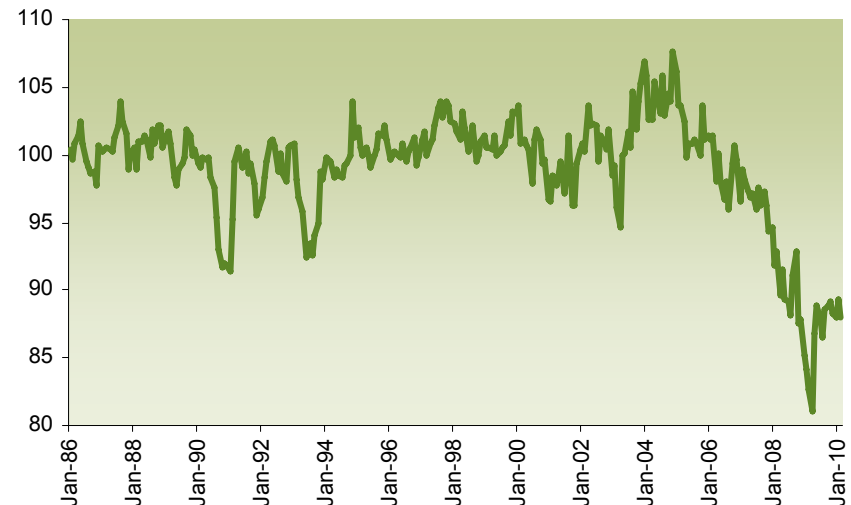
U.S. Economic Indicators Throw the Heat

- Manufacturing and service sector activity have continued to thrill in 2010, after reaching their depths during the height of the credit crisis in 2008.
 - 50 marks the dividing line between expansion and contraction for the Institute of Supply Management (ISM) Index.
- Manufacturing has led the recovery due to an inflection in the inventory cycle; however, inventory build at these high levels is not sustainable over the long-term.
- Thankfully, the service sector is now generating some momentum too, important given that service industries constitute 90% of the U.S. economy.
- But still-tight credit and conflicting government policies have been an impediment to small firm formation and overall growth.

ISM Manufacturing and Service Sector Activity Indices

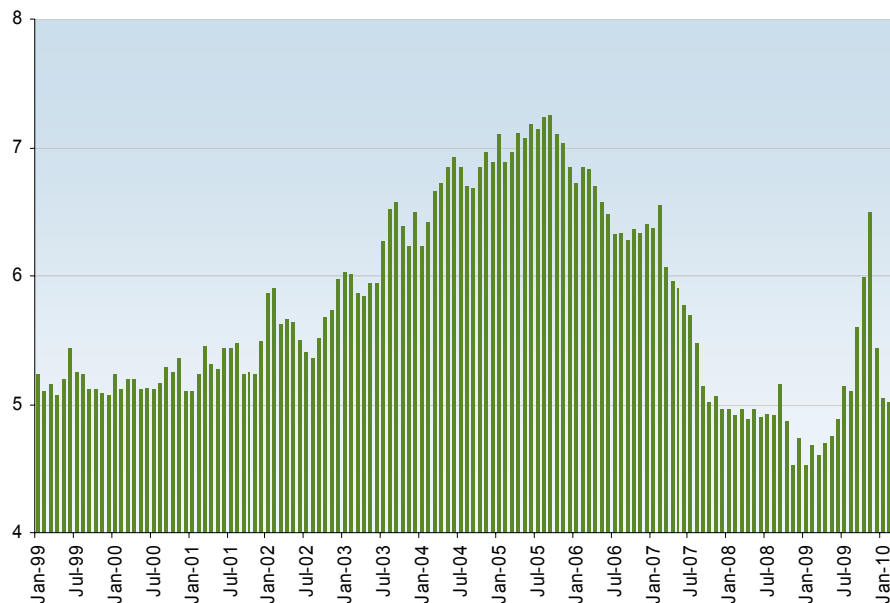


NFIB Small Business Optimism Index (1986=100)

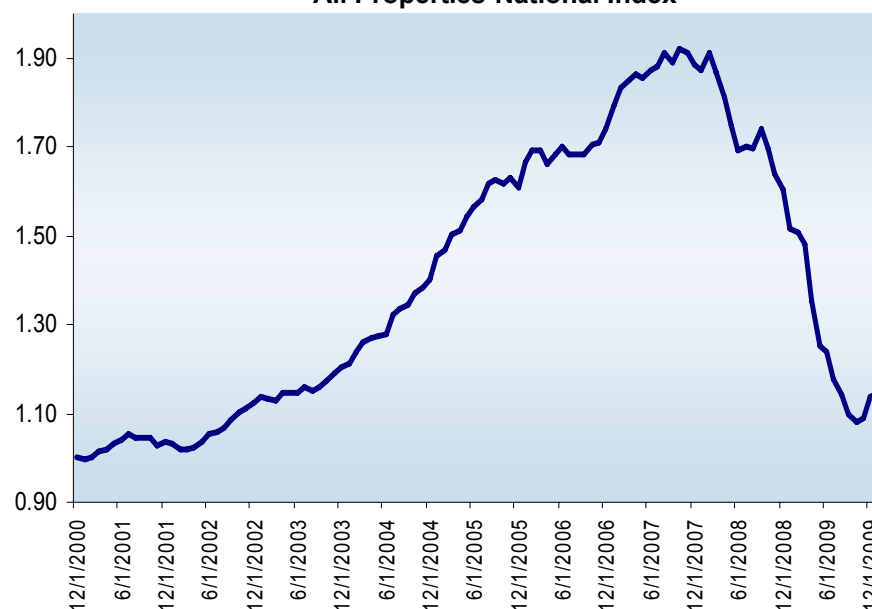


U.S. Real Estate Markets: Slump not Over

Existing Home Sales, Millions of Units



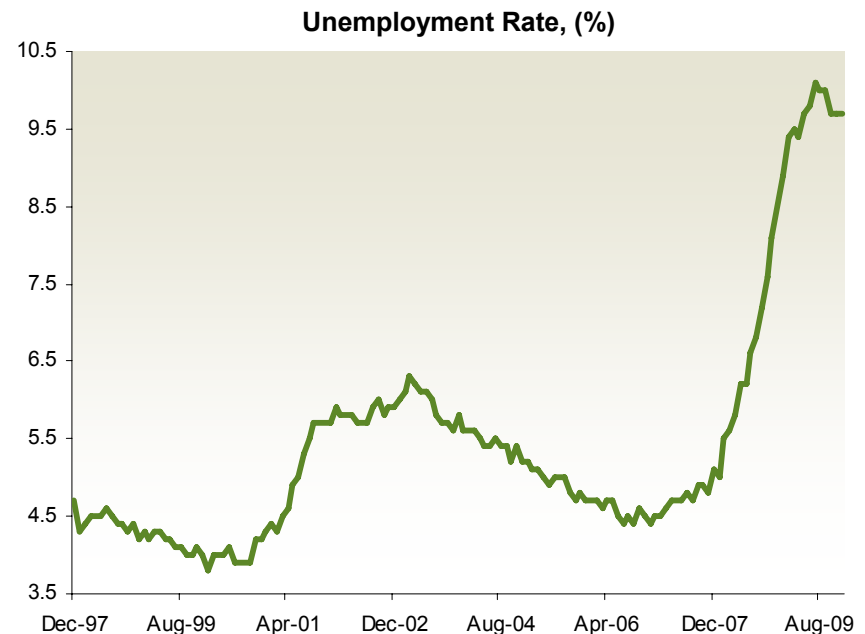
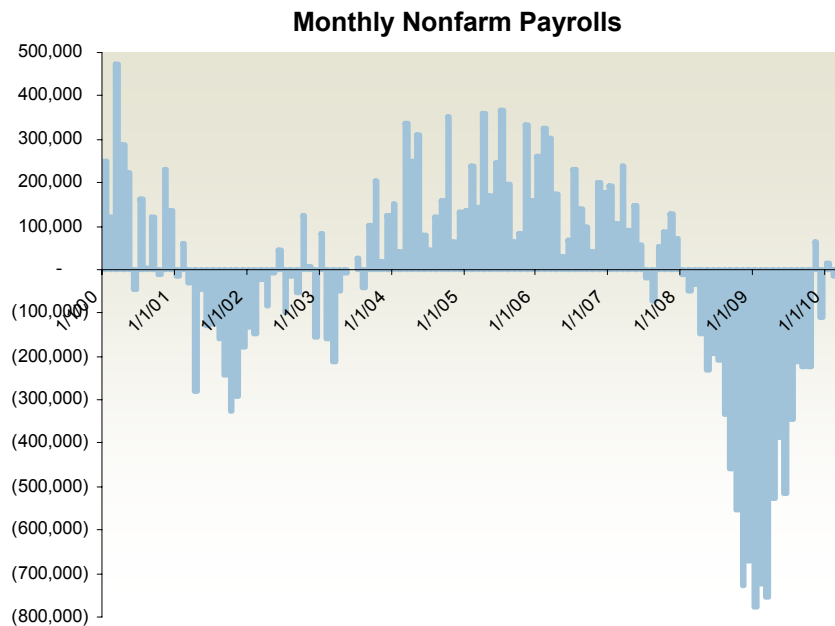
Moody's/REAL Commercial Property Price Index (CPPI)
All Properties-National Index



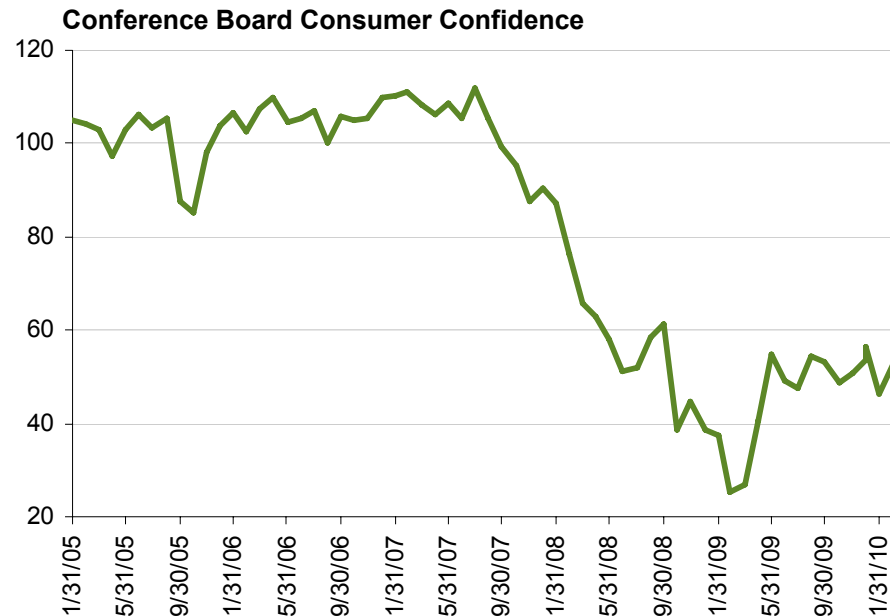
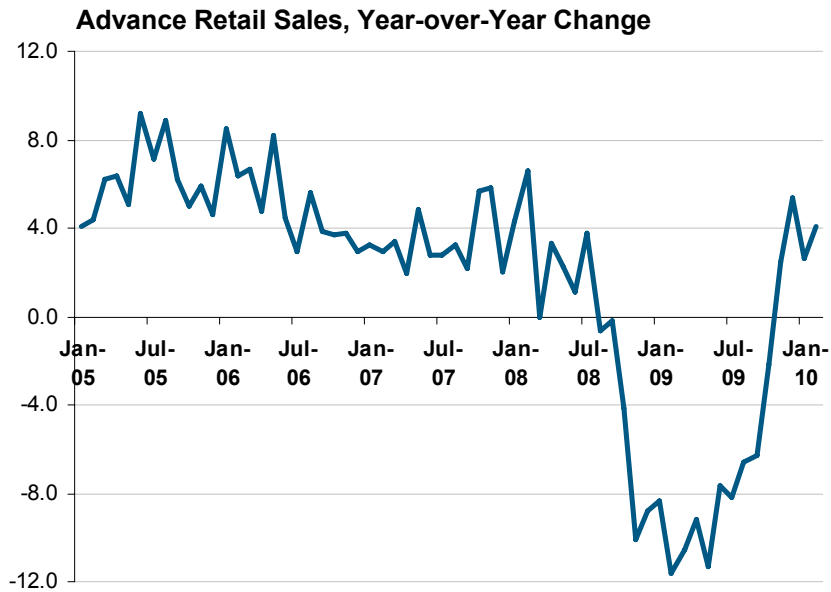
- After notable improvement driven by homebuyer tax credits, housing market activity slipped again this winter, with sales declining from their recent peak of a 6.5 million unit annualized rate in November 2009 to just over 5 million annualized units in January 2010.
- New home sales likewise remain depressed, keeping new construction activity at a minimum; even so, inventory overhangs persist in both the new and existing home markets.
- While sales in some areas of the country appear to be stabilizing (Northeast, Midwest), there are no signs of widespread improvement. Recovery in the most devastated areas of the country may take decades.
- On a more positive note, residential home prices appear to be at least stabilizing, although inventory overhang, tight credit, mortgage distress, and a weak labor market are very strong headwinds to future appreciation.
- Despite lagging collateral performance, U.S. commercial real estate prices and investor demand picked up in the first quarter of 2010, giving hope that a bottom has been reached. While debt maturities and tight credit access as well as stalled construction will continue to plague the sector, the current aggregate overall capitalization rate of 8.42% offers an attractive entry-point for investors, especially if labor market trends are turning.

Unemployment: Single up the Middle

- Net job gains finally posted a positive reading in March 2010, at an impressive +162,000 rate, in what we expect will be the start of monthly payroll additions after the loss of some 8.4 million American jobs since the start of this recession.
 - 48,000 of those jobs were the result of temporary hiring related to the U.S. Census.
 - Hiring at the Census Bureau is expected to total 1.15 million temporary workers, which will boost payrolls significantly over the next few months, before becoming a drag on employment after the work is done.
 - Meanwhile, job additions have been recorded in manufacturing payrolls for the last three months, and construction industry payrolls posted their fastest growth in three full years.
- However, the unemployment rate remains elevated at 9.7%, and the so-called “U6” measure of employment (including discouraged and underemployed workers) ticked higher to 16.9% in the most recent month.
- Against the backdrop of a still weak labor market, it is no surprise that income gains have been limited, causing the personal savings rate to decline to 3.1% from its peak of over 6% as consumers struggle to fund their spending needs.



Consumers Putting Together a Rally

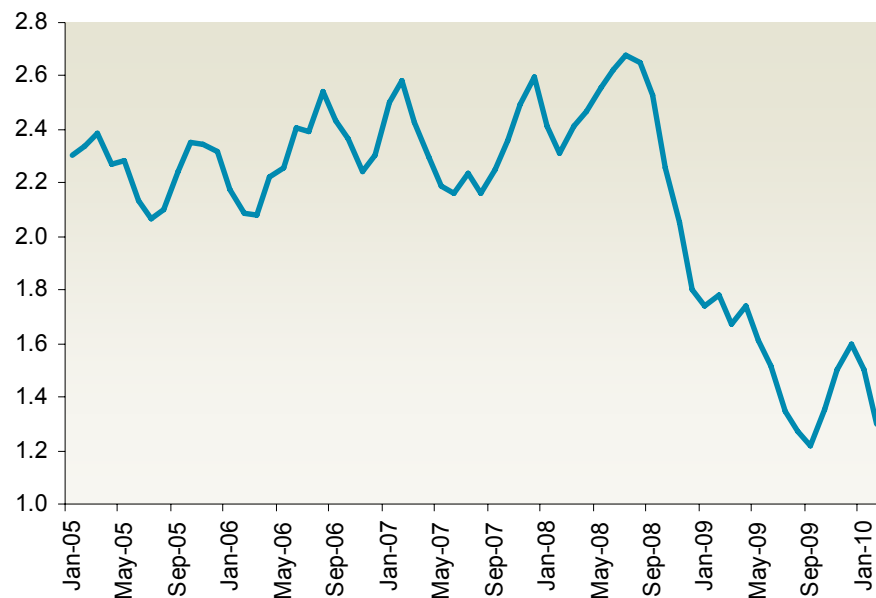


- Retail sales have increased from their depths recorded early in 2009, with particular strength since December as pent-up demand was finally satiated with broad-based spending in nearly every retail category.
- Yet consumer confidence remains low despite this spending activity, reflecting persistent concerns over high unemployment and the destruction of net worth resulting from the collapse in the housing and financial markets.
- Indeed, consumers have been working to deleverage; however, even though households have reduced their debt by \$112 billion since August 2008, debt-to-income is still at a shockingly high 125% at March month-end.
- Aiding in that deleveraging effort has been the federal government, under the auspices of the Home Affordable Modification Program (HAMP). By allowing for principal reductions and refinancings of homes with 115% loan-to-value, consumers are getting some much-needed breathing room, and are taking advantage of it by ramping up expenditures.

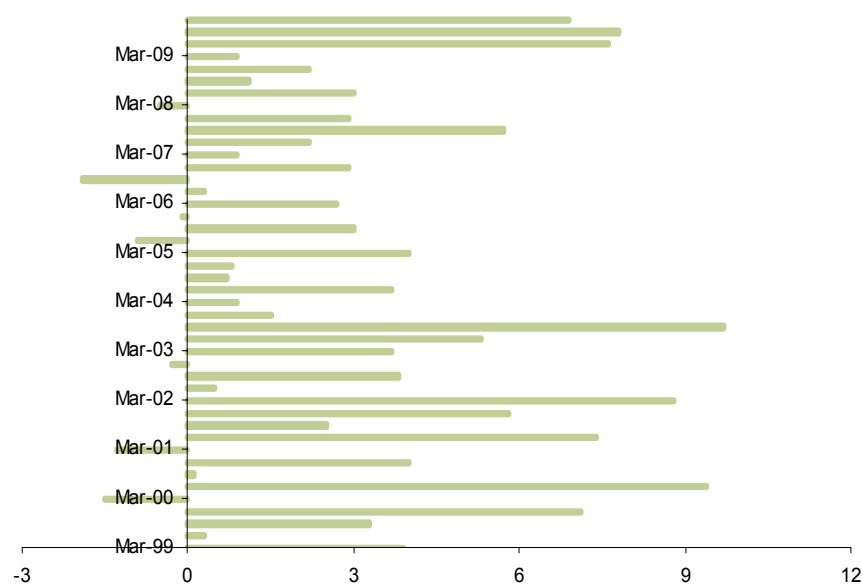
Inflation Remains On the Bench

- Inflation statistics continue to be benign, and the threat of deflation appears to have subsided as the economy stabilized in 2H09.
- Going forward, the risk for a significant surge in inflation is limited given strong productivity gains and low levels of resource utilization. However, a lesson of the 1970s is that inflation can surge even when there is excess capacity.
- Furthermore, the perception of inflation could still pose a threat, given the massive surge in bank liquidity and the monetary base, as well as extraordinary federal deficit spending.
- As such, it seems likely that long-term interest rates will be pressured higher, with the yield curve to maintain its steep slope. The actual experience of inflation, particularly in the most meaningful categories of wages and owner's equivalent rent, will likely be limited.
- Given these concerns, we would expect investments perceived as an "inflation hedge" will continue to trade at a premium in 2010.

PCE Core (Ex-Food & Energy) Inflation, YoY % Change

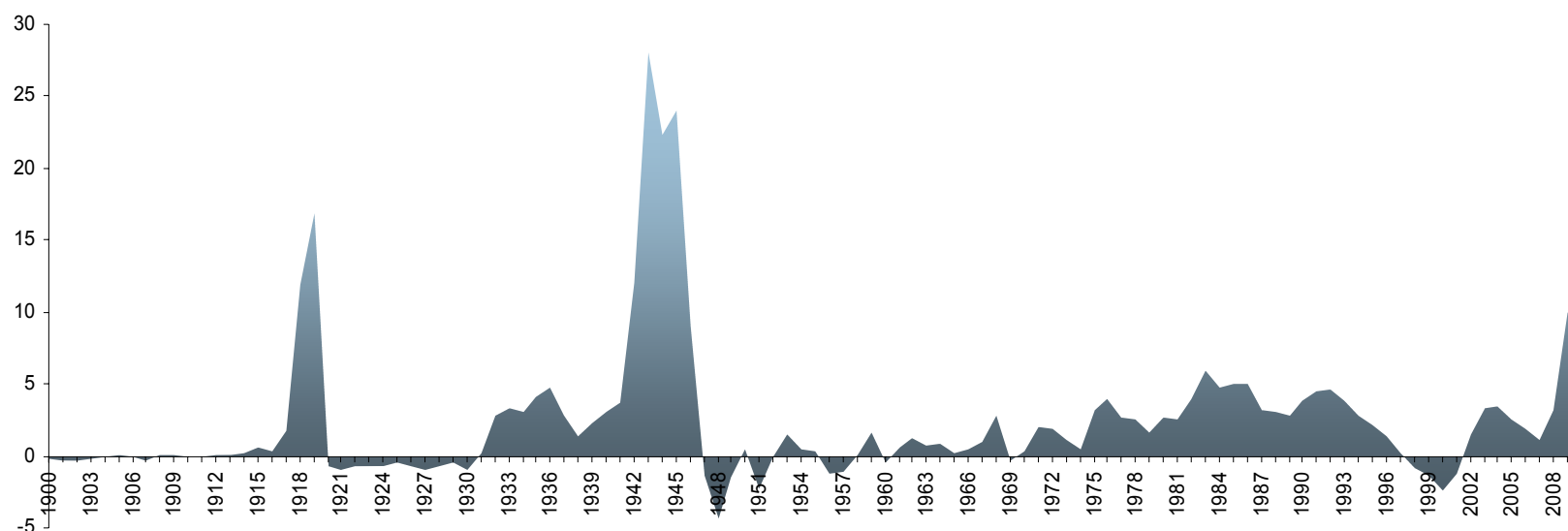


Non-Farm Productivity, YoY % Change



A Deep Threat: U.S. Federal Deficit

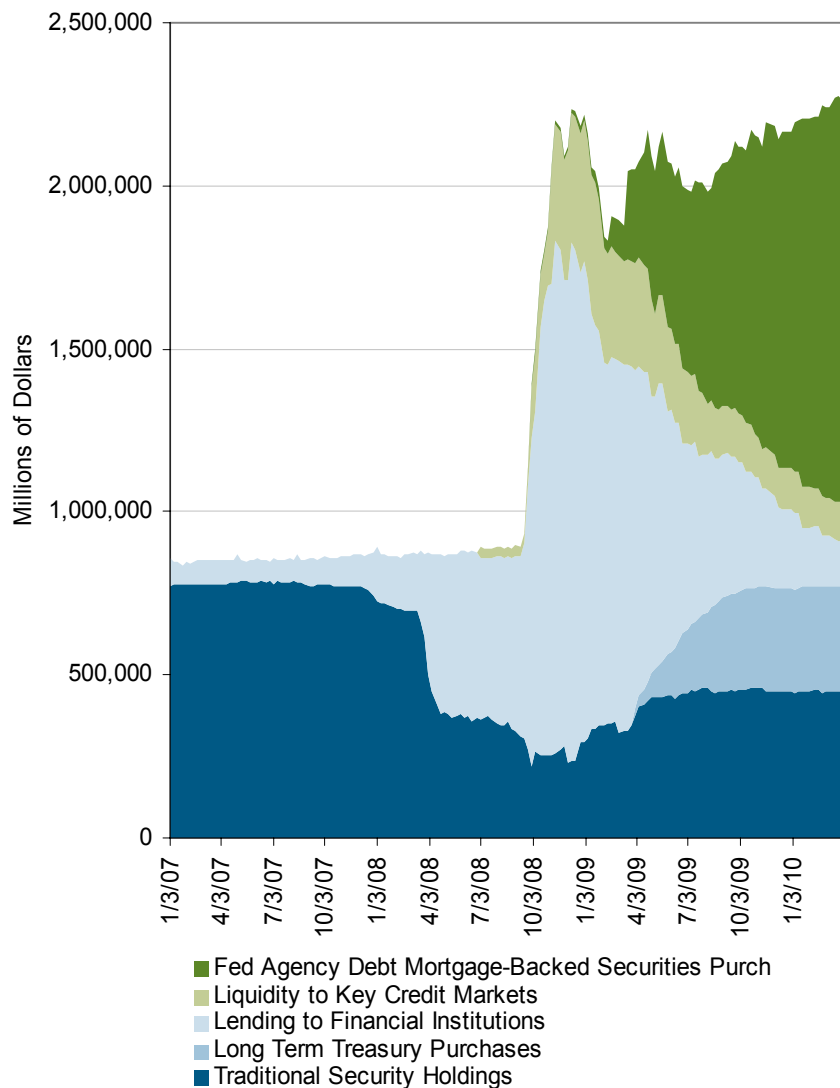
U.S. Federal Deficit as a % of GDP (1900-2010)



- While the \$750 billion bank bailout known as TARP (Troubled Asset Relief Program) and the \$787 billion American Recovery & Reinvestment Act of fiscal stimulus were absolutely necessary to pull the economy out of the depths of recession, the result of this political largesse has been a soaring federal deficit, now over 10% of U.S. GDP.
- With U.S. federal debt as a percentage of GDP close to 100%, we are one of the largest debtors (relative to GDP) in the world, in the illustrious company of Zimbabwe, Greece, Jamaica, Italy, Japan, and Lebanon.
- Adding to concerns are the rising costs associated with established entitlement programs like Social Security, Medicare, and Medicaid, as well as the implications of the new \$1 trillion health care reform package.
- For now, the “AAA” credit rating of the U.S. is not at risk according to the rating agencies; nevertheless, fears are mounting about the financing of such massive Treasury debt issuance, which could create increasing annual interest expenses that will further exacerbate the deficit problem.
- With large spending cuts unrealistic in this post-recession environment, the administration is targeting tax increases to bridge the gap, and it appears the maximum marginal federal tax bracket could reach as high as 43.4% by 2013, with those paying state income taxes looking at an over 50% rate.

Monetary Policy: No Curveballs Please

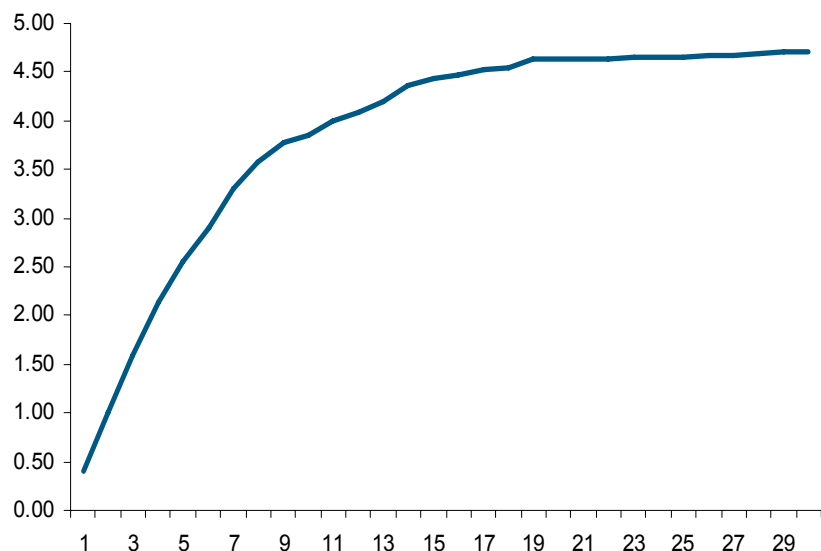
Federal Reserve Balance Sheet. 1/07-3/10



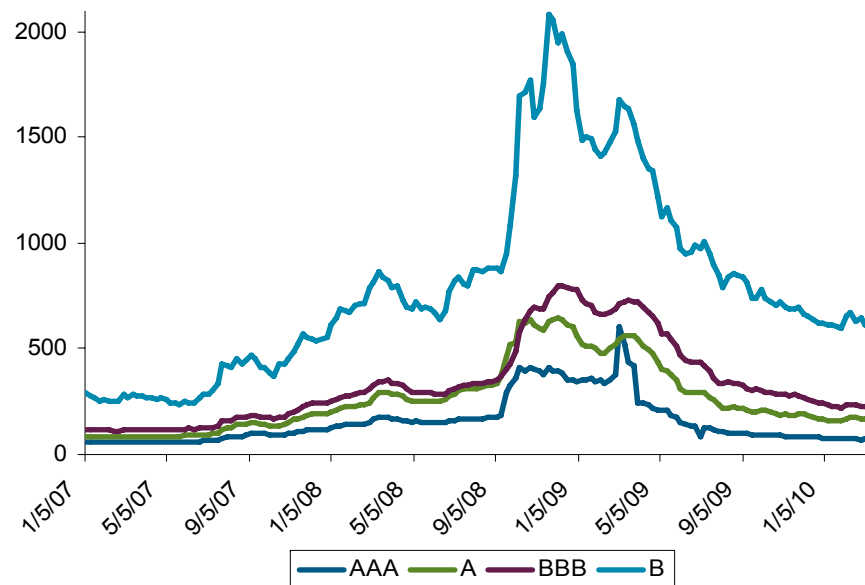
- Despite mounting evidence of an end to the recession, the Fed has maintained their commitment to keep the federal funds target rate at “exceptionally low levels for an extended period,” in addition to completing the full scope of their \$1.25 trillion quantitative easing program.
- The Fed’s balance sheet remains above \$2 trillion, more than double its 2007 size, with a significant portion of its holdings in agency mortgage-backed securities.
- As currently constituted, the Fed’s securities portfolio stands to lose as much as \$1 billion for every basis point increase in interest rates, putting pressure on central bank credibility and independence in this toxic political environment.
- While there is only speculation as to the timing or method of an exit from accommodative policy, we believe the Fed will move to modify monetary policy in 2H10 at the earliest (perhaps after mid-term congressional elections), with a modest hike higher in the fed funds rate, and an announcement of a small pilot asset sales program.
- In at least one preliminary move, the Fed raised the discount rate at which banks can borrow directly from the Fed by 25 basis points to 0.75% in February in an effort to normalize its spread relative to the fed funds rate.

Leadoff: Interest Rate and Credit Markets

U.S. Treasury Yield Curve

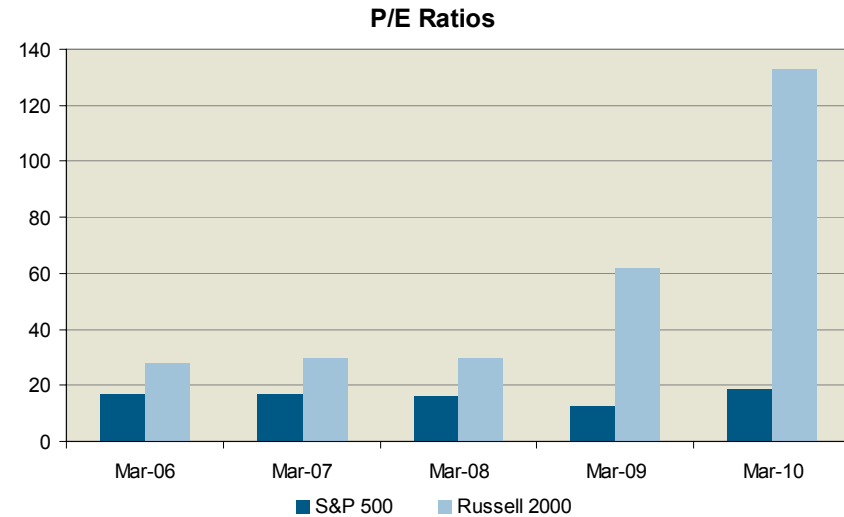
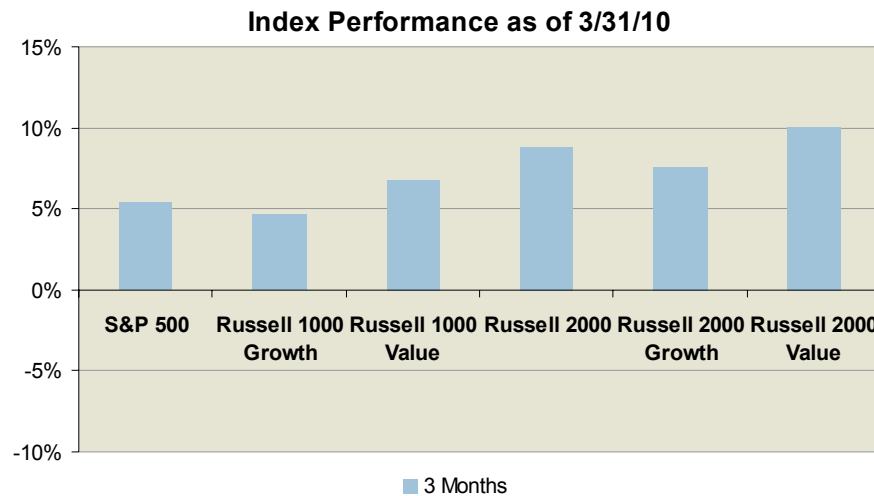


Credit Spreads, Jan '07- Mar '10



- We believe the Treasury yield curve will remain steep until the Fed ultimately makes a move to change interest rate policy, and interest rates will be pressured higher due to strong economic data, recovery in equity markets, inflation concerns and massive new issue supply.
- Investment-grade corporate bonds will likely continue to outperform Treasuries, although they will earn a more modest “coupon clip” excess return, rather than the double-digit gains experienced in 2009.
- Meanwhile, high yield bonds have more spread tightening to go, and will likely be buoyed by limited default experience and continued insatiable investor demand.
- The municipal sector can also be expected to outperform Treasury markets, as the sector benefits from long-term demographic shifts in the age of the U.S. population, as well as the expectation of higher future tax rates and the resulting increase in demand for tax-free income.
- New “Build America Bond” (taxable debt sold by municipalities in return for a 35% tax credit from the federal government) had the best performance of any fixed income sector in the first quarter 2010; “BABs” still offer good value with yields that are significantly higher than Treasuries and comparable to similarly-rated corporate bonds.
- The agency and mortgage-backed security sectors have thus far survived the end of quantitative easing with limited spread widening. But the risk of asset sales as part of the Fed’s exit strategy still looms, although limited new origination and GSE prepayments will help absorb some of that supply.

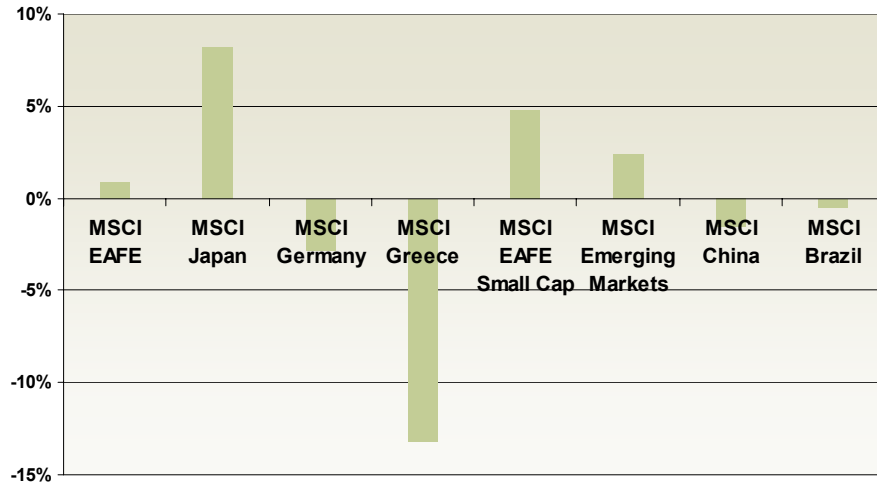
On Deck: Domestic Equity Markets



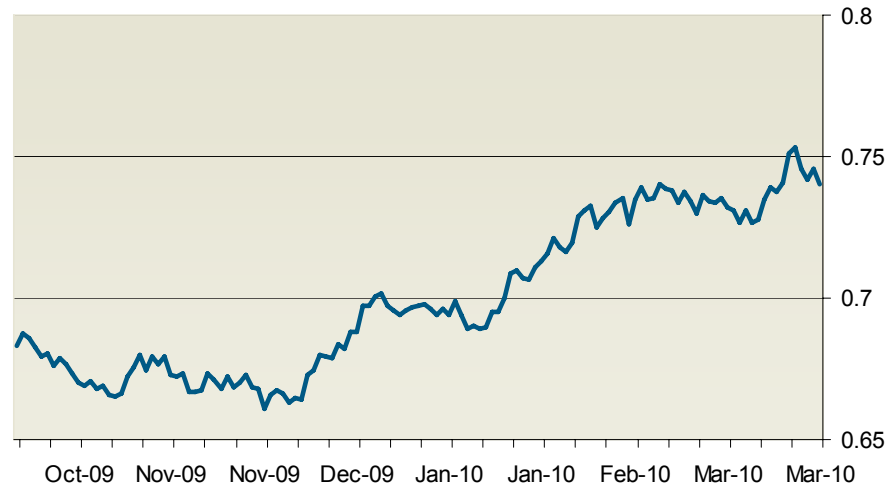
- Domestic equity markets started off 2010 on the right foot despite early weakness experienced across the spectrum in January. Following solid returns in February, markets enjoyed an excellent month in March, capping off a quarter in which U.S. stocks soundly trounced their international competition.
- Outperformance in smaller capitalization stocks continued into 2010, keeping pace with their larger cap counterparts during January's pullback and charging ahead through the end of March.
- Value reasserted its dominance during the quarter, as investors appeared to flock to pockets of the equity markets where stocks trading at reasonable historical multiples still exist. Interestingly, during January's pullback in which the Russell 1000 index dropped -3.6%, the Russell 1000 Value index performed better, returning -2.8%, while the Russell 1000 Growth index dropped -4.4%. The differential was even greater in the small end of the capitalization spectrum, as the Russell 2000 Value returned +10% for the first quarter, while the Russell 2000 Growth provided investors with only a +7.6% return.
- Positive momentum in U.S. economic data has prompted a continuation in the rally which culminated in a +26.5% return for the S&P 500 for the year ending 12/31/2009. Investors seem keen on the prospects for an economic recovery, and appear willing to drive up stock prices as the Federal Reserve remains on hold, keeping interest rates low and allowing for continued favorable borrowing terms.

In the Hole: International and Emerging Markets Equities

Index Performance from 12/31/09-3/31/10



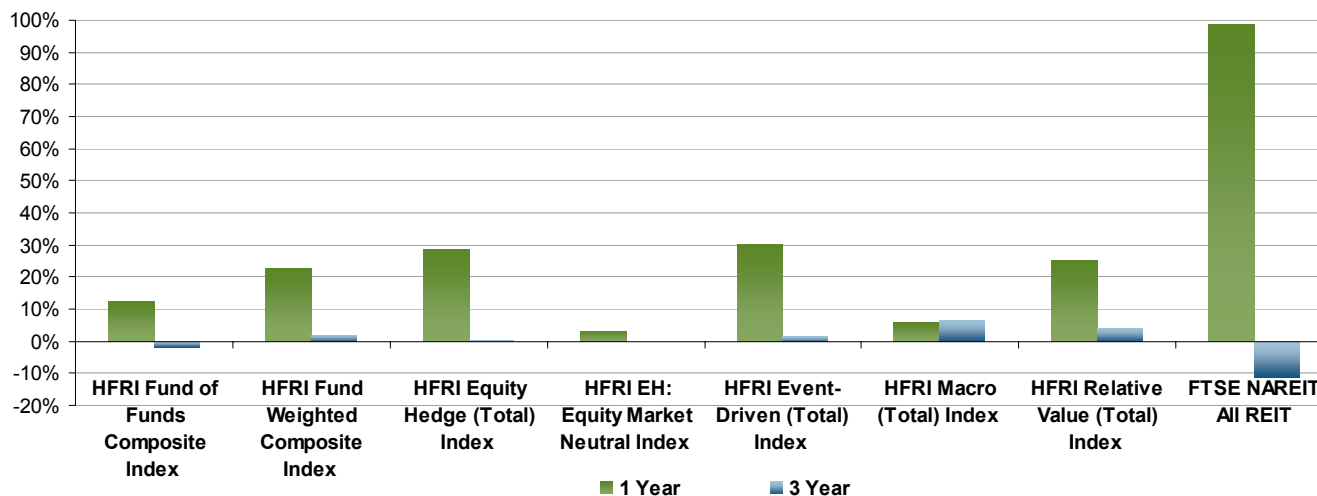
USD/EUR Exchange Rate



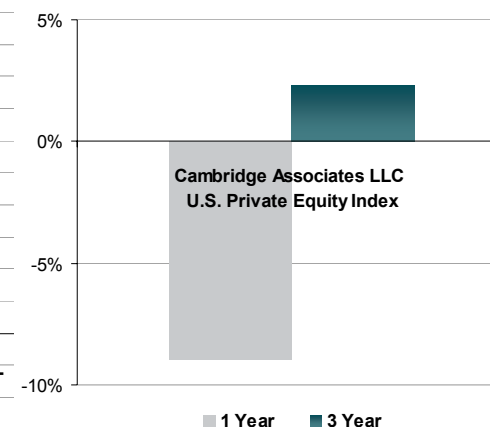
- The MSCI EAFE, and developed international markets as a whole, trailed domestic market performance in the first quarter, continuing their fourth quarter 2009 trend. Japan, which posted only a +4.4% gain for all of 2009, almost doubled that in the first quarter, as investors flocked to find deals in a market which 2009 basically left behind.
- Continued high unemployment resulted in weak consumer confidence in Europe, and the lack of a recovery in domestic demand in the region weighed on the sentiment for EAFE small capitalization companies in the quarter. A recovery in consumer demand should allow smaller companies to expand market share and grow their businesses, but stabilization across the region is necessary before this demand is likely to come on-line.
- Robust economic data and signs of inflation made tightening a reality in India and a very real possibility in China and the MSCI Emerging Markets index suffered as a result. Despite a sharp pullback in January, investor enthusiasm and a return to risk prompted strong returns in March, although both China and Brazil closed the quarter down. Volatility in this space is likely to continue in the coming months given the uncertain fiscal and monetary policy environment.
- Sovereign debt concerns in countries such as Greece and Portugal drove the euro down during the quarter, while the dollar experienced a nice rally as investors moved to decrease their exposure to the falling currency. As a result, U.S. based investors experienced lower returns on their investments in EAFE, after benefiting from dollar weakness through much of 2009. Further stabilization in the dollar will mean that headwinds may persist.

Pinch Hitting: Alternative Investments

Index Performance as of 3/31/10



Index Performance as of 9/30/09

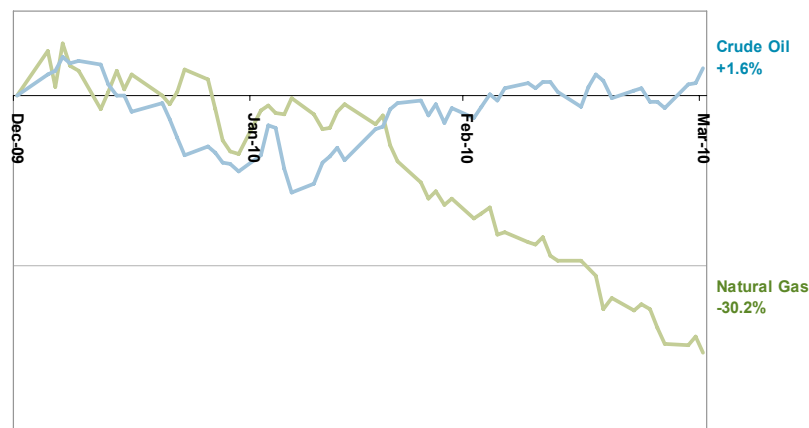


- The HFRI Fund Weighted Composite index earned +2.6% in the first quarter, notably trailing the S&P 500's +5.4% return. Surprisingly, the best returns came from Emerging Markets (which broadly underperformed the S&P 500 during the quarter), which were driven by strong returns in Russia and the Eastern European region. The more diversified fund of funds index earned +1.5% for the quarter.
- Certain hedged strategies, such as equity hedge, could perform well given the expectation for continued volatility in the equity markets in 2010, while strategies that rely heavily on leverage to generate returns may lag.
- After a disastrous 2008, REITs staged a strong recovery in 2009, rising nearly +30%. That strength continued through the first quarter of 2010 as the REIT index appreciated +9.6% and was among the best performing market segments. While there is still some nearer term uncertainty (with commercial real estate in particular), real estate may continue to perform well in 2010 and over the longer term. Within real estate private real estate is favored over public and we advocate having exposure to both domestic and non-US real estate assets.
- Private equity investors experienced disappointing results in 2008 and 2009. However, for disciplined (and qualified) investors with true long term horizons, the 2009 and 2010 vintage years could prove to be tremendous opportunities and feel investors should allocate to this asset class when possible.

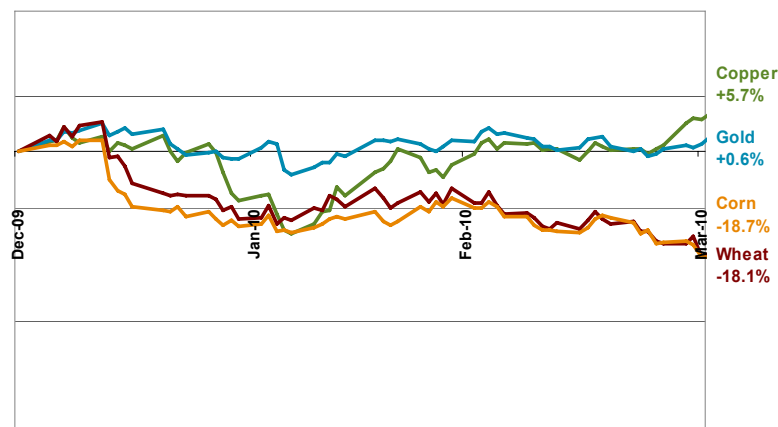
Cleanup: Commodities Review & Outlook

- Crude oil benefited from encouraging economic data late in the first quarter as signs of a sustained recovery helped move prices slightly higher. Natural gas remains weak, as seasonal usage in the U.S. abates and industrial demand has yet to rise by a large enough factor to absorb the excess supply currently in the market. As the economic recovery strengthens, it should bolster demand, and drive an increase in prices from this quarter's depressed levels.
- Gold received a bit of a bump this quarter as sovereign debt concerns in Europe compelled some investors to buy the precious metal in the event the weakness spread to other countries saddled with outsized debt levels.
- Copper enjoyed an excellent run in 2009 on the back of China's stimulus driven move towards recovery. The metal pulled back during the quarter briefly as the potential for tightening monetary policy in Asia prompted concerns of lowered demand for the industrial metal. However, copper rebounded along with the Asian markets in March. Prices should continue to trade around current levels in the near term.
- Agricultural commodity prices declined in the first quarter, as supply continues to outpace demand and muted inflation concerns keep hedgers on the sidelines. The long term prospects for commodities are attractive, and increasing demand from developing economies could result in a multi-year bull market in the space.

January 2010 - March 2010



January 2010 - March 2010



Disclosures

All investment advisory services are provided by Silver Bridge Capital Management, LLC, a registered investment advisor affiliated with Silver Bridge Advisors, LLC.

Economic commentary contained in this presentation is for informational and educational purposes only and the accuracy and completeness of sourced data is not guaranteed. None of the information contained in this commentary is intended as investment advice or securities recommendations to any person.