INVESTMENT REVIEW, THIRD QUARTER 2003

Market Commentary and Outlook:

The bond market's weakening tone toward the end of the second quarter turned into a full-fledged rout during the third quarter as yield levels spiked up significantly during the months of July and August. From a forty year low of 3.11% reached on 6/13/03, ten year Treasury yields rose by an unprecedented 149 basis points to 4.60% by 9/2. They have since settled back to just under 4.00% by quarter-end. The municipal market held up better on the way down but still saw yield levels rise by 122 basis points from the June low. As an indication of the extreme market volatility, we note that the market went from the 12 month low in yield to the 12 month high within the span of just two months. The tax-exempt market did make a solid recovery during September as supply dwindled and investor demand picked up.

Looking ahead, we believe current yield levels have appropriately discounted a modest economic recovery and should remain in a trading range until year-end. Whether or not this marks the beginning of a new bear market in bonds remains to be seen. Since economic activities remain anemic at best, we expect the Federal Reserve to maintain an accommodative posture until at least the first quarter of next year.

Portfolio Strategy:

Our separate accounts' defensive characteristics paid off handsomely during the recent market sell-off. As discussed below, we were able to maintain a weighted average quality profile of "A" while outperforming the Lehman Index both on an income and on a total return basis.

Throughout the quarter, we continued with our strategy of selectively exploiting credit opportunities in the "BB/BBB" sector of the market while maintaining a defensive posture in the high grade portion of the portfolio.

The tobacco sector made a strong comeback during the quarter following a string of legal victories for the major cigarette manufacturers. Volatility in the sector continued to be high, however, as yield levels fluctuated within an extremely wide 80 basis points band. While the short-term outlook for the sector appears to have stabilized, headline litigation risk remains a concern and we will continue to closely monitor any new development. In the meantime, our previous strategy of buying as much coupon income as possible in this sector has contributed significantly to our portfolios' tax-exempt income stream.

With the recall election now over, the State of California remains an interesting credit play. While we believe the worst of the fiscal crisis is behind us, the State continues to flood the market with deficit financings, thus keeping yield levels on California paper at attractive levels. On that basis, we intend to increase our portfolios' exposure to the California sector throughout the coming quarter.

Other targeted investments for the upcoming quarter include such diverse names as Sierra Pacific Corp. and Hillcrest Hospital.

Performance:

For the quarter ending 9/30/03, the aggregate total return for our separate accounts after management fees was +2.88%, compared to a +0.08% total return for the Lehman Municipal Bond Index. The relative out-performance of 280 basis points was primarily due to the portfolio's shorter duration (5.97 years versus 8.19 years for the Index) as well as a general spread tightening within the high yield sector. The yield-to-worst for our portfolios also increased by 37 basis points this quarter to 5.42%, compared to 3.55% for the Index.

In terms of individual issues, the runaway out-performers for this period were the Bedford, VA guaranteed by Georgia-Pacific and the Golden State Tobacco bonds, which returned 8.07% and 3.05%, respectively.

The worst performer for the period was the Massachusetts HEFA/Caritas Christi issue, with a total return of -0.49%. We continue to be optimistic about the short-term outlook for this credit, based on current trading levels.

Aggregate Portfolio Summary (9/30/2003)

COUPON	6.32%
S&P RATING	A
MOODY'S RATING	A3
AVER. MATURITY	20.00
MOD. DURATION	5.97
YTW	5.42%
YTM	5.84%
CURRENT YIELD	6.06%