MTB Investment Advisors

Manager Commentary

Fixed-Income Strategies

2Q • 2010

Market Overview The second quarter of 2010 saw a reversal of the first quarter's economic momentum as the European sovereign debt crisis moved to the forefront and the US economy showed signs of weakness, rattling already cautious investors and dashing hopes that the Federal Reserve would raise the fed funds rate by the end of the year. At the end of the quarter, fed funds futures predicted a 25 basis point move in June of 2011 to 50 basis points, but even this prediction may be optimistic. This reality, along with the flight to quality, the low inflationary environment, and negative economic statistics (especially over the latter part of the quarter), contributed to plummeting interest rates – the ten-year Treasury dropped by nearly 90 basis points to 2.93%, whereas the two-year Treasury fell by 42 basis points to 0.60%, resulting in a flatter yield curve. The yield curve flattened due to extremely low inflation coupled with the idea of a longer-term low interest rate environment prompting investors to venture further out on the curve.

In the US economy, the housing market took a hit with the expiration of the new homebuyer tax credit program in April, illustrated by new homes sales which were the worst on record in May, nose-diving 33% to 300K, well below expectations. The stubborn unemployment rate dropped slightly to 9.7%, likely due to the increase of temporary census workers and the weary unemployed dropping out of the job market. Consumers curtailed spending, reflected in the -1.2% month-over-month change in retail sales. Meanwhile, in the international economy, the three-month LIBOR nearly doubled to 53 basis points with an increasingly uncertain economic outlook for Europe, though the rate has stabilized at that level as a result of European leaders agreeing on a "rescue" package in a show of fiscal market support.

In the markets, corporates underperformed as risk premiums increased in response to concerns over the spill-over effects of the European sovereign debt crisis, along with profit taking. Mortgages outperformed over the quarter as supply waned given the demand-starved housing market. Overall, the Barclays Aggregate Index increased 5.33% year-to-date, outperforming equities for the first half of the year.

Strategy Review During the quarter we maintained an overweight to corporates, though slightly reducing the positions in each strategy, and remained increasingly selective regarding specific issuers. We still believe corporates have an advantage over risk-free securities due to the inflated supply of US Treasuries, coupled with an improving economy, however slow. We underweighted the MBS sector as we believe the sector will remain weak over the long term without the Fed as a major buyer. Furthermore, these securities currently have expensive valuations.

In the shorter-term strategies, we extended duration with the expectation that the Fed will keep the fed funds rate on hold at least through 2010, and likely through the majority of 2011. We also took advantage of securities priced off the LIBOR curve, given the LIBOR's climb in response to European economic trouble. In our longer-term strategies, we kept duration neutral or slightly short of the benchmark duration.

Outlook While we do not expect a double-dip recession, we do expect the economic recovery to keep a slow and steady pace, with a few bumps along the road. While in previous commentaries we stated that we expected the Fed to increase the rate in November given the likelihood of stronger economic growth, including a full year of positive GDP growth, we have since revised that expectation. Given the sovereign debt crisis in Europe, the stubborn US unemployment rate, expiring government stimulus programs, and a historically low inflation rate, we do not expect the Fed to move until sometime in 2011. As fiscal remedies are removed, growth may deteriorate, driving interest rates lower before they move up once the economy readjusts. As this occurs, we will continue to increase the quality of the portfolios, adding risk-free securities and selling high beta corporate names.

JAMES M. HANNAN
Managing Director of Fixed Income Strategy, and Co-Portfolio Manager of the MTB Short Duration Government Bond Fund, the Income Fund and the U.S. Government Bond Fund.
Mr. Hannan is responsible for directing the fixed-income strategy and process at MTBIA, and managing separately managed accounts and the MTB Income and MTB U.S. Government Bond Funds. He joined MTBIA at inception in 1995 and has over 20 years of experience trading money market instruments and fixed-income securities. Mr. Hannan earned his B.S. from the University of Maryland and his M.B.A. from George Washington University.

WILMER C. STITH III, CFA
Portfolio Manager Intermediate-Term Bond Fund, Short-Term Corporate Bond Fund, and Co-Portfolio Manager of the Income Fund, and the U.S. Government Bond Fund
Mr. Stith manages the MTB Short-Term Corporate Bond, MTB Income Fund, MTB U.S. Government Bond and the MTB Intermediate Bond Funds, with over 19 years of fixed-income investment experience. He also manages institutional separate accounts with intermediate and long-term fixed income objectives, as well as money market accounts. In addition, Mr. Stith coordinates fixed-income trading for the firm. Prior to joining MTBIA in 1995, Mr. Stith was an investment executive with the Treasury Banking Group of First National Bank of Maryland in Baltimore, Maryland. Mr. Stith earned his B.A. from Kenyon College and his M.B.A. from Loyola College in Maryland.

Past performance is no guarantee of future results.

References to indexes are made for comparison purposes. Indexes are unmanaged and cannot be invested in directly. Comparisons of fund quantitative measures (such as alpha, beta, etc.) with similar measures of the benchmark index are based on fund holdings as of the date shown, and both account holdings and the comparative statistical relationships are subject to change. Similarly, data with regard to sector allocation, quality distribution, and other holdings-based measures are as of the date shown, and may not reflect current holdings.

Financial and statistical information provided is obtained or derived from sources deemed reliable but is not guaranteed as to accuracy or completeness.

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices. Income generated by these funds may be subject to the federal alternative minimum tax.

Mortgage-backed securities (MBS) is a debt obligation or asset backed security that is a claim on the cash flows from mostly residential mortgage loans.

Gross-Domestic Product (GDP) is a measure of the market value of all goods and services produced within a country annually.

Basis Point (often denoted as bp) is a unit relating to interest rates that is equal to 1/100th of a percentage point per annum frequently used to express differences in interest rates of less than 1%.

LIBOR – The London Interbank Offered Rate is an interest rate at which banks can borrow funds in marketable size from other banks in the London Interbank exchange.

FOMC – Federal Open Market Committee – creates monetary policy. Mutual funds are subject to risks and fluctuate in value.

Opinions and projections contained herein reflect our opinion as of the date of the analysis and are subject to change without notice. This report is distributed for information purposes only and is not intended to be relied upon as a forecast, research, or investment advice. It is not a recommendation, offer, or solicitation to buy or sell any securities or to adopt any investment strategy.

MTB Investment Advisors, Inc., a subsidiary of Manufacturers and Traders Trust Company ("M&T Bank"), is the investment advisor to the MTB Group of Funds. ALPS Distributors, Inc., which is not affiliated with M&T Bank, is the distributor of the MTB Group of Funds.

For more complete information, please download the Funds' prospectus available on www.mtbfunds.com or call 1-800-836-2211 for copies. You should consider the Funds' investment objectives, risks, charges and expenses carefully before you invest. Information about these and other important subjects is in the Funds' prospectus, which you should read carefully before investing.

This does not constitute an offer to sell securities.

For investment professional only