

L M CAPITAL GROUP, LLC

Investment process:
**Global macroeconomic /
Fundamental**

Total firm assets:
\$1.25 billion

2ND QUARTER, 2003

GLOBAL MACRO ECONOMIC FORCES CREATE THE PERFECT STORM FOR OPPORTUNISTIC CORE PERFORMANCE

The second quarter, 2003 appears to be a continuation of the past 15 months for Core Plus strategies, including our Opportunistic Core product, as the performance engine continues to fire on all cylinders - US investment grade issues, non-dollar securities, US high yield, and US dollar denominated emerging market debt. It is rare to see all the components of this strategy simultaneously contribute so strongly to a portfolio's performance as they have during the past four months. But global macro economic forces have aligned to produce outstanding results as markets adjust to deflationary fears and global investors repatriate money to their home country and local currency.

US monetary and dollar policy appear very supportive for the Core Plus strategy. Monetary policy is very accommodative; the policy is encouraging low interest rates while also attempting to stimulate the economy, thus creating a favorable environment for US high yield securities. This also lends support to emerging market debt which is often priced relative to US Treasuries. Finally, actions speak louder than words regarding the US policy for the Dollar exchange rate. The unofficial policy of dollar weakness is very supportive for the non-dollar sector.

When coupled with an overall supply shortage in the US investment grade market, and a resurgence of the US high yield sector, Core Plus strategies are producing excellent results while still offering some defensive characteristics against such scenarios as a rebound in US interest rates fueled by a stronger than anticipated economic recovery.

The outlook for the remainder of 2003 remains very positive for this strategy, as the US markets appear poised for a further drop in interest rates, or at least a steady rate environment. The US high yield sector is attracting investors seeking incremental yield, and emerging market debt, especially in Latin America, appears free of any major political or social events that might undermine the positive momentum of those markets. Finally, higher yields in Canada, Australia and Europe are attracting fixed income investors while those securities also benefit from the continued decline in the US Dollar.

As stated in our last newsletter, we continue to believe that the Core Plus strategy will be a key investment option for institutional plans seeking broad market exposure and more attractive returns in their fixed income allocation without assuming significant additional risks.

EMERGING MARKETS ECONOMIC COMMENTARY

LUIS MAIZEL

The first quarter was spectacular in the emerging markets, with returns over 6% beating every asset class by several hundred basis points.

The search for higher yields, the new inflows to emerging market debt funds and a higher amount of maturing debt versus new issuance created an imbalance of demand over supply which, when added to favorable macroeconomic conditions, drove prices up and yields down.

Brazil was the main driver of this rally as President Lula changed the platform that carried him to the Presidency. He acted and sounded more like a right-wing leader, promoting very conservative spending patterns and not promising any of the populist programs the voters were expecting. Investors were delighted by the fiscal restraint and the lure of high rates and they aggressively bought bonds, pushing prices up 20 and 30%.

I believe that Brazil is progressing nicely but it is important to not lose sight of the high debt and social imbalances that created the crisis in the past.

Argentina completed the electoral process and will install Nestor Kirchner as the new President; he is a moderate Peronist that will probably be fiscally conservative and who is expected to include members of the opposition in his cabinet. I expect the IMF to start negotiations immediately and some form of foreign debt restructuring will probably be proposed in the near future with several options for investors ranging from a major haircut for immediate payment to a lengthening of maturities at a lower rate without loss of principal.

Mexico has narrowed its country risk spread to 205 bp, a historical low and I'm concerned because I feel this is too low considering the difficult microeconomic times the country is experiencing and the drop in the price of oil after the war in Iraq.

Eastern Europe started placing new debt, mostly in Euros, led by Poland and the Czech Republic which are raising money to upgrade their utilities to Western standards.

As the global economy slows down, the emerging markets, who are mostly exporters of raw materials, will face difficult times. It will be very important to monitor them very closely while taking advantage of the high returns and above average performance yet avoiding the pit falls of those countries that are hurt by the changing environment.

Fixed income markets continued to mark time in a trading range environment as the forces of deflation versus economic recovery, or reflation, remained equally balanced. This balance was upset by the FOMC's May announcement regarding deflation concerns, which was quickly followed by additional comments from Chairman Greenspan indicating that deflation was the Fed's primary concern.

Our proprietary Trend Identification Score, which is based upon macro economic fundamentals, had been in neutral territory during the first quarter, 2003 and recently shifted to a slightly bullish indication. As a result, we have adjusted the domestic portfolios' average duration from a neutral position relative to the benchmark index to five to ten percent long versus the benchmark index. This was primarily achieved by swapping high coupon GNMA securities for 5.0 % coupon GNMA's, by extending the average maturities of the US Treasury allocation through the use of US Treasury STRIPs, and by reducing the portfolio's cash balance. Maturing corporate securities were replaced with ten year corporate notes. These changes occurred in early April and resulted in improved portfolio performance in April and May.

Given the economic fundamentals, and the unusual circumstances surrounding the new battle with deflation, we are maintaining a cautiously bullish outlook for interest rates. This is balanced against an acute shortage of bonds, as corporate, agency and even MBS new issuance is not satisfying market demand. Only US Treasury new issuance is increasing significantly, and these securities are being well received in the marketplace as investors seek bonds with longer maturity and duration characteristics for their portfolios.

Our outlook calls for continued low interest rates through year-end, 2003. There is a strong probability that the Fed will lower interest rates before year-end, and this expectation is priced into the bond market. We see no fundamental indicators that could lend support to a sustained upward trend in interest rates until we are well into 2004 at the earliest. In fact, our global fundamental analysis suggests that longer-term rates could continue their precipitous decline in the immediate future as deflationary fears dominate market sentiment.

SHELL OIL CO. SELECTS LM CAPITAL TO MANAGE \$33 MILLION CORE FIXED INCOME

San Diego, CA, April 22, 2003 - LM Capital Group, LLC, a leading San Diego-based fixed income investment manager for institutional clients, today announced that it has been selected to manage a \$33 million core fixed income portfolio for Shell Oil Company. LM Capital was selected to manage the account as part of Progress Investment Management's Fund of Funds product.

"LM Capital Group is very pleased to work with Progress Investment Management and Shell Oil, an industry leader and Fortune 500 company," said John Chalker, Managing Director of LM Capital Group. "Shell Oil is the second client that Progress has assigned to LM Capital, and we believe that it reaffirms Progress' confidence in our investment process, our professional people and our continued excellent performance."

Chalker said that LM Capital now manages corporate pension fund investments for Shell Oil Company, Kimberly-Clark and Coca-Cola Enterprises, Inc.

PORTFOLIO

CHARACTERISTICS (MARCH 31, 2003)

	LM Short Term	LM Intermediate	LM Core	LM Opp. Core	LM Emerging Market
Duration	1.49 yrs	3.39 yrs	3.66 yrs	3.14 yrs	1.90 yrs
Yield to maturity	1.67%	3.26%	3.62%	4.98%	10.70%
Average coupon	4.22%	5.22%	5.78%	6.18%	9.13%
Average maturity	1.64 yrs	3.90 yrs	5.01 yrs	4.28 yrs	3.56 yrs
Average quality	AA1	AA3	AA3	A3	BB2

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