

**The recent upheaval that has swept the financial system leaves in its wake a radically altered investment landscape.** The latest wave of financial market realignment began on September 7<sup>th</sup> when Fannie Mae and Freddie Mac were placed into a conservatorship under the Federal Housing Finance Agency. This action secured bondholders, however shareholders' stock values fell below \$1. Further upheaval followed with a flurry of bank closings, hurried mergers, and stopgap government bailouts.

**A predictable flight-to-quality ensued** as investors fled to the safety of U.S. Treasuries, driving their prices up and yields to new lows. While this rally will subside when normalcy returns to the markets—be it in a month or a year—other effects of the cataclysm will remain.

The Government Sponsored Enterprise (GSE) bailout, for example, challenges two conditions—ample supply and near risk-free appearance—that have made Federal Agency debt a mainstay in many short-term, fixed-income portfolios.

**If the GSEs are privatized, investing in Fannie Mae and Freddie Mac debt may remain an option only for those permitted to invest in corporate securities.** In the public sector, will this lead to increased pressure on legislative bodies to expand the scope of permitted investments? If so, then additional investors may be thrust into the world of corporate credit. This could be complicated further if the privatized GSEs fail to keep their AAA rating. It is generally accepted that without some sort of government backing, the GSEs would not have maintained this top rating in recent years.

**For those who invest in anything but Treasuries and Federal guaranteed debt, in-depth credit analysis will become more critical.** Credit ratings alone have proven unreliable guides to credit quality as rating agencies appear to have mischaracterized the risks of a great number of investments. Over the past year, 16 AAA-rated issuers in the Merrill Lynch 1-10 Year Corporate Master Index were downgraded to AA or A. An additional 136 issuers previously rated A or BBB fell below investment grade. Downgrades are usually accompanied by an erosion of market value as investors demand higher yields for holding lower credit bonds and in some cases are followed by defaults, which produce real losses.

**GSE debt could also go from plentiful to scarce.** The Fannie Mae and Freddie Mac conservatorship stipulates that beginning in 2010, each must reduce its portfolio from \$750-\$800 billion to \$250 billion at a rate of 10% per year. A reduction in Federal Agency debt supply could result in a diminished yield advantage over U.S. Treasuries.

If the GSEs become truly private corporations and/or if their debt issuance shrinks substantially, risk-averse investors may be pushed into the U.S. Treasury market. U.S. Treasury securities, however, typically produce the lowest returns of any fixed-income investment. The recent flight-to-quality pushed **short-term U.S. Treasury yields to near 0.00% in September.** While this is an anomaly, 3-month Treasury Bills yielded 0.26% less than 3-month Federal Agency discount notes over the past 10 years. This translates to \$650,000 less earnings on a \$25 million portfolio. Investors limited to the U.S. Treasury market will face additional challenges in seeking a reasonable rate of return.

**Meanwhile, the market upheaval has also resulted in a reworking of the broker/dealer and banking landscape.** The top 5 U.S. broker/dealers of a year ago are now gone, continuing the trend of consolidation and globalization of the U.S. securities markets. As shown in the following chart, the number of primary dealers (broker/dealers and banks that trade U.S. Government securities directly with the Federal Reserve Bank of New York) has shrunk from 31 to 16 over the past 10 years. Today, only 6 are domestic, versus 17 in 1999. In fact, in 2007, 9 of the top 20 underwriters of U.S. corporate and GSE debt were non-U.S. broker/dealers.

With fewer primary dealers, there is bound to be less competition among trading desks. This may lead not only to less attractive quotes and increase the importance of competitive security shopping, but small money managers and in-house finance teams may see the service level they receive from remaining banks and brokerage firms significantly reduced.

Similarly, consolidation of commercial banks into a small number of super-banks is likely to bring about **changes in the relationship between investors and their local bank.** In this new era, the largest three or four banks will control 30% to 40% of all deposits, giving them enormous power to set prices for services and diminishing their need to raise deposits in the local market. The small local/regional banks will find it increasingly difficult to remain independent as benefits from economies of scale encourage further consolidation.

**OUTLOOK**  
With unprecedented worldwide government intervention in the financial markets, the outlook is partially clouded. Each action was initiated to restore stability, but that goal has been elusive to date. In the interim, risk-averse investors have preferred U.S. Treasury securities. We continue

to view GSE debt, with its explicit Federal commitment of support, to be appropriate as well. Corporate and bank obligations should be treated with the utmost caution because the full extent of the economic downturn and the interrelationships among banks and corporate borrowers is not yet fully known.

**An investment approach involving discipline, rigorous credit and counterparty analysis, and prudent risk management, will be all the more critical** in navigating these difficult and uncharted investment waters.

### Primary Dealer List: Then and Now

As of January 1999	As of September 2008
JP Morgan Securities	Cantor Fitzgerald & Co.
Bear Stearns & Co.	JP Morgan Securities
First Chicago Capital Markets	
Chase Securities Inc.	
Merrill Lynch Government Sec.	Banc of America Securities
NationsBanc Montgomery Sec.	
Credit Suisse First Boston	Credit Suisse Securities
Donaldson, Lufkin & Jenrette	
BT Alex Brown Inc.	Deutsche Bank Securities
Deutsche Bank Securities	
Aubrey G. Langston & Co.	Mizuho Securities
Fuji Securities	
Paine Webber Inc.	UBS Securities
Warburg Dillon Read	
Salomon Smith Barney Inc.	Citigroup Global Markets Inc.
Nikko Securities International	
Barclays Capital Inc.	Barclays Capital Inc.
Daiwa Securities America	Daiwa Securities America
Dresdner Kleinwort Benson NA	Dresdner Kleinwort Securities
Goldman Sachs & Co.	Goldman Sachs & Co.
Greenwich Capital Markets	Greenwich Capital Markets
HSBC Securities	HSBC Securities
Morgan Stanley & Co.	Morgan Stanley & Co.
Paribas Corporation	BNP Paribas Securities Corp.
Lehman Brothers	
CIBC Oppenheimer Corp.	
Nomura Securities International	
Prudential Securities Inc.	
Nesbitt Burns Securities	
Zions First National Bank	
ABN AMRO	

**Ownership Legend**  
Domestic  
Foreign

Source: Federal Reserve Bank of NY website

*This information does not represent an offer to sell or a solicitation of an offer to buy or sell any fund or other security. Investors should consider the investment objectives, risks, charges and expenses before investing in any of the Trust's portfolios. This and other information about the Trust's portfolios is available in each portfolio's current Information Statement, which should be read carefully before investing. Copies of these Information Statements may be obtained by calling 1-800-572-1472 or are available on the Trust's website at [www.plgit.com](http://www.plgit.com). While the PLGIT and PLGIT/ARM portfolios seek to maintain a stable net asset value of \$1.00 per share and the PLGIT/TERM portfolio seeks to achieve a net asset value of \$1.00 per share at its stated maturity, it is possible to lose money investing in the Trust. An investment in the Trust is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency. Shares of the Trust's portfolios are distributed by **PFM Fund Distributors, Inc.**, member Financial Industry Regulatory Authority (FINRA) ([www.finra.org](http://www.finra.org)). PFM Fund Distributors, Inc. is a wholly owned subsidiary of PFM Asset Management LLC.*

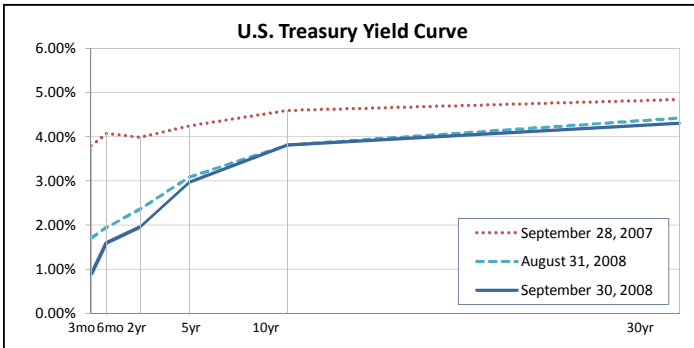
U.S. Treasury Yields				
	September 30, 2007	August 31, 2008	September 30, 2008	Monthly Change
3 Month	3.80%	1.71%	0.90%	(0.81%)
6 Month	4.08%	1.95%	1.61%	(0.34%)
2 Year	3.98%	2.37%	1.96%	(0.41%)
5 Year	4.24%	3.09%	2.98%	(0.11%)
10 Year	4.59%	3.81%	3.82%	0.01%
30 Year	4.84%	4.42%	4.31%	(0.11%)

Federal Agency Yields				
	September 30, 2007	August 31, 2008	September 30, 2008	Monthly Change
3 Month	4.60%	2.56%	2.57%	0.01%
6 Month	4.52%	2.85%	3.25%	0.40%
2 Year	4.40%	3.23%	3.09%	(0.14%)
5 Year	4.72%	4.01%	4.10%	0.09%
10 Year	5.05%	4.64%	4.79%	0.15%
30 Year	5.30%	5.13%	5.19%	0.06%

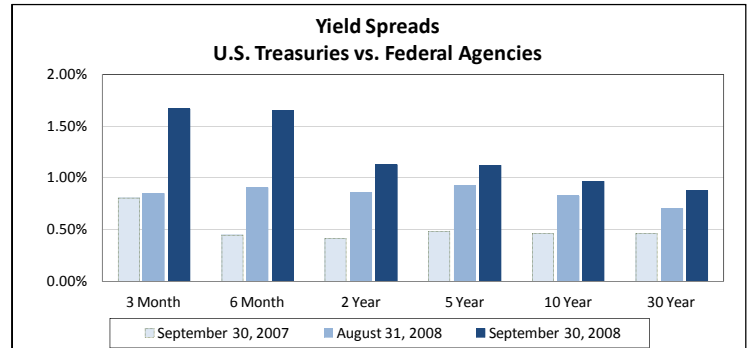
Key Prices				
	September 30, 2007	August 31, 2008	September 30, 2008	Monthly Change
US Dollars per Euro	\$1.43	\$1.47	\$1.41	(\$0.06)
Crude Oil \$/Barrel	\$81.62	\$114.97	\$100.86	(\$14.11)

Upcoming Indicators to Watch				
Release Date	Release	For	Consensus	Prior
Oct 01	ISM Manufacturing	Sep	49.5	49.9
Oct 02	Initial Jobless Claims	Sep	475k	493k
Oct 02	Factory Orders	Aug	-3.00%	1.30%
Oct 03	Change in Nonfarm Payrolls	Sep	-105k	-84k
Oct 03	Unemployment Rate	Sep	6.10%	6.10%
Oct 03	ISM Non-Manf. Composite	Sept	50	50.6
Oct 10	Import Price Index	Sept	--	16.00%
Oct 15	Advance Retail Sales	Sept	--	-0.30%
Oct 15	Producer Price Index	Sept	--	9.60%
Oct 16	Consumer Price Index	Sept	--	5.40%
Oct 17	U. of Michigan Confidence	Oct	--	70.3
Oct 24	Existing Home Sales	Sept	--	4.91m
Oct 28	Consumer Confidence	Oct	--	59.8
Oct 29	Durable Goods Orders	Jul	--	-4.50%
Oct 30	GDP Price Index	3Q A	--	1.10%

Benchmark Rates				
	September 30, 2007	August 31, 2008	September 30, 2008	Monthly Change
1 Month LIBOR	5.12%	2.49%	3.93%	1.44%
Fed Funds Target Rate	4.75%	2.00%	2.00%	0.00%



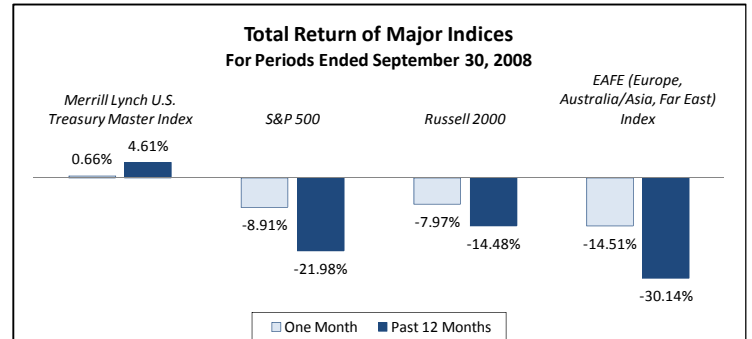
Short-term Treasury yields fell during September as financial market upheavals sent investors running back to the safety of the U.S. Treasury market. At points during the month, Treasury bills traded near zero as safety of principal trumped any yield considerations.



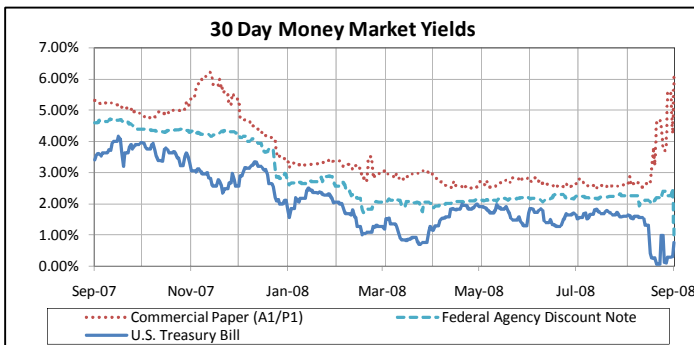
The renewed flight-to-quality drove Federal Agency yield spreads wider despite the government's explicit commitment to support Federal Agency debt.



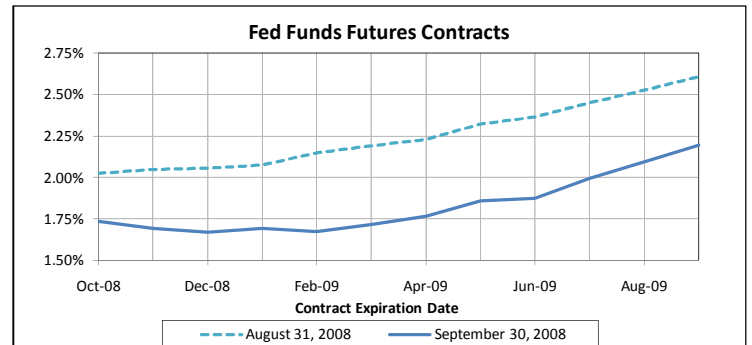
The September financial market meltdown pushed U.S. Treasury yields even further below their 10-year averages.



The stock market has not fared well during the recent market turmoil. Although U.S. Treasury market investors benefitted from falling yields and rising prices, fixed-income investors in the Federal Agency and corporate sectors endured negative returns during the month as spread widening eroded market values.



Yields spreads on money market securities ballooned as the September credit lock-up sent companies scrambling to find new sources of short-term funding and investors moving back into the safety of U.S. Treasury securities.



Despite unprecedented Federal Government measures to re-establish stability in the markets at month end, the fed funds futures market priced in an additional interest rate cuts at upcoming Federal Open Market Committee meetings.