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Driving Below the Speed Limit

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In inclement weather, defensive driving is of utmost importance. You may not get to your destination as quickly, but there is peace of mind that comes from knowing you will get there eventually, and most importantly you will get there safely. At RVP, during the stormy second quarter of 2010, we took comfort in the fact that we chose to stay in the right lane and drive slowly. Through the first half of 2010, RVP has actively reduced our risk. Why? Put simply, we are not seeing as many asymmetric opportunities, especially in fixed income, with the obvious exception being the May 6th “flash crash.” After actively shopping the bargain aisles in 2009, the cheapskates in us are content to wait until we see attractive prices again. Given the volatility of the first six months of the year, we believe it will only be a matter of time.

In the first half of 2010, our balanced composite ended down 0.28% which translates into an outperformance of 1.53% versus our 60/40 benchmark. Over the previous twelve months the return was 16.16% versus 12.81% for the benchmark. RVP’s Balanced Strategy continues to be about half as volatile as the S&P 500 on the downside while managing to keep pace on the upside, on a quarterly basis. Our burgeoning absolute return composite was up 2.66% for the first 6 months and 12.98% for the previous 12 months. Our returns compare favorably to the HFR Absolute Return Hedge Fund Index which has returned -1.98% for the year and -3.01% for the past 12 months.

RVP Returns Net of Fees

Product	YTD (12/31/09 – 6/30/10)	TTM (6/30/09 – 6/30/10)
RVP Balanced	-0.28%	16.16%
60/40 Benchmark*	-1.80%	12.81%
RVP Absolute Return	2.66%	12.98%
3-Month T-Bill	0.06%	0.12%

* 60/40 Benchmark is 60% S&P 500 and 40% Barclays Aggregate Bond Index re-weighted monthly.

Fixed income closed-end funds discounts, as well as fixed income credit spreads, have steadily contracted throughout the quarter as investors continue to seek higher yielding assets in a historically low interest rate environment. With this in mind, we believe that high quality stocks represent better long term value over bonds. Short term, we think the headline risk of economic headwinds such as high unemployment may provide better entry points into equities and we are content not being too aggressive today. With the gathering storm clouds of higher tax rates,

increased financial regulation, and ballooning budget deficits, we think the inevitable volatility will spell opportunity for RVP clients.

During the second quarter, we reduced both our investment grade credit exposure, as well as our loan position, as credit spreads narrowed from the historic wides of early 2009. We continue to think the municipal bond market is not demanding a large enough concession for the structural problems faced by many state and local governments. As Illinois residents, it is possible that we are being unduly influenced by the happenings in our state. Our fine state is looking at a \$13 billion operating deficit in the next fiscal year to go with an unfunded pension liability of about \$60 billion. Also, we will most likely see our second straight governor (affectionately known as Blago) go to jail due to corruption. That being said, we have lightened our municipal bond position drastically over the course of the first six months of 2010.

Auction Rate Preferred (ARPs) news was generally negative during the second quarter, but got off to a great start in the third quarter. Prices declined 3-4 points over the quarter as Nuveen and other fund complexes received demand letters from a law firm on behalf of some unidentified common shareholders. Upon receiving the demand letter, Nuveen temporarily suspended redemptions until they could fully review the concerns put forth. Given the uncertainty over when Nuveen would continue redeeming ARPs and issuing MuniFund Term Preferreds (MTP), many buyers backed away from the market. That, coupled with supply from a few forced sellers, caused prices to decline. In early July, Nuveen issued a statement stating that after a lengthy review they would continue their redemptions. In the statement they also expressed strong conviction that they were acting in the best interest of both the common and preferred shareholders which was contrary to the demand letter's accusations. As an active buyer of MTP and a large holder of ARPs, this is good news for RVP clients.

Equity closed-end funds are a bit of a mixed bag in terms of value. While many funds continue to trade at premiums, there continue to be several bargains among funds that have recently cut or suspended their distributions. For example, the NFJ Dividend Interest and Premium Fund (NFJ) and the LMP Capital & Income Fund (SCD), two RVP favorites, continue to trade at wide discounts. RVP clients are also invested in several funds that have heavy institutional or activist presence. Investing alongside activist investors serves two purposes: 1) they are often a catalyst for future dissident activity which can lead to opportunities to exit the closed-end fund at much tighter discounts and 2) the discounts are often less volatile due to large, committed buyers.

One equity closed-end fund that we added during the quarter is the Royce Value Trust (RVT). This \$1.2 billion fund invests in small/mid cap value stocks and is managed by the well respected Chuck Royce. The fund has outperformed its benchmark for the last 1, 5 and 20 years. Its NAV held up very well in the first half of 2010, declining only 2% while the S&P 500 registered a -6.65% return. When the fund cut its dividend to zero in 2009, investors rushed to sell the fund. The fund, which historically traded inside of a 10% discount, widened out to an 18% discount. We suspect that we will hold this fund until it reinstates its dividend and returns to a more normalized discount. Additionally, the fund currently has very low management fees and the management has significant ownership in the fund. While waiting for the dividend to be reinstated, we are content investing with an excellent manager at an extraordinarily low cost and deep discount to NAV.

With elections looming in November, the market would prefer to see legislative gridlock. With an economy that continues to be hampered by high unemployment and leading indicators that point towards potentially slower growth in the next 6-12 months, we believe that the Fed will continue to focus on deflationary risk for the foreseeable future. Over the course of the previous quarter, the markets have changed their mind on inflation. In late April, the 10 year Treasury note yield touched 4% as the prevailing sentiment was concern over the recovery being too robust. This view was quickly dismissed when the European contagion began to impact the equity markets and consumer confidence. The 10 year yield pierced 3% as deflation fears accelerated with the poor economic data - namely rising jobless claims, tepid final sales figures in the US, and slowing growth in China. The market quickly decided that good 2nd quarter earnings were not as important as guidance for the 2nd half of 2010.

At the risk of sounding like an overplayed Top 40 song, the current environment compels us to remain defensive. Our admitted inability to time markets requires us to focus on our mandate which is to deliver a market - plus return. When we have a quarter like the previous one, we never seem to have as much cash as we would have liked. Yet, when we have a quarter like the 3rd or 4th quarter of 2009, it seems like you can't be invested enough. Over time, however, if we continue to outpace our benchmarks, we will try not to beat ourselves up too much. While our sleep patterns would benefit from a market that goes up a little bit each day, RVP clients ultimately benefit from a market that throws in some unexpected rainy day opportunities.



Maury Fertig



Bob Huffman

Relative Value Partners, LLC Absolute Return Composite

	Period to Date (12/31/09 – 6/30/10)	1 Year (ending 6/30/10)	3 Years Annualized (ending 6/30/10)	Inception to 6/30/10 Annualized*
RVP Absolute Return	2.66%	12.98%	6.96%	9.42%
3 Month T-Bill	0.06%	0.13%	1.40%	2.35%

*Composite started on 6/1/2006

Relative Value Partners, LLC Balanced Composite

	Period to Date (12/31/09 – 6/30/10)	1 Year (ending 6/30/10)	3 Years Annualized (ending 6/30/10)	5 Years Annualized (ending 6/30/10)
RVP Balanced	-0.28%	16.16%	-1.83%	3.65%
60/40 Benchmark*	-1.80%	12.81%	-2.73%	2.04%

Relative Value Partners, LLC Equity Composite

	Period to Date (12/31/09 – 6/30/10)	1 Year (ending 6/30/10)	3 Years Annualized (ending 6/30/10)	5 Years Annualized (ending 6/30/10)
RVP Equity	-4.63%	15.04%	-6.58%	2.02%
S&P 500	-6.65%	14.42%	-9.80%	-0.79%

Relative Value Partners, LLC Fixed Income Composite

	Period to Date (12/31/09 – 6/30/10)	1 Year (ending 6/30/10)	3 Years Annualized (ending 6/30/10)	5 Years Annualized (ending 6/30/10)
RVP Fixed Income	4.94%	15.18%	6.20%	6.26%
Barclays Aggregate	5.33%	9.50%	7.52%	5.51%

Relative Value Partners, LLC (RVP) is an independent registered investment advisor. The Balanced Account composite contains fully discretionary balanced accounts and for comparison purposes is measured against the 60/40 Benchmark. The 60/40 Benchmark is comprised of 60% S&P 500 and 40% Barclays Aggregate Bond Index, reweighted monthly. The Absolute Return Composite contains fully discretionary absolute return accounts and for comparison purposes is measured against the 3 Month Treasury bill. The Equity Account Composite contains fully discretionary equity accounts and for comparison purposes is measured against the S&P 500. The Fixed Income composite contains fully discretionary fixed income accounts and for comparison purposes is measured against the Barclays Aggregate Bond Index.

All returns are shown in US dollars and are net of actual fees. The returns shown include the reinvestment of dividends and other earnings. Accounts may own levered closed-end funds or ETFs and may short ETFs. Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk and there can be no assurances that any specific investment will be profitable. Investors may experience a loss.

RVP claims compliance with the Global Investment Performance Standards (GIPS®).

To receive a complete list and description of RVP's composites and/or a presentation that adheres to the GIPS standards, contact Catherine Goel at (847) 513-6300, or write RVP, 1033 Skokie Blvd, Ste 470 Northbrook, IL 60062, or cgoel@rvpllc.com.