

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

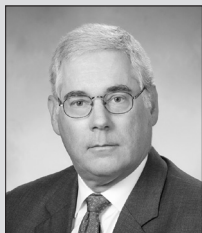
Intermediate Term Income Investing



DOUGLAS H. RALSTON, CFA, is President and Chief Investment Officer of Trustmark Investment Advisors, Inc., and serves as Portfolio Manager for the Performance Mid Cap Equity Fund. He is also a member of the Portfolio Management team for the Performance Large Cap Equity Fund and the Performance Leaders Equity Fund. He has over 21 years of capital markets experience which includes investment banking and trust asset management. A graduate of Murray State University, he holds a BS degree in Economics and Finance. He has served on the Board of Directors of the Mississippi Society of Financial Analysts and is a member of the CFA Institute. He also serves as an instructor for the Southern Trust School.



KELLY J. COLLINS is a Vice President and joined Trustmark in 1991. He is the Portfolio Manager of the Performance Money Market Fund and the Performance U.S. Treasury Money Market Fund. He is Co-Portfolio Manager of the Short Term Government Income Fund and the Intermediate Term Income Fund. Mr. Collins has over 18 years of experience in the investment management industry. Additionally, he is responsible for managing individual and institutional investment accounts specializing in fixed income investment management. He is a graduate of the University of Mississippi with a BBA in Banking and Finance and Managerial Finance.



ROBERT H. SPAULDING is a First Vice President and Trust Investment Officer at Trustmark. He is a Co-Portfolio Manager of the Performance Short Term Government Income Fund and the Performance Intermediate Term Income Fund. He is a graduate of the University of Mississippi with a BBA degree in Business and the National Trust School at Northwestern University. He has over 31 years of trust and investment related experience. His primary responsibilities involve portfolio management for individuals, endowments, foundations, self-insured workers compensation funds, and various governmental entities.

SECTOR – GENERAL INVESTING

TWST: Doug, please lead off with a brief overview of Trustmark Investment Advisors and then introduce us to the Intermediate Term Income Fund.

Mr. Ralston: Trustmark Investment Advisors is a registered investment advisor with the Securities and Exchange Commission. We advise the Performance family of mutual funds and also provide customized investment management services. We provide investment services for Trustmark National Bank's Trust Group. Clients of the Trust Group include individuals, institutions, foundations, and endowments, as well as charitable organizations. We oversee approximately \$3.3 billion in assets, specializing in asset allocation, securities analysis, quantitative methods, and portfolio management. One of the primary funds in our mutual fund family is the Performance Intermediate Term Income Fund. The

Fund has done very well over the trailing one, three and five years, and it's a pleasure to review it with you today.

TWST: What is the philosophy behind this Fund and can you tell us about its style?

Mr. Collins: In managing the Performance Intermediate Term Income Fund, we focus on quality in security selection and the way we handle the assets within the Fund, and we strive to provide a steady stream of income given current market conditions. We then focus on the various sectors within the fixed income markets and attempt to select the best bond that is available at the time. Total return is a consideration in managing the Fund, and given the market conditions the past few years, we've managed to do well in the overall scope of the market.

Mr. Spaulding: Our discipline is to have a consistent philosophy in the management of the Fund, and our focus on higher-quality assets in the past 12 or 18 months has served our shareholders

well. The Intermediate Fund was well positioned for the “flight to quality” that took place in the bond market over that period. An underweighting in the corporate sector was a positive as well. We had no holdings in the portfolio that experienced credit issues. More recently, given the extreme spreads that we’ve seen in the corporate market versus Treasuries, we’re taking the opportunity to buy what we deem to be good quality corporate paper at historically wide yield spreads.

TWST: Over the last 12 months or so, there has been a lot more market volatility, which has affected bonds as well as equities, though perhaps not as much. Tell us how you have coped with the ongoing events and the turmoil in the markets over the last year.

Mr. Collins: I would say a commitment to our philosophy of high-quality investments has served us well during this time period. We try to do the proper analysis on the front end to make sure the asset that we are purchasing is going to serve what we want it to do for the life of that purchase. Some people got in trouble in the recent bond market by trying to chase that extra bit of yield in securities that might have been stamped AAA by a ratings agency but were quite difficult to understand. We’re of the opinion that if we can’t understand how we’re going to get our money back, we don’t want to invest in that particular area of the market. We avoided subprime securities and various areas of the mortgage market that we did not want to participate in. We want to stay with very clean securities where it is

We’ve been offered attractive spreads on fairly high-quality names and we’re adding those to the portfolio.

Mr. Spaulding: Looking back to September of last year, before Lehman went belly up, investment grade bonds issued by financial

corporations traded about 340 basis points above the comparable Treasury. Following Lehman’s bankruptcy, spreads in the sector widened to 600 basis points or so — just phenomenal. Given that, we took the cash flows that were spun off from the Fund’s holdings of mortgage-backed securities and began adding to our corporate bond exposure in that sector. We’re still getting good spreads and as this cloud over credit has begun to clear, you have seen an extreme change in sentiment with investors eager to take on more risk. We are buying investment-grade paper in the financials, insurance carriers, and some industrial issues.

TWST: Tell us more about your buy strategy. What are the specific criteria that you are looking for?

Mr. Collins: We typically begin with the macroeconomic outlook and our thoughts on the economic cycle, the position of the Federal Reserve, the shape of the yield curve, and our interest rate expectations. Then we move to the fixed income markets as a whole and assess current valuations, quality spreads, credit spreads, and various sector attributes. Based on those inputs, we try to find the best

combination of value, yield, and quality that is available. At this time we feel it is corporate bonds and we have been buying names like GE, Goldman Sachs, and MetLife.

HIGHLIGHTS

Douglas H. Ralston, Kelly J. Collins and Robert H. Spaulding manage the Performance Intermediate Term Income Fund, which has performed very well over the trailing one, three and five years. The fund seeks total return, with a bias toward current income, by investing primarily in US government and agency securities. In aggregate, the portfolio will have an average maturity between five and 10 years. Their focus on higher-quality assets over the past 12 to 18 months has served their shareholders well, the fund being well positioned for the “flight to quality” that took place in the bond market over that period. An underweighting in the corporate sector was a positive as well and there were no holdings that experienced credit issues. Recently, given the extreme spreads that have occurred in the corporate market versus Treasuries, they are buying good quality corporate paper at historically wide yield spreads. They feel there is attractive value in the corporate market right now, the likes of which haven’t been seen since the last major recession in the early 1990s.

Ralston: The volatility of the last 12 or 18 months was almost unprecedented. You have to go back to the 1930s to find the type of volatility of the spreads that occurred. But with that jarring volatility also comes opportunity, and we have begun taking the opportunity to return to the corporate bond market. We’ve been offered attractive spreads on fairly high-quality names and we’re adding those to the portfolio.

easy to understand the cash flows, easy to understand how we’re going to get paid back, instruments that have stable principal repayment and the cash flows are very predictable. Those areas are where we prefer to put our shareholder money.

There were those who tried to chase the extra bit of yield in a market where esoteric securities were the norm, but we preferred to step back and stick with our philosophy that high quality over the long term is going to perform better than chasing the latest, greatest investment fad.

Mr. Ralston: The volatility of the last 12 or 18 months was almost unprecedented. You have to go back to the 1930s to find the type of volatility of the spreads that occurred. But with that jarring volatility also comes opportunity, and we have begun taking the opportunity to return to the corporate bond market.

TWST: What is your forecast for the rest of 2009? Where will the yield curve be do you think?

Mr. Collins: In the Treasury curve there has been tremendous volatility. The 10-year note started off the year at close to 2%. During the last month, we’ve been up to 4% on that particular maturity. Currently, we’re at about 3.40%. So interest rates have been swinging wildly, to say the least, for the first half of 2009. With the tremendous amount of fiscal stimulus that’s been pushed through Congress, we’re printing money and doubling the size of the Fed’s balance sheet. That may be inflationary at some point in time down the road. Obviously, these programs that have been put in motion by the federal government have not gotten any traction yet; even though consumer confidence is up slightly, and we’ve seen a little better numbers out of the manufacturing sector, there’s still no job creation, and the jobless rate is heading

for double digits. Even with all the stimulus programs that have been put into place, we really don't see the consumer coming back any time soon. So for the remainder of this year, I would say we would probably see interest rates make another move back up to around 4% and then probably flatten out from there until any kind of inflationary signs begin to show up — and we feel they will eventually. But for the rest of this year, we don't really see a huge move up in interest rates. We might reach back up to 4% since we've already been there this year and then maybe a little flattening out process after that.

TWST: How does that affect your maturities? Are you more short term than long term?

Mr. Spaulding: We have been lightening up on the maturities on the longer end of the curve, and the Fund's purchases in the corporate sector have been primarily in that five to 10-year part of the curve. We are very comfortable with the position of the Fund at this time.

TWST: What is the composition of the portfolio at this time, and what shifts in emphasis have you made over the last 12 months?

Mr. Spaulding: We have slightly reduced our holdings of mortgage-backed securities while our Treasury exposure has held relatively steady. We have been adding to the corporate bond sector and may have more opportunity to do so as the economy begins to recover.

TWST: You said that the majority of your bonds are all AAA-rated. Do you invest in lower-rated bonds at all?

Mr. Spaulding: We have invested in investment-grade issues primarily ranked A or better.

Mr. Collins: A year ago the portfolio had virtually 90% in AAA, 10% in A or better and less than 1% below A. Currently it's 85% AAA and 15% A or better. So the portfolio has a very solid credit structure.

Collins: This team has experienced interest rate cycles, recessions, credit implosions, and international issues that affect markets. This experience and our history of security selection bring a bit of a safety net to our shareholders — that's what they are looking for. They are looking for a predictable, solid investment. We aim to provide our shareholders a solid stream of income, stability in the portfolio, and safety of principal because that's what they expect from us.

TWST: What about the sell strategy? Tell us how you exit the portfolio with the bonds.

Mr. Ralston: On the sell side, if we perceive an adverse credit event is evolving, we will consider selling the position. A credit downgrade doesn't necessarily trigger a sell, but it does trigger a review of the holding in light of new information. On the other hand, if a security has performed quite well and we believe its spread has tightened too much or its yield has become stretched to the downside, we may consider lightening up on that holding. Typically we hold a bond for its duration because we like its position in the portfolio and because it usually fulfills our expectations.

Mr. Spaulding: Turnover is minimal in that regard and we commonly maintain enough liquidity in the portfolio so as not to be put in the position of a forced seller in the market. If we are going to sell, we want to sell because we want to, not because we are put in a position where we have to.

TWST: What about the corporate securities over the past 12 months? Have some of your corporates not been able to maintain high credit quality?

Mr. Spaulding: We have not seen any deterioration in

the corporate paper. What might have been a candidate for sale was short enough that it has since matured and rolled off the portfolio. We frequently review the credit structure and are constantly looking for candidates to add to the portfolio in those areas we find particularly attractive. At this time, the areas we find attractive are mainly in the distressed sectors like financials and some industrials.

TWST: What about the investment risk of your investments, some of which are more risky than others in certain environments? Would you tell us how you attempt to control the risk in your portfolio?

Mr. Collins: Obviously security selection on the front end is a great risk control. If we've done a sound evaluation on the front end then we feel our holdings in the portfolio should be solid and sound going forward. We are large holders in the agency and mortgage market, which are AAA-rated by Standard & Poor's and Moody's, and we invest in agency issuers **Fannie Mae** (FNM), **Freddie Mac** (FRE), and **Ginnie Mae**. So we are involved in the highest quality areas of the market.

Mr. Spaulding: We don't manage the portfolio to hit home runs. We hit singles and attempt to add value incrementally over time.

Mr. Ralston: Regarding risk and volatility, we have several levers that we can pull there. We keep the income stream or the yield of the Fund close to that of the market. We can adjust our duration and our maturity around the market average, and we can adjust the credit exposure of the Fund. By using a combination of yield, duration, maturity, and credit exposure, we feel like we've got a pretty good handle on how to control the risk and volatility of the Fund.

TWST: What type of investor would this Fund be appropriate for? Who are you aiming at with the Intermediate Term Income Fund?

Mr. Collins: Our typical investor is one who wants a predictable stream of income. We try to keep our yield as stable as possible and still reflect a good representation of what the market in general is offering. We've been able to keep that yield competitive, even though interest rates, as we said, earlier in the year dropped down to almost 2%. Our typical shareholder wants stability of principal, which we attempt to provide by controlling for risk and volatility.

Mr. Ralston: In addition, our typical investor is well diversified. So any risk they may take in their portfolio will be in other vehicles they may hold, such as equities. For this bucket of their asset allocation they expect stability and a reliable stream of income.

TWST: What gives your investment approach to bond securities its edge? What are you bringing to the table that other bond funds are not?

Mr. Collins: I would say our commitment to quality, our consistent philosophy — the time that the portfolio management team has been together and their consistency of applying that philosophy through different market cycles. This team has experienced

interest rate cycles, recessions, credit implosions, and international issues that affect markets. This experience and our history of security selection bring a bit of a safety net to our shareholders — that’s what they are looking for. They are looking for a predictable, solid investment. We aim to provide our shareholders a solid stream of income, stability in the portfolio, and safety of principal because that’s what they expect from us.

TWST: Are there any challenges ahead in the fixed income markets that investors should be wary of right now?

Mr. Collins: A number of challenges to consider include the excessive debt in the economy, the traction of the huge fiscal stimulus package, excessive deficit spending by the government, foreign support of the dollar and Treasury market, potential inflation and higher rates down the road, and the prospect of a jobless recovery.

Mr. Spaulding: Not to mention falling housing prices and what could be another wave of mortgage resets and foreclosures upcoming. And, of course, the ongoing military conflicts in Iraq and Afghanistan could have a bearing on the market as well.

TWST: Is there anything that any of you would like to bring up that we didn’t touch on in this interview?

Mr. Spaulding: To finish on a brighter note, we feel there is attractive value in the corporate market right now, the likes of which we haven’t seen since the last major recession in the early 1990s. Buying corporate bonds now may prove to be profitable when the economy recovers and companies begin generating normalized earnings and cash flows.

TWST: Thank you. (PS)

Note: Opinions and recommendations are as of 7/23/09.

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Investment Considerations: Bond funds will tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in price, especially for longer-term issues and in environments of rising interest rates. Mortgage-backed investments involve risk of loss due to prepayments and, like any bond, due to default. Because of the sensitivity of mortgage-related securities to changes in interest rates, the Fund’s performance may be more volatile than if it did not hold these securities.

U.S. Government Guarantees apply only to the underlying securities of the Fund’s portfolio and not the Fund’s shares.

Portfolio holdings are subject to change. As of 6/30/09, GE, Goldman Sachs, Metlife, Fannie Mae, Fannie Mae MBS, Freddie Mac, and Freddie Mac MBS represented 1.67%, 0.00%, 0.77%, 3.29%, 10.64%, 3.34%, and 11.93% of the fund’s net assets, respectively.

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An investor should consider the fund’s investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information about the investment company can be found in the fund’s prospectus. To obtain a prospectus, please call 1.800.PERFORM or visit www.performancefunds.com. Please read the prospectus carefully before investing.

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