

Voyageur ASSET MANAGEMENT INC.

***Penn Manor School District General  
Fund  
March 31, 2008***

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# Economic Review – 1<sup>st</sup> Quarter 2008

**FED:** The Fed made bold attempts to move ahead of a rapidly weakening economy by reducing interest rates three times in the first quarter of 2008; from 4.25% at the start of the year to 2.25%. This action followed three reductions from a peak of 5.25% in the final four months of 2007. Each move was followed by a temporary sigh of relief, yet in a matter of days new information renewed fears that the FOMC’s action would not be enough. Further moves are expected, and based on Fed Funds Futures levels, the market believes that 1.75% is the stopping point. The central bank continues to signal their willingness to reflate the economy in order to avoid a more material downturn in growth.

**INFLATION:** Core CPI for January was reported at 2.5% on a year-over-year basis, yet was down slightly to 2.3% for February. The upper bound of the Federal Reserve’s preferred inflation level is 2.00%. It is very clear from official FOMC statements that they are squarely focused on growth, inflationary risks, and that elevated, yet consistent, inflation, mildly above the 2.00% target, is acceptable at this point. The overbearing concern of the Federal Reserve is focused first on stabilizing a highly volatile credit market, followed by economic growth, then on inflation.

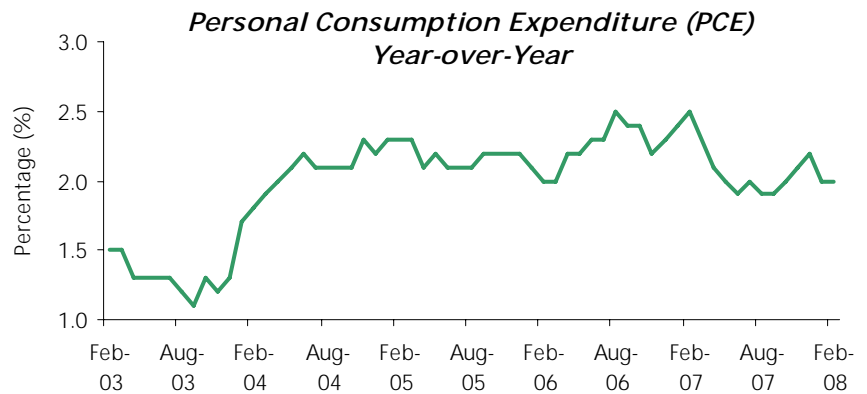
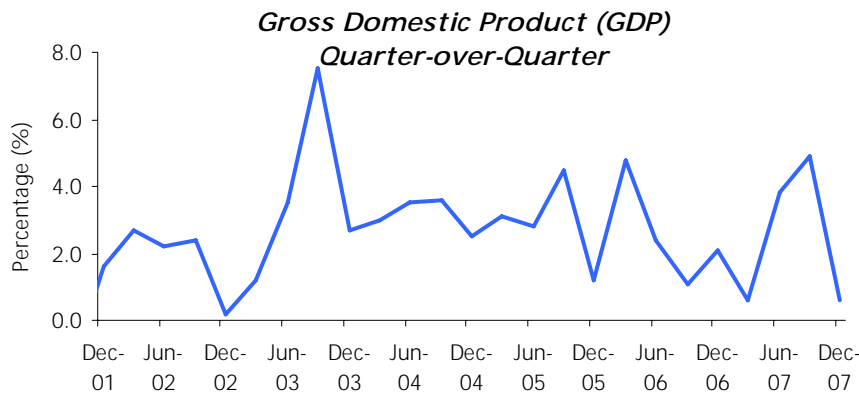
**EMPLOYMENT:** The current unemployment rate of 5% is the highest in two years. A continuing high level of unemployment claims seems to indicate that firms are not adding to payrolls. The combination of data seems to indicate a weakening, but not a collapsing, job market.

**ECONOMIC GROWTH:** GDP growth for the final quarter of 2007 has clearly shifted to a much lower trajectory than in the middle quarters preceding it. Fourth quarter GDP printed at 0.6%, but most expect further revisions to be even weaker than this anemic number. Non-farm payrolls, unemployment, and the ISM manufacturing survey all point to a slowing U.S. economy. Recession is once again entering the lexicon of economists after a long hiatus, with elevated inflation creating the real possibility of stagflation.

**CONSUMER CONFIDENCE:** Consumer confidence, an appraisal of current business conditions and the assessment of the job market, continues to show signs of weakness. Consumers seem to be more cautious as problems in the housing market, a downtrend in a fluctuating stock market, and a rise in layoffs are having an impact on spending and confidence.

**HOUSING:** Housing starts continued to fall as new construction of single family homes are now down nearly 60% from their peak in January 2006. New home supply has more than doubled during the same period as builders continue to work with existing inventory, while current construction has been cut back.

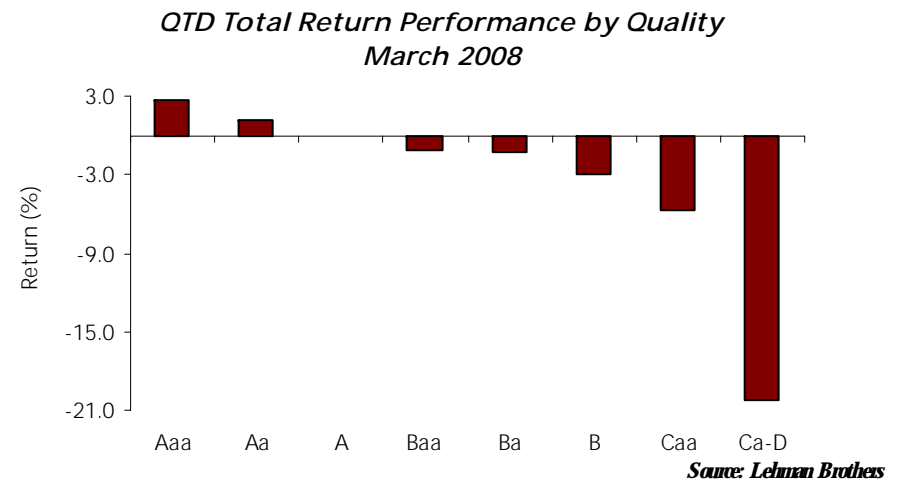
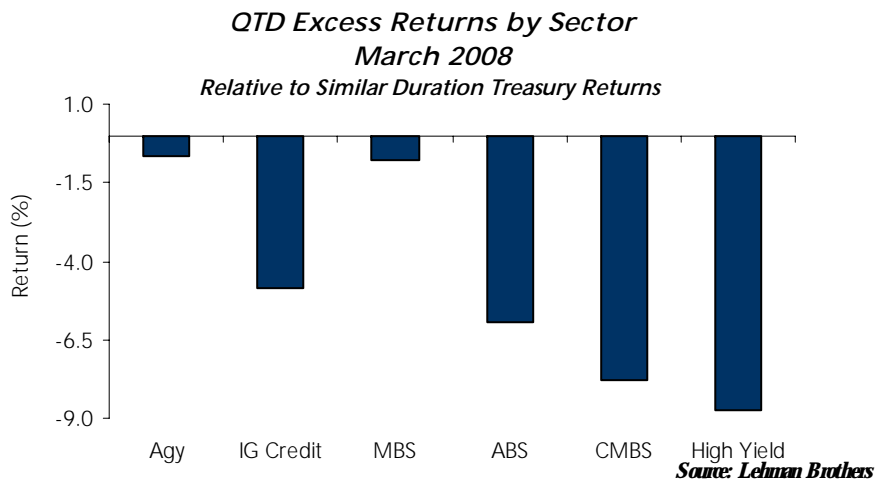
**CORPORATE EARNINGS:** First quarter earnings have come down sharply in response to the steadily weakening of the economy. Earnings are now expected to fall 7% in the first quarter (compared to +4.7% consensus growth estimates at the beginning of the year). For 2008, we expect growth of 5%, driven by a stronger second half as the economy starts to benefit from the lagged impact of both fiscal and monetary stimulus.



# Fixed Income Market Summary

- The quarter witnessed another dramatic deterioration in financial conditions due to fear of further write-downs by financial institutions, uncertainty around the monoline insurers, and the collapse and hasty rescue of Bear Stearns. Additionally, the market for auction-rate securities seized up and borrowers, in many cases, had to pay punitive interest rates until substitute long-term funding could be obtained.
- In light of deteriorating market conditions, the Federal Reserve pushed Federal Funds lower by 2% during the quarter. Three-month Treasury Bill yields, reacting to the increase in systemic risk and a flight to quality, dropped to their lowest level since 1958; trading for several days around 0.50%. Interest rates further out the curve also dropped as the yield on the 2-year Treasury note declined by 148 basis points to 1.58%. Longer maturity yields also fell, but only by about one-third that of the 2-year note, causing the yield curve to steepen. The yield on the 30-year bond declined by a very modest 16 basis points to 4.29%. As a result, the yield spread between 2-year and 30-year Treasuries, which had been 140 basis points at the end of 2007, widened to 271 basis points.
- Corporate credit also had a rough quarter as negative excess returns were almost 5% during the period. The underperformance was broad-based as credit spreads widened across both the maturity and credit quality spectrum, resulting in a further steepening of the yield and quality credit curves.

- Performance of all spread sectors trailed Treasuries during the quarter. The Lehman Brothers U.S. Aggregate Index provided 183 basis points of negative excess return for the period. Agency debentures and agency mortgages mildly trailed similar duration Treasuries during the quarter by 68 and 77 basis points, respectively. At the other end of the spectrum were the significant negative excess returns of both the commercial mortgage-backed and asset-backed sectors. Excess returns for these sectors were -777 and -594 basis points, respectively.
- Amid this dismay, there were, however, several pieces of encouraging news for the markets during the quarter. First, the high quality agency-backed mortgage market received a boost as regulators worked to increase portfolio limits for both Fannie Mae and Freddie Mac. This allowed FNMA and FHLMC to expand their purchases of conforming mortgages, translating into about \$200 billion of additional buying power. In addition, Federal Home Loan Banks also received expanded purchasing power of an additional \$100 billion. The rescue of Bear Stearns, whether you agree or not with the public policy issues, was an important signal to the markets. In essence, by making this rescue the Fed has minimized the risk of any further default of a major bank and brokerage firm. Finally, despite attempts to resolve current market dislocations with interest rate cuts, the Fed took another tact and provided a massive jolt of liquidity by establishing three new lending facilities designed to shore up financing mechanisms within the financial system.



***Investment Policy Date***

7/12/1999

***Portfolio Asset Class***

Fixed

***Investment Strategy***

Core Cash Management

***Please advise your Relationship Manager or Client Service contact promptly if a revision has been made to your investment policy subsequent to the date shown or in the event of a material change in your current investment strategy.***

***Your account's investment policy can be viewed online at [www.voyageur.net](http://www.voyageur.net) - Clients Only or [clients.voyageur.net](http://clients.voyageur.net). Please contact any of your team members listed on the Contacts page with any questions or comments you may have concerning your investment policy or access to our Internet client site.***

# Portfolio Asset Allocation

*Penn Manor School District General Fund*

	Quantity (Units)	Amortized Cost	Market Value	Book Yield	Estimated Income	Percent Assets
Cash	7,336,894	7,336,893.68	7,336,893.68	1.07%	78,504.76	30.83%
Fixed Income	16,500,000	16,393,720.59	16,458,900.00	4.69%	0.00	69.17%
<b>Total</b>	<b>23,836,894</b>	<b>23,730,614.27</b>	<b>23,795,793.68</b>	<b>3.58%</b>	<b>78,504.76</b>	<b>100.00%</b>

# Fixed Income Holdings

*Penn Manor School District General Fund*

Rating	Pur Date	Cusip	Quantity (Units)	Security Description	Redemp Type/Date	Mty Cpn Date	Amort Cost	Market Value	Unrealized Gain/Loss	Accr Inc	Avg Life	Mod Dur	Book Cvx Yield	% Assets
Cash/MMF														
		-CASH-	7,336,894	Cash/Money Market			7,336,893.68	7,336,893.68	0.00	0.00	0.00	0.00	1.07%	30.83%
Agency														
AGY/AGY	08/24/07	313588VJ1	1,500,000	FNMA Discount Note		0.000 04/09/08	1,498,222.50	1,499,400.00	1,177.50	0.00	0.03	0.03	0.00	4.74% 6.30%
AGY/AGY	08/24/07	313396VY6	1,500,000	FHLMC Discount Note		0.000 04/23/08	1,495,476.67	1,498,350.00	2,873.33	0.00	0.06	0.06	0.00	4.72% 6.30%
AGY/AGY	08/24/07	313312WH9	1,500,000	FFCB Discount Note		0.000 05/02/08	1,493,696.00	1,497,750.00	4,054.00	0.00	0.09	0.09	0.00	4.73% 6.29%
AGY/AGY	08/24/07	313396XC2	1,500,000	FHLMC Discount Note		0.000 05/21/08	1,490,055.00	1,496,250.00	6,195.00	0.00	0.14	0.14	0.00	4.68% 6.29%
AGY/AGY	08/30/07	313384XE4	2,500,000	FHLB Discount Note		0.000 05/23/08	2,482,775.00	2,493,500.00	10,725.00	0.00	0.14	0.15	0.00	4.68% 10.48%
AGY/AGY	08/10/07	313396XM0	5,000,000	FHLMC Discount Note		0.000 05/30/08	4,960,541.67	4,985,500.00	24,958.33	0.00	0.16	0.16	0.00	4.75% 20.95%
AGY/AGY	08/31/07	313588XQ3	1,500,000	FNMA Discount Note		0.000 06/02/08	1,488,161.25	1,494,750.00	6,588.75	0.00	0.17	0.17	0.00	4.51% 6.28%
AGY/AGY	08/24/07	313588YG4	1,500,000	FNMA Discount Note		0.000 06/18/08	1,484,792.50	1,493,400.00	8,607.50	0.00	0.22	0.22	0.00	4.62% 6.28%
Subtotal			<b>16,500,000</b>				<b>16,393,720.50</b>	<b>16,458,900.00</b>	<b>65,179.41</b>	<b>0.00</b>	<b>0.13</b>	<b>0.14</b>	<b>0.00</b>	<b>4.69% 69.17%</b>
<b>Total</b>			<b>23,836,894</b>				<b>23,730,614.27</b>	<b>23,795,793.68</b>	<b>65,179.41</b>	<b>0.00</b>	<b>0.09</b>	<b>0.09</b>	<b>0.00</b>	<b>3.58% 100.00%</b>

# Transaction Detail

## *Penn Manor School District General Fund*

Trade Date	Settlement Date	Trans Type	Quantity (Units)	CUSIP	Security Description		Trans Price	Net Amount	Trade Yield	Realized Gain/Loss
03/26/08	03/26/08	Mature	1,500,000	313588UU7	FNMA Discount Note	0.000	03/26/08 100.000	1,500,000.00		0.00
03/26/08	03/26/08	Wdrwl	1,500,000	-CASH-	Cash/Money Market			1,500,000.00		0.00
03/12/08	03/12/08	Wdrwl	1,200,000	-CASH-	Cash/Money Market			1,200,000.00		0.00
03/07/08	03/07/08	Mature	1,500,000	313588TZ8	FNMA Discount Note	0.000	03/07/08 100.000	1,500,000.00		0.00
<b>Total</b>										<b>0.00</b>

# Cash Reconciliation

*Penn Manor School District General Fund*

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<i>Beginning Cash Balance</i>	<i>7,027,708.02</i>
Wdrwl	-2,700,000.00
Income	9,185.66
Mature	3,000,000.00
<i>Ending Cash Balance</i>	<i>7,336,893.68</i>

# Summary of Portfolio Changes

*Penn Manor School District General Fund*

<i>Beginning Market Value plus Accrued Income</i>		<b>26,437,158.02</b>
Contributions	0.00	
Withdrawal / Management Fee	(2,700,000.00)	
<i>Total Contributions, Withdrawals, and Management Fee</i>		<b>(2,700,000.00)</b>
Interest Received	9,185.66	
Interest Purchased	0.00	
Amortization Change	73,196.32	
Ending Accrued Income	0.00	
Beginning Accrued Income	0.00	
Accrued Income Change	0.00	
<i>Total Earned Income</i>		<b>82,381.98</b>
Ending Market Value	23,795,793.68	
Ending Book Value	(23,730,614.27)	65,179.41
Beginning Market Value	26,437,158.02	
Beginning Book Value	(26,348,232.29)	88,925.73
Change in Unrealized Gain/Loss	(23,746.32)	
Realized Gain/Loss	0.00	
<i>Change in Market Value</i>		<b>(23,746.32)</b>
<i>Total Investment Change</i>		<b>(2,641,364.34)</b>
<i>Ending Market Value plus Accrued Income</i>		<b>23,795,793.68</b>

# Amortization Reconciliation

*Penn Manor School District General Fund*

Purchase / Sale Date	Quantity (Units)	Security Description	Ending Market Value	Original Cost	Beginning Book Value	Principal Purchased	Current Month Am/Ac	Principal Received	Realized Gain/Loss	Ending Book Value	Unrealized Gain/Loss
	7,336,894.00	Cash/Money Market	7,336,893.68	7,336,893.68	7,027,708.02	309,185.66	0.00	0.00	0.00	7,336,893.68	0.00
		-CASH-									
08/24/07	1,500,000.00	FFCB Discount Note 0.000 05/02/08 313312WH9	1,497,750.00	1,450,947.00	1,487,589.00	0.00	6,107.00	0.00	0.00	1,493,696.00	4,054.00
08/30/07	2,500,000.00	FHLB Discount Note 0.000 05/23/08 313384XE4	2,493,500.00	2,413,550.00	2,472,700.00	0.00	10,075.00	0.00	0.00	2,482,775.00	10,725.00
08/24/07	1,500,000.00	FHLMC Discount Note 0.000 04/23/08 313396VY6	1,498,350.00	1,452,800.00	1,489,380.00	0.00	6,096.67	0.00	0.00	1,495,476.67	2,873.33
08/24/07	1,500,000.00	FHLMC Discount Note 0.000 05/21/08 313396XC2	1,496,250.00	1,447,740.00	1,484,010.00	0.00	6,045.00	0.00	0.00	1,490,055.00	6,195.00
08/10/07	5,000,000.00	FHLMC Discount Note 0.000 05/30/08 313396XM0	4,985,500.00	4,809,983.34	4,940,154.86	0.00	20,386.81	0.00	0.00	4,960,541.67	24,958.33
08/24/07	1,500,000.00	FNMA Discount Note 0.000 04/09/08 313588VJ1	1,499,400.00	1,455,365.00	1,492,100.00	0.00	6,122.50	0.00	0.00	1,498,222.50	1,177.50
08/31/07	1,500,000.00	FNMA Discount Note 0.000 06/02/08 313588XQ3	1,494,750.00	1,448,135.00	1,482,335.83	0.00	5,825.42	0.00	0.00	1,488,161.25	6,588.75
08/24/07	1,500,000.00	FNMA Discount Note 0.000 06/18/08 313588YG4	1,493,400.00	1,443,020.00	1,478,825.00	0.00	5,967.50	0.00	0.00	1,484,792.50	8,607.50
08/24/07		FNMA Discount Note 0.000 03/07/08 313588TZ8			1,498,597.08	0.00	1,402.92	1,500,000.00	0.00	0.00	0.00
08/24/07		FNMA Discount Note 0.000 03/26/08 313588UU7			1,494,832.50	0.00	5,167.50	1,500,000.00	0.00	0.00	0.00
<b>Total</b>			23,795,793.68	23,258,434.02	26,348,232.29	309,185.66	73,196.32	3,000,000.00	0.00	23,730,614.27	65,179.41

# Income Reconciliation

*Penn Manor School District General Fund*

Purchase Date	Sale Date	CUSIP	Quantity (Units)	Security Description	Coupon Rate	Maturity Date	Beginning Accrued Income	Current Month Int. Earned	Interest Purchased	Interest Received	Ending Accrued Income
		-CASH-	7,336,894.00	Cash/Money Market			0.00	9,185.66	0.00	9,185.66	0.00
08/24/07		313312WH9	1,500,000.00	FFCB Discount Note	0.000	05/02/08	0.00	0.00	0.00	0.00	0.00
08/30/07		313384XE4	2,500,000.00	FHLB Discount Note	0.000	05/23/08	0.00	0.00	0.00	0.00	0.00
08/24/07		313396VY6	1,500,000.00	FHLMC Discount Note	0.000	04/23/08	0.00	0.00	0.00	0.00	0.00
08/24/07		313396XC2	1,500,000.00	FHLMC Discount Note	0.000	05/21/08	0.00	0.00	0.00	0.00	0.00
08/10/07		313396XM0	5,000,000.00	FHLMC Discount Note	0.000	05/30/08	0.00	0.00	0.00	0.00	0.00
08/24/07		313588VJ1	1,500,000.00	FNMA Discount Note	0.000	04/09/08	0.00	0.00	0.00	0.00	0.00
08/31/07		313588XQ3	1,500,000.00	FNMA Discount Note	0.000	06/02/08	0.00	0.00	0.00	0.00	0.00
08/24/07		313588YG4	1,500,000.00	FNMA Discount Note	0.000	06/18/08	0.00	0.00	0.00	0.00	0.00
08/24/07		313588TZ8		FNMA Discount Note	0.000	03/07/08	0.00	0.00	0.00	0.00	0.00
08/24/07		313588UU7		FNMA Discount Note	0.000	03/26/08	0.00	0.00	0.00	0.00	0.00
<b>Total</b>							<b>0.00</b>	<b>9,185.66</b>	<b>0.00</b>	<b>9,185.66</b>	<b>0.00</b>

# Disclaimer

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*The performance figures in this report represent the past performance of your account and do not guarantee future results. Gross performance returns for the account will be reduced by management fees and any other expenses incurred in the management of the account.*

*Please advise your Relationship Manager or Client Service contact promptly in the event of a material change in your investment strategy.*

*Taxable clients are advised to consult with their tax advisor to determine the actual basis to use in tax reporting, as well as with any questions concerning the tax impact of gains or losses on securities or income earned in your account.*

*Sources of Information: Bloomberg, The Yield Book, FT Interactive Data, Portia, State Street Bank and Trust Company, AST Capital Trust Company, Lehman Brothers and various other sources from time to time, as may be referenced on the report page of their use.*

*Portfolio Analytic data such as Market Yield, Average Life, Modified Duration and Effective Duration provided by The Yield Book where available.*

*Equal Opportunity Employer M/F/D/V*

*Offer of Form ADV*

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