

High Yield Bond Fund Commentary

Quarterly Review

As the rally in the high-yield bond market showed no signs of letting up in the fourth quarter, a focus on higher-quality holdings led the High Yield Bond Fund to trail (gross of fees) its benchmark, the Merrill Lynch U.S. High Yield Master Index, for the final three months of 2009.

Though investors' exuberance for a recovery turned somewhat cautious in the fourth quarter, prices on high-yield bonds continued to rise, causing yield spreads to tighten, relative to U.S. Treasury issues. Meanwhile, the release of high-yield new issuance was steady. Much like the second and third quarters, the high-yield market's lowest quality segment (CCC-rated securities) outperformed the higher-quality portions (B- and BB-rated securities) considerably during the fourth quarter. Similarly, sectors with a large component of distressed securities pulled ahead of those sectors comprised of higher-quality issuers during the period. For example, broadcasting, publishing, and insurance ranked among the best performing industries, despite notable bankruptcy candidates. Falling short were the aerospace industry and the Utilities and Telecommunication Services sectors, all of which are generally comprised of higher-quality issuers that tend to be less volatile. In all, the Fund's benchmark advanced 5.8% for the period.

As in the prior quarters of 2009, contribution from sector allocation was not in our favor in the fourth quarter as our philosophy of focusing on the more stable sectors that provide attractive risk-adjusted returns over the long term tempered relative results. The Fund's limited exposure to the insurance and banking industries, which were among the benchmark's best performers, detracted materially from the Fund's relative performance. We continue to assess the weightings in the Fund and are looking for appropriate relative value opportunities that are consistent with our philosophy and process.

Continued >

While fixed income securities tend to experience less volatility than equities, investors in any fixed income securities should anticipate fluctuations in price, especially for longer-term fixed income securities in environments of rising interest rates.

All bonds are subject to availability and yields are subject to change. Market value will fluctuate. Bond values will decline as interest rates rise. The bond's income may be subject to certain state and local taxes depending on your tax status and or the federal alternative minimum tax.

High yield fixed income securities may have higher yields and are subject to greater credit, market and interest rate risk than higher-rated fixed income securities.

Fifth Third Funds are distributed by FTAM Funds Distributors, Inc. Fifth Third Asset Management, Inc. serves as Investment Adviser to Fifth Third Funds and receives a fee for its services.

You cannot invest directly in an index. Past performance does not guarantee future results.

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 call 1-800-282-5706 or visit www.fifththirdfunds.com. Please read the prospectus carefully before investing.

Portfolio Management Team

Mitchell Stapley, CFA®

Chief Fixed Income Officer
25 years investment experience

Brendan M. White, CFA®

Fort Washington Investment
Advisors, Inc. (subadvisor)

CFA® is a trademark owned by CFA Institute.

High Yield Bond Fund Commentary

From a security selection standpoint, holdings that added value included select names from the Utilities and Energy sectors, which had underperformed in prior quarters. Conversely, the Fund's relatively higher-quality holdings from the Telecommunication Services and Information Technology sectors resulted in negative contributions, on a relative basis.

Outlook

Following the high-yield market's exceptional gains of 2009, we're looking for moderate market returns in 2010. As investors begin to anticipate interest rate hikes from the Federal Reserve, the U.S. Treasury yield curve is likely to shift higher, and equity markets could become more volatile. We believe, however, that improving corporate profits should underpin moderate gains in the stock market, which bodes well for the high-yield bond market. Aside from unforeseen incidents, the main risks to this outlook arise from potential policy errors and possible aftershocks in the banking system.

With respect to high-yield bonds, a firming economy and a declining default rate suggest that the group's fundamentals remain adequate. As such, we remain constructive, but with tempered expectations. Whereas 2009 returns were comprised primarily of capital appreciation, we anticipate returns going forward to be comprised primarily of yield. That said, we think the Fund offers attractive relative value, particularly when compared to other fixed-income asset classes.

(Standard & Poor's) Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments.

(Standard & Poor's) Debt rated CCC has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial, and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial, or economic conditions, it is not likely to have the capacity to pay interest and repay principal.

The Merrill Lynch High Yield Master Index is a market capitalization weighted index of all domestic and Yankee high-yield bonds. Issues included in the index have maturities of at least one year and have a credit rating lower than BBB-Baa3, but are not in default.

Current and future portfolio holdings are subject to risk, and portfolio composition is subject to change.