

Caprin Asset Management, L.L.C.

Print and broadcast media have engaged a running point-counterpoint debate over the high-profile and unprecedented predictions of widespread muni defaults. We applaud those professionals seeking to set the record straight about the true size and scope of the problem at hand. Fear in the tax-exempt market is not beneficial for those investors seeking capital preservation in their fixed income allocations. Transparency of the difficult structural challenges that state budgets are facing is absolutely necessary if there is to be resolution of the excesses that have accumulated. Unsustainable pension and benefit plans, wasteful spending, and generous public services will be scrutinized as officials grapple with difficult choices. The severity of the recession, the duration and magnitude of high unemployment, and the feeble recovery after the real estate crash have reduced governmental revenues, and a return to the 'golden days' is unlikely. As we write this newsletter, intense debates and demonstrations about pension, public service, and education cuts are becoming more prominent around the country.

Caprin recognizes that defaults may occur among weaker credits, especially debt issued against specific, non-essential projects. It is important to note that Caprin does not subscribe to the more dire default predictions totaling hundreds of billions of dollars. We believe the exceedingly negative rhetoric is overdone. With that said, we remain committed to assessing the risks and nuances associated with each issuer that we seek to purchase for and hold in client portfolios.

Caprin Strategy

Following the November 2010 Fed meeting, Caprin felt potential headwinds would pressure the municipal bond market and we elected to let portfolios drift toward to a shorter average maturity and duration structure. After months of mutual fund outflows driving prices down and yields up, we believe the muni market is potentially oversold and currently offers prudent investors significant value. This environment has generated a strategy change and Caprin portfolios will be repositioned to a neutral duration and maturity structure.

The supply of desirable bonds remains a hurdle in the muni market as new issuance volume remains well below historical levels – down roughly 65% in 2011 YTD from the same period last year. The supply deficiency has created excess demand (i.e. higher prices) and is the primary driver of Caprin's constructive view of the market over the near term. However, the supply outlook also presents an elevated challenge for repositioning portfolios, especially for our state-specific muni clients. Risk management is a central theme of Caprin's investment process — we want to avoid concentrating state-specific holdings in a limited number of names or lowering our quality standards just to remain in-state. Therefore, state-specific clients may see additional positions from issuers outside of their state of domicile. We believe that the minor tax impact is outweighed by the need to remain invested, diversified, and within our credit risk comfort zone.

Coincident with the neutral duration target, portfolio structures will become more "laddered" with maturities relatively evenly distributed over the maturity horizon. We will limit new purchases to a fifteen-year maximum maturity because the declining incremental yield beyond that point does not offset the additional price risk assumed. We will decrease our holdings maturing during the next thirteen months on the expectations that the Fed will not meaningfully raise rates in 2011 and that short-end yields will remain near all-time lows. Cash raised will be directed to achieving our target portfolio structure while seeking yield opportunities in favorable names and sectors. Liquidity and quality remain high on our priority list as the interest rate cycle and municipal fiscal solutions continue to unfold.

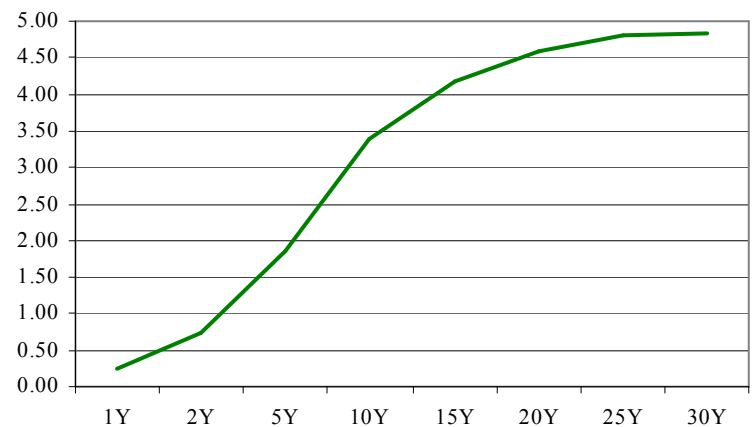


Figure 2. U.S. Muni G.O. AAA Yields as of 02/22/11 Source: Bloomberg

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.