CAPRIN
Asset Management, L.L.C
Capital Preservation & Income

Caprin Asset Management, L.L.C.

7100 FOREST AVE., SUITE 303, RICHMOND, VA 23226

April 2008

Weakening Outlook Results in Fed Action

The Federal Open Market Committee reconvened on March 18th, addressing growing inflationary pressures and the economy's weaker short-term outlook. The Fed's latest statement focused on shoring up the economy and on providing liquidity to the credit markets. Their deliberations culminated in a lowering of the Fed Funds Rate by another 75 basis points to 2.25%. The Fed also cautioned against growing inflationary pressures that we have all seen in food and fuel prices. Many of these themes persist from the last meeting as the Fed continues to walk a tight rope on stimulating the economy and on moderating inflationary pressures.

Recent announcements continue to point to a bumpy road over the next several quarters and may also hint at a recession. Consumer spending continues to soften, and the U.S. labor markets have weakened, with employment and payroll statistics furthering their decline. March marked the third consecutive month where the number of new jobs created in the U.S. actually decreased, and unemployment has risen to 5.1%, a level not seen since our last recession. Furthermore, housing market woes

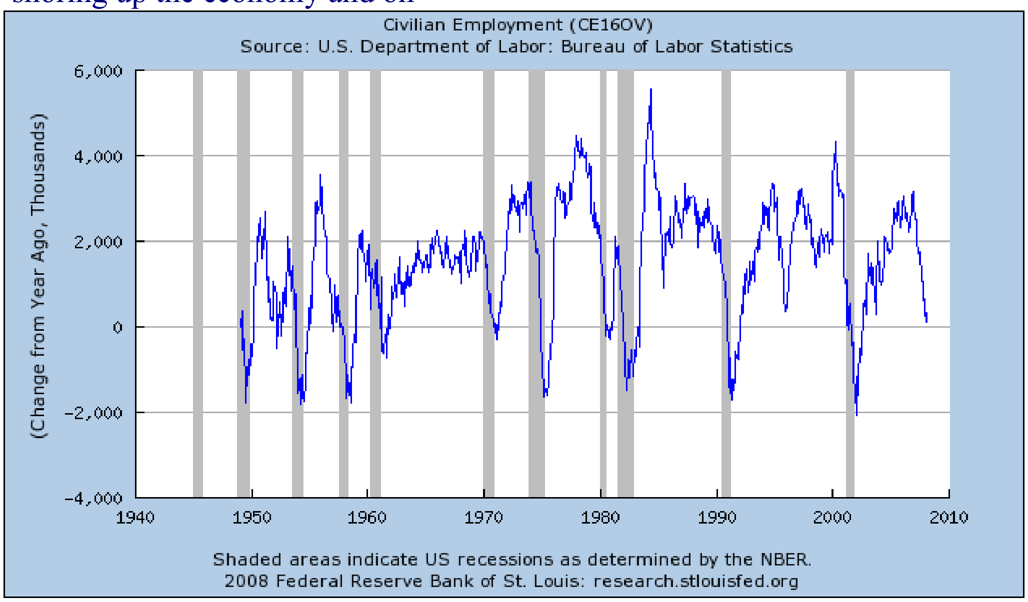

Figure 1. Change in U.S. employment numbers from the previous year *Source. U.S. Dept. of Labor*

Highlights:

- Weak outlook and rising inflation currently troubling the economy
- Federal Open Market Committee cut Fed Funds rate 75 basis points in face of a weakening economy
- Caprin shifting target duration to 5.15 years, neutral to Lehman 7-year Municipal Bond Index
- Current yields are offering a great opportunity for municipal bond investors

"Leadership by the Fed gave reassurance that financial markets would not spiral out of control."

persist as homes sales and prices continue to fall nationwide. And since 1969, there have been five construction cycles where housing starts decreased by 30% or more, and the U.S. entered a recession each time. Currently, housing starts are down roughly 48%.

The severity of stress in the financial markets reached a crescendo when the Federal Reserve Bank of New York orchestrated J.P. Morgan's historic buyout of Bear Stearns to stave off its failure. Bear Stearns' collapse is one of the most significant events of the current financial crisis and, J.P. Morgan's purchase was executed to maintain market stability and avoid a potential domino effect had Bear Stearns declared bankruptcy. This leadership by the Fed gave the markets a boost of reassurance that financial challenges would not spiral out of control.

Caprin Strategy

Relative to other asset classes, municipal bonds continue to generate very attractive yields with taxable equivalent yields ranging from 5% to 7% depending on maturity. Fixed income investors seeking yield in this environment find value at these levels without taking on meaningful credit risk. True, taxable bonds with comparable yields exist, but companies with much greater credit risk than a municipality or authority typically issue those securities. Though this relative advantage for municipal yields has narrowed somewhat recently, this asset class still remains attractive on both a relative and an absolute basis.

In an effort to capitalize on these relative yields, Caprin in mid-March shifted its target duration to be neutral to our benchmark, the Lehman Brothers 7-Year Municipal Bond Index. We continued the effort begun in mid-February to extend portfolios to an average target duration of 5.15 years. Market volatility is still present, and this creates relative advantages that our portfolio teams capture, most recently with bonds maturing in 15 to 20 years. Portfolio teams predominantly have been focusing purchases on high quality (AAA/AA), liquid General Obligation bonds. Given the low risk associated with high quality, G.O. municipal bonds and their present yield levels, it is a great time for municipal bond investing.

By maintaining Caprin's measured strategy and proactive management style, our clients are well positioned to capture opportunities in the current market environment.