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Caprin Strategies Stay the Course Amidst Market Turbulence

In what will enter history as one of the most chaotic periods for global financial markets, the past six weeks have marked an extremely difficult episode for individual and institutional investors. We have witnessed unprecedented levels of stress with some of the world's most prestigious financial institutions changing hands, or worse. We expected newfound optimism to enter the markets when the Troubled Assets Relief Program rescue package passed, but the $700 billion bailout sparked a downward spiral in confidence that triggered a tumble in the world's equity markets. The coupling of restricted credit with troubling economic indicators and poor corporate earnings have heightened concerns that a consumer-led global recession will remain center stage for months to come. At this point in the evolution of the economic and financial cycle, investors worldwide have not been presented with sufficient evidence on when consumers will rebound from the challenges we all face.

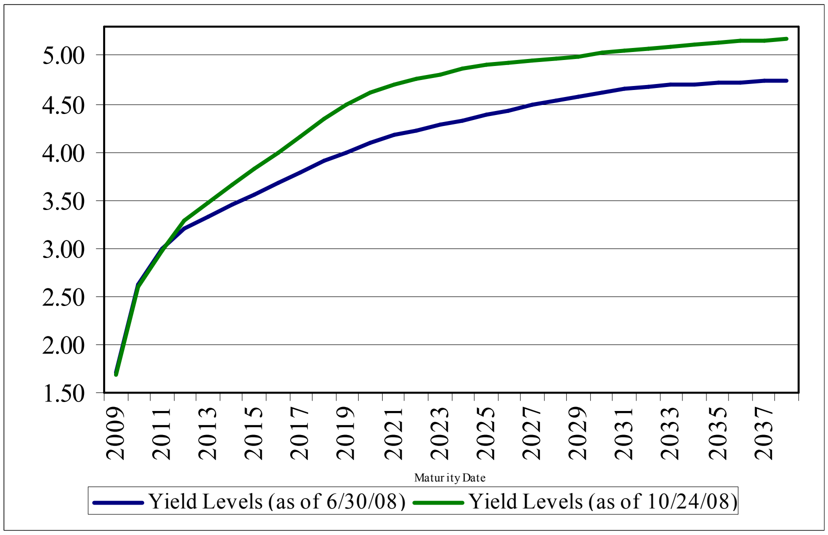

Fig 1. Yield Curve Comparison (June 30, 2008 vs. October 24, 2008) showing steepening from June 30, 2008 through quarter-end *Source: MMD*

In recent days, falling oil prices and news of broader mortgage assistance have been encouraging and may begin to lay the groundwork for shoring up consumer confidence. The markets will focus keenly on tangible evidence of business and consumer activity as we move through the important holiday shopping seasons. It is evident to us that regulators and policymakers are seeking to repair institutional and consumer confidence through a range of liquidity and assistance measures. In many respects, swift policy actions in our domestic economy are what set the United States apart from other economies.

During times like these, your municipal bond portfolio continues to provide liquidity and to reduce volatility in your overall investment program. Earlier this year, Caprin set its interest rate strategy for client portfolios at a five-year duration target, reflecting a developing level of uncertainty about the direction of our economy. During the ensuing period, we opportunistically structured maturities in portfolios to anticipate changing interest rates along the yield curve. Most importantly, though, we determined the municipal bonds we purchased in client accounts needed to emphasize the highest credit quality ratings.

These bonds also needed to be readily marketable in order to maintain liquidity for client needs and future adjustments to investment strategy.   These fundamental principals are at the core of our philosophy — **CA**pital **PR**eservation and **IN**come – and have contributed to better relative returns and a lower level of risk thus far in 2008.

Prices and yields for municipal bonds, though, have been impacted during this period of stress, and most recently have been exposed to constrained financial capital at broker-dealers who actively market these securities. Many of these dealers are requiring higher levels of capital to support poorly performing investments, thus reducing the capital available for maintaining municipal bond inventories. Consequently, dealers have priced municipal bonds at higher yields to entice buyers. This environment has created periodic opportunities to purchase securities at attractive yields and orient portfolios for improved returns under more stable market conditions. The yield curve remains attractive for investing when compared to the past three years—*Figure 1* on the reverse page displays the yield increase in long maturity bonds over the past three months alone.

Recent monetary and fiscal initiatives are groundbreaking in many respects and require time to produce the desired economic results. The past few days have seen solid indications of improving credit conditions, which is encouraging. However, world financial markets now are confronting hedge fund liquidations and the uncertainty surrounding this recession. In time, investors will better understand the reality of economic conditions and market volatility will subside. This knowledge should also in turn restore much needed confidence in the viability of world economies and markets. As we evolve through this challenging landscape, your municipal bond portfolio will continue to be invested consistent with our capital preservation and income disciplines.

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Capital Preservation & Income