CAPRIN Asset Management, L.L.C

Capital Preservation & Income

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January 2009

2008: Conservative Investing, Solid Returns

In this first newsletter of 2009, it is a dizzying task to reflect on the events that transpired over the course of the past twelve months. Mergers and bankruptcies of major financial institutions, massive job losses, and a meteoric rise in home foreclosures exemplified a year that witnessed record volatility in most financial markets. The National Bureau of Economic Research declared officially on December 1st that a domestic recession began in early 2008; most forecasts for early 2009 are some variation of "it must get worse before it gets better." However, there is a light at the end of this tunnel: a new Presidential administration and a determined Fed bode well for shifting market sentiment and increasing global confidence in the American system sooner rather than later.

The Federal Open Market Committee took historic action on December 16th and cut the overnight lending rate to a range of 0 – 0.25%. This move signaled a monumental shift in Fed Chairman Bernanke and the Federal Reserve's focus. With the target rate effectively zero, the Fed truly is aiming to restore sustainable economic growth by supporting financial markets directly and by participating in the open market. The Fed has already begun buying agency and mortgage-backed debt in an effort to prop up the putrid lending and housing markets whose turnaround all agree is a key factor in reviving the economy. Although it is too early to measure the purchasing program's success, the Fed's deliberate, aggressive actions over the course of the past month have eased some investor anxiety by showing an overt dedication to this complex problem.

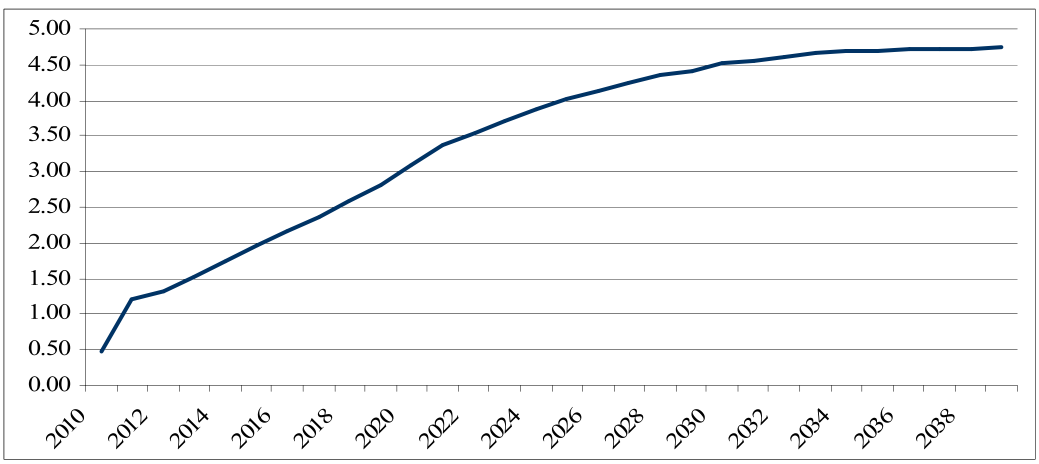

Figure 1. *Municipal Yield Levels for 1 to 30 Year Maturities as of January 15, 2009* *Source: MMD*

One thing is certain, though; the economy will recover. After all, this is not the first time the United States' economic resolve has been tested. The length of the ongoing recession remains a heated debate. Are we currently bottoming out and positioning for a rebound in mid-2009, or might this recession retrospectively be deemed "The Great Recession?" Will the plummeting

Highlights:

- Federal Reserve, Treasury, and FDIC taking aggressive action to combat the financial crisis
- Federal Reserve Open Market Committee cut Fed Funds Rate to a range of 0-0.25% in mid-December
- Caprin maintaining target duration close to 5 years, neutral to target index
- Caprin continues to focus on liquid, high-quality positions amidst volatile market environment

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costs of food and energy aid a quicker turnaround in consumer spending and price stability, or will they funnel us into a deflationary environment? The ink is still wet on the pages of the global economic history we have already written in 2008, but the completed story may be far from over.

Amidst the considerable volatility in the marketplace in 2008, Caprin's state-specific municipal bond composite (an average of all qualifying portfolios) returned 3.57% for the year, gross of fees. By adhering to our commitment to building high quality portfolios, we were able to achieve positive returns as many other investment alternatives were battered by the ongoing turmoil. Also, our duration structure was targeted around the 5-year area for the majority of 2008. Clients were rewarded with better returns by maintaining a relatively low duration, minimizing volatility in the portfolio, and substantially outperforming portfolios with longer maturities or lower credit quality. All these strategies combine to deliver the capital preservation and income on which Caprin's investment philosophy was founded.

Caprin Strategy

The plethora of unknown variables such as future Fed policy action and the risk of more negative news headlines indicate that 2008's volatile ride for investors may continue into 2009. Given such risks, Caprin intends to remain neutral to our benchmark's duration structure in order to diversify risk and preserve capital. Our portfolios will continue to stress quality and liquidity as our economy navigates these difficult times.

The municipal yield curve remains historically steep, meaning investors are being rewarded with tempting yields in longer-maturity bonds. Currently, municipals are a highly attractive investment option, with yields anywhere from 100%-300% higher than Treasury notes carrying the same maturity date. As anxiety has spread throughout the investment markets, a large premium is being placed on owning high-quality municipal bonds. This class of bonds is still regarded by the market as a safe investment vehicle relative to the excessive risk (volatility) in the equity and corporate bond markets; as a result they have performed very well as of late. We continue to scour proactively the bond market to capitalize on opportunities to purchase high-grade General Obligation bonds and solid Revenue bonds at attractive prices. We believe our clients will benefit from being in this asset class as instability continues in many other mainstream investments and investors prefer municipal securities as their alternative-of-choice.

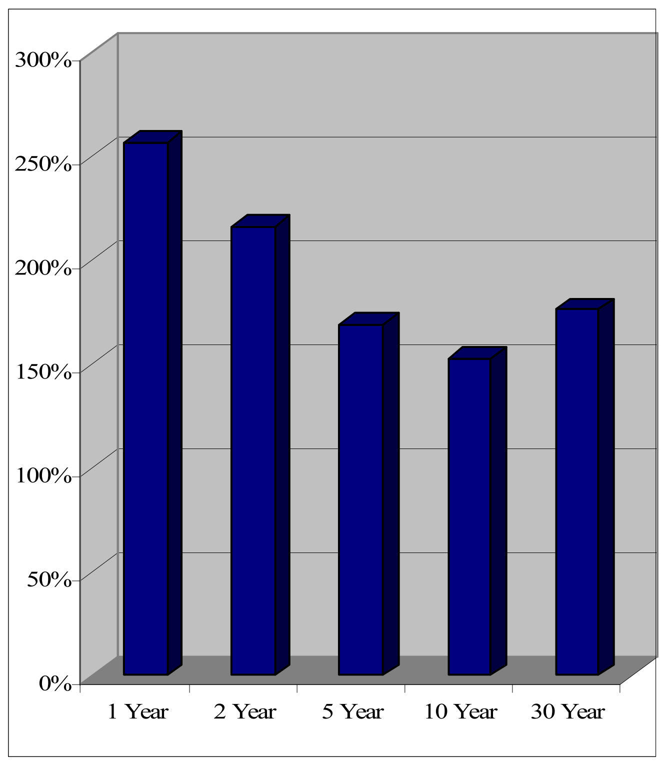

Figure 2. Municipal Bond Yields as a Percent of Like Maturity Treasury Yields *Source: Municipal Market Advisors*