

MANAGED ETF  
PORTFOLIO  
CHARACTERISTICS\*\*

AS OF: 11/30/2012

Municipal Strategy:

Effective Duration: 5.07yrs

Average Maturity: 6.60yrs

Blended 30 Day

SEC Yield: 1.50%

Taxable Strategy:

Effective Duration: 4.90yrs

Average Maturity: 7.52yrs

Blended 30 Day

SEC Yield: 1.64%

Blend Strategy:

Effective Duration: 5.26yrs

Average Maturity: 8.41yrs

Blended 30 Day

SEC Yield: 1.55%

\*\*Blended Portfolio Characteristics based upon official Fund data published by each sponsor firm and have been compiled using weighted averages of then current portfolio positioning. These characteristics are believed to be accurate but are not guaranteed.

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**Positioning Across Strategies**

**Duration:** It's mid December and, still, no resolution on the Fiscal Cliff. Recalling the debunked general wisdom of 2011's debt showdown, we approach this deadline with humility. After all, as Donald Rumsfeld put it, there are known unknowns and unknown unknowns. While we are playing things generally close to neutral from a risk and duration perspective, we have been making notable moves.

**High Yield:** After taking off our position in High Yield just before the election, we have waded back in. Regardless of Cliff outcome, we believe the economic trajectory hasn't changed, and the Fed's ongoing rate repression will perpetuate a hunger for yield assets.

**Municipal Considerations**

**Supply:** Heavy December supply may be weighing on dealer balance sheets. Refinancings continue to dominate the calendar. This may pressure the Muni market thru year end, depending on the market's willingness and ability to digest all the issuance.

**State Specific Concerns:** Fundamentally, we're actually ok with California in the near to medium term. In the longer term, for California to be fiscally sound, much more has to be done to tackle expenses, entitlements and post-retirement issues. In the interim, a budget crisis is less likely given approved tax increases. Tactically, we rotated out of the Golden State on relative valuation, awaiting our chance to come back on better terms.

**Taxable Considerations**

**International:** Traders remain generally confident that the ECB will move mountains to stave off contagion. U.S. uncertainty coupled with a continued lack of bad news abroad makes us keen to diversify internationally. The euro has held up.

**Investment Grade Corporate Bonds:** We favor high-yield over investment-grade corporates. Shareholder-friendly moves like special one-time dividends, accelerated payouts and leveraging up for buybacks – see Costco and Intel, recently – demonstrate that companies might increasingly be willing to dispense with peerless credit ratings to reward equity holders. We maintain a slight position as we are wary of being *too* defensive in this environment.

**Taxable Municipals:** We have exited taxable munis for now. The ability of state and local governments to enjoy full subsidies from Washington remains threatened by non-resolution of the fiscal cliff. While the longer duration BAB ETF has helped us maintain our overall longer portfolio bias, it could take an outsized hit from a less-than-favorable agreement on the future of sequestration. In the short term, we'd rather not make that bet.

**Mortgages:** Having sold BAB, we have also unwound the counterbalance of MBB. No offense, Mr. Bernanke.

**Tactical Blend Considerations**

**Muni/Treasury Weighting:** We now favor Munis (60% Muni/40% Taxable) in light of their recent underperformance to Treasuries.

Municipal Performance

|  | November 2012 | YTD 2012     | 12 Months Ending 11/12 |
|--|---------------|--------------|------------------------|
| <b>Caprin Managed Municipal ETF Strategy</b> | <b>1.85%</b>  | <b>9.42%</b> | <b>11.74%</b>          |
| iShares National Tax Free Muni ETF (MUB)     | 1.85%         | 7.98%        | 10.67%                 |
| Barclays Municipal Bond Index                | 1.65%         | 8.11%        | 10.16%                 |

**Municipal Note:** Long bias and High Yield exposure have benefited Caprin vs Bond Indexes.

Taxable Performance

|  | November 2012 | YTD 2012     | 12 Months Ending 11/12 |
|--|---------------|--------------|------------------------|
| <b>Caprin Managed Taxable ETF Strategy</b> | <b>0.18%</b>  | <b>5.45%</b> | <b>6.80%</b>           |
| iShares US Aggregate Bonds ETF (AGG)       | 0.27%         | 4.00%        | 5.40%                  |
| Barclays US Aggregate Bond Index           | 0.16%         | 4.38%        | 5.52%                  |

**Taxable Note:** Long bias expressed through Taxable Munis coupled with High Yield and Investment Grade Corporate allocations have supported Caprin returns vs Indexes.

Tactical Blend Performance

|   | November 2012 | YTD 2012     | 12 Months Ending 11/12 |
|---|---------------|--------------|------------------------|
| <b>Caprin Managed Tactical Blend ETF Strategy</b> | <b>1.03%</b>  | <b>7.80%</b> | <b>9.72%</b>           |
| 50% MUB/ 50% AGG                                  | 1.06%         | 5.99%        | 8.02%                  |
| 50% Muni Index/ 50% Taxable Index                 | 0.91%         | 6.23%        | 7.82%                  |

**Blend Note:** Tactical trading around Muni and Taxable market relationships has helped boost returns versus blended benchmarks.

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.