CAPRIN

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ETF COMMENTARY JUNE 2012

MANAGED ETF PORTFOLIO CHARACTERISTICS**

AS OF: MAY 31, 2012

Municipal Strategy:

Effective Duration: 5.31yrs

Average Maturity: 7.60yrs

Blended 30 Day SEC Yield: 2.23%

Taxable Strategy:

Effective Duration: 4.49yrs

Average Maturity: 6.64yrs

Blended 30 Day SEC Yield: 2.15%

Blend Strategy:

Effective Duration: 5.38yrs

Average Maturity: 8.40yrs

Blended 30 Day SEC Yield: 2.36%

**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.

What We Saw

Markets began favoring a "risk off" position in April, reversing the "risk on" trade that dominated the first quarter. As Euro concerns re-inflamed and growth prospects at home began to cool, investors worked to protect themselves from increasing downside risk. By the end of May, US Treasury yields had reached all-time lows fueled in part by speculation of Greece exiting the Euro and election results in Greece and France that called into question the region's appetite for belt-tightening. The Dow tumbled over 1,000 points in the month of May as investors exited riskier assets in droves - a dramatic example of the grip Europe's financial struggles still have on global investing behavior.

Caprin Strategy	May Return	YTD Return	Benchmark	May Return	YTD Return
Managed Municipal Bond ETF	1.23% 1.23%*	5.05% 4.89%*	Barclays Capital US Municipal Bond	0.83%	3.77%
Managed Taxable Bond ETF	0.99% 0.99%*	2.98% 2.85%*	Barclays Capital US Aggregate Bond	0.90%	2.33%
Managed Tactical Blend ETF	1.14% 1.14%*	3.46% 3.34%*	50% BC US Muni / 50% BC US Agg	0.87%	3.05%

*Net of Fees

What We Did

Our modeling first signaled a transition to "risk off" in early April when High Yield Corporate bond strength showed signs of waning. The High Yield Corporate bond sector has been a leading indicator of both "risk on" and "risk off" trades over the past few cycles, and April was no exception. We exited the High Yield Corporate sector in favor of a more defensive position in AGG (iShares Barclays Aggregate Bond Fund), a broad bond market ETF. As of this writing, AGG has outperformed the High Yield Corporate ETF by 2.60% since our change. Over the next few weeks, our modeling across other debt sectors validated initial indications out of the High Yield Market as "flight to quality" gained traction. Accordingly, we rotated out of Investment Grade Corporate and International positions into the broad market with a bias towards government-related securities in the establishment of a more defensive posture. Our Taxable ETF strategy is currently 80% AGG, our most neutral positioning since November 2011 and a reflection of the caution demanded when investing in this volatile environment.

Our Muni strategy's trading has closely paralleled our taxable decisions since April. We rode an overweight in High Yield Munis during the first part of the year to strong outperformance, but like their corporate counterpart, High Yield Munis' momentum fizzled in early April also as even Muni buyers sought safer bonds. To reduce our exposure to riskier sectors, we exited the High Yield Muni (very early April) and California state-specific ETFs (mid-May) in favor of a more conservative ETF line-up. Our shunning of High Yield Muni's proved short-lived however, as Muni investors displayed a greater tolerance for risk than their taxable cousins. We weighed various Muni market dynamics as we re-entered the High Yield Muni sector in mid-April after the initial flight-to-quality began to subside. Why did High Yield Munis fare better than other higher yielding sectors? Several reasons likely contributed: 1) the Muni bond market's greater insulation from direct Euro influence; 2) all-time low yields driving Muni buyers to buy lower quality to meet income needs; 3) low supply forcing some buyers to just accept what was available which was, in many cases, lower-rated bonds. Our chosen High Yield Muni ETF has outperformed the Muni bellwether ETF MUB (iShares S&P National Municipal Bond Fund) by roughly 1.70% since our decision to re-enter on April 16th.

What We See

Global markets remain highly sensitive to developments across the pond. Our defensive positioning across all three of our strategies has continued to serve us well while Euro headlines further muddied the economic landscape. However, markets appear to be taking a breather following their aggressive moves over the course of the last few weeks, and we have used this opportunity to dip our toes back into the Investment Grade Corporates sector.

We remain neutral to defensive overall in all three of our ETF strategies despite adding or maintaining some exposure to riskier sectors. US economic data continues to be mixed, and though the European Union and European Central Bank have shown intent to get their fiscal house in order, intent is very different from action. Should we gain more confidence in Europe's capacity to address Greece, Spain and their other big issues, it is possible that our strategies could reflect a more "risk on"-type stance. In the meantime, we believe the best approach is to take shelter until markets can establish a clearer direction.

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