CAPRIN

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ETF COMMENTARY AUGUST 2012

PERSPECTIVES

MANAGED ETF PORTFOLIO CHARACTERISTICS**

AS OF: JULY 31, 2012

Municipal Strategy:

Effective Duration: 5.50yrs

Average Maturity: 9.50yrs

Blended 30 Day SEC Yield: 2.26%

Taxable Strategy:

Effective Duration: 5.06yrs

Average Maturity: 8.43yrs

Blended 30 Day SEC Yield: 2.75%

Blend Strategy:

Effective Duration: 5.73yrs

Average Maturity: 9.35yrs

Blended 30 Day SEC Yield: 2.82%

**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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Global Markets & Drivers

Europe: Leadership demonstrating lots of bark but little bite. Absence of negative headlines has fueled recent stability across European markets, which, in turn, has helped lift global risk asset prices. Expect the next spell of negative news to create sharp corrections given lack of concrete solutions. Recent European stock rally hasn't shown in currency prices, which have stabilized but have yet to indicate a turn.

FOMC: Fed continuing its vocal support of further accommodations if necessary, but remains in its several-meeting holding pattern. Risk markets taking a "so bad it's good" approach, rallying in response to troubling economic releases assuming bad news brings the Fed closer to additional accommodation.

Corporate Earnings: Q2 has been a mixed bag. Though positive surprises are dominating downsides 3 to 1 and almost twice as many companies are reporting higher earnings year-over-year, the misses have been big. On a share-weighted basis, total earnings for S&P members reporting through August 10th are actually down slightly year-over-year (-0.5%). Risk markets seem otherwise distracted by European developments and hope for further Fed support, shrugging off an unimpressive Q2 earnings season.

US Equity Market: Combination of quiet on the European front and enthusiasm for more Fed support has boosted equities in recent weeks. Upward momentum has been established with indexes breaking out of their June/July channel.

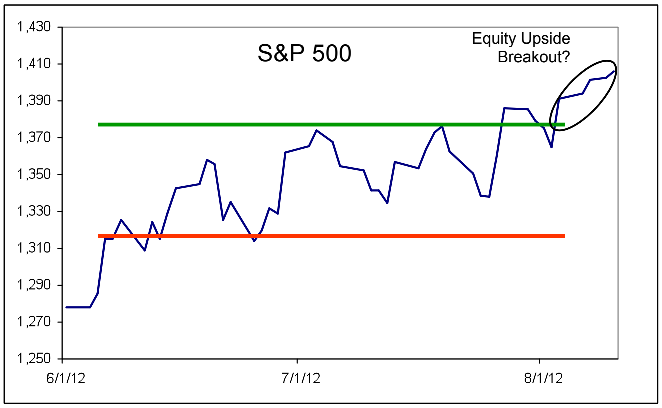
US Treasuries: Flight to risk assets has Treasuries trading off from recent record low yields, with more movement seen in intermediate and longer maturities. The selloff has been much more muted than the sharper rise seen in risk assets, suggesting investors aren't bailing out of Treasuries. Short maturities remain anchored to expectations for ongoing Fed accommodation.

Investment Grade Corporate Bonds: Corporate spread tightening momentum established in June accelerated in July and into August. Earnings season passes with corporate balance sheets remaining strong overall. As earnings momentum wanes, are more aggressive deployments of capital ahead?

High Yield Bonds: There seems to be no satisfying investors' hunger for yield in this low interest rate environment. Defaults remain low and overall corporate health remains stable, helping investors stay comfortable with risk.

Municipal Bonds: Muni yield and price volatility have been much more stable than that seen in Treasuries. And, though far greater than last year, new issue supply has been easily digestible. Investors continue to shake off sporadic bankruptcy headlines concentrated in California. With this backdrop, Munis are taking direction from the Treasury market for now.

Equities Building Momentum



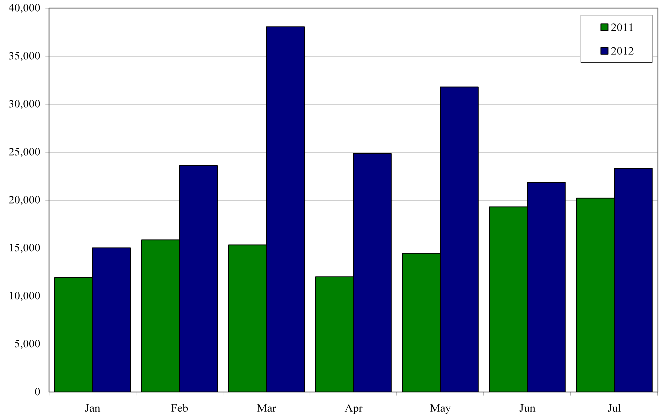
Source: Bloomberg

Q2 Earnings Mixed – S&P 500 Members Reporting:

	Reported	% of Total	Share Weighted % Change
Total	**454/500**		**-0.5%**
Higher	295	65.0%	+15.8%
Lower	151	33.3%	-27.0%
Unchanged	8	1.8%	0.0%
Positive Surprises	308	68.1%	
Negative Surprises	98	21.7%	
As Expected	46	10.2%	

Source: Bloomberg

Muni New Issue Supply YOY (in $mlns)



Source: Bloomberg

CAPRIN MANAGED ETF STRATEGIES

“In extending overall portfolio duration, we look to avoid longer direct Treasury exposure and favor sectors and asset classes with spread compression potential to offset any further weakness in Treasuries.”

Positioning Across Strategies

Duration: Big picture and longer term we continue to maintain both a long maturity and long duration bias. However, we are evaluating that bias given recent momentum in risk assets. In extending overall portfolio duration, we look to avoid longer direct Treasury exposure and favor sectors and asset classes with spread compression potential to offset any further weakness in Treasuries.

High Yield: We have maintained High Yield exposure across strategies for several weeks. Conviction remains high given overall benign Q2 earnings and balance sheet strength.

Municipal Considerations

State Specific Issues: We remain slightly underweight California exposure for the time being, though the market has yet to punish the State for the spate of recent bankruptcy headlines. Investors still seem to favor the higher yields offered by California issuers despite heightened risk. We prefer to remain cautious as a more negative view of California may evolve should negative headlines from the Golden State increase.

Taxable Considerations

International: While European headlines have been less dreadful recently, we continue to avoid international exposure given the absence of any longer term fixes. Economic growth remains bleak, and any optimism is short-lived.

Investment Grade Corporate Bonds: Continuing to maintain an allocation to IG Corporates given firmly established momentum in credit spreads and a benign earnings quarter.

Taxable Municipals: Persistent, attractive risk-adjusted yields continue, and the long maturity bias to BAB ETF helps frame the longer duration profile consistent with broader market strategy.

Mortgages: Positioning in a Mortgage-Backed Security ETF (MBB) acts as a duration and risk management play. With the possibility of QE3 bringing the Fed to the table to buy mortgage securities, we continue to track the benchmarks for our mortgage sector weighting.

Tactical Blend Considerations

Muni/Treasury Weighting: We currently carry an overweight (65%/35%) to the Tax-Exempt market, as Muni yields remain attractive relative to Treasuries and Muni supply remains digestible.

Municipal Performance

	July 2012	Q2 2012	YTD 2012	2011
Caprin Managed Municipal ETF Strategy	1.98%	1.88%	6.50%	14.56%
iShares National Tax Free Muni ETF (MUB)	2.07%	1.36%	5.09%	12.98%
Barclays Municipal Bond Index	1.59%	1.88%	5.30%	10.70%

Municipal Note: Long bias has benefitted Caprin vs Bond Indexes, but premium spike in MUB at end of July led to slight Caprin lag for the month.

Taxable Performance

	July 2012	Q2 2012	YTD 2012	2011
Caprin Managed Taxable ETF Strategy	1.63%	1.94%	4.61%	6.57%
iShares US Aggregate Bonds ETF (AGG)	1.36%	1.97%	3.50%	7.69%
Barclays US Aggregate Bond Index	1.38%	2.06%	3.78%	7.84%

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

	July 2012	Q2 2012	YTD 2012	2011
Caprin Managed Tactical Blend ETF Strategy	2.17%	2.01%	5.46%	10.45%
50% MUB/50% AGG	1.72%	1.66%	4.31%	10.34%
50% Muni Index/50% Taxable Index	1.48%	1.97%	4.54%	9.27%

Blend Note: Tactical overweighting in Muni market has helped boost returns versus blended benchmarks.

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