

MANAGED ETF  
PORTFOLIO  
CHARACTERISTICS\*\*

AS OF: 10/31/2012

Municipal Strategy:

Effective Duration: 5.16yrs

Average Maturity: 7.61yrs

Blended 30 Day

SEC Yield: 1.95%

Taxable Strategy:

Effective Duration: 5.44yrs

Average Maturity: 8.93yrs

Blended 30 Day

SEC Yield: 2.34%

Blend Strategy:

Effective Duration: 5.62yrs

Average Maturity: 9.65yrs

Blended 30 Day

SEC Yield: 2.47%

\*\*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.

1802 Bayberry Court, Suite 202  
Richmond, Virginia 23226  
804] 648-3333

CAPRINBONDS.COM

Media Contact:  
aplotkin@caprinbonds.com

**Positioning Across Strategies**

**Duration:** Having swapped election uncertainty for Fiscal Cliff fear and doubt, we are still sticking with our longer duration bias. Obama's win locks in more Bernanke, whose ultra-generous policies remain the key comfort for markets wedged between a chronically lackluster U.S. economy and flare-ups out of Europe.

**High Yield:** Before the election, we took off our position in High Yield, where valuations have gotten rich after a very strong run. While the ubiquitous, Fed-induced hunt for yield keeps bolstering junk-bond funds, risk assets are experiencing new volatility amid a heightened appreciation of near-term fiscal uncertainties. We are, of course, prepared to return to high-yield after a pullback.

**Municipal Considerations**

**Supply:** After Sandy essentially shut down Wall Street for a week, a backlog of Municipal supply has been squeezed into the final days of the calendar year. The healthy demand for munis, where yields are near all-time lows, has us feeling comfortable the market can handle pent-up issuance.

**State Specific Concerns:** The Northeast and California are front-and-center. Storm-ravaged New York and New Jersey face a fair amount of infrastructure spending that will require new issuance. Long term, can the NYC Metro Transit Authority, Port Authority and Long Island Power push through the rate hikes necessary to cover the additional debt? Meanwhile, California now has a Democrat super-majority in its legislature. How will Sacramento's new lopsidedness impact the pressing long-term need to cut spending to balance budgets in the country's most muni-bankrupted state? Underweight the Golden State.

**Taxable Considerations**

**International:** Europe's long-term structural problems remain, and they flare up from time to time. But sovereign yields have fallen, as a general confidence sets in that the ECB will do whatever it needs to do to cordon off contagion.

**Investment Grade Corporate Bonds:** As with high-yield bonds, we have taken money off the table in investment-grade. A weak earnings season and resurgent post-election market volatility could take its toll on credit spreads. Shareholder-friendly moves like special one-time dividends and accelerated payouts are potential consequences of fading earnings growth.

**Taxable Municipals:** 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 helps us maintain our overall longer portfolio bias, we lightened up a little in our taxable strategy to manage duration more towards neutral, as well as to hedge ahead of the Fiscal Cliff and potential sequestration.

**Mortgages:** We have maintained a position in a Mortgage-Backed Security ETF (MBB) as a duration and risk management play, especially with the QE3 Fed committed to this space.

**Tactical Blend Considerations**

**Muni/Treasury Weighting:** We favor Taxables over Munis (55% Taxable/45% Muni). We're looking for signs of supply pressure to up our Muni weighting.

**Municipal Performance**

	October 2012	YTD 2012	12 Months Ending 10/12
<b>Caprin Managed Municipal ETF Strategy</b>	<b>0.44%</b>	<b>7.43%</b>	<b>9.97%</b>
iShares National Tax Free Muni ETF (MUB)	0.46%	6.02%	9.35%
Barclays Municipal Bond Index	0.28%	6.35%	9.01%

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

**Taxable Performance**

	October 2012	YTD 2012	12 Months Ending 10/12
<b>Caprin Managed Taxable ETF Strategy</b>	<b>0.38%</b>	<b>5.26%</b>	<b>5.97%</b>
iShares US Aggregate Bonds ETF (AGG)	-0.05%	3.72%	4.77%
Barclays US Aggregate Bond Index	0.20%	4.21%	5.26%

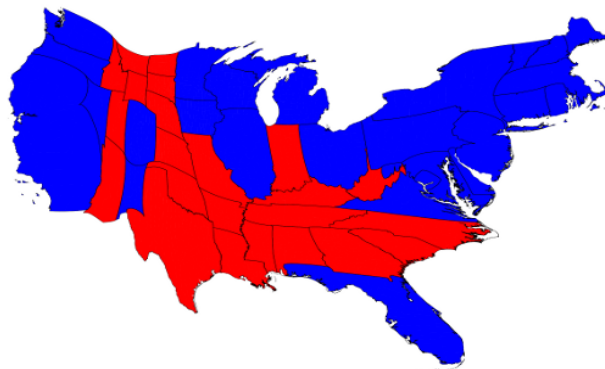
**Taxable Note:** Long bias expressed through Taxable Munis coupled with High Yield and Investment Grade Corporate allocations have supported Caprin returns vs Indexes.

**Tactical Blend Performance**

	October 2012	YTD 2012	12 Months Ending 10/12
<b>Caprin Managed Tactical Blend ETF Strategy</b>	<b>0.53%</b>	<b>6.70%</b>	<b>8.77%</b>
50% MUB/ 50% AGG	0.20%	4.87%	7.05%
50% Muni Index/ 50% Taxable Index	0.24%	5.28%	7.12%

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

**Presidential Election Results by State Cartogram**



Source: M. E. J. Newman, University of Michigan

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.