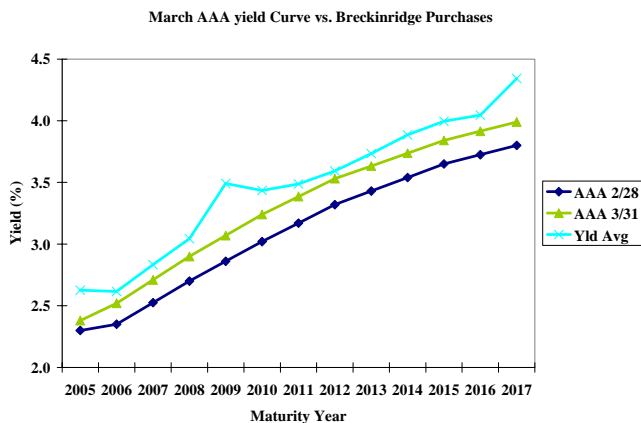


March 2005

As we anticipated last month, the municipal market yields rose in March as tax payments and supply tested the continuing demand for bonds. For the month, five-year yields were 22 basis points higher, rising from 3.02% to 3.24%. This weakness allowed some 10-year bond yields to rise above 4% and we were actively buying in this area of the curve. The Federal Reserve increased the funds rate by 25 basis points to 2.75% but this had been expected and had little impact on the market.

The chart below shows the beginning and ending AAA yield curve versus the average purchase yield for Breckinridge accounts in March. The average quality rating for purchases was AA1-AAA. This shows the value of searching for the best opportunities to increase yield without taking on additional risk in the municipal market.



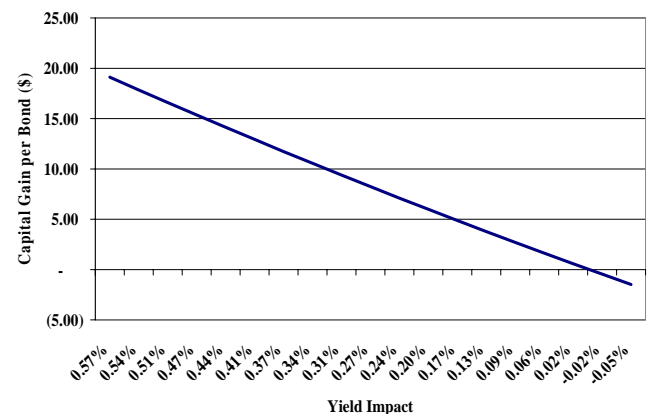
Our portfolio strategy remains a slight maturity barbell and a conservative duration. The average portfolio duration is 4.05 years versus index durations of 4.20 years to 4.25 years. We continue to find value in 10-year maturity bonds and very short bonds, although we are moving some of the 2005 maturities into the belly of the curve as the cash becomes available. This will balance the portfolios invested in 2004 toward a more even structure as the yield curve has flattened significantly in the last twelve months.

Effect of Capital Gains on Portfolio Restructuring

Breckinridge is always concerned with achieving the best after-tax returns for our clients. We study the market to find the bonds that offer the best value and fit our outlook for the market. When managing a mutual fund that is compared on a quarterly basis to an index or peer group, the manager has an incentive to trade actively. In an individually managed account, the goal is always to make the best trades for the investor given their investment goals, tax situation and risk preferences.

For a municipal bond holding, the key thing to understand about capital gains is that the realizing a gain is a taxable event. Long-term capital gains are taxed at 15%. Selling the bond and realizing a gain converts future tax-exempt income into a taxable event. Selling a 5-year bond that results in a capital gain tax liability of \$14.11 per bond would increase the yield sold by 31 basis points. At this higher realized yield, it is much more difficult to find an attractive alternative investment.

Capital Gain Impact on After-Tax Yield



Bond Insurance Follow-up

In our December 2004 Outlook we discussed the problems developing in the municipal bond insurance industry. In November, Eliot Spitzer, the Attorney General of New York State, began investigating MBIA, Inc., for potential irregularities in accounting practices for reinsurance deals. MBIA has restated its earnings since 1998 to correct accounting for reinsurance claims. AIG, a major insurance company, has also been subject to an investigation of accounting and business practices. On March 30, S&P dropped AIG's rating from AAA to AA+. This lower rating may have an impact on municipal bonds reinsured by AIG. So far, the news has not had a major impact on the spread of Insured bonds over AAA-rated issuers. The equity markets have pushed MBIA stock down from a 65.12 high in December to close at 52.28 on March 31.

The issues raised do not mean we are looking for a default but that the rating for the insurers may be in question. This is particularly true for insured bonds with low underlying ratings. Our policy is to purchase insured bonds that have a minimum A-rated underlying issuer. This means the issuer can stand alone and the bond will not be impacted as much if there is a downgrade of the insurer.