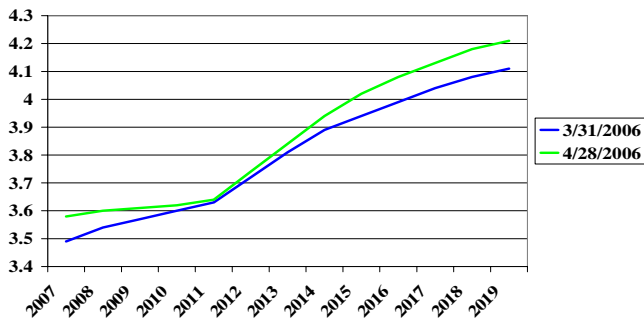


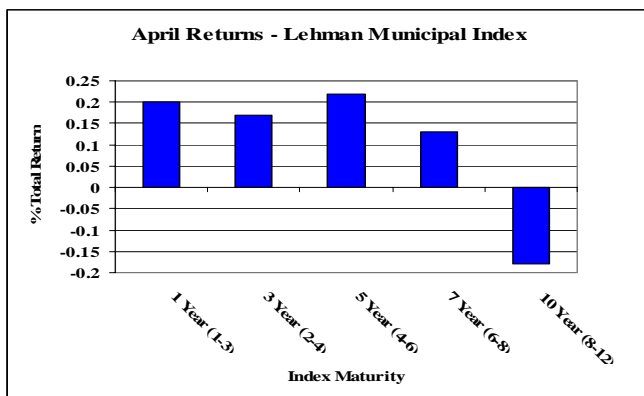
April 2006

In April, five-year municipal bond yields were virtually unchanged, rising only +1 basis point during the month to 3.64%. One-year and ten-year municipal bond yield rose +9 basis points to 3.58% and 4.08%, respectively. The unusual demand in the municipal five-year sector was not repeated in the US Treasury yield curve which was steeper with the one-year yield up +8 basis points, the five-year yield up +10 basis points and the ten-year yield up +21 basis points for the month. Short-term municipals may reflect the liquidation of money market funds for tax payments during the month. The month-end market was roiled by Federal Reserve Chairman Bernanke's testimony to Congress that the FOMC may "pause" at an upcoming meeting to allow the data to catch up with the rise in the Fed Funds rate from 1% to 5% over the last two years. He warned that the rate increases will continue if justified by stronger growth.

MMD AAA Municipal Yields



The pattern of the yield change for April had a major impact on the return distribution across the curve. Since most municipal indexes concentrate on a narrow band of maturities, the returns varied greatly. For example, the Lehman Indexes below show level returns through 7 years and negative return beyond 8 years. The net impact of this distribution is that well diversified portfolios did not perform as well in April as a 5-year bulleted index. This should be a temporary situation as the yield curve returns to a smoother yield distribution.



Breckinridge's municipal strategy remains neutral to the benchmark duration with an overweighting in the center

of the yield curve. Our increased yield curve exposure in intermediate maturities should help portfolios as the yield curve moves steeper. Volatility of the municipal market is historically low and we continue to believe that interest rate markets will be stable. We are focused on purchasing municipal bonds in the 2012 to 2013 maturity range at yields at or above 4%, an attractive yield and higher expected relative return from the steep yield curve.

Puerto Rico

Recent events in Puerto Rico have reinforced our negative view of the Commonwealth's credit quality. Government shut-downs in the face of budget impasses are nothing new. They have been operating without a budget since 2004. The beginning of May has seen Puerto Rico giving its non-essential government employees an unexpected vacation, while the Governor and the Legislature seek to break the stalemate over which tools will be used to balance the budget. In November, a Joint Resolution was passed sending a clear signal to the ratings agencies and analyst community that they were serious about rectifying what has been one of the most severe budget deficits faced by a municipal issuer. The most recent development has come as a surprise, as it demonstrates a divide still exists over how to settle the issue.

Puerto Rico's economy generates about \$9 billion in tax revenue per year. As recently as 2005, they were headed for a \$1 billion shortfall. The financial wheels this set in motion soon led to borrowing, which this year has topped \$500 million and has also required the Government Development Bank to restructure about \$300 million in outstanding loans.

The solution will not come easily. Puerto Rico instantaneously boosted its unemployment rate to about 15.8% when they shut down all non-essential government services. Over 30% of the island's workforce is in the public sector. To shrink the government without significantly affecting unemployment may be difficult and the legislature is debating measures including higher corporate and sales taxes, though details are not finalized.

In the absence of any credible long-term solution, Moody's has moved forward with a downgrade to Baa3. This makes two downgrades since May, 2005, and now leaves Puerto Rico at the bottom of the investment grade ladder. They do not expect any default this year on debt service payments. Their observation that the Commonwealth has failed to put together any material plan stands as the rationale for both the downgrade and continued negative watch. Breckinridge does not currently invest in Puerto Rico and will await substantial improvement in the credit before reconsideration.