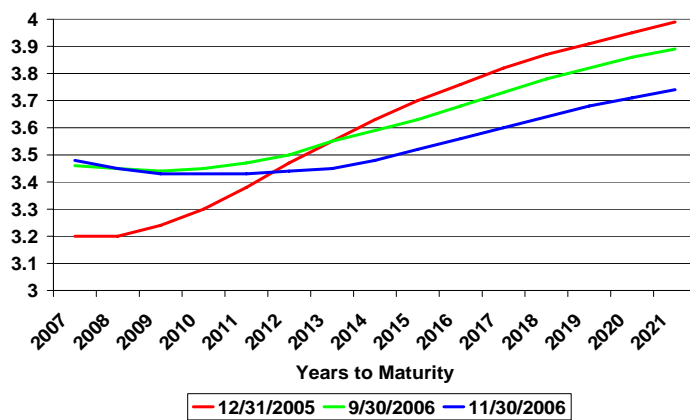


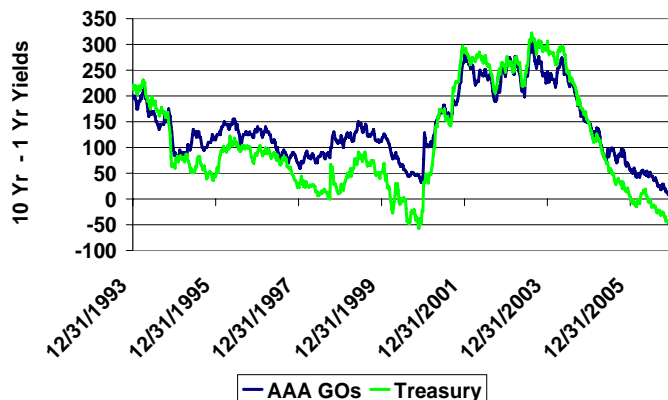
In November, the municipal yield curve finished with an inverted yield curve from one to seven years. This is a very unusual occurrence in municipals since there is a credit and tax risk priced into the curve. After the Democratic gains gave control of Congress to the party for the first time since 1994, the tax risks changed to reflect higher marginal rates in the future. The Treasury yield curve has been inverted for months, reflecting the market's belief that the economy is slowing and inflation will fall. That combination should cause the Fed to start lowering the Fed Funds rate at some point next year. We will believe that the Fed will delay lowering rates until there is more definitive proof that inflation is falling. This will probably mean short term rates will fall slightly in 2007 and continue to fall into 2008.

MMD AAA-rated GO Yield Curve



The Breckinridge strategy remains slightly long of the benchmark index. We are also accumulating an overweight in 2007 for liquidity. The net effect of the targeted portfolio is to create returns this year similar to a slightly “barbelled” portfolio, which continues to benefit from the flattening yield curve. The goal is a targeted “bullet” (maturities weighted to the middle of the index range) portfolio toward the end of 2007 or early 2008.

Comparison of Yield Curve Slope

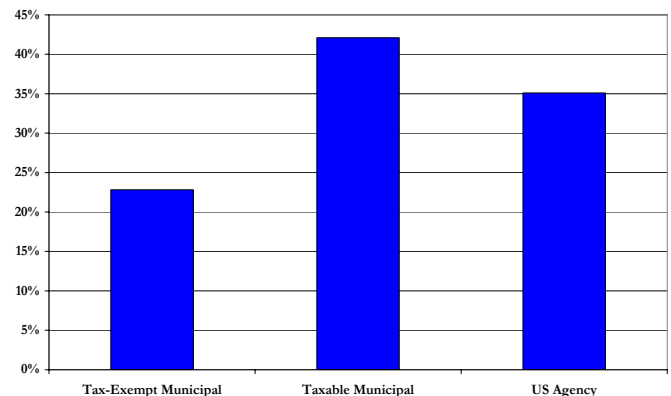


Hybrid Taxable/Tax-Exempt Accounts

During 2006, Breckinridge initiated a new portfolio strategy based on client requests for a diversified taxable and tax-exempt portfolio for individuals who have a lower marginal tax rate for investment income. The goal is to maximize the after-tax income from the account and preserve capital invested. The result is a combination of our taxable strategies and our tax-exempt strategies which considers for the individual tax situation of the client.

The example below is a model allocation for an account that pays Federal taxes at a 25% marginal rate and does not pay a state or local income tax. In this sample portfolio, the after-tax yield on the tax-free municipal bonds is 3.63%, the after-tax yield on the taxable municipal bonds is 3.83% and the after-tax yield on the US Agencies is 3.49%. Each bond is purchased looking at the three alternatives and deciding which sector would offer the best after-tax income.

Example of Hybrid Account Holdings



The strategy aims to create the best income flow while minimizing turnover and capital risk. Our aim is not to create capital gains by playing the relative value in the markets with frequent trading between the sectors. Breckinridge believes these portfolios should reflect the same conservative, tax efficient investment policies that are used for all of our investment products. We do try to take advantage of market inefficiency by purchasing the best bond for the individual portfolio with each transaction.

At Breckinridge we are always trying to meet clients' investment goals using institutional strategies that maximize income and limit capital risk. This additional strategy is another example of the goal of creating the best fixed income portfolio for each investor.