

First Quarter Market Summary

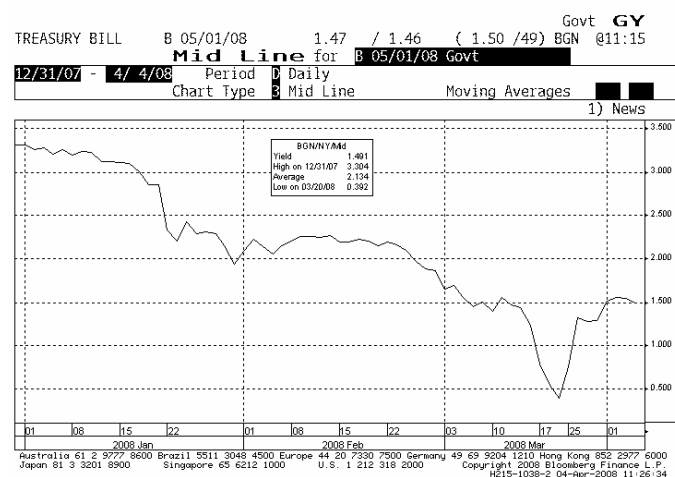
Market Turmoil

The quarter can best be characterized as a massive flight to quality amidst unusually pervasive financial market turmoil. In a rare turn of events, the municipal bond market was the focus of the fixed income markets. The tightening of credit in the banking/finance sector had a direct and significant impact on liquidity within the municipal market; particularly short term money market funds. A confluence of factors caused what in essence was a freezing up of certain sectors. Breckinridge portfolios were well-positioned within this difficult market environment. Our continued focus on high quality, intermediate bonds served us well in turbulent times.

There was no particular trigger, but a culmination of several distinct, yet inter-related events, caused investors to flee all but the highest quality assets. Rating downgrades of monoline bond insurers and disruptions in Auction Rate Securities caused serious dislocations in the short term muni market as well as the overall municipal bond market. It was pervasive in that all market participants were affected; individuals, institutions, issuers, investment banks and brokers. We discuss this in more detail further on. At the same time, an accelerating decline in house prices has led to deterioration in the credit quality of mortgage debt. Subsequent rating downgrades of mortgage pools and structured product (derivatives) held as underlying collateral forced lenders to demand more collateral from investors. In many cases, these demands were met by mass selling of all sorts of bonds in an attempt to meet margin calls.

Flight to Quality

Investors fled to the safety of U.S. Treasury Bills causing yields at the short end of the yield curve to decline sharply as demand outstripped supply. The extent of the flight to quality was extraordinary and at one point the yield on the four week T-Bill reached a low of .15% (see chart below). The Treasury yield curve steepened sharply as short rates declined more than long rates, and all other fixed income sectors under performed Treasuries.



Aggressive Fed and Treasury Department Response

The Federal Reserve Board moved aggressively and cut the Fed Funds rate 200 basis points during the quarter, bringing the rate to 2.25%. In late March when it looked like Bear Stearns was on the edge of bankruptcy, the Fed (along with the Treasury Department) stepped in and helped negotiate a buy-out by J.P. Morgan – thus staving off further market turmoil. In addition, unprecedented measures were taken as the Fed relaxed its overnight lending policies and allowed investment banks (brokerage firms) access to the Fed's discount window. Investment banks are now allowed to exchange illiquid securities (in most cases, mortgage securities) as collateral for U.S. Treasuries, thus injecting liquidity into their previously illiquid balance sheets. Just this week, the Treasury Department announced plans to increase regulation of brokerage firms through Federal Reserve oversight. Regulations regarding the expansion of Fannie Mae, Freddie Mac and the Federal Home Loan Bank mortgage portfolios were also relaxed. Further measures are evolving as Congressional investigations accelerate and media coverage reveals the extent of the credit crisis.

Weakening Economy

On the economic front, the ripple effects of the deterioration in the housing market continue to expand. Weakness in the manufacturing sector, consumer related industries, and financial services, is evident. Unemployment is rising in all of these sectors, overall economic activity is declining and Fed Chairman Bernanke recently stated a recession is possible. At the same time, inflation remains elevated and higher commodity prices are further dampening economic activity. Unfortunately, many of the changes the Fed made for a short term fix will most likely have long term inflationary effects.

Tax Exempt Markets

Muni Market in the Eye of the Storm

The flight to quality and the liquidity crisis caused divergence in Tax-Exempt returns as market liquidity dried up. High quality, intermediate municipal bonds held up well while longer maturity, lower quality credits sharply under performed. There were three major events that affected the municipal bond market: the continued downgrade of monoline insurers, the subsequent collapse of the Auction Rate Securities market, and the unwinding of leveraged Trusts (TOBs). These factors caused the long end of the municipal bond market to sharply under perform all other fixed income sectors (as reflected in the Merrill Lynch Municipal Bond Index return of -0.816%). According to Merrill Lynch this was the first time since they have been maintaining their municipal bond index records that munis had under performed so dramatically.

Auction Rate Securities Failure

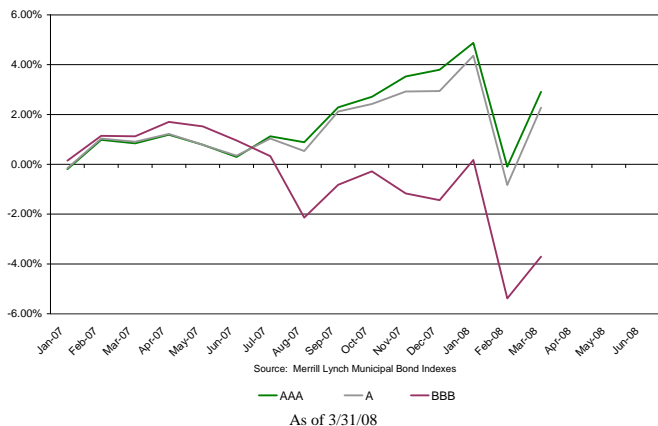
The ARS market was hit with a rash of failed auctions as brokers, overwhelmed with supply of securities, had limited capital available to support the auctions. For the first time since its inception twenty-five years ago, the Auction Rate market could not support the demand for liquidity from investors. In the past few years, the ARS market had become dominated by High Net Worth investors after the Financial Accounting Standards Board raised concerns about reporting

ARS as cash for corporate investors. The resulting lack of depth in the market caused the re-marketing of the securities to fail as individual investors opted not to reinvest and pulled their funds out. As auctions failed, the issuers were forced to pay penalty rates ranging up to 20% depending on the original documents. Breckinridge has been consistent in our avoidance of ARS precisely due to our concerns about the lack of liquidity in the event of a failed auction.

Monoline Insurer Ratings Downgrades

The monoline insurers suffered a chaotic quarter with FGIC and XLCA having both been downgraded by the rating agencies. By the end of the quarter, the market was looking at underlying ratings on issuers as the stronger rating than insurance. In many cases, the municipal databases were still updating at quarter end, leading to confusion about the accurate rating for some securities. Breckinridge has always evaluated credits based on the issuer's stand-alone credit quality. This is reflected in the high credit quality of the underlying rating structure of the portfolios with over 98% rated A or better.

COMPARATIVE TOTAL RETURN BY RATINGS



Widening Credit Spreads

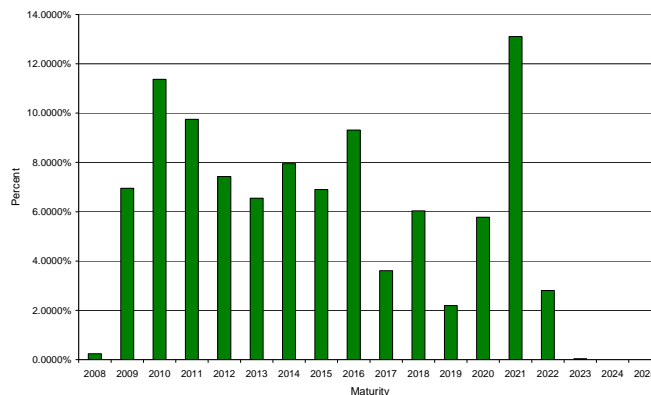
Another trend that accelerated during the quarter is a widening of credit spreads, (as illustrated in the above chart). The total returns from the Merrill Lynch Municipal Bond Index rating classifications for 2007 through the first quarter of 2008 illustrate the impact of the spread widening. The divergence amongst credits began last August when the problems with the monoline insurers first surfaced. Recently, it has become even more entrenched within the municipal bond market as investors differentiate between various issuers based on the underlying credit quality. BBB-rated bonds declined -3.71%, while AAA rated bonds returned a positive 2.91%. In this environment of credit spread widening, we are taking advantage of opportunities as they arise, by purchasing what Breckinridge considers attractively valued General Obligation and essential service bonds rated A or better. At the same time we are closely monitoring existing holdings for any deterioration in credit quality or liquidity.

Breckinridge Strategy

During the quarter, we continued the process of positioning the portfolios for a steeper yield curve. We are slightly moderating the portfolio structure as the Fed moves further along the easing cycle. Additional Fed eases are expected which should keep the short end of the Treasury yield curve anchored. At the same time, a rising budget deficit and inflationary pressure should keep longer Treasury rates higher than they otherwise might be in a period of economic weakness. In contrast, the municipal yield curve, while still maintaining a positive, steep slope, may not experience as much pressure on long rates as investor demand for yield forces them out the curve. We are opportunistically repositioning municipal portfolios to reflect a more neutral yield curve. Our expectation is for the municipal yield curve to be slightly steeper by year-end.

We are moving to a balanced maturity structure as shown below. This chart represents investments made during the month of March reflecting this recent modification in our strategy. At this stage of the credit cycle the risks to a change in the shape of the yield curve are fairly balanced. If the weakened (recessionary) economy brings a moderation of inflation, the yield curve should flatten with long rates declining. A much steeper yield curve (with higher long rates) would result if inflation continues to be a problem, and fiscal stimulus brings a more rapid economic recovery. Moving to a level structure will allow us to hedge either risk.

TAX-EXEMPT PURCHASES - MARCH 2008



Purchases are based on active BCA portfolios with a 15 year maximum maturity and may not reflect past or future purchases in individual accounts.

Prospective Client Portfolio Reviews

Lastly, in light of the increased volatility and general concerns regarding the municipal market, Breckinridge has received requests from our consultants for portfolio reviews of new and potential clients. Many of the portfolios have been either passively laddered or professionally managed in various aggressive strategies. In this difficult market environment investors appear to be very receptive to a professional third party assessment of their municipal bond portfolio. Breckinridge can perform a review of a portfolio if we are provided a current portfolio statement. Please contact our Marketing Department for further details.