

While we are pleased to see improvement, we are not altering our cautious outlook. Municipalities continue to face considerable economic headwinds. State revenues are still roughly 3.1 percent lower than prerecession levels. Additionally, many states have depleted rainy day funds and general fund balances are at historically low levels. The elimination of certain federal government aid, such as stimulus funds and Medicaid funding, will leave a significant gap in state budgets in FY2012. Furthermore, in many instances state budgets have been balanced at the expense of local municipalities.

BRECKINRIDGE STRATEGY

Holding Steady in Uncertain Times

Breckinridge continues to target a neutral duration and barbelled structure given today's many uncertainties and low rates. The barbell structure protects portfolios if rates rise. At the same time it allows participation in rallies if rates decline. During this period of very low rates, spread compression and uncertain or deteriorating credit quality, we remain committed to high quality portfolios.

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