



MARKET COMMENTARY
August 2011

MARKET REVIEW

Triple Threat Sparks Flight to Quality

Financial markets were roiled in August under a set of triple threats to global stability. Fear that the European sovereign debt crisis would not be contained, the realization that global growth was rapidly slowing, and a universal loss of confidence in political leadership contributed to a sharp flight to quality and U.S. Treasuries. These concerns have accelerated in September as near-term solutions remain elusive and political discord has increased. In addition, the Federal Reserve announced in August that short rates will remain low for the next two years and hinted of more monetary accommodation to come. In response to all of these factors, yields on Treasuries declined to historically low levels and the yield curve flattened.

TAX-EXEMPT MARKET REVIEW

Munis Benefit from Flight to Quality

Municipal bonds rallied along with Treasuries and, in general, posted strong returns for the month. Returns were supported by very low supply and increased demand – especially for higher quality issuers. While outflows from long-maturity mutual funds were steady, intermediate-maturity bond funds experienced continued inflows. Yields in the two- to five-year range hit historically low levels, reflecting strong demand for intermediate maturities. Despite this significant decline in yields, munis did not decline as much as Treasuries, which generated very high yield ratios relative to Treasuries. As the following chart illustrates, municipals look particularly attractive to Treasuries.

AAA GO 10 YR / TREASURY 10 YR YIELD RATIO

Source: Thomson-Reuters Municipal Market Data



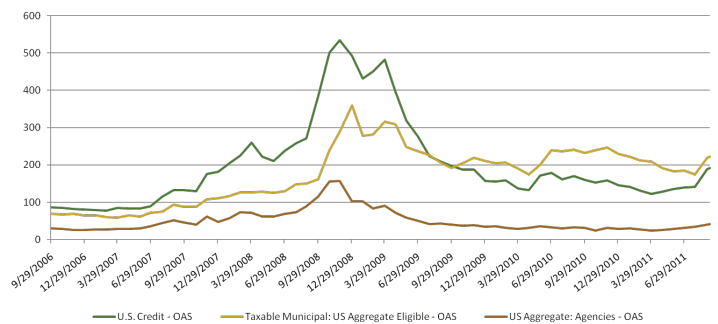
TAXABLE MARKET REVIEW

Risk Aversion Impacts Spread Sectors

In the flight to quality and Treasuries, yield spreads on all sectors widened. Not surprisingly, higher quality bonds outperformed lower quality bonds. As is often the case, taxable municipal bonds outperformed corporate bonds and experienced much less volatility. The following chart illustrates the five-year spread history of corporates, taxable municipals and agencies. In general over this period, taxable municipals offered a yield advantage and lower volatility of spread movement.

YIELD SPREAD HISTORY (BASIS POINTS)

Source: Barclays



BRECKINRIDGE STRATEGY

Our Emphasis On High Quality Is Rewarded

The global uncertainties, extreme market volatility and political discord that we are now experiencing has reinforced our commitment to high quality bond portfolios. High quality portfolios typically perform well in periods of risk aversion and even more importantly they tend to be characterized by lower volatility and higher market liquidity. These are important factors in an uncertain and volatile market. Accordingly, our overall portfolio strategy has not changed. We continue to target a barbelled structure with a neutral duration relative to the benchmark.

ADDRESSING TAX-REFORM UNCERTAINTY

The Need to Broaden Beyond Tax-Exempt Municipals

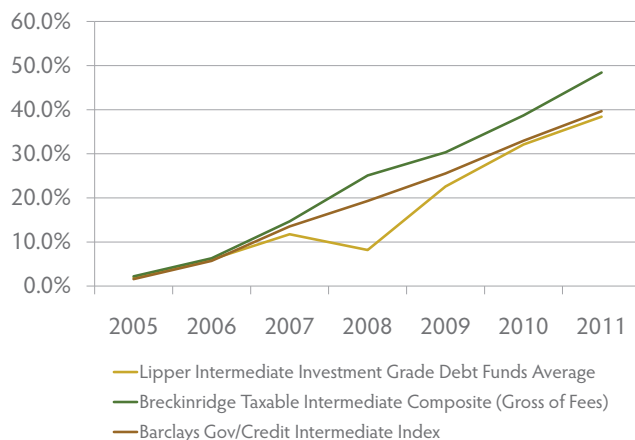
The Obama Jobs Act proposes limits on municipal-bond tax exemption, which may reduce demand for municipal bonds. Additionally, the supply of tax-free bonds may shrink in the future if Congress decides to resurrect Build America Bonds or an alternative taxable-municipal bond program. The uncertainty surrounding supply and demand combined with other stresses in

the municipal market has the potential to diminish the relative attractiveness of tax-exempt municipal bonds in certain maturities at certain times. We believe it is no longer safe to assume that a 100 percent blanket allocation to tax-exempt municipals will provide the best after-tax return over the long term. It is increasingly compelling for investors and their advisors to look beyond tax-exempt municipals and consider taxable municipals or corporate bonds of similar quality.

In broadening a fixed-income mandate to include taxable bonds, it's critical to maintain a consistent investment approach and philosophy. As a long-term investor, Breckinridge's primary objective is always to focus on capital preservation and maximizing after-tax income. We adhere to the same rigorous, bottoms-up, research-driven process with both municipal and corporate bonds. Currently, Breckinridge approves 75 corporate issuers. In addition to being rated A3/A- or higher, all are companies we believe have solid market positions, financial flexibility and strong senior management. In making this assessment we analyze the structure of the company's industry, its market position, strength of brands, the stability and strength of cash flow, the quality of its balance sheet, and the character of its management team. We seek to identify corporations with a sustainable competitive advantage.

Breckinridge has a well-credentialed team and proven track record in taxable portfolio management. Reflecting our conservative approach to investing and similar to the long-term performance of our tax-free portfolios, total return of our taxable portfolios is noticeably superior to our peers in difficult market times.

CUMULATIVE TOTAL RETURN, 1/01/2005 - 8/31/2011



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PERFORMANCE DISCLAIMER: In October 2009, a discrepancy was identified in the pricing methodology used by BCA's pricing service when pricing US Agency bonds. This discrepancy resulted in overstating prices on these bonds for the period 4/30/09 through 10/31/09. The methodology was corrected for the month ending 11/30/09. BCA repriced the affected holdings and has restated performance for this period. Corrected performance values are included in all performance values as of 12/31/09. Corrected monthly performance is reported in the table below. Additional information regarding the pricing discrepancies is available upon request.

Breckinridge Capital Advisors, Inc. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Breckinridge Capital Advisors, Inc. has been verified for the periods 12/31/02 – 12/31/09 by Beacon Verification Services. A copy of the verification report is available upon request.

Breckinridge Capital Advisors, Inc. (BCA) is an independent, SEC registered investment management firm established in 1993, which manages fixed-income portfolios, primarily through other investment managers or consultants. Breckinridge charges a fee for its management that is negotiated with each investment manager based on portfolio size and services provided. Additional information on portfolio management fees is found in ADV II.

BCA defines a discretionary account as an account where the holder has given BCA full authority to buy and sell securities. Only discretionary accounts are included in a composite. A client may impose restrictions on the investments that can be made for an account. These could include minimum credit ratings, maximum maturities and limiting BCA's ability to sell securities due to tax concerns. Any account with extensive restrictions that limit BCA's ability to effectively manage an account in accordance with BCA's established management styles will be considered non-discretionary. Accounts with specific state biases are non-discretionary because we are instructed to invest in the specific state if adequate supply exists. The maximum fee BCA assesses for management of a client account is 35 basis points. Fees are negotiable based on the size and nature of the portfolio and if the portfolio is managed through a wrap account.

The Intermediate Taxable composite includes all eligible portfolios that invest in high grade intermediate taxable municipal bonds, treasuries and agencies for stable income and capital preservation. The accounts are benchmarked against Barclays Aggregate or Government/Credit Intermediate Index. Inclusion in the composite is based on the following parameters: Accounts must have no client directed preferences or restrictions with respect to the states in which they can invest. Portfolios with significant cash flows, contributions or withdrawals, equal to 10%

or more of the portfolio value, within a given period are excluded from the composite for that period. If all other criteria are met, accounts removed from the composite due to a significant cash flow are returned the following period. The Composite return is calculated including cash holdings. Accounts must have a maximum maturity of at least 10 years. Non-fee paying accounts are excluded from the composite. Accounts that meet all other inclusion criteria are added to the composite after the first full month of management. A complete listing and description of all composites is available upon request.

Net performance results for the single aggregate portfolio used to calculate performance reflect the deduction of the maximum Breckinridge investment advisory fee for the accounts included in the composite. Portfolio performance will be reduced by investment advisory fees charged by Breckinridge. Additional fees charged by WRAP program sponsors are not deducted. WRAP fees may include, among others, custodial fees, administrative fees and transactional fees. Gross performance is net of all trading expenses. Custodial charges, which may be incurred in the management of municipal bond portfolios, are not included in the performance calculations.

Calculations are done in US dollars using Modified Dietz time weighting. Additional information regarding significant cash flows is available upon request. Dispersion is the equal weighted standard deviation of individual account returns for accounts in the composite for the entire calendar year. The Composite is benched against the Barclays Aggregate Index (previously the Lehman Aggregate Index). Additional information on the performance calculation methodology and reporting is available on request. Past performance is not indicative of future results. All investments involve risk, including the loss of principal.