



MARKET COMMENTARY September 2011

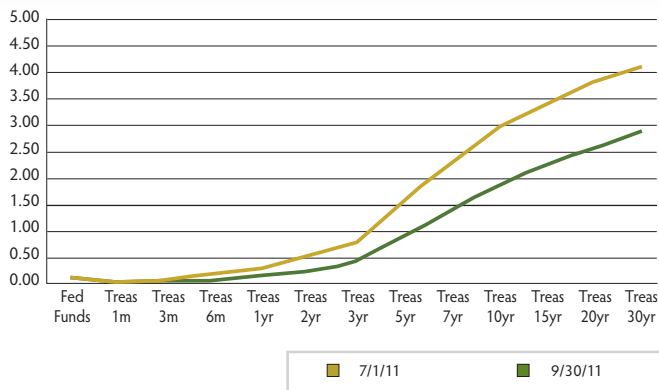
MONTHLY AND QUARTERLY REVIEW

Bonds Rally on a Flight to Safety

Uncertainty over the prolonged European sovereign-debt crisis and fears of a double-dip recession amid renewed signs of economic weakness sent investors to the safety of U.S. Treasuries in the third quarter. While the flight to safety drove yields down, the Fed's "Operation Twist" announcement in late September accelerated the decline. Investors opted to buy longer maturity Treasuries ahead of the Fed, resulting in a sharp drop in yields by month-end. The 10-year Treasury note reached a low yield of 1.71% the day after the Fed's announcement.

YIELD CURVES AS OF 9/30/11

Source: MMD



Uncertainty surrounding tax reform continued to impact the tax-exempt market in the third quarter. Senate Democrats recently proposed a 5.6% surtax on households with taxable incomes of \$1 million or more. If the surtax became law, it would likely increase overall demand for tax-exempt bonds. However, the political nature of tax reform makes it difficult to predict the outcome. We expect to see more proposals floated, which could impact the muni market either positively or negatively. It is a fluid situation that we are monitoring closely.

In total, munis underperformed Treasuries as uncertainty over tax reform, heavy forward supply and low absolute yields all weighed heavily on the market. By quarter-end, yield ratios reached historically high levels. As a result on a taxable-equivalent yield basis, tax-exempt bonds now look attractive across the yield curve compared to Treasuries, taxable municipals and corporate bonds.

AAA GO 10 YR / TREASURY 10 YR YIELD RATIO

Source: Thomson-Reuters Municipal Market Data



TAX-EXEMPT MARKET

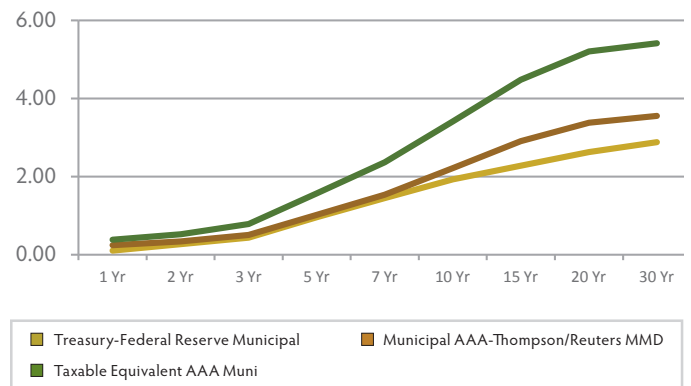
Munis Lag Treasuries; Ratios Spike

Muni yields followed Treasury yields lower, although to a lesser degree. Several factors unique to the muni market dampened performance. The most notable factor was a proposal in President Obama's American Jobs Act of 2011 to reduce the allowable tax exemption of muni-bond interest. Unlike past proposals, the Jobs Act as written would affect all outstanding municipal bonds. While most analysts believe there is little probability of this proposal being passed, it did constrain investor demand in the third quarter.

Increased tax-exempt supply in the third quarter also was a drag on market performance. New-issue supply picked up substantially, rising from \$22.5 billion in August to \$27.5 billion in September.

YIELD CURVES AS OF 9/30/11

Source: MMD 35% Tax rate



TAXABLE MARKET

Flight to Quality and Stability

Treasuries posted strong returns for the quarter reflecting the flight to quality. Corporate bond yield spreads widened along with a decline in equities and did not keep pace with Treasuries. Taxable municipals, on the other hand, posted very competitive returns compared to Treasuries for the quarter due primarily to a lack of supply, higher yields and the characteristically lower volatility of taxable municipals.

Looking forward, we expect to see continued market volatility as investor sentiments behind the flight to safety ebb and flow. Additionally, the Federal Reserve is now actively involved in the Treasury market conducting "Operation Twist" on an almost daily basis. This is uncharted territory and it is uncertain what the exact impact will be on the Treasury market. However, we expect it will cause more volatility. We view spread widening in both taxable municipals and corporates as investment opportunities, based on their fundamentally strong credit profiles.

BRECKINRIDGE STRATEGY

Slightly Extending Duration

We have shifted our strategy slightly and extended portfolio duration based on a confluence of several factors. Third-quarter economic data was uniformly weaker than expected, both domestically and globally. Austerity measures in Europe and in the U.S. are sharply impacting growth and spending, and the risks of a recession are rising. We expect this low-growth and low-inflation environment will prevent rates from rising significantly for quite some time. Additionally, the Federal Reserve has initiated unprecedented policies with a stated objective of maintaining low interest rates for an extended period of time. Both factors directionally support a longer portfolio duration. Lastly, the recent increase in new-issue supply and relative attractiveness of municipal yields presents an opportunity to swap out of securities maturing in less than a year and reinvest the funds into longer maturities. We continue to monitor the factors driving fixed-income market performance – including economic activity, proposed legislative reforms, supply outlook and fundamental credit profiles – to identify and act on attractive investment opportunities and adjust our strategy as appropriate.

Q3 SECTOR RETURNS

Source: Barclays

SECTORS

Treasuries	8.84%
Agencies	4.36%
Corporates	6.10%
Taxable Municipal (Intermediate)	8.62%

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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.

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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.