SAMSON
CAPITAL ADVISORS

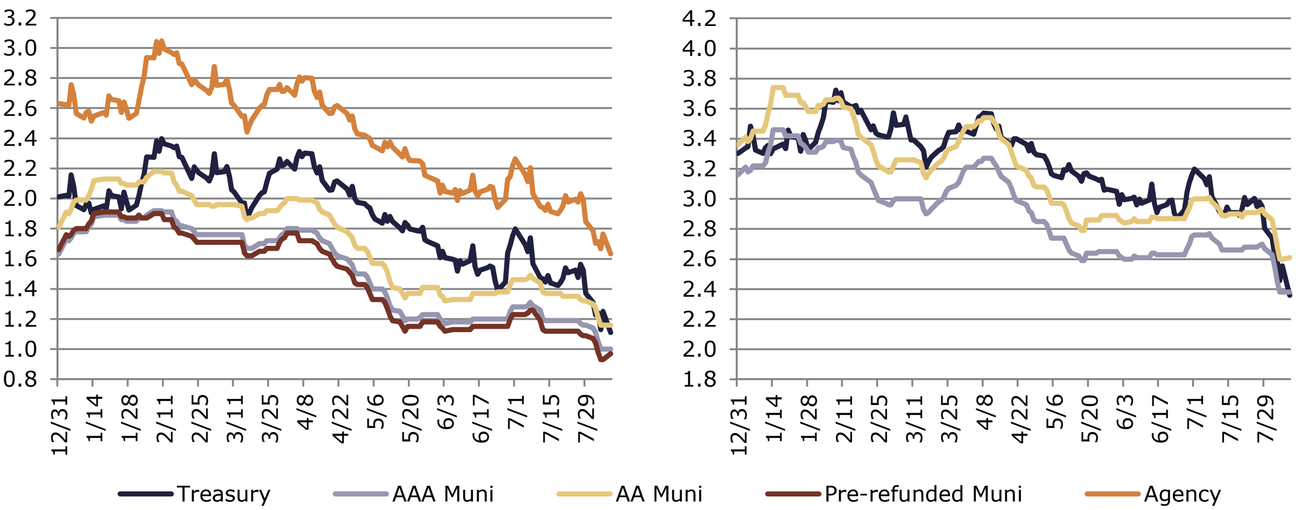
Update on S&P Downgrade of U.S. Credit Rating

On August 5th, 2011 S&P downgraded the U.S. credit rating from AAA to AA+. Moody's had confirmed the U.S.'s Aaa rating prior to S&P's announcement and the downgrade by S&P should not have been a surprise to the market. Both rating agencies have retained their negative outlook for U.S. Treasuries.

The Market's Response

- The U.S. Treasury market continues to be the largest, most liquid bond market in the world and in the aftermath of the downgrade it remains a beneficiary of funds moving out of riskier assets.
- Treasuries are trading at the lowest yields of 2011, and are even lower today despite Friday's announcement. This rally may have a fundamental underpinning: poor economic data (lower GDP and continued high unemployment) combined with government austerity measures (as the U.S. government considers its credit ratings) have led to weak economic forecasts. These are reflected in falling equity markets, inflation expectations and commodity prices. Rates may remain lower longer than many expect.
- Treasury yields have declined sharply since the downgrade announcement, while municipal yields have remained stable. However, municipal yields have declined during 2011 as noted below.

5 Year Yields **10 Year Yields**



- S&P is expected to announce the effect of the downgrade on their municipal ratings soon. Thus far, S&P has taken the following rating actions:
  - U.S. bank ratings are unaffected at this point.
  - The following Government Related Entities have been downgraded from AAA to AA+: Federal Home Loan Banks, Federal Farm Credit Banks, Tennessee Valley Authority, Fannie Mae and Freddie Mac.

Effects on Municipals

- We believe the fundamentals of high quality municipals continue to improve given recent upward trends in revenues and better expenditure control. Municipals, interestingly, may be beginning to play a safe haven role for some investors. Nonetheless, the medium to longer-term impact on state and local governments, and indeed all public finance issuers, cannot be accurately predicted right now because of the uncertainty around any changes in future federal government budgets.

- There will likely be ripple effects as other sectors viewed as safe due to Treasury backing (like pre-refunded municipals) become more closely scrutinized.
  - Pre-refunded bonds had been trading at yields below AAA municipals. Today yields of pre-refundeds rose by 3-5 basis points and slightly underperformed comparable maturity AAA municipals. We believe prerefundeds remain very secure investments, but the market is seeking to determine their proper pricing in the aftermath of the downgrade.
  - In recent weeks, as we observed that they offered less relative value, we reduced our target exposure to pre-refunded municipals.
  - Sector and issuer diversification is an important factor for portfolios weathering periods of volatility.

Commodities and the Dollar

- Gold moved higher on a day when other commodities fell and TIPS breakevens contracted. We believe investors today are viewing gold as a safe haven substitute rather than an inflation hedge alone.
- The dollar strengthened against most currencies today. It is unlikely this reflects a newfound belief in the fiscal and monetary management of the US, but rather it is a capital markets reflex action as money moves into Treasuries.