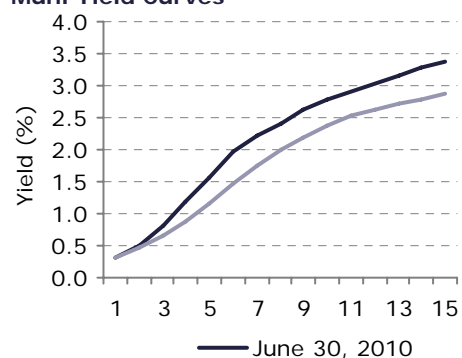


Market Commentary

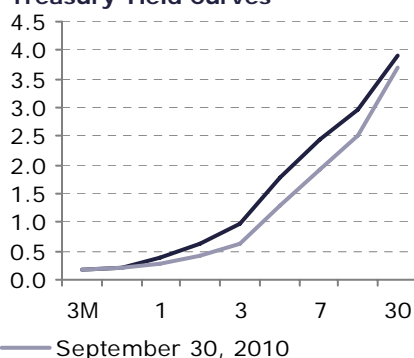
Period Summary

Persistent mixed data has nurtured the uncertainty over a U.S. economic recovery. Recent numbers on residential housing suggest that home sales have bottomed out, yet excess supply remains a significant headwind. Further exacerbating this supply/demand imbalance is an anticipated increase in foreclosures as delinquency rates remain high. Employment has also shown few signs of improvement, and we anticipate the unemployment rate will remain relatively high over the next year. These negatives may result in GDP growth in the low single digits for at least the next year, a consensus that we feel was reflected in the bond markets over the past quarter. The prolonged flight-to-quality trade continued through the third quarter, as the 10-year Treasury yield declined from 2.9% at the beginning of the quarter to 2.5% as of September 30th. The 10-year municipal yield dropped from 2.8% to 2.4% in the third quarter. The gains in the fixed income markets can also be attributed to anemic money market yields, which have resulted in significant inflows into bond mutual funds, particularly in the first two months of the third quarter.

Muni Yield Curves



Treasury Yield Curves



Despite the resiliency of the municipal market, concerns over a potential credit crisis still pervade the media. We believe that credit fundamentals have declined, but we do not envision a near-term crisis. State and local governments are under tremendous pressure to cut spending and, in some cases, raise taxes in order to balance their budgets. Unfunded pension liabilities continue to present a challenge at the state-level; however, many states have been examining effective ways to reform the public pension system with some already having passed pension reform bills. While we believe that some necessary steps are being taken, we continue to monitor how state and local governments respond to these fiscal pressures. This increased uncertainty has magnified the importance of maintaining a disciplined investment process with an emphasis on vigorous credit analysis, which serves as the foundation of Samson's approach.

The ultra-low yields on high grade bonds have made many market participants question whether a bubble has formed. Although current yields are not particularly compelling, there is no strong evidence to validate a bubble. U.S. economic growth appears to be stagnant. With GDP growth expected to be in the low single digits, the risk of inflation should remain low in the near future. The Federal Reserve is considering a second round of

Period Highlights

- Yields declined as mixed economic data supported flight-to-quality

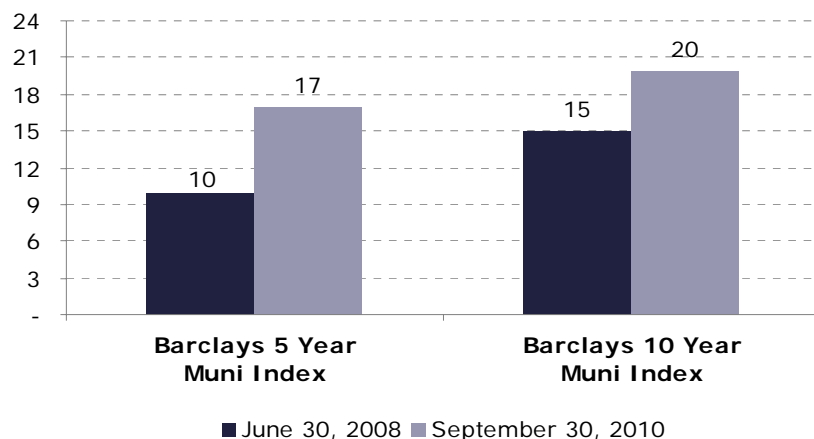
- Low short term yields drove investors into bond funds

- States under pressure to balance budgets have taken steps to reform

quantitative easing. Unemployment may remain relatively high moving forward as the economy continues to struggle to create jobs.

We continue to structure our portfolios defensively with regard to duration and credit, so that we are able to take advantage of better opportunities as they present themselves. In our view, now is not the time to stretch for yield by increasing interest rate risk. With interest rates at these current low levels, there is a greater likelihood of principal loss if rates rise than an equivalent increase when rates were higher. By way of illustration, please see the following chart, which compares how long it would take to recover the principal loss resulting from a rise in rates now versus an equivalent increase in rates in June 2008, a time when yields were higher.

Months to Recovery from a 100bp Rise in Rates



As we enter the fourth quarter, we are monitoring the uncertainties surrounding the extension of the Build America Bonds (BABs) program beyond the scheduled sunset date of December 31, 2010 and any extension of the Bush-era tax cuts. If the BABs program is not extended, there is a strong possibility that tax-exempt supply, particularly at the long-end of the curve (as most BABs issues have a maturity schedule beyond 10 years), will increase sharply.

We are also watching for a potential shift in risk aversion. The huge pool of liquidity injected into the economy by the Fed is beginning to find its way out of zero-earning money markets and into other, riskier assets. For the present, flows into all classes of fixed income assets continue to be strong. However, the search for higher yields may begin to put pressure on bonds.

October 20, 2010

Data Sources: J.P. Morgan, Bloomberg®

The opinions expressed herein are solely attributable to Samson and should not be construed as an offer to buy or a solicitation to sell any securities. Inherent in any investment is the risk of loss. Past performance is not indicative of future results.

- **Low yields introduce greater likelihood of principal loss in a rising rate scenario**

The information shown at left is hypothetical and does not reflect actual trading. Hypothetical performance results are shown for illustration purposes only and should not be relied upon. All statistical measures and calculations shown are based on the hypothetical performance information. Hypothetical performance results have many inherent limitations, some of which are generally described below. They are generally prepared with the benefit of hindsight, do not involve financial risk or reflect actual trading and therefore do not reflect the impact that economic and market factors may have had on Samson's investment decisions for the scenario. In fact, there are frequently sharp differences between hypothetical results and the actual record subsequently achieved. No representation is made that performance would have been the same as such hypothetical results had the scenario been in existence during any time. Another limitation is that investment decisions reflected in the hypothetical results were not made using the portfolio assets or under actual market conditions and therefore cannot completely account for the impact of financial risk on the manner in which the portfolio would have been managed. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.

No representation is made that the scenario will or any investor will or is likely to achieve results comparable to the hypothetical results shown or will make any profit or will not sustain losses. Past performance is not indicative of future results.