

Market Commentary

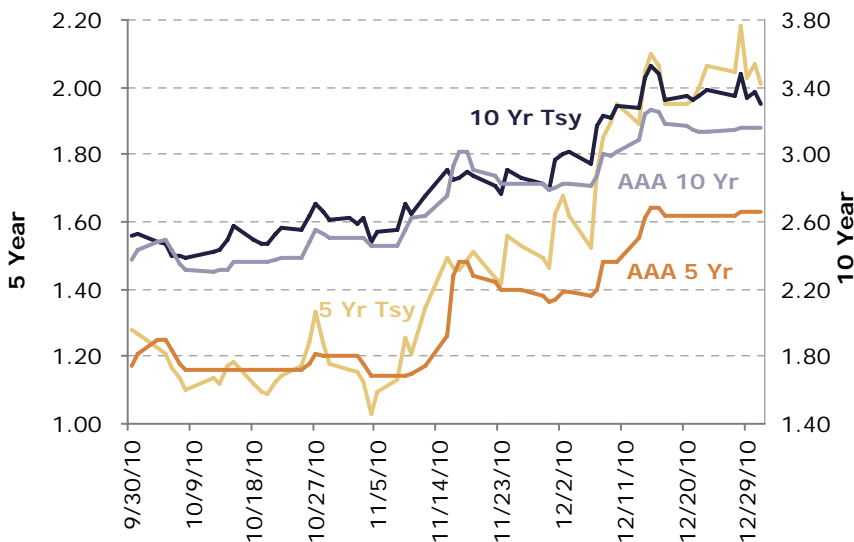
Period Summary

2010 was the year the municipal bond market became front page news. Some of the key themes behind the headlines were: 1) historically low interest rates, 2) volatility in municipal/Treasury yield ratios, 3) increased scrutiny of the states' underfunded pension liabilities and other post-employment benefits, 4) the Build America Bonds (BABs) program, and 5) the passage of the Dodd-Frank Financial Reform Act and Basel III.

From historically low levels, yields in the fixed income market continued to trend downward during the first eight months of 2010. This was primarily the result of the widespread uncertainty over a U.S. and global economic recovery - apprehension bolstered by persistently high unemployment, increased foreclosures, global concerns related to the European sovereign debt crisis and a volatile stock market.

The fourth quarter proved to be more challenging for U.S. fixed income securities as the market experienced a meaningful sell-off. As the chart below shows, five and ten year Treasury yields increased by .74% and .79% respectively. This translated into negative quarterly returns of -2.70% and -5.57%. Municipal bonds experienced a similar sell-off during this period as five and ten year yields were up .46% and .78% for the quarter and returned -1.57% and -3.66% respectively over this period. Concurrent with this sell-off, the fourth quarter witnessed a significant global reallocation out of bonds and into equities.

Municipal and Treasury Yields



Throughout the year negative headlines weighed upon the municipal market as coverage focused on the fiscal and economic problems of state and local governments. We acknowledge the concerns about the budget difficulties facing select state and local governments as well as the challenges of unfunded retirement benefits. The deep recession has strained the collection of revenues and has forced governments to evaluate their level of expenditures and how they set their priorities. As mentioned in our July 2010

Period Highlights

- Yields continued to trend downward from historically low levels
- Five and ten year yields increased over the 4th quarter

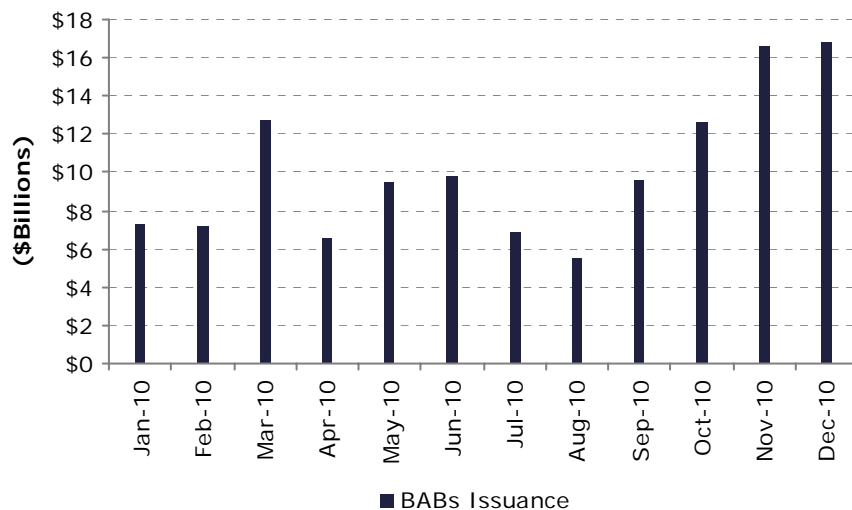
commentary titled, *Why the U.S. States Are Not the Next Greece*, “Harnessing the political will and working through the public policy issues and the political process to look at expenditures at all levels are critical in maintaining confidence in a stable market.” We have been pleased to observe that select states have recently started confronting these issues head-on. For example:

- The state of Illinois, under fire for most of 2009 due to its significant budget gap and underfunded pension liabilities, recently increased its state income tax rate from 3% to 5%.
- The governor of New Jersey has proposed aggressive budget cuts to address the \$11 billion deficit the state is facing.
- The new governor of California has proposed significant cutbacks in state spending along with increasing the state’s income and sales taxes in order to reduce the state’s \$28 billion budget deficit.

We are optimistic that necessary steps are being taken to work through these issues and believe, as addressed in our December commentary titled, *Comment on Municipal Market Media Coverage*, “That the vast majority of municipalities maintain certain inherent strengths, which will prevent a systemic breakdown of the municipal market.” Our risk management approach focuses on aiming to identify strong, stable credits, while continuously monitoring the creditworthiness of the holdings in our clients’ portfolios.

For most of the year, the BABs program provided considerable support for the tax exempt bond market as the program’s popularity reduced tax exempt issuance. This contributed to historic lows in tax exempt yields, particularly in longer maturities. In the fourth quarter, as expectations for the expiration of the program came to fruition, municipalities flooded the marketplace with BABs issuance. The chart below shows BABs issuance in 2010.

Build America Bonds Issuance



The consequent anticipation of a glut in tax exempt supply, combined with rising Treasury rates and increased municipal bond fund redemptions, resulted in a noteworthy upswing in municipal yields during the final months of the year. With the expiration of the BABs program, our concerns moving

- States have started making adjustments in response to budget difficulties

- Samson’s risk management approach aims to identify strong, stable credits

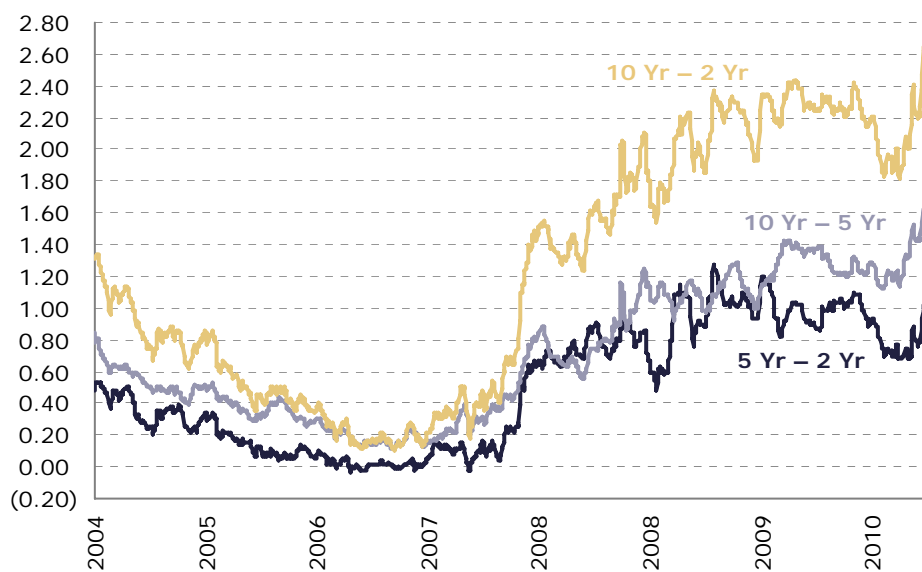
- Build America Bond issuance increased significantly over the 4th quarter

forward center on increased tax exempt issuance and how the absence of the program will impact the long end of the market.

In 2010 there were important developments in the regulatory environment, particularly the passage of the Dodd-Frank Financial Reform Act and Basel III. The Dodd-Frank Act has the potential to have a significant impact on how financial institutions participate in the municipal marketplace as certain provisions contained in the bill call for additional oversight of this asset class. Basel III, an update to the Basel Accords, transforms the international regulatory framework of banks as it relates to liquidity risk measurement, standards and monitoring. Moving forward we will continue to closely monitor how these developments unfold.

We have continued to implement a defensive interest rate risk approach for our clients' portfolios and our target durations are modestly lower than those of the comparative benchmarks. The steep yield curve (see the following chart) has made some of the longer issues more attractive, and we are selectively purchasing in the 7-10 year maturities. A sizeable portion of our portfolios are concentrated in 1-3 year maturities and, therefore, we believe we are ideally positioned to take advantage of these higher rates.

AAA G.O. Municipal Curve Steepness



- The municipal yield curve steepened further in the 4th quarter from already historically steep levels

January 19, 2011

Data Sources: The Bond Buyer, J.P. Morgan, Bloomberg®

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