



STANDISH

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Tax Sensitive Fixed Income

Monthly Municipal Market Update

Market Commentary

“The elevation of risk factors in the municipal market calls for significant focus and investment in risk management and risk measurement.”

The Necessity for Professionally Managed Municipal Bond Portfolios

Municipal bonds may offer high levels of tax advantaged income and solid credit quality with less volatility relative to other fixed income vehicles, providing a strong anchor to a US taxable investor’s total investment portfolio. Navigating the notoriously inefficient market is a challenge. Demand is primarily dispersed among retail investors who largely buy securities directly from a single broker among dozens. Bond issues can be as heterogeneous as each of the 50,000+ issuers themselves, trading over-the-counter with limited price transparency or financial disclosure.

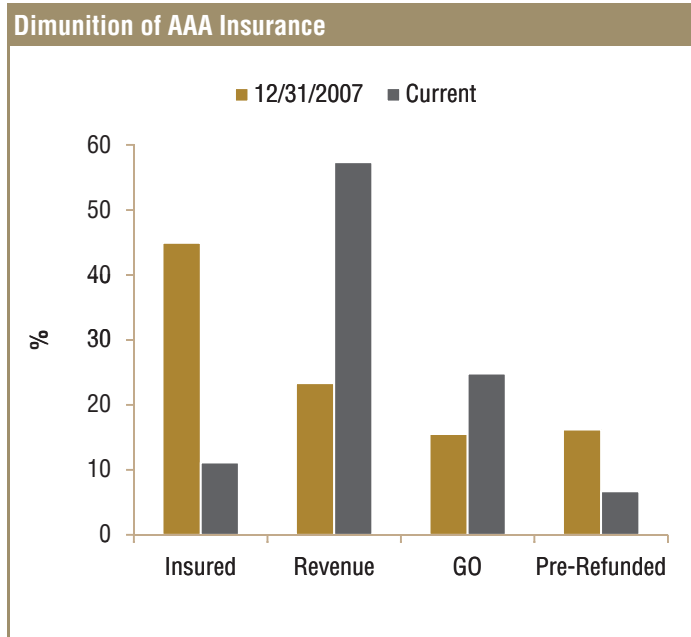
The already fragmented municipal market is rapidly evolving in response to the dramatically changing political and macroeconomic environment. Specifically, credit concerns have emerged as a result of the weak US economy; liquidity is compromised by the impact of sub-prime exposure on the viability of the monoline insurers; volatility has spiked in the context of global financial conditions. Uncertainties specific to the municipal market have arisen, such as the permanence of its tax exemption. Institutional asset managers who are expert in credit selection and execution can add value by capitalizing on growing inefficiencies, while mitigating heightened risks relative to credit, liquidity and volatility in the municipal market.

The elevation of risk factors in the municipal market calls for significant focus and investment in risk management and risk measurement. Our experienced credit team employs rigorous fundamental analysis and influence upon the investment process to select stable sectors and securities. Standish also employs a solid basis of quantitative analysis and modeling to break down, identify and understand contributors to portfolio volatility. Best execution is achieved by a centralized trading desk that can select among offerings from upwards of 100 dealers across the country.

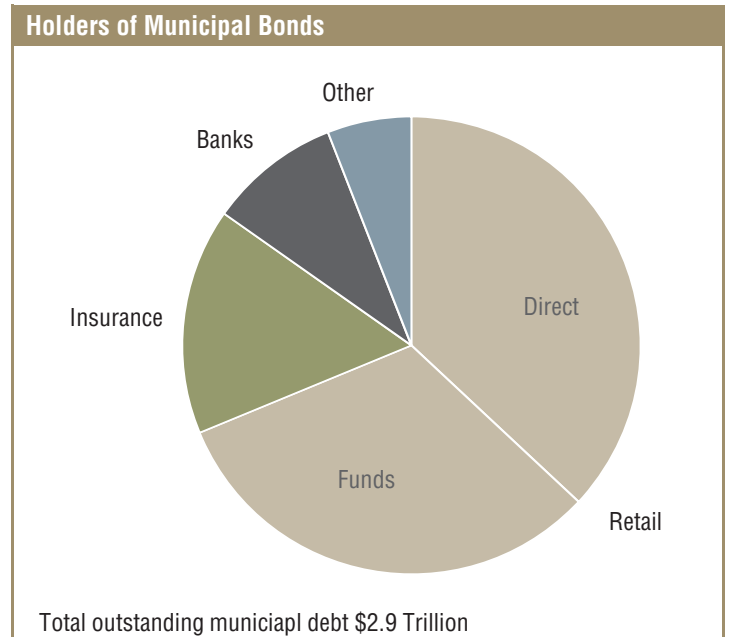
Professional investment management also requires robust technology and trading infrastructure to leverage broad resources and build customized portfolios for individual investors, as well as manage pooled vehicles with varying objectives. Often in partnership with client Advisors, Standish’s objectives are aligned with our client’s in the pursuit of maximizing wealth, as measured by total asset value after taxes and transaction costs. Professional management espouses measurable, transparent and repeatable results.

Christine Todd, CFA, Managing Director of Tax Sensitive Fixed Income

Charts of the Month



Source: Barclays Capital as of November 17, 2011



Source: Federal Reserve as of June 30, 2011

Credit Observations

“Credit positives include the strong revenue pledge, high debt service coverage projections (8.1x assuming no revenue growth) and a restrictive additional bonds test (3.0x based on historical revenues).”

Credit in the Spotlight - Guam Business Privilege Tax Bonds*

In November the Government of Guam issued \$235 million of Business Privilege Tax Bonds. The Bonds are rated A/A- (both stable) by Standard and Poor's and Fitch, respectively. The Bonds are secured by a pledge of 3 percentage points of the total 4% (75% of total revenues) Business Privilege Tax (BPT) levy on goods, services, and the sale of tangible property on Guam. This tax has been levied since 1953 at a rate of 4% with one brief exception when it was raised to 6%. The average annual growth rate of BPT tax revenues since 1990 has been 2.8%, and 5.8% since 2002. Retailing accounts for 43% of BPT revenues, services 27% and construction 11%. Guam, the westernmost US Territory, is an island encompassing 212 square miles (largest of the Marianas Islands) and located approximately 3,800 miles south-southwest of Honolulu and 1,550 miles east of Tokyo. Guam's population, according to the 2010 Census, was 159,400. Guam is governed by a popularly elected governor and a unicameral 15-member legislature, and Guam elects one non-voting delegate to the U.S. House of Representatives. Due to its location, Guam's economy is based primarily on tourism, largely from Japan, and US military installations. The relocation of U.S. military operations from Okinawa to Guam is expected to add approximately 9,000 Marines and 9,000 dependents to Guam's population over the next 10 years. Credit positives include the strong revenue pledge, high debt service coverage projections (8.1x assuming no revenue growth) and restrictive additional bonds test (3.0x based on historical revenues). Negatives are Guam's narrow economic base and economic sector concentration of BPT revenues. The Bonds were issued with a spread of +117 basis points to the AAA Municipal Market Data yield curve (2019 maturity), which was attractive in view of both credit quality and fact that the bonds are exempt from all state as well as federal personal income taxes.

*Source: Preliminary Official Statement, Government of Guam Business Privilege Tax Bonds Series 2011A, dated November 4, 2011

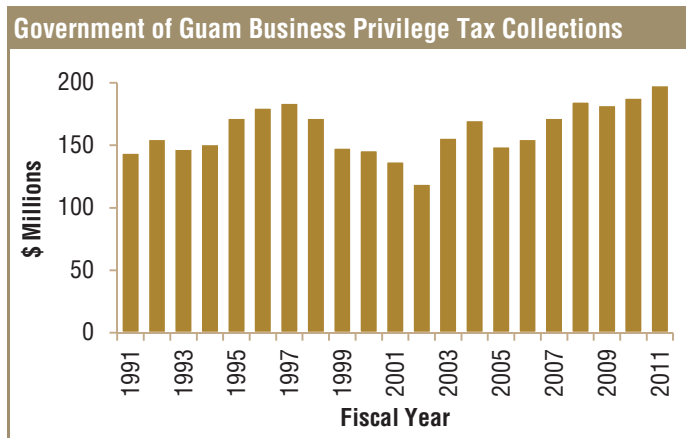
Other Credit News

On November 9, 2011, Jefferson County Alabama filed for protection from Creditors under Chapter 9 of the US Bankruptcy Code. The County's filing is the largest municipal bankruptcy ever. The County had been in the news for several years. Virtually all news headlines were related to the County's sewer system, which suffered from both overleveraging and excessive use of unfavorable interest-rate swaps. Nevertheless, the County's general fund, operationally distinct from the County's Sewer System, became insolvent due largely to a State court's invalidation of the occupational (wage) tax that had been a key source of County (general fund) revenues.

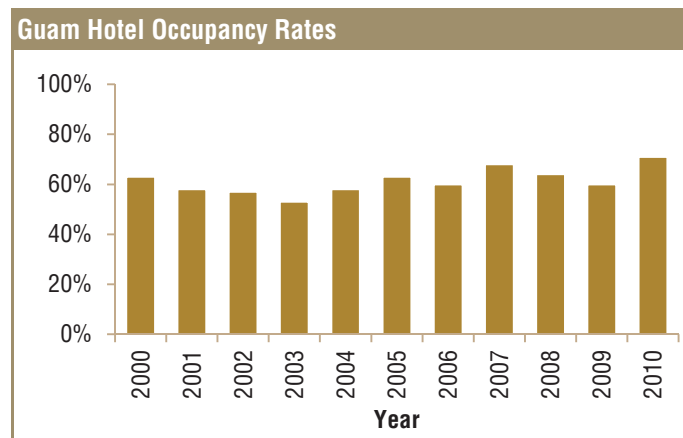
On Tuesday November 22nd a Federal Bankruptcy judge dismissed the City of Harrisburg's (PA) bankruptcy filing. The judge found the bankruptcy filing violated a recently enacted Pennsylvania law restricting bankruptcy filings for distressed cities such as Harrisburg that sought State oversight under Pennsylvania Act 47. As a result, it is likely the Governor will appoint a receiver to manage the City's operations and finances.

David F. Belton, CFA, Head of Municipal Bond Research

Credit Charts of the Month



Source: Government of Guam Audited Financial Statements for Fiscal Years 1990-2010; Guam Department of Administration for Fiscal Year 2011



Source: Guam Comprehensive Economic Development Strategy, Bureau of Statistics and Plans and Guam Visitor's Bureau Research Department

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