ALTMAN INVESTMENT MANAGEMENT

FIXED INCOME STRATEGY HIGHLIGHTS …

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OVERVIEW OF THE U. S. FIXED INCOME MARKETS

Background and Outlook

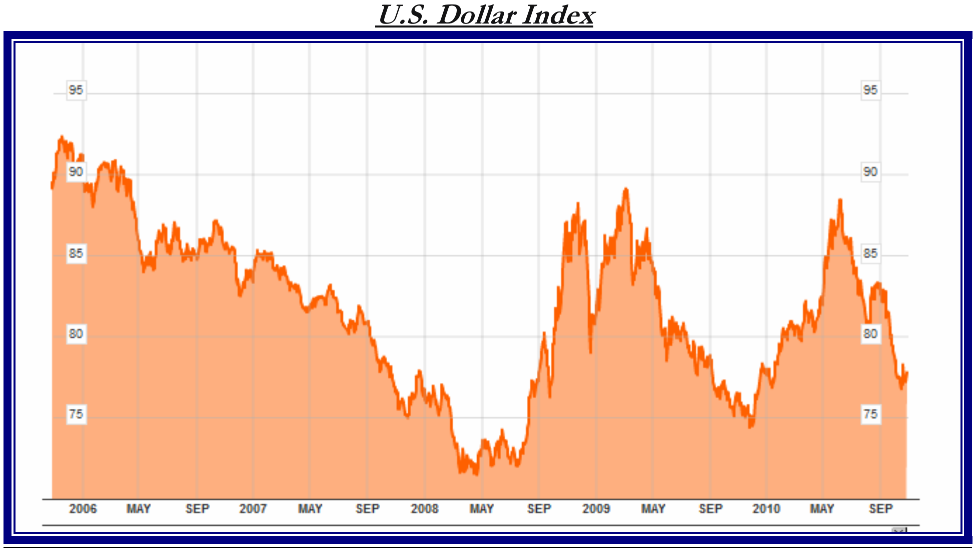
- The recession officially ended in mid 2009 but high unemployment, limited wage gains and deteriorating housing prices continue to impact consumer sentiment and spending. In turn, corporations are hesitant to expand and hire while demand remains uncertain. Undecided tax policy and increasing regulatory burdens are producing additional recovery headwinds. We expect that growth will continue but at a moderate, less than 3%, pace as the economy struggles to overcome the burdens of high unemployment and asset value erosion. Limited pricing power and modest, if any, wage demands should keep near term inflation rates subdued. This is not an environment where interest rates are likely to be pressured significantly higher.

- New fiscal stimulus programs to spur growth appear unlikely given federal deficit concerns, but monetary policy remains very accommodative with short rates locked at close to zero for the foreseeable future. A second round of quantitative easing (i.e. additional purchases of long Treasuries by the Fed) now appears likely which could act to further contain interest rates. Dollar weakness and rising commodity prices, which have been fueled by monetary ease, may continue for some time. See Exhibit I below.

- As shown in the following yield curve Exhibit II, tax-exempt rates also moved lower over the past several months although not to the same extent as in the Treasury market. Ten year prime municipal yields dropped by 85 basis points from early April to the end of September as investors continued to exit money market funds in search of yield. Their quest for tax-exempt securities has been hampered by the heavy issuance of taxable Build America Bonds which have captured over 30% of the new issue market this year. New issue supply through September totaled $294.3bn which included $93.5bn taxable municipals.

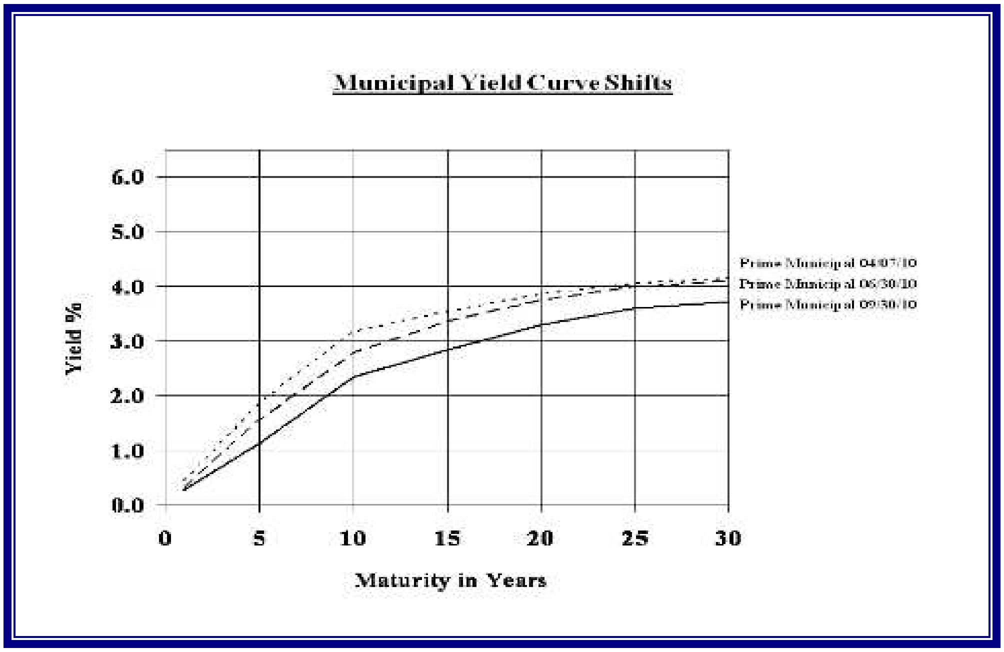
EXHIBIT I

U.S. Dollar Index



Source: Bloomberg and Altman Investment Management, LLC

EXHIBIT II



Source: Bloomberg and Altman Investment Management, LLC

- In contrast to the Treasury market, municipal investors have shown some resistance in recent months to chasing rates to ever lower levels. Nominal rates remain very low, but the tax-exempt sector is now extremely cheap on a relative basis due to the surge in Treasury prices. As shown in the following table, prime municipal yields exceed Treasury rates on the short end of the yield curve and are essentially the same in longer maturity segments.

EXHIBIT III

		12/31/2009	06/30/2010	09/30/2010
10 Year Muni *		3.96%	3.71%	3.10%
10 Year Treasury		3.83%	2.95%	2.51%
Ratio		103%	125%	121%

Source: Bloomberg and Altman Investment Management, LLC
** Merrill Lynch Global Index- Investment Grade*

- Additional quantitative easing in the U.S. should support short- and medium-term bonds, but make longer bonds riskier. Most investors have come to expect that the Fed will announce a second round of quantitative easing (QE2) on the 3rd of November, following its Federal Open Market Committee meeting. This market view has sent five-year Treasury bond yields lower, while yields of very long bonds (i.e. 30-year) have gone up. The 10-year rate has remained relatively unchanged so far.

- These yield developments reflect the expectation that QE2 will keep money market rates lower for longer, which supports investment in short- and medium-term bonds. Yields on these bonds are more likely to remain low for some time. If QE2 does help the economy to recover more quickly and/or increases inflation risk, longer-term yields should trend higher – just as they did in 2009 and 2010 during the first round of quantitative easing.

- We also expect higher long-term interest rates because they are too low for the economic outlook, and bonds do not compensate for the higher credit risk resulting from rising public debt. We think inflation may well overshoot current market expectations and that central banks will retreat from their ultra-loose monetary policy during the next 12 months, earlier than the market expects. In the past, bond yields have made their biggest advances about six months ahead of rate hikes. We thus recommend focusing on bonds with short and medium maturities, in general, as their prices are likely to drop less if yields rise.

Bond Market Headwinds

Although we don't feel that there is an imminent threat, we are concerned that interest rates will surge higher at some point. Risk aversion and deleveraging are the current predominant forces in the economy and the markets, but with liquidity abounding any pick up in monetary velocity could dramatically alter growth projections and inflation forecasts. This concern has been intensified by recent comments from Federal Reserve officials that higher than normal inflation targets (greater than 2%) should be a policy objective. The obvious fear is that if the Fed is successful in ratcheting inflation higher, they will not react quickly enough to counter building price pressures after they take hold. The resultant impact on bond prices could be dramatic. For example, should the ten year Treasury yield return only to the 4% level of last April, a bond purchased at the current 2.37% market yield would suffer a price decline in excess of 12%. Municipals could experience even larger principal declines as bond prices drop below par and pierce de minimis thresholds. We are maintaining modestly defensive portfolio constructions in response to low prevailing nominal rate levels. Account durations continue to be targeted at 3 years, about 25% less than the neutral. Our Duration has been reduced as signs of stronger growth and building price pressures emerge.

The Imminent Tax Bill

We expect that Congress will take action after the November election to forestall the sunset provision that would cause personal tax rates to revert back to the levels that prevailed in the early years of the decade. Our working assumption has been that the highest marginal rates would move back to the 39.6% level while middle income families would not be impacted. There is now growing sentiment that the economy is too fragile to allow any tax increases. It remains to be seen if a tax bill will emerge from the lame duck Congress after the election. Marginal personal tax rates are important and will have an impact on the demand for municipals, but macroeconomic forces (GDP growth, inflation, etc.) will continue to be the main drivers of interest rate levels.

The future of Build America Bonds is likely to be a more significant factor for the municipal market than marginal tax rates. There is a year-end sunset on this program unless Congress acts. We continue to expect that the program will be extended for a year or more in conjunction with an overall tax package, but with BABs rebate rates reduced below the current 35% level. As we pointed out in our July newsletter, lower rebate rates decrease the attractiveness of BABs to issuers. The expectation of reduced rebates after this year is prompting the current large supply of these instruments. If it appears that BABs could be eliminated, an additional supply surge could be forthcoming.

EXHIBIT IV

Ten Year Generic Treasury Yield

Source: Bloomberg and Altman Investment Management, LLC

GOVERNMENT RELATED DEBT

Increasing awareness towards the direction of the outcomes in the mid-term elections will provide near-term headline risk, but we do not expect the results to have a significant role on the direction of interest rates, in the intermediate term. More important, the ability for Congress to come to conclusions on expiring tax cuts has more of a direct influence on future discretionary income and consumption expectations, and as a result, the prospects of growth. Furthermore, the potential for further QE by the Fed gives us reason to maintain some improvement in the housing market, unemployment near 10%, and an increasing savings rate are enough to offset any positive political view on US Treasuries. With short rates anchored well into 2011 and the yield curve still relatively steep, we recommend investors focus on the belly of the curve, between 7 to 10 years.

Spreads in GSE agency debt remain range-bound, with little catalyst to move spreads in either direction. We watch GSE funding levels as it pertains to new issuance, since declines in issuance (or declines in net new issuance) and increasing demand, could have a positive influence on spreads. Regardless, we like agency debt over treasuries as the additional yield pick-up comes with little supplementary risk. Moreover, we like the yield premiums in callable GSE debt versus bullets (non-callable). Investors can pick-up an additional 35-40 basis points versus similar duration bullet maturities.

Valuations in agency mortgage-backed securities (MBS) are attractive compared to other high quality debt instruments against a backdrop of continued low interest rates. While investors need to be wary of potential extension risks, spreads to Treasuries on current coupon FNMA debt (+195 bps) are comparable (if not wider) than many investment grade corporate issuers. We remain favorable on government-guaranteed (GNMA) CMO PAC structures. Although these securities feature reduced prepayment and volatility risks, 5 year average life structures offer investors more than 70 above the risk free rate.

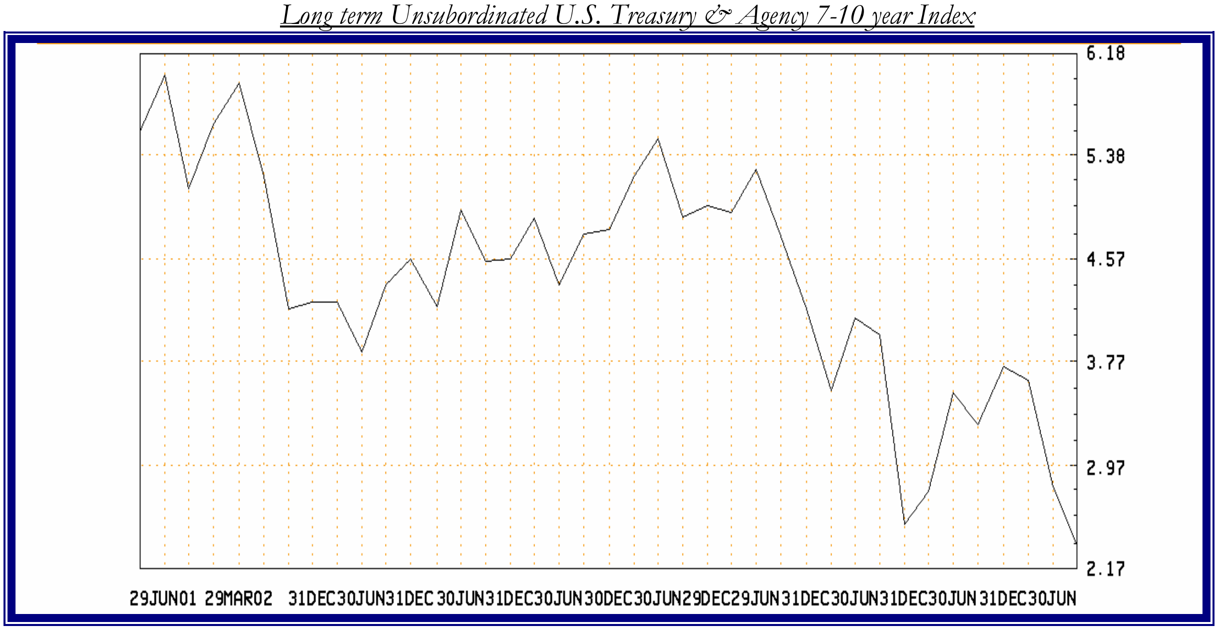
EXHIBIT V

10-year U.S. Government Agency Yield minus 10-year Treasury Yield

Source: Bloomberg and Altman Investment Management, LLC

EXHIBIT VI

Long term Unsubordinated U.S. Treasury & Agency 7-10 year Index



Source: Bloomberg and Altman Investment Management, LLC

HIGH GRADE CORPORATES AND PREFERREDS

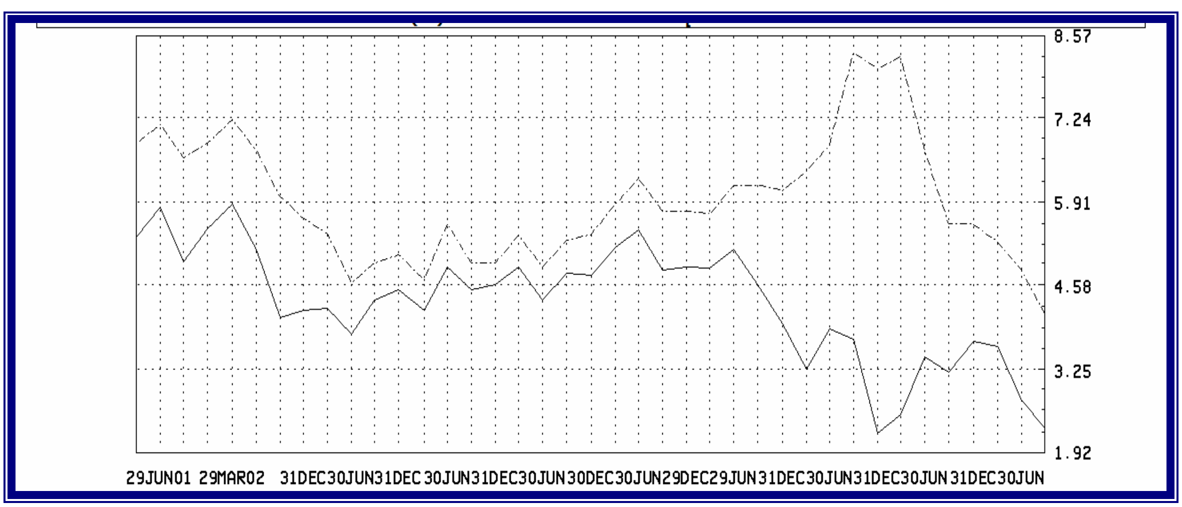
Spreads have grinded tighter towards levels last seen in May 2010, as stock market uncertainty, the appetite for higher yields and improving balance sheets have led to ever-increasing demand. Yes, absolute yields on high grade debt are near historic lows, but so are yields on risk-free rates. Indeed, August saw the second best month of inflows year to date ($12.7 billion), during a rally which drove risk free yields even lower. Since we believe the developed sovereign debt markets will trade at these low levels for some time, investor appetite for higher yielding instruments will likely continue to grow. In response, we remain positive on high grade corporate debt and would expect spreads to narrow further. We expect high grade corporate debt to perform slightly better then a coupon rate for the rest of 2010 and remain the best performing asset class in the investment grade universe. As with our view on rates, we maintain a short to intermediate duration bias, as the belly of the credit curve has steepened, offering attractive carry opportunities in longer dated maturities.

As before during this year, we continue to find value in the U.S. bank and finance sector. Although tighter financial regulations dampen revenue growth, stronger balance sheets and less risky operations are positive for bondholders. That said, we would look for value in intermediate dated subordinated issues where spreads remain wide, we remain cautious on European banks due to the inherent risks that remain in the Eurozone periphery, as well as diminishing confidence over actual exposure to periphery sovereign debt. In the non-financial space, we would look for value in sectors that remain wide to the broad index but have shown great improvement in fundamentals.

The metal and mining sector has shown some of the best improvements in EBITDA and leverage ratios over the 1st half of 2010, while spreads remain wide due to concerns over slowing global growth. We believe that these companies are now well-positioned to handle any pronounced downturn. Other sectors that meet similar fundamental similarities are Energy and Diversified Media.

EXHIBIT VII

U.S. Corporate 7-10 year (dotted line) versus U.S. Treasuries 7-10 year (solid line)



Source: Bloomberg and Altman Investment Management Research, LLC Data: ML Global Bond Indices:

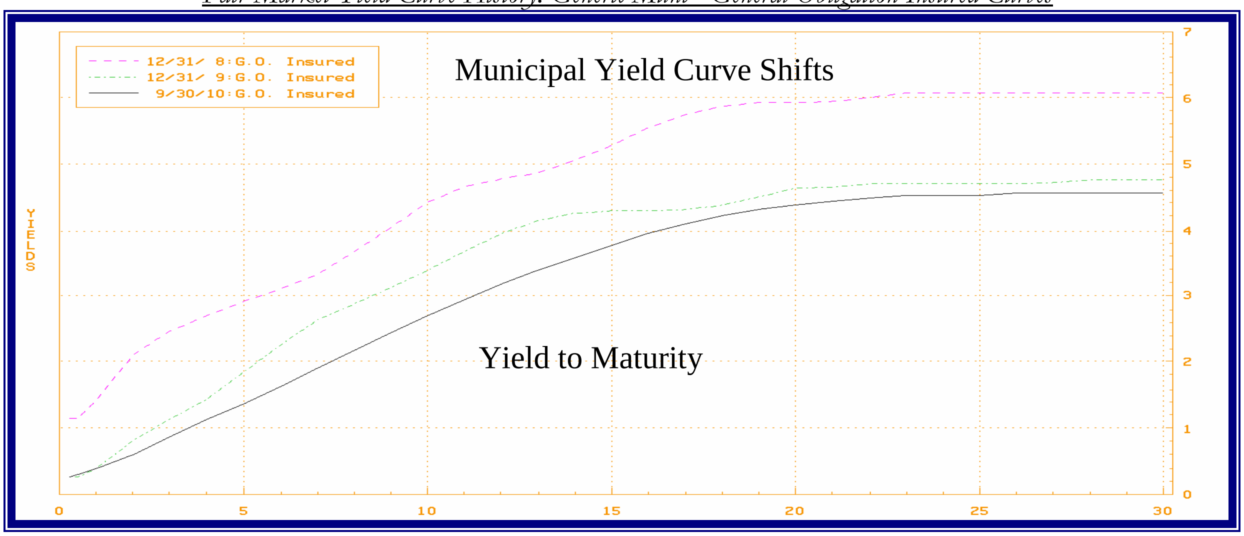
MUNICIPAL BONDS

After a non-descript summer in municipal bonds, which ironically facilitated record low yields, we have recently experienced a quick yield rebound in certain maturities that interestingly coincides with mildly favorable developments (California) on some lingering issues. While these developments do not present long-term solutions, they are positive for broader market sentiment. As for market yields, they continue to hinge upon the trajectory of the U.S. Treasury market, but the near-term price adjustments were enough to motivate participants to re-engage.

Turning to market action, we see that a rapid and sharp price correction in early September has brought buyers back into the market. Although a significant percentage of the new issue calendar is still consumed by taxable Build America Bonds, a trend we expect to continue and intensify toward year end, new issue concessions helped garner sufficient interest.

EXHIBIT VIII

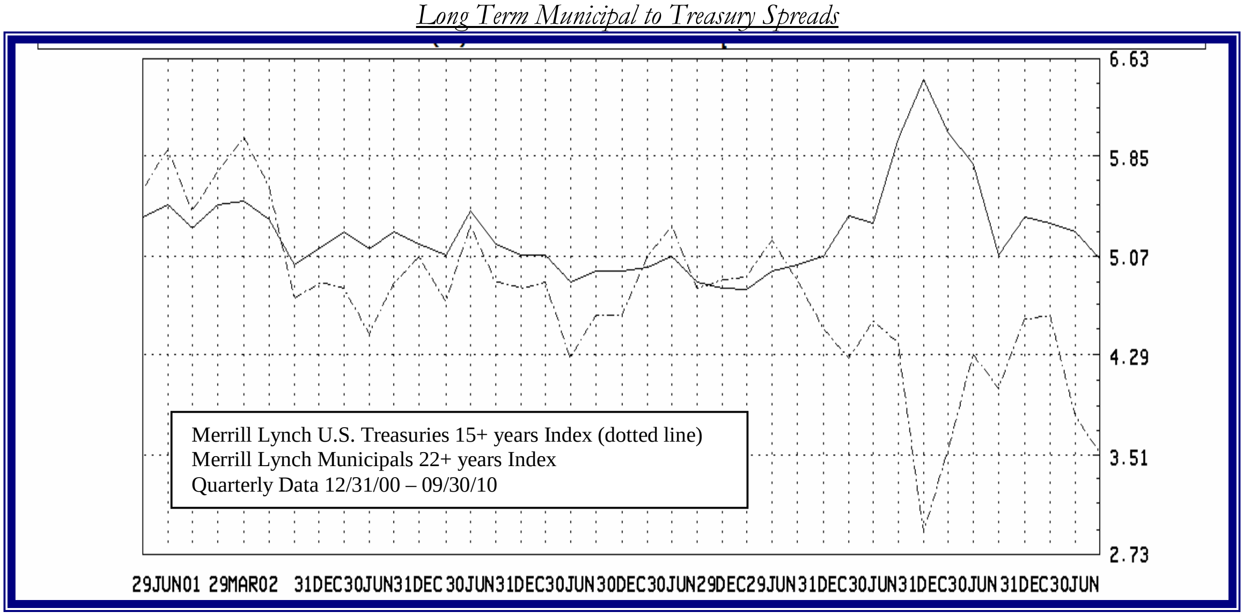
Fair Market Yield Curve History: Generic Muni - General Obligation Insured Curves



Source: Bloomberg and Altman Investment Management Research, LLC

EXHIBIT IX

Long Term Municipal to Treasury Spreads



Source: Bloomberg and Altman Investment Management Research, LLC

Underfunded Public Pensions

According to Goldman Sachs Research, it is estimated that public pension funds are underfunded by at least a trillion dollars and possibly much more due to overly optimistic return assumptions, inappropriate discount rates and insufficient annual contributions. Assuming we are in a "new normal" investment environment with lower long term returns, reestablishing the integrity of these plans will require that changes be made. Larger contributions by municipalities funded by higher taxes are unlikely to be accepted by taxpayers who have seen their salaries stagnate and retirement plans diminished. As a result, contract restructurings for new, and in some cases existing workers, that reduce benefits and raise retirement ages have all been put on the table. At this juncture a shift from defined benefit to defined contribution plans appears less likely.

This problem has been highlighted in New Jersey where Governor Christie indicated that the State's unfunded pension obligations total $46.8 billion - and could grow to $181 billion in thirty years unless changes are made. Proposed plan adjustments for new and existing workers would increase the normal retirement age from 55 to 65, require thirty years of service for early retirement, roll back a 9% increase in pension benefits authorized in 2001 and eliminate cost of living adjustments. New Jersey's unfunded post-employment health care benefit liabilities are estimated at $56 billion. Governor Christie has proposed that employee contributions increase from 8% to 30% to rein in health care costs. New Jersey is not unique. Most states and many local governments are facing similar funding challenges.

How all this plays out in New Jersey and across the country remains to be seen. It is clear that current trends are unsustainable and changes are necessary to maintain the solvency of these programs. Ultimately we expect that necessary changes will be made although the negotiating process is certain to be difficult and, in many cases, contentious and litigious. It was recently pointed out in a *Wall Street Journal* article that state and local governments employ close to 19.5 million workers, more than the manufacturing and construction sectors combined. The political influence of these workers is considerable and will add to the challenge of restructuring plans to assure long term solvency. In purchasing municipals, we have emphasized examining the funding pension challenges and other post employment benefits as part of our credit review process. Any significant underfunding is viewed as a serious negative

Municipal Bankruptcy Developments

There have been a number of recent articles in the press that suggest that a growing number of municipalities could opt to choose bankruptcy as a way to resolve budgetary imbalances. We would expect these filings to increase over time. In some twenty-six states bankruptcy declaration is disallowed. In those states where bankruptcy is allowed, permission is often required from state authorities and oversight boards may intervene to impose resolutions on local governments. Municipalities need access to the financial markets for short term liquidity and for long term capital project financing. Bankruptcy seriously jeopardizes municipalities' ability to raise needed funds. Unlike corporations, state and local municipalities are ongoing entities that must continue to provide services to their constituents.

Recently Harrisburg, PA was burdened with $288 million G.O. debt that financed a solid waste disposal incinerator and threatened to default on a $3.3 million on September 15 debt service payment. The state intervened with $4.4 million of expedited funds and grants due the city which allowed the bond payment to be made on time. The immediate crisis was averted, but a long term solution to the city's financial challenges has not been developed. Some city officials have suggested bankruptcy, but this action is opposed by the Mayor and by the state.

In a recent case by the Bankruptcy Court for the Eastern District of California regarding the Chapter 9 (municipal) Sierra King Health Care District specific ad valorem taxes were pledged to support the bonds sold to raise funds to construct the Sierra King medical facility. It was determined by the court that specifically earmarked revenues, whether they're fees or taxes, are "special revenues" and must be paid on time on their scheduled payment date without interference from the bankruptcy proceedings. In other words, bond holders are protected in bankruptcy proceedings if specific funding sources have been designated to support outstanding municipal obligations. This was good news for bondholders.