“Our Clients’ Past Successes are Not Necessarily Indicative of Future Successes.”

Stamper Capital & Investments, Inc.

“Focusing on Upside Potential with Downside Protection Since 1995.”

How We Achieved the Top Municipal Bond Fund Ranking At The Bottom of The Worst Downturn in the Municipal Bond Market in 30 years: An interview with B. Clark Stamper

February 1, 2009

Q. Looking at the Lipper General Municipal Debt Funds Category, your Fund did rather well during the muni market meltdown of 2008. Can you comment on that?

Lipper Rankings

General Municipal Bond Funds

Period Ending September 30, 2008

PERIOD	Stamper Capital sub-advised Fund RANK	NUMBER OF COMPETITORS	CATEGORY AVG. TOTAL RETURN	Stamper Capital Managed Fund TOTAL RETURNS	Fund PRE-TAX EQUIVALENT TOTAL RETURNS	Stamper Capital Managed Fund Share Class
1 Month	1st	246	- 5.38%	- 1.16%	- 1.16%	I
YTD	1st	235	-5.23%	+ 0.82%	+1.26%	I
1 Year	4th	232	- 4.83%	+ 1.75%	+ 2.69%	I
3 Years	1st	213	0.32%	3.04%	4.68%	I
5 Years	5th	204	1.73%	3.13%	4.82%	I
10 Years	29th	149	2.98%	3.60%	5.53%	I

The pre-tax equivalents are based on the highest federal tax bracket of 35%.
"Rank" is absolute so for the five years the Fund's percentile is 5/204 or the 2nd percentile!

A. Yes, February 2008 was said to be the worst month in the muni market in 30 years and we were ranked Number One in the Lipper General Muni Debt Category for that month [see our Awards page for chart, www.risk-adjusted.com/Performance&Awards.html]. Then, the market rebounded a bit and trended mostly sideways until September 2008 when it put in an even worse month (see chart above) and we were ranked first for that month also (see above), and for the year-to-date and for the three year period. For the twelve months ending September 30th, 2009 the Fund's total return was +1.75% compared to -4.83% for the Lipper General Municipal Debt Fund Category. We are proud to be able to perform so well for our shareholders and clients.

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Q. How about versus other municipal bond fund categories?

Lipper Averages
Municipal Bond Fund Categories
Period Ending September 30, 2008

PERIOD	‘GENERAL’ Municipal Debt Fund Category Average Return	‘INTERMEDIATE’ Municipal Debt Fund Category Average Return	‘HIGH YIELD’ Municipal Debt Fund Category Average Return	Stamper Capital Managed Fund TOTAL RETURNS	Stamper Capital Managed Fund Share Class
1 Month	- 5.38%	- 3.60%	- 6.22%	- 1.16%	I
YTD	- 5.23%	- 1.91%	- 8.43%	+ 0.82%	I
1 Year	- 4.83%	- 0.77%	- 10.51%	+ 1.75%	I
3 Years	0.32%	1.66%	- 1.19%	3.04%	I
5 Years	1.73%	1.96%	1.99%	3.13%	I
10 Years	2.98%	3.38%	2.57%	3.60%	I

A. Yes, well, we [think we] clearly outperformed the "Lipper High Yield Municipal Debt Funds" average and also the "Lipper Intermediate Municipal Debt Funds" category average (see chart above).

You can see that we beat the average annual total returns for all three categories, for all periods shown - One month out to 10 years.

I wish they reported more than ten years of data as I've been this Fund's Portfolio Manager for almost 19 years!

Q. O.K. - for the one year your Fund had a total return of a positive +1.75% compared to a negative - 0.77% average for the "Intermediate Municipal Debt Fund Category." And, the average for the "High Yield Municipal Debt Fund Category" was a negative -10.51% for the twelve months. So the numbers are definitely remarkable.

Now for the meat - how were you able to perform so well?

A. Well, first of all, for September 2008 the average of the Lipper Intermediate Municipal Debt Fund was a negative - 3.60% and we lost 1.16% - so they were down 3x worse than we were. The High Yield Municipal Debt Category was down -6.22% for the month so they did almost 6x worse than we did. The General Municipal Bond Fund category lost -5.38% for the month, almost 5x worse than we were. It was a terrible month.

I would like to point out that this Fund was in the Lipper High Yield Debt Fund category until 2005. The Fund has a very wide open prospectus - the current prospectus is the same as it was as a high yield municipal bond fund. We changed the name to "Strategic" and Lipper moved it to their General Muni Debt Fund category because we had, over the years, raised its credit quality somewhat dramatically higher than the high yield municipal category average. We also change the name to "Strategic Muni" because we were managing the Fund very actively when it was dictated according to our analysis and we wanted people to know that we could not only lower credit quality but raise it. The reason I mention this, and it is also true with the Fund's interest rate risk/volatility positioning - they can be anywhere - MY KEY is that we proactively positioned the Fund very appropriately for the 2008 environment.

We actively managed the Fund using our Upside Potential/Downside Protection analysis and investment methodology to get the results you see & we like to get credit for avoiding the high yield municipal bond implosion and also outperforming not only the General Municipal Bond Fund category but also, even the Lipper Intermediate Municipal Debt Funds Category - all three categories.

Q. Tell us about your "upside potential/downside protection" analysis. How high did you raise your credit quality and why? Why did you perform so well compared to the intermediate funds? Were you proactive?

A. We focus on the upside potential and downside protection of each investment in the fund on its own with respect to both credit quality characteristics, like the security backing the bond, the insurance, the quality of the tax revenues, etc. and with respect to each bonds security characteristics, the call date and call price, the sinking fund. Importantly, price or the dollar price is an important part of the equation as are investment alternatives. A bond at 70 has dramatically different upside potential and downside protection than the same bond at a dollar price of 105. Our upside potential/downside protection implementation makes us automatically be proactive and we certainly were very proactive, as I'll explain.

We had been observing the bubble in the financial markets for quite a while and had raised the Fund's credit quality from BB+ in the 1990's up to single A and then up to AA, and then up to AAA, depending upon where in the credit cycle we were - hence the name change to "Strategic." In early 2007, we noticed what we though was the first ripple of a problem related to these bubbles - at least with respect to the municipal bond market. We had already seen the housing market tumble, especially housing related stocks. I am remembering this first ripple of significance that we likely paid more attention to than most others was related to problems in the commercial paper market in around March 2007.

Later, around July 2007, we noticed what we thought was the second ripple of negative significance. I am remembering it was the equity/stock of the municipal bond insurers

coming into question and when the U.S. Treasury market rallied, the municipal bond market actually traded off - we hadn't seen that in several years and it really got my attention, but apparently not a lot of other managers'.

Up to that time, we had purchased many bonds based on AAA municipal bond insurance from MBIA and the like. And, if you had concentrated much on underlying ratings and security up to that point and actually a little later, [and not given much weight to insurance] then you would have underperformed - so we knew it was a potential problem. And, I realized that and had kept my concern about underlying security in the back of my mind. Now it seemed it was time for me to put more emphasis on underlying ratings. That is what we first did. Our database did not have that data in it, so we rushed around finding the underlying ratings and determining our own internal underlying ratings if a bond did not have an official underlying rating. And, I started making trades accordingly.

However, with the second negative wave [around July 2007], I got even more serious. Now, I was concerned about underlying credit quality. Again, we were scrambling - luckily we were probably at least six months or more ahead of the pack. We downloaded all of the prospectus of even the AAA-insured bonds and captured the underlying security of each issue. Basically we started underwriting even our AA and higher rated bonds using our junk bond analysis methods.

We were now "junk bond guys" in the high grade market where as most high grade people don't have all that much junk bond experience. Remember, concurrent to the first 8 years of me managing this muni Fund - from 1990 to 1998, I also ran a junk bond taxable mutual fund and previous to that I was a junk bond analyst beginning in 1987.

Anyway, I used our junk bond analysis and underwriting information in my upside potential/downside protection analysis relative to credit quality for the highly rated bonds - this time disregarding all insurance, even AAA-rated insurance, unless it was GNMA, which is a real guarantee from the U.S. Government, as compared to Fannie and Freddie which is not.

So, it was a mad dash to gather the data and to make the trades dictated by our upside potential/downside protection analysis. Needless to say, we had a lot of trading in 2007 and in 2008. And, on each sale and each purchase we had to give up a little return in terms of trading costs, but it turned out to be totally worth it.

Q. When had you completed your analysis/restructuring of the Fund?

A. Luckily, we completed much of the restructuring before the huge February 2008 drop - the worst month in the municipal bond market in 30 years [up to that point] - I believe it was S&P and maybe Lehman Brothers who said that.

Q. Did you do anything else?

A. Another great move we made was when the market rebounded from the February/March 2008 low, we took advantage of that rebound to get even more defensive. Doing that cost a bit in rebounding less than we would have otherwise rebounded, but I was concerned that the near term future was going to be similar to February. So, there were still some bonds that weren't as good as the majority of the portfolio and I traded out of them and picked up more defensive bonds. That turned out to be just the thing to have done because then we had September 2008 which was even worse than February [2008].

Q. What do you mean "picked up more defensive bonds?"

A. Well, using our upside potential/downside protection analysis with respect to credit quality and security characteristics. We sold bonds that did not have as good an underlying security as other bonds that we were purchasing and also underlying rating. We were targeting underlying ratings of AA with real security. Some bonds are rated highly, even some without insurance and they don't all have real security. Really, everything is a trade off using our system - trading off current income, upside potential and downside protection, from several standpoints: credit quality characteristics, security, etc.

Oh Yeah, the reason why we were able to perform so well compared to the intermediate municipal bond funds was, in part, that our average underlying credit quality/security and ratings were so high and also because we had very large average coupons. High coupons with low dollar prices cushioned interest rate sensitivity. In this case we were purchasing bonds with short calls, that kept the purchase prices down and with big coupons. So, the market in general could drop quite a bit before these bonds dropped at all, and they held up very well.

Let me emphasize that the 2008 melt down was not really driven by credit quality problems - at least not in the municipal bond market - it was really driven by liquidity. Highly leveraged Municipal bond arbitrage funds had driven yields down to low levels and prices upwards. They got in trouble, basically from margin calls that were throughout the financial markets and they had to sell. Well, they had been a primary purchaser over several years and when they wanted to sell and raise cash and delever, well, they were not able to be buying also. So, you had this supply/demand imbalance with required selling and few buyers. Now, while it wasn't based on problems with credit quality, it was difficult for people to sell anything that wasn't of the highest quality and that is what we had restructured into - so we were sitting pretty and that is why we performed so well during this toughest of all years.

Q. So that is why the high yield municipal bond market traded down so badly?

A. Yes. In fact, anything except the highest quality, shorter duration bonds fared poorly. Even high quality longer duration bonds traded off badly. There were some General Municipal Bond Funds that lost 11% or so for 2008. These funds had high quality bonds but their durations were too long in that environment. I am sure they were very surprised when that happened.

Q. Anything else of significance related to all of this?

A. I think that covers mostly everything. Of course, there are an unbelievable amount of nuances that we considered and consider when making our investments.

Oh. One thing I would like to emphasize is that while pretty much anyone could have done pretty well in the municipal bond market from 2003 to early 2007 - Now the market has changed. From here on out, I think you really need to know what is going on in the market.

It is a market that lets an expert really shine - to really add value, and we are so happy that we are able to add so much value for our shareholders and clients during these very tough [and continuing] markets.

Thank you.

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Stamper Capital & Investments, Inc. has been the sub-adviser to this Fund since October 1995 and B. Clark Stamper, our President, has been its Portfolio Manager since June 1990.

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