Municipal Market *UPDATE*

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- Muni Volume Shows Positive Signs for Fourth Quarter
- Variable Rate Market Update
- Rates Remain Low Despite Improving Economy

Muni Volume Shows Positive Signs for Fourth Quarter

In the month of August, long-term municipal bond sales amounted to $24.4 billion, marking an increase of 7% in volume compared to August 2013. August issuance of both negotiated and competitive deals increased by 18.3% to $18.2 billion and 2.8% to $5.8 billion, respectively (Bond Buyer).

As municipal supply has been down for 2014 as a whole compared to 2013, these increases in August issuance could be an indicator of a strong fourth quarter to follow.

The Municipal Market Data ("MMD") 'AAA' Muni Market 10 year yield ended August at 2.07%, a 20 basis point drop from the end of July; the 30 year yield decreased 27 bps, from 3.30% at the end of July to 3.03% at the end of August.

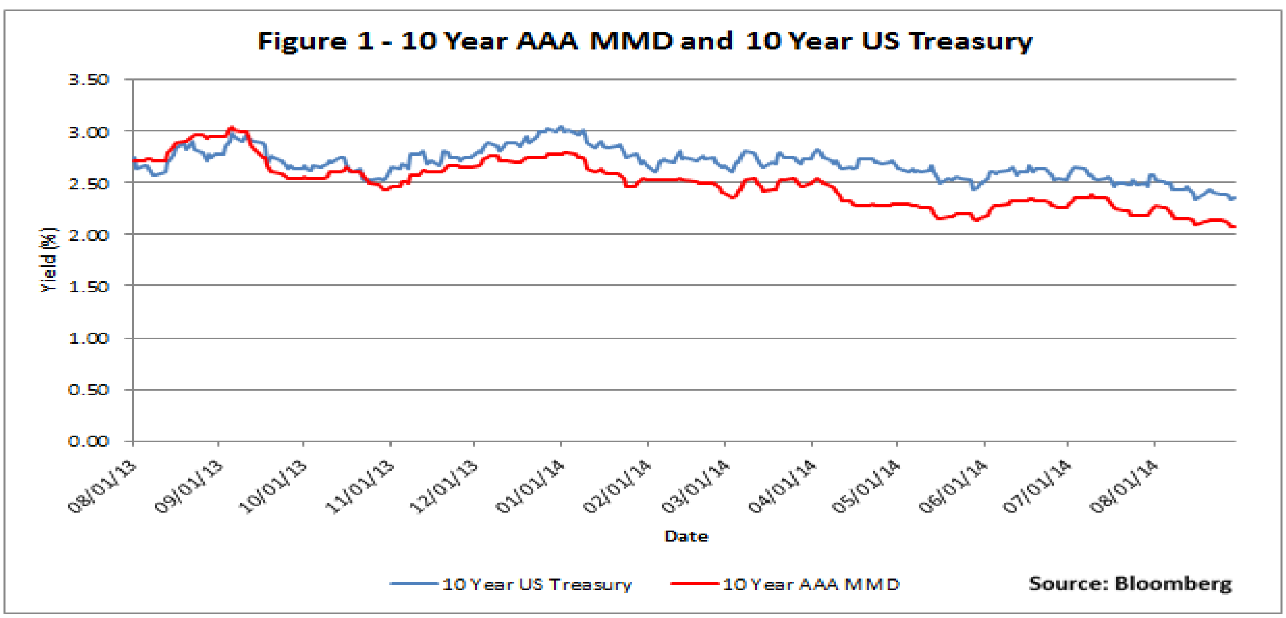
The 10-year US Treasury yield ended August at 2.35%, down 23 bps from 2.58% at the end of July. The 30-year Treasury yield also decreased by 20 bps, falling from 3.29% at the end of July, to 3.09% to end August. As of August 31st, the ratios of 'AAA' General Obligation municipal yields to Treasury yields were:

Year	Yield	% Yield
1-Year	0.12 / 0.09	133.33%
5-Year	1.08/1.63	66.26%
10-Year	2.07/2.35	88.09%
30-Year	3.03/3.09	98.06%

Sources: The Bond Buyer, Bloomberg, US Department of Treasury, US Federal Reserve

Variable Rate Market Update

The SIFMA Municipal Swap Index, an average of high-grade, tax-exempt, variable rate bonds,



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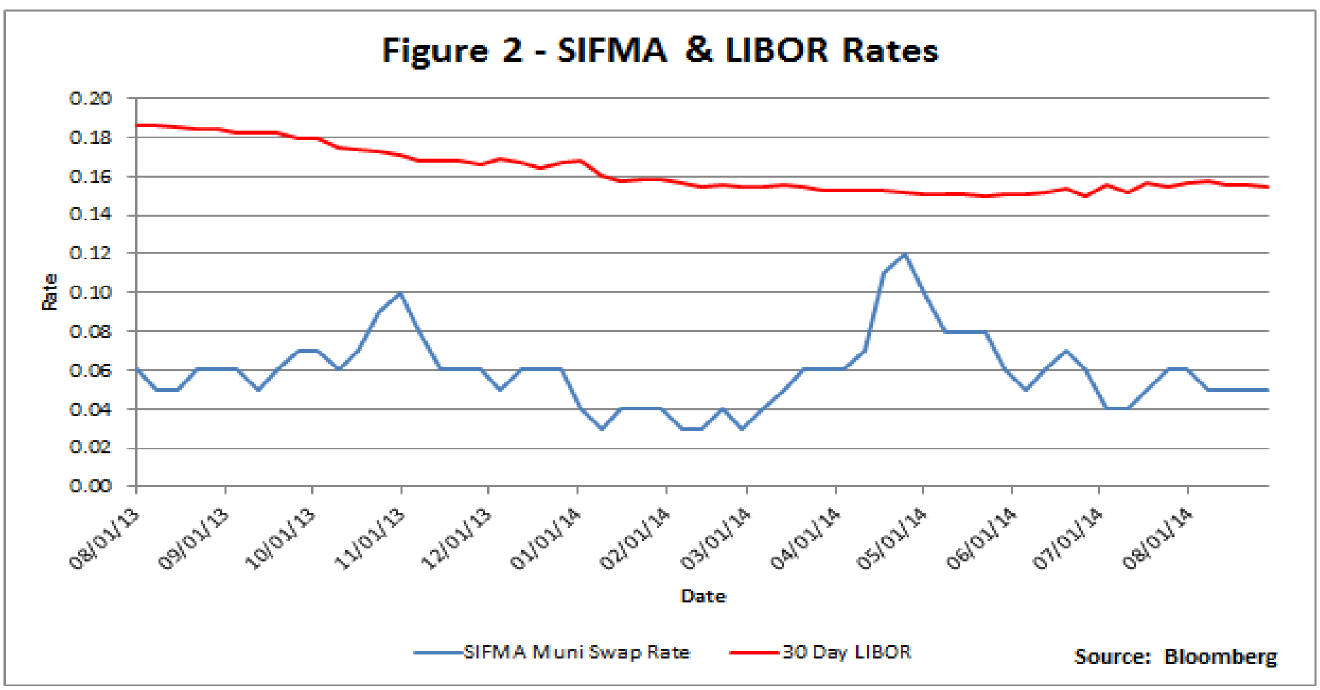
decreased to .05% at the end of August, 1 basis point less than the .06% at the end of July. The 30-day LIBOR also decreased slightly in August, beginning the month at .1560% and ending at .1545%. Please refer to Figure 2 below for historical SIFMA and LIBOR rates.

Sources: The Bond Buyer, Bloomberg, SIFMA

Rates Remain Low Despite Improving Economy

Most economic indicators that have come out in 2014 have pointed to a slow, but steady improvement in the U.S. economy throughout the year. Perhaps the most closely watched measurement, the unemployment rate, has declined from 7.3% to 6.2% in the last year. Non-farm payroll in the country has increased by 2.6 million in the last year as well and real GDP growth has been 2.5%. Albeit, there have also been some mixed measurements, like new housing starts, that seemingly indicate that the sluggish recovery still has plenty of sluggishness left in it. For the most part, however, the broader economic measurements are all pointing towards sustained improvement for the first time since the recession began.

Curiously though, the slight uptick in U.S. economic activity has yet to result in any meaningful pressure on interest rates. The 10-year U.S Treasury bond ended August at 2.4%, down 50 basis points from a year earlier and a full 100 basis points below its 10 year average, while the AAA MMD for 20 year municipal bonds was down 144



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basis points to 2.81. Concurrently, during much of last year's decline in interest rates, the Federal Reserve has been tapering its latest quantitative easing program while publicly debating how soon they are going to raise rates. With the European Union showing signs of deflationary pressure, the Fed seems content to risk sparking some moderate inflation to avoid the same risk (deflation, the phenomenon of declining price levels is considered much more damaging to an economy and is considered the primary culprit behind the Japanese economy's twenty year struggle beginning in the early 1990's).

There are a couple of different ways to look at the increase in bond prices that has caused yields to drop continuously in the face of macroeconomic data and suggests monetary tightening is coming soon. The first possibility is that overwhelming geopolitical problems in the Middle East and Ukraine are causing a "flight to quality" where international investors are seeking the security of U.S. bonds. There's undoubtedly some of that going on, but worldwide equity markets, which should react negatively to uncertainty, are continuing to reach historic highs in many countries. That trend seems to rule the flight to quality out as the overriding factor. Another theory is that the sheer amount of Fed dollars injected into the monetary system is pouring into financial assets such as bonds and stocks and no one is particularly concerned about quality or valuations. Put another way, investors who are accustomed to choosing between low risk-low return assets and higher risk-higher return assets are now faced with a choice of earning a return of nothing or something and most of them are opting for something.

Another interesting consideration for investors is that despite their pushes into near record territories, both the equity and bond markets are suffering from very low volatility and volume. The spirit in both of the capital markets seems more that of resignation than what John Maynard Keynes termed "animal spirits". Although neither the bond nor stock market seems "frothy" from current perspectives, stock market valuations, although high, are nowhere near the late 90's bubble markets. However, their levels don't seem particularly justified in the environment of the tepid recovery either.

Sources: Thomson Reuters, U.S. Department of Labor, Board of Governors of the Federal Reserve System

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August 2014 Selected Bond Issues

Dated Date	Par Amount ($ mil)	Issuer	Project	Ratings	Final Maturity	Yield	Spread to MMD	Notes
General Obligation								
7/21/2014	$20.97	Pleasant Prairie, WI	Current Refunding Public Impts	/AA/	9/1/2023	2.440%	-60	
7/28/2014	$8.88	Calhoun County, MI	General Obligation Public Impts.	/AA/	4/1/2039	4.030%	83	Bank Qualified
7/28/2014	$43.94	Commonwealth of Massachusetts	General Obligation Public Impts.	Aa1/ /AA+	8/1/2024	2.370%	18	
8/4/2014	$7.88	Arlington, WA	Current Refunding Bonds	/AA/	12/1/2034	3.640%	68	Fed. BQ / AGM Insured
8/11/2014	$40.41	City of Frisco, TX	Refunding Bonds Public Improvements	Aa1/AA+/	2/15/2034	3.710%	160	
Education Sector								
Dated Date	**Par Amount ($ mil)**	**Issuer**	**Project**	**Ratings**	**Final Maturity**	**Yield**	**Spread to MMD**	**Notes**
7/28/2014	$29.64	University of Akron	Refunding Bonds	A1/ /AA-	1/1/2035	3.900%	90	
8/7/2014	$30.04	Western Michigan University	College Impts. - Refunding Bonds	A1/A/	11/15/2035	4.140%	111	
8/12/2014	$21.52	Cobb County GA Development Authority	Student Housing Revenue Bonds	A1/ /	7/15/2036	4.200%	115	
8/12/2014	$27.99	Winston-Salem State University	Revenue Refunding Bonds	/BBB/	6/1/2036	4.500%	145	
8/28/2014	$36.00	Louisiana State Public Facilities Authority	Revenue Refunding Bonds (New Orleans State University)	A2/AA/	9/1/2035	4.000%	115	Insured
Water & Sewer / Utility								
Dated Date	**Par Amount ($ mil)**	**Issuer**	**Project**	**Ratings**	**Final Maturity**	**Yield**	**Spread to MMD**	**Notes**
8/1/2014	$6.28	Harris Cnty, TX MUD #284	General Obligation Current Refunding Bonds	/AA/	9/1/2033	4.100%	89	Insured
8/1/2014	$6.90	Dowell TX Public Utility District	General Obligation Current Refunding Bonds	A3/AA/	9/1/2034	4.000%	100	Insured
8/7/2014	$22.65	Riviera Beach, FL	Water & Sewer Revenue Refunding Bonds	/A+/A+	10/1/2034	3.650%	60	
8/12/2014	$22.00	Bossier City, LA	Water Utility Impts. Revenue Bonds	A1/AA-/	10/1/2043	4.125%	113	

Source: Bloomberg

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Healthcare Sector

Dated Date	Par Amount ($ mil)	Issuer	Project	Ratings	Final Maturity	Yield	Spread to MMD	Notes
8/6/2014	$53.50	Washington State Healthcare Facilities Authority	Revenue Refunding Bonds (Overlake Hospital Medical Center)	A2/A/	7/1/2038	4.130%	95	
8/15/2014	$51.79	Wisconsin State Health & Educational Facilities Authority	Revenue Refunding Bonds (Rogers Memorial Hospital)	/BBB+/	7/1/2036	4.500%	155	
8/1/2014	$32.20	Reagan Hospital Dist., TX	General Obligation Limited Tax	Baa2/ /	2/1/2039	5.050%	180	

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