

MUNICIPAL BOND MARKET NOTE

JANNEY FIXED INCOME STRATEGY

November 19, 2010



Tax-exempt financing is a valuable public benefit. State and local governments strategically offer this as an incentive to aid in economic development.

"When Muni Bonds Go Private," an October 25, 2010 Wall Street Journal article mentioned these types of "conduit" financings.

A General Review of For-Profit Entities Tax-Exempt Debt Credit Structures

COMPANIES SELL TAX-EXEMPT DEBT

There are methods whereby for-profit entities such as airlines, investor-owned utilities, or energy sector corporations can issue tax-exempt bonds. Federal tax law allows organizations other than state and local governments and not-for-profits to benefit from tax-exempt financing under special circumstances. In every case a tax-exempt bond issue sold by a company would use a "conduit" municipal issuer or a municipal entity that sells the bonds on behalf of the company. Most often the option of selling tax exempt debt is available as an incentive to corporations to locate, utilize, or construct a desired type of facility that would enhance communities' economic development activity or address an environmental improvement. When a company qualifies to sell tax-exempt debt under one of these uses the bonds are sometimes referred to as private activity bonds or industrial development revenue bonds.

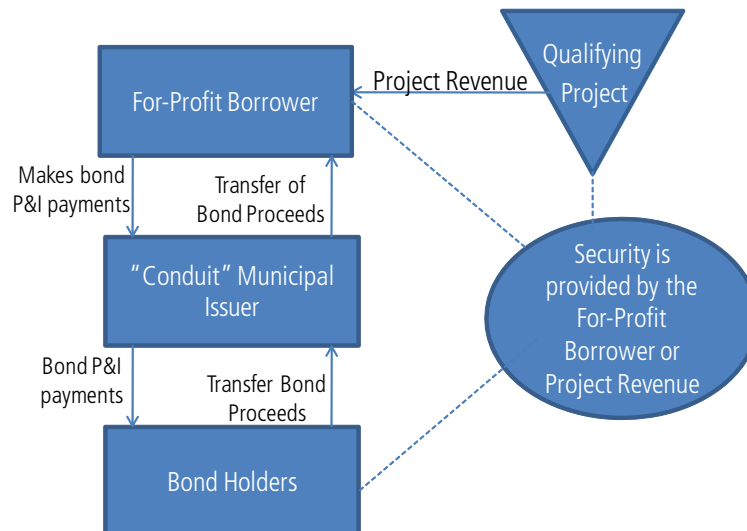
Examples of Corporate Backed Tax-Exempt Bonds

- Energy services such as local gas and electric service.
- Water, wastewater and solid waste systems.
- Airports and shipping.
- "Small" issue IDA (Industrial Development Agency) bonds.
- Targeted economic development programs.

Differences in Security

When a tax-exempt issue is sold by a for-profit entity such as a corporation for one of the above qualifying purposes a municipal issuer actually sells the tax-exempt bonds, but only as a conduit. Neither the conduit issuer or any municipality or political sub-division provides any type of security for the bonds. The bond issue is secured by the private entity or by the revenues from the corporation's qualifying project.

For-Profit Backed Tax-Exempt Bond Security Structure



Source: Janney Fixed Income Strategy.

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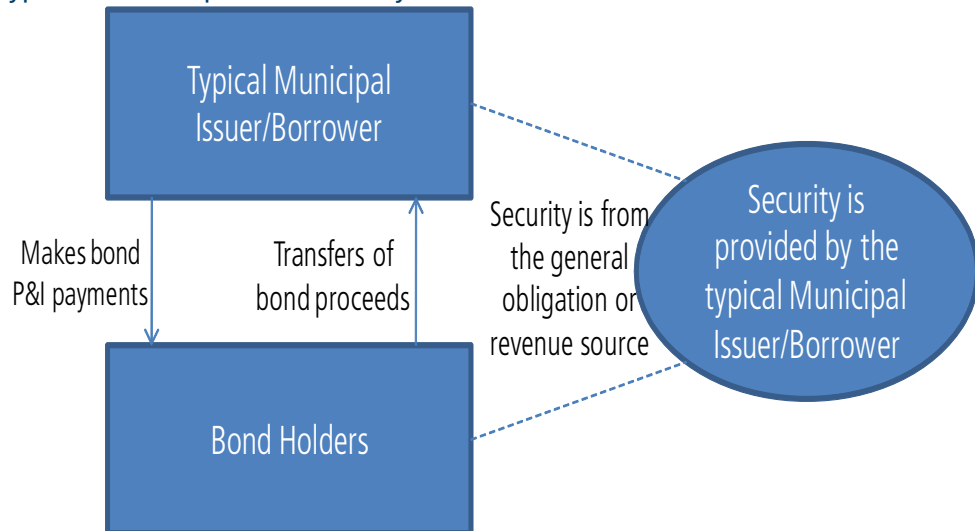
Neither the conduit issuer or any municipality or political subdivision provide any type of security for these corporate or project backed bonds.

Tax-exempt bonds sold by for-profit entities can sometimes offer an effective value for investors.

Higher yields are often available compared to traditional similarly rated municipal bonds.

An example might be an airline which sells tax-exempt bonds to make improvements to an airport facility, secured by the company's pledge of its full faith and credit. Alternatively, revenues from an airline's individual qualifying project may secure bond principal and interest payments.

Typical Tax-Exempt Bond Security Structure



Source: Janney Fixed Income Strategy.

Summary

Tax-exempt bonds sold by corporate entities can sometimes offer an effective value for investors; however it is important to completely understand the credit of the underlying borrower or the project from which revenues may be pledged for debt service payments. Structural variations such as the issue's bond redemption provisions may differ compared to typical municipal issues and should be considered. Private enterprises that sell tax-exempt debt range from large well-known corporations such as Southwest Airlines and Aqua America to smaller, local companies. These types of issues will sometimes offer a higher yield compared to traditional similarly rated municipal bonds. For comparison purposes it might be helpful for investors to weigh side by side the taxable equivalent yield of a corporation's tax-exempt debt to outstanding taxable debt levels.

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I, Tom Kozlik, the Primarily Responsible Analyst for this report, hereby certify that all of the views expressed in this report accurately reflect my personal views about any and all of the subject sectors, industries, securities, and issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Definition of Outlooks

Positive: Janney FIS believes there are apparent factors which point towards improving issuer or sector credit quality which may result in potential credit ratings upgrades

Stable: Janney FIS believes there are factors which point towards stable issuer or sector credit quality which are unlikely to result in either potential credit ratings upgrades or downgrades.

Cautious: Janney FIS believes there are factors which introduce the potential for declines in issuer or sector credit quality that may result in potential credit ratings downgrades.

Negative: Janney FIS believes there are factors which point towards weakening in issuer credit quality that will likely result in credit ratings downgrades.

Definition of Ratings

Overweight: Janney FIS expects the target asset class or sector to outperform the comparable benchmark (below) in its asset class in terms of total return

Marketweight: Janney FIS expects the target asset class or sector to perform in line with the comparable benchmark (below) in its asset class in terms of total return

Underweight: Janney FIS expects the target asset class or sector to underperform the comparable benchmark (below) in its asset class in terms of total return

Benchmarks

Asset Classes: Janney FIS ratings for domestic fixed income asset classes including Treasuries, Agencies, Mortgages, Investment Grade Credit, High Yield Credit, and Municipals employ the "Barclay's U.S. Aggregate Bond Market Index" as a benchmark.

Treasuries: Janney FIS ratings employ the "Barclay's U.S. Treasury Index" as a benchmark.

Agencies: Janney FIS ratings employ the "Barclay's U.S. Agency Index" as a benchmark.

Mortgages: Janney FIS ratings employ the "Barclay's U.S. MBS Index" as a benchmark.

Investment Grade Credit: Janney FIS ratings employ the "Barclay's U.S. Credit Index" as a benchmark.

High Yield Credit: Janney FIS ratings for employ "Barclay's U.S. Corporate High Yield Index" as a benchmark.

Municipals: Janney FIS ratings employ the "Barclay's Municipal Bond Index" as a benchmark.

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