

POINTS OF  
INTEREST:

- MUNIS IN CHECK
- AIRPORTS IN A STATE OF TRANSITION
- PSN INFOMA RECOGNIZES LADDER PLUS

## MUNIS IN CHECK

The muni market cooled after a heated start to 2009 with the 5 year range backing up 0.51%. Interest rates in the 10 year range rose half of the 5 year with an increase of 0.24%. Rates on municipal bonds in the 5 year range still offer relative value over treasuries. The taxable equivalent on a 5 year muni is 3.61% while the 5 year Treasury bond currently stands at 1.90%. The exodus of retail buying in the shorter range and the onslaught of supply moved rates higher. Retail buying slowed in the shorter end of the curve as higher yields enticed the majority of buyers out on the longer end of the curve in search of the elusive 5.00% yields.

Going forward we believe munis will be kept in check due to the above average supply set to enter the market this year. The support in the market will come as fear lessens and the market moves away from treasuries to munis.

### AMERICAN RECOVERY AND REINVESTMENT ACT

Congress passed the largest stimulus act totaling \$780 billion in state funding. This will aide many states running budget deficits. California alone is scheduled to receive approximately \$65 billion, while New York will re-

ceive around \$40 billion. The act includes: \$27 billion slated for highway construction, \$17 billion for clean water, and \$36 billion for unemployment benefits and job training.

### BANKS HAVE BIGGER POOL OF MUNIS

Local and national banks will have a larger pool of municipal bonds to invest in as the American Recovery and Reinvestment Act increased the approved non-taxable issuance level from \$10 million to \$30 million. Before this adjustment banks lost the tax exemption on municipal issuers with more than \$10 million raised per year. The increase to \$30 million allows banks more diversification and should help add a new-buyer to the mid-level municipal issues. We will probably see a dilutive effect on the current holdings at the bank level. Additionally, the financing cost for issuers under the \$30 million cap should see some cost-savings when coming to the market.

### AAA RATED SCALE

	12/31/2008	1/31/2009	2/28/2009	Month Change
2 yr	1.88	1.18	1.22	0.04
5 yr	2.50	1.79	2.3	0.51
10 yr	3.55	2.90	3.14	0.24
20 yr	4.84	4.56	4.54	(0.02)
30 yr	5.08	4.82	4.84	0.02

Source: MMD

## Investing in Airports

- International Gateways
- Fortress Hubs
- Origination and Destination Service

*Those airports  
reliant on  
discretionary travel  
and served  
primarily by low  
cost carriers are  
facing the most  
risk.*

## AIRPORT SECTOR IN TRANSITION

*The airport sector is impacted significantly by the decline in air traffic resulting from the recession. The volume of enplanements is projected to decline and airlines are expected to continue reducing capacity and cutting flights. Although the general outlook for the sector is negative, not all airports will be affected uniformly.*

For the first 11 months of 2008, enplanements declined by 3.5% compared to the same period of the prior year. Further, the pace of the decline is accelerating, as enplanements fell by 12.8% for the month of November 2008, compared to November 2007. According to a research review issued by Boyd Group International, the US airline industry will carry 41 million fewer passengers in 2009, a decline of 6.7%.

### FOTRESS HUBS

The airlines are in the process of formulating strategies to position themselves to operate in the retracted market. Their decisions will have a significant impact on the airports. In response to capacity reduction, airlines are optimizing traffic flow, by utilizing hubs and moving away from point-to-point service. Fortress hubs, where a single airline's share of flights is at least 70% of flights at the hub, will gain significance. Examples of fortress hubs include Atlanta, Charlotte, Denver, and Dulles. These hubs, although heavily dependent upon the performance of a single airline, may be able to exercise pricing power, thus reducing the need to

cut capacity at these airports.

Airlines will encounter difficulty supporting multiple hubs, and there will be pressure to reduce service at the secondary hubs. US Air maintains six hubs; Charlotte, Philadelphia and Phoenix will likely be protected, however the Las Vegas and Pittsburg secondary hubs may be exposed. The newly merged Delta/Northwestern Airline will initially have seven hubs. The secondary hubs, Cincinnati, Salt Lake City, Memphis and Detroit, are likely to lose service, while the Minnesota, Atlanta, and LaGuardia hubs should be protected.

### INTERNATIONAL GATEWAYS

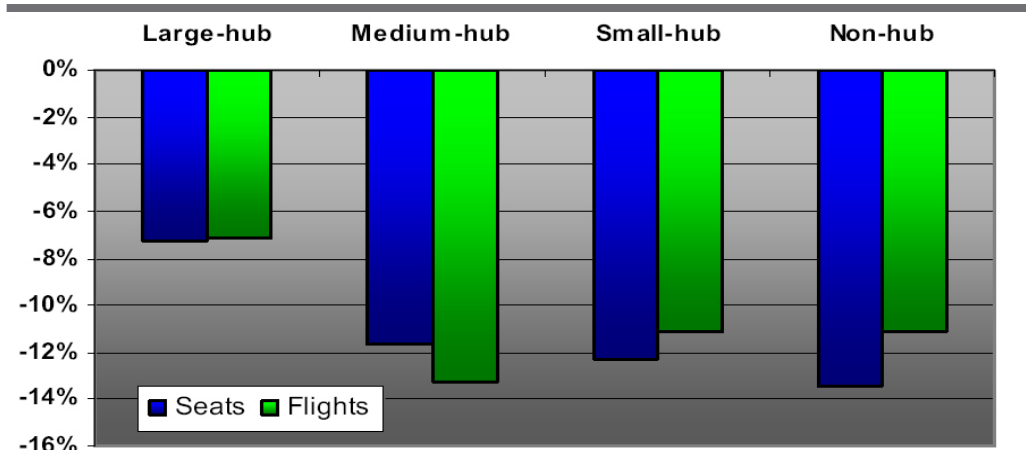
Airlines will likely maintain focus on airports that serve as international gateways. International flight competition is less severe and commands the highest yields. International gateways include JFK, Newark, Miami and San Francisco. These airports have proved to be more resilient in periods of economic distress.

### LEISURE NO MORE

Fuel prices are down, but the prolonged

## AIRPORT SECTOR (Continued)

CAPACITY CUTS: CHANGE IN SCHEDULED SEATS AND FLIGHTS  
APR-09 vs. APR-08 (JACOBS, ENO)



Source: Airports Council International

recession is driving leisure travel down. Airports reliant on discretionary travel are facing the most risk. Examples include: Honolulu, Las Vegas, Orlando, and Anaheim. Further, the ability of low cost carriers, such as Southwest Airlines and JetBlue, to replace the network carrier’s flight reductions is limited.

Lower enplanements will impact concession and parking revenues putting pressure on those airports that are exposed to volume risk. Many airports are protected through residual agreements with the airlines, allowing the airports to recover all or most of their costs through obligated airline payments. Under these agreements, concessions, car rental and parking revenues are credited to the airlines and reduce total operating costs charged to the airport’s airlines. The effect is that the airlines absorb the impact of the declining revenues caused by lower enplanements in the form of higher airport costs. Airports with residual airline agreements include: San Francisco, Miami, Dallas-Fort Worth, Spokane, Pittsburgh, Anchorage, and Ft. Lauderdale.

A trend of some airports moving away from pure resid-

ual to a compensatory or hybrid type of agreement has put increasing pressure on airports. The compensatory contracts reflect a cost sharing arrangement, causing the airports to rely on passenger generated revenues to cover expenses. Airports with compensatory or hybrid agreements include: Austin, San Jose, Richmond, St. Louis, Burlington, and Orlando.

Although it is clear that the credit outlook for the airport sector is negative, not all airports will be impacted equally. We recommend investing in those airports that have one or more of the following attributes: serve as international gateways, act as fortress hubs, have residual airline agreements, or provide origination and destination service (non-hubbing) to large metropolitan areas. Those airports that serve as secondary hubs, have a significant portion of traffic generated from leisure travel, small markets, and compensatory airline agreements should be avoided.



## PSN INFORMA RECOGNIZES BELLE HAVEN

We are proud to announce the Belle Haven Ladder PLUS is named  
**PSN INFORMA TOP GUN**

PSN MUNICIPAL FIXED INCOME	1 Year	4Q08	3Q08	2Q08	1Q08
EATON VANCE TABS 3 TO 7 YEAR	7.78	5.38	0.88	-0.88	2.29
EATON VANCE MD SASS TABS	7.45	5.25	0.74	-0.78	2.13
CRAWFORD INVT TAX INT MUNI BD	6.84	2.84	1.83	-2.04	4.15
<b>BELLE HAVEN LADDER PLUS (**)</b>	<b>6.41</b>	<b>6.28</b>	<b>-0.34</b>	<b>-0.61</b>	<b>1.09</b>
MUNDER CAPITAL SHORT-INTERM MUN	6.18	4.15	0.63	-0.57	1.9
STERLING CAPITAL INTERM. MUNI	6.16	4.42	0.56	-0.82	1.94
MADISON INVT ADV MUNI BOND WRAP	6.04	3.8	0.7	-0.58	2.04
BRECKINRIDGE CAP TAX/TAX-FREE	5.88	4.13	0.56	-0.96	2.11
CRAWFORD INVT NC INT MUNI BOND	5.7	3.64	0.58	0.05	1.34
CRAWFORD INVT NAT INT MUNI BD	5.58	3.84	0.53	0.11	1.04
BARCLAYS CAPITAL MUNICIPAL (*)	-2.47	0.75	-3.21	0.64	-0.61

(\*) Style Benchmark

(\*\*) Belle Haven Ladder PLUS product is also the **BEST OF THE BEST TOP GUN** for 2008 Q4 on PSN Municipal Fixed Income Universe.

Criteria: The PSN universes were created using the information collected through the PSN investment manager questionnaire and use only gross of fee returns. Mutual fund and commingled fund products are not included in the universe. The top ten performers for the most recent quarter period ending DECEMBER 31, 2008 become the 1 STAR TOP GUNS. The top ten performers for the 1 year period ending DECEMBER 31, 2008 become the 2 STAR TOP GUNS.

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Account returns are calculated using a time-weighted return methodology. Composite returns are calculated using asset-weighted account returns. All returns and valuations are calculated using U.S. Dollars and are based on trade date accounting. All accounts in the composite are fee paying. Gross of fees returns are calculated gross of management fees and net of custodial fees and transaction costs. Net of fees returns are calculated net of management fees, custodial fees and transaction costs.

Actual Performance results may differ from composite returns, depending on the size of the account, investment guidelines and/or restrictions, inception date and other factors. Past performance is not indicative of future results. Performance results for the accounts included in the Composite include the reinvestment of dividends and other earnings. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. For a complete list of Belle Haven Investments composites and/or for additional information regarding policies for calculating and reporting returns please contact Mark Steffen at [steffenm@bellehaven.com](mailto:steffenm@bellehaven.com).

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