



Strategies to Capitalize on Shifting Valuations in Tax-Exempt Markets

Right now, the yield differential between 5-year and longer-maturity bonds is near a 25-year high.

RSW's unique "Buy Discipline" employed in the Market Duration and Low Duration strategies seek to capitalize on this event by enhancing tax-exempt cash flow.

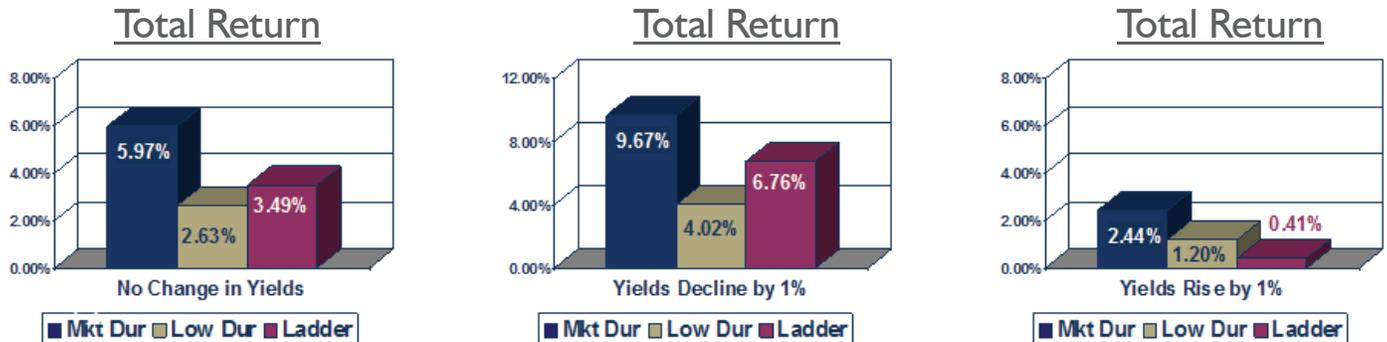
- Throughout 2013, the municipal yield curve has been "steepening", with market yields on 5-year maturity bonds holding relatively steady, while longer-maturity yields have risen more rapidly.
- For example, today, investors can collect a 1.50% annual yield advantage by purchasing a 10-year "AAA"-rated municipal bond at 2.66%, versus the 1.16% yield afforded by a comparable quality 5-year bond.
- Over the last 25 years, this historical "spread" was as narrow as 12 basis points (0.12%), and as wide as 158 basis points (1.58%).
- Investing in a laddered portfolio maturing between one and ten years may cause investors to forgo the opportunity to enhance tax-exempt income.
- In this environment, RSW's strategies should enhance portfolio returns when compared to a laddered approach or to active managers utilizing a 5-year maturity strategy.
- Targeting purchases of premium coupon callable bonds that mature in 10 to 15 years (RSW Market Duration strategy), or 5 to 10 years (RSW Low Duration), affords a timely opportunity to capture the yield of longer-maturity bonds, while targeting a stable level of interest rate risk.
- The additional yield generated by RSW's strategies is a key ingredient in enhancing relative total rate of return.
- A "flattening" of the yield curve (yield curve shifts are mean reverting) should provide a significant opportunity for enhancing returns if investors are positioned in longer-maturity bonds.
- Rolling down a "steep" yield curve, while collecting an above-market level of coupon income, provides an additional opportunity to enhance total return (See RSW's 2012 white paper on this topic entitled "The Slope of Enhancement: Rolling Down the Yield Curve").
- The additional yield and "roll" seeks to mitigate the price risk that investors would experience in a rising rate environment.

Please see next page for RSW's analysis.



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Below is a hypothetical example of the total rate of return that an investor can anticipate over an 18-month period, by investing in RSW's Market and Low Duration strategies versus a laddered portfolio. For illustrative purposes, we assumed an unchanged interest rate environment, and a 1% decline and rise in yields.



As one would anticipate, RSW's Market Duration strategy delivers a higher return in a stable or declining yield environment. The yield advantage of longer-maturity bonds and high coupon income drives these results.

What may not be intuitive however, is that RSW's hypothetical portfolios should also deliver a significant return advantage, even if yields rise across the yield curve by 1%.

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