Municipal Market Comments

Ascent Investment Partners

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from Montage Investments

Muni Insurer Assured Guaranty Downgraded by Moody's

On January 17, 2013, Moody's downgraded Assured Guaranty Municipal Corp. (AGM), the largest municipal bond insurer remaining in the market, to A2 from Aa3 and assigned a stable rating outlook. Moody's also downgraded Assured Guaranty Corp. (AGC), which also still insures a number of tax-exempt bond issues, to A3 from Aa3. AGM is now rated A2/AA- while AGC is rated A3/AA-. The rating outlook for both companies is stable by both Moody's and S&P.

As a result of the downgrade, the Moody's ratings for thousands of bonds that are insured by AGM or AGC will be adjusted in the coming days. If a bond issue carries an underlying rating (a rating that reflects the stand-alone credit quality of the issuer itself), Moody's will rate the bond at the higher of the AGM rating or the underlying rating. If there is no underlying rating, the bonds will be downgraded to A2 or A3, depending on the specific insurance.

At Ascent, we do not buy bonds based upon the credit quality of a bond insurance policy. In every case, we look through the insurance to evaluate the underlying credit quality of the obligor's pledge, and make buy/sell decisions based upon the value offered by that issuer's credit. We own many bonds that have AGM insurance and that will be downgraded as a result of Moody's action. However, we remain comfortable that the underlying credit quality of these bonds continues to offer solid credit quality –in virtually every case, higher than AGM's current A2 rating – and we do not anticipate selling any bonds solely on the basis of this rating downgrade. We expect issuers with strong underlying credit quality will maintain strong market acceptance and not suffer significant price impacts.

Assured Guaranty Municipal

AGM was formed from the combination of Assured Guaranty Corp. and FSA in July 2009, with AGM becoming the municipal bond insurer. As a result, all of the bonds that have historically been issued with insurance policies from either Assured or FSA are now guaranteed by AGM. AGC continues to insure some corporate bonds and tax-exempt issues that are secured by payments from companies. Through the first half of 2012 (most current data available), AGM insured approximately 4% of municipal new issues. By comparison, in the period from 2000 to 2007 – before the financial market meltdown and the decline of the municipal bond insurers, there were eight active municipal bond insurers with an aggregate market penetration ranging between 40% and 55% annually.

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