

## Municipal Peak Income Program: AA or Better

### Program Considerations and Objectives

The Municipal Peak Income Program: AA or Better (the “Program”) is an income strategy designed to provide federally tax-free income with a yield-driven investment approach. This strategy weighs the additional yield earned with the additional interest rate risk taken for points along the yield curve. The Program is built upon the premise that the typical yield curve offers diminishing marginal returns (yield) for each unit of risk (maturity) and that there is a point at which a large percentage of available yield can be captured while taking less than that percentage of the total maturity risk. Generally speaking, but not always, this optimal point of yield for incremental maturity risk is found in the 15 – 20 year maturity range on the municipal yield curve.

The Program utilizes a slope calculation to attempt to consistently identify this “peak” income range that offers a balanced approach to yield and risk. The Program is monitored and updated monthly to maintain alignment with the dynamic changes in the shape of the municipal yield curve and to allow for portfolio monitoring. The Program recommends that each portfolio be evaluated for rebalancing every 13 months.

The shape of the municipal yield curve is affected by many factors including inflation expectations, the amount of issuance over a specified period, the current income taxation levels of the federal government and state/local taxing entities, the investment environment for banks, trust companies, life insurers, bond funds and property/casualty insurers (traditional buyers of municipal bonds) and the direction of the US Treasury bill, note and bond markets.

The Program offers the opportunity to optimize the yield earned on the portfolio while seeking to preserve principal and produce predictable federally tax-free cash flows through a modified laddered investment approach targeted at the “peak” yield curve range.

### Key Investment Features

**Methodology** - Calculations are made using a municipal yield curve that is consistent with a rating of AA to AAA. The slope at each maturity point on the municipal yield curve is calculated in an attempt to identify a target maturity for the Program. The objective of the target maturity is to maximize yield (with a goal of at least 85-95% of the total available yield) for a given measured increment in risk (maturity). A five-year ladder is created with the identified maturity as the final rung of the Program. Target Maturity is dynamic because shape of the municipal yield curve is taken into account by calculating ‘slope’ at each maturity point.

**Branches** - Branches are weighted “partitions” within the portfolio. The five branches in the Program are equally weighted by maturity with a minimum of two holdings per branch. Bonds within each branch must be rated AA, AA+ or AAA. If the rating of the bond comes from bond insurance, the issuer must also be rated A- or better.

**Restrictions** - The following bonds will be excluded from the portfolio: taxable municipal bonds, non-rated bonds, bonds subject to alternative minimum tax, student loan bonds, hospital revenue bonds, housing bonds, airport bonds and non-fixed coupon municipal bonds. Bonds priced below the *de minimis* threshold are also restricted. (The *de minimis* rule governs the tax treatment of a bond acquired at a market discount.)

**Portfolio Targets and Limits** - The overall statistical guidelines of the Program include a saturation cap of 15% for issuer, 35% for insurer and 5% for cash.

### About BondWave Advisors

BondWave Advisors’ (BWA) Program Portfolios™ fixed income portfolio construction process incorporates a rules-based, disciplined methodology that creates professional diversified portfolios defined by detailed bond attributes. Our approach covers the U.S. municipal, corporate, agency and treasury securities markets. BWA’s approach seeks to manage risk through minimizing tracking error versus the chosen benchmark. Our highly customizable models are utilized to (1) Represent an existing professional index, (2) Create a bias by emphasizing specific attributes of an index or (3) Assist in creating a customized strategy based on the needs of the client.

Furthermore, BWA’s pre-trade analysis process seeks to provide price assurance through identification of a clearly-defined peer group. This group is the result of the screening of actual trades and executable offerings available in the marketplace of bonds that meet the defined model parameters. This screening creates an acceptable pricing range (min., max., target) for offerings that will comprise the portfolio. BWA’s rules-based models and price assurance create an efficient and transparent process for easily constructing, executing, monitoring and managing the elements of the portfolio.

## Risk Considerations

An investment in bonds should be made with an understanding of the risks involved, such as interest rate risk, inflation, economic recession and the possible deterioration of either the financial condition of the issuers or the general condition of the bond market. You should be aware that portfolios constructed using the program are comprised of bonds which involve additional risks. You should consider the portfolio's investment objectives, risks, and charges and expenses carefully before investing. Contact your financial advisor before investing.

The strategies do not guarantee future correlation to the stated objective or underlying index, nor should they be used as a predictor of future returns. There can be no assurance the Program Portfolios™ strategies will match or outperform a given index or sampling over any time period or that it will have positive results. The strategies have a potential for loss.

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