

COMMON SENSE MUNICIPAL BOND INVESTING

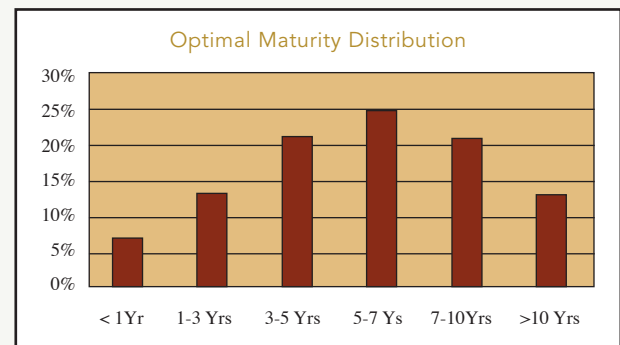
Over the past year we have observed that not all fixed income is created equal. Credit markets often do a better job than equity markets in pricing risk across the capital structure. That is exactly what occurred in 2008 when high quality issues maintained and in fact increased in value, where as lower quality issues and fixed income surrogates became uncorrelated with investment grade fixed income and highly correlated with equities. High yield and emerging market bonds, low volatility hedge fund of funds, and auction rate securities proved to have equity risk characteristics and have subjected investors to equity-like returns.

To our existing clients, we thank you for your support and patience during a very difficult year. Our high quality bias resulted in our municipal fixed income portfolios performing very well in 2008. Our National Municipal Bond Composite returned 5.20% net of fees and expenses. As a point of introduction to our prospective clients, Crawford Investment Counsel is a high quality municipal bond manager. We focus on an issuer's underlying credit strength and never rely on bond insurance as a sole criterion for purchase. We invest in intermediate maturity bonds, primarily in the 3 to 12 year range. All of our portfolios are separately managed and customized for the individual client.

In the fall of 2008, liquidity demands forced many market participants to liquidate at any price causing an increase in yields across the municipal maturity spectrum.

The past year was extremely volatile, even for the stoic municipal bond sector. Interest rate levels experienced wide swings from month to month as the asset class decoupled from its traditional relationship with Treasury Securities. Managing successfully through this environment required a great deal of patience and a common sense approach to committing investment

capital. The disparity of performance among municipal market managers in 2008 was as wide as we have witnessed in our 30 years of investing in the sector. Performance results for many managers looked more like equity returns in a year when a fixed income portfolio needed to perform as such. There are many reasons for this outcome, but in our opinion, lower quality municipal bonds were the main culprit causing lagging returns. In the fall of 2008, liquidity demands forced many market participants to liquidate at any price causing an increase in yields across the municipal maturity spectrum. We seized this opportunity by extending our maturities as 10 year high grade municipal yields reached and exceeded 5.00% (a taxable equivalent yield approaching 8.00%). Our belief in the relative value of the municipal sector and the high quality nature of the bonds produced from our security selection process helped us to make rational investment decisions which resulted in superior performance relative to our peers.



As we moved in to 2009, interest rates dropped substantially for high grade municipal bonds producing significant capital appreciation in the issues we purchased in late 2008. Improved liquidity and overall market conditions provided the backdrop for the decline in yields (increase in prices) that began in December. The health of the economy has not materially changed since late 2008. It appears the decline in municipal yields can be attributed to distressed sellers leaving the market and value buyers and individual investors absorbing supply.

Currently, 5 year high quality municipal bonds are yielding approximately 2.25%. Compared to Treasury securities that are currently yielding 1.86%, this would be considered historically cheap on a relative basis. In the common sense world we live and invest in, locking in a client's money for 5 years at 2.25% seems anything but cheap. In this environment we have employed a number of strategies to earn exceptional yields but remain short-term focused from a maturity perspective. We are not particularly concerned with rates falling from the 2.25% level. While we wait for higher rates, we are comfortable with a strategy of staying short-term with our investment maturities. We will continue to pursue capturing dislocations from across the maturity spectrum as they present themselves in this turbulent market environment.

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We hope this gives you a better understanding of what we are working to accomplish in our portfolios. Many of the trusted advisors with which our firm works on behalf of our clients, as well as many direct new prospects have asked us to analyze their existing municipal bond portfolios and make recommendations for improvement of quality, sector diversification and duration. Our Fixed Income Group stands ready to speak to you if you would like us to perform a portfolio analysis for you or your client. As always, please feel free to call with any questions or comments.

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