APPLETON *PARTNERS*, INC.

Jefferson County Bankruptcy Filing
November 2011

There are a few points we would like to highlight to address any concerns regarding last night's bankruptcy filing by Jefferson County, Alabama. First and foremost, Appleton Partners and our clients have no exposure to Jefferson County.

This is the largest bankruptcy filing in US history at $3 billion, overshadowing the Orange County, California bankruptcy of the mid-1990's which was for $2 billion. While the debt issued by Jefferson County was to finance a sewer system, an essential asset of a municipality, it was the overwhelming amount of debt, and the structure of that debt that ultimately precipitated the County's downfall. The County took on far too much debt for the economic region, overleveraging the County balance sheet. To offset this overleverage, the County utilized variable rate debt and entered into swap agreements that had various triggers imbedded into the agreements. Ultimately, during a period of significant market turmoil, where the bond insurers were disintegrating, the variable rate market dried up, and payments on the debt accelerated, this led to the County not being able to meet it's financial obligations. On top of this, there was fraud and corruption involved that has led to some participants being indicted and serving jail sentences due to their gross negligence. For almost three years, the County has been in various stages of negotiations with creditors in the hopes of avoiding the bankruptcy route. These negotiations have broken down in all instances. As each broke down, the prospect of a bankruptcy filing grew more likely.

The bankruptcy filing last night by Jefferson County has been well expected in the municipal market. We believe there should be minimal market impact from this announcement, and in fact as of this writing, the market remains stable. We believe this is a unique situation relative to Jefferson County, and not representative of the essential service sector of the market where water and sewer bonds are a large component. We believe this began with weak credit fundamentals, that were layered with poor capital finance decisions. Those decisions then met with a perfect storm of market turmoil. Ultimately, it was the financial mismanagement that led to where they are today.

If there is a period where we see broad market disruption, we would view this as a buying opportunity. Essential service revenue bonds, such as water and sewer bonds, continue to be a focus of our investment thesis. We continue to add exposure in client accounts of highly rated credits, in robust economies, that exhibit a history of good financial management policies and practices.

As always, we will continue to monitor and keep you posted as we learn more about the progress Jefferson County makes on working through this situation and any impact it may have on the municipal bond market.

Appleton Partners, INC 45 Milk Street Boston, MA 02129 tel. 617.338.0700 www.AppletonPartners.com