APPLETON *PARTNERS*, INC.

An Early Assessment of Possible Credit Implications of Hurricane Sandy
November, 2012

First and foremost, all of us here at Appleton Partners want to express heartfelt sympathy and continued concern for everyone who has been affected by personal or physical suffering due to this colossal storm.

Hurricane Sandy, stretching nine hundred miles, hit the Northeast this week causing widespread damage across multiple states, with New Jersey and New York suffering the most severe impact. As the states begin to assess the damages caused by heavy winds and rising tides, it is clear that the impact to personal and public property is extensive. There is the immediate strain on cities and towns as they face the unexpected, unbudgeted costs of emergency services, storm clean-up and the rebuilding of infrastructure. The widespread damage has affected homes, local businesses, airports, public transportation systems, utility infrastructure, hospitals, education facilities and more.

Here at Appleton Partners, we would like to address the impact the damages from the storm and the costs related to clean-up and rebuilding from the storm could have on our clients municipal bond holdings.

History has shown through various natural disasters that municipal bondholders have not been impaired while those entities impacted have worked to recover from such events. Debt service remains a priority to issuers that utilize the capital markets and the need to gain access to capital could potentially increase during the rebuilding process. The advent of electronic processing has shown that debt service payments continue to be paid, even while employees cannot return to offices or space is damaged. While there could be an immediate disruption in operations and unexpected increased costs that could cause short-term cash flow problems, many municipal entities have various liquidity reserves at their disposal to immediately tackle the event. States have stepped-up in past catastrophic events to lend short-term liquidity support in various forms until federal funds became available for reimbursement. As we have seen throughout these natural occurrences, especially in federally designated disaster areas, insurance proceeds, federal aid, state financial support, and the flow of private contributions have worked to stimulate economic activity at a faster pace and more significantly for the local and regional areas impacted.

We would like to highlight a particular credit that we feel faces significant challenges, and a sector of the market where a small number of issuers could encounter serious strain due to significant property damage, and the long-term rebuilding efforts they face.

- Possibly the most severely impacted of the public infrastructure damage was the Metropolitan Transportation Authority (MTA) in New York, the entity that operates the subways, rail, bus and bridge and tunnel system throughout New York City and Long Island. Historically faced with operating challenges, the service interruptions and infrastructure damage could negatively impact operations and strain short-term cash positions.

Within the capital structure of the Metropolitan Transportation Authority, Appleton Partners has a preference for the Dedicated Tax Fund Bonds (DTF) which are secured by a broad and diverse source of revenue including petroleum business tax, gas tax, motor vehicle fees, franchise surcharges and sales taxes. With over four times (4x) coverage of debt service on the DTF bonds, the revenue impact would have to be drastic and long-term for bondholders to be in jeopardy of impairment. The Dedicated Tax Fund is separate and distinct from operating funds, and hence the operations of the MTA.

- Local governments will face the added pressure that storm related costs will have on their budgets. Costs related to emergency response services, the temporary sheltering of evacuees, clean-up costs and rebuilding of damaged infrastructure could strain those governmental entities that pre-storm were exhibiting stressed financial operations. Reserve funds could be utilized and drained while awaiting aid from higher levels of government. While federal emergency funding has been authorized, delays in the flow of federal funds could strain liquidity.

We would expect to see issuers with sufficient resources and strong management teams adequately manage their budgeting throughout the clean-up and rebuilding efforts.

The hurricane and its destruction was certainly unprecedented in size and scope for the areas most impacted by this storm. The municipal bond market and its myriad of issuers and obligated entities, however, have a history of being battered and bruised by natural events. These entities have established a long track record of addressing and recovering from natural disasters with debt service payments to bondholders remaining a business priority. We remain comfortable with the individual holdings in those northeast states facing the long recovery and rebuilding process ahead of them. We consider an obligated entity's management practices, financial resources and ability to remain flexible and nimble in their day-to-day business operations when evaluating credit quality. While we cannot foresee or fully incorporate catastrophic event risk into our analysis, we believe our investments are with long standing, financially strong and viable entities who we believe have the resources to manage through unexpected events such as Hurricane Sandy.

We continue to evaluate our investments in client accounts to determine if fundamental credit risk has changed and will take the necessary action to reduce our exposure if we felt that risk had materially increased and taking action was warranted.