

Macquarie Allegiance

Fixed Income Commentary | April 2009



Hope abounds for a quick recovery

Economic indicators are confirming the intense phase of contraction has passed

Economic indicators are showing that the rate of decline in economic activity has slowed. Economic indicators such as LEI, unemployment claims, ISM, export growth, and consumer confidence have all bounced off their nearly historic lows. This bounce in economic indicators must of course be looked at through the lens of the severe contraction of late 2008 and early 2009. The pace of economic contraction following the events of September would have been impossible to maintain in its velocity and downward trajectory.

Central bankers continue to race towards zero policy rates

Globally, Central Bankers continue to go 'all in' as efforts to prevent deflation continue to drive monetary policy. Our view in December that policy makers would reduce G-10 policy rates to zero remains firmly intact. Within the U.S. the most recent FOMC meeting continued to show the risks towards deflation are trumping those triggered by the cyclical issues of a rising money supply and increased deficits. In their April FOMC meeting, the Fed stated "The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period." Rising output gaps, excess capacity, rising unemployment, consumer deleveraging all point to deflation continuing to be the primary worry and much more likely in the near term. ***Thus, monetary policy will remain extremely stimulative (zero bound) for an extended period into any type of recovery.***

Corporate bonds outperformed in April amid an improving risk appetite

With the pace of economic decline moderating, and as economic indicators beginning to price a second half 2009 recovery, credit related securities outperformed in fixed income markets. Corporate bonds in particular outperformed relative to Government sectors for the month as sentiment improved towards valuations. Agency and Agency MBS securities continue to be well supported by the Fed and Treasury's efforts to reduce private sector borrowing costs. In particular Agency MBS continue to be the top performing sector of the U.S. fixed income market for the year.

Improvement at the margin, but an extended period of weakness remains

In our 2008 year end review and outlook we highlighted certain signals and indicators we would monitor before taking on more portfolio risk. This list included: upturn in the LEI, stabilization in home prices, increase in credit availability, reduction in private sector interest rates, re-emergence of the securitization market and stabilization in unemployment. There has been improvement at the margin in many of our signals, but a long road is in front of us in regards to the length and weakness of any economic recovery. In particular the epicenter of the crisis, housing, continues to decline.

Historical boom/bust cycles give credence to our view of an extended period of deleveraging

Economic history and lessons of previous housing boom/bust cycles show that an extended period of consumer deleveraging and balance sheet repair (rising savings rates) leads to subpar growth and recovery. We are mindful that an improvement in sentiment may be underway, but remain cautious as many risks and uncertainties abound. ***An extended period of deleveraging and subtrend economic growth is the base scenario.***

Macquarie Allegiance

Fixed Income Commentary | April 2009



Treasury yields break key technical levels in April

Treasury yields rise amid improved risk sentiment

U.S. Treasury yields moved higher and above the key technical level of 3% for the 10-year Treasury. The sector continues to be pulled on one side by the deflationary aspects of a consumer/balance sheet recession and on the other by the cyclical concerns of quantitative easing and rising deficits. The break above these technical levels is significant and has continued to warrant our underweight to Treasuries across all strategies. The market is challenging the Fed's initiative to keep interest rates low and could be pushing the Fed into further action, including increasing the \$300b in Treasury purchases already announced. The key to what action takes place will be the credit markets, in which borrowing costs have fallen over the past month. Should the risk taking seen in April prove short lived and corporate yields rise, the Fed will move to lower rates further through increased purchases (quantitative easing). **The Fed has signaled it will not stop in initiatives until private sector borrowing costs are significantly lower.**

Moved portfolio's duration to below benchmark's

Portfolio positioning

- > Underweight Treasuries across all strategies, overweight Agencies
- > Duration of portfolios is defensive and below benchmark
- > Yield curve positioning focused on a steepening of interest rates
- > Within investment grade portfolios, neutral weighting to credit with overweight to senior bank debt

Government only mandates – we were significantly overweight Agencies and underweight Treasuries relative to the index targets. We ended March with no out of index Agency MBS positions in the portfolios. The Government sectors, both Treasury and Agency produced negative returns for the month as Treasury yields rose. While we remain underweight Treasuries, the portfolio's underweight has been reduced as yields have risen and technical indicators have improved for the sector.

Low duration mandates – we were significantly overweight Agencies and underweight Treasuries. Index and sector returns were flat as the short duration and maturities were of benefit in the rising interest rate environment of April. The portfolios performed inline with their index targets for the month.

Agency MBS continue to drive performance

AAA only Aggregate and Intermediate Aggregate mandates – we were overweight Agencies, overweight Agency MBS and underweight Treasuries. While we remain underweight Treasuries, that underweight has been reduced as Treasuries have significantly moved higher in yield. Agency MBS continue to drive performance contribution as the sector is the focal point of many of the Fed's initiatives.

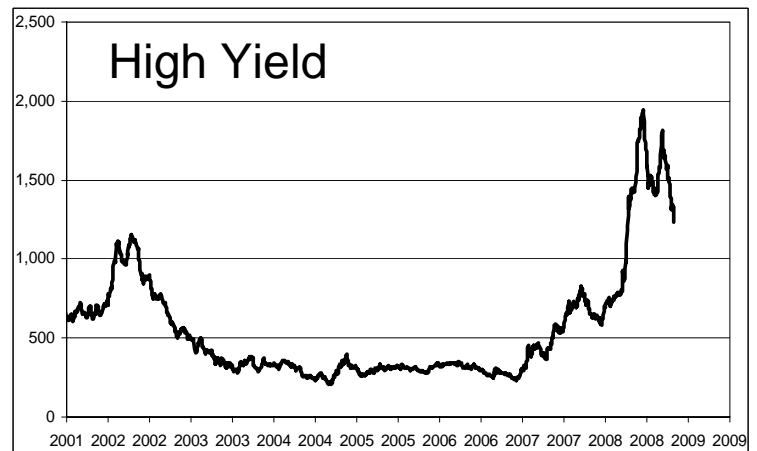
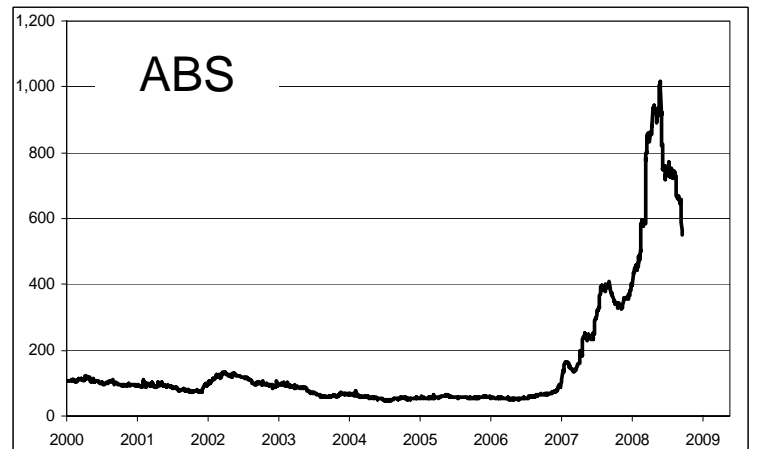
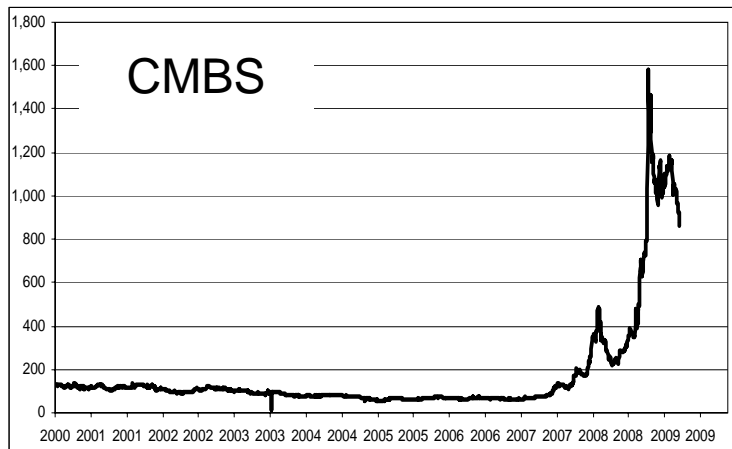
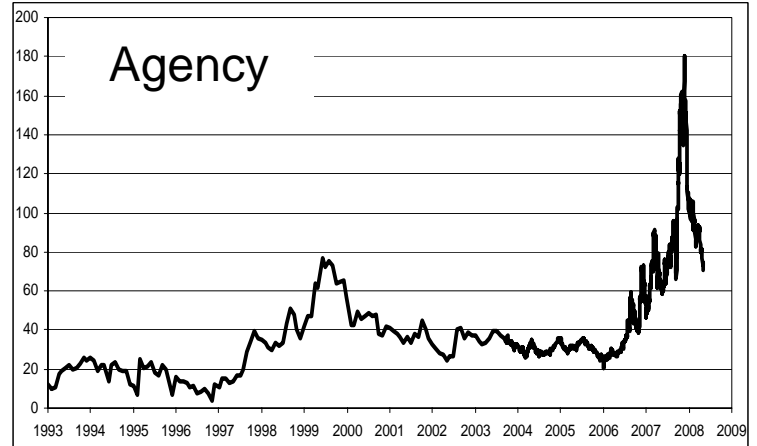
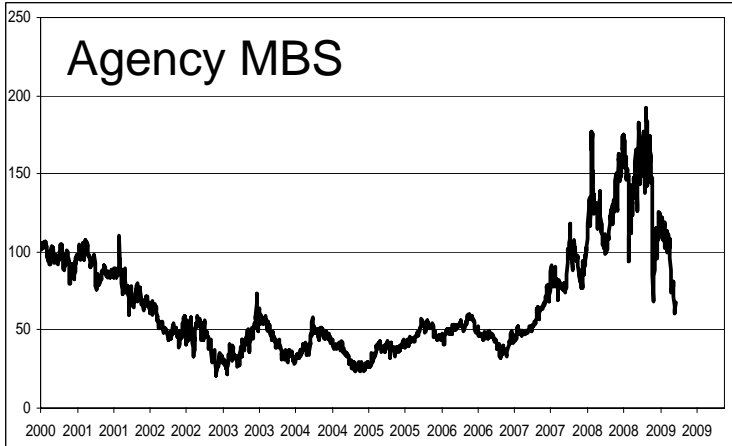
Corporate's outperformed amid improving risk appetite

Aggregate investment grade mandates – we were overweight ABS and Agencies, neutral in Agency MBS and Corporates, and underweight Treasuries and CMBS. Improvement in risk taking was a benefit to investment grade portfolios in April as the credit sector outperformed relative to government sectors. We have continued to maintain an overweight to senior bank debt and these positions were positive contributors to performance in April. We have further reduced our overweight to ABS as the market allows. We continue to focus our credit exposure in senior bank debt, utilities, and health care. Zero weighting in insurance companies.

Macquarie Allegiance Fixed Income Commentary | April 2009



Month-end spread of the major fixed income sectors



Source: Barclays

Macquarie Allegiance

Fixed Income Commentary | April 2009



Economic Indicators	Apr-09	Mar-09
ISM	36.3	35.8
ISM prices paid	31.0	29.0
Factory Orders	1.8%	-3.5%
Unemployment Rate	8.5%	8.1%
Change in NFP	-663K	-651K
Trade Balance	-\$26.0B	-\$36.2B
Producer Price Index (PPI) MoI	-1.2%	0.1%
Core* PPI MoM	0.0%	0.2%
Consumer Price Index (CPI) M	-0.1%	0.4%
Core* CPI MoM	0.2%	0.2%
CPI YoY	-0.4%	0.2%
Core* CPI YoY	1.8%	1.8%
Retail Sales less Autos	-0.9%	1.0%
Industrial Production	-1.5%	-1.5%
Capacity Utilization	69.3%	70.3%
UoM Confidence	65.1	57.3
Housing Starts	510K	572K
Leading Indicators	-0.3%	-0.2%
Consumer Confidence	39.2	26.9
S&P/Case-Shiller Comp-20 Yr	-18.6%	-19.0%
New Home Sales	356K	358K
Durable Goods Orders	-0.8%	2.1%
Chicago Purchasing Manager	40.1	31.4

*Less Food and Energy
Source: Bloomberg

Financial Indicators	Apr-09	Mar-09
Oil	51.13	49.61
CRB	222.40	220.32
JOC	71.79	67.02
Yen to Dollar	98.66	99.10
Euro to Dollar	1.3261	1.3283
DX	84.83	85.85

Quarterly Economic Indicators	Current** 1Q09	Prior 4Q08
GDP - Real QoQ	-6.1%	-6.3%
GDP - Real YoY	-2.6%	-0.8%
GDP - Nominal QoQ	-3.5%	-5.8%
GDP - Nominal YoY	-0.5%	1.2%
Non-Farm Prod QoQ		-0.4%

On the Run Treasury Yields	Current Apr-09	Prior Mar-09
Fed Target Rate	0.25%	0.25%
2-year	0.91%	0.80%
5-year	2.02%	1.67%
10-year	3.12%	2.68%
30-year	4.04%	3.55%

** Most recent number available, may be subject to change.

Source: Bloomberg

Barclay's Index Information	Duration	April	YTD
Aggregate	3.96	0.48	0.59
Govt/Credit	5.13	0.19	-1.09
Government	4.71	-1.33	-2.30
Intermediate Aggregate	3.15	0.65	1.57
Intermediate Govt/Credit	3.84	0.45	0.40
Intermediate Government	3.59	-0.72	-0.80
1-3 Year Govt	1.85	0.02	0.35
U.S. MBS	2.22	0.28	2.49
Corporate	5.99	3.47	1.48
Majors Govts (ex U.S.)	6.74	0.46	-5.44
High Yield Bonds	4.22	12.10	18.81
Emerging Market	6.01	5.61	10.63

Source: Barclays

Sector Excess Returns	April	YTD
Agency	0.76	1.11
Corporate	5.39	5.08
CMBS	8.81	7.24
ABS	1.90	9.66
MBS	0.47	2.20

Swap Spreads	Apr-09	Mar-09
2-yr	56	58
5-yr	55	54
10-yr	12	19
30-yr	-42	-30

Source: Bloomberg

This communication is of a generic nature, intended for financial professionals and is for informational purposes only. Past performance is not indicative of future results. The opinions expressed are those of Macquarie Allegiance Capital, LLC ("MAC") as of April 30, 2009. This document does not constitute an offer to sell or solicitation of an offer to buy any securities or investment services. All information provided herein is subject to change without notice. MAC has used third party sources it deems as reliable, however MAC cannot guarantee its accuracy. Macquarie Allegiance Capital, LLC is not an authorized deposit-taking institution for the purposes of the Banking Act (Cth) 1959, and MAC obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542. Macquarie Bank Limited does not guarantee or otherwise provide assurance in respect of the obligations of MAC.

1-213-233-4500

www.macquarieallegiance.com

555 South Flower Street, 33rd Floor, Los Angeles CA 90071