

## **Logan Circle Partners Pinnacle American Core-Plus Bond Fund First Quarter 2009**

### **Market Review**

In the first quarter of 2009, the credit-induced economic collapse which ravaged financial markets in the second half of 2008 continued to send shock waves through the system. With U.S. corporations scrambling to adjust to a new economic reality, jobs were shed at a record pace, capital expenditure plans abandoned, and production schedules curtailed. In addition to the weak data, the vague announcement from newly appointed Treasury Secretary Tim Geithner about a bank “stress test” heightened market concerns surrounding capital adequacy of our nation’s largest banks. In order to combat this negative news cycle and with the private sector absent, the Government was again left to stem the tide with a laundry list of new programs including the American Recovery and Reinvestment Act of 2009 (\$787 billion fiscal stimulus), the funding of TALF I and the announcement of TALF II, the Public Private Investment Fund, the introduction of U.S. Federal Reserve (Fed) “credit” easing (\$2+ trillion balance sheet expansion). By the end of the quarter, it appeared that some of these Government programs were beginning to gain traction though the jury is still out on the implications of partnering with the U.S. taxpayer because of potential retroactive taxes, compensation caps, and management shake-ups.

### **Outlook and Strategy**

Looking forward we agree with the consensus that dramatic risk aversion will subside and the pace of deterioration in economic data will slow. While the willingness to take risk is not coinciding with better economic data, the foundations for a market bottom are being formed. Beyond risk appetite, financial assets will likely be supported by the combined arsenal of an expanding Fed balance sheet and broad based government programs designed for the sole purpose or supporting credit markets. We recognize that continued spread tightening, and in general risk appetite, will require an improvement in the global economic data. We see the implemented policies as a strong foundation for improving fundamentals as we progress through 2009.

We have made a conscious decision to further increase our exposure to high grade corporate bonds and high quality high yield. Our focus is on shorter-dated "dollar price" bonds with low interest rate sensitivity. We are a better seller of Treasury, Agency and Agency MBS which offer little potential for price and coupon return. We will continue to monitor the new issue calendar closely and be involved in good investment opportunities across sectors and names. We maintain the opinion that the Fed will keep rates low and accommodative for the foreseeable future (6 to 9 months). We remain positioned short in duration versus our benchmark and will look to add duration in pullbacks.

### **Primary Risks to the Outlook**

## **The Pinnacle Program**

Our portfolio's significant credit overweight and short U.S. duration bias expose our portfolio to a further flight to quality trade. Also, a continuation of the dollar strengthening trend we witnessed during the third and fourth quarter would negatively impact the portfolio's non-dollar allocation.

### **The Pinnacle Program**

