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Subject: Intermediate and High Income Funds

As you cannot help but notice the high yield fund market has come under considerable pressure. Problems started in sub-prime securities and has distributed to a lesser extent to all of high yield. The slump in housing makes the sub-prime problems logical but why would all corporate bonds suffer? Why would spreads widen on a Texas electric utility? If housing slows do we buy a lot less electricity?

In Trust we have substantial exposure to the to the RMK Intermediate Fund and it is included in our model portfolios (10% of our bonds). Our overall exposure is much less to the RMK High Income Fund. Both of these funds own high yield securities.

Any time you have performance which is either very good or very bad it is an opportunity to talk to your client about risk and reward. As part of a diversified portfolio, risk can be taken in measured amounts to the benefit of the overall portfolio. I have attached two Morningstar pages that I find useful in keeping current events in perspective. These funds have ranked at the very top of their categories and the very bottom. This may be appropriate for your clients and it may not. Talk to them.

Jim Kelsoe and his team are very knowledgeable and experienced in high yield investing. The market they operate in is however, not functioning properly. In my opinion, investors were pricing these securities assuming a perfect scenario at the beginning of 2007. Now they are pricing in disaster. The truth is likely somewhere in-between.

Intermediate Fund <<<<---Click
Notice that although the fund is down and under performing, the returns most of our clients have experience over the last three and five years are still ahead of average. Also note that the year to date loss is 3.7%.

High Income Fund <<<<<<--- Click
The loss year to date is more substantial here but maybe less than you might think from reading the papers.

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