

AGSPC MUNICIPAL BOND FUND



Fund Objective:

Seeks the highest possible total return consistent with conservation of capital through investments in fixed income securities that are exempt from regular federal income taxation.

Fund management

Marybeth Whyte has managed the AGSPC Municipal Bond Fund since November 1, 1998. Ms. Whyte has 14 years of experience managing municipal bond portfolios. Prior to her affiliation with AGIM, she was with Salomon Brothers Asset Management where she was Head of the Municipal Bond Portfolio Management Group. Ms. Whyte graduated from the State University of New York at Oneonta with a B.A. degree and has an M.B.A. degree in finance from Bernard M. Baruch College.

Q: What are municipal bonds?

A. Municipal bonds are fixed income securities issued by state and local governments, or their subdivisions. Proceeds of these securities are used for either general purposes or specific projects such as building roads or schools. In general, the income from municipal bonds is exempt from regular federal taxation.

Q: Where do municipal bonds fit in my overall investment portfolio?

A. Asset allocation analysis usually suggests that a portfolio include a combination of stocks and bonds. While stocks may provide long-term capital growth and, in some cases, dividend income, stocks also offer considerable price risk. Bond investments are used to balance some of that risk by offering steady income for a given period of time. For non-tax advantaged accounts, municipal bonds can offer an advantage over similarly rated taxable bonds.

Q: What are the tax advantages of municipal bonds?

A. Because the income from municipal bonds is exempt from regular federal taxes, these securities offer a tax advantage over Treasury or corporate bonds where the income is subject to taxes.

Q: How do I compare the income of a municipal bond with that of a taxable bond?

A. The higher your marginal tax bracket, the greater the advantage of owning municipal bonds. To compare municipal bond income to other taxable investments, look at the income you receive on an after-tax basis (see table). For most taxpayers, it is very difficult to purchase a longer-maturity, similarly rated, taxable security that would produce higher after-tax income than an equivalent municipal bond.

How much do I need to earn to net \$1,000 after federal tax?

Fed. Tax	39.6%	36.0%	31.0%
Municipal	\$1,000	\$1,000	\$1,000
Treasury	\$1,656	\$1,563	\$1,449
Taxes Paid	-656	-563	-449
After-Tax	\$1,000	\$1,000	\$1,000

Q: Why should I invest in a municipal bond fund?

A. Investors gain diversification benefits, monthly rather than semi-annual income, automatic income reinvestment and better liquidity. Investors also avoid the worry of credit downgrades that impact the value of individual bonds and redemptions or

"calls," which can occur when interest rates drop. In a lower interest rate environment, the investor is unable to reinvest the proceeds and match the income of the bonds that were called away.

Q: How is the Fund invested?

A. The Fund's holdings are well diversified among issuers from many states and sectors (i.e., housing, transportation, and education). Individual bonds are rated investment grade (BBB or higher). Currently, the Fund has a high average credit quality rating of AA. We are focusing on bonds with individual maturities in the 10-20 year range.

AGIM places a strong emphasis on credit research that enables us to find value in some of the less followed municipal sectors such as healthcare and student loans. These and similar bonds form a core group of relatively generous yielding investments. A portion of the Fund is also actively managed to take advantage of market trends. Historically, we have found that this combination strategy has produced attractive yields and performance.

Q: What economic indicators do you watch?

A. We pay close attention to factors that impact the domestic inflation rate, like the pace of economic growth, the creation of new jobs, the unemployment rate, and various inflation measures such as the Consumer Price Index (CPI).

Also significant is the balance between the supply of newly issued bonds and the demand from the key investors groups including, mutual funds, individuals, insurance companies and corporations. Imbalances can occur from a lack of issuance at a time when there is strong demand often in January and July or from an abundance of new issuance that often occurs at the end of each quarter. For individual bonds, the terms of the bond, coupon, maturity and call features, along with the issuers' fiscal health.