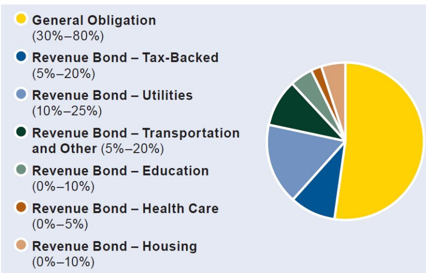
Edward Jones
MAKING SENSE OF INVESTING

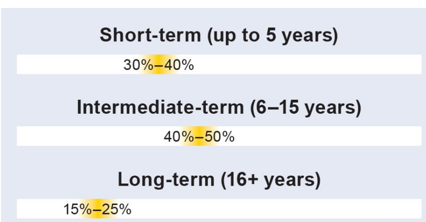
K-12 Education Sector Outlook

MUNI - BOND SECTOR REPORT

U.S. Rec. Municipal Sector Weighting:



U.S. Recommended Bond Ladder:



Sector Participants:

- Early Childhood (Junior and common Kindergarten)
- Primary and Secondary, Public and Private (Grade, Junior High and High Schools)
- Magnet (Special or focused-curriculum schools)
- Charter Schools

For more information:

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Outlook: Stable

K-12 public school bonds (charter schools excluded) typically exhibit high credit quality and in many cases are backed by lease payments on facilities by school districts. Our Stable outlook reflects the diverse funding sources (local, state and federal) and the essentiality of the education provided by public schools. The sector also benefits from rising real estate values, which boosts property tax revenues that typically represent a large portion of school district funding. During the recent economic downturn property values have generally remained stable and even continued rising in many areas of the country, partially due to limited housing supply. These positive factors are partially offset by the challenges of stagnant state funding and underfunded pensions in some cases.

There may be increased ratings volatility in isolated cases, but we generally expect those to be in economically challenged areas or among districts that are experiencing financial stress potentially as a result of declining real estate values, high labor costs or underfunded pensions. In our view defaults are likely to continue to be rare and mostly limited to non-rated bonds and those rated below the "A" category.

Sector Strengths:

- Revenue diversity - local, state and federal funding
- Essential service
- Rising real estate values over the long-term boost property tax revenues

Sector Challenges:

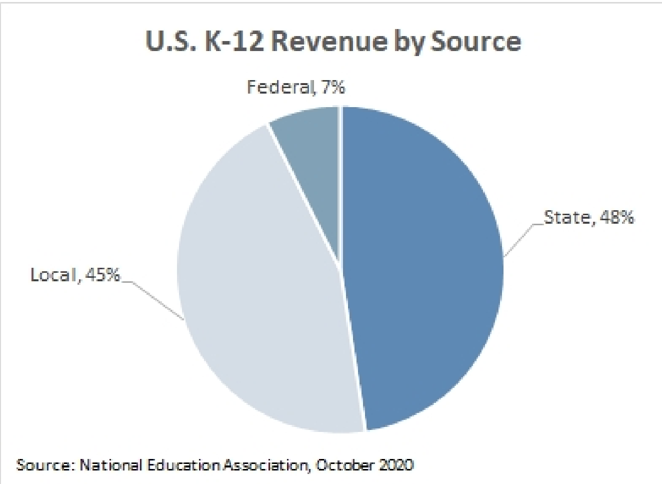
- High labor costs
- Underfunded pensions
- Stagnant state funding in some cases

Analyst: Brian Therien, CFA

Please see important disclosures and analyst certification on pages 2 - 3 of the report.

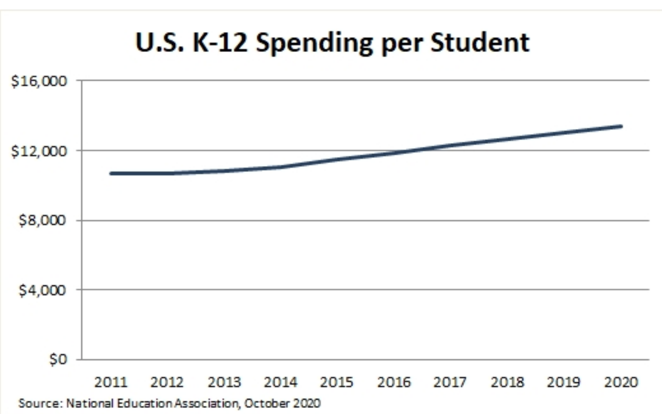
Sector Outlook Rationale

Most public school districts benefit from diverse revenue sources. As shown below, a significant portion is generally provided by state funding and local property taxes, supplemented by federal aid.



Education is broadly considered essential, and quality schools support local property values, generally driving community support of taxes levied to fund schools. Additionally, property taxes are typically backed by liens on real estate, resulting in a high proportion of taxes collected.

K-12 education spending has shown resilience over time, as illustrated below. Despite state funding challenges in some case, per-student spending has grown steadily over time.



Partially offsetting these positive factors are the high labor costs and underfunded pensions that pose challenges for some school districts. Overly optimistic investment-return expectations on pension assets could worsen underfunded positions over time. Lowering these expectations typically has the direct impact of increasing pension obligations. Additionally, state aid has been stagnant or even declined in some areas, causing budget challenges.

Overall, our Stable outlook for K-12 public schools (charter schools excluded) reflects the expectation for continued support given the sector's essentiality, rising real estate values over the long-term, and diverse funding sources.

Outlook Definitions

Positive – The factors impacting the credit quality of a given sector are likely to be or are supportive of an improved credit environment in the near term.

Stable – The factors impacting the credit quality of a given sector are likely to be neutral to the credit environment in the near term.

Negative – The factors impacting the credit quality of a given sector are likely to or have produced a weak or uncertain credit environment in the near term.

Analyst Certification

I certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers; and no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.
Brian Therien, CFA

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You must evaluate whether a bond ladder and the securities held within it are consistent with your investment objectives, risk tolerance and financial circumstances. Including callable bonds may increase the interest rate risk of a bond ladder. Bonds may be called prior to maturity, which could result in lower yields with new investments.