PORTFOLIO DIVERSIFICATION

A representative municipal investment fund had a total initial portfolio of $13 million of municipal bonds having the following elements of diversification: (1) 14 percent general obligation (tax secured) and 86 percent revenue secured; (2) 27 percent rated "A" and 73 percent rated "BBB"; (3) issued from 19 States (Alabama, Alaska, Arkansas, California, Colorado, Florida, Illinois, Indiana, Kentucky, Mississippi, Nevada, New Jersey, Ohio, Oklahoma, Pennsylvania, Tennessee, Texas, Virginia, and Wyoming); (4) comprised of 29 different issues averaging $448,000 each; (5) purpose and security: water revenues, 10 percent (4 issues); gas revenues, 7 percent (2 issues); water, sewer, and gas revenues, 2 percent; water and sewer revenues and property taxes, 3 percent; bridge revenues, 5 percent; lease rental revenues, 5 percent; university revenues, 18 percent (6 issues); automobile parking revenues, 5 percent; miscellaneous public works, property taxes, 7 percent (2 issues); toll highway revenues, 8 percent (3 issues); school buildings, property taxes, 7 percent (2 issues). At the date of its creation—October 14, 1965—the weighted average interest rate was 3.95 percent and the net current return was 3.70 percent.

The elements of diversification of any particular municipal investment fund depend in considerable part upon the sponsor's yield and quality objectives with respect to such fund and the bond offerings that were in the market and available to the sponsor during the period when the portfolio was being accumulated—in advance of deposit with the trustee. Such funds have included, in addition to bonds secured by general taxing power—general obligations—utility earnings and tolls, bonds secured by urban transit, incinerator, harbor, park, garage, school-lease and industrial-plant-lease revenues, among others.

INVESTMENT OBJECTIVES OF MUNICIPAL INVESTMENT FUNDS

Tax-exempt bond funds have been advertised to the public as having the following general investment objectives: "Conservation of capital and an attractive tax-exempt return are the principal objectives of the fund."

Municipal investment funds also may have one or more of a number of special objectives. For example, the municipal investment trust fund, first Pennsylvania series, was created for sale to investors who are residents of the Commonwealth of Pennsylvania. It has the special objective of exemption from local tax in Pennsylvania. With respect to such fund, it was "the opinion of counsel, under existing law interest income to the fund and to certificate holders is exempt from all Federal income tax and *certificates for units are not taxable under the Pennsylvania County Personal Property Tax Act*." Likewise, the Municipal Investment Trust Fund, First Florida Series, was created for sale to residents of the State of Florida for the reason that "In the opinion of counsel, under existing law interest income to the fund and to certificate holders is exempt from all Federal income tax and *certificates for units are not taxable under the Florida intangible personal property tax law*.

The Tax Exempt Income Fund, Series 1, is described as follows in the prospectus: "The fund is designed for investors who are willing to invest in a portfolio of *unrated* municipal bonds in order to *achieve*