



CLAYMORESM

Fiduciary/Claymore MLP Opportunity Fund Portfolio Manager Commentary

Q3 2009

 CLOSED-END FUNDS

NYSE: FMO

Market Overview

The recession appears to have ended late in the second quarter of 2009. With the help of mind-boggling levels of monetary and fiscal stimulus, including “Cash for Clunkers” and tax credits for first-time home buyers, the economy expanded in the third quarter at an annual rate near 3%, according to respected forecasters. Assuming no new stimulus programs are implemented, some of the third quarter strength may have stolen from fourth quarter activity; but nevertheless, we expect the economy to continue its expansion in the fourth quarter of 2009.

There are currently two widely divergent views as to where the U.S. economy is headed. One view is that the Federal Reserve has printed money at a rate that will inevitably lead to higher inflation rates. The other view is that the U.S. consumer remains financially over-leveraged, and the process of deleveraging will result in low growth rates for the economy and inflation. There is ample data to support either case.

For investment strategy purposes, the re-inflation scenario is not a current concern. Following four quarters of economic contraction, we would welcome an environment where business levels reach a point where supply is unable to keep pace with demand. Businesses have done an extraordinary job of streamlining their cost structures, possibly even overshooting in reducing headcount. Given the slack in production capacity and labor supply, inflation does not appear to be a “here and now” threat.

The deleveraging issue is difficult to predict because we do not have good data as to who the consumers are that are over-leveraged, what is their overall asset/liability condition and how much leverage is too much? Already we have seen record bankruptcies and home foreclosures, along with record declines in consumer credit. It appears credit already has been purged, to a large extent, from the financially weakest consumers. With two consecutive months of house price increases, per the S&P/Case-Shiller Home Price Index¹, perhaps the U.S. housing market is stabilizing. Home mortgages have been the primary source of consumer leverage.

While we believe the economy will continue its recovery, now in process, we do acknowledge the presence of large negatives, such as increasing unemployment, large budget deficits, expanding regulation, potential tax increases, etc. Despite these negatives, we believe upward momentum in the domestic and global economies will continue as low interest rates, improving credit markets and stronger corporate profits overcome the negatives.

As previously noted, U.S. businesses have adapted to the negative economic environment in the prior four quarters, ended June 30 2009, by aggressively cutting costs. Currently, most U.S. businesses are “lean and mean.” Due to these cuts, corporate excess cash relative to capital expenditures in the second quarter was the highest in nearly 50 years. In the second quarter, pre-tax corporate profits with inventory valuation adjustments and capital consumption allowance rose at an annualized rate of 23.8%.

We expect the S&P 500 Index² to earn about \$72 in 2010 and at its current level of 1,035, the S&P 500 Index sells at a price/earnings (“P/E”) ratio of 14.4 times 2010 earnings. This P/E multiple is attractive given that we are early in a recovery cycle, and inflation and interest rates are at historically low levels. We believe the current equity markets offer opportunities to buy higher-than-average quality at lower than average valuation.



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MLPs

We continue to believe that entities with high-quality assets and strong balance sheets will have the flexibility to realize growth over the short and long term. In our previous commentary, we highlighted the importance of the underlying energy infrastructure assets of many Master Limited Partnerships (“MLP”) to the broader economy. We consider many of these assets “must run,” in that the delivery of carbon-based fuels throughout the country is the baseline for most economic activity. The strategic value of these assets relates directly to both our view of the quality of the entities that own them and to their credit quality and access to capital. In this commentary we will discuss the market environment for MLPs and our focus on quality MLPs that are well-positioned for growth.

We continue to view MLPs as attractive total return investments for long-term investors. Despite the Alerian MLP Index’s³ 51.3% year-to-date return, MLPs continue to look attractive on an absolute and relative basis with yields remaining high at 8.2%. MLPs must raise third party capital to fund their growth objectives. We are therefore encouraged by MLPs’ ability to access the public markets: according to Wells Fargo, 33 MLPs raised a total of \$8.6 billion of debt and \$5.4 billion of equity during the year. As the year has progressed we have seen increasingly smaller MLPs access the capital markets, which we view as another positive for the group.

Our research process remains focused on identifying high quality MLPs. The first portion of our research process includes analyzing MLP financials and producing proprietary cash flow models for the MLPs in the natural resources and energy infrastructure universe. From this base we can develop our view on growth metrics and relative valuation. These cash flow models also allow us to compare a given MLP with its peers within a sub-sector or against the MLP universe as a whole. Comparing an MLP’s leverage levels and fiscal controls among its peer group and against our normalized view of the MLP’s business risk allows us to rank MLPs on a relative basis. Our qualitative measures are not entirely financial. We are intensely interested in the experience and depth of management teams and their demonstrated ability to profitably run their organizations, the strategic value of the MLP’s assets, both business and geographic diversity, the existence and nature of any corporate parent or financial sponsor, and financial strength; all of which lead to our ability to identify sustainable businesses with visible cash flows and realizable growth prospects. In our view these are the common characteristics of a high quality MLP. This approach is differentiated from other common measures of quality such as daily trading volume, investment grade credit ratings, and the guidelines for inclusion in to the Alerian index.

This quality assessment currently results in us having a favorable outlook in industries like Natural Gas Pipelines and leads us to prefer positions among the lowest quintile of MLP capitalization compared to the Alerian Index. We believe that MLPs that meet these standards will be able to grow their cash flows during the majority of the business cycle. The MLPs we prefer delivered distribution growth of 5.4% over the last twelve months ending September 30, 2009, compared to 3.6% growth for the broader MLP market during the same period. This growth is in stark contrast to the widely held market view earlier this year that was discounting a no-growth forecast for MLPs for two central reasons: 1) the economy was shrinking at an alarming rate and a light at the end of the tunnel was not readily apparent; and 2) MLPs distribute the majority of their cash flow to equity investors and therefore must raise growth capital in the equity and debt markets, which were anemic or closed.



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We continue to view MLP yields as attractive and we believe current valuations present a good entry point for new investors with longer investment horizons. However, given the economic and legislative environment, risks remain:

- Recent monetary policy moves at the federal level have raised concerns about inflation. We do not think inflation is a significant risk in the coming quarters. However, for those investors seeking a defensive investment to address inflation worries MLPs have historically delivered distribution growth in excess of annual inflation.
- We believe an economic recovery is in place and will continue in the fourth quarter. Other investors are more negative on the U.S. economic outlook. The services provided by many MLPs and the high MLP yield that will provide cash returns with tax deferral features may be attractive during flat to low growth economic environment.
- Legislative risk is a real concern for the broader economy. After attending the annual meeting of the National Association of Publicly Traded Partnerships (NAPTP) we view the current legislative environment for MLPs as neutral. Recent additions to the definition of qualifying income for MLPs is positive as it expands the businesses MLPs can own and operate. Changes to carried interest taxation may have a moderately negative impact on the publicly traded general partnerships, though the NAPTP is working to avoid this outcome. Importantly, we view the risk that MLPs might lose their partnership status as very low.

For illustrative purposes only. Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown.

The forecasts and opinions are those of Fiduciary Asset Management LLC as of September 30, 2009 and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes. Such forward-looking statements are subject to significant business, economic and competitive uncertainties and actual results could be materially different. There are no guarantees associated with any forecast.

There can be no assurance that any closed-end fund will achieve its investment objective(s). The value of any closed-end fund will fluctuate with the value of the underlying securities. Until the original listing of a closed-end fund on an exchange, no closed-end fund's shares will have a history of public trading and, historically closed-end funds often trade at a discount to their net asset value.

¹The S&P/Case-Shiller Home Price Indices measures the residential housing market, tracking changes in the value of the residential real estate market in 20 metropolitan regions across the United States.

²Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index is unmanaged and it is not possible to invest directly in an index.

³The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology.

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