



CLAYMORESM

Fiduciary/Claymore MLP Opportunity Fund Portfolio Manager Commentary

Q4 2009

 CLOSED-END FUNDS

NYSE: FMO

Market Overview

The U.S. economy finally emerged from recession in mid-2009. Aided by unprecedented monetary stimulus, housing tax credits and “cash for clunkers,” the economy generated 2.2% growth in the third quarter last year. Fourth quarter growth was probably closer to 4.0%; far better than what was expected a year ago when credible economists predicted a 1930s-style depression.

While we expect the recovery to continue throughout 2010, there are formidable headwinds. First, the financial system has stabilized, but remains in a fragile condition. Mortgage foreclosures remain high, and the commercial real estate market has trillions of dollars of debt to roll over in the next several years. Commercial bank loans continue trending downward. Fannie Mae, Freddie Mac and the FHA all appear broken, and more loan write-downs will cause more banks to fail. Second, small businesses, with little access to credit, have cut spending and employment. Historically, small businesses provided the bulk of employment growth. As a result, the unemployment rate may not decline as fast as in previous recoveries, increasing expectations for a “jobless recovery.” Third, state and local governments are almost universally in budget deficits. They are another source of spending and employment cuts and may continue to slash budgets until tax revenues improve. Fourth, federal budget deficits will likely exceed \$1 trillion annually, exerting upward pressure on interest rates. Furthermore, if the Federal Reserve (“Fed”) stops buying mortgages at the end of March, as scheduled, mortgage rates could spike. During 2009, the government purchased \$1.3 trillion of agency mortgages, nearly three times the net new supply. As of November 30, 2009, the Fed and Treasury owned 90% of agency 30-year mortgages with 4.0% and 4.5% coupons.

There are also important strengths in the economy. Historically, economic recoveries have been proportional to the depth of the recession. While this relationship would argue for 6% growth or greater this year, we expect about half that growth rate in 2010 due to the headwinds noted above. Secondly, there has been massive global fiscal stimulus triggering growth in many countries, particularly those in Asian markets, providing support for U.S. exports. Much of the U.S. stimulus money has not been spent yet, which potentially will add support to the domestic economy. Thirdly, global short-term interest rates remain very low. U.S. economic growth is strongly correlated with global interest rates. Low inflation expectations may allow the Fed to keep short-term rates low; however, commodity inflation presents a latent risk.

In summary, there are some powerful restraints and stimuli bearing on economic growth. Barring any new significant tax increases, beyond the year-end expiration of the Bush tax cuts, we expect several years of sustainable growth in the 2-3% range. As always, geo-political risks are an ever-present wild card.

There are several reasons why we retain a constructive view for equities. Most importantly, U.S. corporations have done a superb job of controlling their cost structures. Payrolls are lean, inventories are tight and balance sheets are strong – particularly among the large, high-quality companies. We expect these factors will translate into 2010 operating earnings of \$75 for the S&P 500 Index¹, representing a beginning year price/earnings ratio of 15x. If inflation remains benign, there is room for P/E expansion.

We believe fixed income investors face rising interest rates in 2010, as heavy Treasury borrowing pushes “real rates” higher. Currently, the Treasury market is priced to provide 2% real yields on long-dated bonds vs. their long-term average of 3%. Rising Treasury yields will not necessarily hurt corporate bonds, provided the economy and corporate profitability comes through as expected. However, many corporate bonds yield less than the dividend yield of the same issuer’s equity. Growth potential of equities and duration risk of bonds creates relative valuation advantages for equities.

Our broader view of the economy and the markets leads us to believe that the current environment is a positive one for master limited partnerships (“MLPs”). Improving economic activity and stronger capital markets are positives for MLPs, although a rising interest rate environment presents a potential challenge for positive performance. However, given improving fundamentals and strong relative valuations, we expect MLPs to deliver positive performance in 2010.

MLP Commentary

In many ways, 2009 was a typical year for MLPs. A quick look at the total returns of the Alerian MLP Index² would not support this claim, as MLPs delivered a record-setting 76.4% for the year. But in very typical fashion, MLPs grew their distributions during the year, despite overall weak economic conditions. As we have stated in previous commentary, we consider the majority of MLP assets to be “must run.” The necessary services they provide and the barriers to entry these assets enjoy produce stable cash flow businesses able to support a consistent cash distribution to investors. Over the long run we have no doubt that these characteristics will continue to be valued by the market and, in many periods, not correlate highly to other asset classes.

The high total returns of 2009 were largely a result of the significant MLP price declines in 2008. In an environment defined by fear, uncertainty, and a retrenching credit market, many investors were forced to sell MLPs in 2008 at a level that overwhelmed demand for the securities. As these forces abated early in the new year, MLPs regained their footing and investor appetite for yield pushed MLPs on an upward march that produced four straight quarters of double digit total returns.

It is noteworthy that the Alerian MLP Index remains 16.6% below the peaks experienced in 2007, despite distribution growth of 14.6% during the period since those highs. We believe MLPs are undervalued on a relative basis compared to asset classes such as government bonds, corporate bonds and REITs.

Improving capital markets in 2009 have increased our confidence in the future growth prospects for MLPs. MLPs pay out the majority of their cash flow to investors through distributions and require access to the capital markets to fund growth expenditures. During 2009, 41 MLPs raised a total of \$10.1 billion of debt and \$8.5 billion of equity. Much of this capital is targeted toward future growth. We expect distributable cash flow growth north of 10% in 2010 and 5-6% over the longer term; which should drive distribution growth going forward. Capital budgets for 2010 should see an uptick as many projects shelved during the winter of 2008-2009 have been reinstated as capital became more accessible and costs of that capital became more reasonable throughout 2009. The current state of the capital markets for MLPs is supportive of future growth and valuation.

Despite positive relative valuations and solid growth prospects, we expect long-term total returns to moderate to their 8-12% range, to reflect MLP yields plus distribution growth. There are several factors likely to impact total returns in 2010:

- MLP equity issuance is likely to increase in 2010. While the first initial public offering (“IPO”) in approximately two years would be a positive, multiple IPOs or significant secondary issuance could cause selling in existing portfolios to make room for these new issues, which we would view as a short-term negative.
- Monetary policy has been supportive of a low interest rate environment. As government monetary support eventually dissipates we expect interest rates, specifically real rates, to rise. Typically, rising rates are negative for yield producing securities. However, MLPs are relatively well positioned given their growth potential and the historically wide yield spreads between MLPs and other yield producing securities.

We believe a portfolio that is biased towards higher-quality assets and stronger balance sheets may be favorably situated in the current environment. Those MLPs with strategically important assets that have access to the capital markets can realize growth in the near term through organic projects or acquisition opportunities. It is important to note that many of the lower-quality MLPs that rallied during the third and fourth quarters have yet to demonstrate their ability to fund future growth by accessing the capital markets. We believe that, absent access to growth capital, it is unlikely that these lower-quality MLPs will outperform higher-quality MLPs.

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.

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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. Historically closed-end funds often trade at a discount to their net asset value.

¹Standard 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.

²The 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.