



CLAYMORE®

MBIA Capital/Claymore Managed Duration Investment Grade Municipal Fund Portfolio Manager Commentary

Q4 2009

 CLOSED-END FUNDS

NYSE: MZF

Indicators for the U.S. economy were largely positive in the fourth quarter of 2009. Although Gross Domestic Product ("GDP") growth for the third quarter was revised down to 2.2% from 2.8%, the consensus projection for the fourth quarter of 2009 is in the 3.0% to 4.0% range. Growth in 2010 is expected to be modestly positive with the potential for upward acceleration if the global recovery continues. The official unemployment rate for December was ~10%, unchanged from the previous month. Consumer related economic indicators were largely positive in the quarter. The Conference Board Consumer Confidence Index¹ increased a healthy 2.3 points to 52.9 in December and the University of Michigan consumer sentiment index² rose from 67.4 to 72.5 in December. Personal income increased by 0.4% in November and real spending rose 0.2% from the previous month. There were mixed signals from housing related data during the quarter. Sales of existing homes jumped 7.4% in November but new home sales declined by a surprising 11.3% during the same month. The Federal Open Market Committee met on December 15 and kept the fed funds target rate in the zero to 0.25% range. The Committee noted that the recovery is continuing and they will allow some of the special liquidity facilities set up in 2008 and 2009 to expire in 2010, as scheduled. The Committee also noted that inflation remains subdued.

As the general economy shows signs of recovery, conditions within the municipal bond market warrant a degree of caution. With a national unemployment rate hovering near 10%, states are faced with one of the most difficult fiscal situations since the Great Depression. Estimates indicate that state tax receipts are down in excess of 10% on a year-on-year basis with notable decreases in personal income tax collections in well over half of the states. State expenditures have been slashed to combat these revenue shortfalls but some are forced to tap their "rainy day funds." To further evidence these stresses, California's Governor Schwarzenegger asked President Obama to help provide his state with relief on what is anticipated to be a \$21 billion budget deficit. New York's Governor Patterson argued in court that making payments to school districts could render his state insolvent. States are expected to issue increasing amounts of debt to alleviate their mounting budget deficits, which may put negative pressure on their credit ratings. This was evident with the recent downgrade of the State of Arizona and negative outlook assigned to the State of Washington.

The 4th quarter of 2009 saw a modest increase in yields (decrease in price) within the tax-exempt market. Build America Bonds shifted a material portion of the tax-exempt supply towards the taxable markets creating a dearth of long maturity bonds. As investors sought long maturity tax-exempt bonds, yields were pushed below the 4% mark, a technical resistance level amongst many retail investors. Retail inflows then slowed and long tax-exempt yields began to rise. There was a feel to the market that rates had rallied "too far, too fast" and with a healthy new issue calendar, the long-end of the market saw slightly higher yields than the previous quarter. Shorter dated maturities saw consistent demand throughout the quarter. With the Federal Reserve maintaining a zero interest-rate policy, tax-exempt money-market mutual fund investors are faced with extremely low yields and few signs of relief in the near future. Throughout the quarter investors shifted their focus out of money market funds into the 2 through 5 year space, resulting in strong returns for bonds with maturities inside of 10-years.

Looking to 2010, we anticipate that state budgets will be a continued topic of concern, but with signs of an upturn beginning to emerge. As the recovery of the economy gains momentum, tax receipts should rise, bringing much needed relief to state budget deficits. Despite a record amount of municipal bond issuance slated for 2010, tax-exempt supply may be at its lowest in several years because of Build America Bonds. It is estimated that the Build America Bond market may absorb between 25%-30% of the municipal bond supply. Build America Bonds provide issuers with the greatest savings on long maturity bonds, which has the potential to leave the tax-exempt market with a shortage of long-term bonds. It should be noted that the Build America Bond program is scheduled to expire in December of 2010. Given the success of the program, there is much debate surrounding its potential extension, possibly with a lower rebate to issuers. Tax rates are projected to rise, particularly affecting earners in higher

income brackets, which may create additional retail interest in tax-exempt bonds. Lastly, net supply (new issue – maturities) is expected to be negative in 2010, perhaps lending to the idea that the market may be faced with a deficiency of long maturity tax-exempt bonds.

The Barclay's Municipal Bond Index³ returned -0.96% in the fourth quarter, according to Barclay's Capital. The municipal yield curve (from 1-30 years) steepened during the period from 350 bps to 387 bps. The yield on 30-year AAA-GO Bonds⁴ increased by 28 bps during the period, while 10-yr yields decreased by an impressive 43 bps. Tax-exempt bonds outperformed US treasuries pushing the ratio of 30-year tax-exempt yields to 30-year treasury yields from 95.6% at the start of the quarter down to 88.9% at quarter-end.

Credit spreads faced a bit of pressure during the quarter but finished the year on a strong note. Lower rated credits underperformed high-grade credits by a small margin during the quarter, but were big outperformers over the course of the year. Returns data show that investors favored short maturity securities over long maturities as investors extended out of money market funds. According to Barclays Capital, single-A and BBB rated bonds underperformed the Barclay's Municipal Bond Index by 2 and 149 basis points in the quarter, respectively. High-yield tax-exempt spreads did improve during the quarter evidenced by the Barclay's municipal non-investment grade index⁵ outperforming the investment grade index by 94 basis points in the fourth quarter.

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 MBIA Capital Management as of December 31, 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. Historically, closed-end funds often trade at a discount to their net asset value.

¹The Conference Board Consumer Confidence Index is an indicator designed to measure consumer confidence, which is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.

²The University of Michigan Consumer Sentiment Index is a consumer confidence index published monthly by the University of Michigan. The index is normalized to have a value of 100 in December 1964. At least 500 telephone interviews are conducted each month of a United States sample which excludes Alaska and Hawaii.

³The Barclay's Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. The index is unmanaged and it is not possible to invest directly in an index.

⁴General Obligation Bond ("GO")- A municipal bond backed by the credit and "taxing power" of the issuers' jurisdiction rather than the revenue from a specific project.

⁵The Barclay's municipal non-investment grade index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be non-rated or be rated non-investment grade (Ba1 or below) by at least two of the following ratings agencies: Moody's, S&P, Fitch. The index is unmanaged and it is not possible to invest directly in an index.