

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Investing in Mortgage Securities



BILL DOUGHTY is a Vice President of Huntington and Senior Portfolio Manager of five Huntington Funds. He joined Huntington in 1961. He is the Fund Manager for the Huntington Intermediate Government Income Fund, Huntington Mortgage Securities Fund, Huntington Short/Intermediate Fixed Income Securities Fund, Huntington Money Market Fund, and Huntington U.S. Treasury Money Market Fund. He is responsible for over \$2.5 billion in client assets and mutual funds. He is also the head of Fixed Income Securities Trading at Huntington. In addition to his portfolio management responsibilities, he manages several large institutional separate accounts focused on fixed income.

TWST: Would you start with an overview of Huntington Private Financial and Capital Markets Group (PFCMG) and what your specific responsibilities are there?

Mr. Doughty: PFCMG is a subsidiary of Huntington Bancshares. Huntington's money management dates back to 1917 and consists of asset management, private banking, brokerage and personal trust and estate services. We focus on institutional clients, private clients, endowments and foundations.

I am part of the asset management and trust group. I am responsible for \$2.5 billion in client assets and mutual funds and am the head of Fixed Income Securities Trading at Huntington. In addition to my portfolio management responsibilities, I manage several large institutional separate accounts focused on fixed income.

Also, we have a mutual fund complex, Huntington Funds, which is managed by the Huntington Asset Advisors, a subsidiary of

Huntington Bancshares. The Huntington Funds started in 1987 with two money market funds. Today, we have 21 funds including 11 equity funds and 10 fixed income funds, ranging anywhere from an international equity fund to a Treasury money market fund. We have both institutional shares and retail shares. It's primarily a fund complex sold through our trust group to trust clients. We also do some of our distribution through our Huntington Investment Company, which is PFCMG's brokerage firm. We recently hired a wholesaler responsible for the distribution of the Huntington Fund's asset management services to outside brokers, advisors, and platforms.

Of the 21 Huntington Funds, I manage five of the fixed income funds — Huntington Intermediate Government Income Fund, Huntington Mortgage Securities Fund, Huntington Short/Intermediate Fixed Income Securities Fund, Huntington Money Market Fund, and Huntington U.S. Treasury Money Market Fund.

The Mortgage Securities Fund began in 1992 and was managed by an outside advisor. I took over the management of that Fund in 1999, so I've been a manager of this Fund for almost 10 years.

TWST: Huntington Mortgage Securities Fund was a winner of the Lipper Leader Award. Why do you think you merited the distinction?

Mr. Doughty: There are a few things I think can be attributed to Huntington Mortgage Securities Funds' success. First of all, we manage the mortgage fund in a conservative manner by choice, because it is primarily for trust clients who are more risk-averse.

Secondly, about eight years ago, our new Chief Investment Officer, Randy Bateman, went through and reviewed all the funds under our complex, and after much discussion, we decided to invest a small portion of the Fund in real estate investment trusts (REITs). Over the last eight years, with the exception of maybe this year, the REITs have added a lot of value to the Fund. Right now and probably over the last five years, we've maintained a 10% weighting; so it's a

in a little bit of duration management. With the CMOs, you can firm up your duration more than you can by just using straight pass-throughs.

TWST: Are the mortgage-backed pretty conservative and do they perform in line with Treasuries?

Mr. Doughty: The mortgage-backed have been trading fairly wide; the spreads are probably 200 to 235 over the Treasuries at the current time. They moved in pretty substantially after the announcement that the government will purchase up to \$500 billion of mortgage-backed securities. People have been very concerned about the mortgage market due to all the foreclosure talk. The market is experiencing a liquidity squeeze and a flight to quality. Everybody wants to own Treasuries. Even today, we now have the 30-year bond yielding 3.24. Nineteen days ago the Treasury held their 30-year auction and the yield was 4.41 — now it's 3.24. That was quite a move in just 19 days, and we still have a flight to quality going on in the market.

“Mack-Cali has a strong balance sheet with enough liquidity to pay down maturing notes. One of the key things in any corporate bond or corporate market at the moment is having liquidity, so you don't have to go to the marketplace and borrow money.”

small percentage of the Fund. The prospectus says we must maintain at least 80% in mortgage-backed securities. Currently we have 86% mortgage-backed securities, about 4% in cash, and the balance in the REIT sector.

When investing in REITs, we try to have a lot of diversification, rather than a concentration in one or two industries. There are approximately 11 different segments within that, including apartments, office buildings, manufactured homes and health care.

The last thing I would say on the mortgage-backed side, we do not have any Alt-A's or subprimes, and we don't do a lot of variable rate type of securities or whole loans. It's a mixture of straight pass-throughs with a bit of collateralized mortgage obligations (CMOs) exposure. I use CMOs in the Fund mainly to lock

1-Year Daily Chart of Mack-Cali



Chart provided by www.BigCharts.com

I think people are afraid of the marketplace. The government came in and made an announcement through some of their programs that they are going to purchase \$500 billion to \$600 billion worth of mortgage-backed over the next six months to a year and right away, two things happened. One, spreads tightened on mortgages to Treasuries by about 30 to 35 basis points. Secondly,

comes back into the market, we will start seeing those spreads tighten in relationship to Treasuries. The foreign central governments and some of the foreign buyers, who had been buying mortgage-backed, have backed away from anything with risk attached and started to buy Treasuries, which is why the Treasury market is so much lower and spreads are wider on almost every credit product.

“Alexandria Real Estate specializes in developing and managing lab space for the pharmaceutical or biotech industry, and we feel this sector is a bit less sensitive to the overall economy. Alexandria Real Estate also has a strong balance sheet with enough capacity to finance maturing debt.”

mortgage rates came down by about 0.5%. I believe that is what the government is trying to do — get mortgage rates down and get people more inclined to purchase homes. I saw an article today saying that there are now a lot of mortgage-backed that are going to be eligible for refinancing again, where in the past, there wasn't much of an opportunity to refinance. However, I don't know that every mortgage will be refinancable; some people will be unable to refinance just because of credit constraints, or FICO scores. Most likely, mortgage lenders are going to be much more cautious in making loans going forward. Over the last two or three years, they made loans to almost anybody who had some credit history, whether good or bad.

With housing values coming down, people will be shocked to see what they could refinance for, whether their house value is either equal to or less than what their mortgage is. There could be a bit of a problem in refinancing at this point in time, unlike two or three years ago when housing values were escalating and people were much more willing to make loans.

TWST: Are you expecting the government to add to the government-backed securities?

Mr. Doughty: Yes. I am not sure how many they'll buy right now, but I think over the next year, they are certainly going to add support to the mortgage-backed market. I believe with the spreads as wide as they are right now, and if some risk appetite

1-Year Daily Chart of Alexandria Real Estate



Chart provided by www.BigCharts.com

TWST: What are the maturity ranges of the coupons that you are buying?

Mr. Doughty: The average duration of this Fund is currently at 3.19 years, and I would say about 50% of the mortgage-backed portfolio would have a duration in the five-year range. The Fund over the last six months had concentrated on buying 15-year MBS securities. I would say I probably have a fairly even mix between 15-year mortgages and 30-year mortgages at the current time.

TWST: Would you tell us about the REITs that you have in the Fund?

Mr. Doughty: I do not personally manage the REITs, but one of our Portfolio Managers in our Naples office, Gustave Seasongood, gave me three names he likes. One is **Mack-Cali Realty Corp.** (CLI). **Mack-Cali** has a strong balance sheet with enough liquidity to pay down maturing notes. One of the key things in any corporate bond or corporate market at the moment is having liquidity, so you don't have to go to the marketplace and borrow money. Corporate spreads are extremely wide and to bring a new corporate deal to raise money, you have to probably pay anywhere from 50 to 100 basis points premium over outstanding issues. It's good to have a strong balance sheet so you don't have to go to the marketplace. The security is trading at a 30% discount to net asset values; there are no significant lease rolls,

Mr. Doughty: I think the biggest challenge in the credit market overall is getting liquidity back into the marketplace. The federal government coming in and saying they are going to buy up to \$500 billion worth of mortgages over the next several quarters will help that going forward. We need to get some confidence in this market and we need to get people willing to invest some money in something other than Treasuries. One of the advantages of the Huntington Mortgage Securities Fund is it's a proprietary fund in a trust group. We don't see the inflows and outflows like some of the other funds. I have not been forced to sell securities in this market where it is hard to find bids on mortgage-backed securities. A big challenge over the next three to six months would be if you were forced to liquidate some of your holdings.

“Simon Property Group is one of the largest mall operators in the country, and it operates mostly Class-A malls. Class-A malls are expected to outperform B and C malls during an economic downturn. Simon Property also has a very strong balance sheet and good dividend coverage.”

which would mean that they don't have a lot of people who can roll their lease or get out of their lease. Additionally, they currently have an 11% dividend that we also believe is sustainable.

Another name that Gus likes is **Alexandria Real Estate** (ARE). **Alexandria Real Estate** specializes in developing and managing lab space for the pharmaceutical or biotech industry, and we feel this sector is a bit less sensitive to the overall economy. **Alexandria Real Estate** also has a strong balance sheet with enough capacity to finance maturing debt. Their credit development has been cut back a little bit, which we think is a smart move, given the current conditions in the credit market.

The last security is **Simon Property Group** (SPG). It's one of the largest mall operators in the country, and it operates mostly Class-A malls. Class-A malls are expected to outperform B and C malls during an economic downturn. **Simon Property** also has a very strong balance sheet and good dividend coverage.

TWST: What are the challenges that you expect to face over the next few months with the Mortgage Securities Fund? Is it liquidity mostly?

1-Year Daily Chart of Simon Property Group



Chart provided by www.BigCharts.com

TWST: Are you always fully invested or do you have a cash position?

Mr. Doughty: I will probably keep anywhere from 3% to 5% in cash but nothing very extensive, and that's just for liquidity purposes.

TWST: Why should investors look at the Huntington Mortgage Securities Fund at this time, when the very word mortgage is scaring people?

Mr. Doughty: At the current time, spreads on mortgages are extremely wide. However, with the conservative nature of our Fund, hopefully within the next three to six months, some of the government programs will have helped the market and the liquidity will come back into the marketplace. At that point, we'll see the spreads on mortgage-backed products start to tighten and return to a more normal level of maybe 100 to 125 over the Treasuries as opposed to 200 to 250 we see currently. Even if we would see interest rates move back up, a fund like ours could hold its value because mortgage-backeds should tighten to Treasuries. This Fund will offer a good return and a chance for price appreciation.

Mr. Doughty: Yes. It seems like President Obama is trying to address this. I think the economic team that he has appointed, especially Mr. Geithner, who was the President of the Federal Reserve Bank in New York, adds stability to the process. This is an unprecedented time. I'm not sure we've ever been through this, but I think Mr. Paulson has done an admirable job. I guess if I have any complaints or criticism, it is that we see a lot of change of direction. Perhaps that's better than being focused on one thing. It seems they are trying to do what they think is right and are willing to make changes and adjust. I think with Mr. Geithner being the new Treasury Secretary he is familiar with every program and he has been involved in every program. Mr. Summers I think has been the Treasury Secretary in the past and he is on the team. I feel they brought in some good people. This is not just a US problem — it's a world problem. It appears all of the countries

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TWST: What do you think gives your Fund its edge? What are you bringing to the table that other mortgage securities funds might not?

Mr. Doughty: Two things. One is the exposure to REITs. This has been a big benefit to this Fund over the last five to 10 years. I am not sure a lot of funds use the REIT equity kicker in their bond fund. Two, the conservative nature of the Fund has been beneficial. I believe it's going to take some time for people to be comfortable with mortgages again and not be afraid of the word “mortgage.” With the quality of this Fund and all the mortgages within this Fund being AAA-rated, it adds to a very conservative portfolio that should do well in a pretty tough market over the next six to twelve months.

TWST: What is your view about the way that the Fed and Secretary Paulson are handling this issue? Do you have confidence that 2009 will see more liquidity in the market?

around the world are trying to address this. I think they are trying to add liquidity to the marketplace and make this market vibrant again, and I believe that's the right thing to do.

TWST: What about the volatility in the market in general? How does it impact your investing?

Mr. Doughty: I guess you can look at volatility in two different ways. In some ways, volatility is good for investing because it gives you opportunities to get in at good levels. If you have no volatility in the marketplace, I am not sure you have a lot of opportunities. I think, as we see spreads go up, with this type of fund we don't see a lot of withdrawals. I am not worried about a lot of withdrawals because it gives me a little more flexibility to purchase some assets when spreads widen.

TWST: Would you give us a typical profile of an investor in your Fund? Are they mostly institutional or do you also have high net worth individuals?

Mr. Doughty: I would say the majority of the clients in our Fund would be either individuals or high net worth individuals, trust clients who are basically looking for yield. This Fund is more of a yield fund for most of our clients. This is another reason why we added some of the REITs — they were paying probably 5.5% to 6% yields when we started this. I would say most of our clients are people who are looking for a safe but steady monthly dividend return. We pay dividends monthly on this Fund.

TWST: Thank you.

Note: Opinions and recommendations are as of 12/12/08.

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Views are as of (12/12/08), and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security.

For more complete information about the Huntington Funds, call 1-800-253-0412, see your Huntington investment representative or visit www.huntingtonfunds.com for a prospectus. You should consider the fund's investment objectives, risks, charges, and expenses carefully before you invest. Information about these and other important subjects is in the fund's prospectus, which you should read carefully before investing.

The holdings listed below, which are referenced in the article, made up the following percentages of Huntington Mortgage Securities Fund's portfolio as of 12/31/08:

Mack-Cali Realty Corp.	0.29%
Alexandria Real Estate	0.35%
Simon Property Group	0.32%

The Fund is a managed portfolio and portfolio holdings are subject to change. The percentages are based on net assets at the close of business on 12/31/08 and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

The value of some mortgage-backed securities may be particularly sensitive to changes in prevailing interest rates, and although the securities are generally supported by some form of government or private insurance, there is no assurance that private guarantors or insurers will meet their obligations.

Investments in real estate investment trusts ("REITs") involve special risks associated with an investment in real estate such as limited liquidity. In addition, the value of REITs and other real estate-related investments is sensitive to changes in real estate values, extended vacancies of properties and other environmental and economic factors.

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices. Credit ratings pertain only to the securities in the portfolio and do not protect fund shares against market risk.

Lipper figures represent the average total returns reported by all mutual funds designated by Lipper Inc. as falling into the respective categories indicated. They do not reflect sales charges.

The Huntington Mortgage Securities Fund Trust Shares was recognized by Lipper, Inc. as a Lipper Leader for Preservation as of 12/31/08 out of 4130 funds in the U.S. Mortgage Funds category.

Lipper ratings for Preservation reflect funds' historical loss avoidance relative to other funds within the same asset class, as of 12/31/08. The ratings are subject to change every month and are based on an equal-weighted average of percentile ranks for the Preservation metric over three-, five-, and ten-year periods (if applicable). The highest 20% of funds in each peer group are named Lipper Leader or a score of 5 for Preservation, the next 20% receive a score of 4, the middle 20% are scored 3, the next 20% are scored 2, and the lowest 20% are scored 1. Preservation ratings are relative, rather than absolute, measures, and funds named Lipper Leaders for Preservation may still experience losses periodically; those losses may be larger for equity and mixed equity funds than for fixed income funds. Huntington Mortgage Securities Fund, Trust Shares, in Lipper's Preservation classification, received the following ratings for the 3-, 5-, and 10-year periods, respectively: Preservation (in Fixed Income asset class): 4, 4 and 5 out of 4130, 3675 and 2385 funds. Lipper ratings are not intended to predict future results, and Lipper does not guarantee the accuracy of this information. More information is available at www.lipperweb.com. Lipper Leader Copyright 2009, Reuters, All Rights Reserved.

The Lehman Brothers Mortgage-Backed Securities Index (now Barclays Capital Mortgage Index) is an unmanaged index generally representative of the mortgage-backed securities market as a whole. Investments cannot be made in an index.

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