

August 14, 2009



## **CBSX Trader News Update**

### **CBSX to Add New Stocks for Trading**

TO: Members

SUBJECT: First American Exchange-Traded Funds

Compliance and supervisory personnel should note that, among other things, this Information Bulletin discusses the need to deliver a prospectus to customers purchasing shares ("Shares") of the four (4) exchange-traded funds ("Funds") listed below issued by First American Funds, Inc. Please forward this Information Bulletin to other interested persons within your organization.

The following securities have been approved for trading on CBSX:

<u>Exchange-Traded Funds</u>	<u>Symbol</u>
American Strategic Income Portfolio II	BSP
American Income Fund	MRF
American Municipal Income Portfolio	XAA
Minnesota Municipal Income Fund II	MXN

### **Background Information on the Funds**

First American Funds, Inc (the "Trust") is a management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"), consisting of several investment portfolios. This circular relates only to the American Strategic Income Portfolio II, American Income Fund, American Municipal Income Portfolio, and Minnesota Municipal Income Fund II (the "Funds"). The shares of the Fund are referred to herein as "Shares." FAF Advisors (the "Adviser") is the investment adviser to the Fund.

American Strategic Income Portfolio II:

## Primary Investments

Mortgage-related assets that directly or indirectly represent a participation in or are secured by and payable from mortgage loans. The Fund may also invest in asset-backed securities, U.S. government securities, corporate-debt securities, municipal obligations, unregistered securities, and mortgage-servicing rights. The Fund borrows through the use of reverse repurchase agreements. Use of certain of these investments and investment techniques may cause the Fund's net asset value to fluctuate to a greater extent than would be expected from interest-rate movements alone.

## Fund Objective

High level of current income. Its secondary objective is to seek capital appreciation. As with other investment companies, there can be no assurance this Fund will achieve its objective.

## Fund Characteristics

- Designed for investors seeking a high level of current income and the potential for capital appreciation.
- Invests primarily in whole-loan mortgages.
- The mortgages purchased by the Fund present greater credit risk (i.e., the risk that the borrower will default) than mortgage-backed securities generally. Investors are compensated for the risk with the higher income typically generated by these securities; however, there can be no assurance that the Fund's investment objectives will be achieved.
- The Fund borrows through the use of reverse repurchase agreements and revolving credit facilities. The use of borrowing may increase income; however, it may also increase net asset value volatility.
- The Fund may invest in mortgage-related securities, including derivative mortgage securities. However, the Fund will not invest in inverse floaters, principal-only securities, interest-only securities, inverse interest-only securities, or Z-bonds without prior notice to shareholders.
- The Fund is rated BBBf by Standard & Poor's Ratings Group. This credit rating is not an indication of market risk (the risk of price volatility and a decline in value). The S&P market risk rating, which we cannot publish due to NASD regulations, and a definition of BBBf are available by calling S&P at 212-438-2400.

## American Income Fund:

### Primary Investments

American Income Fund, Inc. invests in fixed-income securities, primarily in mortgage-backed securities. The Fund also invests in other debt securities, such as collateralized mortgage obligations (CMOs) and asset-backed securities, high-yield bonds, corporate bonds, and preferred stock. The following outlines the Fund's investment policies.

- The Fund expects generally to invest at least 65% of its assets in investment-grade securities.
- No more than 35% of the Fund's assets may be held in high-yield issues.
- The Fund is authorized to borrow Funds or issue senior securities in amounts not exceeding 33 1/3% of its total assets.

### Fund Objective

American Income Fund, Inc. is a closed-end investment fund that invests primarily in high-quality, fixed-income securities. The Fund is listed on the New York Stock Exchange with common shares traded under the symbol MRF. The Fund's investment objective is to achieve high monthly income consistent with prudent investment risk; its dividend objective is to distribute monthly income in excess of that attainable from investments in U.S. Treasury securities having the same maturity as the expected average life of the Fund's investments.

### Fund Characteristics

- Designed for investors aggressively seeking high levels of income.
- Invests in a combination of mortgage-backed securities and higher-yielding corporate bonds.
- The private label mortgage-backed securities contain an element of credit risk not present in agency mortgage-backed securities and may experience price volatility as a result of an increase in the overall rate of mortgage defaults. The corporate debt securities held by the portfolio will be focused on issuers with low investment-grade or noninvestment-grade ratings. These securities offer higher yields in exchange for their increased credit risk.
- The Fund is leveraged through the use of reverse repurchase agreements (repos) and forward purchase of mortgage-backed securities. The use of leverage is designed to increase income; however, it may also increase net asset value volatility.

- The Fund will maintain an average minimum credit quality of BBB and at least 65% of the portfolio must be invested in securities of investment-grade rating.
- The effective duration of the portfolio will be targeted at five years and may be managed longer or shorter than this target depending on the outlook for interest rates and yield spreads.

#### American Municipal Income Portfolio:

##### Primary Investments

A diverse range of municipal securities rated investment-grade or of comparable quality when purchased. These securities may include municipal-derivative securities, such as inverse floating-rate and inverse interest-only municipal securities, which may be more volatile than traditional municipal securities in certain market conditions.

##### Fund Objective

High current income exempt from regular federal income tax, consistent with preservation of capital. The Fund's income and capital gains may be subject to state or local tax and the federal alternative minimum tax. Investors should consult their tax advisors. As with other investment companies, there can be no assurance this Fund will achieve its objective.

##### Fund Characteristics

- Designed as a long-term investment for investors seeking current income exempt from regular federal income taxes. The Fund's income may be subject to state or local tax and the federal alternative minimum tax. Investors should consult their tax advisors.
- Invests primarily in investment-grade municipal obligations.
- The Fund may invest in certain municipal derivative securities that can be highly volatile in certain market environments.
- The use of leverage through the issuance of preferred stock, with the proceeds reinvested in longer-term bonds, may increase the net asset value volatility of the common stock.

#### Minnesota Municipal Income Fund II:

##### Primary Investments

A wide range of Minnesota municipal securities rated investment-grade or of comparable quality when purchased. These securities may include municipal

derivative securities, such as inverse floating-rate and inverse interest-only municipal securities, which may be more volatile than traditional municipal securities in certain market conditions.

### Fund Objective

High current income exempt from both regular federal income tax, and Minnesota personal income tax, consistent with preservation of capital. The Fund's income and capital gains may be subject to federal and/or state of Minnesota alternative minimum tax. Investors should consult their tax advisors. As with other investment companies, there can be no assurance this Fund will achieve its objective.

### Fund Characteristics

- Designed as a long-term investment for investors seeking current income exempt from regular federal and Minnesota personal income taxes. The Fund's income may be subject to the federal and/or Minnesota alternative minimum tax. Investors should consult their tax advisors.
- Invests primarily in investment-grade municipal obligations.
- The Fund may invest in certain municipal derivative securities that may be highly volatile in certain market environments.
- The use of leverage through the issuance of preferred stock, with the proceeds reinvested in longer-term bonds, may increase the net asset value volatility of the common stock.
- At least 65% of the Fund's total assets are invested in municipal obligations rated A or better by Standard & Poor's or another nationally recognized statistical rating organization.

Closed-end funds, unlike open-end funds, are not continuously offered. Shares, once issued, are traded in the open market through a stock exchange. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the Fund's shares is determined by a number of factors, several of which are beyond the control of the Fund. Therefore, the Fund cannot predict whether its shares will trade at, below or above net asset value.

The NAV per Share for the Fund is computed by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day after the close of trading (ordinarily 4:00 p.m., Eastern Time or "ET") of the New York Stock Exchange. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S.

dollars at the current market rates on the date of valuation as quoted by one or more sources.

The registration statement for the Funds describes the various fees and expenses for the Funds' Shares. For a more complete description of the Funds and the underlying indexes, visit the Funds' website at [www.firstamericanfunds.com](http://www.firstamericanfunds.com).

### **Exchange Rules Applicable to Trading the Shares**

The Shares are considered equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities.

### **Principal Risks**

Interested persons are referred to the discussion in the prospectus for the Fund of the principal risks of an investment in the Fund. These include tracking error risk (factors causing the Fund's performance to not match the performance of the underlying index), market trading risk (for example, trading halts, trading above or below net asset value), investment style risk, sector risk, investment approach risk, non-diversification risk, issuer-specific risk, management risk, credit risk, interest rate risk, liquidity risk, derivatives risk and leveraging risk.

### **Trading Hours**

The Shares will trade on the CBSX from 8:15 a.m. CT until 3:00 p.m. CT. The trading increment for the Fund's Shares will be \$0.01.

### **Extended Hours Trading**

Members are reminded that trading in the Fund's Shares prior to 8:30 a.m. may result in additional trading risks which include: (1) that the current underlying index value may not be updated, (2) the intraday indicative value may not be updated, (3) lower liquidity may impact pricing, (4) higher volatility may impact pricing, (5) wider spreads may occur, and (6), since the intraday indicative value is not calculated or widely disseminated, an investor who is unable calculate an implied value for an ETF in those sessions may be at a disadvantage to market professionals.

## **Trading Halts**

The Exchange will halt trading in the Shares based on Rule 52.3 and/or because dissemination of the intraday indicative value of the Shares and/or the underlying value of the index has ceased.

## **Suitability**

Members are reminded of their obligation under Rule 53.6 whereby the Member shall use due diligence to learn the essential facts relative to every customer prior to trading the Shares or recommending a transaction in the Shares that an investment in the Shares is suitable for the customer. Members should adopt appropriate procedures for the opening and maintaining of accounts, including the maintaining of records prescribed by any applicable regulatory organization and by the rules and regulations of the Commission.

## **Delivery of a Prospectus**

Consistent with the requirements of the Securities Act and the rules thereunder, investors purchasing Shares in the initial public offering and anyone purchasing Shares directly from a Fund (by delivery of the designated securities) must receive a Prospectus. In addition, Members are required to deliver a Prospectus to all purchasers of newly-issued Shares (i.e. during the initial public offering). Members purchasing shares from a Fund for resale to investors will deliver a Prospectus to such investors.

Prospectuses may be obtained through the Fund's website. The Prospectus does not contain all of the information set forth in the Registration Statement (including the exhibits to the Registration Statement), parts of which have been omitted in accordance with the rules and regulations of the Commission. For further information about a Fund, please refer to the Registration Statement.

In the event that a Fund relies upon an order by the Commission exempting the Shares from certain Prospectus delivery requirements under Section 24(d) of the 1940 Act and makes available a written product description, the Exchange requires that Members provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Trust, no later than the time a confirmation of the first transaction in the Shares, is delivered to such purchaser. In addition, ETP Holders shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other written materials provided by a Member to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of Shares of the Fund has been prepared

by the Trust and is available from your broker. It is recommended that you obtain and review such circular before purchasing Shares of the Fund. In addition, upon request you may obtain from your broker a prospectus for Shares of the Fund.”

An Member carrying an omnibus account for a non-Member is required to inform such non-Member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-Member to make such written description available to its customers on the same terms as are directly applicable to Members under this rule.

Upon request of a customer, Members shall also provide a copy of the Prospectus.

This Information Bulletin is not a statutory Prospectus. Members should consult the Trust’s Registration Statement, SAI, Prospectus and the Fund’s website for relevant information.

Inquiries regarding this Information Bulletin should be directed to David Reed, 866.458.2279.