

MUNICIPAL MARKET STATISTICS

	02-01-21	01-01-21	02-01-20	02-01-18	02-01-16
10-Year AAA MMD Municipal	0.67	0.71	1.17	2.35	1.71
10-Year US Treasury	1.09	0.92	1.51	2.74	1.94
10-Year Muni vs. Treasury	61%	77%	77%	86%	88%
IG Fund Flows YTD	\$14B	\$45B	\$13B	\$3B	\$4B
HY Fund Flows YTD	\$2B	(\$3B)	\$2B	\$500M	\$1B
New Issue Calendar YTD	\$22B	\$474B	\$32B	\$22B	\$26B

LIND CAPITAL PARTNERS MARKET COMMENTARY

As we predicted, the high yield municipal market enjoyed a strong start to the new year. During January, both the LCP Composite and the Municipal High Yield Index (LMHYTR) generated total returns close to 2%, significantly outperforming the Investment Grade Municipal (IG), Investment Grade Corporate and Corporate High Yield indices. Specifically, our Composite exceeded the IG Corporate Index by more than 250 bps. Increased demand reflected by fund flows (above) narrowed the spread between the Municipal HY and IG Indices to 260 bps, only 4 bps behind the 3-year average and a far cry from the widest 3-year spread of 376 bps reached on March 24th. Benchmark HY names Buckeye Tobacco 5% due 2055 and COFINA 5% due 2058 rose 2-3% this month and have generated pre-tax total returns in excess of 65% since March 24, 2020. Similarly, LCP clients have also generated significant price appreciation on top of federally tax-exempt yields between 6% – 7% if they initiated or increased their commitment during 2020.

We view the municipal HY market as fairly valued today. New LCP clients can expect to initiate with a 5.50% federally tax-exempt yield (9.30% taxable equivalent). Despite January's modest calendar we foresee a potential record year of new issue supply in both 2021 and 2022 due to: pent-up demand of municipal capital needs; continued use of taxable municipal debt due to the flexibility it provides borrowers to advance refund existing debt; prospects for a major infrastructure program initiated by the new administration; a supportive interest rate environment due to a Federal Reserve committed to low short term financing rates and continued open market fixed income purchases.

Below we highlight a specific higher education holding, Bard College, and detail our history with the credit and why it has been a longer-term investment.

LIND CAPITAL PARTNERS CREDIT SNAPSHOT

Deal: Dutchess County, New York Local Development Corporation - Bard College. LCP has owned multiple maturities and coupons.

Backdrop: Located two hours north of NYC and one hour from Albany, Bard College offers approximately 2,400 students a traditional liberal arts education at multiple campus locations. Lind Capital initiated investment in the credit in 2016 and continued to accumulate additional holdings, ultimately participating in December's refunding deal. Purchases ranged between 5.25% to 8.70% prior to the recent refunding, LCP clients have benefitted from above market yields due to purchases of a borrower largely misunderstood by the market.

LCP View: Keenly aware of the investor scrutiny which higher education debt is subject to, LCP assesses and monitors numerous quantitative and qualitative factors before and after purchase in the sector. Tuition levels, student draw - regional or national, demand for specific programs, academic quality and reputation, enrollment growth, matriculation and retention rates, operational surplus/deficits, debt service coverage, alumni engagement, restricted vs unrestricted endowments, and other asset valuations are among the many criteria used in our analysis. The onset of COVID resulted in LCP analyzing and monitoring quarantine and remote learning approaches at all of our higher education portfolio holdings to determine the impact on tuition, student housing and other revenue sources.

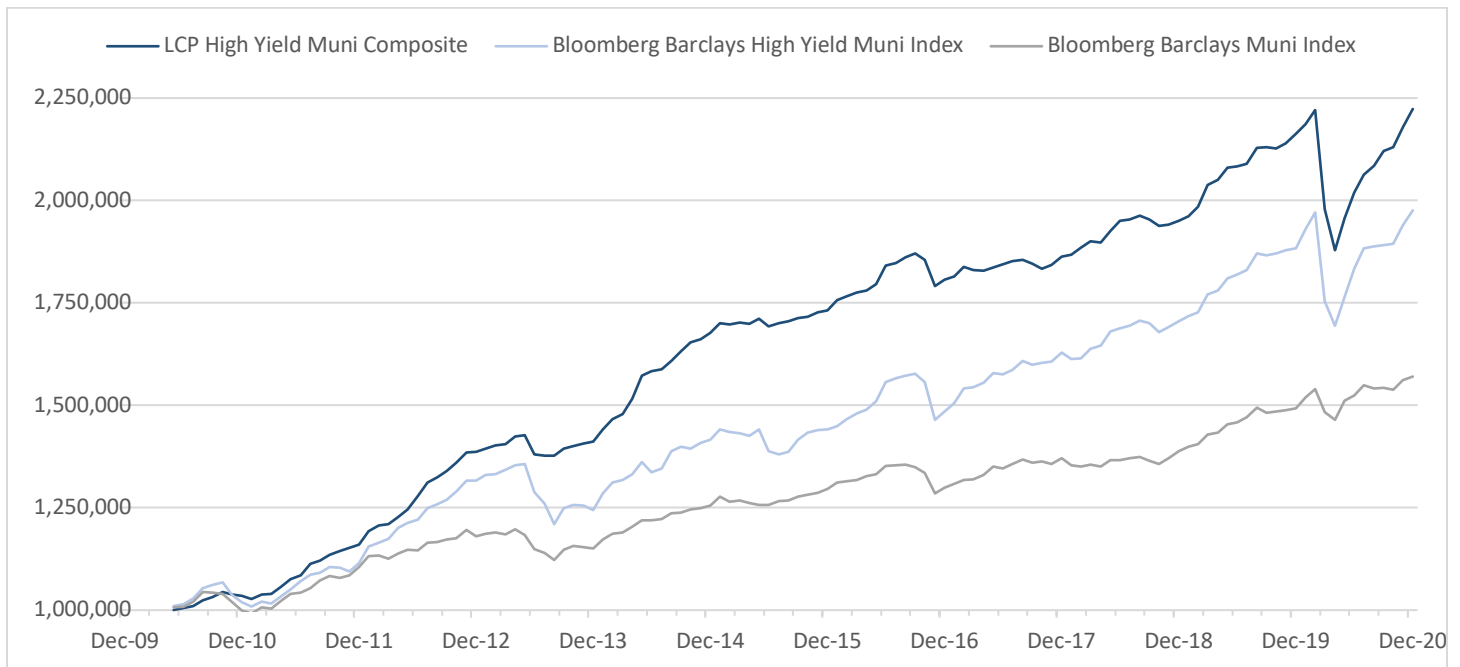
Bard has experienced operational shortfalls since we initiated which led to a Moody's rating downgrade to B1 in August 2016 (re-affirmed in 2019). While revenue shortfalls are always worrisome, LCP's purchase thesis centered on: Bard's strong fundraising history and supportive alumni; largely unrestricted \$200MM+ endowment; value of the school's land, equipment and facilities; and Bard's outstanding academic reputation (ranked in top 50 colleges in the U.S.). The combination of endowment and physical assets far exceeded Bard's total outstanding debt.

Exploiting our disagreement with the rating agency, the downgrade enabled LCP's credit and PM teams to consistently purchase Bard debt at yield levels in excess of comparable higher education borrowers over the last four years. Our credit team identified Bard's intent to refinance all existing debt via a USDA loan in 2018 that ultimately did not come to fruition. Even after the October publication of a rating (S&P – BB+) in anticipation of the December refunding, we were able to purchase Bard debt at a significant discount to par. In December 2020, all outstanding Bard debt was refunded at 4.375%.

Conclusion: LCP understands the risks of the higher education sector, particularly since the onset of the COVID crisis. LCP concurs with market consensus that many smaller, expensive, less competitive colleges will likely close due to declining student enrollments. Conversely, LCP believes competitive schools with a successful track record of fund raising from supportive alumni, like Bard, will continue to do well in the future. Debt from borrowers like Bard College populates all LCP client portfolios. We think that our chosen higher education borrowers will continue to generate high levels of federally tax-exempt income, our main investment goal. We are always ready to discuss individual borrowers and/or the higher education sector upon request.

Milestone: As of December 2020, LCP celebrated its 10th consecutive year of annual, positive total return. While always confident that our disciplined approach to the high yield municipal market was sound, we are grateful to see our investment thesis confirmed over an extended period of time.

LIND CAPITAL PARTNERS HIGH YIELD MUNICIPAL STRATEGY (THROUGH DECEMBER 31, 2020)



The chart above shows the increase in value of \$1,000,000 invested in the LCP composite at inception vs. the benchmark, the Bloomberg High Yield Muni (LMHYTR) as well as the Bloomberg Muni (LMBITR) indices (it is not possible to invest in either Bloomberg Index). Please contact us with questions regarding credit profile, returns, taxable equivalent yields or further portfolio information. Past performance is not indicative of future results. Please see additional important disclosures below.

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