LIND CAPITAL PARTNERS

April 2020

MUNICIPAL MARKET STATISTICS

	04-01-20	03-01-20	04-01-19	04-01-17	04-01-15
10-Year AAA MMD Municipal	1.33	0.95	1.86	2.24	1.96
10-Year US Treasury	0.67	1.16	2.43	2.43	1.93
10-Year Muni vs. Treasury	198%	82%	77%	92%	101%
Open End Fund Flows YTD	Jan-Feb $29B – Mar ($28B)	$26.2B	$21.5B	($440M)	$10.7B
New Issue Calendar YTD	$89B	$68B	$79B	$92B	$108B

LIND CAPITAL PARTNERS MARKET COMMENTARY

Needless to say, the municipal bond market has been **extremely volatile** this past month. 10-year AAA municipal rates opened March at 0.93%, peaked at 2.86% on March 24th and subsequently rallied back to 1.26% on March 30th. 30-year AAA municipal rates opened March at 1.52%, peaked at 3.37% on March 24th and today are back down to 1.99%. Municipal to treasury ratios in 10 and 30 years are typically between 74% to 105%, curve and rate dependent. These ratios moved violently during March, touching highs between 250% to 350%, again curve dependent. These extreme ratios have not been seen since the financial crisis in 2008.

The selloff was driven primarily by mutual fund redemptions and mutual fund de-leveraging. Funds experienced $27.7B of redemptions over the last 3 reporting weeks ending Wednesday, March 25th (see above). $11.7B of the redemptions were from high yield funds, meaning 42% of all fund redemptions were from high yield funds vs. approximately 15% of the overall market. Multiple municipal ETF's liquidated securities during the month, as well, adding to the avalanche of selling pressure. For example, Buckeye Ohio Tobacco 5.00% due in 2055 (referenced in our March 2020 Monthly Note) sold off more than **45 points over 3 weeks ($116 to $70)** - from low to high the yield moved from 3.16% on February 26th to 7.46% on March 20th. The selloff created a generational buying opportunity.

On March 24th, the market bottomed as non-traditional crossover buyers began to buy, attracted to historically wide ratios. Tax-exempt municipal bonds were so attractive, that buyers that do not benefit from the tax-exemption came in and purchased tax-exempt municipal bonds, en-masse. Simultaneously, sophisticated retail investors and SMA managers like LCP were investing, as well.

The fiscal stimulus packages and CARES Act were huge factors supporting the municipal market and supporting investor confidence.

Where does the municipal market go from here?

We maintain that the municipal market is still attractively priced. 10 and 30-year municipal to treasury ratios are now 172% and 137%, well above historical averages. Investment Grade (IG) municipals are off their lows anywhere from 150–160 bps while high yield (HY) municipals are off their lows by approximately 75-100 bps, underperformance relative to the IG rally. It is important to remember that the Federal Reserve has been empowered to add municipal bonds to their QE arsenal, via secondary market purchases, primary market purchases, and direct lending, in an effort to provide stability to the municipal bond market. The impact of this should be felt in the coming weeks.

LIND CAPITAL PARTNERS CREDIT COMMENTARY

From both a pricing and credit perspective, the economic implications of COVID-19 are evolving every day. Accordingly, Lind Capital continues to assess the economic impact on all sectors of the municipal market, irrespective of whether we actively invest or not. Municipal sectors of general concern: Sales tax, transportation, ports, airports, airline backed IDRs, mass transit, convention centers, oil related industrial development issues and oil dependent states like Louisiana, North Dakota and Alaska. Specific sectors of concern to LCP and our clients: Healthcare and senior living facilities issues, higher education, charter schools, housing and student housing, economic development and hospitality.

As the details of the $2.2 trillion CARES Act passed by Congress became known last week, we have factored that into our assessment. Broadly, $150B of relief will go to states, local and tribal governments; $140B will go to hospitals and healthcare systems; and, $127B is earmarked for public health and social services.

Healthcare and Hospital Systems. Hospitals are providing critical services to citizens today. While elective surgeries that generate larger profit margins for hospital systems are on hold, the CARES Act specifically earmarks money for increased costs associated with COVID-19 treatment and lost revenue from curtailing elective surgeries. We like healthcare/hospitals and will buy selectively.

Senior Living. Closely Monitoring. We were very encouraged by the pro-active approach taken by management to ensure the safety of residents at facilities of our portfolio holdings. We nonetheless remain cautious about new purchases due to virus outbreak potential and the possible disruption of supply chains due to shortages. Any purchases are extraordinarily electively.

Economic Development. We are avoiding credits that are backed by sales taxes and more economically sensitive revenue streams. Purchases will be project dependent where we can understand the stream and viability of revenues that back bonds.

Higher Education. Today, we cannot yet determine what impact tuition and housing refunds will have on a college or university's liquidity. We are concerned that international student enrollment may decline – these students traditionally pay higher fees than domestic students. We are extremely cautious on the sector; higher education debt purchases will be vetted thoroughly.

Student Housing. More vulnerable than higher education, especially for projects that are not directly sponsored by the schools whose student populations pay fees. Today, not a buy candidate.

Multi-Family Housing. We will look to purchase selectively with the right demographic and financial profile.

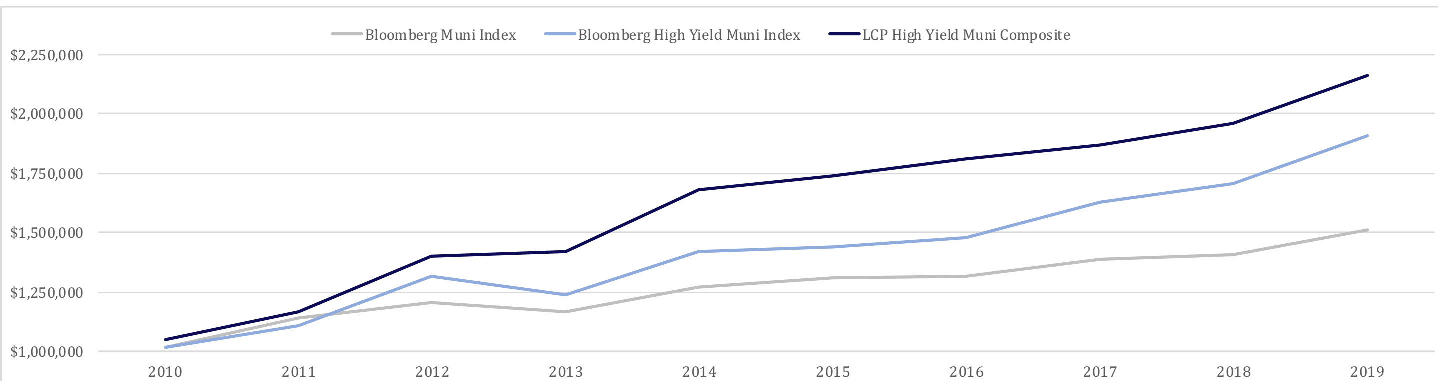
Charter Schools. Closely monitoring. Through our independent outreach, we have determined that multiple state Boards of Education (BOE) will continue to fund the charter schools that we hold in customer portfolios. We worry that BOE might adjust payments to charter schools based on a shorter school year, actions that could negatively impact project-financed charter schools with high leverage. Purchase selectively.

Credit analysis has never mattered more than right now.

At Lind Capital we believe we can construct new portfolios at a blended tax-free yield of 6.50%. For comparison on March 1st, we were targeting new portfolios with a tax-exempt yield of 5.00%. Importantly, while the worst of the liquidations may be behind the mutual fund world, we do not think that the selling pressure has ended, yet.

We welcome the opportunity to discuss anything contained herein or the broader municipal market.

LIND CAPITAL PARTNERS HIGH YIELD MUNICIPAL STRATEGY (THROUGH DECEMBER 31, 2019)



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.