



MUNICIPAL MARKET STATISTICS

	5/1/19	5/1/18	5/1/17	5/1/16	5/1/14
10 Year AAA Municipal	1.86	2.49	2.14	1.62	2.30
10 Year US Treasury	2.53	2.96	2.30	1.82	2.70
10 Year Muni/Treasury	➤➤➤ 74%	84%	93%	89%	92%
Open End Fund Flows	\$28.5 Billion	\$7.2 Billion	(\$5.5 Billion)	\$18.7 Billion	(\$5.8 Billion)
New Issue Calendar YTD	\$101 Billion	\$98 Billion	\$123 Billion	\$135 Billion	\$91 Billion

April mutual fund inflows of \$4.3 Billion drove Municipal : Treasury ratios to 18 yr. lows, reaching 74%. Of the aggregate \$28.5 Billion YTD, 22%, or \$6.3 Billion, was directed to high yield municipal funds as the new issue calendar remained manageable.

LIND CAPITAL PARTNERS CREDIT SNAPSHOT

Deal: COFINA (Puerto Rico Sales Tax Corporation). Proceeds were used to paydown and refinance existing Commonwealth debt.

Backdrop: COFINA issued over \$16 Billion in debt securities, using senior and subordinate lien structures backed by a share of Commonwealth sales taxes. Maximum annual debt service (MADS) for the Senior Lien = 5x, with Senior and Subordinate combined = 2x. Total outstanding municipal debt for the island exceeded \$70 Billion, as its population hovered at or below 3.7 Million people (for debt per capita of nearly \$19,000).

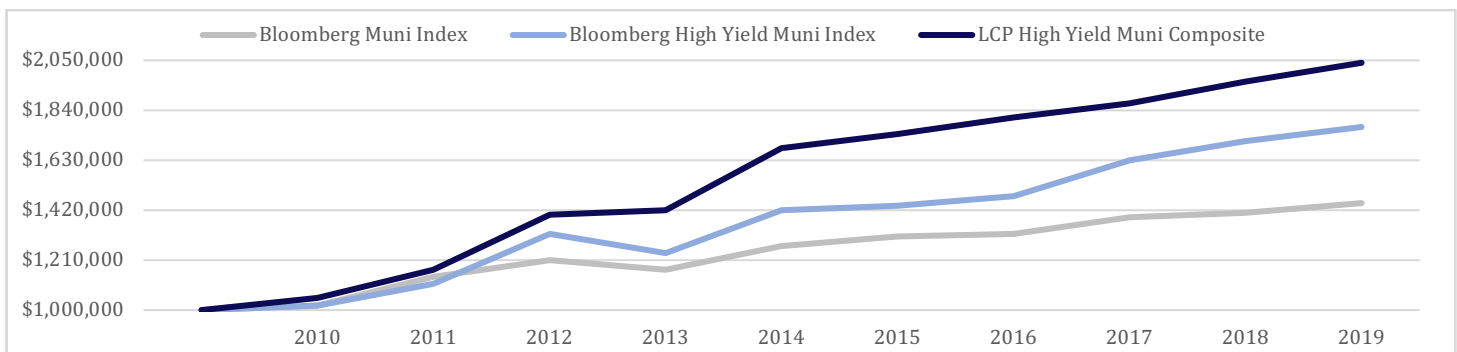
LCP purchase, Round 1: Passage of the Puerto Rico Recovery Act in June 2014 specifically excluded COFINA from restructuring capability; recognizing the legal and structural integrity of COFINA debt. LCP purchased Senior lien bonds in the mid \$70s, at a triple tax exempt 7.00%+ yield. LCP's Thesis: COFINA was solvent and had more than sufficient revenue to meet debt service payments, while legal and structural provisions provided safeguards against the Commonwealth seizing deposited funds held by the trustee. MADS coverage provided COFINA bondholders the latitude to offer the Commonwealth a discount in the event of a consensual restructuring.

LCP purchase, Round 2: In 2016, the U.S. Supreme Court ruled the Recovery Act to be unconstitutional. Markets for COFINAs and all Puerto Rico bonds grew extremely chaotic. In the low \$50s, LCP added on to its existing COFINA position, and harvested tax losses on behalf of existing holders.

In early 2017, the Commonwealth filed to restructure its debt (including COFINA) and a federal judge was appointed to preside over the proceedings. When Hurricane Maria devastated the island in late 2017, COFINAs traded further down, into the high \$30's, and well below LCP's projected recovery levels. Fully invested to allocation limits, LCP Portfolio Managers decided to hold. In November of 2018, the Commonwealth agreed to a restructuring in which senior lien COFINA bondholders would receive \$93 in the form of a cash distribution and newly issued debt. Since the exchange, the new COFINA bonds have continued to rally.

Conclusion: LCP maintained strong conviction, through both rounds of purchases, that the revenue streams backing the Senior Lien debt were sound from both a structural and legal perspective. Ultimately, the November 2018 agreement validated this investment thesis. In hindsight, LCP did *not* anticipate the arduous political infighting that materialized among multiple entities regarding potentially available revenue streams, nor the material impact of the hurricane on the recovery process.

THE LIND CAPITAL PARTNERS HIGH YIELD MUNICIPAL STRATEGY



The chart above shows the increase in value of \$1 Million invested in the LCP composite at inception vs. the benchmark, the Bloomberg High Yield Muni (LMHYTR) as well as the Bloomberg Muni (LMBITR) indices. Please reach out with questions regarding credit profile, returns, taxable equivalent yields or further portfolio information.

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