LIND CAPITAL PARTNERS

May 2020

MUNICIPAL MARKET STATISTICS

	05-01-20	04-01-20	05-01-19	05-01-17	05-01-15
10-Year AAA MMD Municipal	1.42	1.33	1.81	2.14	2.12
10-Year US Treasury	0.60	0.67	2.38	2.30	2.07
10-Year Muni vs. Treasury	236%	198%	76%	93%	102%
Open End Fund Flows YTD	$(20.1B)	$(749M)	$25.4B	$(5.5B)	$11.9B
New Issue Calendar YTD	$117B	$89B	$107B	$123B	$149B

LIND CAPITAL PARTNERS MARKET COMMENTARY

YTD fund flows through April were $(20B); redemptions from March 1st through May 1st alone, were a staggering $(48B). Beyond the sheer volume, the speed with which the redemptions occurred is the real story. Never in history have municipal fund complexes endured that volume of redemptions over such a condensed time period. One continuing by-product of the selling pressure is elevated Municipal vs. Treasury ratios, evidenced by 10-year AAA ratios at 236% at month-end (above). Extraordinary actions by the Fed to lower US Treasury rates via open market purchases have added to the dislocation. Elevated ratios will persist for some time indicating traditional statistics used to measure the relative attractiveness of municipals are not relevant.

Today the municipal market continues to suffer from a significant liquidity crisis and may be subject to further gyrations resulting from retail fund flows. As the Fed MLF program and additional federal stimulus plans are implemented we expect the market to stabilize and thus, ease investor anxiety over municipal credit.

Issues as varied as the US economy on lock-down, retail selling pressure, secondary market illiquidity, mutual fund leverage, an inverted municipal curve, bankruptcy for states, downgrade potential, CARES ACTs 1 and 2, individual state's staged re-openings, COVID-19 testing, oil prices, PPP eligibility, 30MM plus jobless claims have all been having an impact on the municipal market. We look back and look ahead to see how some of these factors have impacted the high yield municipal market and assess what we think the future holds for investors.

What We Have Learned

- The Tax Cuts and Jobs Act of 2017 essentially eliminated bank portfolios and property-casualty company participation in the tax-exempt municipal market. Municipals today have become almost entirely retail-driven via mutual funds, ETFs and SMAs.
- Heavy mutual fund selling to meet retail investor redemptions from March through April highlighted that the municipal market lacked a diverse investor base, causing a massive sell off at an accelerated pace. Liquidity now comes at a significant premium and results in rising yields to accommodate investor selling, irrespective of municipal relationships relative to other fixed income markets or underlying credit characteristics.
- The forced unwinding of mutual fund leverage in early March (due to yield curve inversion) exacerbated the illiquidity caused by retail redemptions.
- In the midst of 61 weeks of positive fund inflows, we have been told that mutual fund managers bought shares of ETFs due to the lack of market supply of individual bonds to minimize cash drag on portfolio performance. Additionally, the ETF holdings were viewed as a "more liquid" asset than traditional portfolio holdings.
- The recent selling of ETF shares by institutional and retail investors led to the equity trading at a substantial discount to the NAV. That anomaly led to further selling by more than one ETF which drove bond prices down as well as the NAVs of mutual funds that held ETF shares. Lower NAVs led to further retail redemptions of mutual funds which caused the cycle to repeat. In the ETF world sell pressure continues today, per a report from the MSRB.
- With the exception of some non-traditional participants (cross-over buyers), municipal interest rates today are strictly the product of supply and retail demand; and, when retail is selling or the market experiences an increase in new issue supply, rates will rise.
- Credit is now at the forefront of investor's minds, and rightfully so. The COVID-19 pandemic and resulting economic shutdown will have implications on municipal credit in the coming months and years. It is now more important than ever to understand the underlying credit fundamentals of all portfolio holdings.

Looking Ahead

While credit analysis has always been the foundation of our portfolio construction, we think it is valuable to provide an update on our view regarding our target sectors:

- **Senior Living.** COVID-19 outbreaks and contagion risk are of highest concern among senior living facility administrators, as well as LCP. Generally, due to the separation of Independent Living Units (ILU) and Assisted Living Units (ALU) from Skilled Nursing Units (SNU), outbreaks are more readily contained at CCRCs versus stand-alone nursing homes. LCP tracks our facilities closely for COVID cases and are always ready to discuss.

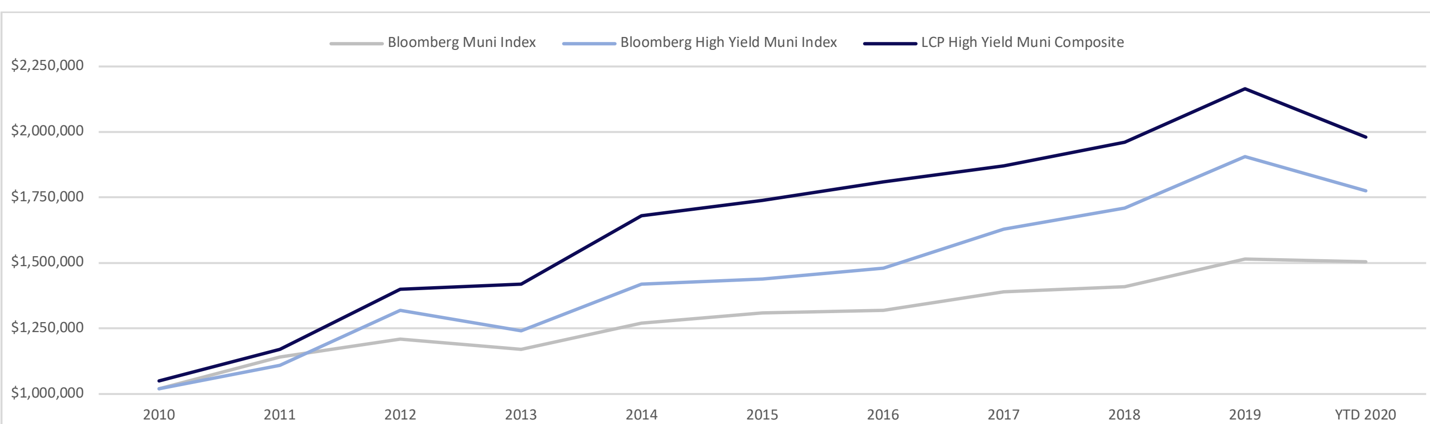
CCRCs are extremely labor-intensive operations, meaning access to the Cares Act PPP for payroll and mortgage support could be extremely beneficial for eligible institutions, as well as other federal loan/support programs. Marketing for new residents has moved to a virtual campaign format, an additional challenge for facilities with vacancies. We are closely monitoring Days Cash on Hand (DCOH) metric for all of our facilities, a good measure of a facility's ability to weather this storm. We anticipate additional selling pressure in the sector. **Extremely selective buyer**.

- **Healthcare and Hospital Systems.** LCP maintains modest sector exposure due to the relatively lofty valuations prior to the COVID outbreak. Healthcare has likely been more directly affected than any other sector of the municipal market. Hospitals have incurred increased treatment costs and greatly diminished revenue due to elimination of elective procedures. The CARES ACTs 1 and 2 specifically earmark over $200B for increased costs to healthcare providers associated with COVID-19 treatment, as well as, lost revenue from elimination of elective procedures. We take comfort in the essential nature of the services provided to the general population, as well as, substantial federal support for healthcare. We will **purchase selectively**.
- **Higher Education.** LCP's concerns in higher ed include long-term enrollment declines, dependence on foreign students (full tuition payers), tuition and room and board re-imbursements for the current year and delayed fall openings. Enrollment figures for fall-2020 for both domestic and foreign students will be extremely important. Core curriculum, financial cost and student profile are critical in our analysis. For our holdings we are focused on endowment levels and unrestricted accessibility, as well as, other sources of short-term liquidity. Historical fundraising and alumni engagement are important factors to also consider. **Selectively purchase.**
- **Charter Schools**. Our biggest concern for the sector is the high degree of leverage to finance facility construction. Knowing that public education has been and will continue to be a primary role of municipal governmental finance, we are monitoring the COVID-19 impact on state and local taxing bodies that fund our charter school holdings. We do not foresee significant enrollment declines in the fall of 2020. Additionally, we expect every effort to be made to open both public and charter schools in the fall, as they serve an essential role in both the education and care of children. **We are actively looking for, and finding, opportunities in the sector.**
- **Economic Development.** LCP is project focused in the sector. If we can readily understand and model the revenue stream backing a project, and then get comfortable with the project and debt service coverage, we may buy. LCP avoids more economically sensitive debt such as project specific sales tax backed bonds and new development property tax assessment issues. **We are looking, and finding, mature and stable economic development projects.**
- **Student Housing.** More vulnerable than higher education, especially for projects that are not directly sponsored by the schools whose student population pay fees. **Avoiding the sector, currently.**
- **Multi-Family Housing**. We will **purchase selectively** with the right demographic and financial profile.

Arguably, the municipal market is suffering from the worst liquidity crisis in 30-years. As a result, credit spreads are at the widest levels in many years. The historically wide spreads can be attributed to technical factors and credit concerns; but both are exacerbated by the absence of market liquidity. Many projects in the high yield market are in, or headed for, default. Projects that struggled to make sense in a thriving economic environment will not survive the impending economic slowdown. Mutual funds and ETFs largely comprise ownership of these assets.

However, there are plenty of high yield assets that will continue to fulfill their mission in the current environment and meet their financial obligations. Today, we are able to purchase assets that in mid-February were trading 300+ bps lower in yield, indicating we are finding projects that we approve at 7.00% and higher, tax-free yields. We re-iterate that the high yield municipal market offers compelling relative value if accompanied with proper pre-investment due diligence and ongoing credit surveillance.

LIND CAPITAL PARTNERS HIGH YIELD MUNICIPAL STRATEGY (THROUGH MARCH 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.

DISCLOSURE