LIND CAPITAL PARTNERS

July 2020

MUNICIPAL MARKET STATISTICS

	07-01-20	06-01-20	07-01-19	07-01-17	07-01-15
10-Year AAA MMD Municipal	0.84	0.80	1.63	1.99	2.28
10-Year US Treasury	0.62	0.66	2.01	2.27	2.36
10-Year Muni vs. Treasury	135%	121%	81%	88%	97%
Open End Fund Flows YTD	$(5.7B)	$(16.2B)	$38.3B	$4.7B	$9.8B
New Issue Calendar YTD	$195B est.	$150B	$173B	$201B	$226B

LIND CAPITAL PARTNERS MARKET COMMENTARY

As of June 30th, municipal high yield funds experienced their 6th consecutive week of positive inflows, closely mirroring the 7 consecutive weeks seen by investment grade funds. While high yield returns continue to lag the investment grade sector by almost 5% year-to-date, the high yield market has now outperformed investment grade market for two months in a row. As often discussed, LCP believes the high yield municipal market offers considerably better relative value compared to the investment grade market.

OPPORTUNITY TODAY

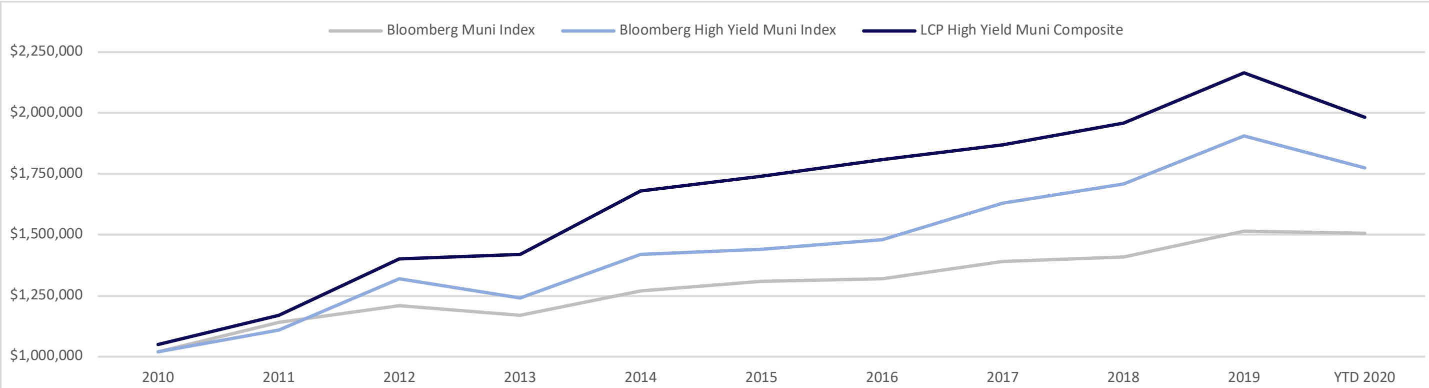
Intersection of Credit Research and Portfolio Management. Secondary market activity in June led LCP to revisit previous monthly commentary illustrating how our veteran Research and PM teams add-value to client portfolios. Last December we wrote "$206MM St. Camillus priced during the week of November 11th with term bonds due in 2054… the yield was re-priced lower and sold to buyers at 4.67%... The lead underwriter reported that St. Camillus had $1.8B in orders for $120MM term bonds. That level of oversubscription is highly unusual, reflecting the tremendous demand created by flows into high yield funds. The following week… $68MM Clark Retirement Community with term bonds due in 2054… met with limited investor reception. Over the course of the following 2 weeks the deal was re-priced….to generate institutional investor interest. Finally, on November 27th, the deal was placed with investors with a maximum term yield due in 2054 at 6.00%." The Clark deal included 5.50% term bonds due 2039 yielding 5.62% which LCP purchased as a long-term portfolio holding.

Why such a significant yield differential between two midwestern senior living borrowers in the midst of expansion projects with similar underlying credit profiles? Mutual funds dominate the municipal market and fund flows dictate mutual fund investment behavior. The $206MM St. Camillus deal was large enough to entice participation by open-end mutual funds that were in the midst of an unprecedented 61 consecutive weeks of new money inflows. The $68MM Clark Retirement deal was not. For mutual funds, it is often more important to deploy new capital rather than buying the best relative value bond available. On the day LCP purchased Clark Retirement 5.50% due 2039 at 5.62%, St. Camillus 5.00% due 2054 traded at 4.13% (November 27th), 133 basis points lower in yield with a maturity 15 years longer than the Clarks.

Financial Implications: While the referenced bonds trade infrequently, as of mid-June an investor who purchased Clark Retirement at the new issue has experienced a negligible principal erosion of only 5 basis points (June 12th trade at 5.67%). An investor who purchased St. Camillus on November 27th has suffered principal erosion of 122 basis points which equates to a fourteen-point loss (June 18th trade at 5.35%). On a $1MM investment, the Clark Retirement investor will generate $56,200 of tax-exempt income per year while the St. Camillus investor will only receive $41,300 per year, a $14,900 or 36% differential. Further, income generated from Clark Retirement is exempt from Michigan's flat 4.25% in-state tax rate while income from St. Camillus is not exempt from Wisconsin's 7.65% max tax rate, a factor that is likely to increase investor demand for Clark over time and an important portfolio management consideration.

Conclusion: The Clark Retirement example highlights a market inefficiency that Lind Capital seeks to exploit. We are able to differentiate ourselves with intentional focus on deals sized between $15-125MM, and selective participation based on credit approval and relative value. These deals are too small and often overlooked by mutual funds and too large for underwriters to place entirely through retail distribution. While LCP's investment objective is to generate high levels of tax-exempt income and preserve capital, our ability to exploit these inefficiencies often results in additional price appreciation for our clients' portfolios.

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 below.

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