LCP LIND CAPITAL PARTNERS

Municipal Market Statistics **August 2024**

	08-01-24	07-01-24	08-01-23	08-01-21	08-01-19
10-Year AAA BVAL Municipal	2.76%	2.87%	2.51%	0.82%	1.51%
10-Year US Treasury	4.03%	4.46%	3.97%	1.18%	2.02%
10-Year Muni vs. Treasury Ratio	69%	64%	63%	70%	75%
IG Fund Flows YTD	$6.5B	$4.9B	($8.1B)	$53.6B	$38.9B
HY Fund Flows YTD	$6.7B	$5.6B	$1.4B	$16.3B	$11.4B
IG (LMBITR) Total Return YTD	0.49%	(0.58%)	3.08%	1.94%	5.94%
HY (LMHYTR) Total Return YTD	5.16%	3.79%	5.11%	7.44%	7.33%
New Issue Calendar YTD	$273B	$239B	$199B	$260B	$191B

Lind Capital Partners Municipal Market Commentary

- **Market Performance and Benchmark Rates:** The Bloomberg Muni High Yield Index (LMHYTR) posted its third-straight month of positive performance, returning 0.98% in July. The Bloomberg Municipal Bond Index (LMBITR) returned 0.90% this past month, it's second straight month of positive performance. While the pace of outperformance by high-yield moderated in July, the year-to-date divergence remains pronounced as the high-yield index has returned 5.16% where as high-grade, while positive, is only up 0.49%. We highlighted this divergence last month.

  Falling benchmark yields drove performance in July as yields ended the month lower by 20bps in 5 years and 10bps in 10 & 30 years. The US Treasury market outperformed, and bull steepened, ending the month lower by 46bps in 5 years, 36bps in 10 years, and 25bps in 30 years.

- **Mutual Fund Flows:** Capital continued to pour into municipal mutual funds in July as both investment grade (IG) and high-yield (HY) funds experienced inflows all 4 weeks this month. IG inflows totaled close to $3B while HY inflows totaled over $1B. This brings high-yield funds' inflow streak to 14-striaght weeks and 28 out of 30 in 2024. Year-to-date flows are firmly positive for both high-grade and high-yield mutual funds, which now total over $13B and $6.5B, respectively. We use mutual fund flows as a barometer of retail investor demand. Positive fund flows provide market support and outflows a sign of stress. During periods of significant outflows, we use mutual fund portfolios as a source of bonds for our client portfolios.

- **Primary Market Supply:** Municipal supply is slated to finish the month close to $37B. That figure is 29% higher than July's issuance total last year and total issuance year-to-date remains significantly higher YoY (~38%). While the non-and-lower rated new issue supply continues to provide numerous opportunities on a weekly basis, the issuance has not been enough to satisfy the appetite of the growing institutional and retail investor base.

Lind Capital Partners Municipal Non-Rated Market Commentary

Last month, we highlighted the divergence between the investment grade and high-yield municipal bond markets and the root causes of the divergence. With the Fed poised to pivot towards rate cuts in the coming months, we are frequently asked "Where do we go from here…?" Investors have moved from TINA ("There is No Alternative") to PATTY ("Pay Attention to the Yield"). The following represent a sampling of the questions, and our responses, to frequently asked questions:

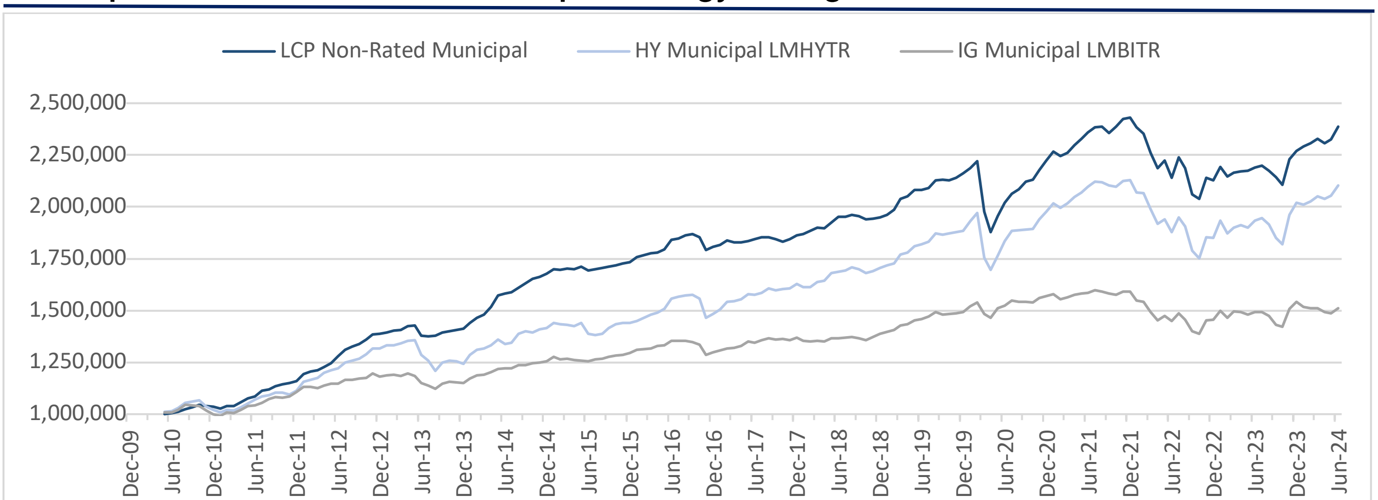
- *Given significant outperformance, is there still opportunity in high yield and non-rated municipal bonds?*
  - **Yes, while our non-rated strategy has outperformed the investment grade market, it has lagged high-yield performance year-to-date. We attribute this to our targeted sector and sub-sector focus, which differs from the composition of the high-yield index. Many of the larger positions in the index (in which we intentionally do not invest) have been the primary drivers of**

recent outperformance. In addition, the smaller, non-rated deals we focus on are less sensitive to changes in US Treasury yields. If the Fed begins a rate cut cycle, we may expect to see investment grade municipals outperform, which would widen the spread between non-rated municipals and investment grade municipals and make them more attractive on a relative basis. As a reminder, we construct long-term portfolios to generate high levels of tax-exempt income. Today, we are populating new portfolios with tax-exempt yields +/-7.00%, which we view as attractive on both an absolute and relative basis.

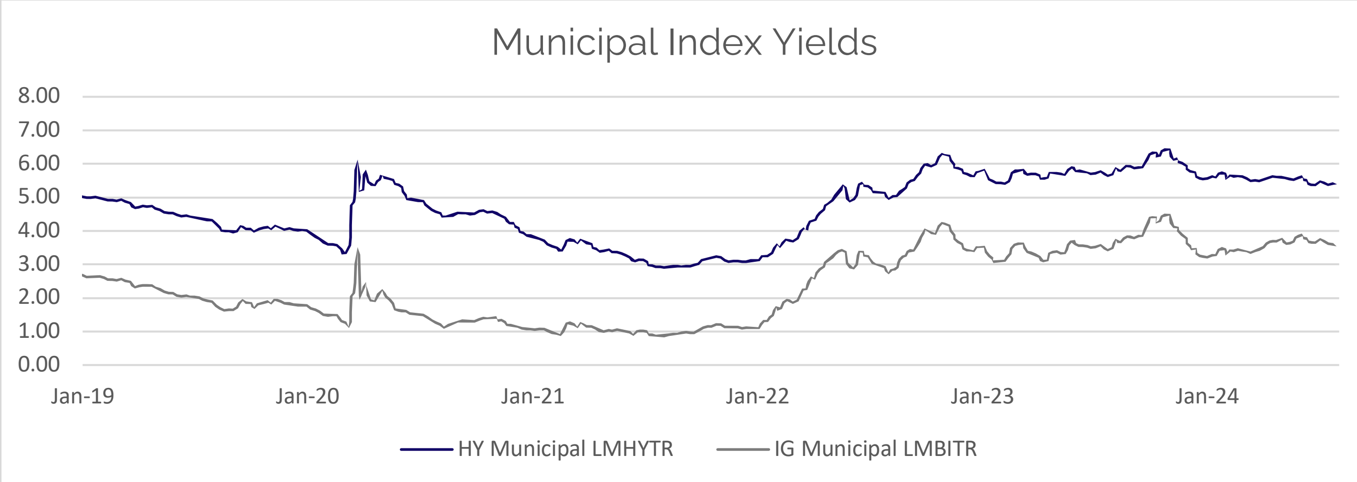
- *Why do you favor discounted bond structures compared to par bonds for new portfolios?*
  - Given market sentiment is the next Fed moves will be to lower rates rather than increase rates, we believe the discounted structure provides investors with the best positioning to take advantage of lower rates (see below). Additionally, the discounted structure is indicative of our borrowers locking in long-term financing costs at historically low rates. This can provide significant benefit from a long-term credit perspective (again, see below).
- *What are the implications to new portfolios of falling rates? Are investors likely to have their bonds called or redeemed at par as rates fall?*
  - **Our new portfolios are currently constructed with bonds purchased at significant discounts to par, generally +/- $85. This discount provides investors with *upside* protection of 100[1] basis points before optional par calls come into play. Additionally, the discounted structure of newly constructed portfolios provides investors with the potential for significant total return in a falling rate environment. If the yield on a new portfolio were to fall by 50 basis points, we would expect price performance to add 6% to portfolio return, a decline of 100 basis points would likely add 13% to the return profile[1].**
- *If falling rates are the result of a slowing economy, are you concerned with the underlying credit quality of portfolio holdings?*
  - No. We view the current credit environment in our target revenue bond sectors as the strongest since the onset of COVID. Admittedly, federal support provided a lifeline to many borrowers, they have adapted well to the current market environment and are generally in strong credit positions entering a potential downturn. Additionally, as we have noted before, our target sectors are largely insulated from traditional economic cycles, particularly economic slowdowns…we like to refer to them as “recession resistant” sectors.

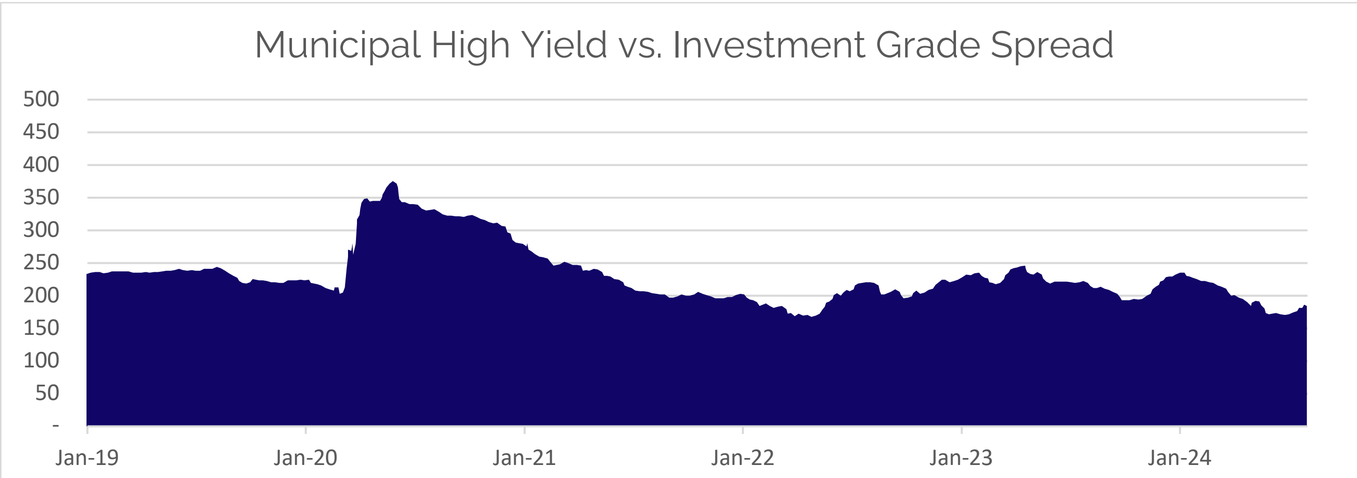
[1]Based on a representative new portfolio with an average coupon of 5.50% and average maturity of August 1, 2046 purchased at 7.00% yield or $83.288 dollar price.

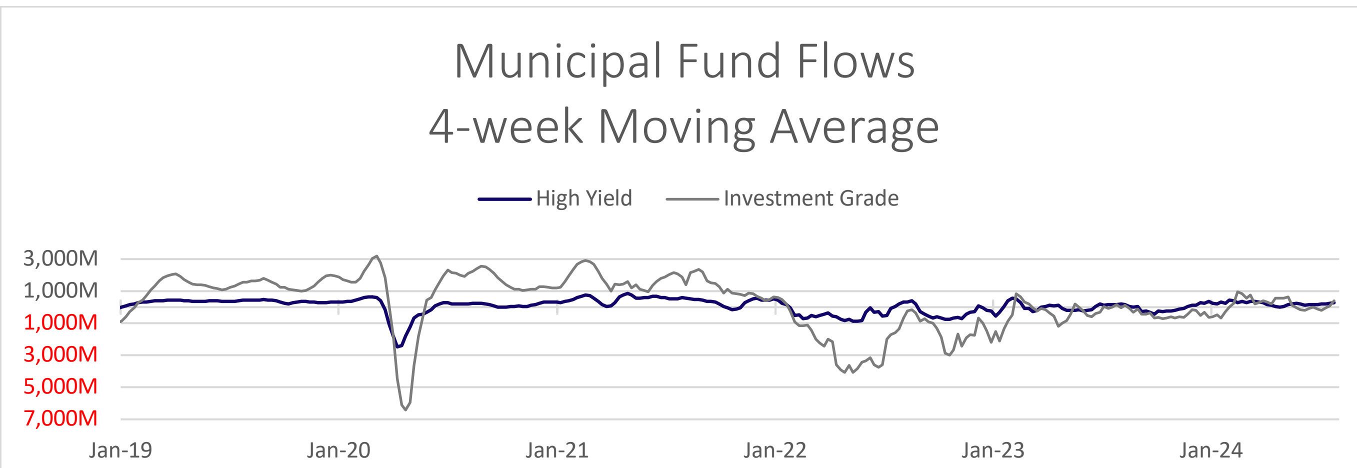
Lind Capital Partners Non-Rated Municipal Strategy (through June 30, 2024)



The chart above shows the increase in value of $1,000,000 invested in the LCP composite at inception (net of management fees and expenses) 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.







Sources: Refinitiv and Bloomberg LP

Disclosure

Past performance is not indicative of future results. An investment in the Lind Capital Partners Non-Rated Municipal strategy is not suitable for all investors. Investing involves risk, and municipal instruments can be affected by adverse political and economic conditions. The material contained herein is provided for informational purposes only and is not financial advice, should not be construed as an offer to buy, hold, or sell any security or to invest in the strategy, and may contain information from third party sources Lind Capital Partners, LLC (LCP) believes to be accurate. Any offer for investment in the LCP limited partnership vehicle will be made exclusively to qualified investors on a private placement basis, and only by means of a private placement memorandum, which contains detailed information concerning investment terms. LCP is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration as an investment advisor does not imply a certain level of skill or training. Performance information (time-weighted rate of return) is provided for the LCP Non-Rated Municipal Composite (Inception May 1, 2010) which is comprised of all fully discretionary accounts managed in the LCP High Yield Muni Strategy. Performance returns include realized and unrealized gains and losses; are calculated total return, net of actual advisory fees and transaction costs, including distributions to Limited Partnership investors where appropriate. Refer to LCP's Form ADV Part 2A for additional information related to advisory fees and services. This document is publicly available and upon request by contacting: Info@LindCaptialPartners.com. Performance measured by Cortland Capital Services, Clearwater Analytics, NAV Consulting, ICE Data Services and Bloomberg. Opinions expressed are those of LCP and should not be considered a forecast of future events or a guarantee of future results. Opinions and estimates offered constitute our judgment as of the date set forth above and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. All material presented is compiled from sources believed to be reliable, but no guarantee is given as to its accuracy. Taxable equivalent yield = (Tax-Exempt Yield)/(1-Federal Tax Rate).