LCP

MUNICIPAL MARKET STATISTICS

	9-1-19	8-1-19	9-1-18	9-1-16	9-1-14
10 Year AAA Municipal	1.25%	1.52%	2.44%	1.42%	2.07%
10 Year US Treasury	1.52%	2.05%	2.85%	1.60%	2.38%
10 Year Muni/Treasury	82%	74%	86%	89%	87%
Open End Fund Flows	$61.8 Billion	$51.5 Billion	$11.4 Billion	$45.1 Billion	$1.9 Billion
New Issue Calendar YTD	$230 Billion est.	$194 Billion	$228 Billion	$300 Billion	$206 Billion

In the wake of the Federal Reserve's rate cut in July, the month of August saw a strong fixed income rally in addition to a curve flattening. As of this writing, the 2 to 10-year treasury curve is -1 bp and has sustained an inverted posture for a full week. Typically, when treasuries rally municipals lag initially. The lag is borne out by the 10-year Muni vs. Treasury ratio moving from 74% to 82%, month over month.

In the midst of continued record inflows to the municipal marketplace, (see above) one positive is that new issue supply is increasing. Depending on final figures, August's new issue total should exceed $35 Billion. More significantly, the 30-Day Visible Calendar has risen to $12.8 BN versus an average of $9.8 BN year to date which means that more supply is imminent as we enter the final third of the year. Increased supply may prevent ratios from approaching the extremes seen earlier this year.

With 3 through 7-year AAA yields nearing and piercing 1.00%, we think the high grade municipal market's appeal to retail investors may wane, much like occurred in 2016. For comparison in the LCP High Yield world we still invest on behalf of clients well in excess of 5% tax free – i.e., recent purchases of Portland, ME Cedars at 5.75%, and Boise, ID for the Terraces well behind 8% - meaning that our maximum tax bracket clients achieve far more compelling taxable equivalent yields exceeding 10%.

Still a number of geopolitical and domestic issues have impacted all markets and likely will continue to do so: Trade wars/tariffs, unrest in Hong Kong, court challenges to the legality of Illinois debt, etc. As stated previously, in uncertain times it has never been more important to maintain a consistent, disciplined approach to investing. Rather than focus on an existing holding, this month the LCP team chose to highlight a deal currently in the news to illustrate the risk of not looking at credits in depth.

LIND CAPITAL PARTNERS CREDIT SNAPSHOT

Deal: Provident OK DFA: Cross Village Student Housing at the University of Oklahoma. LCP is **not** a holder, currently.

Backdrop: In the spring of 2017, OK DFA issued $251mm to construct a high-end student housing project known as Cross Village. The project included significant retail and parking components and was scheduled to open in August 2018, prior to the start of the 2018-19 school year. S&P assigned the project a BBB- rating noting: Strong project ties to the university, steady university enrollment and housing demand, and an experienced construction contractor.

LCP generally views student housing transactions, structured as partnerships with universities, favorably. Positive structural components that we look for include: The university assumes property ownership once bonds are paid off, the university markets the housing complex on its website, the university collects housing payments from students. All are indicative of a healthy relationship between a developer and a University and Cross Village possessed all three.

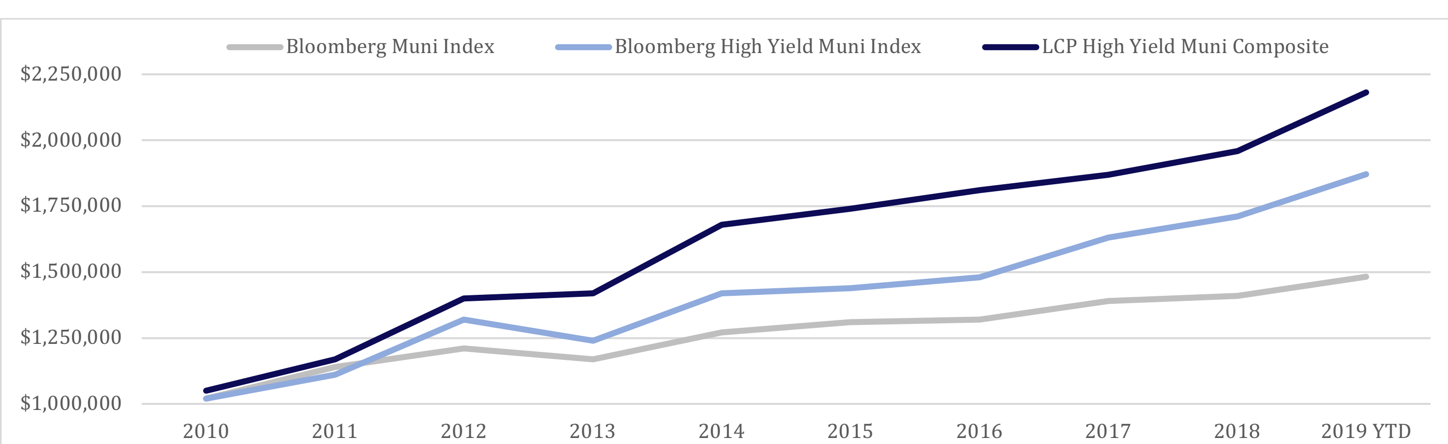
LCP View: Still, LCP did not purchase Cross Village due to insufficient pricing and other structural deficiencies. The deal lacked operating and working capital reserves. In addition, the developer made an upfront ground-lease payment of $20 million to the university, which is unusual. The university's long-term lease contained annual renewal options, unfavorable to bondholders.

This spring, LCP learned about leasing underperformance in both the housing and commercial aspects of the property. Still bonds continued to trade close to par through mid-year, with buyers evidently hopeful that the University would support the deal through rent subsidies to students.

Last month, the university declined to exercise its annual lease renewal option on the retail and parking components of the project, noting that rental rates were significantly above market. Rental subsidies never materialized. Bonds subsequently traded off into the mid-$60's. S&P downgraded the bonds to CC on August 9th, 2019.

Conclusion: On the surface, Cross Village appeared to be a healthy partnership between the University of Oklahoma and the developer. However, structural issues presented significant operating hurdles; an upfront ground-lease payment, a poorly structured lease, a lack of operating and working capital reserves, and above market rents. Such hurdles placed bondholders' interests at risk, causing LCP to question S&P's initial BBB- rating. A purchase of high yield municipals requires analysis that accounts for financial, structural, sector and local market factors.

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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