LIND CAPITAL PARTNERS

**Municipal Market Statistics** **September 2023**

| | 09-01-23 | 08-01-23 | 09-01-22 | 09-01-20 | 09-01-18 |
|---|---|---|---|---|---|
| 10-Year AAA BVAL Municipal | 2.85% | 2.51% | 2.59% | 0.79% | 2.45% |
| 10-Year US Treasury | 4.11% | 3.97% | 3.20% | 0.71% | 2.86% |
| 10-Year Muni vs. Treasury Ratio | 69% | 63% | 81% | 112% | 85% |
| IG Fund Flows YTD | ($9.0B) | ($8.1B) | ($71.0B) | $19.9B | $7.6B |
| HY Fund Flows YTD | $1.5B | $1.4B | ($12.6B) | ($5.7B) | $4.3B |
| IG (LMBITR) Total Return YTD | 1.59% | 3.08% | (8.62%) | 3.31% | 0.26% |
| HY (LMHYTR) Total Return YTD | 3.52% | 5.11% | (10.51%) | 0.27% | 4.87% |
| New Issue Calendar YTD | $235B | $199B | $262B | $289B | $214B |

## Lind Capital Partners Municipal Market Commentary

- ***Municipal Market Performance***: Bloomberg Barclays Muni Index LMBITR gave back June and July's gains in August, posting a loss of -1.44% for the month [+1.59% YTD]. The Bloomberg Barclays HY Muni Index LMHYTR followed suit, posting a loss of -1.52% in August [+3.52% YTD].
- ***AAA Municipal Benchmark Rates***: The AAA muni benchmark curve underperformed the UST market; snapping higher in August, with yields rising by 28bps in 5 years, 34bps in 10 years, and 33bps in 30 years. For reference, US Treasury yields rose by 7bps in 5 years, 14bps in 10yrs, and 20bps in 30 years.
- ***Mutual Fund Flows:*** Open-ended municipal mutual fund flows were mixed in August, ultimately experiencing over ~$350m in outflows month-to-date. Year-to-date flows remain firmly in the negative as $7.5B have departed municipal fund complexes in 2023. High-yield mutual fund flows were more constructive in August, albeit modestly, as roughly $100mm trickled into HY funds. Year-to-date fund inflows for HY remain at $1.2bn for 2023.
- ***Primary Market Supply***: Municipal supply finished the month around $36bn. While this was the largest issuance month in 2023, that figure is down 13% YoY. Year-to-date issuance, $245B, remains muted, down 15%. The lack of primary issuance in August, relative to 2022, contintues to be attributed to ongoing market volatility and rising interest rates.

## Lind Capital Partners Municipal Non-Rated Market Commentary

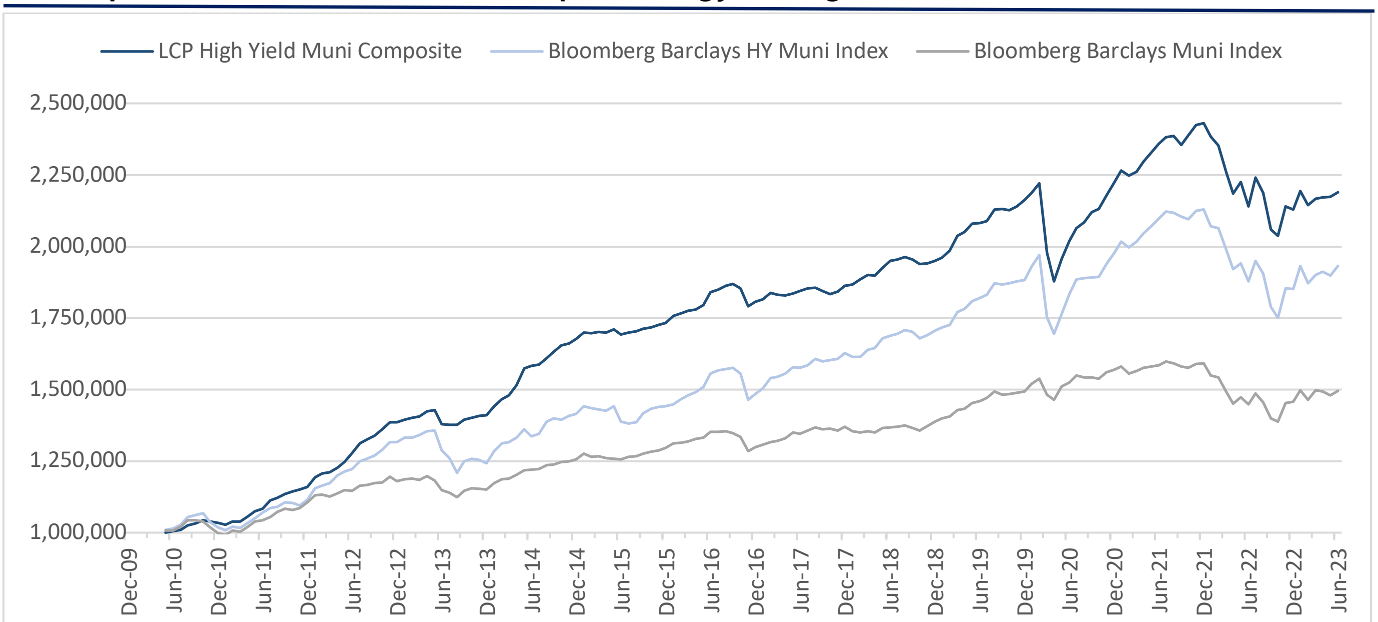
**Sometimes the best decisions portfolio managers make are the bonds they *don't* buy.** A non-rated municipal issue that has received a number of headlines over the past year is the now-bankrupt Legacy Cares, a newly developed, sprawling 320-acre multisports complex in Mesa, Arizona. After just 15 months of operation, the project is now tied up, amidst allegations of overspending and misuse of funds, in federal bankuptcy court. The Wall Street Journal recently highlighted the deal in an article titled "***How Did Things Go So Wrong at This Arizona Park Built With Muni Bonds?"*** The article seems to place much of blame for the failed project on municipal bond issuing entities known as "conduit issuers." In our view, the WSJ misplaces blame on the conduit issuer, rather than holding the borrowers themselves and, ultimately, the institutional investors that financed the deal accountable.

**How was Legacy Cares financed?** The project was financed with ~$250MM of primarily tax-exempt debt in August 2020, when interest rates were at or near all time lows. At the time, the 30YR US Treasury yielded 1.14% and the AAA muni benchmark yielded 1.34%. Needless to say, institutional investors were starved for yield. The large, liquid deal certainly provided that, with bonds maturing in 2050 priced to yield 7.84%. When this deal was priced, municipal mutual funds were awash with cash after 15 consecutive weeks inflows totalling over $30B. These institutions were likely desparate to deploy capital into the market, perhaps to the detremint of credit selection.

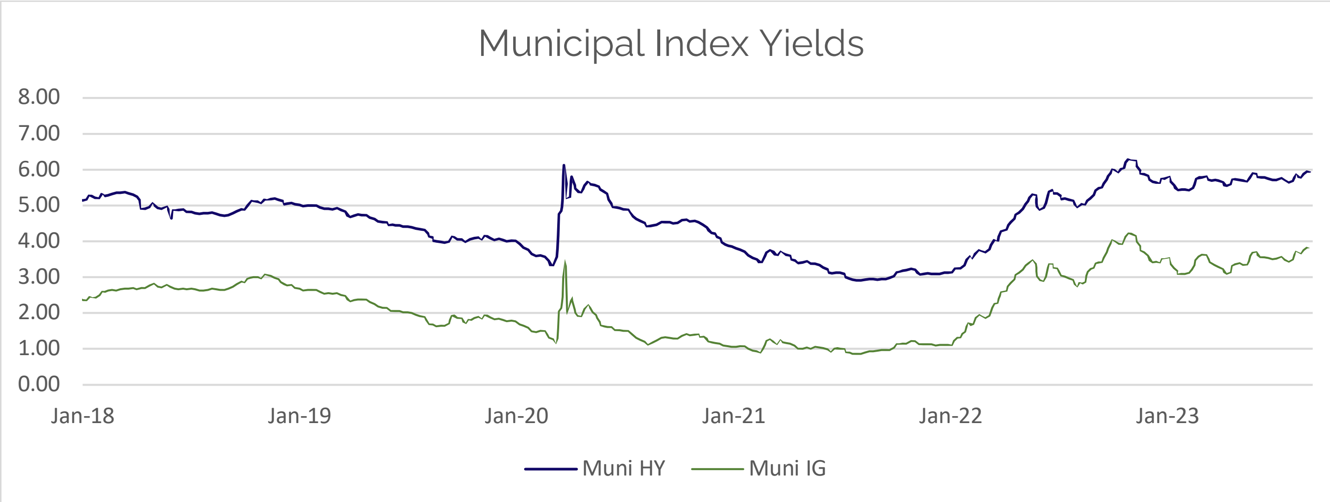
**LCP view on the credit?** While there were several promising credit factors in this deal (who could say no to 41 pickleball courts!), our credit research team ultimately could not get comfortable with the highly speculative nature of the project. Letters of intent for prospective event bookings showed promising demand, but the lack of hard contracts, with no financial obligation or cancellation penalties, made demand and revenue projections vulnerable. Unfortunately, event cancellations became one of many credit issues to contribute to Legacy's ruin.

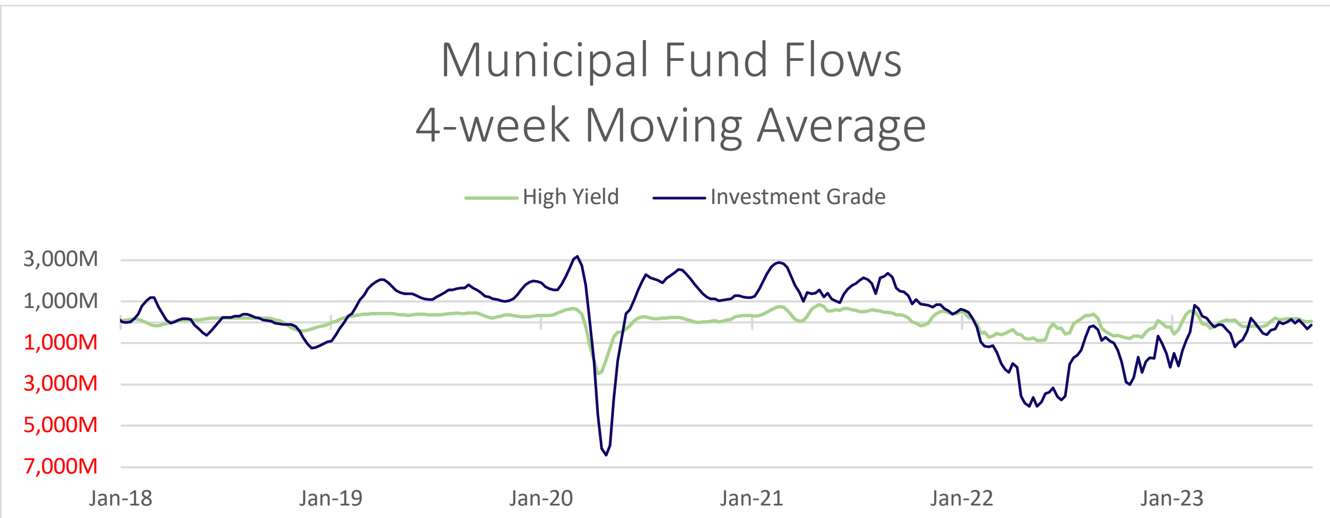
**What are the takeaways from the Legacy Sports bankruptcy?** While the role of the conduit issuer may deserve scrutiny, it doesn't outweigh the responsibility of investors to fully understand the credit risks of the ultimate borrower. In our view, Legacy Cares was emblematic of a highly speculative, greenfield economic development project with too many uncertainties. These types of deals are common in the non-rated municipal bond market, and are examples of credits that we actively avoid. The deal was successfully financed, in our view, because mutual funds had a surplus of cash, in an ultra low interest rate environment, and needed to spend it. We believe that in order to successfully navigate the non-rated municipal market, credit discipline can never be compromised.

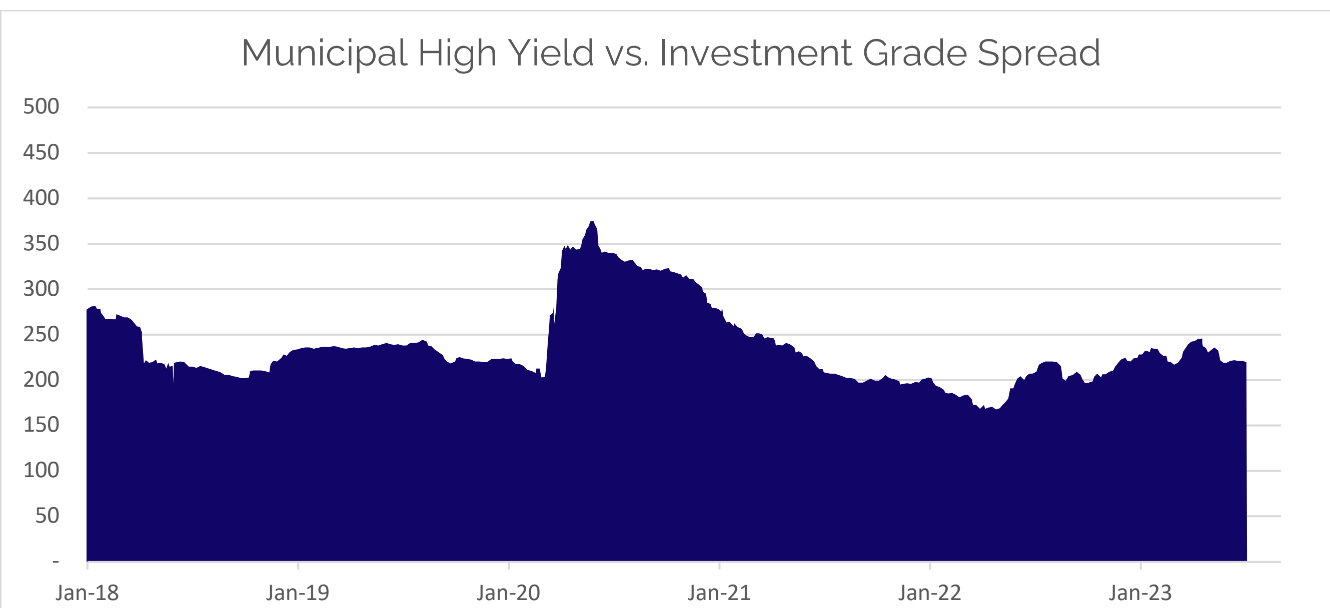
## Lind Capital Partners Non-Rated Municipal Strategy (through June 30, 2023)




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*