MUNICIPAL MARKET STATISTICS

	10-1-19	9-1-19	10-1-18	10-1-16	10-1-14
10-Year AAA MMD Municipal	1.46	1.25	2.58	1.51	2.17
10-Year US Treasury	1.68	1.52	3.09	1.61	2.48
10-Year Muni vs. Treasury	87%	82%	83%	94%	88%
Open End Fund Flows	$67.5B	$61.8B	$12.1B	$49.9B	$11.1B
New Issue Calendar YTD	$275B (estimate)	$233B	$252B	$340B	$221B

After an August rally prompted in part by a Federal Funds rate cut, the month of September saw ten-year treasuries sell-off, finishing 16 bps higher at 1.68%. Significantly, the 2-to-10 year treasury curve moved from an inverted position on 9/01/2019 (-1 bp) to become positively sloped at month-end 10/01/2019 (+6).

The municipal market sold off more than treasuries (above), evidenced by ten-year AAA municipal vs. treasury ratios widening to 87%. We attribute the sell-off primarily to an increased September municipal new-issue calendar which we estimate exceeded $40B, the largest month of the year. The forward calendar remains heavy as 30-Day Visible Supply is $14.6B. This week alone we expect to see 28 separate new issues that each total more than $100MM par value.

LCP feels that the 87% ratio represents a reasonable entry point for investors. With comparable yields and ratios in 2016 (above), retail investors became reluctant investors due to worries about rising interest rates. In contrast 2019 retail inflows to the open-end fund space remain robust, with an additional $5.7B added in September, bringing the YTD total to a record $67.5B. $13.9B of those flows have gone into HY funds. Individual investors are still buying municipal fixed income.

A number of geo-political and domestic issues have the potential to create market volatility and give investors pause. We cannot quantify the market impact of No Brexit, trade wars, tariffs or potential presidential impeachment proceedings. We can state our belief that municipal vs. treasury ratios are reasonable from both near-term and long-term perspectives. We can also state that when a maximum tax bracket investor earns between 5.375% – 5.50% tax free in HY municipals, our threshold investment yield, their taxable equivalent exceeds 9.00%. We think that type of return is compelling.

LIND CAPITAL PARTNERS CREDIT SNAPSHOT

Deal: International Leadership Texas (ILT) Charter School: LCP purchased 6.125% due in 2048, dated 12-14-2018. With a history dating back to 2013, the ILT issued $350MM of debt in December 2018, a very large deal for the non-rated space. The financing permitted ILT to exercise an option it held to purchase multiple school facilities that ILT leased at the time. The majority of schools are located in metropolitan Dallas-Ft Worth and Houston with one facility in College Station. ILT has used the marketplace previously to finance the acquisition of other charter school buildings.

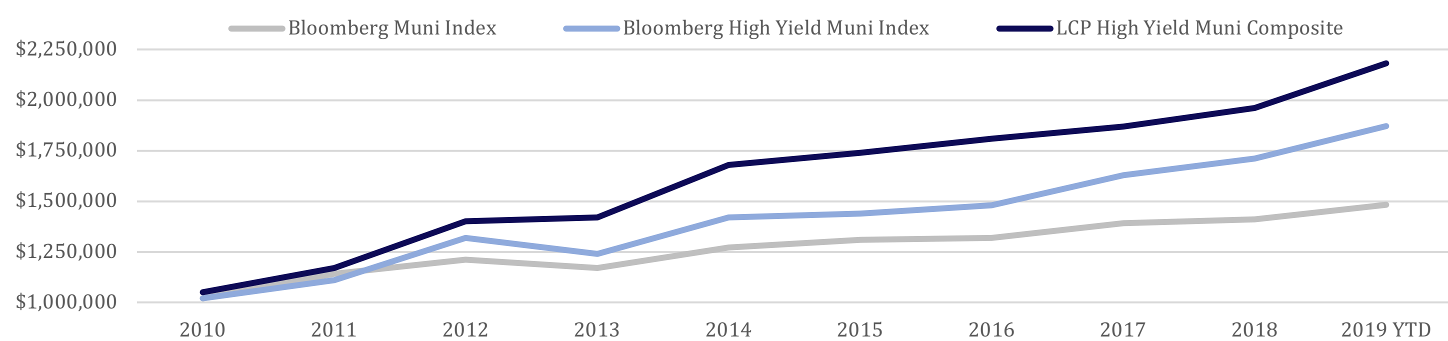
Backdrop: Charter schools are alternative public education providers that depend on fixed period charters from government authorized entities in order to operate and receive ongoing tuition payments. As opposed to public school districts, charter schools do not have the ability to levy taxes to finance capital projects, leading them to rely on alternative methods for raising funds. To assess the viability of a charter school LCP looks at a number of variables: financial metrics such as debt service coverage ratios (DSCR); multi-campus charter schools vs. single campus schools; specialized learning directly tailored to the needs of students; charter renewal risk and whether local and state leaders are positively disposed toward charter school alternatives; academic performance of students; local demand for admission; school management and operating history.

In the News: On September 21st the WSJ referenced the ILT deal as well as the Provident OK for Cross Village deal (highlighted by LCP last month). Thematically the article spoke to speculative municipal deals, outright defaults, issuers tapping cash reserves to make debt service payments. A reader of that article may infer that both issues are troubled.

LCP View: In 2017 ILT did fall below covenanted debt service levels but immediately cut costs and quickly moved back into compliance. One purpose of the 2018 financing was to reduce overhead. According to the most recent data, as of 3/31/2019 DSCR is at 1.11x and DCOH (days cash on hand) rose to 49 days, meeting mandated levels. LCP views Texas charter schools favorably. ILT runs multiple campuses in diverse locations. Today ILT has 18,240 students enrolled in the 13 campuses financed by the 2018 deal, with a waiting list of 3,088 students, equal to 17% above present capacity. Academic results are adequate. ILT received a ten-year charter renewal in 2018.

Conclusion: The HY municipal market consists of numerous sectors that possess unique credit characteristics. The ILT Charter School possesses many credit positives; a strong waiting list, multiple locations, 10-year charter renewal, responsive management team. The deal priced in December 2018 when the municipal market was in a selloff mode due to extremely high mutual fund outflows and ETF liquidations. Investors who purchased ILT in December 2018 initiated at an opportune time. LCP feels it is unwarranted to group ILT with Provident, OK, and that from a credit and structural perspective, ILT offers a potential investment opportunity.

LIND CAPITAL PARTNERS HIGH YIELD MUNICIPAL STRATEGY (THROUGH JUNE 30, 2019)



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.

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