



## MUNICIPAL MARKET STATISTICS

	11-1-19	10-1-19	11-1-18	11-1-16	11-1-14
10-Year AAA MMD Municipal	1.49	1.46	2.73	1.73	2.07
10-Year US Treasury	1.70	1.68	3.17	1.85	2.33
10-Year Muni vs. Treasury	88%	87%	86%	93%	89%
Open End Fund Flows	\$73B	\$67.5B	\$8.1B	\$51.9B	\$13.1B
New Issue Calendar YTD	\$315B (estimate)	\$274B	\$289B	\$393B	\$258B

The October 30<sup>th</sup> Federal Funds rate cut, the third in 2018, combined with month-end news reports regarding on again-off again US China trade deals, resulted in a month-end treasury rally. At 88%, Municipal v. Treasury ratios ended October on top of where they ended September versus 84% three days prior. The 2 to 10-year treasury curve continued to steepen, increasing from a positive 6 to 16 basis month over month.

New issue municipal supply continued to grow versus 2018 totals, with October calendar estimates exceeding \$40BN. Over 20% of October issuance consisted of **taxable** municipal debt, which has been used primarily to refund outstanding **tax-exempt** municipal debt. Taxable interest rates relative to outstanding municipal interest rates make the economics feasible. Interestingly, foreign investors comprise a growing percentage of the taxable municipal investor base. The demand supply imbalance should continue to provide market support.

## LIND CAPITAL PARTNERS CREDIT COMMENTARY

**In the News:** On October 24<sup>th</sup>, Bloomberg's Daily Brief: Muni noted *"The relative value for high yield municipal bonds is becoming less obvious as fund inflows, on a pace for a record year, have left spreads at multiyear lows..."* The financial press focuses on the fully priced HY Muni market, seemingly on a weekly basis. LCP agrees the universe of bonds that comprise the Bloomberg / Barclays HY Index, LMHYTR, is rich on an historical basis and that strong demand for high grade, as well as high yield bonds, can result in less compelling valuations in both markets. Importantly, LCP does **not** construct nor manage portfolios to replicate an index. ETFs and mutual funds serve that purpose.

**Comparison:** The composition of LCP portfolios differs markedly from that of the HY Index as well as HY mutual funds. LCP intentionally invests in only 6 sectors of the HY market versus the 14 sectors that comprise the Index. Credit concerns result in LCP not owning legacy tobacco bonds while such constitute 14% of the Index. Pension liability funding issues combined with concerns over municipalities' willingness to pay results in LCP holding **zero** General Obligation debt while GOs comprise 8% of the Index. Uncertainty regarding the direction of federal healthcare policy has caused LCP to reduce healthcare exposure to 9% while the healthcare sector comprises 21% of the Index.

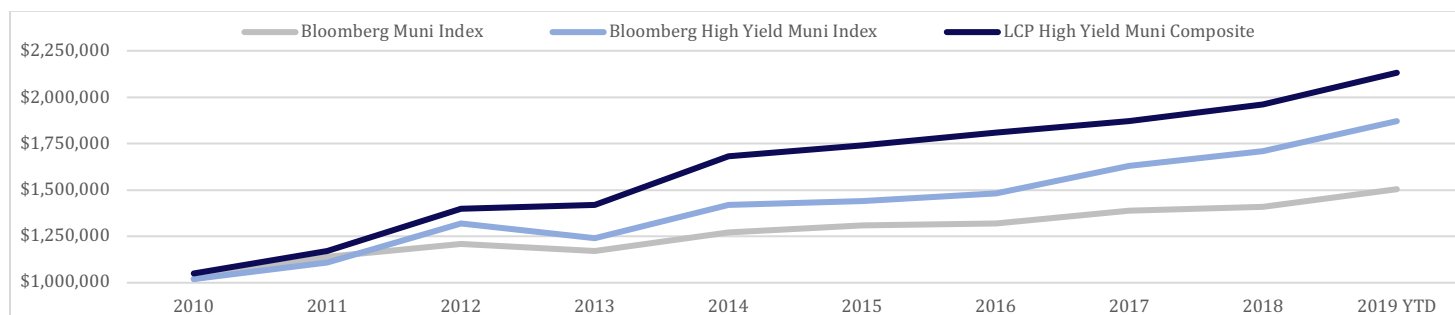
Sectors where LCP holdings exceed that of the index include education and senior living. LCP exposure to education (colleges, universities and charter schools) is 27% vs. 9% for the Index. LCP holds 24% in senior living credits while the Index has only 4%. We feel higher exposure to both sectors provides enhanced value and opportunity for investors. Additionally, our disciplined approach to investing often results in cash balances.

To further LCP's thesis of generating high levels of tax-exempt income, our average holding is non-rated while the index' average rating is Ba3/B1. LCP primarily purchases issues sized between \$15MM - \$125MM while the index includes issues of all sizes. LCP owns 56 credits across all of our portfolios compared to the Index with 4,369 credits.

**Why the Difference:** LCP is an active manager versus the HY index which consists of a simple aggregation of 1,000's of holdings. LCP invests in sectors that present the most compelling valuations based on credit analysis combined with pricing. Conversely, we avoid sectors and issues that we believe do not provide the proper risk-reward benefit, resulting in HY SMA and LP portfolios that differ significantly from the HY Municipal Index.

**Conclusion:** We agree the Municipal HY Index is historically rich based on numerous metrics. LCP's disciplined credit analysis process permits us to construct portfolios with the referenced goal of generating high levels of tax-exempt income, our main investment thesis. Our portfolios are diversified by sector, state and credit. Our pro-active credit analysis entails quarterly review of every credit, in every portfolio, at a minimum. Today initiating portfolios are constructed with a blended YTW guideline of 5.50% of tax-exempt income<sup>1</sup>. We are glad to provide additional detail.

## LIND CAPITAL PARTNERS HIGH YIELD MUNICIPAL STRATEGY (THROUGH SEPT. 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.

<sup>1</sup> YTW (Yield-to-Worst) is calculated at the **lower** of the yield to the optional call or maturity. It does not contemplate any changes to the market price of underlying securities.

## DISCLOSURE

*Past performance is not indicative of future results. An investment in the Lind Capital Partners Municipal High Yield 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. The borrowers identified and described in this communication are intended to illustrate certain concepts employed by LCP in the management of its High Yield Municipal Strategy. The borrowers identified do not represent all of the securities purchased, sold or recommended for client accounts and certain data, such as the purchase price, may not be indicative of an individual client's actual experience. The reader should not assume that an investment in the securities identified was or will be profitable. LCP's opinion of a borrower's prospects should not be considered a guarantee of future events. Performance information (time-weighted rate of return) pertains to the period ending 9.30.19 and includes realized and unrealized gains and losses; is net of actual advisory fees and transaction costs and is total return, including distributions to Limited Partnership investors where appropriate. 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.*