# LIND CAPITAL PARTNERS

#### Municipal Market Statistics

#### November 2022

11-01-22	10-01-22	11-01-21	11-01-19	11-01-17
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3.38%	3.24%	1.21%	1.47%	2.01%
4.05%	3.84%	1.56%	1.69%	2.38%
83%	84%	77%	87%	84%
(\$87.0B)	(\$76.4B)	\$72.9B	\$56.3B	\$6.1B
(\$17.7B)	(\$15.0B)	\$18.9B	\$16.1B	\$5.5B
(12.95%)	(12.13%)	0.52%	6.94%	4.92%
(17.76%)	(16.03%)	6.11%	9.92%	8.01%
\$320B	\$204B	\$287B	\$218B	\$306B
	(\$17.7B) (12.95%) (17.76%)	(\$17.7B) (\$15.0B)   (12.95%) (12.13%)   (17.76%) (16.03%)	(\$17.7B) (\$15.0B) \$18.9B   (12.95%) (12.13%) 0.52%   (17.76%) (16.03%) 6.11%	(\$17.7B) (\$15.0B) \$18.9B \$16.1B   (12.95%) (12.13%) 0.52% 6.94%   (17.76%) (16.03%) 6.11% 9.92%

## Lind Capital Partners Municipal Market Commentary

Volatility persisted in the UST market through October with 10 and 30 year rates rising 76 bps and 79 bps, before ralling 30 bps and 28 bps to close at 4.05% and 4.16%. The municipal market exhibited relative calm through the month with 10 and 30 year AAA rates rising 33 bps and 36 bps, respectively. Mutual fund complexes continued to experience outflows with YTD outflows now totaling nearly \$105B, including municipal ETFs. Interestingly, municipal ETFs have seen **inflows** in excess of \$15B, which indicates open-end fund outflows actually total \$120B. We attribute the divergence to differences in the composition of investors. Open-end mutual fund investors are typically retail investors who tend to follow a herd mentality. We believe ETF investors are more sophisticated and utilize municipal ETFs to take a position on the relative value of the municipal market vs. other fixed income asset classes. ETFs provide liquidity and easy execution for large institutional trades versus individual bond purchases that can be impractical, time consuming and expensive for short term trades. Crossover buyers have historically provided a ballast to retail investors, stepping in to provide liquidity when UST-Muni ratios get out of whack, as they are today.

As noted last month that liquidity within the municipal market remains extremely challenged. We recently read that <50% of municipal bid wanteds are actually trading. Perhaps portfolio managers are overloading their bid-wanted lists to ensure they are able to raise sufficient capital to meet investor redemptions, or perhaps the prices received are too low to transact -or both. Our trading desk reports select bond transactions are 100 bps – 125 bps cheaper than the prior week. Wonderful Foundation Charter School 5.00% of 2055 (CUSIP: 74442PPU3) traded on October 18<sup>th</sup> at 6.27% (\$82.51) and on October 25<sup>th</sup> at 7.47% (\$69.98) or a 15% decline in value over a single week with no fundamental change in underlying credit. The trade illustrates the challenges mutual fund portfolio managers face during periods of mutual fund outflows. Natural buyers are sellers. To achieve needed liquidity, price concessions can be substantial, particularly in lower rated and non-rated markets. Investors with capital and a long-term investment horizon can find extremely attractive assets in the current environment.

### Lind Capital Partners Municipal High Yield Market Commentary

In September 2021, Canterbury Court, a continuing care retirement community in Atlanta, Georgia, issued \$125 million of debt. The non-rated bonds were issued with 4.00% coupons maturing in 2056 priced to yield of 3.49% (\$104 price). Bond proceeds were used to finance an expansion and renovation project on their existing campus located in the popular Buckhead neighborhood. The sizeable project included a new healthcare center, a new 105-unit independent living tower, and renovation of common areas. The community has served the area since 1960, undergoing several expansions over the years. With strong sponsorship and management, the existing facility touted a strong track record of occupancy and financial performance, along with a healthy balance sheet. Although LCP viewed the credit favorably, we did not participate in the 2021 deal. We did not feel that 3.50% yield adequately compensated investors for the underlying risks associated with successful construction and fill-up of the expansion.

Canterbury was issued near the peak of the market, bonds traded as low as 3.30% in the secondary market. As the bond market sell-off began in early 2022, LCP saw an opportunity to purchase these bonds roughly 80 basis points higher yield (4.10% at \$98). In hindsight, we could have waited longer to initiate our position, as yields relentlessly pressed higher and the bonds traded cheaper throughout the year. However, we do not attempt to "time the bottom of the market". Rather than try to catch the proverbial falling knife, we look to "leg-in" to a sell-off as we monitor signs of market dislocation. If the market continues to weaken, we seek to harvest tax losses...which we did for Canterbury Court. In late summer, we sold the position at 5.60% yield (\$77) and replaced it with a comparable credit yielding above 6.00%; creating additional value for our investors. Today, the bonds are trading around **\$60**, **above 7.00% yield to maturity**. In one year after issuance, the bonds are down (42%)... an eye-opening price drop for a non-distressed credit. From a credit perspective, we like that the borrower has locked in long-term financing costs below 3.50%. From a bond perspective, we like the entry point around \$60, providing investor protection (re: recovery) should economic conditions become substantially worse. Additionally, the deep discount provides investors significant upside potential with the optional call. If the borrower exercises their option and redeems the bonds at \$100 in 2031, the return exceeds 11.00% (10.15% after de minimis tax treatment). Compared to the high yield market down 18% year-to-date, bonds like Canterbury Court have dramatically underperformed and present very compelling opportunities in today's market. The non-rated market is littered with opportunities such as these and LCP's team is uniquely positioned to identify these credits and strategically deploy capital.

### Lind Capital Partners Municipal High Yield Strategy (through September 30, 2022)



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.

#### 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. Performance information (time-weighted rate of return) is provided for the LCP High Yield Muni 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 of future results. 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 financia

