CIM May 2019 Market Commentary

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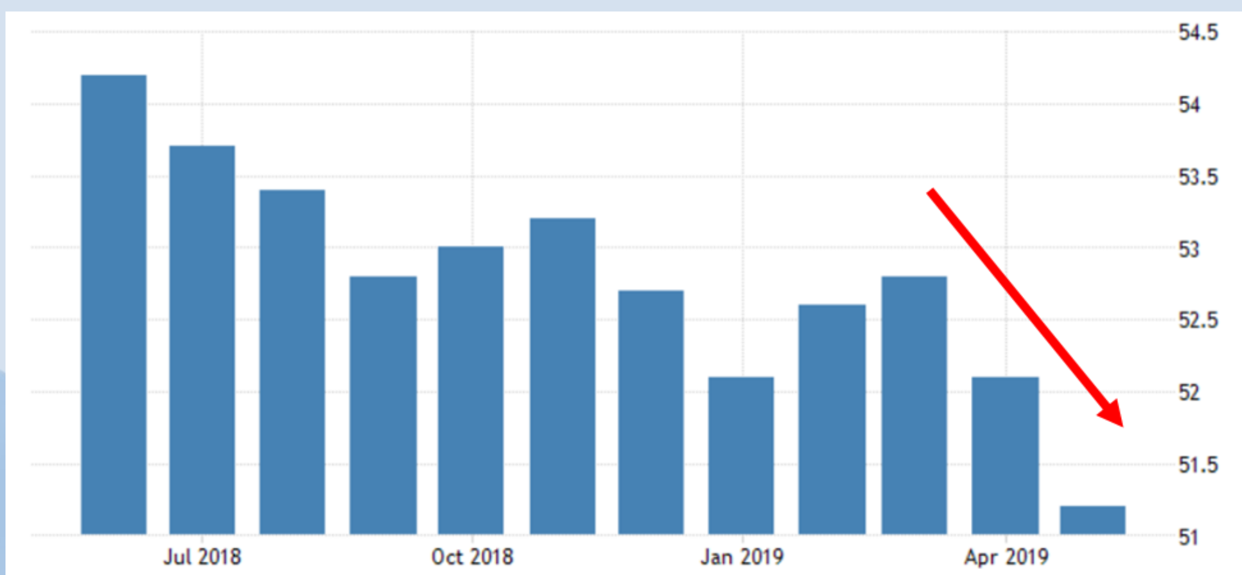
In response to the meaningful slowdown in global and US economic growth, which has become evident in recent months, the Fed chose to pause its policy of consistently raising short-term interest rates earlier this year. Over the prior thirty years, the Fed has never paused rate increases without subsequently cutting rates. We believe this time will not be different. The Fed's significant pivot away from its prior tightening bias is the clearest indication, in our view, that Fed Chair, Jerome Powell, and the Federal Open Market Committee, overestimated the strength and durability of US economic growth as 2018 came to a close. This policy shift represents a significant reversal given that the Fed raised the Federal Funds rate just a few months ago. As our clients and loyal readers know, slower economic growth and lower interest rates were both outcomes we had been anticipating for some time. Further signs of economic moderation are evident in the downward trend in global Purchasing Managers Indices (PMI), see figure 1. This slowdown appears to be taking hold as the positive economic impulse from the US Tax Cut and Jobs Act of 2017 fades. Fixed income markets across the globe have responded well to this slowdown. Rates have fallen meaningfully causing bond prices to appreciate in response to the increased probability that Central Banks, across the world, are likely to cut interest rates meaningfully and may even need to commit to further Quantitative Easing (QE) in the not-to-distant future. Ten year US Treasury yields have declined by over 0.60% or 60 basis points, year-to-date, as economic uncertainty has increased. The bond market has priced in a number of rate cuts for 2019 as well as 2020. We believe this is an appropriate reaction, as the current business cycle comes to close.

Figure 1

JPM Global Composite PM



Source: Trading Economics

Contrary to many of our peers in the broader financial services community, we shared our growth concerns with our clients, throughout 2018. We also indicated that any rise in rates during 2018 would likely be fleeting, providing an attractive entry point for municipal bond investors seeking to add to their position in preparation for the next recession. We began positioning client portfolios in the second quarter of 2018 for the current deceleration in growth. We extended target durations across our strategies given our expectation that falling rates would contribute significantly to client total rates-of-return over the coming months. With the benefit of hindsight, we now know that this decision was a very good one. Our Municipal Credit Opportunities (MCO) and Municipal Market Duration strategies (MMD) have delivered returns that are among the highest in the municipal, Separately Managed Account industry. On a year-over-year basis, MCO and MD have returned 6.88% and 4.71% net-of-fees, respectively as of 5/31/2019. When one considers that a large proportion of these returns is derived from tax-free income, the taxable equivalent returns we have delivered are meaningfully higher still.

As we look forward, we anticipate a continuation of strong inflows into the municipal bond market from individual investors. Tax reform and the elimination of many itemized deductions have increased demand for the attractive tax-free income our strategies deliver. Given the Fed's concerns regarding the deceleration in domestic and global economic growth, we believe that the next move in interest rates is likely to be lower. This will serve municipal bond investors well, should interest rates continue to fall as bond prices rise. In an environment of lower absolute yields, increased "carry" or income, together with tactical opportunistic investing, is an ideal strategy for this new environment. We are very pleased that Clinton Investment Management's clients are well positioned to continue benefiting from rising economic uncertainty, both now and in the future.

Please feel free to contact us directly should you have any questions about this commentary or the municipal bond market more broadly.

Best Regards,

Andrew Clinton
CEO

Disclosure – Municipal Credit Opportunities

For the Period Ending	Gross of Fees (%)	Net of Fees (%)	Barc 65/35 Muni Index (%)	Number of Accounts	Wrap Accounts (%)	Composite	Barc 65/35 Muni Index	Composite Dispersion (%)	Composite Assets (Millions)	Total Firm Assets (Millions)
						3 Yr Std Dev (%)	3 Yr Std Dev (%)			
2018	0.70	0.13	2.49	65	47	4.83	3.8	0.36	152	549
2017	8.41	7.95	6.93	39	41	4.73	3.84	0.52	100	440
2016	1.22	0.65	1.21	10	-	-	-	0.55	47	373
2015	5.71	5.18	2.8	≤ 5	-	-	-	NA	10	283
*2014	1.84	1.71	1.32	≤ 5	-	-	-	NA	4	276

September 30, 2014 thru December 31, 2018

Clinton Investment Management, LLC (CIM) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. CIM has been independently verified for the periods May 31, 2007 through December 31, 2017. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Notes:

1. CIM is an independent registered investment adviser. CIM was established in 2007 and primarily manages fixed income products for high-net-worth, ultra-high-net worth, and institutional clients.

2. The Municipal Credit Opportunities composite includes portfolios that invest in municipal bonds. The objective of the composite is to track and/or outperform the benchmark in any given cycle. This strategy seeks to enhance portfolio income and deliver total returns that are similar to or higher than that of its benchmark, the Bloomberg Barclays Municipal 65% HG/35% HY Index, through investment in lower to below investment grade securities. Other major statistical factors are considered when constructing portfolios but may not be primary constraints such as duration position, sector allocation, and credit quality selection. Leverage and derivatives are not used.

3. The composite consists of fully discretionary, fee paying accounts under management, including terminated accounts for the period they were fee paying accounts. The composite was created on *September 30, 2014.

4. The US dollar is the currency used to express performance.

5. The benchmark for the composite is the Bloomberg Barclays Municipal 65%HG/35%HY Index which measures the performance of the blended US high grade (65%) and high yield (35%) municipal bond universe. It includes approximately 53,638 municipal issuers. It is constructed to provide a comprehensive and unbiased blended municipal bond market barometer. Please note an investor cannot invest directly in an index.

6. Gross-of-fees performance returns represent returns prior to the deduction of management fees but after all trading expenses. Net-of-fees performance returns are calculated by deducting the actual investment management fee from the gross returns. Accounts may be charged additional advisory fees on top of CIM's investment management fee.

7. The performance numbers include the reinvestment of income and capital gains.

8. Internal dispersion is calculated when five or more portfolios were in the composite for the entire year using the asset-weighted standard deviation of those portfolios that were included in the composite for an entire year. The 3-Year Standard Deviation represents the annualized standard deviation of actual composite and benchmark returns, using the rolling 36-months ended each year-end.

9. Past performance is not indicative of future returns. Actual results may differ from the composite results depending upon the size of the account, investment objectives, guidelines and restrictions, inception of the account and other factors.

10. The fee schedule is: 0.85%. Investment advisory fees are negotiable based on account size, investment strategy and relationship type and may differ between accounts.

11. A listing of composite descriptions, policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Disclosure – Market Duration

For the Period Ending	Gross of Fees (%)	Net of Fees (%)	Bloomgerg Muni Index (%)	Number of Accounts	Composite	Bloomberg Muni Index	Composite Dispersion (%)	Composite Assets (Millions)	Total Firm Assets (Millions)
					3 Yr Std Dev (%)	3 Yr Std Dev (%)			
2018	1.57	1.27	1.28	104	3.53	3.35	0.44	270	549
2017	5.30	4.91	5.44	85	3.50	3.30	0.51	155	440
2016	0.17	-0.43	0.25	84	3.52	3.38	0.53	155	373
2015	3.66	3.05	3.30	79	3.12	3.36	0.44	145	283
2014	7.02	6.38	9.05	62	3.65	3.67	2.27	118	276
2013	-1.80	-2.38	-2.55	53	3.80	3.97	1.32	96	223
2012	6.47	5.83	6.78	57	3.62	3.71	0.82	105	253
2011	8.83	8.19	10.70	40	4.64	4.57	0.82	81	200
2010	3.18	2.56	2.38	25	6.27	6.26	0.46	56	166
2009	11.34	10.68	12.91	21	-	-	1.05	40	160
2008	1.74	1.13	-2.47	9	-	-	0.71	58	100
*2007	4.92	4.56	2.68	<5	-	-	0.00	2	2

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Notes:

1. CIM is an independent registered investment adviser. CIM was established in 2007 and primarily manages fixed income products for high-net-worth, ultra-high-net worth, and institutional clients.

2. The Market Duration composite includes portfolios that invest in municipal bonds. The objective of the composite is to track and/or outperform the benchmark in any given cycle. This is a risk based quantitative methodology (RBQM) that is designed to outperform a given index with a reduced risk level. This strategy is to have a portfolio duration that is similar to that of its benchmark, the Bloomberg Barclay's Municipal Bond Index. Other major statistical factors are considered when constructing portfolios but may not be primary constraints such as maturity and credit quality. Leverage and derivatives are not used.

3. The composite consists of fully discretionary, fee paying accounts under management, including terminated accounts for the period they were fee paying accounts. The composite was created on *May 31, 2007.

4. The US dollar is the currency used to express performance.

5. The benchmark for the composite is the Bloomberg Barclays Municipal Bond Index which measures the performance of the US municipal bond universe. It includes approximately 50,607 investment grade municipal issuers. It is constructed to provide a comprehensive and unbiased municipal bond market barometer. Please note an investor cannot invest directly in an index.

6. Gross-of-fees performance returns represent returns prior to the deduction of management fees but after all trading expenses. Net-of-fees performance returns are calculated by deducting the actual investment management fee from the gross returns. Accounts may be charged additional advisory fees on top of CIM's investment management fee.

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9. Past performance is not indicative of future returns. Actual results may differ from the composite results depending upon the size of the account, investment objectives, guidelines and restrictions, inception of the account and other factors.

10. The fee schedule is: 0.60% on the first $1 million in assets, 0.50% for the next $5 Million and 0.37% thereafter. Investment advisory fees are negotiable based on account size, investment strategy and relationship type and may differ between accounts.

11. A listing of composite descriptions, policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.