Quarterly Municipal Market Review and Outlook

November 2020

CLINTON INVESTMENT MANAGEMENT

Overview

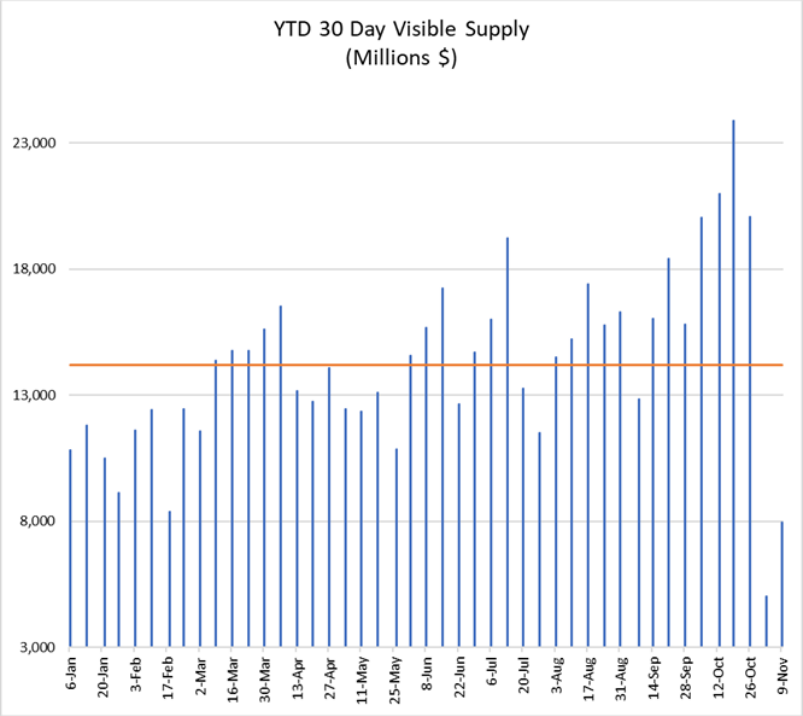
- Positive news surrounding the Pfizer and Moderna vaccines is not only a positive for the general public but positive for municipalities as well
- CIM's flagship Market Duration strategy has returned +3.43% net year-to-date relative the Bloomberg Barclays Municipal Bond Index return of +3.02% as of the end of October
- CIM received PSN's highest Six Star ranking and TOP GUNS award for the 11th consecutive quarter in Q2 20
- Current technical conditions including low supply and strong demand for the tax-free cash flow municipal bonds provide will be a positive force municipal bonds and municipal bond investors in the coming months

The third quarter was defined by US economic reopening and recovery as US GDP growth for the quarter surged by +33.1%. While extraordinary, it followed the nationwide, Covid-19 shutdown in March, April, and May, which resulted in the deepest and fastest decline in economic activity in our nation's history. The economy is far from healthy as it remains in dire need of continuous Quantitative Easing, provided by the Federal Reserve. The Presidential election season added further uncertainty. While almost every market saw dramatic recovery in asset values over the last few months, yet political uncertainty persists. More than a week has passed since the Presidential election and a winner has not been formally determined. There is an increasing likelihood that divided government will be the most likely outcome. It is possible Democrats could take back control of the Senate, were they to win both remaining Senate seats in the runoffs in GA, however, that appears an unlikely scenario at this time. The most likely outcome is that President Elect Biden will be inaugurated in January and will preside over a deeply divided government and country. Divided government almost certainly assures that large portions of President Elect Bidens' policy agenda will go unfulfilled, until at least the midterm elections in the next two years. While there is often a honeymoon period following the election of a new President, the contentious nature of this election season may result in a hardening of positions sooner rather than later. As a result, it may be difficult for Biden to deliver meaningful policy initiatives. In the near-term, increasing cases of Covid-19, domestically and globally, have put the economic recovery at risk. Yet, the extremely positive news that Pfizer's Covid vaccine, and now also Moderna, with expected efficacy rates of over 94%, ensures that normalization in our day-today lives will likely be rapid in the coming months. Our expectation is that this nightmare will fade quickly, as the vaccines are expected to be broadly distributed in the US by the end of the first quarter. While it will surely be a blessing to move past the most severe national health crisis in over 100 years, only then can we begin to address the depths of our domestic and global economic challenges.

The municipal bond market has continued to recover in recent months. We are also pleased to share that Clinton Investment Management's (CIM)'s municipal bond strategies continue to outperform their respective benchmarks and peers year-to-date. Our flagship Market Duration strategy has returned +3.43% net, year-to-date, relative the Bloomberg Barclays Municipal Bond Index return of +3.02%, as of the end of October. When one considers the fact that the majority of the return we have generated is tax-free, for those paying taxes, the taxable equivalent returns we have delivered are meaningfully higher. CIM also received the PSN *TOP GUNS* award for the 11th consecutive quarter in Q2. Our Six Star ranking is the highest ranking a manager can receive from PSN/Informais.

While municipal bonds continue to perform well, the broader market has yet to fully recover from the liquidity driven selloff of March and April. This has created significant opportunities in lower investment grade, A and BBB rated, municipal bonds. We believe this segment is positioned to outperform in the coming months. As our clients know, CIM specializes in this segment of the market. For some time, we have maintained the view that the greatest risk-adjusted returns can be found in A/BBB rated bonds. A record +$70 Billion in municipal bonds were issued in the month of October. Under normal environments, we would expect issuance of this scale to exert meaningful downward pressure on municipal bond prices, pushing yields higher. However, investor inflows into the muni market have continued at a strong pace. Demand has remained particularly solid resulting in the successful digestion of this sizable calendar. Much of the October supply was pulled forward from Nov, Dec, and Jan, due to concerns about potential uncertainty and market volatility following the US Presidential election. Therefore, it is reasonable to expect that supply is likely to dissipate materially in the coming weeks as indicated by Figure 1. We expect the current

Figure 1



Source: Bloomberg

technical environment of lower supply, together with continued strong demand for the tax-free cash flow municipal bonds provide, to be quite positive for municipal bonds and municipal bond investors, in the coming months. We are therefore recommending investors consider rebalancing their asset allocations in the near-term to take advantage of the elevated levels of municipal bond yields as we do not expect them to persist longer-term.

The very positive news surrounding the Pfizer and Moderna vaccines is not only a positive for the general public, but it is also extremely positive for municipalities and the sectors our strategies favor. These include, hospitals, healthcare, mass transit, toll roads, and continuing care retirement communities. We are also extremely encouraged by how well municipalities have navigated the crisis to-date. According to JP Morgan Municipal Research, YTD state tax receipts through September, for the 47 states who report the data, show an avg decline of just -1.03% compared to 2019, better than the year-over-year July average of -2.9%. However, tourism-centric states (NV, HI, FL) continue to see larger revenue losses. Of the 40 states that have report personal income taxes, September year-to-date collections show growth of +0.32%, with states with larger collections (CA, NY, IL, MA, NJ) at virtually same level as 2019 (within +/-1%). This will come as a surprise to many as the negative news headlines have focused on the

catastrophic nature of the virus and how deeply distressed municipalities could become. We believe this news, however inaccurate, is the primary reason municipal bonds are currently structurally and fundamentally mispriced, creating opportunity for investors. Municipal bonds currently offer some of the highest absolute yields of any fixed income segment, above those of tax Treasury and corporate bonds in many cases. This is a rare occurrence and is a relationship that tends to be mean reverting over time. Over the next few months, we expect the world will look much different than it has over the last few months. We are elated by the prospect that someday soon we will be able greet one another in person again, in our places of work, in our places of worship, at the local coffee shop, or even in our homes. The winter will, no doubt be a challenging period, however we now have reason to hope that the virus will fade from our day-to-date lives rapidly.

If you should have any questions about the municipal bond market and where we are seeing the greatest value today please do not hesitate to contact us directly.

Andrew Clinton

CEO

CLINTON INVESTMENT MANAGEMENT, LLC
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MUNICIPAL MARKET DURATION

COMPOSITE PRESENTATION | DECEMBER 2019

For the Period Ending	Gross of Fees (%)	Net of Fees (%)	Bloomberg Muni Index (%)	Number of Accounts	Wrap Accounts (%)	Composite 3 Yr Std Dev (%)	Bloomberg Muni Index 3 Yr Std Dev (%)	Composite Dispersion (%)	Composite Assets (Millions)	Total Firm Assets (Millions)
2019	8.49	8.18	7.54	$520 MM	4	2.49	2.44	0.59	338	748
2018	1.57	1.27	1.28	104		3.53	3.35	0.44	274	550
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

**May 31, 2007 thru December 31,2007*

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, 2019. 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 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.

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: 0.60% 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.