July 2021 Market Commentary

CLINTON INVESTMENT MANAGEMENT

- **While US interest rates rose dramatically in the first quarter, the second quarter saw benchmark, 10-year Treasury bond yields fall by 0.59% or 59 basis points**
- **The Treasury bond market appears to be pricing in the likelihood of slower economic growth in the back half of the year**
- **Copper and oil have fallen 12% each, while corn is off 29%, soybeans are down 14%, platinum is down 25%, iron ore is down 29%, and lumber is down over 70% from its peak**
- **Almost the entirety of the commodities futures complex is now in "backwardation", meaning commodities prices are expected to be lower in the future than they are today, not higher as many have suggested will be the case**
- **The municipal bond market has been the best performing segment of the fixed income markets year-to-date**
- **The Bloomberg Barclays Municipal Bond Index has returned +3.29% over the last 12 months, as of July 31, 2021 while CIM's Municipal Credit Opportunities and Market Duration strategies have returned +7.28% and +4.94% respectively, net-of-fees**
- **The default rate for municipal high yield debt has declined to just 0.14%**
- **The best opportunity to achieve attractive tax-free income and total returns exists in lower investment grade bonds**
- **Over $71 billion has flowed into municipal bond funds alone this year, third highest inflow on record**

The first half of 2021 was marked by dramatic economic reopening and recover. The pandemic induced supply chain dislocations and disruptions created temporary shortages of almost everything, from lumber and raw materials to computer chips and automobiles. As supply constraints began to dissipate in 2Q, due, in part, to the successful rollout of COVID-19 vaccines, some aspects of life in the US began normalizing. Many students started returning to in-person learning while employees received invitations to return to the office, bringing forward expectations that regional economies most impacted by the virus might enjoy a positive economic resurgence. With heightened growth expectations came predictions of a sustained acceleration in inflation. As CIM clients know, we have been pushing hard against that view, as we firmly believe the recent upward price adjustments are likely to be transient in nature. Consistent with our view, raw material prices began to moderate significantly during the back half of the second quarter. Base metals and lumber, declined materially. Copper and oil have fallen 12% each, while corn is off 29%, soybeans are down 14%, platinum is down 25%, iron ore is down 29%, and lumber is down over 70% from its peak. Almost the entirety of the commodities futures complex is now in "backwardation", meaning commodities prices

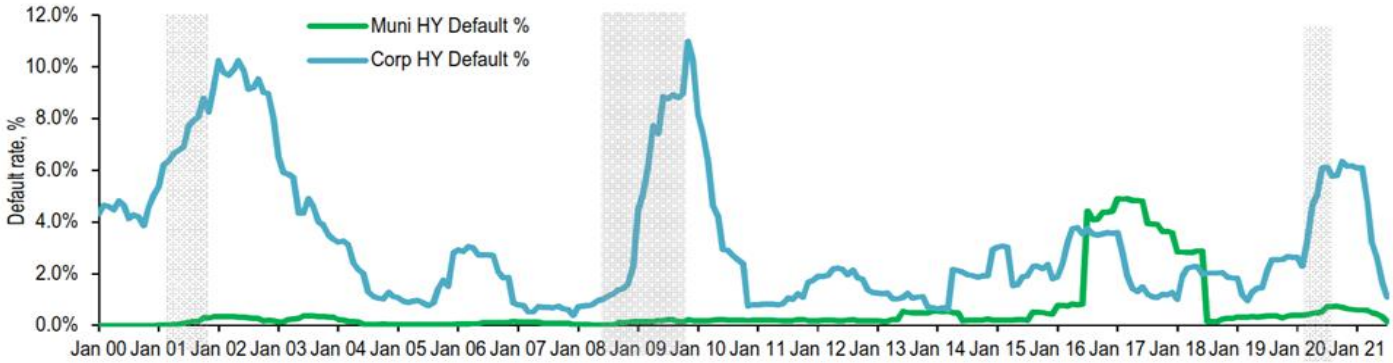
are expected to be lower in the future than they are today. Municipal bond prices have continued to rise, year-to-date. Treasury bonds have also recovered from the move higher in yields earlier this year. Municipal bonds have delivered returns that are among the highest, across fixed income markets, year-to-date. The incredible demand for the tax-free cash flow that municipal bonds generate is a key factor in the asset class's performance. We believe this demand will continue as wealthy investors and corporations are forced to pay significantly higher taxes in the future, as has been promised by the Biden administration.

While US interest rates rose dramatically in the first quarter, the second quarter saw benchmark, 10-year Treasury bond yields fall by 0.59% or 59 basis points, declining from a high of 1.74% to a low of 1.15%. While yields have drifted modestly higher of late, the Treasury bond market appears to be pricing in the likelihood of slower economic growth in the back half of the year. As our clients and readers of this newsletter know, CIM has been anticipating a material slowing in economic growth for 3Q and 4Q given the very difficult year-over-year comparisons. We expect the difficult, economic comparisons to persist into the first half of 2022 as well. As the positive economic impulse from the American Rescue Plan (ARP), and associated "stimmy" checks to individuals, fades, we believe the economy will struggle to accelerate without more stimulus and monetary easing. The economic recovery, therefore, is likely to be extremely uneven, taking considerably longer than many hope for or expect. For example, there are roughly 7 million individuals who were employed prior to the pandemic that are now jobless due to the economic impact of COVID lockdowns. As the long-term unemployed look to return to the workforce, they will be met with the difficult reality that hundreds of thousands of businesses, that formally employed them, have been destroyed permanently. It will take considerable time for new businesses to form and new jobs to be created. As such, we believe the Federal Reserve is right to be cautious in removing monetary accommodation. As the Fed considers the appropriate timing to reduce monetary easing, we firmly believe the fragile state of the US economy will force the Fed to remain on its path of QE for some time or risk disrupting the current recovery.

Municipal bonds continued to enjoy a powerful recovery from the liquidity driven selloff in March and April of 2020. A year ago, retail municipal bond investors sold their municipal bond funds in, what can only be described as, a panicked liquidation, effectively pricing in extremely high rates of defaults for highly stable municipalities. CIM firmly believed those fears were unfounded. We now know, with the benefit of hindsight, that the corresponding technical conditions created by retail investors, was an extraordinary entry point for opportunistic municipal bond investors. We are deeply grateful that our clients not only accepted our advice, staying the course, but also added to their existing municipal bond exposures, where possible, thereby participating fully in the recovery in municipal bond prices, which is still ongoing. The municipal bond market has been the best performing segment of the fixed income markets year-to-date. The Bloomberg Barclays Municipal Bond Index has returned +3.29% over the last 12 months, as of July 31, 2021 while CIM's Municipal Credit Opportunities and Municipal Market Duration strategies have returned +7.28% and +4.94% respectively, net-of-fees, over the same period. CIM's demonstrated ability to tactically reposition portfolios throughout the pandemic, in order to take advantage of the extreme market dislocations that persisted, continues to deliver meaningful value to our client's year-to-date and over the long-term. The municipal bond market recovery and outperformance is justified, in our view, as the risk of widespread municipal bond defaults has plummeted. Illustrating the relative safety of the municipal high yield category, the default rate peaked at just 0.74%, during the height of the pandemic, compared to 6.17% for corporate high yield, according to the MSRB and JP Morgan

Research. The default rate for municipal high yield debt has since declined to just 0.14%, see Figure 1.

Figure 1 - Municipal and Corporate Bond Default Rates



Source: Bloomberg Finance LP., JP. Morgan. Note Default rate calculated as trailing 12-month default rate, as of 7/29/21. Recessionary periods are shaded in grey

We believe the segment of the muni market that presents the best opportunity to achieve attractive tax-free income and total returns in the future exists in lower investment grade bonds. We continue to see a lagged recovery within specific sectors in the municipal bond market creating an opportunity for investors. Regionally, New York exempt bond spreads continue to compress as the COVID risk premium, that persisted for much of 2020, dissipates. Transportation bonds including mass transit, airports, and toll roads have also benefited from meaningful normalization over the past few months. Investors have begun to reprice the decline in credit risk that resulted from the economic reopening. The over $500 billion provided to state and local governments, via the ARP, has solidified this directional trend in our view.

Demand for municipal bonds continues at a record pace in 2021. Over $71 billion has flowed into municipal bond funds alone this year. The municipal bond market has experienced the third highest inflow on record year-to-date. Funds have experienced inflows for 63 of the last 64 weeks totaling over $133 billion, according to JP Morgan research. With roughly five months left to the year, 2021 could prove to be a record year for inflows. Institutional and high-net-worth investors are clearly anticipating the meaningfully higher income tax rates that will accompany the proposed +$3.5 trillion spending plan that the Biden administration is intent on passing through reconciliation. For this reason, we fully expect strong demand for municipal bonds to continue as the tax-free income that municipal bonds generate becomes even more valuable under a materially higher US tax regime.

As we look to the final two quarters of the year, we are hopeful that US and global economies continue to reopen and recover. We expect any recovery to be somewhat slower than many expect or hope for, however. As normalization returns, the permanent economic scarring from the pandemic will become more evident. The spreading Delta variant will, no doubt, also create additional uncertainty and fear as individuals and businesses attempt to navigate the crisis day-to-day. Until such time as individuals can return to their lives, fully unencumbered by pandemic protocols and restrictions, we do not see a catalyst for accelerating economic growth, outside of additional government spending and further monetary easing/QE. We expect a moderation in the outlook for growth will extend in 2022 and beyond. Having said that, growth of any kind will continue to support already improving municipal credit fundamentals. We now

know that most states collected more in taxes during the pandemic than they did in 2019. Therefore, the over $500 billion in additional Federal spending they received through the ARP will provide tremendous support to municipal credit quality for years to come. CIM remains extremely constructive on the outlook for municipal bonds going forward in anticipation of meaningfully higher taxes and we fully expect wealthy individuals and corporations to continue to seek out the tax-free cash flow that municipal bonds provide, over the near and long-term.

Andrew Clinton

CEO

CLINTON INVESTMENT MANAGEMENT, LLC

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MUNICIPAL CREDIT OPPORTUNITIES

COMPOSITE PRESENTATION | DECEMBER 2020

For the Period Ending	Gross of Fees (%)	Net of Fees (%)	Barc 65/35 Muni Index (%)	Number of Accounts	Wrap Accounts (%)	Composite 3 Yr Std Dev (%)	Barc 65/35 Muni Index 3 Yr Std Dev (%)	Composite Dispersion (%)	Composite Assets (Millions)	Total Firm Assets (Millions)
2020	6.68	6.28	5.2	119	81	6.63	5.34	0.65	342	1048
2019	10.72	10.30	8.63	94	51	3.45	2.54	0.55	251	748
2018	0.70	0.30	2.49	65	47	4.83	3.8	0.36	152	550
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, 2014*

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 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.

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

4. 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.

CLINTON INVESTMENT MANAGEMENT, LLC
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MUNICIPAL MARKET DURATION

COMPOSITE PRESENTATION | DECEMBER 2020

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)
2020	6.37	6.07	5.21	180	32	4.46	3.96	0.70	512	1048
2019	8.49	8.18	7.54	124	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.