Municipal Market Brief

February 2020

CLINTON INVESTMENT MANAGEMENT

In light of recent global equity market turmoil and the expected negative, economic implications from the spread of the COVID-19 virus, we, at Clinton Investment Management (CIM), believe it is important to share some critical datapoints with investors regarding the essential diversifying force municipal bonds have continued to provide during this period of extreme market stress.

- Municipal bonds have continued to perform extremely well both on an absolute and relative basis since the beginning of the year (YTD) and over the previous twelve months (YOY), as of 2/29/20.
    - CIM's Municipal Credit Opportunities strategy has returned +4.83% YTD and +14.07% YOY, net-of-fees.
    - CIM's Intermediate Municipal Market Duration Strategy has returned +3.72% YTD and +10.60% YOY, net-of-fees.
    - Bloomberg Barclays Municipal Bond index has returned +3.11% and +9.46%, YTD and YOY.
- CIM's strategies are well positioned for a material contraction in economic growth. As our clients know, we have been proactively preparing for this moment for a number of quarters as we were forecasting a meaningful slowdown in US economic growth in 2020.
- Our thorough credit analysis, of each of the issuers in which we invest, incorporates the assumption of a modest economic recession occurring within the next three to five years.
- Given recent events resulting from potentially severe supply disruptions and demand destruction from the spread of COVID-19, in our view, the near-term probability of a recession in the US has risen considerably.

Case for Investors to Allocate More to Municipal Bonds

- Fed Emergency Rate Cut of 50 basis points implies lower rates in the future.
- Attractive municipal bond yields relative to Treasuries. Muni yields have not fallen nearly as much as Treasury yields, providing an opportunity for material municipal bond outperformance over time. Municipal tax-free yields are now the same or higher than the yields on taxable Treasuries, in most cases.
- Healthy municipal new issue supply calendar provides positive technical environment for new commitments due to expected tax time selling prior to mid-April.
- Fed rate cuts will likely diminish the yields on cash equivalents, money market funds, and savings accounts significantly in the near future.

Case for Financial Advisors to Move Existing Positions

- Extremely low yields in high tax states like CA, NY, NJ, CT, MA, etc. make a strong case for a national portfolio given higher potential after-tax yields out-of-state.

- Dealer inventory has declined materially in recent years making it extremely difficult for advisors to source bonds at attractive yields and prices on their own.

- Most investors are significantly overallocated to 1 to 7-year bonds, which is now the least attractive area of the municipal curve, in our view.

- As the economy slows, we expect spread widening and potential credit deterioration in the lowest quality, highly distressed area of the municipal market including single-B and non-rated bonds. CIM is up in quality in our Municipal Credit Opportunities as a result.

CLINTON INVESTMENT MANAGEMENT, LLC
www.clintoninvestment.com

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	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 p repared and presented this report in compliance with the GIPS standards. CIM has been independently verified for the periods May 31, 2007 through December 31, 2018. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standard s 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. Verificati on 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.

CLINTON INVESTMENT MANAGEMENT, LLC

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MUNICIPAL CREDIT OPPORTUNITIES

COMPOSITE PRESENTATION | DECEMBER 2019

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 (%)			
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*

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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.