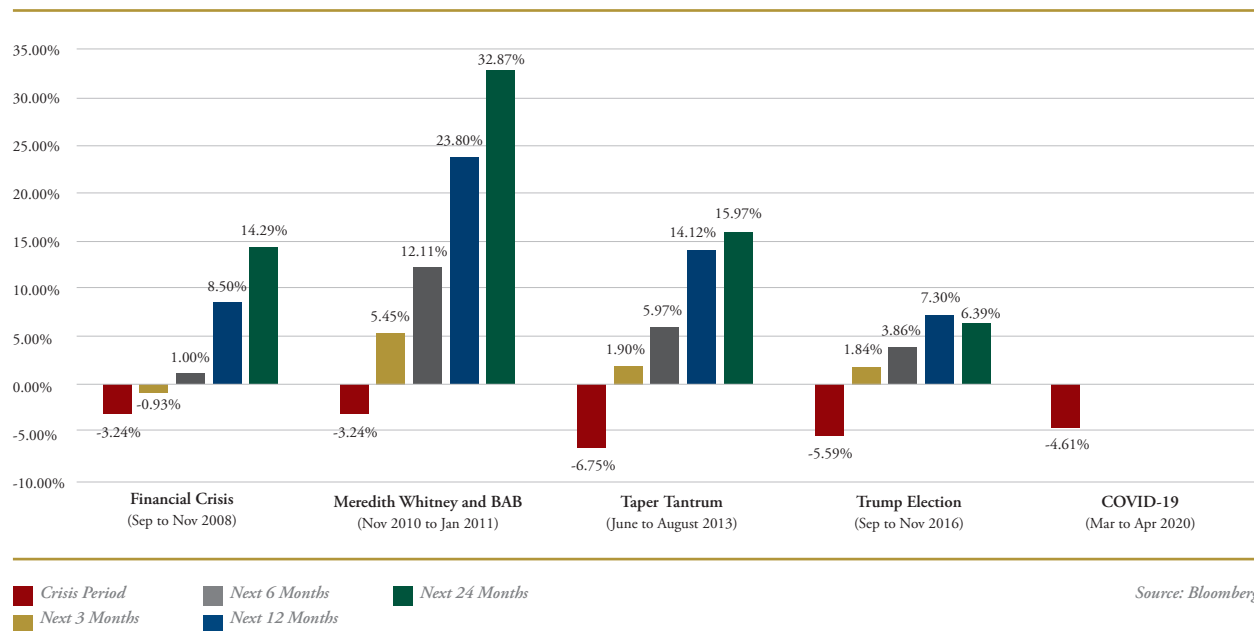


Taxable Municipal Bond Opportunity

Last month, we shared with you a graphic which outlined how tax-exempt municipal bonds recovered from recent stress periods. Below is a graphic of how taxable municipal bonds have recovered during the same stress periods.

We have become increasingly active in taxable municipals. Earlier this year, we hired Michal Sulkowski from Barclays to lead our effort in the space. Michal has a 20-year track record almost exclusively dedicated to trading taxable municipal bonds.

TAXABLE MUNICIPAL BOND RECOVERY FROM STRESS PERIODS
Bloomberg Barclays Taxable BondIndex (BTMNTR)



While the above uses an index, any opportunity will require the purchase of actual bonds. In our view, taxable muni spreads are attractive on relative value basis to corporates of similar or worse quality. By way of example, some of the trades we have done recently include:

TAXABLE MUNI PURCHASED	CORPORATE COMPARISON
10yr Texas GO at +170/10yr treasury Aaa	JNJ Corp, which was trading inside +90/10yr treasury spread
20yr Pennsylvania State Univ Aa1/AA at +200/30yr treasury	20yr Apple Corp (Aa1/AA+) trading inside +150/30yr treasury spread
30 yr Baycare Health (Aa2/AA) at +250/30yr treasury	30yr Merck Corp (A1/AA-) trading +165/30yr treasury spread
10yr Stanford Health (Aa3/AA-) at +250/10yr treasury	10yr Pfizer (A1/AA-) trading at +165/10yr treasury spread

ABOUT TAXABLE MUNICIPALS

Taxable municipal bonds occupy a unique space in the fixed income markets. The ultimate obligor is a municipal bond entity, often with taxing or rate setting power. However, in most cases, they are structured like a typical corporate bond and priced at par as a spread to comparable US Treasuries. With respect to duration and maturity, they tend to be longer than what is common in the corporate bond space. Municipalities tend to issue taxable debt in the 20 to 30-year part of the curve while corporations tend to issue most debt 10 years and shorter. Longer duration typically means higher yields on the bonds as the holder gets compensated for holding on to the bonds for a longer period. As a general matter, taxable munis are also higher in quality than corporate bonds with an average rating of AA on taxable munis compared to BBB on corps.

Annual issuance has been picking up in the taxable muni space. For most of the past decade, average issuance has been about \$40 billion, however, last year issuance jumped to \$90 billion and is expected to be as high as \$125 billion this year. There are two complementary drivers to the increased issuance; generally low interest rates globally and changes to the tax law in the United States. In broad terms, tax-exempt debt is issued for a specific project or purpose whereas taxable debt can be used for any purpose. Given the low interest rates, it is now economically feasible to advance refund tax-exempt debt. This provides municipalities more flexibility to use the funds for a broader range of projects, liability paydowns and/or investment leverage. It also provides them access to a global market and in some cases a more liquid market.

From a demand standpoint, foreign investors have been flocking into the taxable muni market in search of diversification and the extra yield it offers over their local currency debt, even after consideration of hedging costs. Taxable munis also have a broader buyer base, which includes insurance companies, banks, pension funds, foundations, endowments, corporate and municipal mutual funds as well sovereign wealth funds.

Taxable muni deals involving longer maturity bonds tend to be larger in size than tax-exempt deals. This can be particularly appealing to investors looking to asset/liability match. Most large issuers will come to the market with index eligible bonds, \$300 million or more in maturity size, which makes them more liquid and attractive to a broad base of investors. Bond investors, like equity investors, benchmark their returns to an index, hence holding index eligible bonds helps them track the performance of the index. Also, since the universe of index bond buyers is much bigger, it makes the bonds more liquid.

ACCESSING THE OPORUNITY

If you are interested in pursuing adding taxable municipals to your portfolio, we would be happy to have a conversation. It would be structured as a separately managed account where you would remain the owner of the account and we would be hired as the investment manager with defined parameters. Depending on the complexity of the account, we would agree on fees and other material terms.

Disclosure

The composite performance results displayed herein represent the investment performance record of 16th Amendment Advisors LLC ("16th Amendment"), an SEC Registered investment firm. 16th Amendment claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS Standards. 16th Amendment has been independently verified for the periods June 1, 2009 to December 31, 2019. The GIPS verification report is available upon request.

16th Amendment figures are presented gross and net of the maximum management fee (0.40%) annually pro-rated for each monthly period. Client fees may vary. The performance is compared to the Bloomberg Barclays Managed Money Intermediate Municipal Bond Index as well as the Morningstar Municipal Intermediate Fixed Income Index. Indexes are not subject to fees and expenses typically associated with separately managed accounts nor are indexes investable. It should not be assumed that an investor's account holdings will correspond directly to any comparative index or to other accounts managed by 16th Amendment. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinion or positions. This document is confidential. No part of this document may be copied or distributed in any manner without the express consent of 16th Amendment or one of its Managing Members. Past performance is not indicative of future results. Different types of investments involve varying degrees of risk and there is no guarantee an investment will be profitable. 16th Amendment is neither an attorney nor an accountant, and no portion of this document should be interpreted as legal, accounting or tax advice.