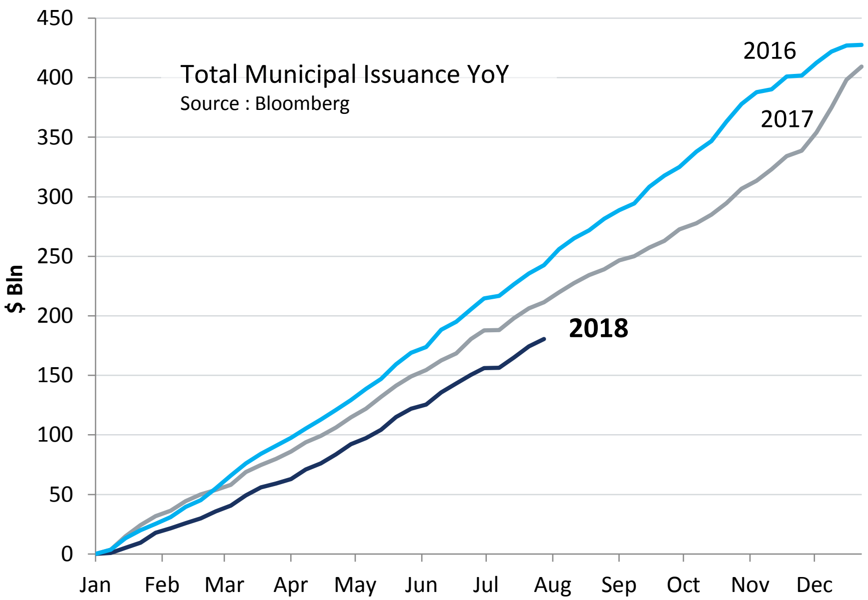
6 | Where Did All the Bonds Go?



Last year's passage of the Tax Cuts and Jobs Act significantly altered the $3.8 Trillion municipal market. The law eliminated the ability for municipal bond issuers to advance refund their outstanding debt, and that has helped shrink the volume of new bonds issued this year by nearly 20%. So, with supply down and demand robust, sourcing enough bonds to meet investment needs is proving difficult for many investors, and gaining access to bonds with attractive yields is even harder!

Given this challenging municipal landscape, Caprin's distinct advantages in securing bonds in the primary (new issue) market has become exceedingly valuable for our clients in a low supply environment. These are 1) an emphasis on maintaining long standing primary dealer relationships, 2) utilizing market rules to gain priority during the order period, and 3) a determination to look for attractive deals others might gloss over.

Emphasizing Dealer Relationships - Indeed in low supply environments, primary market offerings are generally more attractive (higher yield/lower price) than similar secondary market offerings that have typically been "marked up" by one or more dealers. Throughout our firm's 20 year history, Caprin has built and fostered strong relationships with over 70 broker dealers which include Wall Street's largest, down to regional firms across a broad swath of the country. We dedicate considerable effort to working constructively with these dealers so they know we are a credible buyer of bonds they want to sell. These relationships provide Caprin and our clients direct access to almost every new issue bond deal that comes to the primary market.

Gaining Priority During the Order Period – Issuers these days typically want a dedicated Retail Order Period (ROP) for new issue bond deals coming to market on a negotiated basis. It is largely thought that placing bonds with "going away" retail orders provides issuers with the lowest cost of issuance, so retail buyers are given priority to purchase bonds before the new issue is opened up to larger institutional investors. Caprin's boutique size and the fact that we represent true retail clients allows us to be in that first wave and enter our orders during the ROP, gaining access to bonds before many of our larger institutional competitors.

Proactive Search for New Issues - Every Thursday afternoon we begin scrutinizing the next week's primary market calendar for new issues that are worthy of consideration. Caprin targets offerings for a variety of reasons including state, sector, credit rating, structure and occasionally, underwriter. Oftentimes new bonds coming in states which issue less frequently may be overlooked by the broader market, especially during a busy week of issuance. Or, when a smaller, less-frequent underwriter is chosen to lead a transaction, bonds can occasionally be priced more attractively so the underwriter can efficiently place the bonds with the market, and not have to take them onto their own balance sheet. We view this new issue search as vital to finding pricing anomalies and relative value opportunities that others might overlook, and to secure bonds that add incremental income to our clients' portfolios.

All the Pieces Coming Together – A recent screening of upcoming new issues found attractive yield levels on a preliminary pricing notice for a sanitation authority in Pennsylvania. Issuance was being managed by a less frequent underwriter that we work with. We reviewed the issuer's credit metrics and they met our standards, so we decided to participate in the sale especially since it had a dedicated retail order period we could take advantage of. We submitted orders on a few maturities during the ROP and these ended up multiple times oversubscribed (more orders than bonds being issued). Those maturities were never even offered to institutional accounts. This recent transaction demonstrates how our proactive search discipline coupled with our broad network of broker dealers uncovers a transaction with attractive relative value, and most importantly allows us to gain an advantage and ultimately receive bond allotments for our clients that others might not.