Executive Summary

What we are seeing:
The Municipal Bond market is experiencing an unprecedented level of volatility. Following 61 straight weeks of inflows into the mutual fund space, investors have done an abrupt about-face and have pulled over $20bn out of the market over the last three weeks (source: ICI). This has led to periods of very limited liquidity in the market.

What we are doing:
Our top priority as portfolio managers is to maintain liquidity in the fund which we have done by focusing our attention on high quality, highly liquid securities. While we continue to expect volatility in the space, we are seeing attractive opportunities to upgrade our portfolios with high quality credits being priced at attractive levels in our view.

Why we are optimistic:
The Municipal Bond market has been in existing since 1812 and has been through periods of heightened volatility in the past. Using history as a guide, outflow cycles are usually severe at the start but then rebound relatively quickly once some stability and confidence return to the market. The dislocations we are seeing in the market are creating opportunities and we are starting to see institutional buyers test the waters given the attractive yields in certain sectors and credits.
RISKS

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Risks

**Bonds** are subject generally to interest-rate, credit, liquidity, call, and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **High yield bonds** involve increased credit and liquidity risk than higher-rated bonds and are considered speculative in terms of the issuer’s ability to pay interest and repay principal on a timely basis. **Municipal income** may be subject to state and local taxes. Some income may be subject to the federal alternative minimum tax for certain investors. Capital gains, if any, are taxable.

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