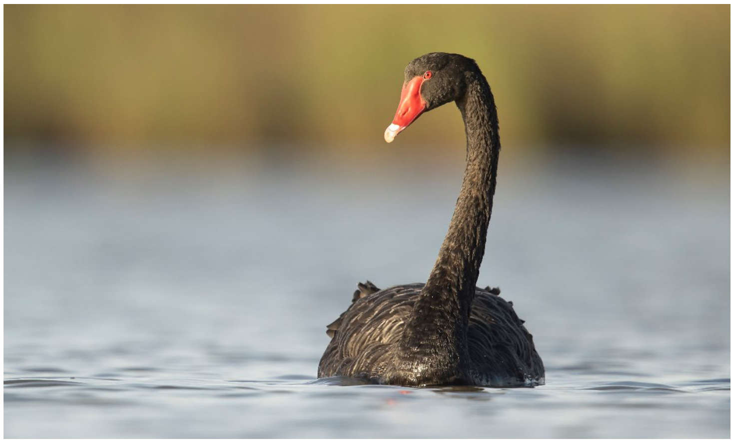
ANNUAL OUTLOOK

2021 – Faith in the White SWAN

MAINLINE WEST

Muni Market Overview 2021:

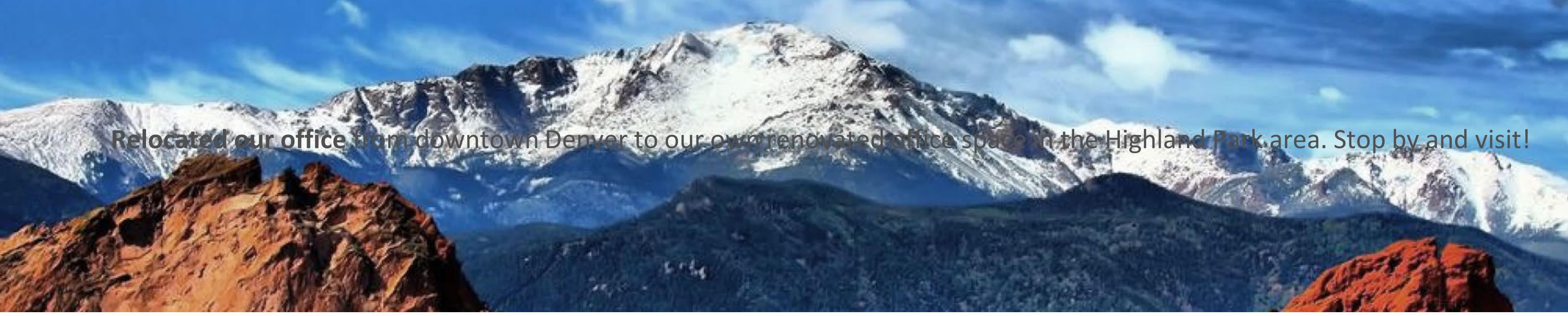


We started 2020 cautious; we called it "dark/angry swans" on the muni horizon. ***Little did we know it would be another black swan we would see in 2020***, but wearing a mask. The muni market is getting a reputation for puking on itself every three to four years: 2008, 2010, 2013, 2016, so naturally it was time in 2020. They say a black swan is

"A random event, unexpected and beyond the realm of regular expectations". I think we can conclude that we can expect the unexpected every 3 to 4 years. We can also expect, as we move into 2021, that a long-term SWAN muni strategy can remain immune. The markets may think differently for a short while, but ***each time when we look back at a previous crisis, we see long-term munis remain unaffected and consistent.*** COVID-19 is teaching us to keep the faith in the White SWAN as an investment vaccine!

Introduction:

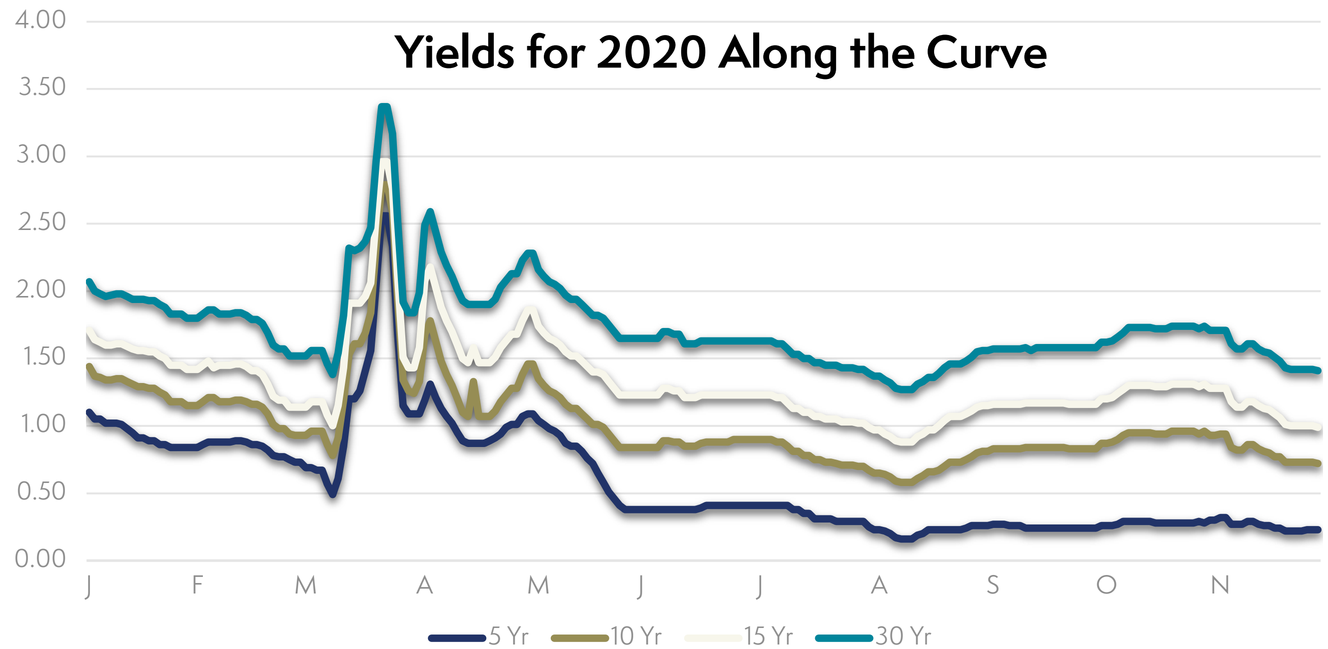
As municipal specialists, MainLine West has over 125 years of cumulative investment experience. That said, 2020 tested that experience. ***Never have we seen such a volatile year in prices, credit quality concerns, and liquidity.*** That does not even begin to quantify everything else going on in the world. The non-muni experts in the early summer were predicting another great depression for municipalities and a large increase in bankruptcies. Munis, as a ratio to taxables, were at their all-time highs, signaling how cheap they were due to these default concerns. This includes even the most essential and highest rated issuers. The entire muni market was exposed to the COVID crisis. Fast forward to the end of 2020, and the muni market is now at low and rich levels compared to taxables. It appears, versus *(Cont'd)*



history, value in munis is scarce heading into 2021 and prospects are muted for continued good performance. What does MainLine think about 2021? What was value before COVID (BC2) may be defined differently after it. COVID has accelerated some changes that were already in motion, and has created others. MainLine feels these changes bode well for munis. We also feel the challenges faced in 2020 added roughly ten more years of experience to our resume. So now, with *135* years of experience allow us to share the highlights of 2020, and our outlook for 2021.

2020 Municipal Market Review:

What a yield roller coaster ride for the markets, including munis, in 2020. From yield and ratio lows in March, highs in April, back to lows in August, cheaper in September, finishing rich in December, depending on when you bought and sold, you could be right side up big, or upside down big.

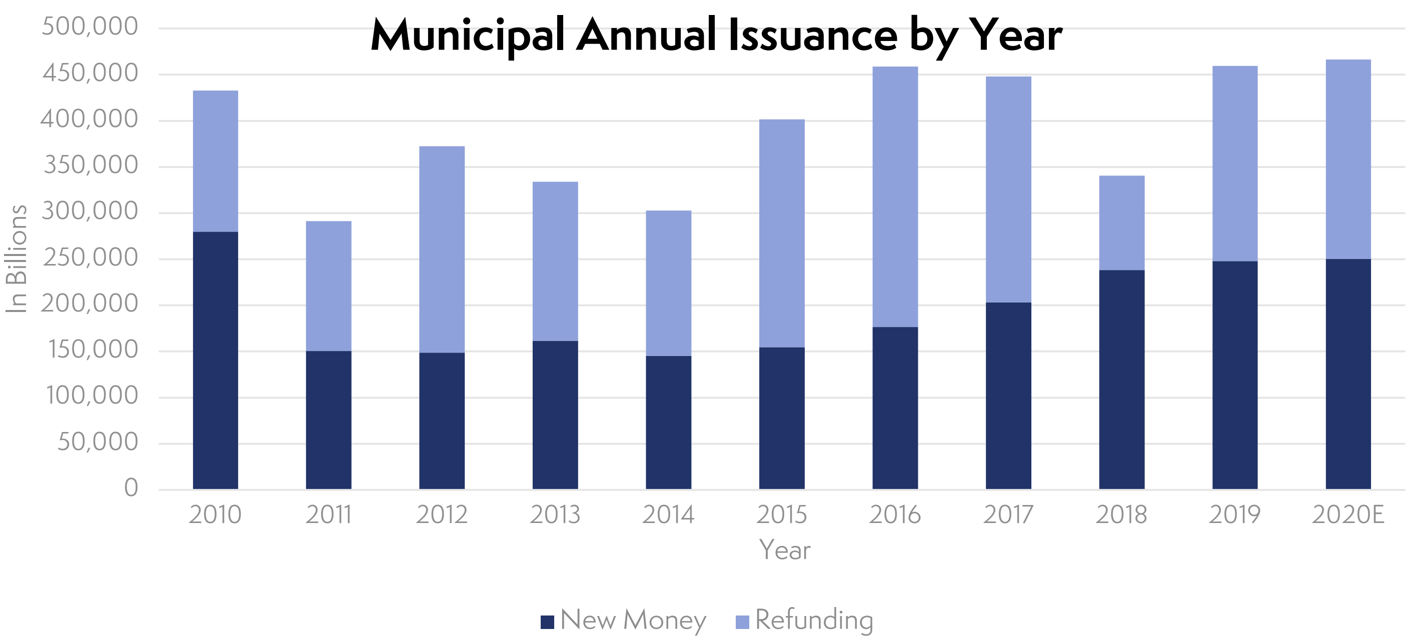


Yields	5 yr	10 yr	15 yr	30 yr
Average	0.59	1.02	1.34	1.74
High	2.56	2.79	2.96	3.37
Low	0.16	0.58	0.88	1.27

As you can see, yields maxed out in March/April and finished at lows just above the minimal levels reached in August. Yield ratios, which define the value of muni bonds, also moved violently creating value, then taking it back, and then repeating the process. Below is a chart showing the timeline of value according to the AAA-muni scale and USD Swap Rates:

Yield Muni/USD Swap	1/2/2020	3/24/2020	8/11/2020	9/2/2020	12/30/2020
5 Year Ratio	65%	395%	48%	84%	53%
10 Year Ratio	78%	341%	91%	124%	86%
15 Year Ratio	88%	345%	107%	133%	93%
30 Year Ratio	106%	369%	135%	155%	115%
Yellow rich, orange cheap					

Munis posted a record level of issuance for the year, due to the use of taxable bonds, low borrowing rates, and concerns over the Presidential election. In fact, October's $72.8 billion is the largest one-month issuance level ever, beating the $69.6 billion in December 2017, which was due to tax reform concerns. Why? Not because of tax rate changes like 2017. In fact, the thought at the time was possibly higher taxes, which would lower the cost to issue. Ultimately, it was due to fear and uncertainty with results and the path after the election. The below graph and chart shows the annual level of issuance over the last 10 years:



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E
New Money	279,771	150,400	148,900	161,500	145,400	154,600	176,600	203,100	238,100	247,945	250,372
Refunding	153,211	141,005	223,498	172,568	157,339	247,170	282,340	245,100	102,300	211,653	216,128
Total	432,982	291,405	372,398	334,068	302,739	401,770	458,940	448,200	340,400	459,598	466,500

Muni Market Overview 2021 (cont'd)

The 2020 muni crisis actually did not start as a credit crisis; it started as a liquidity crisis. Illiquidity on the short-end set off the historical market sell-off in late March, as COVID became a pandemic. Large outflows into the municipal high -yield funds, drained cash from the market and caused 7-day tax-exempt rates to spike to over 5%. These mutual funds desperately had to sell bonds to meet redemptions and, in some cases, causing yields to rise over 50 bps in one day. Once the Fed stepped in on the short-end, and the muni market outflows stabilized, yields started to rally again. *It ended up taking 90 days to start flushing the COVID credit scare out of the market.*

When the dust settled, munis showed a total return of 8.24% for 2020 for high quality bonds and adjusting the coupon income for taxes. The following chart shows returns for 2020 from various Bloomberg/Barclays indices. It shows munis were third behind US Corporates, and Global Aggregate. Both of these indices entail a higher degree of credit risk, and/or currency risk.

2020 Total Returns by Fixed Income Asset Class

	Coupon Return	Price Return	Total Return(2)
Muni Composite	4.01%	1.17%	5.21%
Muni Composite Tax Adjust (3)	7.07%	1.17%	8.24%
US Treasury Composite	1.95%	5.94%	8.00%
US Agency Composite	2.08%	3.34%	5.94%
US Corporate Composite	3.50%	6.19%	9.89%
Global Aggregate (1)	2.28%	3.07%	9.20%
Notes:			

(1) Invested in GDP weighted portfolio of Global government and non-government issuers.

(2) Returns do not include reinvestment of proceeds.

(3) Adjusted coupon return for the following taxes: 37% federal income, 3.8% Obama Medicare, 5% average state income tax for 1/2 of the portfolio.

Muni Market Overview 2021 (cont'd)

Let us look at the returns after the COVID pandemic hit. Munis once again came in third, but the performance of other high-quality fixed income assets (US Treasuries, and Agencies) were way down. Below are the same indices but returns are from 3/31/20 to 12/31/20.

3/31/20-12/31/20 Total Returns by Fixed Income Asset Class			
	Coupon Return	Price Return	Total Return(2)
Muni Composite	2.99%	2.82%	5.88%
Muni Composite Tax Adjust (3)	5.27%	2.82%	8.09%
US Treasury Composite	1.40%	-1.57%	-0.16%
US Agency Composite	1.44%	-0.15%	1.29%
US Corporate Composite	2.59%	11.19%	14.03%
Global Aggregate (1)	1.65%	2.38%	9.55%
Notes:			

(1) Invested in GDP weighted portfolio of Global government and non-government issuers.
(2) Returns do not include reinvestment of proceeds.
(3) Adjusted coupon return for the following taxes: 37% federal income, 3.8% Obama Medicare, 5% average state income tax for 1/2 of the portfolio.

In a year of craziness, what did 2020 mean to munis & MainLine West? Opportunity and gratitude:

- Another opportunity to book higher than average yields and execute the MainLine West Family of Fund strategy.
- Another chance to review and verify the SWAN investment strategy.
- A very interesting study in human behavior and investing.
- A catalyst for some changes going forward and the implications for 2021 versus what they were BC2 (Before COVID).

2020 Highlights at MainLine West:

- The MainLine Family welcomed Anthony Cole Caselli into the world in late March - COVID crisis and all. He has been a bright spot to his parents Anthony and Lauren and to MainLine in 2020.
- In a year of historical yield volatility and market strains, MainLine was able to invest Fund VI and raise additional money to double dip on COVID concerns with Fund VI-5. ***We also terminated Fund IV in August with an annualized total return over its roughly five year life of 10.82% (16.08% tax-equivalent).*** Overall, the Family of Funds invested over $400 million in new bonds with performance traits we feel will reward our investors over the next 5 to 7 years.
- ***MainLine is humbled and grateful with the faith and confidence our investors have shown us in 2020.*** Especially in the heart of the pandemic, when we were calling capital to execute numerous strategies at the same time as an unknown pandemic was infecting the markets. Capital calls were met on a timely basis, which helped us implement the investment plans. ***In a year of a lot of bad stuff, we feel good about our investment decisions and it is your support that got us there.***
- MainLine West making a financial commitment to the **Dawg Nation Hockey Foundation**. A local non-profit charity dedicated to providing support and financial assistance to persons with and without disabilities in times of need. ***Play Hard, Play Fair, Give Back!***

2021 Municipal Market Outlook

MainLine is looking for outperformance from the right type of muni bond in 2021. This comes at a time when munis appear "rich" to fair valued versus taxables and at close to low record yields. By the end of 2021, some of the "factors" and past relationships in muniland that define this "richness" will have changed. The market technicals, changes in DC, credit quality post-COVID, and the right type of bond and issuer will come out of the COVID fog much more appreciated and valued by investors looking for sleep well at night investments.

Muni Market Technicals:

- **Supply & Demand:** Issuance estimates for 2021 range from $350 billion to $550 billion. The reason for the large differences is due to how analysts are viewing the taxable muni market. In 2020, 20% to 25% of issuance was taxable. In previous years, it was closer to 5% to 10%. As we discussed above, 2020 set a record for new issuance estimated at $467 billion. For 2021, MainLine's estimate is at the lower end of the range of predicted issuance at $430 billion, in agreement with Barclays' forecast. States will be working hard to continue to balance their COVID-impaired budgets and this will include cutting back on costs and new projects. *Less supply in 2021, combined with continued demand is bullish for muni value.*
- **DC Politics** will remain a mess, but MainLine feels there is a good chance for some muni-friendly reforms. Potential higher taxes on the federal and state level, infrastructure programs, and a return of tax-exempt advance refunding and some aid for COVID infected state budgets are all possible. Joe Biden feels he has a mandate to increase taxes and use the money for reforms. *His original tax increase plan is extremely bullish for munis, but even a watered down one is good for munis and should be possible.* The Republican Party is going to be looking for a new identity and could support "pro-worker" friendly reforms. The number one societal issue facing DC these days is the lopsided distribution of wealth and lack of a working class. What better way to address this then increasing the tax on the wealthy. MainLine also feels there is a good chance states will also be looking at increasing their income tax rates to help meet COVID budget imbalances. *MainLine feels DC Politics and possible income tax rate increases has munis looking neutral to bullish in value.*

2021 Municipal Market Outlook (cont'd)

- **Interest rates could move up a bit, but will stay low**: Once again, we feel interest rates in 2021 will still stay historically low for the same reasons they have for the last ten years. There has been a lot of stimulus money put in the market; the economy should recover by mid-2021, which could put pressure on higher rates. ***MainLine can see rates going up a bit, but not enough to cause negative returns for munis.*** Munis historically outperform in times of increasing interest rates. Rates should remain relatively low due to the following disinflationary sources:
  - *Demographics* – The aging population and its need for fixed income investments.
  - *Lack of full employment* – Unemployment levels will remain elevated and structural unemployment will be a big problem.
  - *Low rates internationally will keep US rates down.* Until rates overseas increase, the US fixed income market will continue to attract money, and this demand will dampen any upward pressure on rates.

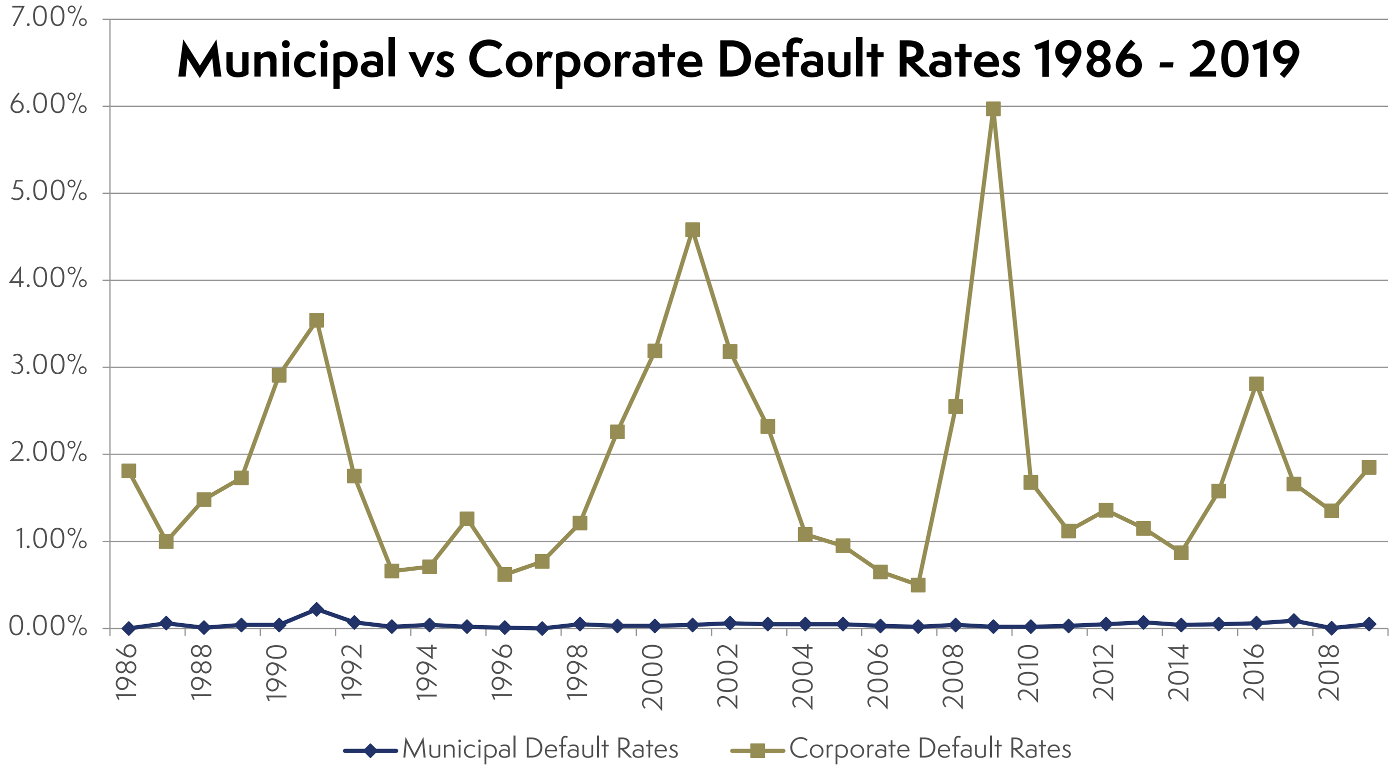
Market Technicals Conclusions:

Less new issue supply, expectations of higher taxes and continued low rates are all good for muni performance. *It is conceivable that in 2021 munis post positive results in a higher treasury and corporate bond rate environment.* With plenty of good news for munis on the technical and political fronts, what about COVID and other credit quality concerns?

Muni Credit Concerns from Today (COVID), Tomorrow (Political) and the Future (Climate Change)

MainLine feels there are three major credit trends developing in the muni market, one short-term (COVID), one intermediate term (Political risk), and one long-term (Climate change). The muni market will be ground zero for climate change credit risk over the next 30 years, but in 2021, it will be COVID concerns and the fallout from the shutdown of 2020 that will be most in focus. As for political risk, we are just now seeing the early signs of changes in what could affect munis in eight to twelve years.

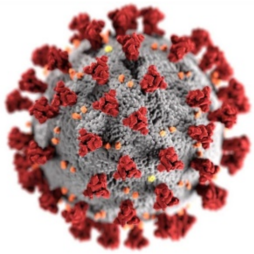
Before sounding the muni credit alarm, let us keep things in perspective. Below is a historical graph and chart from 1986 through 2019 comparing the default rates of S&P rated municipal bonds versus corporate bonds. ***The fundamentals of muni finance which provide the low level of default risk has not changed, and we feel will ultimately keep the fallout of COVID concerns from putting the default risk in 2021 anywhere near that of corporate bonds.*** MainLine does feel the credit environment has changed recently to cause a different approach to credit analysis and there is becoming a bifurcated market between the good munis versus the bad ones.



Description:	Average	Max	Min	2018	2019
All Rated Municipals (1)	0.03%	0.09%	0.00%	0.00%	0.05%
All Rated Corporate(1)	1.83%	5.97%	0.50%	1.35%	1.85%

(1) All bonds rated by S&P from 1986-2019

COVID Recovery - Are we there yet?



Fiscal stimulus for state and municipalities is a big question for some issuers and a bigger issue for the economy. The states have been impacted on two fronts: loss of tax revenues and additional costs all related to COVID.

The impact on tax revenue has not been as large as forecast, as unfortunately the lower income have been most impacted and, therefore, loss of tax revenues is not as high as could have been. That being said, the Center on Budget and Policy Priorities is forecasting a budget shortfall of $400 billion through 2022 (original forecast was at $600 billion).

As for costs, medical, unemployment, and economic support to business have all increased, putting further strains on budgets.

If DC does not want to provide immediate relief, they will get to do it on a national level when the economy does not come back as strong as expected, due to cuts in the public sector. Workforce cuts, pay cuts, discontinuation of services, increases in fees for municipalities to balance their budgets will all impact taxes. ***There were already 1.3 million jobs in the public sector on the chopping block, and this was before the shutdowns around the holidays occurred.*** Things will be even tougher on issuers with low wealth and declining demographics, as they will not be able to increase fees or taxes and will then have to make further cuts to service. Once again, big brother is stepping on the under privileged and hurting wealth distribution even more.

Going forward, there will be some muni issuers that will have problems recovering lost revenue and paying their bills. There will also be sectors under stress. ***However, for the most part, we anticipate significant ratings downgrades, but only a small increase in default rates for 2021.*** Some sectors of concern are senior living facilities, student housing and loans, small and non-specialized higher education schools, small city convention centers, hotels, and arenas. Also of concern are issuers with poor wealth levels, demographics and bonds for non-essential services. ***Sectors MainLine likes are essential services such as electric, water, large healthcare networks, airports, special tax, and housing bonds.*** MainLine also likes lower-rated issuers and perceived higher risk sectors that meet our credit requirements and are primed for a good year, as risk becomes better defined and spreads tighten.

Municipal Market is Ground Zero for Climate Change Credit (CC) Risk

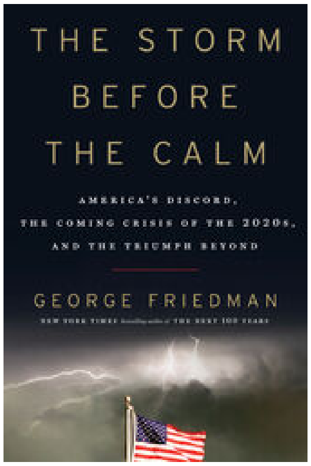
The muni market will lead the way to the financing and implementation of climate change into the financial markets. It will no longer be possible for issuers to sell bonds out 30 years in maturity without discussing their potential climate change risk, and not have it influence its borrowing cost. *The Biden administration will be making climate change a priority and this will cause even more focus on "for the public good" long-term projects.*

Going a step further, some localities are passing measures to provide funding to help comply with climate change concerns. The City of Denver passed a .25% increase in the city's sales tax to be used by the city to become more climate friendly in its operations. Direct geographic Climate Change risks, 30 year financing, and most projects with undiversified revenue sources all make the muni market ground zero for CC credit risk.

The biggest climate change risk we saw in our comprehensive review of client's portfolios (detailed in our September 2020 Monthly Review) was extreme heat & fire. This is mainly due to the states like Florida, Texas, and California having large amounts outstanding bonds in high-risk locations. Other risks identified were coastal and inland flooding, and violent storm damage.

We anticipate more climate risk news in 2021, once the pandemic is under control. Issuers will be required to provide more information regarding risks and how they are preparing for them. The market should finally start differentiating similar issuers that have different degrees of climate risk. As of now, the market does not discount climate risk when pricing bonds. After a review of their portfolios, MainLine investors are ready for this and are following our investment parameters, going forward.

Political Reform and Society



The clear message from the 2020 election is that the USA is firmly divided, and that will not change any time soon; the relationship between DC and the economy versus society is under review. COVID has just exacerbated this underlying theme. Services that the federal, state and local governments are providing (or not providing) will be up for discussion, along with polices for taxes, economic growth, and distribution of wealth. This intermediate-term risk is just now beginning and will grow over the next eight to twelve years.

MainLine will explore this evolving risk and its potential impact on the muni market in 2021 in a monthly market review. We do feel the first reaction to this risk could be seen if Biden tax policy reform is enacted in some form during 2021. An increase in income tax rates for the 1%'ers will be seen as an income redistribution plan and comfort those voters wanting immediate change

Other 2021 Factors:

- **The end of the 5% coupon as the benchmark for the muni market and value has arrived.** The yields quoted on the published index curves are based on bonds trading with a 5% coupon. The 4% coupon, at the current lower level of rates, represents a better value. For intermediate to long-term bonds, an investor can earn extra income, due to the higher investment yield. OAS analysis on high-grade bonds shows the 4% coupon to be 10 to 20 bps cheap versus 5%. It is time to make the 4% coupon the scale as the 5% does not represent the value it previously did. *The 4% coupon should outperform, going forward, and ultimately replace the 5% as the high-grade scale benchmark.*

- **Taxable munis remain a growing portion of the municipal market.** Even if the ability to advance refund tax-exempt debt is reversed by the Democrats in 2021, the value to issuers and investors will remain. Issuance may decline, but there is a place for taxable muni bonds. *Investors should be looking at them as an alternative to US investment grade corporate bonds in their IRA's and 401k portfolios.* MainLine will dedicate a monthly credit review to this sector in 2021.

2021 Conclusions:

- **Munis to outperform and redefine their relationship with other fixed income assets**: Ratios may be low and munis appear as rich versus historical levels. However, MainLine feels, once COVID is gone and DC politics play out with muni friendly legislation, that technicals will remain solid. Historical relationships and credit quality standards could be redefined in 2021, as munis get more respect for what they are, and what we have always known them to be.

- **The right bond means more in 2021:** The haves and have-nots in muni finance are growing, and even more so now after COVID and with future risks on the horizon. We see a further bifurcation of credit quality and principal protection with muni issuers, going forward. The foundation of municipal financing has not changed, rather how investors should judge it. The SWAN strategy will be further validated as munis navigated the COVID fallout in 2021. Investors will learn more about what it means to own an essential service bond from a solid demographic region, with financial flexibility and first lien on revenues.

2021 Conclusions (cont'd):

Expect the unexpected, going forward, by preparing today: The brightest and most clairvoyant minds will not be enough to prepare for the future risks and concerns, going forward. 2020 has reaffirmed this and, with the future risks we see on the horizon, there will be another black swan event soon enough. ***Investors are learning the benefits of municipal bonds in times of uncertainty.*** A good SWAN strategy, which requires planning and discipline can create some calmness in times of market chaos. MainLine, as your municipal market partner, wants you sleeping well, in 120 degrees, while wearing masks, during any sort of "black swan" event.