

The existence of thousands of municipal securities with varying coupons, maturities, calls and other structural features provide an array of potential bond purchases for investors seeking tax-exempt income to select from. Credit quality variations, issue size and the frequency that an issuer comes to market influence the trading characteristics of specific bonds. State income taxation represents an additional factor in the relative valuation of individual securities.

Discerning value in this complex environment requires focused attention and trading acumen. The C.W. Henderson professional trading staff is adept in this process and continually reviews the slate of weekly new issues and available securities in the secondary market to find attractively priced bonds that meet our credit and structural criteria. The Firm's security selection process focuses on four primary factors: high credit quality (review and approval of all credits by the research group); good liquidity characteristics; a security structure that fits one of the strategies employed in the construction of client portfolios; and attractive relative value.

The C.W. Henderson trading group implements the Firm's active management process by purchasing and selling securities on a daily basis with the objectives of aligning portfolios with the Firm's strategic outlook, attaining best execution and enhancing portfolio value and returns. Tax efficiency is a central feature of the Firm's trading activity. Turnover is high when rates are rising and capital losses can be harvested and low when rates are declining. A few examples of significant value added trades executed over the past few years are detailed below.

High Coupon Short Call Bonds

July 2015

- On 7/22/2015 purchased 9.075M of 5% AAA rated (by Moody's) Pennsylvania Unemployment 5% bonds due 7/1/2022 priced to the 7/1/2016 par call. There were partial calls on the security on 7/1/16 and 1/1/17 and net returns on bonds held to those call dates were 0.30% and 1.90% respectively. As of 7/1/17, 29% of client bonds remain outstanding. Clients have earned 2.67% tax free on outstanding securities. Bonds are priced to a rolling 20 day call so interest rate risk is minimal. To achieve a 2.67% tax free return on AAA rated bonds in today's market an investor would likely need to purchase 20+ year securities.

Bonds Refunded After Purchase

May 2014

- Purchase of 1.67 million Missouri Highway revenue bonds due 5/01/2022 at 0.48% to 2016 call. Bonds refunded shortly after purchase. Sold bonds on June 5, 2014 at 0.28% yield to refunded date, a 0.29% price increase on the two year security in eight days – double digit annualized return.

Purchase of an Underpriced Security

November 2016

- Purchase of 10 million Richmond, VA Utility 5% bonds due 1/15/2031 priced to a 2026 par call. Rated AA2/AA, by Moody's and Standard and Poor's respectively, bonds came to market very cheap during the market selloff of late 2016. As a nimble, active manager we are able to take advantage of market corrections to purchase cheap securities. Bonds were purchased at +38 to the AAA curve on 11/15/2016. Less than two months later bonds were trading at +12 to the AAA curve.

Purchase (and Subsequent Sale) of an Underpriced Security

July 2016

- Purchase of 1 million Yamhill County Oregon School 4% bonds due 6/15/2028 at 2.01% yield to 2026 par call on 7/25/2016. Bonds purchased at +38 to the AAA yield curve. Sold half of position on 9/16/2016 at 1.82% or +8 to the AAA yield curve. AAA yields in 2028 rose from 1.63% to 1.74% and we sold bonds 30 basis points tighter. Bonds were purchased at \$117.696 and subsequently sold at \$119.302.

Excellent Execution on Sale and Subsequent Purchase of Replacement Security

January 2017

- On 1/10/2017 sold 3.295M Washington State GO 5% bonds due 7/1/17 at 0.78% net. On the same day State of Washington issued a deal and the 5% 8/1/2017 bonds came at 0.90%. The AAA interpolated yield curve was 0.89% for 7/1/17 and 0.90% for 8/1/17. On the new deal we purchased the 2/1/2018 maturity of Washington GO bonds at 1.03%. Sold bonds 12bps through the interpolated scale and enhanced client returns by 25bps while maintaining a conservative duration.

Sales of Securities Not Meeting Credit or Structure Criteria

May 2013

- Expeditious sale of Detroit Water 5.25% bonds due 7/01/2025. Inherited with new account in spring of 2013. Position sold at 3.75% yield, dollar price 110.38. Three weeks later bonds traded near par.
- Numerous sales of inherited Puerto Rico securities. Holdings of Puerto Rico bonds in new accounts that are funded with existing securities have always been liquidated as soon as practical. Many liquidated bonds are now trading thirty to forty points lower after being severely downgraded by the rating agencies.

Tax Loss Harvesting Trade

December 2016

- Sale of Middlebury, IN SBC 5% bonds due 7/15/2027 (AA+ by Standard and Poor's) at 2.95% yield to 2026 par call. Generated an \$80,292 loss per million par that offset capital gains in other sectors of clients' overall portfolios. Replaced with AA+ Greenwood, IN SBC 5% bonds due 7/15/2028, also structured with a 2026 par call.

Sales of low quality securities that subsequently experience severe price erosion and tax benefits accruing from tax loss harvesting as illustrated in the last two sections add meaningfully to portfolio integrity and tax efficiency. The beneficial impact of this trading activity is not included in reported returns.

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