PRESERVE

ASSET PRESERVATION ADVISORS ANNUAL REVIEW

IMPACT 2018: TAX REFORM

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ASSET PRESERVATION ADVISORS

2018

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Welcome to the third edition of *APA Preserve*. Inside we explore many issues expected to impact the municipal market in 2018 and a look back at 2017, a year that seemed to challenge conventional wisdom.

Throughout 2017, ongoing political turbulence did not keep markets from moving higher, but we believe it did make it significantly more challenging to predict market direction and investor reaction. Markets moved in anticipation of the most sweeping tax reform bill in decades and we saw the financial world become enamored with the rise of cryptocurrencies, particularly Bitcoin. By the end of the year, the municipal market finished with a positive total return and the reality of a tax reform package likely to impact municipal supply for years to come.

This issue's columns and features touch on a range of topics, including:

- Tax reform and its implications for the municipal market
- Dedicated Tax Bonds: APA's credit team's view on how they may add more security than a General Obligation bond
- The opportunity to invest in a socially and environmentally responsible strategy
- Will the U.S. invest in long-term infrastructure and will the municipal market ultimately fund these needs?
- A Q&A with Paul Nolan, APA's Director of Research: Can municipal healthcare credits keep their luster?

As always, our goal is to provide you with the most relevant ideas and recommendations for the current market and looking forward. We want to thank you for your trust and confidence in choosing Asset Preservation Advisors to manage your clients' municipal bond investments. We hope you enjoy our 2018, *APA Preserve* and look forward to hearing from you soon.

Sincerely,

Kevin Woods
Managing Partner, Chief Investment Officer

DECEMBER *to* REMEMBER

In the early hours of Dec. 20th, Congress passed the most sweeping rewrite of the federal tax code in decades, a $1.5 trillion package that, over time, will have a broad impact on the United States economy, particularly the municipal bond market. In this issue, we will discuss that expected impact and APA's strategic portfolio positioning.

By:Wesley Williams, Patricia Hodgman

ADVANCED REFUNDING AND PRIVATE ACTIVITY BONDS

The provision of the legislation likely to affect the municipal bond market most is the elimination of tax-exempt advanced-refunding bonds issued after December 31, 2017, a proposal that was included in original versions of the bills that passed through the House of Representatives and Senate. Advanced-refunding issuances make up about 20% of the market and allow issuers to take advantage of lower rates and refinance outstanding debt for bonds not currently callable. They differ from current-refunding bonds, financial instruments that mature or become redeemable within 90 days. This provision, which takes effect in 2018, will likely affect issuance volumes going forward, an aspect highlighted in the Supply section ahead.

Although the bill eliminated advanced refundings, private activity bonds (PABs) — municipal securities used by one or more private entities — avoided the chopping block. The House sought to eliminate tax-exempt PABs (common among airports, housing authorities, and certain higher-education and healthcare facilities), but this sector of the market ultimately survived unscathed in the bill that emerged from conference.

SALT REDUCTION

The state and local tax (SALT) deduction remains in place for those who itemize their taxes, but it has been capped at $10,000. Thus, many investors in high-tax states face the possibility of larger tax bills, which APA believes should increase the attractiveness of municipals as these investors will likely seek tax-advantaged investments. The states likely to be affected most by this change are New York, New Jersey, California, and Connecticut. As a result, we expect, and have already started to see, spread compression on bonds issued within these states.

CORPORATE RATE

Conversely, the reduction in the corporate tax rate from 35% to 21% could soften purchases from certain institutional investors. Historically, banks and P&C insurance companies have been important players in the municipal market, owning an estimated 20% to 30% of outstanding municipal debt combined. While a reduced headline rate could cause hesitation among these entities, APA still expects tax-exempts to make sense in many cases, and we do not anticipate mass liquidations of current positions. Traditionally, these buyers have focused on the long end of the yield curve, a maturity range of 20 to 30-years. Thus, APA continues to monitor for potential curve steepening, which could result from a reduction in demand in that maturity range.

ALTERNATIVE MINIMUM TAX

The final bill repealed the alternative minimum tax (AMT) for corporations but retained it for individuals, although through 2025 it applies to fewer people, excluding individuals who earn less than $500,000 and joint filers who make less than $1 million. With this news, AMT bonds have rallied, and we believe spreads between AMT and non-AMT bonds should settle at tighter levels.

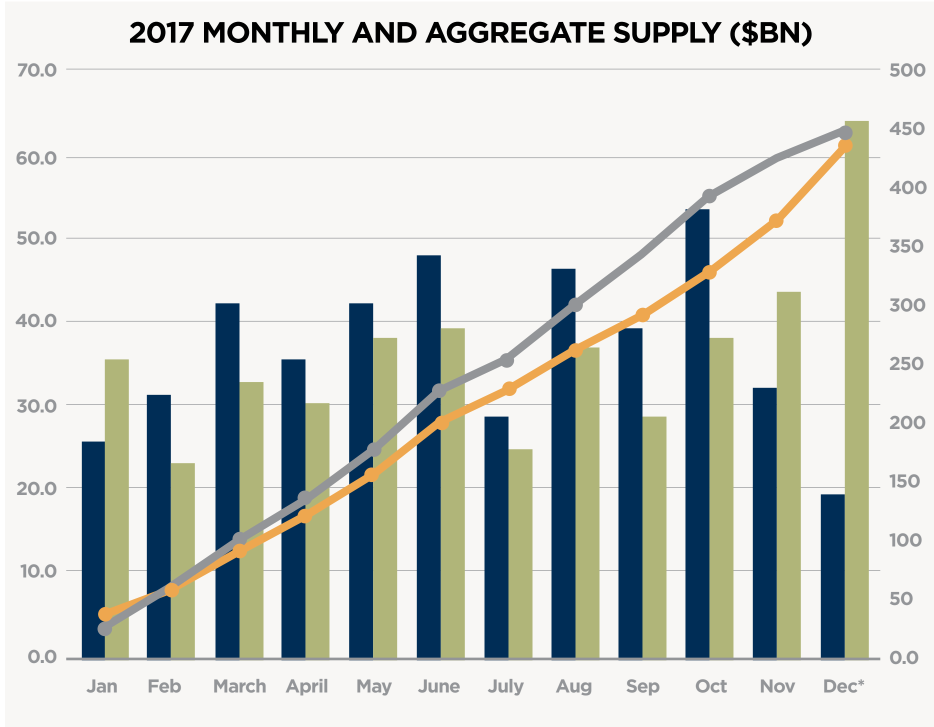
LOWER MARGINAL RATES

The overhaul maintains seven tax rates, but individuals with annual incomes exceeding $500,000 will now pay a marginal rate of 37%, down from 39.6%. While this will make munis slightly less attractive to some investors, we believe the impact on muni valuations should be nominal. Additionally, even though the bill repealed the individual mandate of the Affordable Care Act, the 3.8% surtax remains intact but is still not applied to tax-free municipals. Thus, we do not believe a reduction in the marginal tax rate will influence demand for municipals because APA believes they will still offer benefits over their taxable counterparts.

SUPPLY

As the bill's potential impact was dominating headlines, the municipal calendar began to swell as issuers rushed to market to get ahead of any changes. Several periods of weekly supply eclipsed $20 billion, well above the 2017 weekly average of roughly $7 billion. Issuances for November totaled $40 billion, a 25% increase year over year; December supply surpassed the all-time monthly record of $55 billion, set in December 1985, coming in at $64 billion.

Gross supply for 2017 totaled $438.8 billion, in line with the trailing10-year average, because of the late surge in issuance volume, including many deals that had been originally scheduled for 2018. We believe this "move up of the calendar," coupled with the elimination of tax-exempt advanced refunding, should



Source: SIFMA.org, Barclays

lead to a measurable decrease in supply in 2018. Over the past five years, issuers have advanced-refunded an average of $50 billion in outstanding bonds per year. Given 2018's issuance was already expected to decline even before talk of tax reform began, we believe the coming supply could now total $300 billion to $325 billion. Assuming demand remains steady, a period of "net-negative" supply could provide support for tax-exempt bond prices, especially in the first quarter of 2018. We believe this could lead to a period of muni outperformance relative to taxable counterparts. One caveat to our supply forecast is infrastructure spending, and we are paying close attention to any increase in supply this could cause for the municipal market in 2018.

RISKS

While the overall reaction to tax legislation has been relatively mild in the municipal sector, the market certainly faces risks and uncertainties:

• Bond prices could face downward pressure if the reduction in the corporate tax rate triggers a sizable drop in demand by institutional investors or prompts a mass liquidation of muni positions.

• We will continue to pay close attention to any migration from states that are expected to see tax increases as a result of the reduction in SALT deductions. While we believe mass outmigration is unlikely, as tax rates are just one of many factors for choosing to live in a particular locale, this could strain state and local finances and would certainly be a credit negative.

• Stepping away from tax reform, we view declining pension-funding ratios as an ongoing and serious market risk. While strong returns in the stock market have softened the noise on pension health, funding ratios have continued a declining trend. Pension funding will continue to pressure state and local budgets over the near term, and we believe low funding ratios are a red flag in regard to the health of state and local credit situations.

GOING FORWARD

With the "December to Remember" behind us, we are focusing on several themes heading into 2018. The main theme being, where inflation expectations go, the market will go. APA continually monitors the yield curve for what we believe the most attractive opportunities and in light of our market expectations. At the time of this publication, we find the most value in the 1-to-2-year and the 6-to-10-year maturity ranges. We believe that a modified barbell strategy will continue to perform well in the flattening yield-curve environment that has been trending over the past few months. Additionally, our modified barbell approach is intended to remain defensive on the short end while providing what we feel to be attractive tax-free book yields in the intermediate range of the yield curve.

The year-end supply rush has created market volatility across the municipal market and whipsaw price action we have not seen in sometime. We will look to take advantage of any attractive entry points this may create as we expect the market to settle down in the new year. Additionally, with credit spreads near all-time tight levels, and with several uncertainties facing the market, we have actively increased portfolio-credit quality and have focused on revenue bonds and on sectors we believe are more insulated from credit deterioration and pension risk. We believe a focus on high-quality paper will better prepare investors for the challenging and uneven credit environment ahead. Additionally, we believe this further highlights the importance of comprehensive, in-depth credit analysis, and not just reliance upon the rating agencies.

AMERICA'S CRUMBLING INFRASTRUCTURE:
A CLEAR AND PRESENT DANGER

By: Ken Woods

Before "Make America Great Again" can evolve from a campaign slogan to reality, this country must revitalize its aging highways, byways, and waterways, airports and seaports. These are all essential tools to maintaining our competitiveness in world markets. Candidate Trump pledged to rebuild our dilapidated infrastructure by injecting $200 billion into transportation projects over 10 years with the goal of creating $1 trillion worth of overall investment. His plan to "ensure we can export our goods and move our people faster and safer" may be a worthy one but the question is, how do we fund it?

The Texas A&M Transportation Institute estimates that traffic robs the U.S. economy of $160 billion annually from lost productivity, gas burned while idling, and wear and tear on vehicles. The typical commuter, according to the TTI, squanders 42 hours a year in traffic (up from 16 hours in 1982), and $1,400 on fuel, according to the data company Inrix. The mountain of expenses grows exponentially when you add the billions spent nationally every year to replace blown tires, bent or broken axels, and worn shock absorbers, the result of ruts and potholes that ambush motorists every day on our decaying bridges, interstates, and urban and rural thoroughfares. TRIP, a nonprofit transportation research group, estimates that the average city driver spends $516 annually to fix such damage. In all, TRIP estimates that driving on poor roads costs $109 billion annually (including repairs, accelerated depreciation, and extra fuel costs), or $18 billion more than federal, state, and local spending — combined — on roads and bridges in 2013, according to the American Society of Civil Engineers. Bottlenecks cost trucking companies billions of dollars a year in lost productivity and fuel expenses, the American Trucking Association laments.

The neglect of our antiquated infrastructure is a "clear and present danger" to the American economy and people. The number of miles Americans drive has increased 70% over the past 20 years, according to the Federal Highway Administration, while highway capacity has grown only .03% in that time period. The U.S. Department of Transportation estimates that merely maintaining our current infrastructure costs $84 billion annually; putting that in perspective: the federal gas excise tax revenue raised only $37.4 billion in FY 2015.

How do we resolve this massive predicament? First, we have to recognize the problem. Most of the stakeholders do, but the hard part is committing the resources and effort to rejuvenating our decrepit surfaces. Raising the necessary revenue might require raising or implementing some taxes or fees, political heresy nowadays, especially when tax-averse Republicans control Congress and the White House. Several possible solutions include:

Raising the federal gas tax — which has remained at 18.4 cents per gallon since 1993. Adjusting for inflation, the tax should be about 30 cents these days. In the past 25 years, 39 state governments, many dominated by anti-tax conservatives, have taken the lead and raised taxes at the pump, some more than once. Over the last three decades, presidents who have increased the federal fuel tax have felt voter blowback on election days. One example is President George H.W. Bush's infamous quote, "read my lips, no new taxes." The 2018 mid-term elections probably will postpone any talk of increasing the tax for at least another year, although "we've seen more bipartisan agreement on raising gas taxes than almost any other tax out there" says Jared Walczak, a senior policy analyst with the Center for State Tax Policy at the Tax Foundation, a right-leaning think tank in Washington, D.C. Also, Washington insiders believe the Trump administration is still considering raising the federal gas tax to help fund its $1 trillion infrastructure package.

Tolls (user fees) — Many governments here have been toll collectors since 1772, the year the Howardsville Turnpike, the first toll road in the colonies, opened in Virginia. Tolls make sense because the users of the throughway pay directly for its maintenance. The obvious downside: carriage drivers and horseback riders had no alternative but to pay long before the days of Waze, Google Maps, and other apps that now steer drivers away from toll roads.

Public-Private Partnerships — A public-private partnership (P3) is a contractual agreement between a federal, state, or local agency and a private-sector company to share skills and assets

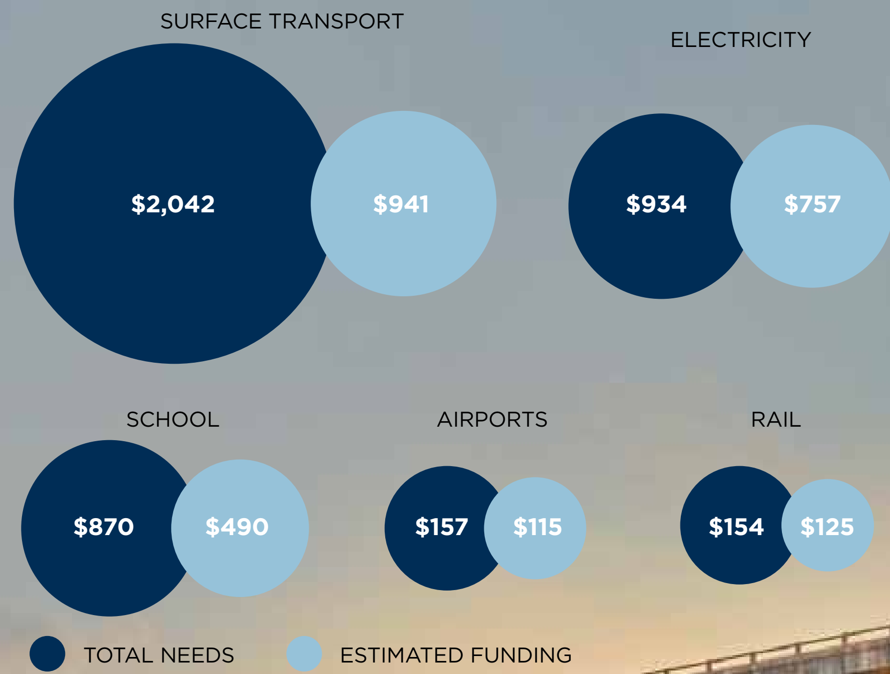
to deliver a service or facility to the public. P3's have been successful in Canada, Europe, and Australia (areas that lack a liquid and large municipal-bond market to finance infrastructure projects), but less so in the U.S. In July of 2017, for example, Indiana had to take over a P3 highway project (I-69) because of delays and cost overruns from the private operator. Private activity bond investors in the P3 structure typically demand a higher interest rate than investors in tax-exempt bonds. Cost of P3 financing in the US can run as high as 300 basis points more than traditional tax-exempt financing; that differential would increase the interest cost on a $100 million project by about $2 to $3 million a year. In addition to the bond investor, the private equity tranche requires higher rates of return, usually more than 10%.

Several factors may play a role in the increased use of P3 partnerships in the U.S. in the future, potentially overcoming the perceived financial disadvantages versus increased issuance in public debt markets. The first potential benefit may be the advantage of private party expertise in addressing the complexities of certain infrastructure improvement projects. The second, and equally urgent, is the transfer of long-term credit risk from the public entity.

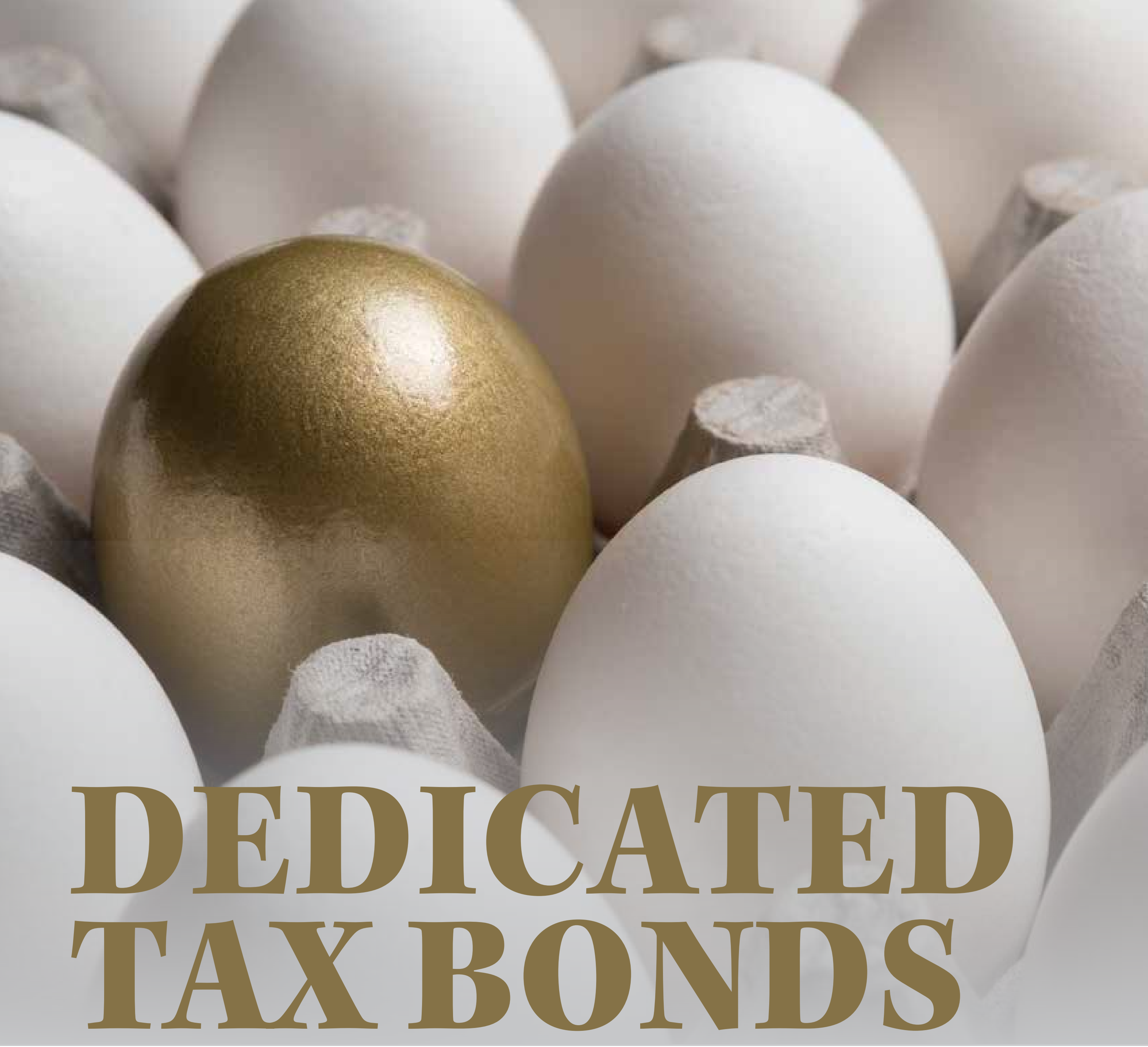
Since the 2008/2009 financial crisis and Great Recession that followed, municipalities have been under pressure to reduce expenses and improve their fiscal position. Generally speaking, many infrastructure needs have been put on hold. Although the cost to the end-user, the residents of the municipality, may be higher, the financing of projects through P3 partnerships may be one way to implement much needed improvements in communities and shift the long-term credit risk from the public entity to the private sector. ***VMT (vehicle miles traveled)*** — Numerous states, including California, Oregon, Colorado, and Washington, are considering taxing drivers based on mileage traveled in their vehicles. Delaware, Pennsylvania, Connecticut, New Hampshire, and Vermont are studying whether a VMT fee would be a feasible substitute for their gas taxes. One looming question: How would states track drivers and cars without raising the ominous issue of big brother watching his citizens?

Our critical problem with surface infrastructure wastes money, time, fuel, and, too often, lives. Recently, the American Society of Civil Engineers rated America's infrastructure a D+, the same poor rating as five years ago. We need leaders who care more about improving this country now and less about their re-election in two, four or six years. We need leaders, not career politicians, willing to address our "Third World" infrastructure, the "clear and present danger" to us all.

2017 INFRATRUCTURE NEEDS BY SYSTEM
$ BILLION



Source: American Society of Civil Engineers, 2017 & *The Wall Street Journal*



DEDICATED TAX BONDS

A STAPLE FOR THE MUNI INVESTOR

By: Paul Nolan, Matthew Riggle

The Asset Preservation Advisors' Credit Research Group (CRG) spends much of its time reviewing various credit fundamentals before committing to purchasing bonds for a client's portfolio. One key component of the analysis is the underlying security of the bonds. Generally, municipal bonds fall into two general types: General Obligation (GO) and Revenue Bonds. GO bonds, which carry the "full faith and credit" of the issuing entity, were once considered the higher quality and stronger of the two securities because issuers of General Obligation bonds can raise taxes if necessary to meet debt obligations. General Obligation credits, however, have come under scrutiny lately because financial troubles in Puerto Rico and bankruptcies in Detroit and Stockton, Calif., led investors to question the security of GO bonds.

That being the case, APA has made a conscious effort to purchase a higher percentage of revenue bonds. In a typical account, we target 70% revenue bonds and 30% general obligation bonds. We feel that revenue bonds, which are secured by pledged taxes, user fees, and other bondholder protections not found in traditional GO bonds, provide a higher-quality security. Another key difference is that GO bonds often require the issuer to display the political willingness to raise sufficient revenues to meet debt obligations. In this post–Tea Party environment, though, it is becoming increasingly difficult for government leaders to convince voters of the need to increase taxes and enact such unpopular laws.

Another issue affecting general obligation bonds is pension risk. Pension obligations continue to grab headlines as many municipalities struggle to balance increasing costs and providing essential services to their citizens. In the rare event of a municipal bankruptcy, bondholders and pensioners often battle for the same funds. For this reason, APA is highly selective when purchasing GO bonds, especially in states with underfunded pension funds, such as Connecticut, Illinois, and Kentucky. Pension issues do not directly impact revenue bonds, one of their many positive aspects. Because revenue bonds are secured by a dedicated pledge, they tend to be isolated financially from weak local general obligation credits. In Detroit's bankruptcy, for example, the unlimited general obligation debt holders recovered 74 cents on the dollar and limited tax general obligation bondholders recovered 34 cents. (It is worth noting that the city has an art collection valued at more than $8 billion, which it was able to preserve rather than sell to meet obligations.) Bondholders of the water and sewer systems, backed by net revenues of the system, recouped 100 cents on the dollar.

Also, protections under Chapter 9 bankruptcy laws shield holders of dedicated revenue bonds, stating that bondholders can expect to receive payment if pledged revenues are sufficient. Although this protection has not been broken in a bankruptcy settlement, APA continues to monitor, sould a precedent be set.

When reviewing a dedicated tax bond, APA considers numerous metrics, including:

Source of revenues – Dedicated tax bonds can be backed by various sources, including income taxes, sales taxes, and various excise taxes.

Use of funds – Projects related to essential services, such as schools and roads, tend to be viewed more favorably than hotels and convention centers. It is also worth noting whether the project is voter approved, which shows community support.

Debt Service Coverage Ratio – DSCR measures the cash flow available to pay current debt obligations. Typically, a rate covenant shows the minimum coverage levels the project must maintain.

Additional Bonds Test (ABT) – ABT indicates the minimum debt service coverage ratio levels that the entity must maintain before issuing additional debt.

Flow of funds – Ideally, pledged revenues flow first to the issuing entity and are held in a lockbox fund, which prevents revenues from being transferred to cover other expenses. After debt service is paid, any excess funds flow to other funds.

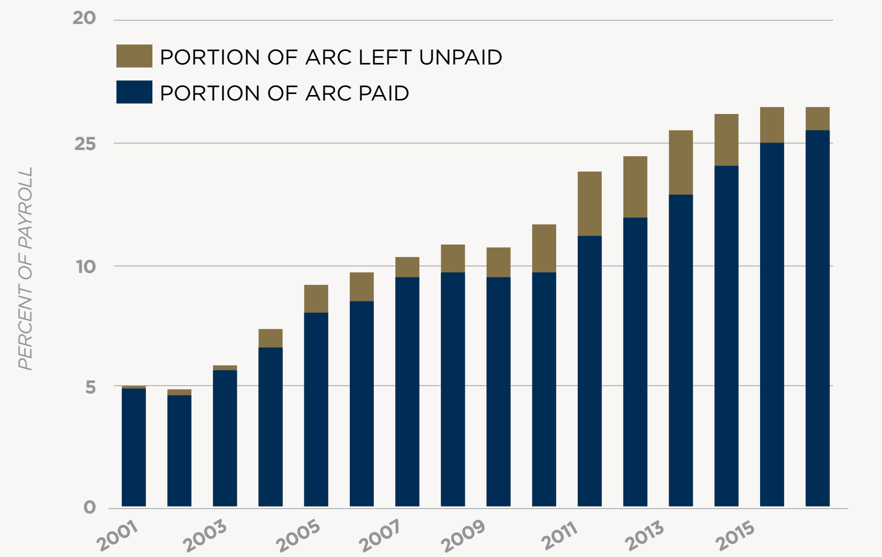
Volatility of pledged revenues – Some revenue sources are naturally more volatile. Reviewing historical revenue numbers provides estimated demand elasticity, while a shock test shows how DSCR might be affected by revenue fluctuations.

Local economy – APA reviews metrics such as income levels, poverty rate, net migration, retail sales, and local property values, as well as other economic indicators tied to the source of the revenues.

Dedicated tax bonds also present a way for distressed entities to issue bonds at lower borrowing costs than if they were to issue general obligation bonds. One example is the Municipal Assistance Corporation (MAC), which the state of New York created in 1975 to address financial issues in New York City. To address the borrowing needs of the city, the corporation issued bonds backed by stock-transfer taxes and city sales taxes. Pledged revenues were collected at the state level and were paid to bondholders without ever passing through to the city. "Big MAC" bonds were instrumental in rescuing an embattled city and restoring investor confidence.

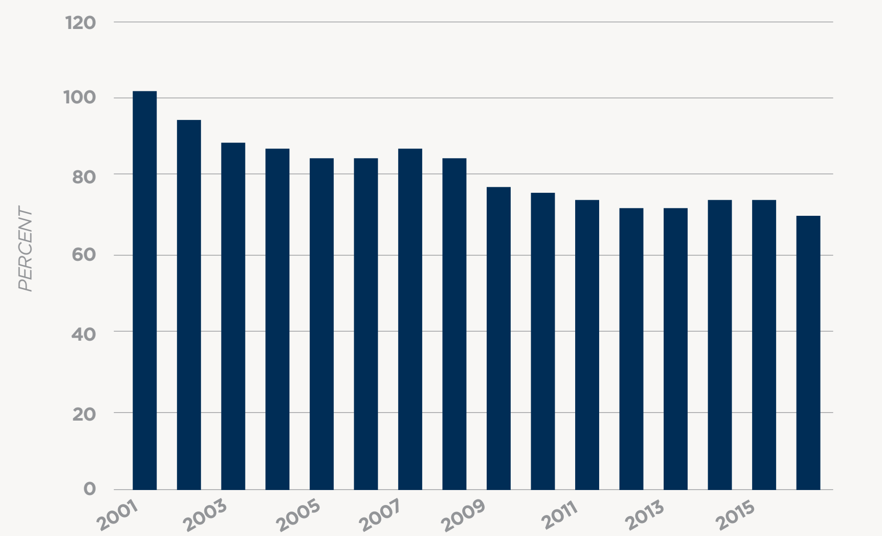
Recent high-profile examples include bonds secured by sales taxes in Chicago, Illionois, and income taxes in Connecticut. It is still uncertain how strong the security pledges are on some bonds. Puerto Rico Sales Tax Bonds (COFINAs) are being closely watched as the U.S. territory navigates through bankruptcy-like proceedings. It is worth noting that in a Chapter 9 bankruptcy, pledged revenues are protected and have never been impaired. COFINA's impairment, however, could still set a legal precedent in future bankruptcy proceedings. When determining the suitability of a security for a client's portfolio, APA recommends reviewing the strength of not only the credit, but also the legal backing of the pledged revenues.

EMPLOYER'S ANNUAL REQUIRED CONTRIBUTION AS A PERCENT OF PAYROLL AND PORTION PAID 2001-2016



Source: Public Plans Database

ACTUARIAL FUNDED RATIO FOR STATE AND LOCAL PENSION 2001-2016



Source: Public Plans Database

Help your clients understand the "De Minimis Rule"

By: Stephen Colavito

With changes to the tax code and the risk of a rising rate environment, we believe now is a good time to meet with your clients and their CPAs to help reduce related risks to your clients' portfolios

BACKGROUND

Most bonds issued over the past 20 years (at face value) have had coupons of at least 5%. In fact, 84% of bonds were in that index in 2016, according to the Bank of America U.S. Municipal Index. Nevertheless, as interest rates have fallen, more municipal bonds have been issued at lower coupons. In 2016, according to Bloomberg, 8,468 bonds were issued at just 2%. In recent years, many new issues have been structured at 2% or 3%. Lower-coupon bonds have addressed demand with lower price premiums over face value as higher-coupon bonds have increased appreciably as interest rates have declined. So with the prospect of interest rates rising, the "de minimis rule" creates a potential tax risk that could meaningfully affect not only the after-tax returns of investors in higher tax brackets, but also the pricing of municipal securities.

The "de minimis rule" determines whether the price appreciation (price accretion) of securities purchased at a discount will be taxed at the rate of ordinary income or capital gains. Congress added the "de minimis" rule to the tax code in 1993, changing the treatment of tax from capital gains to ordinary income, but with certain key exceptions applied to smaller-market discounts.

THE BASICS

Market discount occurs when a debt instrument purchased in the secondary market decreases in value after its issue date, generally because of an increase in interest rates or a credit concern. The "de minimis rule" states that if the market discount (revised issue price minus purchase price) is less than 0.25 multiplied by the number of full years to maturity after acquisition, the market discount is treated as a capital gain for tax purposes if the bond is held to maturity or sold for a price above the purchase price. If the discount is greater than the "de minimis" threshold, the accrued market discount realized at maturity must be treated as ordinary income rather than as a capital gain. If the bond is sold above the purchase price prior to maturity, however, part of the accrued market discount realized may be treated as a capital gain and part as ordinary income, depending on how much market discount has accrued up to the sale date (note: To calculate the accretion, the IRS uses the constant-yield method, which accelerates as the life of the bond shortens and in this example only applies to individuals and not corporations. Make sure you consult with your clients' CPA).

Original issue discount (OID) arises when a debt instrument is issued at a price below its face value (such as a zero-coupon bond). The amount of OID at issuance is the difference between the stated redemption price at maturity and the issue price. OID is calculated at the time of issuance and is allocated using the constant-yield method over the life of the security. Investors annually receive Form 1099-OID detailing the OID applicable in each year. Therefore, the OID on tax-exempt bonds is tax-free, while the OID on taxable securities is subject to taxation as interest income.

OID purchased in the secondary market, however, may be subject to the "de minimis rule." An OID bond has a market discount if the purchase price is less than the revised issue price (original issue price plus the accreted OID up to the purchase price). But remember, the tax consequences related to the "de minimis rule" do not apply to investors who purchase OID bonds in the new- issue market.

"De minimis" threshold = lower of par or OID – (0.25% x full years to maturity)

Taxation of a bond's market discount can have a profound impact on the after-tax returns of some municipal investors in high tax brackets. For a discounted municipal security purchased at a price below the "de minimis threshold," price accretion is subject to the ordinary income rate (37% federal marginal rate plus Medicare tax of 3.8% = 40.8% for top earners). Conversely, the accretion of a security purchased at a discount, but at a price above the "de minimis" boundary, is subject to a much lower capital gains rate (20% plus Medicare tax of 3.8% = 23.8% for top earners) if the bond is held for longer.

DOES IT REALLY MATTER? YES, IT DOES!

The U.S. economy has experienced an extraordinary period of declining and persistently low-interest rates. As the chart below illustrates, 10-year Treasury yields have been falling since 1982. This has been an unprecedented bull market for bonds and, as a consequence, municipal-bond investing has not required careful consideration of the "de minimis rule." Currently, given the low-interest rates we have experienced, most municipal securities trade at a premium.

If the bull market in bonds were to end and interest rates were to rise, however, declining bond prices would imply that more municipal securities could fall below the "de minimis" threshold. Also, as mentioned earlier, lower interest rates have contributed to an uptick in lower-coupon bond structures at lower prices than their higher-coupon counterparts.

THE DE MINIMIS THRESHOLD

Face Value		Years to Maturity	De Minimis Threshold
$10,000	0.25%	1	$25
$10,000	0.25%	2	$50
$10,000	0.25%	3	$75
$10,000	0.25%	4	$100
$10,000	0.25%	5	$125
$10,000	0.25%	6	$150
$10,000	0.25%	7	$175
$10,000	0.25%	8	$200
$10,000	0.25%	9	$225
$10,000	0.25%	10	$250
$10,000	0.25%	11	$275
$10,000	0.25%	12	$300
$10,000	0.25%	13	$325
$10,000	0.25%	14	$350
$10,000	0.25%	15	$375
$10,000	0.25%	16	$400
$10,000	0.25%	17	$425
$10,000	0.25%	18	$450
$10,000	0.25%	19	$475
$10,000	0.25%	20	$500
$10,000	0.25%	21	$525
$10,000	0.25%	22	$550
$10,000	0.25%	23	$575
$10,000	0.25%	24	$600
$10,000	0.25%	25	$625
$10,000	0.25%	26	$650
$10,000	0.25%	27	$675
$10,000	0.25%	28	$700
$10,000	0.25%	29	$725
$10,000	0.25%	30	$750

Source: Schwab Center for Financial Research calculations 1/2017

So advisers should consider some of the negative tax, price and liquidity implications if the market were to experience higher rates in the future.

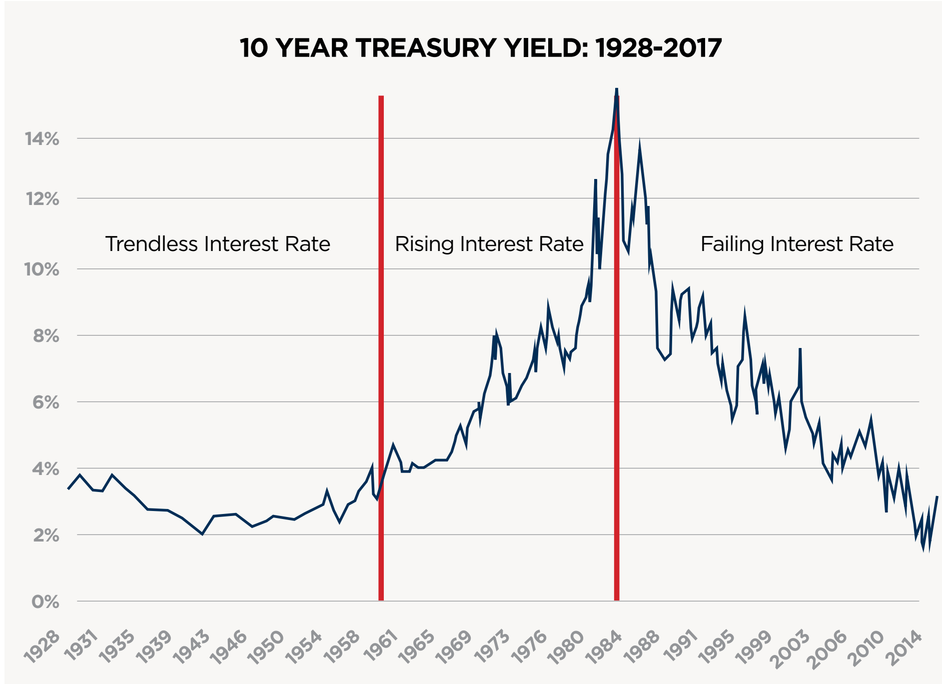
THE IMPACT TO YOUR CLIENTS:

- Tax impact: Given the higher tax rate, any buyer would incur as a result of purchasing bonds below the "de minimis" threshold.

- Price impact: Bonds issued with lower coupons could trade at a discount to compensate for higher yields. Securities trading near or below the boundary, however, would likely trade at even lower prices (and higher yield) to compensate investors for the impact of additional taxes.

- Liquidity impact: Potential taxes associated with the "de minimis rule" could also lead to demand distortions in the marketplace as the result of the reduced buyer base. The traditional tax-sensitive municipal buyer could shun securities with any tax consequences, even in instances of yields compensating investors for higher tax treatment.

The impact, in effect, could create a "price cliff" as bonds approach the "de minimis" cutoff. The impact of higher taxes and diminished liquidity could cause bond prices to deteriorate faster than they would otherwise if the price were higher and further from the threshold.



Source: Robert Shiller 2017

> ***"So advisers should consider** some of the negative tax, price and liquidity implications if the market were to experience higher rates in the future"*

EXAMPLE

- Assume your client buys a 3% coupon bond at par with a 10-year maturity. Also, assume that interest rates increase by 50 bps. So the same credit could be issued at par with the same maturity as a 3.5% coupon. Your client, if unfamiliar with the "de minimis rule", could believe that a previously issued 3% coupon bond needs to trade down to only around $96 (to produce the same market yield of 3.5%). If that were the case, however, the bond would have fallen below its "de minimis" threshold of approximately $97.50 (0.25bps x 10 years). The problem with the client's thinking is the market would also account for the additional tax implications associated with the market discount and that particular bond would likely trade closer to $93 to produce the after-tax return of 3.5% (for high-income individuals). For this reason, we believe the "de minimis rule" does matter to your clients' portfolios.

TAKE ACTION

Whether you're a Senior Financial Adviser with a large book of business or a new adviser looking to bring assets to your firm, here are the advantages to understanding the "de minimis rule":

- If you've purchased bonds for your clients or they're being overseen by an asset manager, look within the portfolios for lower-coupon bonds that could be affected by this rule. With rates at current levels, it might make sense to harvest those bonds and swap them for "like" credit, duration, but with a higher coupon.

- You might want to consider moving out of large municipal–mutual fund or ETF positions and examine a separately managed account.

Many 40 Act Funds and ETFs must buy new-issue bonds and are likely to have an allocation of lower-coupon bonds. Since these instruments offer limited transparency, APA believes now would be the time look at swapping to a managed program (note: this only makes sense with the municipal liquidity of more than $250,000).

- Discuss the "de minimis rule" with clients and suggest meeting as a team with their CPA. This can create a center of influence (COI), as most advisers are not up to speed on this issue.

- Lastly, ask your clients (or prospects) if they have municipal bonds outside the realm of your perspective. Offer to look at their portfolios and offer suggestions to ensure that these individuals pay no more in taxes on their municipal bonds than necessary.

MAKE A POSITIVE IMPACT IN YOUR PORTFOLIO

By: Trisha Broussard, Patricia Hodgman

APA believes municipal bonds are a natural fit for socially responsible investment and green initiatives. The municipal bond market offers state and local governments access to low-cost capital to finance a range of diverse climate-aligned projects, such as transportation issues or efficient energy programs, thereby allowing investors to align their personal interests with their portfolios. For investors who want to invest in sustainability, APA offers our Positive Impact Strategy, which seeks to maximize tax-exempt income and preserve capital while emphasizing positive environmental, social, and governance (ESG) objectives.

The landscape of the "green" municipal bond market is expanding and evolving rapidly in response to changes to our climate that increase the urgency for environmentally sustainable projects. We believe the surge in the issuance of green municipal bonds over the past several years should continue as state and local governments look for ways to pay for much-needed infrastructure upgrades and plug any gaps in federal funding for those projects. Through sustainable or impact investing, we can positively influence the environment and society while maximizing returns. Municipal bonds backed by taxes and revenue collected from essential public services, such as water and sewer, have historically had a significantly lower default risk than corporate bonds, 0.15% versus 6.92%, respectively.

APA's Positive Impact Strategy targets primarily what we believe are high-quality municipal bonds that are labeled "green" by their issuers and/or bonds that finance climate-aligned projects. APA's Credit Research Group (CRG) has expertise across the municipal-credit spectrum and identifies sectors that we project will have the greatest impact, with a focus on essential projects backed by fiscally sound and forward-thinking municipalities. Bonds selected by our investment professionals meet APA's green standard, as part of our fundamental analysis and is not limited to bonds labeled "green" at issuance. Sustainable investing can include municipal bonds from any of the following sectors:

Water and sewer bonds — which often meet upgraded environmental standards while providing an essential service to the public.

School district bonds —investing in schools strengthens communities by eventually lowering the local unemployment rate, increasing median household incomes, and raising overall education levels.

Transportation bonds — which help reduce carbon emissions by encouraging people to embrace mass transit, upgrade infrastructure, and create new infrastructure.

Healthcare bonds — including buying clean energy and offsetting the amount of greenhouse gas (GHG) emissions to become "carbon net positive," increasing recycling efforts, reducing water usage (a large expense for hospitals), and/or pursuing new collaborations to reduce risks in the hospitals' communities.

Clean energy – improving energy efficiency and implementing renewable energy projects can reduce carbon pollution.

LOOKING FOR POSITIVE IMPACT FROM YOUR PORTFOLIO?

APA customizes portfolios using the principles of sustainable investing while keeping in mind our clients' portfolio objectives and values.

APA High-Quality Intermediate Tax-Exempt Strategy

HIGH-QUALITY INTERMEDIATE MATURITY, TAX-EXEMPT MUNICIPAL BOND PORTFOLIOS

STYLE
Intermediate Municipal Bond

BENCHMARK
Merrill Lynch 1-12

INCEPTION
December 31, 2003

STRATEGY AUM
$1.104 B

HIGHLIGHTS

- Tailor portfolios to meet the client's specific liquidity needs and tax objectives
- Prudently manage risk by diversifying across a number of high-quality municipal issuers
- Unlimited access to Municipal Bond Portfolio Team
- Active management of portfolio holdings
- Customization for state specific tax-exempt portfolios

ADDITIONAL INFORMATION

Sample Portfolios: available for standard and custom strategies

Alternative Approach: for more conservative investors seeking slightly higher yields at lower risk than longer-duration bonds

Identify Undervalued Sectors: through intensive fundamental credit research

Customized Portfolios: designed to meet client specific requirements

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Objective

To manage for after-tax total return, this strategy seeks to add value through active management and access to institutional pricing. Conducted thorough relative value and credit analysis to take advantage of inefficiencies in the market and maximize after-tax income. Bonds selected for the this strategy have maturities within 1 and 20 years.

APA Municipal Bond Team

Portfolio managers, Kevin Woods and Trisha Broussard, direct the strategy's active management and draw upon the expertise of our municipal traders and credit analysts. Together, the team identifies issuers, evaluates credit fundamentals and implements a relative-value trading approach.

Investment Process

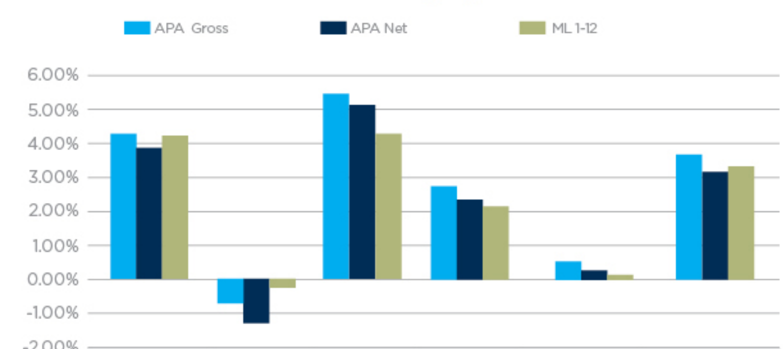
The strategy employs a quantitative approach to investing in primarily high-quality municipal bonds. We combine our fundamental research with an investment process that emphasizes both risk management and relative-value investing to achieve competitive risk-adjusted returns.

Annualized Performance as of 12/31/17

	4Q17	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized	Since Inception (12/31/03)
APA Gross	0.18%	3.58%	2.31%	2.28%	3.71%	3.60%
APA Net	0.07%	3.15%	1.88%	1.86%	3.28%	3.17%
ML 1-12	-0.32%	3.21%	1.84%	1.93%	3.52%	3.52%

Periods less than one year are not annualized.

Calendar Year Performance as of 12/31/17



	2012	2013	2014	2015	2016	2017
APA Gross	3.41%	-0.89%	5.46%	2.82%	0.55%	3.58%
APA Net	2.98%	-1.31%	5.02%	2.39%	0.13%	3.15%
ML 1-12	3.40%	-0.12%	4.27%	2.34%	0.02%	3.21%

Past performance is not indicative of future results.

Top 10 Holdings as of 12/31/17

	Rating	Date of Maturity
Glynn-Brunswick Mem Hosp Auth GA Rev	PRE	8/1/18
Cobb Cnty GA Kennestone Hosp Auth Rev	A	4/1/30
Atlanta Ga Wtr & Wastewtr Rev	AA-	11/1/28
Dorchester Cnty SC Sch Dist No 002 Installm	AA-	12/1/27
Atlanta GA Dev Auth Student Hsg Rev	PRE	9/1/23
Connecticut St Revolving Fd Gen Rev	AAA	3/1/29
Atlanta Ga Wtr & Wastewtr Rev	AA-	11/1/29
Gwinnett Cnty Ga Sch Dist	PRE	2/1/18
Georgia State	AAA	2/1/28
Chicago IL Met Wtr Reclamation Dist	AA+	12/1/31

Portfolio Characteristics as of 12/31/17

Average Maturity	6.61 years
Average Duration	4.03 years
Average Coupon	4.81%
Yield to Worst	1.97%
Average Credit Quality	Aa3/AA
Number of Holdings	4,251

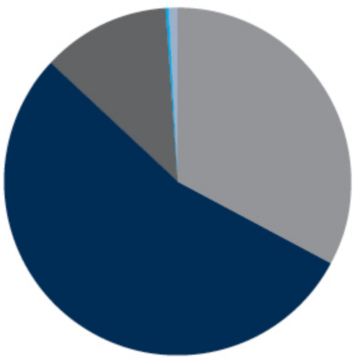
Top 5 Sectors as of 12/31/17

Education	33.83%
General Obligation	24.82%
Utilities	15.68%
Medical	9.02%
Transportation	7.49%

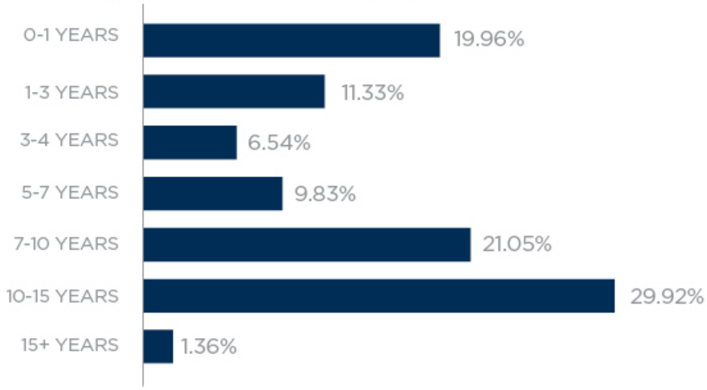
Top 10 States as of 12/31/17

GA	29.49%	OH	3.39%
TX	13.13%	AL	3.21%
NY	5.90%	NC	2.84%
CA	4.22%	WA	2.54%
FL	3.41%	CT	2.28%

Credit Quality as of 12/31/17



Maturity Breakdown as of 12/31/17



Disclosures

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APA is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about the advisor including its investment strategies and objectives can be obtained by visiting www.assetpreservationadvisors.com. A list of composite descriptions is available upon request.

For comparison purposes, the Composite is measured against the BofA Merrill Lynch 1-12 Year US Municipal Securities Index. This index tracks the performance of US dollar denominated investment grade tax-exempt debt publicly issued by US states and territories, and their political subdivisions, in the US domestic market. Qualifying securities must have at least 1 year and less than 12 years remaining term to final maturity, a fixed coupon schedule and an investment grade rating (based on an average of Moody's, S&P and Fitch). The volatility of the index could be materially different from that of the Composite. It is not possible to invest in the index.

Returns are presented gross and net of investment advisory fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account.

The fee schedule for APA's investment advisory services for separately managed accounts in the APA High Quality Intermediate Tax-Exempt Strategy is 0.50% on the first $10 million in net assets under management and 0.40% on amounts above $10 million in net assets under management. Actual investment advisory fees incurred by clients may vary. A complete description of APA's fee schedule can be found in Part 2 of its FORM-ADV which is available at www.assetpreservationadvisors.com or by calling (404) 261-1333.

High Quality APA-18-33

APA Short-Term Tax-Exempt Strategy

SHORT-TERM MATURITY, TAX-EXEMPT MUNICIPAL BOND PORTFOLIOS

STYLE
Short-Term Municipal Bond

BENCHMARK
Merrill Lynch 1-3

INCEPTION
September 30, 2003

STRATEGY AUM
$245.7 MM

HIGHLIGHTS

- Tailor portfolios to meet the client's specific liquidity needs and tax objectives
- Prudently manage risk by diversifying across a number of high-quality municipal issuers
- Unlimited access to Municipal Bond Portfolio Team
- Active management of portfolio holdings
- Customization for specific state tax-exempt portfolios

ADDITIONAL INFORMATION

Sample Portfolios: Available for standard and custom strategies

Portfolio Holdings: will typically hold 15 to 30 securities

Custom Strategy:
designed to meet client specific requirements

Firm Overview

APA specializes in managing high-quality tax-exempt and taxable municipal bond portfolios for registered investment advisors, family-wealth offices and institutional clients. Total firm assets under management were $3.25 billion as of December 31, 2017.

APA Municipal Bond Team

APA's investment professionals utilize a top-down and bottom-up approach in order to add value through our active management program. Six of APA's Investment Professionals, including the credit research team, portfolio managers, and analysts focus on this strategy.

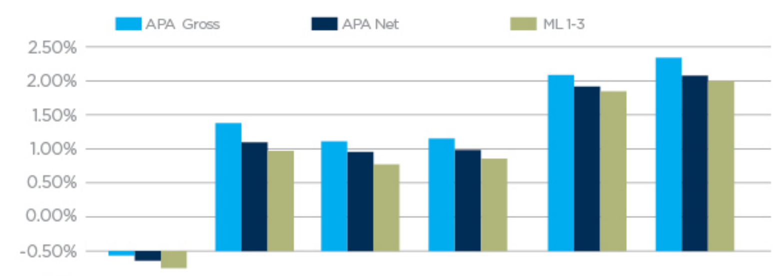
Objective

This strategy seeks to provide current income (exempt from federal income taxes) while providing liquidity and preserving capital.

Investment Process

This strategy provides an alternative approach for money-market investors to seek enhanced returns, capital preservation, and a high level of liquidity. We combine our fundamental research and investment process to emphasize principal stability, tax-free income and short-term growth.

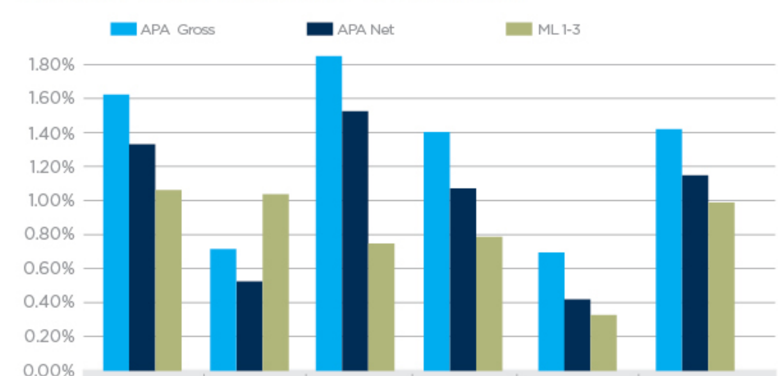
Annualized Performance as of 12/31/17



	4Q17	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized	Since Inception (9/30/03)
APA Gross	-0.06%	1.41%	1.15%	1.21%	2.07%	2.32%
APA Net	-0.13%	1.16%	0.91%	0.97%	1.82%	2.07%
ML 1-3	-0.58%	0.99%	0.69%	0.77%	1.78%	1.99%

Periods less than one year are not annualized.

Calendar Year Performance as of 12/31/17



	2012	2013	2014	2015	2016	2017
APA Gross	1.63%	0.78%	1.83%	1.40%	0.65%	1.41%
APA Net	1.37%	0.53%	1.58%	1.13%	0.40%	1.16%
ML 1-3	1.03%	1.07%	0.72%	0.76%	0.33%	0.99%

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Past performance is not indicative of future results.

Top 10 Holdings as of 12/31/17

	Rating	Date of Maturity
Texas St	SP-1+	8/30/18
Massachusetts St	SP-1+	4/23/18
Pennsylvania St Higher Edl Fac Auth	A3/A	5/1/18
North Kansas City Mo Sch Dist No 74	Aa1/AA+	3/1/18
Pennsylvania St Higher Edl Fac Auth	AA	8/1/19
Pennsylvania St	PRE	5/15/18
Richmond Cnty Ga Hosp Auth Rev	PRE	1/1/19
Lancaster Pa Area Swr Auth Rev	AA	4/1/19
Charlotte-Mecklenburg Hosp Auth	Aa3/AA-	1/15/18
Houston Tex	Aa3/AA	3/1/18

Portfolio Characteristics as of 12/31/17

Average Maturity	1.95 years
Average Duration	1.46 years
Average Coupon	4.41%
Yield to Worst	1.84%
Average Credit Quality	Aa3/AA-
Number of Holdings	1,219

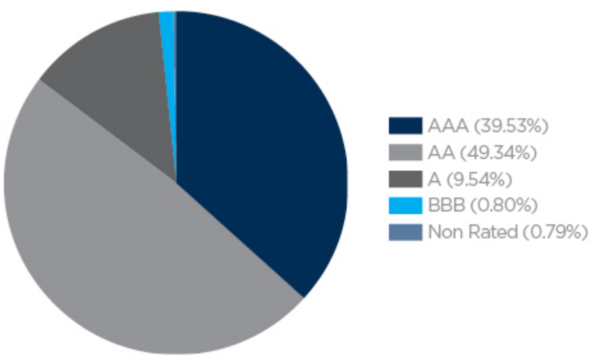
Top 5 Sectors as of 12/31/17

Education	39.01%
General Obligation	21.97%
Utilities	11.67%
Medical	11.35%
Transportation	7.86%

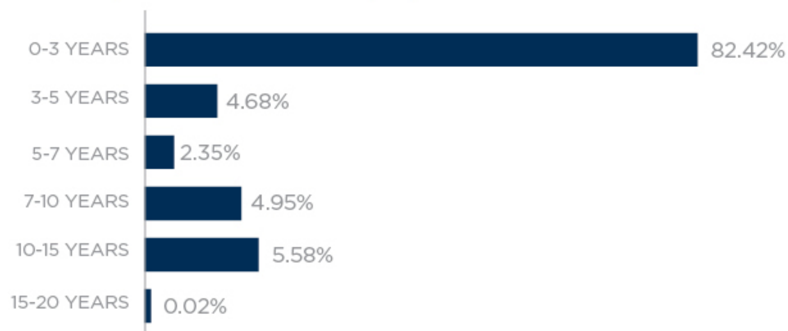
Top 10 States as of 12/31/17

GA	20.32%	WI	2.78%
PA	16.31%	AL	2.56%
TX	12.58%	NJ	2.50%
NY	8.89%	IN	2.14%
FL	3.35%	WA	2.06%

Credit Quality as of 12/31/17



Maturity Breakdown as of 12/31/17



Disclosures

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Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market predicaments at the time of investment. APA reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio, and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the security transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

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For comparison purposes, the Composite is measured against the BofA Merrill Lynch Municipals 1-3-Year Index. This index tracks the performance of tax-exempt investment grade debt publicly issues by US states and territories, and their political subdivisions, in the US domestic market. Qualifying securities must have at least 1 year and less than 3 years remaining term to final maturity, a fixed coupon schedule and an investment grade rating (based on average of Moody's, S&P and Fitch). The volatility of the index could be materially different from that of the Composite. It is not possible to invest in the index.

Returns are presented gross and net of investment advisory fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account.

The fee schedule for APA's investment advisory services for separately managed accounts in the APA Enhanced Short-Term Tax-Exempt Composite is 0.25% on net assets under management. Actual investment advisory fees incurred by clients may vary. A complete description of APA's fee schedule can be found in Part 2 of its FORM-ADV which is available at www.assetpreservationadvisors.com or by calling (404) 261-1333.

Short Term APA-18-31

APA **Enhanced Intermediate Tax-Free Strategy**

ENHANCED INTERMEDIATE MATURITY, TAX-EXEMPT MUNICIPAL BOND PORTFOLIOS

STYLE
Enhanced Interm Municipal Bond

BENCHMARK
Merrill Lynch BBB, Merrill Lynch A

INCEPTION
June 30, 2009

STRATEGY AUM
$158.7MM

HIGHLIGHTS

- Tailor portfolios to meet the client's specific liquidity needs and tax objectives
- Prudently manage risk by diversifying across a number of investment grade municipal issuers
- Unlimited access to Municipal Bond Team
- Active management of portfolio holdings
- Customization for state specific tax-exempt portfolios

ADDITIONAL INFORMATION

Sample Portfolios: Also available for standard and custom strategies

Structured: for investors with higher risk tolerance seeking higher yields and attractive after-tax returns

Identify Undervalued Sectors: through intensive fundamental credit research

Customized Portfolios: designed to meet client specific requirements

CONTACT US
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(404) 261-1333
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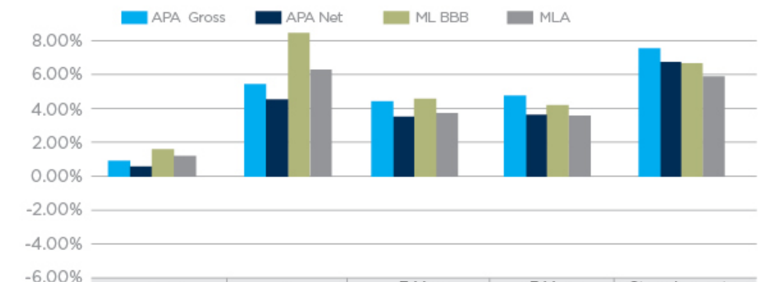
Objective

APA seeks to provide a high level of income exempt from federal income tax by investing primarily in lower-rated municipal bonds. The strategy seeks to exploit investment opportunities using relative-value and credit analysis, primarily through diversified exposure to the lower bands of investment-grade municipal bonds. Investment opportunities that maximize total return are sought through a well-defined investment process that has been in place for over 25 years.

Investment Process

- Conducted thorough relative-value and credit analysis to take advantage of pricing inefficiencies in the market
- Fundamental bottom-up credit research is the cornerstone of our approach to high-yield investing. We combine our fundamental research with an investment process that emphasizes both risk management and relative-value investing to achieve competitive risk-adjusted returns.
- Customize portfolios to meet your clients' specific tax objectives, income requirements and risk tolerance
- Provide ongoing internal analysis of credit quality and underlying fundamentals

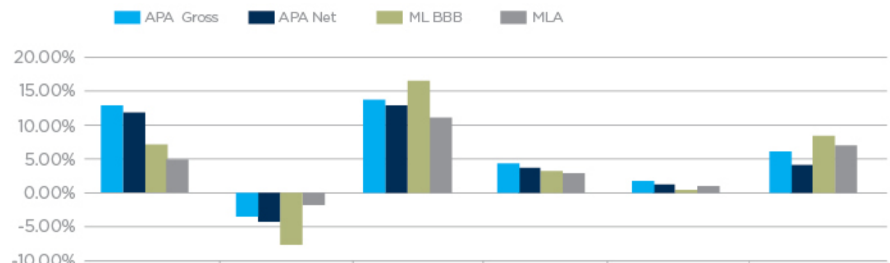
Annualized Performance as of 12/31/17



	4Q17	1 Year	3 Year Annualized	5 Year Annualized	Since Inception (6/30/09)
APA Gross	0.73%	5.33%	4.25%	4.39%	7.23%
APA Net	0.57%	4.66%	3.58%	3.72%	6.54%
ML BBB	1.52%	8.87%	4.66%	4.16%	6.70%
MLA	1.13%	6.27%	3.74%	3.75%	5.93%

Periods less than one year are not annualized.

Calendar Year Performance as of 12/31/17



	2012	2013	2014	2015	2016	2017
APA Gross	12.82%	-3.85%	13.77%	4.88%	2.59%	5.33%
APA Net	12.09%	-4.47%	13.04%	4.20%	1.92%	4.66%
ML BBB	9.93%	-8.16%	16.45%	4.56%	0.72%	8.87%
MLA	8.52%	-2.98%	10.99%	3.97%	1.05%	6.27%

Past performance is not indicative of future results.

Top 10 Holdings as of 12/31/17

	Rating	Date of Maturity
Greene Cnty Ga Dev Auth Rev	NR	1/1/46
Tyler TX Health Fac Dev Fin Auth Rev	PRE	7/1/21
Montgomery Cnty PA Indl Dev Auth	NR	11/15/25
Wisconsin Health & Ed	PRE	8/15/22
Florida Higher Edl Fac Fing Auth Rev	A-	4/1/27
Lakeland Fla Hosp Sys Rev	A2	11/15/40
Lower CO River Auth TX	A	5/15/26
South Carolina Jobs-Econ Dev Auth	BBB+	8/1/25
California Statewide Cmntys Dev Auth	NR	1/15/45
Southeastern PA Trans Auth Rev	PRE	6/1/21

Portfolio Characteristics as of 12/31/17

Average Maturity	11.24 years
Average Duration	4.55 years
Average Coupon	5.15%
Yield to Worst	2.48%
Average Credit Quality	A3/A
Number of Holdings	565

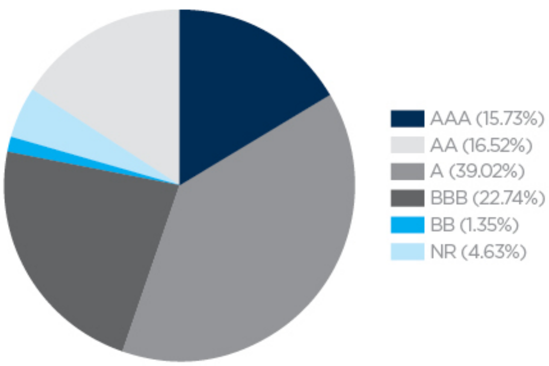
Top 5 Sectors as of 12/31/17

Medical	40.88%
Education	25.65%
Transportation	10.94%
General Obligation	9.88%
Utilities	6.41%

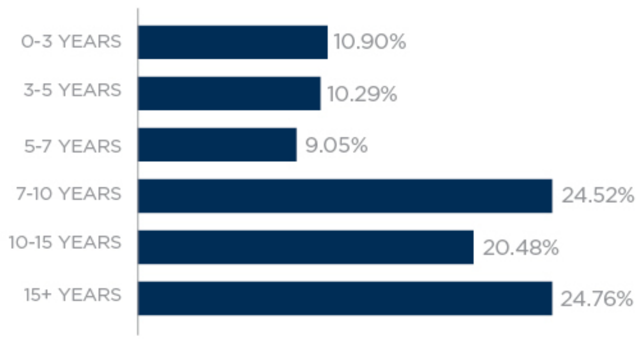
Top 10 States as of 12/31/17

TX	12.16%	PA	6.46%
FL	10.86%	IL	4.10%
CA	9.24%	OH	3.59%
NY	8.85%	LA	3.19%
GA	8.74%	MA	2.82%

Credit Quality as of 12/31/17



Maturity Breakdown as of 12/31/17



Disclosures

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For comparison purposes, the Composite is measured against the BofA Merrill Lynch BBB Municipal Securities Index and the Single- A Municipal Securities Index. The BBB Municipal Securities Index is a subset of The BofA Merrill Lynch US Municipal Securities Index including all securities rated BBB1 through BBB3, inclusive. The Single- A Municipal Securities Index is a subset of the The BofA Merrill Lynch US Municipal Securities Index including all securities rated A1 through A3, inclusive. The volatility of the indices could be materially different from that of the Composite. It is not possible to invest in the indices.

Returns are presented gross and net of investment advisory fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account.

The fee schedule for APA's investment advisory services for separately managed accounts in the APA Enhanced Intermediate Tax-Free Strategy Composite is 0.65% on net assets under management. Actual investment advisory fees incurred by clients may vary. A complete description of APA's fee schedule can be found in Part 2 of its FORM-ADV which is available at www.assetpreservationadvisors.com or by calling (404) 261-1333.

Enhanced Intermediate APA-18-34

APA **Taxable Municipal Bond Strategy**

HIGH-QUALITY, TAXABLE MUNICIPAL BOND PORTFOLIOS

STYLE
Taxable Municipal Bond

BENCHMARK
Merrill Lynch 1-10 AAA-AA

INCEPTION
September 30, 2003

STRATEGY AUM
$20.05 MM

HIGHLIGHTS

- Tailor portfolios to meet the client's specific liquidity needs and tax objectives
- Prudently manage risk by diversifying across a number of high-quality municipal issuers
- Unlimited access to Municipal Bond Portfolio Team
- Active management of portfolio holdings
- Customization for state specific tax-exempt portfolios

ADDITIONAL INFORMATION

Sample Portfolios: Available for standard and custom strategies

Alternative Approach: for more conservative investors seeking slightly higher yields at lower risk than longer duration bonds

Identify Undervalued Sectors: through intensive fundamental credit research

Customized Portfolios: designed to meet client specific requirements

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www.AssetPreservationAdvisors.com

Firm Overview

APA specializes in managing high-quality tax-exempt and taxable municipal bond portfolios for registered investment advisors, family-wealth offices and institutional clients. Total firm assets under management of $3.25 billion as of December 31, 2017.

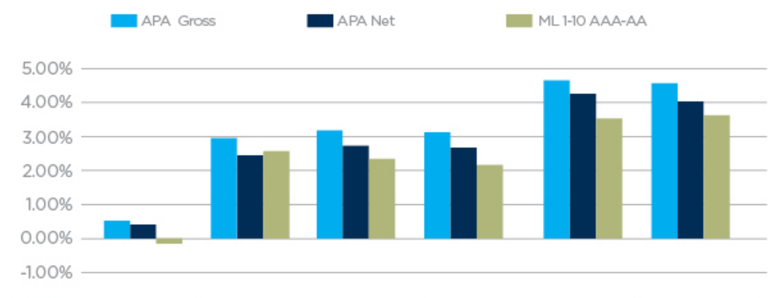
APA Municipal Bond Team

APA's investment professionals utilize a top-down and bottom-up approach in order to add value through our active management program. Six of APA's Investment Professionals, including the credit research team, portfolio managers and analysts focus on this strategy.

Objective

This strategy seeks to maximize risk adjusted returns through the structuring of high-quality taxable municipal bond portfolios with targeted average maturities between 1 to 12 years.

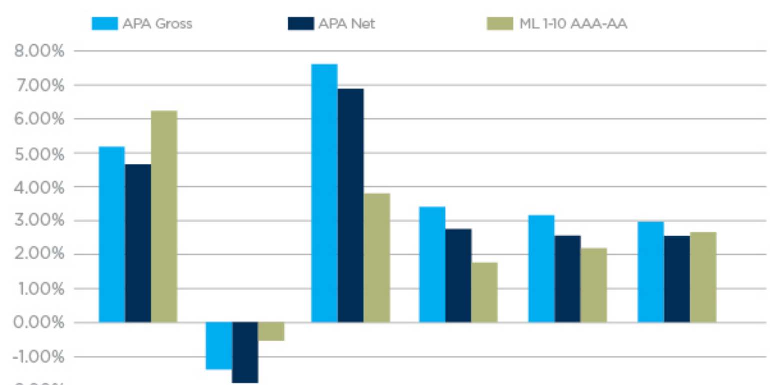
Annualized Performance as of 12/31/17



	4Q17	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized	Since Inception (9/30/03)
APA Gross	0.40%	2.98%	3.12%	3.05%	4.56%	4.51%
APA Net	0.30%	2.55%	2.69%	2.62%	4.12%	4.02%
ML 1-10 AAA-AA	-0.06%	2.64%	2.24%	2.02%	3.58%	3.67%

Periods less than one year are not annualized.

Calendar Year Performance as of 12/31/17



	2012	2013	2014	2015	2016	2017
APA Gross	5.08%	-1.30%	7.37%	3.24%	3.14%	2.98%
APA Net	4.64%	-1.71%	6.92%	2.81%	2.71%	2.55%
ML 1-10 AAA-AA	6.10%	-0.51%	3.95%	1.80%	2.29%	2.64%

Past performance is not indicative of future results.

Top 10 Holdings as of 12/31/17

	Rating	Date of Maturity
San Bernardino Ca Redev Agy	AA	12/1/22
California St	Aa3/AA	11/1/30
Ohio St Hsg Fin Agy Res Mtg Rev	Aaa	3/1/36
Riverside CA Swr Rev	A1/A+	8/1/29
Kennesaw GA Urban Redev Agy Rev	A1	2/1/32
Clermont Cnty OH Port Auth	Aa3/AA	12/1/26
Portland OR Urban Renewal & Redev	Aa3	6/15/25
College Park Ga Business & Indl Dev Auth	AA-/ Aa3	9/1/18
Coweta Cnty Ga Wtr & Sew Auth Rev	A2/AA	6/1/19
Northern Ariz Univ Revs	A/A2	8/1/30

Portfolio Characteristics as of 12/31/17

Average Maturity	6.16 years
Average Duration	4.11 years
Average Coupon	4.02%
Yield to Worst	2.84%
Average Credit Quality	Aa3/AA-
Number of Holdings	93

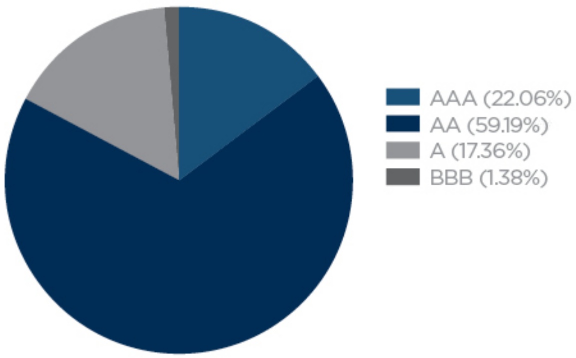
Top 5 Sectors as of 12/31/17

General Obligation	24.64%
Education	15.45%
Housing	11.16%
Transportation	10.36%
Utilities	9.05%

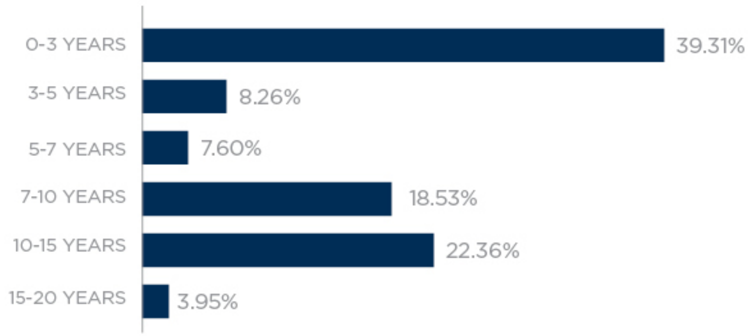
Top 10 States as of 12/31/17

GA	31.56%	NY	5.03%
CA	14.98%	MI	2.76%
FL	8.09%	OR	2.58%
OH	6.31%	AZ	2.06%
TX	5.74%	CT	1.99%

Credit Quality as of 12/31/17



Maturity Breakdown as of 12/31/17



Disclosures

Past performance is not indicative of future results. This material is not financial advice or an offer to sell any product. The performance and portfolio characteristics shown relate to the APA Taxable Municipal Composite (the "Composite").

Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market predicaments at the time of investment. APA reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio, and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the security transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

APA is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about the advisor including its investment strategies and objectives can be obtained by visiting www.assetpreservationadvisors.com. A list of composite descriptions is available upon request.

For comparison purposes, the Composite is measured against the BofA Merrill Lynch 1-10 Year AAA-AA US Corporate Index. This index tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have at least 1 year and less than 10 years remaining term to final maturity and rated AAA through AA3, inclusive. The volatility of the index could be materially different from that of the Composite. It is not possible to invest in the index.

Returns are presented gross and net of investment advisory fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account.

The fee schedule for APA's investment advisory services for separately managed accounts in the APA Taxable Municipal Composite is 0.50% on the first $10 million in net assets under management and 0.40% on amounts above $10 million in net assets under management. Actual investment advisory fees incurred by clients may vary. A complete description of APA's fee schedule can be found in Part 2 of its FORM-ADV which is available at www.assetpreservationadvisors.com or by calling (404) 261-1333.

Taxable APA-18-32

APA POSITIVE IMPACT TAX-EXEMPT STRATEGY

SOCIALLY RESPONSIBLE, HIGH-QUALITY INTERMEDIATE MATURITY, TAX-EXEMPT MUNICIPAL BOND PORTFOLIOS

STYLE
Municipal Green Bond

HIGHLIGHTS

Duration
APA's Positive Impact strategy can be implemented with any customized duration strategy

Credit Quality
APA targets an average portfolio credit quality of A or better within this strategy

"Green" Bond Exposure
APA will construct portfolios to meet the client's specific green standard investment objectives (i.e. target allocation of 25% or 50% of overall portfolio)

Diversification
Prudently manage risk by diversifying across a number of high-quality municipal issuers Active Management of portfolio holdings

Additional Credit Research
In addition to APA's typical credit research process, further review of use of proceeds, and the Environmental, Social and Governance (ESG) profile of the issuer is considered

ADDITIONAL INFORMATION

Sample Portfolios
Available for standard and custom strategies

Ongoing Management
Providing ongoing internal analysis of credit quality and underlying fundamentals

OBJECTIVE

To provide the socially responsible investor with an investment option that supports positive social and environmental solutions while maximizing tax-exempt income. Managed for after-tax total return, this strategy seeks to add value through purchasing tax-exempt municipal green bonds, issued by state and local governments specifically to fund projects with clear environmental benefits. Bonds selected for this strategy have maturities within 1 to 20 years.

UNDERSTANDING GREEN FINANCING

- Municipal bonds are a natural fit for responsible investment and green initiatives
- Green bond issuance soared to a record high in 2016, according to Moody's rating agency
- Typically, tax-exempt bonds issued by federally qualified organizations or by municipalities and designated by Green Bond Principles (GBP)
- GBP are voluntary process guidelines that recommend transparency and disclosure and promote the integrity in the development of the Green Bond market
- According to the Climate Bonds Initiative, the U.S. municipal green bond market is $30.3 billion, of which $9.7 billion are labeled green bonds and the remainder are bonds financing climate-aligned assets that do not carry an explicit green label
- Only recently has the market begun to label bonds as "green" in response to investor demand

Investment Process

This strategy employs a quantitative approach to investing in primarily high-quality municipal bonds that are green labeled by issuers or bonds financing climate-aligned assets. Bond selections may include bonds that meet APA's green standard after careful evaluation of multiple factors, including but not limited to the underlying credit, transparency in the use of proceeds and disclosure of data. We combine our fundamental research with an investment process that emphasizes both risk management and relative-value investing in an attempt to achieve competitive risk-adjusted returns while also supporting positive social and environmental impact goals.

CONTACT US
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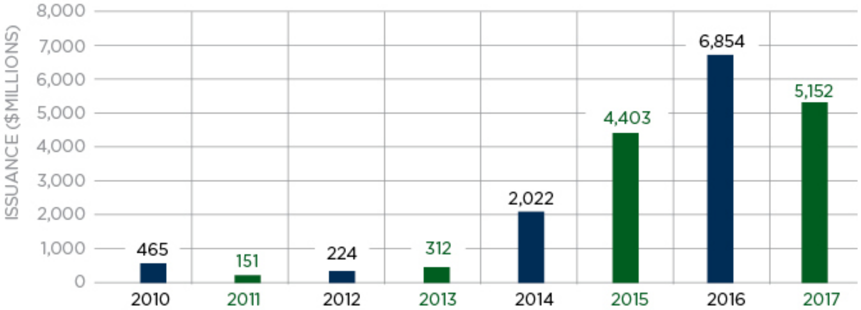
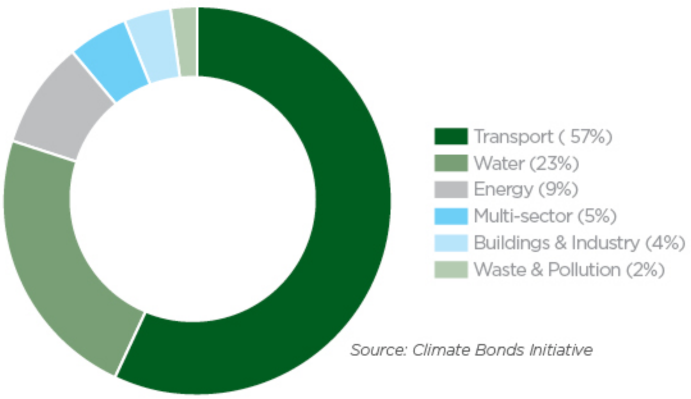
Municipal Green Bond Annual Issuance: 2010-2017



Source: Bloomberg, MMA
As of 7/26/17

Municipal Green Bond Sectors



Source: Climate Bonds Initiative

MUNICIPAL GREEN BOND MARKET RECENT ISSUES*

$680,265,000 AA/ Aa2 Met Transportation Authority New York Dedicated Tax Fund Green Bonds (Climate Board Certified)

$450,000,000 AAA/AAA California Infrastructure and Economic Development Bank Clean Water State Revolving Fund Revenue Bonds (Green Bonds)

$767,575,000 AA/Aa1 The Commonwealth of Massachusetts General Obligation Bonds (Green Bonds)

$206,040,000 AAA/Aaa Board of Regents of the University of Texas System Revenue Financing System (Green Bonds)

$184,430,000 AAA/Aaa City and County of Denver, Colorado (Green Bonds)

*These bonds are presented only as examples of Green Bond Issues and may or may not be held in APA client accounts.
This material is for informational purposes only and is not financial advice or an offer to sell any product*

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Meet the Team

Kenneth R. Woods

CHAIRMAN & CEO

Established Asset Preservation Advisors, Inc. in 1989. Prior to forming APA, he was Vice President and Manager of Bankers Trust Company's Southeastern Global Market Division located in Atlanta. Ken holds a B.S. degree in Finance and Economics from Florida State University. In addition, he is a member of the FINRA (Formerly NASD) Board of Arbitrators and has been appointed by the Superior Court of Georgia to serve as an arbitrator in fee arbitration.

Charles R. Doty

PRESIDENT & COO

Charles joined APA in 2002 with over 30 years of experience in the municipal bond market. He is a graduate of the University of Mississippi and worked for SunTrust Equitable Securities for 16 years, eventually serving as Director of National Institutional Municipal Sales. In 1999, he joined Municipal Trade as Chief Operating Officer and President. Charles has been included in Barron's list of Top 100 Independent Wealth Advisors and Top 1,200 Advisors.

Stephen Colavito, Jr.

MANAGING DIRECTOR, PORTFOLIO MANAGER

With over 22 years of professional experience in the financial services industry, Stephen has focused much of his career on fixed income. Stephen holds a degree from Florida International University, and worked as an institutional fixed income salesman for Bear Stearns Co. Inc. After Bear Stearns, he was Director of Corporate Cash for Deutsche Bank and Barclays. Stephen has been seen on business shows including Arise XChange, Bloomberg News and Fox Business.

Bob Farmer

SENIOR MANAGING DIRECTOR

Bob joined APA in 2008 and has over 30 years of investment experience. Bob was previously employed by Trusco Capital Management as Managing Director of Business Development. He obtained his B.S. degree from Hampden Sydney College in Economics and a Master's in Commerce and Business Administration from the University of Richmond. He is a member of the Atlanta Society of Finance and Investment Professionals and formerly served on the Honorary Board of Directors for Special Olympics of Georgia.

Whitney Imeraj

VICE PRESIDENT & CCO

As Asset Preservation Advisors' Vice President and Chief Compliance Officer, Whitney oversees regulatory compliance and heads the client-service team. Prior to joining APA in 2009, she was an Investment Assistant at Homrich Berg. Whitney is a graduate of the University of Georgia and received her Masters of Business Administration from UGA's Terry College of Business. Whitney is also a member of the National Society of Compliance Professionals.

Heidi Jones

EXECUTIVE ASSISTANT

Heidi joined Asset Preservation Advisors in June 2015 and her primary responsibilities include supporting the Managing Partners and Business Development team as well as being the face, voice, and control center of APA. A teacher for eight years, Heidi is well-suited to multitasking, organizing, and managing the operations of the office so that her team can focus solely on their portfolios and have the resources they need in order to best represent our clients.

Matthew Riggle

VICE PRESIDENT CREDIT RESEARCH

Matthew joined APA in 2006 as a senior member of the Credit Research team. Prior to joining APA, he was employed by Smith Barney and Ameriprise in the role of Financial Analyst. He has a Master's of Business Administration from the Georgia Institute of Technology and is a cum laude Graduate of the University of Florida, where he received his degree in Business. He is a member of the National Federation of Municipal Analysts and the Southern Municipal Finance Society.

Jerome H. Sullivan

NATIONAL SALES DIRECTOR/ MANAGING DIRECTOR

Jerome H. Sullivan, CIMA, joined APA in September 2016 with over 30 years of investment experience. Jerome was previously employed by Deutsche Bank, BlackRock and Morgan Stanley. At these firms, he successfully led their investment Management Teams sales efforts. He obtained his B.A. degree from Boston College in Communications, and the Certified Investment Management Analyst Designation from the Wharton School of the University of Pennsylvania.

Kevin B. Woods

MANAGING PARTNER & CIO

Kevin joined APA in 2002, bringing 13 years of experience to his role. Kevin leads the firm's investment professionals and directs the long-term strategy and investment philosophy of the firm. He is a graduate of the University of Mississippi with a Bachelor of Finance degree and is a member of the National Federation of Municipal Analysts, the Southern Municipal Finance Society, and the Atlanta Society of Finance and Investment Professionals.

Trisha Broussard

SENIOR VICE PRESIDENT

Trisha joined APA in January of 2006 with 20 years of experience in the muni bond market. Trisha began her career in the Atlanta Municipal Bond Department at Dean Witter and was Vice President in the Municipal Bond Department at Morgan Stanley, responsible for Southeast trading, as well as Senior Vice President of Municipal Trading at Sterne Agee & Leach. She is a graduate of the University of Southwest Louisiana.

Kyle Gerberding

DIRECTOR OF TRADING

Kyle directs the firms' trading operations and is the primary trader of the APA Short-Term Tax-Exempt Strategy and APA Enhanced Intermediate Tax-Exempt Strategy. Kyle has been an active member of the APA Investment Committee since 2008 and works closely with clients to develop an in-depth understanding of their unique investment objectives. He graduated from the University of Florida and is a member of the National Federation of Municipal Analysts and the Southern Municipal Finance Society.

Patricia H. Hodgman

VICE PRESIDENT, PORTFOLIO MANAGER

With 13 years of experience in the municipal bond market, Trish serves as Portfolio Manager and member of APA's credit research team. Trish works closely with the Business Development team in presenting APA's investment strategy to current and prospective clients. She earned a B.A. in Economics from Hollins University, is a member of the CFA Institute, the Atlanta Society of Financial and Investment Professionals, the National Federation of Municipal Analysts and the Southern Municipal Finance Society.

Paul Nolan

DIRECTOR OF RESEARCH

Paul joined APA in 2011, bringing 14 years of investment industry experience. Prior to joining APA, he was employed by McDonnell Investment Management and Moody's Investors Service. He earned a Master's of Science in Urban Policy Analysis and Management from the Milano New School University and holds a degree from the University of Buffalo. Paul is one of the founding Board Members of the International Charter School of Atlanta.

Brian Patton

ASSISTANT TRADER

Brian joined APA in 2016 as an assistant trader. Brian's duties include various aspects of trading-desk support, including trade entry, reconciliation, and communication with brokers and custodians. Raised in Atlanta, Brian earned his B.B.A. at Belmont University in Nashville. He enjoys cross-country running and is a member of the Atlanta Track Club.

Matthew Swan

BUSINESS DEVELOPMENT

Matthew joined APA in 2014 as an assistant trader and business development associate. Prior to joining APA, he was employed by Morgan Stanley. Before beginning his financial career, he played professional golf for several years. Matthew is a graduate of the University of Alabama, where he was a four-year letterman on the university's golf team and an academic and athletic All-American.

Wesley Williams

VICE PRESIDENT, BUSINESS DEVELOPMENT

Wesley joined APA in 2012 as a Municipal Analyst. In his current role as VP of Business Development, he supports the business development team and works directly with clients to discuss market conditions and portfolio management strategies. Wesley is pursuing his Master's of Business Administration at the Georgia Institute of Technology's Scheller College of Business. He earned his Bachelor's of Finance degree from The University of Mississippi. Previously, he was employed as an investment professional with Morgan Stanley and with Sterne Agee & Leach in Chattanooga, TN.

Q & A WITH PAUL NOLAN, *APA'S DIRECTOR OF RESEARCH*

Q: GIVEN RECENT NEWS STORIES REGARDING HEALTH CARE REPEAL AND THE POTENTIAL EFFECTS ON NFP HOSPITALS, WHAT IS APA'S OVERALL VIEW ON HOSPITALS?

A: APA considers hospitals an essential service, especially given the aging population in this country and their need for access to health care. Having said that, APA does believe the repeal of the individual mandate in the recent tax bill could have a negative impact on hospitals' financials, given that uninsured and uncompensated care levels are likely to increase.

With the repeal, the number of individuals without insurance has been estimated to increase by approximately 13 million. In our opinion, those stand alone and smaller hospital systems, who have benefitted from ACA though reductions of bad debt expenses from fewer uninsured patients, are most likely to be affected by the repeal.

Additionally, there are potential financial pressures from uncertainty around the renewal by Congress of the Children's Healthcare Insurance Plan (CHIP), which provides health coverage to nine million children from lower-income households. Fourteen states are reporting plans to phase out of the CHIP coverage, which is running out of funds in many of these states. There are also additional expense pressures such as investments in technology systems (medical records) and the general increase in health care costs and an aging population.

Q: ANY GOOD NEWS FOR HOSPITALS?

A: Yes. Positively, the American Hospital Association (AHA) reported the passage of the Affordable Care Act (ACA) has benefitted hospitals as evidenced by the decline in uncompensated care through the expansion of healthcare coverage through Medicaid and subsidized private plans. ACA also reduced the number of patients who needed assistance paying their health care bills. For example, in 2013, uncompensated care was $46.4 billion, but declined to $42.8 billion in 2014, and again to $35.7 billion in 2015. That number increased to $38.3 billion in 2016, diverging from two previous years of decreases.

Q: WILL THE REPEAL OF THE INDIVIDUAL MANDATE OR ANY OTHER POTENTIAL MODIFICATIONS/REPEALS TO ACA HAVE AN IMPACT ON OTHER SECTORS BEDSIDES NFP HOSPITAL?

A: Yes. APA believes the repeal of the individual mandate or additional modifications to ACA could have a ripple effect through the states as well. According to Fitch Ratings, the largest impact on state credit quality is likely to be to those states that previously expanded Medicaid. However, non-expansion states may also face budget challenges from the proposed AHCA. As health care costs continue to increase, those state and local governments with health systems will require additional funding, placing pressure on already challenged financial operations.

Q: WHAT IS APA'S INVESTMENT STRATEGY FOR 2018 GIVEN YOUR CONCERNS WITH THE HOSPITAL SECTOR?

A: We believe we have been selective in purchasing. bonds issued by hospitals and continues to avoid small, rural hospitals and single stand-alone hospitals in favor of multi-state and large systems. We will remain selective in 2018. The potential credit implications from the repeal and any other modifications to ACA may take time to demonstrate their true impact, but it is APA's view that a forward-looking credit review process is one of the best ways to mitigate this risk.

Q: WHAT WAS THE MARKET REACTION TO THE POSSIBILITY OF THE REPEAL OF PRIVATE ACTIVITY BONDS (PAB'S) IN THE TAX BILL?

A: There was a marked increase in bond sales in sectors that may have been affected by the repeal of PAB's. Hospitals reacted with a nearly 800% increase in bond sales in December 2017 when compared to December 2016, as reported by Bloomberg. colleges and universities also sold more bonds in December of 2017 to the tune of $4.8 billion, up from $930 million in December 2016.

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www.AssetPreservationAdvisors.com

Providing professional municipal fixed income management since 1989

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