CARRET
Asset Management

January 2021

Carret Credit Insight

Stimulus, Infrastructure, Vaccines and… Inflation?

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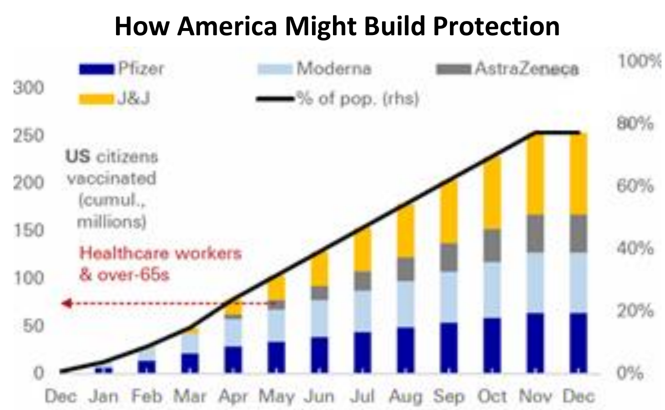
Firm AUM

$3.086 Billion

After a challenging 2020, we are hopeful that 2021 will be less eventful. The vaccine development and distribution are encouraging; however, the Coronavirus Disease 2019 (Covid) virus is expected to remain an impediment to economic growth for the first half of the new year. GDP estimates and S&P 500 earnings estimates indicate that economists and analysts widely expect the worst will be behind us as we enter the 4th Q of 2021. We anticipate a greater semblance of "normalcy" as we enter 2022. While the economy is expected to fully recover, longer-term, we believe structural changes will occur within many industries as business and consumer habits and thus spending will change, hurting some industries and creating opportunities for others. Economically speaking, all eyes are on the success of the vaccines – the global economies will start to normalize, but only after we reach herd immunity and can open the economies to a pre-Covid level of "normalcy".



Source: Deutsche Bank, The Daily Shot

On December 11th, the Food and Drug Administration (FDA) issued Pfizer-BioNTech the first emergency use authorization (EUA) for a vaccine to combat Covid in individuals 18 years of age and older. A few days later on December 18th, the FDA issued the second EUA to Moderna for their vaccine for use in individuals older than 18 years of age. We anticipate the FDA will provide an EUA to Johnson & Johnson (JNJ) in late February / early March for use of their vaccine. We believe the JNJ vaccine could be even more of a game changer as it is a single shot that can be stored at normal refrigeration temperatures. COVID vaccines are now being rolled out globally – we look to Israel (31%+ of adults have already been vaccinated) as a playbook for better understanding herd immunity, side effects, and data tracking. We have found the chart above optimistic, and a realistic guide to understanding an improving economy. Deutsche Bank estimates that by the end of

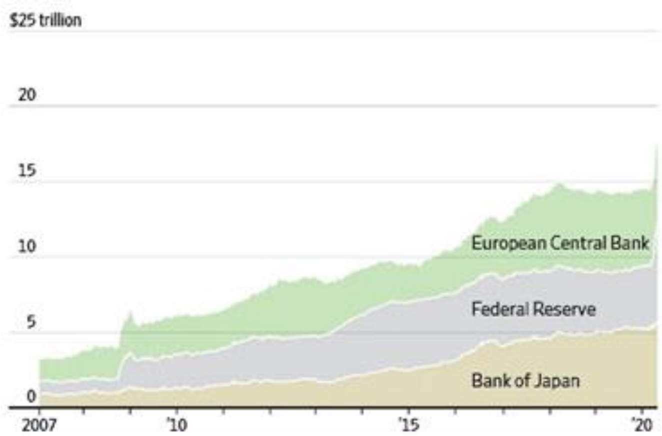
Key Interest Rates	12.31.20	12.31.19	12.31.18
Prime Rate	3.25%	4.75%	5.50%
Fed Funds Rate	0.00% – 0.25%	1.50% – 1.75%	2.25% – 2.50%
3 Month U.S. T-Bill	0.08%	1.55%	2.45%
5 Yr U.S. Treasury Note	0.36%	1.69%	2.51%
10 Yr U.S. Treasury Bond	0.92%	1.92%	2.68%
10 Yr AAA Municipal Bond	0.71%	1.44%	2.28%
10 Yr A Corporate Bond	1.62%	2.73%	4.11%

Source: Bloomberg, Wall Street Journal, Reuters, Municipal Market Data (MMD), FactSet

April / early May, we can have all adults over the age of 65 vaccinated, along with all health care workers. From there, we can have 80% of the population vaccinated by year-end. That still leaves 20% or 65 Million people unvaccinated – largely children. Vaccinating children remains a challenge as the FDA approval process is dramatically stricter for pediatric vaccines. While trials are just starting for children aged 12 - 18, we do not anticipate a vaccine for children until late 2021, at the earliest.

While we just discussed a return to "normalcy", we are extremely aware of the fact that this has been a very unique recession. Business and personal bankruptcy filings actually ***declined*** to 529,068 in 2020, the lowest since 1986 and a sharp drop from recent annual averages of roughly 800,000. The stock market is at new highs, household wealth is at record levels, and real estate prices in most of the country have risen. Unfortunately, the gap between the "haves" and "have nots" has never been wider.

Balance-Sheet Assets



Source: FactSet, Wall Street Journal calculations

What is causing this divergence? During 2020, fiscal and monetary policymakers globally responded to the historic events of 2020 with unprecedented force – making the policy actions of the 2008 / 2009 financial crisis look like child's play. On the monetary front, the Federal Reserve (FED), The Bank of Japan, and the Bank of England all lowered overnight rates to zero or below and reintroduced and/or expanded quantitative easing (QE). On the fiscal front, stimulus programs with new acronyms totaling Trillions of dollars were unveiled. Collectively, the trio of Central Banks expanded their balance sheets by roughly $8 Trillion in just the final nine months of 2020. This is the equivalent of eight years of growth following the financial crisis. The balance sheets of the global central banks have now increased from $3 trillion to $18 trillion over the past 15 years and are still growing at above average rates.

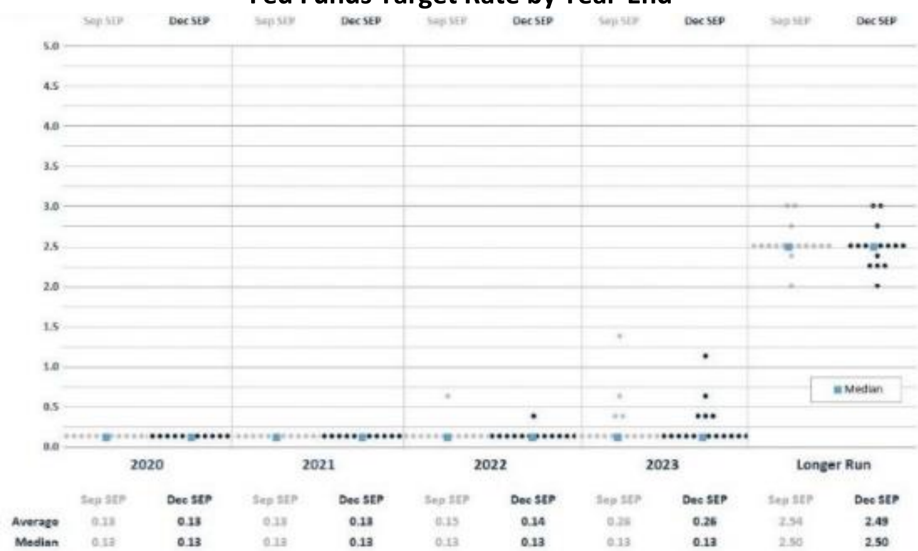
In the U.S., policy makers lowered the Fed Funds Rate to 0.00 - 0.25% and implemented massive amounts of QE. Today, QE is ongoing at a pace of $120 billion per month ($80 billion in Treasury and $40 billion in mortgage bond purchases). Congress has spent roughly $5+ trillion on fiscal stimulus programs - from The Cares Act to the Paycheck Protection Program (PPP). Thus far, the spending and easy money initiatives have stirred a wave of wealth creation by pumping up asset values from stocks to bonds to crypto currencies. It also saved many small businesses and prevented mass defaults on mortgage, auto, and credit card loans, as evident by lower than expected bank default rates. While many have benefitted from these programs, many are also suffering financially and emotionally as a result of the virus fall-out.

As bond investors, inflation is always top of mind. In the aftermath of the 2008 / 2009 fiscal and monetary stimulus, everyone waited for a spike in inflation, which never occurred. Over the course of 2008 – 2020, GDP growth was tame and inflation never moved materially above the FED's 2% target. The media and investors alike are talking about inflation once again – let's look at the facts coupled with our opinions.

After nine months of massive stimulus, the December Consumer Price Index (CPI) inflation report showed another soft month as Core prices rose 1.6% YoY. Based on the components of the CPI, broad inflation pressures remain a distant concern. However, as more of the population gets vaccinated and warm weather returns, spending is expected to rebound. We believe that pent-up consumer demand will inevitably lead to a temporary boost in prices of goods and services, stimulating ever more inflation conversations. The data will likely indicate that inflation is picking up, as the March 2021 YoY inflation comparisons will be measured against soft inflation numbers from when the pandemic first hit. Thus, we believe UST rates are more likely to increase in 2021 than decrease. However, we do not believe a significant or lasting increase in inflation is likely. More probable is an inflation creep that potentially scares investors. This would create opportunities for bond investors to extend duration.

While the FED's message is once again "lower for longer", even the individual FED Governors seem at odds regarding how strong the economy will be on the other side of the pandemic and whether higher inflation will take hold. Chicago FED President Evans said, "the U.S. central bank shouldn't be shy about letting inflation run, as it has promised, above its 2% target in order to make up for years of undershooting that goal." San Francisco FED President Daly said she sees, "a significant increase in inflation pressures as a low-probability event". St. Louis FED President Bullard said, "pricing pressures will firm up more quickly than most others think. Nonetheless, the pieces are in place for inflation to pick-up." The FED leader, Chairman Powell, recently stated, "a one-time rise in inflation won't mean persistent inflation", and "we could see upward pressure on prices in the near term, but won't hike unless we see troubling inflation and imbalances." One thing is certain, memories of the 2013 "taper tantrum," are still fresh – The FED foreshadowed a reduction in its bond purchases only to increase yields, which started to stifle the economic recovery. The FED can't make the same mistake and thus will keep rates "lower for longer", push hard for economic growth, full employment, and some "good" inflation.

FOMC Summary of Economic Projections
Fed Funds Target Rate by Year-End



Source: Federal Reserve SEP, Vining Sparks

As you know, we believe it is important to understand the FED's economic projections. The following is the **FED's Summary of Economic Projections** released on December 16th: The FED projections reflect an improving economic outlook. The FED expects the economy (GDP) to contract only 2.4% in 2020, and expand 4.2% in 2021 and 3.2% in 2022. However, the longer run projected growth rate was dropped to 1.8%. The FED expects the labor market to recover quickly with the unemployment rate projected to end 2020 at 6.7%. The unemployment rate is now expected to end 2021 at 5.0% and 2022 at 4.2%. Inflation is expected to remain below-target through 2023. The DOT Plot shows the majority of participants expect the target rate to remain at zero through the end of 2023. There continues to be only one individual who expects to raise rates by year-end 2022 and that person only expects a 25 bps increase. There are now five individuals who expect to hike by year-end 2023 but twelve who expect rates to remain at zero. Interestingly, the World Bank has reduced its 10 Yr economic growth outlook as "uncertainty over the pandemic along with disruptions in education will hamper gains in labor productivity". The World Bank lowered its 10 Yr global growth projections to 1.9%. At the start of the decade, it had been projecting growth of 2.5%. Simply put, amid a soft global and domestic growth forecast, the FED does not expect to hit its inflation target of 2.0% + until 2023. If inflation rises above 2.0%, we believe the FED will let it run for more than a few months – they will be in "no rush" to slow a growing economy.

Taxable Bond Strategy

The overarching theme of the U.S. investment grade (IG) taxable bond market during the second half of 2020 was the FED and Congress. While the FED usually plays a central role in the fixed income markets, economic conditions remain in the driver seat; however, over the past six months, the FED took a firm grip on the wheel. While facing numerous economic headwinds from the Covid crisis, corporate bonds (specifically the BBB rated tier) were backstopped by the FED. The FED's support of the markets and Congress's support of the economy is evident in the chart below – IG corporate bond yields are at record lows while average duration is touching new highs. This trend of the past few years continues to pave the way to more flexible balance sheets and a lower cost of capital. While we are keenly focused on the U.S. markets, government support is not exclusive to the U.S. – December saw global negative yielding debt total $18 Trillion due to record global government stimulus. Negative global yields drove investors' dollars to the U.S. where yields remain in positive territory. Investor demand over the past six months drove a consistent march lower for corporate spreads despite UST yields rising (10 Yr UST yields ended at 0.92% vs. 0.65% at mid-year). At the end of the day, investors find comfort in U.S. fixed income markets as corporate America has remained resilient whilst government support continues in force.

USD IG corporate bonds duration vs. yield-to-worst

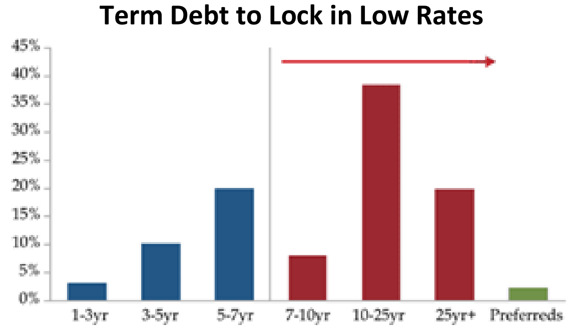
Source: Bloomberg-Barclays, Goldman Sachs Global Investment Research

U.S. companies continued the torrent of bond issuance started in the first half of 2020. With yields falling and investors' seemingly unlimited demand, corporate America took advantage by borrowing a record $2.3 trillion – 60% percent more than in 2019. To emphasize this deluge, U.S. corporate bond issuance set the record in September – four months before the end of the year. 2020 is projected to be unique in volume, with Barclays estimating that the rate of issuance could fall by about 35% in 2021 - back to pre-pandemic norms. Continuing the trend of the past two years, these newly issued bonds are skewed toward longer maturity issues – the average duration of US IG corporate bonds has extended from 7.0 to 8.9 during that time. This allows companies to lock in record low rates and reduce interest expense for the foreseeable future while reducing risk for investors holding shorter maturity bonds.

As of December 31st, we remain overweight corporate bonds with an emphasis on A and BBB credits. During the second half of 2020, 5 Yr A rated corporate yields fell 33 bp (1.17% to 0.84%) and 5 Yr BBB yields fell 83 bp (2.14% to 1.31%). Relative to 5 Yr UST, corporate spreads tightened over the past six months with A rated spreads falling from +89 bp to +48 bp and BBB rated spreads moving from +186 bp to +95 bp. These spreads are tighter than in the beginning of 2020 – before the Covid pandemic gripped the world. We find these spread levels to be relatively attractive versus the low yields of U.S. government debt; however, valuations are becoming stretched on a historical basis. As always, we recommend "knowing what you own". The 2 to 10 Yr UST spread continued to widen over the year, ending December 31st at +80 bp. The widening is a result of the FED bringing short rates close to zero while the long end of the curve has steepened post-election on the prospect of inflation moving higher due to increased government spending and a post-Covid consumer demand spike.

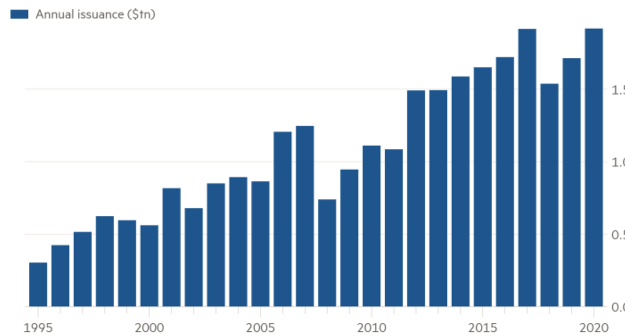
Benchmarks are relevant for analyzing an investment's relative performance in addition to enabling comparison of a strategy to a separate and unbiased source. While we recognize the importance of benchmarks, we are comfortable deviating from them with the goal of enhanced returns and/or reduced risk. The Taxable Bond Strategy benchmark (Barclays Intermediate Government Credit Index) has over 60% exposure to U.S. Treasury and Government Agency securities while our strategy has only 12% exposure to these sectors. Our overweight corporate bond tilt has enabled us to earn incremental yield and cash flows above those of the benchmark. As an example, during the second half of the year, we

2020 Credit Issuance Was Skewed to Long-Term Debt to Lock in Low Rates



Source: Bloomberg, Quill Intelligence, George Goncalves, The Bond Strategist, The Daily Shot have extended duration in the strategy while reducing exposure to U.S. Treasuries and Agencies. We swapped out a short maturity Treasury bond (yielding around 20 bps) and reinvested into intermediate duration corporate bonds at yields greater than 1%. This investment tilt towards corporate credit has played out well as Corporate America continues to strengthen despite a global pandemic. S&P 500 earnings are projected to hit a record high in the 4th quarter of 2020. This leaves us well positioned going into 2021 with the prospect of having the worst of the Covid pandemic – economically speaking – in the rear-view mirror.

US Corporate Bond Issuance Set a New Record



Source: Refintive, Financial Times

The ***Taxable Bond Strategy*** is focused on high-quality IG, intermediate-maturity bonds. At year end, portfolios were structured to generate an average yield to maturity (YTM) of 0.98% with a duration of 3.1, and an average credit rating of A- relative to a benchmark yielding 0.62%. While not exciting on the surface, the Taxable strategy has a YTM over 50% higher than that of the index. We remain overweight corporate bonds relative to our benchmark as yields of UST and Government Agencies remain at historic lows. Corporate bonds are relatively attractive despite spreads tightening throughout the second half of the year. We have maintained our allocation to Preferred Securities while adding new names to our active "buy" list. Preferreds allow us to capture incremental yield levels and further diversify the strategy. With the FED committed to supporting markets, yields at persistently low levels, tight credit spreads, and the potential of creeping inflation, we are holding a current duration target of 3.0+ Yrs. We are being patient as we await an opportunity to extend duration with a focus on increasing our yield and cash flow expectations.

Opportunity Strategies

At year end, the iBoxx HY Index yielded 4.23%, an all-time low. Spreads also registered record tightness. Low yields are not a surprise as investors globally reach for income. The FED has back-stopped the "fallen angels", allowing many high-yield (HY) companies to refinance at ever lower rates and extend upcoming maturities for another day. Strong equity markets are forecasting an earnings rebound, and the vaccines will bring brighter days soon. We continue to find attractive values in the short / intermediate portion of the high-quality HY market.

While the "junk bond" days of old generate images of Michael Milken and Gordon Gekko, we would argue, "this is not your parent's high yield market". Think… Delta, Ford, Netflix, T Mobile, Dell, Nordstrom, etc. Over the past decade, the risk profile of the HY market has changed materially. The modified duration (interest rate risk) has declined over the past ten years from 4.0 to 2.9. Credit quality has also improved (reducing credit risk) as BB rated bonds have increased from 45% of the index to 55% today, as measured by the Bloomberg Barclays HY Index. BB credits now constitute over half of the HY index – one level away from investment grade.

During the second half of 2020, we were rewarded for investing in high coupon corporate bonds as several of our holdings experienced tenders or calls that benefited performance. We anticipate this trend will continue into 2021, albeit at a slower pace. We continue to look for new opportunities to invest in preferred securities at attractive yield-to-calls and yield-to-maturities.

We want to share a recent academic study with you regarding the risk and returns in the HY bond market: George Mason University recently published a report on HY bond fund returns and volatility relative to equities (S&P 500). Since 1990, the average HY bond fund has delivered average annualized returns of 7.1% with a volatility of 7.7%. Over the same time period, the S&P 500 delivered an average annualized return of 7.8%, but with almost double the volatility of 14.5%. The conclusion – HY bonds have paid total returns near those of the U.S. stock market with half of the volatility. We believe the HY market will offer competitive returns in the decade ahead as equity valuations have risen and Treasury yields have plummeted. Our ability to utilize busted convertibles, preferreds and special situation income investments enhances our cash flow opportunities.

As of December 31st, on average, 26% of our Opportunity Strategy was invested in IG bonds while the Leveraged Opportunity Strategy had 29% invested in IG bonds. With spreads at record lows, we are prepared for volatility and patiently anxious to redeploy capital to a higher risk profile. HY spreads - the yield differential between U.S. Treasuries and HY bond yields – widened by only 2 bp this year, while rates on 5 Yr UST bonds declined 133 bp. At year-end, yields sat at 4.23% as measured by the iBoxx HY Index. Spreads, as of December 31st, contracted to +387 bp compared to +385 bp at the beginning of the year. Spreads are almost 200 basis points tighter than the +580 20 Yr historical average spread. We see value in short / intermediate duration, high quality HY bonds. If credit spreads widen or interest rates rise, we are very well positioned to capitalize on market volatility. We continue to take advantage of high coupon callable issues with the goal of enhancing returns while reducing portfolio volatility.

Barclays US Corp HY Index vs. 5 Yr US Treasury

Source: Refintive, Financial Times

We do not want to gloss over the volatility of 2020. The HY market (HYG), experienced a decline of 21.3% at the worst of the March / April market declines. These declines were a result of a liquidity vacuum as prices simply declined with no buyers on the other side of panicked sellers. The market improved every month thereafter, generating a positive return of 4.7% for the year (iBoxx HY Corp Bond Index). We bested the return of the index with less volatility!

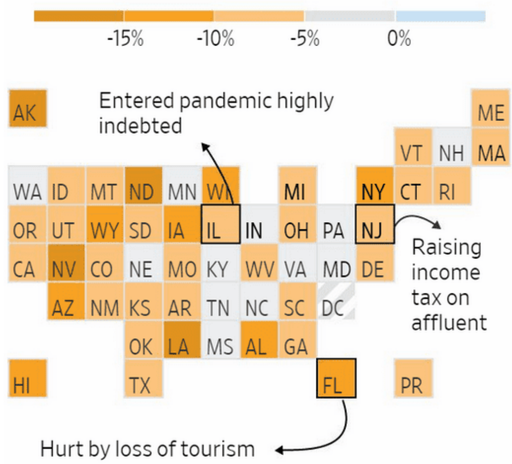
At quarter end, our ***Opportunity Strategy***, on average, had a YTM of 2.66%, a duration of 2.5, and an average credit rating of BB. Our ***Leveraged Opportunity Strategy***, on average, had a YTM of 2.90%, a duration of 2.5, and an average credit rating of BB-. Given the tight spread environment, we remain unlevered, but are optimistic we will be able to use it in the year ahead.

Municipal Bond Strategy

The municipal bond market found surprising stability in the second half of 2020 despite the broad economic challenges linked to the Covid pandemic. In general, municipal bonds posted solid gains for the year, driven primarily by strong demand exceeding robust supply. It is becoming apparent that tax revenues across the country have been recovering much faster than originally expected, leading to improved credit fundamentals - even without factoring in any federal relief or stimulus. Despite credit concerns at mid-year, there were only 13 more defaults in 2020 than in all of 2019 - the vast majority of those occurring among municipals that were initially non-rated or below investment grade to begin with. Issuers with greater financial flexibility and revenue sources that are less tied to economic activity were generally better able to handle the decline in revenues, increases in expenses, and other economic headwinds in 2020. This translated to higher-rated issuers experiencing less volatility and outperforming their lower-rated counterparts.

As a rule, states are required to prepare and maintain balanced budgets. The two primary sources of state and local revenues are personal income and sales taxes, which together, represent 75% of General Fund receipts. As the Covid driven economic crisis began to unfold, state and local municipalities took the necessary steps to lower revenue expectations for both 2020 and 2021. Additionally, the federal government injected unprecedented levels of stimulus into the U.S. economy. At this point, revenue declines do not appear to be as severe as originally feared. In its Fall 2020 Survey, the National Association of Budget Officers revealed that of the 40 states polled, 24 (60%) reported revenue collections that either exceeded or matched initial projections, a promising sign that state and local government officials maintained reasonable budgetary expectations.

Projected Annual Revenue Shortfall
(as a percentage of 2019 revenue)



Source: Moody's Analytics, PEW Charitable Trust

The November U.S. election proved decisive, removing the chance that a contested result could destabilize markets. Late in 2020, stimulus negotiations ultimately produced a deal that both sides of the aisle could agree to. Additionally, multiple highly effective Covid vaccines were approved for emergency use, providing confidence that the end of the crisis may finally be in sight. These factors put upward pressure on UST yields while municipal bond yields moved lower. With municipal bonds and U.S. Treasuries heading in opposite directions, the Muni-to-Treasury (MOT) ratios trended lower, and by the end of 2020, had moved back to pre-pandemic levels. For example, the 5-year AAA MOT ratio began the second-half of the year at 147 basis points (bps) and ended 2020 at 60 bps. As we have outlined in past commentaries, the MOT is quite fluid, and at times, can help guide our yield-curve-positioning decisions.

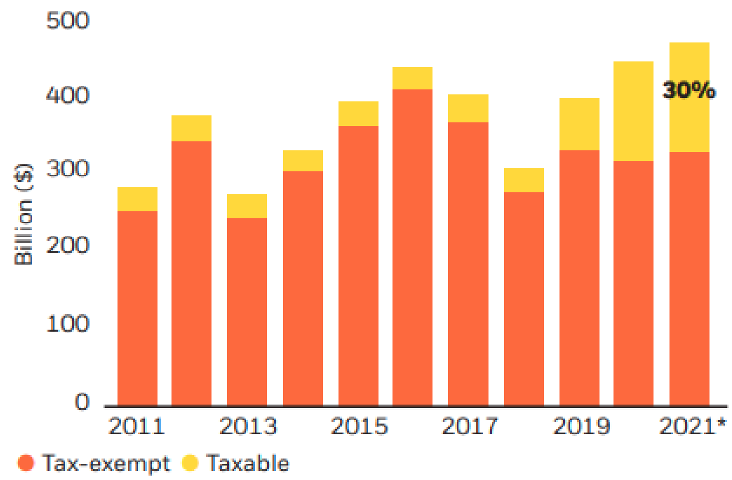
As mentioned in our mid-year commentary, the March and April spike in yields were short lived as the FED quickly intervened to calm the market by establishing the Municipal Liquidity Facility to help state and local governments better manage cash flow pressures in order to serve both citizens and businesses. Municipal yields returned to pre-dislocation levels by late May as the combination of supply and demand dynamics and government stimulus provided a stable environment for municipal credits. By late December, a fourth phase of Relief Aid was finally passed, and overall, we believe that the $910 billion package will provide much needed support for state and local governments to march through the next several quarters, by offering a lifeline for schools, mass transit, and health care. However, the Phase 4 plan did not include direct, unencumbered aid to state and local governments as hoped. On the unemployment front, there were 1.4 million fewer jobs at the state and local level at year-end, compared to early 2020. Looking forward, we are optimistic that the Biden administration's $1.9 trillion plan, in whatever form it ultimately takes, will include additional recovery rebates, direct aid to state and local governments, increased unemployment supplements, aid to schools, and funding for a national vaccination program. These elements should be a net positive for the municipal bond market in 2021 and beyond.

From the supply side, 2020 was another record new issuance year. State and local governments issued $454 billion in new debt as low interest rates spurred a wave of refinancings to help close the budget shortfalls caused by Covid related costs. During the month of October, municipalities issued a substantial amount of new bonds to get ahead of the federal election cycle uncertainty, and supply is likely to remain elevated as we start the new year. Historically, low interest rates create a favorable environment for issuing new debt. We anticipate annual issuance in the range of $400 billion in 2021 with continued strong demand to absorb it - albeit with periods of fits-and-starts. More important than the amount of issuance, however, is the underlying composition of the new issuance. Taxable municipal bonds, which had historically represented a very small portion of total muni issuance, has become a meaningful part of the new issue market since the ability for issuers to advance refund their debt via tax exempt issuance was eliminated as part of the tax reform in 2017. The possibility of the Biden administration restoring the advance refunding exemption will have a large influence on the amount of taxable municipal debt issued in 2021. However, under the current tax law, we project that taxable municipal bonds will make up approximately 30% of municipal issuance again in 2021. The increasing amount of taxable issuance implies a reduced amount of tax-exempt issuance, further strengthening the positive technical environment for tax-exempt municipals. As the new administration takes office, we anticipate a renewed focus on infrastructure, which could also impact new municipal issuance and potentially yield levels.

Carret Credit Insight

Municipal bonds have attracted positive flows from investors in each of the past seven years. As we approached year end, heavy seasonal reinvestment demand and accelerating mutual fund flows added once again to the demand-tilted imbalance. In a nutshell, the demand overriding supply in 2020 drove municipal bond prices higher and yields lower. The demand side of the market - using municipal bond mutual fund flows as the proxy - experienced positive net inflows for all but one week since May. At year-end, the net investor inflows into municipal bond funds and ETFs were greater than $35 billion, with significant assets being added to Separately Managed Accounts (SMA) as well. Many of the new issue offerings continue to be heavily oversubscribed. Lower UST yields have also contributed to municipal bond demand from foreign investors and cross-over buyers. Demand for municipal bonds continues to be supported by highly accommodative monetary policy and perceived safety. Additionally, the potential for higher taxes under the Biden administration underscores the appeal of tax-advantaged investments. Achieving positive returns during a turbulent 2020 also bodes well for municipals in the months ahead as positive returns can often create further demand. We anticipate another year of net positive flows into the municipal asset class.

Record Level of New Issuance – Taxable Municipal Bond Account For 30% of New issue Supply



Source: Source Media, Blackrock

As we enter 2021, it is important to remember the lessons of 2020. The market dislocation in March and April cemented the fact that the municipal markets can be quite unpredictable during periods of volatility. However, beyond short-lived trading volatility, municipal credits showed their resilience in the face of adversity and their importance as a balance against riskier asset classes. Essential purpose revenue bonds and high-quality General Obligation bonds rebounded quickly after the mid-year setbacks, demonstrating just how solid high-quality credits can be. We continue to approach the municipal bond market with cautious optimism led by favorable credit fundamentals, positive supply and demand dynamics, and the municipal market's place in the economic recovery to come. We certainly acknowledge that recoveries will likely be uneven across the municipal sector; however, most - if not all - states possess a wide variety of tools to take on the financial challenges ahead. We are encouraged by the proactive steps taken in 2020 and expect prudent efforts to continue going forward.

Our high-quality, intermediate-maturity bias continues to seek a balance of preservation of principal, total return, and tax-exempt cash flows. We will continue to opportunistically add value through credit research, bond structure, and yield curve positioning. Our municipal bond portfolios are actively managed as either state-specific or state-focused (general market in approach, otherwise). Essential service revenue bonds and high-quality general obligation bonds continue to make up the framework of our municipal bond portfolio strategy. We continue to be cautiously optimistic in our expectations for the municipal marketplace for the remainder of 2021. Our ***Municipal Bond Strategy*** is focused on high-quality IG, intermediate-maturity bonds. Portfolios are currently structured to generate an average YTM of 1.25% and a Taxable Equivalent Yield (TEY) of 2.42%* with a duration to maturity of 5.1, and an average credit rating of AA-.

** Assumes 48.3% Combined Effective Tax Bracket*

Separately Managed Account Strategies:

Municipal: Carret's Municipal Bond Strategy seeks to maximize tax efficiency through opportunistic portfolio management while preserving principal through practical portfolio structuring and fundamental credit analysis. We actively manage investment-grade portfolios with a diversified blend of issuers, sectors, and maturities aimed at delivering consistent, risk-adjusted returns with an emphasis on tax-efficient cash flows.

Taxable: Carret's Taxable Bond Strategy seeks to achieve above average total returns with an emphasis on preservation of capital and consistent cash flow. We utilize investment-grade fixed income securities and shift across bond sectors based on changing market conditions. Our fundamental credit research and active portfolio management process has provided consistent and attractive risk-adjusted returns.

Opportunity: Carret's Fixed Income Opportunity Strategy seeks to generate a high level of current income with a secondary focus on long term capital appreciation. We utilize higher yielding fixed income securities and shift among various types of fixed income securities based on changing market conditions. We actively manage risk and reward and can respond quickly to market movements. We utilize interest rate hedges to limit duration risk.

Leveraged Opportunity: Carret's Fixed Income Leveraged Opportunity Strategy seeks to utilize low cost leverage and favorably negotiated release rates to potentially enhance our existing Opportunity Strategy returns. We actively manage leverage to augment opportunities within the high yield and investment-grade sectors of the fixed income market.

Enhanced Cash: Carret's Enhanced Cash Strategy seeks to provide excess returns above those offered by cash equivalents, while focusing on capital preservation and liquidity. The strategy invests in ultra-short duration investment-grade bonds. Our custom approach opportunistically utilizes tax-advantaged municipal bonds to enhance overall after-tax returns when appropriate.

Mutual Fund Strategy:

Kansas Tax-Exempt: The Carret Kansas Tax-Exempt Bond Fund's objective is to preserve capital while producing current income that is exempt from both Federal and Kansas state taxes. The Fund seeks to generate monthly income and principally invests in investment-grade bonds of intermediate maturity.

For more complete information on the Carret Kansas Tax Exempt Bond Fund, you can obtain a prospectus containing complete information for the Funds by calling 888.266.8787 or by downloading it from Carret's web site. You should consider the Fund's investment objectives, risks, charges, and expenses carefully before you invest or send money. Information about these and other important subjects is in the Funds' prospectus. The prospectus and, if available, the summary prospectus, should be read carefully before investing. Shares of the Carret Kansas Tax Exempt Bond Fund are distributed by ALPS Distributors, Inc., which is not affiliated with Carret Asset Management, LLC.

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