CARRET Asset Management

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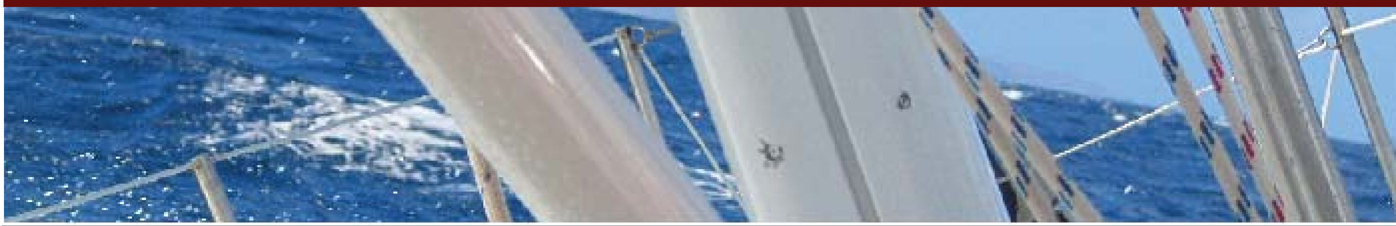
Carret Insights



My center is giving way, my right is in retreat; situation excellent. I shall attack.

General Ferdinand Foch, 1914

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Firm AUM

$3.021 Billion

A commentator on CNBC recently used the term "bottoming process" to characterize the market's repeated attempts to rally. I thought that the phrase was redolent of a George Carlin bit on air travel. "*Something else we have in common… flying on the airlines and listening to the airlines' announcements and trying to pretend to ourselves that the language they're using is really English. Doesn't seem like it to me…Whole thing starts when you get to the gate… first announcement: 'We would like to begin the boarding process…' Extra word, 'process', not necessary, 'boarding' is enough; 'we'd like to begin the boarding…' simple, tells the story. People add extra words when they want things to sound more important than they really are. 'Boarding process' sounds important… it isn't. It's just a bunch of people getting on an airplane! People like to sound important; weathermen on television talk about 'shower activity'… sounds more important than 'showers.' I even heard one guy on CNN talk about 'a rain event.' Swear to God, he said 'Louisiana is expecting a rain event.' I thought, 'I hope I can get tickets to that!'… 'Emergency situation…' News people like to say, 'Police have responded to an emergency situation.' No, they haven't, they've responded to an emergency. We know it's a situation… everything is a situation!*" What, then, is the "situation" in which we find ourselves? What do we know about likely market "events?" Just why did that panelist use the term bottoming "process?"

The first *situation* to consider is where the market action of 2022 has left us. We habitually refer to "corrections" as market declines of 10-20%, and "bear markets" as market declines of 20% or more. The S&P 500, on a total return basis, declined 18.1% for the year. That sounds rather optimistically like a correction. Indeed, my working "quote" for this piece was "Once more unto the breach, dear friends, once more" from Henry V. There is so much money that desperately wants to get back into equities; evidenced by the oversized rallies that occur on what appears to be "good news" either from the Fed itself or from statistics that are likely to influence the Fed's behavior. *Corrections, as we know them, tend to be short lived and unanticipated, both in their onset and their resolution.* Unfortunately, this description does not fit the current market situation.

Key Market Levels	12.31.22	12.31.21	12.31.20
Fed Funds Rate	4.25% – 4.50%	0.00% – 0.25%	0.00% – 0.25%
3 Month U.S. T-Bill	4.41%	0.05%	0.08%
10 Yr U.S. Treasury Bond	3.88%	1.51%	0.92%
10 Yr AAA Municipal Bond	2.63%	1.03%	0.71%
10 Yr A Corporate Bond	5.32%	2.31%	1.62%
S&P 500	3,840	4,766	3,756
S&P 500 Dividend Yield	1.65%	1.20%	1.51%
S&P 500 Trailing 4 Quarter P/E	18.0	24.6	28.2

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

We have expressed skepticism about the prevalent bullish scenario wherein the Fed sees *inflation slowing* and dramatically *curtails the tightening* effort, both through rate hikes and quantitative measures. There is a fairy tale element to this belief that suggests that the Fed will begin to lower interest rates immediately. We think that the Fed is committed to a course of action to reduce the rate of inflation back to some acceptable level close to its target 2%. A "slowing" in the rate of inflation from 9.1% to 6.5% is a step in the right direction, but far away from the mark. The adage "don't fight the Fed" seems to be dominant here. If one is looking for nuance, one might interpret recent Fed actions as "slower" but not "lower." But we believe the market *situation* suggests that the yearning for an "optimistic" scenario is likely to lead to disappointment in the near term.

That being said, we have often observed that the market follows earnings over time. Indeed, earnings have not collapsed, and estimates for 2023 are still expected to be up for the S&P 500 index. So, perhaps a more plausible bullish scenario may be that prices will have come down more than earnings prospects, creating a *valuation opportunity*. The opposite, of course, is when the earnings outlook worsens ahead of the stock price, creating *valuation stress* and suggesting a selling opportunity. The economy is showing some resilience as evidenced by retail sales and employment statistics. We note that the market bounced between down 20% and down 10% for most of the past year. Forecast earnings growth has likely forestalled a 2008 type market decline so far. Whereas in 2008 we had high unemployment and bank failures among the noisome challenges to contend with, this time we just have a strong economy with some inflation to be reckoned with. Seems like it should be solvable in time. But the second market *situation* to be considered is the absolute dedication of the Fed to its mission. And it appears that "investors" keep forgetting that the Fed is determined to bring inflation under control. Acknowledging that the Fed was behind the curve, having initially viewed inflation as transitory, it is now determined to use the tools at its disposal to bring inflation to heel.

You may recall our discussion about Newtonian physics from this time four years ago. It was Isaac Newton who famously remarked, "I can calculate the motion of heavenly bodies, but not the madness of people." Despite his own skepticism, Newton does offer us some insight here. Newton's First Law of Motion states that *an object in motion continues in motion with the same speed and in the same direction unless acted upon by an unbalanced force*. The Federal Reserve generally provides this unbalanced force to the economy. Congress can act in concert, theoretically. Newton's Second Law of Motion states that *the greater the mass of the object, the greater the force needed to accelerate or decelerate the object.* In this case, the $21 trillion economy will require a considerable force to change its direction. Newton's Third Law of Motion states that *for every action there is an equal and opposite reaction.* This is the premise upon which all Federal Reserve actions are predicated. The possible Fed actions include the deployment of the classic tools in its arsenal: changes in the monetary base, changes in the short-term interest rate, and public pronouncements or jawboning. In essence, in early 2022, the Fed began to apply its own version of Newton's Second and Third Law on the United States economy. The Fed began a dramatic series of interest rate hikes, and even more drastically, has curtailed and reversed the monetary accommodation that had been in place for some time. The only real question is how far and how fast the Fed will eventually have to go to slow economic growth in order to tame inflation.

We recognize that while we like to speak of engineered *soft landings*, the Fed at best wields a collection of blunt instruments. While the media tends to focus on the interest rate hikes and the official accompanying pronouncements, we are acutely aware of the potential damage to the economy from the absolute reduction in liquidity from quantitative tightening, the equal and opposite force to the quantitative easing that was the hallmark of most of the past decade and a half. Simply put, we believe that a certain amount of monetary accommodation is necessary to support growth. To stamp out inflation, the Fed risks fomenting a recession. Truly, the debate between "bullish" and "bearish" investors is over the likelihood of the Fed *accidentally or intentionally* bringing on such a downturn. This is of concern to us because those S&P 500 earnings estimates today do not reflect the impact on corporate earnings from a full-blown recession. At worst, current estimates reflect the proverbial soft landing, in which the Fed achieves its goal without breaking anything.

In a sense, the swift collapse of speculative investments reflects the reality that Fed accommodation can artificially inflate certain asset prices, and the removal of that accommodation can bring swift reckoning before the impact is felt across the broad economy. As one of my colleagues put it, in 2022, the junk stuff got clocked, the high valuation growth stocks underperformed, and the boring stuff outperformed. At this time, we cannot determine what the impact of a potential recession will be on 2023 corporate earnings. It is extremely likely that forecast earnings growth will not materialize. We can look back to the 2015 period to determine the impact of flattening earnings on the market. No earnings growth; no market growth. Unfortunately, 2008 provides the example of what might occur in a collapsing earnings environment. Therefore, the first important market *event* will be the commentary surrounding the reporting of FY22 earnings starting in January. Will corporations bend to the nature of the *vague uncertainty* and paint dismal pictures of the near future, at least partially in the hope of eventually delivering earnings "surprises?" Already, the ISM PMI report is showing signs of the type of *contagion of uncertainty* that does not bode well for near term earnings.

The next series of market *events* that will be of importance will be the Fed's successive rate moves, and the commentary that is issued alongside. Again, there is a very visible bloc that wants to read good news into every pronouncement. We have already disclosed our skepticism about the rosy scenario in which the Fed declares *mission accomplished* anytime soon. We therefore would argue that volatility, long absent from the picture, is back and here to stay. When the market starts to focus on 2024, we might expect a more consistent upbeat tone to things. Despite our current skepticism, we do know that the market will likely begin to move before the Fed announces, "Our work here is done." The term *bottoming process* allows for the fact that we cannot tell when the market will decidedly focus on the restoration of growth. It is more productive to focus on *time in* the market, rather than on *timing* the market. We therefore spend a lot of time counseling patience and argue for realistic assessments of true risk profiles. And of note, the old **TINA** argument for stocks, *There Is No Alternative*, has been challenged by the more attractive yields now available in the bond market. This can truly ease the burden of perseverance. General Foch saw a dismal situation ahead and yet decided to remain on the battlefield. Phil Carret offers that patience can produce uncommon profits. They are in fact on the same page. And we heartily concur.

Laurence R. Golding, Managing Director

Credit Insights

We were taught in trade school that an inverted yield curve is a necessary and sufficient condition for a recession to occur. So, what do we make of the current state of affairs in the Treasury curve? The Federal Reserve has declared *war on inflation* and has continued its aggressive moves to slow the economy to accomplish its mission. We do not believe that the Fed intends to cause a *recession* in its quest to curb inflation, but collateral damage is always a risk. The Fed works only with blunt instruments, namely, changes in *rates*, changes in the *monetary base* and old-fashioned *jawboning* in performing such delicate operations as it is currently undertaking.

What does an "inverted yield curve" really disclose? The Fed has hiked rates seven times in 2022. The most recent increase in December was by 50 basis points, after a series of 75 basis point jumps. The concept is that higher borrowing costs will slow economic activity through such mechanisms as higher mortgage rates cooling the housing market, and higher credit card rates dampening consumer spending. In this case, that slower economic growth will cool inflation to the extent that inflation is a classical demand/supply imbalance. Or so they say. Inflation has indeed cooled from a peak 9.1% to a recent print of 6.5% but is still well off the Fed's stated target of 2%. The longer end of the yield curve being lower than the short end suggests that the high-rate environment today will not be present in the future, that the Fed will be likely to be forced to lower interest rates to restore economic growth. The assumption is that the higher rate environment of today begets an inevitable recession. But one could just as readily question the implications of an inverted yield curve on the future direction of the economy.

For bond investors, as with equity investors, what is implied in the current *situation* is *uncertainty*, and uncertainty leads to *volatility*. And we are confident that volatility leads to *opportunity*. Our detailed thoughts are presented below.

Data as of December 31, 2022	Taxable Fixed Income	Municipal Fixed Income	Opportunity Fixed Income	Enhanced Cash
Maturity	3.3	6.4	2.8	0.4
Duration / Dur to Worst	3.0	5.2 / 3.8	2.5	0.3
YTM / YTW	4.99%	3.41% / 3.02%	6.74%	4.53%
Taxable Equiv YTM/YTW *		6.60% / 5.84%		
Coupon	3.53%	4.48%	5.30%	2.93%
Credit Rating	A-	AA	BB	A

** Assumes a combined effective tax rate of 48.30%*

Sector Allocations:				
U.S. Treasury	8%	2%		14%
Government Agency	3%			7%
Corporate - Inv Grade	81%	2%	35%	66%
Corporate - High Yield			55%	
Preferreds	5%	1%	7%	
Convertible			1%	
Municipal		94%		9%
Cash	3%	1%	2%	3%

Taxable Fixed Income Strategy:

- During the 4th Q of 2022, 5 Yr U.S. Treasury (UST) yields decreased 4 bp from 4.04% to 4.00% and have increased 274 bp for the full year. While the middle of the curve fell slightly, the short and long ends of the curve increased during the Q.
- Investment Grade (IG) corporate bond yields inverted during the 4th Q of 2022. The quarter saw yields on the short end (3 years and in) increase while longer yields (5 years and out) decreased.
- IG spreads, as measured by the 3-5 Yr A rated FactSet index tightened by 10 bp during the Q, decreasing from 131 bp to 121 bp and increased 80 bp for the full year.
- IG spreads, as measured by the 3-5 Yr BBB rated FactSet index tightened by 22 bp during the Q, decreasing from 188 bp to 166 bp and increased 87 bp for the full year.
- The Taxable Fixed Income Strategy outperformed the Barclays Intermediate Gov't Credit Index during the Q with a gross return of 2.0% versus the index's return of 1.5%. For 2022, the strategy outperformed the Index, with a gross return of -7.5% versus the index's return of -8.3%.
- The strategy's overweight exposure to corporate bonds contributed positively to returns due to higher coupon cash flows relative to the Index as well as corporate bond spread tightening. Maintaining a short duration blunted the negative effects of interest rate increases experienced during the year.
- The strategy's duration shortened from 3.1 to 3.0 Yrs Q / Q, as the inversion of the UST curve makes extending duration less compelling from a risk/reward perspective.
- Average portfolio quality increased Q / Q from BBB+ to A- as we anticipate a slowing economy and UST's have become attractive for the first time in a decade.
- The strategy's Yield to Maturity increased during the year from 1.73% on December 31, 2021 to 4.99% at year end.
- The strategy's top three economic sectors are Financials, Information Technology, and Communication Services.

- We remain focused on owning corporate credits; however, we have increased our allocation to UST and US Agency positions from 6% to 11% during the Q. With higher market yields on UST and tightening corporate spreads, UST and US Agencies are becoming more attractive from a risk/reward standpoint.
- Corporations are beginning to shore up financials in anticipation of a mild recession in 2023. Measures taken include workforce layoffs and a pullback of stock buybacks. We remain confident in the credit strength of corporate America as a "soft" recession would still see companies generate near record earnings and interest coverage ratios (S&P 500).
- The strategy's 5% allocation to preferred securities provides an increase in the total yield and aims to capture incremental cash flows (positive reinvestment opportunities in a rising rate environment).
- With inflation still elevated and the inversion of the UST / corporate yield curves, the strategy's 3.0 Yr duration aims to capture attractive yields relative to interest rate risk.
- In 2023, the strategy aims to capitalize upon the reinvestment of maturities and calls, swaps, and coupon cash flows, into an attractive interest rate environment.

Municipal Fixed Income Strategy:

- Representative AAA rated 10 Yr Municipal Bond yields declined by a meaningful 58 bp during the 4th Q of 2022. The index's YTM began the Q at 3.22% and closed the Q at 2.64%. The yield peak for 2022 occurred on October 26th at 3.41%. In contrast, 10 Yr UST yields rose by 24 bps during the same period.
- The 2Yr-to-10Yr municipal curve spread closed the year with a notable inversion. Yes – a negative slope. The curve flattened during the Q from 18 bps to 3 bps at Q-end. Historic norms did not hold as the term structure of municipal new issuance generally maintains some degree of upward sloping steepness from each maturity year to the next.
- The Municipal Fixed Income Strategy was positively impacted by the decline in interest rates during 4Q. Additionally, municipal market fundamentals remained quite resilient during the Q. The Municipal Strategy gross return for 4Q was 3.3% while the Bloomberg Barclays 5 Yr Muni Index returned 3.1%. For 2022, the strategy's gross return was -5.8% while the Index returned -5.3%. We continue to see positive absolute and relative value in the intermediate part of the curve anchored in high-quality, premium coupon, essential revenue, and GO credits.
- The Strategy's duration-to-worst decreased slightly from 4.3 to 3.8 years Q / Q which matches the duration of Bloomberg Barclays 5 Yr Muni Index.
- Average portfolio quality increased one notch to AA during the 4th Q.
- We believe that overall state tax receipts will normalize in 2023 as the overall economy softens. However, we believe that majority of states and local governments are well positioned to absorb the negative pressures that economic weakness or a recession could bring. States, in general, have displayed prudent budgeting with their surpluses, providing funds to rainy day reserves while making notable investments in education, healthcare, and infrastructure. Local governments that rely primarily upon property taxes are vulnerable to a slowing housing market.
- Municipal defaults remained limited and were contained to select high-yield sectors during the year. According to Bloomberg Data, through December 15th, the municipal market recorded 47 first-time debt service payment defaults totaling $1.3 billion, down from the 57 defaults that totaled $1.8 billion in 2021. Similar to recent years, more than 50% of outstanding defaults were in non-rated continuing care and retirement communities, assisted living, and health care sectors. We continue to focus on investment-grade rated credits with no exposure to the riskier sectors mentioned above.
- Municipal mutual fund outflows accelerated during the quarter as outflows more than doubled from the previous quarter. Interest rate concerns and tax loss harvesting appear to be primary drivers of the selling activity. Total 2022 outflows of $120 billion more than reversed the record $100 billion of inflows that municipal mutual funds received during 2021. While mutual funds experienced outflows, separately managed accounts (SMAs) and Muni ETFs garnered inflows over the same time frame. Further, positive demand was driven by the opportunity to secure bonds at yield levels that had not been available in more than a decade.

- 4th Q new issuance was $72 billion which was well behind the 4th Q of 2021's $120 billion. For the year, issuance was $386 billion compared with $483 billion during 2021. New project borrowing accounted for 83% of new issuance during the Q. The 10 Yr average is $408 billion with a peak in 2020 at $485 billion. Taxable municipal issuance has declined in recent Qs and now represents only 14% of municipal issuance (was 25% in 2021). With rates rising during the first three Qs of 2022, refunding existing debt has certainly become more challenging. However, improved municipal finances have set the stage for an increase in new project borrowing. As noted, municipal interest rates declined in 4Q, paving the way for an uptick in 2023 municipal issuance levels to the $400 to $425 billion range.

Opportunity Fixed Income Strategy:

- During the 4th Q of 2022, 5 Yr UST yields decreased 4 bp, declining from 4.04% to 4.00% as the FEDs determination to fight inflation is creating an inverted yield curve as investors start to speculate on how "soft or hard" an anticipated recession could be. For the YTD period, the 5 Yr UST rate has now increased 274 bp from 1.26% at the start of the year.
- High Yield (HY) rates (as measured by the iBoxx HY Index ETF – HYG) decreased from 9.25% on September 30th to 8.72% on December 31st, a decrease of 53 bp. However, for the year, HY rates increased a massive 436bp, doubling from 4.36% to 8.72%, creating opportunities for investors in 2023.
- HY spreads tightened during the Q, decreasing from 521 on September 30th to 472 on December 31st, a tightening move of 49 bp. For the YTD period, HY spreads widened by 162 bp on top of a historic increase in UST rates.
- IG spreads, as measured by the 3-5 Yr BBB rated FactSet index tightened by 22 bp during the Q, decreasing from 188 bp to 166 bp. For the YTD period, spreads widened by 87 bp.
- The Strategy outperformed the Barclays Intermediate Gov't Credit Index during the 4th Q, with a positive gross return of 1.6% versus the index's return of 1.5%. For the YTD period, the Strategy has outperformed the index, with a gross return of -4.3% versus the index's negative return of -8.3%. Outperformance was driven by our short duration, high-quality HY focus. Premium coupon bonds accelerated cash flow and thus reinvestment opportunities in a rising rate environment. Our conservative credit position helped as spreads widened materially throughout the year.
- The Strategy's duration decreased during the Q, from 3.0 Yrs to 2.5 Yrs. The strategy's mandated duration range is from 2 to 10 years.
- Average portfolio quality held constant Q / Q at BB; additionally, IG exposure increased 5% from 30% to 35%.
- As we anticipated, corporate action activity in the form of tenders and calls slowed materially during the 2nd half of 2022 as increasing interest rates restricted refinancing opportunities. We believe 2023 will offer more of the same.
- Looking into 2023, we see market opportunities diverging – the yield curve is inverted, meaning we are getting paid more (in the short term) to invest in shorter maturity bonds. With the Fed taking away easy money policies and with geopolitical risk/uncertainty at high levels, we believe higher quality HY will outperform lower quality/distressed debt. Accordingly, reinvestment opportunities are focused on shorter / intermediate duration higher quality bonds.
- We point out that what is often bad for the economy is typically good for investors. As corporate America announces layoffs and cost savings moves, we highlight that this is all in an effort to sustain high levels of margins and earnings – a positive for investors.
- We remain defensively positioned and have ample flexibility to add value as credit and interest rate opportunities arise – nearly 40% of our bonds mature in the coming 12 months.

Enhanced Cash Strategy:

- Ultra-short-term interest rates continued to march higher, as the yield on the 6 Mo UST increased from 3.79% to 4.66% during the 4th Q. Y / Y, the 6 Mo UST increased a remarkable 447 bps.
- Ultra-short-term IG spreads, as measured by the ICE BofA 0-1 Year A-AAA US Corp Index, tightened by 16 bps during the Q, decreasing from 73 bp to 57 bp. Year-over-year, spreads widened by 21 bp.
- The Strategy quality remained steady Q / Q at A, while average duration shortened slightly to 0.34 Yrs from 0.38 Yrs.
- The Enhanced Cash Strategy performed well during the 4th Q, with a gross return of 0.9%, outperforming the ICE BofA 0 - 1 Yr UST Index, which was up 0.8%. YTD, the Strategy was up 1.0% compared to 0.7% for the index.
- The Fed raised short-term interest rates aggressively throughout 2022, which benefited ultra-short bond investors. We expect a less hawkish Fed in 2023; however, a "higher for longer" fiscal policy is expected to keep short rates at elevated levels throughout 2023.
- Strategy YTM was dramatically higher Y / Y, increasing from 0.68% on December 31, 2021 to 4.53% on December 31, 2022. We believe that elevated short-term yields will continue to offer attractive return opportunities for the Enhanced Cash Strategy.

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. Carret uses a value approach when buying and selling bonds. This method recognizes the inefficiencies of the municipal marketplace and enables clients to benefit from our expertise and market knowledge.

Our high-quality, intermediate-maturity bias is designed to balance of preservation of principal, total return, and tax-exempt cash flows. We opportunistically add value through credit research, bond structuring, 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 make up the framework of our municipal bond portfolio strategy. The strategy's primary focus is on high-quality, investment-grade municipal bonds with an intermediate duration of approach (3 - 7 years), which enables utilizing bonds in a maturity range of 2 - 12 years.

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 intermediate duration approach (3 - 7 years) seeks to identify the sweet spot on the yield curve and structure maturities accordingly. Active management of the strategy includes forecasting the long-term direction of interest rates and credit spreads. Our fundamental credit research and active portfolio management process has provided consistent and attractive risk adjusted returns.

Opportunity: Carret's Fixed-Income Opportunity Strategies seeks to generate a higher level of current income with a secondary focus on long term capital appreciation. We utilize various types of higher yielding fixed income securities and shift among types based on changing market conditions. We actively manage risk, respond quickly to market movements, and utilize interest rate hedges to limit duration risk. We focus on high quality high yield and low-quality investment grade bonds, and couple them with preferreds and broken convertibles to try to generate above average levels of cash flow.

Our intermediate duration approach (2 - 10 years) seeks to identify the sweet spot on the yield curve and structure maturities, accordingly. Active management of the strategy includes forecasting the long-term direction of interest rates and credit spreads. Our fundamental credit research and active portfolio management process has provided consistent and attractive risk adjusted returns.

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 – those with a maximum maturity of 12 months, and a typical duration of less than 6 months.

Our custom, tailored approach opportunistically utilizes a thoughtful mix of Investment Grade Corporate debt, US Treasury and Agency securities, as well as taxable and tax-exempt Municipal bonds to enhance overall after-tax returns.

Large Cap Equity: Carret's Large Cap Equity Strategy seeks to provide long term capital appreciation by owning companies with attractive growth prospects, and by acquiring this ownership interest at a reasonable price. We invest in seasoned companies with strong marketplace and financial characteristics. Fundamental analysis and quantitative screening drive this active management strategy. Portfolios are broadly diversified and customized to meet client objectives and risk tolerances.

Mutual Fund Strategy:

Kansas Tax-Exempt: The Carret Kansas Tax-Exempt Bond Fund seeks 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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