

*A Registered Investment Advisory Firm*

CUMBERLAND  
ADVISORS®

# Total Return Tax-Free Municipal Bond

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# Company Profile

- ✓ Managing client portfolios since 1973
- ✓ Over \$2.9 billion total assets under management
  - Individuals
  - Institutions
  - Retirement plans
  - Government entities
  - Cash management portfolios
  - Foundations and Charitable Accounts
- ✓ Team-based approach with average investment experience of over 25 years
- ✓ Clients located throughout the US and abroad
- ✓ Offices
  - Headquartered in Sarasota, Florida
  - Branch office in Vineland, New Jersey

# Fixed Income Team



**David R. Kotok** cofounded Cumberland Advisors in 1973 and has been its Chief Investment Officer since inception. He holds a B.S. in economics from The Wharton School of the University of Pennsylvania, an M.S. in organizational dynamics from The School of Arts and Sciences at the University of Pennsylvania, and an M.A. in philosophy from the University of Pennsylvania. Mr. Kotok's articles and financial market commentaries have appeared in The New York Times, The Wall Street Journal, Barron's, and other publications. He is a frequent contributor to Bloomberg TV and Bloomberg Radio, Fox Business, and other media. Mr. Kotok has served as Program Chairman and currently serves as a Director of the Global Interdependence Center (GIC), [www.interdependence.org](http://www.interdependence.org), whose mission is to encourage the expansion of global dialogue and free trade in order to improve cooperation and understanding among nation states, with the goal of reducing international conflicts and improving worldwide living standards. Mr. Kotok chaired its Central Banking Series and organized a five-continent dialogue held in Cape Town, Hong Kong, Hanoi, Milan, Paris, Philadelphia, Prague, Rome, Santiago, Shanghai, Singapore, Tallinn, and Zambia (Livingstone). He has received the Global Citizen Award from GIC for his efforts. Mr. Kotok is a member of the National Business Economics Issues Council (NBEIC), the National Association for Business Economics (NABE) and served on the Research Advisory Board of BCA Research. Mr. Kotok has served as a Commissioner of the Delaware River Port Authority (DRPA) and on the Treasury Transition Teams for New Jersey Governors Kean and Whitman. He has also served as a board member of the New Jersey Economic Development Authority and as Chairman of the New Jersey Casino Reinvestment Development Authority. He has authored or co-authored four books, including the second edition of *From Bear to Bull with ETFs* and *Adventures in Muniland*.



**John Mousseau, CFA** joined Cumberland Advisors in September 2000. He is currently the President, CEO and the Director of Fixed Income, as well as a portfolio manager for municipal bond investments. In this capacity, Mr. Mousseau and his team manage portfolio construction, management, analysis, trading, and research for both tax-free and taxable bond accounts. Mr. Mousseau has over 30 years of investment management experience. Prior to Cumberland, he was the Director of Municipal Bond Investments for Lord Abbett & Company. He also worked previously for Shearson Lehman Brothers and its predecessor firm, E.F. Hutton. His comments and analyses have appeared in The Bond Buyer, Barron's, the Wall Street Journal, Bloomberg, Forbes, the New York Times, the San Francisco Chronicle, and the Newark Star-Ledger. In addition, he has appeared on Bloomberg Radio and Television, Reuters, and CNBC for commentary on fixed-income markets. He has also been a speaker at various industry conferences, and a guest lecturer at Florida International University. Mr. Mousseau holds an A.B. degree in economics from Georgetown University and a M.A. degree in economics from Brown University; and he is a holder of the Chartered Financial Analyst® designation. He is a member of the Philadelphia Council for Business Economists (PCBE), the National Federation of Municipal Analysts (NFMA), the National Association of Business Economics (NABE), the Washington Area Money Managers (WAMM), and the National Economists Club (NEC). He is also a member of the New York Society of Securities Analysts, where he served on the Society's High Net Worth Investors Committee. He is a past chair of the Municipal Bond Buyers Conference and is still a current active member. In addition, he has served as an instructor at the New York Institute of Finance and Bond Market Association. Mr. Mousseau resides in Sarasota, FL, and is active in alumni affairs at Georgetown University. Prior to moving to Sarasota, he was involved with the Rotary and YMCA in Maplewood, New Jersey and still has ties to those associations. He is currently involved with the Rotary Club in Sarasota Fl. He co-authored the book *Adventures in Muniland*.

# Fixed Income Team



**Amy Raymond** joined Cumberland Advisors in 2000. She started out processing trades in the trading department; and over the years, her duties have expanded to include monitoring bond markets, executing fixed-income trades, generating sample portfolios, and writing portfolio analysis. As the Fixed Income Department Manager, Amy assists in the day-to-day management of our tax-free fixed-income portfolios. Outside of Cumberland Advisors, she is active in her daughter's school on the PTSA and as a member of the SAC board.



**Shaun Burgess** joined Cumberland Advisors in 2013 after graduating with a B.A. in finance from the University of South Florida. He serves as a Portfolio Manager and Analyst for Cumberland's Fixed Income Department. He is a multiple time Dean's List recipient and received a Dean's Certificate of Recognition for outstanding performance on the ETS Major Field Test in business. Mr. Burgess is responsible for analyses of prospective tax-exempt and taxable portfolios; trading tax-exempt securities for Cumberland Advisors' Fixed Income desk and Insured Puerto Rico portfolio style, for which he is the lead trader; and assisting in department operations. Additionally, he is responsible for updating research material for Cumberland Advisors' Fixed Income and Equity trading desks. Mr. Burgess assists in credit research relating to current and prospective tax-exempt bond holdings. Mr. Burgess was born and raised in Sarasota, Florida. Prior to joining Cumberland Advisors, he worked at his family's construction company while attending college.



**Patricia Healy**, CFA, joined the firm in the summer of 2016 as a Senior Vice President of Research and Portfolio Manager. She is a member of the team managing portfolio construction, management, analysis, trading, and research for both tax-free and taxable bond accounts. Ms. Healy was most recently Senior Director for Bayern LB, where she oversaw the public finance portfolio as well as the firm's tender option bond liquidity program. Previously, Ms. Healy served as a credit analyst at TD Securities and at Offitbank. She has experience at the credit rating agencies: at Standard & Poor's where she focused on utilities and at Fitch where she focused on infrastructure and later on financial guaranty analysis. She has experience in all sectors, with a keen interest and expertise in water and wastewater financing issues.

Patricia contributes to water industry discussions and is active in the public finance community, participating in conferences and in committee positions. Her comments have appeared in the New York Times, the Philadelphia Inquirer, and WalletHub. She is currently co-chair of the National Federation of Municipal Analysts committee to update recommended best practices in disclosure for the water and sewer sector. She is also a member of the Municipal Analysts Group of New York, the CFA Institute, and the New York Society of Securities Analysts.

Ms. Healy holds a B.S. in finance from the State University of New York at New Paltz. In addition, she is a holder of the Chartered Financial Analyst (CFA) designation.

# Portfolio Style

## Investment Objective

- Active management of a portfolio of high-quality, fixed income, tax-free municipal bonds invested for total return.

## Investment Philosophy

- Portfolios are managed to meet individual client objectives taking into account state of residence and effective tax rates.
- Cumberland Advisors manages portfolios over full interest rate cycles, taking advantage of opportunities in market fluctuations and the relative supply and demand for municipal bonds.
- Active approach to maturities and durations while monitoring market changes

## Investment Approach

- Constant monitoring of the bond and stock markets on a relative basis.
- Rebalance the client's portfolios as needed in times of market fluctuation.
- Portfolios are managed to meet individual client objectives taking into account state of residence and effective tax rates.
- Offer customized money management with emphasis on long-lasting relationships and continuous dialogue among clients, their consultants, tax advisors, accountants, estate planners, and their assigned portfolio management contact

# 5-Stage Model Process

1. Evaluate Markets, Economic Data, and Outlook



2. Design Tax-Free Municipal Bond Strategy



3. Strategic Bond Selection



4. Survey & Monitor Bonds



5. Tactically Adjust Strategy to Market Environment

# 1. Evaluate Markets, Data, & Outlook

- Continuous monitoring of the dynamic macroeconomic data environment
- Regular reviews of tax-free to US Treasury yield ratio
- Regular reviews of the forecasted interest rate environment, global geopolitical events, and macro economic data
- Translate how variables will impact existing strategy and asset selection



Gross Domestic Product (GDP)

Unemployment (U3 & U6)

Inflation (CPI & PCE)

Cumberland Advisors' top-down analysis of macroeconomic data and geopolitical events provide the foundations for our overall approach. It also supports our abilities to offer a strong portfolio design that can be catered to each individual client's needs.

## 2. Design TFM Bond Strategy

Cumberland Advisors' currently utilizes an investment strategy emphasizing a barbell style in its investing approach:

- Barbell strategies generally focus asset selection in specific maturities on the short and long end of the fixed income yield curve while eliminating exposure to other maturities.
- Examine the tax-free yield curve vs. Treasury yield curve incorporating client's effective income tax rate.
- Short and long weights of Cumberland Advisors' barbell strategy are adjusted as market conditions fluctuate.
  - This generally implies a heavier weight toward longer maturities during periods of higher interest rates and shorter maturities during periods of lower interest rates.

### 3. Strategic Bond Selection

#### Long-Standing Professional Partnerships

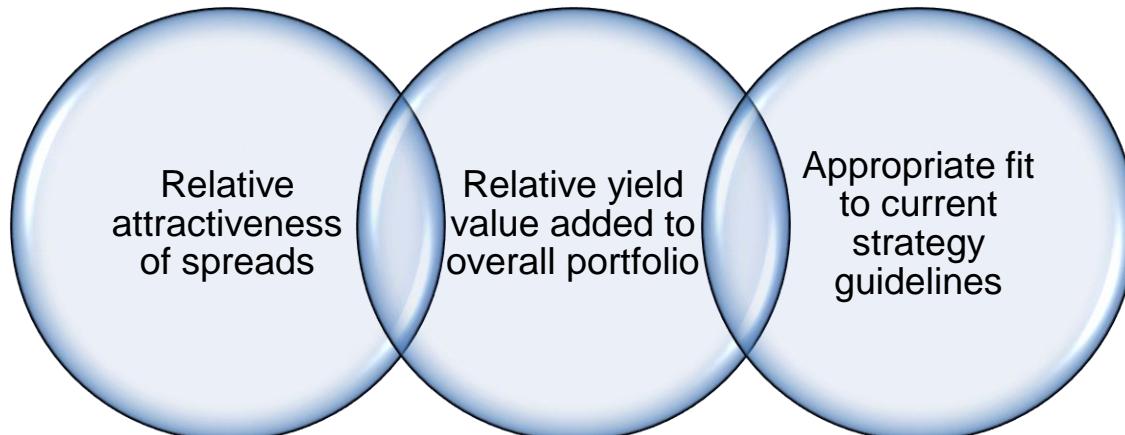
- Utilize long-standing professional partnerships with bond market brokers/dealers to assist in the selection of asset purchases

#### Inefficient Pricing Opportunities

- Attempt to take advantage of inefficient pricing opportunities while maintaining credit qualities

#### Purchase Assets

- Make decisions to purchase assets based on several factors
- Examine individual bond's credit quality as well as overall credit trends



## 4. Survey & Monitor Bonds

- ✓ Actively monitor areas in the market that might detect risk to portfolios.

### Credit Risk

Credit worthiness of issuers impacting ability to pay

### Default Risk

Due to poor revenue, management failure or fraud

### Interest Rate Risk

Rising inflation erodes the real value of bonds

### Liquidity Risk

Examine the long-standing trading value of the individual credits in the municipal market place

- ✓ Cumberland Advisors' research professionals maintain an in-house credit scoring system to evaluate municipal credits beyond the guidelines of the rating agencies.
- ✓ Regularly review asset holdings and decide to exit positions if they are believed to increase risk to portfolio strategies.

## 5. Tactically Adjust Strategy

- Trading philosophy supports adjusting the duration of the portfolio relative to the specific interest rate environment
  - Shorten duration in expected rising rate environment
  - Extend duration in expected lower rate environment
  - Change construction of maturities to reflect anticipated changes in yield curve shape
- portfolios throughout complete interest rate cycle always considering credits, relative yields, and duration.
- Monitoring portfolios and making appropriate changes focused on rebalancing portfolio to strategic barbell strategy weights, enhancing overall portfolio credit quality and duration guidelines.

# Portfolio Summary

## Type of Investment Structure

- ✓ Individual Account (not a pooled instrument)

## Portfolio Objective

- ✓ Use the benchmark as a guide (to match or beat) while mitigating risk

## Rebalancing Frequency

- ✓ As interest rate environment dictates

# Recent Developments September 2017– March 2018

- Long high muni/treasury yield ratios decline from 120% to 112%
- Latest strategy capturing incremental long term yields in munis
- Core inflation well behaved
- Real yields rose as nominal yields rose in January but inflation did not
- We expect long term muni/treasury ratios to decline as fed raises short term rates
- Category 4+ storms Harvey, Irma, and Maria inflict massive damage in southwest Texas, Florida, and Puerto Rico. Large rebuilding efforts continue, particularly in Puerto Rico
- Tax Reform Bill added to December 2017 issuance and will subtract from 2018 issuance.
- Any advance refunding of munis is no longer allowed to be issued in tax-exempt form. Private activity bonds (hospital, housing, private colleges) spared from any changes in tax bill.
- Supply in 2018 down 30% from last year due to issuance bulge in December 2017

# Disclosure

**Benchmark:** The benchmark for the Total Return Tax-Free Municipal Bond style is the Bloomberg Barclays Municipal Bond Index. The Bloomberg Barclays Municipal Bond Index is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year.

**Calculation Methodology:** Quarterly and year to date time-weighted returns are calculated by linking monthly returns. Returns consider interest income only on an accrual basis. All calculations are based on trade date. Securities traded on a national exchange are valued based on closing prices on the exchange; data is provided by major pricing services. Fixed income securities that do not trade on a national exchange are valued based upon estimates provided by a variety of services including major pricing services. The above figures do not represent any single or model portfolio. Accounts may at times include cash equivalents. Accounts do not use leverage.

**Composites:** Cumberland Advisors reserves the right to waive the minimum account size or impose a higher account size. Additional information regarding policies for calculating and reporting returns and/or a complete list and description of Cumberland Advisors' composites, is available by contacting your account executive at (800) 257-7013, or write to Cumberland Advisors, One Sarasota Tower, 2 N. Tamiami Trail, Suite 303, Sarasota, FL 34236.

**Past performance:** Past performance is not an indication or guarantee of future performance.