

Investing in Tax-Exempt Private Credit: Creating Long-Term Wealth

Generally, advisors tend to use fixed income to diversify portfolios and enhance income. At Ecofin, we believe certain areas of fixed income **can also drive wealth creation**, without the inherent volatility embedded in equities.

Consider a scenario where the stock market is expected to return 10% per annum for the next decade. If your client invests \$1 million and monetizes the position after 10 years, their wealth would have grown to \$2,593,742, and \$2,147,494 after taxes. In private equity terms that's a 2.6 multiple on invested capital (MOIC), gross, and a 2.1 MOIC, net of fees and carried interest.

| | |
|------------------------|-----------|
| Tax Rate ¹ | 40.8% |
| Tax Equivalent Yield | 12.15% |
| Tax Free Yield | 7.20% |
| Initial Investment | 1,000,000 |
| Annual stock return | 10% |
| Federal Cap Gains rate | 28% |

What would it take in the tax-exempt fixed income market to achieve the same return? The answer is: a 10% return multiplied by 1 minus the capital gains rate of 28% totaling a 7.2% rate of return.

¹37% tax rate plus 3.8% Medicare tax

| | Tax Exempt Bond Fund | 1 year | 2 year | 3 year | 4 year | 5 year | 6 year | 7 year | 8 year | 9 year | 10 year |
|--------------|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Value | 1,000,000 | 1,071,953 | 1,149,083 | 1,231,762 | 1,320,391 | 1,415,397 | 1,517,239 | 1,626,408 | 1,743,433 | 1,868,878 | 2,003,349 |
| Dividend | 71,953 | 77,130 | 82,680 | 88,629 | 95,006 | 101,842 | 109,170 | 117,025 | 125,445 | 134,471 | 144,147 |
| Tax | - | - | - | - | - | - | - | - | - | - | - |
| Net | 71,953 | 77,130 | 82,680 | 88,629 | 95,006 | 101,842 | 109,170 | 117,025 | 125,445 | 134,471 | 144,147 |
| Ending Value | 1,071,953 | 1,149,083 | 1,231,762 | 1,320,391 | 1,415,397 | 1,517,239 | 1,626,408 | 1,743,433 | 1,868,878 | 2,003,349 | 2,147,495 |

| | Stock fund | 1 year | 2 year | 3 year | 4 year | 5 year | 6 year | 7 year | 8 year | 9 year | 10 year |
|--------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Value | 1,000,000 | 1,100,000 | 1,210,000 | 1,331,000 | 1,464,100 | 1,610,510 | 1,771,561 | 1,948,717 | 2,143,589 | 2,357,948 | 2,593,742 |
| Dividend | - | - | - | - | - | - | - | - | - | - | - |
| Tax | - | - | - | - | - | - | - | - | - | - | 446,248 |
| Net | - | - | - | - | - | - | - | - | - | - | (446,248) |
| Ending Value | 1,100,000 | 1,210,000 | 1,331,000 | 1,464,100 | 1,610,510 | 1,771,561 | 1,948,717 | 2,143,589 | 2,357,948 | 2,593,742 | 2,147,495 |

Note: Stock funds may pay dividends but this analysis assumes no dividends for simplicity.

Finding a 7.2% tax-exempt bond is nearly impossible. Even as interest rates have risen, the high yield municipal curve is yielding 5.66% as of January 9, 2023.

Ecofin's private credit team has directly originated tax exempt loans with yields ranging from 6.5% to 10%. Our flagship private fund has a yield to worst of 9.8% with 79% of the portfolio tax-exempt.

Ecofin's origination/structuring team is highly specialized and serves niche, underserved areas of the market. Ecofin lends to entities that provide an essential service. Importantly, our loans have heavy covenants, are collateralized by infrastructure, and are relatively short in duration.

Private investments can offer benefits beyond just an illiquidity premium. At Ecofin, our private loans are structured to seek a unique combination of consistent returns, low correlation to broader markets, tax-exempt income, and low duration. The combination of these characteristics, combined with high yield cash flow, can be a powerful tool, driving long-term wealth creation for your clients.

Risk considerations Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Potential investors should be aware that private credit involves an investment in non-publicly traded securities which are subject to illiquidity risk. Investments in Private Credit may also be subject to real estate-related risks, which include new regulatory or legislative developments, the attractiveness and location of properties, the financial condition of tenants, potential liability under environmental and other laws, as well as natural disasters and other factors beyond a manager's control.

Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This communication contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Ecofin believes that the expectations reflected in these forward looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This communication reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Ecofin, through its family of registered investment advisers, does provide investment advice to Ecofin related funds and others that includes investment into those sectors or companies discussed in this communication. As a result, Ecofin does stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.

Past performance is no guarantee of future results.