

# Ecofin Tax-Advantaged Social Impact Fund (TSIFX)

## 1Q 2021 QUARTERLY COMMENTARY

### Fund update

The fund returned 0.01% during the first quarter of 2021. Income remains the core component of return generation, with the income stream producing a positive return of 0.96% during the quarter, offsetting a price decline of 0.95%. We believe that the fund's focus on essential assets will continue to provide a source of downside hedge while generating an income stream above that of traditional bond market sectors.

The fund ended the quarter with an effective duration<sup>1</sup> of 1.37 years and a gross yield<sup>2</sup> of 6.07%. The distribution rate as of March 31st was 3.74%.

### Market update

Interest rates took center stage during the first quarter of 2021 as yields surged in a manner reminiscent of the 2013 taper tantrum. The Federal Reserve has firmly maintained an accommodative posture with a message that points to an unchanged target fed funds rate and continued bond purchases for the foreseeable future. Meanwhile, longer term interest rates aggressively priced in a growth from a reopening economy and the corresponding reflationary effects. Over the quarter, the 10 year US Treasury yield rose by 83 basis points to a level of 1.74%. With the front end of the yield curve anchored by the Fed's posture, the 2 year Treasury yield rose by only 4 basis points, resulting in a meaningfully steeper yield curve.

With the sharp move in rates, most fixed income sectors posted negative returns during the quarter as duration served as a headwind. High yield markets outperformed the broader fixed income landscape, however, as the improving economic outlook drove spreads tighter on lower rated debt. The high yield municipal bond market, as measured by the Bloomberg Barclays Muni High Yield Index, produced a 2.11% return. With spreads sitting well below long term averages and yields still at historically low levels, we maintain the view that bond markets are poised to offer sub-par returns for the remainder of 2021 and beyond. In such an environment, shorter duration profiles are better insulated from interest rate risk.

### Market Outlook

#### Education

As we discussed in the Q4 2020 education sector update, 2020 was another record year for the charter school bond market with 152 offerings that totaled \$4.2 billion of new issuance. This momentum seems to have also carried over into Q1 2021. The issuance of another roughly \$542 million through the first quarter would seem to imply the market is on track for another \$4 billion+ of new issuance for the year based on historical data. While attempts to return to full-time in-person instruction remain controversial in some parts of the country, parental demand for safe, high-quality school facilities has only increased. Across the nation, we've seen no reduction to state and local funding for K-12 public schools during in the current school year and due to the massive infusion of federal stimulus money, most school districts plan to increase budgets for the 2021-2022 school year.

### Investment highlights

- Investment objective is to seek to generate attractive total return with an emphasis on tax-advantaged income
- Exposure to social purpose providers and 501(c)(3) organizations focusing on social infrastructure
- Focus on directly originated credit securities
- Seeks to capitalize on market inefficiencies where there is capital dislocation

### Key reasons to invest

- Compelling market opportunity potential
- Attractive after-tax return potential, including tax-advantaged income
- Seeks diversification through generally uncorrelated alternative assets
- Shorter expected duration in a rising interest rate environment
- Experienced team

### Structure highlights

- Seeks to capture illiquidity premium of private investments
- Provides transparency of registered fund
- Daily mark-to-market valuations
- Low minimum investment
- 1099 tax treatment
- Scalability to clients

As access to COVID-19 vaccines continued to roll out through the country, we started to see more and more schools actively return students to in-person learning environments. Along those same lines, we also saw many school districts across the country announcing their intention to eliminate the full-time virtual learning option for fall 2021. This again underscores, not only the continued importance of the vaccine rollout, but also the recognition by both families and school districts of the urgent need to get students back into the classroom learning environment.

During the first quarter, we also started to see where the focus would start for Miguel Cardona as the United States Secretary of Education. As he and his staff hit the ground running at the beginning of the year, the immediate focus was placed on issues surrounding COVID-19 (school re-openings/vaccines) and higher education (student loan deferments). That said, we do expect the Department of Education to reevaluate whether or not to continue its support for a number of federal grant programs that support charter school growth. Regardless of the outcome, state and local funding will continue to make up the vast preponderance of school revenues; as such, we believe any changes in federal policy will have little or no impact on the market for charter school facilities finance.

The 2020-2021 school year continues to face unprecedented challenges. However, the opportunity for investments in new or upgraded school facilities has only continued to increase throughout the year. Ecofin is seen as one of the go-to solutions for schools looking for reliable financing, and we believe our ability to find the right partners while offering notable returns for our investors will continue to improve during the year.

### **Senior Living**

Turning the corner. That's the consensus among most of our senior living operating partners. In the past few weeks most have recently declared a "bottom" in COVID-19 related occupancy deterioration which has been brought to bear by lead generation, in-person tours, indoor visitation, communal dining and programming all returning to pre-COVID levels. Some of the nation's largest senior living owners have seen three or more weeks of consecutive occupancy increases to start the busy spring move-in season. While our senior living communities remain vigilant, it's become clear that vaccinations of residents and staff have allowed the sector to return to operational "normal" more than a year after the pandemic began.

Just as operations have picked up, assisted living construction starts have continued to slow. Nationally, the percentage of units under construction as a percentage of inventory sits at 5.4% at the end of the first quarter 2021. In December 2019, pre-COVID, that figure was 7.3% which was down from an all-time high of 10% in late 2017. Clearly this trend suggests less supply pressure in the months ahead. Additionally, many of our developer partners view this as the time to capitalize on the

"first mover's advantage" given over 70% of last year's projects where put on hold, driving a flurry of capital markets activity to start the year.

The industry has weathered the pandemic better than expected, thanks in large part to Federal stimulus dollars through the payroll protection program ("PPP") and to the Department of Health and Human Services' Provider Relief Fund, which provided 2% of annual revenue along with a payment to account for revenue loss and expenses attributable to the pandemic in late 2020.

Statistically, through the first quarter of 2021, nationwide occupancy for independent living and assisted living was 81.8% and 75.5%, respectively. Since the pandemic began, occupancy has decreased 7.9% for independent living and 9.7% for assisted living. It's worth noting, primary markets have seen a higher rate of decline than the secondary markets that we typically invest in. Moreover, many senior living communities experienced a particularly tough 2020 holiday season before vaccinations were made available to our communities. As mentioned above, many of our senior living operators feel like the 2020 holidays were the lowest point operationally, and the industry is poised to recover.

Clearly it will not happen overnight, but we are optimistic that the senior living community is ready to rebound to pre-COVID occupancy levels in the near future.

### **Waste Transition**

During the first quarter of 2021, the waste transition segment of the sustainability market continued its strong growth, while also receiving support from governmental entities attempting to encourage, and in some cases, mandate more timely compliance with climate-action goals.

In terms of clean fuels that aid in the decarbonization of the transportation sector, the growth in new projects producing renewable natural gas and renewable diesel has been positively impacted by fuel credits under governmental programs --- Renewable Identification Number (RIN) credits available under the federal Renewable Fuels Standards program and Low-Carbon Fuel Standard (or LCFS) credits from the states of California and Oregon. During the quarter, there were three positive developments in terms of these renewable fuel credits:

First, the State of Washington's legislature passed a Clean Fuel Standard bill. The legislation was originated by the Governor, who is expected to pass the approved legislation into law. The bill requires implementation of Clean Fuel Standards by 2023, which would reduce the greenhouse gas emissions per unit of transportation fuel energy to 10% below 2017 levels by 2028, and 20% below 2017 levels by 2035. The law will enable producers to provide credit-generating renewable fuel-from-waste into all three western states -- California, Oregon and Washington.

Second, the Biden Administration indicated they will not support small refiners seeking waivers from their obligations under the Renewable Fuels Standards program. When granted, these Small Refinery Exemptions, or SREs, cause reduced demand for RIN credits and therefore lower RIN pricing. Without SREs, the demand for RIN credits is expected to remain strong, which supports RIN pricing and growth in new projects that produce renewable natural gas. As a result, D3 RINs, which are generated from the production of renewable natural gas from cellulosic waste, are trading near all-time highs.

Third, after the Trump Administration did not provide Renewable Volume Obligation, or RVO, figures related to RINs for 2021, the Biden Administration has indicated that it will likely provide RVOs for both 2021 and 2022 simultaneously. The longer-term RVO visibility is expected to provide a more firm-foundation for RIN pricing in the near term.

Finally, legislation related to plastics recycling is advancing in California and the US House and Senate. The California bills, if passed into law, would aim to reduce single-use plastics, reduce plastics packaging waste, increase recycling requirements, and phase-in requirements for recycled content. The federal bills would introduce Extended Producer Responsibility, placing significant obligations on sellers of products containing plastics.

Those obligations include requiring those companies to ensure their products are recyclable, requiring them to develop recycling programs, and requiring them to achieve minimum recycled-content requirements. These types of bills are expected to provide further support for waste reduction and recycling initiatives.

### **Conclusion**

As anticipated, the rebound from COVID-19 in the sectors of education and healthcare has already begun, and we continue to feel optimistic about these sectors in the years ahead. Schools continue to progress toward normalcy as we move past the pandemic and families get their wish of having children physically back in a classroom setting. The looming lack of supply of senior living has only been exacerbated by the past year's halt to construction as the broader population continues to age without the same number of units being built to keep pace. Occupancy rates are already beginning recovery and should show positive absorption in the years ahead. Lastly, the race to reduce global emissions, combined with effective policy, technology and demand, has created a once in a lifetime opportunity to invest in a waste transition focus within sustainable project finance. With all of these tailwinds behind us, we feel that our team is poised to take full advantage in the months and years to come.

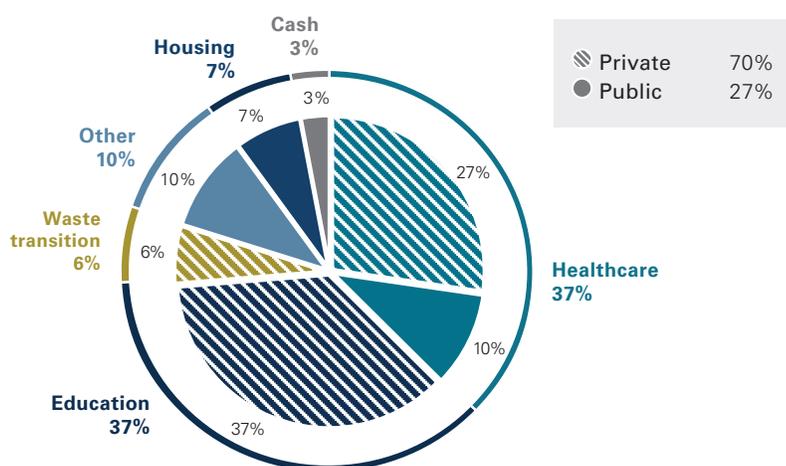
## Performance (as of 3/31/2021)

	as of 3/31/2021		as of 3/31/2021		
	1 Month	Calendar YTD	1 year	3 year	Since inception*
<b>TSIFX</b>   Ecofin Tax-Advantaged Social Impact Fund	0.34%	0.01%	3.88%	2.31%	2.30%

Note: For periods over one year, performance reflected is for the average annual returns. \*The fund commenced operations on 3/26/2018.

**Performance data shown is net of fees and reflects fee waivers in effect. In the absence of such waivers, total return would be reduced. Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 855-TCA-Fund (855-822-3863) or visiting [www.ecofininvest.com](http://www.ecofininvest.com).**

## Portfolio allocation\* (as of 3/31/2021)



\*Weighting is based on market value.

## Portfolio statistics

(as of 3/31/2021)

Effective duration <sup>1</sup>	1.37 yrs
Yield to worst <sup>2</sup>	6.07%
Gross current yield <sup>3</sup>	5.03%
30-Day SEC Yield (unsubsidized) <sup>4</sup>	3.75%
30-Day SEC Yield (subsidized) <sup>4</sup>	3.94%

## Distribution

(as of 3/31/2021)

Distribution rate <sup>5</sup>	3.74%
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## Fees

(as of 3/31/2021)

Gross expense ratio	1.53%
Net expense ratio <sup>6</sup>	1.50%

<sup>1</sup> Effective duration is a measure of the price sensitivity of bonds with embedded options (e.g., callable bonds), to changes in benchmark yields. This measure of duration takes into account the fact that expected cash flows will fluctuate as interest rates change. Effective duration can be estimated using modified duration for bonds without option features.

<sup>2</sup> Does not reflect the deduction of management fees and other fund expenses up to the expense cap. If management fees and expenses had been included, returns would be reduced. This calculation includes non-income items such as loan proceeds, borrowings and/or return of capital.

<sup>3</sup> The gross current yield of a bond or other debt instrument is calculated by dividing the annual coupon amount by the current market price. This measure does not reflect fees or expenses.

<sup>4</sup> Reflects the deduction of management fees and other fund expenses up to the expense cap. Subsidized yield reflects fee waivers and/or expense reimbursements recorded by the fund during the period. Without waivers and/or reimbursements, yields would be reduced.

<sup>5</sup> Distribution rate is not performance and is calculated by annualizing the daily distribution per share for the preceding 3-month period and dividing it by the net asset value as of the reported date. This calculation does not include any non-income items such as loan proceeds or borrowings.

<sup>6</sup> The adviser has contractually agreed to reimburse expenses of the fund so that certain of the fund's expenses will not exceed 0.25% of managed assets (annualized) through Feb. 28, 2022. Under the advisory agreement, the adviser receives compensation of 1.25% of our daily managed assets for the services rendered on an annual basis. The adviser has voluntarily agreed to waive 0.50% of its 1.25% management fee thereby reducing the management fee to an annualized rate of 0.75% of the fund's average managed assets effective from April 1, 2021 until June 30, 2021. Net expense ratio is as of the most recent prospectus and is applicable to investors.

TCA Advisors is the adviser and Ecofin Advisors, LLC is the sub-adviser to the Ecofin Tax-Advantaged Social Impact Fund.

*Before investing in the fund, investors should consider their investment goals, time horizons and risk tolerance. The fund's investment objective, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectus contain this and other important information about the fund. Copies of the fund's prospectus may be obtained by visiting [www.ecofininvest.com](http://www.ecofininvest.com) or calling 855-TCA-FUND. Read it carefully before investing.*

**Investing involves risks. Principal loss is possible. The fund is suitable only for investors who can bear the risks associated with the limited liquidity of the fund and should be viewed as a long-term investment. The fund will ordinarily accrue and pay distributions from its net investment income, if any, once a quarter; however, the amount of distributions that the fund may pay, if any, is uncertain. There currently is no secondary market for the fund's shares and the advisor does not expect that a secondary market will develop. Limited liquidity is provided to shareholders only through the fund's quarterly Repurchase Offers for no less than 5% of the fund's shares outstanding at net asset value. There is no guarantee that shareholders will be able to sell all of the shares they desire in a quarterly Repurchase Offer. The fund invests in Municipal-Related Securities. Litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on the ability of an issuer of municipal bonds to make payments of principal and/or interest. Changes related to taxation, legislation or the rights of municipal security holders can significantly affect municipal bonds. Because the fund concentrates its investments in Municipal-Related Securities the fund may be subject to increased volatility. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The fund may invest in derivative securities, which derive their performance from the performance of an underlying asset, index, interest rate or currency exchange rate. Derivatives can be volatile and involve various types and degrees of risks. Depending on the characteristics of the particular derivative, it could become illiquid. The fund may utilize leverage, which is a speculative technique that may adversely affect common shareholders if the return on investments acquired with borrowed fund or other leverage proceeds do not exceed the cost of the leverage, causing the fund to lose money.**

Yield to worst is the lowest yield an investor can expect when investing in a callable bond. Cash yield is the simplest way to evaluate the performance of a real estate investment. It utilizes a formula to calculate the return on investment by taking the property's annual net cash flow and divide by the investment's down payment, and is expressed as a percentage.

Bloomberg Barclays Muni High Yield Index is an unmanaged index considered representative of noninvestment-grade bonds.

Duration is a commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration. The municipal investments in the portfolio may be tax-exempt at the federal level, but taxes may still be applicable at the state and/or local level.

A basis point is equal to 1/100th of 1% and is used to denote the change in a financial instrument.

Diversification does not assure a profit nor protect against loss in a declining market.

Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

Nothing contained on 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.

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