Ecofin Tax-Exempt Private Credit Fund (TSIFX)

ecofin

4Q 2023 QUARTERLY COMMENTARY

Fund Update

TSIFX had a NAV total return of 2.22% for the fourth quarter of 2023. Upward NAV movement provided the core component of return generation, with the NAV increase producing a positive return of 1.21% during the quarter complemented by an income stream of 1.01%. The fund ended the quarter with an effective duration of 0.71 years and a gross yield to worst of 7.52%. The distribution rate as of December 31, 2023, was 3.96%.

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. Current performance of the funds 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.

The fund is not currently reinvesting into new assets as it raises the liquidity level to manage future liquidity needs for distributions and redemption requests. During the quarter, no new investment was made, but one realization did occur. One of the non-performing assets, Landings of Gainesville, was sold out of bankruptcy netting slightly more than the value of the asset at the time of disposition on December 15, 2023. We will continue seeking to create liquidity from the disposition of the non-performing and underperforming assets in the fund. We anticipate one to two more realizations to occur prior to the end of second quarter 2024.

Market Update

After a rough performance for much of the year, municipal bonds surged in record breaking fashion to close the year positive. Municipal yields reached their highest levels since 2008 in October, but those levels quickly vanished as the market narrative shifted from "higher for longer" to "Federal Reserve pivot," ultimately driving a significant rally in Treasury yields. The Bloomberg AAA Municipal Total Return Index jumped 9% from November 1 to December 31, one of the strongest returns for a two-month span on record.

The Bloomberg U.S. Aggregate, High Yield, Municipal, and High Yield Muni Indices returned 5.53%, 13.45%, 6.42%, and 9.24% in a volatile year of trading. The Federal Funds target rate increased 25 basis points (bps) to a cycle high of 5.50% in July, but the focus has since shifted to the timing of Fed rate cuts after a dovish December Federal Open Market Committee (FOMC) meeting. Two-year T-Note yields finished the year down 18 bps at 4.25% and the benchmark ten-year Note fell 1 bp to close the year at 3.87%, significantly down from the peak of 5.00% in October 2023. High yield municipal bond spreads declined 9 bps during the year, closing at 248 bps according to Bloomberg data.

There was no shortage of volatility in 2023, including negative catalysts such as the regional banks collapse, surging Treasury yields, and a hawkish Federal Reserve all acting as stumbling blocks at different points throughout the year. But the economy proved resilient, and the soft landing that was initially thought to be out of reach, now seems to be the consensus outlook heading into 2024 as GDP continues to impress and the pace of inflation continues to decline.

Investment highlights

- Investment objective is to seek to generate attractive total return with an emphasis on tax-exempt income
- Exposure to social purpose providers in the fields of education, healthcare, and waste transition
- Focus on directly originated credit securities backed by real infrastructure assets
- Seeks to capitalize on market inefficiencies where there is capital dislocation

Key reasons to invest

- Attractive after-tax return potential, including tax-exempt income
- Diversification through generally uncorrelated alternative assets
- Shorter effective 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

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After the strong rally to close out the year, fixed income markets are now pricing high expectations for the Fed to deliver on a substantial number of rate cuts in 2024. As of December 29, 2023, futures markets are pricing in over six rate cuts in 2024. With the 10-year and 30-year Treasury yields at-or-below 4% as of December 29, we believe the market appears priced to perfection considering the 5+% nominal GDP levels that continue to print. Moreover, long duration municipal bond yields appear even more expensive compared to Treasuries. With a yield of 2.25% to close the year, the 10-year AAA municipal bond yield is now only 58% of the 10-year Treasury yield, which is the lowest Muni-to-Treasury ratio dating back to 2001. As a result of the market, we continue to believe that short duration products should be a strong consideration of asset allocators heading into 2024.

Education

The public market for issuance of new K-12 charter school and private school revenue bonds in Q4 2023 saw a significant rebound with 32 new issues at a par value of $1,650,427,114, an 85% increase over the same period in 2022. For all of 2023 however, there were only 98 total issues with par value totaling $3,376,240,114, a 26.67% decrease in par value from 2022.[1] In 2023, the specialty investor portion of the K-12 market totaled 28 new issues with a par value of $755,350,114, of which our firm accounted for 14.6%.

It is our continued assessment that outflows from municipal bond funds played a major role in 2023's reduced K-12 charter and private school bond issuance. Q4 outflows were $7,420,010,000 and cumulative outflows for 2023 totaled more than $11 billion.[2] The interest rate roller coaster that defined 2023 was also a significant factor. The 30-year municipal market data (MMD) daily rate, the benchmark for K-12 bond offerings, began the year at 3.50% and dropped to its low of 3.13% by early February. It then went on a steady climb through October, reaching a high of 4.57% (an increase of 144 bps) before dropping to 3.40% to end the year.[3] This volatility forced many schools to put plans to finance or refinance facilities on hold.

A highlight for Q4 2023 was the National Alliance for Public Charter Schools' (NAPCS) Charter School Data Digest report. For the 2021-2022 school year (the most recent for which data was available), public charter schools served approximately 3.7 million students in 7,996 schools throughout the nation. Charter school enrollment accounted for 7.4% of all public school students, up from 6.8% in 2019-2020. Across the nation, charter schools continued to serve a higher proportion of low-income students (59%) and students of color (70.1%) when compared to their district public school counterparts (50.3% and 53.8% respectively). Additionally, with Montana's passage of new legislation in 2023, charter school laws were on the books in 46 states, Washington DC, Puerto Rico and Guam. This is a significant milestone in the hard-fought battle to make more education opportunities available to all children that began 32 years ago with Minnesota's first in the nation charter school law.[4]

The National Alliance for Public Charter Schools (NAPCS) report also provided a snapshot as to the management structures employed in charter schools throughout the nation. While all charter schools are governed by a not-for-profit board, they are divided into one of three categories, depending upon their structure for day-to-day management of the school. The first, and most common (57.4% of all charter schools), were "independent," charter schools that are run by a de novo management team, unique to that individual school. The second are those operating under the network of a not-for-profit charter management organization (CMO) that establish common goals, educational models and curriculum. CMO's accounted for 31.7% of all charter schools, and are often amongst the most well-known and successful (e.g. KIPP, Success Academy, IDEA Schools). Finally, 10.9% of charter schools were led by a for-profit education management organization (EMO).[4] Charter school boards contract with an EMO to run the day-to-day operations of the schools and often additional services such as back-office support, hosting web platforms, or staffing assistance. While EMOs are often the target of those opposed to charter schools, there are many high performing EMO-run charter schools, including the several in the Top 25 high schools in America.[5] While Ecofin has primarily worked with independent charter schools, our team has significant past experience working with CMO and EMO led schools as well.

Despite market headwinds, we saw increases in both the volume and credit quality of education investment opportunities throughout 2023. While it is too early to know whether the Q4 bond market rebound is a sign of things to come, there should continue to be a robust number of private credit financing opportunities for K-12 charter school and private schools that offer solid returns for investors.

Senior Living

This past year was a year of continued rebound for the senior living industry. Occupancy continued to improve in the wake of COVID, and our senior population was one step closer to outpacing the current bed supply. In fact, we are just one year away from the first baby boomer turning 80 years old. Given the current pace of new senior living development, our country will only supply 40% of the projected demand by 2030. That is an extraordinary shortfall, and catching up to the projected demand will require more than $400 billion of investment over the next few years.[6]

As of this printing, Q4 2023 occupancy statistics were not yet available. The for-profit senior living sector recorded its ninth quarter in a row of occupancy gains in Q3 2023. Statistically, nationwide occupancy for independent living and assisted living is 86.1% and 82.6%, respectively. Recovery has been stronger in the higher acuity and needs based assisted living setting; however, independent living is not far behind. As of the third quarter, assisted living occupancy had recovered 8.7%, while independent living had recovered almost half as much, up 4.6% since the pandemic lows of 2021. Based on the past two years of absorption, senior living occupancy is projected to reach pre-pandemic levels in 2024.[6]

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Non-profit senior living has fared better than their for-profit brethren since the pandemic hit. As of Q3 2023, non-profit continuing care retirement communities (CCRC's) were 90.5% occupied. Additionally, asking rents have increased more in non-profit communities, up 5.3% and 5.8% in the assisted and memory care spaces, respectively.[6] Based on conversations with our operating partners, communities continue to pass along outsized rent increases to catch up with inflation but are nearing a point of equilibrium.

Occupancy recovery has been fueled by almost four years of slowing construction starts. In fact, 2023 recorded the lowest primary market inventory growth since 2005, when National Investment Center for Seniors Housing & Care (NIC) started recording the data. Rising interest rates, elevated construction costs and tight lending conditions will continue to propel occupancy in the months to come. Given the incredibly low number of units under construction, the market is setting up for a severe supply and demand imbalance just as the baby boomer population is knocking on the doorstep.

From now until 2030, an average of 10,000 baby boomers will turn 65 every day.[7] With the combination of increased population and a slower pace of new senior living inventory supply, we remain confident in the senior living industry's resilience and ability to prepare for the upcoming "Silver Tsunami" as our population continues to age.

Waste Transition

The trend of growth in the number of new facilities being planned or constructed in the United States to transform waste into energy and other beneficial resources continued in Q4 2023. However, the full growth potential of the sector was negatively impacted by certain macroeconomic and environmental, social and governance (ESG) concerns.

From a macroeconomic standpoint, persistently high levels of project cost inflation and market interest rates continued to cause higher capital and debt service costs, putting downward pressure on the economic viability of new projects. As uncertainty increased, the availability of capital decreased, and that adversely impacted the funding of new projects. As reported by ImpactAlpha, a new report from Sightline Climate indicated that private capital provided for new first-of-a-kind climate-tech projects, including demonstration units and first-time commercializations, declined by more than 50% in 2023. The marginal abatement of inflation and interest rates during the fourth quarter is expected to provide tailwinds for improved capital inflows into the sector in 2024.

From an ESG standpoint, the rush in recent years to invest in projects and companies that exhibit positive ESG attributes was diminished by significant headwinds in 2023, both politically and in terms of verifying whether ESG claims were being achieved.

The relative ESG discomfort was exhibited most prominently within the sustainability-linked bond market, where companies can achieve lower borrowing costs by achieving ESG goals. Per Bloomberg, global sales of sustainably-linked bonds fell by 22% in 2023, the sharpest annual decline on record. Green bond sales, however, without the political or verification concerns of ESG-related bonds, achieved their second-highest issuance year on record in 2023 per Bloomberg, evidencing strong investor demand generally for sustainable bonds.

The fourth calendar quarter also saw significant updates regarding fuel credits and tax credits, which provide substantial economic underpinnings for biogas and biofuel projects in the U.S.

The California Air Resources Board, known as CARB, released its proposed rulemaking changes to its Low Carbon Fuel Standard or "LCFS" program. While subject to public comment and final approval, the CARB proposal significantly increases carbon intensity reduction targets, from a current 20% by 2030 to a new target of 30% by 2030, while adding a 90% reduction target by 2045. Market expectation is that the more stringent targets will lead to higher LCFS credit pricing, which would improve project cash flows on a go-forward basis.

Separately, the Treasury Department and the Internal Revenue Service (IRS) released proposed regulations regarding Section 48 Investment Tax Credits, with emphasis on clarifying what capital costs are eligible under the definition of Biogas Facilities. Market participants view such facilities as consisting of three primary components — gas generation or collection, gas upgrading to natural gas specs, and pipeline interconnect. However, the proposed regs exclude both gas upgrade systems and pipeline interconnections, which would sharply reduce the potential value of related investment tax credits. A significant industry push is underway to encourage a more-broad determination of eligible project costs, prior to final rule-making.

Finally, a growing voluntary market for biogas and biofuels continues to lessen the sector's reliance on fuel and tax credits, which is a net positive for sector fundamentals. Of note, the largest voluntary renewable natural gas agreement on record was established between Vanguard Renewables and AstraZeneca. As publicly announced, Vanguard will supply renewable natural gas (RNG) from three of its dairy manure anaerobic digester facilities over a 15-year term, and AstraZeneca will purchase at least 650,000 million British thermal units of RNG annually, which is the equivalent energy necessary to heat approximately 18,000 homes per year. Similarly, Anaergia announced a voluntary agreement to sell RNG to Toyota. Although these direct, voluntary purchases reduce cashflow upside for projects that would otherwise rely on volatile spot-market pricing, they do provide enhanced cash flow stability and enable a more bankable sector.

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Conclusion

Our opportunities for investing expanded for many reasons, primarily as our sectors continued to see robust growth and competing financing providers were forced to scale back allocations. While we continued to experience negative news in some legacy portfolio assets, the more recent assets, added within the last four years, continued to perform nicely and contributed positively to the returns experienced by the fund. We will continue down the path of exiting underperforming loans in the portfolio and have a line of sight on the execution of some of these exits over the next quarter.

[1] Electronic Municipal Market Access https://emma.msrb.org/ & MuniOS https://www.munios.com/
[2] Refinitiv Lipper US Fund Flows https://www.lipperusfundflows.com/
[3] Bloomberg
[4] https://data.publiccharters.org/digest/charter-school-data-digest/how-many-charter-schools- and-students-are-there/
[5] https://www.usnews.com/education/best-high-schools/national-rankings
[6] NIC
[7] census.gov

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Performance (as of 12/31/2023)

		as of 12/31/2023			as of 12/31/2023			
		1 Month	3 Month	Calendar YTD	1 year	3 year	5 year	Since inception[1]
TSIFX	Ecofin Tax-Exempt Private Credit Fund	1.07%	2.22%	-2.27%	-2.27%	1.68%	2.03%	2.07%

Note: For periods over one year, performance reflected is for the average annual returns. [1]The fund commenced operations on 3/26/2018. [2]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, 2025. Under the advisory agreement, the adviser receives compensation of 1.25% of our daily managed assets for the services rendered on an annual basis.

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.

Portfolio statistics (as of 12/31/2023)

Effective duration[1]	0.71yrs
Yield to worst[2]	7.80%
Gross current yield[3]	5.47%
30-Day SEC Yield (unsubsidized)[4]	3.57%
30-Day SEC Yield (subsidized)[4]	3.94%

Distribution (as of 12/31/2023)

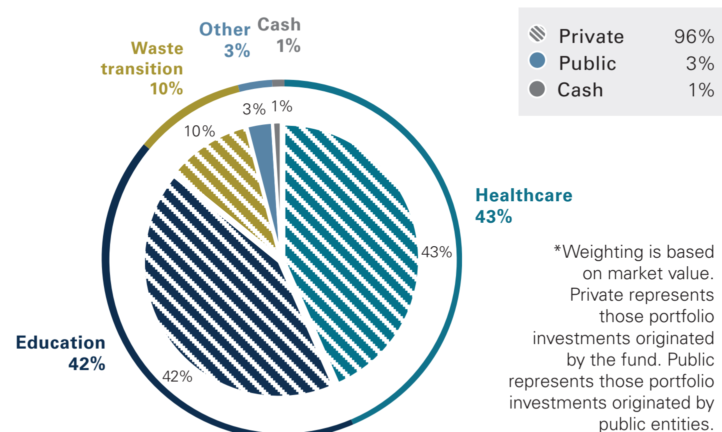
Distribution rate[5]	3.96%

Fees (as of 12/31/2023)

Gross expense ratio	1.54%
Net expense ratio[6]	1.50%

Net expense ratio is as of the most recent prospectus and is applicable to investors

Sector allocation* as of 12/31/2023



*Weighting is based on market value. Private represents those portfolio investments originated by the fund. Public represents those portfolio investments originated by public entities.

Top 10 issuers as of 12/31/2023 (unaudited)

1. La Sonora at Dove Mountain	16.8%
2. Athenian Academy	12.9%
3. Vonore Fiber Products LLC	8.8%
4. Montage Senior Living	5.9%
5. Championship Academy of Distinction West Broward	5.1%
6. Championship Charter School I	4.8%
7. Ability Connection Colorado	4.4%
8. The Baldwin Senior Living	4.2%
9. Genesis Christian Academy	4.0%
10. MBS SPV I LLC	3.2%

Fund holdings are subject to change and should not be considered to buy or sell securities. "Top 10 issuers" reflects investments made that are in accordance with the strategy of the fund and do not include cash and/or cash equivalents.

[1] 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.

[2]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.

[3]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

[4]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.

[5]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 or return of capital.

[6]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, 2024. Under the advisory agreement, the adviser receives compensation of 1.25% of our daily managed assets for the services rendered on an annual basis.

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TCA Advisors is the adviser to the fund and Ecofin Advisors, LLC is the sub-adviser.

Must be preceeded or accompanied by a current prospectus.

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.

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.

Yield to worst is the lowest yield an investor can expect when investing in a callable bond.

Par value, also known as nominal value, is the face value of a bond or the stock value stated in the corporate charter.

The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed rate and hybrid adjustable rate mortgage pass-through securities), asset-backed securities and commercial mortgage-backed securities (agency and non-agency). The Bloomberg US Corporate Option Adjusted Spread Index references the option adjusted spread of the Bloomberg US Corporate High Yield Bond Index. The Bloomberg U.S. Corporate High Yield Bond Index measures the U.S. dollar-denominated, High Yield, fixed-rate corporate bond market. Securities are classified as High Yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the indices' EM country definition, are excluded. The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers." The U.S. Corporate High Yield Index is a component of the U.S. Universal and Global High Yield Indices. The Bloomberg U.S. Municipal Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed tax exempt bond market. The index includes state and local general obligation, revenue, insured and pre-refunded bonds. The Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers. The U.S. Corporate Index is a component of the U.S. Credit and U.S. Aggregate Indices, and provided the necessary inclusion rules are met, U.S. Corporate Index securities also contribute to the multi-currency Global Aggregate Index. The S&P 500® Index is an unmanaged, market-value weighted index of stocks that is widely regarded as the standard for measuring large-cap U.S. stock market performance.

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

Sharpe ratio measures risk-adjusted performance. It is calculated by subtracting the risk-free rate from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been.

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.

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