

# How Might Muni Credit Diversification Work?

We believe credit diversification is important for municipal bond SMAs because it can potentially (i) help protect against sudden downside in a specific sector and (ii) provide opportunity to benefit from potential outperformance of other sectors. Here's how a hypothetical portfolio in a national muni SMA account might look (this does not represent an actual investor portfolio but is for illustration purposes only):

Tax-backed bonds	<p><b>State of California (General Obligation), Aa3/AA-/AA-*:</b> Full faith and credit pledge of the state; key revenues include personal income taxes (around 70% of the budget), along with sales taxes and corporate income taxes</p>	
	<p><b>Corpus Christi Independent School District, TX (General Obligation), Aa2/AA/AA+*:</b> Unlimited pledge of property taxes levied on all taxable property located within the district, plus a AAA-rated State of Texas backstop; key revenues include property taxes and state appropriations</p>	
	<p><b>Metropolitan Atlanta Rapid Transit Authority, GA (Dedicated Tax), Aa2/AA+/AA-*:</b> Pledge comes from a variety of sales taxes levied within the City of Atlanta and 4 surrounding counties; key revenues include sales taxes, as well as farebox revenues from users of the system, supporting the operations of the authority</p>	
Higher Education	<p><b>University of North Carolina at Wilmington Limited Obligation Bonds, NC (Public Higher Education), A1/A/Not Rated*:</b> Pledge of net project revenues of three specific dorms along with university-wide dormitory, dining, and parking system gross revenues; in addition to these revenue streams, key revenues of the university include tuition payments and state appropriations</p>	
	<p><b>New York University, NY (Private Higher Education), Aa2/AA-/Not Rated*:</b> Unsecured general obligation pledge of the university, including the School of Medicine; key revenues include tuition and fee revenue as well as patient care revenue generated by NYU Healthcare</p>	
Transportation	<p><b>Triborough Bridge and Tunnel Authority, NY (Tollroad), Aa3/AA-/Not Rated*:</b> Pledge of net revenues generated by the 7 bridges and 2 tunnels serving the NYC metropolitan area; key revenues consist of tolls on drivers using the bridges and tunnels, more than 90% of which are passenger vehicles</p>	
	<p><b>Denver International Airport Subordinate Lien, CO (Airport), A2/A/A+*:</b> Subordinate lien on net revenues generated by the airport; key revenues include landing fees, terminal lease revenues, other airline revenues, parking, concessions and passenger facility charges</p>	
Utility	<p><b>American Municipal Power Combined Hydro Projects, OH (Wholesale Electric), A2/A/A-*:</b> Pledge of net system revenues, largely derived from participants; key revenues include payments under specific take-or-pay contracts for public power with more than 70 municipal participants</p>	
	<p><b>District of Columbia Water and Sewer Authority, DC (Water/Sewer), Aa1/AAA/Not Rated*:</b> Senior pledge of net system revenues; key revenues include mandatory monthly water and sewer charges set by the authority and levied on residents and businesses</p>	
Healthcare	<p><b>Cedars-Sinai Medical Center, CA (Healthcare), Aa3/Not Rated/AA-*:</b> Pledge of gross revenues of the medical center; key revenues generated from usage of the center on an outpatient and inpatient basis</p>	

\* Moodys/S&P/Fitch

Source: Lord Abbett. Information as of July 18, 2019. Sample portfolio presented here is for illustrative purposes only, and is not intended to reflect an actual client portfolio; securities contained within were selected solely based on representative status. No investment strategy, including credit diversification, guarantees a profit or protects against a loss.