



# AMT FREE MUNICIPAL BOND FUND

## MARKET REVIEW

- The municipal market, as represented by the Bloomberg Barclays Municipal Bond Index, returned 1.69% during the 4<sup>th</sup> quarter of 2018.
- Reversing a trend that lasted many quarters, higher-rated bonds outperformed lower-rated issues, as investor concerns regarding slowing global growth, increasing market volatility, and the inversion of the front end of the Treasury curve led to a flight to quality. Within the investment grade range, the 'AAA' and 'AA' tiers of the index were up 1.84% and 1.74%, respectively, while the Bloomberg Barclays Municipal High Yield Index returned 0.30% during the period.
- Yields across the tax-free curve moved lower, with the intermediate portion experiencing the largest decrease in rates.
- Municipal bond funds experienced two straight weeks of inflows to close out the year, following 13 consecutive weeks of outflows, according to Lipper data.
- With a one-quarter lag, Census Bureau data showed state and local tax collections totaling \$321 billion in 3Q18, up approximately 5.5% from 3Q17. This represented the 9<sup>th</sup> consecutive quarter of growth, and the 33<sup>rd</sup> quarter of growth in tax collections in the last 36 quarters.

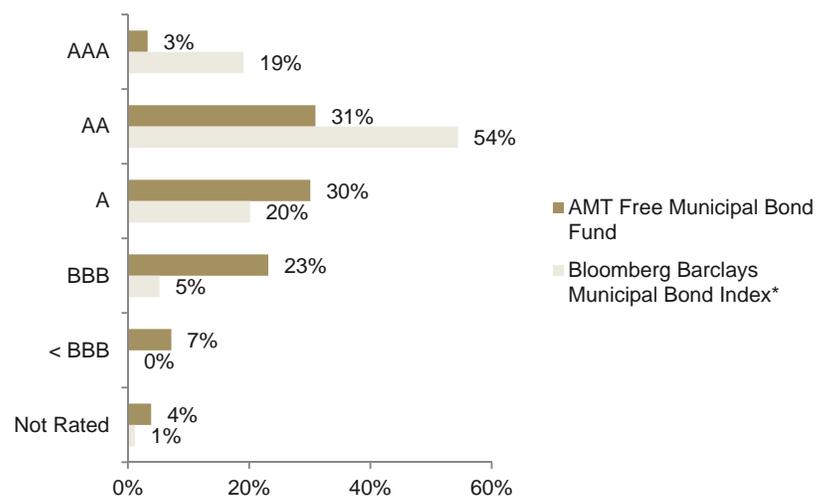
## PORTFOLIO REVIEW

- The Fund returned 0.83%, reflecting performance at the net asset value (NAV) of class A Shares with all distributions reinvested, for the quarter ended December 31, 2018. The Fund's benchmark, the Bloomberg Barclays Municipal Bond Index, returned 1.69% during the same period.
- As yields across the tax-free curve moved lower, the Fund's longer duration relative to the benchmark led to a positive impact on relative performance.
- The Fund's overweight allocation to bonds in the 'BBB' and lower credit quality range detracted from relative performance. Investor concerns regarding slowing global growth, increased volatility, and an inverted front end of the yield curve led to a flight to higher quality holdings.
- An overweight to bonds within the hospital sector and a slight underweight to housing credits contributed to relative performance.
- The Food and Drug Administration's plan to propose a ban on menthol caused headwinds for tobacco bonds during the quarter. An overweight in this sector led to a negative impact on relative performance.

## STRATEGY POSITIONING & OUTLOOK

- Relative to its benchmark, the portfolio is underweight bonds in the 1- to 9-year maturity range, while maintaining an overweight to longer maturity bonds.
- The Fund continues to maintain an overweight to revenue bonds, specifically in the industrial development and health care sectors, given their dedicated income streams and favorable return prospects.
- Public policy developments at the federal and state level will continue to play a major role in the coming months. The completion of the midterm elections, which delivered Democrats the House of Representatives for at least the next two years, will lead to political back-and-forth on key issues such as infrastructure spending and healthcare.
- While municipal bonds are largely isolated from international concerns, states that may be impacted by changes in trade policies may see considerable headwinds. Specifically, sectors to watch include some areas of transportation (seaports and airports) and those that rely heavily on commodities (steel and aluminum).

## CREDIT QUALITY BREAKDOWN



\*Source: Bloomberg, As of 12/31/2018

## PERFORMANCE AS OF 12/31/2018

|   | 4Q18  | 1 Year | 3 Years | 5 Years | Since Inception <sup>3</sup> |
|---|-------|--------|---------|---------|------------------------------|
| Class A Share at Net Asset Value (without sales charge)         | 0.83% | 1.00%  | 2.58%   | 4.54%   | 4.25%                        |
| Maximum Offering Price (with 2.25% sales charge)                | -1.43 | -1.27  | 1.80    | 4.06    | 3.96                         |
| Bloomberg Barclays Municipal Index <sup>1</sup>                 | 1.69  | 1.28   | 2.30    | 3.82    | 3.60                         |
| Lipper General & Insured Municipal Debt Funds Avg. <sup>2</sup> | 1.03  | 0.68   | 2.05    | 3.86    | --                           |

**Expense Ratios:** Gross: 0.88%, Net: 0.60%

**Performance data quoted reflect past performance and are no guarantee of future results. Current performance may be higher or lower than the performance quoted. The investment return and principal value of an investment in the Fund will fluctuate so that shares, on any given day or when redeemed, may be worth more or less than their original cost. You can obtain performance data current to the most recent month end by calling Lord Abbett at (888) 522-2388 or referring to our website at lordabbett.com.**

<sup>1</sup>Source: Bloomberg. <sup>2</sup>Source: Lipper Analytical Services. <sup>3</sup>Inception date: 10/29/2010

**A Note about Risk:** The value of an investment in the Fund will change as interest rates fluctuate in response to market movements. When interest rates rise, the prices of debt securities are likely to decline, and when interest rates fall, the prices of debt securities tend to rise. High-yielding, non-investment-grade bonds (junk bonds) involve higher risk than investment-grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities. There is a risk that a bond issued as tax exempt may be reclassified by the IRS as taxable, creating taxable rather than tax-exempt income. The Fund does not invest in any AMT-triggering private activity bonds. Although the Fund seeks income that is federally tax-free, a portion of the Fund's distribution may be subject to federal, state, and local taxes. In addition, the Fund is subject to other types of risk, such as call, credit, liquidity, interest rate, and general market risks. The Fund may invest in bonds of issuers in Puerto Rico and other U.S. territories, Commonwealths, and possessions, and may be affected by local, state, and regional factors. These factors may include, for example, economic or political developments, erosion of the tax base, and the possibility of credit problems.

The Fund's portfolio is actively managed and is subject to change.

**Credit Quality Breakdown:** Ratings provided by Standard & Poor's, Moody's, and Fitch. Where the rating agencies rate a security differently, Lord Abbett uses the higher credit rating. Ratings range from AAA (highest) to D (lowest). Bonds rated BBB or above are considered investment grade. Credit ratings BB and below are lower-rated securities (junk bonds). High-yielding, non investment grade bonds (junk bonds) involve higher risks than investment grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities. A portion of the portfolio's securities are not rated. Breakdown is not an S&P credit rating or an opinion of S&P as to the creditworthiness of such portfolio. Ratings apply to the credit worthiness of the issuers of the underlying securities and not the fund or its shares. Ratings may be subject to change.

Performance reflects the reinvestment of all distributions. Certain purchases of Class A shares without a sales charge are subject to a contingent deferred sales charge (CDSC). The CDSC is not reflected in the performance shown. If sales charges, including any applicable CDSC had been included, performance would have been lower. Returns for less than one year are not annualized. If applicable, instances of high double-digit returns were achieved primarily during favorable market conditions and may not be sustainable over time.

**Expense ratio information:** The net expense ratio takes into account contractual fee waivers/expense reimbursements that currently are scheduled to remain in place through 01/31/2019. For periods when fees and expenses were waived and/or reimbursed, the Fund benefited by not bearing such expenses. Without such fee waivers/reimbursements, performance would have been lower. In addition, the net expense ratio takes into account deductions for certain interest and related expenses from certain of the Fund's investments. Under accounting rules, the Fund recognized additional income in an amount that directly offsets these interest and related expenses. Therefore, the Fund's total returns and net asset value were not affected by such interest and related expenses.

**The Bloomberg Barclays Municipal Bond Index** is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. An index is unmanaged, does not reflect the deduction of fees or expenses, and is not available for direct investment.

**Lipper General and Insured Municipal Debt Funds Average** is based on a universe of funds with similar investment objectives as the Fund. Peer group averages are based on all share classes in the category, and include the reinvested dividend and capital gains, if any, and exclude sales charges.

*The views and information discussed in this commentary are as of December 31, 2018, are subject to change, and may not reflect the views of the firm as a whole. The views expressed in market commentaries are at a specific point in time, are opinions only, and should not be relied upon as a forecast, research, or investment advice regarding a particular investment or the markets in general.*

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**Investors should carefully consider the investment objectives, risks, charges, and expenses of the Lord Abbett Funds. This and other important information is contained in the fund's summary prospectus and/or prospectus. To obtain a prospectus or summary prospectus on any Lord Abbett mutual fund, contact your investment professional, Lord Abbett Distributor LLC at (888) 522-2388 or visit us at lordabbett.com. Read the prospectus carefully before you invest.**

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