AlphaCentric SWBC Municipal Opportunities Fund

MUNIX Fund Insights

The Basics of Investing in Municipal Bonds

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Investors whose primary objective is to preserve capital while generating tax-free income often look to municipal bonds to achieve their goals. Municipal bonds, or munis, are debt obligations issued by government entities. An investor's purchase of a muni is essentially a loan to the issuer in exchange for a defined number of interest payments over a set period of time. When the bond reaches its maturity date, the original investment is returned.

This educational piece offers a brief explanation of some of the more confusing aspects of munis, as well as a little insight on the muni market itself.

The municipal bond market is unlike any other fixed-income market in numerous ways:

- It's a $4 trillion market with millions of individual bonds and credits that trade on an over-the-counter market, which means there is no centralized market like Treasury or corporate bonds.
- The federally tax-exempt nature of its dividend stream also adds another layer of confusion as the returns may seem lower, but to the tax-savvy investor, the tax-exempt status offers great value.
- Additionally, the historical credit quality of the municipal bond market has been strong with a lower default rate than corporates and fewer rating downgrades.

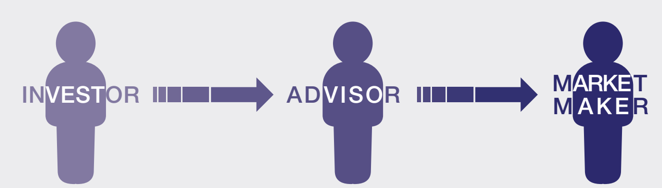
The Positive and Negative Aspects of an Over-the-Counter Market

An over-the-counter market simply means there is no centralized trading platform. When an investor wants to buy an equity, they just call their advisor and put in an order. The order is then transmitted to a market maker in the security and executed. Buying a municipal bond is much more complicated as there are millions of different bonds and no centralized market maker.

The advisor must search various broker dealers and have a full understanding of the intricacies of the market to purchase a security with the best value. The same bond could be offered by various dealers at different yields, and not understanding the fragmentation of the market could easily lead to making a mistake.

Taking full advantage of the market requires a professional manager skilled in municipal bonds.

Buying Equities



Buying Municipal Bonds

AlphaCentric Invested in Innovation

Understanding Tax-Equivalent Yields

While yields on municipal bonds may initially seem lower than taxable yields such as treasury or corporate bonds, an investor must consider the federally tax-free nature of municipal bonds.

- Investing in taxable bonds adds a layer of income tax not applicable to municipal bonds, and investors get to keep what they earn instead of paying income tax.
- A tax-equivalent yield is a calculation that estimates the taxable yield an investor needs to match the lower yield of a municipal bond. For example:

Based on the top tax rate, an investor earning a 2.25% tax-free yield would have to purchase a taxable bond at approximately 3.80% to have the same after-tax return.

While the 2.25% is achievable in the tax-free bonds, an investor would have to take on significantly more risk to purchase a taxable bond at 3.80%.

Credit Quality of Municipal Bonds

Credit quality is a major component of municipal bonds as approximately 75% of the market is rated A+ or better, and approximately 10% is below investment grade.

Compare this to the corporate market where only about 10% of the market is rated A+ or better, and approximately 40% is below investment grade.

MUNICIPAL BOND MARKET

CORPORATE BOND MARKET

Source: Moody's Investors Service, U.S. Municipal Bond Defaults and Recoveries 1970-2019.

In addition, municipal bonds have a stronger credit profile than corporates since the bonds are typically secured by inelastic services including water, sewer, healthcare, and education and not by individual corporations that are affected by many different economic and internal circumstances.

Invest in Municipal Bonds

The AlphaCentric SWBC Municipal Opportunity Fund (MUNIX), managed by SWBC Investment Company, is an efficient way to invest in the municipal bond market.

SWBC has extensive municipal experience and offers innovative strategies designed to maximize an investor's income. The strategy for MUNIX is specifically designed to provide investors a strong federally tax-exempt cash flow while attempting to capitalize on the rising and falling interest rates and credit spreads. **This adds a level of defense which differentiates the Fund from other municipal bond funds in the market.**

Important Risk Information

The Fund may be non-diversified and the value and/or volatility of a single issuer could have a greater impact on Fund performance. The Fund may be susceptible to an increased risk of loss due to adverse occurrences affecting the Fund more than the market as a whole, because the Fund's investments are concentrated. Some securities held by the Fund may be difficult to sell, or illiquid, particularly during times of market turmoil. There is a risk that issuers will not make payments on fixed income securities held by the Fund, resulting in losses. Issuers credit quality could be lowered if issuers financial condition changes and there is a risk that the issuer may default on its obligations. Legislative changes can adversely affect the value of the Fund's portfolio. Legislative risks including legal, tax, and other regulatory changes could occur over time and may adversely affect the Fund. The Fund may encounter derivative risk. The use of derivatives instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Changes in interest rates can also create risks for the Fund. Typically, a rise in interest rates causes a decline in value in fixed income securities. The Fund is subject to regulatory change and tax risks; changes to current rules could increase costs associated with investment in the Fund. These factors may affect the value of your investment. All investments involve risks, including possible loss of principal, there is no assurance that the Fund will achieve its investment objective.

Investors should carefully consider the investment objectives, risks, charges and expenses of the AlphaCentric Funds. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 844-ACFUNDS (844-223-8637) or at www.AlphaCentricFunds.com. The prospectus should be read carefully before investing. The AlphaCentric Funds are distributed by Northern Lights Distributors, LLC, member FINRA/SIPC. AlphaCentric Advisors, LLC is not affiliated with Northern Lights Distributors, LLC.

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