Appleton Partners would like to express our sincere sympathy and ongoing concern for those affected by Hurricane Harvey.

While the full toll of Hurricane Harvey and the total assessment of loss, either in personal or physical terms, have not been fully realized, we would like to take this opportunity to address the potential impact on our clients' municipal bond holdings in southeast Texas.

Over the course of various natural disasters, there is a strong historical precedent that the value of municipal bond holdings has remained unimpaired. Debt service payments, typically through electronic processing, have continued to be paid even during times when operations are disrupted due to damage to buildings and infrastructure. Honoring debt obligations remains a top priority for governmental entities, as efficient access to the capital markets remains a critical element to begin or proceed through the rebuilding process.

What we could see, however, is an immediate disruption in operations; think of, for example, a flooded toll road or an emergency room of a local hospital that has sustained severe damage. Nonetheless, many municipal entities have various liquidity reserves at their disposal to handle fluctuations in cash flow or even a short-term interruption in operations. Local governments would certainly see an increase in costs related to sheltering evacuees, rescue efforts, and immediate clean-up demands; but, we typically see states stepping in during such catastrophic events with financial aid and assistance until federal funds become available. Governmental entities already exhibiting financial strain or stressed operations before the storm could be disproportionately affected. We would expect that municipal entities with sufficient resources, solid management and access to capital will adequately manage their finances throughout the clean-up and rebuilding of the Gulf Coast region of Texas. Following these natural occurrences, and especially in federally designated disaster areas, we have historically observed that the insurance proceeds, federal aid, state financial support, and private contributions have ultimately provided a boost to economic activity in the impacted local and regional areas due to the rebuilding efforts.

Issuers within the municipal bond market have a long established track record of addressing and recovering from natural disasters with debt service and access to capital remaining a priority. We remain comfortable at this time with our credit exposure in the areas impacted by the storm. As part of our assessment of credit worthiness, we evaluate an entity's management experience and practices, financial resources, and flexibility. We maintain diversified portfolios of municipal bonds to minimize the impact of any one significant event. We believe our credit evaluation and investments are with long-standing, financially strong, and viable entities that have the necessary tools and resources to manage through the unexpected.

We are continuing to watch events as they unfold and will assess any further impact the storm and subsequent recovery may have on credits held at Appleton. We will also take any necessary action to reduce exposures if we feel that it is warranted.

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