ABLE America 2020:
States Capitalize on Opportunities for Success
An Update on Growth of the ABLE Market

December 2020

Overview

This AKF Market Report provides an update on the trends, developments and opportunities for growth across Achieving A Better Life Experience Act plans ("ABLE Plans" or "Plans"). ABLE Plans provide a tax-advantaged way to save for the care and independence of individuals with disabilities, without jeopardizing certain means-tested federal benefits. With more than $538 million in assets under management spread across more than 75 thousand accounts nationwide,[1] 43 States and the District of Columbia currently offer Plans to their residents. Overall, despite current limitations on eligibility and enrollment, the future of the relatively young ABLE industry appears bright with potential opportunities for growth afforded by legislative and outreach initiatives.

We have observed the following recent trends and developments in the ABLE market:

- Multi-state collaborative structures are accumulating assets and accounts faster than smaller individual States could have achieved on their own.
- While legislative and operational factors have limited the size and scope of ABLE Plans, the industry has experienced significant growth, reflecting the commitment of States to offer this product and the demand for it from participants.
- Simplicity, low cost, and flexibility are key features that have enhanced the appeal of ABLE Plans to account holders.

Future considerations that may affect the ABLE market and offer growth opportunities include:

- Changes and enhancements to state tax legislation are key to encouraging resident ABLE participants to save.
- Proactive outreach and increased marketing by States can dramatically impact industry growth.
- Federal legislation has the potential to significantly increase the pool of eligible ABLE participants.

Methodology

Data for this AKF ABLE Market Report was aggregated through a review of Program Disclosure Statements for all ABLE Plans open to enrollment as of December 21, 2020. Asset and account data are sourced to ISS Market Intelligence as of September 30, 2020.

AKF Consulting Group gratefully acknowledges the ABLE market data provided by ISS Market Intelligence. Please see https://www.issgovernance.com/market-intelligence/ and http://marketing.strategic-i.com/529-ABLE-Solutions for extensive information related to the ABLE and 529 industries.

[1] Source: ISS Market Intelligence as of September 30, 2020

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Findings and Observations

Overall, almost every State offers an ABLE Plan. Currently, 43 States and the District of Columbia offer 15 distinct plans. While most States offer a single Plan, Oregon and Virginia each offer two distinct ABLE Plans. The following chart provides a current snapshot of ABLE Plans nationwide:

	Collaborative Structures				Independent Plans
	National ABLE Alliance	Ohio Partners	Oregon Partners	Nebraska Partners	
43 States and DC	18 States Alaska Arkansas Connecticut Colorado Delaware Dist. Of Columbia Illinois Indiana Iowa Kansas Minnesota Mississippi Montana Nevada New Jersey North Carolina Pennsylvania Rhode Island	12 States Arizona Georgia Kentucky Missouri New Hampshire New Mexico Ohio Oklahoma South Carolina Vermont West Virginia Wyoming	3 States[2] Maryland Oregon (2)[3] Washington	2 States Alabama Nebraska	9 States California Florida Louisiana Massachusetts Michigan New York Tennessee Texas Virginia (2)[4]
15 Distinct Plans	**1 Plan**	**1 Plan**	**2 Plans**	**1 Plan**	**10 Plans**

Note: ***Blue*** *represents the lead State for each Collaborative Structure*

As shown above, most States (34 including the District of Columbia) have joined one of four partnership structures (the "Collaborative Structures" or the "Structures"), while only nine States have launched Plans without any partners or collaboration (the "Independent Plans").

The Collaborative Structures were formed to accelerate Plan growth by achieving quicker economies of scale and providing cost-effective solutions for small States that might not otherwise have been able to launch competitively priced investment options. Each State Plan offered in the National ABLE Alliance (the "Alliance") is identical in terms of investments, asset-based fees, and design, which is why we characterize the Alliance as "1 Plan" in the chart above. With respect to Oregon Partners, each State Plan design is the same, with just slight differences in underlying fund fees for the Maryland Plan. Finally, the States included in the Ohio and Nebraska Partnerships essentially are white labels of the Plans offered by Ohio and Nebraska, respectively.

[2] Hawaii is expected to launch its ABLE Plan through the Oregon Partners in the third quarter of 2021
[3] Oregon offers two ABLE Plans, including Oregon ABLE Savings, which is available to State residents, and ABLE for All, which is available nationwide
[4] Virginia offers two ABLE Plans, including ABLEnow, which is direct-sold and available nationwide, and ABLEAmerica, which is advisor-sold and offered nationwide

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Observation 1: Varying Business Models Succeed under the Power of Collaboration

At the inception of the ABLE industry, States and potential private sector program managers or administrators shared concerns about the short- and medium-term viability of ABLE Plans. Uncertainties regarding the pool of eligible participants – a smaller pool than that of 529 College Savings plans ("529 Plans") – and the anticipated transactional use of accounts suggested that the business model for 529 Plans needed to be adapted to accommodate the ABLE marketplace.

Federal statutory barriers such as the definition and onset age of a qualified disability, the limited number of accounts allowed per participant, and contribution maximums all impacted the perception of ABLE's expected appeal. The potential use of accounts for transactional purposes also limited the appeal to asset managers, i.e., frequent withdrawals would lead to shorter-term investments, which are less attractive to investment managers than the sticky assets associated with 529 Plans. Finally, fee-sensitive State administrators shared concerns about potential costs since account beneficiaries likely would include many individuals who rely on means-tested federal public benefits.

These issues forced States to think more strategically about ways to reach economies of scale and maintain low fees amid uncertainty. Combining forces in Collaborative Structures offered a solution. At a fundamental level, most of the States with Independent Plans each have a population large enough to support a cost-effective plan. In fact, six of the nine Independent Plan States rank among the top 15 in population as of July 1, 2020 as shown in the chart below:[5]

Independent Plan State	Rank	Population (mm)
California	1	39.37
Texas	2	29.36
Florida	3	21.73
New York	4	19.34
Michigan	10	9.97
Virginia	12	8.59
Massachusetts	15	6.89

Interestingly, Illinois and Ohio – the lead States in the Alliance and the Ohio Collaborative Structures – rank sixth and seventh with populations of 12.67 million and 11.69 million, respectively. The Structures each State created have made a substantial difference for smaller States that comprise these partnerships. For example, as shown in the chart below, the Alliance and the Ohio Partners include 11 of the smallest 15 States as of July 1, 2020:[5,6]

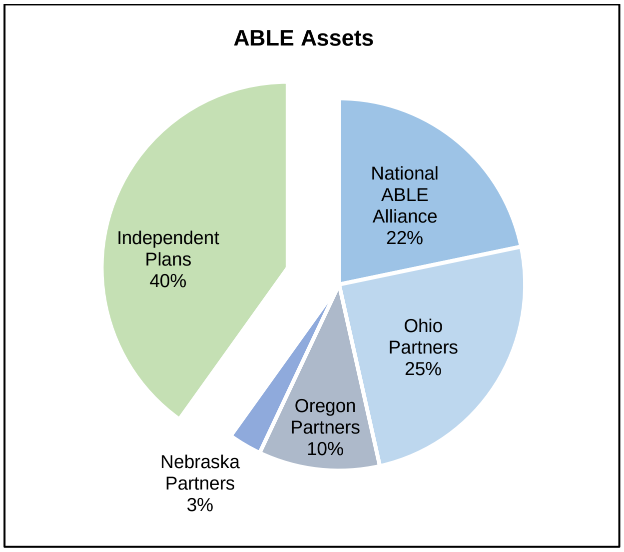
Alliance	Rank	Population (mm)
Kansas	35	2.91
Montana	43	1.08
Rhode Island	44	1.06
Delaware	45	0.99
Alaska	48	0.73
District of Columbia	49	0.71

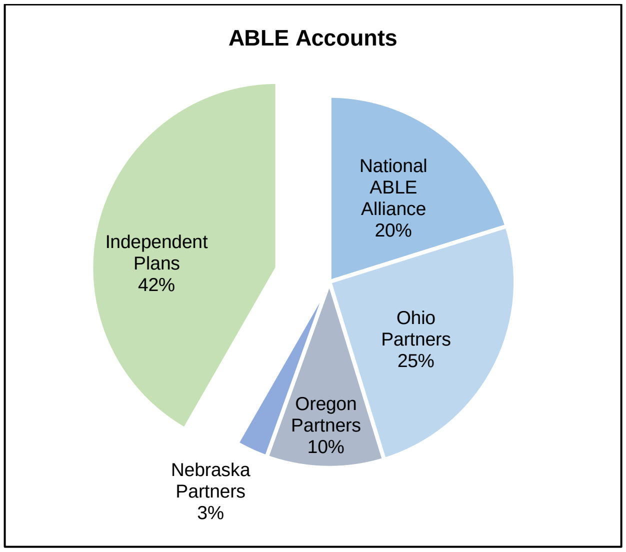
Ohio Partners	Rank	Population (mm)
New Mexico	36	2.11
West Virginia	39	1.78
New Hampshire	41	1.37
Vermont	50	0.62
Wyoming	51	0.58

[5] Source: US Census Bureau, https://www.census.gov/programs-surveys/popest/technical-documentation/research/evaluation-estimates.html

[6] As an aside, we note that Oregon and Nebraska populations rank 27th and 37th, respectively, with each of their Partner States having larger populations. We attribute this to the early leadership exhibited by the Oregon and Nebraska Treasury Departments, working together with their respective 529 Program Managers

With respect to population, the key point is that every State in these Collaborative Structures enjoys the same program design and fees despite vastly different asset and account potentials on a stand-alone basis. In fact, as shown in the charts below, the Collaborative Structures (colored blue in the graphs below) command the majority of both ABLE assets (60%) and accounts (58%). In our opinion, this demonstrates that smaller States made the correct choice to join a Collaborative Structure. These Structures have enabled the partnerships to garner the number of accounts and assets that, if formed separately by individual States, would not have justified the start-up and acquisition costs.





Source: ISS Market Intelligence as of September 30, 2020

Collaborative Structures have also made it possible for participating States to launch their own Plans with much of the design work already completed. Member States benefit from ease and speed of launch, an individual, State-branded plan with varying degrees of dedicated disclosures and marketing support, easy public access via web- or paper-based enrollment, and carefully designed investment choices for the target audience. Importantly, the asset-based fees charged to participants are uniform, regardless of the estimated number of eligible individuals in any given State. This is perhaps the most important business lesson for all State-run investment programs: collaboration can introduce cost-effective solutions when States work together to achieve a common good. As an aside, we view this as a very significant opportunity for States considering retirement solutions for private sector employees.

With respect to the Independent Plans, we note that a single-State structure offers the ability to tailor a product purely for State residents. For example, the ABLE Plans in Florida, Louisiana, and Tennessee each receive some degree of State support, which we believe has led to residency requirements for participation. Public subsidies in these States have allowed each to offer a cost-effective solution for ABLE participants.

Only seven States remain without ABLE Plans. The populations in these States collectively account for less than 5% of the US population, and therefore we speculate that many, if not all, will join one of the existing Collaborative Structures.

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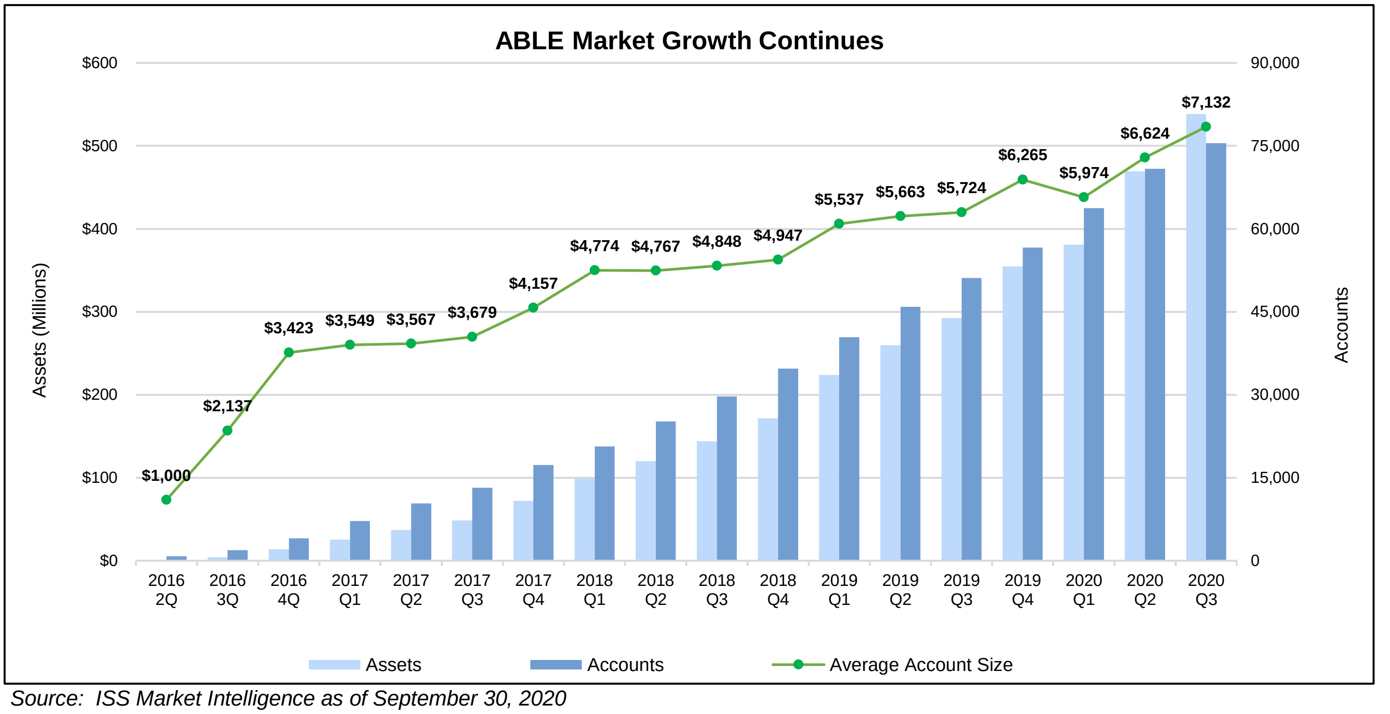
Observation 2: Overall ABLE Market Growth Continues

We continue to see overall growth in the ABLE market, even in the face of the Coronavirus pandemic. In 2020 through September 30, assets and accounts have grown by 74% and 47%, respectively. The chart below provides ABLE asset, account, and average account size data as of June 30, 2016 (Q2) through September 30, 2020 (Q3):



Source: ISS Market Intelligence as of September 30, 2020

We note consistently positive industry growth rates since the launch of the first ABLE Plan in June 2016. On an average annual basis since inception, the number of accounts has increased 190%, total assets have increased 360% and the average account size has grown by 59%. Since asset figures include the impact of market performance, we tend to focus on accounts, which have increased at a stellar pace in each of the years shown below:

Annual Account Growth Rates	
2016	**395.61%**
2017	**326.03%**
2018	**100.46%**
2019	**63.17%**
2020	**46.67%**
Average Annual Growth (2016 – 2020)	**189.81%**

Note: 2016 represents a half year beginning with Q2 (June 30, 2016)
2020 represents data through Q3 (September 30, 2020)

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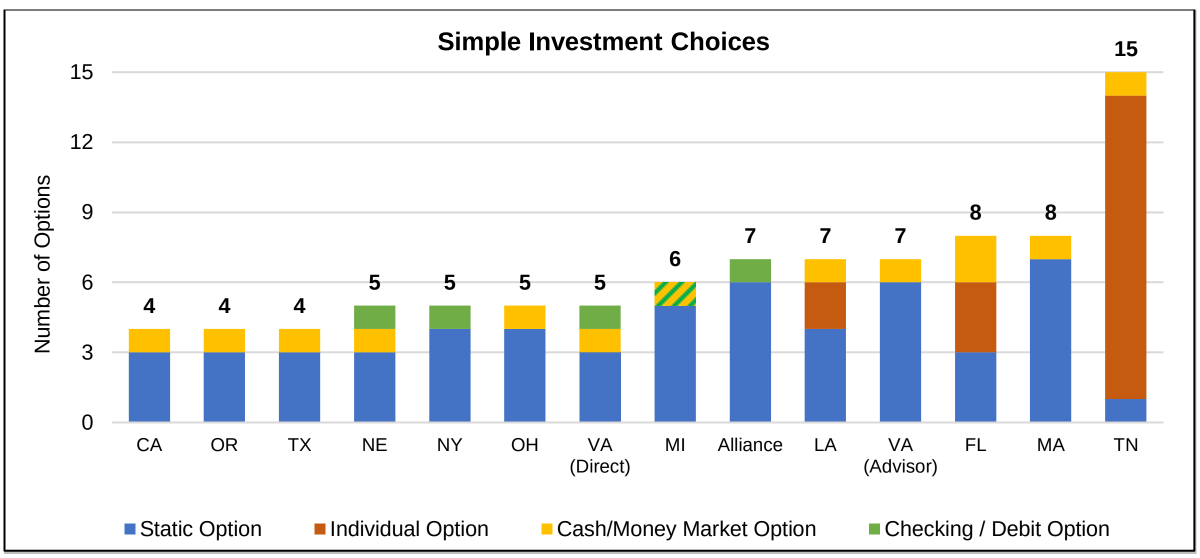
Although the growth potential of ABLE Plans is limited by the number of allowable accounts per beneficiary and allowable annual contributions (currently $15,000), the Tax Cuts and Jobs Act of 2017 ("TCJA") increased incentives for ABLE contributions through December 31, 2025. Family members may now transfer funds from certain 529 accounts to an ABLE account of another family member not to exceed the annual ABLE contribution level. The TCJA also expanded the Saver's Credit for eligible individuals to include contributions made to ABLE accounts. Finally, the TCJA expanded Section 529A to permit most working individuals to contribute up to an additional $12,760[7] above the $15,000 yearly limit on an ABLE account. As these provisions are not permanent, legislation extending the 2025 sunset or otherwise providing permanency would boost participation in ABLE Plans.

Observation 3: Simple ABLE Plan Features Reflect Participant Needs

Uniformity in Simplicity

The simplicity of ABLE Plans' investment line-ups reflects the objectives and needs of their expected participants. Most Plans offer risk-based or static options that incorporate low-cost indexed funds managed by a handful of mutual fund companies. Generally, Plans offer four to seven investment options. Individual options are only offered in three Plans, all of which are offered to State residents only (Tennessee is an outlier in its number of individual investment options as the Plan mirrors the State's 529 investment line-up). Unlike 529 Plans, there are no age-based or target-date investment options, mostly due to the wide variance in timing of expenses across ABLE beneficiaries. All ABLE Plans offer a conservative option, which typically is FDIC-insured and is intended to be used for transactional or near-term needs.

The following chart shows the simplicity of investment options available in ABLE Plans today:



Source: Program Disclosure Statements as of December 21, 2020

[7] Working ABLE participants who have not received contributions to certain workplace retirement plans may contribute up to the lesser of (i) the individual's compensation for the tax year or (ii) an amount equal to the Federal Poverty Level ("FPL") for a one-person household to their ABLE accounts. The FPL effective January 15, 2020 is $12,760 for the 48 Contiguous States and the District of Columbia, and is higher for Alaska ($15,950) and Hawaii ($14,680)

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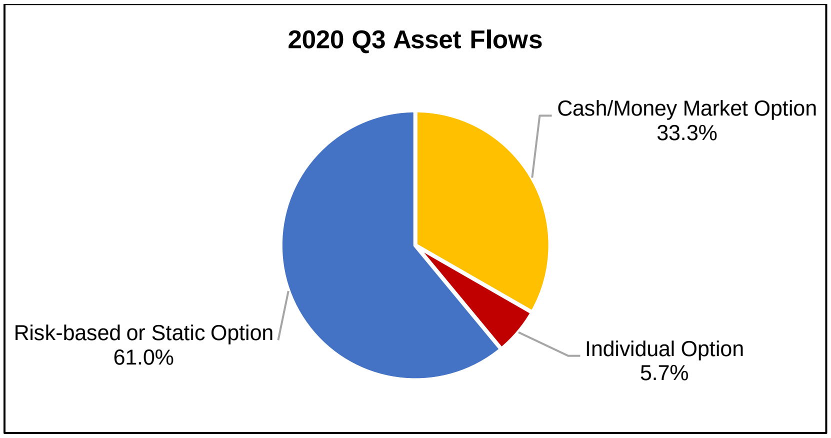
The chart below illustrates the connection between investment options and the transactional nature of these accounts, with approximately 33% of assets invested in FDIC-insured and money market options (30.2% to FDIC-insured vs 3.1% to money market) as of September 30, 2020.



Source: ISS Market Intelligence as of September 30, 2020

The predominant use of static and more limited use of individual options suggest that investors are using ABLE for longer-term savings and financial planning purposes, potentially filling a gap for investors who could not afford such opportunities otherwise typically available through special needs trusts. Additionally, the allocation to cash / money market options also confirms that investors are using ABLE plans for short-term, transactional purposes, which require riskless investment options to facilitate their needs despite the fees and low interest rates.

Competitive Participant Fees

ABLE Plans launched with low fees despite uncertainties around potential growth. ABLE participant fees generally consist of a combination of asset- and dollar-based fees. The following chart compares the fees of Independent Plans versus those of the Collaborative Structures. As you can see from the fee levels shown below, coalitions have been able to aggregate their buying power to maintain low fees for ABLE participants, which are within the range of fees offered by their Independent Plan counterparts.

Plan Type	Asset-based Fee Range	Dollar-based Fee Range
Independent Plans	**0.07 – 0.91%**	**$0 - $55**
Collaborative Structures	**0.30 – 0.55%**	**$35 - $60**
ABLE Alliance	***0.34 – 0.37%***	***$55 - $60[8]***
Ohio Partners	***0.30 – 0.33%***	***$42[9]***
Oregon Partners	***0.3040 – 0.3781%***	***$35***
Nebraska Partners	***0.54 – 0.55%***	***$45***

Source: Program Disclosure Statements available as of December 21, 2020. Excludes FDIC and Bank Options

[8] Account maintenance fee reduced by $15 for e-delivery
[9] Dollar-based fee for Ohio residents is $30

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Although the asset-based fees are low across the board, particularly for start-up Plans, almost every ABLE Plan also charges a dollar-based fee, which provides cash flow in this current growth stage of the industry. We would expect to see a different pricing structure once industry assets grow, i.e., dollar-based fees and some asset-based fees may decrease. It is worth noting that in some Independent State Plans, overall participant fees may be especially low, reflecting a State subsidy of start-up or ongoing costs.[10] There may also be cost savings achieved by using the same Program Manager for each of a State's 529 and ABLE Plans.

Over the course of the next year, possible service provider changes also may lead to reduced fees. For example, Nebraska issued a Request for Information for Program Management Services on July 27, 2020 with a possible change as of June 30, 2021; the Alliance issued a Request for Proposals ("RFP") on December 1, 2020, with a possible change as of December 7, 2021; and the State of Michigan issued an RFP on October 13, 2020, with a possible change as of March 1, 2021. Additionally, Ohio has announced that it will convert its Program Administrator as of June 30, 2021. As a result, potential contract changes could impact 35 States, representing approximately 80% of total ABLE States. These re-bid opportunities could also alter the landscape from the service provider side as the private sector assesses the health and future of the industry and its participation in it.

Easy Account Access through Prepaid and Debit Cards

Prepaid and debit card access have become important features for ABLE account holders to facilitate transactional purchases. Like a Health Savings Account ("HSA"), the ability to access funds easily for transactional expenses is an important feature for any ABLE account. As noted above, many account owners use ABLE funds for everyday purchases. And while HSAs are most often tied to debit cards, this is not the case for 529 plans, where asset accumulation is the primary goal in the early years. Currently, the four Collaborative Structures and six Independent Plan States – representing 93% of ABLE States – offer either a debit or prepaid card, or both. As contribution levels and average account balances continue to increase over time and the benefits of funds accumulation become more widely known, account owners can look to ABLE Plans as a longer-term planning vehicle. In the meantime, offering flexible prepaid or debit cards will continue to be important design elements to facilitate the spending needs of ABLE account beneficiaries.

Future Considerations

Consideration 1: State Legislative Action is First Key to ABLE Success

State Tax Benefits

We believe that changes and enhancements to State tax legislation are key to incentivizing resident ABLE participants to save more. Tax deductions or credits either on a per taxpayer or per beneficiary basis, account transfer or carryover allowances, and removal or loosening of age restrictions on contributions can greatly increase participants' access to ABLE Plans.

[10] For example, participants in the Louisiana ABLE Plan pay only the fees associated with the underlying funds (0.07% to 0.14%); the State does not charge any Administration Fees

As shown in the following table, 16 States currently offer a variety of state tax benefits for ABLE contributions, with an additional seven States having no state income tax. Twenty States and the District of Columbia offer no tax benefits for ABLE Plan investors.

State Tax Benefits	No State Income Tax	No Benefit Offered
National ABLE Alliance AR IL IA KS MS MT PA Ohio MO OH SC WV Oregon MD OR Nebraska Independent Plans MI VA	AK FL NV NH TN TX WA	AL AZ CA CO CT DE DC GA IN KY LA MA MN NJ NM NY NC OK RI VT WY
16 States	7 States	20 States and DC

Source: Program Disclosure Statements available as of December 21, 2020

Currently, 35 States offer a tax benefit for contributions made to a 529 Plan. Although these contributions typically must be to a State's own 529 Plan, we believe this important incentive has helped increase 529 contributions. Accordingly, we would encourage the ABLE States not yet offering a tax benefit to consider legislative action to do so. The introduction of such benefits would increase the appeal of contributing to an ABLE Plan.

State Response to Medicaid Recovery

Commonly referred to as Medicaid "recovery," "recapture" or "clawback," a provision of Section 529A allows a State to file a claim against an ABLE account for certain Medicaid expenditures after the account beneficiary's death. While not all State Medicaid agencies move to recover ABLE assets, the uncertainty around the provision has made potential participants wary of opening an ABLE account.

As shown in the chart on the following page, some State laws or policies prevent Medicaid from filing a claim on ABLE accounts for repayment of Medicaid benefits, unless required to do so under federal law. Disallowing Medicaid recovery is one way to increase ABLE enrollment by easing participant concerns about asset transfers upon a beneficiary's death.

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	Recovery Limited		Recovery Allowed	
	By State Law[11]	By State Policy		
ABLE Alliance	Delaware Illinois Pennsylvania	Kansas	Alaska Arkansas Colorado Connecticut District of Columbia Indiana Iowa	Minnesota Mississippi Montana Nevada New Jersey North Carolina Rhode Island
Ohio Partners	West Virginia	--	Arizona Georgia Kentucky Missouri New Hampshire New Mexico	Ohio Oklahoma South Carolina Vermont Wyoming
Oregon Partners	Maryland Oregon	--	Washington	
Nebraska Partners	Nebraska	--	Alabama	
Independent Plans	California Florida Maine[12] Virginia	--	Louisiana Massachusetts Michigan	New York Tennessee Texas
Total	**11 States**	**1 State**	**32 States Plus DC**	

Source: Program Disclosure Statements and State legislation available as of December 21, 2020

Consideration 2: Focused Outreach Will Bolster ABLE Growth

While it is too early in the ABLE industry's life to gauge long-term growth, State Administrators and Program Managers alike seek asset and account growth to remain sustainable and competitive. With little or no public funding available in many States, proactive outreach initiatives become an even more important component of an ABLE Plan's growth strategy.

Establishing affiliations or partnerships with national and local disability organizations and advocacy groups offers ABLE Plans the opportunity to engage with an extensive audience of potential participants. The ABLE industry's presence on the National Disability Institute ("NDI") website is a good example of a successful collaboration. NDI has established the ABLE National Resource Center, an online resource that houses State-by-State Program updates, frequently asked questions, and a library of information about ABLE. Several other organizations have also featured ABLE information in their materials for members and professionals, thereby increasing the visibility of the investment vehicle across the multitudinous networks of potential participants.

[11] Maine prohibits Medicaid recover by state law as per S.P.526-L.D.1637 / Chapter 348 Public Law, although Maine does not have an ABLE Plan

[12] Maine passed legislation in anticipation of a future State-sponsored ABLE Plan

In addition to partnerships with disability organizations and advocacy groups, ABLE Plans have leveraged State resources to help with their outreach efforts. State agencies and media services offer various channels of outreach to potential ABLE participants, including but not limited to agency trainings, email databases, local partnerships with employers, hospitals and veterans' associations, national disability conferences and marketing services. These channels may be particularly beneficial for those States with limited funds allocated to outreach. Other examples of sources for outreach assistance include local Social Security offices providing joint education communications and even current account owners serving as program ambassadors.

As the Coronavirus pandemic squashed the possibility of conducting typical in-person outreach in 2020, every ABLE Plan transitioned to virtual outreach and online education. These outreach efforts have included hosting regular webinars to educate current and potential participants about ABLE, and an increased reliance on digital marketing and social media. Cost-effective and flexible strategies such as these are likely to continue beyond the pandemic, especially since they employ key channels through which to reach potential ABLE participants and more accurately target messaging to segmented audiences.

Finally, while ABLE Plans are almost uniformly offered directly to participants ("Direct-sold"), Virginia alone offers an ABLE Plan through financial professionals ("Advisor-sold"). Although there are fewer than 1,000 Virginia Advisor-sold accounts, the difference in account size is significant. The average size of a Direct-sold ABLE account is $7,081 as compared to $11,614 for an Advisor-sold account as of September 30, 2020. Professional advice is often an integral part of an individual's financial plan and can incorporate an ABLE account into a broad-based plan. Multi-generational planning may be an important component of a financial plan with ABLE beneficiaries. Many advisors would use an ABLE Plan to afford clients and their family members a cost-effective, convenient means of providing financial assistance to a potential account beneficiary.

Consideration 3: Federal Initiatives Will Expand ABLE Use

The ABLE Committee of the National Association of State Treasurers ("NAST") includes State Treasurers, State ABLE Administrators, Program Managers, and other professionals nationwide who support federal ABLE legislation to increase the appeal of ABLE solutions and drive industry growth.

Currently, NAST is supporting proposed federal legislation entitled The ABLE Age Adjustment Act (S.651 / H.R.1814) that was reintroduced in the 116th Congress by Senators Casey, Moran, Van Hollen and Roberts and Representatives Cardenas and McMorris-Rodgers, respectively. This legislation would raise the beneficiary's age of disability onset from before 26 to before 46, which would increase the pool of eligible ABLE participants from 8 million to 14 million.[13] Additional legislative changes to enhance ABLE growth could include (i) allowing multiple ABLE accounts for the same beneficiary, (ii) increasing the annual account contribution limits, and (iii) disallowing Medicaid recapture of ABLE assets.

The NAST ABLE Committee is also actively facilitating dialogue with the Department of the Treasury relating to the recently issued Final Regulations providing guidance under Section 529A for ABLE Plans. States have two years before full compliance is mandated, in which time any ambiguities can be resolved and implementation strategized.

[13] Estimate from National Disability Institute presented in the 2019 NAST ABLE Report published by the National Association of State Treasurers

Find Out More

The ABLE market has seen impressive growth, appropriately targeted product features and necessary collaboration at the State level to achieve economies of scale. With beneficiary-friendly proposed legislation, marketing and outreach, States will continue to grow this important market. We would be delighted to discuss our findings in more detail with you. For more information, please contact:

Andrea Feirstein
AKF Consulting Group
(646) 218-9864 office
(917) 865-2169 cell
andrea@akfconsulting.com

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