Blue River Arbitrage Strategy Investments. LLC

Monthly Fund Update – December 31, 2020

Blue River Arbitrage Strategy Investments, LLC (“BRASI”) is managed by Blue River Asset Management, LLC (“Blue River”) and seeks to to generate attractive levels of primary tax exempt income through municipal bond arbitrage. Blue River has utilized a similar strategy for several other funds since 2000. BRASI was formed during a significant municipal market dislocation in the first quarter of 2008.

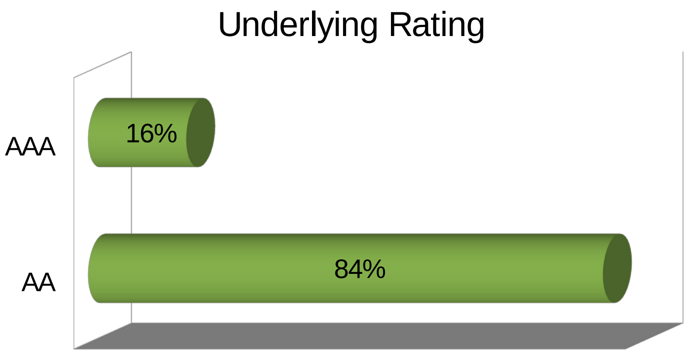
PERFORMANCE UPDATE

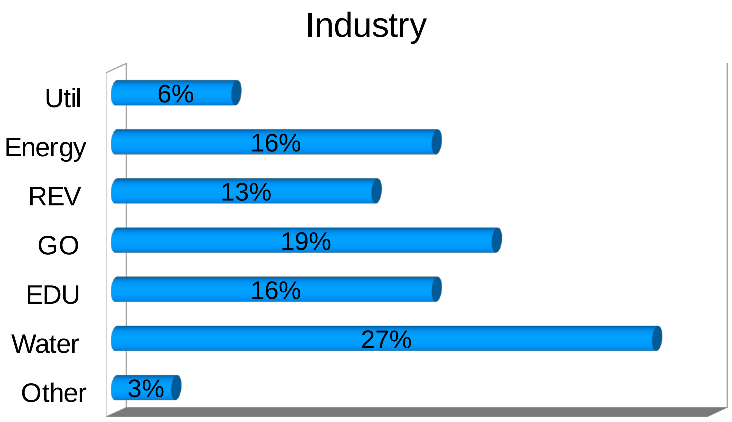
Tax-Advantaged Income (Income + Realized Gain/Loss; Gross of Fees)*:

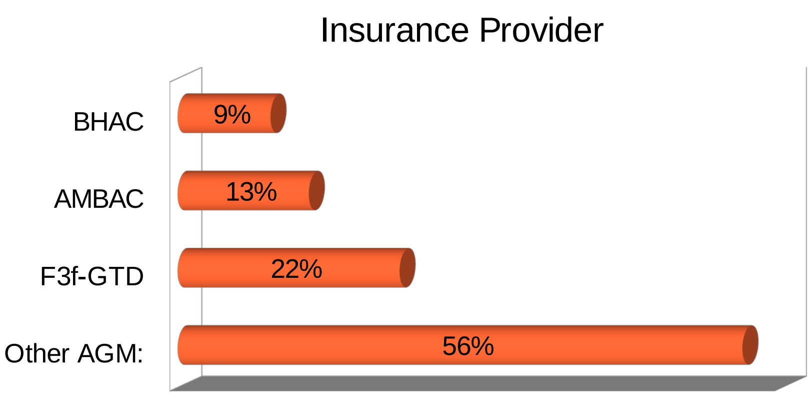
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2001	—	—	--	0.2	0.8	1.2	1.3	1.2	1.1	2.0	1.2	1.5	10.5%
2002	1.4	0.8	1.3	1.2	1.4	1.1	1.0	1.9	0.9	0.7	-0.4	2.1	13.5%
2003	1.1	1.1	1.2	1.0	0.8	1.2	1.0	1.1	0.8	0.9	0.7	1.0	11.8%
2004	1.5	1.5	0.6	1.2	1.1	0.7	1.6	1.1	1.1	0.9	0.7	1.0	13.1%
2005	1.0	0.7	0.7	0.7	0.8	0.8	1.0	1.1	1.3	1.6	0.8	-0.9	9.5%
2006	1.1	1.1	4.7	4.9	1.1	8.4	0.6	0.0	-1.9	-1.8	-1.1	-0.3	16.8%
2007	1.4	0.6	0.5	0.4	1.2	3.9	2.3	-1.6	1.0	0.8	-2.2	-7.3	1.0%**
2008	-	-	0.4	2.3	1.1	1.0	2.0	0.9	-3.8	5.8	0.4	1.5	11.7%
2009	1.1	0.4	0.5	0.5	1.5	1.3	0.6	0.5	1.1	-1.1	0.3	4.6	11.8%
2010	1.3	0.4	0.9	1.4	0.9	0.6	0.8	2.4	0.4	0.8	0.4	0.5	11.4%
2011	3.3	-0.3	1.4	0.6	0.8	1.0	0.8	0.7	0.8	0.5	0.6	0.9	11.6%
2012	0.9	1.7	0.4	0.5	2.7	0.5	0.7	0.9	0.8	0.6	0.8	1.1	12.1%
2013	1.2	0.9	0.8	1.4	0.9	1.1	0.7	0.6	0.3	1.3	1.2	0.8	11.8%
2014	1.1	0.8	0.7	1.2	1.0	0.8	0.7	0.7	0.7	1.2	1.1	1.0	11.7%
2015	0.8	1.2	0.6	1.3	0.8	1.1	0.5	0.9	0.4	1.4	0.9	1.0	11.5%
2016	1.0	0.8	1.2	0.7	1.1	0.9	0.9	0.6	0.7	1.3	1.2	1.0	12.0%
2017	0.9	0.7	0.8	1.2	0.9	0.6	1.2	1.3	0.8	0.8	0.7	1.3	11.8%
2018	0.8	1.1	0.9	1.1	1.0	0.7	0.9	1.1	0.9	0.9	0.8	1.1	11.9%
2019	1.0	0.9	0.7	1.5	0.6	0.9	1.1	-0.3	1.3	0.8	1.3	1.2	11.6%
2020	0.9	1.0	0.9	1.3	0.7	0.9	1.1	0.9	0.9	1.4	0.5	0.9	12.3%

Total Return Since Inception (Reinvested Income + Unrealized Gain/Loss; Net of Fees):

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2001	--	--	--	3.2	6.8	7.5	-6.2	6.5	-19.5	-16.0	16.3	3.8	-3.3%
2002	7.8	0.3	-1.3	-0.7	0.7	-0.3	-0.2	-10.9	5.7	-17.3	-0.6	6.7	-12.2%
2003	-7.5	4.2	4.3	3.5	0.5	-7.3	12.5	4.4	2.5	6.9	10.3	2.7	40.9%
2004	-2.9	8.2	-14.5	1.4	0.0	0.5	7.3	1.6	2.4	0.4	-1.3	5.8	6.2%
2005	3.9	0.5	-5.7	3.4	-4.1	0.7	6.6	-1.9	2.3	2.0	1.8	1.1	10.4%
2006	2.9	3.0	0.2	2.3	4.6	-4.3	1.6	1.6	0.0	0.4	-2.6	2.4	12.3%
2007	0.8	-0.3	0.7	-0.4	0.9	0.9	0.7	-11.2	11.4	-1.8	-12.2	3.2	-9.1%
2008	-	-	13.3	14.6	9.7	-8.1	-1.6	0.0	-13.7	1.6	-18.3	-6.9	-10.9%
2009	21.4	1.6	-3.1	9.9	6.6	-3.6	4.8	1.5	6.0	-6.3	-0.4	10.8	56.4%
2010	-2.5	1.3	-0.9	0.1	-2.9	-5.2	2.2	3.9	-1.4	-4.4	-5.6	-1.6	-16.1%
2011	-2.7	9.0	-1.1	2.6	0.7	1.1	-6.4	-4.9	0.0	0.9	-2.2	-2.5	-6.2%
2012	9.7	0.4	-1.0	1.0	-0.3	-3.3	2.9	0.2	3.8	1.7	4.3	1.5	22.5%
2013	4.6	3.2	-2.6	7.9	1.0	1.5	12.7	9.2	-5.1	3.3	1.9	-2.4	39.5%
2014	-3.6	2.3	-1.7	-0.8	-3.0	0.7	1.3	-2.9	2.5	-3.4	-2.8	-1.7	-12.6%
2015	-2.5	9.3	-0.5	6.1	1.2	7.7	-1.8	0.7	-1.7	3.8	2.6	-1.5	25.0%
2016	-3.8	3.5	-5.9	1.8	-3.2	-6.6	0.8	-0.2	0.4	0.5	21.9	13.3	20.6%
2017	-3.2	6.9	-7.4	-0.8	-8.3	10.5	-5.0	-9.5	15.7	-0.6	-0.2	5.2	-0.1%
2018	9.7	9.2	-4.3	7.5	-3.6	2.8	4.2	-2.3	7.6	3.5	-4.2	-7.4	22.8%
2019	-3.9	4.4	-4.6	2.8	-8.9	-4.0	0.7	-15.3	17.1	-3.1	9.4	0.8	-8.2%
2020	5.6	13.8	-10.3	-2.4	1.9	1.6	3.5	-4.7	2.0	14.3	-1.8	9.4	34.4%


Underlying Rating
AAA
16%
AA
84%


Industry
Util
6%
Energy
16%
REV
13%
GO
19%
EDU
16%
Water
27%
Other
3%


Insurance Provider
BHAC
9%
AMBAC
13%
F3f-GTD
22%
Other AGM:
56%

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ASSETS UNDER MANAGEMENT

Firm: Blue River Asset Management, LLC	Fund: Blue River Arbitrage Strategy Investments, LLC
Assets Under Management: $3,245 million	Assets Under Management: $2,986 million
Fixed Income Portfolios: $6,731 million	Fixed Income Portfolios: $4,947 million

MONTHLY PERFORMANCE COMMENTARY

The fund rose strongly in the fourth quarter, with the 10 year treasury note's rate likely to approach the level of 1% at the end of 2020. One might recall that the rate dipped down below 0.6% in the heat of the summer when we realized that covid19 is here for a long time. We venture that if the vaccines from Pfizer and others are effective in practice, the 10-year rate will likely rise at least another half a percentage point (or more?) in 2021.

While the Federal Reserve at its most recent Federal Open Market Committee meeting recommitted itself to keeping short-term interest rates near zero for the foreseeable future, it is also continuing to purchase $80 billion of Treasury securities and $40 billion of mortgage-based securities every month, adding to its balance sheet. The Fed is "all in" to do whatever it takes to support the economy, stating that it will be willing to tolerate inflation levels above 2% for a time.

So while the Fed doesn't plan on raising the fed funds rate until at least 2022 or 2023, or until the economy improves, it might be worthwhile to point out that historically, the benchmark rate has had a sweet spot of 2% to 5%. The highest it's ever been was 20% in 1980 and 1981.

Our ability to alter our long-standing policy of "shorting" the market, for a short period in Q1 when the Fed announced rates would drop, and then revert back in mid summer, meant that the fund achieved a very respectable return in relative and absolute terms.

The dire outlook for municipal bonds, that was initially forecast when the economy came screeching to a halt in March, never fully materialized. As we have pointed out several times, there were zero defaults occurring among munis that are investment grade, and less than twenty in all of 2019-20 ,with all of them being munis that were initially non-rated or below investment grade to begin with. (This matches similar results in 2017 and 2018, too.) We have seen a dearth of issuance driving strong performance in November and December (offsetting record-setting issuance before the elections in November). Typical year-end outflows due to tax loss selling have yet to emerge. Municipal bonds posted strong total returns and significantly outperformed Treasuries in recent months. Furthermore, we do not believe the conclusion of the Municipal Liquidity Facility at year end will have a meaningful impact on the overall market, given its seldom use and likely revival should issuers come under additional stress.

In summary, we expect the muni market to return to a sense of normalcy in 2021, facing headwinds due to covid-19 and its impact on economic activity. We continue to stay up in credit quality by focusing our portfolio on issuers rated AA/Aa and above. We see the potential for 10-year Treasuries to rise above 1.5% and thus should capitalize on capital gains in addition to our steady income achieved by our leveraged tax-arbitrage play.

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Table 1 notes:
* Fees are charged against capital and are reflected in Total Return below .
**any realized gain/loss is reflected as income; excluding realized gain/loss annual gross income in 2007 was approximately 11.6%.

Table 2 notes:

(1) In order to control for additional capital investments or capital redemptions, the total return performance for the BRASI Fund assumes an original capital investment of $1,000,000, zero additional capital contributions, zero capital redemptions and the reinvestment of distributions or income. Actual results for those investors who invest consistent with these assumptions equal or approximate those shown, while actual results for those investors who do not (for example, should an investor choose not to reinvest distributions) may differ materially from those shown.
(2) The total return performance for the BRASI Fund is shown net of an assumed 2.1% management fee and 20% contingent incentive allocation and 12.5 basis point organizational fee. The Fund charges a variety of fees to different investors and this presentation assumes the maximum amount of fees assessed and contingent incentive allocation made by the Fund. Actual results for any particular investor would vary depending on, among other things, the actual fees or incentive allocations applied with respect to such investor.
(3) The total return performance reflects any applicable broker commissions or sales charges, which are part of the 2.1% management fee described above.
(4) Past performance results are not necessarily indicative of future results and are unaudited.
(5) Performance percentages are shown rounded.

DISCLOSURES: