

[MINUTES]

**FOR THE MEETING OF THE
SOLE MEMBER
/ AUDIT COMMITTEE / GOVERNANCE COMMITTEE /
BOARD OF DIRECTORS
OF
ROCKLAND SECOND TOBACCO ASSET SECURITIZATION CORPORATION**

MEETING – March 14, 2024 at 5:30 P.M.

1. Meeting of the Sole Member

In Attendance: Edwin J. Day, Sole Member

Others in Attendance: Rafael Silberberg, Director
Mark Rothenberg, Independent Director
C. Scott Vanderhoef, Director
Stephen DeGroat, Director
Wilbur Aldridge, Director
John Finnegan, Esq., Counsel
Lucia Caruso, Secretary

- Mr. Day opens the Meeting.
- Secretary Caruso advises that the Notice of Meeting had been posted and sent to the newspaper in compliance with the Open Meetings Law.
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- Mr. Day signs the Consent to Waiver of Notice of Meeting.
- Mr. Day reviews and accepts the Minutes of the Meeting of the Sole Member held on December 12, 2023.
- Transaction of other business at the Meeting:
 - No other business
- Public Comment:
 - No public comment
- Mr. Day closes the Meeting of the Sole Member.

1. Meeting of the Audit Committee

Committee Members: Rafael Silberberg, Chairman
Stephen DeGroat, Member
C. Scott Vanderhoef, Member

Others in Attendance: Edwin J. Day, Sole Member
Mark Rothenberg, Independent Director
Wilbur Aldridge, Director
John Finnegan, Esq., Counsel
Lucia Caruso, Secretary

- Rafael Silberberg opens the Meeting and confirms that all Members are present.
- Secretary Caruso advises that the Notice of Meeting had been posted and sent to the newspaper in compliance with the Open Meetings Law.
- Chairman Silberberg inquires whether the Members in attendance have signed the Consent to Waiver of Notice of Meeting.
- Chairman Silberberg inquires whether the Committee has reviewed the Minutes of the Committee Meeting held on December 12, 2023. Motion by Member Stephen DeGroat; Seconded by Member Scott Vanderhoef; All in Favor; Motion Carried.
- Report of the Treasurer. Motion to defer the Report of the Treasurer to the Meeting of the Board of Directors. Motion by Member Stephen DeGroat; Seconded by Chairman Rafael Silberberg; All in Favor; Motion Carried.
- Transaction of other business at the Meeting:
 - No other business is transacted at the meeting.
- Public Comment: There is no public comment.
- Motion to close the Meeting of the Committee. Motion by Chairman Rafael Silberberg; Seconded by Member Scott Vanderhoef; All in Favor; Motion Carried.

2. Meeting of the Governance Committee

Committee Members: C. Scott Vanderhoef, Chairman
Mark Rothenberg, Member
Wilbur Aldridge, Director

Others in Attendance: Edwin J. Day, Sole Member
Stephen DeGroat, Director
Rafael Silberberg, Director
John Finnegan, Esq., Counsel
Lucia Caruso, Secretary

- Chairman Vanderhoef opens the Meeting.
- Secretary Caruso advises that the Notice of Meeting had been posted and sent to the newspaper in compliance with the Open Meetings Law.
- The Directors in attendance sign the Consent to Waiver of Notice of Meeting.
- The Committee reviews and accepts for filing the Minutes of the Committee Meeting held on December 12, 2023. Motion by Member Mark Rothenberg; Seconded by Director Wilbur Aldridge; All in Favor; Motion Carried.
- Transaction of other business at the Meeting:
 - No other business
- Public Comment:
 - There is no public comment.
- Motion to close the Meeting of the Committee. Motion by Director Wilbur Aldridge; Seconded by Member Mark Rothenberg; All in Favor; Motion Carried.

3. Meeting of the Board of Directors

Directors: Stephen DeGroat, Director
Rafael Silberberg, Director
Wilbur Aldridge, Director
Mark Rothenberg, Independent Director and Treasurer
C. Scott Vanderhoef, Director and President

Others in Attendance: Edwin J. Day, Sole Member
John Finnegan, Esq., Counsel
Lucia Caruso, Secretary

- President Vanderhoef opens the Meeting.
- Secretary Caruso advises that the Notice of Meeting had been posted and sent to the newspaper in compliance with the Open Meetings Law.
- The Directors in attendance sign the Consent to Waiver of Notice of Meeting.
- The Board reviews and accepts for filing the Minutes of the Meeting held on December 12, 2023. Motion by Director Stephen DeGroat; Seconded by Director Mark Rothenberg; All in Favor; Motion Carried.
- Report of the Treasurer. Treasurer Rothenberg distributed a Schedule of Revenue and Expenses as of March 30, 2024. Treasurer Rothenberg explained:
The opening balance was \$117,477.25 after all the director, paralegal, accounting and secretary fees were paid in the amount of \$4,200.00, and Wilmington Trust in the amount of \$2,500.00 the ending balance is \$ 110,727.25.

Motion to accept the Treasurer's Report. Motion by Director Wilbur Aldridge; Seconded by Director Stephen DeGroat; All in Favor; Motion Carried.

- Ratify, confirm and approve all corporate actions previously taken by the Board of Directors and Officers. Motion by Independent Director Mark Rothenberg; Seconded by Director Stephen DeGroat; All in Favor; Motion Carried.

- Authorize the Directors and Officers to do all things necessary or advisable and proper to carry on the business of the Corporation. Motion by Director Stephen DeGroat; Seconded by Independent Director Mark Rothenberg; All in Favor; Motion Carried.

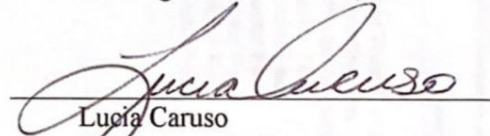
- Transaction of other business at the Meeting:
 - Treasurer and Director Stephen DeGroat submitted a Wall Street Journal article stating how well the Tobacco Bonds are doing for the investors. (copy of article is attached)

- Public Comment: no public comment

- Tentative date for next meeting of the Corporation: June 10, 2024 at 5:30 P.M.

- Motion to close the Meeting of the Board. Motion by Independent Director Mark Rothenberg; Seconded by Director Wilbur Aldridge; All in Favor; All Opposed; Motion Failed; Motion Carried.

Approved by the Board of Directors at the
Meeting held on June 10, 2024



Lucia Caruso

Secretary to the Board

Attachments:

- Financial package from Lenny Forte
- Copy of Article

6:50 PM
 03/05/24
 Accrual Basis

Rockland Second Tobacco Asset Securitization Corp
 Cash Receipts Disbursements Sterling
 As of March 31, 2024

Type	Date	Num	Name	Memo	Debit	Credit	Balance
Sterling Bank							117,477.25
Check	03/05/2024	1510	Wilmington Trust	2003 Residual Trust Fee Invoice 20231218 - 33...		2,500.00	114,977.25
Check	03/05/2024	1511	Leonard Forte	1Q2024 Accounting Fee		500.00	114,477.25
Check	03/05/2024	1512	Lucy Caruso	1Q2024 Paralegal/Secretary Fee		500.00	113,977.25
Check	03/05/2024	1513	C. Scott Vanderhoef	1Q2024 Director Fee		750.00	113,227.25
Check	03/05/2024	1514	Rafael Silverberg	1Q2024 Director Fee		500.00	112,727.25
Check	03/05/2024	1515	Stephen F. DeGroat	1Q2024 Director Fee		500.00	112,227.25
Check	03/05/2024	1516	Mark Weisenberg	1Q2024 Director Fee		500.00	111,727.25
Check	03/05/2024	1517	Wilbur Aldridge	1Q2024 Director Fee		500.00	111,227.25
Check	03/05/2024	1518	Edwin J. Day	1Q2024 Director Fee		500.00	110,727.25
Total Sterling Bank					0.00	6,750.00	110,727.25
TOTAL					0.00	6,750.00	110,727.25

Tobacco Bonds Are on Fire, Defying the Odds

Anyone who has tried to quit smoking knows that cigarettes are tough to resist—almost as hard as it is for politicians to keep their hands off big piles of money.

Smoking and government spending had a rare chance to interact in the late 1990s when the largest American tobacco companies agreed to pay \$206 billion over 25 years to 52 U.S. states and territories in exchange for those jurisdictions giving up future legal claims against them. The payers and the terms have been tweaked over the years as a result of more companies joining and lawsuits involving some states, but they are now effectively payments in perpetuity.

At least 21 states or territories, plus local entities within some of them, didn't want to wait for the money to trickle in, taking it up front and transferring that risk to municipal bond investors. Even after all these years, tobacco bonds are close to 9% of the high-yield municipal bond market, according to analysts at Invesco. Unlike those who buy bonds secured by the full faith and credit of a state government with taxing authority, though, tobacco bond investors typically have no recourse if the cash runs low.

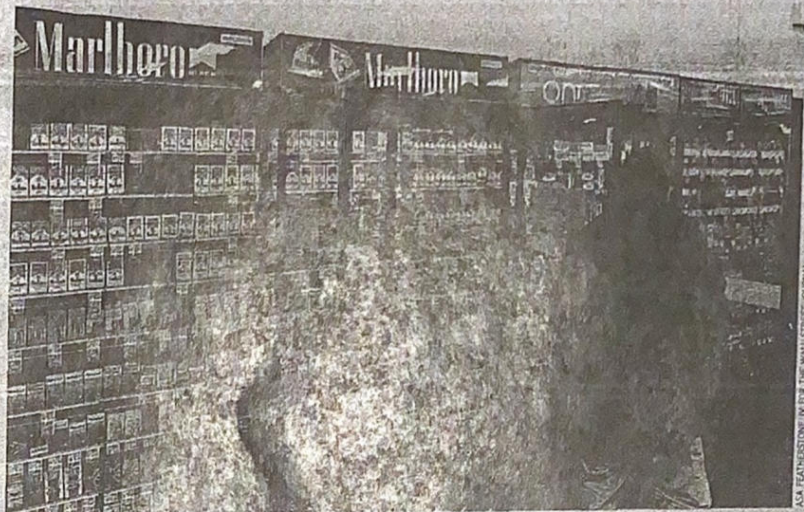
That is a distinct possibility for some bonds because payments are tied to the number of cigarettes sold—long in decline. The fall has accelerated recently. In the three months through September, ciga-

rette sales decreased by another 8% year over year. Shares of Britain's **British American Tobacco**, which bought U.S. cigarette maker Reynolds American—which itself bought Lorillard years earlier—recently fell to a 12-year low after the company took a \$25 billion (equivalent to more than \$27 billion) noncash impairment for its U.S. tobacco brands. Between 1997, the year before the Master Settlement Agreement was signed, and 2021, annual cigarette sales fell from 478.6 billion cigarettes to 190.2 billion, according to the Federal Trade Commission.

But it gets worse: Because the price of any bond is sensitive to interest rates, the past couple of years should have been especially bad for tobacco bonds. It is possible for their duration—which determines sensitivity to interest rates—to lengthen if the special purpose entities backing them don't receive enough cash to make all payments on time.

Surprisingly, though, tobacco bonds have done much better than the average muni. An index of tobacco bonds maintained by S&P Dow Jones Indices had a 10-year total return of 134% through the middle of December compared with just 34% for a general municipal bond index. And between late October and mid-December, the tobacco index rallied by 13% as overall bond yields fell.

A lot of things were hard to pre-



Cigarette sales have long been in decline, with the drop recently accelerating.

dict in the late 1990s, when the settlement was inked and, while some have hurt the cash flows received by states, others have helped. On the negative side, the rise of vaping and other noncombustible products that get former or potential future smokers their nicotine kick don't count toward the cash received. Neither do some small cigars that are very similar to cigarettes.

The federal government also has threatened to ban menthol cigarettes, which are seen as potentially more addictive and are consumed disproportionately by minority groups. They are now about one-third of the cigarette market. And then there are excise taxes: The consumer-price index for tobacco products is up by 530% since 1997 compared with 93% for overall consumer prices.

On the other hand, the companies agreed to an annual inflation adjustment for their payments of at least 3%, which seemed reasonable in the late 1990s. For many years, including the entire period from 2008 through 2020, that was more than states would have received if the payments were indexed to actual inflation. They also didn't anticipate a surge in inflation to a four-decade high in the past couple of years. From 2019 to 2021, payments actually rose by about 20%.

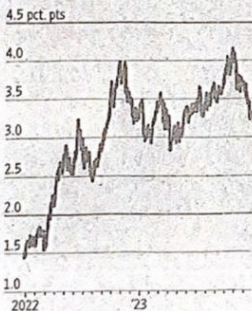
The upshot is that payments received by states and territories in 2022 were \$6.38 billion, which is about what they were 20 years ago. With inflation headed lower again and cigarette sales possibly much lower, is it finally time to kick the habit?

Not necessarily. While it is hard

to see cigarette unit sales recovering, especially as tobacco companies themselves are actively trying to shift smokers to "reduced harm" products, tobacco bonds are an interesting hedge in a bond portfolio. Many, but not all, are tax-free on a state and federal level, so they shield investors from higher taxes in the future with government finances strained. And with inflation-protected bonds and the like in vogue, they offer at least some benefit if there is a future surge in prices. Owners wouldn't actually get more money as they do with Treasury inflation-protected securities, but it would make it more likely that riskier bonds actually get paid.

Lucky investors who made a big bet on tobacco bonds might want to cut back. A few probably won't kill them, though. —Spencer Jakub

Yield differential between U.S. and Japan 10-year government bonds



Source: FitchSet

2024 Could Be the Year of the Yen

The Japanese yen has been one of the worst-performing currencies of the past couple of years. It could do better in 2024.

The yen has lost around 20% against the dollar since the end of 2021, underperforming other major currencies. Japan's central bank kept its ultralow interest rates while most of its peers have been raising rates aggressively. Higher yields outside of Japan have driven the currency lower and lower.

While inflation has picked up in Japan—as almost everywhere

else—it remains low compared with other developed economies. Japan's core inflation rate, which excludes fresh foods, was 2.5% from a year earlier in November, down from 4.2% at the beginning of 2023. Though that is already above Bank of Japan's 2% inflation target, the central bank has been unwilling to raise interest rates too quickly, fearing a hit to the economy.

The BOJ may eventually still tighten its monetary policy, especially if it judges that inflation has moved sustainably above its tar-

get. The central bank has already made a couple of tweaks to its "yield-curve control" policy, which seeks to keep its long-term bond yields low. The yen has risen around 7% against the dollar since mid-November, partly as traders expect the BOJ to give up its negative-interest-rate policy sometime in 2024.

Yet one of the biggest supports for the yen in 2024 will likely come from the Federal Reserve. Its rate-increase cycle has likely come to an end already, and the central bank has indicated cuts could be

coming. The yield differential between 10-year government bonds in Japan and the U.S. has narrowed by almost 1 percentage point in the past two months, just because of plummeting U.S. bond yields. Japanese bond yields have, in fact, also fallen during the period.

Japan stayed put when every other major central bank was raising interest rates, betting it could withstand negative pressure on the yen. That gamble now seems to have paid off.

—Jacky Wong