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## **Municipal Bonds: Warming to Prepaid Gas Bonds**

**These corporate-backed, tax-exempt issues represent a fast-growing segment of the municipal bond market. We think they offer an attractive opportunity.**

“Prepaid gas” may make people think of the fuel-purchase cards sold at their local convenience store, but the term also applies to bonds issued in a lesser-known, but rapidly growing, segment of the municipal bond market. Here, we explain what they are, how they work, and why we believe they can present attractive opportunities in an actively managed tax-free bond portfolio.

### **What are prepaid gas bonds?**

These are tax-exempt bonds issued by a municipal authority that enters contracts to purchase and supply natural gas or electricity to municipal utilities. While they pay tax-free income like a municipal bond, prepaid gas bonds have the backing of a corporate credit, typically a large bank or insurance company.

### **How does the transaction work?**

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