COLORADO BONDSHARES

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Dear Shareholders:

I am going to try to make some sense for you of the events that have occurred during this semi-annual period, just ended March 31, 2020. I was encouraged by some to send an interim communication to shareholders to provide insight. Frankly, I did not want to just issue a "puff piece" and events were unfolding at such speed that yesterday's message might be completely misleading a day later.

Things in the economy were going so well that investors had become desensitized to the elements of risk. At first the credit markets became concerned because the price of oil reached such low levels that many of the corporate entities who had borrowed money in pursuit of oil and gas projects would not be able to repay their loans. Concern soon spread to the municipal markets. On the heels of the oil rout, the news of the Coronavirus (COVID-19) became increasingly concerning as markets worried about the unfathomable effects of a pandemic. If stadiums remained empty, airports were unused, toll roads abandoned, what would happen to the municipal bonds originally issued to build those facilities? Moreover, what happens to the cities and the states that would likewise suffer ill-effects if revenue collections were disrupted. How long would it take to resume operations? What would be the revenue shortfall? Would there be massive defaults?

All are very legitimate concerns and will most certainly take some time to sort out. The other element, though, which took some of the guesswork out of the equation was the rapid response of the Federal Reserve and the U.S. Treasury. They have made clear through their various programs, their intentions to return to normalcy wherever possible. Even though that money really has not been agreed upon or distributed completely, the mere promise of assistance has served to stabilize things.

So, having said all of that, what are the effects on Colorado BondShares? During the "Pandemic Madness" our share price dropped by 71 cents a share, the most in our history. So far, we have recovered more than half of the original amount and prospects are good that we will recover the balance, but it is difficult to say exactly how long that will take.

Important points to remember. Even though the markdown was sudden and substantial, it was generally less than many our competitors due to our shorter maturities and high cash balances. This is of small consolation, I know. However, all the losses to date are paper losses. We have not sold any positions, nor do we intend to do so which means the decline in our net asset value is not permanent. No matter what they are worth today; if chosen properly, bonds mature at 100 cents on the dollar. We have used this time to put some of our cash to work at attractive yields which should help the dividend down the road. We do not own any stadium, airport, or RTD/toll road bonds. Further, we do not own any bonds issued by cities, towns, counties or states. So, what do we own? A complete list of our holdings is attached for your information but to summarize, we own mostly non-rated bonds therefore there is no risk of a ratings downgrade. We own a significant amount of cash. In addition, we own charter schools who are assured of their revenue a year in advance which is not reduced even if they are not in session due to a pandemic. We own general obligation bonds on special districts that primarily depend on property taxes as their revenue source. They, too, know their revenues a year in advance and are designed to withstand economic cycles. Some of these districts depend on future residential building to meet projections but that appears to be going surprisingly well. We also believe that people will continue to come to Colorado. We believe that if one's home becomes an "office, schoolhouse and recreational facility" then it is even more critically important. The older districts are nearly built out and the newer ones typically have 2 or 3 years of capitalized interest set aside from bond proceeds to assure payment during that time frame. Both may have additional amounts pledged exclusively to bondholders in the form of a bond reserve. We have a few revenue holdings such as Native American bonds and nursing homes in the portfolio, some who may be affected but have qualified for PPP SBA program relief.

Undoubtedly, we will find some of our projects that struggle from what has happened, but it is not widespread, and we will deal with those situations just as we have in the past. By and large, we feel very fortunate to be where we are and believe that despite the pandemic, our future remains favorable and optimistic. We are pretty sure that with the U.S. Treasury borrowing nearly ten trillion dollars to solve the world's problems, income tax rates will not be going down.

I never thought I would see the day when you could walk into a financial institution with a mask on and ask for money without raising alarm. Allow me to express my humble appreciation for your continued support and trust in Colorado BondShares.

Sincerely,

Fred R. Kelly
Portfolio Manager