Municipal Income Enhanced Portfolio

Portfolio Manager Commentary

As of 3/31/2024

EquityCompass

Q1 2024 Review

After posting its strongest quarter in 37 years, the municipal bond market returned a modest portion of its previous gain over the first three months of 2024. Following a stellar total return of 7.9% in the fourth quarter, the Bloomberg Municipal Bond Index (MBI) declined by 0.4% in the first quarter. Over the past 12 months, the MBI has produced a total return of 3.1%.

The MBI's sluggish start to the year was primarily attributable to a reset in expectations regarding the expected timing and magnitude of Federal Reserve (Fed) rate cuts. At the beginning of the year, interest rate futures were anticipating 150 basis points (bps) of rate reductions over the next 12 months, with the first cut occurring in March. By the end of the first quarter, expectations had shifted toward a "higher for longer" scenario, with fewer and later rate cuts. As of March 31, fed funds futures were fully pricing in only 50 bps of rate cuts through November and reflecting approximately 50% odds for an additional 25 bps rate reduction in December.

Two primary factors led municipal bond market participants to reassess expectations for Fed rate cuts. First, the U.S. economy outperformed consensus projections during the first quarter across a wide range of measures. Data on employment, manufacturing, and consumer spending outpaced economists' estimates, prompting a significant upward revision to first quarter gross domestic product (GDP) growth, from 1.0% to 2.0%.

Second, progress toward lowering inflation to the Fed's 2.0% target rate encountered formidable resistance, due in part to persistently strong demand from households. After rapidly falling from 9% to 3%, the annual rate of inflation as measured by the Consumer Price Index (CPI) was unable to break below 3% in the first quarter. The most recent inflation reports suggest that service costs may represent the greatest obstacle to reaching the Fed's target, and further improvement may materialize quite gradually if GDP growth holds at 2% or higher over the next several quarters.

This combination of stronger-than-expected economic growth and persistently elevated inflation drove interest rates higher across the AAA municipal bond curve in the first quarter, with the 10-year U.S. Treasury yield gaining 25 bps to 2.5%. Higher yields resulted in price depreciation for the MBI, which more than offset its income production for the quarter.

While the **Municipal Income Enhanced Portfolio (MIEP)** was not immune to these market forces, the portfolio solidly outperformed the MBI by 75 bps on a gross basis, with a total return of 0.03% (-0.72% net of maximum

Objective

Fixed income strategy utilizing exchange-traded funds (ETFs) to seek capital preservation, return stability, and supplemental income as part of a diversified investment portfolio

Portfolio Management Team

James J. DeMasi, CFA
Senior Portfolio Manager

About EquityCompass

EquityCompass is a Baltimore-based SEC registered investment adviser offering a broad range of portfolio strategies and custom plans for individuals, financial intermediaries, and institutional clients in the U.S. Formally organized in 2008, EquityCompass provides portfolio strategies with respect to total assets of approximately $5.0 billion as of March 31, 2024.*

The EquityCompass team of professionals represents deep industry experience in security analysis, capital markets, and portfolio management. We are committed to a consistent investment process that relies on enduring principles, sound empirical reasoning, and the recognition of a dynamic investment environment with a global reach.

Total Returns				Annualized Returns				Calendar-Year Returns						
	3-Mos	6-Mos	YTD	1-year	3-year	5-year	Inception	2017	2018	2019	2020	2021	2022	2023
Gross %	0.03	6.90	0.03	2.80	-0.96	1.41	2.27	6.52	-1.55	11.26	4.05	2.22	-9.41	4.63
Benchmark %	-0.39	7.48	-0.39	3.13	-0.41	1.59	2.42	5.45	1.28	7.54	5.21	1.52	-8.53	6.40
Net %	-0.72	5.30	-0.72	-0.25	-3.90	-1.60	-0.76	3.38	-4.51	7.99	0.98	-0.80	-12.13	1.54

As of 3/31/2024; Inception—January 1, 2017; Benchmark = Bloomberg U.S. Municipal Bond Index

Net returns reflect the deduction of the maximum managed account fee of 3.00% which includes the wrap sponsor fee and EquityCompass investment management fees. Actual fees may vary.

potential fees). As municipal bond yields moved higher, MIEP's shorter duration relative the MBI (5.1 years versus 5.9 years) was a key driver of the portfolio's relative performance advantage in the first quarter. MIEP's 13% allocation to closed-end municipal bond funds also contributed to the portfolio's favorable relative results, as these funds produced an average total return of 2.5% for the quarter.

Q2 Outlook

From our perspective, the 2024 outlook for the municipal fixed income market remains bright, despite tepid first quarter results. As the year progresses, we expect the following four supportive factors to provide a tailwind for municipal bond total returns: (1) above-average yields, (2) Fed rate cuts, (3) slower economic growth, and (4) incremental progress toward lower inflation.

The 10-year AAA municipal bond yield ended the first quarter at 2.5%, which was comfortably above its 10-year average of 1.9% and in-line with its 20-year average. Historically, municipal bonds have produced attractive forward total returns when their initial yields were above their longer-term averages.

In addition to providing a reasonable level of current income, municipal bonds should experience some level of price appreciation over the next few years, as the Fed lowers short-term interest rates. The Fed's March Summary of Economic Projections envisions a sustained series of rate cuts over the next three years, at a pace of 75 bps per year. Assuming the Fed's projections are realized, an extended easing campaign of that magnitude may translate into a multi-year bull market for municipal bonds.

Consensus 2024 estimates for economic activity project that annual GDP growth will slow from 3.2% last year to 1.5% this year. That type of meaningful moderation in GDP growth would likely assist the municipal bond market in two ways. First, weaker growth may encourage the Fed to follow through with its signaled rate cuts, with the goal of limiting the potential damage to employment and wages in a more sluggish economy. Second, a softening in aggregate demand should put further downward pressure on inflation.

Recessions have historically acted as powerful antidotes to high inflation. But even without a full-fledged economic downturn, inflation is expected to gradually fall this year, as post-pandemic supply shortfalls dissipate and the excess spending power from previous rounds of fiscal stimulus wanes. Since municipal bond prices move inversely with inflation, any further weakening in the growth rate of consumer prices would likely bode well for the municipal sector.

While current macro conditions appear conducive for municipal bonds, the economic outlook is still evolving, and investors should remain vigilant against potential downside risks. From our perspective, an upside surprise on inflation represents a key threat to a prosperous municipal bond market. Although economists expect CPI inflation to fall to around 2.7% this year, the geopolitical landscape remains quite unstable. Unanticipated shocks to global supply chains could exert renewed upward pressure on consumer prices. In addition to supply-side disruptions, consumer demand could stay stronger for longer if economic growth continues to exceed expectations. Inflation dynamics have proven to be very difficult to accurately forecast in the post-pandemic environment and should be closely monitored throughout the year.

Portfolio Strategy

After earning very little interest on cash for well over a decade, investors have enjoyed yields in excess of 5% on money market instruments since the middle of last year. Presented with this compelling opportunity at a time of significant volatility in the municipal fixed income market, portfolio allocations have rationally shifted away from municipal bonds and toward cash. Money market mutual fund assets have climbed by nearly 33% over the past two years to a record high of $6.1 trillion, according to data from the Investment Company Institute.

While accumulating excess liquidity has been a satisfying and profitable endeavor, yields of 5% or greater on cash equivalents may not last indefinitely. When the Fed inevitably reduces short-term interest rates from restrictive territory to a more neutral level, money market yields will fall accordingly.

For investment portfolios designed to meet long-term objectives, excess cash allocations carry two important risks: (1) reinvestment risk and (2) opportunity cost. Regarding reinvestment risk, when excess cash is redeployed into other asset classes, prevailing yields and expected forward returns may have already declined significantly, resulting in a loss of future income. In terms of opportunity costs, when interest rates drop, money market instruments will not appreciate in value, compared to the potentially consequential price gains that intermediate-term municipal bonds can provide in a falling rate environment.

Given the Fed's latest forward guidance for substantial rate cuts over the next year few years, we believe this is an opportune time to reduce excess cash balances and increase municipal fixed income allocations, restoring both asset classes to their long -term target weightings. While the exact percentages will vary by investment objective and risk tolerance, investors should consider implementing this type of reallocation while municipal bond yields remain above the rate of inflation (on a tax-adjusted basis) and significantly higher than their average levels over the past ten years.

MIEP is designed to function as a reasonable alternative for excess cash, with the primary objectives of preserving capital, mitigating risk, and generating sustainable tax-advantaged income. In this environment, municipal bond portfolio construction should encompass the unique risk mitigation considerations for the next phase of the interest rate cycle. Two major themes typically emerge during Fed easing campaigns: (1) a steeper yield curve and (2) wider credit spreads. We expect these themes to serve as the primary determinants of municipal bond performance in 2024 and have tailored MIEP's investment strategy to address both of those issues.

To prepare for a steeper curve (lower short-term yields coupled with flat to higher long-term yields), we are targeting the portfolio's duration at approximately 5 years, which is approximately 85% of the MBI's duration. Short-term and intermediate-term yields tend to follow the path of the fed funds rate, while longer-term yields are more heavily influenced by growth and inflation expectations, along with technical supply and demand factors. Concentrating the expected future principal cash flows in the intermediate-term segment of the curve should assist performance and mitigate risks in several ways, including maximizing potential roll down benefits, reducing front-end reinvestment risk, and lowering the inflation risk associated with longer duration instruments.

As the curve steepens, credit spreads tend to widen, with investors demanding greater compensation for the risk of an economic recession and higher default rates. When municipal credit spreads widen, higher-rated sectors typically outperform lower rated sectors, as investors flock to the perceived safety of AAA-rated debt.

To mitigate the risks associated with wider municipal credit spreads, MIEP maintains a significantly higher credit quality posture relative to the MBI. Compared to the benchmark, MIEP holds an overweight in AAA-rated municipal bonds (including cash) of 675 bps, with a commensurate underweight to securities with lower credit ratings (including non-rated bonds). As the year progresses, we will respond to any significant relative value changes in the municipal bond market by prudently increasing credit risk exposure as macro conditions warrant.

INVESTMENT PERFORMANCE DISCLOSURE

MUNICIPAL INCOME ENHANCED PORTFOLIO WRAP COMPOSITE (01/01/2017 – 12/31/2022)

Year-End	Gross-of-Fees Return*	Net-of-Fees Return**	Benchmark Return	Composite 3 Yr. Ex Post Std. Deviation	Benchmark 3 Yr. Ex Post Std. Deviation	Composite Number of Portfolios	Internal Dispersion (%)	Composite Assets (USD Mil.)	Strategy Assets (USD Mil)†	Firm & Advisory Assets (USD Mil.)
2017	6.5%	6.5%	5.4%	N/A	N/A	<6	N/A	$0.02	$0.03	$3,785
2018	-1.6%	-1.6%	1.3%	N/A	N/A	<6	N/A	$0.02	$0.03	$3,831
2019	11.3%	11.3%	7.5%	N/A	N/A	<6	N/A	$0.02	$0.03	$4,294
2020	4.0%	4.0%	5.2%	5.4%	4.0%	<6	N/A	$0.05	$0.06	$4,012
2021	2.2%	-0.8%	1.5%	5.0%	4.0%	<6	N/A	$0.15	$0.20	$5,038
2022	-9.4%	-12.1%	-8.5%	7.1%	6.5%	<6	N/A	$0.14	$2.50	$4,469

** Supplemental information. Please see Fees section for details. ** Net returns are calculated by subtracting the highest applicable wrap fee (3.00% on an annual basis) from* the gross composite return. † Supplemental Information.

EquityCompass Investment Management, LLC ("EquityCompass") claims compliance with the Global Investment Performance Standards ("GIPS®") and has prepared and presented this report in compliance with the GIPS standards. EquityCompass has been independently verified for the periods 06/01/14–12/31/22. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

Definition of the Firm

EquityCompass is registered as an investment adviser with the Securities and Exchange Commission. The firm provides a broad range of investment strategies to individuals, financial intermediaries, and institutions in the United States. EquityCompass, a wholly owned subsidiary of Stifel Financial Corp., was organized as an entity in 2007, and has been registered with the SEC since May 5, 2008. SEC Registration does not imply a certain level of skill or training. Please refer to the firm's ADV Part 2 for additional disclosures regarding the firm and its practices. To obtain a GIPS Report or a list of our composite descriptions and/or policies for valuing investments, calculating performance, and preparing GIPS reports, please call (443) 224-1231 or send an e-mail to info@equitycompass.com.

Composite Description

The performance results displayed herein represent the investment performance record for the Municipal Income Enhanced Portfolio Wrap Composite. The composite includes wrap and non-wrap accounts that are invested in the composite strategy and managed on a discretionary basis by EquityCompass. Municipal Income Enhanced Portfolio strategy utilizes exchange-traded funds to seek capital preservation, return stability, and supplemental income as part of a diversified investment portfolio. It is available in wrap fee programs through third-party intermediaries (each, a "Sponsor") that have engaged EquityCompass to manage client accounts on a discretionary basis or to provide non-discretionary investment recommendations in the form of model portfolios. The Composite was created in January 2018 and the inception date is January 1, 2017.

Benchmark Description

The benchmark is the Bloomberg U.S. Municipal Bond Index. The Bloomberg U.S. Municipal Bond Index measures the performance of the U.S. municipal bond market. It is composed of approximately 1,100 bonds; 60% of which are revenue bonds and 40% of which are state government obligations. All benchmark returns are shown on a total return basis and assume that all cash distributions, such as dividends, are reinvested. The volatility of the indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

Fees

Gross-of-fees returns, are gross of portfolio management and custody fees and net of all trading costs in the case of non-wrap accounts and those wrap accounts traded by EquityCompass. Trading costs are not deducted from gross-of-fee return calculation if the wrap account trades are executed by the Sponsor. Net returns are calculated by subtracting the highest applicable annual wrap fee (3.00%, by deducting 0.75% quarterly) from the gross composite return. The EquityCompass management fee per annum is 0.15%. Clients are typically charged a wrap fee which includes, in addition to the manager fee, trading expenses, as well as custody and administrative fees. The wrap fee schedule varies by Sponsor and is available upon request.

Reporting Currency

Valuations are computed and performance reported in U.S. dollars (USD).

Annualized Standard Deviation

The three-year annualized ex post standard deviation measures the variability of the monthly returns of the composite (gross-of-fee) and the benchmark over the preceding 36-month period; it is not presented for periods of less than three years.

Internal Dispersion

Internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns of all accounts that were in the composite for the entire year; it is not presented for periods less than one year or when there were fewer than five accounts in the composite for the entire year.

Assets

Strategy Assets include all discretionary and non-discretionary accounts invested in the Municipal Income Enhanced Portfolio strategy. Accounts that are excluded from the composite because of significant cash flows or for other reasons are also included in Strategy Assets. This is presented as supplemental information.

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It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. Closed-end funds are subject to market risk, and the amount you receive upon sale may be more or less than the amount you paid. Investors should consider a fund's investment objective, risks, charges, and expenses carefully before investing. No representation is made that any Strategy, model, or model mix will achieve results similar to those shown in these materials. Diversification (or asset allocation) does not ensure a profit or protect against loss. Rebalancing may have tax consequences, which should be discussed with your tax advisor.

Leverage magnifies the potential for gain and loss on monies invested. In a leveraged fund, an investor will bear a greater share of the losses and a greater share of the gains in a particular investment than would be the case in an unleveraged investment fund.

Exchange Traded Funds (ETFs) are subject to market risk, including the possible loss of principal, and may trade for less than their net asset value. ETFs trade like a stock, and there will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account. Investors should consider an ETF's investment objective, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other important information, is available from your Financial Advisor and should be read carefully before investing.

The **Bloomberg U.S. Municipal Bond Index** measures the performance of the U.S. municipal bond market. It is composed of approximately 1,100 bonds; 60% of which are revenue bonds and 40% of which are state government obligations. All index returns are shown on a total return basis and assume that all cash distributions, such as dividends, are reinvested. All index returns are shown on a total return basis and assume that all cash distributions, such as dividends, are reinvested. The volatility of the indices identified in this report may be materially different from the volatility of the model portfolios presented by EquityCompass. Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment.

The **Consumer Price Index (CPI)** measures the change in prices paid by consumers for goods and services. The CPI reflects spending patterns for each of two population groups: all urban consumers and urban wage earners and clerical workers.

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.

*Total assets combines both Assets Under Management and Assets Under Advisement as of March 31, 2024. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

Past performance does not guarantee future performance or investment results.

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