Municipal Income Enhanced Portfolio

Portfolio Manager Commentary

As of 9/30/2024

Q3 2024 Review

After a lackluster start to the year, the Bloomberg U.S. Municipal Bond Index (MBI) rebounded sharply in the third quarter, with a solid total return of 2.71%. This performance represented the first positive quarter for MBI since the fourth quarter of 2023. On a year-to-date basis, the MBI has advanced by 2.30% through September 30.

The primary catalyst for the municipal bond market's strong third quarter showing was the Federal Reserve's (Fed) decisive shift toward less restrictive monetary policy. At the September 18 meeting of the Federal Open Market Committee (FOMC), the Fed cut interest rates for the first time in over four years, delivering a sizable 50 basis point (bps) reduction in the overnight federal funds rate. In addition to this initial step on the path to policy normalization, the Fed provided forward guidance that showed another 150 bps of rate cuts through the end of 2025.

Anticipating a further decline in short-term rates, municipal yields have declined notably across the curve, sparking a broad-based rally in municipal bonds. The 10-year AAA municipal bond yield dropped by 30 bps during the third quarter to 2.59%—its lowest monthly close since March. Rates on the front-end of the curve fell to an even greater extent, led by a 77 bps decline in the two-year AAA yield to 2.37%.

The **Municipal Income Enhanced Portfolio (MIEP)** also enjoyed a strong quarter, with a total return of 2.94% (2.17% net of maximum potential fees). Through the first three quarters of 2024, MIEP recorded a total return of 3.57% (1.26% net), compared to 2.30% for the MBI. MIEP's 11% allocation to closed-end municipal bond funds has been the primary driver of the portfolio's favorable relative results this year, as these funds have produced an average total return of 12.3% through September 30.

Q4 2024 Outlook

Our second quarter commentary noted that *"despite the municipal bond market's weak first half, the outlook for fixed income appears more favorable for the remainder of 2024."* As support for our constructive view, we cited the following four positive factors: (1) above-average yields, (2) a more dovish Fed, (3) slower economic growth, and (4) incremental progress toward lower inflation. During the third quarter, those influences provided a considerable boost to the fixed income sector and should continue to generate a tailwind for the municipal bond market through the end of this year and well into 2025.

While municipal yields are not quite as attractive as they were three months ago, they remain well above their average levels over the past

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 $5.3 billion as of September 30, 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 %	2.94	3.54	3.57	10.69	-0.30	1.05	2.58	6.52	-1.55	11.26	4.05	2.22	-9.41	4.63
Benchmark %	2.71	2.69	2.30	10.37	0.09	1.39	2.61	5.45	1.28	7.54	5.21	1.52	-8.53	6.40
Net %	2.17	1.99	1.26	7.40	-3.27	-1.95	-0.46	3.38	-4.51	7.99	0.98	-0.80	-12.13	1.54

As of 9/30/2024; Inception—January 1, 2017; Benchmark = Bloomberg U.S. Municipal Bond Index

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

decade. Using the 10-year AAA yield as an example, this rate ended the third quarter at 2.6%, which was above its 10-year average of 1.9%. From a historical perspective, municipal bonds have consistently produced attractive forward total returns when their yields at acquisition were above their longer-term averages.

In addition to producing above average income, municipal bonds have the potential to generate further capital appreciation over the course of the Fed's ongoing easing cycle. The central bank's latest forward guidance, as displayed in the "dot plot," projects 50 bps in additional rate cuts in the fourth quarter, followed by another 100 bps of reductions in 2025. Assuming those expected cuts come to fruition, the upper end of the policy range for the fed funds rate would fall from 5% to 3.5%. Interest rate futures are anticipating an even more aggressive easing cycle, with quarter-end pricing reflecting a 3% fed funds rate by the conclusion of next year. During easing cycles of a similar magnitude over the past 40 years, bond yields have fallen in sympathy with the fed funds rate, resulting in meaningful price appreciation for the sector.

As Jerome Powell has noted on numerous occasions, the precise size and timing of rate cuts will depend largely on the incoming economic data and the progress toward the Fed's dual mandate. From that perspective, the macro outlook appears conducive for a series of rate cuts over the next 15 months. The latest survey of leading economists published by Bloomberg projects a notable slowdown in economic growth through the end of next year. After averaging 2.8% over the past five quarters, gross domestic product (GDP) growth is expected to slow to 1.8% over the next five quarters, according to consensus estimates.

This expected moderation in aggregate economic output should put further downward pressure on inflation. The latest reading on the Consumer Price Index (CPI) reflected a year-over-year increase of 2.5% through August, down from a peak of 9.1% in June 2022. The Bloomberg survey calls for CPI to continue its gradual descent, reaching an annual rate of 2.2% by the end of next year.

Portfolio Strategy

MIEP is designed to preserve capital, address market risk, and generate sustainable income over a five-year window. From a tactical perspective, the portfolio has been positioned to potentially benefit from the three major themes that typically emerge during Fed easing campaigns: (1) lower municipal bond yields, (2) a steeper curve, and (3) wider credit spreads.

Assuming no differences in credit quality, longer duration bonds should outperform shorter duration bonds in a declining rate environment. As the Fed was raising interest rates to restrictive levels in 2022 and 2023 to combat high inflation, we gradually increased the duration of MIEP from 4.0 years to 5.2 years. These duration extension trades were designed to position the portfolio to take advantage of lower rates once the Fed pivoted toward a more neutral policy regime. This duration repositioning benefited the portfolio in the third quarter and should continue to facilitate price appreciation as the Fed's easing cycle progresses.

Compared to the MBI's duration of 6.1 years as of September 30, we have elected to maintain MIEP's duration at nearly a year shorter due to our assessment of the less favorable risk/reward tradeoffs available for longer duration bonds and in anticipation of a steeper yield curve. When the Fed shifts into easing mode, short-term and intermediate-term bond yields tend to closely follow the downward path of the federal funds rate, while longer-term yields are more heavily influenced by growth and inflation expectations, along with technical supply and demand factors, and often lag the decline in shorter-term yields.

To address the risks associated with a potentially steeper yield curve, MIEP's duration and curve positioning incorporate an overweight to intermediate-duration bonds (three to ten years) and an underweight to long-duration securities (greater than 10 years), relative to the MBI. The portfolio's structure should assist performance and address yield curve steepening risk in several ways, including capturing potential price appreciation by rolling down a steeper curve and reducing market value volatility compared to longer duration portfolios.

In addition to a steeper yield curve, wider credit spreads are another common feature of Fed easing cycles, particularly in the early stages of the shift toward less restrictive policy. Part of the Fed's justification for lowering rates in September was to counteract the negative trends of higher unemployment and slower economic growth, which have become increasingly evident over the past few months. As these macro concerns continue to unfold, we expect municipal credit spreads to normalize from their historically narrow levels.

To mitigate the risks associated with wider 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 300 bps, with a commensurate underweight to securities with lower credit ratings (including non-rated bonds).

MUNICIPAL INCOME ENHANCED PORTFOLIO WRAP COMPOSITE (01/01/2017 – 12/31/2023)

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
2023	4.6%	1.5%	6.4%	7.1%	7.5%	<6	N/A	$0.14	$4.50	$4,707

** 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 06/01/2014-12/31/2023. 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 t oinfo@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 actual transaction costs in the case of non-wrap accounts and those wrap accounts traded by EquityCompass. If the wrap account trades are executed by the Sponsor, transaction costs are bundled with the wrap fee and therefore not deducted from gross-of-fee return calculation. 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.

Trademark Disclosures

GENERAL DISCLOSURES

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed and is not a complete summary or statement of all available data nor is it considered an offer to buy or sell any securities referred to herein. Affiliates of EquityCompass may, at times, release written or oral commentary, technical analysis, or trading strategies that differ from the opinions expressed within. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation, or needs of individual investors.

This commentary often expresses opinions about the direction of market, investment sector, and other trends. The opinions should not be considered predictions of future results. The information contained in this report is based on sources believed to be reliable, but is not guaranteed and not necessarily complete. All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. Equity investments are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors to varying degrees. Fixed Income investments are subject to market, market liquidity, issuer, investment style, interest rate, credit quality, and call risks, among other factors to varying degrees.

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 September 30, 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.