Birch Run Investments

Tax Exempt Total Return

October 2022

Holding-Based Statistics

	Tax Exempt Total Return	Bloomberg Muni Bond
Yield to Maturity	4.46%	4.38%
Effective Duration	6.41 years	6.66 years
Average Credit Quality	A	AA-

Strategy Statistics

Trailing 12 Month Turnover	5%
Firm Assets	228.71
Product Assets	15.64

Investment Philosophy

The Tax Exempt Total Return strategy seeks to deliver total return and a high level of tax-exempt income by constructing a diversified and high quality portfolio of municipal securities. Using a value oriented and opportunistic approach, the strategy takes advantage of the entire yield curve and investment grade credit quality spectrum. This separate account strategy can be customized to meet individual liquidity needs or risk tolerance.

Portfolio Management Team

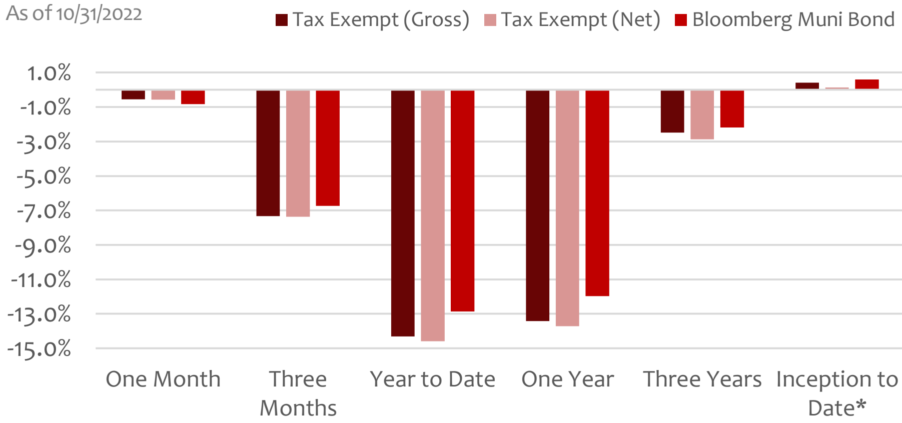
David Killian
John DeLaney
Joseph Shacklock

Inception Date

6/30/2017

Annualized Performance

As of 10/31/2022

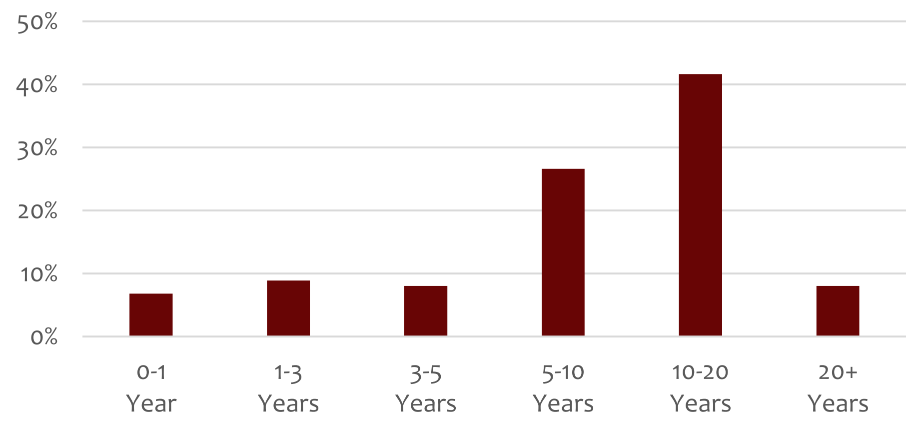


	One Month	Three Months	Year to Date	One Year	Three Years	Inception to Date*
Tax Exempt (Gross)	-0.56%	-7.33%	-14.32%	-13.42%	-2.49%	0.41%
Tax Exempt (Net)	-0.57%	-7.37%	-14.59%	-13.71%	-2.87%	0.13%
Bloomberg Muni Bond	-0.83%	-6.73%	-12.86%	-11.98%	-2.18%	0.59%

* Inception 6/30/2017

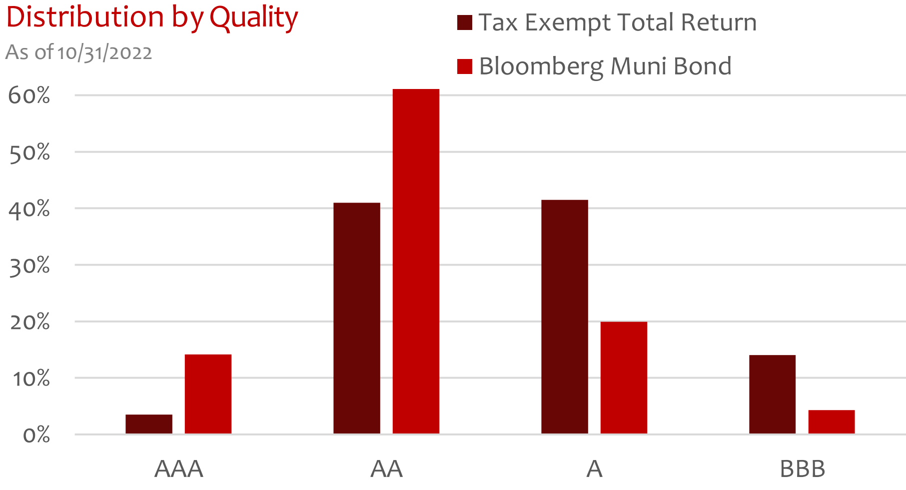
Maturity Distribution

As of 10/31/2022



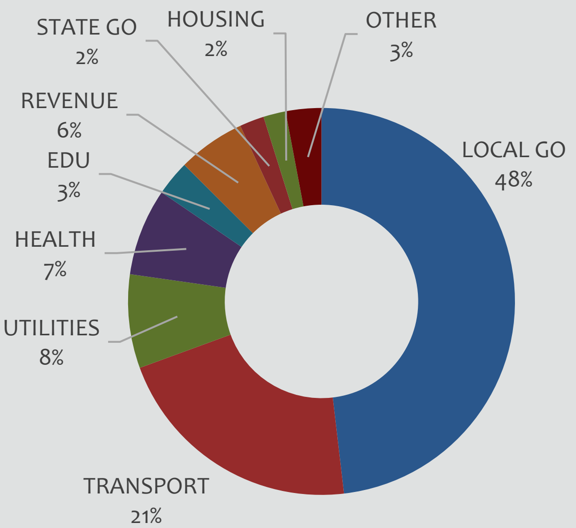
Distribution by Quality

As of 10/31/2022



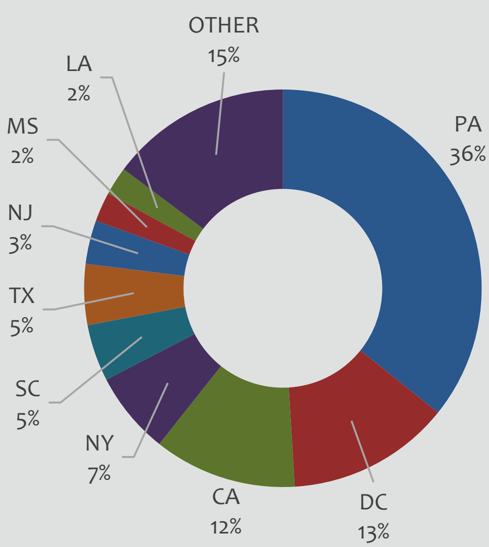
Sector Distribution

As of 10/31/2022



State Distribution

As of 10/31/2022



Birch Run
INVESTMENTS

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3Q 2022 Portfolio Commentary

Consistent with the first half of 2022, during the third quarter investors continued to closely monitor inflation trends, which remain persistently above the Federal Reserve's long term goal of 2%, and the likely policy response from the Federal Reserve. The Federal Reserve, despite having raised the Fed Funds Rate aggressively in 2022, is yet to see any meaningful moderation in inflationary pressures. The tight labor market has been an area of focus for the Federal Reserve, as a historically low unemployment rate continues to foster wage pressures. For the month of September, payroll additions marked a modest slowdown from August, however, the unemployment rate once again came in below expectations at 3.5% which suggests that Federal Reserve policy has yet to show any progress in bringing labor supply and demand into better balance.

Earlier in the year, market consensus was that achieving a neutral level of the Fed Funds rate would be sufficient to tame inflation and that it would soon thereafter allow for a Fed "pivot". It was believed by many market participants that evidence of peak inflation would prompt the Fed to consider slowing the pace of rate increases and perhaps as early as 2023, begin to reverse course and actually begin the process of lowering interest rates. However, troublesome economic data received late in the quarter, which included the August CPI print, increasing at an 8.3% when compared to the year earlier, quickly called this optimistic outlook into question. Messaging from the Federal Reserve reinforced the markets abrupt shift away from expecting a near term Fed pivot by emphasizing that a neutral Fed Funds rate would no longer be sufficient and that a more restrictive Fed Funds rate would be appropriate and this higher level would need to be maintained for quite some time. Expectations are now that the Fed will, at their next meeting in November, raise the Funds rate by 75 basis points, and at the last meeting in December an additional 50 basis points. If realized, this would result in a year end Federal Funds rate of 4.5%, a level that is viewed as firmly restrictive.

This abrupt shift away from a projected neutral Fed Funds policy to a more restrictive one resulted in a dramatic increase in yields during the quarter. The 2-Year U.S. Treasury yield increased 132 basis points to end the quarter at a rate of 4.28% while the 10-Year U.S. Treasury yield rose 80 basis points, ending the period at 3.82%. A troubling market indicator continues to be the changing shape of the U.S. Treasury yield curve, which during the quarter shifted to a meaningfully inverted level. The difference in yield between the 2-Year Treasury and the 10-Year Treasury is currently -46 basis points, which suggests an increasing likelihood that the Fed's aggressive policy response will push the economy into a recession in the coming year. Other market signals that confirm this view and suggest that a soft landing will be a difficult task for the Fed include a widening in corporate bond spreads and recent weakness in the stock market.

While aggressive policy adjustments enacted by the Federal Reserve to bring down inflation have weighed heavily on bond market returns year to date, we believe that further downside from this point is limited. The material repricing in the bond market during the third quarter has resulted in U.S. Treasury yields of all maturities centered around 4%, a level in our view which represents fair value and fully incorporates the current outlook for the future path of the Fed Funds rate.

During the quarter we have seen renewed investor demand for high quality municipal bonds, which reflects the material increase in yields seen during the period. As measured by the Bloomberg Barclay's Municipal Bond Index, the sector returned -3.46% for the quarter, outperforming the broader bond market average of -4.75% as measured by the Bloomberg Barclay's Aggregate Bond Index. While the U.S. Treasury curve is deeply inverted, the municipal bond curve remains positively sloped. Reflecting still full valuations at the short end of the municipal bond market, we continue to favor high quality taxable corporate bonds of the same maturity. We are also increasingly attracted to intermediate municipals where yields are approaching 5% for high quality issuers. As we have stated in prior commentary, our approach this calendar year has been a conservative one, and we continue to favor general obligation and essential service revenue municipals of the highest quality.