Birch Run Investments

# Tax Exempt Total Return

May 2023

## Holding-Based Statistics

| | Tax Exempt Total Return | Bloomberg Muni Bond |
|---|---|---|
| Yield to Maturity | 4.19% | 4.03% |
| Effective Duration | 5.57 years | 5.96 years |
| Average Credit Quality | A | AA- |

## Strategy Statistics

| | |
|---|---|
| Trailing 12 Month Turnover | 4% |
| Firm Assets | 234.43 |
| Product Assets | 16.69 |

## 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

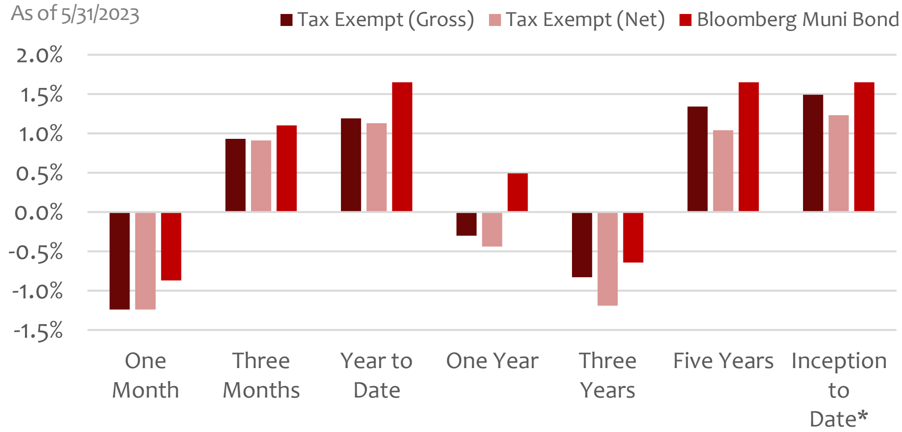
David Killian
John DeLaney, CFA
Joseph Shacklock

## Inception Date

6/30/2017

## Annualized Performance

As of 5/31/2023

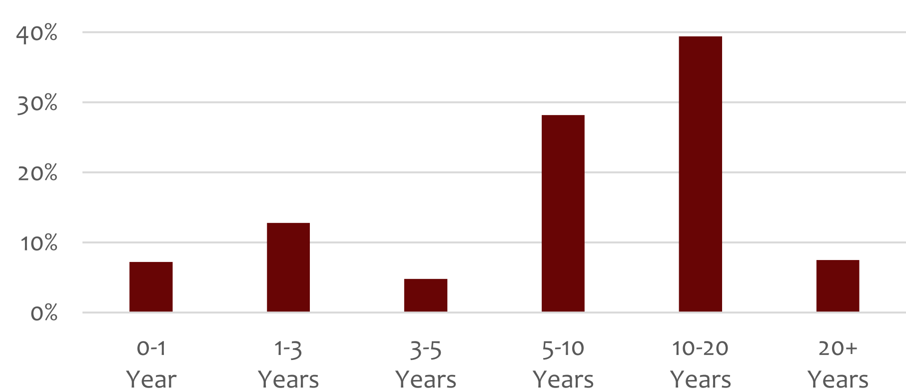



| | One Month | Three Months | Year to Date | One Year | Three Years | Five Years | Inception to Date* |
|---|---|---|---|---|---|---|---|
| Tax Exempt (Gross) | -1.24% | 0.93% | 1.19% | -0.30% | -0.83% | 1.34% | 1.49% |
| Tax Exempt (Net) | -1.24% | 0.91% | 1.13% | -0.44% | -1.19% | 1.04% | 1.23% |
| Bloomberg Muni Bond | -0.87% | 1.10% | 1.65% | 0.49% | -0.64% | 1.65% | 1.65% |

* Inception 6/30/2017

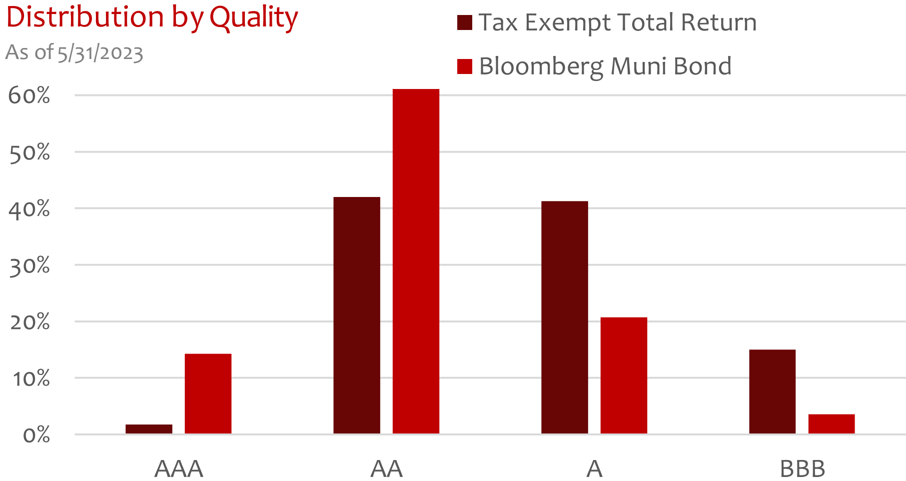
## Maturity Distribution

As of 5/31/2023



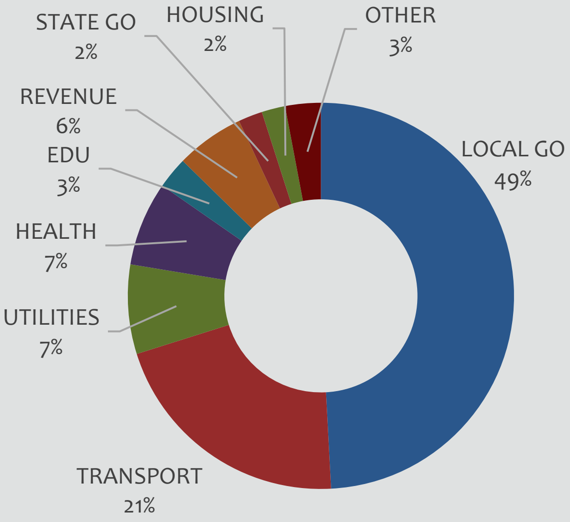

## Distribution by Quality

As of 5/31/2023



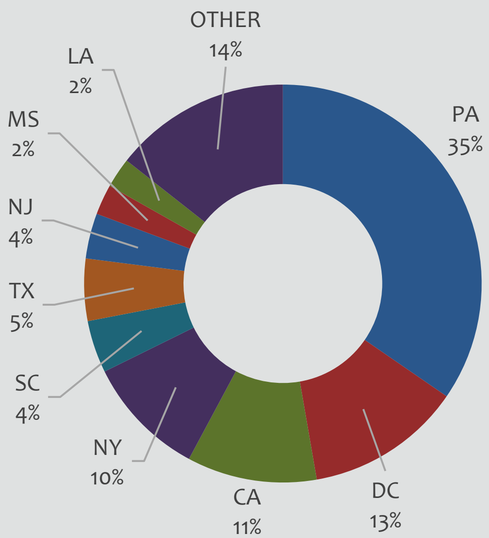
## Sector Distribution

As of 5/31/2023




## State Distribution

As of 5/31/2023

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## 4Q 2022 Portfolio Commentary

2022 was historic for the capital markets by almost any measure: 1) the federal funds rate increased 425 basis points, the largest increase in a calendar year since 1980; 2) U.S. Treasury yields increased dramatically with 2-Year and 10-Year yields increasing 370 and 240 basis points respectively; 3) the S&P 500 declined 18% with highly owned growth stocks fairing even worse; 4) crypto currency Bitcoin declined by 64%; 5) inflation, as measured by CPI, which has historically averaged 2%, ended the year at 7%. The last of these five observations is the primary cause of the previous four, as the Federal Reserve continues unabated on its path to raise short term interest rates until such time as inflation returns to a more sustainable level of 2%. After fifteen years of easy monetary policy, which included short term interest rates near zero domestically, and the effects of the new monetary tool that emerged following the Great Financial Crisis (Quantitative Easing), the proverbial bill has now come due. In response, the Federal Reserve is attempting to return the capital markets to a more typical condition which is not influenced by these extraordinary policies implemented during periods of economic crisis. This transition to a more normal functioning of the capital market system is also evident globally in the elimination of negative yielding sovereign debt.

Recent declines in consumer prices reinforce the view that inflation has peaked, and with the target federal funds rate now within a restrictive zone, a continued moderation in prices is likely. This will allow policymakers the opportunity to pause additional rate increases in the coming months, however history shows that prior tightening cycles do not end until the fed funds rate is above CPI. Given that monetary policy impacts the economy with considerable lag, we continue to believe that the effects of higher interest rates and the tightening in financial conditions are still yet to be fully realized, and that there remains considerable risk that the U.S. economy enters into a recession in the coming year.

While the historic policy adjustments witnessed in 2022 weighed heavily on bond market returns, we hold a favorable outlook on the prospect for returns in 2023. U.S. Treasury yields across all maturities now approximate 4% while many segments of the investment grade corporate bond market yield greater than 5.5%, levels that we believe reflect both the outlook for monetary policy and the growing risks of a recession. This current yield opportunity, which we have not seen in over fifteen years, provides an excellent foundation for forward returns. The higher yield environment continues to result in renewed investor demand for high quality municipal bonds.

As measured by the Bloomberg Municipal Bond Index, the sector returned 4.10% for the quarter, outperforming the broader bond market average return of 1.87% for the second quarter in a row, as measured by the Bloomberg Barclay's Aggregate Bond Index. While the U.S. Treasury curve remains inverted, the municipal bond curve continues to be positively sloped and provides an attractive opportunity to secure very favorable yields on intermediate maturities. However, 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.