December 31, 2021

Dear Shareholder:

It's hard to believe, but two years after first emerging the pandemic shows no signs of abating with the omicron variant spreading rapidly across the world and pushing COVID-19 infections to record levels. Our hearts go out to everyone that has been affected by the ongoing public health crisis, and we continue to be grateful for the heroic and valiant efforts of our front-line healthcare workers. We are also keeping our shareholders that may have been impacted by the recent tornadoes in western Kentucky, Tennessee, and Mississippi in our thoughts and prayers.

Municipal Market Update

While 2021 was another tough year in many respects, the municipal bond market managed to turn in a positive performance for the year. For the 12-month period ended December 31, the Bloomberg Municipal Bond Index provided a total return (which includes price changes and interest payments) of 1.52 percent. Municipal bonds outperformed other fixed-income assets such as U.S. Treasuries and investment grade corporates, both of which delivered negative total returns for the year.

The municipal market's steady performance was fueled by a combination of favorable supply and demand dynamics (i.e., limited supply combined with strong demand), improving credit fundamentals, and passage by Congress late in the year of the $550 billion infrastructure package. Solid tax revenues and unprecedented federal support have helped state and local governments weather the pandemic much better than anticipated. Municipal credit upgrades have outnumbered downgrades this year. Improving credit quality has led to strong inflows into municipal bond mutual funds and exchange-traded funds. While the number of municipal bond defaults has ticked up slightly, defaults remain concentrated almost entirely in the high yield space led by nursing homes, industrial revenue bonds, and charter schools.

Trying to predict future market performance is always hazardous, especially in the middle of a pandemic. Nonetheless, we think a couple of factors will help support the municipal bond market in the coming year.

Credit quality in the investment grade municipal bond market is currently stronger than ever. State and local governments are flush with cash thanks in large part to COVID-19 relief. State and local tax revenues have soared as nominal profits and incomes have risen. Property, corporate, sales, and individual tax revenues have all risen sharply thanks to a strong economic recovery, a frothy stock market, a strong housing market, and ongoing federal assistance. That, coupled with the fact that U.S. municipalities are set for another large multi-year infusion of cash from the infrastructure package, has led many to conclude that municipal bonds may be set for a "golden decade" of credit ahead. The credit quality of each of our Funds is very strong, and we believe that the credit quality will remain strong in light of these factors.

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Seasonal factors should also help support the municipal bond market as we start the new year. Historically, the "January Effect" has been supportive of municipal bond performance as reinvestment income from maturities, calls, and coupons significantly outpaces new supply. Continued strong demand, coupled with a net negative supply of municipal bonds, will likely help the municipal bond market get off to a strong start next year and should act as a floor for any potential price declines.

One slightly technical observation and potentially bullish development is also worth noting. Recently, the strong historic correlation between municipal bonds and U.S. Treasuries has weakened. As this year's performance demonstrated, municipal bonds simply are not tracking U.S. Treasuries the way they used to. One plausible explanation for the decoupling is that the municipal bond buyer base is increasingly comprised of small retail buy-and-hold investors, as opposed to institutional investors which dominate the Treasury market. This "stickier" buyer base has resulted in less volatility for municipal bonds. If this trend continues, it potentially has implications for next year as the weaker correlation makes municipal bonds more attractive as a potential hedge against rising Treasury yields.

Federal Reserve Update

The Federal Open Market Committee (FOMC) met on December 15 and left the federal funds rate unchanged at 0 to ¼ percent. In response to persistently elevated inflation readings, it decided to double the pace of its quantitative easing taper which it first announced in November. The taper should be complete by as early as March. The FOMC's statement was notable because it abandoned the term "transitory" that it had previously used to describe inflationary pressures which remain stubbornly high. The guidance on interest rate hikes also changed and is now weighted more towards labor market conditions (i.e., future assessments of maximum employment) rather than price stability. Overall, there were no huge surprises. The FOMC is still expected to raise interest rates by the same amount, but interest rate hikes are now expected to start sooner than originally anticipated.

Capital Gain Distributions

Capital gains distributions were made in four of our Funds this year: (i) the Kentucky Tax-Free Income Series, (ii) the Mississippi Tax-Free Income Series, (iii) the North Carolina Tax-Free Short-to-Medium Series, and (iv) the Alabama Tax-Free Income Series. Capital gains distributions were made on December 16, 2021—separate from and prior to end-of-year dividends. These capital gains distributions, along with all transactions made in your accounts in 2021, will be reflected on your end-of-year statements.

Thank you for investing with us. Happy New Year!

Sincerely,

Allen E. Grimes, III

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President

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