Dupree
Mutual Funds

September 30, 2023

Dear Shareholder:

Municipal bonds posted negative total returns during the third quarter amid rising interest rates. The recent bond market selloff more than wiped out the positive municipal market performance posted during the first half of the year. The Bloomberg Municipal Bond Index provided a total year-to-date return of -1.38% percent through September 30.

Interest rates have moved higher as economic growth has continued to be resilient and inflation rates have remained elevated. At its September meeting, the Federal Reserve (the "Fed") reiterated its hawkish monetary policy stance by telegraphing a "higher-for-longer" message. While the Fed left the target range for the federal funds rate unchanged at 5-1/4 to 5-1/2%, it also made it clear that one additional interest rate hike is still on the table in 2023. The Fed also signaled that it is not contemplating any interest rate cuts in the near future, hence the higher-for-longer theme.

When bond prices experience sharp declines, nervous investors instinctively panic and sell their fixed income investments. We've mentioned this issue before, but it's worth repeating in the current environment: market timing is invariably a losing strategy. History has demonstrated that patient fixed income investors who stay fully invested through up and down market cycles are almost always rewarded with higher long-term returns. As such, for investors with a reasonably long investment time horizon, the prudent thing to do in a volatile market is to simply keep calm and carry on.

In times like these, it's critical that investors keep a proper long-term investment perspective. ***Higher yields and a normalized interest rate environment are positive developments for long-term fixed income investors***. Periods of rising interest rates don't always result in losses in bond portfolios over the long run. This is the case because the income component of fixed income investments generates over 90% of total return, even over relatively short periods of time.

For investors in higher tax brackets and with some tolerance for risk, we believe today's higher yields present a rare opportunity to purchase attractive levels of tax-free income at bargain prices. As portfolio managers, we are excited to have the chance to purchase high-quality municipal issues with tax-exempt yields approaching 4.75%. Tax-exempt yields haven't been this attractive for well over a decade. Keep in mind that as we replace older, lower yielding municipal bonds with newer, higher yielding bonds it will have the effect of causing the distribution yields of all our investment portfolios to gradually increase over time.

The municipal bond market is very resilient, and we remain optimistic that market conditions and investor sentiment will improve. Among other things, the approaching end to the Fed's interest rate tightening cycle, favorable supply and demand patterns, and an increased probability of an economic slowdown should help support bond prices as we start the final quarter of the year.

As always, we appreciate the trust that you have placed in us. Keep the faith!

Sincerely,

Allen E. Grimes, III

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President

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