December 31, 2025

Dear Shareholder:

Municipal bonds weathered a volatile 2025 which was characterized by market fallout from tariffs, sizeable swings in tax-exempt yields, significantly higher new issue volume, record trading volumes, and shifting interest rate dynamics.

During the first half of the year, longer-end tax-exempt yields moved higher as firmer inflation readings and a resilient economy kept the Federal Reserve ("Fed') on hold. However, during the second half of the year, momentum shifted, and tax-exempt yields declined significantly as labor market conditions softened and the Fed resumed its easing cycle. Despite the choppy nature of the market, investment grade municipal bonds posted solid returns with the Bloomberg Municipal Bond Index providing a total return of 4.25% for the 12-month period ending December 31, 2025.

The Fed cut the federal funds target rate range 25 basis points at its December 10 meeting to 3.50-3.75%, noting that downside risks to employment had risen. The Fed's job is particularly tricky right now given its dual mandate of price stability and maximum employment. With inflation still above the Fed's 2% target rate and recent signs of labor market weakness, there's an inherent tension between the hawks (focused primarily on inflation) and the doves (focused primarily on employment) that sit on the Federal Open Market Committee ("FOMC"). However, as Fed Chair Powell noted in his post-meeting remarks, the disagreement among FOMC members is not whether to hike or cut, but rather <u>when the next rate cut should occur</u>. The Fed's next meeting is on January 28.

We have been busy repositioning our investment portfolios to take advantage of the higher yields that are currently available in the market. Among other things, this entails selling lower coupon, lower yielding bonds and replacing them with higher coupon, higher yielding bonds. Over time, the net effect of this will be to increase the distribution yields of our funds.

Many of the trends and forces that impacted the municipal bond market this year are likely to continue in 2026. Most market participants expect that supply will remain elevated and that demand will continue to be robust, especially as investors look for new places to lock in higher yields when cash interest rates decline further. Continued strong demand, stable credit conditions, and additional rate cuts should all act to support the municipal bond market in 2026.

As always, we appreciate the trust that you have placed in us. Happy New Year!

Sincerely,

Allen E. Grimes, III

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President

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