



June 30, 2026

Dear Shareholder:

Despite experiencing a brief selloff in March and some volatility in May, municipal bonds performed relatively well during the first half of this year. Strong demand for tax-exempt bonds allowed the market to efficiently digest a higher-than-normal supply of bonds, while strong credit fundamentals continued to act as support for the market. The Bloomberg Municipal Bond Index provided a total return of 2.32% for the 6-month period ending June 30.

Kevin Warsh was sworn in as the new Chairman of the Federal Reserve ("Fed") on May 22. Chair Warsh previously served as a member of the Fed Board of Governors from 2006-2011 and has pledged to change how the central bank conducts monetary policy. Among other things, he has voiced support for eliminating forward guidance (where the Fed essentially telegraphs what it expects to do next) and has also called for streamlining the Fed's policy statement and communications.

The Fed's first meeting with Chair Warsh at the helm was held on June 17, and the Fed left the fed funds target rate range unchanged at 3.50-3.75%. The decision to leave rates unchanged was unanimous. In keeping with his pledge, the Fed's policy statement was much more concise. The statement acknowledged that economic activity is expanding at a solid pace and that inflation remains above the Fed's 2 percent goal; it also tersely stated that the "Committee will deliver price stability."

Broad-based municipal credit conditions remain strong. State and local balance sheets are healthy by historical standards, and budget reserve levels remain elevated. Despite some weakness in corporate income taxes, overall year-to-date tax collections in most states remain above original estimates. As we enter the summer months, the technical backdrop for municipal bonds remains favorable with geopolitical tensions easing, issuance slowing, and demand holding.

Notwithstanding the stable market-level outlook, some sectors are showing signs of financial strain. Health care and higher education are examples of sectors where we think extra caution is warranted. With levels of credit divergence rising in the current market, careful security selection is more important than ever.

One of the most important jobs we perform as risk managers and portfolio managers is to help investors navigate the credit landscape and other nuances and quirks of the municipal bond market. We've been doing this for over 45 years and, without trying to be self-congratulatory, we think we are pretty good at it.

Thank you for investing with us. I hope you enjoy your summer!

Sincerely,

A handwritten signature in blue ink that reads "Allen E. Grimes, III".

Allen E. Grimes, III
President