

Strategy Overview - Fourth Quarter 2022

Tax-Advantaged Fixed Income

Strategy Overview

With the Tax-Advantaged Fixed Income strategy, we strive to structure customized portfolios to fit each client's investment objective: maximize after-tax income consistent with a defined level of risk and volatility. While it is important to apply the same disciplined approach and process that is well defined in traditional core fixed income strategies, specific tax-related consequences must be applied to each separate portfolio, including state income tax rates, annual net realized gain/loss position, and alternative minimum tax application. Our commitment to understanding the client's needs, united with our fixed income management expertise, provides the basis to deliver portfolio solutions that meet our clients' objectives.

Investment Philosophy

Our quantitative research process, combined with active portfolio management, defines the science and art behind our investment philosophy and approach.

Representative Portfolio Characteristics

Intermediate Duration	Portfolio
Effective Duration (yrs)	3.18
Average Maturity (yrs)	4.05
Average Credit Quality	Aa2
Average Yield to Maturity	3.03

Data as of December 31, 2022

Investment Process

Our investment process is driven by evaluating and managing key quantitative risk attributes embedded in the portfolio and in the performance benchmark.

Identify and Assess Risk Attributes

- Interest Rate (Duration)
- Credit (Quality)
- Structure (Convexity)

Establish Relative Value

- By Sector
- By Quality
- By Issuer

Construct Core Portfolio

- U.S. Treasury and Agency
- Investment-grade Corporate
- General Obligation Municipal (state, local, school district)
- Essential Service Revenue Municipal (water & sewer, electric)

Manage for Risk-Adjusted Return

Combine market-driven inputs with effective quantitative models and analytical techniques to produce superior, risk-adjusted fixed income performance results

Tax Considerations

- Marginal Tax Rate
- Capital Gains/Losses
- AMT Exposure

Portfolio Considerations

- Relative Yield Spreads
- Credit Profile
- Cash Flow Requirements

Client Considerations

- State of Domicile
- Risk Tolerance
- Wealth Profile

Tax-Advantaged Fixed Income Products

Our approach will combine what we believe to be the optimal combination of municipal bond income (Federal tax-free) with Treasury bond income (State tax-free) and investment-grade corporate bond income (Federal and State taxable) based on your individual tax bracket to maximize after-tax income.

Maintaining and growing the income stream is the investment objective, while remaining consistent with client risk/volatility standards. We manage short, intermediate and longer duration portfolios.

Investment Approach

Successful fixed income management requires a thorough evaluation and understanding of the motivation to include bonds within an asset allocation framework or portfolio strategy.

- Focused on client investment goals and objectives
- Core investment-grade fixed income strategies
- Proven quantitative investment style with analytic approach
- Unite portfolio analytics with benchmark attributes
- Effective risk management assessment and control
- Simulated portfolio and benchmark horizon-based results

Tax-Advantaged Fixed Income

Tax-Equivalent Bond Yields – Married Filing Jointly (2023)

Municipal Bond Yield	10% Marginal to \$22,000	12% Marginal to \$89,450	22% Marginal to \$190,750	24% Marginal to \$364,200	32% Marginal to \$462,500	35% Marginal to \$693,750	37% Marginal Over \$693,750
0.50%	0.56%	0.57%	0.64%	0.66%	0.74%	0.77%	0.79%
1.00%	1.11%	1.14%	1.28%	1.32%	1.47%	1.54%	1.59%
1.50%	1.67%	1.70%	1.92%	1.97%	2.21%	2.31%	2.38%
2.00%	2.22%	2.27%	2.56%	2.63%	2.94%	3.08%	3.17%
2.50%	2.78%	2.84%	3.21%	3.29%	3.68%	3.85%	3.97%
3.00%	3.33%	3.41%	3.85%	3.95%	4.41%	4.62%	4.76%

Source: Internal Revenue Service Tax Rates

Effective Decision-Making

- The collective experience of portfolio managers/analysts together with sophisticated analytical modeling software, combine to create optimal portfolios
- Portfolios designed and developed using current, real-time, market-based inputs

Portfolio Construction

- Security and sector allocations varies by risk/return attributes along with market opportunities and inefficiencies
- Focus on individual bond selections and related impact on total portfolio results
- Portfolios generally contain a minimum of 25 securities and would expand dramatically depending on size, objective, and chosen benchmark
- Active security selection process and opportunistic re-allocation of sector exposures
- Market-based simulation of portfolio expected returns relative to benchmark returns
- Sector and security exposures are consistent across portfolio strategies

Innovative Portfolio Management System

- Detailed risk attribute valuations for all major domestic benchmark indices or customized benchmarks
- Option-adjusted risk measures to effectively evaluate the risk/return profiles of securities and portfolios
- Proprietary modeling techniques which calculate risk measures and valuations for complex securities
- Scenario simulation technology which provides “what if” performance results relating to interest rate, yield curve, sector spread, or quality spread changes
- Expose and evaluate sources of potential tracking error
- Measure and confirm the impact of potential trades prior to inclusion in the portfolio

Our objective is to blend the most efficient combination of fixed income assets together in order to maximize after-tax income consistent with the client’s income requirements coordinated with their risk and volatility guidelines.

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