

# Strategy Overview – First Quarter 2021

## 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)  | 3.75      |
| Average Maturity (yrs)    | 4.90      |
| Average Credit Quality    | Aa2       |
| Average Yield to Maturity | 0.75      |

Data as of March 31, 2021

### Investment Process

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



| Tax Considerations   | Portfolio Considerations | Client Considerations |
|----------------------|--------------------------|-----------------------|
| Marginal Tax Rate    | Relative Yield Spreads   | State of Domicile     |
| Capital Gains/Losses | Credit Profile           | Risk Tolerance        |
| AMT Exposure         | Cash Flow Requirements   | 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

# Strategy Overview

## Tax-Advantaged Fixed Income

### Tax-Equivalent Bond Yields – Married Filing Jointly (2021)

| Municipal Bond Yield | 10% Marginal to \$19,900 | 12% Marginal to \$81,050 | 22% Marginal to \$172,750 | 24% Marginal to \$329,850 | 32% Marginal to \$418,850 | 35% Marginal to \$628,300 | 37% Marginal Over \$628,300 |
|----------------------|--------------------------|--------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------------------|
| 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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