APPLETON PARTNERS, INC.

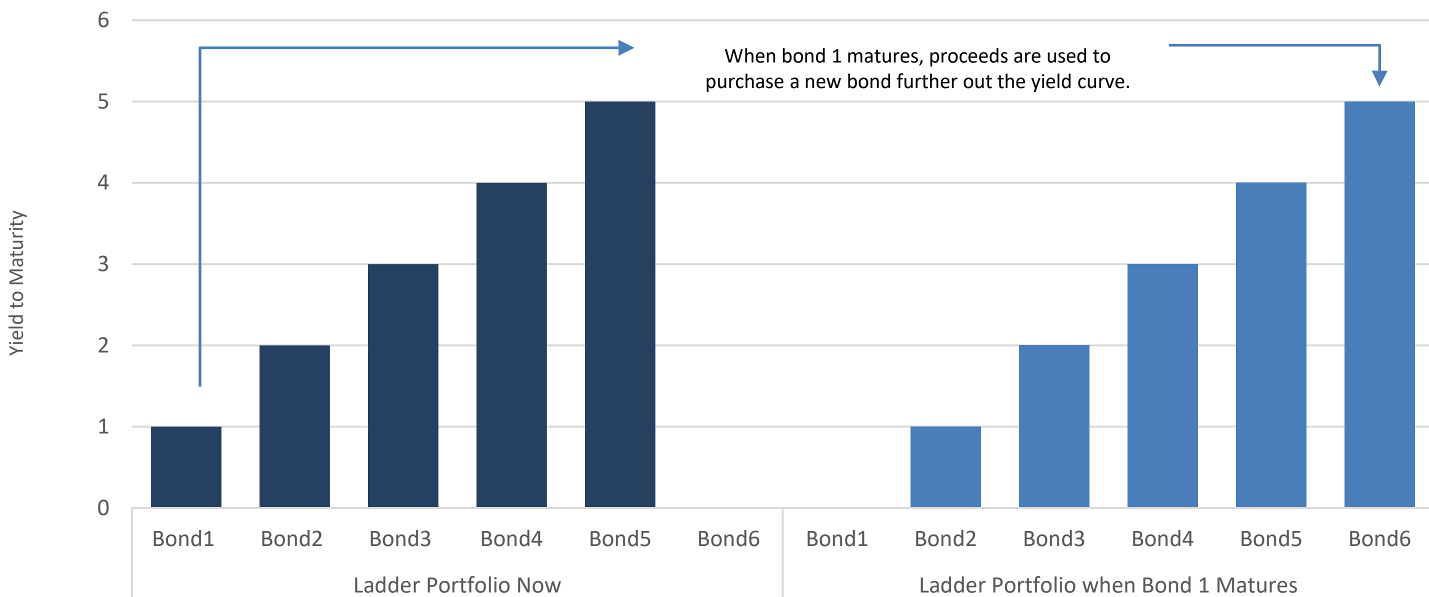
Beyond Ladders: Attributes of Active Management

Active vs. Passive Management: The Great Debate

The asset management industry has long been consumed by the active vs. passive debate. Passionate advocates line up on both sides and while, we at Appleton are strong believers in customized active management, we reject "one-size-fits-all" solutions. In the tax-exempt markets, the debate is often seen through the lens of active vs. laddered bond strategies, particularly with separately managed accounts. While there are merits to both approaches, and they appeal to different investor needs, we believe active management has certain inherent advantages.

Climbing the Muni Ladder

Bond ladders can be a good solution for those seeking simplicity and structure, as they offer a low cost, "buy and hold" approach. Muni ladders are usually made up of a series of high-quality bonds selected to minimize credit risk that mature sequentially, thereby creating a "ladder." Bond proceeds are typically reinvested at the top of the ladder, a process that effectively replaces maturity structure as bonds roll down the ladder. This can be helpful in rising rate environments, as maturing capital and income is reinvested at higher nominal yields.



Source: Appleton Partners, Inc

Laddered Limitations

However, simplicity inherently introduces constraints, whether building bond portfolios or in most other aspects of life. For one, systematic "buy and hold" approaches lack flexibility, a significantly limiting factor should a client's cash flow or income requirements change during the holding period. Breaking a ladder to adjust to a client's evolving needs alters the foundation upon which the ladder was initially built.

Bond ladders also do not have an active manager's ability to opportunistically react to changes in the interest rate environment or yield curve, nor are they positioned to benefit from credit market inefficiencies. In a $3.9 trillion municipal marketplace featuring more than 1 million outstanding bond issues, tactical flexibility backed by credit research expertise can add considerable value.

Furthermore, should laddered portfolios be constructed without the benefit of deep institutional dealer networks, investors may face substantial performance hindering cost disadvantages. In fact, in 2016, Bond Buyer reported that the estimated median markup on retail municipal trades was 1.20%. This speaks to the value of institutional pricing and trade execution, particularly in markets where bond inventory is not readily available.

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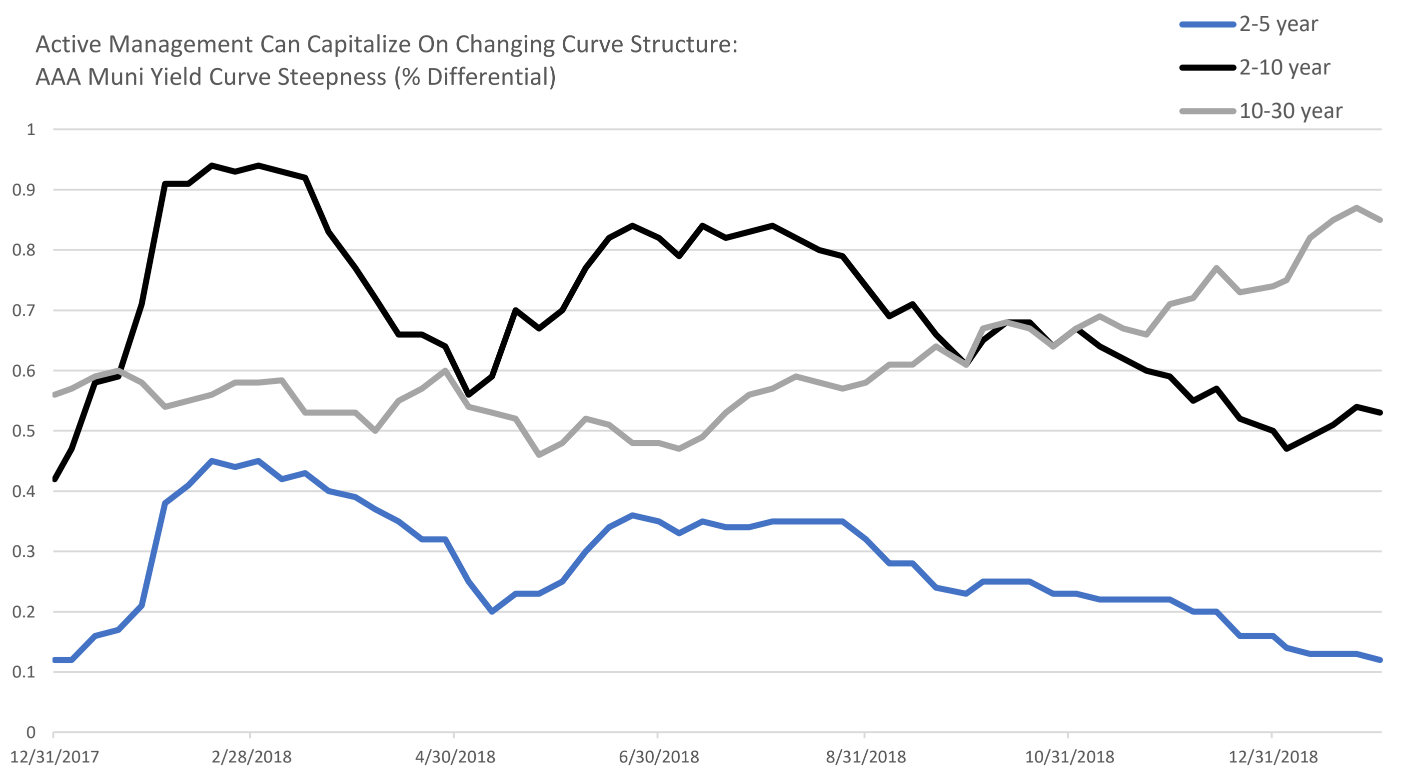
BEYOND LADDERS: ATTRIBUTES OF ACTIVE MANAGEMENT

ACTIVELY SEEKING VALUE

At Appleton, we emphasize credit quality and liquidity, as these characteristics help preserve capital and give us an ability to adjust portfolios as market conditions and client circumstances change. As one can see in the accompanying chart, markets are not static, whether measured by yield curve structure, parallel shifts in the curve as rates change, or credit risk premium. As markets move, active managers have an opportunity to identify and exploit perceived pockets of value. Doing so represents a key element of our value proposition and reflects the dynamic nature of active management.



Source: MMD

When active managers discuss how they expect to produce attractive risk-adjusted returns, opportunity set, or the universe of investments from which a manager can choose, is often referenced. This can be important, as municipal deal flow and liquidity ebbs and flows based on issuance levels, dealer inventory, seasonality and other factors, thereby creating potential bond supply constraints for laddered managers with a narrow focus. By contrast, active managers can pursue value across a much wider range of sectors and issuers, consistent with a given portfolio's mandate.

Let's not forget that municipal performance is also best measured on an after-tax basis, a net return objective that active managers often pursue through tax loss harvesting and other customized tax-driven strategies lacking in laddered or other passive approaches.

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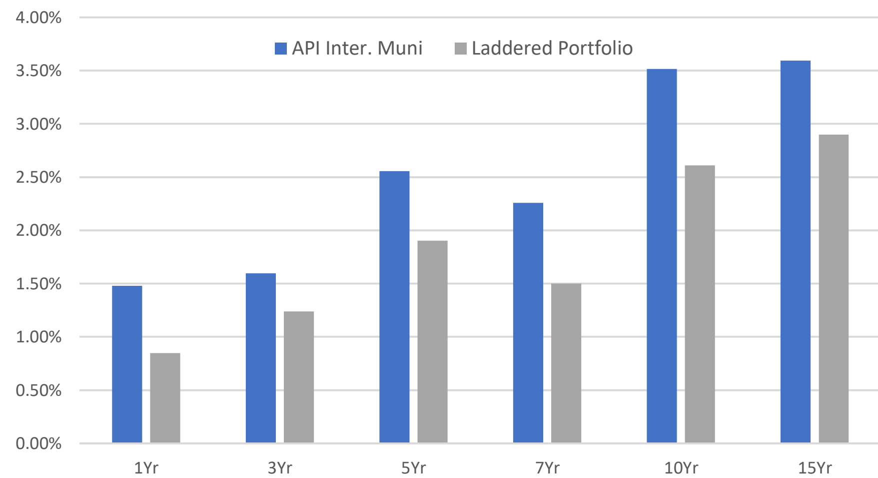
BEYOND LADDERS: ATTRIBUTES OF ACTIVE MANAGEMENT

PERFORMANCE PERSPECTIVE

What does the data show relative to the potential performance of a high quality actively managed municipal portfolio relative to a passive laddered strategy of similar quality, average maturity and duration? While past is not prologue, Appleton's Intermediate Municipal strategy has demonstrated a performance edge when measured against a comparable laddered proxy made up of AAA 5% coupon bonds maturing sequentially over 1 to 10 years (see footnotes).

An Active Advantage: API Intermediate Municipal Strategy vs. Hypothetical Laddered Portfolio*
(as of 12/31/18)



Source: MMD, Appleton Partners, Inc

APPLETON'S ACTIVE EDGE

When considering Appleton as an alternative to laddered strategies and other passive options, several attributes are worth noting.

- We are committed to portfolio customization based on factors such as state preference, duration, income needs, and risk profile.
- Rigorous credit research stands behind our security selection. All our holdings are assigned proprietary credit ratings and undergo ongoing credit surveillance.
- We invest clients' assets in what we believe to be the best opportunities we can find at the time of purchase, rather than implementing a static model.
- And lastly, accessibility to our portfolio managers offers advisors an ability to speak to the individuals making investment decisions. We feel this helps create better client outcomes.

**The API Intermediate Municipal Composite includes all portfolios managed in Appleton's Intermediate Municipal strategy, which invests in investment grade municipal bonds with maturities ranging from 4-12 years and a duration range of 4.5-5.5 years. Performance for the composite is presented gross-of-fees, before management and custodial fees but after all actual trading expenses. The firm's standard management fee is 1.00%, which in certain circumstances is often negotiable based on the size and nature of the account. All investing involves risk of loss, including the possible loss of principal.*

Performance for the Hypothetical Laddered Portfolio is calculated as the return of a "laddered" portfolio of ten generic bonds with 5% coupons and maturities evenly spaced from one to ten years, maturing on December 31, and priced annually using that maturity's appropriate MMD AAA Municipal yield. Passive returns reflect the reinvestment of income, but no adjustment is made for cash accumulating in the portfolio from coupon payments or needed as the difference between the maturity value of the shortest bond and the new bond required at year end on the ladder's reset date. Passive performance does not reflect transaction costs and fees. While we believe this is a reasonable and accurate way of estimating the return of a laddered portfolio of risk-free bonds over time, it is not possible to invest directly in the MMD curve. A reset date of December 31 was chosen arbitrarily; different reset dates, transaction costs, and fees could materially impact historical performance. Past performance is not indicative of future returns.