

## STRATEGY DESCRIPTION

The Riverbridge Enhanced Income strategies are designed with the objective of providing high and stable income over various interest rate and business cycles. We seek to achieve income stability through diversification of credit sectors (municipal, corporate, and real estate), a mix of fixed and floating interest rate securities, and a judicious balance of credit quality.

The strategies invest in alternative income sectors like Closed-End Funds (CEFs) and Business Development Companies (BDCs) which provide additional yield and opportunities not available in traditional fixed-income sectors. (See definition for Closed-end Fund and Business Development Company below).

### HIGHLIGHTS

- The Enhanced Income strategies had another strong quarter of relative performance, with the Tax Aware and Enhanced Income strategies outperforming their respective benchmarks by 2.8% and 2.0%, respectively.
- With high and steady income between 7.7%-8.9% since inception, investors in the Enhanced Income strategies may now feel confident they can earn higher income than traditional fixed income and achieve part of their investment goals through real income distributions on a quarterly basis.

## MARKET COMMENTARY

The second quarter of 2024 provided the clearest signals yet that the Federal Reserve's interest rate hiking cycle is having its intended effect. Consumer demand downshifted, housing slowed, and corporate loan defaults increased. These moves were all a reverse of the surprisingly strong economic data released in the first quarter. In addition, the unemployment rate rose to 4.1%, up from a low of 3.4%. This higher rate, along with a rise in continuing unemployment claims and lower quit rates, marks a departure from the strong employment trends of most of the past three years.

Meanwhile, inflation continued to cool, albeit slowly. The Fed's favored measure, the personal consumption expenditures index (PCE), eased from 2.7% to 2.6% year-over-year, while the core component moved from 2.8% to 2.6%.

The Fed held interest rates at 5.25-5.5% during the quarter. Fed Chairman Jerome Powell said at his most recent press conference that he expects inflation and economic activity to slow and be supportive of the Fed lowering interest rates by the end of 2024. Longer-term treasuries were range-bound, with the 10-year yield moving between 4.2 and 4.7% and ending the second quarter at 4.4%.

Returns in alternative income were strong relative to traditional fixed income as interest rates were generally stable, expectations for Fed rate cuts diminished somewhat, and the high relative

yields on floating rate loans provided higher income. BDCs led the way with 5.2% returns, followed by banks loans with a return of 1.9%. The Bloomberg aggregate bond index returned 0.8%.

In contrast to the strong returns in floating rate loans and BDCs, defaults and non-accruals on corporate loans have begun to rise, especially in leverage loans. Higher defaults in corporate loans make sense as the higher interest rates on floating rate loans are causing credit stress. In BDCs, nonaccruals have risen fast among the riskier parts of the private credit sector, particularly in venture debt BDCs. Overall, BDC nonaccruals have inched up over the last year, essentially returning to 2019 pre-Covid levels.

## PERFORMANCE COMMENTARY

Current yields remain attractive; Tax Aware Enhanced Income is yielding 7.8% as of June 2024, while Enhanced Income rests at an 8.2% yield. Each of these exceeds benchmark yields by 2 to 3% on a taxable equivalent basis.

The Enhanced Income strategies had another strong quarter of relative performance, with the Tax Aware and Enhanced Income strategies outperforming their respective benchmarks by 2.8% and 2.0%, respectively.

## PERFORMANCE (AS OF 06/30/2024)

	Current Yield	2Q 2024			YTD			1 Year			3 Year			Inception		
		Income	Price	Total Return	Income	Price	Total Return	Income	Price	Total Return	Income	Price	Total Return	Income	Price	Total Return
Tax Aware Enhanced Income (Gross)	7.8%	2.0%	1.6%	3.6%	3.8%	4.7%	8.6%	8.2%	7.6%	15.8%	7.6%	-7.3%	0.3%	7.7%	-6.3%	1.3%
Tax Aware Enhanced Income (Net)	6.8%	1.9%	1.5%	3.4%	3.6%	4.5%	8.1%	7.7%	7.0%	14.8%	7.2%	-7.7%	-0.5%	7.2%	-6.7%	0.6%
Benchmark	5.6%	1.4%	-0.8%	0.5%	2.7%	-1.6%	1.1%	5.4%	1.4%	6.8%	5.3%	-4.9%	0.4%	5.3%	-4.6%	0.7%
+/- versus net	1.2%	0.5%	2.3%	2.8%	0.9%	6.1%	7.0%	2.3%	5.7%	8.0%	1.9%	-2.8%	-0.9%	1.9%	-2.1%	-0.1%
Enhanced Income (Gross)	8.2%	2.2%	0.6%	2.7%	4.3%	3.8%	8.1%	9.7%	6.3%	16.1%	8.9%	-7.7%	1.2%	8.9%	-6.8%	2.1%
Enhanced Income (Net)	7.2%	2.1%	0.5%	2.6%	4.2%	3.6%	7.7%	9.4%	5.9%	15.2%	8.4%	-8.0%	0.4%	8.5%	-7.1%	1.4%
Benchmark	5.2%	1.2%	-0.6%	0.6%	2.4%	-1.4%	0.9%	4.7%	1.8%	6.5%	4.4%	-5.1%	-0.7%	4.4%	-4.6%	-0.2%
+/- versus net	2.0%	0.9%	1.1%	2.0%	1.8%	5.0%	6.8%	4.7%	4.0%	8.7%	4.0%	-2.9%	1.1%	4.1%	-2.5%	1.6%

Periods over one year are annualized. Inception Date: 04/30/2021

### Benchmarks:

Tax Aware Enhanced Income: 50% Bloomberg Municipal Bond Index / 50% Bloomberg Corporate High Yield Index

Enhanced Income: 50% Bloomberg Aggregate Bond Index / 50% Bloomberg Corporate High Yield Index

Gross and net current yields, income, and price are presented as supplemental information to the GIPS® composite report found in the disclosure section.

The price and income attribution section included is based on actual dividend income paid to accounts in the composite. Fees are allocated equally between the price and income displayed.

Attribution analysis is not intended to be interpreted as return information for the portfolio. Contact us to obtain further information pertaining to the calculation methodology.

### Commentary Continued...

Closed-end fund discounts continued to narrow in the quarter, boosting returns in many closed-end fund subsectors including municipal bonds, mortgage and real estate debt, and corporate leveraged loans. Opportunities to capture capital gains continued as discounts narrowed on most of the funds we own in the strategy.

As interest rates have reset higher over the last 3 years, many investors are re-discovering how steady investment income can be a source of competitive returns and improve confidence in achieving long-term investment goals. With high and steady income between 7.7%-8.9% since inception, investors in the Enhanced Income strategies may now feel confident they can earn higher income than traditional fixed income and achieve part of their investment goals through real income distributions on a quarterly basis.

## OUTLOOK

In the alternative income sector, yields and returns will be impacted by what the Fed and the economy do. With the Fed potentially looking to lower interest rates as the economy slows, floating rate security yields should come down as the Fed lowers rates.

At present, the market is pricing in the potential for two Fed rate cuts by year end, though incoming data will always influence those expectations. With the target rate still well above inflation, investors should see further slowing in consumer spending, inflation, and employment, coupled with rising corporate credit stress.

While the slowing economy is important, investors' attention will also turn to the US elections and their potential market impacts. Neither the current nor former president has been a fiscal conservative, as each drove up the Federal debt by \$7 - 8 trillion during his administration, but perceived policy differences are sure to drive speculation regarding deficits, debt, economic growth, inflation, and long-term Fed policy. Bond market volatility could rise substantially as investors fret about the uncertainty.

While potential impacts from elections and other matters catch our attention, at Riverbridge our clients know we will continue to invest for the long term, which means staying focused on things we can manage. For fixed income investors, this means identifying value by choosing the most attractive relative yields and appropriate duration, along with a judicious approach to credit selection.

## DEFINITIONS

- **Closed-End Fund:** A type of mutual fund that issues a fixed number of shares through a single initial public offering (IPO) to raise capital for its initial investments. Its shares can then be bought and sold on a stock exchange.
- **Business Development Company:** A type of closed-end fund that invests in small- and medium-sized American companies typically in their growth stage.

## IMPORTANT DISCLOSURE INFORMATION

- Where presented, gross-of-fee performance figures presented do not reflect the deduction of investment advisory fees. A client's returns will be reduced by the advisory fee and other expenses incurred in the management of its account. For example, the deduction of a 1% advisory fee over a 10-year period would reduce a 10% gross return to a 8.9% net return. A description of Riverbridge's advisory fees are disclosed on Part 2 of form ADV, A copy of which is available upon request or at [www.riverbridge.com](http://www.riverbridge.com).
- Riverbridge's annual investment management fee ranges from 0.6% to 1%, depending upon the amount of assets placed under Riverbridge's management; the greater the amount of assets the lesser the percentage fee.
- Past performance does not guarantee future results. Different types of investments and/or investment strategies involve varying degrees of risk and volatility, and at any specific point in time, or over any specific time-period, any investment or investment strategy can and will suffer losses, at times substantial losses.
- Performance results do not reflect the impact of taxes.
- It should not be assumed that account holdings will correspond directly to any such comparative benchmark index.
- Comparative indices may be more or less volatile than Riverbridge portfolios.
- Riverbridge performance results reflect the reinvestment of dividend income and other account earnings and are net of applicable account transaction charges.
- Information in this document is not intended to be used as investment advice.
- There may be Riverbridge client accounts invested in the strategy that perform better or worse during the corresponding time period for various reasons, including investment management fee differentials, account additions/withdrawals, tax considerations (including tax-loss harvesting), the date on which a client became invested in the strategy, and whether a transaction order was completed on the same day.
- Mention of companies/stocks herein is for illustrative purposes only and should not be interpreted as investment advice.
- The holdings included in this document are for illustrative purposes only and should not be considered a recommendation to purchase or sell any particular security. There is no guarantee that the same or similar holdings will be purchased or held in accounts in the future.
- The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

## ENHANCED INCOME COMPOSITE

Year	Gross-of-Fee Return (%)	Net-of-Fee Return (%)	Bloomberg 50 % US Aggregate / 50% Corp High Yield Return (%)	Portfolios	Dispersion (%)	Composite 3-Year Ex-Post Std. Dev.	Bloomberg 50% US Aggregate / 50% Corp High Yield 3-Year Ex-Post Std. Dev.	Composite Assets (\$ Millions)	Ttl Firm Assets (\$ Millions)	Advisory Only (\$Millions)	Ttl Firm Assets & Advisory Only (\$Millions)
2023	12.02	11.19	9.43	9	0.01	N/A	N/A	11.5	7,429.2	4,432.2	11,861.5
2022	-16.88	-17.44	-12.04	9	0.07	N/A	N/A	8.9	6,279.5	3,892.8	10,172.3
2021*	6.06	5.63	2.19	7	N/A	N/A	N/A	9.6	9,408.0	6,149.6	15,557.6

\*Returns are for the from 04/30/2021 through 12/31/2021.

**Firm Information:** Riverbridge Partners, LLC is a Minnesota based investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. The firm provides investment management services to institutional and individual investors. The company offers growth and income oriented investment services which it believes will provide high returns over the long term. The firm's standard fee schedule is an annual 1%.

**Composite Characteristics:** The Enhanced Income Composite was created in April 2021 and its inception date was 04/30/2021. The composite contains all discretionary portfolios managed to the Enhanced Income strategy that do not have bundled fee arrangements. It is a debt-focused portfolio invested in corporate, municipal, and real estate debt-related securities, including close-end funds and other income-oriented securities where bonds, loans and mortgages are the primary source of return. The benchmark for the Enhanced Income Composite was changed retroactively as of 1/1/2023. Previous to this date the Bloomberg Barclays US Treasury Index +4.5% was used as the benchmark. The new benchmark provides a better fit with the strategy and contains indices that may be more easily recognizable. The composite name for the Enhanced Income Composite was changed as of 1/1/2023. Previous to this date the composite name was "Non Taxable Enhanced Income Composite". There was no change to the investment strategy with the composite name change. The composite minimum value is \$100,000.

Material risks of the strategy include interest rate, credit spread, credit default, stock market, business and economic development, and liquidity risk. Derivatives and short positions are not used in the strategy. As with any investment, an investor may lose money, and the strategy can underperform its benchmark. Investment in strategies is not insured by the FDIC or any other government agency.

**Calculation Methodology:** Individual portfolios are revalued daily. Gross-of-fee returns are calculated net of transaction costs and gross of management fees. Net-of-fee returns are calculated net of actual investment management fees. Both gross-of-fee and net-of-fee returns are calculated gross of all withholding taxes on foreign dividends. Accruals are included in calculations. The dispersion measure is the equal-weighted standard deviation of accounts in the composite for the entire year. The dispersion measure is the equal-weighted standard deviation of accounts in the composite for the entire year. Dispersion and Ex-Post standard deviation is calculated using gross-of-fees returns. The three-year ex-post standard deviation is not yet presented because the 36 monthly returns are not yet available. Policies for valuing investments, calculating performance, and preparing GIPS® Reports are available upon request.

**Compliance Statement:** Riverbridge claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Riverbridge has been independently verified for the period 12/31/1989 – 12/31/2023. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. The Enhanced Income Composite has had a performance examination for the periods 04/30/2021 – 12/31/2023. The verification and performance examination reports are available upon request.

**Composite Benchmark:** The benchmark returns are not covered by the report of the independent verifiers. Any indices and other financial benchmarks shown are provided for illustrative purposes only. Information about indices is provided to allow for comparison of the performance of the Adviser to that of certain well-known and widely recognized indices. There is no representation that such index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of indices may be materially different from the performance of the Adviser. In addition, the Adviser's recommendations may differ significantly from the securities that comprise the indices.

Past performance does not guarantee future results. This performance report should not be construed as a recommendation to purchase or sell any particular securities held in composite accounts. Market conditions can vary widely over time and can result in a loss of portfolio value.

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## TAX AWARE ENHANCED INCOME COMPOSITE

Year	Gross-of-Fee Return (%)	Net-of-Fee Return (%)	Bloomberg 50% Muni Bond / 50% US Corp High Yield Return (%)	Portfolios	Dispersion (%)	Composite 3-Year Ex-Post Std. Dev.	Bloomberg 50% Muni Bond / 50% US Corp High Yield 3-Year Ex-Post Std. Dev.	Composite Assets (\$ Millions)	Ttl Firm Assets (\$ Millions)	Advisory Only (\$Millions)	Ttl Firm Assets & Advisory Only (\$Millions)
2023	10.63	9.67	9.89	17	0.07	N/A	N/A	16.7	7,429.2	4,432.2	11,861.5
2022	-18.56	-19.23	-9.80	18	0.09	N/A	N/A	15.9	6,279.5	3,892.8	10,172.3
2021*	6.63	6.26	2.15	8	N/A	N/A	N/A	13.0	9,408.0	6,149.6	15,557.6

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