

Core Municipal SMA

Market Overview

The technical headwinds that held back municipal bond performance in the second quarter finally began to ease in the third quarter, setting the stage for a rally in September.

Though muni issuance remained robust over the last three months, renewed flows into mutual funds and exchange-traded funds following April's tariff-related dislocation helped the market absorb the new supply. The resulting performance pushed muni indexes well into positive territory for the year to date following a sluggish first half, though they still lag other fixed income assets. The S&P Municipal Bond High Yield Index gained 2.3% during the third quarter, while the S&P Municipal Yield Index, which includes bonds across the quality spectrum, rose 2.6% and the S&P Short Duration Municipal Yield Index advanced 1.8%; year to date, those indexes are up a respective 1.7%, 1.8% and 3.6%. For context, the Bloomberg US Aggregate Bond Index gained 2.0% during the quarter and 6.1% thus far in 2025.¹

Continued Heavy Supply Was Met by Renewed Demand

Long US Treasury yields eased slightly in the third quarter, with 10-year and 30-year rates posting single-digit declines. The AAA muni curve was a bit more active, with bonds of those same maturities declining 30 basis points or so.²

While municipal bonds had a good quarter, perhaps more impressive than the magnitude of returns was that they were achieved in the face of continued heavy new supply. Third quarter issuance was down slightly from the second quarter, but the year-to-date pace suggests 2025 is likely to top 2024's record for annual volume. Notably, the long-dated nature of high yield muni issuance in general provides a steepening impulse to the yield curve, and the municipal bond curve has steepened considerably amid the flood of issuance.³

There are a few factors we believe have contributed to the ongoing surge in issuance. After sitting on the sidelines during the 2022–23 rate-hike period, municipalities have a pent-up need to issue paper as the benefits of Covid-era federal funding and post-pandemic tax receipts wane. Meanwhile, pretty much every capital project costs more today due to the impact of inflation across inputs like steel, concrete, lumber, civil engineering, skilled and unskilled labor, etc. Further, potential legislative threats to muni bond tax treatment—since

alleviated—likely pulled forward some issuance to the first half of the year.

Fortunately, supply during the third quarter was met by renewed demand; after about \$9 billion of outflows during late March and April alongside the initial shock of Trump's tariff policies, positive municipal bond fund flows returned in May and have persisted.⁴ Though tariffs remain a wildcard, investors seem to have gotten comfortable with the uncertainty. The worst of the expected inflationary impacts haven't yet been realized, and signs that the most severe levies could be walked back, either through bilateral negotiation or judicial mandate, lends hope that trade policy may be less of a headwind.

Meanwhile, the passage of the budget reconciliation bill in early July removed an overhang to muni bond demand. Putting aside the provisions of the bill, the key for muni bond investors is what the bill lacked—namely, any adjustments to the tax-exempt status of municipal bond interest income. There had been some chatter that policymakers were considering changes to or restrictions on the muni bond tax exemption as part of this tax-and-spending plan. While a disruption to the status quo seemed an unlikely result of the recent legislative process, the certainty provided by the final bill was welcomed by both investors and issuers.

Also supporting demand for muni bonds has been the dovish tilt of the Federal Reserve. Throughout the third quarter investors sought to get a clear read on the central bank struggling to balance the weakening labor market against above-target inflation. Deciding the former is of greater concern at the moment, the central bank delivered a well-telegraphed 25 basis point cut to its policy rate in September, and markets have priced in an additional 50 basis points of rate cuts by year end.⁵ Should the Fed's more accommodative policy continue to weigh on long-term yields, investors may increasingly view municipal bonds as a more appealing cash equivalent.

Fundamentals Remain Encouraging

Municipalities entered 2025 in strong fiscal condition, and issuer fundamentals continue to be supportive. State budgets for fiscal 2026

1. Source: FactSet; data as of September 30, 2025.

2. Source: Bloomberg, US Department of Treasury; data as of September 30, 2025.

3. Source: Municipal Securities Rulemaking Board; data as of September 30, 2025.

4. Source: Investment Company Institute; data as of October 1, 2025.

5. Source: CME FedWatch; data as of October 13, 2025.

generally reflect a healthy environment, with fund balances well above the historical average.⁶ Though state general fund revenue has fallen off the record pace of fiscal 2021 and 2022 as the impact of Covid-era relief waned, it has continued to grow, and modest revenue gains are expected in fiscal 2026. Budgets that have been enacted to date call for only small increases in general fund spending, and most states plan to maintain or increase the size of their state's rainy-day fund—many of which are already at nominal highs—in anticipation of future needs.

Another sign of fiscal strength can be found in improvement in pension funding, as the aggregate median ratio for local government pensions climbed to 80% in fiscal 2024 from 78% in fiscal 2022. While this can be attributed in part to market performance, local governments have increased contributions and tweaked their benefit structures, demonstrating improved funding discipline and better long-term sustainability.⁷

All in all, muni bond ratings activity has continued to be positive in 2025, but just barely: positive activity (including both upgrades and favorable outlook revisions) outpaced negative activity at a rate of 1.1x year to date; this ratio stood at 3.5x in 2022.⁸ Defaults remain very low, even by the standards of an asset class accustomed to very low default activity.⁹

Start of a Turnaround?

Year-to-date muni bond performance flipped from negative to positive during the third quarter, and we're hopeful that the period represented an inflection point after what was a challenging first half for the asset class. It seems likely to us that the factors driving recent performance and fund flows—credit stability, certainty around tax treatment, an accommodative Fed and relatively benign tariff impacts—will continue to support the asset class.

With a yield to worst of 5.7%, the Bloomberg US High Yield Municipal Index continues to offer investors an attractive entry point, in our view.¹⁰ Although the outperformance of munis during the quarter pushed muni-Treasury ratios somewhat lower, current levels—70% for 10-year and 90% for 30-year maturities—suggest there is still significant relative value to be found on the longer end of the municipal bond curve, which is also most likely to benefit from an environment of stable or declining rates given its current steepness.¹¹

We remain focused on seeking to provide a high level of tax-free current income through bottom-up security selection complemented by an active trading strategy and the prudent application of leverage. This approach, combined with consistent fund inflows, has enabled us to increase the interest income generated by the portfolio in 2025, and we have passed this along to shareholders in the form of a higher monthly distribution rate.

6. Source: National Association of State Budget Officials; data as of September 4, 2025.

7. Source: S&P Global; data as of September 16, 2025.

8. Source: S&P Global; data as of September 30, 2025.

9. Source: Moody's Investors Service; data as of December 31, 2024.

10. Source: Bloomberg; data as of September 30, 2025.

11. Source: Bloomberg, US Department of Treasury; data as of September 30, 2025.

Portfolio Review

The Core Municipal SMA posted a positive absolute return in the two months since August 1, 2025. The Core Municipal SMA outperformed the S&P Municipal Bond Investment Grade Intermediate Index in the period.

The leading contributors to performance during the quarter were bonds linked to a natural gas purchase by a regional energy authority in the southeast, a clean-water project in North Dakota,

a tolling authority in Texas, a recreational district in Florida and the Metropolitan Transit Authority of New York.

All bonds in the portfolio contributed to performance during the quarter, though the least impactful were linked to a convention center project in Indiana, a college in Pennsylvania, an office project in South Dakota, a school district in Florida and a public power utility in Nebraska.

Disclosures

This commentary represents the opinion of the First Eagle Municipal Credit team as of the date noted. The opinions expressed are not necessarily those of the firm. These materials are provided for informational purposes only. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Any statistics contained herein have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue hereof. The information provided is not to be construed as a recommendation or an offer to buy, hold or sell or the solicitation of an offer to buy or sell any fund or security.

The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any fund or security.

The information is not intended to provide and should not be relied on for accounting or tax advice. Any tax information presented is not intended to constitute an analysis of all tax considerations.

Portfolio holdings are subject to change and should not be considered a recommendation to buy, hold or sell securities. Current and future portfolio holdings are subject to risk.

The portfolio is actively managed and subject to change.

First Eagle Separate Account Management, LLC ("FESAM") relies on First Eagle Investment Management, LLC ("FEIM") for numerous services and resources, and the investment teams of FESAM and FEIM work together to make investment decisions. Although FEIM's investment team, including the portfolio managers of FESAM, has experience managing strategies involving global equity securities, both FEIM and FESAM have limited experience in managing accounts in an SMA and Global ADR strategy.

This Portfolio is available only through a wrap fee or similar program sponsored by a third-party intermediary ("Sponsor") that has engaged First Eagle Separate Account Management, LLC to manage certain of the Sponsor's client accounts on a discretionary basis or to provide the Sponsor with recommendations in the form of model portfolio.

Risks

All investments involve the risk of loss of principal.

Diversification does not guarantee investment returns and does not eliminate the risk of loss.

Municipal bonds are subject to **credit risk, interest rate risk, liquidity risk, and call risk**. However, the obligations of some municipal issuers may not be enforceable through the exercise of traditional creditors' rights. The reorganization under federal bankruptcy laws of a municipal bond issuer may result in the bonds being cancelled without payment or repaid only in part, or in delays in collecting principal and interest.

Definitions

Federal funds rate is the interest rate at which depository institutions (banks and credit unions) lend reserve balances to other depository institutions overnight on an uncollateralized basis. **Exchange-traded funds (ETFs)** are listed investment vehicles that seek to provide exposure to a benchmark, index or actively managed strategy. **AAA credit rating**—as used by S&P Global Ratings and Fitch Ratings—is an investment grade rating on a bond considered to have an extremely strong capacity to meet its financial commitments. The equivalent rating from Moody's Investors Service is Aaa. A **tranche** is a portion of a securitized debt instrument that stratifies credit risk based on seniority, providing investors the opportunity to target a range of risk/return profiles. A **yield curve** is a graphical representation of interest rates on debt of equal credit quality across a range of maturities. **Yield to worst** is a measure of the lowest possible yield that can be received on a bond that operates within the terms of its contract without defaulting. **Bull market** is generally defined as a period during which a securities market index rises by 20% or more.

S&P Municipal Bond Investment Grade Intermediate Index (Gross/Total) consists of bonds in the S&P Municipal Bond Index that are rated at least BBB- by Standard & Poor's, Baa3 by Moody's or BBB- by Fitch Ratings. All bonds must also have a minimum maturity of three years and a maximum maturity of up to, but not including, fifteen years as measured from the rebalancing date. A total-return index tracks price changes and reinvestment of distribution income. **S&P Short Duration Municipal Yield Index** measures the performance of high yield and investment grade municipal bonds with maturities of one to 12 years. **S&P Municipal Bond High Yield Index** (Gross/Total) measures the performance of bonds in the S&P Municipal Bond Index that are not rated or whose ratings are below investment grade. A total-return index tracks price changes and reinvestment of distribution income. **Bloomberg US High Yield Municipal Bond Index** (Gross/Total) measures the performance of the non-investment grade US tax-exempt bond market. A total-return index tracks price changes and reinvestment of distribution income. **Bloomberg US Aggregate Bond Index** (Gross/Total) measures the performance of the investment grade, US dollar-denominated, fixed-rate taxable bond market in the US, including Treasuries, government-related and corporate securities, fixed-rate agency MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS. A total-return index tracks price changes and reinvestment of distribution income.

Indexes are unmanaged and do not incur management fees or other operating expenses. One cannot invest directly in an index.

Core Municipal SMA Composite Contains a single seed account that seeks to provide current income exempt from regular federal income taxes. Capital appreciation is a secondary objective when consistent with the strategy's primary objective. For comparison purposes, the composite is measured against the S&P Municipal Bond Investment Grade Intermediate Index. Indices do not incur management fees or other operating expenses. Investments cannot be made directly into an index.

First Eagle Investment Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. First Eagle Investment Management, LLC has been independently verified for the periods 1-Jan-1996 through 31-Dec-2024.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all 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. Verification does not provide assurance on the accuracy of any specific performance report. The verification report is available upon request.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

First Eagle Investment Management, LLC is an independent SEC registered investment adviser. For purposes of complying with the GIPS Standards, the firm is defined as First Eagle Investments and includes the following subsidiary investment advisers First Eagle Separate Account Management, LLC, First Eagle Alternative Credit ("FEAC"). THL Credit Advisors was acquired and made a part of First Eagle Alternative credit since January 2020. As of 1 January 2020, First Eagle Investment Management was redefined to include the Alternative Credit division. A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm.

Past performance is not indicative of future results.

The US Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. The investment management fee schedule is 0.45% on assets. Actual investment advisory fees incurred by clients may vary.

The Core Municipal SMA Composite was created and has an inception date of 01-August-2025.

Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

First Eagle Investments is the brand name for First Eagle Investment Management, LLC and its subsidiary investment advisers including First Eagle Separate Account Management, LLC.

FEF Distributors, LLC ("FEFD") (SIPC), a limited purpose broker-dealer, distributes certain First Eagle products. FEFD does not provide services to any investor but rather provides services to its First Eagle affiliates. As such, when FEFD presents a fund, strategy or other product to a prospective investor, FEFD and its representatives do not determine whether an investment in the fund, strategy or other product is in the best interests of, or is otherwise beneficial or suitable for, the investor. No statement by FEFD should be construed as a recommendation. Investors should exercise their own judgment and/or consult with a financial professional to determine whether it is advisable for the investor to invest in any First Eagle fund, strategy or product.