

# AN INVESTOR'S GUIDE TO TAX-AWARE INVESTING

**Tax-exempt or taxable bonds?** That is one of the dilemmas asset allocators face on behalf of their taxable clients. As an investment manager, we typically determine optimum after-tax positioning based on the highest marginal tax rate. As an asset allocator, however, tax rates are likely only one part of the mosaic used to determine an appropriate fixed income solution -- whether that is solely tax-exempt municipal bonds, taxable bonds, or a mix of both.

## 1. Valuations

Investors often default to tax-exempt municipals to avoid paying income taxes; however, the asset class is not always universally attractive.

Valuations Change Over Time

Muni/Treasury Ratio	Current Ratio	As of 12/31/24	10-year Range		
			Median	Min	Max
2-year	81%	66%	71%	33%	446%
5-year	82%	66%	73%	48%	307%
10-year	81%	68%	85%	58%	225%
30-year	95%	81%	96%	70%	183%

## 3. Client Objective

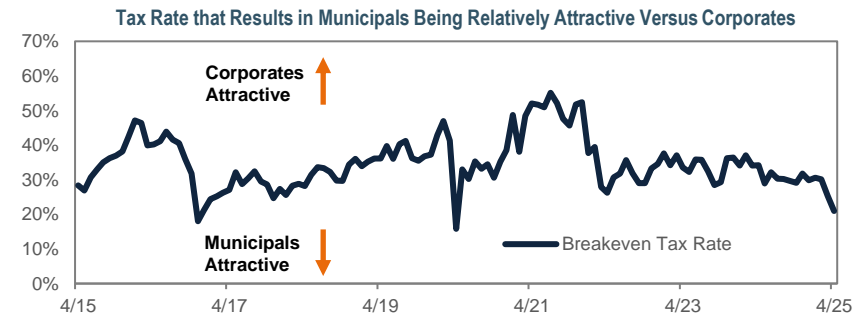
Each investor has their own idiosyncrasies and biases. The most economical solution may differ from an investor's preferred solution.

There is No One-Size-Fits-All Option

	Municipals	Taxable Bonds	Tax-Aware
Desire to pay little/no taxes	✓		
Maximize after-tax return	✓		✓
Maximize pre-tax return		✓	
Tailored to state of residence	✓		✓
Multiple sources of liquidity		✓	✓
Diversified across multiple sectors		✓	✓
Low federal tax rate		✓	✓
High federal tax rate	✓		✓

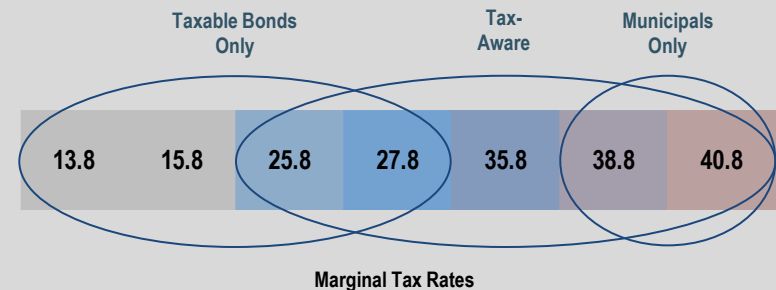
## 2. Tax Rates

Tax-exempt municipals become more advantageous as an investor progresses to higher tax brackets. There is not a static inflection point as relative value constantly changes.



## Choosing the Right Solution

Tax-aware investing is found at the confluence of market dynamics, taxes, and individual preference, which we believe is best served through a bottom-up, actively managed portfolio.



Sources: Bloomberg as of 4/30/25. Top left table: Muni/Treasury ratio median and range based on monthly values. 10-year range is from 4/30/15 to 4/30/25. Top right chart: Breakeven tax rate calculated using the Bloomberg Municipal Index Yield and the Bloomberg Corporate Index Yield. Formula is the inverse of the municipal yield divided by the corporate yield minus 1. Federal tax rate assumes 3.8% surtax. Bottom left table: Based on IR+M's experience and does not reflect all client preferences. Bottom right table: Venn diagram based on IR+M's experience of which solution the majority of taxable investors prefer at each marginal tax rate. This is shown for illustrative purposes only; actual results may vary. The views contained in this report are those of Income Research + Management ("IR+M") and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research + Management. "Bloomberg®" and Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by IR+M. Bloomberg is not affiliated with IR+M, and Bloomberg does not approve, endorse, review, or recommend the products described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to any IR+M product.