



Cheap beta comes at a tangible cost

Why passive Muni ETFs may not be the best choice

From MacKay Municipal Managers™

One of the most common assumptions about passively managed fixed-income ETFs—especially in the municipal space—is that they provide complete, cost-effective exposure to the entire market. We believe that belief is patently false.

Here's the reality

The large passive aggregators in the municipal space like [CMF](#) and [VTEC](#) offer broad exposure, but that exposure is far from comprehensive. When you dig into the benchmarks these ETFs track, you find significant gaps—entire sectors of the municipal market are excluded.

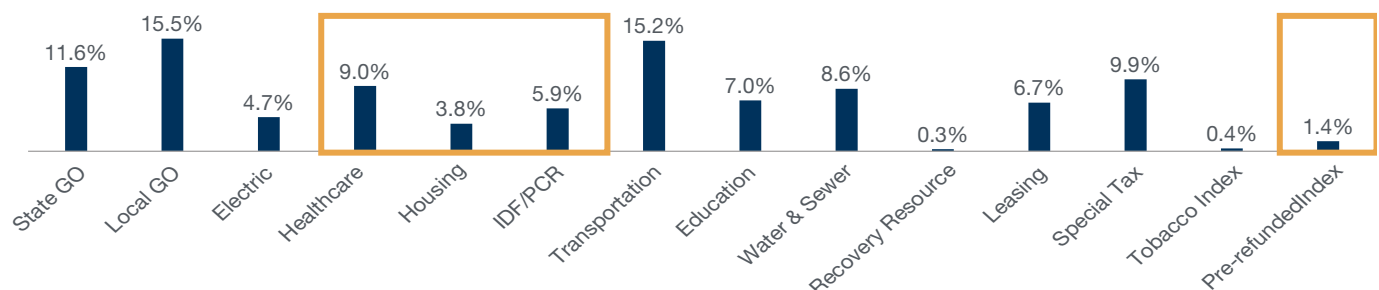
These omissions aren't trivial; they represent more than 25% of the Muniverse,¹ including sectors like health care, housing, hospitals, tobacco, and alternative minimum tax (AMT) bonds. Prepaid gas bonds alone account for 4.5% of the market and are also excluded.

Performance impact

Historical data shows these exclusions have led to notable underperformance versus more inclusive benchmarks and actively managed mandates. Since January 2023, leading muni ETFs like CMF and VTEC have lagged the S&P/ICE AMT-Free California Municipal Index, their underlying benchmark. More importantly, an actively managed product like [MMCA](#) has outperformed these products, in terms of absolute returns

Why does this matter?

Figure 1: Breakdown of Bloomberg Municipal Agg Index | % of Market value



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Figure 2: Comparative returns

	Total Return	Difference	Annual EQ
S&P/ICE California AMT-Free Municipal Bond Index	5.31%	-.08%	2.94%
Vanguard California Tax-Exempt Bond ETF	5.23%	—	2.90%
iShares California Tax-Exempt Bond ETF	5.28%	.05%	2.92%
NYLI MacKay California Muni Intermediate ETF	7.36%	2.13%	4.06%

Source: Bloomberg. Data from January 30, 2024 to November 11, 2025.

Total Return includes both price change and income distributions (such as interest).

Difference indicates the performance gap between the fund and its benchmark index, with positive values showing outperformance and negative values showing underperformance.

Annual EQ (Annual Equivalent Return) expresses the total return as an annualized rate for consistent comparison across time periods.

There may have been other time periods where the actively managed products did not outperform. Past performance is not indicative of future results.

Click on the Fund Name, which includes the prospectus, investment objectives, performance, risk, and other essential information. Returns represent past performance, which is no guarantee of future results. Current performance may be lower or higher. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Visit [newyorklifeinvestments.com](https://www.newyorklifeinvestments.com) for the most recent month-end performance.

False sense of diversification

Investors assume they're buying the entire muni market when, in fact, they're missing critical sectors that can potentially drive returns or provide diversification benefits.

Economic cycle risk

In a slowing economy excluded sectors could exacerbate existing concentration risk.

Actionable Takeaways:

Know what you own

Don't assume "national muni ETF" equals full market coverage. Review the index methodology before investing. (See Benchmark Exclusions at right)

Consider active management

Active strategies can potentially capture opportunities in excluded sectors and adjust positioning as market conditions change.

Benchmark awareness

Compare ETF performance not just to peers but to broader indices like Bloomberg's Municipal Bond Aggregate Index to understand what you're missing.

Benchmark Exclusions²

Classification. The following classifications are specifically excluded:

Conduit issuance: Bonds with a classification or sub-classification of Corporate Purpose, Industrial Development Revenue, Economic Development Revenue or Pollution Control Revenue

Healthcare: Bonds with a classification or sub-classification of Health

Housing: Bonds with a classification of Housing

Notes: Bonds with a classification of Bond Anticipation Notes, Capital Loan Notes, Tax Anticipation Notes, Revenue Anticipation Notes, and Tax & Revenue Anticipation

Tobacco: Bond with a classification of Tobacco where tobacco revenues are pledged to repay the bonds, including tobacco bonds with mandatory State Appropriations/State Grants.

Bottom line: Passive muni ETFs may look simple and cheap, but simplicity may come at the cost of the potential for incomplete exposure. In today's environment, that's a risk worth avoiding.

1. Muniverse = the Municipal Bond universe

2. [Methodology-sp-national-amt-free-muni-bond-index.pdf](#)

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It is not possible to invest directly in an index. Past performance is not indicative of future results.

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DEFINITION OF TERMS

Beta

Beta measures *historical volatility* relative to an appropriate index based on the fund's objective. A beta greater than 1.00 indicates higher volatility compared to the index.

INDEX DESCRIPTIONS

Bloomberg Municipal Bond Index

A rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a date-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and pre-refunded bonds. Most of the index has historical data to January 1980. In addition, sub-indices have been created based on maturity, state, sector, quality, and revenue source, with inception dates later than January 1980.

S&P/ICE California AMT-Free Municipal Bond Index

The S&P/ICE California AMT-Free Municipal Bond Index tracks the performance of investment-grade, fixed-rate municipal bonds issued by California state and local entities. All bonds are exempt from federal income tax and the Alternative Minimum Tax (AMT), reflecting the broader California tax-exempt bond market.

Bloomberg's Municipal Bond Aggregate Index

The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.



INVESTMENTS

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