RED CEDAR
INVESTMENT MANAGEMENT

FIRST QUARTER 2021

Dividend Growth Commentary

March 31, 2021

MARKET REVIEW

The pro-cyclical equity rotation that began in 4Q20 continued during the first quarter as small cap stocks (Russell 2000® Index) returned 12.7% to begin the year. Small cap companies are more levered to an economic reopening when compared to their large cap brethren, partially explaining the outperformance. Further evidence of the pro-cyclical rotation was seen in the outperformance of value relative to growth. Indeed, the Russell 3000® Value Index returned 11.8% during the quarter compared to 1.2% for the Russell 3000 Growth Index. With U.S. economic growth expected to be a robust 6.2% this year according to a Bloomberg survey of economists, the market is not ascribing as much value in holding growth stocks as it once did. Finally, the commodity complex is also signaling a reflationary boom as the S&P Goldman Sachs Commodity Index returned 14.2% for the quarter.

In the fixed income universe, the Bloomberg Barclays U.S. Aggregate Bond Index began with its worst start to a year ever, posting a -3.4% total return during the first quarter. It was difficult to find much value in fixed income with interest rate risk in the market running at close to all-time highs and yields at close to all-time lows. In U.S Treasuries, almost the entire term structure finished the quarter with negative real yields, i.e., nominal yield adjusted for inflation. In fact, the only positive real yield to be found across the curve was at the 30-year tenor—and that was a meager 0.10% real yield. With all the fiscal and monetary support currently embedded in the economy, fixed income yields still have room to move higher as a post-COVID normalization continues.

As we close out the first quarter and position portfolios for the remainder of the year, we must examine the factors that could derail the post COVID cyclical reflation trade, which favors equities, commodities, and other real assets over fixed income and cash. With financial conditions at extremely easy levels, record amounts of fiscal stimulus, and employers having difficulty in finding qualified employees, the possibility does exist that this pro-cyclical reflationary boom could morph into a slow growth, inflationary episode. As long as the economy stays in the reflationary "Goldilocks" scenario, equities should continue to perform better than fixed income. Monetary and fiscal policy authorities, however, will have their work cut out for them as they endeavor to keep robust real economic growth alive while keeping inflation and interest rates from rising at a pace that adversely impacts the price of risky assets.

PORTFOLIO REVIEW

The Dividend Growth Composite returned 4.58%, net of fees, for the quarter ending March 31, 2021. The strategy's benchmark, the S&P 500®, returned 6.18% during the same time period.

In Q1, market rotation into cyclical sectors and lower quality names and away from secular growth and high-quality ones continued with energy, financials, industrials, and materials being the best performers and staples, technology, utilities, and discretionary the worst. In the quarter, the S&P/Citigroup Value Index returned 10.8% versus the S&P 500 Growth Index return 2.1%. One of the biggest drivers of this return disparity was the yield of 10-year U.S. Treasuries rising by 83 basis points to 1.70% and investors repositioning away from long duration assets. FAANGs and other expensive growth names underperformed relative to higher rate beneficiaries such as financials, which are over-represented in the value index.

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STRATEGY INFORMATION

Benchmark	S&P 500® Index
Business Minimum	$1M
Number of Holdings	45
Assets	$58.43M

PORTFOLIO MANAGEMENT TEAM

Julia Batchenko, CFA
Portfolio Manager
Industry start date: 2011
Joined Red Cedar: 2019

INVESTMENT PHILOSOPHY

"We seek companies that possess a combination of three essential criteria: growth of dividends, consistency of earnings and enhanced profitability."
—Julia Batchenko

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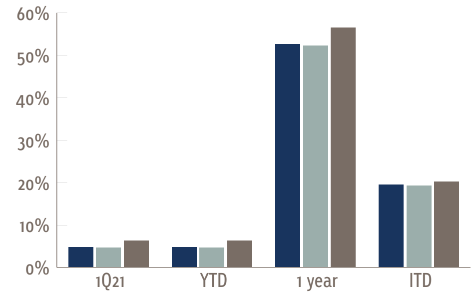
Following the strategy's discipline, during the quarter, we continued to add to economically sensitive sectors, such as banks, names leveraged to travel and hospitality, higher commodity prices, and lower dollar. Our overweight in the rate sensitive financials contributed the most to performance while an equal weight in technology was the largest detractor from performance. Momentum was the worst factor performer in the quarter.

STRATEGY POSITION & OUTLOOK

We believe that growth will be abundant in 2021. Following the unprecedented scale of fiscal and monetary support and the vaccine rollout, we continue to believe that Treasury yields still have room to move higher and pro-cyclical value portions of the market should continue to outperform secular growth opportunities. However, we believe markets will likely start focusing on rising commodity, employment, and supply chain costs impacting companies' margins and reward companies that can pass those costs to the consumers. Henceforth, we may see higher quality names outperform lower quality, supporting the strategy.

PERFORMANCE



	Composite Gross	Composite Net	Index *
1Q21	4.64	4.58	6.18
YTD	4.64	4.58	6.18
1 year	52.53	52.20	56.35
ITD	19.44	19.20	20.10

Source: Clearwater Analytics
Inception Date 1/1/20
*S&P 500® Index

Red Cedar Investment Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®). To receive a list of composite descriptions and/or a presentation that complies with the GIPS standard, contact Red Cedar Investment Management at (513) 345-4414.

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DISCLOSURES

*All end-of-year index data noted is as of 3/31/21.

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Index Definitions: Bloomberg Barclays U.S. Aggregate Bond Index: Broad-based, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the U.S. Russell 2000 Index: Measures the performance of the 2,000 smaller companies that are included in the Russell 3000 Index, which is made up of nearly all U.S. stocks. Russell 3000 Value Index: A market-capitalization weighted equity index based on the Russell 3000 Index which measures how U.S. stocks in the equity value segment perform by including only value stocks. Russell 3000 Growth Index: A market-capitalization weighted equity index based on the Russell 3000 Index, which includes companies that display signs of above-average growth. Used to provide a gauge of the performance of growth stocks in the United States. S&P GSCI: Serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. S&P 500 Index: Broad-based measurement of changes in stock market conditions based on the average performance of 500 widely help common stocks. S&P/Citigroup Value Index: The S&P 500/Citigroup Pure Value Index is a score weighted index developed by Standard and Poor's consisting only of those stocks within the S&P 500 Index that exhibit strong value characteristics. S&P 500 Growth Index: The S&P 500 Growth Index is a stock index administered by Standard & Poor's-Dow Jones Indices. As its name suggests, the purpose of the index is to serve as a proxy for growth companies included in the S&P 500. The index identifies growth stocks using three factors: sales growth, the ratio of earnings change to price, and momentum.

The performance shown may not reflect a Red Cedar portfolio. The performance characteristics shown are taken from a representative or model account. Net performance shown reflects the reduction of management fees. A client's return will be reduced by the management fees and any other expenses incurred in the management of its account. For example, a US $100 million account, paying a .50% annual fee, with a given rate of 10% compounded over a 10-year period would result in a net of fee return of 9.5%. Investment advisory fees are described in Part 2A of Red Cedar Investment Management, LLC Form ADV.

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INVESTMENT MANAGEMENT

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