RED CEDAR INVESTMENT MANAGEMENT

SECOND QUARTER 2021

Core Plus Fixed Income Commentary

June 30, 2021

MARKET REVIEW

As 2Q21 drew to a close, the capital markets seemed to be wavering on the global reflation trade that had dominated the better part of the previous two quarters. To be sure, positioning in trades based on a pro-cyclical, economic reopening was a crowded one and perhaps investors wanted to take some profits by scaling back as summer approached.

The Federal Reserve (Fed) might have given investors another reason to fade the reflation trade as it seemingly communicated a potential policy shift at the conclusion of the June 16 FOMC meeting. In August of 2020, the Fed unveiled its Average Inflation Targeting regime whereby it would allow inflation to average 2% over long periods of time. This would enable the Fed to allow inflation to overshoot its 2% target for a period of time, following periods of undershooting the target. In essence, the Fed would allow the economy and inflation to run hot over a period of time. Since August of last year, Fed speakers had consistently communicated their reaction function as being focused on returning the labor market to pre-COVID levels and that any inflation would be seen as transitory. After the June 16 FOMC meeting, Fed Chairman Jerome Powell indicated that the Fed was now much closer to meeting its employment goals and inflation goals. Furthermore, the infamous "Dot Plot" now indicated that 13 of 18 FOMC members thought rate hikes would begin no later than 2023. Additionally, seven out of 18 thought they would begin no later than 2022. So much for the irresponsibly dovish Fed!

At this point, the capital markets are considering just how soon the Fed will remove its ultra-easy monetary policy that has fueled the reflationary trade. Although equities did turn in a respectable 2Q performance with the S&P 500® Index up 8.5%, the small cap Russell 2000® Index lagged large cap performance and was up just 4.3%. Growth stocks also outperformed value stocks during the quarter, perhaps an indication that investors believe the Fed will take away the punch bowl soon and growth will once again become scarce in the U.S. The domestic bond market also rallied during the quarter—providing low, but positive, returns.

PORTFOLIO REVIEW

The Core Plus Composite returned 2.73%, net of fees, for the quarter ending June 30, 2021. The Composite's benchmark, the Bloomberg Barclays U.S. Aggregate, returned 1.83% during the same period.

The portfolio's shorter duration relative to the benchmark was a negative contributor to performance as interest rates declined in longer dated Treasuries.

The portfolio's allocation and selection of corporate bonds and preferred securities were positive contributors to relative performance during the quarter as these two sectors continued to provide attractive yield in a yield-starved market.

The allocation to the securitized sector was a slight detractor from performance.

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STRATEGY INFORMATION

Benchmark	Bloomberg Barclays U.S. Aggregate Index
Business Minimum	$15M
Number of Holdings	232
Assets	$101.07M

PORTFOLIO MANAGEMENT TEAM

John L. Cassady III, CFA
Chief Investment Officer
Industry start date: 1987
Joined Red Cedar: 2018

Jason M. Schwartz, CFA
Senior Portfolio Manager
Industry start date: 2004
Joined Red Cedar: 2018

David L. Withrow, CFA
Director of Portfolio Management
Industry start date: 1988
Joined Red Cedar: 2018

Michael J. Martin, CFA
Senior Portfolio Manager
Industry start date: 1994
Joined Red Cedar: 2018

INVESTMENT PHILOSOPHY

"We seek income producing opportunities in the capital structure, in a variety of risk profiles where we find relative value in an effort to reduce correlation to traditional bonds."
—David Withrow

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STRATEGY POSITION & OUTLOOK

Financial markets continued to respond positively to higher levels of vaccine distributions and the reopening of developed economies. Inflation concerns remained at the forefront of the markets. At the beginning of the period, the Fed signaled it would allow the economy to run "hotter for longer." By the end of the quarter, that signal changed to a less accommodative tone, and risk markets responded by reversing the reflationary trade that had characterized much of the first half of the year.

The insatiable demand for yield continued to support the corporate bond market. Corporate bond credit spreads (the difference between the yield on a corporate bond and a Treasury security) continued to trend lower during the quarter. Investment grade spreads reached a low of 86 basis points in June, while the low in high yield spreads was 302 basis points.

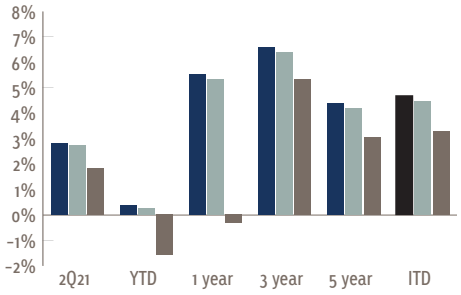
The portfolio's duration is lower than the benchmark although it increased slightly during the quarter after the Fed changed its accommodative tone. Interest rates are expected to continue their ascent later in the year.

The portfolio maintained its overweight to corporate bonds compared to the benchmark because of the yield they provide relative to Treasury securities. However, credit spreads at current levels are tight, so the overweight is at the lower end of the strategy's range. The portfolio will view market weakness as an opportunity to add exposure.

The portfolio continued to overweight the financial, metals & mining, and energy sectors to take advantage of expected stronger economic demand resulting from government stimulus and reopenings.

U.S. investment grade corporate bond issuance was $381 billion in the second quarter of 2021. Year-to-date issuance was $831 billion, down 32% from 1H20.

PERFORMANCE



	Composite Gross	Composite Net	Index *
2Q21	2.79%	2.74%	1.83%
YTD	0.37%	0.26%	-1.60%
1 year	5.54%	5.32%	-0.33%
3 year	6.59%	6.39%	5.34%
3 year	4.40%	4.19%	3.03%
ITD	4.66%	4.46%	3.29%

Source: Clearwater Analytics
Inception Date 5/1/16
*Bloomberg Barclays U.S. Aggregate Index

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DISCLOSURES

*All end-of-year index data noted is as of 6/30/21.

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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 500 Index: A market-capitalization weighted index of the 500 largest publicly-traded companies in the U.S.

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RED CEDAR
INVESTMENT MANAGEMENT

333 Bridge St. NW, Suite 601, Grand Rapids, Michigan 49504
www.redcedarim.com (513) 345-4414
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