

THIRD QUARTER 2021

Core Fixed Income Commentary

September 30, 2021

MARKET REVIEW

3Q21 was an underwhelming quarter in the capital markets with equities drifting somewhat aimlessly during the summer months and bond yields just slightly changed from the prior quarter end. That's not to say it wasn't interesting getting from point A to point B as the S&P 500® hit an all-time high during September before retreating and eking out a positive 0.6% return for the quarter. For its part, the US Treasury (UST) curve bull flattened during the first half of the quarter before reversing course and ending up virtually unchanged. The 10-year UST yield finished just 2 basis points higher than the previous quarter at 1.49%.

There were a few catalysts for this price action during the quarter, including the Federal Reserve's (Fed) confusing messaging regarding monetary policy, supply chain and inflation issues, and China's crackdown on the private sector. By the July 28 Federal Open Market Committee Meeting, the Fed was able to re-assure markets that tapering does not mean rate hikes. Indeed, if the Fed begins tapering its asset purchases late this year, they would in all likelihood not be finished until late 2022. This would put the first rate hike on the table no earlier than late 2022. This easier-for-longer stance caused the yield curve to re-steepen as the quarter wore on. The resignation of two hawkish Federal Reserve Bank presidents over their controversial personal investment trading while setting Fed policy further emboldened the easier-for-longer narrative as new appointees would undoubtedly tilt dovish. All other things equal, these would be positive developments for equity markets.

On the inflation front, the Fed has been preaching the transitory nature of inflation for over a year now, but broad US inflation indices are running between 4% and 5.5% year-over-year. Additionally, commodity prices globally continue to rise with the S&P Goldman Sachs Commodity Index posting a hefty 36.2% increase YTD. If these inflation measures do not turn out to be transitory, then fixed income yields will have to adjust upward.

As we enter the 4th quarter, the debt ceiling, government shutdowns, and stimulus bills all seem poised to create drama in the markets. For now, the government has enough funding to remain open through December 3rd. However, unless the debt ceiling is raised by October 18, the US could default on some of its Treasury obligations. Despite the theatrics in Washington DC, we expect these issues to be resolved allowing market participants to focus on easy monetary policy, fiscal stimulus, and corporate earnings—all of which could provide additional runway for equity market returns and be challenging for fixed income.

CORE PORTFOLIO REVIEW

The Core Composite returned 0.16% net of fees for the quarter ending September 30, 2021. The composite's benchmark, the Bloomberg U.S. Aggregate, returned 0.05% during the same period.

The yield curve re-shaped slightly during the quarter, with interest rates increasing for short and intermediate maturities and declining for longer dated bonds. The portfolio's shorter duration and positioning on the yield curve were a positive contributor to performance.

The portfolio's allocation to preferred securities was a positive contributor to relative performance during the quarter as the fixed income markets continued to search for any sector that provided incremental yield.

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STRATEGY INFORMATION

Benchmark	Bloomberg U.S. Aggregate Index
Business Minimum	\$15M
Number of Holdings	275
Assets	\$203.63M

PORTFOLIO MANAGEMENT TEAM



Michael J. Martin, CFA

Senior Portfolio Manager
 Industry start date: 1994
 Joined Red Cedar: 2018



David L. Withrow, CFA

Director of Portfolio Management
 Industry start date: 1988
 Joined Red Cedar: 2018



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



INVESTMENT PHILOSOPHY

"We seek consistent income across the capital structure and in high quality companies."
 — Michael Martin

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

The allocation to the metal and mining sector was a slight detractor from performance.

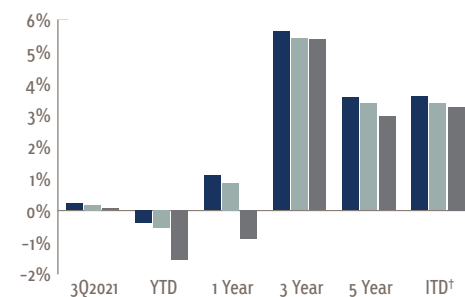
CORE POSITIONING & OUTLOOK

Going forward, the makeup of the Fed is likely to shift in a far more dovish direction when the Biden administration fills the vacant board seats. In addition, risk assets generally continue to perform well even after the first interest rate hike of the cycle. Taken together, credit should continue to have runway for outperformance. The wildcard remains inflation and whether it causes the Fed to act in a more aggressive fashion than currently anticipated.

Corporate bond credit spreads (the difference between the yield on a corporate bond and a Treasury security) were essentially unchanged during the quarter as the search for yield remained robust. The market readily absorbed corporate bond issuance of \$318 billion in the third quarter due to a seemingly insatiable appetite for yield. As long as the Fed keeps the short end of the yield curve anchored near zero, this demand for yield should remain intact, keeping credit spreads range bound. The strategy will therefore maintain its overweight to corporate bonds, favoring the financial and metal and mining sectors.

The portfolio's lower duration than the benchmark will be maintained with the expectation that a dovish Fed and nascent inflation will cause bond yields to rise.

PERFORMANCE



	Composite Gross	Composite Net	Index*
3Q21	0.21%	0.16%	0.05%
YTD	-0.39%	-0.56%	-1.55%
1 Year	1.08%	0.85%	-0.90%
3 Year	5.60%	5.39%	5.35%
5 Year	3.55%	3.34%	2.94%
ITD*	3.58%	3.35%	3.24%

*Inception Date 8/1/2014

Periods greater than 12 months are annualized

*Bloomberg U.S. Aggregate Index

Source: Bloomberg, Clearwater Analytics

DISCLOSURES

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All information and performance are reported in US dollars.

The "Net" returns presented are net of fees. Investing involves the risk of loss and investors should be prepared to bear potential losses. Past performance is not indicative of future results.

The "Gross" returns presented are gross of fees. The results do not reflect the deduction of investment management fees. The client's return will be reduced by the management fees and any other expenses incurred in the management of the account. For example, a US \$100 million account, paying a 0.50% 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%. Management fees are described in Part 2A of RCIM's Form ADV. Investing involves the risk of loss and investors should be prepared to bear potential losses. Past performance is not indicative of future results.

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Core Fixed Income Composite includes all fully discretionary institutional portfolios that invest in Treasury and agency bonds, U.S. dollar denominated investment grade corporate bonds, municipal bonds, asset-backed securities, agency, and non-agency mortgage-backed securities, collateralized mortgage obligations and preferred securities. The Composite also invests in derivatives such as Treasury futures and CDX for hedging purposes. The Composite was created January 1, 2019. The inception date of the Composite was August 1, 2014.

The benchmark is the Bloomberg U.S. Aggregate Bond Index. The index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset backed securities and commercial mortgage-backed securities.

Benchmark Definitions: S&P 500® Index is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in industries of the U.S. economy. S&P Goldman Sachs Commodity Index serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

An index is an unmanaged portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Investors cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

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