FIRST QUARTER 2022

Strategic Income Commentary

March 31, 2022

STRATEGIC INCOME PORTFOLIO REVIEW

The Red Cedar Strategic Income Composite (Composite) continues to consistently outperform its benchmark in a variety of market environments with the first quarter of 2022 representing one of the worst quarters for the fixed income asset class as a whole in 40 years. Despite this environment, the Composite still outperformed its benchmark (the Bloomberg U.S. Aggregate Bond Index) by 2.42% (net of fees) making it 8 consecutive quarters, and every quarter since inception, of outperformance relative to the benchmark.

Relative outperformance was led by the portfolio's duration and curve positioning (underweight and flatter) as the U.S. Treasury curve aggressively bear-flattened. The portfolio's exposure to volatility on the long side was the biggest contributor during the quarter from a total return standpoint. Exposure to credit, through preferred securities primarily as well as more traditional corporate credit, was the primary detractor from performance as credit spreads widened materially during the quarter. Exposures to equities, REITs, and foreign currency all detracted from performance as equities sold off globally and the dollar rallied against most other currencies.

PERFORMANCE

ANNUAL PERFORMANCE (%)	2021	2020†
Composite Gross	6.22	14.75
Composite Net	5.85	14.46
Index*	-1.54	4.23

	Composite Gross (%)	Composite Net (%)	Index* (%)	Outperformance** (%)
1Q22	-3.43	-3.51	-5.93	2.42
6 Month	-1.24	-1.42	-5.92	4.50
1 Year	2.29	1.93	-4.15	6.08
ITD†	8.50	8.12	-1.75	9.87

*Bloomberg U.S. Aggregate Bond Index
**Outperformance=Composite Net-Index
†Performance calculated from inception date 4/1/2020

Periods greater than 12 months are annualized
Source: Bloomberg, Clearwater Analytics

PORTFOLIO OUTLOOK & POSITIONING

The portfolio is positioned for a hawkish Federal Reserve Bank (Fed) removing liquidity from the market and directly targeting tighter financial conditions, which means higher interest rates, elevated credit spreads, increased volatility, and a strong dollar. Geopolitics remains the largest known unknown, clouding the near-term outlook. While we can't rule out a flight-to-quality rally in U.S. Treasuries, we do believe it is even more likely that circumstances in Eastern Europe drive inflation higher in the near term, forcing the Fed to be even more hawkish and pushing yields higher. Multiple 50-basis-point (bps) rate hikes were rapidly priced into the Treasury curve during the quarter, but the reduction of liquidity they foretell is not priced into credit spreads or the equity market. Moreover, an aggressive unwind (i.e., outright asset sales) of the Fed's balance sheet isn't priced into any market. While not our base case, this will become increasingly probable as the yield curve continues to flatten and invert in the weeks and months ahead.

Therefore, the portfolio is taking less interest risk than the benchmark and is conservatively positioned for an inverted yield curve. In addition, the portfolio's holdings of hybrid securities are at the lower end of its range, and the hybrids it does own are generally of higher quality and more conservatively structured (i.e., higher back-end floating rates and shorter call periods) than at any point during 2021. Our exposures to traditional high yield credit and to dividend paying equities were materially reduced during the quarter in favor of U.S. Treasuries and short dated high-quality asset-backed/mortgage-backed securities. The Composite does maintain a small exposure to equities, but those are heavily tilted toward commodity producers (gold and oil), which in this environment have exhibited negative correlations with credit spreads and risky

PORTFOLIO MANAGEMENT TEAM

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INVESTMENT PHILOSOPHY

"Strategic Income seeks current income, across global markets, in any capital structure where we find relative value. The strategy provides reduced correlations to both stocks and bonds in a high quality portfolio."
—John Cassady

continued on page 2

assets. Additionally, we maintain exposure to equity volatility on the long side as a hedge against widening credit spreads. The portfolio currently has no exposure to REITs or fixed for life preferred stock and minimal exposure to emerging markets in hard or local currency.

MARKET REVIEW

Coming into the year 2022, there were certainly many risks looming on the horizon—chief among them were inflation and whether Russia would invade Ukraine. The Fed was most certainly going to embark on a tightening of monetary policy, but the bigger concern was the possibility that they were already woefully behind the curve on inflation. At the beginning of the year, the eurodollar futures market was pricing in four 25-bps hikes for 2022. With a litany of Fed speakers suggesting that hikes of 50 bps could be in play at some Federal Open Market Committee Meetings (FOMC) this year, the market soon began pricing in a Fed Funds target of 2% by year end. When the FOMC finally met on March 16, it announced its hawkish stance on inflation by raising rates by 25 bps and its intention to announce a plan for shrinking its nearly $9 trillion balance sheet at its May meeting. In addition to reading the tea leaves on the Fed, the markets also had to contend with the Russian invasion of Ukraine on February 24 and the unprecedented sanctions levied against Russia by the West. Indeed, Russia and its banks were effectively banned from financial transactions with most of the world. This sent commodity prices skyrocketing as Russia and its allies are some of the largest energy exporters and key producers of metals, fertilizers, and other agricultural commodities.

With the Fed potentially behind the curve on inflation before the Russian invasion and additional inflationary impulses caused by commodity supply disruptions, the capital markets reacted accordingly. The best performing asset class during the quarter was commodities with the S&P Goldman Sachs Commodity Index returning 29.05%. Those inflationary pressures, along with a Fed that will have to play catch-up on fighting inflation, was the catalyst behind the Bloomberg U.S. Aggregate Bond Index's worst ever start to a year with a total return of -5.93%. As investors repriced risk during the quarter due to these crosscurrents, the large cap Russell 1000® Index was at one point down 13.11% from peak to trough but managed to end the quarter -5.14%. Growth stocks as represented by the Russell 1000 Growth Index underperformed with a -9.05% return, while the Russell 1000 Value index ended up with just a -0.75% return.

Investors are now faced with whether the Fed will be able to engineer a soft landing for the U.S. economy as it fights inflation in earnest for the first time in 40 years. Typically, an inverted yield curve is a good predictor of recession. The slightly inverted 2's/10's yield spread of -0.06 bps could be signaling that the Fed is so far behind the curve on inflation that their only option will be to tighten aggressively until they send the economy into recession. If this is the case, then equity and fixed income markets will need to price more risk into their respective markets.

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All information and performance are reported in U.S. 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.

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Strategic Income Composite (the "Composite") includes a broad distribution pooled fund (North Square Strategic Income Fund) that invests in Treasury and agency bonds, investment grade and non-investment grade corporate bonds, municipal bonds, asset-backed securities, agency, and non-agency mortgage-backed securities, collateralized mortgage obligations, preferred securities, equity REITS and equity securities. The strategy may use derivatives, including forward contracts, futures contracts, swap contracts and options in implementing its strategy. The use of derivative instruments allows the strategy to achieve its investment objectives, reduce risks, or manage the strategy more efficiently. The strategy also invests in international securities, foreign exchange, and non-U.S. dollar denominated securities. The Strategic Income Composite was created on April 1, 2020. The inception date of the Composite was April 1, 2020.

The benchmark is the Bloomberg U.S. Aggregate Bond Index. The index is a broad-based benchmark that measures the investment grade, U.S. 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:

- The 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.
- Russell 1000 Index is a stock market index that tracks the highest ranking 1,000 stocks in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index.
- Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- Russell 1000 Value index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

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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