FIRST QUARTER 2022

Core Fixed Income Commentary

March 31, 2022

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 Federal Reserve (Fed) was most certainly going to embark on a tightening of monetary policy, but the bigger concern was the possibility that it was already woefully behind the curve on inflation. At the beginning of the year, the eurodollar futures market was pricing in four 25-basis-point (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, were 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 at -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 the quarter 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 2s/10s yield spread of -0.06 bps could be signaling that the Fed is so far behind the curve on inflation that its only option will be to tighten aggressively until it sends 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.

CORE PORTFOLIO REVIEW

The Core Fixed Income Composite returned -5.89%, net of fees, for the quarter ending March 31, 2022, in line with the composite's benchmark, the Bloomberg U.S. Aggregate Bond Index, which had a return of -5.94%.

The yield on the 10-year U.S. Treasury bonds increased 72 bps during the quarter. The strategy benefited being underweight duration throughout the period, which was the primary positive contributor to performance.

Offsetting the positive dynamic of the strategy's duration position was the impact of credit spreads. Investment grade credit spreads widened by 25 bps during the period, which resulted in the strategy's spread product in general, with corporate bonds and preferred securities specifically as detractors from performance.

Together the two dynamics highlighted above were offsetting, resulting in the strategy's in-line performance.

CORE POSITIONING & OUTLOOK

Supply chain challenges, labor shortages, and commodity disruptions all point to higher inflation. The Fed has clearly acknowledged that fighting inflation is its priority and markets have and will react accordingly. Higher interest rates are the result of increased inflation

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STRATEGY INFORMATION

Benchmark	Bloomberg U.S. Aggregate Index
Business Minimum	$15M
Number of Holdings	251
Assets	$190.99M

PORTFOLIO MANAGEMENT TEAM

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Joined Red Cedar: 2018

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INVESTMENT PHILOSOPHY

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

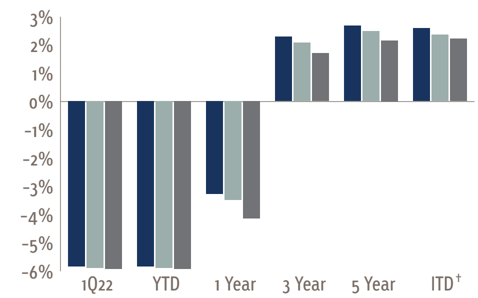
expectations. The yield on the 10-year U.S. Treasury bond increased 72 bps during the quarter. In expectation of even higher rates, the strategy's duration is lower than the benchmark. While the uncertainty around the Ukrainian War may last for an extended period, resulting in certain events that may trigger a flight to quality (i.e., lower interest rates), the market's reaction will be temporary. Ultimately, inflation (i.e., high interest rates) and the Fed's commitment to rein it back in will prevail.

Investment grade (IG) corporate bonds had a wild ride during the quarter. IG credit spreads entered the year at +97 bps. As it became clear that the Fed would attack inflation aggressively and it became more likely that Russia would invade Ukraine, credit spreads widened to +152 bps by mid-March. There was a significant reversal toward the end of the quarter, however, as credit markets rallied sharply, finishing the period at +122 bps. With the Fed now signaling a more aggressive inflation fighting stance, wider credit spreads are a likely outcome. The strategy's exposure to investment grade credit has been adjusted to reflect that possibility while the strategy's exposure to corporate credit has been reduced with a rotation into higher quality names. Even with concerns over inflation and geopolitical issues, there are sectors that provide value and stability. Elevated commodity prices will provide support to the energy, metals & mining, and certain industrial sectors. Further, corporate balance sheets remain strong, so higher quality companies should provide somewhat of a haven during turbulent times.

The strategy's exposure to preferred securities was reduced by two-thirds during the quarter. Once geopolitical risks are better defined, the strategy will increase exposure to the sector. The strategy will maintain an orientation toward higher quality securities as market uncertainty is biased toward lower prices.

High quality securitized bonds offer an attractive alternative for the strategy compared to corporate bonds or preferred securities. They do not have the same type of credit risk as corporate debt, so they provide somewhat of a haven when credit spreads are widening. The strategy's exposure to asset-backed (ABS) and commercial mortgage-backed securities was increased during the quarter. The ABS emphasize bonds that are well enhanced through structural protection and quality collateral. The strategy's position in agency mortgage-backed securities (MBS) was reduced over concerns the Fed will begin reducing the size of its balance sheet, which could weigh on MBS prices.

PERFORMANCE



	Composite Gross	Composite Net	Index*
1Q22	-5.84%	-5.89%	-5.93%
YTD	-5.84%	-5.89%	-5.93%
1 year	-3.28%	-3.49%	-4.15%
3 year	2.27%	2.06%	1.69%
5 year	2.67%	2.46%	2.14%
ITD†	2.57%	2.34%	2.21%

†Inception Date 8/1/2014
Periods greater than 12 months are annualized
*Bloomberg U.S. Aggregate Index
Source: Bloomberg, Clearwater Analytics

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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.

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 Part 2A. Investing involves the risk of loss and investors should be prepared to bear potential losses. Past performance is not indicative of future results.

The information herein was obtained from various sources. RCIM does not guarantee the accuracy or completeness of information provided by third parties. The information in this report is given as of the date indicated and believed to be reliable. RCIM assumes no obligation to update this information, or to advise on further developments relating to it.

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, 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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