SECOND QUARTER 2022

Dividend Growth Commentary

June 30, 2022

MARKET REVIEW

The second quarter of 2022 was a continuation of the first quarter for the capital markets as the Federal Reserve Bank (Fed) continued to remove its extraordinarily accommodative monetary stimulus while investors shunned risky assets. After hiking just once during 1Q22, the Fed increased its federal funds target rate twice during 2Q. Realizing that it might be behind the curve on fighting inflation, the Fed moved in earnest by increasing rates 50 basis points (bps) at the May 4 meeting and 75 basis points at the June 15 meeting, bringing the upper band of the federal funds target rate to 1.75%. The Federal Open Market Committee (FOMC) also continued its hawkish rhetoric as inflation remained stubbornly high at 8.6% year over year as measured by the Consumer Price Index.

With inflation eroding purchasing power and funding costs rapidly increasing, most major asset classes had a negative return during the quarter. Indeed, the large cap S&P 500® Index returned -16.1% for the quarter, bringing its return to -20.0% year-to-date (YTD). With investor risk appetite waning, it was not surprising to see large cap growth stocks, as represented by the Russell 1000® Growth Index, continue its relative underperformance to the Russell 1000 Value Index. Growth stocks returned -20.9% for the quarter, while value stocks returned -12.2%. With inflation running hot and the Fed playing catch-up, the Bloomberg U.S. Aggregate Bond Index turned in an abysmal -4.7% return for the quarter. This broad investment grade bond index has now returned -10.3% YTD. The riskier Bloomberg U.S. Corporate High Yield Bond Index returned -9.8% for the quarter as high yield credit spreads increased by nearly 250 bps. With Russia's President Vladimir Putin still waging war in Ukraine and western sanctions still in place against Russia, energy commodities continued their good performance with a 6.2% return for 2Q and 46.5% return YTD as represented by the S&P GSCI Energy Index.

As we enter the second half of the year, the markets still face uncertainty as it relates to inflation, the Fed's reaction function, and a slowing economy. Paul Volcker was the last FOMC chairman to fight inflation of this magnitude. He ultimately had to send the U.S. economy into recession to get inflation under control. The FOMC chairman during the Nixon, Ford, and partial Carter administrations was Arthur Burns. He believed inflation was transitory and caused by things outside the Fed's control. Under his watch, the Fed was not aggressive enough in fighting inflation, causing a stagflationary environment for many years. The jury is still out on current chairman Jerome Powell, and the markets must decide if it has another Burns or Volcker at the helm. The Fed could get lucky and stick the soft landing, but for now it is best to remain defensively positioned while the economy and markets sort themselves out.

DIVIDEND GROWTH PORTFOLIO REVIEW

The Dividend Growth Composite returned -12.76%, net of fees, for the quarter ending June 30, 2022. The strategy's benchmark, the S&P 500 Index, returned -16.10% during the same time period.

Another challenging quarter in the books to add to the difficult start of the year. Macro developments that shaped Q1 continued their course in Q2. As inflation proved to be less than a "transitory" story, the Fed moved towards a more aggressive monetary tightening pace. Market concerns about the growth outlook have increased, which triggered a further contraction in the S&P 500 multiple to below 18.0. Higher inflation and interest rates to combat it have raised fears of recession.

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STRATEGY INFORMATION

Benchmark	S&P 500® Index
Business Minimum	$1M
Number of Holdings	58
Assets	$58.28M

PORTFOLIO MANAGEMENT TEAM

Julia Batchenko, CFA
Senior 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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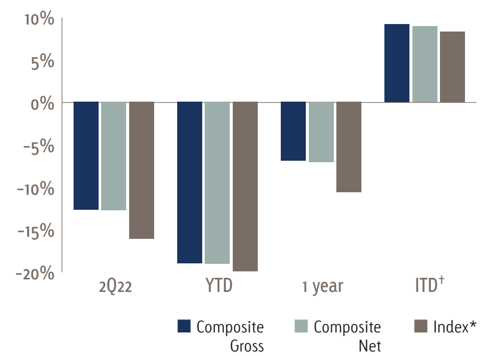
The uncertainty related to the Fed's actions and its ability to generate a soft-landing drove continuation of the defensive tone in Q2 with utilities, consumer staples, and healthcare outperforming the S&P 500. Energy also outperformed the benchmark in the quarter. The consumer discretionary sector was the worst performer in the benchmark due to fears of slowing consumer demand. Growth trailed value as higher interest rates tend to negatively impact long duration stocks.

Our underweight and security selection in the underperforming consumer discretionary and technology sectors, as well as our overweight and security selection in the healthcare sector, contributed the most to the performance.

Our security selection in the REITs and materials sectors and underweight in the consumer sector were the largest detractors.

PERFORMANCE



	Composite Gross	Composite Net	Index*
2Q22	-12.71%	-12.76%	-16.10%
YTD	-19.00%	-19.09%	-19.96%
1 year	-6.93%	-7.13%	-10.62%
ITD†	9.18%	8.95%	8.27%

†Inception Date 1/1/2020
Periods greater than 12 months are annualized
*S&P 500® Index
Source: Bloomberg, Clearwater Analytics

DIVIDEND GROWTH POSITIONING AND OUTLOOK

While the U.S. consumer continues to be resilient, supported by low unemployment, wage growth, and healthy balance sheets, sentiment has been deteriorating due to higher inflation and interest rates. Thus, a slowdown in consumer spending is likely imminent. As we continue to face uncertainty regarding inflation, the Fed, and slowing economy, we continue to favor defensive parts of the market.

We favor sectors that have higher opportunity to deliver sales and earnings growth in a slowing economic environment with persisting inflation, such as energy, healthcare, consumer staples, utilities, and REITs.

DISCLOSURES

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The securities discussed do not represent the Composite's entire portfolio. Actual holdings will vary depending on the size of the account, cash flows, and restrictions. It should not be assumed that any of the securities transactions or holdings discussed will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

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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 U.S. $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.

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RCIM's Dividend Growth Composite (the Composite) includes all fully discretionary institutional portfolios that invest in common stocks with market capitalization of $2 billion and higher. The strategy is focused on investing at least 80% of the portfolio in high quality dividend paying and dividend raising stocks and up to 20% in non-dividend paying lower quality stocks. The Composite was created January 1, 2020. The inception date of the Composite was January 1, 2020.

The benchmark is the Standard & Poor's 500 Index (S&P 500 Index). The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.

Benchmark Definitions: The Russell 1000 Growth measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Value measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The S&P 500 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. The Bloomberg U.S. Aggregate Bond 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. The Bloomberg U.S. Corporate High Yield Bond measures the USD-denominated, high yield, fixed-rate corporate bond market. The S&P GSCI Energy Index, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the energy commodity market.

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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