THIRD QUARTER 2022

Dividend Growth Premium Income Commentary

September 30, 2022

MARKET REVIEW

The Federal Reserve (Fed) continued with its aggressive tightening cycle by increasing the Fed Funds target rate by another 75 basis points (bps) at its September meeting. This brings the lower band of the target to 3% after beginning the year at zero, making it the fastest pace of rate hikes since the 1980s. Additionally, the Central Bank continues to shrink its bloated balance sheet by nearly $100 billion per month. These actions were necessitated by the fact that U.S. inflation remains stubbornly sticky as measured by the unexpectedly high August year-over-year Consumer Price Index (YoY CPI) reading of 8.3%. Across the Atlantic, Germany and the United Kingdom experienced August YoY CPI readings of 10.0% and 9.9%, respectively.

Unsurprisingly, the government bond markets did not take these events lightly. 10-year U.S. Treasury yields increased by 84 bps during the quarter, ending at a 3.83% yield to maturity (YTM). 10-year German bunds, which began the year with negative yields, increased by 74 bps during the quarter to end with a 2.07% YTM. Meanwhile, as the UK made plans to cut taxes and spend approximately 5% of GDP to subsidize this winter's heating bills, 10-year Gilt yields exploded by 186 bps to the upside, ending the quarter at 4.09%. Europe's more dire circumstances relative to the U.S. provided the spark for the counter-cyclical U.S. Dollar Index (DXY) to increase an astounding 7.1% for the quarter. After trying to rally earlier in the quarter, the government funding issues and stronger U.S. dollar proved to be too much for equity markets to handle as the S&P 500® ultimately finished down 4.89% for the quarter. With risk-free interest rates increasing at a quickened pace, it was somewhat surprising that growth stocks outperformed value stocks on a relative basis.

As we enter the final quarter of the year, Chairman Jerome Powell and the Fed seem determined to follow the Paul Volcker model rather than the Arthur Burns model on fighting inflation. This, along with U.S. companies' earnings being negatively impacted by a strong dollar, could make for a challenging 3Q earnings season and a continued bear market for stocks.

DIVIDEND GROWTH PREMIUM INCOME PORTFOLIO REVIEW

The Dividend Growth Premium Income Composite returned -4.51%, gross of fees, for the quarter ending September 30, 2022. The strategy's benchmark, the S&P 500 Index, returned -4.88% during the same time period.

The S&P 500 rallied nearly 18% from June 16 to August 16, helped by the U.S. 10-Year Treasury yield, then lost about 60 bps on the market's expectations of a "Fed Pivot." The deceleration of the Consumer Price Index (CPI) prints, driven almost exclusively by falling gasoline prices coupled with lower economic growth expectations, was the primary reason for this rate dynamic. However, as the Fed reiterated its priority to fight inflation rather than support economic growth at its Jackson Hole summit, bond yields rose sharply and the sell-off in the stock market resumed its course in the second half of the quarter.

Heightened fears of the Fed driving the U.S. economy into a recession drove high-quality areas of the market on return on invested capital, return on equity, and free cash flow to outperform. By sector, performance was more of a mixed bag. The worst Q2 sector, consumer discretionary, rebounded to the best performer led by the heavy weights of Tesla and Amazon. Energy continued to outperform in Q3, followed by consumer staples and financials. Communications and REITs finished the worst.

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STRATEGY INFORMATION

Benchmark	S&P 500® Index
Business Minimum	$1M
Number of Holdings	50
Assets	$11.57M

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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Our underweight and security selection in the communications and technology sectors and overweight and security selection in the financials sector contributed the most to the performance.

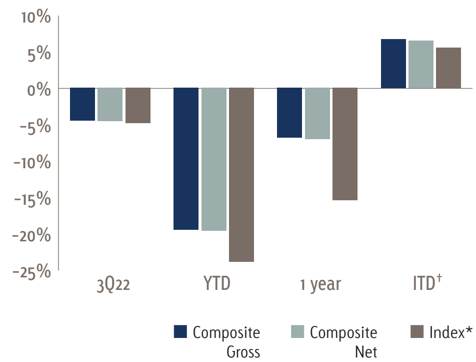
Our underweight and security selection in the consumer discretionary sector, security selection in the materials sector, and overweight in the REITs sector were the largest detractors.

DIVIDEND GROWTH PREMIUM INCOME POSITIONING AND OUTLOOK

As most of the market sell-off was attributed to the declining multiple, we expect the next leg-down will likely happen on the earnings and forward guidance side. Q3 earnings season may turn out challenging due to higher interest rates impairing demand and a higher dollar making American companies' earnings lower. At the same time, the Fed seems determined to continue to fight inflation even at the detriment of lower economic growth. With these negative developments on our mind, we continue to favor high-quality, defensive corners 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, health care, consumer staples, utilities, and REITs.

PERFORMANCE



	Composite Gross	Composite Net	Index*
3Q22	-4.53%	-4.58%	-4.89%
YTD	-19.50%	-19.63%	-23.87%
1 year	-6.87%	-7.07%	-15.47%
ITD†	6.71%	6.49%	5.55%

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

DISCLOSURES

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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.

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.

The Dividend Growth Premium Income Composite includes all fully discretionary institutional portfolios that invest in common stocks with market capitalization of $2 billion and higher and a dividend yield of at least 1%. 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 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. The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. The U.S. Dollar Index is used to measure the value of the dollar against a basket of six foreign currencies.

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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