RED CEDAR
INVESTMENT MANAGEMENT

FOURTH QUARTER 2022

Preferred and Income Securities Commentary

December 31, 2022

PERFORMANCE

The Preferred and Income Securities Composite (Composite) returned 3.40%, net of fees, on the quarter, underperforming its benchmark* by 1 basis point (bp) during the fourth quarter of 2022. This brings the 11-month inception-to-date performance (February 1, 2022 - December 31, 2022) to +211 bps, net of fees, relative to the benchmark.

COMPOSITE	Composite Gross (%)	Composite Net (%)	Index* (%)	Outperformance** (%)
4Q22	3.49	3.40	3.41	-0.01
ITD[†]	-8.60	-8.91	-11.03	2.11

*Custom Benchmark (60% CIPS, 20% PoP4, 20% COCO)
**Outperformance=Composite Net-Index
[†]Performance calculated from inception date 2/1/2022

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

PREFERRED, HYBRID, AND AT1 MARKET OVERVIEW

The custom benchmark (which represents the investable universe of global deeply subordinated preferred, additional tier 1 (AT1), and hybrid instruments) returned 3.41% for the quarter, the first quarter of the year with a positive return, despite year-to-date (YTD) returns still deeply negative at -13.06%. AT1s materially outperformed institutional preferred securities, corporate hybrids, and the retail preferred market during the quarter with the COCO Index posting a total return of nearly 12% on the quarter. This was due in part to foreign exchange market (FX) impacts, as roughly half of the COCO Index is denominated in the euro and pound sterling with both currencies rallying significantly against the U.S. dollar (USD) in the quarter. However, the outperformance was not due entirely to FX with the CDLR Index (USD-only AT1 index) returning over 7% during the quarter or roughly double the investment grade institutional preferred index, CIPS. The rally in AT1s was caused by three factors. First and foremost, spreads had hit “oversold” levels with only spreads at the depths of the COVID-19 lockdowns in the spring of 2020 being wider in the history of the Index (which only dates to 2013). Secondly, Credit Suisse was able to successfully raise CHF 4bn of new common equity. Last but certainly not least, UBS called a deeply out-of-the-money AT1, which caused a significant amount of the Index to reprice from a yield-to-perpetuity basis to a yield-to-call basis.

PREFERRED AND INCOME SECURITIES REVIEW

Relative outperformance was led by the portfolio’s underweight (UW) position in $25 par fixed-for-life preferred securities, where the Composite owned none during the quarter, but the benchmark owned 20%. $25 par retail preferred securities lost approximately 4.6% (as represented by PoP4) during the fourth quarter alone. Relative underperformance came from the portfolio’s UW position in AT1s with the COCO Index returning nearly 12% during the fourth quarter. The portfolio remains UW AT1s at the end of the fourth quarter, however, to a far lesser degree than it was UW at the end of the third quarter. Furthermore, the portfolio started the quarter with zero non-USD positions representing a sizeable long USD FX position relative to the custom benchmark, which has roughly 7% non-USD positions. This contributed to relative underperformance given the USD sell-off. This FX UW position was meaningfully reduced but not eliminated during the quarter.

PORTFOLIO OUTLOOK AND POSITIONING

The portfolio remains materially overweight (OW) U.S. domestic institutional preferred securities and marginally OW U.S. corporate hybrids (both $1,000 par) at the expense of European AT1 securities (7% UW) and most prominently fixed-for-life ($25 par) retail preferred securities, of which the Composite owns none. This is considered a fairly defensive position as the AT1 and $25 par preferred markets are typically much more volatile than the $1,000 hybrid and preferred markets. Furthermore, the AT1 market is highly concentrated in European banks, which is one of

continued on page 2

PORTFOLIO MANAGEMENT TEAM

Brandon F. Bajema, CFA, CPA
Senior Portfolio Manager
Industry start date: 2003
Joined Red Cedar: 2021

John L. Cassady III, CFA
Chief Investment Officer
Industry start date: 1987
Joined Red Cedar: 2018

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

QUALITY RATINGS

	Strategy (%)
A & above	6.3
BBB	70.7
BB	22.5
B	0.0
Cash & Equivalent	0.5

SECURITY TYPE

	Strategy (%)
Institutional Preferreds	46.3
Corporate Hybrids	33.2
Retail Preferreds	1.0
AT1s	12.7
Traditional Corporate	6.3
Cash & Equivalent	0.5

the few areas of global credit currently experiencing idiosyncratic credit issues, with Credit Suisse being a prime example. Our OW positions are in variable rate and floating rate securities, which have fairly short durations, while our largest UW is in the fixed-for-life $25 par market, which has a high duration and materially worse convexity than our positions, resulting in a portfolio that has a duration of roughly 2 years versus the Index duration of around 4 years. We continue to position ourselves in preferred securities that are either currently or soon-to-be floating over three-month London Interbank Offered Rate (LIBOR), which not only positions us well for a rising rate environment but also gives the portfolio a much better convexity than the benchmark. Most of the currently floating and many of the soon-to-be floaters are not represented in the benchmark. Spreads of preferred, hybrid, and AT1s are wide relative to the last 10 years (90th percentile). Perhaps most importantly with price levels of the Index in the high $80s to low $90s, this suggests the degree of negative convexity in the space is much less than it was a year ago.

MARKET REVIEW

The fourth quarter of 2022 capped off a challenging year in the capital markets as investors continued to grapple with the impact of inflation and central banks globally raising interest rates. The optimist would suggest that at least stocks and bonds both had positive returns for the quarter as the large cap Russell 1000® Index returned 7.23% for the quarter and the small cap Russell 2000® Index returned 6.20%. When looking at the entire year, however, large cap returned -19.14% and small cap was at -20.46%. The divergence in equity returns was most striking, however, when comparing the growth style of investing to value. For the fourth quarter, the Russell 1000 Growth Index was up 2.19% while the Russell 1000 Value Index returned 12.40%. Taken over the entire year, growth returned -29.14% and value returned -7.56%.

In fixed income, investors were left to guess just how far the Federal Reserve (Fed) would go in hiking rates to combat an ugly inflation environment. During the course of the year, the Fed increased the Fed Funds rate from 0.25% to 4.50%, and it still is not finished tightening. The bond market responded by increasing the 10-year U.S Treasury (UST) yield from 1.51% to 3.87%. The shorter 2-year UST yield moved from 0.78% to 4.40%, leaving the yield curve inverted, which historically signaled that a recession is on the horizon. When the dust finally settled, it left the U.S. bond market as measured by the Bloomberg U.S. Aggregate Bond Index with a -13.01% return for the year. For the fourth quarter, however, the Index did manage a positive 1.87% return.

Moving into 2023, plenty of uncertainty remains as it relates to how far the Fed will increase rates to get inflation under control. With that being said, we believe the terminal Fed Funds rate will end up in the 5%-5.5% range. If this is the case, 2023 could end up being a positive year for fixed income. While a lot of steam has been taken out of the equity market, we still believe valuations are somewhat stretched and are keeping an eye on earnings guidance for 2023. If earnings downgrades do materialize, equities could struggle during the first part of the year. We believe value stocks will continue to outperform growth and expect to redeploy more capital into equities when valuations become more attractive.

*The Custom Benchmark is made up of 60% ICE BofA U.S. Investment Grade Institutional Capital Securities Index (CIPS), 20% ICE BofA Core Plus Fixed-Rate Preferred Securities Index (PoP4), and 20% ICE BofA Contingent Capital Index (COCO).

DISCLOSURES

Red Cedar Investment Management, LLC (RCIM) is an investment adviser registered under the Investment Advisers Act of 1940, founded in 2013. Registration as an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser. For more information please visit: www.adviserinfo.sec.gov and search for our firm name. Neither the information nor any opinion expressed herein should be construed as personalized investment, tax, or legal advice, or a recommendation of any particular security or strategy.

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.

The information presented in this material is general in nature and not designed to address your investment objectives, financial situation, or particular needs. Prior to making any investment decision, you should assess or seek advice from a professional regarding whether any particular transaction is relevant or appropriate to your individual circumstances. The mention of specific securities and sectors illustrates the application of our investment approach only and is not considered a recommendation by RCIM. There is no assurance that the securities purchased remain in the portfolio or that securities sold have not been repurchased. The opinions expressed herein are those of RCIM and may not actually come to pass.

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 Preferred and Income Securities Composite includes a broad distribution pooled fund (North Square Preferred and Income Securities Fund) that invests in preferred securities, Treasury and agency bonds, investment grade and non-investment grade corporate bonds, asset-backed securities, agency and non-agency mortgage-backed securities, collateralized mortgage obligations, and REITS. 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. Under normal market conditions, the portfolio invests at least 80% of its net assets (plus any borrowings for investment purposes) in a portfolio of preferred and debt securities issued by U.S. and non-U.S. companies. The Preferred and Income Securities Composite was created 2/1/2022. The inception date of the Composite was 1/14/2022.

Benchmark Definition:

The benchmark is a Custom Benchmark. The Custom Benchmark is a combination of 60% ICE BofA U.S. Investment Grade Institutional Capital Securities Index (CIPS), 20% ICE BofA Core Plus Fixed-Rate Preferred Securities Index (PoP4), and 20% ICE BofA Contingent Capital Index (COCO), calculated by weighting the respective index returns monthly. The CIPS index tracks the performance of the U.S. dollar-denominated investment-grade hybrid capital corporate and preferred securities issued in the U.S. domestic market. The PoP4 index tracks the performance of fixed rate US dollar denominated preferred securities issued in the US domestic market. The index includes preference shares (perpetual preferred securities), both DRD-eligible and non-DRD eligible preferred stock and senior and subordinated debt issued in $25, $50 or $100 par/liquidation increments. The COCO index tracks the performance of investment grade and below investment grade contingent capital debt publicly issued in the major domestic and Eurobond markets. The Custom Benchmark returns are calculated by using the monthly returns of the indices listed above during each period. At the beginning of each month the indices are rebalanced to a 60/20/20 ratio to account for divergence from that ratio that occurred during each month. The monthly returns are the compounded for each period, giving the performance for the Custom Benchmark. 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.

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 Russell 2000 measures the performance of the 2,000 smallest companies in the Russell 3000 Index. It is generally representative of US Equity Small and Mid-Cap performance.

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.

RCIM claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Please see the Composite's GIPS® Composite Report for important additional information. To receive a list of composite descriptions and/or GIPS® Composite Report that complies with the GIPS® standards, contact RCIM at mfeldhaus@redcedarim.com.

333 Bridge St. NW, Suite 601, Grand Rapids, Michigan 49504
www.redcedarim.com (513) 345-4414
RCIM-2022-12