

Strategic Income Commentary

December 31, 2022

STRATEGIC INCOME PORTFOLIO REVIEW

The Red Cedar Strategic Income Composite [Composite] successfully navigated near record levels of interest rate volatility and perhaps the worst bond market in 100 years to outperform its benchmark by 511 basis points (bps) in 2022, net of fees, including 68 bps in the fourth quarter.

Relative outperformance was led by the portfolio's core position in preferred securities. Preferred securities as a broad asset class outperformed core fixed income in general during the fourth quarter as spreads tightened. However, outperformance was not only driven by allocation to the preferred securities market but also by selection within the preferred market. The Composite had zero exposure to the \$25 par fixed for life securities, which meaningfully underperformed during the quarter driven in large part by a 19 bps rise in the 30-year treasury yield.

The Composite continued to effectively execute dynamic portfolio hedging techniques, which dampened the volatility of the overall portfolio. In addition, the hedging strategy contributed positively to the Composite's performance even in the face of a strong rally in risk markets. Active management proved to be the deciding factor in alpha generation as overall volatility levels in the market fell by 32% during the period as measured by the VIX Index, indicating that simply holding a long volatility position would have been a losing proposition.

The underweight to agency mortgage-backed securities was the largest detractor of performance relative to the benchmark during the period. The sector experienced near historic levels of spread tightening as the market anticipated that the Federal Reserve [Fed] may scale back the pace of monetary policy tightening.

PERFORMANCE

ANNUAL PERFORMANCE (%)	2022	2021	2020 [†]
Composite Gross	-7.58	6.22	14.75
Composite Net	-7.90	5.85	14.46
Index*	-13.01	-1.54	4.23

	Composite Gross [%]	Composite Net [%]	Index* [%]	Outperformance** [%]
4Q22	2.64	2.55	1.87	0.68
YTD	-7.58	-7.90	-13.01	5.11
1 Year	-7.58	-7.90	-13.01	5.11
ITD [†]	4.42	4.06	-4.04	8.10

*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 AND POSITIONING

The portfolio remains defensively positioned, starting the year with 6% cash, a fairly large allocation to treasuries (11%) and highly rated securitized credit (36%), a modest allocation to high yield securities (12%), a slightly less than average allocation (35%) to preferred and hybrid securities, and no exposure (0%) to equities to start the year. Furthermore, within the preferred and hybrid securities allocation, the positions are defensive with zero ATIs or fixed-for-life preferred securities—the two most volatile segments of the preferred and hybrid universe.

In the securitized market, the strategy rotated out of subordinate tranches of single-asset commercial mortgage-backed securities and into agency guaranteed multi-family bonds that possess material upside exposure to early prepayment of the underlying loans. The investment team remains focused on this broad theme of identifying deep discount dollar price securities that are likely to be called at par due to nuances within the capital structure and collateral that hasn't been fully appreciated by the market.

PORTFOLIO MANAGEMENT TEAM



Brandon F. Bajema, CFA, CPA

Senior Portfolio Manager

Industry start date: 2003

Joined Red Cedar: 2021



Julia Batchenko, CFA

Senior Portfolio Manager

Industry start date: 2011

Joined Red Cedar: 2019



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



Jason M. Schwartz, CFA

Senior Portfolio Manager

Industry start date: 2004

Joined Red Cedar: 2018



David L. Withrow, CFA

Director of Portfolio Management

Industry start date: 1988

Joined Red Cedar: 2018



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

Strategic Income Commentary

December 31, 2022

The Composite's duration stands at roughly 4.25 years, which is materially lower than the benchmark's duration of 6.15. Most of the underweight comes from the long end of the curve (10 years+), which gives the Composite a material steepening bias. Duration will continue to be dynamically managed by adding duration into rising rates and shedding duration into falling rates. Lastly, the portfolio does not currently have any long volatility exposure, but it is expected to re-establish this position shortly after the new year if valuations remain near current levels.

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 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.

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 Strategic Income Composite (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:

- VIX Index is a real-time market index representing the market's expectations for volatility over the coming 30 days
- 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 Index 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.
- 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.

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.