RED CEDAR
INVESTMENT MANAGEMENT

FOURTH QUARTER 2022

Core Fixed Income Commentary

December 31, 2022

4Q 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 has 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.

CORE FIXED INCOME PORTFOLIO REVIEW

The Core Composite (Composite) returned 1.71%, gross of fees, (1.66%, net of fees) for the quarter ending December 31, 2022, underperforming the Composite's benchmark, the Bloomberg U.S. Aggregate Bond Index, which had a return of 1.87%. For the year, the gross-of-fee return of the Composite outperformed its benchmark by 66 basis points (bps).

The strategy's performance benefited by maintaining a shorter duration than the benchmark as 10-year UST yields increased slightly (5 bps) during the quarter, while 30-year yields increased 20 bps and 2-year yields increased 14 bps. It was another volatile quarter in the Treasury market as the 10-year yield started the period at 3.82%, increased to 4.05% in October, declined in November to 3.60%, and finished the year at 3.87%. This type of volatility can be expected going forward as financial markets try to anticipate when the Fed will be done with its tightening cycle and possibly even reverse course.

The strategy's allocations to corporate and preferred securities were positive contributors to performance during the quarter. Credit spreads tightened during the period, and the strategy is slightly overweight the sector, providing the positive contribution. Security selection within the sector, however, detracted from performance as longer dated bonds underperformed.

While the allocation to securitized products did not impact performance, the security selection within the asset class negatively impacted performance. The Composite's underweight to agency mortgage-backed securities (MBS) was the largest detractor within the sector. MBS experienced a near record level of spread tightening due to reduced expectations for future interest rate hikes by the Fed.

CORE FIXED INCOME POSITIONING & OUTLOOK

The financial markets responded to each piece of economic data that provided some clue as to when the Fed might pause or even reverse its Fed Funds tightening cycle. While inflation readings appear to have peaked, the labor market and wages remain stubbornly strong. Non-farm payrolls consistently beat expectations, and the unemployment rate fell to 3.5%.

STRATEGY INFORMATION

Benchmark	Bloomberg U.S. Aggregate Bond Index
Business Minimum	$15M
Number of Holdings	245
Assets	$178.40M

PORTFOLIO MANAGEMENT TEAM

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

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

Jason M. Schwartz, CFA
Senior Portfolio Manager
Industry start date: 2004
Joined Red Cedar: 2018

INVESTMENT PHILOSOPHY

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

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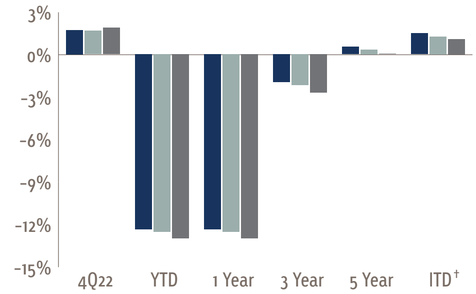
Investment grade corporate bond spreads ended the quarter 26 bps tighter than where they started. The non-financial sector outperformed the financial sector, tightening 31 bps, compared to 25 bps. The basic material sector performed the best during the quarter, tightening 44 bps. The credit market experienced most of its positive performance during the month of November but was essentially flat for the months of October and December. For the year, 2022 was one of the most challenging for corporate credit as multi-decade high inflation and monetary policy tightening resulted in higher yields and wider spreads. From a credit spread perspective, the financial sector widened 60 bps during the year, compared to 31 bps for the non-financial sector.

The corporate credit exposure remained defensively positioned, and this stance will be maintained until recession impacts can be better defined. The strategy increased its overweight position to the financial sector as it continues to offer relative value. The strategy also added to the energy sector during the quarter. While they do not provide as much value as in the recent past, credit profiles should continue to improve as managements remain disciplined and should protect balance sheets going forward. The metal and mining sector was reduced as the relative value was not as attractive as other areas. The strategy will look to add back into this sector opportunistically. For now, the emphasis will continue to be on high-quality companies with strong balance sheets with emphasis on 3- to 7-year maturities.

Preferred securities had a total return of 0.16% (as measured by the ICE BofA Fixed Rate Preferred Securities Index) for the quarter, compared to -1.87% for the strategy's benchmark. The strategy maintained its position in $1,000 domestic banks and industrial hybrids securities. The strategy does not have any exposure to the more retail-oriented $25 preferred sector, which is more sensitive to increases in interest rates, nor does it have any AT1s issued by non-domestic banks. The strategy maintained its relatively modest position in preferred securities and will look to add to the sector when market conditions warrant.

In the securitized market, the strategy rotated out of floating-rate single-asset commercial mortgage-backed securities (CMBS) and into agency-guaranteed MBS in the residential market. Agency MBS provides attractive valuations for a defensive sector. While exposure to extension risk would typically be a concern in the current environment due to a dramatic increase in interest rates, the team believes this to be fully reflected in the current prices of the securities and presents opportunity for upside from depressed trading levels. Conversely, floating-rate CMBS will likely experience headwinds from the dual threat of an increase in the coupon paid by the borrower on the underlying loan and falling asset values in commercial real estate.

PERFORMANCE



	Composite Gross	Composite Net	Index*
4Q22	1.71%	1.66%	1.87%
YTD	-12.35%	-12.55%	-13.01%
1 year	-12.35%	-12.55%	-13.01%
3 year	-1.96%	-2.18%	-2.71%
5 year	0.53%	0.32%	0.02%
ITD†	1.47%	1.24%	1.07%

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

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.

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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 Core 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.

Benchmark Definition: The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, US 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.

Index Definitions: The 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. 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 Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The 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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