FOURTH QUARTER 2022

Short Term Bond 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.

SHORT TERM BOND PORTFOLIO REVIEW

The Short Term Bond Composite (Composite) successfully navigated near record levels of interest rate volatility and perhaps the worst bond market in 100 years to outperform its benchmark, the Bloomberg 1-3 Year U.S. Government/Credit Index, for the quarter. For the year, the gross-of-fee return of the Short Term Bond Composite outperformed its benchmark by 84 basis points.

Relative outperformance was led by the portfolio's strategic allocation to agency-guaranteed commercial mortgage-backed securities (CMBS). Securities backed by multi-family collateral that were targeted for their propensity to prepay rapidly did so and returned 100% of par despite deeply discounted prices given the broad interest rate sell-off earlier in the year.

Relative underperformance was led by the allocation to unguaranteed non-agency CMBS. Bonds backed by commercial properties underperformed as the lagged effect of the large increase in interest rates began to weigh on investor expectations for properties to pay off at maturity. The increase in extension risk caused prices to underperform similar maturity U.S. Treasury bonds.

Results were also driven by the portfolio's overweight to corporate bonds. Banks, consumer cyclicals, and energy were key overweights that outperformed the market.

The portfolio's underweight duration relative to the benchmark caused a drag in performance. Relative gains from bond prices falling were more than offset by the loss of yield curve carry in the new, higher interest rate environment.

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STRATEGY INFORMATION

Benchmark	Bloomberg 1-3 Yr U.S. Gov/Credit
Business Minimum	$10M
Number of Holdings	75
Assets	$71.1M

PORTFOLIO MANAGEMENT TEAM

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

Michael J. Martin, CFA
Senior Portfolio Manager
Industry start date: 1994
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Patricia S. Younker
Senior Portfolio Manager
Industry start date: 1987
Joined Red Cedar: 2018

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

INVESTMENT PHILOSOPHY

"We seek income producing opportunities while preserving capital by focusing on securities that have demonstrated superior risk-adjusted returns over time."
—Jason Schwartz

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SHORT TERM BOND POSITIONING & OUTLOOK

With the possibility of the most widely anticipated recession set to occur, the portfolio remains defensively postured relative to historical positioning while remaining fully invested due to attractive yields on the front end of the curve.

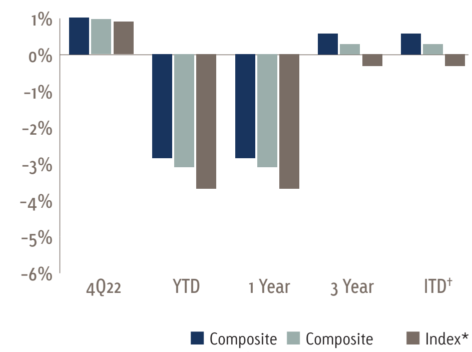
To that end, new investments were focused on agency-guaranteed, multi-family CMBS. The investment team views this sector as attractive given the high quality, liquidity, and propensity for prepayment upside on discount dollar price securities.

In non-agency CMBS, the strategy focused on structures that protect from extension risk given the dramatic increase in rates, anticipated drop in property values, and potential stress on borrower refinancing. Deals with high levels of defeasance were sought for their more finite maturity profile.

The strategy initiated a position in 2-year Treasury inflation-protected securities (TIPS) with breakevens just over 2%. The team expects inflation to remain above the Fed's target due to multiple forces at play, including deglobalization, a shrinking labor force, China reopening from COVID lockdowns, and Japan's change to Yield Curve Control as that country experiences levels of inflation not seen in decades.

The defensive posture is further reflected by the U.S. Treasury allocation, which was increased and remains at the upper end of the historical Composite range. The strategy maintains an underweight duration relative to the benchmark as the Fed is expected to continue raising rates, which will depress bond prices at the front end of the yield curve.

PERFORMANCE



	Composite Gross	Composite Net	Index*
4Q22	1.01%	0.96%	0.89%
YTD	-2.85%	-3.10%	-3.69%
1 year	-2.85%	-3.10%	-3.69%
3 year	0.57%	0.28%	-0.32%
ITD†	0.57%	0.28%	-0.32%

†Inception Date 1/1/2020
Periods greater than 12 months are annualized
*Bloomberg 1-3 Yr U.S. Gov/Credit Index
Source: Bloomberg, Clearwater Analytics

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.

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 Short Term Bond 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 and collateralized mortgage obligations. The strategy also invests in derivatives such as Treasury futures and CDX for hedging purposes. The weighted average portfolio effective duration range will be 80% - 120% of the benchmark effective duration during normal market conditions. The Composite was created January 1, 2020. The inception date of the Composite was January 1, 2020. Prior to November 1, 2021, the name of the Composite was RCIM Short Term Bond Composite.

Benchmark Definition: The Bloomberg 1-3 Year U.S. Government/Credit Index measures Treasuries, government-related issues, and corporates with maturity between 1-3 years.

Index Definitions: The Bloomberg U.S. Aggregate Bond Index 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 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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