FIRST QUARTER 2023

Core Fixed Income Commentary

March 31, 2023

1Q MARKET REVIEW

It appeared the markets continued to ask the same question during the first quarter of 2023 that it had been asking for several months: Can the Federal Reserve (Fed) get inflation under control without causing the economy to fall into a deep recession? Some market participants felt the Fed could avoid any recession at all and find the perfect balance to ease inflation with minimal impact to employment and economic growth. As market yields declined during January, equity markets rallied from their December retreat and then began to favor growth stocks over value.

The debate over soft versus hard landings took a backseat in March with the collapse of Silicon Valley Bank due to a run of uninsured depositors. The contagion spread to other banks with similar characteristics and forced the government to respond with depositor guarantees and FDIC intervention. The concerns spread to Europe as Credit Suisse financials were called into question, ultimately resulting in an arranged takeover by UBS. These events had a significant impact on the banking sector's equity, fixed income, and preferred securities, negatively impacting prices. The broader markets remained surprisingly resilient with the Russell 1000® Index returning +7.45% for the quarter. Digging deeper, the Russell 1000 Growth Index returned +14.36% and Russell 1000 Value Index +0.99%. Reflective of the turmoil in the banking industry, the Russell 1000 Bank subsector returned -12.35% for the quarter.

Once the banking sector experienced some sense of stability near the close of the quarter, focus returned to inflation, the economy, and how aggressive the Fed could be in light of new banking revelations. The Fed did continue to tighten policy, ending the quarter with a total of two 25-basis point (bps) increases in the Fed Funds target rate. Expectations that banks would tighten lending standards to protect balance sheets and liquidity added to concerns that the economy may be more at risk than initially thought. The 10-Year U.S. Treasury ended the quarter approximately 41 bps lower than the end of 2022 with a 3.47% yield. The rally in yields led the Bloomberg U.S. Aggregate Bond Index to return +2.96% for the first quarter. This was the second quarter in a row of positive performance for the benchmark.

The first quarter of 2023 only added to the questions surrounding inflation and the broader economy. Employment remains stronger than anticipated, frustrating economic bears and the Fed as they try to tamp down inflation. The banking system challenges could also create a headwind for lending and economic growth. While the worst may be over for banks, the outlook for growth in the near term is probably limited due to the increased likelihood of further regulation and self-imposed balance sheet building. Equities remain resilient but likely have limited significant upside as valuations are stretched and fundamentals will probably not help in the near future. The fixed income markets have repriced over the past 18 months to a point where risk has become more symmetrical, and volatility will create challenges along with opportunities.

CORE FIXED INCOME PORTFOLIO REVIEW

The Core Composite (Composite) underperformed its benchmark for the quarter ending March 31, 2023. The strategy returned 2.84%, gross of fees (2.75%, net of fees), compared to the strategy's benchmark, the Bloomberg U.S. Aggregate Bond Index, which had a return of 2.96%.

The strategy's allocation to preferred securities detracted from relative performance. Preferred securities had a turbulent quarter, starting strong but eventually succumbing to the banking crisis that unfolded in February and March. Security selection was favorable as the Composite did not have any exposure to the four failed banks: Silicon Valley, Signature, Silvergate, and Credit Suisse. While the strategy avoided what could have been a worse outcome, any exposure to the sector negatively impacted performance.

The Composite's underweight duration position detracted from relative performance during the quarter. Treasury yields declined 30 to 43 bps along the yield curve. Entering the year, the strategy was positioned for additional Fed tightening and higher interest rates. Once the banking crisis set in, the flight to safety trade took hold, and Treasury yields started to price in a greater chance of recession and cuts in Fed policy.

STRATEGY INFORMATION

Benchmark	Bloomberg U.S. Aggregate Bond Index
Business Minimum	$15M
Number of Holdings	233
Assets	$188.40M

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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Relative outperformance was realized through the strategy's allocation to municipal securities, which benefited from 30-year yields moving lower. The strategy's allocation to securitized securities was also a positive contributor to relative performance. Within the securitized sector, the strategy's allocation to asset-backed securities and agency mortgage-backed securities were positive contributors to performance.

CORE FIXED INCOME POSITIONING & OUTLOOK

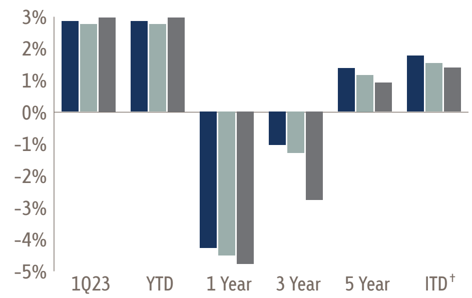
It was an extraordinary quarter as the world contended with four bank collapses. While much different in depth and breadth, the banking crisis experienced in the first quarter of 2023 had echoes of the 2008-09 Global Financial Crisis. The soundness of the banking system was questioned daily for a two-week period. In the end, actions taken by domestic and Swiss regulators re-established a level of calm and confidence that stemmed the velocity and amount of depositor outflows from regional and community banks. The Composite has always been vigilant about the credit quality of its holdings and held only larger regional banks (PNC) and money center banks (JP Morgan (JPM), Citibank, and Wells Fargo) at the time of the crisis. This positioning served the strategy well, as our companies were generally looked on as a haven during the height of the turbulence. The strategy's bank exposure was increased to 10.57% of the portfolio from 7.15% by adding securities in names such as JPM, Huntington Bancshares, and Bank of America.

The strategy sold all the holdings in long-dated corporate bonds during the quarter. From a relative value perspective, these bonds did not offer the same total return opportunities as bonds with shorter maturities. Much of the cash has already been redeployed into similar or the same credits, in the 3- to 7-year part of the yield curve.

With the possibility of a recession looming, the strategy remains focused on the credit quality of the companies it holds. The best relative value is currently found in the A-rated sector. Most new purchases have been focused in this area.

Securitized positions were reduced to 37% of the portfolio from 46%, with the majority coming from the commercial mortgage-backed securities sector. Better relative value opportunities were found in corporate bonds.

PERFORMANCE



	Composite Gross	Composite Net	Index*
1Q23	2.84%	2.75%	2.96%
YTD	2.84%	2.75%	2.96%
1 year	-4.28%	-4.52%	-4.78%
3 year	-1.05%	-1.29%	-2.77%
5 year	1.36%	1.15%	0.91%
ITD†	1.76%	1.52%	1.38%

†Inception Date 8/1/2014
Periods greater than 12 months are annualized
*Bloomberg U.S. Aggregate Bond 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.

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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 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 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.

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RED CEDAR INVESTMENT MANAGEMENT

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

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