SECOND QUARTER 2023

Core Fixed Income Commentary

June 30, 2023

2Q MARKET REVIEW

As the second quarter of 2023 wrapped up, investors found themselves on an uncertain but not entirely unfamiliar terrain. The S&P 500® returned a robust 8.7%, lending a sense of relative stability to a quarter tinged with volatility. Yet, this outcome stands in sharp contrast to the less cheerful performances of the Bloomberg U.S. Aggregate Bond Index, the Goldman Sachs Commodity Index, and the KBW Bank Index, which recorded declines of -0.8%, -5.8%, and -1.2%, respectively. This uneven picture is reminiscent of a complex mosaic—each element crucial, yet the overarching theme not easily discernible.

The equity markets and fixed income markets seemed to shrug off the prior quarter's troubles in the banking sector as stocks continued their upward trajectory while bond yields increased to levels seen prior to the bank failures. This would indicate that the markets are comfortable with the notion that the bank problems are behind us, and the U.S. economy will continue growing despite higher interest rates and a hawkish Federal Reserve (Fed). For its part, the Fed did not increase rates at its June 14 meeting, instead opting for a hawkish "skip." While all measures of inflation remain uncomfortably high, the headline Consumer Price Index reading for May came in at +4% year over year (YoY) non-seasonally adjusted—a level not seen since the middle of 2021. Other measures of inflation such as the Core Personal Consumption Expenditure Index (+4.6% YoY, non-seasonally adjusted, in May) seem to indicate a stickiness to services inflation that the Fed will continue to fight against.

Heading into the second half of 2023, we believe the Fed is close to the end of its rate hike cycle. The question remains whether it can engineer a soft landing of the economy or not. Given the Fed's poor track record in that regard, we remain cautious on equities. Additionally, the asset class looks rich from a valuation perspective, ending the quarter at a 20x P/E multiple for the S&P 500. Equity analysts are also forecasting a third consecutive quarter of negative earnings growth for that index. Finally, the most recent stock market rally has been driven by just seven stocks: Amazon, Apple, Alphabet, Meta, Microsoft, Nvidia, and Tesla. In the fixed income markets, we will look to put cash to work in order to lock in longer-term attractive yields. As valuations or economic conditions change, we will look to purchase equities at more attractive levels.

CORE FIXED INCOME PORTFOLIO REVIEW

The Core Composite (Composite) rebounded in the second quarter of 2023, outperforming its benchmark, the Bloomberg U.S. Aggregate Bond Index. The strategy returned -0.44%, gross of fees (-0.53%, net of fees), compared to the strategy's benchmark, which had a return of -0.84%.

The Composite's performance during the quarter was driven first and foremost by its allocation to corporate bonds. Corporate bonds experienced a strong quarter, supported by favorable economic conditions and improving corporate fundamentals. Positive economic data, including strong job growth, rising consumer confidence, and increased industrial production, provided support for market optimism. The strategy's security selection within this asset class was effective, contributing positively to relative performance.

Furthermore, the Composite's exposure to the financial sector was advantageous. The banking sector showed resilience and demonstrated positive momentum during the quarter. The strategy's security selection within this sector played a significant role in generating alpha, as it successfully avoided exposure to potentially troubled institutions or events that could have impacted performance negatively.

Another contributing factor to the Composite's outperformance was its duration positioning. Treasury yields experienced a moderate increase during the quarter, driven by expectations of economic growth and a potential shift in Fed policy. The Composite's positioning, which anticipated rising yields, enabled it to capture the benefits, thereby boosting performance relative to the benchmark.

Overall, the Composite's performance during the second quarter of 2023 showcased its ability to navigate evolving market conditions and capitalize on favorable opportunities. The successful allocation to corporate bonds, prudent security selection, and effective duration positioning were key drivers of its outperformance against the benchmark.

STRATEGY INFORMATION

Benchmark	Bloomberg U.S. Aggregate Bond Index
Business Minimum	$10M
Number of Holdings	238
Assets	$187.49M

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
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John L. Cassady III, CFA
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INVESTMENT PHILOSOPHY

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

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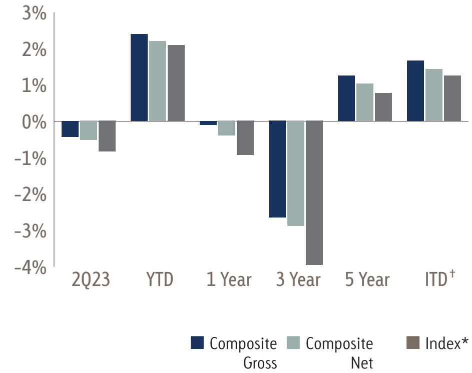
CORE FIXED INCOME POSITIONING & OUTLOOK

The failure of four U.S. banks and one Swiss bank got the attention of central banks, including the Fed, and regulators, including the Federal Deposit Insurance Corporation. With regulations ramping up, it seems that the economic impact has settled, and banks have remained resilient in the second quarter. Throughout this crisis, the Core Composite maintained its focus on credit quality, holding only larger regional and money center banks, such as PNC, JP Morgan, Citibank, and Wells Fargo. This positioning proved beneficial to overall performance.

Additionally, the Composite maintained its underweight position in securitized products. This underweight primarily takes place in the commercial mortgage-backed securities (CMBS) sector, which continues to be affected by the volatility in regional banks and the increase in work-from-home lifestyle hurting office loans. The strategy identified better relative value opportunities in corporate bonds and consequently shifted its allocation accordingly.

In summary, the second quarter of 2023 continued to highlight the volatility present within the market. The Composite's focus on credit quality, selective bank exposure, and adjustments in securitized positions reflect its adaptive approach in navigating evolving market conditions and pursuing attractive relative value opportunities.

PERFORMANCE



	Composite Gross	Composite Net	Index*
2Q23	-0.44%	-0.53%	-0.84%
YTD	2.39%	2.20%	2.09%
1 year	-0.11%	-0.40%	-0.94%
3 year	-2.66%	-2.90%	-3.97%
5 year	1.25%	1.02%	0.77%
ITD†	1.66%	1.42%	1.24%

†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 Goldman Sachs Commodity Index serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. The KBW Bank Index is a modified cap-weighted index consisting of 24 exchange-listed National Market System stocks, representing national money center banks and leading regional institutions. The S&P 500 is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in industries of the U.S. economy.

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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