SECOND QUARTER 2023

Strategic 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, 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.

PORTFOLIO REVIEW

The Red Cedar Strategic Income Composite (Composite) seized the opportunity created by recent market events to outperform its benchmark by 118 basis points (bps), net of fees, in the second quarter of 2023. Relative outperformance was driven by a strategic decision to increase exposure to preferred securities, taking a maximum overweight position after the banking turmoil. The outperformance in the sector was broad-based, with positive contributions coming from institutional preferred, additional tier 1 (AT1), and corporate hybrid securities. Recent additions to the portfolio demonstrated notable performance, with names like Capital One and Huntington Bank delivering double-digit returns.

Performance was also positively impacted by the duration underweight relative to the benchmark. The strategy was positioned with a duration as low as 3.5 years during the quarter, which is at the low end of the recent range. The market priced out the previously expected interest rate cuts resulting from the failure of Silicon Valley Bank, leading to a flattening of the yield curve by 50 bps. Therefore, outperformance was somewhat offset by an underweight concentrated on the long end of the yield curve where interest rates did not increase as rapidly.

Equities within the portfolio had a slight detracting effect on performance, subtracting 7 bps from returns driven mostly by gold mining positions. Long volatility hedges also had a negative impact on the Composite's performance. Both implied and realized volatility dropped significantly due to the decline in negative banking headlines and the Fed taking a more measured approach to rate hikes.

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

continued on page 2

Strategic Income Commentary

June 30, 2023

Various sectors within securitized products had offsetting effects, which led to a neutral impact on the overall strategy. On one side, the underweight to agency mortgage-backed securities (MBS) had a negative impact. FDIC sales of MBS previously held by failed banks cleared the market with ease, instilling investor confidence and driving prices higher. However, prices also increased for agency commercial mortgage-backed securities where the strategy holds sizable exposure.

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** (%)
2Q23	0.42	0.34	-0.84	1.18
YTD	0.25	0.08	2.09	-2.01
1 Year	1.93	1.58	-0.94	2.52
3 Year	1.85	1.49	-3.97	5.46
ITD†	3.82	3.46	-2.82	6.28

*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 maintains its strategic position for a recovery in the preferred market with a maximum overweight allocation. While the possibility of additional banking stress cannot be entirely dismissed, the team views the recent bank failures as idiosyncratic incidents rather than a systemic concern. While the asset class has shown signs of recovery, particularly with the resumption of the new issue preferred market, there is still significant potential for further upside. The strategy increased exposure to UK banks with high single-digit base case yields. Further, the execution of near-term calls presents potential upside to double-digit yields. While far from a slam dunk, European issuers have historically pursued such actions even when uneconomical to preserve their access to funding.

The extreme level of interest rate cuts that were previously priced into the market has mostly reversed. Risk/reward in the rate complex is now more balanced given the bounce in rates and the Fed has paused or “skipped” a rate hike. The duration was therefore increased to 4.40 years from 3.85 at the start of the quarter. After steepening to -56 bps during the first quarter banking turmoil, the yield curve spread between the 10-year and 2-year U.S. Treasury reinverted once again to -106, which is near the most extreme level for this cycle. Prior to 2023, the yield curve had not exhibited such a significant inversion since 1981. Therefore, the strategy entered a curve steepening trade. While the team believes that the yield curve can remain inverted for months or even years, the payout appears asymmetric at these levels. In addition, a left tail-risk event that would cause the Fed to aggressively cut rates would likely act as a hedge to other risk assets held in the portfolio.

The Composite maintains a conservative allocation to equities, representing 3.1%, with a specific emphasis on oil and commodity investments as a hedge against inflation. Additionally, the long volatility position was increased in response to the significant drop in equity volume. As the S&P approaches the higher range of recent trading levels, it is anticipated that future systemic stress would have a broader impact, potentially benefiting our hedged position.

As part of a barbelled strategy to complement the preferred securities, another significant portion of the portfolio is invested in highly rated securitized products (30%). Specifically, the team continues to add agency MBS. The sector has significantly underperformed investment grade corporate bonds due to a multitude of factors including FDIC sales from failed banks, quantitative tightening, and the lack of buying from banks. The position is favorable both for its defensive nature and the prospects of spread tightening if interest rate volatility falls from the current elevated levels.

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:

- 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.

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.

RED CEDAR
INVESTMENT MANAGEMENT

333 Bridge St. NW, Suite 601, Grand Rapids, Michigan 49504
www.redcedarim.com (513) 345-4414
RCIM-2023-06