SECOND QUARTER 2023

Dividend Growth 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.

DIVIDEND GROWTH PORTFOLIO REVIEW

The Dividend Growth Composite returned 5.70%, gross of fees, (5.58%, net of fees), for the quarter ending June 30, 2023. The strategy's benchmark, the S&P 500 Index, returned 8.74% during the same time period.

The second quarter of the year saw a continuation of the rally in risk assets ignoring concerns about the health of the banking system in the previous quarter, the deeply inverted yield curve, shrinking money supply, peak corporate profits, tightening lending standards, the impact of completed and anticipated Fed tightening, and a liquidity drain associated with the resumption of quantitative tightening. Despite sharp gains for U.S. large cap stocks, the 2023 market rebound remained relatively narrow. The top 10 largest U.S. stocks, concentrated in the technology, consumer discretionary, and communications sectors, received a boost from exuberance about the prospects for artificial intelligence and rose more than 40% in the first half of the year. This far outpaced the rest of the market, where the rebound was less pronounced.

Despite the tighter lending standards, the household and corporate sectors appeared relatively healthy, showing limited vulnerability to interest rate increases. Despite declining by 2%, the first quarter earnings were better than feared. U.S. consumers continued to be financially healthy with record-high net worth and excess savings from the post-pandemic period and focused their spending on services more than goods in the aftermath of the pandemic.

STRATEGY INFORMATION

Benchmark	S&P 500® Index
Business Minimum	$1M
Number of Holdings	50
Assets	$113.73M

PORTFOLIO MANAGEMENT TEAM

Julia Batchenko, CFA
Senior Portfolio Manager
Industry start date: 2011
Joined Red Cedar: 2019

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

Conor P. Davis
Investment Analyst
Industry start date: 2020
Joined Red Cedar: 2021

INVESTMENT PHILOSOPHY

"We seek companies that possess a combination of three essential criteria: growth of dividends, consistency of earnings and enhanced profitability."
—Julia Batchenko

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Our security selection in the healthcare and financials sectors and underweight of the financials sector were the largest contributors to performance.

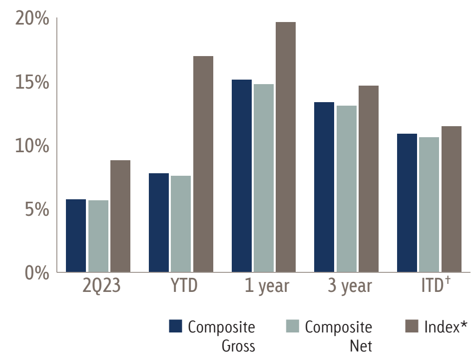
Our underweight and security selection in the consumer discretionary and information technology sectors were the largest detractors.

DIVIDEND GROWTH POSITIONING & OUTLOOK

U.S. consumer inflation rates have been decreasing after peaking above 9% last year. However, the return to the stable, low core inflation under 2% of the past two decades could be challenging, making the Fed hold the rates higher for a longer period of time. Second quarter earnings are expected to decline by 6.9% but turn positive for the second half of the year. Henceforth, guidance will likely be of paramount importance. Employment continues to be tight, but the consumer has been slowing down under inflationary pressures and now faces more headwind with the cessation of the government support and resumption of the student loan payments.

The jury is still out whether the Fed will be able to engineer a soft landing. While the exact timing of a recession is difficult to predict, we believe the declining macro picture and uncertainty related to the Fed's actions should benefit defensive sectors and companies with quality attributes.

PERFORMANCE



	Composite Gross	Composite Net	Index*
2Q23	5.67%	5.58%	8.74%
YTD	7.71%	7.53%	16.90%
1 year	15.05%	14.73%	19.59%
3 year	13.29%	13.02%	14.60%
ITD†	10.83%	10.57%	11.40%

†Inception Date 1/1/2020
Periods greater than 12 months are annualized
*S&P 500® Index
Source: Bloomberg, Clearwater Analytics

DISCLOSURES

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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 US $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.

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RCIM Dividend Growth Composite (Composite) includes all fully discretionary institutional portfolios that invest in common stocks with market capitalization of $2 billion and higher. The strategy is focused on investing at least 80% of the portfolio in high quality dividend paying and dividend raising stocks and up to 20% in non-dividend paying lower quality stocks. The Composite was created January 1, 2020. The inception date of the Composite was January 1, 2020.

Benchmark Definition: 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.

Index Definitions: 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. 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.

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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