RED CEDAR INVESTMENT MANAGEMENT

THIRD QUARTER 2023

Preferred and Income Securities Commentary

September 30, 2023

PERFORMANCE

The Preferred and Income Securities Composite (Composite) returned 3.01% on a net-of-fees basis during the quarter, outperforming its benchmark by 279 basis points (bps). We commented at the start of the quarter that valuations in this space rarely looked better and the Composite's performance represented the best quarterly returns from both a total and relative standpoint since inception. We continue to believe that from a valuation standpoint the preferred and hybrid market has rarely been this cheap, and we remain positioned for a normalization.

	3Q23	YTD	1 Year	ITD†
Composite Net (%)	3.01	7.35	11.00	-1.34
Index (%)	0.21	1.66	5.12	-5.86
Outperformance (%)	**2.79**	**5.69**	**5.88**	**4.52**

*Custom Benchmark (60% CIPS, 20% P0P4, 20% CDLR)
**Outperformance=Composite Net-Index
†Performance calculated from inception date 2/1/2022

Periods greater than 12 months are annualized
Source: Bloomberg, Clearwater Analytics

PREFERRED, HYBRID, AND AT1 MARKET OVERVIEW

The Custom Benchmark eked out a small positive total return for the quarter of 21 bps. However, the dispersion between the various sub-asset classes was meaningful with additional tier 1s (AT1s) up 1.91% on the quarter, while $25 par securities were down a similar amount of 1.98%. $1,000 par institutional preferreds also exhibited a strong dispersion in the quarter with the investment grade financials trading pretty much flat for the quarter (up 36 bps) while sub-investment grade financials were up 2.06%. This was essentially the mirror image of what took place in the 1H2023 as the investment grade indices primarily comprise money center banks while the high yield index is much more heavily tilted toward regional banks. The 3Q23 outperformance of the high yield bonds reflected a bouncing of the regional bank bonds from the lows. Corporate hybrids also returned roughly 1.4%, solidly outperforming the blended benchmark.

The AT1 outperformance was due in part to the market realization that the majority of the outstanding AT1 universe will be called at par on its first call date as several large issuers called bonds that were solidly out of the money and replaced with higher spreading instruments. This realization brought many of the bonds that are nearing first call in the next 12 months toward par as they were priced to extension in the immediate aftermath of the Credit Suisse bail-in during the March banking turmoil. We estimate that roughly half the AT1 market is still priced to extension, and we believe that most will in fact be called, resulting in considerable total return potential into 2024 if the large issuers continue to call the bonds at first call.

Conversely, $25 par bonds sold off aggressively during the quarter as these instruments tend to have a much longer duration than the variable rate $1,000 par instruments have. 10- and 30-year Treasury rates increased by roughly 75 and 100 bps, respectively, a truly historic move in long bonds and duration.

INDEX	Description	Price ($)	YTW (%)	Duration	Current Spread	Spread (%)
CIPS	IG Institutional Prefs	90.97	7.70	3.23	+291	75
POP4	$25 Retail Prefs (IG & HY)	80.56	7.01	8.11	+228	67
CDLR	U.S. $ COCO	89.20	8.86	2.41	+412	69

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PORTFOLIO MANAGEMENT TEAM

Brandon F. Bajema, CFA, CPA, MSA
Co-Chief Investment Officer
Industry start date: 2003
Joined Red Cedar: 2021

John L. Cassady III, CFA
Co-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

David L. Withrow, CFA
Senior Market Analyst
Industry start date: 1988
Joined Red Cedar: 2018

KEY FACTS

Strategy Assets ($M)	$67.64
Yield to Worst	9.05
Yield to Maturity/Perpetuity	9.11
Yield to Call	22.17
Duration	2.22
Average Credit Quality	BBB-
Number of Holdings	44
QTD Turnover (%)	35
Annual Turnover (%)	222

TOP 10 ISSUERS

	Weight (%)
Citigroup Inc.	4.75
Ally Financial Inc.	4.03
M&T Bank Corp.	4.01
KeyCorp	3.99
Wells Fargo & Co.	3.88
Truist Financial Corp.	3.66
BNP Paribas SA	3.61
Huntington Bancshares Inc./OH	3.51
Capital One Financial Corp.	3.39
JPMorgan Chase & Co.	3.36

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PORTFOLIO PERFORMANCE REVIEW

The Composite outperformed its benchmark by 279 bps during the quarter driven primarily by three factors. 1.) An approximate 25% overweight to U.S. regional banks that was established **after** First Republic failed in May. 2.) An approximate 20% overweight to AT1s, which was similarly established **after** the bail-in of Credit Suisse in March of 2023. 3.) A 20% underweight to the $25 long duration retail preferred market, which, unlike the regional bank and AT1 overweights, has been fairly steady since the inception of the Composite in January of 2022.

Duration and curve positioning also contributed positively to performance as the Composite remained roughly two years shorter than the benchmark with the majority of that underweight at the long end of the curve as the Composite currently has no $25 par positions, which not only tend to have longer duration, but that duration tends to be correlated with the long end of the curve. Once again, the Composite experienced elevated levels of trading costs, which detracted from performance as we aggressively sought to take advantage of the dispersions discussed above.

PORTFOLIO OUTLOOK AND POSITIONING

The Composite remains aggressively positioned with a 29% exposure to U.S. regional banks and a 26% position in AT1s as we continue to believe that the AT1s are more likely than not to be called at first call and the regional banks are still far too beaten up. The AT1 position has been significantly scaled back over the last six months after having ramped that position up to as high as 50%. The current 26% represents only a 6% overweight to the custom benchmark, and we are highly selective in terms of idiosyncratic risks with zero German or Italian exposure.

We remain underweight the Index in terms of duration and have a steepening bias with a 0% allocation to the fixed-for-life $25 preferred market. Even after adjusting the $25 preferred for the impacts of duration/curve, they still screen rich on a spread basis.

COUNTRY	Weight (%)
United States	67.3
United Kingdom	11.4
Western Europe	14.8
Canada	5.2
Cash & Equivalents	1.6
Total	**100.0**

QUALITY RATINGS	Weight (%)
A & Above	2.11
BBB	78.01
BB	18.25
B	0.00
Cash	1.63
Total	**100.0**

SECURITY TYPE	Weight (%)
Institutional Preferreds	53.8
AT1s	26.1
Corporate Hybrids	18.5
Cash & Equivalents	1.6
Retail Preferreds	0.0
Total	**100.0**

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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.

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The Preferred and Income Securities Composite includes a broad distribution pooled fund (North Square Preferred and Income Securities Fund) that invests in preferred securities, Treasury and agency bonds, investment grade and non-investment grade corporate bonds, asset-backed securities, agency and non-agency mortgage-backed securities, collateralized mortgage obligations, and REITS. 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. Under normal market conditions, the portfolio invests at least 80% of its net assets (plus any borrowings for investment purposes) in a portfolio of preferred and debt securities issued by U.S. and non-U.S. companies. The Preferred and Income Securities Composite was created 2/1/2022. The inception date of the Composite was 1/14/2022.

Benchmark Definition:

The benchmark is a Custom Benchmark. The Custom Benchmark is a combination of 60% ICE BofA U.S. Investment Grade Institutional Capital Securities Index (CIPS), 20% ICE BofA Core Plus Fixed-Rate Preferred Securities Index (P0P4), and 20% ICE BofA Contingent Capital Index (COCO), calculated by weighting the respective index returns monthly. The CIPS index tracks the performance of the U.S. dollar-denominated investment-grade hybrid capital corporate and preferred securities issued in the U.S. domestic market. The P0P4 index tracks the performance of fixed rate US dollar denominated preferred securities issued in the US domestic market. The index includes preference shares (perpetual preferred securities), both DRD-eligible and non-DRD eligible preferred stock and senior and subordinated debt issued in $25, $50 or $100 par/liquidation increments. The COCO index tracks the performance of investment grade and below investment grade contingent capital debt publicly issued in the major domestic and Eurobond markets. The Custom Benchmark returns are calculated by using the monthly returns of the indices listed above during each period. At the beginning of each month the indices are rebalanced to a 60/20/20 ratio to account for divergence from that ratio that occurred during each month. The monthly returns are the compounded for each period, giving the performance for the Custom Benchmark. 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.

P0P4: ICE Preferred Securities Index for $25 retail prefs including investment grade and high yield securities.

CIPS: ICE Investment Grade Institutional Capital Securities Index that tracks U.S. dollar-denominated investment grade hybrid capital corporate and preferred securities.

CDLR: ICE Contingent Capital Index is a subset of the COCO Index that includes only U.S. dollar-denominated securities.

COCO: ICE Contingent Capital Index that tracks investment grade and high yield contingent capital issued in major domestic and Eurobond markets.

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