FOURTH QUARTER 2023

Preferred and Income Securities Commentary

December 31, 2023

PERFORMANCE

The Preferred and Income Securities Composite (Composite) returned 15.92% for the full year 2023, with 7.99% of that coming in 4Q23, outperforming its custom benchmark* by 782 basis points (bps) for the year and 165 bps for the quarter, all net of fees. The Composite's performance represented the best quarterly total return since the Composite's inception at 7.99%, net of fees, easily besting the custom benchmark's total return of 6.34%. Despite these solid returns, valuations across the space continue to look cheap, and we maintain an aggressive posture.

Outperformance for the quarter was driven by our overweight allocations to both European additional tier 1s (AT1s) and U.S. regional bank preferred securities. More important was security selection within those asset classes as our large positions in deeply discounted, low coupon securities continued to pay off as spreads normalized and call probabilities increased.

Relative underperformance was driven primarily by duration as the Composite was roughly two years underweight the benchmark consistently throughout the quarter, maintaining a maximum 20% underweight to fixed-for-life structures. This created a major headwind in a quarter where the 30-year Treasury yield rallied 76 bps.

	4Q23	YTD	1 Year	ITD†
Composite Gross (%)	8.08	16.35	16.35	3.26
Composite Net (%)	7.99	15.92	15.92	2.88
Index (%)	6.34	8.10	8.10	-2.02
Outperformance (%)	**1.65**	**7.82**	**7.82**	**4.90**

*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 returned 6.34% for the quarter, the best quarter for the asset class since 2Q20. AT1s led the way with a 7.39% total return while investment grade (IG) institutional preferred securities were a relative laggard with only a 5.94% total return and with corporate hybrids and $25 retail preferred securities returning 6.20% and 6.42%, respectively. The dispersion within the asset class was relatively muted considering the volatility of the prior three quarters as everything in the space rallied into the end of the year, fears of a broader banking panic fade, and the Federal Reserve paved the way for the start of an easing cycle into the election year.

Within the institutional preferred space, sub-investment-grade-rated preferred securities outperformed IG-rated preferred with the former being dominated by regional banks and the latter being dominated by U.S. money center banks. This represents the exact opposite of what happened in 1H23 but a continuation of the same move that occurred in 3Q23. We continue to believe that this move has legs with regional banks still spreading materially above their money center peers despite many regional banks having traded inside of money center banks consistently since the Global Financial Crisis in 2008 and as recently as a year ago.

Roughly $50B of outstanding AT1s are approaching first call in 2024, and we continue to believe the vast majority of these issuers will exercise their option even for those that are currently uneconomic to do so. Some investors were awoken to this reality in the back half of 2023 as several major market players—including Barclays, UBS, and SocGen—did just that. This was the proximate cause of the relative outperformance of AT1s during the quarter, and similar to our views on regional banks above, we believe this trade also has legs.

PORTFOLIO MANAGEMENT TEAM

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

John L. Cassady III, CFA
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Industry start date: 1987
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KEY FACTS

Strategy Assets ($M)	$85.06
Yield to Worst	8.15
Yield to Maturity/Perpetuity	8.32
Yield to Call	14.23
Duration	2.38
Average Credit Quality	BBB/BBB-
Number of Holdings	44
QTD Turnover (%)	14
Annual Turnover (%)	162

TOP 10 ISSUERS

	Weight (%)
Citigroup Inc.	3.95
Bank of America Corp.	3.86
M&T Bank Corp.	3.81
Ally Financial Inc.	3.52
KeyCorp	3.40
PNC Financial Inc.	3.30
Wells Fargo & Co.	3.26
Truist Financial Corp.	3.17
BNP Paribas SA	3.17
Goldman Sachs Group	3.04

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PORTFOLIO OUTLOOK AND POSITIONING

The Composite remains aggressively positioned with a 26% exposure to U.S. regional banks and a 31% 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 still have not recovered all their value following the March sell-off. The AT1 position has been significantly scaled back over the last six months after having ramped that position up to as high as 50%. We continue to be highly selective in terms of names and geography with the portfolio, currently holding no Italian or Australian positions for a variety of reasons not least of which is a fiscally unstable situation in Italy and a major property market bubble in Australia.

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 screen rich on a spread basis.

COUNTRY	Weight (%)
United States	63.1
United Kingdom	11.3
France	7.8
Canada	4.1
Netherlands	2.9
Switzerland	2.9
Germany	2.2
Spain	2.0
Cash	2.0
Sweden	1.8
Total	**100.0**

QUALITY RATINGS	Weight (%)
A & Above	1.8
BBB	68.5
BB	27.7
B	0.0
Cash	2.0
Total	**100.0**

SECURITY TYPE	Weight (%)
Institutional Preferreds	50.4
AT1s	30.8
Corporate Hybrids	16.8
Cash & Equivalents	2.0
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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