FOURTH QUARTER 2023

Core Plus Fixed Income Commentary

December 31, 2023

MARKET REVIEW

During the fourth quarter of 2023, investors completely changed their view on the direction of U.S. interest rates, causing both stock and bond prices to rally into year end. The Federal Reserve's (Fed) decision on November 1 to leave the targeted Fed funds rate unchanged for the second consecutive meeting convinced investors that rate cuts were imminent. This was despite Federal Open Market Committee (FOMC) Chairman Jerome Powell's insistence that the Fed still had work to do on inflation and would remain vigilant. Investors would have none of it, however, as the S&P 500® Index returned +11.7% for the quarter and +26.3% for the year. Domestic investment grade bonds, which had spent much of the year flirting with their third consecutive year of negative returns, managed to return an impressive +6.8% for the quarter, bringing the total return for the year to +5.5% as represented by the Bloomberg U.S. Aggregate Bond Index.

In contrast to the first three quarters of the year, the rally in stocks was broad-based with the small cap Russell 2000® Index returning +14.0% for the quarter. This eclipsed the NASDAQ Composite Index, which returned +13.8% for the quarter. For the entire year, however, the NASDAQ beat all of the major stock indices with a +44.7% return while the broad S&P 500 Index returned +26.3%.

As interest rates fell globally, most fixed income markets showed impressive returns. The Bloomberg Global Aggregate Index (ex-USD) returned +9.2% for the quarter, while the Bloomberg U.S. Corporate High Yield Bond Index returned +7.2%. Commodities struggled during the quarter with the S&P Goldman Sachs Commodity Index returning -12.1% based on slow growth in Europe and China. At the December 13 Fed meeting, Powell and the FOMC delivered a "dovish hold," sending the 10-year Treasury yield tumbling an additional 32 basis points (bps) to end the year at 3.88%.

As 2024 unfolds, we are left to question whether the market has gotten ahead of itself in projecting nearly six interest rate cuts from the Fed. Both the market and the Fed should be concerned with inflation still running above the Fed's target. Additionally, the U.S. government continues to run unsustainable deficits and must bring $816 billion in new Treasury issuance to market during the first quarter. With no obvious recession looming on the horizon, the Fed does not need to cut rates. While some may question valuations in the equity markets, the Street consensus forecast for earnings growth in 2024 is a robust 11%. This should help buoy the equity market as the year progresses.

CORE PLUS FIXED INCOME PORTFOLIO REVIEW

The Core Plus Composite (Composite) outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index, by 39 bps on a gross-of-fees basis. For the full year 2023, the Composite outperformed its benchmark by 154 bps.

Outperformance was largely driven by the Composite's overweight position in preferred securities. This was primarily influenced by positions in European additional tier 1 (AT1) securities and U.S. regional bank preferred securities. The Composite's strategic allocation to low-coupon securities priced at a discount proved beneficial as spreads returned to normal levels after widening earlier in the year. Rising call probabilities in AT1 securities also contributed to the sector's outperformance.

Corporate banks also contributed positively to relative performance. The Composite is overweight banks and strategically invests in regional and super-regional banks where the team believes there is the most room for spread tightening. Spreads in this sector blew out in March 2023 following the Silicon Valley Bank collapse and still have room to recover their value as bank uncertainty wanes.

The Composite's allocation to commercial mortgage-backed securities (CMBS) also contributed positively to relative outperformance. Within the sector, agency CMBS interest-only bonds drove most of the relative outperformance. Also contributing positively was non-agency CMBS. The non-agency CMBS bonds within the Composite were issued post-COVID, leading to more rigorous underwriting processes. This heightened scrutiny reflects the increased uncertainties surrounding the office real estate market, and these bonds have performed well.

Agency mortgage-backed securities (MBS) had a negative impact on relative performance, due to the Composite being slightly underweight the sector. Mortgages performed well, outperforming other sectors, and any underweight allocation was a drag on performance.

The Composite's underweight position in corporate bonds relative to the benchmark had a negative impact on performance. Corporate bonds rallied over the quarter, with spreads tightening across the

STRATEGY INFORMATION

Benchmark	Bloomberg U.S. Aggregate Index
Business Minimum	$10M
Number of Holdings	196
Assets	$86.45M

PORTFOLIO MANAGEMENT TEAM

John L. Cassady III, CFA
Co-Chief Investment Officer
Industry start date: 1987
Joined Red Cedar: 2018

Jason M. Schwartz, CFA
Director of Portfolio Management
Industry start date: 2004
Joined Red Cedar: 2018

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

INVESTMENT PHILOSOPHY

"We seek income producing opportunities in the capital structure, in a variety of risk profiles where we find relative value in an effort to reduce correlation to traditional bonds."
—David Withrow

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board. Although the allocation impact was negative, the security selection within the corporate bond sector was positive. It is also important to note that the intentional underweight in corporates was a strategic choice to enable the Composite to be overweight in the preferred sector, resulting in significant outperformance.

CORE PLUS FIXED INCOME POSITIONING & OUTLOOK

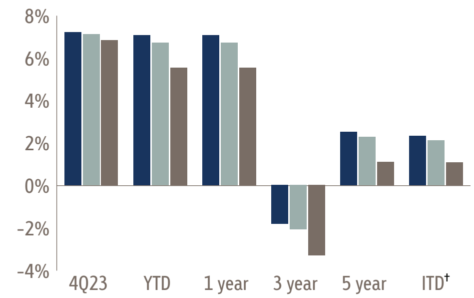
After hiking a total of 525 bps since the beginning of the tightening cycle, the Fed has held the policy rate steady since July 2023. Investment sentiment remained wary at the start of the fourth quarter with investors questioning the resilience of the U.S. labor market and greater economy amid higher rates. Throughout the quarter, labor market data, consumer spending, and economic growth came in strong. This, coupled with softening inflation data, caused yields to fall across the curve. At a meeting in December, the Fed communicated a dovish sentiment. As we go into 2024, the market is pricing in falling inflation, a resilient economy, and a series of rate cuts. The team is unconvinced these expectations are realistic and views the timing of rate cuts to be highly uncertain.

The team maintains a positive outlook on agency MBS and expects the sector to perform well going forward. The Composite currently is mostly neutral across the coupon stack with a sight overweight in low coupons. The low-coupon bonds, priced at a discount, offer an opportunity to recover the principal at par in the event of prepayment, a scenario the team deems likely based on specific prepayment and default narratives held in the Composite. High-coupon bonds should also perform well in 2024 as they will benefit as implied volatility falls, which is likely as the Fed ends its tightening cycle.

The team continues to favor exposure to preferred securities. In the institutional preferred space, U.S. regional bank preferred spreads are still historically wide of other securities in the sector. The team believes that these bonds have room to tighten and will continue to outperform. In the AT1 space, the team believes that bonds approaching their first call date in 2024 will be called, which would be beneficial as the bonds held in the Composite are trading at a discount to par. The Composite currently holds close to its maximum overweight position in preferred securities.

The Composite maintains a slightly short duration position. The team would consider adding duration if rate cuts become more imminent, though it is the opinion of the team that the market may be overly optimistic on the timing of Fed tightening.

PERFORMANCE



	Composite Gross (%)	Composite Net (%)	Index (%)*
4Q23	7.21	7.11	6.82
YTD	7.07	6.70	5.53
1 year	7.07	6.70	5.53
3 year	-1.82	-2.08	-3.31
5 year	2.51	2.28	1.10
ITD†	2.33	2.10	1.08

†Inception Date 5/1/2016
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.

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The Core Plus Composite includes all fully discretionary institutional portfolios that invest 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 and preferred 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 Composite also invests in international securities, foreign exchange, and non-U.S. dollar denominated securities. The Composite was created January 1, 2019. The inception date of the Composite was May 1, 2016.

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 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. The Russell 2000 Index (Small Cap) measures the performance of the 2,000 smallest companies in the Russell 3000 Index. It is generally representative of US Equity Small and Mid-Cap Performance. The NASDAQ Composite Index is a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Bloomberg Global Aggregate ex USD Index is a measure of Investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bond from developed and emerging markets issuers. The Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The S&P Goldman Sachs Commodity Index is widely recognized as a leading measure of general price movements and inflation in the world economy. It provides investors with a reliable and publicly available benchmark for investment performance in the commodity markets.

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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