FOURTH QUARTER 2023

Tax-Advantaged Preferred Securities Commentary

December 31, 2023

PERFORMANCE

The Tax-Advantaged Preferred Securities Composite (Composite) returned 4.87% on a net-of-fees basis during the quarter, for a full year total return of 16.85%. The Composite outperformed its benchmark by 734 basis points (bps) for the year but underperformed the benchmark by 145 bps on the quarter. The current yield on the portfolio is 7.89% with a taxable equivalent yield of 10.02%.

	4Q23	YTD	1 Year	3 Years	ITD†
Composite Gross (%)	4.97	17.29	17.29	-0.24	-0.24
Composite Net (%)	4.87	16.85	16.85	-0.55	-0.55
Index (%)	6.42	9.62	9.62	-3.54	-3.54
Outperformance (%)	**-1.55**	**7.23**	**7.23**	**2.99**	**2.99**

*ICE BofA Core Plus Fixed Rate Preferred Index
**Outperformance=Composite Net-Index
†Performance calculated from inception date 1/1/2021

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

PREFERRED AND HYBRID MARKET OVERVIEW

The ICE BofA Core Plus Fixed Rate Preferred Index (P0P4) had a positive return for the quarter of 6.42%. The benchmark is composed entirely of $25 retail preferred securities, the majority of which have coupons that are fixed for life and are thus highly sensitive to interest rate movements, particularly long bond rates. The 30-year U.S. Treasury rallied 75 bps during the quarter, which was a massive tailwind for the P0P4 Index. This, combined with the continued normalization of financial sector credit spreads, which began at the tail end of the second quarter, resulted in the very healthy quarterly total return experience for the asset class.

PORTFOLIO PERFORMANCE REVIEW

The Composite is made up of predominantly floating rate instruments in an effort to give the investor maximum tax benefits associated with either the dividend received deduction (DRD) or qualified dividend income (QDI). Put differently, the portfolio is positioned for maximum current yield, which in the current environment of a deeply inverted yield curve means taking very little if any duration risk. If/when the yield curve steepens materially, the Composite would seek to implement the exact opposite trade by adding duration in an effort to maximize tax benefits offered by the asset class.

Interest rates, while highly volatile throughout the year, were remarkably stable when considering the year as whole with the yield on the 10-year Treasury finishing effectively unchanged. Similarly, credit spreads were remarkably volatile for the banking sector, in particular during 2023, but this strategy was mostly spared as it remained extremely high quality throughout the year with the handful of defaults that occurred in the space being concentrated in smaller, lesser-known specialty lenders, which the Composite naturally avoids. These two elements combined for the perfect “carry” trade during the year if the holder could stomach both interest rate and credit spread volatility. This strategy carried remarkably little duration throughout the year resulting in far less volatility than its benchmark while still providing material alpha by being positioned in both the correct issuers and at the correct part of the yield curve (i.e., the front).

CURRENT POSITIONING

The strategy is low turnover by its nature (in order to qualify for QDI/DRD treatment, holding must be long-term), therefore, current positioning is very consistent with the recent past. The portfolio will have a slow turnover rate as positions are called away by the issuer and must be replaced. As the curve dis-inverted from its maximum in March 2023, the Composite has slowly

continued on page 2

PORTFOLIO MANAGEMENT TEAM

Brandon F. Bajema, CFA, CPA
Co-Chief Investment Officer
Senior Portfolio Manager
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

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

KEY FACTS

Current Yield	7.89
Tax-Equivalent Yield	10.02
Duration	1.30
Sherman Ratio	6.07
Average Credit Quality	BBB/BBB-
Number of Holdings	14

Issuer	Wgt (%)	Cur Yld (%)	QDI Yield (%)	DRD Yield (%)
USB	8.98	7.55	9.59	8.53
GS	8.64	7.19	9.13	8.12
WFC	8.50	7.26	9.22	8.20
C	8.39	7.49	9.51	8.46
MS	8.28	8.61	10.94	9.73
JPM	8.24	8.83	11.22	9.98
BAC	8.12	8.78	11.15	9.92
TFC	8.07	8.78	11.16	9.92
PGR	6.04	8.23	10.45	9.30
KEY	5.16	7.09	9.01	8.01
CFG	5.10	9.85	12.51	11.13
FITB	5.01	9.03	11.47	10.20
MTB	4.94	6.48	8.22	7.32
HBAN	4.76	7.20	9.15	8.14
	100	**7.89**	**10.02**	**8.92**

and methodically extended duration without sacrificing too much in the way of current yield, and we expect to continue with this rotation in 2024 to the extent that our current positions are called away and the curve continues its recent trajectory of un-inverting.

The portfolio remains up in quality relative to other preferred securities strategies with a complete list of holdings below. Roughly half the portfolio is invested in the big six U.S. money center banks with the balance invested in high-quality super-regional and regional banks. Credit risk is always top of mind at RCIM when investing in deeply subordinated capital instruments as this strategy does.

DISCLOSURES

Red Cedar Investment Management, LLC (RCIM) is an investment adviser registered with the U.S. Securities and Exchange Commission and was founded in 2014. Registration as an investment advisor 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.

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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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Tax-Advantaged Preferred Securities Composite (Composite) was created on December 18, 2020. The inception date of the Composite was January 1, 2021. The Composite includes all fully discretionary institutional portfolios that invest in tax efficient preferred securities. At the time of purchase the issuing company's senior unsecured debt rating must be investment grade by any one NRSRO or equivalent as determined by Red Cedar Investment Management at time of purchase. Under normal circumstances a minimum of 80% of the portfolio will be invested in QDI eligible preferred securities. The account minimum for this composite is $100,000. Prior to February 1, 2023, the name of the Composite was $25 Preferred Securities Composite.

The Sherman Ratio is defined as an interest rate risk measure and represents the yield per unit of duration.

Benchmark Definition:

The benchmark is the ICE BofA Core Plus Fixed Rate Preferred Securities Index (P0P4). The ICE BofA Core Plus Fixed Rate Preferred Securities Index tracks the performance of fixed rate US dollar denominated preferred securities issued in the US domestic market. The ICE BofA Core Plus Fixed Rate Preferred Securities 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. 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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RED CEDAR INVESTMENT MANAGEMENT

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