

Preferred and Income Securities Commentary

March 31, 2024

PERFORMANCE

The Preferred and Income Securities Composite [Composite] returned 5.97% for the first quarter of 2024, outperforming its custom benchmark* by 211 basis points (bps), net of fees. The custom benchmark* returned 3.86% for the quarter.

The Composite's quarterly outperformance was largely due to an overweight to European additional tier 1s (AT1s) and U.S. regional bank preferred securities. Over the last four quarters, we have repeatedly commented on the attractive valuations offered in the space, which remains true albeit far less so than a year ago and increasingly only in certain spots. We are still finding value in low dollar, low coupon variable rate structures particularly in the AT1 and large regional bank spaces where we maintain overweight positions. This quarter, we did begin to harvest some of our gains from the regional bank trades but value remains in certain names and structures.

\$25 par retail preferred securities' positive performance during the quarter and the Composite's underweight to this asset class contributed to relative underperformance. With rates likely stabilizing, we are beginning to take a closer look at the relative value of the fixed-for-life structures but still view spreads as unattractive compared to institutional preferreds. The Composite's allocation to retail preferreds is still aggressively underweight.

	1Q24	YTD	1 Year	ITD [†]
Composite Gross [%]	6.07	6.07	23.10	5.72
Composite Net [%]	5.97	5.97	22.65	5.33
Index [%]	3.86	3.86	13.04	-0.05
Outperformance [%]	2.11	2.11	9.61	5.38

*Custom Benchmark [60% CIPS, 20% POP4, 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

Passive \$25 retail preferred ETFs have had an increase in inflows in the first quarter due to the possibility of an easing cycle beginning in an election year. Given the increased sensitivity to interest rates for the fixed-for-life structures, we are starting to see slightly more value in these structures than we did the previous quarter. However, our relative value analysis still shows further value in the low coupon, low dollar priced \$1000 par fixed-to-float institutional securities compared to the highly volatile \$25 retail preferreds.

The ICE USD Contingent Capital Index [CDLR Index] spread level has tightened from roughly the 33 spread percentiles as of December 2023 to approximately 16 spread percentiles at the end of Q1 2024. Volatility in the space increased during the first quarter for European banks due to the uncertainty of their U.S. commercial real estate [CRE] exposure. Although the disclosure of CRE remains cloudy, further analysis shows that the exposure to U.S. CRE is relatively small, and any losses would not be on a scale to impact major European banks. As mentioned in our previous quarter's commentary, we continue to believe most of these issuers will exercise their option to call these securities even for those that are currently uneconomic to do so.

Regional and super regional banks outperformed in the institutional preferred space despite the volatility around New York Community Bank [NYCB] during the first quarter. We feel that this was an isolated event due to NYCB's unique and concentrated CRE portfolio compounded by rapid growth and the consequent increased regulatory attention. Furthermore, NYCB's ability to access equity capital as a going concern is a credit positive for the regional banking system.

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

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

Strategy Assets (\$M)	\$114.91
Yield to Worst	7.81
Yield to Maturity/Perpetuity	7.91
Yield to Call	10.31
Duration	2.83
Average Credit Quality	BBB/BBB-
Number of Holdings	47
QTD Turnover [%]	39.98
YTD Turnover [%]	39.98

TOP 10 ISSUERS

	Weight [%]
PNC Financial, Inc.	4.02
American Express Co.	3.84
Standard Charter PLC	3.67
Citizen Financial Group Inc.	3.36
Energy Transfer LP	3.35
BNP Paribas SA	3.20
KeyCorp	3.12
American Electric Power Co.	3.11
US Bancorp	3.11
ING Groep NV	3.10

continued on page 2

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March 31, 2024

PORTFOLIO OUTLOOK AND POSITIONING

The Composite's positioning has stayed relatively consistent with the previous quarters. Although spreads are now optically rich at the index level, there are opportunities across the space to buy bonds that are still trading to perpetuity rather than to call. The trade remains buying deeply discounted, low coupon, low back-end structures that are trading to perpetuity but could in reality end up being called. AT1s in particular look attractive on these grounds as we continue to believe that the majority of the space will be called at first call. Consequently, our position in AT1s is overweight to the tune of 15% with the portfolio owning roughly 35% AT1s versus the benchmark's 20%. Some regional bank structures trade cheap on these metrics as well, and the portfolio has a 22% exposure to regional and super regional banks.

We remain underweight the custom benchmark in terms of duration with a steepening bias and a large underweight to the fixed-for-life retail preferred securities market. Even after adjusting for the \$25 preferred and for the impacts of duration/curve, they screen rich on a spread basis. When the curve becomes more positively sloped and spreads move up towards the institutional preferred levels, we will likely reconsider this underweight. In terms of idiosyncratic risks, we are avoiding California wildfire risks, private equity owned insurance companies, and small U.S. domestic banks with high concentrations in commercial real estate.

COUNTRY	Weight (%)
United States	61.4
United Kingdom	10.4
France	7.6
Spain	4.8
Netherlands	4.5
Germany	4.3
Switzerland	3.0
Canada	1.6
Sweden	1.3
Cash & Equivalents	0.8
Total	100.0

QUALITY RATINGS	Weight (%)
A & Above	1.3
BBB	68.1
BB	29.7
B	0.0
Cash	0.8
Total	100.0

SECURITY TYPE	Weight (%)
Institutional Preferreds	43.6
AT1s	35.8
Corporate Hybrids	18.6
Retail Preferreds	1.1
Cash & Equivalents	0.8
Total	100.0

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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 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 (POP4), 20% ICE USD Contingent Capital Index (CDLR), 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 POP4 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 CDLR index tracks the performance of investment grade and below investment grade contingent capital debt publicly issued in the major domestic and eurobond market denominated in US dollars. 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. Prior to January 1, 2023, the Custom Benchmark was 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 (POP4), 20% ICE BofA Contingent Capital Index (COCO).

POP4: ICE BofA Core Plus Fixed Rate Preferred Securities Index for \$25 retail preferreds including investment grade and high yield securities.

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

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

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