FIRST QUARTER 2024

Short Term Bond Commentary

March 31, 2024

MARKET REVIEW

The financial markets spent much of 1Q24 undoing most of the Goldilocks scenario it had priced in during the last quarter of 2023. By the time the quarter ended, the Bureau of Labor Statistics (BLS) had reported three consecutive months of material upside surprises in non-farm payrolls. Additionally, the BLS reported three consecutive months of upside surprises to consumer prices. With these new datapoints, it is clear that job growth in the U.S. shows no signs of abating. During the quarter, the price of West Texas intermediate crude oil shot up 16.1% and March's headline Consumer Price Index (CPI) came in at 3.5% year over year (YoY), non-seasonally adjusted (NSA). March Core CPI, which excludes food and energy prices, increased 3.8% YoY, NSA. These factors and other strong economic data led the market to reconsider the bond rally that occurred during the last two months of 2023.

With the economy running hotter than most had expected, the market went from pricing in nearly seven rate cuts from the Federal Reserve (Fed) during 2024, to just a little more than 2.5 rate cuts by the time the quarter ended. As a result, the Bloomberg U.S. Aggregate Bond Index returned -0.78% during the quarter. Stocks were able to shrug off the lack of rate cuts based on strong underlying economic data to return 10.6% for the S&P 500® Index. Gains in stocks were not limited to just the mega-cap tech stocks as the rally broadened out to include other sectors of the economy. The KBW Bank Index, for example, returned 10.2% for the quarter.

As the rest of the year unfolds, U.S. fiscal stimulus remains in the pipeline, which should help to juice the economy. Additionally, China's economy appears to be showing signs of life after struggling in the post-pandemic world. This could help buoy the German and broader European economies that benefit from exports. Strong global growth could keep risky assets well bid and further broaden out the rally in equities, while geopolitical risks—i.e., war in the Middle East and Ukraine—as well as a U.S. election could potentially cause that rally to stall. The markets will also be looking for signs that the U.S. economy and markets can withstand interest rates that are higher for longer without breaking anything.

SHORT TERM BOND PORTFOLIO REVIEW

The Short-Term Bond Composite (Composite) outperformed its benchmark, the Bloomberg 1-3 Year U.S. Government/Credit Index, by 26 basis points (bps) for the quarter on a net-of-fees basis; the benchmark returned 0.42%, while the Composite returned 0.68%.

The Composite's outperformance relative to the benchmark over the quarter can be largely attributed to its overweight allocation to the securitized sector. Specifically, most of this can be attributed to commercial mortgage-backed securities (CMBS), where both non-agency and agency CMBS sub-sectors outperformed. In non-agency CMBS, middle cash flow conduit bonds contributed positively as they tightened over the quarter. These bonds are not as exposed to extension risk, and demand for such bonds has risen amongst concerns about office space real estate. Agency-backed CMBS bonds also contributed slightly to the outperformance. This was due to prepayments on some bonds in the portfolio and continued strong performance of interest-only bonds compared to other sectors.

Strong performance in asset-backed securities (ABS) also boosted the Composite's returns. The Composite benefited from spread tightening in both prime auto loan bonds and esoteric ABS holdings, like those backed by insurance premiums and equipment. As corporate spreads tightened into near historical tight levels, investor demand for securitized bonds increased despite record high levels of new issue supply.

The Composite also held a 4% position in 3-year Treasury inflation-protected securities (TIPS) over the quarter, which drove outperformance. Inflation data came in higher than expected during the quarter, and with investors re-evaluating the pace of falling inflation, 3-year TIPS break-evens rose. This added positively to relative outperformance.

The Composite was underweight industrials over the quarter. While industrials had a positive return overall, it underperformed other sectors, and any allocation to industrials was a drag on performance. This was slightly mitigated by strong security selection in the sector.

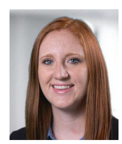
STRATEGY INFORMATION

Benchmark	Bloomberg 1-3 Yr U.S. Gov/Credit
Business Minimum	$10M
Number of Holdings	78
Assets	$62.82M

PORTFOLIO MANAGEMENT TEAM

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

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



Samantha Rusler, CFA
Portfolio Manager
Industry start date: 2019
Joined Red Cedar: 2019

INVESTMENT PHILOSOPHY

"We seek income producing opportunities while preserving capital by focusing on securities that have demonstrated superior risk-adjusted returns over time."
—Jason Schwartz

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The Composite's overweight cash position relative to the benchmark, averaging 2% throughout the quarter, acted as a performance detractor given the positive performance observed across the bond market.

SHORT TERM BOND POSITIONING & OUTLOOK

The year began with an optimistic market, anticipating steady inflation decline and subsequent interest rate cuts by the Fed. Futures markets priced in over six rate cuts for 2024. However, higher-than-expected inflation data, strong labor market data, and dovish communication from the Fed dampened this optimism. By the end of the quarter, the market had adjusted its expectations, pricing in only three rate cuts for 2024. Yields rose across the curve, and bond prices fell.

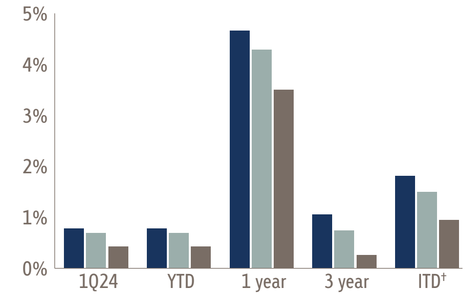
During the quarter, the Composite lowered its allocation to corporate bonds, specifically within the industrials sector. Corporates experienced spread tightening over the quarter, ending at historically tight levels. The team sees limited opportunity for spread tightening within industrial corporates and decided to rotate out of the sector in favor of opportunities elsewhere.

In the securitized sector, the Composite maintained consistent positioning with emphasis on high-quality agency-backed CMBS bonds with prepay potential, non-agency CMBS with little extension risk, and strategic esoteric ABS holdings. The Composite did take advantage of the high level of supply in the new issue ABS market and rotated out of shorter duration bonds into longer duration new issue bonds at wider spreads.

The team will continue to look for opportunities in the CMBS sector, as there may be opportunities to add deals with strong underlying collateral that may be cheap due to concerns about office real estate. Another area of interest will be in esoteric ABS, where supply has been at record levels at attractive spreads.

The Composite maintains a duration neutral position and continues to consider this appropriate given the uncertainty surrounding the timing of rate cuts. If inflation data were to show steady decline and Fed cuts become more imminent, the team would consider adding duration at that time.

PERFORMANCE



	Composite Gross (%)	Composite Net (%)	Index (%)*
1Q24	0.77	0.68	0.42
YTD	0.77	0.68	0.42
1 year	4.65	4.28	3.49
3 year	1.05	0.73	0.25
ITD†	1.80	1.49	0.94

†Inception Date 1/1/2020
Periods greater than 12 months are annualized
*Bloomberg 1-3 Yr U.S. Gov/Credit Index
Source: Bloomberg, Clearwater Analytics

DISCLOSURES

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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.

The information herein was obtained from various sources. RCIM does not guarantee the accuracy or completeness of information provided by third parties. The information in this report is given as of the date indicated and believed to be reliable. RCIM assumes no obligation to update this information, or to advise on further developments relating to it.

The Short Term Bond Composite includes all fully discretionary institutional portfolios that invest in Treasury and agency bonds, U.S. dollar denominated investment grade corporate bonds, municipal bonds, asset-backed securities, agency and non-agency mortgage-backed securities and collateralized mortgage obligations. The strategy also invests in derivatives such as Treasury futures and CDX for hedging purposes. The weighted average portfolio effective duration range will be 80% - 120% of the benchmark effective duration during normal market conditions. The Composite was created January 1, 2020. The inception date of the Composite was January 1, 2020. Prior to November 1, 2021, the name of the Composite was RCIM Short Term Bond Composite.

Benchmark Definition: The Bloomberg 1-3 Year U.S. Government/Credit Index measures Treasuries, government-related issues, and corporates with maturity between 1-3 years.

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 Bloomberg U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The KBW Index is a modified cap-weighted index consisting of 24 exchange-listed National Market System stocks, representing national money center banks and leading regional institutions. The Consumer Price Index (CPI) measures the overall change in consumer prices based on a representative basket of goods and services over time. The Core CPI measures the overall change in consumer prices based on a representative basket of goods and services over time, excluding food and energy prices. The Bloomberg 1-3 Year U.S. Government/Credit Index measures Treasuries, government-related issues, and corporates with maturity between 1-3 years.

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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