THIRD QUARTER 2020

Core Plus Fixed Income Strategy Commentary

September 30, 2020

MARKET REVIEW

The data coming out on the economy during the third quarter was bad, but not as bad as many had expected earlier in the year. The government estimate of second quarter GDP growth, at negative 31.7% annualized, confirmed an economy-wide collapse led by services. The expectation of a strong bounce in the third and fourth quarter GDP data continues to be the consensus view of the markets, but the fact is, by the end of the year, the economy will probably have contracted between 5 to 7 percent. As troubling as that level of economic contraction is, it probably could have been worse. The labor data shows signs of a strong recovery with continuing unemployment claims at 11 million today, down from 17 million at the end of June.

The U.S. economy is recovering more quickly than many other developed economies around the globe, save China. In the wake of the COVID-19 pandemic, policy makers quickly mobilized U.S. fiscal policy to provide income replacement to those unable to work and businesses unable to operate. Fiscal policy currently accounts for 9.9% of GDP in FY 2020 and 2.4% of GDP in FY 2021. Monetary policy has also been hyper-accommodative as well, as the Fed quickly cut rates to effectively zero and promised easy policy until at least 2023.

The fixed income markets saw interest rates virtually unchanged during the third quarter of 2020. The Fed's liquidity injections and rate cuts quickly calmed the fixed income markets. For the third quarter, the yield on a 2-year Treasury note fell 3 basis points (bps) to 13 bps, while the 10-year Treasury note's yield increased 2 bps to 68 bps. Spreads in the investment grade and structured credit market also ground tighter during the quarter, helping the Bloomberg Barclays U.S. Aggregate Bond Index post a return of 0.62% for the third quarter. The most notable aspect of the fixed income market, in our estimation, has been the massive increase in investment grade (IG) debt issuance that the market has absorbed so far in 2020. Supported by the Fed's liquidity programs and investors' demand for yield, IG issuers through the end of September have issued a stunning $1.6 trillion in new debt, eclipsing handily the previous yearly record of $1.35 trillion set in 2017, with three months yet to go in 2020.

The equity markets powered higher again in the third quarter, led by massive outperformance of the mega-cap tech names yet again. The NASDAQ pushed to new highs during the quarter, with a return of 11.2%, bringing its full year return to over 25%. The S&P also had a strong quarter, up 8.9%, bringing its YTD performance up to 5.6%. You could still find ways to lose money in the first nine months of 2020, particularly if you went down in market capitalization. The Russell 2000® index was down 8.7% and the S&P 600 Small Cap was down 15.2% year to date.

PORTFOLIO REVIEW

The Core Plus Composite returned 2.10%, gross of fees, for the quarter ending September 30, 2020. The composite's benchmark, the Bloomberg Barclays U.S. Aggregate Index returned 0.62% during the same period.

Our allocation to preferred securities was once again a significant contributor to relative performance during the quarter. Preferred securities outperformed all other fixed income sectors within the portfolio. The demand from investors for riskier assets continued for much of the quarter.

Our position in U.S. Treasury TIPS was a positive contributor to relative performance for the quarter.

continued on page 2

STRATEGY INFORMATION

Benchmark	Bloomberg Barclays U.S. Aggregate Index
Inception	5/1/16

PORTFOLIO MANAGEMENT TEAM

John L. Cassady III, CFA
Chief Investment Officer
30 years of investment experience

Jason M. Schwartz, CFA
Senior Portfolio Manager
16 years of investment experience

David L. Withrow, CFA
Director of Portfolio Management
32 years of investment experience

Michael J. Martin, CFA
Senior Portfolio Manager
26 years of investment experience

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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The portfolio's overweight to corporate bonds contributed positively to relative performance. New issuance set records throughout the quarter; however, demand kept pace and credit spreads tightened modestly.

A slight drag to relative performance was our overweight to the securitized sector.

STRATEGY POSITION & OUTLOOK

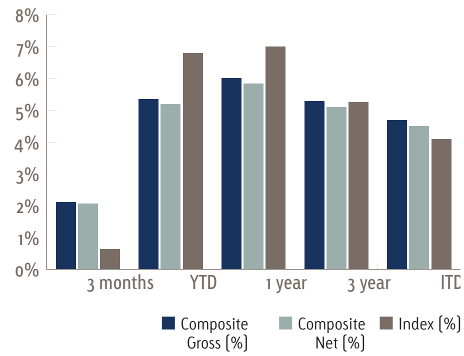
We look for risk assets to continue their outperformance due to policymakers' determination to flood the system with liquidity. We further expect another stimulus package, providing an additional tailwind to the recovery. We will continue our overweight position to credit and preferred securities, adjusting positions opportunistically as market conditions warrant.

We continue to aggressively sell positions when price targets are reached, and further upside is limited. We believe that housing demand will remain strong, supporting further price appreciation, as current supply remains low. Investment grade corporate bonds will also be sold when relative valuation thresholds are realized.

During the quarter we maintained the portfolio's overweight position to preferred securities. We selectively sold $25 par securities, finding better value in hybrid bonds.

Investment grade corporate bond issuance continued at a record setting pace during the quarter, with $1.6 trillion coming to market thus far in 2020. We expect there to be some slowing in issuance during the fourth quarter, providing support to credit spreads.

PERFORMANCE



	Composite Gross (%)	Composite Net (%)	Index (%)
3 months	2.10	2.05	0.62
YTD	5.33	5.18	6.79
1 year	6.00	5.82	6.99
3 year	5.27	5.08	5.24
ITD	4.68	4.48	4.08

Source: Clearwater Analytics
Inception Date 5/1/16
Bloomberg Barclays U.S. Aggregate Index

Red Cedar Investment Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®). To receive a list of composite descriptions and/or a presentation that complies with the GIPS standard, contact Red Cedar Investment Management at (513)345-4414.

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DISCLOSURES

The Core Plus Strategy invests 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 also invests in international securities, derivatives, foreign exchange and non-U.S. dollar denominated securities. The minimum portfolio size for inclusion in the composite is $15 million. The benchmark is the Bloomberg Barclays US Aggregate Bond Index. The 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. The US dollar is the currency used to express performance. Gross-of-fees performance figures do not reflect the deduction of investment advisory fees but have been reduced by all transaction costs. Net-of-fees performance figures reflect the deduction of actual investment advisory fees and transaction costs. The investment advisory fee schedule for the strategy is: First $25 million = .40%, next $25 million - $50 million = .30%, thereafter = .20%. Actual investment advisory fees incurred by clients may vary. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Past performance is not indicative of future results. The information provided in this document should not be construed as a recommendation to purchase or sell any particular security. The securities discussed do not represent the strategy's entire portfolio. 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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