FOURTH QUARTER 2023

Short Term Bond 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.

SHORT TERM BOND PORTFOLIO REVIEW

The Short Term Bond Composite (Composite) outperformed its benchmark, the 1-3 Year U.S. Government/Credit Index, by 15 bps for the quarter on a gross-of-fee basis. For the full year 2023, the Composite outperformed its benchmark by 66 bps.

The Composite's allocation to commercial mortgage-backed securities (CMBS) was also a contributing factor to its outperformance over the quarter. Within the sector, most of the outperformance can be attributed to non-agency CMBS bonds. In particular, the Composite held a single-asset, single-borrower bond that was valued at a discount price in the portfolio. Despite the low valuation, the team saw a high probability that it would pay off in full at maturity. Upon reaching maturity, the bond did pay off in full and returned the principal at par, boosting performance.

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.

Also contributing positively to relative outperformance were asset-backed securities (ABS). The Composite benefited from an allocation to high-quality equipment ABS and prime auto ABS, both of which experienced modest spread tightening throughout the quarter.

While the overall ABS sector positively impacted relative performance, one specific holding had a negative impact. The Composite holds a fulfillment center ABS deal that was downgraded over the quarter, causing spreads to widen. The team has reevaluated the position post-downgrade and continues to view it as a good opportunity.

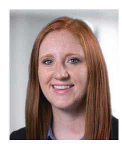
STRATEGY INFORMATION

Benchmark	Bloomberg 1-3 Yr U.S. Gov/Credit
Business Minimum	$10M
Number of Holdings	85
Assets	$68.95M

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 held an average of 2% cash over the quarter, which is higher than the benchmark. As bonds performed well, any cash holding was a drag on performance.

SHORT TERM BOND 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.

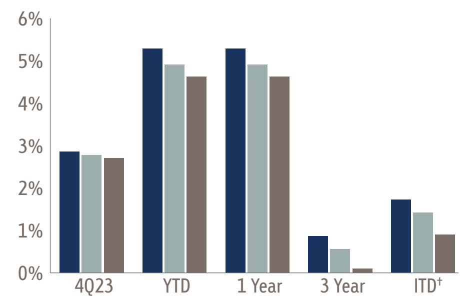
During the quarter, the Composite increased its position in non-agency CMBS. The team strategically added bonds that have a high level of defeasance, and therefore little-to-no extension risk. These present an opportunity in the CMBS space where refinancing risk has caused spreads to widen.

The Composite decreased its allocation to ABS over the quarter, specifically selling short duration equipment ABS bonds. As these bonds pay down and become shorter duration assets, the team sees opportunities to sell and move into new issue bonds in the same sector at wider spreads. High-quality ABS bonds look attractive and present an opportunity to add to outperformance in the near term.

Over the quarter, the Composite maintained a relatively low cash position. With bond yields falling and rate cuts imminent, the team expects to maintain this position to take advantage of rallying bond prices.

The Composite maintains a duration neutral 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	2.85	2.76	2.69
YTD	5.28	4.90	4.61
1 year	5.28	4.90	4.61
3 year	0.86	0.55	0.09
ITD†	1.72	1.41	0.89

†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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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.

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