

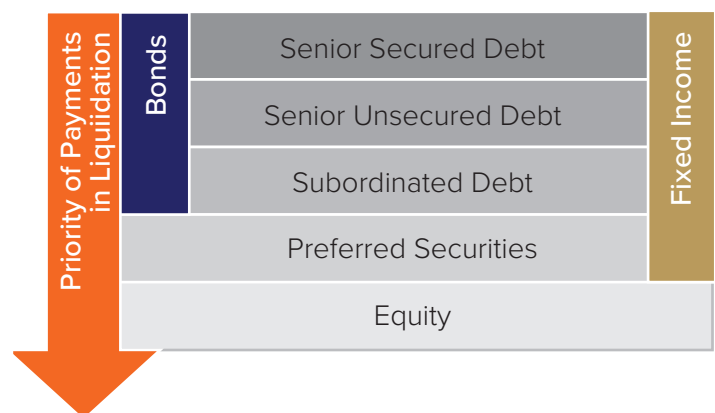
1Q 2021

Enhancing Yield with Preferred Securities

Understanding the nuances and opportunities in a widely misunderstood asset class.

Investors' search for investment income is not new. It has become a more important discussion after the 2008 Global Financial Crisis as yields plummeted during the age of Quantitative Easing by the Federal Reserve Board. Corporations were able to fund debt at historically low levels and some foreign governments issued debt with negative yields. Investors were left with "hat in hand" searching for opportunities to enhance yields on portfolios without adding significant risk, or at least diversifying their risk appropriately. While some investors began taking a closer look at the preferred sector at this time, the portfolio management team at Red Cedar Investments had been managing the sector since 2002. Their experience in this unique sector has helped them to understand the nuances and opportunities that exist in a widely misunderstood asset class.

Preferred securities contain features of both bonds and stocks. They tend to trade and provide a benefit to portfolios similar to debt instruments, but many times exhibit features that would generally be associated with equity securities such as treatment of dividends. Their structure and treatment on a corporation's balance sheet vary widely from issue to issue. Generally, the common denominator for preferred securities is where they fall in the capital structure



of a company. In a bankruptcy and liquidation of a company, the holders of a preferred security would typically stand in line ahead of the equity owners but behind senior debt.

This "middle ground" often leads to misconceptions and inefficiencies for those not actively involved in the market. It is these inefficiencies that have led us to believe that the preferred market can provide opportunities for both attractive income and total return strategies that can be often overlooked.

Impact of Financial Reform

The financial services sector makes up a significant portion of the preferred market. While there are opportunities to mitigate some of this sector risk in an actively managed portfolio, it is still important to understand the nuances of this segment of the marketplace. Post the 2008 financial crisis and housing bubble, many changes have increased the regulatory environment around the banking and financial services sector. These regulations have been a headwind for many equity investors while providing a larger cushion for many debt and preferred securities investors. Balance sheets have been strengthened and risk controls improved. This has limited growth while strengthening a bank's ability to survive another downturn in the economy. This strength has been, and is being, tested as the economy was shut down during the COVID-19 pandemic. The lingering impact of the pandemic will likely pressure banks and other financial lending institutions balance sheets. However, early indications would support the argument that the measures, taken over 10 years ago, have stood their initial test and supported this theme.

The complexion of the preferred market has also been impacted as the regulatory framework for capitalizing banks has necessitated new preferred structures and the retiring of old ones that do not meet these new standards. The team at Red Cedar has been at the forefront of analyzing and investing in these new structures from day one of their introduction to the market. As the preferred market has evolved the Red Cedar team has adapted to these changes assessing the risks and potential rewards as new structures have replaced old ones.

Why Investors Should Consider Preferreds

Low Correlation to Traditional Asset Classes

Seeking opportunities to enhance the performance of an overall portfolio is nothing new in the asset management industry. One of the primary challenges of doing so is to find ways to improve performance while not taking outsized risk. Historically, many fixed income managers have utilized asset allocations to sectors which seem to fit well into traditional bond portfolios by name but may introduce outsized risks relative to the alpha they add. High yield and emerging market exposure have typically been the allocation of choice for these managers over the past 20 years. Red Cedar believes that these sectors can, at times, provide positive risk-adjusted performance and may be appropriate on a case-by-case basis. However, we also believe that preferred securities offer an alternative way to introduce alpha into a fixed income portfolio while reducing correlations to other asset classes. Specifically,

the correlations of high yield and emerging market debt are more closely correlated to both U.S. and global equities than preferred securities.

15-Year Correlation Matrix as of 12/31/2020

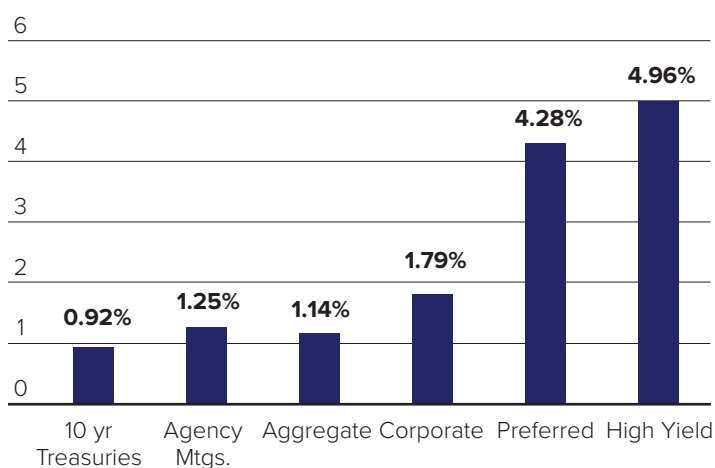
| | Preferred | High Yield | S&P 500 | Aggregate |
|------------|-----------|------------|---------|-----------|
| Preferred | 1.00 | | | |
| High Yield | 0.50 | 1.00 | | |
| S&P 500 | 0.49 | 0.68 | 1.00 | |
| Aggregate | 0.15 | 0.21 | -0.09 | 1.00 |

Sources: B of A Merrill, S&P, Bloomberg.

Yield Advantage to Traditional Securities

Over extended periods of time, yields tend to explain approximately 90% of fixed income market performance. The preferred securities sector provides an avenue to significantly enhance a portfolio's overall yield while controlling risk, as evidenced by its correlation benefits. Compared to other segments of the broader fixed income universe, preferred securities stack up well on a yield comparison basis. Notably preferred securities offer attractive yield while, in many cases, being issued by companies that have an investment grade rating at their senior debt level. While preferred securities do exhibit increased risk relative to their investment grade senior debt, it is distinct from traditional high yield debt.

Yield to Maturity as of 12/31/2020



Sources: B of A Merrill, S&P, Bloomberg.

Opportunities in an Inefficient Sector

Both the increasing complexity of the preferred market and the tendency for most of Wall Street's research to overlook the sector can lead to significant inefficiencies. These inefficiencies may be difficult to exploit by some of the largest asset managers given the overall size of the preferred market relative to the global fixed income and equity markets. This space has also attracted a significant ETF presence. The ETFs attempt to replicate indices may drive them to purchase securities at unattractive levels. In many cases we have noted securities priced with a negative yield to call. In an actively managed strategy, Red Cedar may take advantage of these opportunities. ETF portfolios must at times sell securities due to unexpected client liquidations. This forced liquidation provides Red Cedar an opportunity to purchase securities at attractive levels.

Other participants such as retail investors and insurance companies may have other unique circumstances driving their purchase and sell decision apart from maximizing total return. These circumstances may open doors to potential trades which may provide attractive income and capital appreciation.

Red Cedar's Advantage

Experienced Team

The preferred market is complex and evolving. It will require an increased level of experience and analytical oversight to meet performance expectations. Continuous

monitoring of the various preferred structures along with changing business dynamics create the need for experienced management of this sector. The Red Cedar team has over 100 years of combined professional asset management experience. The team has been involved in

The Red Cedar team has been involved in managing portfolios utilizing preferred securities as an asset class since 2002

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Investment Approach

The Red Cedar team uses a bottom-up fundamental approach in security selection and portfolio construction. The team draws upon its experience and expertise to seek to assess both the credit profile of companies across the preferred universe and the covenant structure of each individual security. Other considerations in the investment process can include the regulatory and operating environment as well as corporate governance.

The aforementioned factors help Red Cedar rank order the universe of potential investments. At that point the investment team typically applies relative value information to determine which securities offer an opportunity for excess return from either income or price appreciation. Red Cedar analyzes historical relationships versus other preferred securities and relative to other securities across the capital structure of the target issuer.



Once the team determines that a security and issuer offer a compelling risk-adjusted opportunity it is analyzed to review if it fits within the overall framework of a portfolio. This process seeks to ensure that a security is appropriate and additive on a stand-alone basis and, also, within the overall framework of a client portfolio.

Size of Firm

Red Cedar Investment Management seeks to take advantage of this market due to its size and experience within the fixed income and preferred markets. Many opportunities exist within fixed income markets and in the preferred market that may be attractive due to the size of the available securities. Red Cedar can take advantage of offerings that may not be meaningful to other large investors. As a boutique, Red Cedar can move quickly and efficiently across markets to take advantage of individual security opportunities. Our security selection process may add value and be executed fluidly.

Red Cedar Investment Management believes that the preferred securities market offers substantial opportunities whether it is an allocation to an actively managed portfolio or utilized within a broader fixed income mandate. Red Cedar's differentiated approach seeks to provide enhanced yield, improved total return and lower correlations to traditional asset classes.

About North Square

Founded in 2018 and headquartered in Chicago, IL, North Square Investments is an independent, multi-boutique investment firm dedicated to delivering differentiated active investment strategies to the market. With an experienced senior management team, a board composed of industry veterans including John Amboian, Neil Cummins and Brian Gaffney, and backed by Estancia Capital Partners, North Square is a leader in aggregating best-in-class active managers and delivering select, in-demand investment strategies to financial intermediary partners for the benefit of their clients.

About Red Cedar

Founded in 2013, Red Cedar Investment Management is a registered investment advisor and subsidiary of Delta Dental of Michigan and Ohio. Red Cedar is an active asset manager with 14 employees and \$1.5 billion in assets under management. They are focused on providing “high-quality, income-producing strategies” to clients through research across the capital structure. A primary expertise is in managing preferred securities.

Prior to making any investment decision, you should assess, or seek advice from a professional regarding whether any particular transaction is relevant or appropriate to your individual circumstances. The mention of specific securities and sectors illustrates the application of Red Cedar’s investment approach only and is not to be considered a recommendation by Red Cedar or North Square Investments. There is no assurance that the securities purchased remain in the portfolio or that securities sold have not been repurchased, and it should not be assumed that investment in these types of securities were or will be profitable. Charts, diagrams and graphs, by themselves, cannot be used to make investment decisions.

The opinions expressed herein are those of Red Cedar Investment Management and may not actually come to pass. This information is current as of the date of this material and is subject to change at any time, based on market and other conditions. All investing involves risk including loss of principal. Past performance is no guarantee of future results.

An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance to certain asset classes. Index performance used throughout is intended to illustrate historical market trends and performance. Indexes are managed and do not incur investment management fees.

An investor is unable to invest in an index. Their performance does not reflect the expenses associated with the management of an actual portfolio. No strategy assures success or protects against loss. S&P 500: Standard & Poor’s (S&P) 500® Index. The S&P 500 Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries.



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