12/31/2022

Waterfront Balanced

Fourth Quarter Commentary:

The year 2022 is one most investors would prefer to forget as both equity and fixed income markets experienced meaningful declines. The headwinds are familiar and increasingly reflected in asset markets as elevated inflation readings, hawkish commentary from Federal Reserve Board members, ongoing geopolitical tensions and pandemic impacts conspire to dampen investor risk appetites. Inflation measures have been easing from historical highs though the level remains far above the Federal Reserve's stated target. As a result, the Federal Reserve raised short-term interest rates by a cumulative 125 basis points (bps) during the quarter but have indicated in speeches and interviews that the pace of hikes is likely to slow. China abandoned its 'Zero-COVID' policy late in the quarter which was initially well-received but resulted in outbreaks of the virus which slowed the normalization of economic activity. The Russian invasion of Ukraine has become a military occupation of parts of the country with little hope for near-term resolution. Looking forward, a divided Congress here in the U.S. will have a chilling effect on the legislative agenda for the next two years while a vigilant Fed appears likely to continue tightening monetary policy to ensure inflation returns to its target. The specter of tighter global monetary policy casts a pall over global economic growth estimates for 2023 with a corresponding negative impact on corporate earnings growth. The consumer savings built up during the pandemic are dwindling as consumption patterns normalize and inflation erodes purchasing power. In the face of these headwinds and concerns, equity markets declined in 2022 with the S&P 500 falling 18.1% for the year despite a 7.5% rally in the fourth quarter. Fixed Income markets moved in lockstep with equities as interest rates rose and credit spreads widened. The Bloomberg U.S. Aggregate Government / Credit Index declined 13.6% for the year despite a 1.8% rise during the fourth quarter.

	Q4 Total Return	2022 Total Return
Waterfront Balanced Composite	**6.4%**	<11.1%>
S&P 500 Index	**7.5%**	<18.1%>
Bloomberg U.S. Agg Gov't/Credit Index	**1.8%**	<13.6%>
60% S&P 500 / 40% BBG U.S. Agg Gov't/Credit (benchmark)	**5.4%**	<16.0%>
Morningstar Moderate Allocation category (median return)	**5.8%**	<13.8%>

The Waterfront Balanced strategy advanced 6.4% in the fourth quarter, outperforming the funds benchmark (blended benchmark consisting of 60% S&P 500 & 40% Bloomberg U.S. Aggregate Govt/Credit) as well as peers in the Morningstar Moderate Allocation category. For the full year, the strategy declined 11.1%, outperforming the benchmark and peers. For the fourth quarter and relative to the benchmark, performance benefited from outperformance in both the equity and fixed income sleeves of the portfolio.

During the month of December, the allocation of the Balanced strategy was adjusted after a strong rally in October and November to reflect the growing evidence supporting a significant deceleration in global economic growth. The equity weight was reduced from ~61% to ~55% with the proceeds invested in short-duration Treasury bonds and Preferred Stocks. At quarter end, the strategy's allocation to equity was 56%; fixed income represented ~40%; Preferred stocks represented ~2% with the balance in cash.

The equity sleeve advanced 9.8% during the quarter, outperforming the benchmark as our quality bias and valuation discipline benefited relative performance. In addition, strong stock selection in the Consumer Discretionary, Consumer Staples, Health Care and Communication Services sectors was a meaningful contributor to relative performance.

The fixed income sleeve advanced 1.9% during the quarter, modestly outperforming the benchmark as our short duration position and conservative credit exposure softened the impact of rising interest rates and benefited from tightening credit spreads. The fixed income sleeve has over two-thirds of its exposure to Treasury's with the balance in

Investment Grade rated bonds and preferred stocks. During the quarter, Investment Grade credit spreads tightened to 138 bps, below the 25yr average of ~150bps.

The quarter's top contributors to performance were diverse but were generally economically sensitive with several simply rebounding from declines in previous periods. As mentioned previously, Investment-grade credit spreads tightened by nearly 30bps in the quarter benefiting the strategies exposure. Infineon Technologies, Emerson Electric and Last Vegas Sands rebounded from punishing declines earlier in the year. In each case, the fundamental outlook is difficult but adequately reflected in the equity valuation supporting my continued conviction. The strategies long-standing short-duration position in United States Treasuries along with the benefit of higher yields delivered a positive impact to total return during the quarter.

TOP CONTRIBUTORS	AVG. WEIGHT	RETURN	CONTRIB-UTION
Corporate Bonds (VCIT)	11.93%	3.6%	0.42%
Infineon Technologies (IFNNY)	1.30%	37.3%	0.39%
Emerson Electric (EMR)	1.19%	32.0%	0.33%
United States Treasuries (VGIT)	25.28%	1.0%	0.31%
Las Vegas Sands (LVS)	1.20%	28.1%	0.30%

Positions in Amazon, Alphabet, PayPal, preferred stocks and Dominion Energy were notable detractors during the quarter. Amazon, Alphabet and PayPal declined during the quarter as concerns over slowing ecommerce trends and a decline in the outlook for cloud spending depressed investor sentiment for these technology titans. Preferred stocks declined in the quarter as the relative attractiveness of the incremental yield available in this asset class eroded with rising Treasury rates. However, as the pace of interest rate hikes slow, the 6.49% 30 day SEC Yield will prove compelling in my view. Dominion Energy is a utility company with a majority of its assets in the Northeast. The company announced a strategic review during the quarter which some investors worry could result in dilutive acquisitions and/or divestitures. However, the regulatory environment in its regions remains supportive and I believe management actions to optimize its assets will be rewarded over time.

TOP DETRACTORS	AVG. WEIGHT	RETURN	CONTRIB-UTION
Amazon (AMZN)	1.8%	<25.7%>	<0.55%>
Alphabet Inc. (GOOGL)	2.6%	<7.8%>	<0.20%>
PayPal Holdings (PYPL)	0.8%	<17.3%>	<0.14%>
Preferred stocks (PFF)	0.6%	<4.7%>	<0.10%>
Dominion Energy (D)	1.0%	<10.3%>	<0.09%>

As I look forward, the backdrop for risk assets has deteriorated meaningfully over the last twelve months. The inflation dynamic is troubling and a meaningful risk to the outlook for asset values. The war in Ukraine is, first and foremost, a human tragedy, but also an unhelpful catalyst for higher prices as the region is rich in energy, agriculture, metals and industrial goods. While I am encouraged by the consensus view that inflation rates will cool in the months ahead, the pace of interest rate increases (both completed and contemplated) by global central banks has become extreme. The impacts from tighter monetary policy occur with a lag and will likely drive a meaningful reset in consumer and corporate spending and investment in the months ahead. As a result, your account is conservatively positioned in terms of asset allocation, sector weights and credit exposure. We anticipate attractive investment opportunities in the year ahead and are positioned to respond quickly to capitalize on them when they come.

While the outlook has deteriorated, my focus is unchanged. Across economic cycles and irrespective of market moods, I seek to maintain an emphasis on finding high quality, growing companies whose securities are trading at a reasonable valuation with visible catalysts to drive relative performance over the next twelve months. This approach has served investors well over time, and my confidence in it has not waned.

Matt Hekman
Portfolio Manager

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