Waterfront Equity

Description

A composite of separately managed accounts invested in profitable companies trading at reasonable valuations with an objective of outperforming the S&P 500.

Product Highlights

- Concentrated portfolio of 45-55 positions
- Top 10 holdings represent 25% – 35% of total portfolio
- Disciplined bottom-up and top-down analysis

Management Fee 0.50%

Market Capitalization Range

$0-10B	4%
$10-100B	56%
$100-1T	29%
>$1T	11%

Top Holdings

Cash (USD)	5.8%
Microsoft Corp.	5.2%
Alphabet Inc. – Class A	3.9%
Amazon Inc.	2.7%
Jazz Pharmaceuticals PLC	2.5%
Zimmer Biomet Holdings	2.4%
Infineon Technologies	2.3%
Autodesk Inc.	2.3%
Canadian Pacific Railway	2.2%
Philip Morris Intl	2.2%

Sector Breakdown

Communication Services	7.6%
Consumer Discretionary	13.6%
Consumer Staples	8.9%
Energy	3.7%
Financials	12.9%
Health Care	12.1%
Industrials	8.8%
Information Tech	21.5%
Materials	2.2%
Utilities	2.9%
Cash	5.8%

Performance Net[1] 12/31/2022

*Inception: 11/16/2021

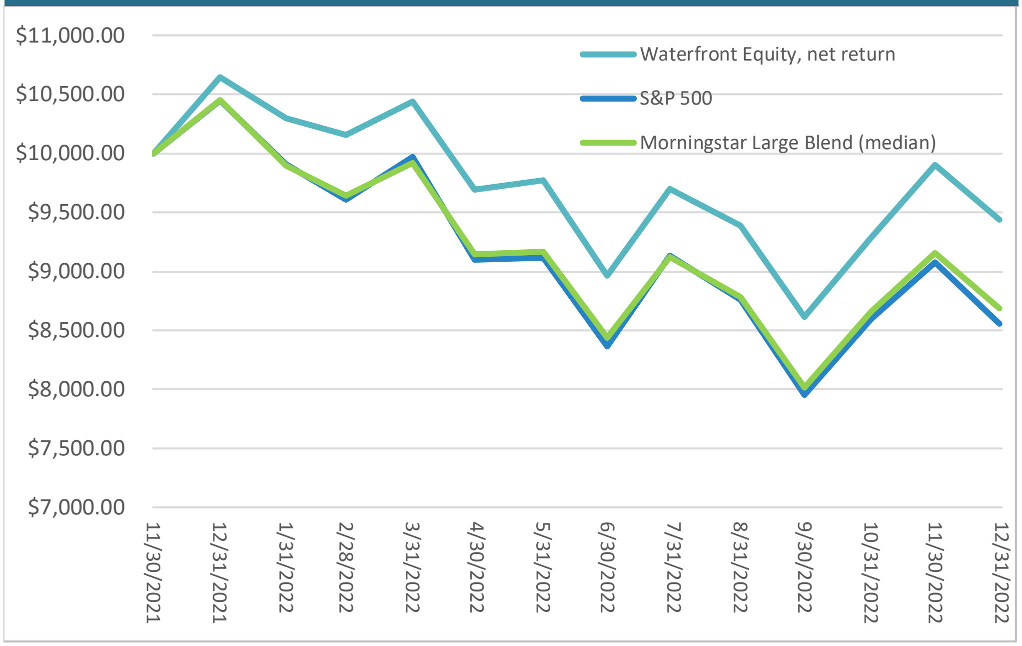
	YTD	1 Year	3 Year	5 Year	Since Inception*
Waterfront Equity	-11.3%	-11.3%	N/A	N/A	-8.8%
S&P 500	-18.1%	-18.1%	N/M	N/M	-15.4%
Morningstar Large Blend Category	-16.9%	-16.9%	N/M	N/M	

N/M: Not Meaningful N/A: Not Available

Annual Returns Net[1]

2022	-11.3%

Hypothetical Growth of $10,000[1]



[1] There is no guarantee the Strategy will meet its investment objectives. Past performance does not guarantee future results. All investing involves risk, including the possible loss of principal. Current individual account returns may be lower or higher that what is stated for the composite return. Waterfront Asset Management is a division of Waterfront Wealth, Inc., a registered investment advisor with the SEC that provides investment management services to institutional and individual investors. Waterfront Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has been independently verified by the Spaulding Group for the periods of September 1, 2016 through June 30, 2022. To obtain the verification report, and/or GIPS®-compliant performance information, please contact Trent Grissom at trent@waterfrontadvisors.com. Returns presented are time weighted returns. Valuations are computed and performance is reported in U.S. dollars. Managed by Waterfront Asset Management beginning 11/16/21. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

12/31/2022

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Fourth Quarter Commentary:

The year 2022 is one most investors would prefer to forget as equity markets experienced meaningful declines. However, the final quarter produced a positive return despite December being uncharacteristically weak. 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. As a result, the outlook for economic growth appears increasingly dim. 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.

	Q4 Total Return	2022 Total Return
Waterfront Equity Composite	9.6%	<11.3%>
S&P 500 Index	7.5%	<18.1%>
Morningstar Large Blend category (median return)	8.3%	<16.9%>

The Waterfront Equity strategy advanced 9.6% in the fourth quarter, outperforming the funds benchmark (the S&P 500 Index) as well as peers in the Morningstar Large Blend category. During the quarter, the strategy's 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 were meaningful contributors to relative performance.

The quarters top contributors to relative performance were diverse but were generally economically sensitive with several simply rebounding from dramatic declines in previous periods. Notably, the largest driver of relative performance was NOT owning Tesla, a significant weight in the S&P 500 which had a dramatic decline during the quarter. Our valuation discipline proved valuable in this instance! Las Vegas Sands and Infineon Technologies rebounded from punishing declines in the first half of 2022. In each case, the fundamental outlook is difficult but adequately reflected in the equity valuation, supporting my continued conviction. O'Reilly Automotive and Tractor Supply Company are beneficiaries of continued strong consumer spending and each is also well-positioned to serve a post-COVID consumer focused on value and independence.

TOP CONTRIBUTORS	AVG. WEIGHT	RETURN	CONTRIB-UTION
Tesla Inc. (TSLA)	0.00%	<53.6%>	1.51%
Las Vegas Sands (LVS)	1.77%	28.1%	0.70%
Infineon Technologies (IFNNY)	2.05%	37.3%	0.57%
O'Reilly Automotive (ORLY)	1.68%	20.0%	0.46%
Tractor Supply Company (TSCO)	1.40%	21.5%	0.44%

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The quarters bottom contributors to relative performance were Home Depot, Nike, Dominion Energy, PayPal Holdings and Constellation Brands. The strategy doesn't own Home Depot or Nike, both of which posted very strong performance in the fourth quarter. I prefer the investment profile of Lowe's which is owned but had less upside in the quarter. I continue to believe LOW will be a superior investment over time. Nike is a wonderful company that fits my investment philosophy but trades at valuation multiple (>40x fiscal 2023 consensus earnings estimates) that seems excessively rich to me. 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. PayPal declined during the quarter as concerns over slowing ecommerce trends depressed investor sentiment for this payments company. While concern is merited, the durability of the franchise will prove valuable in my opinion rewarding patient investors. Constellation Brands had performed relatively well during 2022 and was a source of funds as investors looked to rotate to more cyclically sensitive equities. The underlying performance of the company's brands continues to be impressive and likely to prove durable in my opinion.

TOP DETRACTORS	AVG. WEIGHT	RETURN	CONTRIB-UTION
Home Depot (HD)	0.0%	15.1%	<0.35%>
Nike Inc. (NKE)	0.0%	41.2%	<0.27%>
Dominion Energy (D)	1.6%	<10.3%>	<0.26%>
PayPal Holdings (PYPL)	1.3%	<17.3%>	<0.25%>
Constellation Brands (STZ)	2.3%	1.2%	<0.24%>

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 more conservatively positioned than has been the case for most of 2022 in terms of sector weights and cash position. 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 equity is 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