Opportunistic Equity Composite
3Q 2022 Commentary

WATERFRONT ASSET MANAGEMENT

The Opportunistic Equity Strategy through 3 quarters is tracking a couple percentage points under its benchmark and about a percentage point under the S&P 500. The OE is skewed toward value stocks which have outperformed growth stocks this year but the OE is largely made up of more cyclical value stocks that tend to have a higher beta. Also, the international weighting is meaningfully higher than the benchmark, at over 50% currently. The net return through 3 quarters is negative 25.0%.

As of 9/30/22 (SI Annualized)	3Q 2022	YTD	1 Year	3 Year	5 Year	Since Inception
OE	-8.1%	-25.0%	-17.3%	N/A	N/A	13.0%
Benchmark	-6.1%	-22.6%	-19.9%	N/A	N/A	0.9%
SPX	-4.9%	-23.9%	-15.5%	N/A	N/A	5.5%
FTSE All World ex US Net	-9.7%	-26.1%	-24.8%	N/A	N/A	-4.1%
Russell 2000 value	-4.6%	-21.1%	-17.7%	N/A	N/A	2.1%

An international weighting above 50% is very high. There are a few reasons for such a high allocation. One, there are internationally listed multinational companies that have significant operations in all 3 of the major economic regions yet trade at a meaningful discount to similarly situated US listed peers. Two, the dollar strength is overdone. The Fed is raising rates to combat an inflation problem that is worse in the US than abroad. Inflation is not something that often leads to currency strength, it more often leads to weakness. Also, strong resilient economies tend to have appreciating currencies. The US economy has labor force and productivity challenges leading to structural challenges to greater economic growth than many international peers.

Some of the top performing stocks in the 3rd quarter included Atlas Air Worldwide, Impinj, Harmonic, and Canadian Solar, all with return at 20% or above for the quarter. There was a window in 3Q where financial conditions eased and Atlas with an attractive asset base became a target of Apollo. That announced sale to private equity generated strong returns. Impinj and Harmonic are the two small cap tech that the strategy chose to allocate to and both trounced technology returns as a whole. Both have impressive tech addressing secular growth drivers though Impinj has a much larger "sky is the limit" addressable market. Canadian Solar rallied on the prospects for ever increasing solar demand as energy shortages and clean energy initiatives are creating strong growth for solar.

Advancers/Detractors	3Q 2022 Return
Atlas Air Worldwide Holdings	54.9%
Impinj, Inc.	36.4%
Harmonic Inc.	50.8%
Canadian Solar Inc.	19.6%
Hanesbrands Inc.	-31.3%
Vodafone Group PLC	-27.3%
Orange SA	-23.9%
Dorel Industries Inc.	-29.7%

Some of the poor performing stocks included Hanesbrands, Dorel Industries and European telecoms Vodafone and Orange. Hanesbrands, as with many apparel companies is struggling with too much inventory, and has quite a bit of leverage as well. (Leveraged companies in a struggling sector generally did poorly in 3Q.) While Hanesbrands has a more defensive apparel profile than many of its peers and that is a main reason why it was selected as the apparel holding, the market is not being kind to companies with high debt as interest rates rise. Dorel Industries is a consumer discretionary microcap company in Canada that struggles with profitability at times. It has furniture as one of its two divisions and furniture demand has cooled significantly. This company has incredible earnings leverage from many self-help initiatives that may actually come to fruition in

2023. There is also the potential that the company may sell divisions to other companies that can better run the divisions. European telecoms held up well in the earlier part of the year but sold off in 3Q as the euro weakened and rising interest rates lessened the appeal of telecom dividends.

Looking forward, the pieces are in place for broad earnings cuts on both weakening demand and margin pressure. I would expect the market to be choppy through the end of the year. The property market and Covid look to be headwinds in China in the near-future. Europe is facing a difficult winter with the energy crisis but stimulus and other measures should help stabilize the situation and things will look different six months from now. While inflation is a problem globally, it is broader in the United Sates. Consumer acceptance of stubbornly high prices during 2022 is increasing the risk of a hard landing in the United States. There are some very real tough economic headwinds on the horizon for the 3 main global growth regions and caution is warranted. However, valuations are reasonable for many stocks. Any end to the war in Ukraine could provide material upside for the OE. Some stock prices in Europe seem to be assuming no end to this war and an investor gets a free call option for being willing to invest in Europe. Cash will move close to 0% in the fall of 2022.

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Portfolio Manager

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Returns presented are time-weighted returns. Valuations are computed and performance is reported in U.S. dollars.

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