

## Waterfront Equity Composite 3Q 2022 Commentary

The third quarter of 2022 was marked by volatility as a promising July rally fizzled with August and September declines driving a negative return for the quarter. The headwinds are familiar and increasingly reflected in asset markets as high inflation readings, hawkish commentary from Federal Reserve Board members, ongoing geopolitical tensions and pandemic impacts conspire to sour investor risk appetites. Inflation measures have been elevated for over a year with hopes of a reprieve proving unfounded. In response, the Federal Reserve raised short-term interest rates by a cumulative 150 basis points (bps) during the quarter. In addition, the committee's commentary in speeches and meeting minutes signal further interest rate hikes are likely with the pace faster than markets had previously thought. China continues to enforce a 'Zero-COVID' policy which resulted in intermittent lockdowns during the quarter snarling supply chains already under duress. The Russian invasion of Ukraine has become a military occupation of parts of the country with little hope for near-term resolution. As the quarter came to a close, liquidity issues in U.K. credit markets forced a reversal in monetary policy with the Bank of England pivoting to quantitative easing to calm markets. At the time of writing this commentary, U.K. credit markets continue to experience unusual levels of volatility and illiquidity. Looking forward, the U.S. mid-term elections could reshape Congress and have a meaningful impact on the legislative agenda for the next two years. In the face of all these headwinds and uncertainty, equity markets declined with the S&P 500 falling 4.9% during the third quarter.

	Q3 Total Return
<b>Waterfront Equity Composite</b>	<b>&lt;3.9%&gt;</b>
<b>S&amp;P 500 Index</b>	<b>&lt;4.9%&gt;</b>

The Waterfront Equity strategy declined 3.9% in the third quarter, outperforming the funds benchmark, the S&P 500. During the quarter, the strategy's quality bias and valuation discipline benefited relative performance. In addition, strong stock selection in the Technology, Financials and Communication Services sectors and an elevated cash position were meaningful contributors to relative performance.

The quarters top contributors to performance were eclectic with several simply rebounding from dramatic declines in previous periods. Autodesk, Microchip Technology and Morgan Stanley 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,

TOP CONTRIBUTORS	AVG. WEIGHT	RETURN	CONTRIBUTION
<b>Autodesk Inc. (ADSK)</b>	2.35%	8.6%	0.33%
<b>PayPal Holdings (PYPL)</b>	1.16%	23.2%	0.24%
<b>Motorola Solutions (MSI)</b>	1.55%	7.2%	0.19%
<b>Microchip Technology (MCHP)</b>	1.53%	5.5%	0.17%
<b>Morgan Stanley (MS)</b>	1.99%	4.9%	0.13%

supporting my continued conviction. PayPal is a recent addition to the strategy which rallied after a 'better-than-feared' earnings report in July during which management committed to a renewed focus on profitability. In addition, during the quarter an

activist investor publicly disclosed a stake in the company. Motorola Solutions is a beneficiary of reinvigorated spend by police, fire and emergency services departments which is proving more resilient than market expectations driving a rebound in the stock.

Positions in Apple, Jazz Pharmaceuticals, VF Corp., Canadian Natural Resources and Elanco Animal Health (no longer a holding) were notable detractors during the quarter. Apple is a significant underweight for the equity sleeve (S&P 500 Index weight of ~6.9%) and it posted strong performance in the quarter as new product launches in September were received favorably by consumers. However, the equity's valuation fully reflects the strength of the franchise and benefit from an iPhone upgrade cycle in my view which underpins the underweight.

VF Corp and Canadian Natural Resources declined in value as concerns over economic growth proliferated. In each case, while growth will inevitably slow, their business is likely to prove durable in my view, rewarding patient investors. Elanco Animal Health was a disappointing investment which struggled with sub-optimal returns on R&D

TOP DETRACTORS	AVG. WEIGHT	RETURN	CONTRIBUTION
<b>Apple Inc. (AAPL)</b>	1.5%	1.2%	<0.32%>
<b>Jazz Pharmaceuticals PLC (JAZZ)</b>	2.6%	<14.6%>	<0.24%>
<b>VF Corp (VFC)</b>	0.7%	<31.5%>	<0.23%>
<b>Canadian Natural Resources (CNQ)</b>	1.4%	<10.5%>	<0.18%>
<b>Elanco Animal Health (ELAN)</b>	0.5%	<24.6%>	<0.16%>

investment and poor execution of its sales and marketing strategies. After another quarter during which it underperformed peers in the animal health industry, I exited the position.

As I look forward, the backdrop for risk assets has deteriorated meaningfully over the last nine 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 hikes (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.

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*

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