

# Waterfront Balanced

## Description

A composite of separately managed accounts seeking to opportunistically allocate between asset classes to provide a combination of capital appreciation and current income.

## Product Highlights

- Equity range: 50-70%
- Fixed Income range: 30-50%
- Disciplined bottom-up and top-down analysis.

## Management Fee

0.5%

## Market Capitalization Range

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

## Top Holdings

Vanguard Intermediate-term Treasury ETF	22.9%
Vanguard Intermediate-term Corporate Bond ETF	11.9%
iShares 1-3YR Treasury Bond ETF	5.1%
Microsoft Corp	3.3%
Alphabet Inc – Class A	2.3%
iShares Preferred & Income Securities ETF	2.0%
Cash	1.6%
Jazz Pharmaceuticals PLC	1.6%
Zimmer Biomet Holdings	1.5%
Amazon.com Inc.	1.5%

## Sector Breakdown

Communication Services	7.9%
Consumer Discretionary	13.9%
Consumer Staples	9.4%
Energy	4.0%
Financials	14.0%
Health Care	12.5%
Industrials	9.6%
Information Tech	22.8%
Materials	2.4%
Utilities	3.6%

## Performance Net<sup>1</sup> 12/31/2022

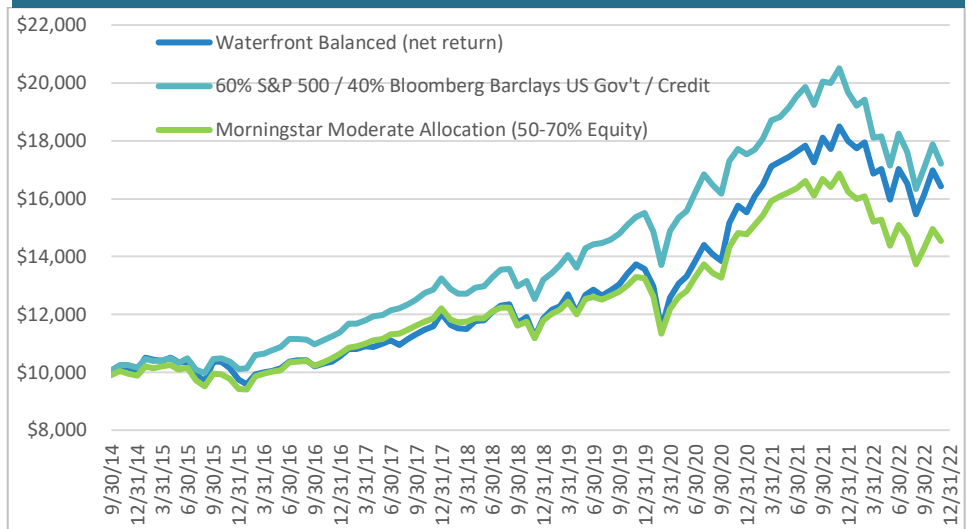
\*Inception: 8/4/2014

	YTD	1 Year	3 Year	5 Year	Since Inception*
Waterfront Balanced	-11.1%	-11.1%	6.2%	7.3%	6.5%
S&P 500	-18.1%	-18.1%	7.6%	9.4%	10.5%
Bloomberg/Barclays U.S. Govt/Credit	-13.6%	-13.6%	-2.6%	0.2%	1.2%
Morningstar Allocation – 50-70% Equity	-13.8%	-13.8%	3.0%	4.1%	

## Annual Returns Net<sup>1</sup>

2022	-11.1%	2018	-3.1%
2021	17.5%	2017	11.7%
2020	14.6%	2016	2.2%
2019	22.4%	2015	-0.1%

## Hypothetical Growth of \$10,000<sup>1</sup>



<sup>1</sup>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 than 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](mailto: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 11/16/2021. Historical returns include the Ivy Balanced Institutional share class (ticker: IYBIX) returns which was managed by Matthew Hekman from 8/4/2014 until 11/15/2021. Mr. Hekman assumed Portfolio Manager responsibilities for the Waterfront Balanced fund 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.

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## 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
<b>Waterfront Balanced Composite</b>	<b>6.4%</b>	<b>&lt;11.1%&gt;</b>
<b>S&amp;P 500 Index</b>	<b>7.5%</b>	<b>&lt;18.1%&gt;</b>
<b>Bloomberg U.S. Agg Gov't/Credit Index</b>	<b>1.8%</b>	<b>&lt;13.6%&gt;</b>
<b>60% S&amp;P 500 / 40% BBG U.S. Agg Gov't/Credit (benchmark)</b>	<b>5.4%</b>	<b>&lt;16.0%&gt;</b>
<b>Morningstar Moderate Allocation category (median return)</b>	<b>5.8%</b>	<b>&lt;13.8%&gt;</b>

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

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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

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

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.

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	CONTRIBUTION
<b>Amazon (AMZN)</b>	1.8%	<25.7%>	<0.55%>
<b>Alphabet Inc. (GOOGL)</b>	2.6%	<7.8%>	<0.20%>
<b>PayPal Holdings (PYPL)</b>	0.8%	<17.3%>	<0.14%>
<b>Preferred stocks (PFF)</b>	0.6%	<4.7%>	<0.10%>
<b>Dominion Energy (D)</b>	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**