06/30/2023

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 0.65%

Market Capitalization Range

$0-10B	3%
$10-100B	58%
$100-1T	23%
>$1T	16%

Top Holdings

Vanguard Intermediate-term Treasury ETF	21.2%
Vanguard Intermediate-term Corporate Bond ETF	11.7%
iShares 1-3YR Treasury Bond ETF	6.7%
iShares 0-3mo Treasury ETF	5.5
Microsoft Corp.	3.9%
Alphabet Inc. – Class A	2.3%
Cash (USD)	2.1%
Amazon.com, Inc.	1.8%
Infineon Technologies ADR	1.6%
Netflix Inc.	1.6%

Sector Breakdown

Communication Services	9.0%
Consumer Discretionary.	13.6%
Consumer Staples	9.0%
Energy	5.0%
Financials	14.6%
Health Care	12.4%
Industrials	9.2%
Information Tech	22.8%
Materials	1.4%
Utilities	3.0%

Performance Net[1] 06/30/2023

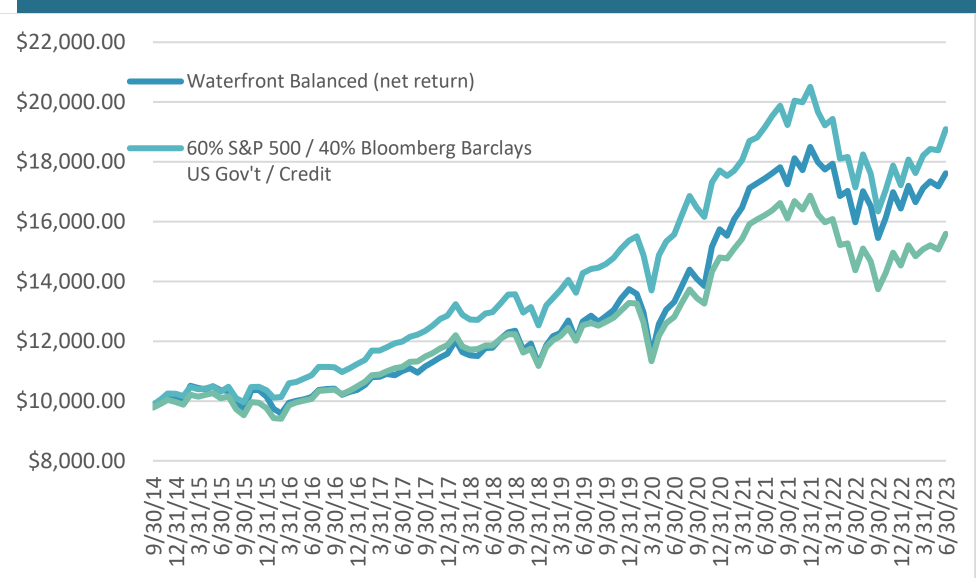
** Annual-ized • Inception: 8/4/2014

	YTD	1 Year	3 YR**	5 YR**	From Inception* **
Waterfront Balanced	7.2%	10.3%	9.8%	8.4%	7.0%
S&P 500	16.9%	19.6%	14.6%	12.3%	11.9%
Bloomberg/Barclays U.S. Govt/Credit	2.2%	-0.7%	-4.1%	1.0%	1.4%
Morningstar Allocation – 50-70% Equity	7.3%	8.5%	6.8%	5.6%	

Annual Returns Net[1]

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[1]



1There 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. 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.

Waterfront Balanced Composite
2Q 2023 Commentary

WATERFRONT ASSET MANAGEMENT

Equity markets continued their advance in the second quarter as concerns over the domestic banking sector and calls for recession proved impotent. The global economy has been surprisingly resilient in the face of stiff headwinds resulting from higher interest rates, tightening credit and a contracting manufacturing sector. Markets have cheered slowing inflation readings despite the level remaining far above the Federal Reserve's stated target. The pace of rate hikes slowed; however Federal Reserve officials have warned that further hikes are likely necessary. The specter of tighter global monetary policy casts a pall over global economic growth estimates with a corresponding negative impact on corporate earnings growth. In addition, the consumer savings built up during the pandemic are dwindling as consumption patterns normalize and inflation erodes purchasing power. And yet, in the face of these headwinds and concerns, equity markets advanced with the S&P 500 rising 8.7% during the second quarter. Fixed Income markets retreated as interest rates rose. The Bloomberg U.S. Aggregate Government / Credit Index declined 0.9% for the quarter.

While risk assets have rallied so far in 2023, the composition of the rally is notable. On a year-to-date basis, the S&P 500 is up an impressive 16.9%, however, the top 10 stocks in the index drove the performance. On an equal-weight basis, the S&P 500 was up 7.0%, less than half the market cap weighted tally. Further, S&P 500 earnings have been falling for two consecutive quarters with consensus expectations for the soon-to-be-reported quarter calling for a third sequential decline of 7.2% (using FactSet estimates). Meanwhile, in fixed income markets, the Treasury yield curve (using the 10yr Treasury note and the 3mo Treasury Bill) has been inverted for 162 trading days. Since 1962, the longest streak with an inverted 10yr/3mo curve was 209 trading days ending in May of 2008, a record that would be eclipsed if the inversion holds through the middle of September.

	Q2 Total Return
Waterfront Balanced Composite	**2.9%**
S&P 500 Index	**8.7%**
Bloomberg U.S. Agg Gov't/Credit Index	**-0.9%**
60% S&P 500 / 40% BBG U.S. Agg Gov't/Credit (benchmark)	**4.8%**
Morningstar Moderate Allocation category (median return)	**3.4%**

The Waterfront Balanced strategy advanced 2.9% in the second quarter, underperforming the funds benchmark (blended benchmark consisting of 60% S&P 500 & 40% Bloomberg U.S. Aggregate Govt/Credit) and peers in the Morningstar Moderate Allocation category. During the quarter and relative to the benchmark, performance was hindered by a conservative asset allocation and defensive risk posture in both the equity and fixed income sleeves of the portfolio. At quarter end, the strategy's allocation to equity was 53%; fixed income represented ~45%; with the balance in cash.

The equity sleeve advanced 6.8% during the quarter, underperforming the benchmark as our valuation discipline and underweight of the Technology sector hurt relative performance. In addition, poor stock selection in the Consumer Discretionary and Financials sectors were detractors to relative performance.

The fixed income sleeve declined 1.1% during the quarter, slightly underperforming the benchmark. Interest rates rose during the quarter and the Treasury curve inversion deepened with the 2yr/10yr curve ending the quarter inverted by <106bps>, essentially matching the cycle-to-date low. After a brief spike in March, credit spreads narrowed during the quarter as concerns over the health of the banking industry moderated. The fixed income sleeve has over 70% of its exposure to shorter duration Treasury's with the balance in Investment Grade rated bonds. During the quarter, Investment Grade credit spreads narrowed to 130 bps, below the 25yr average of 157bps.

Waterfront Balanced Composite

2Q 2023 Commentary

WATERFRONT
ASSET MANAGEMENT

The quarter's top contributors to performance were generally 'growth' stocks with demand drivers that are less sensitive to economic growth. Microsoft, Alphabet and Amazon benefited from perceived secular growth opportunities as well as building anticipation of a wave of spending as corporations and governments look to adopt artificial intelligence into their workflows.

TOP CONTRIBUTORS	AVG. WEIGHT	RETURN	CONTRIB-UTION
Microsoft Corp. (MSFT)	3.9%	18.4%	0.69%
Alphabet Inc. (GOOGL)	2.6%	15.4%	0.42%
Eli Lilly & Co. (LLY)	1.4%	36.9%	0.42%
Amazon.com Inc. (AMZN)	1.8%	26.2%	0.42%
Netflix Inc. (NFLX)	1.3%	27.5%	0.35%

Eli Lilly has several new drugs either coming to market or recently approved that are expected to revolutionize treatment of prevalent diseases where the unmet patient need is high. These best-in-class drugs targeting large patient pools are expected to have pricing power. Netflix has survived competitive challenges and is expanding its membership options in ways that investors anticipate will further entrench its dominance in streaming video and expand the profitability of the franchise. In each case, the fundamental outlook is strong, supporting my continued conviction.

Positions in the Vanguard Intermediate-Term Gov't Bond ETF, Jazz Pharmaceuticals, VF Corp (no longer held), Abbvie and PayPal were notable detractors during the quarter. The Vanguard Intermediate-Term Gov't ETF declined as interest rates rose during the quarter and investors rotated toward risky assets. Jazz Pharmaceuticals and Abbvie retreated due to concerns over their ability to grow through 'patent cliffs' for dominant drugs in their portfolios. As authorized generics and biosimilars enter the market, these companies must price their drugs to compete with cheaper alternatives. VF Corporation has been a disappointing investment as its Vans franchise struggled with poor product and merchandising choices. I elected to exit the position to pursue new investment ideas. PayPal operates in a competitive marketspace and investors are concerned about the trajectory of margins going forward due to rapid growth in a lower-margin segment of the business. I believe the two-sided network PayPal operates is an underappreciated competitive advantage that will result in strong market share and profitability over time.

TOP DETRACTORS	AVG. WEIGHT	RETURN	CONTRIB-UTION
Vanguard Intermediate-Term Gov't (VGIT)	22.0%	<1.6%>	<0.34%>
Jazz Pharmaceuticals (JAZZ)	1.2%	<15.3%>	<0.21%>
VF Corp (VFC)	0.4%	<23.8%>	<0.15%>
Abbvie Inc. (ABBV)	0.8%	<14.7%>	<0.14%>
PayPal Holdings (PYPL)	0.7%	<12.1%>	<0.11%>

As I look forward, the backdrop for risk assets has deteriorated meaningfully. The inflation dynamic is troubling and a meaningful risk to the outlook for interest rates and asset values. 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. I anticipate attractive investment opportunities in the year ahead and am 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.