# 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

0.65%

## Market Capitalization Range

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

## Top Holdings

| | |
|---|---|
| iShares 0-3mo Treasury ETF | 10.4% |
| Microsoft Corp. | 6.5% |
| Cash (USD) | 5.3% |
| Alphabet Inc. – Class A | 3.7% |
| Amazon Inc. | 3.0% |
| Infineon Technologies | 2.6% |
| Zimmer Biomet Holdings | 2.6% |
| Netflix Inc. | 2.3% |
| Las Vegas Sands | 2.3% |
| Eli Lilly & Co. | 2.2% |

## Sector Breakdown

| | |
|---|---|
| Communication Services | 7.5% |
| Consumer Discretionary | 11.5% |
| Consumer Staples | 7.5% |
| Energy | 4.3% |
| Financials | 12.3% |
| Health Care | 10.8% |
| Industrials | 7.6% |
| Information Tech | 19.3% |
| Materials | 1.1% |
| Utilities | 2.5% |
| Cash | 15.7% |

## Performance Net[1] 6/30/2023

** Annual-ized • Inception: 11/16/2021

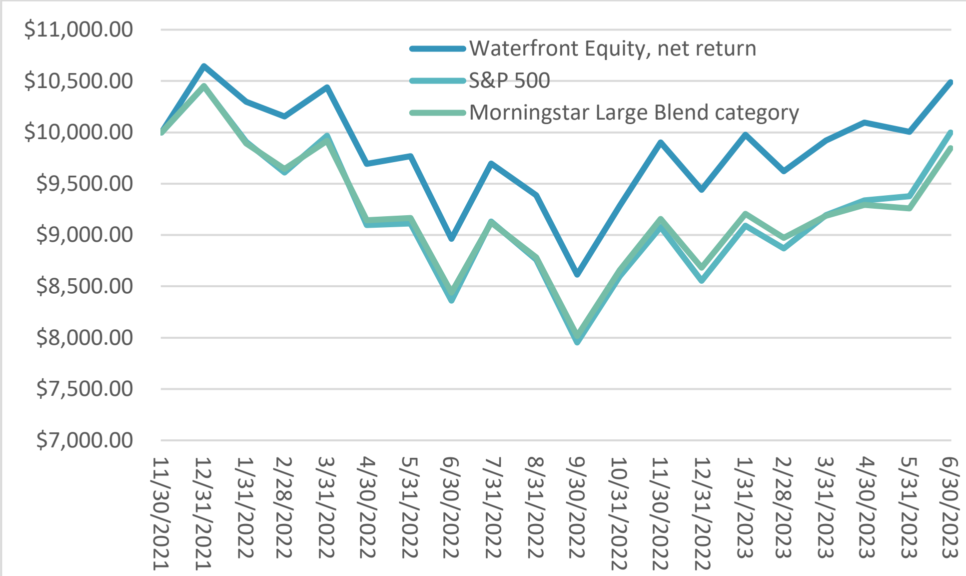
| | YTD | 1 Year | 3YR** | 5YR** | Since Inception* ** |
|---|---|---|---|---|---|
| Waterfront Equity | 11.1% | 17.0% | N/A | N/A | 0.4% |
| S&P 500 | 16.9% | 19.6% | N/M | N/M | -1.6% |
| Morningstar Large Blend Category | 13.4% | 16.7% | N/M | N/M | |

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.

# Waterfront Equity 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.

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 was held through the middle of September.

| | Q2 Total Return |
|---|---|
| **Waterfront Equity Composite** | 5.7% |
| **S&P 500 Index** | 8.7% |
| **Morningstar Large Blend category (median return)** | 7.2% |

The Waterfront Equity strategy advanced 5.7% in the second quarter, underperforming the funds benchmark (the S&P 500 Index) as well as peers in the Morningstar Large Blend category. During the quarter, the strategy's valuation discipline and defensive positioning detracted from relative performance. In addition, poor stock selection in the Information Technology, Consumer Discretionary and Financials sectors were meaningful detractors to relative performance.

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. 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.

| TOP CONTRIBUTORS | AVG. WEIGHT | RETURN | CONTRIB-UTION |
|---|---|---|---|
| **Microsoft (MSFT)** | 6.4% | 18.4% | 1.14% |
| **Alphabet Inc. (GOOGL)** | 4.3% | 15.4% | 0.72% |
| **Amazon.com (AMZN)** | 2.9% | 26.2% | 0.71% |
| **Eli Lilly & Co. (LLY)** | 2.2% | 36.9% | 0.68% |
| **Netflix Inc. (NFLX)** | 2.1% | 27.5% | 0.54% |

Positions in Jazz Pharmaceuticals, VF Corp (no longer held), Abbvie, PayPal and Progressive were notable detractors during the quarter. 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. Progressive underpriced its insurance policies with both claims and severity exceeding internal forecasts. Margins will be pressured for the next several quarters, but the company is reducing discretionary spend and raising prices which will benefit future period profitability and I expect policy growth to resume in 2024.

| TOP DETRACTORS | AVG. WEIGHT | RETURN | CONTRIB-UTION |
|---|---|---|---|
| **Jazz Pharmaceuticals (JAZZ)** | 2.1% | <15.3%> | <0.36%> |
| **VF Corporation (VFC)** | 0.6% | <23.8%> | <0.25%> |
| **Abbvie Inc. (ABBV)** | 1.3% | <14.7%> | <0.22%> |
| **PayPal Holdings (PYPL)** | 1.2% | <12.1%> | <0.17%> |
| **Progressive Corp. (PGR)** | 1.7% | <7.4%> | <0.14%> |

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 and sector weights. 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.