Executive Summary

Asset markets rallied aggressively in the fourth quarter with the S&P 500 hitting an all-time high in December. The global economy has been surprisingly resilient in the face of stiff headwinds emanating from higher interest rates, tightening credit and a contracting manufacturing sector. Optimism is in vogue as markets anticipate a 'pivot' from the Federal Reserve with expectations brewing of short-term interest rate cuts early in 2024. With that backdrop, stocks posted strong returns with the S&P 500 Index rising 11.7% in the fourth quarter. The Waterfront Equity Composite rose 9.4%, lagging the benchmark as well as peers in the Morningstar Large Blend category.

As we bid 'adieu' to another year and look ahead to 2024, the differences in sentiment between the inaugural points of each year could not be more stark. A year ago, investors were focused on the risks with outlooks dominated by concern over economic growth (or lack thereof). Today, the mood leans more heavily toward optimism with the risks comparatively downplayed. Perhaps this is just a result of the performance of risk assets over the preceding periods influencing the prevailing sentiment and narratives at each respective moment. But whatever the reason, markets have clearly elected to interpret data using the 'glass half-full' lens over the last several months. However, in my view, there are many reasons to exercise caution as we embark on this journey into the new year. In particular, the prevailing consensus of a 'soft landing' for the U.S. economy seems a bit audacious.

Given we just completed the college football bowl season and have begun the NFL playoffs, a football analogy seems appropriate. If history is any guide, a 'soft landing' for the global economy after the most aggressive interest rate hiking cycle since the Volker Fed in 1979, is the equivalent of a 'Hail Mary'. For those unfamiliar, in the closing seconds of a tight game, the team that is behind is said to throw a 'Hail Mary' pass when on its final possession, it hurls the football toward the endzone with the hope that one of their teammates will emerge from a scrum of players clutching the football to secure an improbable victory. It appears to me that Jerome Powell is attempting to conjure up the magic of Doug Flutie as he attempts to quarterback the Open Market Committee and the world's largest economy. Given stiff headwinds from higher interest rates; plummeting economic leading indicators; tightening credit conditions; recessionary data in the Euro area and the UK; as well as numerous ongoing geopolitical risks; the odds seem stacked against our Central Bank QB. While one of the alluring aspects of sports (and economics) is that occasionally, the improbable

	Q4 2023 TOTAL RETURN	2023 TOTAL RETURN
Waterfront Equity Composite (net)	9.4%	17.7%
S&P 500 Index	11.7%	26.3%
Morningstar Large Blend category	11.3%	22.1%

The Waterfront Equity strategy advanced 9.4% in the fourth quarter, underperforming the funds benchmark as well as peers in the Morningstar Large Blend category. During the quarter and relative to the benchmark, performance was negatively impacted by a conservative asset allocation and defensive risk posture. At quarter end, the strategy's allocation to equity was 84% with the balance in cash and equivalents.

The equity sleeve advanced 11.0% during the quarter, underperforming the benchmark due to poor stock selection in the Financials sector; an underweight of the Technology sector; and an overweight of Consumer Staples hurt relative performance. Strong stock selection in the Communication Services and Consumer Discretionary sectors were helpful to relative performance but insufficient. However, the funds defensive asset allocation hurt performance as the cash and cash equivalents produced a 1.3% return in the quarter (roughly equivalent to a 5.4% annualized return).

The quarter's top contributors to performance were concentrated in the Technology and Communication Services sectors. Microsoft and Netflix are secular growers with strong competitive moats and unique growth drivers in 2024. Microsoft has durable growth in its Cloud segment and a burgeoning opportunity in AI across its product suite.

Netflix has deepened its competitive moat over the last several years and is increasingly monetizing its subscriber base through membership pricing and advertising. Amazon, Infineon Technologies and Micron all benefit from strong consumer spending and the proliferation of technology into modern life. In each case, the fundamental outlook is strong, supporting my continued conviction.

TOP CONTRIBUTORS	AVG. WEIGHT	RETURN	CONTRIBUTION
Microsoft (MSFT)	6.8%	19.3%	1.24%
Amazon.com Inc. (AMZN)	3.2%	19.5%	0.61%
Netflix Inc. (NFLX)	2.3%	28.9%	0.61%
Infineon Technologies (IFNNY)	2.3%	26.2%	0.56%
Micron Technology Inc. (MU)	2.0%	25.8%	0.49%

Schlumberger and Hess Corp had poor performance in the quarter as the outlook for oil capex deteriorated given strong supply growth from non-OPEC countries. Aon, Plc announced an acquisition during the quarter that was poorly received by the market but will prove accretive over time in my view. Both Jazz Pharmaceuticals and Constellation Brands are less cyclically sensitive businesses which underperformed as investors rotated into cyclical beta. For each of these stocks, I continue to believe in the long-term growth and profitability of the franchise and expect patience to prove rewarding.

TOP DETRACTORS	AVG. WEIGHT	RETURN	CONTRIBUTION
Zimmer Biomet Holdings (ZBH)	2.3%	<22.8%>	<0.58%>
Infineon Technologies-ADR (IFNNY)	2.4%	<19.7%>	<0.51%>
Microsoft Corp (MSFT)	6.3%	<7.1%>	<0.45%>
Las Vegas Sands Corp. (LVS)	2.0%	<20.7%>	<0.44%>
RTX Corp. (RTX)	1.2%	<26.0>	<0.34%>

As I look forward, the backdrop for risk assets continues to be uncertain. On the positive side of the ledger, the inflation outlook is clearly improving. And yet, while I am encouraged by the consensus view that inflation rates will cool further in the months ahead, the pace of moderation is slowing and the underlying trends are sending conflicting signals. While goods inflation has clearly rolled over, the level of inflation in services has remained elevated. Over the medium and longer term, de-globalization, geopolitical tensions and global demographic trends impacting labor availability and healthcare costs suggest that the inflation backdrop may have structurally changed. If that proves true, interest rate increases by global central banks, which have been extreme, are unlikely to be entirely reversed. And as mentioned in many prior missives, the impacts of tighter monetary policy occur with a lag and will likely drive a continued reset in consumer and corporate spending and investment in the months ahead. While anticipation of a series of interest rate cuts in early 2024 continues to build, the previously discussed structural drivers of inflation seem underappreciated by the consensus which suggests there will likely be some disappointment. Finally, the consensus expectation for earnings growth of ~10% for the constituents of the S&P 500 seems more like a 'blue sky' scenario than a 'base case'. The valuation multiple of ~20x the 2024 consensus EPS imply a surprising amount of confidence in that earnings outlook. While a 'tip of the cap' is due to those who anticipated a benign economic environment in 2023, the risks haven't dissolved and the growth backdrop for 2024 continues to look uncertain. As a result, your account is conservatively positioned in terms of asset allocation and sector weights. As we saw in 2023, there will be attractive investment opportunities in there will be attractive investment opportunities in the midst of uncertainty. The opportunity this past Fall when risks to growth were front-of-mind for investors presented attractive entry points in names such as Thermo Fisher Scientific and Crown Castle which have already yielded attractive returns. Volatility creates opportunity for active investors and your account is positioned to respond quickly to capitalize on them when they come.

While the outlook is uncertain, 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

Past Performance Does Not Guarantee Future Results

Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. The investment(s) discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives. Any investment contains risk, including the risk of total loss.

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Waterfront Asset Management calculates performance for each strategy as a composite of all the separately managed accounts included in the composite. The composite rate of return is asset-weighted using the aggregate method. New accounts are added to a composite the first full month after they are fully funded, and assets are at least 60% invested. All external cash flows are daily weighted and assumed to occur at the end of the day. Monthly returns are geometrically linked to calculate the annual return. Accounts with significant cash flows (uniquely defined by composite; reach out to Trent Grissom for details) are removed from the composite for the month in which the significant cash flow occurred. Performance is calculated in Microsoft Excel or Easy ROR Pro TM or both on a monthly basis using the Modified Dietz method.

Net of fee performance is calculated using the highest tier on the firm's standard fee schedule for that strategy. A model fee is deducted on a quarterly basis by dividing the highest fee by 1/4 th and applying this to the composite gross return for the first month of each calendar quarter. Actual fees are generally deducted in the first month of each calendar quarter and are treated as withdrawals. Net of fee performances does not reflect Advisor fees (which may range from 0.35% to 1.50% depending on account size). If Investment Advisor fees are deducted from the account, it will lead to reductions in return.

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