

WATERFRONT

ASSET MANAGEMENT

Investment Strategies

2023

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WATERFRONT

ASSET MANAGEMENT

Waterfront Asset Management (“WAM”) is a division of Waterfront Wealth Inc., an Investment Advisor registered with the Securities and Exchange Commission (SEC). WAM manages four separately managed account strategies available to Waterfront clients as well as outside investors. WAM is also responsible for the construction of several model portfolios that are available to Waterfront Advisors for their clients. In addition, WAM performs security research and provides recommendations to Waterfront Advisors for client purchases of individual bonds and/or equities.



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ACTIVE FUND STRATEGIES

SHORT DURATION | BOND | AGGRESSIVE FIXED INCOME
DIVIDEND & INCOME | DIVERSIFIED EQUITY | U.S. EQUITY

Waterfront has created six different fund strategies to help financial advisors invest client assets. Each strategy has its own unique profile and differs from the other strategies in objective and characteristics. We believe one of these strategies or a combination thereof should enable a financial advisor to invest client assets in a manner that is appropriate for that particular client.

Process Highlights

Each of the six strategies will have at least five funds to provide adequate diversification.

We have a thorough screening process and each manager selected for a strategy is vetted on several different criteria. We monitor performance of fund managers and are ready to replace underperforming managers as needed. Every three months, or sooner if need be, the strategies are reviewed to see if changes need to be made. We utilize tactical asset allocation, changing the weightings between managers based on our outlook and the outlook of third party research providers.

More detailed information about the construction process and parameters of each of the strategies is provided on a separate outline specific to each of the strategies.



Short Duration

The Short Duration Strategy will provide a limited opportunity for capital appreciation. With this strategy, income is targeted to achieve desired income levels. This strategy is the most conservative of all the strategies and is designed to provide a return higher than money market rates while also providing protection against temporary principal losses due to interest rate fluctuations.

Investor Profile

An investor in the Short Duration Strategy seeks first and foremost preservation of principal. This investor is willing to accept a low level of current income in order to protect principal from temporary losses.

Strategy Objective

The Short Duration Strategy is positioned to earn a return greater than a money market fund while taking modest credit risk and minimal interest rate risk. The target distribution is over three percent. Principal preservation is a focus.

Strategy Characteristics

This strategy will utilize a select number of funds that focus on beating short duration bond indices. Although the strategy may include a fund or two that takes meaningful credit risk, the majority of fund managers selected will not take a lot of credit risk and very few, if any managers, will take meaningful interest rate risk. The ability of fund managers to beat indices will come from skillful overweighting or underweighting various short term fixed income investments.



Bond

The Bond Strategy is designed to protect investor principal but is not so restrictive in design to prevent any credit risk or interest rate risk. The duration will be higher than the Short Duration Strategy and a sharp move higher in interest rates could create a negative return for a period of time. However, this strategy will also provide capital appreciation in the event interest rates were to move lower.

Investor Profile

An investor in the Bond Strategy desires a modest level of current income and safety of principal. This investor is willing to accept some risk of either short term principal losses or principal impairment in order to achieve a higher level of current income than what would be available to an investor taking minimal credit or interest rate risk.

Strategy Objective

This benchmark for the strategy is 70% Bloomberg Barclays US Agg Total Return Unhedged, 10% Bloomberg Barclays Emerging Markets USD Agg Total Return Index Unhedged, 10% S&P/LSTA Leveraged Loan Index, 10% Bloomberg Barclays Global Agg Total Return Index Unhedged. The strategy aims to provide a return greater than the benchmark while maintaining an over 3% distribution.

Strategy Characteristics

The Bond Strategy will include several total return bond funds, two or three high yield bond/bank loan funds, one or two mortgage backed/asset backed focused funds, several international bond funds and any other fund that may add value. Although some individual funds may take significant credit risk or interest rate risk, the strategy as a whole will be positioned to take modest credit risk and interest rate risk. However, the strategy is flexible and from time to time the interest rate risk or credit risk may be increased. If duration is extended, this strategy should provide some capital appreciation in a declining interest rate environment.



Aggressive Fixed Income

The focus of this strategy is on credit risk. Interest rate risk should not be a meaningful factor in strategy performance. Although a 100% fixed income strategy has elements of principal preservation, the securities that make up this strategy are at a greater risk of principal impairment. Many of the securities provide a large enough income rate that if business conditions improve the securities will appreciate in value providing growth for the strategy.

Investor Profile

An investor in this strategy desires a high level of current income and is willing to invest in bonds with greater than average credit risk to achieve the desired income. This investor is willing to accept potential fixed income losses that may occur due to the credit risk of the portfolio.

Strategy Objective

The Aggressive Fixed Income Strategy is positioned to achieve a high level of current income while still maintaining a diversified portfolio of fixed income funds. The target distribution rate is over five percent. The benchmark for the strategy is 40% Bloomberg Barclays US Corporate High Yield Total Return Index Unhedged, 20% Bloomberg Barclays Emerging Markets USD Agg Total Return Index Unhedged, 20% S&P/LSTA Leveraged Loan Index, 20% Bloomberg Barclays US Agg Total Return Unhedged.

Strategy Characteristics

This strategy is flexible and can incorporate any funds that can help achieve a diversified portfolio of high income investments. It is likely the strategy will include high yield corporate funds, bank loan funds, funds that focuses on asset backed/mortgage back securities, total return funds, international debt funds and other funds as deemed fit.

The strategy will focus on credit risk and it is expected that only modest interest rate risk will be taken. However, the strategy has the flexibility to invest in long duration bonds if deemed appropriate.



Dividend & Income

The Dividend and Income Strategy is designed to provide a high income rate while also providing some growth potential. The equity allocation will vary but often times will be in a range of 50-60%. The equity component of this strategy will have a value tilt consisting of higher dividend paying stocks. The fixed income component of the strategy will mostly be invested in the higher yielding segments of the market, such as high yield, emerging market debt, certain mbs/abs investments, etc. In addition, the strategy will invest in high income asset classes such as REIT's, MLP's, preferred equity and covered call funds.

Investor Profile

An investor in this strategy either is in need of periodic income generated by the strategy or has a preference for investments that distribute income. In either case, the investor also needs or desires growth in the strategy to meet future income goals and to protect against inflation.

Strategy Objective

The strategy is positioned to provide steady income to investors while also generating some capital appreciation to help meet future income needs. The target distribution rate is over five percent. The strategy benchmark is 30% Russell 1000 Value Index, 20% MSCI ACWI ex US Index, 10% Bloomberg Barclays US Corporate High Yield Total Return Index Unhedged, 20% Chicago Board Options Exchange S&P 500 Buy/Write Monthly Index, 10% Bloomberg Barclays US Agg Total Return Unhedged Index, 10% Emerging Markets Debt.

Strategy Characteristics

The strategy will consist of a mix of equity funds, fixed income funds or funds that combine equity and debt. The equity managers selected will tend to be more value oriented and hold stocks that pay higher than average dividends. The portfolio will have investments in a wide variety of regions and/or sectors. International investments, smaller capitalization stocks, higher yielding fixed income, MLP's, REIT's, preferred equity and covered call funds will be utilized by the strategy to provide higher income and diversification benefits.



Diversified Equity

The Diversified Equity Strategy is invested broadly across fund managers. In this strategy, there are several fund managers for large cap equity, small/mid cap equity and international equity. There are no restrictions on the number of holdings a fund manager may have. However, we select managers that have a coherent strategy to provide excess returns over a relevant benchmark. Each strategy provides a modest income stream through dividends but the strategy is invested for growth.

Investor Profile

Investors should have a long time horizon and the ability to withstand volatility in the strategy. A significant portion of the money invested in the strategy should not be relied upon for near term expenses.

Strategy Objective

The strategy is positioned to achieve performance over time commensurate or superior to that of a benchmark that reflects a weighting of 65% to the Russell 3000 index and 35% to the MSCI All Country World Index ex US. The primary objective is a return that beats the index and a secondary objective is to minimize volatility of the strategy.

Strategy Characteristics

This strategy will include equity managers focused on various subsets of the equity investment universe. The portfolio includes domestic and international managers, large cap and small cap managers, growth and value managers, and so forth. Our intent is to pick a lineup of fund managers that can outperform their respective benchmarks. In addition to manager selection, we make tactical overweight and underweight decisions for various asset classes as we see fit. There is no set number of managers for the strategy but we intend to invest in at least 5 managers to provide diversification benefits.



U.S. Equity

The U.S. Equity Strategy is invested in fund managers that largely invest in domestic large-cap companies. Some of the managers use quantitative methods for stock-picking while some of the managers use more traditional fundamental security selection.

Investor Profile

The investor in the U.S. Equity strategy is seeking to outperform the S&P 500 by investing in a select number of mutual funds that collectively will limit the risk of one manager having a significant impact on the portfolio return. This is an investor who does not need current income and has the time and risk tolerance to withstand volatility within the strategy.

Strategy Objective

The U.S. Equity strategy is positioned to achieve a return greater than the S&P 500 over time.

Strategy Characteristics

The performance of the U.S. Equity strategy should track closely to the S&P 500 return. There will be at least 5 fund managers for diversification. Fund managers will have broad security selection mandates and there will not be an allocation to specific sectors.



DIMENSIONAL FUND STRATEGIES

DFA Equity | DFA 80 | DFA 60

Dimensional Funds is one of the largest asset managers in the country with over 600 billion in Assets under Management. Since 1981 Dimensional Fund Advisors has been a well-respected fund investment manager with a track record of applying empirical financial markets research. Several Nobel-prize winning financial economists have served or are currently serving as board directors, thought leaders, or consultants; providing significant influence over the investment methodology. This unique approach to investing has been validated by a long track-record of benchmark-beating performance across asset classes. Dimensional Fund Strategies have low management fee costs and are particularly focused on efficient low cost trading execution.

Strategy Characteristics

There will be three Dimensional fund strategies all utilizing DFA mutual funds for the majority of asset allocation. Some of the fixed income allocation is to other mutual funds outside of the DFA family. The strategies are from most aggressive to least aggressive an all equity strategy, an 80/20 strategy (80% equity, 20% fixed income) strategy, and a 60/40 strategy. Tactical asset allocation between funds will be utilized to generate alpha.

These strategies will also attempt to generate alpha through security selection. Dimensional funds do not perform fundamental security research in hopes of discovering undervalued securities. Instead, Dimensional bases security selection on several factors that historically have led to superior performance. Two such factors for equities are a small cap bias and a value bias. Dimensional equity funds will tend to have a higher weighting to those asset classes. Two important factors for fixed income are term premiums and credit spreads and the funds will alter allocations based on what those levels are.



EXCHANGE TRADED FUND STRATEGIES

ETF Equity | ETF 80 | ETF 60

Our ETF strategies are constructed with both very low cost passive exchange traded funds and some factor based exchange traded funds. Exchange Traded Funds can be more tax efficient than mutual funds and are generally a lower cost than mutual funds.

Strategy Characteristics

The ETF strategies consist of a broad mix of very low cost ETF's designed to replicate the returns of various indices and some factor based ETF's. We currently have three ETF strategies. The strategies are from most aggressive to least aggressive an all equity strategy, an 80/20 strategy (80% equity, 20% fixed income), and a balanced 60/40 strategy.

The strategies use International funds, small/mid cap funds, high yield and emerging market debt funds, REIT funds, and others, in addition to core large cap stock and investment grade bond funds.



SEPARATELY MANAGED ACCOUNTS

Opportunistic Strategy (OS)

This strategy seeks to provide above average returns over time by investing in a mix of US stocks, primarily small cap stocks, as well as international stocks and high yield bonds. It provides good diversification to many large cap growth focused investments. While the strategy is a contrarian value-based strategy and at times deep value, the allocation will differ materially from many small cap value indices. There is a heavy emphasis on special situation stocks.

Opportunistic Equity (OE)

This strategy is a more active, concentrated, higher-risk version of the Opportunistic Strategy. There will be roughly 50 holdings in the strategy. It will not hold a number of OS holdings but will hold some as a larger percentage of the portfolio. It will not invest in bonds. It will also not have any allocation to an exchange traded fund or mutual fund.



SEPARATELY MANAGED ACCOUNTS

Waterfront Balanced (WB)

The Waterfront Balanced strategy seeks to opportunistically allocate between asset classes to provide a combination of capital appreciation and current income. The blended portfolio of assets is diversified across sectors with security selection governed by a disciplined emphasis on finding reasonably priced profitable companies with sound capital structures.

Waterfront Equity (WE)

The Waterfront Equity strategy is a concentrated portfolio focused on capital appreciation. The strategy is predicated on the belief that above-average profitability is an accurate measure of quality and that the market frequently underestimates its durability. The strategy seeks to invest in quality companies when they are attractively valued or out of favor.



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