Waterfront Equity Composite
1Q 2023 Commentary

WATERFRONT ASSET MANAGEMENT

The new year has started with an optimistic tone as equity markets posted solid advances despite pervasive pessimism and a growing chorus of recession forecasts. The global economy has proven surprisingly resilient in the face of both familiar as well as several nascent headwinds. Elevated inflation readings, hawkish commentary from Federal Reserve Board members, ongoing geopolitical tensions and pandemic impacts feel like 'yesterday's news' and yet they continue to dampen economic outlooks. 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 50 basis points (bps) during the quarter but have indicated in speeches and interviews that the pace of hikes will slow with growing anticipation of a pause. As is commonly recited by Fed officials, monetary policy works with long and variable lags. The current rate hike cycle, one of the most precipitous in history, is leaving an expanding wake of financial 'casualties' to include so-called 'meme stocks'; speculative growth investments in public and private markets; crypto currencies; and most recently, several regional banks in the U.S. and Credit Suisse in Switzerland. 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. 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 7.5% during the first quarter.

	Q1 Total Return
Waterfront Equity Composite	5.1%
S&P 500 Index	7.5%
Morningstar Large Blend category (median return)	5.8%

The Waterfront Equity strategy advanced 5.1% in the first 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 quality bias detracted from relative performance. In addition, poor stock selection in the Consumer Discretionary, Information Technology and Communication Services sectors were meaningful detractors to relative performance.

The quarters top contributors to performance were diverse but were generally economically sensitive with several simply rebounding from dramatic declines in previous periods. Microsoft, Infineon Technologies, Alphabet, Amazon and Las Vegas Sands rebounded from punishing declines last year as investors attitude toward cyclicality improved. While the outlook for ecommerce and technology spend appears more difficult in the near-term, the strength of the Microsoft, Alphabet and Amazon franchises support my continued conviction. Infineon Technologies business continues to exceed expectations as technology integration across multiple industries drives secular growth for a stock trading at a very attractive valuation that I believe has room for expansion. Las Vegas Sands benefits from the re-opening of Macau, which is currently ongoing. The profit generation of their integrated resorts is remarkable with intriguing global growth opportunities under discussion to drive growth in the future.

TOP CONTRIBUTORS	AVG. WEIGHT	RETURN	CONTRIB-UTION
Microsoft (MSFT)	5.6%	20.5%	1.10%
Infineon Technologies (IFNNY)	2.5%	37.1%	0.78%
Alphabet Inc. (GOOGL)	4.1%	17.6%	0.69%
Amazon.com (AMZN)	2.7%	23.0%	0.57%
Las Vegas Sands (LVS)	2.3%	19.5%	0.39%

The quarters bottom contributors to relative performance were PNC Financial, Jazz Pharmaceuticals, UnitedHealth Group, VF Corporation and Emerson Electric. PNC Financial declined in sympathy with other regional banks as concerns over systemic risk from the collapse of Silicon Valley Bank and Signature Bank spread throughout the industry. I believe PNC Financial is well-capitalized with a conservative Balance Sheet that will help sustain it through this period of turmoil. Jazz Pharmaceuticals and UnitedHealth Group have been strong performers over recent periods and investor preferences shifted during the quarter to more cyclically sensitive assets with greater EPS leverage to an economic recovery. VF Corporation has been a disappointing investment for the strategy but I believe in the power of the North Face brand and anticipate a revival of the Vans franchise. Emerson Electric is a late-cycle industrial that is pursuing an expensive acquisition which soured investor attitudes toward management and the equity. I believe the speculated acquisition of NATI will prove accretive over time and expect management to continue to deliver on its transformation agenda to a more stable, highly profitable industrial company.

TOP DETRACTORS	AVG. WEIGHT	RETURN	CONTRIB-UTION
PNC Financial (PNC)	1.4%	<18.8%>	<0.28%>
Jazz Pharmaceuticals (JAZZ)	2.4%	<8.2%>	<0.21%>
UnitedHealth Group (UNH)	1.7%	<10.5%>	<0.21%>
VF Corporation (VFC)	1.2%	<15.9%>	<0.20%>
Emerson Electric (EMR)	1.8%	<8.7%>	<0.17%>

As I look forward, the backdrop for risk assets has deteriorated meaningfully over the last fifteen 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 more conservatively positioned than has been the case for most of last year in terms of sector weights and cash position. 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 equity is 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.

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