**Executive Summary**

Asset markets posted strong performance in the third quarter with the S&P 500 hitting all-time highs in September as interest rates and credit spreads declined. While economic growth has been resilient, uncertainty is prevalent with active military conflicts around the world; a contentious election cycle in the United States; and slowing earnings growth restraining risk appetites. Encouragingly, the Federal Reserve began reducing short-term interest rates during the quarter in response to a moderation in inflation and a cooling labor market. For the quarter, stocks and bonds posted strong returns. The S&P 500 Index rose 5.9% in the third quarter and the Bloomberg U.S. Agg Gov't/Credit Index was up 5.1%. The Waterfront Balanced Composite rose 5.8%, outperforming the blended benchmark which posted a 5.6% increase as well as peers in the Morningstar Moderate Allocation category.

The S&P 500 posted strong performance in Q3 2024, continuing its upward trend for the year. The index closed out the quarter with a gain of 5.9%, capping its fourth consecutive quarter of positive returns, its longest winning streak since 2021. Strong corporate earnings, fueled by economic growth and resilient consumer spending, were a major driver. Specifically, second quarter earnings (reported during the third quarter) for companies in the S&P 500 grew at a low-teen's percentage pace compared to the same period a year ago, a strong result. Fixed income markets also rallied as interest rates fell and credit spreads narrowed. Late in the quarter, the Federal Reserve lowered short-term interest rates and the Treasury yield curve began the process of normalizing after the longest inversion on record. While the overall market environment was favorable, uncertainty remains and there was a clear shift away from the year-to-date winners into traditionally defensive assets and sectors. Financials, Utilities and Consumer Staples were equity market leaders for the quarter while fixed income markets posted performance that was similar to equities. Overall, third quarter performance was encouraging, as more securities participated in the advance. Looking forward, earnings growth is expected to slow significantly with current consensus forecasting year-over-year growth in the mid-single-digits for the third quarter (to be reported over the next several weeks). During the fourth quarter the elections in the United States will conclude which will provide greater clarity on the legislative and regulatory environment moving forward. While asset markets once again successfully 'climbed a wall of worry', greater clarity on the outlook for fiscal policy, interest rates and economic growth will be welcomed.

| | Q3 2024 Total Return |
|---|---|
| **Waterfront Balanced Composite (net)** | **5.8%** |
| **60% S&P 500 / 40% BBG U.S. Agg Gov't/Credit (benchmark)** | **5.6%** |
| **Morningstar Moderate Allocation category (median return)** | **5.3%** |
| **S&P 500 Index** | **5.9%** |
| **Bloomberg U.S. Agg Gov't/Credit Index** | **5.1%** |

The Waterfront Balanced strategy advanced 5.8% in the third quarter, outperforming the funds benchmark (blended benchmark consisting of 60% S&P 500 & 40% Bloomberg U.S. Aggregate Govt/Credit) as well as peers in the Morningstar Moderate Allocation category. During the quarter and relative to the benchmark, performance was positively impacted by strong stock selection in the Financials and Health Care sectors and an underweight of the Technology sector. At quarter-end, the strategy's allocation to equity was 56%; fixed income represented 43%; with the balance in cash.

The equity sleeve advanced 7.1% during the quarter, outperforming the benchmark. Strong performance was broad-based with every sector except Energy posting positive returns. Strong stock selection was headlined by the Financials and Heath Care sectors but included winners in the Materials, Consumer Discretionary and Consumer Staples sectors as well. An underweight of the Technology sector also benefited relative performance.

The fixed income sleeve advanced 4.7% during the quarter, modestly underperforming the benchmark. The Treasury curve inversion began to normalize with the 2yr/10yr curve ending the quarter positively sloped by 15bps. Investment Grade credit spreads compressed modestly and finished the quarter at 92 bps, well below the 25yr average of ~157bps.

The quarter's top contributors to performance were eclectic with unique investment themes. PayPal is a unique payments provider with a two-sided network which enables proprietary product offerings to drive customer value and retention. New management has focused investment on expanding access through partnering in order to grow its acceptance and increase its value to consumers. New products and a heavy marketing investment have raised awareness of the growth opportunity. 3M has a legacy of excellence in materials science which was overlooked as the company faced product liability lawsuits and endured years of restructuring. New management has accelerated the process of quantifying the legal liabilities while refocusing the entity on profitable innovation and growth. Philip Morris is a global leader in nicotine products that has spent a decade transitioning from its legacy combustible cigarette business toward reduced-risk products. That transition from a legacy business in decline to a growing portfolio is increasingly being recognized with a higher earnings multiple. Intercontinental Exchange has successfully transitioned its business away from a dependence on exchange volumes toward a software subscription business with recurring revenue in a diversified set of markets. The market is recognizing the stability and growth potential of the reconfigured asset base with a higher earnings multiple. Bristol-Myers Squibb is facing patent expirations for Eliquis and Opdivo, two drugs that contribute meaningfully to its profits. The market is beginning to appreciate the company's aggressive investment in research and development as well as acquisitions which will help to fill the profit void left by these blockbuster drugs.

| TOP CONTRIBUTORS | AVG. WEIGHT | RETURN | CONTRIB-UTION |
|---|---|---|---|
| **PayPal Holdings, Inc. (PYPL)** | 0.9% | 34.5% | 0.27% |
| **3M Corp. (MMM)** | 0.9% | 34.5% | 0.25% |
| **Philip Morris Intl (PM)** | 1.2% | 21.1% | 0.24% |
| **Intercontinental Exchange (ICE)** | 1.3% | 17.7% | 0.22% |
| **Bristol-Myers Squibb (BMY)** | 0.9% | 26.5% | 0.21% |

Alphabet is facing antitrust lawsuits over its dominance in online search and advertising with likely adverse rulings and unknown remedies. While changes to its business practices are likely, the competitive advantages of its products are formidable with clarity on its path forward likely to unlock upside in the stock over the next year. Microsoft has had a strong year of performance which, coupled with concerns over the possibility of an expansion of the antitrust agenda of the current administration, caused a modest pullback of the shares. Microchip Technology and IPG Photonics are reliant on global economic growth to support the current consensus earnings forecasts for 2024 & 2025. As economic concerns continue to percolate with a particular focus on weak Asian economies, the stocks earnings multiples will be capped. As the growth outlook crystalizes, investor confidence will return and the stocks will recover. Schlumberger is a frustrating stock where consistent high-single-digit revenue growth has been met with a litany of revolving concerns that have largely proven illegitimate. The company's business is dependent on a stable oil price

| TOP DETRACTORS | AVG. WEIGHT | RETURN | CONTRIB-UTION |
|---|---|---|---|
| **Alphabet Inc. (GOOGL)** | 2.8% | <8.8%> | <0.28%> |
| **Microsoft Corp. (MSFT)** | 4.4% | <3.6%> | <0.17%> |
| **Microchip Technology Inc. (MCHP)** | 0.9% | <11.8%> | <0.12%> |
| **IPG Photonics Corp. (IPGP)** | 0.8% | <11.9%> | <0.11%> |
| **Schlumberger Ltd. (SLB)** | 0.8% | <10.5%> | <0.09%> |

environment which is in question as the global economy slows and OPEC production policies are in question. The stock trades at a 20%+ discount to peers despite a stronger competitive moat and better growth prospects. I expect the company to prove the business is resilient and the earnings multiple to recover.

As I look forward, I am encouraged by the consensus view that inflation rates will cool further in the months ahead but believe the underlying inflationary impulse is likely to prove more intransigent. 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 reset in consumer and corporate spending and investment in the months ahead. While the consensus anticipates a series of interest rate cuts in 2024 and 2025, the previously mentioned structural drivers of inflation seem underappreciated which suggests there will likely be some disappointment. In addition, economic growth has been strong but is slowing which has slowed the pace of job creation and wage growth. As a result, the economic backdrop is increasingly unsettled, and assets are likely to experience more volatility as investors adjust outlooks based on incoming data.

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 long term. This approach has served investors well over time, and my confidence in it has not waned.

Matt Hekman
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