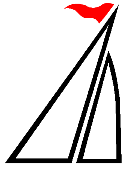
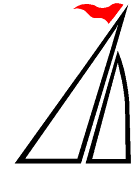


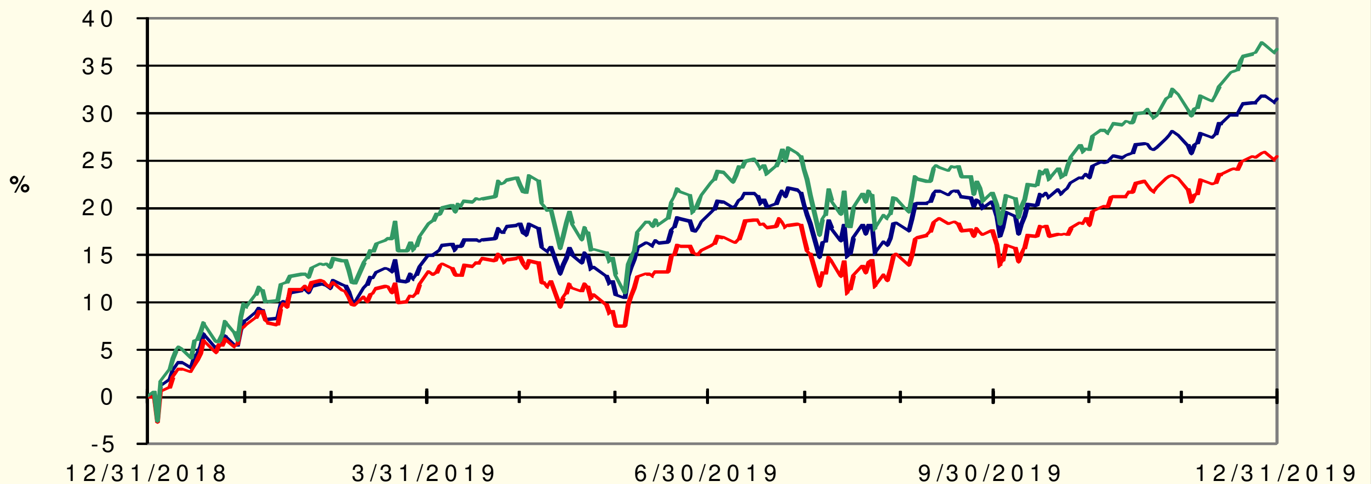
WINDWARD CAPITAL

Risk Averse Asset Management



2019 Fourth Quarter Review

Volume 24, Issue 4 January 15, 2020



"The trend is your friend."

"Nothing is more uncertain than the favor of the crowd."

—Marcus Tullius Cicero (106 - 43 B.C.)
Roman Statesman, Orator, Lawyer, and Philosopher

The major U.S. equity market indices increased during the Fourth Quarter of 2019, with the Standard & Poor's 500 Index (S&P 500), Dow Jones Industrial Average (DJIA), and NASDAQ Composite Index (NASDAQ) returning +9.06%, +6.67%, and +12.49%, respectively, for the period. For 2019 Year-to-Date, the S&P 500, DJIA, and NASDAQ have returned +31.48%, +25.34%, and +36.74%, respectively, as they advanced to historic, all-time highs.

Factors providing underlying support to the U.S. financial markets include: moderate domestic economic growth, positive (albeit waning) impacts from the Tax Cuts and Jobs Act of 2017, liquidity effects, and momentum. In addition, although slowing, the near-term corporate revenue and earnings outlook remains positive: for the Year, 2018 year-over-year S&P 500 Revenues and Earnings growth was +8.8% and +20.0%, respectively, with 2019 and 2020 year-over-year growth rate projections of +3.8% and +0.3%, and +5.4% and +9.6%, respectively.

As we have noted in the past, however, some of these factors necessarily raise concerns regarding market valuation—especially in the face of a global economic slowdown and/or possible U.S. recession. As a result, we believe that the equity markets may be "overbought" on a technical basis in the short term, and that a near-

term correction and/or re-test of previous lows remain a possibility.

As we have discussed before, based upon the (by historical standards) unprecedented degree of uncertainty associated with the Trump administration's ultimate policy agenda/directives (and their domestic and international ramifications), we believe that near-term financial market movements may continue to be unpredictable. From an economic perspective, this administration has (among other issues) advocated policies of trade protectionism and immigration reduction, individual and corporate income tax cuts, infrastructure investment, and the deregulation of financial services, healthcare, and energy policies. In our opinion, there remains too much uncertainty and lack of details associated with the policies and directives of the Trump administration to be able to confidently make any definitive assertions regarding their long-term impact—either positive or negative—on the geopolitical and global macroeconomic outlook, much less the financial markets. Until there is further regulatory and/or legislative clarity, we can only be confident that the near-term investment environment will continue to exhibit greater uncertainty and increased volatility—a risk that may be poised to increase as the 2020 Presidential election approaches.

As investors, we remain politically agnostic in evaluating the economic and corporate impacts of public policy. That is the reason why we would prefer to analyze the actual legislative mandates and policies that are enacted and determine their corporate beneficiaries before considering major changes to the current investments in *Windward*'s portfolio strategies. As a result, in the interim, our strategies may underperform relative to the market indices over the short-term given the degree to which other market participants make ungrounded assumptions, and/or high-frequency trading and algorithmic "investment" strategies engage in daily financial market trading based upon such things as Trump's "tweets" (as an example). Regardless of the policy initiatives ultimately enacted by the Trump administration (and despite ongoing financial market volatility), we believe that we will, however, continue to be successful in making profitable long-term investments for *Windward*'s portfolio strategies.

We believe that the risk associated with financial market volatility is mitigated in *Windward* portfolios to a large degree by the fact that we are invested in "high quality," dominant, financially-strong, leading companies with best-in-class managements, high incremental returns on invested capital, and business models with sustainable competitive advantages.

As always, we continue to monitor domestic and international political and economic developments as they unfold. As a result, from our long-term perspective, ongoing equity market volatility continues to revolve around numerous global macroeconomic and geopolitical risks that we have elucidated upon in the past. As noted in our previous *Quarterly Reviews*, some of these risks include:

- ✓ Central bankers' aggressive monetary policy actions since the 2008 Financial Crisis have only produced subpar global economic growth. Zero interest-rate monetary policy (ZIRP) has borrowed consumption from the future, underscoring the challenge of future economic growth and resulting in a global dearth of demand and surfeit of supply, with concomitant deflationary risks.

- ✓ No one knows the consequences of an extended period of ZIRP. (Indeed, if there were no consequences to ZIRP, interest rates could have been held at zero forever—in the past, as well as into the future.)

- ✓ Monetary policy overkill (in duration and in the level of interest rates) continues to produce adverse consequences of malinvestment and has resulted in the hoarding of cash and reduction in spending by the disadvantaged savings class.

- ✓ The "exclusive prosperity" of the "haves" (versus the "have nots") is politically unstable, leads to more uncertainty (and unexpected outcomes), and will likely have a negative and more volatile impact on social systems, the global macroeconomy, and the financial markets. As

a result, global macroeconomic growth becomes uneven and less predictable.

- ✓ The world has never been more "flat" (i.e., more networked and more interconnected). As a result, country-specific actions have the potential to quickly lead to global consequences.
- ✓ The viability of the European Monetary Union (EMU) remains uncertain.
- ✓ The economies of the BRICs (Brazil, Russia, India, and China), previous drivers of global macroeconomic growth, are slowing—in some cases, quite dramatically and uncontrollably.
- ✓ An increase in U.S. interest rates will have significant negative ramifications for those developing world economies that have dramatically increased their U.S. Dollar-denominated debt over the last decade.
- ✓ High-frequency trading, algorithms, and the pervasive use of ETFs, combined with overall financial market illiquidity, is a recipe for increased volatility.
- ✓ Demographically, the aging of the populations of the developed world will have important implications for future demand growth and entitlement costs.
- ✓ Terrorism (including cyber attacks), religious radicalism, and geopolitical instability are increasing and will be more of a threat in the future than in the past.
- ✓ Global political and economic coordination is at an all-time low, and isolationism/protectionism seem likely to be a mainstay in the time ahead.
- ✓ With monetary policy no longer providing extraordinary stimulus to domestic growth, the U.S. needs intelligent, innovative, and effective tax and fiscal policies to shoulder the responsibility of catalyzing economic activity. It still remains uncertain what progress, if any, will be made on these fronts.

We closely monitor these, as well as other, risks when managing *Windward*'s portfolios of investments. Since we take a long-term view, we typically do not react to short-term financial market fluctuations driven by near-sighted market participants. However, should there be a change in the global macroeconomic indicators and/or corporate fundamentals that we monitor, we are prepared to take whatever action is necessary to protect our clients' capital.

As you know, *Windward*'s goal is to protect our clients' capital and mitigate market-related risks by investing in specific, high-quality businesses that have long-term, secular growth opportunities. Indeed, we prefer to take a proactive approach to managing risk by investing in specific companies that are taking advantage of the changes in their operating environment to create long-run opportunities for their businesses. Our long-term performance results demonstrate the success of this disciplined investment approach.

The Pause That Refreshes

On October 30, despite historically-low U.S. unemployment, moderate wage and economic growth, and sustained consumer spending, the U.S. Federal Reserve (Fed) reduced the short-term Federal Funds (Fed Funds) interest rate by 25 basis points for the third time during 2019 (to a target range of 1.50% to 1.75%) and signaled that it has finished easing monetary policy for the time being. In the post-meeting press conference, Fed Chairman Jerome Powell confirmed that the Fed saw this cut as the end of their "mid-cycle adjustment," stating, "We see the current stance of policy as likely to remain appropriate as long as incoming information about the economy remains broadly consistent with our outlook." We therefore expect an extended monetary policy pause: the Fed is neither interested in easing

policy further given their outlook, nor in raising rates back up given a continued environment of below-target inflation. This is especially true in light of recent disparities in estimates of the neutral rate of interest (R*).

As you may recall from our previous discussions with you, the neutral rate of interest is the rate that is consistent with a balanced economy in the long run. It is the theoretical Fed Funds rate at which the stance of Fed monetary policy is neither accommodative nor restrictive. In other words, it is the short-term real interest rate consistent with the economy maintaining full employment with associated price stability. Importantly, new research from the Fed's own staff economists reveals that the neutral rate of interest may be well below the estimates currently assumed by policymakers.

Because, by definition, the neutral rate of interest cannot be observed directly (i.e., it is an "inferred" rate), policymakers must use econometric analyses to guide them in its determination. The most recent Summary of Economic Projections of Fed meeting participants shows that the median estimate of the long-term neutral rate of interest is 2.5%. However, the uncertainty of the estimates is wide, with the overall range from 2% to 3.3%. After accounting for the Fed's 2% inflation target, this means that policymakers estimate that the real neutral rate is approximately 0.65% (ranging from 0% to 1.3%).

In contrast, new research that uses a *global* rather than a U.S.-centric model in its calculations estimates that the real neutral rate is *negative* 1%—well below even the lowest estimates of Fed policymakers. If the actual rate is -1%, then the Fed has been far too hawkish during this interest rate cycle and overly optimistic in its campaign to "normalize" rates at historical levels. This explains why financial markets reacted so poorly to the Fed's 2015 effort to lift off from the zero lower bound and to its December 2018 rate hike (and with it the indication that more increases were coming in 2019). The Fed simply raised rates too early in the cycle and too far given the depressed levels of the neutral rate (a policy error that we have discussed with you previously).

The relative aggressiveness of policy would also help explain the persistent shortfall of inflation relative to the Fed's target. This underscores the importance of Chairman Powell's recent commitment to hold off on rate increases until inflationary pressures actually emerge. These new, low estimates of the real neutral rate could help policymakers justify keeping Powell's promise even if the economy gains more traction in 2020. If so, we have even more reason to believe that the Fed will be on hold this year and that there is the potential for the Fed to start targeting an inflation rate exceeding its current 2% goal, providing more of a tailwind for the economy and financial markets than currently anticipated.

For financial market participants, this research is another reminder that it is important not to extrapolate the past history of interest rates to the current global macroeconomic environment. Within this context, then, the Fed is, in fact, not currently holding rates "artificially low," but is instead following the recent level of interest rates to a globally-dictated lower equilibrium. This means that investment strategies based upon the assumption that rates will "mean revert" to a historical 4% to 5% range will likely struggle going forward.

Furthermore, the current persistent period of low rates creates challenges for both market participants and Fed policymakers in that it may support the conditions for asset bubbles to emerge. The desire to "reach for yield" in this environment may contribute to excessive valuation estimates and a deterioration in underwriting conditions. The Fed will have to weigh how they use regulatory power and/or monetary policy actions to contain such risks.

To be certain, it is difficult to estimate the neutral rate in real time, and, consequently, policymakers need to be cautious about how wedded they are to any estimates. Still, the upshot of this research is that, even after years of falling estimates of the neutral real rate, there may still be too much optimism regarding how high rates can be pushed in the current global macroeconomic environment. We believe that financial market participants should therefore prepare for the possibility—if not the likelihood—that a period of near-zero interest rates may persist for some time.

Leave. Now.

On December 12, 2019, United Kingdom (U.K.) Conservatives successfully secured a comfortable Parliamentary majority and defeated a general election challenge to Prime Minister Boris Johnson's leadership. Although the result of the election provides clarity over the immediate next steps in the Brexit process, the long-term picture remains less clear.

On December 20, 2019, the Parliament subsequently ratified the Withdrawal Agreement Bill (WAB), which implements the deal it reached with the European Union (EU) in October 2019. As a result, it is now certain that the U.K. will leave the EU by the Article 50 extension deadline of January 31, 2020. However, this would only mark the next step in the Brexit process. Following its technical departure, the U.K. will enter a transition period that ends on December 31, 2020. During this period, the U.K.'s existing trading relationship with the EU will remain in place while the two sides negotiate a new trade deal. At the same time, many other aspects of the U.K.'s future relationship with the EU—including law enforcement, data sharing, and security—will need to be agreed upon.

One of the biggest milestones to monitor during the transition period will occur on June 30, 2020, the deadline for the U.K. and EU to consider extending the transition period in the Withdrawal Agreement. The Conservative election campaign and manifesto ruled out an extension, however—a promise which PM Johnson is likely to keep. Opting to extend the transition would not only be seen as breaking an election promise, but also risks triggering a difficult renegotiation with the EU about additional financial contributions and other rights without the guarantee of a future trade agreement.

Reaching a trade deal with the EU in 11 months will be challenging, but not impossible. Certainly, the tight timescale will narrow the options for both sides and is likely to point towards a looser economic relationship based upon a free trade agreement (FTA), rather than the more comprehensive and tailor-made partnership favored by former U.K. PM Theresa May. The EU's approach so far reinforces this dynamic by framing Brexit as a binary choice between a high-regulatory alignment, high-market access relationship (like that with Norway) and a low-regulatory alignment, low-market access relationship (like that with Canada).

What might a "bare bones" trade deal look like? We know that the U.K. is likely to seek zero-tariff and zero-quota trade in goods. In return, the EU is likely to demand the U.K. signs up to "level playing field" obligations to ensure fair competition on issues such as environmental and social standards and State aid. As with any FTA, detailed technical negotiations will determine the eventual balance of market access versus obligations, but the broad parameters are unlikely to change fundamentally. It is worth remembering that the level playing field obligations in the defunct U.K.-wide backstop, which represented a greater level of market access for goods than Johnson is likely to be seeking, were relatively limited and the enforcement mechanisms were weak. The technical negotiation over rules of origin requirements will be important in determining how effectively U.K. and EU businesses can actually take advantage of tariff-free trade. EU demands for access to U.K. fishing waters, a key priority for member States, will be controversial. Finally, there will need to be overarching provisions on the governance and implementation of the agreement. Together, these five issues—tariffs, level playing field, fishing, rules of origin, and governance—are likely to form the building blocks of a "bare bones" deal, though all will be subject to negotiation. Other issues, such as services, could be left for future negotiations or be subject to very limited provisions.

If the U.K. and EU do not extend the transition period and then fail to conclude a deal by December 31, 2020, the U.K. faces the prospect of having to trade with no agreement in force. This would result in checks and tariffs on U.K. goods travelling to the EU and, more likely than not, a World Trade Organization (WTO)-terms relationship—a version of "No Deal."

In addition to the external trade relationship issues with the EU, the U.K. must also address a variety of internal issues. PM Johnson will lead a Britain still deeply di-

vided over Brexit. Indeed, the political impact of leaving the EU on the U.K.'s domestic debate should not be underestimated.

The results of the December 2019 general election pose challenging questions for the future of the U.K.'s union. The Scottish National Party (SNP) put in a strong performance—winning 48 seats out of 59, including 7 formerly held by the Scottish Conservatives. The party has strongly opposed Mr. Johnson's drive for a swift Brexit, and its powerful electoral performance could renew calls for a referendum on Scottish independence, which the Prime Minister opposes. Meanwhile, in Northern Ireland, there will be more nationalist MPs than unionist MPs for the first time, as the Democratic Unionist Party (DUP) lost two seats in Belfast (one each to Sinn Fein and the Social Democratic & Labour Party). Finally, the Conservative Party's gains among working-class voters in the Midlands and the North could also affect Mr. Johnson's freedom to negotiate a trade agreement with the EU. Those voters will push for a revival of Britain's manufacturing economy and protection from imports, a vision that is at odds with the free-market, deregulatory focus of Mr. Johnson and his aides.

Ultimately, leaving the EU will give the U.K. government greater freedom over external policy areas—such as trade, immigration, and some areas of regulation—that have previously been partly outsourced to the EU, while also expanding the battleground over the U.K.'s domestic policy. Although the next general election in 2024 may not be about Brexit per se, the decisions the U.K. makes between now and then will certainly have a major influence. Whether accurately or not, it seems inevitable that the U.K.'s future success will be interpreted heavily through the lens of Brexit—even more so as the U.K. seriously considers its preferred place in the global macroeconomic and geopolitical order.

Phase Won?

After almost two years of tariffs, counter-tariffs, meetings, bad-tempered tweets, and backroom maneuverings, we may finally be on the brink of the first part of a hoped-for trade deal between the U.S. and China. More ceasefire agreement than outright victory, the essence of "Phase One" is that: some previously-threatened tariffs poised to hurt American consumers are not taking effect; some existing U.S. tariffs are being cut in half; and China has promised to step up purchases of agriculture, energy, and other goods. But, overall, tariffs on hundreds of billions of Dollars of U.S. trade remain in effect, and no clear path has emerged for the two countries to either return to their pre–trade war relationship or address a variety of structural issues.

The December 13 announcement of a "Phase One" deal with China by U.S. Trade Representative (USTR) Robert Lighthizer is missing many details. The USTR issued a fact sheet but withheld the 86-page agreement itself (which is apparently still being translated and subjected to a legal analysis to ensure consistency within the document and across the two languages). Lighthizer indicated that he and his negotiating counterpart, Chinese Vice Premier Liu He, plan to sign and make the agreement public in January 2020, after which the deal is then expected to go into effect one month later.

The general outline of the agreement with regard to tariffs, as described by the USTR, is as follows: First, U.S. tariffs on $162 billion of U.S. imports scheduled for imposition at 15% on December 15 did not go into effect. These duties would have hit U.S. imports of toys, consumer electronics, and other goods just before Christmas. Second, President Trump reduced to 7.5% the tariffs of 15% he had imposed on over $100 billion of imports on September 1, 2019. Third, nothing happens to the 25% tariffs President Trump imposed on $250 billion of imports prior to September 1. Based upon our analysis, even with the Phase One deal in effect, Trump will have increased the average U.S. tariff on imports from China to 19.3% from 3.0% in January 2018. The deal means the average U.S. tariff will

be reduced only slightly from its current level of 21.0%.

China also announced modifications to its tariff plans. First, it did not impose duties it had previously indicated would go into effect alongside Trump's original tariffs scheduled for December 15. Beijing also announced it will continue to suspend some retaliatory tariffs on American-made automobiles and auto parts (these had also been scheduled for reinstatement on December 15). On December 19, Beijing announced it will exempt a handful of chemical products—covering $660 million of U.S. exports—from its retaliatory tariffs for one year, effective December 26. Retaliation stemming from Trump's tariffs means that China will have increased its average tariffs on U.S. exports to 20.9%, compared to 8.0% before the trade war. As a result of Phase One, China's average tariff on U.S. exports will be reduced slightly from current level of 21.1%.

The outlook for additional progress on trade is uncertain given that the administration has indicated no plans to reduce tariffs on China any further.

Supposedly, there are many additional terms of agreement beyond the tariffs and purchases in the Phase One deal with China; but, until the 86-page document is actually released, the parameters of the agreement remain difficult to assess. From the USTR factsheet and public statements, the deal will also cover Chinese promises on currency, intellectual property, technology transfer, financial services, agriculture, and enforcement. Aside from these factors, the Phase One deal failed to make mention of Chinese industrial subsidies and state-owned enterprises. This is problematic, but not unexpected, as a potential Trump abandonment of these goals was signaled during an October 11, 2019 announcement. Tackling the concern over Chinese subsidies is likely to require a completely different approach than that taken so far.

When discussing China policy, there are at least three discrete sets of issues to consider. First are concerns about industrial espionage, trade barriers, and other bad behavior that arguably fuel China's economic rise at the United States' expense. Second are concerns that China will use its growing military might to dominate East Asia and to project power around the world, displacing the United States as a global superpower. Third are human rights violations that are an affront to American values (e.g., China's brutal repression of the Uighurs, its Orwellian surveillance State, and the threat of a crackdown on Hong Kong).

Within this context, it is important to remember that China's trade practices are essential to its nationalist agenda. Its leaders recognize that the country's economic and geopolitical future depends upon their ability to upgrade its industries and foster technological innovation (thereby escaping the "middle income trap"), and they are unlikely, therefore, to significantly alter their industrial program under any circumstances. Trump may be able to pry open a market here or remove a regulatory hurdle there. Maybe he can even prod Beijing into treating U.S. companies more "fairly." But he is not likely to persuade Xi to abandon his commitment to the Chinese identity.

As such, although the details of Phase One of the trade "deal" have not been released, our analysis of the publicly-available information/terms indicates that there is no reason to believe that it will resolve any of these broader strategic issues. As we have stated in the past, we believe that the current trade dispute is, instead, a strategic contest for geopolitical hegemony. Although financial market participants do not appear to currently appreciate this important distinction—perhaps because the economic impact so far has not been that large (and the earnings and revenue effects even less)—we believe that this strategic conflict could have significant long-term ramifications for both the global macroeconomy and the financial markets.

In order to address this strategic conflict, the U.S. legacy of global alliance-leadership offers an approach between unilateralism and accommodation of China that may prove more successful than this administration's "America first" policies. The United States cannot impose its will on China, but it can work with other countries to write rules that China cannot afford to ignore. As a result, a return to the traditions of U.S. coalition-management may be able to extend the U.S.-led world order deep into this 21st century.

By contrast, in Phase One, it appears that the United States and China have agreed to a limited, interim trade deal that will surely boost financial markets in the short term and provide a temporary de-escalation of the U.S.-China trade war. In reality, though, the deal immediately relieves major pressure on the Chinese economy in exchange for future promises that the Chinese may, in fact, never fulfill. Beijing's concessions also do not address the bulk of the structural issues and abuses that make Chinese economic aggression a long-term threat to the U.S.. Finally, substantially reducing tariff pressure on China now as part of the Phase One deal gives Beijing less incentive to make future, more substantive, concessions as part of any future "Phase Two" negotiations.

Something for Everyone

Despite ongoing uncertainty (and resultant volatility), the U.S. equity markets have exhibited significant strength since 2009. To us, the greatest risk of future equity market declines continues to revolve around the numerous global macroeconomic and geopolitical risks that we have elucidated upon in our introduction and that we have discussed over the years since the onset of the 2008 Financial Crisis.

However, despite these current challenges, the U.S. economy continues to grow, and we do not foresee a recession in the near term. To us, that means that the long-term upward bias in stock prices should continue. In addition, recent dovish comments by the Fed, additional Chinese economic stimulus, as well as an interim pause in the escalation of the U.S.-China trade dispute, could sustain significant buying interest. We believe, therefore, that potential market volatility can create an exceptional opportunity to take advantage of the misunderstandings of myopic market participants and purchase high-quality businesses that meet our investment criteria.

Our investment process utilizes a combined top-down/bottom-up approach whereby, based upon our analysis of the components of global macroeconomic GDP, we identify a variety of investment themes, both secular and cyclical, that drive further fundamental analyses of individual businesses that meet our investment criteria. Currently, some of our investment themes include:

- ✓ *Rise of The Rest*
  Globalization and the development of the middle class in emerging markets is a long-term secular trend.

- ✓ *Disruptive Innovation*
  Companies that are disruptive innovators are well positioned to outperform their peers in the current economic environment.

- ✓ *Regulation*
  Financial Services regulation, Healthcare reform, and Climate Change policy are all currently areas of government focus, and the economic sectors within these areas may, therefore, be subject to challenges or opportunities based upon how successful the government is in implementing its programs.

- ✓ *Continued De-leveraging*
  De-leveraging and the shrinking of private and public balance sheets will be a multi-year process that will restrain global macroeconomic growth.

- ✓ *The Great Unwind*
  The eventual "normalization" of monetary policy may result in unforeseen and unintended consequences.

- ✓ *China Rebalancing*
  The rebalancing of China's economy from investment- to consumer-driven has significant global macroeconomic ramifications.

- ✓ *Supply and Demand*
  Global macroeconomic growth remains anemic due to a surfeit of supply and a dearth of demand.

- ✓ *Demographics*
  Demographically, the aging of the populations of the developed, and some developing, economies will have important implications for future demand growth and entitlement costs.

As you know, we do not predict, nor does your *Windward* portfolio own, "the market." Instead, we seek to mitigate market risk and generate excess returns by making long-term investments in individual businesses with the following underlying fundamental characteristics:

- ✓ *Quality*
  Dominant, financially strong, leading companies with best-in-class managements, high incremental returns on invested capital, and business models with sustainable competitive advantages

- ✓ *Growth*
  Companies with predictable and sustainable above-average growth in revenue, earnings, and free cash flow

- ✓ *Value*
  Companies that are undervalued on either an absolute or relative basis, based upon our projections of future cash flow and earnings

Windward's portfolios of individual businesses, with their own company-specific fundamental dynamics, are continuing to thrive and prosper. In the short term, this fact may be obscured by "market action"—which results in highly-correlated security price movements during periods of increased volatility—and/or the negative influences of ETFs, asset allocators, and algorithmic traders—whose focus is on baskets of securities or on stock symbols, not on underlying business model fundamentals. However, financial history has proven, time and again, that, over the long term, investors are ultimately rewarded by being owners of these types of companies.

We have been investing this way for decades, and have successfully navigated a variety of historic market environments.

We believe that the "indices" will become less relevant as time goes on and that successful wealth creation and capital preservation in the years to come will become increasingly dependent upon the identification and ownership of those businesses that, although possibly impacted by exogenous events in the short run, remain relatively immune to these global macroeconomic issues over the long run due to their own underlying growth dynamics.

We remain exceedingly optimistic on the prospects for the individual companies that we own in *Windward* portfolios and encourage you to contact us should you have any questions or concerns.

Sources:
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Federal Reserve Banks of New York, San Francisco, and St. Louis
International Monetary Fund
Office of the U.S. Trade Representative
Reuters
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Xinhua News Agency

HAS YOUR FINANCIAL CONDITION CHANGED?

Portfolio decisions are based on an individual's income requirements, tax bracket, time to retirement, risk tolerance, and other characteristics. If your financial condition has changed, or is about to change, please call us. We strive to prepare a portfolio that meets each investor's objectives, and the more information we have, the better the job we can do. If you have any questions regarding your portfolio, your asset allocation, or any investment within your portfolio, please let us know.

THE FUTURE IS NOW

As you may know, we post a weekly commentary on our website every Friday afternoon. We only mail some of these comments out when markets are particularly unsettled. Please be aware that these notes will continue to be available on-line, and we want to encourage you to sign up to receive a password for access to our secure web-site.

Our website provides the capability for clients to review their portfolios, their year-to-date realized capital gains, and income and expenses. Clients also have access to our weekend market comments. These reports are updated after 8:00pm each Friday, and are available to clients who have requested access. Clients may also request that their accountants and/or attorneys have access to the same information. We hope you will visit us at www.windwardcapital.com.

If you have interest in these capabilities, or if you would like to receive a copy of our Form ADV Part II free of charge, please email Steve Pene at: spene@windwardcapital.com, or call Mr. Pene at our main number: (310) 893-3000.

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