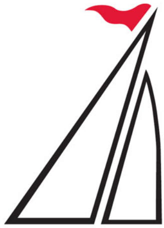
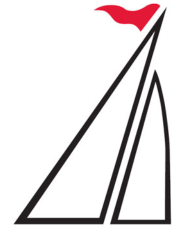


WINDWARD CAPITAL

Risk Averse Asset Management

2024 First Quarter Review



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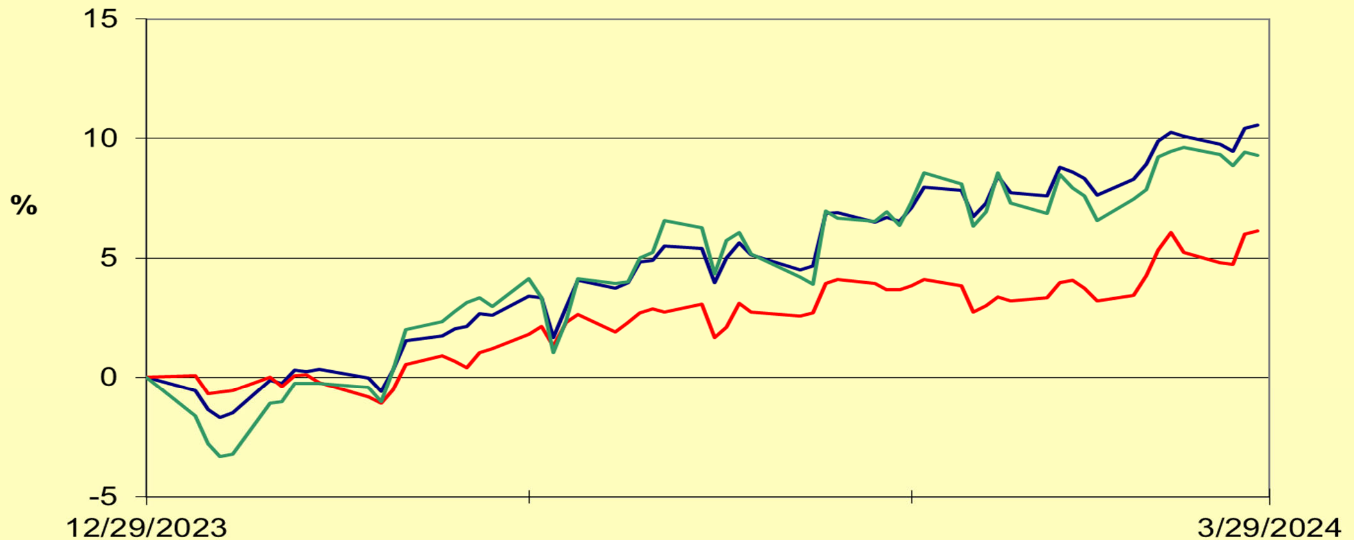

March Madness

"Be quick, but don't hurry."

— John Wooden (1910 - 2010)
Legendary UCLA Basketball Coach

Despite a variety of ongoing global macroeconomic, geopolitical, and financial risks, the major U.S. equity market indices continued their positive Fourth Quarter 2023 momentum into the First Quarter of 2024, with the Standard & Poor's 500 Index (S&P 500), Dow Jones Industrial Average (DJIA), and NASDAQ Composite Index (NASDAQ) advancing +10.55%, +6.14%, and +9.32%, respectively, for the period.

It appears that this recent momentum is primarily due to financial market participants' fear of missing out on current, and future, equity market advances that may result from a potential U.S. economic "soft landing" that could be facilitated by an expected easing of the U.S. Federal Reserve's (Fed's) monetary policy in 2024. Whether these expectations will be fully met remains uncertain, however.

It is important to recognize that—as in 2023—2024's overall equity market gains have been primarily driven by the stocks of a select few companies. Specifically, the top seven companies (by market capitalization) in the S&P 500 as of March 31, 2024, represented 27.7% of the total Index (and are, notably, all in the Information Technology sector). (This is an *increase* in concentration from 26.3% as of December 31, 2023.) As a result, although the market-weighted S&P 500 was up +10.55% in the First Quarter of 2024, the S&P 500 on an equal-weighted basis was up

only +7.91% during the same period. Historically, this type of narrowness and divergence in returns is not usually sustainable—and is typically resolved either by a correction of the leading stocks and/or by gains of the lagging stocks (a "broadening out"). Indeed, index concentration of this magnitude has typically proven self-correcting, with some combination of regulatory, market, and/or competitive forces—along with business cycle dynamics—undermining static leadership. We therefore expect that any resulting potential convergence, or "mean reversion," may lead to additional market volatility in the coming months.

In addition to issues related to the narrowness of the markets, the current ongoing financial market volatility appears to continue to be related to significant uncertainty regarding the impacts of tighter monetary policy, inflation, and geopolitical conflict on the global macroeconomy and the resultant effect that these issues could have on the corporate revenue and earnings outlook. Although the extent and duration of these impacts remain unknowable, based upon recent economic data it seems that at least some of these issues may either be in the process of moderating or have peaked. Until there is greater clarity regarding the ultimate resolution of these uncertainties, however, we believe that the current inter-, and intra-, day financial market volatility may persist. It is important to remember, though, that financial markets usually discount any positive (or, conversely, negative) outcomes before they actually occur.

Fortunately, despite uncertainty regarding the duration of tighter financial conditions and concomitant slowdown in growth, the U.S. economy remains in a relatively strong position and continues to be supported by factors that we have discussed in the past, which include: employment-driven increases in household income, substantial net worth of the household sector, and a high level of savings accumulated during the course of the pandemic.

Predictably, some of the factors providing underlying support to the U.S. economy over the last few years have also had the unintended consequence of creating speculative excesses and unjustified economic sector rotation in specific areas of the financial markets. Recent examples include trading activity in near-bankrupt companies, microcaps, penny stocks, cryptocurrencies, non-fungible tokens (NFTs), special purpose acquisition companies (SPACs), and thematic ETFs, among other financial instruments. Liquidity effects, excessive leverage, and momentum "investing" have combined with high-frequency trading, algorithms, the pervasive use of ETFs, and a variety of social media-driven commission-free retail trading platforms to exacerbate this trend. In addition, economic sectors with generally-suspect long-term business fundamentals (e.g., Energy, Materials, and Financials) have traded in and out of favor based upon an unwinding (via higher yields) of the extraordinary bond market rally of mid-2020, projections of substantive and sustained inflation, and expectations regarding a renewed commodity supercycle.

As we have noted in the past, the ultimate unwinding of these speculative excesses and rotational sector moves may result in increased volatility and, potentially, a near-term market correction. (Indeed, although parabolic advances in stock prices may carry further than expected, they usually do not correct by going sideways.) We do not believe, however, that these factors represent a systemic risk to the overall financial markets. In addition, we believe that the risk associated with any resultant financial market volatility is mitigated in *Windward* portfolios—especially over the long run—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.

Historically, periods of excessive ex-ante savings, combined with demand that is too weak to justify investment, cause certain areas of the financial markets to become driven by the speculative rearranging of portfolios rather than by the underlying business fundamentals (like return on capital investment). We are not "traders;" we are investors. As such, it is irrelevant to us whether or not "the market" agrees with us over the short term. For speculators, on the other hand, daily market affirmation remains essential.

Although our strategies may underperform relative to the market indices over the short term given the de-

gree to which other market participants make ungrounded assumptions and/or high-frequency trading and algorithmic "investment" strategies engage in daily speculative financial market trading, we believe that we will continue to be successful in making profitable long-term investments for *Windward's* portfolio strategies. In our view, one of the best ways to accumulate wealth over the long term continues to be by investing in high quality businesses—especially during periods of financial market volatility when investors can take advantage of valuation discounts to purchase such businesses "on sale."

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.

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. 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.

Deflated

As we have discussed for some time now, several economic and industry-specific indicators suggest that U.S. inflation has peaked as a result of tighter financial conditions, ongoing progress in matching supply/demand imbalances, a moderation in economic growth, and demand destruction, among other factors.

Many components of inflation appear to have peaked and are declining rapidly. However, certain inflation statistics (core inflation levels, in particular) appear to be persistent and remain above the Fed's +2% longer-run goal: over the 12 months ending in February 2024, total Personal Consumption Expenditures (PCE) prices rose +2.5% (down from the June 2022 peak of +6.8%); excluding the volatile food and energy categories, core PCE prices rose +2.8% over the same period (down from the February 2022 peak of +5.4%). Although the "last mile" of the journey to the +2% inflation target may prove more challenging because price pressures remain evident across a broad range of goods and services, it is important to note that the trend rate of price growth is no longer *accelerating* but is, in fact, *decelerating*.

Although the *rate* of inflation has declined over the last couple of years, the overall *level* of prices remains higher than before the pandemic. Despite these elevated levels of current inflation, however, longer-term inflation expectations appear to be well anchored, as reflected in a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets. This indicates an expectation that the Fed will be successful in its efforts to ultimately control inflation.

In November 2022, Fed Chairman Jerome Powell discussed how the Fed monitors inflation by breaking core inflation into three component categories: (1) core Goods inflation, (2) Housing Services inflation (which measures the rise in the price of all rents and the rise in the rental-equivalent cost of owner-occupied housing, or OER), and (3) inflation in core Services other than Housing (the so-called "supercore" inflation).

Of these three component categories, Services ex Housing is the largest (constituting more than half of the core PCE index) and may be the most important category for understanding the future evolution of core inflation: after peaking at +6.46% year-over-

year in September 2022, "supercore" inflation has gradually declined nearly every month since then, reaching a low of +3.75% in October 2023 before rising to a current rate of +4.80% year-over-year as of March 2024. This is a large spending category that covers a wide range of services—from health care and education to activities as varied as travel and recreation, legal services, and hospitality. Because wages make up the largest cost in delivering these services, it is the labor market that holds the key to understanding the direction of inflation in this category and, by extension, the direction of the Fed's interest rate policy.

Although we believe that we are near the end of the current monetary tightening cycle, it remains uncertain how long these current higher interest rates will remain in effect given the persistence of certain components of inflation. As a result, restoring price stability could require maintaining a restrictive monetary policy stance for some time because the historical record cautions strongly against prematurely loosening policy. This could increase the risk of an economic recession. Although reducing inflation could require a sustained period of below-trend economic growth and softening of labor market conditions, restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the longer run. At the same time, monitoring risks and the responsiveness of economic activity to interest rate changes will be important guides in adjusting the pace—and duration—of that transition.

The ideal scenario for the U.S. economy (and the financial markets) would be an "immaculate disinflation"—whereby inflation decreases without causing a recession or significant unemployment increases. Although this optimistic economic scenario currently appears to be developing, monetary tightening cycles are always fraught with challenges, and, although an economic "soft landing" is probable, the risk of recession still exists.

The G.O.A.T.

While most countries are struggling to achieve their pre-Pandemic levels of economic growth, the U.S. economy, although moderating, has surpassed this level and continues to grow near its long-term historical rate. In our opinion, based upon our analysis of the economic data, a recession does not appear imminent:

U.S. Real Gross Domestic Product (GDP) increased at an annualized rate of +3.4%, +4.9%, +2.1%, and +2.2% in the Fourth, Third, Second, and First Quarters of 2023, respectively, and the Federal Reserve Bank of Atlanta's most recent *GDPNow* forecast predicts an annualized U.S. Real GDP growth rate of +2.5% for the First Quarter of 2024.

The employment situation remains strong. The remarkable run of monthly post-pandemic job gains continued in March 2024 as the U.S. economy generated 303,000 new jobs, while the unemployment rate remained steady at 3.8% (still near a historic low). Total U.S. Nonfarm Payrolls are now significantly higher than *before* the pandemic, with demand for services continuing to be the foundation of the post-pandemic economic expansion. Behind the labor market's enduring strength are a variety of structural and demographic forces that—combined with funds remaining from the nearly $2 trillion in excess savings that households accumulated during the course of the pandemic—have resulted in a U.S. economy that appears to be more resilient and less sensitive to interest rate hikes than in the past.

Despite the ongoing strength in the headline payroll numbers, it is important to note that monthly Nominal Average Hourly Earnings growth is not accelerating and has remained relatively steady at approximately +4.31% since the beginning of 2023 (and was +4.1% on a year-over-year basis in March 2024.) This is a significant distinction because, as we discussed earlier, wage costs hold the key to understanding the direction of "supercore" inflation and, by extension, the direction of the Fed's interest rate policy.

As a consequence, although strong hiring results would typically reduce financial market participants' expectations for rate cuts, top-line labor-market strength may not matter as much as it would have in the past because of an important shift in how Fed leaders regard the tradeoff between inflation and growth:

For most of 2022, senior Fed officials believed that strong economic activity and hiring were headwinds to bringing down inflation. They worried that tighter labor markets would keep pressure on wages and, in turn, prevent inflation from falling all the way back to their +2% goal in a reasonable amount of time.

Subsequent economic data have shown that this has proven not to be the case. As a result, in recent months, Fed Chairman Jerome Powell has signaled that he no longer regards strong hiring with as much concern as previously. That is because, while the *overall* labor force has been growing (largely due to a strong rebound in immigration), wage growth has remained more steady, while inflation has moderated. As a result, the recent strong hiring results do not appear to present a significant inflationary risk.

Looking ahead, an important question for the Fed, then, will be whether this "supply-side" employment dynamic has more room to run, which could help cool wages and prices in the service sector even with stronger economic growth. (Alternatively, signs that supply-side gains are moderating could necessitate a further weakening in demand in order to maintain the current deceleration in inflation.)

That is why, in the coming months, it will be much more important to examine the composition of the wage inflation data at a granular level in order to better ascertain the timing of central bank interest rate cuts: *stronger* wage growth—the largest and most reliable source of financing for consumer spending—would mean that interest rates could stay "higher for longer" unless consumers start spending a much lower share of their incremental earnings, real output per worker rises sharply, or both. As we have noted in the past, this represents a risk that interest rates may not come down as quickly as implied by current market prices.

Three-Pointer

After a plunge in 2021 and 2022, the U.S. economy has experienced a nascent burst in productivity over the past year or so. Economists typically measure productivity as a simple ratio: the total amount of output an economy produces per hour worked by its labor force. On that measure, according to the U.S. Bureau of Labor Statistics, productivity increased +2.7% in 2023, and over the last two Quarters has been growing at more than double the average rate from 2005 to 2019.

Gains in productivity are important for any economy that wants to raise the living standards of its populace, offering a potential "win-win" for workers, customers, and business owners: if businesses can make as much money or more with fewer work hours, then they can expand margins, reinvest in operations, and pay workers a bit more without significantly sacrificing profitability (or leaning on price increases to push profits higher).

Note that data on productivity can be misleading, though. Its core calculation—output per hour—was more relevant when America was primarily an industrial and agrarian society—versus the harder-to-quantify services-oriented consumption that makes up most of today's economy. In addition, the data can be especially misleading when measured over short time periods. However, although it is too soon to claim that there is a permanent structural change in U.S. productivity, the increase over the past year, if sustained, could be a significant potential game changer for the economy if it fosters conditions in which the economy could grow faster—even at full employment and with strong wage gains—while inflation eases.

Several factors that could be driving the recent surge in productivity include:

- ✓ An increase in labor through higher wages that attracted disaffected and discouraged workers back into the labor force.

- ✓ An economy at full employment, which allowed workers to obtain better jobs and receive more training, thereby increasing output per hour.
- ✓ An increase in supply of manufacturing capacity through the *CHIPS and Science Act*, the *Bipartisan Infrastructure Law*, and the *Inflation Reduction Act*.
- ✓ An increase in supply of labor through legal immigration.
- ✓ An increase in productivity-enhancing capital investments made during an environment of high inflation, high borrowing costs, and persistent labor challenges that forced businesses to become more efficient.

If wage growth can keep pace with productivity gains, the resulting surge in domestic demand—combined with the surge in wages—should keep productivity growing via a virtuous cycle. But in a globalized world, countries are competitive mainly to the extent that they keep wages growing *below* productivity. That is why "competitive" economies like China, Germany, Taiwan, and South Korea are also economies in which households retain a relatively low share of GDP (as we have discussed in the past). This creates a dilemma: encouraging higher wages is good for the global economy, but bad for domestic competitiveness.

As a result, if the U.S. encourages rising wages, the world benefits—but the benefits are distributed disproportionately to countries that suppress their own wages relative to productivity, while the costs remain in the U.S. That means the U.S. economy could actually be *worse off* by encouraging wages to rise. If the U.S. tries to suppress wages to remain competitive, it is simply reinforcing the "beggar-thy-neighbor" policies that already dominate most major manufacturing economies. That worsens income inequality and suppresses growth in global demand.

Mercantilist policies are those that subsidize domestic production and growth at the expense of domestic demand, and then force the resulting economic costs onto trade partners. This is what is meant by "beggar-thy-neighbor." Countries that engage in "beggar-thy-neighbor" policies benefit from a relative expansion in their manufacturing sectors, which are offset by the persistent trade surpluses needed to externalize the costs of their policies to domestic demand. Such policies are harmful for the global economy because—as experienced in the 1930s and 1940s—they distort the efficient allocation of resources and repress global demand through persistent trade surpluses. These, in turn, force their trade partners (the deficit countries) either to accept slower growth and more unemployment, or to counter these with surging debt.

But there is a third option, of course, which is to encourage rising wages while restricting U.S. participation in the global trade regime in ways that prevent the benefits of higher wages from shifting towards "competitive" mercantilist economies—in other words, through the use of protectionist trade policies. Given the current global trade regime and the competitive forces putting downward pressure on wages, rising protectionism appears to be an increasingly likely outcome for the global macroeconomy in the years to come—especially as it relates to the recent changes in China's economic focus.

In Transition

At the recent China Development Forum, held on March 24-25, 2024 in Beijing, senior Chinese officials laid out their plan to address the country's future economic growth drivers in the wake of the lingering impact of the coronavirus pandemic and the ongoing collapse of the real estate sector.

As presented by President Xi Jinping, China will now focus on "new, quality productive forces." The slogan, rooted in 19th century Marxist ideology, has become shorthand for Xi's vision of economic growth underpinned by China's increasingly-advanced manufacturing industries. The idea is to spur innovation and growth through massive investments in manufacturing—particularly in technology and clean energy—as well as through robust spending on research and development.

Although the Xi administration has finally stopped the unsustainable build-up of trillions of Yuan of debt by China's real estate developers and most of its provincial governments, the failure to find new consumer-focused drivers of economic growth raises more fundamental questions about this new economic directive. For this new policy to work, China must expand its share of global manufacturing—and the rest of the world is unlikely to accommodate that goal.

According to data from the World Bank, investment as a percentage of global GDP has for decades hovered around 25%. In high-investing countries, usually in the developing world, it generally varies between 30-34%. As we have discussed before, in China it has held above 40% for two decades. As you will recall, about two-thirds of that investment has gone into property and infrastructure. But while these remain big parts of the Chinese economy, they are being curtailed by governmental authorities and are no longer expected to underpin future growth.

One of the most important questions for China now, then, is to what extent its new focus on manufacturing can fill the gap that the de-prioritization of real estate and infrastructure has created.

China's factories already account for about 28% of global GDP, compared with a global average of 16%, according to World Bank data. Much of their output has historically been lower-value exports in electronics and machinery. But China is becoming increasingly competitive, and in some cases dominant, across numerous advanced technologies, including solar panels, wind turbines, battery materials, and electric vehicles. It is fast catching up in computer chips, artificial intelligence, and autonomous vehicles and is targeting nuclear fusion, quantum computing, hydrogen, spacecraft, and bio-manufacturing.

Given that the U.S., India, the European Union, and several other major economies have recently made very explicit their intentions to expand the role of manufacturing investment in their own economies, many experts and government officials view the prospect of Beijing's increased reliance on manufacturing for growth as an emerging threat. Without an accommodation from the rest of the world, then, any major expansion in China's share of global investment risks generating much more supply than the global macroeconomy could efficiently, or willingly, absorb.

As we have discussed in detail in the past, in order to put growth on a more sustainable footing over the next decade, China really needs to redistribute income in ways that allow the Chinese economy to rely more on domestic demand to drive growth and less on nonproductive investment and huge trade surpluses.

China's domestic demand is very weak because—as almost everyone now acknowledges—households *retain* (in the form of wages, interest, and transfers) a very low share of what they produce. That is why they *consume* a very low share of GDP. That is also why China relies so heavily on its trade surplus to support its manufacturing sector, which represents an extraordinarily high share of China's GDP. Without the net foreign demand contributed by its trade surplus, the economy would slow sharply.

But the international competitiveness of China's manufacturing sector is itself dependent on the low share of GDP retained by Chinese households. That is because of the huge direct and indirect transfers from the household sector that subsidize manufacturing costs.

This creates a conundrum: In the medium term, China must increase domestic demand, which it can only sustainably do by reversing these transfers and increasing the share of GDP retained by Chinese households. But, as it does so, its manufacturers can no longer maintain their international competitiveness. So China's trade surplus will drop—partly because Chinese will consume more, but mainly, in the short term, because Chinese manufacturers will sell less.

The solution to China's deficient domestic demand, in other words, can only come at a short-term cost to its manufacturing sector. And given the sheer size of its manufacturing sector—which policymakers now want to *expand*—that would be extremely painful for the overall Chinese economy. This is not just a Chinese problem, by the way: it is a problem for all

manufacturing surplus economies. Japan has been wrestling with this for over 30 years; Germany and South Korea are currently struggling to resolve it; and the U.S. suffered through it in the early 1930s. In every case, an economy that must raise the wage share of GDP to rebalance domestic demand cannot do so without a short-term manufacturing *contraction*, made worse by the fact that the manufacturing share of the economy is disproportionately high.

Every historical precedent suggests that China will only be able to regain sustainable economic growth by rebalancing domestic demand from investment (whether it is property, infrastructure, or manufacturing) to consumption. The transition will be difficult because this redistribution will undermine the economic, financial, and political institutions that underpin China's manufacturing competitiveness and its government-led investment. But any other "solution" is temporary, in our opinion. Ultimately, we believe that this rebalancing is the only approach that will work over the long term.

Slam Dunk

Our strategy during the current investment environment remains consistent with the investment strategy that we have followed in the past—essentially: to invest in high-quality businesses at the right valuations and hold them for as long as they remain high-quality businesses. In addition, we continue to believe that the long-term secular investment themes that we have previously identified remain intact.

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
Information Technology regulation, Healthcare reform, Infrastructure investment, 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

Our goal, as always, is to identify those companies and invest in them for your *Windward* portfolio. Our risk averse approach to managing your investments causes us to take a more measured and unemotional view of extremes in bullish or bearish sentiment and find ways to outperform the market with less volatility by focusing on specific companies' fundamentals. Our results over the course of various market cycles demonstrate our success.

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, speculators, 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:
- Bank for International Settlements
- Bloomberg
- Congressional Budget Office
- Council of Economic Advisers
- Federal Reserve Banks of Atlanta, New York, San Francisco, and St. Louis
- International Monetary Fund
- Organisation for Economic Co-operation and Development
- Reuters
- The World Bank
- U.S. Bureau of Economic Analysis
- U.S. Bureau of Labor Statistics
- U.S. Congress
- U.S. Department of the Treasury
- U.S. Federal Reserve

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 website.

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 at 8:00 pm 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 or Form CRS free of charge, please email Jeremy Johnson at : johnson@windwardcapital.com, or call him at our main number: (310) 893-3000.

NOTES

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WINDWARD CAPITAL MANAGEMENT CO.

Risk Averse Asset Management

www.WindwardCapital.com

11111 Santa Monica Blvd, Suite 1200
Los Angeles, California 90025

(310) 893-3000
(800) WINDWARD
(800) 946-3927
(310) 893-3001 Facsimile
mail@WindwardCapital.com

Robert Nichols, PhD
CEO / Portfolio Manager

Donald R. Bessler, CPA
Chief Investment Officer / Portfolio Manager