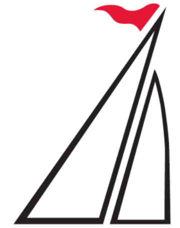
WINDWARD CAPITAL

Risk Averse Asset Management



2024 Second Quarter Review

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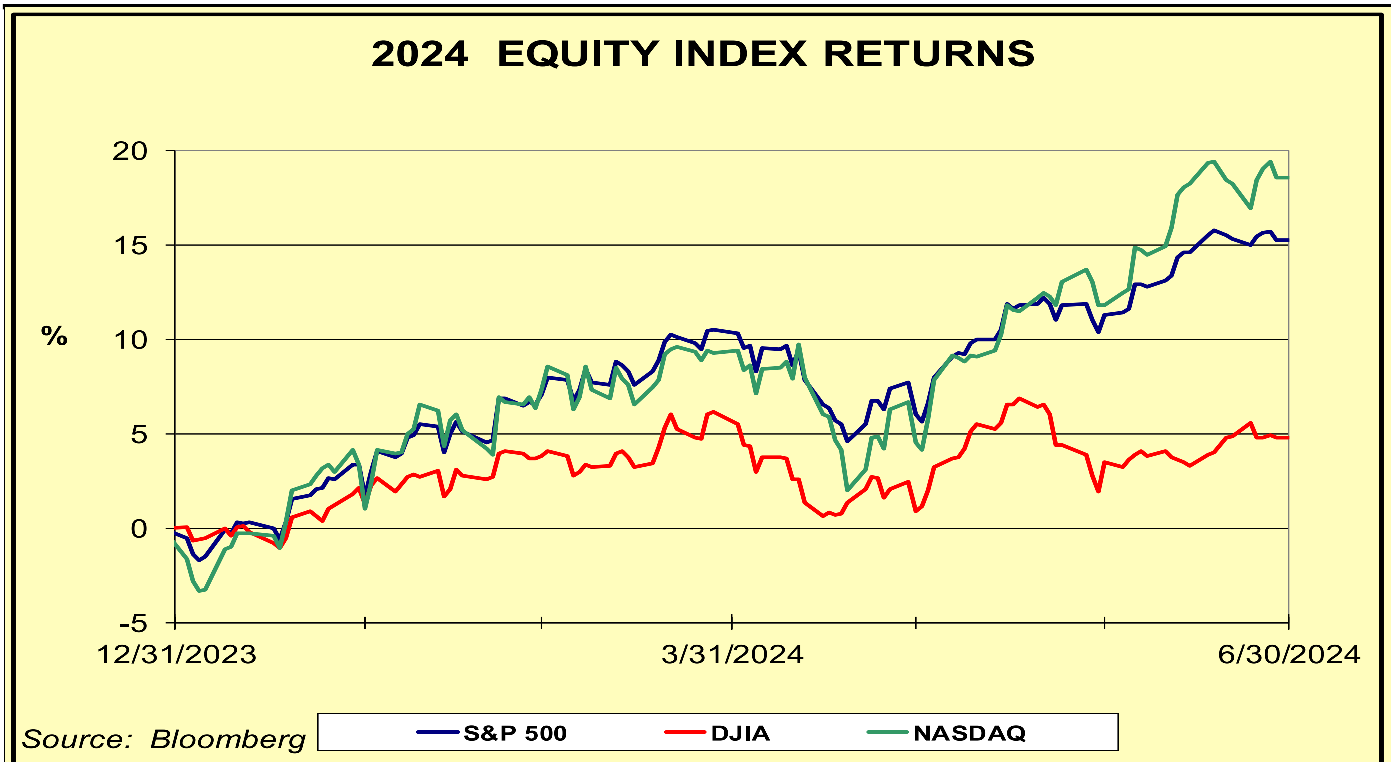

Listen Carefully

"Everything that needs to be said has already been said. But since no one was listening, everything must be said again."

— Andre Gide (1869 - 1951)
French Novelist, Essayist, and Dramatist

Despite a variety of ongoing global macroeconomic, geopolitical, and financial risks, the major U.S. equity market indices continued their positive First Quarter 2024 momentum into the Second Quarter of 2024, with the Standard & Poor's 500 Index (S&P 500) and NASDAQ Composite Index (NASDAQ) advancing +4.28% and +8.47%, respectively, for the period. (Conversely, the Dow Jones Industrial Average (DJIA) *declined* –1.27% for the period.) As a result, for 2024 Year-to-Date the S&P 500, DJIA, and NASDAQ returned +15.29%, +4.79%, and +18.57%, respectively.

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 June 30, 2024, represented 31.1% of the total Index (and are, notably, all in the Infor-

mation Technology sector). (This represented an *increase* in concentration from 27.7% as of March 31, 2024, and 26.3% as of December 31, 2023.) As a result, although the market-weighted S&P 500 was up +4.28% in the Second Quarter of 2024, the S&P 500 on an equal-weighted basis was *down* –2.63% during the same period. (For 2024 Year-to-Date, the market-weighted S&P 500 is up +15.29%, and the S&P 500 on an equal-weighted basis is up +5.07%.)

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, among the Group of Seven (G7), 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 and the substantial net worth of the household sector.

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 businesses that we believe are leading companies that have high quality standards from a financial and management perspective, high incremental returns on invested capital, and business models with 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 degree 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 our 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.

Death by a Thousand Non-Cuts

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, after a significant decline in inflation during the second half of 2023, the early part of this year has seen a lack of further progress as 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 May 2024, total Personal Consumption Expenditures (PCE) prices rose +2.6% (down from the June 2022 peak of +6.8%); excluding the volatile food and energy categories, core PCE prices rose +2.6% 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.

Back 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 +4.67% year-over-year as of June 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.

As we have discussed in the past, 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. There are many reasons why inflation could remain above the Fed's +2% target for longer than expected. For example, inflation could stay elevated as a result of worsening geopolitical developments, heightened trade tensions, more persistent shelter price inflation, financial conditions that might be or could become insufficiently restrictive, or U.S. fiscal policy becoming more expansionary than expected.

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.

Sweet Spot

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. In the First Quarter of 2024, U.S. Real GDP increased at an annualized rate of +1.4%, and the Federal Reserve Bank of Atlanta's most recent *GDPNow* forecast predicts an annualized U.S. Real GDP growth rate of +1.5% for the Second Quarter of 2024.

Despite the deceleration in U.S. Real GDP during the First Quarter of 2024—which was primarily due to the volatile Net Exports and Inventory Investment categories—Real Personal Consumption Expenditures (PCE) remained strong at a seasonally-adjusted annual rate of +2.5% during the period, and Business Fixed Investment rose at a robust +4.4% annualized growth rate. Real Private Domestic Final Purchases (PDFP)—which is the sum of Real Consumer Spending plus Private Business Fixed Investment and often provides a better signal than GDP of underlying economic momentum—increased at a solid +3.1% annu-

alized rate, similar to the gains seen over the second half of 2023 (i.e., +3.2%).

The employment situation remains strong. The remarkable run of monthly post-pandemic job gains continued in June 2024 as the U.S. economy generated 206,000 new jobs, while the unemployment rate rose slightly to 4.1% (still near a historic low) from 3.7% in January 2024. 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 have resulted in a U.S. economy that appears to be more resilient and less sensitive to interest rate hikes than in the past.

Since the pandemic, demand and supply in the labor market has continued to come into better balance. In addition to the gradual uptick in the unemployment rate, many other recent labor market indicators point to a reduced degree of tightness in labor market conditions, including: a declining job openings rate, a lower quits rate, increases in part-time employment for economic reasons, a lower hiring rate, and a further step down in the ratio of job vacancies to unemployed workers. As a result, 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 an average of +4.2% since the beginning of 2023 (and was +3.9% on a year-over-year basis in June 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.

The Fed's restrictive monetary policy stance appears to be restraining growth in certain areas of the economy—which is contributing to a gradual slowing in the pace of overall U.S. economic activity. For example, various retailers have recently cut prices and increased discounting. This evidence of firms' reduced pricing power could reflect greater customer resistance to price increases (via a concomitant decrease in demand), slower growth in economic activity, and/or a reassessment by businesses of prospective economic conditions.

Monetary policy tightening has also contributed to higher rates for home mortgage loans and other longer-term borrowing, which has moderated spending and production, including households' discretionary purchases and residential construction activity. Although spending by some higher-income households is likely being bolstered by rising asset prices, lower- and moderate-income households have encountered increasing strains as they attempt to meet higher living costs after having largely run down the savings that they accumulated during the pandemic. Such strains, which are evident in rising credit card utilization and delinquency rates as well as rising auto loan delinquencies, bear watching given that consumer spending represents approximately 70% of U.S. GDP.

Although the U.S. economy continues to expand, recent economic data are consistent with our expectation that Real GDP growth this year may be below the strong pace recorded in 2023 as it trends toward its long-term historical rate of +1.8%. There remains a possibility, however, that a lower rate of output growth in 2024 could aid the disinflation process while, at the same time, being consistent with a relatively strong labor market. In other words, the "immaculate disinflation" outcome is still possible.

Whether these recent economic data are a reflection of post-pandemic "normalization" or the beginnings of a more significant economic slowdown remains to be seen, however.

We continue to monitor the economic data on an ongoing basis.

Decoupled

Central banking is about balancing risks. Since the pandemic, the fear has been that rising inflation would spiral higher if rates were not restrictive enough. Slowly, the dynamics have shifted. Now, with inflation trending down and inching closer to

the +2% target across advanced economies, the impact of the high cost of credit on economic activity is receiving more attention: if interest rates are held too high, for too long, growth may suffer.

Given the divergent underlying economic and inflation dynamics specific to each country, several central bank policymakers in advanced economies are increasingly aware that waiting until inflation reaches +2% before cutting rates may be too late. As a result, the Bank of Canada, European Central Bank, Sweden's Riksbank, the Czech National Bank, the National Bank of Hungary, and the Swiss National Bank have all recently initiated their rate cutting cycles ahead of the Fed's first move to lower interest rates.

As interest rate policies in advanced countries decouple from the U.S., the *scope* and *size* of the potential divergence and the implications for reconciling domestic economic priorities with the avoidance of harmful exchange rate volatility becomes more relevant.

At the start of 2024, financial market participants were looking for the Fed to lead a global interest rate cutting cycle early this year that would gradually extend to other advanced economies. Now, markets are looking for the Fed to limit itself to two cuts this year (rather than a previously-expected six cuts), and for central banks in Europe to cut earlier and more than their U.S. counterpart.

Compared to the U.S., the European economies have experienced different inflation dynamics. The International Monetary Fund (IMF) performed a quantitative comparison of the inflationary processes in the U.S. and the Eurozone and found that labor market tightness has been far more significant in driving inflation in the U.S. than in the Eurozone. At the same time, pass-through effects from higher world prices—notably of energy (natural gas)—were far greater in the Eurozone. As energy prices have declined, this has made Eurozone inflation more temporary than that of the U.S., with commensurate implications for monetary policy.

In addition to these near-term, post-pandemic issues, long term structural growth prospects are inherently less favorable for Europe than for the U.S. (in general): the continent's approach to economic growth—with its heavier reliance on traditional manufacturing, relatively high exposure to international demand, and onerous regulatory environment that squelches innovation—is sclerotic and unsuited to today's more competitive global macroeconomic environment, in our opinion.

A more temporary price spike combined with a generally weaker economy suggests that European inflation should reach the +2% target more quickly than in the U.S., where services inflation could be more stubborn and interest rates could remain higher for longer.

Despite these growth and inflation considerations, there is a limit to how much central bank interest rate decoupling can run. A currency depreciation resulting from growing rate differentials is unlikely to be offset in any material way by European success in attracting capital flows from the U.S.—be they via foreign direct or portfolio investments. As such, too large and persistent a divergence in rates risks weakening European currencies beyond the point where possible competitive advantages compensate for the costs of higher imported inflation. This could also fan protectionist tendencies that are already on the cusp of intensifying. The combination of these issues could risk financial instability that may result in a negative feedback loop that amplifies economic concerns.

As the "global central bank," what approach will the Fed take? Other than in times of acute crises, the Fed has been keen to stress that its policy decisions are determined only by domestic considerations; and that this is in the longer-term interest of other countries given the importance of U.S. economic health to the overall well-being of the global macroeconomy.

On a relative basis, if a comparatively strong U.S. economy sits in contrast with a global disinflationary macroeconomic backdrop, then U.S. interest rates should remain higher relative to falling rates elsewhere, and financial market participants will invest in the U.S. Dollar for better returns. This dynamic threatens to feed upon itself and create more upward pressure on the value of the Dollar, which may create

risks for the global economy.

First, a strong U.S. Dollar alters trade flows, with the potential to renew global inflation. It raises America's purchasing power, allowing U.S. consumers and companies to purchase goods from other economies at lower prices. This may export inflation to countries that have already begun to control rising prices, as local consumers and companies must pay more for U.S. Dollar-priced goods. Commodity prices could also be impacted because they have moved in sync with the U.S. Dollar since 2020, according to a March 15, 2023 working paper by the Bank for International Settlements (BIS).

Trade shifts may be especially destabilizing for America. A strong U.S. Dollar makes imports more appealing, while exports are priced out of foreign markets. This may undermine the impact of fiscal manufacturing stimulus provided by the *CHIPS and Science Act*, the *Bipartisan Infrastructure Law*, and the *Inflation Reduction Act* initiatives as well as the battle with the persistent U.S. trade deficit. It could also undercut efforts to de-risk supply chains from China, potentially leading to more tariffs and trade tension. A stronger U.S. Dollar paired with a deflating Chinese economy could allow Chinese goods to flood the market, especially in critical sectors where China already has an edge on prices.

A strong U.S. Dollar could also add to existing stresses in the financial system—particularly by raising debt repayments of emerging economies. As a result, comparatively high U.S. interest rates may cause several sovereign defaults—with the potential for regional or global spillover.

This near-term interest rate decoupling may also have broader ramifications for the long-term role of the U.S. Dollar in the global macroeconomy.

Any major adjustment in the global role of the U.S. Dollar is likely to be disruptive for the global financial system. Ultimately, the outsized role of the Dollar, and the concomitant role of the U.S. economy as absorber of last resort of global excess savings—and, which is the same thing, as global consumer of last resort—has created decades of distortions that have caused major trade imbalances, surging debt, rising inequality, and a long relative decline in the role of manufacturing in the U.S. economy. None of these are sustainable.

Rising debt and declining manufacturing will themselves eventually undermine the credibility of the U.S. Dollar as a safe asset. The Dollar's reserve status supports a U.S. current account deficit that favors U.S. importers and creates markets for the rest of the world but also skews the U.S. economy away from traded goods.

One way or another, this system, and the U.S. role, must and will adjust, and the adjustment will inevitably be disruptive. The question, however, should not be whether or not the adjustment can be postponed for another decade or two, but, rather, what form that adjustment must take.

In our view, a world in which the U.S. Dollar and the U.S. economy continues to play its current roles in accommodating deep structural imbalances is unsustainable, and a major shift is inevitable. The issue, then, should be whether the U.S. directs this shift unilaterally, directs it in concert with major allies, or waits until unsustainable pressures force a much more disruptive adjustment. In other words, it is not *whether* things will change, but it is *how* they will change.

Touch Grass

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 may be 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 established managements, high incremental returns on invested capital, and business models with 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 potentially outperform the market with less volatility by focusing on specific companies' fundamentals.

Windward's portfolios of individual businesses, with their own company-specific fundamental dynamics, are continuing to thrive and prosper, in our opinion. 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 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

* There is no guarantee that the investment objectives presented in this newsletter will be achieved. Moreover, the past performance is not a guarantee or indicator of future results.

Information provided is based on matters as they exist as of presentation of this material and should not be relied upon for future investment decisions.

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Certain information contained herein constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future.

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, such as your investment objectives, risk tolerance, time horizon, or employment status, please notify us in writing immediately, as this may impact how we manage your account. Additionally, if you would like to place reasonable restrictions on the way we manage your account, or revise any existing restriction, please notify us in writing immediately. 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.

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