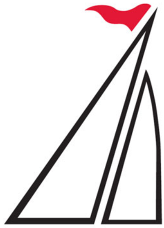
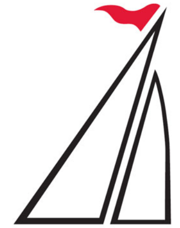


WINDWARD CAPITAL



Risk Averse Asset Management

2024 Third Quarter Review

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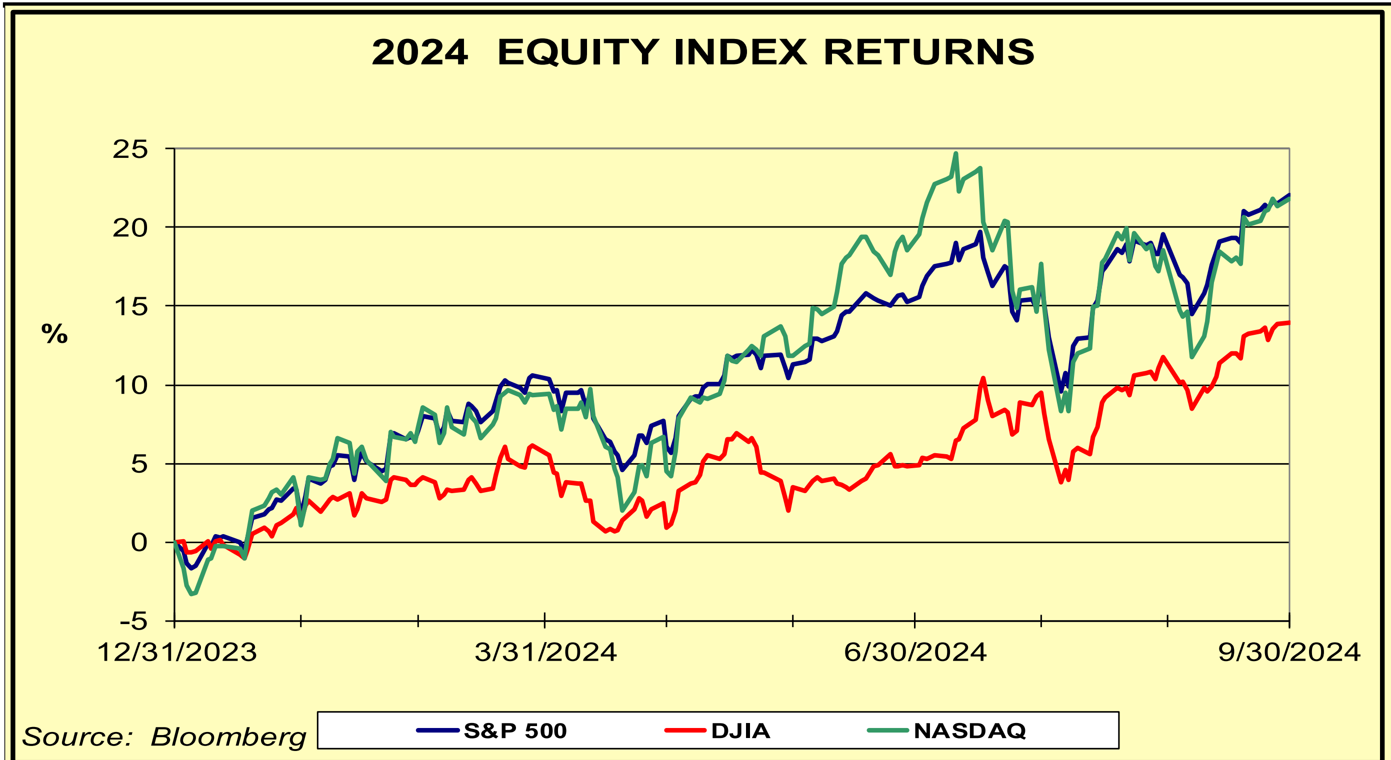

Sellers' Strike?

"Genius is a rising market."

— John Kenneth Galbraith (1908 - 2006)
Economist

Despite a variety of ongoing global macroeconomic, geopolitical, and financial risks, the major U.S. equity market indices continued their positive Second Quarter 2024 momentum into the Third Quarter of 2024, with the Standard & Poor's 500 Index (S&P 500), Dow Jones Industrial Average (DJIA), and NASDAQ Composite Index (NASDAQ) advancing +5.89% +8.72%, and +2.76%, respectively, for the period. As a result, for 2024 Year-to-Date the S&P 500, DJIA, and NASDAQ returned +22.08%, +13.93%, and +21.84%, 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 a continued easing of the U.S. Federal Reserve's (Fed's) monetary policy. 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 September 30, 2024, represented 31.5% of the total Index (and six of the seven are in the Information Technology sector). Although consistent with the level of concentration as of June 30, 2024 (31.1%), this represented an *increase* in concen-

tration from 27.7% as of March 31, 2024, and 26.3% as of December 31, 2023.

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"). In fact, there has been some recent broadening out: although the market-weighted S&P 500 was up +5.89% in the Third Quarter of 2024, the S&P 500 on an equal-weighted basis was up +9.59% during the same period. (For 2024 Year-to-Date, however, the market-weighted S&P 500 is up +22.08%, and the S&P 500 on an equal-weighted basis is up +15.16%.)

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 help 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 effectiveness 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 help protect our clients' capital.

Less Pricey

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: over the 12 months ending in August 2024, total Personal Consumption Expenditures (PCE) prices rose +2.2%—a significant decline from the June 2022 peak of +6.8%. However, this year has also seen a lack of further progress in certain *core* inflation statistics, which appear to be persistent and remain above the Fed's +2% longer-run goal: excluding the volatile food and energy categories, core PCE prices rose +2.7% over the 12 months ending in August 2024 (down from the February 2022 peak of +5.3%). Although the "last mile" of the journey to the +2% inflation target may prove more challenging, 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 +4.32% year-over-year as of September 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.

Jobs, Jobs, Jobs?

As inflation continues to recede, the Fed's focus has increasingly shifted toward the U.S. employment situation. In our view, the employment situation remains solid.

Although still positive overall, recent revisions to the historic employment data indicated a weaker pace of labor market growth during the period analyzed. Specifically, the U.S. economy added fewer jobs in 2023 and early 2024 than previously reported: in late August 2024, the U.S. Bureau of Labor Statistics (BLS) reported that monthly payroll figures overstated job growth by approximately 818,000 in the 12 months that ended in March 2024. As a result, employers added approximately 174,000 jobs per month during that period—down from the previously-reported pace of 242,000 jobs per month.

The revisions, which are preliminary, are part of an annual process in which monthly estimates based upon surveys are reconciled with more accurate but less timely records from State unemployment offices. The new figures, once they are made final, will be incorporated into official government employment statistics early next year.

Since the end of the BLS revisions period, U.S. payroll growth, on a three-month moving average basis, declined from 250,000 per month in April 2024 to 167,000 per month in September 2024.

Even after accounting for these lower numbers, however, the U.S. employment situation remains robust, and the big picture remains relatively unchanged: job growth is slowing, but not collapsing. The unemployment rate has risen, but layoffs remain low.

Indeed, September 2024 employment growth was stronger than expected: the U.S. economy generated 254,000 new jobs, while the unemployment rate was steady at 4.1% (still near a historic low) compared to 3.7% in January 2024. Notably, 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, 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 +4.0% on a year-over-year basis in September 2024). This is a significant distinction because, as we discussed earlier, wage costs hold the key to understanding the direc-

tion of "supercore" inflation and, by extension, the direction of the Fed's interest rate policy.

Stronger Than You Thought

While most countries are struggling to achieve their pre-Pandemic levels of economic growth, the U.S. economy has surpassed this level. 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 +3.0% and +1.6% in the Second and First Quarters of 2024, respectively, and the Federal Reserve Bank of Atlanta's most recent *GDPNow* forecast predicts an annualized U.S. Real GDP growth rate of +3.2% for the Third Quarter of 2024.

Importantly, late-September 2024 revisions made by the Bureau of Economic Analysis (BEA) to the National Income and Product Accounts (NIPA) show that the post-pandemic U.S. economic rebound was stronger than previously estimated, driven primarily by higher consumer spending that was fueled by robust income growth. (Comprehensive revisions to NIPA incorporate all of the best available, updated economic source data and are performed on a periodic basis.)

Some highlights from the revisions:

- ✓ There was a +5.5% average inflation-adjusted increase in U.S. GDP from the Second Quarter of 2020 through 2023 (compared with a previously-published +5.1% advance).

- ✓ The U.S. economy grew $294.2 billion more in the five years ended in 2023 than previously reported. Approximately two-thirds of that revision was due to stronger consumer spending. In fact, U.S. Real GDP growth in 2023 reached an impressive +2.9% (up from +2.5%), further highlighting the U.S. economy's global outperformance.

- ✓ Real Gross Domestic Income (GDI) was revised up significantly, with growth of +3.4% year-over-year in the Second Quarter of 2024—up from +1.3% pre-NIPA revisions. The upward revisions reflected stronger household income and corporate profits.

- ✓ The Personal Saving Rate was revised notably higher: from 3.3% in the Second Quarter of 2024 to 5.2%. This indicates healthier household finances heading into the back half of 2024 and could result in upside risks to consensus economic growth forecasts.

With inflation receding, employment growth moderating, and monetary policy easing, these revised economic data suggest that the U.S. economy's current growth potential could be higher than expected and that the "immaculate disinflation" outcome—whereby inflation decreases without causing a recession or significant unemployment increases—is still possible.

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

Pivot Point

As you will recall, in response to sustained inflationary pressures and a strong labor market subsequent to the coronavirus pandemic, the Federal Open Market Committee (FOMC) of the Fed initiated its most recent monetary policy tightening cycle by raising the target range for the short-term Federal Funds (Fed Funds) rate off of the zero lower bound to 0.25-0.50% at its March 2022 meeting. In addition, with regard to the Fed's balance sheet, the FOMC ceased net asset purchases in early March 2022 and subsequently began reducing its holdings of U.S. Treasury securities and agency debt and agency mortgage-backed securities in June, which also served to tighten financial conditions. Subsequently, the Fed Funds rate peaked at 5.25-5.50% in July 2023.

On September 18, 2024, the Fed decided to "recalibrate" its interest rate policy and initiated a monetary policy loosening cycle by reducing the Fed Funds rate by 50 basis points to a target range of 4.75-5.00%. Per the Fed's Summary of Economic Projections (SEP), they anticipate another 25 basis point cut at both their November and December FOMC meetings (for a total of 100 basis points of cumulative easing this year) followed by another 100 basis points of reductions across the eight meetings of 2025. Per Fed Chairman Jerome Powell at the September 18 press conference: "We are committed to maintaining our economy's strength. This decision reflects our growing confidence that, with an appropriate recalibration of our policy stance, strength in the labor market can be maintained." (He later noted that "the labor market bears close watching, and we'll be giving it that.")

Although the Fed currently anticipates lowering short-term interest rates by 200 basis points (to a range of 3.25-3.50%) by the beginning of 2026, this would still be restrictive given their forecast for a Core PCE inflation rate of +2% at that time. Whether the Fed's forecast of a rise in the Unemployment Rate to only 4.4% (from a current 4.1%) over that period is achievable remains to be seen. If employment data weaken during the coming months, this may force the Fed to lower rates more aggressively than they currently anticipate.

Indeed, as we have noted in the past, it is important to remember that monetary policy works with long and variable lags—in both directions.

Although we appear to be at the end of the current monetary tightening cycle, it remains uncertain how long restrictive monetary policy 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." Although this optimistic economic scenario currently appears to be developing, monetary cycles are always fraught with challenges, and, although an economic "soft landing" is probable, the risk of recession still exists.

Pump and Dump

As China's annualized growth in Real GDP continues to trend below the government's +5% target and deflationary pressures are at increasing risk of becoming entrenched, the country's governmental authorities responded by initiating a variety of so-called "stimulus" measures during the Second Quarter of 2024. In our view, these measures focus primarily on the supply side of the economy. As we have discussed in detail in the past, China has a demand side problem; therefore, we believe that these announced measures will not substantively improve the country's long-term economic situation.

Third Plenum

The Central Committee of the Communist Party of China (CCP) concluded its third plenary session (or "plenum") in mid-July 2024.

Seven plenums are held between party congresses—which are held every five years and at which members of the Central Committee, the largest of the party's top decision-making bodies, are elected. The third plenum focuses on long-term economic reforms, while the other plenums typically focus on the power transition between Central Committees, party ideology, and deliberations for the country's five-year development plans.

Some of the previous third plenums have resulted in strategically important developments for China, including: Deng Xiaoping's announcement of China's "Open Door Policy" in 1978, which led to its rise as a global economic powerhouse; the Central Committee's 2013 announcement to let markets play a "decisive" role in allocating resources in the economy; and the 2018 consolidation of power around President Xi Jinping, who installed himself as President for life.

Highlights of this year's third plenum "Decision" included pronouncements regarding:

- ✓ Continued efforts to balance the public and private sectors
- ✓ Intentions to build a robust national innovation ecosystem
- ✓ Devolution of power to local governments, along with increased central government oversight
- ✓ Boosting consumption in the long term by solving pressing economic and social challenges
- ✓ Development of green energy
- ✓ Improving mechanisms for preventing and controlling trade risks

Disappointingly, the Decision document did not provide credible diagnoses of or solutions for China's economic challenges, in our opinion. Instead, it essentially doubled down on the country's existing growth model, which has led to the current macroeconomic imbalances. The Decision focuses on further expanding industrial policy support for manufacturing sectors across the spectrum, while not offering anything to stimulate weak domestic demand and thereby narrow China's significant global trade surpluses.

Among other issues, the Decision:

- ✓ Places a strong emphasis on the central role of the CCP in directing the economy
- ✓ Prioritizes investment and manufacturing as the main drivers of economic growth relative to household consumption
- ✓ Continues support for the public sector and State-owned enterprises
- ✓ Stresses the need for China to leverage its economy for its own benefit at the expense of the global macroeconomy
- ✓ Discusses aligning economic policy with national security (centered around the CCP)

Stimulus Measures

During the last week of September 2024, several monetary policy announcements were made by the Chinese Politburo and People's Bank of China (PBOC), including:

- ✓ Lowering the seven-day Reverse Repurchase Rate from 1.7% to 1.5%
- ✓ Lowering the Reserve Requirement Ratio by 50 basis points—releasing approximately 1 trillion Yuan ($142 billion) for new lending—and possibly cutting the rate by another 25 to 50 basis points later this year
- ✓ Lowering the Medium-Term Lending Facility Rate by 30 basis points
- ✓ Lowering the minimum down-payment ratio to 15% (from 25%) for buyers of second homes
- ✓ Lowering the Loan Prime Rate and deposit rates by 20 to 25 basis points
- ✓ Providing 100% coverage (up from 60%) of the loans for local governments buying unsold homes with cheap funding
- ✓ Creating a pair of new structural monetary policy tools to support the Chinese stock market
- ✓ Providing additional fiscal support to low-income households and families with young children

Despite the immediate impact of these stimulus announcements on the Shanghai Shenzhen CSI Stock Index (up +27% in five trading days—*after* declining

nearly –50% from its 2021 peak), we believe that the measures' fundamental economic effects may turn out to be limited. Although the monetary easing measures will lower borrowing costs, overall credit demand remains weak. Lower mortgage rates and down payment requirements will not revive the housing market, in our opinion, because the supply overhang from the bursting of the real estate bubble remains considerable, which signals the potential for even lower real estate clearing prices. Finally, rumored amounts of the fiscal support to be provided to the household sector are too small relative to the country's GDP to make a significant impact—absent any additional fiscal measures taken by the Standing Committee of the National People's Congress or the Ministry of Finance at meetings scheduled for later this month.

Most importantly, none of these measures address the underlying structural rebalancing issue for the Chinese economy: 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 household consumption expenditures are less than 40% of GDP—which is approximately 20 percentage points below the global average—while its gross fixed capital formation is approximately 20 percentage points above. Closing that gap will take time—even under the best of circumstances. (It took Japan 17 years to raise the consumption share of its economy by 10 percentage points from its bottom in 1991.) China's recent stimulus measures are not part of a true structural rebalancing, in our opinion. Rebalancing requires a shift in the economic model that will reverse decades of explicit and implicit transfers in which households have subsidized investment and manufacturing.

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.

Unfortunately, we do not see anything from the Third Plenum Decision or the recent stimulus measures—as currently structured—that would address this fundamental secular issue.

Second-Order Thinking

We believe that 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
Central Committee of the CCP
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 National Committee of the Chinese People's Political Consultative Conference
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

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 most Friday afternoons. 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 at www.windwardcapital.com under "Commentary."

We encourage you to log into your account at your custodian for real-time, updated account information. If you need assistance, please call our Operations Department at (310) 893-3000.

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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