WCM | WILDE CAPITAL MANAGEMENT

PORTFOLIO UPDATE – AUGUST 2, 2017

Summer is supposed to be a time to slow down, spend time with family and catch up on your reading. But as has been the case in recent years (could this be the "new normal"?), the slowdown does not come or is short-lived. It has been a busy time in the U.S. as Congress iterated on healthcare legislation and the Fed fanned investor dismay by mentions of initiating a reduction of its balance sheet. In Europe, while the election cycle has taken a pause, Brexit logistics continued to unfold and European Central Bank watchers monitored Mario Draghi's comments for indications of monetary tightening. At WCM, we continue to evaluate our asset allocation positioning. At this time, we have chosen to realign our global equity positioning to further express our preference for the U.S. market and adjust sub-regional exposures. In regard to fixed income, we also maintain our preference for the U.S. but adjusted our duration profile.

Despite record market highs and full valuations, we believe that the U.S. equity market rally has further upside due to earnings growth momentum and strong consumer sentiment. Consumer spending, which is the largest driver of the economy, grew by a healthy 2.8% in the second quarter. With those considerations in mind, we increased our exposure to U.S. equity by adding to our Information Technology sector exposure. The purchase was funded from cash. While the Tech sector has been rallying for an extended period and looks expensive on some measures, it has experienced near-term pullbacks and earnings growth remains healthy. Furthermore, we believe this sector can continue to grow as it pervades other segments of our economy through advances in areas including cloud computing, artificial intelligence and machine learning. This new positioning increased our overweight to U.S. equity and also raised our large cap equity weighting to bring it in line with our benchmark.

In regard to other sector exposures, we exited Consumer Staples based on mediocre fundamentals, poor market technical readings and expensive valuation metrics. In contrast, we initiated a new position in the Financial sector. This sector has been slow to recover since the crisis in 2008. However, we believe recent relative outperformance could persist based on the upward trajectory of interest rates, attractive valuations, and healthy earnings growth. We have chosen to enter the Financial sector using a capitalization-weighted, industry diversified ETF and recognize that it is somewhat concentrated in large money center banks. However, based on fundamental and market technical considerations, we believe this is the best way to access the sector.

Within the international equity portion of our portfolios, we sold out of our dedicated U.K. exposure. While the U.K. economy has shown some resilience, we believe the uncertainty and complexity associated with the exit from the European Union presents an ongoing, significant overhang. We have reallocated those funds to increase our exposure to the Eurozone. We believe the underpinnings of the recovery on the European continent are solid and persistent. We can see evidence of that in earnings growth expectations and improved sentiment.

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There has been much to consider in regard to our fixed income positioning. In their recent comments, Federal Reserve officials have been notably dovish and have confirmed that they will be measured in their approach to raising rates and the management of the Fed's balance sheet. It seems clear that the process of interest rate normalization may well be extended. We also believe that the intermediate part of the corporate credit yield curve offers the best risk/reward profile in terms of yield. Taking those inputs into consideration, we eliminated our existing short-term credit position and increased our intermediate term credit holdings. This repositioning increases the overall duration of our portfolio but we remain meaningfully lower than our benchmark.

In terms of overall positioning, we continue to maintain a preference for the U.S. across equities and fixed income. We also have a favorable view of Asia ex-Japan and the emerging markets. With the previously discussed increase to our Information Technology sector exposure, we have slightly increased our overweight to U.S. equities, primarily funded from non-U.S. bonds. Within fixed income, our exposure to U.S. corporate credit is substantially higher than our benchmark. Our portfolios maintain lower duration than the benchmark and broad exposure to non-U.S. bonds at weights below our benchmark. We have no emerging market debt at this time.

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It is important to remember that there are risks inherent in any investment and that there is no assurance that any money manager, fund, asset class, style, index or strategy will provide positive performance over time.

Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

The information contained herein is based upon the data available as of the date of this document and is subject to change at any time without notice.

Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, the risk of issuer default, liquidity risk and market risk. These risks can affect a security's price and yield to varying degrees, depending upon the nature of the instrument, and may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets. In general, a bond's yield is inversely related to its price. Bonds can lose their value as interest rates rise and an investor can lose principal. If sold prior to maturity, fixed income securities are subject to gains/losses based on the level of interest rates, market conditions and the credit quality of the issuer.

Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and may follow different accounting standards than domestic investments. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems that can be expected to have less stability than those of more developed countries. These securities may be less liquid and more volatile than investments in U.S. and longer-established non-U.S. markets.

An investment in small/mid-capitalization companies involves greater risk and price volatility than an investment in securities of larger capitalization, more established companies. Such securities may have limited marketability and the firms may have more limited product lines, markets and financial resources than larger, more established companies.

Portfolios that invest in real estate investment trusts (REITs) are subject to many of the risks associated with direct real estate ownership and, as such, may be adversely affected by declines in real estate values and general and local economic conditions.
Portfolios that invest a significant portion of assets in one sector, issuer, geographical area or industry, or in related industries, may involve greater risks, including greater potential for volatility, than more diversified portfolios.

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Exchange-traded funds (ETFs) are investment vehicles that are legally classified as open-end investment companies or unit investment trusts (UITs), but differ from traditional open-end investment companies or UITs. ETF shares are bought and sold at market price (not net asset value) and are not individually redeemed from the fund. This can result in the fund trading at a premium or discount to its net asset value, which will affect an investor's value. Shares of certain ETFs have no or limited voting rights. ETFs are subject to risks similar to those of stocks.

ETFs included in portfolios may charge additional fees and expenses in addition to the advisory fee charged for the Selected Portfolio. These additional fees and expenses are disclosed in the respective fund/note prospectus. For complete details, please refer to the prospectus.

For additional information regarding advisory fees, please refer to the Fee Summary and/or Fee Detail pages (if included with this report) and the program sponsor's/each co-sponsor's Form ADV Part 2, Wrap Fee Brochure or other disclosure documents, which may be obtained through your advisor.

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