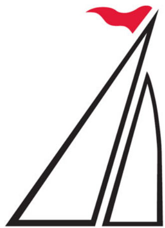
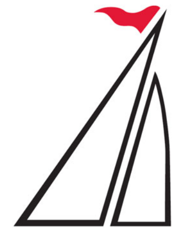


WINDWARD CAPITAL



Risk Averse Asset Management

2023 Second Quarter Review

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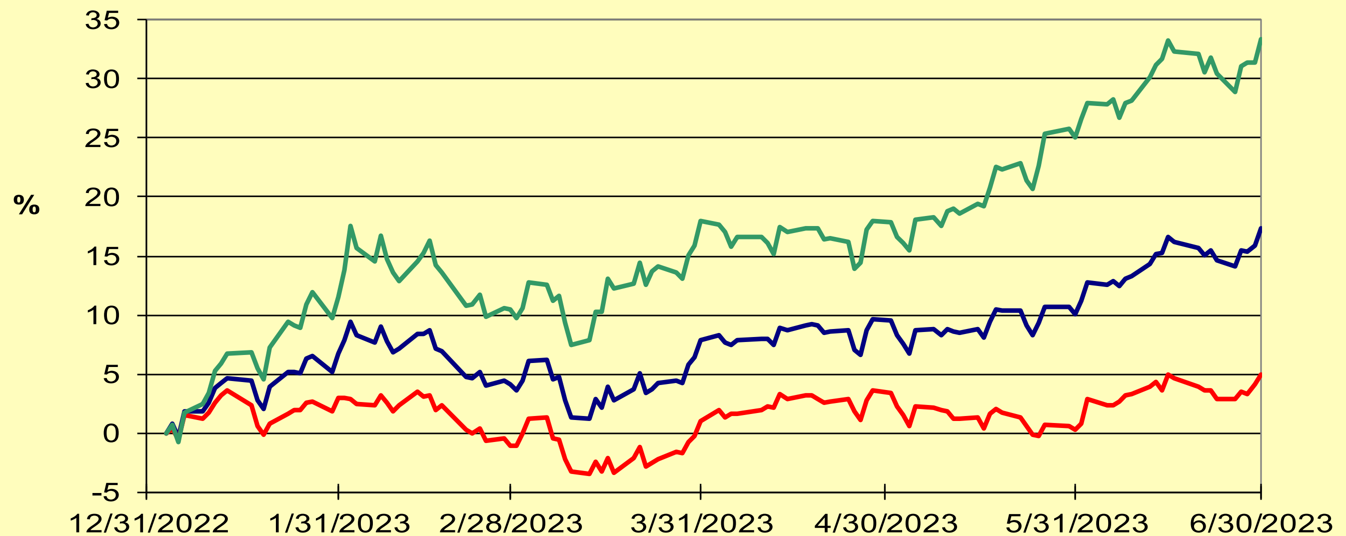

Something for Everyone

"Common sense is not so common."

— François-Marie Arouet (1694 - 1778)
(nom de plume *M. de Voltaire*)
French Writer, Philosopher, Historian

The major U.S. equity market indices continued their positive First Quarter 2023 momentum into the Second Quarter of 2023, with the Standard & Poor's 500 Index (S&P 500), Dow Jones Industrial Average (DJIA), and NASDAQ Composite Index (NASDAQ) returning +8.74%, +3.97%, and +13.05%, respectively, for the period. As a result, for 2023 Year-to-Date the S&P 500, DJIA, and NASDAQ returned +16.88%, +4.94%, and +32.32%, respectively.

After posting three successive years of positive returns from 2019 through 2021—which culminated in a cumulative total range of returns of +66% to +142% during the period—the major U.S. equity market indices corrected in 2022. Despite last year's declines, however, as of June 30, 2023, the major U.S. equity market indices are still anywhere from +63% to +116% higher than December 31, 2018, from +96% to +109% above their 2020 coronavirus pandemic lows, and from +26% to +44% above their pre-pandemic highs, demonstrating significant resilience given the historic—and unprecedented—global events of the last few years.

Among other things, the current ongoing financial market volatility appears 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 expectations for a near-term tightening of 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 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. 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 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 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.

Two and Done?

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:

- ✓ Declining global freight rates (as well as other measures, such as excess retail industry inventories) indicate that global supply chain disruptions continue to resolve. The Federal Reserve Bank of New York's Global Supply Chain Pressure Index—which is based upon global transportation cost, delivery time, backlog, and purchased stocks data—turned *negative* in February 2023 and has remained negative through June 2023. The Index is now at its lowest reading since August 2019, indicating that global supply chain conditions have largely normalized.

- ✓ Crude oil prices are down –43% from last year's peak, and many other commodities (e.g., natural gas, copper, aluminum, lumber, cotton, wheat, etc.) still remain approximately –20% to –80% off of their previous Spring/Summer 2022 highs (with most now trading at 2021 levels).

- ✓ Higher mortgage rates have slowed U.S. home price growth and eased housing industry supply chain shortages/imbalances. Over time, this should contribute to lower Owners' Equivalent Rent (OER), which is a significant component of certain inflation statistics.

- ✓ Despite ongoing strength in U.S. employment, Nominal Average Hourly Earnings growth has stabilized on a year-over-year basis, and the rate of change in broad-based measures of overall wages that adjust for compositional changes in the labor force, such as the Employment Cost Index and the Atlanta Fed's Wage Growth Tracker, show no indication of a "wage-price spiral."

Although many components of inflation appear to have peaked, certain inflation statistics (core inflation levels, in particular) appear to be persistent and remain well above the U.S. Federal Reserve's (Fed's) +2% longer-run goal: over the 12 months ending in May 2023, total Personal Consumption Expenditures (PCE) prices rose +3.8% (down from the June 2022 peak of +6.8%); however, excluding the volatile food and energy categories, core PCE prices rose +4.6% over the same period (only marginally down from the February 2022 peak of +5.4%). Price pressures remain evident across a broad range of goods and services. Importantly, though, the trend rate of price growth is no longer *accelerating* but is, in fact, *moderating*.

Despite elevated levels of current inflation, longer-term inflation expectations appear to remain 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 every month since then to a current rate of +4.01% year-over-year as of June 2023. 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 moderating, the U.S. economy continues to grow near its long-term historical rate, and a recession does not appear imminent: U.S. Real Gross Domestic Product (GDP) increased at an annualized rate of +2.0% in the First Quarter of 2023 after increasing +2.6% and +3.2% in the Fourth and Third Quarters of 2022, respectively. The employment situation remains strong. The remarkable run of monthly post-pandemic job gains continued in June 2023 as the U.S. economy generated 209,000 new jobs, and the unemployment rate fell to 3.6%. For 2023, 1.67 million new jobs have been created, with demand for services continuing to be the foundation of the post-pandemic economic expansion: service sector employment this year has increased by 1.17 million jobs, or approximately 70% of all jobs created. Behind the labor market's enduring strength are a variety of structural and demographic forces that—combined with approximately $500 billion remaining of 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.

Recent employment data, while still strong, indicate a moderation in growth, however. Over the last 12 months, the three-month moving average of monthly job gains has declined from 436,000 to 270,000 and is down significantly from its mid-2020 peak. In addition, although June 2023 Nominal Average Hourly Earnings growth on a year-over-year basis remained strong at +4.4%, it has decelerated from a peak of +5.6% in March 2022. This slowdown should relieve upward pressure on "supercore" inflation.

Despite the slowdown in these monthly jobs data (and an easing in total PCE), however, sustained U.S. employment and wage gains at current levels suggest that monetary policy tightening will continue because the projected rate of "supercore" inflation will otherwise remain too high for the Fed to achieve its +2% inflation policy objective in the near term. As a result, we expect the Federal Open Market Committee (FOMC) of the Fed to consider increasing the short-term Federal Funds (Fed Funds) interest rate further at one, or more, of its upcoming meetings.

Over the coming months, the Fed will continue to be dependent upon the incoming data and the evolving outlook for the U.S. economy as it looks beyond the peak in inflation for compelling evidence that inflation is moving *down* toward their +2% longer-run goal.

That being said, based upon our analysis, we continue to believe that the Fed is near the end of this monetary tightening cycle. The Fed, though, through its rhetoric and policy moves, has indicated that it remains committed to holding rates at a restrictive level for an extended period of time to create sustained downward pressure on the labor market, in particular. And the guidance in their Summary of Economic Projections with regard to the unemployment rate and real GDP growth in 2023 and 2024 look very much like they are forecasting a recession as a result. If the current disinflationary trends that we are seeing in the recent economic data persist, the Fed's hawkish reaction function (i.e., commitment to driving the unemployment rate higher than necessary) may become less defensible and could become the key monetary policy concern of 2023 and 2024—especially if the Fed potentially holds rates "higher for longer."

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

Committed

As you know, the relatively rapid increase in monetary policy tightening witnessed during 2022 was in response to the emergence of global inflation.

As you will also recall, in response to sustained inflationary pressures and a strong labor market subsequent to the coronavirus pandemic, the FOMC initiated the current U.S. monetary policy tightening cycle by raising the target range for the 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 2022, which has also served to tighten financial conditions.

Because of the ongoing persistence of inflation, the Fed continued this monetary policy tightening throughout 2022. In 2023, the Fed raised the short-term Fed Funds interest rate by an additional +25 basis points at each of its February 01, March 22, and May 03 meetings, to a current range of 5.00-5.25%, before pausing at its June 14 meeting. FOMC participants are now projecting a range of 5.4-5.6% for the Fed Funds rate during 2023—the highest rate since before the 2008 Financial Crisis.

As we have noted in the past, it is important to remember that monetary policy works with long and variable lags, and that at some point, therefore, it would be appropriate for central banks to slow the pace of monetary tightening and assesses how their cumulative policy adjustments are affecting their economies and inflation. (In the U.S., the Fed has indeed been slowing its pace of Fed Funds interest rate increases and, in fact, paused at its June 14 meeting.)

Unfortunately, central banks have moved so rapidly that, as they put these rate hikes in place, there really has not been enough time for them to judge what the feedback effects are on the global macroeconomy, and an increasing number of economists think that monetary policymakers have been excessive in their actions to raise interest rates and that the effect of all of this tightening will be a global recession.

Indeed, despite the Fed's moderation in the pace of rate increases and its recent pause, based upon real-time forward, rather than lagging, indicators, some economists believe that the Fed, in particular, has already over-tightened. For example, certain economists (e.g., monetarists) monitor current changes in the global money supply because they believe that such changes affect the price levels of securities, inflation, exchange rates, and the business cycle. Under the monetarist approach, the fact that several "narrow" and "broad" money supply indicators have been contracting for many months suggests that inflation risks are already fading fast and that further monetary policy tightening is unnecessary.

Certainly, a primary consideration for monetary policymakers is judging how responsive economic activity is to the rising level of interest rates. This responsiveness is likely to be dynamic, changing over time and with the state of the economy. In addition to domestic matters, the interplay of global macroeconomic and geopolitical factors must also be noted. Despite these uncertainties, we would not underestimate the Fed's commitment to restoring price stability.

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 is likely to 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.

Given the current state of the U.S. economy—with inflation near 40-year highs and the unemployment rate near record lows—moving expeditiously to a restrictive stance of monetary policy was appropriate, in

our opinion. 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 resolution of pandemic-induced supply/demand disruptions and the lagging impact of tighter monetary policy should contribute to an easing of inflationary pressures via the resultant moderation in economic growth. In the meantime, a monetary tightening cycle is always fraught with challenges. However, the rationale for removing accommodation is obvious when inflation is high, demand is strong, and the labor market is tight. Under those conditions, an economic "soft landing" is probable but not guaranteed—and the risk of recession still exists. While an outlook of easing supply constraints and moderating demand growth is consistent with inflation stepping down even as the labor market remains strong, less favorable outcomes are certainly possible. In the event high inflation persists while demand turns down and the labor market falters, monetary policymaker resolve may be tested—but should never be doubted. It is very difficult for an inflation-targeting central bank to walk away from interest rate hikes when underlying inflation has not yet demonstrated persistent progress towards its target.

Supply and Demand

Although the underlying cause, degree, and duration of the current bout of inflation varies on a country-by-country basis, we believe that, ultimately, price stability will be restored via some combination of demand destruction and/or economic contraction caused by tighter financial conditions, and that, although potentially painful, this process should not present a systemic risk to either the overall global macroeconomy or financial markets. To us, the more important issue remains the ongoing risk of secular deflation.

From a longer-term, historical perspective, as we have discussed numerous times in the past, it is important to remember that, since the 1990s, inflation in many advanced economies has run consistently below +2%—even during periods of sustained economic growth. This pattern of low inflation likely reflects sustained disinflationary forces, including technology, globalization, and demographic factors, as well as a stronger and more successful commitment by central banks to maintain price stability.

With regard to global inflation dynamics, from a long-term investment perspective, the most important development is the secular deflationary trend that we have discussed in detail over the past several years. Namely, from a global macroeconomic perspective, there remains a surfeit of supply and dearth of demand which is serving as an overall constraint on any secular inflationary dynamic. While underlying global disinflationary factors are likely to evolve over time, there is little reason to believe that they have suddenly reversed or abated because of the pandemic, a geopolitical shock (i.e., the Russia-Ukraine conflict), or trade rhetoric regarding "friendshoring" or domestic industrial policies. Indeed, we believe that the same structural forces that have driven this dynamic over recent decades (e.g., the global savings glut, demographic aging, etc.) should continue after these issues wane.

Within this context, then, it is important to reiterate the important role that the Chinese economy—the world's second-largest—plays in this ongoing secular global macroeconomic deflationary dynamic.

Six months ago, after China's President Xi Jinping declared victory over the coronavirus pandemic and relaxed stringent social controls, many financial market analysts had anticipated that the country's economy would come roaring back and provide a boost to global macroeconomic growth, benefit certain economic sectors disproportionately, and reinvigorate a renewed commodity supercycle. The last several months of data, however, reveal that these prognostications were misguided as the country's economy remains far from returning to full health. Indeed, China continues to face a series of post-pandemic headwinds, including a moribund property market, significant local government debt, slowing exports, deflation risks, and high youth unemployment, among other issues.

These near-term concerns, however, obscure the more important longer-term structural issue for China that we have discussed in detail many times over the past several years: namely, that China's economy remains unbalanced between investment and consumption. Until this issue is ultimately resolved—either by design or by global macroeconomic forces—China will continue to struggle to achieve sustainable economic growth.

In the interim, while it may appear that China's substantial trade surpluses provide an offsetting balance to its stagnant consumption dynamic, this misunderstands the relationship between domestic consumption and global trade, in our opinion. Contrary to what many assume, the country's significant trade surplus is not a symptom of manufacturing prowess, nor is it evidence of households' "culture of thrift." It is, instead, a consequence of the great difficulty China has had in rebalancing its domestic economy and reining in its soaring debt.

This is because the very conditions that explain stagnant domestic consumption also explain the rapid growth in Chinese exports relative to imports. China's international competitiveness is based mainly on the low wages their workers receive relative to productivity. But it is precisely the low wages relative to productivity that limit the ability of households to consume a substantial share of what they produce. In other words, Chinese households receive a lower share of GDP than among their trading partners, which is why they also consume a lower share.

This is not always a bad thing. In the 1980s, suppressing consumption allowed Beijing to direct huge amounts of newly-produced resources into much-needed investment. The result at that time was rapid, sustainable growth as China built the infrastructure and manufacturing capacity it urgently needed.

This changed, however, around 10-15 years ago once China had begun to invest as much in property development and infrastructure as it could productively absorb. That is when the debt used to fund investment rose more quickly than the economic benefits of that investment, eventually leaving the country with among the fastest-growing debt burdens in history.

Beijing has known the solution to this problem for years: in order to control soaring debt and the non-productive investment it funds, it has to rebalance the distribution of income by enough that growth would be driven mainly by rising consumption, as is the case in most other economies. But this requires a politically-difficult restructuring of the economy in which a larger share of total income—as much as 10-15 percentage points of GDP—is transferred from local governments to Chinese households.

This is why the trade surplus matters. In recent years, Beijing has tried to slow the growth in debt by reducing non-productive investment in property and infrastructure. As you may recall, in 2022 Beijing started to crack down on the property sector, for example.

If a rising share of China's total income had been going to ordinary households, the resulting reduction in investment by property developers could have been balanced by a rise in consumption. But that is not what has happened. Partly as a consequence of the pandemic, growth in wages has actually lagged behind growth in GDP. The share Chinese workers have received of what they produce has *declined* rather than *increased*, and with it so has the share they are able to consume.

Larger trade surpluses, driven by a declining household share of GDP, allow Chinese manufacturers to absorb weaker domestic demand without reducing output. Without these surpluses, Beijing would have to allow debt to rise even faster if it did not want factories to fire workers.

Rising exports are usually a good thing; but for countries like China, rising trade surpluses are not. In this case they are symptoms of deep and persistent imbalances in the domestic distribution of income. Until the country is able to reverse these imbalances—something which has proven very difficult politically—these large surpluses are just the obverse of attempts by Beijing to control debt, and so they will persist.

So, why does any of this matter? For China to run surpluses that are a significant percentage of its GDP, the rest of the world must run combined deficits equal to a proportionate percentage of its collective

GDP (i.e., trade must balance). (Indeed, China currently generates the world's largest trade surplus, and the U.S. has the world's largest trade deficit.) Although the details of trade finance can be quite complex, the important thing to know about this balance-of-payments relationship is that it restrains global demand: countries with trade surpluses generated by suppressed domestic consumption (like in China—and in Germany and Japan, too, for that matter) export their excess savings to trade deficit countries that have open capital markets (like the U.S.) via foreign capital inflows. Because there is already no shortage of investment capital in most trade deficit countries, these capital inflows instead result in higher unemployment or debt in the deficit countries than would otherwise be the case in a more balanced trade relationship. This matters greatly to a world that is wrestling with weak secular demand.

In other words, as Beijing struggles with its escalating debt and the difficulty of rebalancing domestic income, the rest of the world will have to continue absorbing China's trade surpluses, thereby suppressing overall global macroeconomic demand and growth, and reinforcing the ongoing risk of secular deflation.

Persistence Matters

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:
Bloomberg
Congressional Budget Office
Council of Economic Advisers
Federal Reserve Banks of Atlanta, New York, San Francissco, and St. Louis
International Monetary Fund
Organisation for Economic Co-operation and Development
Reuters
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 Steve Pene at : spene@windwardcapital.com, or call Mr. Pene at our main number: (310) 893-3000.

NOTES

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