CIO PORTFOLIO STRUCTURE
ASSET ALLOCATION MODELS

WINTHROP
CAPITAL MANAGEMENT

SECOND QUARTER 2019

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PORTFOLIO STRUCTURE SUMMARY

After the sharp sell-off in the fourth quarter of 2018, the equity market rebounded within reach of its record high. The S&P 500 posted a return of 13.7% for the first quarter of 2019. While we expected 1Q 2019 earnings to be weaker than the prior quarter, we have been surprised at the strength so far. Equity prices have been buoyed by the accommodating shift in Fed policy and the proximity to a new trade treaty with China. Domestic economic growth is slowing; however, a deal with China will likely provide a boost to economic growth. Volatility has declined and equity valuations are high which gives us some near term caution.

Domestic Equity: We decreased our allocation to domestic large-cap equities given current valuations

The potential cash flow generation from large cap companies remains strong. The dividend yield is roughly 1.9% and the cash used for stock buy backs represents an additional 2.5%, which represents roughly 4.4% distribution yield for equity investors. We remain overweight large cap relative to small and mid-cap.

Domestic Fixed Income: We continue to favor credit based short and intermediate duration strategies in investment grade and high yield.

Even though the domestic economy is showing signs of slowing, the China trade treaty will likely be a catalyst for growth. In addition, we expect growth in Europe and China to pick up this year. Still, there is a natural ceiling to how high rates can go before they naturally choke economic growth. As a result, we expect rates to trade in a tight range and the Fed to remain on hold for most of the year. Credit spreads have tightened in the first quarter and have room to tighten further given the lack of supply. Credit quality remains strong in investment grade credit as default rates continue near record low levels.

Global Equity: We expect global growth to continue to slow in the first half of 2019.

We expect global growth of the developed countries to decelerate in the first half of 2019. Europe economic growth, led by Germany and Italy, has been slowing. However, we expect policy initiatives to help stimulate growth. The overhang from Brexit continues to dampen Europe's economy. Brexit will inhibit capital investment and consumption until there is more clarity to resolve the conflict. The Emerging Markets Sector has posted mediocre performance over the past year with the economies of Brazil, Russia, China and India all slowing. Turkey's and Argentina's economy are in distress. Venezuela is in chaos. However, we are looking for an opportunity to add to our emerging markets exposure. The key is global capital flows into the emerging economies and we expect stability in lending to emerging markets this year.

Global Fixed Income: We are currently void of global fixed income in our models.

The time to invest in global fixed income is when volatility is high. However, with volatility falling and the dollar strengthening, global fixed income is too expensive given the risk reward trade off. This is a difficult asset class for us to include in a diversified portfolio asset allocation because it is too disruptive to risk mitigation strategies. This asset class generally offers the potential return of domestic high yield with the heightened volatility of equities.

Alternatives: We consider hedge funds, real estate, and private investment in our alternative sector.

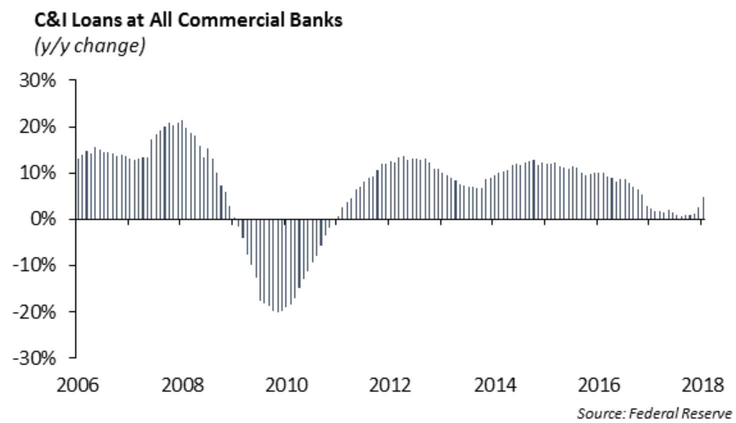
We continue to prefer Global Macro and Multi-Strategy Hedge Funds. We are cautious on Real Estate development and extremely selective on investing in Opportunity Zone Funds. There is a great deal of dry powder waiting to deploy in Private Equity. We are generally sanguine on PE with valuations still appearing elevated.

ASSET ALLOCATION & PORTFOLIO STRUCTURE

Our asset allocations generally lean to the lower range of the risk spectrum. In general, during these periods of high valuation and low volatility, we seek to reduce the overall portfolio risk. In contrast, during periods of high volatility and lower valuations, we seek to increase portfolio risk and potential return. Shifts in portfolio allocation consider the potential for investment return over the long term.

We expect earnings on domestic large-cap to be lower and the slowing economy to impact business activity. As a result, given the recent sharp rally in equity prices, we have made several steps to reduce the domestic equity allocation over the past quarter. If volatility increases and/or equity prices sell off, we would expect to increase equity exposure.

We believe that small-cap stocks benefit when private credit is expanding. Over the past year, we have finally seen a surge in bank lending as Consumer & industrial loans increased by over 10% year-over-year. We expect to maintain or increase our small-cap exposure in our models.



We are adding to emerging market exposure mainly through an increase in China. We expect the resolution to the U.S. – China trade issues combined with the stimulus that China put into its economy in 2018 to be catalysts for near term equity price increases.

Asset Class	Current Tactical Weight*	Q1 2019 Return**	2019 YTD Return**
EQUITIES			
US Large Cap Growth	Over ⇧	16.1%	16.7%
U.S. Large Cap Value	Over ⇧	11.9%	12.3%
U.S. Small Cap Growth	Neutral ⇨	17.1%	15.44%
U.S. Small Cap Value	Neutral ⇨	11.9%	11.8%
International Developed	Under ⇩	10.7%	10.9%
Emerging Markets	Neutral ⇨	9.9%	3.6%
FIXED INCOME			
U.S. Governments	Under ⇩	3.1%	3.7%
U.S. Mortgages	Neutral ⇨	2.2%	2.6%
U.S. Corporates	Over ⇧	5.1%	5.9%
U.S. Municipal	Neutral ⇨	2.9%	4.3%
High Yield	Over ⇧	7.3%	8.2%
International Fixed Income	Under ⇩	5.4%	6.0%
Cash	Under ⇩	2.1%	2.5%

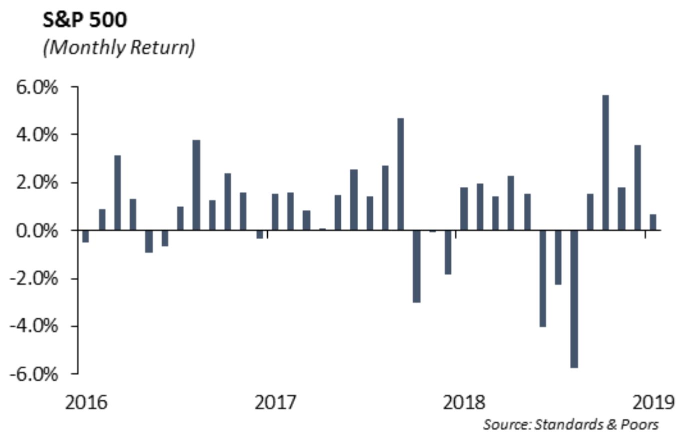
Source: Bloomberg, Barclays

**Tactical Weight Based on moderate U.S. Client Allocations (low tax sensitivity)*

*** US Large Cap Growth = Russel 1000 Growth TR, US Large Cap Value = Russell 1000 Value TR, US Small Cap Growth = Russell 2000 Growth TR, US Small Cap Value = Russell 2000 Value TR, International Developed = MSCI World ex USA NR, Emerging Markets = MSCI EM NR, Governments = Bloomberg Barclays Government Related, Mortgages = Bloomberg Barclays U.S. MBS, Corporates = Bloomberg Barclays U.S. Credit, High Yield = Bloomberg U.S. Corporate High Yield, International Fixed Income = Bloomberg Barclays Emerging Market Fixed Income, Cash = Bloomberg Barclays U.S. Treasury*

DOMESTIC EQUITY ALLOCATION

The equity market prices experienced a strong recovery in the first quarter of 2019, after a brutal sell-off in December of last year. We expect earnings on the S&P 500 at $174 and earnings growth close to 3%, at a 15 multiple to future earnings, we believe the S&P 500 is near fair value between 2650 and 2700. Volatility remains elevated given the heightened geo-political tensions, the uncertainty over the trade spat with China, and expected slowing in earnings growth. The recovery in equity prices in 2019 has been strong as progress around issues including China trade and border security are made.



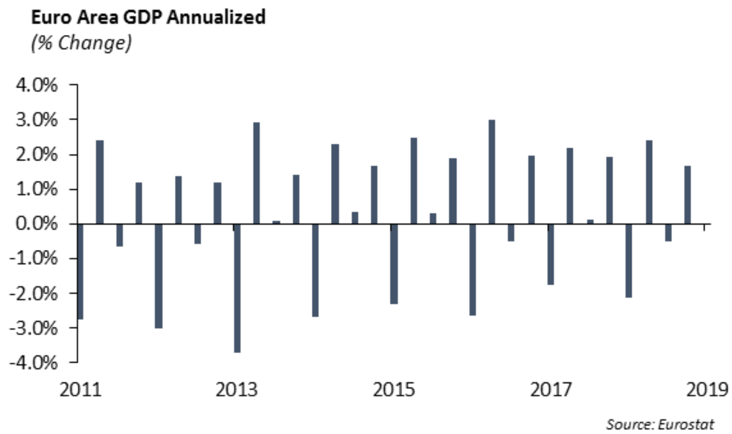
Our base line thesis is that the domestic economy is slowing. Earnings will be under pressure due to higher labor costs, higher raw material costs, and higher borrowing costs. Profit margins, which have been near historic wide levels, will be under pressure. As a result, we expect corporate America will try to protect profits through reducing labor costs. Ford Motor recently announced reductions in its workforce totaling 7000 employees. We are less concerned about the threat to rising interest rates on equity valuations given our expectation for slower growth. We are not in the camp that an economic recession is imminent.

We believe that small-cap stocks generally perform well during periods of private credit expansion. While Consumer & Industrial loan growth has been stubbornly slow over the last three years, we have seen a marked increase in year over year loan growth in 4Q 2018. As a result, we are looking for an opportunity to potentially increase our mid and small cap exposure. However, the targeted risk in the small cap space limits the overall size of the overall portfolio allocation.

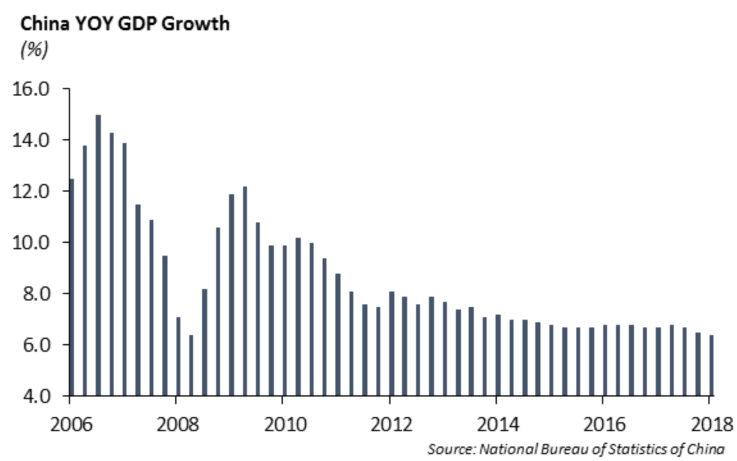
As our thesis for slowing economic growth plays out, we are constructive on bond allocations in our model portfolios. Bonds typically outperform stocks during periods of economic slowdown.

GLOBAL EQUITY ALLOCATION

Global economic growth has been slow over the past year. Brexit has been a buzz-kill on European economic growth which slowed this past quarter with Italy's economy falling into recession and Germany posting surprising slowdown in its economy. We are still in the camp of a hard Brexit in which Great Britain leaves the European Union without working through the details necessary to sustain its economic growth. Brexit effectively has muted business investment and consumption as supply chains, corporate headquarters and manufacturing plants are rationalized in light of an uncertain outcome.



In spite of the breakdown in trade negotiations, we are still anticipating the resolution of the U.S. – China trade dispute which has contributed to a slowdown in China's economy. China's economy has slowed from 7.0% in 2015 to 5.5% today. Clearly, the road to a trade treaty is bumpier than investors initially believed. However, traction from the recent stimulus added to China's economy last year to support the housing sector and an increase in bank lending, we are more constructive on the potential for an increase in China stocks. We have added a small position of China ETF to our models.



SECTOR ALLOCATION

1Q 2019 earnings have been mixed across sectors. 76% of companies in the S&P 500 have reported a positive EPS, while 59% have reported a positive revenue surprise. The outperforming sectors YTD are Info Tech at 21.21%, and Communication Services at 18.72%, while the laggard is still Health Care, returning 2.07%. Interestingly enough, the health care sector is reporting the highest YoY earnings growth of all eleven sectors at 9.2%. It is currently trading at an 11% discount to the S&P on a price to earnings basis, while looking at its 5-year average, it trades at a 7% premium.

Sector	2Q 2019 Allocation (%)	1Q 2019 Allocation (%)	Total Return YTD (%)	Total Return TTM (%)
Consumer Discretionary	9.2%	8.7%	16.9%	11.3%
Consumer Staples	6.1%	6.6%	13.2%	19.2%
Industrials	11.5%	11.5%	16.4%	2.6%
Communications	10.9%	8.9%	18.5%	
Technology	20.7%	20.7%	21.5%	9.9%
Health Care	13.8%	14.8%	1.7%	7.7%
Real Estate	2.4%	3.4%	17.7%	23.3%
Finance	14.2%	14.7%	12.5%	-3.2%
Basic Materials	2.0%	3.0%	7.3%	-7.2%
Energy	5.6%	6.1%	11.7%	-14.8%
Utilities	3.6%	1.6%	9.8%	21.7%

Source: Standard & Poors

Valuations in the Technology sector were sharply lower in 4Q 2018. We remain neutral on Information Technology. However, we see value in the space supported by buybacks and moderated valuations. Semiconductors look attractively priced and stand to benefit from a stabilization in China trade uncertainty. The movement in the Technology sector is highly sensitive to the largest holdings represented. The five largest technology stocks now represent 50.3% of the total Technology sector.

Technology Sector	Market Cap $ billions*	% of Sector	Total Return YTD (%)	Total Return TTM (%)
Microsoft	$ 965.70	19.0%	24.3%	36.5%
Apple Inc	$ 878.40	16.8%	32.6%	20.0%
Visa Inc	$ 355.80	5.6%	22.2%	27.5%
Cisco System Inc	$ 230.80	4.5%	26.8%	27.3%
Mastercard Inc	$ 251.60	4.4%	32.1%	29.8%
Technology Sector Total	**$ 4,835.42**	**50.3%**		

Source: Standard & Poors
**Tech Market Cap is based on XLK SPDR Info Tech Sector ETF as of 3/31/2019*

We also remain overweight Industrials, as capex/depreciation ratios remain low. Sectors leveraged to global growth and commodities seem to be pricing in a weak outlook. If trade tensions ease and Chinese growth picks up we believe these groups will receive a tailwind.

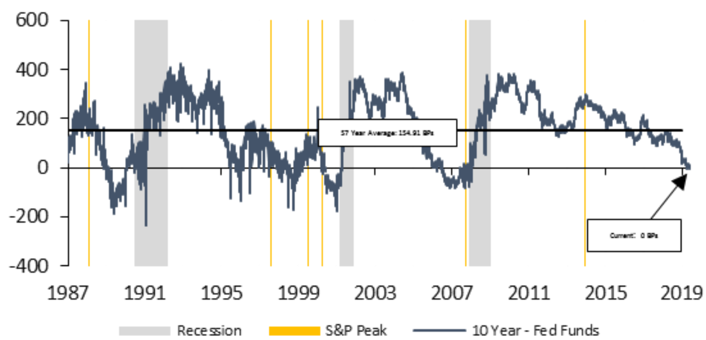
FIXED INCOME

With the expectation of a slowdown in domestic economic growth, we have experienced a sharp decline in the level of long-term interest rates this quarter. The yield on the 10-year U.S. Treasury declined from a high of 2.75% earlier this year to 2.36% in the second quarter. At the same time, we have experienced a modest tightening in credit spreads. We still favor the short duration credit space given the risk reward relationship. The single biggest determinant to the total return for fixed income is the duration exposure in the portfolio. With the decline in long term interest rates, intermediate and long duration strategies outperformed in fixed income.

We are concerned about a deterioration in credit that will manifest in the leveraged loan market. However, in general we believe investors are compensated for credit risk. We would prefer to take on credit risk rather than duration risk in our recommended portfolio allocation. Given the recent widening in spreads in the high yield sector, we are looking for an entry point to add to high yield exposure. We discuss leverage loans in more detail on the Alternatives Section where we address Business Development Companies.

Slope of the Yield Curve and S&P 500 Timeline

Basis Points (BPs)



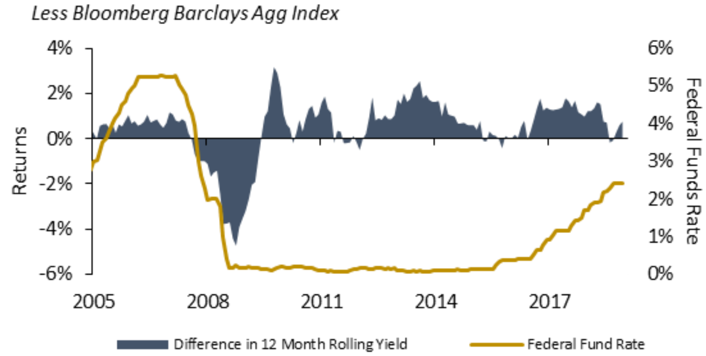
Source: Federal Reserve of St. Louis

We remain cautious on floating rate securities which use leverage loans. We believe we are on the front end of a potential shift in the credit cycle which will manifest in the leveraged loan market. Leverage loans are a significant piece of the capital markets and have increased to over $1.0 trillion in size, which is now larger than the high yield market. This pushes risk from the banking sector, which historically held this asset class, directly into the public market. This includes mutual funds, collateralized loan obligations and Business Development Companies. As a sign of a frothy market, recently, many leveraged loans have been underwritten with a lower standard of covenant protection. These loans, known as “covenant light loans,” often exhibit deterioration early in the credit cycle.

Global fixed income is a challenging asset class for retail investors limited to pooled products such as mutual funds and ETF’s because of the high fees, long-only bias, multiple currencies, and general portfolio structure. Global fixed income funds can exhibit high levels of volatility that are not necessarily commensurate with their realized total rates of return over measured time horizons. They also exhibit high investment fees. In addition, the current deficit spending for many sovereign issuers and the outlook for a global economic slowdown do not provide catalysts for credit improvement. As a result, we do not currently include an allocation to global fixed income in our asset allocations.

Rolling 12-Month Performance of S&P 500 Index

Less Bloomberg Barclays Agg Index



Source: Federal Reserve of St. Louis; Standards & Poors; Bloomberg Barclays

ALTERNATIVES

We view Alternative assets as an important part of a diversified portfolio. In general, our Alternatives sector considers Private Equity, Hedge Funds, Real Estate, Private Investments, Business Development Companies, and Liquid Alternatives.

- ### Hedge Funds

  We maintain our preference for Global Macro and Multi-Strategy hedge funds with competitive fee structures. We continue to seek specific hedge funds with managed levels of volatility that generate positive Sharpe ratios. As volatility is likely to increase in the future, we expect these types of funds to contribute to the overall performance of the portfolio in a non-correlated manner. We prefer market neutral hedge funds because they have lower correlations to other asset classes in the portfolio and are more likely to provide alpha when measured correctly against a multi-factor benchmark.

- ### Real Estate

  Commercial real estate should benefit from lower interest rates, which will help support the current level of cap rates. The credit characteristics for commercial real estate have held up well over the past decade. Commercial real estate has experienced solid growth over the past ten years, and low interest rates will help continue to fuel development. We are in the camp that a bubble in commercial real estate is growing and it is helped by the rapid growth in Opportunity Zone Funds that have come to market. We are cautious on valuations in certain geographic areas as cap rates have declined to extremely low levels; however, we do not see any immediate catalysts for valuation changes.

- ### Private Equity Investment

  Valuations for private companies have increased dramatically over the past decade as demand from private equity funds has increased. According to *Pitchbook,* there are over one trillion dollars of committed but undrawn capital on the private equity and venture fund space. Given high valuations, forward looking returns for private equity & venture capital funds, as well as direct private equity investments are lower than they have been in the past. Given the high valuations, we are not constructive on private equity and venture capital.

- ### Business Development Companies

  Business Development Companies (BDCs) are a business structure that came into existence in 1980 as an amendment to the Investment Act of 1940. For asset allocations that are limited to public securities, BDCs offer non-correlated returns and a high level of income. However, BDC corporate structures allow for higher levels of leverage than closed end funds and have higher fees. We are cautious on BDCs because the underlying collateral is generally a form of leveraged loans which we have concerns. However, the recent price decline of many BDCs provides an entry point for long term total return investors.

- ### Liquid Alternatives

  Admittedly, this is a difficult space for investors. Whenever Wall Street repurposes an investment strategy designed for the institutional marketplace into retail, it doesn't necessarily work the same. Despite the dramatic underperformance from liquid alternatives in 2018, we still maintain a small strategic allocation to this sector. The low correlation to other asset classes makes well run, fee-conscious liquid asset funds attractive over long time periods. We are looking to add to our allocation in Liquid Alternatives given current valuations.

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