CIO PORTFOLIO STRUCTURE
ASSET ALLOCATION MODELS

WINTHROP CAPITAL MANAGEMENT

THIRD QUARTER 2019

PORTFOLIO STRUCTURE SUMMARY

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With an abrupt turn in monetary policy, the Federal Reserve has shifted to a more accommodative policy by lowering interest rates 25 basis points in July. Asset prices have been buoyed by the accommodating shift in Fed policy, however, the underlying fundamentals show a domestic economy that is still growing, albeit at a slower rate. The capital markets are struggling to adjust to the impact of the recent threat of higher tariffs on China and appear to be ignoring a disruptive Brexit process that appears to be leading toward a hard Brexit, the growing conflict in the Middle East particularly with Iran, and economic and technology wars with China and Russia. Given the elevated valuations of financial assets and likelihood of volatility spikes, our theme for the second half of 2019 is generally one of risk reduction in portfolio structures.

Domestic Equity: We are increasing allocation to low volatility strategies and small cap

Valuations are stretched given our current earnings growth expectations. We are shifting large cap allocation to an increase in low volatility strategies in an effort to reduce the overall beta of the equity exposure. At the same time, given the lagging performance and more favorable relative value, we are increasing slightly our exposure to domestic small cap.

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

Domestic Fixed Income has had a great run this year. With the yield on the 10 year U.S. Treasury hovering around 1.55% and credit spreads holding tight, we are moving to shorten portfolio duration and position portfolios up in quality. This is not a market to reach for yield. While we expect credit fundamentals to remain stable over the near term, we expect the next move in credit is toward weakness. Interest rates remain range bound; however, weakness in the domestic economy will push rates to the lower end of the range. The next move by the Fed is to lower rates.

Global Equity: We expect global growth to stabilize in the second half of 2019.

While global economic growth decelerated in the first half of the year, we expect global growth of the developed countries to begin to stabilize in the second half of 2019. The ECB has already signaled that it will move to a more stimulative monetary policy including reigniting its quantitative easing program. We expect that the Brexit initiative will finally be resolved and the United Kingdom will leave the European Union without a deal. This will remove the uncertainty around business investment and adjustments of supply chains. In addition, we expect that the U.S. will strike a modest deal with China. While we don't expect trade to move back to pre-tariff levels, we do expect that manufacturing will move to other countries which will help supply chains and buoy trade. A critical issue to global growth is stability in the health of the European banks; there is some work to do in that area.

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

With volatility falling and the dollar strengthening against major currencies, we believe global fixed income is too expensive given the risk reward trade off.

Alternatives: We recommend reducing exposure to leveraged credit strategies

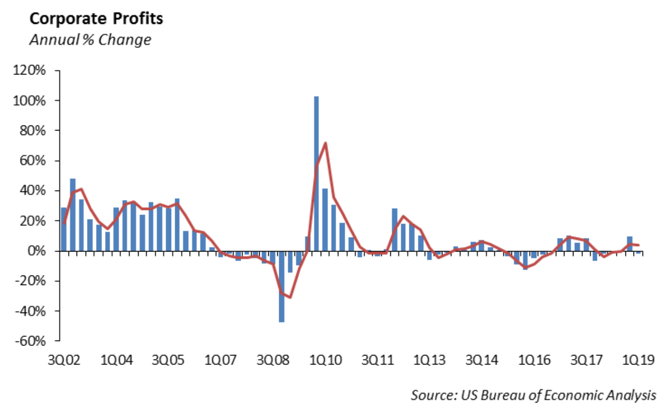
We are recommending reducing exposure to leveraged credit strategies and continue to prefer Global Macro and Multi-Strategy Hedge Funds. We are cautious on Real Estate development and extremely selective on investing in Opportunity Zone Funds. In addition, we are generally sanguine on PE with valuations still appearing elevated.

ASSET ALLOCATION & PORTFOLIO STRUCTURE

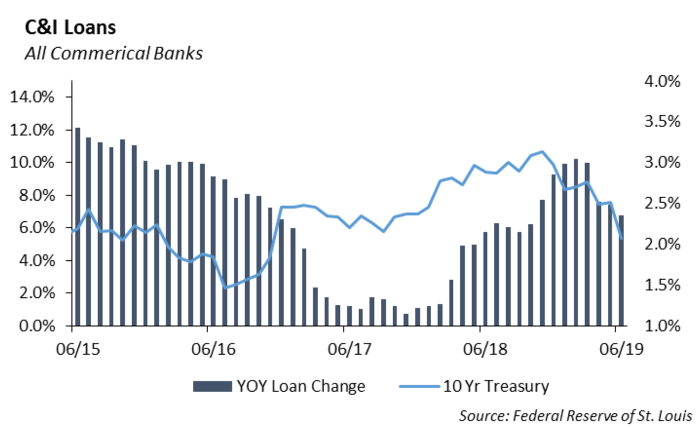
Given the elevated valuations in domestic equity, we are focused on reducing risk in our Models during the second half of the year. With lower expected returns in the third quarter, investors should look to transition toward safety in portfolio asset allocation. With the shifts in our asset allocation, we are seeking to decrease portfolio risk while increasing the potential return. These shifts in portfolio structure consider the potential for investment return over the long term.

Up to this point, publicly traded financial assets have performed well, especially considering that expectations were lower heading into 2019. With the S&P 500 posting over a 17% total return and the Barclays Aggregate bond index up over 6% through the first half of the year, financial assets posted solid gains. This is one of the best first half of the year posts for the S&P 500 in its history. However, we do none expect to replicate those returns on the second half of the year.

Corporate earnings have come in stronger than we expected for the second quarter, however we expect earnings on large cap to trend lower and slowing global economic growth to negatively impact business activity. In general, companies with a global footprint have seen larger decline in earnings then domestic companies so far this quarter. As a result, given the recent sharp rally in equity prices, we have made several steps to shift the domestic equity allocation. 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 holding steady on our emerging market exposure and continue to look for an opportunity to increase our allocation. However, until there are strong catalysts for global economic growth, which would include a resolution to the U.S. – China trade tariff issues and improvement in the balance sheets of the European banks, we are not considering any changes to the current exposure.

WINTHROP CAPITAL MANAGEMENT

DOMESTIC EQUITY ALLOCATION

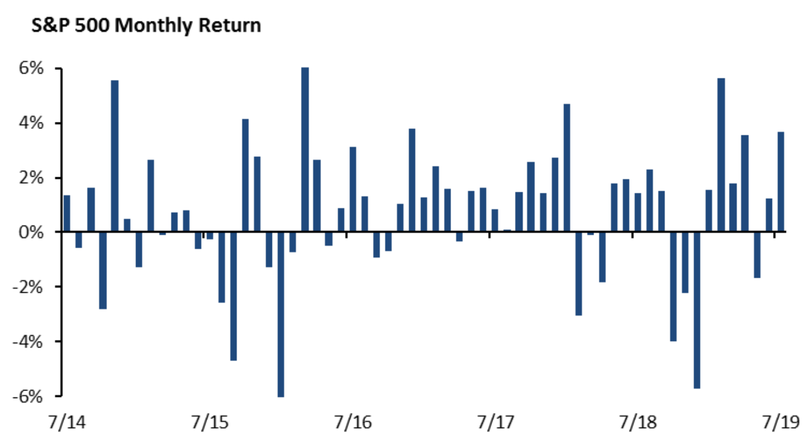
Asset Class	Current Tactical Weight*	2Q2019	1Q2019
EQUITIES			
U.S. Large Cap Growth	Neutral	4.6%	16.1%
U.S. Large Cap Value	Over	3.8%	11.9%
U.S. Small Cap Growth	Over	2.1%	14.6%
U.S. Small Cap Value	Over	1.4%	11.9%
International Developed	Under	4.0%	10.7%
Emerging Markets	Neutral	0.7%	9.9%
FIXED INCOME			
U.S. Governments	Under	3.0%	3.1%
U.S. Mortgages	Under	2.0%	2.2%
U.S. Corporates	Over	3.5%	5.1%
U.S. Municipal	Neutral	2.1%	2.9%
High Yield	Neutral	2.5%	7.3%
International Fixed Income	Under	3.8%	5.4%
Cash	Over	3.0%	2.1%

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*

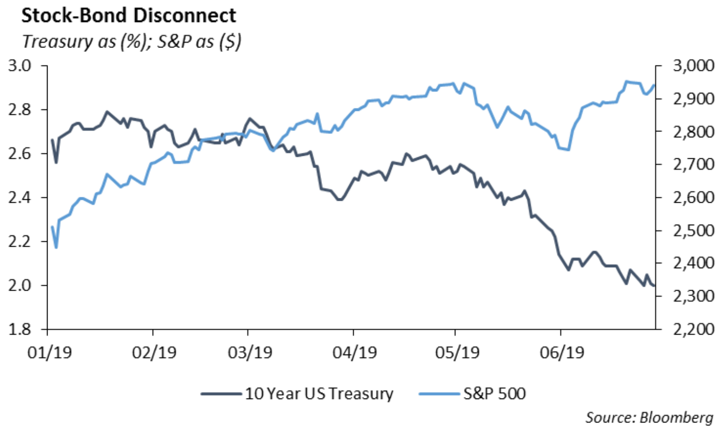
The equity market posted strong performance in the first half of the year with the S&P 500 returning over 17%. At this point, valuations in domestic equity appear on the high side. We expect earnings on the S&P 500 of around $175 and earnings growth close to 3%. At a 16x multiple to future earnings, we believe the S&P 500 is near fair value at a level between 2700 and 2800. Volatility remains elevated given the heightened geo-political tensions, the potential for a hard Brexit, the uncertainty over the trade spat with China, and expected slowing in earnings growth. We are guiding expectations toward low single digit returns for the second half of the year.



Source: Standards & Poors

Our base line thesis continues to center on the slowing rate of growth in the domestic economy. So far, the deterioration in earnings growth has not been as severe as we had expected. However, earnings will continue to be under pressure in the second half of the year due to higher labor costs, higher raw material costs, and global trade uncertainty. While revenue growth should remain above a 3% growth rate, we expect profit margins, which have been near historic wide levels, will be under pressure. Watch for an increase in corporate restructurings and labor cost reduction initiatives heading into the fourth quarter. We expect the Fed will continue to lower short term interest rates, and we are still not in the camp that an economic recession is imminent.

As the Federal Reserve moves to amore accommodative position, asset values of publicly traded securities have increased sharply. As a result, there appears to be a growing disconnect between stock prices and bond valuations relative to slowing economic growth.



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.

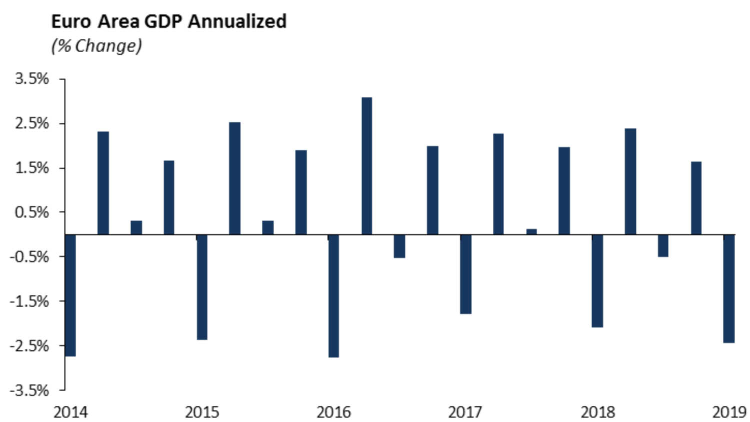
As our thesis for slowing economic growth plays out, we are constructive on bond allocations in our model portfolios. Bonds typically outperform stocks during periods of economic slowdown.

GLOBAL EQUITY ALLOCATION

Global economic growth has been slow over the past year. However, the recent move by the European Central Bank is not yet enough for us to begin a shift in our view and increase our allocation to developed markets.

With the recent election of Boris Johnson as the Prime Minister of England, we are expecting the United Kingdom to leave the European Union without a deal at the end of October. We expect the result will be near term chaos as everything from trade agreements, cross border security, and taxes get sorted out. The chaos will have the effect of dampening economic growth over the near term; however, as trade gets figured out and business investment and infrastructure spending increases, there appears to be some catalysts for growth.

The economies of Germany, France and Italy are struggling to show growth. Germany posted a -.1% in economic growth for the second quarter. The ECB's recent decision to lower short term interest rates by 25 bps and fire up its bond purchase program will provide much needed stimulus to the Eurozone economy. The ECB's bond portfolio currently stands at €2.6 trillion and was terminated last December. However, the ECB is acknowledging that economic growth and inflation are well below its target levels. The bond buying program is controversial and we expect Germany will contest it. However, it will help to support the financing of Italy's budget deficits.



Source: Eurostat

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

Performance of Technology and Real Estate sectors has been strong through the first half of the year, while the Energy and Healthcare sectors were the big laggards.

Sector	3Q 2019 Allocation (%)	2Q 2019 Allocation (%)	Total Return YTD (%)	Total Return TTM (%)
Consumer Discretionary	12.0%	9.2%	19.5%	9.5%
Consumer Staples	8.5%	6.1%	15.0%	13.4%
Industrials	5.5%	11.5%	19.6%	7.8%
Communications	4.5%	10.9%	17.7%	-1.2%
Technology	14.2%	20.7%	25.8%	11.3%
Health Care	14.2%	13.8%	8.7%	10.7%
Real Estate	11.4%	2.4%	21.4%	13.1%
Financials	1.8%	14.2%	13.8%	3.3%
Basic Materials	2.2%	2.0%	15.2%	1.3%
Energy	22.1%	5.6%	8.9%	-14.8%
Utilities	3.6%	3.6%	14.7%	13.9%

Source: Standard & Poors

2Q 2019 earnings in the banking sector were mixed. Banks showed strength on the consumer business, but generally released reserves from the loan loss reserves which helped to contribute to earnings. We expect the flattening in the yield curve will have a negative impact on earnings growth.

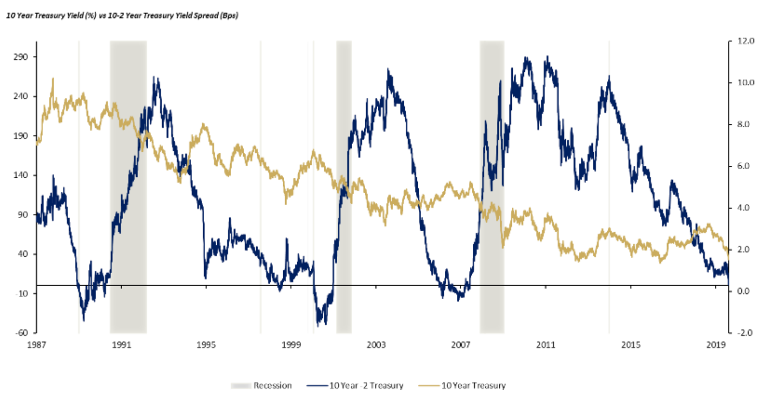
Valuations in the Technology sector were sharply lower in 2Q 2019 given the government push for increased oversight of large technology companies and the China trade war. We are growing more cautious on the Technology sector given the valuation level and the unresolved trade issues with China.

While we are maintaining our current weightings toward the manufacturing sector near term, we did shift within our allocation to add a specific ETF exposure to aerospace and defense. Manufacturing is currently slowing as trade concerns with China and Europe are impacting the sector. We are maintaining the current exposure to the Communications sector. While we are constructive long term on the Communications sector, we have near term concerns on balance sheet leverage and execution risk with the shift to direct to consumer business models with several of the larger companies in the sector.

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 a 2.36% yield in the second quarter, and a 1.55% yield into the third 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 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 remain cautious on floating rate securities which use leverage loans. We believe we are early in 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.

ALTERNATIVES

We view Alternative assets as an import 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 changes over time, we expect these types of funds to contribute to the overall performance of the portfolio in a non-correlated manner. In addition, we prefer Multi-Strategy hedge funds because they generally have lower correlations to publicly traded asset classes in the portfolio and are more likely to provide positive alpha when measured against an appropriate multi-factor benchmark.

- ### Real Estate

  Commercial real estate has showed solid performance over the past ten years and will continue to benefit from lower interest rates, which will help support the current level of cap rates. While the credit characteristics for commercial real estate have held up well over the past decade, we are concerned with the quality of underwriting we are seeing into the structured securities and funds market. We prefer investments in multi-family, office and medical office over senior living, storage and retail sectors.

Private Equity Investment

So far this year we have seen several initial public offerings of high profile startup companies that have underperformed after the IPO. These include Uber, Valuations for private companies have increased dramatically over the past decade as demand from private equity funds has increased. According to *Pitchbook,* there is 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 less constructive on investments in current private equity and venture capital.

- ### Business Development Companies

  Given the leverage and underlying collateral in Business Development Companies (BDCs), we remain cautious in our allocation. While we are not seeing deterioration in losses, the quality of the underwriting of the loans is a concern. Leverage is a two-sided coin and investors have benefited from the decline in interest rates. However, leverage in an ultra-low interest rate environment to juice returns in publicly traded securities is a high risk strategy.

- ### 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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