

PORTFOLIO STRUCTURE SUMMARY

The domestic economy is in a period of slowing growth the manufacturing sector continues to show signs of weakness. We expect that progress on resolving U.S. – China trade issues as well as getting on with Brexit will ultimately provide a catalyst for near term growth. We are not predicting a positive outcome to either issue; however, both may prove to be a material catalyst for an increase in fixed investment and consumption. We expect the Federal Reserve may pause its initiative to lower interest rates by December given the current state of the economy and clarity on both issues. In the absence of fiscal discipline in most developed countries, aggressive monetary policy is being used in the hope of stimulating growth. The results include instability in capital markets, growing budget deficits, and a growing debt burden. We are challenged to navigate the capital markets with investment strategies that allow us to meet investor objectives with the appropriate level of risk. Expected returns on financial assets will likely be lower in the coming year given the elevated valuations of financial assets and likelihood of volatility spikes. As a result, our theme heading into 2020 is generally one of risk reduction in portfolio structures.

Domestic Equity: We maintain our current allocation and look to increase small cap.

We expected earnings growth to be down -5.0% year-over-year for 3Q earnings. While earnings are coming in generally better than we expected, valuations appear on the high side. We have shifted a portion of our large cap allocation to low volatility strategies in an effort to reduce the overall beta of the equity exposure. Given the continued lagging performance of the small cap sector, we increased slightly our allocation. However, given its favorable relative value, we are looking for the opportunity to add to existing allocation of 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 1.75% and credit spreads firming, we are maintaining our portfolio durations to be short the benchmark and have positioned portfolios up in quality. As a result, we are reducing exposure to Core and Core Plus fixed income strategies. While we expect credit fundamentals to be stable, we expect the next move in credit is toward weakness. Interest rates remain range bound; however, current weakness in the domestic economy will keep rates to the lower end of the range.

Global Equity: We expect global growth to increase in 2020.

The central banks of the developed countries have pushed aggressive monetary easing for the better part of this year. As a result, we expect there will be some traction toward global economic growth. The ECB has reignited its bond purchase program and lowered short term interest rates. In addition, the ultimate resolution of Brexit will be a catalyst for growth in Europe as business investment increases. 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.

Alternatives: Increasing exposure to Multi-Strategy Funds

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.

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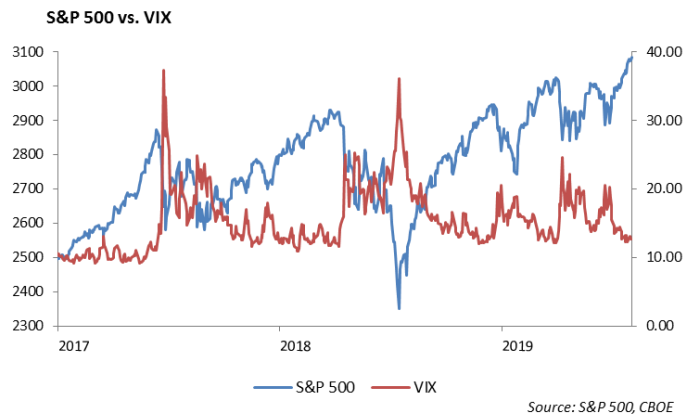
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ASSET ALLOCATION & PORTFOLIO STRUCTURE

Given current valuations in domestic equity, we are focused on reducing risk in our Portfolio Models heading into the end of the year. At the same time, we are looking for the opportunity to increase international exposure in growth model strategies. In general, international stocks have lagged domestic over the past three years and we believe that the progress toward a resolution to both Brexit and the trade war with China may be enough of a catalyst to spur growth.

By historic measures, publicly traded financial assets have performed well this year. Year to date, stock prices, measured by the S&P 500, have increased over 21%. Over the same time frame, bonds, measured by the Bloomberg Barclays Aggregate Bond Index, increased 6.3%. That this performance was produced in an environment of declining earnings expectations, uncertainty over global trade, and slowing global growth is remarkable. However, we do not expect to replicate those returns next year.

In spite of declining earnings expectations, corporate earnings have come in stronger than we expected for both the second and third quarters. We have seen a slight shift away from growth toward value late in the quarter. In addition, dividend based strategies have performed well over the quarter. As a result, given slightly elevated equity valuations, we have made several steps to shift the domestic equity allocation and reduce risk to the equity basis where appropriate.



We are holding steady on our International exposure and continue to look for an opportunity to increase our allocation. However, until there are strong catalysts for growth, which would include a resolution to Brexit, 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.

Asset Class	Current Tactical Weight*	YTD 2019	3Q2019	2Q192019	1Q2019
EQUITIES					
U.S. Large Cap Growth	Over ↑	26.8%	1.5%	4.6%	16.1%
U.S. Large Cap Value	Over ↑	19.3%	1.4%	3.8%	11.9%
U.S. Small Cap Growth	Over ↑	15.0%	-4.2%	2.1%	14.6%
U.S. Small Cap Value	Over ↑	14.6%	-0.6%	1.4%	11.9%
International Developed	Under ↓	14.2%	-0.9%	4.0%	10.7%
Emerging Markets	Under ↓	7.0%	-4.2%	0.7%	9.9%
FIXED INCOME					
U.S. Governments	Neutral →	9.1%	2.4%	3.0%	3.1%
U.S. Mortgages	Under ↓	6.0%	1.4%	2.0%	2.2%
U.S. Corporates	Over ↑	13.3%	3.0%	3.5%	5.1%
U.S. Municipal	Neutral →	6.9%	1.6%	2.1%	2.9%
High Yield	Neutral →	11.7%	1.3%	2.5%	7.3%
International Fixed Income	Under ↓	11.4%	1.3%	3.8%	5.4%
Cash	Over ↑	7.8%	2.4%	3.0%	2.1%

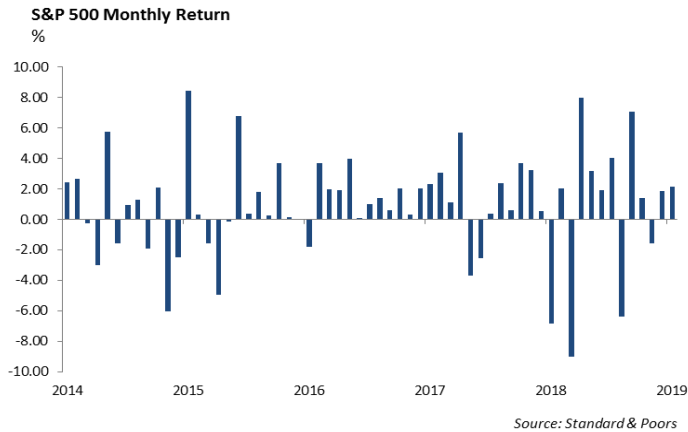
Source: Bloomberg, Barclays

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

** US Large Cap Growth = Russell 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

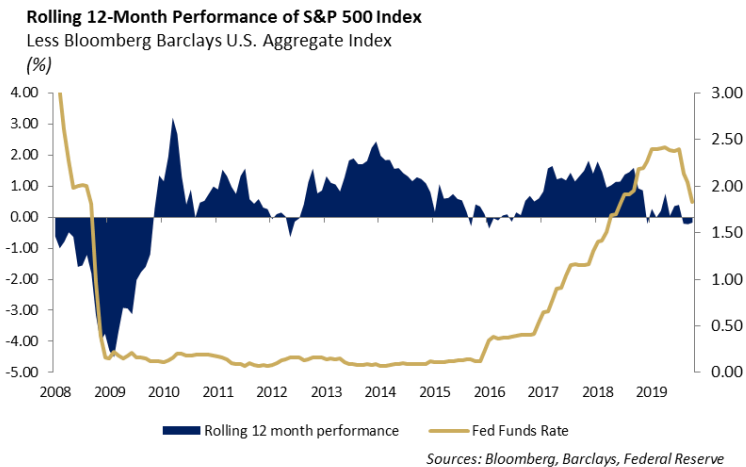
The equity market, measured by the S&P 500, is up over 22% year-to-date and reached record levels at the beginning of the fourth quarter. Valuations in domestic equity are on the high side and we are concerned that the quality of earnings is diminishing. We expect earnings on the S&P 500 of around \$175 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 is low in spite of heightened geo-political tensions, the potential for a hard Brexit, the uncertainty over the trade spat with China, instability in the Middle East, and expected slowing in earnings growth.



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 fourth quarter 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 pause its monetary easing and not move short term rates in December. 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.

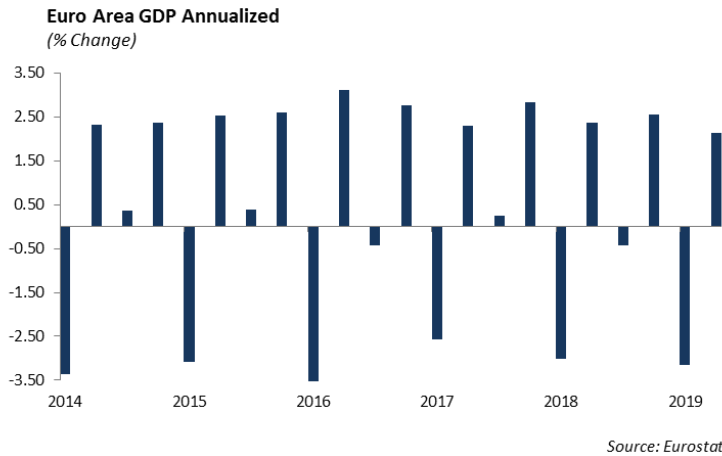


GLOBAL EQUITY ALLOCATION

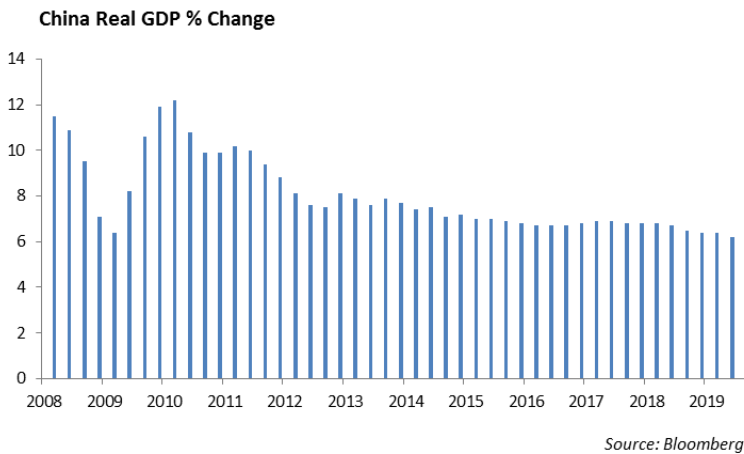
Global economic growth continues to slow through the third quarter. However, recent moves from central banks of developed countries to a more accommodative monetary policy has provided much needed stimulus for economic growth. In addition to the Fed, the European Central Bank and Bank of Japan have recently lowered target short term rates. In addition, the ECB has restarted its bond purchase program which will help to keep interest rates low throughout the European Union.

Brexit has slogged on for over three years and we expect we are nearing the end. The markets are discounting a negotiated deal; however, it is so complex that we would expect volatility spikes to occur as the drama unfolds heading into the referendum vote in December.

Germany is the largest economy in Europe, is teetering on recession, in spite of running a budget surplus with negative rates on its 10 year bund. We would expect that even the most benign fiscal stimulus coming out of Germany would be a boost for growth in the EU. In addition, France and Italy are struggling to show growth.



In spite of the breakdown in trade negotiations, we are still anticipating the resolution of Phase One of the U.S. – China trade dispute. 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, Industrial, and Communications sectors has been strong through the first three quarters of the year.

Sector	4Q 2019 Allocation (%)	3Q 2019 Allocation (%)	Total Return YTD (%)	Total Return TTM (%)
Consumer Discretionary	10.0%	10.2%	22.1%	10.1%
Consumer Staples	7.4%	7.3%	19.6%	6.8%
Industrials	9.2%	9.5%	27.0%	13.0%
Communications	10.4%	10.2%	26.3%	13.1%
Technology	22.3%	21.5%	38.7%	23.4%
Health Care	14.0%	14.2%	9.9%	1.9%
Real Estate	3.1%	3.1%	21.4%	14.3%
Financials	13.0%	13.1%	24.9%	9.7%
Basic Materials	2.7%	2.8%	19.2%	9.3%
Energy	4.3%	5.0%	5.2%	-11.9%
Utilities	3.5%	3.3%	16.5%	11.9%

Source: Standard & Poors

We remain overweight technology in most of our Portfolio Models. We are still in the early stages of cloud growth and 5G and believe that both are catalysts for continued growth. In addition, we are overweight both Healthcare and Industrials. Healthcare is trading at a 14% discount to its 5 year average PE and is up only 10% YTD compared to 25% for the S&P 500. Within the Industrial sector, we like Aerospace & Defense and see trade war resolution as a catalyst for increased growth. In addition, we are overweight the Communications Sector with the movement toward streaming.

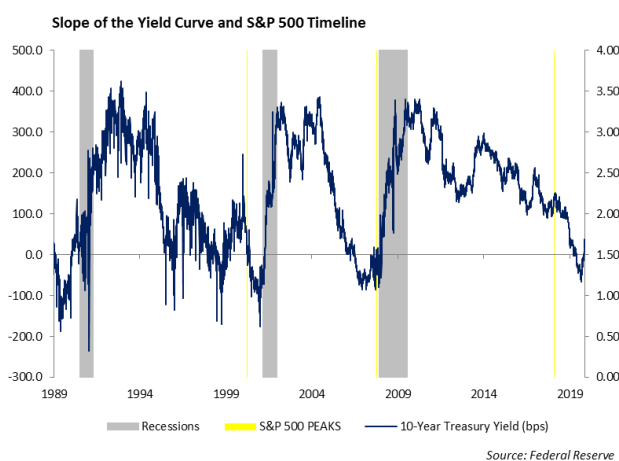
We have moved toward an underweight position in Utilities and Real Estate which were both strong performers in 2019 as interest rates have decline sharply which has led to overvaluation. In addition, we are underweight Energy. The slowing global economy reduced oil demand and we see really no catalyst for energy to outperform near term.

We are neutral on the Consumer Sector. This is driven by strong consumer activity, and while economic data shows strong consumer behavior, weak manufacturing data and a deterioration in the labor market may lead to less spending over coming quarters.

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 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.



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 a catalysts for credit improvement. As a result, we do not currently include an allocation to global fixed income in our asset allocations.

ALTERNATIVES

We view Alternative assets as 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 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.

- 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 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 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

With valuations in domestic equity at uncomfortable levels, we are increasing our allocation to alternatives in our Tactical Allocation Models. We utilize Alternatives to provide non-correlated returns to diversified portfolios investing in stocks and bonds. The challenge is to identify funds with consistent performance, positive Sharpe ratios, and low fees. We have added a position in Blackrock's Factor Fund K (BSTKX) which is a long/short global fund. This factor based strategy is expressed through total return swaps with major global banks. The fund is roughly \$300 million in assets and has a waived expense of 0.50%.

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