2020 4Q
ASSET ALLOCATION OUTLOOK

Contents

WATERROCK
GLOBAL ASSET MANAGEMENT LLC

CIO SUMMARY

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WHAT AND WHY?

We continuously monitor various asset classes which provide the framework for our deeper-dive quarterly analysis. We look at each asset class relative to itself and relative to other asset classes. This analysis seeks out potential tactical adjustments which may be appropriate for implementation in client portfolios.

The aim is to overweight asset classes that are perceived to be undervalued and to underweight asset classes that are perceived to be overvalued.

The result is striving to modestly enhance the return of the portfolio while simultaneously seeking to mitigate overall risk in the portfolio relative to an acceptable level of risk.

HOW?

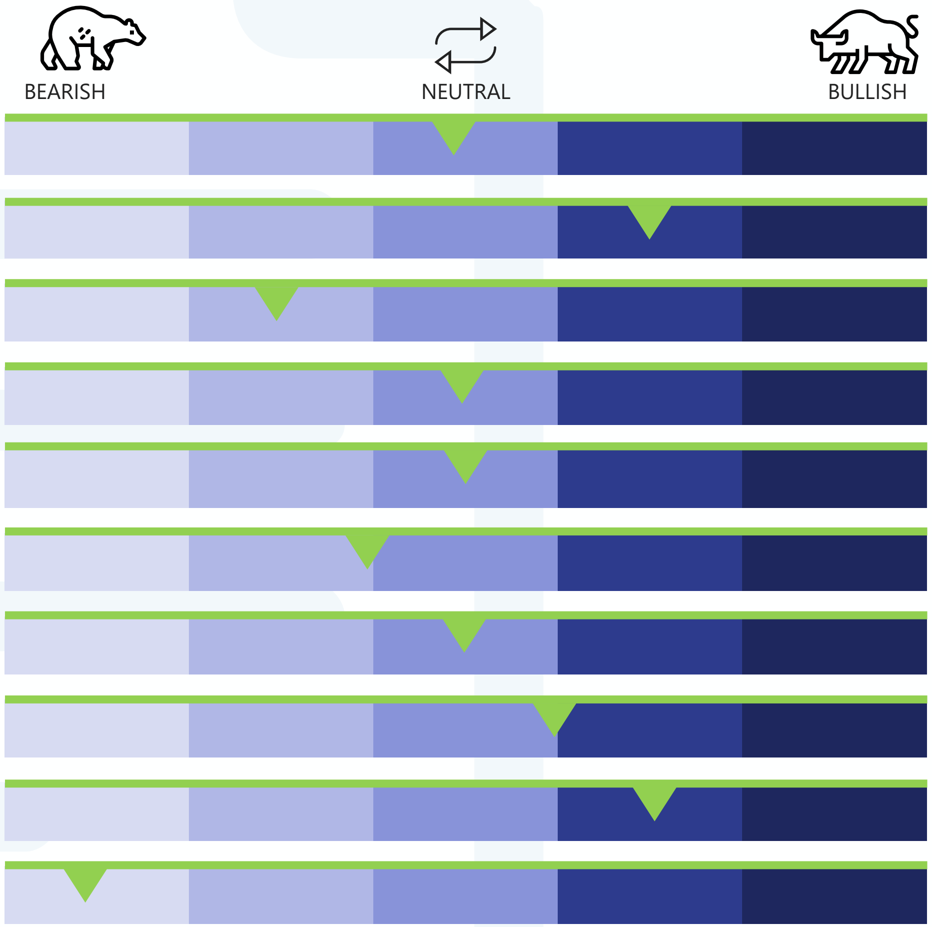
We use two factors to drive our Asset Allocation weights: Valuation and Technicals. While we do not want to fight the trend (technicals), we also do not want to disregard valuations. Cheap can get cheaper and expensive can get more expensive.

As an example, while growth has outperformed value for a decade and has been expensive for a few years, it just keeps getting more expensive. Conversely, value just keeps getting cheaper, but has gotten so cheap that a slight overweight seems merited.

EQUITIES

EQUITIES

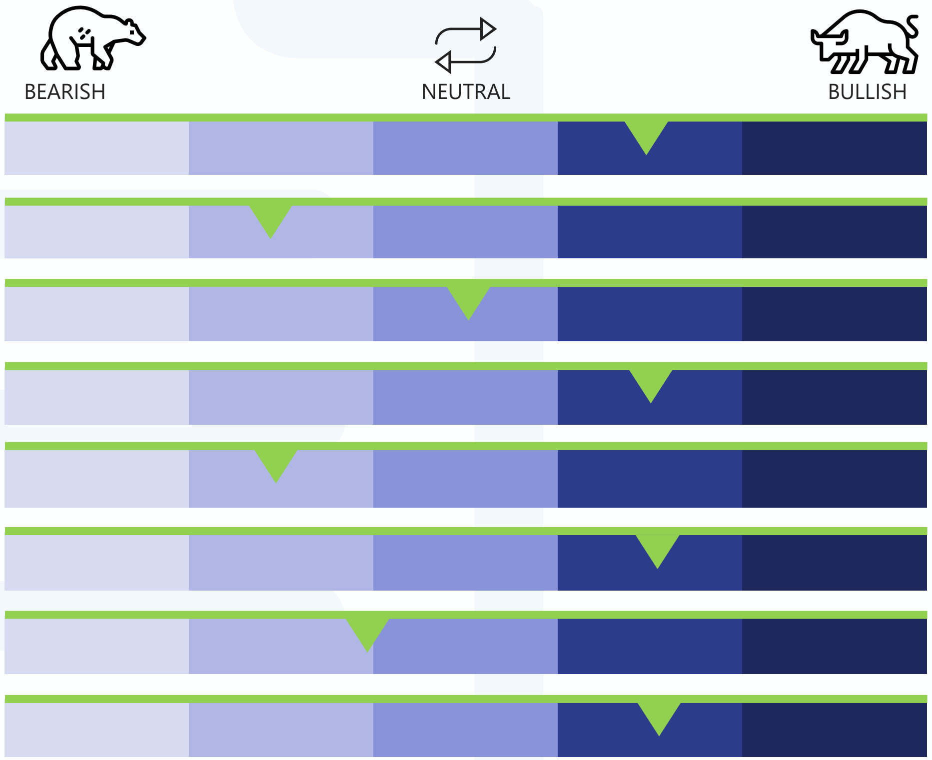
12-18 MONTH EQUITY ASSET ALLOCATION WEIGHTINGS



	VALUATION	TECHNICALS
U.S. Equities	Expensive	Neutral
U.S. Value	Cheap	Neutral
U.S. Growth	Very Expensive	Good
U.S. Large Cap	Expensive	Good
U.S. Mid Cap	Expensive	Neutral
U.S. Small Cap	Expensive	Weak
Int’l Dev Equity	Fair Value	Neutral
Emerging Mkt Equity	Cheap	Neutral
Opportunistic Equity	Cheap	Good
Opportunistic REIT’s	Expensive?	Weak

FIXED INCOME

12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS



	VALUATION	TECHNICALS
High Quality Fixed Inc	Fair Value	Good
Long Duration	Expensive	Neutral
Intermediate Duration	Expensive	Good
Short Duration	Expensive	Good
Corporate High Quality	Expensive	Neutral
Mortgage Backed Sec.	Fair Value	Neutral
Low Quality Fixed Inc	Expensive	Neutral
Opportunistic Fixed Inc	Fair Value	Good

OUTLOOK

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12-18 MONTH ASSET ALLOCATION OUTLOOK

What a Difference Three Months Makes

There is still a lot of uncertainty on our path forward. However, we now have another quarter of earnings reports since the pandemic hit, which gives us a better road map on valuations in this environment. We have seen strong earnings from the work-from-home companies, but many other areas continue to show weakness. If the affects of the pandemic fade, there may be a large rotation the other way.

Technicals Have Had Time to Repair

The longer-term charts still show the big dip in March, but with six months of additional data, we are getting a clearer view of the recent trajectory. The shorter-term trends have been improving, though several are shuffling sideways.

Notable Changes

- There was a bias toward not increasing overall risk, given the uncertain outcome of the U.S. election, which is only six weeks away. However, this was balanced with continuing to embrace areas of opportunity which showed resilience during the recent drawdown.
- The opportunistic equity sector has been weighted in favor of Frontier Markets. It is a relatively cheap asset class and should not be highly correlated with volatility associated with the U.S. election.
- Opportunistic fixed income has been allocated in favor of Senior Bank Loans, which have held strong through September. Floating rate, senior-secured notes should provide some ballast against the possibility of a contested election and any potential resultant increase in interest rates.
- We continue to refrain from allocating to opportunistic real estate. With the impact of the COVID-19 pandemic still reverberating through the commercial real estate market and the poor technicals, the risk-reward is not appealing currently.
- Some less aggressive positions have been maintained, such as mortgage-backed securities vs. high quality corporate bonds. We will reevaluate these weightings after the election.

DISCLOSURES

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