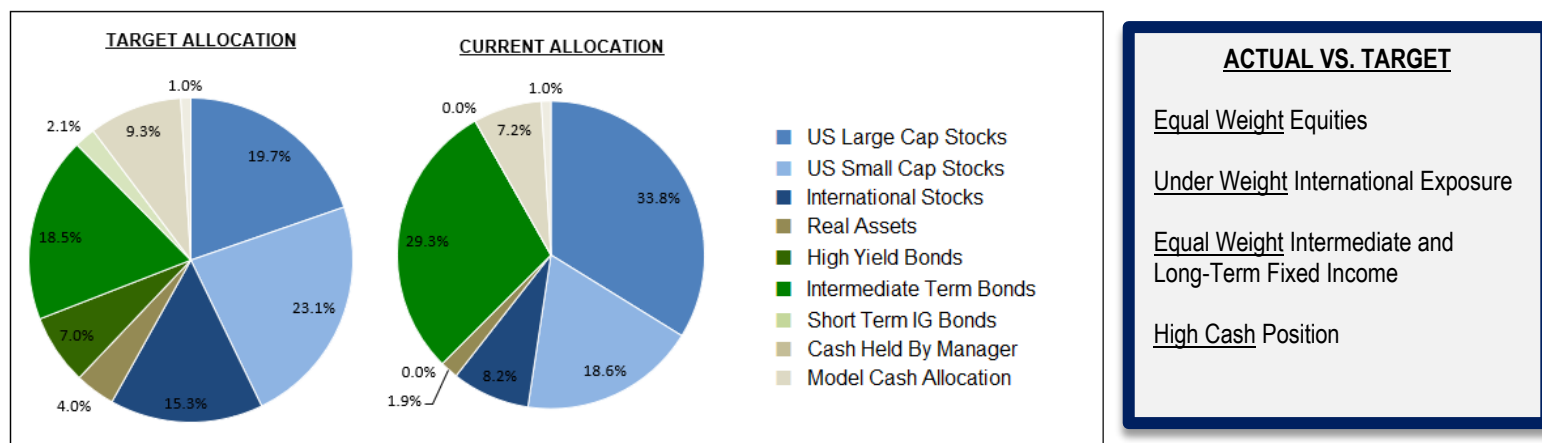


\*General overall portfolio comments refer to the Moderate Growth allocations used in both the Pooled Fund Program and the Unified Managed Account Program. These general comments will be referred to as "Moderate Growth" throughout. Specific references to performance, current allocation, or comparison to indexes are derived from the CWA Model 5 Portfolio in the Pooled Fund Program; these specific comments will be referred to as "Model 5" throughout.

## PORTFOLIO ANALYSIS

**Overall Goal.** We construct portfolios to generate a return that maximizes the probability that an investor will meet their retirement goals, as opposed to maximizing their asset base (which interjects significant risk). We believe that a value bias, international exposure and general diversification provide the best avenue to meet this objective. Our portfolios have lower volatility<sup>†</sup>, but can go through periods where they do not keep pace with the U.S. equity markets (the most common benchmark) because of our focus on value, fixed income and international stocks.

The **Moderate Growth Portfolio** is intended to provide a balanced allocation, with a slight overweight to equities over fixed income. The goal is to provide a balance of growth and income with lower volatility than an all-equity portfolio. Our target and current portfolio asset class allocations for Model 5 are listed below.



## LARGEST EQUITY AND FIXED INCOME POSITIONS

In normal market environments, Moderate Growth has a target allocation of 60% stocks & 40% bonds, with approximately 20% of the portfolio in international equities and fixed income. So, the portfolio is a global one – with a U.S. tilt. By design, the holdings are broadly diversified by location/country, by company size, by credit quality/yield and by maturity/duration. The investment managers have a degree of flexibility which allows them to respond to different market environments, and our equity managers are currently holding a large amount of cash (given current valuations).

<sup>†</sup> as of 03/31/2023, the 10-year volatility (standard deviation) of Model 5 is 9.5%, versus 14.8% for the S&P 500 Index.

## PERFORMANCE

The Moderate Growth portfolios in the Pooled Fund Program and the Unified Managed Account Program have slightly different investments, costs and thus returns. Accordingly, we direct you to your account statement for your individual performance.

In March, Model 5 (net of fees and expenses) underperformed compared to the Global 60/40 Index, underperformed compared to the U.S. 60/40 Index, and underperformed compared to the S&P Moderate Growth which posted the following returns:

PERFORMANCE	MAR	COMMENTS
Global 60/40 Benchmark Index <sup>(2)</sup>	2.74%	Post-SIVB, markets instituted a deflationary playbook with mega cap technology outperforming and skewing market indices higher. While headline indices like the S&P 500 were up 3.67%, Value and Small Caps were negative. This trade began to unwind late in March and has continued into April.
U.S. 60/40 Benchmark Index <sup>(3)</sup>	3.21%	
S&P Moderate Growth Index <sup>(4)</sup>	2.72%	

(1) "Market Perform" means within a range of +10 bps to -10 bps of the applicable index for the month (or +/- 8 bps per month for YTD performance); "Outperform" means more than +10 bps for the month (or more than +8 bps per month for YTD performance); "Underperform" means more than -10 bps for the month (or more than -8 bps per month for YTD performance). **Please note performance comparison comments are based upon Model 5 Pooled Fund Program data. There are inherent limitations in the use of model performance – please read the Model Disclosure found on page 6. Investors should consult their individual custodial statement for actual performance of individual portfolios. Actual performance comparisons may differ from model comparisons.**

(2) Global 60/40 Benchmark is 60% MSCI ACWI Index & 40% Barclays Global Aggregate Bond Index.

(3) US 60/40 Benchmark is 60% S&P 500 Index & 40% Barclays U.S. Aggregate Bond Index.

(4) S&P Moderate Growth Index is 50% S&P Target Risk Moderate Index & 50% S&P Target Risk Growth Index.

## MARKET PERFORMANCE

### Equities

PERFORMANCE	MAR	MULTIPLE	COMMENTS
U.S. Equities <sup>(5)</sup>	2.67%	19.0X	The broad markets were higher during March but were a full percent below technology dominated indices.
International Developed <sup>(6)</sup>	2.61%	13.8X	International developed rebounded during the month.
Emerging Markets <sup>(7)</sup>	3.04%	12.1X	EM rallied as the U.S. dollar briefly weakened post-SIVB collapse.

(5) U.S. Equities are represented by the Russell 3000 Index.

(6) International Developed is the MSCI EAFE Index.

(7) Emerging Markets is the MSCI EM Index.

## Fixed Income

PERFORMANCE	MAR	SPREAD OVER UST 10 YEAR	COMMENTS
U.S. Treasuries (Medium Duration) <sup>(8)</sup>	3.68%	-	Yields fell dramatically during the month after SIVB collapsed, with the market now pricing in Fed rate cuts as soon as this summer. Yields falling did help banks' balance sheets by raising the prices of held-to-maturity securities. However, credit spreads widened by approximately 40 basis points across the curves, so the following effect is tighter liquidity and lending activity.
U.S. Treasuries (Longer Duration) <sup>(9)</sup>	4.75%	0.30%	
Global Fixed Income <sup>(10)</sup>	3.16%	0.06%	
Emerging Fixed Income <sup>(11)</sup>	1.31%	3.98%	
High Yield <sup>(12)</sup>	1.07%	5.02%	

(8) U.S. Treasuries (7-10 Years), represented by the Barclays U.S.T 7-10 Yr Total Return Index

(9) U.S. Treasuries (20+ Years), represented by the Barclays U.S.T 20+ Yr Total Return Index

(10) Barclays Global Aggregate Bond Index.

(11) Barclays Emerging Markets EMEA Total Return

(12) Barclays U.S. Corporate High Yield Index.

**Commodities and Real Assets.** The Model 5 portfolios do not have significant exposure to commodities, except indirectly. However, commodities and real assets (real estate) provide a good sense of global demand (in the case of industrial commodities) or fear (gold).

PERFORMANCE	MAR	TREND	COMMENTS
Energy <sup>(13)</sup>	-3.49%	DOWN	Oil continued to fall during March.
Real Estate <sup>(14)</sup>	-1.76%	DOWN	RE sold off and all eyes are on the Commercial sector, which has \$1.4 trillion worth of debt that needs to be rolled over the next 18 months.
Industrial Metals <sup>(15)</sup>	0.26%	-	Industrial metals were neutral during the month.
Gold <sup>(16)</sup>	7.92%	-	Gold rallied strongly due to a flight to safety post-SIVB.

(13) S&P GSCI Energy Total Return Index.

(14) Dow Jones U.S. Real Estate Index.

(15) S&P GSCI Industrial Metals Total Return Index.

(16) SPDR Gold Shares (GLD).

## Market Comments

We have covered the Silicon Valley Bank and resulting fallout extensively over the past month, and recapping it here seems to be overkill. To hear our thoughts and reactions, please refer to the March 17<sup>th</sup> Friday Investment Presentation that can be found here:

[https://cainwatters.zoom.us/rec/share/\\_ssVmxt0akhefIF19pFc787lYqsHthhGi4arMaXuWLjoU4EcF254qzeBfxmzESEI.1E\\_enc3Yx5LNPkYY](https://cainwatters.zoom.us/rec/share/_ssVmxt0akhefIF19pFc787lYqsHthhGi4arMaXuWLjoU4EcF254qzeBfxmzESEI.1E_enc3Yx5LNPkYY)

Rather than a further reading section this month, we are printing a piece from one of our managers in full as our commentary, because we believe it is important to understand and internalize as we move forward.

### **Silicon Valley Bank Replays the Ugly Consequences of Disintermediation: Assessing ongoing risks related to the SVB Collapse, Anne Walsh, CIO, Guggenheim Partners Investment Management March 13, 2023**

Financial market participants, including the Federal Reserve (Fed), can be forgiven if the Silicon Valley Bank (SVB) mess is bringing back PTSD flashbacks of the Global Financial Crisis (GFC). Even the rare Sunday announcement by regulators that its depositors (and Signature Bank's) would be made whole and have access to their cash felt eerily similar. As did the creation of another emergency facility, the Bank Term Funding Program (BTFP), which is the regulators' attempt to provide additional liquidity and stem contagion fears. I have also been around long enough to bear the scars of episodes where rising rates made many asset liability models go upside down, including the bank and insurance company funding crises of the 1980s and 1990s.

As we often say, history doesn't repeat but it does rhyme. On the surface, the sudden collapse of SVB shared some of the same symptoms of the 2008 meltdown—a financial institution forced by a funding disruption to crystallize crippling unrealized portfolio losses—but the catalyst, the funding model, and the assets are different. Understanding the similarities and differences in these events from financial history is an integral part of our analysis of current conditions and considering how they may play out.

One rhyming theme that runs through financial sector crises is the disintermediation of funding sources.

Disintermediation refers to the process by which existing funding relationships that exist with intermediaries, such as banks, are broken. Another way to think about disintermediation is capital rationing, which I talked about in my [recent commentary](#). Recall that the early warning sign of the GFC was in March 2008 when Bear Stearns ran into trouble rolling over its wholesale funding facilities because the firm's lenders did not trust the asset quality of its mortgage

book. This forced a Fed-directed fire-sale rescue by J.P. Morgan. At that moment in time a crisis was averted, but it was only temporary as similar situations with Lehman Brothers, Fannie Mae and Freddie Mac, and others popped up in September 2008.

In the specific case of SVB, disintermediation came from SVB's depositors—savers, investors, corporations, venture capital funds—who opted to move their deposits, first slowly and then all at once. While that choice may have initially been to seek higher cash yields or improve their liquidity position, it quickly turned into a bank run flight to safety.

Another common theme in financial accidents is bad management. For example, in the early 1990s in the savings and loan crisis it was poor asset-liability management. The GFC was caused by many parties failing to adequately perform their roles in the mortgage finance process—appraisers, rating agencies, mortgage underwriters, financial engineers, regulators. It is clear to everyone now that SVB's business strategy left it relying on a deposit base concentrated in a relatively homogeneous type of commercial customer. This lack of diversified funding sources was compounded by SVB's portfolio asset allocations. Treasuries and Agencies might not carry credit risk, but they are exposed to market risk that has hit like a sledgehammer during the Fed's aggressive 450 basis points of rate hikes over the past year.

This last point is where SVB changes from an idiosyncratic anecdote to a broader story. The possible systemic element of the SVB situation is the dramatic reshaping of the yield curve over the past year, which affects virtually every financial institution, every levered corporation and household, every bond portfolio. SVB is a mid-sized bank, and calculating exposures to the bank, and similar banks, is a straightforward exercise that every company, bank, and asset manager is doing now if they haven't already. In addition, larger Systemically Important Financial Institutions (SIFIs) are held to a much tighter regulatory capital standard, including capital testing on a portfolio mark-to-market basis. SVB might be the extreme case at the margin that gets exposed first and worst, but for everyone else their vulnerability to a dramatically swift and sharp rise in rates is just a matter of degree and management decisions—we will all see how resilient their funding models are, how matched their assets and liabilities are. We have been focused for some time on identifying and minimizing exposures to investments that are vulnerable to rising rates throughout our portfolios as part of our overall credit and risk surveillance.

The fallout from the SVB situation is still fluid, and we do not believe that this is a Lehman moment. It may, however, be a Bear Stearns moment. The risks in the market that catalyzed the SVB collapse are still out there. Regulators

have given financial market participants a break by backstopping the SVB depositors and creating the BTFP. Investors must remain alert to the disintermediation risks that have been brought on by the Fed's unrelenting and ongoing quantitative tightening. Complacency is the investor's enemy.

**For questions, or to request additional information, please contact your CWA Financial Planner**

## DISCLOSURES

### PAST PERFORMANCE IS NOT AN INDICATOR OF FUTURE MARKET RETURNS.

*Cain Watters is a Registered Investment Advisor. Request Form ADV Part 2A for a complete description of Cain Watters Advisors' investment advisory services. Diversification does not ensure a profit and may not protect against loss in declining markets. No inference should be drawn that managed accounts will be profitable in the future or that the Manager will be able to achieve its objectives. Investing involves risk and the possibility of loss, including a permanent loss of principal.*

Asset allocation and diversification do not assure or guarantee better performance and cannot eliminate the risk of investment losses. All investments and strategies have the potential for profit or loss. Different types of investments involve higher and lower levels of risk. Historical performance returns for investment indexes and/or categories, usually do not deduct transaction and/or custodial charges or an advisory fee, which would decrease historical performance results. There are no assurances that a portfolio will match or exceed any specific benchmark.

*This commentary contains the opinions of the CWA Investment Committee at the time of publication and is subject to change. Market and economic factors can change rapidly, producing materially different results. This update is intended for clients currently invested in CWA Recommended Investment Programs. This is not intended to be personalized investment advice. This does not take into account a particular investor's financial objectives or risk tolerances. Any specific mention of securities is for informational purposes only and is not intended as a recommendation or solicitation to purchase.*

*CWA Model 5 Moderate Growth Pooled Fund Program: The target allocation and portfolio data used throughout this presentation is for the CWA Model 5 recommended for participants in the Pooled Fund Program. This Model is the most common recommendation and is used here to illustrate the CWA methodology. Other CWA Recommended Investment Program models will vary in asset allocation and underlying manager and/or security selection. Clients should discuss these models and programs with their planner prior to selection.*

*\*\*The CAPE ratio is a valuation measure that uses real earnings per share (EPS) over a 10-year period to smooth out fluctuations in corporate profits that occur over different periods of a business cycle. The ratio is generally applied to broad equity indices to assess whether the market is undervalued or overvalued. While the CAPE ratio is a popular and widely-followed measure, several leading industry practitioners have called into question its utility as a predictor of future stock market returns. The CAPE ratio, an acronym for Cyclically Adjusted P/E (i.e. Price-Earnings) ratio, was popularized by Yale University professor Robert Shiller. It is also known as the Shiller P/E ratio.*

*+Statements relating to Value outperforming Growth are based upon the data of the Fama-French 3-Factor Model. A pioneering study by renowned academics, Eugene Fama and Ken French, suggesting that three risk factors: market (beta), size (market capitalization) and price (book/market value) dimensions explain 96% of historical equity performance.*

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**Model Performance Disclosure: Model performance is NOT an indicator of future or actual results. Performance does not represent the returns that any individual investor actually received. Cain Watters Investors may incur a loss.** Cain Watters Models contain allocations to several different common pooled trust funds. Each individual pooled trust fund has a defined investment strategy; usually designed around a specific asset class. Investment managers and their respective strategies are chosen to meet each of the pooled funds' objectives. Investors in the models pay a monthly asset based trust fee, based on their average investment balance during the month. Model performance is calculated using the reported net asset value of each individual pooled fund. Performance for the individual funds is then weighted according to the model target allocation. Model performance includes the reinvestment of dividends

*and interest. The annual trust fee of 0.65% is subtracted from gross returns on a pro-rated basis of 0.0541% per month; and includes trust fees and investment advisory fees. For time periods prior to July 1, 2016 an annual trust fee of 1.05% or 0.0875% per month was used. Model performance has inherent limitations in that it does not reflect the effects of significant cash flows, or take into account actual client asset allocation that may differ materially from the target allocation due to rebalancing policies and changes in market values. This model performance information is provided for illustrative purposes only. Cain Watters Model investors may experience materially different returns.*

*Use of Comparison Benchmark or Index: Indexes cannot be invested in directly. Index performance and statistics are provided for illustrative or comparison purposes and are chosen as commonly accepted representations of the performance of a particular segment of the market.*