

# TCW Concentrated Core

JULY 31, 2019 | MONTHLY SUMMARY | SUPPLEMENTAL INFORMATION

TCW

## ~2/3 "Offensive" Growth

Innovative stories, disruptive to end markets, accelerating earnings power and margins



## ~1/3 "Defensive" Growth

- Uncorrelated fundamentals
- Drivers of growth depend less on GDP growth

## CONCENTRATED CORE HIGHLIGHTS

- Concentrated (25-35 positions) active manager with benchmark-beating ITD returns in a variety of economic cycles
- An experienced team of investment professionals with the same portfolio manager for over a decade
- Disciplined and consistently applied investment process with strict focus on companies with large end-market opportunities and clear product/cost advantages

## SECTOR WEIGHTS (% OF TOTAL PORTFOLIO)

	TCW Core	Russell 1000® Growth Index	Difference
Information Technology	34.5	37.6	-3.1
Consumer Discretionary	11.8	14.6	-2.8
Communication Services	10.7	11.7	-1.1
Healthcare	9.5	14.3	-4.8
Industrials	9.2	9.7	-0.5
Real Estate	8.0	2.4	5.5
Financials	6.5	3.2	3.3
Consumer Staples	4.9	4.7	0.2
Energy	0.7	0.3	0.4
Materials	0.0	1.4	-1.4
Cash	4.2	0.0	4.2

Data Source: TCW, MSCI Barra, Zephyr, FactSet. As of 7/31/2019.

Based upon a representative account. Portfolio characteristics and holdings are subject to change at any time. It should not be assumed that an investment in the securities listed was, or will be, profitable.

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The full composite performance for the strategy is available on the strategy detail page on TCW.com. Annualized returns can be found in the Performance and Approach table, and calendar year returns are contained in the Performance Disclosure document. You may also contact your TCW Client Relations Officer at 213-244-0000.

## PERFORMANCE (%)

	July 2019	Year to Date	Inception to Date
TCW Concentrated Core (Net)	0.8	27.4	13.9
Russell 1000® Growth Index	2.3	24.2	9.6
S&P 500 Index	1.4	20.2	9.7

Based on returns for composite.

CURRENT ACTIVE SHARE: 75.7%

ONE YEAR PORTFOLIO TURNOVER: 7.9%

## TOP FIVE CONTRIBUTING SECURITIES\*

Alphabet Inc.	29 bps
TransUnion	27 bps
Splunk Inc.	11 bps
The Charles Schwab Corporation	9 bps
S&P Global, Inc.	7 bps

## TOP FIVE DETRACTING SECURITIES\*

Align Technology, Inc.	-51 bps
Illumina, Inc.	-45 bps
Alexion Pharmaceuticals, Inc.	-21 bps
PayPal Holdings, Inc.	-18 bps
Waste Connections, Inc.	-16 bps

\* Represents total attribution versus the Russell 1000® Growth Index. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. To obtain the calculation's methodology and a list showing every holding's contribution to the overall account's performance during the period, contact your TCW client service representative or e-mail your request to PortfolioAnalytics.Group@tcw.com.

## TOP TEN SECURITIES \*\*\*(%)

1. Visa Inc.	7.0
2. Amazon.com, Inc.	6.3
3. Adobe Inc.	5.6
4. Alphabet Inc.	5.5
5. American Tower Corporation	5.3
6. Facebook, Inc.	5.1
7. ServiceNow, Inc.	5.0
8. salesforce.com, inc.	4.3
9. PayPal Holdings, Inc.	3.8
10. Mastercard Incorporated	3.5
<b>Total</b>	<b>51.4</b>

\*\* Security percentages are calculated on the total market value, including cash and cash equivalents.

## MONTHLY PERFORMANCE SUMMARY

Net of fees, the portfolio underperformed the Russell 1000 Growth Index during July primarily as a result of negative security selection effects.

Our weakest performance during the period came from the healthcare sector. Shares of Align Technology, Inc. (ALGN) dropped after the company reported 2Q19 results and management guided 3Q below consensus expectations. While the company beat estimates on the top and bottom-line in 2Q, Clear Aligner case volumes missed expectations, driven by softness in China and some competitive pressures from the DTC (Direct-to-Consumer) channel in North America. Although international growth remains solid in general, the issues in China (ALGN's second largest territory) concerned some investors in light of the ongoing U.S.-China trade war. Trends appear to have improved in July and we are closely monitoring the situation. At this point, however, we remain constructive on shares as we believe it is premature to assume a structural change to ALGN's competitive position in what we believe to be a vastly underpenetrated global clear aligner market opportunity. Shares of Illumina, Inc. (ILMN) moved lower after the company preannounced 2Q19 results below consensus expectations. ILMN's top-line miss was due to a slower ramp of population health projects, ongoing DTC weakness and softer sales for non-high throughput systems. ILMN lowered full year guidance for these same reasons, furthering concerns that population health may not be able to drive the post-Novaseq growth trajectory expected for ILMN. We acknowledge the quarterly miss reopens an investor debate as to whether the issues are transitory in nature or if this is a secular slowdown. At this point, we believe it is the former and we remain positive on ILMN shares.

Our strongest performance during the period came from the communication services and industrial sectors. Shares of Alphabet Inc. (GOOG) moved higher in July after reporting 2Q19 results that topped consensus expectations. Total revenue of \$38.94 billion (+22% YoY, ex-FX) accelerated from last quarter's +19% growth rate. Management highlighted its cloud business as an area of strength: it is now running at an annualized rate of \$8 billion, up from \$4 billion in 4Q17. While we recognize the potential for government action given the Department of Justice's ongoing antitrust investigation into the company's business practices, we remain constructive on shares given the strength of GOOG's business model and the company's historical ability to expand and enter new markets. Shares of TransUnion (TRU) rallied after reporting 2Q19 results that beat consensus estimates and raising forward guidance. The U.S. financial services business reaccelerated and CreditVision and other new products continue to gain traction. The company continues to use cash flow to fund future growth as well as de-lever (TRU prepaid \$100 million in debt in 2Q19). We remain bullish on shares given TRU's highly recurring revenue model, expanding addressable market and capable management team.

## MARKET OUTLOOK

U.S. equity markets ended the month of July at modestly higher levels. Volatility returned within days of the first Fed rate cut in 11 years, however, when President Trump announced on August 1 that the U.S. would apply a 10% tariff to the final \$300B in Chinese exports. China returned the serve and weakened the yuan beyond 7.0 to the USD, resulting in the U.S. officially labeling China a currency manipulator for the first time since 1994. As we enter August, we believe the reescalation of trade tensions likely results in increasing bouts of market volatility and the potential for further global central bank easing. While mindful of our exposures, we believe many of the broad secular themes to which we are exposed should continue to grow despite the trickiness of this market cycle set-up and we believe our portfolio remains undervalued relative to its long-term earnings and cash flow potential.

## TCW Concentrated Core Performance (%) Ending 7/31/2019

	July	YTD	1 Year	3 Years	5 Years	ITD 10/1/87
<b>Gross Performance (Composite)</b>	<b>0.87</b>	<b>27.88</b>	<b>13.91</b>	<b>17.87</b>	<b>14.73</b>	<b>14.58</b>
<b>Net Performance (Composite)</b>	<b>0.81</b>	<b>27.35</b>	<b>13.11</b>	<b>17.05</b>	<b>13.93</b>	<b>13.88</b>
<i>Russell 1000® Growth Index (Benchmark)</i>	2.26	24.23	10.82	17.13	14.25	9.58
<i>S&amp;P 500 Index (Benchmark)</i>	1.44	20.24	7.99	13.36	11.34	9.65

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