TCW

MANAGED ACCOUNTS DIVISION

TCW Balanced Managed Accounts

SECOND QUARTER 2018 | INFOFLASH

Philosophy: A strategy that invests in a diversified array of U.S. equity securities and investment grade U.S. bonds, seeking to outperform the benchmark through a combination of income and capital appreciation.

Key Issues

- Whereas 2017 exhibited muted volatility and relatively high stock returns for all three major equity indices, the mirror opposite has been the case through the first half of 2018 with relatively low global stock returns and higher volatility. U.S. stocks have outperformed most other asset classes this year (long-term bonds -2.9%, corporate bonds -3.1%, gold -3.1%) and the U.S. market is the only major region with positive returns through 1H18. The NASDAQ Composite (+6.6%), S&P 500 (+3.4%) and Dow Jones Industrial Average (+0.7%) all finished the second quarter in positive territory. Economic data were generally supportive of the market's advance during the second quarter. The period began with solid U.S. weekly jobless claims data, March new home sales topped consensus and U.S. industrial production rose +0.5% sequentially. First quarter GDP of +2.3% beat consensus estimates but decelerated from 4Q17's level of 2.9%.
- Within the equity portion of the portfolio, the primary driver of performance was positive security selection (primarily in the information technology, industrials and healthcare sectors) but our underweight in the industrials sector (negatively impacted by a strengthening USD and the potential deleterious impact of a brewing "trade war") also aided results during 2Q18. Including the contribution of sector allocation and security selection, our industrials and information technology weightings helped relative results most and our consumer discretionary and real estate weightings most negatively impacted performance during the second quarter.
- Within the fixed income marketplace, despite the apparent strength of the quarterly growth number, markets remain unconvinced of the long-term strength in the economy, as long term rates remain relatively stable while short term rates continue to rise. As a result, the gap between the 2-Year and 10-Year Treasury notes fell to 31 basis points, the flattest the Treasury curve has been since before the financial crisis in 2007. If this trend continues, the curve may "invert" where long-end rates are lower than the front-end, a condition that has successfully preceded each recession on record.
- At the FOMC meeting in June, the Fed raised rates for the seventh time and increased the target federal funds rate by another 25 bps to 2%. Notably, the Fed characterized U.S. economic growth as "solid" rather than "moderate", lowered their forecast for unemployment, and projected that inflation will now reach the Fed's 2% target by the end of this year. Most Fed officials now believe a faster hiking path is appropriate and have added an additional rate hike this year and next, for a total of four hikes in 2018 and three hikes in 2019.
- Investment grade credit spreads widened in the second quarter as the sector underperformed Treasuries. Due to rising credit spreads and higher rates overall, the average coupon of new corporate issues was higher than the average coupon on maturing debt for the first time since 2008. With short term rates rising as well, the cost of corporate leverage is finally starting to move higher. Our allocation to corporate bonds is currently approximately 38% of the fixed income portion of the portfolio.

Top Five Equity Holdings

AS OF JUNE 30, 2018

Name	% of Portfolio
1. Amazon.com, Inc.	4.8
2. Visa Inc.	4.1
3. Facebook, Inc.	4.0
4. Alphabet, Inc.	4.0
5. Adobe Systems Incorporated	3.5

Top Five Fixed Income Holdings

AS OF JUNE 30, 2018

Name	% of Portfolio
1. U.S. Treasury N/B 2.625%, 2/28/2023	4.4
2. U.S. Treasury Notes 1.250%, 1/31/2020	3.4
3. U.S. Treasury N/B 2.250%, 11/15/2027	2.8
4. Boston Properties 3.850%, 2/1/2023	2.7
5. JPMorgan Chase & Co. 2.250%, 1/23/2020	2.6

Source: TCW. Based on a managed account model portfolio. 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.

Note: TCW refers to this product as Core Balanced. The equity component of this Balanced strategy is TCW Concentrated Core (Large Cap Growth).

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Representative Equity Buys and Sells

BUYS (Ticker; Sector)

NVIDIA Corporation (NVDA; Information Technology)

NVIDIA Corporation designs, develops and markets GPUs (Graphics Processor Units) and related software. We believe the highly parallel nature of GPUs provides superior performance in many machine learning architectures and NVIDIA enjoys a sizable lead in the GPU market enabled by its software and large ecosystem. Importantly, the company has successfully transitioned from an Original Equipment Manufacturer (OEM) dependent vendor beholden to the PC (Personal Computer) cycle, to a multi-industry platform in GPU Computing. We believe this transition, as well as reduced industry concentration, may reduce the historical cyclicality of NVDA's business. As GPU Computing is used in AI (Artificial Intelligence), we believe this opens up several large end markets for the company such as autonomous driving, machine-learning driven data centers and professional visualization. The company also continues to dominate the gaming market and we believe the current share price does not reflect the long-term earnings power of the company.

SELLS (Ticker; Sector)

Fastenal Company (FAST; Industrials)

Fastenal Company engages in the wholesale distribution of industrial and construction supplies, primarily in the United States and Canada. We were initially attracted to the company given management's history of execution, the growth potential in the highly fragmented industrial distribution market and the prospects for a reacceleration of the industrial economy in the U.S. While the company's revenues have rebounded since we first purchased the stock as we expected, margin pressures have offset some of this revenue strength. With the bulk of the revenue growth acceleration likely behind us and margin headwinds continuing, we elected to sell our shares and redeploy the assets into holdings with more attractive risk/reward profiles.

Portfolio Profile

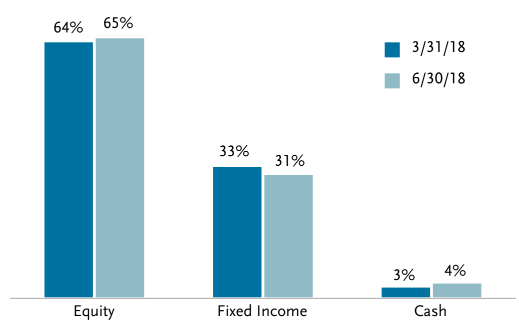
AS OF JUNE 30, 2018

Equities	TCW	Russell 1000® Growth Index
Number of Securities	33	542
Average Price/Earnings: Next 12 Months	27.9x	20.4x
PEG Ratio - Forward 1 Yr.	1.7x	1.5x
Price to Sales	5.6x	3.5x
Debt-to-Equity	1.1x	1.3x
Dividend Yield	0.5%	1.3%
Projected 3-5 yr. Revenue Growth	15.5%	10.6%
Projected 3-5 yr. EPS Growth	19.2%	15.5%
Market Capitalization (Billions)		
Average ($ Wtd.)	$211.2	$274.8
Average (Eq. Wtd.)	$129.2	$34.5
Median	$57.6	$12.1

Fixed Income	TCW	Bloomberg Barclays Intermediate Gov't/Credit Index
Number of Securities	13	4,819
Wtd. Average Bond Rating	AA	AA
Wtd. Average Maturity	4.6	3.0
Effective Duration	4.2	3.9

Asset Allocation

AS OF JUNE 30, 2018



Source: TCW, and Bloomberg Barclays Inc.

Based on a managed account model portfolio. Portfolio characteristics and holdings are subject to change at any time. The investment strategy does not target any specific numbers or ranges for these characteristics. Accordingly, these characteristics can vary greatly. The estimates are forward-looking statements based on assumptions. This would include forward earnings estimates and growth rates, among other things, and all associated calculations, including projected price/earnings ratios. Actual results may vary materially from the estimates due to the numerous economic, financial and market conditions. There is no assurance that forecast estimates will be realized. The index is not available for direct investment; therefore its performance does not reflect a reduction for fees or expenses incurred in managing a portfolio. The securities in the index may be substantially different from those in the strategy.

Reflects up to the three largest buys (new buys) and up to the three largest sells (complete sells) for the quarter. There is no assurance that any securities discussed herein will remain in an account; be purchased in the portfolio at the time this report is received or that securities sold have not been repurchased. It should not be assumed that any of the securities transactions or holdings discussed were, or will prove to be, profitable or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.