TCW

MANAGED ACCOUNTS DIVISION

TCW Balanced Managed Accounts

FIRST 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

- The new year brought an end to the somnambulant nature of the rise in all three major indices in 2017 as volatility returned in the first quarter of 2018. The S&P 500 hit an all-time high at the end of January before a choppy few months of trading in February and March. Ultimately, the NASDAQ Composite finished the quarter +2.6%, while the S&P 500 and the Dow Jones Industrial Average finished in negative territory, -0.8% and -2.5%, respectively. The S&P 500 witnessed over 20 moves of +/- 1% in the first quarter versus a total of 48 in 2016 and eight in 2017. Crude oil rallied 7.5% and has increased 27.5% over the last year. While the yield on the 10yr UST flirted with 3% during the quarter, it ultimately finished the period at 2.74%.
- Within the equities portion of the portfolio, including the contribution of sector allocation and security selection, our information technology and consumer discretionary weightings helped relative results most and our healthcare and real estate weightings most negatively impacted performance during the first quarter. The portfolio's strong first quarter performance suggests that our factor exposures (quality, organic sales growth, earnings power) are again being priced more accurately and predictably. Our complementary positioning in less correlated growth businesses is also becoming evident with lower down-capture across the Q1 period. This underscores the balance struck through our investment style and the value in seeking extraordinary companies that can sustain growth in many types of weather. Sure, we expect ongoing volatility in risk markets, but we also remain confident that order and healthy price discovery will reward superior fundamentals now that the distorting effects of extreme accommodation are fading.
- Within the fixed income marketplace, with investors still hungry for yield, demand for U.S. credit remained strong even in the face of negative returns due to the higher U.S. Treasury yields. As a result, credit spreads were only slightly impacted by rising equity market volatility and interest rates, experiencing only moderate widening during the quarter, while remaining at historically low levels.
- In March, the Fed announced another 25 basis point interest rate hike (bringing the Fed funds target to 1.50% - 1.75%), and modestly upgraded the U.S. growth and interest rate forecasts. As the Federal Reserve tightens monetary policy, Treasury yields have recalibrated. The policy sensitive 2-Year Treasury note rose above 2.3% this quarter, overtaking the dividend yield on the S&P 500 for the first time since 2008, though it remains below levels seen before the financial crisis. With worries about inflation, rising rates, and higher levels of volatility weighing on the market, corporate spreads widened and yields rose this quarter. As a result of higher interest rates and wider spreads, both total and excess returns in investment grade credit were negative, at -2.32% and -66 basis points, respectively, while high yield fell 0.86% and trailed duration-matched Treasuries by nearly 20 basis points. Our allocation to corporate bonds is currently approximately 34% of the fixed income portion of the portfolio.

Top Five Equity Holdings

AS OF MARCH 31, 2018

Name	% of Portfolio
1. Amazon.com, Inc.	4.3
2. Visa Inc.	3.9
3. Alphabet, Inc.	3.8
4. Adobe Systems Incorporated	3.4
5. Facebook, Inc.	3.4

Top Five Fixed Income Holdings

AS OF MARCH 31, 2018

Name	% of Portfolio
1. U.S. Treasury N/B 2.625%, 2/28/2023	4.6
2. U.S. Treasury N/B 2.250%, 11/15/2027	3.7
3. U.S. Treasury Notes 1.250%, 1/31/2020	3.6
4. Boston Properties 3.850%, 2/1/2023	2.9
5. Verizon Communications Inc. 5.150%, 9/15/2023	2.8

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).

Representative Equity Buys and Sells

BUYS (Ticker; Sector)

There were no new buys during the quarter.

SELLS (Ticker; Sector)

Allergan PLC (AGN; healthcare)

Allergan plc develops, manufactures, markets, and distributes brand and over-the counter pharmaceutical products worldwide. When we first purchased shares we were attracted to the company's broad cosmetic and therapeutic product portfolio and strong pipeline of drugs. Loss of exclusivity and competition for several of AGN's mature drugs (Restasis, Namenda, Asacol, and Estrace), potential threats to their core Botox franchise and a pipeline that was slower to develop than we expected, caused us to revise our growth expectations downward. With this reset to our view of the revenue opportunity, we chose to exit our position to invest in holdings we believe have more attractive risk/reward profiles.

Portfolio Profile

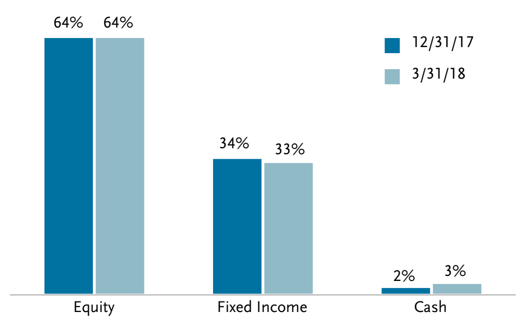
AS OF MARCH 31, 2018

Equities	TCW	Russell 1000® Growth Index
Number of Securities	33	553
Average Price/Earnings:		
Next 12 Months	27.5x	19.6x
PEG Ratio - Forward 1 yr.	1.6x	1.5x
Price to Sales	5.1x	3.1x
Debt-to-Equity	1.1x	1.4x
Dividend Yield	0.6%	1.4%
Projected 3-5 yr.		
Revenue Growth	14.2%	9.4%
Projected 3-5 yr. EPS Growth	19.8%	14.5%
Market Capitalization (Billions)		
Average ($ Wtd.)	$176.6	$233.9
Average (Eq. Wtd.)	$113.5	$33.7
Median	$47.6	$12.1

Fixed Income	TCW	Bloomberg Barclays Intermediate Gov't/Credit Index
Number of Securities	12	4,781
Wtd. Average Bond Rating	AA+	AA
Wtd. Average Maturity	4.5	4.4
Effective Duration	4.1	4.0

Asset Allocation

AS OF MARCH 31, 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.

Russell 1000® Growth: The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Bloomberg Barclays Intermediate Gov't/Credit: The Bloomberg Barclays Intermediate Government/Credit Bond Index is composed primarily of bonds covered by the Bloomberg Barclays Government/Credit Bond Index with maturities between one and 9.99 years. Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.