

TCW Balanced Managed Accounts

SECOND QUARTER 2019 | 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

- Volatility returned in the second quarter thanks to slowing economic growth and no resolution of the ongoing U.S.-China trade dispute, yet all three major equity indices finished the period at higher levels. The S&P 500 led the market advance (+4.3%), followed by the NASDAQ Composite (+3.9%) and the Dow Jones Industrial Average (+2.6%). Crude oil dropped 3.6% in 2Q but has rallied 26% YTD.
- Driven by solid economic data, equity markets continued their first quarter rally into April and the S&P 500 finished the period at an all-time high. U.S. payroll employment bounced back in March, the U.S. manufacturing PMI remained in expansion territory (55.3 in March) and 1Q19 real GDP surprised to the upside (+3.2% QoQ). Equity market volatility returned in May, however, and the S&P 500 finished the month down 6.4% as economic data in the U.S. was more mixed. The unemployment rate dropped to 3.6% (lowest since December 1969) but light vehicle sales missed consensus estimates and April's ISM reading was the weakest in three years. Trade tensions between the U.S. and China escalated when President Trump threatened to increase tariffs from 10% to 25% on \$200 billion of Chinese goods. Q1 GDP was revised lower but consumer spending remained resilient during the quarter. In June, U.S. equity markets rebounded despite a softer May employment report and ISM manufacturing data missing consensus estimates. Meanwhile, industrial production growth slowed to a 17-year low in China. President Trump and President Xi Jinping of China agreed to resume trade talks at the G-20 meeting in late June, giving some investors hope a trade deal could occur in the near future.
- The Russell 1000 Growth Index returned +4.64% during the quarter. Within the equities portion of the portfolio, including the contribution of sector allocation and security selection, the strategy's healthcare and industrials weightings helped relative results most and the strategy's financial services and materials weightings most negatively impacted performance during 2Q19. Positive security selection effects (primarily in the industrials, healthcare and consumer staples sectors) benefited the strategy's performance during 2Q19.
- Within the fixed income marketplace, high yield credit spreads have tightened by nearly 150 bps since January. However, Treasury markets appear much less sanguine about economic growth and rising downside risks. The Treasury 10-Year yield dropped below 2.0%, while volatility as measured by the MOVE Index jumped to more than a two-year high.
- Both trade concerns and weak inflation have increased market pressure on the Fed to cut rates, prompting the Fed at their June meeting, to signal an openness to cut rates in 2019. However, the Fed's official forecast for cuts this year remains unchanged, a stark contrast from the nearly three cuts (75bps) in 2019 that are currently priced into markets.
- Despite bouts of risk-aversion due to escalating trade conflicts and lingering late cycle fears, investment grade credit has returned 9.6% since the beginning of the year, largely due to the Fed's dovish pivot last quarter. The potential of a Fed "put" has allowed investors to continue reaching for yield despite deteriorating credit metrics, bolstering demand for investment grade credit as the global supply of negative yielding debt surged to a new high of \$13 trillion. Our allocation to corporate bonds is currently approximately 42% of the fixed income portion of the portfolio.

Top Five Equity Holdings

AS OF JUNE 30, 2019

Name	% of Portfolio
1. Visa Inc.	4.8
2. Amazon.com, Inc.	4.8
3. Adobe Systems Incorporated	3.8
4. Facebook, Inc.	3.5
5. American Tower Corp.	3.4

Top Five Fixed Income Holdings

AS OF JUNE 30, 2019

Name	% of Portfolio
1. U.S. Treasury N/B 2.500%, 1/31/2024	6.5
2. U.S. Treasury Notes 1.125%, 7/31/2021	5.0
3. U.S. Treasury N/B 2.875%, 8/15/2028	2.8
4. Bank of America Corp. 3.875%, 8/1/2025	2.4
5. JPMorgan Chase & Co. 2.250%, 1/23/2020	2.4

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)

ASML Holding N.V. (ASML; Information Technology)

Headquartered in the Netherlands, ASML develops, produces and markets semiconductor manufacturing equipment, namely lithography systems. Lithography is the photographic process by which a semiconductor design is initially transferred on to a wafer and can be an important technical limiter for feature size reduction. ASML is the only producer of the most advanced EUV (Extreme Ultraviolet Lithography) machines for the next generation of semiconductor chips and currently garners >85% market share of the global lithography market. We believe the company may benefit from the exponential increase in data generation via new semiconductor devices and applications and we do not believe the current stock price reflects the company's scale, pricing power and secular tailwind in a large and growing end market.

SELLS (Ticker; Sector)

There were no complete sells during the quarter.

Portfolio Profile

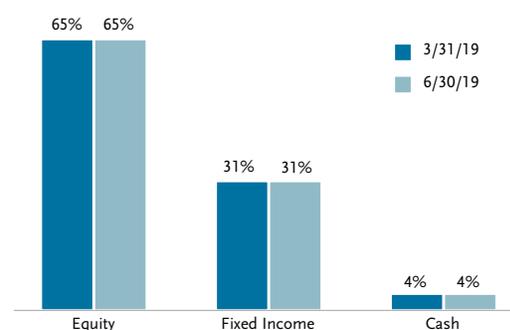
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Equities	TCW	Russell 1000® Growth Index
Number of Securities	32	546
Average Price/Earnings: Next 12 Months	30.1x	20.9x
PEG Ratio - Forward 1 Yr.	2.1x	1.8x
Price to Sales	5.7x	3.3x
Debt-to-Equity	1.0x	1.2x
Dividend Yield	0.5%	1.3%
Projected 3-5 yr. Revenue Growth	13.3%	9.1%
Projected 3-5 yr. EPS Growth	18.1%	14.3%
Market Capitalization (Billions)		
Average (\$ Wtd.)	\$218.8	\$307.6
Average (Eq. Wtd.)	\$142.8	\$37.2
Median	\$55.2	\$13.0

Fixed Income	TCW	Bloomberg Barclays Intermediate Gov't/Credit Index
Number of Securities	12	4,883
Wtd. Average Bond Rating	AA	AA
Wtd. Average Maturity	4.3	4.3
Effective Duration	3.9	3.9

Asset Allocation

AS OF JUNE 30, 2019



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. London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2018. FTSE Russell is a trading name of certain of the LSE Group companies. Russell® is a trade mark(s) of the relevant LSE Group companies and is/are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

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