TCW

MANAGED ACCOUNTS DIVISION

TCW Relative Value Balanced Managed Accounts

THIRD QUARTER 2019 | INFOFLASH

Philosophy: Invests in a diversified portfolio of stocks and investment-grade fixed income securities to seek high total return through a combination of income and capital appreciation.

Key Issues

- U.S. equities turned in a modest showing in the third quarter. July was much ado about corporate earnings which were largely positive with a majority of S&P 500 companies beating estimates. In aggregate, earnings were up 3% year-over-year with revenue growth of nearly 5%. While growth has decisively outperformed value year-to-date through August 31, there was a noticeable reversal in September with the Russell 1000 Value Index outperforming the Russell 1000 Growth Index by over 3.5%. 2Q:19 U.S. GDP came in better than expected at 2.0% year-over-year, boosted by consumer and government expenditures while business investment, declining inventories, and net imports were a drag. August began inauspiciously with President Trump's tweet announcing the imposition of a 10% tariff on $300 billion worth of Chinese goods. China soon thereafter allowed its currency to cross over the crucial 7/1 threshold versus the U.S. dollar. In response, the U.S. Treasury Department officially designated China as a "currency manipulator." The equity markets remained turbulent throughout the month with much of the volatility due to the ongoing trade war between the two sides and its ripple effect on the global economy.
- Within the equities portion of the portfolio, over the course of the quarter, the best performing sectors were the traditionally defensive/bond proxy utilities (9.3%), real estate (7.7%), and consumer staples (6.1%) while the bottom performers were energy (-6.3%), healthcare (-2.3%), and materials (-0.1%). The portfolio's sector weights detracted due largely to the overweight in energy and secondarily to the underweight in information technology. The underweights in consumer discretionary and healthcare benefited modestly. The portfolio's best relative contribution for security selection came from its energy holdings, while on the downside, the portfolio's largest detraction occurred in information technology.
- Within the fixed income marketplace, higher levels of uncertainty created volatile market conditions. U.S. Treasuries were particularly affected as 10-Year Treasury yields fell over 60 bps on global growth fears, touching as low as 1.4% before rebounding by over 40 bps in September, in what was the largest weekly rise in six years. This late-quarter back-up, precipitated by an easing of trade tensions between U.S. and China, caused the MOVE Index, which calculates the implied volatility in U.S. treasury yields, to reach levels untested since 2016.
- Altering course in the 3rd quarter, the Fed cut rates for the first time since 2008 with July and September eases of 25 bps each. While the Fed views the U.S. economy as strong, at both meetings notable headwinds from weak global growth and trade policy uncertainty informed their decision to preemptively cut rates. Fed Chair Powell emphasized his commitment to take actions "as appropriate" to sustain the economy, though did not commit to additional easing at the latest meeting. Moreover, the U.S. Treasury curve from 3- months to 10-years remains inverted.
- Despite bouts of volatility, investment grade credit has benefitted from the return to accommodative monetary policy and delivered a 13% gain this year, the best return in 10 years. Capitalizing on the low-rate environment, U.S. firms borrowed a record $75 billion during the first week of September alone. Notwithstanding the increased issuance, spread levels modestly tightened and yields dropped as low as 2.7% (vs the 2.5% cycle low) driven by strong demand from yield-starved investors. Our allocation to corporate bonds is currently approximately 42% of the fixed income portion of the portfolio.

Top Five Equity Securities

AS OF SEPTEMBER 30, 2019

Name	% of Portfolio
1. JPMorgan Chase & Co.	2.8
2. Comcast Corp.	2.5
3. Cypress Semiconductor Corp.	2.3
4. Intercontinental Exchange Inc.	2.2
5. Citigroup Inc.	2.2

Top Five Fixed Income Securities

AS OF SEPTEMBER 30, 2019

Name	% of Portfolio
1. U.S. Treasury N/B 2.500%, 1/31/2024	9.0
2. U.S. Treasury Notes 1.250%, 1/31/2020	3.9
3. U.S. Treasury N/B 2.875%, 8/15/2028	3.8
4. Bank of America Corp. 3.875%, 8/1/2025	2.9
5. U.S. Treasury N/B 3.000%, 10/31/2025	2.5

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

Note: The equity component of this Balanced strategy is TCW Relative Value Large Cap.

Representative Equity Buys and Sells

BUYS (Ticker; Sector)

CBS Corp. (CBS; Communication Services)
CBS is a global mass media content conglomerate that creates and distributes content across a broad range of platforms to audiences around the globe. CBS is the most watched network in the U.S. with leadership in sports in addition to one of the largest entertainment libraries. Joe Ianniello was appointed President and acting CEO in September 2018. Previously, Mr. Ianniello served as the company's Chief Operating Officer where he was responsible for establishing and executing company strategy across all businesses. In addition, he developed and spearheaded CBS's monetization strategy across platforms. He was also instrumental in launching CBS All Access which has developed into one of the company's fastest growing initiatives. CBS is aggressively investing and deploying its Direct-to-Consumer (DTC) business with multi-platform strategies enabling the company to reach broader audiences worldwide. At the same time, CBS is expanding its original content libraries and stepping up licensing to third parties.

Zimmer Biomet Holdings Inc. (ZBH; Healthcare)
Zimmer Biomet is a leading provider of orthopedic implants. A new CEO, a highly-regarded industry veteran who previously ran a large division at competitor, Medtronic, joined in January 2018. Under his leadership, we believe the company has already made substantial progress in addressing supply and quality issues that had been restraining sales. Restructuring actions are focused on the remediation of deficiencies at Zimmer's largest manufacturing plant which were identified in a routine FDA inspection in 2016. This effort is costing over $200 million annually and involves the virtual reconstruction of the facility. Importantly, the FDA has not barred production from that plant and has in fact approved new products that are produced there. As the remediation costs and integration of legacy Biomet wind down, we believe cash flow, margins, and earnings should expand. The new CEO has also included further restructuring and asset sales, and other strategic options are under review. A new CFO was recently brought on board to replace the retiring former-CFO, and we expect him to drive further action on strategy and capital allocation.

Flex Ltd. (FLEX; Information Technology)
Flex is a leading provider of electronics manufacturing services (EMS) and outsourced design and engineering. A new CEO joined in February 2019 and is building upon the existing restructuring program to sharpen the company's focus on high-value opportunities. The surprise late-2018 termination of a relationship with Nike should also end the significant operating losses Flex has been amassing (well over $100 million in three years) and we believe should be margin accretive very quickly as that capacity is either repurposed, sold, or shut down. The company is also ramping capacity in India to serve local demand from OEMs. Flex maintains a leading-edge global network of manufacturing sites that offers customers the ability to relocate final assembly from high-tariff geographies in a timely and cost-efficient manner enabling customers to reduce or avoid tariffs.

SELLS (Ticker; Sector)

Lennar Corp. Class B (LEN/B; Consumer Discretionary)
At the close of business on November 10, 2017, Lennar shareholders, in the form of a stock dividend, received 0.02 shares of Class B common stock for every one share of Class A common stock. Lennar Class B shares were sold during the quarter.

Portfolio Profile

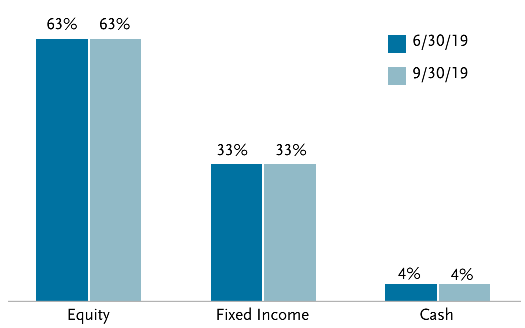
AS OF SEPTEMBER 30, 2019

	TCW	S&P 500 Index	Russell 1000® Value Index
Number of Securities	49	505	765
Price-to-Cash Flow	9.1x	13.2x	10.1x
Price-to-Sales	1.2x	2.4x	1.7x
Price-to-Earnings Ratio Avg.–Next 12 Months	11.9x	17.1x	14.4x
Price-to-Book	1.8x	3.5x	2.1x
Projected EPS Growth-F2 Year (annualized)	9.4%	9.3%	6.9%
Dividend Yield	2.4%	2.0%	2.6%
Market Capitalization			
Average ($ Wtd.)	$93.3 bil	$249.3 bil	$121.1 bil
Average (Eq. Wtd.)	$70.9 bil	$53.7 bil	$23.8 bil
Median	$25.3 bil	$22.8 bil	$9.3 bil

Fixed Income	TCW	Bloomberg Barclays Intermediate Gov't/Credit Index
Number of Securities	11	4,953
Wtd. Average Bond Rating	AA	AA
Wtd. Average Maturity	4.3	4.3
Effective Duration	3.9	3.9

Asset Allocation

AS OF SEPTEMBER 30, 2019



Source: TCW

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.

S&P 500: Widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, it is also an ideal proxy for the total market.

Russell 1000® Value: The Russell 1000® Value Index is representative of the U.S. market for large capitalization stocks containing those companies in the Russell 1000® Index with lower price-to-book ratios and lower forecasted growth.