MANAGED ACCOUNTS DIVISION

TCW Relative Value Mid Cap

THIRD QUARTER 2019 | INFOFLASH

Philosophy: An aggressive capital appreciation style that generally invests in small- and medium-sized cap companies deemed to be undervalued relative to the equities market.

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 companies beating estimates. 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 (perhaps due in large part to uncertainty on trade), declining inventories, and net imports were a drag. As widely expected, for the first time in over a decade, the Federal Open Market Committee cut rates by 25 basis points at its July 31 meeting and was followed by a second reduction of the same magnitude in September. 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 (renminbi) 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. The yield curve's inversion stoked U.S. recessionary fears; however positive, albeit slowing, economic data helped assuage concerns due to a relatively strong and confident U.S. consumer.
- Over the course of the third quarter, the best performing sectors in the Russell Midcap were the traditionally defensive real estate (8.2%), utilities (7.3%), and consumer staples (6.8%) while the bottom performers were energy (-12.3%), healthcare (-6.4%), and communication services (-3.0%). The portfolio's sector weights detracted due to the underweights in real estate and utilities along with the overweight in energy. Offsetting some of the loss was the underweight in healthcare and overweight in financials. The most notable contribution to relative performance for security selection came from the portfolio's consumer discretionary stocks, while on the downside, the portfolio's largest detraction occurred in industrials.
- Increased tariffs are our base case scenario. Supply chain dynamics on stock prices should not be as impactful in 2H:19 as they had been in 2H:18 as companies have been adapting quickly to reconfigure their supply chains. Intermediate and longer term, U.S. corporations have made supply chain moves for products built overseas not for "in country" consumption and can continue to make significant supply chain adjustments. Although from a relatively low base, imports to the U.S. from Vietnam increased over 30% year-over-year in Q2:19. The U.S./China trade war remains one of the biggest concerns though there are some signs of rapprochement. High ranking officials from the two sides are holding talks, marking the thirteenth time senior-level representatives from both sides have met to negotiate a deal.
- Companies, when faced with adversity, typically will undertake cost cutting and restructuring, and reinvest in the people and technology to stay relevant and competitive. If management teams are not strong enough, company boards and investors may force change. We believe the portfolio remains attractively valued on all five factors relative to the Russell Midcap Value. Using consensus estimates (our own estimates are higher), the portfolio's 2Y EPS annualized growth rate is nearly double digits. The portfolio's higher growth potential versus the value benchmark while simultaneously trading at a discount underscores the "Search for Value Poised for Growth" Relative Value investment philosophy.

Top Ten Securities

AS OF SEPTEMBER 30, 2019

Name		% of Portfolio
1.	Cypress Semiconductor Corp.	4.1
2.	Popular Inc.	3.8
3.	Maxim Integrated Products Inc.	3.5
4.	Kirby Corp.	3.1
5.	AES Corp.	3.0
6.	KeyCorp.	3.0
7.	KB Home	2.8
8.	Newpark Resources Inc.	2.8
9.	Jacobs Engineering Group Inc.	2.7
10.	Synovus Financial Corp.	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.

Representative Buys and Sells

BUYS (Ticker; Sector)

TTM Technologies Inc. (TTMI; Information Technology)

TTM, headquartered in Santa Ana, CA is a leading provider of printed circuit board (PCB) design and manufacturing services. A recent acquisition increases the company's exposure to higher-margin design services while expanding their addressable market with new radio frequency technology (primarily radar systems used in aerospace/defense, automotive, and emerging applications). The company is also coming to market with new manufacturing techniques that enable smaller PCBs with more dense circuit patterns. In addition to the deal-related synergies from the recent acquisition, the company has initiated modest cost-cutting efforts to keep its cost structure in line with current demand patterns. We believe management is also evaluating a divestiture of a small non-core asset that provides contract manufacturing services. The higher margin mix we expect to unfold in coming quarters and years, combined with the restructuring activities, should in our opinion provide for increasing margins and cash flow and build upon their very stable, predictable history of cash flow generation.

SELLS (Ticker; Sector)

Comerica Inc. (CMA; Financials)

Comerica, headquartered in Dallas, TX, operates retail and business banks, and wealth management through its 437 branches, predominantly in California, Michigan, and Texas. The primary catalyst was cost cutting. In the summer of 2016, the company announced a cost cutting initiative called Gear Up which targeted $140 million of savings by the end of 2017 and $230 million by the end of 2018. Simultaneously, the company has been able to increase its loan. Its asset sensitive balance sheet faces headwinds as the Federal Reserve has shifted from increasing rates in 2018 to cutting rates this year. As we do not expect the company to announce another cost cutting plan, nor do we find it advisable, with the primary catalyst having run its course, the position was eliminated. Soon after the final sale, CMA abruptly released its CFO without any specific reasons, though the company did state it did not relate to the bank's financials.

Trinity Industries Inc. (TRN; Industrials)

Trinity Industries, headquartered in Dallas, TX, is a rail car manufacturer and lessor serving the North American railroad industry. Trinity's cost cutting and restructuring catalysts were based on reducing cyclical exposure through portfolio divestitures and implementing operational excellence programs. Examples include the company's successful lean manufacturing implementation across the enterprise and the spin out of its infrastructure-related businesses into a new publically traded company. The next restructuring catalyst has been delayed due to the recent drop in end market demand for rail cars which is postponing the company's plan to sell its rail car manufacturing business and become a pure-play rail car leasing company. With the next phase of its restructuring strategy on hold, the position was eliminated.

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.

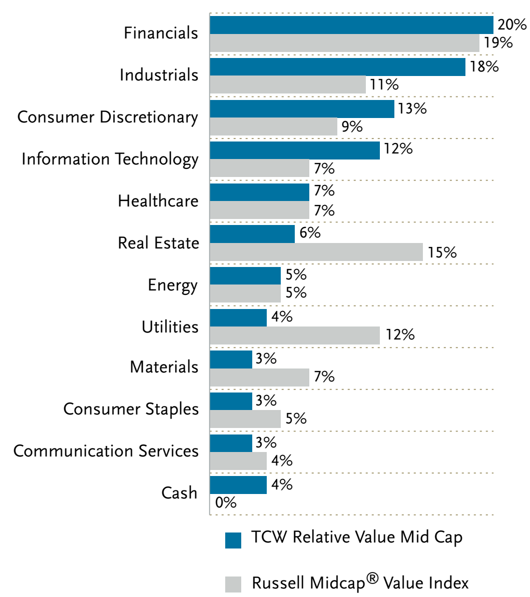
Portfolio Profile

AS OF SEPTEMBER 30, 2019

	TCW	Russell Midcap® Value Index
Number of Securities	56	632
Price-to-Cash Flow	9.9x	10.4x
Price-to-Sales	1.1x	1.6x
Price-to-Earnings Ratio Avg.–Next 12 Months	11.6x	15.1x
Price-to-Book	1.6x	2.0x
Projected EPS Growth-F2 Year (annualized)	9.3%	7.8%
Dividend Yield	1.7%	2.4%
Market Capitalization		
Average ($ Wtd.)	$9.7 bil	$15.2 bil
Average (Eq. Wtd.)	$9.5 bil	$10.0 bil
Median	$6.6 bil	$7.7 bil

Sector Analysis

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.