TCW

MANAGED ACCOUNTS DIVISION | QUARTERLY REVIEW

TCW Concentrated Core

AS OF JUNE 30, 2019

Sector Weightings

Sector	Weight
Information Technology	34.0%
Consumer Discretionary	12.5%
Healthcare	10.4%
Communication Services	9.9%
Industrials	9.1%
Real Estate	7.9%
Financials	6.2%
Consumer Staples	4.9%
Energy	0.9%
Materials	0.0%
Utilities	0.0%
Cash	4.3%

Top Ten Securities

Security	Weight
1. Visa Inc.	6.7%
2. Amazon.com, Inc.	6.6%
3. Adobe Inc.	5.5%
4. American Tower Corporation	5.1%
5. Facebook, Inc.	5.0%
6. ServiceNow, Inc.	5.0%
7. Alphabet Inc.	4.9%
8. salesforce.com, inc.	4.2%
9. PayPal Holdings, Inc.	4.0%
10. Mastercard Incorporated	3.4%

Source: TCW

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

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.

Past performance is no guarantee of future results.

Investment Environment

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 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. The yield on the 10yr UST finished the period at 2.00%, compressing 41bps for the quarter.

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. Bonds rallied, and both the 10 year/1 year and 10 year/3 month segments of the U.S. Treasury curve inverted. 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. As investors await a potential trade resolution, the bond market has fully-discounted a 25bps rate cut for the July FOMC meeting, which appears to be a clear sign that growth has stalled for the broader market. Our focus now turns to an increasingly important second quarter earnings season.

Sector Weightings

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. Illumina, Inc. (ILMN) and IHS Markit Ltd. (INFO) were our best performing healthcare and industrials holdings while The Charles Schwab Corporation (SCHW) and Alphabet Inc. (GOOG) were our worst performing financials and communication services holdings.

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Top 10 Contributing Stocks

	Average Weight (%)	Total Effect (%)*
ServiceNow, Inc.	5.03	0.31
Visa Inc.	6.52	0.27
Illumina, Inc.	2.29	0.26
Adobe Inc.	5.31	0.24
Monster Beverage	2.20	0.22
IHS Markit Ltd.	1.88	0.22
Zoetis Inc.	2.72	0.19
Facebook, Inc.	4.85	0.18
PayPal Holdings, Inc.	3.98	0.16
Equinix, Inc.	2.69	0.16

Bottom 10 Contributing Stocks

	Average Weight (%)	Total Effect (%)*
Alphabet Inc.	5.42	-0.36
salesforce.com, inc.	4.50	-0.32
Schwab	2.13	-0.17
NVIDIA Corporation	1.91	-0.17
Align Technology, Inc.	2.39	-0.16
Ulta Beauty, Inc.	2.61	-0.13
BioMarin Pharmaceutical	1.50	-0.12
Alexion Pharmaceuticals	1.47	-0.11
Concho Resources Inc.	0.93	-0.11
Splunk Inc.	2.27	-0.07

* Total attribution effect relative to the Russell 1000 Growth

Source: TCW Portfolio Analytics, Factset.
Based on a managed account model portfolio. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. Past performance is no guarantee of future results. To obtain the calculation's methodology and a list showing every holding's contribution to the overall account's performance during the period, contact your TCW client service representative or e-mail your request to PortfolioAnalytics.Group@tcw.com.

Security Selection

Our strongest performance on a security-specific basis came from the information technology and communication services sectors.

Shares of Visa Inc. (V), which we have owned for over a decade, moved higher in the second quarter after reporting solid quarterly results. Visa's top-line growth decelerated QoQ but management reiterated revenue guidance for the year and raised EPS guidance for the full year. While the strengthening USD as well as geopolitical risks have been a headwind, we were encouraged Visa's cross-border volumes stemmed their recent declines and actually improved every month in the quarter. We believe V's revenue growth could accelerate in 2019 and note that despite a 50+ year history, consumer digital payments are still less than 50% penetrated globally. We believe the transition from cash to digital payments is a long-wave trend and we are attracted to Visa's competitive position in this area of secular growth. We remain positive on V shares. Shares of Facebook, Inc. (FB) also increased during the quarter after posting 1Q19 results that beat top and bottom-line consensus estimates. There is an ongoing transition between advertising volume and pricing growth at FB and we were pleased with the company's +30% constant currency revenue growth during the quarter. The company continues to see Newsfeed pricing growth on both Facebook and Instagram and users do not appear to be leaving the platform (1.56 billion daily active users, +8% YoY). ARPU (Average Revenue Per User) increased YoY in every geography during the quarter. We believe advertisers tend to make budget decisions on a relative ROI basis and 1Q19 results appear to endorse the value of the platform to advertisers. Facebook has been mired in various headline controversies over the past year, and after the end of the quarter the FTC (Federal Trade Commission) approved a ~$5 billion settlement with FB related to the company's 2018 Cambridge Analytica data breach. While we are closely monitoring the potential for government regulation for FB (as well as other big tech companies), we believe shares remain attractive given the longer-term monetization potential of Facebook's platform.

Our weakest performance on a security-specific basis came from the communication services and information technology sectors. Shares of Alphabet Inc. (GOOG) underperformed after 1Q19 results missed consensus revenue estimates in late April. GOOG, the fastest growing global company among those with sales of $100 billion or more, posted +19% YoY revenue growth but this marked the first time YoY revenue growth dipped below +20% since 2Q15. Additionally, the DOJ (Department of Justice) announced it had opened an antitrust investigation into the company's business practices in June. Though not the first antitrust probe into GOOG, the drumbeat for increased regulation (and potential break-up) of the largest tech companies has grown louder over the past year. While we are closely monitoring any potential government action, we remain constructive on shares given the strength of GOOG's business model, its industry leading balance sheet as well as the company's historical ability to expand and enter new markets. Shares of salesforce.com, inc. (CRM) underperformed despite delivering quarterly results that topped consensus revenue and cash flow estimates. Investors were somewhat disappointed that the company did not increase its F2020 guidance, but this guidance now embeds an increased FX headwind. Growth in billings and RPO (Remaining Performance Obligation) was strong at +25% and +24%, respectively. Investors' reaction to CRM's announced acquisition of Tableau in June has also been mixed with concerns over the price paid. In our view, a second industrial revolution is underway as nearly everything

Security Selection (cont'd)

is becoming digital. To be competitive in this new age, we believe companies need to digitize their business models and processes and understand their customers with more granularity. We believe CRM, which we have owned for ~14 years, stands to benefit from the secular trend of digital transformation. We remain positive on shares.

Buys*

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*

There were no complete sells during the quarter.

Market Outlook

Despite U.S. equity markets near all-time highs and the S&P 500 posting its best first half return since 1997, investors remain largely cautious of the longest (and slowest) U.S. economic expansion in post-war history. Indeed, this may be the most hated bull market on record. Remarkably, individual investors have been a *net seller* of stocks since the dawn of the current bull market over 10 years ago (the tidal wave into ETFs has been more than offset by mutual fund redemptions). No wonder: over the past two decades, investors have been subjected to not only the Tech Bubble, Housing Crisis and the worst recession since the Great Depression, but two 50% declines in the broader stock market (2000-2002 and 2008-2009). Layer on recency bias (worst December monthly returns on record six short months ago), and it is not surprising many investors question the remaining duration of this bull market.

There are reasons to remain cautious as we head into an important 2Q earnings season. Business confidence, which initially surged post-tax cuts and deregulation, has recently stalled given the ongoing U.S.-China trade war. While the U.S. manufacturing PMI is still in expansion territory (51.7 in June), it is declining and the non-manufacturing component recently fell to its lowest level in two years. Global manufacturing PMIs remain challenged and have contracted in 17 of the last 18 months. Sovereign debt markets are also flashing red with a U.S. yield curve (3 month/10 year UST) that remains inverted alongside $13 trillion in foreign government debt still carrying a negative yield. And while the current market multiple is not extended on a historical basis (in-line with its 25-year average), S&P earnings are expected to contract for a second straight quarter.

* 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.

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Market Outlook (cont'd)

On the other hand, there are reasons to believe this triple-overtime cycle could still have legs. Consumer confidence remains high and, at this point, retail sales data has largely been spared from the tariff wars. Real GDP has increased YoY in 10 of the last 11 quarters. The unemployment rate sits at a 50-year low and inflation remains subdued (PCE inflation still hovers near 1.5%). Of the eight recessions since 1960, none has started with a real Fed Funds rate of less than ~2%. While history may not repeat, we do note that in both 1985 and 1995, despite a slowing economy, and on the heels of a lackluster year for equities in the year prior (+1.4% in 1984 and -1.5% in 1994), the market made strong advances as the Fed paused. While the set-up is different in 2019, Federal Reserve Chairman Powell noted that the Fed stands ready to "act as appropriate" to sustain the ongoing expansion. The futures market has priced in a July rate cut, with the magnitude of the cut being the primary focus of debate.

With this backdrop, we believe our balanced approach to portfolio construction remains prudent given our expectation of increasing bouts of volatility during the second half of this year. We believe our investment process remains actionable and repeatable throughout any volatile period and is indeed purpose-built to exploit the confusion and fear that periodically grips markets. And, though volatility can be painful in the near-term, it may result in a healthy reordering of quality equities. As devoted students of macro forces, we spend less energy on the prognostication of timing and ultimate outcomes of these forces than we do endeavoring to understand which forces are at play, how our portfolio companies are likely to respond to these forces and how to construct a portfolio most optimized for a given range of outcomes. We believe many of the thematic exposures to which the portfolio is exposed (e.g. cloud, digital transformation, mobile, digital payments) should continue to provide growth tailwinds despite a potential further softening of broader market growth. Although we fully expect air pockets along the way, we believe our portfolio of companies with strong business models, pricing power and growing end markets remain well positioned for long-term growth.

As always, we are truly grateful for your trust and support.

Sincerely,

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