

Cornerstone & Foundation Investment Rationale: Q2-2019

	Long-Run Allocation Target	Rationale for Target Allocation	Current Allocation	Deviation from Target	Rationale for Deviations
U.S. EQUITIES					
U.S % of overall equity	70%	U.S is 40% of global market cap and 25% of GDP; remains the most transparent and liquid market with an absence of currency or sovereign debt risk despite some political and monetary headwinds.	70%	None	Holding target weighting. Fueled by positive sentiment, fiscal stimulus, and dovish monetary signals, GDP growth in the US has been strong (2.9% for 2018 and estimated 3.2% for Q119) relative to other developed countries or economic blocs, such as the EU. While we expect GDP growth to slow slightly from recent highs, our expectation is that the US will continue to outpace other developed markets.
Large Cap/Mid Cap/Small Cap	60/25/15	Overweight mid and small cap relative to their percentage of the total U.S market cap due to our view of their long-term growth potential. Large cap is 90% of Wilshire 5000 index.	50/30/20	-10/+5/+5	Deviation from target allocation driven by 1) valuation concerns of large cap space and 2) late Q1 underperformance of small caps creates potential for outperformance
Value/Growth	50/50	Historical cycles justify equal long-term weighting along with rebalancing when drift is above average	50/50	None	Holding equal weighting. We still see potential for momentum in growth stocks while recognizing the cheap valuations in value stocks.
INTERNATIONAL EQUITIES					
International Equities (overall portfolio)	30	Despite making up ~60% of global market cap and ~75% of global GDP, we view current international issues (trade wars, oil, and geopolitical differences), economic headwinds, and currency risks justify smaller weighting.	30	None	Holding target weighting. Structurally underweight relative to the global market cap of international equities due to economic weakness and geopolitical climate.
Developed Markets (relative to International)	75	Lower growth potential than EM without many of the inherent risks (currency, politics, opaque operating environment, etc.)	67	-8	Underweight to DM given 1) geopolitical risks related to trade wars, 2) uncertainty in Europe (Brexit, Italian debt crisis, etc.), and the potential for outperformance by EM.
Emerging Markets (relative to International)	25	Long-term weighting justified by growth potential tempered by high volatility, liquidity concerns, political risks.	33	+8	Overweight to EM relative to their 14% weight of ex-US global market cap given current low valuations and exceptional, long-term growth opportunity.
FIXED INCOME					
Corporates to Governments	70/30	Believe in the long-term benefit of capturing the credit spread between corporates and government bonds.	60/40	-10/+10	Defying the risk-off sentiment in Q418, credit spreads have come back in and are currently near all-time tights. While leverage remains a concern within the financial system, this is offset by the relatively low rates that companies are paying on outstanding bonds, resulting in a manageable cost of servicing debt. We remain optimistically cautious, while maintaining a tilt towards government bonds.
Maturities: Short/Intermediate/Long	20/70/10	Neutral position relative to a moderately sloping yield curve	20/70/10	0/0/0	We are shifting our view on the curve back to our long-run allocation target due to the steepening of the yield curve and the likely pause in interest rate hikes at the Fed.
Investment Grade/High Yield	60/40	Significant exposure to the attractive long-term characteristics of high-yield debt	70/30	+10/-10	Tilting our weighting towards investment grade due to credit concerns, especially in the lowest rated bonds (C and B- rated companies).
REITS/TIPS/Preferreds	10/0/5	Like the attractive yields that REITs and Preferreds can add to a portfolio. Inflation risk remains muted, hence the zero allocation.	10/0/5	0/0/0	REITs had a strong Q119, outperforming many sectors. We maintain our current allocation to REITs based on our view that income generating stocks will be beneficial in a portfolio. We currently hold a similar view towards preferreds as REITs - potentially good yield in current environment. We continue to believe that TIPS are not currently attractive given current low inflation environment in the US, and a low probability of a material move up.

NOTE: Style drift / rebalancing process is done at the individual account and position level when the investment drifts outside of a 10% band.

Modified date: 10/2018

TownSquare Capital ph: 385-375-8650 fax: 385-375-8646

5314 River Run Drive Suite 210, Provo, UT 84604

Professional use only. Advisory services offered through TownSquare Capital LLC, a SEC Registered Investment Advisor

1 of 1

TSQ-181220-Cornerstone & Foundation Investment Rationale-Q2 2019