

MAXIMUM GROWTH QUARTERLY PORTFOLIO UPDATE

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Financial markets rebounded sharply in the first quarter, with global equities gaining more than 10% and nearly all major asset classes in positive territory for the quarter. The market recovery was largely driven by a reversal of overly pessimistic investor sentiment on the growth outlook in late 2018 especially given dovish pivots by central banks globally and some softening in trade tensions between the U.S. and China throughout early 2019. The Federal Reserve adopted a more patient stance early in the quarter, and eventually moved away from two additional forecasted hikes in 2019, while the European Central Bank backed away from previous guidance on possible rate hikes later in 2019. Interest rates moved lower over the quarter with the 10-year Treasury yield ending at 2.41% – nearly 30 basis points below its 2019 starting point. Equity market momentum faded a bit in March on resurfacing global growth concerns and ongoing Brexit uncertainty, but the first quarter still ended up as one of the best quarters for equity market performance in over ten years.

We made one change in asset allocation in the quarter. In January, we increased our U.S. equity allocation and decreased our municipal high yield fixed income allocation. The tactical move was driven by a preference to increase the risk profile of the portfolio, as we believed that financial markets had become too pessimistic on the growth outlook in late 2018, especially considering the early-January Fed pivot. Currently, the portfolio has overweights to municipal high yield fixed income and U.S. equities funded by an underweight to emerging market equities. The portfolio ended the quarter with a modestly lower risk level than its strategic starting point (the strategic allocation is 100% risk assets).

Performance for the quarter was negatively impacted by fund implementation and tactical positioning, though these headwinds were somewhat offset by benefits from strategic positioning. Strategic positioning was helped mainly by risk assets materially outperforming risk control assets, despite negative impacts from weak performance in municipal high yield fixed income compared to global equities. Tactical positioning was a detractor primarily due to the overweight to municipal high yield fixed income. Our quality large cap U.S. equity strategy (QLC) and our broader-based developed markets ex-U.S. factor tilt strategy (TLTD) were the main detractors in terms of fund implementation, while our broader-based emerging markets factor tilt strategy (TLTE) and our global natural resources strategy (GUNR) were the main contributors.

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