Dynamic Growth Opportunities (DGO)

Strategy Update Through April 30, 2019

SWS PARTNERS

Firm Overview

SWS Partners is a registered investment advisor that focuses on using technology to deliver contemporary asset management and financial planning solutions to high net worth individuals, family offices, endowments, foundations, and other institutions. We believe that by emphasizing the application of modern technologies, we can create broad efficiencies and deliver better outcomes to clients.

Strategy Info

Inception	May 1, 2018
Benchmark	Russell 1000 Growth Index
PM	Michael Parker, CFA

Strategy Objective

DGO seeks to create long-term capital appreciation by investing in companies across multiple industries that have the ability to maintain or take a profitable market share.

Portfolio Manager

Michael Parker, CFA, is the CIO of SWS and portfolio manager for the DGO Strategy. Before joining SWS in 2017, Mike was a portfolio manager of $4 billion of long-only equity portfolios at the Ohio Public Employees Retirement System (OPERS). He leverages over sixteen years of experience on both the buy-side and sell-side to bring an institutional research and portfolio management framework to SWS Partners.

Prior to OPERS, Mike was responsible for investment bank equity research at FBR Capital Markets. He received his bachelor of science in economics, finance concentration, from the Wharton School at the University of Pennsylvania and is a CFA® charterholder.

Dynamic Growth Opportunities Turns One

After spending nearly a decade within the captive walls of a $100B institution, our Dynamic Growth Opportunities ("DGO") strategy emerged one year ago, formally launching on May 1, 2018. The end result is an equity strategy representing the full embodiment of institutional-grade best practices honed over a decade.

Now we have a discrete 12-month track record, see page seven. Given the importance of this anniversary, we decided to dedicate some time outlining the strategic rationale underpinning DGO in this quarterly update.

DGO's objective is concise: deliver attractive risk-adjusted returns with an alpha target that provides upside both to our active equity peers and to our stated benchmark, the Russell 1000 Growth Index. In doing so, we maniacally focus on delivering meaningful differentiation to that which any investor can achieve with passively-managed ETFs available at single-digit basis point fees (side note plug, we fully embrace and deploy this concept in our asset allocation strategies outside of DGO). The mechanism for achieving differentiation is a robust investment process capable of discerning winners from losers in the never-ending battle of shareholder value creation, specifically among the publicly-traded universe of equities. But, idea generation that's adaptable enough to keep pace with an increasingly dynamic market is just one facet. An arguably more critical skill is putting this all to work in a manner that harnesses the benefits of risk management. This is truly the rubber-meeting-road moment, as the amount of risk taken to achieve a given return is paramount to consistency.

Portfolio positions are like chess pieces, and the placement of every new piece onto the portfolio's board incrementally impacts the overall probability for success, i.e. one's opportunity to generate alpha in the context of its risk exposure. For DGO, this exercise entails a careful study of the precise roles tasked by each piece of our portfolio. We also face resource constraints, as we, unfortunately, are not afforded the luxury of a limitless army of rooks, knights, or bishops. Additionally, each DGO position carries mobility limitations with it. Instead of fixed parameters of lateral steps on an 8x8 board, the equity pieces of our portfolio come with predetermined sets of factor exposures, or features embedded into each stock, such as market cap, geographic revenue exposure, balance sheet leverage intensity, interest rate sensitivity, sector exposure, customer concentration, commodity input cost exposure, and end unit demand elasticity, just to name a few. As we layer each piece into our portfolio, the risk posturing

among all other portfolio constituents interacts to play a carefully crafted role, one explicitly tasked with defeating its relentlessly unforgiving opponent, the stated index. We offer a glimpse on the granularities behind this exercise later in our "contributors and detractors" section, but how all the pieces act in aggregate across all expressed factors is key to controlling both numerator and denominator of returns delivered per unit of risk consumed.

We also have built DGO from the ground-up to be the best representation of equity positions tasked with outperforming the Russell 1000 Growth Index (we have explored merits on exposure to this asset class previously). Some within the investment consultant industry would label this approach as being "benchmark aware," but this facet is critical to being able to deliver our stated goal. Any other approach would be akin to fielding a carefully-designed offense with zero consideration for the alignment of the defense. This is also by no means a static exercise; the portfolio's active exposures must consider how the defense is responding—via things like changes in index weightings, the market's tolerance for risk, replenishment from new issuances, etc.—and proactively make adjustments when necessary. In our efforts to achieve this, we strive to have as much of the performance delta between our portfolio and our index be the direct result of our intended factor bets. In other words, we don't rely on the luck of stacking a portfolio full of picks from a sector that massively outperforms all others within a given period. Instead, DGO's sector exposure is also another key posturing consideration relative to our benchmark.

This is where academia and modern portfolio theory fail the unsuspecting retail investor. These outlets teach that asset allocation accounts for disproportionately large amounts of a diversified portfolio's return, much more so than the merits of any individual security. At the same time, modern portfolio theory professes that placement of a sufficient quantity of securities into a portfolio achieves "diversification" at a point along the efficient frontier. As such, most investors' attention to portfolio construction stops there. Without careful consideration of relative risk exposures in the portfolio construction process, the vast majority of out-/under-performance is likely to stem from unintended factor exposures. The problem with this approach is that, by outsourcing alpha to impacts that occur outside the scope of an investment process, it is nearly impossible to make success repeatable. Any period that sums to positive performance is likely to face a more than offsetting negative impact once the dismissed factors ultimately fall out of favor. The investor is then left to face unanswerable questions as to when

Value Creation Focus

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Risk Management Importance

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the market will regain favor for their style. We view this flying blind. Instead, we prefer to invest with eyes wide open to any and all potential factors that may impact our portfolio. Today, the single most important factor to stress test across every company in the investable universe how technology is disrupting competitive advantage.

Evidence of how pervasive technology has become within business execution can found across every corner of the market. "Technology" is no longer confined to a singular sector with neatly defined boundaries, nor is it succinctly defined by price movements of the NASDAQ Composite Index. Every company across every sector faces a digital transformation, resulting from customers' increasing appetites for on-demand experiences. Take, for example, Uber and Lyft, neither of which could have existed a decade ago due to the primitive status of GPS-enabled mobile devices at the time. Now, these two companies combine for over $100 billion in valuation, with direct cross-hairs pointed on the $11k per year that the US household spends, on average, on transportation costs, along with massive value-unlocking opportunities abroad. The tentacles of disruption for these two companies don't merely stop here. Questions that cannot be answered today with precision, but will attempt to be answered by the market with each price tick (via tickers LYFT and UBER), include:

- What happens to the 1.97 average vehicles owned per household once ride-hailing becomes even more pervasive?
- If last year's baseline of domestic light vehicles manufactured was 17.3 million, what will this figure look like in 2025?
- Are declines we're seeing in driver's licenses among younger demographics a preliminary sign that a shift is already underway?
- If today the average Uber/Lyft fare is $13 per ride, and the average rider takes five rides per month, how will utilization shift when the autonomously driven vehicle enables $2-3 rides for the same distance?

Technology is the ultimate enabler of inefficiency exploitation. Value extraction by the ride-hailing industry has firmly pointed its crosshairs on the 5% utilization rate of the average consumer-owned automobile. This massively inefficiently utilized asset has many market participants salivating over the potential to disrupt the current pie chart of value creation.

Studying the impacts of this one case study of disruption across a value chain provides insights to the analysis we constantly deploy in the management of DGO. Correctly assessing the directionality of these impacts has been a key component to the alpha delivery of our strategy.

We expect it to continue to be so for the foreseeable future. With the pipeline of unicorns—private firms valued at more than $1 billion—currently totaling more than $1 trillion, there is no shortage of VC-backed firms fighting for a piece of the economic pie. As some of these issuers eventually roll into what's now $32 trillion of publicly-traded US market cap, a replenishment will occur as these companies mature and eventually become index constituents. The chess board will then continue to evolve, and we will lay our pieces accordingly, diligently deploying the tenets of our adaptable investment process.

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Raison D'être: Alpha Delivery

The first calendar quarter delivered the respite many hoped would arrive before year-end. Due to a confluence of factors we discussed in our last quarterly, the fourth quarter's drawdown caused the calendar year snapshot to finish in the red for the first time since 2008, on a total return basis. However, the patient was then rewarded once price converged closer to value at the start of 2019. Our DGO positions more than participated in this bounce-back, with 49 of our 52 positions finishing the quarter with net positive returns. We also took the opportunity to book our gains in one position, reducing our name count by one, all of which we explore in our contributors and detractors analyses below (gross stock price changes over 1Q2019 included).

***Top Portfolio Contributors**:*

Wayfair, Inc. Class A [W]: +64.8%

Wayfair has been a perennial member of this section of our quarterly, both as a past contributor and a detractor, which is an indication as to how polarizing the ongoing debate is regarding the long-term strategic runway for the company. At the core of the debate is whether a company focused on the online home furnishings market, where products skew to the larger/bulkier end of the spectrum (i.e. hard to ship), can be sustainably profitable long-term. Wayfair also faces the perpetual question whether it's capable of competing against Amazon long-term. W was able to stack up evidence to support the bull case of this debate during the holiday 4Q period, helping to prove that reinvesting for growth for a company with $6.8 billion top-line addressing a $600 billion market opportunity is a prudent use of cash flow. We see that current debate as still unsettled, with many of the pillars of our thesis foundation strengthening. As such, we continue to see an attractive, albeit bumpy, runway for Wayfair that should net to relative outperformance among its consumer discretionary counterparts.

Xilinx, Inc. [XLNX]: +51.3% through our 3/21/2019 position exit

Any semiconductor position has to face the implications of an impending cadence shift in the founding principal of its industry, Moore's Law and its prognostications that underlie processing power improvements. Our Xilinx thesis precisely contemplated these dynamics, as we identified a confluence of factors that would likely come into favor for Xilinx, a foundation to which had been laid over the past decade and beyond. Xilinx's field programmable gate array ("FPGA") chips have long addressed opportunities in wireless base stations, data centers, and military applications. However, a management shift tapped internal talent with experience from another silicon company adept at

providing solutions for data center customers. As such, XLNX underwent a strategic transformation, addressing opportunities with solutions rather than individual components that were well targeted for customers facing an arms race to build scale-out compute architectures, such as Google, Microsoft, Facebook, and Amazon. Meanwhile, wireless carriers began 5G deployments sooner than most expected, seeking to deliver wired-like speeds via wireless base station architectures, squarely down XLNX's runway. Lastly, Dec 2018 marked the three-year anniversary of Intel's acquisition of XLNX's duopolistic competitor, Altera, which Intel gobbled up for what appeared to be lofty 8.4x sales and 28.7x EV/EBITDA multiples at the time. Although many of XLNX's current demand tailwinds were apparent to those closely following the company during the time of this acquisition, this deal nonetheless provides important valuation context on what is priced into a mature semiconductor stock. We used 1Q2019 as an opportunity to book our XLNX gains at the end of the quarter, as it approached 9.2x EV/sales and 26.8x EV/EBITDA, redeploying elsewhere within semiconductors to add to existing positions where we believe upside recognition opportunity has ripened, namely Ambarella (AMBA) and NVIDIA (NVDA).

Arista Networks, Inc. [ANET]: +49.2%

Every so often in technology, a company comes into existence with explicit intentions of timing a market inflection after having assembled a dream team of executives, all of whom possess career experiences that are perfectly aligned for the opportunity. Arista Networks represents precisely that opportunity, specifically within data center networking, and the disruption opportunity is so massive that its main competitor, Cisco Systems, has made concerted efforts to off Arista in its entirety. That is until a management transition occurred at Cisco, where its long-time CEO relinquished executive responsibilities and, later, his board chair. The flames to a heated IP-related battle ultimately subsided, and Arista settled with a $400M payment to largely put it to rest. Although some legal overhangs persist, the death knell has ceased tolling, and Arista's command for silicon-agnostic data center switching opportunities should allow it to continue to command market share in 100 Gbps, 400 Gbps, and eventually 800 Gbps bandwidths. Due to the increasing importance of compute fabric in scale-out architectures, we believe that the competitive runway for Arista among its enterprise-centric hardware peers remains extremely robust.

Top Portfolio Detractors:

CME Group, Inc. Class A [CME]: -12.1%

With around 11% representation in our index, financial services in the Russell 1000 Growth skews more towards payment services and investment services rather than banks and thrifts. We, therefore, keep a sharp eye on shifts

in capital flows, which has disproportionately favored passive over active strategies, and on a continued shift towards electronic payments. As a global derivatives marketplace, CME Group is well positioned for the aforementioned continuation of asset flows, as those relying either on active management fees or cash equity trading commissions suffer thinning margins. CME stood atop the list of best performers in 4Q2018 due to a return in volatility and continued tailwinds to its diverse derivatives marketplace business. We view its pullback in 1Q2019 as nothing more than a give-back of some of the outsized gains, as 93% of its stock price decline can be explained by contraction in its trading multiple vs deterioration of fundamentals. We continue to see merit to owning CME relative to a constituent list of active mutual fund managers, online brokers (outside of Schwab), and the more equity-focused marketplaces that comprise our financial services underweights.

Tapestry, Inc. [TPR]: -2.7%

tapestry®

With a healthy amount of divergence trades populating our book—cases where we expect premium valuations to maintain or expand relative to their respective underweights—Tapestry represents a turnaround opportunity that squarely falls into the convergence category—the inverse of the aforementioned valuation construct. As the parent company to flagship brands of Coach, Kate Spade, and Stuart Weitzman, Tapestry provides our strategy much-needed brand endurance within our consumer exposure, which we view as better insulation from the profit margin squeeze dynamic that brick-and-mortar guys face when squaring off with Amazon. Having completed its acquisition of Kate Spade in July 2017 and rebranding as Tapestry in the following October, the company has undergone a massive effort to revitalize the brand. As with most integrations of this relative size and type, there's always a reformation period of revamping existing practices, and for Kate Spade, this entailed having to retrain its customers on discounting practices, which had made inventory management for the legacy company challenging. Additionally, Tapestry has acquired controlling stakes in its mainland China, Hong Kong, Macau, Taiwan, Singapore, Malaysia, and Australia operations, which should allow for better brand cohesion. On top of this, tariff pressures with China, which represents 13% of Tapestry's FY2018 revenues, along with the death of its namesake founder, prolonged what otherwise should be benefits flowing through of integration efforts. With Beijing relations improving on the margin, Tapestry ended its the Dec'18 quarter as its last selling product from its legacy Kate Spade design team, with marketing dollars shifting into the current quarter to support the launch of its new collection. In other words, we have increased optimism that 2019 will lay the foundation for the company's turn-around, making its 11.2x forward earnings multiple suggest that shares are undervalued at current levels.

UnitedHealth Group, Inc. [UNH]: -0.4%

After a strong move following solid 4Q2018 results reported mid-Jan, UNH gave back that which it gained by the end of 1Q2019 and thus far into 2Q. Relative to a handful of insurers and healthcare services related companies that comprise the healthcare sector, UNH fared better (namely constituents like CI, HUM, and CNC), but there was no escape to macro factors that negatively impacted the entire space. As political winds continue to shift around nationalized healthcare and the attempts to dismantle the Affordable Care Act, we continue to see UNH on better footing than many of its healthcare services peers, especially low-margin yielding distributors that face narrower competitive moats being encroached by the likes of Amazon. With a diversified platform that can tether digital touch-points for the end consumer, UNH is able to move the needle on price discovery and transparency to a market that historically has had a chasm between the buyer (aka patient) and the seller (aka healthcare service provider). For UNH, its Rally platform with 22 million users is one piece of this, along with its OptumCare platform positions the company well for continued reliance on value-based care. Another advantage comes into play with efficiencies UNH is able to achieve by covering 16 million lives across Medicare Advantage, Medicaid, and Medicare Supplemental, which the company views as being responsible for capturing 50% of industry growth in Medicare Advantage. As the more far left-leaning Congressional voices attempt to utilize Medicare for All as a banner to their potential 2020 White House bids, we are likely to continue to see volatility in the entire space. However, since our analysis remains that of relative value, we continue to see UNH on better footing than its peers.

DGO Portfolio Performance

	YTD 2019	Since Inception
DGO *(net)*	23.58%	19.99%
DGO (gross)	24.09%	21.50%
Russell 1000 Growth	21.35%	16.72%
S&P 500 *(reference)*	18.25%	13.21%

Strategy inception is May 1, 2018. All performance as of April 30, 2019.
Please see Important Disclosures on Page 8.

For more information on DGO, download the fact sheet here.

Important Disclosures

Performance results and comparisons are made on a total-return basis, which include all income from dividends and interest, and realized and unrealized gains or losses. DGO returns are shown both gross and net of fees and are calculated by geometrically linking month-end market values of the strategy's inception cohort. Gross return excludes advisory fees paid to the firm. Net returns include the time-weighted deduction of the firm's maximum wrap fee (which includes both SWS's management fee and trading costs) and assume all cash flows occur at month-end.

This material is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a recommendation to buy a security. This summary is based exclusively on an analysis of general market conditions and does not speak to the suitability of any specific proposed securities transaction.

This investment strategy is subject to management risk such that no assurance may be given that the portfolio's value will be more than the original investment. The investment return and principal value of SWS Partners, LLC portfolios will fluctuate as the stock and bond markets fluctuate such that an investor's shares and/or portfolio value, when redeemed, may be worth more or less than their original cost.

This portfolio of individual equity and pass-through securities and our forward-looking statements or projections are subject to risks including but not limited to portfolio concentration risk, company-specific risk, regulatory risk, financial market risk, global economic risk, credit risk, interest rate risk, foreign market risk that may involve currency, political, and social risk.

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The Russell 1000 Growth Index is a market cap-weighted index of common stocks incorporated within the US and its territories and may not necessarily be substantially similar to your portfolio. It is not possible to invest directly in an index.

All opinions and views mentioned in this report constitute our judgments as of the date of writing and are subject to change at any time. We will not advise you as to any change in figures or views found in this report.

Our judgment or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance. Security information, portfolio management strategies and tactical decision processes are opinions of SWS Partners, LLC and the performance results of such recommendations are subject to risks and uncertainties.

This commentary has been prepared by SWS Partners, LLC ("SWS"), a registered investment adviser in the state of Ohio. If you would like a copy of SWS's disclosure brochure, please visit www.adviserinfo.sec.gov.

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