

Trade Log | Mutual Funds

LPL Financial Research

As of March 26, 2020

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Overview

LPL Research has made changes to the American Funds Active Core models on the Model Wealth Portfolios (MWP) platform. In all of the investment objectives (IO) except Aggressive Growth, we are rotating some investment-grade bond exposure to large cap growth equities. In Aggressive Growth, we are rotating some exposure from large cap blend equities to large cap growth equities. In all the IOs except Aggressive Growth, we believe the expected risk level of the models will rise to modestly above benchmark as a result of these trades. In the Aggressive Growth IO, we do not expect the risk level relative to the IO benchmarks to change meaningfully.

As markets and the global economy have responded to the COVID-19 pandemic, LPL Research has developed a set of criteria for selectively adding risk to some models. Most of the key criteria have been met, including the market approximately pricing in a recession, investor sentiment reaching negative extremes, and clear and decisive fiscal and monetary stimulus. The other criteria have been partially met, including clarity into the duration and severity of a recession and confidence in the timing of the peak in new case growth in the United States. While a market bottom cannot be timed perfectly and significant uncertainty remains, our current assessment of the criteria give us sufficient confidence that equities may provide attractive returns, particularly relative to bonds, over a reasonable time frame. We are raising risk levels, where feasible, to modestly above benchmark levels with opportunities to further adjust as market conditions evolve.

We are broadly sourcing funds from bonds with an emphasis on shorter maturities where possible. We believe that intermediate-maturity bonds may provide better portfolio diversification than shorter-maturity bonds and that the compensation for intermediate maturities relative to shorter maturities has become more attractive as the Federal Reserve has lowered short-term interest rates.

Our tilt toward growth equities in this trade is based on our belief that they have stronger balance sheets and better prospects for earnings continuity through the pandemic. These factors along with their continued growth potential after the threat passes may leave growth equities well balanced to navigate the uncertainty ahead. At the same time, we acknowledge that value equities may be more attractive during the brief period of rapid growth acceleration once the expected recession ends. We remain largely balanced between the styles and view the focus on growth equities in this trade as a small shift in emphasis.

In general, we initiated the following

Summary Of Changes

<p>American Funds Active Core Portfolios</p>	<ul style="list-style-type: none"> ■ Increased large cap growth equities in all IOs ■ Trimmed large cap blend equities in AG ■ Trimmed shorter-maturity bonds in all IOs except AG ■ Trimmed longer-maturity core bonds in G
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American Funds Active Core Portfolios %

Security Name	Ticker	LPL Financial Statement Asset Class	Aggressive Growth	Growth	Growth with Income	Income with Moderate Growth	Income with Capital Preservation
American Funds Growth Fund of America	GFFFX	Large Growth	16.0	15.0	14.0	10.0	4.0
American Funds Capital Income Builder	CAIFX	Large Value	0.0	4.0	5.0	6.0	7.0
American Funds Investment Company of America Class F2	ICAFX	Large Blend	27.0	21.0	15.0	8.0	3.0
American Funds Washington Mutual F2	WMFFX	Large Blend	27.0	27.0	19.0	8.0	4.0
Goldman Sachs Small Cap Gr Insights IR	GSTOX	Small Growth	6.0	5.0	3.0	2.0	0.0
American Funds American Balanced Fund F2	AMBFX	Balanced	0.0	0.0	0.0	6.0	7.0
American Funds New World Fund	NFFFX	Emerging Markets	10.0	8.0	5.0	4.0	2.0
American Funds SMALLCAP World Fund F2	SMCFX	Global Stock	12.0	9.0	8.0	5.0	3.0
American Funds Intermediate Bond Fund of America F2	IBAFX	Short/Intermediate Bond	0.0	0.0	7.0	18.0	28.0
American Funds The Bond Fund of America F2	ABNFX	Intermediate-/Long-Term Bond	0.0	9.0	22.0	31.0	40.0
CASH	CASH	CASH	2.0	2.0	2.0	2.0	2.0
Total			100.0	100.0	100.0	100.0	100.0

Changes indicated in bold.

The cash portion of this portfolio is represented by money market instruments.

Investment Objectives

Aggressive Growth

Emphasis is placed on aggressive growth and maximum capital appreciation. This investment portfolio has a very high level of risk and is for investors with a longer time horizon. This portfolio is considered to have the highest level of risk.

Growth

Emphasis is placed on achieving high longterm growth and capital appreciation. This is considered higher than average risk.

Growth with Income

Emphasis is placed on modest capital growth. Certain assets are included to generate income and reduce overall volatility.

Income with Moderate Growth

Emphasis is placed on current income with some focus on moderate capital growth.

Income with Capital Preservation

Emphasis is placed on current income and preventing capital loss. This is considered the lowest risk portfolio available and is generally for investors with the shortest time horizon.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. The economic forecasts set forth in this material may not develop as predicted. All performance referenced is historical and is no guarantee of future results.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. There can be no assurance that any stated investment objectives will be achieved.

The portfolio composition is as of the date listed and is subject to change. An investor's actual holdings may differ from the model due to the timing of cash flows and account level investment restrictions.

Investors should consider the investment objectives, risks, charges and expenses of the underlying investment company holdings carefully before investing. The prospectus and, if available, the summary prospectus contain this and other important information about the investment company. You can obtain a prospectus and summary prospectus from your financial representative. Read carefully before investing.

All information is believed to be from reliable sources; however LPL Financial makes no representation as to its completeness or accuracy.

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