American Century Investments®

U.S. Focused Dynamic Growth SMA

Quarterly Commentary

Portfolio Review

Stocks rose moderately. U.S. stocks posted gains as investors weighed hopes for slowing rate increases against concerns over the impact of Federal Reserve tightening on economic growth and corporate earnings in 2023. Despite the fourth-quarter advance, stocks suffered their worst year since the financial crisis.

Growth stocks lagged. Mid-cap stocks outperformed large- and small-cap stocks for the quarter. Value stocks returned to favor, outpacing growth across capitalization ranges. Value stocks outperformed by a wide margin for the year.

Consumer discretionary detracted. Sector underperformance compared with the benchmark was led by electric vehicle maker Tesla. Internet and catalog retail also weighed on performance. Restaurant chain Chipotle Mexican Grill hampered performance despite solid results as the company acknowledged its higher prices may be affecting sales volumes.

Beverages detracted. Stock decisions in the industry weighed on relative performance compared with the benchmark in the consumer staples sector, although an overweight allocation relative to the benchmark mitigated some of the underperformance. Not owning household products stocks also hampered relative results.

Health care benefited performance. An overweight allocation to the sector relative to the benchmark along with stock selection helped performance. The health care sector outperformed compared with the benchmark, especially among health care equipment and supplies companies, which received a boost from increased procedure volumes as the pandemic waned.

The strategy remains focused on investments with long-term growth. The portfolio has holdings that have demonstrated their unique value proposition, not just currently, but we think for the foreseeable future. We believe the current sell-off fails to reflect well-run companies' tremendous innovation and opportunity over a multiyear horizon.

Key Contributors

Apple. The consumer electronics company delivered a decent quarter and guidance but subsequently warned of lower iPhone shipments due to COVID-19 restrictions in China. Our lack of exposure to Apple benefited performance compared with the benchmark.

Westinghouse Air Brake Technologies. The stock of this transportation company outperformed compared with the benchmark, aided by the strong results of its freight rail segment. Westinghouse Air Brake makes products for locomotives, freight cars and other transit vehicles, addressing safety improvement in mass transit markets across many geographies.

Intuitive Surgical. The maker of da Vinci robotic surgical systems rose after it reported revenue and earnings that beat consensus expectations. The company reported a rebound in procedures on slowing COVID-19 cases, allowing hospitals to resume more normal activities. Utilization per device jumped, which is a key sales driver.

Goal and Strategy

Invests in stocks of early and rapid stage large-cap growth companies with the potential to increase in value over time.

Portfolio Management Team

	Start Date	
Name	Industry	Company
Keith Lee, CFA	1996	1998
Michael Li, Ph.D	2002	2002
Henry He, CFA	2001	2011

Top 10 Holdings (%)

Alphabet Inc	6.29
Amazon.com Inc	6.28
Constellation Brands Inc	5.38
Visa Inc	5.27
Mastercard Inc	4.72
Tesla Inc	4.70
Westinghouse Air Brake Technologies Corp	4.58
Chipotle Mexican Grill Inc	4.37
Regeneron Pharmaceuticals Inc	4.26
Paylocity Holding Corp	4.24

As of 12/31/2022

The holdings listed should not be considered recommendations to purchase or sell a particular security. Equity holdings are grouped to include common shares, depository receipts, rights and warrants issued by the same company. Fund holdings subject to change.

Key Detractors

Tesla. The electric vehicle maker's stock fell on concerns about softening demand. In addition, investors want to see a resolution to Elon Musk's management of Twitter and a focus on Tesla's business. We continue to believe the company has a deep management bench and are optimistic about Tesla's long-term growth outlook.

Paylocity Holding. The stock of this provider of cloud-based software for human resources and back-office functions reported better-than-expected revenue and earnings. The tight labor market supports robust demand for the company's modern, intuitive products, in our view. The stock fell on profit-taking after strong recent performance.

Amazon. Results and guidance overall were a disappointment for the online retailer. Macroeconomic weakness was the primary culprit across both its e-commerce and Amazon Web Services segments. Amazon continued to invest to increase efficiency, lower costs and improve the customer experience despite the economic slowdown.

Notable Trades

There were no new purchases during the period.

No positions were liquidated during the period.

Portfolio Positioning

Our process uses analysis aimed at identifying large-cap companies producing attractive, sustainable earnings growth. We seek to reduce unintended risks and align the portfolio with company-specific risks that we believe will be rewarded over time. As a result of this approach, our sector and industry allocations reflect where we are finding opportunities at a given time.

We think several secular trends remain in place. Market volatility remains high as investors focus on inflation, slower economic growth and rising interest rates amid an ongoing war in Ukraine. We think the most important driver of near-term market direction is likely to be the level of corporate earnings growth. Longer term, we believe several important secular trends remain in place. For example, we don't believe we are ever going back to pre-pandemic conditions with respect to work from home, digital advertising and business trends, social media, cloud and mobile computing and consumer behaviors. Nor do we think changes in the adoption of electric vehicles or alternative energies are going away.

Worries about inflation and the economy are driving market action. Stocks endured a difficult year, as rising inflation and interest rates led to fears of a looming recession. In that environment, value stocks held up much better than growth, as investors favored more defensive shares. We think corporate earnings growth will be required to help lay the groundwork for an eventual recovery. However, earnings growth forecasts for 2023 and beyond are coming down. As a result, we think it's reasonable to expect more volatility ahead. It's important to note that, at times like these, we don't capitulate or change our approach. Instead, we double down on our research, risk controls and diversification.

Select growth stocks can thrive despite inflation. With respect to the surge in inflation, we believe that, over the long term, growth equities can offer attractive inflation protection, provided the stocks in question represent competitively well-positioned companies with pricing power. We have been taking the price pressures we're seeing seriously. Equities in general can be susceptible to high and/or rapidly rising inflation, but the calculus is different for companies with the capacity to raise prices and make them stick. In every conversation we have with corporate management teams, we ask how well they are positioned for inflation and whether they can defend margins and raise prices if necessary.

Volatility presents opportunities. When we look at the world, we believe innovation, technology and the demand for greater efficiency and convenience are transforming our lives in meaningful, positive ways. And for that reason, when we see these sorts of massive growth sell-offs, we view these downdrafts as opportunities to buy incredibly innovative companies cheaply. As a result, we view this as a chance to upgrade our portfolios and reallocate capital to more attractive opportunities or names we may have missed.

We maintain a long-term perspective. We seek high-quality companies with healthy balance sheets—that's precisely the opposite of companies that performed well late in 2021 and throughout 2022. But we're not investing for a horizon of a few days, months or even quarters—our horizon is many years long. We are trying to outperform across the full market cycle. We buy what we believe are dynamic, innovative growth companies with healthy balance sheets and cash flows, so they can grow and improve throughout the cycle as opportunities present themselves.

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Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.

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