

U.S. Focused Dynamic Growth SMA

Quarterly Commentary

Portfolio Review

Stocks posted strong gains. U.S. stock indices were broadly higher as investors grew increasingly optimistic that the Federal Reserve (Fed) had engineered a soft landing amid cooling inflation and continued economic growth. As the Fed paused its campaign of interest rate hikes, signs pointed to possible rate cuts in 2024.

Growth stocks continued their strong performance. Returns for growth stocks exceeded those for value stocks during the quarter, except in the small-cap universe, where value outperformed. Small-cap issues outperformed their mid- and large-cap peers. Year to date, growth outperformed value across the capitalization spectrum.

Financials benefited performance. Stock selection in the sector was positive, led by the financial services industry. Avoiding the lagging insurance industry was also helpful to relative results.

Hotels, restaurants and leisure stocks were top contributors. The industry led performance in the consumer discretionary sector due to stock selection. An overweight allocation to broadline retail relative to the benchmark was also beneficial.

Software weighed on performance. Positioning in the industry relative to the benchmark detracted from information technology performance. Stock selection in the semiconductors and semiconductor equipment industry also hampered results.

Key Contributors

Block. This provider of merchant payment services and Cash App reported better-than-expected revenue and earnings and raised guidance.

Chipotle Mexican Grill. This fast-casual restaurant chain posted better-than-expected earnings as it continued its expansion strategy. Our research indicated Chipotle increased prices in the face of higher costs and was able to retain and grow its customer base.

Blueprint Medicines. This biotechnology company's stock rose after it received European Commission approval for expanded use of Ayvakit, its drug that treats a rare disorder called indolent systemic mastocytosis. Its most recent earnings report was strong, showing higher-than-expected earnings, revenues and patients on Ayvakit.

Key Detractors

Argenx. This Netherlands-based biotechnology company's stock fell sharply after the company ended trials for its treatment for an autoimmune disease. This was the company's second failure for its broad-acting drug Vyvgart, despite being successful in two earlier trials. Roughly 10 indications remain, but investors have not been optimistic.

Paylocity Holding. This provider of payroll and human resources software reported strong revenue and earnings but provided disappointing revenue guidance.

Constellation Brands. Our research indicated this alcoholic beverage producer lagged on concerns about weakness in its wine and spirits segments. Nevertheless, we think Constellation has the potential to gain market share in the beer market. It also recently sold off its low-end wine business and has been building more efficient bottling plants, among other positive changes.

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

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

Top 10 Holdings (%)

Amazon.com Inc	9.06
NVIDIA Corp	8.66
Alphabet Inc	8.49
Tesla Inc	7.03
Chipotle Mexican Grill Inc	5.33
Microsoft Corp	3.95
Regeneron Pharmaceuticals Inc	3.84
salesforce.com Inc	3.38
Okta Inc	3.17
Visa Inc	3.11

As of 12/31/2023

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.

Notable Trades

Shopify. We added Shopify, a Canadian information technology services company that provides a global omnichannel retail-enablement platform for entrepreneurs and small businesses. Our research indicated that the company has benefited from potential margin improvement, existing and emerging product/service adoption, merchant solutions and a focus on cost control.

Cognex. Cognex sells to manufacturers and industrial users of 2D and 3D vision and barcode identification systems. Unfortunately, the company reported disappointing results with rising inventory and an uncertain outlook. We sold the stock in favor of names that we thought were more attractive.

Silk Road Medical. We exited our position in this manufacturer of medical devices for treating neurovascular diseases in favor of stocks that we believed had more potential.

Portfolio Positioning

Our process uses bottom-up financial analysis aimed at identifying large-cap companies that we believe are capable of producing attractive, long-term earnings growth. We seek to reduce unintended, nonfinancial risks and instead 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 areas of the market where we think we are finding opportunities at a given time.

We think several secular trends remain in place. Our research indicates market volatility will likely remain high as investors shift their focus from inflation and Fed interest rate policy to other drivers of the market such as the pace of economic growth and corporate earnings. Consensus earnings forecasts for 2024 predict solid year-over-year growth. However, we think this may be optimistic given the interest rate environment and the current level of economic growth. This has led us to search for companies that we believe have the financial strength to navigate an extended period of economic weakness, in addition to those that can benefit from enduring growth trends. Examples include digital advertising and business transformation, the reliance on the cloud and mobile, process automation and electric vehicle adoption, among others.

Debate over hard or soft landing is driving market action. Stocks endured a difficult year in 2022, when the Fed raised rates at the fastest pace in more than 40 years to fight high inflation. But now, inflation has cooled, and the Fed has paused its rate-hiking campaign. There was a tug of war driving markets in 2023 between whether the economy would experience a hard or soft landing. We see no quick resolution to this question and expect more volatility in 2024. Either way, we don't capitulate or change our approach. Instead, we remain committed to our strategy and double down on our bottom-up financial research process. We believe periods such as these can create attractive opportunities for long-term investors willing to be patient with good companies.

We continue to focus on owning what we believe are solid businesses. There's a tendency to view the investing world in style terms such as growth versus value or small versus large. But we believe there is a hazard in making such top-down market calls, especially at times when economic uncertainty is so high. Instead of thinking about where a company might fit in a particular style framework, we ask, "Is this a solid business?" and "Where is it in its stage of development?" We believe buying and holding young, growing businesses that are well positioned competitively is the best way to compound value for shareholders over time.

Volatility presents opportunities. Business conditions vary quarter to quarter and year to year, and stocks go up or down in the near term for any number of reasons. Because of this, we believe companies with what we've determined are solid long-term growth prospects are better situated to ride out uncertainty relating to economic and earnings growth. As a result, we believe our portfolio investments have significant long-term growth opportunities, which should ultimately benefit investors over time. As ever, we continue to monitor the financial progress and risks of our investments. We seek to utilize short-term volatility as an opportunity to add to positions when we see share prices disconnected from our assessment of their long-term valuation potential.

Our approach is based on individual security selection. There's a tendency to think about the possibility of recession, Fed rate cuts and market implications in black-and-white terms. But we would argue that individual companies will respond differently to the ebbs and flows of the economy. Indeed, we believe we have found opportunities in diverse companies developing new products and technologies that are transforming entire sectors and industries. We don't focus on top-down analysis. Rather, we believe the best approach is to rely on bottom-up, financial research to identify individual companies that we think have the potential to innovate and reimagine the competitive landscape. This is why we believe the companies we invest in are dynamic, innovative growth companies with healthy balance sheets and cash flows that can improve throughout the economic cycle.

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