U.S. Focused Dynamic Growth SMA

Quarterly Commentary

Portfolio Review

Stocks declined. U.S. stocks fell, largely driven by uncertainty over President Donald Trump's tariff agenda, which dominated the daily news. Investors grew cautious as they considered the impact of proposed tariffs on global growth, inflation and the Federal Reserve's (Fed's) interest rate policy.

Value outperformed. Large-cap value was the only U.S. stock category to post a quarterly gain. Mid-cap stocks outperformed large-cap stocks, which surpassed substantial declines for small caps, and value stocks outperformed growth stocks across the capitalization spectrum.

Automobiles detracted. Our overweight in the industry relative to the benchmark helped drive underperformance in the consumer discretionary sector, primarily due to our holding of Tesla. Chipotle Mexican Grill and Amazon were other significant detractors in the sector.

Consumer staples weighed on performance. Stock choices in the sector detracted. Below-benchmark exposure also hindered results as investors sought more defensive positioning during the quarter.

IT services was a top contributor. Stock choices in the industry led outperformance in the information technology sector. Avoiding computers and peripherals stock was also helpful.

Key Contributors

Broadcom. The chipmaker's stock fell amid a broad technology sell-off that was especially hard on artificial intelligence-related stocks. Our lack of exposure to the stock benefited relative results.

Key Detractors

Tesla. Skeptics question Tesla's ability to keep pace with past profitable growth based on recent negative reactions to CEO Elon Musk's actions in the Trump administration and negative brand perception. We understand the concern but ultimately believe the company's products and competitive position remain attractive.

Portfolio Positioning

Our process uses bottom-up financial analysis aimed at identifying large-cap companies that we believe have the ability to produce 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.

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
Henry He, CFA	2001	2011
John Rabroker, CFA	2004	2004

Top 10 Holdings (%)

NVIDIA Corp	14.85
Alphabet Inc	11.13
Amazon.com Inc	10.24
Tesla Inc	6.62
Netflix Inc	4.45
Microsoft Corp	3.77
Mastercard Inc	3.27
salesforce.com Inc	3.25
Intuitive Surgical Inc	3.21
Chipotle Mexican Grill Inc	2.90

As of 3/31/2025

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.

U.S. Focused Dynamic Growth SMA

Focus on enduring growth amid near-term uncertainty. We believe market volatility will likely remain high as investors contemplate U.S. policy uncertainty alongside geopolitical risks. We think the recently announced tariff regime, if implemented for an extended period, could threaten economic growth and corporate profits, although corporate earnings forecasts have predicted solid growth. Valuations of large-cap stocks, even those based on these lofty projections, haven't been cheap, in our view. Nevertheless, we remain positive on growth stocks over time because we continue to identify companies that we believe can produce strong, sustainable earnings growth driven by innovation and powerful secular trends.

Today's returns depend on tomorrow's earnings. Corporate earnings are key because stock returns are often a function of earnings growth, dividend yield (the ratio of a company's annual dividend compared to its share price) and the price investors are willing to pay for these earnings. As the market is typically forward-looking, trading on expectations of future growth, we expect investors will focus on 2025 and 2026 earnings estimates, which still look too high, in our opinion. We think these high future earnings forecasts could pose a risk, particularly for companies that fail to meet those lofty expectations. Nevertheless, we continue to see companies that we think could benefit from strong secular growth in areas such as digital advertising, business transformation, artificial intelligence (AI), mobile and cloud computing, process automation and electric vehicle adoption.

Productivity is central to profit growth. We see lasting challenges to productivity growth in the movement toward nationalism, deglobalization and demographic trends of social inequality and aging global populations. In general, worker productivity is critical to corporate profit growth, and we remain hopeful that AI and other technologies could help offset these productivity declines over time. Moreover, uncertainty has been high on several fronts, which we think helps explain the recent extreme market concentration and volatility. Amid all this uncertainty, we believe large-cap valuations have been too high. This suggests there could be more volatility ahead because the market will likely be vulnerable to every disappointment.

Volatility presents opportunities, in our view. Business conditions typically vary from quarter to quarter and year to year, and stocks go up or down in the near term for any number of reasons. However, we believe companies with 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. As ever, we remain vigilant in monitoring what we view as 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 disconnect from our assessment of their long-term valuation potential.

We prefer to focus on individual security selection rather than binary market calls. While we believe there's a tendency for investors to think about policy outcomes, Fed interest rate changes and economic data points in binary terms, we would argue that individual companies respond differently to macroeconomic conditions. Indeed, we believe we've found opportunities in diverse companies developing new products and technologies that are capable of transforming entire sectors and industries. To identify innovative companies that are reimagining their competitive landscapes, we rely on bottom-up financial research. That's why we seek to invest in dynamic, innovative growth companies with healthy balance sheets and cash flows that we believe can improve throughout the economic cycle.

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