

U.S. Sustainable Large Cap Core 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 raising interest rates, signs pointed to possible rate cuts in 2024.

Growth stocks continued to outperform. 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.

Life sciences tools and services benefited performance. Stock selection in the industry aided health care performance. Pharmaceuticals also helped, largely due to not owning Pfizer and Johnson & Johnson. Our research indicated that Pfizer has been struggling with weaker revenues for its COVID-19 vaccine and boosters. Johnson & Johnson reported disappointing trial data for its lung cancer drug.

Financials helped performance. Outperformance was led by positioning in the financial services industry relative to the benchmark. Stock choices in the insurance industry were also positive.

Information technology detracted from relative performance. Stock selection in the sector hampered performance. Cisco Systems and an underweight allocation to Apple relative to the benchmark were key sector detractors.

Key Contributors

Advanced Micro Devices. The semiconductor chipmaker's stock outperformed on robust guidance and commentary on artificial intelligence.

Exxon Mobil. Our research indicated stocks in the energy sector were weak in the quarter, hampered by lower oil and gas prices. Not owning this oil company benefited relative results.

Agilent Technologies. The stock of this provider of instruments, software and services to health care companies rebounded during the quarter from poor performance earlier in the year on what we believe were hopes of improvement in 2024 for key end markets, including China and biotechnology and pharmaceutical companies.

Key Detractors

ConocoPhillips. Our holding of this oil company underperformed as stocks in the energy sector were weak due to lower oil and gas prices. However, ConocoPhillips reported a stronger-than-expected financial quarter, raised its dividend, reduced its debt and repurchased stock.

Schlumberger. This oil field services company lagged along with other stocks in the energy sector due to lower oil and gas prices. We think Schlumberger remains well positioned with 80% of revenues derived from international sources, where growth has been stronger relative to North America.

Goal and Strategy

Invests in large-cap stocks with improving business fundamentals and sustainable corporate behaviors.

Portfolio Management Team

Name	Start Date	
	Industry	Company
Joseph Reiland, CFA	1995	2000
Justin Brown, CFA	1993	2000
Rob Bove, CPA	1994	2005

Top 10 Holdings (%)

Microsoft Corp	8.68
Apple Inc	4.94
Alphabet Inc	4.70
UnitedHealth Group Inc	3.59
Amazon.com Inc	3.49
NVIDIA Corp	3.33
Advanced Micro Devices Inc	2.99
Zoetis Inc	2.92
Home Depot Inc/The	2.83
Parker-Hannifin Corp	2.72

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.

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Cisco Systems. This technology company, which is known for its networking equipment, missed consensus expectations on guidance amid what we believed were disappointing orders due to overshipping and limited visibility into demand.

Notable Trades

Union Pacific. We initiated a position in this railroad. The company's new CEO, Jim Vena, is pushing a renewed focus on service and productivity that we think should result in better operating margins and earnings growth when freight volumes recover.

Eli Lilly & Co. We established a new position in Eli Lilly. We believe this company stands out in the pharmaceuticals industry, with leadership exposure to the strongest growth areas, including obesity and Alzheimer's drugs.

CVS Health. We exited our position in this company to reduce our overweight in managed care companies relative to the benchmark, as we believe there have been signs of health care utilization picking up, which could limit earnings upside.

Norfolk Southern. We sold our position in this railroad to fund what we believed were more attractive investments in the transport group.

Portfolio Positioning

Our process uses bottom-up financial analysis aimed at identifying what we believe are growing large-cap companies that have demonstrated strong sustainable corporate behaviors. Rather than screen out certain industries or sectors for exclusion, we seek to identify companies that, based on our research, have the strongest growth and environmental, social and governance (ESG) characteristics in each sector. As a result of this approach, our sector and industry allocations reflect areas of the market where we believe we are finding opportunities at a given time.

The economic environment remains uncertain. Concern remains about whether higher interest rates have yet had their full impact. There are growing economic headwinds, as more pandemic programs have expired, and the upcoming election cycle contributes to more uncertainty. Geopolitical unrest persists. Tragic events and war in the Middle East injected additional market volatility during the quarter. Nevertheless, we continue to believe that well-run businesses in strong positions with respect to their competition and sustainability practices are best able to navigate current conditions.

We have continued to favor health care. However, we have reduced our managed care positions as our research indicated there were signs that health care utilization rates have been improving, which we believe could limit earnings. In addition, we think the moderating inflationary and interest rate environments over the past few months have made health insurance companies less attractive compared to other opportunities.

Financials was overweight relative to the benchmark. This has been driven primarily by heavier allocations to the capital markets and insurance industries, where we believe companies have benefited from higher interest rates.

We have found opportunities among select information technology stocks. Our process remains focused on companies we characterize as ESG leaders with improving financial positions. We have identified what we believe are opportunities in the electronic equipment, instruments and components industry. We have also identified select companies in software and IT services that we think are attractive.

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Many of American Century's investment strategies incorporate the consideration of environmental, social, and/or governance (ESG) factors into their investment processes in addition to traditional financial analysis. However, when doing so, the portfolio managers may not consider ESG factors with respect to every investment decision and, even when such factors are considered, they may conclude that other attributes of an investment outweigh ESG considerations when making decisions for the portfolio. The consideration of ESG factors may limit the investment opportunities available to a portfolio, and the portfolio may perform differently than those that do not incorporate ESG considerations. ESG data used by the portfolio managers often lacks standardization, consistency, and transparency, and for certain companies such data may not be available, complete, or accurate.

ESG Definitions

- **ESG Integrated:** An investment strategy that integrates ESG factors aims to make investment decisions through the analysis of ESG factors alongside other financial variables in an effort to deliver superior, long-term, risk-adjusted returns. Therefore, ESG factors may limit the investment opportunities available, and the portfolio may perform differently than those that do not incorporate ESG factors. Portfolio managers have ultimate discretion in how ESG issues may impact a portfolio's holdings, and depending on their analysis, investment decisions may not be affected by ESG factors.
- **ESG Focused:** An investment strategy that focuses on ESG factors seeks to invest, under normal market conditions, in securities that meet certain ESG criteria or standards in an effort to promote sustainable characteristics, in addition to seeking superior, long-term, risk-adjusted returns. This investment focus may limit the investment opportunities available to a portfolio. Therefore, the portfolio may underperform or perform differently than other portfolios that do not have an ESG investment focus. ESG-focused investment strategies include but are not limited to impact, best-in-class, positive screening, exclusionary, and thematic approaches.

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