U.S. Sustainable Large Cap Core 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.

Computers and peripherals aided relative performance. Our underweight allocation to the industry relative to the benchmark, especially Apple, benefited performance in the information technology sector compared with the benchmark. Our overweight to communications equipment stocks was also positive.

Financials outperformed. Stock selection among banks helped drive performance compared with the benchmark. JPMorgan Chase & Co. was a top contributor. The global financial services firm outperformed after reporting better-than-expected quarterly results.

Pharmaceuticals weighed on relative performance. Stock selection in the industry hampered performance in health care compared with the benchmark. Animal health company Zoetis experienced a slowing in revenue growth after an extremely strong 2021, as visits to veterinary clinics slowed in 2022.

Key Contributors

Schlumberger. The Netherlands-based oil field services company reported a strong quarter, surprising positively with revenues, margins and earnings. Pricing remained strong, supporting margins, and the company's growing focus on its new energy division (energy transition, low carbon solutions) continued to gain momentum.

Agilent Technologies. The life sciences tools and services company reported a strong fiscal quarter driven by a rebound in China for Agilent's analytical instruments and continued demand from biopharmaceutical customers worldwide. Agilent also offered a solid earnings outlook for 2023.

Johnson Controls International. This maker of building control systems reported a solid quarter and forward guidance with strong order momentum and improving price trends. Its continued improvement and strong execution drove the stock higher, aided by a more favorable outlook compared to other areas of the market.

Key Detractors

Alphabet. Google's parent company reported disappointing results, largely due to macroeconomic weakness, which is hurting advertising demand. Alphabet is also spending into the revenue slowdown. We expect a more aligned growth and spending profile in 2023.

Exxon Mobil. Not owning the oil company detracted. Exxon Mobil participated in the energy sector's strong performance, benefiting from global energy market imbalances and higher fossil fuel prices. Longer term, we believe ConocoPhillips is better positioned to take advantage of these trends.

Goal and Strategy

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

Portfolio Management Team

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

Top 10 Holdings (%)

Microsoft Corp	6.96
Alphabet Inc	4.59
Apple Inc	4.19
UnitedHealth Group Inc	3.93
PepsiCo Inc	3.92
Agilent Technologies Inc	3.50
ConocoPhillips	3.45
NextEra Energy Inc	3.39
Home Depot Inc/The	3.25
Prologis Inc	3.08

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.

Generac Holdings. The generator manufacturer preannounced revenue and earnings that were significantly below consensus, citing rising inventories and lower dealer orders for its core product. The stock continued to underperform given increased uncertainty around 2023 earnings power.

Notable Trades

Generac Holdings. We initiated a position in this maker of power generators. We think secular trends favor the company, including an aging and vulnerable electric grid that should continue to drive demand for home standby generators as well as solid demand for the company's commercial generators and residential solar products.

Comcast. We eliminated this telecommunications company as broadband subscriber growth has continued to slow due to increasing penetration of the service into U.S. households and from competing service providers.

Portfolio Positioning

Our process uses analysis aimed at identifying growing large-cap companies demonstrating sustainable corporate policies. Rather than screen out certain industries or sectors, we seek to identify companies with the strongest growth and environmental, social and governance characteristics in each sector. As a result of this approach, our sector and industry allocations reflect where we are finding opportunities at a given time.

War, inflation and recession risk all suggest difficult, volatile conditions ahead. Markets will continue to deal with the contrasting risks of rising inflation and interest rates, even as the global economy teeters on the verge of recession. The ongoing war in Ukraine also highlights political and economic risks at present. COVID-19, war and tariffs all are disrupting global supply chains, putting further upward pressure on prices. 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 were overweight consumer staples. The increase in the consumer staples sector weight relative to the benchmark was largely driven by a large addition in our PepsiCo position. The company reported strong results during the quarter and continues to see growth in its beverages and convenient foods businesses as volumes remain steady while pricing has increased.

We favor select materials stocks. Our materials sector overweight relative to the benchmark is driven primarily by the chemicals industry, where we think our exposure to industrial gas company Air Products and Chemicals will benefit from an increase in demand for hydrogen as a more sustainable energy source.

We were underweight communication services. Our weight in the communication services sector relative to the benchmark declined this quarter as we eliminated our position in Comcast. Broadband subscriber growth slowed further due to increasing penetration of the service into U.S. households and from competing service providers.

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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Portfolio holdings are as of the date indicated, and subject to change without notice. Data provided by American Century Investments and FactSet, unless otherwise noted. Material presented has been derived from industry sources considered to be reliable, but their accuracy and completeness cannot be guaranteed.

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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