

Portfolio Positioning Highlights

The strategy is focused on investments with a long duration of growth and is essentially fully invested. While ongoing macroeconomic uncertainty suggests market volatility ahead, we continue to believe that well-run, innovative companies producing tremendous shareholder value will perform well over time. We believe the fundamental and technological changes we've aligned the portfolio with aren't part of mean-reverting cycles but rather truly transformational, enduring trends.

Market Review

Stocks were generally lower. Most U.S. stock indices declined, hampered by large technology stocks, especially those seen as beneficiaries of artificial intelligence. The weakness began when a major semiconductor equipment maker forecast disappointing order growth and intensified in October's last week.

Growth stocks outperformed. All capitalization ranges fell, with mid-cap stocks holding up better than large and small caps. Growth stocks outpaced value stocks across the size spectrum. Despite October's weakness, U.S. stocks remained strongly higher for the year to date.

Key Contributors

Apple. The consumer electronics company's stock lagged on concerns about demand for its latest iPhone. Our lack of exposure to Apple benefited performance compared with the benchmark.

Microsoft. The software giant reported better-than-expected earnings, but the stock fell on concerns about Microsoft's spending on artificial intelligence. We own Microsoft but hold less than the benchmark, which benefited relative performance.

Argenx. Netherlands-based Argenx recently reported revenue and earnings above expectations. As of the end of September, the company reported a significantly greater-than-expected number of patients on its Vyvgart treatment for myasthenia gravis.

Key Detractors

Regeneron Pharmaceuticals. Although the biotechnology company beat revenue and earnings estimates, the stock fell on weaker sales of its higher dose Eylea, which treats macular degeneration. Management also gave cautious guidance for the next quarter.

Advanced Micro Devices. The semiconductor chipmaker posted revenue that beat expectations and earnings that were in line with estimates, but the stock fell on guidance that disappointed due to high expectations. We continue to believe it is well positioned to address the growing market for artificial intelligence-related chips.

Monolithic Power Systems. The maker of power management solutions for data centers and other uses beat revenue and earnings estimates but fell on disappointing guidance. Monolithic's data center business has been fueled by growing demand for NVIDIA's AI-related chips. Unfortunately, NVIDIA's newest chips have faced delays.

Notable Buys

ON Semiconductor. ON Semiconductor designs a diverse set of analog, application-specific integrated circuit and discrete semiconductor chips focused on power and sensing. The company's end markets have shifted from communications, computing, and consumer and toward higher growth electric vehicles (power) and smart factories/buildings (sensing).

Notable Sells

FANUC. We eliminated our stake in FANUC, a factory automation/robot manufacturer. We continue to be strong believers in the secular trend toward factory automation. Nevertheless, the company is likely to face headwinds because of its exposure to China. We redeployed the capital into stocks with greater upside and certainty.

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