American Century Investments®

U.S. Mid Cap Value SMA

Quarterly Commentary

Portfolio Review

U.S. stocks rallied. During the quarter, broad U.S. equity markets surged as corporate earnings growth remained resilient and U.S. policymakers continued to forecast three interest rate cuts this year. Against this backdrop, cyclical sectors generally outperformed defensive sectors, and the energy sector advanced strongly on the heels of rising oil prices.

Growth and large-cap stocks outperformed. Amid the market's broad-based gains, growth stocks outperformed value stocks across the market-capitalization spectrum. Additionally, large-cap stocks outperformed their mid- and small-cap peers.

Industrials detracted from performance. Security selection and an underweight position in the industrials sector relative to the benchmark weighed on results. Lack of exposure to several benchmark names in the machinery industry detracted. Also, our position in Bunzl, a distributor of packaging, nonfood consumables and cleaning and safety products, underperformed as investors seemed concerned about the company's organic growth.

Utilities weighed on results. Security selection and an overweight position in the utilities sector relative to the benchmark hindered results. Not owning Constellation Energy detracted from performance as the utility company outperformed after reporting earnings that exceeded expectations.

Information technology was an area of strength. The information technology sector was a bright spot for the portfolio during the period. Security selection helped, particularly in the case of Juniper Networks, one of the few overweight positions in the sector relative to the benchmark. Juniper Networks' stock rallied as investors cheered the news that it would be acquired in a deal that valued its shares at a premium.

Key Contributors

The Allstate Corp. We believe this insurance company improved its profitability after implementing policy increases, particularly for its automobile insurance policies. Our research also indicates that Allstate benefited from a more benign natural catastrophe environment.

Universal Health Services. This health care facilities operator outperformed due to continued strong utilization of its acute care hospitals. We believe Universal Health Services also benefited from improved staffing in its behavioral health facilities and a favorable reimbursement environment.

Emerson Electric. Shares of this electrical products company outperformed. Emerson delivered what we believed was a very strong quarter amid a challenging macroeconomic environment. Also, the operational performance of the company's test and measurement segment exceeded our expectations.

Key Detractors

Akzo Nobel. This global paints and coatings firm reported weaker-than-expected quarterly results. Our research indicated that while margins have improved, global paint volumes, particularly in Europe and China, remained subdued. We believe Akzo Nobel's results were also negatively impacted by hyperinflation in Argentina.

Goal and Strategy

Invests in mid-cap, high-quality companies temporarily selling at a discount.

Portfolio Management Team

	Start Date	
Name	Industry	Company
Kevin Toney, CFA	1993	1999
Nathan Rawlins, CFA	2009	2015
Brian Woglom, CFA	1998	2005
Michael Liss, CPA, CFA	1991	1998

Top 10 Holdings (%)

Zimmer Biomet Holdings Inc	2.94
Conagra Brands Inc	2.40
Bank of New York Mellon Corp/The	2.26
Henry Schein Inc	2.09
Northern Trust Corp	2.06
Quest Diagnostics Inc	1.90
Kimberly-Clark Corp	1.84
Koninklijke Ahold Delhaize NV	1.79
Allstate Corp/The	1.70
Universal Health Services Inc	1.63

As of 3/31/2024

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.

Constellation Energy. Not owning this power producer weighed on results. Its shares outperformed after the company reported better-than-expected earnings and guidance. As a large nuclear operator, we believe Constellation benefited from improving retail power prices and nuclear production tax credits.

Quest Diagnostics. Shares of this clinical laboratory company underperformed after its quarterly margins missed analyst expectations due to elevated labor costs. We believe these elevated costs have also led to uncertainty regarding the company's 2024 fiscal year margins.

Notable Trades

ONEOK. This midstream service producer is a new position. According to our analysis, it offers a healthy dividend as well as volumes and fees that are growing without the need for excess capital spending.

Ameriprise Financial. We initiated a position in this diversified financial services firm that provides wealth management, asset management and select insurance products. Our research indicates Ameriprise has shifted its business mix to less capital-intensive areas that generate healthy free cash flow.

Diamondback Energy. We exited our position in this oil and natural gas company after it announced a merger with another oil producer. We think the transaction would add debt to the merged company and lead to a wider range of outcomes. The stock moved higher on the announcement, providing an opportunity to exit the position.

Atmos Energy. We eliminated our position in this natural gas utility on what we believed was the relative strength in its shares.

Positioning for the Future

The portfolio seeks to invest in companies where we believe the valuation does not reflect the quality and normal earnings power of the company. Our process is based on individual security selection, but broad themes have emerged.

Higher-quality stocks may offer resilience. We believe that while central banks may enact small cuts to interest rates if inflation continues to subside, the economy may still experience lagged effects of elevated rates over the next year. That, along with continuing geopolitical risks, could potentially contribute to an uncertain economic environment for investors, in our view. Against this backdrop, we remain focused on companies that we believe are higher quality with stable revenues and profits, low indebtedness, stable cash flows and predictable business models that are less sensitive to economic conditions.

Attractive valuations in health care. Our research has led us to several health care stocks that we think offer compelling valuations. We consider health care less cyclical because the economy's performance tends to have less impact on demand in the sector. We believe health care utilization rates have continued to normalize after the COVID-19 pandemic caused patients to delay services and procedures and that shares of companies affected by sell-offs from so-called weight-loss drugs have also continued to recover.

Opportunities in consumer staples. With slowing global growth, we have identified select opportunities in the relatively defensive consumer staples sector. Despite a challenging cost inflation environment, we think many consumer staples companies are generating strong returns on capital, buying back stock and growing dividends. Moreover, our research indicates industry consolidation has enabled companies to pass higher costs to consumers. We believe actions to offset inflation, including fewer discounts and more price hikes, should support earnings and margins.

Navigating the financials sector. Regional banks have continued to face pressure on net interest income from paying higher deposit costs while loan growth remains subdued. Bank failures from last year led to increased regulatory requirements for capital and liquidity, posing what we view as another headwind to regional banks. We also see that select insurance companies, which suffered last year due to larger payouts from catastrophes, have emerged with improved pricing power resulting from easing regulations on rates and competitors withdrawing from certain disaster-prone markets.

Limited opportunities in consumer discretionary. Our portfolio remains underweight in the consumer discretionary sector relative to the benchmark. We have identified what we believe are few high-quality companies with durable business models. We also expect headwinds to discretionary spending, as consumers have been facing economic pressures like inflation and diminishing personal savings.

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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.

Historically, small- and/or mid-cap stocks have been more volatile than the stock of larger, more-established companies. Smaller companies may have limited resources, product lines and markets, and their securities may trade less frequently and in more limited volumes than the securities of larger companies.

International investing involves special risks, such as political instability and currency fluctuations.

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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