American Century Investments®

U.S. Small Cap Dividend SMA

Quarterly Commentary

Portfolio Review

U.S. equities decline. The threat of U.S. tariffs on a wide range of imported goods raised inflation and growth fears, weighing on U.S. stocks. The Federal Reserve (Fed) kept its benchmark interest rate steady, while lowering growth and raising inflation projections. After cutting rates three times late in 2024, the Fed still expected to cut rates twice in 2025.

Economic forecasts lowered. In the fourth quarter of 2024, the U.S. economy expanded at an annualized rate of 2.4%, thanks primarily to strong consumer spending. But growth forecasts declined substantially in the first quarter, with the Atlanta Fed's closely watched GDPNow reading predicting a contraction for the just completed quarter.

Energy contributed. Strong stock selection led to solid returns from this sector compared with the benchmark. Favorable performance by Hess Midstream, Magnolia Oil & Gas and ChampionX, which is being acquired by Schlumberger, helped to drive results.

Industrials added to results. Strong stock selection generated outperformance in this sector compared with the benchmark. Of note, positive returns by industrial precision bearings manufacturer The Timken Co. and government services provider Science Applications International Corp. helped drive performance.

Utilities lagged. Our underperformance in this sector compared with the benchmark was a direct result of being underweight the market's strongest-performing sector relative to the benchmark.

Key Contributors

Hess Midstream. This pipeline and midstream operator provides oil and gas gathering, processing and transport services in the north-central part of the U.S. A steady operator, the company is committed to dividend growth and share buybacks and delivered on this plan during the quarter, resulting in outperformance.

Key Detractors

Embecta. This maker of insulin needles lagged despite business strength. Concerns about GLP-1 drugs and tariffs on the European Union have hurt, as have potential cuts to federal health care programs. We think the threats are overstated and that the waning costs of spinning off from Becton Dickinson & Co. will aid cash flows.

Notable Trades

Ashland Global Holdings. We initiated a position in this maker of specialty chemicals for the life sciences, personal care and coatings markets. It has fine-tuned its portfolio to target higher value solutions, and we believe shares were attractively valued. The dividend rate of return of 2.8% is attractive and should see growth.

Titan America. A supplier of cement, aggregates and block serving the Florida and mid-Atlantic markets, this company was recently spun out of Titan Cement International. We think shares were attractively valued, growth prospects are solid, and we expect healthy margins and steady cash flows to allow for an attractive dividend rate of return.

Goal and Strategy

Seeks to invest in small-cap, income-producing companies temporarily selling at a discount.

Portfolio Management Team

	Start Date	
Name	Industry	Company
Jeff John, CFA	1991	2008
Ryan Cope, CFA	2009	2009

Top 10 Holdings (%)

Axis Capital Holdings Ltd	3.26
Hess Midstream LP	3.16
Graphic Packaging Holding Co	2.89
Webster Financial Corp	2.56
EVERTEC Inc	2.54
Popular Inc	2.48
Timken Co/The	2.45
Columbia Banking System Inc	2.43
Crescent Energy Co	2.24
Old National Bancorp/IN	2.14

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.

Patterson Cos. This distributor of consumables and equipment for the dental and animal health markets agreed to be acquired by a private equity firm. We believe the additional upside to this takeout price is limited, so we exited the name to allocate that capital to other names with greater potential.

Tapestry. A global provider of luxury accessories under various brands, this company's stock outperformed in 2024 thanks to the Coach brand, which prospered in a challenging macro environment. We exited our position as the valuation exceeded our fair value and the capitalization rose well above the portfolio's range.

Positioning for the Future

The portfolio seeks to invest in small-cap, higher-quality, dividend-paying companies selling at a discount to fair value. Our process is based on individual security selection, but broad themes have emerged.

Overweight financials. We hold a large overweight in this sector relative to the benchmark, distributed across a number of industries. We continue to maintain a significant overweight in banking, insurance and financial services, while avoiding exposure to mortgage real estate investment trusts and consumer finance. We continue to hold a large absolute weight in Compass Diversified Holdings as we view this company as materially undervalued on a sum-of-the-parts basis.

Targeted exposure to energy. While we hold a large overweight position in energy relative to the benchmark, our positioning is unique, given significant exposure to nontraditional energy sector names. Our exposure here is tilted toward select pipeline operators (Hess Midstream) as well as consumables-driven oil field services providers (ChampionX).

More weight in materials. In this sector, we favor specialized containers and packaging companies and specialty chemicals companies, holding positions in those that tend to generate significant free cash flow and trade at attractive multiples relative to peers and the market in general.

Underweight health care. We continue to be significantly underweight this sector relative to the benchmark as valuations in the space are not presenting attractive risk/reward opportunities. A significant portion of our underweight is driven by our lack of exposure in biotechnology, pharmaceuticals and life sciences tools. As a group, these companies offer few of the characteristics (strong cash flow and attractive valuations) we require when investing our trusted client capital. We will likely remain materially underweight this sector because these industries, which account for a significant portion of the benchmark, do not fit our process regarding quality and strength.

Little exposure to utilities. We continue to hold a significant underweight in this sector relative to the benchmark. After underperforming the benchmark in 2023 and again in 2024, this sector has seen valuations of these bond proxy-like equities return to more normalized levels relative to historical averages.

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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 stocks of larger, more established companies.

Russell 2000® Value Index: Measures the performance of those Russell 2000 Index companies (the 2,000 smallest of the 3,000 largest publicly traded U.S. companies, based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

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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Commentary Glossary

Adjustable-Rate Mortgages (ARMs): Mortgages in which the interest rate is adjusted periodically according to a specific index.

Agency Securities (Agencies): Debt securities issued by U.S. government agencies.

Agency MBS: Mortgage-backed securities issued by U.S. government agencies.

Alternative Minimum Tax (AMT): A parallel tax system that was created to keep high income individuals from avoiding taxes through various deductions and exemptions.

Asset-Backed Securities (ABS): A form of securitized debt backed by loan assets such as auto loans, student loans, and credit card debt.

Basis Points (BPS): Used to express percentage values that are carried out to two decimal places. One basis point equals 0.01%.

Breakeven Rate: Yield difference between nominal Treasury notes and TIPS; indicates the market's expectations for inflation.

Carry-Oriented Currencies: Higher-yielding currencies of countries where interest rates are generally higher than those of countries with lower-yielding currencies. These higher-yielding currencies are targeted for "carry trades," where investors borrow money in a low-interest rate currency and invest in a higher yielding currency, potentially profiting from the difference in interest rates.

Collateralized Loan Obligations (CLOs): A form of securitized debt, typically backed by pools of corporate loans and their payments.

Collateralized Mortgage Obligations (CMOs): A form of structured, securitized debt derived from mortgage-backed securities, typically backed by pools of residential mortgages and their payments.

Commercial Mortgage-Backed Securities (CMBS): Securities representing ownership in pools of commercial real estate loans used to finance the construction and improvement of income-producing properties such as hotels, shopping centers, and office buildings.

Commercial Paper: Short-term debt issued by corporations to raise cash and to cover current expenses in anticipation of future revenues.

Commodity: Basic raw materials such as precious metals and natural resources.

Consumer Price Index (CPI): Published by the U.S. government, CPI is the most commonly used statistic to measure inflation in the U.S. economy. Core CPI excludes food and energy prices, which tend to be volatile.

Contribution to Duration (CTD): A measure of bond portfolio risk that reflects a bond sector's contribution to the overall duration of the portfolio.

Corporate Debt: Debt instruments issued by private corporations.

Covered Bonds: Debt securities backed by cash flows from pools of mortgages or public sector loans. The asset pools help secure or "cover" these bonds if the originating financial institution becomes insolvent.

Coupon Interest Rate: The interest rate that is assigned to an interest-paying fixed income security when it is issued.

Credit Analysis: An analysis of the financial strength of the issuer of a security, and the ability of that issuer to provide timely payment of interest and principal.

Credit Default Swap: Credit derivative contracts between two counterparties that can be used to hedge credit risk or speculate on the changes in the credit quality of a corporation or government entity.

Credit Quality: Measures (usually in terms of high or low) the ability of issuers of debt securities to make timely interest and principal payments.

Credit Risk: The risk that the inability of the issuers of debt securities to make payments will cause these securities to decline in value.

Currency Overlay: A financial trading strategy used to separate the management of currency risk from other portfolio strategies. A currency overlay manager can seek to hedge the risk from adverse movements in exchange rates, and/or attempt to profit from tactical currency views.

Debt Service: The amount of money required within a given period to keep current on required/scheduled repayments of outstanding debt, including interest and principal.

Deflation: A decline in prices for goods, assets and services.

Derivatives: Securities whose performance and/or structure is derived from the performance and/or structure of other assets, interest rates or indexes.

Duration: A measure of the price sensitivity of a fixed income investment to changes in interest rates. The longer the duration, expressed in years, the more a fixed income investment's price will change when interest rates change.

Emerging Markets (EM) Debt: Debt issued by countries whose economies are considered to be developing or emerging from underdevelopment.

Excess Return: The return of an investment portfolio minus the return of what is considered to be a relatively risk-free asset, such as a U.S. Treasury bill.

Exchange-Traded Fund (ETF): Represents a group of securities but is traded on an exchange like an individual stock.

Federal Funds Rate: An overnight interest rate banks charge each other for loans.

Federal Open Market Committee (FOMC): The committee that sets interest rate and credit policies for the Federal Reserve System, the U.S. central bank.

Federal Reserve (Fed): The U.S. central bank, responsible for monetary policies affecting the U.S. financial system and the economy.

Fundamental Factors: Economic or financial data used in determining asset value.

Futures Contracts (Futures): Agreements to buy or sell a specific amount of a commodity or financial instrument at a particular price on a stipulated future date.

General Obligation (GO) Bonds: Municipal bonds that are secured by the full faith and credit of the issuer, including its taxing power.

Gross Domestic Product (GDP): A measure of the total economic output in goods and services for an economy.

Government-Sponsored Enterprises (GSEs): Privately owned corporations created by Congress to provide funding and help to reduce the cost of capital for certain borrowing sectors of the economy such as homeowners, students and farmers.

Headline Risk: Refers to the risk that a negative news media headline about one security issuer, incident or sector could affect the demand for and pricing of a much wider swath of securities.

Hedge: An investment designed to reduce the risk of an adverse price move in another investment. Often a hedge consists of taking an offsetting position in a related investment, such as a futures contract.

High-Yield (HY) Debt: Fixed income securities with lower credit quality and lower credit ratings. High-yield securities are rated below BBB-.

Hybrid Adjustable-Rate Mortgages (ARMs): Combine the characteristics of fixed-rate and adjustable-rate mortgages, with rates remaining fixed for a set period of time and then adjusting periodically according to a specific index.

Inflation: An economic condition of rising prices for goods, services and assets, or equivalently, a declining value of money. Core inflation excludes food and energy prices, which tend to be volatile. It is the opposite of Deflation.

Inflation-Indexed Securities: Debt securities that offer returns adjusted for inflation. Typically, the principal of inflation-indexed securities is indexed to a widely used inflation measure and adjusted accordingly. Interest payments can be adjusted as well.

Interest Rate Risk: The risk that a fixed income investment's value will change due to changes in interest rates.

Investment-Grade (IG) Debt: Fixed income securities with relatively high credit quality and credit ratings in the upper ranges of those provided by credit rating services. Using Standard & Poor's ratings as the benchmark, investment-grade securities are those rated BBB- or higher.

Leverage: The use of financial instruments and/or borrowed capital to increase potential returns or to increase purchasing power.

Long Position: Typical ownership of an asset or investment that gives the owner the right to transfer ownership, the right to any income generated by the asset, and the right to any profits or losses due to value changes.

Long/Short Position: A "market neutral" investing strategy that involves taking long positions in assets that are expected to increase in value and short positions in assets that are expected to decrease in value.

Master Limited Partnerships (MLPs): Publicly traded, generally higher-yielding securities of enterprises that engage in certain businesses, usually pertaining to the use of natural resources.

Mortgage-Backed Securities (MBS): A form of securitized debt that represents ownership in pools of mortgage loans and their payments.

MSCI ACWI (All Country World Index): A free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

Municipal Securities: Debt securities typically issued by or on behalf of U.S. state and local governments, their agencies or authorities to raise money for a variety of public purposes, including financing for state and local governments as well as financing for specific projects and public facilities.

Nominal Yield: The interest rate to par value that the bond issuer promises to pay bond purchasers.

Non-Agency Mortgage-Backed Securities (MBS): MBS are groups of home mortgages that are sold by the issuing banks and then packaged together into "pools" and sold as a single security. Non-agency MBS are issued by private entities, such as financial institutions.

Personal Consumption Expenditures (PCE): This price deflator which comes from the Bureau of Economic Analysis' quarterly report on U.S. gross domestic product is based on a survey of businesses and is intended to capture the price changes in all final goods, no matter the purchaser. Because of its broader scope and certain differences in the methodology used to calculate the PCE price index, the Federal Reserve holds the PCE deflator as its preferred, consistent measure of inflation over time.

Quantitative Easing (QE): A form of monetary policy used by central banks to stimulate economic growth by purchasing domestic government securities to increase the domestic money supply, lower interest rates and encourage investors to make investments in riskier assets such as stocks and high-yield securities.

Real Estate Investment Trusts (REITs): Securities that trade like stocks and invest in real estate through properties or mortgages.

Real Yield: A yield that has been adjusted to remove the effects of inflation.

Revenue Bonds: Municipal bonds that are secured by the net revenues from the project or facility being financed.

S&P 500 Index: The S&P 500® Index is composed of 500 selected common stocks most of which are listed on the New York Stock Exchange. It is not an investment product available for purchase.

Secondary Market: A market where investors make purchases from other investors, rather than from the initial issuers.

Securitized Debt: Debt resulting from aggregating debt instruments into a pool of similar debts, then issuing new securities backed by the pool. ABS, MBS, and CMOs are common forms of securitized debt.

Short Position: Refers to the sale of an asset borrowed, not owned, by the seller in anticipation of a price decline. If the seller can buy the asset later (to return what was borrowed) at a lower price, a profit results. If the price rises, the borrower/seller suffers a loss.

Sovereign Debt: A country's government-issued debt, priced in its native currency, which can be sold to investors in other countries.

Spreads, Maturity Spreads, Credit Spreads: Measured differences between two interest rates or yields that are being compared with each other. Spreads typically are measured between fixed income securities of the same credit quality, but different maturities (maturity spreads), or of the same maturity, but different credit quality (credit spreads).

Spread Sectors: Non-Treasury debt sectors with securities that usually trade at higher yields than comparable-maturity U.S. Treasury securities. These sectors typically trade at higher yields than Treasuries because they usually have relatively higher credit risk and/or more risk of prepayment.

Spread Widening, Tightening: Changes in spreads that reflect changes in relative value, with spread widening usually indicating relative price depreciation and spread tightening indicating relative price appreciation.

Swaps: Two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than one year. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments.

Treasury Inflation-Protected Securities (TIPS): Inflation-linked debt securities issued by the U.S. Treasury.

Technical Factors: Market price behavior, trends, volume, and momentum data used in determining asset value.

U.S. Treasury securities: Debt securities issued by the U.S. Treasury and backed by the direct "full faith and credit" pledge of the U.S. government. Treasury securities include bills (maturing in one year or less), notes (maturing in two to 10 years) and bonds (maturing in more than 10 years). They are generally considered among the highest quality and most liquid securities in the world.

Variable-Rate Demand Notes (VRDNs): Short-term debt securities that track market interest rates using periodic (daily, weekly, monthly, or quarterly) interest rate adjustments.

Weighted Average Life to Maturity: The average time in years to receive the principal repayments.

Yield: A rate of return for bonds and other fixed-income securities. There are several types of yields and yield calculations.

Yield Curve: A line graph showing the yields of fixed income securities from a single sector from a range of different maturities at a single point in time.

Yield to Maturity: A common performance calculation for fixed income securities, which takes into account total annual interest payments, the purchase price, the redemption value, and the amount of time remaining until maturity.

Real Yield to Maturity: Yield to maturity minus any "inflation premium" that had been added/priced in.

Zero-Coupon Securities: Debt securities that are sold at a deep discount then redeemed for their full face value at maturity.

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Glossary Sources: American Century Investments, Bloomberg Indices.