American Century Investments®

U.S. Small Cap Growth SMA

Quarterly Commentary

Portfolio Review

Stocks posted strong gains. U.S. stocks registered a strong start to the year. Markets were buoyed by optimism that a recession had been avoided and that the Federal Reserve (Fed) would cut short-term interest rates as expected this year despite lingering inflation.

Growth stocks outperformed. Growth stocks outperformed value stocks across the board. All capitalization ranges registered strong gains with large-cap stocks outpacing their mid- and small-cap peers.

Information technology detracted. Our sector underperformance was mostly due to not owning two larger-cap stocks in our benchmark. We believe Super Micro Computer surged on artificial intelligence themes, and MicroStrategy benefited from rising bitcoin prices.

Oil, gas and consumable fuels hampered performance. Stock selection in the industry weighed on performance in the energy sector. Oil field production company Kosmos Energy was a significant detractor.

Biotechnology benefited performance. Stock choices in the industry led health care sector outperformance. Health care providers and services also contributed positively.

Key Contributors

Natera. This clinical diagnostic company continued to exceed analysts' quarterly revenue expectations and increased its annual targets. Our research indicated that Natera's established cancer screening tests have seen robust demand and expanded reimbursement as doctors and payers have become more aware of their clinical utility.

Kinsale Capital Group. Our research indicated strength in Kinsale's excess and surplus insurance market, coupled with the company's superior underwriting capabilities and technology-driven cost advantages, has driven significant revenue growth, which has helped Kinsale outpace its peers.

The AZEK Co. We believe demand for the building products company's composite decking materials has helped the industry digest a formerly overstocked channel. We've seen the company generate strong revenue and earnings acceleration as sales to lumber yards have come in line with end-customer demand.

Key Detractors

Super Micro Computer. We believe this distributor and manufacturer of high-performance supercomputer technologies benefited from the emerging importance of artificial intelligence. Our lack of exposure to the stock detracted from relative performance.

MicroStrategy. Not owning this benchmark component detracted. The company's core strategy is to issue stock or convertibles to buy bitcoin, and we believe it traded at a significant premium to the value of its underlying bitcoin holding.

Five9. We think investor expectations were high for this cloud contact center software solutions provider heading into the quarter, but guidance was lower than expected. Our research indicated several large consumer discretionary customers reduced expenditures for the first time ever in the fourth quarter of 2023, which then carried into 2024.

Goal and Strategy

Seeks long-term capital growth by investing primarily in U.S. smaller companies exhibiting both sustainable accelerating earnings growth and positive price momentum.

Portfolio Management Team

	Start Date	
Name	Industry	Company
Jackie Wagner	2005	2005
Jeff Hoernemann, CFA	2005	2014

Top 10 Holdings (%)

Expro Group Holdings NV	2.21
AZEK Co Inc/The	2.03
Natera Inc	1.61
Kosmos Energy Ltd	1.57
Onto Innovation Inc	1.50
Applied Industrial Technologies Inc	1.43
JELD-WEN Holding Inc	1.34
SPS Commerce Inc	1.34
Summit Materials Inc	1.25
FirstService Corp	1.20

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.

Notable Trades

Kosmos Energy. We established a position in this oil and gas production company. We believe the early stages of a large joint venture with BP could provide a significant boost to revenue and earnings.

Applied Industrial Technologies. We initiated a new position in this industrial distribution company with a focus on factory maintenance, repair and overhaul. Our research indicated that the company may be positioned to benefit from strengthening U.S. industrial production on a cyclical basis in the next four quarters along with longer-term trends in reshoring.

Weatherford International. After strong stock performance over the last two years, we believed there were better opportunities in the industry. We eliminated Weatherford.

Power Integrations. We eliminated this designer and manufacturer of high-voltage integrated circuits for power conversion systems, which our research indicated has experienced elevated inventory, late-quarter cancellations and generally weak demand. Our biggest concern has been slowing market demand for chargers.

Positioning for the Future

Our process uses bottom-up financial analysis aimed at identifying companies we think are capable of producing attractive, long-term earnings growth. We seek to reduce what we've determined are unintended, nonfinancial risks and instead align the portfolio with company-specific risks that we believe will be rewarded over time. As a result of this approach, our sector and industry allocations reflect areas of the market where we think we are finding opportunities at a given time.

Macroeconomic indicators have been improving, but we remain cautious. Manufacturing activity expanded for the first time since 2022, while forward-looking business cycle indicators also turned positive. Unemployment remained tame, and estimates of economic growth have been revised higher. While we believe clarity on the path of interest rates has continued to evolve, one constant that we've seen has been the expectation that the Fed's next move will be dovish. However, the economic improvement hasn't come without some uncertainty, in our opinion. As a result, we have remained cautious on inflation given rising tensions in the Middle East, which we believe have placed upward pressure on oil prices and potentially other raw materials. We believe this, combined with a resilient employment backdrop, could continue to pressure wages and limit the ability for inflation to fall back to the Fed's desired target level.

We have been adding more cyclical exposure to the portfolio. Given what our research has indicated are improving macroeconomic and company-specific key performance indicators, we have been favoring companies in the materials and consumer discretionary sectors, while we have lightened our exposure to consumer staples.

Information technology ended the period significantly underweight relative to the benchmark. We believe this was due to the surging weights of two stocks in the benchmark that we did not own. As market values for Super Micro Computer and MicroStrategy more than doubled since the end of 2023, our sector underweight widened even though we added new positions. Notably, we added to our semiconductors and semiconductor equipment holdings, where we believe artificial intelligence-based applications and the cyclical end-of-channel destocking are driving the next leg up for the group.

Our process remains consistent. Although improving conditions have led us to add cyclical holdings to the portfolio, we continue to evaluate our positioning regularly, while applying our bottom-up process to find what our research has indicated are the best opportunities.

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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.

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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