

# Seeking the Growth Potential and Stability of Large Caps

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## Strategy overview

Actively managed large cap growth strategy that relies on fundamental research and analysis to identify companies with strong and accelerating business momentum, increasing market acceptance and attractive valuations.

## Key takeaways

- In the third quarter of 2024, equity markets showed varied performance, with a notable broadening of returns. Small- and mid-cap stocks led the way, while emerging markets benefited from a strong rebound in China. Falling interest rates boosted bond returns, and value stocks outperformed growth stocks, driven by defensives, cyclicals and banks. Although technology saw a slight uptick in September, its sector returns were muted compared to the first half of the year. Artificial intelligence (AI) continued to be a significant driver, with companies involved in AI development and integration being rewarded.
- For the quarter, the Fund underperformed its benchmark, the Russell 1000 Growth Index (the Index), on a net asset value (NAV) basis due to unfavorable stock selection.
- Looking ahead to the remainder of 2024, the equity market outlook is cautiously optimistic despite expected volatility. Uncertainties surrounding U.S. Federal Reserve policies, upcoming elections and rising geopolitical tensions are likely to cause continued market fluctuations. However, positive signals include potential buying opportunities in large-cap stocks and a generally favorable reaction to recent rate cuts. Additionally, a strong labor market could further support equities.

## Portfolio review

**U.S. stocks advanced during the third quarter following the Fed implementing a larger-than-expected 50 basis points interest rate cut.** The S&P 500 Index rose by 5.89% and the Nasdaq Composite grew by 2.57% during the quarter. The utilities and real estate sectors led, while information technology and communications services lagged. Small cap stocks outperformed large caps and value significantly beat growth.

**U.S. bonds logged their first positive quarterly performance of 2024 in the past three months.** The Bloomberg U.S. Aggregate Bond Index rose by 5.20%. The 10-year U.S. Treasury yield fell from 4.48% at the beginning of July to 3.81% by quarter end (declines in the 10-year yield generally signal investor pessimism).

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**For the quarter ended September 30, 2024, the Fund underperformed the Index on a NAV basis primarily due to unfavorable stock selection.**

The underperformance was namely driven by negative stock selection, most notably within the consumer discretionary, information technology and financials sectors. Additionally, not allocating a weight in the real estate sector was another headwind. Alternatively, stock selection within communication services, health care and materials sectors contributed to performance.

**Key contributors to performance were Alphabet Inc., Sherwin-Williams Co. and McCormick and Co., Inc.**

Not owning the combined shares of Alphabet Inc. (GOOG/GOOGL) contributed to performance. The stock price fell in mid-August after a judge ruled against Google in an antitrust trial concerning its search division, brought by the Department of Justice, sparking discussions about a potential breakup by U.S. authorities.

Our overweight position in Sherwin-Williams Co. (SHW) contributed to performance. The company's strong 2Q24 results rebounded from a weaker 1Q24. Management's commentary regarding its ability to gain market share, control pricing and capitalize on an expected recovery in the housing market over the next 12 months boosted investor confidence.

Owning a non-benchmark position in McCormick and Co., Inc. (MCK) contributed to performance. The company's strong momentum drove positive 3Q24 fiscal 2024 results, with its diverse portfolio, successful pricing and cost-saving efforts leading the way.

**Key detractors from performance were Micron Technology, Inc., Tesla, Inc. and CrowdStrike Holdings, Inc.**

Our non-benchmark investment in Micron Technology, Inc. (MU), a memory and storage manufacturer, detracted from this quarter. While shares recovered in late September following a positive, well-received earnings report, the stock price declined earlier in the period along with its peers as concerns regarding the longevity of the current memory cycle weighed on results.

Our underweight position in Tesla, Inc. (TSLA) detracted from performance this quarter. The stock rose after the announcement of a robotaxi event in October, with global deliveries also rebounding in the third quarter.

Our overweight position in CrowdStrike Holdings, Inc. (CRWD) detracted from performance this quarter. The stock declined following an IT outage in July with uncertainty regarding financial impact weighing on the shares.

## Current strategy and outlook

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**The stickiness of the “last mile” of inflation suggests the United States may be facing structural inflation**

**pressures**, driven by supply chain constraints and a tight labor market (despite disappointing job growth numbers, layoffs have not increased and unemployment remains at only 4.2%). Inflation that persists above 2% may prevent the Fed from cutting rates as aggressively as the market hopes. The anticipated rate cuts resemble past recession scenarios, but today's economic landscape differs significantly—the current economy does not seem to be on the brink of collapse. In fact, in Fed Chair Powell's words, “the U.S. economy is basically fine.” The temporary boost to the workforce from immigration and shift in consumer spending back to services have also helped dampen inflation, but these trends may not be sustainable.

**This disconnect could lead to increased volatility**, especially in the bond market, if the Fed's actual moves fall short of expectations. Investors should be prepared for potential sharp adjustments in pricing as the market navigates its perceptions this rate-cutting cycle.

## Holdings detail

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Companies mentioned in this report — percentage of Strategy investments, as of 09/30/24: Alphabet Inc. 3.28%, Sherwin-Williams Co. 1.39%, McCormick and Co., Inc. 1.26%, Micron Technology, Inc. 1.06%, Tesla, Inc. 1.60% and CrowdStrike Holdings, Inc. 1.04%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

## Read our [fund factsheet](#)

The **Russell 1000 Growth Index** is an unmanaged index that measures the performance of the 1000 largest companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.

Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

**All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. You could lose money on your investment and any of the following risks, among others, could affect investment performance. The following principal risks are presented in alphabetical order which does not imply order of importance or likelihood:** Company; Currency; Derivative Instruments; Environmental, Social, and Governance (Equity); Foreign (Non-U.S.) Investments; Growth Investing; Investment Model; Issuer Non-Diversification; Liquidity; Market; Market Capitalization; Market Disruption and Geopolitical; Other Investment Companies; Real Estate Companies and Real Estate Investment Trusts; Securities Lending. Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.

The strategy is available as a mutual fund or variable portfolio. The mutual fund may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance that varies from stated performance. Please call your benefits office for more information.

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