

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

- Equity markets advanced in 4Q25, buoyed by moderating inflation and robust earnings. Technology remained dominant, fueled by accelerating artificial intelligence (AI) adoption, while industrials benefited from strong capital expenditure trends, although energy softened after early strength. Broader market participation persisted, with small caps and cyclicals contributing.
- For the quarter, the SMA underperformed its benchmark, the Russell 1000 Growth Index (the Index), on both a gross- and net-of-fees basis.
- Looking ahead, investors face geopolitical risks and policy uncertainty. Market leadership is widening beyond mega-cap growth, supported by AI-driven innovation and sustained corporate capital expenditure. Opportunities are emerging in defensives and rate-sensitive sectors, reinforcing the need for nimble positioning amid evolving macro conditions.

Market review

U.S. equity markets closed 4Q25 on a positive note, driven by moderating inflation and robust earnings. The S&P 500 Index advanced 2.66%, and the technology-heavy Nasdaq Composite gained 2.57%. The healthcare and communications services sectors led, while real estate and utilities sectors lagged. Large cap stocks beat small cap stocks, and value outperformed growth stocks.

The U.S. Federal Reserve supported markets in 4Q25 with two 25 basis point rate cuts. At its December meeting, the Fed signaled a balanced tone and improved growth and inflation outlook. At the same time, artificial intelligence (AI) remained a dominant theme, with strong headlines around innovation and elevated capital investment by major technology firms. Increased spending on AI infrastructure and adoption trends reinforced optimism about its role as a key driver of future growth.

Portfolio review

For the quarter, the SMA underperformed the Index, on both a gross- and net-of-fees basis. Stock selection in consumer discretionary, industrials, and communication services detracted the most from performance. Conversely, positive stock selection primarily in consumer staples, financials, and real estate sectors contributed to performance.

Key detractors from performance were Doximity, Inc., Roblox Corp., and Advanced Micro Devices, Inc.

An overweight position in Doximity, Inc. (DOCS) detracted from performance. The stock declined following a quarterly earnings report signaling cautious guidance and uncertainty after recent healthcare policy changes.

An overweight position in Roblox Corp. (RBLX) detracted from performance. The stock declined following quarterly earnings, which signaled slower profit growth and uncertainty around future bookings.

Our positioning in Advanced Micro Devices, Inc. (AMD) detracted from performance. The stock declined as competitor pressure intensified following news that Meta may consider purchasing AI chips from Google.

Key contributors to performance were Alphabet Inc., Micron Technology, Inc., and Eli Lilly & Co.

An overweight position in the combined shares of Alphabet Inc. (GOOG/GOOGL) contributed to performance this quarter. The stock advanced throughout the quarter following robust earnings results, which highlighted accelerating demand for its cloud services and the Gemini AI model.

A non-benchmark position in Micron Technology, Inc. (MU) contributed to performance, driven by strong 4Q25 earnings results. Both revenue and earnings per share (EPS) exceeded expectations, supported by robust 1Q26 guidance.

An overweight position in Eli Lilly & Co. (LLY) contributed to performance. The company delivered a strong quarter driven by strong demand for LLY's glucagon-like peptide (GLP-1) drugs, Mounjaro and Zepbound.

Outlook

The U.S. economy enters 2026 with a foundation of resilience. We expect moderate growth supported by consumer spending and productivity gains, helped by lower rates. The Fed's recent rate cut reflects heightened concern over labor market softening and confidence that tariff-driven inflation pressures will fade.

While the outlook suggests a soft landing with moderate growth and gradual disinflation, caution is warranted as geopolitical risks and policy uncertainty persist. In addition, broadening of the narrow market leadership beyond mega-cap growth, underpinned by AI innovation and corporate investment should support market growth.

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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.**

The principal risks are generally those attributable to stock investing. Holdings are subject to market, issuer and other risks, and their values may fluctuate. Market risk is the risk that securities may decline in value due to factors affecting the securities markets or particular industries. Issuer risk is the risk that the value of a security may decline for reasons specific to the issuer, such as changes in its financial condition. More particularly, growth-oriented stocks typically sell at higher valuations than other stocks. If a growth-oriented stock does not exhibit the level of growth expected, its price may drop sharply. Additionally, growth-oriented stocks have been more volatile than value-oriented stocks.

The Composite performance information represents the investment results of a group of fully discretionary accounts managed with the investment objective of outperforming the benchmark.

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