

Seeking a More Favorable Risk/Return Trade-off

Strategy overview

An actively managed mid cap growth SMA that relies on fundamental research and analysis to identify companies with strong and accelerating business momentum.

Key takeaways

- The market finished the year on a high note, capping a strong year for equities. Inflation has begun to subside, and unemployment remains under 4% for the 22nd consecutive week. The underlying economy appears to be stronger than most anticipated.
- For the quarter, the SMA underperformed its benchmark, the Russell Midcap Growth Index (the Index), on a net asset value (NAV) basis primarily due to unfavorable stock selection, particularly within the industrials, financials and health care sectors.
- Consumer confidence continues to increase, and there is cautious optimism that we can achieve the desired soft-landing scenario and avoid a recession going into the new year. Markets are already anticipating several rate cuts in 2024 which should be good news for equities.

Portfolio review

U.S. equity markets ended the quarter on a high note, bolstered by economic resilience, waning inflation and a pause in the U.S. Federal Reserve's interest rate hiking cycle. The S&P 500 Index rose by 11.69% and the Nasdaq Composite Index advanced by 13.56%. Information technology stocks led while utilities lagged. Growth stocks outperformed value stocks during the quarter, and small caps beat large caps.

The U.S. bond market staged a comeback during the quarter. The Bloomberg U.S. Aggregate Bond Index gained 6.82% on the unexpected strength of the economy. The 10-year U.S. Treasury yield moved from 4.69% at the beginning of the quarter to 3.88% by quarter-end as inflation eased and expectations of interest rate cuts in 2024 grew.

In our view, the side effects of the pandemic shock have mostly subsided, and inflation is the final piece of the puzzle. We view the recovery not as a classic business cycle, but as an economy trying to normalize following a natural disaster. First came the government-mandated lockdowns and the bust. Then came the re-openings and the effects of mega-policy stimulus. Lastly came the 180-degree reversal in monetary policy. Inflation peaked in June 2022 at 9.1%, which means that most of the disinflation we have seen since then has had little to do with Fed policy. We believe that disinflation could continue (and may intensify) over the next 18 months. Corporate earnings are accelerating as the U.S. consumer remains healthy and corporate fundamental factors are sound.

For the quarter, the SMA underperformed the Index on a NAV basis due to stock selection. Stock selection within the consumer discretionary and information technology sectors contributed the most to performance. The industrials, financials and health care sectors were the greatest detractors.

Key contributors to the quarter's performance were CrowdStrike Holdings, Inc., Lululemon Athletica Inc. and Chipotle Mexican Grill, Inc.

An overweight position in CrowdStrike Holdings, Inc. (CRWD) contributed to performance. The company announced another strong quarter during the period and surpassed \$3 billion in annual recurring revenue (ARR), the only security vendor to achieve this landmark. Management was also positive about FY2024 outlook.

A non-benchmark position in Lululemon Athletica Inc. (LULU) contributed to performance. The company reported strong results during the period, illustrating LULU's ability to gain market share in a challenging environment.

A non-benchmark position in Chipotle Mexican Grill, Inc. (CMG) contributed to performance. The company reported strong results during the period with mid-single digit traffic growth and better-than-expected margins. Management also raised estimates going into 2024.

Key detractors for the quarter were Paycom Software, Inc., LPL Financial Holdings Inc. and Amylyx Pharmaceuticals, Inc.

An overweight position in Paycom Software, Inc. (PAYC) detracted from performance. The company had an uncharacteristically disappointing quarter and lowered the full-year revenue. Additionally, management provided lower than expected guidance for 2024 with the main culprit being Beti — PAYC's new employee-guided payroll system which will continue to increase efficiency but also lower service revenue.

An overweight position in LPL Financial Holdings Inc. (LPLA) detracted from performance. The company reported solid earnings during the period, but cash balances continued to decline and money moving out of deposit sweeps into other assets remains a challenge.

A non-benchmark position in Amylyx Pharmaceuticals, Inc. (AMLX) detracted from performance. The company reported disappointing earnings that were well below consensus estimates due to an uptick in discontinuations and not enough new patient growth.

The Russell MidCap Growth Index is an unmanaged index that measures the performance of those companies included in the Russell MidCap Index with relatively higher price-to-book ratios and higher forecasted growth values. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index.

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. **Foreign Investing** poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. Investing in stocks of **Mid-Sized Companies** may entail greater volatility and less liquidity than larger companies. The Portfolio may use **Derivatives**, such as options and futures, which can be illiquid, may disproportionately increase losses and have a potentially large impact on Portfolio performance. Other risks of the Portfolio include but are not limited to: **Growth Investing Risks, Market Trends Risks, Other Investment Companies' Risks, Price Volatility Risks, Liquidity Risks, Securities Lending Risks and Portfolio Turnover Risks. Investors should consult the Portfolio's Prospectus and Statement of Additional Information for a more detailed discussion of the Portfolio's risks. An investment in the Portfolio is not a bank deposit and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

The strategy employs a quantitative model to execute the strategy. Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used in managing the strategy will perform as anticipated or enable the strategy to achieve its objective.

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