Dana All Cap Equity Strategy

Quarterly Review

As of March 31, 2024

We are pleased with the strong equity market returns for the first quarter of 2024 that followed an already terrific Q4 2023 return. The market performed well despite a backup in interest rates and waning expectations for rate cuts. While the majority of the "Magnificent 7" stocks once again propelled the S&P 500 Index returns, not all of these companies were quite so magnificent this quarter. Growth stocks outshone value stocks, large-cap stocks outperformed small-cap stocks and earnings growth overall was solid.

Strategy Performance

The top 5 performance contributors were NVIDIA Corporation (NVDA), Meta Platforms Inc. (META), Vertiv Holdings Company (VRT), Deckers Outdoor Corporation (DECK), and Diamondback Energy Inc. (FANG).

AI leader NVIDIA's expectations continued to rise. Products introduced at the company's recent developer conference only solidified confidence in NVIDIA's technological lead over competitors and showcased their impressive roster of partners. Vertiv also benefited from the AI basket trade. The company's products build the backbone and critical structure of data centers. Backlogs and growth continue to surprise positively with guidance exceeding expectations. META had an exceptional quarter with strong revenue growth and announced plans to initiate a dividend. FANG is a recent addition to the Strategy and announced the purchase of privately held Endeavor Energy Resources. The deal size is significant and the combination turns FANG into a major Permian Basin player with quality inventory and over $500 million in expected cost synergies. Footwear company, Deckers, reported another strong quarterly result bolstered by their HOKA and UGG brands. The company's shares also joined the S&P 500 Index during the quarter.

The largest 5 performance detractors were Adobe Inc. (ADBE), Apple Inc. (AAPL), Envista Holdings Corporation (NVST), UnitedHealth Group Inc. (UNH), and McDonald's Corporation (MCD).

After an impressive 12 month performance, Adobe's shares fell following a disappointing quarterly report. Investors are concerned with the company's competitive solutions, especially as AI dominates headlines. We remain confident in Adobe's leadership positioning and appreciate the announcement of a $25B share buyback authorization. Apple's relatively weak outlook for iPhone sales and its exposure to the soft Chinese economy weighed on shares. Envista is a provider of dental products and end market demand has been soft, especially for their high end dental implants. The current valuation reflects the slowdown. We remain patient with the stock and expect growth to stabilize. Managed care stocks were weak during the quarter following a competitor's significantly disappointing earnings guidance. The Strategy holding, UNH, was not immune to this announcement although the UNH management team continues to affirm its 2024 guidance. Lastly, McDonald's execution over the past year has been exceptional, yet we expect pricing to soften and revenue growth to decelerate in 2024.

Top 5 Performance Contributors [a] as of 03/31/2024 Quarter Return (%) (gross of fees)	
NVIDIA Corporation (NVDA)	82.4
Vertiv Holdings Company (VRT)	70.0
Deckers Outdoor Corporation (DECK)	40.8
Meta Platforms Inc (META)	37.3
Diamondback Energy Inc (FANG) †	34.1

Bottom 5 Performance Detractors [a] as of 03/31/2024 Quarter Return (%) (gross of fees)	
Adobe Inc (ADBE)	-15.4
Envista Holdings Corporation (NVST)	-11.1
Apple Inc (AAPL)	-10.8
UnitedHealth Group Inc (UNH)	-5.6
McDonald's Corporation (MCD)	-4.3

† Return is from the date stock was purchased to end of quarter.

As measured by contribution to return, the top contributors and bottom detractors represent the best and worst performing securities held by the Strategy based on the position weight and total return of each Strategy holding. Securities are ranked by each position's Individual Performance impact on the Strategy's return for the analysis period. The contributors and detractors are listed in the order of their non-weighted total return. Total return is truncated to one decimal.

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Dana Investment Advisors, Inc. • 20700 Swenson Drive • Suite 400 • Waukesha, Wisconsin 53186 • P.O. Box 1067 • Brookfield, WI 53008-1067
e-mail: Info@DanaInvestment.com • website: www.DanaInvestment.com • (800) 765-0157

Strategy Activity

We purchased two stocks this quarter, Coca-Cola Company (KO) and Diamondback Energy Inc. (FANG).

Coke is delivering solid earnings growth. Organic sales growth should be sustainable with multiple drivers, including the combination of volume and price/mix along with steady investment levels. We expect these factors to propel earnings, an attractive attribute in a sector that is plagued by the prospect of either price or volume declines.

Diamondback is a low-cost oil producer that enables them to keep growth flat and pay their dividend even if oil goes to $40/barrel. This low-cost structure, combined with a drilling inventory of ~25 years provides much more visibility than most other oil companies. The company also has a very shareholder-friendly capital allocation policy, returning most of its FCF to shareholders through dividends and buybacks.

We sold DXC Technology Company (DXC), General Motors Company (GM), Constellation Brands Inc. (STZ), and Pioneer Natural Resources Company (PXD).

While DXC has made progress in its turnaround efforts, consistent progress has proven elusive, and financial targets have been pushed out multiple times. The company has seen revenue declines, and given the cyclical exposure, this is unlikely to change in the near term, putting further pressure on the business. The uncertain and lackluster outlook led to the sale. General Motors, along with other players in the industry, have experienced a slowdown in EV sales expectations. While this helps near-term profits (EVs currently lose money), less investment in the space raises long-term competitive questions. In addition, GM's self-driving EV subsidiary had to suspend operations after some unfortunate accidents.

Constellation Brands is facing some headwinds. While it was a market share gainer in the beer category on a competitors' marketing stumble, it is lapping difficult year-over-year comparisons. The beer category is shrinking as a share of servings overall and there is also a trend towards limiting or avoiding alcohol among Millennial and Gen Z consumers.

Pioneer was sold in preference for FANG. Exxon Mobile Corporation (XOM) announced the acquisition of Pioneer Natural Resources in October 2023. The deal premium is relatively narrow and there remains an outside chance that the FTC challenges the transaction.

Outlook

Investors are responding to a steady earnings outlook over a stickier core inflation report. AI-themed stocks have moved considerably, yet the buildout continues at a fast pace. The anticipated Fed rate cuts are on pause for now and we expect a rate cut in late spring or summer. Market breadth retreated from levels seen in the prior quarter and we see opportunity for breadth to improve. This backdrop is supportive of our disciplined stock selection process.

Source: Dana Investment Advisors; (a) FactSet Research Systems; (b) Morningstar Direct.

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