Dana Carbon Sensitive ESG Equity Strategy

Quarterly Review

As of June 30, 2024

The S&P 500 Index delivered another strong quarter in Q2 2024, and once again, a handful of large-cap tech stocks with exposure to explosive AI tailwinds continued to lead the way. Meanwhile, the median stock performance of the Index actually delivered a negative return for Q2. Small-cap stocks, notably the Russell 2000 Index, declined in Q2 as well. Interest rates surprised investors again, this time for their lack of change. Indeed, by the end of the second quarter, yields rose just a bit higher across the curve and finished almost exactly where they had started the quarter. This is in stark contrast to the surprisingly strong move up in interest rates during the first quarter.

Strategy Performance

The top 5 performance contributors were NVIDIA Corporation (NVDA), Alphabet Inc. (GOOGL), Apple Inc. (AAPL), Howmet Aerospace Inc. (HWM), and CrowdStrike Holdings Inc. (CRWD).

Most top contributors have AI related stories. NVDA is the largest manufacturer of chips optimized for AI training and used by major cloud/computing platforms. The company announced record quarterly revenue and earnings as well as a ten-for-one stock split. GOOGL is currently one of the world's largest investors in LLM (large language model) computing infrastructure and the stock rose with investor expectations. Apple's Siri is a widely known AI product and the company intends to rollout more advanced AI applications in its next-gen iPhones and tablets. This was well received by market participants. CrowdStrike saw an uptick in their AI related businesses as well. CrowdStrike's software security is expected to benefit from buildout and usage of AI.

One stock outside of the technology/communication area that made the top 5 includes industrial company, Howmet Aerospace. Howmet provides high performance engineered solutions for aerospace and industrial end markets. The company delivered a positive earnings surprise with great topline growth and the stock performed well.

While we remain excited about AI driven prospects, we are also aware that many of these stocks are not cheap. Next-gen AI models could be much better and justify the datacenter buildout, yet capex has soared and AI revenue for enterprises is strong but not explosive. This is a fast-moving space.

The largest 5 performance detractors were Lincoln Electric Holdings Inc. (LECO), CVS Health Corporation (CVS), Webster Financial Corporation (WBS), lululemon athletica inc. (LULU), and Workday Inc. (WDAY).

While LECO has diversified end-markets, automotive and heavy machinery are slowing. Investors pulled back as this stock is now more likely to disappoint. CVS had a rough quarter. The stock reacted negatively to a Medicare Advantage rate update that revealed lower payment increases. This impacted others with Medicare exposure as well. The company also reported an earnings miss on higher utilization and medical costs, and inflation challenges in the retail business.

Top 5 Performance Contributors [a] as of 06/30/2024 Quarter Return (%) (gross of fees)	
NVIDIA Corporation (NVDA)	36.7
Apple Inc (AAPL)	23.0
Alphabet Inc (GOOGL)	20.8
CrowdStrike Holdings Inc (CRWD)	19.5
Howmet Aerospace Inc (HWM)	13.5

Bottom 5 Performance Detractors [a] as of 06/30/2024 Quarter Return (%) (gross of fees)	
Lincoln Electric Holdings Inc (LECO) ‡	-26.9
CVS Health Corporation (CVS)	-25.2
lululemon athletica inc (LULU) ‡	-21.3
Webster Financial Corporation (WBS) ‡	-19.4
Workday Inc (WDAY)	-18.0

‡ Return is from the beginning of the quarter through date stock was sold.

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.

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While WBS is one of the most profitable banks in the group, near-term net-interest income pressure and credit pressure may cause a pause in earnings growth. LULU has been a terrific high growth stock, yet recent quarters show more mature growth, pressuring its valuation. Lastly, Workday is perceived as a laggard in AI and investors moved to more AI driven stories. WDAY is a leader in software for HR departments and we believe there is significant opportunity to enhance human capital plans with AI in some of their HR and Employee Benefits modules.

Strategy Activity

We purchased eight stocks this quarter and they were Uber Technologies Inc. (UBER), TJX Companies Inc. (TJX), Clean Harbors Inc. (CLH), JPMorgan Chase & Company (JPM), Micron Technology Inc. (MU), Dell Technologies Inc. (DELL), Magnite Inc. (MGNI), and Qualcomm Inc. (QCOM).

We like how Uber's business model is evolving. Uber's core customers are quite affluent and this part of the consumer economy has remained healthy, with strong spending on travel. The company's superior network is poised to capture additional market share and new products, like grocery delivery, which should result in topline growth rates well in excess of 10%. Expansion into new markets, an improved freight offering, and rising profitability per ride should propel the story forward for the next several years. We added TJX, a more price-conscious retailer to the Strategy. In a difficult retail market, TJX has been able to deliver strong revenue and margin growth by gaining market share. The company's leading off-price strategy resonates with consumers looking for value while the "treasure hunt" aspect of the shopping experience drives consistent traffic. TJX still sees significant room for growth with the opening of new stores and best-in-class vendor relationships which leads to a consistent flow of fresh goods.

In the Industrials sector, we purchased Clean Harbors, a company with products for PFAS (per- and polyfluoroalkyl substances) remediation. This is a huge environmental issue and several other companies have been fined for contaminating water with these substances. The company has benefited from recent M&A and has the potential for more. In the Financials sector, we added JPMorgan, the largest bank in the U.S. with a diversified slate of offerings that includes investment banking, capital markets and credit cards. This breadth and size are advantages in the space as JPM absorbs higher funding costs while pulling expense levers to soften margin pressure. The company is easily expected to clear more stringent regulatory hurdles with a strong balance sheet while other smaller and less capitalized competitors struggle, and likely lose market share to JPM. The management team has a history of strong execution, and the company has fared well in times of economic and banking stress.

We adjusted some technology and communication holdings. Micron is facing a healthy supply-demand balance driven by a cyclical recovery in the memory industry following aggressive capacity reductions and capital-expenditure cuts across suppliers. High-bandwidth memory (HBM) demand should be a key driver for Micron, with demand expected to grow ~50% a year for the next few years, on the back of rapid AI-infrastructure expansion. Dell is benefiting from AI tailwinds and its backlog, order, revenue, and cash flow are expected to accelerate. Magnite's leading omni-channel advertising platform helps publishers monetize their ad inventory across desktop, cable TV, and mobile devices. MGNI gets paid a percentage of total digital ad spend, and digital ad spend is expected to grow rapidly over the next few years. Lastly, QCOM is at the center of the communications food chain with leading supply positions in modems, applications processors, and radio frequency components found in communication devices, robotics, remote sensing and self-driving cars. As AI drives adoption of new technology, we expect QCOM will benefit as a provider of the equipment, resulting in stronger sales and earnings growth.

The Strategy sold seven holdings during the second quarter across a variety of sectors. They included Bristol-Myers Squibb Company (BMY), lululemon athletica inc. (LULU), Webster Financial Corporation (WBS), Lincoln Electric Holdings Inc. (LECO), CSX Corporation (CSX), Comcast Corporation (CMCSA), and Cisco Systems Inc. (CSCO).

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Bristol-Myers still has a valuation well below the peer group and still has pending generic competition that caps its valuation. While we believe that the stock is intrinsically undervalued, there is considerable opportunity cost in holding the stock as this outlook will not improve for several years. LECO and LULU's sales are slowing and we chose to move on, and we swapped out of Webster Financial in favor of JPMorgan. Lastly, CSX has done a good job operationally, but future earnings growth is limited because few cost cuts remain. With slower earnings growth, the current multiple seems fair.

We made room for other technology and communication holdings by selling Comcast and Cisco Systems. CMCSA is generally considered the highest quality cable/broadband company with a solid management team and good balance sheet. Unfortunately, broadband competition is fierce, the cable TV business is in perpetual decline as customers drop the service in favor of streaming, and questions remain as to the fate of their media properties. Clarity on some of these issues may be needed for the stock to rerate materially higher, thus other stocks in this challenging sector now look more appealing. CSCO is still suffering from difficult comparisons from a spike in demand caused by Covid. This hangover is lasting longer than anticipated, with the company lowering guidance multiple times as management has overestimated the strength of the core business. With more cuts potentially on the horizon, other companies in the sector are more compelling.

Outlook

Growth and particularly AI storied stocks should continue to capture investors' imagination and investment dollars. The anticipated Fed rate cuts are still on pause, with the market beginning to accept the possibility of fewer and more delayed cuts ahead. Our expectations for rate cuts have been pushed out along with others. Investors may need to see rate cuts to spur market breadth and confidence in earnings growth across sectors. We remain committed to our disciplined stock selection process.

Strategy characteristics, allocation, contributors, detractors, top 10 holdings, style, and activity are derived from the Dana Strategy model holdings as of each period end and therefore may differ from the same criteria for the actual composite. Strategy performance data such as returns and risk are based on actual composite holdings.

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