Dana Catholic 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), Tapestry Inc. (TPR), CrowdStrike Holdings Inc. (CRWD), Cigna Group (CI), and Microsoft Corporation (MSFT).

Artificial Intelligence themed stocks certainly felt the wind beneath their wings. Earnings growth expectations continued to rise especially for key players, including NVIDIA and Microsoft. AI products are in high demand and this is fueling the development race. NVIDIA provides the computing power for AI, while Microsoft has taken an early lead in large language models through their partnership with OpenAI.

Tapestry benefited from strong momentum with the Coach brand as new products resulted in strong growth. CrowdStrike has seen strong demand for its security products, with near constant news of corporate security breaches. Cigna performed well on the back of increasing earnings expectations, resulting in an improved valuation.

The largest 5 performance detractors were lululemon athletica inc. (LULU), Zoetis Inc. (ZTS), Apple Inc. (AAPL), Microchip Technology Inc. (MCHP), and Deere & Company (DE).

LULU retreated when topline growth decelerated in the latest earnings report. We continue to monitor brand and fashion durability and appreciate the company's efforts to expand its product assortment and grow internationally. Zoetis' new pain drug for canines received some negative press and the stock declined. Reports from veterinarians that have administered the drug have been overwhelmingly positive, allaying our concerns.

Two technology stocks detracted. Apple experienced a slowdown in sales in large part due to its exposure to China, and Microchip Technology's pricing seems poised to weaken. Deere's future earnings seem more uncertain as well. We sold both Microchip and Deere.

Top 5 Performance Contributors [a] as of 03/31/2024 Quarter Return (%) (gross of fees)	
NVIDIA Corporation (NVDA)	82.4
Tapestry Inc (TPR)	29.9
CrowdStrike Holdings Inc (CRWD)	25.5
Cigna Group (CI)	21.7
Microsoft Corporation (MSFT)	12.0

Bottom 5 Performance Detractors [a] as of 03/31/2024 Quarter Return (%) (gross of fees)	
lululemon athletica Inc (LULU)	-23.5
Zoetis Inc (ZTS)	-14.0
Apple Inc (AAPL)	-10.8
Microchip Technology Inc (MCHP) ‡	-10.5
Deere & Company (DE) ‡	-5.1

‡ 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. Total return is truncated to one decimal.

Strategy Activity

We purchased Broadcom Inc. (AVGO), Meta Platforms Inc. (META), T-Mobile US Inc. (TMUS), Diamondback Energy Inc. (FANG), Johnson Controls International Plc (JCI), nVent Electric Plc (NVT), and Howmet Aerospace Inc. (HWM).

Broadcom is a relatively defensive company in the IT space. It has a diversified revenue base and businesses that are levered to AI, which should increase its growth rate over time, resulting in a higher valuation. META is enjoying a strong sentiment rebound as the company proves out the monetization of its Reels and Messenger products and harvests earnings gains from its well-publicized "year of efficiency" in 2023. The company is also a leader in application of AI at scale for tangible business benefits. Despite strong price appreciation in 2023, the stock is reasonably valued and is one of the cheapest Magnificent 7 stocks.

T-Mobile's message of "best value and best network" continues to resonate with its customers and the company remains a share taker versus competition. TMUS is gaining fixed wireless broadband subs, a new business line for the company. TMUS has successfully completed the Sprint network integration, has raised synergy targets from this acquisition, and is now executing a major capital return program.

In Energy, Diamondback is a low-cost oil producer that enables the company to pay its 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 FCF to shareholders through dividends and buybacks.

Lastly, changes were made to three Industrials holdings. Johnson Controls is trading at a large discount to peers due to some self-inflicted wounds which include poor messaging with investors and sub-par margins. JCI is the dominant player in commercial HVAC and is actually gaining share. We see potential for a significant re-rating of the stock. Howmet Aerospace has very high revenue visibility as 70% of aerospace revenue is secured under long-term agreements. Its shareholder-friendly buybacks and dividends and fiscal prudence in lowering leverage are appealing factors as well. We added nVent to the Strategy as it has just enough exposure to data center growth, driven largely by AI demands, to underwrite growth expectations for the next few years.

The Strategy sold ConocoPhillips (COP), Deere & Company (DE), Regal Rexnord Corporation (RRX), Interpublic Group of Companies Inc. (IPG), and Microchip Technology Inc. (MCHP).

ConocoPhillips is an exploration and production energy company. COP has a favorable capital allocation discipline; however the company does not have the flexibility to adjust their capital budget as quickly as the shale producer, FANG, thus our preference for the latter. In Industrials, Deere continued to execute well, however farm income may decline over the next year and the average farmer has newer equipment on average than in the past. We see greener pastures elsewhere (forgive the pun). Regal Rexnord has recovered from November lows and the company's current risk versus reward favors alternatives.

In Information Technology, Microchip's pricing has thus far remained stable, yet the company has noted broad-based demand weakness and elevated customer inventories. This weakness has the potential to lead to negative pricing, resulting in lowered earnings expectations and a lower valuation. Similarly, we do not have the confidence in ad revenue going forward for Interpublic Group and see more attractive opportunities elsewhere.

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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