



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 Meta Platforms Inc. (META), Fiserv Inc. (FI), Merck & Company (MRK), Kroger Company (KR), and Interactive Brokers Group Inc. (IBRK).

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. We believe that Meta’s core content and advertising business is an ideal AI use case. Fiserv, a global merchant acquirer and transaction processor, continued to be rewarded by shareholders due to the outsized growth in the company’s Clover segment as well as improving cash flow conversion. Merck is enjoying a sentiment rebound as fears surrounding the potential loss of revenue from Keytruda. This drug may go generic in late 2028. Investors are beginning to focus more on Merck’s strengthening pipeline and potential M&A. Kroger’s pricing and unit growth have improved relative to investors’ low expectations, helping to boost its unreasonably low multiple. Lastly, Interactive Brokers Group, the largest discount broker in the world by volume traded, continued to grow new accounts at a 20% or greater rate and will benefit from slower than previously expected interest rate cuts in the U.S.

The largest 5 performance detractors were Philip Morris International Inc. (PM), Douglas Emmett Inc. (DEI), Stanley Black & Decker Inc. (SWK), Caesars Entertainment Inc. (CZR), and Gaming and Leisure Properties Inc. (GLPI).

Philip Morris’ remains a global leader in reduced risk nicotine products and is taking share globally, but the rate of growth may be slower than the current management’s guidance. Furthermore, results have been negatively impacted by significant weakness in the Japanese Yen, which is used throughout the company’s most important geographic region. Douglas Emmett, an owner of office and apartment buildings in premium neighborhoods in Los Angeles, was affected by negative headlines about commercial real estate and rising interest rates. Stanley Black & Decker’s earnings estimates and stock price already incorporate shorter term benefits from the company’s turnaround plan, but there remains significant uncertainty regarding longer term competitive positioning. Caesars Entertainment results lagged in the quarter as did many other discretionary stocks. While the company continues to make significant progress on its Digital segment profitability, there remains concern that this may not fully offset the near-term slow-down in its physical properties. Gaming and Leisure, a lessor of casino real estate, lagged due to a negative earnings surprise by its largest lessee as well as the generally poor performance by companies exposed to discretionary consumer spending.

Top 5 Performance Contributors ^a as of 03/31/2024 Quarter Return (%) (gross of fees)

Meta Platforms Inc (META)	37.3
Interactive Brokers Group Inc (IBKR)	34.8
Kroger Company (KR)	25.7
Merck & Company Inc (MRK)	21.8
Fiserv Inc (FI)	20.3

Bottom 5 Performance Detractors ^a as of 03/31/2024 Quarter Return (%) (gross of fees)

Caesars Entertainment Inc (CZR)	-6.6
Stanley Black & Decker Inc (SWK) ‡	-6.3
Gaming and Leisure Properties Inc (GLPI)	-5.0
Douglas Emmett Inc (DEI)	-3.0
Philip Morris International Inc (PM)	-1.2

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 two new positions this quarter, Diamondback Energy Inc. (FANG) and Norfolk Southern Corporation (NSC).

Diamondback is an E&P with a significant position in the Permian Basin that positions it at the low end of the oil production cost curve and that enables the company to be profitable (and pay a 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 doubled down on this positive set-up by announcing the well-received acquisition of Endeavor Energy Resources, another large shale player. The company also has a very shareholder-friendly capital allocation policy, returning most of its FCF to shareholders through dividends and buybacks.

Norfolk Southern is one of just five Class 1 freight railroads in North America and enjoys a dominant position across the eastern U.S. and eastern Canada. The company's footprint covers highly populated economic centers and east coast ports. The highly publicized derailment (and the associated remediation costs) and an industry wide freight recession have caused earnings to fall well below what we believe are conservatively estimated. Others are seeing the same opportunity for earnings improvement and a notable activist investor announced their purchase and management engagement after we bought the shares.

The Strategy sold Stanley Black & Decker Inc. (SWK) and Pioneer Natural Resources Company (PXD).

Stanley is almost two years into its turnaround and transformation plan. While we believe the company will be successful in improving earnings power versus recent troughs, we are concerned about the company's long-term industry share position and chose to sell shares in order to reinvest in a higher conviction idea.

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.

Dana Investment Advisors, Inc. ("Dana") is a SEC registered investment advisor. You should not assume that any discussion or information contained in this communication serves as the receipt of, or as a substitute for, you obtaining personalized investment advice from your own financial professional. While data contained herein was gathered from sources deemed reliable, the accuracy of the data presented herein cannot be guaranteed. Different types of investments involve varying degrees of risk, and there is no assurance that the future performance of any specific investment or investment strategy made reference to directly or indirectly in this communication, will be profitable, equal any corresponding historical performance level(s), or will continue to be suitable for your specific investment needs. In addition, due to various factors, including changing market conditions, the data contained herein may no longer be reflective of Dana's current opinions, positions, investments or client account allocations. Investing involves risks, to include the risk of loss. Investors should therefore consider consulting with an investment professional prior to making an actual investment. Please remember that past performance may not be indicative of future results. You may request additional information that is provided in the firm's ADV Part 2 Informational Brochure by either contacting Dana directly at (800) 765-0157, or by visiting the SEC's website at www.AdviserInfo.sec.gov.

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.