Dana Large Cap Equity Strategy

Quarterly Review

As of March 31, 2025

The S&P 500 Index delivered a more volatile ride this quarter. Much of this volatility had to do with new policy directives from the White House, particularly those involving tariffs. It is still unclear how the use of tariffs will evolve in Q2 let alone their impact on economic growth and inflationary pressure. Sensing increased risks, investors pulled back from cyclical stocks as well as high valuation AI-related stocks, notably the Mag 7. A flight to safety and softening growth expectations drove bond prices higher. This was a quarter when diversification mattered.

Strategy Performance

The top 5 performance contributors were T-Mobile US Inc. (TMUS), Uber Technologies Inc. (UBER), AbbVie Inc. (ABBV), McKesson Corporation (MCK), and Boston Scientific Corporation (BSX).

T-Mobile has the lowest pricing among the major carriers, a reflection of its historical status as the 3rd best network. That has changed – T-Mobile now has the best 5G network at the lowest price helping it to now take market share from Verizon and AT&T. T-Mobile is also a defensive play which helps during times of stress, like we saw in Q1. Uber snapped back from its Q4 sell off. The company's topline is growing at 15%+ and we expect this to continue for the next few years as new products such as grocery pickup, Uber One for students, Uber Caregiver, and more boost growth. In Q1 several Health Care sector holdings performed very well. AbbVie experienced lower volatility, with no large drugs going generic until the 2030's, helping to stabilize revenue and earnings growth, both of which are looked at more favorably when investors are worried about the economy. Likewise, McKesson benefited from its predictable business and earnings visibility. Boston Scientific has also grown very rapidly with innovative new products that are taking market share, like its largest growth driver FARAPULSE™, a device that treats atrial fibrillation. This minimally invasive catheter system delivers energy to heart tissue using an electric field. The product is safer, and the procedure is quicker than previous methods of treatment.

The largest 5 performance detractors were Broadcom Inc. (AVGO), NVIDIA Corporation (NVDA), Alphabet Inc. (GOOGL), Apple Inc. (AAPL), and Microsoft Corporation (MSFT).

After producing outstanding collective returns in 2024 (and 2023 for that matter) nearly all "Magnificent 7" stocks struggled in Q1. NVIDIA produced record earnings and indicated strong demand for its next generation AI GPUs through 2025. The market's view of AI infrastructure investment ebbs and flows, with the former dominating in the first quarter. This remains a fast-moving space with rapid innovation, and we like NVIDIA's long-term position. Broadcom had a strong earnings report yet was overshadowed by caution related to the sustainability of AI infrastructure investment. Much like NVIDIA, Broadcom's highest growth business provides AI-related chips and networking solutions to large datacenter customers. The market elevated concerns about adequate return on increasing capital spend for these customers in the first quarter.

Alphabet gave up ground as investors questioned Google's core search business that generates the lion's share of company profits. ChatGPT and related chatbot apps have also introduced competing "search-like" products. Google hasn't stood still, having incorporated AI overviews into search and releasing multiple state-of-the-art AI models. Microsoft's cloud businesses (Azure / Office 365) are driving double-digit revenue growth. Unfortunately, software as an industry group underperformed in the first quarter and this spilled over to Microsoft. Lastly, Apple's reliance on China as an important consumer market and manufacturing base was a growing concern in the wake of recent trade policies.

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Top 5 Performance Contributors [a] as of 03/31/2025 Quarter Return (%) (gross of fees)	
T-Mobile US Inc (TMUS)	21.2
Uber Technologies Inc (UBER)	20.8
AbbVie Inc (ABBV)	19.0
McKesson Corporation (MCK)	18.2
Boston Scientific Corporation (BSX)	12.9

Bottom 5 Performance Detractors [a] as of 03/31/2025 Quarter Return (%) (gross of fees)	
Broadcom Inc (AVGO)	-27.6
NVIDIA Corporation (NVDA)	-19.3
Alphabet Inc (GOOGL)	-18.2
Apple Inc (AAPL)	-11.2
Microsoft Corporation (MSFT)	-10.8

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.

Strategy Activity

The Strategy added PPL Corporation (PPL), Schlumberger Limited (SLB), Keurig Dr Pepper Inc. (KDP), Lam Research Corporation (LRCX), and Vertiv Holdings Company (VRT). (Micron Technology Inc. (MU) and IQVIA Holdings Inc. (IQV) were repurchased early in the quarter for applicable taxable accounts).

PPL Corporation (PPL) is a regulated utility with electric and gas customers located mostly in Pennsylvania and Kentucky. The company's returns are supported by constructive regulatory environments allowing the company to invest heavily in new assets, expanding cleaner energy options and reducing coal usage. As is typical with Utilities, the heavier the investment the higher growth, and PPL offers higher than average dependable growth at a reasonable valuation. Schlumberger is an energy services company that provides technology for reservoir characterization, drilling, production, and processing to the oil and gas industry. The company is investing in Carbon Capture and Sequestration (CCS), energy storage, and digital solutions. Growth in Schlumberger's services benefit as wells become ever more complex. Keurig Dr Pepper reported accelerating earnings and cash flow growth, supported by market share gains across both businesses--carbonated soft drinks and coffee. Coffee consumption continues to increase, and the single serve market continues to gain share.

Semiconductor equipment manufacturer, Lam Research dominates the etch industry, which is used in manufacturing lines for semiconductors and manufactures NAND memory, which is entering an upgrade cycle. A combination of strong earnings growth, hard-to-replicate technology, a deep management team, and capital stewardship should support a higher valuation. Vertiv, a leading player in datacenter infrastructure, has significant long-term capex opportunities from major AI companies. To put this growth potential in perspective, at the end of 2023 the U.S. had an installed base of 20 Gigawatts (GW) of data center capacity. Since the AI revolution the past 2 years, there have been 210 GW of announced projects in the U.S. alone which will take years to build out. This should lead to many years of strong growth.

We sold Marriott International Inc. (MAR), Mondelez International Inc. (MDLZ), Merck & Company Inc. (MRK), CrowdStrike Holdings Inc. (CRWD), Marathon Petroleum Corporation (MPC), NextEra Energy Inc. (NEE), Caterpillar Inc. (CAT), Micron Technology Inc. (MU), and Walmart Inc. (WMT).

Marriott International lowered earnings guidance for 2025. Marriott experienced weaker Greater China room revenue, and the outlook remains uncertain. Similarly global snack company, Mondelez, reported an earnings miss. Overall pricing was better, yet volumes were weaker than expected. Cocoa pricing remained challenging and impacted the cost of producing chocolate products. Merck performed well and was sold because the company faces significant generic competition in 2029. While several years out, investors are more likely to limit valuation.

CrowdStrike experienced a huge IT outage in Q3 2024, a result of a failed security software update. The company has taken many steps to address the issue and prevent similar incidents in the future. While CrowdStrike continues to work to restore its reputation in the cybersecurity market, this is taking time and is not assured. Micron rebounded this quarter, and we sold into that strength in exchange for Lam Research. Likewise, we swapped out of Marathon, a refinery company, for a better growth profile in Schlumberger. In the Utilities sector NextEra's mixed earnings report and stickier high interest rates detracted from the stock's performance and outlook. While we are optimistic about its Florida P&L rate filing in 2025, the dividend outlook is uncertain. Caterpillar lowered guidance for 2025 after a revenue miss in Q4. Ongoing concerns regarding China sales weighed on the stock. Lastly, Walmart topped estimates in the latest quarter and its e-commerce growth was particularly strong. However, the combination of slowing profit growth and an elevated valuation make the risk-return potential less compelling.

OUTLOOK

We continue to see reasonable economic growth, yet we are mindful of slightly widening credit spreads and an uncertain tariff outlook. Investor attention is once again focused on diversification and valuation. A more value-conscious market plays well with Dana's stock selection strengths.

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