Dana Large Cap 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), Dell Technologies Inc. (DELL), and Broadcom Inc. (AVGO).

Yes, all top 5 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. Dell and Broadcom saw upticks in their AI related businesses as well. Dell is a leader in servers that are used in cloud computing centers and its stock rose on AI buildouts. Broadcom's earnings beat was two-fold. AVGO's revenue topped $3 billion for AI products and VMware (acquired in Q4 2023) experienced acceleration in orders for its software stack.

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), Salesforce Inc. (CRM), Workday Inc. (WDAY), lululemon athletica inc. (LULU), and IQVIA Holdings Inc. (IQV).

While LECO has diversified end-markets, automotive and heavy machinery are slowing. Investors pulled back as this stock is now more likely to disappoint. Software and services was an area of weakness in the technology space this quarter. CRM's revenue guidance disappointed while much of the margin upside may already be captured. 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. LULU has been a terrific high growth stock, yet recent quarters show more mature growth, pressuring its valuation. Lastly, IQVIA's clients have proceeded more cautiously with greater economic uncertainty. Currency fluctuations have also negatively impacted the topline. Despite these short-term issues, management has executed well with strong margin improvement and market share gains, which should lead to sustained growth and an improved valuation.

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
Broadcom Inc (AVGO)	21.5
Dell Technologies Inc (DELL)	21.3
Alphabet Inc (GOOGL)	20.8

Bottom 5 Performance Detractors [a] as of 06/30/2024 Quarter Return (%) (gross of fees)	
Lincoln Electric Holdings Inc (LECO) ‡	-26.9
lululemon athletica inc (LULU) ‡	-21.3
Workday Inc (WDAY)	-18.0
IQVIA Holdings Inc (IQV)	-16.4
Salesforce Inc (CRM)	-14.6

‡ 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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STRATEGY ACTIVITY

We purchased six stocks this quarter and they were Uber Technologies Inc. (UBER), Delta Air Lines Inc. (DAL), TJX Companies Inc. (TJX), Walmart Inc. (WMT), Micron Technology Inc. (MU), and Qualcomm Inc. (QCOM).

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. Delta's business is more resilient than the competition. The company is carving out routes that face little competition, making fare wars unlikely by dominating certain hubs, exemplified most by their hub in Atlanta. Low operating leverage combined with low financial leverage creates a strong model that should result in a higher valuation. We like both business models.

We added two retailers to the Strategy that are leaders in providing value to more price-conscious consumers. 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. Likewise, WMT benefits as the perceived low-price leader. Large investments in online ordering and fulfillment, allowing brands to market directly to WMT customers, and WMT's membership program are all seeing an inflection in profitability as volume builds. We anticipate margin expansion and accelerated earnings growth. WMT's business should hold up well despite many uncertainties, including an erratic political election cycle and a potentially soft Christmas selling season.

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. 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 Accenture PLC (ACN), Synopsys Inc. (SNPS), Fiserv Inc. (FI), Bristol-Myers Squibb Company (BMY), lululemon athletica inc. (LULU), Lincoln Electric Holdings Inc. (LECO), and Norfolk Southern Corporation (NSC).

Accenture's organic revenue growth has underperformed expectations and is now slower than market growth, indicating that the company is losing share. Longer-term concerns revolve around the impacts of AI on the industry, demonstrating that AI does not benefit all, at least not all at the same time. Pricing may shift away from billable hours towards outcome-based pricing while AI may replace many jobs across all industries. Synopsys was sold primarily because other stocks in the Information Technology sector now look more compelling on a relative basis, rather than a change in fundamentals at the company.

In the Financials sector, Fiserv's execution has rewarded shareholders with solid performance and the valuation multiple has moved to the top of its recent range providing a good opportunity to sell. We sold a few positions where our confidence has waned and reinvested proceeds in companies with improving fundamentals that we believe improves the quality of the Strategy. 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. Lastly, we swapped out of Norfolk Southern for a more attractive transportation company (Delta). NSC's management execution and safety record have been spotty and operating metrics have deteriorated.

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.

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