Dana Large Cap Growth 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), Apple Inc. (AAPL), Microsoft Corporation (MSFT), Netflix Inc. (NFLX), and Amazon.com Inc. (AMZN).

Investor enthusiasm over all things AI did not slow in Q2 and NVIDIA has become the purest way to participate in the space. The company reported exceptional financial results. NVIDIA's Data Center segment, crucial for AI applications, continued to see explosive growth. Strong demand for AI chips, an optimistic future outlook, increased share buybacks, and a dividend hike further boosted investor confidence.

Apple's shares also fared well during the quarter. The company's services segment continued to experience strong sales growth and management announced a material share buyback. Importantly, the company announced Apple Intelligence, an AI-oriented makeover of Apple's software ecosystem – including an intriguing upgrade for Siri as a high-functioning AI voice assistant. Apple Intelligence is limited to newer devices and this exclusivity could encourage Apple's loyal customer base to upgrade their devices, potentially accelerating iPhone sales, and bolstering AAPL's leadership in consumer technology.

Microsoft's quarterly results cleared a high bar including strong Azure revenue growth. Management spoke positively about its leading AI initiatives, including its partnership with OpenAI, various "co-pilot" launches and data-driven AI applications. Netflix subscriber growth exceeded expectations for the fourth consecutive quarter as the company's password-sharing crackdown continued to bear fruit. Accelerating revenue growth is boosting near-term profits while stagnant competition and a pivot to advertising elevate medium-term prospects.

Lastly, meaningful acceleration in Amazon's cloud computing business was an upside surprise while the company continued to execute on aggressive cost-cutting initiatives across its retail and logistics platform. At tens-of-billions of dollars in high margin revenue growing double-digits, advertising is also becoming a material profit driver for Amazon.

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
Netflix Inc (NFLX)	11.1
Amazon.com Inc (AMZN)	7.1
Microsoft Corporation (MSFT)	6.4

Bottom 5 Performance Detractors [a] as of 06/30/2024 Quarter Return (%) (gross of fees)	
Salesforce Inc (CRM) ‡	-22.2
DoorDash Inc (DASH)	-21.0
Workday Inc (WDAY)	-18.0
Las Vegas Sands Corporation (LVS)	-14.0
Uber Technologies Inc (UBER)	-5.6

‡ 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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We are excited about AI-driven prospects for many of the Strategy's holdings, yet seek a clear eye for risk management. While investors may want exposure to explosive AI-driven growth, we remain cognizant of individual stock valuations, some of which may be stretched. AI is a fast-moving area of the market that deserves significant attention. We can envision a scenario where next-generation AI models produce a large step function improvement, justifying increased datacenter investments. There is also a scenario where massive initial investments in AI chip capacity are the pre-cursor to a boom/bust cycle (not uncommon in the semiconductor industry). We'll keep an open mind as datapoints accumulate and adjust accordingly.

The largest 5 performance detractors were Salesforce Inc. (CRM), DoorDash Inc. (DASH), Workday Inc. (WDAY), Uber Technologies Inc. (UBER), and Las Vegas Sands Corporation (LVS).

Software was an area of weakness in the technology space this quarter. Salesforce's revenue guidance disappointed and delivery on margin upside slowed. Workday's revenue guidance similarly disappointed. Both companies blamed a difficult economic environment and hesitation among large customers to close deals. While surprised by the weaker results, we are generally willing to look through unexpected customer issues if we sense limited competitive threats. We think that cloud software remains an attractive business, especially for high-margin category leaders with strong customer retention.

DoorDash and Uber pulled back after reporting first quarter results. Share prices for both companies ran strongly into earnings, which can cause negative reactions to even small disappointments. DoorDash disappointed on margins while Uber missed on bookings. Notwithstanding, we like how business models for both companies continued to evolve profitably. We like that each company operates a marketplace that tends to become more valuable to key constituents – customers, drivers and merchants – as the marketplace grows. Both companies operate networks with superior scale and have meaningful growth opportunities in organic customer acquisition and new product extensions.

Lastly, Las Vegas Sands lagged as renovations in its key Macau market limited gaming revenue. We continue to like the diversification that the stock provides given its unique geographic and consumer exposures.

Strategy Activity

We purchased three stocks this quarter and they were Viking Therapeutics Inc. (VKTX), Micron Technology Inc. (MU), and Robinhood Markets Inc. (HOOD).

Viking has released two positive trial datasets for its GLP-1 obesity therapies this year. Popular, fast-growing GLP-1 weight loss drugs include Wegovy (the obesity-approved version of Ozempic) and Zepbound, although both of these therapies require injections. We are impressed with early results for Viking's oral GLP-1 tablet, which shows good tolerability and promising efficacy. We think it more likely than not that an oral GLP-1 eventually takes meaningful market share in an obesity market estimated to exceed $100 billion by 2030. A number of large biopharma firms lack exposure to obesity and Viking's therapy may be an attractive acquisition. We caveat, however, that Viking's early data will require confirmation in much larger trials before drug approval.

Micron is facing a healthy supply-demand balance driven by a cyclical recovery in the memory industry buoyed by strong AI-driven growth in high-bandwidth memory (HBM), which is expected to grow at a +50% rate over the next few years. The computation requirements for AI models require significant increases in DRAM, both in datacenter servers and for devices like smartphones and PCs. Micron serves each of these large markets and could be a key beneficiary.

Robinhood appears to have regained its position as the fastest-growing retail brokerage. Its user-friendly onboarding and mobile-first interface continued to support customer acquisition. Innovative products such as its Gold subscription – which includes retirement matching and market-leading rates on cash sweeps – suggest a durable growth profile with solid retention. We are optimistic that recent expense control efforts can persist and produce high margins on future revenue growth.

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The Strategy sold six holdings during the second quarter. They include Salesforce Inc. (CRM), Advanced Micro Devices Inc. (AMD), Pure Storage Inc. (PSTG), HubSpot Inc. (HUBS), Accenture PLC (ACN), and UnitedHealth Group Inc. (UNH).

As we noted above, software was an area of weakness. We were less comfortable attributing Salesforce's revenue miss to economic (as opposed to competitive) issues. We sold the stock and largely reallocated to other software holdings. Regarding AMD, we think the stock has intriguing AI-related upside, but also faces threats to its core CPU business in the form of GPU cannibalization and ARM-designed chips. For now, we're comfortable with what appears to be more direct AI-related chip exposure (e.g. NVIDIA and Micron). While Pure Storage was a solid performer through its holding period, we are somewhat less enthusiastic than the market about near-term upside from AI-related storage.

HubSpot is a software stock that performed reasonably well through its holding period despite a meaningful slowing of revenue growth. A rumored acquisition presented an opportunity to exit the position. Accenture's organic revenue growth has underperformed expectations and longer-term concerns revolve around the impacts of AI on the technology services industry. We think Accenture is a well-run company capable of navigating through a soft environment but seek more evidence of a bottom. Lastly, we sold UnitedHealth Group. Higher utilization this year seems to have surprised the managed care industry and the company may have lingering cost issues from a recent cyberattack. The sale also reflects a lower weight for the Health Care sector in the annual benchmark reconstitution.

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.

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