Dana Large Cap Growth Equity Strategy

Quarterly Review

As of December 31, 2024

The S&P 500 Index continued its upward trajectory in Q4 and in effect iced the return cake for the full year. GDP and corporate earnings growth both beat beginning-of-year consensus estimates. AI stock leadership, particularly NVIDIA, and multiple expansion further boosted equity returns. While small-cap stocks had their moment during the summer, interest rates moving higher placed pressure on the Russell 2000 Index by quarter end. Market leadership remained concentrated in a handful of large-cap tech-related stocks.

Strategy Performance

The top 5 performance contributors were Netflix Inc. (NFLX), ServiceNow Inc. (NOW), Amazon.com Inc. (AMZN), DoorDash Inc. (DASH), and NVIDIA Corporation (NVDA).

Netflix was the top relative contributor in the fourth quarter. The company delivered a strong subscriber beat in its earnings report and, perhaps more importantly, initiated guidance for another year of double-digit growth in 2025. We also suspect that sentiment for the stock benefited from an impressively large Tyson-Paul live audience, which bodes well for Netflix's sports and advertising ambitions moving forward.

Two third quarter top contributors showed up again in the fourth quarter in ServiceNow and DoorDash. Steady +20% revenue growth, margin expansion, and early AI-related product successes define the current ServiceNow narrative. DoorDash continued to take share in the fast-growing delivery category while producing strong free cash flow and upward trending margins.

Amazon was a top relative contributor after reporting strong profit upside in its recent quarter and guiding profit above expectations. Amazon has had impressive scale in its retail/logistics, cloud computing and advertising businesses for some time but that scale wasn't always reflected in profit margins. The last few quarters have challenged that historical paradigm.

NVIDIA consolidated gains in the third quarter but resumed its strong performance in the fourth quarter. The company provides GPUs and a platform pivotal for AI and data center applications and reported record quarterly revenue of $35 billion, up 17% sequentially and 94% year-over-year. Blackwell, NVIDIA's new AI infrastructure solution, is in full production and experiencing strong demand.

Top 5 Performance Contributors [a] as of 12/31/2024 Quarter Return (%) (gross of fees)	
Netflix Inc (NFLX)	25.7
ServiceNow Inc (NOW)	18.5
Amazon.com Inc (AMZN)	17.7
DoorDash Inc (DASH)	17.5
NVIDIA Corporation (NVDA)	10.6

Bottom 5 Performance Detractors [a] as of 12/31/2024 Quarter Return (%) (gross of fees)	
Uber Technologies Inc (UBER)	-19.7
Adobe Inc (ADBE)	-14.1
Eli Lilly and Company (LLY)	-12.7
Snowflake Inc (SNOW) †	-12.2
Microsoft Corporation (MSFT)	-1.8

† Return is from the date stock was purchased to end of quarter.

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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The largest 5 performance detractors were Uber Technologies Inc. (UBER), Adobe Inc. (ADBE), Eli Lilly and Company (LLY), Snowflake Inc. (SNOW), and Microsoft Corporation (MSFT).

Uber was the largest relative detractor. The company reported mediocre bookings for the quarter (although bookings still grew +20%) but we believe the stock was mostly challenged by an emerging robotaxi competitor narrative. Waymo has successfully scaled its robotaxi service in San Francisco while Tesla plans to launch its service later in 2025. These are potentially formidable competitors, yet we're sticking with Uber for now. Uber connects millions of riders with millions of drivers (or related forms of transport) to get people where they need to go quickly, safely, conveniently, and at reasonable cost. Like most networks (or marketplaces), scale usually wins because there is no supply without demand, and vice versa. It's very difficult to start a competing network from scratch, and we're not convinced that AV technology makes starting or operating a network that much easier?

Adobe was a top detractor for the second consecutive quarter. We remain cautiously optimistic about Adobe's digital software, particularly as AI tools are more seamlessly integrated into products. The market has disagreed with us thus far, and AI tools are clearly a disruptive force in digital content creation. Notwithstanding, we think Adobe plays in a nicely growing category of digital document, image, and video creation. They are the entrenched brand and have a history of not standing still when faced with competitive threats.

Two new buys, Eli Lilly and Snowflake were top five detractors. For Lilly, inventory stocking dynamics led to a surprisingly weak third quarter earnings report. There also seemed to be a sentiment overhang across the Health Care sector following the election outcome and cabinet nominations. For Snowflake, the stock pulled back in late December with other higher growth technology stocks on little news. Microsoft was a modestly negative detractor – we think that strong AI-related potential moving forward has been clouded by one-off concerns.

STRATEGY ACTIVITY

We added four holdings to the Strategy. These included Snowflake Inc. (SNOW), Lam Research Corporation (LRCX), Danaher Corporation (DHR), and Waste Management Inc. (WM).

Snowflake's core offering is a cloud-based data analytics platform and it's in the top tier of fastest growing software-as-a-service companies. The more we learn about the current AI paradigm, the more we believe that data platforms like Snowflake will be significant beneficiaries. AI does two things very well with data. First, it extracts useful insights. Second, and perhaps more importantly, it makes more data, more useful. By this we mean that previously siloed data can be more easily extracted for analysis, and "unstructured" data (which is the majority of data, think text in documents, sensor data, website logs) is similarly accessible for analysis. Snowflake is relatively early in its journey to integrate AI tools into its platform, but we're encouraged by product commentary from the new CEO.

We initiated a small position in Lam Research as a replacement for another semiconductor company, Micron Technology. Both companies have relatively similar exposures to the memory (DRAM) market, yet Lam Research provides a higher and more consistent FCF yield (~5%) and somewhat more diverse end-market exposure.

We purchased Danaher on anticipation of a rebound in the core bioprocessing/life sciences businesses. While this category has not done much lately due to poor post-election headlines for the Health Care sector (e.g. drug pricing, FDA reform, government funding, China exposure), we believe Danaher will continue to capture an increasing share of the market by developing and providing the critical technologies that biopharmaceutical companies need to innovate. Lastly, we added Waste Management as a stable and defensive grower in the Industrials sector. The company's valuation is attractive relative to history and free cash flow growth could accelerate.

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We sold six holdings from the Strategy during the quarter. These include Micron Technology Inc. (MU), GE Vernova Inc. (GEV), Merck & Company Inc. (MRK), Crocs Inc. (CROX), Lululemon Athletica Inc. (LULU), and Moderna Inc. (MRNA).

As mentioned above, we replaced Micron Technology with Lam Research. We took profits in GE Vernova. The company benefited from strong gas turbine orders, improving margins, and positive sentiment for future power demand related to the AI build-out. Moderna was a good performer in the first half of 2024, and we trimmed the stock accordingly. Mediocre pipeline updates and poor vaccine-related sentiment hurt the stock in the second half of 2024. We sold Merck on some overhang from the vaccine business (i.e. China and potential RFK Jr. appointment). Its Keytruda patent expiration is getting closer and we would prefer more visibility on what is replacing that revenue.

Crocs' slowing momentum in U.S. market, potential tariff issues, and ongoing disappointment related to the Hey Dude acquisition led to its sale. Lululemon is experiencing weakness in the core women's franchise, potential tariff issues, and management turnover.

OUTLOOK

In January a new Trump administration will take the helm. Investors are understandably focused on potential changes in tariffs, immigration, taxes, and more. We would not be surprised by greater volatility — all the more reason for us to remain committed to our disciplined, risk-controlled investment 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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