Dana Unconstrained Equity Strategy

Portfolio Manager Insights

As of July 2, 2021

Note To Investors

After an active first quarter, the Dana Unconstrained Equity Strategy settled into a more normal turnover cadence in the second quarter as both the economy and the stock market exhibited strength. The Strategy returned +7.92% in the second quarter, compared to the S&P 500 Index return of +8.55%. Year-to-date, the Strategy has returned +13.43%, compared to the S&P 500 Index return of +15.25%.

We are satisfied – but not enthused – by this performance. Many Strategy stocks became cheaper in the second quarter as profit growth outpaced price performance. We hope to see the price performance trend reverse in the second half of the year.

A hallmark of our flexible, unconstrained investment approach is comfort across dynamic market environments – value, growth or otherwise. We like dynamic markets because they create opportunities. In today's market, we see substantial opportunity in stocks exposed to the consumer finance, semiconductor and automotive industries. Why? Many of these stocks are historically cheap on metrics like price-to-earnings. More importantly, we see idiosyncratic catalysts that could shift investor perception in a favorable direction.

Catalysts are integral to the Strategy's success and we think a lot about them. What gets the market to come around to our point of view? What gets other investors to take notice of the value that we think we've identified? In our experience, the market ebbs and flows between rationality and irrationality. The former wins over time, but the latter creates dislocations that can persist for longer than one might think (just ask any "value" investor prior to the last few quarters). Examples of catalysts include growth or profitability above expectations, disruptive products or services, regulatory tailwinds, macro or exogenous factors, management changes and/or restructuring.

Our favorite catalyst is also the simplest – upside to growth and profit expectations. This catalyst has a tendency to instigate a virtuous cycle that involves investors resetting fundamental estimates higher while simultaneously placing a higher multiple on those estimates. It's a double shot to the stock price. Sustaining a multiple is good enough to move prices up when estimates rise, but layering on earnings multiple expansion can produce game-changing returns. A multiple is a sentiment gauge, reflecting optimism (or lack thereof) about a company's future. Surprisingly strong growth and/or profitability is a great way to stoke optimism while placing the onus on skeptical investors to "disprove" the bullish thesis

Strategy Commentary

During the second quarter, we added four positions and sold four positions. At the end of the quarter, cash represented less than 1% of the strategy.

Selected Additions

In April we added Ally Financial (ALLY), one of the largest auto lenders and digital banks in the U.S. Similar to the additions of Capital One (COF) and Discover (DFS) last quarter, Ally benefits from what we've come to term the "three C's." They are a strong consumer, pristine credit and high capital returns. The sum of Ally's current excess capital and this year's earnings (our estimates) exceeds 30% of its market cap. Much of this capital will be returned as share repurchases. Ally's double digit loan growth in the core auto business is peer-leading. At less than 7x earnings, this seems too cheap for a consistent share-taker with substantial buyback ammunition.

We added Ford (F) in May. Had you asked a year ago – "Give us a short list of companies that you're almost certain you will not own a year from now" – it's very possible that Ford makes the list. How quickly things shift – we welcome change. Speaking of change, Ford is in the process of launching a number of highly sought after products, including the Mustang Mach-E, Bronco, E-Transit, F-150 Lightning and a newly redesigned F-Series. This follows 2019's successful relaunch of the Ranger. Remarkably, we think it's possible that these products will replace the entire volume (nearly 675k units in 2015) of its discontinued U.S. passenger car models (e.g. Fusion, Focus, etc.) by 2022. The new models are also more profitable. The auto market is buoyed by a strong consumer, low interest rates, and inventory shortages, all of which could persist for several quarters. We are particularly impressed by the Lightning and Mach-E. With these two models, Ford's

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future in a world of electric and connected vehicles is off to a great start. To us, this seems incongruous with a stock trading at less than 7x our estimate of 2022 earnings.

We returned to Darden Restaurants (DRI) in the second quarter, a stock the Strategy has owned off and on over the past year. This owner of the Olive Garden and Longhorn Steakhouse brands will exit the pandemic at significantly higher revenue and profit levels. The to-go business is stickier than we anticipated (this is an industry-wide trend) while a streamlined menu reduces labor and food costs. In the near-term, Darden benefits from strong pent-up dining demand and a U.S. restaurant base that contracted through the pandemic. Structurally higher revenue and profit levels allow for accelerated unit growth in the coming years. Tepid unit growth relative to industry peers had been a limiter of multiple expansion.

Selected Deletions

We sold Lear (LEA) in April after adding the company in March. Lear is an auto supplier with a leading share position in seats and a growing electrical systems business. This was a relatively small position that outperformed for its short holding period. We sold the stock as it became clear that semiconductor shortages would significantly decrease 2021 industry production volumes. Notably, these shortages aren't all bad for the auto industry. They come with benefits in the form of higher pricing and more profitable model mix. These benefits accrue to lenders (like Ally) and OEMs (like Ford) more directly than suppliers.

We sold Mastercard (MA) and Snap (SNAP) in May. Regarding the former, international travel has been somewhat slower to return than we'd hoped. The primary impetus for both sales, however, was a recalibration of our relative value price targets. In a market environment where growth is abundant and companies like Ally and Ford can be had for 7x forward earnings, we are simply less comfortable with premium valuations, even when they come with premium franchises like Mastercard and Snap. We remain positive on the long-term fundamental trajectories for both companies.

Positioning

We are steadfast in our optimism for the economy and this should support the stock market. The U.S. consumer has $2.5 trillion of excess savings, jobs are plentiful, the wealth effect is in full swing with the stock market at all-time-highs, banks hold record levels of capital and deposits, the Federal Reserve remains accommodative, and the effects of fiscal stimulus are ongoing (with an infrastructure bill more likely than not by year-end). We have yet to fully reopen the economy. Offices are still closed, international travel is restricted, cruise lines are working through restarts, and large-scale events are just beginning to ramp. Labor Day feels like a good target for a more fulsome return to normalcy.

We expressed this optimistic view last quarter and indicated that the first quarter additions of several financial institutions – whose core businesses facilitate spending, lending and investment – was a response. We continued to lean into this theme in the second quarter with the addition of Ally. Ford and Darden – alongside our consistent semiconductor exposure – reflect similar optimism about the strength of the upswing in the U.S. (and global) economy.

Our top five positions at the beginning of the second quarter included Uber (UBER), Visa (V), Mastercard (MA), Texas Instruments (TXN), and NVIDIA (NVDA), comprising approximately 43% of the portfolio. Only Uber remained in the top five at quarter-end, joined by Capital One (COF), Ally Financial (ALLY), Bank of America (BAC), and JPMorgan Chase (JPM) (collectively 46% of the portfolio). Discover (DFS), Qorvo (QRVO), Visa (V), and Microchip (MCHP) remained top ten positions, joined by new addition Darden Restaurants (DRI).

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Second Quarter Performance

NVIDIA (NVDA) was the largest second quarter contributor. This January addition to the Strategy delivered strong first quarter earnings and guided to further upside in its core datacenter and gaming segments through year-end. We're pleased to see a recent addition become a strong contributor and trimmed the position near quarter-end as the share price approached our target.

Two other first quarter additions, Capital One (COF) and Discover (DFS), were also top five contributors. Each gained more than +20% in the second quarter. Both companies delivered robust earnings beats, reduced reserves, built capital and spoke constructively about potential loan growth. Notwithstanding this quarter's price appreciation, both companies trade substantially below our price targets. We are excited about prospective returns, especially if loan growth resumes in the second half of the year.

DXC Technology (DXC) was a top contributor for a third consecutive quarter. We initiated this position in March 2020 near the market lows and added several times below $20 per share (the stock ended this quarter at $39). We meaningfully trimmed the position for the first time in June. We still like the fundamental trajectory and approve of management's restructuring thus far, but the valuation is fuller and outsized free cash flow generation is probably a year or two away. Visa (V) rounded out the top five contributors as traction on vaccines and reopening progressed.

Bitcoin (GBTC) was the largest second quarter detractor, pulling back after a strong first quarter. Bitcoin's value as "digital gold" is determined by the pace of adoption. Adoption tailwinds were abundant through the second half of 2020 and into the first quarter of 2021. PayPal enabled bitcoin trading. Corporate treasuries, most notably Tesla (TSLA) and MicroStrategy (MSTR), bought bitcoin. Several hedge funds took positions. Adoption headwinds began to manifest in the second quarter. Bitcoin's significant electricity use became a prominent topic and China initiated a broad crackdown on cryptocurrencies. Bitcoin's use as a preferred ransomware currency in cyberattacks also made headlines.

In light of these headwinds, we sold bitcoin in May. We have little doubt that there will be a "digital gold" and bitcoin has the advantage of being the first-mover. We are, however, particularly concerned about the electricity demands of bitcoin's validation system. As bitcoin's price increases, so too will electricity use. At its peak earlier this year, bitcoin's electricity demand was as high as 4% of total U.S. electricity demand. This doesn't feel sustainable and we question the bitcoin community's willingness to innovate. We swapped bitcoin for a small position in Ethereum (ETHE). We'll have more to say about Ethereum in future letters. In brief, we think it is a viable candidate for "digital gold" given a less energy-intensive validation system and a nimble, innovative ecosystem.

Uber (UBER), our largest position, was the second largest detractor. Our conviction in the stock has never been greater. Progress toward profitability continues. The ridesharing business builds each month as reopening progresses and drivers return to work. The delivery business appears to be holding onto pandemic customers better than we expected. Additional services and features, such as advertising, subscriptions, grocery delivery and reserving (among others), are ramping. It's odd to us that Uber's valuation is nearly identical to Lyft's (LYFT), given the latter's smaller ridesharing scale and lack of a delivery business. Similarly, why should DoorDash (DASH) trade at more than twice Uber's multiple, given its nascent international delivery expansion and lack of a ridesharing business?

Rounding out the bottom five detractors were Microchip (MCHP), Texas Instruments (TXN) and Ally Financial (ALLY). All three delivered strong first quarter earnings and we look forward to second quarter reports for validation of their fundamental trajectories.

All Company Names Held in Strategy† 04/01/2021 to 06/30/2021	Total Return	Total Effect
NVIDIA Corporation (NVDA)	49.89%	1.16%
Capital One Financial Corporation (COF)	21.89%	1.10%
DXC Technology Co. (DXC)	24.57%	0.98%
Discover Financial Services (DFS)	25.01%	0.69%
Visa Inc. Class A (V)	10.59%	0.22%
Snap, Inc. Class A (SNAP)	4.61%	0.19%
Ford Motor Company (F)	11.48%	0.17%
Darden Restaurants, Inc. (DRI)	2.54%	0.16%
Mastercard Incorporated Class A (MA)	1.39%	0.06%
Qorvo, Inc. (QRVO)	7.09%	0.02%

All Company Names Held in Strategy† 04/01/2021 to 06/30/2021	Total Return	Total Effect
Bank of America Corp (BAC)	7.01%	-0.05%
Lear Corporation (LEA)	1.43%	-0.12%
Grayscale Ethereum Trust (ETH) (ETHE)	-11.27%	-0.14%
Parker-Hannifin Corporation (PH)	-2.32%	-0.24%
JPMorgan Chase & Co. (JPM)	2.77%	-0.26%
Ally Financial Inc (ALLY)	4.02%	-0.28%
Texas Instruments Incorporated (TXN)	2.33%	-0.35%
Microchip Technology Incorporated (MCHP)	-3.27%	-0.66%
Uber Technologies, Inc. (UBER)	-8.05%	-1.59%
Grayscale Bitcoin Trust (GBTC)	-39.61%	-2.03%

† Total Effect values include cash and equivalents (i.e., money market) but may exclude from table's list. The sum of Total Effect for all index names, whether Strategy held or not, will total the table's referenced period return for each the index and Strategy. A holding in the index but not in the Strategy will still affect the strategy's relative performance vs. the index. Total Return above is reflected for the time the stock was held in the Strategy and may differ from the stocks total return for the full table's referenced period (e.g., may reflect return for period shorter than referenced period if bought or sold before table's referenced period end or after table's referenced period end). Tables exclude any holdings that had a +/- Total Effect due to not being held by Strategy but held in index.

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Concluding Thoughts

We don't spend a lot of time talking about portfolio-wide valuation or growth metrics, for two reasons. First, in many cases, a traditional valuation or growth metric anchored to a twelve month period just isn't that meaningful to our determination of value. The meaningfulness of a metric varies with the company, its industry, and our assessment of its accuracy. Second and relatedly, portfolio-wide statistics can become skewed by outliers, especially in a concentrated Strategy.

Notwithstanding that lead-in, allow us to share a couple of portfolio-wide metrics. We do so with an emphasis on the directional aspect of these characteristics. At the end of 2020, the forward price-to-earnings ratio of the Strategy was 40.0x. At the end of the second quarter, the Strategy's forward price-to-earnings ratio declined to 16.6x. This large drop reflects the first half's elevated turnover. While Uber trades at a premium valuation, the average price-to-earnings ratio of the other top five holdings – all four of them financial institutions – was 10.6x. The S&P 500 Index trades at 22.5x. Notably, forward earnings growth for the S&P 500 Index is currently pegged at +10.6%. This compares to the Strategy's +20.1% (analyst estimates, not our own).

As such, the Strategy currently holds stocks with P/E valuations that are approximately -25% lower than the benchmark, but with nearly twice the growth. While we don't prefer this sort of analysis, the magnitude of the directional move year-to-date and the starkness of the difference between the Strategy and benchmark seemed to be worth mentioning. Exceptionally cheap stocks with good near-term growth prospects are candidates for multiple expansion, and it only takes a few points of expansion to generate robust gains when a stock trades at 10x forward earnings.

Regarding our market outlook, we'll repeat last quarter's statement and suggest that the potential for ongoing stock market gains is good until interest rates reach a level where fixed income becomes more attractive. We continue to think upside will be driven more by earnings growth than multiple expansion. We also expect periodic market rotations – e.g. shifts from "value" to "growth" or vice versa.

What could go wrong? Vaccine-resistant COVID variants are probably the biggest risk that we can foresee and do very little about. None of the variants present thus far – including the Delta variants – are vaccine-resistant. We'll also continue to watch for "too much" inflation with a particular eye toward pervasive commodities like oil and steel. We are open to the possibility that our forecast for strong consumer-led economic growth through 2022 is simply wrong. Economies are complex systems and we may be missing or misjudging key variables. Finally, negative exogenous events are always possible. We remain vigilant.

We're off to a reasonably good start to the year. We believe that the Strategy is now positioned for outperformance after a first half of elevated turnover that followed a dynamic 2020. We look forward to next quarter's update and endeavor to be humble, flexible and open-minded, while remaining grateful for your support.

Respectfully,
Dana Investment Advisors, Inc.

David Weinstein
Lead Portfolio Manager

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A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Dana Unconstrained Equity composite has had a performance examination for the periods December 31, 2018 through December 31, 2020. The verification and performance examination reports are available upon request.

- **Definition of Firm**: Dana Investment Advisors, Inc. is an SEC-registered independent investment management firm established in 1980 and is not affiliated with any parent organization. Dana manages a variety of equity, fixed income, and balanced portfolios for primarily U.S. institutional, individual, and mutual fund clients.
- **Composite Creation Date**: December 31, 2018.
- **Composite Definition**: The Dana Unconstrained Equity composite includes all fee-paying, discretionary equity portfolios that invest in U.S. equities with the goal of providing long-term capital appreciation utilizing an unconstrained equity strategy. The composite does not have a minimum size criterion for membership. A complete list of composite descriptions is available upon request.
- **Benchmark Description**: The benchmark for the Dana Unconstrained Equity composite is the S&P 500 Index. Performance and Fees: Valuations are computed and performance is reported in U.S. dollars. Gross-of-fees returns are presented before investment management and custodial fees but after all trading expenses. Net-of-fees returns are calculated by deducting Dana's actual investment management fees from the monthly gross-of-fees returns. Dana's current standard annual Unconstrained Equity fee schedule is 0.75% on the first $10MM, 0.65% on the next $15MM, and 0.50% thereafter; however, Dana's investment management fees may vary based upon the differences in size, composition and servicing needs of client accounts. There is one non-fee paying portfolio within the composite and represents 4.05% of total Composite Assets as of 12/31/19. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.
- **Standard Deviation**: The 36-month annualized standard deviation measures the variability of the monthly gross-of-fees composite and the benchmark monthly returns for the period. The 36-month annualized standard deviation is not presented for 2019 to 2021 as the periods were less than 36-months from the composite's inception.
- **Internal Dispersion**: Dispersion is calculated using the equal-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year.

	2019	2020	YTD 2021
Total Return Gross of Fees	32.00%	87.62%	13.43%
Total Return Net of Fees	31.34%	86.58%	13.13%
Benchmark Return	31.49%	18.40%	15.25%
Composite 36 Month Standard Deviation	N/A	N/A	N/A
Benchmark 36 Month Standard Deviation	N/A	N/A	N/A
Number of Portfolios	9	26	55
Internal Dispersion	N/A*	3.36%	N/A
Composite Assets (US$ millions)	6.5	19.9	40.1
Strategy Assets (US$ millions)	6.5	19.9	41.5
Total Firm Assets (US$ millions)	4,548.9	4,782.0	4,535.9
Total Entity Assets (US$ millions)	7,142.0	7,185.0	7,374.1

* Only one account was in the composite for the entire year.

Strategy Assets and Total Entity Assets include applicable composite assets, wrap program assets, and model portfolio assets and are presented as supplemental information. Dana does not have final trading authority on model portfolio assets, which are excluded from both Composite Assets and Total Firm Assets.

Past performance is not indicative of future results.

Data and Chart Sources: Dana Investment Advisors; (a) FactSet Research Systems; (b) Morningstar Direct.