To Investors

The S&P 500 Index increased +8.74% in the second quarter, while the Dana Unconstrained Equity Strategy beat the Index, increasing +19.74%. Year-to-date, the Strategy has returned +52.48%, compared to the S&P 500 Index return of +16.89%.

Technology-oriented stocks built upon their first quarter gains. The tech-heavy NASDAQ Composite increased +13% in the second quarter and is up +32% year-to-date. 2022's big sector winners – such as Energy (-1%), Healthcare (+3%) and Utilities (-3%) – again underperformed in the second quarter as the mean reversion trade continued.

In last quarter's letter we suggested that a combination of overly negative sentiment, resilient company fundamentals and favorable economic data (particularly slowing inflation) were responsible for the tech rally. In recent months we can add AI-related ("artificial intelligence") optimism to this list.

In January, we wrote the following about AI:

> *If you haven't run across the recent headlines of artificial intelligence (AI) models, look up "ChatGPT" or "Stable Diffusion" online. We think that the efficacy of these models suggests that AI is on the cusp of becoming mainstream. These AI models scrape (most of the) data from the internet to understand human language inputs and produce human quality outputs. To our understanding, developing and deploying AI models involves computation orders of magnitude above processes like Google search or Facebook ad targeting. What could be the investment implications?*
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> *Just this week at the Consumer Electronics Show (CES) in Las Vegas, AMD gave a keynote speech featuring the first x86 CPUs capable of processing artificial intelligence (AI) workloads on laptops. AMD also revealed its Instinct MI300 product for AI datacenter computation that combines a CPU, GPU, and memory into a single chip package. Meanwhile, Microsoft is racing to implement ChatGPT into the Bing search engine in an attempt to outflank Google.*
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> *We give these examples not so much as support for holdings AMD and Microsoft, although we're excited for both, but to highlight the inevitable progression of technology on the back of human ingenuity. 2022 was a bleak year for technology stocks, and challenges may persist in the near term, but negative sentiment can persist for only so long in the face of productive, disruptive, valuable innovation.*

Two points stand out. First, companies like Microsoft (MSFT) and Advanced Micro Devices (AMD), among others, have guided to tangible fundamental upside from AI-related applications. A test of the legitimacy of the hype surrounding an exciting new technology often boils down to whether the technology produces equally exciting revenue and profit streams. AI seems to be on a trajectory similar to recent technology waves like cloud computing and mobile platforms, which brings us to the second point.

Over the last 20 years or so, it seems that a disruptive technology generates positive surprises for investors every few years. Digital commerce and media, cloud computing, subscription software, mobile platforms, electric vehicles – and now AI – are among the disruptive changes of the last couple of decades. While these waves of innovation may not last forever, there is ample evidence suggesting that investors should – at the very least – pay close attention to technology stocks.

We generally follow a five step company evaluation process when selecting investments for the Strategy. The first step in the evaluation process asks the question: "Is the company on the right side of disruptive change?"

While we don't always get the answer right, we nonetheless often point to this first step when asked about our "edge" as investors. We continually strive to be on the right side of change, both in owning disruptive winners and avoiding disrupted losers. It's a relatively simple concept and the devil is usually in the details, but we believe an investment approach that seeks to respect and understand accelerating technology trends puts us on the front foot.

Strategy Commentary

During the second quarter, we bought two positions and sold one position, which was identical to the combined turnover of the fourth and first quarters. Low turnover in the three most recent quarters followed a three quarter stretch where we bought 19 positions and sold 23 positions. This reflects the typical ebb and flow of portfolio positioning for a strategy that seeks value through active trading. Cash and equivalents represented approximately 8% of the Strategy at the end of the second quarter.[1]

Selected Additions

We added EOG Resources (EOG) in May. EOG is the largest pure-play shale-based oil and gas driller. Relative to other oil and gas drillers, we like EOG's deep inventory position, diversity of basins, and emphasis on production growth. The company has a history of favorable drilling productivity and has grown into a consistent free cash flow generator. While these are reasons to own EOG over its energy peers, we also like the diversification that EOG represents in a portfolio currently dominated by technology-oriented stocks.

A re-escalation of energy warfare tied to geopolitical issues like the Ukraine war could spike fossil fuel prices (similar to 2022). As a company primarily leveraged to the price of oil, EOG could also benefit from OPEC's apparent determination to put a "floor" under oil prices (see recent Saudi production cuts). The price of oil has traded in a range of $65 - $125 per barrel over the last year-and-a-half and currently sits around $70. In our experience, buying oil-levered stocks toward the low end of a multi-year price range can serve as a useful hedge in a stock portfolio.

We added Visa (V) in late May. Visa is a company perpetually on our radar (we owned the company last year for a short period) given its dominant market position as an electronic payments facilitator. We think the company's competitive position is stable notwithstanding periodic threats from regulation, government-sponsored payment systems and new technologies (e.g. blockchain). Visa appears to be innovating well in areas like cybersecurity and fraud services, business-to-business payments, tap-to-pay and real-time payments.

We also like Visa's exposure to growing international travel, which we think is enjoying a cyclical post-Covid recovery amidst a long-term structural growth trend driven by the rise of travel influencers and hybrid work. Over the last 10 years, Visa has rarely traded at less than a 40% valuation premium to the market. We bought the stock at a 30% premium and hope to see historical valuation trends repeat.

Selected Deletions

We sold Datadog (DDOG) – a small position – in June. Our target valuation for Datadog was one of the highest amongst Strategy holdings and we sold the stock as the share price approached this valuation. Datadog was a significant beneficiary of positive AI sentiment in the second quarter. We see a path toward accelerated consumption of Datadog's monitoring and performance software as AI enhances the growth and relevance of various software applications. We also, however, find it difficult to quantify the timing and magnitude of these consumption benefits. We'll continue to monitor the stock.

Positioning

Our top five positions at the beginning of the second quarter included Palo Alto Networks (PANW), Meta (META), CrowdStrike (CRWD), Workday (WDAY) and ServiceNow (NOW) (collectively 54% of the Strategy). Our top five positions at the end of the second quarter included Meta (META), Palo Alto Networks (PANW), Uber Technologies (UBER), Workday (WDAY) and Adobe (ADBE) (collectively 54% of the Strategy).

We remained patient with Strategy holdings, as indicated by low turnover and a similar collection of top ten positions. Amazon (AMZN) was a noteworthy trim in the second quarter (from 7% to 0.5%). Our original thesis around upside free cash flow generation did not materialize and we struggle to have conviction around a free cash flow inflection given commentary about ongoing investments. Even with AI-related upside in the cloud infrastructure business and resilient e-commerce revenue, we wonder if the stock can work if cash flow lags (especially when compared to mega-tech peers).

High cash flow (and profit) growth is the primary reason we remain optimistic about our top three positions – Meta, Palo Alto and Uber – despite strong year-to-date performance. For example, forward earnings estimates for Meta increased approximately +65% in the first half

(1) Cash and equivalents includes Schwab Govt Money Market fund, where applicable.

of 2023. The same metric for Palo Alto increased approximately +35%. Uber's forward free cash flow estimate increased approximately +45% in the first half of the year.

While share prices for all three stocks also benefited from multiple expansion (i.e. higher valuations), this outsized profit growth meant that each stock retains a relatively attractive valuation as we enter the third quarter.

We expect these torrid growth rates to slow over time although see reason for near-term optimism. Cost-cutting and productivity are top priorities for many technology-oriented companies as they exit a period of inflated Covid-induced growth and find themselves in a higher cost of capital environment. Meanwhile, consolidation and competitive benefits could continue to accrue to category leaders.

Second Quarter Performance

Largest holding Meta (META) was the top contributor in the second quarter. We said last quarter that we were equally encouraged by Meta's cost-cutting and potential for revenue growth acceleration. The company delivered meaningful profit and revenue upside in its latest earnings report. We are even more excited today about positive engagement trends. Meta's Reels (short-form video) appears to be gaining significant share of social media attention. There may be surprising engagement benefits from initiatives around AI assistants and AI search for Facebook, Instagram and WhatsApp. The new launch of Twitter rival Threads could also provide a boost. More eyeballs tend to be a very good thing for an advertising business model.

The second best contributor was Uber (UBER). We think that the market is (finally) coming around to the idea that Uber's ride-sharing and delivery businesses can be profitable. Uber has delivered several consecutive quarters of positive (and increasing) free cash flow. We see opportunities in fast-growing products such as Reserve, advertising, shared rides and taxis. Uber benefited when weaker competitors were forced to retrench as capital costs increased and post-Covid delivery growth slowed.

Palo Alto Networks (PANW) was a top three contributor for the second consecutive quarter. Cybersecurity remains a high priority amidst a broadly slowing software market and platform vendors like Palo Alto can take share from smaller vendors as customers consolidate spend. Platform consolidation is a tailwind for other second quarter outperformers, including Adobe (ADBE), ServiceNow (NOW), CrowdStrike (CRWD) and Microsoft (MSFT). These companies are leaders in their categories and offer multi-product software suites comprised of core and satellite solutions.

Seven holdings detracted from performance. Cheniere Energy (LNG) continued to underperform as natural gas prices remained depressed. We trimmed the position size in the second quarter and added to EOG Resources (EOG), which shows a modest preference for oil-levered energy stocks. Tesla (TSLA) and Amazon (AMZN) were negative contributors despite strong performance because of the underweight to the benchmark. Other slight detractors included EOG, Datadog (DDOG), TaskUs (TASK) and On Semiconductor (ON).

All Company Names Held in Strategy† 04/01/2023 to 06/30/2023	Total Return (%)	Total Effect (%)
Meta Platforms Inc (META)	35.41	2.70
Uber Technologies Inc (UBER)	36.18	2.35
Palo Alto Networks Inc (PANW)	27.92	2.11
Adobe Inc (ADBE)	26.89	1.74
ServiceNow Inc (NOW)	20.93	1.19
CrowdStrike Holdings Inc (CRWD)	7.00	0.91
Microsoft Corporation (MSFT)	18.38	0.22
Advanced Micro Devices Inc (AMD)	16.22	0.19
Workday Inc (WDAY)	9.37	0.13
Visa Inc (V)	7.44	0.06

All Company Names Held in Strategy† 04/01/2023 to 06/30/2023	Total Return (%)	Total Effect (%)
Accenture Plc (ACN)	8.39	0.00
ON Semiconductor Corporation (ON)	14.89	0.00
TaskUs Inc (TASK)	-21.61	-0.01
Datadog Inc (DDOG)	40.17	-0.02
U.S. Dollar	1.26	-0.08
EOG Resources Inc (EOG)	6.33	-0.09
Amazon.com Inc (AMZN)	26.21	-0.26
Tesla Inc (TSLA)	26.18	-0.33
Schwab Govt Money Fund	1.16	-0.53
Cheniere Energy Inc (LNG)	-3.07	-0.86

Concluding Thoughts

Over the last several weeks, two client questions have risen above the rest. First, "What does the market do from here after its strong rebound?"

While we are often asked to prognosticate upon market levels, this seems to be of heightened focus as of late. In the last two letters, we talked about the possibility of a more optimistic "glass half full" narrative shift in market sentiment. This positive shift would latch on to disinflationary trends, resilient global growth, relative geopolitical "calm" and a culminating interest rate hiking cycle. We think the glass half full narrative has taken hold.

† 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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The S&P 500 Index trades at 19x forward earnings today. Historically, the market has trouble holding a multiple above 20x, especially when investors can buy short-term, risk-free fixed income at 5% yields. While the market isn't at an extreme valuation level, it is elevated, yet an elevated valuation is not a good predictor of imminent decline.

Forward earnings estimates have resumed an upward trajectory, now +2.5% above the February trough. If this trajectory continues it's not difficult to envision a resilient stock market. The mega-cap tech stocks are collectively the largest contributors to S&P 500 earnings and we expect some upside (or at least limited downside) due to AI and/or productivity initiatives.

This brings us to the second client question, "After a stellar first half, are technology-oriented stocks likely to keep providing investors with outsized returns?"

We'll start by emphasizing that 1) technology-oriented stocks will almost certainly experience a period of underperformance this year and 2) we hesitate to make broad statements about entire sectors or industries. Where we have comfort is addressing our individual holdings – many of which are technology-oriented.

We are cautiously optimistic that current holdings Microsoft, AMD and Adobe could see direct (and material) AI-related upside in the second half of the year as new products launch. We suspect that Meta and ServiceNow could also benefit depending on product timing. Away from AI, we are encouraged by the platform consolidation theme and regulatory support (e.g. the current administration's National Cybersecurity Strategy) for our two cybersecurity holdings, Palo Alto and CrowdStrike. We think Uber may have underrated growth engines in products like Reserve and advertising. Lastly, Workday's bookings upside in its latest quarter may indicate a reinvigorated sales motion following a recent CEO change.

If we are mostly right in our positive fundamental predictions for the largest holdings, the Strategy could do well. Valuations for these holdings are below their Covid-era peaks, even for the strongest year-to-date performers. Meta, for example, traded at 21x forward earnings at the end of the second quarter, compared to 24x at the end of 2021. Microsoft traded at 31x at quarter-end, relative to 34x at the end of 2021.

Notwithstanding, this is where we insert the caveat of investors (us) who've experienced their fair share of humility while attempting to forecast market movements. We must acknowledge that the market trades at a fairly full valuation, leaving little room for misstep. It also seems likely that nominal growth in the US will slow into the foreseeable future as higher interest rates work their way through the economy. Geopolitical angst could re-escalate in the Ukraine or elsewhere. Further banking system strife or new stresses (commercial real estate?) could become prominent.

We'll end with some brief macro ponderings. It seems to us that the U.S. consumer is the lynchpin of the current macro landscape. In 2022, the consumer faced two major headwinds: 1) significant inflation, and 2) a negative wealth effect (e.g. a stock market down more than -25% at trough and an even larger crypto/tech sell-off). Halfway through 2023 it's fair to say that these headwinds have substantially abated. Meanwhile, jobs are plentiful and home values are surprisingly resilient.

To this latter point, we are intrigued by the effects of hybrid work on the value of various real estate categories. We suspect that some part of a decline in commercial office real estate values could transfer to an increase in single-family home values (because consumers are spending more time and desire more workspace at home). This could be an underappreciated positive for U.S. consumers (who collectively derive a significant portion of net worth from home equity) and provide unexpected durability to the current economic cycle.

The offset is potentially negative outcomes for urban real estate – not just office but also adjacent properties like retail and hotels which benefit from office foot traffic. The timing, severity, and cascading economic effects of any urban real estate downturn is difficult to predict. We flag the issue here as something to monitor.

The current market environment is dynamic and we remain alert to many possibilities. As managers of an unconstrained, actively traded Strategy, we have the tools to respond to most eventualities and hope to do so appropriately.

As always, we endeavor to be humble, flexible, and open-minded while remaining grateful for your support.

Respectfully,
Dana Investment Advisors, Inc.

David Weinstein
Lead Portfolio Manager

All Company Names Held in Strategy† 06/30/2022 to 06/30/2023	Total Return (%)	Total Effect (%)
Palo Alto Networks Inc (PANW)	73.32	5.90
Meta Platforms Inc (META)	53.85	4.87
Uber Technologies Inc (UBER)	111.00	4.37
Adobe Inc (ADBE)	68.29	3.35
Workday Inc (WDAY)	35.70	2.66
Advanced Micro Devices Inc (AMD)	48.96	2.19
EPAM Systems Inc (EPAM)	22.87	1.67
Globant SA (GLOB)	-6.84	1.16
Cheniere Energy Inc (LNG)	15.66	0.86
TaskUs Inc (TASK)	-32.86	0.54
ServiceNow Inc (NOW)	18.18	0.41
Tesla Inc (TSLA)	16.62	0.39
Alphabet Inc (GOOGL)	9.54	0.26
Grayscale Ethereum Trust (ETH) (ETHE)	29.18	0.23
Microsoft Corporation (MSFT)	33.88	0.22
HubSpot Inc (HUBS)	4.89	0.20
Pfizer Inc. (PFE)	-0.92	0.17
Eli Lilly and Company (LLY)	9.06	0.13
ON Semiconductor Corporation (ON)	87.99	0.05

All Company Names Held in Strategy† 06/30/2022 to 06/30/2023	Total Return (%)	Total Effect (%)
Coinbase Global Inc (COIN)	37.15	0.02
Airbnb Inc (ABNB)	17.92	0.02
Marvell Technology Inc (MRVL)	15.40	0.01
Lord Abbett Short Duration Fund (LLDYX)	0.53	0.00
Ally Financial Inc (ALLY)	-3.22	-0.01
Pioneer Natural Resources Company (PXD)	-2.66	-0.03
Lululemon Athletica Inc (LULU)	-11.02	-0.05
Visa Inc (V)	14.70	-0.05
Perficient Inc (PRFT)	-3.14	-0.11
EOG Resources Inc (EOG)	6.33	-0.11
Walmart Inc. (WMT)	6.22	-0.22
Accenture Plc (ACN)	12.93	-0.33
SVB Financial Group (SIVBQ)	-13.71	-0.37
Schwab Govt Money Fund	2.46	-0.69
Datadog Inc (DDOG)	6.94	-0.74
Five9 Inc (FIVN)	-16.80	-0.99
CrowdStrike Holdings Inc (CRWD)	-12.87	-1.13
U.S. Dollar	4.12	-1.66
Amazon.com Inc (AMZN)	-3.72	-2.59

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	2019	2020	2021	2022	YTD 2023
Total Return Gross of Fees	32.00%	87.62%	17.75%	-35.02%	52.88%
Total Return Net of Fees	31.34%	86.58%	17.10%	-35.38%	52.48%
Benchmark Return	31.49%	18.40%	28.71%	-18.11%	16.89%
Composite 36 Month Standard Deviation	N/A	N/A	18.81%	24.03%	24.54%
Benchmark 36 Month Standard Deviation	N/A	N/A	17.17%	20.87%	17.93%
Number of Portfolios	9	26	57	34	45
Internal Dispersion	N/A*	3.27%	0.78%	0.43%	N/A
Composite Assets (US$ millions)	6.5	19.9	44.9	16.7	29.5
Strategy Assets (US$ millions)	6.5	19.9	48.0	18.3	31.2
Total Firm Assets (US$ millions)	4,548.9	4,782.0	4,647.0	4,427.7	4,513.0
Total Entity Assets (US$ millions)	7,142.0	7,185.0	7,662.0	6,810.3	6,890.0

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

Strategy Assets and Total Entity Assets are presented as supplemental information which includes applicable composite assets valued as of the most recent calendar quarter end, and wrap program assets, and model portfolio assets valued as of the prior calendar quarter end. Dana does not have final trading authority on model portfolio assets, which are excluded from both Composite Assets and Total Firm Assets.

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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, 2022. 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 represented 4.05% of total Composite Assets as of 12/31/2019, 2.48% as of 12/31/2020, 1.29% as of 12/31/2021, and 1.39% as of 12/31/2022. 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 net-of-fees composite and the benchmark monthly returns for the period. The 36-month annualized standard deviation is not presented for 2019 to 2020 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 net returns of those portfolios that were included in the composite for the entire year.

Past performance is not indicative of future results.

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

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