

## Strategy Facts

**Portfolio Managers:** Bob Takazawa, CFA, Dan Becker, CFA, Quentin Ostrowski, CFA

**Inception:** February 28, 1999

**Index:** Russell 1000 Growth

**Available Vehicles:** Separate Account, Collective Trust

**Strategy AUM:** \$1.3B

**Firm AUM:** \$3.5B

**Website:** <http://castleark.com/large-cap-growth/>

## Portfolio Characteristics

	CastleArk	Index
# of Securities	30	501
Weighted Avg Market Cap (\$MM)	\$697,721	\$824,027
Median Market Cap (\$MM)	\$174,520	\$17,965
Historical Sales Growth	12.5	15.7
Historical EPS Growth	25.5	32.2
EPS Growth - Long Term Forward	21.7	20.1
Return on Capital	13.4%	12.1%
Return on Equity	30.3%	29.9%
Price to Earnings (Trailing 12M)	37.9	34.1
Price to Earnings (Forward 12M)	32.1	29.7
Price to Book	13.4	12.7
Dividend Yield	0.5	0.7
Active Share	55.4%	--

## Investment Philosophy

We believe that growth investing is a low odds endeavor, but we can bend the odds in our favor by investing in a narrower subset of unique or differentiated business franchises. These businesses can **sustain high returns on invested capital**, are more **resilient and durable** than the average growth company and can provide downside support in tough environments.

## Investment Strategy



We utilize a process that identifies the signs of competitive strength in durable, resilient business models, which generate **high and enduring returns on capital**



We focus on a smaller subset of the growth company universe that have already "beating the odds" and have achieved a **sustainable competitive advantage**

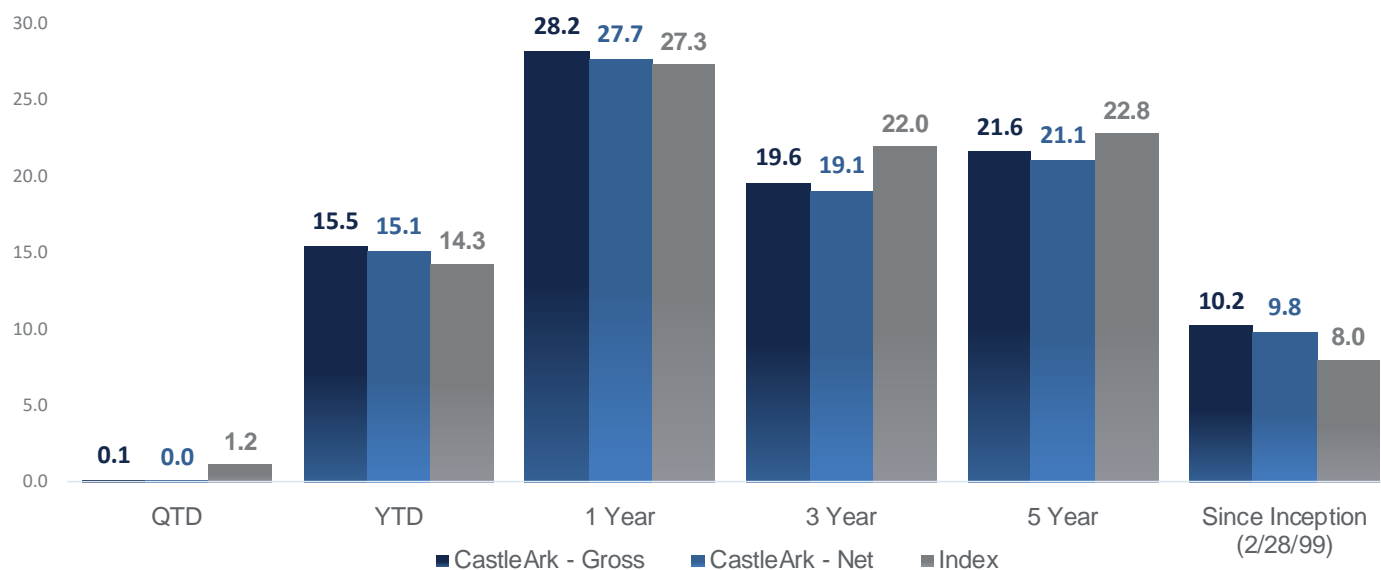


We utilize quantitative inputs to actively look for the precursors to failure and to **optimize risk**

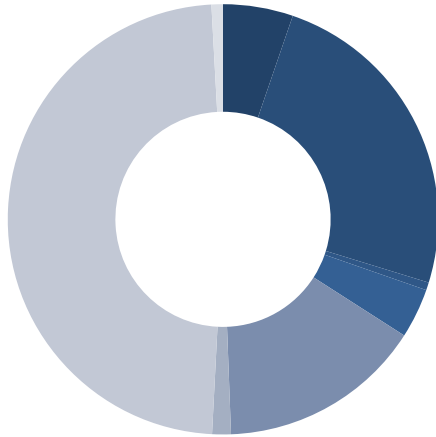
We construct a **concentrated portfolio** with **high active share**

## Composite Performance\*

(Periods greater than 1-year are annualized)

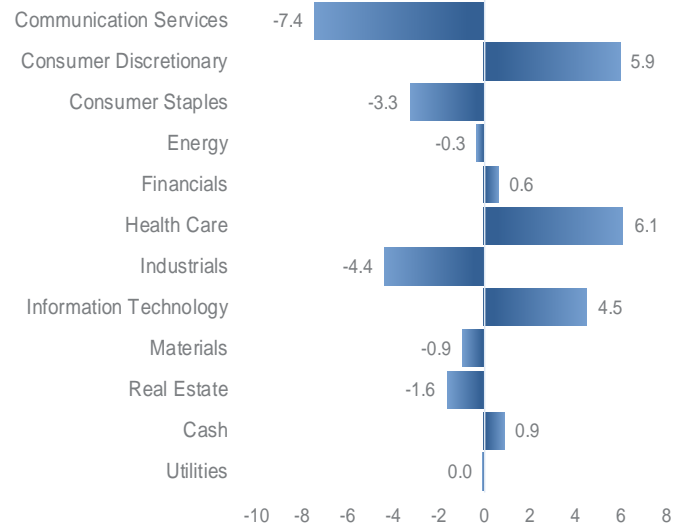


## Portfolio Exposure by Sector



- 5.3% - Communication Services
- 24.5% - Consumer Discretionary
- 0.6% - Consumer Staples
- 3.7% - Financials
- 15.3% - Health Care
- 1.4% - Industrials
- 48.3% - Information Technology
- 0.9% - Cash

## Sector Allocation vs. Index

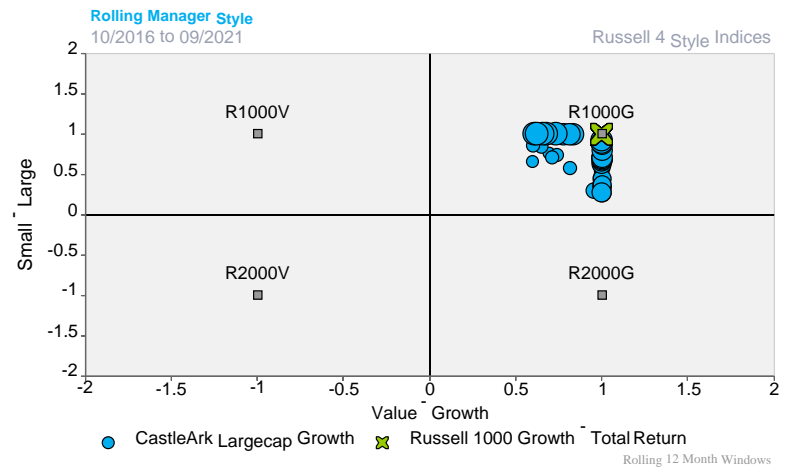


## Top 10 Holdings\*

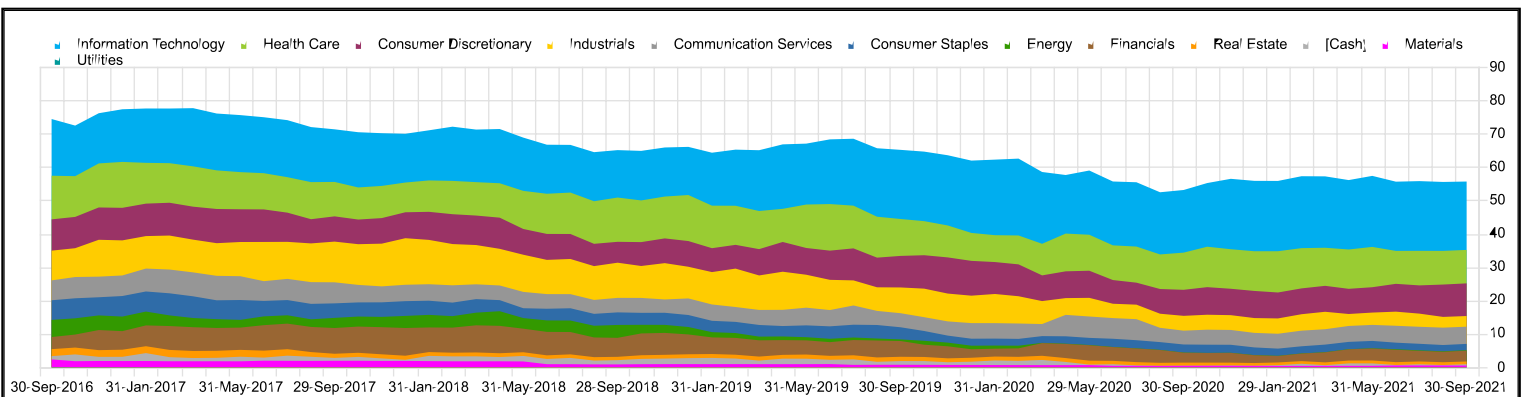
Security	Weight
Microsoft Corporation	9.78%
Apple Inc.	7.67%
Amazon.com, Inc.	6.26%
Mastercard Incorporated Class A	5.25%
Facebook, Inc. Class A	5.11%
NVIDIA Corporation	4.82%
Ulta Beauty Inc	4.56%
Lam Research Corporation	4.28%
NIKE, Inc. Class B	4.24%
Visa Inc. Class A	3.88%

\*The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable.

## Style Drift (Rolling 1 year periods)



## Active Share



Source: Factset and CastleArk. All portfolio level data is from a representative client portfolio. Figures shown are past results and are not predictive of future returns.  
 \*See Supplemental Information and Composite Performance Disclosure Statement.

## Commentary

### Performance Update

The CastleArk Large Cap Growth Composite returned +0.11% (gross) and +0.01% (net) for the September quarter, underperforming the Russell 1000 Growth Index return of +1.16%. Over the last twelve months, the Large Cap Growth composite returned +28.2% (gross) and +27.7% (net), versus the index return of +27.3%. Since inception, March 1, 1999, the CastleArk Large Cap Growth Composite has outperformed with an annualized return of +10.2% (gross) and +9.8% (net) compared to +8.0% for the benchmark for the period ending September 30, 2021.

### Portfolio Review

An overweight position in the Health Care sector and underweight in Industrials added to portfolio performance. Stock selection within Health Care positively contributed to performance but was offset by stock selection in Consumer Discretionary and Technology.

The equity markets over the past many quarters have generally been influenced by the trends in Covid-19 infections. Daily price swings have become the norm as weaker performing stocks consistently were characterized by their leverage to an “economic opening” as fears of another wave of Covid infections while stocks that may benefit from a continued slow or no growth economy continued to perform well throughout the most recent quarter.

Stocks of companies that rely on consumption and spending within the epidemic epicenter such as travel, and interest rate sensitive areas performed poorly late in the quarter as evidence suggested that although national vaccination programs are having a meaningful impact on the suppression and possible end of the Pandemic, the country still has not reached “herd immunity”. As more Covid cases materialized into August and September, the prior years’ stock market winners continued to outperform our expectations. Given these more digital companies have done so well, our team continues to believe these types of stocks may again be the most interest sensitive in the market, even greater than utilities or bank stocks, as their valuations were the most positively impacted by the fall

in interest rates. It is our teams’ view that the most recent downwards trend in interest rates and global GDP, may have run its course.

### Market and Portfolio Outlook

During the recent quarter, the US economy continued to decelerate, as a combination of a hiccup in consumer spending as well as continued global supply chain issues, put downwards pressure on the production of durable goods and apparel. Simply put, a quick start to reengaging production across industries is proving to be much harder than originally thought. We believe these barriers to a stronger global economy are shorter term in nature but will cause economic growth to be stronger and longer lasting, and hence actually act as a positive catalyst to our aggregate profit outlook into 2022. We find the phrase “stronger for longer” a proper way to describe our team’s outlook as we look out the next several quarters.

We continue to expect record corporate profits levels continuing well into 2023, substantially higher than just a few quarters ago. The inflection points in profits, cash flows, economic growth and policy have been nothing short of incredible, following the worst economic contraction ever recorded last summer. Massive fiscal and monetary stimulus, combined with a sharp acceleration in the health care industries’ ability to fight and control the Pandemic, is quickly creating the environment for many parts of the global economy to heal. We believe there may be close to \$2.5+ Trillion in excess savings in our economy, as a byproduct of economic lock downs, and this liquidity is slowly being unleashed as can be readily seen in the strength of apparel, travel, and other discretionary spending demand.

During the remainder of 2021 we expect to see a slow acceleration in economic growth. From absurdly strong auto, boat, recreational vehicle sales growth, to very strong new home construction and remodeling project demand, to dramatic e-commerce channel shifts, the continued change in human behavior has been historic. For the first time in a few years, loan growth in the banking system is now apparent. As strong as some parts of the economy have been, we are about to

## Commentary

### Market and Portfolio Outlook (continued)

add an additional layer of pent-up spending on leisure and experiences, which will drive the service parts of the economy in ways we have not seen in years. Labor availability, airline seats and hotel rooms have now become the “toilet paper” of last March. Across industries, companies are faced with the daunting task of meeting much stronger than expected demand. This new level of demand is now occurring in an environment of falling Covid case count growth, which is now affecting interest rates, and providing an interesting cocktail of gently higher rates and faster cash flow production.

Even as the economy heals, corporations are still adapting and changing at an accelerated pace. We are continuing to witness one of the greatest business process transformations that we have ever seen, where companies from retailing to auto parts, shoe companies, to oil service companies and technology companies are changing the nature of their business processes with shocking urgency and speed. The “digitalization” of the economy will have lasting profit and cash flow repercussions for years to come. The cash flow generation we now expect makes us less worried about a rise in interest rates produced by a stronger economy.

Within the growth stock universe, some companies have become overnight beneficiaries of the pandemic and have seen their profit outlooks accelerate. These newer, more immature companies have seen their profits, size, scale, and stock market valuations soar, and many are now at levels we have never contemplated before. Many of these growth companies, especially those in the technology industry simply were in the right place at the right time, and the change undergoing their businesses may not be long lasting. Many of these businesses may have simply been valued incorrectly. That tends to happen when interest rates fall to near zero in our markets and turn negative in the rest of the world.

Our approach to investing in this unique period continues to coalesce around two strategies. We have emphasized dominant, high ROIC franchises that have

benefitted or will benefit from the pandemic, while also investing in similar dominant, high ROIC business that may be hurt in the very short term, but due to their underlying business model strength, will emerge from the pandemic even stronger in the future as their competition collapses or is injured.

While in the short term, our focus will be on determining the level of profit growth, we understand that there are several longer-term changes catalyzed by the pandemic. Corporate restructuring toward a more digital model will be long lasting in our view. The health care system will become more virtual and may be less of a political football in the coming election. Supply chains will have to be more flexible and possibly redundant. Vast parts of the white-collar labor force may be more productive working remotely. The retail industry must quickly adapt to a seamless multichannel sales platform. As intellectually confusing as it seems, there appears to be a combustible combination of profit growth, change, low real interest rates, accommodative fiscal and monetary policy for as far as the eye can see, which makes us optimistic on the outlook for equities.

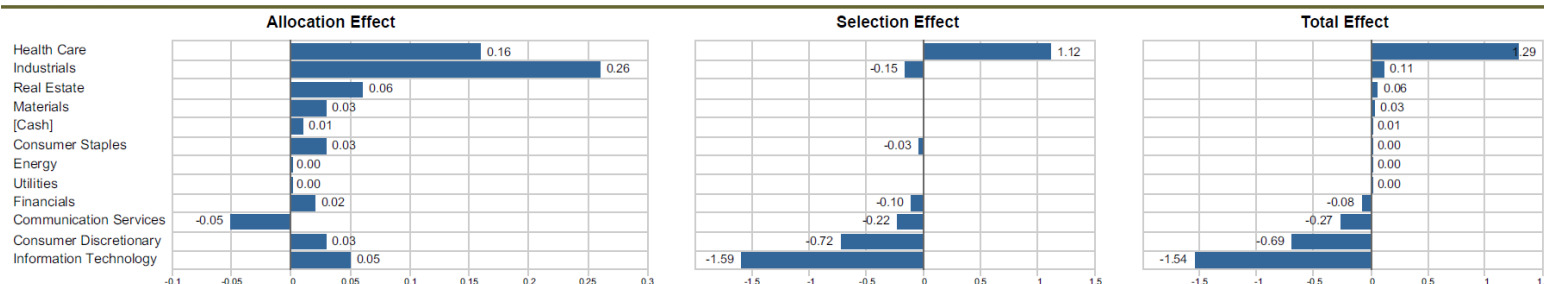
As positive as we are on the profit outlook, we must acknowledge that growth stocks are much more interest rate sensitive than they have been in the past. We have positioned your portfolio with relatively less exposure to the fastest growth stocks with the highest valuations and limited cash flow and or cash flow growth. The combination of accelerated vaccine distribution, new advances by Merck in creating and oral antiviral, to be available soon for current Covid infections has helped inform our views. It is our view that the current level of inflation, will also be “stronger for longer”, and could impact Federal Reserve monetary policy normalization. Irrespective of our macroeconomic views, we do consider ourselves to be “stock pickers”, but we must be more economically aware than in prior periods.

Our philosophy and strategy have been successfully employed over decades, and we will continue to emphasize dominant, high ROIC franchises, that are more resilient, and more durable than the average growth company.

## Supplemental Information – Performance Attribution 3Q 2021

	Portfolio			Benchmark			Variation			Attribution Analysis		
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation Effect	Selection Effect	Total Effect
<b>Total</b>	<b>100.00</b>	<b>0.06</b>	<b>0.06</b>	<b>100.00</b>	<b>1.16</b>	<b>1.16</b>	<b>--</b>	<b>-1.10</b>	<b>-1.10</b>	<b>0.59</b>	<b>-1.69</b>	<b>-1.10</b>
Health Care	15.08	11.88	1.71	9.27	3.66	0.34	5.81	8.22	1.37	0.16	1.12	1.29
Industrials	2.12	-14.11	-0.23	5.93	-6.08	-0.35	-3.82	-8.02	0.12	0.26	-0.15	0.11
Real Estate	--	--	--	1.68	-2.39	-0.03	-1.68	2.39	0.03	0.06	--	0.06
Materials	--	--	--	0.98	-2.16	-0.02	-0.98	2.16	0.02	0.03	--	0.03
[Cash]	0.74	0.09	0.00	--	--	--	0.74	0.09	0.00	0.01	--	0.01
Consumer Staples	0.27	-9.01	-0.05	3.88	0.16	0.01	-3.61	-9.17	-0.06	0.03	-0.03	0.00
Energy	--	--	--	0.29	1.51	0.00	-0.29	-1.51	0.00	0.00	--	0.00
Utilities	--	--	--	0.03	0.03	0.00	-0.03	-0.03	0.00	0.00	--	0.00
Financials	3.89	4.64	0.13	3.04	5.57	0.15	0.86	-0.93	-0.02	0.02	-0.10	-0.08
Communication Services	5.24	-2.39	-0.13	12.86	1.88	0.22	-7.63	-4.27	-0.35	-0.05	-0.22	-0.27
Consumer Discretionary	22.45	-3.00	-0.73	18.26	0.14	0.00	4.19	-3.14	-0.73	0.03	-0.72	-0.69
Information Technology	50.22	-1.33	-0.64	43.79	1.90	0.84	6.43	-3.23	-1.48	0.05	-1.59	-1.54

### Attribution Effects



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## Supplemental Information Disclosure

The source of the performance attribution is FactSet. Information on the calculation methodologies is available upon request. The performance attribution is an analysis of a representative account's sector or stock performance when compared to the index on a relative basis. The performance attribution is gross of any investment management fees and certain transaction costs, which would reduce actual account performance. Strategy specific fee schedules are available upon request and can be found in CastleArk's Form ADV. If fees are calculated and deducted quarterly, the compounding effect will be to increase their impact by an amount directly related to gross performance.

The attribution information is not a recommendation with respect to any sectors and securities listed. Individual stock top/bottom active contributors represents active contribution to the portfolio when compared to the holdings of the referenced index and my reference positions not held by the portfolio but that are included within the index.

## Composite Performance Disclosure Statement

Performance reflects reinvestment of all income and capital gains and is shown in US dollars and after the deduction of transaction costs. Performance is shown gross and net of actual management fees charged. Actual investment advisory fees incurred by clients may vary. Performance during certain periods reflect strong stock market performance that is not typical and may not be repeated. Additional information on the calculation methodologies used herein is available upon request.