Large Cap Growth

CASTLEARK

September 30, 2022

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: $1.0B

Firm AUM: $2.7B

Website: http://castleark.com/large-cap-growth/

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.

Portfolio Characteristics

	CastleArk	Index
# of Securities	27	518
Weighted Avg Market Cap ($MM)	$652,533	$707,904
Median Market Cap ($MM)	$128,518	$13,430
Free Cash Flow Margin	26.5	11.7
Historical Sales Growth	12.0	15.4
Historical EPS Growth	21.5	23.0
EPS Growth - Long Term Forward	19.7	17.3
Return on Capital	22.9%	6.8%
Return on Equity	34.3%	33.9%
Price to Earnings (Trailing 12M)	26.8	24.3
Price to Earnings (Forward 12M)	24.4	21.7
Price to Book	9.5	8.4
Dividend Yield	0.8	1.1

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**

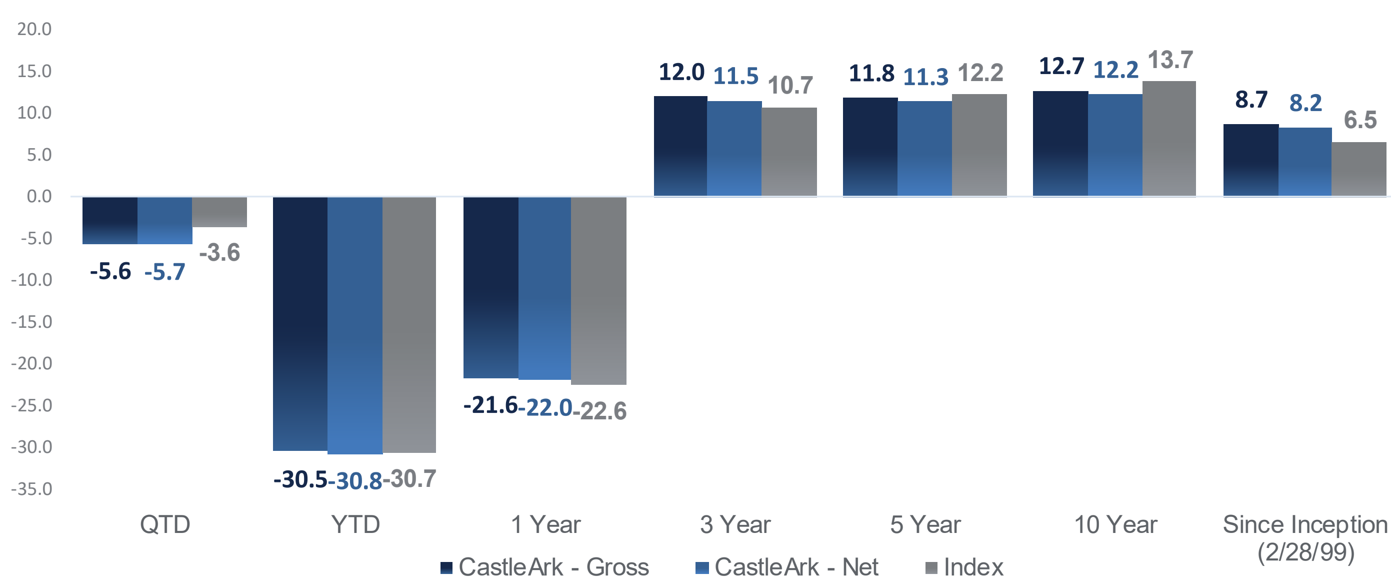
We focus on a smaller subset of the growth company universe that have already "beating the odds" and have achieved a **sustainable competitive advantage**

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)



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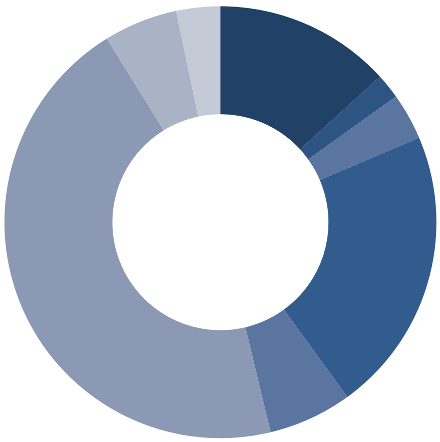
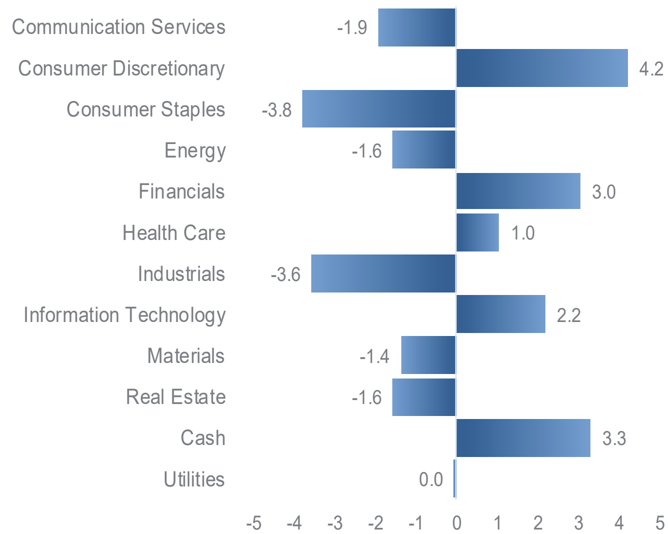
Portfolio Exposure by Sector



- 13.2% - Health Care
- 1.9% - Consumer Staples
- 3.5% - Industrials
- 21.4% - Consumer Discretionary
- 6.3% - Financials
- 44.9% - Information Technology
- 5.5% - Communication Services
- 3.3% - Cash

Sector Allocation vs. Index

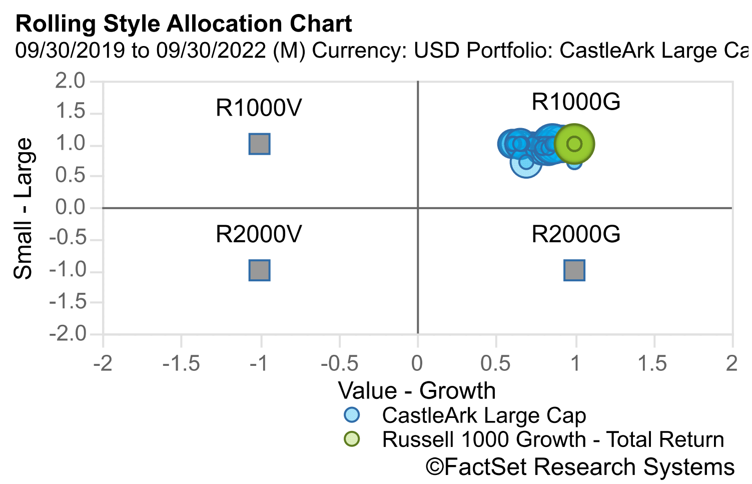


Top 10 Holdings*

Security	Weight
Microsoft Corporation	10.75%
Apple Inc.	9.63%
Mastercard Incorporated Class A	6.14%
Alphabet Inc. Class A	5.52%
Eli Lilly and Company	4.91%
Visa Inc. Class A	4.57%
Ulta Beauty Inc.	4.47%
Tesla Inc	4.20%
NIKE, Inc. Class B	3.59%
Edwards Lifesciences Corporation	3.58%

*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 Month Periods)



Top 10 and Bottom 10 Active Exposures

Security	Active Weight
Mastercard Incorporated Class A	4.65%
Ulta Beauty Inc.	4.34%
Eli Lilly and Company	3.60%
Las Vegas Sands Corp.	3.50%
Edwards Lifesciences Corporation	3.27%
PayPal Holdings, Inc.	3.05%
Lululemon Athletica Inc	3.00%
NIKE, Inc. Class B	2.98%
Visa Inc. Class A	2.82%
Union Pacific Corporation	2.77%

Security	Active Weight
Accenture Plc Class A	-0.96%
Coca-Cola Company	-0.97%
Home Depot, Inc.	-0.98%
Broadcom Inc.	-1.03%
PepsiCo, Inc.	-1.13%
Costco Wholesale Corporation	-1.23%
AbbVie, Inc.	-1.40%
Alphabet Inc. Class C	-2.67%
Apple Inc.	-2.92%
Amazon.com, Inc.	-3.99%

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Commentary

Performance Update

The CastleArk Large Cap Growth Composite returned -5.61% (gross) and -5.71% (net) for the September quarter, underperforming the Russell 1000 Growth Index return of -3.60%. Over the last 12 months, the Large Cap Growth composite returned -21.64% (gross) and -21.96% (net), outperforming the index return of -22.59%. The recent quarter was volatile for equity investors, as monetary policy and inflation concerns clouded the economic outlook and created uncertainty for the markets. Rapid changes in monetary policy and geopolitical risks created an unusually volatile performance period.

Market and Portfolio Outlook

Over the summer many negative cross currents coalesced to bring the sustainability of corporate profits across the economic spectrum into question. Current consumer spending in the Unites States remains robust, however, signs of weakness are beginning to emerge, notably for lower income consumers who more acutely feel the effects of lower disposable income due to higher inflation. Interestingly, consumer spending has seen a significant shift away from goods and into experiences. Across several income cohorts, strong labor markets coupled with pent-up savings coming out of the Covid crisis help explain an acceleration toward services. This dramatic shift, although understandable, hinders many companies' ability to plan for future growth.

Typically, the high end, upper-income households are more resilient to short-term economic shifts, showing little change in spending habits. However, in the few times over history when consumer balance sheets were threatened by simultaneous housing and stock market downturns, high-end spending exhibited cyclical sensitivity as well. The pace and breadth of consumer spending habits in light of recent stock market declines and signs of a slowdown in housing merits continued scrutiny.

Further challenging company management teams across the economy are the effects of unsustainably high inventory levels at the point of sale in retail stores across the country. Additionally, increased raw material purchases to guard against supply chain interruptions impacts the balance sheet of many types of companies that produce goods. Although the immediacy of the pandemic has subsided, the residual effects on the economy continue to ripple worldwide.

Interest rates have surged throughout the year at an exceptional pace The Fed's aggressive quantitative tightening has been disruptive to the equity markets. It appears to us that we may be close to the end of the "frontloading" of monetary policy; that by year-end the Fed will adjust to economic conditions with a more measured policy stance. providing some relief to equity markets. Looking into 2023, we expect some relief from the recent volatility and uncertainty in the economy as supply chain constraints abate and associated inflation peaks. In cases where spending abruptly shifted from goods to services, leading to inventory accumulation, we expect a balancing effect from resumed normalized promotional pricing. The combination of these factors has the potential to unleash more corporate cash flow providing a turning point in equity valuation multiples. Based on this view we are optimistic on the medium-term outlook for equities.

Our expectation over the shorter term assumes that we have entered a different environment from that experienced over the last fifteen years. We expect a stronger, longer inflation rate that may settle above 3%, rather than the usual 1-2% rate. Under this scenario cash flows and profitability will be more important than the "rate of growth in revenues" for growth stock investing. We believe cash flow stability and growth coupled with lower equity valuations may provide a floor for equity markets and new investment opportunities throughout the year.

As the current growth stock cycle began with

Commentary

Market and Portfolio Outlook (continued)

elevated, and in some cases excessive, valuations, one should expect growth stocks to experience difficult quarters. However, the magnitude and speed of recent valuation compression across the financial markets was surprising. The financial markets are now taking a much longer view, expecting a substantial change in the future economic cycle. Given our focus on cash generation and free cash flow margins, we expect an eventual recovery and bottoming process once inflation peaks in the next few quarters.

Sector Spotlight

Health care has been one of the best performing sectors year-to-date, particularly in the pharmaceutical and the managed care industries. Offset in part by the medical device industry, which has performed roughly in-line with the broader market.

Medical devices continue to be a space impacted by lingering labor shortages, supply chain issues, and inflation, but one which could stand to benefit from the reversal of these headwinds in 2023 and beyond. Against the backdrop of a slowing economy, the medical technology space offers reasons for optimism as a strong rebound in medical procedure volumes is aided by an improving labor market and a loosening of supply-related constraints.

We continue to observe higher-than-normal levels of inventory, along with continued cost pressures in the medical device industry. Broadly speaking, companies have suggested the higher costs coming from elevated freight rates, raw materials, and other inputs are showing signs of improvement. These companies have also pointed to strong demand, leading many companies to increase their revenue expectations. As the industry emerges from a multi-year COVID-induced slowdown, we think it will be buoyed by a backlog of deferred procedures in addition to a shift in the site-of-care away from hospitals and into smaller outpatient facilities less prone to staffing issues and COVID spikes.

Comparing profitability levels in the industry today to pre-COVID levels, we note significantly lower margins – a dynamic we believe is driven by factors which will prove temporary. As these headwinds abate, improving inventory levels, reduced input costs, and a healthy demand environment leave us optimistic about the path for revenue, earnings, and cash flow surprises over the next few years.

Conclusions

We currently are in a different environment from that experienced over the last fifteen years. We expect a persistent inflation rate that may settle above 3%, rather than the usual 2% rate. We think underlying inflation may be “stickier” than that of the recent past. Under this scenario we believe a focus on cash flows, profitability, and financial stability, rather than on revenue growth rates, is critical for growth stock investing.

Notwithstanding our macroeconomic views, we consider ourselves to be “stock pickers”, but we must be more economically aware than in prior periods. Our focus has been on free cash flow profitability (margins) and return on invested capital generated from companies with industry dominance. We think this type of focus will continue to serve our clients well.

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Supplemental Disclosures

Composite Performance reflects reinvestment of all income and capital gains and is shown in US dollars and after the deduction of transaction costs. Composite Performance is shown gross and net of actual management fees charged. Actual investment advisory fees incurred by clients may vary. Additional information on the calculation methodologies used herein is available upon request. Indexes are unmanaged, do not incur management fees and cannot be invested in directly. The Composite and index returns are net of any foreign withholding taxes on dividends, interest, and capital gains. The Russell 1000 Growth Index represents a segment of the Russell 1000 Index that display signs of above average growth. The Russell 1000 Index is an index of approximately 1,000 of the largest companies in the U.S. equity markets.

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Portfolio holdings and sector weightings of individual client accounts may differ from those shown above. This information does not constitute, and should not be construed as investment advice or recommendations with respect to securities or sectors listed. It should not be assumed that investments in these securities or sectors were or will be profitable.

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