Large Cap Growth

CASTLEARK

March 31, 2024

Strategy Facts

Portfolio Managers: Dan Becker, CFA, Quentin Ostrowski, CFA
Inception: February 28, 1999
Index: Russell 1000 Growth
Available Vehicles: Separate Account, Collective Trust
Strategy AUM: $1.4B
Firm AUM: $3.3B
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 **profitable and durable** than the average growth company and can provide downside support in tough environments.

Portfolio Characteristics

	CastleArk	Index
# of Securities	26	440
Weighted Avg Market Cap ($MM)	$1,338,254	$1,215,365
Median Market Cap ($MM)	$199,970	$19,254
Free Cash Flow Margin	23.0	13.5
Historical Sales Growth	20.5	19.0
Historical EPS Growth	27.5	27.3
EPS Growth - Long Term Forward	20.5	17.2
Return on Capital	32.8%	28.7%
Return on Equity	43.0%	37.8%
Price to Earnings (Trailing 12M)	41.9	35.2
Price to Earnings (Forward 12M)	33.3	28.9
Price to Book	14.2	11.7
Dividend Yield	0.4	0.7

Investment Strategy

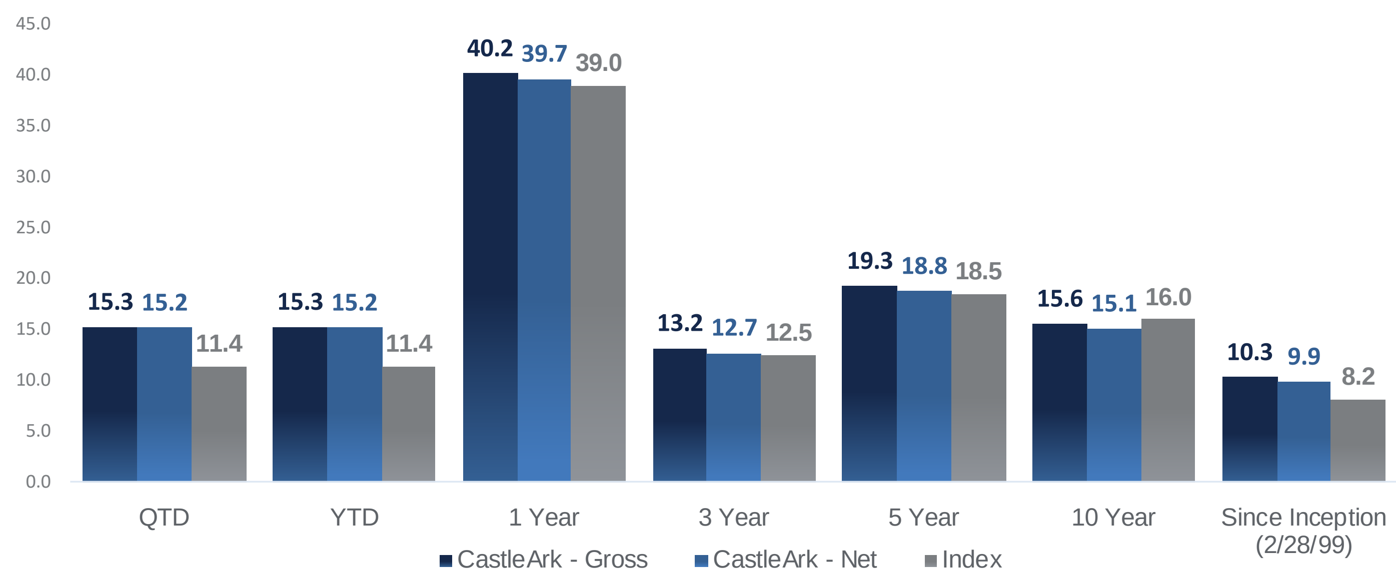
We employ a process that identifies competitive strength in those durable and resilient business models generating **high and enduring free cash flow margins**

We focus on a subset of growing companies that consistently "beat the odds" by achieving **highly-profitable and sustainable competitive advantages**

We utilize quantitative factors to help identify signals of potential failure impacting **total portfolio risk**

Composite Performance*

(Periods greater than 1-year are annualized)



Please see the Supplemental Disclosures which are an integral part of this Fact Sheet.

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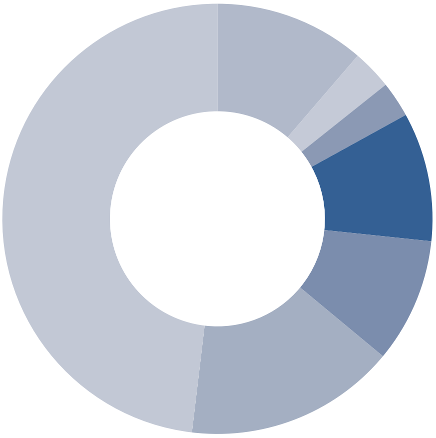
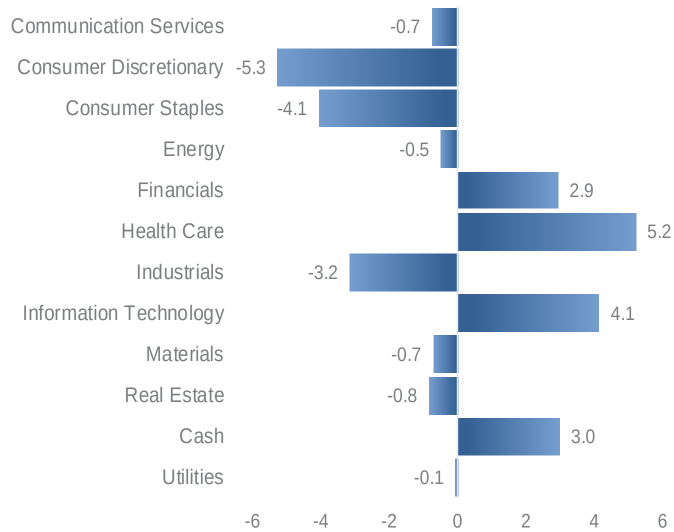
Portfolio Exposure by Sector



- 11.3% - Communication Services
- 3.0% - Cash
- 2.7% - Industrials
- 9.7% - Consumer Discretionary
- 9.4% - Financials
- 15.9% - Health Care
- 48.1% - Information Technology

Sector Allocation vs. Index

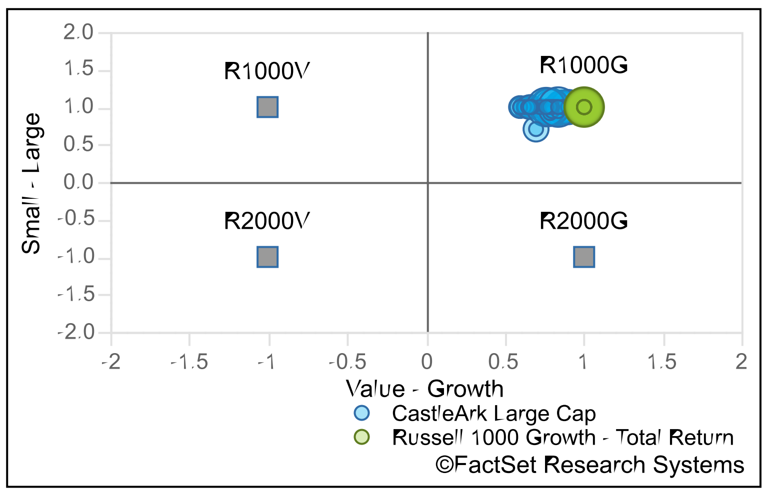


Top 10 Holdings*

Security	Weight
Microsoft Corporation	12.93%
NVIDIA Corporation	12.72%
Apple Inc.	7.24%
Amazon.com, Inc.	6.58%
Meta Platforms Inc Class A	5.93%
Alphabet Inc. Class A	5.38%
Mastercard Incorporated Class A	4.65%
ServiceNow, Inc.	4.57%
Eli Lilly and Company	4.44%
DexCom, Inc.	4.40%

*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)



Top 10 and Bottom 10 Active Exposures

Security	Active Weight
NVIDIA Corporation	4.55%
DexCom, Inc.	4.20%
ServiceNow, Inc.	3.98%
Lam Research Corporation	3.24%
Mastercard Incorporated Class A	3.13%
Stryker Corporation	3.02%
Intuitive Surgical, Inc.	2.72%
Alphabet Inc. Class A	1.96%
Eli Lilly and Company	1.93%
Meta Platforms Inc Class A	1.84%

Security	Active Weight
Accenture Plc Class A	-0.83%
UnitedHealth Group Incorporated	-0.84%
Netflix, Inc.	-0.99%
AbbVie, Inc.	-1.22%
Costco Wholesale Corporation	-1.24%
Home Depot, Inc.	-1.46%
Tesla, Inc.	-1.85%
Broadcom Inc.	-2.17%
Apple Inc.	-2.28%
Alphabet Inc. Class C	-2.91%

Please see the Supplemental Disclosures which are an integral part of this Fact Sheet.

Commentary

Performance Update

During the first quarter of 2024, the CastleArk Large Cap Growth Composite* performed well both on an absolute and relative basis. The Portfolio returned +15.27% (gross) and +15.19% (net) performance, surpassing the Russell 1000 Growth Index**, which returned +11.41%.

Portfolio Review

From a high level, companies generating high free cash flow margins with better than average revenue growth rates performed well in the first quarter compared to late 2023. In the fourth quarter last year the perceived change in Federal Reserve monetary policy benefited companies with lower quality balance sheets, narrowing the performance gap between large and small company stocks. During the first quarter this year, investor perception of an imminent shift in Fed policy waned and the performance gap again expanded in favor of large companies.

Technology companies, specifically those tied to the generative AI value chain, continue to capture investor interest as it appears the penetration and acceptance of these new technologies is quickly broadening beyond the technology sector. When reviewing portfolio performance, in addition to stock or sector specific influences, it is important to understand and appreciate the implications of macroeconomic conditions. Notwithstanding company fundamentals, fluctuations in interest rates influence growth stocks, and we believe a “higher for longer” monetary policy stance benefited large cap growth stocks in the most recent quarter.

Market Commentary and Economic Outlook

The US economy remained robust with a 3%+ average growth rate in Q4 and Q1 2024, marking the fastest growth since late 2021. This resilient growth is primarily driven by consumer spending and corporate investment, reflecting stable economic dynamics despite global uncertainties. Even as interest rates appear to remain relatively high, the consumer-centric economy continues to be less interest rate sensitive than many might have believed a year ago. Many consumers and public companies locked into favorable borrowing terms during the years of low interest rates, significantly extending debt maturities while lowering financing costs. Wage growth and job availability continue to support the labor market. The decline in baby boomer participation in the labor force continues to result in expanding employment and wage growth for the remainder of the working age population.

We continue to witness a quite bifurcated economy where spending on experiences and travel continue to remain strong, crowding out spending in the goods economy. Airlines, hotel chains, restaurants, concert venues, cruise lines and companies leveraged to services spending continue to report record booking ahead in the Summer and Fall of this year. Payment companies continue to report a large divergence between goods and services demand.

Core inflation, which excludes volatile food and energy prices, continues to gradually slow, allowing the Federal Reserve to consider a pivot from tight monetary policy. Conversations with numerous company contacts suggest the sharp increase in inflation post-pandemic is slowing to a much lower and more manageable level. Although a soft landing is not assured, the gradual economic slowdown amid higher interest rates indicates this is the most likely scenario where we sit today. Labor force participation rates appear to have bottomed out, which may result in a continual moderating trend in wages.

Our outlook for 2024 anticipates moderate economic growth with a gradual but nonlinear reduction in inflation statistics. With this moderation in inflation towards 3%, the Federal Reserve could potentially start cutting rates. This shift is anticipated to foster a conducive environment for equity markets, as inflation shows signs of stabilization. While we do not believe we are on the precipice of an imminent interest rate reduction cycle, there may be some slight room for reductions later in the year. Taking all these cross currents together, we expect a year less concerned about macroeconomic policy shifts and more concerned with earnings and cash flow than that of years prior.

Commentary

Portfolio Strategy and Outlook

Looking ahead to the next several quarters, as always, our investment philosophy and strategy will continue to focus on companies with dominant market positions, manifested in high and durable free cash flow margins. That currently leads us to a few notable areas.

In the realm of technology, we are witnessing a remarkable era of rapid and transformative change. The advent of Generative Artificial Intelligence (AI) marks a pivotal moment in the technological landscape, creating a huge shift in corporate, and even sovereign nation, capital spending. As this capital investment winds through the economy, the potential for significant productivity enhancements across a diverse array of industries increases. The impact of this groundbreaking technology seems to be broadening as its penetration, and its potential as a revenue generator or productivity tool, spreads across the economy.

Leading this charge are some of the very largest tech companies. Generative AI is very expensive to develop, and even more expensive to scale, thus only the very large vendors of this technology currently have the financial capability to advance this nascent industry. These companies exhibit a rare combination of dominance, growth, and free cash flow profitability. The portfolios maintain large exposures to Microsoft, Amazon, Nvidia, and Apple. Their involvement in Generative AI is not merely participatory; they are the architects and catalysts driving forward this revolutionary wave. Several other portfolio holdings operate in the AI value chain, most notably in the semiconductor equipment industry. These oligopolistic companies are benefiting as they experience sharp positive changes in packaging and new memory architectures supporting AI semiconductor vendors.

Looking at the concentration in the portfolios, especially at the very top, it's hard to not notice how large Microsoft and Nvidia have become. Incredibly, there are several companies that now support valuations over $1 Trillion. It's worth stating, however, these companies source a great deal of the total free cash flow and incremental revenue and free cash flow in the market, relative to their respective weights in the indices. Large weightings in the stocks of these larger, cash-rich dominant companies have helped the portfolio in the past few years as well as during the past quarter. We are mindful of these exposures and concentration relative to history.

Outside of technology's advancements, several health care stocks have rebounded from the fears surrounding disruption generated from the accelerated and potential high penetration of GLP-1 obesity and diabetes therapies throughout the population. The Health Care sector stands as a testament to the transformative power of innovation, dramatically reshaping its landscape. Contrary to prior quarters, it's gradually being accepted that some companies can have complimentary revenue growth even as the demand for GLP-1 therapies accelerates. Stocks such as Dexcom, Eli Lilly, Intuitive Surgical and Stryker continue to be large holdings in the health care sector, as healthcare system utilization continues to recover from the Pandemic, and the aging of the population, combined with new breakthroughs in obesity and diabetes therapies.

*The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Net returns have been reduced by performance-based fees, effective January 1, 2011. There is no guarantee that the investment objectives will be achieved. Moreover, the past performance is not a guarantee or indicator of future results.

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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.

CastleArk Management, LLC is a registered investment advisor registered Securities and Exchange Commission under the Investment Advisers Act of 1940.

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