Large Cap Growth

CASTLEARK

September 30, 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: $3.9B
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	27	394
Weighted Avg Market Cap ($MM)	$1,540,841	$1,577,613
Median Market Cap ($MM)	$187,411	$20,040
Free Cash Flow Margin	22.9	13.7
Historical Sales Growth	18.8	20.2
Historical EPS Growth	25.3	28.9
EPS Growth - Long Term Forward	24.6	18.8
Return on Capital	32.9%	30.5%
Return on Equity	42.3%	39.0%
Price to Earnings (Trailing 12M)	37.6	38.0
Price to Earnings (Forward 12M)	33.6	31.9
Price to Book	14.3	12.9
Dividend Yield	0.6	0.6

Investment Strategy

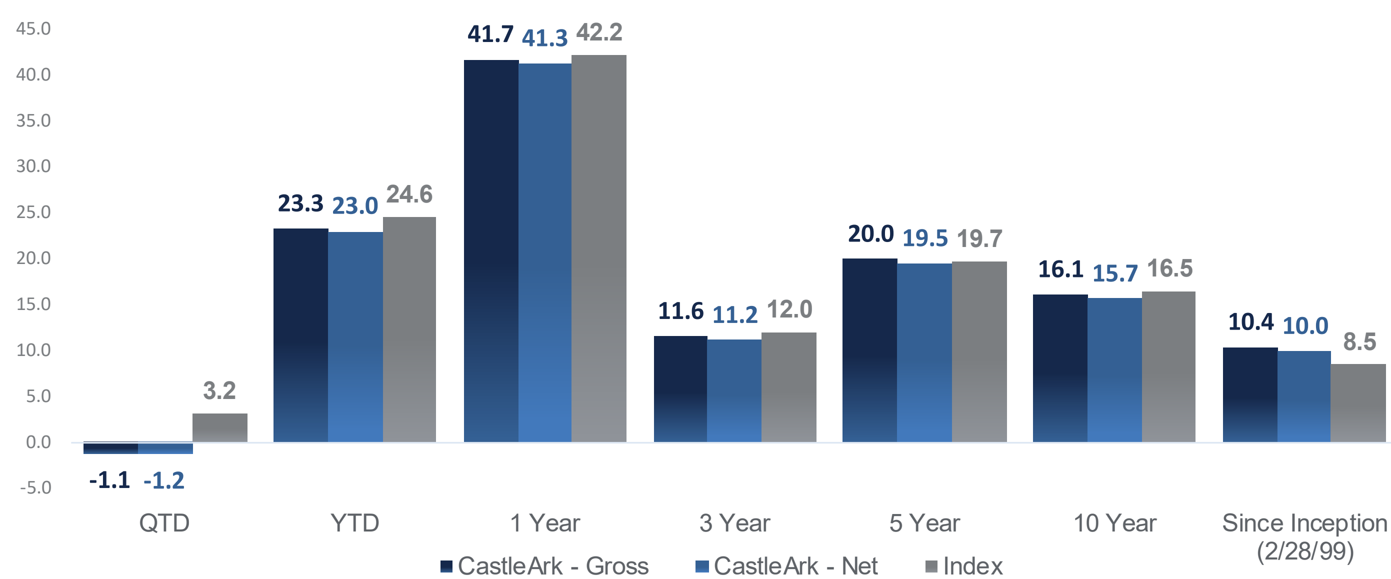
We employ a process that identifies competitive strength in those durable and resilient business models generating **high and enduring free cash flow margins**

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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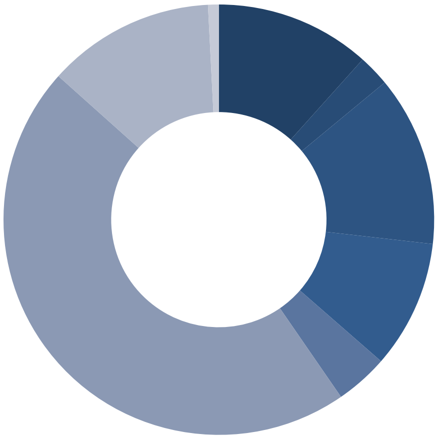
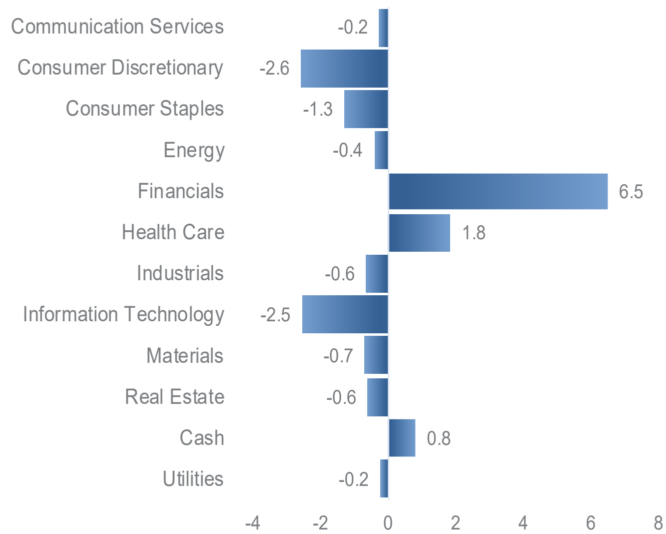
Portfolio Exposure by Sector



Sector Allocation vs. Index

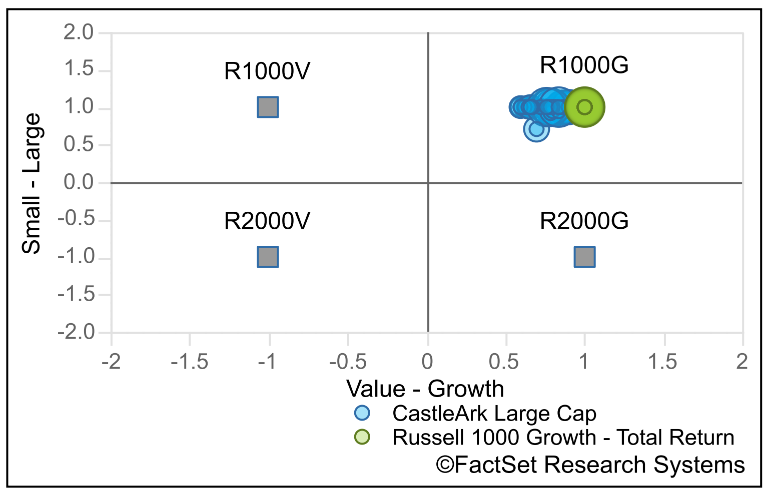


Top 10 Holdings*

Security	Weight
Microsoft Corporation	12.36%
NVIDIA Corporation	11.78%
Apple Inc.	9.19%
Amazon.com, Inc.	7.12%
Alphabet Inc. Class A	5.52%
Meta Platforms Inc Class A	4.84%
Mastercard Incorporated Class A	4.46%
Eli Lilly and Company	4.01%
Blackstone Inc.	3.95%
ServiceNow, Inc.	3.59%

*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
Blackstone Inc.	3.56%
Mastercard Incorporated Class A	2.97%
ServiceNow, Inc.	2.92%
Union Pacific Corporation	2.73%
Lam Research Corporation	2.52%
Applied Materials, Inc.	2.49%
Vertex Pharmaceuticals Incorporated	2.44%
Intuitive Surgical, Inc.	2.32%
Colgate-Palmolive Company	2.19%
Alphabet Inc. Class A	1.99%

Security	Active Weight
QUALCOMM Incorporated	-0.65%
PepsiCo, Inc.	-0.67%
Salesforce, Inc.	-0.79%
Oracle Corporation	-0.97%
Merck & Co., Inc.	-1.04%
Costco Wholesale Corporation	-1.43%
Tesla, Inc.	-2.64%
Broadcom Inc.	-2.85%
Alphabet Inc. Class C	-2.99%
Apple Inc.	-3.10%

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Commentary

Performance Update

During the third quarter of 2024, the CastleArk Large Cap Growth Composite* returned -1.13% (gross of fees) and -1.20% (net of fees) below the benchmark Russell 1000 Growth index return of +3.19%. For the calendar year to date, the CastleArk Large Cap Growth Composite returned +23.30% (gross of fees) and +23.03% (net of fees) compared to the Russell 1000 Growth index** which returned +24.55%

Portfolio Review

Our portfolio's detractors were abnormally large this past quarter. Specifically, significant declines and poor stock performance resulted from management execution problems at one of our large long-term holdings, as well as our large exposure to semiconductor stocks. We also suffered as global central banks signaled a unified, coordinated recalibration of monetary policy. The pivot by central banks catalyzed a move from recent winners to industries, sectors and stocks which would benefit from monetary policy easing. The strong performance of the Real estate sector was an example of this type of rotation.

Economic and Market Comments

In several of our recent letters we have noted the continual pattern of "rolling recessions" in the consumer goods and industrial economy, even as growth may be accelerating in other parts of the economy. Corporate prosperity continues to be very different across the economy. Although consumer spending on experiences and travel continues to be quite strong, we may be seeing cracks or much slower spending growth within the lower income demographic cohorts, affecting a large variety of companies.

Far away from the pain surrounding the low-end consumer, the growth of a subset of the Technology sector in areas such as capital spending related to robust data center buildouts, growth and longer-term growth prospects seem to be accelerating from already high levels.

When we look at GDP and inflation, the trends appear quite favorable. The high inflation rates of the past seem to be behind us, and in general the economy continues to exhibit consistent and resilient growth. The labor force participation rate is recovering from its Pandemic changes, and commodity prices have fallen across the economy, providing a tailwind for corporate profits.

With peaking and slowing inflation trends as a backdrop, global central banks in unison have signaled pivots in their respective monetary policies. The stock market is responding positively to these pivots as one may expect. The likely beneficiaries of the pivot in monetary policy are those areas of the economy where higher rates were most damaging. These areas may include lower end consumers, smaller private companies with floating rate debt, commercial real estate, and financial companies which may benefit from a normally shaped yield curve.

Within the equity market, a reduction in short term interest rates can have a disparate impact on companies with lower quality balance sheets and can temporarily narrow the recent large performance gap between large and small company stocks. The degree to sustainability of any move in the markets rests with the level of distortion or pain in the real economy presents and the degree of valuation discount to those areas which have been hurt by higher for longer interest rate policy.

It is our view that this monetary policy easing cycle is not like we have experienced in the past and thus we should not extrapolate the past patterns in the financial markets. We believe the economy is more interest rate insensitive than past cycles and less than most believe. This change in the economy is the primary reason why we have not experienced a recession as short-term interest rates have moved higher in the past two years. Many areas will be boosted and improved, but not to the degree we would expect from extrapolating past cycles. We believe this will have an impact on the sustainability of the recent rotation out of large cap into smaller companies. In short, the "Fed easing" playbook may not be as accurate and applicable in the current easing cycle relative to past cycles.

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 GenAI 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 technology architecture change are the very largest tech companies. GenAI 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 portfolio maintains large exposures to holdings involvemed in GenAI is not merely participatory; rather, they are the architects and catalysts driving forward this revolutionary wave. Several other portfolio holdings operate in the GenAI value chain, most notably in the semiconductor 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 some companies have become. Incredibly, several of them now support valuations over $3 Trillion. It's worth stating, however, these companies source a great deal of the total free cash flow and incremental revenue in the market, relative to their respective weights in the indices. Our view continues to be that although concentration is a concern, it may be warranted. Although many have not seen this trend in concentration before, that fact does not make it necessarily "wrong". We are truly witnessing history.

Large weightings in the stocks of these larger, cash-rich, dominant companies have helped the portfolio in the past few years. We are mindful of these exposures and concentration relative to history. However, we are also mindful of valuation and the potential unsustainable growth trajectory select companies may be experiencing. Understanding the risks in the portfolio, we elected to gradually start to reduce our large exposure to Nvidia last quarter and during the most recent quarter. Nvidia and Microsoft remain your largest holdings.

Most health care stocks have rebounded from the potential 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, there has been a measured acceptance that some companies can have complimentary revenue growth even as the demand for GLP-1 therapies accelerates. Health care system utilization rates continue to improve post-Pandemic, amid an aging of the population coupled with the new product cycles in robotic surgery, 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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Supplemental Disclosures

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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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