Large Cap Growth

CASTLEARK

December 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: $1.5B
Firm AUM: $4.0B
Website: http://castleark.com/large-cap-growth/

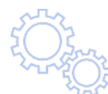
Investment Philosophy

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.

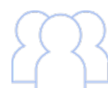
Portfolio Characteristics

	CastleArk	Index
# of Securities	27	396
Weighted Avg Market Cap ($MM)	$1,545,406	$1,710,747
Median Market Cap ($MM)	$185,922	$20,387
Free Cash Flow Margin	27.7	13.9
Historical Sales Growth	22.0	19.4
Historical EPS Growth	28.6	29.0
EPS Growth - Long Term Forward	20.9	17.9
Return on Capital	36.3%	35.9%
Return on Equity	35.8%	37.3%
Price to Earnings (Trailing 12M)	43.1	38.9
Price to Earnings (Forward 12M)	37.9	32.9
Price to Book	14.9	13.2
Dividend Yield	0.4	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**

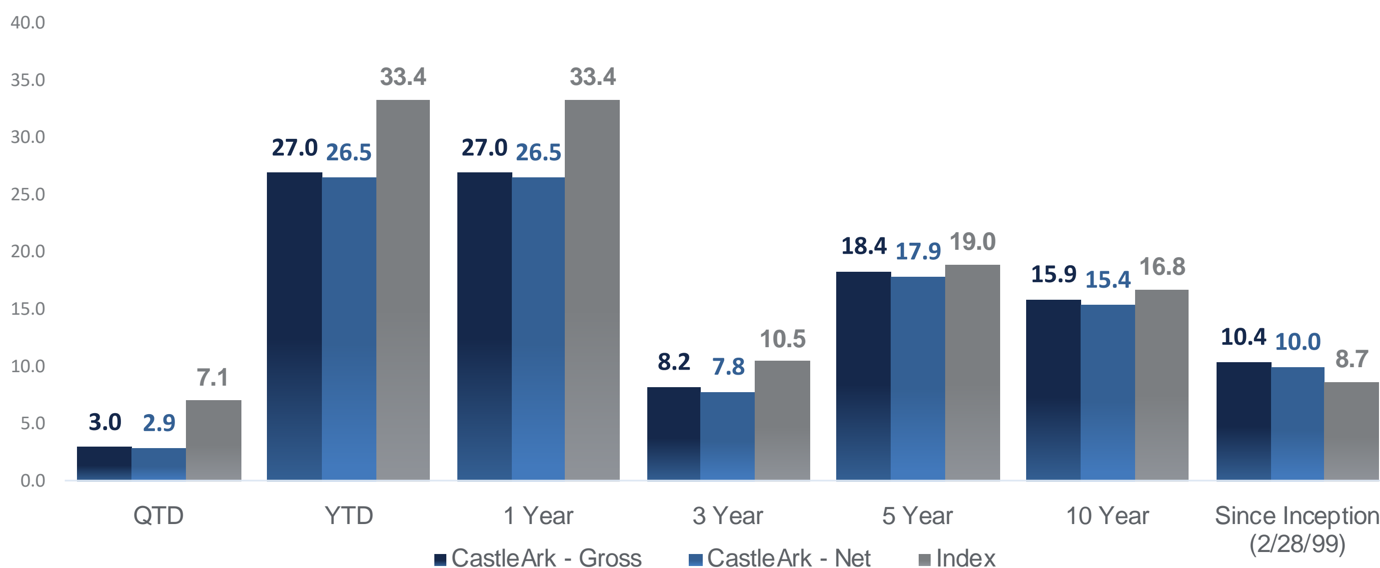


We focus on a subset of growing companies that consistently "beat the odds" by achieving **highly-profitable and sustainable competitive advantages**

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

Composite Performance*

(Periods greater than 1-year are annualized)



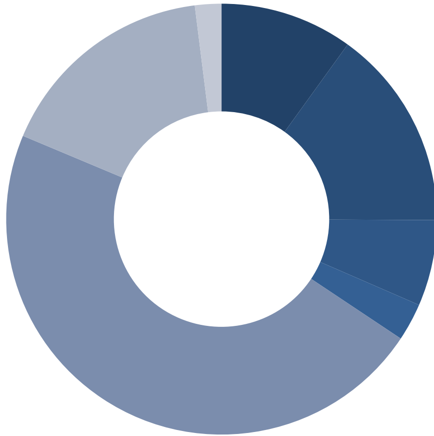
Please see the Supplemental Disclosures which are an integral part of this Fact Sheet.

Large Cap Growth

CASTLEARK

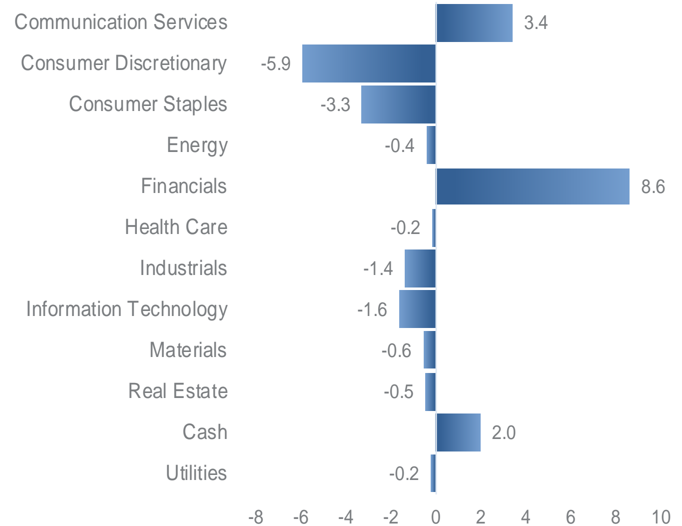
December 31, 2024

Portfolio Exposure by Sector



- 10.0% - Consumer Discretionary
- 15.1% - Financials
- 6.5% - Health Care
- 2.8% - Industrials
- 47.0% - Information Technology
- 16.7% - Communication Services
- 2.0% - Cash

Sector Allocation vs. Index

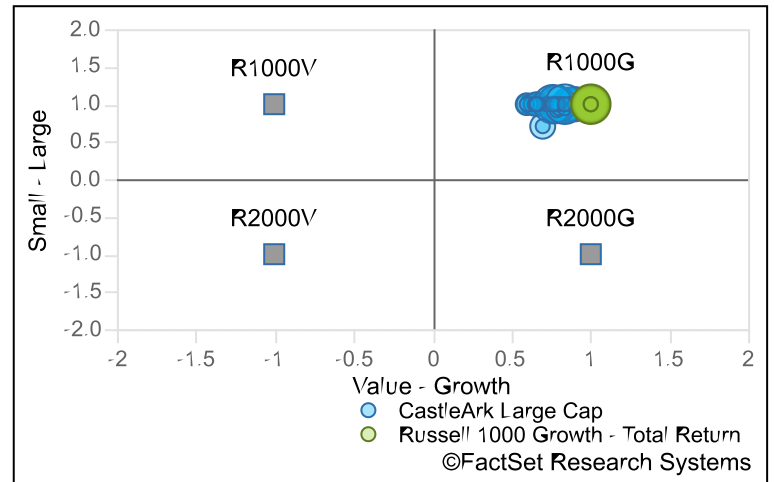


Top 10 Holdings*

Security	Weight
Microsoft Corporation	9.72%
NVIDIA Corporation	9.72%
Apple Inc.	9.61%
Amazon.com, Inc.	8.15%
Meta Platforms Inc Class A	4.81%
Mastercard Incorporated Class A	4.62%
Alphabet Inc. Class A	4.52%
Arista Networks, Inc.	4.46%
Netflix, Inc.	4.36%
Blackstone Inc.	4.33%

*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
Arista Networks, Inc.	4.07%
Blackstone Inc.	3.90%
ServiceNow, Inc.	3.39%
Mastercard Incorporated Class A	3.16%
Netflix, Inc.	3.07%
Trade Desk, Inc. Class A	2.82%
Visa Inc. Class A	2.46%
Intuitive Surgical, Inc.	2.42%
Shopify, Inc. Class A	1.91%
Apollo Global Management Inc	1.79%

Security	Active Weight
Merck & Co., Inc.	-0.86%
Oracle Corporation	-0.89%
Salesforce, Inc.	-0.89%
Microsoft Corporation	-0.94%
NVIDIA Corporation	-0.97%
Home Depot, Inc.	-1.05%
Costco Wholesale Corporation	-1.38%
Apple Inc.	-2.58%
Alphabet Inc. Class C	-3.14%
Tesla, Inc.	-3.82%

Commentary

Performance Update

The CastleArk Large Cap Growth Composite had a return of +2.97% (gross of fees) and +2.88% (net of fees) for the quarter, below the benchmark Russell 1000 Growth Index return of +7.07%. For the calendar year, the CastleArk Large Cap Growth Composite returned +26.96% (gross of fees) and +26.53% (net of fees) compared to the Russell 1000 Growth Index which returned +33.36% for the period ending December 31, 2024.

Portfolio Review

The Large Cap Growth Composite outperformed the Russell 1000 Growth early in the year with +3.8% outperformance in the first quarter of 2024. Subsequently, we experienced a decline, recording –0.2% of relative performance in the second quarter, -4.4% in the third quarter, and -4.1% in the fourth quarter of the same year. This performance trajectory was primarily influenced by stock selection, which contributed positively by +3.70% in the first quarter but turned negative with -40 basis points in the second quarter, -4.0% in the third quarter, and -4.2% in the fourth quarter. Specifically, sectors such as Health Care and Consumer Discretionary significantly detracted from the portfolio's performance, with total effects of -1.4% and -2.4% respectively. As we discuss below, our stock selection factor was a drag on performance in the second half of the year due to the impact of both the monetary easing cycle as well as the Presidential election working in tandem to produce a broadening in the equity markets.

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 diverse across the economy. Although consumer spending on experiences and travel continues to be quite strong, we are beginning to see evidence of broader spending strength across the economy, namely in consumer-facing industries. Areas like E-commerce and retail / apparel as well as autos and luxury goods spending have shown signs of improvement as we enter 2025. Despite fears of record consumer debt, stubbornly high interest rates, and election worries, the American consumer continues to show resilience and, in some cases, acceleration.

Conversely, we continue to notice little evidence for a recovery in "rate-sensitive" pockets of the economy, most notably the slow rate of existing home sales and those industries leveraged to housing demand trends. Hit by high prices, high borrowing costs, and tight supply, we believe lower interest rates are necessary before a notable pick-up in these sectors can occur. The prospects of lower mortgage rates are tied and correlated with the outlook for the new presidential administration's fiscal and trade policies. We are keeping a close eye on policy developments as they relate to interest rates.

Far away from the consumer, the growth of a subset of the Technology sector in areas such as capital spending related to robust data center buildouts points to sustainable longer-term growth prospects accelerating from already high levels.

When we look at GDP and inflation, the trends appear quite favorable. The inflation spike seen in recent years appears to be behind us; however, we still believe there is a risk that inflation levels will settle into a higher range than experienced pre-pandemic for many areas of the economy. Overall, we think the economy will continue to exhibit consistent growth.

As we have written in prior letters, simply put we believe the US economy is far less interest rate sensitive than in the past. Many corporations and households locked in lower financing rates a few years back, making them less leveraged to the higher interest rates of today, which may be the "new normal." If we look back at our over 30 years of managing money, we recall the yield curve structure in the bull market of the 1990s. A four percent short rate and a five percent long rate back then did not prove to be an impediment to economic or stock market 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 normal shaped yield curve.

Commentary

Economic and Market Comments (continued)

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.

As stated above, our view on this monetary policy easing cycle is not like what we have experienced in the past. Our view is many areas will improve, 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. Stubborn pockets of inflation and the prospect of trade policy changes only exacerbate these issues.

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. As noted above, this focus has hurt our relative performance in recent quarters. We observe from a factor performance perspective, large companies with high free cash flow margins in general did not do well as interest rates were reduced while the election created an environment that could be much more pro-growth than that of the recent past. These rotations do make some sense as many stocks have been left behind in the bull market of the past few years.

In the realm of technology, we are witnessing a remarkable era of rapid and transformative change. The advent of GenAI (Generative Artificial Intelligence) 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 its way 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, slowly gets embraced throughout 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 these companies. Their involvement 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 Microsoft, Apple, and now Nvidia have become. Incredibly, there are several companies that 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. Our current portfolio looks a bit different than in the past, with the Financial sector now being our largest active exposure.

Alternative asset managers have been at the forefront for funding these multi-billion dollar, AI-driven, data center expansions, and we believe there can be large beneficiaries of more pro-growth economic policies that may lie ahead. Within Health Care, Intuitive Surgical is developing surgical robotic technology to enhance physician’s ability to safely perform surgery. With the help of AI wrapped around several new and long duration product cycles, enhancements, Intuitive can drive outsized revenue growth, free cash profitability with lower capital intensity, all while directly monetizing these efficiency gains with software revenues.

Commentary

*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.

**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. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein

Supplemental Disclosures

CATEGORY	DISCLOSURE
Not an Offer, Recommendation or Professional Advice	This document does not constitute advice or a recommendation or offer to sell or a solicitation to deal in any security or financial product. It is provided for information purposes only and on the understanding that the recipient has sufficient knowledge and experience to be able to understand and make their own evaluation of the proposals and services described herein, any risks associated therewith and any related legal, tax, accounting or other material considerations. To the extent that the reader has any questions regarding the applicability of any specific issue discussed above to their specific portfolio or situation, prospective investors are encouraged to contact CastleArk or consult with the professional advisor of their choosing.
Use of Third-Party Information	Certain information contained herein has been obtained from third party sources and such information has not been independently verified by CastleArk. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information by CastleArk or any other person. While such sources are believed to be reliable, CastleArk does not assume any responsibility for the accuracy or completeness of such information. CastleArk does not undertake any obligation to update the information contained herein as of any future date.
Currentness	Except where otherwise indicated, the information contained in this presentation is based on matters as they exist as of the date of preparation of such material and not as of the date of distribution or any future date. Recipients should not rely on this material in making any future investment decision.
Confidentiality	This presentation is confidential, is intended only for the person to whom it has been directly provided and under no circumstances may a copy be shown, copied, transmitted or otherwise be given to any person other than the authorized recipient without the prior written consent of CastleArk.
Past Performance	There is no guarantee that the investment objectives will be achieved. Moreover, the past performance is not a guarantee or indicator of future results.
Benchmarks	Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. Investors cannot invest directly in an index. Comparisons to indexes have limitations because indexes have volatility and other material characteristics that may differ from a particular hedge fund. For example, a hedge fund may typically hold substantially fewer securities than are contained in an index.
Forward-Looking Statements	Certain information contained herein constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “estimate,” “intend,” “continue,” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future.
Registration Status	SEC registration does not imply a certain level of skill or training.

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.

Past performance is not indicative of future results. Performance during certain periods reflect strong stock market performance that is not typical and may not be repeated.

Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes and/or Russell ratings or underlying data and no party may rely on any Russell Indexes and/or Russell ratings and/or underlying data contained in this communication. No further distribution of Russell Data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.

The source of the portfolio characteristics presented in this fact sheet is FactSet and CastleArk and is from a representative account and/or model portfolio. Not every account will have these exact characteristics. The actual characteristics with respect to any particular account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any, and (iii) market exigencies at the time of investment.

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.

© CastleArk Management, LLC. All Rights Reserved.

Contacts

Jeff Duncan
JDuncan@castleark.com
(312) 456-9691

Kevin Gergits
KGergits@castleark.com
(312) 456-9682

General Inquiries
Marketing@CastleArk.com
(312)456-9682