

# Seeking a More Favorable Risk/Return Trade-off

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## Strategy overview

Actively managed mid-cap growth strategy that relies on fundamental research and analysis to identify companies with strong and accelerating business momentum, increasing market acceptance and attractive valuations.

## Key takeaways

- In the fourth quarter of 2024, the equity markets experienced mixed returns. Domestic large- and small-cap stocks delivered positive returns, while value indices and international markets saw declines. Cyclical sectors, such as consumer discretionary, financials and technology, outperformed defensive sectors. Growth factors led performance, while value factors declined.
- For the quarter, the Fund underperformed its benchmark, Russell Midcap Growth Index (the Index), on a net asset value (NAV) basis due to unfavorable stock selection.
- The outlook for equities in 2025 is cautiously optimistic as the U.S. economy remains strong and the Trump administration is expected to implement favorable policies in terms of deregulation and taxes. However, risks such as tariffs, inflation and geopolitics may result in volatility.

## Portfolio review

**U.S. stocks continued their upward trajectory during the fourth quarter following Donald Trump's presidential victory**, with the S&P 500 Index rising by 2.41% and the Nasdaq Composite advancing by 6.17%. The consumer discretionary and communication services sectors led, while materials and healthcare lagged. Large cap stocks outperformed small caps, and growth stocks significantly beat value stocks.

**The U.S. bond market struggled during the quarter on concerns about sticky inflation and the U.S. Federal Reserve's more conservative rate-cut path.** The Bloomberg U.S. Aggregate Bond Index declined by -3.06% and the 10-year U.S. Treasury yield rose by more than 80 basis points (bp), ending the quarter at 4.58%. The Fed cut rates by 25 bp in November and December. However, the central bank now projects just two rate cuts in 2025, reflecting a more cautious stance in response to strong economic data.

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**For the quarter, the Fund underperformed the Index on NAV basis largely due to selection effects.**

The stock selection effects within the industrials, health care and consumer discretionary sectors were the greatest detractors. Alternatively stock selection within the information technology, communication services and materials sectors contributed to performance.

**Key contributors to the quarter's performance were AppLovin Corp., Astera Labs, Inc. and Nu Holdings Ltd.**

An overweight position in AppLovin Corp. (APP) contributed to performance. The stock surged in November following a strong earnings report, with revenue significantly surpassing expectations. Additionally, future guidance exceeded analysts' estimates, driven by optimism around the growth of the company's artificial intelligence (AI) software.

An overweight position in Astera Labs, Inc. contributed to performance this quarter. The company reported strong third-quarter earnings, including its fifth consecutive record quarterly revenue.

Not owning Nu Holdings Ltd. (NU) contributed to performance this month. The stock declined as concerns grew over Brazil's weakening currency and rising inflation, which could pressure the company's operations. Additionally, Nu Holdings recently undertook a significant investment in a South African digital bank, raising investor concerns about potential overextension.

**Key detractors for the quarter were Monolithic Power Systems, Inc., Coinbase Global, Inc. and Builders FirstSource, Inc.**

An overweight position in Monolithic Power Systems, Inc. (MPWR) detracted from performance. The stock declined following a report which suggested that the company's power management chips would not meet the requirements for use in NVIDIA chips.

An underweight position in Coinbase Global, Inc. (COIN) detracted from performance this quarter. The stock appreciated in November following the election of Donald Trump, as cryptocurrency values increased. The rise in crypto prices boosted Coinbase's performance, given its role as a leading platform for trading and exchanging digital currencies.

An overweight position in Builders FirstSource, Inc. (BLDR)

detracted from performance. The company's stock was negatively impacted by challenging market conditions in the housing sector, driven primarily by rising bond yields, which have increased borrowing costs and dampened demand in the market.

### Current strategy and outlook

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**After months of noise surrounding the U.S. presidential election, markets have now refocused on macroeconomic data, which offer mixed signals.** Key concerns include global geopolitical tensions, especially around tariffs and deteriorating sentiment tied to mega-cap positioning and broader market weakness. Despite these challenges, U.S. equities should continue to benefit from robust consumer spending, optimism around AI and solid corporate earnings. U.S. inflation is projected at 2.5% for 2025, but the new administration's policies could reverse the disinflation trend.

### Holdings detail

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Companies mentioned in this report – percentage of portfolio investments, as of 12/31/24: AppLovin Corp. 4.06%, Astera Labs, Inc. 1.11%, Nu Holdings Ltd. 0.00%, Monolithic Power Systems, Inc. 1.98%, Coinbase Global, Inc. 0.62% and Builders FirstSource, Inc. 1.09%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

## Read our [Fund Fact Sheet](#)

The **Russell Midcap Growth Index** is an unmanaged index that measures the performance of those companies included in the Russell Midcap Index with relatively higher price-to-book ratios and higher forecasted growth values. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

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