

# Seeking a More Favorable Risk/Return Trade-off

Kristy Finnegan, CFA  
Portfolio Manager

Leigh Todd, CFA  
Portfolio Manager

## 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 third quarter of 2024, equity markets showed varied performance, with a notable broadening of returns. Small- and mid-cap stocks led the way, while emerging markets benefited from a strong rebound in China. Falling interest rates boosted bond returns, and value stocks outperformed growth stocks, driven by defensives, cyclicals and banks. Although technology saw a slight uptick in September, its sector returns were muted compared to the first half of the year. Artificial intelligence (AI) continued to be a significant driver, with companies involved in AI development and integration being rewarded.
- 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.
- Looking ahead to the remainder of 2024, the equity market outlook is cautiously optimistic despite expected volatility. Uncertainties surrounding U.S. Federal Reserve policies, upcoming elections and rising geopolitical tensions are likely to cause continued market fluctuations. However, positive signals include potential buying opportunities in large-cap stocks and a generally favorable reaction to recent rate cuts. Additionally, a strong labor market could further support equities.

## Portfolio review

**U.S. stocks advanced during the third quarter following the Fed implementing a larger-than-expected 50 basis points interest rate cut.** The S&P 500 Index rose by 5.89% and the Nasdaq Composite grew by 2.57% during the quarter. The utilities and real estate sectors led, while information technology and communications services lagged. Small cap stocks outperformed large caps and value significantly beat growth.

**U.S. bonds logged their first positive quarterly performance of 2024 in the past three months.** The Bloomberg U.S. Aggregate Bond Index rose by 5.20%. The 10-year U.S. Treasury yield fell from 4.48% at the beginning of July to 3.81% by quarter end (declines in the 10-year yield generally signal investor pessimism).

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**For the quarter, the Fund underperformed the Index on a NAV basis largely due to selection effects.** Stock selection within the utilities sector was the only contributor to performance this quarter. The stock selection effects within the information technology, consumer discretionary and industrial sectors were the greatest detractors.

**Key contributors to the quarter's performance were Builders First Source, Inc., Biohaven Ltd. and Parsons Corp.**

An overweight position in Builders FirstSource, Inc. (BLDR) contributed to performance. Despite inline quarterly results and reduced forward guidance, the Fed rate cut boosted investor confidence in better housing demand in a lower interest rate environment going forward.

Owning a non-benchmark position in Biohaven Ltd. (BHAVN) contributed to performance. The company's drug, troriluzole, for the treatment of a genetic disease affecting the nervous system met the main study goal, boosting the share price as the trial data allayed investor worries following a setback last year.

Owning a non-benchmark position in Parsons Corp. (PSN) contributed to performance. The stock outperformed due to a significant 2Q24 earnings results versus expectations, driven by the Federal Solutions segment's solid organic growth and recent contract wins. Additionally, improved margins and increased forward guidance contributed to the positive performance.

**Key detractors for the quarter were CrowdStrike Holdings, Inc., Palantir Technologies Inc. and Domino's Pizza, Inc.**

Owning a non-benchmark position in CrowdStrike Holdings, Inc. (CRWD) detracted from performance this quarter. The stock declined following an IT outage in July with uncertainty regarding financial impact weighing on the shares.

Our underweight position in Palantir Technologies Inc. (PLTR) detracted from performance this quarter. The stock was rewarded following a strong 2Q24 earnings report and a significant raise in fiscal year 2024 revenues and operating income driven by AI demand.

Our overweight position in Domino's Pizza, Inc. (DPZ) detracted from performance this quarter. The stock fell in July following mixed second quarter earnings with same-

store-sales coming below expectations and a disappointing outlook, fueling concerns regarding future growth.

## Current strategy and outlook

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**The stickiness of the "last mile" of inflation suggests the United States may be facing structural inflation pressures,** driven by supply chain constraints and a tight labor market (despite disappointing job growth numbers, layoffs have not increased and unemployment remains at only 4.2%). Inflation that persists above 2% may prevent the Fed from cutting rates as aggressively as the market hopes. The anticipated rate cuts resemble past recession scenarios, but today's economic landscape differs significantly—the current economy does not seem to be on the brink of collapse. In fact, in Fed Chair Powell's words, "the U.S. economy is basically fine." The temporary boost to the workforce from immigration and shift in consumer spending back to services have also helped dampen inflation, but these trends may not be sustainable.

**This disconnect could lead to increased volatility,** especially in the bond market, if the Fed's actual moves fall short of expectations. Investors should be prepared for potential sharp adjustments in pricing as the market navigates its perceptions this rate-cutting cycle.

## Holdings detail

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Companies mentioned in this report – percentage of portfolio investments, as of 09/30/24: Builders FirstSource, Inc. 1.57%, Biohaven Ltd. 1.04%, Parsons Corp. 1.58%, CrowdStrike Holdings, Inc. 1.15%, Palantir Technologies Inc. 1.79% and Domino's Pizza, Inc. 1.59%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

## Read our [fund factsheet](#)

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.**

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. Foreign Investing does pose special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. Investing in stocks of Mid-Sized Companies may entail greater volatility and less liquidity than larger companies. The Fund may use Derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses and have a potentially large impact on Fund performance. Other risks of the Fund include but are not limited to: Growth Investing Risks; Market Trends Risks; Other Investment Companies Risks; Price Volatility Risks; Inability to Sell Securities Risks; Securities Lending Risks; and Portfolio Turnover Risks. Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.

The strategy is available as a mutual fund or variable portfolio. The mutual fund may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance that varies from stated performance. Please call your benefits office for more information.

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