



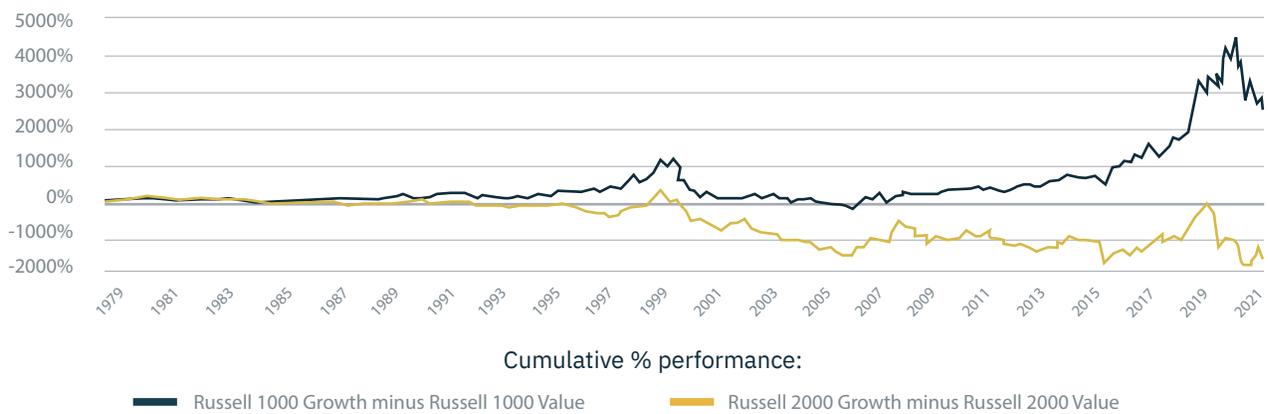
SANDHILL
INVESTMENT MANAGEMENT

2024 Outlook: Investment Strategy

Emphasis on Growth over Value

- **Favorable Macro Trends:** Positive macroeconomic indicators, such as robust GDP growth forecasts and declining unemployment rates, underpin the preference for growth investments.
- **Technological Advancements:** Continued innovation across sectors, particularly in technology and healthcare, is expected to drive superior earnings growth for companies. Finding quality businesses with strong balance sheets and wide moats is our preference.

Russell 1000 Growth has outperformed Russell 1000 Value by more than 2,500% since inception

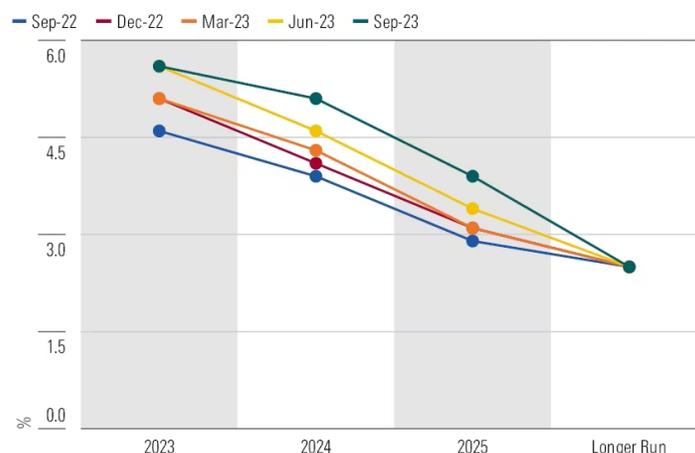


Source: Charles Schwab, Bloomberg, as of 12/30/2022

Higher for Longer Interest Rate Environment?

- **Inflation Stabilizing at Higher Levels:** Although we are confident the Fed is done hiking, we think there is still a lot of work to do to get back to 2% inflation.
- **Buying the Belly:** While interest rates remain elevated, we believe there is a nice opportunity to secure higher rates in the 3-7 year area of the curve.

Median assessment for Fed funds rate target supports “higher for longer” thesis



Source: U.S. Federal Reserve, Morningstar. As of September 20, 2023

Strategic Extension of Duration

- Economic Stabilization Signals:** Timing duration additions mid-year aligns with anticipated signals of economic stabilization, providing an opportune moment to adjust portfolio duration. The chart below provides a good reminder of the impact that owning duration has on fixed income portfolios as rates rise and fall. Timing when the Fed cuts is a foolish endeavor. Our approach is to strategically scale into duration at moments when yields are elevated to allow our investors to benefit from this price appreciation. However, at present, we continue to have a defensive posture and are shorter in duration in our portfolios.

Bonds with longer durations experience greater value fluctuations

1% rise in rates		
Duration	% NAV change	Resulting value
1 year	-1%	\$990
5 years	-5%	\$950
10 years	-10%	\$900

Initial value of \$1,000

Source: PIMCO

1% drop in rates		
Duration	% NAV change	Resulting value
1 year	+1%	\$1,010
5 years	+5%	\$1,050
10 years	+10%	\$1,100

The duration figures quoted do not relate to any specific PIMCO product.

- Active Approach:** A flexible strategy allows for responsiveness to changing market conditions, ensuring the portfolio is positioned optimally for evolving economic dynamics.

Corporate Bonds in the Current Environment

- Strong Corporate Fundamentals:** Despite credit spreads being at 15-year averages, robust corporate fundamentals and healthy balance sheets make corporate bonds an attractive investment option relative to the high-yield space where we do not think investors are being adequately compensated.
- Positive Economic Backdrop:** The economic environment remains resilient, marked by steady GDP growth and corporate profitability. This enhances the creditworthiness of companies and mitigates potential default risks. From our vantage point, quality credits are the order of the day.

Dry Powder

- **Liquidity Cushion & Risk Mitigation:** Provides a ready source of liquidity to deploy quickly when attractive opportunities arise. Acts as a buffer against sudden market downturns and allows us to be more strategic with less impulsive decision-making in the face of market uncertainty. As the below chart shows, many are capturing attractive money market and short-term treasury yields as opposed to generating dry powder, which has been a driver in our cash build.

The stockpiling of cash continues as investors face macro uncertainty



Source: EPFR, Bloomberg. As of November 22, 2023

- **Stability & Opportunistic Buying:** We have positioned portfolios by selectively trimming positions based on valuations and are sitting with dry powder to redeploy in 2024. We believe this builds investor confidence by demonstrating the ability to navigate volatile markets prudently while enhancing investor outcomes in the process.

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Definitions

Duration of a financial asset measures the sensitivity of the asset's price to interest rate movements. It is approximately equal to the percentage change in price for a given change in yield.

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

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