Concentrated Equity Alpha SMA

Q3 Commentary
Data as of 9/30/2024

Market Review

In the third quarter of 2024, markets experienced significant volatility as investor sentiment shifted between optimism and caution. U.S. equities extended their YTD gains, while Treasury yields surged due to reduced expectations of Federal Reserve rate cuts.

Despite recession fears earlier in the year, robust job growth and cooling inflation supported continued economic resilience.

Investment Team

Edwin Johnston,
Portfolio Manager

Rick Ryskalczyk, CFA
Co-Portfolio Manager

For inquiries, please contact:
Director, National Sales | Jeff Lowrie | jlowrie@sandhill-im.com

Corporate earnings strength extended beyond the tech sector, and U.S. stocks maintained a positive outlook with AI adoption remaining a key growth driver.

Year-to-date, markets have been shaped by fluctuating narratives—from the rise of AI to concerns over big tech spending. Employment growth and wage stabilization have played central roles in moderating inflation, while structural supply constraints could reignite inflationary pressures in the long term. Key sectors, including energy, utilities, and real estate, have gained traction as AI-driven capital investment broadens beyond tech. Overall, U.S. equities remain favored, with long-term bonds offering limited risk mitigation amidst rising yields.

Portfolio Review

Concentrated Equity Alpha had a strong third quarter outpacing the Russell 3000 TR +8.16% net of fees to +6.23%. Year-to-date, the CEA portfolio is +16.3% net of fees.

The portfolio's current stance of holding cash highlights a strategic emphasis on risk management, especially in the face of potential market volatility. With valuations elevated and economic data sending mixed signals, the managers recognize the importance of preserving capital and avoiding hasty moves that could erode gains.

This conservative approach is particularly relevant as earnings season begins, which may introduce more volatility and reveal whether corporate fundamentals can justify current price levels. Additionally, the decision to be patient in adding new positions reflects a disciplined investment philosophy, ensuring that any future allocations align with long-term growth objectives rather than short-term market trends.

The flexibility provided by the cash allocation positions the portfolio to act quickly when more favorable opportunities arise, further underscoring the importance of liquidity in uncertain market environments

Performance Attribution

In Q3 SiteOne Landscape delivered a 24.30% return, driven by strong demand in the landscaping industry and effective supply chain management. Lower interest rates should lead to more housing turnover and therefore greater spend on landscaping. GE Aerospace gained 19.01%, benefiting from increased demand for aircraft engines and services due to the recovery in global air travel. Also, Boeing's woes = less new planes = more higher margin service revenue for the company in the short term. Tyler Technologies returned 16.10%, capitalizing on the public sector's digitization needs and long-term contracts, supported by its strong market position in government technology solutions.

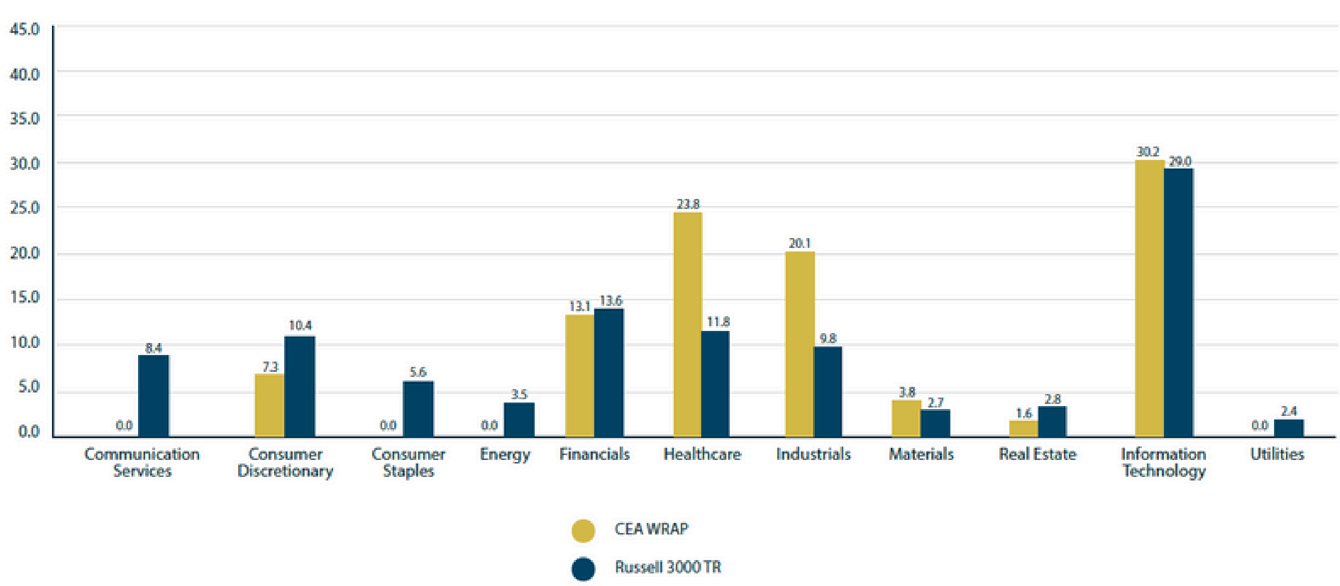
On the downside, Charles Schwab detracted 11.70%, facing cash sorting has not yet abated at the rate that was expected earlier in the year, leaving the company with higher cost funding and lower short-term earnings. Cadence Design Systems declined by 11.93%, driven by competition in the EDA space and concerns over slower semiconductor demand, exacerbated by macroeconomic challenges. After a hot start to the year due to the AI trade (+13% Q1 & Q2), valuations are cooling off a bit. Amphenol Corporation posted a -3.03% return, was similarly affected by valuations cooling a bit after a hot start to the year due to the AI trade in the first half of the year (+36%).

Portfolio Additions

During the quarter, we made one addition to the portfolio:

Illumina was added due to its dominant position in the Next Generation Sequencing (NGS) market, where it holds an 85% market share. Illumina's business model, centered around a razor/razorblade approach with high-margin consumables, positions it well for growth as genomic applications expand. Despite past challenges, including the failed Grail acquisition, the company is at the cusp of a new product launch and is trading at a valuation not seen in a decade, presenting a compelling risk/reward scenario.

Sector Weightings



Market Outlook

Looking ahead, mixed signals in the economy, with strong labor markets contrasted by weak manufacturing data, suggest a cautious stance. Inflation remains moderated, but the strong jobs data could limit the Federal Reserve's ability to cut rates as aggressively as some might hope. With earnings season around the corner, market participants are bracing for volatility, especially as robust consumer savings support continued spending in the near term.

While inflation appears to be slowing, the resilience of the labor market complicates the Fed's ability to loosen monetary policy in the short term. The robust job gains may lead to higher wage growth, potentially rekindling inflationary pressures. As earnings season approaches, the focus will shift to corporate profitability, which could be challenged by rising input costs and slowing consumer demand. However, the strength of the consumer, underpinned by higher-than-expected savings rates, could provide a buffer against any near-term economic slowdown, supporting a more neutral market outlook.

Returns

	YTD 2024	1-Year Trailing	3-Year Trailing Annualized	5-Year Trailing Annualized	10-Year Trailing Annualized	Since Inception* Annualized
CEA WRAP (Gross)	18.9%	37.3%	9.2%	12.4%	13.4%	11.3%
CEA WRAP (Net)	16.3%	33.3%	6.0%	9.1%	10.1%	8.0%
Russell 3000 Total Return	20.6%	35.2%	10.3%	15.3%	12.8%	10.2%

*Inception of CEA is 3/1/2004. Past performance is not a guarantee of future performance. Individual investor results may vary. Performance results may be materially affected by market and economic conditions. Net-of-fee performance represents the deduction of a 3.0% model fee, which is the maximum anticipated wrap fee for portfolios in which we act as a sub-adviser. Investment strategy has the potential for profit or loss. Interest, dividends, and capital gains in Sandhill Composites are not immediately reinvested. Index is unmanaged, does not reflect the deduction of fees or expenses, and is not available for direct investment. Third-party information in this report has been obtained from sources believed to be accurate; however, Sandhill Investment Management makes no guarantee as to the accuracy or completeness of the information.

Proprietary Research.
Successful Outcomes.

SANDHILL
INVESTMENT MANAGEMENT

Disclosure: This report has been prepared for informational purposes. Sandhill Investment Management ("Sandhill") is a registered investment advisor with the Securities and Exchange Commission that is not affiliated with any parent company. Third-party information presented in this report has been obtained from sources believed to be accurate; however, Sandhill makes no guarantee as to the accuracy or completeness of the information. All statements made regarding companies, securities, or other financial information are strictly the opinions of Sandhill and are not endorsements of any company or security. They should not be construed as recommendations to buy or sell any securities.

The Concentrated Equity Alpha Wrap Composite includes all discretionary wrap-fee paying accounts in the all-cap core strategy which may hold large, mid, and small capitalization U.S. common stocks, American Depositary Receipts (A.D.R.s), domestic ETFs, sector ETFs, and cash. There are no non-fee paying accounts included in the Composite. Interest, dividends and capital gains in Sandhill Composites are not immediately reinvested. Sector Allocations are representative of the current makeup of the composite and are not meant to represent how newly opened accounts will be invested.

Fees: Returns for periods less than one year are not annualized. Pure gross of fee returns do not reflect the deduction of any expenses, including transaction costs. Net performance includes the deduction of a 3.0% model fee, which is the maximum anticipated wrap fee for portfolios in which we act as a sub-adviser. The wrap fee is an all-inclusive or bundled fee based on a percentage of assets under management and may include investment management services, brokerage commissions, portfolio monitoring, consulting services, and custodial services. The model fee is applied on a monthly basis, by deducting 1/12th of the model fee from the monthly gross returns. Actual fees vary. For fee schedules, contact your financial professional, or if you enter into an agreement directly with Sandhill Investment Management, refer to Sandhill's Form ADV disclosure document.

Benchmark Definition: Russell 3000 TR Index: A market capitalization-weighted index that tracks the performance of the 3,000 largest U.S. publicly traded companies, covering approximately 98% of the investable U.S. equity market. The index includes reinvested dividends but does not account for management fees or other expenses.

Risk Disclaimer: Investing involves risks, including possible loss of principal. Past performance is not indicative of future results, and individual portfolio results may vary. Investments in equities carry higher risks and may offer the potential for greater returns or losses. Economic and market conditions may materially affect portfolio performance. For a complete list and description of firm composites or further details about the Concentrated Equity Alpha (CEA) strategy, please contact Sandhill Investment Management at 716-852-0279.