

Concentrated Equity Alpha SMA



Q4 Commentary

Data as of 12/31/2024

Market Review

In the fourth quarter of 2024, equity markets experienced mixed performance, with growth stocks retreating by -4.3% and value stocks declining by -3.3% over the last two weeks of the year.

The bond market also saw a -0.7% decrease, as the 10-year Treasury yield ended the year at 4.52% and the 30-year yield at 4.73%. While inflation pressures persisted, with concerns over potential tariff-related price increases, broader economic data pointed to continued strength.

Notably, the Dallas Fed's manufacturing index moved into growth territory for the first time since early 2022, underscoring resilience in the manufacturing sector.

Despite the traditionally strong Santa Claus rally failing to materialize, major growth equities such as the Magnificent 7 outperformed, while the average stock in the S&P 500 faced a 7% pullback in December. Consumer spending on durable goods remained robust, supported by gains in real income and household wealth, though credit card defaults surged during the year. Year-to-date, the Concentrated Equity Alpha (CEA) portfolio returned 10.8% net of fees, underperforming the Russell 3000 TR's 24.28% gain, reflecting challenges in navigating a highly concentrated market environment where the top ten S&P 500 stocks now account for 40% of the index's market cap.

Portfolio Review

Throughout 2024, CEA maintained a conservative stance, ending the year with a cash allocation of 7.5%. This strategic positioning reflects the portfolio's focus on risk management and preparation for expected market volatility in 2025.

Contributors:

- **Intuitive Surgical (ISRG)**: A leading innovator in robotic-assisted surgery, ISRG contributed +2.48% to portfolio returns, driven by strong procedural growth and expanding adoption of its da Vinci surgical systems globally. Continued investments in technology and services strengthened its competitive edge.
- **ServiceNow (NOW)**: Contributing +2.22% to returns, ServiceNow benefited from robust demand for its workflow automation platforms, as enterprises prioritized digital transformation initiatives to enhance productivity and efficiency.
- **Tyler Technologies (TYL)**: Adding +1.54% to portfolio performance, Tyler Technologies capitalized on the digitization needs of public-sector organizations. Its ability to secure long-term contracts and expand its market share in enterprise software ensured steady growth.

Investment Management Team

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Detractors:

- SiteOne Landscape Supply (SITE): SITE detracted -0.75% from returns, with weakness in the latter half of the year due to slowing demand in residential landscaping and margin pressures tied to higher input costs.
- Littelfuse (LFUS): Contributing -0.51% to portfolio drag, LFUS faced headwinds from inventory corrections and weaker-than-expected demand in key end markets, particularly in automotive and industrial applications.
- Adobe (ADBE): ADBE detracted -0.46% as it struggled with growth deceleration in its Creative Cloud segment and faced increased competition from emerging software providers, despite solid traction in its digital experience business.

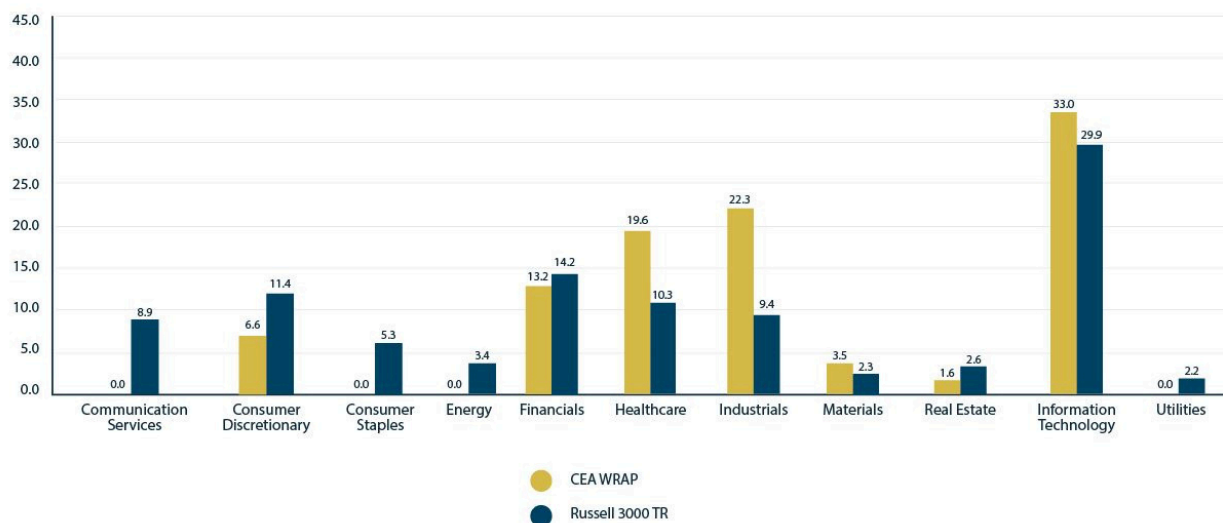
Portfolio Additions

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

AECOM (ACM)

- Added a 3% position in Q4 due to its transformation from a traditional Engineering & Construction firm to a high-performing professional services organization.
- Key drivers include exposure to infrastructure-related mega-trends in water, transportation, environment, and reshoring.
- Strengthened focus on higher-margin program management and advisory engagements reduces exposure to high-risk construction projects.
- Proprietary expertise in PFAS remediation and a strong position in transportation and environmental markets provide additional growth tailwinds.
- Positioned for double-digit growth, with plans to expand the position during market volatility.

Sector Weightings



Market Outlook

In 2025, market participants anticipate increased volatility, driven by mixed economic signals. While inflation has moderated, the labor market's strength may limit the Federal Reserve's ability to cut rates aggressively. Additionally, concerns about tariff impacts and potential inflationary pressures remain front of mind.

The CEA portfolio is positioned to capitalize on opportunities arising from market dislocations, with a focus on long-term growth and disciplined risk management. The portfolio's current cash allocation provides flexibility to deploy capital into attractive opportunities as they emerge.

Returns

	YTD 2024	1-Year Trailing	3-Year Trailing Annualized	5-Year Trailing Annualized	10-Year Trailing Annualized	Since Inception* Annualized
CEA WRAP (Gross)	14.1%	14.1%	7.3%	10.0%	12.3%	10.9%
CEA WRAP (Net)	10.8%	10.8%	4.1%	6.7%	9.0%	7.7%
Russell 3000 Total Return	23.8%	23.8%	8.0%	13.9%	12.6%	10.2%

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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-advisor. 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. Concentrated equity portfolios are subject to greater risk than more diversified portfolios. 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.

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