# Quarterly Commentary

## Q1 – 2024

April 1, 2024

Broad stock indices continued to advance sharply, though the narrative has shifted. No longer are markets focused on the need for five or more Fed rate cuts to facilitate a "soft landing," as the economy has unexpectedly accelerated. There has been sufficient optimism over earnings growth now projected to sharply rebound to over 12% in 2024, as well as continued euphoria over the effects of AI, to offset rate disappointment.

AI will generate explosive demand for hardware and software products for many years to come. Businesses across many industries will be forever changed due to opportunities created with new technology. This also applies to the breakthrough weight loss drugs, which should far surpass the sales levels of any previous top-selling pharmaceutical. While the Magnificent Seven and drug leader Eli Lilly have already been well rewarded by the market, their valuations are far from the extremes witnessed in the Internet Bubble. There is, however, concern over the continued narrow focus of the stock market, as the ten largest members of the S&P 500 comprise nearly a third of the benchmark and have generated almost their entire 30% advance over the past twelve months. Mega-Cap leaders can maintain multiples providing their businesses do not falter, but they are highly vulnerable should they disappoint, as seen by the 30% decline in Tesla shares over the past three months. Smaller-Cap stocks and those outside the few hottest segments are more challenged for growth, but may prove to represent the best risk/reward opportunities for the remainder of the year.

The bond market was adversely affected by the strong economic data, as long duration Treasury bond yields rose 60 basis points from year end. Labor markets remain tight creating concern over wages, while consumers continue to spend and the housing market continues to be resilient despite a return to higher mortgage rates. It is increasingly more difficult to justify Fed action with an economy likely growing in excess of 3% and inflation progress stalled at a level stubbornly above the long-term target of 2%. Chairman Powell does not want to be perceived as having a political agenda and begin rate cuts nearer the election, and it is questionable how impactful cuts might be on market rates. The Fed is faced with about $8 trillion of debt maturing in 2024, on top of the $ 1.7 trillion forecasted annual deficit, and the growing servicing costs that now exceed $1 trillion a year. Bulls see a "no landing" unfolding, where expansion can continue despite higher than expected interest rates; while Bears expect an ultimate slowing, leading to lower valuations for stocks.

The election campaigns promise to be increasingly divisive, but as different as the parties appear in their rhetoric, the ongoing bloated budget deficit and bipartisan avoidance of addressing entitlement and other major areas of spending make a sea change of policy unlikely regardless of the outcome. The greatest risk is always the unexpected, though we can presently identify many serious geopolitical conflicts that can escalate and disrupt the global economy, materially pressuring stocks. As markets advance, investors have become more risk tolerant and greedy, which was reflected in the more than 60% gain in Bitcoin for the quarter. The impact of just two stocks, an AI darling and a Bitcoin play, up 255% and 170% respectively, represented more than half of the 7.6% advance of the Russell 2000 Growth Index. These speculative surges generally do not end well and positioning for broader participation and a shift in market leadership appears prudent.

Oak Ridge Large-Cap portfolios fared very well in the first quarter of 2024, despite an ongoing surge in Communication Services and Technology stocks that fed a speculative fervor. Some of our success relative to our peers is our belief that the biggest leaders in AI, cloud and technology innovation, will continue to enjoy significant demand, maintain their superior market dominant shares, and are not excessively valued. That said, our active exposure remains relatively small and much of our success was from not owning Tesla in the Consumer Discretionary space, where it is still a very large benchmark component that has never met our general investment criteria. Interestingly, and perhaps a reflection of the narrow market leadership, no other sectors affected returns to more than a modest extent.

The most meaningful active weight remains in a large pharmaceutical company, the leader in weight loss, with surging demand fueling an additional 34% gain in the first quarter. When the stock was initially purchased several years ago, the broad pipeline and limited patent expiration exposure were the attraction. It is now primarily a proxy for the exciting weight loss opportunity, a possible Alzheimer's treatment, and will be monitored accordingly.

Investors should be careful to adhere to sound investment principles and avoid the temptation to chase returns in less sound, speculative alternatives. We have a high degree of confidence in the underlying fundamental businesses of our portfolio holdings and believe they are valued to provide attractive long-term relative returns.

Thank you for your continued confidence.

Sincerely,

David M. Klaskin,

Chief Executive Officer & Chief Investment Officer

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AI will generate explosive demand for hardware and software products for many years to come. Businesses across many industries will be forever changed due to opportunities created with new technology. This also applies to the breakthrough weight loss drugs, which should far surpass the sales levels of any previous top-selling pharmaceutical. While the Magnificent Seven and drug leader Eli Lilly have already been well rewarded by the market, their valuations are far from the extremes witnessed in the Internet Bubble. There is, however, concern over the continued narrow focus of the stock market, as the ten largest members of the S&P 500 comprise nearly a third of the benchmark and have generated almost their entire 30% advance over the past twelve months. Mega-Cap leaders can maintain multiples providing their businesses do not falter, but they are highly vulnerable should they disappoint, as seen by the 30% decline in Tesla shares over the past three months. Smaller-Cap stocks and those outside the few hottest segments are more challenged for growth, but may prove to represent the best risk/reward opportunities for the remainder of the year.

The bond market was adversely affected by the strong economic data, as long duration Treasury bond yields rose 60 basis points from year end. Labor markets remain tight creating concern over wages, while consumers continue to spend and the housing market continues to be resilient despite a return to higher mortgage rates. It is increasingly more difficult to justify Fed action with an economy likely growing in excess of 3% and inflation progress stalled at a level stubbornly above the long-term target of 2%. Chairman Powell does not want to be perceived as having a political agenda and begin rate cuts nearer the election, and it is questionable how impactful cuts might be on market rates. The Fed is faced with about $8 trillion of debt maturing in 2024, on top of the $ 1.7 trillion forecasted annual deficit, and the growing servicing costs that now exceed $1 trillion a year. Bulls see a "no landing" unfolding, where expansion can continue despite higher than expected interest rates; while Bears expect an ultimate slowing, leading to lower valuations for stocks.

The election campaigns promise to be increasingly divisive, but as different as the parties appear in their rhetoric, the ongoing bloated budget deficit and bipartisan avoidance of addressing entitlement and other major areas of spending make a sea change of policy unlikely regardless of the outcome. The greatest risk is always the unexpected, though we can presently identify many serious geopolitical conflicts that can escalate and disrupt the global economy, materially pressuring stocks. As markets advance, investors have become more risk tolerant and greedy, which was reflected in the more than 60% gain in Bitcoin for the quarter. The impact of just two stocks, an AI darling and a Bitcoin play, up 255% and 170% respectively, represented more than half of the 7.6% advance of the Russell 2000 Growth Index. These speculative surges generally do not end well and positioning for broader participation and a shift in market leadership appears prudent.

Oak Ridge All-Cap portfolios fared very well in the first quarter of 2024, despite an ongoing surge in Communication Services and Technology stocks that fed a speculative fervor. Some of our success relative to our peers is our belief that the biggest leaders in AI, cloud and technology innovation, will continue to enjoy significant demand, maintain their superior market dominant shares, and are not excessively valued. That said, our active exposure remains relatively small and stock selection in other areas led to material outperformance of the Russell 3000 Growth benchmark. The most meaningful active weight remains in a large pharmaceutical company, the leader in weight loss, with surging demand fueling an additional 34% gain in the first quarter. When the stock was initially purchased several years ago, the broad pipeline and limited patent expiration exposure were the attraction. It is now primarily a proxy for the exciting weight loss opportunity coupled with a call option on an Alzheimer's treatment and will be monitored accordingly.

Industrial holdings also performed well. Our positioning is generally less cyclical, but we still benefitted from positive surprises in demand. Stock selection in transportation, aerospace and infrastructure-related businesses were well rewarded. An underweight in the Consumer areas proved correct, but our exposure to e-commerce, auto parts, and off-price retail stocks was also a contributing factor. There were no meaningfully weak sectors in the quarter.

Investors should be careful to adhere to sound investment principles and avoid the temptation to chase returns in less sound, speculative alternatives. We have a high degree of confidence in the underlying fundamental businesses of our portfolio holdings and believe they are valued to provide attractive long-term relative returns.

Thank you for your continued confidence.

Sincerely,

Robert G. McVicker,
Executive Vice President & Lead Portfolio Manager

April 1, 2024

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Following a robust fourth quarter of 2023, characterized by strong momentum and breadth readings, U.S. equities surged to all-time highs in the first quarter of 2024, led by larger cap stocks. Oak Ridge Mid-Cap portfolios outperformed the Russell Mid Cap Growth Index for the first quarter. Our portfolios soared 11% during quarter. Meanwhile, our benchmark - the Russell Mid Cap Growth Index - had a strong performance as well and was up 9.5% for the quarter. In sum, our relative performance led sizably. So far, the first quarter was decent for most active managers. Specifically, mid-cap managers held up relatively well in the first quarter's market rally relative to that of the fourth quarter of 2023. 48% of active mid-cap growth managers beat the index in the first quarter compared to 15% in the fourth quarter of last year (this is based on data from SEI, Jefferies, Lipper, Factset and FTSE Russell.)

All eleven mid-cap GICS sectors were higher in Q1. Mid-cap sector performance was led by Financials (+14.6%), Consumer Discretionary (+12.9%), Materials (+11.6), and Industrials (+11.2%). Our absolute returns in the Oak Ridge Mid-Cap portfolios were solid in the first quarter. Consumer Discretionary was an area of relative underperformance, as a retailer of water bottles and coolers reported another disappointing quarter, with revenues and earnings coming in well below expectations. We prudently exited the position during the quarter. Consumer Staples was also an area of relative underperformance, primarily due to ongoing litigation issues at one of our holdings that has taken longer to resolve than we originally anticipated. We also exited this position during the quarter.

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Sincerely,

Kenneth S. Kailin

Kenneth S. Kailin & Brian King
Co Portfolio Managers

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Oak Ridge Small-Cap portfolios fared rather well with inline returns, despite 365 basis points of headwinds from the previously mentioned stocks, which remain in the Russell 2000 benchmark until it rebalances in June, despite capitalizations in the midrange of S&P 500 constituents. Those two Technology stocks created an impossible hole for that sector, which was further exacerbated by a significant decline in a digital IT service company that disappointed in its results and guided conservatively due to shifts in spending toward AI. Two recent new purchases fared very well in the software space, in less exciting, but more stable areas of physical security systems and cloud services to financial institutions. Healthcare also lagged for a second consecutive quarter. Its best performing industry was biotech, which is nearly always underrepresented in our portfolios due to the dependence on difficult to forecast binary events. We also exited weak positions in Medical Devices and Healthcare IT due to eroding confidence in their competitive positioning.

These areas of weakness were offset by exceptional returns in Financial stocks, principally our two Insurance holdings, that surged due to positive earnings momentum and differentiated models due to the exits of competitors and superior technology capabilities relative to peers. FinTech positions performed well due to the strength of their end markets and the improved macroeconomic outlook. Industrial stocks also materially outperformed, due to ongoing surges in transportation and infrastructure positions. Our positioning is generally less cyclical, but we still benefitted from positive surprises in demand. Portfolio changes in the Energy area during the quarter proved to be very timely, as a focus on proven successful drillers and the elimination of less growth-oriented holdings benefitted nicely from an increase in commodity pricing.

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Sincerely,

David M. Klaskin,
CEO and Chief Investment Officer

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