Quarterly Commentary

Q3 – 2024

Dear Client,

The broad stock market responded to a 50 basis point Fed rate cut with renewed belief in a "soft landing" and rallied to post its best first three quarters' return in 27 years. The resiliency was impressive, as leadership shifted from mega-cap growth, which significantly lagged small-cap and value stocks. Further rate cuts should be data dependent, but it would be unusual to not see additional Fed action. Demand will likely continue to be supported by consumer and government spending, with the greatest inflation pressure coming from wages and geopolitical events.

GDP expansion forecasts remain tracking around 3% into next year, which is encouraging given the steady decline in the rate of inflation. Wage increases are still high and there is continued pressure from proposed legislative changes around minimum wage, mandated employee benefits and organized labor progress. The Fed took a more aggressive initial step to easing than most observers had forecast, due to an uptick in unemployment rates and its likely effect on compensation related inflation. Lower interest rates will improve affordability of homes and big ticket items, while higher income levels will help buoy consumer spending. Importantly, there is very little risk of overheating given the significant level of existing personal debt.

The highly charged political environment projects two parties of dramatically different values and preferred policies. While this may be true on issues such as the border, abortion, the environment and many social issues, both sides will be handcuffed, to a large extent, when it comes to the economy and fiscal policy. Neither party is willing to address the true liability for Medicare and Social Security entitlement plans, which are likely already larger than our existing national debt. Taxing the very rich will fall far short of paying for campaign promises, while potential tax reductions and credits to promote growth will also not meet their objectives in shoring up government coffers. The end result is likely to be further bloating of the deficit and ongoing fighting over limited resources.

Geopolitical risks have surged on many fronts. One might argue that the escalation of the Middle East conflict was inevitable, and the lack of market reaction reflects the belief that any short-term dislocation will quickly reverse, as it did in the early stages of The Gulf War and other major conflicts. The prolonged Ukraine War has also been shrugged off by markets, but it is another example of our reduced influence on global stages. Cyber wars, political interference and even the possibility of an Iranian backed effort to assassinate Donald Trump, all add risk to the global economy (not to mention China). These concerns simply suggest a level of prudence and the importance of investing in companies with the financial wherewithal and market position to survive and even thrive in volatile and changing times.

Oak Ridge Large-Cap Growth portfolios remained in positive territory despite the market shift away from the dominant Mega-Cap leaders. Returns lagged slightly compared to the benchmark but we remain ahead of it year to date. Technology and Communication Services are a whopping 62% of the benchmark and represent 59% of our holdings. Given the heavy concentration of a handful of names, there is no opportunity for a large active bet. We have, however, offset our underweight with strong stock selection in top performing communication, semiconductor and software companies outside of the largest leaders.   Healthcare, as a sector took a break during the quarter, particularly the red hot GLP-1 weight loss area. We remain heavily overweight in the leader of the transformative weight loss field and the sector more broadly. Despite these headwinds, we managed to outperform due to strong returns from a leading managed care company and an emerging biotech holding with continued excitement around its vast potential.

The best performing sectors in the market were those that benefit most from lower rates: Real Estate and Utilities. We have little exposure to these areas, which slightly weighed on returns last quarter, but this appears to be a short-term reaction to a surprisingly larger Fed move and not likely sustainable. The only area that saw material weakness was Consumer Discretionary. We did not anticipate the market's strong reaction to the Fed rate cut as it relates to consumer spending expectations, and were positioned very conservatively and considerably underweight the group.   Current consumer representation is in leading brands and franchises that should continue to grow and capitalize on their leverage gained from large existing market share.

While we remain long-term, fundamental investors, our turnover has ticked up modestly over the past few months to adjust to a shift in market opportunities based on earnings trends and valuations. Oak Ridge has enjoyed strong growth as a firm over the past two years due to a rotation into our more quality oriented growth style of investing. We are grateful for your confidence and have high conviction in our positioning for what will likely be a more volatile period ahead.

Sincerely,

David M. Klaskin,

Chief Executive Officer & Chief Investment Officer

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October 1, 2024

Dear Client,

The broad stock market responded to a 50 basis point Fed rate cut with renewed belief in a "soft landing" and rallied to post its best first three quarters' return in 27 years. The resiliency was impressive, as leadership shifted from mega-cap growth, which significantly lagged small-cap and value stocks. Further rate cuts should be data dependent, but it would be unusual to not see additional Fed action. Demand will likely continue to be supported by consumer and government spending, with the greatest inflation pressure coming from wages and geopolitical events.

GDP expansion forecasts remain tracking around 3% into next year, which is encouraging given the steady decline in the rate of inflation. Wage increases are still high and there is continued pressure from proposed legislative changes around minimum wage, mandated employee benefits and organized labor progress. The Fed took a more aggressive initial step to easing than most observers had forecast, due to an uptick in unemployment rates and its likely effect on compensation related inflation. Lower interest rates will improve affordability of homes and big ticket items, while higher income levels will help buoy consumer spending. Importantly, there is very little risk of overheating given the significant level of existing personal debt.

The highly charged political environment projects two parties of dramatically different values and preferred policies. While this may be true on issues such as the border, abortion, the environment and many social issues, both sides will be handcuffed, to a large extent, when it comes to the economy and fiscal policy. Neither party is willing to address the true liability for Medicare and Social Security entitlement plans, which are likely already larger than our existing national debt. Taxing the very rich will fall far short of paying for campaign promises, while potential tax reductions and credits to promote growth will also not meet their objectives in shoring up government coffers. The end result is likely to be further bloating of the deficit and ongoing fighting over limited resources.

Geopolitical risks have surged on many fronts. One might argue that the escalation of the Middle East conflict was inevitable and the lack of market reaction reflects the belief that any short-term dislocation will quickly reverse, as it did in the early stages of The Gulf War and other major conflicts. The prolonged Ukraine War has also been shrugged off by markets, but it is another example of our reduced influence on global stages. Cyber wars, political interference and even the possibility of an Iranian backed effort to assassinate Donald Trump, all add risk to the global economy (not to mention China). These concerns simply suggest a level of prudence and the importance of investing in companies with the financial wherewithal and market position to survive and even thrive in volatile and changing times.

Oak Ridge All-Cap Growth portfolios remained in positive territory despite the market shift away from the dominant Mega-Cap leaders. Returns were slightly behind the Russell 1000 Growth benchmark for the quarter, but are comfortably ahead year to date. Technology and Communication Services are a whopping 60% of the benchmark and represent 58% of our holdings. Given the heavy concentration of a handful of names, there is no opportunity for a large active bet, yet we have added measurable value of nearly 200 basis points of attribution through stock selection outside the big name components. Strong stock selection in semiconductors boosted returns, in addition to cyber security and cloud networking positions. Healthcare as a sector took a break during the quarter, particularly the red hot GLP-1 weight loss area. We trimmed our largest active bet in late June, but still remain heavily overweight to the leader in the transformative weight loss field and the sector more broadly. Despite these headwinds, we managed to outperform due to strong returns from the leading managed care company and a big recovery in a small-cap medical device company in the sleep apnea market.

The best performing sectors in the market were those that benefit most from lower rates: Real Estate and Utilities. We have little exposure to these areas, which slightly weighed on returns last quarter, but this appears to be a short-term reaction to a surprisingly larger Fed move and not likely sustainable. The only area that saw material weakness was Consumer Discretionary. We did not anticipate the market's strong reaction to the Fed rate cut as it relates to consumer spending expectations and were positioned very conservatively and considerably underweight the group. We also were dragged down by two small-cap consumer holdings that were recently sold.

While we remain long-term, fundamental investors, our turnover has ticked up modestly over the past few months in order to adjust to a shift in market opportunities based on earnings trends and valuations. Oak Ridge has enjoyed strong growth as a firm over the past two years, due to a rotation into our more quality oriented growth style of investing. We are grateful for your confidence and have high conviction in our positioning for what will likely be a more volatile period ahead.

Sincerely,

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

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Oak Ridge Mid-Cap Growth portfolios enjoyed strong absolute returns during the third quarter, but fell short of the surging Russell Mid-Cap Growth benchmark that rose over 6%. As previously referenced, smaller stocks shined, with the catalyst being lower interest rates and an economy that remains in expansion mode. Valuations have been relatively attractive versus Large-Cap across all sectors, and they can continue to outperform assuming the economy stays strong. Healthcare was the leading sector during the quarter, with two medical equipment companies up over 50% and reversing course from a weak first half of the year. Both companies are high-conviction names with strong opportunities to innovate key markets. Technology is the largest sector in the benchmark by a wide margin at over 25%. It has been a difficult area for us for a number of years, partly due to our focus on higher quality companies, which was out of favor in a speculative market, but also due to weak stock selection. A number of changes were made late in the quarter to be better positioned not only for direct AI plays, but other beneficiaries of a changing landscape. We are highly confident in our Tech holdings and only

slightly lagged the market. This despite a severe loss prior to selling a leading cyber security provider that caused a major software shutdown throughout the U.S.

The best performing sectors in the market were those that benefit most from lower rates: Real Estate and Utilities. We have little exposure to these areas which weighed on returns last quarter, but this appears to be a short-term reaction to a surprisingly larger Fed move and not likely sustainable. The portfolio suffered from a reversal in Energy stocks during the quarter. While our weighting is inline, we have faster growing, well managed companies with excellent growth prospects, which are more volatile due to their more aggressive positioning. Consumer Discretionary stocks also were also weak, but we are encouraged by their continued dominance in their markets in footwear, fast food and discount retail. While we remain long-term, fundamental investors, our turnover has ticked up moderately over the past few months in order to adjust to a shift in market opportunities based on earnings trends and valuations. Oak Ridge has enjoyed strong growth as a firm over the past two years, due to a rotation into our more quality oriented growth style of investing. We are grateful for your confidence and have high conviction in our positioning for what will likely be a more volatile period ahead.

Sincerely,

Kenneth S. Kailin

Kenneth S. Kailin & Brian King
Co Portfolio Managers

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