the ithaka group
Concentrated Growth Equity Managers

ITHAKA US GROWTH STRATEGY

FIRM OVERVIEW
- Founded in 2008
- Based in Bethesda, MD
- Concentrated growth investors
- 100% employee-owned

STRATEGY OVERVIEW
- Seeking high-quality, rapidly growing companies with duration
- Bottom-up, company focused
- A conviction-weighted approach
- Maximum of 35 large-cap holdings

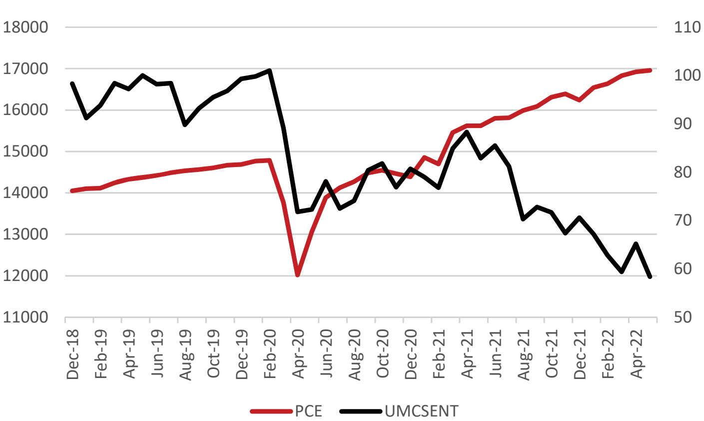
FUND OVERVIEW
- Inception date: January 1, 2009
- Benchmark: Russell 1000 Growth
- ~$1.1 Billion AUM
- 5 investment professionals

OBJECTIVE
- Long-term growth of capital

PORTFOLIO MANAGERS
- William Johnson
- Scott O'Gorman, CFA

Market

If you were brave enough to peak your head out from under your desk during the first half of 2022, you would have seen the traditional 60/40 portfolio having its worst start to the year in modern history, down 16.1%. Over the past ~50 years, the worst first-half return was recorded in 2008, with the portfolio falling 6.7% in the first 180 days before finishing the year down 20.1%. This comparison sheds light on the widespread nature of this bout of global wealth destruction. Whether you owned equities or fixed income, growth or value, US or non-US, emerging or developed, there were few places to hide. Of the myriad of investment options, the most advantageous place to be was in commodities, specifically energy and agriculture, and perhaps ironically, in the US dollar. The market's mostly-downward volatility was driven by two main factors: runaway inflation, which accelerated to 9.1% in June, and a more hawkish federal reserve, which raised the federal funds rate by 1.25ppts in the quarter to reach an effective rate of 1.58ppts. These two forces created a number of knock on effects, the most impactful being falling consumer confidence and overall demand destruction. The pundits have moved past debates as to whether the Fed can architect a soft landing to debates surrounding whether the Fed's actions have already sent the US economy into a recession or, if not, when one is likely to begin.



Source: Federal Reserve Bank of St. Louis, University of Michigan

In the chart above you will see a tale of two cities. On one hand, you have plummeting consumer confidence, reaching lows we haven't seen since the depths of the Great Recession (2008-9). On the other hand, you have steadily growing personal consumption expenditure ("PCE"). The strong PCE growth is being supported by nominal wage growth, up 6% y/y, strong household balance sheets, a near record low 3.6% unemployment rate, and a near record high 11.3M job openings. Therein lies the conundrum. The US consumer is as bearish now as he or she was during the depths of the Global Financial Crisis, but the economy has been showing few signs of bearishness. The importance of the consumer to the US economy cannot be overstated, as this group contributes almost 70% of our country's GDP. Today it is unclear if consumers' wallets will follow their psyche, leading to a significant economic slowdown, or if consumer confidence is merely temporarily swooning as individuals adjust to an unfamiliar inflation regime. It is possible that once inflation is tamed we will see consumer confidence rebound rapidly. Only time will tell. While the markets search for more clarity, Ithaka remains focused on our portfolio companies' fundamental results to ensure the portfolio's active bets are the right ones to hold once the dust settles.

2Q22 Performance

PERFORMANCE (%)	2Q22	1 YR	3 YR	5 YR	ITD[1]
Ithaka US Growth Strategy (Gross)	(26.8)	(34.8)	5.5	12.6	15.6
Ithaka US Growth Strategy (Net)	(26.9)	(35.2)	5.0	12.1	15.0
Russell 1000 Growth	(21.0)	(18.8)	12.6	14.3	15.7

[1] ITD = Inception-to-date, annualized.

During the second quarter our portfolio underperformed in a sharply down market. The major indices all fell, with the Dow down 11.3%, the S&P 500 down 16.5%, and the NASDAQ down 22.5%. The Russell 1000 Growth Index declined 21.0%, while Ithaka's composite declined 26.8%. Ithaka's 575 basis points (bps) of underperformance was largely due to stock selection. Our portfolio demonstrated weak breadth and weak depth, with only 12 of 30 stocks we held all quarter, representing 40% of the names and 48% of the portfolio weighting, outperforming our benchmark.

At the portfolio sector level, Ithaka realized negative relative returns in all four sectors in which we hold active bets. The two main storylines for this lackluster performance were: 1) a continued broad-based rotation out of 'riskier' or 'more expensive' growth stories into 'safer' or 'less expensive' growth stories, which overwhelmingly impacted the technology sector. This performance differential can most clearly be seen through the outperformance of large-cap value, which was down only 12.1% in the quarter, and 2) the relative underperformance of three of our Health Care holdings for company specific reasons. With regard to #1, there have always been (and will always be) moments in time when investors, en masse, decide to pull in their horns and sell stocks they perceive to be too risky for the current market environment, irrespective of the underlying businesses' strengths or competitive advantages. We continue to be in one of those periods. While in the short term this type of price action is frustrating, we continue to have confidence the companies we own will deliver robust, durable underlying fundamental growth, which should more than justify their stocks' valuations.

Contributors and Detractors

CONTRIBUTORS	DETRACTORS
Blackstone	NVIDIA
Veeva Systems	Amazon.com
Burlington Stores	Dexcom
Shopify	Block
Marvell Technology	Microsoft

Top Contributors

Blackstone Inc. (BX)
Blackstone is one of the world's leading alternative asset management firms, with total Assets Under Management of $880B at year-end 2021. Over the past few decades Blackstone has evolved into one of the financial service industry's largest asset gatherers, managing money on behalf of pension funds, insurance companies, and individual investors. The company has continued to be at the forefront of financial innovation, broadening its product offering through time. As it stands today, Blackstone invests clients' capital across four business segments: (a) Real Estate, (b) Private Equity, (c) Hedge Fund Solutions, and (d) Credit & Insurance. The holding's relative contribution in the quarter was solely a function of its smaller portfolio weighting, which was purchased in early June at ~50bps.

Veeva Systems Inc. (VEEV)
Since its inception, Veeva Systems has grown to become the leading SaaS provider of cloud solutions for the global life sciences industry. Veeva's industry-specific cloud solutions provide data, software, and services to address a broad range of needs, including multi-channel customer relationship management, content management, master data management, and customer data management. Veeva's products help its customers bring products to market faster while maintaining compliance with government regulations. Veeva's stock appreciated 15% on the company's solid F1Q23 earnings announcement in which management showed progress towards reaching its 2025 goals of $3B in revenues and 35%+ non-GAAP operating margins. The company also announced one of the largest Veeva Development Cloud deals ever, signing up a top 20 pharma customer.

Burlington Stores, Inc. (BURL)
Founded in 1972, Burlington is a nationally recognized retailer of high-quality, branded merchandise at everyday low prices (typically 40%-60% below department stores). Burlington offers an extensive selection of in-season, fashion-focused merchandise, including women's ready-to-wear apparel, accessories and footwear, menswear, youth apparel and baby, home furnishings, and coats. The company offers these products through ~760 stores in 45 states. Burlington's opportunistic buying patterns, unparalleled value, and treasure-hunt-like shopping experience has captured the attention of baby boomers, millennials and Gen Z'ers alike, which should continue to support both loyalty and traffic growth for years to come. Burlington's relative contribution in the quarter was a function of the stock's lower weighting (~1%) as well as a belief that if the US does head into recession, consumers will likely trade down to the off price segment, which should serve to protect the company's growth prospects.

Top Detractors

NVIDIA Corp. (NVDA)
NVIDIA is the market leader in visual computing through the production of high-performance graphics processing units (GPUs). The company targets four large and growing markets: Gaming, Professional Visualization, Data Center, and Automotive. NVIDIA's products have the potential to lead and disrupt some of the most exciting areas of computing, including: data center acceleration, artificial intelligence, machine learning and autonomous driving. The stock's underperformance in the quarter was due to global recessionary fears and the impact such a recession might have on consumer and enterprise demand for NVIDIA's products.

Amazon.com, Inc. (AMZN)
Founded in 1994, Amazon has evolved from its early roots as an online bookstore to become one of the world's largest eCommerce retailers. At the end of 2021 Amazon stood poised to capture >55% of all online U.S. retail sales, representing five times more share than the next closest competitor. In addition to eCommerce, Amazon Web Services has rapidly become the market leader in the outsourced cloud infrastructure business, and Amazon Advertising is garnering significant share in digital advertising thanks to more and more consumers beginning their product searches on Amazon's site. Reasons for Amazon's quarterly underperformance were two-fold: First, investors are actively digesting recessionary scenarios and their likely impact on Amazon's business. Second, after doubling warehouse space during the pandemic, the company has admitted to adding too much capacity, which is weighing on efficiency and profitability metrics.

DexCom, Inc. (DXCM)
DexCom is a medical device company focused on the design, development and commercialization of continuous glucose monitoring (CGM) systems for people with diabetes. Diabetes is a chronic, life-threatening disease for which there is no known cure. DexCom's CGM system is superior to traditional finger-stick tests because it provides users with continuous data (including glucose trends and time spent in hyper or hypoglycemia) versus a snapshot in time. DexCom's stock sold off in the quarter on the

unsubstantiated rumor the company was considering buying a leading insulin pump company, Insulet, to help create an end-to-end product portfolio. Immediately following this "news" being leaked, management denied the rumors and took the opportunity to emphasize its primary focus was to expeditiously bring its latest generation G7 sensor to the global marketplace.

Transactions

During the quarter we initiated one position, Blackstone (BX) and eliminated one position, Unity Software (U). Our trailing 12-month turnover decreased 2ppts to 13.1% while our trailing 3-year average annual turnover decreased 40bps to 13.4%. turnover decreased 1ppt to 13.8%.

Market Outlook

Ithaka claims no expertise in economic or market predictions, and top-down analysis plays a minor role in our approach to investing. We typically take our cues on the markets and the economy from our companies' management teams as they discuss their business prospects, and industry outlooks, during quarterly calls. For the first time in the last few quarters, we have started to see a bifurcation in messaging from our portfolio companies. A number of the consumer facing companies we own, such as Burlington, Shopify, and Amazon, and several we don't own, such as Target and Walmart, started waiving the yellow flag with regard to the health of their businesses and the end consumer's willingness to spend. During the most recent earnings calls, these companies observed that consumer spending habits seem to be shifting. Explanations for this shift were 1) travel and services spending regaining share post pandemic, and 2) the US consumer adjusting to surging inflation. This shifting spending has caused inventories to pile up and demand forecasts to be re-underwritten. Time will tell if the recent rapid declines in consumer confidence will seep into slower PCE growth. On the other side of the coin are the portfolio companies that are serving enterprise customers. This crop of companies reiterated yearly guidance forecasts, spoke of resilient demand pipelines, and continued to close a record number of deals during the quarter. At this point it appears corporate CFO's think the risk of falling behind on modernizing their software stacks outweighs the risk of over-investing into a possible economic slowdown.

On the macro level, market participants continue to be focused on the same key issues, the most pressing two being the level of inflation and the Fed's appetite for such inflation. The collective investor seems to be coming to the realization we are apt to experience higher inflation for longer, with inflation expected to hit 6.8% in 2022, dropping to 3.5% in '23 and to 2.1% in '24. The Federal Reserve's has signaled it is in the "do whatever it takes to crush inflation" camp, with its 2023 dot plot suggesting a federal funds rate of 3.75%. Despite this intent, the market seems to be calling the Fed's bluff. As it stands today, the 10-year treasury yield is slightly under 3%, almost a full percentage point lower than the fed's short-term expectations. What seems to be underlying this skepticism is the aforementioned fall in consumer confidence, the S&P GSCI Commodities Index declining to pre-Ukraine war levels (after falling 19% in the past month), and overall economic conditions beginning to soften. If one were to study recessionary periods of the past, and the effects they have had on equity markets at large, drawing a bead on underlying economic conditions provides useful information. For instance, if this turns out to be a non-recessionary bear market, which has historically averaged a decline of ~25% over a 200 day period, we may be almost out of the woods. It this turns out to be a recessionary bear market, which has averaged a decline of ~35% over a 400 day period, there may be more turmoil to ensue. In part due to the market drawdown we are all experiencing, we end this letter as we always do, acknowledging that one's ability to digest, forecast, and accurately discount the above macro factors is pretty much an exercise in futility. We therefore choose to stay focused on our mission of creating wealth for our clients by owning, in size, the great growth stories of our day.

Risk Disclosure

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