



## ITHAKA US GROWTH STRATEGY

### FIRM OVERVIEW

- Founded in 2008
- Based in Arlington, VA
- 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

### PORTFOLIO OVERVIEW

- Inception date: 01/01/09
- Benchmark: Russell 1000 Growth ("R1000G")
- ~\$1.3B AUM
- 4 investment professionals

### OBJECTIVE

- Long-term growth of capital

### PORTFOLIO MANAGERS

- Scott O’Gorman, CFA
- Andy Colyer, CFA

### Market Review

Global markets exuded optimism in the second quarter of 2024, fueled by expectations of looser monetary policy from the Federal Reserve and ongoing growth opportunities from artificial intelligence (AI). This optimism pushed the S&P 500 up 4.3% for the quarter and 15.3% for the year, the Russell 1000 Growth ("R1000G") up 8.3% for the quarter and 21.7% for the year, and the Dow down 1.7% for the quarter and up 3.7% for the year. The main driver of such robust returns rests squarely on the shoulders of the Magnificent 7 ("Mag 7"), which comprises Apple, Alphabet, Amazon, Meta, Microsoft, Nvidia, and Tesla. These seven companies combined have driven 60.6% of the return for the S&P and 74.3% of the return for the R1000G. The current bull market is like nothing we have seen before. The market's concentrated structure, with the Mag 7 names accounting for 54.8% of the R1000G's weighting, has created a phenomenon in which only a handful of stocks are producing the vast majority of the major indices' gains. Although most Mag 7 names contributed positively to this performance, Nvidia continued to perform head and shoulders above the rest, with its YTD gain clocking in around 150%.

Harking back to Ithaka's founding in 2008, the investment team gave serious consideration to deciding what would be the appropriate cap in weighting for any individual holding in client portfolios. With senior members of the investment team having lived through the 1987 Crash, the bursting of the Dot-Com Bubble in March 2000, and endeavoring to stand up its investment business during the '08/'09 Great Financial Crisis, Ithaka's founding investment team decided to implement an 8% cap in any one holding. While we did not, and have not since, argued that 8% is a magic number, we believed it offered us the ability to own "a lot of what we like a lot," while simultaneously implementing a hard-and-fast risk management parameter into the portfolio management process. During Ithaka's fifteen and a half year history, the 8% rule has come into play three times. First, with Meta (then Facebook) back in late 2014 to early 2018. Second, with Amazon in 2018. And finally with Nvidia from the last trading day of 2021 to the present. Over the last two and a half years, we have been obligated to trim our Nvidia holding 12 times, taking out a cumulative 1,095bps of capital. While this has been a happy occurrence from the point of view of NVDA's vast outperformance, we now find ourselves in the unusual position of being underweight to our index in each of our top

three holdings to the tune of 530 basis points. Further, we are underweight the entirety of the Mag 7, which comprises 54.8% of the R1000G, by 23 percentage points. In our ideal world, by being concentrated in our best ideas, we would hold an active bet in every one of our portfolio holdings. However, doing so today would force us to commit over 55% of our clients' capital to seven holdings causing us to breach our 8% cap in the largest three of the seven stocks. As it has throughout our history, our 8% cap will continue to be an important part of our risk management strategy by forcing profit taking and likely limiting portfolio volatility. As we stand here today, we have no insight into whether the Mag 7 will continue to drive market returns with the same dominance it has in the past. If history is any guide, eventually the Old Guard cedes ground to the younger generals. Needless to say this Changing of the Guard would become a headwind for our index, which has grown overly concentrated in a relative few holdings.

### 2Q24 Performance

PERFORMANCE (%)	2Q24	1 YR	3 YR	5 YR	ITD <sup>1</sup>
Ithaka US Growth Strategy (Gross)	4.2	32.9	6.4	16.8	18.0
Ithaka US Growth Strategy (Net)	4.0	32.1	5.8	16.2	17.5
Russell 1000 Growth ("R1000G")	8.3	33.5	11.3	19.3	17.5
S&P 500 TR Index	4.3	24.6	10.0	15.1	14.5

<sup>1</sup>ITD = inception-to-date, annualized. Inception date is 1/1/2009.

During the second quarter Ithaka's portfolio underperformed in a strong market, rising 4.2% (gross of fees) vs the R1000G rising 8.3%. Ithaka's 410bps of underperformance was entirely due to stock selection, with a negligible tailwind from sector allocation. Our portfolio demonstrated weak breadth and depth, with 10 of 31 stocks held for the entire quarter, representing 32% of the names and 31% of the total portfolio's weighting, outperforming our benchmark. This was not surprising given the narrowness of the market's returns of late.

At the portfolio sector level Ithaka realized positive relative returns in one of the four major growth sectors in which we hold active bets, namely Consumer Discretionary. Within Consumer Discretionary, our outperformance was spread across the board, with six of our eight holdings outperforming our benchmark. We realized modest returns in the Technology sector, with only five of fifteen holdings outperforming our benchmark. Two of

our largest outperformers in the sector happen to be names in which, given market appreciation, we are under-weighted vs the R1000G due to our 8% cap in any one holding, with the index holding greater than a 10% weighting in each name. Within Health Care, our underperformance was driven by three of our six holdings, with the two largest decliners being MedTech holdings that fell out of favor in the quarter. Our slight underperformance in Financial Services was broad-based and due to overall weak sector performance relative to the Mag 7 cohort of stocks.

## Contributors and Detractors

2Q24 TOP 5 CONTRIBUTORS (%)	RETURN	IMPACT
NVIDIA	36.5	2.9
Apple	24.0	0.8
Amazon.com	6.8	0.6
Palo Alto Networks	21.4	0.4
Intuitive Surgical	12.7	0.4

2Q24 TOP 5 DETRACTORS (%)	RETURN	IMPACT
Salesforce	(15.0)	(0.6)
Veeva Systems	(20.6)	(0.6)
Dexcom	(17.8)	(0.6)
Mastercard	(7.7)	(0.5)
lululemon	(22.5)	(0.4)

## Top Contributors

### NVIDIA Corporation (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 (AI), machine learning, and autonomous driving. The reason for the stock's appreciation in the quarter was twofold: First, the stock benefited from tremendous excitement surrounding the further development of generative AI and the likelihood this would necessitate the purchase of a large number of Nvidia's products far into the future; Second, Nvidia posted another strong beat-and-raise quarter, where the company upped its F2Q25 revenue guidance above Street estimates, showcasing its dominant position in the buildout of today's accelerated computing infrastructure.

### Apple Inc. (AAPL)

Apple (AAPL) is a global consumer electronics and software company that designs and markets mobile communications devices (iPhones), personal computers (Macs), multi-purpose tablets (iPads), and wearables (Apple Watch, AirPods, and Accessories). The company also sells several high-margin consumer services including Advertising, AppleCare, Cloud

Services, Digital Content and Payment Services. The stock's outperformance during the quarter was due to hopes the September release of the iPhone 16, which will for the first time incorporate artificial intelligence into a widely used consumer device, could drive a golden upgrade cycle for Apple.

### 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 2023 Amazon stood poised to capture ~40% of all US e-commerce sales, representing five times more share than the next closest competitor. In addition to eCommerce, Amazon Web Services ("AWS") has become the market leader in outsourced cloud infrastructure. Further, Amazon Advertising is garnering significant share in digital advertising, particularly product placement ads, thanks to consumers beginning their product searches on Amazon's site. Amazon's stock appreciated on the back of stabilization of the company's cloud computing segment and increased confidence management would be able to contain expenses and push operating margins above prior peaks in the near-to-medium term.

## Top Detractors

### Salesforce, Inc. (CRM)

Salesforce is the largest pure-play cloud software company, holding a leading market share in customer relationship management applications and a top-five market share position in the company's other clouds (Marketing, Service, Platform, Analytics, Integration, and Commerce). The company's software subscription term-license model differs from the traditional perpetual-license software model in two respects: (1) the software is hosted on centralized servers and delivered over the internet, as opposed to traditional enterprise software that is loaded directly onto customers' hard drives or servers; and (2) the revenue model is subscription-based, typically charging monthly fees per user as opposed to charging one-time licensing fees. The stock's weak relative performance followed its fiscal first quarter earnings announcement, where the company missed top-line and cRPO (current remaining performance obligations) estimates while also issuing weak forward guidance.

### 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 underperformance in the quarter was due to a \$30M revenue guidance cut during their fiscal first quarter earnings announcement. The cut was due to deal scrutiny from enterprise customers driven by ongoing macro uncertainty and near term disruption from AI resource allocation.

DexCom, Inc. (DXCM)

DexCom is a medical device company focused on the design, development, and commercialization of continuous glucose monitoring (CGM) systems, primarily 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 suffered despite a solid earnings announcement that beat Street expectations across the board. The fall in the stock price was likely due to missing elevated buy-side expectations following multiple quarters of accelerating fundamental growth.

Transactions

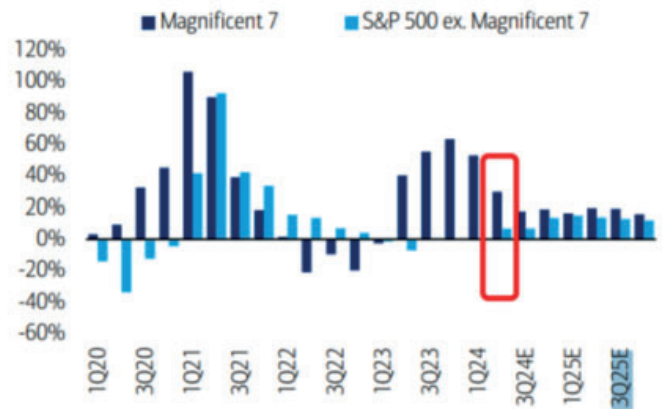
During the quarter we initiated a position in e.l.f. Beauty (ELF) and did not eliminate any portfolio holdings. Both our trailing 12-month turnover and our trailing 3-year average annual turnover were ~flat at 12.9% and 12.7%, respectively.<sup>1</sup>

Market Outlook

Ithaka claims no expertise in economic or market predictions, and top-down analysis merely plays a supporting role in our approach to investing. We typically take our cues on the economy and the markets from our companies’ management teams as they discuss their business prospects, and industry outlooks, during quarterly calls. During the second quarter 91% of our portfolio holdings beat both top- and bottom-line expectations, which resulted in the average stock falling ~1% , eight stocks increasing >5%, and twelve stocks falling >5%. The skew in the quarter was negative with fat tails. On their earnings calls, management teams continued to discuss the health of the consumer, AI roadmaps, and pared back capital spending plans, which has been the case for the past four quarters. Outside of these constant themes, the story filling all the airtime has been the dominance of the Mag 7 names on both a fundamental and price basis, and the likely forward paths for these companies.

The absolute dominance of the Mag 7 names since the 4th quarter of 2022 has been remarkable. To give you some statistics, the S&P 500 has added \$13.7T in market cap since December 31st, 2022 (growing from \$32.1T to \$45.8T). Of that \$13.7T gain, the Mag 7 has accounted for \$8.82T of it, or ~65% of the total, with the index up 45.6% over this time period. Of the Mag 7 names, six have had their forward multiple expand (between 15% and 183%), while one lone company saw its multiple contract 27%. In almost every case this multiple expansion appears to be somewhat explainable. Since the 2nd quarter of 2023, the earnings of this basket of stocks has been growing between 40% and 60%, while the other 493 companies have not seen their aggregate earnings grow at all (see the chart below). In the second quarter of 2024, for the first time in six quarters, the other 493 names in the index will see aggregate earnings growth, while the Mag 7 names will see decelerating earnings growth. The gap between the earnings of these two

baskets of stocks should continually close throughout the rest of this year and will likely exit 2024 growing at fairly similar rates. If these estimates are indeed correct, it should help the market leadership broaden out as investors look beyond the basket that has dominated the market toward other names that are once again growing earnings whilst supporting much more reasonable valuations (18.2x NTM earnings for the 493 stocks vs 36.2x for the Mag 7). Ithaka’s investment team continues to believe that the Mag 7 companies have been, and will continue to be, some of the best performing businesses ever created by mankind. Having said that, we are hopeful that the narrowness of this bull market broadens out, increasing its overall health by lessening its dependence on a small group of richly valued companies, albeit in most instances well deserved.



Source: BofA US Equity & Quant Strategy, FactSet

Our market outlook section wouldn’t be complete without our obligatory musings on the Fed’s future policy decisions. Following the now infamous December policy meeting when the Fed raised the white flag on rate increases, asset markets (especially equity markets) have been laser focused on the timing of rate cuts by the Fed. The market received welcome news in Mid-July with the June CPI data release, which showed a 0.1% drop in prices from May, helping to slow the annual rate of inflation to 3.0% from 3.3% in the prior month. Following this report, the market quickly priced in a 90% chance of at least one rate cut by the September meeting and a 54% chance of three rate cuts by the end of 2024, bringing the neutral rate to 4.50%-4.75%. While we are not economists, given the strength of the labor market, the contraction in the rate of inflation, and the impending presidential election, it is reasonable to expect rates to take, at least, a small step down sometime before the end of 2024.

As always, we end this letter acknowledging that one’s ability to digest, forecast, and accurately discount the above macro factors is pretty much an exercise in futility, and we therefore choose to stay fully invested and focused on our mission of creating wealth for our clients by owning, in size, the great growth stories of our day.

<sup>1</sup> Turnover Rate indicates the frequency of changes to the portfolio, and is calculated as the greater of the buys or the sells during the period as a percentage of the assets under management at the time of each transaction. The calculation eliminates the effect of client-directed cash flows. Average Annual Turnover is calculated based on a trailing three year period.

## Risk Disclosure

Past performance is not indicative of future results. The performance shown is for the Ithaka US Growth Strategy Composite. All fully discretionary taxable and non-taxable accounts are added to the composite following the first quarter in which their ending market values equal or exceed \$0.5 million. Results of individual accounts may vary from the composite depending on account size, timing of transactions and market conditions prevailing at the time of the transaction. The gross-of-fee performance does not reflect the payment of management fees and other expenses that are incurred in the management of an account. The net-of-fee performance includes the payment of such fees and expenses. Gross-of-fee performance and net-of-fee performance both include the reinvestment of all distributions, dividends and other income.

The performance shown is compared to the Russell 1000 Growth Index and the S&P 500 TR Index. The Russell 1000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes those companies from the Russell 1000 Index with high price-to-book ratios and high forecasted growth as compared to other companies listed in the Russell 1000 Index. The S&P 500 TR Index is a market-capitalization-weighted index that measures the performance of 500 leading publicly traded companies in the U.S. The index tracks both the capital gains as well as any cash distributions, such as dividends or interest, attributed to the components of the index. These broad-based securities indexes are unmanaged and are not subject to fees and expenses typically associated with managed accounts. Individuals cannot invest directly in an index.

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions Ithaka makes in the future will be profitable or will equal the investment performance of the securities discussed herein. Investing in securities entails risk and may result in loss of principal.