the ithaka group
Concentrated Growth Equity Managers

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

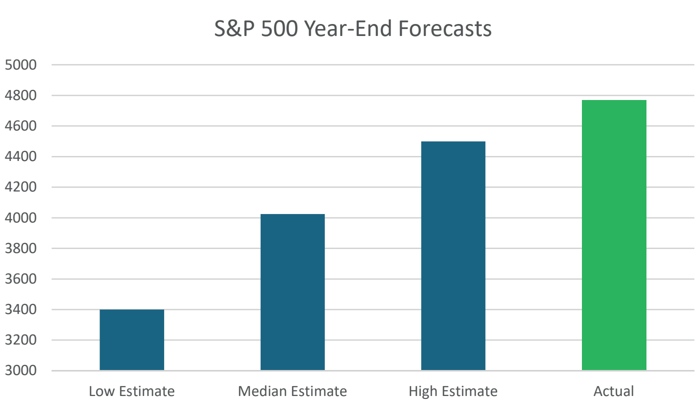
PORTFOLIO OVERVIEW
- Inception date: 01/01/09
- Benchmark: Russell 1000 Growth ("R1000G")
- ~$1.2B AUM
- 5 investment professionals

OBJECTIVE
- Long-term growth of capital

PORTFOLIO MANAGERS
- Scott O'Gorman, CFA
- Andy Colyer, CFA

Market Review

On the heels of a painful 2022, during which most major market indices suffered their largest calendar-year drawdowns since 2008, our index, the Russell 1000 Growth ("R1G"), bounced back in 2023 with its strongest performance in ~25 years, up 42.7%. The R1G shot out of the gates in January, gathered steam from mid-March through mid-July, and then, after a nerve-wracking 13 percentage point retracement from July 18th to October 26th, put on a final burst of speed in November and December that would have made Jesse Owens proud. In the fourth quarter the major equity indices all rose double digits with the Russell gaining 14.2%, the NASDAQ 13.6%, the Dow 12.5%, and the S&P 500 11.2%. These strong returns were driven by the market discounting, and the Fed subsequently confirming, the end of a 21-month-old rate-hiking cycle instituted to combat the ravages of the highest inflation we have seen since 1979-1980. The Fed's December dot plot calls for 250 basis points ("bps") of rate cuts between now and year-end 2026 (75bps in 2024, 100bps in 2025, and 75bps in 2026), which would bring the Federal Funds target range from the current 5.25%-5.50%, to 2.75%-3.00%.



Source: Creative Planning, MarketWatch

As we reflect on 2023 an old adage, "the market climbs a wall of worry," comes to mind. Near the start of 2023 market strategists projected an uneventful year with the median year-end S&P 500 prognostication landing at a tepid 4025, a gain of only 4.8% (see chart above). As Yogi Berra famously quipped, "It is difficult to make predictions, especially about the future." On January 1st 2023, had you had in front of you a list of pending disconcerting market events, such as major bank failures, four interest rate hikes, an ongoing war in Ukraine, ballooning global government debt, a U.S. government debt downgrade, and a conflict in the Middle East (to name a few), you would have been hard pressed to project the S&P500 to rise 24.2%. The market once again climbed the proverbial "wall of worry." Like most market participants, we did not know what 2023 had in store for investors and thus count ourselves fortunate that a key tenet of our investment philosophy is to stay fully invested at all times, which allows us to be there when the market does make a recovery rather than trying to catch up after the recovery is well under way. We continue to be in uncharted waters and cannot help but think most asset prices will continue to experience heightened volatility as investors digest, in real time, the intertwined paths of wages, inflation, interest rates and corporate earnings, all overlayed with the unknown effects of a relatively new phenomenon, Generative AI. We remain confident our portfolio is well positioned to benefit from any one of multiple scenarios that strategists and pundits anticipate will ensue.

4Q23 Performance

PERFORMANCE (%)	4Q23	1 YR	3 YR	5 YR	ITD[1]
Ithaka US Growth Strategy (Gross)	18.4	57.1	3.8	18.4	17.3
Ithaka US Growth Strategy (Net)	18.3	56.2	3.2	17.8	16.7
Russell 1000 Growth ("R1000G")	14.2	42.7	8.9	19.5	16.7

[1] ITD = inception-to-date, annualized. Inception date is 1/1/2009.

During the fourth quarter Ithaka's portfolio outperformed in a strong market, rising 18.4% vs the R1G rising 14.2%. Ithaka's 420bps of outperformance was almost entirely due to stock selection, with a slight benefit from sector allocation. Our portfolio demonstrated solid breadth and depth, with 20 of 29 stocks held for the entire quarter, representing 69% of the names and 65% of the total portfolio's weighting, outperforming our benchmark.

At the portfolio sector level Ithaka realized positive relative returns in three of the four major growth sectors in which we hold active bets. Within Technology, our outperformance was fairly broad-based and benefitted from the market bidding up this basket of stocks, best illustrated by the Technology Select Sector SPDR ETF's (XLK) gain of 17.5%. Strong returns in our Consumer Discretionary sector were also broad-based, with six of eight holdings outperforming our benchmark by similar amounts. Within Health Care, our slight outperformance was due to a bounce back in our positions exposed to the diabetes space following an aggressive sell-off in the previous quarter based on fears surrounding the impact glucagon-like peptide-1 receptor agonists (GLP-1's), such as Ozempic and Wegovy, might have on the total addressable market of diabetes companies. Our lone sector of underperformance was Financial Services, driven entirely by a fintech position we exited during the quarter.

Contributors and Detractors

4Q23 TOP 5 CONTRIBUTORS (%)	RETURN	IMPACT
ServiceNow	26.4	1.8
Microsoft	19.4	1.5
Amazon.com	19.5	1.4
salesforce.com	29.8	1.2
NVIDIA	13.9	1.1

4Q23 TOP 5 DETRACTORS (%)	RETURN	IMPACT
Veeva Systems	(5.4)	(0.2)
Align Technology	(10.3)	(0.2)
The Trade Desk	(7.9)	(0.1)
Block	(6.2)	(0.1)
Edwards Lifesciences	(2.9)	(0.1)

Top Contributors

ServiceNow, Inc. (NOW)
Founded in 2004, ServiceNow has become the leading provider of cloud-based software solutions that define, structure, manage and automate workflow services for global enterprises. ServiceNow pioneered the use of the cloud to deliver IT service management ("ITSM") applications. These applications allow users to manage incidents and to plan new IT projects, provision clouds, manage application performance and build applications themselves. The company has since expanded beyond the ITSM market to provide workflow solutions for IT operations management, customer support, human resources, security operations and other enterprise departments where a patchwork of semi-automated processes have been used in the past. ServiceNow's stock appreciated in the quarter on the back of a strong rise in the overall technology market and strong earnings that beat Street estimates on the top and bottom line.

Microsoft Corporation (MSFT)
Microsoft builds best-in-class platforms and provides services that help drive small business productivity, large business competitiveness, and public-sector efficiency. Microsoft's products include operating systems, cross-device productivity applications, server applications, software development tools, video games, and business-solution applications. The company also designs, manufactures, and sells devices, including PCs, tablets, and gaming/entertainment consoles that all integrate with Azure, its cloud computing service. In the quarter Microsoft's stock appreciated on the back of excitement surrounding the company's positioning in the generative AI market and its ability to monetize the coming wave of corporate investment in supercomputing and AI, which will be through both Azure and Microsoft Copilot, the companies new GenAI personal assistant.

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 2022 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 the company would be able to contain expenses and push operating margins above prior peaks in the near-to-medium term.

Top Detractors

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 cautious commentary provided on their quarterly earnings call, with management pointing to a challenging macro environment, pushing companies to look for cost reductions by delaying service engagements or using more internal resources.

Align Technology, Inc. (ALGN)
Align Technology is a global medical device company engaged in the design, manufacture and marketing of Invisalign clear aligners for the treatment of malocclusions, or misalignment of teeth, by orthodontists and general dental practitioners. Malocclusion is one of the most prevalent clinical dental conditions, affecting billions of people around the world, with tens of millions of people choosing to get treatment each year. All of Align's underperformance stemmed from its weak 3Q23 earnings announcement, where the company missed Street estimates on both the top and bottom line, while also providing cautious commentary regarding the desire for the global consumer to initiate Invisalign treatment.

The Trade Desk, Inc. (TTD)
The Trade Desk offers customers a cloud-based ad-buying platform that empowers advertising agencies, brands, and other service providers to plan, manage, optimize, and measure data-driven digital advertising campaigns. The Trade Desk's competitive moat stems from its industry leading technology stack, its trusted brand due to its singular focus on the buy-side of the ad ecosystem (no conflicts of interest), and its transparent reporting that details the ROI on each ad dollar spent. The stocks underperformance in the quarter was due to cautious commentary given during the company's earnings announcement, where management stated they are "seeing some transitory cautiousness across some of the top 200 advertisers" following the U.S. auto industry strike and the initial shock from terror attacks in Israel.

Transactions

During the quarter we initiated three positions, Uber Technologies (UBER), Meta Platforms (META) and Medpace Holdings (MEDP), and eliminated two positions, Block (SQ) and Edwards Lifesciences (EW). Our trailing 12-month turnover decreased to 11.4% while our trailing 3-year average annual turnover decreased to 13.9%.[1]

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 fourth quarter 83% and 90% of our portfolio holdings beat top- and bottom-line expectations, respectively, which sent the average stock up ~1%, eight stocks up >5%, and six stocks down >5%. The skew in the quarter was slightly positive. Similar to the prior two quarters, references to Generative Artificial Intelligence ("GenAI") once again pervaded, and in some cases dominated, almost every earnings call we digested.

In our previous two letters we discussed what GenAI is, the debate surrounding the bull and bear case for this pending technology, and what we think the first two stages of this technological revolution are likely to look like. As a refresher, we believe stage-1 is the infrastructure buildout we are currently witnessing, which is being powered by Jensen Huang's NVIDIA and Lisa Su's Advanced Micro Devices, among others. Stage-2 involves companies identifying which initial applications to build on this infrastructure to drive productivity and, eventually, economic profits. While we anticipate these first two stages will play out over the coming months and years, stage-3 is likely to play out over the coming years and decades. This stage will be characterized by AI infiltrating consumers' everyday lives in ways that make it impossible to fathom how we ever lived without this technology. Much like how the youths of today cannot understand how their parents navigated without Google Maps, or how they were able to meet up with friends without text messages, future generations will struggle to grasp how life happened without AI permeating everyday tasks. Here are two possible examples: (1) AI assistants for everyday scheduling. For iPhone users, think of this as Siri on steroids, controlling your daily routines with minimal, if any, input from you. Running late to a meeting? Your assistant will automatically email your counterparty with an updated ETA. Forgot to get your spouse flowers on Valentines Day? Your assistant will have them ordered and delivered with a simple voice command. (2) Superior medical diagnoses. Anyone who has been to a doctor, a clinic, or a hospital suffering from an unknown illness may appreciate why a healthcare practitioner's vocation is often referred to as "practicing medicine." Most times doctors are doing their best to diagnose and treat but end up throwing a barrage of medications and therapies at the ailment with the hope one of them provides the cure. One day your healthcare treatments will be tailored to you, thanks to the amount of data collected, categorized, and analyzed specific to your own body being orders of magnitude larger than today. This should lead to infinitely better health outcomes. As stated before, this is only scratching the surface of what is truly possible (or even imaginable). As we stand here today, we could not be more enthusiastic about what the future holds for consumers and the companies enabling these pending technological leaps forward.

Our market outlook section wouldn't be complete without our obligatory musings on the Fed's future policy decisions. For the first time in almost two years, we can acknowledge the Fed made it to the pinnacle of the mountain. After a 21-month long cycle that included 11 rate increases of varying sizes, the Fed appears to be waving the checkered flag. At its December policy meeting the Fed released its now infamous dot plot calling for ~75bps of cuts in 2024, 100bps in 2025, and 75bps in 2026. The market took this positive news and ran with it, choosing to price-in 125bps of Fed Funds interest rate cuts in 2024, thus contributing to bringing the target range to 2.75%-3.00% no later than early 2026. Just as the "how high, and for how long" debates were all-the-rage on the way up, the debates will now shift to "how fast, and how low" on the way down. As we know this will likely revolve around the Fed's actions that are intended to achieve its dual mandate of maximum employment and price stability. Today, these Fed actions would seem to support it is indeed engineering a first-ever soft landing. Time will tell.

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.

[1] 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.

Contact: info@ithakagroup.com
3811 N Fairfax Drive | Suite 720 | Arlington, VA 22203
Ph: 240.395.5000 | www.ithakagroup.com