NewBridge Large Cap Growth Equity Quarterly Commentary SMA

A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of December 31, 2022

Executive Summary

- The fourth quarter was once again marked by equity market volatility, as investors grappled with multiple factors – inflation and the Fed's hawkish policy stance likely the greatest influences.
- While macro factors were a large influence on the portfolio's fourth quarter performance, the portfolio also suffered from a few company-specific issues, but other holdings benefited from strong financial results and outlooks.
- The portfolio posted a positive return and outperformed (gross of fees) its benchmark, the Russell 1000® Growth Index, in the fourth quarter.
- As always, our focus is on company fundamentals. We will continue to manage the portfolio by investing in companies with market leadership, solid financial bases, responsible management teams, and sustainable revenue and earnings growth.

Market Review

Once again, equity market volatility continued in the fourth quarter, as investors contended with multiple issues – inflation and the Federal Reserve's (the Fed) hawkish policy stance likely the greatest influences. Growth stocks, including the portfolio, rebounded from the end of the third quarter in October and November but fell in December as investors grew more wary of the Fed's direction. Like the bulk of the year, value stocks significantly outperformed growth stocks during the fourth quarter, as measured by the return of the Russell 1000® Value Index and that of the Russell 1000® Growth Index. The September Consumer Price Index (CPI) – released on October 13 – indicated inflationary "stickiness" that initially hurt equities, but as other soft (e.g., ISM's Purchasing Managers' Index [PMI]) and hard (e.g., residential housing metrics) economic data were released, equities rose as the data showed slowing economic activity. This reaction represented the "bad news can be good news for the equity market" trade, as investors may have believed that Fed actions had already started to weaken the economy and therefore could force the Fed to reconsider their hawkish policy stance. With year-over-year inflation still high, this expectation was likely a stretch. Moving forward, the October CPI – released on November 10 – came in cooler than expected, which again renewed some hope that the Fed could slow its pace of interest rate hikes and thereby bring the economy to a "softish" landing. Stocks moved decidedly higher on the report, which followed a pattern of market behavior after similar "less worse" reports this year. While inflationary pressure clearly still affects many areas within the economy, there have been signs of some (welcomed) slowing. That said, the Fed continued to take a hawkish stance to quash inflation, which it has viewed as a greater longer-term risk than nearer-term "pain" (recession and job losses) in the economy. In fact, speaking and answering questions at the Brookings Institution on the last day of November, Fed Chair Powell stated that the Fed wishes to slow growth and aggregate demand through its policy. He reminded listeners/viewers that the rise in hourly wages was not consistent with 2% inflation – its mandated goal for inflation. He stated that the Fed will continue to raise rates "sufficiently high enough" to get to 2% inflation – i.e., there's room to go with raising interest rates, since the "full effects of rapid tightening [are] yet to be felt." The Fed remained clear that it is not looking to make a dovish pivot. However, Powell indicated that they are going to "slow down" (rate hikes). The market used this, along with Powell's statement that the U.S. could have a "softish" landing, as bullish indicators and drove stocks higher in December. However, December represented the Santa Claus rally that never arrived. Equities fell in December following November's upturn. The November CPI – released on December 13 – came in somewhat cooler than expected, which initially renewed some hope that the Federal Reserve may slow its pace of interest rate hikes. Stocks initially rose on the report, but that price action was fleeting. On December 14, following the Federal Open Market Committee (FOMC) meeting where they raised the target rate by 50 bps, Chair Powell reiterated their hawkish policy intent, stating, "We are not at a sufficiently restrictive policy stance yet, which is why we say that ongoing hikes will be required." While that statement did not come as a surprise, the so-called "dot plot" indicated that 17 of 19 FOMC participants wrote down a peak rate of 5% or more, which suggests that the federal funds rate is likely to move and remain higher for longer – a potentially bearish dynamic for equities. The Fed remained clear that it is not looking to make a dovish pivot. The Fed will continue to monitor soft and hard economic data as they come out. We have already started and continue to see slower home sales, car sales, and mortgage applications – all of which have a multiplier effect on GDP. PMIs have also fallen, which tend to be a leading indicator of future economic activity, along with the University of Michigan reading of consumer sentiment, which has weakened year-over-year, but is up from November, as it tends to be inversely correlated with gasoline prices. We, along with other investors, will continue to listen to the Fed and watch the data. As in past tightening cycles, we are in the type of environment that dictates that relatively bad news from the economic data front can be positive for equities, as investors believe Fed policy could potentially loosen.

Given the uncertain market environment and a cloudy outlook for economic growth, investors were generally nervous during third quarter earnings season, which took place in the fourth quarter. Most mega-cap tech stocks sold off significantly following their respective quarterly financial reports and management guidance. The stocks struggled during the year as revenue and earnings have slowed from historical growth rates.

Portfolio Review

During the quarter, the NewBridge Large Cap Growth Strategy posted a positive return and beat its benchmark (gross of fees). In this high-inflationary environment, secular growth stocks generally suffered versus value stocks, as evidenced by relative outperformance of value versus growth this quarter and during the year. Despite mostly solid company fundamentals, the portfolio saw several of its constituents underperform during the quarter, as they continued to experience multiple contraction in the face of high inflation and a more hawkish Fed. Equity style rotations are natural to investment cycles, and either provide the portfolio with headwinds or tailwinds. The portfolio has primarily experienced headwinds since the Fed's hawkish pivot in mid-November 2021 but has benefited from style tailwinds on short-lived occasions. Volatility among styles will likely continue. While macro factors were a large influence on the portfolio's fourth quarter performance, the portfolio also suffered from a few company-specific issues, but other holdings benefited from strong financial results and outlooks, which we outline below.

From a fundamental perspective, the companies in the NewBridge portfolio reported solid quarterly financial results in aggregate. That said, as in previous quarters, those that showed mixed results and guidance saw their stocks trade lower. The sell-offs were intensified by risk aversion to relatively high equity valuations in a volatile environment that has grown wary of higher future interest rates, a hawkish Fed, and slowing economic growth. Still, we continue to believe that the underlying fundamentals and growth prospects of the portfolio's components remain intact, and we have made changes to reflect further potential risks and opportunities.

While we were disappointed with the portfolio's performance this year and the negative reactions to some of the portfolio companies' financial results and guidance issuance, we are not dissuaded and remain steadfast in our adherence to our investment philosophy and process. As always, we will continue to focus on fundamentals of the portfolio's companies and look for opportunities to improve the portfolio's composition of growth and quality.

The best relative performing quantitative factors during the fourth quarter represented Value: E/P Forward, EBITDA / EV, E/P Forward (Sector Relative), E/P Trailing, and Composite Value. The portfolio was underweight each of those factors. The worst performing quantitative factors in the fourth quarter were: Growth (Sales Growth, Composite Growth, Cashflow Growth, and Estimated Long-Term Growth) and Risk (Volatility). The portfolio was overweight each of these factors, save Cashflow Growth. The distribution of factor leadership served as a style headwind for the portfolio during the fourth quarter. Last quarter, the distribution of factor leadership represented a slight tailwind for the portfolio.

We maintained our high-growth, high-quality mandate throughout the quarter. The portfolio is composed mostly of Emerging Growth and Established Growth cycle* companies, along with a smaller allocation to Mature Growth companies. At the end of the quarter, two growth cycle categories made up 81% of the portfolio. Established growth, at 50%, was the portfolio's largest growth cycle constituent versus the Russell 1000® Growth Index's allocation of 51%. The portfolio's emerging growth holdings represented 31% of the portfolio, whereas the benchmark had 18%. The mature growth category represented 15% of the portfolio and 23% of the benchmark. For the portfolio, the Emerging Growth category stocks fared worst but outperformed those in the benchmark. The portfolio's Established Growth holdings posted a positive return and performed better than the benchmark. The Mature Growth category was the best performing group during the quarter for the portfolio and the benchmark. The portfolio's underweight allocation to the category compared to the benchmark was the primary reason for the group's relative underperformance in the third quarter. The benchmark holds 7% in Traditional Value stocks and 1% in Deep Value. Each of those groups outperformed during the quarter, which detracted from the portfolio's relative return, since they are not owned in the portfolio.

As of December 31, 2022, the portfolio consisted of 33 companies, with the top ten representing approximately 44%. Sector (GICS) weights at quarter-end were: Information Technology (42.9% vs. 43.3% for the Index weight); Consumer Discretionary (19.2% vs. 14.2%); Health Care (14.8% vs. 13.5%); Communication Services (8.9% vs. 6.8%); Industrials (5.7% vs. 8.1%); Financials (4.8% vs. 3.3%); Consumer Staples (0.0% vs. 6.1%); Energy (0.0% vs. 1.7%); Materials (0.0% vs. 1.4%); and Real Estate (0.0% vs. 1.6%). Active share was 75%.

Return Attribution

The portfolio's companies reported financial results during the fourth quarter that were encouraging in aggregate, but the tone of the market remained skeptical, as investors tried to determine if downward earnings revisions were reflected in the market. The portfolio had a mix of companies that saw their stocks rise significantly following their respective earnings call, while others fell after posting results. The portfolio posted a positive return and outperformed its benchmark gross of fees.

The portfolio's Consumer Discretionary sector holdings showed the greatest outperformance relative to the benchmark. NIKE, Inc. (+41.2%), Tractor Supply Company (+21.5%), and O'Reilly Automotive, Inc. (+20.0%) were among the portfolio's best performers, while Amazon.com, Inc. (-25.7%) and Airbnb, Inc. (-18.6%) were laggards. NIKE reported better than expected financial results, while Amazon reported disappointing metrics. The portfolio also benefited during the quarter by not owning Tesla, Inc., which was down 53.6% for that period. The portfolio's Technology sector also outperformed that of the benchmark. Broadcom, Inc. (+27.0%) and NVIDIA Corporation (+20.4%) led the portfolio's semiconductor holdings, while Adobe Incorporated (+22.3%) led the portfolio's software group. Visa, Inc. (+17.2%) and Motorola Solutions, Inc. (15.5%) were also standouts and benefited from their high-quality defensive growth characteristics. The portfolio's two software security stocks, Palo Alto Networks, Inc. (-14.8%) and CrowdStrike Holdings, Inc. (-36.1%), were subjected primarily to multiple compression, not negative earnings revisions. The portfolio's Health Care sector holdings slightly underperformed those of the benchmark. Leadership from Dexcom, Inc. (+40.6%) contributed to the portfolio's absolute and relative return. Dexcom outperformed during the quarter as investors grew more confident in the company's ability to expand the addressable market for its new and updated constant glucose monitoring devices. The company also posted excellent financial results and issued guidance that was above consensus estimates. Investors rewarded shares significantly. Veeva Systems, Inc. (-2.1%) lagged the group after posting in-line quarterly financial results, but issued a cautious outlook based on an uncertain economic backdrop and a strong U.S. dollar. The portfolio's Communication Services sector holdings underperformed in the fourth quarter. Weakness in Trade Desk, Inc. (-25.0%) was the main culprit, as investor angst over digital ad spending pressured shares and compressed the stock's valuation. The company continues to execute well in a challenging environment. The portfolio's worst performing group was the Industrials sector. Generac Holdings, Inc. (-43.1%) was the portfolio's largest detractor during the quarter and is no longer in the portfolio. On a positive note, CoStar Group, Inc. (+11.0%) reported strong quarterly financial results in late October, which sent shares higher.

Not owning Consumer Staples, Energy, and Materials sector stocks detracted from the portfolio's relative performance, and those sectors outperformed the benchmark's quarterly return.

Although some of the portfolio's companies came in short of consensus expectations, overall we were encouraged with the portfolio's company-specific fundamentals during the fourth quarter and remain confident that its constituents should be able to show solid financial results in the future. The quarter was clearly challenging, but we believe most of the weakness was due to the Fed's more hawkish stance, not because of a broad degradation in company fundamentals. That said, we sold or trimmed stocks that we believed could show more sustained fundamental weakness.

Portfolio Actions

We made several changes to the portfolio in keeping with our long-term, "bottom-up" investment approach. During the quarter, we introduced one position and sold two. We also increased and trimmed several existing positions. We continue to be diligent in our search for investment opportunities and expect to continue our efforts to upgrade the portfolio while maintaining our investment discipline.

New Position:

UnitedHealth Group, Inc. (UNH) – We initiated a position in UNH following their impressive third quarter earnings results and subsequent sell-off in shares, as investors rotated away from YTD outperformers like UNH following a better-than-expected October CPI reading. UNH, the premier managed care organization (MCO) in the United States, had recently posted another beat-and-raise quarterly result and demonstrated continued leadership in both the government and commercial insurance businesses, as well as in its value-based care initiatives at Optum Health. UNH remains the dominant market share leader in the health plan industry and continues to lead the market with its first-mover advantage in more closely integrating Optum Health – its value-based care initiative division – across its scaled competitive advantage in its government and commercial insurance businesses.

UNH is a high-quality growth company with industry leadership. We believe the near-term inflationary environment slowing economic activity and the potential for the U.S. economy to slip into a recession in 2023 make the quality aspect of UNH's consistent financial results the most attractive aspect for the investment. Given those characteristics, UNH trades at a premium to its peers, as well as its long-term average, and therefore providing continued consistency in its financial results will be important to maintaining its premium valuation and position in our portfolio. UNH recently held an analyst day which increased our conviction in the investment, as it disclosed initiatives that should allow it to consistently deliver attractive levels of growth.

Eliminated Position:

Align Technologies, Inc. (ALGN) – ALGN has been a challenged stock for most of the year. We sold the position based on a lack of visibility into future sales and earnings – specifically, uncertainty regarding large-ticket discretionary purchases and slowing growth in China due to the government's zero-COVID policy. We sold shares prior to the company's third quarter results, which were dreadful. The stock traded off an additional 18% following the print.

Aptiv, PLC (APTV) – While we believe APTV is a well-run, technology-driven Tier-1 global auto supplier, we have become increasingly concerned that the company's financial estimates will likely be further reduced for the remainder of the year and into 2023. At the position's initiation, we originally believed that APTV, as an industry leader, would be a beneficiary of supply chain improvements following severe bottlenecks caused by the COVID-19 pandemic as light vehicle production (LVP) increased. While somewhat alleviated, friction remains in the channel and was exacerbated by the war in Ukraine. There are significant risks to LVP rates in Europe as winter approaches, given the potential energy crisis in the region. Additionally, on a global basis, consumers' appetite for large-ticket purchases like automobiles may be further muted as higher interest rates have led to more expensive financing. We will continue to monitor APTV's progress, along with auto industry production trends, but believe there are risks of lower revisions in the near to intermediate term. We believe that the portfolio's position in O'Reilly Automotive should benefit in the current environment as owners invest in the longevity of their existing vehicles through the purchase of replacement auto parts.

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Generac Holdings, Inc. (GNRC) – After exercising patience with the shares, we eliminated the stub position from the portfolio in November. The company pre-announced third quarter financial results in mid-October that were worse than our and consensus's expectations. Management reported that, while demand for their home standby generators remained solid, a combination of bottlenecks (primarily labor availability-related) at their installer partners and increased capacity at their own factories led to a significant slowdown in new orders and an increase in product availability. Consequently, inventory throughout their third-party dealer/installer network will take time to work off. Additionally, the company was forced to write-down revenue and profits that they will not receive from a customer of their solar-related products that declared bankruptcy. The investment in GNRC was disappointing. We trimmed shares in May, but in hindsight, clearly should have sold the entire position then. After the company's pre-announcement in October, we waited to receive further detailed commentary from management on their scheduled third quarter earnings call that we believed could provide at least some optimism into next year after the shares slid. We were wrong in that belief and redeployed the funds into UnitedHealth Group, Inc.

Strategy & Outlook

As outlined above, the market environment has been challenging for equity investors – especially for growth stock investors. We believe we have identified the areas of the portfolio with the greatest risks and have trimmed those holdings or eliminated them. We continue to own several longer duration stocks and are confident in their ability to grow over time; common to them all are rapidly growing, disruptive product and services offerings, which we believe warrant a premium. We initiated or added to positions in historically less volatile, higher-quality growth compounders. These portfolio moves are by no means indicative of a deviation, but a continued acknowledgement of the inherent risks associated with highly volatile stocks in the current market environment. We continue to own secular growth stocks that we believe deserve premium valuations and will look for opportunities to add others.

We continue to believe that investors could become more attracted to growth stocks this year, as the business cycle enters a slowing economic phase that may be accelerated by the data-dependent Fed, which will closely monitor financial conditions and will likely raise interest rates on several occasions this year. We maintained our investment discipline, philosophy, and process by focusing on company fundamentals in our search for investment opportunities. We believe we have constructed a portfolio of industry-leading growth companies that should continue to post attractive financial results in what may continue to be a volatile period for stocks.

We live in a dynamic world where economic data, corporate news, and geopolitical shocks can rapidly shift investor sentiment. As we go through 2023, we recognize several risks to the portfolio and to the equity market in general. Some of those potential headwinds include: a Fed policy surprise or mistake, continued inflationary pressures, COVID-related issues, geopolitical risks, equity valuations and rotations, and the midterm elections. However, we remain optimistic for the future, as employment remains resilient, supply chain disruptions should ease over time, corporate profits still appear supportive, business digitization continues, and liquidity, albeit lower, remains in the system. Overall, it is our contention that the opportunities should outweigh the risks and be supportive for the portfolio.

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Top 5 Contributors (% Contribution to Return)	
DexCom, Inc.	1.09
O'Reilly Automotive, Inc.	0.86
Visa Inc. Class A	0.83
NIKE, Inc. Class B	0.81
NVIDIA Corporation	0.60

Top 5 Detractors (% Contribution to Return)	
Amazon.com, Inc.	-1.47
CrowdStrike Holdings, Inc. Class A	-1.02
Generac Holdings Inc.	-0.73
Trade Desk, Inc. Class A	-0.59
Alphabet Inc. Class C	-0.44

Source: FactSet.

Top 10 Holdings (% of Portfolio)	
Visa Inc. Class A	5.84
Alphabet Inc. Class C	5.82
Amazon.com, Inc.	4.56
O'Reilly Automotive, Inc.	4.52
Microsoft Corporation	4.03
Thermo Fisher Scientific Inc.	4.02
Arista Networks, Inc.	4.00
Cadence Design Systems, Inc.	3.84
ServiceNow, Inc.	3.78
NVIDIA Corporation	3.72

Source: Factset

				ANNUALIZED RETURNS			
SMA Composite Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception
NewBridge Large Cap Growth Equity (gross of fees)	2.52	-37.29	-37.29	2.17	5.75	9.75	5.16
NewBridge Large Cap Growth Equity (net of fees)	1.76	-39.23	-39.23	-0.86	2.63	6.54	2.09
Russell 1000® Growth Index	2.20	-29.14	-29.14	7.79	10.96	14.10	6.34

Source: StatPro. Since Inception date of 4/1/99.

Past performance does not guarantee future results. Returns for periods greater than one year are annualized. Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings. The NewBridge Large Cap Growth Equity Composite includes all accounts, except wrap fee paying accounts, that invest in high-quality companies with growing earnings, strong financial foundations, market-leadership, and superb management teams for long term growth of capital with a minimum equity commitment goal of 80%-90%. The benchmark is the Russell 1000® Growth Index. The composite creation date is 2Q99.

The Russell 1000® Growth Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 1000® Index (which consists of the 1,000 largest companies in the Russell 3000® Index) with higher price-to-book ratios and higher forecasted growth values.

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Glossary of Quantitative Factors (in order of appearance):

Composite Growth – Equal weight composite of "Cashflow Growth," "Sales Growth," "Estimated Long-Term Growth," and "Forward Earnings Growth"

Estimated Long-Term Growth – IBES consensus analyst forecast of 3–5 year earnings growth rate

Sales Growth – Trailing 1-year percent change in annual sales per share

Beta – Trailing 36-month regression beta relative to the Russell 1000® Index

Earnings Revisions – Current 12-month forward consensus EPS estimate minus 12-month forward estimate from 3 months ago, scaled by price

Composite Value (Sector Relative) – Equal weight composite of "Book / Price," "E/P Forward," "E/P Trailing," "Sales / Price," and "FCF / Price," all defined relative to sector median

E/P Forward (Sector Relative) – 12-month forward consensus EPS estimate divided by price relative to the sector median

Composite Value – Equal weight composite of "Book / Price," "E/P Forward," "E/P Trailing," "Sales / Price," and "FCF / Price"

E/P Trailing (Sector Relative) – Most recently reported EPS divided by price relative to the sector median

Change in Net Margin – 1-year change in Net Margin

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