

ZEVENBERGEN INCOME GROWTH 2Q24 REVIEW & PERSPECTIVE

Shaking off a bout of volatility in April, U.S. equity markets broadly delivered positive performance in the second quarter of 2024, reinforcing the strong start seen earlier this year. Despite lingering anxieties about the Federal Reserve policy, economic uncertainty, and geopolitical events, ongoing enthusiasm surrounding the transformative potential of Artificial Intelligence (AI) bolstered technology sector returns (the largest determinant of benchmark performance). While several semiconductor, hardware, and cloud infrastructure companies led the pack with strong returns, calls for market breadth beyond the most obvious AI “winners” were left largely unanswered, with the “Big Tech vs. the Rest” narrative continuing as highlighted by 31% of the S&P 500®’s Index total market value is made up by only six companies: Microsoft Corporation, NVIDIA Corporation, Apple Inc., Alphabet Inc., Meta Platforms Inc., and Amazon.com, Inc. These same companies contributed 62% of the return in the S&P 500® Index year to date.

While the Zevenbergen Income Growth Strategy posted a positive quarterly return, its relative performance to the S&P 500® Index lagged due to holdings in the industrial and consumer discretionary sectors. Outside of these specific detractors, portfolio holdings in technology companies contributed positively and were rewarded for robust revenue and earnings growth, as well as strong market share leadership in their respective industries.

Bottom 5 Detractors 2Q24		
Ticker	Company	Average Portfolio Weight
PCAR	PACCAR Inc	2.69 %
DIS	The Walt Disney Company	2.19 %
EL	The Estée Lauder Companies Inc.	1.19 %
SBUX	Starbucks Corporation	1.54 %
CDW	CDW Corporation	2.69 %
Bottom 5 Total		10.30 %

Top 5 Contributors 2Q24		
Ticker	Company	Average Portfolio Weight
AAPL	Apple Inc.	6.64 %
MPWR	Monolithic Power Systems, Inc.	5.83 %
QCOM	QUALCOMM Incorporated	3.72 %
COST	Costco Wholesale Corporation	3.61 %
APH	Amphenol Corporation	3.50 %
Top 5 Total		23.30 %

Past performance does not guarantee future results. The holdings identified do not represent all the securities purchased, sold, or recommended. Reader should not assume that investments in the securities identified were or will be profitable. This material is for informational purposes only and does not constitute investment advice.

DETRACTORS:

PACCAR Inc (PCAR):

Following a strong year for freight markets in 2023, concerns around cyclical normalization weighed on share prices of PACCAR Inc. As expected, management maintained its already tempered heavy-truck outlook for the year; however, healthy infrastructure spending and the company's dominant share in the vocational market suggest this near-term downturn could be more modest versus prior cycles. In addition, new product introductions, pricing actions, and favorable dynamics for the Parts business should aid margins. While the macroeconomic environment will continue to unfold, management raised the quarterly dividend 11% and reiterated its commitment to special annual payouts.

The Walt Disney Company (DIS):

The Walt Disney Company achieved stronger-than-expected earnings in the most recent quarter, but acknowledgement of a normalization in park attendance (following a post-pandemic surge) and relatively conservative guidance led to a negative share price reaction. In addition, the company's first quarter of profitability for the streaming business was overshadowed by Disney+ and ESPN+ subscriber misses. Taking a page from a fellow streaming peer, Disney is cracking down on password sharing across its digital platforms this summer, a move that should catalyze subscriber growth assuming those kicked off shared accounts convert to paid users.

The Estée Lauder Companies Inc. (EL):

The Estée Lauder Companies Inc. remained under pressure this quarter, as investors continued to question the timeline of a much-anticipated recovery story. While sentiment ahead of the quarterly call had been improving, share prices corrected meaningfully after organic sales growth guidance for the year was cut to reflect ongoing macroeconomic volatility. The tempered outlook was a frustrating surprise to many, as the company handily beat earnings expectations in the quarter and noted a marked improvement in the Asia Travel Retail business (a significant headwind for the past two years). Whether next quarter will truly mark an inflection point (as management believes), remains highly debated, but upside exists should visibility and execution improve.

CONTRIBUTORS:

Apple Inc. (AAPL):

Technology giant, Apple Inc., outperformed the broader market in the second quarter, recovering from a lackluster start to the year. Despite a modest year-over-year decline in sales, profits came in better-than-expected as high-margin Services revenue reached a new all-time high (reflecting growth in advertising, App Store and iCloud). Most notable, management guided for a return to top-line growth next quarter and AI-related product announcements at the company's Worldwide Developer Conference sparked optimism for the next iPhone upgrade cycle. Confident in upcoming catalysts, the company authorized an additional \$110 billion stock buyback program and raised the dividend.

Monolithic Power Systems, Inc. (MPWR):

While lesser-known than its mega-cap technology peers, founder-led Monolithic Power Systems, Inc. is a key player in the AI-infrastructure landscape as a supplier of power-management components designed into electronic chips. With AI data centers estimated to consume eight times the power of their non-AI counterparts, energy management has become increasingly paramount for optimized performance, heat management, reliability, and cost savings. As such, sales within the company's Enterprise Data segment more than tripled from a year ago, led by AI Server applications. While non-AI segments continued to face cyclical softness, management noted a strengthening in their design win pipeline. Guidance was raised ahead of analyst expectations, supporting share price gains in the quarter.

QUALCOMM Incorporated (QCOM):

Amid a challenging smartphone market, QUALCOMM Incorporated exceeded revenue and earnings expectations reflecting an ongoing recovery in Chinese handset demand. While industry unit sales are projected to be relatively flat this year, management expects to benefit from outsized exposure to the premium tier, which is growing at a faster pace. Echoing peers, the company views the proliferation of AI as a catalyst for the next device upgrade cycle, specifically benefiting QUALCOMM as the company's high-performance Snapdragon chips are designed into future phone and PC launches. Given confidence in the core business, as well as growing chip opportunities within the automotive market, management announced guidance ahead of consensus and raised the dividend.

PERSPECTIVE:

Despite diminishing expectation of multiple U.S. interest rate cuts forecasted earlier this year, equity markets have remained robust. They have been bolstered by a series of favorable macroeconomic developments, effective operational strategies, and optimism regarding AI. These factors have helped the broad indices deliver higher-than-average risk-adjusted returns over the last twelve months. Going into the second half of the year, our expectation is that the AI trend will continue to broaden, with less crowding out of non-AI investment ideas and capital investment spending. Industries such as software may begin to catch up, as AI-spending shifts from the current hardware-focused investments.

Widening the lens, our expectations are for a durable growth environment: excess demand for labor returning to a pre-COVID balance, broadening earnings and profit growth across the market capitalization spectrum, and disinflation trends opening the door for potential Federal Reserve rate cuts. Over the long-term horizon, the potential economic impact of AI could be substantial—perhaps transformative to how we work, live, and play. As fundamental growth investors with 37 years of experience navigating various market regimes and themes (Telecom, Internet, and now AI), our steadfast focus on revenue growth and margin expansion—the true drivers of long-term shareholder returns—remains key to building diversified growth portfolios for long-term success. Our team's unwavering confidence in the long-term potential of income growth stocks continues to guide investment decisions, while embracing any short-term volatility as an opportunity.

Investing involves risk, including the possible loss of principal and fluctuation of value. The strategy typically consists of companies across various market capitalizations, which can sometimes exhibit volatility comparable to the S&P 500 Index.

The information presented relating to portfolio holdings is from a representative account in the Zevenbergen Income Growth Composite ("Composite"), which reflects the typical portfolio management style of the strategy. Other accounts in the strategy may vary due to assets, client guidelines, and other factors. The Composite contains, fee-paying accounts managed in a capital appreciation and income growth investment strategy. The strategy utilizes individual equity securities, mutual funds, Exchange Traded Funds (ETFs) and/or other securities, as appropriate. The SPDR® S&P 500 ETF is the performance benchmark (Benchmark), as it is representative of the investment strategy. The Benchmark seeks to provide investment results before advisory expenses, that generally correspond to the price and yield performance of the S&P 500 Index. The S&P 500 Index is comprised of the top 500 U.S. corporations measured by their market capitalization and is generally representative of the U.S. stock market. The Composite creation date is November 18, 2011, and inception date is August 31, 2011.

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