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")
- ~$1.3B AUM
- 5 investment professionals

OBJECTIVE
- Long-term growth of capital

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

Market Review

The first quarter of 2024 saw a decoupling of the relationship between bond yields and equities, with the S&P 500 rising 10.6%, the Russell 1000 Growth rising 11.4%, and the Dow rising 5.6%. These equity gains materialized despite the 10-year treasury yield increasing from 3.86% on January 1st to 4.20% on March 31st. The S&P's 10.6% return followed on the heels of the 11.7% return in 4Q23, marking just the third time in the past 12 years that the index has had two consecutive quarters of double digit gains. Even more astonishing than the returns has been the lack of downside volatility, with only two weekly drops for the S&P so far year-to-date, no weekly drops of greater than 2% since October 23rd, and 22 new all-time highs for the index thus far in 2024. Looking at the broader investable-asset universe, the 1st quarter saw a rally in global equities, commodities, gold, the Japanese stock market, crypto markets, and meme stocks. This broad asset-price appreciation took shape in the face of heavily fluctuating Federal Funds rate expectations. To start the year, market participants had priced in six rate cuts (totaling 150bps of cumulative reduction) and a soft-landing (or no-landing) scenario for the US economy. Fast forward three months and we have now witnessed three consecutive months of accelerating headline CPI (3.1% in January, 3.2% in February, and 3.5% in March) and the market's latest forecast for only 1-2 rate cuts, representing cumulative cuts of 25-50bps.

The market's obsession with the path of interest rates and the recession that hasn't arrived appears to have created one of the most hated bull markets in history. The consensus nature of the 2023 recession has left most market participants stunned and outright angry at the market's advance. But taking a step back, this advance has taken net worth, stock prices, housing prices, economic activity, and air travel to new all-time highs while affording individuals an opportunity to earn ~5% on their cash with most having locked in their largest debt expense, their home mortgage, at generationally low levels. This seems like the roaring 20's, without all the bathtub gin and positive vibes. Underpinning all of these advances in wealth are a still strong labor market (although it is loosening on the margin), wages that have outpaced inflation for 10 consecutive months, and a still healthy ratio of job openings to unemployed workers, which stands at 1.37 to 1. Much to Mr. Market's chagrin, all of these factors seem to give Fed Chairman Jay Powell the ammo he needs to keep rates higher for longer, which should increase the probability the Fed gets inflation under control, but inevitably leaves the door open for something else in the financial markets to worsen, or crack, under the pressure of higher rates.

1Q24 Performance

PERFORMANCE (%)	1Q24	1 YR	3 YR	5 YR	ITD[1]
Ithaka US Growth Strategy (Gross)	14.9	48.1	9.6	17.2	18.0
Ithaka US Growth Strategy (Net)	14.7	47.2	9.0	16.6	17.5
Russell 1000 Growth ("R1000G")	11.4	39.0	12.5	18.5	17.2
S&P 500 TR Index	10.6	29.9	11.5	15.1	14.5

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

During the first quarter Ithaka's portfolio outperformed in a strong market, rising 14.9% (gross of fees) vs the R1G rising 11.4%. Ithaka's 350bps of outperformance was entirely due to stock selection, with a negligible headwind from sector allocation. Our portfolio demonstrated solid breadth in performance, with 19 of 30 stocks held for the entire quarter 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 heavily weighted towards our overweight to the semiconductor subsector, where Ithaka holds five names spread across the semiconductor value chain. Strong returns in the Consumer Discretionary sector were also broad-based, with five of seven holdings outperforming our benchmark by similar double-digit amounts. Within Health Care, our slight outperformance was fairly broad-based, with five of our six holdings beating the benchmark. The lone laggard was a position in the diabetes space that is suffering from fears surrounding the impact glucagon-like peptide 1 receptor agonists (GLP-1's), such as Ozempic and Wegovy, might have on its total addressable market. Our lone sector of underperformance was Financial Services, with most of the underperformance stemming from fears surrounding the economy and consumer spending on a go-forward basis.

Contributors and Detractors

1Q24 TOP 5 CONTRIBUTORS (%)	RETURN	IMPACT
NVIDIA	84.4	5.9
Amazon.com	18.6	1.4
Microsoft	12.1	0.9
Chipotle Mexican Grill	27.2	0.9
ASML	28.4	0.8

1Q24 TOP 5 DETRACTORS (%)	RETURN	IMPACT
lululemon	(23.6)	(0.7)
Adobe	(15.4)	(0.6)
Apple	(10.8)	(0.5)
Insulet	(21.1)	(0.3)
Snowflake	(18.7)	(0.2)

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 F3Q24 revenue guidance above Street estimates, showcasing its dominant position in the buildout of tomorrow's computing infrastructure.

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.

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 based on 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 company's new GenAI personal assistant.

Top Detractors

lululemon athletica inc. (LULU)
Lululemon is principally a designer, distributor, and retailer of healthy lifestyle inspired athletic apparel. It's moat is almost entirely based on its intangible brand asset. Of late, the company has benefited from both the longstanding athleisure fashion trend and the more recent pandemic-induced, work-from-home trend toward more casual attire. Approximately 45% of sales are generated across ~700 company-owned stores, 45% of sales (and growing rapidly) are generated online (lululemon.com), and ~10% of sales are generated by wholesale partners, which primarily comprise fitness studios. The stock's underperformance was concentrated around the F4Q earnings announcement, which saw the company meet expectations for the current quarter but provide cautious commentary regarding tepid US consumer spending behavior.

Adobe Inc. (ADBE)
Founded in 1982, Adobe is one of the largest and most diversified software companies in the world. It offers products and services used by creative professionals and consumers to create and deliver compelling content and experiences across various platforms. Adobe's stock price underperformance was concentrated around its earnings announcement, during which the management team posted a smaller than expected beat (5% beat vs. 11% average) in Net-New Annualized Recurring Revenue for the Digital Media segment. On top of the smaller beat management provided unexpectedly soft forward guidance that resulted in multiple compression.

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 underperformance during the quarter was due to fears that the company's slowing top-line growth and increased competitive threats make the stock's premium valuation harder to justify.

Transactions

During the quarter we initiated one position, CrowdStrike Holdings (CRWD) and eliminated one position, Tractor Supply (TSCO). Our trailing 12-month turnover increased to 12.9% while our trailing 3-year average annual turnover decreased to 12.7%.[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 first quarter 84% and 94% of our portfolio holdings beat top- and bottom-line expectations, respectively, which resulted in the average stock remaining relatively unchanged, nine stocks up >5%, and eight stocks down >5%. The skew in the quarter was fairly neutral with fat tails. Similar to the prior three quarters, references to Generative Artificial Intelligence ("GenAI") once again pervaded, and in some cases dominated, almost every earnings call we digested as the world, at large, continues to debate the future impact of this revolutionary technology.

Over the past three letters we have outlined what we believe to be the next stages of the AI technological revolution and where we believe the profits will accrue in each stage of the evolution. Instead of going down another AI rabbit hole, we have instead decided to discuss another technology that we believe will have a large impact on its target market, the continuous glucose monitor ("CGM"). The pioneer in the CGM space is a company in our portfolio, Dexcom, whose CGM product was first marketed in 2004. Over the past ~20 years, the company has been innovating to make its sensor smaller and more accurate with the hopes of solving a painful burden for type 1 and 2 diabetics—having to stab yourself to test your blood sugar multiple times a day. Testing your blood glucose levels is not only important for diabetics, but for all individuals, as the effects of high blood glucose have been shown to lead to heart attack, stroke, problems with the kidneys, eyes, gums, feet and nerves. Fast forward to today and the company is on the precipice of launching a product, named Stelo, that will help any individual, not just one with type 1 or type 2 diabetes, get a clearer picture of what is happening inside his or her body through continuous glucose measurement. Ithaka believes that this launch will increase the company's total addressable market by many multiples, from what was ~30M individuals with type 1 or 2 diabetes in the US to almost the entire population. This product launch comes at an exciting time, as the interest in personal health and weight loss is skyrocketing with the advent of glucagon-like peptide-1 receptor agonists (GLP-1's). We believe that the increased focus on personal wellbeing, combined with a more approachable way for a substantial majority of citizens to lose weight, should lead to a rapid increase of health enabling technology, which will benefit Dexcom.

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) nonetheless rallied through the first quarter. With three consecutive months of accelerating inflation, some Fed governors have started lightly pushing back on their original narrative of three rate cuts in 2024. With the central bank's most hawkish member, Michelle Bowman, saying she would favor a rate hike if inflation progress stalls, and Minneapolis Fed President Neel Kashkari floating the possibility of not cutting rates at all in 2024. As has been the case for the past two years, the forward looking rate picture continues to shift with consensus expectations seemingly always playing catchup. While we are not economists, given the strength of the labor market and the accelerating nature of the inflation picture, it seems reasonable to expect a world where rates stay elevated longer than consensus currently expects.

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.

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