MARKET INSIGHTS

from Ziegler Capital Management

Are All Large Cap Growth Investments The Same?

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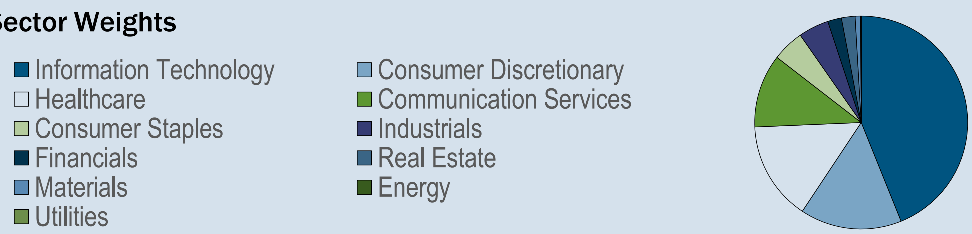
As large company stocks are often the backbone of a diversified investment strategy, we think that it is extremely important to understand the make-up of a portfolio's underlying investments and the structure in which they are held. Additionally, passive benchmarks can at times have risks of their own due to the lack of diversification of their biggest weightings.

Ziegler Capital Management's Red Granite Large Cap Growth strategy uses a fundamental, bottom-up approach that identifies the most attractive high quality candidates which create a strong base portfolio for investors. This diversified approach has provided investors with consistent results over time. From a portfolio construction standpoint, we believe stock prices usually reflect the underlying earnings characteristics of the underlying companies and we build our portfolios accordingly. Historically, long-term investing provides the best opportunities to produce above-benchmark returns and careful management of risk and return is essential in both advancing and declining markets. In the short-term, however, there are times that this pattern breaks down and /

Russell 1000 Growth as of June 30, 2020

	Top Ten Index Constituents	Sector	% Weight
1	MICROSOFT CORP	InformationTechnology	10.41
2	APPLE INC	Information Technology	10.19
3	AMAZON.COM INC	Consumer Discretionary	7.99
4	FACEBOOK INC-CLASS A	Communication Services	3.72
5	ALPHABET INC-CLASS A	Communication Services	2.26
6	VISA INC. – CLASS A	Information Technology	2.23
7	ALPHABET INC-CL C	Communication Services	2.22
8	MASTERCARD INC - A	Information Technology	1.78
9	UNITEDHEALTH GROUP INC	Health Care	1.58
10	NVIDIA CORP.	Information Technology	1.53

Sector Weights



Source: FTSE Russell https://www.ftserussell.com/analytics/factsheets/home/search

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A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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or a narrow market occurs where growth is chased at any price. This affects passive index construction as well.

Passive benchmarks have their own risks that are often ignored. For example, the Russell 1000 Growth had 43.9% in the top 10 stocks in the index as of June 30, 2020. The top two – Apple and Microsoft – accounted for 20.6% of the weight alone. With the exception of Amazon (Consumer Discretionary) and United Health Care (Health Care), the other top ten holdings were in either Information Technology and Communication Services, two sectors that collectively made up 55% of the Russell 1000 Growth as of June 30, 2020. Together with Consumer Discretionary and Health Care, four sectors now account for over 85% of the Russell 1000 Growth Index. Think about it – a majority of your invested dollars are tied to the fate of two inter-connected industries and 43.9% into the fates of just 10 different stocks. As a perspective, the 100th largest holding in the Russell 1000 Growth has a weight of just 0.14% - or 1/147th of the collective weight of Apple and Microsoft. The Russell 1000 Growth has 435 stocks in it and just a handful are driving its results.

Similar sector and holding concentrations have occurred before. For example, the Russell 1000 Growth was over 65% in technology during 1999 at the height of the technology bubble. This was in a period where growth investing dominated, but was driven by a narrow band of technology stocks, some with a lack of earnings and low quality rankings. Sound familiar? When this bubble burst, the market shifted to reward companies that had strong valuation and diversification.

There was a dichotomy in the results that followed – many high-octane growth managers (that were less concerned with valuation and diversification) impaired their long-term track records and significant assets were lost. Strategies that adhered to a more constrained approach typically had better performance.

As a large cap investor with an emphasis on controlling risks, we attempt to manage business and volatility risks by owning (and understanding) high quality, industry-leading companies with competitive advantages, persistent growth, solid management, strong balance sheets and higher returns. Unlike the current composition of the index, we manage our risks relative to the return. We have found offering a diverse portfolio of growth companies have historically provided superior relative returns in periods of market or economic weakness. Our portfolios are prudently diversified in at least 20 industries, with a maximum of 40 high quality, growth securities, and maintain exposure to at least seven of the 10 S&P 500 stock index's economic sectors.

High quality large cap growth investing seeks to select companies with sustainable business performance while avoiding companies that are likely to disappoint. We believe this approach offers a more sustainable form of growth investing as shareholders are rewarded over time. The Red Granite Large Cap Growth strategy is attractive in its own right but we believe it can also act as a nice complement to a value based approach. We seek to outperform across a wide array of market environments, not just a narrow market driven by a handful of names and sectors.

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