

MARKET INSIGHTS

from Ziegler Capital Management

Are All Large Cap Growth Investments the Same?

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 what we consider to be 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

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ABOUT ZCM MARKET INSIGHTS

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

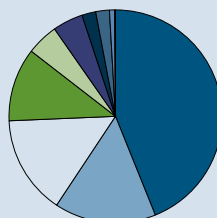
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Russell 1000 Growth as of June 30, 2021

	Top Ten Index Constituents	Sector	% Weight
1	APPLE INC.	InformationTechnology	10.84
2	MICROSOFT CORPORATION	Information Technology	9.52
3	AMAZON.COM INC	Consumer Discretionary	7.22
4	FACEBOOK – CLASS A	Communication Services	3.70
5	TESLA INC.	Consumer Discretionary	2.80
6	ALPHABET INC. – CLASS A	Communication Services	2.62
7	ALPHABET INC - CLASS C	Communication Services	2.57
8	VISA INC. – CLASS A	Information Technology	1.94
9	NVIDIA CORP.	Information Technology	1.81
10	MASTERCARD INC. – CLASS A	Information Technology	1.67

Sector Weights

- Information Technology
- Healthcare
- Consumer Staples
- Financials
- Materials
- Utilities
- Consumer Discretionary
- Communication Services
- Industrials
- Real Estate
- Energy



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



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attern breaks down and / 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, as of June 30 2021, 44.7% of the Russell 1000 Growth Index was concentrated in the top ten stocks. The top two – Apple and Microsoft – accounted for 20.4% of the weight alone. With the exception of Amazon and Tesla (both are Consumer Discretionary), the other top ten holdings were in either Information Technology or Communication Services, two sectors that collectively made up 56.4% of the Russell 1000 Growth as of June 30, 2021. Together with Consumer Discretionary and Health Care, four sectors now account for almost 86.5% 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 44.7% into the fates of just 10 different stocks. For perspective, the 100th largest holding in the Russell 1000 Growth has a weight of just 0.15% - or 1/136th of the collective weight of Apple and Microsoft. The Russell 1000 Growth has 409 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 has historically provided superior relative returns in periods of market or economic weakness. Our portfolios are prudently diversified across at least 20 industries, with a maximum of 40 high quality, growth securities, and maintain exposure to at least seven of the ten economic sectors of the S&P 500 index.

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 historically rewarded over time. In our view, the Red Granite Large Cap Growth strategy is attractive in its own right but we believe it can also provide significant diversification as a 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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