US LARGE CAP GROWTH
THIRD QUARTER 2023 INVESTMENT LETTER

October 4, 2023

Performance Review*

During the third quarter of 2023, DSM's US Large Cap Growth Composite decreased approximately (1.0)% post fee. In comparison, the Russell 1000 Growth total return (including dividends) decreased (3.1)% and the S&P 500 total return (including dividends) decreased (3.3)%. Over the first three quarters of 2023, DSM's US Large Cap Growth Composite increased approximately 16.1% post fee. In comparison, the Russell 1000 Growth total return (including dividends) increased 25.0% and the S&P 500 total return (including dividends) increased 13.1%.

As we have previously discussed, DSM outperformed during 2022 because the defensive growth stock positions we had purchased in both 2021 and 2022 defended well, while the higher P/E technology positions (many having been trimmed or sold during that time) underperformed. In 2023, this situation has exactly reversed itself as defensive growth stocks have generally underperformed while the higher P/E, larger market cap technology stocks outperformed.

The impact of the short list of technology stocks so often referred to in the media as the "Magnificent Seven" is shown in the exhibit below. These seven companies are driving the performance of the Russell 1000 Growth Index and the S&P 500, accounting for approximately 74% and 85% of the respective returns of each index.

Magnificent Seven
Contributors to Return: Year-to-Date through September 30, 2023

Russell 1000 Growth

	Russell 1000 Growth Total Return		**2501 bps**
1.	Apple Inc.		+399 bps
2.	NVIDIA Corporation		+395 bps
3.	Microsoft Corporation		+354 bps
4.	Alphabet Inc. Class A & C		+242 bps
5.	Amazon.com, Inc.		+227 bps
6.	Tesla, Inc.		+180 bps
7.	Meta Platforms Inc. Class A		+57 bps
	Total	**(74% CTR)**	**1853 bps**

S&P 500

	S&P 500 Total Return		**1305 bps**
1.	NVIDIA Corporation		+220 bps
2.	Apple Inc.		+205 bps
3.	Microsoft Corporation		+189 bps
4.	Alphabet Inc. Class A & C		+145 bps
5.	Meta Platforms Inc. Class A		+123 bps
6.	Amazon.com, Inc.		+120 bps
7.	Tesla, Inc.		+102 bps
	Total	**(85% CTR)**	**1104 bps**

Source: FactSet

As shown above, of the roughly 900 basis points (bps) of DSM's total underperformance this year versus the Russell 1000 Growth, approximately 600 bps is due to not owning Apple and Tesla, of which Apple has contributed roughly 400 bps and Tesla about 200 bps. We continue to believe that Apple, with an estimated 10% earnings per share growth rate, is overvalued at nearly 26x earnings. Similarly, we believe Tesla, which faces ever-increasing competition in the EV market, is priced with considerable risk at 60x earnings, given that most global automakers sell for roughly 10x earnings.

Encouragingly, the US Large Cap Growth portfolio's revenue and earnings growth over the first and second quarters was quite strong averaging 17% and 25% respectively (excluding the second quarter earnings growth of Amazon.com of 246% and NVIDIA of 425%). Although global economic growth remains sluggish, the companies we invest in are largely generating the revenue and earnings we expected. Over time we believe this growth will be sustained, and possibly enhanced, by our portfolio companies' strong market positions and ongoing investments in Artificial Intelligence (AI). For this

Performance Review* *cont.*

reason, we believe today's portfolio contains remarkably well positioned businesses with very durable growth potential.

In our opinion, the projected high-teens growth of the DSM portfolio should well outstrip that of the Russell 1000 Growth Index and the S&P 500, each with long term earnings growth rates of 5% to 10%. Moreover, the portfolio has a weighted average P/E of 21.6x 2024 earnings, a valuation which is very normal over DSM's history. Given the reasonable valuation of the portfolio along with its continued strong earnings and the potential tailwind of AI, it is our belief that the portfolio should benefit from accelerating technological trends over the coming years.

**Strategy returns are preliminary and unaudited.*

Portfolio Dashboard (as of September 30, 2023)

Portfolio Characteristics			
Calendar 2024 P/E	21.6x	Number of Holdings	27
Calendar 2025 P/E	18.0x	Weighted Avg Market Cap	$694 B
Price to Book Ratio	8.0x	LT Debt/Capital	30%
EPS, Forward 3-5 Years	19%	Dividend Yield	0.4%
Active Share	66%	Trailing 12 Month Turnover	36%

Top 10 Holdings	Location	%
Microsoft Corp	US	12.2
Alphabet Inc – Cl A	US	8.3
NVIDIA Corp	US	8.1
Amazon.com Inc	US	6.8
Adobe Inc	US	5.9
Intuit Inc	US	5.5
Accenture PLC	IE	4.6
Visa Inc	US	4.6
Arista Networks Inc	US	4.5
Autodesk Inc	US	3.9

GICS Sector Weighting	%
Information Technology	54.8
Financials	16.0
Communication Services	8.3
Consumer Discretionary	7.8
Health Care	6.0
Industrials	3.1
Materials	2.0
Consumer Staples	1.6
Energy	0.0
Real Estate/Utilities	0.0

YTD Contributors to Return (basis points)			
Top 5		Bottom 5	
NVIDIA Corp	+406	Charles Schwab Corp	-192
Microsoft Corp	+369	EPAM Systems Inc	-133
Alphabet Inc – Cl A	+286	PayPal Holdings Inc	-79
Amazon.com Inc	+278	SolarEdge Technologies Inc	-75
Adobe Inc	+210	Burlington Stores Inc	-55

Source: FactSet, DSM

DSM CAPITAL PARTNERS

“It’s déjà vu all over again.” - Yogi Berra

In our view, America’s innovative business culture has been the driving factor behind the outperformance of US equity markets over virtually any longer period of time. In the 1990’s the technology developed by Intel, Microsoft, Qualcomm, Cisco, Dell and many others led to a growth stock bull market. The effects of some of these innovations including the widespread rollout of the Internet, more powerful PCs, advanced software operating systems, cellular and network infrastructure and online shopping on various global markets can be seen in the chart below.

Market Returns in the 1990’s

Source: FactSet

Over the next decade, as online use cases broadened, mobile adoption accelerated, and cloud computing became prevalent, Apple and Microsoft began to appreciate and become the largest market capitalized companies in the world, followed later by Meta, Alphabet, Amazon.com and NVIDIA. America’s long standing innovative and entrepreneurial business culture has made the United States the leading economy for a century and in recent decades, the dominant technology provider as well.

Technology evolves and times change. We believe it is possible that Artificial Intelligence and more specifically, generative AI, represents another defining moment in technology and in turn offers very attractive investment opportunities over the next decade as shown below. The global ascendency of the “Magnificent Seven”: Apple, Microsoft, Alphabet, Amazon, NVIDIA, Tesla and Meta certainly reflects that ongoing evolution. Just as occurred in the 1990’s, new digital drivers, with an AI backbone, are driving the rapid commercial development of a long list of services and technologies. We believe we are early in the investment cycle for this next fundamental technology shift, and have positioned the portfolio to benefit from these trends. Once again Yogi is right: “It’s déjà vu all over again”.

Future Digital Drivers of the DSM Portfolio

Artificial Intelligence → Microsoft, Google, Amazon, Adobe, Intuit, Nvidia, Accenture, Autodesk, EPAM, Arista
Data Analytics → Microsoft, Google, Amazon, Adobe, Intuit, Nvidia, Accenture, ADP, Paycom
Omni-Channel Commerce → Google, Amazon, PayPal, Visa, Mastercard, Fiserv
Cloud → Microsoft, Google, Amazon, Accenture, EPAM, Arista
Cyber Security → Microsoft, Accenture, Fortinet
Online Advertising → Microsoft, Google, Amazon
Digital Payments → Visa, Mastercard, Fiserv, PayPal
Internet Of Things → Microsoft, Nvidia
Niche/Emerging: AR/VR → Microsoft
Semi Enablers → Nvidia, ASML, Entegris

Source: DSM

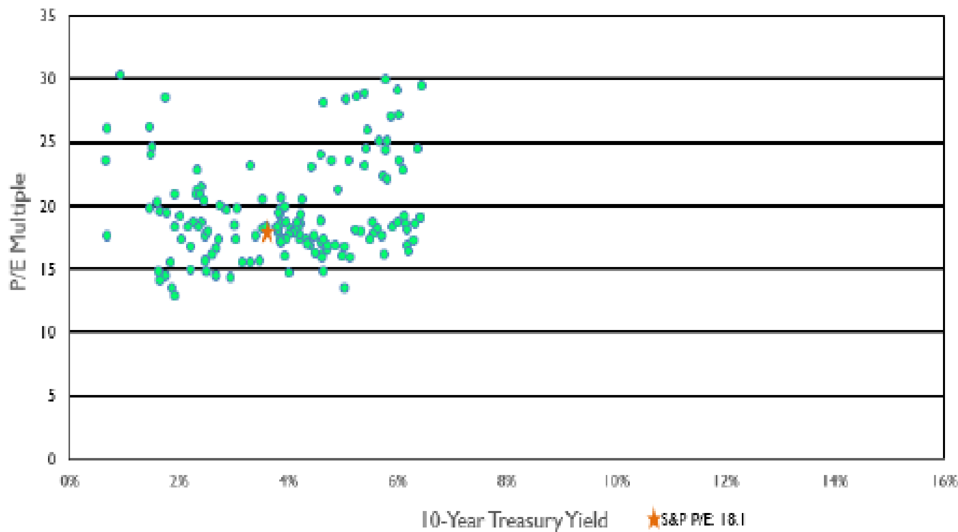
Global Economic Outlook

We believe that global and US economic growth approximating 2.5% over the next year is achievable, while in Europe and Japan, GDP will be closer to 1%. Higher interest rates in the US may be having an impact on the real estate market, especially with the ten- and thirty-year mortgage rates in excess of 6% and 7% respectively. It is possible that consumer spending will weaken as inflation-driven expenses rise causing many Americans to spend much of their savings. In addition, student loan repayments are restarting and oil prices are quite high. Logically, currently rising default rates confirm these stress points. On the other hand, incomes appear solid, wages are up and employment is strong. Clearly, with no recession in sight, the US economy has performed better than expected. At this point, excluding a significant unexpected shock, we believe that if the economy were to weaken, a "soft landing" or shallow recession would be a more likely outcome than a more normal contraction.

In our opinion, global economic growth over the coming year will be determined in large part by the rate of decline of inflation in the EU and United States, as a result of Federal Reserve and ECB tightening. The more rapidly inflation falls, the less pressure there will be on the Federal Reserve and ECB to raise rates further, thereby enhancing the potential for a "soft landing" or "muddle through" economic outcome. At this point the most recent inflation data in both the US (August Personal Consumption Expenditures at 0.4%) and EU (preliminary September CPI at 0.3%) continue the trend of significantly declining inflation, albeit the results are still above both central banks' targets of 2%.

Importantly, this data makes additional rate hikes by each central bank appear less urgent and less likely, and not a moment too soon as French and Italian government borrowing costs have hit their highest levels in a decade, adding budgetary stress that governments on either side of the Atlantic can't afford. In addition, inflation of 2% to 3% would, in our opinion, put the ten-year US Treasury at a yield of 200 basis points over the rate of inflation or 4% to 5%, its current level today. As the chart below demonstrates, whenever the ten-year Treasury yields 6.5% or less, the S&P 500 has an average P/E of 18x which is where it stands today.

S&P 500 P/E Ratio and 10-Year Treasury Yield Less than 6.5%
1962-Present



Source: Bloomberg

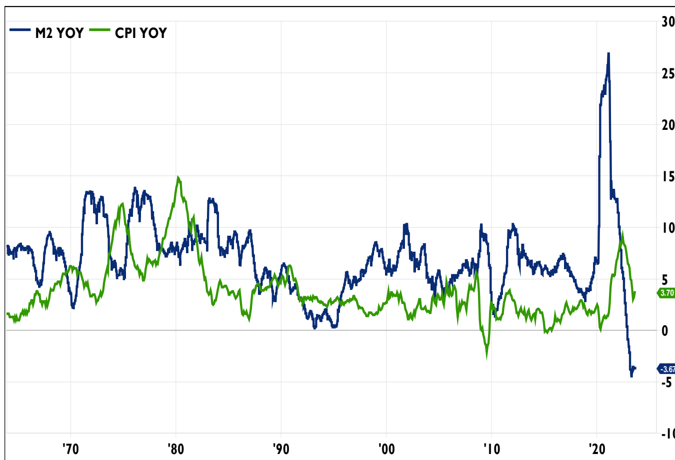
Global Economic Outlook *cont.*

After a better than feared start to 2023, European macro activity and data points since late spring have slowly deteriorated with even the typically resilient German economy slowing. The European Service PMI has slipped below 50, indicating contraction, while the European Manufacturing PMI's steady decline into the mid-40s indicates moderately depressed demand. As the European manufacturing and industrial sector is more dependent on China than other regions, China's economic woes are having a bigger impact. Bank lending in the Eurozone is tepid at best as rising rates, lower financing for fixed investment, a weaker housing market, and lower consumer confidence weigh. Having said that, it does appear inflation is now on a steady deceleration path, whether measured by the CPI, PPI or other inflation metrics. That should allow the ECB and the BoE to possibly pause their interest rate hikes and be much more data dependent going forward, similar to what we have seen in the US. Given that Europe imports the vast majority of its energy needs, energy supply and prices will be an economic wildcard over the next six months.

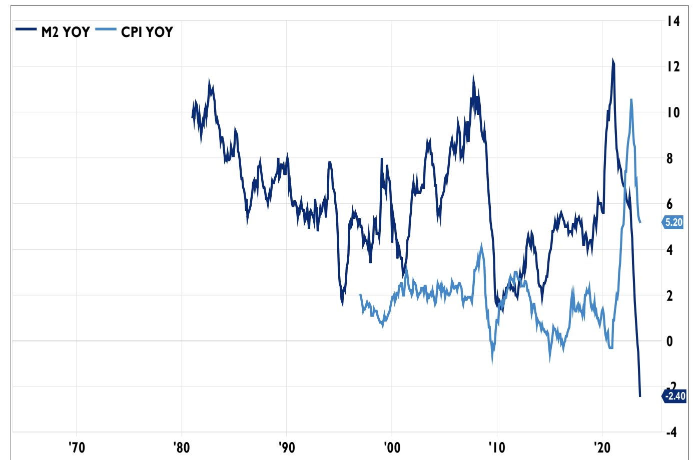
China's economic and investment outlook continues to be poor with GDP estimates for 2023 now 0.7% lower since May and likely headed further downward. Most economists forecast a less robust recovery as compared to expectations at the start of the year. Recent government policies emphasizing common prosperity, economy-wide regulation and invasive oversight of the technology, financial, real estate and healthcare industries, as well as increased censorship, have made both businesses and consumers cautious in their investments and spending. These same government policies, along with continued Western technology and tariff restrictions, have caused many international firms to acknowledge the challenges of doing business in and with China. As a result, many international firms are moving production away from China and into other Asian nations. Moreover, the increasingly obstructive technology export restrictions imposed by the West are also limiting China's ability to maintain its technological competitiveness, further hindering the country's near-term prosperity and longer-term economic outlook.

We believe that long-term inflation is caused by excess money supply. As the charts below demonstrate, money supply (as measured by M2) increased rapidly during the pandemic as both US and European governments provided "free" money in order to keep their economies afloat. Shortly thereafter inflation (as measured by the CPI) began to rise. In response, US and EU central banks tightened policy, resulting in negative money supply growth (perhaps for the first time since the Great Depression of the 1930s) and inflation is now falling.

United States



Europe



Source: FactSet

Global Economic Outlook *cont.*

Returning inflation to the 2% level is the target of both the Federal Reserve and the European Central Bank, but it will not happen overnight. Many commentators doubt the resolve of the central banks given political pressure to reduce interest rates. However, the reality is that the central banks have little choice. Government debt on both sides of the Atlantic is extremely large and growing. Low inflation means lower interest expenses on government debt, while high inflation means budget-busting interest costs that governments cannot afford. For that reason, we believe central banks will remain focused on tight money supply and lower inflation. "Higher for longer" is the current media refrain to describe central bank interest rate policies, which implies the implementation of additional rate hikes. In our view a more accurate description of the situation is "current rates for as long as it takes" or perhaps "one and done". While lower inflation will simply take time, in our view, given the progress made to date, the rate hike cycle is nearing an end.

Recent Portfolio Transactions

There have been no transactions since our last letter in late August. However, as previously reported, we have been active over the past eighteen months. Beginning in mid-2022 our focus has been to utilize the market downturn to transform the portfolio into what we believe is an ever-higher quality, predictable group of stellar growth companies, often with leadership positions in critical AI technologies, that we anticipate holding for many years. Accordingly, since May of 2022 as their valuations became more attractive, we initiated positions in Accenture, Arista Networks, ASML Holding NV, Autodesk, Chipotle Mexican Grill, Entegris, EPAM Systems, Fortinet, Paycom Software, SolarEdge Technologies and Thermo Fisher Scientific, although SolarEdge has since been sold.

Transactions Since January 1, 2023

BUYS	DATE	% CHG	SELLS	DATE	% CHG
Arista Networks Inc	Feb-23	1.8	Keurig Dr. Pepper	Jan-23	-1.0
Thermo Fisher	Apr-23	1.0	O'Reilly Automotive	Feb-23	-1.3
Chipotle Mex Grill	Jul-23	1.0	Aon PLC	Apr-23	-1.0
Fortinet Inc	Aug-23	1.4	Burlington Stores	Jun-23	-1.3
Paycom Software	Aug-23	1.0	UnitedHealth Group	Jun-23	-1.1
			SolarEdge Tech	Aug-23	-0.9
			AstraZeneca PLC	Aug-23	-1.1

Transactions Since July 1, 2023

ADDS	DATE	% CHG	TRIMS	DATE	% CHG
Alphabet Inc	Jul-23	1.3	AstraZeneca PLC	Jul-23	-1.0
Charles Schwab	Jul-23	0.8	SolarEdge Tech	Jul-23	-2.1
Fiserv Inc	Jul-23	0.3	SolarEdge Tech	Jul-23	-2.1
Automatic Data Proc	Jul-23	0.3	Autodesk Inc	Aug-23	-0.3
Neurocrine Bio	Aug-23	0.5	PayPal Holdings	Aug-23	-0.5
NVIDIA Corp	Aug-23	1.0	FleetCor Tech	Aug-23	-0.4

Portfolio and Market Outlook

Today we believe that we have assembled a portfolio of dominant and attractively valued companies including many which, in our view, are poised to benefit from AI and other digital drivers over the years to come. However, it is critical to remember that the 1990's ended with the Dotcom bust of 2000, just as the free money era of the past decade created a speculative investment environment that also ended in a bear market. As always, we will remain focused on investments in equities with reasonable and rational valuations, because valuation matters.

In our opinion, it is possible that AI may represent one of those rare technological turning points creating opportunity to invest not only in the very large "Magnificent Seven", but in many other very high-quality, predictable growth, AI-driven companies that are not so apparent yet. Once again American innovation and entrepreneurialism is poised to become a long-term driver of economic growth and equity market returns. We have positioned the portfolio to benefit from AI development and its application throughout the world.

In our view, the total portfolio is very rationally valued at 21.6x 2024 EPS, even if the benefits of AI are slow to monetize. Furthermore, we believe the 13 technology-related positions in the portfolio*, which are on average valued at 24.8x 2024 earnings with a projected growth rate of nearly 21% (based on DSM's internal calculations) are very attractively priced. Moreover, we believe it is possible that the AI earnings upside in these companies is not fully reflected in their stock prices at this time.

We remain optimistic that the market will trend higher, driven by continued news of falling inflation and the probability that the rate hike cycle from the Federal Reserve and the European Central Bank are very near the end, and continue to believe the odds are in favor of the buyer. As discussed, the portfolio is presently valued at approximately 21.6x calendar year 2024 earnings with an underlying earnings growth rate in the high-teens. In the 1990's, when the ten-year US Treasury bond yielded roughly 5%, the P/Es on quality, predictable growth stock portfolios were within a range of 20x to 26x, depending on the portfolio holdings. Of note, 2025 is only one year away and the portfolio is 18.0x 2025 earnings, a valuation which in our view is very attractive.

As the economy continues to grow, albeit slowly, and inflation continues to fall, the probability of a significant recession declines. A "muddle through" scenario has become more possible, but is certainly not assured. At this juncture we continue to expect that global markets will trend higher despite well-publicized macro and geopolitical risks. However, as we have said repeatedly over the years "bull markets climb a wall of worry" and in our view the market's direction remains upward.

**Includes MSFT, GOOGL, NVDA, AMZN, ADBE, INTU, ACN, ANET, EPAM, ASML, ADSK, ENTG, FTNT.*

Save the Date

Please note the DSM Third Quarter 2023 Investor Webinar will be held on Tuesday, October 24th, 2023 at 10:30 am (ET). Registration information will be provided soon.

DSM CAPITAL PARTNERS

Pursuant to Rule 3a-4 of the Investment Company Act of 1940, as amended, DSM Capital Partners LLC ("DSM") is required to remind you on a quarterly basis to contact us if your financial situation or investment objectives have changed in any way, or if you wish to impose new, or modify existing, restrictions on your account. Pursuant to Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, DSM is required to notify you periodically that you should be receiving, at least quarterly, a statement showing transactions from your custodian, and urge you to compare your custodial statement to the statement from DSM.

Portfolio Characteristics, Top Holdings, and Sector Weighting information refers to a representative account and is provided for illustrative purposes only - individual client accounts will vary. Contributors to return represents the holdings that most significantly impacted performance during the measurement period. The securities were selected in a mechanical and objective manner by using a calculation to show their relative impact on overall performance; they were not included or excluded for any other reason. The calculation computes the contribution of each holding by calculating the weight (i.e., percentage of the total account) invested in each holding multiplied by the rate of return for that holding during the measurement period. The result shows each holding's contribution to the overall return during the measurement period without regard to fees or expenses. If fees or expenses were applied, it would cause a detraction from the performance presented. The securities listed does not represent all of the securities purchased, sold, held or recommended or that these reflect current or past holdings for any particular client. You should not assume that the securities identified or discussed are currently held or will be profitable, or that any client account was or will attain the same or similar performance as the securities listed. DSM's standard fee is detailed in its Form ADV.

Weighted average market capitalization represents the average value of the companies held in the portfolio. When that figure is weighted, the impact of each company's capitalization on the overall average is proportional to the total market value of its shares. Price-to-earnings ratio is an equity valuation measure defined as market price per share divided by annual earnings per share. Earnings Per Share is another valuation measure. It is a company's total earnings or net income divided by its shares outstanding. Earnings per share, price to earnings ratios and other valuation models do not guarantee future performance or results. DSM may not be successful in predicting EPS growth or P/E ratios and, as a result, investors may experience losses. The price-to-cash flow ratio is a stock valuation indicator or multiple that measures the value of a stock's price relative to its operating cash flow per share. The price-to-sales ratio is calculated by taking a company's market capitalization and divide it by the company's total sales or revenue over the past 12 months. The price to book ratio is used to compare a company's current market value to its book value. Return on Equity is a measure of the profitability of a business in relation to the equity. Long-Term Debt to Capital denotes the weighted average of each security's long-term debt divided by the total capital of the security. Dividend yield is the dividend per share divided by the price per share. Measured in percent, Active Share represents the portion of a portfolio that differs from its benchmark. It is calculated as half the sum of the absolute active weights of all securities in a portfolio. It ranges from 0% for an index-tracking fund to 100% for a portfolio with no overlap with its benchmark. The higher the percentage, the more "active" the manager is. Portfolio turnover is a measure of how frequently assets are bought and sold. DSM's year-end revenue growth projections and earnings growth projections are an average of DSM's quarter-end revenue growth and earnings growth projections for the securities held in the portfolio.

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Please contact DSM at (561) 618-4000 or at operations@dsmcapital.com if we can be of assistance.