

NYS Growth Equity Strategy  
Investment Update – Second Quarter 2023

in strategic partnership with 

# Investment Commentary

Second Quarter 2023

## Performance Summary

The portfolio rose 7.61%<sup>1</sup> net in the second quarter, vs. 6.26% for the Morningstar Global TME equity index, continuing a positive tone for the year. The strength in mega-cap tech and internet platforms was evident in our performance in the quarter, with Microsoft, Amazon and Alphabet all top contributors to performance in the quarter. In the IT sector, we also saw strong performance from Lam Research on enthusiasm around the recovery of the semiconductor equipment sector, and Cadence Design Systems, whose software is a key enabler of designing chips, including AI processors. From the Healthcare sector, Intuitive Surgical was a contributor to performance as their platform saw a significant increase in procedures, evidence of pent-up demand after several years of Covid-related disruption. Fiserv was a positive contributor in financials, with continued outperformance relative to peers in merchant acquiring. Lastly, the materials sector also contributed to performance with strong performance from Linde PLC, Ball Corp. and Constellation.

The headline numbers, however, masked a bifurcation within markets, where large cap stocks greatly outperformed the rest of the market. This concentration of returns was most prominent in the information technology sector, a large exposure in absolute and relative terms. Our overweight to IT helped our performance in absolute terms, but our underexposure to the tech mega-caps hurt us in relative terms. For example, our semiconductor overweight was a correct call and consistent with our long-term views about the importance of the industry in the next decade, but our modest underexposure to Nvidia with an Optionality position while that company's stock soared in the quarter, hurt us on a relative basis.

Trading did not significantly move the portfolio. We shifted our exposure to better opportunities, but there were no wholesale changes. At the margin, we trimmed our exposure to several semiconductor companies where there has been a significant stock reaction in anticipation of tailwinds related to the current wave of AI investment. We have a long-held belief that semiconductors are the key enablers of AI in addition to many

other critical enabling trends of the digital economy and they remain a large overweight in the portfolio.

Our top detractors in the quarter were Progressive Insurance, Sun Communities, Danaher, Okta, and Paypal. We exited Paypal Holdings around the disappointing margin expansion the company is showing as growth slows, which is a symptom of the competitive environment.

New positions initiated in the quarter included Repligen Corp, a key supplier to the bioprocessing subset of life sciences, and Cognex Corp, whose vision systems participate in the growing area of industrial automation.

## Market Overview

The strength in growth related equities in the first half of the year, in part buoyed by market enthusiasm around the impact of AI, reinforces our view that the secular growth in the economy will be found among the enablers of the transition from an analog to a digital economy. This view will undoubtedly go in and out of favor, as it went out of favor in 2022, and our goal is to weather volatility around that market sentiment through disciplined portfolio construction.

Looking forward, interest rate policy and economic uncertainty persist, but markets seem to be adapting to a more digestible range of options from central banks. As always, there remain risks of economic shocks, such as higher than expected inflation or a fallout from the higher interest rate world. As we had hoped, however, the economic concerns have abated somewhat, and specific industry changes and company predictions are returning to the forefront. Market volatility and correlation among stocks have fallen.

**Past performance is not indicative of future performance.** The views expressed are those of the investment team at the time of preparation and may change in the future. Discussions of portfolio holdings are for illustrative purposes only and not a recommendation to buy or sell. Source NZS Capital, LLC, as of Sept. 30, 2023.

<sup>1</sup>Net returns are calculated using the maximum investment management fee of 0.65%. Please see important information on page 10 for details regarding model fees.

# Investment Commentary (continued)

Second Quarter 2023

The market is also reflecting an awareness that change comes quickly and in unpredictable ways, two themes central to our investment philosophy. The change relates to artificial intelligence and large language models. The environment is reminiscent of the early days of the internet when there was vast opportunity for change and a wide range of outcomes. We think the return of growth investing and the favorable performance of technology stocks properly reflects this excitement. What the market is getting wrong, however, is the narrow winner list – at least so far. The handful of large cap companies rallying on the promise of AI belies the risks associated with this level of uncertainty.

AI has widened the range of outcomes for all companies. We are still in the early days; predictions are especially unreliable. As a range of outcomes widens and the threat of disruption increases, the risk to a company increases. Therefore, we think in general, some AI-themed stocks and some of the large platform companies have become marginally less attractive. At the same time, some areas such as automation and healthcare, where AI will also have a massive impact, have lagged and remain attractive relative to the risk. Semiconductors are the building blocks of this new paradigm and remain long-term opportunities, again with a cautious eye to valuation and risk.

Barring a sharp and unexpected deviation in the economy and central bank policies, we remain positive about an environment that will favor growth stocks, innovative and adaptable companies and which calls for prudent but opportunistic portfolio construction.

## Last Quarter's Stuff

*Most weeks, NZS Capital publishes a weekly newsletter, SITAL Week, short for Stuff I Thought About Last Week. The newsletter covers a broad range of topics from developments in technology to changing business models to economic observations. We even include some personal tidbits.*

*This quarter, we highlight posts about AI, platform tech companies, semiconductors, alternative energy and fast food, among other topics. These topics relate to our holdings and to trends represented in our portfolio.*

*You can view full versions of SITAL Week and subscribe for email delivery at <https://www.nzscapital.com/sitalweek>.*

\*\*\*

For two decades, the creation of the digital advertising, ecommerce, and mobile phone markets (especially by Google, Meta, Amazon, and Apple) was a primary engine of asymmetry and new business model formation across a host of products and services. AWS, created and funded by Amazon's ecommerce business, became the platform for nearly every new tech startup in industries from media to fintech. Businesses like Netflix and Uber were built on cloud platforms like AWS (and smartphone apps running on Android and iOS). We might have eventually arrived at these new digitally-enabled businesses, but it's possible the tens of billions of dollars needed to build out the infrastructure, subsidized by advertising and ecommerce, was an existential enabler.

**Past performance is not a guide to future performance. Past performance is not indicative of future performance.** The views expressed are those of the investment team at the time of preparation and may change in the future. Discussions of portfolio holdings are for illustrative purposes only and not a recommendation to buy or sell. Source NZS Capital, LLC, as of Sept. 30, 2023. Net returns are calculated using the maximum investment management fee of 0.65%. Please see important information on page 10 for details regarding model fees.

# Investment Commentary (continued)

Second Quarter 2023

It's hard to separate out the causes of today's slowdown for the mega platforms, but it could be a reflection that we have maxed out our potential screen time and have tapped much of the potential of online shopping. Perhaps growth will be a little harder to come by, or perhaps AI represents an entirely new mega platform to subsidize a vast new array of businesses we cannot even imagine today. I'm by no means ready to posthumously eulogize today's digital giants. If anything, they remain the key enabling layer of the future of the economy, including AI. However, as these platforms experience a slowdown, or perhaps even a de-power lawing, innovation is shifting from the unbounded, positive feedback loops of the purely digital world to the messier negative feedback loops of the physical world. As this happens, innovation will make inroads into the analog infrastructure layers of the economy.

\*\*\*

Microsoft signed an audacious agreement to purchase 50MW of fusion-generated electricity starting in five years from Helion, a company backed by OpenAI co-founder and Microsoft partner Sam Altman.

While it might remain a safe bet to assume large-scale fusion energy production won't take place anytime in the next couple of decades, it does appear we should be inching up our credence that it could happen in the next 5-10 years. This creates a series of interesting thought experiments with abundant, cheap, green energy. The entire thrust of today's green push would pivot dramatically. Further, if AI is critical to solving fusion, and advanced AI is only available in the West, there are going to be significant geopolitical ramifications to an early arrival of the stellar energy source.

\*\*\*

You can own a business by buying shares in it, but you never want to mentally "own" an idea about that business; ideas are stories, and they should be held loosely. Thus, taking a defensive (or promotional) stance

feeds cognitive bias. If a stock or sector is down, but there is no new information or explanation to be had, then defending it can make you believe your story more than you should. It's far better to simply say "I don't know" and wait for new information. You are not nearly as dumb as you feel when your stocks are down, and you are not nearly as smart as you think you are when your stocks are up.

**Past performance is not a guide to future performance. Past performance is not indicative of future performance.** The views expressed are those of the investment team at the time of preparation and may change in the future. Discussions of portfolio holdings are for illustrative purposes only and not a recommendation to buy or sell. Source NZS Capital, LLC, as of Sept. 30, 2023. Net returns are calculated using the maximum investment management fee of 0.65%. Please see important information on page 10 for details regarding model fees.

# NZS Growth Equity

## Contributors and Detractors (Second Quarter 2023)

<b>Top 5</b>	Avg Weight (%)	Port Return (%)	Impact (%)
AMAZON.COM INC	2.99	26.21	0.73
MICROSOFT CORP	3.79	18.40	0.71
LAM RESEARCH CORP	2.78	21.60	0.60
ALPHABET INC	2.98	16.32	0.47
CADENCE DESIGN SYS INC	3.58	11.63	0.41

<b>Bottom 5</b>	Avg Weight (%)	Port Return (%)	Impact (%)
PROGRESSIVE CORP	2.95	-7.41	-0.21
SUN COMMUNITIES INC	2.81	-6.73	-0.21
OKTA INC	0.78	-19.58	-0.19
DANAHER CORP	3.24	-4.67	-0.16
PAYPAL HOLDINGS INC	0.40	-21.77	-0.15

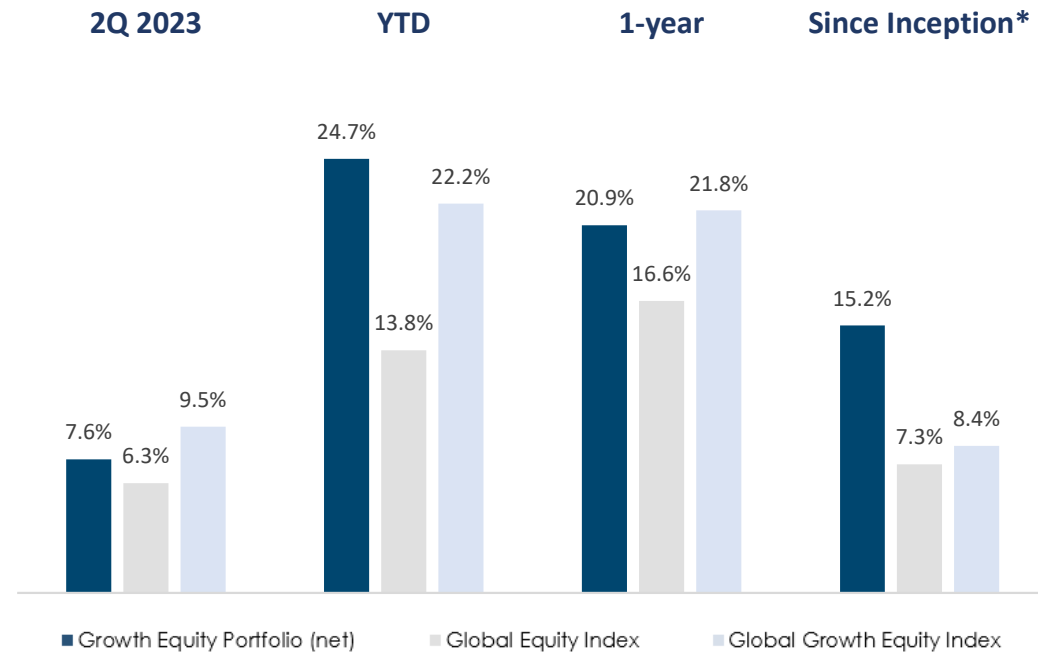
Source: NZS Capital, LLC. Certain metrics normalized for outliers and missing data. Representative account as of June 30, 2023. Global Equity Index: Morningstar Global Target Market Exposure Index. Global Growth Index (style benchmark): Morningstar Global Growth Target Market Exposure Index.

Top 5 and Bottom 5 Contributors and Detractors is extracted performance. All extracted performance is calculated after deducting the pro-rata portion of the maximum annual management fee of 0.65% (0.1625% per quarter) from each position, based on the security's average weight over the period. There are limitations to this approach and actual net performance may vary slightly. However, our goal is to provide returns that reflect the impact of management fees as accurately as possible."

# NZS Growth Equity

Composite Performance as of June 30, 2023

	Growth Equity (net)	Global Index
Information Ratio	0.8	-
Tracking Error	10.4%	-
Sharpe ratio	0.6	0.3
Standard Deviation	25.0%	19.0%
		Global Growth Index
Information Ratio	0.9	-
Tracking Error	7.8%	-
Sharpe ratio	0.6	0.4
Standard Deviation	25.0%	20.3%



	2Q 2023	YTD	1-year	Since Inception*
NZS Growth Equity Composite (gross)	7.78%	25.10%	21.75%	16.00%
NZS Growth Equity Composite (net)	7.61%	24.72%	20.94%	15.24%
Morningstar Global Target Market Exposure Index (NR)	6.26%	13.82%	16.61%	7.33%
Morningstar Global Growth Target Market Exposure Index	9.46%	22.17%	21.77%	8.38%
<b>Difference (Net vs. Global Index)</b>	<b>1.35%</b>	<b>10.90%</b>	<b>4.33%</b>	<b>7.91%</b>

The above information is considered supplemental to the GIPS presentation for these composites which may be found in the appendix of this presentation. Past performance is no indication of current or future performance. Gross returns reflect the deduction of administrative expenses but do not reflect the deduction of investment management fees. Net returns are calculated using the maximum investment management fee of 0.65%. Periods greater than one year are annualized.

\*Since inception: January 1, 2020. Global Equity Index: Morningstar Global Target Market Exposure Index. Global Growth Equity Index (style benchmark): Morningstar Global Growth Target Market Exposure Index. Periods greater than one year are annualized data.

You cannot invest directly in an index. Index returns do not represent investment returns. . Please see full track record on page 9. Source: NZS Capital, LLC.



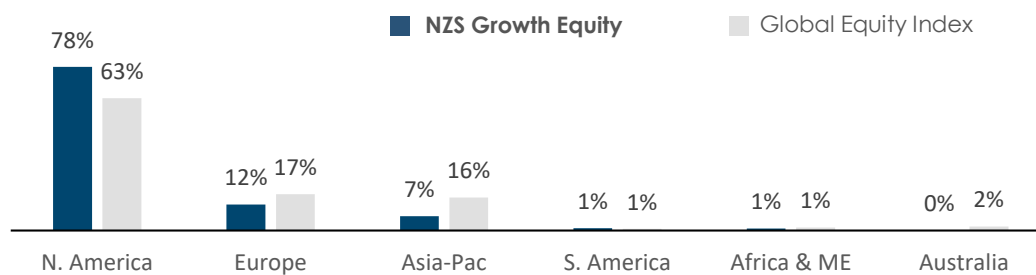
# NZS Growth Equity

Representative account as of June 30, 2023

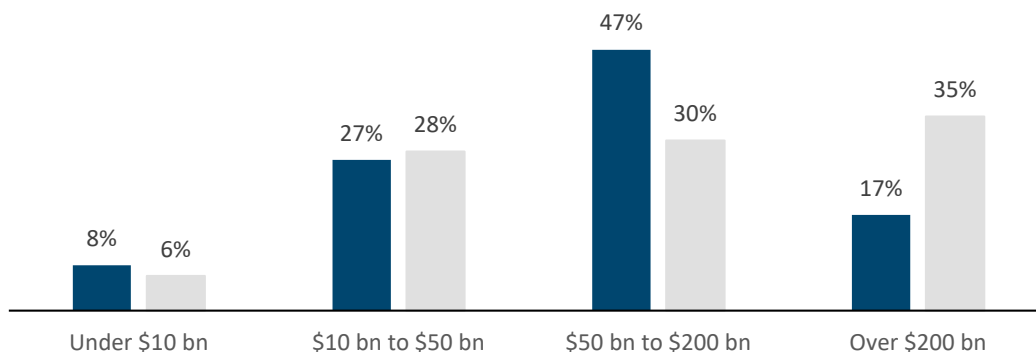
## Representative holdings

Top 10	Top Optionality
Microsoft Corp	Intuitive Surgical Inc
Workday Inc	Hoya Corp
Texas Instruments Inc	Chipotle Mexican Grill Inc
Linde PLC	Keyence Corp
ASML Holdings NV	Costar Group
Microchip Technology Inc	
Cadence Design Sys Inc	
Danaher Corp	
Ball Corp	
Amazon.com Inc	

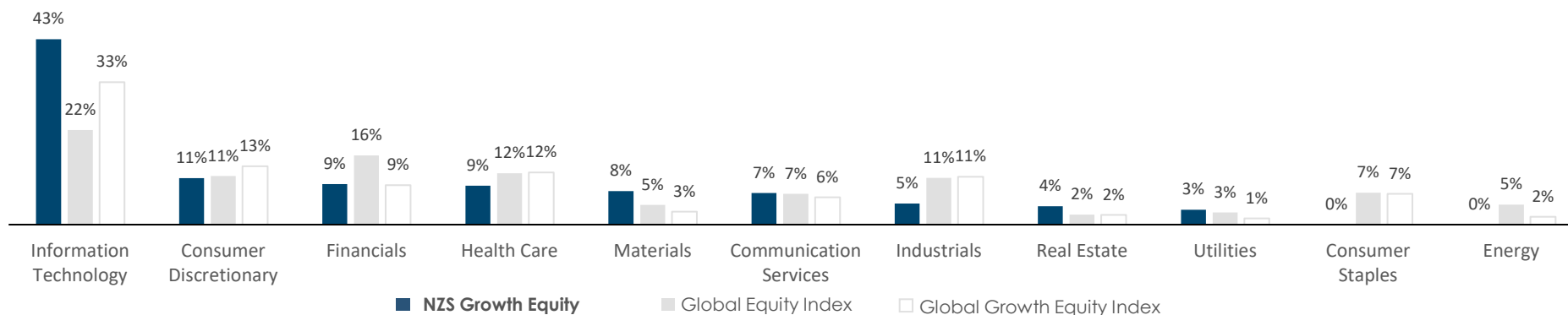
## Geographic Exposure



## Market Cap



## Sector allocation



Source: NZS Capital, LLC Representative account as of June 30, 2023. GICS sectors. Benchmark: Morningstar Global Target Market Exposure Index. Global Growth Equity Index (style benchmark): Morningstar Global Growth Target Market Exposure Index.

Top 10 represent the ten largest portfolio holdings by weight. Top Optionality represent the five largest names classified by NZS as "Optionality" in the context of its investment process. They are provided as examples only and there are no guarantees about how the stocks perform based on their classifications. Any stock examples are used for illustrative purposes only and should not be viewed as investment advice.

# NZS Growth Equity

Representative account as of June 30, 2023

	<b>NZS Growth Equity</b>	Resilient holdings	Optionality holdings	Global Equity Index	Global Growth Index
EPS Growth (%)	<b>18.3</b>	18.2	18.8	11.8	16.3
Price/Earnings	<b>32.9</b>	28.0	38.5	22.5	28.4
Dividend Yield (%)	<b>0.8</b>	-	-	2.1	1.1
Wt. Avg Mkt Cap (\$B)	<b>284.8</b>	-	-	433.5	697.4
Median Mkt Cap (\$B)	<b>45.4</b>	-	-	10.2	10.2
Number of Holdings/Weight	<b>68</b>	16/52%	52/47%	3,091	1,779
Top Ten (%)	<b>35.5</b>	-	-	17.8	31.3
Turnover (%)	<b>83</b>	-	-	-	-
Active Share(%)	<b>86</b>	-	-	-	-

Source: NZS Capital, LLC. Certain metrics normalized for outliers and missing data. Representative account as of September 30, 2023.  
 Global Equity Index: Morningstar Global Target Market Exposure Index. Global Growth Index (style benchmark): Morningstar Global Growth Target Market Exposure Index. Refer to page 10 for important information about benchmarks.



# NZS Capital, LLC

## NZS Growth Equity Composite

January 1, 2020, to December 31, 2022

Year	Composite Gross Return TWR (%)	Composite Net Return TWR (%)	Benchmark Return (%)	3- Year Std Deviation		Number of Portfolios	Internal Dispersion (%)	Composite Assets (\$M)	Firm Assets (\$M)
				Composite Gross (%)	Benchmark (%)				
2020	63.51	62.44	15.83	n/a	n/a	n/a <sup>(a)</sup>	n/a <sup>(a)</sup>	175	541
2021	22.62	21.83	18.57	n/a	n/a	n/a <sup>(a)</sup>	n/a <sup>(a)</sup>	499	1,261
2022	-32.99	-33.45	-18.04	25.94	19.83	6	n/a <sup>(a)</sup>	804	1,345

(a) The composite contains five or fewer portfolios

NZS Capital, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. NZS Capital, LLC has been independently verified for the periods January 1, 2020 to December 31, 2022. The verification report is available upon request.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

Firm is defined as all assets that are managed by NZS Capital, LLC. NZS Capital, LLC is an investment advisor registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940.

The NZS Growth Equity Composite includes all portfolios that invest primarily in equity and equity-related securities (including preference shares, warrants, participation notes and depositary receipts). The companies can be based anywhere in the world. The Portfolio Manager believes the companies and their shares will benefit significantly from innovation, particularly due to advances or improvements in technology, have attractive fundamentals, and offer good prospects for growth. The portfolios will typically hold 50-70 names. The benchmark is the Morningstar Global Target Market Exposure NR USD. The index is designed to provide exposure to the top 85% market capitalization by free float in each of two economic segments, developed markets and emerging markets.

Returns presented are time-weighted returns. Valuations are computed, include reinvestment of dividends and other earnings and performance is reported in US dollars.

Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Composite and benchmark returns are presented net of non-reclaimable withholding taxes. Net-of-fees returns are calculated by deducting a model management fee of 0.1625%, 1/4th of the highest management fee of 0.65%, from the quarter end gross composite return. The management fee is generally 0.65% per annum, calculated monthly and payable in arrears. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request. A list of composite descriptions is available upon request.

The composite was created in December 2019, and the inception date is January 1, 2020.

Internal dispersion is calculated using the equal-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. Internal dispersion is not calculated for composites with five or fewer accounts.

The three-year annualized standard deviation measures the variability of the composite gross returns and the benchmark returns over the preceding 36-month period.

Prior to January 1, 2021, portfolios were excluded based on significant cashflows. A significant cash flow is defined as a contribution or withdrawal greater than 20% of the beginning market value of a portfolio. Portfolios will not be removed after January 1, 2021 for significant cashflows.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Past performance does not guarantee future results.

# Important Information

## Certain Disclosures for NZS Strategies & Composite Account Information

This presentation is for institutional investors only. The views expressed are those of the fund manager at the time of preparation and may change in the future. Company examples are for illustrative purposes only and are not a recommendation to buy or sell. Market and exchange rate movements can cause the value of an investment to fall as well as rise, and you may get back less than originally invested. Any data or views given should not be construed as investment advice. Any forecasts, figures, opinions or investment techniques and strategies set out are for informational purposes only. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit, and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their investment goals.

The fees presented are model fees. Model fees do not necessarily reflect the fees an investor might pay. Rather, they are equal to the highest fee charged to any account managed in the same investment strategy included in the performance presented for the period portrayed. Net-of-fees are displayed by reducing the highest fee charged to any client employing this investment strategy during the portrayed time period. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The Firm's fees are available upon request

**Past performance is no guide to the future.** Investing involves risk and possible loss of principal capital.

Issued by NZS Capital, LLC.

No part of this presentation may be reproduced in any manner without the prior permission of NZS Capital, LLC.

# Additional Disclosure

## BENCHMARK DISCLOSURE

Each benchmark was selected to generally represent a similar opportunity set of investments compared with each strategy. NZS does not seek to replicate the composition, performance, or volatility of the benchmark or its constituent indices and can be expected to have investments that differ substantially from the securities included in any index. Accordingly, no representation is made that the performance, volatility, or other characteristics of the portfolio will track the benchmark. It is not possible to invest directly in an index.

## INDEX DEFINITIONS

Morningstar Global Target Market Exposure NR USD is a rules based, float market capitalization-weighted index designed to cover 85% of the equity float-adjusted market capitalization of the Global equity markets.

Morningstar Developed Markets Technology NR USD measures the performance of companies engaged in the design, development, and support of computer operating systems and applications. This sector also includes companies that provide computer technology consulting services.

Morningstar US Target Market Exposure index is designed to provide exposure to the top 85% market capitalization by free float in the US equity market.

NZS strategies are not sponsored, endorsed, sold or promoted by Morningstar, Inc. or any of its affiliates (all such entities, collectively, "Morningstar Entities"). The Morningstar Entities make no representation or warranty, express or implied, to the owners who invest in the strategy or any member of the public regarding the advisability of investing in the strategy or to any member of the public regarding the advisability of investing in equity securities generally or in the strategy in particular, or the ability of the strategy to track the Morningstar Global Target Market Exposure Index or the Morningstar Developed Markets Technology Index or the equity markets in general.

THE MORNINGSTAR ENTITIES DO NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE STRATEGIES OR ANY DATA INCLUDED THEREIN AND MORNINGSTAR ENTITIES SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN