

U.S. Large Cap Growth

Marketing communication | As of 30 Jun 2025

- **The portfolio outperformed the Russell 1000® Growth Index in the second quarter of 2025.**
- **U.S. large cap growth stocks dominated in the quarter, with the Russell 1000® Growth Index up nearly 18%. Most major indexes across the globe saw double-digit returns; however, value stocks notably lagged, and the Russell 1000® Value Index was up a mere 4% in the period.**
- **The Industrials and Communication Services sectors were key drivers of relative performance, due to stock selection. Our void of the Consumer Staples sector also contributed. The Financials and Healthcare sectors were the largest detractors in addition to our void of the small Utilities sector.**

Market review

Early April's "Liberation Day" tariff blitz triggered a sharp sell-off – the largest global market decline since 2020. The subsequent pause and rollback of some of the tariffs led to a strong rebound, with the S&P 500® Index recovering all the losses by mid-quarter and setting all-time highs at the end of June. Separately, the sustained growth in AI technology and resilience of investments across AI infrastructure further propelled returns and dominated investor focus despite a resurgence of geopolitical risks.

U.S. large cap growth stocks dominated in the quarter, with the Russell 1000® Growth Index up nearly 18%. Most major indexes across the globe saw double-digit returns; however, value stocks notably lagged, and the Russell 1000® Value Index was up a mere 4% in the period.

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Portfolio review

The portfolio significantly outperformed the benchmark for the quarter. The Industrials and Communication Services sectors were key drivers of relative performance, due to stock selection. Our void of the Consumer Staples sector also contributed. The Financials and Healthcare sectors were the largest detractors in addition to our void of the small Utilities sector.

While the 'Magnificent 7' collectively outperformed the Index in the quarter, individual stock performance of the group was mixed and our weightings positively contributed to relative performance in the period.

Contributors

The portfolio's significant underweight in **Apple Inc** was the largest contributor to relative performance in the period. The "Liberation Day" tariff announcement would have put the company at a disadvantage as the majority of U.S. iPhones were being shipped from China. Apple immediately shifted production to India, and cut prices in China, which resulted in lower margins. In addition, the company had an unfavorable court ruling regarding app developer payments which impacts services revenue.

Vertiv Holdings Co, a provider of critical infrastructure and services for data centers, released a stronger than expected quarter and outlook. Investors had been worried about peaking datacenter spending and slowing orders, yet the company's order backlog continues to grow. Vertiv has a small but strong position in liquid cooling and we model tremendous growth as this content increases.

Spotify Technology SA, a global leader in audio streaming and media services, released solid quarterly results. The company's gross margin and operating income were above forecast as management continues to focus on profitability metrics. Future growth opportunities include audio books, podcasts and a higher priced subscription tier.

Howmet Aerospace Inc, a producer of engineered components in the aerospace and defense market, reported strong results in the period and raised guidance. The company is currently benefiting from its healthy aftermarket business due to more frequent replacements, share gains and strong pricing. Additionally, it is also levered to future new aircraft production. **Axon Enterprise Inc**, a global public safety company, has a strong moat within the law enforcement market, allowing police officers increased

safety and efficiency. The company has a bundled subscription model which provides Taser stun guns, wearable cameras and a host of AI-cloud related software including report writing. Axon released a solid quarter and we model strong growth as customers upgrade to higher priced AI bundles and new customer acquisition.

Detractors

NVIDIA Corp, a global graphics processing semiconductor company, beat earnings expectations again despite headwinds due to tariff restrictions, and our underweight detracted. Investors seemed to look past softness and restrictions in the Chinese market and focused instead on renewed datapoints pointing to sustained AI demand and spending. The holding was underweight in the quarter but we added to our position as newly announced sovereign partnerships give us more confidence in the ability to sustain and propel future growth.

Fair Isaac Corp, a key provider of predictive analytics and services for consumer credit worthiness, detracted as the new Director of the Federal Housing Finance Agency made comments during the period that investors perceived as threatening the company's pricing power. While disappointing, the agency does not have direct authority to regulate the company's pricing. Fair Isaac maintains a strong competitive moat, high barriers to entry into its business and solid pricing power which we expect will generate outsized free cash flow growth in the future.

Arthur J Gallagher & Co, a middle-market focused insurance broker, continues to exceed growth expectations within its brokerage segment and deliver margin improvement. The pending closing of its AssuredPartners acquisition has been delayed yet anticipated to secure mid-teens growth in the coming years.

Global fintech and payments company **Fiserv Inc** released disappointing results in their Clover segment and announced the departure of their CEO to become the Commissioner of Social Security. Our research pointed to lower future volume growth and the position was sold. Managed care and healthcare services leader **UnitedHealth Group Inc** surprised investors by significantly cutting their forecast when it released its results. Management cited higher than expected costs in its Medicare plans. We anticipated additional cuts and headwinds and exited the position.

Portfolio positioning

Consistent with our views on innovation and AI application

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opportunities, the Information Technology sector remains our largest absolute weight (48% versus 51% in the benchmark); it is also our largest relative underweight, largely due to our positioning in Apple. Our largest relative overweight is in the Consumer Discretionary sector (16% versus 14%) as select holdings are focused on profit productivity and innovation themes. We are also overweight the Industrials sector (8% versus 6%) where investments are concentrated in commercial aerospace, electrification and commercial HVAC themes. The Healthcare sector is also overweight (9% versus 7%) with positions tied to innovation winners with compelling new product launches. We are underweight the Consumer Staples sector (0% versus 3%) as the growth profiles and valuations of these companies do not meet our investment criteria. The remaining sectors are within 1% of the benchmark and we are void the small Energy, Real Estate and Utilities sectors.

From a Growth Type perspective, the Dynamic Growth sector is the largest overweight at 40% versus 33% in the benchmark. Consistent Growth is also slightly overweight at 32% versus 29%. Cyclical Growth at 28% versus 38% remains the largest underweight.

Outlook

The second quarter was characterized by two strikingly different narratives. First being the macro narrative of on again/off again tariffs and escalating global military conflicts. Second, the micro narrative around the growth of Artificial Intelligence technologies. As these two narratives battled for investor attention, large cap growth stocks once again resumed their place at the top of the performance podium as the micro clearly trumped the macro. The Artificial Intelligence opportunity is essentially a U.S. large cap growth investment theme given AI is almost exclusively a U.S. phenomenon. The Russell 1000® Growth Index was up 17.8% during the quarter, trouncing the Russell 1000® Value Index return of 3.8% and the S&P 500® Index of 10.9%.

The macro narrative continues to dominate headlines, and we are most certainly living in a more volatile environment with tariffs and negotiation announcements, delays and even shifting policy alignment with top CEOs of companies such as Apple and Tesla. This, on top of escalating military conflicts in the Middle East and a continued Russia-Ukraine war, makes it hard to disagree that uncertainty has increased. That said, the U.S. economy is very resilient, and we are in the early stages of what may be the biggest economic value creation event of all time: Artificial Intelligence. In our view, the narrative around Artificial

Intelligence hit a major positive inflection point after the DeepSeek controversy this past winter and the mosaic clearly demonstrates the adoption of AI technology continues at a very rapid pace.

The demand for hosted AI applications by major cloud computing providers showed clear evidence of continued robust demand. Microsoft's Azure offering grew 35% in the first quarter, solidly exceeding expectations for 30% growth. Oracle, a recent entrant to hosted service infrastructure offerings, guided to a doubling of order growth over the next year.

Congruently, there is increased conviction by corporate leaders about how Artificial Intelligence can drive productivity in their businesses. Andy Jassy, CEO of Amazon, wrote in June: "As we roll out more Generative AI and agents, it should change the way our work is done. We will need fewer people doing some of the jobs that are being done today, and more people doing other types of jobs. It's hard to know exactly where this nets out over time, but in the next few years, we expect that this will reduce our total corporate workforce as we get efficiency gains from using AI extensively across the company."

As the applications of Artificial Intelligence technologies expand, large sovereigns are taking notice. Saudi Arabia announced a major partnership with Amazon and NVIDIA during the quarter. This new frontier of demand was a driver for NVIDIA's ability to guide to 50% growth for their July quarter despite no longer being able to ship its most advanced chips to China.

Perhaps the most jaw-dropping development of the quarter was OpenAI's prediction that revenue would increase to \$13 billion this year from just \$1 billion two years ago. It further estimated revenue would increase to \$125 billion by 2029! We believe OpenAI has established itself as a sustainable platform company in the same vein as Meta, Microsoft and Amazon. OpenAI's market value puts it on par with other large cap growth stocks and our venture capital fund has given us some terrific access to the company.

While the macro signals remain murky and difficult to predict, the micro signals are clear to us and keep us bullish on U.S. Large Cap Growth. There remains a healthy debate about the end of U.S. exceptionalism, but our conviction remains that at its foundation, U.S. exceptionalism is unique among nations due to its capitalist system designed to promote innovation and economic growth. Outside of China, the U.S. has virtually no competition for Artificial

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Intelligence technologies. It is game over. And if AI becomes the biggest economic value -creating event of all time, then U.S. exceptionalism may just be getting started. Rather than asking if we are at the end of U.S. exceptionalism, should we instead be asking if we are at the beginning?

Index Thoughts

The Russell 1000® Index continued its pattern of rebalancing annually between the Growth and Value Indexes during late June. This was not the usual rebalance, and market observers should take note of the evolving approach Russell is taking to the Russell 1000® Growth Index. Russell took this opportunity to be more proactive rather than purely rules-based to give more room for the Index to be in compliance with the U.S. Regulated Investment Company IRS 25/5/50 Rule. This resulted in a big weight down for Alphabet Inc (-194 bps) and Amazon (-135 bps) but a strange weight up in NVIDIA, Microsoft and Apple of nearly 1% each. The aggregated weight of these five stocks

went down 55 bps. We believe the most manipulated weight remains Meta Platforms which weighted down by 15 bps to be under the 4.5% weight threshold to avoid its inclusion into the control group.

While there are many nuances to Russell's now-quarterly index rebalance (reach out for more details), the implications of their new approach are twofold. First, the largest company weights are likely to remain volatile and unrelated to stock price performance. Second, but more importantly, we think this marks the end of the ever-increasing concentration of the Index and bodes exceptionally well for active manager performance. There is a very strong correlation between managers' performance and whether the Index is increasing or decreasing in concentration which makes the capping of the large weights in this Index a very welcome development.

For more information contact: 800.752.8700 or visit nuveen.com

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Glossary

Free cash flow is a measure of financial performance calculated as operating cash flow minus capital expenditures. Free cash flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. Free cash flow is important because it allows a company to pursue opportunities that enhance shareholder value. Without cash, it's tough to develop new products, make acquisitions, pay dividends and reduce debt. **Inflation** is a rise in the prices of goods and services, often equated with loss of purchasing power. **Valuation** is the process of determining the current worth of an asset or a company; there are many techniques used to determine value. An analyst placing a value on a company looks at the company's management, the composition of its capital structure, the prospect of future earnings and market value of assets. The **Russell 1000® Value Index** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The **Russell 2000® Growth Index** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The **S&P 500® Index** is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

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