

# Meritage Growth Equity

The Meritage Growth Equity strategy composite was established in 2000, capitalizing on the firm’s conviction in quantitative methodologies to drive security selection.

The Meritage Growth Equity Strategy seeks long-term growth of capital by investing in growth companies attractively ranked by the Adviser’s multi-factor ranking process. This process evaluates companies on the basis of earnings quality, market reaction, capital deployment, and valuation. An overlay of macro-economic and investment style analysis enables factor weighting to be dynamic. Because there are no preconceived biases regarding sectors or industries, the strategy may often own attractive investments absent from other growth strategies. The search for attractive growth investments is not constrained by benchmark or arbitrary sector, market-cap or geographic parameters. In addition, the emphasis on valuation and cash flow metrics helps manage the risk of being too momentum driven, contributing to its historically low volatility record.

## Core Beliefs

- Stock prices are more volatile than business valuations.
- Bottom-up stock selection is the highest quality source of excess return.
- A systematic, factor-based security selection process is highly efficient for identifying companies with the potential for price appreciation and avoid biases or mental shortcuts, such as herd behavior, that lead to irrational decision-making.
- A consistent process to identify and assess investment opportunities is crucial in order to produce differentiated results.

## Key Facts

Inception	December 31, 2000
Benchmark	S&P 500 Large Cap Growth
Firm AUM	\$2.4 billion as of 6/30/2024
Total Strategy	\$768.2 million
Firm Associates	18

# Meritage Growth Equity Investment Process

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**3500 securities pre-screened** for financial quality and liquidity

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**A sell discipline** is primarily driven by the deterioration in a stock's multi-factor rank.

**5-Yr. historical turnover** approximately 63%




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**Multi-factor ranking process combines two independent perspectives:** 1) Earnings quality, market reaction, capital efficiency, and valuation factors that correlate with subsequent price movement; 2) Intrinsic valuation.

**Top ranked candidates (deciles 1-2) of universe** form primary buy candidate list

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**Qualitative assessment:** 1) deepen our understanding of risk and growth potential; 2) evaluate how the stock might affect portfolio characteristics.

**Portfolio construction**  
**35 – 65 securities**

## Portfolio Construction

- Sector diversification: sector sizes can be up to two times the index for larger sectors; up to three times for smaller sectors.
- Non-U.S. holdings, including tax haven domiciles, have averaged 10% since inception
- No quant-engineered ex-ante tracking error target or risk optimization
- Cash balances are primarily frictional
- Portfolio characteristics controlled within ranges relative to benchmark
- Position size ranges from 1% to 8%

# Quantitative Analysis

- Multifactor Screen and Rank
- Objective Discipline Generates Buy Ideas (Deciles 1-2)
- Binds Investment Team to a Common Mindset

Our quantitative evaluation process integrates data from several outsourced research firms, enabling us to focus our time more productively on the model's output.

This combination of resources enhances our ability to interpret underlying trends and make dynamic adjustments as the investment cycle evolves. This work compliments our 30 years' experience of implementing a process-driven approach in identifying attractive investments.

## **Our Growth model evaluates companies from several key perspectives:**

An overlay of macro-economic and investment style analysis enables factor weighting to be dynamic. This draws on signals from the fixed income, commodity, currency, and equity markets.

The model emphasizes cash flow-based valuation and profitability, intangible asset evaluation, R&D investment, earnings quality and capital spending analysis, market price trends, and investor sentiment.

Newer research using Artificial Intelligence and Big Data impacts model factor weights and introduces new factors like media sentiment and news intensity.

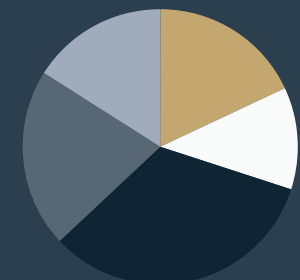
Forward looking judgments come into play when the research team identifies key changes in factor effectiveness.

### Market Regime Overlay



Regime Indicator	30%
Treasury Bond Market's Term Premium	15%
Level & Direction of Our Valuation Spreads	35%
Machine Learning Macro Indicator	20%

### The Growth Model



Earnings Quality	33%
Market Reaction	21%
Valuation	18%
Capital Deployment	12%
Machine Learning	16%

Source: Empirical Research Partners

# Meritage Growth Equity Performance

## Annualized Returns (%)

Periods Ending 6/30/2024

	QTR*	1 Year	3 Years	5 Years	10 Years
<b>Meritage Growth Equity Gross</b>	5.8	21.0	2.7	14.4	13.6
<b>Meritage Growth Equity Net</b>	5.6	20.0	1.9	13.4	12.7
S&P 500 Large Cap Growth Index	9.6	32.5	9.4	16.9	15.0

\*Unannualized results.

## Calendar Year Returns (%)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Meritage Growth Equity Gross</b>	25.3	-30.7	30.9	34.5	34.3	-3.1	27.3	12.6	2.7	13.5
<b>Meritage Growth Equity Net</b>	24.3	-31.3	29.9	33.4	33.2	-3.9	26.3	11.7	1.9	12.6
S&P 500 Large Cap Growth Index	30.0	-29.4	32.0	33.5	31.1	0.0	27.4	6.9	5.5	14.9

Please see GIPS Report for the Meritage Growth Equity Strategy on pages 8-9.

# Meritage Growth Equity Portfolio

Period Ending 6/30/2024

## Sector Diversification (%)

	Strategy	Index
Energy	5.6	1.4
Materials	0.0	1.2
Industrials	5.2	5.7
Consumer Discretionary	14.4	13.6
Consumer Staples	0.0	2.5
Health Care	13.4	7.1
Financials	6.0	4.5
Information Technology	46.1	50.2
Communication Services	9.3	13.1
Utilities	0.0	0.1
Real Estate	0.0	0.6
Market ETFs	0.0	0.0

## Top Ten Holdings (%)\*

Apple Inc	10.7
Alphabet Inc Cl A	9.1
Microsoft Corp	8.6
Broadcom Ltd	4.9
Novo-Nordisk A/S ADR	3.9
Amazon Inc	3.7
ASML Holding NV	3.7
Cadence Design Systems Inc	3.3
Fortinet Inc	2.8
KLA Corporation	2.7

\*Not including periodic use of sector/market ETFs.

Portfolio information is for a representative account.

## Portfolio Characteristics

	Strategy	Index
Risk (5-Yr Beta)	0.96	1.00
Price/Oper Earnings	28.6	35.0
Price/Cash Flow	29.4	33.7
CFROI	27.1	28.2
Non-U.S. Holdings (%)	13.2	2.1
Dividend Yield (%)	0.9	0.6
Meritage Growth Decile Rank	3	4

## Market Cap Distribution (%)

	Strategy	Index
> \$50 Billion	76	93
\$10 Billion to \$50 Billion	16	7
\$2 Billion to \$10 Billion	8	0
< \$2 Billion	0	0

## Non-U.S. Holdings: 13.2% (6 Stocks)

Denmark	3.9	Germany	1.3
Netherlands	3.7	United Kingdom	1.3
China	1.8	Ireland	1.2

# Meritage Growth Equity Performance

## Consistency of Returns

**Rolling 3-Year (Net of Fees) Periods vs. S&P 500 Large Cap Growth Index exceeds benchmark 42% of periods**  
For Periods 12/31/2000 to 6/30/2024



◆ Meritage — S&P 500 Large Cap Growth Index

**Rolling 3-Year (Net of Fees) Periods vs. S&P 500 exceeds benchmark 70% of periods**  
For Periods 12/31/2000 to 6/30/2024



◆ Meritage — S&P 500

Performance figures net of fee.

Please see GIPS Report for the Meritage Growth Equity Strategy on pages 8-9.

# Meritage Growth Equity Strategy Manager



**Zachary H. Shafran**

Co-Chief Investment Officer,  
Senior Portfolio Manager

Zack serves as the co-CIO and manager of the Meritage Growth Equity strategy. Prior to joining Meritage, Zack spent over 30 years with Waddell and Reed, where he served as both Portfolio Manager and Co-Manager for the firm's Science and Technology Fund strategy. He also served as the Director of Research for Global Equity and Fixed Income (2011 – 2016). Zack began his career as a health care analyst. Zack is a member of the CFA institute and Kansas City Society of Financial Analysts. He received his BBA and MBA from University of Missouri-Kansas City.



Meritage Portfolio Management is an institutionally based investment management firm, providing asset management and wealth management services for individuals, families, foundations, corporations and qualified retirement plans. The firm manages \$2.4 billion in assets for local, regional, and national clients from its base in Overland Park, Kansas.

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# Meritage Growth Equity

## GIPS Report



Meritage Growth Equity Returns				Annualized Ex-Post		Composite Assets			
Year Ending	Total Gross Asset-Wtd.	Total Net Asset-Wtd.	SP500LCGR* Benchmark	Gross Composite 3-Yr St Dev	Benchmark 3-Yr St Dev	Number of Portfolios	Asset-Wtd. Internal Dispersion	End of Period (Mln)	Firm Assets (Mln)
12/31/14	13.5%	12.6%	14.9%	9.75%	9.00%	223	0.20%	235.0	1,593.3
12/31/15	2.7%	1.9%	5.5%	10.60%	10.77%	246	0.16%	253.9	1,528.3
12/31/16	12.6%	11.7%	6.9%	11.04%	11.18%	235	0.19%	275.7	1,513.8
12/31/17	27.3%	26.3%	27.4%	10.02%	10.52%	278	0.27%	351.8	1,646.6
12/31/18	-3.1%	-3.9%	0.0%	12.40%	11.69%	287	0.27%	331.3	1,530.2
12/31/19	34.3%	33.2%	31.1%	13.55%	12.08%	325	0.39%	448.3	1,810.4
12/31/20	34.5%	33.4%	33.5%	19.01%	18.66%	426	0.51%	626.2	1,942.4
12/31/21	30.9%	29.9%	32.0%	17.19%	17.41%	469	0.50%	750.1	2,315.7
12/31/22	-30.7%	-31.3%	-29.4%	22.33%	23.46%	429	0.25%	434.2	1,939.7
12/31/23	25.3%	24.3%	30.0%	18.94%	20.06%	433	0.99%	495.6	2,367.5

### Composite Description:

The Meritage Growth Equity composite is an actively managed growth equity strategy that evaluates companies of all capitalization sizes and is driven by Meritage's growth and value-centric quantitative process. Portfolio holdings focus on companies that exhibit attractive sustainable growth and above-average cash flow/return on investment. The Manager combines experienced-based qualitative fundamental analysis with the firm's proprietary multi-factor models. The benchmark is the S&P 500 Large Cap Growth Index.

### Benchmark Description:

The S&P 500 Large Cap Growth Index is a market-cap weighted index and measures the performance of the large-cap growth segment of the U.S. equity universe. The primary benchmark for the Growth Equity composite was retroactively changed to the S&P 500 Large Cap Growth Index, effective 09/30/2020, from the prior benchmark of the Russell 1000 Growth Index. This change was made because both growth indices are similar in composition yet the cost of the Russell index had dramatically increased.

### Definition of the Firm:

Meritage Portfolio Management is an independent investment

management firm that is not affiliated with any parent organization.

### Basis for Composites:

Meritage Portfolio Management's Growth Equity Composite, created October 1, 2006, is composed of managed, fully discretionary, fee paying accounts managed in the Meritage Growth Equity strategy. The composite inception date is 12/31/2000.

### Definition of Significant Cash Flows:

Effective June 30, 2002, Meritage temporarily excludes portfolios from the composite for periods experiencing a significant cash flow defined as an aggregate of flows exceeding 10% of the portfolios beginning market value for the month of the flow.

### Fees:

Returns are presented gross and net of management fees. Gross-of-Fees performance returns are presented before management fees. Net-of-Fees performance returns are calculated by deducting Meritage Portfolio Management's standard fee rates from the gross composite return on a monthly frequency. This produces a compounding effect on the total rate of net return. Other fees reflected in both gross and net returns include withholding taxes. Withholding taxes on foreign-



# Meritage Growth Equity

## GIPS Report

based investments have been deducted from both gross and net performance, contingent on how the withholding information is received from the firm's independent third party pricing source. Once withholding tax information is received from the custodian, performance is trued up to be consistent with what the custodian withheld.

As of October 7, 2019 the composite consists of a subset of accounts subject to commission free trading brokerage arrangements.

### Meritage Portfolio Management's standard fee schedules are as follows:

For Equity Strategy Composites the standard fees are: 1.00% on the first \$2,500,000; 0.85% on the next \$2,500,000; 0.80% on the next \$5,000,000; 0.70% on the next \$15,000,000; 0.60% on the next \$25,000,000; 0.50% on the next \$50,000,000; and 0.40% on assets over \$100,000,000.

Actual investment management fees incurred by clients may vary.

### Calculation Methodology:

Returns from cash and cash equivalents held in portfolios are included in total return calculations. Total return includes realized and unrealized gains and losses, plus reinvestment of income. Gross-of-Fees returns are calculated before the deduction of investment management fees and after the deduction of direct trading expenses. Net-of-Fees returns are calculated after the deduction of Meritage Portfolio Management's standard investment management fee rates and direct trading expenses. Both gross-of-fees and net-of-fees returns are calculated after or before the deduction of withholding taxes on foreign dividends, contingent on how the withholding tax information is received from our independent third party pricing source. Accounts may be subject to customized commission schedules.

Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request. Past performance is no guarantee of future results.

### Minimum Account Size:

The established minimum portfolio market value is \$200,000, effective as of 02/28/2009. A portfolio is included in the composite the month after it reaches the minimum size inclusion level. A portfolio is excluded from composite if the portfolio market value drops below \$200,000. Prior to 06/30/2021, a portfolio was excluded from the composite if the portfolio market value dropped below \$150,000 for 2 consecutive months. Prior to 02/28/2009, the established minimum inclusion level was \$300,000, with a minimum exclusion level of \$250,000.

### Currency:

Returns are calculated and presented in U.S. dollars.

eVestment universe returns, benchmark indices and related statistics are presented gross-of-fee.

A list of composite descriptions and a list of limited distribution pooled fund descriptions are available upon request.

Internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year.

Meritage Portfolio Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Meritage Portfolio Management has been independently verified for the periods December 31, 2000 through December 31, 2023.

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. The Meritage Growth Equity composite has had a performance examination for the periods December 31, 2000 through December 31, 2023. The verification and performance examination reports are available upon request.

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\*S&P 500 Large Cap Growth Index

Annualized Returns	Periods Ending 12/31/2023			
	1 Yr	3 Yrs	5 Yrs	10 Yrs
<b>Meritage Growth Equity Gross</b>	25.3	4.4	15.5	12.8
<b>Meritage Growth Equity Net</b>	24.3	3.5	14.5	11.9
<b>S&amp;P 500 Large Cap Growth Index</b>	30.0	6.6	16.2	13.4