Research Portfolios Update

4Q 2023 Equity Growth Portfolio Spotlight

Portfolio Strategy

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United States

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4Q 2023 Review

For the fourth quarter of 2023, the growth portfolio returned +13.88% vs +14.15% for the benchmark Russell 1000 Growth Index. On YTD basis, the portfolio underperformed by 0.15%. The portfolio was outperforming most of the quarter but in the 2nd week of December, Chairman Powell talked about rate cuts which caused rotation from healthcare to discretionary/rate cut beneficiaries. This rotation is responsible for the underperformance for Q4.

The top 3 stock contributors over the quarter were Datadog Inc. (DDOG), TopBuild Corp. (BLD) and T-Mobile Inc. The top 3 detractors were Advanced Micro Devices (AMD), Qualcomm Incorporated (QCOM) and Edwards Lifesciences (EW).

During the quarter, the growth portfolio added some new names such as TopBuild (BLD), and Lowe's Corporation (LOW) to get exposure to housing / rate cut beneficiaries. We also bought MongoDB (MDB), Unity Software (U) and Take-Two Interactive (TTWO).

Exhibit 1: Equity Growth Portfolio
Performance and metrics

	Growth	Russell 1000 Growth	Growth Portfolio Metrics	
4Q23	13.9%	14.2%	Dividend Yield	0.6%
YTD	42.4%	42.5%	Est. Dividend Growth	6.8%
12 Months	42.4%	42.5%	Est. EPS Growth	16.1%
3 Year	7.6%	8.8%	Forward P/E	32.6
5 Year	18.6%	19.3%	Forward P/CF	34.3
10 Year	13.1%	14.3%	3-year Standard Deviation	21.0%
2022	-33.3%	-29.1%	3-year Tracking Error	2.6%
2021	31.1%	27.5%	3-year Sharpe Ratio	0.3
2020	37.7%	38.2%	12 Month Turnover	47.0%
2019	36.7%	36.2%	Avg Market Cap ($BN)	422
2018	4.1%	-1.4%		
2017	24.1%	30.0%		
2016	8.2%	7.0%		
2015	0.3%	5.7%		
2014	3.7%	12.9%		
2013	37.8%	33.2%		
2012	-1.6%	-3.1%		

Source: BofA Global Research

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Refer to important disclosures on page 9 to 11. Analyst Certification on page 7. Price Objective Basis/Risk on page 5. **12649142**

Timestamp: 23 January 2024 06:00AM EST

4Q 2023 Growth Portfolio Review

Earnings growth with strong, sustainable sales

The Research Equity Growth Portfolio model is designed for moderately aggressive investors who want to achieve above-average growth return of principal. The portfolio focuses on companies with consistent, above-average earnings growth demonstrated over time under a variety of economic circumstances. We seek to produce long-term excess returns versus the benchmark over a full market cycle by investing in companies that have strong sustainable sales and earnings growth, dominant market share within their industries, strong balance sheets, and defendable business models. The portfolio at times will have a bias for secular growth sectors over cyclical growth and will incorporate companies that benefit from disruptive trends within their respective industries. Key operating metrics considered for inclusion in the portfolio include above-average Return on Invested Capital (ROIC), projected three-to-five-year sales and EPS growth rates that are greater than the Russell 1000 Growth average growth rates, and all stocks must be rated either Buy or Neutral by BofA Global Research fundamental analysts. The portfolio tends to be concentrated, typically holding between 30-50 stocks with an individual market cap of $5 billion or more. Sector allocations are based on the views of the Portfolio Strategy team. Generally, sector weightings will have a stricter adherence to the benchmark weightings (+/- 5%) to reduce dispersion of returns due to factor tilts.

Key Charts & Data

Exhibit 2: Holdings and Contributors to Returns for 4Q23

All data is as of 12/31/2023

Top 5 Contributors to Return

Ticker	Company
DDOG	Datadog
NOW	ServiceNow
AMZN	Amazon
AVGO	Broadcom
MSFT	Microsoft

Bottom 5 Contributors to Return

Ticker	Company
NFLX	Netflix
HD	Home Depot
CRM	Salesforce
AMD	Advanced Micro Devices
QCOM	Qualcomm

Top 10 Holdings as of 12/31/2023

Apple Inc.	13.0%
Microsoft	12.5%
Alphabet A	6.0%
Amazon.com	6.0%
NVIDIA	5.5%
Meta Platforms	3.5%
Tesla	3.0%
Eli Lilly	3.0%
Mastercard Inc	2.5%
Broadcom	2.5%

Source: BofA Global Research

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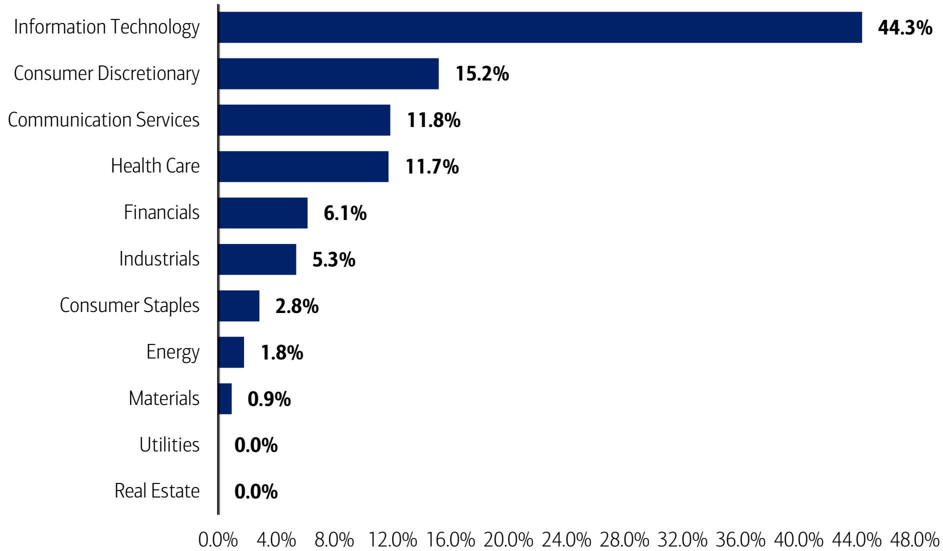
Exhibit 3: Equity Growth Portfolio Sector Weights
All data is as of 12/31/2023



Source: BofA Global Research

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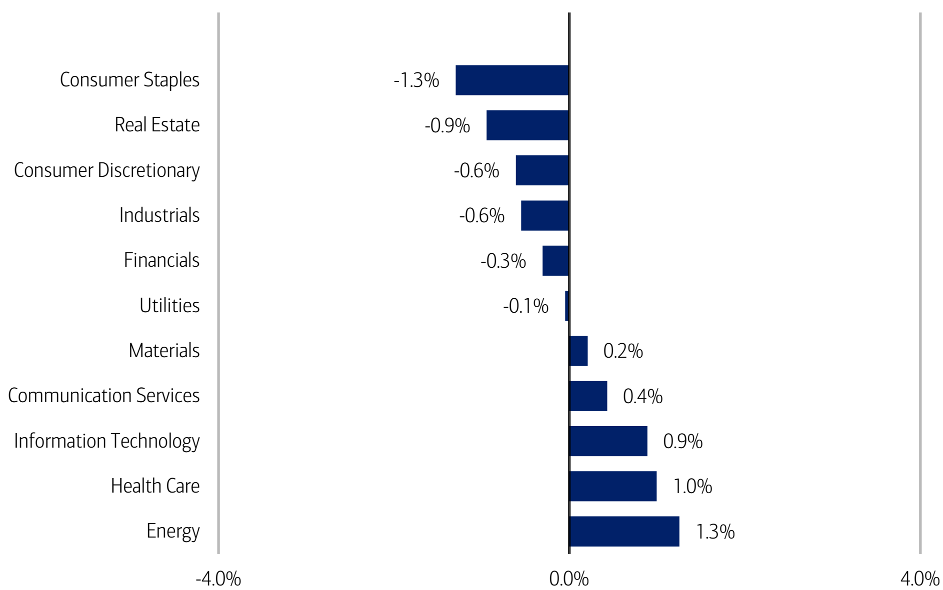
Exhibit 4: Equity Growth Relative Sector Weights vs. the Russell 1000 Growth
All data is as of 12/31/2023



Source: BofA Global Research

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Exhibit 5: Equity Growth Portfolio
Current holdings and weights

Sectors/Target Weights	Symbol	Proposed Weight	1/22/2024	Yield	QRQ Rating
Communication Services (11.5%)					
Alphabet A	GOOGL	6.0%	$146.86	0.0%	B-1-9
Meta Platforms	META	3.5%	$382.08	0.0%	C-1-9
Take-Two	TTWO	1.0%	$164.00	0.0%	B-2-9
T-Mobile US	TMUS	1.0%	$164.81	1.6%	B-1-9
Consumer Discretionary (15.0%)					
Amazon.com	AMZN	6.0%	$154.51	0.0%	B-1-9
O'Reilly Auto	ORLY	1.0%	$1,033.43	0.0%	B-1-9
Lowe's	LOW	1.5%	$219.42	2.0%	B-1-7
Tesla	TSLA	2.5%	$207.45	0.0%	C-2-9
TopBuild	BLD	1.5%	$378.99	0.0%	B-1-9
Ferrari	RACE	1.0%	$338.42	0.6%	B-1-7
TJX Companies	TJX	1.5%	$94.86	1.4%	B-1-7
Consumer Staples (3.0%)					
Costco	COST	1.0%	$691.39	0.6%	B-1-7
Procter & Gamble	PG	1.0%	$147.81	2.5%	A-1-7
PepsiCo	PEP	1.0%	$165.49	3.1%	A-1-7
Energy (2.0%)					
Cheniere Energy Inc	LNG	1.0%	$162.34	1.1%	B-1-7
Hess	HES	1.0%	$137.43	1.3%	-6-
Financials (7.0%)					
Progressive Corp	PGR	1.5%	$171.09	0.2%	B-1-7
Visa	V	1.5%	$271.44	0.8%	B-1-7
Mastercard Inc	MA	2.5%	$439.48	0.6%	B-1-7
SPGI	SPGI	1.5%	$444.32	0.8%	B-1-7
Health Care (10.0%)					
AstraZeneca	AZN	1.0%	$67.40	1.4%	B-1-7
Intuitive Surgical	ISRG	1.5%	$377.10	0.0%	B-1-9
Thermo Fisher	TMO	1.5%	$554.52	0.3%	B-1-7
BioMarin	BMRN	1.0%	$92.60	0.0%	B-1-9
UnitedHealth Grp	UNH	1.0%	$511.86	1.5%	B-1-7
Zoetis Inc.	ZTS	1.0%	$191.08	0.9%	B-1-7
Eli Lilly	LLY	3.0%	$631.77	0.8%	B-1-7
Industrials (5.0%)					
General Dynamics	GD	1.0%	$249.85	2.1%	B-1-7
Eaton Corp PLC	ETN	1.0%	$244.37	1.4%	B-1-7
Uber Technologies	UBER	1.0%	$64.31	0.0%	C-1-9
Union Pacific	UNP	2.0%	$242.76	2.1%	B-1-7
Information Technology (45.5%)					
Apple Inc.	AAPL	12.5%	$194.24	0.5%	B-1-7
AppLovin	APP	1.0%	$43.94	0.0%	C-1-9
Applied Materials	AMAT	1.5%	$168.62	0.8%	B-1-7
Autodesk	ADSK	1.5%	$251.12	0.0%	B-2-9
Broadcom	AVGO	2.5%	$1,224.30	1.7%	B-1-7
Datadog Inc	DDOG	1.0%	$133.35	0.0%	C-2-9
Intuit	INTU	1.0%	$629.50	0.6%	B-1-7
MongoDB	MDB	1.0%	$413.97	0.0%	C-1-9
Microsoft	MSFT	13.0%	$397.33	0.8%	B-1-7
NVIDIA	NVDA	6.5%	$599.35	0.0%	C-1-7
ServiceNow	NOW	1.5%	$755.53	0.0%	B-1-9
Snowflake	SNOW	1.5%	$199.84	0.0%	C-2-9
Unity	U	1.0%	$33.96	0.0%	C-1-9
Materials (1.0%)					
Linde	LIN	1.0%	$405.92	1.3%	B-1-7
Real Estate (0.0%)					
Cash (0.0%)		*0.0%*			
		100.0%		0.58%	

Source: BofA Global Research

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Price objective basis & risk

Advanced Micro Devices, Inc (AMD)

Our $165 PO is based on 32x our 2025E non-GAAP EPS, which is towards the middle of AMD's historical 17x-64x range, justified by AI upside offset by slowdown in cyclical embedded/console markets.

Downside risks: 1) M&A integration risks, 2) Strong competition from larger names, 3) Lumpy nature of consumer and enterprise spending that could create delays in acceptance and success of new products, 4) High reliance on one outsourced manufacturing partner, 5) Maturity of current game console cycle.

Datadog Inc (DDOG)

Our new $120 PO is based on an EV/revenue multiple of 16.3x (was 14.9x) to our CY24E revenue estimate of $2.4bn. We raise our multiple to account for our increased confidence in Datadog's potential to drive upside to consensus estimates and infrastructure group multiple expansion. The 16.3x multiple represents an EV/revenue/growth multiple of 0.9x, which is above infrastructure peers at 7.1x/0.6x (was 6.5x/0.4x prior).

Upside risks to our PO: 1) better-than-expected revenue growth, 2) faster-than-expected AI tailwinds, 3) better-than-expected expanding free cash flow margins, 4) expanding NRR, and 5) stronger-than-expected competitive differentiation.

Downside risks to our PO: 1) valuation risk, 2) competition, 3) deteriorating NRR, 4) execution, and 5) enterprise software spend can be cyclical.

Edwards Lifesciences (EW)

Our PO of $78 is based on a 26x PE multiple on our 2025E EPS. We assume with high single digit revenue growth, good margins/cash flow/balance sheet and some upside TAM potential, EW deserves a 25x forward EPS (two turn premium to SYK).

Risks to our PO are: 1) the TAVR market slows if the TAM is not as big as we expect or new populations do not benefit from TAVR, 2) the mitral/tricuspid market does not materialize, 3) EW faces setbacks with its clinical trials or pipeline, 4) the TAVR market becomes more competitive.

Lowe's Companies, Inc. (LOW)

Our PO of $289 is based on around 21x our 2024 EPS estimate. We believe a multiple above the hardlines average (20x) is warranted given solid fundamentals and the relatively defensive nature of the home improvement industry, countered by near-term economic and sentiment risk. In addition, LOW has an opportunity to expand margins for several years through continued productivity improvements and product differentiation.

Upside risks to our PO are improving consumer sentiment and other macro metrics tied to renovation spending, better-than-expected margin expansion from sales growth coupled with cost-saving and productivity initiatives, and upside from favorable weather events. Downside risks to our PO are rising interest rates which may continue to dampen investor sentiment towards housing, a slower than expected improvement in comps, and slower than anticipated progress towards margin improvement goals.

MongoDB Inc (MDB)

Our PO of $480 represents EV/sales of 15x our CY25e, or 0.6x our C25 revenue growth rate of 26%, in line with the large-cap peers at 0.6x (16% growth). We believe MongoDB has a long expected runway for growth as the company consolidates the $108 billion market for the database market.

Downside risks to our PO are: 1) MongoDB trades at a significant premium to its software large-cap peer group on an EV/Sales basis. In the event of changes to market sentiment stemming from global macro uncertainty, or potentially disappointing quarterly revenue results, there could be risk of a potential pullback. 2) The company recognizes a large majority of its revenue based on actual consumption which implies more revenue volatility than a traditional subscription model. 3) MongoDB serves in a highly competitive market, which consists of deep-pocketed next-gen NoSQL database, public cloud vendors and legacy database vendors. An inability to execute on a product roadmap for added capabilities could result in slowing share gains or even share losses.

Qualcomm (QCOM)
Our $145 PO is based on roughly 13.6x our FY25E P/E. Our multiple is largely in-line with mobile/large cap semiconductor peers (14x), which we believe is warranted given the stability of Qualcomm's high-margin royalty business and relative strength of the company's QCT business beyond smartphones, as well as its high 5G baseband market share and 5G RF front-end content market share.

Downside risks to our price objective are 1) worse-than-expected resolution terms with Huawei, 2) low adoption rate of smartphones worldwide due to global economic pressure, 3) pressure on semiconductor pricing or market share as the company grows presence in emerging markets, 4) increased semiconductor competition, 5) ability to maintain the royalty rate when the market expands to different types of devices, such as tablets and other mobile wireless devices, or different technology generations, 6) any future negative trade policies related to China.

Take-Two Interactive (TTWO)
Our price objective of $170, is based on 20x the average of FY25E & FY26E EPS estimates. Our target P/E multiple is above the weighted average P/E valuation of our comp set of large game publishers, justified by higher earnings growth potential & FCF generation in FY26 and beyond after the launch of GTA 6.

Upside risks to our price objective are (1) confirmation of FY25 guidance through summer '24, (2) a gameplay trailer by Rockstar indicating an "early '25" launch, (3) media hype cycle drives retail and institutional FOMO-driven momentum rally, (4) Zynga performance suddenly accelerates.

Downside risks to our price objective are a delay of GTA VI launch beyond FY26, re-degradation of mobile game performance, and the lack of new games launching, when we expect them to and in the revenue level we expect, as indicated in our research.

T-Mobile US (TMUS)
Our PO of $175 applies a 10x EV/EBITDA multiple to our '23 EBITDA estimate, a premium to other wireless companies. Our 10x multiple is a discount to Charter due to integration risk and less FCF generation and capital returns but a premium to AT&T/Verizon due to faster growth.

Downside risks to our price objective are greater-than-expected competition, Sprint/T-Mobile integration issues, and potential threat of new competition from DISH.

TopBuild Corp (BLD)
Our $327 price objective (PO) is based on a 10x EV/2024E EBITDA multiple, in line with its average from 2017-2023. We think that BLD's valuation will trade more in line with its historical valuation as housing starts recover.

Upside risks to our PO: 1) faster-than-expected recovery in new home starts, 2) further residential market share gains through organic growth and M&A, 3) continued strength in the commercial/industrial market, 4) continued price increases on insulation products.

Downside risks: 1) a downturn in the housing market leading to less starts, 2) deflation in insulation products leading to weaker revenue growth and margin pressure, 3) a broad pullback in commercial/industrial activity.

Unity (U)

Our $55 PO is based on a 11.1x 2024E EV/Revenue multiple (0.8x growth adjusted). Our growth adjusted multiple is a discount to the design software peer group. We believe a discount multiple is warranted based on lower revenue visibility and profitability, partially offset by Unity's entrenched competitive position and various levers for growth.

Downside risks to our PO are slower than expected recovery in Unity's monetization tool, increased competition, greater than expected churn rate, and greater than expected pull back in ad spend and mobile gaming usage.

Analyst Certification

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R1]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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