

# Research Portfolios Update

## Equity Growth Portfolio Changes

### Portfolio Strategy

We made the following changes to the Equity Growth Portfolio. Please see next page for more details.

#### Exhibit 1: Equity Growth Portfolio

Increasing technology exposure

Portfolio	Sector	Action	Company	Ticker	Investment Rating	Price 1/19/24	Old Position	New Position
Growth	HC	Decrease	Healthcare				11.5%	10.0%
		Sell	Humana Inc	HUM	B-1-7	\$401.53	1.0%	0.0%
		Decrease	UnitedHealth Group Inc	UNH	B-1-7	\$503.56	1.5%	1.0%
	FIN	Increase	Financials				6.5%	7.0%
		Increase	Progressive Corp/The	PGR	B-1-7	\$170.14	1.0%	1.5%
	IT	Increase	Information Technology				44.5%	45.5%
		Buy	AppLovin Corp	APP	C-1-9	\$41.14	0.0%	1.0%
		Decrease	Apple Inc	AAPL	B-1-7	\$191.56	13.0%	12.5%
		Increase	Microsoft Corp	MSFT	B-1-7	\$398.67	12.5%	13.0%
		Increase	NVIDIA Corp	NVDA	C-1-7	\$594.91	5.5%	6.5%
		Sell	Synopsys Inc	SNPS	B-1-9	\$517.31	1.0%	0.0%

Source: BofA Global Research

BofA GLOBAL RESEARCH

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United States

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**Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 22 January 2024 06:00AM EST

## Equity Growth Portfolio

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We are buying 1.0% position in Applovin Corp (APP, C-1-9). AppLovin is a leading provider of software to meet the demand of app developers for app discovery and app monetization. Its network includes ad engagement data from over 8K developers and reaches more than 400mn daily active users (DAUs). We like APP due to the following reasons: 1) Attractive valuation vs peers; 2) APP's ad network will become larger and more diversified, improving sentiment; 3) APP could have the cash flow generation to buy back up to 7% of its shares outstanding; 4) Expansion into CTV in 2024 could help re-rate the stock.

We are selling out of 1% position in Synopsys (SNPS, B-1-9). We like SNPS over the longer horizon but earlier this year SNPS announced decision to acquire Ansys Inc (ANSS) for \$35 billion. This M&A introduces regulatory and integration risks which changes our thesis. We are also selling out of 1% position in Humana inc. (HUM, B-1-7) as HUM faces higher medical expenses over the short run and we are not confident in the growth profile.

Rest of the trades are driven by portfolio risk constraints.

**Exhibit 2: Equity Growth Portfolio**

Current holdings and weights

Sectors/Target Weights	Symbol	Proposed Weight	Price	Yield
			1/19/2024	
Communication Services (11.5%)				
Alphabet A	GOOGL	6.0%	\$143.48	0.0%
Meta Platforms	META	3.5%	\$376.13	0.0%
Take-Two	TTWO	1.0%	\$159.86	0.0%
T-Mobile US	TMUS	1.0%	\$164.89	1.6%
Consumer Discretionary (15.0%)				
Amazon.com	AMZN	6.0%	\$153.50	0.0%
O'Reilly Auto	ORLY	1.0%	\$1,015.53	0.0%
Lowe's	LOW	1.5%	\$218.23	2.0%
Tesla	TSLA	2.5%	\$211.88	0.0%
TopBuild	BLD	1.5%	\$371.13	0.0%
Ferrari	RACE	1.0%	\$347.10	0.6%
TJX Companies	TJX	1.5%	\$94.75	1.4%
Consumer Staples (3.0%)				
Costco	COST	1.0%	\$687.31	0.6%
Procter & Gamble	PG	1.0%	\$148.14	2.5%
PepsiCo	PEP	1.0%	\$167.17	3.0%
Energy (2.0%)				
Cheniere Energy Inc	LNG	1.0%	\$162.40	1.1%
Hess	HES	1.0%	\$137.11	1.3%
Financials (7.0%)				
Progressive Corp	PGR	1.5%	\$169.91	0.2%
Visa	V	1.5%	\$268.14	0.8%
Mastercard Inc	MA	2.5%	\$430.72	0.6%
SPGI	SPGI	1.5%	\$439.60	0.8%
Health Care (10.0%)				
AstraZeneca	AZN	1.0%	\$66.52	1.4%
Intuitive Surgical	ISRG	1.5%	\$371.93	0.0%
Thermo Fisher	TMO	1.5%	\$544.42	0.3%
BioMarin	BMRN	1.0%	\$92.53	0.0%
UnitedHealth Grp	UNH	1.0%	\$516.34	1.5%
Zoetis Inc.	ZTS	1.0%	\$190.50	0.9%
Eli Lilly	LLY	3.0%	\$623.35	0.8%
Industrials (5.0%)				
General Dynamics	GD	1.0%	\$250.95	2.1%
Eaton Corp PLC	ETN	1.0%	\$240.12	1.4%
Uber Technologies	UBER	1.0%	\$64.88	0.0%
Union Pacific	UNP	2.0%	\$237.99	2.2%
Information Technology (45.5%)				
Apple Inc.	AAPL	12.5%	\$188.63	0.5%
AppLovin	APP	1.0%	\$43.09	0.0%
Applied Materials	AMAT	1.5%	\$160.34	0.8%
Autodesk	ADSK	1.5%	\$241.18	0.0%
Broadcom	AVGO	2.5%	\$1,143.91	1.8%
Datadog Inc	DDOG	1.0%	\$126.92	0.0%
Intuit	INTU	1.0%	\$611.36	0.6%
MongoDB	MDB	1.0%	\$392.18	0.0%
Microsoft	MSFT	13.0%	\$393.87	0.8%
NVIDIA	NVDA	6.5%	\$571.07	0.0%
ServiceNow	NOW	1.5%	\$745.96	0.0%
Snowflake	SNOW	1.5%	\$186.61	0.0%
Unity	U	1.0%	\$32.87	0.0%
Materials (1.0%)				
Linde	LIN	1.0%	\$407.85	1.2%
Real Estate (0.0%)				
Cash (0.0%)		0.0%		
		100.0%		0.59%

Source: BofA Global Research

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## Price objective basis & risk

### AppLovin (APP)

Our \$57 PO is based on our SOTP framework valuing APP's Software segment at \$55 and the Gaming Segment, including both in-game advertising and in-game consumer spend, at \$2/share. Our Software valuation is 12x FY24 EBITDA, 2x higher than META, which we see as the most important barometer of the overall health of the mobile ad ecosystem and an important valuation anchor. Our Gaming segment valuation is based on an enterprise value that is 7x FY24 Gaming Segment EBITDA, slightly higher than Mobile Game Publisher peers.

Upside risks to our PO are new dovish monetary policy and regulation that would reduce Apple's or Google's control over their own mobile ecosystems. Downside risks to our PO include a recession, and a tightening of financial conditions brought about by the Fed. Policies by Google and Apple, pertaining to their mobile platforms, that would debase broker ad networks' value proposition are also downside risks, and a major resurgence of Facebook on iOS would also negatively affect APP stock.

### Humana Inc (HUM)

Our \$520 PO is based on 17.1x our 2025 EPS estimate, in line with its 5-year average of 17.1x justified by the strong growth trajectory we expect for HUM's core business, Medicare Advantage.

Upside risks are potential for share repurchase and several non-healthcare catalysts, margin normalization, and the rebound in risk coding.

Downside risks are regular industry sensitivity points (cost trend, MA rates), as well as unknowns from a new administration.

### Synopsys (SNPS)

Our \$650 PO is based on 40x 2025E P/E, at upper end of company's historical trading range (19x-49x), justified in our view as EDA investment accelerates as chip complexity rises.

Downside risks are (1) variability in IP/hardware sales creates issues in timing of revenue recognition, (2) competitors develop unique software capabilities displacing SNPS at core customers, (3) heightened geopolitical tensions lead to further restrictions on supplying firms in China with EDA technology.

Upside risks are (1) share gains in existing markets versus primary competitors, (2) increased government investment in semiconductor R&D and development as nations develop internal ecosystems, (3) material M&A that enables consistent margin expansion or further accelerates sales CAGR, (4) faster-than-expected cost improvements driving higher operating margin.

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