American Century Investments®

U.S. Focused Dynamic Growth SMA

Quarterly Commentary

Portfolio Review

U.S. stocks delivered strong returns. U.S. stocks posted solid gains, supported by stronger-than-expected economic and earnings growth and hopes for a breakthrough in COVID-19 treatments. Markets retreated in September amid concerns about delays in a COVID-19 vaccine and political turmoil as the November elections loomed ahead.

All stock style and size categories delivered positive returns. All major equity size and style categories rallied for the quarter. Large-cap stocks outperformed mid- and small-cap stocks, and growth stocks outperformed value stocks.

Consumer discretionary stocks helped relative performance. Stock selection in the sector was positive, led by Tesla in the automobiles industry. Stock decisions in the hotels, restaurants and leisure industry were also helpful.

Beverages led consumer staples outperformance. Stock selection in the industry was beneficial, primarily due to our holding of The Boston Beer Co. Avoiding tobacco and food products companies also helped performance.

The industrials sector detracted. Stock selection detracted in the machinery industry, where Westinghouse Air Brake Technologies and FANUC lagged. Avoiding the air freight and logistics industry also weighed on relative performance.

The portfolio was underweight relative to the benchmark in health care. We eliminated Vertex Pharmaceuticals and trimmed other health care stocks. The lighter exposure was beneficial during the quarter.

We were underweight information technology. Our lighter relative exposure was largely due to underweighting the software industry and not owning any holdings in the computers and peripherals and semiconductors and semiconductor equipment industries. The portfolio's underweight in the sector hampered relative performance.

Key Contributors

Tesla. The electric car company outperformed on strong demand for its vehicles. Retail investors also reacted positively to the announcement of a five-for-one stock split. Tesla continued to see strong deliveries, driven by production at the company's Shanghai factory, a growing supercharger network and lower starting prices, which allow the vehicles to qualify for government subsidies.

Square. Square outperformed on optimism about continued growth trends in its cash app business and its merchant-based business, showing signs of stabilizing after being negatively impacted by the COVID-19 virus.

The Boston Beer Co. The company reported better-than-expected earnings, helped by strong growth in its Truly Hard Seltzer brand and raised its 2020 growth outlook. We like Boston Beer for its potential to improve margins over time and for its ongoing innovation, which has driven the long-term growth of the business.

Microsoft. Not owning Microsoft helped performance compared with the benchmark. The software firm underperformed even though its quarterly earnings beat expectations. Investors may have worried that its cloud business could be pressured by competition from Amazon.

Goal and Strategy

Invests in stocks of early and rapid stage large-cap growth companies with the potential to increase in value over time.

Portfolio Management Team

	Start Date	
Name	Industry	Company
Keith Lee, CFA	1996	1998
Michael Li, Ph.D	2002	2002
Prabha Ram, CFA	2004	2008
Henry He, CFA	2001	2011

Top 10 Holdings (%)

Amazon.com Inc	8.48
Tesla Inc	6.33
salesforce.com Inc	5.40
Square Inc	5.13
Alphabet Inc	4.29
Cognex Corp	4.14
Boston Beer Co Inc/The	3.91
Mastercard Inc	3.72
Facebook Inc	3.72
Intuitive Surgical Inc	3.69

As of 9/30/2020

The holdings listed should not be considered recommendations to purchase or sell a particular security. Equity holdings are grouped to include common shares, depository receipts, rights and warrants issued by the same company. Fund holdings subject to change.

DocuSign. The stock of DocuSign continued to rise as the cloud-based electronic signature company benefited from increased demand for its services as a result of social distancing mandates.

Key Detractors

Apple. Not owning the consumer electronics company weighed on relative performance as growth in its services and wearable devices has taken the pressure off of iPhone sales as the driver of earnings. We seek to own early stage, high-growth companies, as opposed to later-stage, more mature companies such as Apple.

Slack Technologies. The company provides a communications platform integrating messaging, audio and video with file sharing, archiving and project management. Slack lagged on profit-taking following strong year-to-date gains. Optimism for the software company has been fueled by its rapid revenue growth, and we continue to maintain conviction in Slack's long-term growth potential.

NVIDIA. Not owning the chipmaker detracted from performance relative to the benchmark as management reported a strong quarter and guidance due to strength in its data center and gaming businesses.

RingCentral. The stock price of this cloud-based enterprise communications service declined in September as volatility hit markets and traders took profits from the year's biggest winners. The company actually reported better-than-expected quarterly results and raised guidance.

Notable Trades

Vertex Pharmaceuticals. We liquidated our position, which had reached our current full value target. We redeployed the capital to more attractive opportunities within the information technology sector.

Positioning for the Future

Our process uses fundamental analysis aimed at identifying large-cap companies producing attractive, sustainable earnings growth. We seek to reduce unintended, nonfundamental risks and align the portfolio with fundamental, company-specific risks that we believe will be rewarded over time. As a result of this approach, our sector and industry allocations reflect where we are finding opportunities at a given time.

The portfolio remained significantly overweight consumer discretionary. We added to our holdings in Amazon and Chegg. We see many companies in the sector benefiting from digital transformation and online growth of their businesses.

We added to our financials overweight. Our financials allocation is concentrated in the capital markets industry, where we added to S&P Global. Intercontinental Exchange is our only other holding in the sector.

Communication services remained modestly overweight. The sector includes telecommunication companies and select companies previously classified as consumer discretionary or information technology. The sector includes Google parent Alphabet, one of our largest positions.

Our health care allocation moved from a slight overweight to underweight. In addition to eliminating Vertex Pharmaceuticals because it reached our appraisal of intrinsic value, we alsotrimmed Netherlands-based biotechnology company Argenx. We continue to view health care as one of the most innovative sectors in the market and a key source of long-term growth going forward.

The portfolio remained underweight information technology. Although we have lighter exposure to the sector than the benchmark, information technology remains the portfolio's largest absolute sector allocation, consistent with the large number of compelling growth opportunities we find in the space. We added to several holdings, including Slack Technologies, Visa and salesforce.com.

We see limited growth opportunities in the real estate sector. As a result, we have no holdings in the sector. We also have no exposure to the materials sector. We have been underweight materials for some time as the sector shows an absence of secular growth.

The strategy remains focused on investments with sustainable growth characteristics. The portfolio has several holdings that have demonstrated their unique value proposition for customers not just currently but for the foreseeable future. The current environment could result in more rapid adoption of the products and help aid brand awareness. Examples include DocuSign and Okta. Regeneron Pharmaceuticals is another example. It has a strong capability for scientific discovery, and its COVID-19 antiviral cocktail has been shown to effectively reduce virus levels, symptoms and doctor visits with no unexpected safety issues. Other tests in more severe cases are ongoing, as are those to assess the treatment's potential for prevention. These are just a handful of examples of the early stage, innovative growth companies we seek.

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