American Century Investments®

# U.S. Sustainable Large Cap Core SMA

## Quarterly Commentary

### Portfolio Review

**U.S. stocks posted a modest gain.** Positive performance in July and September helped stocks overcome the effects of a mid-quarter sell-off. Concerns about slowing global economic growth and escalating U.S.-China trade tensions created headwinds and volatility.

**Large-cap growth stocks outperformed.** Large-cap stocks advanced and outperformed mid- and small-cap stocks. Growth stocks slightly outpaced value stocks within the large-cap universe. Within the S&P 500 Index, the utilities, real estate and consumer staples sectors outperformed. Energy, health care and materials were the only sectors to decline.

**Pharmaceuticals stocks aided performance.** Stock selection in the industry helped drive outperformance in the health care sector. Stock decisions in the health care equipment and supplies and life sciences tools and services industries were also positive.

**The portfolio benefited from stock choices in energy.** Positioning among oil, gas and consumable fuels companies aided performance, as both stock selection and an underweight allocation to the industry relative to the benchmark contributed positively. Avoiding energy equipment and services stocks was also helpful, as the energy sector fell on concerns about supply and global economic weakness.

**Insurers hampered relative performance.** Stock selection in the industry weighed on performance in the financials sector. Positioning in the capital markets industry also hampered sector performance.

**Our energy underweight was helpful.** The sector lagged during the quarter as supply issues and demand weakening along with the slowing global economy weighed on the sector. In addition to the fundamental issues in the energy sector, our underweight is also based on generally poor environmental, social and governance (ESG) profiles.

**We were overweight in information technology.** Our overweight allocation to the sector was led by communications equipment and semiconductors and semiconductor equipment stocks, where we have found the combination of growth and ESG profiles that we seek. The heavier exposure to the sector benefited performance during the quarter, but the sector overall detracted due to stock selection.

### Key Contributors

**Edwards Lifesciences.** This manufacturer of artificial heart valves continued to outperform. Its most recent quarterly revenues and earnings beat expectations. We believe the company is well positioned in terms of enduring, secular growth and continues to roll out innovative new products that significantly improve patient health.

**Zoetis.** This maker of medicines for pets and livestock again reported better-than-expected quarterly earnings and revenue and raised guidance. Trends in animal health continue to be positive, and animal health is often considered to be a relatively safer place to be investing in health care.

**The Home Depot.** The stock price of the home improvement retailer rose even though the company reported disappointing revenue and earnings. Management pointed to wet weather and low lumber prices as weighing on results. We believe the company features a strong management team and attractive cash flow generation, and it returns cash to shareholders.

### Goal and Strategy

Invests in large-cap stocks with improving business fundamentals and sustainable corporate behaviors.

### Portfolio Management Team

| Name | Start Date: Industry | Start Date: Company |
|---|---|---|
| Gregory Woodhams, CFA | 1981 | 1997 |
| Justin Brown, CFA | 1993 | 2000 |
| Joe Reiland, CFA | 1995 | 2000 |
| Robert Bove, CPA | 1994 | 2005 |

### Top 10 Equity Holdings

| | |
|---|---|
| Microsoft Corp | 5.85 |
| Apple Inc | 3.78 |
| Prologis Inc | 3.69 |
| Zoetis Inc | 3.68 |
| Amazon.com Inc | 3.67 |
| Alphabet Inc | 3.65 |
| Bank of America Corp | 3.39 |
| Home Depot Inc/The | 3.23 |
| JPMorgan Chase & Co | 3.13 |
| Prudential Financial Inc | 3.04 |
| **Total Percent in Top 10 Holdings** | **37.11** |

As of 9/30/2019

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. Portfolio holdings subject to change.

### A Note About Risk

The value and/or returns of a portfolio will fluctuate with market and economic conditions. Different investment styles tend to shift in and out of favor depending upon market and economic conditions, as well as investor sentiment. A portfolio may outperform or underperform other portfolios that employ a different investment style, and the stocks selected by the portfolio manager may not increase in value as predicted. Because this portfolio may, at times, concentrate its investments in a specific area, during such times it may be subject to greater risks and market fluctuations than when the portfolio represents a broader range of securities. Non-U.S. investing involves special risk considerations, including economic and political conditions, inflation rates and currency fluctuations. There is no guarantee that the investment objectives will be met. Dividends and yields represent past performance and there is no guarantee that they will continue to be paid. The information is not intended as a personalized recommendation or fiduciary advice and should not be relied upon for investment, accounting, legal or tax advice.

## Key Detractors

**Prudential Financial.** The insurance company's stock sold off sharply after it reported weaker-than-expected quarterly results. Management also offered lower forward guidance, driven by higher expenses and lower interest rates, which reduce returns on its investments.

**Cisco Systems.** The computer networking company's stock fell after management provided weaker-than-anticipated forward guidance, largely due to slow orders from telecommunication companies in China because of the ongoing trade war with the U.S.

**Norfolk Southern.** The stock of this freight railroad fell after the company reported quarterly earnings that were below expectations. The company was also impacted by concerns about slowing global economic growth and the impact of the trade war with China.

## Notable Trades

**The TJX Cos.** We established a position in this off-price retailer, swapping out of our holding of Ross Stores. We think TJX has better profiles for improving business fundamentals and sustainable corporate behaviors.

**NextEra Energy.** NextEra was a new position for the portfolio during the quarter. The company aligns with our sustainable objective and has a strong ESG profile. It has a solid pipeline of renewable energy with both solar and wind generation, and it has strong cash flow. NextEra is experiencing growth, driven by capital spending to strengthen its transmission and distribution network.

**Exelon.** We sold Exelon to fund our new position in NextEra Energy. Exelon has much greater exposure to nuclear energy than NextEra and lacks the same level of free cash flow.

**Ross Stores.** We sold this off-price retailer and purchased the stock of The TJX Cos. because we think TJX has better sustainability and improvement profiles.

## Positioning for the Future

Our process uses fundamental analysis aimed at identifying growing, large-cap companies demonstrating sustainable corporate behaviors. Rather than screen out certain industries or sectors, we seek to identify companies with the strongest fundamental growth and ESG characteristics in each sector. As a result of this approach, our sector and industry allocations reflect where we are finding opportunities at a given time.

**Growth prospects in information technology are strong.** Information technology was our largest overweight at the end of the quarter. We continued to find strong growth opportunities in companies with attractive ESG profiles through bottom-up analysis. Our exposure to attractive opportunities in the communications equipment industry leads our technology overweight. This is somewhat offset by our continued underweight to Apple, which has a relatively unattractive financial improvement profile, coupled with a middling ESG profile driven by controversy concerning accounting and taxation issues.

**The portfolio is overweight the consumer discretionary sector.** Improved wage gains and employment trends have been enhanced by tax reform benefits, leading to a stronger consumer. We continue to believe that structurally better business models and brands will have better long-term fundamental results and stock performance. We think companies with strong competitive positions and that are investing behind their businesses and have strong management teams will continue to separate themselves from the pack.

**We remained overweight in real estate.** We believe certain equity real estate investment trusts are positioned to do well in the current economic environment. Strengthening market fundamentals typically lead to increased occupancy rates, increased rents and higher property values.

**Health care ended the period modestly overweight.** Our positioning in the sector is driven by an underweight in the health care equipment and supplies industry, where we do not have exposure to many of the large benchmark holdings because of concerns about valuation and middling ESG characteristics.

**Communication services ended the quarter underweight.** The relative positioning is attributable to holding no positions in the diversified telecommunication services and entertainment industries.

**ESG and fundamental considerations drive our energy underweight.** Many companies in the sector score poorly from an ESG perspective. In addition, we see a sustained supply/demand imbalance in energy, resulting from the shale oil and gas revolution in the U.S. This has completely remade energy markets, rendering finding and development costs as the most critical factor in energy. Absent a strong new price cycle, robust earnings growth will be difficult to sustain.

A strategy or emphasis on environmental, social and governance factors ("ESG") may limit the investment opportunities available to a portfolio. Therefore, the portfolio may underperform or perform differently than other portfolios that do not have an ESG investment focus. A portfolio's ESG investment focus may also result in the portfolio investing in securities or industry sectors that perform differently or maintain a different risk profile than the market generally or compared to underlying holdings that are not screened for ESG standards.

Separately Managed Accounts (SMAs) are investment services provided by American Century Investment Management, Inc. (ACIM) a federally registered investment advisor. SMAs are not available for purchase directly through ACIM. Client portfolios are managed based on investment instructions or advice provided by the client's advisor or program sponsor. Management and performance of individual accounts may differ from those of the model portfolio as a result of advice or instruction by the client's advisor, account size, client-imposed restrictions, different implementation practices, the timing of client investments, market conditions, contributions, withdrawals and other factors.

This material has been prepared for informational purposes only. The opinions expressed are those of the investment portfolio team and are no guarantee of the future performance of any American Century Investments portfolio. Statements regarding specific holdings represent personal views and compensation has not been received in connection with such views. This information is not intended to serve as investment advice. References to specific securities are for illustrative purposes only and are not intended as recommendations to purchase or sell securities. No offer of any security is made hereby.

Portfolio holdings are as of the date indicated, and subject to change without notice. Data provided by American Century Investments and FactSet, unless otherwise noted. Material presented has been derived from industry sources considered to be reliable, but their accuracy and completeness cannot be guaranteed.

The S&P 500® Index is composed of 500 selected common stocks most of which are listed on the New York Stock Exchange. It is not an investment product available for purchase.

For purposes of compliance with the Global Investment Performance Standards ("GIPS®"), the Firm is defined as American Century Investment Management, Inc. ("ACIM" or "the Firm"). ACIM claims compliance with the Global Investment Performance Standards (GIPS®), To receive a complete list of composites and/or a GIPS® compliant presentation, contact:
4500 Main Street | Kansas City, MO 64111 | 1-866-628-8826 | www.americancentury.com

American Century Investments®