SWS Growth Equity

Strategy Objective

SWS Growth Equity seeks to create long-term capital appreciation by investing in companies across multiple industries that have the ability to maintain or take profitable market share.

As of January 27, 2025

Inception
March 1, 2018

Benchmark
Russell 1000 Growth Index

Portfolio Managers
Michael Parker, CFA & Kurt Grove, CFA

4Q2024 Performance Update

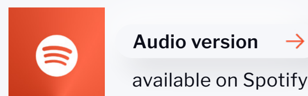
For the fourth quarter of 2024, SWS Growth Equity returned 12.05% net and 12.29% gross of fees, compared to the 7.07% total return of the Russell 1000 Growth Index and the 2.41% total return of the S&P 500 Index.

Firm Overview

SWS Partners focuses on using technology to deliver contemporary asset management solutions to endowments, foundations, pensions, family offices, and high net worth individuals. We believe that by emphasizing the application of modern technologies, we can create broad efficiencies and deliver better outcomes to clients.

Additional Resources

Scan the above QR Code to read more Growth Equity strategy-related insights and research.



Audio version →
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Wrapping calendar years always presents natural reflection opportunities. For investors, it's a great juncture to take stock of the ability to deliver on your key objectives, namely the ones responsible for delivering results. Our pursuit with our Growth Equity strategy in its purest form is simple, **we seek attractive risk-adjusted outcomes over long-term periods**. Any investor staring at a clean sheet of paper— as we did seven+ years ago after a decade inside a large multi-billion institution—must decide whether to embark on a quest for A) relative or B) absolute performance outcomes. This is entirely a byproduct of the structural characteristics of a given strategy rather than an outcome of skill or capability. Yet the distinction is critical when closing a year like 2024 due to the elevated risk of Type 2 errors; false negatives that dismiss the equity markets as frothy or lacking for compelling attractive excess return opportunities are common. We offer our humble stab at why that couldn't be farther from the truth.

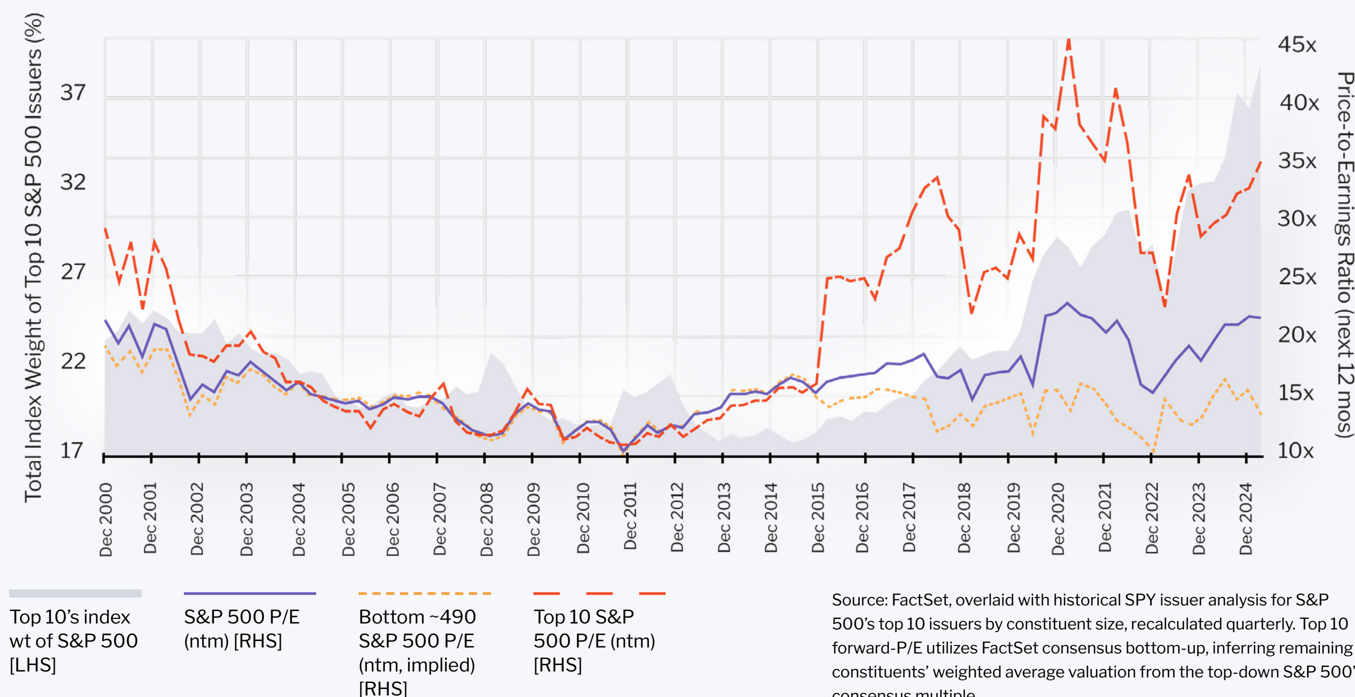
We're all well versed on how narrowing and top heavy US equity markets have become. We've been highlighting in our writings since October 2022 just how unprecedented issuer concentration levels have swelled. Less discussed is how it's no longer just a US-centric issue; global and international proxies are also starting to experience it. This sets easy bait for active managers to declare that the market is perpetually broken, often accompanied by fist-shakes at the increasing distortion caused by passive's increasing domination of equity market share relative to active. US equity's parity crossing moment where passive overtook active for AUM share occurred back in 2019. The current trendline also suggests zero hint of reversal. Rather than waste calories on fist shaking, we chose to plow our efforts into proactively studying these concentration and flow dynamics, quantifying them, and then positioning ourselves accordingly. **We see this approach as standing the best odds of avoiding multi-year periods of making excuses why structural market dynamics preclude attractive pricing outcomes.**

We also have a general sense of the numbers behind the skew by the Mag 7 or top-10 index constituencies and know how their roll-up into market-cap weighted indices causes price distortion (e.g. Mag 7/top-10 comprise 55%/63% of R1kGr, and 33%/39% of S&P500, respectively today). Yet few investors take the next critical step, dissecting how this impacts traditional signals on the market's capacity to bear risk. **This is the inherent exercise behind answering the, "Is it a good time to deploy capital to this asset class?" question**. The S&P 500 finished the year at 21.6x forward price-to-earnings, solidly outside one standard deviation of average levels since 2000. The skew impact to valuation remains pronounced, with the spread

between top-10 and everyone else sitting at 21.3 points wide: On a stand-alone basis, the top-10 S&P 500 constituents trade 34.7x forward earnings on weighted avg basis. This leaves the remaining ~490 issuers at a very reasonable 13.4x forward P/E. This ex-top-10 constituency trades firmly in the negative one-sigma range that most would conclude as attractive for position inception.

Chart 1

Under the Hood of S&P 500 Valuation



Source: FactSet, overlaid with historical SPY issuer analysis for S&P 500's top 10 issuers by constituent size, recalculated quarterly. Top 10 forward-P/E utilizes FactSet consensus bottom-up, inferring remaining constituents' weighted average valuation from the top-down S&P 500's consensus multiple.

The market concentration curveball was a pitch fired our way sometime in the second inning of our since-inception existence, well after we took the field against our passive proxy opponent. At the time of our May 2018 inception, 6.5% was the largest index constituent weight while its top-10 accounted for roughly a third of the total. Today the largest looms 11.3% heavy, and, as highlighted earlier, its top-10 is baring down on the two-thirds total mark. **It's therefore reasonable to conclude that anyone relying on this proxy to remain "well diversified" experienced an implicit breach of trust as of June 2020 onward**, to snap-shot the moment when the largest constituent surpassed the 10% mark and its top-10 totaled 45%. Articulating that out loud admittedly runs the risk of sounding like that petty fist-shaker, but the current distortion has become so dramatic that remedies from our index provider are slated for March. These include remedies akin to GLP-1s for our megacaps in the form of algorithm sizing changes, and alternative "ex Top 10" proxies having been crafted recently.

A major premise of our founding principles, one that we penned during our post-pension incubation phase, was that "the market" was essentially becoming increasingly "growth" centric. Fast forward another seven years, and this dynamic has become even more pronounced. It's less relevant from which index provider you source for your large-cap "core" analysis. **This extreme concentration bloat unquestionably causes passive allocations to undertake sizable idiosyncratic**

risks today. Stated differently, every equity allocation decision today is an active one. Since large-cap is the check writer for multi-billion dollar capex outlays currently funding AI infrastructure, it's therefore imperative to explore the directionality of genAI when contemplating any capital allocation to large-cap US equity. The fate of over a ~third of the S&P 500 hinges on nailing the ability to distinguish "hype" versus "real" regarding AI's sustainability.

Will the path forward be one paved by Stargate style partnerships that promise a consortium of $100s of billions? Or are efficiency gains on the horizon akin to DeepSeek's breakthroughs that may deliver orders of magnitude compute efficiencies? Incorrect answers will be associated with our largest market cap dollar implosions ever seen due to the impact to multi-trillion dollar issuers relying on the music not to stop. Correct answers are likely to be found among use cases with compelling ROIs attached to them

Our largest error of omission in 2024 was not owning the most successful semiconductor company that the world has seen. It also wasn't a matter of having an eye off the NVIDIA ball. We had solid beachheads established in Micron [MU], Ciena [CIEN], Arista Networks [ANET], and Marvell Technologies [MRVL]. It was the speed at which NVIDIA's revenue build occurred, combined with how quickly its stock repriced forward expectations, that made it difficult to reposition our capital to catch the swell forming once much of the goodness was reflected in its $3 tillion+ valuation. **The silver lining to our work that missed adding NVDA to our buy basket in time, we continue to see confirming evidence that ecosystem build-out effects are likely to transpire into upside for many other players**. This extends beyond just the initial wave of GPUs powering the new class of gigawatt datacenters.

Although not direct in-lieu-of allocation decisions, we were able to size ourselves accordingly to take advantage of other non-AI-related multi-baggers in 2024 via Natera [NTRA] and PureCycle Technologies [PCT]. A key tenet of our process that allowed us to identify these issuers shares a common thread with AI's proliferation; **it all boils down to data-informed advantages. We continue to believe with increasing conviction that profitable market share gains will hinge on every issuer's ability to leverage insights from data**, not just that which resides in their own databases or even those externally generated from the outside world. Synthetically generated data will become increasingly critical to training the AI factories that will coexist alongside the physical goods factories.

This became even more apparent upon digestion of our fieldwork at the Consumer Electronics Show ("CES") in Vegas earlier this month. It's amazing to consider how far we've come in past twelve years through the lens of CES keynotes: 2012 featured what would be Microsoft's last keynote, where CEO Steve Ballmer proclaimed "nothing is more important at Microsoft than Windows," back when Windows was making waves with its "Metro" style interface. Meanwhile, 2025 featured CEO Jensen Huang of NVIDIA highlighting how multi-trillion dollar robotics industry will be enabled by the continuation of AI scaling laws. **Rolling another quarter onto our analysis of whether scaling laws are being upheld, the answer still appears to be a firm "yes,"** with new paradigms being uncovered via pre-/post-test and test-time scaling dimensions. We see these scaling dimensions causing a shift in demand, namely one that's been focused on a raw compute arms race to train frontier models, to inference use cases and applications that will deliver ROIs on what's becoming commoditized intelligence.

Robotics use cases, along with countless others, are **poised to unlock step-function economic productivity due to the ability to impact labor force productivity at levels unseen by humanity**. These projects by definition require significant large-cap issuer involvement given the pricetags to contemplate being at the capital allocation table. As we continue to study how the value chain emerges around AI's proliferation, we see highly fruitful investment opportunities for the next multi-year period. We remain optimistic about our opportunity to extract signal from noise and position ourselves for attractive risk-adjusted outcomes.

Thanks as always for your confidence as stewards of your capital.

Raison D’être: Alpha Delivery

Q4 Market Overview: A Divergent Landscape Amid Concentration Dynamics

Despite the absence of a year-end “Santa Claus rally,” with the S&P 500 declining -3.5% in the final three weeks of the year, the index managed to deliver a +2.4% return for the fourth quarter. This capped an otherwise robust year for U.S. equity markets, **with the S&P 500 up +25.0% for 2024**. However, beneath the surface, the quarter and year revealed significant divergences across styles and market capitalizations.

Large-cap growth emerged as the standout performer, gaining +7.1% in Q4 and +33.4% for the year. In contrast, value stocks struggled, posting a -2.0% return for Q4 and a +8.0% gain for 2024. Meanwhile, small-cap equities continued to underperform, delivering just +0.3% for Q4 and +11.5% for the year. Expanding the lens further, **the underperformance of small-cap growth remains stark: since its February 2021 peak, this segment has returned a cumulative -11.3%, compared to the S&P 500’s +59.1% total return over the same period**.

Market Concentration: The Growing Dominance of the Magnificent 7 and “Passive” Investing

We have long highlighted the increasing concentration within equity markets, but 2024 brought this trend into even sharper focus. The “Magnificent 7” (Mag 7) stocks—representing nearly 34% of the S&P 500’s weight—contributed 120% of the index’s Q4 return. **The S&P 500’s +2.4% return would have been negative without these select names**. The Mag 7 drove over 53% of the S&P 500’s +25.0% return for the entire year.

This dominance has fundamentally shifted how we analyze market performance. What once involved dissecting style factors (e.g., growth versus value, momentum, size) or industry-specific trends (e.g., industrials versus utilities) now requires granular stock-level analysis to decompose index returns fully. The Mag 7 phenomenon exemplifies this shift, as their performance increasingly dictates overall market outcomes in dramatic fashion.

Several factors underpin this market concentration, including the rise of passive investing and the proliferation of quantitative/systematic strategies, which have supplanted, by trading volume, traditional fundamental equity approaches. The ongoing AI hype cycle has also played a pivotal role. **We would argue that there is no such thing as a truly “passive” investor when seven constituents, all highly exposed to the same underlying AI-driven technology trend, comprise 34% of every dollar invested in US equity markets**. Passive investors may simply be unaware of the concentrated bets they are explicitly making.

This dynamic has implications for both “**passive**” and “**active**” investors. **Today, having an informed view on AI—such as OpenAI’s latest model or the scaling impact of test-time compute—has become as critical as forming an opinion on macro factors like the 10-year Treasury yield or the trajectory of interest rates**. Whether rates land at 6% or 4% in the coming months, the significance of these concentrated drivers cannot be ignored.

Fund Performance: SWS Growth Equity

Amid this backdrop, SWS Growth Equity delivered a strong Q4, returning +12.0% net of fees (+12.3% gross), bringing **full-year performance to +30.1% net (+31.1% gross)**. These results are particularly notable **given our relatively modest exposure to the Mag 7, at just 10.5% compared to the 55.6% weighting in the Russell 1000 Growth Index**.

Our top contributors for the year were **Natera [NTRA] and PureCycle [PCT], each delivering gains of over 150% in 2024**. Natera, a healthcare company specializing in liquid biopsy diagnostics, and PureCycle, a former SPAC innovating in polypropylene recycling, **illustrate the diverse opportunities available outside the AI-driven buildout of GPU-accelerated computing data centers**. These names reflect our commitment to identifying transformative growth stories across sectors.

Chart 2

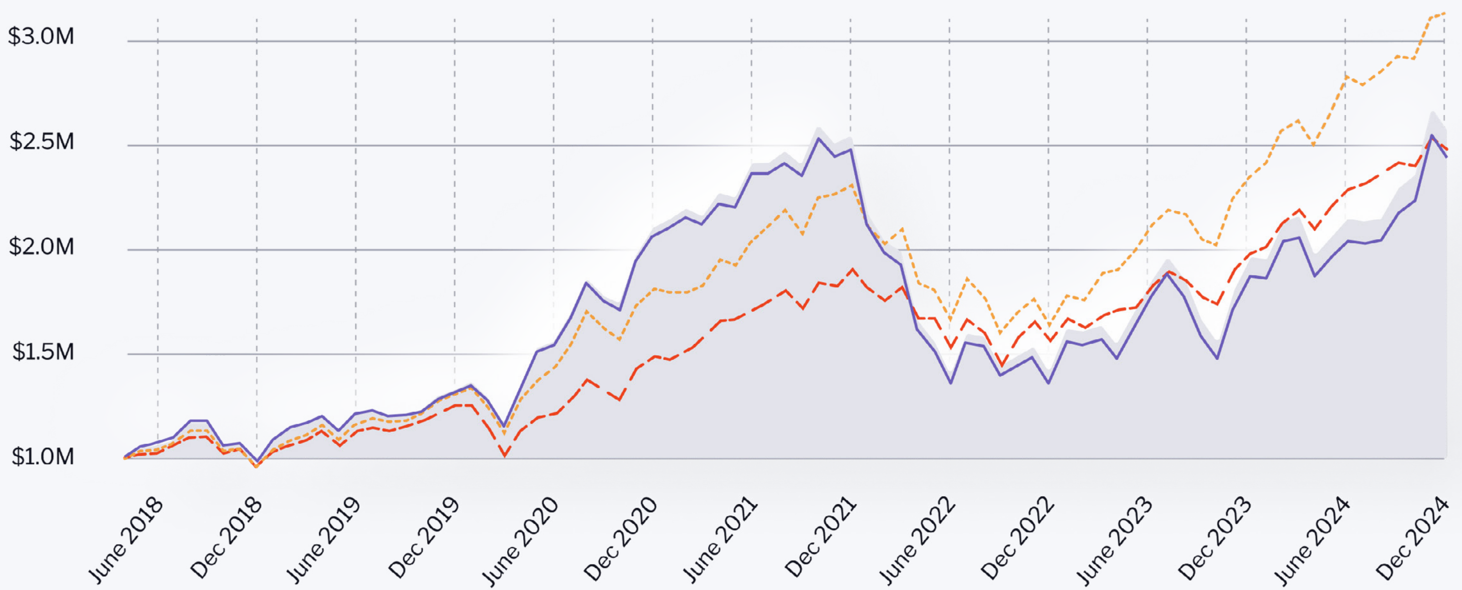
SWS Growth Equity Performance as of 12/31/2024

	4Q2024	YTD	1-Year	3-Year *Annualized*	5-Year *Annualized*	Since Inception *Annualized*	Since Inception *Cumulative*
SWS Growth Equity (net wtd. avg. fee)	12.05%	30.10%	30.10%	-0.67%	13.12%	14.23%	142.78%
SWS Growth Equity (gross)	12.29%	31.14%	31.14%	0.16%	14.06%	15.17%	156.46%
Russell 1000 Growth	7.07%	33.36%	33.36%	10.47%	18.96%	18.64%	212.57%
Russell 1000 Value	-1.98%	14.37%	14.37%	5.63%	8.68%	9.29%	80.82%
S&P 500	2.41%	25.02%	25.02%	8.94%	14.53%	14.60%	148.00%
Russell Midcap	0.62%	15.34%	15.34%	3.79%	9.92%	10.23%	91.45%
Russell 2000	0.33%	11.54%	11.54%	1.24%	7.40%	7.06%	57.54%
NASDAQ Composite Index	6.35%	29.57%	29.57%	8.13%	17.49%	17.13%	186.98%

Source: FactSet. Data represent total return (dividends reinvested into a respective index) for the period ending 12/31/24.
Please see important disclosures on page 13. SWS Growth Equity inception 5/1/2018.

Chart 3

Growth of $1 Million in SWS Growth Equity Since Inception



$2.56M SWS Growth Equity (gross)

$2.43M SWS Growth Equity (net. wtd. avg. fee)

$3.13M Russel 1000 Growth Index

$2.48M S&P 500 Index

Above chart displays the value of a pro-forma $1 million investment in SWS Growth Equity since its May 1, 2018 inception, both on net of maximum advisory fee and gross of advisory fee bases. These results are compared with broad-based indices, which do not include expenses, and are shown on a total return basis with dividends reinvested.

Contributors & Detractors

The following analyses highlight the fundamental work underlying our investment process. Here we deconstruct the merits of the top contributors and detractors to portfolio performance on the quarter (with total return contributions listed):

Top Contributor

MRVL Marvell Technology, Inc. **+53.3%**

Marvell, our largest semiconductor holding at 6.3% of the portfolio, delivered a stellar performance this quarter with a +53.3% return, significantly outpacing the broader semiconductor peer group, which declined by -6.4%. This strong performance underscores **Marvell's critical position in our bullish thesis on the broadening buildout of AI infrastructure**.

Since the debut of ChatGPT on November 30, 2022, the AI revolution has driven transformative changes across the semiconductor industry. NVIDIA [NVDA], the primary beneficiary of this trend thus far, has soared +694%, compared to the semiconductor index's +71.0% gain. Notably, NVDA and Broadcom [AVGO] have accounted for nearly 60% of the index's performance despite comprising less than 20% of its weight. While **NVIDIA has captured an overwhelming >95% market share of the hyperscalers' expanding capital expenditure on AI infrastructure, Marvell is emerging as a key player poised to take meaningful share with AI compute spend**.

We previously highlighted Marvell as a top contributor in Q2 2023, citing our belief in its custom ASIC opportunity within the hyperscaler AI buildout. Fast forward six quarters, and this thesis has become increasingly validated. Marvell's projected **$800M opportunity in the 2024–2026 timeframe expanded dramatically, with forecasts pointing to over $2B in 2026 alone and $8B by 2028**. This quarter, Marvell secured a long-term commitment from Amazon for its Trainium chip—a custom ASIC tailored for Amazon's AI infrastructure. This deal is particularly noteworthy, not only for its scale but also for its strategic implications: it highlights Amazon's need to diversify its chip supply away from the dominant merchant silicon provider and underscores Marvell's growing importance as a second-source supplier.

Marvell's momentum extends beyond Amazon, as it has also secured key wins with other leading hyperscalers, including Google (for a CPU socket) and Microsoft. While the Amazon partnership marks a significant milestone, Marvell has indicated that **the Microsoft opportunity could be even larger**. After attending Marvell's investor day earlier this year, we noted a striking disconnect between management's ambitious roadmap and the broader market's skepticism. In our view, the current projection of an $8B hyperscaler ASIC opportunity by 2028 may ultimately prove conservative, given Marvell's growing traction and strategic importance in the AI ecosystem.

Top Contributor

CIEN Ciena Corporation **+37.7%**

Within the technology sector, Ciena [CIEN] emerged as a standout this quarter, delivering a +37.7% return, far outpacing its hardware peers at +6.4%. Since our initiation in Q1 2023, we have viewed CIEN as a compelling opportunity—a hardware issuer trading at 14x earnings, supported by strong fundamentals and multiple growth catalysts. These include the US Fiber-to-the-Home (FTTH) upgrade cycle, a $25B optical network buildout by Reliance Jio in India, and a baseline industry growth rate of ~6% driven by ~25% annual data growth. This sharply contrasted with our decision not to hold Apple, a 10%+ constituent of the Russell 1000 Growth Index, which faced stagnating top-line growth, waning innovation, and earnings growth driven primarily by share buybacks.

While our thesis for CIEN took longer than expected to materialize in the stock's recognition, this year rewarded our conviction. CIEN returned +37.7% for Q4 and +99.2% for the year, significantly outperforming Apple's +30.0% 2024 return. Notably, Apple's fiscal year 2026 sales estimates have declined by 12%, while its earnings projections remain flat—aligning with our cautious view. **CIEN's management struck an increasingly optimistic tone this year, reflecting the transformative potential of AI-driven demand for optical networking**. Historically, Ciena has been a beneficiary of ~25% CAGR industry data growth, translating to ~6% long-term optical demand growth. However, the advent of AI and surging data throughput requirements are reshaping this landscape. Meta and other hyperscalers have noted that their networks are becoming increasingly strained, prompting CIEN to raise its long-term data growth CAGR expectations to over 30%.

The critical role of optical connectors in enabling AI workloads has become increasingly apparent. W**hile GPUs have improved roughly 50x in performance, networking components such as optical connectors, cabling, and switches have only improved by ~4x**. This disparity means GPUs are often utilized at just 30% efficiency, creating significant bottlenecks in data center performance. With NVIDIA projected to generate over $200B in revenue next year, addressing these bottlenecks is a top priority for hyperscalers. The growing demand for AI workloads is driving the need for extensive optical networking upgrades both inside and outside data centers. Training larger language models (LLMs) is increasingly constrained by power and resource limitations, requiring multiple data centers to function as one cohesive unit. **This necessitates a significant buildout of long-haul optical connections to interlink data centers and enable distributed training at scale**. As AI inferencing expands—delivering trained models to end users—additional optical upgrades at the network edge will be essential to reduce latency and meet consumer demand. CIEN, as a leader in optical networking, is well-positioned to benefit from both long-haul and edge buildouts.

We anticipate a significant optical buildout cycle beginning in 2025, positioning CIEN as a primary beneficiary. Based on our analysis, we see an upside scenario of $5.50–$6.00 in EPS for 2026, well above the current consensus estimate of $4.20. This reflects the company's expanding role in enabling AI-driven data growth and networking upgrades.

Top Contributor

CFLT Confluent, Inc. **+37.2%**

It didn't take long for our newest position in *SWS Growth Equity* to make its mark as a top contributor. Since our initiation in mid-September, Confluent [CFLT] has delivered a strong performance, returning +37.2% for the quarter and significantly outperforming its software peers, which gained +6.2%. As we provided an extensive write-up last quarter, today's commentary will be more concise.

The substantial move in Confluent's stock this quarter reflects a broader stabilization of trends for both the company and the software sector at large. **Typically, software companies trading at 5–6x sales or 7x gross profit—where Confluent was valued at the time of our initiation—are on the wrong side of technological innovation and vulnerable to disruption**. Confluent, however, stands apart. The company is positioned as a significant beneficiary of enterprises rearchitecting their software and data infrastructures to harness AI capabilities, including large language models (LLMs) and agents. Optimizing Retrieval-Augmented-Generation (RAG) models, a cutting-edge approach to AI that requires real-time data streaming and processing underscores Confluent's relevance and growth potential.

Investor expectations were notably subdued heading into Confluent's third-quarter release, given its modest valuation of ~6x/8x sales/gross profit. **However, the results demonstrated a stabilization in key metrics**: net recurring revenue (NRR) held steady at 117%, and overall revenue growth reached 25%. **These figures suggested that Confluent's 13-quarter slowdown in revenue growth has likely concluded, with projections pointing to sustained revenue growth above 20% in 2025**. This combination of quantitative metrics and a qualitative setup of being on the right side of competitive disruption—has set the stage for a potential re-rating of the stock.

Top Detractor

UBER Uber Technologies, Inc. **-19.7%**

AI continues to be a central theme in our contributors and detractors section, and Uber [UBER], as a notable detractor this quarter, is no exception. Uber underperformed, falling -19.7% and significantly lagging its industrial transportation peers, which declined -4.0%.

The fundamental debate around Uber's near-term earnings and free cash flow generation has been largely one-sided this year, with estimates for the next three years steadily improving by 5–10%. However, the market's focus has shifted toward Uber's terminal valuation, which saw a substantial deflation this quarter amid mounting concerns about competition from robotaxis.

These concerns reached a critical point in early December **when Waymo delivered two blows to investor sentiment**. First, Waymo announced the rollout of a new city location, Miami, where they would partner with Moove as their fleet provider rather than Uber. This diverged sharply from investor expectations, as previous announcements for Austin and Atlanta suggested that Waymo would continue incorporating Uber into its rollout strategy. While Uber is the largest shareholder of Moove, and this represents a somewhat different arrangement, the move **raised fears that Uber's competitive advantage as the aggregator of choice for ride-hailing was eroding**. Second, an industry report from Yipit highlighted that **Waymo had surpassed Lyft in gross bookings in San Francisco**, a market where Uber does not assist Waymo in generating rider demand. This report, coupled with iterative progress by Tesla in advancing its autopilot technology, further stoked fears of competitive disruption. The end result has been a shift in perception: Uber is now seen as a high-cash-flow-generative business facing an increasing risk of long-term disruption from autonomous vehicle technologies.

Where do we stand on the debate? While we are optimistic about the adoption of increasingly autonomous vehicles, we remain skeptical that robotaxis will significantly devalue the network effects of ride-hailing platforms like Uber. Rather, we expect Uber to adapt and evolve its role from a pure marketplace and demand-generation provider to one that incorporates field servicing for autonomous fleets.

Uber's unique strength lies in its **dynamic ability to match supply with demand**, adjusting driver availability through mechanisms like surge pricing. In any given market, Uber's supply can vary by 1,000% over the course of a day. Robotaxis, with their high fixed costs, will face strong incentives to maximize vehicle utilization, requiring lead generation to maintain steady demand. Uber's platform is well-positioned to fulfill this role, offering dynamic supply-demand management to optimize vehicle utilization.

Moreover, conversations with Waymo employees and others in the industry suggest that while robotaxis are technologically advanced and safe, they still face operational limitations. **Approximately 10% of rides currently require human intervention**, such as resolving simple issues like adjusting pickup/drop-off locations or addressing unforeseen obstacles. These challenges, alongside **costs associated with field services (lost items, vehicle maintenance, payment support, etc.), highlight the significant expense of managing a robotaxi fleet. Uber, with its established network of drivers and local fleet providers, is uniquely equipped to address these challenges**, offering a complementary solution to autonomous vehicle operators.

We believe this debate will play out over an extended time horizon and may resemble the dynamics of the Netflix streaming wars. In its early days, Netflix dominated as the first mover in the streaming market, but incremental entrants like Disney+ and HBO sparked concerns about market share erosion. These fears led to heightened volatility, as evidenced by Netflix's performance in 2021. However, over time, traditional content producers recognized the challenges of competing in streaming distribution, reverting to their core strength of content creation while partnering with dominant platforms. **Similarly, we anticipate that while Waymo and other autonomous technology providers may pursue initial rollouts independently, the complexity of scaling and servicing a broad network will lead them to collaborate with established ride-hailing platforms**. Ultimately, we expect autonomous providers to recognize the value that Uber's marketplace delivers and align with the largest and most efficient operator in the space.

Uber's robust platform, dynamic adaptability, and unmatched scale position it as the natural partner for autonomous fleet providers. While the debate may create near-term volatility, we remain confident in Uber's ability to evolve and maintain its leadership in the evolving transportation landscape.

Top Detractor

AMAT Applied Materials, Inc. **-19.3%**

Applied Materials [AMAT], which represents ~7% of our semiconductor exposure and a 1% position in the portfolio, underperformed this quarter, falling -19.3%, compared to a -6.4% decline for its semiconductor peers. The weakness stemmed from broader concerns around a slowdown in semiconductor capital expenditures, driven by heightened risks related to the China export list and a generally weak semiconductor environment outside of AI. With China accounting for 37% of AMAT's direct revenue last year, this exposure has become a significant focal point for investors.

Assessing the risks tied to China remains a complex challenge. We believe the true run-rate exposure to China is closer to 30%, as the outsized contribution from China last year likely reflected front-running of incremental tariffs and sanctions. Furthermore, this is not the first time new entities have been added to an export list, and the rumored additions were largely anticipated. AMAT has a strong track record of navigating these regulatory challenges and responding swiftly to government rulings. While the current environment adds uncertainty, we expect AMAT to adapt effectively.

Despite near-term pressures, the long-term outlook for AMAT has only strengthened. As emphasized throughout this quarterly update, AI is poised to remain a dominant theme over the next decade. While its impact will vary across individual issuers, **one clear beneficiary of AI's growth is the tool providers for semiconductor production**. The increasing complexity of process steps with each successive node progression underscores the critical role of companies like AMAT in advancing semiconductor manufacturing. **High-bandwidth memory ("HBM") is a particularly notable bottleneck for the accelerated rollout and progress of AI applications. AMAT, as a key supplier of tools for HBM production**, is well-positioned to benefit from this demand and holds a relative advantage over other tool providers in this area.

Currently trading at 16x EBITDA and under 20x free cash flow, AMAT offers an attractive valuation setup given our internal expectations of mid-teens operating income growth. This combination of a compelling valuation and its critical role in enabling AI-driven semiconductor advancements solidifies AMAT as a strong long-term opportunity within the portfolio.

Top Detractor

MU Micron, Technology, Inc. **-18.7%**

Micron has experienced a choppy period since our initiation last August, exemplifying the high-beta nature of the stock. From its initial price of $85, the stock climbed to $110, only to retreat back to $85 by the end of the quarter, and as of this writing, has returned to ~$110. This volatility contributed to Micron underperforming its semiconductor peers this quarter, with a return of -18.7% compared to the -6.4% decline for the sector.

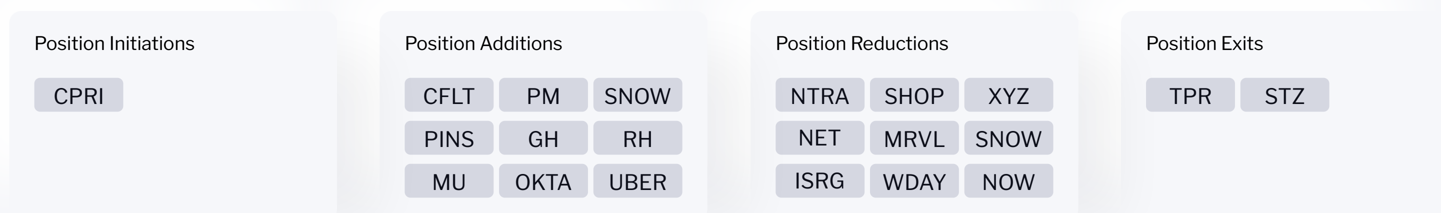
The back-and-forth trading is characteristic of Micron's susceptibility to boom-and-bust cycles, where any updates on DRAM or NAND pricing tend to be overanalyzed and extrapolated by the market. This quarter was no exception, as concerns over spot pricing and forward demand triggered a pullback. While demand in the quarter remained strong, weakness in forward demand—driven by prolonged recoveries in PC and smartphone cycles and continued inventory drawdowns by customers—created headwinds.

Amid the near-term challenges, **several bullish catalysts related to AI and HBM went largely unnoticed by investors**. Micron updated its forecast for the HBM market, which **is expected to grow from $16B today to over $100B by 2030**—surpassing the size of the entire DRAM market today. Notably, HBM is proving to be a significant competitive differentiator, contrasting with past generations of memory architectures. This is underscored by Samsung's continued struggle to gain approval as a vendor for NVIDIA's HBM supply. The evolving dynamics suggest memory could transition from being viewed as a commodity to a differentiated product, with stock multiples likely reflecting this shift over time.

Another key catalyst lies in NVIDIA's anticipated release of its GB300 Blackwell AI chip, expected to be announced at the March GTC event. Early design specifications suggest a 50% increase in FLOPS, **with much of this improvement attributed to increased HBM capacity**, which is projected to grow from 192 GB to 288 GB. The projected **ASP for the GB300 is $4,000 higher than its predecessor, with $2,500 of this increase attributed directly to HBM**. This highlights the critical role of HBM and, by extension, Micron in enabling NVIDIA's advancements. Additionally, NVIDIA's continued delay in approving Samsung, the world's largest memory producer, further underscores Micron's strategic importance.

Given these dynamics, we remain confident in Micron's long-term outlook. We see HBM as a pivotal driver of growth, with the potential for the $100B market estimate by 2030 to prove conservative. Furthermore, as memory's role becomes increasingly central to AI's growth, **Micron's position as a key supplier will likely result in improved competitive advantages and valuation multiples. Taking advantage of the stock's volatility, we added to our position below $100 during the pullbacks in August and December**. With long-term demand for HBM accelerating and Micron's competitive positioning strengthening, we believe the current market underappreciates the transformational opportunity ahead.

Portfolio Changes



New Positions

The newest addition to *SWS Growth Equity* is Capri Holdings [CPRI], the parent company of Michael Kors, Jimmy Choo, and Versace. Capri enters the portfolio following a period of significant volatility sparked by the collapse of Tapestry's (TPR) proposed acquisition of the company for $57.50 per share—a deal blocked by the FTC. **The FTC's decision surprised the market, sending**

Capri shares plummeting by over 50% to below $20, while Tapestry shares rallied more than 15% and are now up 66% from the announcement. These contrasting reactions underscored investors' hesitancy around the merger, not due to concerns about synergies or competitive overlap but due to Capri's perceived underlying business weakness, particularly at Michael Kors.

At the time of the proposed merger, **we preferred Tapestry over Capri, given the relative strength of Tapestry's business and its strategic positioning. However, the drastic divergence in valuations post-announcement has created an exceptional opportunity**. Capri, now trading at its ex-COVID lows of just 0.5x sales and 5x free cash flow—compared to historical averages of 1.3x and 10x, respectively—presents a deeply discounted entry point. Much of the pressure at Michael Kors stems from its deliberate strategy to right-size department store exposure, aligning more closely with Tapestry's preferred distribution model. While this has temporarily dampened sales, we believe it positions the brand for healthier, more sustainable growth over the long term.

While we typically approach sum-of-the-parts ("SOTP") valuation with caution, Capri represents a unique case where this methodology holds real-world relevance. **Based on the Tapestry/Capri merger proxy, we were well-versed on the interest of** at least four potential buyers **for either Versace or Jimmy Choo**. Even after the merger fell through, speculation about potential asset sales has persisted, supported by recent press reports. This increases the likelihood that Capri's individual brands or the entire company could be sold in the near future. On an SOTP basis, even applying a conservative 30% discount to the acquisition prices of Jimmy Choo and Versace, **the valuation for Michael Kors as a standalone entity would imply a mere 1–3x EBITDA**. This is extraordinarily low for a globally recognized brand that remains fundamentally intact. As such, we expect the market to reassess this mispricing eventually, especially as comparable sales stabilize and return to growth over the next 12–18 months.

Capri's current valuation grossly underestimates the intrinsic value of its brands, particularly when considering the broader landscape of casual luxury stocks. For comparison, Tapestry—a standalone competitor—trades at 12.2x EBITDA. **Michael Kors, while facing short-term headwinds, is not a permanently impaired brand**. We anticipate its comparable sales to stabilize and eventually accelerate, driven by strategic distribution adjustments and operational improvements. Casual luxury companies rarely remain at valuations below 3x EBITDA for long, and Capri is unlikely to be an exception. We believe Capri offers a compelling asymmetrical risk-reward profile by taking advantage of the significant discount in Capri shares and the strong likelihood of a sale of parts or all of the company. As the market begins to recognize the value of Capri's assets—whether through improved fundamentals or strategic transactions— we expect substantial opportunity for upside.

Michael Parker, CFA Partner, Chief Investment Officer

Michael Parker, CFA, is the CIO of SWS and lead portfolio manager for the SWS Growth Equity strategy. Before joining SWS in 2017, Mike was a portfolio manager of $4 billion of long-only equity portfolios at the Ohio Public Employees Retirement System (OPERS). He leverages over 22 years of experience on both the buy-side and sell-side to bring an institutional research and portfolio management framework to SWS Partners. Prior to OPERS, Mike was responsible for investment bank equity research at FBR Capital Markets. He received his Bachelor of Science in economics, finance concentration, from the Wharton School at the University of Pennsylvania and is a CFA® charterholder.

Kurt Grove, CFA Partner, Portfolio Manager

Kurt Grove, CFA, is a portfolio manager for the SWS Growth Equity strategy. Before joining SWS in 2020, Kurt was an analyst on the internal active long-only US equity portfolios at Ohio Public Employees Retirement System (OPERS). He leverages over ten years of experience on the buy-side and in risk management to bring an institutional research and portfolio management framework to SWS Partners. Prior to OPERS, Kurt was responsible for Quantitative Risk Management at Key Bank. He received his Bachelor of Science in business administration, finance concentration, from the Fisher College of Business at The Ohio State University and is a CFA® charterholder.

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