

# Market & Performance Summary

In the fourth quarter of 2024, the U.S. equity market, as represented by the S&P 500®, returned 2.4%, the final increment to a year that enjoyed a 25.0% return from U.S. stocks.

Comparisons to Equity benchmarks are shown below.

## KIG Equity Composite vs. Selected Benchmarks

Benchmark	Average Annual Total Returns							Cumulative Since Inception
	YTD	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr	SI	
Kovitz Core Equity, Net	19.9%	19.9%	5.6%	11.7%	9.7%	8.7%	10.7%	1,602%
S&P 500	25.0%	25.0%	8.9%	14.5%	13.1%	10.4%	9.7%	1,226%
Russell 1000 Value	14.4%	14.4%	5.6%	8.7%	8.5%	7.9%	8.5%	891%
Small Cap Equity	11.5%	11.5%	1.2%	7.4%	7.8%	7.8%	8.1%	793%
International Developed	3.8%	3.8%	1.7%	4.7%	5.2%	4.8%	4.8%	275%
International Emerging	7.5%	7.5%	-1.9%	1.7%	3.6%	6.0%	5.3%	329%
Gold	26.6%	26.6%	12.4%	10.4%	7.4%	8.5%	6.8%	524%
Commodities	18.4%	18.4%	13.0%	12.7%	4.5%	2.0%	3.8%	181%

Source: Bloomberg Finance, L.P

Returns for the S&P500 for both the fourth quarter and the full year were largely driven by a small number of large-capitalization stocks. For Q4 2024, just three stocks (TSLA, NVDA, and AMZN) accounted for 86% of the S&P500's 2.4% return<sup>1</sup>. For the full year, "The Magnificent 7" technology stocks accounted for 55% of the S&P500's return, marking a continuation of the trends we've seen since 2023 when this group of stocks accounted for 63% of the S&P500's return<sup>2</sup>.

For the full year 2024, the outperformance of a few large stocks weighed on Core Equity's performance relative to the benchmark. NVDA's 171% return alone accounted for 22% of the S&P500's return in 2024, and Core Equity's lack of exposure accounted for all the portfolio's shortfall relative to the benchmark. In Q4, Core Equity made up for its lack of exposure to TSLA and NVDA with good relative returns from other stocks in our portfolio.

<sup>1</sup>Kovitz Calculations using Bloomberg Attribution data for SPDR S&P500 ETF Trust.

<sup>2</sup>Market Insights: Guide to Markets. U.S. 1Q 2025, As of Dec 31, 2024. JPMorgan Asset Management.

# Key Contributors to Portfolio Return

The portfolio's top three contributors to its return during the quarter were Amazon (AMZN), Salesforce (CRM), and Alphabet (GOOG & GOOGL).

## **Amazon (AMZN):**

Amazon demonstrated strong progress in profitability in its most recently reported results, with margins across the AWS, North American retail, and International segments exceeding expectations. The AWS and Advertising businesses continue to exhibit strong growth, with the former seeing increasing contributions from customer usage of its AI infrastructure. As these two businesses grow to become a more significant part of Amazon's overall business, we expect improvements in profitability to continue.

## **Salesforce (CRM):**

Salesforce unveiled a new platform to deploy autonomous AI agents at its annual user conference in September, which appears to be driving strong customer interest. The company continues to demonstrate its focus on driving greater efficiency across the organization with substantial margin expansion. Recent topline results also suggest some potential stabilization in the headwinds that have faced enterprise software vendors over the last few years. We remain constructive on Salesforce's competitive position and are optimistic about the potential for its new AI agent platform to make contributions to Salesforce's business in the coming years.

## **Alphabet (GOOG & GOOGL):**

In its 3Q results, Google reported an acceleration in Cloud revenue growth with profitability significantly above expectations. The company continues to expand its use of AI overviews in Search with early results suggesting strong user engagement and satisfaction. In December, Google announced a breakthrough in quantum computing with its internally developed chip named Willow. Willow completed a benchmark computation in under 5 minutes that would have taken a supercomputer 10 septillion years, suggesting Alphabet remains at the forefront of innovation.

# Key Detractors to Portfolio Return

The top three detractors from return during the quarter were Amentum (AMTM), Advanced Micro Devices (AMD), and Applied Materials (AMAT).

### **Amentum (AMTM):**

Amentum provided a performance update in mid-December and reiterated the medium-term revenue and earnings guidance it had provided at its summer Capital Markets Day. While Amentum's outlook was in line with expectations, the stock sold off heavily during the quarter on news that the incoming Trump Administration would set up an advisory commission called the Department of Government Efficiency (DOGE) tasked with reducing government spending. Business leaders expected to be involved with the commission made comments about government civilian and defense agency spending and suggested severe cuts to government spending that led to negative sentiment in government contractor stocks like Amentum.

### **Advanced Micro Devices (AMD):**

AMD is a new name for the portfolio with the thesis predicated on the idea that AMD will succeed in gaining market share in the general-purpose GPU market over the next several years. In the third quarter, AMD announced the commercialization of its second-generation general-purpose GPU, the Instinct™ MI325X, and announced that its third-generation Instinct chip would be commercialized in the second half of 2025. It also announced its fifth generation AMD EPYC™ server CPU chip. These commercialization milestones and the company's third-quarter results were in line with expectations. We suspect the weak stock performance in the quarter may have been attributable to the absence of new, hyperscale cloud-provider partnership announcements. We continue to have a favorable view of AMD's potential to experience strong revenue growth in the data center AI accelerator market over the medium term.

### **Applied Materials (AMAT):**

Shares of Applied Materials continued to experience volatility after we used that very same volatility to initiate a position in September. The near-term sentiment is largely being driven by concerns around trading tensions and the general weakening of demand in China, which accounted for 37% of sales in fiscal 2024, up from 30% in recent years. However, we continue to have confidence in the long-term drivers of demand for Applied's equipment used to manufacture semiconductors. These include increasingly complex chip architectures that require more steps in the manufacturing process at each successive node, increasing chip content across industrial, communications, automotive, power, and sensor end markets, global initiatives to re-shore/onshore semiconductor manufacturing, AI-related demand for leading-edge logic and memory chips, and increasing demand for Applied Global Services, which maintains the ever-growing installed base of equipment at customer sites.

# Portfolio Activity

## Initiated: Advanced Micro Devices and Thermo Fisher Scientific

### Advanced Micro Devices (AMD):

AMD is a top five global fabless semiconductor design company with key positions in data centers, PCs and laptops, gaming consoles, and embedded chips in various consumer and industrial products. Importantly, the management team at AMD, led by CEO Lisa Su, is first-rate. Throughout the 2010s, they focused on AMD's core competencies in high-performance computing, leading to AMD gaining more than 30% market share in the data center CPU market, including the achievement of a share greater than 50% with hyperscale customers. We think there's more share for AMD to gain with the company's promising start in the general-purpose GPU market. Nvidia dominates that market today, but customers are looking for a solid second source to reduce this reliance. AMD's commercial GPUs are known to have a strong total-cost-of-ownership value proposition due to their good energy efficiency and high memory capacity. We believe many semiconductor investors focus on what will happen over the next 1-2 quarters; in contrast, we are looking at what looks probable over the next several years. We assess that AMD has great assets, a sound strategic roadmap, and the potential to drive meaningful share gains over a multi-year time horizon. While only a small weight, AMD joins other holdings in our portfolio, such as Arista Networks, Analog Devices, and Applied Materials, to form a compilation of leading companies exposed to the burgeoning AI infrastructure market.

### Thermo Fisher Scientific (TMO):

Thermo Fisher Scientific is a leading purveyor of life science tools, supplies, and services to global pharmaceutical, biotechnology, academic, government, health care, and industrial customers. The business has evolved from being a distributor of lab supplies to an engine driving innovation for customers' R&D efforts, a dynamic that has helped revenues and EPS grow at a 13% and 15% annualized rate over the past decade, respectively. The industry typically grows at a rate equal to or greater than global GDP growth and with less cyclicity than the broader economy. Shares came under pressure during the quarter on rising tensions with U.S. trading partners, particularly China, and fears of domestic policy changes that may put a chill on drug development, particularly regarding vaccines. Our view is that demand for new therapies will persist despite the potential impact of such policies – which may or may not come to pass – driving demand for Thermo's tools, consumables, and services.

## Exited: Las Vegas Sands

### Las Vegas Sands (LVS):

Las Vegas Sands is well on its way to recovering from the COVID-related travel moratoriums that persisted in China long past much of the rest of the world. LVS's properties in Macao are also benefiting from increasing visitation and the company's leading market share in "premium mass" gamblers, although the recovery has been slowed by China's broader economic weakness and renovations at a significant property in Macao. Despite this economic malaise in their largest market, shares appreciated by 36% in the month following China's announcement of a substantial stimulus package to aid their ailing economy. We chose to exit the position at a valuation that better reflects the company's risk/reward.

## Outlook

Things have been good in the markets for quite some time—the S&P500 has doubled over the past five years—and this has people feeling optimistic. When people feel good and optimistic about investment prospects, the fear of missing out ("FOMO") on the next positive thing tends to weigh heavily on investors' minds. In contrast, worries about losing money or earning low returns tend to be minimized.

We observe some of this "FOMO" sentiment at work in both business fundamentals and select stocks' performance. The leading industry group of stocks in 2024 was the Semiconductor and Semiconductor Equipment Industry Group, which returned 76% in 2024<sup>3</sup>, well ahead of the broader 25% return for the S&P500 index. A driving force behind this performance has been exuberance among business leaders for the promise of what artificial intelligence (AI) might bring their businesses in the future. Thus, we have Alphabet CEO Sundar Pichai responding to a question from Barclay's analyst Ross Sandler as follows<sup>4</sup>:

*Sandler: "So looks like from the outside at least that the hyperscaler industry is going from kind of an underbuilt situation this time last year to better meeting the demand with capacity right now to potentially being overbuilt next year if these CapEx growth rates keep up. So, do you think that's a fair characterization and how are we thinking about the return on invested capital with this AI CapEx cycle?"*

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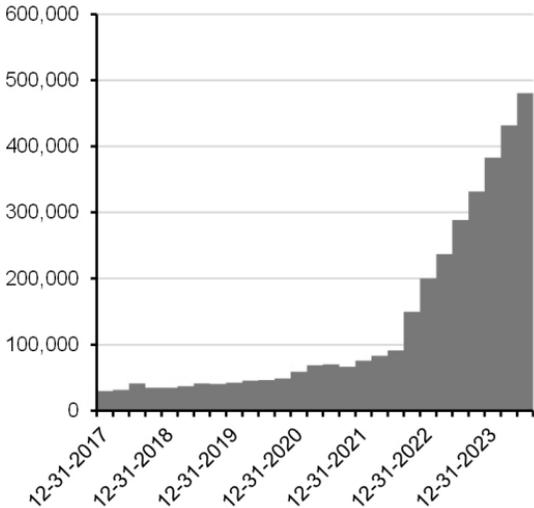
<sup>3</sup>Bloomberg's S&P500 Industry Group Index Total Returns for the period 12/29/23 to 12/31/2024.

<sup>4</sup>Alphabet's Q2 2024 Earnings Call, 07/23/24.

Pichai: "I think the one way, I think about it is when you go through a curve like this, the risk of under-investing is dramatically greater than the risk of over-investing for us here. Even in scenarios where if it turns out that we are over-investing, we -- clearly these are infrastructure which are widely useful for us. They have long, useful lives and we can abide across and we can work through that. But I think not investing to be at the frontier, I think, definitely has a much more significant downsides."

The positive sentiment and excitement for AI products are evident across the broader corporate landscape.

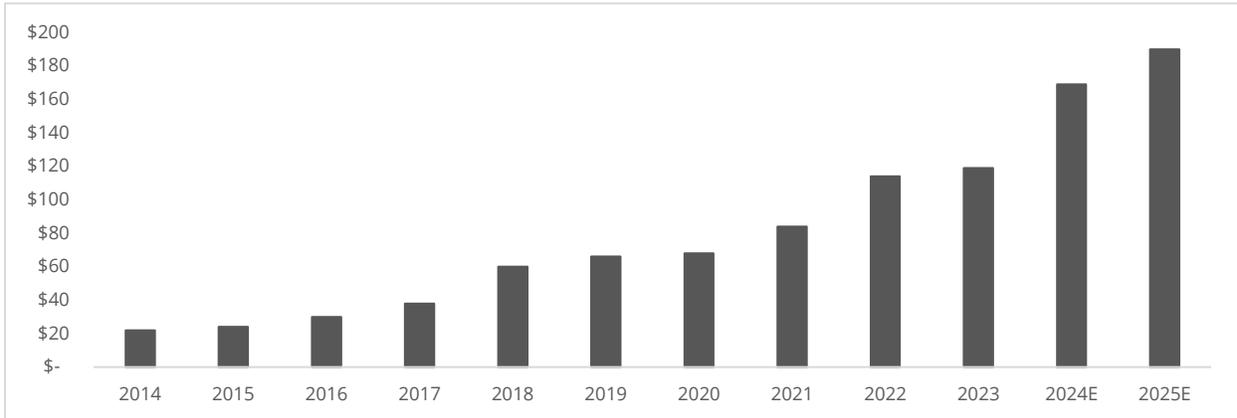
**Figure 1: The Number of AI Mentions in Corporate Communications**



Source: Bernstein. *U.S. Semis and Semicap – Everything you wanted to know about semiconductors but were afraid to ask*. 8 October 2024. p.32.

Businesses are pursuing the potential of AI, with the risks of missing out weighing much more heavily on managers' minds than the costs to participate. One can see the increased spending trend in the capital spending of the hyperscale cloud service providers, who in turn rent out their capacity to enterprises and start-ups to test and run AI models.

**Figure 2: Hyperscale Capex | Alphabet, Meta, Microsoft and Amazon AWS in Billions**



Source: Bernstein. *U.S. Semis and Semicap – Everything you wanted to know about semiconductors but were afraid to ask*. 8 October 2024. p.37.

It is this sentiment and spending that have, in turn, propelled the semiconductor businesses and stocks to new highs over the recent past. If the spending continues and the ultimate AI products bring returns that justify the massive investments, then it will have been worth it. At this stage, though, we would characterize the investment as having been spent (and planned for the near future) before the returns on investment are known and understood.

We also observed strong sentiments at play in select stocks based on the November U.S. election results. As Elon Musk has allied himself closely with incoming President Trump, Tesla stock increased from \$243 on November 4<sup>th</sup> to a high of \$480 on December 17<sup>th</sup>, nearly doubling despite no material increase to its expected earnings for 2025<sup>5</sup>.

Over the short term, sentiment can be a powerful force, and its impact can be much more dramatic than the steady advance of long-term earnings power that fundamental investors like us rely on to underpin our portfolio of equity investments. However, we observe that sentiment can be a double-edged sword, one that can cut deeply if reality is less exciting than the previously imagined future.

We don't at all deny the potential of AI innovation. In fact, we have a healthy proportion of holdings involved with and benefitting from the trends discussed above, and we're just as amazed as any at some of the innovations. It is estimated that AI accelerator semiconductor chips will add hundreds of billions of dollars to semiconductor industry revenues over the next several years, and we feel confident that interesting and useful digital products will

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<sup>5</sup>Tesla's 2025 expected earnings estimates were \$3.24 on 10/31/24, and they were \$3.25 on 12/31/24 per Bloomberg.

continue to evolve to add to worker productivity, sharpen forecasts, help to smooth out human behavioral biases, enhance life science research, and much more.

However, we feel that astute investors should consider multiple potential scenarios and assign probabilities of those scenarios playing out. We are now contemplating that things could soon start to move from the “get in at all costs” phase evinced by the Alphabet CEO’s comments above to a phase where the focus turns to the ultimate economics of the AI products where businesses will increasingly demand a minimum return on investment for money committed. They always have. In our valuation forecasts, we are thinking beyond 2025, which we view not as a destination, but a step over a 5–10-year forecast horizon. As such, in 2024 we found ourselves trimming several of our holdings that had appreciated strongly and had experienced valuation multiple expansion based on the promise of future AI profits that went beyond what we felt reasonable in our base case scenarios. This led to a rebalancing in our portfolio in the second half of 2024 that included new purchases Universal Music Group, Fiserv, Applied Materials, Advanced Micro Devices, and Thermo Fisher Scientific, and the retention and increase of Amentum Holdings, which was spun out from Jacobs Solutions. This is a diverse group of businesses - the primary value propositions for two-thirds of the names are focused outside of the AI arena. In these new investments, we felt like the probability of earnings compounding over the years was strong and that the stock prices were opportunistic in relation to our value estimates.

We believe the portfolio enters 2025 differentiated from the S&P500, where there appears to us to be material concentration among stocks that have been beneficiaries of AI enthusiasm. By contrast, our stock-by-stock valuation work for the Kovitz Core Equity portfolio results in a portfolio with a material underweight in the Information Technology Sector and a material overweight in the Financial Sector, where we see stronger risk-reward potential.

Our Guided by Value motto represents an investment philosophy with a thoughtful and deliberate approach to valuation as a guiding principle for making investment decisions. In 2024, we continued to think probabilistically and long-term about the economics of our opportunity set and our holdings. The actions we undertook were based on the belief that the decisions improved the compounding potential relative to the risk assumed for the portfolio looking forward. We will continue to stick to this disciplined, thoughtful, long-term approach throughout 2025 and beyond as we endeavor to outperform the broader stock market.

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We would like to acknowledge that this is the first Kovitz Core Equity letter in over 25 years that was not authored by Kovitz's founding partner, Jon Shapiro. Jon wrote some of the most insightful and eloquent investment letters in the industry, always grounding them in the timeless themes of value investing. His writing reminded readers of the key principles of sensible and successful investing, and many of us are better off for having paid close attention to Jon's words. We want to thank Jon for his wonderful insights over a quarter century!

## Kovitz Equity Composite

Year	Gross Return	Net Return	Benchmark Return	Internal Dispersion	Composite 3-Year SD	Benchmark 3-Year SD	# of Portfolios	Composite Assets (\$mm)	Firm Assets (\$mm)
2015	-5.82%	-6.96%	1.38%	1.31%	11.36%	10.47%	238	287.3	2,703
2016	20.90%	19.49%	11.96%	2.10%	12.85%	10.59%	203	256.2	2,695
2017	17.81%	16.43%	21.83%	1.79%	12.28%	9.92%	219	314.7	3,139
2018	-9.97%	-11.09%	-4.38%	1.44%	12.86%	10.80%	211	265.1	3,674
2019	27.83%	26.32%	31.49%	2.45%	13.99%	11.93%	195	323.9	5,061
2020	16.14%	14.81%	18.40%	2.11%	22.33%	18.53%	184	353.5	5,990
2021	30.15%	28.88%	28.71%	2.03%	21.36%	17.17%	212	474.7	7,465
2022	-21.80%	-22.59%	-18.11%	0.89%	23.60%	20.87%	72	341.8	6,767
2023	28.02%	26.77%	26.29%	1.19%	18.19%	17.29%	56	1,121.4	7,684
2024	21.07%	19.89%	25.01%	0.53%	17.69%	17.15%	50	1,452.1	8,090

## Disclosures

Fees: Gross-of-fees composite returns incorporate the effects of all realized and unrealized gains and losses and the receipt, though not necessarily the direct reinvestment, of all dividends and income. Gross-of-fees returns are presented before management fees, but after all trading expenses. From inception through December 31, 2020 and after July 1, 2024, the Beginning Value Method (BVM) method was used to calculate returns. From January 1, 2021 through June 30, 2023, the Average Capital Base (ACB) method is used. Beginning on October 1, 2020, the net-of-fees returns are calculated by deducting model investment management fees, which are defined as the highest, generally applicable fees for the strategy of 1.00% of all composite assets. Prior to that, generally applicable fees were 1.25% for equity assets and 0.50% for cash assets. The firm's current management fee schedule is as follows: 1.25% on assets below \$1 million, 1.0% per annum for assets from \$1 million to \$5 million, 0.85% per annum on assets from \$5 million to \$10 million, 0.75% per annum for assets from \$10 million to \$20 million, 0.65% per annum for assets from \$20 million to \$35 million, 0.55% per annum for assets from \$35 million to \$50 million, and 0.50% per annum for assets over \$50 million. Such fees are negotiable. Where applicable, the total bundled or wrap fee charged to each portfolio is dependent on the end client's financial advisor and wrap sponsor. The composite includes accounts that do not pay trading fees.

Prior to January 1, 2010, the Composite included the performance of assets that had been "carved out" of multiple asset class portfolios. When calculating performance, a hypothetical cash balance for each month was allocated to the carve-out on a pro-rata basis relative to the portion of each portfolio's assets that comprised the carved-out asset class. Beginning January 1, 2010, changes in the GIPS standards caused the Composite to be redefined and all carve-outs to be removed from the Composite. Carve-outs formerly included in the Composite continue to be managed in the same manner as they were before being removed from the Composite.

Definition of The Firm: Kovitz Investment Group Partners, LLC (Kovitz) is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 that provides investment management services to individual and institutional clients. From October 1, 2003, to December 31, 2015, the Firm was defined as Kovitz Investment Group, LLC. Effective January 1, 2016, Kovitz Investment Group, LLC underwent an organizational change and all persons responsible for portfolio management became employees of Kovitz. From January 1, 1997, to September 30, 2003, all persons responsible for portfolio management comprised the Kovitz Group, an independent division of Rothschild Investment Corp (Rothschild).

Composite Definition: The Kovitz Equity Composite includes all fee-paying, discretionary portfolios managed to the Kovitz Core Equity strategy. The Kovitz Core Equity strategy utilizes a private owner mentality to purchase equity securities issued by companies with durable competitive advantages and strong balance sheets that are trading at a significant discount to their intrinsic value. The goal of this strategy is to maximize long-term total return. The Composite's inception date is January 1, 1997. The Composite was created on January 1, 2001. Effective January 1, 2000, the Composite no longer included portfolios managed by a manager who made a change in investment style. The persons currently responsible for managing Composite portfolios have been primarily responsible for portfolio management throughout the entire period shown. The minimum portfolio size to be included in the Composite is \$250,000 until December 31, 2021. Thereafter, the strategy minimum was raised to \$1 million. Portfolios in the Composite may occasionally make use of leverage and/or derivatives, but such use does not have a material effect on Composite performance. The use of derivatives is generally limited to covered call writing, and uncovered option writing is never used.

The benchmark for the Composite is the S&P 500 Index. The S&P 500 Index is composed of 500 leading companies in the United States, covers approximately 75% of the market capitalization of U.S. equities, and serves as a proxy for the total market. The S&P 500 Index returns do not include the effect of transaction costs or fees and assume reinvestment of dividends into the index.

GIPS: Kovitz Investment Group Partners, LLC (Kovitz) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Kovitz has been independently verified for the periods January 1, 1997 through December 31, 2023. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The firm maintains a complete list and descriptions of composites, limited distribution pooled funds and broad distribution pooled funds, which is available upon request.

Valuations are computed and performance is reported in U.S. dollars. The measure of internal dispersion presented above is an asset-weighted standard deviation. The three-year standard deviation presented above is calculated using monthly net-of-fees returns. The three-year standard deviation is not presented when returns of less than 36 months are available. The risk measures, unless otherwise noted, are calculated gross of fees. A complete listing of composite descriptions and policies for valuing portfolios, calculating performance, and preparing GIPS reports are available on request. The composite includes accounts that do not pay trading fees.

The description of products, services, and performance results of Kovitz contained herein is not an offering or a solicitation of any kind. Past performance is not an indication of future results. Securities investments are subject to risk and may lose value.