# Gilead Fund Commentary

June 30, 2023

**AT A GLANCE**

**Managers:** Dr. Finny Kuruvilla, Anant Goel

**Fund Objective:** Seeks to provide long-term capital appreciation.

**About the Fund:** A diversified mutual fund representing our "best ideas" for long-term capital appreciation. Historical emphases in small- and mid-cap growth, Health Care and Information Technology.

**Benchmark:** Russell Midcap Growth Index

**Secondary Benchmark:** S&P 500 Total Return Index

**Morningstar Category:** US Fund Mid-Cap Growth

**Lipper Category:** Mid-Cap Growth

**Net Assets:** $3.77 billion

**Inception Date:** July 8, 2008

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**Class I: ETILX | Class A: ETAGX | Class C: ETCGX | Class N: ETGLX**

## Review

The Eventide Gilead Fund (Class I)[1] posted a total return of 8.15% for Q2 2023, compared with the 6.23% gain of the Russell Midcap® Growth Index and the 8.74% return for S&P 500®. For the trailing 12-months ended 6/30/23, the Fund (Class I) gained 16.00% while the Russell Midcap Growth Index returned 23.13% and the S&P 500, 19.59%. Among GICS® sectors, holdings in Health Care and Consumer Discretionary contributed most to Fund outperformance. Selections in Communication Services also helped. Detractions derived largely to Fund allocations in aggregate, with no particular sector weighting standing out.

## Contributors

Our ownership of Palo Alto Networks just passed the 10-year threshold, and we were glad to see it among the Fund's top contributors. The company is a leader in cybersecurity and leverages AI to anticipate and defend networks and devices faster and better than any human could. This past quarter, the company displayed strong execution in a tough macro environment and benefited from platform consolidation in the industry. The stock was added to the S&P 500 in June, leading to widespread adoption into investor portfolios.

Another of our long-term favorites, Guardant Health, benefited from broad momentum among undervalued-growth stocks but also reported strong Q1 revenue results. In addition, the firm's Guardant360 liquid biopsy test was added to plan coverage by several major health insurance providers.

We find Guardant fascinating. The firm focuses on high-tech medical diagnostics, helping physicians screen for cancer, guide therapy selection, and monitor for recurrence. We think Guardant is a good example of a growth company penalized for its long duration (the length of time until shareholders receive cash flows), with investors until recently overlooking its continued growth and increasing coverage by major health plans. We expect the market to force Guardent's' value closer to where we believe to be fair value.

Exact Sciences benefited from strong growth-stock momentum, but also enjoyed better-than-expected Q1 profitability amid increasing adoption of its non-invasive Cologuard cancer screening test. Global-e Online posted greater than 50% year-over-year revenue growth with improving profitability in a challenged e-commerce landscape. Xometry, is the leading AI-enabled industrial parts marketplace and offers manufacture-on-demand. This past quarter, the company outperformed investors' low expectations with stronger-than-expected earnings, profitability, and marketplace growth, something we needed to see after two quarters of mis-execution.

**Top Five Contributors[2] (%)** Q2 2023

| *Company* | *Ticker* | *Sector* | *Average Weight* | *Contribution to Return* | *Total Return[3]* |
|---|---|---|---|---|---|
| Palo Alto Networks Inc | PANW | Information Technology | 3.93 | 1.05 | 27.92 |
| Guardant Health Inc | GH | Health Care | 2.17 | 1.03 | 52.73 |
| Exact Sciences Corp | EXAS | Health Care | 2.22 | 0.77 | 38.48 |
| Global-e Online Ltd | GLBE | Consumer Discretionary | 2.21 | 0.57 | 27.02 |
| Xometry Inc | XMTR | Industrials | 1.38 | 0.52 | 41.48 |

## Detractors

Aptiv reported better-than-expected revenue and earnings but made no change to its earlier, lower-than-expected guidance. This, plus continued cost headwinds, weighed on Aptiv's results. Ascendis Pharma was hit with an FDA letter rejecting approval of the company's hypoparathyroidism treatment. We note that the FDA's concern focused on the drug's manufacturing rather than its safety or efficacy. Sprout Social missed buy-side earnings expectations following implementation of a new (higher) pricing strategy at the same time companies are cutting marketing budgets. While dLocal's execution has been strong, the company has been subject, we think unfairly, to external short-seller reports, which pressured the stock. Despite positive earnings and revenue surprises, Mettler-Toledo International declined amid economic uncertainty and concern over slowing demand from its customers in the biopharma and packaged-foods industries.

***Performance is historical and does not guarantee future results.***

**Top Five Detractors[2] (%)** **Q2 2023**

| Company | Ticker | Sector | Average Weight | Contribution to Return | Total Return[3] |
|---|---|---|---|---|---|
| Aptiv PLC | APTV | Consumer Discretionary | 2.00 | -0.23 | -9.00 |
| Ascendis Pharma A/S | ASND | Health Care | 0.88 | -0.29 | -16.76 |
| Sprout Social Inc | SPT | Information Technology | 1.25 | -0.39 | -24.18 |
| dLocal Ltd | DLO | Financials | 1.57 | -0.46 | -24.75 |
| Mettler Toledo | MTD | Health Care | 4.25 | -0.72 | -14.28 |

## Macro Commentary and Outlook

The Federal Reserve appears to be making headway in its inflation fight, affirmed by falling CPI numbers, signs of supply-chain recovery, subsiding commodity prices, and cooling in the housing market. Nevertheless, on May 3, in its tenth rate-hike of the past 15 months, the Fed raised the federal funds target range another quarter point—so now at 5% to 5.25%, pushing the prime rate to 8.25% and 30-year mortgages to 20-year highs. Then the Fed hinted at a pause (or a "skip,"" in Fed-speak). Whether or when the Fed may yet again hike, pause, pivot, or cut the policy rate has become a debate leading to some heated exchanges: Stocks have gone (more) bullish; bonds have gone (more) bearish. We'll note that both bond markets and the Fed's own dot plot predict lower interest rates in the next two to five years.

We like an environment of debate, and we think it's a great time to be an active investor. Recession fears and worry over interest rates being held "higher for longer" had hurt growth broadly and led to a "flight to size." The top five stocks in the S&P 500 account for roughly 25% of total market cap, leading to most of the returns coming from only a few stocks. Capital flowing to mega-cap stocks—the bulk of them effectively in the technology sector—has left other sectors and stocks undervalued.

We believe that receding recession fears have made an attractive setup for small and mid-cap (SMID) stocks. Companies have "battened down the hatches" in preparation for the oft-discussed recession. We believe this offers an opportunity to own high-quality, innovative companies trading below their intrinsic value. We expect to see market sentiment growing more enthusiastic about "growthier" stocks in the mid-cap range as the environment normalizes. We already have been seeing favorable trends in cleantech, EVs and, of course, artificial intelligence.

We, too—despite expectations of continued uncertainty and volatility in the markets—have been finding what we consider compelling opportunities at attractive valuations, particularly in the mid-cap equity space. Why mid-caps? Partly because we believe the most well-known indexes—large-cap indexes—are exposing passive investors to what we consider concentration risk in terms of both stocks and sectors. As of June 30, just five stocks—and all five effectively in the same industry—account for a full 25% of the total market capitalization of the large-cap, broad-market S&P 500. Indeed, a graphic of their relative scale leaves well-known companies like AT&T, Citi, Target, GE lost in the crowd. This level of capital concentration can obscure the opportunities available elsewhere in the market, particularly further down the size spectrum.

We maintain an ownership mindset, and our long-term philosophy, process, and performance remain strong. Interest-rate sensitivity may—or may not—present near-term challenges for certain sectors, but our experience underpins our confidence that high-quality companies will continue to serve their customers, stakeholders, and shareholders well. We are focusing on resilient growth, strong financials, and idiosyncratic risk and, as ever, themes of human flourishing.

**Trailing Returns[4] (%)** **30 Jun 2023**

| Eventide Gilead Fund | YTD | 3-mos | 1-year | 3-year[5] | 5-year[5] | 10-year[5] | Since Inception[5] | Inception Date[5] |
|---|---|---|---|---|---|---|---|---|
| Class I | 17.56 | 8.15 | 16.00 | 5.44 | 9.83 | 12.92 | 14.08 | 02/02/2010 |
| Class A without load | 17.42 | 8.09 | 15.73 | 5.19 | 9.57 | 12.65 | 15.00 | 10/28/2009 |
| Class A with 5.75% load[6] | 10.67 | 1.86 | 9.08 | 3.14 | 8.27 | 11.99 | 14.50 | 10/28/2009 |
| Class C[7] | 16.98 | 7.91 | 14.87 | 4.38 | 8.73 | 11.79 | 14.12 | 10/28/2009 |
| Class N | 17.45 | 8.12 | 15.77 | 5.23 | 9.61 | 12.69 | 13.44 | 07/08/2008 |
| *Benchmarks* | | | | | | | | |
| Russell Midcap Growth Index[8] | 15.94 | 6.23 | 23.13 | 7.63 | 9.71 | 11.53 | 10.46 | 07/08/2008 |
| S&P 500 Total Return Index[8] | 16.89 | 8.74 | 19.59 | 14.60 | 12.31 | 12.86 | 10.93 | 07/08/2008 |

***Performance is historical and does not guarantee future results. Investment return and principal value will fluctuate with changing market conditions so that when redeemed, shares may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. Investors cannot directly invest in an index, and unmanaged index returns do not reflect any fees, expenses, or sales charges. The volatility of an index may be materially different than that of the Fund, and investors should not expect the Fund to achieve the same results as a listed index. Performance data current to the most recent month-end may be obtained by calling 1-877-771-EVEN (3836).***

*Eventide Gilead Fund expenses: Class I, Gross Expenses 1.11%, Net Expenses 1.11%; Class A, Gross Expenses 1.36%, Net Expenses 1.36%; Class C, Gross Expenses 2.11%, Net Expenses 2.11%; Class N, Gross Expenses 1.31%, Net Expenses 1.31%.*

1. Prior to Q4 2020, Class N shares were displayed.
2. Source: Bloomberg PORT Attribution Report. Allocation percentages are subject to change at any time, and should not be considered investment advice.
3. The total return percentage listed is impacted by the Fund's transactions and transacted price levels of the holding during the quarter.
4. The returns shown do not reflect the deduction of taxes that a shareholder would pay on fund distributions or on the redemption of fund shares. Because of ongoing market volatility, fund performance may be subject to substantial short-term changes.
5. Performance figures for periods greater than 1 year are annualized. The indices use an inception date of 07/08/2008.
6. In the case of investments at or above the $1 million breakpoint (where you do not pay an initial sales charge), a 1.00% contingent deferred sales charge ("CDSC") may be assessed on shares redeemed within eighteen months of purchase. The CDSC for these Class A shares is based on the NAV at the time of purchase. The holding period for the CDSC begins on the day you buy your shares. Some intermediaries may waive or discount the CDSC under certain circumstances.
7. A 1.00% contingent deferred sales charge ("CDSC") may be assessed on C-shares redeemed within twelve months of purchase.
8. The Russell Midcap Growth Index measures the performance of the U.S. equity mid-cap growth segment. The S&P 500 is an index created by Standard & Poor's of American stocks with the largest market capitalization. On 04/01/2023 the Fund's primary benchmark to compare its performance changed from the S&P 500 Total Return Index to the Russell Midcap Growth Index because the Fund's Adviser believes it is more reflective of the Fund's portfolio.

*The opinions expressed herein are those of the Fund's portfolio management team as of 06/30/2023 and are subject to change. There is no guarantee that such views are correct or that the outlook opinions will come to pass. Specific companies mentioned are for performance attribution informational purposes only and should not be construed as buy or sell advice. Reliance upon the views expressed herein is at the sole discretion of the reader.*

***Mutual funds involve risk including the possible loss of principal. Past performance does not guarantee future results.*** *The Fund's ethical values screening criteria could cause it to under-perform similar funds that do not have such screening criteria. The Fund can invest in smaller-sized companies which may experience higher failure rates than larger companies and normally have a lower trading volume than larger companies. The Fund can have risk associated with the biotechnology and pharmaceutical industry in which these companies may be heavily dependent on clinical trials with uncertain outcomes and decisions made by the U.S. Food and Drug Administration. Companies in the technology industries have different risks including but not limited to products becoming obsolete, and entrance of competing products. Companies in the Industrial Sector carry various risks including, but not limited to, risk related to debt loads, intense competition, and sensitivity to economic cycles. The Fund can have risk related to option investing. There are special risks associated with investments in foreign companies including exposure to currency fluctuations, less efficient trading markets, political instability and differing auditing and legal standards. The Fund can invest in private companies. Private investments include various risks including but not limited to lack of liquidity, capital commitment risk, and valuation risk. Private companies may not be financially profitable and have uncertain futures, subjecting them to additional risks.*

***This information is for use with concurrent or prior delivery of a fund prospectus, which can be obtained at https://www.eventidefunds.com/prospectus or by calling 1-877-771-EVEN (3836). Investors should consider a fund's investment objectives, risks, charges and expenses carefully before investing or sending money. Eventide Mutual Funds are distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC, which is not affiliated with Eventide Asset Management, LLC.***