

EDGEWOOD  
MANAGEMENT LLC

## View from Edgewood

1Q 2017 COMMENTARY

In the first quarter of 2017 the Edgewood Large Cap Growth Composite was up 13.4% net of fees, compared to 8.5% for the S&P500 Growth Index and 6.1% for the S&P500 Total Return Index.

There is an old Wall Street adage that advises to “buy on rumor and sell on news”. This turned out to be quite prophetic in the US stock market in the last two quarters. In the fourth quarter of 2016, the “Trump Rally” favored mostly rust-belt America plays; such sectors as energy, financials, materials, infrastructure, prisons and construction. It largely bypassed the industries of the future, such as biotechnology and technology. The reasons for this selective rally were fairly logical. They were driven by the euphoria of a solid Republican majority in Congress, coupled with a belief that the new President would be able to follow through on his repeated and clearly stated campaign promises. Investors bought on rumor, anticipating it to come to fruition in short order.

Fast forward a few months to the first quarter of 2017 and investors seem to have digested the news, and have a new appreciation for the complexity of governing a democratic nation. It seems that the Republican Party is not one monolithic voting bloc, and in fact it seems to have fractured somewhat.

As a result, the hoped for prospects of enacting quick passage of both a healthcare plan and also a growth stimulating fiscal package seem distant and diluted compared to their originally proposed forms. With all of this going on it was even more positive that the stock market, with occasional hiccups, maintained its low volatility upward trajectory, just as it has most of the last eight years after the market’s bottom in March of 2009. In fact this was the least volatile quarter for the S&P 500 since the third quarter of 1967.

The U.S. economy continues to chug along at a stately, although less than inspiring, real GDP growth rate in the range of +1-3% per year. This has largely been the pattern since the 2008/9 crisis. This sluggish expansion, as well as the lack of concrete legislation so far to bolster the “Trump Rally” sectors has very much accrued in favor of the less cyclical high quality growth businesses this quarter. Going forward, we remain of the opinion that U.S. domestic economic growth will proceed slow and steady unless we see the passage of a stimulative fiscal package.

If passed, this would help offset the slowing influence of an increasing Fed funds rate. The Federal Reserve raised this rate in March after raising it in December, and seemed to indicate that at least two more increases were coming this year. The employment numbers from the Labor Department have been very strong in the first two months of the year, which adds credence to the possibility that this is the year of relatively aggressive Fed rate increases.

In the quarter there were no additions or subtractions of full stock positions, but there were several trades reallocating capital.

Our goal at Edgewood Management is to deliver clients sustainable long-term performance by investing in companies Edgewood considers to be high-quality growth companies.

## FIRM OVERVIEW

Founded	1974
Employees	36
Total Assets	\$18.2 Billion (as of 3/31/2017)
Ownership	100% Employee Owned
Investment Strategy	Large Cap Growth Equity
Separate Account	\$5 Million Minimum*

\*Please refer to Edgewood's Form ADV Part 2A and 2B Brochure regarding account minimums.

## PORTFOLIO MANAGEMENT

ALAN W. BREED President & Portfolio Manager Years of Experience.....	33yrs
LAWRENCE G. CREEL Partner & Portfolio Manager Years of Experience.....	31yrs
ALEXANDER M. FARMAN-FARMAIAN Partner, Vice Chairman & Portfolio Manager Years of Experience.....	29yrs
PETER JENNISON Partner & Portfolio Manager Years of Experience.....	31yrs
KEVIN R. SETH Partner & Portfolio Manager Years of Experience.....	34yrs
NICHOLAS A. STEPHENS, CFA Partner & Portfolio Manager Years of Experience.....	32yrs

## INVESTMENT APPROACH

Edgewood's Large Cap Growth Equity strategy pursues long-term capital growth through a portfolio of 22 stocks of large-sized companies that are distinguished by their financial strength, levels of profitability, strong management, and an ability to deliver long-term earnings power. Our goal is to purchase companies that trade at discounts to their fair value and believe that, over time, the stock prices of high-quality companies will rise to reflect the true value of the underlying company. The Large Cap Growth Equity strategy's performance is typically benchmarked against the S&P 500 Index over a full-market cycle.

## INVESTMENT PROCESS HIGHLIGHTS

Edgewood's Large Cap Growth Equity strategy pursues a bottom-up investment process to construct a portfolio of U.S. large-cap growth companies. The investment team looks for potential investments across the economy where it can find growth irrespective of the sector or industry.

Edgewood's investment process focuses on two distinct areas:

**Stock Selection** – The team's investment process begins by identifying companies that are distinguished by their financial strength, levels of profitability, strong management, and an ability to deliver long-term earnings power. The team searches for companies that are well positioned for long-term growth, driven by demand for their products and services, trading at discounts to their fair value, and are at an early stage in their profit cycle to benefit from the increased cash flows produced by the profit cycle.

**Capital Allocation** – Based on the investment team's fundamental analysis of a company's profit cycle and using a five-year discount to present value model, portfolio holdings evolve through three phases: Phase One investments are in the early part of their profit cycle and will warrant a more sizeable weighting once their profit cycle begins to grow; Phase Two investments are companies that are being increased to a larger weighting due to the relative attractiveness of their valuation which are moving through the strongest part of their profit cycle; and Phase Three investments are companies that are being reduced to a lesser weighting because they are nearing the team's estimate of full valuation or their profit cycle has begun to deteriorate.

## MARKET CAP DISTRIBUTION AS OF 3/31/2017\*

MARKET CAP (IN BILLIONS)	EDGEWOOD (%)**	COMPANIES (#)
Less than \$20	8%	2
\$20-\$40	25	6
\$40-\$75	24	6
\$75-\$125	20	4
\$125+	22	4

\*Rounded to the nearest percentage

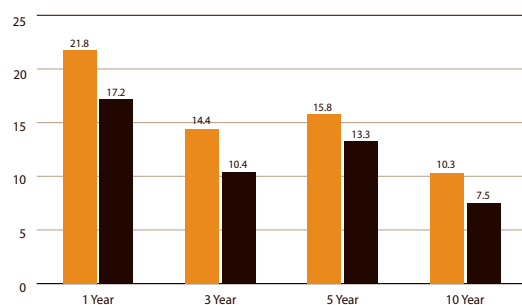
\*\*For the equity portion of the portfolio

## FIVE LARGEST HOLDINGS AS OF 3/31/2017\*

Amazon.com Inc.	The Priceline Group Inc.
Celgene Corp.	Visa Inc.
Illumina Inc.	

\*The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified were or will be profitable

## NET LARGE CAP GROWTH COMPOSITE RETURNS (%) AS OF 3/31/2017



■ Edgewood Large Cap Growth Composite ■ S&P 500 (TR)

Performance is rounded to the nearest tenth. Returns are net of management fees. Returns shown here are annualized. Past performance does not guarantee future results.

## PORTFOLIO CHARACTERISTICS AS OF 3/31/2017\*

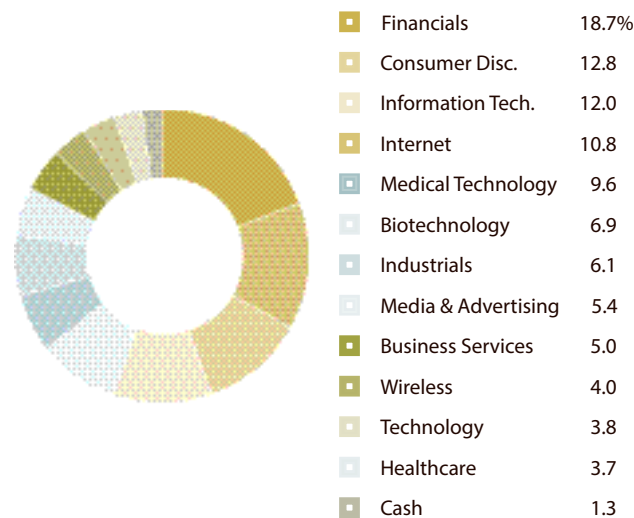
	EDGEWOOD	S&P 500	COMMENTS
Market Cap Mean (Billions)	\$128bn	\$44bn	Focused on Growth
Number of Holdings	22**	505	Concentrated Portfolio
Most Recent Quarter YoY EPS Growth	25%^	6%	Focused on Earnings Growth
Sales Growth (3 Years Historical)	18%	2%	Focused on Revenue Growth
LT EPS Growth***	15%	7%	Earnings Outlook

\*All portfolio characteristics produced by Bloomberg and are rounded to the nearest percentage.

^Edgewood's calculation using (i) Adjusted Funds from operations per share figures for American Tower and Equinix's EPS figures as we believe they are the most relevant valuation metric and (ii) Netflix's YoY EPS Growth is excluded from the portfolio average as we feel that it artificially inflates the average growth rate of the portfolio.

\*\*\*Bloomberg estimates using the weighted average calculation methodology for Edgewood and the index fundamental value methodology for the S&P 500.

## SECTOR DIVERSIFICATION AS OF 3/31/2017\*



\*Sectors defined by Edgewood's Investment Committee and are rounded to the nearest tenth.

## Edgewood Management LLC Disclosures - 1Q 2017

No recommendation is made, positive or otherwise, regarding individual securities mentioned. Past performance does not guarantee future results. The performance figures include the reinvestment of dividends. The specific securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. A list of all recommendations during the preceding period of not less than one year will be provided upon request, free of charge and include (1) the name of each security recommended; (2) the date and nature of each recommendation; (3) the market price at the time of the recommendation; (4) the price of the security when the recommendation was to be acted upon; (5) the market price of each such security at the most recent practicable date and (6) a disclaimer stating it should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities on the list.

### EDGEWOOD MANAGEMENT LLC: LARGE CAP GROWTH COMPOSITE (Ending March 31, 2017)

	1 YEAR	3 YEAR ANNUALIZED	5 YEAR ANNUALIZED
Edgewood Large Cap Growth Composite	21.80%	14.41%	15.81%
S&P 500 (TR) Index	17.17%	10.37%	13.30%
Russell 1000 Growth Index	15.76%	11.27%	13.32%

*Note: Returns are shown in U.S. dollars. Composite returns are net of fees.*

Edgewood Management LLC is a registered investment adviser specializing in growth oriented investment management. The Edgewood Large Cap Growth Composite is comprised of individual and institutional accounts that invest in Edgewood's portfolio of 22 large capitalization growth companies chosen by using fundamental analysis and an internal valuation discipline. The composite returns are benchmarked to the Standard & Poor's 500 Index ("S&P 500") and the Russell 1000 Growth Index ("R1000 Growth"). The S&P 500 is an unmanaged index with no expenses which covers 500 industrial, utility, transportation and financial companies of US markets. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The R1000 Growth measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates and dividends are reinvested.

Edgewood Management LLC claims compliance with the Global Investment Performance Standards (GIPS®). Past performance is no guarantee of future results. Performance results reflect the reinvestment of dividends and other earnings. Performance results are expressed and calculated in U.S. dollars. To receive a list of composite descriptions of Edgewood Management LLC and/or a presentation that complies with the GIPS standards, contact Kitty McBride at 212-652-9100, or write to Edgewood Management LLC, 535 Madison Avenue, 15th Fl., New York, NY 10022 or [KMcbride@Edgewood.com](mailto:KMcbride@Edgewood.com).

#### CONTACT US

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