

EDGEWOOD  
MANAGEMENT LLC

## View from Edgewood

3Q 2018 COMMENTARY

The Edgewood Large Cap Growth composite gained 6.5% (net-of-fees) in the third quarter and has returned 21.6% (net-of-fees) for the first nine months of the year. The S&P 500 (TR) Index returned 7.7% and 10.6% for the same periods while the S&P 500 Growth Index gained 9.3% and 17.2% respectively. Other growth stock indices such as the Russell 1000 Growth Index similarly far outpaced the S&P 500 over the first nine months of the year.

The Federal Reserve raised the Fed Funds Rate at its meeting on September 26. This was the third of four expected for the year as interest rates return to somewhat more normal levels. Despite comments coming from various parties the Fed seems intent on sticking to its four rate increases for this year; the area of uncertainty now is what happens in 2019. Inflation has crept up, but barely above the 2% target the Fed set years ago coming out of the recession. There is a good chance the Fed will choose to pre-announce fewer expected increases next year, while of course retaining the right to act as they see fit to meet their dual mandates.

Market volatility continued as interest rates crept up and news of new tariffs arrived on what seemed to be a weekly basis during the quarter. The US economy has remained strong, with both higher rates and import duties having little effect on most sectors except housing and autos, which have seen a modest retrenchment. Strong growth and low inflation even at a very low level of unemployment is an economic sweet spot that should continue for a while. Only the efforts of the Fed and politicians could change the dynamic.

The S&P 500 Index has hit new highs recently, an impressive achievement in the face of higher rates and the continuous trade war talk. We continue to see our portfolio companies report strong growth and in many cases a reaccelerating growth rate on the top and bottom lines, a very impressive achievement this late in an economic cycle. Despite the "goldilocks" nature of the economy, financial market participants have turned unusually cautious, and one could say downright bearish. An Evercore ISI report published September 28th with a proprietary survey of Institutional Managers found Bullish/Bearish sentiment at a low 20% level of bullishness, in stark contrast to the 60%+ recorded prior to the 2008 crisis. It seems this much maligned and feared bull market continues to climb a steep "wall of worry."

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	\$30.4 Billion (as of 9/30/2018)
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	35yrs
LAWRENCE G. CREEL Partner & Portfolio Manager Years of Experience	33yrs
ALEXANDER M. FARMAN-FARMAIAN Partner, Vice Chairman & Portfolio Manager Years of Experience	31yrs
PETER JENNISON Partner & Portfolio Manager Years of Experience	33yrs
KEVIN R. SETH Partner & Portfolio Manager Years of Experience	34yrs
NICHOLAS A. STEPHENS, CFA Partner & Portfolio Manager Years of Experience	34yrs

## 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<sup>1</sup> 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 9/30/2018\*

MARKET CAP (IN BILLIONS)	EDGEWOOD (%)**	COMPANIES (#)
\$20-\$40	7	2
\$40-\$75	44	10
\$75-\$125	9	2
\$125+	39	8

\*Rounded to the nearest percentage

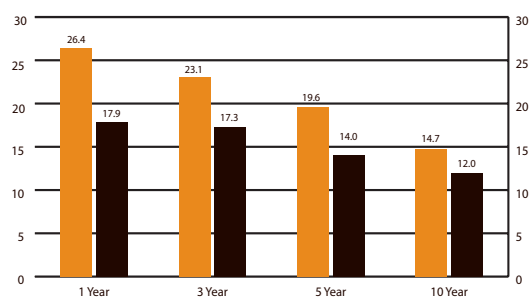
\*\*For the equity portion of the portfolio

## FIVE LARGEST HOLDINGS AS OF 9/30/2018\*

Alphabet Inc. (Class A.)	Nvidia Corp.
Amazon.com Inc.	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 9/30/2018



■ 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.

+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 returns basis with dividends reinvested.

## PORTFOLIO CHARACTERISTICS AS OF 9/30/2018

	EDGEWOOD	S&P 500 <sup>2</sup>	COMMENTS
Market Cap Mean (Billions)	\$214bn <sup>1</sup>	\$51bn <sup>2</sup>	Focused on Growth
Number of Holdings	22	505 <sup>2</sup>	Concentrated Portfolio
Most Recent Quarter YoY EPS Growth	34% <sup>3</sup>	24% <sup>1</sup>	Focused on Earnings Growth
Sales Growth <sup>1</sup> (3 Years Historical)	19%	6%	Focused on Revenue Growth
LT EPS Growth <sup>4</sup>	19%	10%	Earnings Outlook

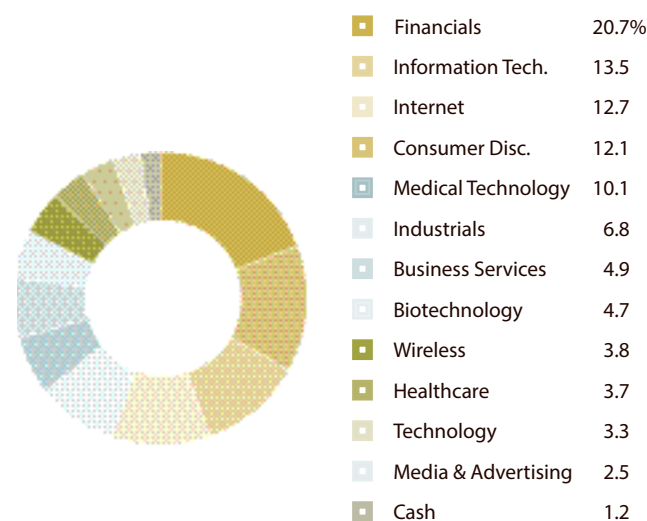
<sup>1</sup>Provided by Bloomberg and are rounded to the nearest percentage.

<sup>2</sup>Provided by S&P Dow Jones Indices. 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 returns basis with dividends reinvested.

<sup>3</sup>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.

<sup>4</sup>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 9/30/2018\*



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

## Edgewood Management LLC Disclosures - 3Q 2018

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.

The S&P 500 Growth Index is a market capitalization weighted index consisting of those stocks within the S&P 500 Index that exhibit strong growth characteristics.

### EDGEWOOD MANAGEMENT LLC: LARGE CAP GROWTH COMPOSITE (Ending September 30, 2018)

	1 YEAR	3 YEAR ANNUALIZED	5 YEAR ANNUALIZED
Edgewood Large Cap Growth Composite	26.37%	23.05%	19.64%
S&P 500 (TR) Index	17.91%	17.31%	13.95%
Russell 1000 Growth Index	26.30%	20.55%	16.58%

*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).

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