

EDGEWOOD  
MANAGEMENT LLC

## View from Edgewood

4Q 2018 COMMENTARY

The Edgewood Large Cap Growth composite declined 15.6% in the fourth quarter of 2018 while returning 2.7% for the year, both net of fees. For the same periods the S&P 500 Total Return Index declined 13.5% and 4.4%, while the S&P 500 Growth Index declined 14.7% in the fourth quarter and was flat for the year. This was easily the worst quarter for Edgewood and the markets since the fourth quarter of 2008. Unlike that period we do not believe the economy is close to falling into a recession much less a large financial crisis. 2018 proved to be a tough year for businesses globally. Economies slowed, real estate prices softened due to an excess inventory of buildings coupled with higher interest rates, and stock and commodity markets plunged.

We do feel that the economy will slow in 2019 as the stimulus caused by the 2017 tax cut fades. This slowdown was probably part of the reason for the market's fourth quarter decline. Bigger concerns center on the Federal Reserve's raising of interest rates while also shrinking its balance sheet from the \$4 trillion level it attained during the three "quantitative easings" performed after the financial crisis. This in effect takes money out of the economy while the Fed also raises the cost of borrowing. The market is concerned that an overly aggressive Fed could slow the economy too much in the face of benign inflation. Interest rate increases so far seem to have slowed some more credit sensitive parts of the economy like housing and autos.

In addition the uncertainty created by increasing trade tensions with China could come to a head this year. All are hopeful for a new deal by March; the possibility of getting one is not given a high probability. Trade issues combined with the Fed could cause more of a protracted economic slowdown if not managed correctly.

The end of 2017 tax cut helped materially boost corporate earnings this past year. We will see the full year numbers in the next few weeks, but the companies in the S&P 500 generated 24% higher profits year-over-year through the third quarter and are expected to record even higher numbers for this past quarter. One can assume that these strong earnings numbers helped mitigate what could have been an even worse stock market outcome. The Price/Earnings (P/E) ratio of the S&P 500 is down almost 30% this year, as the Index fell nearly 5% despite profits being up close to 25%.

On the one hand, the U.S. economy continues to have robust and near "full" employment, along with elevated consumer confidence. This has translated into strong consumption and retail sales. Offsetting that are the concerns we mentioned earlier, which will require careful policy management. Investors will have to be disciplined in gauging valuations and avoiding "at risk" industries that will continue to feel the effects of higher interest rates or are excessively exposed to trade tensions.

We wish you all a healthy and prosperous 2019.

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	\$25.0 Billion (as of 12/31/2018)
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	32yrs
PETER JENNISON Partner & Portfolio Manager Years of Experience	33yrs
KEVIN R. SETH Partner & Portfolio Manager Years of Experience	35yrs
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 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 12/31/2018\*

MARKET CAP (IN BILLIONS)	EDGEWOOD (%)**	COMPANIES (#)
Less than \$20	4	1
\$20-\$40	9	2
\$40-\$75	39	9
\$75-\$125	27	6
\$125+	19	4

\*Rounded to the nearest percentage

\*\*For the equity portion of the portfolio

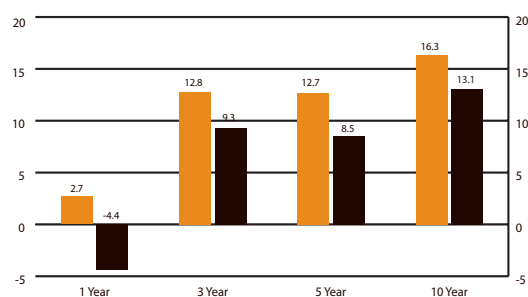
## FIVE LARGEST HOLDINGS AS OF 12/31/2018\*

Alphabet Inc.	PayPal Holdings Inc.
American Tower Corp.	Visa Inc.
CME Group 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

Portfolio holdings are shown in alphabetical order.

## NET LARGE CAP GROWTH COMPOSITE RETURNS (%) AS OF 12/31/2018



■ 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 12/31/2018

	EDGEWOOD	S&P 500 <sup>2</sup>	COMMENTS
Market Cap Mean (Billions)	\$155bn <sup>1</sup>	\$46bn <sup>1</sup>	Focused on Growth
Number of Holdings	22	505 <sup>2</sup>	Concentrated Portfolio
Most Recent Quarter YoY EPS Growth	32% <sup>3</sup>	26% <sup>1</sup>	Focused on Earnings Growth
Sales Growth <sup>1</sup> (3 Years Historical)	18%	6%	Focused on Revenue Growth
LT EPS Growth <sup>4</sup>	18%	23%	Earnings Outlook

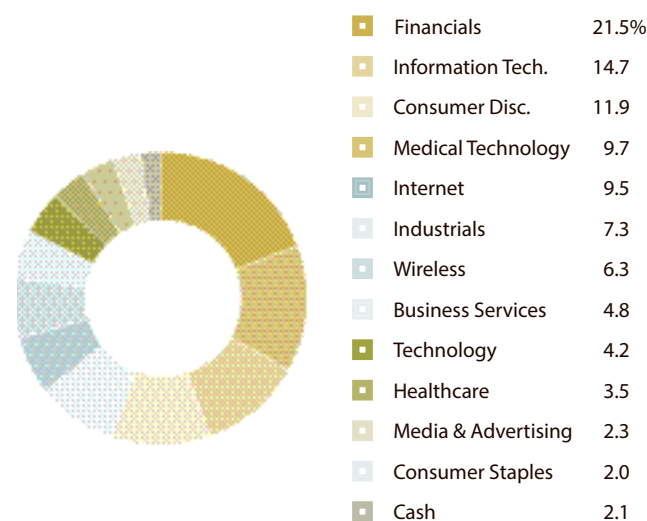
<sup>1</sup>Provided by Bloomberg and are rounded to the nearest whole number.

<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 12/31/2018\*



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

## Edgewood Management LLC Disclosures - 4Q 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 December 31, 2018)

	1 YEAR	3 YEAR ANNUALIZED	5 YEAR ANNUALIZED
Edgewood Large Cap Growth Composite	2.68%	12.80%	12.73%
S&P 500 (TR) Index	-4.38%	9.26%	8.49%
Russell 1000 Growth Index	-1.51%	11.15%	10.40%

*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. 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 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 compliant presentation, 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

JIM CARRIER

JCARRIER@EDGEWOOD.COM / 212.652.9123



**EDGEWOOD**  
MANAGEMENT LLC

535 MADISON AVENUE / 15TH FL / NEW YORK, NY 10022  
EDGEWOOD.COM / 212.652.9100