

EDGEWOOD  
MANAGEMENT LLC

## View from Edgewood

3Q 2022 COMMENTARY

The Edgewood Large Cap Growth Composite was down -9.4% in the third quarter of 2022 and has declined -45.3% for the first three quarters of the year, net of fees. In comparison, the S&P 500 Total Return Index was down -4.9% and -23.9% while the Russell 1000 Growth Index was down -3.6% and -30.7% for the same periods.

These are staggering numbers. The S&P 500 reported three consecutive quarters of decline this year which the Index has not seen since 2009<sup>(1)</sup>. In addition, almost all investment categories are down for the year. Equities have suffered all year, bonds have declined as interest rates rose, commodities including oil have declined from their highs early in the year and gold has declined 8.7% even in the face of high inflation.

After a strong +10.9% rally in portfolio performance during July that exceeded the 9.2% jump in the S&P 500 benchmark, markets returned to awful carnage. The Fed made clear it would continue to ratchet-up interest rates to tame stubborn inflation. Investors are retreating from fighting the Fed until they see inflation numbers subdued, which would portend a potential end in rate hikes.

The underlying economic and business data is mixed, but seemingly mostly headed down. They include: softening home sales and prices; a crash in construction lumber prices, going from \$1,200 in January to \$410<sup>(2)</sup> now; rapidly rising mortgage rates, with the 30-year rate more than doubling from 3% to 6.7% today. A drop in US gasoline prices from over \$5/gallon to the mid-\$3 range, as purchases dropped 5% to 9% this summer and down nearly 19% compared to pre-pandemic levels<sup>(3)</sup>, heavy retail inventory liquidations and discounts to move merchandise, and dropping PMI (purchasing manager Indices) indicators for manufacturing and services should all mean downward pressure on prices. These examples indicate a moderating trend.

That said, strong labor markets and over 5% increases in average hourly earnings are proving resilient. Until these trends weaken, markets should not expect much respite from the Fed. Time will tell, but the Fed's tough medicine, coupled with drooping consumer and business sentiment, should lead to more modest inflation numbers as we proceed into 2023.

Economic prognostications are always uncertain. However, one has to believe that with European and Chinese economies slowing and many indicators flashing the same in the US, that a reduction in inflation numbers will become evident in the next few months. The Fed will likely stop hiking rates at that time. The financial markets should react positively when they smell that change in policy.

In the meantime, we believe the portfolio companies have solid growth prospects in a slowing, higher interest rate environment. With time, their profits could drive stock prices.

<sup>(1)</sup> <https://tradingeconomics.com/united-states/stock-market>

<sup>(2)</sup> <https://www.nasdaq.com/market-activity/commodities/lbs>

<sup>(3)</sup> <https://blog.opisnet.com/summer-gasoline-demand-struggled>

## FIRM OVERVIEW

Founded	1974
Employees	40
Total Assets	\$29.2 Billion (as of 9/30/2022)
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	39yrs
LAWRENCE G. CREEL	
Partner & Portfolio Manager	
Years of Experience	37yrs
ALEXANDER M. FARMAN-FARMAIAN	
Partner, Vice Chairman & Portfolio Manager	
Years of Experience	34yrs
PETER JENNISON	
Partner & Portfolio Manager	
Years of Experience	37yrs
KEVIN R. SETH	
Partner & Portfolio Manager	
Years of Experience	38yrs
NICHOLAS A. STEPHENS, CFA	
Partner & Portfolio Manager	
Years of Experience	38yrs

## 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 9/30/2022\*

MARKET CAP (IN BILLIONS)	EDGEWOOD (%)**	COMPANIES (#)
Less than \$30	11	3
\$30-\$75	14	3
\$70-\$125	33	7
\$125+	40	8

\*Rounded to the nearest percentage

\*\*For the equity portion of the portfolio

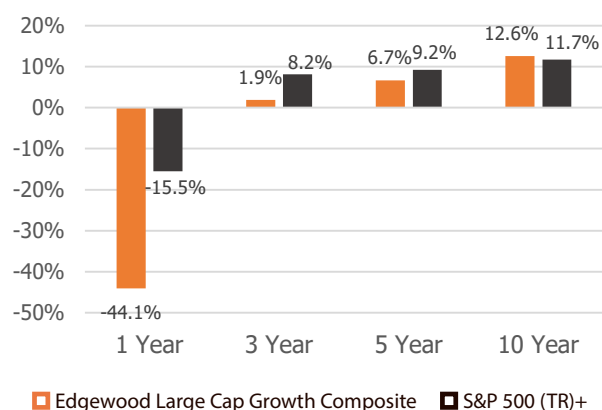
## FIVE LARGEST HOLDINGS AS OF 9/30/2022\*

Chipotle Mexican Grill Inc.	Intuit Inc.
Danaher Corp.	Visa Inc.
Estée Lauder Companies 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 9/30/2022



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 9/30/2022\*

	EDGEWOOD	S&P 500	COMMENTS
Market Cap Mean (Billions)*	\$250bn	\$442bn	Focused on Growth
Number of Holdings	21	503+	Concentrated Portfolio
Most Recent Quarter YoY EPS Growth	5%^	14%	Focused on Earnings Growth
Sales Growth <sup>1</sup> (3 Years Historical)*	15%	7%	Focused on Revenue Growth
LT EPS Growth*	14%	13%	Earnings Outlook

\*All portfolio characteristics produced by Refinitiv and are rounded to the nearest whole number with the exception of the Most Recent Quarter YoY EPS Growth which is calculated by Edgewood.

^The weighted portfolio average most recent quarter YoY EPS growth figures reflect the period ended 6/30/22 with the exception of Adobe, Nike, Intuit, & NVIDIA whose quarters end in July. These numbers are calculated based on company earnings reports excluding the impact of non-recurring items that are not indicative of the underlying business. American Tower's EPS figure is actually Adjusted Funds from Operations per share figures as we believe it is the most relevant valuation metric. Illumina's growth rate in the most recent quarter is calculated using reported adjusted operating profit which removes the impact of a one-time legal contingency and the effect of Grail dilution on YoY comparisons. We believe this metric is most representative of underlying business growth. ILMN's most recent quarter YoY adjusted EPS growth rate is -70%. Match's growth rate in the most recent quarter is calculated using reported adjusted Operating Income growth instead of EPS as we believe this metric is most representative of underlying business growth and will reflect that going forward.

+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. Russell 1000 Growth Index performance produced by Russell Investments.

## SECTOR DIVERSIFICATION AS OF 9/30/2022\*

Medical Technology	19.0%
Financials	18.3
Business Services	16.0
Consumer Discretionary	14.7
Information Technology	9.7
Internet	6.6
Consumer Staples	5.3
Wireless	4.3
Semiconductor Mfg.	3.9
Cash	2.3

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

## Edgewood Management LLC Disclosures - 3Q 2022

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 September 30, 2022			
	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized
Edgewood Large Cap Growth Composite	-41.97%	3.52%	7.82%	13.73%
S&P 500 (TR) Index	-14.61%	10.22%	10.44%	12.79%
Russell 1000 Growth Index	-24.60%	11.75%	12.59%	14.69%

Note: Returns are shown in US 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 Large Cap Model of generally 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 GIPS Report that complies with the GIPS standards, contact Kitty McBride at 212-652-9100, or write to Edgewood Management LLC, 600 Steamboat Road, Suite 103, Greenwich, CT 06830 or [KMcBride@Edgewood.com](mailto:KMcBride@Edgewood.com).

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