

EDGEWOOD  
MANAGEMENT LLC

## View from Edgewood

4Q 2022 COMMENTARY

The Edgewood Large Cap Growth Composite returned 9.3% in the fourth quarter of 2022, and declined 40.2% for the full year, net of fees. In comparison, the S&P 500 Total Return Index was up 7.6% and down 18.1% while the Russell 1000 Growth Index gained 2.2% and lost 29.1% for the same periods.

This was the worst year for equity markets since 2008, for bond markets since 1980; outside of cash and energy stocks in the first half of the year, there were few places to hide. We have written all year about the major causes. In 2022, we saw energy prices skyrocket, valuations started at extremely high levels, inflation was rising rapidly, the Fed initiated a historically steep tightening cycle, the U.S. dollar had a huge jump and bonds had their worst returns in 50 years. Growth stocks underperformed significantly.

Today, we have the opposite. Energy prices are moderating. Valuations have materially lowered. Inflation is declining. The Fed is nearing the end of a historic tightening cycle. The U.S. dollar has stopped rising. Given the reversal of much of the 2022 trends, we believe growth stocks should perform well over the next five years.

The last quarter of 2022 provided signs that the peak of inflation may have been reached and the bottom in the stock market may have been found. The 10-year treasury yield, which is very influential in determining stock valuations, has fallen dramatically since October, from 4.3% to 3.7% in early January. This coincided with the fourth quarter stock market rally.

The end of the cheap money era, which created stock market excesses, allowed companies with no profits to attain large stock valuations and helped marginal companies to survive. The return to a normal interest rate environment has reset market expectations and valuations. In addition, many companies, including many of our portfolio companies as we highlighted in our third quarter review, reset their earnings expectations during recent earnings calls in the face of higher interest rates and the eventual economic slowdown they would create. We believe these downward revisions will allow for strong equity performance as they exceed the lowered expectations.

Despite these macro adjustments, the underlying fundamentals of your portfolio holdings are in excellent shape. We believe they continue to benefit from long-term secular growth trends in their industries, such as the shift to direct-to-consumer (DTC) retail, expanding software demand, artificial intelligence, and genomics. Based on our analysis, the portfolio companies should grow revenues and earnings faster than the major stock indices.

We believe valuations are attractive. The overall Edgewood estimated aggregate portfolio P/E valuation on 2-year out estimates has compressed enormously. It ended last year at 32x, nearly 40% higher than the 23x at this year-end. The underlying portfolio companies all report real generally accepted accounting principles (GAAP) profits, generate free-cash-flow and have solid balance sheets. We believe these factors will help the portfolio companies weather a recession.

Edgewood's investment team and our methodology has been through several market downturns and after past such resets in 2001-2002 and 2008, has produced multiple years of outperformance. We have, over the decades, responded to the changing landscape of large cap growth stocks. Most of the Edgewood teams' investment experience has been with "normal" interest rate environments and our discipline of looking for quality growth companies with revenue growth, real earnings growth and free cash flow strengthening the balance sheet has served us well in both cheap money and normal interest rate environments.

The partners of Edgewood Management have invested an additional \$20 million in Edgewood and the strategy in the first weeks of January. Previously in the second quarter of 2010 when the Firm had also experienced a streak of underperformance, the partners made a similar investment to reinforce their continuing commitment to the business and strategy. We are not calling a bottom, but we believe that current valuations make this a very attractive entry point for investors with a long time horizon.

If the first half of 2022 was a "seller's market" with overly high valuations for all asset classes, late 2022 and 2023 seem to offer a "buyers market" for disciplined long-term investors. We aim to position the Fund's holdings to take advantage of these very interesting opportunities and achieve strong performance.

## FIRM OVERVIEW

Founded	1974
Employees	39
Total Assets	\$28.5 Billion (as of 12/31/2022)
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	39yrs
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 12/31/2022\*

MARKET CAP (IN BILLIONS)	EDGEWOOD (%)**	COMPANIES (#)
Less than \$30	5	2
\$30-\$75	15	4
\$70-\$125	34	7
\$125+	45	9

\*Rounded to the nearest percentage

\*\*For the equity portion of the portfolio

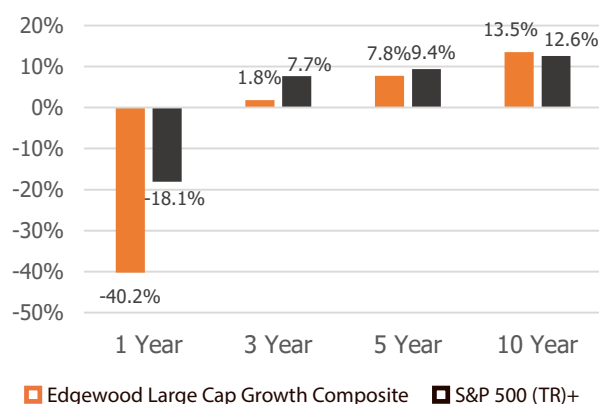
## FIVE LARGEST HOLDINGS AS OF 12/31/2022\*

Danaher Corp.	NVIDIA Corp.
Estée Lauder Companies Inc.	Visa Inc.
Intuitive Surgical 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 12/31/2022



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 12/31/2022\*

	EDGEWOOD	S&P 500	COMMENTS
Market Cap Mean (Billions)*	\$231bn	\$395bn	Focused on Growth
Number of Holdings	22	503+	Concentrated Portfolio
Most Recent Quarter YoY EPS Growth	-1%^	8%	Focused on Earnings Growth
Sales Growth <sup>1</sup> (3 Years Historical)*	16%	7%	Focused on Revenue Growth
LT EPS Growth*	11%	10%	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.

<sup>1</sup>Most recent quarter YoY EPS growth figures reflect the period ended 9/30/22 with the exception of Adobe, Nike, Intuit, & NVIDIA whose quarters end in October. These numbers are calculated based on company earnings reports excluding the impact of non-recurring items that are not indicative of the underlying business. Illumina's growth rate in the most recent quarter is calculated using reported adjusted operating profit which removes the impact of a one-time goodwill impairment 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 -77%. American Tower's EPS figure is actually Adjusted Funds from Operations per share as we believe it is the most relevant valuation metric. 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.

+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 12/31/2022\*

Medical Technology	19.4%
Consumer Discretionary	18.1
Financials	17.2
Business Services	14.0
Information Technology	10.8
Consumer Staples	5.6
Internet	4.8
Semiconductor Mfg.	4.7
Wireless	3.9
Cash	1.6

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

## Edgewood Management LLC Disclosures - 4Q 2022

No recommendation is made, positive or otherwise, regarding individual securities mentioned. Past net performance returns do not guarantee future results. The net performance returns figure is 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.

<b>Edgewood Management LLC: Large Cap Growth Composite Net Performance Returns</b>				
	Ending December 31, 2022			
	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized
Edgewood Large Cap Growth Composite	-40.23%	1.82%	7.78%	13.50%
S&P 500 (TR) Index	-18.11%	7.66%	9.42%	12.56%
Russell 1000 Growth Index	-29.14%	7.79%	10.96%	14.10%

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 net performance returns are no guarantee of future results. Net performance return results reflect the reinvestment of dividends and other earnings. Net performance return 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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