



The Edgewood Management Large Cap Growth composite declined -5.8% for the third quarter 2023 and has returned +20.6% year-to-date, net of fees. The S&P 500 Total Return Index lost -3.3% in the quarter and has gained +13.1% for the first nine months of the year.<sup>±</sup>

The most recent benign inflation numbers in the U.S. continue a downward trend. The August PCE (Personal Consumption Expenditure) Price Index, a favored metric of the Federal Reserve, showed a year-over-year increase of a modest +3.5%, and a lower trending core rate of +3.9%, down from +4.7% in May.<sup>1</sup> This has allowed the Federal Reserve to hold off on rate increases at its latest two meetings, but it has not stopped long-term interest rates from rising. The bond market seems to believe that the Federal Reserve will not be as quick to cut short-term rates as many had believed, which has revived the “higher for longer” mantra.<sup>2</sup> It is also reflecting the surge in the federal deficit caused by higher borrowing costs for the government. The next few months will demonstrate whether the economy is strong enough to still grow in the face of the dramatic rate increases the Federal Reserve has made since March of 2022.

September was a grinding month for equity markets. Bond yields began rising in August and almost immediately correlated to the equity market’s decline. We should expect more stock market volatility as we enter the final stages of the Fed’s inflation fighting campaign and the 2024 political season heats up.

The second quarter earnings reports showed hints of caution on the outlook for the economy, with a handful of portfolio companies reporting stronger than expected numbers and raising future guidance while others saw mixed or negative results. The most recent earnings results from Nike\* show what we hope might be a good indicator for other U.S. companies and the economy in general. Nike’s bloated inventory levels of last year were down 10%, and demand for their products remains stronger than expected both domestically and abroad. Notably, revenues were up +12% in China for the quarter ending 8/31/2023 (excluding currency changes).<sup>3</sup>

<sup>±</sup>Refer to the GIPS performance table on pg. 3 for net performance returns for the 1-, 5-, and 10-year time periods ending September 2023.

\*Edgewood’s commentary on specific securities is for informational purposes only and is intended to show how we believe macroeconomic inventory trends have impacted the portfolio. No recommendation is made, positive or otherwise, regarding individual securities mentioned. 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. For information about earnings reports for the whole portfolio, please contact [kmcbride@edgewood.com](mailto:kmcbride@edgewood.com).

Lululemon\* reported a solid 2Q in August, including revenue growth of +18% (+60% in China) and better than expected gross margins. Importantly, the 3Q outlook was strong, with North American acceleration happening during the critical back-to-school period. Inventory progress continues, with stronger sales driving better than anticipated reductions and minimized markdowns.<sup>4</sup> Overall, we continue to be pleased with Lululemon’s management’s execution and leadership, proving the company is a uniquely positioned growth brand despite an increasingly difficult macro backdrop in both the US and China. We believe this is driven by innovation and new products.

Estée Lauder\* reported mixed results in August, noting inventory issues with Asia travel retail products crimped revenues.<sup>5</sup> Management stated the company will undertake a “rebalancing of inventory” due to lower than anticipated improvement in retail sales in Hainan as a result of the delayed post-COVID transition in China. We expect this to pass and improve once we get in to 2024 and for sales to pick up as a result.

We remain cautiously optimistic on the prospects for your portfolio. We believe the portfolio companies and their management teams typically navigate unpredictable economic environments from a position of strength. This stems from their many unique product offerings, commitment to a long-term growth outlook and disciplined capital deployment. In times of uncertainty, we expect they will take advantage of the circumstances and their balance sheets to build future growth opportunities.

**Edgewood Management LLC**  
**October 11, 2023**

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<sup>1</sup> <https://www.bea.gov/data/personal-consumption-expenditures-price-index-excluding-food-and-energy>

<sup>2</sup> <https://www.reuters.com/markets/rates-bonds/global-central-banks-unite-higher-longer-credo-2023-09-21/>

<sup>3</sup> <https://investors.nike.com/investors/news-events-and-reports/investor-news/investor-news-details/2023/NIKE-Inc.-Reports-Fiscal-2024-First-Quarter-Results/default.aspx>

<sup>4</sup> <https://corporate.lululemon.com/media/press-releases/2023/08-31-2023-210556958>, <https://www.fool.com/earnings/call-transcripts/2023/08/31/lululemon-athletica-lulu-q2-2023-earnings-call-tra/>

<sup>5</sup> <https://www.elcompanies.com/en/news-and-media/newsroom/press-releases/2023/08-18-2023-114520984>

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<b>Edgewood Management LLC: Large Cap Growth Composite</b>				
	<b>Ending September 30, 2023</b>			
	<b>Net 1 Year Performance Returns</b>	<b>Net 3 Year Performance Returns (Annualized)</b>	<b>Net 5 Year Performance Returns (Annualized)</b>	<b>Net 10 Year Performance Returns (Annualized)</b>
<b>Edgewood Large Cap Growth Composite</b>	<b>31.83%</b>	<b>0.15%</b>	<b>7.61%</b>	<b>13.45%</b>
<b>S&amp;P 500 (TR) Index</b>	<b>21.62%</b>	<b>10.15%</b>	<b>9.92%</b>	<b>11.91%</b>
<b>Russell 1000 Growth Index</b>	<b>27.72%</b>	<b>7.97%</b>	<b>12.42%</b>	<b>14.48%</b>

*Note: Returns are shown in U.S. dollar. 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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