



## EDGEWOOD

MANAGEMENT LLC

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 2022 was a "seller's market" with overly high valuations for all asset classes, late 2022 and 2023 seem to offer a "buyer's 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.

We wish all of you a happy and healthy 2023.

**Edgewood Management LLC**

**January 3, 2023**

**Edgewood Management  
LLC: Large Cap Growth  
Composite**

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