



The Edgewood Management Large Cap Growth Composite returned +15.9% for the fourth quarter 2023 and returned +39.8% for the full year, net of fees. The S&P 500 Total Return Index returned +11.7% and +26.3%, while the Russell 1000 Growth Index returned +14.2% and +42.7% for the comparable periods.<sup>‡</sup>

The U.S. stock market and the labor market ended 2023 on a strong note. In November, nonfarm payrolls increased 199,000 and the unemployment rate fell to 3.7% from 3.9%.<sup>(1)</sup> That was followed by another increase of 216,000 in December while the unemployment rate held steady.<sup>(2)</sup> Additionally, average hourly wages gained 0.4% in December; a rise of 4.1% year on year. The strength of payrolls and wages throughout the year was generally unexpected given that the Fed tried to slow the economy by raising its policy rate 525 basis points since March of 2022.

Inflation slowed throughout 2023. The December Consumer Price Index (CPI) came in at 3.4% and the core CPI was 3.9%.<sup>(3)</sup> It was the first time core CPI was below 4% since May of 2021. The Fed's preferred measure of inflation, and the data they use for their 2% target, is the core personal consumption expenditures (PCE) price index. The core PCE was 3.6% in September but fell to 3.2% in November.<sup>(4)</sup> December's data will be closely watched when it is released on January 26<sup>th</sup>. Currently, the Fed predicts core CPE will fall to 2.4% in 2024, 2.2% by 2025, and eventually reach their target of 2% by 2026.<sup>(5)</sup> While we could argue about the pace of slowing, we agree that inflation should continue to slow over the next year. However, not all prices are going down. Key areas to watch for signs of inflation will be insurance and shipping costs.

Importantly, the U.S. economy was able to avoid a recession in 2023. If the U.S. economy hopes to avoid a recession in 2024, we will need to see strength in employment and wages and continued slowing of inflation.<sup>(6)</sup> Since February of 2020, consumer prices and average hourly earnings are both up about 20%. Starting in the summer of 2023, average hourly earnings have climbed faster than overall CPI. This is important as strong labor markets support consumer spending.

We believe the economic cycle is normalizing post COVID-19. Inflation is cooling, but capital access continues to be impaired. Edgewood's portfolio companies typically benefit from robust cash generation enabling them to act in the long-term interests of shareholders despite capital constraints in the broader market.

During the 4<sup>th</sup> quarter, several companies in the Edgewood portfolio reported impressive earnings reports while others reported negative earnings. ServiceNow\* reported 3<sup>rd</sup> quarter 2023 revenue growth of 25% and earnings growth of 49% while raising full year revenue and earnings guidance. ServiceNow has stated it is in the early days of rolling out its AI enhanced product offering to customers, but early indications are for strong customer adoption. We expect AI to be accretive to ServiceNow's growth over time.

<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 December 2023.

\*Sources: company filings. Edgewood's commentary on specific securities is for informational purposes only and aims to state the facts about certain earnings reports released since Edgewood's last quarterly commentary. 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).

One of the Edgewood portfolio companies that reported results below expectations was Illumina\*. Third quarter revenue was relatively flat year over year, but the company guided full year revenue down and new CEO Jacob Thaysen suggested 2024 would be weak as well. The GRAIL divestiture process is continuing as planned and should be complete in the second half of 2024. We believe that will allow the management team to refocus on growth and margin opportunities in Illumina's core business.

Before we put 2023 completely behind us, we want to recognize our partner Nick Stephens for his 39+ years of service at Edgewood. Nick retired as an Edgewood Portfolio Manager at the end of the year to spend more time with his family and grandchildren. Nick leaves behind a legacy of hard work and integrity that will inspire Edgewood employees for many years.

## **Edgewood Management LLC January 22, 2024**

<sup>(1)</sup><https://www.reuters.com/markets/us/us-job-growth-accelerates-november-unemployment-rate-drops-37-2023-12-08/>

<sup>(2)</sup><https://www.reuters.com/markets/us/us-job-growth-beats-expectations-december-wages-rise-solidly-2024-01-05/>

<sup>(3)</sup><https://www.nytimes.com/live/2024/01/11/business/cpi-inflation-fed>

<sup>(4)</sup><https://www.bea.gov/data/personal-consumption-expenditures-price-index-excluding-food-and-energy>

<sup>(5)</sup><https://www.cnn.com/2023/12/13/fed-lowers-inflation-forecast-for-2024-seeing-core-pce-falling-to-2point4percent.html>

<sup>(6)</sup><https://fred.stlouisfed.org/graph/?g=1dWc4>

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

	<b>Ending December 31, 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>39.84%</b>	<b>1.16%</b>	<b>14.66%</b>	<b>13.67%</b>
<b>S&amp;P 500 (TR) Index</b>	<b>26.29%</b>	<b>10.00%</b>	<b>15.69%</b>	<b>12.03%</b>
<b>Russell 1000 Growth Index</b>	<b>42.68%</b>	<b>8.86%</b>	<b>19.50%</b>	<b>14.86%</b>

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