



KERUSSO CAPITAL MANAGEMENT US LARGE CAP VALUE SECOND QUARTER 2024 REVIEW

The world is in turmoil and the wall of worry is high.

Socially, where you sit depends on where you stand as the world grapples with conflicts related to race, ethnicity, and gender.

Politically, where you sit depends on where you stand as what was taken for granted is now being turned on its head as the old guard, and I do mean OLD, appears to provide more of a confirmation of a past we cannot return to rather than an embracing of the future before us.

Economically, where you sit depends on where you stand as intelligence that is artificial is all the rage and seems to be taking center stage in our stock market as billionaires are being created with novel ideas surrounding machine learning replacing what we have known to be sacrosanct in keeping human beings at the top of the food chain which may now be giving way to memories of movies like Terminator and The Matrix.

The world is in turmoil and the wall of worry is high.

And, it always has been.

In this world of turmoil with walls of worry, we continue to find investment ideas that have worked well for our clients over more than two decades.

This quarter was a challenge in terms of performance, as all are, and we were fortunate to come out on the right side as Louis Pasteur is quoted as saying, *“Fortune favors the prepared mind”*.

We have approached the market with an understanding that in the desire for calm, chaos always lurk, and, in the chaos lurks opportunity.

Second Quarter Review

For the quarter, 7 out of 11 sectors outperformed the respective sector and/or the overall benchmark, the Russell 1000 Value*. The resulting outperformance was solely generated by stock selection as our sector allocation was slightly negative.

Performance for the Russell 1000 Value was balanced with five sectors outperforming – Utilities, Consumer Staples, Technology, Financials, and Real Estate. Thematically, these sectors ascribe to a mix of defensiveness coupled with a continued clamoring for the interest rates to have ceased the rise and cuts to begin. Technology stands out as an outlier with the



understanding that a shift has occurred with the emphasis on AI (Artificial Intelligence) that has taken center stage of our consciousness in many areas reminiscent of the latter part of the '90s with the internet and dot-com era.

In contrast, our portfolio was predominantly overweight Energy, Financials, Consumer Discretionary, and Materials. The most significant underweights were Real Estate, Health Care, Utilities, Technology, and Industrials. Our portfolio was market weight Consumer Staples and Communication Services.

The three sectors with the highest contribution for the quarter were Technology, Health Care, and Financials. In Technology, 4 out of 4 stocks outperformed the respective sector and/or overall benchmark, the Russell 1000 Value. While underweight in the portfolio, our holdings were correlated to the AI boom with much less of the valuation risk. Our longer-term holdings in this sector have been able to stay relevant to the meaningful advances and developments occurring on a global basis within Technology. In Health Care, 2 out of 7 stocks outperformed with positive returns in Amgen and Pfizer. Many of the stocks we own in the sector are under pressure due to concerns over product pipelines. Valuations appear to more than discount this negativity which we believe should be juxtaposed against fundamentals related to strong balance sheets, cash flows and the ability to either produce new therapies through research and development or purchasing complementary products via acquisition or partnership. In Financials, 6 out of 11 stocks outperformed with leadership coming from Consumer Finance holdings such as Synchrony Financial, American Express, and Discover Financial which represent a cross-section of America's credit demographic in terms of super-prime, prime, and sub-prime demonstrating continued strength in the underlying US economy.

The three sectors with the lowest level of contribution were Energy, Consumer Staples, and Materials. In Energy, 5 out of 8 stocks underperformed with Refining & Marketing companies being the most challenged with concerns over demand and margins, although oil prices have stayed near or above \$80 per barrel and margins appear solidly positive. In Consumer Staples, 4 out of 6 stocks underperformed with the perception of a safety trade giving way to the potential market accelerant via lower interest rates. Primarily comprised on lower beta securities, our holdings were a bit more pedestrian to the focus on much higher growth companies. In Materials, 3 out of 4 stocks underperformed in sympathy with other commoditized areas like the Energy sector. A concern of an economic downturn makes the cyclical nature less attractive that is endemic in these securities.

The stocks with the greatest positive contribution were Apple (+22.99%), Qualcomm (+18.14%), Oracle (+12.78%), Synchrony Financial (+10.04%), and Amgen (+10.68%). These stocks represent holdings from the Technology, Financial and Health Care sectors. Technology has taken center stage of the stock market with an emphasis on anything AI related. Our holdings are participating in an impactful way. Synchrony and Amgen have individual company situations that have garnered positive market attention. Each stock is still a portfolio holding as we continue to view them as *Value Creating Opportunities*.**

The stocks with the greatest negative contribution were Celanese (-21.16%), Phillips 66



(-12.90%), United Rentals (-10.10%), Carlyle Group (-13.69%), and Lowes (-13.05%). These stocks represent holdings from the Materials, Energy, Industrial, Financial and Consumer Discretionary sectors. The positive correlation that each sector and thereby holdings have to the economy and the resulting quarterly performance reveals the extent to which the market is worried about an economic pullback which, in our opinion, could happen but should not be as disastrous as stock performance indicates. Each stock is still a portfolio holding as we continue to view them as *Value Creating Opportunities*.

During the quarter, Nvidia and Solventum were sold. Nvidia was sold due to valuation and Solventum was a spin-off from 3M that we determined was not a good fit for the portfolio. No new positions were purchased.

Overall purchases and sells resulted an increase in the Health Care and Consumer Discretionary sectors offset by a decrease in the Technology sector. Any other changes occurred on the basis of capital appreciation and depreciation of individual securities.

All was related to our quest of seeking out *Value Creating Opportunities* for our clients.

Third Quarter Outlook

Reiterating our opening statement, the world is in turmoil and the wall of worry is high...and, to some degree, both of these statements can always be made.

Socially, economically, and politically, a backdrop exists which allows for investment opportunities to be discovered and realized.

This process of discovery and realization is what I have led this investment process in doing for over two decades.

Socially, we believe that embracing different and disparate ideas coming from different and disparate people is how we ultimately make progress. That is reflected in our portfolio.

Economically, the waves of fluctuation are simply a part of the cycle, not worthy of fear but of sound analysis and conclusions. That is reflected in our portfolio.

Politically, leaders come and go as do protagonists and antagonists associated with them. That is reflected in our portfolio.

How? We always are seeking out VCOs (Value Creating Opportunities) which these different market variables contribute to.

We are extraordinarily confident in our portfolio positioning and believe that taking a wholistic rather than myopic perspective is best for long-term investors.



We have done that for a long, successful time and expect it will help us to be successful for a long time.

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*The Russell 1000 is composed of approximately 1,000 large and mid-cap US equities that exhibit value characteristics. It is an unmanaged index and includes dividends, and distributions but does not reflect advisory fees, brokerage commissions, withholding taxes or other expenses of investing. Investors cannot invest directly in an index.

**The specific investments shown are for informational purposes only and represent only the top contributors and detractors for the relevant performance time period. The selection criteria used to determine the top contributors and detractors remains the same across performance measurement periods.

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