



KERUSSO CAPITAL MANAGEMENT US LARGE CAP VALUE ANNUAL/FOURTH QUARTER 2024 REVIEW

The end of 2024 was a period of all things becoming new.

We have a new President-Elect, Donald J. Trump for the second time in three terms.

We have a new Congress with Republicans having leadership in both the House and the Senate.

We have a cabinet that is made up of the wealthy, powerful and influential in the business world now having great influence on the political world.

With all of this new, one thing stayed the same.

Kerusso Capital Management was able to outperform.*

Annual Review

For the year, 4 out of 11 sectors outperformed the respective sector and/or the overall benchmark, the Russell 1000 Value. Stock selection contributed 87% to our outperformance with the balance being made up in sector selection.

Performance for the Russell 1000 Value was balanced with five sectors outperforming – Financials, Utilities, Industrials, Consumer Staples, and Communication Services. This mix of sectors represented a rather eclectic cadre with traditional cyclical and defensive exposures outperforming.

For the year, the portfolio was primarily overweight Energy, Consumer Discretionary, Financials, and Materials. The portfolio was underweighted Health Care, Real Estate, Utilities, Technology and Industrials while being closer to equal weight in Consumer Staples and Communication Services.

For the year, the sectors with the highest level of contribution were Financials, Technology, and Consumer Discretionary. In Financials, 11 out of 13 stocks outperformed the respective sector and/or the overall benchmark, the Russell 1000 Value, with primary contributions coming from Alternative Finance as well as Consumer Finance. In Technology, 3 out of 4 stocks outperformed with leadership coming from companies having some exposure directly or indirectly to Alternative Intelligence via products or services. In Consumer Discretionary, 6 out of 7 stocks outperformed as the consumer on multiple fronts has shown resilience and strength with the expectation that lower interest rates coupled with economic stability will bolster spending.



The sectors with the lowest level of contribution were Utilities, Industrials, and Materials. In Utilities, our lone holding, AES Corporation, underperformed the respective sector and the overall benchmark, the Russell 1000 Value, as more traditional Utilities got a stronger bid in the market based on the potential to serve as yield surrogates with lower interest rates as well as greater power demand due to the build out of the Artificial Intelligence infrastructure. In Industrials, 3 out of 9 stocks underperformed with the greatest negative contributor being Boeing which appears to be on the threshold of righting its quality control issues which had dampened production over the last couple of years. In Materials, 3 out of 7 stocks underperformed as softening in various end markets cooled enthusiasm for near-term prospects despite valuations that appear to be quite attractive.

The five top positive individual stock contributors were Apollo Global (+79.88%), Synchrony Financial (+74.00%), Ameriprise Financial (+42.10%), American Express (+60.32%), and Oracle (+59.99%). These stocks represent holdings from the Financial and Technology sectors. These stocks benefited from the Federal Reserve lowering interest rates, primarily impactful on the Financials, as well as the correlation with the growth of Artificial Intelligence for Oracle.

The stocks with the greatest negative contribution were Celanese (-52.08%), AES Corporation (-30.34%), Boeing (-32.10%), Devon Energy (-25.22%), and Exxon Mobil (-5.00%). These stocks represent holdings from the Materials, Utilities, Industrials and Energy sectors. Celanese dampened expectations with a poor earnings report and forecast. AES Corporation suffered for being one of the Utilities with non-traditional profile amid less of a focus on environmental friendliness, especially with the incoming administration. Boeing continues to suffer a crisis of confidence as it looks to right the quality control issues that have plagued the company over the last couple of years. Finally, Devon and Exxon Mobil were dragged down with concerns regarding oil prices.**

Fourth Quarter Review

For the quarter, similar to the year, 4 out of 11 sectors outperformed the respective sector and/or the overall benchmark, the Russell 1000 Value. Sector allocation contributed 100% of the outperformance with stock selection being negative.

Performance for the Russell 1000 Value was narrow with four sectors outperforming – Financials, Communication Services, Technology, and Energy. These sectors correlated strongly with the expectations of the incoming administration on regulation, technology, and energy infrastructure and production.

For the quarter, our portfolio was predominantly overweight Consumer Discretionary, Energy, Consumer Staples, Materials, and Financials. The most significant underweights were Health



Care, Real Estate, Utilities, Technology, and Industrials while maintaining close to an equal weight position in Communication Services.

The three sectors with the highest contribution for the quarter were Financials, Health Care, and Real Estate. In Financials, 10 out of 10 stocks outperformed the respective sector and/or the overall benchmark, the Russell 1000 Value. Leadership primarily came from Consumer Finance and Alternative Finance which were buttressed by lower interest rates and a likely more friendly regulatory environment with the incoming administration. In Health Care, 4 out of 6 stocks outperformed as pipeline activity via proprietary research & development and/or acquisitions garnered higher investor confidence. In Real Estate, our lack of exposure bode well for the portfolio as the benchmark sector declined 6.83%.

The sectors with the lowest level of contribution were Materials, Communication Services, and Utilities. In Materials, 2 out of 5 stocks underperformed the respective sector and/or the overall benchmark, the Russell 1000 Value. Softening end markets primarily impacted Celanese and LyondellBasell. In Communication Services, 3 out of 3 stocks underperformed as the portfolios lack of exposure to the Technology-Media-Telecom stocks that have a high degree of association with those who supported the incoming administration hurt returns in the quarter. In Utilities, similar to the annual performance, AES Corporation underperformed as the portfolio of energy solutions related to environmental sustainability and renewables was out of favor with expectations from the incoming administration.

The stocks with the greatest positive contribution were Apollo Global (+32.60%), Synchrony Financial (+30.90%), Ameriprise Financial (+13.66%), Carlyle Group (+18.06%), and Visa (+15.16%). All of these stocks represent the Financial sector which have been, in the short-term, posited to benefit from lower interest rates and less onerous regulation under the incoming administration.

The stocks with the greatest negative contribution were Celanese (-46.01%), AES Corporation (-35.09%), LyondellBasell (-21.29%), United Rentals (-12.84%), and Devon Energy (-15.79%). These stocks represent holdings from the Materials, Utilities, Industrial and Energy sectors. As previously mentioned, near-term prospects have been challenging for certain companies such as Celanese and LyondellBasell. Additionally, the issues plaguing AES have been shared. United Rentals and Devon Energy have been swept up in concerns regarding the strength of the economy given that the Federal Reserve has elected to cut interest rates with dampening inflation and economic productivity measures.

Three new stocks were purchased during the quarter – Cheniere Energy, Schlumberger, and Chevron – and four complete stocks were sold during the quarter – Celanese, Steel Dynamics, Phillips 66, and Valero.



Coupled with purchases of existing holdings resulted in an increase in Utilities and Consumer Staples offset by decreases in Materials, Energy, and Financials. 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.

First Quarter Outlook

2024 extended the gains of 2023 with a surge after the re-election of former and President-Elect Donald J. Trump.

While many have positioned their portfolios for certain policy outcomes, we, at Kerusso, continue to simply seek after *Value Creating Opportunities* which means that the continuous assessment of fundamentals juxtaposed against valuations never ends.

The volatility in the market creates opportunities as well as causing some opportunities to be realized.

We are careful stewards over our static process that aligns us well with the dynamic nature of the market.

On so many levels, right now, our world is in great flux.

There appears to be little stability socially, economically, or politically on a global or national level.

Rather than being anticipatory, we continue to believe that our process helps us to simply position our portfolio at the sector, industry and stock level with where the market pessimism is unjustifiably too high based on fundamentals.

While not always timely, over time, we believe our approach has proven to be effective.

We believe that being able to hold a steady hand of holdings in 2025 will yield benefits as the market continues to try to sort out direction.

For us, at Kerusso, direction is where the pendulum of optimism should swing next; hence, a contrarian stance, prudently undertaken, is where we often feel the greatest margin of safety lies.

After managing this strategy in this fashion for over two decades, our confidence is quite high, even if our timing is sometimes wrong.



Whichever direction the market takes, we do believe that this will prove to be a most interesting year.

Make it a Happy New Year along the way!

Be blessed!

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Founder/CEO/CIO/Portfolio Manager
Kerusso Capital Management
January 4, 2025

*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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