



**KERUSSO CAPITAL MANAGEMENT
US LARGE CAP VALUE
FIRST QUARTER 2025 REVIEW**

I have been investing since November 1997. Thank you very much for the opportunity of a lifetime in starting my portfolio management career, Maceo Sloan. I am eternally grateful for you, Clifford Mpare, David Halloran, and Drake Craig seeing something in me that I so hoped someone would see.

Since I started investing, I have had the blessing of outperforming my benchmark, be it the S&P 500[^] or the Russell 1000 Value*, over the tenure of my managing money at different firms over different time periods.

I have learned a few things along the way.

First, I do not invest according to the current crisis. The contrarian streak within me has me looking for opportunity where others retreat due to chaos. Believe it or not, and I encourage you to believe it, times of crisis typically present some of the best buying opportunities.

Investing according to the current crisis is a sure way of getting left behind as the moment passes and the movement of valuing companies according to the fundamentals comes back into focus.

I have some scars to prove it.

I was investing when 9/11 occurred and our investment team decided, in the moment, what would not continue to happen as it had before such as people taking vacations, flying on planes, or having the confidence to venture out and resume a normal course of living.

We invested for the moment and regretted it. We got wounded. I got wounded.

I learned that following your investment discipline, assuming you have one, is always the best course of action...even when it is most difficult to do so. I earned my scars to remind me to follow my investment discipline.

All of this brings me to the start of this year, the past quarter and the continuation of the chaos into the second quarter, which is just a couple of days old.

I am not sure how many of you have played the game, Monopoly.

Basically, you get to be a rich mogul and try to rule the world, or board game, as best you can.



The thing is, it is just a game. The money is not real. The players are usually family or friends, not enemies. And, slow your roll, you are not a mogul.

Now, imagine if someone took the Monopoly mindset from the game world and put it in the real world and operated as if the real world was a game and observers, who did not ask to be in the game, were impacted by the game.

In a nutshell, unless you have been asleep, that is the nightmare we have had since the current administration has been in office.

And, now, with a shot across the bow that appears to be the economic start of World War III, with rapid fire threats and tariffs being the ammunition, the stock market is in crisis and chaos.

To be clear, we believe the only way to invest in such a period is typically not to invest at all.

Cash sleeps very well at night. Stocks not so much.

By mandate and client expectations, we are fully invested and we are not positioned in cash for the crisis resulting from the chaos of the current administration.

As such, in the moment, we have underperformed; BUT, let me remind you, moments pass as movements become more clearly in focus.

So, we are sticking to our investment discipline and we are going to continue to hold stocks, representing solid companies trading at ridiculously low valuations compared to their fundamentals, and, if my historical track record has any credence, we are going to do quite well on the other side of the chaos created by this crisis.

The start of the year has been the storm before the calm that we believe will eventually overwhelm the chaos we have been experiencing on a nearly daily basis.

First Quarter Review

For the quarter, 4 out of 11 sectors outperformed the respective sector and/or the overall benchmark, the Russell 1000 Value*. Both stock selection and sector allocation were negative.

Performance for the Russell 1000 Value was quite broad with seven sectors outperforming – Energy, Communication Services, Health Care, Utilities, Consumer Staples, Real Estate, and Financials. The market clearly has adopted a defensive posture due to the uncertainty in the market. It makes sense to do so...except when you actually value the companies driving the performance.



Comparing companies on the basis of fundamentals and valuation is common sense investing and, as my great-grandmother used to say, “If common sense was common, more people would have it.”

So, instead of common sense driving current investment decisions, a sense of fear has taken hold.

And, that will look like the right posture until it does not.

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

Clearly, by our portfolio structure, we were not in alignment with the market drivers for the quarter.

The three sectors with the highest contribution for the quarter were Energy, Health Care, and Communication Services. In Energy, 6 out of 8 stocks outperformed the respective sector or the overall benchmark, the Russell 1000 Value, as economic stability gave indications that market demand might be able to withstand the gradual increase in supply from OPEC. In addition, an opening up of drilling opportunity suggested more economic upside domestically in alignment with the current administration. In Health Care, 4 out of 6 stocks outperformed as pipeline concerns were assuaged as a focus on the defensive qualities associated with Health Care stocks became more prevalent, dividends in particular. In Communication Services, 1 out of 3 stocks outperformed as Verizon, another defensive holding, had a strong return for the quarter.

The sectors with the lowest level of contribution were Financials, Technology, and Consumer Discretionary. In Financials, 9 out of 12 stocks underperformed the respective focus sector of the overall benchmark, the Russell 1000 Value, as a focus on lower volatility Financials such as banks, insurance, and less market sensitive companies gained greater favor of companies deemed to be a bit more highly correlated to the market, consumer, or alternative investments. In Technology, 3 out of 4 stocks underperformed as market darlings over the past few years came under pressure regarding the continuation of growth, in particular that associated with Artificial Intelligence. In Consumer Discretionary, 6 out of 7 stocks underperformed as the specter of tariffs depressed sentiment for several of our holdings.

The stocks with the greatest positive contribution were Gilead Sciences (+22.17%), Amgen (+20.51%), Devon Energy (+15.06%), 3M (+14.32%), and Visa (+11.08%).** These stocks represent holdings from the Health Care, Energy, Industrial and Financials sectors. These stocks collectively have defensive characteristics that the market prized during the quarter. 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 Synchrony Financial (-18.25%), Apollo (-16.85%), Oracle (-15.88%), Blackstone (-18.24%) and Apple (-11.20%).** These stocks represent holdings from the Financial and Technology sectors. In contrast to the defensive orientation of the market, each one of these stocks represent areas of growth and potential credit or market risk that has received heightened scrutiny during this moment of market disruption. Each stock is still a portfolio holding as we continue to view them as *Value Creating Opportunities*.

During the quarter, four securities were sold – Nike in Consumer Discretionary, Hershey in Consumer Staples and Chevron and Exxon Mobil in Energy. Two new securities were purchased – Nvidia in Technology, Prudential and LPL Financial in Financials.

Overall purchases and sells resulted in the decrease in the Consumer Discretionary, Energy and Consumer Staples sectors coupled with increases in the Financial and Health Care sectors. 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.

Second Quarter Outlook

What do we typically expect from our political leaders? Steady and inspiring leadership.

We do not expect action-oriented theater. For that, we go to the movies or Netflix and chill.

In the first 100 days of this administration, we have gotten daily action-oriented theater with guest appearances by billionaires as if they have nothing else to do.

As the pronouncements begin to wane, perhaps the markets can become more sane as we have an opportunity to digest all that is happening and sort out what is actually going to happen next.

While we wait, in this chaotic moment of seeming crisis, opportunities are being created.

Investment discipline does not work all the time; BUT, investment discipline is always working.

At Kerusso, our investment discipline is working to sort out companies that have fundamentals that we believe should be solid over time, based on an assessment of the past of present as best as we can, which are significantly undervalued by the market.

At times of fear and worry, it works by allowing us to invest where others retreat.



Over time, as fear and worry subsides, as it typically does, our investment discipline bears out, usually with outperformance.

Based on nearly three decades of investment experience, we think that World War III, initiated by this administration, on the global economic front is going to create some opportunities.

Stay tuned as this administration, if anything, knows how to keep it interesting.

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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 S&P 500 is a stock market index that tracks the performance of 500 of the largest publicly traded companies in the United States.

**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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