Coho ESG US Large Cap Equity – Quartely Update Q3

The Coho US Relative Value investment strategy is experiencing its worst year on a relative basis compared to the S&P 500 and Russell 1000 Value benchmarks since inception of the firm 23 years ago. 2000-2008 were "value" years in which the Coho Relative Value strategy outperformed both the Russell 1000 Value and S&P 500 benchmarks with large numbers. The last 14 years were "growth" years with few and very short lived corrections and no ordinary recession (Covid was a special case).

Despite experiencing its worst relative year on record the Coho strategy outperforms both the S&P 500 and Russell 1000 Value benchmarks with **more than 2% annualized net of fees** since inception while having an substantially lower standard deviation and Beta, see chart 1 below.

During the 23 year history the forward P/E of the Coho portfolio has moved around that of the S&P 500 and on average was 0.2 point higher. Today the portfolio trades at its **largest discount ever** compared to the S&P 500, see chart 2 (15.1 vs 18.5 at the end of September). Good to know is that Coho is extremely true to style and has a low turnover of about 15% per year.

We fully understand that the numbers mentioned above do not help to soften the current pain of the underperformance, nor do they explain the underperformance year to date. Please scroll down to find an explanation of the YtD underperformance. Also the ESG version of the strategy has a shorter than 23 year track record and most European investors did not experience many of the good years.

Chart 1: Coho Relative Value Equity returns versus benchmarks and peers 23 years till Sept 30th 2023

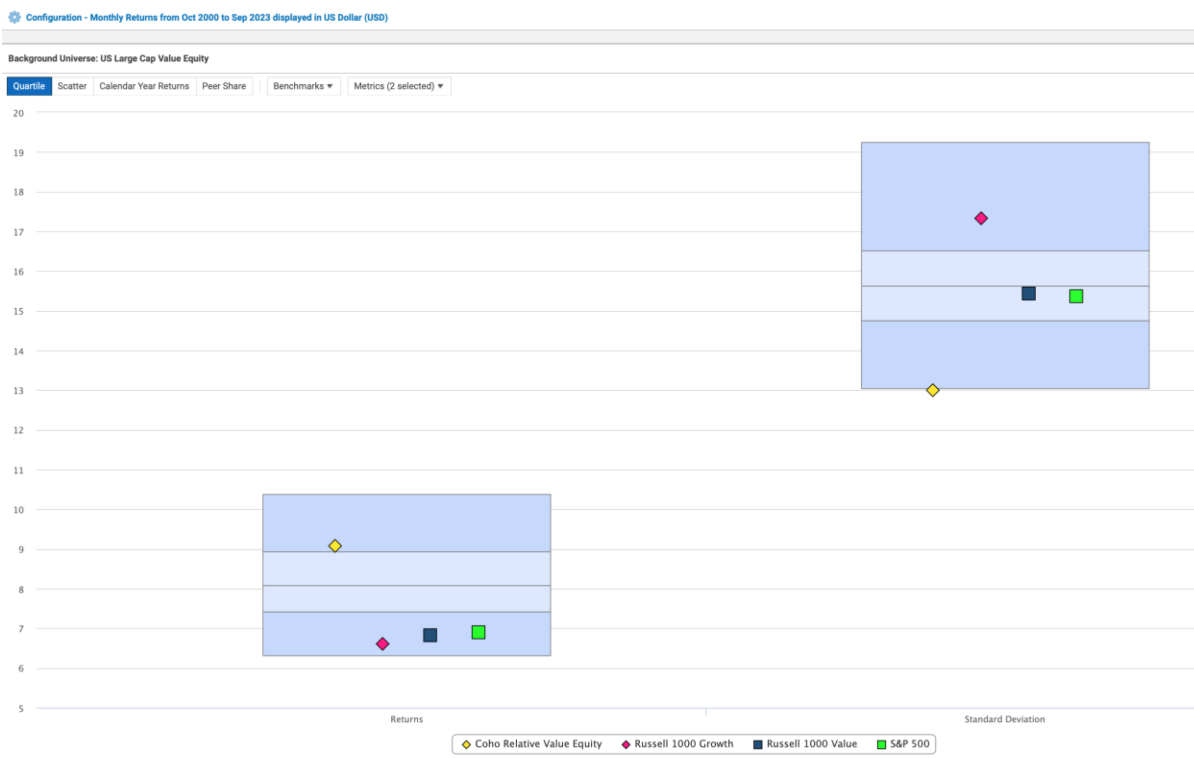
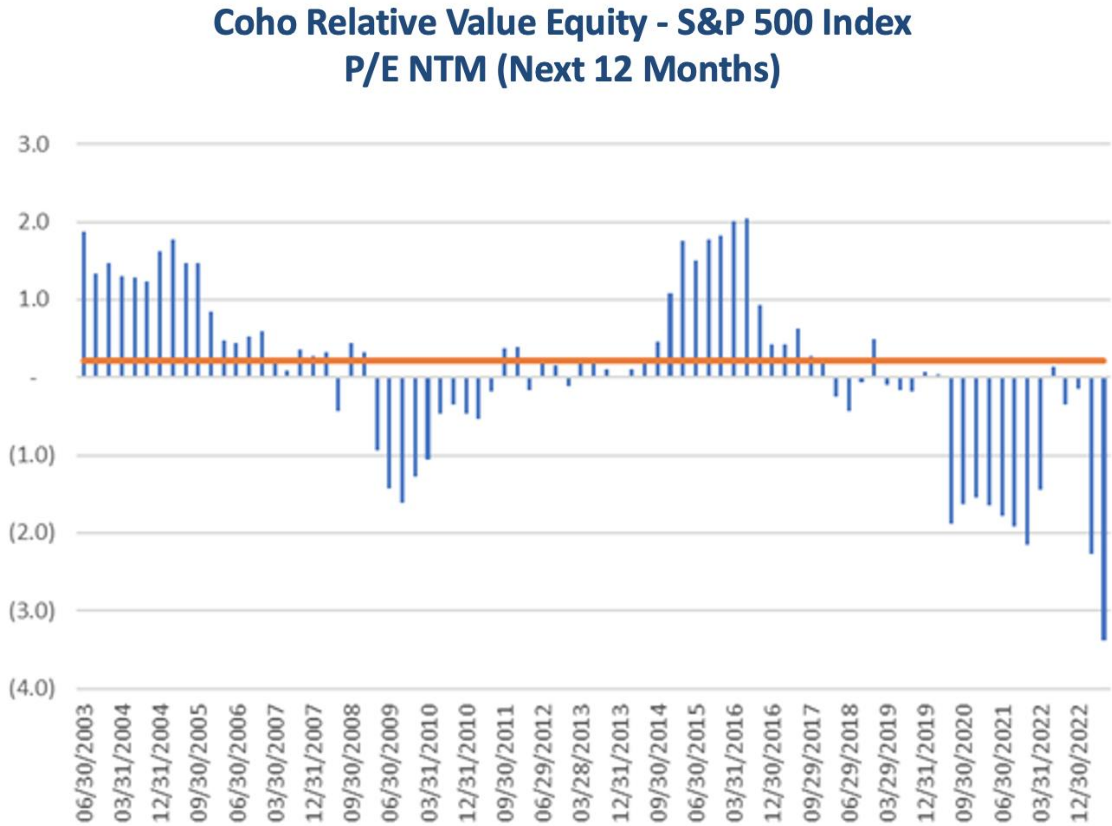


Chart 2: The Coho Relative Value Equity strategy trades at its largest discount in 23 years



Now let me try to sum up the elements of the YtD underperformance:

1) Staying true to style, the strategy has a large overweight to the demand defensive strategies Healthcare - 4.3% YtD till Oct 13 and Consumer Staples - 9.4% YtD till Oct 13, and underweight in the best performing sectors, see chart 3.

2) The magnificent 7 are not investable without breaking the Coho investment philosophy. Not owning any of them was a drag on performance. As a reference, the S&P 500 is up 14 % YtD. The Equally weighted S&P 500 index is up only 1%

3) More specific, compared to the Russell 1000 Value benchmark; Meta, Netflix and Google were in the Russell 1000 Value index till the end of June. Not owning these stocks costed substantial relative performance.

4) GLP-1, or the miracle slimming drug that makes people lose weight without side-effects (so it seems) has caused underperformance in multiple ways: 1) The Healthcare sector, a large overweight for Coho is down YtD as many companies suffer from the prospects of less medical treatments. No new hip, no hart surgery, less cancer, lower blood pressure, diabetes, less other medicine use will be needed is the expectation. Too good to be true, maybe.. 2) Not owning Novo and Elli, that benefitted from the GLP-1 excitement. 3) The consumer staples sector and in particular some of Coho's food retailers suffered as people are expected to eat less calories, analysis show that people on the new drug put less in their shopping basket.

5) Yes Coho had losers in the portfolio, like always they made mistakes that hurt relative performance. One of the most prominent ones is Dollar General. Without these the underperformance would have been very large as well.

Earnings, Revenue, Cash Flow and dividend growth

Earnings, Revenue, Cash Flow and dividend growth of the portfolio have been in line with long term history of the portfolio. Forward P/E has come down YtD other than that of both the S&P 500 and Russell 1000V which have expanded P/E's.

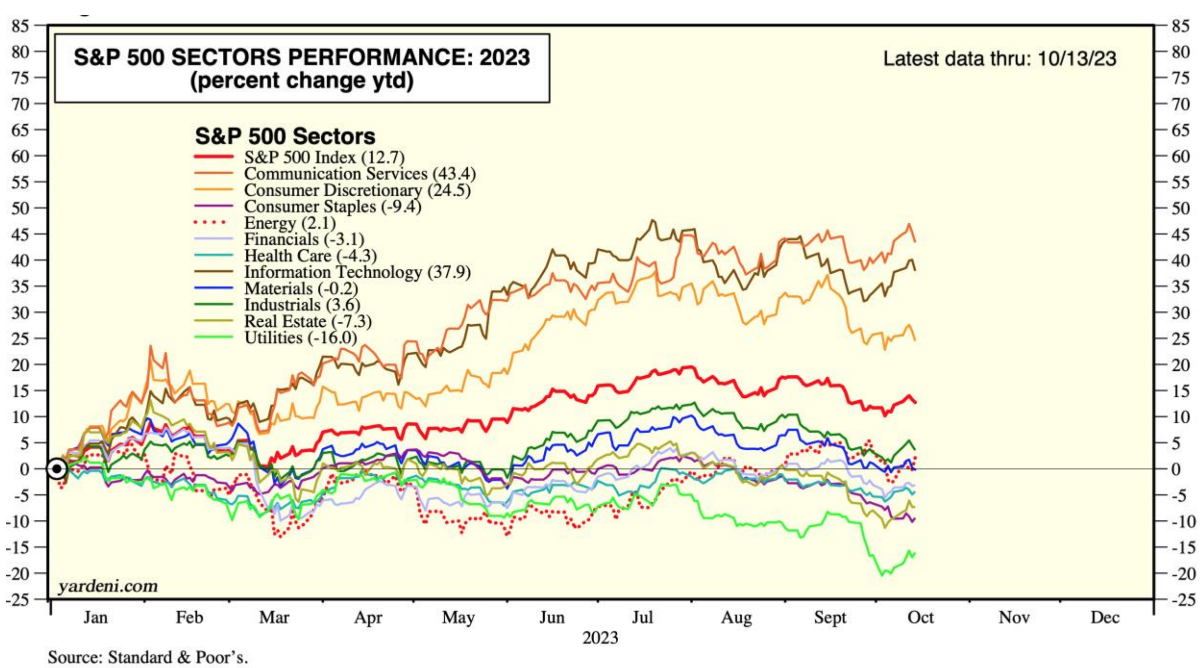
Some of the healthcare holdings in the Coho portfolio that have underperformed could end up being beneficiaries of GLP-1 as there will be less medical treatments, health care insurers will have to pay out less. Yet they've sold off.

Some of the low price food retailers in the Coho portfolio have suffered a lot YtD, but in previous economic downturns we've seen the middle class change their shopping behaviour and they end up a counter cyclical holding. This is also not priced in.

Large Cap Growth has not always been the winning segment within US Equities and there will be a time when the Magnificent 7 will suffer, just like the magnificent 7 at the end of the 90s did:

IBM, Nokia, Motorola, General Electric and Intel were part of the Magnificent 7 at the end of the 90s, but play an irrelevant role today. Google, Apple, NVIDIA, META …. will most likely suffer a similar faith at some point in the future. They could simply be replaced by something new.

Chart 3: Sector performance YtD



The Coho portfolio has a large overweight to the Demand Defensive sectors of Healthcare and Consumer Staples

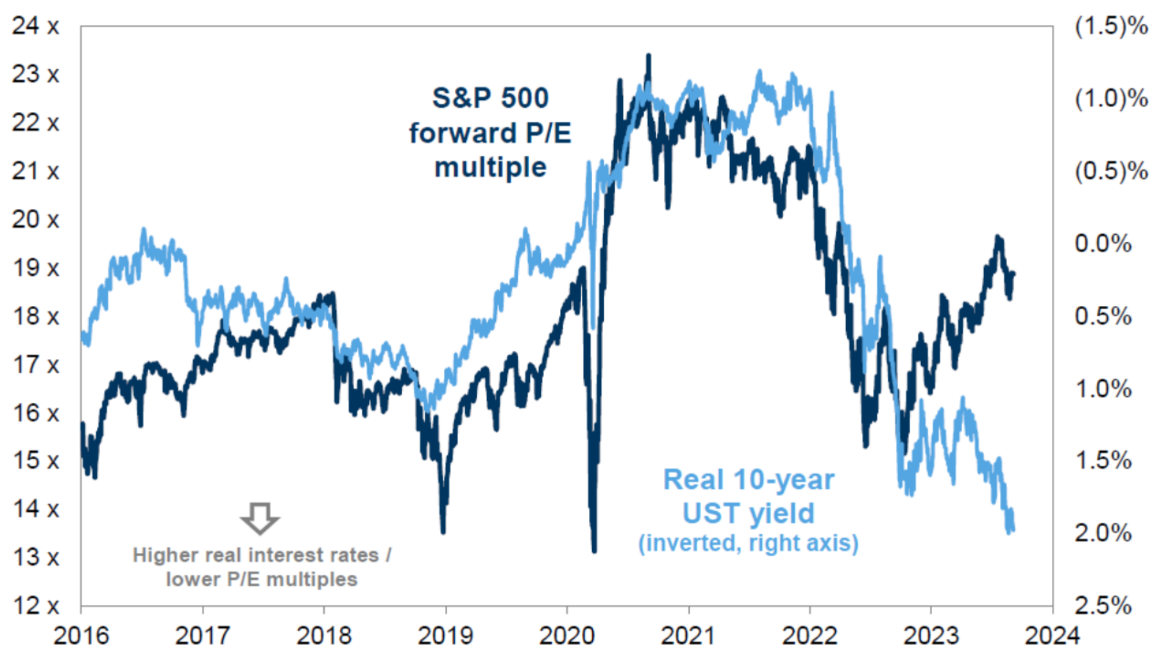
Over the past 14 years, in which growth has outperformed, the percentage of economically sensitive sectors in both the S&P 500 and Russell 1000 Value has increased dramatically. Coho has always had an allocation of around 55% to demand defensive sectors. True to style in good and bad times.

	Coho Relative Value ESG	S&P 500	Russell 1000® Value
Cyclicality			
Demand Defensive	61%	22%	29%
Economically Sensitive	39%	78%	71%

Correlation of Interest Rates to S&P 500 Index's P/E

Real rates (inverted on the right) have gone up, P/E's on the back of the AI hype have not come down.

The dark blue and light blue lines are likely to move closer together again in future as they always have. When real rates come down substantially it is likely due to a recession in which case it is not very likely that P/E's will stay at current elevated levels. The Coho portfolio trades at a P/E of 15.1.



Source: FactSet, Goldman Sachs Global Investment Research. As of September 5, 2023.

Please read the Coho Q3 commentary: here

ESG

Coho published its yearly impact report. Click here to open it: Impact Report

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Coho ESG US Large Cap Equities

The Coho ESG Relative Value strategy is a true diversifier to most portfolios. Having a low down-market capture in combination with high quality holdings and strong ESG integration makes the strategy unique. It is one of the few US Value oriented ESG UCITS funds. A daily liquid Art. 8 UCITS fund with an AUM of 471 million is available. ISIN code: **IE00BF1XKT19**

As per Q3, 2023 the Coho Relative Value Equity (CRVE) strategy has an **annualised outperformance of 2,26%** over the Russell 1000 Value index, outperforming 81% of peers according to eVestment since inception in 2000. This strategy of quality companies with predictable streams of earnings offered protection during the IT crash in 2001, the financial crisis, the Euro crisis, during Covid-19 and in 2022. The strategy is fully invested without the use of derivatives. Coho Partners manages USD 8.1 billion in US Large Cap Equities, is an employee-owned firm and employees invest their own private wealth alongside you as an investor. The Coho **ESG** US Equity strategy (inception 2011) only deviates marginally from the original Coho Relative Value Equity strategy (inception 2000).

- Asset Class & Strategy Summary
- Presentation
- Peer comparison
- Factsheet
- Standard RfP
- Morningstar
- Impact Report
- Coho on ESG Investing
- Sustainability Related Disclosures
- Coho Cares
- Replay Latest Online Update

Signatory of: PRI Principles for Responsible Investment

Founder and CIO of Coho Partners, Peter Thompson

Bio: Peter Thompson of Coho Partners

Coho has large overweights in Demand Defensive sectors like Consumer Staples and Healthcare, which historically do well in phase 4 and phase 1