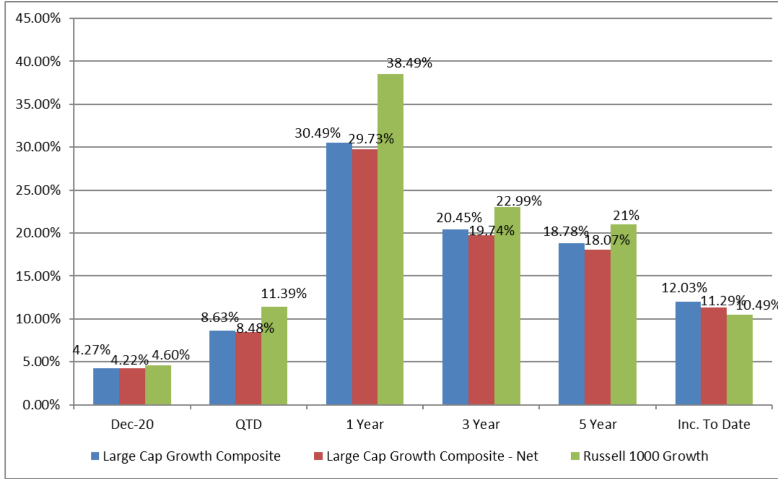
Chart 1: DCM Large Cap Growth Composite Trailing Performance December 31, 2020



1. Large Cap Growth Composite is comprised of 40-60 equity securities with market capitalization of $5 Billion or more that pass our quantitative selection process and can be acquired at a reasonable price. The strategy focuses on growth of earnings and key valuation metrics. The benchmark is the Russell 1000 Growth Index. The Russell 1000 Growth Index represents the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The minimum account size for this composite is $1,000,000.
2. Portfolio characteristics are similar to the benchmark, the Russell 1000 Growth index.
3. Returns are presented gross and net of management fees and include the reinvestment of all income. Performance prior to 7/31/12 is shown net of other fees including custody fees. Performance post October 2012 is shown gross of other fees. Net of fee performance was calculated using the highest management fee as noted in the composite fee schedule. Performance was calculated using a highest fee of 0.75% prior to July of 2011 and 0.60% as of July 2011.
4. The investment strategy of the composite has not changed during the investment period.
5. This table reflects weights in a representative portfolio, and actual client portfolios may have differing weights.
6. Past performance does not represent future results and current returns may be higher or lower than return data depicted.
7. The Large Cap Growth Composite was created on February 28, 2002.

Chart 2: Top 10 Stocks' % Returns: 2019 vs. 2020

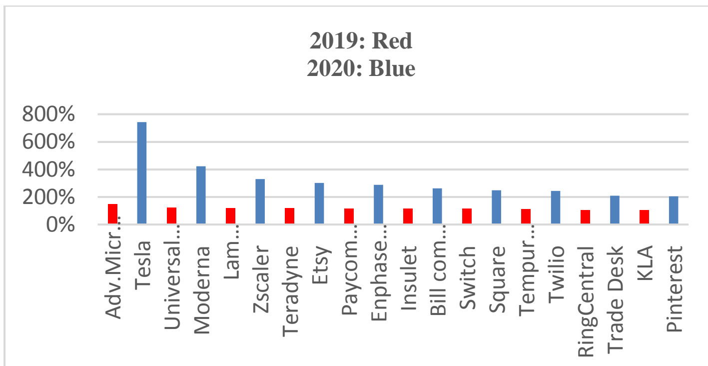
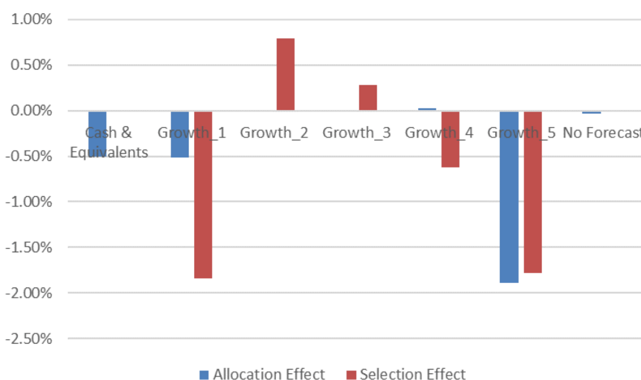


Chart 3: 2020 Performance Attribution by Growth Quintiles



DCM Strategy: U.S. Large Cap Growth

Decatur Capital's strategy is focused on finding companies in the U.S. whose characteristics meet our quantitative selection process.

Portfolio Manager Commentary

Our performance for the year, net-of-fees, U.S. Large Cap Growth Strategy was 29.7%, net of fees, (unaudited), compared to the Russell 1000 Growth Index return of 38.5%.

Performance Analysis

There were two dominant market periods during the year. First, high-growth stocks surged in the second and third quarters, with a subset of stocks having super high monthly returns. Second, there were an unusual number of low-growth stocks gaining 20% or more during November stemming from the 'reopen trade' – stocks that were heavily beaten down because of the closing of the economy surged based on increased optimism about the speed at which the economy will reopen.

The common theme of these two periods is that there was an unusual number of stocks with unusually large returns. To provide a sense of the outsized returns on this subset of super-return stocks in 2020, Chart 2 shows the annual returns for the top 10 performing stocks in 2020 (blue) compared to the top 10 stocks in 2019 (red). Just by observation, we can see the dramatic difference in the sizes of the returns across the two years. It is important to note that both years had similar annual index returns: the index was up 36% in 2019 and 38.5% in 2020.

The primary driver of our annual underperformance was that, given our investment process and our well-honed discipline, we were not generally holding these super-return stocks; they did not meet our investment criteria, which was heavily focused on positive earnings and earnings stability. For instance, all of the top-ten return stocks in 2020 have gone pubic in the last 5 years, and five out of ten were still not profitable. These are not the types of stocks that our disciplined approach will bring into the portfolio. In contrast, the top-performing firms in 2019 had generally been public much longer, and nine out of the ten were profitable.

Chart 3 provides a summary picture of our 2020 performance. This chart shows our asset allocation and within-sector selection performance relative to the benchmark's performance broken out by growth-factor quintiles. In this chart, the growth factor is defined as the long-term earnings growth forecast, with Growth_1 representing the lowest quintile of growth companies and Growth_5 representing the highest quintile or aggressive growth companies.

As this performance attribution shows, our underweighting the aggressive growth stocks hurt performance, while the remaining sector allocations were relatively neutral. The major hits to performance, though, were the barbell-like alpha losses from stock selection within the lowest growth and highest growth sectors.

Outlook

We have an investment process that is stable but not static. Through the years, we have modified our process as markets and our research evolves. But our process modifications have always been based on careful statistical analysis and review.

The cost of following this stable process and not jumping on the bandwagon is that we may miss some upside when the markets act in extreme and unusual ways. The other side, though, is that we hope to avoid some of the big losses when the markets decline in extreme and unusual ways.

While we expect a return to more normal markets with the gradual easing of the pandemic, we do see that the disruption of markets is producing new trends, As we believe that these trends will continue for the long term, we have begun research into integrating disruptive opportunities into our careful investment process.

Note: Returns are measured in U.S. dollars net of fees. Decatur Capital Management, Inc. (DCM) is a registered investment advisor specializing in quantitative growth oriented investment management. The benchmark is the Russell 1000 Growth which is designed to measure the large cap growth firms within the U.S. The benchmark is market cap weighted. DCM claims compliance with the Global Investment Performance Standards (GIPS). To receive a list of composite descriptions of DCM and/or presentation that complies with the GIPS standards, contact Ralph J. Bryant, CPA at (404) 270-9838 or ralphb@decaturcapital.com or write to DCM, 150 E Ponce De Leon Avenue, Suite 430, Decatur, GA 30030.