EUROPE EQUITIES
WITHSTANDING THE WINDS OF CHANGE

Wolfgang Fickus
Product Specialist,
Comgest European Equities

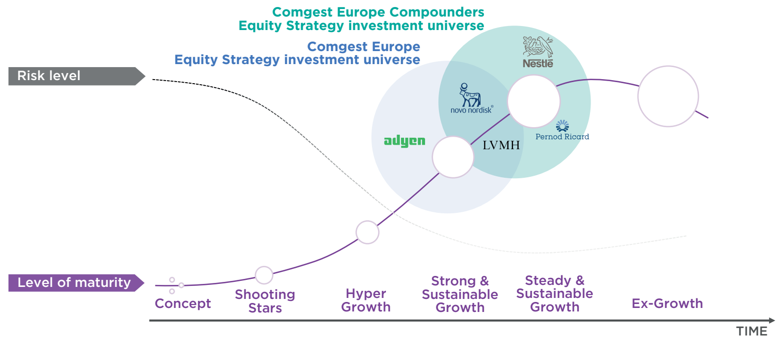
Compounder companies in Europe have continued to grow despite macroeconomic headwinds.

These days the world seems to be changing faster than ever. Rising geopolitical tensions and technological advancements, such as artificial intelligence, are increasing volatility in the global economy. Similarly, the lingering effects of the COVID-19 pandemic and the Russian invasion of Ukraine have caused further disruption to Europe's economic sector.

Despite these conditions, there are companies in Europe that are defying these challenges. They have lengthy histories that go back decades – *even centuries*. At Comgest, we refer to these businesses as "compounder companies", i.e., those that compound their strength over time. As illustrated in *figure 1*, these types of companies tend to benefit from enduring competitive advantages, stable business models, brand recognition, robust cash flow generation, and a strong corporate culture that empowers them to thrive even in uncertain times.

Figure 1. Compounders Pillars

Figure 2. Investment Universe – Comgest Europe and Europe Compounders Strategies



The size of the bubbles corresponds to the size of the companies. For illustrative purposes only. Investing involves risk including possible loss of principal. The value of all investments and the income derived therefrom can decrease as well as increase. The securities discussed above are provided for information only, are subject to change and are not a recommendation to buy or sell the securities. The securities discussed herein may not be held in the portfolio at the time you receive this presentation.

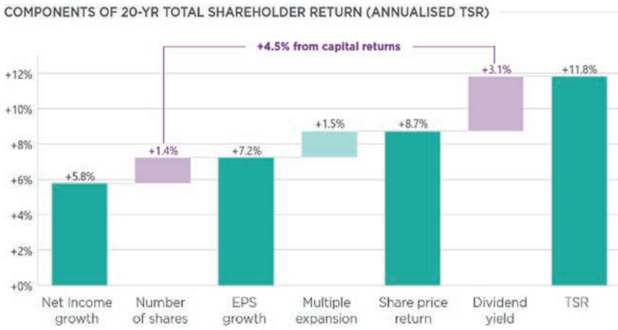
When we consider the quality of a company's EPS growth, we have in mind an S-curve, which illustrates the typical profile of a company's maturity and associated risks. As a company matures, its risk tends to decrease, as indicated by the curve. When it comes to Comgest's European Compounders strategy, we place greater emphasis on the longevity and durability of growth. Based upon our years of analysis, **Nestlé**, **L'Oréal** and **Geberit** are companies that have continued to grow against the winds of change.

FINDING THE RIGHT FORMULA

In Europe, we have identified several companies, which we believe have the formulas that could fend off new challengers in their respective industries. Some of these companies have survived wars and economic downturns, gaining invaluable insights for the possibility of thriving well into the future. When faced with disruption, they have focused on reinforcing the foundations of their stable business models. Rather than fixating on what *will* change, these companies consider what *won't* change.

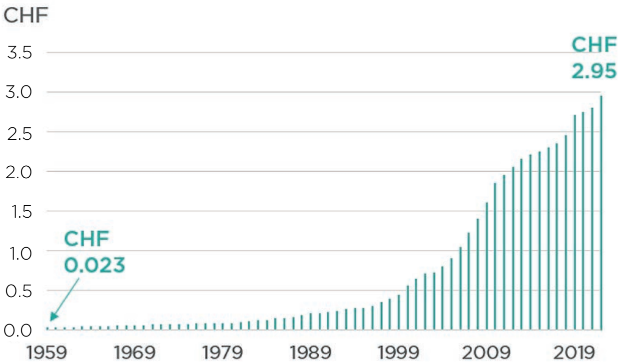
Consumer staples, such as food and beverages, are always in demand. Over the years, **Nestlé**, the Swiss consumer goods company, has adeptly capitalised on this reliable growth market. Founded in 1866 in Vevey, Switzerland, the company initially sold condensed milk and infant formula products. Throughout its history, Nestlé has adhered to its core business model of selling consumer-related products, even during times of crisis. During the Great Depression, the company introduced its iconic instant coffee product, Nescafé. In World War II, the company established a second headquarters in the United States to expand its sales to Latin America, Africa and Asia. More recently, in the wake of the 2008–2009 global financial crisis (GFC), the company acquired Kraft Foods' frozen pizza division. When confronted with economic turbulence, Nestlé has successfully doubled down on its stable business model of selling consumer goods.

Figure 3. Breakdown of Nestlé's Shareholder Returns



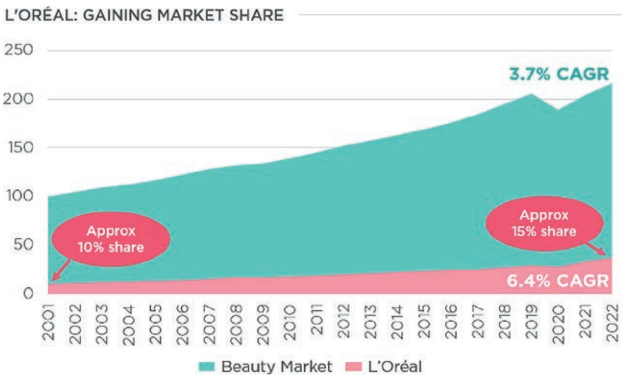
Source: Factset. Data as of 23-Feb-2024. The price of shares can go down as well as up. The securities discussed above are provided for information only, are subject to change and are not a recommendation to buy or sell the securities. The securities discussed herein may not be held in the portfolio at the time you receive this presentation.

Figure 4. Nestlé: 64 years of stable or increasing dividends



Source: Nestlé/Comgest/factset as of 31-Dec-2023 (https://www.nestle.com/investors/creating-shareholder-value). Returns for period 2008–2022. The securities discussed above are provided for information only, are subject to change and are not a recommendation to buy or sell the securities.

Figure 5. L'Oréal's growing share of the Beauty Market



Source: L'Oréal, data as of 31-Dec-2022. The securities discussed above are provided for information only, are subject to change and are not a recommendation to buy or sell the securities. The securities discussed herein may not be held in the portfolio at the time you receive this presentation.

As a result, the company has also been able to achieve steady growth for its shareholders, too. Over the last 20 years, the company has delivered 11.8% of annualised total shareholder return, including 4.5% from capital gains alone, as indicated in *figure* 3.[1] Despite reporting 5.8% net income growth over the same period, Nestlé's cash-generative business model has allowed it to distribute capital to stakeholders. Impressively, since 1959, the company has delivered stable or increasing dividends to shareholders at a compound annual growth rate (CAGR) of 8% *(see figure 4)*.[2] The key is that essential products, like food and beverages, remain in demand regardless of market winds. By selling consumer staple products such as water, coffee and animal food, Nestlé has continued to achieve stable growth and consistent returns for shareholders.

ENDURING BEAUTY

While not quite a consumer staple, people have been using make-up to enhance their looks for over three millennia. During the past century, French cosmetics company **L'Oréal** has capitalised on the global demand for beauty products, leveraging innovation and timely acquisitions to expand its share of this growing market. Between 2001 and 2022, the company increased its market share from approximately 10% to 15% *(see figure 5)*.[3] L'Oréal's success also lies in its ability to move into adjacent markets and to integrate acquisitions into the company's organic growth model due to the stability of the beauty market.

Initially focused on hair products when the company was founded by French chemist Eugène Schueller in 1909, L'Oréal has since expanded into skincare, makeup and fragrance products. Despite the COVID-19 pandemic and GFC, L'Oréal continued to invest in the stable and growing global beauty market, achieving a 6.4% CAGR. To maintain its relevance, L'Oréal has also leveraged augmented reality tools to offer customers the opportunity to virtually test their products. The company is also using artificial intelligence to offer customers "magic mirrors", such as personalised product recommendations based on a skin type analysis. In our opinion, these innovations should further fuel the company's organic growth model.

1 Source: Nestlé/Factset, data expressed in EUR as of 31-Oct-2023. 2004 to 2024 estimated for P&L items.
2 Source: Nestlé/Comgest/FactSet as of 31-Dec-2023.
3 Source: L'Oréal, data as of 31-Dec-2022.

PROFITABLE PIPES

Source: Geberit's website

Geberit, the Swiss plumbing supplies and sanitary solutions company, has also established itself as the leader of a global industry that, we feel, is unlikely to disappear in the future. Founded as a small plumbing business by Casper Gebert in 1876, the company created the first ever lead-lined wooden cistern in 1905. Despite operating in a niche industry, the company has continued to produce innovative products, including: the plastic cistern (1952), the concealed cistern (1964) and the dual flush toilet (1996). Based on the success of these innovations, Geberit has been able to continually expand its market share and construct even higher barriers of entry for competitors.

In addition, the company has been able to establish another key advantage over the competition: its relationship with installers. For over 150 years, Geberit has gained the trust of plumbers by producing leak-free products. Plumbers and installers could be held liable by their customers for defective pipes or water damage. Such incidents, if they occurred, could result in disastrous reputational and financial consequences for installers with their customer base.

Figure 6. Geberit's cumulative total return in euros since IPO (June 1999)

Source: L'Oréal, data as of 31-Dec-2022. The securities discussed above are provided for information only, are subject to change and are not a recommendation to buy or sell the securities. The securities discussed herein may not be held in the portfolio at the time you receive this presentation.

Unlike other sectors, customers rely upon plumbers to select the right products and pipes for their plumbing installation. Geberit has established strong relationships with its installers to secure an extremely high market share in Germany, Austria, Switzerland, and other European countries. Since the company's initial public offering in 1999, Geberit has achieved 17% annual total shareholder return and 14% earnings per share CAGR *(see figure 6)*.[4] By focusing on an industry that is unlikely to change in the future, Geberit has built its stronghold position through targeted innovations and enduring relationships with its suppliers.

[4] Source: Factset. Data as of 23-Feb-2024.

CONCLUSION

For long-term investors seeking investments with a lower risk profile, compounder companies offer experience, stability and resiliency to withstand the winds of change. They tend to focus on consumer staples, beauty products and sanitary solutions – sectors built around essential products, or those deemed as such, for which demand is unlikely to change. The success of Nestlé, L'Oréal and Geberit rests upon their ability to operate, adapt and innovate within stable industries.

The solid foundations of these companies – well-established competitive advantages, strong balance sheets and strategic vision – have, in the past, enabled them to continue to grow in the face of disruptions, including technological advancements, wars, recessions, and pandemics. Not only have these companies been able to grow, but they have been able to thrive – with numerous delivering double-digit returns over the past two decades.[5]

Change is hard to anticipate. For many investors and markets, it's about predicting the next big trend, or the new 'gamechangers' set to disrupt the industry. At Comgest, we believe that there is much to learn from compounder companies, especially those which have achieved durable growth in stable industries over long periods of time.

These types of companies, which form the bedrock of the Comgest Europe Compounders portfolio, have well-established moats, exceptional longevity, fortress-like balance sheets, solid and predictable growth, strong culture and their ability to deliver exceptional returns. We believe that this approach has helped our portfolio maintain lower volatility and be resilient during times of disruption.

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- Comgest portfolios invest in a limited number of securities and may therefore entail higher risks than those which hold a very broad spread of investments.

[5] Source: Factset. Data as of 22-Feb-2024

Wolfgang Fickus
Product Specialist,
Comgest European Equities

Wolfgang Fickus joined Comgest in September 2012 and is a Product Specialist as well as an Investor Relations Manager. Wolfgang began his career in 1995 at Paribas Asset Management Paris as a European-equity fund manager. In 2000, he moved to WestLB where he worked as an analyst for European technology stocks before becoming the Head of Mid- and Small Cap Research in 2005. Wolfgang Fickus is a graduate of the University of Cologne (Germany) with a degree in business administration (Diplom-Kaufmann) and studied at the London Business School. He also holds a CEMS Master's in international management and is a CFA® charterholder.

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