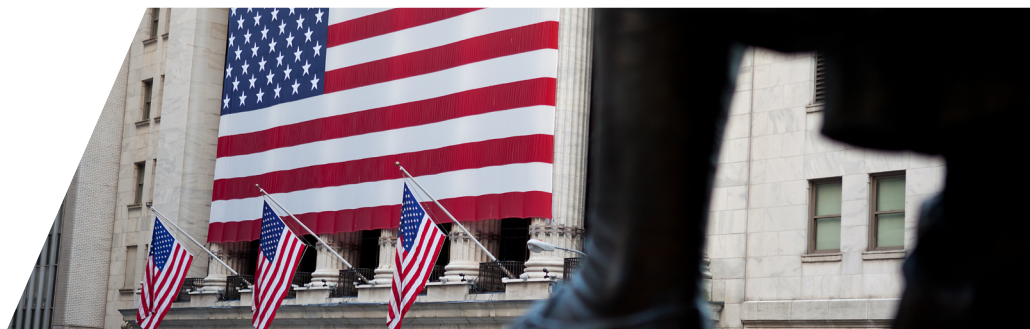


US EQUITIES

THE ART OF DOING MORE WITH LESS

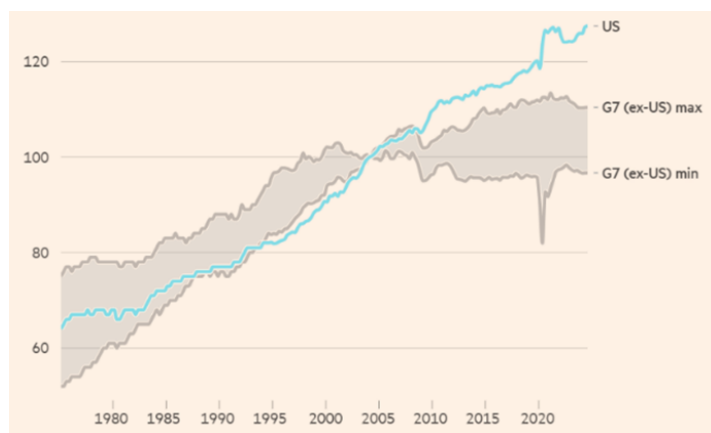
By: Comgest US Investment Team



What distinguishes the US as the world's strongest stock market? While many point to its leading technology, research facilities and abundant natural resources, Comgest believes that the true driver of US growth is its labour productivity. Our US Equities strategy aims to harness this efficiency by focusing on the companies that achieve more with fewer resources.

Over the past decade, the US stock market has consistently outperformed its international counterparts. Since 2014, the S&P 500 index of large-cap US companies has generated 12.5% annualised returns, outpacing the 4.4% achieved by the MSCI World ex USA index.¹ In the past year alone, the S&P 500 surged by 24.5% - marking the fourth time since 2019 that the index has achieved gains exceeding 20%.² From our perspective, recent US outperformance is due to a wide variety of factors, including the country's entrepreneurial spirit, sophisticated research infrastructure, top-tier education system, respect for the rule of law, and abundant natural resources.

Figure 1. US labour productivity compared to the rest of the G7
Output per hour worked, rebased (100 = Feb 2004)



Source: Financial Times, OECD, LSEG, National Statistics as of December 2024.

In our view, a critical yet often overlooked driver of US outperformance is the country's labour productivity rate. Between 1995 and 2019, US labour productivity per hour worked increased by 50%, or the equivalent of 2.1% annually.³ For comparison, the eurozone's labour rate increased by 28%, or 1% annually, over the same period.³ Following the COVID-19 pandemic, the US has widened its labour productivity advantage over the rest of the "Group of Seven" (G7) countries (see figure 1).⁴ Between the fourth quarter of 2019 and the second quarter of 2024, labour productivity in the US increased by 6.7% compared to just 0.9% in the European Union.⁵ Amid declining global birth rates and population growth, we regard US labour productivity as a fundamental sign of economic resilience, which underscores our belief that the US economy is still capable of thriving.

¹ Comgest / FactSet as of 10-Jan-2025

² Steer, George. "US Stocks Soar More than 20% for Second Year in a Row" Financial Times, 31-Dec-2024.

³ Da Silva et al. "Labour Productivity Growth in the Euro Area and the United States: Short and Long-Term Developments." European Central Bank, 23-Sept-2024.

⁴ The G7 is an informal group of the world's most advanced economies, including Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

⁵ Da Silva et al. "Labour Productivity Growth in the Euro Area and the United States: Short and Long-Term Developments." European Central Bank, 23-Sept-2024.

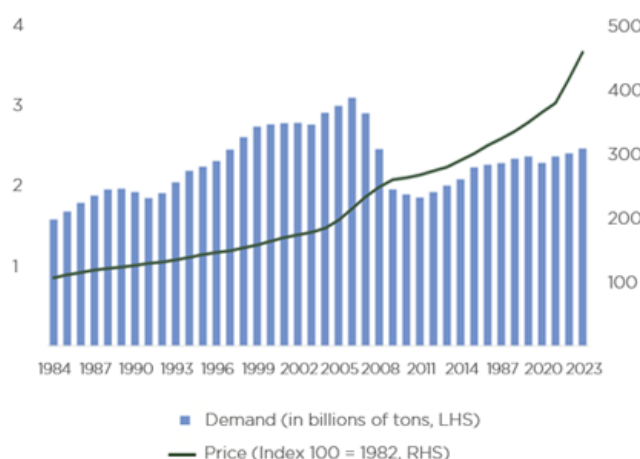
Consistent with this outlook, our Comgest US Equities strategy seeks “productivity enhancers,” or companies that offer better products at lower costs, use fewer resources and are “all-weather performers” that provide critical services to consumers, such as healthcare and software.

At Comgest, our focus remains steadfast on identifying those companies with strong fundamentals and enduring competitive advantages that we believe can achieve our goal of delivering long-term, consistent returns to our clients.

President Trump’s return to the White House – with pledges of tax cuts and deregulation – alongside the rise of artificial intelligence (AI) has fuelled investor optimism for a sustained US stock rally in 2025.⁶ However, we contend that investment decisions should not be swayed by political rhetoric or the performance of specific sectors, such as AI. Whether it’s the construction industry or robotic medical procedures and animal healthcare, the vast US market offers a multitude of growth opportunities, including those beyond the Magnificent Seven.⁷

BUILDING TOMORROW’S AMERICA TODAY

Figure 2. Vulcan Material’s unmatched pricing power



Source: Vulcan Materials Company Q3 2024 Earnings Call report, Comgest, as of 30-Oct-2024. The security discussed herein may not be held in the portfolio at the time you receive this presentation. The security discussed is provided for informational purposes only, is subject to change and does not constitute a recommendation to buy or sell the security. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way.

After generations of neglect and disrepair, the US infrastructure network – roads, railways, airports and bridges – has come under enormous pressure and lags other industrialised countries. In 2021, the American Society of Civil Engineers gave the US a “C minus” for infrastructure, citing poor roads, deficient aviation infrastructure and an ageing electrical grid.⁸ One in three bridges need to be replaced or repaired, and 20% of all airport arrivals and departures are delayed due to overwhelmed airports.⁹ In the face of these challenges, there has been growing investment and bipartisan support for revitalising the country’s infrastructure.

At the same time, international and domestic migration patterns are likely to put even more pressure on America’s outdated infrastructure network. Between 2023 and 2024, the US population grew by nearly 1.0%, marking the fastest population growth since 2001, driven by a surge in net international migration.¹⁰ States in the American South and West, such as Florida, Texas, Nevada, and Utah, are among the nation’s fastest growing.¹⁰

We believe that these challenges present opportunities for long-term investors, especially companies in the construction industry. In our view, **Vulcan Materials Company**, the largest producer of construction aggregates (materials like sand, gravel, and crushed stone used in construction projects), is well positioned to take advantage of these growing infrastructure needs. Founded in 1909 in Birmingham, Alabama, the company controls several indispensable transportation routes by barge, train and bus.¹¹ Vulcan Materials has a notable presence in the American South and West, including 35 of the most rapidly expanding cities in the country.¹² With the rise of AI, Vulcan Materials has also

⁶ FT Editorial Board. “Will US markets keep rising under Trump?” *Financial Times*, 7-Jan-2025.

⁷ Includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

⁸ “ASCE’s Infrastructure Report Card Gives U.S. ‘C-’ Grade, Says Investment Gap Trillion, Bold Action Needed,” ASCE American Society of Civil Engineers, 3-March-2021.

⁹ “ARTBA Bridge Report,” ARTBA, 20-Aug-2024.

¹⁰ “NET International Migration Drives Highest U.S. Population Growth in Decades,” US Census Bureau, 20-Dec-2024.

been involved in the construction of data centres and factories. The company has also capitalised on reshoring (the return of manufacturing to domestic shores), alongside the growth of renewable energy solutions.¹³

TECHNOLOGY LENDING DOCTORS A HAND

Figure 3. Intuitive Surgical's unmatched pricing power

Output per hour worked, rebased (100 = Feb 2004)

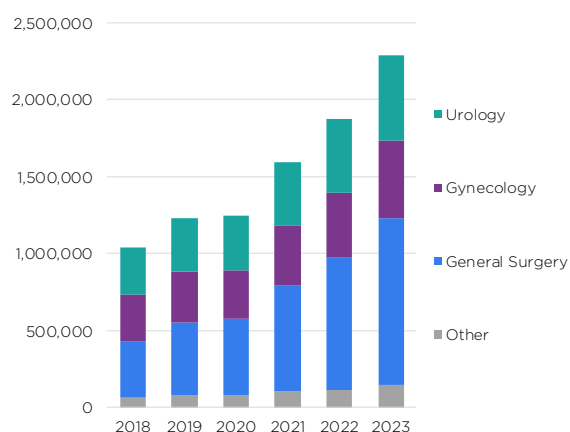
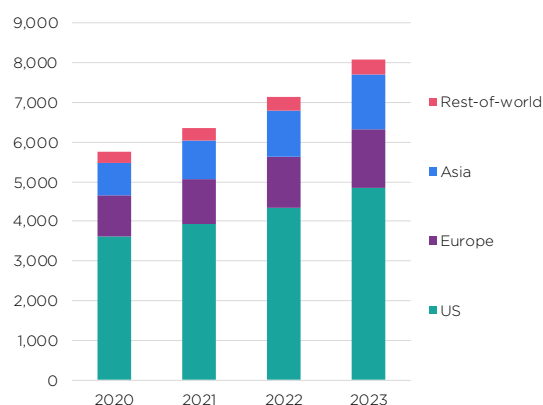


Figure 4. Intuitive Surgical's total number of installed robots



Source: [Intuitive Investor Presentation](#), October 2024.

With more people around the world living longer, there has been an uptick in medical operations. Between 2018 and 2023, medical operations and surgeries increased year-over-year by 22% (as shown in *figure 3*).¹⁴ Intuitive Surgical manufactures tools capable of assisting doctors with surgeries and offers patients the ability to conduct operations from the comfort of their homes. The company's robots, including the Da Vinci surgical machine, offer patients minimally intrusive surgeries, leading to fewer surgical complications and faster recovery times.¹⁵

Based on our investment process, we believe that Intuitive Surgical has the characteristics that align with our Quality Growth approach as well as the type of "productivity enhancers" that we seek when constructing our Comgest US Equities portfolio. From our perspective, the company's tools present a win-win-win solution for hospitals, patients and the wider healthcare system. Aside from providing better patient comfort and recovery, we believe that Intuitive Surgical's tools can free up hospital beds and secure cost savings for healthcare systems by enabling at-home surgeries.

The world's ageing population suggests a future decline in the number of doctors, nurses, and qualified medical professionals. The Association of American Medical Colleges (AAMC) projects a shortage of up to 86,000 physicians in the US by 2036.¹⁶ Currently, 20% of the US clinical physician workforce is older than 65, the typical retirement age, and 22% are nearing retirement, aged between 55 and 64. From our perspective, Intuitive Surgical's products can help healthcare systems maximise the productivity of fewer doctors and address the shrinking supply of qualified medical professionals.

Since 2020, the company's robot install base has increased by 14% annually, indicating that doctors are increasingly embracing robotic-assisted surgery (as shown in *figure 4*).¹⁷ In addition, the company has demonstrated consistent revenue growth from operational leases, services and accessory sales, with 83% of revenue being recurring in 2023.¹⁷ As long-term quality growth investors, we value the visibility and consistency of this revenue growth over time.

¹¹ "About Vulcan" Vulcan Materials. Accessed 13-Jan-2025.

¹² "Enhance Our Core, Expand Our Reach - 2023 Annual Report." Vulcan Materials Company. Accessed 13-Jan-2025.

¹³ "Vulcan and Stellantis in Joint Project to Develop Geothermal Renewable Energy to Supply Mulhouse Plant in France." Stellantis, 31-May-2023.

¹⁴ [Intuitive Investor Presentation Q3 2024](#)

¹⁵ [Intuitive da Vinci](#)

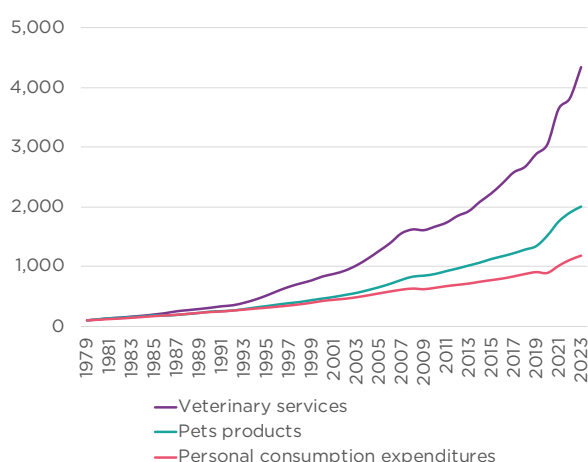
¹⁶ "New AAMC Report Shows Continuing Projected Physician Shortage." Association of American Medical Colleges, 21-Mar-2024.

¹⁷ [Intuitive Investor Presentation Q3 2024](#)

REVOLUTIONISING ANIMAL HEALTH

While marriage and birth rates are declining globally¹⁹, there has been an increase in pet ownership. In the US, 66% of Americans owned at least one pet in 2023, up from 56% in 1988.²⁰ Over 90 million households (46%) in the European Union own a pet.²¹ Meanwhile, in China, the number of pets is expected to double the number of toddlers by 2030.²² Many “pet parents” consider their pets to be the equivalent of children and are willing to spend significantly on food, accessories and veterinary services for their “fur babies” (as shown in figure 5).²³

Figure 5. Faster growth in animal-related expenditure since 1979



Source: Zoetis, Comgest as of 30-Nov-2024.

Zoetis, the world’s largest producer of medicine for pets and livestock, is improving animal health outcomes. As with other pharmaceutical companies, Zoetis has leveraged research and development to produce medicines aimed at addressing animal diseases and medical conditions.²⁴ The company’s approach to innovation has led to a wide variety of medical advancements in treating pain, cancer, heart disease and other life-threatening conditions.²⁵ In addition to R&D, we believe that the company possesses deep commercial and manufacturing advantages over competitors in this industry.

Over the years, Zoetis has built enduring relationships with veterinarians, farmers and other key suppliers of animal health medication around the world. The company receives invaluable feedback from these suppliers, which is useful in developing the next generation of animal medical treatments. On the manufacturing front, Zoetis controls its entire supply chain with facilities across the United States, Europe and Asia, which we believe serves as a shield against macroeconomic uncertainty.

OUR FAVOURITE HOLDING PERIOD IS FOREVER

As long-term investors, we adhere to the principle that patience is the key to unlocking value creation. Although these sectors – infrastructure, healthcare and pet health – may lack the allure of AI, we believe that they offer long-term growth opportunities. Our investment strategy, grounded in bottom-up research, seeks companies with enduring competitive advantages and sustainable earnings growth. Rather than constraining ourselves to certain sectors and trends, we instead choose to focus on a company’s resilience, efficiency and growth potential over long run.

Economic cycles will come and go, but we maintain confidence that certain characteristics of the US market, including labour productivity, are likely to remain. Comgest’s investment approach is predicated on a long-term horizon: we aim to hold our investments indefinitely and expect them to demonstrate consistent growth. From this perspective, we believe that companies like Vulcan Materials, Intuitive Surgical, and Zoetis possess the strong fundamentals, competitive advantages and resilience that will see them go the distance, regardless of market conditions.

¹⁹ “[The Lancet: Dramatic Declines in Global Fertility Rates Set to Transform Global Population Patterns by 2100](#),” Institute for Health Metrics and Evaluation, 20-Mar-2024.

²⁰ “[Pet Population Continues to Increase While Pet Spending Declines](#),” American Veterinary Medical Association, 10-Oct-2024.

²¹ “[New FEDIAF Facts & Figures Highlights the Growth of European Pet Ownership](#),” FEDIAF, 22-Jun-2022.

²² Ying Shan, Lee. “[China Will Have Nearly Twice as Many Pets as Young Children by 2030, Goldman Sachs Says](#),” CNBC, 9-Aug-2024.

²³ Baker, Linda. “[Are We Loving Our Pets to Death?](#)” The New York Times, 22-Jun-2024.

²⁴ “[2023 Zoetis Annual Report](#),” Zoetis, 31-Dec-2024.

²⁵ “[Zoetis Animal Health Research & Development](#),” Zoetis. Accessed 29-Jan-2025.

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