

US EQUITIES

WHY RUN WHEN YOU CAN WALK?

BY COMGEST'S US EQUITY INVESTMENT TEAM



From top-tier research facilities to a business-friendly culture, the US possesses a compelling blend of qualities that make its companies appealing to investors. These advantages can be seen in the rising number of new US business applications, which surged from 3.5 million in 2019 to a record 5.5 million in 2023, according to the US Census Bureau.¹

Rather than rushing to our next investment opportunity, we prefer to take a deliberate approach in identifying quality growth companies in the US.

US equity investors all suffer from information overload. The growing number of companies they can invest in grows every year, each vying for capital and with many promising to be the next big thing. In the fast-changing US market, Comgest chooses to walk a consistent path to growth, passing by the short-term hype with a steadfast focus on our long-term investment strategy. Our Comgest US Equities strategy seeks durable brands with proven track records of above-average double-digit earnings growth, strong environmental, social and governance (ESG) credentials and experienced leadership teams. After all, why run to a potentially fleeting opportunity, when you can walk towards enduring quality growth?

We pursue established quality companies – those with significant longevity, visible growth, healthy free cash flow, high barriers to entry, and strong corporate culture. Our US investment team also looks for “productivity enhancers,” which offer better products at lower cost, use fewer resources and are “all-weather performers” that provide critical services to consumers, including healthcare and software. In our view, such essential companies are well placed to achieve the sustainable growth that we seek as long-term investors.

DOING MORE WITH LESS

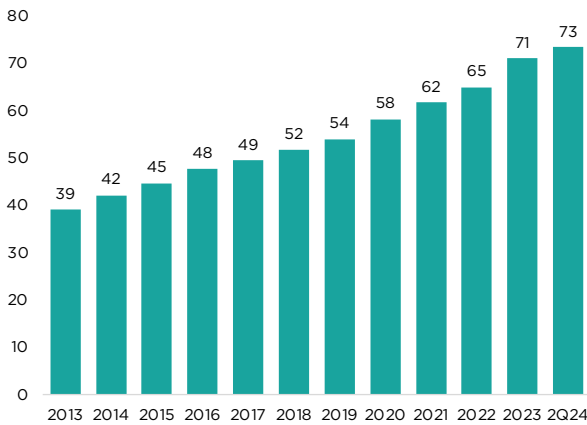
As the largest economy in the world, the US offers many flavours of growth for investors to explore. In our bottom-up research process, we actively look for companies that exhibit appealing profitability and growth profiles. The companies with high-quality products at lower cost tend to pass on their success to clients, creating sustainable cycles of profitability.

¹ United States Census Bureau. “[Business and Industry](#).” United States Census Bureau. Accessed June 24, 2024.



Costco, the bulk-purchase discount retailer, is a prime example. Customers pay an annual membership fee (ranging from \$60-\$120) for access to Costco’s warehouse stores.² This low-cost structure underpins razor-thin gross margins, which enables the company to sell high quality goods below the manufacturer’s minimum price.

Figure 1. Costco membership population (in millions)



Source: Costco, Shutterstock, Comgest as of March 31, 2024. The data on the positions held are provided for informational purposes only, are subject to change and constitute neither a recommendation to buy nor a recommendation to sell the values displayed. The securities presented in this document may not be held in the portfolio at the time of receipt of this presentation.

This low-cost structure attracts new members, which drives store-wide sales – as seen by the continuing rise in net sales worldwide. By increasing sales, Costco can then negotiate with manufacturers for even lower prices – ultimately leading to more members. Costco’s negotiations with suppliers benefit from a strong foundation of trust. Costco buys products directly from their suppliers – without intermediaries – which enables the company to enforce rigorous quality and sustainability standards.

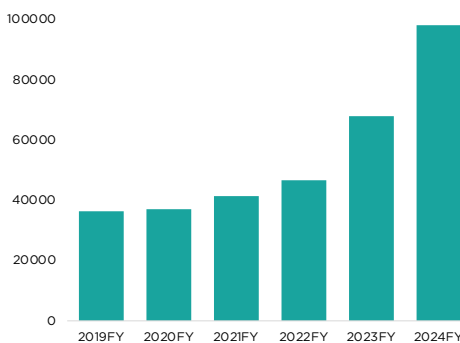
We view this “virtuous cycle”, which involves the company sharing financial gains with customers, as an extremely sustainable business model. Over the past decade, Costco’s total members have grown from 40 million in 2013 to 75 million as of last quarter.³ The company’s culture is exceptional, too. Costco typically pays its employees much more than their traditional rivals and offers additional benefits, including health insurance coverage. Happy employees also help profits: these benefits have resulted in low employee turnover (less than 8%), which has saved Costco the expense of having to train new employees.⁴

COME RAIN OR COME SHINE

The American culture of innovation enables companies to invest heavily in research and development (R&D) and design solutions to pressing problems. From medicine to software services, we believe that such non-discretionary companies are well positioned for long-term consumer demand. These companies experience consistent consumer demand, unlike discretionary stocks, which are vulnerable to economic cycles. In our view, innovative companies that solve complex consumer problems are more likely to build resilience and achieve sustainable growth.



Figure 2. Oracle order backlog (mn)



Source: Gartner, Oracle, Comgest as of March 31, 2024. The data on the positions held are provided for informational purposes only, are subject to change and constitute neither a recommendation to buy nor a recommendation to sell the values displayed. The securities presented in this document may not be held in the portfolio at the time of receipt of this presentation.

One such company, Oracle, is a cloud services and database management company that has provided businesses with resource planning solutions for nearly five decades. Once perceived as a “mature company” due to its dominance in selling relationship database systems, Oracle’s rapid growth in cloud infrastructure and enterprise resource planning software markets has been largely overlooked by investors. Over the years, the company has patiently added new business facets, becoming one of the largest cloud enterprise resource planning providers in the world.

With the rise of artificial intelligence (AI), the company’s sales backlog for cloud services has grown from about 30 billion in 2019 to a projected 98 billion this year.⁵ To meet this growing demand, the company has expanded its use of renewable energy. Today, 80% of the company’s back-end infrastructure is powered by renewable energy and is expected to be fully renewable by 2025.⁶

² Costco website: “[Welcome to Costco Customer Service](#)”, accessed June 24, 2024.

³ Source: Costco, Q1 2024 earnings call, Comgest

⁴ Ton, Zeynep. [Lessons from Costco on Sustainable Growth](#), Harvard Business Review, 13-Mar-2024.

⁵ Source: Gartner, Oracle, Comgest; as of 31-Mar-2024.

⁶ Source: Oracle, [Oracle Commits to Powering Its Global Operations with Renewable Energy by 2025](#), June 23, 2021.

Likewise, the company has sought to minimise electronic waste and explore energy and water efficiency solutions.

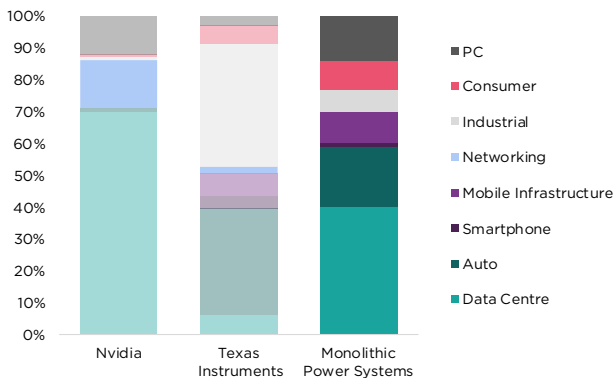
All-weather performers tend to leverage their R&D lead over competitors, pivoting into adjacent markets when the time is right. Over the course of 2020-2022, the company's R&D-to-sales ratio was 16.8% compared to the industry average of 7.7%.⁷ With solid foundations, Oracle is a highly cash-generative legacy business that is accelerating its growth to meet modern client demands.

A FUTURE CHAMPION



We prefer a concentrated portfolio of long-term holdings in our Comgest US equity strategy. We are always searching for new opportunities that align with our rigorous quality growth standards. We aim to invest in the companies designed to meet future challenges. One such example is Monolithic Power Systems (MPS), an electronics company specialising in semiconductors, which has consistently achieved faster growth compared to peers in the power management integrated circuit market.

Figure 3. MPS exposure to end markets



Source: BofA, Comgest, as of June 2024. Data on positions held are provided for information purposes only, are subject to change and constitute neither a recommendation to buy nor a recommendation to sell the values displayed. The securities presented in this document may not be held in the portfolio at the time of receipt of this presentation. Any projections or estimated data are for informational purposes only and are not guaranteed.

Based in Kirkland, Washington, MPS provides its high-end power management semiconductors across a broad range of end markets, including data centres, automotive suppliers, computing companies, and industrial applications. MPS products are essential for managing the flow of electrical currents within integrated circuits. Founded over two decades ago, the company has leveraged its proprietary packaging technology to create smaller, energy-efficient chips which are key for AI applications.

MPS is also a crucial supplier to major technology companies, including Nvidia and Google, as well as automotive leaders, such as Tesla and Mercedes. As evidenced by the company's return on invested capital, which increased from 27% in 2019 to over 50% in 2022,⁸ they are building an innovation lead over competitors. In our view, MPS shares many of the same characteristics as other all-weather performers given its diverse end markets, client base, steady share gains, and high returns.

SLOW AND STEADY WINS THE RACE

When seeking to maximise your investment opportunity for the long haul, it's best to pace yourself. This is why Comgest prefers to walk – with a patient and conviction-driven approach that enables us to identify resilient companies capable of compounding growth over time.

Looking at the US market, we favour companies with sustainable earnings growth. Being bottom-up stock selectors, we aren't bound by sectors, benchmarks or trends (such as the Magnificent Seven). With nearly 40 years of experience in quality growth investing around the world, we believe that company-specific growth drivers are the best indicators of a company's long-term success. For Comgest, companies such as Costco, Oracle and MPS not only demonstrate these fundamentals, but also resilience, regardless of market conditions.

⁷ Source: Factset/Comgest, 2020-2022

⁸ Source: Morgan Stanley, World Semiconductor Trade Statistics, Comgest; as of 31-Mar-2024.

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