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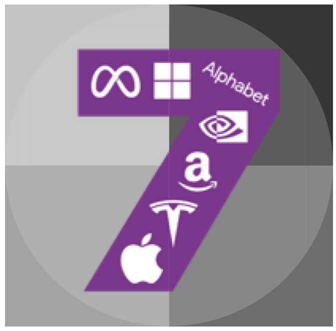
US EQUITIES

DOES THE 'WINNER TAKE ALL' IN THE US MARKET?

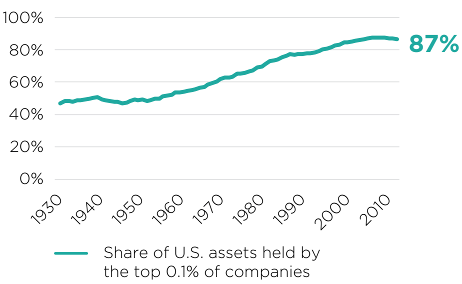
In the ever-evolving landscape of the American economy the "winner takes all" concept has been a subject of considerable debate. Although the number of companies in the US has grown by 50% over the past 30 years, their growth has not been equal. This can be clearly seen by the so-called 'Magnificent Seven', which dominate the US market and have driven many of 2023's investment-focused headlines. As *figure 1* illustrates, since the 1930s the share of the US economy of the top 0.1% of companies has risen to approximately 87%, up from 47%.[1]



The 'Magnificent Seven' refers to the following companies: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

However, there are many other dynamic companies to be found in the US market and in Comgest's US Equities strategy. For Comgest, a key 'quality' characteristic of our portfolio companies is visible growth – their business models are strong and stable with competitive advantages and brand recognition. One way to determine if a company meets our rigorous criteria is via our quality growth S-curve, which allows us to view companies in terms of their maturity and competitive risk, which lowers as a company matures. Over our years of research, three leading franchises – Eli Lilly, Microsoft, and Cintas – have long stood strong against new market entrants.

Figure 1. Share of US assets held by top 0.1% of companies



Source: Chicago Booth Review, "Rising Corporate Concentration Continues a 100-Year Trend".

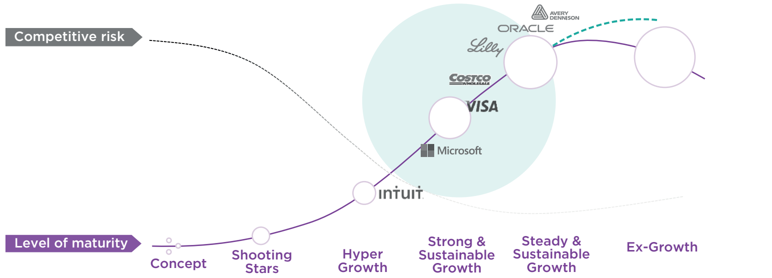
NOT ALL GROWTH IS CREATED EQUAL

Within the US market, some companies experience exponential success and dominate their industries while others struggle to gain a foothold. Factors such as innovation, adaptability, and market dynamics play crucial roles in determining the trajectory of a business.

One example that exemplifies the dynamic nature of growth is the pharmaceutical giant Eli Lilly, which we've held since 2015. Founded in 1876, the company developed insulin to treat diabetes in 1923 and has remained a power player in the pharmaceutical industry by consistently innovating and adapting to changing market needs or patients.

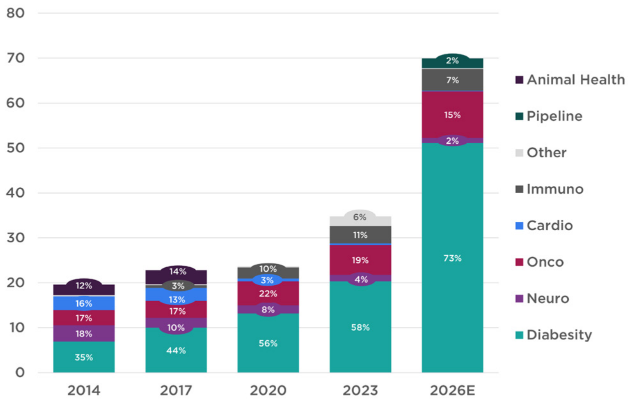
[1] Jacobs, Rose. Rising Corporate Concentration Continues a 100-Year Trend, *Chicago Booth Review*, 15-Aug-2022.

Figure 2. The Quality Growth S-Curve



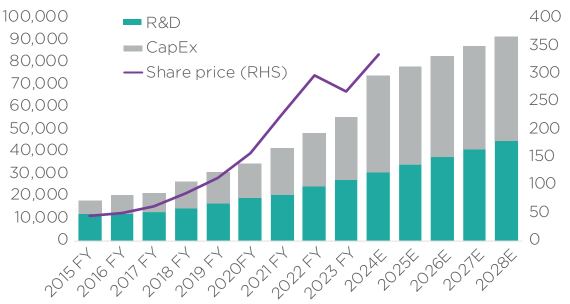
The size of the bubbles corresponds to the size of the companies. For illustrative purposes only. The securities discussed above are provided for information only, are subject to change and are not a recommendation to buy or sell the securities. The securities discussed herein may not be held in the portfolio at the time you receive this presentation.

Figure 3. Revenue Breakdown ($bn and %)



Source: Eli Lilly, Comgest as of 31-Dec-2023. The securities discussed herein may not be held in the portfolio at the time you receive this presentation. The securities discussed are provided for informational purposes only, are subject to change and do not constitute a recommendation to buy or sell the securities. Any forecasts, projections or targets are indicative only and are not guaranteed in any way.

Figure 4. Microsoft: R&D / CapEx investment has paid off



Source: Corporate Filings and Comgest estimates. Data as of year end unless otherwise stated. For illustrative purposes only. The securities discussed herein may not be held in the portfolio at the time you receive this presentation. The securities discussed are provided for informational purposes only, are subject to change and do not constitute a recommendation to buy or sell the securities. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way.

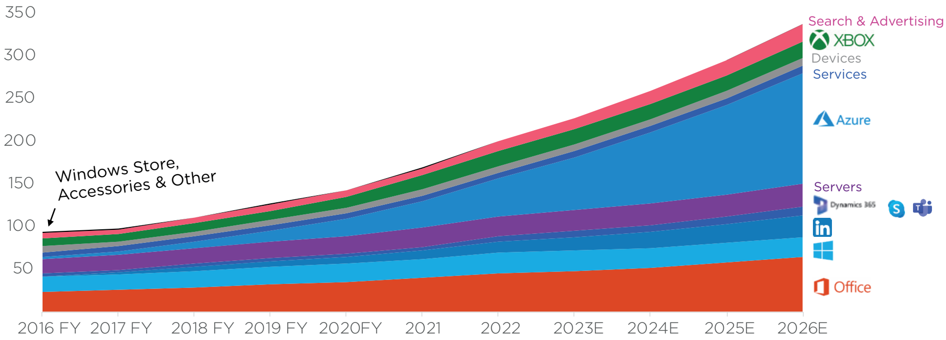
The company's success can also be attributed to its high investment in research and development, resulting in groundbreaking pharmaceuticals that address a wide range of health issues, as *figure* 3 illustrates. As the world faces a growing pandemic of obesity and with 40% of the American population affected, Eli Lilly is likely to benefit from its duopoly with Novo Nordisk in the promising area of GLP-1 treatment. In November, the FDA approved Eli Lilly's latest obesity drug, Zepbound that will compete directly with Novo Nordisk's widely popular brand, Wegovy.[2]

In the technology sector, Microsoft rose from its roots in 1975 to become a dominant force in providing a wide array of software solutions and services. The forward-thinking company's success can be attributed to its continuous investment in R&D and CapEx – which is estimated to be around $70 billion each by 2024 and brand recognition with customer loyalty.

Microsoft's staple Office and Windows products remain the industry standard for personal computers, solidifying the company's position as an industry leader. According to our S-curve, see *figure* 2, Microsoft is a mature company, which is why we've held it since 2009. What makes Microsoft exciting from a quality growth perspective, is its ability to continually innovate and adapt to meet the new needs of its clients and to expand into adjacent technology sectors such as gaming or social media, as seen in *figure* 5. Not a company to rest on its laurels, Microsoft's promising growth story is particularly strong in cloud computing (Azure), where it now

[2] https://www.nytimes.com/2023/11/08/health/fda-tirzepatide-obesity-zepbound-wegovy.html

Figure 5. Microsoft: Sales by product area (2016-2026E; $bn)



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competes with pioneer Amazon in this area.[3] There remains a strong growth trajectory especially given a third of the world's population is still not connected to the internet.

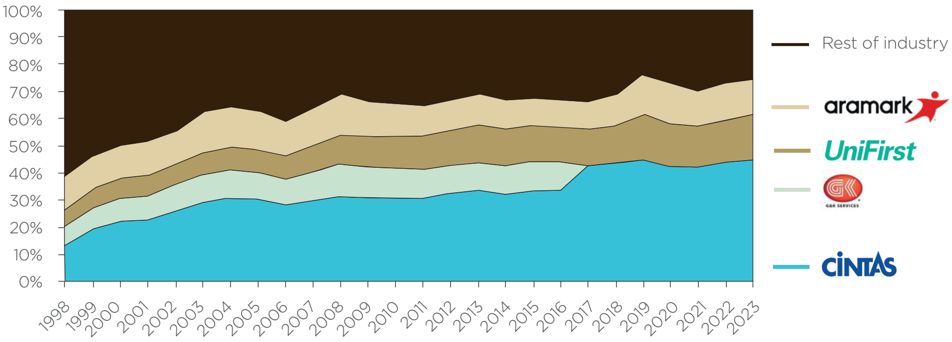
Cintas is a century-old, Cincinnati-based, family company whose origins lie in the circus, which was shuttered by the Great Depression. Despite their misfortune, founders Doc and Amelia Farmer then saw a revenue opportunity in old towels tossed out by factories, which they would then launder and sell back to companies. Cintas, which is a newer position in the strategy, has since evolved into the US leader with a 40% market share for uniform rental services and expanded into diverse areas such as facility services, first aid and safety products.

Source: Cintas website
Doc and Amelia in their circus costumes. Doc was a self- proclaimed veterinari-an, animal trainer and trapeze artist. Amelia was the queen of the circus.

Cintas' success lies in its scale and ability to provide cleaning services that are cheaper even when compared to a company internalising the cleaning costs themselves. As the largest company in the market, it has the widest network of delivery services and clients, which enables it to generate better revenue and margins. Cintas has built a robust business model in which every facility operates as a separate profit center, incentivising employees through a generous profit-sharing program and company ownership. The thriving company continues to take market share from its competitors, as illustrated in *figure 6*.

[3] https://www.statista.com/chart/18819/worldwide-market-share-of-leading-cloud-infrastructure-service-providers/

Figure 6. Uniform Rental – Estimated Market Share (North America)



Source: Baird Equity Research, U.S. Department of the Census and company data.
Note: global market share assumes Canadian market is 10-15% size of US market.

STANDING STRONG AGAINST NEW MARKET ENTRANTS

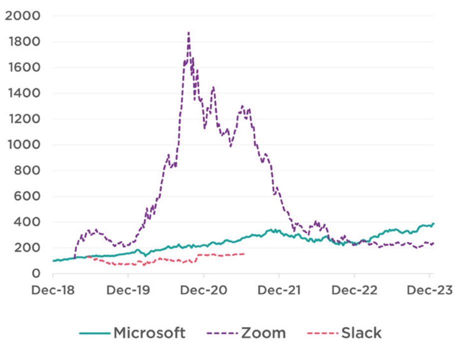
The hallmark of companies within the winner-takes-all paradigm is their ability to stand strong against new market entrants. These industry leaders not only establish themselves as dominant players but also create formidable barriers to entry for potential competitors. While the strategies employed by such companies may vary, they typically involve a combination of technological innovation, brand strength and expansion into adjacent industries.

As a major player in the pharmaceutical industry, Eli Lilly contributes significantly to the American economy and the country's healthcare ecosystem. Despite the pharmaceutical industry's risks associated with regulatory changes and market volatility, we believe Eli Lilly's life-saving drugs in the areas of diabetes and obesity, which widely affects the American population, positions the company as an economic powerhouse and a key player in addressing public health challenges.

Microsoft's influence on the American economy is multi-faceted as its products and services are integral to various industries, from personal computing to cloud services. With its "as a service" model, Microsoft today is powering productivity for clients and needs which it previously could not serve, from front-line workers to heavy back-office IT loads.

Cintas' growth from a small family-owned company to an industry leader in uniform rental services, plays a crucial role in supporting other businesses. By providing essential services such as uniform rental, facility services, and safety products, the company contributes to the smooth operation of a wide range of industries. The company's business model has evolved to combine physical products with service offerings, better positioning its competitive advantages.

Figure 7. Microsoft versus Zoom and Slack: Relative Performance over 5 years.



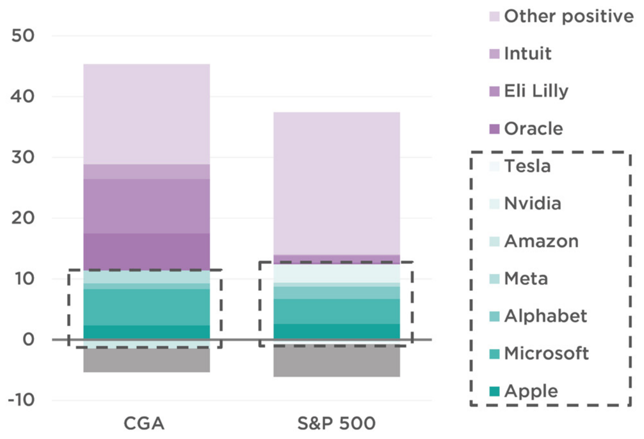
Source: Factset, Comgest as of 31-Dec-2023. The securities discussed above are provided for information only, are subject to change and are not a recommendation to buy or sell the securities. The securities discussed herein may not be held in the portfolio at the time you receive this presentation.

CONCLUSION

The concept of the 'winner takes all' holds true for certain companies that have not only survived but thrived in the face of competition. The stories of Eli Lilly, Microsoft, and Cintas highlight the multifaceted nature of success – a blend of innovation, adaptability and strategic vision.

While companies such as the 'Magnificent Seven' dominate their respective industries, the landscape is not entirely devoid of opportunities for new market entrants. The key lies in understanding that not all growth is created equal. Success is not just about entering the market but about continuously evolving to meet the changing needs of consumers.

Figure 8: Exposure to the Magnificent Seven: Comgest US Equities Strategy versus S&P 500



Source: Comgest / FactSet financial data and analytics, unless otherwise stated. Data as of 31-Dec-2023 expressed in USD. Past performance does not predict future returns. Comgest runs a buy-and-hold contribution system which performs holdings-based analysis using the beginning of period weights of securities and their returns to calculate contributions. Returns are therefore not derived from the actual portfolio return and may not reconcile with the calculation of performance which is based on the net asset value (NAV). Price Return is calculated taking into account a stock's entry or exit date over the period, if relevant.

As investors navigate the stock market, the performance of companies like Eli Lilly, Microsoft, and Cintas can provide valuable insight. The winner may take a significant share, but the market itself remains a vibrant ecosystem where both new and venerable players can make their mark with the right blend of innovation and strategic thinking.

This is why Comgest's US Equities portfolio is invested in a variety of sectors and a range of small-, mid- and large-cap companies driving growth in the US economy. As seen in *figure 8*, over three years, the performance of the Magnificent Seven is barely a quarter of our performance due to our diversification. Historically, it is this diversity that has helped us to reduce volatility and be resilient in a volatile market environment.

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- Investing involves risk including possible loss of principal.
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- Changes in exchange rates can negatively impact both the value of your investment and the level of income received.
- Comgest portfolios invest in limited number of securities and may therefore entail higher risks than those which hold a very broad spread of investments.

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Comgest US Equities Strategy

Louis Citroën joined Comgest in 2019 and is an Analyst and Portfolio Manager specialising in US equities. Louis co-leads the management of the US Equity strategy and contributes strongly to idea generation, researching US companies across a broad range of sectors. Prior to joining Comgest, he was an Equity Analyst covering telecoms and media stocks at Arete Research in London for five years. Louis previously worked from 2011 as a Small Cap Equity Analyst at Financière de l'Echiquier and began his career in 2009 as a management consultant at Oliver Wyman in Paris. He holds a Master's degree in Management from ESCP Business School (France, UK, Germany) and is a CFA® charterholder.

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Justin Streeter joined Comgest in 2015 and is an Analyst and a Portfolio Manager specialising in US equities. Justin co-leads the management of the US Equity strategy and contributes strongly to idea generation, researching US companies within a broad range of sectors. He previously worked at J. P. Morgan in San Francisco in 2013 as an M&A Healthcare Analyst and, prior to that, at J. P. Morgan's London office in a similar role. Justin began his career with Macquarie Capital Partners (London) and Société Générale (Paris). Justin graduated from Emlyon Business School (France) with a Master's degree in Management and Corporate Finance. He is also a CFA® charterholder.

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