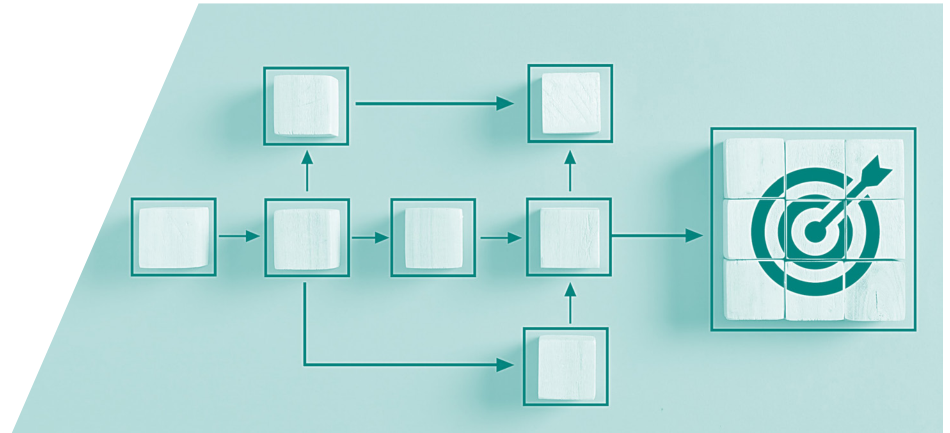
US EQUITIES
THE YEAR OF EFFICIENCY

Christophe Nagy
Analyst / Porfolio Manager

Louis Citroën
Analyst / Porfolio Manager

Justin Streeter
Analyst / Porfolio Manager

Rémi Adam
Analyst / Porfolio Manager



An unprecedented period for the US economy has forced companies to optimise their processes, providing ample opportunities for 'problem solving' service providers.

The events of the past three years have been nothing short of extraordinary.

We have seen a global pandemic, a huge wave of fiscal stimulus, a war on European soil and a sudden tightening of monetary policy. As a result, the economic environment has been forced to evolve, with the cost of capital rising, a stubbornly tight labour market forcing costs higher and increasing concern around the accessibility of finite resources.

It is through this lens that companies are now having to view the world and adapt their respective processes to do more with less. We've heard many management teams refer to 2023 as the 'year of efficiency' and that is very much reflective of the changes we are witnessing within the market, such as a renewed push towards digitisation, outsourcing for specialist services and increased cost-cutting.

We view this as part of a structural shift in the economy, which we reflect within our portfolio with close to half of our portfolio allocated to companies with service offerings that help customers meet these needs.

For example, software provider Oracle has been one of our largest holdings for many years and has been in our portfolio since its inception. Founded just two years after Microsoft, Oracle has become the dominant provider of database software and technology. This is a sticky and critical part of of clients' infrastructure with long-term contracts. In addition, the company has patiently added new facets to its offering, becoming one of the largest cloud enterprise resource planning providers in the world.

In summary, we believe this is a company with solid foundations via a highly cash generative legacy business that is accelerating its growth to meet the needs of customers in this new environment.

Another example is GXO Logistics, a US small-cap company that manages warehouses for a broad range of blue-chip clients such as Amazon, Nike, and Boeing. Supply chain issues were one of the key differentiators for companies throughout the Covid-19 pandemic, with bottlenecks stemming from China and other manufacturing hotspots viewed as significant headwinds. As a result, the optionality of warehousing has become increasingly pertinent to management teams across the world. However, the upscaling of company warehousing, and supply chains can be complex and requires investment and expertise in areas such as automation. Increasingly, these complexities are driving the trend of outsourcing, which is where GXO have been able to flourish, as the leading pure-play contract logistics company. In addition to its service offering, we particularly like this business as it has long-term contracts, inflation protection and minimum volume warranties, which provides us, as investors, with a strong level of visibility.

Finding the sweet spot

These are just two examples of the type of holding that meets our criteria for inclusion, however the investment process that underpins their selection is critical to the integrity of the portfolio.

While growth is obviously a good thing for an investment, not all growth is created equally.

As long-term growth investors, we have learned to delineate between the various stages of a company's growth cycle and maturity levels. Through this process, we have identified what we feel is the most fertile point in a company's maturation for investment, which occurs between the initial growth phase and the decline into ex-growth. We refer to this as the 'Steady and Sustainable Growth' period.

We categorise the early stages of the quality growth S-curve as Concept, Shooting Stars and Hyper Growth – essentially the earliest stages of a company's development, where the opportunity for exponential growth is at its peak. While we recognise the attraction of investing at this stage of the cycle, it is one that we typically abstain from due to the relative lack of visibility on key metrics alongside typically lofty valuations. A good example of this is Peloton, which outperformed the market significantly during the pandemic but has since fallen well below the market average. This example neatly encapsulates the risk of investing at the earlier stage of the growth cycle, when it is harder to assess a business' fundamentals, and why we typically veer towards the more mature end of the spectrum.

Our preference is to invest in companies that are in their prime, which we think are capable of producing a sustainable return and hold them for the long-term. This brings us to Steady and Sustainable Growth.

Within this area, we tend to find companies that have robust business models and can offer good visibility on earnings, revenue and other key metrics. We also recognise that at this stage in a company's maturation, any discrepancy surrounding early-stage valuations has likely settled and that companies are trading closer to their intrinsic value.

We, of course, make some exceptions to this investment philosophy. Examples are typically companies that appear to be in the Ex-Growth phase of their cycle, which may have evolved their offering or branched into other areas. But, in general, we are looking for quality companies with an established foothold in the market.

A unique opportunity for growth

The US is known for its entrepreneurial culture and innovative capacity and continues to provide quality growth opportunities. The US (S&P500) expected NTM EPS growth over the last 15 years has been on average 1.6% higher than in Europe (STOXX 600)[1].

[1] Source: Factset/Bloomberg, June 2008 to June 2023

The events of the past three years have re-shaped the way companies operate and has highlighted the need for optimisation. With increasing costs across the board, companies can ill afford to carry any fat within their processes and therefore the need for solution-based services has never been greater.

We see this as an important stage in the trajectory of the US market and are comfortable with our portfolio's positioning, as we continue to invest in the companies we believe are best suited to meet these challenges.

Christophe Nagy joined Comgest in 2009 and is an Analyst and Portfolio Manager specialising in US equities. He is also a member of the Comgest Group's Investment Committee. Christophe co-leads Comgest's US equity strategy and has played an instrumental role in building the US equity team and guiding their research activities. Before joining Comgest, he worked at Mercer Consulting from 1991, at Carmignac Gestion from 1998 where he managed global growth portfolios, and then from 2002 as a Senior Portfolio Manager at Edmond de Rothschild Asset Management. Christophe holds a Master's degree in Engineering from Ecole des Mines in St-Etienne in France and received an MBA from the INSEAD graduate business school near Paris in 1991.

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.

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.

Rémi Adam joined Comgest in 2019 and is an Analyst and Portofolio Manager specialising in US equities. After starting his career in 2014 as a Global Equity Analyst at Amundi in London, Remi moved to Paris and Frankfurt where he was an Equity Analyst covering media and telecom stocks at Oddo Securities for three years. He holds a Master's degree in Risk & Finance from EDHEC Business School and is a CFA® charterholder.

MAIN RISKS

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

IMPORTANT INFORMATION

This document has been prepared for investors in the fund presented herein only and may only be used by these investors.

Not investment advice

This commentary is for information purposes only and it does not constitute investment advice. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. It is incomplete without the oral briefing provided by Comgest representatives.

Not an investment recommendation

No discussion with respect to specific companies should be considered a recommendation to purchase or sell any particular security/ investment. The companies discussed do not represent all past investments. It should not be assumed that any of the investments discussed were or will be profitable, or that recommendations or decisions made in the future will be profitable.

Comgest does not provide tax or legal advice to its clients and all investors are strongly urged to consult their own tax or legal advisors concerning any potential investment.

Not investment research

The information contained in this communication is not an 'investment research' and is classified as a 'Marketing Communication' in accordance with MIFID II. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Performance disclaimer

Past performance is not a reliable indicator of future results. Forward looking statements, data or forecasts may not be realised.

Trademark and index disclaimer

Product names, company names and logos mentioned herein are trademarks or registered trademarks of their respective owners.

S&P Dow Jones Indices LLC ("SPDJI"). S&P is a registered trademark of S&P Global ("S&P"); Dow Jones is a registered trademarkofDow Jones Trademark Holdings LLC ("Dow Jones"). These trademarks have been licensed for use by SPDJI and sublicensed for certain purposes by Comgest. Comgest's fund is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones and S&P, their respective affiliates and none of such parties make any representation regarding the advisability of investing in the fund nor do they have any liability for any errors, omissions, or interruptions of the index.

The STOXX Indices are the intellectual property (including registered trademarks) of STOXX Limited, Zug, Switzerland ("STOXX"), Deutsche Börse Group or their licensors. STOXX has not been involved in any way in the creation of Comgest products. Comgest products is neither sponsored nor promoted, distributed or in any other manner supported by STOXX, Deutsche Börse Group or their licensors, research partners or data providers. STOXX, Deutsche Börse Group and their licensors, research partners or data providers do not give any warranty and exclude any liability whatsoever (whether in negligence or otherwise) –including without limitation for the accuracy, adequateness, correctness, completeness, timeliness, and fitness for any purpose –in relation to any errors, omissions or interruptions in any data contained in the Comgest products.

Information provided subject to change without notice

All opinions and estimates constitute our judgment as of the date of this commentary and are subject to change without notice. The portfolio holdings referenced herein may not be held at the time you receive this publication and are subject to change without notice.

Restrictions on use of information

This commentary and the information herein may not be reproduced (in whole or in part), republished, distributed, transmitted, displayed or otherwise exploited in any manner by third parties without Comgest's prior written consent.

Limitation of Liability

Certain information contained in this commentary has been obtained from sources believed to be reliable, but accuracy cannot be guaranteed. No liability is accepted by Comgest in relation to the accuracy or completeness of the information.

Legal entity disclosure

Comgest S.A is a portfolio management company regulated by the Autorité des Marchés Financiers and whose registered office is at 17, square Edouard VII, 75009 Paris.

Comgest Asset Management International Limited is an investment firm regulated by the Central Bank of Ireland and registered as an Investment Adviser with the U.S. Securities Exchange Commission. Its registered office is at 46 St. Stephen's Green, Dublin 2, Ireland.

For UK only:

This commentary is not being distributed by, nor has it been approved for the purposes of section 21 of the Financial Services and Markets Act 2000 (FSMA) by a person authorised under FSMA. This commentary is being communicated only to persons who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (the FPO). The Investments are available only to investment professionals, and any invitation, offer or agreement to purchase will be engaged in only with investment professionals. Any person who is not an investment professional should not rely or act on this commentary or any of its contents. Persons in possession of this document are required to inform themselves of any relevant restrictions. No part of this commentary should be published, distributed or otherwise made available in whole or in part to any other person.

For Hong Kong only:

This advertisement has not been reviewed by the Securities and Futures Commission of Hong Kong.

For Singapore only:

This advertisement has not been reviewed by the Monetary Authority of Singapore.

For Australia only:

Comgest Far East Limited is regulated by the Securities and Futures Commission under Hong Kong laws, which differ from Australian laws. Comgest Far East Limited is exempt from the requirement to hold an Australian financial services licence under the Australian Corporations Act in respect of the financial services that it provides. This commentary is directed at "wholesale clients" only and is not intended for, or to be relied upon by, "retail investors" (as defined in the Australian Corporations Act).

Comgest Singapore Pte. Ltd. is regulated by the Monetary Authority of Singapore under Singaporean laws, which differ from Australian laws. Comgest Singapore Pte. Ltd. is exempt from the requirement to hold an Australian financial services licence under the Australian Corporations Act in respect of the financial services that it provides. This commentary is directed at "wholesale clients" only and is not intended for, or to be relied upon by, "retail investors" (as defined in the Australian Corporations Act).

comgest.com

AMSTERDAM - BOSTON - BRUSSELS - DUBLIN - DÜSSELDORF - HONG KONG - LONDON - MILAN - PARIS - SINGAPORE - SYDNEY - TOKYO - VIENNA