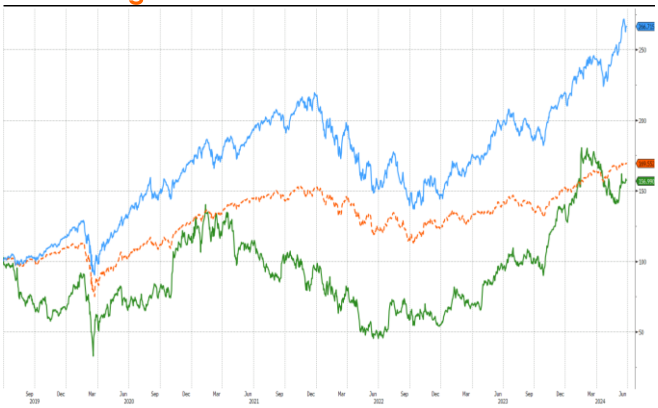
Transaction Rationales

Purchases / Increases

Initiate Uber Technologies (UBER US)

5-year Chart: Uber Technologies vs. the Bloomberg World Index and the Sector



Source: Bloomberg
Total return in USD
Data range 27.06.2019-26.06.2024
Note: past performance is not a reliable indicator of future results

Uber is a global logistics platform that offers rideshare and food delivery services for users through a network of drivers and couriers. It is by far the largest such platform in the world, with 150 million users, 7 million drivers, and 1 million merchants.
The company has invested significant amounts of money over many years to build its dominant network and has launched its services in more than 70 countries. It has come a long way since 2009 when its two founders saw taxis as an archaic and inefficient industry that ought to be disrupted. 5 years after its IPO, we think the company has matured into a solidly growing and highly profitable business with a lot of room to develop further, while leaving most of the risks it bore as an upstart behind. The aggressive early years gave way to more normalised relationship with taxis (Uber has signed partnership with taxi companies in several large cities) and the regulatory environment, though still a risk in some markets, has stabilised.

Uber's services have gradually penetrated our lives and its brand has become a household name. What began as a novel concept in urban mobility has now become an essential part of everyday life for millions of people around the world. From its core ride-sharing service that offers quick and convenient transportation at the tap of a button, to its food delivery service Uber Eats that brings meals from local restaurants straight to our doors, Uber has seamlessly integrated itself into our daily routines.

Not the least important to us, that state of maturity has materialised in the company's P&L. Gone are the losses resulting from the aggressive land and expand strategy. Uber posts now solid margins and generates large amount of free cash thanks to a very scalable business model.

We also believe it is becoming increasingly hard to replicate the Uber franchise. At the heart of the moat protecting it, lies a two-sided network – drivers and passengers (increasingly becoming a three-sided network with the Uber Eats merchants). The larger one side of the network gets, the more it is valuable to the other side. The economies of scale and scope enjoyed by its platform is a significant advantage adding to the moat. Also, the amount of data it gathers is significantly larger than all other competitors leaving them better able to meet the demand of customers and to optimise the time capacity of the drivers.

We think the runway for growth for Uber is large. There are a lot of cities where its ride hailing service is not even launched and the partnerships it signed with the Yellow Cabs in NYC and the taxis in Tokyo are example of initiatives that will help consolidate its dominant position in ridesharing. We see that Uber Eats continues to increase its market share by onboarding new merchants. We also think that the strategy pursued by the management to leverage its network by expanding its offering into delivery of various non-restaurant products has the potential to unlock a large market for the company and should reinforce the moat of the business.

The stock price has not done much since its IPO and we think that the market is overlooking the progress made by the business. It now trades at big discount to a conservative fair value (Earning Power yield at 6%).

Buy an initial position in Meta (META US)

After the sell off following the latest earnings report and disappointment about the higher capital spending we buy an initial position in Meta as the company has staged an impressive turnaround from the growth scare back in 2021 and as the stock has built-up a significant undervaluation despite the heavy investments in AI and Reality Labs (meta-verse).

Looking at the platform capabilities, the vast amount of data and investments made in recent years, Meta is one of the leading companies in AI worldwide right now that offers optionality in AI green fields through Reality Labs. Unlike during previous technology shifts (like desktop to mobile), Meta has been investing for years and is well prepared.

5-year Chart: Meta vs. the Bloomberg World Index and the Sector and Alphabet

Source: Bloomberg — Data range 08.05.2019-03.05.2024
Total return in USD — Note: past performance is not a reliable indicator of future results

While investors seemed to be concerned that Meta is entering a new investment cycle, we believe these new investments are being made from a position of strength and with a view to leverage the existing business. A look at recent industry data suggests that, after the growth scare back in 2021 and the subsequent slow-down, Meta has become the fastest growing ad platform at scale. What's more, while investment cycles have historically been a concern for investors, this time around the company is building adjacent services, which should strengthen the current advertising model, as opposed to prior transitions (Reels/Stories), which were largely done to catch up with more nimble competitors. Therefore, we think that Meta is investing more into Gen AI from a position of strength.

While the economic benefit of the large-scale investments in Reality Labs (RL) are still unclear and hard to model, Meta argues that there are clear synergies between RL and the other segments. We tend to agree with that. What's more, despite the drag of those investments into RL on profitability (a loss of USD 16bn in 2023), Meta stock looks undervalued after the recent drop and operative progress made over the past three years. In fact, since we exited to stock in early August 2021 at USD 360, current year PE has fallen from 26.9x in 2021 to 20.9x today, despite a fundamentally better advertising platform that's gaining share, a generally much brighter outlook and a lower risk profile. Since August 2021 Meta stock has slightly outperformed the Tech-index and it has performed in line with Alphabet.

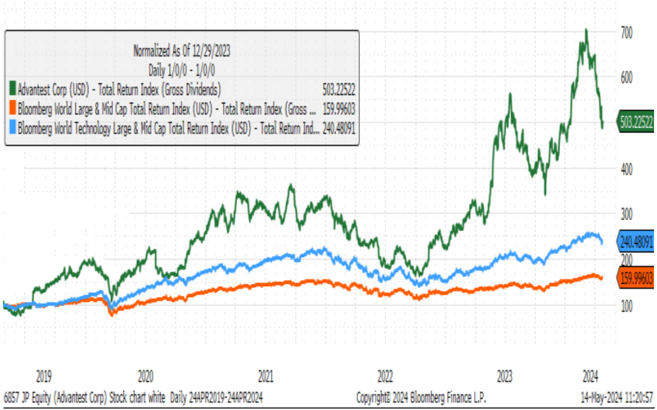
What's more, should the investments in RL not pay off as planned, Meta will have plenty of room to improve profitability through cost cuts in that field, further de-risking the investment case while providing investors with a free call-option on meta verse and computer visional AI, with an addressable market which is forecast by Bloomberg Intelligence to grow from $2.7bn in 2023 to 58bn in 2032.

Buy an initial position in Advantest (6857 JP)

We buy an initial position in Advantest to further strengthen our exposure to providers of mission critical elements for AI to function.

ChatGPT could generate strong demand for advanced chips for artificial intelligence (AI), in turn boosting demand for chip testers. As cutting-edge chips for AI become more widely used, it will become more important to test not only chips, but also chip packages and even entire systems. The introduction of new technologies will require not only the assurance of the operation of a single chip, but also the system as a whole. Advantest is rapidly strengthening its system-level tests (SLT) business after acquiring Astronics in 2019 and Essai in 2020 in quick succession.

5-year Chart: Advantest vs. the Bloomberg World Index and the Sector



Source: Bloomberg | Data range 24.04.2019-24.04.2024
Total return in USD | Note: past performance is not a reliable indicator of future results

New DRAM chips, such as high bandwidth memory chips, could be widely adopted for AI servers, fueling additional sales growth for memory testers and the mechatronics division. In-vehicle chips for driverless cars require near-zero defect rates, boosting demand for high-quality testers.

While Advantest is expected to achieve strong, long-term sales growth due to its advanced chip-testing solutions, growth may temporarily slow in fiscal 2025 due to muted demand from logic chip customers. We take advantage of the recent price 30%-decline triggered by those growth concerns to buy an initial position.

Add to Zscaler (ZS US)

We take advantage of the recent price weakness to add to the initial position.

ZS is not only a good way to cover the growing security needs from cloud and AI, but it is also a good combination of high growth and profitability.

Therefore, we add to the initial position in our growth-oriented strategies.

5-year Chart: Zscaler vs. the Bloomberg World Index and the Sector

Source: Bloomberg | Data range 24.04.2019-24.04.2024
Total return in USD | Note: past performance is not a reliable indicator of future results

Add Schneider Electric (SU FP)

We are taking advantage of the consolidation in the stock price to add to existing positions.

Schneider is a leader in energy management solutions that includes low/medium voltage, power security and industrial automation solutions. The company mostly operates in end markets that are oligopolistic by nature and supplies products and systems that are critical and often represent a low % of the cost of the overall system it is embedded in. That supports the company's decent pricing power and allows it to sustain healthy margins. Over time the company has built a strong software and industrial IoT platform that reinforces its moat. As software grows faster than average, it will gradually increase the portion of recurring revenue and expands the operating margin.

Chart: Schneider Electric vs. the Bloomberg World Index and the Sector

Source: Bloomberg Data range 11.04.2019-11.04.2024
Total return in USD Note: past performance is not a reliable indicator of future results

In the last decade the company has beefed up its position or established leadership in several tech / products that benefit from secular demand growth in energy management (both hard and software), data center, Industrial automation and IoT. That has helped Schneider to upgrade its growth profile, from middle single digit to high single digit with a long runway and multiple drivers.

Its data centers business stands to benefit from a wave of investment as tech companies need significantly more data center capacity to train their AI large language models (LLM). We believe that the large demand growth for Schneider's data center products and systems may prove more sustainable than what most investors expect. Once trained, these LLMs will have to be deployed in data centers that sit at the edge, meaning close to where the users are. That will create both large capacity demand and issues in terms of power management – the bread and butter of Schneider.

Despite a strong rise since its Capital Market Day last November, the stock still offers a normalized earning yield above 4%. We think that gives us some margin of safety when considering the quality and the structurally increasing growth rate of Schneider.

Add to Applied Material (AMAT US)

We continue to build our position in Applied Material. Despite the 7% rise since we initiated the position last February, we think the stock continues to offer a decent margin of safety and a good upside. It also trades at a discount to other major Semiconductor Equipment producers – particularly when compared to Tokyo Electron, a stock we have owned since 2021.

AMAT is the largest manufacturer of equipment destined to produce chips (outside lithography tools). The company has a strong position in etching, deposition, resist removal tools, and many others that are all essential to imprint complex circuitry on silicon wafer. The company also has advanced backend technologies that are increasingly important to accommodate the architectures of the most advanced semiconductors.

5-year Chart: Applied Material vs. the Bloomberg World Index and the Sector

Source: Bloomberg Data range 11.04.2019-11.04.2024
Total return in USD Note: past performance is not a reliable indicator of future results

The market for semi equipment has consolidated over time, as only the largest players were and will be able to deploy the considerable resources needed to develop the equipment to produce ever lower nanometer nodes. Chip fabs are expensive (several bn$) and complex to run. Therefore, the semi equipment market is now dominated by a few franchises like AMAT that enjoy a strong moat from extremely high switching costs of their equipment for Fabs.

The demand for AMAT's products is growing fast as the demand for semiconductors is driven by secular tailwinds like AI. The consumption of semiconductors is broadening as chips are the backbone of nearly all innovations that are being deployed nowadays. The company will benefit from the inflection point reached by AI, as loads of GPUs and HBM memory chips form the backbone of AI large language models (LLMs). All that also leads to ever more complicated chip designs that in turn require more sophisticated tools from AMAT, resulting in a significant rise in its profitability.

Despite the rise over the past 12 months, valuation remains attractive (Earning Power Yield at about 5%) compared to the market and peers, particularly when considering the quality of its franchise and historical growth. Hence, AMAT not only provides excellent exposure to the growing AI-opportunity, but also a large margin of safety.

Add to Adobe (ADBE US)

We take advantage of the recent correction in the stock price to buy back the shares that sold in September 2023 based on its stretched valuation. Since then, Adobe has underperformed the sector by 34% and the market by 25%.

5-year Chart: Adobe vs. the Bloomberg World Index and the Sector

Source: Bloomberg
Total return in USD
Data range 11.04.2019-11.04.2024
Note: past performance is not a reliable indicator of future results

While Adobe results delivered since then were decent, the main trigger for the underperformance were overly optimistic expectations, in our view. In fact, we have highlighted on prior occasions that investors should not expect an immediate acceleration of sales growth from AI and that the positive impact would come later in the year and most prominently in FY25. What's more, limited short-term AI monetization is consistent with Adobe's investor messaging that it is focused far more on driving Firefly usage/adoption than on maximizing Firefly revenues. We think that is the right long-term strategy.

Another issue that we think spooked investors was new offerings by some start-ups that created fears of disruption. While such new AI-offerings may look exciting at first sight, they are far from offering the features, quality and certainty regarding property rights (meaning legal risks) that professionals demand and that ADBE's products offer. Recent channel Checks from UBS Research confirm that view. Consistent with prior creative AI checks by UBS Research, early users of text-to-image creation tools appear to be using them to "ideate, using it as a collaborative tool" rather than as finished content.

While the stock is likely to remain in the penalty box for a while, due to the underperformance, the stocks has built-up again a large margin of safety. Therefore, we increase our positions in this prime beneficiary of AI again. Sidenote: since our initial investment in Adobe in early 2019, we have reduced and then increased the position three times already, each time adding value.

Sells / Reductions

Sell Tyler Technologies (TYL US)

After the recent rally the stock is approaching fair value. We take advantage of the recent to sell the remaining position in our growth-oriented portfolios.

While Tyler has a long runway for low teens EPS growth, sales growth estimates have slipped back in recent quarters to the high single digits, as the sales synergies with the NIC-acquisition have not materialized to the expected degree. At 55x OEPS those reduced growth expectation are largely priced in.

We are looking to re-invest the sales proceeds into more promising alternatives that offer a better risk/return.

Chart since initial purchase: Tyler Technologies vs. the Bloomberg World Index and the Sector

Source: Bloomberg — Data range 05.06.2019-24.04.2024
Total return in USD — Note: past performance is not a reliable indicator of future results

Reduce SAP (SAP US)

After the 22% rally in 2024, the stock is approaching fair value. We take advantage of the recent outperformance to reduce our large position in our growth-oriented portfolios.

We re-invest the sales proceeds into more promising alternatives, particularly in the AI- and cloud space.

5-year Chart: SAP vs. the Bloomberg World Index and the Sector

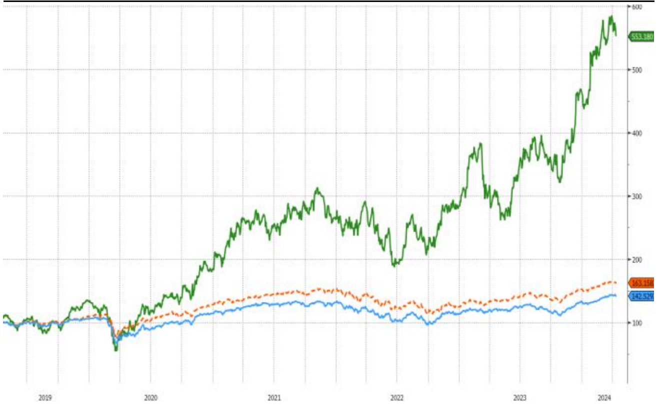
Source: Bloomberg — Data range 24.04.2023-24.04.2024
Total return in USD — Note: past performance is not a reliable indicator of future results

Sell United Rentals (URI US)

Since our initial purchase back in the spring of 2023, the stock has almost doubled. As a result, the margin of safety has disappeared almost entirely.

What's more, United Rentals has not only greatly outperformed the market by a wide margin, but also its closest peer, Ashtead. While we still like the long-term business outlook of the equipment rental business, we reduce our large overweight position to the theme by taking profit in United Rentals. However, we remain overweight through our large holding in Ashtead, where we see a much larger upside.

5-year Chart: United Rental vs. the Bloomberg World Index and the Sector



Source: Bloomberg Data range 11.04.2019-11.04.2024
Total return in USD Note: past performance is not a reliable indicator of future results

With kind regards,

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