Transaction Rationales

Purchases / Increases

Buy Tokyo Electron (8035 JP)

We take advantage of the negative sentiment toward the semiconductor industry to re-initiate a position we liquidated in March 2024. Tokyo Electron is down about 40% since we have sold at a price close to its all-time high.
The rational for selling the stock in March was related to market exuberance around the AI theme that had pushed the stock price to levels that left us with no margin of safety. It was by no mean due to a lack of confidence in the company's fundamentals.

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

Source: Bloomberg
Total return in USD
Data range 09.09.2019-09.09.2024
Note: past performance is not a reliable indicator of future results

Tokyo Electron has a strong position in most machines that equip semiconductor fabs and that are critical to process silicon wafers when manufacturing chips. The demand for TEL's tools will continue to grow in the long-term with advanced semiconductor powering the world digitalisation and most innovations being deployed nowadays, including AI.

Its high profitability is protected by a strong economic moat that is grounded on a technological know-how that few possess, on its scale and on the entrenchment of its relation with its customers. As a matter of fact, the chip manufacturers need to partner with suppliers like Tokyo Electron to develop the next generation of deposition, etching and resist coater tools that will be fit to make the smaller nodes of the future. Such co-developments create a symbiotic relationship that is a powerful barrier to entry in these oligopolistic markets and result in a high level of ROIC for equipment manufactures like TEL.

The industry has always been volatile and prone to violent shifts in market sentiment. The sharp correction driven by fears around geopolitics has confirmed that. Western governments are increasingly using technologies and semiconductor in particular as a weapon in their struggle against China. That could surely impact TEL's business in the short term if they were to be prevented to sell some of their most advanced tools to the Chinese. Nevertheless, we view these fears as overdone. Most advanced tools related to EUV processes were already not in sale in China and if legacy nodes chips were to be increasingly manufactured in Western countries, that would require massive investment in fab capacity triggering additional demand for equipment that TEL provides. Meanwhile the Chinese are decades away from developing etching and deposition technologies that could match the ones of TEL and its Western peers.

We use that volatility in our favour to buy at a stock price that offers a good margin of safety vs the earning power value of that high quality cyclical business (current normalised earnings yield at 5.5%).

Increase London Stock Exchange (LSEG LN)

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

Source: Bloomberg Data range 29.08.2019-29.08.2024
Total return in USD Note: past performance is not a reliable indicator of future results

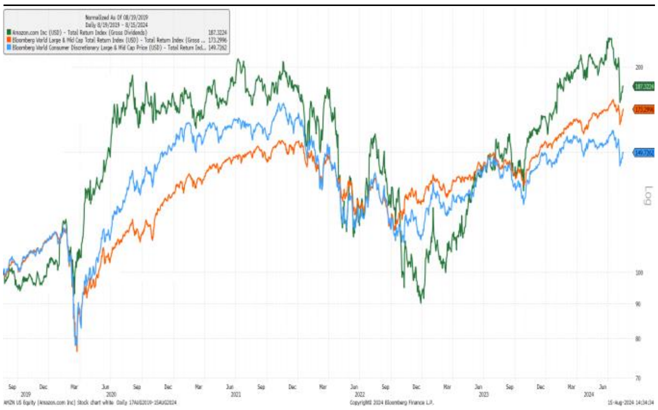
While the economics of LSEG were expected to improve materially through the acquisition of Refinitiv in 2021, the company subsequently went through an extended period of heavy integration work and investment into the Refinitiv assets, which was a tailwind for the stock price since. Now, the risk related to the acquisition have materially diminished and LSEG is now seeing an acceleration of its top line growth and an expansion of its margin.

After completely reconfiguring its business model, LSEG benefits from several structural trends in the finance industry such as the rising ETF (exchange-traded fund) penetration, OTC clearing, greater risk management and quant investing. The new group now generates a revenue stream that is mostly recurring by nature (75%) and its growth profile has gone from mid-single digit growth in the past to high-single digit now. In addition, LSEG's partnership with Microsoft struck in 2023 is of a strategic nature and can add c1-2% growth from FY 2026 to 2028 as it will facilitate client adoption of artificial intelligence (AI) tools and as it will allow LSEG to embed its services more deeply into its clients' core processes.

The current valuation doesn't adequately reflect the accelerating organic grow profile, and we think the current discount to peers is not warranted. After an extended period of underperformance, investor have picked up on the improved outlook lately and the stock was finally able to overcome the top set in 2021 at around 100 GBP. We believe that the recent positive news flow and this break out clears the way for a more significant up-move which should close the valuation gap with peers. Therefore, we further increase our positions in this quality compounder in our style neutral strategies.

Buy Amazon (AMZN US)

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



Source: Bloomberg Data range 19.08.2019-15.08.2024
Total return in USD Note: past performance is not a reliable indicator of future results

Amazon has been disrupting the traditional retail industry for more than two decades. After many years of heavy investments and thanks to innovative culture Amazon today not only dominates e-commerce but has also built a leading position in cloud services. Additionally, the firm has built a sizable advertising business in recent years that leverages off Amazon's retail operations and its vast data pool.

However, the Amazon story is likely to morph from a risky high growth/innovation story into a more predictable compounder with above average growth driven by rising margins and returning large amounts of cash to shareholders.

The company has numerous levers it can pull such as ongoing shift to a more profitable business mix, leveraging its vast distribution network through third party seller volumes and technology, and, finally, by returning excess cash to shareholders as cash flows grow faster than capex. While this shifting investment rationales may lead to some shifts in Amazon's investor base that can cause occasional volatility in the stock, management's increasing

focus on profitability and (as we expect) capital allocation, essentially de-risk the Amazon investment case.
Therefore, we view the recent drop in the stock price as a good entry opportunity into this long-term growth story (increasingly from compounding). At current prices the stock offers a relative upside of 23%.

Increase Uber Technologies (UBER US)

We continue to build the position we initiated in June. The stock is only slightly up since (~+7%). The last quarterly earnings only brought elements that strengthen our conviction. The franchise is broadening, the profitability is on the rise, and they are gaining share to the ride hailing number 2 – Lyft. Since our initial purchase, the company has announced a few partnerships/deals (Instacart, BYD, Delivery Hero) that in our opinion reflect well on the management's business savviness. The current valuation (6% normalised yield) is far from reflecting the potential long-term earning power of the company.

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

Source: Bloomberg | Data range 19.08.2019-15.08.2024
Total return in USD | Note: past performance is not a reliable indicator of future results

Increase Diageo (DEO US)

The company has had from headwind since we initiated a position last year. The spirit market entered a cyclical downturn after a period of exceptional growth post covid. We believe that destocking to be transient and believe that the resulting underperformance of the stock price is an opportunity to add to this high-quality compounder at a great price.

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

Source: Bloomberg | Data range 19.08.2019-15.08.2024
Total return in USD | Note: past performance is not a reliable indicator of future results

Diageo is the world's largest premium spirits company, with an estimated 30% share of the global premium spirits market. Its brands include Johnnie Walker Scotch whisky, Crown Royal American whiskey, Smirnoff and Ketel One vodka, Gordon's and Tanqueray gins, Baileys liqueur and Don Julio tequila. By category, more than 80% of group sales came from spirits and 15% from beer (mostly Guinness), with the rest from ready-to-drink. The US is its largest contributor to profits. Diageo also owns a 34% stake in Moët Hennessy and 55% of United Spirits in India

The company has a strong moat stemming from from the breadth of its distribution network, its bargaining power with these distributors, the strength of its well established brands and strong marketing capabilities. Diageo benefits from strong pricing power thanks to this set of competitive advantage and thanks to the relatively high pricing point positioning of its products relative to other beverage companies. We believe it will benefit from the long-term structural premiumization of the spirits market globally. Its competitive advantages also allow Diageo to acquire and develop smaller dynamic brands in categories that have attractive economics. That adds to the organic development of its product portfolio. The stock trades at the lowest earnings multiple in 10 years and far under our calculated earning power value.

Sells / Reductions

Reduce S&P as Margin of safety is small (SPGI US)

To finance the initiation of Tokyo Electron, we take profit and sell some shares of S&P Global. The stock is up 21% this year, outperforming the market by some 16% and the sector by 11%. This reduction will bring the SPGI stock to a position size more in adequation with the reduced margin of safety offered by its stock price.

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

Source: Bloomberg — Data range 09.09.2019-09.09.2024
Total return in USD — Note: past performance is not a reliable indicator of future results

Reduce Adobe back to an average size (ADBE US)

To finance the increase of LSEG, we take profit and sell the additional shares of Adobe bought back in April 2024. The stock outperformed the market by some 9% since. This reduction will bring the Adobe position size back to the average of the portfolio.

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

Source: Bloomberg — Data range 29.08.2019-29.08.2024
Total return in USD — Note: past performance is not a reliable indicator of future results

Sell Waters (WAT US)

Since we took advantage of a significant decline in the stock price in 2023 the stock has rebounded strongly. However, our free cash flow estimates for 2029 have come down by more than 20% since the initial purchase. As a result of all of this, Waters stock now trades slightly above its 10-year averages. While the long duration nature of its cash flows warrants a large premium over the market, current multiples leave limited upside.

Therefore, we take profit to make room investments that offer a more attractive risk/return.

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

Source: Bloomberg
Total return in USD
Data range 19.08.2019-15.08.2024
Note: past performance is not a reliable indicator of future results

Sell the remainder of CVS Health (CVS US)

After another disappointing quarterly report we sell the remaining small position in CVS to re-invest the sales proceeds into more promising alternatives.

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

Source: Bloomberg
Total return in USD
Data range 19.08.2019-15.08.2024
Note: past performance is not a reliable indicator of future results

With kind regards,

Emerald Wealth Partners AG, Investment Office

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