TRANSACTION RATIONALES

Purchases / Increases

Ashtead: Taking advantage of the recent weakness to add to positions in the Growth Equity Strategy.

After the sharp drop in the stock price over recent weeks we add to Ashtead position in the growth strategies as the stock now offers an even more compelling risk/return relation.

The recent decline of the stock had nothing to do with the company's long-term fundamentals, in our view, it was rather fears of an imminent recession that brought Ashtead down, even though the business is not really cyclical when looking at cash flow generation.

While upfront demand for Ashtead's service may temporarily dip, usually, as the company delays investments in new equipment for a year or two, cash flow remains rather stable, allowing Ashtead to buy back their own shares. These favorable dynamics are rather unique for a cyclical business. Therefore, when fears of an economic slow down bring down Ashtead shares, more often than not, it is a good long-term investment opportunity. We think this is the case here as well, therefore, we add to positions.

Since initial investment in our strategies: Ashtead vs. the Bloomberg World and the Sector

Source: Bloomberg
Total return in USD

Data range 17.11.2020 – 12.04.2023
Note: past performance is not a reliable indicator of future results

Waters: Buying an initial position in this defensive and long-duration growth stock.

Waters specializes in liquid chromatography and mass spectrometry products (89% of 2021 sales), which are used primarily by pharmaceutical firms to analyze a molecule's structure during the drug discovery, development, and production processes.

The firm's strategy revolves around placing instruments, including preinstalled software, providing various services throughout the useful life of each system, and selling related consumables, such as chromatography columns and sample preparation kits and tools. About half of Waters' sales are considered recurring.

Waters enjoys a wide moat, most stemming from intangible assets (patents & trademarks) and switching costs resulting from regulatory and operative hurdles such as certifications resp. employee training. Margins are high as a result.

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

Source: Bloomberg
Total return in USD

Data range 16.04.2018 –12.04.2023
Note: past performance is not a reliable indicator of future results

We expect Owner's earnings to continue to grow 9-10% for the froseeable future.

Due to this favorable business environment, Waters stock was always too expensive for our liking in recent years. Since Summer 2021 the price has come down 30%, while earnings have kept growing. This has brought the multiple 2024 down to 22.5x, or slightly above it's 10-year average. Given the long duration growth and the reduced valuation, we add an initial position to our growth-oriented strategies.

Sika: Buying an initial position in this secular growth story in construction- and performance materials in our growth-oriented strategies.

Sika is well-positioned to benefit from secular growth trends such as an increasing focus on energy-efficient buildings, ongoing trends in construction towards lower carbon intensity and recycling and the trend towards lighter vehicles in the automotive industry, because it's market leading products are key ingredients resp. enablers in those efforts.

Doubts about margin targets have brought the stock down in 2022 and 2023. However, results have been remarkably resilient despite front-end loading one-off costs from the MBCC-acquisition. Moreover, the firm's ability to preserve its profitability despite inflationary challenges, indicates the strength of the group's business model and its strong operational capabilities. Part of the resilience of the business comes from rather stable sales trends in repairs and refurbishments which tend to be not very cyclical. In addition, thanks to the diversity of its product range, Sika tends to always be able to benefit from certain pockets of growth, even in a downturn (such as water treatment plants or underground car parks).

5-year chart: Sika vs. the Bloomberg World and the Sector

Source: Bloomberg | Data range 16.04.2018 –12.04.2023
Total return in USD | Note: past performance is not a reliable indicator of future results

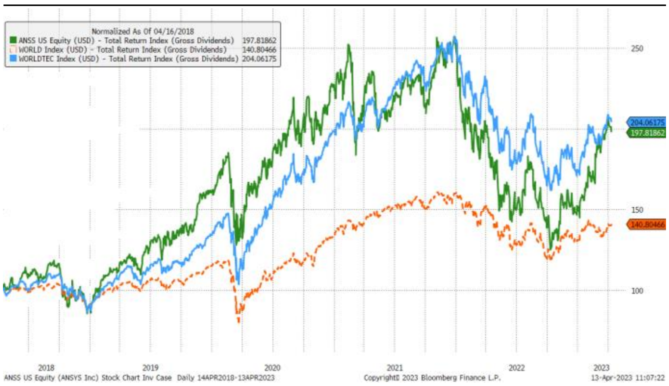
At current prices the PE-multiple has fallen to 22.4x, well below the levels of recent years and only slightly above the 10 year average. Therefore, we consider the recent price weakness an excellent opportunity to build up positions.

Sales / Reductions

Ansys: Sell the remaining positions in the Growth Strategies as the margin of safety disappeared.

After having cut back positions in February (a bit too early, we might add), after another 18% rise since, we sell the remaining positions in our growth oriented strategy because we see the margin of safety reduced and have found better investment alternatives elsewhere.

5-year chart: Ansys vs. the Bloomberg World and the Sector



Source: Bloomberg | Data range 16.04.2018 –12.04.2023
Total return in USD | Note: past performance is not a reliable indicator of future results

With kind regards,

Emerald Wealth Partners AG, Investment Office

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