

TRANSACTION RATIONALES

Purchases

Nestlé: Very defensive name now trading at a discount price

After the significant underperformance in 2023, Nestlé has built up a discount to fair value (according to our model) not seen in many years.

What's more, the company's more focused capital allocation since the arrival of the new CEO should continue to drive above industry-growth and warrants a premium to the sector. Therefore, we see a solid relative upside coming from solid organic growth, a high dividend, capital allocation and, potentially, a mild re-rating.

5-year chart: Nestle vs. the Bloomberg World Index and the Staple Sector



Source: Bloomberg Data range 06.07.2018 – 06.07.2023
Total return in USD Note: past performance is not a reliable indicator of future results

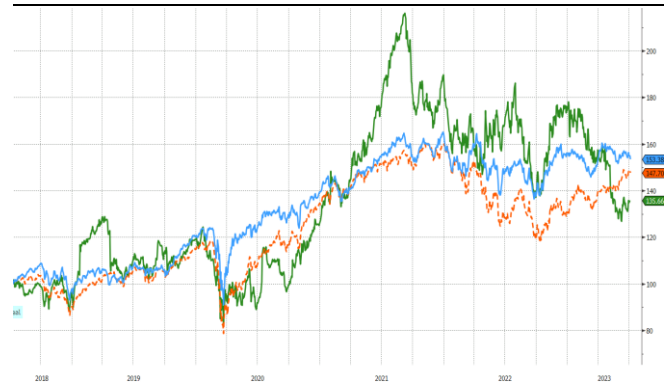
Waters Corp: Fat moat lab equipment provider at a large discount

Following the recent decline in the stock price, we buy an initial position in Waters.

While the company reduced the outlook for organic growth in 2023, the long-term growth case remains very much intact. Historically, any shortfall in laboratory equipment sales didn't last for long and was made up within a few quarters due to the mission-critical nature of such products. We expect Owner's earnings to continue to grow 9-10% long-term.

This latest correction in the stock price has brought the multiple for 2024 down to 18.5x, or slightly above its 10-year average. Given the long duration growth and the reduced valuation, we add to an initial position.

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



Source: Bloomberg Data range 06.07.2018 – 06.07.2023
Total return in USD Note: past performance is not a reliable indicator of future results

Sales

IQVIA: Concerns after extensive investment case review

After several discussions with IQVIA, its competitors and external experts, our doubts about the strength of their moat in their data business has grown considerably, as have our concerns about management's focus and actions, particularly their capital allocation and balance sheet management. We conclude from the aforementioned discussions that IQV is at risk of being disrupted over time by more focused and more nimble competitors in their key data business (by Veeva). Nonetheless, the stock has outperformed the Health Care Sector in 2023. The same is true since our first purchase in January 2020, where IQVIA has outperformed the market and the sector by 10% resp. 15%. While valuation still looks undemanding, we sell all our holdings in IQVIA because of said doubts and the still considerable balance sheet leverage that the company never reduced as they had promised a few years back. We re-invest the sales proceeds in defensive quality names that have underperformed in 2023, such as Waters & Nestlé.

5-year chart: Iqvia vs. the Bloomberg World Index and the Healthcare Sector



Source: Bloomberg
Total return in USD
Data range 06.07.2018 – 06.07.2023
Note: past performance is not a reliable indicator of future results

With kind regards,

Emerald Wealth Partners AG, Investment Office

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