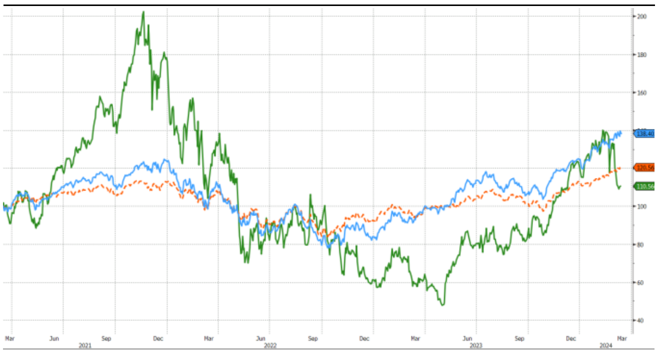
TRANSACTION RATIONALES

Purchases / Increases

Zscaler (ZS US): Buy an initial position in a cybersecurity leader, benefiting from migration to cloud and AI

Zscaler is a software firm focusing on providing cloud-native cybersecurity solutions to primarily large, globally distributed enterprise customers. As enterprises increasingly shift network traffic routing directly to cloud applications, we see massive greenfield opportunities for the firm to take advantage of and grow its business. In addition, Zscaler's growth is strongly correlated to AWS and Azure.

3-year chart: Zscaler vs. the Bloomberg World Index:



Source: Bloomberg Data range 14.03.2021 - 14.03.2024
Total return in USD Note: past performance is not a reliable indicator of future results

In this shifting landscape, we believe Zscaler's solutions stand to be long-term winners. While we believe Microsoft and Fortinet might become key players in that market, it has been historically difficult for these types of vendors to move into Zscaler's core large enterprise "best-of-breed" buyer category. Our discussions with Fortinet confirm that view as they primarily target the lower end of the enterprise market.

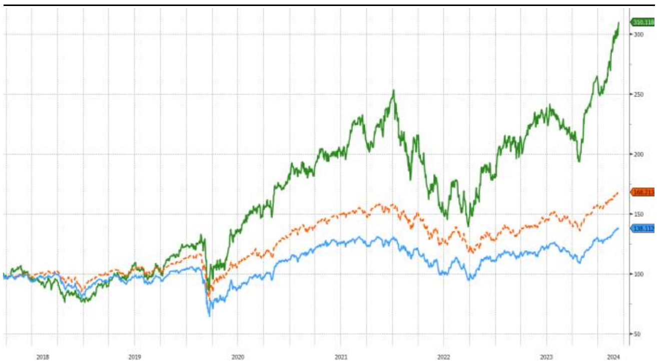
Even though, ZS is a young firm and in a high growth phase requiring significant investments in sales & marketing and capex, the balance sheet is healthy and carries a net cash position of 1.2bn (as per Jan. 2024) and free cash flow is expected to reach 22% of sales in FY24 (as per 07/2024).

As a result, 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 buy an initial position in our growth-oriented strategies to complement our existing holdings in cyber security (Fortinet).

Buy / Add Schneider Electric (SU FP)

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 14.03.2018 – 14.03.2024
Total return in USD Note: past performance is not a reliable indicator of future results

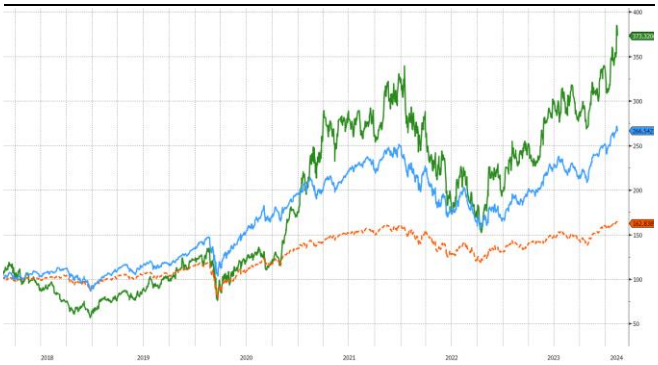
In the last decade the company has beefed up its position or established leadership in several tech / products that benefit from secular demand growth in energy management (both hard and software), data center, Industrial automation and IoT. That has helped Schneider to upgrade its growth profile, from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

Initiate a position in Applied Material (AMAT US)

Applied Material 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 has also 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
Total return in USD

Data range 14.02.2018 – 14.02.2024
Note: past performance is not a reliable indicator of future results

The market for semi equipment has consolidated over time, as only the largest technological leaders are able to deploy considerable amount of resource to continue to incrementally improve the technology that will allows for fab to go on 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, as the switch cost for Fabs once a certain equipment has been specified for a given process is extremely high.

The demand for AMAT's products is growing fast as the demand for semiconductors is driven by secular forces. 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. All that also lead to ever more complicated chip designs that in turn require more sophisticated tools from AMAT and resulted to a significant rise in its profitability.

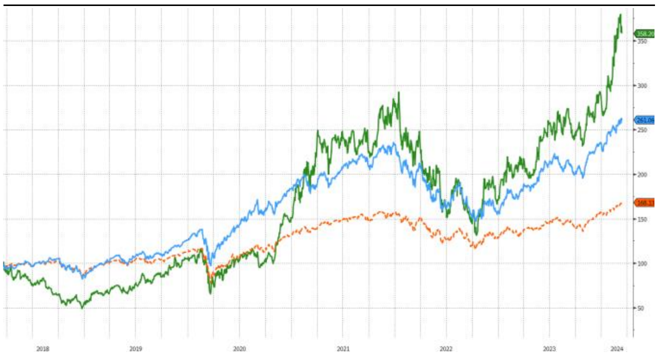
The valuation of AMAT's stock remains reasonable when considering the quality of its franchise and given historical growth – Earning Power Yield at about 5%. That should give us a large margin of safety and good return over time, while providing us with an upside option should the opportunity of the AI technology materializes in a way that surpasses current assumptions.

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 compared to Tokyo Electron, a stock we have owned since 2021.

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.

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



Source: Bloomberg
Total return in USD
Data range 14.03.2018 – 14.03.2024
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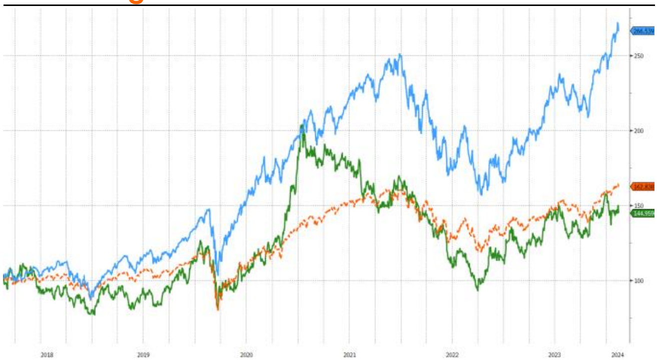
Samsung Electronics (SMSN LI), Add to the position

After 1.5 year of downcycle the memory market – dominated by Samsung Electronics, has shown sign of rebound materializing. Prices are going up as the excess inventories accumulated during the post covid period are being run down. There was never any doubt that demand would come back given the strength of the drivers underpinning it. In addition to the typical cyclical recovery, the momentum behind AI is creating an opportunity for Samsung and the other memory players. The flow of data to train and execute large language models is so large that it is much more efficient when a special DRAM chip called High Bandwidth Memory chip is tied close to the GPUs. Due to its higher complexity HBM absorbs a lot of supply capacity and carries a large price premium to commodity DRAM (5-6x) which will drive the revenue and the profitability of Samsung in the coming years as the AI infrastructure is being built.

5-year chart: Samsung Electronics vs. the Bloomberg World Index and the Sector



Source: Bloomberg
Total return in USD
Data range 14.02.2018 – 14.02.2024
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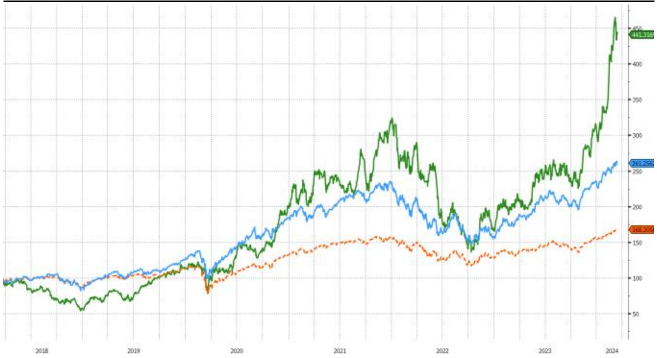
We add to our position as the stock trades at bargain price to its normalized earning power – close to 10% yield.

Sells / Reductions

Tokyo Electron, take profit after a strong stock price rise

We do not see margin of safety on the stock after a sharp rally in the stock price (YTD +40% / YoY +123%) and see much better value for money in the other securities listed above.

Chart: Tokyo Electron vs. the Bloomberg World Index and the Sector

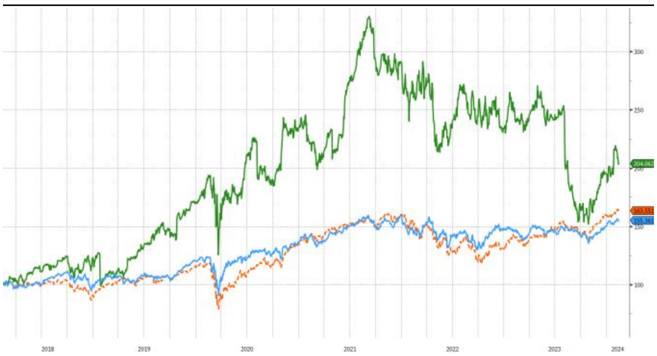


Source: Bloomberg
Total return in USD
Data range 14.03.2018 – 14.03.2024
Note: past performance is not a reliable indicator of future results

ResMed, sell off on less visibility structural growth

We take advantage of the rebound in the stock price to exit the position. Anti-obesity GLP1 drugs that will be more widely adopted will deprive ResMed of some of its growth potential. Assessing the impact is complex and at current valuation we think the stock do not offer enough margin of safety against that risk.

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



Source: Bloomberg
Total return in USD
Data range 14.02.2018 – 14.02.2024
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With kind regards,

Emerald Wealth Partners AG, Investment Office

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