First Quarter 2024

The performance of securities mentioned within this letter refers to how the security performed in the market and does not reflect the performance attributed to the core equity portfolio. Please see the chart at the end of letter, which reflects the full list of contributors and detractors based on each security's weighting within the core equity portfolio.

For a copy of Ensemble Capital's equity strategy performance track record, please email a request to info@ensemblecapital.com.

Returns as of March 31, 2024	Q1 2024	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION*
ENSEMBLE EQUITY COMPOSITE	10.48%	10.48%	31.52%	5.63%	13.10%	12.48%	10.34%
S&P 500 TOTAL RETURN	10.56%	10.56%	29.88%	11.49%	15.05%	12.96%	10.11%

Past performance is not an indication of future returns.
Please see disclosures on final page. Performance figures with the Ensemble Equity Composite are shown net of fees. The composite's inception date is December 31, 2003

The market staged a significant rally in the first quarter of 2024, jumping 10.56%. These gains added to the 11.69% rally seen during the fourth quarter of 2023. After outperforming the market handily in the previous quarter, our strategy produced returns in line with the S&P 500 this quarter.

Any time the market stages a large and rapid rally, at least some investors worry that the market has moved "too far, too fast." But more often than not, rapid and large market rallies are followed by strong subsequent market performance.

Since the end of World War II, there have been 10 prior periods when the market has rallied for five months in a row and generated a total gain of 20% or more. Each of those instances were followed by additional gains over the following 12 months, with an average one year return of 14%.

The market rally this time has been powered by the economic dynamics we described last quarter. Most importantly, recession and inflation worries have faded dramatically. Just as these twin threats drove a sharp bear market in 2022, the fading of these two threats has driven a major recovery. And while the US economy has avoided the much feared recession, most investors had come to wrongly believe in 2022 that a recession was a foregone conclusion. Thus, we experienced a market selloff of a magnitude typically seen in a recession, and likewise we are now seeing the type of market rally that often occurs just after a recession.

Most of the gains seen in recent months has just been the reversal of losses incurred in 2022 in anticipation of a recession that never occurred. The S&P 500 has only generated an annualized return of 6.14% from the end of 2021 to the end of the first quarter of 2024.

It does appear to us that for significant additional market gains to be justified, there needs to be a significant increase in corporate earnings in 2024 and 2025. Yet this may well be what plays out if the currently robust US economic expansion continues.

Recall how in our third quarter of 2023 letter, we illustrated how rapidly rising long term interest rates – as we were seeing at that time – were typically seen just before strong acceleration in US economic growth. And since then, we have seen rapid improvements in real economic growth even as inflation has faded.

We said last quarter that while it was hard to believe, the US economy was in fact generating a mix of employment gains, real economic growth, and limited inflation last seen during the 1990s economic and stock market boom. While we are not here to predict that the current ideal conditions are sure to continue, we do think it is important for investors to accept that the large market gains are being fueled by outstanding economic results, as surprising as it may be to have those arrive instead of a recession.

And it is during strong economic expansions that corporate earnings growth surprises to the upside. In addition, while the overall economy did not go into recession, certain sectors certainly did. And therefore, if the economic recovery remains intact, those sectors will see the sort of earnings recovery typically seen after a recession.

Of course, the S&P 500 is just a portfolio of the 500 largest companies with position sizes determined by market capitalization. And today we are in the relatively unique situation of having a small number of companies that each make up large percentages of the S&P 500. The six largest companies in the S&P 500 are Microsoft (7.2%), Apple (5.6%), Nvidia (5.1%), Amazon (3.8%), Google (3.8%) and Meta (2.5%). These stocks make up more than a quarter of the entire S&P 500 and therefore the performance of these six stocks will greatly influence the returns of the S&P 500.

In addition, the valuation of these six stocks will greatly influence the S&P 500. If you've seen references to the S&P 500 currently having a high PE ratio, it is important to note that this is mostly due to Microsoft, Apple, Nvidia and Amazon having much higher PE ratios than the overall market. Excluding these stocks leaves the rest of the market with a very average PE ratio in the high teens.

But despite the conventional wisdom that the market rally is being powered exclusively by technology companies, particularly those related to the artificial intelligence industry, in our own portfolio we have seen strong gains across a variety of companies during the two quarter rally. During those two quarters, we have had nine of our portfolio holdings, or nearly half, rally by more than 30% (besting the S&P 500's 23% return during the same time period).

Masimo, up 67% is a Health Care company. Netflix, up 61%, and Nintendo, up 31%, are Communication Services companies. Perimeter Solutions, up 63%, is a Materials company. Chipotle, up 59%, Ferrari, up 48%, and NVR, up 36%, are Consumer Discretionary companies. Fastenal, up 44%, is an Industrials company. Only ServiceNow, up 36%, is a Technology company.

So, while the tech sector, and by extension the market cap weighted S&P 500, may seem some days to be one giant bet on whether Nvidia can keep blowing past expectations, we're pleased to see a much more diversified set of businesses powering the strong appreciation in our own portfolio over the last two quarters.

In fact, our best performing stock this quarter is the anthesis of a mega cap tech stock. Perimeter Solutions, a $1 billion market cap company that sells fire retardant to fight forest fires, was up 61%. Given the small cap status, and the relatively thin trading liquidity of Perimeter, we have offered very little in the way of comments on this company. But we thought recent developments, and the jump in the stock price, was worth commenting on to a limited degree.

Perimeter Solutions is the sole company that sells fire retardant to the US Forest Service. This mission critical component, the red stuff you see dropped out of planes during major fires, is needed to protect people, property and forests from out of control wildfires. Around the country, and even outside the US, government agencies that are tasked with protecting society from wildfires often look to the US Forest Service's list of approved products and only buy items from this list. The general idea is that if it is good enough to pass the Forest Service's extensive testing requirements, it is good enough for any agency to use.

But the Perimeter Solutions story is bigger than just wildfires. The company was founded by a group of investors led by Nick Howley, the founder of a very successful airplane parts maker called Transdigm. We owned Transdigm for many years until we sold it just before the COVID pandemic hit and over those years we came to appreciate Howley's highly successful approach to M&A, running businesses in a profit maximizing way, and aggressively managing the capital structure to the benefit of equity owners.

So while we believe the Perimeter Solutions business by itself justifies a much higher share price, we also think that in the years ahead Perimeter will engage in a number of acquisitions that will drive significant increases in the intrinsic value of the business.

But the path to realizing these anticipated gains has not come easy so far. Last year ended up being the mildest fire season of the last three decades in the critical western region of the US. It seems to us that the stock ended up trading almost like a futures contract on estimated 2023 acres burned. Of course, the value of Perimeter is related to the long term cash flows it will generate over the next couple of decades of wildfire fighting. But even one Wall Street analyst came out with a report suggesting that the mild fire season may mean that the long term risk of wildfires was not as dire as previously thought.

But the evidence is clear that wildfires are a significant and growing risk in the US and around the world. This outlook is not conditioned on climate change triggering ever more risky weather, although we do believe that the science on this risk is very clear. Rather much of the risk comes from many decades of excessive fire suppression that allowed dry fuel to accumulate paired with the climate conditions that are already here.

Importantly, the validity of this risk is something that apolitical, profit seeking insurance companies have been warning everyone about. In California, where insurance regulators require insurers to assume that wildfire risk in the years ahead will be no higher than the average risk of the past 20 years, most home

insurance companies have simply refused to write new policies in large part because they know that wildfire risk is in fact much higher.

And after the energy utility PG&E was bankrupted and convicted of manslaughter for their role in triggering massive wildfires, utility companies around the world have been sounding the alarm about wildfire risk as well. In his annual letter this year, Berkshire Hathaway's Warren Buffett warn about the risk of wildfires saying that the big increase in wildfire activity, which he expects to continue to increase, risks the financial success of utilities to the extent they may need to become partially publicly funded entities.

Given Perimeter's long term working partnership with so many government agencies, most importantly the US Fire Service and California's Department of Forestry and Fire Protection, and their role as the only provider of fire retardant, the real risk to long term shareholders is not a mild fire season, but a breakdown in the natural monopoly position that Perimeter finds themselves in.

When we first initiated our position in Perimeter, a startup called Fortress had already become the first competitor to have its retardant product added to the Forest Service's Qualified Product List. But the key to understanding Perimeter's competitively advantaged business model is in understanding how challenging it actually is to supply retardant under life or death situations.

Rather than the company selling fire retardant as a product, Perimeter often fully staffs and maintains service operations on aerial firefighting bases. Inventory management of fire retardant is challenging because you need every base to be prepared to start fighting a fire at a moment notice, while also recognizing that many bases may not even have a fire each year.

The pilots of these firefighting planes take massive risks to protect the rest of us. A misloaded plane, or the slow loading of a plane, risks lives and properties. Going so far as running out of retardant during an active fire is unacceptable.

The best analogy we've come up with is the difference between selling tires and running a pit crew at a NASCAR race. The limiting factor to being a successful pit crew is not just obtaining qualified tires. Rather, running a pit crew is about operating flawlessly under mission critical circumstances. And operating flawlessly for decades is exactly what Perimeter has done.

But last year, as pessimism over the mild fire seasons pressured Perimeter's stock price, it also became apparent that the federal government was going to give Fortress every possible opportunity to win part of the Forest Service's annual fire retardant contract. While no one doubts how well Perimeter's product works, and Fortress has been clear that their service wouldn't be any cheaper than Perimeter, the federal government has a mandate to minimize sole source vendor relationships. Sole source means there is only one provider. And it appeared clear that despite concerns from firefighters about experimenting with an unproven product, Fortress was going to win at least some of the Forest Service contract.

We had bought Perimeter with this risk in mind because we believed that simply getting on the qualified products list was not winning, but rather Fortress still had a lot to prove in terms of their ability to actually deliver.

Last month, the challenges of this industry because clear when the Forest Service announced that they would not be signing a contract with Fortress because further testing had shown that their product corroded the airtanker planes it was used in.

In a press release, Fortress stated, "we have to assume based on this new information that Fortress' proprietary, magnesium chloride-based aerial fire-retardant formulation will not be utilized for the foreseeable future in the fight against wildfires."

There are many different kinds of competitive moats that give rise to lucrative businesses. But one of the least discussed is simply "doing truly difficult and important things really well." We think Perimeter Solutions is a great example of just this sort of moat.

Notable detractors from our performance came from our investments in Nike, Broadridge and First America Financial.

Nike: After a successful investment in Nike initiated in early 2017 and closed out in early 2020 just before the COVID crisis exploded, we reinitiated on Nike in the spring of 2022. In retrospect it is clear that we did not fully appreciate the level of supply chain issues Nike would end up facing as the global economy suffered through an inflation crisis. But we remain confident in the company's long term earnings power. In the most recent quarter, the company generated solid results, but warned shareholders that growth during the coming year may be less than expected.

Broadridge: Broadridge's stock was flat during the quarter but given its large size in our portfolio and the sharp rally in the overall market, it ended up being one of the larger drags on our portfolio. But the flat return for the quarter is no concern to us, given the stock rallied 56% in 2023 and the company's investor day held in December highlighted their strong multiyear outlook and heavy investments in technology.

First American Financial: First American generates most of its earnings power by facilitating the purchase of houses. With interest rates still much higher than they were a few years ago, the number of housing transactions has fallen to very low levels, blunting First American's earnings and causing weak stock price performance. But we are finally seeing signs of a pickup in housing transactions, and we remain confident in the mission critical role the company plays in facilitating the all-important housing industry.

On the more positive side, we saw notable performance contribution from Netflix, Perimeter Solutions, and Ferrari.

Netflix: The rapid recovery of Netflix's subscriber growth has shocked investors who drove the stock down to a price of just $166 in May 2022. While at the time, bearish investors were declaring the company's growth days were behind it, instead the company added a remarkable 13.1 million new subscribers in the most recent

quarter. This was the single largest quarterly subscriber addition other than the large gains experienced during the first quarter of COVID. For all of 2023, the company added nearly 30 million new subscribers, making it the largest annual gain in Netflix history other than the first year of COVID.

Perimeter Solutions: The stock rocketed higher in the quarter as the company's sole would be competitor was knocked out of the market.

Ferrari: With the company's utility vehicle, the Purosangue, sold out despite being priced much more aggressively than many investors expected, investor attention has been turning to the company's long term ability to raise prices. With the business's earnings power being regularly revised higher by investors who watched the company navigate COVID and inflation easily, the stock has been on a tear.

Company Focus: Ferrari (RACE) and IDEX Corp (IEX)

Ferrari: Ferrari has had a very successful run since we first bought shares in the company in 2017. It has been one of our most successful investments since, with shares rising over five times, and understandably so given how phenomenal this business is and how well it has been managed.

Initially spun out of Fiat (now Stellantis) in 2015, it was a rare jewel within the parent company, where its value was hidden among more standard and premium cars sold under brands such as Fiat, Alpha Romeo, Maserati, Chrysler, Jeep, and others. Under the leadership of the astute business manager Sergio Marchionne, who had run Fiat since 2004, Ferrari came to be recognized as the undervalued and unique asset that it was within its parent.

It was being run below its potential, perhaps because of over-conservatism in reverence to its legacy – a legacy of offering products that were highly desired by many and undersupplied to only a limited set of privileged customers, who built up their relationship with Ferrari buying nearly two-thirds of its annual output. This allowed them to continue getting access to the most desirable, collectible models Ferrari built in the future.

"Build one less car than the market demand" is a quote attributed to founder Enzo Ferrari, yet where that line stands is more art than science. Conservatism on the supply/demand balance is generally a healthy strategy in protecting the value and exclusivity of the brand. But being too conservative results in too much unrealized value left on the table.

After the company went public in 2015, it reported revenue of just under €3 billion for the year while shipping less than 8,000 cars at an average selling price (ASP) of €270,000 per car. EBITDA margins were 25%. Importantly, by our calculation, its return on invested capital (ROIC) was over 100%.

Ferrari was demonstrating economics more in line with digital and luxury businesses and deserving of a much higher valuation, more like a Hermes or Apple, rather than a typical auto company.

In 2024, the company expects to generate over €6.7 billion in revenue in 2024 with EBITDA margins exceeding 38%. We expect over 14,000 cars to be shipped with an ASP over €400,000 – that is an ASP increase of €100,000 over the past 5 years!

There were two important things we recognized that the market did not appear to fully back in 2017 that made this an attractive investment for us.

When we did our first deep dive into the business in 2016, we estimated there were 2-3 million potential high net worth customers who could afford to buy a Ferrari. Consequently, selling less than 8,000 cars meant a customer capture percentage of less than 0.1% in any given year. Even this year, when the company will likely sell 14,000 cars, we believe it is still selling to less than 0.1% of its potential market. That seemed a very conservative ratio, albeit limited by the appeal of its 2-door, 2-seat ultra-high performance sports car form factor. But we came to believe that Ferrari could increase its appeal to a broader set of customers (increase demand) by widening its form factors to 4-door cars and SUVs.

In addition, its ASP had only risen at a slightly higher than inflation rate of 4% per year over the prior decade. And the company had long wait lists at those prices that sometimes surpassed 18 months. Meanwhile, the wealth of customers in this segment grows at something like 5-10% per year from returns on their assets and businesses.

We realized there was a growing gap between the wealth of their customer base and the pricing that Ferrari captured. For a material proportion of the customer base, Ferrari's appeal as a Veblen good, means that the more people who could afford one, the less desirable the product because its value comes from its differentiation from the ordinary. A Veblen good is one where demand increases with price precisely because they are so hard or expensive to attain.

Ferrari's current CEO Benedetto Vigna has succinctly described Veblen good's relevance to Ferrari saying:

"The client is giving a value to our cars because they are unique, because they are limited, because they are exclusive. We could make more, but that does not make sense. We will offend our clients."

Our view was that Ferrari would be required to raise prices at a rate that kept pace with their customers' wealth to continue delivering to customers the Veblen expectations of the product, with shareholders disproportionately benefiting from the increased pricing growth.

It was clear to us that there was a large gap between market expectations priced into Ferrari's stock and the higher fair value implied by our analysis. Interestingly the large gap persisted for years even after Ferrari began to confirm our thesis when it revealed its 2022 financial targets at the 2018 Investor meeting.

Under Sergio Marchionne, Ferrari began to push the envelope on volumes but in an intelligent manner that included leveraging its core assets to build new form factors that would expand the appeal of its cars to new customers. For example, the Ferrari Roma has been a much bigger hit with women than the traditional style of the 488, F8, or 812. The recently launched Purosangue appears to have every sign of success with those that might have the means to buy a Ferrari but would rather it come with the utility of four doors that can also bring three passengers and some gear along for a weekend.

Ferrari also rolled out the SF90 and 296 GTB/GTS plug-in hybrid models that appealed to a younger segment of its market while making strides towards the global trend of cleaner emissions, but without sacrificing the performance and driving dynamics of Ferrari. These hybrids are likely to also do well in the Chinese market over time, a large fast-growing market for high net worth (HNW) individuals.

These new form factors have increased the appeal of Ferrari across new HNW customer segments without necessarily oversupplying Ferraris within each model line thereby preserving its exclusivity. We see evidence of this from the fact that nearly all models are sold out through 2025 with average selling prices approaching a record €400,000.

This also confirms our initial thesis that Ferrari's customers would accept higher prices while driving margins and profits benefiting shareholders.

With the launch of the Icona design-oriented collector cars such as the SP1, SP2 and SP3, Ferrari was able to effectively sell high value limited cars more often per decade than when it was strictly reserved for hypercars like the LaFerrari, the Enzo, or the F40. These cars sold for more than €1MM, while the SP3 now surpasses €2MM.

Ferrari also opened up the €500,000+ pricing tier with its higher priced SF90 and Purosangue for the normal production, non-collector cars, which sell in higher volumes further supporting the brand's higher pricing strategy.

The result of this more aggressive (and in our view more customer aligned) pricing strategy has resulted in faster revenue growth and higher margins. The market has taken notice in recent quarters and for the first time substantially closed the gap we persistently saw with our own fair value estimates.

In conclusion, we believe that management at Ferrari has built one of the strongest luxury brands and customer bases in the world with a complimentary robust business model that uniquely plays to these strengths. They have indeed succeeded in polishing the rough diamond that Fiat spun out 8 years ago. Having recognized the jewel of a business that it was early on, as shareholders we were richly rewarded as the company executed a value enhancing strategy and as the market came to recognize its pricing and earnings power over time.

IDEX Corp: One of Ensemble's newer positions is IDEX Corporation. IDEX is not a well-known company, and we believe it has the chance to be recognized as one of the next great serial acquirers like past Ensemble holdings TransDigm Group (TDG) and Heico (HEI).

One of the reasons IDEX is not well-known is because it sells decidedly mundane products, under many different brand names – mostly to distributors and other product manufacturers. It is highly diversified and owns over 50 subsidiary companies; these businesses typically sell niche parts and technology that help larger systems run smoothly in industrial and healthcare end-markets.

One of IDEX's products is its Systec OEM MINI Degassing module. This module removes gases from fluids and can improve the accuracy of liquid chromatography equipment used to analyze the chemical composition of drugs in the pharma industry, for example. It is sold within IDEX's Health and Science Technologies (HST) segment, 40% of revenue. Another is its Sandpiper Heavy Duty Flap Valve Pump sold by its Warren Rupp business, counted within its Fluid and Metering Technologies (FMT) segment, 38% of revenue. The pump can be used in a larger Dissolved Air Floatation system that factories use to treat industrial wastewater. Its StreamMaster Fire Monitor is installed on fire trucks and used as a water cannon to extinguish fires. It is sold by the Akron Brass business within IDEX's Fire and Safety / Diversified Products (FSDP) segment that is 22% of revenue. Flashy Ferraris these are not.

IDEX has been acquiring businesses that sell niche products like these for over three decades. In the last two calendar years, five acquisitions totaled over $1.2 billion. But why would we want to own a company that does so many acquisitions, when acquisitions so often fail, and for so many reasons? Roger L. Martin estimated in his 2016 Harvard Business Review article that "M&A is a mug's game, in which typically 70-90% of acquisitions are abysmal failures." Some famous M&A failures include AOL's $165 billion combination with Time Warner, Daimler-Benz's $37 billion deal with Chrysler, and Sprint's doomed $35 billion merger with Nextel.

There are many ways for an acquisition to fail, among them for an acquirer to overestimate strategic fit, to overpay, and to not recognize conflicts in business cultures or technologies. We believe, however, that IDEX is among a class of companies that can outperform via acquisitions, because acquisitions are its bread-and-butter. As opposed to an online service provider like AOL or a car company like Daimler-Benz overestimating the synergies of one big tie-up, acquisitions are what IDEX specializes in. Serial acquirers can be similar to great equity investors who have a disciplined process of buying good businesses at reasonable prices and do so repeatedly and at growing scale over time, much like Ensemble aims to do.

A strategy of serial acquisitions can compound above-average returns for decades if done right. Examples of successful serial acquirers include Constellation Software (CSU), TransDigm (TDG), Heico (HEI), Danaher (DHR) and Illinois Tool Works (ITW), all of which have outperformed the S&P 500 over the last 15 years.

IDEX's stock has outperformed as well, with a 15% annualized total return since its IPO in 1989, about 4.5% above the S&P 500's return over the same period.

IDEX's path to its IPO started 10 years prior in 1979 as the first major leveraged buyout (LBO) by famed private equity firm KKR. At the time it was a 50-year-old auto parts company called Houdaille Industries. Houdaille was taken over by the British-based TI Group PLC, which spun off several businesses it didn't want into an entity that was again LBO'd by KKR in 1988. The resulting company was named IDEX – an acronym for Innovation, Diversity and Excellence, headquartered in the Chicago area. The LBO left IDEX with a pile of debt to pay off; according to Donald Boyce, the first CEO of IDEX, "It made us focus on cashflow." Since 1990, IDEX's operating cash flow has grown at a double-digit pace of 11% annualized, according to data from Bloomberg.

We attribute IDEX's success to three things: Its 1. Discipline 2. De-centralization and 3. Scale.

IDEX is disciplined in the types of investments it targets and in its financial management. IDEX generally acquires businesses that have #1 or #2 share in small, fragmented markets uninteresting to larger competitors. The businesses IDEX acquires typically sell components or technology that are small portions of the overall cost of their customers' systems, but that also must be counted on to work. For example, its BAND-IT fasteners, such as steel bands and clamps, are used to hold together objects on everything from ships to aircraft where the cost of failure could be disastrous. These types of parts, once trusted to work and to be supplied quickly and reliably, create a switching cost for customers who don't want the risk or inconvenience of designing such a part out. This gives IDEX pricing power with its customers.

Management also has a minimum financial return it expects to achieve on its capital invested by year five after an acquisition, and regularly passes on deals that are too expensive. There is a minimum incremental

EBITDA margin target of 25% for IDEX that discourages a lot of dilutive acquisitions, and it aims to consistently pay out 30-35% of its net income in dividends.

A second key aspect to IDEX's success is its decentralization. Unlike the rationale for most acquisitions talked about in the press, IDEX does not expect much synergy between its businesses. While IDEX does buy businesses in certain areas it calls its "business platforms" -- such as pumps, valves, water, scientific fluidics & optics, and fire & safety, these businesses are not usually integrated with each other. IDEX gives its general managers performance targets specific to their business and enough leeway to empower them to achieve its goals. It is the antidote to micromanagement.

Lastly, we believe IDEX is successful because it operates at a scale that's differentiated. It has gained talent, experience, and capital the last 35 years. Acquisitions have been part of IDEX's DNA from the beginning, having got its start as a collection of businesses spun off from private equity firm KKR; KKR's co-founder Henry Kravis served on IDEX's board for the first 14 years (1988-2002.) In the last several years, IDEX has built up a team that specializes in sourcing deals for each of its segments, and in greenfield areas.

The company has also been influenced by the culture of Danaher, another successful serial acquirer whose stock price has returned almost 20% annualized the past 15 years. The past three CEOs of IDEX have been Danaher alums, including current CEO Eric Ashleman and the previous CEO Andrew Silvernail who adopted the "IDEX Difference" that is similar in concept to the Danaher Business System (DBS.) Danaher calls DBS a process for continuous improvement, lean manufacturing, and innovation. The IDEX Difference is a strategy with three pillars – Great Teams, Customer Obsession, and Embracing 80/20.

IDEX helps its general managers apply its 80/20 system of optimization upon acquisition and over time. IDEX's 80/20 system asks the managers to focus on the 20% of causes that lead to 80% of the desirable outcomes. An example of 80/20 optimization would be to concentrate resources like money, time, and talent, on the 20% of products that account for 80% of profits. This is a simple and well-known principle used for over 30 years also by Illinois Tool Works (ITW), another serial acquirer whose stock has returned 18% annualized the last 15 years. David Parry, the former vice chairman of Illinois Tool Works, has served on IDEX's board of directors since 2012 and we believe was influential in bringing this system to IDEX.

While IDEX mostly operates as a de-centralized entity, with each business having its own HR, finance, and marketing teams, for example -- IDEX does offer some services at the corporate level that add value versus a simple holding company. IDEX has an office of business optimization that implements the 80/20 processes, and a talent academy to train and promote leadership internally. The talent academy gives employees opportunities for career growth not usually available within smaller firms. IDEX also supports its businesses' growth initiatives, giving them access to IDEX's large pool of capital if a project is considered worthy.

So what are some of the risks we face as shareholders of IDEX? Like with any serial acquirer, the company must continue to find acquisitions to execute, while being prudent in the quality and valuation of deals. We also expect IDEX to monitor shifting technologies and trends, and to respond appropriately in its capital allocation priorities, for example via divestitures and acquisitions. The company seems to be doing so by investing in faster growing areas recently like medical applications, optical devices, and specialty materials over traditional industrial pumps.

And what are some potential positive catalysts? IDEX has proven its ability to generate attractive returns from acquisitions in the past, and this could bode well for its chance to further compound shareholder value. We think IDEX could ramp the cash it deploys into acquisitions and it has gained the ability to do bigger deals. It generated over $600 million in free cash flow in 2023, and we think it could add significantly more debt to its balance sheet without damaging its creditworthiness. IDEX could also report improving sales growth as its customers are mostly through their de-stocking phase from inventory built-up amid the pandemic. Along with a new CFO, Abhi Khandelwal, who re-joined IDEX in November 2023, we think IDEX might be ready to fire on all cylinders.

Disclosures

2024 Q1 Contributors and Detractors to Absolute Return Data

Description	Symbol	Average Weight	Contribution (Gross)	Contribution (Net)	Description	Symbol	Average Weight	Contribution (Gross)	Contribution (Net)
Netflix Inc	NFLX	7.26%	1.73%	1.71%	Idex Corp	IEX	2.52%	0.34%	0.33%
Ferrari	RACE	4.32%	1.14%	1.13%	Nintendo Co Ltd	NTDOY	4.47%	0.21%	0.20%
Chipotle Mexican Grill Inc	CMG	4.32%	1.14%	1.13%	Booking Holdings Inc	BKNG	7.38%	0.18%	0.16%
Masimo Corp	MASI	4.26%	1.02%	1.01%	Paychex Inc	PAYX	4.28%	0.14%	0.13%
Perimeter Solutions	PRM	1.78%	0.98%	0.98%	Broadridge Financial Solutns	BR	6.25%	0.02%	0.00%
Mastercard Inc	MA	7.46%	0.94%	0.92%	Landstar System Inc	LSTR	3.04%	0.02%	0.01%
NVR Inc	NVR	4.86%	0.75%	0.74%	Analog Devices Inc	ADI	4.96%	0.01%	0.00%
Home Depot Inc	HD	6.68%	0.71%	0.69%	Illumina Inc	ILMN	3.40%	-0.05%	-0.06%
Alphabet Inc	GOOGL	7.69%	0.63%	0.61%	First American Financial Cp	FAF	3.95%	-0.14%	-0.15%
Fastenal Co	FAST	3.23%	0.62%	0.61%	Nike Inc	NKE	2.85%	-0.45%	-0.46%
Servicenow Inc	NOW	4.80%	0.41%	0.40%					

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. It should not be assumed that the recommendations made in the future will be profitable or will equal the performance of the securities listed above. The performance information shown above has been calculated using a representative client account managed by the firm in our core equity strategy and represents the securities held for the quarter ended 03/31/2024. The individual quarterly net contribution to returns are calculated by reducing the gross contribution to return by 1/4 of the weighted average of the firm's highest management fee, which is 1.00% per year. Information on the methodology used to calculate the performance information is available upon request. The performance shown in this chart will not equal Ensemble's composite performance due to, among other things, the timing of transactions in Ensemble's clients' accounts.

ADDITIONAL IMPORTANT DISCLOSURES

Ensemble Capital is an SEC registered investment adviser; however, this does not imply any level of skill or training and no inference of such should be made. The opinions expressed herein are as of the date of publication and are provided for informational purposes only. Content will not be updated after publication and should not be considered current after the publication date. We provide historical content for transparency purposes only. All opinions are subject to change without notice and due to changes in the market or economic conditions may not necessarily come to pass. Nothing contained herein should be construed as a comprehensive statement of the matters discussed, considered investment, financial, legal, or tax advice, or a recommendation to buy or sell any securities, and no investment decision should be made based solely on any information provided herein. Ensemble Capital does not become a fiduciary to any reader or other person or entity by the person's use of or access to the material. The reader assumes the responsibility of evaluating the merits and risks associated with the use of any information or other content and for any decisions based on such content.

Ensemble's Equity strategy is intended to maximize the long-term value of the underlying accounts. The strategy generally invests in U.S. common stocks, but from time to time the underlying accounts may hold cash and/or fixed-income investments in an attempt to maximize capital gains. The strategy holds mostly large and medium-capitalization stocks, although accounts may also hold small-capitalization stocks.

Performance results for the Ensemble Equity composite since the composite's inception on December 31, 2003, are unaudited and are subject to change. The Ensemble Equity composite includes realized and unrealized gains and losses, the reinvestment of dividends and other earnings, and is net of management fees, brokerage transaction costs and

other expenses. Taxes have not been deducted. Net of fee performance was calculated using actual management fees. Management fees for an Ensemble Equity account range from 1.00% to 0.50% on an annual basis and are typically deducted quarterly. Fees are negotiable, and not all accounts included in the composite are charged the same rate. Results are based on fee paying, fully discretionary, unconstrained accounts managed with an Ensemble Equity objective and include those Ensemble Equity accounts no longer with the firm. Accounts must exceed $500,000 to be included in the composite. Accounts with assets below $500,000 and accounts with objectives other than Ensemble Equity are excluded.

Unless otherwise stated, returns for periods exceeding 1 year are annualized.

The comparative benchmark is the Standard and Poor's Total Return Index of 500 Stocks ("S&P 500"), an index of 500 large capitalization equities, generally considered a comprehensive indicator of market performance. The S&P 500 Total Return Index includes realized and unrealized gains and losses, the reinvestment of dividends and other earnings and is not subject to fees and expenses. It is not possible to invest directly in an index. The holdings in the Ensemble Equity strategy may differ significantly from the securities that comprise the benchmark.

All investments in securities carry risks, including the risk of losing one's entire investment. Investing in stocks, bonds, exchange traded funds, mutual funds, and money market funds involve risk of loss. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable or suitable for a particular investor's financial situation or risk tolerance. Some securities rely on leverage which accentuates gains & losses. Foreign investing involves greater volatility and political, economic and currency risks and differences in accounting methods. Future investments will be made under different economic and market conditions than those that prevailed during past periods. Past performance of an individual security is no guarantee of future results. Past performance of Ensemble Capital client investment accounts is no guarantee of future results. In addition, there is no guarantee that the investment objectives of Ensemble Capital's equity strategy will be met. Asset allocation and portfolio diversification cannot ensure or guarantee better performance and cannot eliminate the risk of investment losses.

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