

Second Quarter 2021

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*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](mailto:info@ensemblecapital.com).*

The second quarter of 2021 saw an explosion of growth in the United States as our country successfully gave at least one COVID vaccination shot to an incredible 88% of adults over age 65, those most vulnerable to the worst COVID outcomes, and provided the same to two thirds of all adults. 95% of people who were employed pre-COVID are now back to work. Importantly, US household checking and savings accounts contain over \$4 trillion more than they did pre-pandemic due to huge stimulus payments and household saving rates running at record high levels during COVID. Consumer spending is now running at all time high levels. In fact, consumer spending, which makes up 70% of the US economy, is likely higher today than it would have been if COVID had never happened.

But while the US economy avoided the worst case recessionary or even depressionary scenarios that we were all rationally worried about a year ago, the full economic impact of COVID is still yet to be seen.

During earlier phases of the pandemic, policy actions by Congress and the Federal Reserve were designed to build a “bridge” that would keep households and businesses economically whole during the period they were limited or unable to conduct business and go to work. Unlike a more typical recession, which is triggered after years of over investment and/or overspending that requires a reset to return to a more sustainable level of activity, COVID hit at a time when economic activity was still running below full capacity.

Therefore, unlike the painful but necessary, and ultimately positive, retrenching that businesses and households go through during a typical recession, Congress and the Federal Reserve rightly recognized that American businesses and households were in relatively healthy economic shape going into COVID and that it was within the collective best interest of the US economy and society to build this “bridge” to the other side. Their hope was that providing this support would allow the economy to return quickly to pre-pandemic levels and begin growing again. And that’s exactly what has played out.

Regardless of our, or any other investor’s, point of view on whether policy makers should have done what they did, it is objectively true that they accomplished their goals. The US economy returned to pre-COVID levels of activity less than 12 months after the pandemic began and is currently growing at an unprecedented rate.

The greatly feared COVID depression was avoided.

But the story of COVID’s impact on the economy is far from over. During the decade between the Great Financial Crisis and COVID, US economic growth was abnormally weak. Rather than seeing an average annual growth rate in real GDP of 3% a year as had occurred for the half a century prior to the financial

crisis, real GDP grew at 2% a year. This led to a \$4.7 trillion reduction in economic activity compared to where our country would have been if we had continued growing at the old 3% trend.

With this backdrop in mind, both the Federal Reserve and the new Biden administration have embraced the idea that just getting back to where things were prior to COVID is not ambitious enough. Instead, they are deploying policies meant to supercharge the economy in a way that breaks what has become known as the New Normal of slow growth and low inflation and return our country more closely to the previous longer-term trend of higher growth and moderately higher inflation.

Any rational and informed observer should recognize that the potential to return to higher levels of growth and moderately higher inflation is a legitimate goal. Yet it is also clear that the American economy is in the midst of an experiment of historical importance. Any rational and informed observer should also recognize that rather than higher sustainable growth, we might instead get unsustainably high levels of inflation.

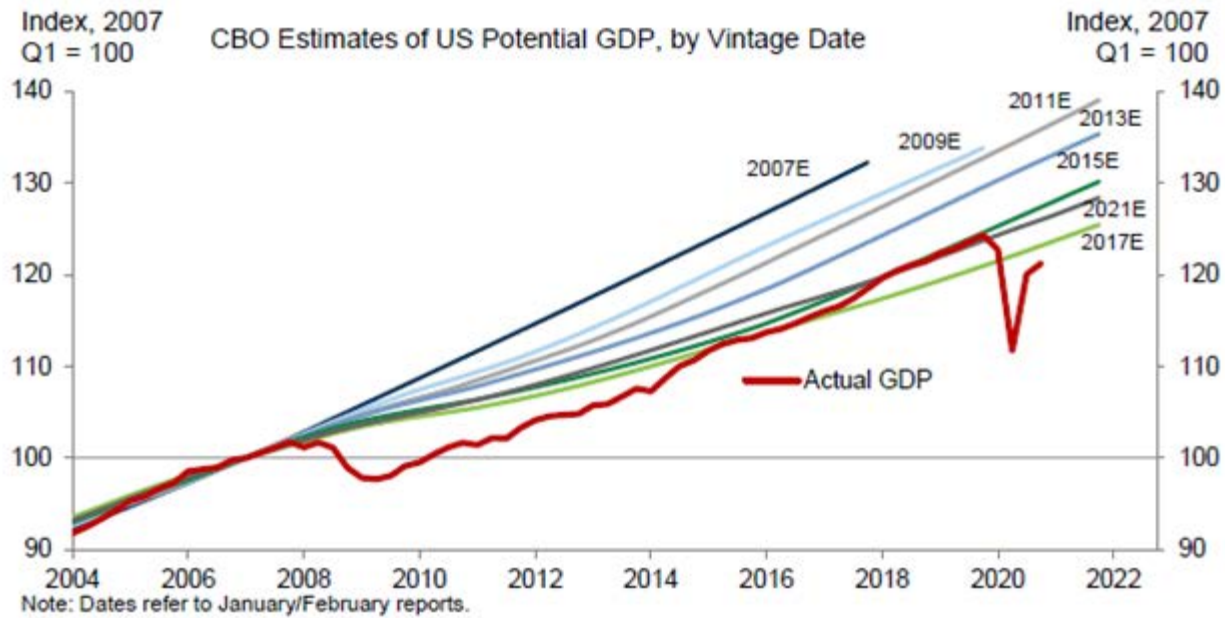
But it is important to recognize that the outcome that will play out over the next few years cannot be known in advance. And that even if it was known, it would not be clear for sure how different companies will perform as things unfold. Inflation is not some sort of monster that lives in the shadows waiting to pop out and harm businesses and households because policy makers violate some supposed rule of finance. Inflation is simply what we call what happens when prices of goods and services increase because an economy is not able to produce as high a volume of goods and services as is in demand.

With the employment situation healing quickly as COVID-related restrictions diminish across the country, and total earned wages already running above where they were on the eve of COVID due to most job losses being among lower income workers, it seems that demand is not going to be weak for quite some time. The \$4 trillion of savings that households accumulated during COVID equals over 25% of total consumer spending in 2019. So, with consumer spending already running well above pre-COVID levels, this \$4 trillion of dry powder will provide a powerful backstop that supports consumer spending for years to come. This statement isn't a forecast about the future, it is an observation of what has already occurred.

But can our country rise to the occasion and actually produce the volume of goods and services being demanded? This is the trillion-dollar question of the moment. If the answer is yes, we are embarking on what will very likely be characterized in retrospect as an economic boom. This is the Roaring 20s thesis you may have heard people talk about. If the answer is no, then consumers and businesses will have to compete to purchase the insufficient amount of goods and services that can be produced and in a free market system, these scarce resources will be allocated via prices increasing until demand is reduced to the level of output that our country can produce. This is the inflationary thesis that many investors worry about.

Unfortunately, no one actually knows how to measure our country's economic output capacity. One nonpartisan group that attempts to answer this question is the Congressional Budget Office (CBO), which produces an estimate of potential GDP, or the total potential output of the economy. But in the chart below, you can see that the CBO's estimate of potential GDP varies greatly over time and seems to mostly reflect an assumption that medium-term trends can be extrapolated far into the future.

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Source: CBO, Bureau of Economic Analysis, Goldman Sachs Global Investment Research

Prior to the Financial Crisis, the CBO never expected a coming slowdown in the growth of potential GDP. But every couple of years since, as actual GDP has grown less than expected, the CBO has revised down their potential GDP estimate. But now, as actual GDP begins to significantly outperform to the upside, the CBO has begun revising up their estimate of Potential GDP.

So, investors today find themselves facing clear indications that the demand side of the economy will likely be robust for years to come, but they are entirely uncertain how much potential growth in demand our economy can satisfy. If we are already approaching the full capacity of the economy, the inflationary pressures will continue to grow. But, if in fact, what our economy suffered in the decade after the financial crisis was not a stagnation of our productive abilities, but rather a shortfall in demand, then a multiyear return to the older potential GDP estimates will occur with strong widespread growth. However, neither of these two extremes is the most likely outcome, but rather we'll see something in between.

When viewed through this lens, whether you expect a Roaring 20s economic boom or an inflationary spiral, your view is an expression of how productive you think the American economy has the potential to be.

It is with an awareness of the potential for an economic boom and the risk of persistent inflation hanging over the economy, that we are managing our clients' capital.

In early 2020, as the pandemic began to spread around the globe, we began running previously unthinkable stress tests on our portfolio holdings to estimate how long they could stay in business if they were forced to close and stop collecting revenue. Demand was collapsing in a truly unprecedented way. Yet despite not

having predicted a pandemic would occur when we bought the stocks we owned at that time, we only sold one of our holdings.

This ability to hold our existing holdings even in the face of a new, unexpected development with enormous implications was due to us specifically attempting to buy resilient businesses that can survive unexpected events. The future is always uncertain and unexpected things happen all the time. So, we always own businesses that we believe can survive and thrive even under conditions of intense uncertainty.

Today, we face an almost perfect mirror image. Demand is surging in a truly unprecedented way. The stress tests we care about right now are related to how quickly a company can ramp up supply. Surging demand sounds like fantastic news. But at the macroeconomic level, as illustrated above, demand that runs too far ahead of supply leads to inflation.

At the microeconomic level, think about what's happening with home builders. Demand to buy single family homes is off the charts. But home building is not an industry where supply can be quickly increased. Demand for lumber surged so dramatically that with sawmills simply unable to increase supply fast enough, the price of lumber climbed 150% from the middle of January through the middle of May, reaching levels four times higher than pre-pandemic prices. This is terrible news for home builders, given lumber is one of the key material costs of building a home. In the face of surging demand, many home builders simply refused to sell under construction homes. Fearing the costs of building the home might end up being far higher than they expected, many home builders told buyers they'd have to wait to buy a house until it was completed.

Think about that for a second. Demand is so strong that businesses are refusing to sell the product they make. Outside of emerging markets, no investors operating today have ever experienced a demand surge of this magnitude.

But for companies that can meet surging demand, profits are exploding.

- There is no functional limit to the number of search requests that Google can serve ads alongside. So, their profits have soared nearly 50% above pre-pandemic levels.
- The restaurant industry, which has enjoyed very low cost, abundant labor for over a decade, is suddenly in crisis as demand storms back but restaurant industry employment is still 12% below pre-pandemic levels. But Chipotle, which operates a business model based on offering above average pay and benefits, has been able to increase their employee count, with profits surging 59%.
- While global supply chains are stretched thin, with many retailers unable to keep inventories fully stocked, Home Depot has leveraged their long-time positive supplier relationships and gone so far as to book their own cargo ship to exclusively carry products for them. Incredibly, they've been able to meet surging demand equal to approximately five years' worth of the growth that they expected prior to COVID, leading to profits surging 67% since the quarter before COVID.

Our goal at this time is to own companies that have the capacity to meet surging demand, while also having the ability to raise prices without losing customers to offset inflationary pressures when they arise. But while these attributes are critical today, they are also the type of attributes that we always seek.

We know that the world is an uncertain place and that unpredictable things happen all the time. So, rather than attempt to guess what specific uncertainties we need to avoid at any given time and jump in and out of different stocks as the world changes, we instead always attempt to find robust, resilient companies led by management teams who are dynamic and react quickly and decisively to changing conditions.

A bit later in this letter, we will be providing in-depth comments about our investments in Nintendo and Illumina. But first, we'll review some of the stocks in our portfolio that produced the most notable contribution to, or detraction from, our results in the most recent quarter.

Notable detractors from our performance came from our investments in Booking Holdings, Ferrari, and Landstar Systems.

**Booking Holdings:** This dominant online travel company saw its stock plummet during the early stages of the pandemic, but then came roaring back as it became clear that highly effective vaccines would be developed in record time. After performing about in line with the market until late April, the stock price weakened, finishing the quarter down 6%, as it became clear that a full reopening of European travel this summer is in jeopardy due to the continent's difficulties with their vaccine rollout. But while this means that summer 2021 results may not rebound as much as we hoped, it is now clear from travel patterns in the US and China that people will return to travel with a vengeance as soon as it is feasible. Long-term demand for Booking's services is not in doubt.

**Ferrari:** After posting standout performance in 2020, beating the S&P 500 by over 20%, Ferrari's share price performance has lagged for much of this year. The main issue this quarter was the company pushing out their medium-term financial targets due to development and production delays caused by COVID, but this only led to a 1% decline in the stock price for the full quarter. While we believe the company did a fantastic job maintaining production in light of COVID, it did not surprise us that some of their longer-term, new model introductions might be delayed by a couple of quarters. While disappointing of course, Ferrari is curating a set of extremely exclusive mechanical works of art and we are much happier seeing them take the time to do things right, rather than rushing to meet a self-imposed financial target.

**Landstar Systems:** Landstar Systems provides freight trucking services. While flatbed trucks used to haul machinery and other heavy industrial loads (notably the sort of services needed to support US infrastructure programs) are still in recovery mode, van services used to move consumer goods have seen enormous demand causing load volumes and pricing to shoot higher. Landstar's stock rallied dramatically in the first quarter but faded slightly in the second quarter, finishing down 4%, as the market began to anticipate what some investors believe is a cyclical peak in performance. While we may indeed have passed a short-term peak, we believe that the long-term shortage of truck drivers will keep the trucking market very much in truckers favor and that demand for both van and flatbed freight hauling will grow to new highs in the years ahead.

On the more positive side, we saw notable performance contribution from Intuitive, Google, and Illumina.

**Intuitive:** With so called elective surgeries postponed during COVID, the company reported stronger than expected procedures on their April earnings call. In addition, despite existing robotic surgery systems not

yet returning to being fully utilized, new orders also surprised to the upside as hospitals placed orders in anticipation of delayed surgeries coming back quickly as the number of COVID patients filling up hospital capacity fades. The stock rallied 24% in the quarter. While the cadence of procedure growth and new system placements may continue to be impacted by COVID trends, particularly outside the US, we believe hospitals will continue to shift more procedures to Intuitive's robotic surgery systems as they seek to lower the total cost of care and improve patient outcomes.

**Google:** While Google's stock was up 31% in 2020, handily beating the S&P 500, it was one of the weaker performing Big Five tech giants. With the company posting blow-out reports in the most recent quarters, the stock has soared 40% this year, making it the best performing of the Big Five this year. In the most recent quarter, the stock rallied 18% in the wake of the company reporting its largest beat of estimated earnings before interest and taxes in over a decade. Amazingly, the company is now reporting revenue more than 50% above the level it was generating two years ago, even though travel related advertising, which is one of Google's largest advertising categories, has not yet rebounded.

**Illumina:** Illumina is the dominant maker of genetic sequencing equipment, such as that used to sequence the COVID virus in January of 2020 as the first step in developing the mRNA vaccines that are bringing the pandemic to an end. Illumina is one of our focus stocks discussed in the next section of this letter, but the 23% appreciation in the most recent quarter was driven by a stronger than expected earnings report and a growing appreciation among investors of the company's mission critical role in supporting what we believe is an ongoing super cycle of genetic research and clinical applications.

### Company Focus: Nintendo (NTDOY) and Illumina (ILMN)

**Nintendo:** Nintendo's corporate mission is to "Put smiles on faces of everyone Nintendo touches." Given the historical cyclicity of Nintendo's earnings, investors often criticize Nintendo for putting this mission ahead of maximizing shareholder profits. Put differently, they think Nintendo has not pressed its advantage enough when it had the opportunity. There is some element of truth to that, but we consider it a wise strategy. Indeed, delighting its customers is one of the major reasons why Nintendo has remained relevant to video game enthusiasts for nearly four decades while so many of its competitors have since faded into obscurity. It's thinking in generations while other gaming companies think in quarters.

And by staying relevant, Nintendo won over a generation of 1980s and 1990s children with iterations of hardware and games including Mario, Zelda, and Donkey Kong. Many in this original cohort of Nintendo fans now have their own children, nieces, and nephews with whom they want to share their love for Nintendo's games. Research from the Entertainment Software Association (ESA) shows that the average age range of a video game player today is 35-44. The previous generation of parents who did not grow up with video games weren't able to pass down their nostalgia for Nintendo to their children, but this generation is doing just that.

To borrow a line from the TV series, *Mad Men*, nostalgia is delicate but potent. Nostalgia binds generations. Passion for a particular sports team, for example, is passed from one generation to the next and those happy memories of quality family time carry into subsequent generations. Increasingly, families are turning to video games to create happy memories together. Another ESA survey found that the percentage of U.S.



parents who play at least one video game with their children each week increased from 35% in 2013 to 67% in 2017. While we don't have updated survey results, we believe those figures increased during COVID-related quarantines in 2020.

Nintendo is positioned to capitalize on these trends. Unlike games on more powerful consoles like Xbox or PlayStation, which may have a steep learning curve or unfamiliar characters, both parents and kids recognize Nintendo characters and the learning curves for Nintendo games are low enough where people of any age can start playing and having fun together.

Nintendo's IP today is in a similar place to where Disney's was in the 1970s after the Baby Boomer generation started passing down their love for Mickey Mouse, Donald Duck, and other Disney characters to their Generation X children. In 1991, Warren Buffett remarked that Disney's IP was "like having an oil well where all the oil seeps back in...essentially, you get a new crop every seven years, and you get to charge more each time." Neither Mario nor Mickey Mouse negotiate for higher contracts and each new twist on the IP is gobbled up by passionate fans.

Not surprisingly, Nintendo wants to provide its fans with a more immersive experience with its characters and worlds. The first Nintendo amusement park, Super Nintendo World at Universal Studios Japan, launched this year and more are planned around the world. Nintendo fans can use their personal Nintendo accounts to connect with the parks' features for a personalized experience. A Super Mario movie, created in partnership with Illumination Entertainment (known for *Minions*, *Despicable Me*, etc.) is slated for a 2022 release. The founder and CEO of Illumination recently joined Nintendo's board, suggesting that more Nintendo-themed movies are in the works. Other physical world projects include Nintendo flagship stores in major cities and Mario-themed LEGO sets.

None of these projects have a direct impact on Nintendo's bottom line, but they encourage more engagement with Nintendo's gaming IP. A key advantage for Nintendo is that it has four decades of game content with which its fans can engage after watching a Nintendo movie or going to a Nintendo amusement park. To illustrate how this can work, after the Netflix series *Witcher*, which is based on a game developed by CD Projekt Red, became a hit show, demand skyrocketed for legacy Witcher games.

Skeptics argue that Nintendo's latest hardware iteration, the Nintendo Switch, will follow the course of previous console cycles and start gathering dust in drawers until the next hardware generation is created. We disagree. For the first time in over 30 years, Nintendo is only producing one piece of hardware. Previously, it manufactured two pieces of hardware at the same time – one that's handheld and another that hooks up to your television. Switch is the best of both worlds and allows Nintendo to focus all its resources – manufacturing, marketing, development, etc. - into one platform. Importantly, Switch has an operating system that can migrate to future hardware iterations, much like the Apple iOS stays with iPhone users as they upgrade every few years.

Another argument in favor of Switch's durability is that Nintendo is embracing third-party game development, which is a departure from previous hardware cycles. In fiscal year 2020, about half of the gross market value of game sales on Switch came from third-party developers. Nintendo keeps a slice of

those sales, but those third-party games maintain high utilization of Switch hardware in between first-party title releases from Nintendo.

Finally, Nintendo's digital software sales as a percentage of total software sales remain well behind peers like Activision, EA, and Take Two. In fiscal 2021, Nintendo's digital mix was around 43%, compared with 60-80% for competitors. Some of this difference is attributable to Nintendo games being popular gift items for children's birthdays and holidays. In the first quarter of Nintendo's fiscal 2021 (April-June 2020), however, digital sales reached 60% of total software sales, as quarantined families reduced store visits. We think this period made parents more comfortable buying digital games on Nintendo's eShop. Digital game sales carry much higher profit margins than physical copies do, so even if we were to assume flat software sales for Nintendo in the coming years, gross profits would rise due to the shift toward digital game sales.

Nintendo recently announced a slate of first-party games, including *The Legend of Zelda: Skyward Sword*, *Metroid: Dread*, and *Splatoon 3*, which should keep Nintendo fans engaged with the 85 million Switch units they've bought since 2017. Earlier in July, the company also announced a new version of the Switch hardware with upgraded audio-visual components, which will be released this holiday season alongside the new *Metroid* game. This isn't a typical hardware cycle for Nintendo and we expect engagement with the Switch to be much more persistent than it has with any previous console generation.

**Illumina:** We all know that DNA is the code of life, found within the nucleus of every cell of our bodies and all life forms on Earth. Complementing DNA is a sister molecule called RNA, which is used by cells to transmit the instructions of the DNA from the security of the nucleus outside to the rest of the cell, where ribosomes read the triplets of base pairs called codons to assemble the appropriate amino acids into proteins. Proteins are the building blocks of cells and the action and signaling mechanisms of life, from components of individual cells all the way up to coordinating the functioning of entire complex organisms such as animals and plants comprised of billions or trillions of cooperating cells. In addition, as we've become all too familiar over the past year, DNA and RNA are also key encoding mechanisms for pathogens such as bacteria and viruses.

The key to understanding life is to understand the entire chain of mechanisms that comprise it, from the basic code in its DNA and RNA through the proteins they lead to building, to the coordinating systemic actions that they enable to create actions in the organisms they govern (commonly referred to as "omics", i.e., genomics, transcriptomics, proteomics, etc.). This understanding also helps us to understand diseases that occur when those essential mechanisms fail or change and eventually how they might be fixed.

Furthermore, by understanding biological methods of action, we can do what humans always do with increasing scientific knowledge -- use it to engineer new solutions to improve our personal and societal lives, a form of engineering commonly referred to as synthetic biology, in which we co-opt biological mechanisms at the cellular level to create these solutions.

Underpinning the majority of this crucial science and medicine is one company – Illumina.

Illumina's gene sequencing instruments and associated consumable reagents and specialized flow cells are used in 80-90% of all sequencing applications (according to a study by the UK's competition regulator, the



Competition and Markets Authority). Its platform is at the heart of the trillions in value that companies across research, diagnostics, DNA/RNA based treatments, and the revolution across multiple industries that synthetic biology will be shaping over the next few decades.

The combination of Illumina's "Next Generation Sequencing" or NGS platform, big data analytics/machine learning in computing, and crucial advancements in biology are driving a revolution in both the understanding of the code of life and in the creation of new techniques to manipulate that code in the diagnosis and treatment of disease. Just as important, is the creation of new manufacturing techniques leveraging Nature's billion-years of design refinements embodied in the innumerable biological factories that exist everywhere on earth – the plethora of living cells.

What this will enable over the next few decades will look like science fiction and it will be widespread in its impact. The most familiar example of this innovation, unfortunately, are the RNA vaccines manufactured by Moderna and the BioNTech-Pfizer, but even more spectacular bioengineering to come will border on the miraculous – like cures for inherited diseases such as sickle cell anemia, hemophilia, and thalassemia, muscular dystrophy, certain forms of progressive blindness, screening for and curing many forms of cancer, saving babies from developmental issues, replacing old organs with new ones grown in a lab from your own cells, and maybe even slowing or reversing aging. All of these are mechanisms whose root causes lie in our DNA. Being able to read (sequence) DNA accurately, quickly, and cheaply, understand what it means (what proteins they encode), and how expression of the DNA is regulated will meaningfully impact all our lives over the next few decades.

Take for example the RNA vaccines developed by the NIH in conjunction with Moderna and BioNTech/Pfizer: the original SARS2 Coronavirus at the start of the pandemic in Wuhan had its RNA (some viruses use RNA as their (in)secure code, not DNA) sequenced using by Illumina instruments. That RNA sequence was then shared electronically with scientists around the world including the National Institutes of Health (NIH) in the US, where [scientists deciphered the viral RNA sequence](#) to identify the pieces that coded for the spike protein used by coronaviruses to enter their victim's cells. Then Moderna and BioNTech went to work on manufacturing a stabilized mRNA vaccine at scale and getting it into the clinical trial process.

Though this is the most relatable example of a gene therapy application and an important life changing one for most people, *it is only the beginning*. And it is a crucial demonstration of the power that genomic sequencing has unlocked in the quest to improve our health and lifespans as well as its similarity to the computing world where code run on hardware drives so much of our daily lives. In this case, the code is the DNA/RNA sequence while the hardware is living cells executing that code, just as all of our cells do every second of our lives.

Illumina's role in innovating, putting the pieces together across biology, chemistry, physics, and computation, and successfully commercializing sequencing instruments has been crucial in bringing down cost of DNA sequencing in the context of "Next Generation Sequencing" (NGS), which have reduced the price of sequencing a whole human genome by 99.99% from \$10MM in 2005 to less than \$1000 today and

time to less than a day. For an even more dramatic perspective of just how far and how fast we've come, the first human genome was completed in 2003 at a cost of \$3B and over a decade of work.

The rate of decline in pricing and time to sequence has been orders of magnitude faster than Moore's Law, and just as semiconductor chips' deflationary pricing has led to an abundance of applications that have proliferated over the past few decades, so it will be with DNA sequencing. In fact, its much faster rate of decline over the past decade has led to a Cambrian explosion of innovation that has driven volumes up faster than prices have declined, which is fueling the Synthetic Bioengineering explosion in innovation and attracting necessary funding to finance it. The results of this include innovations in medicine, pet health, food manufacturing, energy/chemical/environmental manufacturing and management, computing, and many others. Nature's little factories are among the most efficient and diverse producers and consumers of organic compounds and so getting them to do our bidding is a driving force in revolutionizing these different industries.

Furthermore, as Illumina continues to drive down the cost of sequencing, it enables new applications that grow sequencing volumes and genomic data exponentially. As an example, less than 1% of the human population has been sequenced because costs had been high and uses of sequencing data outside of research labs was limited. However, as sequence prices have fallen below a couple thousand dollars, clinical applications have taken off including Non-Invasive Prenatal Testing or NIPT (via simple blood draw from mom not a needle into her womb), targeted cancer therapies and screening, and rare disease diagnosing. The greater access to sequencing has enabled new learnings in biology at an accelerating rate around the whole "omics" categories that is complemented by advances in bioengineering/automation techniques. As a result, scaled solutions have emerged that are driving down the cost curves of creating synthetic biological artifacts like large volumes of custom DNA, RNA, and specified organisms that can produce things of value to society. Gene therapy and personalized medicine based on reading, understanding, identifying, and *editing* an individual's genes are being enabled by the democratization of sequencing.

Importantly, all of these growing sequencing applications create lots of opportunity for Illumina to grow volumes even faster as it drives sequencing pricing towards an asymptotic de minimis level of a couple of hundred dollars. And the exponential volumes of sequencing from applications like multicancer screening and remission monitoring being developed and commercialized by companies like GRAIL, a 2016 spin off founded by Illumina now being reacquired subject to an FTC and European Commission review process, will produce vast repositories of genomic data that when combined with electronic medical records and analyzed by machine learning techniques is bound to discover new insights into the causation of thousands of diseases whose root cause/mechanism remain a mystery. Moreover, discovering those genomic foundations will lead to the development of treatments either at their root via gene therapy techniques or more traditional but effective ones like adding/removing certain nutrients or drugs for those affected, greatly enhancing the quality and length of their lives.

To sum up, all of these DNA/RNA based innovations have at their foundation Illumina's sequencing platform driven by its innovation engine, which means tremendous opportunity ahead for the company to continue creating value as the Synthetic Biology revolution just gets going.



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## Disclosures

2021 Q2 Contributors and Detractors to Absolute Return Data									
Description	Symbol	Average Weight	Contribution (Gross)	Contribution (Net)	Description	Symbol	Average Weight	Contribution (Gross)	Contribution (Net)
Intuitive Surgical, Inc.	ISRG	4.77%	1.31%	1.30%	Paychex, Inc.	PAYX	2.54%	0.20%	0.19%
Alphabet, Inc. Class-A	GOOGL	7.58%	1.26%	1.24%	Broadridge Financial Solutions, Inc.	BR	3.04%	0.17%	0.16%
Illumina, Inc.	ILMN	3.07%	0.67%	0.66%	Heico Corp. Class-A	HEI/A	1.38%	0.12%	0.12%
Charles Schwab Corp.	SCHW	4.60%	0.56%	0.55%	Netflix, Inc.	NFLX	8.15%	0.11%	0.09%
First Republic Bank	FRC	5.87%	0.53%	0.52%	Nintendo Co LTD	NTDOY	3.60%	0.09%	0.08%
Masimo Corp.	MASI	5.71%	0.43%	0.42%	Starbucks Corp.	SBUX	2.33%	0.06%	0.05%
Home Depot, Inc.	HD	8.87%	0.41%	0.39%	Fastenal Co.	FAST	2.67%	0.06%	0.05%
First American Financial Corp.	FAF	3.56%	0.35%	0.34%	Blackline, Inc.	BL	1.48%	0.04%	0.04%
Chipotle Mexican Grill, Inc.	CMG	3.66%	0.28%	0.27%	Ferrari NV	RACE	4.68%	-0.04%	-0.05%
Mastercard Inc. Class-A	MA	8.35%	0.25%	0.23%	Landstar Systems, Inc.	LSTR	2.43%	-0.10%	-0.11%
NVR, Inc.	NVR	4.81%	0.25%	0.24%	Booking Holdings, Inc.	BKNG	4.60%	-0.27%	-0.28%
Costco Wholesale Corp.	COST	2.03%	0.24%	0.23%					

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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 core 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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Some of the information provided herein has been obtained from third party sources that we believe to be reliable, but it is not guaranteed. This content may contain forward-looking statements using terminology such as "may", "will", "expect", "intend", "anticipate", "estimate", "believe", "continue", "potential" or other similar terms. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from those expressed in the forward-looking statements. Such statements involve risks, uncertainties and assumptions and should not be construed as any kind of guarantee.

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