



Fourth Quarter 2021

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.

For much of the past two years our quarterly letters have focused on economic and COVID related commentary. The urgency of these issues, and the complex and dynamic ways they have strongly influenced company level fundamentals, required that we prioritize analyzing and acting on these issues. And since we seek to explain in these letters our assessment of the issues that are most relevant to our investment strategy, these issues have dominated our commentary.

Macroeconomic factors and COVID will continue to impact our portfolio and our assessment of investment opportunities for the foreseeable future. But today, they are better understood as part of the underlying fabric of uncertainty on which investors always operate. This isn't to diminish their importance, but rather to accept that risks and opportunities related to these issues are now simply part of being an investor in equities. With the Delta wave we saw only modest fluctuations in economic activity and stock market performance. The same has been true, so far, during the rapidly spreading Omicron wave, which as of this writing has not materially negatively impacted the stock market or US economy. Our point is not that COVID will no longer impact the economy or market, rather it is that COVID is no longer a novel source of uncertainty, but rather is one of many sources of uncertainty that equity investors always need to contend with.

Many more people will get COVID. A lot more people will go to the hospital, which are currently filling up towards capacity. But American consumers and businesses have also learned to adapt to engaging in commerce even in the midst of a pandemic.

If you look back at history, you'll find that macro issues, whether they be economic or issues like COVID, terrorism, geopolitical conflict, or trade wars to cite a few examples, ebb and flow in their relative influence over equity market performance. But there is no doubt that these factors reached a level of stock market influence in 2020 that is only comparable to a handful of past historical events.

If you look at the top 20 largest one-day up and down moves in the US stock market over the last century, you'll find that all of them occurred during the Depression, the Financial Crisis, COVID and the 1987 stock market crash. While the 1987 stock market crash was a technical event contained to financial markets, the other three events can very reasonably be considered the three most important macro events to influence corporate America.

COVID is not over. Economic fluctuations will always occur and always matter. But the issues on which our team is now focused in managing our investment strategy has begun to revert to the company specific analysis on which we have long spent the vast majority of our time.

So, in this letter, we will cover the notable detractors and contributors to our fourth quarter investment performance and then offer a discussion of an aspect of our investment strategy that we have not previously offered much commentary on.

Fourth Quarter 2021

Notable detractors from our performance during the fourth quarter came from our investments in Illumina, Netflix, and Blackline.

Illumina: Illumina continued to underperform the market for two reasons in our view despite strong fundamentals with revenue growth expected to come in at 40% in 2021 and 17% in 2022. The first is continued uncertainty by the market on regulatory acceptance of the GRAIL acquisition which brings the most advanced and broadest 50 cancer screening tests via a single blood draw. The second headwind for the stock has been a market sentiment shift away from all things biotech, with indicators like the S&P Biotech Index down 11% in the quarter and poster child Moderna down 34%. Illumina's stock was down 6% during the quarter.

Netflix: Netflix stock took a breather in the first half of this year after very strong performance in 2020. This reversed starting in August as investors' attention turned to the strong slate of new shows the company would be launching at year end and in early 2022 after COVID slowed content production and created a gap in new hit shows for the company. But the selloff in fast growing, highly valued technology-related companies that began in mid-November caused the stock to give back the gains it achieved earlier in the quarter with the stock finishing down 1% for the quarter.

Blackline: Blackline's stock was down, along with other high-growth Software as a Service stocks, during the quarter. While we believe that many of these types of businesses became very over valued earlier this year and their declines this quarter were justified, we think Blackline is worth materially more than the current market price. We will be discussing this company at length later in this letter. The stock finished the quarter down 12%.

On the more positive side, we saw notable performance contribution from Home Depot, Ferrari and NVR.

Home Depot: In the midst of a housing shortage and rising home prices, Americans turned to home improvement projects with Home Depot's startlingly fast growth in 2020 continuing throughout 2021. With each quarter that passed showing a continuation of strong growth rather than the slowdown that many investors expected, the stock led the S&P 500 for most of the year and turned in a heady 27% rally in the fourth quarter to close out the year. Notably, while Do It Yourself homeowners did indeed shop at Home Depot less than they did during record setting 2020, almost half of the company's revenue comes from Pro contractors where strong growth continues.

Ferrari: After navigating the pandemic extraordinarily well for a car company despite major challenges to maintaining production levels, Ferrari's stock was weak to begin the year and then bounced around in a relatively tight range even as the broader market rallied. But when the company held their third quarter earnings call and highlighted their efforts in transitioning to electric powertrains, the stock took off and finished the quarter up 24%. One well known Wall Street analyst even labeled Ferrari his "favorite electric vehicle stock." But in our view, Ferrari's efforts to shift to hybrid and electric cars has been understood by long term investors for some time. While we were pleased to see the stock rally and better reflect our assessment of the value of the company, we didn't see the commentary coming out of their earnings call as

being particularly incremental to our investment thesis. That being said, it was great to hear their new CEO strongly endorse their electrification strategy.

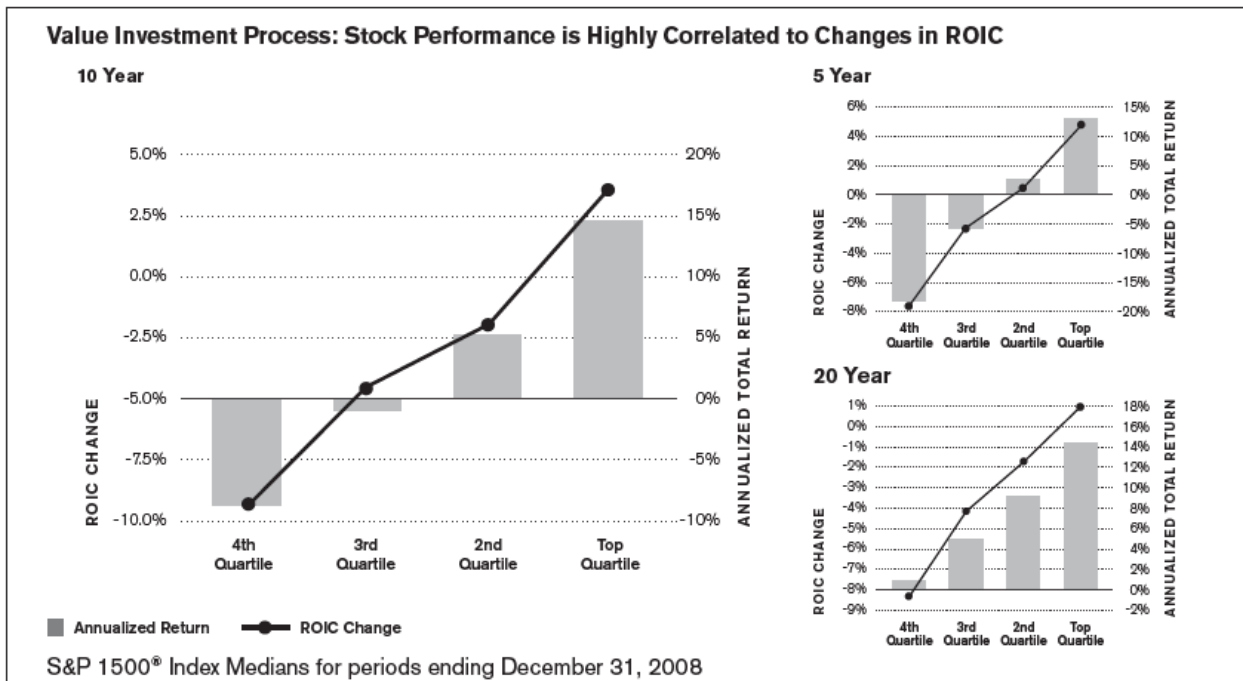
NVR: While the United States needs to build about 1.3 million new housing units a year just to keep up with demographic demand and replace homes that are torn down, we have built far fewer than that ever since the housing bust of over a decade ago. Now, with demand for homes surging, yet builders constrained due to supply chain and labor issues, companies like NVR are struggling to build new homes as fast as buyers are demanding them. While NVR's stock was strong all year, news flow in the home building industry during the fourth quarter pointed to continued strong gross margins as record high selling prices boosted results. NVR's stock rallied 23% in the quarter to close out the year.

While Ensemble's investment strategy is focused on owning companies that are already deeply competitively advantaged, we know that what really matters is that our companies remain competitively advantaged in the future. Competitive moats erode over time unless they are diligently and proactively maintained. So, we focus on identifying companies that have strong competitive positioning and which we believe will maintain those advantages over time.

The fact is that investors don't get paid for observing how the world stands today. They get paid for correctly understanding how the world will evolve over time. If a company starts off with ultra-high competitive advantages, but has them diminished to just strong competitive advantages is likely to see its stock underperform as investors assign less value to the company. On the other hand, a company that starts off with moderate competitive advantages, but works to improve their positioning so they display strong competitive advantages, is likely to see its stock outperform as investor recalibrate the valuation, they assign the company to reflect the stronger positioning.

While we talk about return on invested capital (ROIC) a lot, the fact is, it is return on incremental invested capital (ROIIC) that measures how much return a company can generate in the future and investors only get paid for what happens in the future, not what happened in the past.

Over a decade ago we read a research report published by RS Investments that examined changes in ROIC and stock price performance. The key table illustrating their findings is found below.



Performance quoted represents past performance and does not guarantee future results.

Note: The charts above depict a high correlation between a company's stock performance and changes in return on invested capital for the constituents of the S&P 1500® Index. A similar correlation exists for the constituents of the S&P 500® Index. Please contact us if you are interested in viewing the data for the S&P 500® Index.

Source: This analysis looks at the current constituents of the S&P 1500® Index, which were sorted by total returns for the 5-, 10-, and 20-year periods ended December 31, 2008 and medians were calculated for each quartile. Only companies that had data for both measures were used (1,388 companies – 5 year figures; 1,215 companies – 10 year figures; 663 companies – 20 year figures). Data was sourced from FactSet and Reuters.

(Source: ROIC: The Essential Measure of Value, by RS Investments)

What the chart shows is that regardless of whether the starting or ending level of ROIC is high or low in absolute terms, the stocks of companies that exhibit rising ROIC outperform the market, while the stocks of companies that exhibit declining ROIC underperform.

As long-term investors, we think of businesses as suffering from increasing entropy. Entropy is a measure of disorder in a system and while corporations are designed to organize people, over time they face a natural force of decay. For this reason, when thinking about the long-term, we are primarily focused on finding companies that can preserve their competitive advantages at the high levels at which they currently stand. If you look at the 20-year chart in the illustration above, you'll see that making it into the top quartile of stocks by ROIC only means your ROIC did not decline. And so, while we would like to see all of our holdings improve their competitive standing and ROIC over time, we know that just fighting off competition and preserving strong competitive advantages over a long time period is already a high bar.

But since the inception of our strategy, we have from time to time made investments in companies where the current competitive advantages are solid, but do not yet cross the very high expectations we generally maintain for a company to qualify for our portfolio. Instead, these companies exhibit solid, but rapidly increasing competitive advantages, which we believe will cause the company to reach a level of competitive advantage that meets our expectations in the future. We call these stocks emerging moat businesses.

An emerging moat business is one in which we see very clear signs of current and, particularly, future competitive advantages. These businesses are already solid companies, but they have not yet fully established their competitive positioning. The reasons for this vary, but the commonality is that for these companies to make it into our portfolio, we need to believe that over the coming five years, their competitive positioning will solidify, causing investors to more highly value the stock and ROIC to increase.

Because we recognize that these companies have weaker current competitive defenses compared to our average core portfolio holding, our internal policy is to limit our investments in emerging moat companies to a 2% weight at cost in our portfolio. While the returns that accrue to companies that do improve their competitive positioning and ROIC are large, there is always the risk that we are wrong, and the company fails to dig the deep competitive moat that we expect them to.

Hopefully, our small initial investment generates strong performance as the company's competitive standing improves. But even more importantly, our goal is to identify sooner than the market the point at which rising competitive advantages make the company no longer an "emerging moat" but rather a newly minted competitively advantaged company allowing us to increase our position size before other investors fully reprice the stock to a higher valuation that reflects the improved competitive situation.

A series of examples will bring our thinking on this topic to life.

Netflix: We first bought Netflix in 2016 and took a small position size. At the time, we believed that the company, which had launched *House of Cards* their first hit Netflix Original show in 2013, was in the early stages of building a strong set of competitive advantages that would prevent the big legacy media companies from swooping in to kill their business if it became too successful.

In the years leading up to our investment, Netflix the company had begun slowing raising prices in the more mature US market at a low single digit rate. But in 2016, they began increasing prices at a high single digit rate. [Pricing power](#), or the ability to raise prices without losing customers, is a key hallmark of a competitively advantaged business. We had been monitoring the way that Netflix's non-US subscriber base was growing to nearly equal the US subscriber base and we believed that the company was well on its way to building the first truly global scale TV and movie distribution system.

But as much as we believed Netflix was on the right track, we were not yet convinced that a well-resourced competitor – like Disney for example – wouldn't be able to launch a debilitating competitive attack on the company. While we believed that Netflix was already a strong company, with solid competitive advantages, we were not yet convinced that it fully met our very high threshold to be included in our core portfolio.

By 2018, Netflix subscription price increases were continuing to run at high single digit rates and yet there was no obvious resistance from customers. In addition, Netflix's library of original shows was exploding in size with growing local content for geographies outside of the US. By this point, we had become convinced that Netflix didn't just have an emerging moat, but that they now qualified as a full size, core position in our portfolio. When Disney Plus launched at the end of 2019, we felt confident that while the attack may

well have damaged Netflix if it had been done years earlier, it was too late, and Netflix's competitive advantages would prevail.

Trupanion: We invested in pet insurance company Trupanion in 2018. At the time, [we believed](#) that the company was disrupting the pet insurance industry and creating a much larger category that they would come to dominate over time. Pet insurance in the US had typically been an industry that did not offer customers good value and only 1%-2% of US pet households had insurance. But Trupanion's founder and CEO, Darryl Rawlings, was following a much more customer-friendly business model already seen in select foreign markets, where as many as 25% of pet households have insurance.

Trupanion was an early-stage company. They were growing quickly and building a strong set of competitive advantages based around their tight relationship with vets, who were a strong source of referral-based growth. Our view was that Trupanion's advantages were growing, but there was still time for large, well-resourced insurance companies to copy Trupanion's playbook and prevent them from obtaining the level of growth that we expected.

We believe the talent of management teams is always one of the major determinants of corporate success. However, in a founder-led, mission driven, emerging moat business like Trupanion, the role of management and the unique talents of the founder are especially critical. While Trupanion generally executed on our financial expectations while we held the stock, in 2019 Rawlings announced that rather than remain CEO for "the next 15 to 20 years" as he had previously stated, he would instead be stepping away from the CEO role in 2025. While we also had other concerns about Trupanion's emerging moat status, once it became clear that we could not count on the founder to lead the company for as long as we expected it would take to build a truly protected, competitively advantaged business, we decided to [sell out](#) of our position.

A key point about emerging moat investments is that while we believe the upside potential over the long term is very large, we also recognize that our conviction in our outlook is lower than stocks in our core portfolio. This is why we make smaller sized investments in emerging moat businesses. It also means, like in the case of Trupanion, that if key parts of our investment thesis are cast into doubt, we will be more likely to simply exit the investment and move on compared to our core portfolio holdings.

Blackline: In 2019, we took a position in Blackline, an enterprise software business that offers a niche, but rapidly growing solution to help companies close their financial books each quarter. We profile Blackline in depth later in this letter. But briefly, the company's major competitor is home grown Microsoft Excel-based solutions that companies have developed over the years to complete what is a very manual process. Blackline's solution automates and streamlines this time-consuming activity. But while we are confident, they have a best-in-class solution, the company still has a way to go before we can be confident that they can successfully manage their way through any competitive assaults that may occur in the future from one of the large, integrated enterprise software companies, or from other disruptive startups that may try to go after the same prize that Blackline is pursuing.

These three examples, Netflix moving from emerging moat status to a member of our core portfolio, Blackline remaining as an emerging moat business for the time being, and Trupanion seeing its time in our

portfolio cut short due to an unexpected development that reduced our confidence in their long-term success, are how we see all emerging moat stocks playing out over time.

Our small initial position size in emerging moat businesses reflects the lower level of confidence we have relative to our core portfolio of deeply competitively advantaged companies. The small size also provides us with more room to hold the stock even during periods when it may have gotten ahead of the company's success and be due for a sharp correction at some unpredictable time in the future.

These investment opportunities are less about paying a cheap price and more about us trying to correctly assess an unusually large business opportunity related to a change in competitive dynamics. Therefore, it is important for us to recognize the relatively wide range of fair value these businesses have at any given time. By maintaining relatively small position sizes, we don't force ourselves to trim our holding abruptly if the stock appreciates dramatically. At the same time, these emerging businesses are far more likely than our core holdings to experience large and abrupt declines in their stock price if other investors come to doubt their long-term outlook, and our smaller position sizes reduce the risk to our portfolio from this potential outcome as well.

In general, our policy is not to comment frequently on our emerging moat investments. These companies are subject to more uncertainty and more rapid change than our core portfolio on which we offer ongoing and extensive commentary. In some cases, we believe commenting on emerging moat stocks may not be in the best interest of our investors. But today, we want to call out our multiyear investment in Blackline and our brand-new investment in Peloton, as our current emerging moat holdings.

It is our internal policy to not allow more than 10% of our portfolio by weight to be made up of emerging moat business. Historically, we have not seen our allocation to these types of businesses exceed 5%. But our experience with Netflix, first identified as an emerging moat business before later becoming the largest holding in our core portfolio, helps demonstrate the way these investments can make very large, long-term contributions to our investment strategy performance.

Company Focus: Blackline (BL) and Costco (COST)

Blackline

Blackline is a software company focused on bringing modern technology and automation to the accounting and finance departments of large and mid-size companies. Its software automates and brings visibility to critical accounting functions including financial close management, account reconciliation, intercompany accounting, compliance, and accounts receivables.

The software is sold to businesses' finance and accounting departments where employees are the users of the software. As of September 30, 2021, Blackline had 3,700 companies as customers and over 315,000 users of its software. As result, it is expected to generate over \$400 million in revenue in 2021 nearly double the amount it generated just three years ago and more than five times what it generated in 2016.



work from anywhere solution has really helped drive increased demand for “Digital Transformation” solutions like Blackline’s.

Given Blackline’s leading position in this niche and its strong cultural focus on customer success, we believe Blackline has a long runway of growth ahead. Industry analysts and Blackline estimate the market for its targeted software solution is comprised of 165,000 businesses globally with a \$28 billion total addressable market. While we are always skeptical of large market estimates, we are certain that there are over a hundred thousand companies (customers) with millions of accounting/finance employees (users) for whom a more efficient and reliable solution to automate and manage their repetitive, but important, workload creates a very large market against which Blackline can execute.

As one would imagine, when a software solution is integrated into a critical, collaborative function within a company and partner ecosystem, it is hard to switch away from the vendor. That of course comprises Blackline’s competitive moat within its customer base. In addition, as it proves its value to customers and enables its users to succeed, it opens the door to new adjacent opportunities within that user-base. This adjacent opportunity is what drove its expansion into Accounts Receivables management with its acquisition last year of Rimilia from its initial footprint in Financial Close automation. Evidence of that moat and success has been its average customer retention rate of 97% over the past 5 years and a revenue retention rate of 109%, i.e., the 97% of customers who renew their contracts with Blackline each year buy 12% more services when they do. The increase results from a combination of more users, more products, more subsidiaries, more geographies, and price increases.

While we have good evidence for the value that Blackline’s software brings to customers and users, it is still a relatively small company with a small but fast-growing footprint that is overshadowed by much bigger players in the Enterprise Resource Management (ERP) software space, who play in adjacent parts of the market into which Blackline integrates. This is why we categorize Blackline as an Emerging Moat company until it gets to a scale where the threats become less existential. In its favor in competitive bake offs is Blackline’s strong record of customer success and as the independent solution, Blackline’s software works much better among the disparate often competitive systems where the solution needs to be able to integrate into disparate systems (often with their cooperation) to be effective. Nevertheless, ERP players like Oracle are more likely to be used in single vendor standardized environments where the ERP provider could choose to “throw in” its own financial close system as an alternative to Blackline.

Having said that, the largest ERP vendor, SAP (Oracle is 2nd), has chosen to partner with Blackline’s solution rather than develop its own, going as far as paying its own salespeople commissions on the Blackline sales they drive in its lucrative customer base of 425,000 customers, including 10,000 that generate over \$1 billion in revenue. The SAP partnership alone drives about a quarter of Blackline’s new sales while other partners among the major consulting firms, like Deloitte, EY, KPMG, and Cap Gemini, play an influencing role in most all large deals, thereby bringing leverage to Blackline’s own sales efforts.

Importantly Blackline’s new CEO and former COO Mark Huffman, who was picked as her successor by founder Therese Tucker, led sales at NetSuite, where he helped grow sales from \$3 million to \$1 billion before its acquisition by Oracle. We believe the combination of Huffman’s leadership, Blackline’s culture



of focusing on creating value and success for customers, and the deepening relationships with its partners will help Blackline continue to continue to scale its business globally and further enhance its competitive advantages over the next few years.

Costco

There are a handful of events that drive major changes in people's shopping routines. Two of these are moving and having children. Naturally, when you buy a new house or have kids, retailers pepper you with emails and mailers containing valuable coupons and offers because they want to become a part of your new shopping routine.

It turns out that a global pandemic is another one of those routine-altering events. In early 2020, as stay-at-home and quarantine orders rolled out around the country, shoppers flocked to Costco to load up on essentials like paper products and food and non-essentials like TVs and alcoholic beverages (or maybe these are "essentials" during a pandemic?).

During this abnormal period, Costco proved and reinforced its membership value proposition. If you want your pantry to be well stocked and limit your shopping trips – all the while getting great value for your money - Costco showed it is the place to go.

Membership loyalty, already strong before the pandemic, continued to increase well after quarantines and stay-at-home orders were lifted. A recent survey by Evercore ISI showed that between 2020 and 2021 Costco gained loyalty across every tested demographic by age and income except for incomes below \$45,000. Notably, its biggest loyalty gains came from the 18 to 34 and 35 to 54 year old age groups and incomes between \$45,000 and \$74,999.

The beauty of Costco's business model is its simplicity. Customers pay an annual fee to become either a Gold Star (currently \$60 in the U.S.) or Executive (\$120) member. Executive membership has some additional benefits, most notably a 2% reward on purchases. To shop at a Costco warehouse, you need to purchase one of the two memberships, whether you're a household or a business shopper.

Costco, in turn, works for the member by getting its best price on quality items and then marking them up at a flat rate. For most merchandise, Costco marks up its products by 11% over cost; for its private-label Kirkland brand, the mark up is between 14% and 15%.

There are typically 4,000 items ("SKUs") in a Costco warehouse at a given time, compared with 50,000 or even 100,000 items at other major retailers like Target and Walmart. There are a few benefits to having less SKUs. One is that there are only a handful of products that you can reliably find with each visit. This creates a "treasure hunt" mentality for Costco shoppers which encourages them to load up when their favorite items are in stock. Part of Costco's brilliance is its ability to convince you to keep its inventory at your house.

A secondary benefit is that, as Costco grows its membership base, it generates more revenue against a smaller number of SKUs, giving it more bargaining power over suppliers. This enables Costco to get even

better prices for its members, which it fully passes onto them, further proving the value proposition of being a Costco member.

Importantly, Costco could press its bargaining power advantage too far and [mortgage its moat](#), but it is known for being a good partner to suppliers. Costco's business model incentivizes this behavior. Because it makes most of its profit from membership fees rather than merchandise sales, Costco doesn't have to continually squeeze suppliers to get an extra penny or two.

Costco could, of course, decide to not pass on supplier savings to its members or squeeze its suppliers for extra profit and post a much higher earnings per share figure, but this short-term gain would result in long-term pain as it would break the virtuous cycle it's built among its [stakeholders](#) over the last 40 years.

Costco's virtuous stakeholder cycle begins with its employees. The company has long paid its warehouse employees well above the retail average and offered health insurance and benefits as well. Back in the early 2000s, in fact, some investors and analysts bemoaned the fact that Costco was so generous to employees and demanded management cut back to boost profits. Costco held the line and showed the doubters that its model not only was the right thing to do but led to far better shareholder returns than produced by other retailers.

The company's success has not gone unnoticed, and competitors have tried numerous ways to attack its moat, but Costco has endured the challenges. Beyond other warehouse models like Walmart's Sam's Club and BJ's Wholesale, investors have at various times in the last decade grown nervous about digital competition.

The day Amazon announced its acquisition of Whole Foods in June 2017, for example, Costco's trading volume increased more than 13-fold compared to the day before the announcement. And over the next week, Costco's stock fell over 15%. It's easy to see why investors might have been spooked by the acquisition. Amazon's Prime membership is many times larger than Costco's and if Prime members could now order groceries from Whole Foods, why would Prime members need to keep their Costco membership?

Another digital competitor, Boxed.com, was founded in 2013 and offers bulk-sized deals like Costco with the added convenience of mobile ordering and delivery. What's more, no membership fee is required to purchase from Boxed.

Key to understanding Costco's advantage against digital competition, however, is that Costco doesn't sell convenience and its members are, by and large, not seeking convenience. What Costco sells instead is permission for frugal people to spend money and not feel bad about it. You might put too much in your cart at Costco and be shocked by the bill at the register, but you don't feel like you got ripped off. Indeed, Costco members will often add, "I got it at Costco," when telling a friend about a big purchase they just made as a sort of justification for their splurge.

Nevertheless, e-commerce is a big opportunity for Costco. In March 2020, Costco made its largest ever acquisition, buying logistics company Innovel Solutions for \$1 billion from the parent company of Sears and Kmart. Innovel had distribution warehouses and last-mile delivery and installation services that Costco



has leveraged to improve its delivery offerings to members. E-commerce is a better way for Costco to sell big and bulky items like refrigerators and washer and dryers, which typically do not move quickly on the warehouse floor and take up a lot of space.

Two additional benefits of expanding its e-commerce operations is that Costco can better connect with members who may not live near a warehouse. If you live 50 miles from the closest Costco, you may shop there once every month and not find an Executive membership necessary. However, if you can put your membership to greater use with a more robust e-commerce offering, you'll be more likely to renew and consider an Executive membership upgrade.

Executive membership upgrades have been a tailwind for the US/Canada operations over the past decade. In 2009, Executive memberships accounted for 29% of all memberships; in fiscal 2021 it was 42%. Last year, 55% of US/Canada members had Executive memberships compared with just 17% of international members. Costco has added Executive membership offerings in Japan and Taiwan in recent years and we expect the Executive membership mix to improve overseas in the coming years.

Executive membership growth is important to our Costco thesis. First and most obviously, it increases membership fee revenue, which is pure profit. The second reason is that it encourages more spending at Costco. If a member spends at least \$3,000 a year (\$250 per month) at Costco, it makes sense for them to have an Executive membership given the 2% cash reward. Over the last twelve months, the average Executive membership spent \$5,539 on merchandise versus \$1,659 for Gold Card members. The former has made Costco a part of their regular shopping routine while the latter uses it more for one-off purchases. The more Costco can convince Gold Card members to routinely use their Costco membership, the more likely they'll be to upgrade to Executive.

Costco's international presence is still relatively nascent, and the company aims to add more warehouses outside of US/Canada in fiscal 2022. As was the case in US/Canada, each incremental warehouse in a country increases its membership base and bargaining power with suppliers, fostering the virtuous cycle in new markets. We are optimistic that Costco can further delight its international customers leading to more Executive memberships and more spending at its stores.

Disclosures

2021 Q4 Contributors and Detractors to Absolute Return Data									
Description	Symbol	Average Weight	Contribution (Gross)	Contribution (Net)	Description	Symbol	Average Weight	Contribution (Gross)	Contribution (Net)
Home Depot, Inc.	HD	8.09%	2.04%	2.02%	Broadridge Financial Solutions, Inc.	BR	2.83%	0.28%	0.27%
Ferrari NV	RACE	3.87%	0.99%	0.98%	Intuitive Surgical, Inc.	ISRG	2.73%	0.24%	0.23%
NVR, Inc.	NVR	3.40%	0.76%	0.75%	Heico Corp. Class-A	HEI/A	2.46%	0.21%	0.20%
Fastenal Co.	FAST	2.80%	0.63%	0.62%	Starbucks Corp.	SBUX	1.96%	0.12%	0.12%
Charles Schwab Corp.	SCHW	3.96%	0.59%	0.58%	ServiceNow, Inc.	NOW	2.00%	0.09%	0.09%
First American Financial Corp.	FAF	3.54%	0.57%	0.56%	Booking Holdings, Inc.	BKNG	5.06%	0.07%	0.06%
Alphabet, Inc. Class-A	GOOGL	6.64%	0.56%	0.54%	Nintendo Co LTD	NTDOY	4.13%	0.03%	0.02%
Costco Wholesale Corp.	COST	2.19%	0.54%	0.53%	Peloton Interactive, Inc. Class-A	PTON	0.91%	-0.09%	-0.09%
Masimo Corp.	MASI	5.77%	0.49%	0.48%	Netflix, Inc.	NFLX	8.60%	-0.10%	-0.12%
First Republic Bank	FRC	6.20%	0.44%	0.42%	Chipotle Mexican Gril, Inc.	CMG	3.66%	-0.15%	-0.16%
Landstar Systems, Inc.	LSTR	2.72%	0.36%	0.35%	Blackline, Inc.	BL	1.86%	-0.24%	-0.24%
Paychex, Inc.	PAYX	1.82%	0.35%	0.35%	Illumina, Inc.	ILMN	5.79%	-0.50%	-0.51%
Mastercard Inc. Class-A	MA	7.38%	0.32%	0.30%					

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ADDITIONAL IMPORTANT DISCLOSURES

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