JAG CAPITAL MANAGEMENT LLC

JAG Team Insights

Q1 2024: Thematic Insights

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Esteemed investor Howard Marks once said, "We may never know where we're going, but we sure ought to know where we are." We agree with Mr. Marks. What follows is a brief overview of several of JAG's growth portfolio themes.

Artificial Intelligence Secures Its Place

As we have covered extensively over the past year, we believe that **artificial intelligence (AI)** is not only here but will become increasingly important. While pinpointing the ultimate winners of AI will be difficult, our investment focus is on companies providing AI infrastructure (such as graphics processing units (GPUs), data center networking solutions, and cloud providers) and those primed to benefit the most from the use of AI. Data Bridge Market Research forecasts that global AI infrastructure spending will grow at 40%+ CAGR, reaching $422.5 billion by 2029. Examples within our portfolio include Microsoft (MSFT), NVIDIA (NVDA), Advanced Micro Devices (AMD), Broadcom (AVGO), and Arista Networks (ANET).

GitHub, a leading development platform for programmers, reports that coders can finish tasks up to 55% faster by implementing GitHub Copilot. Our team believes industries reliant on large coding teams could benefit disproportionately as programmers using AI tools become more productive and efficient. Potential beneficiaries of more efficient programming include videogame software producers like Take-Two Interactive (TTWO) and technology-enabled companies like Uber Technologies (UBER) and Fair Isaac (FICO). While AI-driven gains in programming efficiency are not core to our bull theses in these holdings, we believe that the market may be underappreciating the potential for margin expansion over the next several years.

GLP-1s – A Disruptive Force in Medicine

Given that over 40% of the US population suffers from obesity, GLP-1 "diabesity" treatments have the potential to be one of the greatest medical breakthroughs of all time. JP Morgan predicts that the diabesity market will exceed $100 billion by 2030.

A position since 2021, Eli Lilly (LLY) entered the GLP-1 race in May 2022 when the FDA approved Mounjaro as a treatment for type 2 diabetes. The same molecule has since been approved for individuals who suffer from obesity under a separate brand name (Zepbound). Clinical data suggests that Lilly's treatments offer a superior solution to other commercial alternatives. Initially intended to treat diabetes and weight loss, GLP-1s have also shown promise in treating other health conditions, including heart and kidney diseases. As discussed in previous **Insights**, we closely monitor new research indicating additional use cases for these drugs.

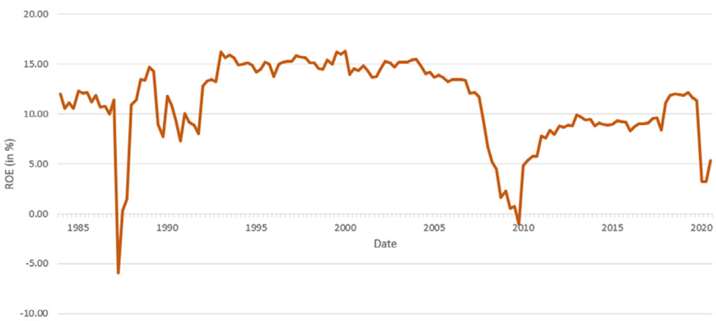
It is well understood that patients on GLP-1s experience decreased appetite after they begin treatment. This makes us incrementally cautious of investing in certain pockets of the food, beverage, and restaurant industries. Given the propensity among this demographic to be outsized, consumers of certain consumer packaged foods such as sugary drinks and snack foods, we believe that demand for these products could be negatively impacted as this cohort starts taking GLP-1s.

From Deposit Flight to Regulatory Headwinds

In 2008, during the Great Financial Crisis (GFC) peak, the FDIC estimated that the United States saw 25 bank (with approximately $373 billion in assets) failures. In 2023, less than 2 decades later, the country experienced an additional five bank failures totaling over $500 billion in assets. Subsequent to the aftermath of the GFC, regulators imposed the Dodd-Frank Wall Street Reform & Consumer Protection Act and the Basel III regulations. These reforms imposed restrictions on banks' investment activities and more than doubled their capital requirements. According to the St. Louis Federal Reserve (chart below), domestic banks' return on equity (ROE) averaged in the mid-teens prior to the reforms, but since, the ROE for this cohort has significantly declined. On the heels of several high-profile bank failures in 2023, regulators are weighing the implementation of Basel III Endgame. If and when the Endgame provisions become effective, banks will face even stricter capital requirements – potentially resulting in further declines for ROE across the banking system.

While we acknowledge that stricter regulations for banks could provide more stability to the financial system and avoid a 2008-type of crisis, we remain uncertain about their implications for investors.

Return on Equity for All US Banks (in %)



Source: stlouisfed.org

– JAG's Equity Research Team

Sources

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https://resources.github.com/copilot-for-business
The increase in appetite for obesity drugs | J.P. Morgan Research (jpmorgan.com)
FDIC: Bank Failures in Brief

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Disclosures

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A Veteran Owned Business (VOB) is a business owned, (51% ownership or greater) by a Veteran who has met the definition of a veteran. The following represents the criteria that the National Veteran Business Development Council (NVBDC) uses in determining ownership:

Ownership: Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.

Control and Management: Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.

Contribution of Expertise and Capital: Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.

Independence: The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

About JAG

JAG Capital Management (JAG) actively invests for institutions and individuals in highly selective, customizable, and nimble equity and fixed income strategies. JAG is a boutique, independent, employee-owned investment management firm in St. Louis.

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