LVMH: GLOBAL LEADER IN LUXURY GOODS

LVMH has been a core position in our World Stars Global Equity strategy for more than five years. We have held it through the Covid shutdown, the sharp recovery that followed it and the current economic uncertainty. It has been our fifth best performing stock, generating a 26% annualized return. Our investment thesis on the luxury goods sector and on LVMH remains unchanged. As industry leader it has significant long-term growth prospects based on its brand power, global reach and scale.

Growth in luxury goods continues to be powered by structural demand, driven by the aspiration of consumers to own luxury brands, the rise of the middle class across the globe, and the strong equity and pricing power of the biggest brands.

Last month's edition of the leading financial trade publication, *Portfolio Adviser* celebrated International Women's Day. Katerina Kosmopoulou, deputy portfolio manager of the J. Stern & Co. World Stars Global Equity fund, was interviewed about our view on investments including the luxury sector and LVMH.

LVMH's Luxury Empire Rides out Recession in Style

As a slow trek towards recession remains on the minds of investors, one area of business seems to have flourished. As wallets become lighter, luxury retailer LVMH has continued to embellish them with Louis Vuitton logos.

Katerina Kosmopoulou, deputy manager of the J. Stern & Co World Stars Global Equity fund, noted that the luxury goods market holds a few immunities to the difficulties other sectors face as belts tighten, in areas such as competitive pricing and new market players. LVMH, which holds legacy brands including Louis Vuitton, Givenchy, Marc Jacobs, Tiffany & Co and Tag Heuer, is a main player in this industry.

"It's very rare to launch a successful new luxury brand because they rely on craftsmanship and heritage. There's an inherent value that comes from having the history of 100 years that differentiates these brands from others," Kosmopoulou said.

"It's a completely different experience than going into a mass market store. You have people waiting on you, the products displayed in a specific way and sales service. On top of that, there is significant advertising that goes into maintaining those barriers to entry, which allows

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them to have the pricing power. There's a reason why some brands will just never have the products on sale. It doesn't happen because they are protecting the brand."

When this sales model is successful, it provides high degrees of protection for the brand. However, while LVMH has found success in this model, even well-established designer brands have struggled as they are forced to explore new markets.

Burberry, founded in 1856 and home to iconic fashion such as its trench coat and checked pattern, saw its share price tumble 46.9% in the past year. In January, chief executive Jonathan Akeroyd raised awareness of a purchasing slowdown in the quarter to December, typically a peak season and the company warned of an annual drop in revenue and profit.

In this same period, despite caution in similar market conditions, LVMH's share price rose 6.8%. Kosmopoulou said having flexibility in a product as well as diverse geographic appeal is a differentiator as the market tightens.

"Over the past few years, with one or two exceptions, the large, diversified players have been very successful, and some of the model brands, players like Burberry, have suffered. You've had volatility around Covid and supply chains, and you need to invest heavily behind those brands to build globally," Kosmopoulou said.

For LVMH, Asia now represents 38% of its overall revenue by region of delivery and almost half of its fashion and leather goods sector. The US, which represents 25% of this revenue, has shrunk two percentage points since 2022.

Kosmopoulou added: "If you want to capture, say, the Chinese market, you have to go out there and spend significantly in terms of presence and stores. That's not easy to do for a smaller player, and that inevitably has meant that for larger players, it becomes a virtuous cycle. They have the money they can spend on stores, they can spend on advertising, they can spend it on creative design and talent, and that builds over time."

J. Stern & Co.
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