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.

After three consecutive quarters of underperformance, our investment strategy began to rebound this quarter relative to the S&P 500, declining an estimated 2.6%[1] vs the S&P 500 down 4.9%. As has often been the case after periods of material underperformance, our performance this quarter was positively impacted by many of the same stocks that hurt our performance earlier.

Notably, our strategy outperformed despite the overall market selloff continuing in the third quarter. On a relative basis to the S&P 500, our performance bottomed out in mid-May of this year, and we've been materially ahead of our benchmark since then despite the S&P 500 being down by more than 8% over that time period. Over our long history prior to this year, our investment strategy exhibited a beta, or volatility relative to the S&P 500 of 1.0 or less, with downside capture of less than 100%. So our outperformance during a down market over the last four and a half months has not been atypical, rather it was our underperformance during the significant sell off from November 2021 through May of this year that was out of character with our long-term results.

The high growth stocks we discussed last quarter performed strongly in the third quarter, with Netflix up 35%, Illumina up 3%, and Masimo up 8%, although our smaller position in ServiceNow was down 21%. Housing related stocks, the other area responsible for an outsized portion of our underperformance this year, were more mixed with First American down 12%, while NVR was flat and Home Depot was up 1%. Collectively, these two groups of stocks, weighed heavily on our relative performance during the three-quarter period ending on June 30th. But in the just completed third quarter, the high growth stocks added 2.3% to our relative performance while our housing related investments added 0.2% to our relative returns.

The third quarter began with better than feared corporate earnings growth with S&P 500 earnings for the second quarter reported as growing at an above average rate. During the first half of the quarter, through mid-August, recession worries were tempered as very strong job creation continued. At the same time inflation worries faded a bit and market participants began to anticipate the Federal Reserve might stop raising rates a bit sooner than expected and even cut interest rates in 2023. These twin developments powered the market to a 16% rally off its June lows before Fed officials began to make clear that they had no intention of ending their rate hikes or declaring victory over inflation any time soon. The market ended up giving back all of its mid-summer rally and fell to new lows in the last few days of September as many investors came to

[1] Final composite calculations will be available at the end of this month. You can download a copy of our composite performance track record here.

worry that a major recession was now inevitable, and the Federal Reserve may make a policy mistake in raising rates too high and holding them there for too long.

At Ensemble, we don't believe that accurately predicting recessions ahead of time is possible. Certainly, the Federal Reserve focuses an incredible amount of intellectual firepower and effectively unlimited financial resources at trying to figure out how the economy will evolve in the future, yet their track record of making accurate forecasts about the future is dismal. Wall Street firms expend a similarly huge amount of resources to predict the economy and yet while various economists will get a big call right from time to time, there is little evidence that any person or approach to economic forecasting is accurate enough to correctly predict the timing of recessions with high confidence.

The easiest recession to predict was likely the COVID recession once it became clear that many businesses would be mandated to shut down for an indefinite time period. But what was completely unpredictable was that the COVID recession would last for only one month and the economic recovery would end up being the fastest recorded in US history.

But investors absolutely can, and must, consider the probability of a recession at any given time and think through the range of potential outcomes. It could be that American consumers, whose spending makes up 70% of the US economy, simply keep spending money as they have all year long and a recession is avoided. Job creation has remained robust, wage growth is strong, US households have low levels of debt and unprecedented levels of cash savings.

Recall that last year we talked about the Wall of Money, the more than $2 trillion of excess savings that households accrued during COVID, that we expected would support consumer spending for years to come. Given the resilience of consumers in the face of widespread recession worries, it is clear that these savings, which still total between $1.5 and $2 trillion depending on the assumptions used, remain an important buffer offsetting the very reasonable economic anxiety that is widespread among consumers. Given the resilience of consumers in the face of widespread recession worries, it is clear that these savings, which still total between $1.5 and $2 trillion depending on the assumptions used, remain an important buffer offsetting the very reasonable economic anxiety that is widespread amount consumers.

On the other hand, it is crystal clear that some parts of the economy are already contracting. It may very well be the case that consumers pull back their spending, triggering weaker results for companies, who then begin laying employees off, driving down the American consumers' ability to spend and we enter a recession.

Because recessions occur every seven to 10 years, the odds of a recession in any randomly selected year is about 10%-15%. This is true even when there are no obvious signs that a significant economic slowdown is around the corner. Given the range of warning signs about a potential recession that are clearly apparent today, the odds of a recession are much higher than normal and are above 50% in our estimation. Given the very real risk of a recession, paired with the fact that the US stock market as measured by the S&P 500 has

already declined by as much as 24% from its highs, it is critical for investors to focus not just on the binary question of whether or not we get a recession, but the depth and duration of a recession if it arrives. In addition, due to the unique economic impacts of COVID in recent years, it is important for investors to grapple with the way that this particular recession may have a very different character than past recessions with various industries following very different paths than historical analogies might suggest.

One simple observation about recessions is that there have been 12 of them since World War II, of which two thirds might be characterized as mild while the other third were severe. Investors without a sense of history may intuitively assume that all recessions are like the Great Financial Crisis of 2008-09, during which the stock market was cut in half and the economy collapsed. But that recession was, in fact, the worst recession since the Great Depression and not at all representative of an average recession. During mild recessions, the stock market has typically declined by 15% to 30%, a magnitude of decline already witnessed this year. During severe recessions, stock market declines have been on the order of 30% to 50%.

Thus, if the US manages to avoid tipping into a recession, it is likely that equity investors will enjoy very strong returns over the next year or two. If a mild recession plays out, while the final low may not be in for the stock market, additional downside will likely be limited simply because the majority of the decline that might be expected during a mild recession has already occurred. But if a severe recession occurs, equity investors may need to endure additional material downside before a recovery arrives.

This framework for thinking about recession risks and equity market returns is identical to what we discussed in the fourth quarter of 2018 when recession worries had gripped the market and the S&P 500 had declined by 20% over just 10 weeks. When those recession fears proved to be misplaced and the economy continued to power forward, the stock market ripped higher by 47% from the late 2018 lows through early 2020 before COVID intervened.

Because investors cannot count on their ability to accurately predict recessions, we believe the best course of action for equity investors is to own high-quality companies that are protected by strong competitive advantages, have very capable management teams, and are prudent in their risk taking such that there is never any question that they can make it through recessions when they inevitable arrive. While predicting when the next recession will occur is extremely difficult, it is a foregone conclusion that a recession will arrive at some point. In fact, ownership of equities demands a minimum time horizon of a decade (or much more) and so probabilistically it is a near certainty that equity investors will experience one or more recessions during their investment time horizon.

When thinking about potential economic outcomes and the implications for stocks, investors typically, and justifiably, look to history for examples of similar conditions. While this is a useful practice, it is important for investors to recognize that the sample size of relatively rare events such as recessions and periods of inflation is very small. While there have been 12 recessions since World War II for investors to consider, or about one every six and a half years, recessions have also become less frequent over time as US economic

volatility has moderated. Over the last 40 years, there have been only four recessions, or about one per decade.

In any field of study, a sample size of 12 is rightly seen as providing very little statistical significance. And of course, it is quite obvious that how a globalized, internet connected, financialized and digitized economy will behave today may be quite different than how a 1950s era industrial economy, still focused on building infrastructure such as highways to facilitate the rise of widespread car ownership, may have behaved in the past.

But when looking for past instances of persistently high inflation in the US, investors have but one example; the 1970s. Although it is important to note that the very low inflation environment that persisted from 2011 to 2020 was itself an anomaly with no historical analogies in the modern era. Thus, while it is important for investors to examine what happened in the 1970s, it is equally important not to anchor to this single historical example and mistakenly believe that the inflation issues that have plagued the US for the past 15 months have somehow set in motion an automatic replay of the 1970s experience.

The 1970s are rightly understood to have been one of the worst economic periods in modern American history. Inflation raged at rates between 5% and 15% for a decade and along the way, America experienced three separate recessions. But the conditions that gave rise to inflation in the 1970s was very different than today and the behavior of the Federal Reserve in reaction to inflation will also be quite different than their actions in the 1970s.

The lessons of the Great Depression were heeded well by the Federal Reserve in the wake of the Great Financial Crisis of 2008-09 leading to the deployment of very different strategies to mitigate the damage. Because of this, the US economy and US stock market rebounded much more quickly in the 2010s, then it did in the 1930s. Similarly, the current Federal Reserve has stated explicitly that they recognize the mistakes their predecessors made in the 1970s and they are committed to not repeating them.

Raising interest rates to slow demand in an effort to stamp out inflation is an incredibly blunt tool. Much like chemotherapy treats cancer patients by poisoning them, causing pain and suffering to healthy tissue even as it works to eradicate the cancer, aggressive interest rate hikes inflict pain and suffering on healthy aspects of the economy, driving companies to layoff workers, even as it works to eradicate inflation. Because of this associated harm, in the mid-1970s, even before inflation had peaked at 12%, the Federal Reserve quickly backed off on interest rates as a recession took hold. Inflation did then begin to fade, but it remained at very high levels. By failing to complete the critical task at hand, the Fed allowed inflation to bottom out at a still high 5% and then roar back to rates approaching 15% as the 1970s came to a close.

It was this failure to finish the war against inflation that allowed inflation to return and led a new Fed chair, Paul Volker, to famously raise interest rates to an astounding 20%, triggering two back to back recessions as he committed to beat inflation for good. As painful as these steps were, Volker's actions laid the groundwork

for a quarter century of robust economic growth, rising real wages, moderated inflation, and a booming stock market. The medicine was harsh but required. The patient recovered and went on to thrive.

Just as Ben Bernanke as Fed Chairman in the wake of the Financial Crisis heeded the lessons of the Great Depression and helped steer the economy to a much better outcome, so too has current Fed Chairman Jay Powell explicitly pointed to the lessons of the 1970s and committed to behaving differently this time. The incredibly high interest rates that Volker was required to deploy near the end of the 1970s was not needed simply because it is always what is needed to fight inflation, but rather because inflation had been allowed to run at an average rate of 8% over the prior 7 years. Much like the level of chemotherapy required to treat a tumor that has been allowed to metastasize is much higher than what is needed if the tumor is identified early, so too is the amount of economic pain needed to beat inflation much lower if the treatment begins early and is deployed aggressively as the Fed is doing today.

At Ensemble, while we recognize that forecasting each twist and turn of the economy is impossible, we also believe that a replay of the 1970s inflation experience is not the most likely outcome. The American economy and labor force dynamics are quite different than they were in the 1970s. And it is important to not lose sight of the fact that for much of the decade prior to COVID, the deflationary forces of technological advancement were considered to be so persistent that even near zero interest rates failed to push inflation even up to the Fed's 2% target and many people came to believe that inflation and interest rates would remain low for good. While this absolutist belief was wrongheaded, the deflationary forces of technological advancement have not come to an end.

It is also critical that investors recognize that the 1970s were not a 10-year long bear market. In fact, each time inflation peaked and began to decline, the stock market rallied dramatically despite inflation still running at high absolute levels. Importantly, the stock market did not only generate appreciation during these three time periods. In fact, from the end of 1972, when inflation first began to rise sharply, to the end of 1982 when the last of the Volker driven recessions ended, the US stock market returned 6.7% a year, a rate of return that is inferior to the long-term average, but still represents a near doubling of value. From the end of 1974, when the first wave of inflation peaked and began to decline, to the end of 1984, when the economy had captured the initial gains from having defeated inflation, the S&P 500 returned a remarkable 14.8% a year.

Year over year inflation during the current cycle peaked, at least for the time being, in June with inflation at 9.1% while the most current reading from August of this year was 8.3%. With the price of oil and many commodities now well below where they traded prior to Russia's invasion, home prices and rents now showing signs of having peaked and even beginning to decline, supply chains healing, and labor market tightness improving incrementally in recent months, the three-month moving average of inflation has been an annualized 5.7%.

But while there are signs that the Fed's actions, along with growing relief from COVID triggered shortages, are working, it is not yet possible for investors to feel confident that inflation will continue to fade. Nor are the magnitude and duration of the economic side effects of the Fed's "chemotherapy" treatment yet fully understood.

Whether a recession arrives tomorrow, or not for another decade, we know that we will be managing our investment strategy through the next recession. Our goal is to own companies, like those in our current portfolio, that we believe are well positioned to capitalize on their long-term potential and have the fortitude to make it through recessions, inflation, and other material headwinds that we expect will arise from time to time.

As we go forward, we intend to hold our investments in these sorts of companies, even if their share prices decline, so long as we continued to have confidence in the company and believe that the stock market is undervaluing our investments' long-term potential. That being said, we will also monitor closely for changes we need to make to our forecasts or signs that a company's long-term potential has been permanently impaired. We will continue to scour the market for new companies to add to our portfolio that might offer superior risk adjusted return potential.

Notable detractors from our performance came from our investments in Google, ServiceNow, and Nike.

Google (-12.2%): While Google's advertising business has been far more resilient than the overall online ad industry, second quarter results showed slowing demand. After starting the year hiring at a 20% annualized growth rate, Google has greatly slowed hiring as online advertising demand has slowed abruptly.

ServiceNow (-20.6%): While ServiceNow's mission critical software is an area we expect to remain very resilient even in the face of a difficult macro-economic environment, the company has seen a slow down in new deals closing particularly in Europe. ServiceNow's software helps large enterprises shift workflows onto a cloud-based software platform and is a key tool to enable digital transformation. This transformation is something that all large companies will need to grapple with as they seek to drive revenue and lower costs by making their business processes more efficient.

Nike (-18.4%): The company spent most of the quarter trading about in line with the overall market. But on the last day of the quarter, they reported earnings that demonstrated strong consumer demand, but a series of geographic and product level inventory level issues. Given the start-stop nature of their production during COVID, strained global supply chains, and China consumers popping in and out of lockdowns, the company ended up with too much apparel inventory and announced they'd be slashing prices on certain items to reset inventory to appropriate levels quickly.

On the more positive side, we saw notable performance contribution from Netflix, Charles Schwab & Co, and Masimo.

Netflix (+34.6%): After a punishing first half of the year when bearish investors came to believe that Netflix's growth days were done for good, the company reported fewer subscriber losses than expected in the second quarter and guided for a return to at least modest subscriber growth in the third quarter. In addition, as more information about the company's planned advertising supported subscription tier has become available, investors began to express growing confidence in this tool to revitalize growth in 2023.

Charles Schwab & Co (+14.1%): While the value of the financial assets Schwab holds for clients has been under significant pressure this year, clients are also holding more cash and Schwab is earning more income for any given level of client cash as interest rates rise. In the company focus section below, we offer out detailed thoughts on the company.

Masimo (+8.0%): In August, an activist investor bought 9% of the company and sought to begin conversations with Masimo management about their acquisition of Sound United. During the fourth quarter, Masimo will host an investor event in which they plan to lay out the details of their strategy to use Sound United to bring their medical sensor technology into the home as part of their long-time mission to lower the cost of health care and improve patient outcomes.

Company Focus: NVR (NVR) and Charles Schwab & Co (SCHW)

NVR: The US housing market has been unstable so far this year, as rising mortgage rates and higher housing prices have rapidly reduced affordability. Fortunately for existing homeowners, most of whom own their houses outright or have locked in low, fixed mortgage rates, rising rates have not directly impacted their finances unless they have an outstanding variable-rate home equity line of credit.

Homebuilders, who rely on incremental demand for housing, have seen demand dry up in response to declining affordability. Single-family home building permits have plummeted in recent months back to pre-pandemic levels.

That's the bad news. On the bright side, the building materials supply chain, which delayed construction and increased the cost to build a home, is rapidly improving. This bodes well for homebuilders like NVR with a track record of cost discipline. In other words, even if NVR's average selling price declines, it can maintain attractive gross margins if they simultaneously control costs.

According to the National Association of Home Builders, the ten-largest builders' market share increased from 8.7% in 1989 to 34.2% in 2021. There are various reasons for this steady trend toward industry consolidation, but two factors – land availability and cost control – are near the top of the list. Critical to any home builder's profitability is securing cheap yet attractive land, which is getting harder to come by. Smaller, independent homebuilders don't have as many financial and operational resources to obtain sufficient amounts of cheap and attractive land knowing that demand to build on that land may not materialize for a few years, if ever.

Similarly, larger builders like NVR can source materials more efficiently and spread costs among more jobs than smaller builders. This makes it difficult for smaller builders to generate attractive cash flows that can be used to reinvest in their businesses. Naturally, then, large builders have an advantage that should increase in down markets when smaller players get shaken out of the industry.

We believe NVR remains well-positioned when it comes to having communities in attractive locations and having affordable price points. Relative to other major homebuilders, NVR has greater exposure to the exurban (beyond suburban) areas and second- and third-tier cities like Richmond, Virginia and Cincinnati, Ohio, where housing tends to be more affordable compared with major cities or "hot" real estate markets like Boise, Idaho and Austin, Texas. Further, to the extent that remote- and hybrid-work arrangements remain relevant – we believe they will – NVR's locations away from city centers should be attractive to new home buyers. Longer commutes become more palatable if they don't have to be done every day.

It's important to remember that NVR's markets don't necessarily have a strong positive correlation with what's going on in the national housing market. NVR operates in a specific region of the United States, all east of the Mississippi River. So even if housing prices in high-growth areas in the western half of the United States are sharply declining, NVR's markets may be holding up relatively well. Some of NVR's markets, particularly its home region of the Mid-Atlantic and the Northeast, tend to be more mature. While growth is more limited in those regions, they are also less vulnerable to house price declines.

It's worth reiterating NVR's two-pronged business model – first, be asset light and second, maximize local market share. On the first point, NVR only uses option agreements to control land until there's present demand to build on the land. NVR pays landowners a premium for the right to purchase the land by a later date at an agreed-upon price. If demand doesn't materialize, the most NVR loses is the premium paid to control the land for a certain period of time. Using options in this way frees up NVR's capital to be deployed in a manner that management considers prudent.

Other homebuilders make greater use of outright land ownership where they buy the land and keep it on their balance sheet, hoping to one day build on the land. Owning the land works really well in a robust real estate market where affordable, shovel-ready land can be in short supply. On the other hand, it does not work well when demand doesn't materialize, and the home builder has to carry the land on its inventory. If the home builder also carries substantial debt – which many do – they may get into a situation where they need to sell the land at a steep discount to service their debt.

Unlike its major homebuilding peers, NVR has a net cash balance sheet, meaning it could pay off all its debt today and still have plenty of cash leftover. As such, we believe NVR's asset-light, cash-rich balance sheet is a distinct advantage during downcycles in the housing market. This was on display following the housing crisis when NVR moved into new markets like Florida and Ohio, which subsequently became attractive growth markets for the company. In the event of a prolonged weak housing market, we expect NVR to make similarly opportunistic investments to grow the business.

The second prong of NVR's business model, to maximize local market share, is also designed to help the business be resilient in down markets. NVR has seven manufacturing centers, in which the company receives

bulk materials and pre-fabricates parts of the home – panels, interior stairs, etc. - before sending the sections to the job site. The more communities that NVR develops around these manufacturing centers, the more efficiently and quickly NVR can turn its inventory. Greater local market share also allows NVR to maintain sub-contractor relationships across housing cycles, as sub-contractors know there will always be business working with NVR.

We chose NVR over other homebuilders because we think they are best positioned to capitalize on what we believe to be a long-term secular tailwind for US housing activity. Research group Evercore recently stated that it would take a decade of 2 million annual housing starts to make up for the deficit in housing activity incurred after the housing crisis of the late 2000s. In September, the president of the Philadelphia Federal Reserve stated that, despite the Fed raising interest rates, "The bottom line is this: We need to build (homes)." There will inevitably be up-and-down cycles in the housing market while these ends are pursued. We believe NVR has the most resilient business model and is led by the best capital allocators in the homebuilding industry. As such, we expect NVR to take share from both smaller competitors and its larger peers during down cycles and come out stronger on the other side.

Charles Schwab & Co: As we have discussed before, Schwab's core value proposition is about helping its customers, both individual investors and independent registered investment advisors like Ensemble, intelligently and efficiently invest in capital markets. What everyone might not be as familiar with is how Schwab's business model has changed over the years as its offerings and capabilities evolved, initially being driven by trading commissions, then distribution fees on third party mutual funds, and later asset-based fees on its own proprietary mutual funds and ETFs, and more recently net interest revenue that is derived from its customers' cash holdings sitting on Schwab's balance sheet.

Through each of these revenue transitions, Schwab has accelerated the arc of industry trends that leveraged technology and scale to commoditize each of the earlier revenue sources. While doing this, Schwab grew its scope of services and revenue to new more profitable levels built off its ability to drive operating costs lower with scale thereby offering excellent value and service to millions of customers relative to competitors.

This has powered its growth and profit flywheel that relies on scale and efficiency to drive costs lower, allowing it to reduce prices that attract more customers and assets even as it invests to add higher value services to cross sell, which further increases scale and efficiency opportunity. As a result, assets held at Schwab now stand at over $7 trillion from about $1 trillion in 2005.

For Schwab, scaling assets, sticking to a culture of adaptability and efficiency, and focusing on customer value has resulted in a win-win-win model for its key stakeholders: its customers, its employees, and its shareholders.

It was the fact that net interest revenue comprised more than half its business while trading revenue had fallen to less than 10%, that enabled Schwab to cut trading commissions on equity and ETF trades to zero in October 2019, without taking a significant hit to its financial model. This set the stage in 2020 and 2021

for a dramatic acceleration in client account growth and the net new assets they brought in, which is exactly how Schwab's strategy of perpetual disruption has worked for decades now.

Traditional online trading competitors reliant on commissions saw their stock prices fall dramatically. TD Ameritrade was one that saw its stock price fall over 30%, creating the opportunity soon thereafter for Schwab to acquire it in a highly accretive transaction that increased Schwab's asset scale by a third by bringing in $1.6 trillion in assets. Adding Ameritrade's $6 billion in revenue to Schwab's platform saw the opportunity to cut out 60% of costs associated with it, taking the margin on that incremental revenue from about 50% to nearly 80%.

Powering Schwab's long-term model has been their focus on operational efficiency that is an important part of its competitive advantage. It allows the company to offer low prices and higher value to customers, which wins them over and retains them, while also delivering attractive returns for shareholders.

A way to measure this is a metric called the efficiency ratio which measures the operating expenses per dollar of client assets. The spread between the revenue yield, which measures total revenue collected per dollar of client assets, and the efficiency ratio translates into the profits that Schwab is able to collect on those assets.

The persistent decline in the efficiency ratio from 0.25% per dollar of AUM to 0.14% over the past decade and a half powered the profit spread per dollar of AUM from 0.09% to 0.14%. The result is that every dollar of revenue generated from client assets translates to 50 cents of operating profit. This really captures the financial magic of Schwab's model.

What's key from a business model perspective is that over the past decade, Schwab has transformed its financial model from one that predominantly monetizes its services from fees to one that increasingly monetizes via interest earned on customers' uninvested cash balances.

In other words, it's become the wealth management service leader in offering low explicit costs to the customers by driving them towards zero while monetizing its services with the implicit opportunity cost of earning interest on cash balances customers hold in their accounts. It's no wonder that the company's focus on customer value, scale, and efficiency has enabled it to keep growing client assets organically at an unfathomable scale.

In 2021, it added over half a trillion dollars of net new assets from new and existing clients and this year it is on pace to add about $400 billion. This is the part of the business that is all about the great service and low fees that cause customers to come to Schwab and stay. It's where the rubber hits the road.

Over time Schwab's net new assets have grown AUM at about a 5%-7% rate per year, even as its scale has grown dramatically. Not all of the AUM growth is fueled by net new assets – market returns also add to the overall AUM growth. As a result, AUM has grown at about a 17% compounded annual growth rate or 15% if we exclude the $1.6 trillion that came in from the Ameritrade acquisition.

Today, Schwab stands in front of a large revenue opportunity not seen since before the great financial crisis, with interest rates higher that they've been in a decade. As mentioned earlier, Schwab's largest revenue source is now net interest revenue, and it's a highly profitable source too.

Schwab's net interest revenue is generated from two drivers - the client cash portion within its large AUM base, typically 6-8% that substantially comprise its interest earning asset base, and the net interest that can be earned on it, a metric called net interest margin (NIM).

We saw that in the last rate hiking cycle, Schwab's NIM tracked market rates higher from 2013 to their peak in 2018. We can see a similar phenomenon occurring today, from a lower base and at a steeper slope that could head higher than in the previous cycle since market interest rates are already higher, with the Fed expecting a "higher for longer" rate cycle. Meanwhile, the base of assets that Schwab can earn its NIM on has grown significantly since the past cycle.

Earnings grew dramatically last time this cycle played out and with an even higher base of interest earning assets today, we expect the eventual higher NIM will power much higher earnings again.

One other thing to note is that despite near record low NIM recently, Schwab was already reporting record high adjusted operating margins in 2021. Adding billions of dollars in additional interest revenue at little incremental cost over the next couple of years should drive those margins higher.

Clearly while many companies will see headwinds during this time of higher inflation and higher interest rates, companies like Schwab will experience it as a tailwind to its business. It is important to note that during the low-rate period just concluded, which was a boon to most businesses, Schwab experienced the low rates as a material headwind.

However, Schwab's business model is a resilient one, as we believe are the other businesses owned in our client portfolios. By focusing on serving its customers and providing a strong value proposition, Schwab was able to grow the business metric that underpins its future earnings power once rates normalized from the depressed rates experienced during the COVID period and the post financial crisis period prior to that. Now we are seeing the start of the benefits of the efforts and investments that the company made during all those years in growing customers and assets as interest rates have become more favorable.

We will conclude by observing that over the long term, Schwab's secular growth over a business cycle will mirror its success in growing client assets, which will reflect the sum of net new asset growth and market appreciation. Increasing scale improves long-term operating margins as well, which drive earnings and the share price over time. Finally, we would note that Schwab has several long-term initiatives in place to improve monetization of client assets beyond the interest rate discussion we have focused on here.

Disclosures

2022 Q3 Contributors and Detractors to Absolute Return Data

Description	Symbol	Average Weight	Contribution	Description	Symbol	Average Weight	Contribution
Netflix, Inc.	NFLX	5.73%	1.50%	Nintendo Co LTD	NTDOY	4.74%	-0.26%
Charles Schwab Corp.	SCHW	4.09%	0.55%	Fastenal Co.	FAST	3.26%	-0.27%
Masimo Corp.	MASI	5.13%	0.40%	Booking Holdings, Inc.	BKNG	4.87%	-0.29%
Broadridge Financial Solutions, Inc.	BR	5.31%	0.31%	Perimeter Solutions SA	PRM	1.07%	-0.31%
Chipotle Mexican Gril, Inc.	CMG	3.31%	0.23%	First American Financial Corp.	FAF	3.11%	-0.42%
Home Depot, Inc.	HD	7.21%	0.23%	First Republic Bank	FRC	7.58%	-0.72%
Illumina, Inc.	ILMN	4.69%	0.16%	Nike, Inc. Class-B	NKE	4.72%	-0.73%
Ferrari NV	RACE	5.63%	0.05%	Mastercard Inc. Class-A	MA	7.63%	-0.76%
Paychex, Inc.	PAYX	1.62%	-0.02%	ServiceNow. Inc.	NOW	3.95%	-0.92%
Landstar Systems, Inc.	LSTR	2.45%	-0.04%	Alphabet, Inc. Class-A	GOOGL	7.94%	-1.13%
NVR, Inc.	NVR	4.56%	-0.10%				

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 9/30/2022. 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 deduction of fees and expenses from the composite performance and 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.

As a result of client-specific circumstances, individual clients may hold positions that are not part of Ensemble Capital's equity strategy. Ensemble is a fully discretionary adviser and may exit a portfolio position at any time without notice, in its own discretion. Ensemble Capital employees and related persons may hold positions or other interests in the securities mentioned herein. Employees and related persons trade for their own accounts on the basis of their personal investment goals and financial circumstances.

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. Readers are cautioned not to put undue reliance on forward-looking statements.