

On March 11th, we rebalanced our positions in Novo Nordisk (NVO) and Gilead Sciences (GILD) to their model weights. At the strategy level, these adjustments maintain our current level of Health Care sector exposure while capitalizing on a notable divergence in recent share price performance between the two holdings.

Rebalance Novo Nordisk (NVO) to 3.75%

The pressure on Novo Nordisk's stock has continued over the past few months, primarily due to news flow related to its next-generation weight loss drug, CagriSema. On December 20th, Novo Nordisk released the results of the REDEFINE-1 trial, which evaluated the efficacy of CagriSema. The primary result showed a 20.4% weight loss, below market expectations of approximately 25%. The underperformance may be partly attributed to the trial's flexible dosing protocol. Despite the trial's relative disappointment, CagriSema's efficacy is on par with Eli Lilly's Zepbound, positioning NVO as a competitive asset to sustain its strong position in the obesity market.

Novo Nordisk has also announced plans to optimize dose titration in a future trial starting in the first half of 2025, with results expected in approximately two years. While this timing means the potentially improved dataset would likely come after Eli Lilly's next-generation obesity trial, we believe that CagriSema's current efficacy is sufficient to sustain NVO's competitive position for the remainder of the decade.

Additionally, headlines about potential new obesity drug entrants have fueled investor concerns, but we believe that the Novo-Lilly duopoly remains secure due to the complexity and cost associated with manufacturing GLP-1 drugs. Producing these peptide-based therapies requires both complex API synthesis (via production from hosts made with recombinant DNA technology or peptide-chain assembly) and an intricate fill-and-finish process for prefilled injectable devices. Novo Nordisk and Eli Lilly have invested billions of dollars and multiple years increasing production capacity. Therefore, we believe that meaningful competition (>10% market share) within the next five to ten years is highly unlikely due to capital constraints, build time requirements, and/or investor scrutiny of risk-adjusted return on investment for major projects and expenses.

We remain confident in Novo Nordisk's ability to drive multi-year growth superior to non-obesity peers, and our investment thesis for Novo Nordisk, including its position within the obesity treatment duopoly, remains intact. This presents a compelling opportunity to increase our position with the current decline in stock prices.

Rebalance Gilead Sciences (GILD) to 3.75%

We rebalanced Gilead Sciences to its model weight as its recent outperformance resulted in its floating weight approaching the strategy's 5% limit. While we remain confident in Gilead's long-term investment thesis—underpinned by minimal near-term LOEs and strong growth potential in HIV treatment and prevention via lenacapavir—we are rebalancing to align with our model weight, ensuring disciplined position sizing following recent outperformance.

Disclosures

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Your account returns might vary from the composites returns if you own securities that are not included in the Strategy or if your portfolio dollar-cost averaged into the Strategy during the reporting period.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month which follows the cash flow by at least 30 days. Additional information regarding the treatment of significant cash flows is available upon request.

Brookmont Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Brookmont's composites and a presentation that adheres to GIPS standards, please contact Suzie Begando at 214-953-0190 or write Brookmont Capital Management, 5950 Berkshire Lane, Suite 1420, Dallas, TX 75225.

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