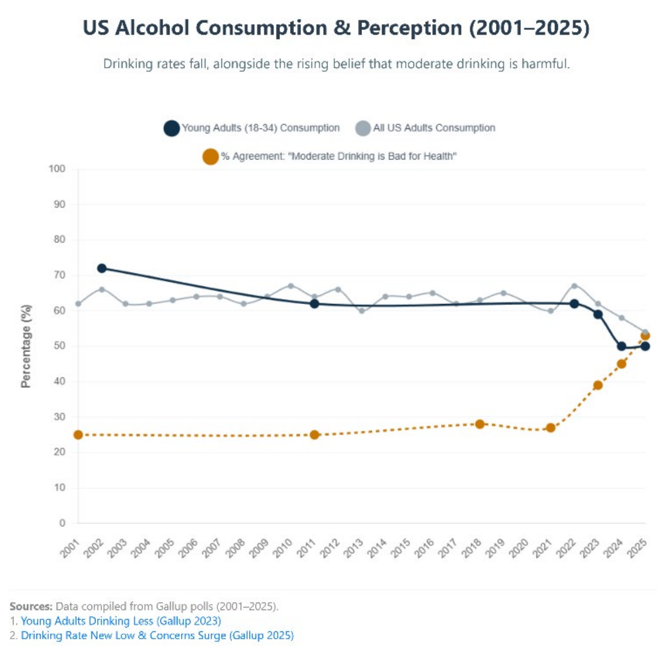
On December 30, we exited our position in Diageo (DEO) and initiated a 1.25% position in NetEase (NTES). This reallocation reflects evolving global consumer dynamics, including the expansion of the global middle class alongside aging populations in developed markets. Younger consumers are increasingly moderating alcohol consumption and reallocating discretionary spending toward digital entertainment, particularly online gaming.

Exited Diageo (DEO)

Our decision to exit Diageo was driven by a combination of near-term and longer-term negative dynamics. Regarding the near-term, Diageo's portfolio of brands is over indexed to premium consumer preferences. For much of the past decade, this has been a significant tailwind as consumers consistently traded up in their alcohol purchases. Unlike some premium luxuries, whose prohibitively high prices restrict the customer base to the ultra-wealthy, the relative affordability of "premium" alcohol brands allowed for a more diverse customer base. Much of the growth over the past decade was driven by low-to-middle-class consumers purchasing more premium products. Recently, however, this has become a significant headwind. The US consumer, particularly the low-to-middle class, has faced sustained pressure from stubbornly high inflation since 2022, resulting in a pullback in discretionary spending and a weakening of the premiumization trend.

Diageo also faces longer-term headwinds surrounding alcohol consumption. From a demographic perspective, the percentage of young adults (18-34) who consume alcohol has been decreasing for the last two decades, a trend that has accelerated in recent years. In 2003, 72% of young adults consumed alcohol compared to just 50% in 2025. Furthermore, rising adoption of GLP-1 medications presents an additional downside risk, with many patients reporting a significant decrease in the desire to consume alcohol.



Add NetEase (NTES) at 1.25%

NetEase is a Chinese video game company that represents a compelling investment opportunity. As with nearly all Chinese companies, it trades at a discount to Western peers due to perceived regulatory risks. We assessed these various risks—including regulatory mechanisms, likelihood, and NetEase's ability to withstand a related shock—as an essential component of our analysis. The vast majority of NetEase's revenue and profits are derived from its gaming segment. Within this segment, about two-thirds of revenue is from mobile devices, and the company primarily monetizes its content through in game purchases. Given this model the earnings of these games are spread over a longer time horizon, this model stabilizes revenue over the longer-term. re.

Additionally, NTES possesses an extremely strong balance sheet, with a net cash position of $21.5 billion (compares to Meta and Apple each having approximately $48bn in cash)—nearly 4x EBITDA and over 4x annual operating expenses. In other words, if NetEase's revenues ceased entirely, it would still have enough cash on hand to operate the business as-is (including all marketing and R&D) for another four years.

NetEase has significant growth potential, driven by its objective for international expansion. The Chinese online gaming market is extremely concentrated, with Tencent and NetEase representing ~80% of the market. While China's online gaming market (ex-console) is the second largest in the world behind the United States, Chinese companies comprise only 14.6% of the global (ex-China) gaming market. Despite its revenue coming almost entirely from a single market (90% from China), NetEase's research & development spending was roughly equivalent to Electronic Arts' and more than double Take-Two Interactive's. This demonstrates that NetEase's robust market position and prioritization of internal investment provide it with enough firepower to become a global gaming powerhouse.

While operating in China carries inherent regulatory risk, our analysis suggests these risks are reflected in NetEase's discounted valuation compared to Western peers. We believe that the recently improved clarity on near-term risks in the online gaming industry, combined with NetEase's business strategy and robust balance sheet, provide more than enough assurance to protect against these downsides. With the company's strong future growth potential driven by expansion into international markets, we believe NetEase represents a compelling opportunity within the communications sector.

Disclosures

This letter may contain "forward-looking statements" which are based on Brookmont's beliefs, as well as on a number of assumptions concerning future events, based on information currently available to Brookmont. Current and prospective clients are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of future performance, and are subject to a number of uncertainties and other factors, many of which are outside Brookmont's control, and which could cause actual results to differ materially from such statements. All expressions of opinions are subject to change without notice.

Brookmont Capital Management is a registered investment advisor that invests in domestic and global securities.

Brookmont Capital is defined as an independent investment management firm that is not affiliated with any parent organizations.

A complete description of Brookmont's performance calculation methodology, including a complete list of each security that contributed to the performance of this Brookmont portfolio is available upon request.

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The Brookmont Dividend Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based on U.S. dollars. The inception of the Strategy is January 1, 2008.

The Brookmont Dividend Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such a comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of this index may be materially different from the performance of the strategy.

The Brookmont Core Dividend Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

The Brookmont Core Dividend Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Core Dividend Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower than expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The Volatility of this index may be materially different from the performance of the strategy.

Brookmont's returns do include reinvestment of dividends and are shown gross-of-fees. All transaction costs are included. The Russell 1000 Value cumulative return includes reinvestment of dividends and capital gains. During a rising market, not reinvesting dividends could have a negative effect on cumulative returns.

Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fees performance was calculated using actual management fees. Additional information regarding the policies for calculating and reporting returns is available upon request.

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.

The Brookmont Dividend Growth Strategy and the Brookmont Core Dividend Strategy are available through several institutional platforms and registered investment advisors that are not affiliated with Brookmont Capital Management. The minimum investments and advisory fees required differ from one firm to another.

Brookmont Capital does not provide comprehensive portfolio management services for investors who have not signed an Investment Management Agreement with our firm.

Past performance is not indicative of future returns