



From our **Fund Manager's Desk**

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Eli Lilly: The economics of innovation

We regularly explore the investment rationale behind one of the companies held in our portfolio to articulate what we find compelling. This time around, we have chosen Eli Lilly, a business that we believe stands at the intersection of scientific innovation, and one of the most important secular growth opportunities in global healthcare.

The obesity revolution is only beginning

Some investment opportunities emerge from technological disruption. Others arise from demographic necessity. Eli Lilly benefits from both.

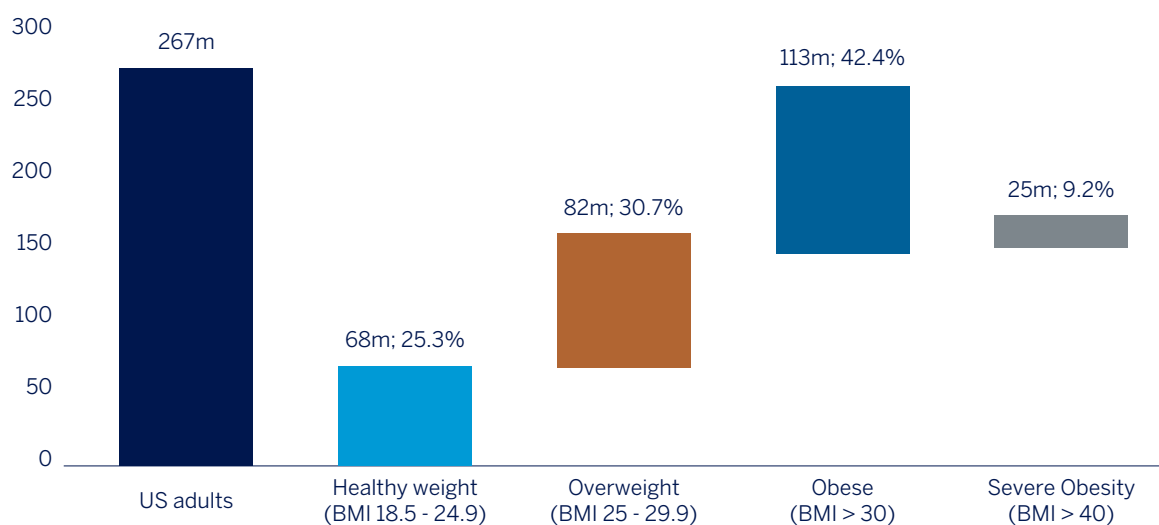
The world is facing a growing obesity and metabolic disease burden. In the United States alone, over 42% of adults are classified as obese and 80% are either overweight or obese. These are not merely statistics. Obesity underpins rising rates of diabetes, cardiovascular disease, sleep apnoea and a host of costly chronic conditions.



SCALE OF THE OVERWEIGHT/OBESITY OPPORTUNITY (PROBLEM) IN THE US

THERE ARE ~200M PATIENTS IN THE US WHO COULD BENEFIT FROM A GLP-1, AND A SUBSET (BMI>40) WHO WOULD BENEFIT FROM A HIGH POTENCY TRIPLE AGONIST.

Breakdown of US population by BMI

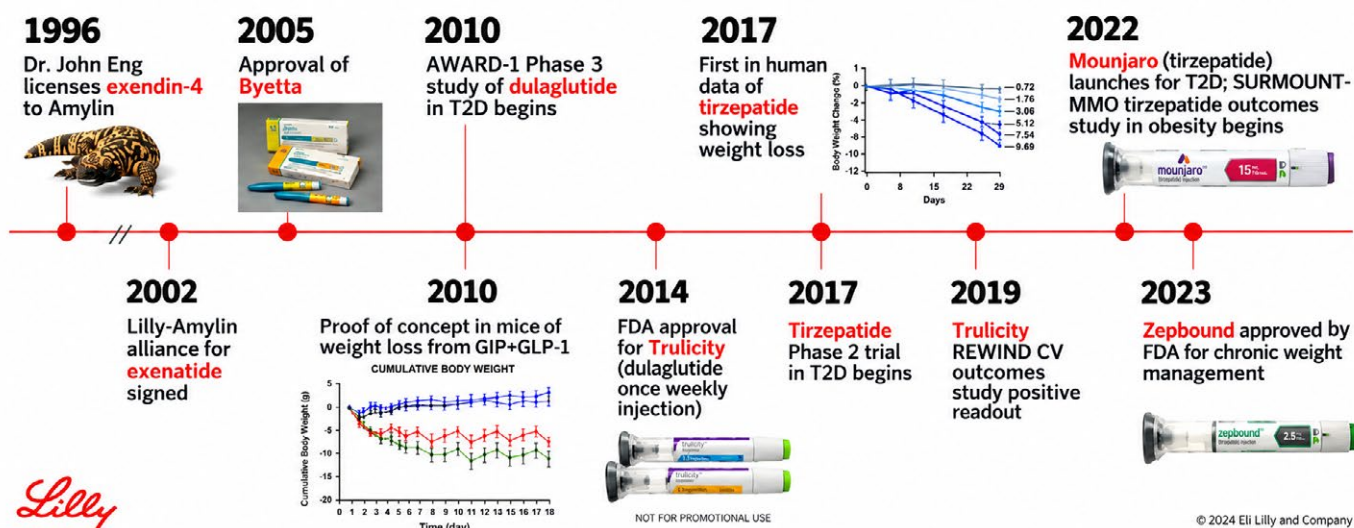


Source: Overweight & Obesity Statistics - NIDDK, Bernstein analysis

For decades, healthcare systems had few effective interventions. That changed with the emergence of modern GLP-1 therapies.

THE LONG ROAD TO “OVERNIGHT” SUCCESS IN INCRETINS

DISCOVERING AND DELIVERING BREAKTHROUGH MEDICINES REQUIRES PERSISTENCE OF R&D EFFORTS.



As investors, we view the obesity market less as a traditional pharmaceutical category and more as the creation of an entirely new healthcare ecosystem. Current estimates suggest approximately 13 million Americans were taking GLP-1 medicines in 2025, with room still for significant penetration as access improves, prices decline and more convenient oral therapies enter the market.

While much investor attention remains focused on the United States, we believe the international opportunity may ultimately prove just as significant.

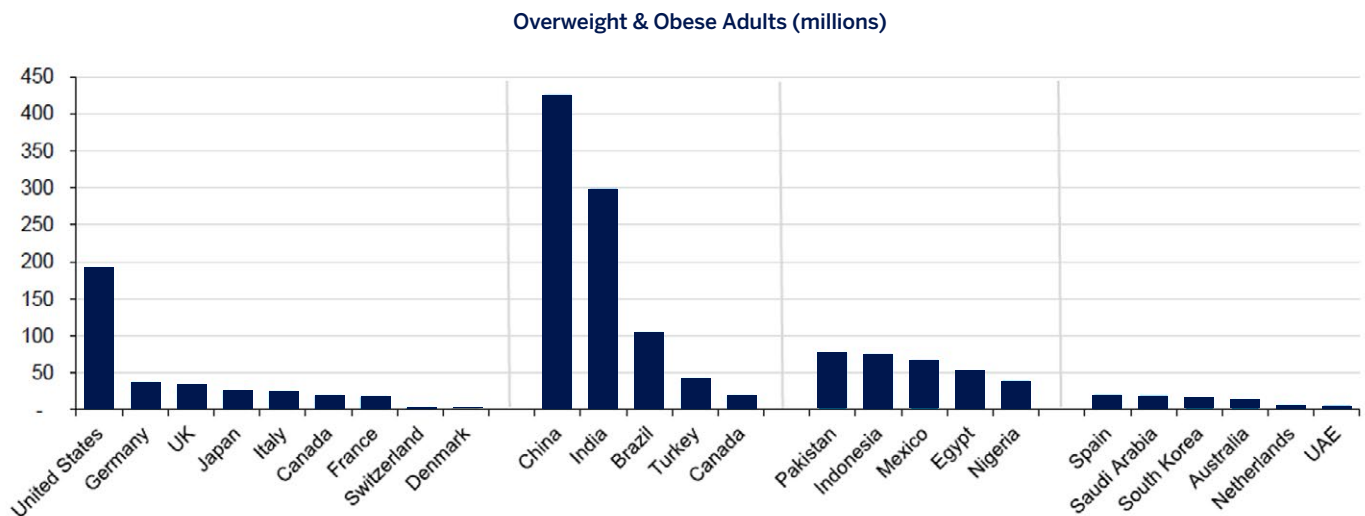
Today, the US dominates the global GLP-1 market, reflecting a combination of high obesity prevalence, greater healthcare spending and faster adoption of innovative medicines. Yet obesity is not uniquely American. Across developed and emerging markets alike, rising rates of obesity, diabetes and related metabolic diseases are creating a substantial and growing healthcare burden. Importantly, many international markets remain in the very early stages of adoption, meaning penetration levels are significantly lower than those observed in America today.

On the following page, you can see the current overweight and obese population metrics for key countries around the world.





OVERWEIGHT AND OBESE POPULATIONS IN CHINA AND INDIA EXCEED THE US OVERWEIGHT/OBESE POPULATION OF ALMOST 200M PATIENTS



Approximately a third of current GLP-1 sales already originate from outside the United States, and management continues to invest in expanding access across Europe, Asia and other major international markets. The inclusion of Mounjaro in reimbursement programmes in key markets, together with future oral product launches, provides a pathway for sustained international growth.

A company with a widening competitive moat

Many pharmaceutical companies enjoy periods of success. Far fewer build sustainable competitive advantages. Eli Lilly's leadership position is anchored by tirzepatide, the active ingredient behind Mounjaro and Zepbound. Unlike traditional GLP-1 therapies, tirzepatide activates both GIP and GLP-1 receptors, delivering superior efficacy compared with competing therapies. In head-to-head studies, patients achieved substantially greater weight loss than with semaglutide-based treatments by competitor Novo Nordisk.

At its core, Lilly is a research organisation. The obesity franchise should be viewed not as the destination but rather as the engine funding the next generation of innovation. The company consistently invests a low-to-mid-20% percentage of sales into research and development, above the pharmaceutical industry average. This commitment to science has produced a deep pipeline in global healthcare and allows Lilly to pursue opportunities across oncology, neuroscience, immunology, cardiovascular disease, genetic medicine and metabolic health simultaneously.

What ultimately differentiates Lilly is that success in obesity strengthens every other part of the business.

The company generates extraordinary cash flows from today's products, reinvests heavily into future scientific opportunities, expands its manufacturing advantage, deepens patient relationships through LillyDirect, and develops therapies targeting a growing range of diseases.

Obesity may be the catalyst for value creation today, but the broader opportunity lies in Lilly's ability to translate scientific leadership into successive generations of breakthrough medicines.



The next chapter of growth: oral therapies and comorbidity expansion

Perhaps the most exciting development is not the success of today's products, but the opportunity created by tomorrow's.

Historically, obesity treatment has required injections. Many patients remain reluctant to begin injectable therapies despite their proven effectiveness. Oral medicines have the potential to significantly broaden adoption. Lilly's oral GLP-1 medicine, orforglipron (marketed as Foundayo in the US), addresses this challenge. Unlike competing oral therapies, it does not require strict fasting protocols and offers considerably simpler manufacturing characteristics. This improves convenience for patients and economics for the company. We believe oral therapies have the potential to expand, rather than cannibalise, the market. By removing barriers associated with injections, they unlock entirely new patient populations. As economists often remind us, lowering friction expands participation. In our view, that principle applies equally here.

Increasing scientific evidence suggests that GLP-1 medicines may improve outcomes across a growing list of obesity-related comorbidities including:

- / Cardiovascular disease
- / Obstructive sleep apnoea
- / Fatty liver disease (MASH)
- / Chronic kidney disease
- / Osteoarthritis
- / Potential neurodegenerative conditions such as Alzheimer's disease.

In economic terms, obesity acts as a central node from which numerous healthcare costs originate. If therapies can successfully address multiple downstream diseases simultaneously, the value created for healthcare systems could be far greater than currently appreciated.

This helps explain why reimbursement is expanding and why governments are increasingly willing to subsidise treatment. The economics become compelling when the cost of preventing disease is materially lower than the cost of treating it.

For Lilly, each additional indication expands the addressable market while leveraging existing manufacturing, commercial and clinical infrastructure. This creates attractive incremental returns on capital.

LillyDirect: Rewiring healthcare distribution

One of Lilly's most underappreciated competitive advantages is not a drug but a distribution platform.

Historically, pharmaceutical companies have been entirely dependent on a complex chain of insurers, pharmacy benefit managers, distributors and healthcare providers to reach patients. Lilly has increasingly sought to reduce this friction through LillyDirect, its direct-to-consumer platform that combines telehealth access, prescribing capabilities and medicine fulfilment.

Today LillyDirect processes approximately one million patient interactions per month and has become a meaningful channel for patient acquisition, particularly in obesity care. The platform allows patients to access treatment more efficiently while providing Lilly with a closer relationship to the end consumer than is typically available to pharmaceutical manufacturers.



From an investor's perspective, this matters for several reasons:

- / It improves patient access and adherence.
- / It reduces dependence on traditional healthcare intermediaries.
- / It strengthens brand loyalty.
- / It creates valuable data and patient insights.
- / It supports cash-pay channels that can partially offset industry pricing pressures. The launch of Medicare obesity coverage programmes in 2026 has further enhanced the importance of LillyDirect by making treatments available to millions of additional patients at significantly lower out-of-pocket costs.

Much like vertically integrated businesses in other sectors, Lilly is increasingly controlling more of the customer journey.

Risks worth monitoring

No investment is without risk.

We continue to monitor:

- / Pricing pressure as competition intensifies
- / Aggressive actions from competitor Novo Nordisk
- / The emergence of lower-cost compounded products
- / Reimbursement and insurance coverage dynamics
- / Execution of oral product launches
- / The possibility that future therapies partially cannibalise existing products



Scale, science and staying power

In our experience, the most attractive investments share three characteristics:

1. **They operate within large and expanding markets.**
2. **They possess durable competitive advantages.**
3. **They reinvest capital at high rates of return.**

Eli Lilly satisfies all three conditions.

The obesity market remains significantly underpenetrated, yet demand drivers continue to strengthen. The company maintains leadership through superior science, manufacturing scale and distribution capabilities. Meanwhile, its substantial cash generation funds one of the strongest pipelines in the pharmaceutical industry.



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