

July 6, 2026

Dear Sustainable Equity Clients and Friends:

Dr. John Eng wasn't about to give up on finding a better way to treat the diabetic veterans in his care at the Bronx VA Medical Center in the late 1980s. If he could just figure out which peptide hormones regulate insulin secretion, and how the signaling works, he could ease their suffering. A protégé of Nobelist Rosalyn Yalow, Eng had access to a crucial new tool she had pioneered for measuring minute concentrations of hormones in blood.¹ But motivation, brilliance and the best tools weren't enough — he was hitting a wall.

Ultimately it would be another trait, his humility, that would spark an historic drug breakthrough — one that would both help his patients and commence the “weight loss” drug revolution sweeping the globe nearly 40 years later. Eng's humble leap? Recognizing that nature, after tens of millions of years of evolutionary “R&D” in a non-human lineage, had already solved the linchpin problem confounding him and his peers.

In this letter, we tell the story of Eng's revolutionary spark, and how it illuminates important features of our investment approach. This includes our monitoring of secular trends that can start small before hitting breakout scale, often with surprisingly positive implications for the deeply intertwined paths of human and planetary well-being. The story is also relevant for us because Eng's work paved the way for **Eli Lilly**, a new holding in our Strategy, to become the dominant leader in cardiometabolic medicine and the first trillion-dollar pharma company by market capitalization in late 2025.

But first, we note that that Year-to-Date through the second quarter of 2026, the Strategy has returned 3.39% gross / 2.98% net of fees. More relevantly, given our long-term approach, the Strategy has returned 15.31% annualized gross / 14.29% net since inception 9.5 years ago. (Past performance is

no guarantee of future results.) Back to Eng's journey...

Way Back to the Future: Unearthing a Vital Clue in “Deep Time” R&D

It was Svetlana Mojsov who discovered in 1986 how human GLP-1 works. After a person eats, their small intestine produces the GLP-1 that stimulates insulin secretion and signals that it's time to stop eating.

The problem Eng faced in harnessing her finding was that GLP-1 survives in the bloodstream for only a minute or two before being rapidly broken down. This disappearing act rendered it impractical as a medicine and defenseless in the face of the caloric surplus produced by modern agriculture after the Green Revolution and the seductive craveability engineered by food manufacturers. The unsurprising result? A global obesity epidemic and soils stripped of fertility by agricultural overuse.

Eng was stymied until he encountered work by Jean-Pierre Raufman at the National Institutes of Health about the venom of the Gila monster. This survivor from an ancient branch of reptilian evolution stretching back 30 million years goes months without eating as it ambles among the cacti of the desert Southwest. This intrigued Raufman, who discovered that its venom stimulated pancreatic cells. Eng then picked up the baton and, using Yalow's tool, isolated an unknown peptide from the venom and tested it on diabetic mice. Amazingly, it was stable and did its work for hours rather than breaking down rapidly as human GLP-1 did. Eng had tapped into nature's R&D, measured not in dollars but in deep time, and it was free. He named it Exendin-4 and the race to commercialize it was on. Or so Eng assumed...

The VA declined to patent Eng's discovery, so he paid the \$8,000 to file it himself. But he struggled to interest pharmaceutical companies, who were

skeptical of big claims made for a lizard peptide. Eventually Amylin Pharmaceuticals licensed Eng's patent and Lilly partnered with them to commercialize it as Byetta, the world's first GLP-1 drug approved by the FDA in 2005 for diabetes.

Once Eng had shown what was possible, scientists began exploring how to modify human GLP-1 to be as stable as the lizard peptide. Lilly parted ways with Amylin to pursue its own next-generation molecules. But Novo Nordisk would strike first, engineering a handful of amino acid substitutions to human GLP-1 so that it resisted breakdown, leading to the blockbuster drugs Ozempic for diabetes in 2017 and Wegovy for obesity in 2021.

Emulating Nature, Lilly Surges from Behind

While Novo had harnessed GLP-1 alone as the most targeted means to lower blood sugar, Lilly instead embraced systems biology to investigate how gut hormones together orchestrate a complex metabolic network. This led Lilly to GIP, a hormone other researchers had dismissed because it promoted fat storage, not loss. Lilly asked whether pairing GLP-1 with GIP might re-establish a healthier metabolic balance. That contrarian bet culminated in tirzepatide — approved and marketed as Mounjaro in 2022 for diabetes and Zepbound in 2023 for weight loss. Both delivered superior glucose control and weight loss compared to Novo's products, while reducing side effects so that more patients stayed on the drugs. Despite hitting the market later, Lilly's drugs surged to category leadership, overtaking Novo in 2025.

Lilly then integrated yet a third hormone called glucagon alongside GLP-1 and GIP to create a triple therapy. Lilly was again contrarian: glucagon in isolation raises blood sugar, but by combining it with GLP and GIP, that adverse effect was neutralized while calorie burning was boosted. This May, Lilly reported pivotal Phase 3 results for the resulting drug, retatrutide, showing an astonishing 30% average weight loss. This

milestone was a key catalyst for our investment, not because we regarded it as the singular new blockbuster drug, but because it demonstrated that Lilly had built a robust innovation engine capable of developing successive product improvements and a culture rooted in the kind of systems approach likely to sustain its leadership as the golden age of biological, and biologically inspired, medicine dawns.²

Lilly CEO David Ricks has said R&D is his #1 priority, allocating 24% of sales to it over the past five years. After spending ~\$57.5 billion on R&D from 2010 to 2020, Lilly will generate ~\$70 billion in revenue and ~\$35 billion in profit in 2026 alone from new products launched in just the past three years. Lilly employs 4,200 PhD scientists, equal to MIT and Harvard combined. Lilly and Nvidia recently announced a first-of-its-kind AI co-innovation laboratory.³ Think how many other reservoirs of biological intelligence Lilly can probe beyond the Gila monster with its battalion of AI-accelerated scientists (a reminder, also, of what we lose as the ongoing mass extinction of species accelerates, due in part to short-sighted policy).⁴ In addition to its leadership in cardiometabolic medicine, Lilly is a powerhouse in neuroscience with Kisunla for Alzheimer's, and has drugs and pipelines in oncology and immunology.

Rewards from Scaling – For Humans & Ecology

The addressable market ahead for cardiometabolic drugs is enormous: the 30 million people currently on either Novo or Lilly's drugs worldwide represent less than 1.5% penetration of the ~2 bn people suffering from diabetes or obesity. In April, Lilly launched its Foundayo pill that should broaden access to millions of patients averse to injections. Novo again reached the market first, with a pill version of Wegovy in January, but Lilly followed with a different chemistry that eliminates the

fasting and water restrictions required to use Novo's drug. On July 1, Medicare took a historic step by launching the Medicare GLP-1 Bridge, giving eligible beneficiaries access to Lilly and Novo drugs for a \$50 monthly co-pay. We expect private insurers to also expand coverage as evidence confirms it will save them money over an insured's lifetime since obesity is an upstream driver of chronic illnesses including cardiovascular disease, kidney disease, sleep apnea, fatty liver disease, osteoarthritis — and potentially for inflammatory disease and neurodegenerative conditions.

As these drugs hit mass scale, we believe they will reduce the heavy footprint that food production and distribution impose on the planet — which accounts for one-third of global greenhouse gas emissions. After decades of miracle weight loss diets that rarely work, people could be forgiven for regarding the new Lilly drugs as faddish or even artificial shortcuts to willpower, exercising and eating right. But we have come to see them instead as boosting a natural digestive mechanism to cope with artificial modern stresses — and a corrective that could help bring human and planetary metabolism back into balance.

For most of human history, civilization faced an overriding challenge: produce enough food. The Green Revolution in the 1950s-70s dramatically increased production through high-yield seeds and synthetic fertilizers. But it also drove up greenhouse gas emissions, nutrient pollution and soil degradation, as well as food portions and waistlines. The human body had evolved when calories were scarce, and natural selection favored individuals who secured calorie-dense foods and stored energy efficiently — as fat. Americans today consume roughly 200–500 more calories per day than in the 1970s — and 74% are overweight or obese.

Today the battle is joined and the early signs are promising. A person's grocery spending declines by

at least 5% within six months of beginning a GLP-1 therapy, while spending at fast-food restaurants falls 8%.⁵ Purchases shift away from snacks, sweets and baked goods toward more nutritious foods. Households with at least one GLP-1 user could account for approximately 35% of U.S. food and beverage sales by 2030.⁶ Food makers have responded by offering smaller and healthier portions, in some cases marketed as "GLP-1-friendly".

Precision agriculture has been the fastest growing segment for our **Deere** holding — a supply-side solution for maintaining productivity while reducing inputs and soil degradation. Lilly comes at the same problem, but from the demand side. Instead of asking how to produce more food with fewer inputs, as Deere does, Lilly's drugs should reduce per capita food demand. Consider the power sector as an analogy. Renewables offer cleaner power supply with zero fuel inputs, whereas demand-side solutions reduce or shift demand by adjusting thermostats, lights or EV charging based on varying occupancy or usage. Companies like our holding **Schneider Electric** are now harnessing AI to dramatically reduce and manage energy demand in this way.⁷

The Investment Case: Alert to Risks, Finding Conviction in the Upside

Breakthroughs like GLP-1s often provide benefits to customers and society at large, but not necessarily to the companies (and shareholders) that pioneer them. Before investing, we asked whether Lilly might be such an instance. Ultimately we decided it is well positioned to thrive under multiple future scenarios and adds attractive growth potential to our portfolio, especially when balanced against defensive holdings like **United Rentals**, **Vinci** and **Waste Management**.

First, while Lilly had co-developed Byetta, it was not first to market with drugs based on GLP-1s. Novo was. So, Lilly did not fit the mold of a pioneer with

the arrows in its back. Rather it had learned from Novo as the first mover and adhered to its own innovation approach and cadence. Second, the tirzepatide molecule faces a key patent cliff in 2036, but Lilly has built a broad patent portfolio around it, including formulation, manufacturing and delivery-device patents. It is also developing new patented products to improve efficacy, reduce side effects like muscle loss and to target personalized therapy to each patient based on their own biomarkers. Third, Lilly will confront continuing and new competition from Novo, Amgen, Roche and eventually generics. But Lilly is reinvesting to reinforce its lead and to scale up complex peptide manufacturing to meet explosive demand. Fourth, the prices Lilly can charge will come down due to competition and negotiations, but we project that volume growth will more than make up for this, and in fact those reductions are needed to access the large addressable market.

We've studied cautionary tales like Pfizer, whose stock disappointed as its Lipitor patent expired. But Lilly's addressable market is an order of magnitude larger than that for statins and is comparatively underpenetrated. We expect Lilly to achieve high teens earnings per share growth for the next five years in our base case projections, or >20% growth in our bull case. When we first invested, it was trading at a 27x multiple of consensus next 12 months earnings — which we deemed a reasonable entry price for this level of potential growth.

We remain underweight in the health care sector, but signs of a revival from its recent underperformance reinforced our Lilly investment case. One welcome catalyst is the recent departures of the Federal Drug Administration's Commissioner Marty Makary and Biologics Director Vinay Prasad, which we expect to reduce regulatory delay and uncertainty for next-generation therapies. Our higher risk / higher reward Lilly position is balanced by more defensive health

sector holdings **Thermo Fisher** and **Danaher**, who sell the picks-and-shovels that enable all the GLP-1 players, and are agnostic to uncertain competitive outcomes. Recall the tool Eng used to isolate the lizard peptide. Innovators now have access to successor tools such as mass spectrometry, which Thermo Fisher and Danaher supply to the world.

Closing Market and Portfolio Updates

The market delivered attractive returns in Q2 based on strong corporate earnings and a marginal, if tentative, easing of geopolitical concerns. However, the uptick in inflation combined with resilient hiring has reduced expectations that the Fed will pursue stimulative rate reductions this year, which could weigh on rate-sensitive companies in coming quarters. Market valuations are above historical averages, implying a thinner margin of safety, lower average returns from here — and the potential benefits of selectivity and active management over indexing in the coming years. Affordability concerns, reflected in low consumer sentiment measures, contributed to our Q2 sale of **Chipotle Mexican Grill**.⁸ Companies benefitting from bottlenecks in the AI buildout delivered high returns in Q2, such as memory makers imposing meteoric price increases we regard as unsustainable. We strive to select for more durable growth and believe our portfolio is well constructed for the range of potential scenarios ahead. We are participating in the AI buildout with **Taiwan Semiconductor**, **ASML** and other holdings, while retaining diversified exposure to dominant, high-quality companies aligned to a range of secular trends across 9 of 11 sectors (no oil & gas or real estate). We sold **Intuit** and **Dassault Systems** in Q2. Both possess valuable data and benefit from network effects that could make them resilient to AI disruption, but our visibility into the outyears has grown murkier with each advance in the sophistication of AI models, and we see better risk/reward ratios elsewhere. Elsewhere

includes the market for batteries for electric vehicles and utility-scale storage, which is getting a lift as the world seeks relief from increasing fossil fuel prices induced by the Iran war. This quarter we invested in **CATL**, the largest battery manufacturer in the world.

Please stay safe amidst the record-breaking heatwaves, which have grown more likely and severe due to climate change. Our holdings **Trane** and **Carrier** have been helping people cope with life-threatening heat from homes to hospitals, and doing so with energy-efficient products; perhaps not coincidentally, both delivered exceptional returns in Q2. We are grateful for the trust you place in us and welcome the opportunity to discuss any aspect of this letter or your portfolio.

Sincerely,

The Douglass Winthrop SES Team

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¹ The Nobel Committee entry on Rosalyn Yalow explains how, working with physician Solomon Berson, she developed “radioimmunoassay” to measure extraordinarily small concentrations of hormones such as insulin in blood. The Committee notes that the technique transformed medicine by making it possible to measure minute quantities of biological substances with unprecedented precision. See: <https://www.nobelprize.org/prizes/medicine/1977/yalow/facts/>

² Today’s commercial GLP-1 medicines are peptides — i.e., chains of amino acids that mimic naturally occurring hormones. However, they are chemically synthesized, rather than being produced inside living cells the way monoclonal antibodies, recombinant proteins and other biological drugs are. We therefore consider GLP-1-type drugs as “biologically inspired”, not as biological drugs strictly speaking.

However, Lilly is also building a leading biological drug franchise spanning antibodies, immunology, oncology, and neuroscience. For example, Lilly’s Kisunla product, mentioned in this letter, is a monoclonal antibody for Alzheimer’s disease.

³ <https://investor.lilly.com/news-releases/news-release-details/nvidia-and-lilly-announce-co-innovation-ai-lab-reinvent-drug>

⁴ <https://www.nytimes.com/2026/07/10/climate/endangered-species-act-harm.html?smtyp=cur&smid=bsky-nytimes>. The Trump Administration proposed in April 2026 a rule that would narrow the definition of harm under the Endangered Species Act to mean intentional killing of an animal rather than degrading the habitat it needs for food and breeding. The effect, if finalized as expected in 2026, would allow more mining, construction and other activities on

habitat. See Washington Post article on the proposed rule here:

<https://www.washingtonpost.com/climate-environment/2025/04/16/endangered-species-harm-habitat/>. See the 2024 *Living Planet Report* from World Wildlife Fund, portraying the 73% decline in wildlife populations since 1970: <https://www.worldwildlife.org/publications/2024-living-planet-report/> For a powerful book-length narrative on the crisis, see Elizabeth Kolbert’s *The Sixth Extinction* (2014, Henry Holt and Company)

⁵ See Hristakeva, Sylvia; Liaukonytė, Jūra; and Feler, Leo. The No-Hunger Games: How GLP-1 Medication Adoption Is Changing Consumer Food Demand. *Journal of Marketing Research*, December 18, 2025. The study analyzed purchasing data from approximately 150,000 U.S. households linked to GLP-1 adoption.

⁶ See report from Circana, a major consumer data and market research firm, entitled *Eat Play Love 2025: The Future of Food & Beverage Through the Lens of GLP-1 Adoption*. 2025.

⁷ For more on Schneider Electric’s leadership in demand-side management, see <https://perspectives.se.com/blog-stream/ai-is-taking-energy-management-to-the-next-frontier> and <https://www.se.com/us/en/work/solutions/artificial-intelligence/solutions>. ⁸ On the University of Michigan sentiment reading of 44.8 in May 2026, see: <https://news.umich.edu/consumer-confidence-falls-as-gas-prices-inflation-worries-climb/>. On the Gallup Economic Confidence Index falling to -45 in May, lowest since 2022, see: <https://news.gallup.com/poll/710450/economic-confidence-sinks-further-worst-2022.aspx>

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