

Year End Commentary | December 2025

Focused Equity Strategy – Year End 2025

Dear Partners,

The Focused Equity Strategy returned +13.8% gross of fee and 13.2% net of fees in 2025 and +2.2% in Q4.

Investing environment

Stock markets recorded a third consecutive year of positive returns. They ended 2025 close to all-time highs, buoyed by record investment in artificial intelligence infrastructure.

The year started on a rocky note, with US President Donald Trump announcing he would impose the highest tariffs on imported goods since the 1930s, ending a long-term trend toward the quasi-elimination of such levies. After a number of negotiated adjustments, the average effective tariff rate settled at around 17%. The shock of the Rose Garden announcement triggered a sharp correction that left the S&P 500 in bear market territory, only to rebound following the opening of negotiations. The US stock market subsequently gained more than 40%. The macroeconomic consequences of this trade policy shift have been benign so far, both on the inflation and GDP fronts, as companies flexed their supply chains to counter the impact of impending tariffs.

The rest of the year was dominated by AI, with stock markets mostly driven by a flurry of data center investment program announcements. There seemed to be almost no limit, with the likes of OpenAI committing to pay \$300 billion over five years, while Meta revealed plans for "Hyperion," a five-gigawatt data center (equivalent to the production of five typical nuclear plants) large enough to cover a good part of Manhattan. The earnings and order books of companies that provide the computational infrastructure and semiconductors climbed sharply.

Questions regarding funding of such spending plans—including circular financing, where vendors are lending or providing equity to customers—have

led to increasing unease. But, overall, markets have mostly kept their focus on the upside opportunities they bet AI will provide.

Fear of missing out (FOMO) was very much on display. It was one of the main factors that pushed markets to record highs and reinforced the extreme levels of market concentration. The Magnificent 7 make up 36% of the index as per year end. The S&P 500 Equal Weight trailed the S&P 500 by 6.5% (+11% vs +18%), showing the largest tech stocks continue to be the main driver of performance.

Outside the US, it is worth noting the good year recorded by China and Europe in the face of a weakening dollar. The Hang Seng Index and Bloomberg Europe Large & Mid Cap indexes were up 32% and 36% respectively in dollar terms.

Investors continue to warm to China. The government sent clear signals that its regulatory tightening was mostly over. In addition, Chinese technology companies are demonstrating that despite restrictions on access to the most advanced GPUs, they are able to deploy AI fast and at a fraction of the cost of US companies. After several years of market consolidation, the valuation multiples of Chinese stocks have become very attractive. All that has started to catch investors' attention.

In Europe, the appointment of Friedrich Merz as German Chancellor and his decision to relax Germany's constraining spending rules have triggered hope that the Old Continent is poised for a revival of economic growth. European governments committed to increase their defense spending in the face of the Russian threat and under pressure from the US. The numbers announced are big enough to move the needle, but details on the financing are still lacking, and the political resolve to implement the plan fully will surely be tested.

Portfolio performance

Applied Material contributed most to portfolio performance both on an annual basis and in Q4. The stock was up respectively 59.6% and 25.8%, adding 2.1% and 1.1% to performance. **ASML** also had a strong year, gaining 55.8%, adding 2.0 percentage points of return. Both companies design tools necessary in the manufacture of semiconductor chips. Their fundamental prospects are bright given how much silicon is required for the deployment of AI.

Microsoft, our largest holding, was the third largest contributor to 2025 performance (+1.1%), with the stock up 15.6%. Driven by its cloud business, the company continues to grow its revenue and income at a fast clip.

The stickiness and breadth of its software user base, its integrated cloud infrastructure (Azure) and early collaboration with OpenAI position it well as one of the main AI solution providers for enterprises. The US\$60bn war chest on its balance sheet is a further strength at a time when doubts are emerging around some tech companies' ability to finance their capex plans.

At the opposite end, **Diageo** detracted most (-1.0%) from performance after its stock slumped 29.4% over the year. Demand for spirits remains subdued, with the firm's excess inventories normalizing only slowly. The trade war and uncertainties regarding tariffs on spirits did not help. The stock has now reached its lowest point since 2015 and the lowest valuation in its history. We think that has gone too far. The cycle will normalize at some point. That will provide some bearing for demand and drive the resumption of long-term premiumization trends.

The appointment of Dave Lewis as new CEO (who is credited with the turnaround of Tesco) and reappointment of Nik Jhangiani as CFO should reinforce the company's focus on its brand portfolio, asset utilization, profitability and capital discipline. We view favorably the work done by Jhangiani this year while he served as interim CEO.

ServiceNow was the second largest detractor this year (-0.8%), with its stock down -27.7%. It suffered from the same negative story that hit most enterprise software stocks this year: "the era where software eats the world is over, we are now in the era where AI will eat software." Some speculate

LLMs will remove the need for enterprise software applications and that coding will become so easy customers will write customized software at such a scale that SaaS companies might end up disrupted. We think in some instances AI might decrease barriers to entry and threaten some software companies. Those providing off-the-shelf products, that require no deep knowledge of their customer workflows and do not cater for critical applications are most at risk.

ServiceNow suffers from none of that. On the contrary, we think it is well-positioned to become the connective tissue between enterprises' AI applications. ServiceNow thrives from the fragmentation of IT assets and applications. If AI is to amplify that fragmentation as the story suggests, the value added by the NOW platform should only increase.

The acquisition of cybersecurity company Armis for US\$7.8bn and AI Assistant firm Moveworks for US\$2.9bn after years of eschewing big deals have added to pressure on the stock. The rationale for these deals makes sense. Whether they usher in an era of successful capital deployment in tuck-in acquisitions or lead to asset write-offs remains to be seen. We are not overly worried given their modest size in relation to ServiceNow's business.

Portfolio activity last quarter

Initiation/Increase

Broadcom	Initiation
Constellation Software	Initiation
DSM-Firmenich	Initiation
Sika	Initiation
Straumann	Initiation
Oracle	Increase

Exit/Reduction

Alphabet	Exit
Blackrock	Exit
Deere	Exit
Tokyo Electron	Exit
ASML	Reduce
Applied Material	Reduce

We took advantage of a consolidation in **Broadcom's** stock price to initiate a position. Its

semiconductor design unit has a dominant position in custom chips (ASICs). Broadcom caters for cloud hyperscalers and companies building LLMs that seek to design their own chips. The idea is to create chips designed to efficiently process the specific workload they need and cut their reliance on general purpose units (GPUs) that are very flexible but expensive.

GPUs remain indispensable in training new AI models. But as AI use expands, the scale of the infrastructure required to process user prompts will grow exponentially. Running these models using GPU chips that can cost US\$60,000 per unit is not economically sustainable. Broadcom has demonstrated its capabilities in the field as it designed Google's Tensor Processing Units (TPUs). Alphabet has used TPUs to run search queries since 2015 and now to run inference of the Gemini LLM. Given the cost advantage it gives Alphabet, every large GPU customer is incentivized to design its own ASICs. Down the line it may well be a matter of survival. Since such endeavors are a long journey and require considerable resources, it seems likely most will favor the semiconductor design partner with the most proven experience in the field (i.e. Broadcom) to ensure faster results and minimize the risk of failure.

Broadcom's other businesses are developing well too. Demand for its networking equipment is strong thanks to the dynamic data center build-up. Fragmentation of the IT hardware environment provides a good fundamental backdrop for VMware, the virtualization software business Broadcom acquired in 2024.

Broad pressure on the stocks of software companies enabled us to initiate a position in **Constellation Software**. This is a unique business we had on our radar for a long time but were never able to purchase due to its high valuation. At its core, the company is a permanent capital vehicle designed to acquire "vertical market software" (VMS) businesses and hold them indefinitely. Its founder Mark Leonard has developed a decentralized system underpinned by strong capital allocation discipline, with transaction IRR hurdle rates typically well above 25% and never lower than 20%.

VMS tend to display outstanding economics. They are software that support mission-critical functions, creating extremely high switching costs, operate deliberately in markets too small to attract large

competitors and benefit from deep vertical expertise creating barriers to entry. That allows for high profit and low disruption risks. The fat and recurring free cash flow (FCF) generated by these VMS (FCF margin of 21%) give Constellation ammunition to acquire new businesses and help it compound its value at a fast rate. The stock now trades at a level offering attractive FCF Yield (5%), a valuation close to an all-time low.

We have also been able to purchase a few Swiss stocks that are trading on multi-year valuation lows.

DSM-Firmenich, **Sika** and **Straumann** don't operate in the same markets, but all have a strong position in a niche where they command good pricing power and high returns on invested capital (ROIC). We are seeing a few of these high-quality businesses unrelated to AI being left out of the current rally and now trading at a good discount to fair value.

DSM-Firmenich is the world's largest chemicals company specialized in fragrances, flavors and nutrition ingredients. It was formed in 2023 through the merger of Dutch DSM and Swiss Firmenich. The company enjoys exceptional competitive moats from high switching costs, as its ingredients are critical to customers' products yet represent only a small cost. That creates sticky relationships and pricing power once DSM-Firmenich products are integrated into a product's formula.

The management has executed well post-merger, delivering on synergies and moving to divest the non-core animal nutrition business to focus on high-margin segments. The business benefits from structural tailwinds in both beauty premiumization and food reformulation trends toward healthier ingredients.

The stock has sold off on fears of a cyclical downturn and concerns about delays in the sale of its animal nutrition business due to vitamin pricing pressure. Management remains committed to the divestiture, any valuation shortfall has minimal impact on core business value, and timing delays should not matter too much to long-term owners of the business. The stock now trades at around 18x forward earnings, much lower than all its ingredient peers.

Sika develops and manufactures specialty chemicals used in bonding, sealing, damping, reinforcement, and protection applications. It targets high value-add markets where it has the

power to impose premium pricing, faces limited competition and can command higher profit margins. Many of these applications benefit from favorable structural drivers. A lot of its products are central to cutting CO₂ emissions, such as building insulation materials, sealing solutions for EV batteries, chemicals that facilitate the recycling of construction materials, and additives that enable cement production with less limestone (the degradation of limestone to quicklime for cement production accounts for more than 8% of global CO₂ emissions).

Sika's products are rooted in decades of accumulated scientific expertise and a deep understanding of the challenges faced by its customers across numerous industries. The fragmented nature of its end markets allows Sika to deploy capital into acquisitions that strengthen its product portfolio and expand its distribution reach. Given these advantages, it should continue to sustain mid- to high-teen profit margins, generate high ROIC and grow revenue at a mid to high single-digit rate.

Straumann Group dominates the global dental implant market with an approximately 30% share, commanding 50% of the premium segment through its flagship brand. The company's competitive moat stems from decades of accumulated R&D knowledge producing unmatched implant quality, combined with deeply entrenched relationships throughout the dental ecosystem, where it provides comprehensive training and education to dentists and DSOs worldwide. These relationships, paired with manufacturing scale advantages and the damage created by an intervention that does not go well, create formidable barriers that protect the business from competition.

Straumann consistently generates operating and free cash margins of around 25% and 20% respectively. That demonstrates both the pricing power of the franchise and its capital efficiency. We believe that to be durable given the strength of its competitive advantages.

We purchased stock as the price had dropped more than 55% since its 2021 peak, trading at levels that give a normalized earning yield close to 5%, which we find attractive for a company that can organically grow its sales in the low teens.

We exited our positions in Alphabet, BlackRock and Tokyo Electron as their stock prices had reached

levels in excess of their intrinsic value. We remain disciplined and stick only to businesses where we see both strong fundamentals and a stock trading at a discount to fair value, offering some margin of safety.

Strategic perspective

Market optimism is running high as we start the new year. Macro surveys point to the highest positive outlook in five years, fueled by the prospect of interest rate cuts by the US Federal Reserve and expanding investment in AI infrastructure. Both elements, if they materialize, should provide carburant for corporate earnings growth.

That optimism is boosting risk appetites: stocks purchased on margin loans are at high levels, AUM in leveraged ETFs (sometimes single stock ETFs) has doubled in less than two years to US\$240bn and markets are trading at valuation multiples seldom seen.

Such frothy dynamics are typical of the introduction of transformative innovations like we have now with AI. While that does not necessarily call for an immediate correction, it nevertheless signals elevated levels of risk and lower long-term returns for investors.

The good news is these risks are mostly concentrated in a limited corner of the tech securities universe that is displaying high valuation multiples. Market concentration around these securities means the investors mostly exposed are those that passively deploy capital in indexes, such as the S&P 500.

On the other side of the Pond, we see many stocks that have been unduly left out for a long period. This is particularly true of high-quality compounders, the core target of our Focused Equity Strategy. These unloved companies are often guilty of nothing other than being unrelated to AI.

Purchasing these stocks at a good price and holding on to them for a long time has historically been a recipe for great fortune. We look for companies that generate strong free cash flow they can redeploy in their franchise at a high ROIC. That drives structural earnings growth and, as a result, their value.

Stocks of such quality typically trade at a premium to the rest of the market. Today, after a long period

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of underperformance, many languish at a significant discount.

We find them in various places by looking where others chose not to: be it in China, where we discovered the hotel H-World from our three-week research trip, or in unloved sectors, as with Constellation Software and, earlier this year, with Thermo Fisher.

We will continue our research efforts in the hunt for such gems, and will purchase them whenever they appear at the right price. Over time, buying great assets at a good price leads to high returns and lower risk. That's what the Focused Equity Strategy is about.

Business characteristics & strengths

		<u>Portfolio</u>	<u>Equity Benchmark</u>
Profitability	Operating Margin	21.4%	13.7%
	Return on Equity	28.9%	14.5%
Balance Sheet	Net Debt / EBITDA	1.1x	1.5x
Yield	Operating Earnings Yield	6.1%	5.5%
	Dividend Yield	1.5%	1.7%
Growth Profile	5 year earnings growth est.	13.4%	

Portfolio overview

HOLDINGS BREAKDOWN

Top 10 Holdings	Weight
MICROSOFT CORP	6.65%
THERMO FISHER SCIENTIFIC	6.45%
CHUBB LTD	5.85%
LOCKHEED MARTIN CORP	4.62%
SHELL PLC-ADR	4.60%
LONDON STOCK EXCHANGE	4.54%
ASHTED GROUP PLC	4.45%
CASH	4.35%
AMAZON	3.93%
ASML	3.72%
Sum of Top 10	49.16%

Sector Breakdown

- Information Technology 26.9%
- Industrials 16.5%
- Financials 13.2%
- Consumer Discretionary 13.1%
- Health Care 11.7%
- Energy 7.4%
- Others



Regional Exposure

- United States 47.8
- United Kingdom 18.1%
- Switzerland 12.5%
- China 6.9%
- France 5.4%
- Netherlands 3.7%
- Others 5.7%



Investment Results Performance

	Focused Equity Strategy (Gross of fee)	Focused Equity Strategy (Net of fee)	Index
QTD	2.2%	2.1%	3.3%
YTD	13.8%	13.2%	22.6%
1 year ¹⁾	13.8%	13.2%	22.6%
3 years ¹⁾	15.4%	14.8%	20.9%
5 years ¹⁾	8.2%	7.6%	11.4%
Since inception ¹⁾	14.4%	13.7%	12.8%

1) Time frames over 1 year display annualized returns

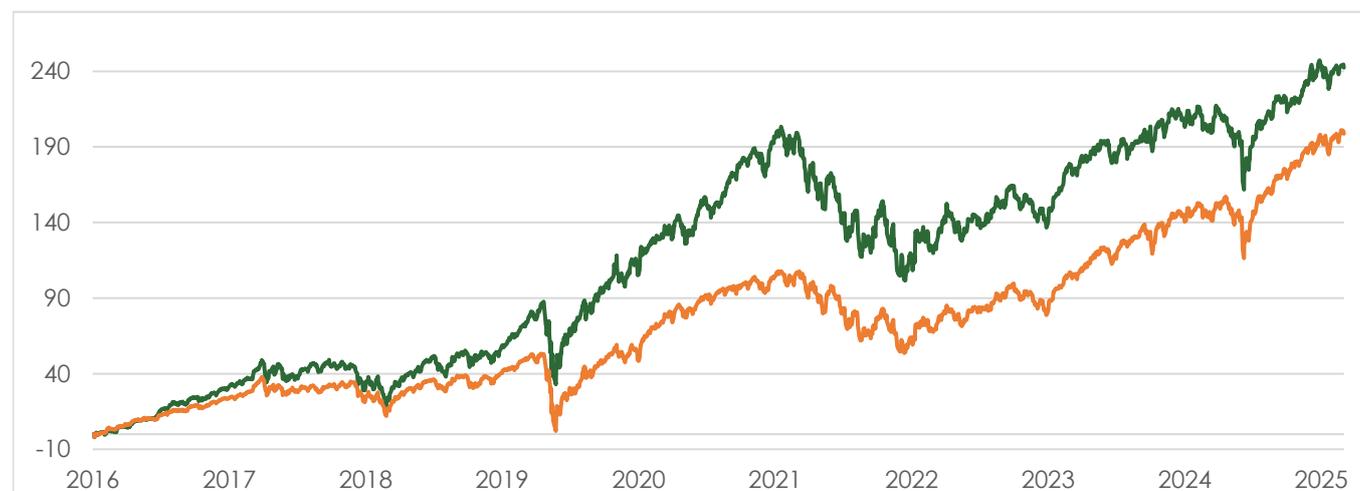
Source: Bloomberg, Emerald / Data since launch of Emerald on 31.10.2016. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: FEPORIG), data is net of fee including a management fee of 0.575% p.a. All data calculated in USD. Benchmark MSCI World AC until 31.03.23, from 31.03.23 Bloomberg World. * = annualized data. Historical returns or financial market scenarios are not a guarantee of current or future performance.

Calendar Year Return Comparison

	Focused Equity Strategy (Gross of fee)	Focused Equity Strategy (Net of fee)	Index
As per 31.10.2016	1.4%	1.3%	3.0%
2017	34.5%	33.8%	24.6%
2018	-8.6%	-9.1%	-8.9%
2019	37.4%	36.7%	27.3%
2020	35.7%	34.9%	16.8%
2021	28.3%	27.5%	19.0%
2022	-25.3%	-25.7%	-18.0%
2023	24.9%	24.2%	22.5%
2024	8.2%	7.5%	17.9%
2025	13.8%	13.2%	22.6%
Cumulative	242.4%	224.8%	200.6%

Source: Bloomberg, Emerald / Data since launch of Emerald on 31.10.2016. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: FEPORIG), data is net of fee including a management fee of 0.575% p.a. All data calculated in USD. Benchmark MSCI World AC until 31.03.23, from 31.03.23 Bloomberg World. * = annualized data. Historical returns or financial market scenarios are not a guarantee of current or future performance.

Long-Term Track Record – Cumulative Return since the launch of Emerald (Gross of fee)



Source: Bloomberg, Emerald / Data since launch of Emerald on 31.10.2016. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: FEPORIG), All data calculated in USD. Benchmark Bloomberg World Index. Historical returns or financial market scenarios are not a guarantee of current or future performance.

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