

Quarterly Commentary | June 2026

Focused Equity Strategy – Q2 Update

Dear Partners,

The Focused Equity Strategy returned 0.8% (gross of fee) in Q2.

Investing environment

The stock market is exuberant. After the Iran shock of the first quarter faded and oil round-tripped its entire spike, equities staged one of the strongest quarters in years. But beneath the index-level euphoria the market has grown excessively distorted.

The advance has been narrow and concentrated. Since April, equity markets have been driven largely by businesses whose exceptional near-term earnings reflect favorable industry conditions rather than enduring improvements in their competitive position. Many of these businesses are inherently cyclical, with high profit levels that don't tend to be persistent. Global semiconductor indices have more than doubled since April, with memory manufacturers among the strongest contributors. Their earnings today are boosted by demand that has outstripped supply, driving prices sharply higher. The market is increasingly capitalizing these peak-cycle earnings as though they represent durable earning power.

The behavior driving this is characteristic of a late-cycle market — and, at its extreme, a bubble. Risk-taking is accelerating, capital is chasing recent performance, and investment decisions are often motivated by fear of missing out (FOMO) rather than careful long-term value appraisal. The appetite for compelling narratives is particularly evident in the IPO market, where investors have shown a willingness to embrace ambitious growth stories ahead of proven fundamentals. The flotation of SpaceX, the largest in history, is a striking example: a powerful vision and distant potential were sufficient to command a valuation close to

US\$2 trillion (roughly 100 times sales) for a business that loses money.

When high valuations combine with optimistic future earnings assumptions, the risk compounds. This combination is now visible at market level: the US market's cyclically adjusted P/E ratio stands close to 40, a level exceeded only once in more than 150 years of market history ... at the peak of the dot-com bubble in early 2000.

None of this tells us when the market configuration will reverse. Timing is unknowable. But markets driven by FOMO never end well. Eventually fundamentals reassert themselves.

Portfolio performance

The Focused Equity Strategy aims to avoid participating in such speculative dynamics. Our approach remains what it always has been: owning quality businesses with strong earning power at prices that offer a margin of safety. Long-term fundamentals are not what the market is rewarding today — and our decision to stay away from some of the low-quality momentum-drive semiconductor names is the single biggest reason the strategy lagged a benchmark powered by exactly those stocks this quarter.

Shell was the largest detractor from quarterly performance, reducing returns by 59 bps. The stock fell 15.9% during Q2 as the ceasefire between the US and Iran pared back geopolitical risks and the Strait of Hormuz gradually reopened. This followed a strong first quarter, when Shell's shares rose 28% thanks to sharp oil and gas price rises. Following that move, Shell had become our largest position in the portfolio. We therefore sold approximately half our holding: the sharp appreciation had compressed the margin of safety and left the position larger than we were comfortable with.

(*) Measured in \$

The ceasefire also weighed on **Lockheed Martin**, which gave back part of a strong first quarter and detracted 55 bps. Our fundamental assessment is unchanged: conflict on European soil and Washington's pressure on NATO allies continue to drive demand for the company's systems sharply higher. But that demand comes with a twist — a business model that now requires heavier investment and carries more risk than Lockheed used to. Having trimmed the position close to its peak in the first quarter, we are comfortable with what we hold today.

Intercontinental Exchange's 21.4% share decline knocked 58 bps from the portfolio's performance. ICE is emblematic of a broader group of high-quality businesses caught in a negative AI narrative largely disconnected from their underlying fundamentals.

The company owns a unique collection of complementary franchises — including the New York Stock Exchange, clearing houses, fixed-income data businesses and a mortgage technology platform — assembled over decades through disciplined and accretive acquisitions. These businesses continue to benefit from secular growth in trading volumes and recurring data revenues, while the electrification of mortgage origination remains in its early stages. In our view, artificial intelligence is far more likely to enhance the value of ICE's proprietary data and infrastructure than replicate the assets that underpin its competitive advantages.

Unsurprisingly, the largest performance contributors were all companies that benefit from the AI infrastructure build-out: ASML, Broadcom and Schneider Electric. We remain comfortable owning them. These are businesses of the highest quality, protected by deep competitive advantages. And, unlike much of what has led this rally, their shares are still reasonably priced.

ASML rose 51.0%, adding 156 bps benefitting from the euphoria surrounding the semiconductor sector. Its monopoly in advanced lithography remains one of the most durable competitive positions we own.

Each new generation of its machines allows chipmakers to pack more transistors into less silicon. This steady improvement in efficiency — better performance per watt, easier thermal

management, a lower cost per unit of compute — is what underpins further advances in AI, and every other application where efficient chips matter.

Broadcom added 64 bps, its 22.3% share price climb helped by the news OpenAI has selected the company to design its custom inference chip. Broadcom is the dominant designer of custom AI silicon: it has long co-designed Google's Tensor Processing Units, which power Gemini and some of Anthropic's inference capacity through Google Cloud. Few companies possess the engineering depth to develop bespoke accelerators at hyperscale. AI spending is shifting from training models to running them, where custom chips deliver materially better performance per watt and a lower cost per token than Nvidia's general-purpose GPUs.

Under Hock Tan, one of the industry's ablest capital allocators, the company has assembled two further pillars that sit at the center of the AI build-out:

- It dominates the Ethernet switching silicon that interconnects AI clusters — content that grows with cluster size, whether those clusters run on Nvidia GPUs or custom chips.
- Through VMware, it supplies the virtualization layer enterprises need to run AI workloads alongside their legacy applications.

We added to the position on the back of the OpenAI announcement, and as the stock consolidated off its highs.

Schneider Electric's 25.5% rise boosted performance by 62 bps. The company provides the critical infrastructure that enables the electrification and automation of the economy, from electrical distribution and power management to industrial software and control systems.

Data centers now represent roughly 30% of revenue. Schneider is one of the few suppliers capable of addressing both the "white space" of IT power and cooling, and the "grey space" of the surrounding electrical infrastructure. This integrated offering makes the company a trusted partner for customers seeking to optimize space, power and heat management in increasingly complex energy systems. Its software ecosystem further strengthens relationships by embedding Schneider into

projects from design through the entire lifecycle of installed infrastructure.

This combination of hardware, software and domain expertise creates a durable competitive advantage. Importantly, the investment case extends well beyond artificial intelligence. Schneider is positioned at the intersection of several long-term trends: the need to modernize ageing electricity grids; the shift toward decentralized energy systems as renewables take a growing share of the generation mix; the continued electrification of the economy; and the automation of industry. Each requires more of the infrastructure Schneider provides.

Portfolio activity last quarter

Initiation/Increase	
Broadcom	Addition
H World	Addition
ServiceNow	Addition
Tencent	Addition
Exit/Reduction	
Sika	Exit
Shell	Reduction

As mentioned above, we trimmed Shell and added to Broadcom during the quarter.

We sold **Sika**. It belongs to that category of positions where, shortly after initiation, further diligence weakened our confidence and led us to exit quickly. It remains a good business, but our work following two profit warnings revealed a weaker management team and more complicated situation than we initially determined. A shift toward a more centralized organization departs from the highly decentralized model that kept Sika close to its many customers and that was core to its success. We also think a change of management would help, but prefer not to speculate on it.

With a great deal of capital chasing semiconductors — supporting the equity markets of South Korea, Taiwan and Japan — China was increasingly starved of capital. The Hang Seng is down 10% this year. Both **Tencent** and **H World** lost ground as a result, and were brought to less than 14 times earnings, leaving a good margin of safety

and attractive expected return. We used the index's weakness to continue to add to some of our Chinese positions.

Tencent is one of the best technology franchises in the world. WeChat is ubiquitous in Chinese life: people use it to communicate, pay, order food and rides, and be entertained. That confers extraordinary network power and a depth of behavioral data no other platform can match.

Meaningful hidden value remains in advertising. The ad load is deliberately kept well below industry peers (reflecting management's preference for user experience over near-term yield), leaving a substantial runway for growth in impressions and pricing.

The franchise continues to develop. Mini Shops, added to the Mini Program ecosystem, have made Tencent an e-commerce powerhouse less than two years after launch. Its work on agentic AI and infrastructure will seek to leverage that data — and its insight into the lives of Chinese consumers and enterprises — to build genuinely useful products and enterprise solutions.

We also added to H World, soon to become China's largest hotel group by property count. The company operates a portfolio of economy-to-upscale brands under an increasingly asset-light model, generating high returns on invested capital through recurring franchise and management fees rather than property ownership. Already larger than both Marriott and Hilton by number of hotels, H World is steadily building the hospitality infrastructure of China's domestic tourism market.

H World should operate approximately 20,000 hotels by the end of the decade, up from more than 13,000 today, with a credible long-term opportunity to exceed 30,000 as China's branded lodging market consolidates. Importantly, virtually all this growth comes from managed and franchised hotels, while the company continues to reduce its exposure to leased and owned properties.

As the business becomes progressively more asset-light, returns on invested capital should improve, free cash flow should rise structurally, and a growing share of earnings should become distributable to shareholders.

Despite these attractive economics, the market remains preoccupied with China's macroeconomic outlook and continues to overlook the franchise's steady earning power expansion. At its current valuation, the distributable free cash flow yield already exceeds 7%, an attractive price for a business capable of compounding earnings for many years.

Finally, we added to **ServiceNow**. As we explained last quarter, investors are drawing too few distinctions in the software sell-off. We believe businesses that sit at the operating core of large enterprises are far harder to displace than the market assumes, because what has to be replaced is not the code but everything built around it — years of configuration, shared investment and accumulated understanding of each customer's specificities. ServiceNow is the clearest illustration we own: its Now Platform has become the system of record for how large organizations manage work across IT, HR, finance, legal and customer operations, and the proprietary workflow data it holds is precisely what allows it to deliver AI tools that are immediately relevant — and what makes it a monetization vehicle for enterprise AI adoption rather than a casualty of it.

Strategic perspective

AI innovation and wealth creation

The investing environment we described earlier bears the signs of an advancing bubble, increasing risk and limiting the expected return offered by the market as a whole.

That does not mean we are blind to what the AI technology itself can deliver. Quite the opposite. AI is a genuine general-purpose innovation, one that carries with it the prospect of broad wealth creation: productivity gains, relief from the labor scarcity our world is facing, and a lifting of our living standards.

On the other hand, two centuries of technological innovation have taught us that the road from capacity build-up to broad diffusion is a bumpy one. The frenzy to build the enabling infrastructure — canals, railways, electricity, fiber-optic cable — has almost always ended badly once FOMO takes hold. Capacity is overbuilt, the bubble bursts, and heavy financial losses follow, even as the

technology goes on to transform the economy exactly as promised. It is therefore risky to own the lower-quality businesses that are most likely overearning today.

How close are we to overbuilding?

It is hard to tell. Discerning the moment a boom becomes a bubble is notoriously difficult, and manias can inflate for a long time before bursting. What can be observed is scale. Investment in data centers now represents close to 2% of US GDP — already beyond the peak of the telecom build-out of the late 1990s, though still well short of the railway booms of the nineteenth century. There is no guarantee it stops here.

Some signs are worth watching. Meta is reportedly preparing to rent out computing capacity to third parties, an implicit admission it has built more infrastructure than its own AI products currently require. xAI has already taken the same step, leasing out the capacity of one of its flagship clusters. When owners of the infrastructure begin looking for tenants, it is worth asking how scarce that infrastructure really is.

The industry's center of gravity is shifting from training to inference, and the funding of the build-out has evolved — from the free cash flow of legacy businesses, to debt, and now increasingly to public equity issuance. Eventually the bill must reach the end customer. AI tokens have so far been heavily subsidized, but those subsidies cannot last indefinitely. The first invoices are already landing on the desks of corporate CFOs, and they seem to be inflating fast. Both Uber and Meta have reportedly curtailed employees' use of AI tools as costs rose sharply.

Where we see opportunities in AI

We own the enablers of the broader technology adoption, which we believe are overlooked or outright dismissed as disrupted: the enterprise infrastructure on which large organizations actually run — Microsoft, ServiceNow, Constellation Software — and the digital layer through which consumers live their daily lives, of which Tencent's WeChat is the most complete example in the world. These businesses hold the customer relationships, workflow data and distribution that make AI useful in the first place, and are far likelier

to monetize the technology than be displaced by it.

Equally underappreciated are the companies whose capabilities make the economics of AI work at all — Broadcom among them, whose custom silicon and networking deliver the performance per watt and the cost per token that running these models at scale demands.

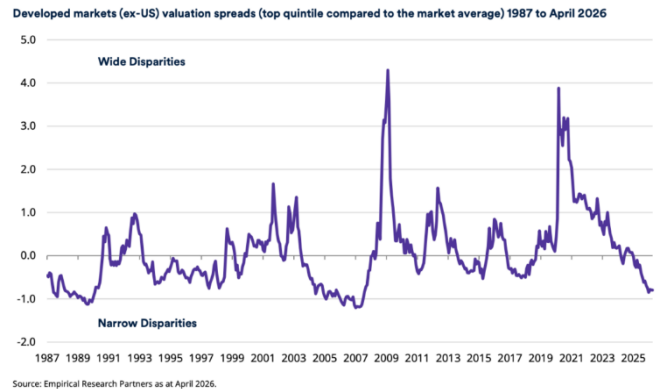
High-quality compounders at rarely-seen expected returns

The expected return we calculate for the Focused Equity Strategy — built bottom-up from the earning power of the businesses we own — sits comfortably in double digits, in good part thanks to the opportunities described above.

But the point is broader than AI. The pond of high-quality compounders in which we fish by design — businesses with high returns on capital, significant reinvestment opportunities behind durable franchises, growing free cash flow, and conservative balance sheets — has largely been ignored as investors focus almost exclusively on artificial intelligence.

Each dollar retained and reinvested at attractive returns creates additional earning power, which in turn provides more capital to reinvest. Over time, stock prices tend to follow that cash flow, which is what makes these businesses attractive to own. The difficulty is that the market usually recognizes this too: prime targets tend to be expensive, and opportunities to buy them at a margin of safety are rare.

After three to five years in which many of their share prices have gone nowhere while their underlying businesses continued to progress, the premium at which they usually and logically trade has disappeared. As the chart below illustrates, the valuation spread between the highest-quality companies and the broader market has compressed to multi-decade lows. Investors are now able to acquire exceptional franchises at valuations that offer a margin of safety rarely available.



We understand that the relative performance of the Focused Equity Strategy is frustrating for you. In a market as speculative as this, conservatism and a refusal to speculate are a burden. On the other hand, what we see in front of us leaves us optimistic. The quality of the businesses we are able to own today, and the prices at which we can acquire them, leave us with an expected return we rarely encounter.

And it comes at a moment when valuations at the index level point to low returns for the market as a whole — which, to our mind, makes this an unusually good time to be invested in the strategy.

It rests, meanwhile, on a considerably broader footing than the market it is measured against. Our ideas are drawn from enterprise software, financial infrastructure, semiconductors, electrical equipment, energy, defense, health care, insurance and hospitality, while the index depends on a handful of names expressing a single theme.

Over time, this is how we believe wealth is built: by owning outstanding businesses, allowing their earnings and free cash flows to compound, and letting time work in our favor.

Business characteristics & strengths

		<u>Portfolio</u>	<u>Equity Benchmark</u>
Profitability	Operating Margin	21.6%	14.8%
	Return on Equity	23.9%	15.5%
Balance Sheet	Net Debt / EBITDA	1.1x	2.1x
Yield	Operating Earnings Yield	7.1%	6.5%
	Dividend Yield	1.4%	1.7%
Growth Profile	5 year earnings growth est.	14.2%	

Portfolio overview

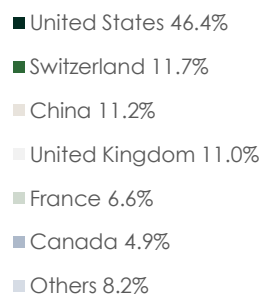
Holdings Breakdown

Top 10 Holdings	Weight
CHUBB LTD	6.63%
THERMO FISHER SCIENTIFIC INC	5.79%
MICROSOFT CORP	5.32%
SUNBELT RENTALS HOLDINGS INC	5.05%
CONSTELLATION SOFTWARE INC	4.87%
ASML HOLDING	4.76%
BROADCOM INC	4.56%
LONDON STOCK EXCHANGE PLC	4.24%
AMAZON.COM INC	4.20%
TENCENT HOLDINGS LTD	4.08%
Sum of Top 10	49.5%

Sector Breakdown



Regional Breakdown



(*) Measured in \$

Investment Results Performance

	Focused Equity Strategy (Gross of fee)	Focused Equity Strategy (Net of fee)	Benchmark
QTD	0.8%	0.7%	15.1%
YTD	-2.8%	-3.1%	11.3%
1 year ¹⁾	4.1%	3.5%	24.0%
3 years ¹⁾	9.4%	8.8%	20.0%
5 years ¹⁾	4.6%	4.0%	11.1%
Since inception ¹⁾	13.2%	12.6%	13.3%

1) Time frames over 1 year display annualized returns

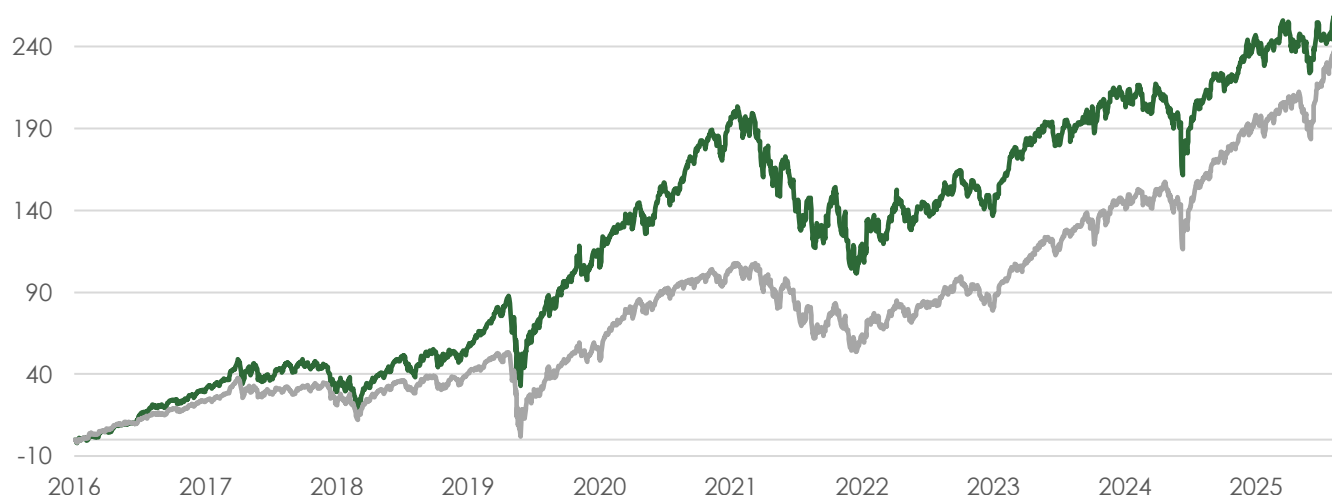
Source: Bloomberg, Emerald / Data since launch of Emerald on 31.10.2016. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: FEPOIRIG), data is net of fee including a management fee of 0.575% p.a. All data calculated in USD. Benchmark MSCI World AC until 31.03.23, from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

Calendar Year Return Comparison

	Focused Equity Strategy (Gross of fee)	Focused Equity Strategy (Net of fee)	Benchmark
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%
As per 30.06.2026	-2.8%	-3.1%	11.3%
Cumulative	232.8%	214.8%	234.6%

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

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