

# Growth Equity Strategy – Q1/2026

Dear Partners,

## Investing environment

Q1 has been a challenging three months for investors. First, software and other middlemen stocks such as travel booking platforms, wealth managers and financial data providers were caught up in what we call the “AI scare trade” and the narrative that AI would eat their business. Then, after Israel and the US attacked Iran, an aggressive rotation out of cyclicals and the winners of the first few weeks of the year back into the earlier losers, energy and defense stocks followed.

Generally, such market phases, that are driven by investor emotions, short-term news cycles and erratic policy making are notoriously difficult to manage because their drivers are largely unpredictable and can change with a tweet. Consequently, they require discipline, a well-defined strategy and the confidence in an investor’s investment cases, that comes from a thorough understanding of what you own and what an investment should be worth under normal circumstances. That is what we focus on.

Surely, Q1 has been another challenging quarter for many investors. Looking at the growing list of disruptions, the next few quarters are unlikely to give investors much of a respite.

## Portfolio performance & portfolio activity

The dispersion of returns on a stock level was exceptionally wide in Q1/2026, due to the many U-turns in the market following changing narratives and surprises on the geopolitical front. While the underlying index was down, the underlying portfolio held up better than the most commonly looked at yardsticks for growth strategies such as the Bloomberg’s World Indices for Technology (-7.1%), E-commerce (-11.1%), Communications (-9.6%) or the Magnificent 7 (-12.0%), just to name a few.

The best performers were our holdings in semiconductor equipment while our software stocks were a major drag. However, volatility also means opportunity. We took advantage of the steep rally in semiconductor stocks in late January and February to trim positions in the biggest gainers. We re-allocated those funds into beaten down quality names in enterprise software, IT security as well as selected e-commerce platforms like Uber and Booking.com. We were able to acquire many of those names at multiples not seen in a long time. While their shares are likely to remain volatile for some more time, we believe that those players will eventually be on the winning side of the AI revolution. For more details, see the section “The AI eats software question”.

## Portfolio activity (Q1/2026)

Initiation/Increase	
Booking.com	Initiation
Exit/Reduction	
Applied Materials	Reduction
Tokyo Electron	Reduction

## Strategic perspective and research insights

Two questions have been dominating client conversations in recent months: (1) Are we in an AI bubble? and (2) Will AI structurally disrupt software? More recently though, questions regarding the outcome and impact of the Iran war have taken center stage. Even though the Iran war will drive market moves short- to mid-term, the AI-related questions are more important for growth investors. Therefore, we will explore them first.

### The AI bubble question

We view the sharp corrections in the Technology and AI space as healthy for the market as at least some of the hot air is coming out of the AI segment which had grown increasingly bubbly. As the saying goes: "The biggest risk is when investors think there is no risk", which is clearly not the case here. Quite to the contrary, it has been the first significant multiple reduction in AI-related stocks since the launch of ChatGPT in late 2022.

As importantly, this market adjustment wasn't triggered by any earnings disappointments but has been entirely about AI names and the valuation premium they should be afforded. Therefore, we believe that risks in the AI segment have been much reduced while the AI opportunity keeps growing. Hence, we keep our overweight position.

### The AI eats software question

AI presents both a disruptive risk and an opportunity for software players. The balance of risk vs. opportunity, however, very much depends on each player's business structure and product positioning. Hence, selectivity will be crucial.

While human interaction with different applications is likely to be increasingly shifted towards AI agents, agent interactions with systems of record that control/manage proprietary data could rise sharply. Hence, for software that is deeply integrated into customers' IT systems, their enterprise workflows, manages mission critical data or requires deep domain expertise rather than being a replacement, Agentic AI will rely on them, creating a vast market opportunity for incumbent software-as-a-service and AI native companies such as Salesforce, SAP, Oracle or ServiceNow. The same goes for the leading IT security firms as their products will become even more important for their customers as ever more complex corporate networks and sharply growing dataflows from AI need to be protected.

Most of our software holdings are concentrated in the above fields. On the other hand, software offerings focused on rules-based, repetitive tasks or applications that perform peripheral tasks and that are not deeply integrated into the IT systems of customers are most at risk of disruption from AI. Therefore, we avoid them.

While the long-term AI opportunity keeps growing, our research suggests that enterprise AI adoption

remains at an early stage. A meaningful deployment of Agentic AI looks unlikely to be visible before 2027 at the earliest, or more likely in 2028. The main reasons are (1) that corporate networks and their data management set ups need to be upgraded for AI and (2) Agentic AI is not ready for prime time yet. Simple, vendor-built agents with narrow scope and clean data are achievable today. Complex agentic platforms for enterprise-wide automation require further development and time. This will provide enterprise software players with the time needed to integrate AI into their systems.

What's more, the narrative that enterprises will be utilizing AI coding assistants to build their own AI applications to replace proven, mission-critical software- or data-platforms looks dubious at least given the complexity of such systems and the operative and legal risks involved in replacing them. As importantly, the career risks for the C-suite that would have to take those decisions looks simply too high. In sum, no, we do not think that AI will eat enterprise software, it is more likely to leverage the nimble players that control mission critical data, workflows or have deep domain specific expertise.

Valuations across enterprise software have roughly halved over the past six months, despite the sector broadly reporting healthy business results and giving solid growth outlooks. We would characterize what has been happening in software as a valuation dislocation mostly driven by investor fears rather than fundamentals, creating a rare entry point into high-quality software names. Therefore, we have selectively added to software holdings that we view as long-term beneficiaries of AI.

### Company insights

#### Fortinet

The company is the leading platform-based cybersecurity vendor for small and medium-sized businesses ("SMB") which represents approx. 70% of the business volume. As Fortinet manages the whole security set-up through an operating system (FortiOS) and due to its deep entrenchment within its clients' IT networks, we view its business as being very sticky thanks to high switching costs. What's more, the company's Fortinet Security Fabric platform, with hundreds of partner companies, creates network effects from the deep integration

in customers' networks and the growing volume of data analyzed.

Growing cybersecurity risks and increasing complexity create a push towards security platforms as IT security teams, particularly from SMBs, increasingly look for platforms that offer a more holistic security coverage. Recent company results and channel checks indicate that Fortinet's integrated product approach is resonating with customers, not only with their core SMB customers but, more and more with larger enterprises. We are particularly encouraged by the recent strength in large enterprise demand. What's more, thanks to its deep integration with their customers' core IT systems and the vast data set of attack attempts optimizes its own AI to counter the growing number of threats, Fortinet only faces relatively low risks of disruption from AI.

While some investors might have been expecting a bigger boost to growth rates from the move to the cloud and AI, we see FTNT more as a rock-solid and fairly steady compounder in the low- to mid-teens range at the OEPS level, which is a welcome feature in this volatile market, which is not adequately reflected in the stock's multiple.

### **Broadcom**

Broadcom delivered another strong quarter. While revenue and EPS both were only slightly above Street consensus, the real highlight was FY2027 guidance for AI revenues, which were well above expectations and have led to analysts upgrading their sales and profit estimates, some of them significantly.

Additionally, at the latest analyst call management proactively and effectively countered investor concerns that have weighed on the stock such as margins risks, competition risks from hyperscalers building their own customer chips (ASICs) and software disintermediation.

The combination of AI ASIC dominance, enterprise software durability (due to being right at the center of the IT infrastructure stack), and best-in-class margins reinforces our conviction in our investment case. Therefore, Broadcom remains a core holding to play the AI opportunity.

### **ServiceNow**

The sharp drop in the stock in the January-February period has opened a rare opportunity to acquire more of this high-quality IT stock at a steep discount to fair value.

Various discussions with our experts and research partners have reinforced our view that ServiceNow is not only well protected from AI disruption, but well-positioned to benefit from the AI wave. Why? The ServiceNow platform is very broadly and deeply intertwined with enterprises' IT systems and thus will enable the deployment of AI capabilities and act as a command center for AI agents at scale – a very favorable position to be in, in our view.

ServiceNow's recent acquisitions (e.g., Moveworks, Armis) and the rollout of AI-driven features (Pro Plus, Now Assist, AI Control Tower) are seen as strategic moves to not only enhancing its AI capabilities, but also driving expansion into new verticals such as security, IoT, CRM, data orchestration and governance, opening further avenues for future growth.

As an additional benefit, the ServiceNow platform is becoming increasingly valuable to manage and protect against cyber risks, enabling end-to-end collaboration across tasks such as analyzing threat bulletins, assessing the attack surface, calculating risk posture, prioritizing threat response, and remediating exposure. Checks with our expert network covering IT security confirm the growing position of the company in that field.

### **Oracle**

Oracle's investment thesis has been dominated by a sharp rise in its Remaining Performance Obligation (RPO, or future sales) from USD 104bn to USD 523bn in H2/2025 which were driven by AI training contracts — most notably with OpenAI. The stock today trades below its pre-announcement level, implying the large additional backlog has negative or zero value. This is irrational. While we will not deny that their large-scale investments in AI data centers for which they will take on approx. USD 80-100bn in new debt will increase risk, the additional business opportunities it creates and the large margin of safety more than compensate for it. Additionally, risks are mitigated by the fact that: (1) The backlog comprises non-cancelable contracts — clients are legally obligated to pay.

(2) Data center capacity (contracted at \$248bn over 15–19 years) can be sub-leased to hyperscalers in any excess capacity scenario; given the chronic shortage of powered data center space, Microsoft or others would be willing takers.

### **SAP**

Rather than being disrupted by AI, as the market has been suggesting lately, we believe SAP is very well positioned to benefit from it. The mission critical nature of the software, the deep integration with customers' IT systems and comprehensive suite of products will allow SAP to naturally embed AI agents, both horizontally — through SAP Business AI and the Joule copilot — and vertically within each product across planning, execution, and network function.

Beyond the long-term tailwind from AI, SAP will benefit in the coming years from a set of structural growth drivers that are specific to the company's businesses: The catch up in cloud-based products, the ongoing migration wave to the S/4data base and strong growth in Supply Chain Management (SCM)

Geopolitical tensions, pandemic-era disruptions, and climate-related volatility have elevated the focus on supply chain management. SAP is uniquely advantaged to benefit from a structural, multi-year upgrade cycle in SCM because approximately 77% of its revenue derives from industries where supply chains are mission critical. Its end-to-end Supply Chain Management (SCM) suite provides a single-vendor, integrated-data-model solution that standalone best-of-breed vendors cannot replicate. We feel that the large-scale decline of the stock in 2026 is overdone.

### **Implications of the Iran war**

The war in Iran adds yet another disruptive force to the already complicated mix of disruptions from technological innovations, trade, geopolitics and economic uncertainties. While many commentators were quick to offer their scenarios, the truth is that such wars have the nasty habit of not sticking to any plan. That seems to be what is

currently happening. As a result, the Iran war further widens the range of economic and market related outcomes. After having taken the war and its potential impact in strides initially, investors have been waking up to the widening range of outcomes, leading to rising downside volatilities.

A quick end to the Iran war looks increasingly unlikely. The impact on energy prices, global supply chains and inflation will largely depend on how long the war and the blockage of the Strait of Hormuz continues.

### **Conclusions**

Clearly, the Iran war will drive market moves short-to mid-term due to its significant impact on inflation, interest rates and, eventually, economic growth. So far, we feel that investors have been too relaxed about the Iran war and any re-assessment of its impact can lead to significant volatility any time.

That said, for any growth investor, the AI-related questions discussed, and the positioning of holdings are more important long-term. Therefore, we will focus even more of our time on deepening our understanding of what we own.

Nonetheless, the stress that the war might create in the financial system would certainly have an impact on financing of AI startups (stress in private credit, IPOs that need to be withdrawn) and the financing of infrastructure investments. Most of our holdings are in a financially strong position and, thus, should be less exposed than others. We will watch financial conditions carefully, though.

Finally, episodes of volatility tend to create investment opportunities for the patient investor willing to take a long-term view. What's more, lasting uncertainty and market volatility should be a tailwind for quality stocks as they tend to be seen as being better able to sail through such phases of disruption. Hence, our focus on bottom-up research and investing in quality growth at the right price seems particularly suited for what lies ahead.

## Business characteristics & strengths

Higher Profitability	Higher Capital Efficiency	Stronger Balance Sheet	Attractive Growth
Operating Margin	Operating Return on Invested Capital	Net Debt to EBITDA	Earnings Growth over 5 years
35.6% vs 12.9%	24.3% vs 5.7%	-0.1x vs 1.7x	19.9% vs 6.4%

### Relative Upside

42.2%

## Portfolio overview

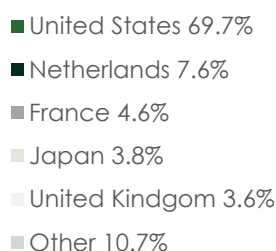
### HOLDINGS BREAKDOWN

Top 10 Holdings	Weight
ASML HOLDING	7.61%
ALPHABET INC-CL A	6.28%
MICROSOFT CORP	6.01%
BROADCOM INC	5.42%
THERMO FISHER SCIENTIFIC	5.09%
AMAZON.COM INC	5.02%
CASH	4.88%
META PLATFORMS INC	4.53%
NVIDIA CORP	3.94%
SUNBELT RENTALS HOLDING	3.85%
<b>Sum of Top 10</b>	<b>52.63 %</b>

### Sector Breakdown



### Regional Breakdown



## Investment Results Performance

	Growth Equity Strategy (Gross of fee)	Growth Equity Strategy (Net of fee)	Index
QTD	-9.2%	-9.4%	-7.0%
YTD	-9.2%	-9.4%	-7.0%
1 year <sup>1)</sup>	16.1%	15.4%	16.0%
3 years <sup>1)</sup>	12.4%	11.8%	15.8%
5 years <sup>1)</sup>	6.1%	5.5%	8.6%
Since inception <sup>1)</sup>	12.9%	12.2%	11.7%

1) Time frames over 1 year display annualized returns

Source: Bloomberg, Emerald / Data since launch of the Emerald Growth Equity Strategy on 06.12.2017. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: EWPGRO), data is net of fee including a management fee of 0.575% p.a. All data calculated in USD. Benchmark MSCI World Growth AC until 31.03.23, from 31.03.23 Bloomberg World Growth. \* = annualized data. Historical returns or financial market scenarios are not a guarantee for current or future.

## Calendar Year Return Comparison

	Growth Equity Strategy (Gross of fee)	Growth Equity Strategy (Net of fee)	Index
As per 06.12.2017	2.6%	2.6%	2.7%
2018	-1.3%	-1.9%	-7.8%
2019	42.0%	41.2%	33.2%
2020	42.2%	41.4%	33.9%
2021	20.2%	19.5%	17.3%
2022	-33.8%	-34.2%	-28.4%
2023	40.2%	39.4%	31.8%
2024	13.3%	12.6%	21.7%
2025	16.7%	16.0%	18.6%
2026	-9.2%	-9.4%	-7.0%
<b>Cumulative</b>	<b>173.4%</b>	<b>160.6%</b>	<b>151.0%</b>

Source: Bloomberg, Emerald / Data since launch of the Emerald Growth Equity Strategy on 06.12.2017. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: EWPGRO), data is net of fee including a management fee of 0.575% p.a. All data calculated in USD. Benchmark MSCI World Growth AC until 31.03.23, from 31.03.23 Bloomberg World Growth. \* = annualized data. Historical returns or financial market scenarios are not a guarantee for current or future.

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



Source: Performance data from December 06, 2017 to May 16, 2024 reflects a hypothetical model portfolio based on separately managed accounts (SMAs), NOT actual ETF performance. Model portfolio managed on Bloomberg (Bloomberg Ticker: EWPGRO) on a gross basis; performance reflects net returns after deducting an all-in fee of 0.575% per annum. All data calculated in USD. Benchmark: Bloomberg World Large & Mid Cap Growth Total Return Index. Past performance and historical market scenarios are not a guarantee of current or future performance.

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