LLOYD CAPITAL

Quarterly Commentary | March 2025

Focused Equity Strategy – Q1 Update

Dear Partners,

The Focused Equity Strategy returned -3.4% (gross of fee), resp. -3.6% (net of fee) in Q1. In comparison, the benchmark Bloomberg World Equity was down 1.2%.

Investing Environment

On January 20th, Donald Trump was sworn in as 47th president of the United States. His honeymoon with the stock market was short-lived. The euphoric mood following his election has given way to serious concerns that Trump is a man on a mission, determined to ramp up tariffs to reshape the structure of the US economy.

The cumulative effect of the announcements made following the so-called liberation day would bring the tariffs on US imports above 20%, compared with 1.5% when he took office in 2016 and 2.5% at the end of 2024 *(1)*. That would be the highest level since the 1930 Smoot-Hawley Act and represents a radical shift in US trade policies.

Trump's ultimate intent, and the amount of short-term pain he is willing to endure, remains to be seen. However, the measures implemented will weigh on US GDP growth and influence price trends in the coming quarters. The White House's hectic communication has in itself created enough uncertainty to leave businesses in limbo, unable to commit to big investments.

US stock markets have suffered the most from the shift in sentiment. The richly valued S&P was down 4.28% in Q1, with high-flying tech stocks that fueled the indices in the past two years the most bruised. The tech sector correction also reflects healthy questioning regarding the pace of AI adoption and potential excess capacity resulting from large investments.

Stock markets outside the US benefitted from signs of stabilization in the Chinese economy and from its government's growing overtures toward domestic and foreign private businesses.

European stocks held up well. They bear reasonable valuation multiples and some hope that Trump can push policy makers of the old continent to invest large amounts to restore their sovereignty. Beyond tariffs, the public humiliation of the Ukrainian president, adherence to the Kremlin's rhetoric and aggressive language directed at the US' closest allies has created a shock that has already shifted some political lines in that direction, notably in Germany. The structural challenges are immense, and will require considerable effort and consistency for many years to come. Let's see.

Portfolio performance

Our software stocks suffered the most this quarter after an outstanding 2023. The two largest detractors are Microsoft (-10.8%, detracting 0.68 pp) and ServiceNow (-24.9%, detracting 1.1 pp). Both have reported solid results.

Microsoft's quarterly revenue saw a double digit rise, with its cloud business growing nearly 20%, led by Azure (+31%). Microsoft continues to benefit from enterprises moving an increasing number of workflows to the cloud. It enriches its application with AI capabilities, which will be progressively rolled out throughout its immense installed base of sticky customers. The company invests massively behind AI capabilities and data center capacity (US$70bn over the last 12 months). That has un-nerved some investors, who wonder whether the return on these large capital outlays will materialize in the near future. We are convinced that Microsoft is well positioned to leverage the ubiquity of its enterprise software suite, its distribution reach and scale of its cloud infrastructure.

ServiceNow is the fastest growing company in the Focused Equity Strategy. Its revenue expanded 22% in 2024 (+20% in Q4) after more than tripling

(1) ***Source: Tax Foundation, Wall Street Journal***

over five years. Its cloud platform helps enterprises cut through the complexity of their network by efficiently connecting and running their various systems and applications. To digitalize their operations and automate processes, companies need to find a way to allow data to flow seamlessly between these different interfaces – which is what the NOW platform provides. Since its foundation in 2004 as an IT ticketing system, the company has leveraged its central position to become the dominant IT service management platform, with more than 50% market share. 90% of Fortune 500 companies use the NOW platform. The untapped potential is large and the proliferation of APIs that will accelerate with AI will only increase the complexity ServiceNow feeds off. Such a profitable and fast-growing business naturally has a higher valuation multiple, which makes it vulnerable to the sort of short-term correction seen in the last quarter. We believe our ability to look through the quarterly noise and short-sightedness of the market will be rewarded, as ServiceNow will continue to expand its earning power at a fast pace for many years to come.

In contrast, our energy stocks had a strong quarter. **Shell** was the largest contributor (+18.2%, adding 0.79 pp to performance). **TotalEnergies** was up 20.2%, adding 0.50 pp. In our latest *Letter from the Field*, we explained at length the rationale behind our investment in TotalEnergies. The key pillars of the case hold true for Shell. Both have a set of competitive assets that produce a commodity that will remain essential to our world for many years to come. Both have adopted a value-accretive capital allocation and have shares that deeply understate their long-term free cash flow generation. Shell's management indicated that at current oil prices the company should be able to buy back 40% of its shares outstanding in the next five years.

Intercontinental Exchange was the second largest performance contributor (+16.1%, adding 0.68 pp). The company delivered growth in all business lines in 2024 (Futures exchanges, Equity, Interest Rates, Fixed Income). Its Mortgage Technology division stood out despite sluggish market conditions (high mortgage rates have frozen the origination market for now). Thanks to the acquisition of Ellie Mae and Black Knight, ICE controls 50% of the software origination market and 70% of the mortgage servicing market. ICE is central to driving the digitalization of the entire origination and servicing chain. Moreover, gathering these two verticals under one roof will materially expand the value generated by the suite. It will, among other things, allow mortgage servicing companies to capture the refinancing market without going through the sales agents (large savings in sales commission should allow ICE to charge a lucrative fee for that solution). Intercontinental Exchange is a galaxy of solid financial service franchises that grow, are very profitable and are protected by high barriers to entry.

Portfolio activity last quarter

Initiation/Increase	
Oracle	Initiation
BAE Systems	Initiation
Apple	Initiation
ASML	Increase
Intercontinental Exchange	Increase
Schneider Electric	Increase
Total Energies	Increase

Exit/Reduction	
Richemont	Exit
Sandvik	Exit
Roche	Reduction
Autodesk	Reduction

Worth noting this quarter is our initiation of **Oracle**. The company has morphed from a slow growing tech juggernaut perceived as a cloud laggard into a faster growing AI leader that enjoys an expanding moat based on the success of its cloud business (OCI) and the need to upgrade corporate IT infrastructure. Today, the company has multiple avenues of growth from its legacy database and application software business, as well as a differentiated cloud offering. On top of that, Oracle has significant opportunities from migrating legacy on-premise workloads to the cloud, with a large portion of its customer base yet to make the transition. This represents a substantial additional growth potential for the company.

The recent correction offers an excellent entry opportunity into this defensive large cap tech leader as it enjoys a re-acceleration in sales. The comparatively low multiple and numerous growth drivers make it a rather low risk investment.

Therefore, we added an initial position to all strategies.

BAE System is another position we added to the portfolio. The UK defense company is the largest Western non-US defence contractor. It has a broad range of capabilities spanning combat aircraft, missiles, nuclear submarines, land equipment and cyberwarfare. Its most profitable business is its electronic warfare division, which is by far the number one worldwide and equips, among others, F-35, F-22 and F-16 jets.

BAE is set to benefit from increasing defense needs in a multi-polar, more conflict-ridden world after years of underinvestment in the field. The company is involved in multi-national strategic projects, such as the GCAP consortium (with Leonardo and Mitsubishi Heavy Industry), which will design and manufacture the sixth generation of combat aircraft for the UK, Italy and Japan, and the AUKUS consortium that will provide the US, UK and Australia with nuclear submarine capabilities.

These strategic projects highlight how unique BAE is, in that it is the only large contractor to participate in UK/European state programs as well as US ones (through a separated corporation unit that is allowed to contract with the US Department of Defense). That range expands the opportunity set the company can tap into. But it also hedges BAE against any potential shift in the spending patterns of the main Western powers amid a reconfiguring of the post-World War II order. Whether the US allies decide to spend more on US gear or build more of their own equipment, BAE will benefit.

The company appears well managed by a CEO who has been at the helm for eight years, has double-digit operating margins and a value-accretive capital allocation. We believe its growth drivers and a normalized earning power yield of 7% leave us with an ample margin of safety.

We also added **Apple** to the portfolio, as we believe AI will eventually help the company expand the service revenues it generates from its large installed consumer base.

We added to our position in **Schneider Electric**. Its leading position in energy management and industrial automation solutions makes it ideally placed to capture growing demand stemming from investment in upgrading the electricity grid, making buildings more efficient and automating factories. The main source of recent growth has been the construction of data centers. AI models are trained and run by GPUs and DRAM chips clustered together in data centers that require a large amount of electrical equipment provided by Schneider Electric.

The company mostly operates in end markets that are oligopolistic by nature, and supplies critical products and systems that often represent a low percentage of the overall system cost it is embedded in. That supports the company's decent pricing power and allows it to sustain healthy margins. Over time, the company has built a strong software and industrial IoT platform that reinforces its moat. As software grows faster than average, it will gradually increase the amount of recurring revenue and expand the operating margin.

The stock offers a normalized earning yield close to 5%. We think that gives us some margin of safety when considering the quality and structurally increasing growth rate of Schneider.

TotalEnergies – *Please refer to our letter from the field* ***(read here).***

The sales we made are mostly motivated by funding the portfolio additions mentioned above, which we believe reinforce the portfolio's value for money profile.

Strategic perspective

The news flow has been heavy and macroeconomic uncertainties have risen lately. As we are writing our comments, markets are selling off following Trump's "Liberation day's" press conference where he announced heavy taxes on imported goods.

Our investment strategy though has never been about conjecturing on economic trends, and we do not see much value in dissecting every piece of policy that may not hold for more than a few days anyway.

Not that we think the events unfolding will have no impact. We are simply humble enough to acknowledge that we do not know. No one does. We therefore believe devoting attention to guessing what is coming next is a futile exercise that distracts us from where our focus should be: finding great companies and analyzing their business models.

Our view is that the best way for investors to be protected against the wide range of macroeconomic scenarios the future holds is to own a collection of profitable companies with some economic moat protecting their competitive position, that deliver services and products that will be in demand in the long run and have a solid balance sheet. When combined with a reasonable valuation, they should carry you through the storms that hit the world periodically.

This combination is what you get when investing in the Focused Equity Strategy. Our companies carry significantly lower than average levels of debt and have better profitability (i.e. operating margin22% v 13% and ROE of 28% v 14%).

We also seek to strike a balance between prudent diversification, and concentration stemming from a high degree of selectivity and knowledge of our holdings. The ten largest securities represent half of the portfolio.

Each of them structurally expands the value it produces on a per share basis over time and operate in a broad spectrum of industries - Enterprise Software (Microsoft), Financial Infrastructure (London Stock Exchange and Intercontinental Exchange), Energy (Shell), Medical Equipment and Technologies (Thermo Fisher), Insurance (Chubb), Equipment Rental Services (Ashtead) and even Funeral Services (Service Corp).

At any point in time a political decision or temporary drop in demand for their products can strike. But their financial and operational flexibility, as well as their position of market strength, will allow them to navigate storms and thrive long term. Meanwhile, the wide range of industries limit the damage that would be done should any particular market be hit by an unexpected development.

The current events bear short term and long term ramification that are nearly impossible to fully assess. “Liberation day” has the merit to outline how important it is to hold truly exceptional businesses with pricing power.

We will only intensify our review of the competitive strength of our companies; how easily substitutable are their products, how flexible is their production system, how captive are their customers, how large are they in their customers’ overall cost base, …

Short term pain will not be avoided, we believe such an approach protects against long term permanent loss of capital. It also allows to catch opportunities. When fear guides the action of the markets, great businesses can be offered to you at bargain prices.

Business characteristics & strengths

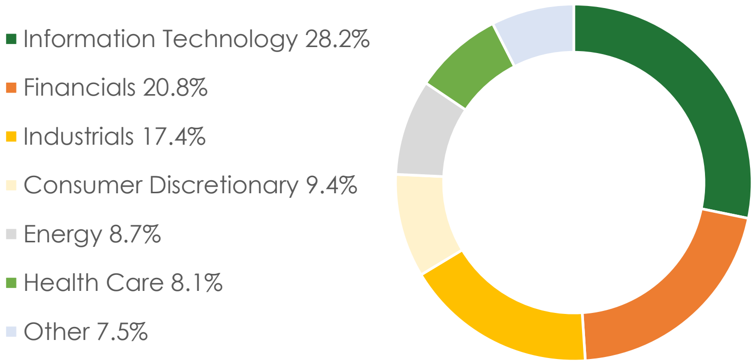
		Portfolio	Equity Benchmark
Profitability	Operating Margin	24.0%	13.3%
	Return on Equity	32.6%	14.1%
Balance Sheet	Net Debt / EBITDA	1.2x	1.7x
Yield	Operating Earnings Yield	8.2%	6.0%
	Dividend Yield	1.6%	2.1%
Growth Profile	1 year earnings growth est.	11.5%	
	5 year earnings growth est.	12.1%	

Portfolio overview

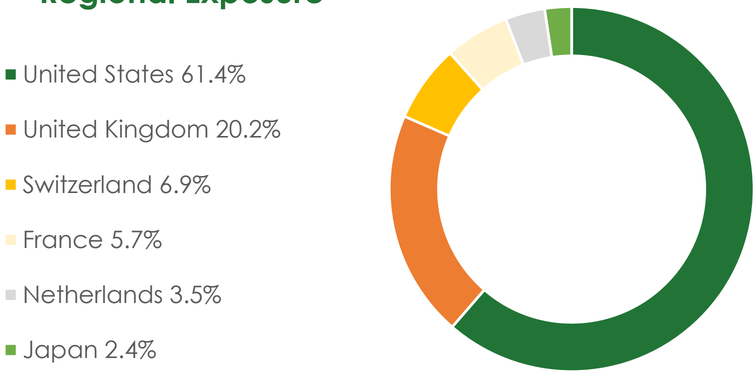
Holdings Breakdown

Top 10 Holdings	Weight
MICROSOFT CORP	6.06%
SERVICE CORP INTERNATIONAL	5.57%
CHUBB LTD	5.39%
SHELL PLC ADR	5.38%
LONDON STOCK EXCHANGE	5.29%
BLACKROCK INC	5.04%
INTERCONTINENTAL EXCHANGE	5.04%
THERMO FISHER SCIENTIFIC INC	4.78%
ASHTEAD GROUP PLC	4.09%
LOCKHEED MARTIN CORP	3.85%
Sum of Top 10	**50.50%**

Sector Breakdown



Regional Exposure



Investment Results Performance

	Focused Equity Strategy (Gross of fee)	Focused Equity Strategy (Net of fee)	Index
QTD	-3.4%	-3.6%	-1.2%
YTD	-3.4%	-3.6%	-1.2%
1 year[1)]	-1.1%	-1.7%	7.7%
3 years[1)]	2.8%	2.2%	7.2%
5 years[1)]	14.1%	13.4%	15.4%
Since inception[1)]	13.5%	12.9%	11.1%

1) Time frames over 1 year display annualized returns

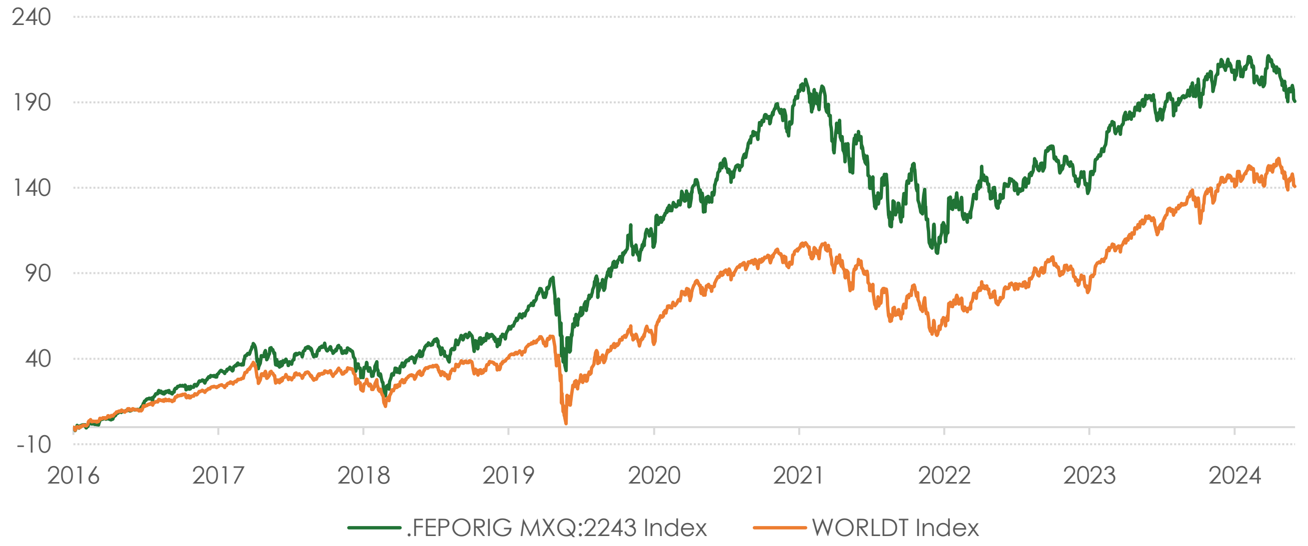
Source: Bloomberg, Emerald / Data since launch of Emerald on 31.10.2016. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: FEPORIG), data is net of fee including a management fee of 0.575% p.a. All data calculated in USD. Benchmark MSCI World AC until 31.03.23, from 31.03.23 Bloomberg World. * = annualized data. Historical returns or financial market scenarios are not a guarantee for 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%
As per 31.03.2025	-3.46%	-3.60%	-1.24%
Cumulative	**190.4%**	**176.7%**	**142.2%**

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 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: FEPORIG), 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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