

Quarterly Commentary | June 2025

Focused Equity Strategy – Q2 Update

Dear Partners,

The Focused Equity Strategy returned +10.0% (gross of fee), +9.9% (net of fee) in Q2. In comparison, the benchmark Bloomberg World Equity was up 11.4%.

Investing environment

The news flow was heavy last quarter. The Trump administration in the United States initiated a trade war with the rest of the world, employing disruptive negotiation tactics; it joined an Israeli air bombing of Iran that threatened to inflame the Middle East; while Congress fought over the budget bill and could do no better so far than produce a draft that would add US\$2.7tn to the deficit over the next decade (1).

Despite all that, global stock markets ended the quarter higher – although we were not spared some significant gyrations.

In the US, the S&P flirted with bear market territory following the shock of “Liberation Day” (correcting by about 20% from its February highs). It subsequently staged a remarkable rebound after most of the tariffs were suspended to leave time for negotiations. These negotiations are ongoing. US markets ended the quarter up 11.6%.

Tensions in the Treasury market seem to have played a pivotal role in reining in Trump's aggressive stance. The bond markets are often the ultimate leash that can prevent politicians' recklessness. The US has only been able to run large twin budget and trade deficits thanks to the credibility of the US dollar and its status as the world's reserve currency. Policies that weaken that credibility run the risk of driving the interest rate on US debt to an unbearable level.

Meanwhile, companies are left in limbo, pausing large investments as they have no way to credibly plan for the next few years. The companies we talk to also see a deterioration in consumer sentiment. Whether these emerging cracks in the economy

result in a recession remain to be seen, but they are signs of a slow-down in GDP growth.

Fed members are debating the possibility of cutting the interest rate to stimulate the weakening economy. Fear of the re-emergence of inflationary pressures due to the introduction of tariffs is holding them back and they appear to be very divided on the issue.

The bright spot remains investment in artificial intelligence, which continues unabated, driving the stocks of technology companies to new highs.

Outside the US, European markets were up 10,5% in dollar term during the quarter. Merz's debut as German chancellor was marked by the relaxation of budget rules and announcement of an up to \$1tn investment plan in infrastructure and defense over the next decade. In addition, NATO members agreed to raise their defense spending to 5% of GDP. Questions regarding the financing of these plans will come later.

Portfolio performance

Microsoft and ServiceNow, the two largest performance detractors of Q1, rebounded sharply and contributed most during Q2 (32.8%, adding 2.03 pp and 29.1%, adding 0.91pp respectively). Both continued to report solid results.

Microsoft continues to benefit from enterprises moving an increasing number of workflows to the cloud. Its quarterly revenue rose at double digit pace and its cloud business grew +19% in Q1 2025. Azure growth even accelerated vs previous quarters (+33%). AI capabilities will be progressively rolled out throughout its immense installed base of sticky customers. We believe Microsoft is well positioned to leverage the ubiquity of its enterprise software suite, its distribution reach and scale of its cloud infrastructure.

(1) Source: Congressional Budget Office

ServiceNow is the fastest growing company in the Focused Equity Strategy. Its revenue expanded by +19% in Q1. Its cloud platform helps enterprises connect and run their various IT systems and applications. It provides a way to allow data to flow seamlessly between the different interfaces enterprises run. The untapped potential remains large, and the proliferation of APIs only increases the complexity ServiceNow feeds off.

On the other hand, **Thermo Fisher Scientific** detracted the most from performance (-18.4%, detracting 1.01pp) as the entire Life Sciences sector sold off. Numerous executive orders from Trump are blurring the short-term picture and what should have been a recovery year might end up being a challenging one. The company has warned that the pressure on funding to large universities will hurt academic research, policy uncertainties around vaccines have led to the suspension of clinical trials, and the import/export of equipment and components between the US and China will be impacted by the tariffs.

Insurance company **Chubb** also detracted from performance. The stock was down -3.74%, contributing negatively by 0.23pp. There was no significant news in the quarter and management confirmed in a meeting that pricing conditions remain good overall. The company continues to deliver the best underwriting profitability in the industry. The amount of premium received is growing at a mid-single digit rate. That is slightly lower than in previous quarters, as the company sticks to its discipline not to underwrite risks where its calculated Return on Investment is lower than 15%.

Portfolio activity last quarter

Initiation/Increase	
Thermo Fisher Scientific	Increase
Exit/Reduction	
Apple	Exit
Autodesk	Exit
ServiceNow	Reduction
Service Corp	Reduction

ServiceNow and Service Corp were trimmed, as an increase in their stock price led to a lower margin of safety.

We sold **Apple**. Its business model, where most of its goods are made in China and transit through Ireland to benefit from low corporate taxes, seems more vulnerable to trade disruptions. Its stock multiple gives little room for error.

The management of **Autodesk** has not only failed to deliver on strategic promises but has appeared to massage numbers to meet short-term guideline. As the board did not take appropriate actions to remedy the situation and failed to answer our questions, we sold our stake during the quarter.

We took advantage of the sell-off in Life Science stocks to add to our position in **Thermo Fisher Scientific**.

The stock is back at prices first reached in 2020 (at the time the pandemic was boosting its business). The overhang created by the pandemic led to a long phase of digestion that we believe is now over. That period of consolidation was far from lost for the company. Its underlying businesses continued to expand and outgrow peers, it integrated numerous bolt-on acquisitions made in the last 10 years and completed the largest acquisition in its history, the Contract Research Organization PPD. All that means the business' earning power has progressed well ahead of the stock price, opening a healthy discount to fair value (i.e. P/E now close to 17x, which we view as low for a company of that quality and with that growth profile).

Beyond current short-term wobbles, the long-term picture looks clear and favorable to Thermo Fisher. The ageing world population will continue to drive demand for health care. Budget constraints make productivity solutions sold by Thermo Fisher even more compelling. Moreover, scientific breakthroughs continue to fill the R&D pipeline – with an unprecedented number of innovation platforms like GLP1, mRNA, gene therapies and protein analysis emerging at the same time. These drivers leave us confident that Thermo Fisher's core business will continue to grow at a good pace for many years.

Thanks to its scale, Thermo Fisher has been more able than peers to maintain local production capacities, including large US factories for assembly of analytical equipment and bioprocessing. That could prove valuable if significant tariffs were to be imposed on US/China goods flows. Also, the nearshoring of drugs

production would create a lot of business for Thermo Fisher, which would supply facilities with equipment, lab infrastructure, inventories, consumable flow, etc.

Thermo Fisher is also a good capital allocator. It creates value through M&A, where newly acquired capabilities and offerings are plugged into its manufacturing ecosystem and distribution network. Excess capital is then returned to shareholders, a bit through dividends and a lot through buybacks. We believe the discipline and consistency in implementation of that strategy under the long tenure of Marc Casper (arguably one of the greatest CEOs in the industry) is only matched by the very best companies.

Strategic perspective

That the stock market ended such an eventful quarter at record levels demonstrates again the perils of guessing short-term market movements. At Lloyd we do not even try. We believe the surest way to compound wealth for investors over time is to find a few great businesses, acquire them at a good price compared to their intrinsic value and own them for as long as the quality of their franchise holds and their stock does not become overvalued.

That approach left us in a *relatively* comfortable position in April, when many were rushing to the exit door selling their stocks. The businesses we hold in our portfolio tend to enjoy competitive advantages and superior operating flexibility. Their balance sheets are in great shape. Their stocks are not overvalued. As a result, we did not have to conduct many trades in the aftermath of “Liberation Day.” We could lean on the quality of our businesses, knowing their stock price would revert as the dust settles.

The recipe is simple. Its execution though demands hard work and discipline. Uncovering great companies requires deep knowledge of their business model, strategy, competitive position and pricing power. That means hours of reading,

meeting with management and talking to field experts. Only such investigative work allows us to have a qualified opinion on the quality of a business and its value.

For example, ahead of deploying more capital into the stock, we spent time this quarter interviewing customers of Thermo Fisher Scientific – specifically people working in pharmaceutical and academic laboratories. We sought to back up our initial analysis and deepen our knowledge of the value-add Thermo Fisher brings, its competitive advantage and uncover any potential weaknesses.

The consistency of the message customers delivered to us gives us comfort in Thermo Fisher's staying power. Customers all highlighted the efficiency of the company's distribution platform, which they describe as the Amazon of Life Sciences. They explained to us how the research work at labs can be disrupted when one low-cost consumable is missing, and how the breadth of Thermo Fisher's offering and superior speed of delivery make it their first port of call and partner of choice. The gap with peers in term of scale and breadth is so wide that would not be easily replicable by anyone.

On the equipment side, they also explained how Thermo Fisher's full workflow coverage is an advantage, as it allows for better interoperability of tools in the lab. The increasing importance of the software stack behind the tools could give Thermo Fisher an additional competitive advantage.

In this noisy environment, we will continue to devote our attention to what we believe makes our focused equity portfolio a high reward and lower risk strategy, selecting a collection of businesses of outstanding quality that are underappreciated by the market.

Business characteristics & strengths

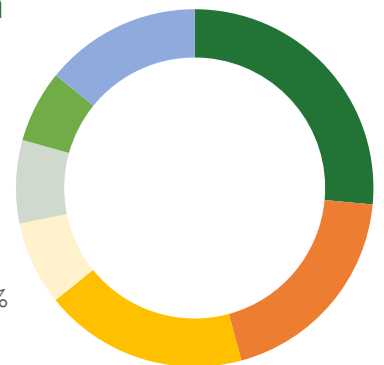
		<u>Portfolio</u>	<u>Equity Benchmark</u>
Profitability	Operating Margin	24.4%	13.7%
	Return on Equity	28.3%	14.3%
Balance Sheet	Net Debt / EBITDA	0.8x	1.7x
Yield	Operating Earnings Yield	6.5%	6.1%
	Dividend Yield	1.3%	1.9%
Growth Profile	1 year earnings growth est.	9.7%	
	5 year earnings growth est.	12.0%	

Portfolio overview

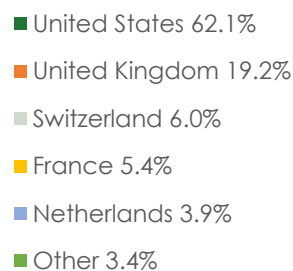
Holdings Breakdown

Top 10 Holdings	Weight
MICROSOFT CORP	7.28%
BLACKROCK INC	5.06%
INTERCONTINENTAL EXCHANGE	4.86%
THERMO FISHER SCIENTIFIC	4.80%
LONDON STOCK EXCHANGE	4.72%
SHELL PLC-ADR	4.69%
CHUBB LTD	4.68%
ASSTEAD GROUP PLC	4.43%
AMAZON INC	3.97%
ASML HOLDING	3.85%
Sum of Top 10	48.34%

Sector Breakdown



Regional Exposure



Investment Results Performance

	Focused Equity Strategy (Gross of fee)	Focused Equity Strategy (Net of fee)	Index
QTD	10.0%	9.9%	11.4%
YTD	6.2%	5.9%	10.1%
1 year ¹⁾	8.9%	8.3%	16.6%
3 years ¹⁾	12.6%	11.9%	17.5%
5 years ¹⁾	11.6%	11.0%	13.9%
Since inception ¹⁾	14.3%	13.7%	12.1%

1) Time frames over 1 year display annualized returns

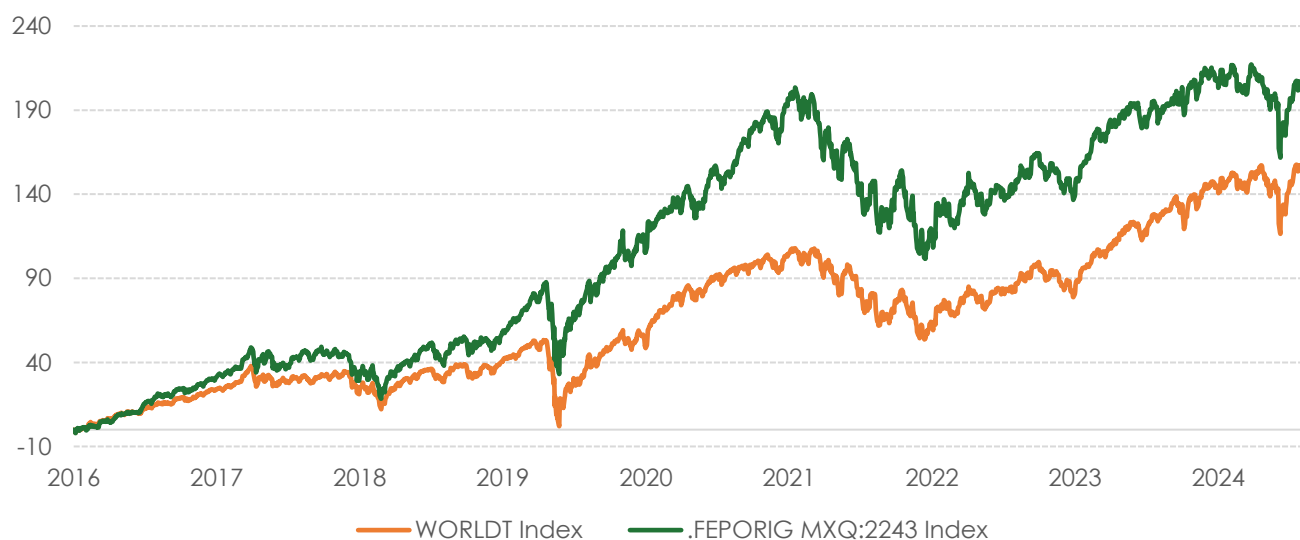
Source: Bloomberg, Emerald / Data since launch of Emerald on 31.10.2016. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: FEPORIG), data is net of fee including a management fee of 0.575% p.a. All data calculated in USD. Benchmark MSCI World AC until 31.03.23, from 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 30.06.2025	6.2%	6.0%	10.1%
Cumulative	219.6%	204.0%	169.9%

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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