

Quarterly Commentary | September 2025

Focused Equity Strategy – Q3 Update

Dear Partners,

The Focused Equity Strategy returned +4.8% gross of fee and +4.7% net of fee in Q3, and has returned 11.4% year-to-date.

Investing environment

The stock markets had another strong quarter. The dominant narrative continued to be the transformative potential of artificial intelligence.

That optimism is driving large investment programs in data center capacity by cloud computing leaders and enterprises developing large language models (LLMs). This infrastructure buildout, in turn, feeds the order books of technology companies that provide the computational infrastructure—semiconductor manufacturers such as Nvidia and Broadcom, and companies like Oracle. Indeed, these companies have effectively joined the "Magnificent 7 party," benefiting from AI-related capital expenditures.

The scale of investments is increasingly staggering. OpenAI alone committed to pay \$300 billion over five years for data center services. Individual data centers, stuffed with extraordinarily expensive GPUs that can run to tens of thousands of dollars per unit, now cost well over \$10 billion each. Meta's Mark Zuckerberg proudly announced 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. It seems the capex wave is increasingly driven by fear that direct peers are spending more than what a rational assessment of the capacity actually required would suggest. This is precisely how bubbles are created—fear of missing out (FOMO) takes over, and companies stop thinking about what makes economic sense and instead focus on matching whatever their peers are committing.

Although there is no doubt that AI is a potent innovation that will create value down the line,

progress in monetizable end-use applications remains limited. The gap between infrastructure spending and revenue-generating applications is concerning. Current fundamentals could deteriorate rapidly if progress in practical, monetizable end-uses doesn't materialize quickly enough.

FOMO is not only reflected in corporations' spending, but is gradually infecting the stock market. Valuations in the technology sector have reached nosebleed levels. The S&P 500's price-to-earnings multiple has increased substantially, and now ranks at the 93rd historical percentile. Put simply, investors are paying significantly more for each dollar of earnings than they have during most historical periods. Valuations for AI-related stocks have become particularly stretched.

This creates a dangerous situation with little room for error: much of the anticipated value is already priced in, meaning even modest disappointments could trigger significant corrections.

It comes at a time when the Federal Reserve has initiated a cycle of rate cuts, adding additional fuel to the speculative environment. The situation faced by the central bank is especially tricky. On one hand, the labor market and broader economy show signs of potential deterioration as tariff effects begin to bite. On the other hand, inflation remains stubbornly close to 3%. Adding to these economic complexities, the relationship between the Trump administration and Federal Reserve has become increasingly strained. The administration's efforts to influence monetary policy decisions represent a clear challenge to the central bank's independence—a cornerstone of credible monetary policy for decades. So far this rupture in institutional norms has primarily impacted the US dollar and triggered a significant rally in gold, as investors seek safe havens amid concerns about the erosion of central bank credibility. Remarkably, equity markets have remained largely deaf to the

mounting risks, continuing to price in an optimistic scenario despite the accumulating uncertainties on multiple fronts.

Portfolio performance

Alibaba, one of the latest additions to the portfolio (see more on Alibaba's business below), was the largest contributor this quarter. Its results revealed a sharp acceleration in cloud computing revenue driven by greater adoption of its AI platform Qwen. The stock has climbed 50.7% since our purchase, adding 136bps to overall strategy performance.

Alphabet was another strong contributor during the quarter. The stock rose 38.1%, adding 87bps to performance. In early September, a favorable antitrust ruling halted the US government's most severe breakup proposals, with a court ruling Google would not be required to divest its Chrome browser or Android operating system. The stock price was also helped by the company's strong cloud results in Q2 and abating market fears about the AI disruption to Google's search business—despite the court's rationale being predicated on precisely this competitive threat. We took advantage of the strong price movement to trim our position and lock in some gains.

On the other hand, **London Stock Exchange Group** and **Intercontinental Exchange** were the two largest detractors, with stocks down 20.9% and 7.9% respectively, producing a 110bps and 23 bps hit to quarterly performance.

Both financial infrastructure companies faced selling pressure amid broader concerns about AI disruption to their data and analytics businesses. Market participants worried that LLMs and emerging AI tools could commoditize financial data or enable new competitors to challenge the incumbents' pricing power.

We believe these AI-related competitive fears are widely overdone. For LSEG in particular, we note that the company's data products are deeply embedded into customers' workflows, integrated into 300-500 applications per product. Switching costs remain extraordinarily high given the mission-critical nature of these systems across trading, risk management and compliance functions. Moreover, LSEG's strategic partnership with Microsoft—training LLMs with LSEG's proprietary data and integrating Copilot throughout its product suite—positions the company to leverage AI rather than be disrupted by it.

Similarly, Intercontinental Exchange's competitive position remains intact, with its exchange businesses benefiting from network effects and its mortgage technology division holding dominant market share. The quarter's weakness appears sentiment-driven rather than fundamental.

Portfolio activity last quarter

Initiation/Increase	
Medtronic	Initiation
BYD	Initiation
Alibaba	Initiation
H World	Initiation
London Stock Exchange	Increase
Chubb	Increase
Lockheed Martin	Increase
Exit/Reduction	
Revvity	Exit
Oracle	Reduction
Meta	Reduction
Alphabet	Reduction
Blackrock	Reduction
Intercontinental Exchange	Reduction

During the quarter we added to securities that saw their stock price pressured for no fundamental reason and therefore had an attractive discount to fair value, namely Chubb, LSEG and Lockheed Martin. Meanwhile, we trimmed positions with limited safety margins: Alphabet, BlackRock, Intercontinental (ahead of the correction) and Meta.

We took advantage of a rebound in the stock price in July to sell our position in **Revvity**. Faced with limited visibility into its business development and a management that so far has not delivered on key components of their strategic plan, we preferred to exit the position.

We also initiated positions in Alibaba, BYD, H-World and Medtronic.

Alibaba is one of China's digital infrastructure backbones, a \$150 billion revenue company that has evolved from Jack Ma's startup into the dominant force in Chinese e-commerce and cloud computing. The company commands 45% of China's e-commerce market through Taobao and Tmall, platforms that connect 10 million merchants with one billion customers. After years of

competitive pressure from JD.com and Pinduoduo, Alibaba's market position has stabilized, and its scale enables high-margin operations while taking less from merchants than competitors. The regulatory environment has shifted dramatically since 2023, with Beijing moving from crackdown to active support, explicitly endorsing Alibaba's aggressive capital return plans of 117 billion CNY in 2025 backed by 500 billion CNY in net cash.

What makes Alibaba particularly compelling is how its cloud business is accelerating. Holding an estimated 30% of China's cloud market, the company seamlessly integrates its Qwen LLM into the e-commerce ecosystem, attracting businesses to its cloud infrastructure while delivering practical AI applications. With 100,000 corporate clients already using Qwen, and China's cloud penetration still far below Western markets, the runway is substantial. The stock trades at an 8% earnings yield despite this combination of stable e-commerce cash generation and high-growth cloud potential.

BYD, the global leader in electric and hybrid vehicles, delivered 4.3 million units in 2024, not far from Tesla's 1.8 million and Toyota's 10 million, a remarkable acceleration from just 600,000 units in 2021. The company's competitive advantage stems from something rare in the automotive industry: deep vertical integration. While traditional manufacturers rely on fragmented supplier networks, BYD designs and manufactures key components in-house, from batteries to semiconductors. This isn't just about control; it's about fundamental cost advantage. As the world's largest mobile battery maker before entering autos, founder Wang Chuan-Fu envisioned EVs as "batteries on wheels" and built the company to exploit the structural simplicity of electric drivetrains, which require fewer than 50 components versus 1,200+ in internal combustion engines.

The result is a 15-25% cost advantage over legacy automakers, allowing BYD to offer compelling value while maintaining margins not far from Toyota levels. The company commands 35% of China's EV market and 30% of its battery market, with successful expansion underway in South Asia and Latin America. Europe is next. The stock trades at over 7% normalized earnings yield despite double-digit growth potential, as the stock price consolidated while price competition temporarily pressures margins.

H World Group, China's largest private hotel operator with over 12,000 hotels and one million rooms, operates a pioneering "manachised" model that delivers exceptional unit economics. Under this structure, H World retains operational control by appointing each hotel's general manager, while franchisees carry operating costs and property owners fund development. This model generates 22% operating margins for H World, with franchisees having three- to five-year payback periods and the lowest development and operating costs per room in the market. The company's competitive moat comes from supply chain scale, a loyalty program generating 60% direct bookings and proprietary technology that enables self-service hotels to operate with minimal staff.

H World targets two million rooms in the medium term, representing low-teens annual growth as China's branded hotel penetration increases from 40% toward the 70% seen in developed markets. The company is capturing share from inefficient state-owned chains and repositioning toward higher-margin midscale and upscale segments to meet demand from China's emerging middle class. The valuation is striking: the stock trades near 2020 levels, while revenue and operating earnings have doubled. H World generates over \$1 billion in EBITDA, comparable to Hyatt and InterContinental, yet carries an enterprise value below \$12 billion versus \$19-23 billion for those peers.

Medtronic is a leading medical device company developing therapeutic devices for chronic diseases. It is an innovative organization, often reaching market first with differentiated technology across pacemakers, heart valves, insulin pumps and surgical tools. New CEO Geoff Martha has refocused the company after years of depressed returns following the expensive Covidien acquisition, bringing fresh leadership and concentrating R&D on highest-growth areas like renal denervation for hypertension and pulsed field ablation for atrial fibrillation.

The planned spin-off of the diabetes business fits with management's effort to focus on highest-margin growth drivers where Medtronic has core competencies. Through disciplined capital allocation and operating efficiencies, Medtronic should leverage 5-6% organic growth into high single or low double-digit earnings growth.

With an earnings yield of 5%, the shares appear undervalued.

Strategic perspective

Bubble environments triggered by transformative innovations are not new.

We have seen this pattern with electricity, railroads and, more recently, the internet. Ultimately, substantial value was created in each case—the innovations proved real and reshaped economies. Yet these periods are perilous for investors. Capital floods into a narrow set of securities. Early winners are rarely the companies that ultimately prevail. Earnings always end up failing to live up to inflated valuations. The spectacle of rapid gains stirs greed and tempts investors to chase returns at any price, often resulting in permanent capital losses.

In such circumstances, we remain deliberately cautious with our forecasts and valuations. We accept our conservative approach will not keep pace with stocks propelled by speculative fervor. This is a conscious choice. We manage portfolios that often represent a significant portion of our clients' wealth. We will not risk our clients' capital when earnings forecasts become guesswork or when valuations leave no margin of safety. At that point, the line between investment and speculation has been crossed—a step we refuse to take.

We view the returns we leave on the table in the short term as the premium we pay for capital preservation. This approach is reinforced by two observations born of experience. First, mean reversion in markets can strike with surprising speed and severity—we never know when, only that it will come. Second, over meaningful time horizons, acquiring high-quality businesses at discounts to fair value has consistently generated superior returns with lower risk than chasing momentum. History teaches us that investors who achieve long-term outperformance are those who maintain discipline—who stick to their investment process and philosophy even when the sirens of greed call loudest.

Being prudent, fact-based and refusing to overpay for assets does not mean we avoid businesses positioned to profit from the AI transformation underway. Quite the contrary. We own businesses that are reasonably valued or outright undervalued and positioned to benefit meaningfully from AI adoption. For example, we hold the "picks and shovels" of the AI revolution—companies such as ASML, Tokyo Electron and Applied Materials that supply critical infrastructure

regardless of which specific AI applications ultimately prevail. Cloud computing leaders like Microsoft and Amazon that provide the compute infrastructure required for AI to function also represent large positions in the portfolio.

More notably, we continue to find undervalued assets providing foundational infrastructure for AI deployment. We calculated that Oracle—with its legacy database business successfully shifting to the cloud—is the natural partner of choice for enterprises upgrading their IT infrastructure to be ready for AI. The stock was still trading at a large discount to fair value before a sharp rally in price. More recently, we purchased Alibaba, which combines Qwen—a leading open-source LLM platform—with a dominant cloud infrastructure, positioning the company well to provide AI capabilities and monetize its deployment. We acquired the stock at low teens valuation multiples.

Perhaps most importantly, we are not afraid to look where others no longer do. The best opportunities to find overlooked assets that will deliver strong, safe returns often lie in areas the market has temporarily abandoned. As situations normalize and sentiment shifts, these positions can prove rewarding. Our investments in H World, a leading hotel chain in China, and Medtronic, a premier medical technology company, exemplify this approach. While the market chases the latest narrative, we remain patient, methodical and focused on building a portfolio of exceptional businesses acquired at sensible prices.

You will have noted that three of our four recent additions are Chinese companies. This does not reflect a top-down geographic allocation. We select businesses on their individual merit: the quality of the franchise, their value creation and whether the price offers compelling value for money. That said, it is no accident we find attractive ideas in China. The market has consolidated for many years, while the underlying businesses have developed their franchises, expanded profitability and put shareholder-friendly policies in place. A more conducive regulatory framework has helped us become more constructive on the region. Meanwhile, 15 years of US market outperformance has left valuations at record levels. The pool of compelling investment ideas has become scarcer, risks are mounting and the dollar faces pressure. This is where a global, geographically unrestricted equity strategy

demonstrates its value. We can deploy capital where returns are clearer and risks more contained.

Business characteristics & strengths

		<u>Portfolio</u>	<u>Equity Benchmark</u>
Profitability	Operating Margin	22.4%	13.7%
	Return on Equity	28.5%	14.5%
Balance Sheet	Net Debt / EBITDA	0.6x	1.5x
Yield	Operating Earnings Yield	6.5%	5.5%
	Dividend Yield	1.5%	1.7%
Growth Profile	5 year earnings growth est.	12.6%	

Portfolio overview

Holdings Breakdown

Top 10 Holdings	Weight
MICROSOFT CORP	7.26%
THERMO FISHER SCIENTIFIC	5.50%
CHUBB LTD	5.39%
LOCKHEED MARTIN CORP	4.85%
SHELL PLC-ADR	4.56%
ASML HOLDING	4.45%
ASSTEAD GROUP PLC	4.43%
LONDON STOCK EXCHANGE	4.41%
APPLIED MATERIALS INC	3.81%
AMAZON	3.80%
Sum of Top 10	48.46%

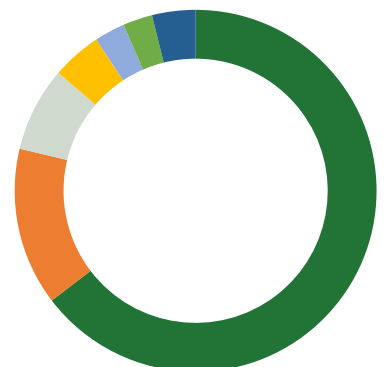
Sector Breakdown

- Information Technology 25.8%
- Industrials 19.5%
- Financials 15.6%
- Consumer Discretionary 13.9%
- Health Care 8.8%
- Energy 7.2%
- Other 9.2%



Regional Exposure

- United States 64.6%
- United Kingdom 14.1%
- China 7.6%
- Netherlands 4.5%
- Japan 2.7%
- France 2.6%
- Other 3.9%



Investment Results Performance

	Focused Equity Strategy (Gross of fee)	Focused Equity Strategy (Net of fee)	Index
QTD	4.8%	4.7%	7.8%
YTD	11.4%	10.9%	18.7%
1 year ¹⁾	6.8%	6.2%	17.6%
3 years ¹⁾	17.9%	17.2%	23.3%
5 years ¹⁾	10.3%	9.6%	13.8%
Since inception ¹⁾	14.5%	13.9%	12.7%

1) Time frames over 1 year display annualized returns

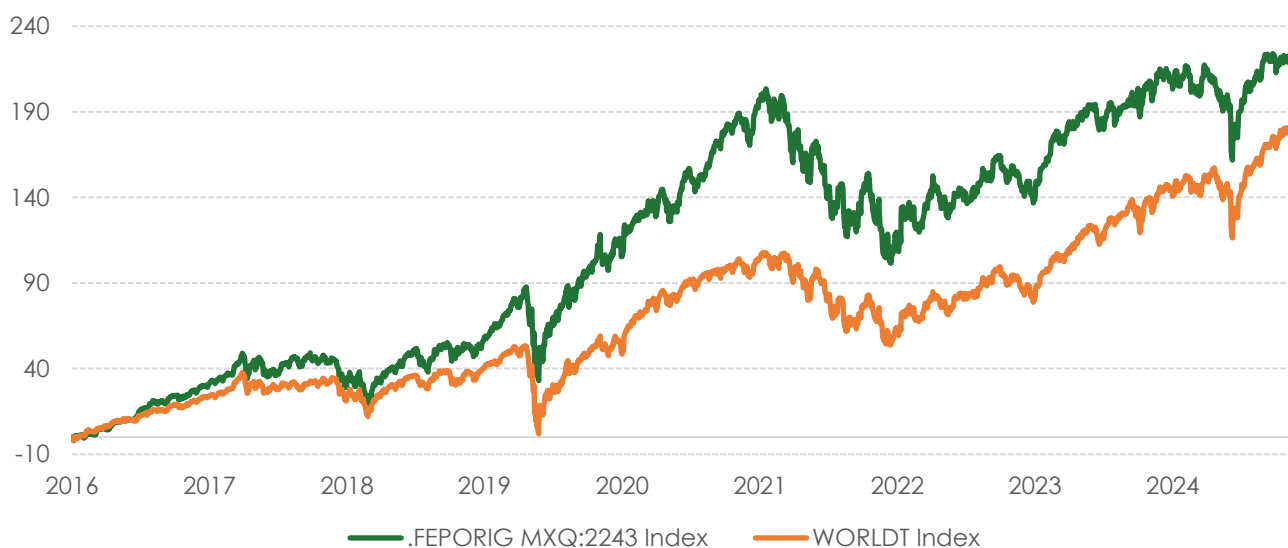
Source: Bloomberg, Emerald / Data since launch of Emerald on 31.10.2016. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: FEPORIG), data is net of fee including a management fee of 0.575% p.a. All data calculated in USD. Benchmark MSCI World AC until 31.03.23, from 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%
As per 30.09.2025	11.4%	10.9%	18.7%
Cumulative	235.0%	218.2%	191.1%

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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