LLOYD CAPITAL

Quarterly Commentary | March 2025

Growth Equity Strategy – Q1 Update

Dear Partners,

The Growth Equity Strategy returned -8.8% (gross of fee), resp. -8.9% (net of fee) in Q1. In comparison, the benchmark Bloomberg World Equity was down 4.9%.

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 investments suffered the most this quarter after an outstanding 2023. The two largest detractors are ServiceNow (-24.9%, detracting 1.31 pp) Microsoft (-10.8%, detracting 0.85 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 one of the fastest growing company in the Growth Equity Strategy. Its revenue expanded 22% in 2024 (+20% in Q4) after more than

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

tripling 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.

Uber Technologies was one of the best contributors to the Growth Equity portfolio (+20.8%, adding 0.39 pp to performance). The company released a strong set of earnings with robust revenue growth and fast-expanding profitability. We are pleased to see the ride hailing business's growth continues unabated in cities where the company is already present, but also as it enters new/smaller cities. We also like what the management is doing on the delivery side of the business. Not only does the company continue to partner with an increasing number of restaurants, but it is expanding the type of items app users can have delivered by its network of drivers (including groceries, medicine, personal care, households items and pet supplies).

Zscaler solidly outperformed the market and the Tech sector in Q1 (+10.0, contributing 0.28 pp) as the company started to show clearer evidence that their investment in new sales talent is paying off, their platform product strategy is gaining traction and the company's increasing focus on data security could help it take share from firewall providers. We believe Zscaler's emerging products category, such as digital experience and artificial intelligence analytics, will be key drivers for the firm's top line going forward. Annual recurring revenue from this cohort of products grew twice as fast as the firm's core products and we expect strong upselling potential for them.

Longer term, we believe workload migration to the cloud and AI-agent deployment are positive for Zscaler. While the overall IT-security market is expected to grow 12-13% annually through 2032 (source Bloomberg), cloud and AI related products are growing much faster as more workloads go to the cloud and the attack surface widens. Due it's focus on cloud and AI-related security, we expect the company to outgrow the IT-security market, which is not yet reflected in the stock price, though.

Portfolio activity last quarter

Initiation/Increase	
Oracle	Initiation
Synopsys	Initiation
Novo Nordisk	Initiation
Datadog	Initiation
ASML	Increase

Exit/Reduction	
Straumann	Exit
Microsoft	Reduction
SAP	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.

We added a position in **Synopsys**, a leading provider of software tools for designing complex semiconductor chips. Its solutions have become indispensable to virtually every major semiconductor company and an increasing number of electronic systems companies globally.

We foresee demand for Synopsys tools rising significantly as chip complexity increases, requiring more sophisticated design solutions. Thanks to its deep entrenchment with customers and the mission critical nature of its tools, we believe Synopsys enjoys a wide moat from switching costs and intangible assets associated with the firm's vast product suite. The primary reason clients stop using Synopsys' services is that they go out of business or are acquired. Therefore, we believe Synopsys will outgrow the semiconductor industry.

While the long-term growth story of semi-design software stocks is well known, the recent correction has brought Synopsys' valuation down to levels that offer a decent margin of safety for the first time in many years. Therefore, we added an initial position to our growth-oriented strategies.

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 macro-economic 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. We believe that growth investors can get great investment results by identifying companies with a long runway for growth and a truly outstanding business model. Success also requires patience. Investors need to hold on to them as long as they are able to profitably outgrow the market and valuation remains reasonable. Markets tend to underestimate the power of compounding value of dominant companies that maintain above average growth durably. This combination is what you get when investing in the Growth Equity Strategy.

You 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 that generates positive free cash flow. When combined with a reasonable valuation, they should carry you through the storms that hit the world periodically.

Our companies carry significantly lower than average levels of debt and have better profitability (i.e. operating margin 19.6% v 15.4% and ROE of 36.6% v 19.0%).

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. 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, …

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

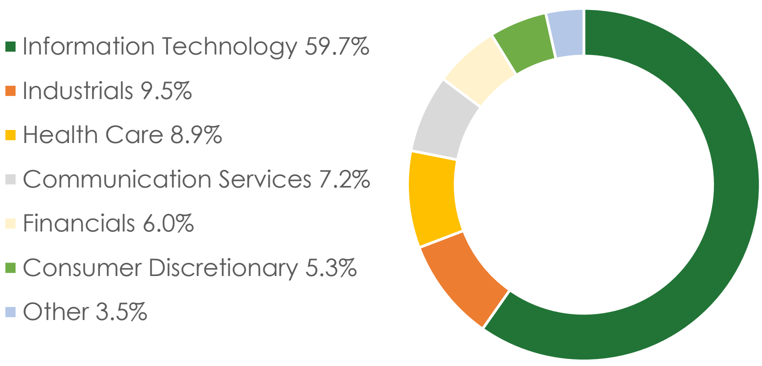
		Portfolio	Equity Benchmark
Profitability	Operating Margin	19.6%	15.4%
	Return on Equity	36.6%	19.0%
Balance Sheet	Net Debt / EBITDA	0.3x	1.0x
Yield	Operating Earnings Yield	5.7%	4.8%
	Dividend Yield	0.7%	1.3%
Growth Profile	1 year earnings growth est.	15.3%	
	5 years earnings growth est.	14.8%	

Portfolio overview

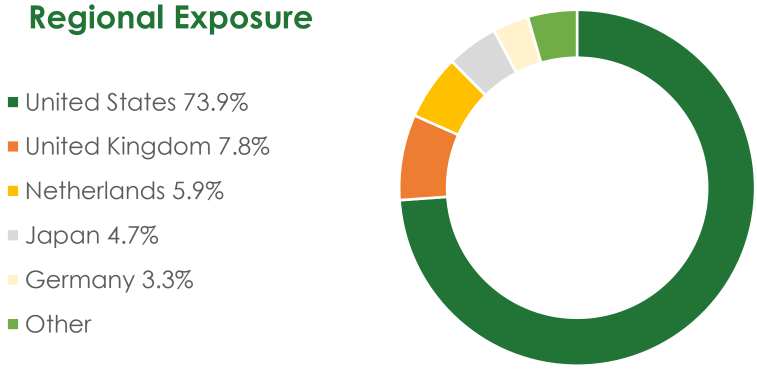
Holdings Breakdown

Top 10 Holdings	Weight
MICROSOFT CORP	7.95%
ASML HOLDINGS	5.91%
THERMO FISHER SCIENTIFIC INC	5.30%
AMAZON INC	5.30%
SERVICENOW INC	4.57%
APPLIED MATERIALS INC	4.45%
APPLE INC	4.44%
LONDON STOCK EXCHANGE	4.12%
ADOBE INC	3.96%
ALPHABET INC	3.90%
Sum of Top 10	**49.90%**

Sector Breakdown



Regional Exposure



Investment Results Performance

	Growth Equity Strategy (Gross of fee)	Growth Equity Strategy (Net of fee)	Index
QTD	-8.8%	-8.9%	-4.9%
YTD	-8.8%	-8.9%	-4.9%
1 year[1)]	-5.3%	-5.9%	5.7%
3 years[1)]	3.5%	2.9%	6.9%
5 years[1)]	12.6%	11.9%	15.4%
Since inception[1)]	12.4%	11.8%	11.1%

1) Time frames over 1 year display annualized returns

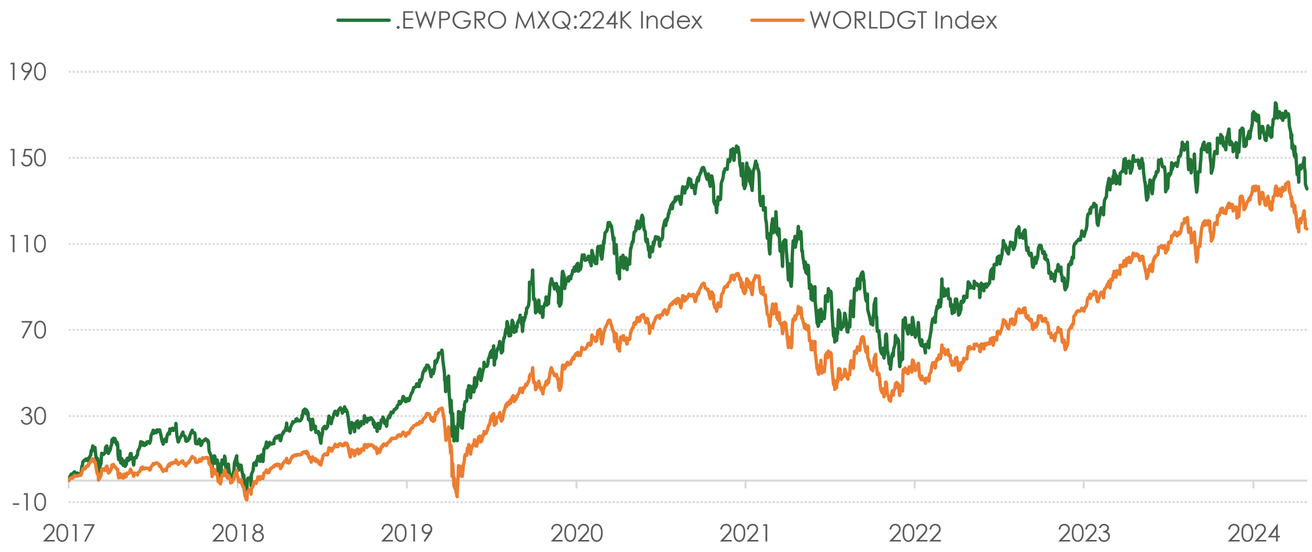
Source: Bloomberg, Emerald / Data since launch of the Emerald Growth Equity Strategy on 06.12.2017. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: EWPGRO), data is net of fee including a management fee of 0.575% p.a. All data calculated in USD. Benchmark MSCI World 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	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	-8.8%	-8.9%	-4.9%
Cumulative	**135.2%**	**125.8%**	**116.3%**

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: 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). All data calculated in USD. Benchmark Bloomberg World Growth. Historical returns or financial market scenarios are not a guarantee for current or future.

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