

# Growth Equity Strategy – Q3 Update

Dear Partners,

Despite President Trump's making good on his tariff threats in August, equity markets continued their rally and reached all-time highs anyway. Renewed investor euphoria regarding Artificial Intelligence was a major force behind the advances as the AI arms race amongst Technology companies is in full flight.

## Investing environment

While markets are still driven by the perceived beneficiaries of the boom in AI-infrastructure, riskier Tech- and AI-plays have increasingly taken over the lead, many rising between 40% and 100% in Q3! Clearly, risks are rising, and more signs of an AI bubble are flashing.

At the same time, when looking at our AI-road map and it's revised estimates, the long-term opportunity in Generative AI keeps growing as adoption rates amongst users grow and broaden. In an environment like this the challenge for investors is to balance the opportunities with the rising risks.

## Portfolio performance

The Growth Equity Strategy returned +4.4% (gross of fee), +4.3% (net of fee) in Q3, lifting the year-to-date return to 13.1%.

Not surprisingly, returns were driven by our AI-related holdings such as Alphabet, Advantest, Oracle, ASML and Broadcom, most of which reported strong operative results (see some more detailed comments further on). However, also some of the laggards of the past few quarters made substantial contributions to return, most notably Thermo Fisher and LVMH, which were up 19.7% resp. 17.2% (see more detailed comments for both in the Q2-update).

Returns, however, were widely dispersed as they were strongly influenced by news flows. Any news

that didn't match investors' (high) expectations were greeted with significant declines. While AI-applications seem to gain more traction, fears of potential disruptions from AI and the resulting uncertainties are a growing concern of investors. Such fears were a strong headwind for various software stocks (Fortinet, Intuit, Salesforce, SAP) and financial data providers (London Stock Exchange) in the portfolio. While we acknowledge the disruptive risks, we think fears regarding those names are overblown as they are generally well prepared to counter them.

After their strong gains and the resulting rise in valuations and position sizes we (mildly) trimmed our holdings in Microsoft, Zscaler and Advantest. We also lightened up on our large position in Oracle, purely for risk management reasons as its position grew too large after rising more than 60% since the initial purchase earlier this year.

After their large upgrade in their outlook and as we think it's ASICs chips will become viable competitor to Nvidia's GPUs, we increased Broadcom further. We also added new positions in Medtronic and BYD. In both, we believe that investors underestimate their growth potential.

## Portfolio activity last quarter

Initiation/Increase	
Medtronic	Initiation
BYD	Initiation
Mastercard	Initiation
Broadcom	Increase
Exit/Reduction	
Entegris	Elimination
Datadog	Elimination
Zscaler	Reduction
Oracle	Reduction
Advantest	Reduction
Microsoft	Reduction

### Significant company and research insights

#### Broadcom

Their recent upgrade of their long-term outlook provides growing evidence that Broadcom is progressively gaining share with their three original XPU customers as they increase adoption with each new generation of those chips. As importantly, the strong commitment of the 4th big customer validates our initial investment case of Broadcom being THE prime beneficiary of the ramping up of AI-infrastructure due to the progress made in AI-Chips (XPUs), in networking and the strong position in corporate network software and infrastructure that are crucial to accommodate AI in corporate networks and companies in a broader context.

Thanks to the breath of its offering and the already deep integration in its customers' IT stack, Broadcom is, in our view, better positioned than Nvidia to benefit from the next wave of AI rollouts.

Given the strength in the last few quarterly reports and the shift in the long-term growth drivers, we substantially increased our long-term estimates for Owner's Earnings. Our still somewhat conservative estimates leave more room for future upgrades.

#### Oracle, admitted to magnificent status

Oracle reported exceptional Q1 FY26 results that included an unprecedented upgrade to cloud infrastructure growth guidance. Oracle's stock surged ~40% the next day—rare for a company of this scale—driven by transformational cloud business projections. The upgraded trajectory could make Oracle Cloud (OCI) equal or larger than Google Cloud Platform by FY29-30, representing a dramatic shift from Oracle's traditional database business to major cloud and AI infrastructure provider.

The explosive growth is underpinned by massive contract wins, particularly in AI training and inferencing. Oracle signed four multi-billion-dollar contracts with three clients in Q1, including what analysts believe is a \$30B annual contract with OpenAI. Remaining Performance Obligations (RPO) surged 359% to \$455B, providing unprecedented visibility for future revenue streams of OCI. Given the massive upgrade of guidance and the unprecedented visibility that the large

increase in RPO provides, we are substantially lifting our already optimistic EPS estimates for 2030.

More importantly, Oracle has rapidly evolved from a traditional software company to a major cloud hyperscaler and AI infrastructure provider, with committed contracts supporting a growth trajectory that few companies of Oracle's size have achieved. As a result, investors increasingly place Oracle in the same category as the so-called "Magnificent 7", rightly so, we think. Therefore, we maintain a large overweight position in Oracle.

#### Company visit at ASML

We visited ASML and some of its key business partners in the Netherlands in September. We meet with Investor Relations and Peter Vanoppen who heads development of High NA EUV, the next generation technology for producing the most advanced chips. High NA EUV is key for ASML's future growth, and the level and speed of adoption was a major concern for analysts and a major headwind for the stock in recent quarters. We came away from the discussion with Mr. Vanoppen with the view that is very well on track regarding reliability and demand, and as importantly, it is further ahead than EUV was at the same stage of the development resp. market introduction.

High NA EUV will be adopted because of its cost advantage, lower production risks and higher flexibility. If players stay for too long with EUV they lose the flexibility (productivity) from High NA EUV and might miss ability to compete for the next generation of high-end chips. For the upcoming 2NM-chips there will already be some limitations EUV. This means at some point customers will hit a brick wall and then will need to move to High NA EUV. While there is hardly any doubt about the direction of travel, timing is more open and depends on many factors.

Regarding competitive market position we came away from the visit strongly convinced that the competitive position of ASML is almost unassailable, at least for the next 10-15 years. While ASML thinks that Chinese competitors will eventually develop Lithography technology like EUV, that alone won't make them competitive in the high end because they would have to develop the entire eco-system of suppliers, which is almost impossible in the quality needed.

Finally, the strive for shrink will continue and ASML has a clear roadmap how to support that until at least 2040. More importantly, as far as we can see, ASML's High NA EUV (and potentially Hyper NA EUV) will be the key technologies to achieve that. Hence, we see sustained double digit growth for ASML for a long time.

### **Meta**

The latest quarterly results demonstrated again the lead of the company in the ad-business and the success of its business strategy. The ad business continued to impress with revenues up 21% Y/Y.

Going forward, Meta continues to see their ability to grow their revenue through a combination of driving up engagement and enhancing monetization driven thanks to improvements to their content recommendation systems that resulted in a 5% increase in time spent on Facebook, and 6% on Instagram. In particular, video time spent remains strong, with Instagram video time up 20% Y/Y globally.

Clearly, Meta is leading the pack in advertising thanks to its investments in AI and the improvements in ad-creation and management as well as growing user engagement. Given the latest results, we lifted our five-year revenue growth expectations from 10-12% to above 15% driven by faster user growth, increase in time spent on the platforms and an improvement in ad performance/pricing.

While next year PE rose from 21x to 28x since our entry into Meta, the growth outlook has improved significantly over that period, which still leaves Meta with solid upside despite the outperformance since, according to our model.

### **Company visit at BYD**

A Q3 visit to BYD, the global leader in full-electric and hybrid vehicles, in China confirmed our investment case in full.

The foundation of BYD's success lies in its deeply vertically integrated supply chain. BYD designs and manufactures key components in-house, enabling speed, control, and significant cost efficiencies. This combined with BYD's expertise in electronics and batteries (its origin as the world's largest mobile battery maker), gives it a unique edge in both performance and cost structure. With an estimated 15–25% cost advantage over legacy

OEMs, BYD offers high-quality, competitively priced vehicles while sustaining gross margins comparable to best-in-class manufacturers like Toyota.

In a segment where scale, integration, and battery tech determine winners, BYD stands out as the most complete and defensible EV platform globally. The stock price of the company undervalues the growth potential of the franchise.

### **Microsoft**

The company posted total revenue comfortably ahead of expectations as results show strength across the board.

AI and cloud are leading the charge, driven by an acceleration of growth to 39% for Azure and the remaining performance obligation (RPO) rose 35%, both in constant currency terms. Those strong growth trends indicate that artificial intelligence is driving a new wave of demand and that momentum is building on the commercial side as businesses rush to digitalize and adopt AI-powered services. Microsoft is the key port of call for many.

But not only that. Also, the 365 consumer and personal computing side (including Windows and Xbox) enjoyed accelerating growth showing Microsoft's appeal across its sprawling business. Consumer Products and consumer cloud services grew 21%, driven by 9% more subscribers. Even the legacy-division More Personal Computing grew revenues by 9% and operating income by 33% (in CC), driven by advertising (up 20%) and gaming.

While investors have been concerned about Microsoft's ploughing billions into data centers and AI infrastructure, those results show that those investments are paying off, and that Microsoft is firing on all cylinders. While we have trimmed our positions mildly, we maintain our overweight and it remains our largest position.

### Strategic perspective

The implementation of President Trump's tariffs in August did not dampen the ascent of equity markets.

The AI arms race amongst technology companies is in full flight as can be seen from a series of stunning announcements of massive additional investments in AI-infrastructure. While those investment plans create an additional tailwind for the providers of critical AI-infrastructure, it raises doubts whether those huge investments will ever generate a sufficient return for the companies making them. This leaves AI stocks exposed to growing financial risks and the risk of disappointing investors.

At the same time, the AI-revolution is increasingly taking hold in the broader economy as the Large Language Models (LLMs) improve their capabilities and/or companies become more comfortable delegating tasks to AI. As Anthropic, the provider of the "Claude" LLM, highlighted recently, 77% of companies' usage of Anthropic's Claude AI software involved automation patterns, often including "full task delegation." In addition, when looking at our AI-road map and its revised estimates, the long-term opportunity in Generative AI keeps growing as adoption rates amongst users grow and usage broadens.

While the perceived beneficiaries of the boom in AI-infrastructure continue to drive the market, many riskier Tech- and AI-plays have also taken center stage in Q3 as well. The frenzy has also reached Private Equity where the latest financing rounds for AI-startups have been done at breathtaking valuations. Open AI was valued at USD 500bn while Anthropic was afforded a valuation of USD 189bn. This indicates a high degree of optimism, if not to say euphoria.

Are technology shares and AI-related names in particular in a bubble? More and more indicators suggest that a bubble is forming. Does that mean a major decline is imminent? Not necessarily. It first and foremost means that risks are rising and that investors need to take a deeper look at what they own and what the long-term market positions of their holdings are.

Historical precedents suggest that bubbles are part of major innovation cycles, and they can hardly be avoided as people seeking to exploit opportunities make large investments. Those bubbles will inevitably burst at some point as some of those investments turn sour. Such a shake-out is healthy as it cleans out the players with weak finances, weak market positions, or unsustainable business models.

In an environment like this the challenge for investors is to balance the opportunities with the rising risks which will allow them to capitalize on the long-term opportunities without "betting the ranch".

Therefore, we focus even more on research and refining our AI-road map to 1) identify the companies with the strongest and most defendable moats and 2) on potential disruptors (also disruptors of the disruptors) that could introduce new use cases or that could challenge current AI-leaders.

Clearly, the AI-opportunity is large and growing, but risks are rising as well. Therefore, we believe our focus on fundamental research and our concept of buying quality innovators and disruptors at the right price is not only relevant but especially well-suited to this moment. It allows clients to capture the opportunities that there are without having to bet the "ranch."

## Business characteristics & strengths

		<u>Portfolio</u>	<u>Equity Benchmark</u>
Profitability	Operating Margin	25.3%	16.1%
	Return on Equity	33.2%	20.0%
Balance Sheet	Net Debt / EBITDA	0.4x	0.8x
Yield	Operating Earnings Yield	4.4%	4.4%
	Dividend Yield	0.8%	1.0%
Growth Profile	5 years earnings growth est.	14.9%	

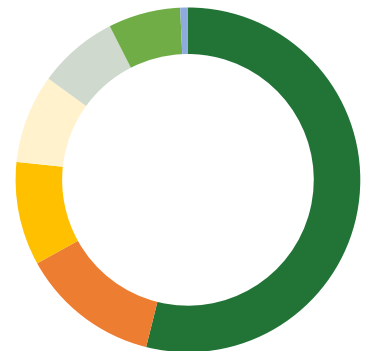
## Portfolio overview

### Holdings Breakdown

Top 10 Holdings	Weight
MICROSOFT CORP	7.86%
ASML HOLDING	6.99%
THERMO FISHER SCIENTIFIC	5.60%
BROADCOM INC	5.40%
APPLIED MATERIALS	5.08%
ALPHABET INC-CL A	4.97%
AMAZON INC	4.95%
SERVICENOW INC	4.28%
ORACLE CORP	4.06%
ASSTEAD GROUP PLC	3.70%
<b>Sum of Top 10</b>	<b>52.89%</b>

### Sector Breakdown

- Technology 53.9%
- Health Care 13.1%
- Industrials 9.7%
- Communication Services 8.3%
- Consumer Discretionary 7.5%
- Financials 6.8%
- Other 0.7%



### Regional Exposure

- United States 72.9%
- United Kingdom 7.0%
- Netherlands 7.0%
- Japan 5.6%
- Germany 3.6%
- Other 4.0%



## Investment Results Performance

	Growth Equity Strategy (Gross of fee)	Growth Equity Strategy (Net of fee)	Index
QTD	4.4%	4.3%	7.9%
YTD	13.1%	12.6%	16.4%
1 year <sup>1)</sup>	12.5%	11.9%	17.2%
3 years <sup>1)</sup>	23.0%	22.3%	24.1%
5 years <sup>1)</sup>	9.8%	9.1%	12.9%
Since inception <sup>1)</sup>	14.7%	14.0%	13.3%

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%
As per 30.09.2025	13.1%	12.6%	16.4%
<b>Cumulative</b>	<b>192.1%</b>	<b>179.3%</b>	<b>164.8%</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: 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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