5 April 2025

Dear Equity Client

GLOBAL BEST IDEAS EQUITY FUND ("the Fund") – 1st Quarter 2025

MARKET PERFORMANCE

World equity markets experienced a volatile quarter. The MSCI World AC Index (including emerging markets and dividends) delivered a -1.3% performance (in US$ terms, -4.3% in UK£ terms). Sterling strengthened by +3.1% against the dollar over the quarter.

Subsequent to the quarter end with *'Liberation Day'* on 2 April, the year-to-date numbers deteriorated further to -8.8% and -11.5% in US$ and UK£ terms respectively at the date of this letter. For US focused investors, these numbers for the S&P 500 Index are even worse at -13.4% and -16.0% in US$ and UK£ terms respectively.

MACROECONOMIC BACKDROP

The world economic and capital market backdrop changed decisively after the first quarter's end on 2 April. We will later in the letter comment on these tariff-related issues.

During the quarter the US economic backdrop remained stable. New US employment numbers remained above average with the unemployment rate remaining relatively low at 4.2%. Consumption growth remained above 5%, with wages continuing to grow well in real terms. Both headline and core inflation remained stable. The fourth quarter US reporting season delivered a strong result, with S&P 500 revenue and earnings growing at +5% and +13% respectively, well above consensus expectations.

Against this stable picture, the public started taking cognisance of the threats of US trade tariffs and their potential economic and inflationary effects. Earlier exuberance about the new administration started waning. These concerns led to increasing economic activity in preparation of the implementation of tariffs and negatively affected consumer confidence. Leading economic indicators started softening, with both the Services and Manufacturing PMI Indices dropping in March, the latter into contraction territory.

Two events in February are highlighted for their respective structural impacts on capital markets. On 17 February, China's President Xi held a rare meeting with Chinese technology leaders, in essence to demonstrate renewed government support for the sector following years of regulatory clampdowns. This triggered a new wave of investments into Chinse technology stocks, away from US technology companies. Following this, on 25 February, the US administration twice sided with Russia on UN resolutions against Russia's war in Ukraine. European nations' confidence in continuing US support of NATO took a structural setback. Following the German election and the new Bundestag's resolution to create a €500bn infrastructure fund and exempt defence and security from their debt rules, it became clear that their approach to debt levels has changed and later on that overall European defence budget may double by 2030. This is expected to have a structurally positive effect on their economies over time. Along with these, European and Chinese stocks' valuations have significantly lagged their US peers as investors neglected these regions, offering attractive valuations.

The combination of these three issues, and especially the European ones, has boosted material capital flows out of the US.

Importantly, these developments clearly highlight the need to invest globally.

Over the quarter, investor perceptions moved decisively from an optimistic economic US outlook to uncertainty around potential tariff impacts. The overall impression, at the end of the quarter, was around a c.25% probability of a US recession this year.

PORTFOLIO COMMENTS

Performance

The fund delivered a return of -2.2% over the quarter (in US$ terms, -5.2% in UK£ terms). The fund outperformed both the comparative MSCI Quality and Growth Indices (respectively -2.8% and -7.9% in US$ terms, -5.7 and -10.7% in UK£ terms).

The best contributors to performance have been, in sequence, EssilorLuxottica, AJ Gallagher, Linde, Visa and Verisk Analytics. Essilor's Ray-Ban branded smart glasses featured well over the Christmas Season. The names are all less economically sensitive and defensive favourites, such as insurance (Gallagher and Verisk Analytics). Other defensive holdings like McDonald's, UnitedHealth, Stryker and Colgate-Palmolive also supported performance over the volatile quarter.

The largest detractors from performance were Alphabet, Amazon, Cadence Design Systems, Microsoft and Eaton. The above-mentioned rotation out of the US towards Europe and China is a major factor as passive S&P 500 investors in selling, because of the technology dominance in the index, sell large volumes of the above technology shares. Active managers have also taken profits from Technology following their strong performance last year and reservations from some around heavy capital expenditures and the expected returns from such investment.

Transactions

We implemented the following noteworthy transactions over the quarter:

- **Introduced** GE Aerospace
- **Sold** out of Edwards Lifesciences
- **Sold** out of Thermo Fisher
- **Trimmed** Technology sector exposure

GE Aerospace
After spinning out its energy and health care businesses, the attractions of the remaining 'jewel' in the shape of the jet engine manufacturing and service business include the following:

- Attractive organic growth in world travel
- Leading position (estimated overall 45% share, three out of four of all commercial flights)
- Long term turbine service contracts (regulated, 70% of overall business)
- Around 20% defence exposure
- A strong balance sheet combined with robust cash generation
- Capacity for double-digit dividend growth and strong share buy-backs

Edwards Lifesciences

Despite being a quality company, Edwards' growth is being impeded by capacity constraints in the US hospital system. Growth of its core TAVR (transcatheter aortic valve replacement) product is thus below expectations, with competition capturing market share.

Thermo Fisher Scientific

Thermo Fisher is struggling with organic growth due to a combination of soft demand in China and weakness in biopharma industry spending. We also believe it faces heightened uncertainty on its growth outlook relating to academic spending in the US.

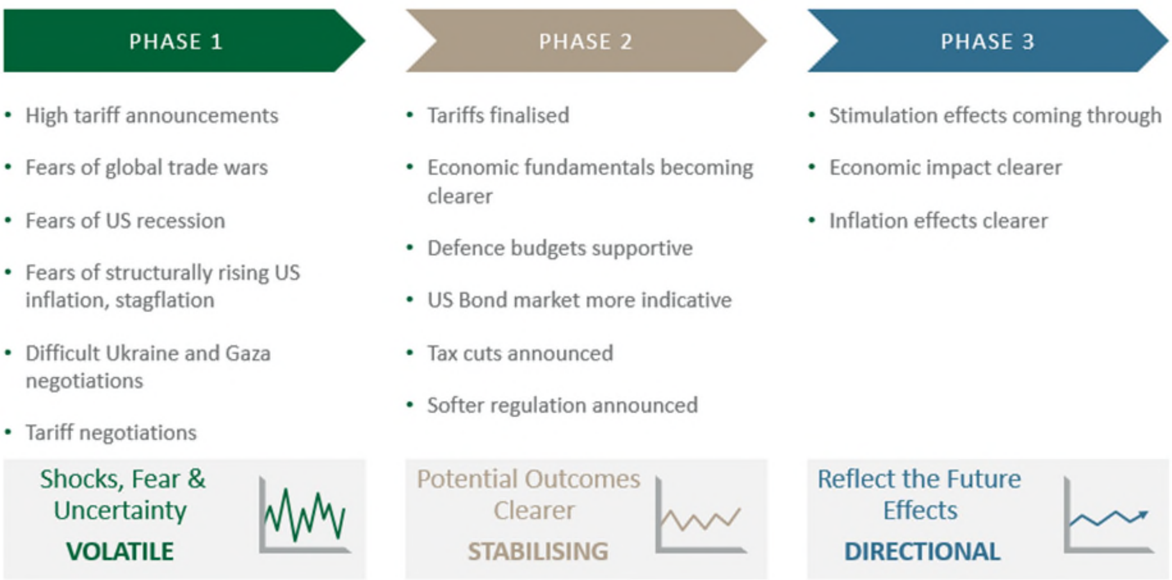
Technology

As we had a large (35%) exposure to technology related businesses, and given the tactical risks facing the sector, it has been an appropriate source of funding.

US TARIFFS

The current US tariff issues now dominate investor thinking. The following diagram reflects how we believe developments may impact market volatility:

Market Volatility on US Tariff Issues



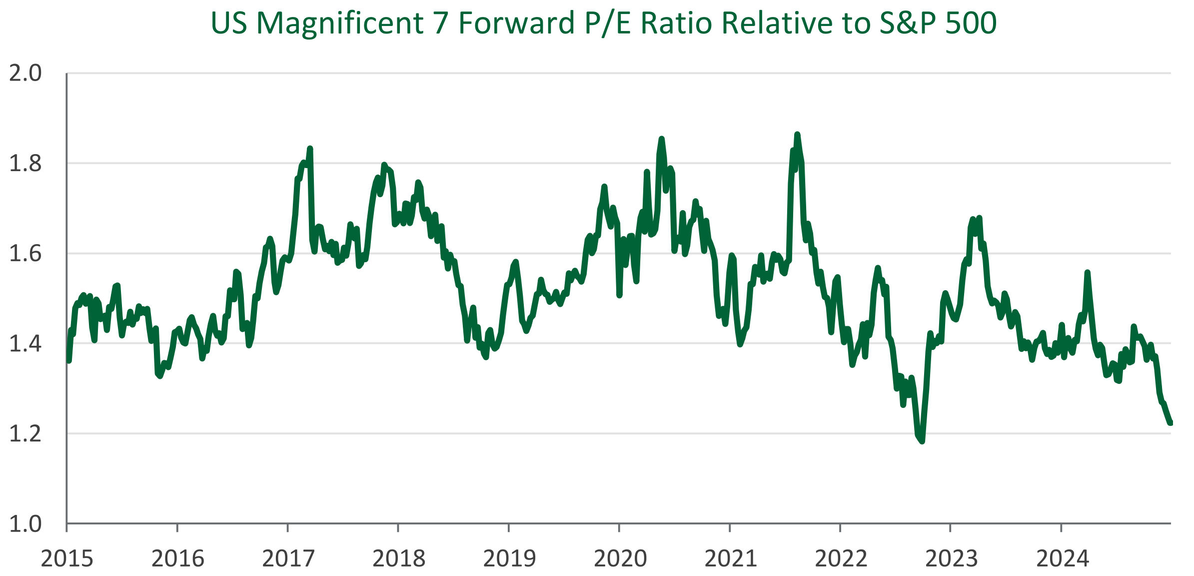
With the initial retaliatory tariff announcements, the re-retaliatory and further negotiations process has begun (China, Vietnam, Cambodia). We may therefore be at the later stages of phase 1 and on course to move beyond the high level of uncertainty, with an outlook of potential economic stimulus with lower taxes and softer regulation. On this basis, we can expect the market to remain defensive for now, with some overreactions offering good opportunities.

Our portfolio is positioned as follows in this context (all data in portfolio weight terms):

- 15% of the holdings are manufacturing-type of businesses with risks in terms of import tariffs
- 74% of the holdings are service-orientated businesses with little tariff implications
- 30% of the holdings are defensive in portfolio performance drawdown terms

The latter 30% has supported the portfolio under the current volatile conditions, thereby continuing to outperform the comparative Quality and Growth indices.

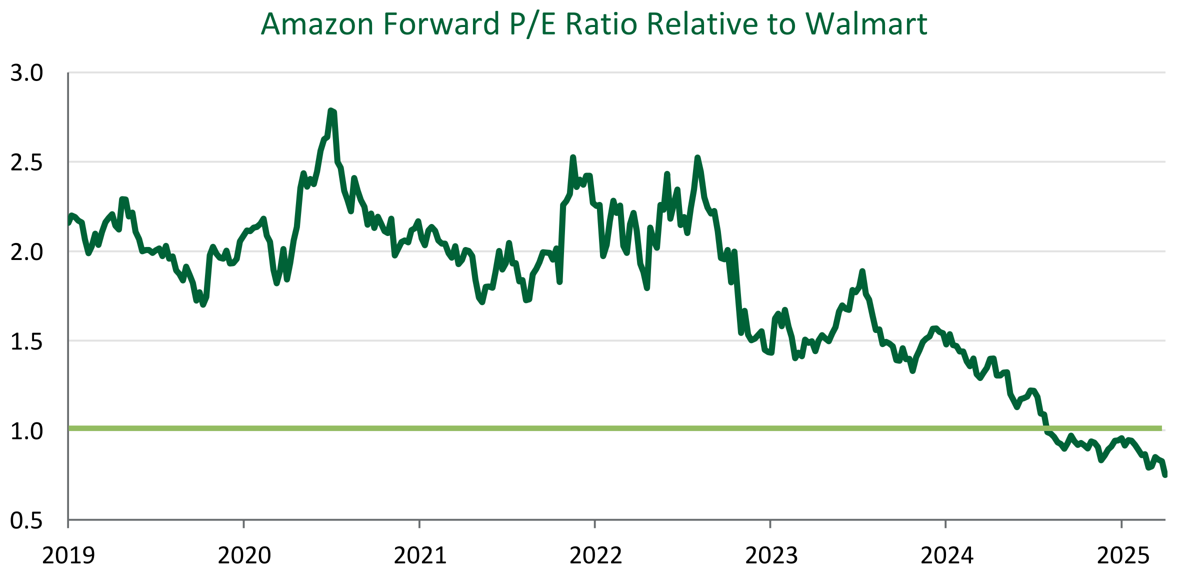
The sharp rotation out of technology has resulted in a material derating:



Source: Stonehage Fleming/Bloomberg 5 April 2025.

The current relative valuation ratio of 1.22 is close to its 10-year record low of 1.20 at the end of 2022. The 2022 sharp valuation derating followed the aggressive Fed tightening process taking its target rate from 0.25% to 4.5% that year alone. Following this derating, the Magnificent 7 price index appreciated by +106% the following year.

The current extreme flight to safety and defensiveness is causing further extremes:



Source: Stonehage Fleming/Bloomberg 5 April 2025.

As reflected in the chart, Amazon's forward P/E ratio has dropped to below that of Walmart's. We believe Walmart is an outstanding quality and defensive business, but also consider the following ratios:

Amazon/Walmart Financial Ratios	
Relative Operating Margin	2.48 times (10.7% vs 4.3%)
Relative Interest Cover	2.18 times (28.5 vs 13.1)
Consensus 3-year EPS growth	1.93 times (+19.1% p.a. vs +9.9% p.a.)
Relative Forward P/E	0.75 times (23.0 vs 30.7)

Source: Stonehage Fleming/Bloomberg 5 April 2025.

Amazon's valuation ratio of 0.75 does not reflect its materially higher fundamental ratios compared to Walmart's. With the current risk-off mood of the market, Walmart and other defensive stocks may continue to outperform for a while. Valuation discrepancies have therefore already materialised.

News-flow around tariff negotiations is expected to continue, but we believe that we have already reached peak uncertainty and that more clarity and probably lower tariffs compared to those announced on '*Liberation Day*' will be forthcoming and that we are therefore approaching phase 2 in the above diagram.

OUTLOOK

Given the current high level of uncertainty and market volatility, there is risk of soft (forward looking) US economic data being front of mind while the more important hard (real) economic data remains relatively firm, indicating that the consumer can continue to support the economy, albeit at a slower pace. Credit spreads remaining below average supports this view.

Stock markets have quickly undergone a meaningful correction, discounting a softer global economic outlook. As an investor, our responsibility is to remain focussed on the long-term outlook.

IN SUMMARY

The new US administration's highly protective strategy is in process of changing the global trade and economic landscape. It clouds the US economic outlook and is likely to increase inflation. But is less likely to have an immediate material negative economic impact or materially affect overall US exceptionalism and thus inadvertently cause significantly better alternative investment opportunities elsewhere. We take cognisance of the potential changing European economic landscape and the opportunities that it may create, but also appreciate that it will take some time to materialise. Nevertheless, this globally unsettling tariff event highlights the importance of geographical diversification and investing globally.

We most probably are currently at 'peak uncertainty', and further news-flow is likely to deliver more constructive economic insight.

In terms of tariff risks, the fund is four times more exposed to services than manufacturing type businesses. It also has over a quarter invested in defensive businesses to help see it through the current volatile period. We continue to focus on quality, strong operational delivery and pricing power in our investment choices, and continue to refine the portfolio with good opportunities now being on sale.

The sharp drop in share prices along with the drop in the Dollar has brought valuations to levels offering more room for error. The US Economic Policy Uncertainty and VIX Volatility Indices are at extreme levels, last seen during the Financial Crisis and the Pandemic. History has shown that uncertain times like these are opportune to engage with equities, in a responsible way.

Thank you for all your support.

With best wishes.

Gerrit Smit
Partner – Head of Global Equity Management

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