8 July 2025

Dear Equity Client

GLOBAL BEST IDEAS EQUITIES – 2nd Quarter 2025

MARKET PERFORMANCE

World equity markets experienced a particularly volatile quarter, with the VIX Index (an indicator of S&P 500 volatility) reaching post-Pandemic record levels, and exceeding three standard deviations from its mean in the process. Despite this volatility, the MSCI World AC Index (including emerging markets and dividends) delivered a +11.5% performance (in US$ terms, +5.0% in UK£ terms). Sterling strengthened by +6.3% against the dollar over the quarter.

The *'Liberation Day'* tariff announcements on 2 April triggered a -11.1% selloff (in US$ terms, -9.7% in UK£ terms) over four days in the above-mentioned index. Shortly afterwards, following the 90-day negotiation tariff period announcement on 8 April, it turned sharply upwards into a relief rally, ending the quarter on a new record level (in US$ terms).

MACROECONOMIC BACKDROP

In spite of the volatility in the stock market, the global economic landscape remained relatively stable during second quarter, with the US economy the most resilient. US new employment numbers remained firm, the unemployment ratio remained low and wage increases continued rising in real terms, with low corporate job cuts. Against this, more forward-looking consumer confidence and PMI[1] data provide a less encouraging outlook.

In our previous letter we highlighted the potential structural economic changes in Europe towards the willingness to take on more debt to finance increased infrastructure and defence spending, along with the Chinese government's confirmation of their strong support of their technology industry. Whilst these developments are positive for economic growth, it will take time for these benefits to flow through to their respective economies. It does, though, highlight the importance of geographical diversification.

Whilst important trade tariff agreements have been reached (e.g. China, the UK and Vietnam) and the negotiation period extended, the recent announcements of 25% tariffs on Japan and South Korea and a further 10% on countries trading with BRICS members upend the relative calm in this context that has built up since 8 April.

The newly announced US tax concessions are not significant enough to stimulate their economy to a material extent. Their economic outlook remains one of weaker growth over the next twelve months.

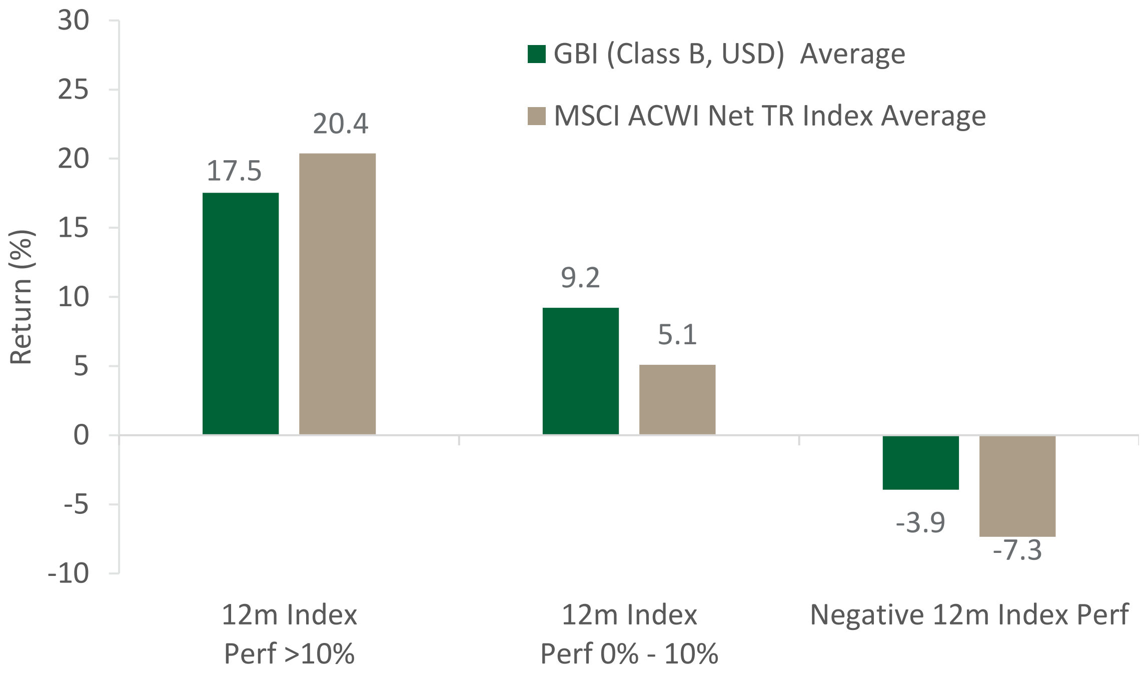
[1] Purchasing Managers' Index

PORTFOLIO COMMENTS

Performance

The Fund delivered a return of +9.3% over the quarter (in US$ terms, +3.0% in UK£ terms). This ties in with its mandate and historical index relative returns in a strong market, as reflected in this chart:

Average Rolling 12-Month Performance (in USD)



The largest contributors to and detractors from Fund performance over the quarter were as follows:

Largest Contributors & Detractors 2Q2025

Company	Contribution (%)
Netflix	2.1%
Amphenol	1.9%
Microsoft	1.7%
GE Aerospace	1.2%
Amazon	1.0%

Company	Detraction (%)
UnitedHealth	-0.8%
LVMH	-0.6%
Copart	-0.5%
AJ Gallagher	-0.3%
EssilorLuxottica	-0.2%

Many companies participated in the tariff relief rally. Netflix is doing well against a backdrop of high expectations for them to grow their advertising income in particular. Amphenol, Microsoft and Amazon have benefitted from a strong AI market. GE Aerospace has continued to benefit from a five-year order book and the strong global aviation market. The Air India crash has caused uncertainty, but the share is recovering from the setback.

UnitedHealth's results disappointed with the business underestimating the potential cost of claims. LVMH is expected to deliver disappointing results from a global decline in soft luxury demand. Copart declared weak insurance volumes and stalling volume growth, along with a rise in uninsured motorists. As a more defensive type of business, AJ Gallagher lagged in the relief rally, as was the case with EssilorLuxottica. It was announced at the time of writing that Meta has bought a 3% strategic stake in the latter, boding well for this relatively new technology partnership.

Transactions

We implemented the following noteworthy transactions over the quarter:

- **Introduced** Ferrari
- **Sold** out of UnitedHealth

Ferrari

Ferrari is a unique, high quality business with a particularly strong strategic competitive edge in its deep heritage, its brand exclusivity and its loyal client base. Its main attractions are the following:

- Gross margin of 50% and Return on Invested Capital ratio of 24%, which puts it firmly in the league of luxury goods businesses.
- Strong pricing power because of the desirability and scarcity value of its products. They limit their overall supply, specifically for certain limited-edition products, to fall short of demand.
- Its unique customer base of ultra-high net worth individuals that are less economically sensitive, and are enticed to spend more on limited edition, personalised and higher priced models throughout their lifetime.
- High levels of visibility into future revenues and profits, with a seven-quarter order book on average.
- Most of its major capex programme is completed, with a growing free cash flow outlook.

Ferrari scores well over our 4-Pillar Strategy and we believe it can continue to operationally keep compounding in double digits.

UnitedHealth

We had started to trim our exposure in November last year because of earnings downgrades and then progressively sold further as the pace and size of downgrades accelerated. We fully exited out of our entire position in early May. The main reasons for exiting completely are as follows:

- Growing concerns about the uncertain policy backdrop and increasing regulatory challenges impacting the sector, with further risks in this context under the new US administration.
- Management materially underestimating care activity levels (and therefore under-pricing) of their services.
- Uncertain leadership succession.

Visa & Mastercard

We are optimistic about payments systems as a structural growth investment opportunity and have a combined holding of over 8% in Visa and Mastercard. Their stocks sold off in June on press reports that Walmart and Amazon are exploring accepting Stablecoin payment. At the same time the US Senate passed the GENIUS Act, setting out a regulatory framework for the use of crypto-currencies.

Stablecoins supposedly offer all of the benefits of crypto-currencies (such as the use of the blockchain and 24/7 acceptance), without the risks and volatility long associated with many of the crypto-coins. This is due to their being 100% backed by a float of fiat currency (US$) and short-term notes (US Treasuries). Stablecoin transactions are also independent of the traditional payment networks (the largest being those of Visa and Mastercard). For merchants such as Walmart, their use would remove the need to pay interchange fees to banks.

We are not yet convinced of a material and immediate threat to the card vendors:

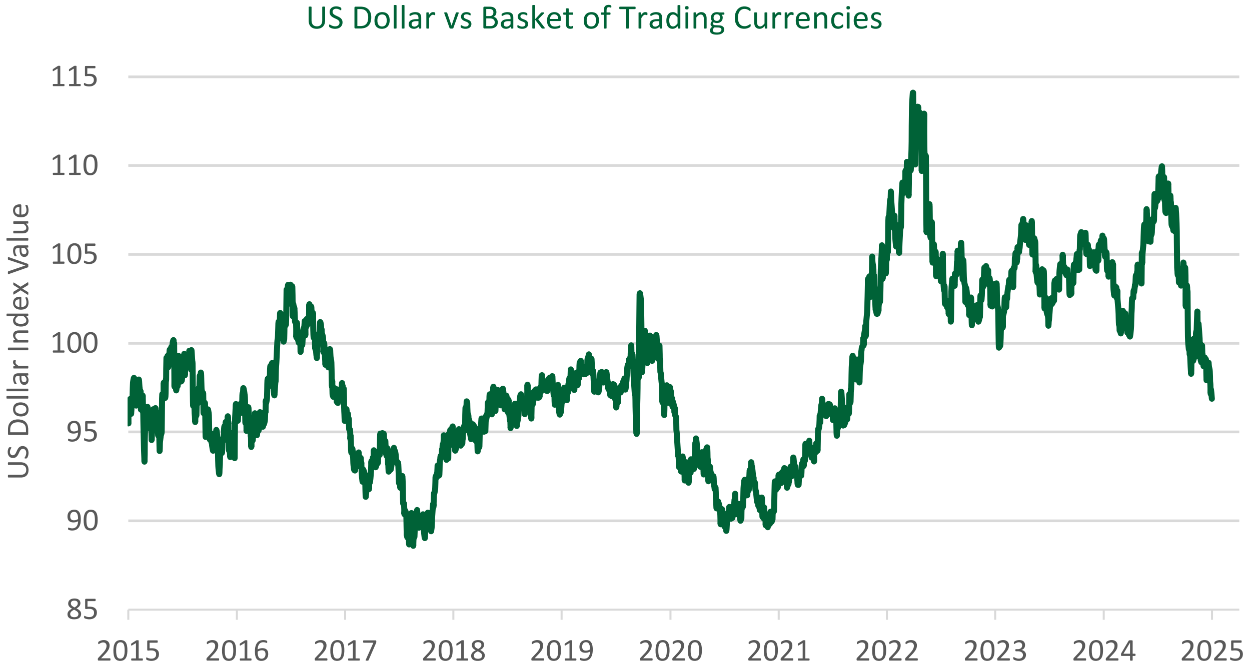
- There is not a compelling case for consumers to switch to Stablecoins, especially for credit payments where they receive attractive incentives (e.g. air miles and cash back benefits).
- Cheaper alternatives to Stablecoins already exist that have failed to disrupt card networks (such as direct payments between bank accounts).
- Stablecoins currently lack the capability to handle payment fraud, dispute and recharge – all strong capabilities of the card networks.
- For Stablecoins to fully succeed, they essentially need to replace consumer current accounts, or disrupt the entire established banking model (and the legal protections that consumer deposits benefit from) that works well for all parties involved in payments, including the merchants.

In the end, the consideration is largely about the customer's preference, and on this basis, we have decided not to react to the Stablecoin threat and to maintain our card exposures.

CAPITAL MARKET CONSIDERATIONS

There are a number of notable factors to consider:

<u>Dollar weakness</u>



The Dollar is currently at a three-year low level against a basket of trading currencies with not much reason to expect a sharp turnaround. This follows predominantly from divestments from the US and continuing rising national debt levels. Whilst this may affect cost issues in the US, a weak Dollar is positive for global trade and for US corporations operating globally. The latter benefit is expected to start having an impact from the second quarter reporting season, and support S&P 500 earnings revisions. In fact, this has already started in May, with the current twelve-month consensus outlook at +11%.

Federal Reserve

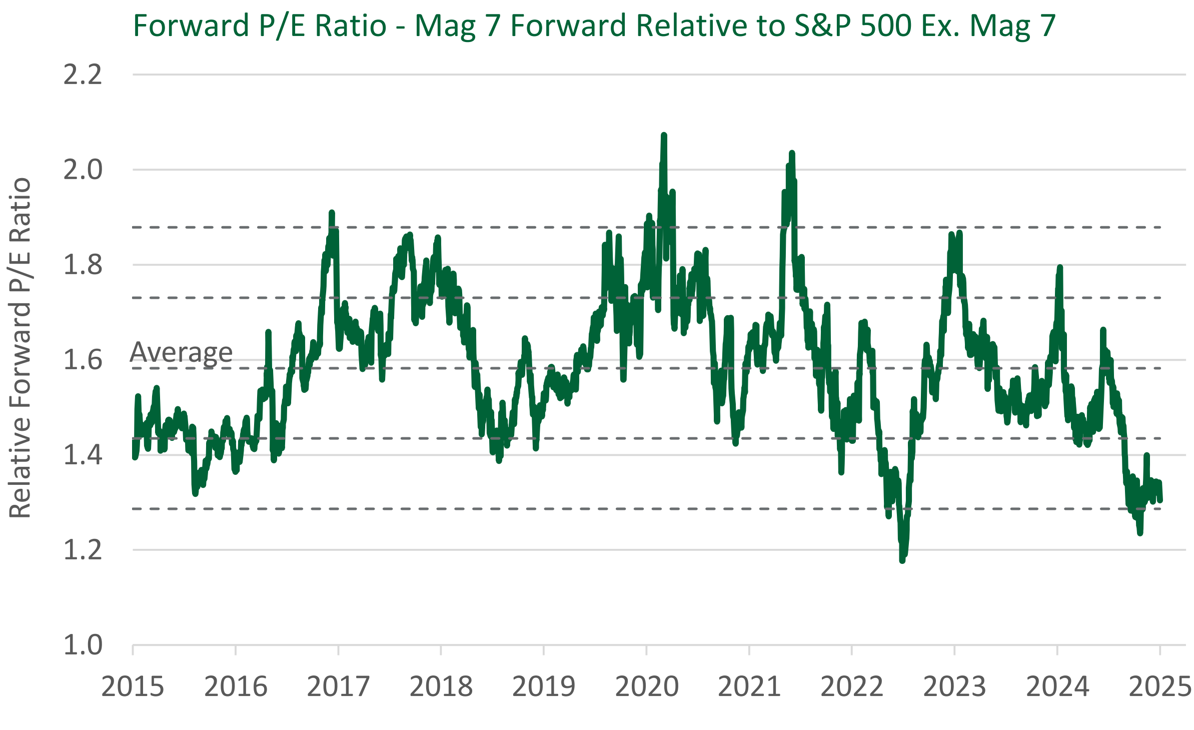
The Fed has been reluctant to cut their target rate if not considered necessary. That need is starting to grow. Our current perception is that two quarter point cuts may materialise closer towards the fourth quarter of this year.

US Exceptionalism

For many reasons, the US has enjoyed particularly high investment allocations. Since February, and at the expense of US stocks, many investors have re-allocated to Europe in light of the large infrastructure and defence budgets triggered by President Trump's responses to NATO and the Ukraine war. Whilst US exceptionalism has come up for some debate this year, much of what earned them the accolade continues to hold true.

AI Strength

The overall AI market remains strong and continues to offer good investment opportunities. Following their severe sell-off earlier in the year, technology stocks are participating in the current relief rally. The following valuation chart is worth considering. It reflects the Magnificent 7 valuation against the other S&P 500 alternatives:



The current relative valuation ratio is close to an all-time low, but seems to have turned and is now in an upwards trend. The earnings expectations for the respective indices are as follows:

12-Month Consensus Earnings Growth	
Magnificent 7	+25%
S&P 500 ex Mag 7	+7%

Whilst the AI-related Mag-7 earnings outlook is multiples higher than the ex Mag-7 constituents in the above table, its valuation ratio in the chart is *only* a third higher. It seems the earlier rush out of US equities has created good opportunities in this context.

OUTLOOK

The new US administration has been instrumental in two important economic aspects – the improving economic outlook for Europe, and a weaker Dollar. Both of these aspects improve the capital market outlook. Whilst US companies have operationally performed well over the first quarter and increased profitability further, the weak Dollar can provide further support as a tailwind in consolidating their international results. Current earnings revisions are starting to reflect this benefit.

Whilst the US economy remains relatively resilient, the soft forward-looking data (especially consumer confidence) warrants caution. Fortunately, the Fed has many potential rate cuts at its disposal to support the economy. The very low credit spreads indicate investor confidence that US economic growth can stay the course, albeit most probably on a 'soft landing' low growth basis.

Headline S&P 500 valuation and risk premium levels reflect investor optimism about the stock market outlook. These valuations are supported by the combination of reviving earnings expectations and potential Fed cuts lying ahead. Further to that, we believe that true value rather has to be sought below the (index) surface with the focus on specific stock selection, rather than in broad market exposure.

IN SUMMARY

Global stock markets survived the 'Liberation Day' shock well, with not all the dust having settled yet. The new US administration has created many geopolitical and capital market uncertainties and, perhaps inadvertently, has been instrumental in widening economic growth to more geographic regions and extending the US investment opportunity.

Whilst we have seen this year how the passive investment wave can have a huge detrimental effect on a stock market (the US in this instance) when those investors change their course, it is our opportunity as active investors to capitalise on the valuation discrepancies that have been created. We will continue to do that in a responsible way, focussing on high quality franchises for sustainable compounding.

We appreciate all your support.

With best wishes

Gerrit Smit
Partner – Head of Global Equity Management

RISK DISCLOSURE

1. Unless otherwise stated, the data used in this document is sourced from Stonehage Fleming Investment Management Limited and Bloomberg, July 2025.

2. This communication has been prepared for information only and is not intended for onward distribution. It is neither an offer to sell, nor a solicitation to buy, any investments or services. This communication does not constitute a personal recommendation and does not take into account the individual financial circumstances, needs or objectives of the recipients.

3. Opinions expressed here are as of the date of publication and are subject to change without notice. Stonehage Fleming Investment Management shall not be responsible for any trading decisions, damages, or other losses resulting from, or related to, the information, data, analyses, or opinions contained herein or their use, which do not constitute investment advice, are provided as of the date written, are provided solely for informational purposes, and therefore are not an offer to buy or sell a security.

4. All investments risk the loss of capital. No guarantee or representation is made that the funds will achieve their investment objective.

5. The value of investments may go down as well as up and, for products designed to return income, the distributions can also go down or up, and you may not receive back the full value of your initial investment.

6. Past performance should not be used as a guide to future performance.

7. The advice we provide will be based on and take into account a majority of product types and not every single equivalent product within a given product category. As such, our advice is restricted (as opposed to independent) as defined by the Financial Conduct Authority ("FCA").

8. Changes in the rates of exchange between currencies may cause the value of investments to go up or down in the reporting currency. Returns may increase or decrease as a result of currency fluctuations. Values may also be affected by developments relating to controls and restrictions on foreign currency remittance of proceeds of investments in a non-sterling jurisdiction.

9. Whilst every effort is made to ensure that the information provided to clients is accurate and up to date, some of the information may be rendered inaccurate by changes in applicable laws and regulations. For example, the levels and basis of taxation may change.

Issued by Stonehage Fleming Investment Management Limited (SFIM). Authorised and regulated by the Financial Conduct Authority (194382) and registered with the Financial Sector Conduct Authority (South Africa) as a Financial Services Provider (FSP No. 46194). SFIM is registered with the Securities and Exchange Commission (SEC) as an Investment Adviser.