Interim Letter
2025

Dear Partners,

For the financial year ended 30 June 2025, the AIM Global High Conviction Fund (GHCF) delivered a net return of +26.3%. This brings our cumulative net return since strategy inception to +122.1%, translating to an annualised net return of +14.7%.

Performance to 30 June 2025

	GHCF	Benchmark
Financial Year 2025	+26.3%	+18.5%
2025 (Calendar YTD)	+11.7%	+3.4%
2024	+21.6%	+30.8%
2023	+22.7%	+23.0%
2022	-15.6%	-12.2%
2021	+31.1%	+29.3%
2020	+14.2%	+5.6%
2019 (Strategy Inception: 31 Aug. 2019)	+5.3%	+6.3%
Cumulative Since Strategy Inception	+122.1%	+111.9%
Annualised Since Strategy Inception	+14.7%	+13.7%

Total returns shown for the AIM Global High Conviction Fund have been calculated using exit prices after taking into account all the product's ongoing fees and assuming reinvestment of distributions. No allowance has been made for entry fees or taxation. Past performance is not indicative of future performance. The benchmark is a representative index of global equities listed in developed markets and is denominated in AUD, with dividends (net of withholding taxes) reinvested. Refer to our PDS for more detail.

To acknowledge the facts: we had a good run over the last financial year. As such, our FY25 result leaves our longer-term numbers on solid footing. Considering that we have at no point owned some of the most extreme AI-winners of the past five years, we will concede we are at least somewhat pleased... while also immediately falling back on our usual *caveat* after any period of decent numbers:

> *We would caution partners against mentally extrapolating the rate of return we have delivered [recently]. There will undoubtedly be leaner periods at some point in the future. The right way to think (and survive) in markets is to have a stoic indifference to short-term results […] and rather focus on our longer-term compounding ability.*

The temptation now is to write in cliches – phrases such as 'quality wins out in the end' – or to write something that makes it sound as if we are smarter than we are ("this past year, we came to some truly earth-shattering insight, which has powered our Fund to new highs", etc.).

While there might at least be some truth in the former statement (over the long run, business and management quality definitely make a difference), we can assure readers that we had no blinding flashes of insight in FY25. In fact, most of the names that carried the Fund to a good result for FY25 are businesses we have owned for several years. The weighted average holding period for the portfolio on 30 June 2025 is around three years.

Of the 17 holdings at the financial year-end, three have been held since strategy inception in August 2019, while only two were introduced over the past year. If we *did* have any good ideas, we included them in the Fund several years ago; their investment theses simply played out over the past twelve months. To us, the best ideas are the ones that can repeatedly deliver on our assessment of their growth expectations. We believe we have several businesses in the Fund that will do exactly this in the years ahead.

This brings us to an important point worth emphasising: although we will always work to introduce good ideas to the Fund, *when* the market will reward them is outside of our control.

Consider Nintendo. We originally purchased it in December 2020 on the view that a successor to the runaway-hit Switch video game console would arrive within 18–24 months. Supply-chain issues and a longer development cycle pushed the Switch 2 launch to June 2025 – a full three years late, relative to our initial expectations. While there was (in our opinion) little doubt about the *destination* – a popular successor to the Switch console – the *timing* was unclear.

As of FY25, Nintendo has delivered a total return (in AUD) of +125% over our period of ownership. This translates to an annual rate of return +16.1% in AUD, a figure that exceeds our targeted return of +12% per year. However, this framing obscures the reality that most of the rally occurred over the last year. What many may have considered 'dead money' from 2021 to 2024 was – for us – a lower-risk pathway to earn our targeted return because we believed we understood the *destination*. The key trait required to capture this outcome was simply patience.

Admittedly, this level of patience required us to stand quite far apart from the crowd in 2024, when the red-hot AI rally powered markets higher almost every day. With this in mind, we must extend our thanks to our partners: we have had no pressure to chase or own 'what worked yesterday'. Instead, we have been granted time and space to think and make considered decisions – a fact for which we are very grateful. This reinforces our belief that good investing occurs only in a healthy ecosystem, with partners and the manager being aligned on process, time horizon and expected outcome.

We are very fortunate to have the investors we do. Your patient capital is part of the foundation of any success we have and enables us to capture the rewards of compounding growth.

Asking the Right Questions

As we have hopefully made clear, we think truly 'good' ideas are not only rare, but in many cases simple and timeless. (To paraphrase the late Charlie Munger: we take a simple idea, but we try to take it seriously.) The good news is that we don't need dozens of good ideas; we can get by with only a few, provided they work out well. It's a game of quality, not of quantity.

We raise this topic because markets have rallied even as the macroeconomic and geopolitical outlook remains uncertain. The temptation is to say, *"now what?"* and look to restructure the portfolio in response. However, we believe that such actions would add little value because they are focused on creating short-term outperformance. We believe that positioning the portfolio *exactly right* for the short term is virtually impossible, while positioning it to be *approximately right* to achieve our long-term goals offers a far higher probability of success.

While approximate answers may seem unsatisfying, US mathematician John Tukey famously wrote about them in 1962:

> *Far better an* ***approximate*** *answer to the* ***right*** *question, which is often vague, than the* ***exact*** *answer to the* ***wrong*** *question, which can always be made precise.*

In our opinion, the 'right question' remains unchanged: "how do we generate our partners a return of +12% or better after all fees, with below-market levels of risk?"

This question is *very* different from "how do we beat the market this year?", and it requires us to look for and own very different stocks to those favoured by the market consensus. We seek to own businesses for the *durability* of their growth, and not for the *rate* of their growth in any particular year. By definition, this means that we are benchmark- and market-agnostic when it comes to finding ideas and constructing the Fund.

If we are allowed a brief digression, we believe that the approach adopted by many in our industry to be 'overweight' or 'underweight' a specific stock, sector or country simply because it exists in the benchmark is self-defeating, since it requires us to have an informed opinion on everything in the benchmark. Our experience has led us to conclude not only that not everything in the benchmark is a good fit for a strategy aimed at long-term compounding, but also that stretching ourselves thin to 'cover everything' ultimately makes it difficult to deliver the exact thing we have set out to deliver: solid compounding. The best way to make money from some stocks, is by never owning them.

Today, we think that many indices are so skewed and concentrated in US-domiciled tech stocks that they no longer serve as a good proxy for the 'broad market return'. (See *Going With The Flow* for our thoughts on this subject.) In our opinion, following the 'overweight/underweight' approach with such heavily concentrated benchmarks introduces meaningful risk. This is why – despite appearing out of step with markets – we (and our partners) must be comfortable in always standing somewhat apart.

A Rare 'Good Idea': Repeatedly Rational Capital Allocation

We have previously alluded to 'the politician's fallacy', as expounded by the fictional civil servant Sir Humphrey Appleby in the classic British TV series *Yes, Minister* and *Yes, Prime Minister*:

1. We must do something.
2. This is something.
3. Therefore, we must do it.

In the context of investment management, the problem with setting out to find something to invest in, is that you are incentivised to find 'something'… which you then invest in. There is a risk of circular logic which goes like this:

1. We *only* invest in well-run, high-quality businesses with durable growth prospects.
2. We have collectively spent dozens of hours researching *this* business.
3. Therefore, *this* is a well-run, high-quality business with durable growth prospects and we should invest in it.

It is our responsibility to keep in mind that not every idea we have is going to be a good one. This implies that when we *do* land on a good idea, we should back it with conviction.

One of the very few 'good ideas' we have settled upon over the last few years is that **repeated rational capital allocation** can create tremendous amount of value for investors over time.

One avenue of rational capital allocation is acquisitions. It follows logically that a disciplined, coherent and programmatic approach to acquisitions – executed by an informed and aligned management team – can create material value.

Given how frequently M&A is – deservedly – blamed for destroying vast sums of shareholder value, this statement may seem controversial. In response, we would cite Berkshire Hathaway during the 1970s and 1980s as following *exactly* this playbook: taking the excess cash from a lower-return business (or a business with limited reinvestment prospects) and redeploying it into the acquisition of additional cash-generating businesses. Rinse and repeat.

In Part Two of this letter – entitled *Growth Through Acquisition* – we explore the concept of sensible and programmatic acquisitions as a source of growth in more detail.

Our Interim Letter

Since our 2023 Interim Letter, we have disclosed every Fund holding together with a brief discussion of their latest results. Rather than the industry standard ‘stock stories’, we try to offer a frank, ‘warts-and-all’ view so you know exactly what you own and why. See Annexure A for the full list of holdings and corresponding summaries.

Structure

This Letter has several parts. Each part stands on its own, so you can read them in any order, though we have arranged the parts in a way that we feel makes the most sense. If you are reading this Letter digitally, you can click on any title below to jump straight to that section.

- In Part One, we discuss the key drivers of performance for the calendar year.
- In Part Two, we discuss the acquisition-driven business model that we have found exhibits many of the qualities we seek in businesses that can compound in value over long periods of time.
- Three **annexures** appear at the end of the Letter:
    - Annexure A shows all holdings as at 30 June 2025 and includes details of their business results for the most recently reported period.
    - Annexure B includes our quality scorecard (with past data for comparison), plus our sector allocations and geographic revenue breakdown.
    - Annexure C is a one-page summary of our investment philosophy.

In Closing

A final ‘good’ idea that we believe in deeply: when investing for the long-term, the quality of the management team you entrust with running the business matters a great deal to the eventual outcome.

From the outside, it may look like we deserve the acclaim for the results we have delivered. Given our long holding periods, we think more recognition should go to the likes of Mark Leonard, Dustin Haw, Kevin Rountree, the Mendelson family, the Nahmad family, Johnny Thomson, Shuntaro Furukawa and Satya Nadella (as well as the armies of people they lead) in running the businesses we own. If we have added any value, it is to identify some better winds and to set our sails accordingly.

Being aware that we sound like a broken record, we reiterate our sincere thanks to our partners. We are in business because you entrust us with your capital. Considering the time and effort you invested to create your wealth, we do not take such a responsibility lightly.

While we can never promise any specific investment outcome, we *can* promise you we will continue to follow the process that has got us this far.

We hope you find this Letter informative. If you have any questions about the Letter or your investment, please get in touch.

Kind regards,

Etienne, Les, Dan & Andrew

Part One: 1H25 in Review
by Etienne Vlok

When finalising our 2024 Annual Letter in February, we had seen another period of markets being driven by US outperformance, largely led by a narrow selection of technology companies seen as AI winners. As we noted then, multiple expansion within this concentrated slice of the benchmark was the main driver of the overall market gain, with many market participants simply being willing to pay more for the same dollar of profits. While our businesses performed well in 2024, they simply did not benefit from this dynamic. What a difference six months can make!

Towards the end of 2024, we concluded that US valuations looked rich, and that we could find better value elsewhere in the world. As a result, we were well away from the epicentre of the volatility caused by the early-April ‘Liberation Day’ tariff announcements. (Admittedly, this was for bottom-up reasons and not because we have suddenly developed any skill at being macroeconomic forecasters.)

While the US stock market has fully recovered from the tariff-induced sell-off of April, non-US stock exchanges performed dramatically better over the first half of 2025. Only one US company appears in our top five contributors; the other four come from the UK, Japan and Canada. By contrast, three US names sit among the five largest detractors, alongside two European companies.

Each holding has its own bottom-up explanation driving this outcome, but the geographic pattern in our top and bottom contributors highlights a more timeless truth: in the short-term, prices are to some degree driven by the *flow* of money. When the US stock market was soaking up the lion’s share of the excess capital in the world, inflows underpinned a steady period of multiple expansion, largely at the expense of other markets.

Will this dynamic persist? Much will depend on where the tariff situation ends up, and we think anyone claiming to know with certainty what the endgame is in this domain is either fooling themselves or trying to sell you something. We do not know but have done our best to be prepared for multiple scenarios.

Unusually for us, the combination of these factors mean that *multiple expansion* was responsible for the bulk of our returns from January to June 2025, driven to some extent by rotation of capital into non-US equities. Considering how under-owned some non-US markets were and the relative value on offer, it did not take much in the form of incremental buying to push prices in such markets higher, due to basic supply and demand: there were simply more buyers for non-US stocks.

That is not to say that our businesses have *only* benefited from sentiment and flows-driven multiple expansion. As mentioned above, there are sound fundamental reasons why our businesses found favour in markets: in many cases, their underlying business performance was first-class against an uncertain backdrop. Nintendo’s Switch 2 console launched to widespread acclaim; TerraVest and Topicus both announced acquisitions that we think set them up for many years of strong cash generation.

As for the path ahead, we think we can best navigate it by sticking to what we know: focusing on highly cash generative businesses led by aligned management teams who know how to allocate capital. Whatever short-term surprises the market may throw at us, we believe that such businesses are almost always best positioned to take advantage of the volatility and dislocations. If following this approach causes some relative underperformance in the short-term, we are prepared to accept it in pursuit of our long-term goal: compounding at +12% or better after all fees over time.

General Observations

Before discussing stock-specific contributors and detractors, we want to briefly highlight a few general points.

1. *Our businesses’ cash profits declined slightly in 1H25.* Over the first half of 2025, we calculate that our businesses’ cash profits declined by **-1.2%** compared to December 2024. Considering that we target growth of

around +12% per year for our businesses (implying a growth rate of roughly +6% by the half-year), this number seems quite low at face value and therefore deserves explanation.

The three biggest detractors to the -1.2% estimate of the growth in cash profits of the Fund over the past six months were **Amazon, TerraVest** and **Watsco**, which represented a combined -7.0% headwind, each for very specific reasons:

- In the case of **Amazon**, the cash generated by operations over the 12 months ending June 2025 amounted to USD121bn. This compares to USD116bn generated over the 12 months ending 31 December 2024, representing growth of +4.5%. Considering the tariff volatility, the amount of inventory held on Amazon's balance sheet increased modestly compared to levels back in December but is not egregiously out of line with historical patterns. However, the cash spent on investing in property and equipment – both for AWS data centres and distribution centres for the retail side of the business – grew from USD83bn at the end of December, to USD108bn by the end of 30 June. The impact of this investment is that cash profits (defined as cash generated by operations less investment in property and equipment) declined from USD33bn at the end of December, to USD14bn at the end of June: a decrease of -59.0%.
- **TerraVest** generated CAD128mn of cash from operating activities for the 12 months ending June 2025, which compares to CAD147mn generated for the 12 months ending December 2024 – a decline of -12.6%. The decline is driven by four factors: an increase in interest payments (related to the debt taken on to acquire EnTrans in March 2025), the timing of a tax payment, a normal level of inventory build in the quarter ahead of the winter months, and – most significantly – the absorption of a significant amount of inventory onto its balance sheet as a result of the EnTrans deal. At the same time, TerraVest saw cash invested in property, plant and equipment increase by +10.0% (to CAD64mn from CAD58mn in December), resulting in cash profits declining by -33.0% to CAD64mn. As the EnTrans transaction is further integrated, we expect the working capital will normalise.
- As for HVAC distributor **Watsco**, it generated USD427mn in cash from operating activities for the 12 months ending 30 June 2025. By comparison, it generated USD773mn for the year ended 31 December 2024, meaning cash from operating activities declined by -45.0%. The main reason behind this steep decline relates to the company undergoing a large inventory build in the form of air conditioning units ahead of new energy efficiency standards being implemented in the US. These units needed to be purchased *prior* to being sold into the market, starting in the second half of the year, and because of the change in standards, required a much larger purchase of inventory than is usual. The drop in cash generated by operations translated into a decline in cash profits of -47%. Going forward, we expect this cash generation for Watsco to normalise.

Excluding the impact of Amazon, TerraVest and Watsco, the rest of the Fund saw cash profits increase by around **+5.8%** on a weighted basis, which is in line with the 6% run rate we would expect to see at the half-year (given that our annual target is to grow cash profits by 12% or better).

As bottom-up investors with the mindset of business ownership, we expect most of our returns to come from the underlying growth in cash profits over time. While there are other metrics we track to measure growth in intrinsic value, we are sticking with our normal definition of cash profits (cash generated by operations minus investment in property and equipment) for comparability, consistency and intellectual honesty.

Given the -1.2% decline in cash profits, we calculate that multiple expansion added **+12.9%** to our total return over the period. Considering that many of the headwinds relate to the timing of investments, we anticipate that the growth in cash profits should be more in-line with our targeted growth rate of +12% by the end of 2025.

2. *Our largest contributors to performance were driven by expectations of future growth in cash profits.* Over the last few years our portfolio has tended to trade sideways during the months in between earnings seasons and then make up the gains once the businesses we own report and are rewarded for their growth in cash profits.

2025 has seen a departure from this norm, whereby our three largest contributors to performance (Nintendo, TerraVest and Topicus) were each driven instead by announcements signalling future growth is expected over the next 12 months. We have written about each of these in more detail below, but we estimate that some of the implied multiple expansion in our portfolio is likely the result of the news arriving before the actual cash profits in some of our larger holdings.

3. *Currency had almost no impact on our returns.* The Australian dollar has strengthened to the US dollar by around +5.5% since the start of the year, presenting a headwind to our performance. However, considering that we were underweight the US dollar, this impact was almost fully offset by weakness compared to the Japanese yen, Swedish krona, and British pound. In total, we calculate the combined currency impact reduced our performance by only **-0.05%**.

4. *In contrast to 2023 and 2024, market performance was not as concentrated in US technology names.* The equal weighted index (which removes the size bias of mega-cap US stocks) gained +7.1% in AUD (+7.3% in local currency). This beat the traditional market-cap-weighted benchmark, which rose by only +3.4% in AUD.

A Brief Note on Cash Levels

Our mandate allows us to hold between 0% and 10% in cash at any point in time. When we see many compelling opportunities, you can expect the Fund to be near the lower end of the 0% to 10% range. Conversely, when we see fewer attractive opportunities, the Fund will be closer to the upper end of that range.

During the past six months, the Fund held an average cash weighting of 8.8% which was a minor drag on both the absolute and relative performance of the fund. This partially reflected a cautious view on valuations but was driven to a greater extent by the timing of inflows, which we were simply patient in deploying.

Contributors & Detractors in 1H25

Contributors

The top three contributors to our performance for 1H25 are shown in the table below.

	Top Contributors	
Business	**Total Return (AUD)**	**Contribution**
Nintendo Company	+57.4%	+3.3%
TerraVest Industries	+51.1%	+2.5%
Topicus.com	+36.6%	+2.2%

To provide some detail on each in turn:

- ***Nintendo***’s strong share price performance to June occurred largely before any strong results were reported. Rather, it was driven by the *expectation* of strong results for the FY26 period, due to the successful launch of their new Nintendo Switch 2 console. After years of delays and rumours, Nintendo formally revealed their new flagship console in early April 2025, the pre-orders for which quickly sold out worldwide. The launch in June 2025 continued this momentum, with outlets reporting stockouts globally. Importantly, the reception from-third party developers on the handheld’s capabilities, and from the gaming community on the quality of the games released so far, have both been very positive. It is still early days and the price reaction to date has been driven by expectations of future earnings, but the building blocks for a successful console cycle appear to have been laid.
- Similar to Nintendo, ***TerraVest*** also rallied strongly over the past six months in anticipation of future cash flows from its acquisition of EnTrans in March. EnTrans is a US-based manufacturer of highly engineered industrial trailers used to transport food, fuel, chemicals and other dry bulk goods. The acquisition was

concluded at roughly 7x EBITDA – a level which we consider value-accretive for shareholders. Integrating the EnTrans acquisition alone is expected to grow TerraVest's sales by ~70% over the next 12 months; combined with future growth and the potential for cost efficiencies, we believe that EnTrans will be a material source of growth and cash generation over the next several years.

- ***Topicus*** delivered a solid first half performance. Importantly for our thesis, the company meaningfully stepped up the pace of capital deployment in the first six months of 2025, investing roughly EUR300mn in acquisitions and a further EUR168mn in a minority stake in a software business listed on the Warsaw stock exchange. The largest of the outright acquisitions – Belgian local government software provider Cipal Schaubroek – has only been on the books since the start of June, so as with TerraVest and Nintendo, the stock rose on the anticipation of cash flow generation over the next year as the acquisitions mature.

Detractors

The top three detractors to our performance for 1H25 are shown in the table below.

Business	Top Detractors Total Return (AUD)	Contribution
LVMH SE	-23.9%	-0.9%
Thermo Fisher Scientific	-26.2%	-0.8%
Watsco Inc.	-11.2%	-0.4%

- After some early signs of life in the luxury market towards the end of 2024, economic uncertainty around the impact of US-imposed tariffs led to consumers – particularly those in China – again choosing to scale back on luxury spending. ***LVMH*** was squarely in the crosshairs of this dynamic.
- ***Thermo Fisher's*** demand for its specialised equipment faced a headwind during the first quarter of 2025 as the new Trump administration created heightened uncertainty around future US government funding of academic research institutions (TFS' customers). Furthermore, uncertainty around cross-border tariffs caused management to lower their 2025 guidance to incorporate a potential negative impact on near-term profitability. At the time, we believed this was a somewhat reactionary and short-term response by management, which has since begun to reverse in the most recently reported second-quarter results.
- ***Watsco's*** revenues declined -3.0% and EPS declined -2.8% over the past half year. First half demand across Watsco's markets has been negatively impacted by seasonally cooler weather. Additionally, weaker confidence levels and a lack of interest rate reductions have given customers pause before moving home or replacing air conditioning units. We expect these headwinds to abate going forward as new regulatory standards take effect, driving demand for higher-value replacement units.

Positions Purchased and Sold: December 2024 to June 2025

Discussion of new purchases and sales is reserved for Constantia investors.

Growth in Intrinsic Value

We invest with a business owner's mindset. We focus on how much each company's **intrinsic value** grows over time.

Intrinsic value is an **estimate** of a company's true worth, based on the underlying fundamentals of a business. In simpler terms, it is the amount of cash the company will return to its owners, from now until it closes. This cash is known as '**free cash flow**'. It is the money left after the company spends what it needs to a) stay competitive and b) grow. This free cash flow can then be given back to owners as dividends or through share buybacks.

Management can change our ownership stake by issuing or buying back shares. As a result, we measure growth in intrinsic value by tracking the percentage change in free cash flow per share. In simple terms, this can be estimated reasonably accurately by adding the **percentage change in free cash flow** to the **percentage change in share count** over each period.

We focus on owning businesses that can **grow their free cash flow per share by +12.0% or more each year**. We believe that growth of this level should increase their intrinsic value by roughly the same amount over time.

Breakdown of Net Total Return

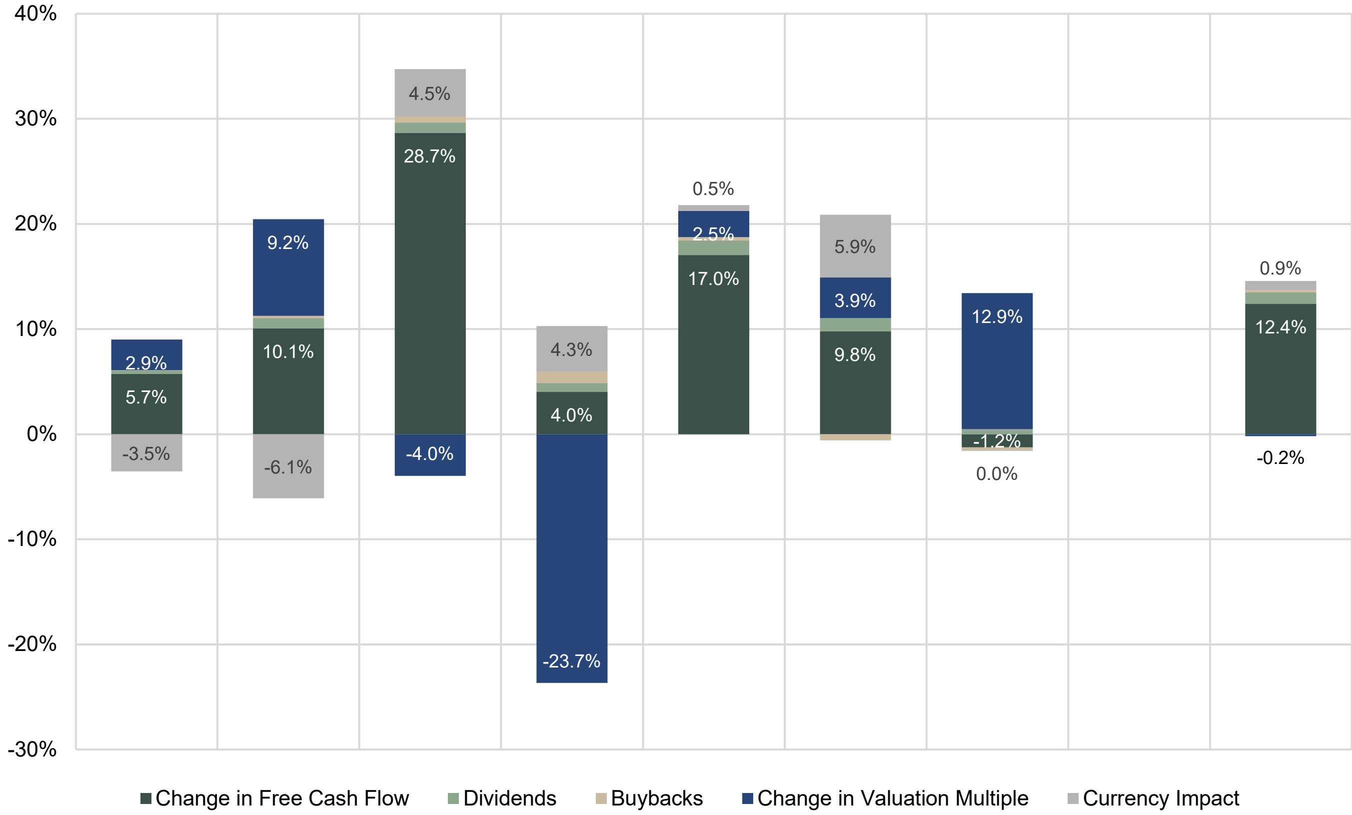
The chart overleaf breaks down our after-fee total return since strategy inception (August 2019) into the underlying drivers of return for our investors:

- Year-on-year changes in free cash flow (cash earnings).
- Cash returned to investors through dividends and/or share buybacks.
- Changes in the valuation multiple at the time of purchase versus the time of measurement (or sale).
- Currency effects, because we invest worldwide but report in Australian dollars (AUD).

We base our estimate of intrinsic value on observable, real-world inputs. However, as with *any* calculation of intrinsic value, it remains an **imperfect estimate at best**. We believe it is directionally correct and rooted in sound economics. In the unscientific realm of capital markets, we prefer being 'roughly right' over being 'precisely wrong'.

- The dark blue bar – representing the **valuation multiple** the market is willing to pay for one dollar of free cash flow – has been the most volatile component of our returns over time. This makes intuitive sense, as markets are prone to volatility over short periods. During the first half of 2025 (1H25), we estimate that the change in valuation multiple increased our absolute return by **+12.9%**.
- The dark green bar – representing the change in intrinsic value as measured by the **growth in free cash flow** from period to period – has generally been less volatile. In 1H25, the free cash flow generated by our businesses declined by **-1.2%.**
- Dividends (light green) and buybacks (light brown) have been modest but positive contributors over time. In 1H25, **dividends** contributed **+0.5%** to our total return. **Buybacks** were a minor (**-0.3%**) headwind over the period.
- The impact of **currency** (grey) has been volatile from year to year but tends to even out over time. In **1H25**, currency was a -**0.05%** headwind to our returns.

2019*	2020	2021	2022	2023	2024	1H25	Inception* p.a.
+5.3%	+14.2%	+31.1%	-15.6%	+22.7%	+21.6%	+11.7%	+14.7%



Figures at the top show net total return of GHCF for each period. Past performance is not indicative of future performance.
**2019 and strategy inception are measured from 31 August 2019.*

Putting all this together, we estimate that our businesses experienced a change in **intrinsic value per share** of **-1.5%** (a -1.2% decline in free cash flow and a -0.3% change in share count) in 1H25. However – for the reasons discussed earlier in Part One – we believe this number is distorted by three specific companies (Amazon, TerraVest and Watsco) and should normalise by year-end.

Since Inception

We believe that the rightmost column – breaking down our +14.7% per year net total return since strategy inception – is likely the most useful feature of the chart, since it looks through short-term volatility.

- We estimate that our businesses have grown their **free cash flow by +12.4%** per year.
- **Multiple** compression has been a **-0.2%** per year headwind.
- **Dividends** (**+1.1%** per year) and **share buybacks** (**+0.2%** per year) have been steady, positive contributors.
- The **currency** impact – despite being volatile in any given year – has just added **+0.9%** per year.

The estimated growth in **intrinsic value per share** since inception has been **+12.6% per year** (+12.4% per year from free cash flow growth and +0.2% per year from share count reduction).

Over the long term, we believe the return we deliver will roughly reflect the growth in intrinsic value of the businesses we own. Indeed, this belief is foundational to our entire investment philosophy. As such, we will update this chart and present it in every future Interim and Annual Letter, enabling you to track the change in our best estimate of the fundamental value of the businesses we own.

Part Two: Growth Through Acquisition

by Daniel Gerdis

Data compiled by the world-renowned professor of economics Robert Shiller, shows that over the long run, stock prices tend to follow the earnings of the underlying businesses. It follows that in order to compound wealth in the stock market, growing earnings is key.

When deciding how to allocate the resources of a business, management teams are generally faced with four possible pathways to increasing long-term value for their shareholders:

1. **Repaying debt**, thereby reducing both the interest expense and the claim that lenders have over the company's assets.
2. **Returning capital** (company resources) to shareholders, either by dividends or share buybacks.
3. Delivering **organic growth** by selling more products and services to more customers.
4. Pursuing **inorganic growth** by acquiring other businesses.

While all four of the above pathways can improve the share price of a business, over the long term we believe that points 3 and 4 (organic and inorganic growth) are paramount to long-term value creation.

Growth is not free, however: it is created by management choosing to invest capital to capture opportunities. As such, the ability of management to allocate capital towards growth opportunities that earn returns exceeding the cost of the capital invested is critical.

Few companies have the ability to sustain a high rate of organic growth over long periods. Given enough time, most companies find that increasing competition diminishes their ability to grow; alternatively, they simply 'run out' of runway in their core business or product.

Legendary Columbia Business School professor Bruce Greenwald once expressed this view by saying '*in the long run, everything is a toaster*': high initial returns on capital eventually diminish as new competition enters a sector, products mature or become obsolete via disruptive innovation.

This means that over the long term, growth via acquisition becomes an increasingly important consideration for boards and management teams.

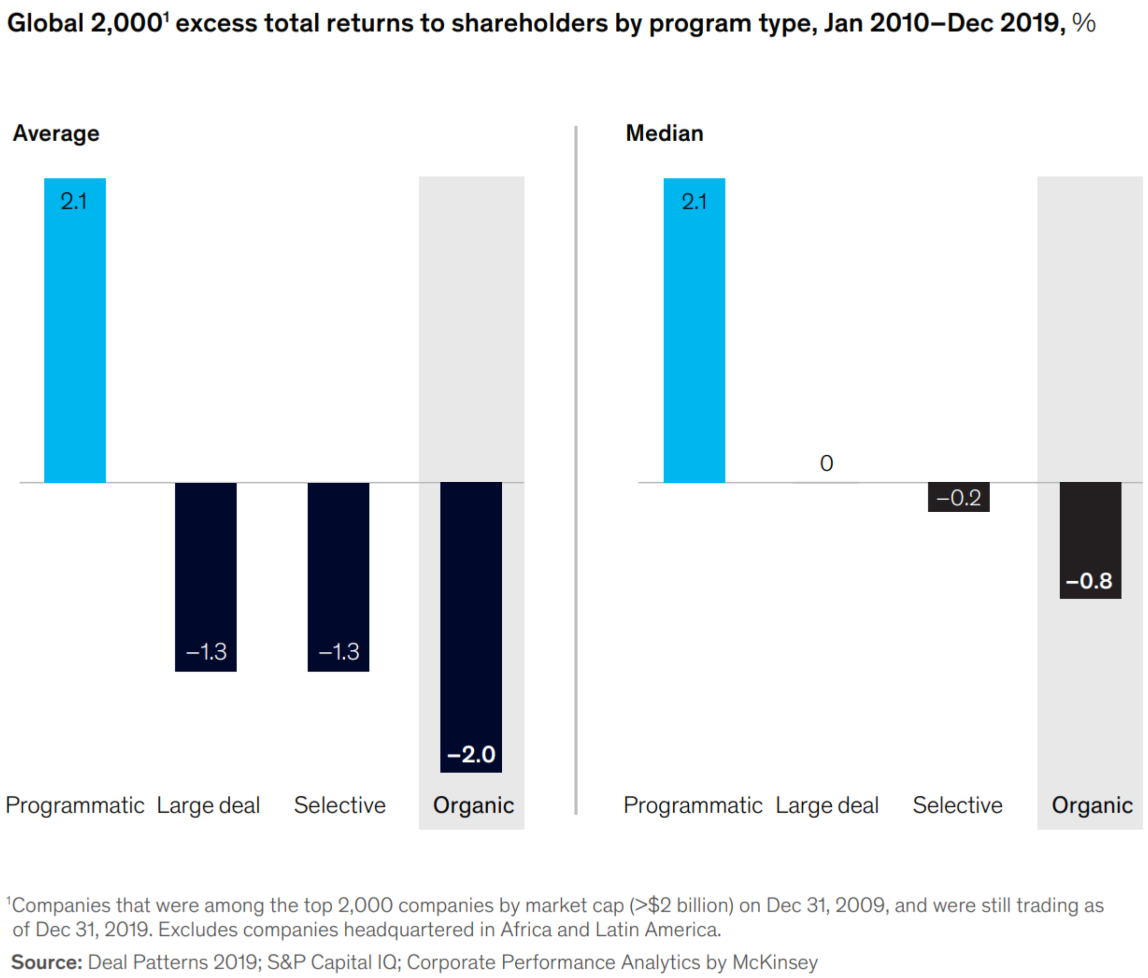
Yet, pursuing an acquisition-led growth strategy is often viewed with scepticism. There is a long history of management teams destroying substantial shareholder value by overpaying for acquisitions, usually justified by forecasts of 'synergies' that never materialise. Readers would undoubtedly be right to be very sceptical; we are very cautious when we hear the word 'synergy' used by management.

Given the importance of inorganic growth to long-term value creation, and our philosophy of long-term investing, this has become a natural area of focus for us. In this note we explore what we believe are important considerations in distinguishing between winners and risk takers when it comes to acquisition-led growth.

Acquisitive Growth Can Increase Shareholder Value

In 2012, global consultancy McKinsey & Company conducted a study of the top 2000 companies by market capitalisation. McKinsey found that companies which grow via acquisition (mergers and acquisitions, or M&A) tend to outperform peers that simply rely on organic growth (as measured by their total shareholder return).

However, there is clearly a night-and-day difference between those that do it well and those that don't. Per a 2021 McKinsey study, companies following a rigorous, "programmatic" approach (the light blue bars in the graph below) were by far and away the most successful at growing excess shareholder returns.



Source: "How One Approach to M&A Is More Likely to Create Value Than All Others". McKinsey & Company, October 2021.

In the 2021 study, McKinsey found:

> *Data from the most recent decade reconfirm that companies that regularly and systematically pursue moderate-size M&A opportunities deliver better shareholder returns than companies that do not.*

The study went on to find that while companies pursuing M&A outperform those that do not, outsized value creation stems from having a rigorous process in place.

> *M&A is not "an event," and it is not something that "happens" to a company. It is a capability that is essential for creating outsize value, and like any capability, it requires sufficient attention and resources to grow.*

The conclusion across multiple studies is clear: having a rigorous process in place for M&A not only leads to outsized returns for shareholders, but it can also reduce the risk of a misstep when it comes to allocating capital to new acquisitions by lowering the probability of overpaying or buying a dud of a business.

Given that there are countless examples throughout history of M&A being value destructive to shareholder returns, successful acquirers are relatively uncommon.

What follows is our viewpoint of the common hurdles faced by businesses that grow through acquisition, as well as a few of the (many) traits we identify in those acquirers that have proven to be repeatedly successful over the long term.

M&A Success is Not Easy

While the math behind shareholder value creation is largely beyond the scope of this note, in part two of our 2024 Annual Letter (entitled *Not all Businesses are Created Equal*), we wrote:

> *One of our strongest investment beliefs is that growth doesn't happen out of thin air. It is a function of the amount of capital invested and the rate of return that investment earns: the Return on Incremental Invested Capital ('ROIIC'). Said differently, ROIIC measures how much additional profit is generated by the next dollar invested.*

$$\textit{Growth} = \textit{Capital Invested} \times \textit{ROIIC}$$

This function can be applied when evaluating inorganic growth as well. Taking the formula above, it follows that there are two key factors to consider when assessing the durability of growth for an acquirer:

1. **The amount of capital that can be invested**

   Not all industries lend themselves to having a sufficient number of sizeable acquisition opportunities. This challenge only increases as any acquirer is successful at growing its capital base (the financial resources a company uses to fund its operations).

   Put differently, every successful acquisition that a business concludes grows the cash profits of that business; management are then required to reinvest the now larger pool of profits into further acquisitions (or to pursue one of the other three avenues of capital deployment).

   There are two obvious ways to solve this problem: increasing the size of individual deals or increasing the volume of deals. Diving into each of these, and how to scale an M&A function, could make for a lengthy study in itself.

   Regardless of how M&A is scaled, we have observed that industries with many small, privately-owned businesses serving a diverse customer base present the best opportunities and thus the longest runways for acquisitive growth.

2. **The incremental return earned on that invested capital**

   The second (and arguably more pervasive) challenge faced by all acquirers is to avoid overpaying, as the future growth of an acquired business can prove to be very different than even the most detailed forecast.

   For every prospective buyer of a business, it goes without saying that there is generally an existing owner on the other side of the table who knows more about that business than they do.

   More importantly, the business owner will in most cases understand the value of that business better than anyone else. This informational asymmetry creates a clear risk for the buyer.

   From our experience, the most reliable solution to this challenge is for the prospective buyer to stick to their proverbial knitting – that is, to remain well within their circle of competence, and to understand what they are buying.

   David Barber – founder of Halma PLC, a UK-based business that has grown tremendously through repeated bolt-on acquisitions – conveyed that exact message in a 1997 speech, in which he discussed the keys to Halma's success over the prior two decades:

   > *It always seemed self-evident that if you buy a business from a private owner, he is probably the world's expert about the business he owns and he won't sell to you unless he thinks he is getting the best end of the deal.*

> *Similarly, if you buy a public company you have to start from the concept that the Stock Exchange is a perfect market, but you are then choosing to buy a company at a premium of say 30% to 40% over what has until then been perceived as the 'correct' price.*
>
> *The inference is that your risk is highest when your knowledge is least and when the vendor's knowledge is greatest.*

It follows from Barber's observation that any acquirer can reduce the risk of overpaying for an asset by simply having a deep working knowledge of the business that they are attempting to acquire.

Management teams who stay within their circle of competence – as boring as this concept appears from the outside – materially reduces both the risk of overpaying for a high-quality business, and of acquiring a low-quality one to start with.

Clearly, there is some crossover between these two challenges: scaling the M&A function and not overpaying.

It therefore shouldn't be a surprise that in our experience the most successful acquirers are generally businesses that can deploy capital into fragmented private markets, paving a potentially long runway of inorganic growth. Coupled with acquiring targets whose operations are close enough to their own – meaning they are already an expert in the field – is a differentiator of enduring success.

A Differentiated View of Acquirers

While the benefits of being an expert in a fragmented end market can lead to excess returns for shareholders, we highlight four traits (among many) that we believe differentiate successful acquirers.

- **An earned reputation as a buyer of choice**

  Successful acquirers are not always the top bidders in a sales auction. If anything, they try to avoid auction processes altogether as winning an auction increases the risk of overpaying.

  The businesses we look to own are in many cases outbid by other competitive buyers. They ultimately win not via paying top dollar, but through their reputation as a buyer of integrity.

  In private markets, we have found that many prospective sellers want to sell to a buyer that will be a steward of what they have built over a long period of time – in many cases, decades. Surprisingly, this often matters more than simply obtaining the highest price, as sellers are frequently meaningful employers in their local communities. Should they sell to a buyer that proceeds to immediately cut costs by laying off employees, the seller is faced with the prospect of having to run into those same people (or their families) at the local grocery store, the community football game, or at the school drop-off.

  If they value their reputation and relationships in the community, 'quality' sellers (which we define as business owners seeking a fair outcome for themselves, the buyer and their staff) first and foremost want a 'forever home' for their business and employees.

  The companies we prefer to invest in understand this dynamic and have earned a reputation as good stewards of acquired businesses. Their reputational advantage shows up in the numbers in a somewhat counterintuitive way: lower purchase prices and less staff turnover at the acquired business. We have observed that both tend to produce higher rates of return for shareholders. As an example of a business with this approach owned in the Fund, we would point to Watsco. Run by the same management team (the Nahmad family) since their first acquisition in 1989, not one of the 70 subsequent acquisitions have been via an auction process, according to management. (Notably, Watsco is famous for having a culture where employees are happy to stay with the business for decades. We do not think this is a coincidence.)

- **A realistic understanding of what synergies are achievable**

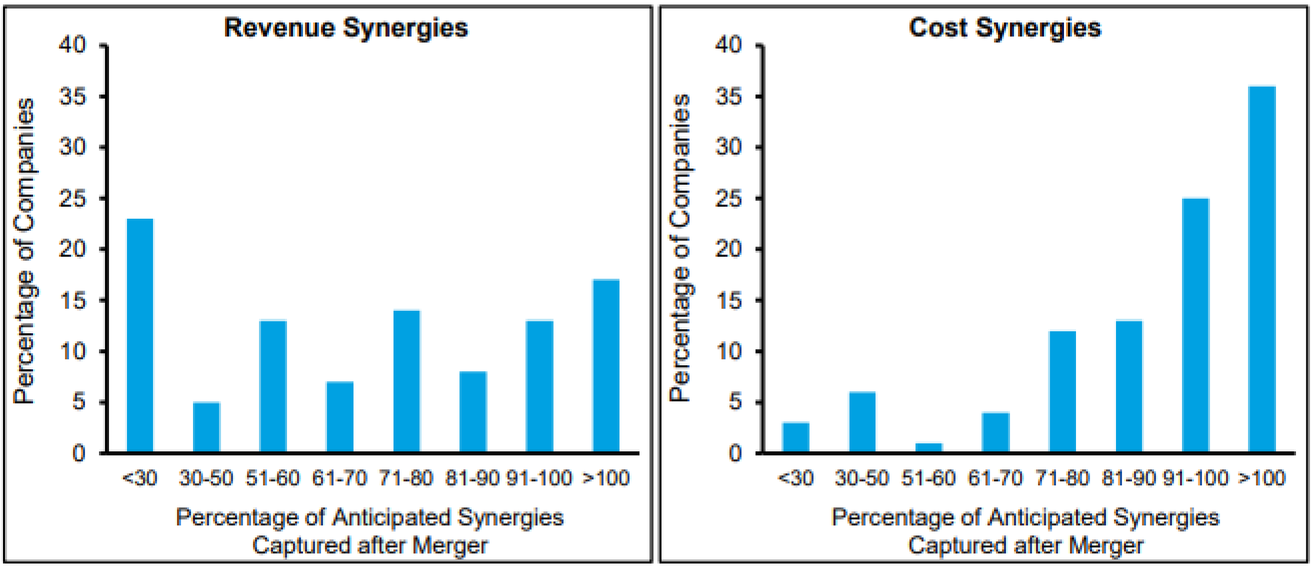
  Realising synergies can be hard. Much has been written in academic theory as to the potential synergies that can be achieved by combining two similar organisations together, and hefty acquisition premiums have been paid due to promised ‘synergies’ that would make the acquisition price look more reasonable. Evidence suggests the opposite: it is rare that 1 + 1 = 3.

  Professor Aswath Damodaran – the widely respected ‘dean of valuation’ who teaches the world-renowned Corporate Finance and Valuation courses at the Stern School of Business in New York – wrote in a 2005 paper that:

  > *Synergy is so seldom delivered in acquisitions because it is incorrectly valued, inadequately planned for and much more difficult to create in practice than it is to compute on paper.*

  We agree. One lesson we learned early in our careers is to be mindful that ‘*everyone makes money on a spreadsheet – doing it in the real world is tougher*’.

  Why are synergies so notoriously difficult to capture? In short: because buyers tend to be overly optimistic about what synergies can be realised – particularly revenue synergies. A different McKinsey study from 2004 found that only around 36% of companies surveyed reported that they “reached or exceeded” the anticipated cost synergies of a transaction, with reasons for falling short frequently being ‘one-off’ costs or a failure to study past deals to establish realistic expectations.



Source: Based on Scott A. Christofferson, Robert S. McNish, and Diane L. Sias, “Where Mergers Go Wrong,” McKinsey on Finance, *Winter 2004, 1-6.*

Source: "Capital Allocation: Results, Analysis and Assessment”, Counterpoint Global (MSIM).
Adapted from “Where Mergers Go Wrong”, McKinsey on Finance, Winter 2004.

  Capturing revenue synergies fared even worse, with less than 20% of respondents indicating they achieved 100% of the hoped-for revenue uplift. Reasons for the excessive optimism cited by McKinsey include “underestimating customer losses”, and “unrealistic assumptions about market growth or target market share.”

  In our experience, successful acquirers rely minimally on synergies to justify an acquisition, given how elusive they can be. However, certain types of businesses can be worth more in the hands of an acquirer than they were previously as a standalone company.

Consider a standalone business that is largely dependent on a handful of customers for the majority of their revenues. Such a business may be reluctant to raise prices for fear of losing one (or most) of those customers. In many such cases, the owner chooses to price their products below their actual worth in the market.

That same business – if owned by a larger business – does not face the same ‘all eggs in one basket’ level of concentration risk. As such, the business has far greater flexibility to adjust pricing to a level that reflects the full value of their products without threatening the parent’s viability if some customers leave. In short, being part of a larger organisation with more financial stability provides the acquired business with more freedom to realise the true value of its products.

- **Decentralised operations.**

  A commonality shared amongst many successful acquisitive businesses is the advantages of running a decentralised organisation. While this may sound like management-consulting jargon, our experience shows decentralisation brings meaningful benefits to the best acquirers. These include (but are not limited to):

  - Business units retaining an entrepreneurial culture and ownership mindset.
  - Avoiding excessive top-down integration costs and ‘cultural overhead’ (where head office tries to tell the newly acquired firm how to ‘fit in’).
  - Better industrial relations with employees, who feel a sense of ownership.

  Larry Mendelson, the former CEO of HEICO, explained it best, so we’ll quote him at length:

  > *The basic culture of HEICO is one of a decentralised organization, where we give tremendous authority to the operating level. As you know, we have no mid-level vice presidents that filter everything that comes from the operating group up to the corporate and to myself, Eric, Victor and Carlos.*
  >
  > *So, the first thing we do in acquisitions, the most important is to really scrutinize, analyse, get to know the person who is selling the company to us and how he manages. And if he treats his people well, this is very important.*
  >
  > *As an example, if he goes through the factory and he sees somebody and he tells us “Oh, that’s a machine operator, that’s this and that’s that.” That is not very impressive. But some of those people go through the factory and they stop at a machine and say “Charlie here, this is Mendelson, ’How’s Anne?’, meaning his wife, ‘is the family okay?’. ‘Charlie, how long have you been working here for, 22 years?’*
  >
  > *This means an awful lot. We understand the relationship between the owner of the company and his workforce, his team members. That goes a long way, and we understand how that all works. That’s the HEICO culture.*

  In short, the management team closest to the day-to-day operations of a business are usually best placed to quickly arrive at a solution or address a customer complaint. Furthermore, this frees up senior management time to focus on deploying capital into further growth opportunities at a group level.

  Two good examples of this mindset in the Fund are Constellation Software and its spin-off entity Topicus.com. In both cases, management not only provides business units with operational autonomy to run as they see fit (within an agreed framework that balances organic growth and returns on invested capital) but goes even further by decentralising capital allocation decisions to the business-unit level (where suitable allocators are identified).

- **Incentives focused on the long-term.**

  When management teams cannot successfully continue to invest the capital of a business at historic run rates, it's simple mathematics that the overall growth rate of the business will slow. This will likely result in the company being rewarded with a lower valuation multiple from market participants.

  For managers rewarded with stock options that vest, a languishing share price is undesirable, and so the incentive is to 'do something' to lift the growth rate. Enter 'strategic' M&A, with promises of untold future riches.

  This is not a new problem. As far back as the 1982 Berkshire Hathaway annual letter, Warren Buffett wrote "*while deals often fail in practice, they never fail in projections*". He referred to this as the 'institutional imperative' – where executives 'mindlessly' imitate one another in M&A for fear of being seen as the 'odd one out' among peers. The result is that there is never a shortage of brokers, consultants and advisers that can (and do) source potential target companies for management teams to consider acquiring. Such advisors will typically provide the necessary financial projections that management requires to justify paying a certain price for an acquisition.

  Therein lies a key risk to shareholders: management teams may be incentivised to simply 'do a deal' for the sake of optical growth, rather than to do deals that create long-term value. Entire books can be written about this principal-agent conflict. In our opinion, one of the only ways to mitigate this risk is via management incentives that are aligned with the long-term interests of shareholders.

  We'll refer back to Watsco, the leading air conditioning distributor in the United States. Watsco's remuneration policy is unusually long-term-focused (and to our knowledge, quite unique): employees are awarded share options relatively early in their careers, but these only vest at retirement age of 62. New joiners to the business therefore have meaningful long-term equity at risk in the company's shares alongside investors, which incentivises long-term oriented behaviour.

Conclusion

Organic growth in all industries eventually finds its limits. Inevitably, management must find alternative uses for capital if they wish to continue growing, the clearest being via M&A.

As studies have shown, companies that can repeatedly deploy a significant portion of their capital and cash flow into acquisitions at reasonable valuations over a long enough period of time, tend to outperform those that grow purely via organic growth. While repeatedly delivering value-enhancing growth through acquisitions is challenging, decentralised businesses with aligned management teams that stick within their circle of competence can lead to durable long-term value creation.

To be clear, this is certainly not a novel idea. Arguably, the prime example of this approach is Berkshire Hathaway, which during the 1970s and 1980s acquired dozens of private businesses at reasonable valuations. See's Candies and Nebraska Furniture Mart are likely the two most widely recognised examples acquired by Berkshire, both of which have produced a stellar result for long term investors.

We believe that market expectations (as defined by analyst estimates) do not incorporate the durability of inorganic growth into their forecasts, which in turn creates opportunities for these types of businesses to repeatedly deliver positive surprises.

It is only natural that finding and owning these types of businesses has become a large part of our focus in pursuing our return objective of greater than +12% per annum over time.

ANNEXURE A: PORTFOLIO BUSINESSES

This section of our letter is reserved for Constantia investors.

ANNEXURE B: FUND METRICS

Quality Scorecard

Portfolio Characteristic	Dec. 2019	Dec. 2020	Dec. 2021	Dec. 2022	Dec. 2023	Dec. 2024	June 2025
Profitability							
Gross Margin	55.7%	49.8%	52.3%	48.1%	43.3%	42.3%	42.3%
Operating Margin	23.5%	20.1%	24.3%	22.8%	21.2%	20.4%	21.2%
Free Cash Flow Margin	18.9%	17.0%	17.6%	16.8%	15.7%	17.6%	18.9%
Returns on Capital							
Return on Assets (ROA)	13.0%	11.9%	13.7%	13.9%	13.0%	12.1%	12.6%
Return on Equity (ROE)	28.3%	24.9%	30.4%	29.8%	26.0%	23.7%	23.2%
Return on Invested Capital (ROIC)	24.0%	16.5%	20.7%	19.5%	21.2%	26.9%	23.1%
Debt Ratios							
Debt/Equity	87.2%	68.6%	78.3%	57.9%	77.3%	64.6%	63.7%
Net Debt/Equity	19.3%	22.1%	27.3%	8.6%	47.2%	33.4%	36.7%
Debt/EBITDA	1.5x	1.6x	1.2x	1.4x	1.7x	1.4x	1.5x
Net Debt/EBITDA	0.4x	-0.2x	0.1x	0.1x	0.9x	0.5x	0.6x
EBITDA/Interest Expense	46.0x	60.5x	56.3x	59.7x	50.3x	31.4x	37.0x
Valuation							
Free Cash Flow Yield	2.8%	3.2%	2.8%	3.8%	3.7%	3.6%	3.2%
12m Forward Free Cash Flow Yield	3.3%	3.6%	3.2%	4.4%	3.8%	3.9%	3.4%
24m Forward Free Cash Flow Yield	3.8%	4.0%	3.6%	5.0%	4.3%	4.4%	4.0%
Holdings							
Number of positions	19	21	21	24	21	19	17
Active Share	86.5%	87.8%	89.0%	89.7%	89.0%	91.2%	91.9%

A few high-level comments:

1. At 18.9%, the free cash flow margin of the Fund is still close to an all-time high (19.3%, achieved in March 2025), and roughly 80% higher than the broader market (at 10.3%). The fact that free cash flow generation is still healthy despite several of our holdings (notably, Microsoft and Amazon) being in the midst of a substantial capital investment phase for AI datacentres suggests how cash generative our businesses truly are. We believe the 'normalised' free cash flow margin is likely to be higher than the current reported figure.
2. From a quality perspective, the businesses in the Fund are earning returns on invested capital (ROIC) of 23.1%, which is much higher than the broader market (8.1%). The decline since December reflects:
    a. a slowdown in profitability at Nintendo prior to the launch of the Switch 2 game console on 5 June 2025 (which has the effect of depressing the current ROIC), and
    b. that some of our companies have taken on additional debt for acquisitions. In this case, the additional debt increases the invested capital on day one, but the profit contribution from acquisitions will only accrue over the coming 12 months.. We expect this number to recover by year end.
3. Debt ratios have not changed materially since December. Across all five metrics, the Fund compares favourably with the market, as our businesses have lower debt/equity ratios *and* higher coverage ratios than the market average.
4. Valuation multiples have increased relative to December 2024, for the reasons discussed in Part One (principally, the decline in free cash flow per share at Amazon, Watsco and TerraVest).
5. With 17 holdings, the Fund remains highly concentrated and currently exhibits its highest active share since inception.

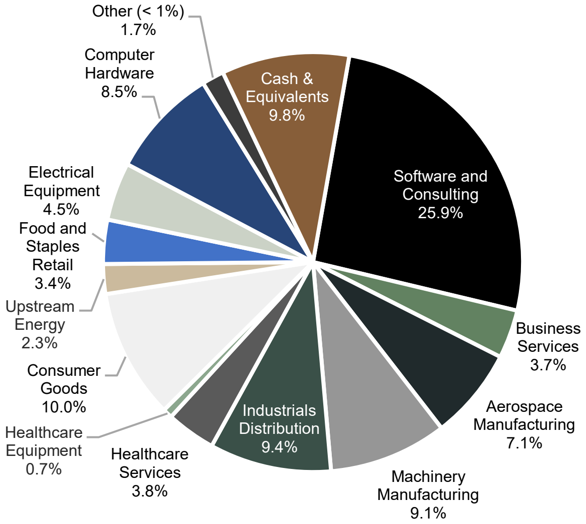
Fund Breakdown

On this page, we present two complementary views of the Fund's exposures:

1. **End-market and geographic revenue breakdowns** show the industries and countries where our businesses *earn* their revenues.
2. **Sector and country breakdowns** indicate the sectors and the countries where each stock is listed, based on index classifications.

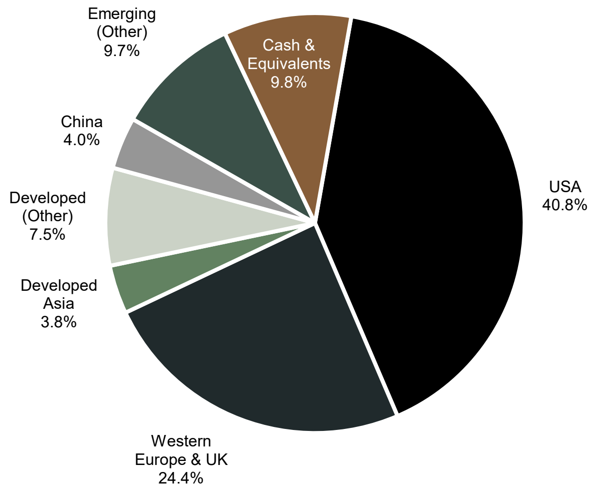
We rely on the end-market and geographic revenue breakdowns for internal portfolio construction because we believe they more accurately capture our businesses' fundamental 'real-world' exposures.

End-Market Revenue Breakdown 30 June 2025



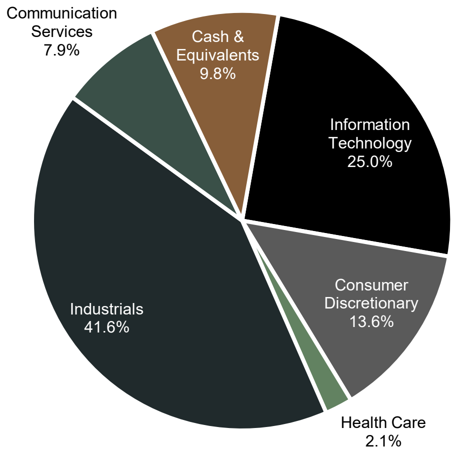
The look-through end-markets in which our businesses earn revenues.

Geographic Revenue Breakdown 30 June 2025



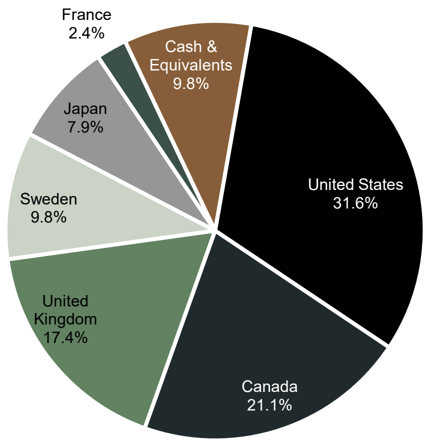
The look-through regions where our businesses earn revenues.

Sector Breakdown 30 June 2025



The sectors in which our businesses are classified in the benchmark.

Listing Breakdown 30 June 2025



The countries in which our businesses are listed.

Source: FactSet, Constantia analysis.

ANNEXURE C: OUR INVESTMENT PHILOSOPHY

We are 'business-first' rather than 'security-first' investors, and approach each holding as part-owners of the underlying business. This ownership mindset leads us to focus on the quality of the businesses we own, which we summarise simply as:

'Exceptional businesses, run by exceptional people, purchased at the right price.'

We define the three key terms as follows:

Exceptional Businesses:

- offer a product or service that is hard to disrupt.
- have strong competitive advantages.
- are highly and sustainably profitable.
- convert the majority of their accounting earnings into cash.
- generate more cash than they need to meet the day-to-day needs of operations.
- have a long runway of opportunities to reinvest the excess cash generated.
- have low debt levels to mitigate the risk of failure.

Exceptional People:

- think and behave like owners.
- are appropriately aligned with minority shareholders through share ownership and fair incentives.
- display a degree of trusteeship or moral responsibility to their shareholders.
- have a demonstrable history of value-creating capital allocation.

Right Price

The right price is one that allows us to meet or exceed our through-cycle net return target of 12% per annum over a cycle.

We do not seek to generate returns by constantly having to trade in and out of businesses. Instead, we believe our long-term return will reflect the fundamentals of the businesses we own. As a result, we seek to own businesses for long periods of time – generally, between three and five years, or longer if warranted by fundamentals.

We manage a concentrated portfolio and own between 15 and 25 businesses at any given point.

We are bottom-up, fundamental investors. While we are cognisant of macro-economic risks, we do not construct the Fund to take advantage of such events.

We are an equity fund and intend to be between 90% and 100% invested in this asset class. We operate under the belief that if you entrust us with your capital, you want it managed in line with the process and philosophy we follow; you do not expect us to make an asset allocation decision.

We believe in time in the market, rather than timing the market.

We do not engage in shorting, nor do we use leverage to enhance our returns.

Our investable universe is global, and we are agnostic when it comes to market capitalisation.