

Quarterly Commentary | March 2026

Focused Equity Strategy – Q1 Update

Dear Partners,

The Focused Equity Strategy returned -3.57% (gross of fee) in Q1.

Investing Environment

The stock market has been unsettled by events in Iran. Day-to-day volatility is elevated, with investors reacting to headlines.

The immediate economic risk lies in oil. A blockade of the Strait of Hormuz removes roughly 15 million barrels a day from the market. The Brent crude price rose 75% during the quarter, approaching \$120 a barrel, and the squeeze is showing up in physical markets, with reports of TotalEnergies trading Middle Eastern cargoes at well above \$160.

Households are already feeling the pressure at the pump, with US gasoline reaching \$4 a gallon in March. But the larger effects usually come later, as inventories are depleted and businesses must restock at higher prices. Farmers will feel it in fertilizer. European utilities and households will feel it in gas. The incipient strains are visible in some places, with restrictions creeping in, work-from-home mandates issued for civil servants, and public appeals to reduce electricity consumption.

The broader effects on spending and confidence have yet to emerge. Much will depend on how long the situation lasts. For now, markets still seem to be pricing for a temporary disruption rather than recession. That may well prove correct, if the ceasefire now in place holds beyond the two weeks initially negotiated and if tanker traffic resumes durably. If flows in the Strait are on and off again for a long period of time, the damage will certainly be greater than investors are currently factoring in.

Private credit made headlines as leading asset managers — including Blackstone, BlackRock and

Blue Owl — were forced to gate their funds in the face of heavy redemption requests. Clients, already rattled by the high-profile bankruptcies of First Brands and Tricolor (labeled “cockroaches” by JPMorgan Chase CEO Jamie Dimon), grew anxious that asset values were not being honestly marked. At \$2 trillion, private credit is not systemic in itself — but in an interconnected financial system, any falling domino makes people nervous.

The brightest spot in an otherwise troubled quarter has been the relentless build-out of compute infrastructure. The five largest hyperscalers — Amazon, Microsoft, Google, Meta and Oracle — are on track to spend over \$600 billion on capital expenditure in 2026, up 36% from an already extraordinary 2025. At close to 15% of total US fixed asset investment, this spending wave is large enough to move national accounts and benefit semiconductor designers, semiconductor equipment suppliers, electrical and power component manufacturers, and the broader ecosystem of infrastructure suppliers — with providers finding themselves with more demand than they can easily satisfy ... as long as the spending spree lasts.

On the other side of the AI story, software stocks sold off sharply. Investors fled the sector indiscriminately in what commentators have dubbed “SaaSapocalypse” — pricing in a rapid and near-total disruption of business models that, in many cases, have yet to show meaningful cracks.

Portfolio performance

Against this backdrop, our defense and energy stocks did well, while our software holdings detracted from performance.

TotalEnergies and **Shell** contributed (1.2 pp) and (1.1 pp) to portfolio performance, with their stocks up 40.6%* and 27.8% respectively. Higher oil and

(*) Measured in \$

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gas prices should deliver windfall profits that more than offset any operational disruption in the Middle East — so long as the global economy avoids recession. If anything, events like these serve as a reminder of how central these companies remain to the world's daily functioning.

Lockheed Martin and **BAE** added 1.2 and 0.7 percentage points to performance, with both stocks up 26%. Ongoing depletion of ammunition and equipment across active theatres will add to already well-furnished order books. We made our first purchase of Lockheed in October 2023, when it was an overlooked asset — critical to democratic societies, with decent returns on capital, strong cash generation and disciplined shareholder returns, yet priced as though none of that mattered. Conflict on European soil and President Trump's pressure on NATO allies to increase their defense budgets have since driven demand for the company's systems sharply higher. However, the rising stock price has reduced the margin of safety. The additional demand also comes with a twist: a business model that now requires heavier investment and more risk than Lockheed used to carry. We took some profit in both positions.

Microsoft (-1.5 pp), **Constellation Software** (-1.2 pp), **Salesforce** (-0.9 pp) and **ServiceNow** (-0.6 pp) all detracted from performance. None was spared by the software sell-off, with their stocks down between 23% and 32% in the quarter, despite revealing good revenue and profit growth in their latest results. We view that as an opportunity.

Portfolio activity last quarter

Initiation/Increase

Constellation Software	Increase
Salesforce	Increase
ServiceNow	Increase
Uber	Increase
Tencent	Initiation

Exit/Reduction

Applied Materials	Exit
Adobe	Exit
Service Corp. Int.	Exit
ASML	Reduction
Lockheed Martin	Reduction
BAE Systems	Reduction

We added to most of our software holdings during the quarter, taking advantage of what we believe is an indiscriminate sell-off driven more by fear than analysis. At times, an obscure research note or Anthropic announcing a new product were enough to erase billions of dollars of market value from companies that had not reported anything fundamentally wrong. That is usually fertile ground for long-term investors.

AI will have a profound effect on software. We do not dismiss that. But we think investors are drawing too few distinctions. Software that offers little more than convenience, or solves a narrow problem without being deeply embedded in customer workflows, is clearly more vulnerable. By contrast, the businesses we own sit much closer to the operating core of large enterprises. Salesforce, ServiceNow and Microsoft are not simply vendors of code — they are woven into how large organizations manage customers, workflows, data, permissions and day-to-day operations. Replacing them is not like changing an app. It is more like reinventing how the whole enterprise functions.

What makes that reinvention so difficult is not the technology, it is everything built around it. Over time, through direct distribution and the breadth of their platforms, these companies have accumulated a deep understanding of each customer's specificities — their workflows, their challenges, the way the platform has been configured and extended through years of shared investment. We believe customers are far more likely to deepen that relationship than abandon it. And it is precisely this foundation that positions the companies to deliver AI tools that are immediately relevant and grounded in real workflow data — powered by whichever LLM or cloud infrastructure fits the customer best.

This point is perhaps most evident in the case of Constellation Software, which specializes in niche, mission-critical vertical software where deep domain knowledge is everything. In each of its hundreds of verticals, Constellation is typically the first port of call when customers seek to adopt new technology. The value of that distribution model and those relationships does not diminish as AI advances; if anything, it increases.

Constellation is also, at its core, an acquisition vehicle — one that has compounded value over decades through an almost obsessive discipline around acquisition price. A market sell-off and

tighter funding conditions mean more motivated sellers and less competition, giving Constellation more opportunity to redeploy its growing cash flows into deals that meet its above 20% return targets. At 13 times free cash flow, we are paying a low price for that compounding machine.

We initiated a position in **Tencent**. The stock is down roughly 30% from its recent peak, back to the level at which it traded six years ago when the company was grossing a profit half of what it is now, and trades at about 14 times net earnings.

Tencent is China's dominant digital ecosystem. Everything flows through WeChat — a super-app combining messaging, payments, content and commerce that functions more like a mobile operating system than a social platform. With 1.3 billion monthly users, any service built on WeChat inherits its user base instantly. The model is self-reinforcing: engagement generates transaction data, data improves ad targeting, better ads deepen merchant activity, strengthening WeChat Pay, which makes WeChat more central to daily life. Beyond its operating businesses, Tencent holds minority stakes across China's digital economy (Meituan, JD.com, Pinduoduo) — gaining distribution access and competitive intelligence without full operational ownership.

We think Tencent's P&L does not fully reflect the company's true underlying earning power. First, advertising monetization remains structurally underexploited. WeChat's ad load is deliberately kept well below industry peers, and as closed-loop capabilities mature the runway for improvement is substantial. That approach to advertising reflects Tencent founder Pony Ma's mindset and superior discipline of prioritizing long-term value creation over short-term profit. Second, the recent launch of Mini Shops represents an emerging e-commerce franchise of real scale, embedding transactional commerce natively within WeChat's social graph — a differentiated alternative to Alibaba and Pinduoduo without the fulfilment complexity. Finally, we think AI is quietly transforming the economics of the core business: Hunyuan is already driving measurable lift in ad targeting and content recommendations, Tencent Cloud is scaling profitably on enterprise AI workloads, and agentic AI solutions embedded across WeChat's mini program ecosystem could unlock an entirely

new monetization layer across millions of merchant and developer relationships.

Some other minor changes have been made to the portfolio. We added to Uber. The franchise continues to develop well and the discount to our assessed fair value went up as the stock price consolidated.

In addition to taking profit in our two defense stocks, we sold Applied Materials and Service Corp, and trimmed ASML as the margin of safety was limited. We also sold Adobe, as we want to focus on companies with the strongest franchises.

Strategic perspective

We do not let ourselves be distracted by the current geopolitical and macroeconomic uncertainty. Our strategy is one that compounds wealth by selecting high-quality assets bought for less than they are worth — businesses with the ability to grow their earning power and return meaningful capital to shareholders for many years to come. The only thing to do, aside from making sure their franchises continue to develop well, is nothing. Just own them.

That means when we add a business to our portfolio we do so assuming we will hold it through periods of turbulence like these — recessions, financial stress, political upheaval, trade disruption, military conflict. These are not tail risks. Most, if not all, are likely to materialize over the next decade. That is why, when evaluating any investment, we ask ourselves whether we would be comfortable owning it if the stock market closed for 10 years. If the answer is not a resounding yes, we should not buy it.

We will continue our desk research and field trips worldwide, scouting for great businesses led by competent management teams. And when Mr Market offers us the right price, we will act decisively.

Business characteristics & strengths

		<u>Portfolio</u>	<u>Equity Benchmark</u>
Profitability	Operating Margin	21.3%	14.2%
	Return on Equity	24.5%	14.9%
Balance Sheet	Net Debt / EBITDA	1.1x	1.9x
Yield	Operating Earnings Yield	7.2%	6.2%
	Dividend Yield	1.2%	1.9%
Growth Profile	5-year earnings growth est.	13.6%	

Portfolio overview

Holdings Breakdown

Top 10 Holdings	Weight
CASH	6.81%
CHUBB LTD	6.35%
SHELL PLC ADR	6.05%
THERMO FISHER SCIENTIFIC INC	5.68%
MICROSOFT CORP	5.29%
LONDON STOCK EXCHANGE	4.59%
CONSTELLATION SOFTWARE	4.54%
SUNBELT RENTALS HOLDINGS	4.40%
TOTALENERGIES SE	4.11%
LOCKHEED MARTIN CORP	3.86%
Sum of Top 10	51.67%

Sector Breakdown

- Information Technology 23.7%
- Industrials 16.5%
- Financials 13.8%
- Consumer Discretionary 10.6%
- Health Care 10.6%
- Energy 10.2%
- Others 14.8%



Regional Breakdown

- United States 47.6%
- United Kingdom 14.9%
- Switzerland 12.3%
- China 8.8%
- France 6.6%
- Canada 4.5%
- Others 5.2%



Investment Results Performance

	Focused Equity Strategy (Gross of fee)	Focused Equity Strategy (Net of fee)	Benchmark
QTD	-3.6%	-3.7%	-3.3%
YTD	-3.6%	-3.7%	-3.3%
1 year ¹⁾	13.7%	13.0%	19.9%
3 years ¹⁾	10.9%	10.3%	16.8%
5 years ¹⁾	6.8%	6.2%	9.6%
Since inception ¹⁾	13.5%	12.9%	11.9%

1) Time frames over 1 year display annualized returns

Source: Bloomberg, Emerald / Data since launch of Emerald on 31.10.2016. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: FEPORIG), data is net of fee including a management fee of 0.575% p.a. All data calculated in USD. Benchmark MSCI World AC until 31.03.23, from 31.03.23 Bloomberg World.
* = annualized data. Historical returns or financial market scenarios are not a guarantee for current or future performance.

Calendar Year Return Comparison

	Focused Equity Strategy (Gross of fee)	Focused Equity Strategy (Net of fee)	Benchmark
As per 31.10.2016	1.4%	1.3%	3.0%
2017	34.5%	33.8%	24.6%
2018	-8.6%	-9.1%	-8.9%
2019	37.4%	36.7%	27.3%
2020	35.7%	34.9%	16.8%
2021	28.3%	27.5%	19.0%
2022	-25.3%	-25.7%	-18.0%
2023	24.9%	24.2%	22.5%
2024	8.2%	7.5%	17.9%
2025	13.8%	13.2%	22.6%
As per 31.03.2026	-3.6%	-3.7%	-3.3%
Cumulative	230.2%	212.7%	190.5%

Source: Bloomberg, Emerald / Data since launch of Emerald on 31.10.2016. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: FEPORIG), data is net of fee including a management fee of 0.575% p.a. All data calculated in USD. Benchmark MSCI World AC until 31.03.23, from 31.03.23 Bloomberg World.
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Long Term Track Record – Cumulative Return since the launch of Emerald (Gross of fee)



Source: Bloomberg, Emerald / Data since launch of Emerald on 31.10.2016. Performance data is based on model portfolio, managed on Bloomberg (Bloomberg Ticker: FEPORIG), All data calculated in USD. Benchmark Bloomberg World Index. Historical returns or financial market scenarios are not a guarantee for current or future performance.

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