

Dear Equity Client

GLOBAL BEST IDEAS EQUITIES – 3rd Quarter 2025

MARKET PERFORMANCE

World equity markets continued their relief rally following the *Liberation Day* tariff announcements in April. The MSCI World AC Index (including emerging markets and dividends) delivered a +7.6% performance over the quarter (in US\$ terms, +9.7% in UK£ terms). The Dollar stabilised and marginally strengthened over the quarter. This brings the year-to-date performance of the Index to +18.4% (in US\$ terms, +10.2% in UK£ terms).

The lagging performance of Europe and the UK against the strong performance of Emerging Markets, and specifically China, was a main feature of the quarter.

MACROECONOMIC BACKDROP

The US economy grew at a strong pace of +3.8% over the second quarter. Whilst new employment data has dropped materially over the third quarter, other economic indicators have remained relatively supportive. Critically, retail sales and consumption continued growing at +5%. This has enabled the US to lead major Western countries' economic growth.

So far, no material economic effects from tariffs on the US economy have been detected. Inflation is picking up slowly (a portion of which is ascribed to the weaker Dollar), but not to a concerning extent. In the Fed's first cut this year in September, the motivation was more around the weakening employment market and managing the growing risks of an economic downturn than around inflation risks.

Economic growth over the third quarter in other major economies has remained broadly stable, and in line with the second quarter. Whilst growing at a higher level, China's growth level has moderated.

Overall, we perceive US economic growth moderating, and it being on track for a *soft-landing*.

PORTFOLIO COMMENTS

Performance

The Fund delivered a return of +3.6% over the quarter (in US\$ terms (Class B), +5.5% in UK£ terms (Class D)). Whilst it is lagging the above-mentioned World Index, its returns are in line with expectations given its quality mandate and the anticipated relative returns vs the Index in the current strong market. We elaborate later on Quality style performance.

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

Largest Contributors & Detractors 3Q2025 (\$ terms)

Company	Absolute Return (%)	Contribution (%)
Alphabet	+37.4%	+2.1%
Amphenol	+25.5%	+1.2%
EssilorLuxottica	+18.6%	+0.9%
GE Aerospace	+17.2%	+0.9%
ASML	+22.6%	+0.9%

Company	Absolute Return (%)	Detraction (%)
Verisk Analytics	-19.1%	-0.9%
Netflix	-10.5%	-0.6%
Accenture	-17.1%	-0.5%
Copart	-8.4%	-0.3%
S&P Global	-7.5%	-0.3%

Alphabet benefitted from the announcement of important DOJ (Department of Justice) rulings. We comment in full below. Amphenol benefitted from an announcement of another large acquisition (CommScope's Connectivity & Cable Solutions) and general optimism around datacentre growth. Following its weak second quarter, EssilorLuxottica recovered following new information on product innovation and further technology-driven wearable launches in partnership with Meta. A strong GE Aerospace earnings report with a boost to its long-term outlook and a large order from Korean Air supported its share price. ASML's recovery off a low base was triggered by announcements of the US government, NVIDIA and Softbank buying stakes in Intel, an ASML customer, thereby improving confidence in its future order outlook.

Verisk Analytics' announcement of an acquisition with an unclear strategic fit triggered a derating in its stock. Following its strong second quarter, Netflix underperformed on some concerns regarding growing competition. Whilst Accenture announced fair results, uncertainty around the potential AI effects on the business and pressures in its US federal business have dampened investor sentiment. Copart's stock has suffered from the perception of losing market share to its largest rival, IAA, which benefits from its associate insurer, Progressive Corp, buying market share. S&P Global came under pressure from perceived risk to data providers from AI startups following peer FactSet highlighting an *AI arms race*.

Alphabet

Alphabet (Google) has been a standout performer, with a stock market return of +38% over the quarter (+28% for the year thus far, in USD terms). This exceptional performance is mainly attributed to the following:

- The DOJ ruled that it is not necessary for Alphabet to dispose of Chrome.
- It also ruled that Alphabet can continue with its search relationship with Apple as the default tool, although it cannot continue being exclusive to Google's search engine alone, and must run on one-year contracts only.
- Gemini is becoming a much stronger AI tool than previously thought and is showing strong indications of it already being a leading AI provider.

The regulatory uncertainties had weighed on investor sentiment for decades, depressing the stock's valuation multiples. The removal of these uncertainties is a major milestone for the company.

Alphabet's AI capabilities had been questioned by the market since the formation of the Microsoft / Open AI partnership in 2023. Whilst it was previously not apparent that Google's acquisition of DeepMind in 2014 (for an estimated \$500m) was developing it into a competitive AI tool, the success of Gemini is now clear. New Gemini downloads on the App Store now exceed those of ChatGPT and

Google recently launched its new Pixel 10 mobile phone, fully integrated with Gemini AI software and Google’s custom-built chips. Pixel is now a serious contender in the AI smartphone race.

In addition to this meaningful change in the perception of Gemini’s AI capability, Alphabet shareholders now own a unique full-stack AI vendor that covers the different critical technology components:

i. Infrastructure & Hardware

Google has developed its own custom chips in conjunction with Broadcom, tailored specifically for AI workloads, and running at exascale. Google Cloud is already very profitable with further margin potential from accelerating revenue growth.

ii. Data

Google owns, from decades as the dominant Search engine, one of the world’s largest user data banks, both by volume and diversity. This is a crucial factor in the AI world.

iii. Foundation Models

DeepMind’s Gemini has developed into a crown jewel for Google, owned by them, developing Large Language Models for their own purposes, yet with material scope to provide models for external clients. As an example, Apple has not developed their own AI solutions and appears to currently be seeking an external provider to power Apple devices.

iv. Distribution

We are not aware of any better and larger distribution network than that owned by Alphabet. Google owns nine platforms or products, each with over one billion estimated users. They are Search (5 bn), Android (3 bn), Chrome (3 bn), PlayStore (2 bn), YouTube (2 bn), Gmail (2 bn), Maps (2 bn), Drive (2 bn) and Photos (1 bn). This represents true global reach. By comparison, there are 1.5 bn iPhones in circulation.

Google started a long time ago investing in small technology ventures focussed on future developments and moonshots. Alphabet was formed in 2015, moving these ventures into a separate subsidiary, calling it *Other Bets*, including Deep Mind and Waymo (which already features strongly in self-driving vehicles). With Gemini now seemingly coming to the fore, this full stack is further entrenching its wide technological moat. It would be interesting to estimate the return on that \$500m DeepMind investment.

12m Forward Relative P/E Ratio – Alphabet vs S&P 500



Alphabet's stock was, on a relative basis, severely oversold before the DoJ's verdict. It has since corrected, but remains 10% below its long-term relative rating to the S&P 500 (the dotted line in the above chart). This below average rating, in essence, implies that the market believes that the risk of losing Search market share exceeds the potential Alphabet has in AI. There are numerous arguments both ways, but Alphabet's management, with their relatively low public profile, have historically more often than not proven their sceptics wrong.

We have put more trust in Alphabet's management than many other investors. Through the strong recent stock market performance, it has grown into our largest holding.

Other holdings

Two of our holdings have acquisitive business models and featured over the quarter. **AJ Gallagher** completed a landmark strategic purchase of a U.S. insurance broker, AssuredPartners, for \$13.5bn. Consensus earnings projections started increasing with analysts now incorporating the operational effects of the acquisition. **Amphenol** announced its largest ever acquisition, CommScope's Connectivity & Cable Solutions. It substantially increases Amphenol's presence in the data centre and cable solution market. Its consensus earnings projections are rising sharply.

The late Giorgio Armani's will revealed that he wished one of three companies to take an initial 15% stake in his company, increasing it to a controlling stake after three years. All three of those nominated companies are holdings of the Fund, namely **LVMH**, **L'Oréal** and **EssilorLuxottica**.

Ferrari broke their general practice of not producing any additional vehicles in their special ranges (as they put it, producing one less than demand). They released a 600th (599 + 1) Daytona SP3 but put it on auction for their charity. It was sold for \$26m, the most expensive car ever sold (slightly ahead of \$25.3m for a 1961 Ferrari 250 GT SWB California). They also unveiled their newest series-production model, the Ferrari 849 Testarossa, at a €460,000 price tag. They have a shareholder capital market's day on the 9th October at which more information on their upcoming electric vehicles is expected.

Fund Transactions

We made the following noteworthy portfolio changes over the quarter:

- **Introduced** Broadcom
- **Sold** our remaining Colgate-Palmolive

Broadcom

Broadcom is a diversified global IT infrastructure leader, often compared to NVIDIA. The company offers an attractive combination of high-growth semiconductor products and high-margin software solutions, which combine to deliver strong and sustainable free cash flow growth.

Broadcom's semiconductor division differs from NVIDIA in that it designs and develops custom-made silicon chips that are directed towards powering the rapid growth in AI inference (the extended process of applying AI) – more so than for training purposes. It has large and expanding contracts specifically with Google, Meta and ByteDance. Its growth in this area hit 69% in the last quarter and the recent announcement of a \$10bn contract (understood to be with OpenAI) has led to an additional 13% increase in expected earnings growth for 2026. With its focus on partnering with specific customers in inferencing AI, it is set to play an increasingly important and rewarding role in the rapidly growing global AI infrastructure market.

Its software business includes VMWare’s cloud and virtualisation solutions and Symantec’s leading cybersecurity products. This is a wide moat, highly profitable division with strong pricing power. It has a high mix of recurring revenues, along with significant customer switching costs. With an earnings contribution of over 40%, this division reduces the overall cyclicality and extends the sustainability of Broadcom’s organic growth.

Both divisions are strong cash generators. The free cash flow is used for related acquisitions and growing dividend payments – the latter at +12% p.a. over the past five years.

Colgate-Palmolive

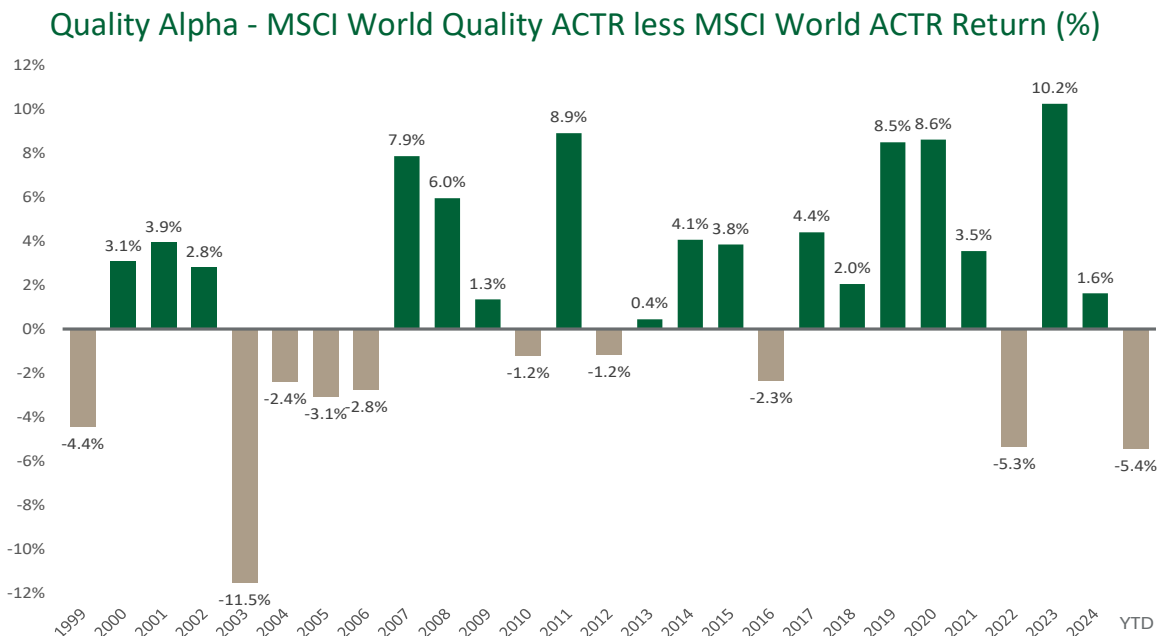
Whilst Colgate-Palmolive is a high-quality business, we believe it has run out of organic growth potential. Whilst it is operating at a high margin, it has shown limited potential to further increase profitability. Furthermore, they have not demonstrated strong entrepreneurship and innovation to improve their organic growth potential. We started divesting last year and have now exited the remaining small holding in favour of high-quality alternatives with a better growth outlook.

CAPITAL MARKET CONSIDERATIONS

We consider the following pertinent issues:

Underperformance of the Quality Style

The Quality investment style is currently delivering respectable performance, but it is not keeping pace with the World Index performance. The following chart depicts the style’s annual performance versus the World Index:

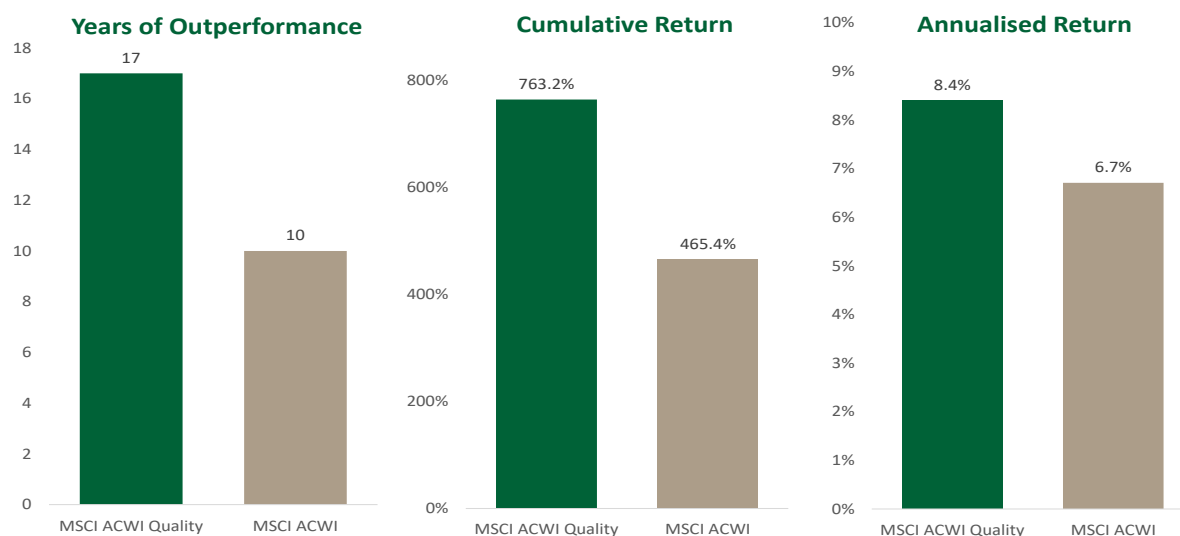


Over the past decade, Quality has outperformed the World Index most of the time. Since the beginning of the data in 1989, there was only one occurrence where Quality underperformed in successive years (from 2003 to 2006). That underperformance followed the deep and extended bear market of the dot-com bubble, with an extended junk rally recovering from a very low basis. Whilst not remotely to the same extent, the stock market crash following *Liberation Day* on 2 April this year has also created a low base for the rally that investors have since experienced. This time, though, it is a tactical rally while the one following 2003 was structural following a recession.

The following chart reflects Quality's performance data relative to the World Index's:

MSCI WORLD ACTR Quality Index vs MSCI World ACTR Index

Data since 1998



On a calendar year basis, Quality has outperformed in 17 years against 10 years of underperforming – a ratio of 1.7 to 1. Quality has delivered a total Alpha (outperformance) of +298% (+763% vs +465%). On an annualised basis, it has outperformed by +1.7% p.a. (+8.4% p.a. vs +6.7% p.a.).

Quality has strong merits as an investment style – it has outperformed materially over time, whilst at a lower risk of business failure (by holding quality businesses).

The Financing of AI

The AI boom is accelerating relentlessly. The formation of Stargate LLC by OpenAI and Softbank as main partners, along with Oracle and MGX, has preceded further material AI financing activities. Whilst not in the least a comprehensive list, the following announcements are pertinent:

OpenAI Contracts

- OpenAI placing an order of \$100 bn with NVIDIA for AI infrastructure.
- OpenAI placing an order of \$7bn with CoreWeave's for cloud infrastructure.
- Following a contract of \$30 bn with Oracle on the Stargate project, OpenAI placing an order of a further \$300 bn with Oracle for cloud infrastructure.
- OpenAI placing an order of an undisclosed amount for Google's Cloud capacity.
- OpenAI placing an order of \$10 bn with Broadcom for custom chips.
- OpenAI placing orders of \$10s of billions with AMD over time, gets a phased in ~10% stake in AMD.

Nvidia Investments

- NVIDIA investing up to \$100bn in non-voting OpenAI shares.
- NVIDIA investing \$5bn in Intel.
- NVIDIA investing €1.7bn in Mistral AI (European AI).
- NVIDIA investing \$3bn in CoreWeave.

Meta Transactions

- Meta placing an order of \$14 bn with CoreWeave for cloud infrastructure.
- Meta investing \$14bn in Scale AI for a 49% stake.
- Meta securing cloud infrastructure capacity from Scale AI (board control).

ASML Investment

- ASML investing €1.3bn in Mistral AI (European AI).

Investments in Intel

- The US government taking a 10% stake for \$9bn.
- NVIDIA taking a 4% stake for \$5bn.
- Softbank taking a 2% stake for \$2bn.

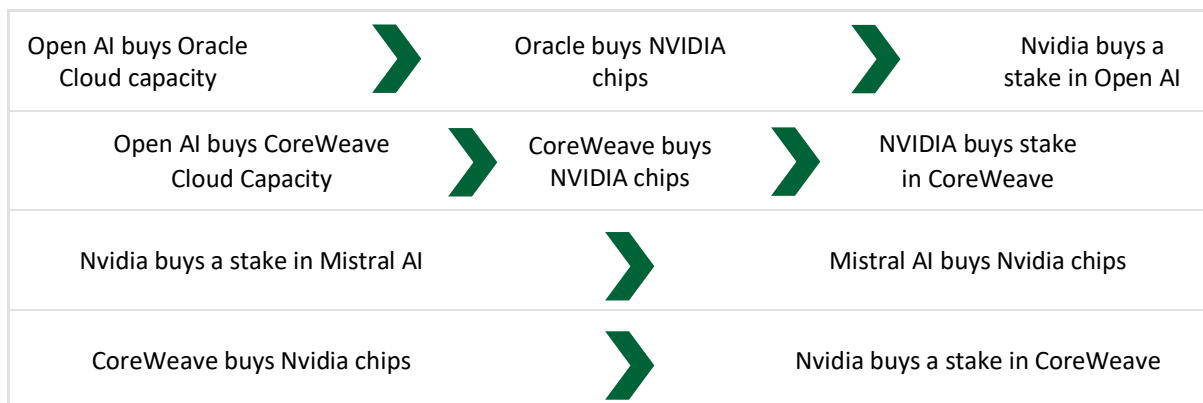
AI Debt Issuance

- Meta issuing \$20bn of debt for AI cloud.
- Oracle issuing \$18bn debt for Stargate AI cloud.
- Open AI planning to issue \$50bn - \$75bn of debt to finance its commitments to Oracle.

The OpenAI profile is striking: an organisation with a complex hybrid corporate structure of non- and for-profit entities, the former controlling the latter, and top management's relationship with their largest shareholder (Microsoft) not very clear.

Financing AI developments is clearly a major factor in capital markets. Chief Financial Officers (CFOs) take on a huge responsibility on behalf of their shareholders in considering the risks they are accepting, compared to the uncertainty of the potential returns they are going to deliver.

A striking feature is that some businesses are placing orders and their suppliers then providing them with funds through buying shares in their company (i.e. vendor finance). From the above:



The order and debt financing amounts are enormous, especially considering it is in an industry where MIT recently declared only 5% of enterprise generative AI pilots are currently successfully integrated at scale and extract appropriate value. In terms of well-established companies issuing shares, this can be an expensive way of raising capital and acts against the interest of shareholders (of successful businesses) – because of the permanent dilution of shareholder value. We wonder how these CFOs explain this to their boards and shareholders.

The positive side of this AI financing coin is that close partnerships are formed and many parties benefit from the industry's successes – a form of gearing up the overall potential returns. The negative scenario implies the risk of potential chain reactions through the broad AI industry and beyond. No-one wants to be around for the latter.

The levels of debt taken up by the likes of OpenAI, Meta and Oracle are striking. In terms of our holdings, the hyper scaling investments (Alphabet, Microsoft, Amazon) have strong balance sheets (Alphabet with net cash) and enjoy strong cash generation through their cloud businesses. Microsoft's large investment in OpenAI in 2023 is in the form of Azure cloud capacity earn-out (not in cash). In Alphabet, we benefit from the expertise of two well experienced CFOs (one in the Chief Investment

Officer position). Against this, we have OpenAI orders in Alphabet (Google Cloud) and Broadcom (custom chips), neither of which has material capital committed.

Federal Reserve

The Fed has cut their target rate by 0.25% for the first time this year at their September meeting. This cut seems to be motivated by new employment numbers being lower than expectations, even though unemployment levels remain muted (currently 4.3%). With US economic growth not materially decelerating and the huge rate cutting reserves that the Fed still have at their disposal, this cut is perceived to have been made from a position of strength rather than weakness.

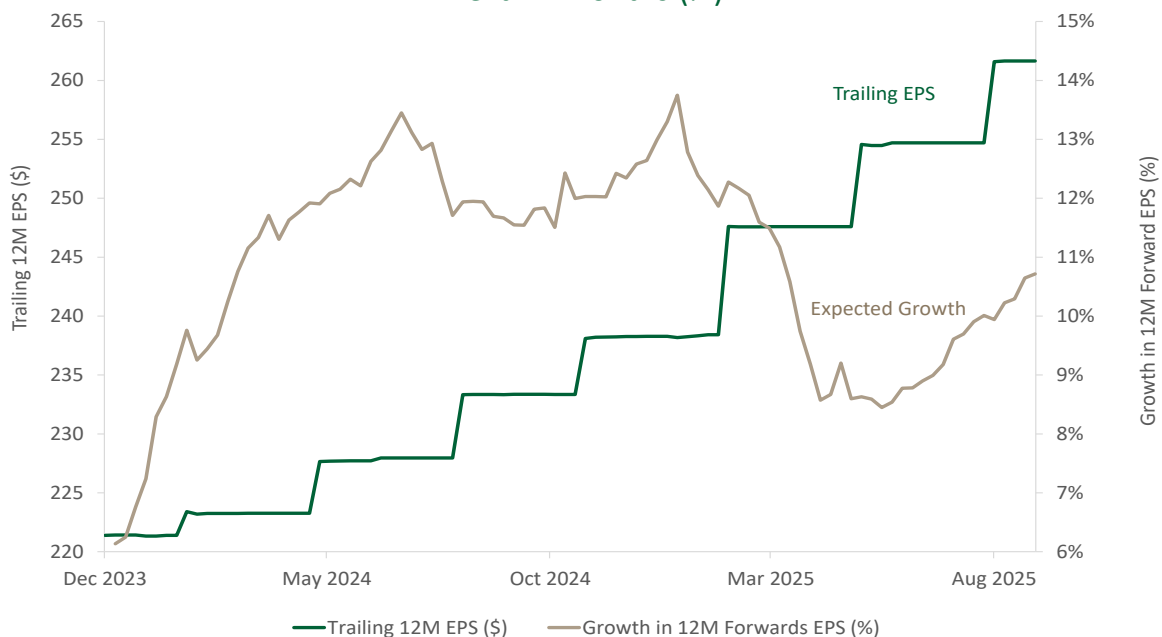
OUTLOOK

The US economy continues to exceed expectations. S&P 500 second quarter results have likewise surprised to the upside, with earnings growing at +12.6%. Both economic and earnings bases are now elevated, with the S&P 500 trading at record levels.

US economic fundamentals, however, remain constructive. Unemployment remains low with remuneration growing at +4%. Retail sales and overall consumption are growing at +4% and +5% respectively. Overall capital expenditure continues growing from a high base, currently at +5%. Amongst S&P 500 constituents, capex is growing at +15% (clearly skewed by AI capex). The impact of the US administration’s new investment incentives will follow in due course. We believe the combination of these factors can further support the US economy to grow, albeit at a more moderate rate.

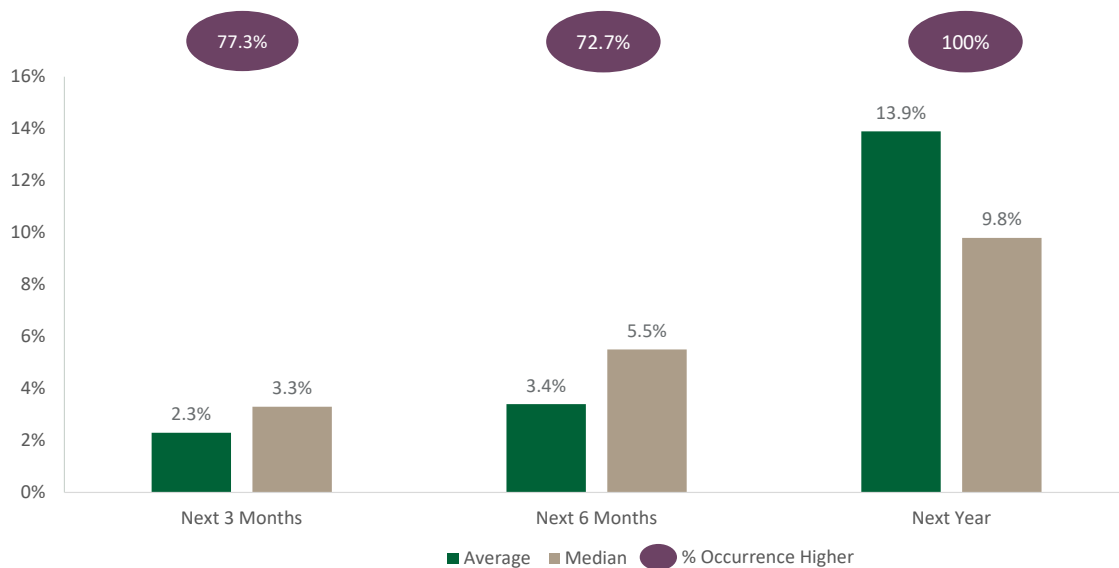
A feature of the second quarter earnings results was the continued increase in operational efficiencies. Clearly technology is part of this success, and AI may make a further contribution in time. On the earnings front, the following chart reflects the consensus earnings expectations:

S&P 500 – 12 Month Trailing Earnings (\$) vs Consensus Earnings Expected Growth Next 12 Months (%)



Despite the high current base (the green line), expected earnings growth is currently accelerating at +10.6% (the beige line). Logically, accelerating earnings are supportive of markets.

S&P 500 Returns Following Fed Rate Cuts Within 2% of an All-Time High (%)



The above chart reflects historic returns following Fed rate cuts with the stock market close to record levels. On average, such cuts have historically led to double digit stock market returns after 12 months.

We are conscious of elevated valuation levels generally. It is therefore critical that economic fundamentals remain supportive. This remains to be the case for now.

IN SUMMARY

The volatility of the second quarter around tariff issues appears to be over, with tariff impact less than feared. Overall, investors have reason to remain constructive. They also have the support of a new season of lower US rates. With the weaker US Dollar and improving economic fundamentals in the rest of the world, geographic diversification is becoming more important.

We guard against any complacency and ensure that our businesses generate ample free cash flow to finance expansion. With this approach, we expect to steer clear of potential casualties in the AI space.

We continue to refine our portfolio of high-quality franchises in order to provide attractive compounding returns at lower risk and volatility, as it has done since inception.

We are thankful for all your support.

With best wishes

Gerrit Smit
Partner – Head of Global Equity Management, Lead Portfolio Manager

RISK DISCLOSURE

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