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Quarterly Report 30 June 2026

Known unknowns.





Executive Summary

Ever the students of history, we were reminded of the saying made famous by Donald Rumsfeld musing about Known Knowns, Known Unknowns and Unknown Unknowns. This quarter President Trump continued to shift more Knowns to Unknowns as he remained determined to gradually shred the established rule book both internationally and domestically.

Possibly the most remarkable thing about the quarter was how sanguine global stock markets were, drifting ever upwards spurred on by a fragile ceasefire between the US and Iran, easing oil prices and inflationary pressures and strong corporate profitability.

There are always many questions we ask ourselves when constructing a portfolio but this quarter we wanted to focus our discussion on just three of them:

1. AI: We know it is coming but will it really change the world in which we live?

AI is already starting to automate work processes and accelerating scientific discovery, but its full impact on employment, inflation, and returns on investment remains uncertain, especially regarding the development of Artificial General Intelligence (AGI). The hybrid AI model, where AI assists human productivity, is starting to be achieved but it is unclear whether AGI is possible and how long it might take to develop. If it is successful then the impact will be game changing. To date, employment has only been marginally dented, but were AGI to be successful then the impact will be far more disruptive. Short-term inflationary pressures are likely to arise from heavy AI infrastructure investment, but long-term deflationary effects are possible due to productivity gains. Vast amounts of capital have already been invested in AI infrastructure, and even more will be invested in the future. We don't know yet whether this capital will ever achieve a decent return but it is important to remember that many of the companies spending the money have very strong balance sheets.

2. Geopolitics: Despite Trump's best efforts, does he really catalyse the end of the US hegemony?

Trump's policies may challenge US dominance but the US's fundamental strengths in the economy, currency, military, and institutions persist. The US remains the ultimate capitalist economy where innovation is highly rewarded which creates a dynamism that no other country has so far matched. The size and depth of the stock and bond market combined with the dollar being the world's reserve currency are not going to change overnight, even if Trump's actions are unhelpful and damaging.

3. Geopolitics: China is undoubtedly emerging, but can it really take on the baton as the global hegemon from the US?

China has expanded its global trade influence but faces challenges in innovation and governance that question its ability to supplant US hegemony imminently. However, while the US remains the core of our portfolio, we think there are attractive opportunities in China and elsewhere for those willing to search for them.

We still see little reason to change our long-held view that the portfolio should remain fully invested but continue to emphasise diversification across countries, styles, and factors to manage risks from AI concentration and geopolitical shifts. It is typically the Unknown Unknowns that lead to recessions with AGI having the potential to create a seismic change that could upset global markets. We continue to watch and monitor this, and other developments, and remain ready to act decisively if necessary.



Alec Letchfield
Portfolio Manager

Quarter two

The second quarter of the calendar year proved to be somewhat better for global stock markets, though it wasn't without drama. True to form, Trump appeared to TACO (Trump Always Chickens Out) on Iran, agreeing a ceasefire that was painted as a 'win' to limit the damage to both stock markets and his standing in the polls. The ceasefire, however, looks to be fragile with Iran playing its hand well and leveraging its newfound control over the Straits of Hormuz to its advantage. With skirmishes between Iran, Israel and the US still occurring, only time will tell as to whether a peace agreement can be sustained or if it spirals into further major conflict.

At this stage, markets are taking a positive view. Oil prices have fallen from a peak of \$103 to \$73 at the end of the quarter, easing inflationary pressures and helping the US 10 year bond yield fall from its peak of 4.7% to 4.5% at the end of the quarter. Hopefully, this removes two major risks to the burgeoning global economic expansion. Lower commodity prices should underpin the global manufacturing sector and, as Trump's 2025 trade war reaches its 12-month anniversary, the service sector is also expected to rebound. With global trade hopefully bouncing back and a robust picture for corporate profitability,

with excellent numbers being delivered in Q1, this creates a compelling, albeit somewhat mature, fundamental backdrop.

It wasn't just about geopolitics in the second quarter though. As for much of this cycle, the tech sector has remained very much front and centre. However, whilst previously the Magnificent 7 (M7) led the charge, the story has now shifted to the broader tech infrastructure and semiconductor markets. Such is the level of spending by the M7 in the pursuit of creating the very best Large Language Model (LLM), areas such as memory chips have ballooned with DRAM prices up by a factor of eight over the past nine months. Conversely, the M7 names, though diverging somewhat in their individual performance, have been going backwards for some time now. With their free cash flows coming down, and earnings growth converging with the broader US market, it is perhaps unsurprising that their performance should slip versus their previous supernormal returns.

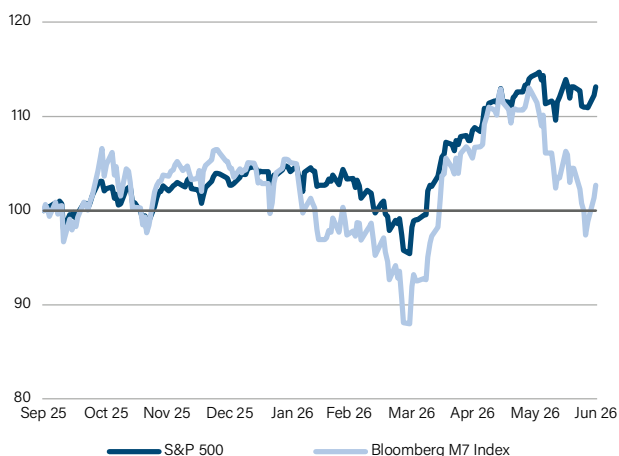
Another important development was the listing of SpaceX on the public exchanges with OpenAI (the owner of ChatGPT) and Anthropic (developer of Claude) potentially to follow. Time will tell but the announcement raised a number of

warning flags. With Musk ramming AI, satellites and rockets into one big tech conglomerate, combined with the large allocation to retail investors and limited float (and fast-track inclusion into other major indices), this looks worryingly like what we experienced in the tech bubble of the late 90s. Maybe we are wrong to question visionaries such as Musk but any company being priced at 100x sales and possessing a \$1.7 trillion market capitalisation has to make one ask if a bell is ringing for the top of the market.

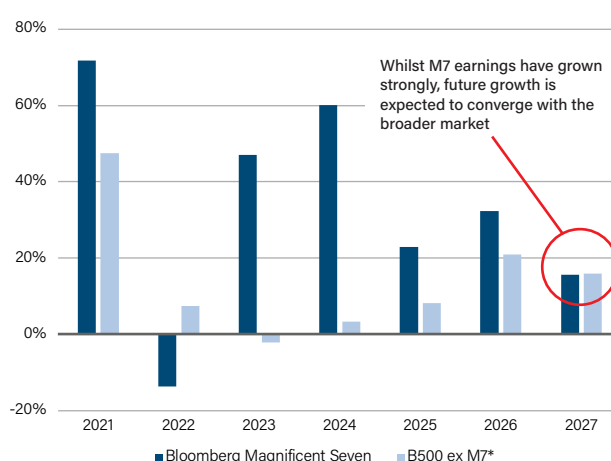
From a policy perspective, this quarter we saw the start of Kevin Warsh's reign as Chairman of the FOMC, one of the most important roles in determining the outlook for global stock markets. Warsh, with the backing of the rate-cut-loving Trump, has entered power at a key time for global policymakers. Whilst we would view Warsh as a credible Chair, despite his endorsement by Trump, he starts at a time when inflation is well above target, and it is unclear as to whether this is a temporary, oil price driven factor, or something more structural. With rate expectations shifting from sharply down in the US at the start of the year to a 25bp rise by the end of the year, we would view the risk of a policy misstep as high.

Chart 1: The M7's earning growth is expected to converge with the broader market and their returns have lagged over the past nine months.

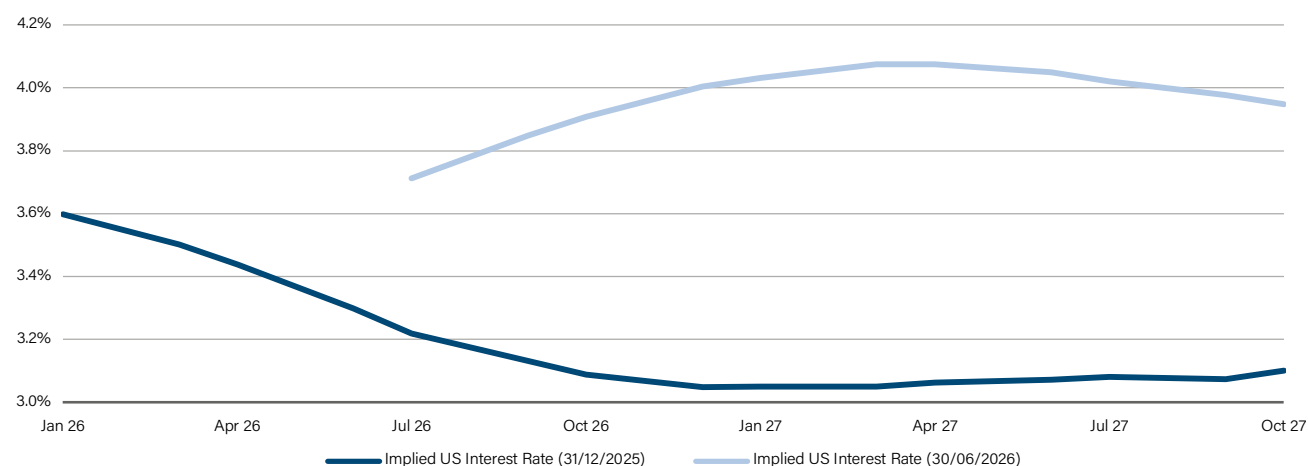
Indexed USD performance



Earnings growth



Source: Bloomberg. *The Bloomberg 500 ex Magnificent 7 Total Return Index tracks the most highly capitalised US companies, excluding the Magnificent Seven

Chart 2: Futures are now implying interest rate hikes in the US, a sharp change from the beginning of the year.*Futures implied US interest rate*

Source: Bloomberg

Unsurprisingly, with the war in the Middle East appearing to reach a resolution, albeit one which is now looking short lived, and the froth in the technology sector reaching new highs, stocks markets rebounded robustly in the second quarter although intra-market performance was more nuanced.

Overall, the MSCI All-Country World index jumped by 14.6% in sterling terms, taking its return over the last six months to 12.9%. Notable contributors included emerging markets which bounced 23.7% this quarter, despite China falling by 6.9%, which leaves the country's index down 13.7% since the end of December 2025. As alluded to above, performance in the technology sector has been variable with the M7 falling 0.3% over six months although even this couldn't stop the

overall tech sector rising 23.4% during that period, with semis up a staggering 55.9%. SpaceX, which was floated at \$135, was unsurprisingly volatile, as is the norm during the price discovery phase, rising by 49.5% (in dollars) at its high only to fall 15.3% to \$171 at the end of the quarter.

Known Unknowns

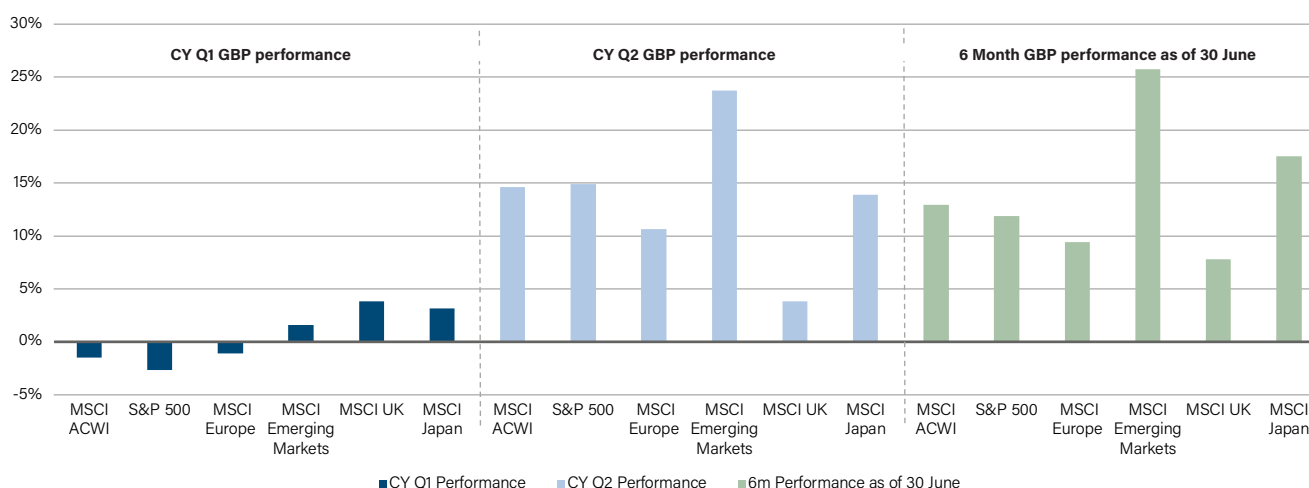
As was famously quoted by Donald Rumsfeld, the US Secretary of Defence, at his Pentagon news briefing discussing the lack of evidence regarding Iraq's weapons of mass destruction, risks come in many different shapes and form. His exact quote was:

"...there are Known Knowns; there are things we know we know. We also know there are Known Unknowns; that is to say we know there are some things we do

not know. But there are also Unknown Unknowns – the ones we don't know we don't know".

Whilst something of a mouthful, we think this articulation of events is particularly apt now. Rarely has there been a time when we know that change is coming but the ultimate outcome is shrouded in uncertainty. Hence, whilst not pretending that we have a crystal ball which will provide the answer, we thought it would be interesting to use the (hopefully) quieter summer period, to focus on the Known Unknowns and how they might impact markets in the years to come.

Unsurprisingly, many of these questions surround AI but also the broader geopolitical picture. In particular, we consider the following Known Unknowns:

Chart 3: Equity markets recovered strongly from the selloff in the previous quarter.

Source: Bloomberg

Understanding whether AI changes the world in which we live is challenging given that AI is still very much in its infancy.

'AI: We know it is coming but will it really change the world in which we live?'

'Geopolitics: Despite Trump's best efforts, does he really catalyse the end of the US hegemony?'

'Geopolitics: China is undoubtedly emerging, but can it really take on the baton as the global hegemon from the US?'

Does AI really change the world in which we live?

Understanding if and how AI changes the world in which we live is a multi-faceted question. In particular:

- Does AI deliver?
- Does AI kill employment?
- Does AI create inflation or deflation?
- Does the money invested in AI ever earn a return?

Understanding whether *AI changes the world in which we live* is challenging given that AI is still very much in its infancy. Nonetheless, at this stage it seems clear that AI will lead to huge gains in areas such as the automation of work. At its most basic level we are already seeing the rise of chatbots and digital assistants with AI handling simple conversations with customers and answering basic queries from employees. As AI becomes

ever more powerful over the coming years, inevitably a growing number of complex tasks will be taken over by AI. Ultimately it seems likely that we will transition from entirely human-led workstreams to hybrid workstreams whereby humans act as the orchestrators for AI agents with AI models being charged with completing task that would previously have been the domain of humans.

It is not, however, just about how AI changes white-collar sectors. Scientific discovery is likely to change beyond recognition with the pharmaceutical industry already starting to use AI to design completely new drugs from scratch and predict the toxicity of compounds before they enter a physical laboratory. Indeed, in a 2024 essay, Anthropic CEO, Dario Amodei, speculated that AI could speed up biological sciences as much as tenfold, in what he coined "the compressed 21st century", with fifty to one hundred years of innovation happening in five to ten years. Similarly, AI, when combined with industrial robots, may remove the need for human intervention entirely, with manufacturing centres becoming self-sustaining; optimising themselves, fixing issues and precisely meeting demand requirements. More worrying would be the involvement of AI in automated weapons, raising

moral questions as to whether decisions on life and death should be decided by computers and the danger of such capabilities falling into the wrong hands.

What is less clear to us is whether AI models can truly transition to Artificial General Intelligence (AGI) and possess human-level fully cognitive capabilities. Despite our doubts, such lofty ambitions are very much the stated aim of the major AI groups with OpenAI, Anthropic and Google DeepMind all throwing immense amounts of capital and brainpower at what has become a winner takes all arms race. Were such models to be successful, the ramifications would be immense, potentially removing the need for humans entirely and having much greater consequences for workforces and society in general.

The resultant *impact on labour* is very much dependent on whether AI remains a hybrid part of the workforce, with humans continuing to direct the models, or full AGI and the wholesale replacement of humans from the workforce. To date, despite models such as ChatGPT being released in 2022, the impact on the workforce has been marginal. Whilst entry level hiring appears to be softening in some AI exposed occupations, such as software development, and unemployment has risen

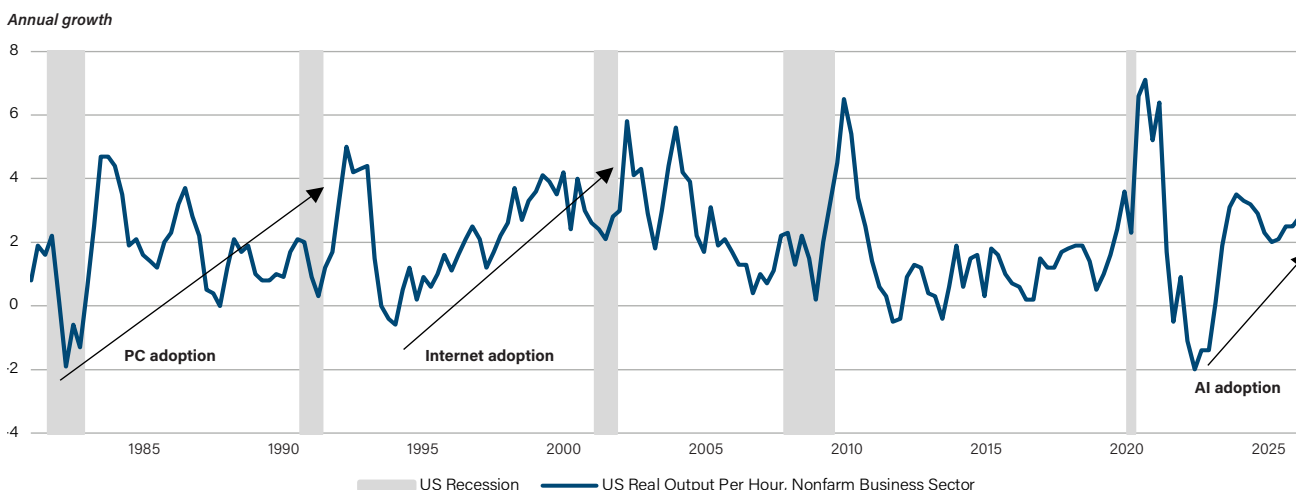
Leaders of the M7 describe how AI may change the world.

Google DeepMind CEO warns AI is at "species-level transition"

Elon Musk says that in 10 to 20 years, work will be optional and money will be irrelevant thanks to AI and robotics

Elon Musk says saving for retirement is irrelevant because AI is going to create a world of abundance: 'It won't matter'

Mark Zuckerberg Says AI Will 'Dramatically' Change the Way We Work This Year

Chart 4: Labour productivity has accelerated since 2023.

Source: Bloomberg

above the pre-pandemic average for some university level graduates, it is still unclear if this is entirely a function of AI. At the moment, AI is being used to make workers more efficient, not to replace them. It does, however, seem likely that over time certain white-collar workers and indeed industries will see meaningful change with sectors such as call centres potentially being wiped out in the process.

The two key factors to watch for in our opinion are the speed of change and, as mentioned above, whether the hybrid model or full AGI prevail. If the speed of change is manageable and the hybrid model prevails, our belief is that AI will follow the path of past periods of technological change. That is, whilst certain industries may be gutted, other industries will evolve and take their

place. If, however, the speed of change is so rapid, or full AGI is achieved, then the labour market may be decimated. Such an outcome would likely necessitate political and regulatory intervention and ultimately the laws of economics would kick in with end-demand collapsing, limiting the capital available to AI development.

The impact on inflation is also nuanced.

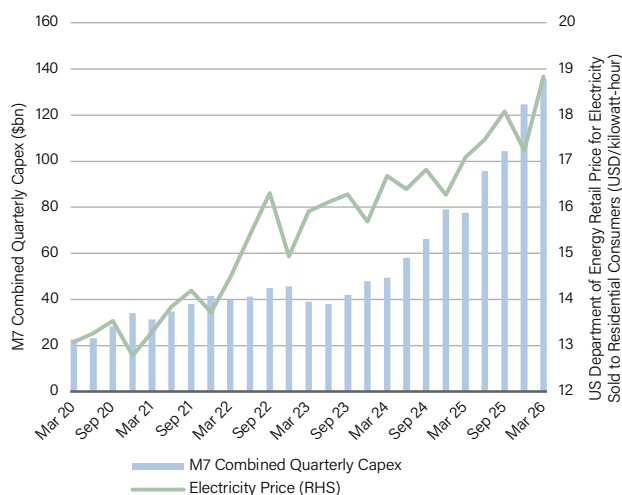
Short-term it appears very much inflationary. With the hyperscalers pouring hundreds of billions of dollars into AI infrastructure, driving up prices in areas such as semiconductors and servers, combined with rising energy prices catalysed by the immense amounts of electricity needed to power data centres, this will undoubtedly place structural upward pressure on prices. Combined with the wealth effect of rising stock markets,

which is particularly relevant in the US given the high levels of stock market ownership, this is creating an inflationary rather than deflationary backdrop, at least in the short-term.

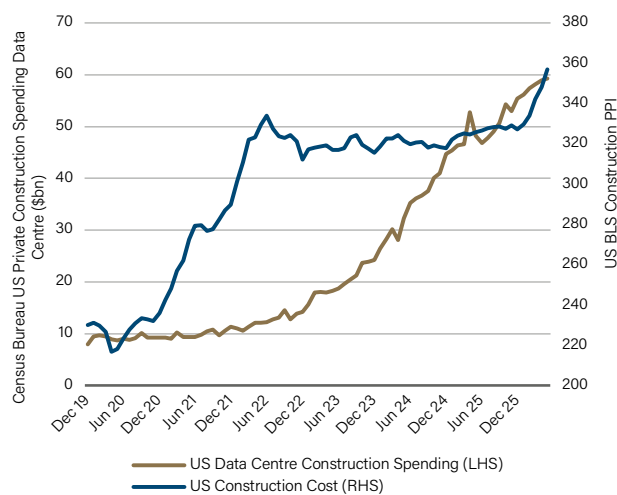
Longer-term though, the picture looks very different. As articulated by Kevin Warsh, many are of the view that AI will ultimately be deflationary. If, as predicted, AI leads to a sharp rise in productivity this is likely to place considerable downward pressure on prices as it lowers the unit cost of producing goods and services, boosting supply. This tension between the short and long-term creates considerable uncertainty for policymakers in the years ahead which, together with secular factors such as aging populations, geopolitical tensions and changes in global supply chains, will make their already difficult job even harder.

Chart 5: Immense levels of AI-related spending appears to be adding to inflation.

M7 Combined Capex and Electricity Prices



US Data Centre Construction Spend and Broad Construction Cost



Source: Bloomberg

With AI still in its early stages... it is very likely that the market continues to focus on the upside from the current capex rather than downside.

Perhaps the biggest worry we have, at least from a stock market perspective, is *whether or not the capital that is being invested into AI infrastructure can ever generate a return given the unprecedented scale of this capex*. The bulls would argue that it can, believing that such is the scale of the opportunity from AI, and the need to be the leaders in this race, that the capex is more than justified. With AI arguably a technological change unlike any other, to not be at the forefront of this change risks missing your place at the table. The bears, in contrast, argue that it is rarely 'different this time around'. Bubbles are formed on investors believing that prior common sense no longer holds true, be it valuation methodologies, margin excesses or supernormal returns. Rarely, however, do fundamental rules break over the longer term, be it the tulip mania of the 17th century, the railway bubble in the 19th century or the technology bubble of the late 1990's, all ultimately failed despite the claims at the time that it was different this time around.

Our view, again, is more nuanced. Whilst we are of the view that AI is a technological change that has rarely been matched, we also think that there is a high probability that much of the capital that is being invested today will not generate a return over the longer term with many companies

falling by the wayside in the process. As we have seen many times before, companies are often left with little choice but to invest. If you are a foundation model group such as OpenAI or Anthropic, you really are left with little option but to keep spending to ensure that your LLMs remain at the forefront of the market. The question of course is whether the end returns justify winning the race. Just as the telecoms operators such as Vodafone and Orange were forced to bid for expensive 4G spectrum to ensure that they had a 4G offering, unfortunately the cost of winning killed their business models and share prices.

The key question in our mind though is at what point does the market shift from a position of bullishness to bearishness. With AI still in its early stages, and many of the uses for AI still to be discovered, it is very likely that the market continues to focus on the upside from the current capex rather than downside. This, combined with the fact that many groups are self-funding (unlike in the late 90's tech bubble!) due to their immense cash flows, may well keep the investment case going for much longer than many believe. We're certainly not arguing that this time is different, but we wonder if the bears can keep going long enough to remain solvent!

Has Trump started the beginning of the end for the US hegemony and is China taking over the baton?

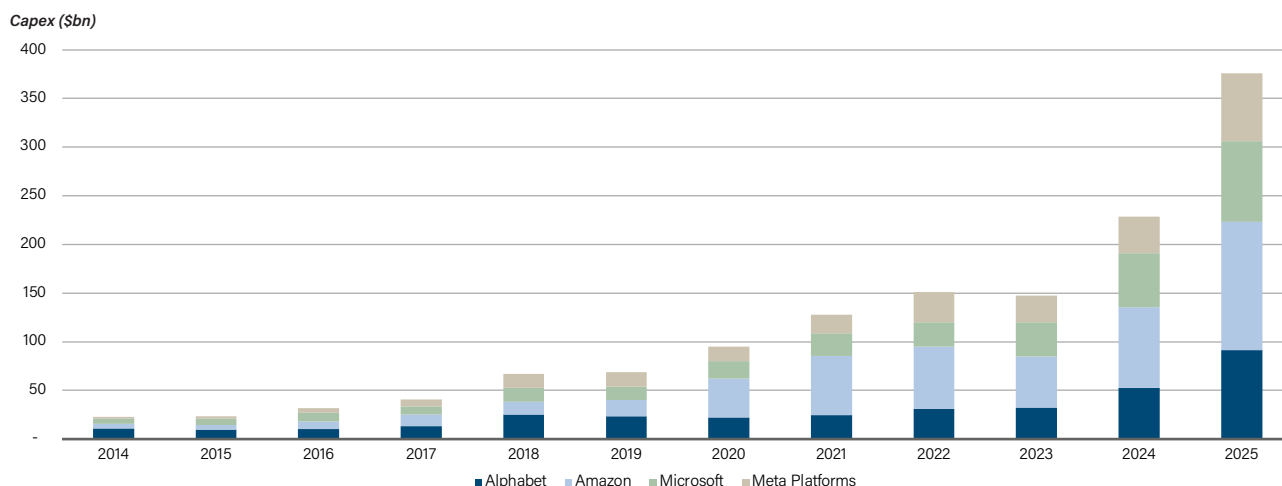
Turning to the geopolitical Known Unknowns, in many ways the question as to whether Trump is catalysing the beginning of the end for the US hegemony, and the rise of China as its replacement, are two sides of the same coin.

The US has enjoyed its position as the global hegemon for many years now whereas China, as the new kid on the block, has been growing rapidly as it became the manufacturer for the world, threatening to displace the US by virtue of the immensity of its economy and population. Recognising this danger, Trump has been engaging in a series of America-first policies aimed at solidifying America's position but, ironically, potentially accelerating its downfall and aiding China's claim to the title.

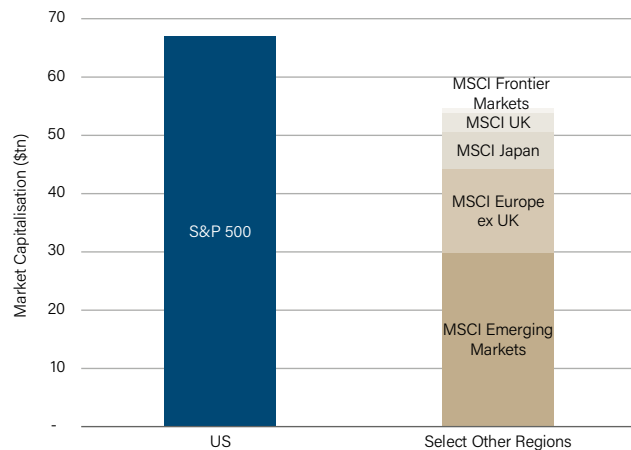
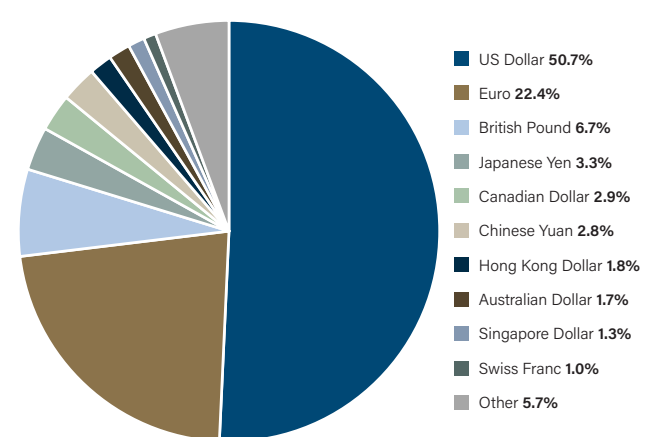
The key question then is whether Trump's actions really do undermine the factors underpinning the US's hegemony and is China truly in a position to contest it?

Starting with the US, its hegemony has been constructed upon a number of important building blocks. First and foremost, is the economy which is the largest in the world and a reflection

Chart 6: Hyperscaler capital expenditure has reached unprecedented levels.



Source: Bloomberg

Chart 7: The depth of US capital markets and the dollar's status as the global reserve currency gives the US a powerful position on the global stage.*The US equity market exceeds the combined market cap of most other major regions**Percentage of global payments by currency*

Source: Bloomberg, SWIFT

of the fact that the US represents the ultimate capitalist nation. Many would argue that the business of the US is doing business with an unparalleled level of entrepreneurship and innovation. Possessing a rule of law and a sound democratic backdrop, this has served to underpin US growth rates, productivity and economic power to levels that are unmatched elsewhere in the world.

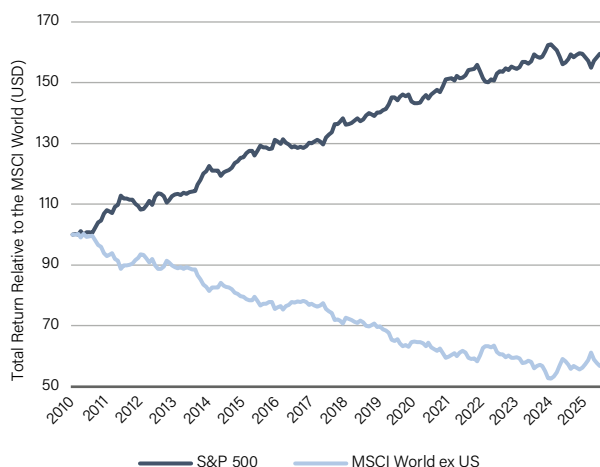
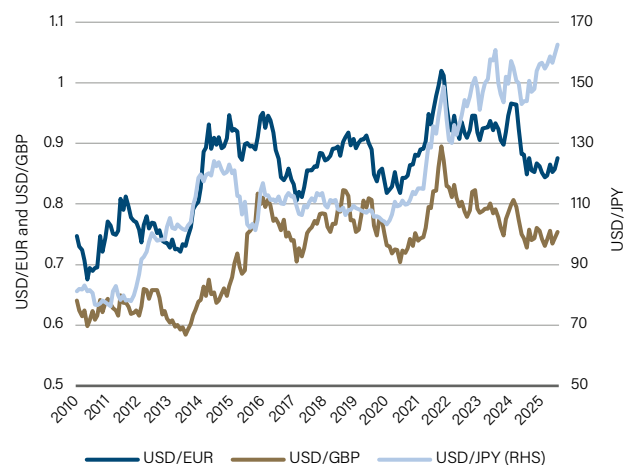
The second factor underlying the US position is its 'exorbitant privilege'. By virtue of its size and power, this has bestowed upon the US a number of unique privileges. In particular, we would note that the US enjoys the luxury of the dollar functioning as the world's reserve currency, with many assets priced in dollars and the majority of international transactions settled in dollars. Similarly,

its bond market is by far the largest in the world and its stock market represents nearly 70% of global indices. With the US also underpinning many of the key global institutions, such as the International Monetary Fund and the World Bank, the US can influence global laws and finance in its favour.

Finally, it has unrivalled military power. Through its immense military resources and reach, the US is also able to project its power globally. With a defence budget that is greater than the combined total of the next six highest-spending countries and operating around 750 military bases in roughly 80 countries, no one can match the US's ability to control events militarily, as well as financially, across the world.

Turning to Trump, we would view his actions as unhelpful, but, at this stage,

insufficient to truly destroy the factors that have made America great. Whilst many would argue that Trump is chiselling away at some of the key factors underpinning the US hegemony, we're not convinced that they are cutting into the muscle of America's dominance. Yes, there are questions surrounding Trump's actions on the rule of law and his comments on the key institutions such as the United Nations and desire to reduce the US's defence responsibilities and capabilities globally are all unhelpful, but we just do not see them as being sufficiently damaging at this stage to change the status quo. Despite claims to the contrary, the demise of the US is simply not borne out by the numbers if one looks at the recent performance of the dollar, the US economy and the strength of its stock market.

Chart 8: US assets have delivered sustained outperformance with its equity market far outpacing peers and the dollar strengthening.*The US has long outperformed the rest of the world**The Dollar has strengthened against many major currencies*

Source: Bloomberg

Despite Trump's best efforts to limit China's ability to export goods and cut its trade surplus, China cleverly pivoted away from the US, which now represents a comparatively small market for its exports.

China in contrast, has undoubtedly strengthened its position during the Trump administration. Incredibly, it is now often seen as the sensible voice in the room during global disputes, and, despite Trump's best efforts to limit China's ability to export goods and cut its trade surplus, China cleverly pivoted away from the US, which now represents a comparatively small market for its exports, and focused its efforts on selling to the rest of the world. Such is its success that China now accounts for 14% of global exports. Similarly, by the US pulling back its global military presence, it has enabled China to extend its power and influence, likely bringing closer the day that it can subsume Taiwan as is its stated aim.

Despite this success, the question of China taking over the role as the global hegemon is still highly debatable. For example, whilst Trump may be scratching at the fabric of the rule of law in the US, levels of transparency, judicial independence and equality remain far higher in the US compared to China. Innovation also remains stronger in the US and whilst China has particular strengths in scaling existing technologies, especially in areas such as biotechnology, they lag significantly behind the US in most high-tech areas. Ultimately, we are unconvinced that an inherently communist society

such as China can be nimble enough to navigate the ever-changing world in which we live and ensure that capital is allocated efficiently.

This belief that there is no imminent change in the US's current hegemony does not, however, mean that we should ignore countries such as China. They are growing rapidly in size and whereas historically the US had almost complete dominance, countries such as China and India are becoming far more important meaning that we will increasingly have to consider a multi-polar geopolitical and stock market backdrop. Also, whilst we may have the view that the US should remain the nucleus of one's portfolio – and we are unashamed Americophiles when it comes to the US stock market over the long-term – we may from time to time favour leaning towards other countries, for cyclical reasons, as is increasingly the case now, but also for reasons of diversification and not wanting all of one's eggs in the same basket.

Portfolio positioning

Our portfolio positioning remains largely unchanged from our prior comments. With our desire to stay fully invested most of the time and fundamentals largely supportive of risk assets, as highlighted above, we

see no reason for deviating from our pro-market positioning.

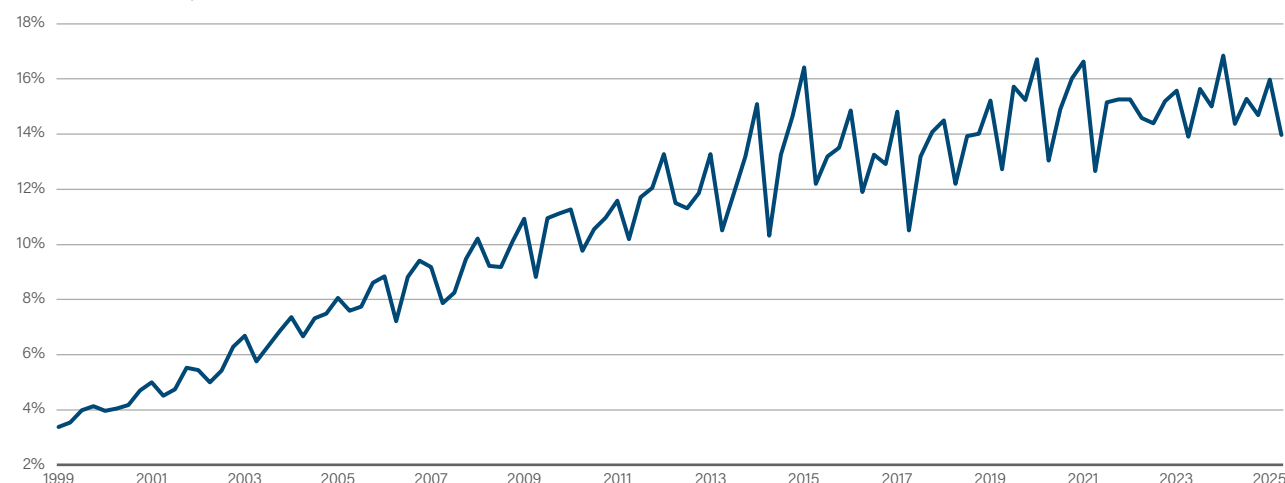
What is important however is the need for diversification. In this time of elevated Known Unknowns and with AI so dominant in the US market we view it as prudent to seek diversification where we can, especially with valuations above their averages and the margin of safety commensurately lower. Unfortunately, the concentration in AI has also extended to Asia and the emerging markets, making it harder to achieve this diversification. Nonetheless, we believe that holding a blend of different countries, styles (with value styles typically having a far lower exposure to the AI theme) and, where we can find them, by factor, should stand us in good stead as events unfold.

Summary

Times of great technological change and shifts in the geopolitical tectonic plates bring with them both huge opportunities but also significant risks. Current events appear almost unprecedented in their scale and, as discussed above, we know that huge change is around the corner but what this change looks like is unknown in many instances. We have given a taster of some of the potential outcomes above albeit our crystal ball remains as hazy as everyone else's.

Chart 9: China has become a much greater proportion of global exports.

China's Share of World exports



Source: Bloomberg

Chart: A summary of our thoughts on markets

Asset Class	Main View	Direction of Exposure
Markets Overall	Risk on	Remain Overweight
US Equities	Structurally positive but will be used as a source of funds to increase diversification.	
Rest of World Equities	Improving outlook. Dialling up exposure to increase diversification.	
Diversifying Assets	More attractive with positive real yields. We have increased exposure via dynamic managers.	

What is even harder to speculate on are the Unknown Unknowns. By definition, these are things we simply do not know about and hence cannot predict how they will pan out. What we can say, however, is that such is the potential level of disruption from AI, especially if we see full AGI, the Unknown Unknowns will likely be unprecedented in scale. We have had a taster of this through the advent of the internet and mobile. Who would have known at the outset that these would have led to creations such as social media and our children being glued to ten second videos on TikTok for most of the day! History tells us that it is the Unknown Unknowns that normally throw markets out of kilter and catalyse recessions (such as in the US housing market in 2007) with their nature making them very hard to spot, even to the most trained eye.

Clearly, we are in a more interesting time for stock markets but also one which is fraught with danger. Ultimately, however, this backdrop should play to our active, multi-asset approach in view of its natural diversification and having many options open to us in our toolbox.

Portfolio Review and Activity

During the first quarter of the financial year, the portfolio delivered a strong NAV total return of 9.9%, which takes its return over the past twelve months to 32.9%. This compares to 5.3% over the quarter and 14.4% over one year for a traditional 60:40 blend of equities and bonds (as represented by the MSCI ACWI Equal Weighted and Bloomberg Global Treasury indices). Looking at another of the KPIs, the portfolio's return over both periods was also ahead of the MSCI ACWI Equal

Weighted index which delivered a gain of 9.0% over the quarter and is now up 23.0% over one year.

The Company's ordinary share price gained 21.6% during the quarter and is up 24.9% over one year. The performance of the A shares was 20.4% and 28.1%, respectively, over the same periods. These share price moves saw the discount narrow, with the combined discount of the share price to the NAV coming in over the three-month period to the end of June from 46.1% to 40.7%.

We have continued to invest the Wilson Sons cash in the portfolio in accordance with the Board's previous decision regarding its deployment. The investment of the second tranche of cash was completed at the start of the quarter, and the third tranche was executed at the end of the quarter, with some trades running into the beginning of July. The final tranche is planned to be executed later this year. We have invested the cash tranches across most of the portfolio, with a focus on favoured areas thereby rebalancing the portfolio's exposures.

No dividends were paid over the quarter, although a dividend of 2 pence per share was announced after quarter-end with an ex-date of 16 July 2026. During the quarter, the Company bought back and subsequently cancelled 1.0% of its total shares in issue at a cost of £6.0m. No Ordinary Shares were bought back, while 1,967,500 A Ordinary Shares were repurchased and cancelled.

Country and Thematic Funds

The best returns within the portfolio came from the Country and Thematic Fund

The Company's ordinary share price gained 21.6% during the quarter and is up 24.9% over one year. The performance of the A shares was 20.4% and 28.1%, respectively, over the same periods.

Emerging Markets, particularly Asia, were especially strong over the quarter, with EM making its best quarterly gain since the second quarter of 2009.

sleeve which represented approximately two-thirds of total assets at the end of June. The sleeve gained 16.3% over the quarter to take it to 31.7% over one year. The strong performance over the quarter was broad-based, with notably strong returns coming from North America, Asia, Emerging Markets and technology-focused investments.

In North America, the **iShares Core S&P 500 ETF** gained 16.4% during the quarter while **Life Cycle US Equity Fund** rose 15.8%. Performance continued to be driven by strong earnings growth within US companies and ongoing investment in AI infrastructure. Although there are some concerns about valuations, earnings growth has so far continued to justify much of the optimism. **Findlay Park American Fund** and **Beutel Goodman US Value Fund** also delivered gains, being up 11.2% and 16.2%, respectively, over the quarter, to leave them up 13.1% and 20.9% over the year. A notable exception in this part of the portfolio was **Pershing Square Holdings**, which declined 5.9% over the quarter to modestly detract from overall returns. Pershing's position in Hertz detracted as its share price fell on poor results, blaming increased depreciation costs on softness in the used car market.

There was mixed performance in the Japanese holdings, with **Alma Eikoh Japan Large Cap** rising a very strong 28.0%, while **Arcus Japan** and **Simplex Value Up Trust** were more muted. Over one year, these three holdings have returned 45.8%, 21.4% and 15.0%, respectively. The Alma fund has an overweight position in semiconductors, which have been extremely strong in recent months, and its two largest holdings in this sector (Screen Holdings and Kioxia Holdings) delivered stellar returns during the quarter.

Emerging Markets, particularly Asia, were especially strong over the quarter, with EM making its best quarterly gain since the second quarter of 2009. This performance was explained by the large share of semiconductors and IT hardware in the universe, as the producers of the "picks and shovels" of the AI boom were handsomely rewarded with share price gains. **Schroder Asian Total Return** gained 32.4% during

the quarter to leave it up 58.3% over twelve months, while the **iShares MSCI EM Asia ETF** was up 30.7% over the quarter. **Carrhae Capital Long Fund** is a new EM fund that was purchased during the quarter, and it is up 14.4% over the short period it has been held. **BlackRock Frontiers Investment Trust** gained 12.9% over the quarter and is up a strong 24.9% over the year.

Within the Thematic holdings, technology once again dominated performance. **Polar Capital Global Technology Fund** delivered a remarkable 60.4% return over the quarter while the **iShares Expanded Technology ETF** gained 38.1%. The one-year returns for these holdings are now 129.7% and 51.0%, respectively. Demand for AI infrastructure remains exceptionally strong, supporting semiconductor producers, data centre operators and software providers. The manager of the Polar fund continues to believe that AI adoption remains in its early stages despite growing debate about valuations within parts of the market. Technology now represents one of the portfolio's most successful long-term investment themes. Other thematic holdings were more muted this quarter although most made gains. **Albemarle Shipping Fund** and **Polar Capital Global Insurance Fund** were up 2.7% and 7.1% over the quarter. Healthcare delivered a more mixed performance this quarter, but one-year returns are very good. **Polar Capital Biotechnology Fund** gained 25.7%, while **RA Capital International Healthcare Fund** declined 1.1%, to take their returns over twelve months to 21.4% and 88.6%, respectively. The healthcare sector continues to experience significant differentiation between companies and sub-sectors, although valuations in many biotechnology businesses remain attractive relative to their long-term growth potential.

Direct Global Equities

The portfolio returned 6.0% during the quarter, with positive contributions from a combination of existing holdings and one new investment. The largest contributors were **Interactive Brokers**, **Subsea 7** and **TSK Electrónica y Electricidad (TSK)**, while **Ayala Corporation**, **Glencore** and **International Petroleum Corporation**

were the principal detractors.

We initiated a position in **TSK** shortly after its flotation, and the shares contributed positively before quarter-end. TSK is a family-controlled Spanish engineering and technology group exposed to investment in power generation, energy transition, digital infrastructure and critical materials.

Our thesis is that TSK is a better business than the generic engineering-contractor label suggests. It has increasingly focused on technically complex projects where it can become involved earlier in the design process, negotiate more favourable commercial terms and compete on expertise rather than price alone.

We would normally be cautious about investing around an IPO, given that selling shareholders inevitably know more about the business than prospective investors. In this case, however, the family did not sell any shares, and the proceeds will strengthen the balance sheet and increase TSK's capacity to bid for larger contracts. In June, the company announced three new international projects across power generation and critical materials, providing early evidence of the opportunity created by rising investment in electricity generation, grid stability and digital infrastructure. TSK remains a project-based business, so contract selection, execution and working-capital discipline will be critical.

Interactive Brokers continued to deliver exceptional growth. At the end of June, client accounts were 34% higher than a year earlier, client equity had risen 40% to \$930 billion and daily average revenue trades were up 53%. In fact, the more than 400,000 new accounts added during the quarter exceeded the company's entire account base when we first invested in 2017. Its technology-led platform, low-cost position and financial strength continue to support market-share gains across customer groups and geographies. The valuation is now less obviously attractive, so future returns will increasingly need to come from earnings growth rather than further multiple expansion. Operationally, however, the business continues to exceed our expectations.

Among the detractors, **Ayala** was affected by weak sentiment towards the Philippines and softer conditions in its property operations. **Glencore** was held back by commodity-price volatility, while **International Petroleum Corporation** declined after a strong previous quarter as oil prices normalised.

In each case, we believe the underlying investment thesis remains intact. We added to both Ayala and International Petroleum during the quarter. Both face legitimate near-term concerns, but current valuations appear to assign insufficient value to their longer-term assets and cash-generation potential.

The portfolio remains concentrated in businesses with aligned owners, defensible market positions and identifiable opportunities to improve earnings, cash generation or capital allocation. We continue to find attractive investments outside the most heavily owned areas of global equity markets, although the path to recognition is rarely smooth. Markets, inconveniently, do not revalue companies according to our preferred timetable.

Diversifying Funds

The Diversifying sleeve returned 1.5% during the quarter and has now delivered 9.3% over one year. While this performance is more modest than equities, it is pleasing that it has continued to fulfil its role of providing alternative return streams and reducing portfolio volatility.

BioPharma Credit had another good quarter, rising 3.9%, benefiting from strong cash generation and a number of successful loan repayments, and is now up 22.0% over the year. In May, Alphatec repaid its \$35m loan plus interest to the company, which delivered a net IRR of 11.9% on the investment for BioPharma Credit. **Lazard Convertible Global** was particularly strong, up 13.7% to take it to be up 17.2% over the past year, as it was aided by improving investor sentiment toward growth-oriented

sectors, with around a third of its holdings exposed to the IT sector.

The portfolio's systematic holdings had a more modest quarter, reflecting the rapidly changing market conditions during the period, with the two trend-following funds delivering returns of 1.4% (**John Street Systematic**) and -0.8% (**Winton Trend Fund UCITS**). Both funds have done very well over the past year, however, with returns of 18.8% and 15.7%, respectively. **BlackRock Systematic Total Alpha Fund**, which invests systematically using many different non-trend-following models, returned 0.4% and is up 8.1% over the past year.

The two event-driven funds, which focus on merger arbitrage and corporate events, performed well over the quarter, with **Global Event Partners** up 3.6% and **Trium Khartes Fund** up 2.0%. Global Event is up 8.6% over the past year, while the Trium fund is up 0.6% since its purchase in February this year.

Private Assets

Private assets currently make up around 8% of the portfolio, but this is expected to rise to around 20% over time. Our strategy here is to commit to high quality managers using a core and satellite approach. The core of the portfolio consists of large buyout managers, predominantly in the US and Europe, which has been combined with exposures to Asia, venture capital and other select areas through time. We typically do not write about quarterly performance in this sleeve as valuation changes over short timeframes are not meaningful for private assets.

One new commitment was made during the quarter, to **Founders Fund Growth IV**, one of the very top venture capital managers in the world, with an exceptionally strong reputation and a superb track record. We are pleased to be able to access this fund, and believe that the reputation of the firm should provide it access to the

most promising founders and highest quality deals.

Silver Lake Partners, founded in 1999, is a core manager within our programme. Their flagship strategy invests in large cap companies that operate within technology and technology-enabled industries, with the majority of investments being in the US. This fits well with our long-held bullishness on the US technology sector. Silver Lake are one of the world's best known technology investors and had significant success with investments like Dell where they took an unloved public company private, turned it around and then re-listed it. We have committed to four funds with this manager dating back to 2013 which have broadly performed well. The most recent of these, Fund VII, is still in its deployment phase.

OrbiMed is a group with which we have had a long relationship and they act as an important satellite holding in this part of the portfolio. OrbiMed is a biotechnology specialist based in New York, that invests globally across private and public markets although the funds we have committed to largely focus on North American private companies. The strategy invests primarily into early (40-60%) and middle-stage (20-40%) private companies while also making some growth-stage and public (10-30%) investments. The strategy seeks to invest in companies with attractive business models, large unmet markets, strong intellectual property and strategic entry points with a clear path to profitability or exit. The biotechnology sector lends itself to patient investors who can wait for returns to be realised, as it takes a long time to develop treatments but the rewards for success can be very attractive, and hence we feel it sits well in this part of the portfolio. We have exposure to OrbiMed funds VIII, IX and X.

Alec Letchfield
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