LONG EQUITY

Annual Letter

Long Equity Fund

2025

LONG EQUITY

22 December 2025

Dear Reader,

The portfolio's market performance in 2025

At the time of writing, **the portfolio is down -2.3% year to date**. Five of the companies we hold outperformed the S&P 500 this year (see below table), with only **KLA Corp.** demonstrating strong linearity in its share price growth.

Company	YTD CAGR	1yr Linearity
Lam Research	142%	0.89
Comfort Systems USA	116%	0.89
KLA	100%	0.92
Applied Materials	59%	0.70
NVIDIA	38%	0.80
S&P 500	16%	0.75
Visa	11%	0.36
Mastercard	9%	0.48
Cadence	5%	0.53
MSCI	-5%	-0.50
TechnologyOne	-6%	0.33
Fair Isaac	-14%	-0.63
Fortinet	-15%	-0.66

Lam Research, **Comfort System USA** and **TechnologyOne** were new positions this year and therefore the above year to date (YTD) figures do not reflect their performance in the portfolio. Three of the companies we sold this year - **ATOSS Software**, **Constellation Software** and **Microsoft** - also underperformed the S&P 500. For reference, the MSCI World Quality index underperformed against the MSCI World index by 4.37 percentage points - suggesting to us a 2025 underperformance in the quality investing strategy. We remain bullish on quality growth investing, particularly given that the MSCI World Quality index has outperformed in 10 of the last 15 years.

The portfolio's quality in 2025

Our objective continues to be to only own the highest quality growth companies available. The below table sets out the portfolio's weighted average for a selection of financial metrics.

Financial metric	Portfolio
5yr FCF/share CAGR	27%
5yr FCF/share RSq	0.93
5yr Revenue CAGR	21%
Cash ROC	40%
SBC/OCF	8%
5yr Δ Share Count	-8%
Long-Term Debt	36%
Interest Expense	6%
FCF Margin	36%
5yr FCF Margin Expansion	4%

The 5-year FCF per share annualised growth rate is currently 27% (compared to 24% last year and 20% the year before), while the 5-year revenue annualised growth rate is 21% (18% last year, 14% the year before). The 6 percentage point spread between revenue and FCF per share reflects that our portfolio companies are selling more, raising their prices (typically above the rate of inflation) and becoming increasingly efficient through cost cutting. The cash return on capital is considerably above average at 40% (38% last year, 31% the year before), suggesting that the portfolio companies are increasingly capital efficient. The FCF margin is 36% and has expanded by 4 percentage points over the last 5 years, supporting the pricing power of these companies. We take comfort in the fact that the weighted quality of the portfolio is now the highest it has ever been.

Share-based compensation continues to be employed by many companies for attracting and retaining talent. We monitor (i) the ratio of share-based compensation to operating cash flow (SBC/OCF), and (ii) the 5-year change in share count, to help get a sense of the cost and dilutive effect of this practice. While a 8% SBC/OCF is not a low figure (10% last year), this is considerably below the +25% figure seen in some tech companies. It's also comforting to see a decline in share count over the last 5 years by -8%, which further concentrates the interest of shareholders. With regard to balance sheet strength, our holdings are conservatively financed, with long-term debt representing 36% of the balance sheet and the cost of servicing this debt (the interest expense) being only 6% of operating profit. In conclusion, we continue to own conservatively financed, cash-generating, price setting, compounding assets.

The portfolio's valuation in 2025

The weighted FCF yield of the portfolio is 2.79%, compared to 2.71% last year. The slight rise in the yield suggests that valuation has been a headwind for the share prices of the companies in the portfolio. The portfolio companies with the highest FCF yield are currently **Comfort Systems USA** (4.93%) and **Visa** (3.27%), while **Cadence Design Systems** (1.36%) and **Fair Isaac** (2.07%) have the lowest FCF yield. Valuation will continue to be closely monitored and we remain mindful of valuation risk.

The portfolio's turnover in 2025

The biggest change in 2024 was maximising the portfolio for predictable growth, pricing power and capital efficiency - which led us to move away from certain sectors that we had held in the past, such as healthcare. We maintained that trend into 2025, as we continue our emphasis on companies that sit at the intersection of high growth and predictable growth, and that require minimal reinvestment to generate future growth.

The positions new to the portfolio this year are **TechnologyOne** (down 9% since first buying in February), **Comfort Systems USA** (up 37% since first buying in July) and **Lam Research** (up 7% since first buying in November). This year we sold **Microsoft** in February, **ATOSS Software** in August and **Constellation Software** in November. We also briefly held **Arista Networks** from August to November.

Over the course of 2025 we continued to concentrate our portfolio into 11-13 positions (we currently have 12) and we intend to carry this on in 2026. It is worth highlighting that despite being concentrated, the portfolio still benefits from diversification, given that all our holdings are multinationals, generating revenues from across the globe, from a wide range of products and services and in a range of sectors that include credit scores, cybersecurity, payment processing, semiconductors and software.

To track turnover we monitor the number of companies in the portfolio that have been held for less than 1 year, which is currently 3 out of 12. We expect that to keep this number low over the course of next year. We will continue to prioritise only owning the highest quality growth stocks over having the lowest turnover. This means we won't hesitate to sell if the quality of one of our holdings deteriorates, or to buy if we think a company's quality and growth justify it having a position in our portfolio.

Outside of our portfolio, we maintain a watchlist of quality growth companies that we follow closely. This includes new names and also companies that we have held in the past. In software we follow **ATOSS Software**, **Microsoft**, **Nemetschek** and **Qualys**. In semiconductors we follow **ASML** and **Synopsys**. And in other sectors we follow **Mettler Toledo** and **Parker-Hannifin**.

Final greetings

We look forward to 2026 and wish you all a Merry Christmas and a Happy New Year.

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