QUARTERLY COMMENTARY

INTERNATIONAL

30 JUNE 2026

It's the earnings...

To paraphrase the famous observation of political strategist James Carville, "it's the earnings, stupid".

Markets are never short of distractions. Politics, tariffs, inflation, elections, conflicts and technological breakthroughs all compete for investors' attention. Over shorter periods, they can exert a powerful influence on sentiment and share prices. We believe, over the long term, it is earnings growth that matters most.

That belief sits at the heart of our investment philosophy. Our objective has not been to predict the next market move or identify the latest fashionable trend. Instead, we seek to invest in exceptional businesses capable of delivering resilient and sustainable earnings growth over many years. Ultimately, we have always believed that it is growth in earnings, rather than shifts in sentiment, that drives shareholder returns.

Today, our confidence rests not on forecasts for markets or economies, but instead on our view of that earnings outlook.

Looking beyond the noise

Long-term investing requires patience. It also requires the ability to separate what is important from what is merely attention-grabbing.

Our research process is deliberately designed to challenge assumptions and test resilience. We spend considerable time examining risks, assessing different scenarios and questioning our conclusions. We meet management teams, analyse competitive dynamics and consider how businesses might respond to inflation, regulatory change, economic weakness or geopolitical turbulence.

Every day we are reminded of the remarkable pace of innovation taking place within the kinds of companies that meet our consistently applied investment criteria.

Advances in artificial intelligence are reshaping industries. Scientific breakthroughs are improving healthcare outcomes. Rising incomes continue to expand consumer opportunities across many parts of the world. Businesses are becoming more productive, efficient and sophisticated.

These developments are not abstract concepts. We believe they translate into growth opportunities for companies with strong market positions, differentiated products and capable management teams.

While the international portfolio has historically delivered strong earnings growth, in recent times it has not kept pace with the broader market, which has been supported in part by strong earnings within the financial sector. We have maintained a longstanding underweight position in this area, as we find the quality and visibility of earnings less attractive. Looking ahead, however, we believe the outlook is more encouraging.

When sentiment and fundamentals diverge

Recent years have provided numerous examples of the market's tendency to focus narrowly on a small number of favoured themes.

The rise of artificial intelligence created tremendous excitement around a handful of companies perceived to be immediate beneficiaries. In the process, many other high-quality businesses were overlooked, despite continuing to execute successfully and grow earnings.

Daikin is just one example. The world's leading manufacturer of air-conditioning systems has spent several years operating against a difficult backdrop. Slower demand, geopolitical uncertainty and concerns surrounding global industrial activity weighed on investor sentiment and Daikin's share price. Yet, throughout that period, our view of the business's long-term prospects remained optimistic.

Rising global temperatures, urbanisation, increasing wealth in developing economies and growing demand for energy-efficient climate control systems continue to underpin the company's long-term growth. Many regions, including India and Latin America, remain significantly underpenetrated.

Meanwhile, Daikin continues to strengthen its competitive position through technological innovation, global scale and leadership in environmentally friendly cooling solutions.

While investor enthusiasm ebbed and flowed, corporate performance remained resilient. Despite a challenging operating environment, the company recently reported record results, supported by profitability improvements, pricing discipline and growth in higher value-added products.

This is not simply about Daikin. It is that share prices can spend prolonged periods moving in a different direction from underlying business performance. Over time, however, we believe it is earnings that have the final say.

The enduring drivers of healthcare

Healthcare is another area where sentiment has often diverged from fundamentals.

Concerns around regulation, drug pricing and, more recently, tariffs have weighed on the sector. Yet we believe the long-term drivers remain as powerful as ever.

Ageing populations, increasing life expectancy, scientific innovation and the growing importance of personalised medicine continue, in our view, to create substantial opportunities for the industry's leading companies.

Roche is just one example of a company that has been impacted by many of these challenges over recent years, whilst also remaining aligned, in our view, to compelling long-term trends. At our recent Research Conference in Edinburgh, Roche's chief financial officer highlighted a characteristic that differentiates the company from many peers: its combination of world-leading pharmaceutical and diagnostics businesses.

Last year Roche's medicines reached around 39 million patients. Its diagnostics division conducted some 31 billion tests.

Together, these businesses provide a unique combination of scientific insight, innovation and resilience.

What particularly stands out is Roche's long-term mindset. The founding family still controls approximately 65% of voting rights, helping reinforce a culture focused on sustainable value creation rather than short-term outcomes. For a company whose success depends on scientific research and investment, we believe that perspective matters.

For investors, a key point is that the fundamental drivers of demand have not changed. Healthcare innovation remains essential. Medical needs continue to grow. Scientific advances continue to improve what is possible.

Consumers still know what they want

The consumer sector has also spent much of the past few years out of favour.

Higher inflation, slowing economic growth and concerns over household spending have prompted widespread caution. Recent headlines have painted a picture of reluctant consumers and weakening demand.

Yet, as ever, the reality is more nuanced.

We believe that the strongest brands continue to demonstrate remarkable resilience because they offer something more than products alone.

Take global retailer Inditex, best known for its Zara fashion chain. During a recent return visit to the company’s headquarters in Spain, one of our observations remained consistent: while the retail landscape has changed dramatically, the strengths of Inditex's operating model remain intact.

The company continues to combine rapid product development, close customer feedback loops and exceptional operational flexibility. These advantages appear to have become more valuable as consumers increasingly seek differentiated and fashion-led products.

Similarly, meetings during a trip to Paris in June with luxury goods companies including LVMH and Hermès reinforced our belief that reports of a structural decline in luxury consumption are unwarranted.

Near-term challenges undoubtedly exist, particularly in China. Yet the characteristics that underpin these businesses remain unchanged: exceptional brand equity, pricing power, customer loyalty and decades of carefully nurtured desirability.

Hermès offers a particularly striking example. Six generations after its founding, the company remains relentlessly focused on craftsmanship, exclusivity and long-term brand stewardship. While others have pursued aggressive price increases, Hermès has maintained a more measured approach which may preserve customer trust and long-term demand.

The result is a business whose competitive advantages, from our standpoint, appear as durable today as they were decades ago.

Reasons for optimism

Over recent months members of our Research team have travelled extensively, meeting companies across Europe, as well as in India, Korea, China and Hong Kong, while also monitoring developments and debating with experts on topics ranging from trade policy to inflation and geopolitics.

We consider those risks remain worthy of attention. Markets do not move in straight lines and the impact of periods of uncertainty is inevitable.

Yet what stands out most from our company meetings is not caution, but progress.

We see businesses investing in innovation. We see management teams pursuing long-term opportunities. We see advances in healthcare, technology and productivity continuing at a remarkable pace.
Perhaps most importantly, we have never doubted the relevance and importance of the qualities and characteristics we seek in any investment. While market sentiment might question their value, our focus on companies that continue to grow, invest and strengthen their positions remain unchanged.

Earnings expectations may fluctuate and outcomes will almost inevitably differ from forecasts. Nevertheless, we believe the attributes and actions we look for in companies provide a strong foundation for long-term value creation.

And ultimately, that is why we remain optimistic.

Because, we continue to believe, in the end, it is all about the earnings.

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