WALTER SCOTT

QUARTERLY COMMENTARY

GLOBAL

30 JUNE 2026

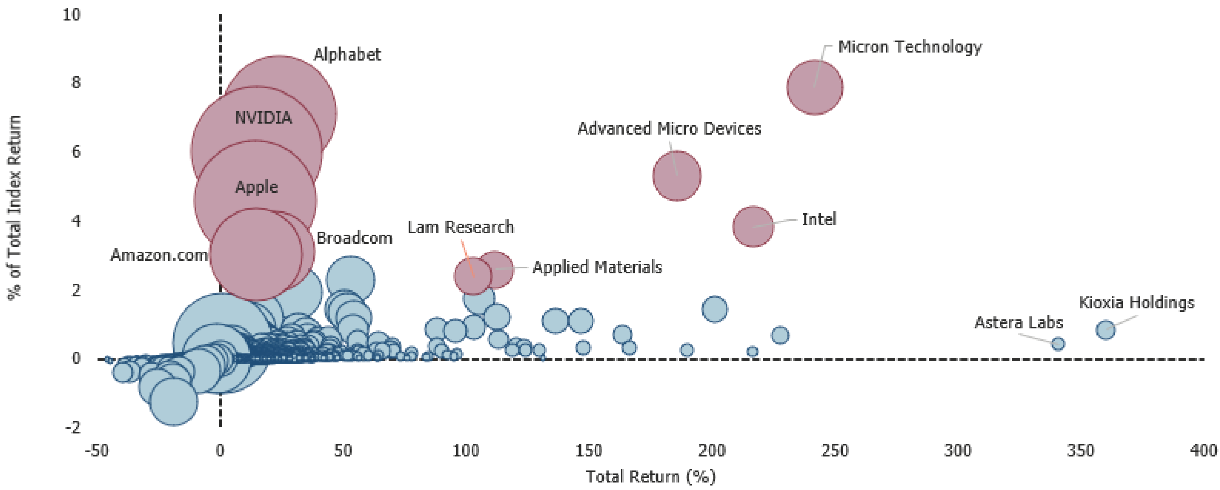
The surge in semiconductors

Global equities were strong over the quarter, although there were considerable disparities in sector performance. Hopes that the ceasefire between the US and Iran would lead to an enduring peace deal invigorated market spirits, but it was the build-out of AI infrastructure that was the primary focus of investor attention. The strongest gains were posted by the 'nuts and bolts' enablers of the technology, such as semiconductor companies, including Taiwan Semiconductor (TSMC) and analogue chip maker Texas Instruments.

Of particular note was the extreme surge in more-cyclical memory semiconductor businesses, reflecting burgeoning demand for high bandwidth memory (HBM) chips. HBM is the specialised memory integrated into AI accelerators. NVIDIA's graphics processing units, a critical backbone of AI, require massive amounts of these chips to support AI workloads. Semiconductor lithography company ASML, another strong performer this quarter, is a beneficiary of the considerable ramp-up of memory chipmakers' capital expenditure.

While also demonstrating the influence of the big index behemoths, the extent of investor focus on the semiconductor arena was apparent in the composition of MSCI World Index (ndr) returns this quarter (see below).

The Memory Semiconductor Surge - MSCI World (ndr) Q2 2026
Total Return vs Percentage of Total Index Return

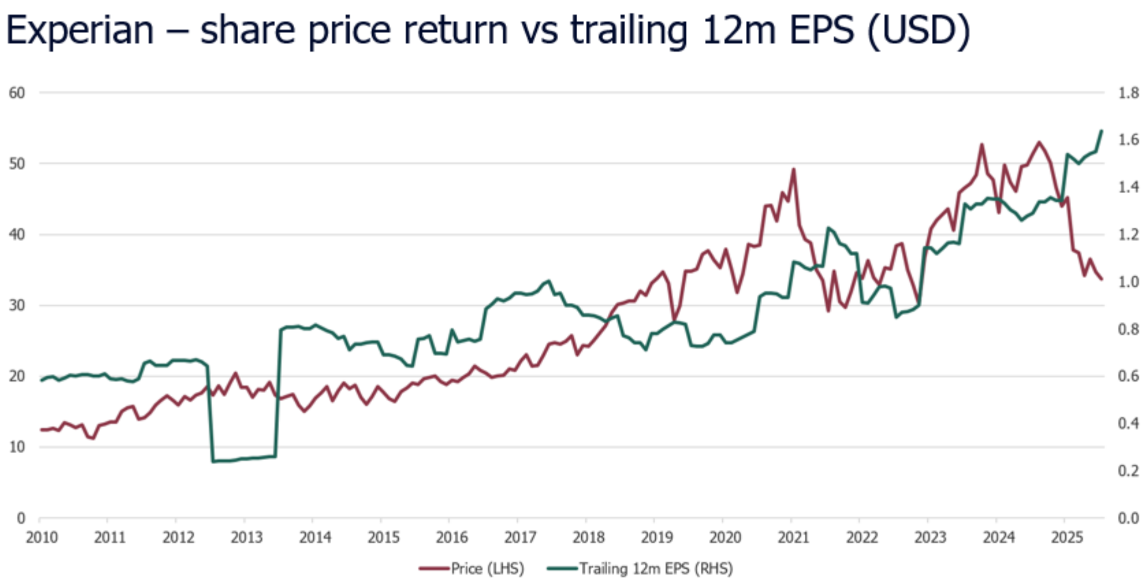


Source: MSCI. As at 30 June 2026. Returns shown in USD. Size of bubbles represent weight within benchmark. All MSCI World Index constituents included. Past performance is not a guide to future performance and returns may also increase or decrease as a result of currency fluctuations.

NB. Astera Labs is a fabless semiconductor company, while Kioxia Holdings is the memory semiconductor business spun out of Toshiba.

Disorderly derating

This quarter has seen a number of stocks continue to register a notable divergence between share price and earnings (i.e. valuation compression). Into this category fall companies which have been the subject of concerns regarding the impact of AI on their businesses. Among them is credit information company Experian.



Source: Walter Scott, FactSet. Data to 30 June 2026. Trailing 12m Earnings Per Share (EPS): Uses Trailing 12m EPS for U.S. companies and fiscal year EPS for non-U.S. companies. Price return and EPS figures are in USD.

Experian's recent weaker share price performance has been driven by sentiment rather than fundamentals, in our view. Concerns around agentic AI disruption have weighed on market confidence. However, demand for high quality credit data continues to grow as data-driven decision-making becomes more important. Experian's position is underpinned by its unique proprietary datasets, deep business-to-business relationships, and trusted role in regulated environments. AI is more likely to enhance value extraction and efficiency than threaten the business, supporting our continued long-term conviction.

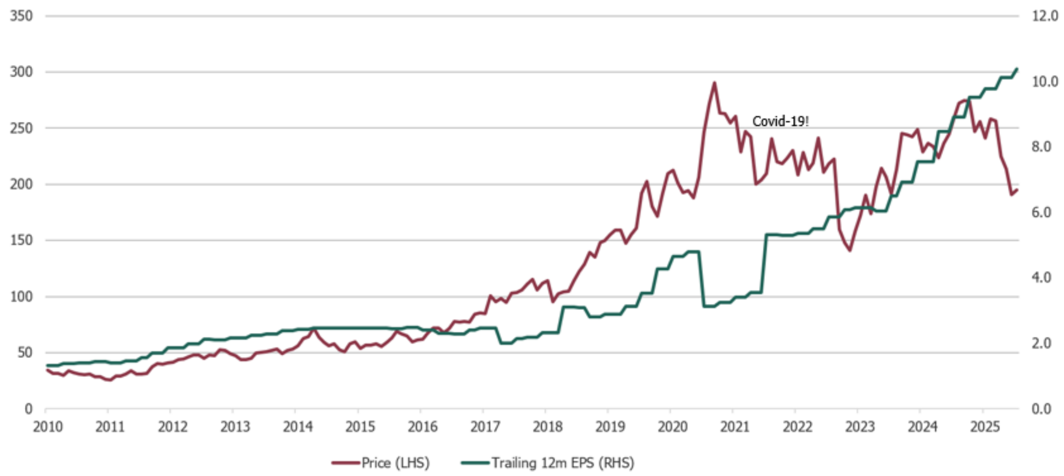
Until recently, cybersecurity company Fortinet had been subject to AI disruption concerns about the prospect of a new breed of GenAI cyber companies posing a threat to its business. The share price saw a substantial rally this quarter. The company's first-quarter results, which were comfortably ahead of expectations, provided affirmation of its strong fundamentals. Crucially, the company is benefiting from rising demand as cyber threats become more complex in the wake of the growing proliferation of AI.

Hiccups in heathcare

Healthcare, or specifically the med-tech field, endured a relatively dull quarter in an otherwise strong market. A number of factors have blighted the sector – post-Covid normalisation, input costs/tariff pressures, and in the case of ResMed, the perceived impact of GLP-1 weight-loss drugs. The company makes cloud-connected medical devices and related digital software that treat sleep apnoea, chronic obstructive pulmonary disease, and other respiratory disorders. The vast majority of the business is related to sleep apnoea, and ResMed makes devices, such as continuous positive airway pressure (CPAP) masks, to alleviate the affliction. There is a strong correlation between sleep apnoea and obesity, hence fears around the impact of GLP-1s.

The company has delivered strong earnings and margin expansion, but it has not inhibited the more recent disconnect between earnings and the share price.

ResMed – share price return vs trailing 12m EPS (USD)



Source: Walter Scott, FactSet. Data to 30 June 2026. Trailing 12m Earnings Per Share (EPS): Uses Trailing 12m EPS for U.S. companies and fiscal year EPS for non-U.S. companies. Price return and EPS figures are in USD.

However, ResMed's management increasingly views GLP-1 medications as a net tailwind for the business rather than as a competitive threat. Real-world data indicates that these obesity drugs are driving a previously disengaged patient cohort into the healthcare system, leading to higher diagnosis rates and improved adherence to CPAP therapy.

AIA Group fundamentals intact

The propensity of the market to 'shoot first, ask questions later' was arguably evidenced by the downdraught in pan-Asian insurer AIA Group's share price. A regulatory shift in China generated a market squall over its impact on AIA's mainland Chinese visitor business in Hong Kong. China is cracking down on online brokerages, as they had been facilitating mainlander access to offshore markets. These platforms enabled cross-border trading while their clients remained physically in the mainland, effectively operating in a regulatory grey area and bypassing capital controls. The move reflects a clear policy intent to channel cross-border financial activity exclusively through approved, transparent routes.

Head of Research Alan Lander and Investment Manager Tom Miedema were in Hong Kong in June, and spoke to AIA management about the new decree. AIA's positioning is fundamentally different in terms of selling to Chinese customers. Its business in Hong Kong is fully aligned with regulatory requirements set by the Hong Kong Insurance Authority with all sales of insurance and savings products to mainland Chinese customers conducted in person in Hong Kong. It does not permit remote customer sales, and therefore avoids the issues faced by online brokerages.

As such, AIA is operating within permitted channels established by the regulator – a regulator which is supportive of the private insurance industry and recognises its positive societal role. As a result, management is relaxed about current regulatory developments, viewing them as supportive for AIA, with business-as-usual expected to continue for mainland Chinese visitor sales. Rising incomes and underinsurance in Asia remain strong tailwinds for the company.

A broad opportunity set

AI has been at the forefront of market attention, but bouts of market concentration, coupled with exceptional returns from a small group of companies, can make investors forget the enduring advantages of genuine diversification in a portfolio. Indeed, there are many 'games in town'. Across all sectors, leading, quality companies are taking advantage of long-term growth trends that should fuel their earnings for years to come. The fact that they may be left behind in the pursuit of a particular theme only creates a more compelling opportunity for the long-term investor, in our view. Over time we believe markets reward businesses that can deliver durable growth – market leaders and innovators that are financially strong and can sustain high levels of profitability.

The information provided in this document relating to stock examples should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will feature in any future strategy run by us. Any examples discussed are provided purely to help illustrate our investment style or, are given in the context of the theme being explored. The securities discussed do not represent an entire portfolio and in aggregate may represent only a small percentage of a portfolio's holdings.

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