ASHBURTON
INVESTMENTS



September 2026

Global Leaders Equity Fund

Quarterly Investment Commentary

Fund review

In September, the Portfolio returned -4.41% against -1.11% for the MSCI World Net Index, as the month saw a reversal of the pattern earlier in the quarter, with a rotation back towards artificial intelligence (AI) infrastructure beneficiaries. Stronger performance over July and August more than offset the weaker September, with the Portfolio returning +3.69% over the third quarter (Q3) versus +1.60% for the index. The Portfolio remains behind the MSCI World for the year-to-date (YTD), having returned -9.23% versus the index's +13.03%.

Among the **largest contributors* to absolute performance** in Q3 were **Microsoft** and **SAP**, both up +38% (in U.S. dollar [USD] terms) on strong results and improving sentiment towards enterprise software. At its fiscal fourth quarter results in July, Microsoft reinforced confidence in returns from AI investment, with Azure growth accelerating to 43% year-on-year (y-o-y), Copilot seats exceeding 30 million and demand continuing to exceed capacity, while guiding to accelerating growth in Azure and Microsoft 365 (Office) Commercial Cloud.[1] SAP's second quarter results were also well received, with current cloud backlog growth reaccelerating to 26% (from 25% in the previous quarter) and some optimism about agentic AI adoption easing concerns around disruption to its core franchise.[2] Elsewhere, **Thermo Fisher** rebounded over 50% from its mid-May low as concerns around destocking, funding cuts and pharma research and development (R&D) spending eased. Strong second quarter results reinforced the improving outlook, with organic growth recovering following the final COVID-related revenue run-off and earnings expectations beginning to rise.[3]

Finally, **Intercontinental Exchange** and **CME Group** recovered following regulatory uncertainty-driven weakness in the second quarter, supported by resilient operating performance and easing concerns around disruption from perpetual futures.

Performance (%)

	Fund	Index*	Excess return
Month	-4.41	-1.11	-3.30
Last three months	3.69	1.60	2.08
Year to date	-9.23	13.03	-22.26
1 year	-14.84	16.75	-31.59
Since inception**	-8.77	17.51	-26.28

* Index: MSCI ACWI TR USD (R Class)
** Since inception: 3 October 2024

Turning to the **largest absolute detractors*** in Q3, **Aon** declined sharply towards quarter-end following its proposed $17 billion acquisition of USI Insurance Services, as investors reacted negatively to increased leverage and delayed buybacks. **Hermès** struggled as continued weakness in China and a subdued luxury cycle weighed on earnings expectations. With brand scarcity intact and the valuation moderating, we added on weakness to what we view as one of the world's highest-quality luxury franchises. **AutoZone** remained under pressure amid softer U.S. do-it-yourself demand and concerns around its accelerated store expansion. While the pace of investment is weighing on margins, we believe new stores and the faster-growing commercial business should support market-share gains and an improved business mix as the capex cycle peaks. **Alphabet's** detraction largely reflected its sizeable Portfolio position, as it declined by only 4% after a very strong run, driven by continued scrutiny of returns from elevated AI investment; we remain constructive on its AI and cloud offering. Finally, **Otis** weakened after mixed second quarter results, showing strong Service growth but weaker margins and reduced profit guidance. Customer retention has also taken longer than expected to improve, and we continue to monitor the position closely.
Stock selection was the primary driver of **relative performance*** (in USD terms), detracting in September, a month when only AI infrastructure showed positive returns, but contributing significantly for Q3 overall. Looking at the largest September headwinds: in Information Technology (IT), the Portfolio had limited exposure to the stronger-performing areas, with zero Hardware exposure (+5%) and only TSMC (+3%) in Semiconductors (+7%);

in Communication Services, not owning Meta (+27%) and a pullback in Netflix following decent August performance weighed on returns; and in Industrials, Professional Services holdings reversed earlier gains, led by Experian and Equifax on concerns around potential changes to mortgage credit reporting and rising mortgage rates. Sector allocation was negative in the month, primarily on account of the IT underweight. **For Q3 overall, stock selection was positive across several sectors**. In IT, Microsoft and SAP each gained nearly 40%, outperforming the Software industry, while TSMC (+3%) was resilient against a 3% decline in Semiconductors. Financials benefited from Intercontinental Exchange and CME (both bouncing circa 20%), while in Industrials, the Portfolio's limited exposure to the cyclical Capital Goods industry (-7%) was supportive and helped offset the September reversal in Professional Services. Key defensive areas also outperformed: Health Care holdings returned +11% versus the index's +3%, led by Thermo Fisher (+35%) and U.S. drug distributors McKesson (+13%) and Cencora (+6%), while Coca-Cola and PMI (both +6%) outperformed the Consumer Staples (-3%) sector by almost 10 percentage points. Communication Services was the only weak Q3 selection area, reflecting exposure to Alphabet rather than Meta. Negative sector allocation in Q3 was primarily due to the Consumer Staples overweight, IT underweight, and lack of Energy exposure.

Market review

The MSCI World Net Index returned -1.2% in U.S. dollars (USD) and -0.8% in local currency in September, taking third quarter (Q3) gains to +2% and year-to-date (YTD) gains to +12% in both USD and local currency terms. September saw a rotation back towards AI infrastructure beneficiaries, with Information Technology and Communication Services the only positive sectors (both +4%), taking Q3 gains to +6% and +4%, respectively. Within IT, Semiconductors (+7% in September) partially recovered from earlier weakness but finished Q3 down 3% overall, while Hardware saw steady gains over August and September to finish Q3 up 7%. On the other hand, Software paused in September (-1%) but was by far the strongest-performing IT subsector in Q3 (+28%). Meanwhile, a sharp rise in bond yields in September weighed on the rate-sensitive Materials (-7%) and Financials (-6%) sectors, reducing their Q3 gains to +1% and +2%, respectively. Energy was the standout Q3 performer (+15%), supported by higher oil prices, while Health Care (+3%) also gained ground, helped by easing policy concerns and resilient earnings. Weakness in Industrials – weighed on by Capital Goods (-3% September; -7% Q3) – Consumer Discretionary and Consumer Staples was more consistent across the period, with each declining 4–6% in September and by a similar magnitude over Q3 overall, while Utilities fell more sharply (-5% September; -10% Q3). Geographically, the U.S. finished broadly in line with the overall index (0% September; +2% Q3). In Asia, Hong Kong and Singapore were among the strongest Q3 markets (+7% and +13% USD, respectively), despite modest September declines. Japan was broadly flat in September but gained +6% in USD over Q3 versus +2% locally, as yen appreciation enhanced USD returns. The major European markets were down mid-single digits in USD terms in September and broadly flat over Q3, with France (Q3: -6% USD, -5% local) a notable exception as concerns about its fiscal path grew.

Fund activity

During September, we made two new purchases and one final sale. We initiated a position in **Safran**, a high quality aerospace franchise whose leading position in narrow-body aircraft engines, a highly technical industry, supports strong aftermarket pricing power and good earnings visibility. New aircraft supply constraints and low retirement rates continue to support maintenance demand, while the growing LEAP4 installed base is entering its first meaningful shop-visit cycle, a regulatory requirement. With LEAP development spending largely behind it, improving cash conversion provides an additional driver of returns.

We also initiated a position in **Walt Disney**, a high quality entertainment franchise with valuable intellectual property, streaming platforms including lead U.S. sports broadcaster ESPN, leading studios, and parks. The opportunity lies in improving returns from these assets, particularly in its under-earning streaming business. We believe full ownership of Hulu gives management greater scope to integrate and bundle its platforms, while cost reduction and the migration of sports into streaming provide further opportunities to monetise ESPN more effectively and improve direct-to-consumer (DTC) economics. Although execution risk remains, in our view the combination of high quality assets, significant self-help potential and an attractive valuation provides a credible path to attractive, growing returns.

The purchase of Disney was part funded by trimming **Netflix**, in order to manage our aggregate streaming exposure. Softer engagement data more recently has weighed on Netflix's share price, and while streaming economics remain attractive, we see greater self-help and re-rating potential at Disney. We also reduced **Aon** following assessment of the proposed USI acquisition. While the strategic rationale is credible, a second large, fully debt-funded acquisition, an extended integration agenda and the recent CFO departure widen the potential range of outcomes and we see more attractive opportunities elsewhere. Finally, we moderated our position in **Procter & Gamble** as improving market-share trends were offset by subdued category growth and rising input costs. With stronger earnings growth increasingly dependent on improved execution, we chose to reallocate capital towards more attractive opportunities elsewhere in the Portfolio.

We also exited the very small position in **Mobility Global,** which had been received following its spin-off from S&P Global in July. As covered in our July and August commentaries, there were no other new purchases or final sales earlier in the quarter.

Looking at trading activity for Q3 overall, within Financials, we added to **MSCI** where we remain attracted to its durable, high quality data franchise and see scope for improved product development to support subscription growth, while reducing our position in **Intercontinental Exchange (ICE)** following a recovery in the shares as disruption fears around its futures franchise eased. We also added to **TSMC**, **Alphabet** and **Amazon** during July's rotation away from AI-exposed companies, and to **Hermès** on valuation grounds. Elsewhere, we reduced **RELX** amid rising uncertainty around its competitive advantages in an AI-enabled world.

Outlook

Beyond the Earnings Boom

The third quarter (Q3) proved a challenging one for global markets. Re-escalating U.S.–Iran tensions and tightening supply drove extreme volatility in energy markets, with Brent crude oil futures surging 40% and the resulting energy shock keeping inflation fears firmly in focus. Monetary conditions tightened further as a number of central banks raised policy rates, while mounting fiscal pressures and sovereign debt concerns compounded the pressure on longer-duration bonds, pushing the 10-year U.S. Treasury yield up 50 bps over the month, closing September at 5.29%5 – its highest level in more than two decades.

It was also a choppy quarter for equities. July saw a reversal among some of the strongest year-to-date beneficiaries of the AI infrastructure build-out, with Semiconductors falling sharply and other areas of physical AI infrastructure coming under pressure. These losses were largely recovered as the quarter progressed, with the release of several next-generation autonomous agents and frontier models contributing to a notable improvement in AI sentiment during September. At the same time, market participation narrowed considerably over the quarter, with less than one-third of MSCI World constituents outperforming the index in September, down from around two-thirds in July. The relative performance of our quality portfolios broadly followed this round trip, improving as participation broadened before weakening again as it narrowed.

The MSCI World Index's modest 2% gain in Q3 takes its year-to-date (YTD) return to a respectable 12%. Underpinning this performance has been an extremely buoyant earnings backdrop, with the index's 12-month forward earnings per share (EPS) rising 23% YTD, even as its multiple has fallen 10% to 18x next-twelve-month (NTM) price-to-earnings (P/E) – below its COVID-era peak of 21x and only slightly above its 10-year historic average of 17x. The earnings momentum has been even stronger for the S&P 500, where forward earnings are up 31% YTD.

While the earnings strength has been a nearly market-wide phenomenon (with only four of the index's eleven sectors – Utilities, Health Care, Consumer Staples and Real Estate – delivering EPS growth of less than 10%), the bulk of earnings upgrades for the index come from two distinct pockets – Energy and AI.

In Energy, persistently high oil prices have driven EPS growth of 60% YTD, while the AI deployment boom has propelled earnings growth in Semiconductors (+111% EPS), Hardware (+38%) and the Hyperscalers (+32%). Aggregating Energy and these three "AI-enablers" areas together explains over 70% of the increase in index earnings growth. Taking into account that AI spend has also benefited pockets of Industrials supporting the physical data-centre build-out, the true earnings growth concentration is likely to be even greater.

Beyond the obvious heavy reliance on AI-related earnings growth and volatile energy prices, we would point to two factors which make us question the quality of the market's earnings growth. First, the earnings boom has not been matched by cash generation: while MSCI World 12-month forward EPS has risen by 23% YTD, its free cash flow growth has been 12 percentage points slower.

In other words, the improvement in underlying corporate economics is less pronounced than headline earnings growth would imply, as the semiconductor companies and other infrastructure providers take 100% of the AI buildout revenue and profit today, while those spending the money capitalise most of their costs.

Second, this exceptional earnings growth comes from a starting point at which corporate margins are already close to historical highs. While today's extraordinary AI earnings are accruing to the companies supplying the build-out, we have yet to see a commensurate benefit to margins among corporate customers buying and deploying the technology. There is evidence of productivity gains in areas such as advertising and coding, but these have yet to translate into a material earnings benefit across the wider corporate sector, which implies that the margin improvement has largely been driven by the AI-enablers, rather than adopters.

In our view, two areas in particular will test how well this earnings backdrop holds up from here.

Can corporates sustain earnings in a higher-inflation world?

Higher inflation may support nominal revenues and earnings, but periods of high inflation have not historically translated into higher returns on equity for corporates. As Warren Buffett observed in his 1977 Fortune article, How Inflation Swindles the Equity Investor, as prices rise, so too does the capital required to sustain a business, with inventories and productive assets ultimately needing to be replenished at higher costs.

Keeping quality investors on their toes, inflation can also temporarily gift even relatively low quality businesses the appearance of pricing power, as they may initially be able to pass higher costs on to customers. As inflation persists, however, and higher interest rates compound rising input and labour costs, genuine pricing power should become easier to distinguish, with those businesses better placed to protect their economics.

Can the AI earnings boom endure?

The sustainability of earnings in parts of the AI complex will largely depend on whether the AI build-out has created newfound and durable pricing power across the supply chain. Putting to one side the rare bottlenecks, the usual rule of capital cycles is that exceptionally attractive economics incentivise additional investment and bring new capacity online. Some of today's supply constraints may persist for some time, not least because the relatively short replacement cycle for leading-edge AI chips could create a recurring source of demand. Current earnings expectations appear to assume that demand will remain strong enough to absorb much of that additional supply and sustain today's unusually favourable economics. The question is whether AI can indeed reverse the multi-decade trend of memory, power and other components becoming cheaper per relevant unit of output, or whether we are experiencing a more traditional – albeit exceptionally strong – capital cycle in which increased demand ultimately brings forth increased supply. The distinction will be enormously consequential in areas such as memory, where operating margins have moved from a historical through-cycle range of roughly 0–30% towards 70–80%.

The opportunity
Today's market is underpinned by earnings growth that is exceptional by any historical standards. 20%+ earnings accretion in just first nine months of the year has rarely been seen outside of one-off recoveries from earlier sharp cyclical slowdowns, like COVID or the Global Financial Crisis, never mind from a very high margin base. The sustainability of this growth will have consequential impact on the direction of broader market returns. Against this backdrop, we find the opportunity in quality compounders particularly compelling. This group, in our view, offers resilient growth and proven pricing power, which should translate in reliable earnings compounding, with much lower sensitivity to the AI build-out, commodity prices and inflation cycles than the broader market.

Importantly, investors are currently paying relatively little for that optionality, as the premium attached to the more dependable earnings growth we seek has compressed. The Portfolio now trades at broadly the same free cash flow yield as the market – valuation levels rarely seen in its history – despite materially higher returns on operating capital employed and gross margins, and what we believe to be a more resilient through-cycle earnings profile. Crucially, that earnings profile is more reliant on dependable top-line growth than on further margin expansion from already elevated levels.

Nor does the quality opportunity depend on either of the risks discussed above materialising. The Portfolio is deliberately positioned across a range of outcomes: we participate in the AI build-out through select enablers and bottlenecks where we believe competitive advantages are durable; own high quality businesses with the potential to benefit from AI that continue to trade at depressed valuations; and retain defensive compounders whose investment cases are largely independent of the AI debate. If enthusiasm around AI infrastructure persists, we should participate through the first group; if market leadership broadens, the second offers meaningful re-rating potential; and if earnings growth becomes more difficult to find, the resilience of the third – and indeed of the Portfolio more broadly – should become increasingly valuable.

Looking forward, should earnings become harder to find, we believe the Portfolio's combination of proven pricing power, resilient revenues and credible through-cycle compounding could become increasingly valuable.

Commentary disclosures

Source for data cited, unless otherwise stated: MSIM, FactSet, as of September 30, 2026.

[1] Source: Microsoft fiscal year fourth quarter earnings conference call, 29 July 2026

[2] Source: SAP second quarter results, 23 July 2026

[3] Source: Thermo Fisher second quarter results, 23 July 2026

[4] Leading Edge Aviation Propulsion, an aircraft engine family produced by CFM International, a joint venture between Safran Aircraft Engines and GE Aerospace.

[5] U.S. Department of the Treasury

Fund at a glance

Market value* USD 81,361,611.82

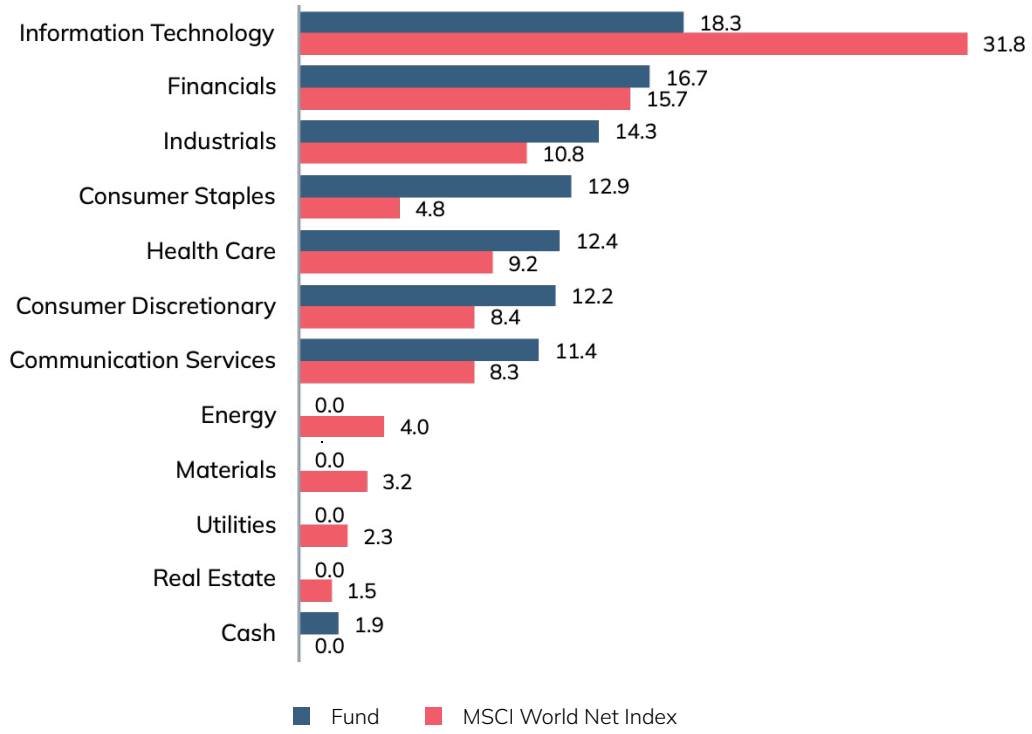
Country weights (%)

Region	Fund	Index
North America	67.8	76.2
United States	67.8	72.9
Europe Developed	23.8	15.1
U.K.	10.6	2.2
France	6.9	3.4
Italy	3.5	0.8
Germany	2.8	2.1
Emerging Markets	6.5	0.0
Taiwan	6.5	0.0
Cash	1.9	0.0

Top ten holdings (%)

Security	Sector	Fund	Index
TSMC	Information Technology	6.5	0.0
Alphabet	Communication Services	6.4	4.0
Microsoft	Information Technology	6.2	4.0
Visa	Financials	5.4	0.7
Coca-Cola	Consumer Staples	4.8	0.4
L'oréal	Consumer Staples	4.4	0.1
Amazon	Consumer Discretionary	4.0	2.7
Thermo Fisher	Health Care	3.8	0.3
Ferrari	Consumer Discretionary	3.5	0.1
Netflix	Communication Services	3.0	0.3
Total		**47.9**	**12.5**

Sector weightings (%)



Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown.

*Preliminary.

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