

## COMMENTARY

The first quarter of 2026 was a study in how quickly market narratives can shift. The year opened in good spirits. Global growth had been holding up better than expected, inflation appeared to be on a steady downward path, and investors were still pricing in central bank rate cuts later in the year. Equity markets began the quarter with momentum, and leadership was broadening encouragingly beyond the narrow band of US mega-cap technology that had dominated 2025, toward Japan, parts of Europe, and emerging markets benefiting from a softer US dollar.

That tone did not last. What began as a manageable geopolitical flare-up in the Middle East escalated sharply into something far more consequential. As tensions around Iran intensified and the security of oil flows through the Strait of Hormuz came into question, energy markets moved with extraordinary speed. Brent crude surged nearly 30% in just five sessions in early March, and by quarter-end the cumulative increase in oil prices since late January exceeded 50%. Energy shocks of this magnitude work through the entire macroeconomic system, feeding into inflation expectations, interest rate paths, growth outlooks, and ultimately corporate earnings.

The consequences materialised quickly. Central banks, which markets had been counting on to cut rates, instead held firm or shifted to more hawkish stances. The Federal Reserve, Bank of England, and ECB all signalled that they could not look through another inflation shock, and widely anticipated rate cuts were pushed further out. For bond investors, this meant yields rising rather than falling, a bear flattening more consistent with an inflation shock than a classic risk-off signal. The uncomfortable word that entered the vocabulary more frequently as the quarter progressed was stagflation: higher prices alongside weakening growth, a combination that compresses multiples and leaves policymakers with few good options.

The MSCI World Index declined 3.9% over the quarter. Energy-exporting economies and more insulated markets held up considerably better than those dependent on imported energy, while Europe looked particularly exposed given its fragile manufacturing base and limited policy flexibility. Sector leadership rotated accordingly: energy and real-asset-linked businesses proved resilient, while long-duration growth assets faced rising pressure from higher discount rates and emerging supply chain concerns in semiconductors and AI infrastructure. The lesson of Q1 was that complacency has a cost, and that a world of rising energy costs and constrained policy flexibility demands both greater selectivity and greater discipline.

### Performance & Attribution

Against that more testing backdrop, the Fund delivered a strong result. A return of +5.0% for the quarter compared with 1.1% for the MSCI ACWI Small Cap Index represented outperformance of nearly 4 percentage points, achieved while broader developed market equities were declining. The performance was driven by stock selection, not macro positioning, which is precisely where we want the edge to come from.

The most significant contribution came from our US holdings, particularly a cluster of businesses tied to real industrial demand. The standout performers were two industrial companies: a manufacturer of advanced thermal management solutions for data centres, electric vehicles, and industrial systems, and a specialist infrastructure services contractor with deep exposure to the ongoing build-out of US energy, communications, and transportation networks. Both delivered sharply higher earnings during the quarter, and their valuations began to reflect the earnings runway we had long identified. US technology also contributed meaningfully, led by a business that manufactures optical components critical to high-speed data centre interconnects and a specialist in cloud communications for small and mid-sized businesses.

Outside the US, Japan was the next most significant contributor, driven by specialist technology businesses embedded in the semiconductor supply chain, where structural demand remains powerful and earnings revisions ran sharply higher. In France, our position in a specialist engineering group that designs containment systems for liquefied natural gas transportation proved well-timed: as energy security rose up the global agenda, so did the strategic value of the infrastructure required to move gas across oceans. Germany and Norway also added positively through selective industrial and financial holdings.

The areas that detracted were concentrated in Italian banking names, where sentiment weakened, and in parts of Asia and Scandinavia where a cautious market tone weighed on returns. None of these reflected deterioration in underlying business fundamentals; they were principally a function of broader regional macro pressures. The detractors were more than offset by the strength of the core contributors.

What the quarter reinforced is the central thesis of this strategy. Large-cap indices were down; the Fund was significantly up. That gap reflects the consistent application of a disciplined, bottom-up process to a part of the market that remains under-researched and, in our view, persistently mispriced relative to the quality and growth potential of the underlying businesses. We

We remain fully invested, highly selective, and focused on finding companies where the market is still materially underestimating what they will be worth in three to five years.

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The GIS Global Smaller Companies (“GSC”) strategy is now managed with live assets as of April 3, 2025, via an Actively Managed Certificate (AMC) on the UBS platform. Performance reporting reflects actual trading activity from this date forward. Prior to April 3, 2025, the GSC was managed as a model portfolio with no live assets. To manage the model portfolio, we balanced the portfolio monthly on the last business day of the month. The GSC performance is calculated monthly using close of business day prices published on Bloomberg. The U.S. Dollar is the currency used to

express performance.

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