

COMMENTARY

“From tariff trauma to tariff détente”

Q2 opened with the jolt of the 2 April “Liberation Day” tariffs and ended with equity indices pressing fresh highs. For global small-cap investors the quarter felt like one long kettlebell swing: a painful early downswing followed by a powerful recovery that left portfolios firmly ahead of benchmarks.

Macro backdrop – shocks absorbed, resilience revealed
Markets spent the first two weeks of April pricing in a worst-case trade war after Washington slapped a 10 % baseline duty on Chinese imports and threatened reciprocal rates of up to 50 %. Yet the shock quickly softened as negotiations resumed and the effective tariff rate was seen settling closer to 13 %. Mid-June then delivered a second scare when Israeli strikes on Iranian nuclear sites, and a brief U.S. follow-up, pushed Brent to \$80. A 24 June cease-fire and a swift pull-back in crude showed how rapidly today’s markets digest geopolitical risk.

Growth trends diverged. U.S. momentum cooled under higher real rates, Europe surprised to the upside as consumer demand and PMIs improved, China steadied on better-than-expected retail and industrial output, and India powered ahead with strong domestic spending and cap-ex. Central banks followed suit: the ECB cut 25 bp in June, its first easing of the cycle, while the Fed held but guided to a single cut later this year. The U.S. dollar’s worst first-half performance in three decades underscored a global tilt toward easier policy.

How small-caps fared

The Russell 2000 rebounded 8 ½ % in the quarter, wiping out most of its April draw-down yet still sitting about 10 % below last November’s peak—leaving clear headroom should the macro winds stay supportive. Outside the U.S. the MSCI ACWI ex-USA Small Cap index surged almost 17 %, comfortably outpacing its large-cap sibling and confirming that investors are rediscovering international small-caps after years of neglect.

Most of the heavy lifting came from Industrials, Technology and Financials. Banks and specialty lenders rallied as funding costs eased and credit quality held up, while “plumbing-level” tech—semiconductor substrates, sensing, optical modules—continued to enjoy the AI cap-ex boom beneath the mega-cap headlines. Against a richer large-cap backdrop the valuation gap remains extreme: on EV/EBIT, global small-caps still trade near quarter-century relative lows, a level that has historically presaged multi-year catch-up runs.

Our Global Small Cap Fund, launched on the UBS platform in early April, delivered a powerful performance rebound in

the second quarter. The fund returned 7.35% net in June, bringing the Q2 net return to 25.40%. This represents more than two-and-a-half times the return of the MSCI ACWI Small Cap Index, with over 14.5% of excess performance in just three months.

What stands out is the breadth and balance of the return. Gains were not driven by a single region or sector but spread widely across geographies and industries. The U.S. portion of the portfolio delivered a 25% gross return, while the international book—spanning Europe and Asia—returned over 30% gross. Each of these regions outperformed their respective small-cap benchmarks, with the margin of outperformance ranging from modest in Europe to substantial in Asia, where the portfolio generated more than 26% excess return relative to the index.

From a sector perspective, technology and consumer discretionary were the clear leaders, buoyed by strong demand in AI-related hardware and a resurgence in travel and leisure spending. Industrials and financials also made strong contributions, while energy and real estate offered modest support despite external volatility. Notably, the attribution was balanced across U.S. and international holdings, with roughly equal contribution to total return, reinforcing the diversified nature of the strategy.

Among individual holdings, the top contributors reflected our preference for underappreciated, high-quality businesses operating in structural growth niches. National Vision Holdings more than doubled during the quarter, driven by stronger-than-expected footfall and improving operating margins. In Asia, Elite Material rallied over 120% as demand for its copper-clad laminates surged in response to growing AI server production. Modine Manufacturing rose more than 35%, continuing to benefit from its exposure to EVs and thermal management systems. Other strong performers included Lumentum Holdings, Tripod Technology, and Lindblad Expeditions, each delivering outsized returns on the back of positive earnings momentum or improving visibility.

Company Highlight: Maruwa Co., Ltd. – Precision Ceramics Powering the AI and EV Revolution

Maruwa may not be a household name, but this quietly outstanding Japanese company has become a critical player in the global supply chains behind AI, data centers, and electric vehicles. Founded over

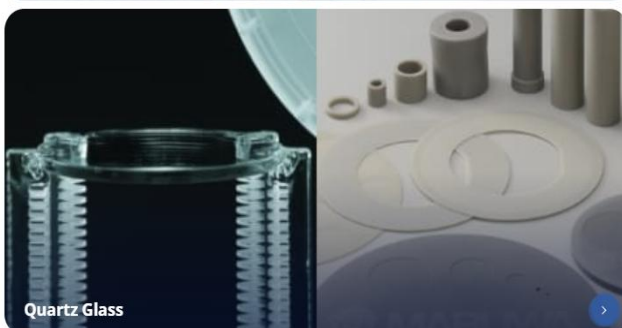
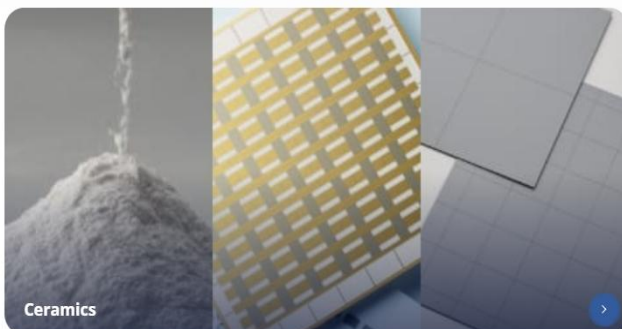
200 years ago as a ceramics maker, Maruwa has transformed itself into a leading supplier of advanced ceramic components—materials that are essential for managing heat in high-performance electronics. Its substrates and thermal solutions are now found in everything from AI server racks and 5G infrastructure to EV inverters and power modules.

The company's stock surged nearly 50% in Q2 2025, helping drive strong returns for the fund. Behind the rally was a compelling combination of robust earnings—revenues rose 17%, net income 26%—and rising investor awareness of its role as a high-value “picks-and-shovels” provider in two of the world's most powerful secular growth trends.

Maruwa's precision-engineered ceramics are particularly well-positioned to benefit from the ongoing buildout of generative AI infrastructure, where heat dissipation is a critical bottleneck. At the same time, its automotive components business, focused on power electronics for EVs, grew over 30% year-on-year—adding a second leg to the growth story. Despite its deep industrial heritage, the company is anything but old-fashioned. It continues to invest heavily in R&D and has embraced Japan's corporate governance reforms, raising dividends, improving liquidity, and transitioning leadership to support long-term growth. In a market crowded with large-cap AI winners, Maruwa stands out as a differentiated small-cap enabler with deep expertise, structural demand tailwinds, and improving shareholder alignment. It remains one of the most compelling examples in the portfolio of how legacy craftsmanship can meet future-facing innovation to deliver durable value creation.

Taken together, the fund's Q2 performance was not only strong on an absolute and relative basis, but also reflective of the conviction-led, fundamentals-driven approach we apply to stock selection. The diversification of contributors and consistency across regions suggest a portfolio well-positioned to navigate both macro uncertainty and shifting investor sentiment in the second half of the year.

Maruwa Products:



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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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