COMMENTARY

Q2 2026 began with a shock and ended with a rotation. Between the two, the character of the market changed in ways that matter more than the headline numbers suggest.

The quarter opened in April with the Gulf disruption, which quickly stopped being a story about oil and became a story about supply chains. Freight rates, industrial inputs and lead times all moved together. This was constraint-driven inflation rather than demand-driven inflation, a distinction that matters because monetary policy is poorly equipped to address it. For smaller companies, such moments are uncomfortable operationally but tend to sharpen the gap between businesses with pricing power and those without.

By May, the picture had become more regional. The US and Japan strengthened, Europe lagged under energy and demand pressures, and emerging markets fractured beneath the surface, with China policy-supported but uneven and India pressured by higher energy costs and a weaker rupee. For a global small-cap portfolio, this dispersion is important. It widens the opportunity set and rewards the selection process, rather than compressing everything into a single directional trade.

June brought the shift in tone. US data surprised to the upside, corporate earnings held up, and the market began to price in a genuinely resilient global cycle. What is critical, though, is the shape of that resilience. This is not a consumer-led expansion. It is a capex cycle, driven by investment in AI infrastructure, technology capacity, electrification and industrial reshoring. That composition matters for smaller companies, because the cycle is running through supply chains rather than end demand, and small caps are structurally over-represented in exactly those layers.

The AI theme itself broadened meaningfully in Q2. Earlier in the year, it was largely a story about a handful of mega-cap platforms. By quarter-end, the trade had extended into the physical build-out behind the technology: cooling, connectivity, optical components, laminates, chemicals and power infrastructure. This is where global smaller companies begin to earn their place in a portfolio. Market leadership reflected the shift, with Japan continuing to benefit from corporate reform and Taiwan and Korea standing out as North Asia captured more of the AI infrastructure trade.

The broader conclusion is that the market has become less forgiving in one important respect and more interesting in another. Stronger growth has not delivered easier policy. Inflation is stickier than the consensus assumed six months ago. Valuations still matter, and businesses with fragile balance sheets or heavy refinancing profiles remain exposed. At the same time, dispersion is rising, earnings are back in focus, and the capex cycle is creating tangible demand for a specific type of company: niche, well-run, under-owned, and positioned in the parts of the value chain the large-cap indices barely touch.

That is a good environment for active management. It is a particularly good environment for global smaller companies.

Performance Attribution

The strategy returned 18.8% in Q2, against 14.9% for the benchmark. The scale of the outperformance is worth noting, but the shape of it matters more. This was not a quarter in which small caps as an asset class simply re-rated. It was a quarter in which a specific type of company, sitting in the specific parts of the value chain we described earlier, was rewarded in a very direct way. The result was earned by holdings on the right side of the capex cycle, not by market beta.

The clearest illustration of that, and the single largest contributor to performance, was Taiwan Union Technology. It is not a name most investors will recognise, but it is a critical one. The company makes copper-clad laminate and prepreg, the base materials for the printed circuit boards that go into AI servers, high-speed networking equipment and advanced electronics. As the AI trade broadened out of the mega-cap platforms and into the physical infrastructure that supports them, demand for these materials moved sharply higher, and Taiwan Union was one of the most direct beneficiaries. The shares almost tripled during the quarter and the position contributed more than four percentage points to portfolio return on its own. It is exactly the kind of niche, under-followed, structurally advantaged business we look to own in this fund, and precisely the kind of company that global small-cap indices tend to miss.

The same theme ran through several of the other strongest positions. In Japan, MEC Co, which produces specialist chemicals used in circuit board manufacturing, returned close to 70%, another quiet but essential layer of the AI supply chain. In the US, Modine Manufacturing was another major contributor. Modine started life as a maker of vehicle cooling systems and has quietly reinvented itself as one of the leading thermal-management providers for data centres, which need to dissipate enormous amounts of heat as computing density rises. It returned 23% on what was already one of our larger positions. Between these three names alone, the portfolio captured a very tangible slice of the AI build-out, without owning a single mega-cap platform.

Performance was not confined to that theme, however, and the breadth of contribution was one of the most encouraging features of the quarter. Lindblad Expeditions, an operator of small-ship expedition cruises to destinations like the Galápagos and Antarctica, returned over 60% as demand for differentiated, experience-led travel proved resilient in a market that had grown cautious on the broader consumer. Financials also added meaningfully, helped by a market becoming more comfortable that higher rates and a slower consumer were not translating into a broader credit problem. Our exposure here is deliberately weighted towards specialist lenders and smaller banks with clean balance sheets, rather than diversified giants, and several holdings across the US and Europe contributed well. This kind of breadth is important. It means the quarter's returns were not dependent on a single theme working, but on a portfolio of distinct, high-conviction ideas each earning their keep.

Stepping back, the broader message is the one we opened with. Q2 rewarded the parts of the small-cap universe where earnings momentum, business quality and cycle exposure lined up. It punished companies caught between a cautious consumer and an uneven Chinese recovery. Our task is to remain on the right side of that split. The core of the outperformance came from a small number of high-conviction holdings positioned squarely inside the AI infrastructure and capex cycle described earlier, supported by useful breadth from selected financials and idiosyncratic consumer winners. That combination, of structural growth, under-recognised businesses and improving earnings momentum, remains in our view one of the most attractive areas of global equity markets today.

DISCLAIMER