LongRun Equity

QUARTERLY LETTER

Issue 14

JULY 2025

Investment philosophy

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." — Warren Buffett

We act as long-term business owners investing the wealth you have entrusted us with in a concentrated portfolio of high-quality companies.

Long-term business owners

We want to own the highest-quality franchises for the long term. Little do we care about potential moves in short-term stock prices. What's crucial for us is a company's competitive position, a superior and sustainable business model and the ability to compound earnings. We want management teams that allocate capital as if it were their own. We care about valuation, but take the long-term view, avoiding excessively valued businesses but not shying away from high valuations. When you have a great business that continues to prosper, the share price tends to follow. Conversely, a narrow focus on valuation can lead one astray from truly great businesses. We are determined to avoid this mistake.

Wealth preservation

The avoidance of permanent capital loss has been in our DNA for centuries. We avoid businesses exposed to external factors outside of their own control, which can crush attractive returns. We think long and hard about whether a business will still have a license to operate in the long term and if there are environmental or social risks. Only robust companies in control of their own destiny make the cut. To find these, we conduct deep research to understand business models so we can take advantage of noise and temporary swings in stock prices. We would expect our portfolio companies to do the same.

Compounding

Einstein once dubbed compounding as the "eighth wonder of the world". We couldn't agree more. We look for companies with superior economics and the resulting ability to compound their earnings over the long term. Strong market positions, pricing power, high margins and asset-light business models are the key characteristics that result in high returns on capital and the ability to compound earnings. A sustainable competitive advantage resulting from high barriers to entry is crucial to maintain these high returns in the face of competition, therefore avoiding a permanent destruction of value.

Deep research

We spend most of our time reading annual reports, conducting and analysing expert calls and speaking with management teams and industry experts. We engage regularly with management, talk to industry insiders and conduct grass-roots research. Books on companies and their leaders, industry newsletters and trade publications as well as podcasts are hugely valuable and are often neglected sources of information.

Capital allocation

Managing our clients' money is a privilege and a role we take very seriously. It is important to us that our clients know us and understand how we operate. In a similar vein, we want to understand how the management of our businesses thinks, acts and is incentivised. Capital allocation is the most important job of management, and the great returns of a high-quality business can be diluted via poor mergers and acquisitions or empire building. We look for management teams with incentives centered on long-term value creation and that have "skin in the game". These are critical if they are to think and act like owners, rather than managers.

Quality over quantity

We prefer to analyse and own fewer companies but understand them properly. We see little value in constant screening for 'cheap' companies and it distracts us from our focus on quality. With financial information abundant, no real edge can be gained based on quantitative information in our view. On the other hand, a deep understanding of business models takes time, but this is the only way we believe it is possible to generate superior long-term performance.

Focus

Focus is front and center of everything we do. We like focused businesses that are easy to manage and understand. We do not need our companies to diversify; we will take care of this ourselves. Our investment universe and portfolio is equally focused, with limited turnover. This allows us to compound our knowledge of our companies in a way that is similar to how we want them to compound their earnings and cash flows.

Bottom line

The combination of the above results in a high-quality portfolio of businesses. LongRun's main financial metrics remain strong, with cross-cycle sales growth of 9%, a 31% operating margin, an operating return on invested capital of 76% and a net debt to EBITDA leverage ratio of 0.4x. On a 3.2% free-cash-flow yield, we consider valuation attractive and expect annualised forward returns in the low double digits for LongRun Equity.

Notes from the manager

LongRun was down 1.2% in Q2 2025

Strategy performance

The strategy was down by 1.2% (in EUR, unhedged) in the second quarter compared to its benchmark which rose 2.6%.

The main reason for our underperformance were sizeable declines in two of our healthcare holdings as well as in some companies perceived to be 'at risk' from AI whilst we struggled to benefit from companies seen as 'AI winners'. The performance of the strategy in EUR was further penalized by the sizeable weakness of the US dollar.

Annualised returns since inception of the strategy close to ten years ago stand at 9.8% compared to 10.5% for global equities.

Performance drivers

The main positive performance drivers in Q2 was GE Aerospace, Idexx Laboratories, Intuit and Microsoft all of which rose more than 25% in US dollars.

GE Aerospace, a recent purchase, surged by almost 30% on the back of excellent quarterly earnings. GE continues to benefit from a near perfect set up in terms of engine shop visits and the related sales of high margin spare parts which propelled operating margins to a new quarterly record well over 25%.

Idexx was buoyed by a solid quarterly performance and the expectation that the trough in veterinary visits is near or even behind them.

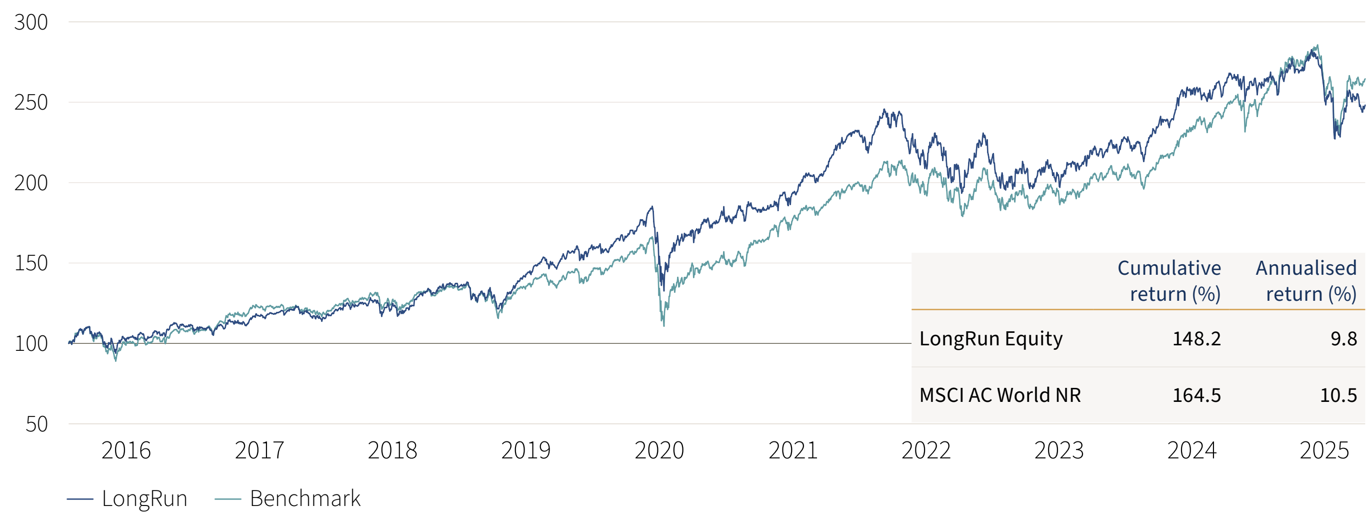
Software juggernauts Intuit and Microsoft both increased by around 30% with the market pushing their rating higher thanks to their near impenetrable market positions which are likely to be further solidified through the use, and successful monetization, of artificial intelligence.

In med tech, both Thermo Fisher and UnitedHealth fell strongly.

Thermo Fisher was penalized by reduced biotech funding and the knock-on effect this is expected to have on its revenues. More important than the, thus far limited, impact on earnings this is expected to have has been the increased uncertainty which has pushed its earnings multiple to multi-year trough levels.

UnitedHealth, which we had been starting to reduce in March and fully sold in May, suffered from a string of bad news and declined by almost half during the quarter. Throughout the quarter the barrage of negative media reporting continued. The biggest blow however was the suspension of the company's guidance and the departure of its long standing chief executive. This triggered a large sell off in the stock with visibility falling to levels which we considered inconsistent with our investment mandate.

CUMULATIVE TRACK RECORD (EUR UNHEDGED, %)



	Cumulative return (%)	Annualised return (%)
LongRun Equity	148.2	9.8
MSCI AC World NR	164.5	10.5

Activity

In the second quarter we made two new investments, building positions in leading automotive parts retailer O'Reilly Automotive and enterprise software provider Salesforce. The number of sales also amounted to two, namely luxury goods conglomerate LVMH and healthcare provider UnitedHealth.

O'Reilly Automotive is one of the leading players in the consolidating U.S. aftermarket auto parts retail market. We will go into more depth on the industry and O'Reilly's business model in the next section of the letter.

Salesforce is the world's leading provider of customer relationship management services via the cloud in a software business model with a global market share of around 20%. The company pioneered the software-as-a-service (SaaS) model and has successfully created a comprehensive front office suite.

Over the last twenty years, the product offering has expanded to sales, customer service, marketing, and digital commerce to app cloud, analytics, and integration cloud. It generates the bulk of its revenues from recurring subscription sales with renewal rates in excess of 90%.

The company's deep integration into customer workflows positions it well to continue to take pricing. We believe it will be able to augment its strong position further via the use of operational AI agents, such as its Agentforce initiative.

Lastly, and unlike many of its large scale peers, we think Salesforce is currently underearning with margins of around 30% which remain well below its competitor set. The combination of continued solid sales growth coupled with a march in margins upwards positions it well for years of double digit earnings growth. Coupled with strong cash generation and an undemanding valuation, we think the stock can compound in the low to mid teens for an extended period of time.

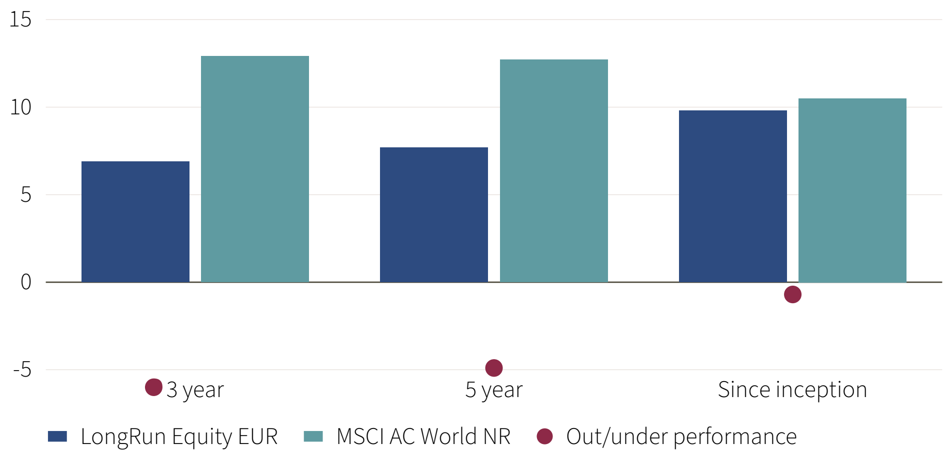
The sale of our investment in LVMH was completed in May, as we went full circle regarding our positioning in the luxury sector following our investment in Hermès last spring. We think the latter is a better business in pretty much every aspect, further evidenced by the widening operational performance gap in the last few quarters.

The sale of UnitedHealth, which we outlined in the previous section, was also completed in Q2.

ANNUAL PERFORMANCE

	Net asset value	QTD (%)	YTD (%)	Inception to date (%)
LongRun Equity EUR Unhedged	3,229.4	-1.2	-7.6	148.2
MSCI AC World NR	—	2.6	-2.9	164.5
Out/under performance	—	-3.8	-4.7	-16.3

ANNUALISED PERFORMANCE (%)[1]



ANNUAL PERFORMANCE

	LongRun Equity (%)	MSCI AC World NR (%)
2025	-7.6	-2.9
2024	12.3	25.3
2023	21.2	18.1
2022	-18.5	-13.0
2021	30.4	27.5
2020	10.4	6.7
2019	34.8	28.9
2018	1.1	-4.8
2017	10.0	8.9
2016	5.8	11.1
2015	6.0	4.9

[1] Risk indicator information: The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay. We have classified this product as 4 out 7, which is a medium risk class. This rates the potential losses from future performance at a medium level, and poor market conditions could impact our capacity to pay you. The risk category is not guaranteed and may shift over time. The lowest category does not mean "risk free". Any investment is always subject to risk. Before investing, each investor must ensure the jurisdictions in which the UCI is registered. The KIID, the full prospectus as well as the net asset value (NAV)/net inventory value (NIV) are available on our website: am.eu.rothschildandco.com

Cast study: O'Reilly Automotive

An antifragile business

In this section, we would like to dive deeper into one of our recent purchases, O'Reilly Automotive, a leading automotive part retailer in the United States of America.

Car parts retail industry: attractive

O'Reilly Automotive is one of the leaders in the automotive parts retail market in the U.S. Automotive part retailers serve both do-it-yourself (DIY) customers through their own stores as well as independent garages through their do-it-for-me (DIFM or professional segment), supplying them with spare parts such as batteries, wipers, fluids, filters, lights or brakes.

Demand for automotive parts is driven by cars coming out of the initial warranty period which typically is around 3-6 years. Since they only provide non OEM parts, automotive spare part retailers typically attract a lower income customer.

The two most important growth drivers for the industry overall are: i) increases in the number of miles driven and ii) increases in vehicle age. The latter has continued to increase in the past and currently stands at 13 years. Parts typically start to fail and demand grows exponentially after a mileage of around 60,000 miles meaning increased mileage and vehicle age both impact growth positively, and disproportionally.

On top of healthy growth, the industry's competitive landscape is also attractive. The top three players, O'Reilly, Autozone and Advance Auto Parts are the clear market leaders with a combined share of around 40%, and have been gaining share for decades. We expect this to continue as the long tail of small mom and pop shops finds it more difficult to compete.

O'Reilly Automotive: very attractive

O'Reilly itself, founded in 1957, and listed in 1993, is the 2nd largest auto parts retailer and wholesaler in the U.S. Its sales mix is 52% of sales do-it-yourself and 48% do-it-for-me. It currently operates 6,300 'destination' stores in 47 U.S. states as well as 70 in Mexico and 26 in Canada.

While the roughly 50% each DIY and DIFM business mix is similar to peers, we think it is important to note that O'Reilly, unlike its peers, started out on the DIFM side. O'Reilly only went into DIY in 1978 which marks the start of its integrated 'dual strategy'. We think its origins on the DIFM side have put the company in a structurally advantaged position in terms of distribution network because the delivery requirements are more demanding on the professional side of the business.

Might moat

We think the main source of O'Reilly's competitive advantage comes from the strong customer loyalty it has been able to build over years thanks to outstanding customer service (by its own 'Professional Parts People'), its high touch sales force (particularly on the professional channel through its 'First Call' program) and spare parts availability.

Starting from its nexus as a professional parts retailer many decades ago, O'Reilly has since built a hugely efficient, regionally tiered hub-and-spoke distribution network with frequent, sometimes multiple times a day 'drops' of parts to its stores.

This has allowed it to maintain very high levels of local product availability – a typical store will stock over 20,000 stock keeping units (SKUs). This wide inventory availability matters greatly given a customer's need for a non discretionary item (they need a functioning car) as well as their high time sensitivity (they want their car back by the end of the day).

This moat is further strengthened by O'Reilly's vast purchasing scale which has allowed them to extract large volume discounts as well as very favorable payment terms from its fairly fragmented supplier base. Lastly, brand name also matters, particularly on the DIY side as it drives familiarity and customer loyalty. This in turn has allowed O'Reilly to steadily up the share of (higher margin) private label sales.

The combination of mission- and time critical products and services coupled with low ticket prices (typically around USD35-40 on the retail side) gives O'Reilly solid pricing power. This is further boosted by very rational pricing behavior in the wider automotive spare parts industry, particularly relevant in the current environment of high import tariffs and lack of skilled labor.

10 x 10 top line growth

Overall industry growth has been fairly steady over decades in a range of some 3-5%, driven by the aforementioned factors: population growth, increases in miles driven and increasing vehicle age.

The big three, and O'Reilly in particular, have been able to eclipse that thanks to steady share gains. Over the last ten years same store sales growth, the key operational performance metric in everything retail, has averaged an outstanding 6.5% at O'Reilly.

This is well above 'second best' Autozone which has compounded at 4.5% but certainly in another league compared to struggling Advance Auto Parts at 1.0%. New store openings have been an additional kicker, contributing another 4%-points to growth.

The resulting 10% organic growth over the last ten years is by and large in a league of its own in 'mature' retail with only Costco, another core holding in the fund, posting similarly strong figures (7% same store sales and 3%-point new store contribution over the last ten years).

Not your typical retailer

Importantly, this strong growth has not come at the expense of profitability. At 51% and 20%, respectively, gross and operating margins are outstanding, particularly for a retailer/distributor. What's more, both of these have widened significantly over the long run.

Margins are just one side of the ROIC story though. The other one is capital efficiency. O'Reilly shines here, too. Particularly impressive is its working capital efficiency with a negative working capital to sales ratio. This is driven by the businesses' purchasing clout which allows them to pay their suppliers only after they have actually sold the parts bought. Capital investments are also limited, mainly for renting, building and fitting out new stores.

The result are strong and steady returns on capital including operating leases of around 40% currently. These are very much at the high end of (general) retailers, as is free cash conversion of close to 100%. Crucially though, the make up of returns is rather different. Unlike O'Reilly, retailers typically operate on very thin, (low) single digit margins but turn their inventory very fast. With O'Reilly it is opposite, mainly because of the need to carry a wide range of long-lived inventory which increases the service content of their offering which in turn supports profit margins.

Clockwork-like compounding

O'Reilly's very consistent and durable growth on the top-line of 10% has translated into earnings growth of just over 12%. On the per share level, this has been further boosted by aggressive share buy-backs which have contributed another 6%-points to growth. The result is compounded earnings per share growth of 18% over the last ten years with EPS more than quintupling over said period. Compounding, compounded.

Live Green

O'Reilly's outstanding strategy and financial performance boasts a culture and management team to match. The company is currently led by O'Reilly lifer Brad Beckham. He joined fresh out of high school at just 17 years old, sweeping floors and organizing stock in their Wagoner, Oklahoma store, thereafter rising all the way to the top of the company's ranks.

As just the 4th chief executive in the company' storied 67-year history, Beckham epotimises both O'Reilly's distinct culture, internally called 'Live Green' as well as its strong 'promote from within' philosophy exceptionally well.

Another key tenet of the company's culture and organization is its hugely decentralized structure all the way down to the store level with store managers incentivized to 'run it like you own it'. This setup essentially allows them to act as 'mini CEOs', with a lot of focus and clear 'line of sight' from the top down all the way to the store level in terms of the sales, profits and the economics of each and every single store.

Capital allocation priorities are similarly straightforward: invest in the business first, then in smaller competitors (of which there are by now few which fulfill a genuine need) and then into the stock (via share buy-backs).

An antifragile business

O'Reilly is a very robust business that has done well over a long period of time and has stood the 'test of time', as evidenced by positive same store sales growth in each and every year since it went public in 1993. Furthermore, it has come out of 'testing times' even stronger. We consider it to be an antifragile business that thrives, and excels, in times of uncertainty, volatility and economic stress.

This can be illustrated via the example of new car purchases. Given their highly discretionary nature and purchase prices, these tend to fall precipitously during times of economic declines. For example, new car sales dropped by more than 20% during the Global Financial crisis or Covid-19. In such a situation, people will stick with their existing cars and drive them for longer. And it will be car parts retailers such as O'Reilly that will benefit from this, since the replacement of defunct components such as wipers, brakes or filters cannot be postponed for too long, or not at all.

This antifragility was once again in full display during the Covid-19 pandemic with same store sales growth accelerating well into the double digits in both 2020 and 2021. What's more, and unlike with many 'Covid winners', O'Reilly has been able to hold on to these higher sales without any major hangover as same store sales have continued to grow at a solid mid single digit clip. And we suspect, given another sizeable increase in the average age of the vehicle fleet, this will further fuel sales over the medium term.

Business owner's portfolio

A deeper look into the strategy and its companies[2]

SALES BY BUSINESS (%)

By weight in portfolio, excluding cash.

Professional Services	19
Software	18
Other	11
Capital goods	9
Medtech	8
Payments	7
Online commerce and advertising	6
Fast moving consumer goods	6
Semi-conductors	5
Industrial gases	5
Luxury	4

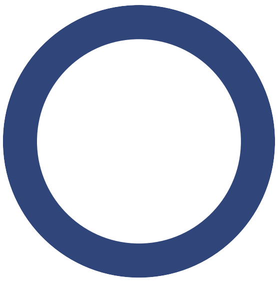
DEGREE OF PRICING POWER* (%)

Medium	53
Low	31
High	16

*In the investable universe, around 5% of companies have medium or high pricing power.

By weight in portfolio, excluding cash.

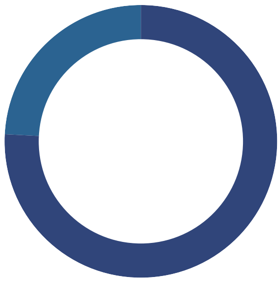
STRENGTH OF COMPETITIVE ADVANTAGE (%)



High	100

By weight in portfolio, excluding cash.

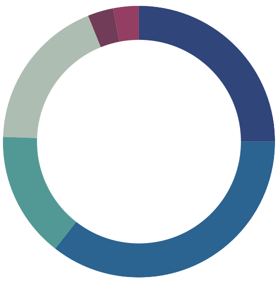
STRENGTH OF SWITCHING COSTS (%)



High	76
Medium	24

By weight in portfolio, excluding cash.

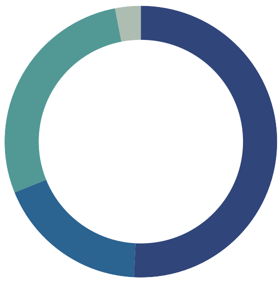
ESG RATING BREAKDOWN (%)[3]



AAA	25
AA	35
A	15
BBB	18
BB	3
not rated	3

By weight in portfolio, excluding cash.

CARBON EXPOSURE RISK BREAKDOWN (%)



1.5° Aligned	51
2.0° Aligned	18
Misaligned	28
Not rated	3

By weight in portfolio, excluding cash.

[2] Values: all data as at 30 June 2025, Source: Rothschild & Co.

[3] ESG labels only attest to the responsible and sustainable nature of management and should not be considered as a guarantee of capital security or of the fund's financial performance

Geographic and sector allocations and breakdowns are not fixed and may change over time, within the limits of the Fund's prospectus.

Notes

At Rothschild & Co Wealth Management we offer an objective long-term perspective on investing, structuring and safeguarding assets, to preserve and grow our clients' wealth.

We provide a comprehensive range of services to some of the world's wealthiest and most successful families, entrepreneurs, foundations and charities.

In an environment where short-term thinking often dominates, our long-term perspective sets us apart. We believe preservation first is the right approach to managing wealth.

To follow a wide set of timely and insightful publications, podcasts and videos please visit our Wealth Insights www.rothschildandco.com/insights

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Values: all data as at 30 June 2025.

Sources of charts and tables: Rothschild & Co and Bloomberg, unless otherwise stated.

Past performance is not indicative of future performance and investments and the income from them can fall as well as rise. Strategy performance is net of fees, equals the performance of the SA EUR of the LongRun Equity Fund (reinvested dividends), combining income and capital growth. Returns may increase or decrease as a result of currency fluctuations. Please note the strategy's new management started on 01.08.2021

Important information