LongRun Swiss Small & Mid Cap Fund

QUARTERLY LETTER

Advertising communication

JULY 2025

Investment philosophy

"Make things as simple as possible, but not simpler" – Albert Einstein

Welcome to the seventh LongRun Swiss Small and Mid-Cap fund letter. We kept the structure of previous editions which includes three sections: A description of our investment philosophy followed by a review of the quarter and finally an investment discussion. The section on our investment philosophy will not change in content but we may from time-to-time sharpen the wording. The review of the quarter covers performance and portfolio changes. The investment discussion focuses on a different topic each time. Feel free to skip to whichever section interests you most.

Our aim is to invest in a concentrated portfolio of high quality Swiss small and mid-cap businesses and hold these for the long-term. Put differently, we simply want the best. More detail on our investment philosophy below.

Long-term business owners

We want to own high-quality businesses which will be around and prospering for decades. Hence, we pay little attention to short-term price moves and rather focus on a business's sustainable competitive position. This means we search for companies with enduring superior business models that can compound their earnings. Consequently, we avoid companies in commoditized industries where price is the main differentiator. We seek solid companies in control of their own destiny, immune to external prices swings. A key metric is often management's allocation of capital as if it were their own, with a dedicated emphasis on achieving sustainable superior returns.

We care about valuation but are not dogmatic about it. If a great business continues to prosper, we are convinced that its share price will eventually follow. Furthermore, an obsessive focus on valuation often fails to identify truly exceptional businesses. We are determined to avoid this mistake.

Warren Buffett's advice "It's far better to buy a wonderful business at a fair price than a fair business at a wonderful price" is gospel to us. We are long-term business owners, which, in essence, implies that we envision acquiring a business and happily owning it for decades, if not longer.

Deep research on few companies only

As follows from the previous section, we do not continuously screen our investment universe for "cheap" companies nor do we buy and sell based on short-term price changes. Instead, we leave this to machines which go through publicly available data to identify and exploit perceived arbitrage opportunities.

Our research process is thorough. Once we consider buying a company, we invest a lot of time reading its annual reports, conducting expert calls, talking to management and constructing our own financial models. We also read books on companies and their leaders, industry newsletters and listen to podcasts. In short, we leave no stone unturned to better understand a business.

We prefer to analyse and own fewer companies, ensuring a deeper understanding. To us, this deep understanding of business models is absolutely necessary even if it is no guarantee for superior long-term performance.

Wealth preserving portfolio

Avoiding permanent capital loss is essential to long-term investment success. Consequently, we conduct deeper research on fewer companies. Also, it's an ongoing process, never truly finalized. We always strive to learn more and assess whether a business will be around and prospering decades from now, considering environmental, social or governance risks. Only companies of high quality, firmly in control of their own destiny, make the cut.

Our approach stands in stark contrast to benchmark-relative investing, where the allocation to each company is determined by the benchmark. In this method, any particular company then receives a higher or lower or even no allocation depending on a portfolio manger's view. This frequently results in a portfolio with - we would claim - too many positions. To us, the benchmark serves as a yardstick only, and when looking at its constituents, we select simply the best. That is why our portfolio's deviation from the benchmark as measured by the active share commonly exceed 65%.

On a portfolio level, our selection of businesses is complementary, as they serve different end markets across various geographies, generating revenues in multiple currencies. To us, this represents true diversification. We are cautious about merely adding more businesses to achieve diversification by quantity. This results in a robust portfolio.

A robust portfolio is also what then allows us to compound returns over the long-term. Just like we expect our businesses to compound their earnings, we also want to compound our clients' wealth.

Portfolio review

A look at performance and changes over the quarter

Performance

The fund gained +9.4% over the second quarter and +5.5% for the year 2025 thus far. In comparison, the SPI Extra, serving as the fund's yardstick, gained +7.2% and +10.5% over the same periods, respectively. Annualised returns since the strategy's inception some six years ago stand at +6.1% for the strategy and +4.6% for the benchmark. This results in an annualised outperformance of +1.5%.

14 of the 22 companies in our portfolio had positive share price returns this quarter. To a certain extent, this simply reflected a reversal from the previous quarter. Positive contributors were Belimo (+49% total return over the quarter), Accelleron (+40%) and Inficon (+18%). Detractors were Interroll (-4%), Kühne + Nagel (-12%) and Partners Group (-14%). We discuss these in turn.

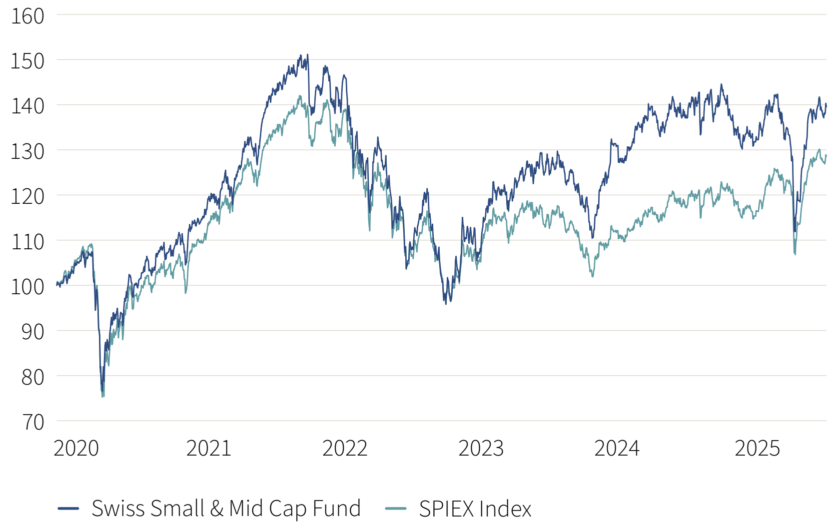
Belimo is the unrivalled leader for heating, ventilation and air conditioning field devices and we described the business in our Q4-23 letter. Its shares fell on unjustified fears of US tariffs. The company serves the US market largely through local production. Thus far sales momentum in 2025 has been strong, led by surging datacentre demand in the Americas. For these applications Belimo holds roughly 60% market share in traditional air cooling and over 90% in advanced liquid cooling applications. Full-year guidance was raised from 10% to 18% sales growth, triggering a share price rally.

Accelleron makes and services industrial turbochargers and is the focus of the present letter's case study. So far in 2025, growth in marine and energy turbochargers exceeded expectations, driven by tightening emissions regulations and rising energy needs. Indeed, business is going so well, that management raised guidance from 5% to 18% sales growth after the quarter ended.

Inficon's technology measures, analyses and controls pressure and gases which is essential in high-tech manufacturing including semiconductors. For more information turn to our Q1-25 letter. Demand for semiconductors is cyclical, and a broad-based recovery outside of AI-related chips is lacking. Luckily, Inficon supplies several unrelated end markets. The company expects mid-single-digit sales growth and good operating margins near 20%. With a potential improvement in demand for semiconductors Inficon remains well positioned.

Interroll is a provider of material handling solutions. Its share price declined as the market environment has been unfavourable and sales declined over the past two years.

FIGURE 1: PERFORMANCE (%)[1]



	Fund	Benchmark	Difference
2025	5.5	10.5	-5.0
2024	1.0	3.8	-2.8
2023	21.9	6.5	15.3
2022	-26.6	-24.0	-2.5
2021	22.9	22.2	0.7
2020	14.1	8.1	6.0
2019	4.4	4.9	-0.5
Cumulative return	39.6	28.6	11.0
Annualised return	6.1	4.6	1.5

[1] Performance based on a certificate from its inception on 2019-11-06 until the fund's inception on 2023-06-11 and the fund's performance thereafter.

Investors are clearly waiting for orders to pick up. Geographically, Europe is performing well, while the US is lagging. The outlook is improving and the company believes to have reached the bottom of the cycle.

Kühne + Nagel communicated a cautious mid-term outlook at its capital markets day in March and the shares have declined since. Operational performance held up reasonably well but there remain macro headwinds such as sluggish European demand and unresolved trade tensions. Consequently, management did not to revise its guidance upward as some had hoped.

Partners Group's shares declined over the quarter alongside peers. The main concern is that the exit environment is slow, reducing performance fee income. We like the business because it continues to attract more assets, which are very sticky and create management fee income from day one. Also, we stress that performance fees are not lost but rather postponed.

Activity

The market rotation during the second quarter gave us the opportunity to add new businesses. We added Burckhardt Compression, Medartis and Sunrise, all described below. There are now 22 investments in the fund, which we deem highly concentrated. Any additional investment would likely be a replacement for an existing one.

Burckhardt Compression is the global leader in specialised reciprocating compressors, serving various end-markets including hydrogen, liquefied natural gas (LNG) and petrochemicals. The company generates approximately 65% of sales from new equipment and 35% from services. The service business provides recurring sales with attractive margins and fosters customer loyalty. Also, the company's manufacturing capabilities are second to none. For instance, Burckhardt is one of two companies in the world capable of making hypercompressors, which are critical for solar cell production. This combination of market leadership, a robust service business, and strategic alignment with long-term energy transition trends makes Burckhardt Compression a good addition to the portfolio.

Medartis is a global leader in medical equipment for small bone fixation. It was started in 1997 as a sister company to reknown dental implant maker Straumann. The founder, Dr. h. c. Thomas Straumann, remains a key shareholder supporting a long-term strategy. Medartis offers advanced implants, personalised digital planning tools as well as the promising KeriTouch prothesis to treat thumb-base osteoarthritis. Following challenges in the US market, a new CEO, Matthias Schupp was appointed. He has ample relevant experience and hit the ground running with the acquisition of NeoOrtho. This provides Medartis access to the value segment and mirrors Straumann's successful acquisition of NeoDent which was also driven by Matthias Schupp. We like Medartis and its exposure to a high growth niche of the orthopaedics market.

Sunrise is a leading telecom provider, exclusively focused on Switzerland, offering mobile, internet, TV, and fixed-line services. Originally a subsidiary of Liberty Global following its merger with UPC Switzerland, Sunrise became independent again through a spin-off completed in 2024. It now holds a strong second position in a stable, rational, three-player market alongside Swisscom and Salt, reducing the likelihood of aggressive price wars. Its disciplined capital allocation strategy supports an attractive dividend yield, making Sunrise well suited for stable returns from a resilient domestic infrastructure asset.

Result

Our portfolio comprises high-quality businesses, as evident from the financial metrics: cross-cycle sales growth of 8%, an operating margin of 19%, an operating return on invested capital of 23%, a net debt-to-EBITDA leverage ratio of 0.2x, and a strong cash conversion rate of 84%. We consider the current valuation attractive, with the portfolio offering a free cash flow yield of 3.5%, slightly ahead of the benchmark's 3.2%.

To grow or not to grow?

Sometimes, a bird in hand is better than two in the bush

As you might expect, this section focuses on a single investment. We do this because after researching a business and eventually investing in it, we like to share some of our insights. This time we take a closer look at the (over)obsession with growth. We argue that, despite limited sales growth, well-managed companies can be outstanding investments. Or in financial jargon: high levels of sustainable profitability may be more desirable than high levels of growth. We illustrate our thinking using Accelleron as an example.

From early turbochargers to Accelleron

Approximately 120 years ago, the Swiss engineer Alfred Büchi developed the first turbocharger. The concept is fairly simple: using more pressure inside an internal combustion engine (ICE) increases the air density and allows for more violent explosions and hence more power output.[2] Following a strategic review in 2020, ABB decided to focus on electrification and related themes and turbochargers no longer fitted the portfolio. Accelleron was spun-out and began trading as an independent company on the Swiss stock exchange in October 2022.

Accelleron develops, manufactures and services – yes, you guessed it – turbochargers. However, these are not for mass-market products like cars, but for industrial applications. To illustrate: Accelleron's largest turbocharger weighs about ten tonnes and produces 30,000 kilowatts of power output whilst withstanding temperatures in excess of 500°C. Clearly, this is heavy-duty equipment. The principle remains simple: exhaust fumes drive a turbine, which powers a compressor to increase air pressure in the ICE. Early models had 1 bar intake and 1.1 bar output, modern ones achieve up to six times intake pressure. Turbochargers are relatively cheap and tend to pay for themselves quickly by increasing power output while lowering fuel consumption and emissions. Today, virtually every heavy-duty engine has a turbocharger.

Accelleron manufactures and services two broad types of turbochargers, distinguished by the speed of the engine, which are used across two end markets: marine and energy.[3] Medium- and low-speed turbochargers (around 75% of sales) are often custom designed for large diesel engines in marine or power generation settings. High-speed turbochargers (around 25% of sales) are produced in small series for gas-fired engines used in baseload, balancing, or backup power generation as well as some other applications. Overall, the marine end market generates over 50% of sales and energy accounts for more than 40%. Accelleron is the market leader in medium- and low-speed with over 50% market share and is also improving its position in the high-speed segment.

After the initial equipment sale to an engine maker, a lifetime of recurring service begins, with the customer typically being the end-user (e.g. a shipowner). A low-speed turbocharger on a marine diesel engine may run almost uninterrupted for years, barring maintenance shut-downs. Small services occur every 2-5 years, major overhauls every 5 years, and upgrades typically 10-15 years into a vessel's life. After 20-30 years, the vessel, engine and turbocharger are commonly scrapped. Service can be postponed but is inevitable – failure is not an option. Switching equipment is also impractical as it is physically almost impossible to remove the turbo from a ship hull. Service sales are, therefore, predictable over the medium- to long-term.

A natural question is: why don't engine manufacturers simply make their own turbochargers? The answer varies. Some engine makers make their own turbochargers (e.g. MAN and Mitsubishi), some do not (e.g. Wärtsilä and WinGD), and some make their own (or at least parts of it) but also buy from Accelleron (e.g. Hyundai and Rolls-Royce). In general, engine makers do not want to develop and produce turbochargers which they view as a niche product requiring too much investment for limited extra sales compared to an engine. Furthermore, end customers such as shipowners sometimes specify the turbocharger brand themselves for sourcing flexibility.

Holding off competition

The average research and development (R&D) spend is about 6% of sales per year and around 200 dedicated engineers continuously improve

[2] Despite other pioneers, Alfred Büchi is the grandfather of the turbocharger as we know it today. He filed a patent in 1905 and launched a prototype in 1915 which was too unreliable to make it into mass production. About ten years later, the first commercial application for ship diesel engines was built by Brown, Boveri & Cie, the predecessor of ABB which in turn spun-out Accelleron.

[3] More technically, speed is defined in rounds per minute which are often around 100 for low-speed and above 1,000 for high-speed engines.

products and services. Over time Accelleron became the technology leader and due to its outstanding manufacturing capabilities achieved market leadership in key segments, such as an estimated 40% market share for marine turbochargers. Today, Accelleron's global footprint is well organised: R&D and most complex manufacturing remain with the headquarter in Switzerland, while additional manufacturing takes place in China and Italy.

A global network of service stations is important, especially in marine application where the port closest to a vessel in need of sudden repair is unpredictable. Accelleron maintains around 100 service stations across more than 50 countries - unmatched by any rival. This is essential as idle ships are costly and repairs need to be made quickly. Therefore, the company ships spare parts anywhere within 48 hours from its main warehouse in Switzerland. The dense network for high-quality service is a key competitive advantage.

The installed base is around 180,000 turbochargers, and Accelleron sells between 10,000 and 12,000 units per year, around half of which are replacements.[4] This raises a key question: where does the bulk of sales come from – new equipment or service?

How to make a living

As you may have suspected, new equipment makes up the smaller part of sales (around 25%) whilst the service business contributes the lion's share (around 75%). The former commonly grows in line with economic activity. For instance, the building of large vessels or new power generation facilities is by-and-large dependent on GDP. The latter may grow at a slightly higher pace due to additional services. Overall, Accelleron's sales should grow slightly ahead of GDP over the long-term. Margins are solid: around 25% overall, with new equipment margins below 10% and service above 30%. While some customers may negotiate discounts on large orders, the company never sells at a loss just to secure future service income. Further, Accelleron can pass on input cost increases and may increase prices when improving equipment or services. Clearly, margins are very good and simply charging higher prices may drive customers away. New equipment and spare parts are largely quoted and billed in Swiss Francs which is a good way to avoid negative exchange rate effects. Hence, profitability seems ensured for the long-term.

Capital expenditure is limited as all facilities are state of the art and there is little need for additional capacity. There were some investments in recent years linked to the independency from ABB. The company is now in a position to recap strong profits from previous investments. One way to measure this is the return on invested capital (ROIC), which over the past years averaged 35% and may improve further.

Management also recently refined its capital allocation priorities: maintenance capital expenditure comes first, followed by a bolt-on acquisitions. This assures that the manufacturing base remains adequate and new products and services are only added when attractive opportunities arise. Thereafter, a steady to growing dividend is paid with further excess cash returned to shareholders via opportunistic buybacks.

In summary, despite a limited long-term growth outlook, Acceleron is an attractive investment: it offers strong sales visibility, high profitability and has only limited reinvestment needs. Since ongoing capital requirements are limited and a large part of sales is converted to profits, returns to shareholders are attractive. To quote heavy metal's finest Judas Priest, we are "Turbo Lovers".[5] Still, one may wonder: is this too good to be true?

Things that can go wrong

There are several risks to consider.

Firstly, increased competition. In theory, a well-funded rival could build factories and offer vast discounts to win customers. However, setting up a global service network is expensive and unprofitable until significant market share is won. Every year just 1,300 new large ships are built compared to a global fleet of 40,000. Thus, replacing the current fleet would take 30 years and consequently market share only changes very slowly. This makes it difficult for new entrants to break even, let alone thrive. So, we see little competitive threats.

Secondly, technological disruption. Electric propulsion is often presented as the "white knight" to defeat fossil fuels. However, for large vessels travelling long distances, this is wishful thinking. A container ship sailing from Asia to Europe would need around 300,000 tonnes of batteries – enough to sink it before leaving port. Even with progress, charging needs are massive: one journey would consume 1.5 days of output from an average European nuclear power plant. Ports with nuclear-scale energy? Not realistic. Even if we miraculously discovered the perfect propulsion system, replacing the global fleet would take around 30 years. Hence, disruption is unlikely.

Instead, transitional fuels (i.e. LNG, methanol, ammonia) will come first, followed by green hydrogen. The good thing is that all require ICEs and turbochargers. Their differing

[4] Annual new turbocharger deliveries are between 10,000 and 12,000 with around 6,000 units being replacements. On a single period of observation this yields a growth of around 3% which makes sense considering that the long-term demand for turbochargers should be linked to global GDP growth.

[5] If Accelleron had a corporate anthem it should be "Turbo Lover" released in 1986 by the English heavy metal band Judas Priest.

combustion profiles demand more advanced turbocharger technology, which plays to Accelleron's strengths.

Thirdly, Geopolitical risks are linked to currency movements, tariffs, and slowing trade volumes. However, these risks are manageable. Accelleron prices globally in Swiss Francs, largely aligning sales and costs. Some manufacturing in Asia and Europe also helps. Currency swings are a nuisance, not a threat.

Tariffs are a challenge in many industries, but their impact on Accelleron is limited. New equipment could face US tariffs, but this mainly affects onshore energy as ships are mostly built in Asia. For services, local labour is not subject to tariffs, and while spare parts could be, marine service can often shift to ports in other jurisdictions if needed. Overall, we estimate that less than 10% of sales is exposed to US tariffs.[6]

Global trade volumes drive shipping demand, in turn driving demand for Accelleron's products and services. Currently some manufacturing is moving closer to home but fully localising supply chains is unrealistic. Many countries lack key commodities and depend on imports. Therefore, global trade is unlikely to come to a standstill.

Lastly, management hubris may lead to empire building. We have met management multiple times and found them to be smart, humble, and hardworking. We do not expect them to engage in wealth destroying activities such as building lavish offices or vastly overpaying for acquisitions. Some recent small acquisitions were in adjacent products, namely fuel injectors. In 2023 Accelleron acquired OMT which in turn acquired OMC2 in 2024. There will be some investments to increase capacity to meet future demand stemming from fuel flexibility. Today fuel injectors contribute approximately 7% to sales but grow in the low teens. We guess that over the next years this may grow to 10% of sales and ultimately tilt the overall growth of the company upwards.

Further acquisitions may be in engine control systems. Michael Daiber, Accelleron's head of strategy, suggested that a turbocharger is like the lungs, injection the heart, and the control system the brain – all essential for the engine or body to work. We believe customers would welcome Accelleron to supply most subsystems.

In conclusion, we believe that Accelleron can grow around 5% for years to come. Its service sales are highly predictable, reinvestment needs are limited, and profitability is high. Paired with solid capital allocation this makes for a good investment. We like its unbeatable market position, too. In other word: "a bird in the hand may be better than two in the bush". The exceptional management team may improve the growth profile over time. We acknowledge that, whilst writing this letter, Accelleron raised its current year sales guidance to high teens due to exceptionally high demand for marine upgrades and small energy solutions. We still like the company but its recent share price development seems racy.

[6] In 2024, the US made up 16% of total sales, with 25% from new equipment and 75% from service. We assume all US new equipment sales are energy-related and fully subject to tariffs (4%). For service, 60% relates to spare parts which are subject to tariffs (7%) and 40% to labour which is not subject to tariffs. Since 50% of marine service could be shifted abroad, we estimate that around 5–10% of total sales would be exposed to US tariffs.

Business owner's portfolio

A deeper look into the strategy and its companies

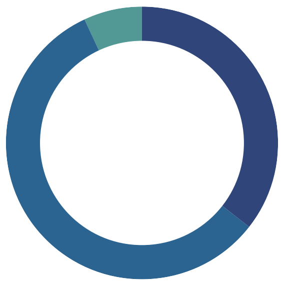
SALES BY BUSINESS (%)

Materials	7
Machinery	21
Other cap goods	10
Transportation	6
Semiconductors	13
Health care	20
Food	8
Real estate	1
Asset management	4
Other	10

Based on internal analysis.

By weight in portfolio, excluding cash.

DEGREE OF PRICING POWER* (%)



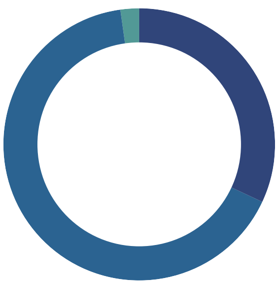
Medium	36
Low	58
None	7

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

Based on internal analysis.

By weight in portfolio, excluding cash.

STRENGTH OF COMPETITIVE ADVANTAGE (%)



High	32
Medium	66
Low	2

Based on internal analysis.

By weight in portfolio, excluding cash.

STRENGTH OF SWITCHING COSTS (%)

High	49
Medium	41
None	10

Based on internal analysis.

By weight in portfolio, excluding cash.

ESG RATING BREAKDOWN (%)

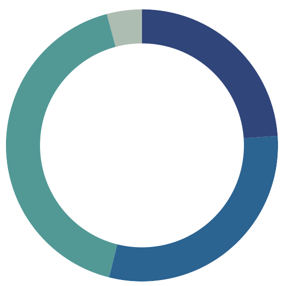
AAA	30
AA	28
A	30
BBB	12

The ESG rating summarizes the ESG performance of a company across environmental, social and governance topics compared to its industry peers.

Data retrieved from MSCI ESG Research LLC.

By weight in portfolio, excluding cash.

IMPLIED TEMPERATURE RISE BREAKDOWN (%)



1.5°C Aligned	24
2.0°C Aligned	30
Misaligned	42
Strongly misaligned	4

Implied Temperature Rise (ITR) shows the alignment of companies with global temperature goals. This represents the global warming amount if everyone replicated the measured company's practices. Categories range from less than or equal to 1.5°C Aligned to more than 3.2°C Strongly Misaligned. Data retrieved from MSCI ESG Research LLC.

By weight in portfolio, excluding cash.

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.

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Rothschild & Co Bank AG

Zollikerstrasse 181,
8034 Zurich
Switzerland

+41 44 384 71 11

rothschildandco.com

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 shown in CHF, after all fees, in total return, combining income and capital growth.