Rothschild & Co
Wealth Management

LongRun Swiss Small & Mid Cap Fund

QUARTERLY LETTER

Advertising communication

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Investment philosophy

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

Welcome to the eighth 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 such as a company case study. 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. In the present issue we take a closer look at the business of looking good. 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 commoditised 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 finalised. 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 sales 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 lost -4.5% over the third quarter and gained +0.7% for the year 2025 thus far. In comparison, the SPI Extra, serving as the fund's yardstick, lost -0.2% and gained +10.3% over the same periods, respectively. Annualised returns since the strategy's inception some six years ago stand at +5.0% for the strategy and +4.3% for the benchmark. This results in an annualised outperformance of +0.7%.

9 of the 23 companies in our portfolio delivered positive share price returns this quarter. The main positive contributors were Interroll (+25.4% share price change over the quarter), Galderma (+20.3%) and Accelleron (+20.0%). The main detractors were Comet (-22.8%), SKAN (-25.6%) and SIG (-35.2%). We discuss these in turn.

Interroll performed well in the third quarter. The first half results were still unaffected, but the company is preparing itself for upcoming orders by investing more in R&D and marketing. The e-commerce market showed some early signs of recovery and orders increased significantly.

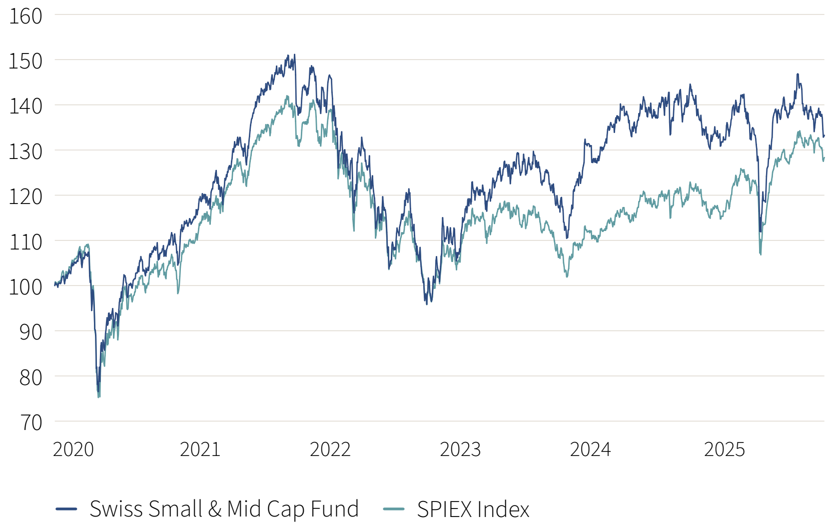
Galderma rose after reporting a record first half. Execution was strong across all segments, prompting management to raise sales guidance from 11% to 13%. Over the quarter, Galderma has continued to gain share supported by strong commercial execution and international growth in China, India and the Middle East. We discuss the company in this edition's case study.

Accelleron is the technology and market leader for industrial turbochargers and was the focus of our Q2-25 letter. The company upgraded its sales guidance in July (from 5% to 18% sales growth) and subsequently reported a very strong first half. Demand continues to exceed expectations, especially from energy applications. However, tariffs are a slight headwind and management is focussed on adjusting its pricing and supply chains to remain competitive in the US market.

On the downside, after reporting solid first half results, Comet's management flagged a slowing second half and cut guidance. The reasons included foreign currency pressure and up-front costs from an efficiency program. The immediate outlook for semiconductor equipment remains muted.

SKAN's first half sales declined causing a net loss driven by project delays and delayed customer acceptances.

FIGURE 1: PERFORMANCE (%)[1]



	Fund	Benchmark	Difference
2025	0.7	10.3	-9.5
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	33.3	28.3	4.9
Annualised return	5.0	4.3	0.7

[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.

Note that SKAN receives milestone payments with the last being due once its machines are used by customers. On the positive side, order intake rose ca. 20% and guidance was maintained. However, there are clearly some near-term profitability headwinds. Also, over the quarter it was announced who will succeed the current CEO starting January 2025.

SIG Group had multiple headwinds over the current quarter. In August the CEO resigned with the CFO becoming interim CEO. In September, guidance was lowered for the second half of the year and the dividend was suspended. There is still a strategic review pending and whilst the underlying business appears intact, management and strategic stability are lacking for us. We decided to sell and remain on the sidelines for now.

Activity

The third quarter saw an addition and a removal from the portfolio. We added the classifieds business Swiss Marketplace Group (SMG) during and after its IPO, and sold SIG, leaving the fund still holding 22 holdings. We have experienced a market favouring value and momentum, using a factor attribution framework and terminology. Whilst this has been a drag on performance because we favour quality companies, it is also presenting us with several interesting companies at attractive valuations.

SMG was created in 2021 by uniting Switzerland's leading online marketplaces under one roof. The offering covers all verticals: Real estate, automotive and general marketplaces, as well as ancillary services such as financing. SMG owns all the leading brands and commands ca. 80% of all real estate listings, ca. 90% of car listing and ca. 90% in general marketplaces. In simple terms, these platforms match demand from buyers with the supply from sellers, with one reinforcing the other. Just imagine, if (almost) all potential buyers use your site, then all sellers will want to list there because of better sales conversion. Additionally, being active across verticals – especially general marketplaces – may act as a shield for new entrants as it is difficult to build up a new platform with a strong buyer following. Today, Swiss take rates are unusually low at ca. 2% whilst international peers charge 2-4 times more. This gives ample room for pricing and SMG is determined to achieve this. To summarise, SMG is the Swiss pure-play classifieds champion with a promising outlook.

Result

Our portfolio comprises high-quality businesses, as evident from the financial metrics: Cross-cycle sales growth of 9%, an operating margin of 20%, an operating return on invested capital of 23%, a net debt-to-EBITDA leverage ratio of 0.1x, and a strong cash conversion rate of 86%. We consider the current valuation attractive, with the portfolio offering a free cash flow yield of 3.4%, slightly ahead of the benchmark's 3.2%.

Vanity fair or good business?

"Vanity is the healthiest thing in life." – Karl Lagerfeld

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 looking good. Youthful appearances are desirable and, as it turns out, make for good business as Galderma shows.

The ascent of Galderma

Galderma is neither a beauty nor a pharma company but a dermatology pure play.[1] Its story started in 1981 when Nestlé and L'Oréal entered an equal partnership to create a physician-focused, science-based company dedicated to medical skin health and not just consumer cosmetics. Subsequent ownership changed several times: Nestlé bought out L'Oréal in 2014, sold to a private equity consortium headed by EQT in 2019 which ultimately listed the company in early 2024. Since then, business has been thriving, with the share price following suit. L'Oréal's subsequent purchase of a 10% stake seems a telling move – perhaps they should never have sold in the first place.

Galderma's segments by order of current share of overall sales are injectable aesthetics, dermatological skincare and therapeutic dermatology, each described in turn.

Injectable aesthetics

Injectable aesthetics is the main cash generator, contributing 50% to group sales and boasting the highest margins (in the high 20% range). The products are toxins, fillers and biostimulators, which all need to be injected.[2] Toxins temporarily relax facial muscles and can be used to soften frown lines or crow's feet. Market concentration is high with AbbVie's Botox claiming ca. 60% and Galderma's Dysport/Azzalure ca. 25%. Toxins were originally developed to treat muscle spasms and other medical indications. Galderma does not own or manufacture Dysport/Azzalure but has an exclusive commercial agreement for its aesthetic use.[3] Its next generation toxin, Relfydess, is manufactured in-house and therefore offers better economics. It is already registered across Europe, UK and Australia with a US sales launch likely mid-next year.

Fillers and biostimulators are two ways to achieve better skin volume and firmness. Whilst fillers are gels with an immediate effect, biostimulators enhance collagen production and have a longer-lasting effect. The two are often combined in one treatment, for instance as a remedy to the so-called "Ozempic face".[4] Galderma's Restylane filler family has ca. 20% global market share behind AbbVie's Juvéderm with ca. 35%. In biostimulators, Galderma's Sculptra is the clear market leader with ca. 55%.

Per regulation, aesthetic injections are mostly performed by or under a doctor's supervision. They often choose products which best fit the patient, so technical features such as rheology, safety profile and ease of use trump brand recognition. Galderma is known to be innovative and frequently launches enhanced or new products which have both, better product performance (faster onset or longer lasting effects) and simpler application.

The market is large and growing. In the US, annual toxin treatments rose from seven to ten million over the past decade, while filler procedures more than doubled.[5] We expect this segment to grow in the low teens for several years, supported by some share gains and wider adoption. As treatment effects fade within months, repeat use is built in – a recurring sales model par excellence.

[1] Dermatology is the medical specialty focused on skin, hair and nails. It includes medical care (e.g. acne, eczema) and cosmetic procedures (e.g. toxins, fillers).

[2] The technical term for toxins is neuromodulators and for fillers hyaluronic-acid fillers.

[3] Dysport/Azzalure is owned by the French company Ipsen who commercialises its medical use.

[4] Taking type 2 diabetes drugs to lose weight quickly may result in soggy facial features, or "Ozempic face". Victims include many Hollywood celebrities and there is ample photographic evidence - Just search the web.

[5] Based on figures from the American Society of Plastic Surgeons (ASPS) which only samples surgeons and likely underestimates true numbers.

Dermatological skincare

Skincare products contribute 30% to overall sales and achieve low 20% margins. Galderma's Cetaphil launched its first product in the 1940s and is known for developing premium products with dermatologists to cover all skin care needs. Products are sold via medical practices, classic retail and increasingly online. The initial purchase is often done on a doctor's recommendation. Cetaphil is a top 10 brand, but its 5% market share is dwarfed by CeraVe's and La Roche-Posay's 15% (both owned by L'Oréal). Given their similar positioning, we see room for Cetaphil to narrow the gap through innovation and e-commerce expansion. High single-digit annual growth appears achievable.

Therapeutic dermatology

Galderma's portfolio of skin disease treatments accounts for 20% of sales and includes leading prescription products for acne and rosacea. Recent years saw declines due to patent expiries, but momentum is returning with Nemluvio, Galderma's newly approved biologic drug for atopic dermatitis and prurigo nodularis.[6] The drug's clinical profile is attractive: Fast onset, significant itch reduction and convenient dosing. Still, many doctors start their patients on a more established drug, but Nemluvio adoption is picking up quickly. The use of biologics like Nemluvio for its approved indications lags far behind the biologics use for related conditions like psoriasis. Clearly, there is good potential and including Nemluvio, total segment sales could rise around 30% annually for several years, with patent protection extending for roughly a decade.

The secret sauce

By now it should be clear (like your skin, if you use their products) that research and science are essential to Galderma's success. Around 10% of the total workforce and 7% of sales go towards R&D. Of course, treatments like those depicted in the film "The Substance" remain firmly in the realm of science fiction.[7] Newly developed products need regulatory approval. Here, Galderma's track record is solid as the company ran about 800 clinical trials, securing 250 approvals over the past 5 years. Internal manufacturing facilities are state-of-the-art supporting innovation and compliance with regulatory inspections. External manufacturing partners are used where complementary, but Galderma generally aims to produce the majority internally.[8]

Commercial execution is equally strong and tailored to each segment. With 2,000 sales people, Galderma reached roughly 250,000 medical professionals in 2024, often through events and training. This is prevalent for therapeutic dermatology and injectables aesthetics. For the latter, the company also runs loyalty programs with tiered volume rebates for medical practices and treatment credits for patients. Additionally, the company runs successful direct consumer marketing campaigns leveraging influencers and high visibility events such as the Super Bowl.[9] Over the past years online skincare sales have taken share from classical retail, reaching ca. 35% with more upside in the future. There are also digital offerings spanning support for professionals, skincare advise and injectables visualisation – It's injectables augmented reality tool lets doctors show patients the after before (this is no switch of word order!). Together these initiatives support the brands' premium positioning.

The premium positioning can also be implied from Galderma's sales growth. Over the past years sales grew low double-digit organically with the lion's share coming from volume increases. Pricing varied across segment but was largely flat to slightly up based on upselling to more premium products rather than pure price increases. Going forward, we expect Galderma to continue its growth trajectory without Nemluvio and do even better when this is included.

In summary, all segments have good potential and the business model is thoroughly integrated: Injectables at the clinic, doctor-recommended skincare at home, and prescription treatments at the pharmacy.

[6] The exact name is Nemolizumab-ilto which is the first IL-31 receptor blocker. After positive trails, regulatory approval in the US and EU, the drug was launched and shows good adoption.

[7] In the 2024 film, Demi Moore plays an aging Hollywood star who uses a black-market drug to be younger, more beautiful and more perfect. As you may imagine this comes with side effects making for a good film but not for the faint of heart.

[8] Outsourcing depends on the segment and product. Toxins are either externally produced (Dysport/Azzalure) or produced in-house (Relfydess). Fillers can be made external (Sculptra) or in-house (Restylane). Dermatological skincare (Cetaphil) is mostly made in-house. Therapeutic dermatology is made externally for Nemluvio and in-house for legacy products.

[9] During the 59th Super Bowl a Cetaphil commercial starring Lil Wayne created a lot of media attention. The advert played with the artist's disappointment about not performing at the half time show in his hometown and was titled "we are all a Lil sensitive".

What could go wrong?

One risk is the intense competition. AbbVie remains the heavyweight in toxins and fillers and there are some lower-priced challengers. Yet, this may provide Galderma with the opportunity to gain share in a growing market due to its innovation.

Currently more than 80% of sales are at the discretion of consumers. A certain dependence on the economic climate is therefore undeniable. That said, non-invasive aesthetics have grown through cycles as procedures become more common, also for men, and patients start treatments at a younger age. Commonly patients start with toxins and move to fillers as they get used to the treatments. Treatments are repeated 2-4 times a year, creating recurring sales. Still, global penetration is only ca. 5% so there remains ample room to grow.

Also, the ascent of Nemluvio is not guaranteed. The incumbent drug has a strong position, and some clinicians may simply stick to what they know already. Also, other competition may enter the market so it seems essential to roll-out Nemluvio quickly. Thus far, the progress seems promising. Maybe even a bit too much so, as the company's share price seems to assume Nemluvio to be a spectacular success with potential peak sales of USD2bn after 2027 which compares to company-wide sales of USD4.4bn in 2024.

To summarise, management is ambitions: First, grow aesthetics by low-teens via innovation and geographic expansion; Second, grow Cetaphil high single-digit through science-led launches and e-commerce; and third ramp Nemluvio fast. Management maintains the right focus for capital allocation: Organic growth before acquisition and returns to shareholders. Margins should increase due to operational leverage, increased in-house manufacturing and declining costs from Nemluvio development and ramp. Hence, the currently elevated leverage (ca. 2.5x Net Debt / EBITDA) should decline as cash generation improves. We view this as feasible and estimate the company to compound through product cycles and geographic expansion rather than financial engineering.

At close to 30 times 2027 earnings, the valuation already reflects optimism – but perhaps rightly so. Few companies in its space combine science, brand and recurring demand with such consistency. In Galderma's case beauty makes for beautiful compounding, or along Karl's words, vanity is not only the healthiest thing in life but also a very healthy business.

Business owner's portfolio

A deeper look into the strategy and its companies

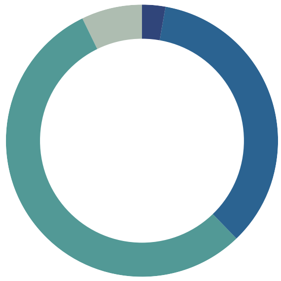
SALES BY BUSINESS (%)

Materials	3
Machinery	20
Other cap goods	10
Transportation	6
Semiconductors	13
Health care	20
Food	9
Real estate	2
Asset management	4
Other	14

Based on internal analysis.

By weight in portfolio, excluding cash.

DEGREE OF PRICING POWER* (%)



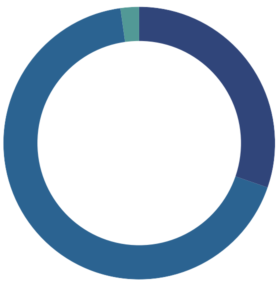
High	3
Medium	35
Low	55
None	7

*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	30
Medium	67
Low	2

Based on internal analysis.

By weight in portfolio, excluding cash.

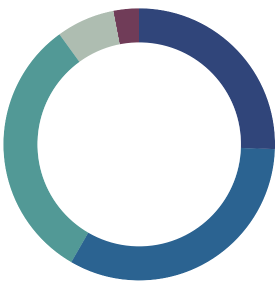
STRENGTH OF SWITCHING COSTS (%)

High	43
Medium	46
None	11

Based on internal analysis.

By weight in portfolio, excluding cash.

ESG RATING BREAKDOWN (%)



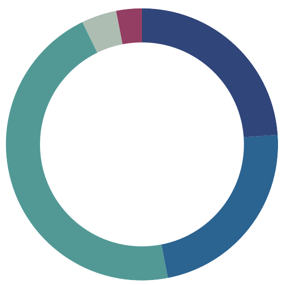
AAA	26
AA	33
A	32
BBB	7
not rated	3

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	23
Misaligned	46
Strongly Misaligned	4
No Rating	3

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.

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 September 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.