

Dear Shareholder,

In his 1993 investment letter, Ralph Wanger wrote:

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*"There is an excitable dog on a very long leash, darting randomly in every direction. At any one moment, there is no predicting which way the pooch will lurch. He leaps randomly from one direction to the next, stops to smell every leaf, barks at other dogs, and jumps behind you for no reason. His movements are totally unpredictable.*

*But in the long run, you know he's heading northeast at an average speed of three miles per hour, because that's where the owner is taking him. What is astonishing is that almost all of the market players, big and small, seem to have their eye on the dog, and not the owner."*

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It's my favourite analogy for thinking about a company's value, and its share price. Underlying value changes far less over time than the share price and herein lies the opportunity for investors.

Wanger used earnings per share (EPS), and earnings growth, to approximate fundamental value over time. We do the same.

Year	Latitude Portfolio Earnings (EPS)	Latitude Portfolio NAV / Price
Nov 2016	£4.3	£100
Dec 2016	£4.7	£106
Dec 2017	£5.1	£119
Dec 2018	£6.0	£126
Dec 2019	£7.3	£146
Dec 2020	£7.9	£156
Dec 2021	£11.2	£199
Dec 2022	£13.0	£201
Dec 2023	£13.0	£211
Dec 2024	£14.3	£240
Dec 2025*	£16.5	£290
<b>CAGR</b>	<b>15.8%</b>	<b>12.3%</b>

Source: Latitude, Institutional Share Class Performance

\*We report the portfolio level EPS each year, assuming the reinvestment of dividends, allowing investors to track a proxy for the underlying growth in fundamental value. In last year's annual report, we estimated £14.1 EPS for Dec 2024. This figure has been revised in this report to £14.3 after the remaining companies finished reporting full year results earlier this year.

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Over the long term, price follows value and we focus our attention on delivering fundamental value growth (through earnings and cash flow per share) within the portfolio. While we obviously like to see gains in both, we will focus predominantly on building operating earnings within the portfolio, paying less attention to short-term changes in price.

These earnings numbers are *unadjusted GAAP* figures reported by the companies. In many cases we believe that underlying earnings are higher, often substantially, although the transparency and comparability of showing unadjusted figures is likely of more benefit to shareholders. Over time GAAP earnings should converge to our estimates of underlying earnings.

It's worth stating that GAAP EPS is one way to consider the underlying intrinsic value of a business. We always ensure that our portfolio is converting these earnings into actual cash flow and often consider other financial attributes as superior when analysing individual companies. That said, GAAP EPS is a *reasonable* proxy to allow shareholders to track our performance over time and is the one we intend to show in the future.

Our businesses are, in general, investing for growth so the GAAP figures do not represent the maximal free cash flow they can generate today, rather the optimal (in the view of management whose opinion we trust) amount to balance the rewards of today while protecting and growing the rewards of tomorrow.

As you can see in the table above, our *path* (earnings growth) hasn't been perfectly smooth, but the average of 16% per year since inception has resulted in a brisk walking pace thus far. The dog is keeping up.

This year, the earnings growth (with reinvested dividends) from the strategy was just over 15%, similar to the longer-term average. In sterling terms, the portfolio was up 21%, outperforming this "fundamental growth" by 6%, which means the valuation of the portfolio changed only very little and played a relatively small part in overall performance.

We believe our companies' prospects are undiminished, and our expectations for future fundamental growth are, if anything, even marginally higher than in the past. The owner should keep marching onwards.

We have always believed there are many different ways for firms to deliver long-term, double-digit fundamental growth, and this has resulted in a diverse and somewhat differentiated portfolio that is largely agnostic to the development of the main themes of the day (AI, for example). Our companies are highly cash generative and generally have mature, secure market positions within their industries. This means their investment requirements are lower than many disruptive, early-stage firms (and many technology firms today), meaning there is cash leftover after investing for growth that can be returned to us, the shareholders. Combining low valuations and high cash conversion, our companies will generate around a 7% of their market cap in "free cash flow" (equating to around 14x PE). We expect them to pay an average dividend of 2.6% and are committed to share buybacks of around the same level. This is a 5% annual tailwind to the portfolio's fundamental growth outlook over the coming years. We were encouraged by the fact

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that, in 2025, market performance started to broaden, recognising more diverse sources of growth beyond the most popular, crowded stocks.

As usual in this letter, we run through a large number of our holdings in detail. We talk about new stocks we've added, and we focus a little more on **selling and the discipline of trading**. This is the advantage public equity investors have over private equity, and one that should be pressed at the right time.

This should be the limit of our portfolio trading: if, and whenever, you see a meaningful opportunity to improve your portfolio's fundamental growth, you should be bold, otherwise you should remain relatively inert.

Reported earnings are themselves far more volatile than underlying value. Yet prices are often influenced by ebbs and flows in earnings, and this creates opportunities. It's our sense that recent dispersion in stock markets may continue, although this may be optimistic. We discuss the opportunities we saw, and took, during 2025.

One final note. At present, we own quite a few defensive stocks given the relative attractiveness versus more cyclical areas of the market. This isn't a reflection of an internal opinion that we're entering recession, it's simply that we see a better trade-off between valuation and growth potential in sectors such as healthcare, which we explore in some detail.

## The Dog with the Longest Lead

**Dollar Tree** is a discount retailer in the US. We start our discussions here because its performance over the past few years illustrates the dog walking analogy rather well, and it's also a great example of our approach to trading within the strategy.

If the length of the lead represents the swings in price around value, then Dollar Tree certainly won the award for the most extendable lead over the past five years.

In 2020 the shares traded at around \$90, peaked in 2022 at \$170 and reached a low of \$65 in 2023, before rebounding to \$120 at the end of the year.

Is share price volatility such as this a good or bad thing for investors? If your ambition is to meet short-term performance reporting, it can be bad. However, if your ambition is to achieve long-term performance, led by underlying fundamental growth, then volatility like this can be a real gift.

In brief, Dollar Tree owned a poorly performing second brand of stores called Family Dollar. We worked through endless scenario analyses, which ranged from ascribing a negative value to the holding should they wind it up, to a reasonably positive outlook if they achieved a sale.

In March last year, they announced the sale of the business for \$1bn,<sup>1</sup> right at the upper end of our estimates. More important than the financials, however, was the company's renewed focus on the core business, which has performed well throughout the past fifteen years.

We added meaningfully (2.5% of NAV) to the position at \$71 per share, on the day of the announcement.

Preparation was key here, and so was patience, through our mantra of never adding to losing positions until the underlying business is demonstrably improving.

The stock subsequently rose to \$114 per share in July and we cut the position by almost half. The relative value to growth prospects for the business remained attractive but the holding was our largest, and we saw strong opportunities elsewhere, hence trimming as opposed to a full exit.

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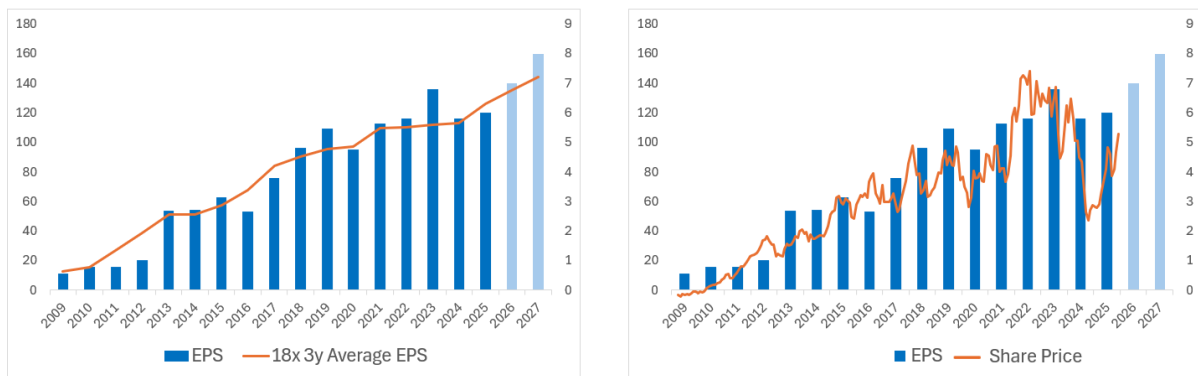
<sup>1</sup> [\*Dollar Tree Announces Agreement to Divest Its Family Dollar Business to Brigade Capital Management and Macellum Capital Management: Dollar Tree, Inc. \(DLTR\)\*](#)

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Remarkably, the dog went walkabout once more: the stock lurched back down to \$90 and we were given another chance to increase our stake at highly attractive prices. At the end of the year the shares traded at \$120.

Buying and holding Dollar Tree over the past five years would have resulted in an acceptable result, but these opportunities to trade created around 3.1% of excess return for the portfolio when compared to simply holding throughout.

If, as a very loose proxy, one looks at the “fair value” by taking 18x the average three-year EPS (left chart), you can see that over fifteen years it has grown around 1100% or 11x. What is also notable is that the rough *value* of Dollar Tree shares hovered around \$110 through 2022 to 2024, yet the shares were 50% **above and below** during that period.



The underlying thesis remains the same as the past ten years. Lower-income Americans continue to feel the squeeze, and local stores like Dollar Tree present unbeatable value and convenience. Their investments in merchandising and distribution are key competitive advantages in a world of tariffs and potential inflation. We believe the company’s prospects are bright, especially if we do ever see a rise in unemployment, which tends to benefit discount stores.

## Other Retailers

Retail business models are, in general, simple to understand but hard to execute, especially in a world of online and, by extension, international, competition.

We own two other retail businesses: **Tesco**, selling groceries in the UK, and **AutoZone** selling auto parts in the US. They could not be more different.

Tesco had a great year, returning 24% for the strategy. The commentary in the UK is that this is as good as it gets in this slow-growth industry, yet the shares only trade on a PE of 14x.

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It's true, the UK grocery market is likely to only grow a little above inflation over time but returns to shareholders of Tesco could exceed this enormously. For two reasons:

First, given the maturity of the market, investment requirements are low. This means that cash flow is truly "free" to be returned to shareholders. A 3.5% dividend yield and an expected 4-5% annual share buyback do much to boost returns for shareholders, on top of the gentle industry growth of around 4-5%.

Second, and more excitingly, the competitive landscape remains firmly in Tesco's favour, with Morrisons and Asda under extreme pressure due to stretched balance sheets.<sup>2</sup> Together, they hold a similar market share to Tesco, the market leader, although it's highly likely we see further share gains at Tesco over the coming years. Given the fixed cost nature of the business model, and the low margins, every 1% of market share increase from Tesco's current 30% is another 15% increase in earnings per share.<sup>3</sup>

**AutoZone** had a poor year in terms of the stock price (+6%) but they are priming the pump for faster growth over the coming years. They have made a calculation that their competition is weakened following years of inflation and tariffs and so now is the time to expand their store base more rapidly. This investment eats into current earnings, although when we work it through the long-term model, it should be highly accretive. Time will tell, but the strategic judgment at this company has been very solid for the past twenty years and it's our view that this remains the case.

## Rude Health

In our research process, we pay no attention to valuation. The sole focus is determining the earnings power of a business and assessing the attributes which support our outlook. However, when choosing where to allocate capital within the strategy, we pay **a lot** of attention to valuation. This approach occasionally leads us towards those firms and industries with strong potential but short-term headwinds. This can be a profitable approach when valuations excessively reflect the *present* concerns, incorrectly valuing the long-term prospects. We believe this is currently the case within pockets of the healthcare sector.

We started to see this opportunity in 2022, when we first invested in **McKesson**, a drug distribution company, and we now own its peer **Cencora** too. Both stocks produced returns of

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<sup>2</sup> Asda debt was [downgraded by S&P to 'junk'](#) in December 2025

<sup>3</sup> We published a [detailed note](#) discussing Tesco in April 2025 on our Latitude [Insights](#) page

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roughly 50% last year, driven by strong fundamental value growth of around 20% and some re-rating on top. The distribution model has proven its strong resilience, with companies having meaningfully reduced their dependence on drug pricing (by moving to fixed cost as opposed to percentage cost contracts) in the past decade. They are in effect a toll road on the US healthcare system and the opposite of economic rent-seeking businesses, creating huge value for the system while only earning a very small fraction of the industry profit pool (c.1%).<sup>4</sup>

While growing profits, they have also invested heavily in both technology and infrastructure, embedding their market positions at the centre of the US healthcare system.

**We love stocks which can grow profits *while* investing in their business.**

Beyond this 'core' investment, both companies have expanded into new avenues of growth, like distribution of specialty drugs (which is more complex due to the need for things like refrigeration) and medical service organisations (MSOs). Each area looks promising, and capable of accelerating organic growth and margins even if, as we expect, drug usage and consumption may slow in the coming year.

Both stocks trade at c.18x PE, which is still relatively attractive for the strong growth they offer investors and the low cyclicity of the earnings profile.

If these firms are *like* toll roads, royalty companies come even closer. We have looked at many in the past, from natural resources (mainly gold mining) to real estate and even music catalogues, such as Sony's. All require a similar sort of analysis. The business model has worked well for decades, and in 1996 a man named Pablo Legorreta saw an opportunity to extend it to the pharmaceutical and biotech industries which were struggling with the rising cost of research and development. He did this by buying drug royalties, in other words, the right to a share of the revenues from existing drugs. In return, companies receive a non-dilutive capital injection, helping them to fund future innovation, while still participating in the success of its drugs and maintaining operating control.

Thirty years later, the company he founded, **Royalty Pharma**, generates over \$2bn per year in cash flow, produced by royalties on a highly diversified collection of drugs, including 7 of the top 30 in the US.<sup>5</sup>

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<sup>4</sup> Latitude Analysis and PWC Health Research Institute

<sup>5</sup> Company Reporting

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When sectors are hot, capital flows in with abandon, and the opposite is clearly true too. Funding for biotech and pharmaceutical companies, which ballooned in the years of abundant cheap capital, has since collapsed. Royalty Pharma is filling the gap, and returns on capital are rising as a result.

The company has a 40-50% market share of all pharma royalties<sup>6</sup> and remains dominant today, despite attempts at competition from large private equity firms like Blackstone. The increased costs to bring a drug to market, and the absence of a credible alternative in equity and bond markets, mean that royalties become an increasingly attractive way of funding research. Barriers to entry are also high: relationships with pharma companies are built over decades, databases of successful trials and research require time to accumulate, and royalty holding periods are a lot longer than the lifespan of the average private equity fund, making them a less aggressive competitor. The company has shown great ability in diversifying its portfolio at solid double-digit returns and we were able to acquire the shares at a highly attractive entry point.

This opportunity presented itself just as we were growing increasingly less comfortable with our holding in **Heineken**. Alcoholic beverage makers are struggling at present (as discussed in previous letters on Diageo) but the specific concerns for Heineken revolve around their M&A strategy. At the time we made the trade we felt that even in our bearish scenario for Royalty Pharma its returns would exceed those of Heineken, a situation which we tend to seek when making direct swaps in the portfolio.

Clearly, it's not all good news in the healthcare sector, and we didn't avoid the disruption entirely. Healthcare stocks have broadly underperformed the market since the election of President Trump, due to a plethora of regulatory, pricing and tariff risks. The most notable impact this had was on the managed care organisations (MCOs).

**United Health** was one of two stocks in our portfolio that delivered a negative return for the year, down 33%. United Health is the largest MCO, with a membership of 51 million people, overseeing \$400bn of healthcare expense reimbursement across US commercial health insurance plans, as well as government programmes (Medicare and Medicaid). There were two primary issues in 2025:

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<sup>6</sup> Latitude Analysis and Deloitte: "Role of Royalties in Funding Biopharma Innovation"

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First, medical cost trends were significantly higher than expectations at the outset of the year (+7.5% compared to the +5% they budgeted for).<sup>7</sup> To put it into figures, United Health generated operating profits of \$32bn in 2024, an 8.3% margin. A -2.5% deviation on costs on a total of \$400bn of spend is a \$10bn impact on the business, and the main reason why the earnings shortfall this year was quite so dramatic.

Second, they recently attracted a large number of new members, from weaker peers,<sup>8</sup> who exhibited worse health attributes than expected. It's our view that this happened due to United Health's superior coverage and service, making a greater level of care available with greater ease.

Ultimately, both the increased cost and the increased requirements of patients will be reimbursed by the government, or through an increase to corporate insurance premiums, although this happens with a lag of around a year or two, depending on the program.<sup>9</sup>

Competitively, this may not be all bad news. Recent healthcare cost trends are unusually high and, consequently, the wider industry has seen profitability wiped out. United Health is far stronger, as the largest and lowest-cost provider, allowing them to continue to deepen their moat through technology investments while the competition is constrained.

Although disappointing, whenever our companies struggle, we ask ourselves the same questions that we do when considering any investment. Do we believe that they have the attributes within their industry to generate growing levels of earnings and cash flow long into the future.

With management and investors wrong-footed by cost trends in 2025, it's perhaps understandable that investor time horizons have shortened. However, with Medicare repricing having already taken place, and Medicaid repricing flowing through over the next couple of years, we're confident that earnings will recover sharply by 2027.

## Flying Fish

"Go fishing where the fish are, not the fisherman". It's common these days for investors to find comfort in "quality" sectors with strong thematic tailwinds; this herd mentality can result in sub-

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<sup>7</sup> United Health 2Q25 [Earnings Call Prepared Remarks](#)

<sup>8</sup> Namely CVS, Humana and Molina

<sup>9</sup> Medicare programmes reprice throughout the year so typically repricing takes place with a lag of one year. Medicaid programmes reprice once a year on a backward-looking basis as higher claims costs are validated by higher claims data – meaning it takes at least a year after claims costs stop rising to fully recover price.

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par performance, however, as we have seen with many traditional quality focussed funds over the past five years. **Herd animals eat trampled grass.**

Our approach has always been different, looking at individual business models as opposed to relying on thematic ideas. Of course, the assessment of an underlying industry and its potential growth is important for all investments. That said, there can be many drivers of *bottom line, per share*, fundamental growth which accrue to best in class operators, like market share gains or margin expansion. This is certainly the case for **Ryanair**, which produced a total return of 58% last year.

The intra-European travel market has always been a difficult one, plagued by an oversupply of planes, uneconomic (and state-aided) competitors, relatively slow market growth with high levels of regulation and a certain dependence on factors outside of management's control (oil prices, geopolitical shocks etc). Despite (and possibly because of) this, Ryanair has managed to build an exceptional business, earning returns on equity in excess of 20% despite owning its fleet of planes (while many peers rent them, to their detriment).

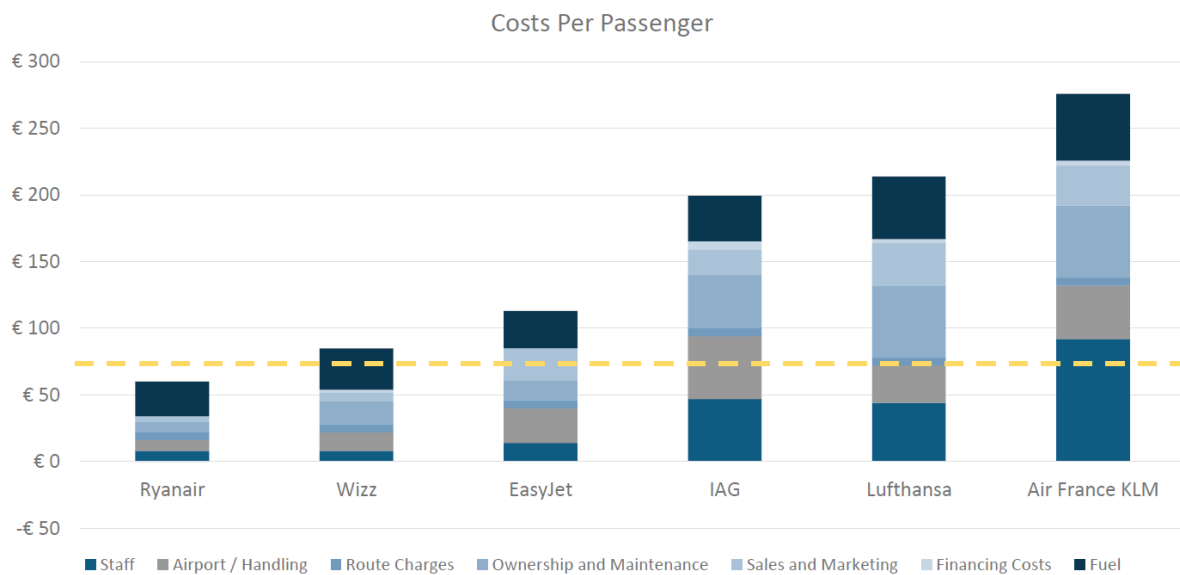
Covid, somewhat ironically given the cancellation of so many flights, impacted the industry positively, as around 10%<sup>10</sup> of aircraft were withdrawn from the market due to bankruptcies. Moreover, post-Covid supply chain shocks at Boeing and Airbus mean that the fleet is not going to be replaced any time soon.

At the same time, inflation hit Ryanair's competitors the most: the airlines that don't own their aircraft and employ unproductive and unionized staff. This meant that Ryanair's cost advantage almost doubled from levels in 2019. Today, the current revenue per passenger on a Ryanair flight (around €70, as denoted by the yellow line in the chart below) is below the *marginal cost* of its cheapest competitors, like Wizz and EasyJet. In other words, nobody can compete with them on price without deliberately losing money. This provides room for continued, rapid, profitable growth.

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<sup>10</sup> Latitude Analysis based on Eurocontrol Data

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*Latitude analysis and Respective Airlines Annual Reports. Yellow line represents Ryanair's revenue per passenger.*

Coupled with plane orders which were struck at incredible prices during the depths of the 2020 shutdown, the company is entering this next decade with the best balance sheet in its history, secure annual passenger growth of 5% p.a., lower capital expenditure requirements and stronger pricing power. This is an explosive combination. The return of excess cash, through special dividends and share buybacks, contributes meaningfully to our fundamental growth expectations. It's highly possible that, in an admittedly cyclical fashion, fundamental growth at Ryanair will average 15-20% per year over the next decade. Despite doubling since we bought the shares in 2024, the valuation of c.12x PE is undemanding.

## Who will be the AI Winner? Google it...

Believe it or not, **Alphabet** was one of our best contributors this year, with total returns of 66%, the best performing large cap tech stock over the period. In February, we discussed our nervousness regarding elevated capital expenditure across the largest technology companies. We also wrote that Google would be best positioned in an AI world, given its vertically integrated model and its pedigree in AI. The AI revenue model is clearly highly uncertain and far from guaranteed, but the likely attributes of winners in this space are (1) data, (2) processing power and (3) distribution. Google dominates all three.

Clearly, as the primary portal to the internet for the past twenty years, Google's data is incomparable. Their data centres are owned and operated in-house, Google Cloud already powers many other AI companies worldwide and, increasingly, the company has an internal

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supply of powerful bespoke chips, Tensor Processing Units (TPUs). Google's dominant platforms in search, mail, maps, video and autonomous driving etc. give it the best possible chance of successfully, and profitably, deploying AI across its network.

The market initially disagreed and the shares fell aggressively, as fears rose that the monopoly in its search business was under threat. Then, as new products were being released (including Gemini 3), the market felt reassured that the company was more of a winner than a loser in relation to AI. This triggered a furious rally of > 100%. Having added to the holding a year ago, we trimmed the position substantially in October. Even in large cap US stocks, where markets are assumed to be more "efficient", uncertainty creates canine confusion.

Where do we stand now? Google today remains an enviable business, AI has augmented the value of its market-leading cloud business, as well as YouTube and its nascent, yet dominant, autonomous car business, Waymo. We believe AI is likely to make search a better business and the powerful moat coming from having the world's best distribution into advertisers is unlikely to be undermined. Today's valuation of c.24x PE will make it harder to achieve the same level of future returns.

## Financials

Financials have long formed a part of our portfolio. Outside of **Visa**, these holdings were historically US banks. However, having exited Goldman Sachs eighteen months ago to buy Ryanair, we sold our **Bank of America** holding in March to fund what we saw as a better opportunity in adding substantially to our position in Dollar Tree.

This leaves **JP Morgan** as our sole bank holding, with 2025 providing further support to our thesis.

The bank continues to widen its moat versus the competition through unparalleled investment in technology. Investment-related technology spending (i.e. not "business as usual" spending to run the bank) for the year is expected to be \$8bn,<sup>11</sup> twice the equivalent number for its next largest competitor.<sup>12</sup> The positive flywheel remains very powerful, intelligently investing in the cost base, driving share gains and greater scale which then funds more investment, all while delivering excellent profitability.

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<sup>11</sup> JP Morgan 2025 Investor Day Presentation, slide 9

<sup>12</sup> Bank of America Press Release, 8 April 2025

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As mentioned above, we love seeing companies with high enough returns on capital to deliver strong growth *while* investing in their business and returning capital. JP Morgan's 23% return on equity is driving 14% tangible book value per share growth, and a 2% dividend. If the tech investments yield benefits in the coming years, margins could be higher, implying structurally higher returns on capital too.

Deposits for the US banking market have grown fairly consistently at an attractive 6% p.a. over the long term.<sup>13</sup> We continue to believe that JP Morgan's share of those deposits will trend higher over time from today's 11%<sup>14</sup> level (for retail) and likely exceed the bank's own 15% long-term ambition. This is a powerful structural tailwind to net interest income (NII) growth, especially in a world where current accounts pay little interest and can be invested at a risk-free rate over 3.5%.

The driver of earnings growth in 2025 however has not been NII but, primarily, rising equity markets, which boosted revenues in their equity trading and asset and wealth management divisions, collectively 25% of total revenue. It wasn't just a case of strong asset prices; flows for the bank across asset and wealth management have also remained very attractive at 8% of starting AUM, with blended fee margins broadly held flat. At the same time, the bank's balance sheet remains incredibly strong, with sufficient capital to withstand even their modelled worst-case scenarios.<sup>15</sup>

While it has re-rated substantially over the past ten years, we think JP Morgan remains acceptably valued on 14x PE for its excellent long-term growth prospects and profitability.

During the summer, the market began to value all information services companies as losers due to AI. For reasons we disagree with, investors decided that **Intercontinental Exchange (ICE)**, the world's largest stock exchange company, was squarely in the losing camp, causing the shares to decline c.25% from peak. The company is highly diversified, with a large fixed-income data business and the largest mortgage technology and software business in the world.

Perhaps it was a fear that mortgage tech (vertical software) could be disrupted by new innovative AI driven software, or maybe it was concerns that stable coins could substitute futures exchanges in energy and fixed income. Maybe these worries surrounded cyclicalities, as the energy derivatives business of ICE decelerated in the third quarter due to a summer lull in volumes.

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<sup>13</sup> FRED

<sup>14</sup> FRED, Company Filings

<sup>15</sup> Federal Reserve Stress Tests

ICE is a business we have followed and admired for years. The company founder and chairman, Jefferey Sprecher, built the business from the ground up into a world leading financial information and exchange group (that also owns the New York Stock Exchange). The company has a deep competitive moat with 80%<sup>16</sup> of its exchange segment being an oligopoly in futures and derivatives across energy, agriculture and fixed income. We foresee major potential in the first two fields, and the fixed income division is notably exposed to structural growth in volumes as they migrate onto exchange and electronic trading.

In its fixed income data business, the company provides indices and data to virtually every asset manager in the world, with a dominant market share. Since 2020 the company also believes there is long-term potential to transform the mortgage market and has acquired businesses to automate mortgage approval and servicing in the US. It has already built a leading market share of 60%.<sup>17</sup>

To finance this, we sold our position in **Interactive Brokers**, a business we still admire. The valuation of ICE was 60% lower than Interactive Brokers, following its rally of more than 200% in 24 months. Whilst we expect both to deliver solid returns and growth for many years ahead, the relative attraction of ICE was very clear.

On top of this, stock exchanges like ICE tend to *benefit* from volatile markets and downward pressure in equities, while brokerage businesses do the opposite. While we are not predicting a market sell-off, we gained less cyclical exposure to growth in the financial sector at a materially lower price, for what we believe is still at least a 13-14% fundamental growth rate.

## C'est La Vie

France is not top of international investors' minds these days, given the unstable political backdrop. Our three French stocks returned an average of 26% last year and remain inexpensive.

2025 was a very solid year for our French-listed infrastructure companies and an even better year for the shares, with **Eiffage** up c.50% and **Vinci** c.25%. Not much has changed from a fundamental point of view. Orders in the contracting and energy divisions are strong, complemented by continued bolt-on activities alongside expected growth in concession traffic. Vinci's airport division was, yet again, Europe's fastest growing network. Political risks in France

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<sup>16</sup> Latitude Analysis and Euroclear Data

<sup>17</sup> Black Knight Annual Report

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remain and are echoed in other parts of the developed markets too (e.g. Spanish electrical grids or Texan motorway confiscations).

Investing in physical assets in a world with an infrastructure deficit, and the potential resurgence of inflation, is very appealing, notwithstanding the risk that fixed assets cannot move “offshore”. Political risk presents an opportunity. How competitive will the next tender be for a French concession given the uncertainty created by the government? Will private equity funds flood the market with capital, or are high returns likely to persist for longer given this short-sighted behaviour? We believe the requirement for renewed infrastructure investment in Europe is in the early stages, and competition will remain low giving both Vinci and Eiffage a meaningful competitive advantage.

Despite the rallies this year, they have inexpensive valuations offering substantial double-digit prospective returns. In particular, we would highlight the fact that Eiffage, often misperceived as being less diversified and lower quality than Vinci, has made significant progress in diversifying its income from their motorway concession (APRR). Their other concessions, inclusive of recent wins, could produce an annual dividend to the group of >€350m p.a. by 2030, with a very long (>35y) average duration, roughly the size of the APRR dividend today.<sup>18</sup>

**Air Liquide**, a leading supplier of industrial gases, had a weaker year from a share price perspective (+4%) just as the business is setting up for an acceleration in the next 3-4 years. The backlog of investment opportunities rests at an all-time high, despite less interest globally for energy transition projects. The company has recently won contracts in electronics and semiconductors and is starting to make more inroads in US reshoring and industrial production projects.

Industrial gases support almost all forms of human endeavour, and recent news that US space launches (a rapidly growing area thanks to SpaceX) use a large amount of industrial gases goes to show that companies in the sector, despite being almost 200 years old, still provide the most basic resource to power a wide variety of industrial processes around the globe.

We also believe that the European division supporting ‘large industries’ (traditional manufacturing) hit a cyclical bottom several quarters ago. Over the next few years, any recovery in volumes should flow to the bottom-line of Air Liquide without the need for additional capital

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<sup>18</sup> Latitude Estimates

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expenditures, making it highly accretive to margins. We therefore think Air Liquide should be able to grow its fundamental value through a combination of 10% EPS growth and a 2.5% dividend yield.

## Locking onto Targets

Returning to the relative margin of safety we look for when trading, if a business that we know well (i.e. it sits on what we call our shelf of ideas) is available at a price that makes its returns look better than one of our holdings, even in its downside scenario, we have a pretty compelling start to the debate. This is particularly true if such a decision would lower cyclical exposure within the strategy without lowering fundamental growth potential.

Given how volatile and short-term markets are, this happens more often than one might imagine. This year, for example, we were able to take advantage of cases like these on three separate occasions. Above, we discuss Royalty Pharma versus Heineken, ICE versus Interactive Brokers and below, we elaborate on our decision to sell **BP**, replacing it with **Assa Abloy**.

During the tariff induced sell-off in April, Assa Abloy fell 20%, giving us the opportunity to reduce the portfolio's cyclicity while also enhancing its growth potential, all at a very reasonable valuation of 14x PE.

Assa Abloy is a high-quality global leader in locks and entrance systems. It's a business with limited cyclicity, given its earnings profile is mostly related to replacement, spare parts and aftermarket sales in both residential and non-residential markets. They also have structural growth opportunities in the US following the acquisition of the entrance systems, security and doors company, HHI, in 2023. We believe Assa Abloy's organic growth will accelerate thanks to the continued roll-out of electromechanical locks, replacing mechanical ones in both residential and non-residential properties around the world (e.g. Airbnbs). The installation of prime security entrance systems in US and European data centres and secure sites also comes with recurring service and subscription revenues. Complementing this is the fact that the company executes 20-30 bolt-on acquisitions p.a., further enhancing its fundamental value growth potential, our base case being around 13% per year. This was slightly ahead of the aspirations we had for BP while clearly being less cyclical. We are pleased to say that since then Assa Abloy has risen 42%, outperforming BP substantially.



Overall, our portfolio continues to offer strong, diversified, fundamental growth. Our expectations for the next five years are marginally higher than they have been in the past, given that a fair few companies (like United Health, Shell, Diageo, Dollar Tree, Air Liquide and AutoZone) are likely to see acceleration in their growth from depressed reported levels. The overall exposure within the portfolio is more defensive than it has been in the past, and we still believe our fundamental growth would benefit should inflation return. We have very little direct exposure to the AI theme, apart from our holding in Alphabet. At 14x PE, the valuation for this collection of investments remains undemanding, offering a margin of safety, or a source of potential upside, depending on how the world plays out.

Thank you for your support.



Freddie Lait

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