

Dear Shareholder,

Our approach to risk and portfolio construction involves maximising three main attributes: fundamental growth potential, margin of safety on valuation, and diversification.

We believe these are highly rational *whatever* is going on in the economy or stock market as, over time, we're able to generate returns which are untethered from any one environment.

That said, we still get asked frequently for our views on markets and, in as much as they inform our risk control, we've laid out some thoughts at the start of the letter, after which we discuss the portfolio changes in the quarter.

The Dark Side of the Moon

The Artemis II mission gave us perspective, as the world the astronauts looked down on was in turmoil once again. Space once appeared chaotic, its elements indeterminable and random, until Newton tied together his theory of gravity, giving us an understanding of planetary motion.

So it is with Trump, whose ideology and strategy are startlingly unclear, but whose motive is beginning to appear through the trail of debris he leaves in his wake.

The centre of gravity behind his actions in Venezuela and Iran, as well as his rhetoric and actions towards less hostile countries like Greenland, the EU and UK, is that he is willing to **challenge America's enemies, and he holds his allies in contempt.**

The band of nations behind global groups such as NATO, the World Trade Organisation, and the World Health Organisation are being torn apart, or paralysed, by the US policy agenda.

"And if the band you're in starts playing different tunes, I'll see you on the dark side of the moon." – Pink Floyd

Whether we like it or not (mostly "not") Trump wants the world to dance to his tune. And he certainly has all the instruments at his disposal to achieve this for now.

This marks a major change from the norms of the past thirty years and gives oxygen to Russia and China, amongst others. Making America great again is about strengthening their individual position at the expense of all others, causing the world to fragment.

While this has been the situation for most countries and empires throughout human history, it is one western politicians in general are highly ill-prepared for. The *thesis* of a global peace dividend is being overruled by the *antithesis* of individualism and protectionism.

However the Iran situation ultimately unfolds, the world order is changing, and we are in a new phase of the geopolitical cycle.

The US will continue its extractive approach. Taking commodities from Venezuela, and potentially Iran (and Greenland next?), indirect benefits from those able to offer them (a Qatari jet for example), while extracting indirect reparations from the UK and EU who, in their view, have underinvested in defence, healthcare and energy security on the assumption that Uncle Sam would pick up the tab.

We don't assume to know how this will play out and indeed see many potential positives from the changes. Portfolio construction and risk control will continue to dominate our thinking as we progress through this very changeable world.

Supercycles

When new cycles emerge, and change is at the forefront of investors' minds, there are two ways to approach investment.

The first is to make predictions about where the supercycles (i.e. periods of excessive demand) may occur, how long they may last, and whether to invest behind them. AI, commodities, and defence spring to mind as obvious possibilities today.

The second is to seek out defensive investments capable of making strong returns which are unconnected to economic machinations and the rise and fall of cyclical sectors.

Managing a cyclical business, with high fixed costs and long lead times is notoriously harder than managing a structurally defensive company. That's certainly not to say cyclical are all *too* difficult, but they do require structural forces to support the underlying growth, and from our perspective a wider margin of safety when investing.

We have had great success over the past decade in our investments in cyclical stocks, such as banks, airlines and energy companies, **precisely because at the time we invested there was no expectation of a "supercycle"**, and earnings were near their troughs along with valuations.

Given the current enthusiasm among investors for chasing the cycles, and the high commensurate valuations, we generally find more excitement in defensive sectors today.

Offence through defence

Non-cyclical industries appeal to us at present primarily because their fortunes are independent from the global economy and the volatility in energy prices, interest rates and excessive enthusiasm.

Equally interestingly, today they are trading at very wide valuation discounts compared to history, and to their more exciting peers in cyclical sectors.

This month we added the US supermarket **Kroger**, funded from the sale of **Unilever**.

Over the past fifteen years the company has delivered 12% annualised earnings per share growth while paying a dividend of 2% per year. This is not an unreasonable expectation of future fundamental growth, and we believe there are a number of ways it could do even better.

It has competed successfully for market position and occupies the #1 or #2 spot in 85% of the markets where it operates.

At \$66 per share when we invested, they were trading at 13.6x *trailing* earnings of \$4.85 per share. We believe, in our central scenario, that the company has potential to generate closer to \$6 of EPS in the near-term, and deliver strong fundamental growth from that point.

Over the next few years, the new CEO has opportunity for cost savings, investment and growth, all of which would produce stronger results than the past.

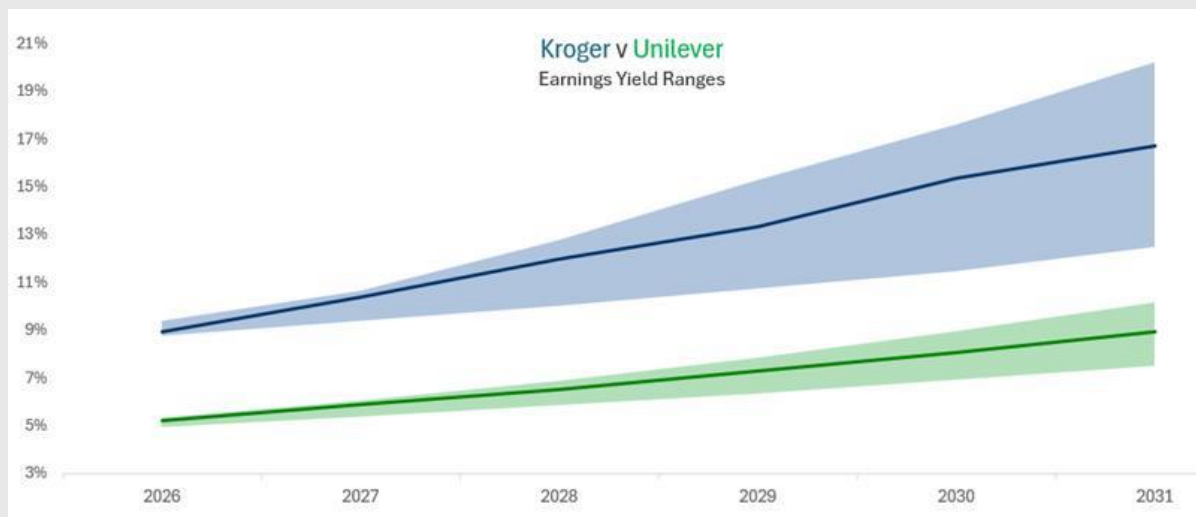
Margins are towards the lower end of expectations right now, depressed by LIFO accounting, and the cessation of the deal with Ocado, which will benefit results from next year. We see room to expand through continued growth in "alternative revenue" like advertising, private label penetration and lower shrink. As one of the largest

gas station operators in the US, Kroger is also likely to benefit from the continued volatility in fuel prices, a trend that has benefited many American grocery retailers. With independent competitors earning substantially more gross profit per gallon sold, Kroger can either raise its own fuel margins or keep them low as a customer acquisition tool, attracting drivers to its stations and converting them into grocery shoppers.

Much like our investment in **Tesco**, Kroger will do particularly well through times of food price inflation or recession. Inflation produces noisy results for supermarkets but, over the cycle, it's clear to see the pickup in sales from higher product costs, effectively index-linking their profits. Moreover, if food inflation returns, then restaurant and takeaway prices will rise too, which is likely to drive shoppers back to the cheaper grocery channel, similar to the outcome we've discussed in a recessionary scenario previously.

Overall, an inflation-protected, defensive business delivering fundamental growth of 10-15% per year seemed attractive to us at 11x forward PE.

When compared to Unilever, even in our bear case for Kroger the contribution to portfolio earnings was greater than the bull case for Unilever, hence the switch:



Source: Latitude Investment Management LLP internal estimate

Aside: relative value / growth charts like these are more interesting to us than judging “value” on stock price moves alone. We note many shares this quarter, most notably in the software and services sectors, have fallen precipitously, but does that make them cheap? Only if you assume their starting prices were fair, and nothing has changed - neither of which we believe to be true for the majority of those businesses.

We don't tend to rush to buy shares when they fall aggressively, although a dip in share price can offer an opportunity, and this was the case with Kroger. We were fortunate that the shares had fallen around 10% since August 2025, while Unilever's had risen 10%, adding 20% to our relative value upside, sufficient to make the trade.

Despite the heightened volatility, we did not see more opportunities to make changes in the portfolio and are content with its construction as we head through the rest of the year.