# AORIS

## Quarterly Report

June 2026

Aoris International Fund

# Aoris Investment Management

Aoris is a specialist international equity manager founded in 2017. We are a focused business and manage a single international equity portfolio. Our investment approach is conservative, fundamental and evidence-based.

## The Aoris International Fund

We own a concentrated portfolio of high-quality, wealth-creating businesses run by prudent and capable management. Owning a maximum of 15 companies allows our quality criteria to be unusually demanding and permits us to be discerning on the price we pay. We aim to deliver a return of 8–12% p.a. after fees over a 5–7-year market cycle.

# Aoris International Fund

## Performance to 30 June 2026

| **GBP Representative account** Inception 26 March 2018 | **June Quarter** | **1 Year p.a.** | **5 Years p.a.** | **Since Inception p.a.*** |
|---|---|---|---|---|
| Portfolio return (GBP) | 6.4% | -2.8% | 10.2% | 12.8% |
| MSCI AC World Accum Index ex-Australia (GBP) | 14.3% | 27.9% | 11.9% | 13.0% |
| IA Global | 13.0% | 21.1% | 7.9% | 10.3% |

Source: Morningstar and Aoris Investment Management Pty Ltd

All returns are net of fees and taxes and are calculated as follows:
Benchmark: MSCI AC World Accumulation Index ex-Australia (AUD)
Returns: Geometric average of monthly returns of Aoris International Fund Class A (AUD) over the period annualised for periods greater than 12 months.
FX Rate: WM/Reuters London 4pm
Inception Date: 26 March 2018

* Past performance is not a reliable indicator of future performance.

## Market and portfolio performance

International equity markets, as measured by the MSCI AC World Accum Index ex-Australia (GBP) appreciated by 14.3% in the June quarter. Equity markets rose by 15.1% in local currency, while changes in currency values detracted 0.8% from the GBP return.

As shown in the table on the previous page, the Aoris GBP Representative account declined by 6.7% for the quarter, underperforming its benchmark by 7.6%.

The June quarter was a continuation of what has been, in our view, a highly unusual year, marked by massive share price appreciation in companies that are part of the AI infrastructure build. Front and centre of this were semiconductor companies – in particular memory chip producers – and other suppliers of products used in building and running data centres, such as power generators, air-conditioning systems, and construction equipment. Our participation in the AI data centre construction ecosystem has been limited to Amphenol and Halma, which derive 30% and 20% respectively of their revenue from that end market.

There were also large gains from economically sensitive sectors, such as banks, industrial manufacturers, and commodity producers, reflecting a more positive view on near-term economic activity by many investors. We have no participation in these sectors due to their inherent cyclicality, low long-term growth rates, and the influence of external factors such as interest rates, commodity prices and government policy.

On the other hand, there has been disdain for many 'quality compounders, and deep scepticism for enterprise software and data companies that are deemed to be disrupted by the growing adoption of AI. This has hurt our absolute and relative performance.

Within our portfolio, notable positive contributors to performance for the quarter were Amphenol and IHG Group – whose share prices rose by 38% and 32% respectively – each contributing 2.2% to portfolio return for the period. Grainger, Diploma and Compass Group each contributed around 1.5% to return for the quarter, with their share prices rising by 24%, 19% and 18% respectively.

The material detractors to returns were Accenture, Jack Henry and SAP. Accenture's share price fell by 35% in the quarter, negatively impacting portfolio performance by 2.2%. Jack Henry and SAP declined by 14% and 9% respectively, impacting returns by –1.0% and –0.5% respectively.

## Our sale of Accenture

We sold our position in Accenture late in the quarter. Our investment in Accenture over the last few years has been a costly mistake. Its share price declined by 58% over the last 12 months, negatively impacting portfolio returns for the year by 5.2%, which included a heavy sell-off in June in response to a disappointing quarterly earnings result. It is important that we share with you why we see this investment as a mistake and what we have learned from it.

Our misjudgement was to assume Accenture's underlying revenue growth would return to the 6–7% rate it achieved over the period 2011 to 2019. After particularly strong years in 2021 and 2022, revenue growth since 2024 has been stuck at around 1–4%. We had assumed this was a cyclical lull, but it now appears to be longer lasting. Further, management is responding to this demand softness by making larger and more expensive acquisitions; a concerning departure from the company's history.

The company's quarterly result for the three months ended May, released on 18 June, undermined our confidence in Accenture's management and its prospects for a recovery in growth. We had expected growth to accelerate towards 6–7% through this year, as clients invest in their IT systems and processes, and the 2% drag on revenue from cuts in spending on consultants by the US Federal government falls out of year-over-year comparisons. Instead, management has guided to growth slowing next quarter, and we don't find their explanation for this satisfactory. Secondly, Accenture will now spend around $9 billion on acquisitions in their fiscal year ended August, more than twice prior guidance, and at valuation multiples far higher than they have historically paid.

The cause of Accenture's tepid growth is not entirely clear. On the positive side, the company's role in large IT transformation for their clients remains strong. For the first nine months of their current fiscal year, Accenture signed 104 contracts for US$100 million plus, which was 13% more than for the same period last year. On the other hand, revenue from smaller projects has declined such that group revenue in totality is barely growing. We would have expected smaller projects, such as testing and strengthening an organisation's cybersecurity, to be an area of strength right now. It may be that Accenture's organisational structure and client delivery model is not as well suited to smaller projects as some of its peers, or that some smaller projects are not proceeding in order to fund other client priorities.

We aim to balance being patient, long-term owners of successful, growing businesses, and having hypersensitivity to disconfirming evidence. In the case of Accenture, we got this balance wrong. We were too patient and not sensitive enough to warning signs over the last couple of years that challenged our assumptions. Specifically:

- We placed too much weight on Accenture's historical rate of growth, assuming this was the growth rate the business would naturally revert to. We didn't sufficiently acknowledge that the business may have matured, due to external or internal factors, and a lower rate of growth may now be the norm.
- We too readily accepted management's explanation for softer growth, namely geopolitical uncertainty, client caution, budget tightness and so on. We should have been more sceptical, especially given corporate profitability in general has been healthy over the last few years, and evolving technology and client needs should have played to Accenture's strengths. There were equally plausible explanations for tepid revenue growth that would have challenged our investment assumptions.
- We took too much comfort in valuation. We felt that the share price decline over recent quarters had made the stock extremely cheap, such that some improvement in fundamentals would result in a significant gain. We should have acknowledged that Accenture was falling short of our quality criteria due to its less certain growth prospects and the unconvincing explanations provided by management.

As we look across the rest of the portfolio, all of them have reported revenue and earnings growth in recent quarters in line with, or above, their historical norms. Unlike Accenture, we don't own any portfolio holdings where growth is in a lull, and we are expecting a cyclical recovery. Of course, the market's concerns regarding AI are forward looking, and any materially negative impact on a particular business may take some years to be evidenced in profitability and growth. In the Feature Article later in this report, we discuss each of our portfolio holdings in terms of potential AI threats and how they are positioned to respond to those risks.

Investment mistakes and misjudgements are inevitable. We work hard to minimise their severity by recognising them early. In Accenture's case, we were too slow. You can be assured this experience will leave a lasting impression on our investment team. We will work hard to ensure the lessons learned have a greater long-term positive impact on our investment decisions than the negative impact Accenture has had on performance over the past two years.

**Stephen Arnold**

Chief Investment Officer

# Portfolio Changes

## Purchases

### Moody's

Moody's provides credit opinions, data, and analytics tools to help its customers manage risk. The business is one of two leading global credit-rating agencies, with globally over US$75 trillion of debt carrying a Moody's rating. Market participants trust  Moody's ratings because of their accuracy, which has been demonstrated over may decades. Furthermore, a Moody's rating is an industry standard; part of the language of debt capital markets. A corporate issuing debt will lower its interest cost by 30–65 basis points if it purchases a Moody's rating, for which Moody's charges a fee less than 1 bps a year.

We had previously owned Moody's until June 2022, when we sold it due to a lack of strategic direction in Moody's Analytics, and the cyclically elevated earnings of the ratings business at the time. In the four years since, we have been impressed by how Moody's has transformed Moody's Analytics from a disparate collection of acquired businesses into an integrated unit with a clearly articulated direction. Today we see Moody's Analytics as a strong complement to Moody's Ratings.

### Bentley Systems

Bentley is the global leader in software for the design and lifetime operations of infrastructure assets. These assets include airports, bridges, roads, water and wastewater systems, power systems, buildings, railways and tunnels. Its software is used by engineers to create their design models, simulate how physical and environmental forces might affect an asset, and for project management and collaboration. Bentley has an industry-leading position in the majority of disciplines it serves.

We believe Bentley Systems can continue to grow revenue and earnings at a healthy rate by providing meaningful productivity benefits to labour-constrained engineering firms. The broad sell-off of software businesses over the last 18 months has provided an opportunity for us to invest in this resilient, steady-growth business at an unusually attractive discount to our fair value.

We are confident that Bentley can protect its business from new AI entrants due to its longstanding, deeply embedded relationships within the industry, and that infrastructure is a highly regulated industry with high barriers to entry, where any software errors have material safety consequences.

## Sales

### L’Oréal

We sold L’Oréal from the portfolio, as we had become less confident of the company’s ability to grow revenue at the 6–7% rate we had assumed. Scale has become less of an advantage for the business, as online marketing and distribution have lowered the barriers to entry for smaller brands. Over the last five years, in aggregate, smaller brands have gained share of the global beauty market. Meanwhile, L’Oréal’s execution and operating performance fell short of our expectations over the last year.

### Accenture

Addressed earlier in this report.

# How could AI impact our portfolio companies?

Written by Delian Entchev, Portfolio Manager

## Introduction

Artificial intelligence, or AI, has become a defining topic for investors. More than two-thirds of companies in the S&P 500 index discussed AI on their most recent earnings call.

The market has crudely bucketed most businesses as either 'AI winners' or 'AI losers'. We believe the effects are more nuanced.

Our portfolio is built around established market leaders with long records of growth and profitability. The key question we're asking ourselves is whether AI strengthens or weakens the durable advantages of these incumbent leaders. Meanwhile, we're unlikely to own the fast-growing companies at the frontier of AI, where the upside may be large but the range of outcomes is wide.

This feature article lays out our current thinking on how AI may create incremental opportunities for each of our portfolio companies, the main risks we see, where we believe the market might be overestimating those risks, and what evidence would cause us to change our minds.

We've separated our portfolio into three groups:

1. Direct beneficiaries of the large investments being made into AI infrastructure – Amphenol, Halma and Microsoft. We recognise there is some cyclical risk with these businesses if the AI-driven demand turns out to be unsustainable.
2. Businesses providing proprietary data and software tools that are deeply embedded in customers' workflows – Bentley Systems, Experian, Jack Henry, Microsoft, Moody's, RELX, and SAP. We believe AI is likely to increase the value of these businesses, even though so far the market has put them in the 'loser' bucket.
3. Businesses exposed to second-order AI opportunities or risks – Cintas, Compass Group, Diploma, IHG, Visa, and WW Grainger. We believe the risks have been overstated for these businesses, as they all serve a basic customer need that is unlikely to change, while AI could create opportunities to improve their operations.

Even though we have confidence in the businesses we own, we cannot be complacent. AI is evolving quickly, and it's possible some of our judgements could prove wrong. We will continue to look for disconfirming evidence against our current thinking.

## 1. Direct beneficiaries of the AI infrastructure buildout

### Amphenol

#### What the business does

Amphenol is the leading global producer of interconnect devices, which transfer data and power in electrical systems, and sensors that convert physical signals to electrical data. It sells into a wide range of end markets including commercial aerospace, automotive, mobile devices, mobile networks, data centres, and defence.

#### How AI may benefit the business

Amphenol has been a clear beneficiary of the buildout in data centre infrastructure, which has grown to one-third of its revenue. AI data centres require more high-performance connectors and cables than conventional cloud infrastructure, and Amphenol has captured a meaningful share of this spending. In the March 2026 quarter, its data centre revenue grew 81% versus the prior year.

#### What investors are concerned about

The natural question is whether Amphenol's current data centre revenue is sustainable. The major AI infrastructure companies continue to indicate that demand exceeds supply, but expectations are high and the market will be sensitive to any signs of slowing.

Amphenol is also a deliberately broad business. Within the data centre it has broad participation from microscopic connectors used on the actual AI chips, to connectors used in the server hardware, and thick cables used to connect different servers. Rising electronics content in its other end markets and its successful acquisition program give the company several growth drivers beyond AI infrastructure.

Another source of concern is whether future data centres may rely more heavily on optical technology, reducing the need for some electronic interconnect products. Amphenol's broad participation across the data centre value chain reduces this risk, but it does not remove it.

#### How we might be wrong

Amphenol's revenue and margins may be cyclically elevated. We will continue to monitor capital expenditure plans from the large cloud infrastructure companies and Amphenol's order book, as well as the adoption of alternative interconnect technologies.

## Halma

### What the business does

Halma is a group of niche technology companies focused on safety, health and environmental applications, where its growth is supported by rising safety and environmental standards and regulations. Its diverse product range includes gas and fire detection systems, elevator and train door sensors, water-quality testing equipment, and devices used in eye surgery.

### How AI may benefit the business

AI has created a major opportunity in one of Halma's businesses, which sells optical technology to a single large data centre customer. Halma acquired this business for less than £6 million in 2011. In the most recent financial year it generated £520 million of revenue, or around 20% of the group. Management expect it to grow by another 30% in the coming year.

### What investors are concerned about

The opportunity is also the concern. Halma has historically been deliberately broad, and having 20% of its revenue tied to a single customer in a fast-growing technology creates concentration risk.

Management is working to broaden this business unit by finding new applications for its technology. If it becomes too large as a proportion of the group, it may be divested.

Importantly, even without this tailwind, the rest of Halma grew at an impressive rate during 2025 and 2026.

### How we might be wrong

The loss of this single customer would create a material headwind to Halma's earnings. We have decided to limit the company's position size in the portfolio to moderate the impact of this risk.

## Microsoft

### What the business does

Microsoft is the world's largest enterprise and consumer software company. Its Azure cloud, AI and server products are its largest business at 40% of revenue. One-third of its revenue is from business applications like Microsoft Office and Dynamics ERP. The remainder comes from the Windows operating system, LinkedIn, Bing Search, and Xbox gaming. This breadth gives Microsoft a strong position as customers seek to simplify, secure and modernise their IT systems.

### How AI may benefit the business

AI presents a large opportunity for Microsoft, which the company has pursued with urgency.

Organisations need to modernise their core IT systems to use AI effectively, yet only around a third of business computing today is in the cloud. AI is likely to accelerate this migration, and Microsoft is well-placed as the world's second-largest cloud provider.

Microsoft is also the primary cloud infrastructure provider for OpenAI, one of the leading AI model companies. It has a large shareholding in the business and exclusive rights to its IP for the next five years, which is a strong foundation from which it can develop its own AI technologies.

Finally, Microsoft can deepen the value of its ecosystem by embedding AI into products already at the centre of daily work, such as the Copilot AI agents for office workers and developers.

### What investors are concerned about

We've identified three main questions around Microsoft's AI strategy: whether AI-native companies can disrupt its software; whether the capital investments it's making into AI data centres will earn good returns; and whether it's too reliant on OpenAI.

On software, while Microsoft is rarely first to market, it is very strong at delivering secure, enterprise-grade products integrated into customers' existing workflows and data. That advantage should matter more as AI matures from experimentation to production.

On its capital investments, the risk is real. AI infrastructure requires heavy investment in semiconductors, servers, and data centre buildings. Microsoft's capital investment budget has grown from US$21 billion in 2020 to $116 billion in 2025, and an expected $190 billion in 2026 – which is likely to be more than its operating profit for the year.

The company says demand exceeds supply and is supported by contractual commitments, but the industry is moving quickly. To mitigate this risk, Microsoft has chosen to build its data centre infrastructure so it can be repurposed for other parts of the business if AI demand slows.

On OpenAI, Microsoft's investment in the business gave it a valuable early mover advantage in AI but also created concentration risk. Microsoft has responded by diversifying its AI infrastructure customer base, incorporating other AI models into its software where appropriate, and investing in its own AI capabilities.

### How we might be wrong

We would be wrong if an AI infrastructure bubble leaves Microsoft with underused capacity and poor returns, if OpenAI becomes large enough to demand better economics or build its own data centre infrastructure, or if third-party AI tools can deliver better outcomes within Microsoft's ecosystem than its own Copilots.

The disconfirming evidence we would look for is a deterioration in the growth and profitability of Microsoft's Azure cloud business, or in the adoption of its Copilot AI tools.

## 2. Businesses providing proprietary data and software

### Bentley Systems

#### What the business does

Bentley Systems is the world's leading provider of software to the infrastructure industry. Asset owners use its software to monitor and maintain infrastructure. Engineers use it to create designs, simulate how environmental forces might affect an asset, and for project management and collaboration.

Bentley serves over 40,000 firms across myriad infrastructure disciplines, including roads, bridges, rail, gas and electric utilities, water and waste systems, and mining sites.

#### How AI may benefit the business

Bentley's biggest opportunity is to create AI agents that suggest designs, run simulations and assist with project management. A single engineer could command many agents at once, driving increased usage and revenue for Bentley's tools.

Many customers use Bentley's project management tools as a central data repository. Infrastructure project data is proprietary, meaning there's little relevant public data for third-party AI models to train on. This should increase the usage and value of Bentley's tools.

Autonomous drones and AI are also reducing the cost of collecting imagery on the condition of an asset, which could accelerate growth in Bentley's analytics solutions for asset owners.

#### What investors are concerned about

AI reduces the cost of software development, which may make it easier for new entrants or Bentley's customers to build competing products. We think this risk is limited, because infrastructure is a highly regulated industry where software errors have real-world safety consequences, and lead engineers must personally sign off on project deliverables. Customers are more likely to adopt AI functionality from Bentley than from an unproven entrant.

A second concern is that AI reduces the number of knowledge workers and weakens the common seat-based pricing of software companies. Bentley is partly protected as it has already been shifting towards enterprise-wide, usage-based contracts, which now represent half of its revenue. The industry also remains short of skilled engineers, making meaningful headcount reductions unlikely.

#### How we might be wrong

Bentley describes its approach to AI as deliberately cautious and slow. While it has begun implementing AI features into its products, it wants to make sure the results are validated and safe. We would be wrong if it moves too slowly and customers look elsewhere for AI productivity tools. We will continue to monitor the company's rates of customer retention and new business wins, and its progress with releasing AI-related features.

## Experian

### What the business does

Experian is the world's largest credit bureau, collecting and aggregating information on more than 1.5 billion consumers and 300 million businesses.

Half of its revenue comes from selling access to this data. Another 20% comes from selling analytical tools that allow customers to automate lending decisions, credit risk modelling, fraud prevention, and targeted marketing campaigns. The final 30% is from services that help consumers protect against fraud, monitor and improve their financial health, and discover relevant financial products.

### How AI may benefit the business

AI is increasing the usage and value of Experian's accurate, compliant and well-governed proprietary data. It's enabling Experian to unlock more signals from its data and to develop new products faster and cheaper. Experian's trusted, longstanding relationships and its embeddedness in customers' workflows are a strong foundation from which to offer them additional AI features.

Finally, AI is resulting in a higher frequency of fraud and financial crimes, making Experian's anti-fraud and identity protection solutions more valuable.

### What investors are concerned about

Investors worry that AI could disrupt Experian's data, its client relationships, and its software tools.

Experian's proprietary data is its strongest asset. It serves regulated workflows where the accuracy and auditability of decisions is crucial. Experian takes in 1.1 billion new data points every month from over 12,000 individual contributors, with an accuracy level of 99.99%. This cannot be recreated using publicly available sources of data.

The company has established longstanding trust and criticality to its customers that should limit the risk that its customer relationships are disintermediated by third parties. Financial institutions are selective about who receives their sensitive customer data, and Experian's products are deeply embedded in their lending, fraud and compliance processes.

In consumer services, AI agents could bypass Experian's marketplace when consumers shop for financial products. We think this risk is limited because financial product marketing is highly regulated, and Experian combines a trusted brand, strong security and proprietary credit data, to deliver more relevant, often pre-approved offers.

Experian's software tools may be most vulnerable to disruption, as AI has reduced the time and cost to develop software. However, its software is best seen as the interface through which customers consume its proprietary content. Experian doesn't allow third-party models to be trained on its data.

### How we might be wrong

We would be wrong if customers increasingly consume Experian's data through third-party or internally built AI systems, weakening the growth prospects for its software. Experian must prove it can deliver its data more effectively through its own software and analytics than alternative solutions. We will continue to monitor its growth, renewal rates and commercial success with new products in this part of the business.

## Jack Henry

### What the business does

Jack Henry provides mission-critical software to American banks and credit unions, with 83% of US financial institutions using at least one of its products.

Its revenue is split equally across three product groups:

- Core software, which is the main system of record for a bank's accountholder information and deposit, loan and accounting transactions.
- Solutions that help financial institutions process payments and transfer funds.
- Other ancillary products that help financial institutions operate more efficiently, reduce fraud and offer a better customer experience.

### How AI may benefit the business

Jack Henry is using AI internally to improve its developer productivity, customer service and contract renewals. This should help the company bring products to market faster and operate more efficiently.

Banks are slower than many industries to adopt new technologies like generative AI, since regulation, security and reliability are crucial. This gives Jack Henry time to build out new generative AI features, but also creates a responsibility to be ready when customers are prepared to adopt them.

### What investors are concerned about

AI may introduce more competition to Jack Henry's products from new entrants or by the banks developing software themselves. This is less likely in core banking versus other fields of software, as regulation, trust and switching costs are formidable. It's also less likely among the community banks and credit unions Jack Henry serves, who effectively outsource their IT systems to the company.

The payments and ancillary product markets are more competitive. Jack Henry must continue proving its products are better, safer and easier to integrate than the alternatives.

Investors have also asked if Jack Henry could be negatively impacted by a decline in the number of bank employees over time. We do not see this as a material concern, since its revenue has long been billed based on accountholders and transaction volumes, not seats.

### How we might be wrong

We would be wrong if Jack Henry is too cautious in adopting generative AI into its products, leading customers to explore alternatives. Of the technology-related companies in the portfolio, it appears least advanced in deploying AI into customer-facing products. We will continue to monitor its competitive win rates and progress in AI-enabled product releases.

## Moody's

### What the business does

Moody's creates credit ratings, data and analytical software that are deeply integrated into the global financial system.

It's best known for being one of two dominant credit rating agencies that help investors assess credit risk, and help issuers reduce borrowing costs. This business generates half of the company's revenue and two-thirds of its operating profit.

Its other business is Moody's Analytics, which provides proprietary data, research and analytical software to companies in a range of industries, to help them meet regulatory requirements, assess counterparty risk and make better decisions. These include one of the world's leading Know-Your-Customer (KYC) solutions, and a leading catastrophe modelling system for insurers.

### How AI may benefit the business

AI can make Moody's credit analysts more productive in preparing models, drafting memos and processing information, while human oversight remains essential for regulated rating decisions.

In its analytics business, Moody's data and insights are seeing increasing usage from automated AI workflows and are becoming more deeply embedded in customers' decision-making processes. Over 40% of its analytics products include some form of generative AI.

### What investors are concerned about

It's possible that AI startups can scrape information from the internet and replicate Moody's content. We see this as unlikely since most of its content is proprietary. Some of it is sourced from public materials or third parties, but Moody's still adds value by cleaning, validating and analysing the data to make it decision-grade. Its customers have high standards for reliability and regulatory compliance that generic AI offerings are unlikely to meet consistently.

Investors have also questioned whether AI can build better predictive models than Moody's incumbent solutions. The company sees its software as a means of distributing its essential content and is indifferent if customers choose to consume it through other distribution channels.

### How we might be wrong

Moody's has acknowledged that not all customers require the same standard of rigour. It's seen a small amount of revenue leakage from some customers who were using its raw data for low-value applications. We would be wrong if this practice becomes more widespread and creates a material degradation in Moody's customer retention or pricing.


ChatGPT
Claude
Copilot
DeepSeek
Gemini
Grok
Meta AI

## RELX

### What the business does

RELX provides data, analytics and decision-making tools for professional users in the science, academia, legal, risk and insurance industries. One-third of its revenue comes from scientific content and research tools, one-third comes from risk management solutions like identity verification and anti-money laundering, 20% comes from content and tools for the legal industry, and 10% comes from running trade exhibitions.

### How AI may benefit the business

RELX owns and curates large bodies of proprietary and authoritative content, which has become more valuable as the internet is largely exhausted as a training resource for AI models.

Legal work is especially well-suited to generative AI because it's language-intensive, but also an area where accuracy matters. RELX's AI products help lawyers research, draft and conduct due diligence faster, while remaining anchored to trusted legal content. Just two and a half years after launch, around half of its legal customers have subscribed to its premium AI offering.

AI is also making fraud more prevalent and sophisticated, increasing the value of RELX's risk solutions.

Finally, RELX is seeing 20–30% productivity improvements from AI in its own R&D function.

### What investors are concerned about

The risks for RELX are similar to Experian and Moody's: that AI can extract data from the internet to displace RELX's content, that third parties could disintermediate its customer relationships, and that AI-native tools can displace its software.

We think these concerns understate the uniqueness and importance of RELX's content. In legal, RELX is one of few complete repositories of global case law. In insurance, customers provide it with detailed policy, vehicle and claims data that is not publicly available.

Investors were also concerned when RELX signed a partnership to distribute its legal content through an AI tool called Harvey. However, customers need to contract with RELX directly to use this feature, and the content stays gated within its ecosystem.

RELX serves conservative, regulated industries where the consequence of an error is high. If a lawyer presents a hallucinated citation in court, they can be sanctioned and have their claim dismissed. We believe the likelihood is low that RELX's authoritative content and software are displaced by unproven generative AI products.

Interestingly, much of the concern relates to RELX's legal business, even though it's now the company's fastest-growing division and accelerated its organic revenue growth over the last five years from 2–3% to 9%. The evidence to date suggests AI is helping RELX more than hurting it.

### How we might be wrong

We would be wrong if RELX relied on the strength of its content alone, or allowed its software interface to lag. The company must continue proving that its AI tools are worth their premium, and deliver better outcomes than manual, internal or third-party alternatives.

## SAP

### What the business does

SAP is the world's leading enterprise resource planning (ERP) software company. ERP systems run core business processes such as finance, human resources, manufacturing, supply chain management and customer relationship management.

SAP is a core system of record for many of the world's largest organisations. Of the world's 100 largest organisations, 99 use SAP's solutions, and 80% of all the world's transactions touch an SAP system.

### How AI may benefit the business

The value of SAP's systems should increase, because AI is only useful when it can access accurate data, business context and established workflows.

AI is providing opportunities for SAP to layer on additional services which the company believes can add 20% or more to a customer's spending. Examples include its Business Data Cloud, which brings together SAP and non-SAP data for real-time analysis, and its Joule AI agent, which can automate work with an understanding of customers' existing data structures and processes.

SAP also has an opportunity to shift more revenue from seat-based pricing towards usage and outcome-based pricing, allowing it to share in the value created for its customers.

### What investors are concerned about

AI-native applications may displace ERP systems, and SAP may be too slow or bureaucratic to keep up.

We think SAP's system-of-record position is a powerful advantage. New tools still need clean data, permissions, security, process context and integration with existing workflows. For many large organisations, SAP is where that context lives.

SAP has also undergone a meaningful cultural transformation under its current leadership, resulting in better customer satisfaction, fewer internal silos, a faster pace of new product development, and stronger growth.

## How we might be wrong

SAP was late to begin migrating its customers to its cloud solutions, with only 40% of its customers having completed or started the transition. While we believe most of these customers will remain on SAP's core systems, the delay may limit its ability to sell AI solutions on top of legacy systems. SAP is most vulnerable to competitive displacement with customers who use a narrow set of its applications rather than embedding its solutions within their business processes. Customers may also become comfortable giving third-party AI agents deeper access to their business data and processes, reducing SAP's system-of-record advantage.

We will continue to monitor SAP's customer satisfaction, new business growth, and its commercial success with AI-native products like Business Data Cloud and Joule.

## 3. Businesses that may be exposed to second-order opportunities or risks from AI

### Cintas

#### What the business does

Cintas is America's largest uniform rental company. It earns 40% of its revenue from collecting, laundering and replacing uniforms for customers in industries such as hospitality, entertainment, manufacturing and healthcare. It also offers other facility services like the laundering of entrance mats, replenishment of restroom supplies, and monitoring of first aid kits and fire protection equipment.

#### How AI may benefit the business

Cintas has long used technology to improve service and efficiency, such as the SmartTruck system, which optimises its technicians' workday routes, and garment-tracking technology to reduce the likelihood of lost uniforms. AI should be another tool for Cintas to improve its logistics, service quality, sales effectiveness and cost control.

#### What investors are concerned about

AI-driven job losses could reduce the number of workers who need uniforms. While this is possible in some industries, Cintas is a broad business, with no single industry representing more than 10% of its revenue, and much of its customer base are blue-collar workers, who are less susceptible to AI disruption. In addition, 60% of its revenue comes from services that serve facilities rather than individual employees.

Cintas also has a large market to grow into regardless of employment trends. Today it only serves 1 million of the 20 million businesses in North America. These businesses are likely to continue outsourcing uniform rental and facility services to third parties like Cintas, and it could be doing more for each of its customers. Over the last five years this has allowed the company to grow its revenue at 7x the rate of job growth in North America.

#### How we might be wrong

We would be concerned if Cintas stopped meaningfully outgrowing the economy by adding new customers, doing more for its existing customers, or expanding its range of services.

## Compass Group

### What the business does

Compass is the world's largest contract catering business. It serves over 16 million meals a day across tens of thousands of corporate offices and industrial sites (40% of its revenue), healthcare facilities (23% of its revenue), schools and universities (19% of its revenue), sporting and entertainment venues (13% of its revenue), and defence and mining sites (5% of its revenue).

A growing share of catering sites are being outsourced to third parties like Compass, allowing customers to focus on their core business, reduce costs, and receive a better standard of food and service.

### How AI may benefit the business

AI is helping Compass improve its labour scheduling, demand forecasting, recruitment, sales effectiveness and contract renewals. These are meaningful opportunities in a business with high labour and competitive intensity.

Management also sees a long-term opportunity to serve workers in the data centre ecosystem, both during construction and ongoing operation.

### What investors are concerned about

As with Cintas, investors fear that AI will result in shrinking workforces, which would mean fewer people eating at Compass' corporate cafeterias. We believe this risk is manageable. Corporate dining accounts for only 20% of Compass' revenue. While AI may disrupt some roles, it will also create new businesses and jobs. Interestingly, the corporate customer segment has been the fastest growing part of Compass over the last few years.

The most important long-term driver of Compass' growth is outsourcing. A large portion of the global catering market remains self-operated, including in corporate settings.

### How we might be wrong

We could be wrong if AI causes much larger white-collar job losses than expected and corporate dining volumes fall sharply. Even then, Compass has offsetting growth opportunities in other industries and from further outsourcing.

## Diploma

### What the business does

Diploma is a value-added distributor of specialist products used in a diverse range of critical applications. Its businesses sell technical products that often require customisation, reliability in demanding environments, and knowledgeable service. Examples include bespoke fastening kits for aerospace customers, and aftermarket parts for out-of-warranty industrial robots.

### How AI may benefit the business

The clearest AI-related benefit is in Windy City Wire, a business that Diploma acquired in 2020. It supplies pre-configured, labour-saving wiring and cabling kits to commercial buildings, including data centres, reducing the cost of installation by 20–30%.

Windy City Wire has grown strongly and now represents more than 20% of group revenue. Only part of its revenue is sold into data centres, but that portion is growing quickly.

### What investors are concerned about

We have not seen AI raised as a major risk for Diploma. The business is exposed to technical niches where product availability, service and knowledge matter more than simple fulfilment.

### How we might be wrong

We may have overestimated the durability of Windy City Wire's growth. It also remains to be seen how effectively Diploma's businesses can leverage AI to create productivity gains.

## InterContinental Hotels Group (IHG)

### What the business does

IHG is a brand owner and franchisor of global hotel chains, including Holiday Inn, InterContinental and Crowne Plaza.

Hotel owners pay IHG a franchise fee in exchange for access to its brands, loyalty program, and IT systems to help manage their properties, reservations and pricing. IHG franchisees earn better economics than independent hotels, which is why an increasing share of new and existing hotels are choosing to partner with IHG.

### How AI may benefit the business

IHG's technology systems are a core advantage over smaller chains and independent hotels. AI can widen this gap through improvements in its search functions, booking process, customer service, pricing, marketing, and operational efficiency. For example, IHG is developing AI-powered conversational search to help guests book properties and receive more detailed information about its franchisees' rooms and services.

### What investors are concerned about

Today, over 80% of bookings at IHG hotels are made directly with the business and its resale partners, which carry a higher margin and create a higher quality engagement with the guest than a third-party distributor. AI agents may be more likely to shop around and undermine IHG's pricing or the value of its loyalty program.

We think the risk is unlikely. AI agents still act on human preferences, which favour IHG's brands, loyalty points and consistency.

### How we might be wrong

We could be wrong if AI agents become dominant travel gatekeepers and require IHG to share its economics for better placement. We will monitor variables like IHG's share of direct bookings, its distribution costs and margins, and any change in the value customers place on its loyalty program.

## Visa

### What the business does

Visa is the world's largest payment network, enabling consumers and businesses to transact with over 130 million merchants globally in a convenient and secure way. It earns 70% of its revenue by charging fixed and percentage-based fees on transactions processed over its network. The other 30% comes from a range of payment-related services that help financial institutions and merchants to reduce fraud, improve back-office efficiency, increase sales and deepen customer loyalty.

### How AI may benefit the business

If AI agents start making purchases on behalf of consumers and businesses, which is known as agentic commerce, then Visa's secure credentials, fraud controls, acceptance, dispute resolution and trusted network rules will become increasingly important.

More digital commerce usually means more transactions, which would benefit Visa's transaction-based fees.

Agentic commerce may also accelerate Visa's market share gains against domestic card networks like Eftpos, many of which still aren't accepted for online purchases.

### What investors are concerned about

AI agents may prefer to transact through lower cost means of payment to Visa, such as bank transfer or stablecoins. We believe agents will ultimately reflect today's human preferences for Visa's wide merchant acceptance, security, means of dispute resolution, and reward programs.

Stablecoins may become useful for settlement between financial institutions, but they do not remove the need for a network that connects consumers, issuers, merchants and acquirers. Visa can facilitate new settlement methods while still providing the network services.

### How we might be wrong

The main risk to Visa is complacency. Each new payment technology creates fears of disruption, as Apple Pay and Afterpay once did. Visa's historical response has been to partner and incorporate new technologies into its network, and it must keep adapting to a changing world.

## WW Grainger

### What the business does

Grainger is a leading distributor of maintenance, repair and operating (MRO) supplies in North America and Japan. Around 80% of its revenue comes from high-touch service for large and complex organisations, while the remainder comes from an online-only offering for smaller purchases.

### How AI may benefit the business

Grainger is using AI to improve the search functionality and depth of product information on its e-commerce platform, helping customers find the right part faster and with more certainty.

Internally it's using AI to improve the speed and resolution of customer service queries and the effectiveness of its salespeople.

### What investors are concerned about

Investors worry that AI may increase price transparency to the potential detriment of Grainger's margins. The company already reset its pricing a decade ago to become more competitive, and we don't think it carries a material price disadvantage today.

AI procurement agents may also preference pricing in selecting a supplier, undermining the value of Grainger's relationships and service offering. We think this risk is real but manageable. Customers already have a lot of choice in where to purchase their MRO supplies. They continue to use Grainger because product breadth, availability, fast delivery, technical advice, and procurement simplification all matter. For many MRO purchases, the cost of downtime is much higher than the cost of the part.

### How we might be wrong

Any sustained slippage in Grainger's profit margin, customer retention rates or growth rates might suggest that procurement agents are changing customers' supplier choice behaviours.

## Conclusion

AI will undoubtedly change many industries, and we do not assume today's market leaders are immune from disruption. Our task is to judge where AI weakens a company's competitive advantage, where it strengthens it, and where market prices may be materially misappraising the potential impacts.

Our current view is that the market is overestimating the disruption risk to several mission-critical data and software businesses we own, while underestimating the ways AI may improve their products, productivity and customer value proposition. Over the last 12 months we have added to positions where we believe this mispricing is meaningful, including Experian, Jack Henry, Microsoft, RELX and SAP.

Meanwhile, we have reduced our positions in Amphenol and Halma after strong share price performance narrowed their discount to our valuation. We remain invested in both businesses because we still believe they present compelling value relative to their long-term growth prospects and risk attributes.

We recognise that some of our judgements may prove wrong, as was the case with Accenture, which we exited during the quarter. We will continue to adjust our thinking as the facts change, and to be vigilant in seeking disconfirming evidence.

### Portfolio companies

Amphenol
Bentley
Cintas
Compass Group
Diploma PLC
Experian
Grainger
Halma
IHG Hotels & Resorts
Jack Henry
Microsoft
Moody's
RELX
SAP
Visa

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