Melville Douglas

Quarterly Commentary
Global Equity Fund

/ Q2 2026

Holding One's Nerve

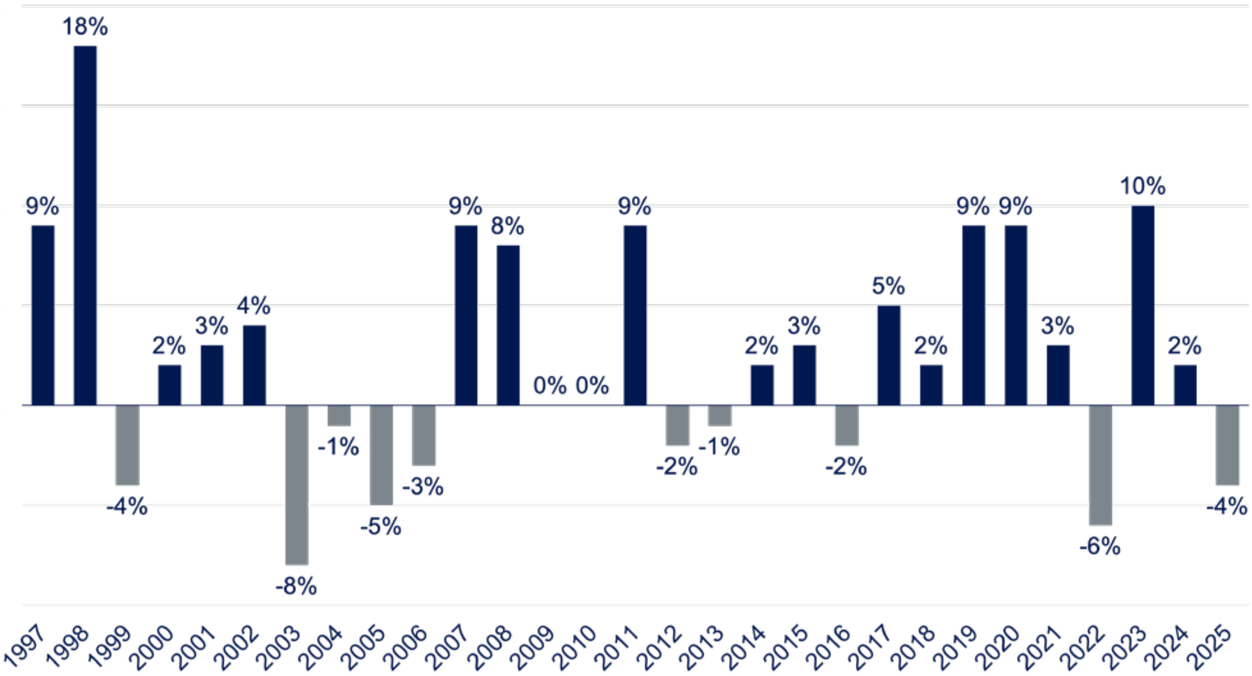
Over the past two decades, one of the most reliable routes to long-term wealth creation has been to own exceptional businesses and allow the power of compounding to work over time. While periods inevitably arise when high-quality companies fall temporarily out of favour, history suggests that patient investors have ultimately been rewarded for maintaining conviction through these phases.

Although rotations into lower-quality cyclical businesses can occasionally generate periods of short-term outperformance, capitalising on these opportunities consistently requires accurately forecasting both economic turning points and shifts in market sentiment - an exceptionally difficult task, even for highly experienced investors.

By contrast, the cost of being absent when quality reasserts leadership can be significant. These periods often coincide with a renewed market appreciation for companies possessing durable competitive advantages, strong capital allocation, and the ability to compound earnings through a variety of economic environments. For this reason, we believe remaining invested in high-quality businesses throughout the cycle is a more prudent and repeatable strategy than attempting to tactically trade style rotations.

Quality, on more occasions than not, shines through the noise

MSCI ACWI QUALITY RETURN MINUS MSCI AC WORLD RETURN



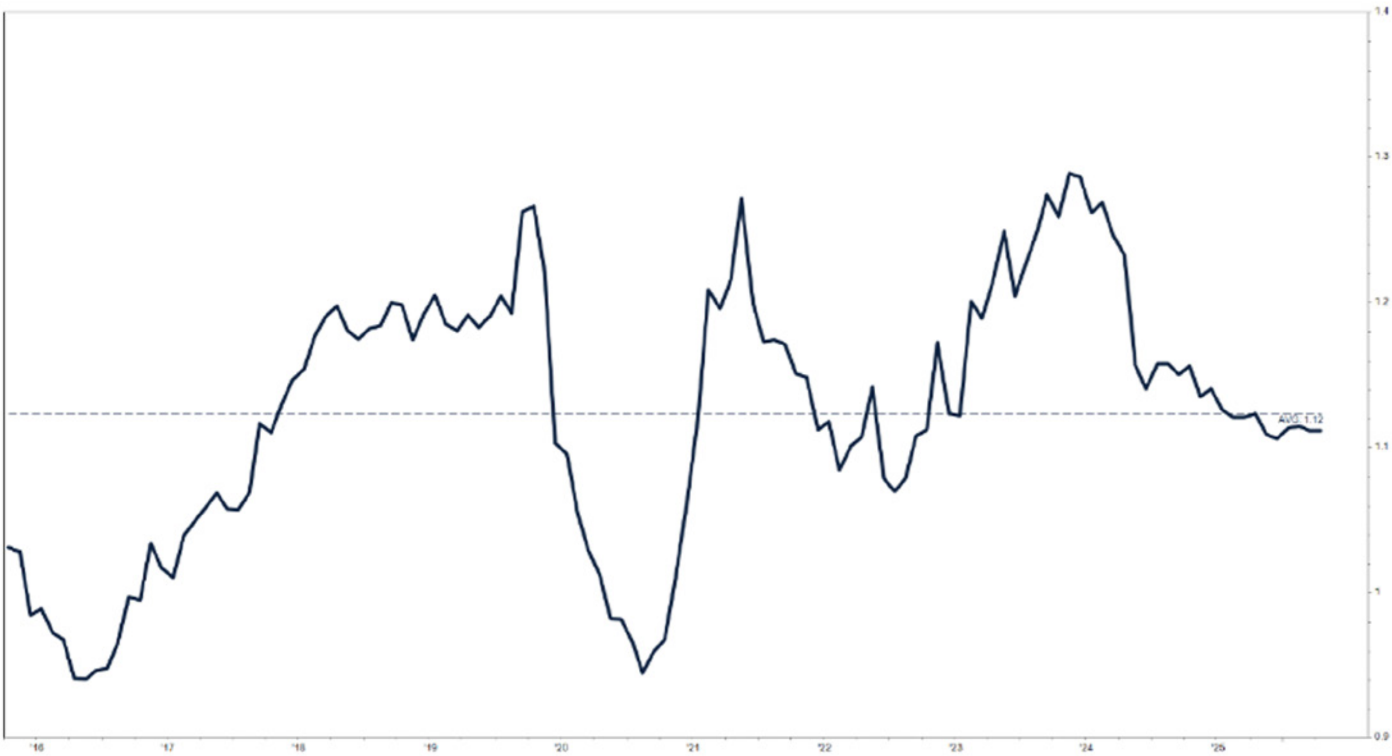
Source: FactSet, Melville Douglas

One notable exception occurred between 2003 and 2007, when quality underperformed amid a period of exceptionally strong global economic growth driven in large part by China's commodity-fuelled expansion. While investors in quality businesses endured several years of relative underperformance, these companies recovered their losses and substantially outperformed during the Global Financial Crisis as earnings resilience and balance sheet strength became increasingly valuable.

Quality companies have typically performed best in periods of more moderate economic growth, when investors place a premium on businesses capable of delivering consistent and predictable earnings growth rather than those whose fortunes are heavily dependent on the economic cycle. In our view, today's environment shares many of those characteristics. Global growth remains modest, geopolitical uncertainty persists and the long-term implications of artificial intelligence continue to create both opportunities and questions for markets.

Importantly, quality companies are currently trading at a modest discount to their long-term relative valuation levels versus the broader market. This provides a potentially attractive starting point for future outperformance.

QUALITY HAS LOST MUCH OF ITS VALUATION PREMIUM



Source: FactSet, Melville Douglas

MSCI World Quality price-to-earnings relative to MSCI AC World

This opportunity is also reflected in the fund. Despite strong global equity market performance over the past three and a half years, many of the fund's holdings still trade meaningfully below our assessment of their intrinsic value.

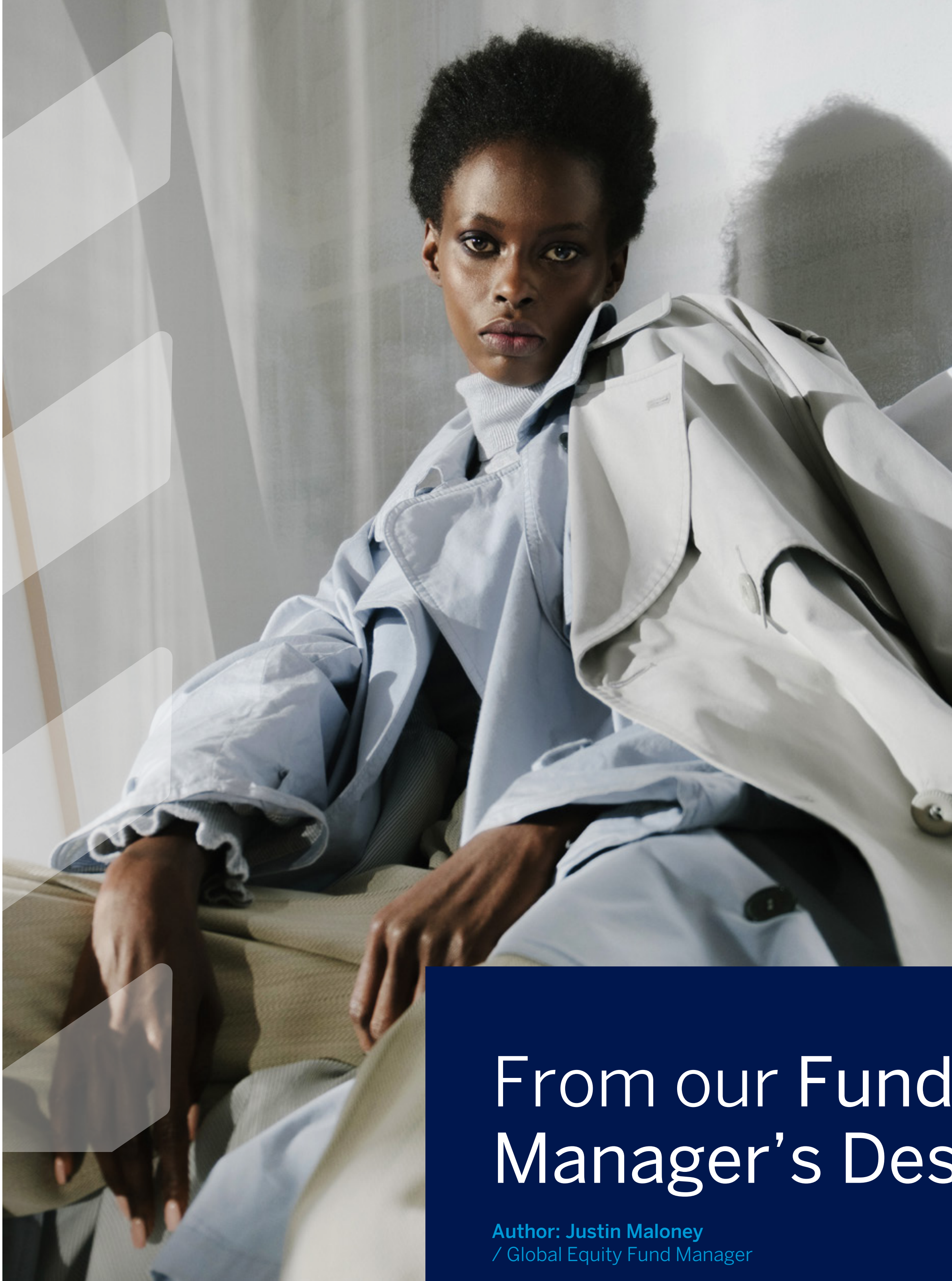
Our valuations are based on conservative assumptions regarding future growth, profitability and returns on capital. In many cases, we deliberately assume that growth rates moderate over time, providing a margin of safety against unforeseen developments. Should these businesses continue to compound earnings at rates above our expectations for longer than anticipated, the upside potential could be materially greater than reflected in our current valuations.

TOP 10 UPSIDES TO FAIR VALUE IN THE MELVILLE DOUGLAS GLOBAL EQUITY FUND

SECURITY NAME	UPSIDE TO FAIR VALUE
SAP	+91%
Partners Group	+79%
ServiceNow	+63%
Tencent	+60%
Experian	+47%
Nike	+45%
Mastercard	+41%
Boston Scientific	+37%
Visa	+36%
Microsoft	+29%

Source: Melville Douglas, data as at 29th May 2026

Despite recent market volatility and periodic shifts in investor preferences, we remain confident that a disciplined focus on owning high-quality businesses at attractive valuations offers the best opportunity to generate superior long-term returns. The combination of durable business quality, resilient earnings growth and compelling valuation support provides a strong foundation for future performance.



From our Fund Manager's Desk

Author: Justin Maloney
/ Global Equity Fund Manager

Inditex

We regularly explore the investment rationale of one of the companies held in the Melville Douglas Global Equity fund to articulate what we find compelling. This time round we have chosen Inditex.

Fashion's master of speed and discipline

In the apparel industry, where trends fade as quickly as they appear, few companies have managed to build enduring advantage. Inditex, the Spanish retail group behind Zara, is one of them. It has achieved what many rivals have long pursued but rarely matched: turning fast fashion into a consistently high-return business.

At its core, Inditex is a vertically integrated fast-fashion retailer operating across seven brands, with Zara contributing over 70% of group sales. The group's proposition is "affordable luxury" - offering trend-led products with perceived quality comparable to premium brands but at accessible price points. Beneath the surface lies a sophisticated machine, one built on speed, data, and operational control. The result is a company that not only keeps up with fashion trends but, increasingly, shapes them.

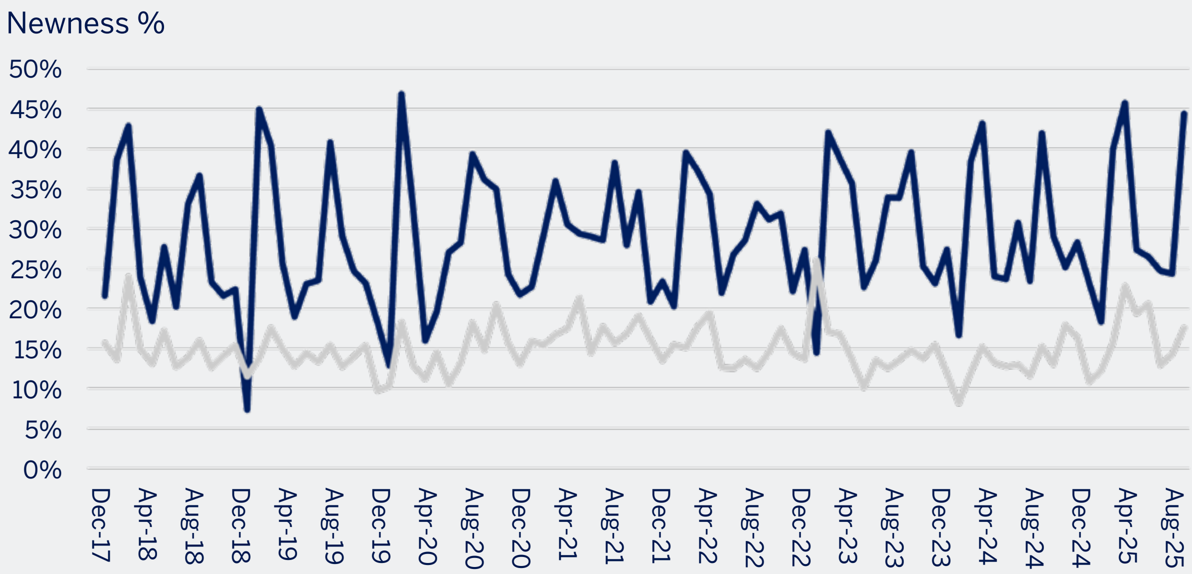
A model built for immediacy

The secret to Inditex's success is its unusually tight grip on the value chain. Unlike most apparel retailers, which outsource large portions of production to distant suppliers, Inditex keeps roughly half its manufacturing close to home in Spain and neighbouring countries.

This proximity allows the company to move from design to store in as little as three to four weeks - far faster than the industry norm of several months. Instead of betting on what customers might want seasons in advance, Inditex observes what they are buying today and adjusts tomorrow's production accordingly.

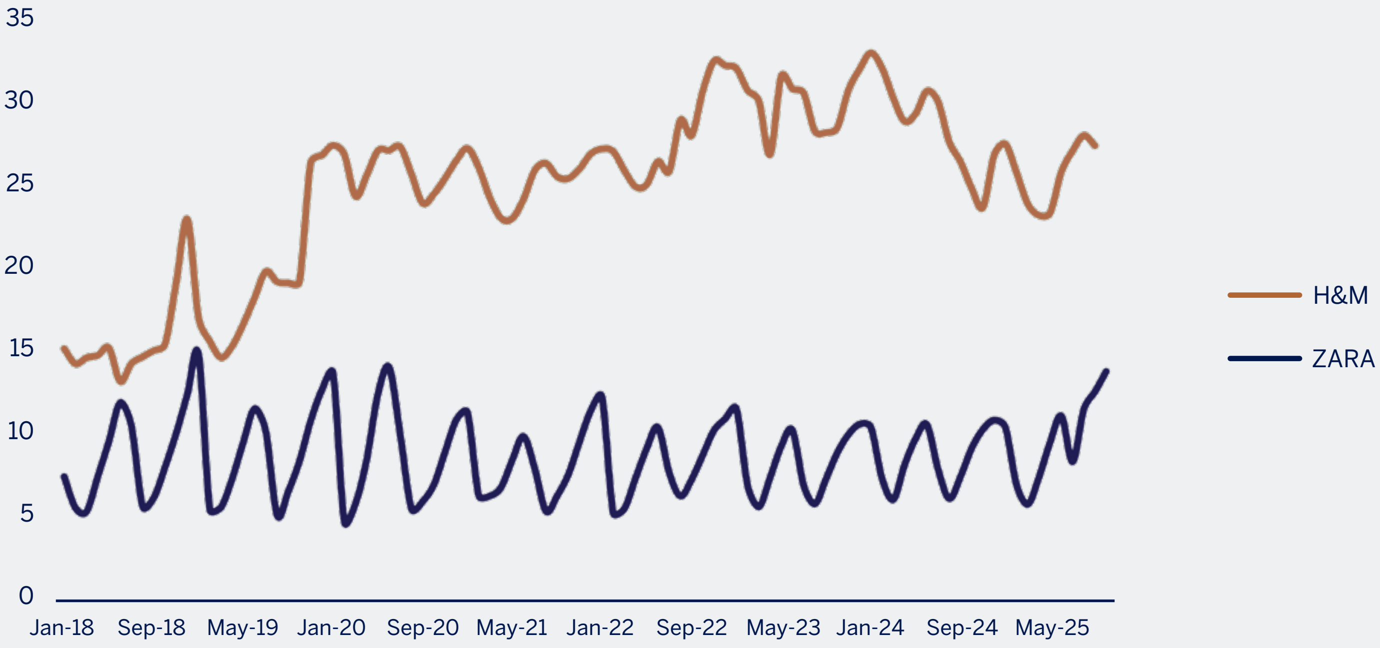
This "test-and-chase" approach creates a constant sense of novelty in stores. Shoppers know that what is available today may not be there next week - a subtle but powerful incentive to buy immediately rather than wait for discounts. Inditex consistently sells more at full price than its peers.

ZARA BRAND'S NEWNESS EDGE



Source: UBS

LEAN AND MEAN - ZARA SELLS MORE AT FULL PRICE
INVENTORY WEEKS AVAILABLE



Source: UBS, Average of UK, US, Spain, Italy, Germany, France and China

The financial consequences are striking. Inventory moves quickly, markdowns are limited, and cash conversion is robust. Resulting in a highly profitable business with 58% gross margins and 20% operating margins. The business model's very healthy 25% return on invested capital provides the engine to drive compound returns for Inditex shareholders.

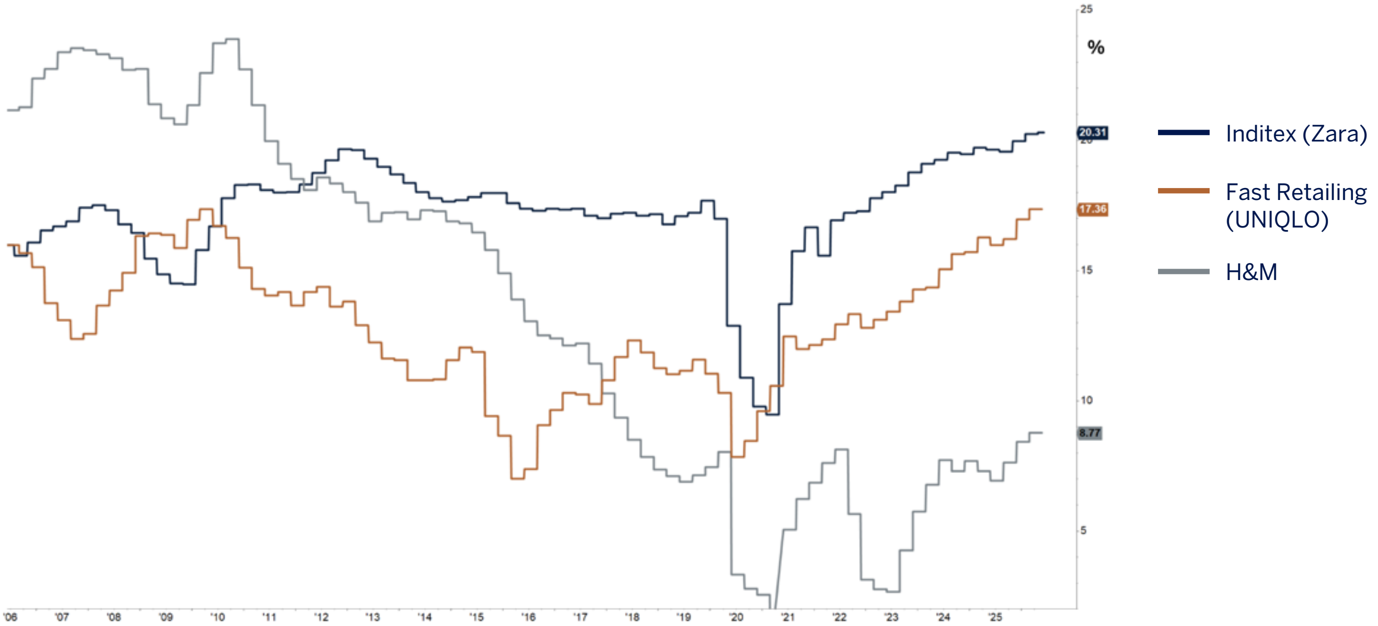
A sustained edge in a crowded field

Retail is notoriously unforgiving, yet Inditex has carved out a distinctive position. Traditional rivals such as H&M struggle to match its speed. Ultra-low-cost entrants, including online disruptors such as Shein, compete aggressively on price but often sacrifice quality or brand perception.

Inditex instead occupies the middle ground: offering fashion that feels premium without the corresponding price tag. This balance - supported by strong brand equity and relentless operational discipline - forms a competitive moat that has proven remarkably durable.

Attempts to replicate the model have repeatedly fallen short, largely because its strength lies not in any single element but in how design, sourcing, logistics, and retailing are tightly integrated.

ONE OF THE BEST BUSINESS MODELS IN THE INDUSTRY
OPERATING PROFIT MARGIN



Source: Melville Douglas, FactSet data

Growth: steady and dependable

Looking ahead, Inditex grows through a combination of volume, productivity and selective expansion. Key growth levers include:

/ **Like-for-like sales growth,** driven by frequent product refreshes and repeat customer visits
/ **Store optimisation,** with a shift towards larger, more productive flagship locations
/ **E-commerce,** now accounting for roughly a quarter of sales
/ **US market expansion,** a relatively underpenetrated market for Inditex
/ **Operational enhancements,** such as electronic tags to improve stock visibility

Together, these drivers lead to earnings growth in the high single digits over the medium-term combining consistent revenue growth with incremental efficiencies.

Recent trading has been encouraging, with sales momentum improving into 2026, supported by well-received seasonal collections and firmer pricing.

The virtues of discipline

What sets Inditex apart is not just growth, but the quality of that growth. The company generates abundant free cash flow, supported by a rare advantage in retail: negative working capital. Customers pay quickly; suppliers, somewhat later.

Its balance sheet remains in robust health, with a substantial €12 billion net cash position. Capital allocation is measured - steady reinvestment in the business complemented by reliable shareholder distributions.

Ownership also matters. The Ortega family retains majority control, reinforcing a long-term perspective that favours durability over short-term gains.

These attributes support resilience through cycles and enable the business to reinvest for sustained growth.

Fashion is never risk-free

Even a well-run retailer is not immune to challenges. Inditex faces several that need to be monitored:

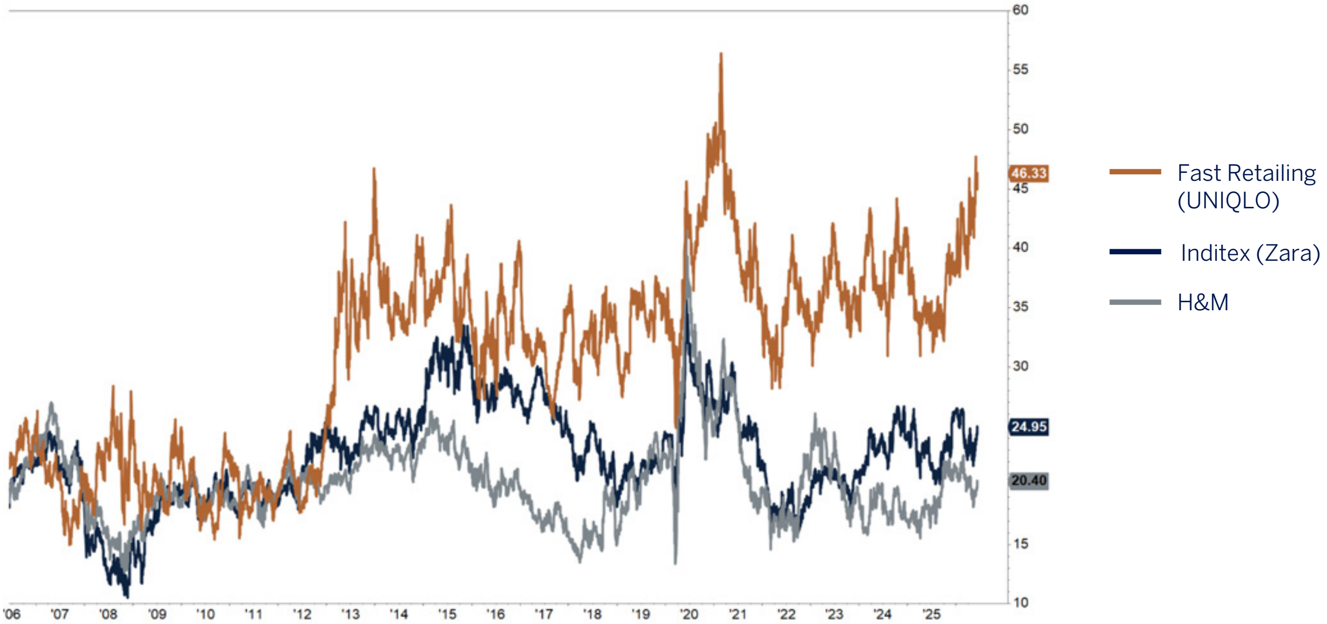
/ **Intensifying competition,** particularly from ultra-fast, low-cost online players
/ **Consumer sensitivity,** given its exposure to discretionary spending
/ **Geographic concentration,** with Europe still accounting for two-thirds of revenues
/ **Execution risk in the US,** a market where success has historically been harder to sustain
/ **Regulatory and sustainability pressures,** increasingly relevant in global apparel

That said, its responsive supply chain mitigates one of the industry's most persistent risks: getting fashion wrong.

Valuation: quality at a reasonable price

Inditex trades around historic average price-to-earnings. It is only at a modest premium to slower growing and less profitable peer H&M. Arguably the company's superior economics and consistency are not fully priced into the share price.

QUALITY AT A DISCOUNT (LIKE ZARA)
PRICE-TO-EARNINGS RATIO OF INDITEX, H&M AND FAST RETAILING



Source: Melville Douglas, FactSet data

For investors, the question is less about short-term upside and more about the role Inditex plays in a portfolio. This is not a speculative turnaround or a cyclical recovery story. It is, rather, a compounding business - one that steadily builds value over time.

A rare find

In a sector where fortunes can change quickly, Inditex stands out for its stability as much as its agility. By marrying speed with discipline, it has created a model that is both resilient and profitable.

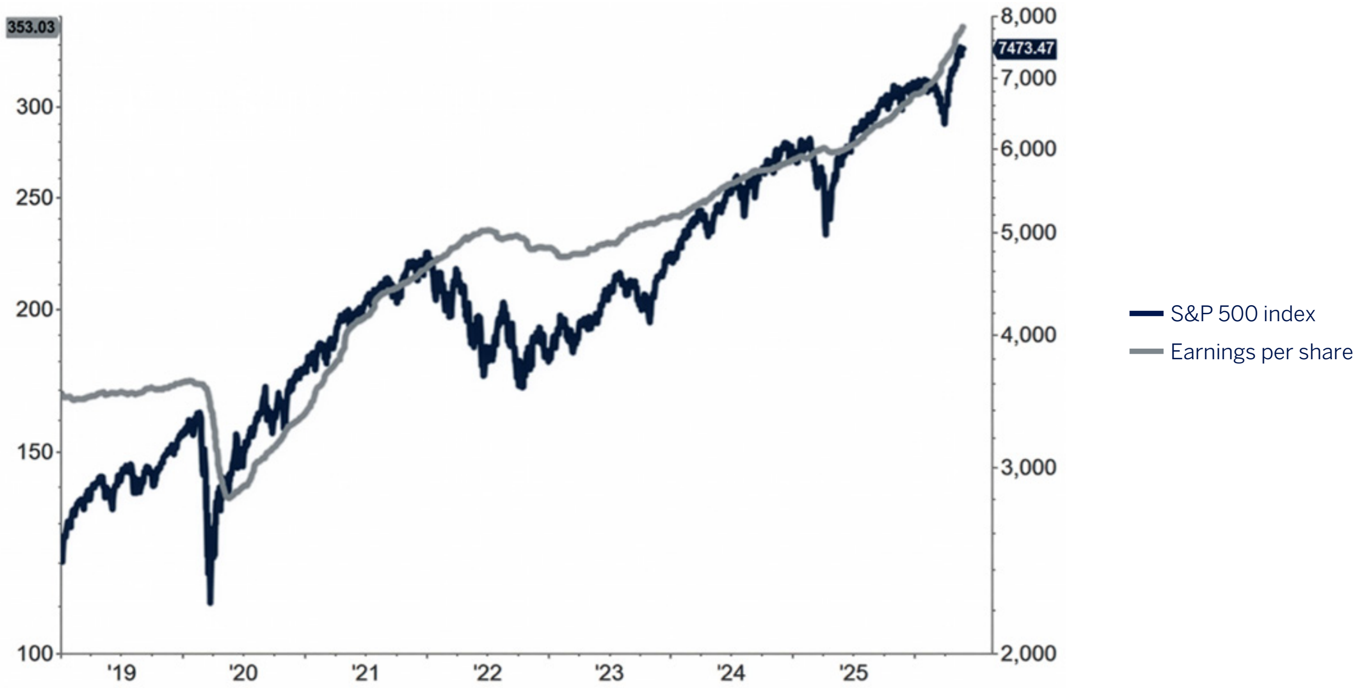
For long-term investors, that combination is rare and valuable.

Outlook

Global equities have delivered an exceptional recovery since the market lows of 2022. Four years ago, investors were contending with double-digit inflation, sharply rising interest rates and widespread recession fears - conditions that were particularly challenging for highly valued growth and technology companies. The contrast today is striking. Despite the disruption caused by last year's tariff measures and this year's conflict in the Gulf, the MSCI All Country World Index has doubled from its trough, with artificial intelligence-related businesses leading the advance.

The foundation of this recovery has been the resilience and persistence of corporate earnings growth. Consensus expectations point to S&P 500 earnings increasing by more than 20% in 2026, an unusually strong outcome this far into an economic expansion and six years removed from the last recession. Profitability has been supported by a powerful investment cycle in artificial intelligence, firm energy prices and a favourable macroeconomic backdrop that has enabled many corporations to absorb higher input costs while maintaining margins.

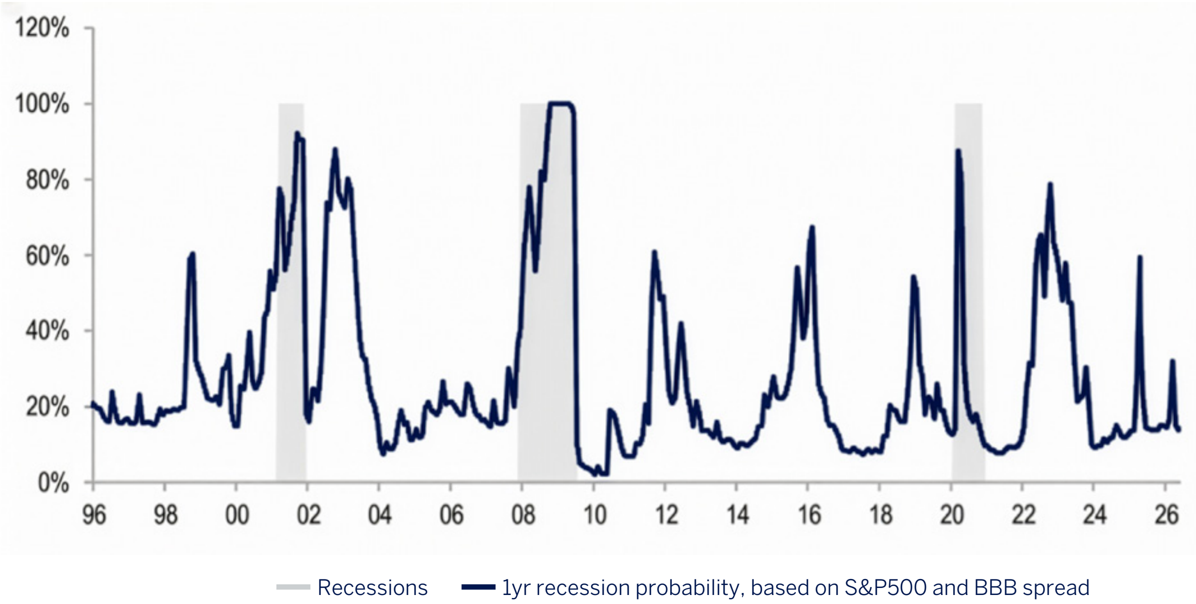
HIGHER EARNINGS PER SHARE = HIGHER MARKETS



Source: Melville Douglas, FactSet

The strength of corporate earnings also helps explain why recession risks appear relatively contained in the near term. Most leading economic indicators continue to signal expansion rather than contraction, while the imbalances that have historically preceded downturns - such as excessive leverage, overinvestment or broad-based overcapacity - remain largely absent.

RECESSION PROBABILITY – LOW RISK AT PRESENT



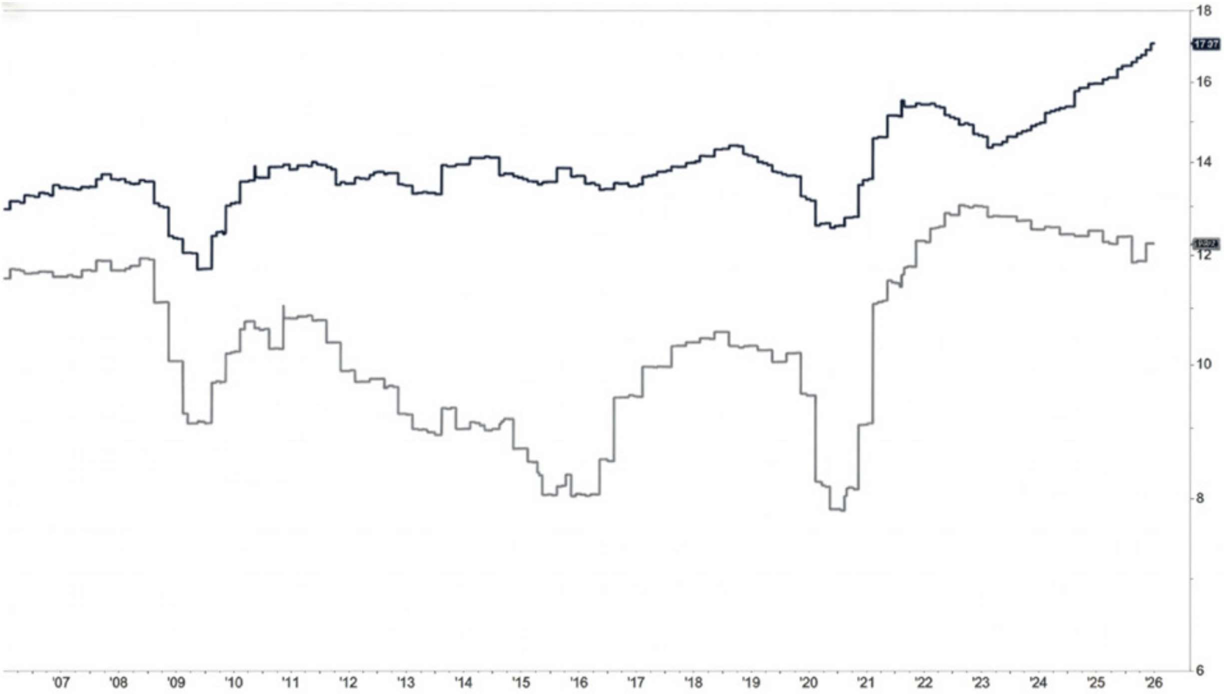
Source: JPMorgan

Nevertheless, market leadership has been unusually concentrated. A relatively small group of companies, predominantly within the technology and AI ecosystem, has generated a disproportionate share of overall returns. While such concentration warrants caution, given the market's reliance on a narrow set of leaders, it also creates the potential for broader participation. Should economic conditions remain supportive, there is scope for other sectors, industries and regions to narrow the performance gap, resulting in a healthier and more durable market advance.

Geopolitics remains an important source of uncertainty. The war in Ukraine, ongoing trade tensions and developments in the Middle East continue to generate periodic volatility. However, while such events can affect market sentiment and risk appetite in the short term, their lasting impact on economic activity and corporate profitability has so far been more limited. Businesses and consumers have repeatedly demonstrated a remarkable ability to adapt to changing geopolitical conditions, helping to mitigate broader economic consequences.

Looking further ahead, the key question for investors is whether the elevated levels of US corporate profitability can be sustained. As illustrated below, strong profit margins have been a major factor supporting both absolute equity valuations and the premium at which US equities trade relative to other regions. Advances in artificial intelligence, automation and productivity-enhancing technologies offer the potential to extend the current earnings cycle and support valuations over time.

RECORD HIGH US (S&P 500) PROFITABILITY…



Source: Melville Douglas, FactSet — S&P 500 - EBIT margin — STOXX Europe 600 - EBIT margin

…CURRENTLY JUSTIFIES HIGHER US VALUATIONS VERSUS THE REST OF THE WORLD

Source: Melville Douglas, FactSet — S&P 500 price-to-earnings — STOXX Europe 600 price-to-earnings

At the same time, we remain mindful that investor sentiment rarely moves in a straight line. As witnessed in 2022, market expectations can swing rapidly between optimism and pessimism. Maintaining an objective and disciplined assessment of fundamentals will therefore remain critical as the cycle evolves.

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