MULTI ASSET QUARTERLY COMMENTARY
by Catherine Blersch | June 2026

Socks and Stocks

"Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down."

Warren Buffett

Shopping the clearance rack

Most of the wealth created over the long term by successful investors has been generated by finding a few great companies and holding on to them for a long time. Our investment philosophy leans heavily on this premise. We hunt for businesses with a durable competitive advantage; a healthy balance sheet; capable, aligned management; sound governance and the ability to compound free cashflow for many years. We ideally like to spend most of our time hunting for the rare gems that we can hold forever, rather than digging around the bargain bin.

Unfortunately, the market is an emotional beast that is easily excitable. When investors latch on to a theme, they often make unreasonably lofty assumptions about the pace and durability of growth. This drives share prices up, often into uncomfortably high territory. Horribly overpaying for a slice of a company lowers the odds of delivering the returns our clients need. This is why we also believe that a healthy respect for valuation is important. We have often been excited when finding a great new business but have chosen not to invest when the price tag was too high.

Fortunately, the market can just as easily get spooked. In times of fear and uncertainty investors flee, sending share prices to levels that assume an overly negative outlook for the future. Sometimes these sell-offs are company-specific. Here we tread with caution, as there could be a good, yet not very obvious, reason for the negativity. Over the course of this year, however, we have experienced broad sector-wide sell-offs sparked both by the Iran war and fear around the impacts of AI on established business models. High-quality businesses that were once the darlings of the market are now on sale. This has prompted a revisit of companies in unloved sectors such as payments, software and insurance broking, where the market might be underestimating their resilience in the face of new threats.

Everyday favourites

In payments, we have been adding to Mastercard. Despite its size and age, Mastercard has continued to grow earnings in the teens by capitalising on new flows and new forms of payments. As competitors and disruptive technologies have emerged, Mastercard has proven to be an enabler of fintech innovation rather than being disrupted by it. The pace of new developments and partnerships is impressive, and we believe it will continue to leverage its global scale and trusted position to remain a partner of choice in whatever direction payments evolve. Despite its resilience, Mastercard is the cheapest it has been since the 2020 crash, presenting an opportunity to buy a quality compounder at a reasonable price.

Secondly, we revisited the Dutch payments processor Adyen, taking advantage of a 40% selloff to add it as a new holding in the portfolios. Adyen runs a single unified platform to accept, process and settle payments from a broad array of payment methods (both physical and online) globally. Like Mastercard, Adyen earns a percentage of payment volumes processed and thus grows with its customers. The percentage Adyen takes is small relative to the value added for customers through higher authorisation rates, less fraud, and quicker settlement. Adyen's global scale and extensive acquiring license portfolio is hard to replicate, particularly in the fragmented European market. The business is highly profitable thanks to lean operations, especially when compared to its American competitors such as Stripe. The founder remains at the helm and, as a sizeable shareholder, we view him as both motivated and well aligned. A cash-flush balance sheet gives Adyen optionality to reinvest, and the combination of cash-to-card conversion and e-commerce growth provides a long runway for growth.

Cushioned for impact

In software, the broad fear is that AI agents and AI-enabled coding will commoditise software, eroding the competitive advantages of traditional Software as a Service (SaaS) companies and putting pressure on seat-based pricing. While it is undeniable that AI is a seismic shift that will disrupt many business models, the market could be underestimating the strength of entrenched software businesses. Incumbent software companies have many strengths that position them well in the AI race. They have decades of knowledge and data on the workflows, pain points and requirements of their customer base. They are often entrenched in the daily operations of their customers' businesses. They have established distribution capabilities – existing relationships with millions of customers to which they can deploy products at the click of a button. They have trust, particularly around data security and privacy, which are critical for enterprises. Finally, they are highly cash generative, providing firepower to reinvest. Taken together, these strengths mean they are better placed than any new competitor to develop and sell AI solutions to their customers.

With this in mind, we have recently added Adobe to the portfolio. We think the market is underappreciating the stickiness of their core products for professionals, the value of their integrated ecosystem of tools, and their deep knowledge of their customers' needs. Adobe is quickly adding its own AI tools and is gaining traction with Firefly, which is the only image generation tool trained exclusively on public domain images (and thus safe from a copyright perspective). While there are some competitors nipping at their heels in the consumer space, Adobe is making sensible defensive moves against these threats. At Adobe's current valuation, one is paying for the in-force business and getting all future growth for free.

Secondly, we have continued to take advantage of the weakness in Microsoft's share price to add to our existing position. Microsoft is unique in its vertical integration – combining sticky enterprise software with the infrastructure to support both traditional cloud workloads and AI. The intensity of their capital spending on AI infrastructure has picked up, reducing free cashflow. However, their entrenched position and ability to monetise the full stack across the infrastructure (Azure), platform (OpenAI on Azure), and AI application (Copilot) layers positions them well to earn healthy returns on these investments over time. Microsoft is often thought of as a laggard, yet its data centre investments have proven prescient.

Clearing out the drawer

While taking advantage of these marked down valuations, we have also been increasingly conscious of some parts of our portfolio where the market has become overly excited. As explained in our Q1 commentary, we have continued to reduce the semiconductor equipment makers who have been swept up in the AI-hype. These remain businesses we would like to own, but current share prices assume the bonanza keeps going, ignoring the

inherent cyclicality of this particular industry. In addition, we exited our positions in the platinum miners, prompted by uncertainty around the durability of platinum investment demand, and African Rainbow Minerals due to concerns around questionable capital allocation. In both cases, we believed that the higher-quality growing companies on discounted sale presented a more compelling opportunity. We also continued to reduce our position in the European property company Unibail-Rodamco-Westfield, which is now trading at only a small discount to its net asset value, in favour of UK-based property companies such as Derwent that remain heavily discounted despite strong underlying fundamentals.

To paraphrase Buffett, whether it's socks or stocks, it is a good strategy to take advantage of the rare times when quality is on sale. This requires patience and the ability to resist the allure of 'FOMO' when valuations dislocate from likely realities. It remains a privilege to keep hunting for the best investment ideas on your behalf.

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