Chawton Global Equity Income Fund

February 2026

CHAWTON
GLOBAL INVESTORS

Letter to Investors – H2 2025

Dear Fellow Investors,

Overview

This letter covers the second half of 2025. Consistent with our investment philosophy, we use this communication to review performance, discuss the market backdrop relevant to our portfolio, and illuminate our approach through the lens of fundamental business developments.

We focus on what we can assess with conviction: the quality of a business, the discipline of its management, and the opportunities provided from its position within the corporate lifecycle.

Holdings discussed include Alphabet, DSM-Firmenich, FinVolution and KLA.

Performance

The YFS Chawton Global Equity Income Fund (CGEIF) objective is to grow the purchasing power of its investors' capital and provide the flexibility to derive a regular and growing income stream. We believe CGEIF's progress is best assessed over a minimum period of five years and therefore that is most appropriate for performance. Our favoured comparative measure is the compound annual growth rate of CGEIF versus the returns of equities over the very long term as measured in the Barclays Equity Gilt Study.

The long-term compound annual growth rate (CAGR) of the Fund stands at 9.3%[1] since inception six years ago. In 2025 it rose 11.8%.

Fund results are net of fees and charges and are compared to the comparator group as represented by the Investment Association Global Equity Income Sector. CGEIF's is exceeding this measure and the very long-term nominal returns from UK equities which stands at around 9%[2].

As active managers we are seeking to exceed this level materially so would hope to improve on this level as the strategy progresses.

A breakdown of performance is shown below encompassing 2025 year to date and preceding periods.

[1] B Class Acc. £, Source Chawton Investors
[2] Barclays Equity Gilt study UK equities: 1899-2024

	Annual Percentage Change		
	CGEIF B Acc. £ (1)	**IA Global Equity Income (2)**	**Relative Results (1)-(2)**
2019	9.3%	7.0%	2.3%
2020	14.2%	3.2%	11.0%
2021	18.2%	18.7%	(0.5%)
2022	(8.3%)	(1.2%)	(7.1%)
2023	10.8%	9.2%	1.6%
2024	7.2%	11.0%	(3.8%)
2025 YTD	11.8%	12.8%	(1.0%)
Since Inception	79.4%	77.2%	2.2%
Compound Annual	9.3%	9.1%	0.2% p.a

Source: FE fundinfo as at 30 December 2025. Total return in GBP. Past performance is not a reliable indicator of future results. The value of your investments and the income derived from it can go down as well as up and you may not get back the money you invested.

The CAGR in dividend from inception to 2025 is 17.8%[3]. The 2025 payout equates to a 5.1% yield[4] on the share class launch price of 100p. This is an important observation for those of our investors, including myself, who are looking for the fund to provide a future income stream. The current (historic) yield is 2.8%[5]

The following graphic shows the dividend distributions we have made to our shareholders to date.

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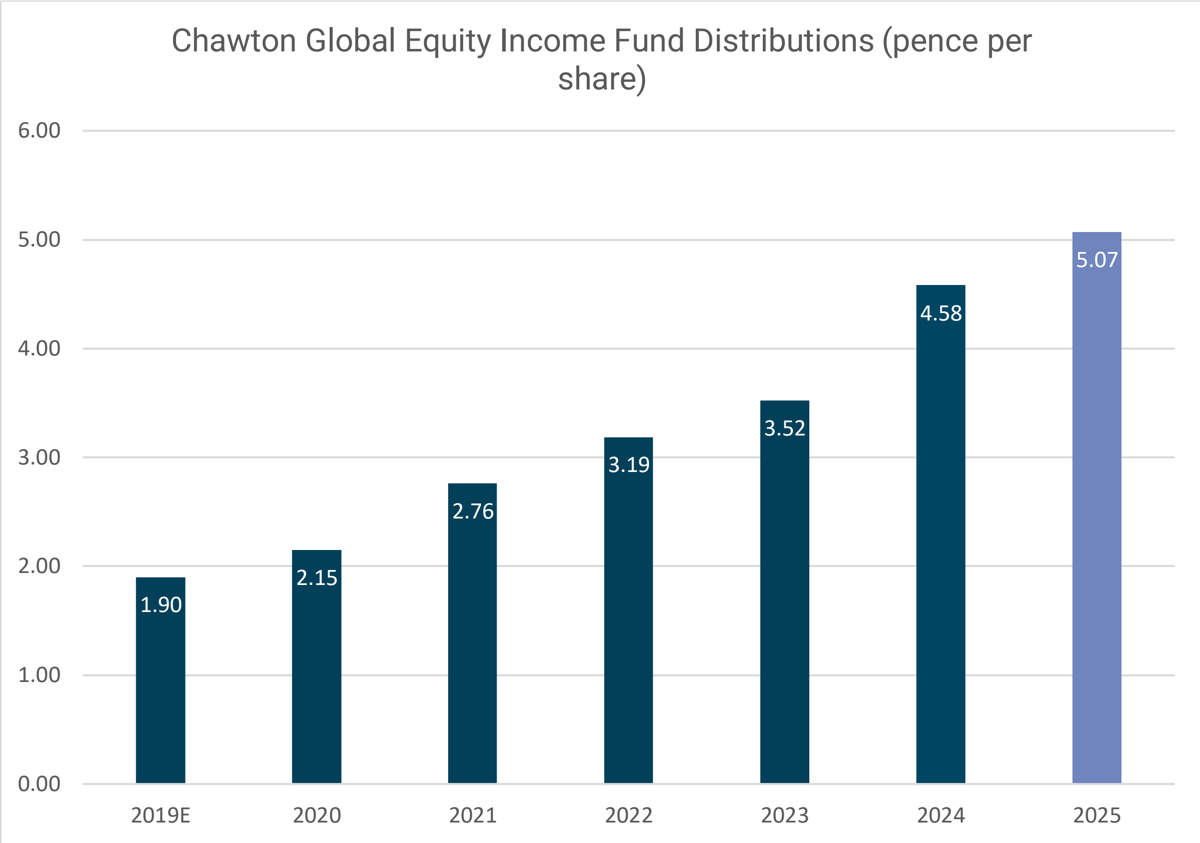
[3] Source: Chawton Investors,
[4] Source: Chawton Investors
[5] Source: Chawton Investors based on B Class Acc distributions made in 2025 and year end share price



Source: Chawton Investors; 2019E is an estimate based on the portfolio at inception being held from 1 January 2019. Past performance is not a guide to future performance.

Risk-Adjusted Return Characteristics

Risk characteristics are summarised in the following table along with returns:

Metric	CGEIF	IA Sector Comparators
YTD Return 2025	11.8%	12.8%
Annualised Return (since inception)	9.3%	9.1%
Maximum Drawdown	5.5%	9.1%
Earnings Growth (portfolio)	9.0%	7.2%
Upside Capture	76	80
Downside Capture	58	67
Beta	0.92	0.88

Source: Chawton Investors and Morningstar Fund Analysis. Drawdown and earnings statistics are for 2025.

The Fund's maximum drawdown of 5.5% compares favourably with 9.1% for the peer group, and our downside capture of 58 versus 67 for comparators demonstrates that the portfolio has tended to preserve capital during market setbacks — a reflection of the quality bias embedded in our approach.

Market Background

Sterling Strength and Its Impact on GBP-Denominated Returns

An essential starting point for any GBP-denominated investor reviewing 2025 global equity returns is the currency context. Sterling appreciated approximately 7.6% against the US dollar over the year, ending 2025 close to 1.35 after reaching a near four-year high of 1.3743 in early July. This was one of the most significant annual sterling moves in recent years and represents a meaningful headwind to returns when translating US securities performance back into pounds.

The significance of this is magnified by the structure of global equity markets. The United States accounts for approximately 60–65% of global equity market capitalisation by most common measures, including the MSCI World and MSCI ACWI indices. Any investor holding a broad global equity portfolio therefore carries substantial dollar exposure, and the sterling appreciation substantially erodes the GBP return from that exposure.

The table below illustrates this effect. Whilst the S&P 500 delivered approximately 17% in US dollar terms in 2025 — a headline figure widely reported in financial media, a UK investor holding an unhedged S&P 500 tracker would have received approximately 10% in sterling terms after the currency translation. Similarly, the broadly-cited MSCI World return of around 21% in dollars translates to approximately 13.5% in sterling. Only markets that themselves strengthened against the dollar or that were not dollar-denominated provided returns that were amplified for UK investors.

Index / Fund	USD Return	Approx. GBP Return
S&P 500 (USD total net return)	17.4%	9.8%
MSCI World (USD total net return)	21.6%	13.%
MSCI EAFE Intl Developed (USD total net return)	31.2%	23.6%
MSCI EM (USD total net return)	34.3%	25.1%
CGEIF B Acc (GBP denominated)	**—**	**11.8%**

Source: Chawton Investors and MSCI/S&P. Numbers rounded to nearest decimal.

It is notable that CGEIF, as a GBP-denominated fund that itself holds a globally diversified portfolio but reports in sterling, delivered 11.8% for 2025. This was ahead of the sterling-translated return available from a passive US equity portfolio and only a little behind a broad world equity portfolio,. The Fund's underweight to the US market relative to a market-cap weighted global index was therefore a positive contributor in GBP-adjusted terms, with the US being the dominant weight in world indices.

International Markets: Strong Headline Returns, But Quality Stocks Lagged

The international (non-US) equity outperformance of 2025 was significant, but its composition is important to understand. The rotation toward international markets was predominantly driven by cyclical, capital-heavy, and recovery stories which dominated the league tables in Europe and parts of Asia Particular beneficiaries included banks, mining companies, defence contractors and industrial conglomerates with low starting valuations. Global momentum was driven by fiscal stimulus spending and infrastructure commitment across Europe, and AI-hardware enthusiasm in Asia.

Conversely quality companies, those with high and sustainable returns on capital, pricing power, and consistent cash generation, generally underperformed within the international opportunity set. Consumer staples and healthcare, two of the canonical quality sectors, were notable laggards globally. Staples faced persistent volume pressure as real incomes, whilst recovering in many markets, had not yet returned to the levels that would support the premium pricing power they had enjoyed in 2021 and 2022. Healthcare faced a more specific challenge: the US political environment created regulatory and pricing uncertainty that weighed on pharmaceutical earnings and sentiment.

The Fund operates a quality value overlay across the entire portfolio utilising the corporate lifecycle model to identify wealth creation opportunities. This means, that whilst we do invest in mature or declining companies with high returns on capital seeking to transition back to compounding or growth phases, a meaningful portion of the portfolio is invested in high quality compounders. We do not hold low-quality cyclicals and turnaround stories, regardless of geography.

In summary, we are overweight in companies demonstrating high returns on invested capital, disciplined capital allocation, and structural earnings growth. This quality discipline, which we believe is the right approach over the full cycle, acted as a headwind in H2 2025 specifically within the international portion of the portfolio, despite the portfolio's overall outperformance relative to the GBP-translated passive US exposure described above.

H2 2025 Market Themes: What Worked and What Did Not for Quality Investors

- S&P 500 +17% (USD) but only circa 10% for GBP investors after sterling's 7.6% appreciation
- US accounts for ~60–65% of global market cap — dollar weakness was a structural drag for sterling funds
- International outperformance was largely value-driven: cyclicals, banks, defence, industrials
- Quality sectors (healthcare, consumer staples) underperformed within international markets
- Asian market gains concentrated in AI hardware beneficiaries and value recovery rather than quality compounders
- The Fund's cross lifecycle quality overlay moderated upside from the international value rally

Portfolio Activity

Our approach to portfolio management is grounded in the quality corporate lifecycle model. We seek to own companies across the lifecycle phases, but where management is deploying capital in a manner most likely to compound shareholder value. Decisions to add, reduce or exit are driven by this fundamental assessment rather than short-term market movements.

Alphabet —Compounder: AI Competitive Position Confirmed

Alphabet remains one of the Fund's core holdings. In the second half of 2025 the investment thesis was materially strengthened by the company's AI competitive positioning. Alphabet's Gemini 3 model, released in Q4 and trained on its own custom chips, outperformed leading alternatives on several benchmarks and triggered a reassessment of the competitive landscape in AI infrastructure.

This was significant for two reasons. First, it confirmed that Alphabet is a genuine architect of the AI era, not merely a beneficiary. Its ability to build its own silicon, train frontier models, and deploy them at scale across search, cloud and consumer products represents deep vertical integration that reduces reliance on third-party infrastructure. Second, the Q4 performance fractured the correlation of the so-called Magnificent 7: whilst the group as a whole posted modest positive returns in Q4, Alphabet was the clear individual winner, rising approximately 29% in the quarter alone.

The financial characteristics remain those of a compounder: cash generation substantially exceeds what the business requires to invest organically, allowing capital to be returned through buybacks at scale. Full-year 2025 revenues grew 14% year-on-year, with Google Cloud expanding 32% and Search delivering 12% growth — the latter reassuring given fears over AI-driven disintermediation. Alphabet's ability to sustain high returns whilst reinvesting efficiently in next-generation infrastructure is a critical factor going forward. They have announced capital expenditure of $180 billion in 2026 but cash flow from operations is anticipated to exceed this maintaining the compounder lifecycle phase classification.

Tencent and FinVolution — Contrasting Outcomes in Chinese Technology

Our two Chinese technology holdings delivered sharply contrasting outcomes in the second half, illustrating both the potential and the risks inherent in the Chinese regulatory environment.

Tencent delivered a strong Q3, with revenues growing 15%, driven by broad-based profitability expansion across cloud computing, online advertising and gaming. The structural shift in gaming towards first-person action genres, Tencent's area of specialism, continued to drive domestic market share gains. The company's ability to monetise its existing user base through multiple adjacencies whilst maintaining the financial profile of a mature compounder, generating far more cash than it can reinvest, makes it a high-conviction holding. The selective easing of regulatory pressure has further supported the investment case.

FinVolution presented a more difficult picture. The Chinese government introduced new consumer finance regulations effective from 1 October 2025, which imposed tightened underwriting standards and, critically, capped lending interest rates at 24% per annum. For FinVolution, which operates primarily as a marketplace connecting borrowers with financial institutions in the consumer lending space, this regulatory change compressed the economics of a portion of its domestic Chinese loan book. The share price fell significantly as markets assessed the earnings implications.

The near-term operational impact is visible in reported metrics: the day-one delinquency rate rose to approximately 5% (+30 basis points quarter-on-quarter) and the 30-day collection rate softened to 88%, both reflecting the transition to more conservative underwriting. Full-year 2025 revenue growth guidance was revised to 0–5% year-on-year, against an earlier expectation of stronger growth.

The mitigant is meaningful, however. FinVolution's international operations in Indonesia and the Philippines continue to grow rapidly, with transaction volume up 33% and international revenue up 37% year-on-year in Q3 2025. The international segment now represents a record 25% of total revenue. The balance sheet remains robust with approximately RMB 7 billion of cash and short-term investments and provision coverage of 517%. Management has continued to pay an attractive dividend and accelerate share repurchases, returning capital at scale whilst navigating the transition. We continue to hold the position and are monitoring the domestic regulatory environment closely, with the expectation that the business will re-emerge from the transition period with a more compliant but still viable domestic franchise alongside a structurally growing international platform.

KLA Corporation — Process Control Leadership in the 3D Packaging Era

We initiated our position in KLA Corporation in the second half of 2024 as a growth lifecycle phase holding and started to trim the holding through the second half of 2025 following a doubling in the share price. KLA is the global leader in process control and yield management equipment for semiconductor manufacturing, occupying an essential and structurally growing niche within the semiconductor supply chain.

The investment case rests on two structural drivers. The first is process control intensity: as semiconductor manufacturers push to ever smaller nodes, sub-3 nanometre leading-edge chips, the cost of defects rises exponentially. A single defective photomask or layer anomaly at 2nm can write off thousands of dies. This drives continuous increases in spending on KLA's inspection, metrology and data analytics tools as a proportion of overall wafer fabrication equipment (WFE) spend. KLA has consistently grown revenues faster than the broader semiconductor equipment market.

The second, and increasingly important, structural driver is the emergence of advanced semiconductor packaging, specifically, the shift to three-dimensional chip architectures. The AI compute revolution has driven demand for chips with dramatically greater interconnect density: high-bandwidth memory (HBM) stacks, chiplets, and 3D integrated circuit packages are now mainstream in high-performance computing and AI accelerator designs. These packaging configurations require their own process control infrastructure, the geometries and tolerances involved are analogous to those at the wafer fab level, meaning KLA's inspection and metrology tools are directly applicable and increasingly essential.

KLA guided for advanced packaging-related revenues to exceed $925 million in FY 2025, up from a prior estimate of $850 million, itself a significant and rapidly growing contributor. Management has been explicit that process control represents over 70% of this packaging revenue. This distinguishes KLA from peers whose packaging exposure is primarily mechanical or materials-driven.

Results since our entry have been strong. For its fiscal fourth quarter ending June 2025, KLA reported revenues of $3.18 billion, up 24% year-on-year, with non-GAAP EPS of $9.38, beating estimates by 10%. Wafer inspection revenues surged 52% year-on-year to $1.77 billion. For the full fiscal year 2025, revenues totalled $12.16 billion with record free cash flow generated. The December 2025 quarter delivered revenues of $3.30 billion, up 7% year-on-year, with record calendar 2025 revenues of approximately $12.75 billion, up 17% year-on-year.

We note that ASML, which we exited in August after more than tripling our initial investment, has subsequently recovered some of the share price weakness that prompted our reassessment. However, our conviction in KLA as the superior positioning within semiconductor equipment remains. The reason is structural: ASML's growth is dependent on customers committing to its next-generation extreme ultraviolet machines at €350 million apiece, a decision that has been delayed by customer hesitation over technology transitions. KLA, by contrast, benefits from every step in the value chain regardless of which lithography platform is used, and its growing exposure to 3D packaging addresses a segment of the market that is growing at a multiple of overall WFE. The company's return on invested capital of approximately 38% is one of the highest in the semiconductor equipment universe, and its capital return policy, having raised its quarterly dividend for sixteen consecutive years and with a $5 billion buyback authorisation, is a rare example of a company with compounder characteristics transitioning back to growth. This type of transition is one of the strongest generators of shareholder value under the lifecycle model.

DSM-Firmenich — A Lifecycle Transition Investment

We acquired our position in DSM-Firmenich between June and September 2025. The investment case is also a lifecycle-transition one: the company is the product of a merger between two established players in the ingredients industry, DSM, a specialist in food and nutrition ingredients, and Firmenich, up to then the world's leading privately-held fragrance and flavour company. The combination created one of the largest players in a market with attractive structural characteristics: a concentrated industry where the top three or four players are dominant, customers in sectors with stable demand, and ingredients that are a small but critical part of a finished product, underpinning pricing power.

Our lifecycle assessment categorised the company as mature with decline-phase characteristics at acquisition. The rationale for investment is a thesis about transition: management is executing a divestment programme to exit lower-returning businesses, returning the surplus capital to shareholders, and positioning the combined group to re-enter compounding phases as a focused pure-play ingredients company. The end state should resemble the market leader Givaudan, which trades at a substantial premium to DSM-Firmenich on a much higher margin base.

The most significant development in H2 2025 was the completion of the sale of the Animal Health and Nutrition (ANH) division to CVC Capital Partners. This was the final sizeable divestment in the portfolio restructuring programme. However, the terms were less favourable than we had modelled. The headline sale price of €2.2 billion compared with our assumption of €5.5 billion, and the structure was complex: DSM-Firmenich retained a 20% equity stake, an earn-out of €500 million and provided debt of €500 million, meaning net cash received was only approximately €600 million. This has reduced our estimate of intrinsic value.

The company deployed approximately €1.1 billion in share repurchases during 2025, reducing the share count by 2.1%, though the timing of repurchases, concentrated when the share price was near its 2025 peak of €118, was less efficient than we would have hoped.

Against this backdrop, the share price has declined approximately 43% over the past year and stands approximately 30% below our average acquisition cost. We have conducted a rigorous reassessment. The investment thesis — lifecycle transition via divestment and capital return — remains largely intact, though the timeline and total value achievable from the ANH process have disappointed.

DSM-Firmenich: Key Financial Metrics as at February 2026:

Metric	Value	Note
Current Share Price	€59.8	As at 18 February 2026
Original Estimated Intrinsic Value	€130	Base case at acquisition (Jun–Sep 2025)
Revised EIV (lower ANH proceeds)	€117	Adjusted for €2.2bn vs €5.5bn expected
Revised EIV (lower growth outlook)	€98–108	Adjusted for HNC growth shortfall
Market Capitalisation	€15.6bn	At current share price
Total Shareholder Return Yield	~7%	Dividends + buybacks as % of market cap
Net Debt / EBITDA	~1.6x	Post-ANH disposal (Dec 2025)
Financial Risk Rating	Low	Post 2025 Annual Report publication

Source: Chawton Global Investors analysis; DSM-Firmenich Annual Report 2025; Forensic Alpha (February 2026). Estimated Intrinsic Value (EIV) derived from Chawton DCF model: 10-year revenue growth 4%, terminal growth 3.5–4%, EBITDA margins 19–22%.

The remaining three divisions (Perfumery & Beauty, Taste, Texture & Health and Health, Nutrition & Care) continue to operate in markets with good structural characteristics. Health, Nutrition & Care retains some commoditised vitamin exposure, where pricing dynamics remain unfavourable, and this is the primary drag on group revenue growth: 3% in 2025 versus our 4% base assumption, with 2026 expected similarly. Our revised estimate of intrinsic value is in the range of €98–108, representing material upside to the current price of €59.8.

The financial risk profile remains strong. The group holds €1.7 billion of cash with net debt of €3.6 billion against EBITDA of €2.2 billion. We estimate the combined dividends and buybacks in 2026 represent approximately 7% of the current market capitalisation, providing meaningful return whilst we wait for the operational improvement.

We also note that senior managers brought in from companies including Nestlé and L'Oreal have good track records, and that the post-merger cultural integration, whilst creating some staff turnover challenges, is stabilising. The key near-term catalyst is the Capital Markets Day scheduled for 12 March 2026, where management will have the opportunity to articulate a clearer strategic roadmap for the combined group. We intend to maintain our position and may consider building further depending on the quality and credibility of that communication.

Portfolio Positioning

Top Ten Holdings as at 31 December 2025:

Company	Weight	Sector / Description	Lifecycle Stage
Alphabet	4.6%	Technology / Digital Platforms & Cloud	Compounder
Svenska Handelsbanken	4.2%	Financials / Nordic Banking	Mature/decline
Games Workshop	4.1%	Consumer / Wargaming IP	Compounder
Atlas Copco	3.8%	Industrials / Compressors & Tools	Mature Compounder
Elopak	3.7%	Industrials / Packaging	Mature/decline
Tencent	3.7%	Technology / Digital Platforms China	Compounder
KLA Corporation	3.6%	Technology / Process Control Equip.	Growth/ Compounder
Sampo Oyj	3.3%	Financials / Nordic Insurance	Mature Compounder
Nu Holdings	3.3%	Financials / Digital Banking LatAm	Growth
First Citizens Bank	3.2%	Financials / US Banking	Mature Compounder

Source: Chawton Global Investors LLP, YFS Chawton CGEIF December 2025 Factsheet. Portfolio weights shown as percentage of fund NAV. Lifecycle stage per Chawton Corporate Quality Lifecycle Model.

Conclusion

The second half of 2025 was an instructive period for the strategy. The surface-level story of global equity markets — strong international outperformance, a resurgent AI trade, Asian market gains — flattered the headline numbers. For GBP-denominated investors, the reality was more nuanced: sterling's 7.5% appreciation against the dollar materially reduced the benefit of US market gains, and the international outperformance was concentrated in value and cyclical stocks rather than the quality growth and compounding businesses that define our approach. The Fund's 11.8% return for the year, whilst a percentage point below the IA Global Equity Income comparator, was delivered with a maximum drawdown of 5.5% against 9.1% for the sector — a material risk-adjusted advantage that the headline number alone does not capture.

Within the portfolio, the developments of H2 illustrate the breadth and rigour of our lifecycle-driven approach. Alphabet demonstrated that our largest US technology position is not merely an AI beneficiary but an AI architect, with the financial profile of a mature compounder generating exceptional cash returns. Tencent delivered strong fundamental performance whilst FinVolution, confronted by a Chinese regulatory change capping lending rates, faced share price pressure. We continue to hold both with a clear view of the risk-reward in the latter.

KLA Corporation's continued strong performance since our entry validates the thesis that process control is the most defensible and structurally growing part of the semiconductor equipment market, and its leadership in three-dimensional packaging inspection positions it for long-term compounding as AI drives demand for ever more complex chip architectures. DSM-Firmenich has been a disappointment in price terms, but the underlying lifecycle transition thesis, divestment, capital return and margin improvement toward Givaudan-like levels, remains credible. At the current share price of €59.8 against a revised intrinsic value estimate of €98–108, the margin of safety is significant.

Since inception, the Fund has delivered a compound annual return of 9.3%, ahead of the long-term nominal equity benchmark and ahead of the IA sector on a cumulative basis, whilst providing a growing income stream: the 2025 dividend yield on the original issue price of 100p equates to 5.1%, with a compound growth rate in distributions of 17.8% per annum since 2019. This combination of capital growth, income and income growth in line with the Fund's objective, delivered with lower risk than the peer group, is the foundation on which we will continue to build.

Michael Crawford
Portfolio Manager
