Gresham House
Specialist investment

Investing in a post US exceptionalism world

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- If you invest in any of the funds you may lose some or all of the money you invest
- Past performance is not a reliable guide to future performance
- Gresham House Ireland Funds may be affected by changes in currency exchange rates
- The value of your investment may go down as well as up

2025 mid-year market outlook

2024 was all about US exceptionalism

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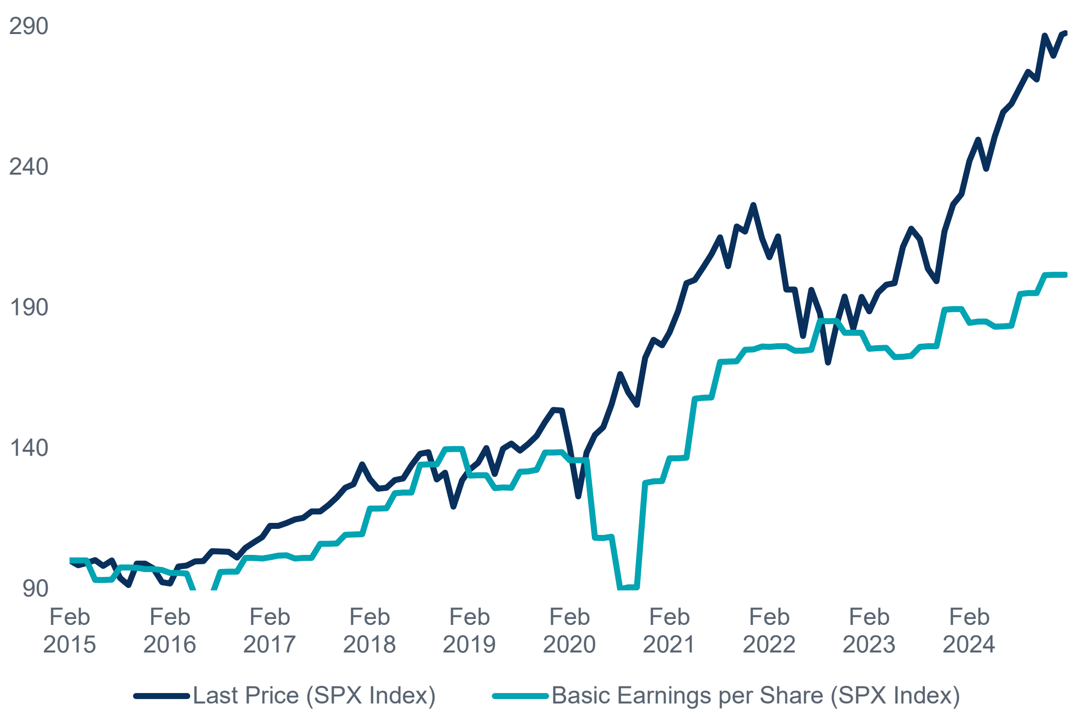
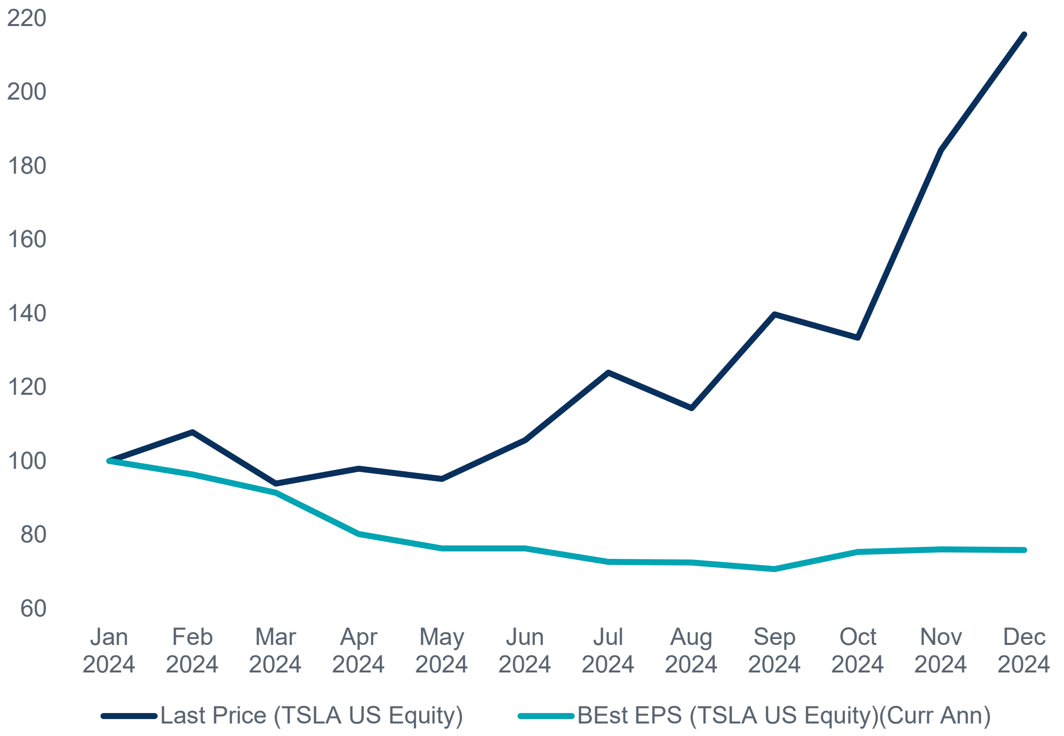
Market ran well ahead of fundamentals in the US

Prices have moved well ahead of fundamentals in the US



Plenty of signs the 'US exceptionalism' narrative has been taken to extremes

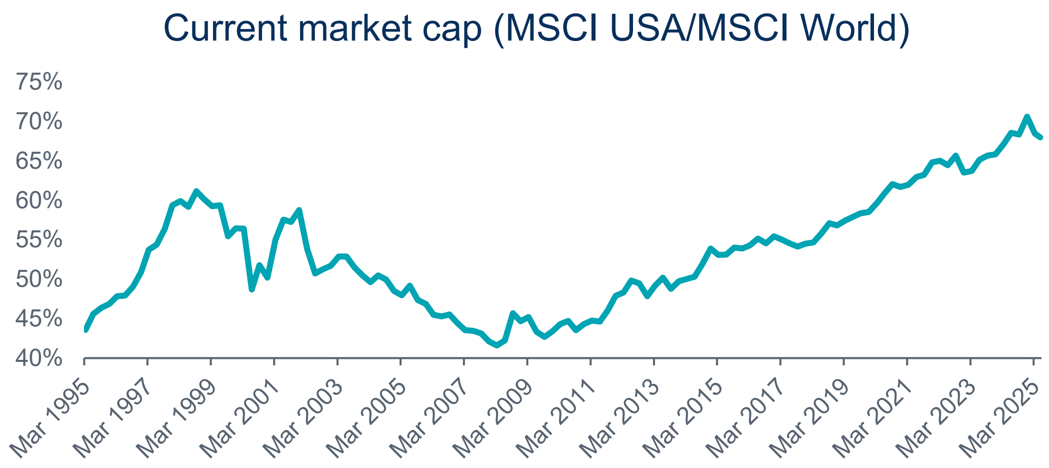


Source: Bloomberg 28 February 2015 to 13 February 2025

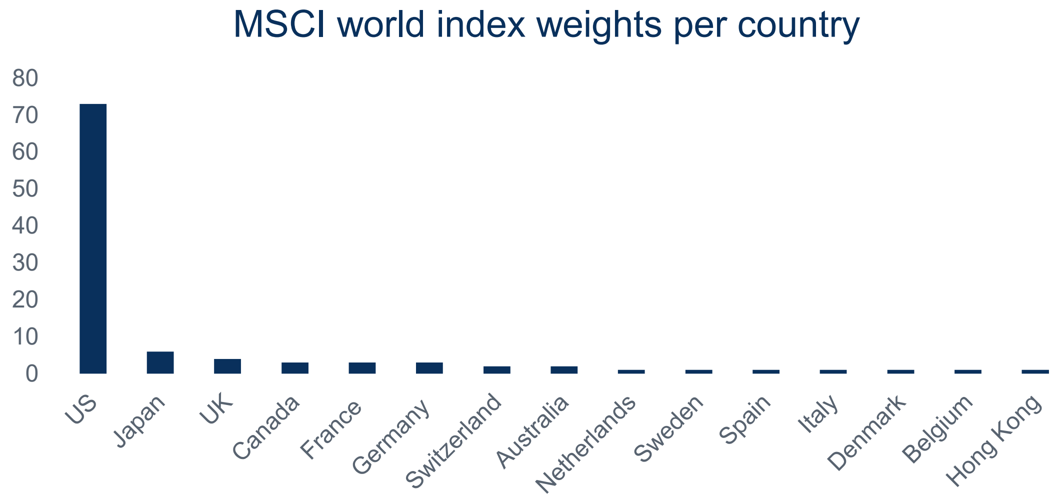
Source: Bloomberg 1 January 2024 to 1 December 2024

Our belief: US exceptionalism has peaked

- We believe US exceptionalism peaked in December 2024
- The two months post the election was a speculative frenzy that we did not take part in
- Since then, our weak dollar and end of US exceptionalism view has been playing out
- Our view was driven by bottom-up considerations, we are not macro traders



Source: Bloomberg 31 March 1995 to 29 May 2025



Source: Bloomberg as at June 2025

Exceptionalism narratives do not end well

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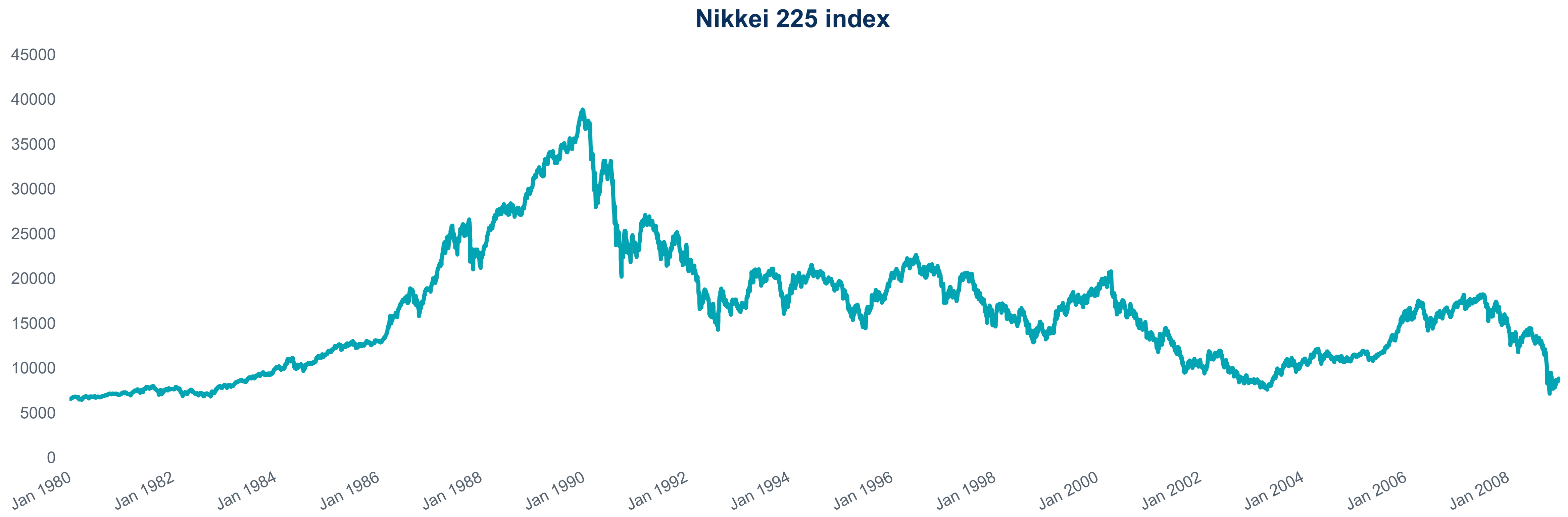

Source: Bloomberg 4 January 1980 to 30 December 2008

- Exceptionalism narratives don’t end well. We hold very few US equities and no US bonds
- International investors have done very well in US assets since the Global Financial Crisis
  - Every time the market panicked the dollar strengthened cushioning losses for non-US investors. This era of investors rushing into the dollar is over

Our belief: The dollar has entered a structural bear market

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We believe the US dollar is in a bear market that will persist

There are both bottom-up and top-down reasons for this belief:

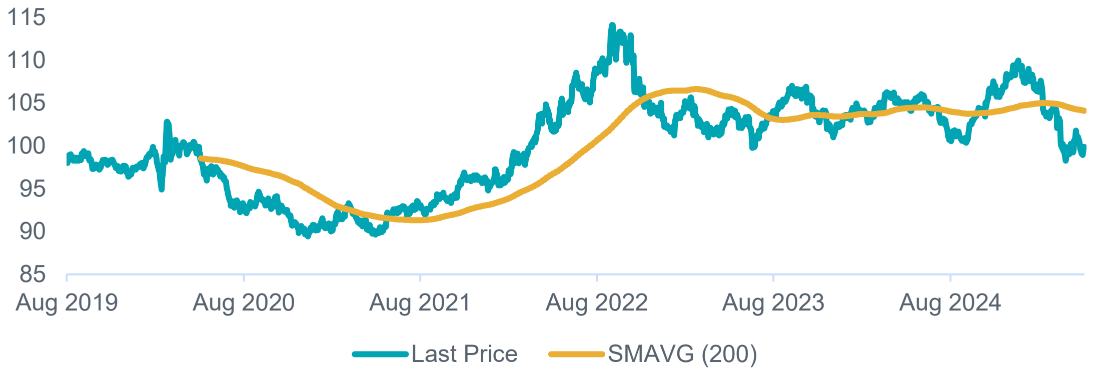
Top-down:

- Trump is a weak dollar President. The market's initial reaction to Trump's election was to rally the US$
- 'DOGE' is a distraction – deficits are going to expand not contract
- Keeping out foreign students is dollar bearish

Bottom-up:

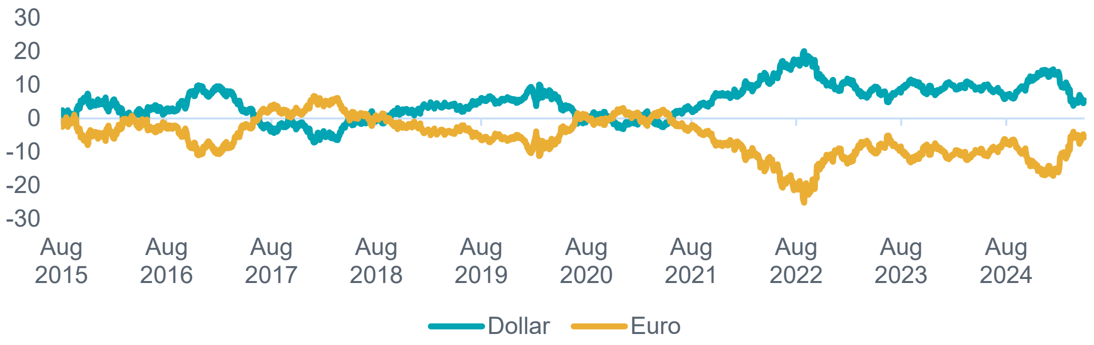
- Relative EPS growth will converge
- Foreigner will pay means foreigners will stay away - Non-US investors will not recycle all their dollars into US assets
- Dollar is overvalued on a PPP basis

Dollar Index



Source: Bloomberg 26 August 2019 to 29 May 2025

Purchasing power parity - Dollar and Euro



Source: Bloomberg 31 August 2018 to 29 May 2025

Our belief: Long duration developed market bonds are toast

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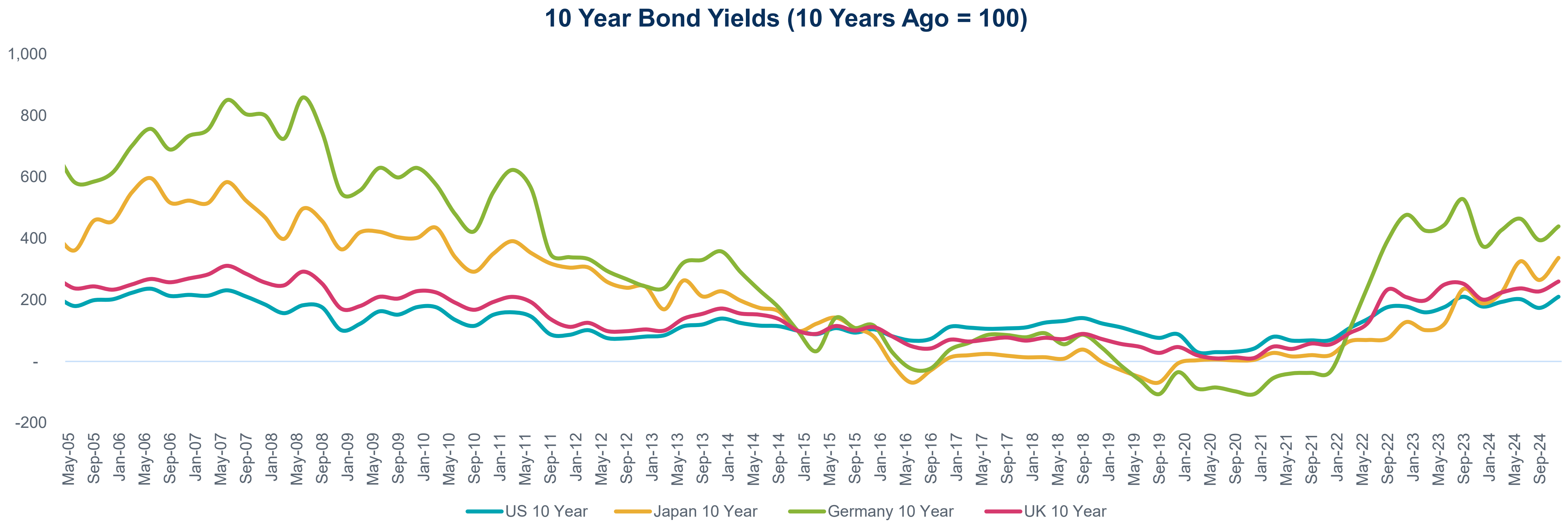
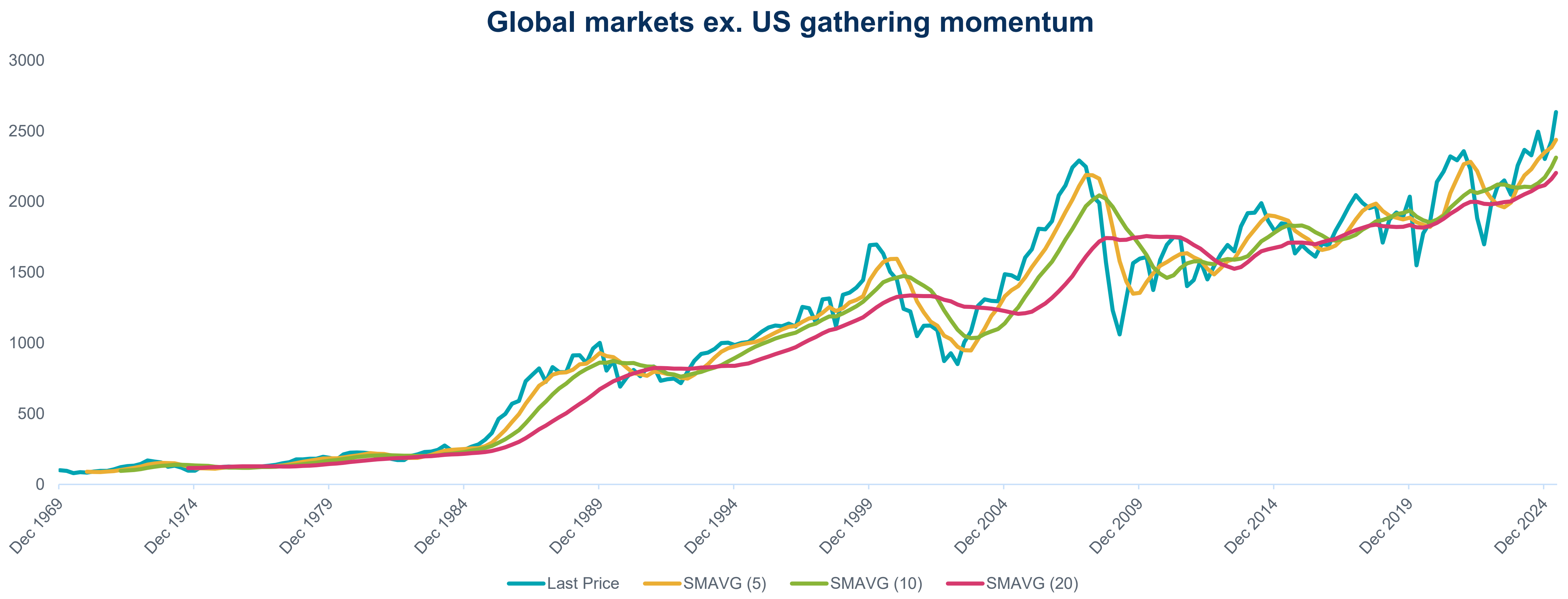


Source: Bloomberg 30 March 1990 to 31 December 2024

- Developed markets bonds are no longer serving their primary purpose – protecting investors during equity selloffs
- The tariff crisis was the second crisis in the last three years where bonds failed to do their job as equities fell

Our belief: The rest of the world is a coiled spring

"When its raining gold reach for bucket, not a thimble." Warren Buffett



Source: Bloomberg 31 December 1969 to 29 May 2025

What this means for our portfolios – look outside long duration bonds for protection

- To provide protection within our multi-asset portfolios we are looking at options outside of long duration government bonds:
  - Gold and gold proxies
  - High-quality credit
  - Emerging markets debt
  - Short duration bonds

S&P 500 vs US Treasury Total Return (Rolling 3-year correlation)

Source: Bloomberg 1 January 1993 to 1 December 2024

What this means for our equity portfolios – small plus value

- With the US exceptionalism narrative over, mean investing in undervalued assets will return. Buying the biggest names has historically been a poor strategy
- Expensive market portions lag over the long term. From 2000 to 2006, low valuation stocks, especially Small and Mid-Cap Value, significantly outperformed

Source: Bloomberg 1 May 1998 to 1 December 2006

Our Supercycle thesis remains alive and well

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Can no longer rely on re-rating of assets	Will need exposure to real economy
Structurally higher interest rates	Banks, financials, healthcare
Infrastructure investment	Industrials, materials commodities
Structural energy shortages	Energy, commodities
Defence spending	Defence, aerospace, materials
Global housing revival	Banks, materials, commodities
Deglobalisation and reshoring	Industrials, capital goods
Climate changes	Commodities, metals, new energy

We believe our funds are already positioned for the new supercycle

Equity valuation fundamentals

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		Multi-Asset Fund	Thematic Multi-Asset Fund	Equity Fund	Small Cap Fund	Market
Dividends	Dividend yield +12 months	4.4%	3.5%	4.1%	4.0%	2.3%
	Dividend cover	2.8x	2.8x	2.5x	2.5x	1.8x
	Dividend growth +12 months	6%	4%	6.5%	8%	3%
	Dividend growth in last 10 years	7%	7%	7.5%	9%	6%
Returns	Cash flow return	6.7%	7.5%	6.5%	9.6%	6.8%
	Cash flow return in last 15 years	7.2%	6.9%	6.7%	8.5%	5.8%
	Sales growth forecast 2024	1%	-1%	-1%	5%	3%
	EPS growth forecast +12 months	4%	5%	4%	10%	8%
	EPS growth in last 5 years	14%	16%	13%	7%	6%
	P/E +12 months	11.9x	16.3x	10.9x	9.3x	16.6x
Balance sheet	Debt/EBITDA	0.7x	1.2x	0.8x	0.1x	1.2x
Median market capitalisation of stocks		**€32bn**	**€4.4bn**	**€39bn**	**€0.9bn**	

Past performance is not a reliable indicator of future performance. Capital at risk.

Source: Canaccord Quest as at [31 May 2025]

Conclusion

- There are large pockets of the market where great expectations, and high valuations, will likely lead to disappointing future returns
- We are avoiding those areas, instead focusing on the pockets of the market that investors have neglected
- Diversification and focusing on cash flows, dividends and strong balance sheets is the way to avoid great expectations and the potential for a lost decade

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