10-Years

DEEP RESEARCH FUND –
A LOOKBACK

DEEP
RESEARCH
FUND

"Investment outcomes depend less on forecasts than on disciplined capital allocation."

JOVAN MITROVIC

Introduction

We launched the Deep Research Fund 10 years ago on January 4th, 2016. The objective of the Fund is long-term capital appreciation, pursued through a value-investing philosophy and a commitment to invest only in businesses that meet our ethical standards.

The appreciation of your investment in the Deep Research Fund over the last 10 years has been anything but a straight line. We saw a year of +32.7 % and a year of –20.5 %. For the patient investors, the confidence you placed in us paid off. If you had invested CHF 1'000 on day one, today it would be worth CHF 2'218, equating to an annual return of +8.3 %. In this report, we would like to revisit why we created the Deep Research Fund, the goals we set out, appraise our performance against those goals, and how we think about the next 10 years.

10 Year Net Return – Deep Research Fund
Class A in CHF

The Original Investment Philosophy

Since inception, our investment philosophy has been focused on several core principles.

First, we seek to develop a deep understanding of every company we consider for investment. All research is conducted in-house by dedicated analysts who are provided with the tools and resources required to form independent, well-grounded investment opinions. Investment decisions are based on our proprietary research reports rather than external opinions or consensus views.

Second, the Fund follows a disciplined value-investing approach. We take the adage of "Buy low, sell high" seriously, and only invest when a company's market price offers a sufficient margin of safety relative to its intrinsic value. Likewise, we look to exit positions

once valuations become unjustifiably high.

Third, we invest exclusively in businesses that meet our ethical standards. Alongside being an SFDR Article 8 fund (sustainability-oriented fund), these standards also incorporate our personal long-standing convictions.

Fourth, we believe our approach is most effective when applied over a long time horizon. To allow us to remain invested across economic cycles and avoid being forced sellers during adverse market conditions, we favour companies that are largely in control of their own destiny. We focus on companies with resilient business models, led by disciplined management teams that maintain conservative capital structures. Our average holding period has been 7.5 years.

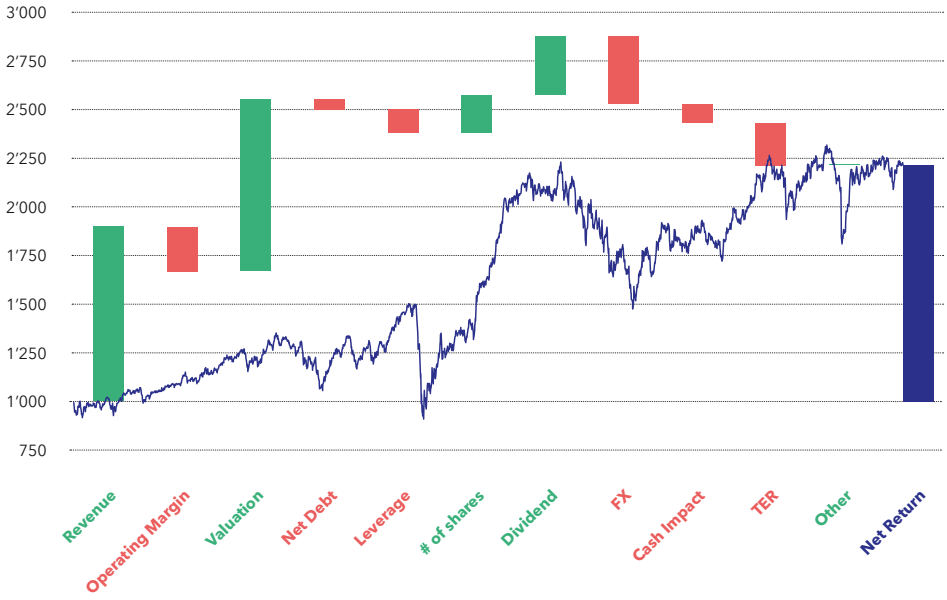
Ten Years in Context

Over the past ten years, our investment approach has been tested by a series of exceptional events, including the COVID-19 crisis, global supply chain disruptions, the outbreak of the war in Ukraine, and more recently the rapid emergence of artificial intelligence as a transformative force across industries.

Throughout these periods, we remained disciplined and true to our investment process.

To better understand the Fund's long-term outcomes, we analyse returns by decomposing them into their core components. In the following sections, we outline the contribution of each factor, assess whether the results align with our expectations, and explain how these insights inform our thinking going forward.

The drivers behind the return
How the +8.3% p.a. is broken down into its drivers



1.

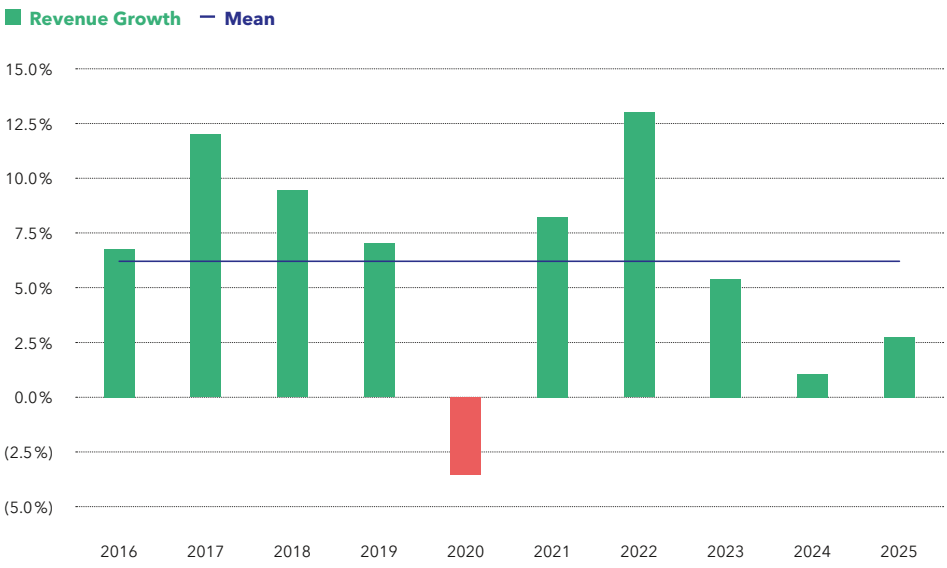
FACTOR:

Revenue Growth

While revenue growth has never been an explicit investment objective, we believe that companies addressing a clear customer need and occupying best-in-class positions within their industries tend to grow ahead of their end markets over time.

Consistent with this view, the companies held by the Fund achieved average annual revenue growth of 6.1% over the period. 2020 represented a notable exception, reflecting government-mandated shutdowns across large parts of the global economy.

Revenue Growth



2.

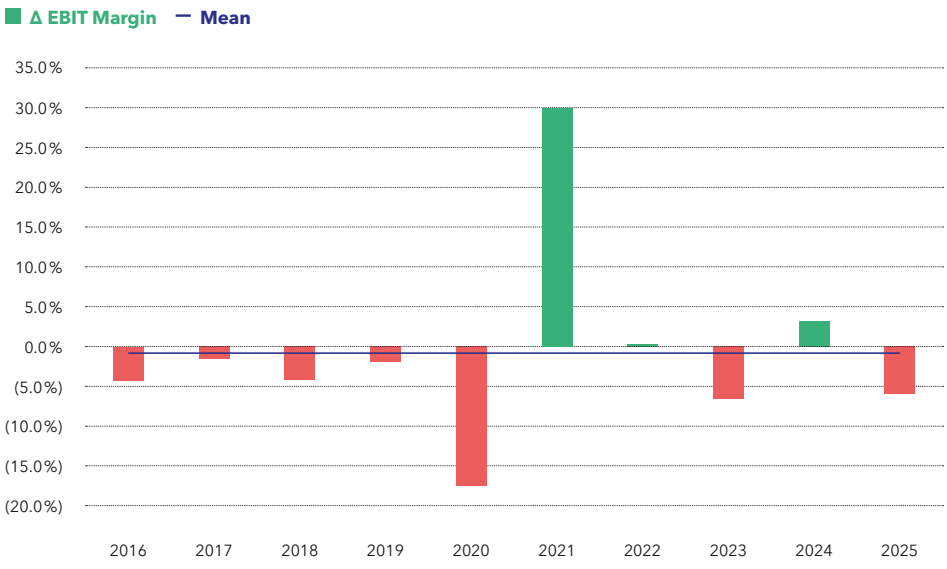
FACTOR:

Operating Margin

This chart is likewise materially influenced by the COVID-19 pandemic. In 2020, government-imposed shutdowns across multiple sectors significantly reduced sales volumes, leading to a sharp but temporary compression in profit margins. As economic activity resumed, profitability recovered in 2021. Outside this period, year-to-year changes in margins were considerably more moderate.

Over the full period, the average profit margin of portfolio companies declined by approximately 1.5 % per annum. This outcome was neither anticipated nor satisfactory. We have examined the underlying drivers in detail and incorporated the resulting insights into the latest version of our research checklist.

Change in operating margin



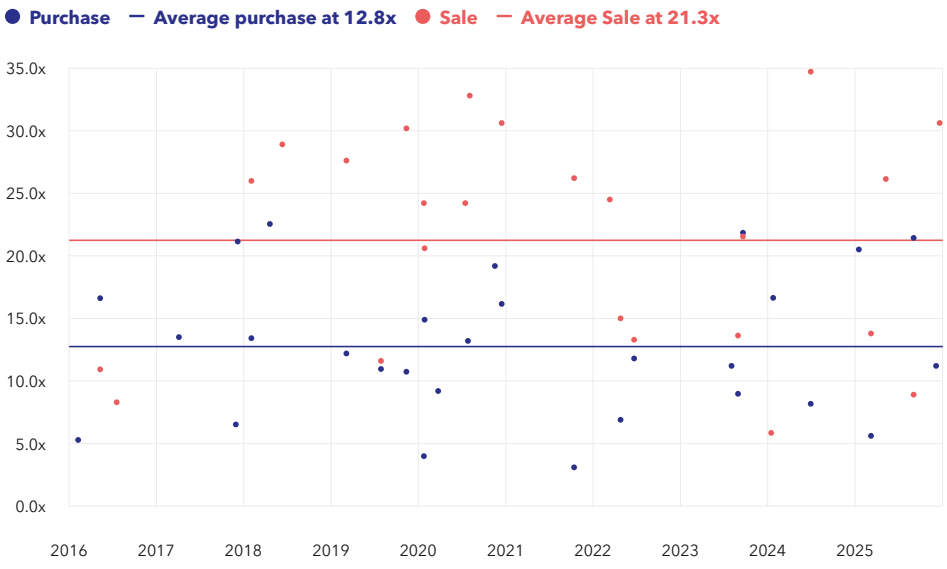
3.
FACTOR:

Valuation

We are value investors at heart. Our objective is to acquire high-quality businesses at attractive valuations and to sell positions when market prices rise to levels that are no longer justified by fundamentals. Over the period, valuation gains contributed significantly (5.7 % per annum) to total returns.

New investments were initiated at an average EV/EBIT multiple of 12.8x, while companies were divested at an average multiple of 21.3x. This disciplined approach to buying and selling allowed us to reap the aforementioned valuation gain of +5.7 % p.a.

Valuation at Purchase and Sale
EV/EBIT



4.

FACTOR:

Change in Net Debt

When a company pays out more cash than it generates, the shortfall must be funded through its balance sheet, most commonly by taking on additional debt. This reduces the value attributable to shareholders and therefore weighs on long-term returns.

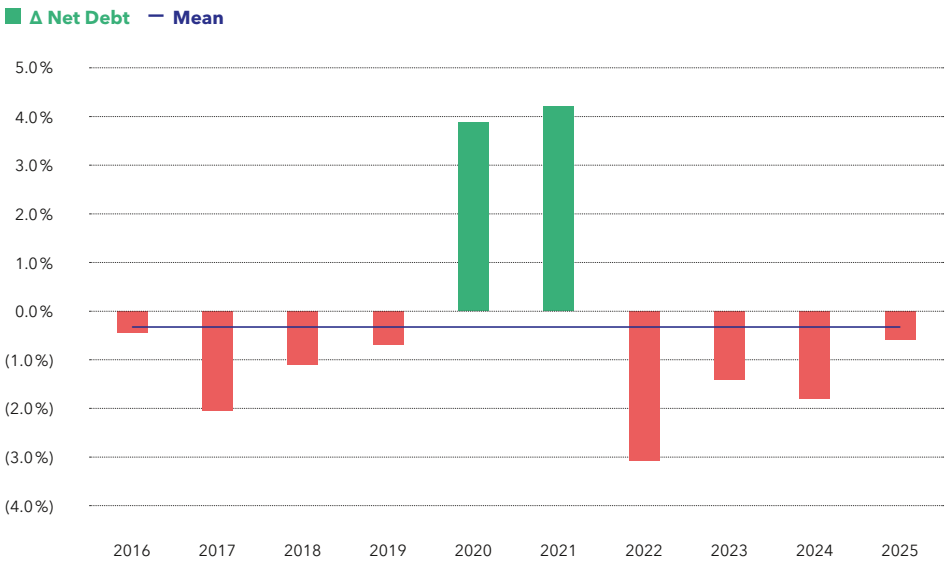
A useful analogy is a house financed with a mortgage: the higher the mortgage, the lower the homeowner's equity. Over the period under review, this effect reduced returns by an average of 0.3 % per year.

In most years, this reflects deliberate capital allocation decisions by our portfolio companies, including dividend payments, share repurchases, and acquisitions. A notable exception occurred in 2020 and 2021.

During the COVID-19 pandemic, many companies suspended dividends and share buybacks to preserve liquidity and protect their balance sheets amid heightened uncertainty.

By 2022, the majority of companies had returned to more normalized capital allocation practices. While distributions such as dividends and share repurchases reduce retained cash, they provide tangible benefits to shareholders, which we discuss in the following sections.

Impact of change in net debt



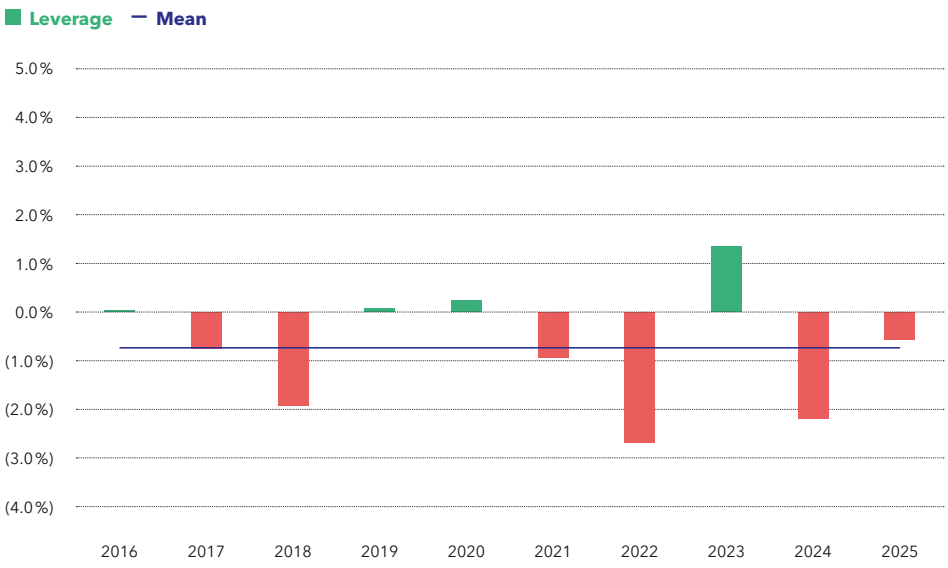
5.
FACTOR:

Leverage

To illustrate how leverage works, consider a house worth CHF 1 million, financed with an CHF 800'000 mortgage and CHF 200'000 of equity. If the value of the house rises to CHF 1'050'000, the property value increases by 5 %. However, because the mortgage remains unchanged, the equity value rises from CHF 200'000 to CHF 250'000 – an increase of 25 %. The additional 20 % of return reflects the leverage effect: debt amplifies gains (and losses) for equity holders.

In the case of the Deep Research Fund, leverage at the company level had a modest negative impact, reducing returns on average by 0.7 % p.a. over the period. This reflects our preference for conservative capital structures, with many portfolio companies holding net cash positions or operating with little to no debt.

Leverage Effect



6.

FACTOR:

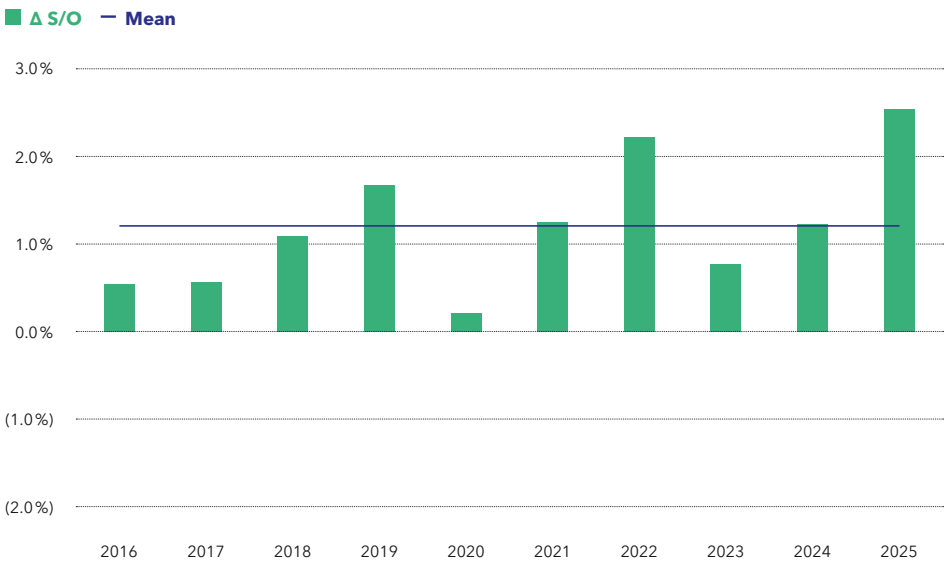
Change in outstanding shares

All else equal, a lower number of shares outstanding increases our proportional ownership in a business. In reality, share counts are positively influenced by many dilutive instruments, including stock options, equity-linked compensation plans, employee participation schemes, and the issuance of shares as consideration in acquisitions. Share repurchases can offset these effects, but in many cases do not fully neutralize dilution.

We tend to favour incentive structures that align executive compensation with the long-term success of the business, rather than short-term share price performance. This preference tends to limit the use of equity-based compensation.

Overall, the increase in our ownership stake contributed an average of 1.2 % per annum to returns over the period. Based on current portfolio characteristics, we expect this factor to remain a positive contributor to performance going forward.

Increase in ownership



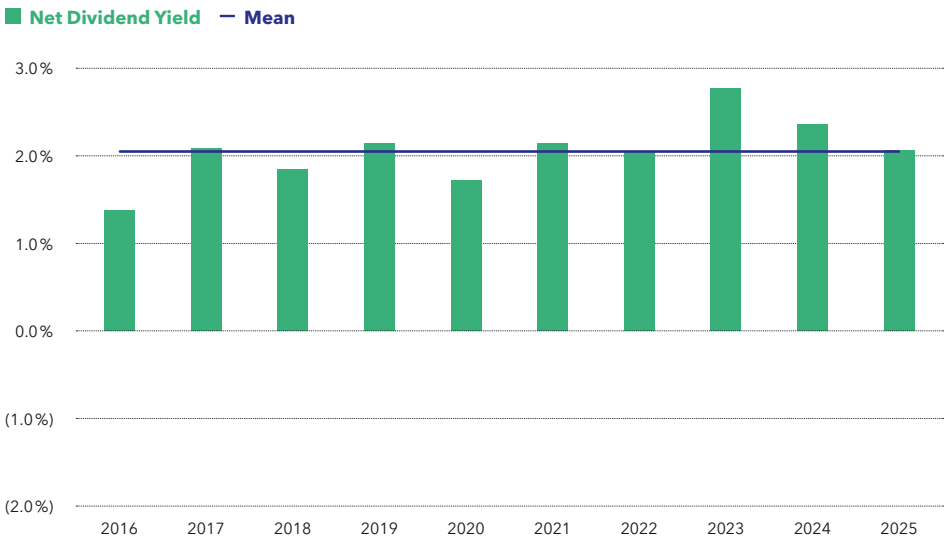
7.

FACTOR:

Dividend payments

Over 90 % of our portfolio companies distribute dividends, which contribute to total returns net of withholding taxes. Over the period, dividends contributed an average of 2.1 % per annum to returns.

Dividend Yield
Net of withholding tax



8.

FACTOR:

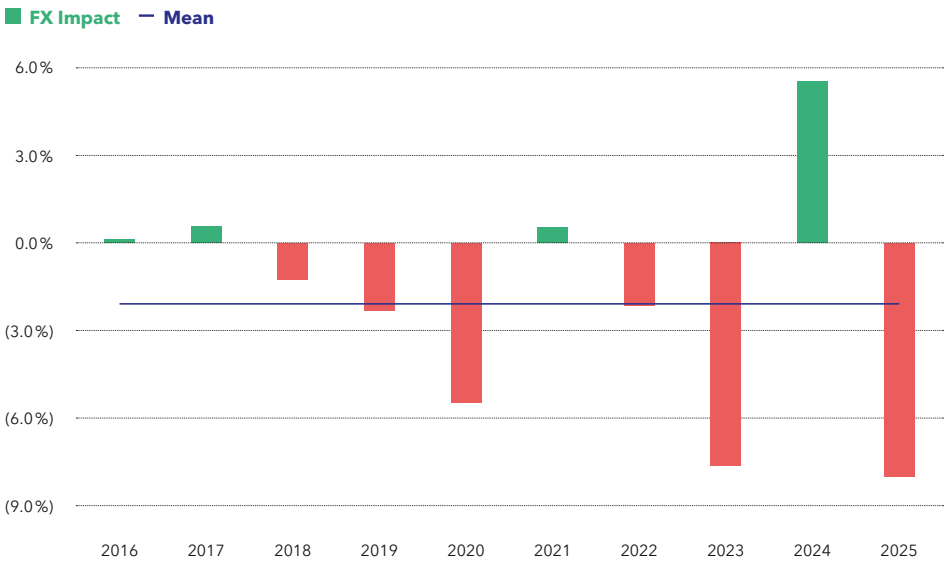
Currency impact

The Deep Research Fund does not hedge currency exposure. The A share class of the fund is denominated in Swiss francs (CHF). Over the 10-year period, changes in exchange rates had an average negative impact of 2.1 % per annum, primarily reflecting the appreciation of the Swiss franc against the U.S. dollar and the euro.

Whether currency hedging would have been beneficial depends on the specific period considered. The Fund's largest foreign currency exposure has consistently been to the U.S. dollar. Over the 10-year period, the average 12-month interest rate differential (roll yield) between CHF and USD was –2.5 %, suggesting that systematic forward hedging would have been costly even before transaction and brokerage fees.

We do not consider ourselves currency specialists and do not seek to forecast currency movements. Accordingly, we refrain from making active currency bets and remain strategically unhedged. While this exposes the Fund to currency fluctuations, it also avoids the structurally high and persistent costs associated with hedging.

Currency impact



Other factors

The Fund is typically invested between 97 % and 98 % in equities, with the remainder held in cash. Cash positions primarily arise from new fund inflows, dividend receipts, and portfolio rebalancing activities. While we aim to maintain a consistently high level of investment, holding cash can create a drag on performance, particularly during strong equity markets.

Over the full period, cash holdings reduced returns by an average of 0.8 % per annum. This effect was most pronounced in the Fund's early years, when assets under management were still relatively small. Since 2018, cash drag has been below 0.3 % per annum, and we intend to continue managing it at similarly low levels.

A further negative contribution stems from the Fund's total expense ratio (TER). As the Fund has grown in size, the TER has declined steadily, in the class A from 252 basis points in 2016 to 127 basis points today. We expect this trend to continue and remain focused on maintaining a competitive and efficient cost structure.

Taken together, we believe that cash drag and operating costs are likely to be less of a headwind over the next decade than they were during the Fund's early years.

“Mistakes are unavoidable; repeating them is optional.”

MATTHIAS SIGRIST

Summary

From inception, we have emphasized consistency and a disciplined, process-driven approach to investing. Against this backdrop, we are particularly encouraged that the sources of return over the past ten years align closely with our expectations and with the principles underpinning the Deep Research Fund.

Our long-held conviction that companies addressing a clear customer need, supported by a compelling value proposition and durable competitive advantages, tend to attract and retain customers over time is reflected in the revenue growth contribution observed over the period.

As value investors, valuation gains represented a meaningful component of total returns. We remain committed to carefully appraising new investment opportunities while applying the same discipline to our existing holdings.

In addition, the strong cash-generating capacity of our portfolio companies proved valuable. Sound balance sheets allowed management teams to operate without financing constraints and to deploy capital thoughtfully through dividends and share repurchases, particularly during periods of market dislocation.

Looking ahead, the next decade will undoubtedly present businesses and investors with new economic challenges and unforeseen developments. We remain focused on our core founding principles – investing in well-managed businesses that we understand, staying disciplined on valuation, and once invested, holding them for a long time.

This is not to say that we are standing still. The last but vital principle on which our investment process is based is intellectual curiosity and challenge. We continuously ask ourselves what we can do to improve our process, and what we can learn from past mistakes. In recent years, this has meant acknowledging the disruptive force that AI has been in many sectors of the economy and considering ways we can adapt new AI tools in our process to help us come to better-informed decisions.

Over the past ten years, that combination of discipline and continuous learning has served you – our clients – well, and it leaves us optimistic for the next decade. While markets will inevitably test our convictions from time to time, we believe a disciplined approach that is grounded in fundamental analysis, prudent valuation, and a willingness to evolve remains the most reliable way to compound capital in the long run.

As we look ahead, we extend our sincere thanks to our clients for their confidence and support throughout the past decade, and we remain fully committed to stewarding your capital with care and discipline.

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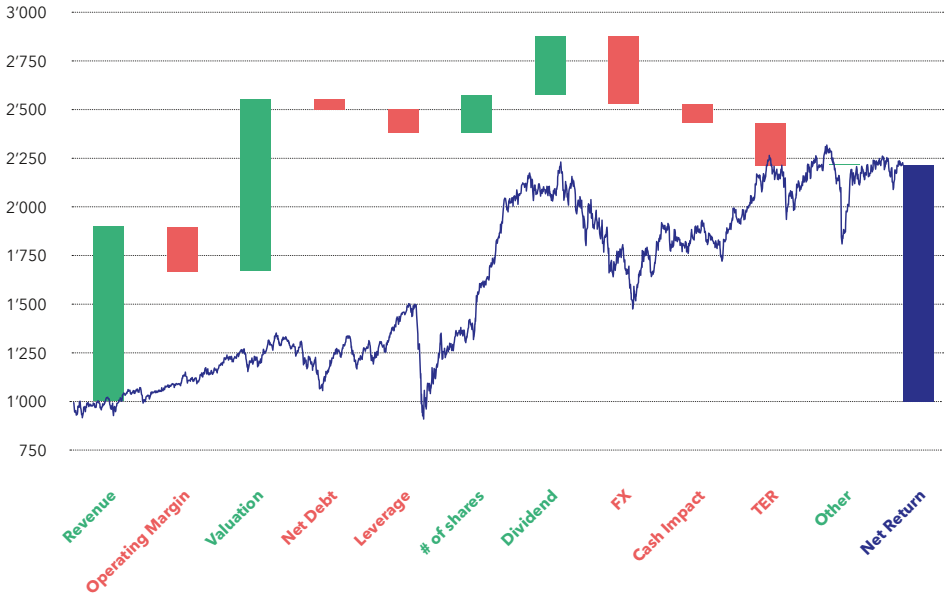

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