

International Alpha Q2 investment update

July 2025

Investment manager Chris Davies gives an update on the International Alpha Strategy covering Q2 2025.

Your capital is at risk. Past performance is not a guide to future returns.

Chris Davies: Welcome to the International Alpha investment update for the second quarter of 2025. I'm Chris Davies, one of the 6 portfolio managers on the strategy.

International markets have been surprisingly resilient despite extreme geopolitical and macroeconomic dislocations this quarter. Since the beginning of April, a fresh round of US trade protectionism has dominated headlines and even prompted talk of the end of globalisation as we know it. Wars continue to smoulder in Ukraine and the Middle East, inflation remains sticky in some places too, and general concerns about Washington's widening fiscal deficit refuse to fade. Markets seesawed from headline to headline, yet by the quarter end international shares had chalked up a strong double-digit advance and, helped by a weaker dollar, outpaced their US counterparts.

But why has there been such a disconnect between gloomy news flow and buoyant prices? Well a weak dollar encourages capital to rotate out of richly valued domestic stocks to cheaper overseas shares, whose foreign earnings also look more attractive. But that's just part of the story. There are winners and losers in every crisis, but it looks likely that one of the emerging winners in this crisis might well be the international companies. International equities offer access to diversification and quality at a more attractive valuation than their US peers. It is also becoming clear that protectionism may not be quite so bad as once believed, so it has a more nuanced impact than perhaps many have suspected. Trade routes won't disappear for example, but they will shift. Businesses that address complexity may benefit. Mission-critical equipment and materials, like semiconductors, will still find ways to get to where demand is.

In this context, companies that able to grow profitably, defend their competitive edge and demonstrate operational resilience and flexibility are being rewarded. These conditions played to the strengths of the International Alpha strategy, given our very deliberate focus on high-quality companies across a diverse range of growth, and we ended the quarter ahead of the index.

These themes are very much evident in the attribution data for the quarter. So among our top contributors to performance – **MercadoLibre** and **Ryanair** – both are demonstrating outstanding operational execution in what is quite a difficult environment. Ryanair, for example, has been miles ahead of peers in hedging its exposure to oil prices, which has benefited the company hugely amidst rising tensions in the Middle East. Both companies are ‘regional champions’, which strengthens their edge against more globally fragile competitors.

Now on the detractors’ side, **Edenred** and **Kaspi.kz** lagged amid macro and regulatory headwinds. Edenred has struggled with talk of merchant fee caps in its vouchers business in Italy, France and Brazil. Yet its growth drivers, namely expansion into other verticals and new customers, remain very much intact. Kaspi, meanwhile, faced higher rates and integration costs related to its Turkish acquisitions, but with revenue still growing close at high double-digits and the shares on a 6.5x price to earnings multiple we continue to believe that the opportunity is fundamentally mispriced.

Now, although we are broadly happy with the portfolio’s current shape and performance – particularly its stability through a volatile market backdrop, we continue to hunt for ideas that can add further diversification and resilience. We believe that exceptional growth companies come in many guises—our so-called shades of growth—and we have been making an effort to focus on those parts of the market where we have perhaps been a bit light historically.

That search has yielded new holdings. **Sandoz**, the generics pharmaceuticals company, has established an edge in low-cost biosimilars, but it is still priced as a commoditised manufacturer. **Unicharm**, the Japanese personal care conglomerate known for selling nappies, adds exposure to rising incomes, demographic change, and premiumisation across Asia. Lastly, **PDD Holdings**, which owns Temu, exemplifies China’s cost innovation model in ecommerce: gaining share by delivering goods at unbeatable prices and gaming the shopping experience for customers, supported by a capital light marketplace structure.

Now, to fund these additions we sold your holdings in **Nidec**, **Nestlé**, **Oxford Nanopore** and **Ambu**. In every case the balance of prospective upside versus valuation had become less compelling after strong runs or periods of poor execution that had broken the investment cases.

Now, looking ahead, we are constructive but we are also realistic. On a recent trip to the Nordics, the tone from many companies I met was pretty mixed. It’s not necessarily the tariffs themselves, but the uncertainty and volatility of the current environment that is starting to have an impact. Orders in some cases are starting to slow, investment decisions are being put on hold, supply chains are being tested. That may mean that earnings growth becomes a bit more unpredictable than usual. So, while short-term drawdowns are possible, the portfolio’s balance sheet strength, pricing power and geographic diversity provide a measure of resilience. Fundamentally, it’s selective stock picking that we think remains our principal defence. The most reliable way to capture opportunities, in a volatile context like this, is to deploy that strategy and that’s very much what we continue do.

Thank you.

International Alpha

Annual past performance to 30 June each year (%)

	2021	2022	2023	2024	2025
International Alpha Composite (gross)	35.5	-34.1	18.4	8.6	19.7
International Alpha Composite (net)	34.7	-34.5	17.7	8.0	19.0
MSCI ACWI ex US Index	36.3	-19.0	13.3	12.2	18.4

Annualised returns to 30 June 2025 (%)

	1 year	5 years	10 years
International Alpha Composite (gross)	19.7	6.6	7.5
International Alpha Composite (net)	19.0	5.9	6.8
MSCI ACWI ex US Index	18.4	10.7	6.6

Source: Revolution, MSCI. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

Past performance is not a guide to future returns.

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