

## **RGI Global Recovery Fund**

**Creating wealth through Recovery investing**

Quarterly report to 31 December 2025

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## Overview

UK and Global Equity markets had a strong quarter and 2025. The rebound from the Trump tariff induced drawdown earlier in the year was particularly strong. Markets benefitted from a supportive combination of falling interest rates, expansionary fiscal policy, robust nominal GDP growth (despite the tariff uncertainty), the maturing of the AI phenomenon into a platform for faster global economic growth, and robust corporate fundamentals.

The performance of my Recovery funds has been robust in absolute terms and versus multi-cap peers over the last quarter, year and longer-term time periods<sup>1</sup>. The key point I think is that both funds have in the past created wealth for clients, annualising at over 10% p.a. over all medium-term time frames<sup>2</sup>.

Traditional value stocks did well in 2025 in most markets, though the US was again led by Growth shares, those with AI exposure most notably. Markets were broader than they have been in terms of regional performance, with US equities less dominant (and impacted by the weak USD). Market liquidity was reluctant to move down into smaller companies, meaning that they lagged badly again, a particular handicap in the UK.

Whilst some parts of global equity markets are now quite ebullient, for example most large cap US stocks look expensive versus history, I would suggest that we are relatively early in the cycle for Rest of the World (ROW) equities, with still modest valuations, supportive monetary and fiscal policy and robust corporate fundamentals (including a new commitment to share buybacks at least on par with US levels). We think a continued bull market in ROW equities are justified, and supportive of high single digit annualised returns over a number of years. US equities have aspects, such as high valuations and higher than normal returns that make you nervous, but clearly the growth fundamentals in the US remain robust.

Two aspects of markets over the recent past have held us back relative to some deep value portfolios. The first is the multi-cap construct of the Recovery portfolios during a period when returns have been concentrated and led by large cap companies, with small cap value and growth both lagging significantly. Markets will broaden to include smaller companies as we move through the cycle, you as investors have that to look forward to. Secondly, and a bit early, we have found a lot of recovery ideas in de-rated structural growers. Our allocation of capital to these has yet to support our returns, but as bond yields follow interest rates on a downward path, we think time will prove us to have been correct buying these types of stocks as they become available on attractive multiples, and indeed they should provide longevity to our absolute and relative returns.

I start this report with a few of my key LinkedIn posts over the last quarter.

<sup>1</sup> Source: Morningstar, as of 31 December 2025. RGI Global Recovery sits in the EAA Fund Global Flex-Cap Equity Morningstar Category; RGI UK Recovery in the EAA Fund UK Flex-Cap Equity Morningstar Category.

<sup>2</sup> Source: River Global Investors LLP, as of 31 December 2025.

## 10 is the magic number?

Over the last couple of years, I have tried to suggest that fund managers are here to create medium term wealth rather than obsess over benchmarks. To me 10% per annum has always seemed to be a sensibly ambitious target, hence my purchase of the reg below several decades ago (and, at last snow in Hampshire!).



Source: Hugh Sergeant

Nothing is guaranteed, the value of investments can go down as well as up, but giving compounding the time and space to do its job can have significant effects for those building wealth to help finance their pre and post-retirement lifestyles. Isn't this what it's all about? Allowing the eighth wonder of the world to work its magic?

To me, the world surrounding investing made mistakes when wealth creation, or making money, became a dirty word. Whilst risk management is certainly important for any investment strategy, its recent over prioritisation, and the subsequent derisking, has at times made it a lot harder to create wealth. The worst example of this is DB pension schemes, which could have had assets worth many multiples of UK GDP if they had been left alone to compound.

As for my Recovery Funds, all I do day-in-day-out is, in a systematic fashion, invest in multi-cap recovery ideas all around the world. Simple! Fortunately, this has delivered 10% plus p.a. over all wealth creating time periods, including from the launch of my Fund's at RGI, and the start of my professional investing career in 1992. As I get older it seems even more sensible to stick to an investing approach that I know well and suits my DNA. Some years I will do better than the benchmark, others I will lag, but if clients know what I'm doing and it's creating wealth for them then I hope that's what matters for everyone.

## All this talk of bubbles... I'm not sure we are there yet!

To me the current investing world is about rotating waves of often passive driven liquidity. If you are an investment that fits a current theme, then capital pours in and up goes your price until full valuations are reached. Beneficiaries over the last year have been an eclectic mix of AI related, precious metals, banks, defence and Asian value up stocks.

But closer to home can anyone seriously argue that the UK has bubble-like characteristics? More like an anti-bubble. Still almost no IPOs, 4 years of heavy outflows from UK equities, no price discovery in many shares, popular funds from the last bull market having shrunk in size and forced sellers of their now very cheap quality compounders, and then there is the economic doom and gloom which is reflected in a stagnant housing market and a high savings ratio. Please point out the bubble here!

UK equity markets are keeping up with the rest, but not because of buoyant sentiment, but because valuations of the mega cap stocks such as banks became so cheap a few years ago and because their fundamentals are decent and because they keep buying in all the shares that UK based investment allocators love to sell.

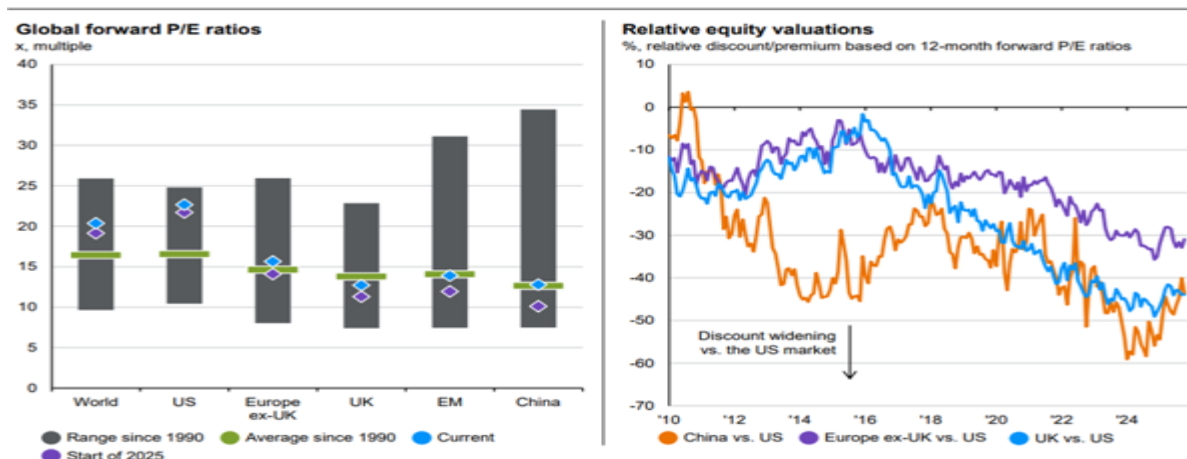
So, from my perspective we still have a UK equities bull market and a bubble to look forward to. And to me the place to look for baggers is not the now popular banks and mining stocks it's in the most anti-bubble parts of the market, small, mid and micro-cap stocks, including a deeply unpopular mix of domestic and consumer cyclicals and all those forced selling quality-compounders held by previously popular investment strategies.

The bottom line is that, in our opinion, there remains a huge anomaly-hunting opportunity set in the UK to be exploited and to help make it a Happy New Year!

## The rest of the world opportunity

Here it is. If you are worried about bubbles, then focus on the US or AI related stocks at the top of their valuation range. Meanwhile there remains plenty of value to be had elsewhere around the world, all trading cheap versus the US and in line or below their long-term average valuation. We are positioned according to this relative value, and last year it started to work.

### Global forward PE Ratios versus history and Global Relative Equity Valuations

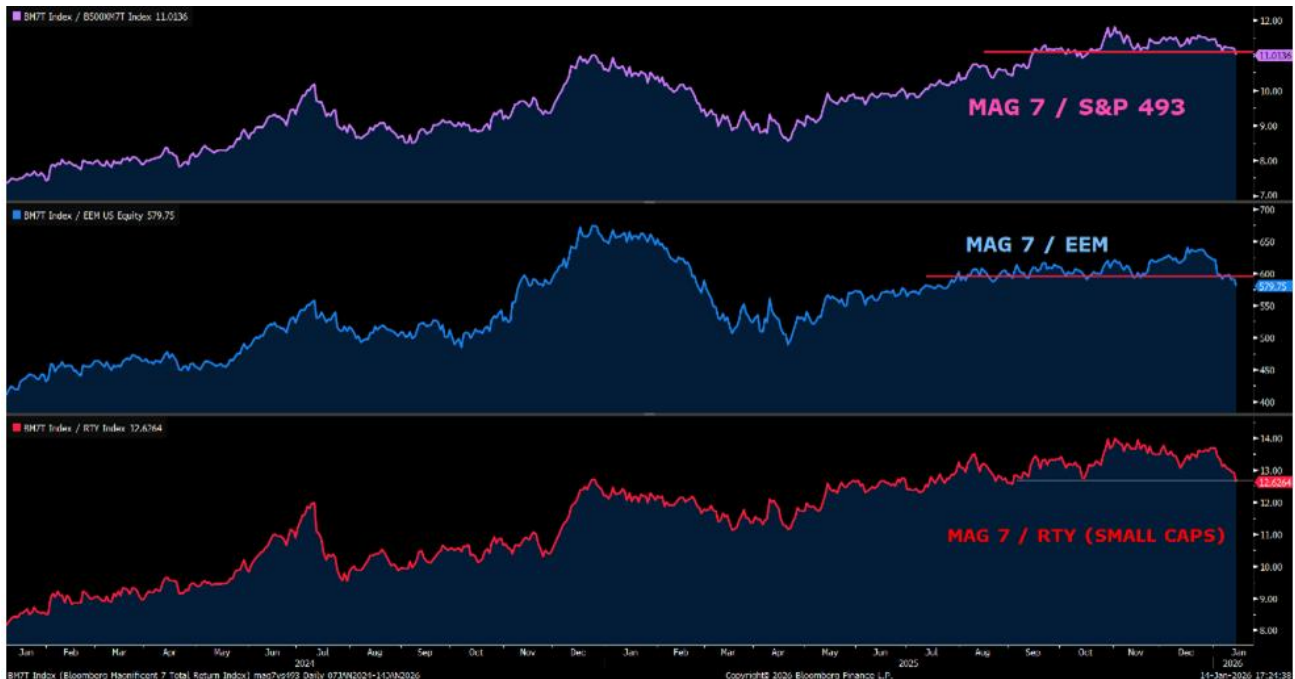


Source: JP Morgan Guide to the Markets, Q4 2025, 30 September 2025

## Global Markets are starting to broaden

Our genuinely global, multi cap stock picking works best when equity markets are broadening rather than like the last ten years during which US mega cap growth or quality dominated a period of strong but narrow returns.

It is good to see the first clear evidence of this broadening actually happening, the charts below showing the US MAG 7 peaking versus the rest of the S&P, versus Emerging Markets and versus Small Cap:



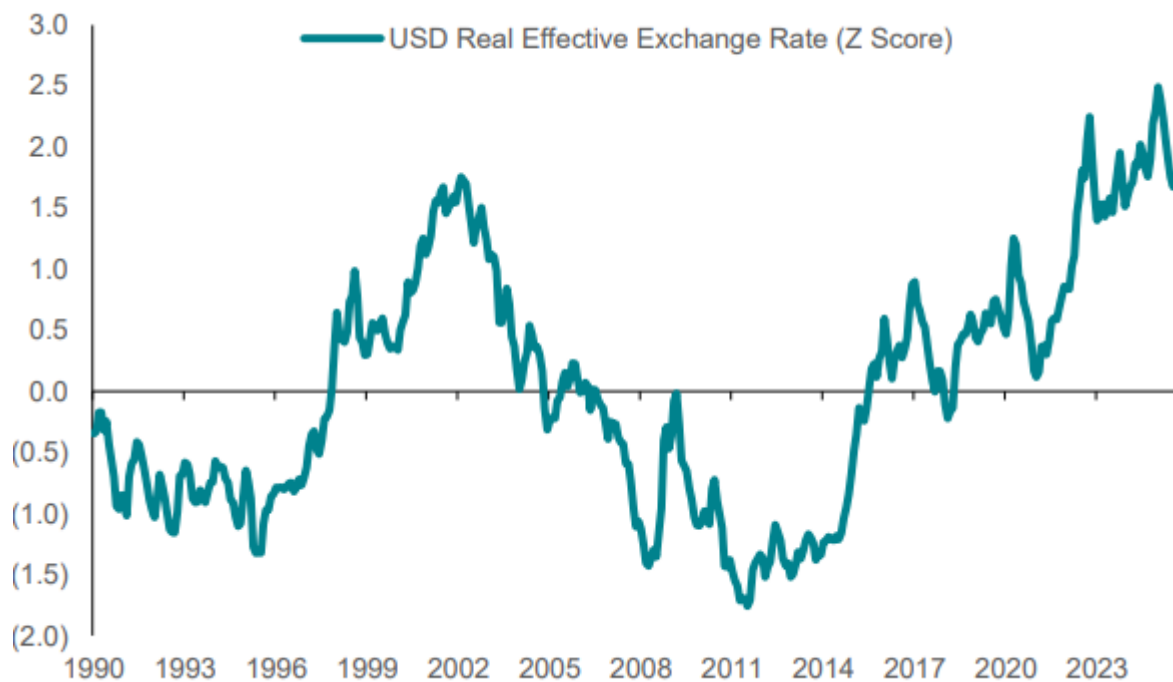
Source: CLSA, Marc Saliba morning note 15<sup>th</sup> January 2026

## Economic and Corporate Outlook

Interest rates remain on a downward trend globally, fiscal policies are supportive, Trump II is better understood and has had a number of wins to back up his rhetoric, all this is supportive of global economic growth at least matching quite cautious expectations. Meanwhile much of the corporate sector is in good health, apart from those sectors that have struggled to pass on policy induced cost increases (US tariffs, UK National Insurance), and any companies that are close to the prodigious investment in AI scaling are having a wonderful (short term peak?) time.

Regarding FX, it seems that the USD could potentially continue to gently weaken from here, with the Real Effective Exchange Rate still being high versus history, and Trump and Bessent policy being comfortable with a cheaper USD.

## USD Real Effective Exchange Rate



Source: BNP Exane

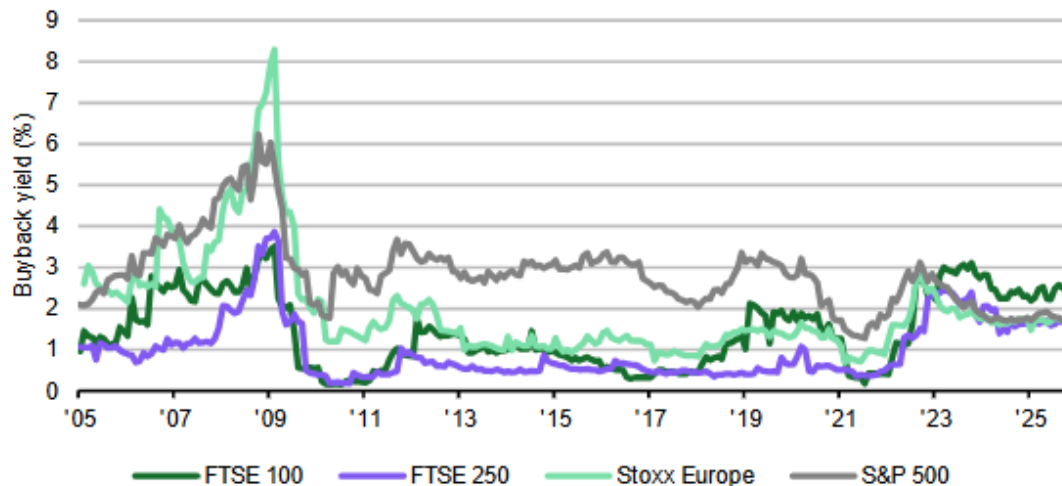
## Could deflationary forces be picking up?

Last quarter I talked about the buying opportunity in long term government debt, UK gilts in particular. Here yields may well have already peaked. We appear to be moving past the government policy induced spike in inflation, and the opportunity to push costs onto business appears weaker (for example publicans are in open revolt, quite right!). Increasing unemployment in the UK is deflationary, as is a strengthening GBP, deflation being exported from China, a peaking in green subsidies, a US President who is intent on keeping oil prices down, and then there is the still to come impact of AI. All this is starting to point towards a potential return to more subdued inflation, which would in turn be supportive of UK and Global interest rate cuts and lower bond yields.

## Corporate Fundamentals – Cashflow and returns and valuations

The fundamentals of corporates have been strong over the last few years. And, with strong free cash flows and modest valuations many companies around the world have added a stronger arrow to their shareholder value bow by buying in 2% to 3% of their equity over the last few years, moving ahead of the shareholder value friendly US. This has helped offset some of the resolute selling of non-US shares by investing institutions.

## Buyback Yields – UK, EU, US

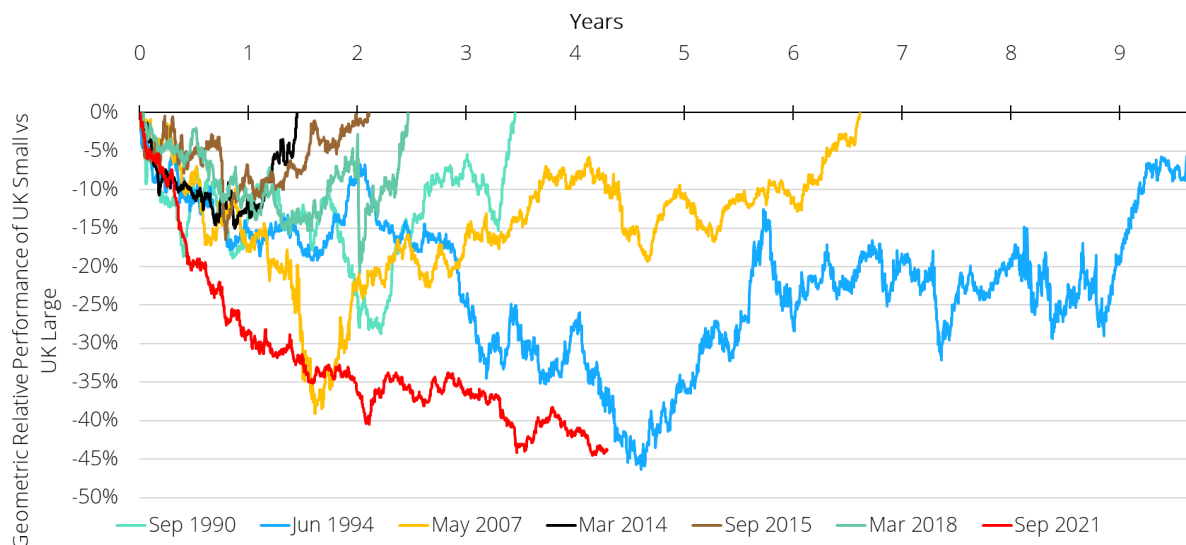


Source: Panmure Liberum, end 2025

## Equity markets have been strong – but there are lots of parts of the market that have lagged and are due a catch-up, especially small and micro-cap UK equities

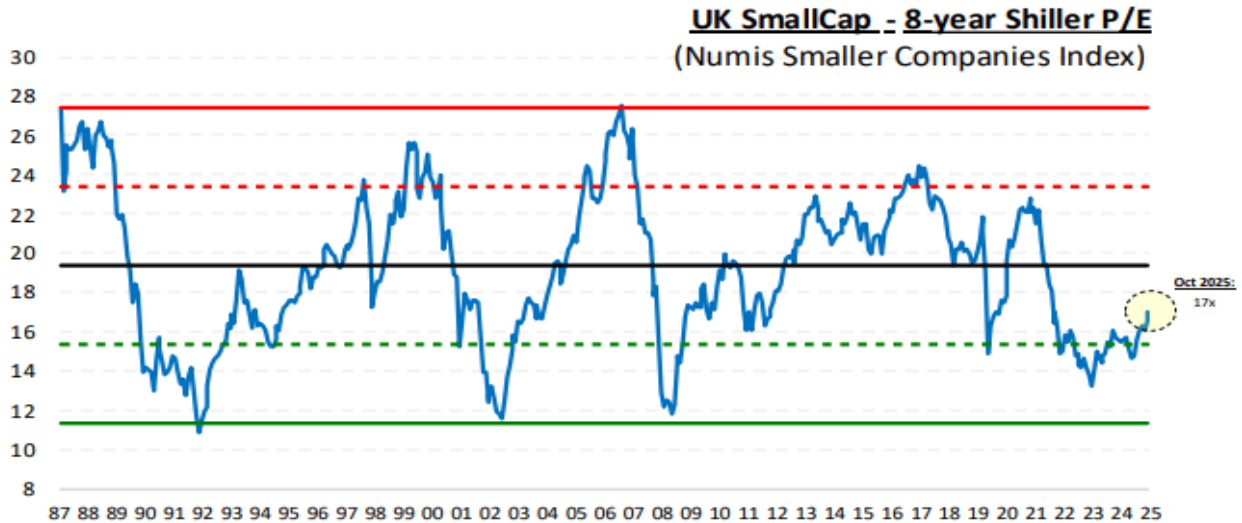
There has been relentless selling of smaller companies around the world over the last few years, as capital has chased larger cap momentum, especially via passive funds. In the UK this selling has been extreme, with UK institutions selling their home market and small, mid and micro-cap bearing the brunt of this, especially as UK large cap at least found support from non-UK investors. The result has been the biggest relative bear market in UK smaller companies in my investing career.

## Relative Drawdowns in UK Small vs Large Performance Since 1990



Source: Bloomberg LP, River Global Investors LLP, data as of 31 December 2025.

This has caused a significant de-rating of UK SMID and micro-cap stocks at a time when many other equity markets have seen a re-rating, below showing the UK SmallCap Shiller PE (the multiple of earnings smoothed over rolling 8-year periods), which compares with the peak Shiller PE seen for the US equity market.

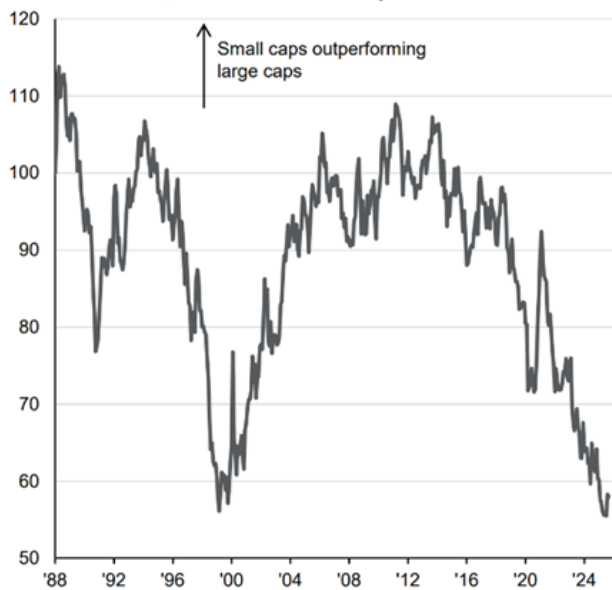


Source: Montanaro Asset Management, 2025 letter from Charles Montanaro

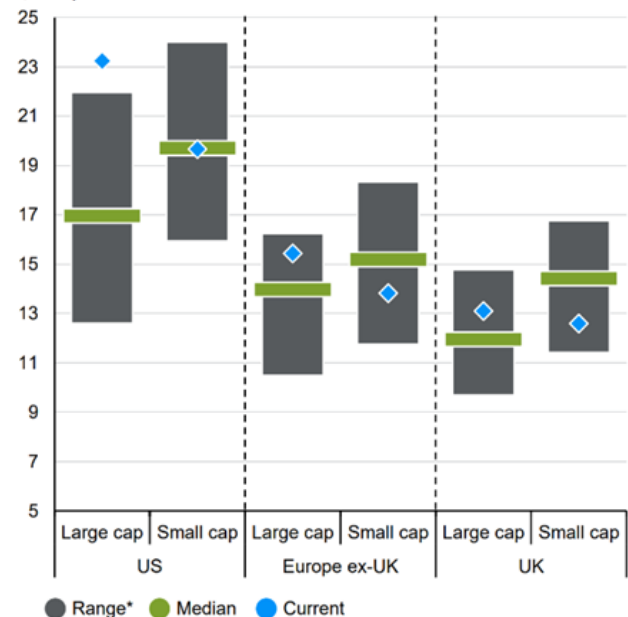
And this is very much a global phenomenon, that the Recovery funds are exploiting, with smaller companies cheap relative to their history (and large caps) all around the world:

### Not just about the UK

**Relative performance of US small caps vs. large caps**  
Relative total return, rebased to 100 in January 1988



**Regional large and small cap forward P/E ratios**  
x, multiple



Source: River Global, JP Morgan Guide to the Markets, Q4 2025, 30 September 2025.

## And the biggest catch-up play is...

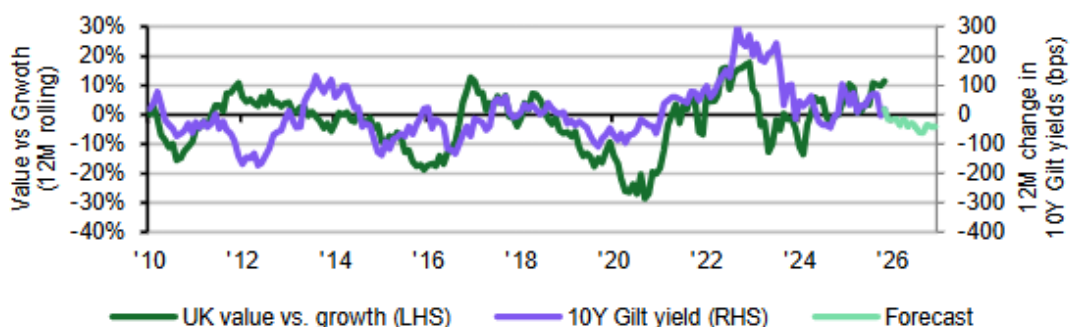
I do like to look around at my peer fund managers, especially those who were seen as best of breed a few years ago but who have subsequently run into a barren patch. They should have market beating skills (or got lucky, a key question) otherwise why would they have been able to generate the performance that the led fund buyers to love them? And if they have run into a barren patch then it is likely that the factors they exploit are out of favour and perhaps providing opportunities for recovery investors like me. And quite often these once highflyers are invested in a set of stocks that are unfashionable today, likely valued cheaply versus their history, and a good place for anomaly hunting. So, a few years ago, I became interested in long duration tech investors. Likewise, China 'growth investors' and, of course, deep value managers.

There has been much discussion in the press recently on the recent underperformance of some of some of the most popular managers in the United Kingdom. What do they have in common? Many of these "big beasts" liked non-tech quality compounders. They were all loved by fund buyers a few years ago. They all witnessed big flows into their funds, peaking in 2021. The result was that the types of stocks they invested in were bid up by weight of money and became expensive. Then the music stopped. Flows dried up. The fundamentals of many of their stocks rolled over, not great when expectations and valuations were high. Performance started to deteriorate, and then outflows from UK equities started to accelerate, with selling pressure particularly focused on these previously hot strategies.

Fast forward to today, outflows have continued unabated, but the story has changed in two respects: i) these strategies are criticised, no longer seen as best of breed (note recent coverage in the broadsheets) and ii) the valuations of their types of stock have fallen significantly. And herein lies the opportunity... Many quality compounders, especially smaller cap ones, have become attractively valued, and often because short term fundamentals have been weak, they are not earning peak returns. So attractive valuations, depressed returns, exhausted selling pressure, and business franchises that are good quality and intact, all this is an attractive hunting ground. Many of these types of stocks have found their way into the Recovery portfolio, such as Novo Nordisk, LVMH, Diageo, ASML, Salesforce, ARM, Estee Lauder, and Kweichow Moutai.

And what is the catalyst for compounders to do better? Bond yields starting to fall, for example in the UK:

### UK value vs growth driven mostly by yield movements



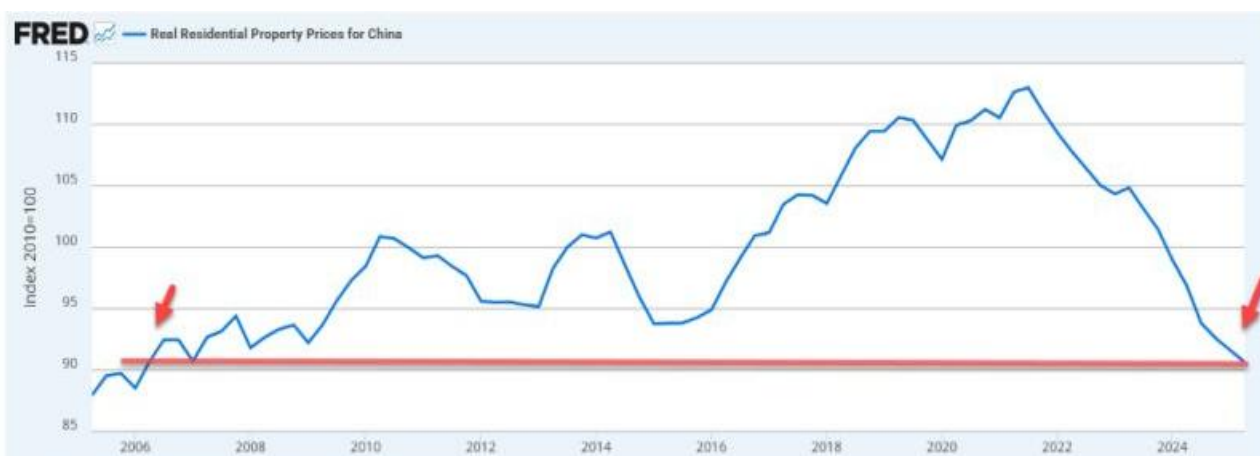
Source: Panmure Liberum, 31<sup>st</sup> December 2025.

## China Real Estate Boom and Bust – a classic deep recovery opportunity

I am conscious that my posts have been pretty UK centric recently, so given that I wear both a UK and Global Recovery hat here is a non-UK chart to warm the cockles of any recovery investors heart. It shows the real price of China residential property, a 20 year boom and bust so that real prices have now retraced all the way back to the level in 2006. The result has been a depressed stock market and economy (even after this year's rally) as consumers save to offset the fall in real estate prices. And a big de-rating of all the consumer facing stocks in China, from Alibaba to Kweichow Moutai and Anta Sports, and of course China facing companies in developed markets, such as Remy and LVMH.

Whilst one will have to be patient, as the Chinese residential market will not repair overnight, the wait should be worth it as some of the best returns to equity investors have been delivered as economies come out of Real Estate boom and busts, a clear recent example being US equities after the GFC. We are overweight classic recovery stocks in China, such as Alibaba, China Lesso (plastic pipes, global No. 1), Anhui Conch Cement and China Overseas Grand Oceans (well financed housebuilder).

### China Real Residential Property Prices



Source: FRED / Bank for International Settlements, Q4 2025.

### The Investment approach for my Funds

Since we launched the Recovery strategies almost eighteen years ago, I have followed the same approach. I invest in companies with **Potential, Valuation and Timing** and have a strong portfolio construction commitment to attractively valued companies, to good businesses with recovery potential, to multi-cap investment opportunities, to being interested in structural growth when it is temporarily unpopular and to getting most interested in an investment when it is out-of-favour, but where the fundamentals should be on the turn and other investors are starting to get interested. This investment approach is repeated day-in and day-out, aided by systematic screening. I try to stick to our approach during the difficult times so that we nearly always participate when there is a following wind for our factors. The Recovery strategies are

unconstrained and focused on medium to long term wealth creation with the majority of capital applied to recovery type stocks. I have always had more stocks than most portfolios, believing that gradually applying capital to new Value and Recovery ideas makes more sense than a rifle shot approach.

Regarding performance we are most interested in creating wealth over the medium term, and reference performance against the MSCI UK IMI (UK Recovery) or MSCI ACWI (Global Recovery) and our multi-cap peers.

## The use of AI

We are all using AI more and more in our daily lives. My approach to investment, ideas rich, use of quants, concise rather than deep dive research, lends itself to using AI as a very helpful productivity tool. This is now being applied, useful for efficient interrogation of new ideas, for building the recovery PVT thesis, and most definitely for sustainability SPVT scoring. I would estimate an increase in process productivity of close to 50%.

The AI Equity Investment Opportunity – for Recovery Investors!

I suppose it's a tough one for Recovery investors... being, by definition, underweight large cap growth technology. Like the emergence of the digital economy at the turn of the millennium it is clear that AI is going to be transformational, indeed nearly all of us have already adopted it in our daily personal and business lives, and it is getting better very quickly. But, like all technology cycles there will be periods of hype and over-valuation of plays on the theme, and times when there is disappointment, de-ratings and an opportunity for more value oriented investors such as ourselves. This is how we will play it, and that has included recently having significant AI exposure in our cheap China digital platforms (**Alibaba**), SOTP cheap way in's (**Softbank**), and semiconductor related stocks that had become cheap because of weakness in the non-AI related parts of the portfolio (**Samsung, ASML**).

## We are just at the beginning of the life cycle of equity investing

At the time of the 1920's Wall Street crash only 2% of the adult population in the US owned shares. By the 1950's this had increased to 10%. It was only really with the development of mutual funds and corporate and retail investment wrappers that direct and indirect equity investing became common. This is a young industry. And it is very innovative. Equity has been packaged up in different ways, public, private, mutual funds (active and passive), ETFs, and digitised. And it has been distributed in different ways, with digital platforms now taking over from more traditional ones. And because the equity ecosystem has gone digital it is very democratic, available to everyone with any savings, with vehicles that cover nearly every type of investment idea, and fundamental and quantitative data available to support ideas. And it's cheap, fee margins now well below 1% p.a.

And the great thing about all of the above is that so many more people can benefit from the wealth creation provided by equity investing. Over 70% of UK adults have savings, and some of this should be in equity investments so that they benefit from the wonder of compound returns,

which acts far more powerfully for wealth than for incomes. For a number of reasons equity gives you a geared exposure to nominal GDP growth, because companies grow faster than local GDP, because they have leverage, because they use their cash flow productively including buying in equity, because they innovate and provide exposure to growth themes, because the weak are replaced by the strong, because they are private enterprises not public sector, and most powerfully because they compound. Of course there is a big downside, the regular drawdowns that equities suffer from. There is no getting around this short-term risk, but it is hugely offset by the medium to long term wealth creation benefits.

For all the above reasons we need a lot more of the TAM (available market) of investors to actually invest in equities. So that a majority of the population benefit from wealth compounding at a faster rate than their incomes and liabilities. So that they add diversity to their housing investment. So that the politics of envy is replaced by the politics of opportunity and that wealth is seen as a good thing. And so that more capital is available to support our equities, and the companies, people and innovation that lies behind them.

## Performance

### Market Background

Global equity markets were strong in Q4 2025 (MSCI ACWI +3.4% in USD, +3.4% in GBP). Markets were buoyed by interest rate cuts, an improving economic outlook, rapid growth of AI users and investment, and supportive liquidity. Rest of the world was broadly stronger than the US, for example MSCI Europe added +6.3% in EUR. Emerging markets also had another robust quarter, MSCI EM +4.9% in GBP. Over the quarter, MSCI ACWI Growth returned +2.9% compared to MSCI ACWI Value +3.8%.

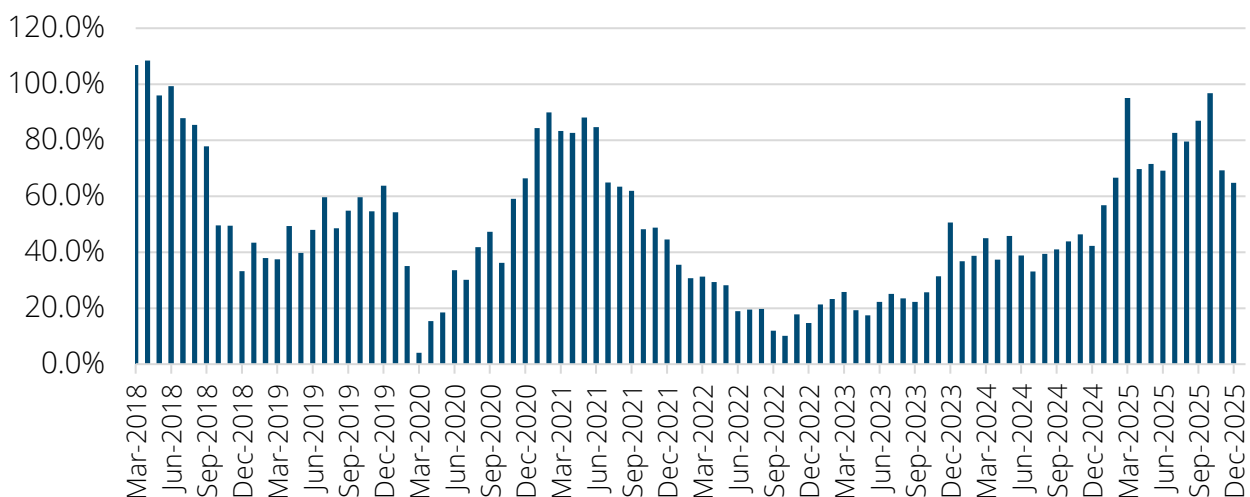
Government bonds rallied a bit, including UK Gilts. Commodity prices continue to broadly go up in price, with precious metals as stand outs, gold and silver both strong, with platinum also participating. Oil prices were well behaved. In contrast, bitcoin had quite a severe drawdown.

All equity markets were robust over 2025. MSCI ACWI returned +14.2% in GBP (+22.6% in USD), MSCI UK IMI +24.5% (up 33.8% in USD!), MSCI EM +34.4% in USD.

### Performance – A longer term narrative

Amidst all the noise about active vs. passive, the endless amount of relatively short-term performance data, and the enduring regulatory focus on value for money I think the key objective of investing is forgotten, namely to create wealth and, by so-doing, enable individuals and their dependents to live as comfortably as possible, before retirement, when they are pensioners, and when they leave money to their dependents.

## 5-year rolling returns, RGI Global Recovery B shares



Source: Morningstar, data to end December 2025. Past performance is not a guide to future performance.

## Performance Background – recent and since inception

The performance of our key factors, namely Value, Recovery and Multi-Cap were all broadly OK. Value continues to struggle in the US, but it is doing better elsewhere.

Our key investment exposures since inception have been Value, Recovery, Multi-Cap and offering a genuinely global (rather than US) portfolio. All of these ‘factors’ have acted as a headwind versus a global benchmark dominated for much of this time by large cap US growth or quality compounders. We have been able to hang-in there over this period, and hopefully you can now reap the rewards as our key exposures act as tailwinds.

## Fund Performance

I am actually pleased with performance over most time periods. It is strong in absolute and relative terms over the last year, and during the anti-value, anti-small cap, and anti-regional diversification years, during which many multi cap and value managers struggled we performed well from an absolute return perspective and reasonably versus the benchmark. 2025 was the first somewhat ‘broader’ year for sometime, and this was a key factor that allowed us to do well – our great stock picking was actually supported by having a broader regional allocation, rather than detracting. We just need small cap to do better now!

Last quarter the RGI Global Recovery Fund returned +4.2% (gross of fees, Z share class) and +4.0% (net of fees, B share class) compared to the MSCI ACWI return of +3.4%<sup>3</sup>. Over 1 year the Fund returned +21.1% (Z share class) and +19.8% (B share class) versus the benchmark return of +13.9%<sup>1</sup>.

<sup>3</sup> Source: River Global Investors LLP. Fund performance is calculated using midday published prices, benchmark performance is calculated using close of business mid-market prices.

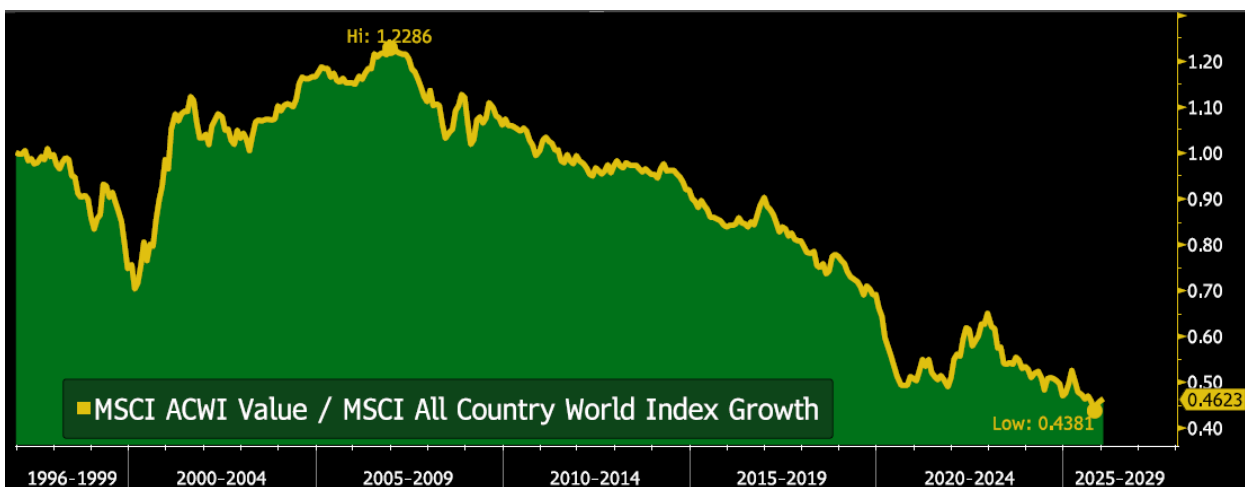
Our longer-term returns (3 years and longer), versus benchmark and other Global multi-cap managers remain robust. Since inception in 2013, the RGI Global Recovery Fund has returned +12.1% p.a. (Z share class) and +11.0% (B share class) compared to the benchmark return of 11.5% p.a.<sup>1</sup>.

**Positive contributors during the quarter:** the global market has been broader this year, supporting our performance, and this continued into the 4<sup>th</sup> quarter with EU and EM outperforming the US; underweight **Microsoft** and **Nvidia**; individual stock successes, notably a number of recovery stocks delivering and beating expectations (**Victoria's Secret, Filtronic, Globus Medical, Titan Cement**); M&A (**AllFunds**).

**Negative contributors:** main drag was small and micro-cap stocks lagging again, with positive stock selection across sizes but size allocation negative; also consumer stocks underperformed, closely correlated with small cap; underweight several large cap stocks (**Eli Lilly**); **Alibaba** pull back; individual stock disappointments (**Fiserv**).

## Fund Positioning and Activity

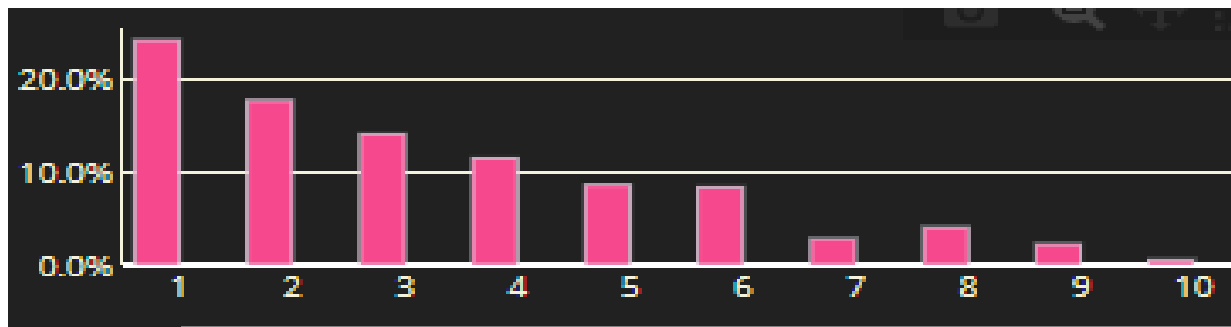
We continue to position the portfolio for Value, Recovery, Multi-Cap investing, and for out-of-favour structural growers. The opportunity set in these areas remains significant, with these factors still at a supportive point in the cycle, including global value:



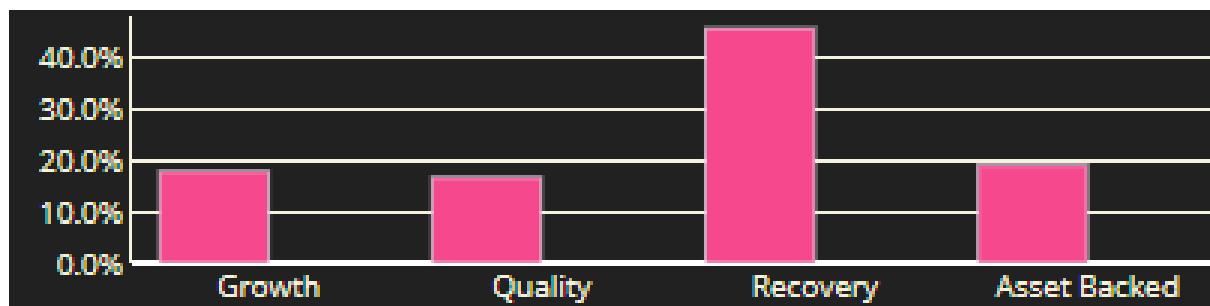
Source: Bloomberg Finance LP, Data to end December 2025.

The portfolio's value characteristics remain attractive; our shares are reasonably valued, the portfolio trades on 14.7x PE, only 1.4x sales, 1.7x price to book, and 8.6x price to cash flow<sup>4</sup>. There is a robust multi-cap bias. As you would expect our investments continue to reflect high scoring PVT stocks, as shown below the Global Recovery Fund skew to MoneyPenny deciles:

<sup>4</sup> Source: Morningstar, as of 31 December 2025.



And we continue to have the largest weighting in Recovery category stocks, which together with Asset Backed make up over 60% of the portfolio.



Source: River Global Investors, Data to 31 December 2025.

There remain very many opportunities. As the market starts to reward a broader and genuinely global approach to stock picking we have gained confidence in seeking out recovery anomalies all around the world, finding quite a few new ideas.

Below I continue to split anomalies by the type of opportunity, which remain diverse:

- Traditional Value, very cheap and starting to grow as the cycle becomes more supportive; including **Lloyds** and **Citigroup** on PEs of less than 12x and generating strong free capital; likewise **Kyoto Financial**, which is performing well but still lowly valued and high scoring in MoneyPenny; **Anglo American** whose copper assets remain undervalued, **Harbour Energy** which trades on a low single digit multiple of gross cash flow and seems to be completely overlooked (no price discovery); the **Pru**, which has rallied robustly from the lows but continues to lag the recovery in its China exposed peers; recently we have built a position in **Vodafone**, where news flow has started to improve, **Vodacom** is a strongly growing asset and the shares trade at a big discount to a growing sum of the parts valuation; in South Korea there remain a number of lowly valued conglomerates, including **LG Corp** and **SK Corp** on price to books of 0.5x despite Korea implementing a value-up program such as in Japan; and **Weyerhaeuser**, the largest private forestry owner in the US which has been trading at a big discount to the resale value of its land with its timber operating companies thrown in for free.
- We have been too early into beaten up domestic stocks around the world, but after another year of poor performance they include many stocks on stand out valuations, too many to name but include housebuilders, such as **Berkeley Homes** in the UK, **Wienerberger** (bricks) in Europe, **Target** (large format retail), **Lululemon**, **Nike** and **Winnebago** in the US, **Shiseido** (cosmetics) in Japan, and **Kweichou Moutai** (leading high end domestic spirits) and **Li Ning** (leading local sports brand) in China.

- Within the commodity space we think that UK E&Ps are amazing value, **Harbour** mentioned above, but also **Enquest** and **Serica**. Like defence and gold stocks a few years ago they seem to have been deemed uninvestable by the market due to their small size and the Government's strange approach to the North Sea. This has left them looking stand out value, hugely geared into any upside surprise from oil prices. We have bought back into **Exxon**, with the oil price bottoming out. Also, within commodities, the large or thematic mining stocks have done well but those which are smaller and less easy to incorporate into ETFs have been left behind, including **South32**, **Ferrexpo**, **Ferroglobe**, **Albemarle** and **Freeport** (which moved from Sustainability tier S4 to S3, as they took clear action following the Grasberg mudslide). We added capital to these before the recent rally.
- We have been increasing our exposure to below the bottom-of-the-cycle valued staffing companies, which have never been cheaper as they have had to deal with both a collapse in the cycle but also AI disintermediation worries. The result is exceptional value, and share prices that need very little improving news to respond. We have added to **Adecco** and purchased **Manpower**.
- Many industrials and chemical stocks are on modest valuations and have had both de-stocking and tariff uncertainty to cope with, alongside excess capacity in some areas. Our preference is for the stocks with improving Timing, such as **3M**, **Rentokil**, **Fanuc** and **SKF**, but other historically high quality names are so beaten up that it makes sense to have increased exposure (**Daikin**, **Mondi**) and also some more commodity producers (**Dow Chemical**, **BASF**).
- We have moved overweight the beaten-up healthcare sector, both the high returning but slower growing established pharma companies, including **Roche**, **Pfizer** and most recently **Novo Nordisk** and **Bayer** (both examples of value with improving timing), and the lower return on capital, but exciting growth potential, biotech stocks (many of these have fallen 75% plus, despite this area being almost as revolutionary as AI), this including **Moderna** (vaccine technology, top decile recovery), **Illumina** and **Oxford Nanopore** (genomic analysis) a top decile Money Penny Recovery stock..
- We have been adding to the bottom of the cycle, with Timing improving luxury stocks, with a focus on the industry leader **LVMH**, but also starting a position in **Kering**. It looks like the demand cycle for luxury is bottoming out, that fashion is moving back to being a bit more blingy, plus a lot of self-help at the companies that have struggled in the short term.
- Real Estate stocks in many markets are stand-out cheap, including **Shaftesbury Capital** in the UK and **HongKong Land**, both trading at 30% plus discounts to NAV and with self-help strategies. We have also been building up exposure to China property plays, after a torrid down cycle, but now with signs of stabilization (**China Overseas Grand Oceans**).
- We continue to apply capital to out-of-favour technology leaders and digital platforms, buying a position in the de-rated **ARM** (global leading semi IP royalty stream) and **Aixtron** (semi equipment, leader in compound semi layering), topping up **BYD** (global leading EV car and battery technology) earlier in the quarter after weakness, adding to **iQiyi** (China leading video streaming platform), the latter on only 1x sales, and building the position in **Reliance Industries**, after a de-rating of Indian equities made this conglomerate with an amazing position in the digital economy and emerging AI infrastructure become available on an attractive valuation. The Chinese internet stocks we have held patiently, such as **Alibaba** have

started to perform well, are well exposed to some key growth themes, such as AI and Cloud, remain modestly valued and high scoring in our Money Penny Recovery screen.

- We like autonomous vehicle plays, a part of the growth ecosystem that is relatively undiscovered, including a number of recovery stocks, such as **Baidu** (proven operator in China, partnering with UBER outside) and **PonyAI** (China HQ, leading AV technology).
- We have a number of stocks in areas that would best be described as special situations. We like IP plays when they are undiscovered / modestly valued, which would include **Disney**, **Toei Animation** (Anime, leading publisher) and buying back **Nintendo** after a 40% correction, sports franchises (**MANU**, **Madison Square Sports**, owner of the Knicks). We also like hidden value which would include **Hutchison Ports**, where the land associated with its HK port is worth multiples of the current equity value. We have also bought back into **Exor**, the Fiat family vehicle, which is again trading very cheap versus the sum of its holdings (that include Ferrari). We have been building up the position in **SES**, a leading European satellite operator, with a strategic role in defence communication and consumer bandwidth that is becoming increasingly valuable as the emergence of Starlink has re-invented the commercials of this industry. Lastly, we are exploiting the bear market in crypto assets by buying a position in **Strategy Inc**, a leading bitcoin treasury company that is down 65% from its peak and trading at a discount to the value of its crypto holdings.
- Sales have included taking full profits where our PVT thesis has been delivered, most notably the continued recipients of M&A activity (**Allfunds**), reducing (**Alphabet**, **AMD**, **Filtronic**, **Barrick**, **Valterra**, **Carnival**, **Siemens Energy**, **Rolls Royce**, **Micron**, **UiPath**, **Titan Cement**, **JP Morgan** and **Spotify**) or looking to exiting (**McKesson**) into relative strength, and re-focusing capital towards higher conviction ideas (**NIO**).

## Outlook

Whilst some parts of global equity markets are now quite ebullient, for example most large cap US stocks look expensive versus history, I would suggest that we are relatively early in the cycle for Rest of the World equities, with still modest valuations, supportive monetary and fiscal policy and robust corporate fundamentals (including a new commitment to share buybacks at least on par with US levels). We think a continued bull market in ROW equities is justified, and supportive of high single digit annualised returns over a number of years.

My on-going optimism is based on the following key building blocks: 1) Valuations of the markets we focus on remain sensible; 2) the Economic and Corporate fundamentals Globally are reasonably robust and improving, with falling interest rates and supportive fiscal and other policies and AI related spending carrying on apace; and 3) the stock picking opportunity set remains very large, with most of our anomalies now showing improving fundamentals and share price technicals, so the time is right.

The Global Recovery fund continues to offer existing and potential clients clear exposure to a genuine global portfolio (not a proxy for US equities), many amazing classic recovery stocks, good companies that are temporarily down on their luck, a lot more value than the benchmark, and

exciting exposure to small and mid-cap stocks just as they emerge from many years of relative underperformance.

We are clearly offering something quite different from the US expensive stock centric benchmark, and this approach is just starting to out-perform.

Vamos!

Thank you,

**Hugh**

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