FIVE-YEAR ANNIVERSARY

5

TRUST IN A STYLE TO LAST THROUGH THE AGES

INTRODUCTION

At the end of March 2020, a new portfolio management team took on Edinburgh Investment Trust ('The Company'). This came at one of the most challenging times in modern history with the world having recently entered the first lockdowns under Covid-19.

From this inauspicious start, however, we are delighted with how the team has navigated the past five years. This period has not only included the pandemic, but also rapidly rising inflation and then interest rates, the Russian invasion of Ukraine, the cost of living crisis, the rise of the technology mega caps in the US and the return of Donald Trump to the White House, along with tariffs and market volatility.

FLEXIBLE SUCCESS

This successful navigation has been possible because of the flexible investment process that is being applied to the Company by Imran Sattar, Portfolio Manager, and Emily Barnard, Deputy Portfolio Manager. Imran and Emily do not have dogmatic style biases, such as growth or value, in seeking to deliver an attractive total return. This, allied to their focus on in-depth stock research, enables the portfolio managers to perform through different economic and market cycles.

The team's investment process has underpinned strong investment results over the period. The share price has risen by a cumulative 112.7% over five years to 31 March 2025 compared to 76.5% for the index. The net asset value of the Company has risen 103.9% over the same period.

ANNIVERSARY

It is my pleasure to introduce this anniversary document celebrating the last five years of Edinburgh Investment Trust. This is a great opportunity to reflect on the recent progress of the Company under the new management team. This review includes:

- The strong performance of the Company and what has driven the returns over the past five years
- The portfolio managers and a quick-fire Q&A with each of them
- A year-by-year review of the past five years in the words of Imran and Emily
- Analyst Tom Gilbey examines one way in which the investment process seeks to identify valuation anomalies
- The flexible investment process
- The outlook for the Company

SHAREHOLDER ENGAGEMENT

At the start of this five-year period, as a result of the pandemic, we faced many difficulties in arranging in-person meetings. Attendance at the Company's Annual General Meeting (AGM) was rather muted until shareholders began to attend in better numbers from 2022 onwards. This year we are looking forward to another strong turnout: the AGM will take place in Edinburgh on Tuesday 22 July 2025 and I encourage shareholders to look out for more details on the Company's website nearer the time.

For shareholders based in the south of England, we will also hold our usual investor update in central London on Wednesday 8 October 2025 and again details will be announced nearer the time.

Please visit the Edinburgh Investment Trust website or follow us on LinkedIn to see the latest views and insights of the portfolio managers:

www.edinburgh-investment-trust.co.uk

https://uk.linkedin.com/company/edinburgh-investment-trust-plc

LOOK FORWARD

We must assume that the next five years will be as "interesting" as those we have just lived through. Along with the other members of the Board and the portfolio managers, we are focused on ensuring that the next five years can be similarly successful for shareholders.

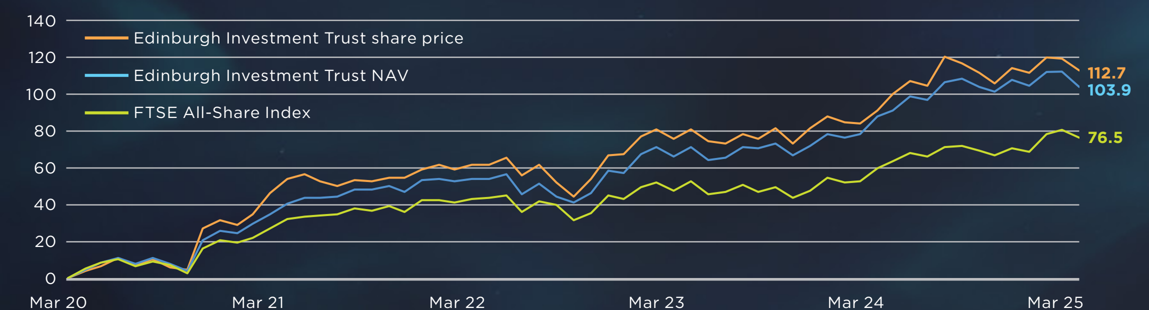
I would like to thank shareholders for their ongoing support of the Company, and as ever we welcome your views and feedback on every aspect of Edinburgh Investment Trust's operations.

Elisabeth Stheeman
Chair | Edinburgh Investment Trust

FIVE YEARS IN NUMBERS

- With an increasingly long and therefore meaningful track record, we are encouraged by the growth of the Company's NAV relative to the index: outperformance of 3.3% per year. Performance is also ahead of the index over three and five-year periods.
- Under the management of the Global Fundamental team, these results have been delivered through the consistent application of their flexible, 'bottom-up', total return investment process. The absolute return is unusually high (i.e. a NAV return of 15.3% a year). This is primarily a function of the low starting point of markets in the early stages of the pandemic, combined with other contributory factors including investment outperformance, gearing and the boost to NAV arising from the fall in fair value of the Company's refinanced debt.
- The shareholder total return in excess of the NAV total return reflects a modest narrowing of the discount over the period combined with the effect of shareholders receiving a higher dividend yield because of the share price discount to NAV.
- The majority of the excess return generated has come from stock selection. The biggest positives are a diversified selection of stocks that we felt were significantly undervalued and out of favour when we purchased them, typically with a relatively idiosyncratic angle to the investment case. Examples include BAE Systems, Centrica and Marks & Spencer. Perhaps unsurprisingly, given the strong equity market recovery from the pandemic-induced lows that coincided with our appointment, performance has also been driven by some of the more cyclical stocks in the portfolio. Significant contributors include Ashtead (industrial equipment hire), NatWest, and Weir (engineering).
- The flipside of the economic recovery since 2020 is that it is also cyclicals, either lightly held or not held, that have been the main stock detractors, such as Rolls-Royce and BP. Some mid cap names have underperformed for stock specific reasons, such as Ascential, Hays and Marshalls.
- Overall, we are encouraged by the track record that we have delivered to date: it has been achieved by applying our fundamental, bottom up investment process during sometimes challenging and volatile market conditions. This gives us confidence that we can further enhance the Company's asset value and share price in the years ahead.

TRUST PERFORMANCE AT 31 MARCH 2025 (%)



DISCRETE PERFORMANCE 12 months performance to quarter ending (%)

	Mar-25	Mar-24	Mar-23	Mar-22	Mar-21
Edinburgh Investment Trust share price	11.3	8.9	8.4	10.6	46.4
Edinburgh Investment Trust NAV	8.3	13.4	7.9	14.0	34.8
FTSE All-Share Index	10.5	8.4	2.9	13.0	26.7

Source: FE fundinfo, 31.03.20 to 31.03.25, GBP, total return. Manager inception, 31.03.20. The return on investments may increase or decrease as a result of currency fluctuations.

Past performance does not predict future returns. You may get back less than you originally invested.

MEET THE TEAM

IMRAN SATTAR

Portfolio Manager

- Head of the Liontrust Global Fundamental Team
- 28 years' fund management experience
- Previous experience at Mercury Asset Management/BlackRock
- BSc Mathematics & Economics, University of Warwick
- CFA Charterholder

Q: What has been the most important theme in markets of the past five years?

A: I started my career in 1997 and have been managing money since 1999 and when I think back to the tech bubble then and the global financial crisis just under 10 years later, one of the main differences then compared to the recent crises is the speed and availability of information and data. When you combine the quantity of data available now, together with its speed of dissemination set against the backdrop of a stock market with much greater participation of retail investors, passives, basket trading, and momentum following strategies, you can end up with quite volatile, sentiment driven markets. It has become even more important to be able to objectively step back from the melee and focus on the medium to long term.

Q: What is your favourite stock from the last five years and why?

A: It's important not to fall in love with stocks and lose your objectivity. That being said, there are a number of quite special businesses where I've been particularly pleased with how they have navigated the turbulent environment. Companies which stand out include Diploma, the value-added distributor, has continued to demonstrate its compounding credentials, 3i (the private equity owner of Action, the discount retailer) has performed very strongly, as have Verisk and RELX, another two brilliant business models and run by excellent management teams. RELX in particular initially sold off when AI became more front and centre of investors' minds, so it has been very pleasing to see the company demonstrate how AI is additive to their growth and economic moat going forwards.

Q: What is your personal highlight of the past five years?

A: The first is obviously taking over as the lead portfolio manager on Edinburgh Investment Trust. It's a great honour to steward the Company on behalf of shareholders. The second would be the valuable lessons I've learnt following 2022, which was a tough year of performance for me personally. The vast majority of the holdings performed operationally very strongly but all were derated, and I learnt very important lessons about valuation awareness that year which I've implemented in our approach ever since.

Q: What one thing in investment do you hope to see over the next five years?

A: I go to the US a couple of times a year to do a few packed weeks, meeting lots and lots of companies. Something that has always struck me is the difference in the investing culture in the US where dinner conversations focus more on 401k pensions compared to the UK where conversations are more about property prices. Now of course there are upsides and downsides to both, but I would like to see greater equity market involvement in the UK as a way for people to take more control over their financial futures and benefit from the eighth wonder of the world – compounding.

Q: What is your personal wish for the next five years?

A: Mentoring is something I'm planning to get involved with this year – I've got three children and they've really taught me about the importance of mentoring and guidance. I would also like to finally book a trip to Japan given how much I love the food but have never visited.

EMILY BARNARD

Deputy Portfolio Manager

- 10 years' investment experience
- Previous experience at Wellcome Trust
- MPhys Theoretical Physics, University of Durham
- CFA Charterholder & CFA Certificate in ESG Investing

Q: What has been the most important theme in markets of the past five years?

A: Given the nature of the last five years there have been a fair few important themes to choose from. I would say 'transition' generally. The transition from globalisation to potentially de-globalisation or localisation, from low interest rates to higher rates and now small cuts, the balance of energy security in the net-zero transition, from relatively predictable supply chains to surging uncertainty and costs – just to name a few. Now being in transition to varying extents is always a feature of life and markets, but the last five years have seen higher levels of risk and uncertainty in a number of areas. It's exciting because it's in that sort of liminal state where you find lots of interesting opportunities.

Q: What is your favourite stock from the last five years and why?

A: A really important lesson I learnt years ago from Imran was that you can love a business model but never love a stock! So, whilst I have some business models I really like, I try to avoid having favourite stocks. What I will say is I am pleased in particular with LSEG (London Stock Exchange Group). LSEG is a transformed business compared to a few years ago; it's now a subscription focused financial markets infrastructure and data powerhouse and I think we are really in the early days of seeing the growth, returns, and cash generation this business can produce.

Q: What is your personal highlight of the past five years?

A: Introspection is actually quite an important part of the job and sometimes can be uncomfortable! However, in this case it isn't – my personal highlight has actually been getting to speak to the individual retail shareholders at the various events we've put on. The 'services' aspect of financial services is something which is quite important to me and I hold that responsibility closely, and so this is something I've really enjoyed.

Q: What one thing in investment do you hope to see over the next five years?

A: Quite simply lots of interesting opportunities to deploy our shareholders' capital for the long term.

Q: What is your personal wish for the next five years?

A: I'm a terrible cook… I would like to become a marginally more adequate cook.

FIVE-YEAR REVIEW

'There are decades when nothing happens, and weeks when decades happen'

Whilst it could be considered odd to start an investment review with a quote often attributed to Lenin, it is a particularly apt one as we take a look back at markets and the Edinburgh Investment Trust portfolio over the first five years under our management. During this time we have witnessed particularly elevated levels of uncertainty across a number of different areas.

Politically, we have seen the rise of far right parties across Europe and the UK, the partial rejection of the liberal consensus in the US with the reappointment of Donald Trump, and what one could characterise as a more overt intermingling of corporate interests with public affairs[1]. Indeed, Economics always used to be referred to as Political Economy.

Closer to home the UK has had five prime ministers since 2019 (May, Johnson, Truss, Sunak, and Starmer), in fact more than Italy has had over the same time period, which is a notable achievement.

Geopolitical uncertainty has spiked with Russia's invasion of Ukraine, growing concerns about Taiwanese independence, the Israel-Gaza war in the Middle East, and the recent restart of tariff wars. Chinese growth has slowed – as has the government's release of economic statistics – while the housing market struggles with overcapacity as also seen in the electric vehicle market and solar industry. The US flirts with increasing economic isolationism, whilst global corporates are engaging in onshoring and supply chain diversification.

Consumer and business stimulus was unleashed by governments in the face of Covid, and as economies started to reopen, this additional support to demand met heavily congested supply chains and destocking/restocking cycles given inventory management was somewhat challenging during the immediate onslaught of Covid. US Money Supply[2] growth accelerated from approximately 6% a year in the 20 years prior to the onset of Covid, to approximately 12% in the three years to the end of 2022 (supply hasn't moved significantly since then). Global inflation subsequently reached levels not seen in decades.

[1]www.ft.com/content/cf876b19-8c69-498b-95f5-d018618d99ec

[2]Using the Federal Reserve's M2 measure.

Monetary policy uncertainty has also spiked as interest rates have subsequently risen at a generationally fast rate in an effort to control inflation.

This increase in uncertainty is quantified in the chart below using two measures from Federal Reserve researchers. One is a measure of global geopolitical risk, the other is a measure of the uncertainty of economic policy globally.

The recent period has indeed been unusual, with both geopolitical risk and economic policy uncertainty both elevated.

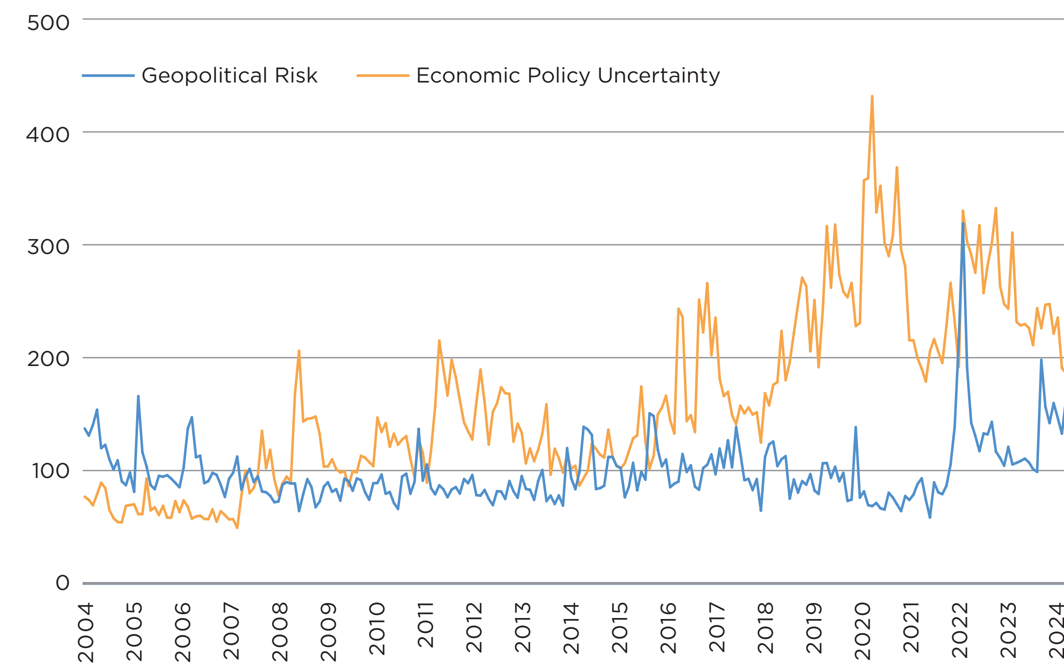
Trust is uncertain – 'fake news' found itself in common parlance, and in the Ipsos Global Trustworthiness Ranking 2024, Social Media Influencers[3] had a higher net trustworthiness score than politicians[4]. With the growing sophistication of generative AI the Company supply/demand balance is likely to continue to deteriorate.

And, of course, health and healthcare uncertainty both from Covid and the after-effects still reverberate through healthcare systems globally. These global, universal experiences impacted, in varying degrees, both individuals and companies.

Language is one of the primary ways we can make universal our multitude of individual experiences. (One might consider music and art to be the others). As we look back what does the 2020 Word of the Year tell us about the zeitgeist at the time, the environment portfolio companies were navigating and how our team was managing Edinburgh Investment Trust? We then look at each of the subsequent calendar years of our management of Edinburgh Investment Trust through the 'word of the year' lens.

[3]Among the 23k adults under 75 years surveyed across 32 countries.

[4]www.ipsos.com/sites/default/files/ct/news/documents/2024-12/Ipsos-Global-Trustworthiness-Index-2024-Rapport-complet.pdf



Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225..“Data downloaded from www.matteoiacoviello.com/gpr.htmon 1st July 2024”). Citation: Davis, Steven J., 2016. "An Index of Global Economic Policy Uncertainty," Macroeconomic Review, October. Data downloaded 01.07.24. All use of company logos, images or trademarks in this document are for reference purposes only.

2020
QUARANTINE (CAMBRIDGE DICTIONARY)

2020 was the first year of Covid in the UK and 'quarantine' was deemed word of the year by the Cambridge dictionary. 2020 was a year characterised by varying levels of isolation. The UK entered the first national Covid lockdown on 23 March 2020 with the FTSE All Share (Index) having fallen 25% from the start of the year to the end of March 2020 in anticipation. We shifted to remote working and daily portfolio 'war room' calls. Businesses globally were facing significantly reduced demand scenarios, or in some cases close to no-demand scenarios. Oil prices briefly turned negative as futures contracts expiry met increasingly full storage capacity. The market had traders over a barrel. Analysis was undertaken across the portfolio determining balance sheet strength, liquidity in a no-demand scenario, working capital flexibility, and cost base flexibility.

We took on day-to-day management of the Company's portfolio at the end of March 2020. Between then and October of that year, defensive positions in GSK, Orange and Barrick were trimmed, with proceeds reinvested in more cyclical companies Standard Chartered and NXP Semiconductors, healthcare names Roche and Convatec, and UK consumer winners Next and Greggs, both trading on attractive forward valuation multiples. During this period the All-Share returned 2.9%, against which your Company delivered 3.6% NAV total returns (debt at market value). Key contributors to outperformance were positions in Weir Group (mining services), Ashtead (US construction equipment rental), Dunelm (UK leader in homewares), and defensive positions in gold miners Barrick Gold and Newmont.

Covid vaccines became a reality in the fourth quarter of 2020 with the first vaccine approved in the UK in December that year. We trimmed positions in defensive names Barrick Gold, Unilever, BP and Vodafone, with additions to UK consumer leaders Next and Greggs, and self-help turnarounds Reckitt Benckiser and Smith & Nephew.

The end of October through to the end of 2020 saw the All Share deliver +17.1% total returns, an astonishing return in a two-month period. Your Company returned +21.4% NAV total returns, with further outperformance delivered from positions in cyclicals Weir Group, Hays (recruiter) and Anglo American as markets started to hope for a return of normalcy.

What language were FTSE 100 executive teams using during 2020? Looking at trends from earnings call transcripts we can see balance sheet related terms saw an uptick: the topic of charges and writedowns saw a +91% increase in usage year over year in 2020 vs 2019, 'Capital Raise' associated topics saw a +93% increase, whilst 'Covenants' saw a +194% increase. Ecommerce mentions were up 64% year-on-year as consumer purchasing shifted digitally, and Backlog mentions were up +33% as more cyclical companies operating with an order book looked to assess how long their order backlog would tide them over until the reopening of economies could begin with a vaccine rollout. Three years later, the 2023 Nobel Prize in Medicine would go to two scientists whose discoveries led to the rapid development of mRNA based vaccines for Covid.

2021
VAX (OXFORD), NFT (COLLINS)

2021 was the year of the Covid vaccine rollout globally, and the rise of NFTs – Non fungible tokens. An NFT is defined as 'a unique digital certificate, registered in a blockchain, that is used to record ownership of an asset such as an artwork or a collectible'[1]. Storied auction house Christie's was the first auction house to sell a purely digital piece of art with the NFT 'Everydays: The First 5000 days' (a collage of 5000 digital artworks) – selling for $69 million. As described by Christie's, 'taking the form of grotesque, dystopian futures, often featuring celebrities like Donald Trump and Kanye West, the images were critiques of modern society, the government and social media'[2].

The world was both flush with general price distortion, and irony.

The GameStop short squeeze saga in January highlighted the power of retail investors in the US, many of which had their balance sheets boosted by pandemic stimulus checks.

The start of vaccine rollouts globally enabled economies and societies to re-open, whilst a container ship running aground on the Suez Canal in March was an augury of the supply chain disruption to come. Freight rates rose with the Shanghai to Los Angeles benchmark rate jumping from ~$1,500 per 40ft container during 2019, to peak above $12,000 in September 2021, an eight-fold increase[3].

Inflation started to march upwards, and semiconductor chip shortages approached their peak with automotive chip customers waiting around three times longer than normal to take receipt of orders towards the end of 2021[4]. Chinese property giant Evergrande entered default towards the end of the year, with weak growth in China to follow for the next few years as the country has grappled with shifting from an investment-led economy to a consumption-led one.

FTSE 100 companies' main concerns that year were inflation (mentions were +141% yoy), supply chain disruptions (+77%), diversity (+155% as social inequality came to the fore), AI and machine learning (+107% as emerging cost inflation helped companies think about where to automate), and buybacks (+77%) as companies became more interested in flexible capital allocation policies following the shock of 2020.

For calendar year 2021, your Company delivered a NAV total return of +22% against +18.3% for the FTSE All Share, with strong contributions from positions in Ashtead, Greggs (as consumers returned to the high street), and Morrisons as it was bought by a US-based private equity firm – the leveraging up of which is now supporting a more benign supply side environment for Tesco and J Sainsbury. Key transactions during the year were additions to Centrica, and Marks and Spencer – both undergoing a turnaround – Whitbread which was set to benefit from a more benign supply side dynamic, Weir Group and NatWest.

[1] NFT definition and meaning | Collins English Dictionary

[2] www.christies.com/en/artists/beeple

[3] Bloomberg

[4] www.spglobal.com/mobility/en/research-analysis/the-semiconductor-shortage-is-mostly-over-for-the-auto-industry.html

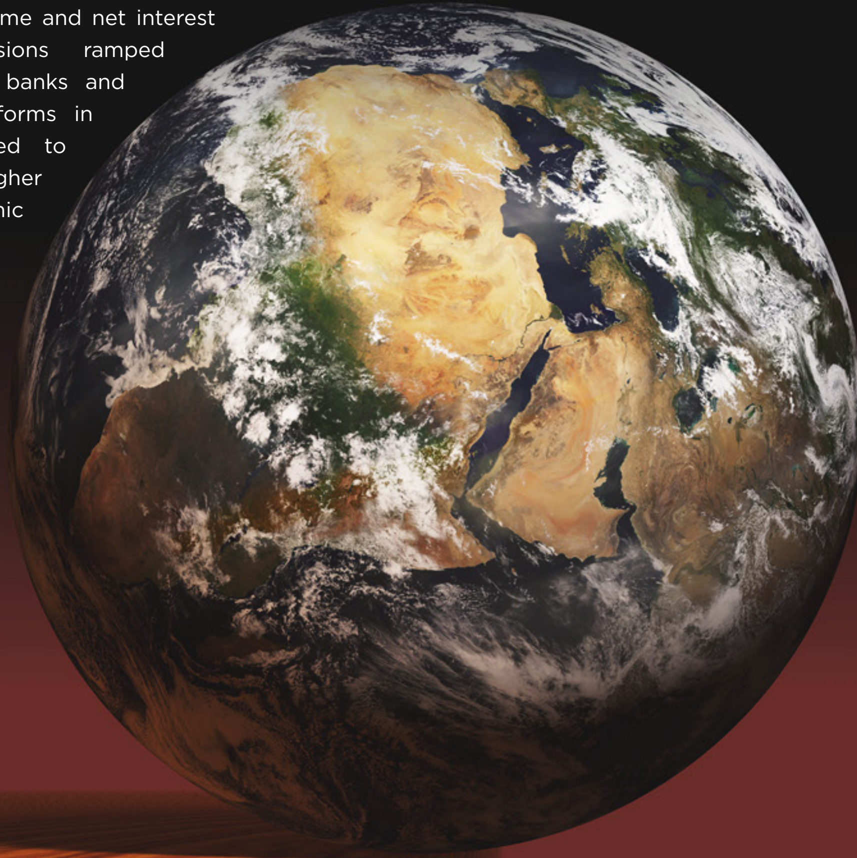
2022
PERMACRISIS (COLLINS)

'Permacrisis' as the 2022 word of the year captured the broader societal feeling of living through a never-ending series of crises. 2022 saw global inflation surge, the cost of living crisis in the UK, Russia's invasion of Ukraine resulting in both energy and humanitarian crises, and climate concerns coming to the fore with Europe's worst drought in 500 years[1]. Whilst 2020–21 witnessed the rise of the 'armchair virologists', 2022 witnessed the rise of armchair generals as the global defence industry and associated commentators got to grips with the most significant military action in Europe since the Second World War.

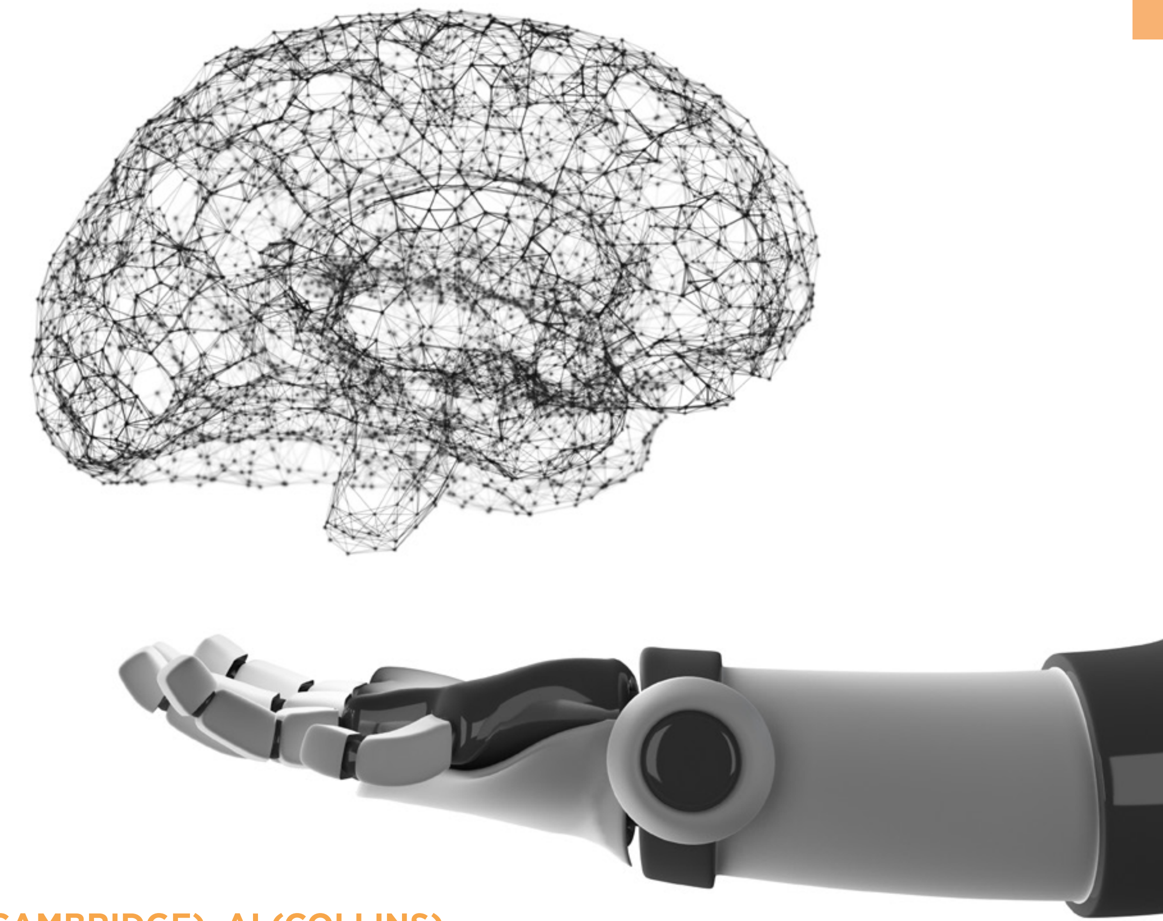
Central banks started a series of rate rises in early 2022, setting in motion one of the steepest increases in interest rates since the 1980s, whilst Liz Truss and Kwasi Kwarteng's disastrous mini-Budget resulted in a UK gilt crisis and direct intervention by the Bank of England.

UK companies were speaking more about inflation and interest rates (+150% yoy), net interest income and net interest margin discussions ramped up (+138%) as banks and investment platforms in particular started to benefit from higher rates. Economic slowdown concerns were more prolific as businesses and consumers struggled with cost inflation.

Overall for the full calendar year 2022, the FTSE All Share total return was broadly flat at +0.3% (masking a first half decline and second half rebound), set against which the Company delivered a NAV total return of 2.5% with strong contributions from BAE Systems (leading global defence company), NatWest Group, and Centrica, which benefited from energy price volatility. Key transactions included buys of GSK, Unilever, Centrica and Haleon in the spin-out from GSK – highlighting a variety of investment theses driving the portfolio. These theses included an R&D turnaround at GSK, reinvigorated management at Unilever, Centrica significantly improving its approach to capital allocation, and an opportunity for long-term structural growth at Haleon – now able to operate with a culture more suited to a consumer healthcare company.



[1]www.weforum.org/stories/2022/12/2022-what-happened-this-year-pictures/



2023
HALLUCINATE (CAMBRIDGE), AI (COLLINS)

2023 was the year where the conversation around generative AI started to enter the broader public domain after the first version of ChatGPT was released in November 2022, and 2023 followed with a range of AI tools for public use. The word 'hallucinate' in this context refers to the ability of AI to produce false information and mistake this for fact; 'fake news' by generative AI, as it were. This threw up many questions for the market, around which business models would be enhanced by Gen AI, which would be disrupted, and over what time frames would this happen? Would this lead to widespread reductions in employment in sectors where AI could be applied more easily or would this free up workers for higher value add tasks? What would the emergence of AI mean for global energy usage, the growth of data centres required, and the required energy infrastructure? What would this mean for electrification and copper demand?

Geopolitical instability crept up as the Russia-Ukraine war continued and the Israel-Gaza war began, while health uncertainty reduced as the World Health Organisation declared an end to Covid as a 'public health emergency'[2]. There were notable banking collapses in the US, starting with Silicon Valley Bank, as venture capital clients withdrew funds to meet liquidity needs (private equity and venture capital funding availability tightened up alongside higher interest rates) and 'mark to market' losses therefore had to be realised from the bank's bond portfolio. UBS acquired flailing Credit Suisse, with the Swiss burnishing their credentials for innovative finance by ignoring capital structure conventions by writing down to zero Credit Suisse's AT1 bonds (shock absorbing capital) while equity investors received some residual value for their holdings[3].

FTSE 100 companies were speaking more about charges and writedowns, and inventory as supply chains were still struggling; destocking commentary counts were up from 14 times in 2022 to 178 in 2023. AI and machine learning mentions were up 230% yoy as companies started to more tangibly put AI/ML product development in place, such as London Stock Exchange Group ramping up a Microsoft partnership.

During 2023 the FTSE All Share returned +7.9% with the Company delivering +13.3% total returns, with outperformance driven by positions in Marks & Spencer delivering on a hard fought turnaround, Centrica, Tesco and BAE Systems. Notable transactions during the year included additions to Haleon following the spin-out from GSK in 2022, GSK given what we felt was the underappreciated R&D turnaround and latent value in the vaccines portfolio, and Marks & Spencer with a promising turnaround in train.

[2]www.who.int/director-general/speeches/detail/who-director-general-dr-tedros-end-of-2023-message--keeping-the-hope-for-health-alive

[3]www.thebanker.com/content/82eff4df-9835-5876-8637-d46e49d61a09

2024
BRAIN ROT (OXFORD)

Following a number of years of elevated geopolitical and economic uncertainty, unsurprisingly 2024's word of the year relates to mental fatigue, with 'Brain rot' voted by public as the Oxford Word of the Year in 2024. This is a term 'used to capture concerns about the impact of consuming excessive amounts of low-quality online content, especially on social media'.

Starting in late 2023, China's internet regulator issued guidelines designed to restrict usage for children, Australia in late 2024 approved a social media ban for under 16s, and Norway intends to raise the minimum age for social media access[1]. AI cemented its place in the public narrative with US market concentration peaking with the performance of the 'Magnificent Seven', continued geopolitical tensions supported strong performance by defence companies, whilst the market started to price in a shallower and slower path of interest rate cuts by the Federal Reserve as inflation proved stickier than expected. Notably, the Bank of Japan increased interest rates for the first time in 17 years.

M&A interest in UK assets featured strongly in the first half with bids across the size spectrum for Anglo American (rejected), Hargreaves Lansdown, Darktrace, and Britvic.

Politically, the UK Labour Party had a historic win in the UK General Election giving them a sizeable majority with the prospect of stability for the UK both relative to recent history, and relative to the US and Europe. Consumer and business reactions to the post-election Budget have been somewhat downbeat, with national insurance changes adding an additional cost burden to businesses, particularly the labour intensive retail sector.

Tariffs were back on executives' minds after Donald Trump won another term as President, as were cyber attacks following the Cloudstrike glitch showing the importance of resilient technology infrastructure

During 2024, the FTSE All Share delivered a 9.5% total return, with the Company returning +14.8% with contributions to outperformance from NatWest delivering strong results, Tesco continuing to demonstrate its cash generation credentials, and BAE Systems with continued geopolitical volatility. Notable transactions during the year were sells of Marks & Spencer – the turnaround we felt was well appreciated – and Mondi owing to cyclical concerns and sector consolidation likely placing them at a strategic disadvantage. New additions to the portfolio included leading data and analytics companies RELX and LSEG, and a number of strategically well positioned industrial companies – Rotork, Halma, and Spirax.

[1] www.reuters.com/technology/what-countries-do-regulate-childrens-social-media-access-2024-11-28/ tech.co/news/countries-age-restrictions-social-media

2025
JANUARY AND FEBRUARY

The first two months of 2025 were volatile for the markets, with Trump's inauguration bringing with it a flurry of announcements, tariffs, and at the time of writing a potential Russia-Ukraine deal brokered between Russia and US and an Israel-Gaza ceasefire.

The Chinese AI app DeepSeek threw up questions for technology investors as their results appeared to show strong performance at a much lower cost when compared with existing AI technologies, and could this mean the AI revolution won't require nearly as much invested capital as had previously been assumed?

Or could the Jevons paradox be invoked, whereby technology developments rendering AI lower cost to use could ultimately lead to broader and faster adoption of AI that more than offsets the lower cost, leading to a rise in usage overall?

Which words will go on to characterise the remainder of 2025, and then the years beyond. Will the word of the year for 2025 be ceasefire in an improvement for humanity, but disruption to the energy market status quo and defence industry? Could the word be tariffs or 'Trumponomics', or multipolarity reflecting changing geopolitical power dynamics?

Whilst the zeitgeist remains ever fluid, and the words of executives and society change; the words we use to guide how we manage your Company remain consistent. We remain focused on our total return approach, building a bottom-up portfolio of advantaged companies, constructed into a balanced and flexible portfolio designed to deliver for you, whatever the economic weather.

Imran Sattar
Emily Barnard

SOURCES:

https://corp.oup.com/news/brain-rot-named-oxford-word-of-the-year-2024/

https://dictionary.cambridge.org/editorial/word-of-the-year/2023

SUPPLY-SIDE DYNAMICS

IDENTIFYING VALUATION ANOMALIES

Supply-side dynamics play an important role in shaping industry profitability, yet often receive less attention than demand trends. By focusing on these dynamics, we can identify compelling investment opportunities in businesses that are positioned to benefit from improving competitive landscapes. It is hard to quantify the exact impact these dynamics have but we believe these changes are supportive of a company's medium-term outlook and should result in a company being more profitable and earning a higher return on invested capital.

We employ a deep analytical approach to identify mispriced investment opportunities across the style spectrum. We take a flexible, long-term investment approach, with a focus on high-quality, growing businesses with economic moats. We explore a range of profit pools, which represent areas where profits are made in an industry, in the search for ideas, including the improvement of supply-side dynamics.

Market participants often spend a lot of time on demand forecasts whilst paying less attention to supply-side dynamics. This lack of scrutiny can create interesting pockets of opportunity as industry structures change, leading to overlooked investment prospects. Changes in invested capital within an industry are likely to impact future returns. When capital exits an industry, the improved supply-demand dynamic can enhance returns and profitability for the remaining players as well as strengthening their competitive position. Conversely, when supply grows faster than demand, returns typically decline. This has frequently been observed in sectors such as shipping and airlines.

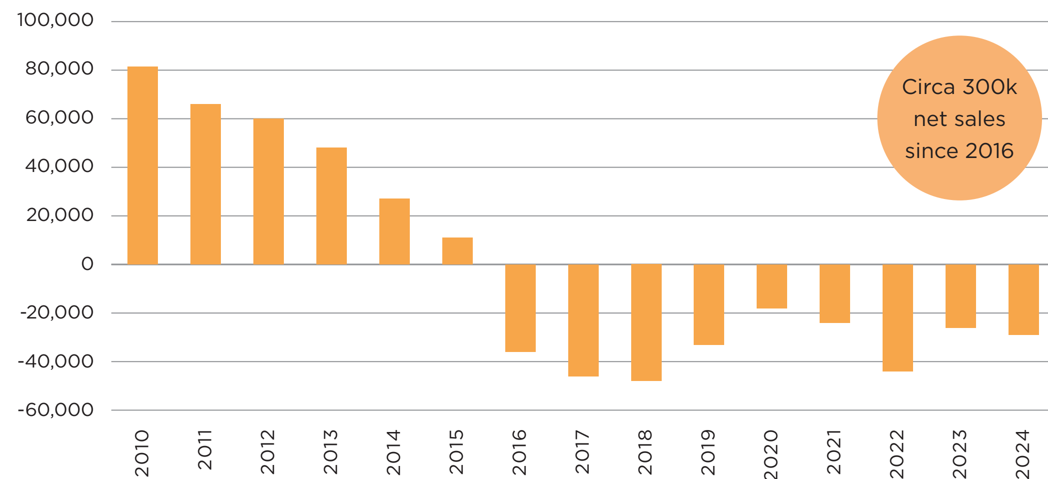
Supply-side shifts occur in both cyclical and structural growth industries for a variety of reasons. For example, the early 2010s US shale boom, fuelled by high oil prices and supernormal profits, led to oversupply in the market and eventually resulted in a sharp oil price decline in 2014/15. This resulted in a more disciplined supply approach, allowing oil majors, such as Shell, to earn robust profits in recent years. Meanwhile, cost pressures and ever-changing consumer preferences have accelerated the shift to outsourcing, leading to an additional lever of growth for structural growth companies such as Compass. Within financials, increased regulatory and compliance costs have made it difficult for smaller banks to compete. For example, Sainsbury's and Tesco sold their banking arms to NatWest and Barclays, respectively, fostering a more rational supply side which benefits the larger banks.

Supply-side shifts are not limited to capital intensive industries. The rise of online shopping, enabled by platforms like Shopify and Amazon, has significantly lowered barriers to entry, leading to an influx of new market participants. These new entrants are not capital intensive themselves, but rely on the infrastructure and investment provided by companies such as Amazon and delivery companies. As a result, the incremental capital required by an online-only retailer is significantly lower than in traditional industries, reducing barriers to entry. The rise in online-only retailers has fragmented the industry, increased price competition and compressed margins, which has proven unsustainable in an inflationary world. The rise of capital-light industries will still result in supply-side opportunities, but they are likely to play out quicker due to the speed with which supply can enter and exit the industry compared to traditional capital intensive industries.

Our flexible investment approach allows us to search across a range of sectors where a change in the supply environment, among other factors, could drive an inflection in returns. When supply-side dynamics improve, the companies we invest in can emerge with a stronger competitive position, higher profitability and a wider economic moat. Improving dynamics can provide a structural overlay to more cyclical companies, such as when oil companies adopted stricter capital discipline in the mid-2010s, the more rational supply side led to more resilient oil prices and higher cash flow. These cycles can take time to play out, and in a market increasingly driven by short-term thinking, our long-term perspective allows us to capitalise on opportunities arising from these shifts.

We have witnessed several significant events in the last five years. Covid-19 severely disrupted the global economy, shutting down global supply chains and causing revenues in sectors such as travel and leisure to plummet. This was followed by a period of high inflation, fuelled further by the Russian invasion of Ukraine, which led to a period of rising interest rates, following several decades of falling rates. These changes have created numerous supply-side opportunities, allowing us to identify companies that can benefit from these dynamics.

Private landlord purchases less sales



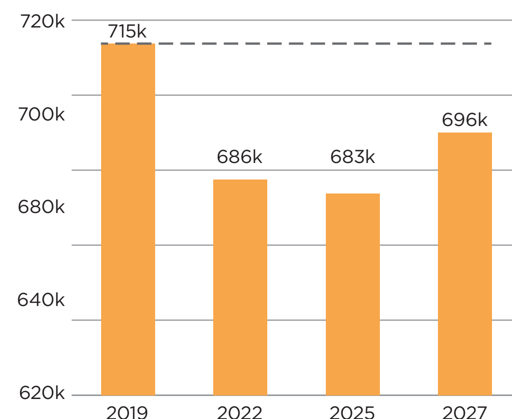
Source: Hamptons research, as at 21 November 2024.

SUPPLY-SIDE OPPORTUNITIES IN THE PORTFOLIO

Grainger is a UK leader in the growing professional build to rent property sector. The demand for high quality rental properties remains strong, set against a shrinking supply side, creating a favourable dynamic. Small private landlords, who account for around 98% of rental housing supply, are falling in number. Stamp duty changes announced at the October 2024 Budget, higher interest rates and stricter energy efficiency regulations have all made it increasingly difficult for these private small landlords to operate profitably. Grainger operates a high-quality portfolio of assets, with 94% of their portfolio already compliant with energy efficiency requirements compared to less than 50% for private landlords. Grainger recently stated that they 'operate in a market with good supply and demand dynamics and our product is affordable, and the regulatory landscape is favouring us over smaller landlords. The opportunity to increase our market share is fast, and we have the platform to deliver.'[1] The set up for Grainger looks attractive. As supply continues to shrink, Grainger is well positioned to capture the growing demand and strengthen its market position.

Another area where we have seen a significant change in the supply side in recent years is within the hotel sector, which was severely impacted by Covid-19 with revenues dropping significantly and rising inflation increasing operating costs, particularly for independents. This resulted in independent operators exiting the industry and subdued competitor pipelines, reducing the future supply of hotel rooms. Whitbread, the owner of Premier Inn, the leading UK value-for-money hotel operator, is capitalising on this dynamic. Amidst a struggling supply side, Whitbread announced ambitious five-year targets in October 2024, aiming to grow the total number of rooms in their portfolio significantly by 2030. Given the long lead time for new hotel development (typically it takes five years to build a hotel and then a further three years to reach normalised occupancy), supply is unlikely to come back online quickly. On top of this, higher interest rates are impacting competitors, with Whitbread noting that 'developers are still struggling to secure funding, causing a slowdown in new construction projects'[2]. Whitbread, with its strong financial covenants, are able to capitalise when others are struggling. We believe Whitbread stands to benefit from a benign competitive environment and will strengthen its market leadership during this period.

Total hotel supply 000 rooms



Source: Whitbread PLC, as at 30 April 2024.

In a similar vein to the hotel sector, contract catering revenues plummeted during Covid-19. Compass Group is the global leader in contract catering, providing outsourced food service management for businesses, schools, hospitals and other institutions. Over the last 12 years, outsourced catering has increased from around 40% of the total food services market to just over 60% and we expect this trend to continue[3]. Rising inflation, evolving food preferences, food regulation and sustainability concerns have made in-house catering increasingly challenging, resulting in more businesses outsourcing. Additionally, the number of high street food operators, one of Compass' competitive alternatives, shrunk from 32,000 to 26,000 in 2024[4] due to cost pressures associated with rent, business rates and utility bills. Contract caterers, like Compass, are largely immune from these pressures, resulting in a 20-40% cost advantage versus the high street[5]. Compass' scale versus other contract caterers (they have a 15% global market share and 20% share in North America[6]), gives them a 10% food cost purchasing advantage[7] over peers – an important competitive advantage. At its recent results Compass stated that the 'Outsourcing and industry trends remain extremely positive, underpinning our exciting growth momentum'[8] and we believe this momentum will continue to remain strong.

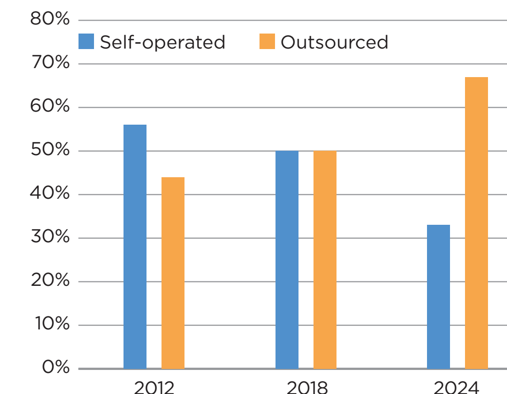
[1]Grainger H1 23 earnings call

[2]Whitbread FY24 earnings call

[3]Compass 2012 Annual report and 2024 annual report. The food services market refers to any meal prepared outside the home.

Source: Compass annual report 2024.

% of global food services market outsourced

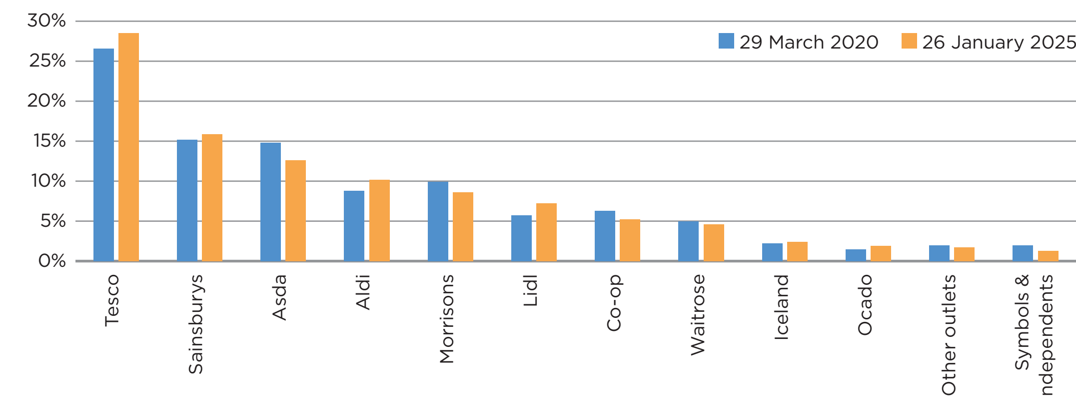


Unlike the hotel and contract catering sector, revenues within the UK grocery sector have remained relatively resilient due to the essential nature of the product. However, certain players have come under pressure due to rising interest rates and higher inflation. The UK grocery market has historically been a very competitive market, with seven players holding at least a 5% market share. Aldi and Lidl have seen strong market share growth over the last decade as their attractive prices appealed to consumers, a trend which was amplified in the periods of high inflation after the pandemic. We have seen the traditional supermarkets respond, with greater emphasis on loyalty schemes such as the Tesco Clubcard and the Aldi price match on certain products. By contrast, highly leveraged competitors, such as Morrisons and Asda, have less flexibility to reinvest in pricing and product development. This has weakened their market positions and resulted in them ceding share to both the discounters and Tesco and Sainsbury's.

Tom Gilbey
Investment Analyst

Source: Kantar, as at 26 January 2025.

UK grocery market share



[4]www.christie.com/news-resources/business-outlook-2025/restaurants/

[5]Liontrust

[6]Compass FY 24 presentation

[7]Liontrust

[8]Compass Q1 25 earnings call

CONCLUSION

Our long-term investment philosophy allows us to benefit from changing supply-side dynamics that can take a number of years to fully play out. Whether investing in companies benefiting from a more disciplined supply base, those positioned to gain market share as weaker competitors exit, or businesses with strong barriers to entry that prevent new supply from quickly eroding returns, we seek to invest in high-quality businesses with durable growth potential.

We believe that integrating supply-side insights into our investment process helps us identify investment opportunities in sectors that are experiencing changes on the supply side that are supportive of growth, helping us to create a resilient, all-weather portfolio. We think this will help us generate attractive long-term returns for our investors across different market conditions.

INVESTMENT PROCESS AND CURRENT PORTFOLIO

Imran Sattar

INVESTMENT PROCESS

I have been managing UK equity portfolios for more than 25 years. This period has included the internet boom and bust, the Global Financial Crisis (GFC), Brexit, Covid and many mini-cycles in between.

These market cycles show the importance of having a pragmatic flexible investment process. We search for companies with a competitive advantage – also known as an economic moat. An economic moat is where a company has an edge and a barrier around its business that enables it to sustain attractive returns and margins over the long term.

Whilst we have a slight preference for companies with structural growth, as part of our flexible investment approach we also will invest in companies where the industry profit pools may not be growing but where these companies are winning market share; and also in interesting self-help opportunities where there are other levers to drive improved performance.

Our approach is rooted in bottom-up fundamental analysis with the vast majority of our time spent on in-depth stock research. However, companies do not operate in vacuums and so it is also important to understand what is going on in the macroeconomic environment. We do this through both a more traditional macroeconomic overlay, but most importantly in the approach we call Macro from the Micro, where we build a macroeconomic picture from the ground up, from speaking to a broad range of companies and understanding what they are seeing at the coalface.

We think about portfolio construction very carefully and seek to build a portfolio of around 40-50 advantaged businesses that sit well together and are economically and thematically well diversified.

The current themes and economic diversification within the portfolio are shown on the next page.

And finally with risk management guardrails and valuation discipline we seek to construct a well-balanced portfolio to deliver attractive total returns over the medium to long term.

Wide range of opportunities
- Growing profit pools – duration underestimated
- Stable profit pools – market share opportunity
- Declining profit pools – valuation and self-help opportunities

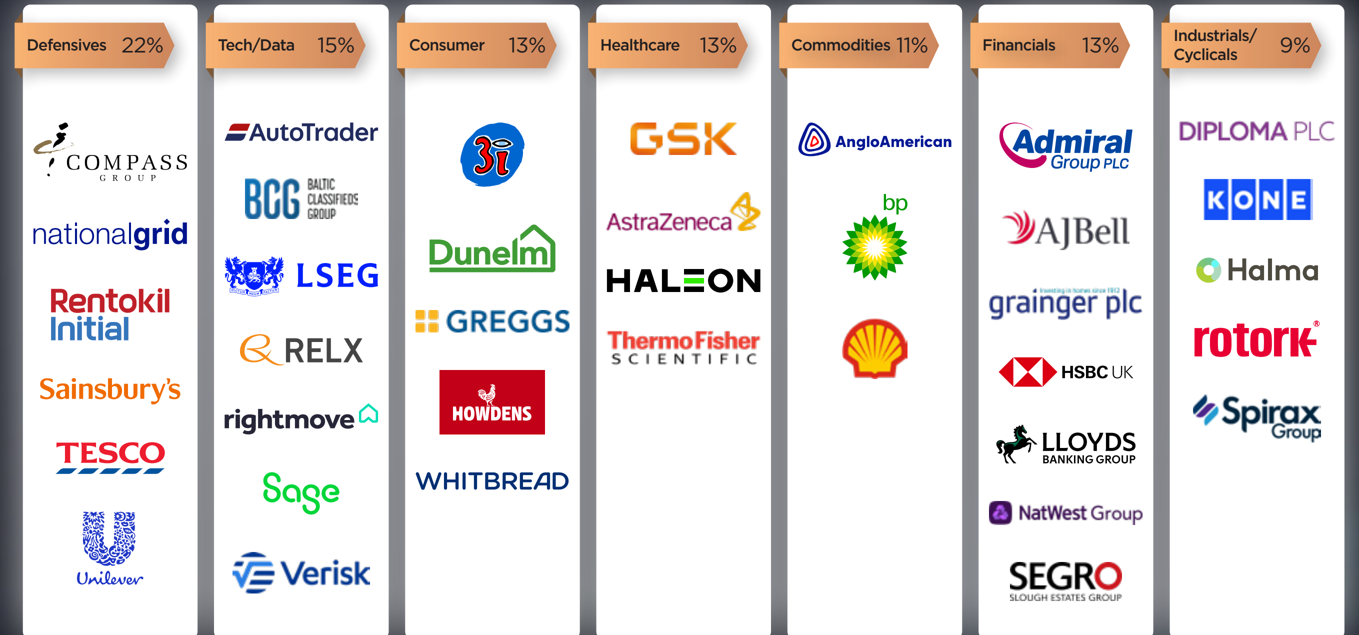
Economic moats
- Duration of growth
- Return potential
- Industry structure
- Self help
- Brilliant capital allocators

Portfolio construction
- Economic diversification
- Thematic diversification
- Macro from the Micro
- Position sizing
- Total return focus and twin objectives

Risk management
- Analytical edge
- Factor exposure
- Sell AND Hold disciplines

Valuation
- Opportunities where duration is underestimated, or decline overestimated
- Market expectations

ECONOMIC DIVERSIFICATION



MULTIPLE THEMES

Source: Liontrust, 31.12.24, ex Cash, example stocks. All use of company logos, images or trademarks in this document are for reference purposes only

OUTLOOK

In March each year, there is a UK company earnings report which anecdotes would suggest gets more eyeballs than most – Next Plc's full year earnings report. Lord Wolfson, the Next CEO, is well regarded for many things, and in particular his foresight and sharp perceptiveness. We borrow from his latest report to introduce our outlook; *'We are wary of grand visions: few things date faster than a vision of the future'*.

Rather than giving you predictably incorrect predictions, we will instead touch on a number of questions we are exploring as we think about how companies and sectors will evolve, how profit pools may grow or decline, and where can we find the best medium and long-term opportunities to deploy your capital.

The consumer industry is oft ripe with innovation – Nespresso has launched a capsule with added Vitamin B12, and now we can drink mushrooms. Incumbents such as Unilever and Reckitt have faced competition from digitally native and direct to consumer propositions, accelerated by social media. However, some of these competitors faced tougher conditions in the last five years as Covid drove purchases of long-standing trusted brands like Dettol, and congested supply chains and rising cost inflation were naturally trickier for smaller companies to manage. Higher interest rates also provided a tougher backdrop for young growing companies. Is the environment now about to get tougher for Unilever and Reckitt and co? Bain's 2025 Insurgent Brands list captures this thirst for newness in the fast-moving consumer goods sector, highlighting that new and growing brands – 'insurgents' – are the ones driving category growth. *'While accounting for less than 2% of market share in the categories in which they exist, they accounted for nearly 39% of incremental category growth in 2024, compared with 17% in 2023'*.

What does this mean for the competitive environment facing the likes of Unilever and Reckitt, both themselves going through turnarounds? There is a related dynamic in the Spirits sector, particularly when it comes to celebrity Tequila brands. In 2023, the Tequila category grew 3%, whilst insurgent celebrity Tequila brands grew 16%. George Clooney appears here too, selling his Casamigos Tequila brand to Diageo for up to $1 billion in 2017. How will the spirits industry and the likes of Diageo deal with growing insurgent brands with a brand value tied to a celebrity status? How will Diageo navigate declining alcohol consumption per person in the US? Will premiumisation and 'drinking less but better' be enough to offset declining volumes if they continue. Is the spirits industry a growing, flat, or declining profit pool overall in the medium to long term? What does this mean for the appropriate valuation multiple to place on Diageo's earnings, with a medium term outlook which has been removed by the new management team.

Has the dopamine rush of social media left us feeling mildly intoxicated and unable to think through the long-term ramifications of *'when the service is free, you are the product'?* – a sentiment originally attributed to artist and sculptor Richard Serra. How will the monetisation of consumer data change in the future and how will this change the cost of customer acquisition for digital businesses? Which companies out there have rich unmined seams of consumer and business data which could be monetised in the future through increased pricing power, or new products and services?

Improved pricing power through the use of data is a trend we also see with a number of UK industrial companies. As these companies, such as Rotork and Spirax, implement new and upgraded internal systems, and work more collaboratively with customers, they are better able to assess their value add to the customer – be that cost savings through predictive maintenance or reduced carbon emissions and lower energy intensity. As countries such as the UK look to invest in future-facing infrastructure, be that for the energy transition or technology investment, are the banks moving towards being key strategic partners with the government; as enablers and drivers of economic growth? Shorter term, will there be more consolidation in the UK banking sector following NatWest's acquisition of Sainsbury's banking business, and Barclays' acquisition of Tesco Bank? Lloyds has adorned various advertising panels at Westminster tube station with advertisements for their social housing initiatives, as had defence company BAE in support of the defence industry. Capturing the right eyeballs remains as important as it ever has been.

We spend as much time, if not more, thinking about where we are or could be wrong, as we do thinking about where we could be right. So instead of predictably incorrect predictions, we offer up these questions as some of those we are pondering as we think about the medium to long-term investment opportunities. In a world of increasing noise obscuring signals, and a velocity of information creating a cognitive load likely unimaginable a generation ago, we are keeping our eyeballs squarely focused on delivering for the medium and long term.

Imran Sattar and Emily Barnard

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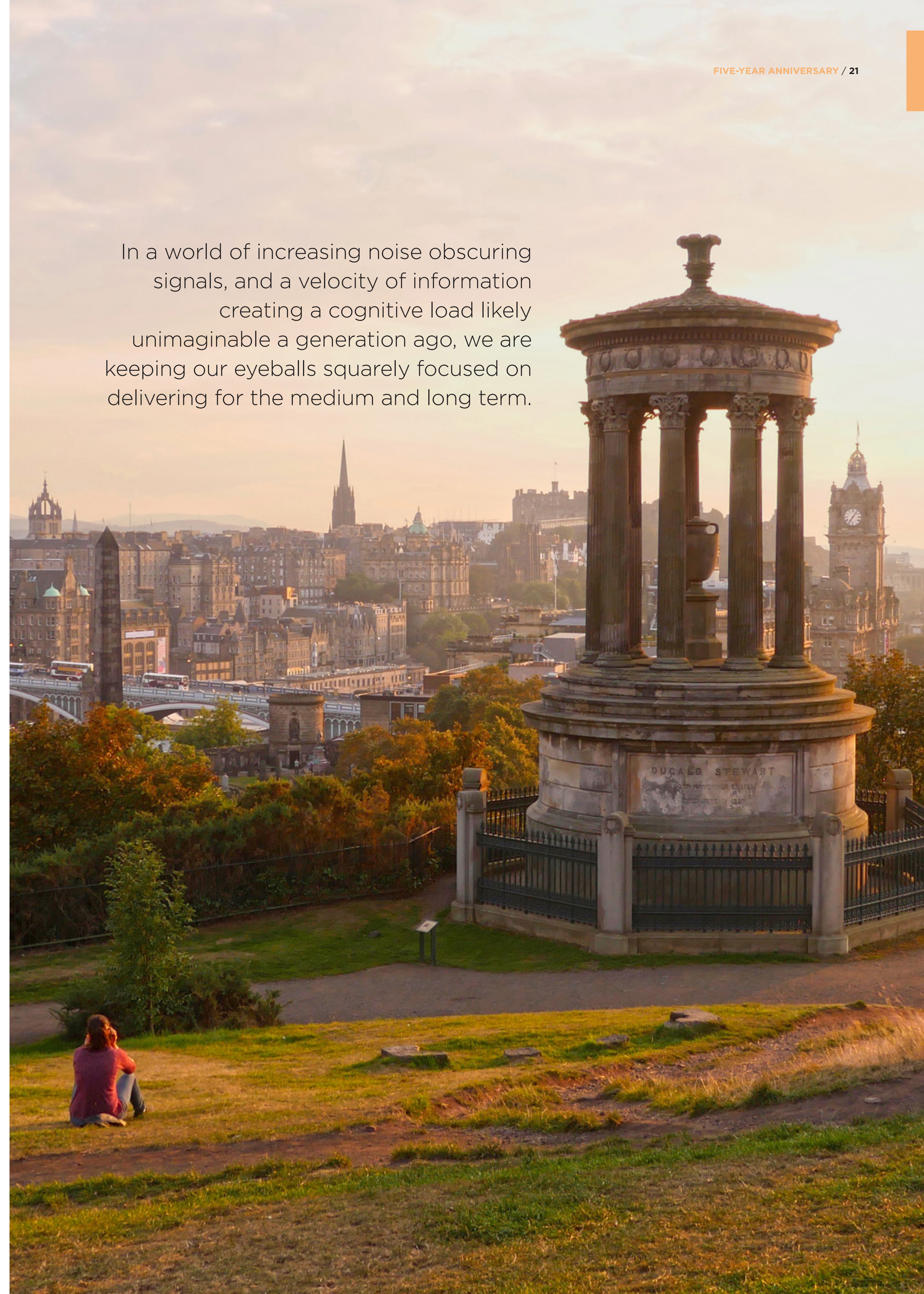

KEY RISKS

Past performance does not predict future returns. You may get back less than you originally invested.

We recommend this investment is held for the long term (minimum period of 5 years). We recommend that you hold this investment as part of a diversified portfolio.

- The Net Asset Value (NAV) return of The Company corresponds to the performance of the securities in which it invests and the income from them. The share price, which will determine the return to the investor, will also be affected by supply and demand. Consequently, the return to the investor may be higher or lower than the underlying NAV return.
- The use of borrowings may increase the volatility of the NAV and may reduce returns when asset values fall.
- The product may invest in smaller companies which may result in a higher level of risk than a product that invests in larger companies. Securities of smaller companies may be subject to abrupt price movements and may be less liquid, which may mean they are not as easy to buy or sell.
- The product may use derivatives for efficient portfolio management which may result in increased volatility in the NAV.

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Edinburgh Investment Trust plc
Quartermile One
15 Lauriston Place
Edinburgh
EH3 9EP

Telephone +44 (0)20 7412 1700
Email LionTA@liontrust.com

edinburgh-investment-trust.co.uk