POLAR CAPITAL

Andrew Holliman, Fund Manager

Polar Capital North American Fund

Q: US markets have been dominated by large companies with heavy AI exposure. Is this something to be concerned about?

The market has certainly been very top heavy over the past several years, where the largest companies have very much dominated index returns. In addition, last year we had the market really driven by one primary, overwhelming theme, which is of course artificial intelligence (AI) and investment in AI infrastructure.

We are very optimistic about the impact that AI will have on our lives and on the companies that we are investing in, but we are cautious about thinking that today's winners might necessarily be tomorrow's winners. We even saw last year quite sharp volatility of perception, in terms of companies that were perceived to be winners after a very short period of time and then were perceived to be AI losers and vice versa. One example of that was Alphabet, which we hold in the Fund, which in the second quarter of last year was perceived to be an AI loser but very rapidly became, in the eyes of investors, an AI winner and actually added $2trn of market cap.

Many of the businesses we are investing in will, of course, use AI in the future and many of them will perhaps benefit from AI in the future, but very few of them will be dependent on AI as a technology. We see plenty of opportunities for attractive business compounding outside businesses that are directly connected to AI, so that might be companies like Financials. Interactive Brokers [Group], for example, is one that continues to expand market share at a great rate on a global basis. It grew accounts by 30% last year and that was not dependent on AI. Or it might be more steady growers such as US Foods [Holding], a food distributor to restaurants in the US, which slowly compounds away year after year, taking market share and using its cashflow to return to shareholders.

For us, the key is to have many drivers of value creation in the portfolio, not to be dependent on one dominant theme, which we think is increasingly the case with the index or at least the primary indices in the US.

What is 'business compounding' and how does it deliver better performance for investors?

When we talk about business compounding, we are really talking about the underlying value creation of the businesses that we are investing in. Effectively it is the operational growth of those businesses, combined with the returns to shareholders from the use of the cashflows that management have at their disposal, whether that be reinvestment in the business or returning those cashflows to shareholders through dividends and buybacks, which provides the bulk, or the underpinning, of the compounding in the portfolio.

Also important to us is to have a diversification of drivers for that business compounding, so not to be dependent on one or two drivers but really to have lots of different drivers, whether that be the industries we are investing in or the themes they are indirectly exposed to; but also the value creation drivers. For example, not all our businesses see that compounding primarily driven by high revenue growth. Some have high revenue growth and high compounding, but some have a mixture of high revenue growth and use of cashflows and some even have more of their business compounding coming from the use of the cashflows. Affiliated Managers Group is one example; it is a fund manager holding company which reduces its share count significantly every year. So to us, it is very important to have that diversification of drivers.

How has the Fund's positioning changed over the past year?

The Fund has not changed an awful lot in the past year. It is still underpinned by a diverse number of drivers of business value creation and the Fund is still very attractively valued, both in an absolute sense and versus broader benchmarks. The additions we have made to the portfolio also really highlight that diversification of drivers. One example is Applied Materials, which is at the forefront of technology. It provides semiconductor equipment to semiconductor foundries and is benefiting from the proliferation of demand for semiconductors, whether that be in data centres or in other areas of technology. It could be something very different, like AGCO, a manufacturer of tractors and combine harvesters, which is towards the bottom of a very significant trough in the agricultural cycle and also has a good record of adding value to shareholders across those cycles.

Another is Secure Waste Services, which is a Canadian provider of services and waste management to Canadian oil companies. It generates business value creation from compounding away, it has strong pricing power and returns cash to shareholders.

In addition, we are finding opportunities from across the market-cap spectrum. We are blessed in the American market to have a very diverse market. We are still seeing great opportunities among the very big companies. We still like the prospects for Microsoft, Alphabet, Visa and Amazon, for example, but we are finding fantastic opportunities that fit into our value creation and value criteria much further down the market-cap spectrum as well and we will continue to take advantage of those opportunities.

What is your outlook for North American equities in 2026?

We are at the beginning of the year and this generally tends to be a time when people make bold predictions. We tend to make less bold predictions about specific events. We do not want the portfolio to be driven by one or two events and we want the companies we are investing in to be able to compound through all manner of events and that is what we think is important for investors. Where we do try to make predictions is about somewhat predictable but underappreciated attributes of the businesses we invest in. That might be the quality of management or it might be about their market share potential or the cash they are generating and how they allocate that capital to really drive business compounding.

Although the portfolio is reasonably focused it is not dependent on one or two themes. Rather, if the companies do sensible things, do what they are doing, continue to gain market share and continue to deploy capital effectively, and if we invest in these businesses that are compounding away at a double-digit rate and do so at attractive prices, that all bodes well for future returns for investors.

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02 February 2026

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Risks

- **Capital is at risk and there is no guarantee the Fund will achieve its objective. Investors should make sure their attitude towards risk is aligned with the risk profile of the Fund before investing.**
- **Past performance is not a reliable guide to future performance. The value of investments may go down as well as up and you might get back less than you originally invested as there is no guarantee in place.**
- The value of a fund's assets may be affected by uncertainties such as international political developments, market sentiment, economic conditions, changes in government policies, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made. Please see the Fund's Prospectus for details of all risks.
- The Fund invests in the shares of companies and share prices can rise or fall due to several factors affecting global stock markets.
- The Fund uses derivatives which carry the risk of reduced liquidity, substantial loss, and increased volatility in adverse market conditions, such as failure amongst market participants.
- The Fund invests in assets denominated in currencies other than the Fund's base currency. Changes in exchange rates may have a negative impact on the Fund's investments. If the share class currency is different from the currency of the country in which you reside, exchange rate fluctuations may affect your returns when converted into your local currency. Hedged share classes may have associated costs which may impact the performance of your investment.
- The Fund invests in a relatively concentrated number of companies and industries based in one region. This focused strategy can produce high gains but can also lead to significant losses. The Fund may be less diversified than other investment funds.

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- https://www.polarcapital.co.uk/ESG-and-Sustainability/Responsible-Investing/.

A summary of investor rights associated with investment in the Fund can be found here.

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