STENHAM
ASSET MANAGEMENT

# Q3 2025 Investment Letter

Stenham Equity UCITS Fund

## Performance Review

| Fund vs. Benchmark[1] | Q3 2025 | YTD 2025 | Since Inception |
|---|---|---|---|
| **Stenham Equity Fund (A1)** | **0.8%** | **8.3%** | **238.6%** |
| **Stenham Equity Fund (A1) – excl. FX** | **0.4%** | **11.1%** | **--** |
| MSCI World Index | 7.0% | 16.2% | 235.3% |
| Relative | -6.2% | -7.8% | 3.2% |

## Portfolio Attribution

| Top Contributors – Q3 2025 | Portfolio Weight | Attribution |
|---|---|---|
| Taiwan Semiconductor | 6.4% | 1.3% |
| American Financial Group | 4.5% | 0.7% |
| Airbus | 5.9% | 0.6% |

| Top Detractors – Q3 2025 | Portfolio Weight | Attribution |
|---|---|---|
| Constellation Software | 1.9% | -0.5% |
| Universal Music Group | 3.9% | -0.5% |
| Synopsys | 3.1% | -0.4% |

## Market Commentary

The AI infrastructure boom remained the dominant theme for markets over the quarter, helping drive indices to new all-time highs. The frenetic pace and incredible size of AI deals being struck on an almost daily basis, has led investors to question whether we are in a bubble - a concern even acknowledged by OpenAI's founder, Sam Altman. Comparisons to the dot-com era are becoming increasingly common, with many asking whether today's market more closely resembles 1995 or 1999.

On the one hand, AI demand to date has been widely underappreciated and continues to surpass expectations. Oracle's cloud infrastructure business exemplified this trend, reporting customer

[1] *Performance as of 30 Sep 2025 is presented net of fees. Stenham Equity Fund Class A1 reactivation date 18 Nov 2020. Stenham Equity Long Only Strategy inception date 13 Apr 2012.* ***Past performance does not predict future returns****. Source: Stenham, Bloomberg. This is a marketing communication. Please refer to the Fund prospectus and KIID before making any final investment decisions.*

commitments of $455bn in their quarterly earnings results, a figure that surpassed street expectations by over 200% or $306bn. To put this in perspective, that level of commitment exceeds the GDP of Denmark (~$430bn). The stock rallied 38% on the news, marking the largest single-day gain for a company with a market capitalisation above $150bn since the early 2000s and surpassing the blowout quarter we saw from Nvidia's data centre business in May 2023. Similarly, CoreWeave, a "neo-cloud" provider specialising in infrastructure for large language model training, reported in September that it is experiencing "yet another inflection in demand." Even Microsoft, an early leader in cloud computing for AI workloads, were seemingly caught off guard by the continued surge in demand, reportedly terminating several third-party data centre leases earlier in the year, only to later sign new agreements as demand far exceeded their capacity.

Broadcom, one of the world's leading semiconductor companies, recently revised its CEO's long-term incentive plan to be almost entirely tied to AI-related revenues. The upper end of this target implies a six-fold increase in AI revenue by the end of the decade, underscoring the company's conviction in the durability of this structural opportunity. Meanwhile, the improvements in AI large language models and their applications continued. From the autonomous AI agents powered by OpenAI's new GPT-5 model, to the life-like AI image and video creation powered by Google's Gemini 2.5 Pro. Improvements have led to clear inroads for AI in both consumer and business use cases such as customer services, marketing and code generation or programming. On the latter, so much so, that the notable rise in unemployment rates for graduate level software developers is being partially attributed to the impacts from AI.

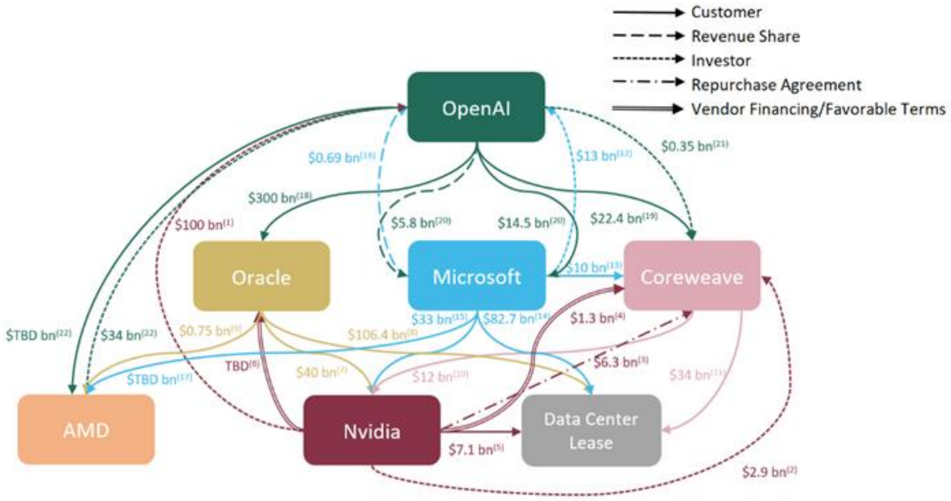
**Employee headcount among software developers, by age**[1]


Despite the optimism surrounding technological progress and demand, investor concerns are also mounting. Jeff Bezos put it well when recounting the experiences of Amazon during the dot-com bubble and the similarities today "When people get very excited as they are today about AI for example, every experiment gets funded, every company gets funded. Investors have a hard time in the middle of this excitement distinguishing between the good ideas and the bad ideas. That's also probably happening today. But it doesn't mean that anything that's happening isn't real". Venture capital funding has become heavily concentrated in AI, fuelling concern over the multi-billion-dollar valuations being assigned to companies with little or no commercial product to date.

[1] *Note: Indexed to 100 at October 2022. Source: Brynjolfsson, Chandar & Chen*

These signs of potential excess are not confined to private markets. In the public sphere, several high-profile partnerships and transactions have drawn scrutiny. Nvidia, for example, agreed to invest $100bn in OpenAI to support them in building out the compute infrastructure they require, a critical component of which are Nvidia's products themselves. OpenAI struck a similar deal with AMD, though this time with AMD offering equity in their own business in exchange for the ability to supply OpenAI with their AI chips over time. The circularity of these deals has led investors to draw parallels with the dot-com bubble where telecom equipment providers such as Cisco, Nortel and Lucent were engaging in vendor financing deals with customers to buy their products. There are also concerns for Oracle, as almost the entirety of the upside in customer commitments was driven by an agreement with OpenAI, who is reportedly deeply unprofitable. Customer commitments are a strong signal of demand intent but do not yet represent real revenues and it is worth noting that, in the past, Oracle has been scrutinised for aggressive revenue recognition practices. In addition, the cost of building cloud computing infrastructure to facilitate this demand has meant that Oracle's free cash flow has turned negative this year for the first time since 1992.

OpenAI itself sits at the centre of this AI infrastructure boom, having aligned with nearly every major player in the ecosystem[1]. The company has reportedly entered into over $1tn in cumulative deals and partnerships in recent months and will be heavily reliant on external funding in order to finance this. The figure is staggering considering the fact that it is approximately equivalent to the combined free cash flow generated by Alphabet, Amazon, Apple, Meta, and Microsoft over the past four years. The scale of these commitments raises an uncomfortable question of systemic importance and making us wonder if OpenAI is becoming too big to fail – 'If you owe the bank $10, that's your problem. If you owe the bank $10bn, that's the bank's problem'.




## Portfolio Discussion

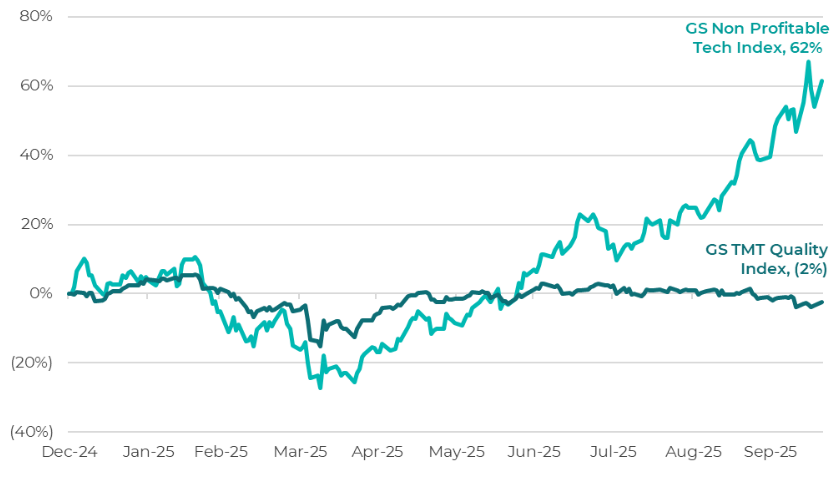
So where do we go from here? On one hand, it is conceivable that new generations of semiconductors drive non-linear improvements in the quality of large language models, helping sustain the demand trajectory we are seeing today. On the other hand, history suggests markets often overreact in the short term and underreact in the long term, and valuations have reached historic highs as markets price in substantial future AI infrastructure spending that is being promised but not necessarily guaranteed. Our view is one of cautious optimism. There is a clear long-term secular growth opportunity driven by AI, but fundamentals also matter.

[1] *Source: Company data, Morgan Stanley Research.*

As a result, our investment philosophy grounded in the predictability of the businesses we invest in serves as a useful foundation. Markets rarely go up in a straight line and therefore remaining invested in what we deem to be the picks and shovels of the AI opportunity over the long term, without succumbing to short-term cyclicality, is key in our minds.

These include businesses such as Microsoft or Amazon, which benefit from rising AI-driven cloud demand but retain flexibility to reallocate capacity toward non-AI workloads if conditions change, given this is still relatively underpenetrated today. In addition, these companies have generally shown greater discipline with Microsoft for example, prioritising their capacity for inference, i.e. actual AI applications rather than training, which is likely to be more cyclical and less durable over time. In addition, the Fund holds Taiwan Semiconductor Manufacturing Company (TSMC) which is the world's leading manufacturer of semiconductors, including those used in AI applications. Whilst the company has benefitted from the current demand environment, its position as a capacity-constrained near-monopoly in leading-edge chipmaking helps their ability to allocate capacity towards a variety of long-term secular growth trends if required. We also own Siemens Energy, a leading gas-turbine manufacturer, well placed to benefit from rising power demand. AI data centres are driving a step-up in electricity consumption and given extended grid-connection timelines, gas turbines are uniquely positioned to meet this need through rapid deployment, low execution risk, and reliable output. Beyond AI demand, there are additional structural drivers including coal-to-gas transitions, renewables intermittency support, and load growth tied to EV adoption and reshoring. We see growth potential above market expectations and, importantly, strong visibility supported by extensive demand backlogs, recurring long-duration aftermarket revenues and their entrenched position in an oligopolistic industry.

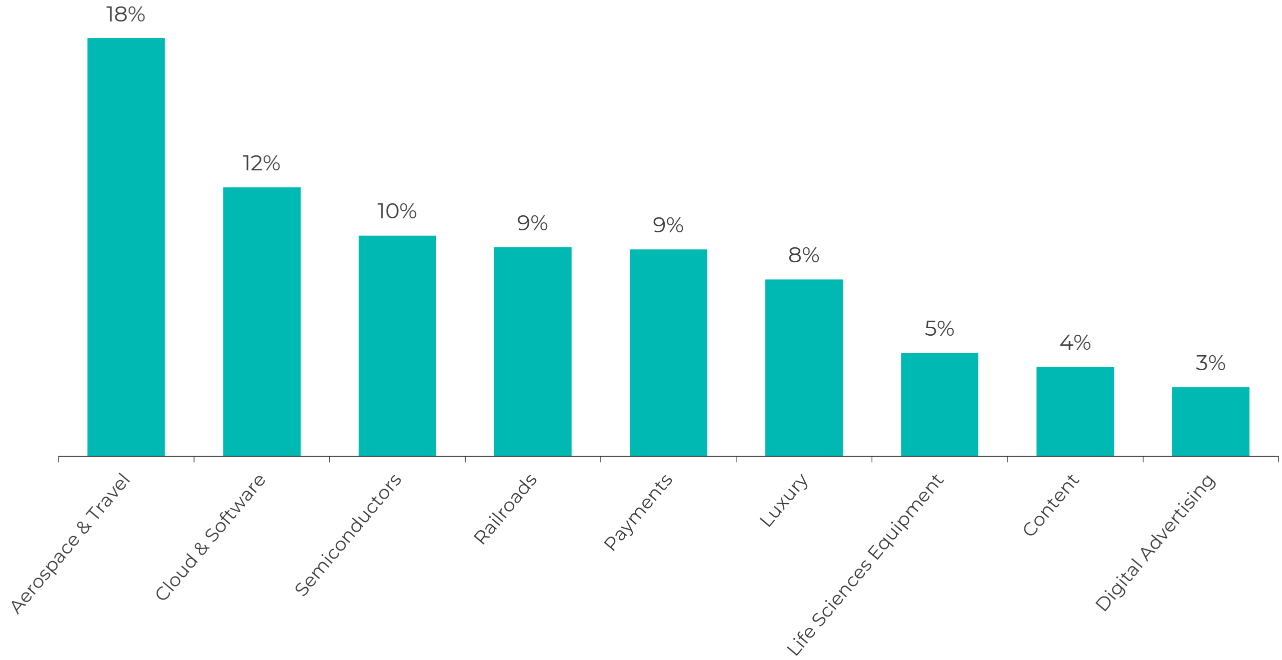
While equity markets have continued their near-uninterrupted climb toward new all-time highs, significant factor rotations beneath the surface have acted as a headwind to relative fund performance. This comes alongside the FX drag from USD weakness highlighted in our previous letter. Since the "Liberation Day" market low in April 2025, the subsequent risk-on rally has been driven predominantly by more speculative segments of the market. The Goldman Sachs (GS) Most Shorted Companies Index has surged 107% over this period, while the GS Quality Index has declined 15%, underscoring a pronounced preference for lower-quality, higher-beta names. Even within the technology sector, which has been the focal point of the AI infrastructure trade, leadership has skewed sharply toward the more speculative end. The GS Non-Profitable Tech Index has outperformed the TMT Quality Index by an extraordinary 107% since the April lows, marking one of its strongest relative runs since the post-pandemic, low interest rate fuelled rally.




*Source: Stenham Asset Management; Bloomberg.*

While shifts in market factors can meaningfully impact short-term performance, we continue to believe that long-term returns will ultimately reflect the underlying fundamentals of the businesses we own. Predicting when these factor trends may reverse is near impossible yet, as history shows, trees do not grow to the sky, and mean reversion tends to occur over time. Rather than trying to anticipate short-term market swings, our attention remains on the enduring strength and earnings power of our portfolio companies. This includes the companies highlighted above, which are well positioned to benefit from the enduring secular growth in AI.

## Portfolio Themes[1]




As always, we appreciate your continued support and investment. Should you have any questions, please do not hesitate to reach out.

Kind regards,

**Kevin Arenson**, Chief Investment Officer & Co-Portfolio Manager
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**Thibault Decré**, Associate
**Gabriel Moraes**, Analyst

[1] *Data as of 30 Sep 2025. Source: Stenham Asset Management.*

**DISCLAIMER**

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