Polar Capital
North American Fund

July 2025

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Awards & ratings

MORNINGSTAR ★★★★ MORNINGSTAR Bronze

Analyst-driven **10%**
Data coverage **96%**

Year-to-date, the Fund (I USD Dist Share Class) has returned 7.8%. The MSCI North America Net Total Return Index returned 6.5% over the same period.

Unlike recent years, market-cap-weighted index performance so far this year has seen less of an outsized performance impact from the very largest companies in aggregate. For instance, the MSCI North America Equal Weighted Index has only marginally trailed the market-cap-weighted version, delivering a return of 5.5% over the first six months. However, small and mid-cap indices continued to lag meaningfully, perhaps reflecting concerns over slowing economic momentum, a relatively higher cost of funding compared to larger-cap peers and a domestic bias in a period when the dollar weakened significantly, affording more of a benefit to larger companies with international earnings. The S&P MidCap 400 Index was essentially flat and the S&P SmallCap 600 Index delivered a return of -4.3%.

Business environment

The relatively normal-looking return from large-cap benchmarks disguises the bumpy ride markets have experienced this year, most notably the slump in and around Liberation Day on 2 April and the sharp reversal since, with most of the above indices rallying by over 20% since the second week of April.

Tariffs were the dominant story of the past quarter. The existence of a new tariff regime has not gone away and marks a notable change in the pace of globalisation that, on the whole, has benefitted most economies, companies and investors over time. However, President Trump's shock and awe tactics followed by reversals and compromises also seem to have desensitised investors to incremental announcements and concerns about the impact tariffs might have on the progress of most American businesses have abated somewhat. The impact of tariffs on the Fund is relatively low, at least in a direct sense:

- Around two thirds of the portfolio is companies that sell capital-light goods or services more than they sell physical goods, spanning industries including software, food and drug distribution, hotels, financial processing, discount brokerage, construction rental equipment and insurance. Of the remaining third, 9% is exposed to manufacturers, 7% to retailing of consumer or household goods (including Amazon), 7% to semiconductors, 6% to distribution (industrial and construction) and 4% to energy producers.
- Many of the companies are able to reduce the impact of tariffs on their profits and cashflow over the medium term through price increases, altering manufacturing footprints and to some extent finding incremental productivity savings. Such companies, which are well managed, have strong competitive positions and a sound financial footing could well emerge from this period competitively stronger despite being impacted in the near term. The portfolio has a high proportion of these companies.

SharkNinja is a good example. At first glance, it is a large tariff 'casualty' with 100% of every household product it sells in the US made in the Far East. However, the company has a number of strengths that will help deal with the situation. It has a culturally ingrained innovation and marketing engine that has enabled it to bring category-defining and differentiated products to market over time. This has resulted in consistent market share gains and an ability to expand the market categories it operates in. We see a long runway of this continuing. Its product differentiation should also provide it some ability to pass on a part of increased manufacturing costs. In addition, the company has demonstrated an extremely nimble operating culture.

We remain comfortable with the balance sheet structures of the companies in the Fund, particularly given the high levels of free cashflow they generate

It has successfully diversified its manufacturing base ever since tariffs first hit China in 2018 and now sources products from five south-east Asian countries. This has been a phenomenal logistical exercise, yet the company's operational progression has barely missed a beat. Finally, the company has minimal financial leverage and has consistently generated free cashflow despite a history of strong growth, meaning it is well placed financially to overcome any near-term impact from tariff disruption. While new tariffs are certainly a headwind at face value, we think they can be largely mitigated and the situation could even help the company accelerate its market share gains over the longer term.

Aside from tariffs and the uncertainty around them, the US economy is performing satisfactorily. Growth appears to have slowed a little – capital investment decisions by consumers and businesses are being postponed. However, employment remains strong and inflation broadly is not troublesome.

There is legitimate concern around government finances in light of the passage of Trump's 'Big Beautiful Bill' – an Act which creates a net fiscal stimulus given the $4.5trn in proposed tax cuts greatly exceeding the $1.2trn in spending cuts. This will stretch government finances and expand the budget deficit further from an already high level. Related to this, the scale of new government debt issuance needed to fund the deficit could over time have the indirect impact of pushing interest rates higher for many corporations and consumers. This may result in government investment 'crowding out' private expenditure.

While we are alert to higher financing costs over time, we do not worry too much about higher corporate financing rates for the portfolio's holdings. We remain comfortable with the balance sheet structures of the companies in the Fund, particularly given the high levels of free cashflow they generate.

Having said this, we continue to see weakness in parts of the economy where debt funding plays an important part in driving the demand of goods and services as a higher interest rate environment is pinching after a decade of unprecedented low interest rates.

The portfolio has exposure to some businesses that are housing or construction-related and where demand trends have been, at best, soggy. These include Builders FirstSource, the largest distributor in the US of building products to housebuilders, MasterBrand, the largest manufacturer of kitchen cabinets in the world, and Lowe's, the second largest home improvement retailer in the US. These have been three of the weakest stocks in the portfolio this year as profit expectations have been cut in reaction to weaker demand.

However, we like all these businesses over the long term given their good competitive positions in industries that grow over time – which will likely be around in decades to come – their capable management teams and the opportunities they have to deploy the significant free cashflow they generate in ways that are accretive to long-term shareholder value. We expect these businesses to be able to compound at a double-digit underlying rate from current demand levels through top-line growth and the deployment of free cashflow, on either acquisitions or through share repurchases. Valuations already reflect tough immediate term conditions with, for instance, Builders FirstSource and MasterBrand trading at around double-digit free cashflow yields to their market values. This implicitly prices in either zero or negative perpetual operational growth and/or a very poor capital deployment – both implications are unrealistically pessimistic in our view.

The other noteworthy macro inflection point this year has been the weakness of the dollar, which declined over 10%. This has had the unfortunate impact of hurting returns in home currencies for overseas investors. However, on the plus side it should be helpful for many US businesses given that approximately 40% of S&P 500 companies' revenue comes from overseas. A strong dollar has been a headwind, in dollar terms, for overseas profits for nearly 15 years but at least this year it should be a tailwind. This is probably not yet fully reflected in profit forecasts.

> There has been continued strong progression of business compounding and we continue to like the long-term prospects for all these businesses

Our approach to 'macro factors'

Peter Lynch, the famous investor who ran Fidelity's Magellan Fund 1977-90 and registered a return of over 2,700%, (around 29% annualised, nearly doubling the S&P 500 performance) once said: "If you spend 13 minutes a year on economics, you've wasted 10 minutes". 1977-90 was a period during which there were significant economic and political events and key market regime inflections[1].

We spend more time thinking about the macro environment than 13 minutes in a year. However, that balance of time spent and time wasted on the macro environment seems an accurate reflection to us and we get much more bang for buck on our time invested in company fundamentals. We believe the development of the fundamentals of a business combined with the starting valuation are the key determinants of returns – the way in which we allocate capital reflects this view.

Nevertheless, we do take account of the macro environment in a holistic sense and we think it is important to outline what we do and what we do not do when thinking about the impact that top-down drivers might have on our investments.

1. We think in 'big picture' ways about any top-down drivers and frame them in a longer-term context. This could mean trying to understand any rare, permanent change that could impact a business or whether a cycle a business is exposed to is overly extended or overly compressed. We do not, by contrast, try to make economic forecasts.
2. We focus on how a given top-down driver might impact a business first rather than speculate how it could impact the demand for a stock. However, we do not analyse that information in isolation; it is part of a broader tapestry along with all the meaningful company-specific pieces of information and the vast majority of time it is these company-specific drivers that are the key long-term drivers of the business.
3. Using this broader tapestry and our own judgement, we form a view of whether an investment candidate meets our investment criteria – does it pass our checklist? Is it capable of double-digit annualised business compounding and is it attractively valued? This ultimately drives our capital allocation decisions.

Performance

Of stocks held in the Fund, notably strong contributors to year-to-date performance include McKesson, a distributor of drugs; Uber Technologies, the eponymous ride-hailing and food delivery app; Interactive Brokers Group, a discount broker, and Fairfax Financial Holdings, an insurer.

It is reassuring to see the diverse drivers of portfolio performance shining through. In all cases there has been continued strong progression of business compounding and we continue to like the long-term prospects for all these businesses. However, stock price performance has also risen in excess of their rates of business compounding and we have taken some profits where we have felt the risk/reward no longer looks so attractive given higher valuations.

Weaker contributors to Fund performance have also come from a diverse set of stocks. The most notable negative contributors from stocks held were hotel group Hyatt Hotels, MKS Instruments, a manufacturer of systems for semiconductor capital equipment, MasterBrand, a manufacturer of kitchen cabinets, and RenaissanceRe Holdings, a reinsurance company.

1. Including the Volker Shock, arguably the worst recession in the US post-WW2 at the time; the peak of inflation and Federal Funds Rate in the US; Reagonomics Latin America debt crisis; the 1987 market crash' the end of the Cold War; and the Savings and Loans banking crisis

We prefer to invest when we are confident the cycle is at below normalised conditions so we can enjoy at least a medium-term operational tailwind

Hyatt Hotels performed poorly given a combination of weak demand trends for hoteliers as well as an acquisition that in the short term deviated from its asset-light strategy as it came packaged with physical properties that the company stated it intends to sell. We are not overly concerned about either of these issues. Hotel demand is cyclical and will go through ebbs and flows. Meanwhile, Hyatt Hotels has since sold the properties it purchased, resulting in an appealing net acquisition price for the capital-light management fee business retained as part of the transaction.

MKS Instruments was weak based on cyclical demand issues as well as concerns over the impact of tariffs – we expect neither to be material long-term issues to the business.

MasterBrand was weak given its products are somewhat discretionary and interest-rate sensitive. A lacklustre housing market as noted above also impacted demand.

RenaissanceRe Holding's subpar performance relates to weakening pricing trends in some areas of insurance following a period of very strong pricing growth. We do not anticipate a prolonged soft market in insurance and, at 1.2x stated book value, the stock offers good value given its normalised double-digit return on equity and attractive book value compounding potential.

The influence of the largest stocks in the Index (MSCI North America Net Total Return Index) where the Fund has no exposure was lower in aggregate year-to-date than has been the case in recent years. However, Apple* was still the largest positive relative contributor to fund performance and NVIDIA* and Meta Platforms* were the largest and third-largest contributors to negative relative performance.

Given our investment approach focuses on a combination of the long-term business compounding potential and the valuation of an investment candidate, rather than prioritising large market cap, we naturally continue to have higher exposure to companies outside the very largest companies than the Index. For instance, the portfolio has nearly half (48.5%) of its exposure to companies with a market cap below $50bn versus the index where the exposure is only 16%[2]. We continue to see a good mix of investing opportunities in North America from some of the largest companies such as Amazon, Visa and Microsoft to companies much further down the market-cap scale, such as International Petroleum, Credit Acceptance Corp and GCC.

Activity

There was one new purchase for the portfolio over the period, AGCO.

AGCO is a global manufacturer and distributor of agricultural equipment including tractors, combines and crop sprayers as well as providing precision agricultural technology, largely sold alongside its equipment. Its main brands are Massey Ferguson, Valtra and the premium brand Fendt. It is a global business with only a quarter of its sales from North America, around half from Europe/Middle East and the bulk of the rest from Latin America, mainly Brazil.

Although John Deere* is the dominant agricultural equipment provider in North America, in Europe and Latin America the industry has a more even oligopolistic structure with John Deere, CNH and AGCO cumulatively sharing the vast majority of those markets. Brand loyalty, distribution and maintenance networks, and increasingly technology provide barriers to entry while competition tends to be rational with only two years of negative pricing over the past 50 years in the industry.

Agricultural equipment is not a high-growth business in volume terms, however it will always be required and there is little chance of meaningful disruption. More positively, there are new growth opportunities from a content perspective as more technology is added to the equipment, enabling higher crop yields and lower costs. Basic precision agricultural technology has been around for a while but it is increasing in sophistication with more accurate planting, spraying and harvesting technologies. Penetration is still relatively low despite there being a clear return on investment for farmers, labour and herbicide/pesticide savings primarily.

2. Source: Polar Capital, 30 June 2025

Farm equipment is also increasingly being used to collect data which can be fed back to the farmer to help improve productivity further. AGCO talks of having a goal of increasing farmers' income by 20%. This may be slightly ambitious, but equipment companies such as AGCO are well placed to add value for their customers. If they can monetise even a very small part of that value-add it can have a meaningful impact on their profitability and growth over the long term. It is difficult to quantify, but we think over an agricultural cycle it is reasonable to expect pricing/content to help drive mid-single-digit top-line compounding for AGCO.

Demand for agricultural equipment is cyclical and depends on a number of somewhat interrelated factors including commodity prices, farm incomes, subsidies, financing rates, used equipment inventories, prices etc. Cycles are notoriously difficult to forecast and time – this adds analytical risk. Equipment sales have been in a downcycle the past two calendar years and large agriculture equipment volumes are over 40% below levels recorded in 2022, the most recent peak. Interestingly, the 2022 cycle was itself supply constrained by Covid-related component shortages so peak volumes were 30% below the cycle peak prior to that. We do not know when this cycle will inflect upwards. However, based on current sales compared to history and required replacement levels, as well as inventory levels and fleet age, we are confident that equipment sales are below normal levels. Agricultural cycles tend to mean revert and we would expect a normalised environment within the next 2-5 years and the next peak not long after. From now there should be a cyclical tailwind over the medium term.

When we initiate an investment in businesses that are more cyclical in nature we have three 'cyclical rules' complementing our other investment criteria.

> The US is also home to businesses that serially seem to expand their presence on a global basis

1. The business must be capable of achieving our 10% pa business compounding over a cycle rather than being dependent on cyclical growth from trough-to-peak to achieve our double-digit compounding hurdle. In addition, we have a clear preference for companies showing better operational performance from one cycle to the next.
2. We prefer to invest when we are confident the cycle is at below normalised conditions so we can enjoy at least a medium-term operational tailwind. Typically, at such a point sentiment and normalised valuation are both low and have scope to improve, which can mean the investment rerates alongside the operational growth providing an additional source of return. Interestingly, in recent years we have questioned this rule more as sometimes cyclical downturns and upturns are priced in earlier by investors. Nonetheless, we still think it makes sense more often than not.
3. We look for a greater margin of safety/higher return hurdle all other things being equal to account for analytical error around the cycle.

AGCO fits these three criteria.

Over a cycle we expect content and pricing growth as well as the potential to expand margins from product mix (faster growth from its higher margin technology products, premium Fendt brand and parts businesses) and productivity enhancements. This should result in at least mid-upper single-digit operational growth. Given the likely cashflow generated over a cycle, which is substantial compared to the current market cap, and likely continued meaningful return of its cashflow to shareholders, we think AGCO can compound business value healthily above 10% over the next cycle.

As we have highlighted above, the agricultural cycle is very likely below normalised.

Finally, the valuation is attractive, providing a high long-term valuation margin of safety and an opportunity to add to returns provided by the underlying business compounding should it rerate. At the average price of inclusion into the Fund, the stock traded at around 5x prior peak earnings per share and we think likely below 3x next peak earnings per share. On reasonable assumptions, we believe the stock was purchased at around a 6-7x mid-cycle earnings and a low teens mid-cycle free cashflow yield, assuming mid-cycle arrives over the next 3-5 years.

The end of US exceptionalism

Comments in the media and investing circles about the end of US exceptionalism have become commonplace in recent months. We tend to avoid the term 'exceptionalism'– it is poorly defined and means different things to different people. Like anywhere, the US has its flaws. Having an unorthodox President is, in many people's eyes, one flaw; another is government finances that are becoming ever stretched.

However, it remains a terrific place to be an investor. There is a huge selection of well-managed businesses to choose from and a vast domestic market for such businesses to continue to grow in over time. At the same time, shareholder rights are respected and there is a culture of entrepreneurialism and dynamism that is deeply and culturally ingrained.

America is also home to businesses that serially seem to expand their presence on a global basis. Simplistically, and whether we like it or not, the US's influence over our lives through the products and services we consume has grown over time. More recently, that influence has shone through in areas such as technology, media (what media we consume and how we consume it), retail (online) and even in previously unimagined areas such as taxi booking services.

> There is a huge selection of well-managed businesses to choose from and a vast domestic market for such businesses to continue to grow in over time'

Importantly, US shareholders have a good record over time of benefiting from this expanded presence. This sounds like it should obviously be the case, but it is not a given. Some investing jurisdictions around the world have poor records of generating shareholder returns, despite apparent economic success[3]. US businesses will likely continue to expand their presence on the global stage and shareholders should continue to benefit.

Conclusion

The first half of 2025 has been a bumpy ride with global trade relationships front and centre of investors' minds. These developments are not insignificant. However, we remain confident about the ability of companies in the portfolio to continue to compound business value at an attractive rate.

The US is not perfect. However, it has a number of important embedded and enduring qualities that make us confident that our approach can continue to benefit investors by investing in attractively compounding businesses at appealing prices now and for many years to come.

* not held

Polar Capital North American Team

16 July 2025

3. For instance, despite the sensational transformation of the Chinese economy over the past three decades, the MSCI China Index has registered a total relative return of 1.5% since inception at the end of 1992 with all of that return from dividends – the actual Index is down 25%. Chinese GDP in real terms has expanded almost 40x over the corresponding period (all figures in dollar terms).

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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Investment in the Fund is an investment in the shares of the Fund and not in the underlying investments of the Fund. Further information about fund characteristics and any associated risks can be found in the Fund's Key Information Document or Key Investor Information Document ("KID" or "KIID"), the Prospectus (and relevant Fund Supplement), the Articles of Association and the Annual and Semi-Annual Reports. Please refer to these documents before making any final investment decisions. These documents are available free of charge at Polar Capital Funds plc, Georges Court, 54-62 Townsend Street, Dublin 2, Ireland, via email by contacting Investor-Relations@polarcapitalfunds.com or at www.polarcapital.co.uk. The KID is available in the languages of all EEA member states in which the Fund is registered for sale; the Prospectus, Annual and Semi-Annual Reports and KIID are available in English.

The Fund promotes, among other characteristics, environmental or social characteristics and is classified as an Article 8 fund under the EU's Sustainable Finance Disclosure Regulation (SFDR). For more information, please see the Prospectus and relevant Fund Supplement.

ESG and sustainability characteristics are further detailed on the investment manager's website: - 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.

This document is provided and approved by both Polar Capital LLP and Polar Capital (Europe) SAS.

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Benchmark

The Fund is actively managed and uses the MSCI North America Net Total Return Index as a performance target. The benchmark has been chosen as it is generally considered to be representative of the investment universe in which the Fund invests. The performance of the Fund is likely to differ from the performance of the benchmark as the holdings, weightings and asset allocation will be different. Investors should carefully consider these differences when making comparisons. Further information about the benchmark can be found here. The benchmark is provided by an administrator on the European Securities and Markets Authority (ESMA) register of benchmarks which includes details of all authorised, registered, recognised and endorsed EU and third country benchmark administrators together with their national competent authorities.

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The Fund is registered in Spain with the Comisión Nacional del Mercado de Valores ("CNMV") under registration number 771.

Switzerland

The principal Fund documents (the Prospectus, KIDs, Memorandum and Articles of Association, Annual Report and Semi-Annual Report) of the Fund may be obtained free of charge from the Swiss Representative. The Fund is domiciled in Ireland. The Swiss representative is FundRock Switzerland SA, Route de Cité-Ouest 2, 1196 Gland, Switzerland. The paying agent in Switzerland is Banque Cantonale de Genève, 17 quai de l'Ile, 1204 Geneva, Switzerland.

Austria/Belgium/Denmark/Finland/France/Germany/Gibraltar/Ireland/Italy/Luxembourg/Netherlands/Norway/Portugal/Spain/Sweden/Switzerland and the United Kingdom

The Fund is registered for sale to investors in these countries.

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