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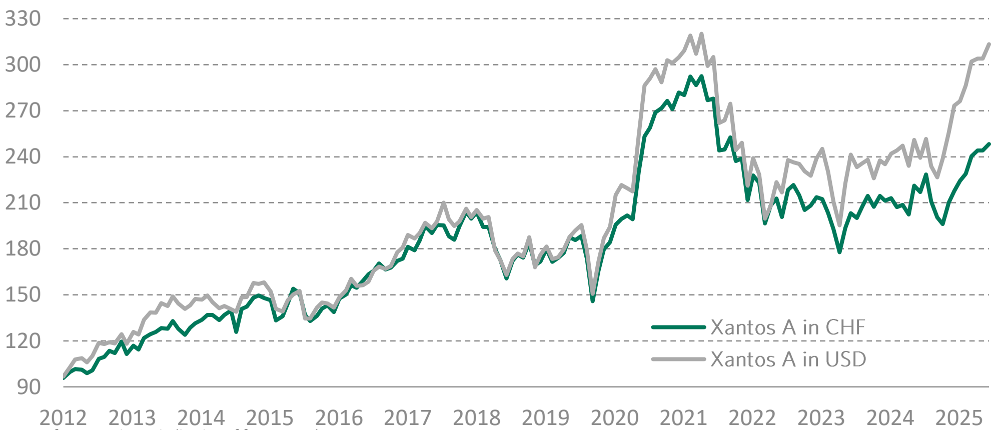
ANNUAL REPORT 2025

- Despite economic and geopolitical turbulence, 2025 was a positive year for small and mid caps
- Xantos share class A achieves a return of +14.4% (CHF) despite the devaluation of the US dollar – the return in US dollars is +30.9%
- US trade policy/tariff war causes roller coaster on global equity markets – US dollar under pressure
- Stark regional variation in performance – Europe comes out on top
- Europe rearms – defence industry benefits – historic infrastructure programme in Germany
- Investments in artificial intelligence continue
- Portfolio: Europe (financial and defence sectors) continues to be favoured over US; information technology continues to dominate, followed by financials
- Global small and mid caps valued almost 20% lower than large caps, offering huge catch-up potential

Performance of Xantos A



Past performance is not indicative of future results.

Positive start to the year driven by political optimism

Despite many uncertainties, the global equity markets got off to a positive start to the new year in January. In the wake of the US presidential election, the markets were hoping for a pro-business, deregulating and tax-cutting tailwind.

Tariffs and looming trade war cause roller coaster on global equity markets

The high expectations of pro-business policy from the new US administration were soon dashed. The first blow on the stock markets was dealt on "Liberation Day". The imposition of high tariffs on US imports, announced by the US President, triggered a nosedive. The protectionist US trade measures triggered panic sales around the world, particularly in US dividend-carrying securities. Worries about growth, fears of recession and mounting concerns over inflation became widespread. The US dollar, which is usually sought out as a "safe haven" during times of crisis, declined massively in value. The crash is reflective of the marked loss of confidence in the US.

On 9 April, shortly after the higher tariffs came into effect, a strong recovery rally followed, triggered by Trump's announcement of a 90-day pause in the tariff war and driven by hopes that the tariffs would not turn out to be as high as originally feared. Subsequent tariff agreements with various countries, including Japan and the EU, helped avert an escalating tariff war, resulting in a continuation of the equity market rally. The upward trend was also bolstered by robust US economic data and hopes for higher economic growth in Europe as a result of the investment programme announced in Germany.

Historical infrastructure programme in Germany

Germany announced the easing of the debt brake on defence spending enshrined in the Basic Law and its intention to invest EUR 500 billion in infrastructure. This briefly helped European stock markets gain new momentum in March. Companies benefiting from these defence and infrastructure investments performed very well throughout the year despite high volatility.

Rare earths are becoming the new "hot spot"

Rare earths are essential for many high-tech products – from smartphones, electric vehicles and wind turbines, to robotics, drones and radar systems. China dominates the global market with a share of 80–90%, particularly in the further processing and production of permanent magnets. This dominance means that international companies are heavily dependent on Chinese supply chains. In the wake of US tariff policy, China has introduced export restrictions on rare earths, which has boosted Washington's efforts to reduce its dependence. The US Department of Defense is therefore acquiring a stake in MP Materials and will become its largest shareholder. MP Materials operates the only active rare earth mine in the US. This mine is scalable and is one of the most important mining sites in the world. Shares in MP Materials have almost tripled in value and were one of the top performers in the Xantos portfolio in 2025. Australia-based Lynas Rare Earth also puts in a strong performance. Alongside MP Materials, it is the only producer outside China with its own active rare earth mine.

Dreams of interest rate cuts work in favour of small and mid caps in particular

Signs of a cooling US labour market spurred on dreams of interest rate cuts in the autumn and boosted US stock markets. In September, the US Federal Reserve cut its key interest rates by 25bp to 4.25%, followed by a further cut to 4.0% in October and 3.75% in December. This has given a boost to small and mid caps in particular. For many smaller companies, debt is an important source of financing. When this financing becomes cheaper due to lower interest rates, these companies benefit the most. Xantos also benefited from the rally in small and mid caps, recording its best September in 12 years with an increase of 5%.

Brief correction in October/November due to concerns regarding credit risk and high AI valuations

Reports of credit defaults at two US regional banks sparked uncertainty among investors in the second week of October and led to profit-taking. Speculations of a potential deterioration in credit quality in the US regional banking sector came only shortly after the collapse of subprime car lender Tricolor and the insolvency of auto parts supplier First Brands Group. These events once again cast doubt on the financial resilience of US consumers.

Fears about inflated valuations of certain AI companies also had a negative impact. These fears soon abated, and on the US tariff policy front, China reached an agreement with the US, which brightened the outlook for global trade and reduced concerns about supply chain disruptions. However, it is expected that the situation with China will remain tense and that foreign governments will keep striving to further reduce their dependence on China.

Portfolio

Performance

Double-digit increase in return despite devaluation of US dollar

In 2025, Xantos share class A achieved a return of 14.4% (CHF). Due to the devaluation of the US dollar, the return on Xantos share class A in Swiss francs (+14.4%) is significantly lower than in US dollars (+30.9%).

Performance more broadly based than in previous years, with AI, rare earths, defence and European banks as performance drivers

Compared to the past two years, where performance was strongly driven by the IT sector and defence stocks, 2025 proved somewhat more broad-based. In essence, performance was driven by four fields: artificial intelligence (AI), rare earths, defence and European banks.
At the level of individual stocks, Lumentum made by far the largest positive return contribution to this year's performance. The US company is one of the leading companies in the field of optical communication. Lumentum is benefiting strongly from the expansion of AI and cloud infrastructure and is expected to double its revenue and quadruple its profit over the next two years. MP Materials (rare earths, US) made the second-largest positive contribution to returns. Other positive contributions to returns came from Coherent (optical communication – beneficiary of AI boom), BPER Banca (Italian bank), Mapfre (second-largest Spanish property and accident insurance group with a strong position in South America), Saab (Swedish defence company), Hensoldt (German defence company), Advanced Energy Industries (US electronics company – beneficiary of AI boom), Unicaja Banco (Spanish bank) and SiTime (US semiconductors).

Information technology sector dominates driven by AI, followed by financials, materials, industrials and utilities

More than half of Xantos' performance in 2025 was accounted for by the information technology sector, which continues to hold the largest weighting in the fund (average weighting last year: 37.4%). Investments in artificial intelligence and the expansion of AI infrastructure (data centres) were once again the driving force here. Other positive drivers of returns were the financials, materials and industrials sectors, as well as utilities.
Within the information technology sector, Lumentum was the main performance driver, followed by Coherent, Advance Energy Industries, SiTime and MKSI (semiconductors, US).
In terms of financials, Spanish and Italian financials, in particular contributed positively to returns, such as BPER Banca, Mapfre, Unicaja Banco and Bankinter, as well as Nordnet (digital investment platform, Sweden).

Within the materials sector, the topic of rare earths dominated with MP Materials and Lynas Rare Earth.
In the industrials sector, the largest positive contribution to returns once again came from the defence companies (Saab AB, Hensoldt), which continue to benefit from geopolitical uncertainties and the global rearmament.
Among utilities, our only investment in this sector, Talen Energy, also made a positive contribution to returns. The company is benefiting from rising electricity prices due to strong electricity demand driven by the expansion of digitalisation and AI infrastructure.

Consumer discretionary, healthcare, consumer staples and energy dampen performance

The consumer discretionary and the healthcare sector put in a disappointingly performance last year. Consumer purchasing power has declined due to inflation in recent years, which has manifested as restrained purchasing, and the healthcare sector is subject to widespread price pressure. Negative contributions to performance were also made in the energy sectors due to lower energy prices and in the consumer staples sector.

Portfolio structure and adjustments

Acquisitions in Europe (banks, defence), sales in the USA (including consumer discretionary, defence, software)

Xantos started the new year practically fully invested (cash ratio of 1.4%). Around 49% of assets were invested in the US and 48% in Europe. Sector by sector, Xantos had invested almost 39% in information technology at the start of the year, 14% in industrial stocks, 12% in the financial sector and almost 12% in the healthcare sector.
In summary, we reduced our exposure to the US (consumer discretionary, banks, industry, defence), in the first half of the year in particular due to the trade disputes while conversely making acquisitions in the European banking and defence sectors. In the meantime, Xantos’ US exposure had dropped to less than 36% of assets compared to 49% at the beginning of the year.
In the second half of the year, we closed practically all real estate bets (Sweden, UK, Ireland), divested from various companies in the healthcare sector and reduced the weighting of software. The emergence of agent-based AI (agentic AI) is increasingly challenging the traditional software business and fuelling fears that AI could displace traditional software. In addition, two of our very successful long-term software investments – Fortnox and CyberArk Software – were bought out at a handsome premium. We have replaced CyberArk with Rubrik (US). Fortnox was not replaced.
The sales were offset by targeted acquisitions in US hardware (communication equipment and connectivity) and quantum computing.

The cash ratio at the end of the year is 6.5%. 47% of assets are invested in Europe and 41% in the US. At sector level, Xantos had invested almost 37% in information technology as of the end of 2025. Semiconductors account for almost 17% of this, while software accounts for just under 8%; hardware and optical communications account for the rest of the segment. 19% of assets are invested in financials, while industrials account for a further 13%, with defence companies at the forefront, accounting for 60% of assets. The materials sector accounts for 6% of the portfolio, as does the healthcare sector, which continues to be weighed down by price pressure on medicines.

Xantos sector and country breakdown at the end of December 2025

Sectors in %

- Information Technology 36.9%
- Financials 19.3%
- Industrials 13.4%
- Materials 6.1%
- Health Care 6.0%
- Other sectors 11.8%
- Cash 6.5%

Countries in %

- USA 40.7%
- Sweden 9.0%
- Germany 8.1%
- Spain 7.6%
- Norway 6.3%
- Other countries 21.8%
- Cash 6.5%

Outlook

Rearmament and space

Defence and security stocks corrected sharply in late autumn. US pressure for peace in Ukraine could slow down rearmament efforts.
However, geopolitical uncertainties do not look set to abate. In addition to the well-known conflicts such as the war in Ukraine, Taiwan and the Middle East, there are many less prominent wars and conflicts in the media. In recent months, new hotspots have emerged, such as Venezuela and the border conflict between Thailand and Cambodia.
However, the greatest danger comes from asymmetric threats. Alongside terror and sabotage, cyber threats and hybrid conflicts are on the rise. Our investments focus on cybersecurity, electronic defence and the protection and operation of communications. In addition to software, these investments include manufacturers of radar systems, sensors and electronic devices.
Space is also of rapidly growing importance. Many countries are aiming to create an independent and well-protected communications network in space. Nobody wants to be dependent on SpaceX. While investment opportunities are still limited, projects and investments, as well as the number of companies operating in this area, are growing rapidly and steadily.

Investments

Some governments are very strapped for cash. With its huge investment programme of around €800 billion, Germany seems to be an exception.
However, efforts are being made by all major countries to allocate more funds for investment. In order to be less dependent in a world based on power, many countries and economic blocs are investing in their own communication and technology infrastructure. Examples include satellite networks and efforts to establish a local semiconductor industry.
The localisation of production due to national tariff and economic policies requires massive investments in modern and flexible production facilities. After all, the data revolution is forcing many companies to invest. These investments are often not made in hardware, but rather in software and in-house capabilities/developments.

AI, data centre and infrastructure investments – a hype?

There is currently a lot of speculation about the possibility of an AI bubble on the US equity market, evoking memories of the dot-com bubble. We expect AI to boost productivity. However, it remains to be seen how quickly the productivity gains will be realised and how strong they will be. The extent of productivity gains is likely to be overestimated in the short term, which brings with it potential for correction. However, the AI boom is likely to continue. While valuations are high, they are not at extreme levels and can be explained by the strong earnings performance. There is currently no sign of a slowdown in AI investment and as long as the investments can be financed by high profits from hyperscalers, the investment cycle is likely to continue.

Another transformation of supply chains requires productivity gains

Even if there is a tariff deal between the US and major economies of the world such as the EU, supply chains are likely to be reshaped yet again after the coronavirus pandemic. The “local for local” production strategy is likely to be applied not only within continents, but also increasingly within individual countries, particularly China and the USA. Although the companies affected will initially bear the costs of tariffs, they are likely to gradually be passed on to consumers over the coming months. Higher tariffs and the new transformation of supply chains that comes hand-in-hand require productivity gains that can only be achieved with technological solutions. Technological developments in particular offer many investment opportunities. In the past year, the focus has shifted to new fields of technology. In connection with computing power, quantum computing is of increasing interest to investors. Space is also attracting increasing attention, especially since Donald Trump’s announcement of the new US missile defence system “Golden Dome”. Both military and civilian use is giving rise to more and more companies.

More attractive risk/return potential in Europe

There is a lack of large technology corporations in Europe. But the European equity market has a lot to offer, especially in the case of small and mid caps. Potential investments in Eastern Europe and Ukraine, in particular would benefit not only infrastructure companies, but especially financial services providers too.

Many of these companies are very attractively valued. Further European consolidations are also likely.

In many areas, European industry is at the forefront. Machines for semiconductor production are dominated by European companies. In terms of robotics and drones, Europe currently seems to be more than catching up, not least because of the war in Ukraine. Europeans also have the technological upper hand when it comes to communication and satellite technologies. SpaceX may have more satellites, but not the better ones.

This great potential also comes with attractive valuations.

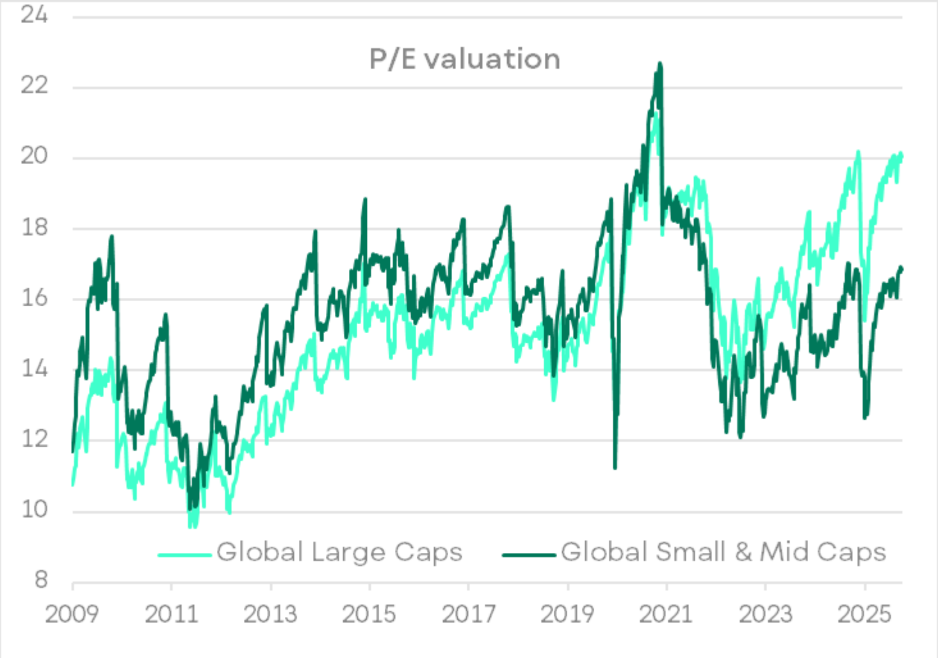
Labour market worries versus inflation concerns in the USA

Weakness in the US labour market is the biggest risk, as investments in AI will not be able to compensate for weaker consumer demand amid rising unemployment. The US Federal Reserve is likely to pursue a looser monetary policy in order to avoid a recession while accepting higher inflation. It is entirely conceivable that the future head of the Federal Reserve will try to raise the long-term inflation target of an average of 2% per year in order to provide more scope for interest rate cuts.

Global small and mid caps valued almost 20% lower than large caps

The valuation of small and mid caps has become increasingly attractive in recent years – particularly compared to large caps (see chart below). While small and mid caps have at times traded at a premium of 10–20% over large caps in the past, this premium has fallen steadily over the past ten years. Since 2021, small and mid caps have even been trading at a discount – and this valuation discount has widened again this year and currently stands at almost 20%. The reversal from a historical valuation premium to a significant discount illustrates the significant catch-up potential of this segment.

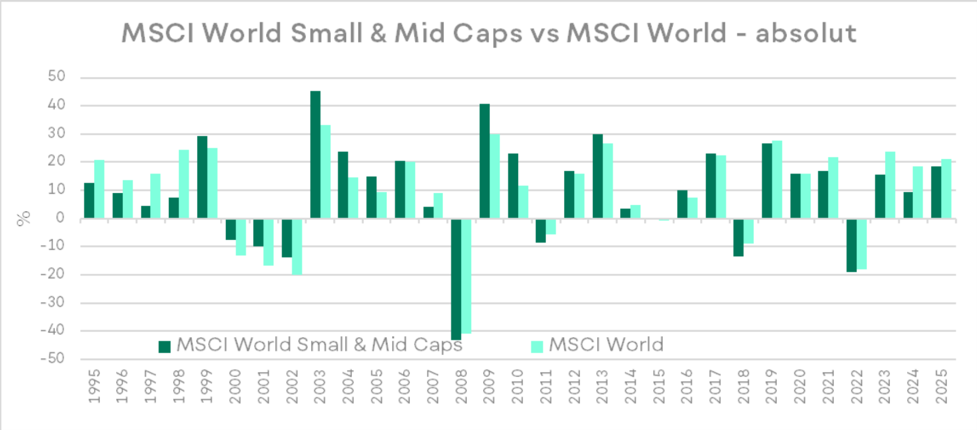
Valuation comparison of global small and mid caps versus large caps



Is the tide set to turn for small and mid caps?

Once again, global large caps outperformed global small and mid caps last year, although the outperformance of large caps was less pronounced than in the previous two years (see chart below). While 2024 still recorded the largest yield differential since 1998, initial signs are pointing to a gradual reversal of this trend. Lower interest rates, which will stimulate the economy and boost growth, will also provide support in this regard. Small and medium-sized enterprises are likely to benefit disproportionately from this.

Performance comparison (absolute) global small and mid caps vs. large caps



We are convinced that small and mid caps offer excellent return potential.