



Melville Douglas Quarterly Commentary Global Equity Fund

/ Q4 2025

Grasping the nettle

The turn of the calendar provides a natural pause for reflection, and 2025 offered plenty to consider.

While a double-digit US dollar return is usually a satisfying outcome, it fell short this year. We failed to match—let alone outperform—the MSCI All Country World Index. One year is a short measurement period for a long-term investor, but we are acutely aware that quarters and years compound into track records. Our clients set a high bar, and we expect no less of ourselves.

A rotation from quality compounders into cyclical—European banks, memory chip manufacturers, and gold miners—was a clear headwind for our investment style. But it does not explain the year. Our real shortcoming was stock selection, particularly in the first half. Strong gains from our AI semiconductor holdings were overshadowed by meaningful losses in healthcare and financials. With hindsight, we were too optimistic about the speed and scope of UnitedHealth's recovery within US health insurance. We also overestimated the resilience of Fiserv's franchise in an increasingly competitive retail payments landscape.

Learning from these experiences is core to our investment process. We have always committed to analysing our successes and, more importantly, our missteps.

To borrow the wisdom of others:

👉👉 To make no mistakes is not in the power of man; but from their errors and mistakes the wise and good learn wisdom for the future. – Plutarch

👉👉 The only way to avoid mistakes is not to invest — which is the biggest mistake of all.
– John Templeton

👉👉 To others, being wrong is a source of shame; to me, recognizing my mistakes is a source of pride... there is no shame in being wrong, only in failing to correct our mistakes.
– George Soros



Over time we have codified every lesson learned while implementing our quality growth philosophy. This compendium is a sober reminder of what works in practice—and what does not. It also accelerates the development of the next generation of analysts, effectively compressing decades of accumulated experience. Most importantly, it reinforces the danger of complacency. The moment we believe there is nothing left to learn is the moment we invite error.

Past lessons include the need to limit exposure to companies facing regulatory pressure, absorbing large acquisitions, or navigating heavy investment cycles—even when valuations appear compelling. Examples include China's Big Tech firms during the 2021–22 regulatory crackdown, the Novozymes/Chr. Hansen merger in 2023, and Amazon's same day delivery investment phase in 2021.

In 2025, the most salient reminder was the risk inherent in turnaround situations. When a high quality business hits a temporary setback, it often creates an attractive entry point. That was our expectation with UnitedHealth and Elevance. Instead, the difficulties proved more numerous and more stubborn.

Two factors stood out:

1. A relentless stream of negative news

UnitedHealth faced multiple issues simultaneously—Medicare and Medicaid mispricing, the Change Healthcare cyberattack, the assassination of a senior executive, negative press around denial of care practices, and ongoing DOJ scrutiny. Each issue was manageable in isolation. Collectively, they created a persistent overhang that prevented earlier problems from fading into the background.

2. Problems take longer to fix than valuations imply

Large-scale operational issues rarely resolve in two or three quarters; they more often require two or three years. With the benefit of hindsight, patience on the sidelines would have provided a better entry point. We allowed valuation to trump the weight of evidence, and that was a mistake.

On a more constructive note, we were reminded of the importance of remaining open minded. For years we avoided semiconductor companies, believing their earnings profiles to be too cyclical for a quality growth portfolio. But the industry evolved—consolidation, structural demand drivers, and stronger through-cycle economics reshaped the landscape. Re-examining our assumptions led to successful investments in TSMC, Nvidia, and Broadcom. The sector remains cyclical, but it is now firmly investable as a long-term compounder, provided position sizing is managed dynamically.

As we look ahead, we remain confident in our ability to uncover opportunities grounded in rigorous analysis and informed by hard-earned experience.





From our **Fund Manager's Desk**

Author: **Chris Willis** / Senior Global Equity Analyst

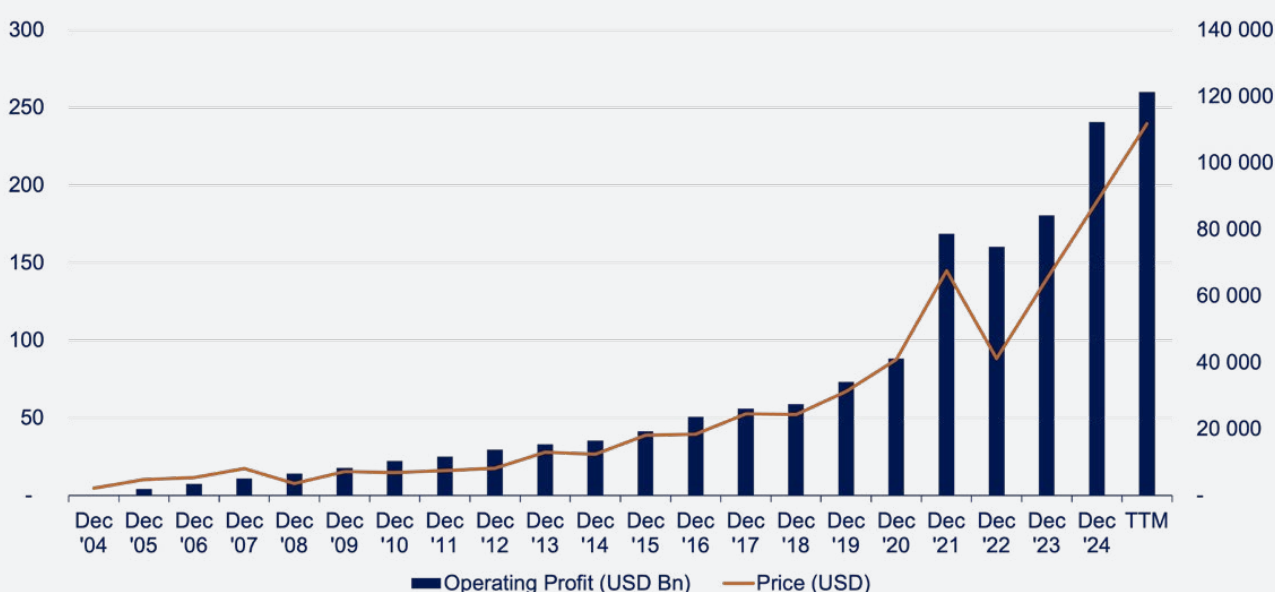
Alphabet: a quality compounder for a world in flux

We regularly explore the investment rationale behind the holdings in the Melville Douglas Global Equity Fund. In this edition, we highlight Alphabet, the parent company of Google and YouTube.

Our investment philosophy focuses on owning durable businesses with high returns on capital, defensible competitive advantages, and management teams with a proven track record of execution. Alphabet aligns perfectly with these criteria; it is a business that reinvests strategically, innovates relentlessly, and compounds value over time.

Alphabet is the quintessential 'quality compounder'. With billions of users across a dozen platforms, the company is deeply embedded in the daily digital fabric of society. These platforms are no longer just popular; they have become essential utilities. Over the last two decades, the company has successfully fended off numerous challenges to its position as the internet's dominant search engine and gateway to the World Wide Web. The results of this success are astonishing: since 2004, revenue has grown more than 100-fold to \$400 billion, and Alphabet is expected to report more than \$130 billion in operating profit for the 2025 financial year alone. This is a testament to the business's scale, resilience, and strategic excellence.

ALPHABET: OPERATING PROFIT AND SHARE PRICE SINCE IPO



Source: Melville Douglas, FactSet Data, Google

The evolution of a giant

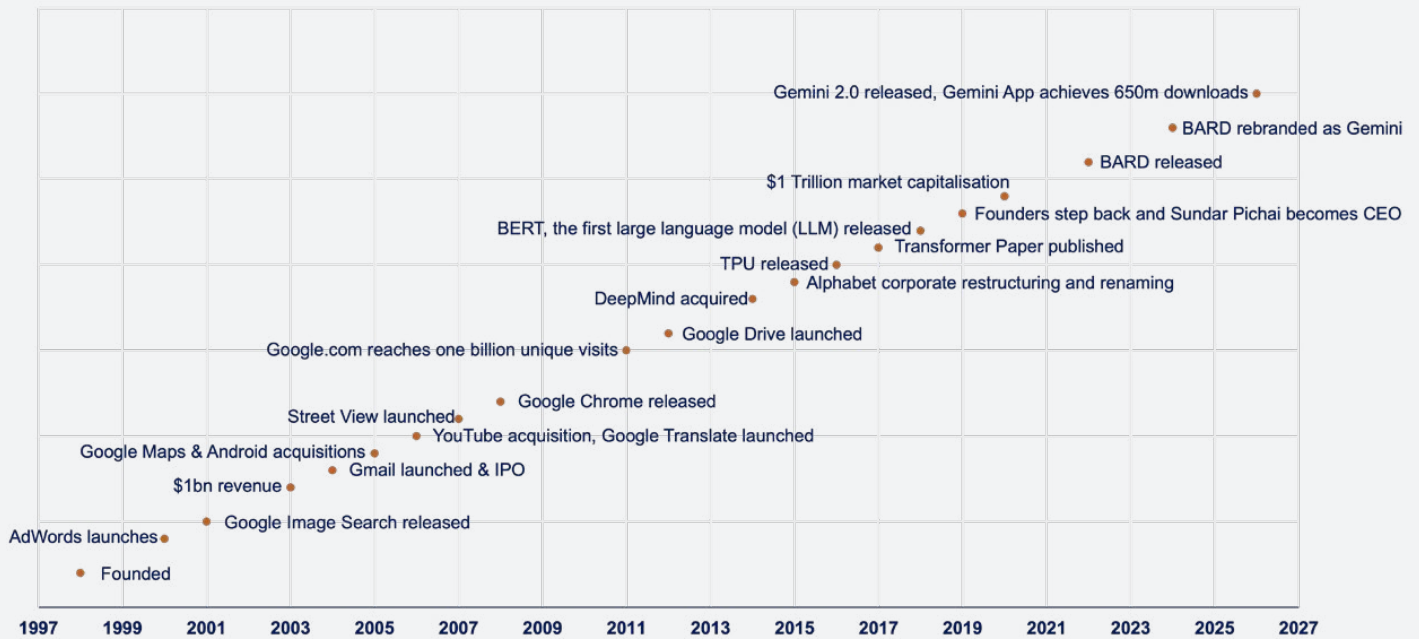
The company's history can be defined by three distinct eras. The first was the era of disruption. Google famously began as a Stanford PhD research project and graduated to a garage in Menlo Park, where it would become the product we know it as today. The founders' vision was clear:

 **To organise the world's information and make it universally accessible and useful.**

In its early years, Google solved the fundamental problem of a fragmented internet dominated by cluttered portals like AOL and Yahoo. The innovation that drove its success was the PageRank algorithm, which indexed the internet and made it easily searchable. This created an immediate competitive moat that remains robust today.

What followed those early years was a decade of strategic expansion. Assets such as Android, Chrome, YouTube, Google Maps, and Gmail were either launched with precision or acquired and seamlessly integrated. Each move was intentional, building an ecosystem that users loved, winning their loyalty and scaling exponentially. Alphabet's position at the centre of the internet was cemented through its control of the most important and frequently used digital properties.

ALPHABET MILESTONES SINCE FOUNDING IN 1997

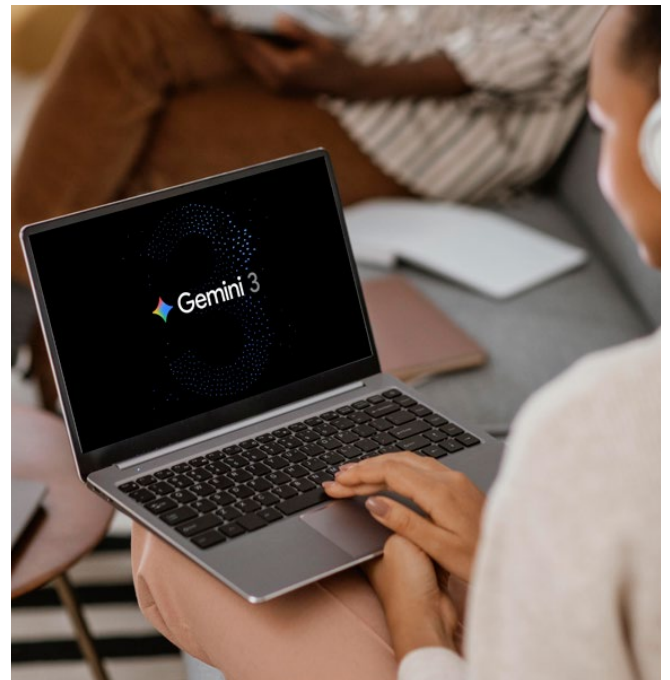


Source: Google, Gemini

This founding story reflects Alphabet's DNA: technical excellence applied to solving real-world problems. Having prevailed in the 'browser wars' and the shift to mobile, the company is now navigating the next frontier.

Alphabet began investing in Artificial Intelligence (AI) early on. In 2001, the company was using machine learning to improve search results and by 2006 they launched Google Translate, an early AI that could automatically process language translation. The 2014 acquisition of DeepMind, an AI lab, bolstered their AI capabilities and propelled them into becoming one of the most accomplished AI research organisations today.

Since its launch in early 2023, Alphabet's flagship AI has undergone the most aggressive product evolution in the company's history. Now rebranded as Gemini, the platform has rapidly transitioned from an experimental chatbot to a core engine integrated across Alphabet's entire multi-billion user ecosystem.



The adoption curve has been historic: the Gemini app reached 650 million monthly active users by late 2025 and is expected to exceed one billion users in 2026. While OpenAI's ChatGPT remains a formidable first-mover, Alphabet is fast catching up with models that are now considered to be industry-leading.



Strategic execution: The business engine

Alphabet's business model is a masterclass in building a virtuous cycle. Better search results attract more users, who in turn attract more advertisers to bid for limited, high-value advertising slots. The resulting profits fuel further innovation, leading to even better products that capture more of the user's time. This self-reinforcing loop defines Alphabet's competitive moat – a network where every stakeholder gains more value as the system grows.



Source: Melville Douglas, Google

This dominance is not a result of luck. By controlling search distribution through Android and Chrome, Alphabet ensured Google remained the default gateway to the internet. This distribution superpower remains critical in the age of AI and Alphabet is leveraging its advantage over its competition. Gemini is now the default AI assistant on Android's three billion devices, powers AI Overviews for over two billion Search users, and has been selected by Apple to help power the next generation of Siri voice assistants. We expect the integration of AI into these properties to become an indispensable foundation of the user experience.



A consistent history of disruption

Alphabet has never shied away from being a disruptor. When Gmail launched in 2004, the promise of 1GB of free storage was mistaken for an April Fool's joke because the industry norm was measured in megabytes. This willingness to make radical bets, in what the company calls moonshots, has allowed Alphabet to redefine products and business models time and again.

Just over a decade ago, Google engineers realised that the company's internal demand for AI compute was going to outpace its infrastructure and would soon consume all the data centre capacity it already had. To solve for this, the company embarked on developing its own specialised AI chip, the Tensor Processing Unit (TPU). Today, almost all of Google's AI processes run on its advanced TPUs. Not only do these chips provide Alphabet with a competitive cost advantage over its peers, but the company has also begun a strategic shift toward commercialising the hardware itself. It is moving to direct deployments of TPUs within the data centres of major partners like Anthropic and Meta Platforms.



Source: blog.google/innovation-and-ai/infrastructure-and-cloud/google-cloud/ironwood-tpu-age-of-inference/

Alphabet is increasingly bringing its AI leadership into the physical world through Waymo, its autonomous driving arm. Waymo has solidified its position as the leader in robo-taxis by scaling to over 450,000 paid rides weekly across five major markets and surpassing 127 million fully autonomous miles. While competitors often capture more headlines, Waymo has quietly edged ahead in bringing this technology to commercial fruition and is expected to continue its aggressive expansion in the years ahead.

Among Alphabet's other bets are moonshots in drug discovery, industrial robotics, and quantum computing. Any one of these could grow to become a significant business in its own right.

Architect of the future

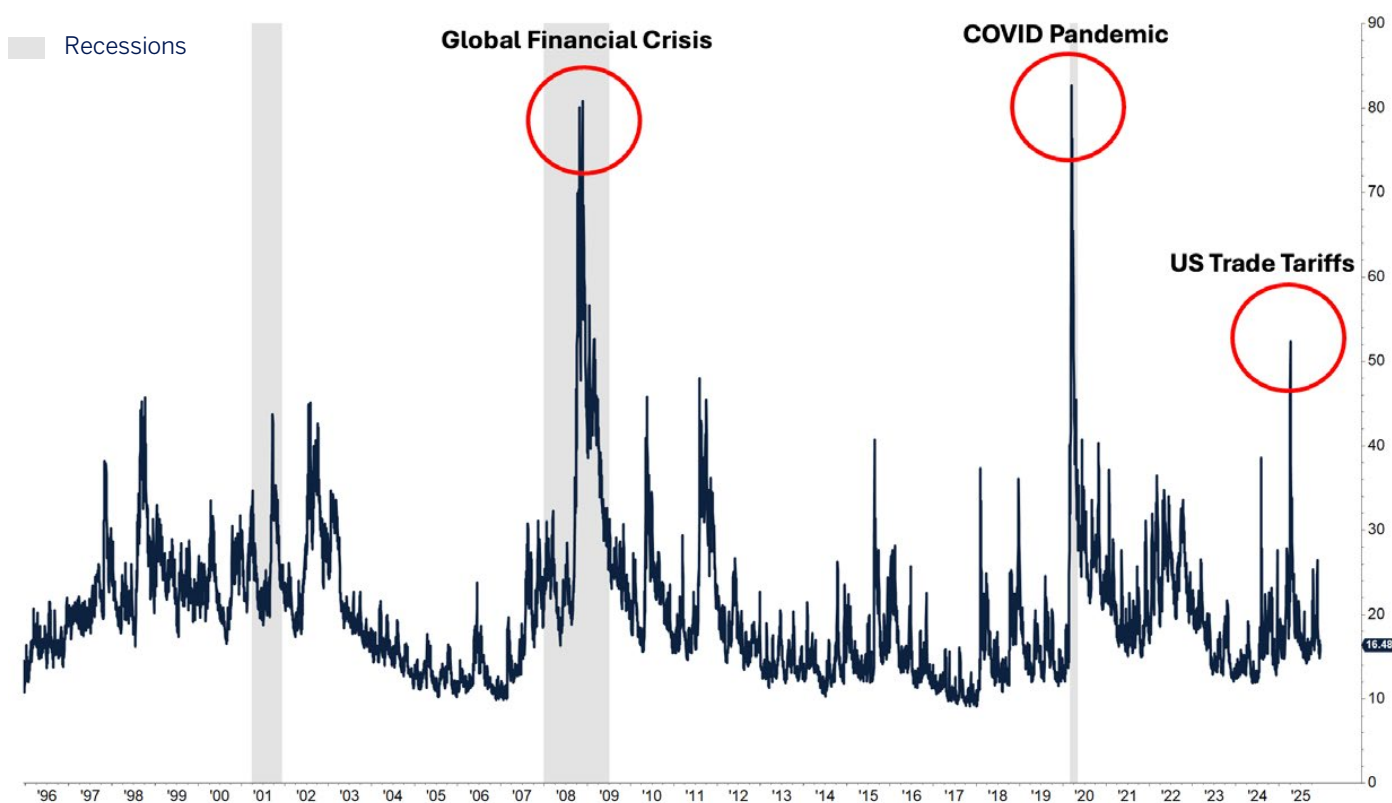
In a world in flux, we prefer to own businesses that are the architects of change rather than its victim. Alphabet redefined the internet era through product innovation and experimentation, and its advancements in AI suggest it is positioned to achieve similar success in the future.

In the Melville Douglas Global Equity Fund, we take a long-term view on the companies we own, and Alphabet has been a staple of the fund since its inception. The company meets all the criteria for a durable compounder and is one we believe can continue building on its strengths for years to come.

Outlook

A few months—let alone a full year—is a long time in markets. The turmoil and pessimism triggered by April's announcement of aggressive US trade tariffs now feel like a distant episode. But the data remembers. As the chart below highlights, implied volatility on S&P 500 options reached levels of distress not seen since the Global Financial Crisis or the height of the COVID shock.

SWINGING PENDULUM: DOOM-AND-GLOOM TO COMPLACENCY?



Source: FactSet, Melville Douglas

Fast forward eight months, and the MSCI All Country World Index ended 2025 comfortably higher, propelled by AI enthusiasm (or “hype,” depending on one’s stance) and the growing recognition that the global economy is far from the brink of a 1930s style depression—indeed, not even a mild recession.

So, has the sentiment pendulum swung too far, from despair to euphoria?

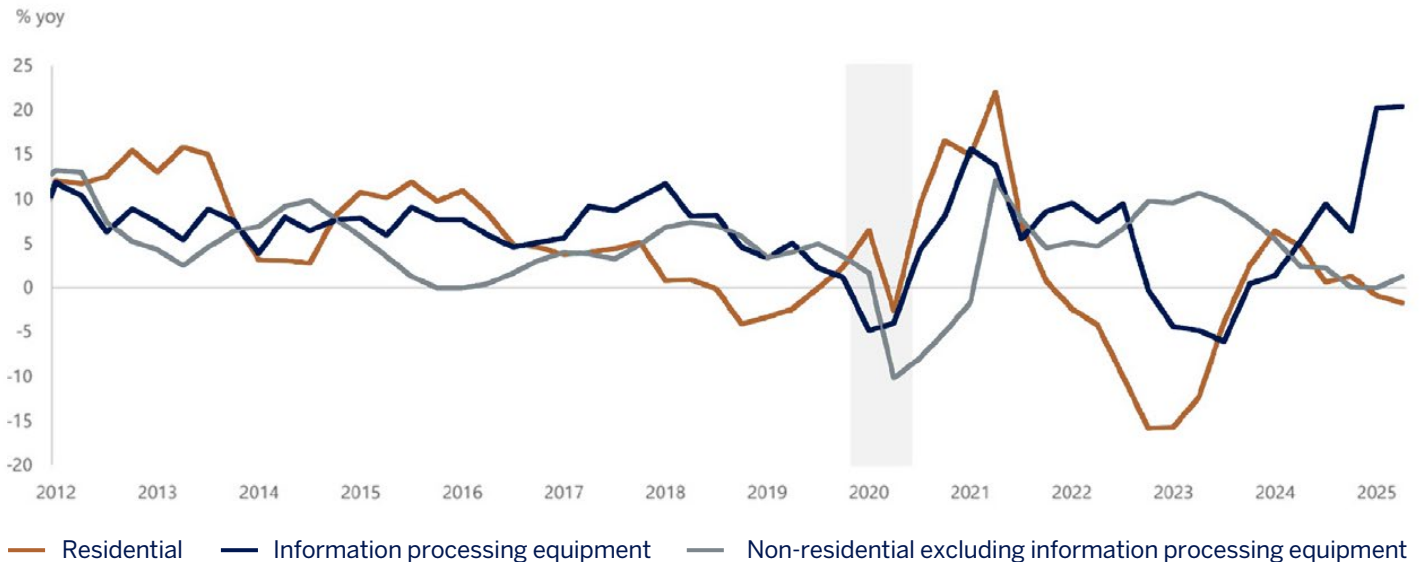
As always, there is no shortage of risks to monitor.

One of them is the US trade war, which has not abated. Tariffs remain at levels last seen in the 1930s. Equally unhelpful is the uncertainty surrounding policy direction from the Trump Administration. Outside of AI—where non-participation is increasingly seen as an existential business risk—management teams remain reluctant to commit to large-scale investment without greater clarity. Non-AI business investment (light blue line) has effectively stalled.



Waiting for clarity - businesses holding back on non-AI investments

REAL PRIVATE FIXED INVESTMENT



Sources: US Bureau of Economic Analysis (BEA), Macrobond, Apollo Chief Economist

Help may now be on the way. The passage of the “One Big Beautiful Bill” (its official name) is expected by the Congressional Budget Office to lift US GDP in 2026 by +0.9%. For an economy growing at roughly 2%, that is a material impulse. The central catalyst is 100% expensing of capital outlays—including equipment and R&D spending—which materially improves the after-tax return on investment.

This fiscal support forms part of a rare policy triumvirate. Monetary policy and deregulation are the other two pillars. Such synchronised pro-cyclical support is uncommon outside recessionary periods. The Administration is pushing ahead with deregulation, and the Federal Reserve is projected to cut rates by 50 bps in the first half of 2026. In Europe, the ECB looks set to maintain accommodative policy while Germany steps up fiscal spending. China is also likely to continue monetary easing and fiscal support.

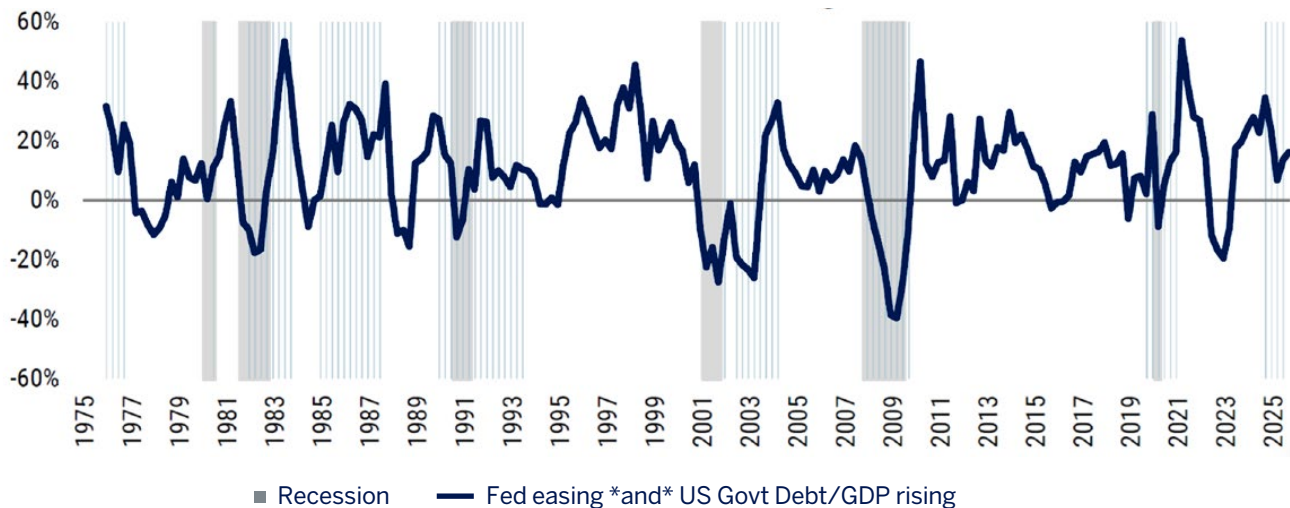




Rare combination of fiscal and monetary stimulus when not in/coming out of recession

Over the last 50 years, the only other period when the Fed was easing and US government debt/GDP was rising when there's not been a recession was in the late 1980s

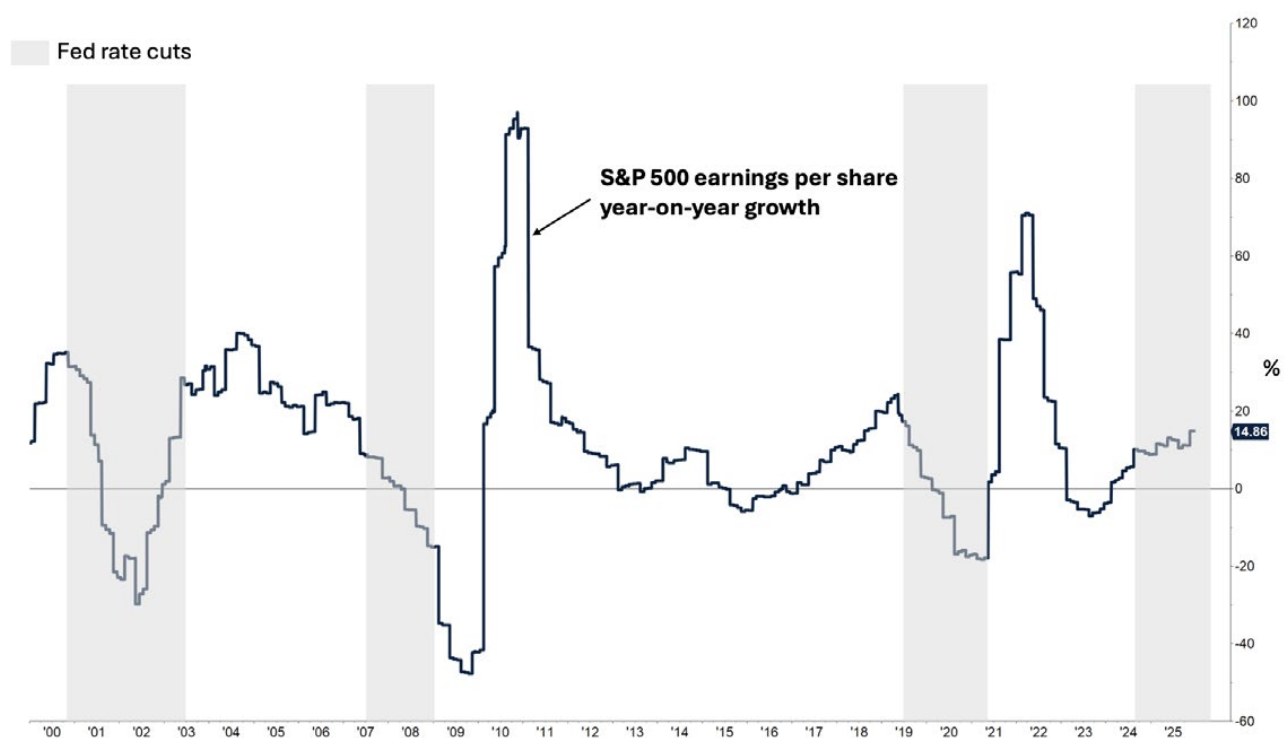
ROLLING ANNUAL RETURN FOR THE S&P 500



Sources: Bloomberg, Haver Analytics, Morgan Stanley Research

As goes the economy, so go corporate profits. Historically, it is unusual for central banks to be cutting rates at a time when earnings are expanding. This alignment of growing profits and falling discount rates lends further support to the ongoing market rally.

Rate cuts + healthy profits backdrop is unusual



Source: FactSet, Melville Douglas



This brings us to valuations. In September, Federal Reserve Chair Jerome Powell commented that equities were “fairly highly valued,” drawing inevitable comparisons with Alan Greenspan’s “irrational exuberance” remarks in 1996—midway through the last major technology boom.

Valuations matter. Markets today are indeed “fairly highly valued,” but not extreme. The top six tech companies (Alphabet, Apple, Amazon, Meta Platforms, Microsoft, and Nvidia) trade at 34x trailing earnings and 30x forward earnings. This remains well below the heights of prior bubbles: the Nifty Fifty in the early 1970s (45x), the dotcom era (60x), and Japan’s late 1980s bubble (72x). We are nowhere near those levels.

Pre-condition of a bubble – excessive valuations

| | PEAK DATE | PEAK P/E | | % OF MARKET CAP |
|--------------|-----------|----------|--------------------|-----------------|
| Nifty Fifty | 05/01/73 | 45x | Nifty Fifty stocks | 30% |
| Dotcom | 24/03/00 | 60x | NASDAQ | 30% |
| Japan stocks | 18/12/89 | 72x | TOPIX | 43% |
| MAG 6 | ? | 30x | | 20% |

MAG 6 = MAG 7 ex Tesla, i.e. Apple, Amazon, Alphabet (Google), Meta Platforms, Microsoft and Nvidia

Source: UBS, Melville Douglas

On balance, if this is a bubble, it resembles the early to mid stages—much like where markets stood in 1996. The dotcom rally continued for several years beyond that point. We will reduce risk when valuations become unequivocally excessive or when monetary conditions turn decisively frothy. At present, neither condition is met, but we are watching closely.

Market wobbles are inevitable. Yet they are offset by a global economy that has demonstrated remarkable resilience over the past five years, alongside one of the most significant waves of technological adoption in decades. We are equally cognisant of the risks.

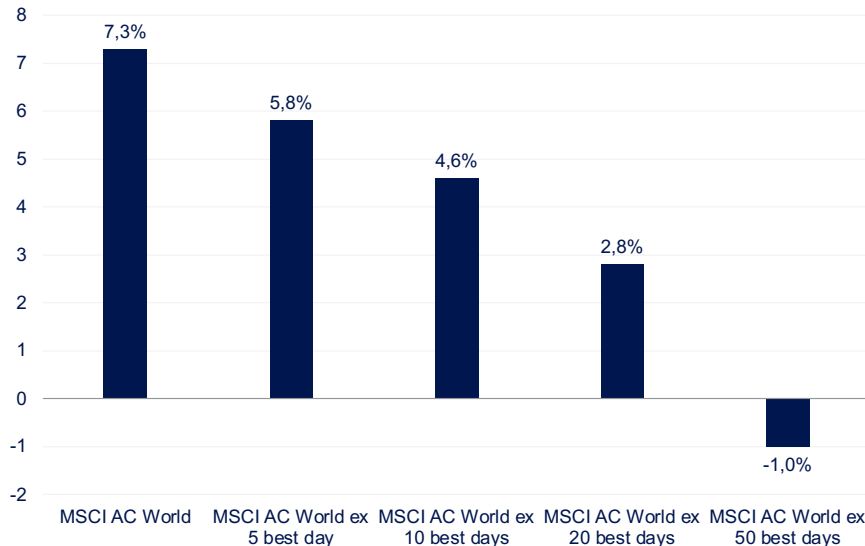
Finally, the chart below reminds us that attempts to time markets—particularly selling into periods of stress—often occur at precisely the wrong moments. Our commitment remains unchanged: invest in a diversified portfolio of the world’s strongest franchises, capable of weathering cyclical and seasonal volatility while compounding returns attractively over the long term.





Stay long term, stay invested

ANNUALISED TOTAL RETURN SINCE BEGINNING OF 2001



TOP 10 BEST DAYS SINCE 2001

| DATE | RETURN |
|--------------------|--------|
| 12/10/08 (GFC) | +9.3% |
| 24/03/20 (COVID) | +8.4% |
| 28/10/08 (GFC) | +7.0% |
| 24/11/08 (GFC) | +6.6% |
| 19/09/08 (GFC) | +6.2% |
| 08/12/08 (GFC) | +5.7% |
| 09/04/25 (Tariffs) | +5.7% |
| 06/04/20 (COVID) | +5.5% |
| 13/03/20 (COVID) | +5.3% |
| 10/03/09 (GFC) | +5.1% |

Source: Melville Douglas, FactSet data from 01/01/01 to 04/08/25

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