



James Thomson
Portfolio Manager

Fund	Q1 2026	1 Year	3 Year	5 Year	10 Year
Starlight Global Growth Fund, Series F	-6.4%	-2.2%	10.6%	5.4%	10.3%

Source: Starlight Capital, as of March 31, 2026.

Performance Summary

- Over the first quarter of 2026, Starlight Global Growth Fund, Series F (the Fund) returned -6.4%.
- Consumer Staples, Real Estate and Materials were the top contributors to performance, which was offset by a decline in Information Technology, Health Care and Financials.
- Several severe headwinds hit our performance this quarter as AI fears, geopolitics and growth concerns combined to shake up markets. While it's sobering and often scary, such moments are precisely when long term investors should lean in rather than retreat.
- History shows that the best long term returns are often earned during periods of maximum uncertainty, not once clarity returns. Volatility is uncomfortable, but it's also the price paid for superior long term returns. If markets were calm and predictable, opportunities of this scale would not exist. Our job is to build a portfolio that can compound value over many years, not single quarters. I don't know what the rest of 2026 will bring, for the world or for markets. No one does. What I do know is that our portfolio today is broader, more balanced, and more opportunity rich than it has been for some time. When fundamentals ultimately reassert themselves, we believe patient investors will be rewarded.

Several severe headwinds hit our performance this quarter as AI fears, geopolitics and growth concerns combined to shake up markets. While it's sobering and often scary, such moments — where entire sectors are repriced almost overnight because of changes in narrative rather than fundamentals — are precisely when long term investors should lean in rather than retreat.

As a result, 2026 has already been one of the most active periods of my career. In the first quarter alone, I have initiated more new positions than in any other quarter over the past 25 years. That is not because we are chasing volatility for its own sake, but because opportunities of this quality and breadth do not often present themselves.

Zero-weighting in oil & gas and Asia made a tough quarter

We've never invested in Japan or emerging markets because we don't feel we have the skill or expertise to invest successfully — this is a developed markets fund investing in the US, UK and Western Europe. But this stance was painful in Q1 as Japanese stocks, Taiwanese stocks and developing markets did well — Korea jumped 20% (in local currency, 15% in sterling) — as key beneficiaries of the AI semiconductor buildout.

Our greater than 70% US equity weighting was a headwind as almost every market in the world outperformed US stocks for most of the quarter — until the final few weeks when war broke out and American stocks claimed safe-haven status.

Our zero weighting to oil and gas stocks also hurt relative returns as the global energy sector jumped 38% in response to the Iran war. We have always maintained a near zero weight to commodity stocks as we don't like the main driver of success being outside of their control: the price they take for their products. This, often combined with single-commodity exposure and high project execution risk, makes it difficult for us to invest confidently.

Finally, our favoured 'quality growth' style underperformed as investors embraced 'value' and earnings surprise plays. Role models for the quality and resilient growth approach, such as software and information services stocks, imploded on AI disruption fears. Fears of a fatal AI infection have spread across the market as well, threatening industries from trucking, insurance, wealth management and travel. But most meaningfully affected are enterprise software businesses.

Fears that AI will eat the world upend software darlings

After several decades of supremacy, the capital-light software businesses are being severely rattled by the advent of AI. These software companies were long the most cherished part of the stock market, which meant many of them were highly valued relative to their prices. These businesses were so popular in the early part of the 21st century because they tend to have low capital intensity and leverage, and high cashflow. In plain English, they have few physical assets that require upfront investment (like factories) or tie up cash (like raw materials used in their products), so they don't need big upfront loans or a big chunk of ongoing expenses to finance them. And that means virtually every extra customer or contract is pure profit, so they can grow rapidly and without constraint, since all they sell are intangible computer services.

Q1 2026 Top Five Contributors			Q1 2026 Top Five Detractors		
Stock	Average Weighting	Contribution to return	Stock	Average Weighting	Contribution to return
COSTCO WHOLESALE CORP	2.4%	0.4%	BOSTON SCIENTIFIC CORP	1.7%	-0.6%
ARM HOLDINGS PLC-ADR	1.1%	0.4%	INTUIT INC	1.3%	-0.6%
EQUINIX INC	1.4%	0.4%	ESSILORLUXOTTICA	1.9%	-0.5%
LINDE PLC	1.9%	0.3%	MICROSOFT CORP	2.1%	-0.5%
WALMART INC	2.4%	0.3%	SHOPIFY INC - CLASS A	1.6%	-0.5%

Source: Starlight Capital & Bloomberg Finance L.P. As of March 31, 2026.

Sector	Portfolio Weight %	Top %Q/Q Changes
Industrials	20.2%	5.1%
Consumer Discretionary	14.5%	-1.3%
Financials	9.9%	-1.7%
Information Technology	17.4%	-2.0%
Communication Services	4.4%	-2.1%

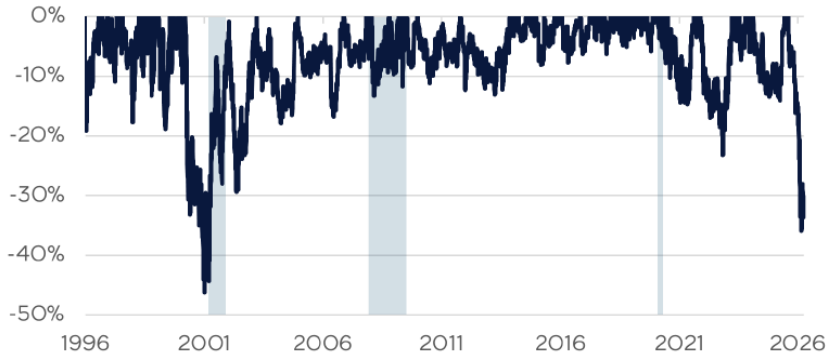
Source: Starlight Capital & Bloomberg Finance L.P. As of March 31, 2026. Excludes Cash and Cash Equivalents.

AI changes the game, though. In this new generation of AI computing, adding new users requires huge outlays on computing power and training before the cash comes in the door. And then huge ongoing expenses for power, water, and new chips when the current ones wear out. Some of the bigger capital-light tech champions are shifting strategy, investing enormous amounts into AI and transforming into capital-heavy titans. Meanwhile, others risk being outmoded by cheaper AI tools. Many are unable to adjust — or by adjusting could lose much of their profits.

This all requires different calculations from investors. Capital-heavy businesses come with new risks, but the sheer scale of investment creates a moat perhaps even more forbidding than the 'network effects' that shielded the household names of tech from competitors in years past. For those that don't have general-purpose AI models of their own, there's a risk that they go the way of the dodo and Eastman Kodak.

Another structural, overarching market effect for the software industry is that the standard business model for such companies is to sell access to their programs by 'seats', i.e., the more users, the more revenue. Will this come unstuck if AI means fewer workers doing more with existing tools? In that situation, software companies could lose sales even as they take market share. This cocktail of risks sent software companies tumbling in the first quarter. When measured against the broader S&P 1500 index, the software industry's 36% peak-to-trough drop was one of the worst ever.

2026 SOFTWARE ROUT WORST VS MARKET IN 30 YEARS OUTSIDE RECESSION



Source: FactSet, JPMorgan Research; data S&P 1500 Software vs S&P 1500 rolling 1-year worst drawdown in GBP between 1 January 1996 and 31 March 2026.

We own several stocks here, such as digital office tools developer **Microsoft**, bookkeeping software specialist **Intuit**, IT service desk platform **ServiceNow**, financial data firm **S&P Global** and e-commerce platform **Shopify**. We believe that, while there may be a period of heightened investment that compresses near-term margins and profit growth, there's little evidence of the business extinction that these moves imply.

For many, the credibility of the extinction story is being girded by the size of the moves, which forces institutional investors to sell to protect short-term performance, pushing prices further down and reinforcing the story. This is an illogical — yet dangerous — doom loop. In the absence of longer-term clarity on which companies will require life-saving investment and margin resets to successfully transform their business models, Mr Market is selling them all as a group. Our exposure to software is now less than 7% compared with about 10% in the FTSE World. We're awaiting less extreme anxiety-driven markets to add to our positions.

The best returns are made in maximum uncertainty, not once clarity returns

Despite difficult markets, some outstanding buying opportunities have emerged amid war and massive technological disruption.

In my view, what we are experiencing now is a seismic market dislocation. Entire sectors are being repriced in a matter of weeks, not because their businesses have collapsed, but because narratives have shifted. This is the type of environment where stock-pickers with an eye on the long game can really make a difference.

As a result, in the first quarter alone, we added six new stocks to our fund from our watchlist – many we've had our eye on for years, waiting for the right moment to arrive. We added our first UK stock in several years: academic and technical journals and data business **RELX** has been caught up unfairly in the AI disruption hurricane. We also bought **CrowdStrike**, the cybersecurity business that will actually benefit from additional workloads as AI is deployed and poses even graver cyber risks to us all.

As perceived obsolescence risk runs high across many industries, we added to our 'HALO' theme: 'hard assets, low obsolescence'. New stocks such as mining equipment supplier **Sandvik**, heavy vehicles maker **Caterpillar** and two others join similar names already in the fund, including diversified industrial engineering business **Parker Hannifin** and cabling and connectors supplier **Amphenol**.

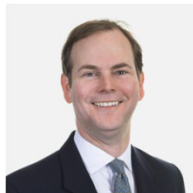
Resource independence and protectionism will be a key theme over the coming years, as the most powerful nations increasingly hoard critical minerals for their technology and electrification infrastructure buildouts. We remain wary of investing in direct, single-commodity stocks, but have taken a less risky picks n' shovels approach.

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Investment Management Team

RATHBONES Starlight Global Growth Fund is sub-advised by Rathbones Asset Management Limited.



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Portfolio Manager



Sammy Dow
Portfolio Manager

Investment Management Team

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