HÉRENS QUALITY ASSET MANAGEMENT

HALF YEAR REVIEW

July 2026

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AI momentum meets geopolitical Inflation

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HÉRENS QUALITY ASSET MANAGEMENT

CEO message

Dear clients, investors, and readers,

Looking back at the first half of 2026, one observation stands out above all others: the pace of change in financial markets continues to accelerate. Within just a few weeks, trade policy uncertainty, geopolitical tensions and renewed market optimism all took turns driving investor sentiment. In an environment like this, the value of a disciplined investment process and a long-term perspective becomes more important than ever.

As active Quality investors, our focus is not on predicting where markets will move over the coming weeks. Our responsibility is to assess, every day, which developments are genuinely relevant to a company's long-term success - and which are merely short-term noise. The ability to distinguish between temporary market fluctuations and lasting fundamental change is what ultimately drives sound investment decisions.

The past six months have been characterized by intensive company research and a thorough review of our portfolios. We have made a number of targeted adjustments - not because our investment philosophy has changed, but because we continue to apply it with discipline. Active portfolio management means identifying opportunities, continuously assessing risks and allocating capital where we see the most attractive long-term risk-return potential for our clients.

Our conviction remains unchanged. Sustainable investment success is built by owning exceptional businesses. Companies with durable competitive advantages, high returns on capital, strong balance sheets and responsible management are, in our view, best positioned to create lasting value across market cycles.

It is encouraging that many of our portfolio companies once again demonstrated their operational strength during the first half of the year. At the same time, global equity markets remain unusually concentrated in a small number of large technology companies. While innovations such as artificial intelligence undoubtedly present significant opportunities, they also reinforce the importance of maintaining valuation discipline and looking beyond the market's most obvious winners. We continue to search broadly for high-quality businesses whose long-term potential has yet to be fully recognized.

On behalf of the entire HQAM team, I would like to thank you sincerely for the trust you place in us. Your confidence is both a privilege and a responsibility that we take very seriously. We remain committed to managing your capital with discipline, identifying opportunities responsibly, actively managing risk and staying true to our Quality investment philosophy. We firmly believe that long-term investment success is not achieved through short-term market predictions, but through disciplined decision-making and ownership of outstanding businesses.

I wish you and your families a relaxing and enjoyable summer, and I look forward to meeting you personally or speaking with you again soon.

With best regards,
Diego Föllmi

AI capex super cycle shines, shrugging off oil crisis

Unrest in Iran had been mounting since the beginning of the year. Expectations of escalating tensions were reflected in steadily rising oil prices, which supported the rally in oil producers' share prices. Following the outbreak of the US-Iran conflict in February, financial markets closely monitored developments and reacted accordingly to any easing or escalation of tensions.

The blockade of the Strait of Hormuz affected not only oil prices but also the supply of several other critical commodities, with the greatest impact on jet fuel, fertilizers, sulphur, aluminium, and related products. As a result, the share prices of producers unaffected by the disruption rose significantly. Given that most of these companies are classified as value stocks, this provided strong support for value indices globally. The MSCI World Value Index returned 14% in EUR, broadly in line with the MSCI World Growth Index, which gained 12%. The absolute leader among styles indices was MSCI USA Momentum with 40% return strongly supported by AI capex cycle.

The disruption in the Strait of Hormuz has also fueled inflationary pressures, prompting central banks to adopt a more hawkish stance, with markets increasingly pricing in the possibility of further interest rate hikes.

Regarding sector performance in the first half of 2026, the strongest returns were generated by AI-related sectors, spanning the entire value chain rather than being limited to semiconductor companies. This broad-based strength helped global equity markets reach new all-time highs during the period. Additional support came from energy and metals companies, as supply chain disruptions boosted commodity prices and benefited producers. In Europe, banks were among the strongest performers. As a sector with a pronounced value bias, their performance contributed to the outperformance of the European Value index.

Quality was not among the best-performing investment styles. The style continues to have a significant overweight exposure to software companies, many of which remain under pressure from AI-driven disruption (discussed in more detail in the final section of this report). Although Quality indices also benefited from meaningful exposure to AI-related stocks, this was not sufficient to offset weakness in the software segment.

As a result, stock selection within the Quality style has become increasingly important. Investors should carefully assess company-specific risks and the potential impact of AI-driven disruption when evaluating Quality-oriented investments.

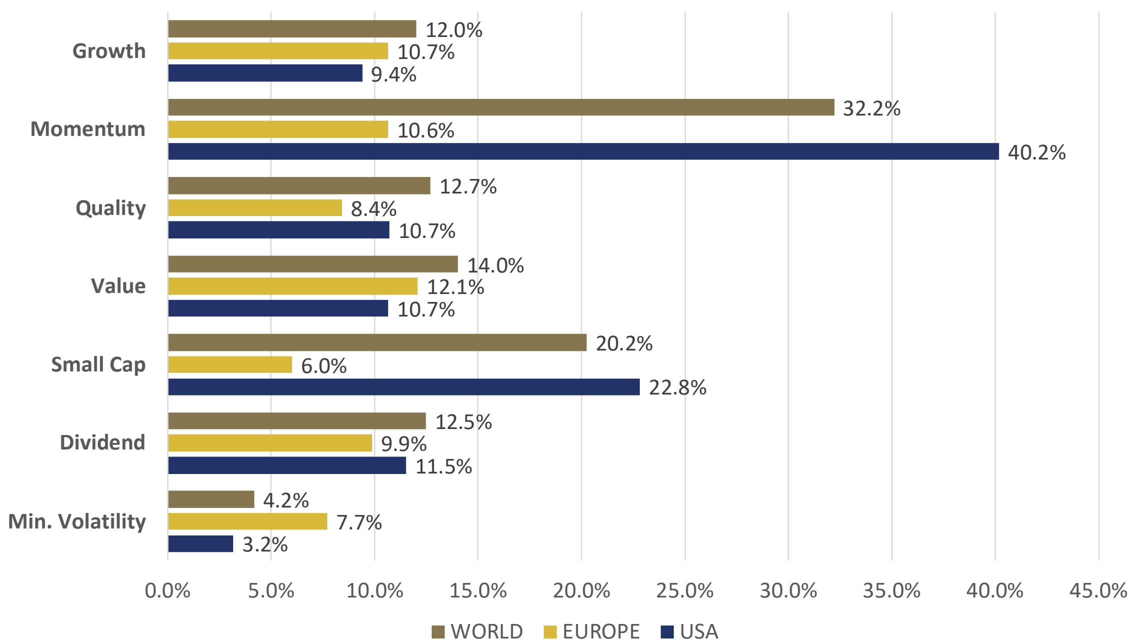


Fig.1. Total return for 2026 by regions based on MSCI regional indices (Currencies: USA – in USD, EU - in EUR, World – in EUR);

Corporate Excellence Insights Published in 1H 2026

Navigating the New Normal

Why are individual stocks becoming increasingly volatile while the broader market appears relatively calm? This article explores the forces driving this new market reality, identifies which sectors and stocks are most affected, and explains what investors can do to manage the risks. If you're looking to navigate today's markets with greater confidence, these insights are worth a closer look.

Read insight.

Golden hour of Green Funds?

Has the market given up on ESG—or is it simply redefining what sustainable investing looks like? This article explores why the recent backlash against ESG may be creating new investment opportunities, particularly in industrial companies driving electrification, efficiency, and infrastructure renewal. It also explains why combining sustainability with a quality-focused investment approach could offer a more resilient path to long-term returns.

Read insight.

'Don't look up' or true reflection of situation?

Are financial markets underestimating the risks of a prolonged oil supply shock? This article examines why resilient equity markets may be overlooking mounting inflationary pressures, tightening oil inventories, and the potential impact on corporate earnings and valuations. It also highlights which companies are best positioned to withstand an energy-driven market downturn through strong pricing power and high-quality fundamentals.

Read insight.

Is Quality a Barrier to Growth — or a Catalyst?

Is quality investing enough in today's market, or is improving business momentum becoming the real driver of outperformance? This article explores why companies with accelerating earnings, cash flows, and fundamentals may be outperforming even the highest-quality businesses. It also shows how combining quality with fundamental momentum can help identify tomorrow's market leaders.

Read insight.

Investment Decisions in 1H 2026

Although concerns occasionally emerge that the AI capital expenditure super-cycle may be losing momentum and could ultimately end in a bubble, developments across the value chain do not support this view. Persistent supply bottlenecks, the pace of capacity expansion, and hyperscalers' continued commitment to elevated capital spending all suggest that the investment cycle remains intact. Against this backdrop, we further increased our exposure to the AI capital expenditure value chain by adding companies that are direct beneficiaries of these trends. These included semiconductor equipment and component companies such as Applied Materials, Advantest, and NXP Semiconductors; companies benefiting from data centre construction and power grid upgrades, including Emcor and Hubbell; and businesses positioned to benefit from the global electrification trend, such as Prysmian in Italy and Fuji Electric in Japan.

Below, we highlight several of our investment decisions during the first half of 2026, focusing on companies that have attracted attention due to significant positive or negative developments.

Sell decision

ServiceNow

We initiated our position in ServiceNow in April 2024, attracted by one of the highest-quality franchises in enterprise software. The company had built a leading workflow platform, with a strong position in IT Service Management, a highly recurring subscription model, renewal rates above 98%, and a customer base that included most of the Fortune 500. Its asset-light model, high gross margins, net cash position, and large backlog provided strong visibility, while its ability to consolidate fragmented legacy processes supported meaningful pricing power.

At the time, the growth runway looked attractive. ServiceNow had more than 8,000 customers, but penetration of its addressable client base remained relatively low. Existing customers also offered a large upsell opportunity, as only a minority were using multiple workflows.

However, our conviction with regard to strength of economic moat and justification of valuation has changed as AI began to reshape the software industry broadly. Initially, AI looked like a tailwind for ServiceNow, helping customers automate workflows and encouraging upgrades to higher-value products. Over time, though, it became clear that AI could also challenge the traditional enterprise software model. If AI agents can automate tasks, and interact directly with data and systems, customers may need fewer paid users and fewer complex software layers. This risk is particularly relevant for ServiceNow. The company’s growth has historically depended on expanding usage across employees, departments, and workflows.

AI may increase the value of the platform, but it may also reduce the number of seats required to complete the same work. At the same time, hyperscalers, start-ups, and internal customer technology teams are developing AI tools that could make it easier to build narrower, cheaper workflow solutions outside large enterprise platforms.

We exited our ServiceNow position on 20 January 2026. This was not a sale driven by poor execution, but by a change in the structural outlook. ServiceNow remains a strong company, but AI raises fundamental questions about the future pricing, usage, and defensibility of traditional SaaS platforms. During holding period the stock lost 14% and underperformed S&P 500 by 55%.

AI has changed the structural outlook by raising questions about the durability of company’s seat-based SaaS pricing model and the need for complex software layers.

Buy Decision

Bachem

In April we initiated a position in Bachem Holding, a Swiss specialist we regard as a high-quality participant in one of the most durable growth themes in global healthcare.

Bachem makes peptides on contract for other companies - the complex active ingredients behind a new generation of therapies, most notably the GLP-1 class now advancing the treatment of obesity and diabetes. Our thesis sits deliberately upstream of the end market. As innovation across metabolic and related diseases broadens, these active ingredients still have to be manufactured to demanding regulatory and quality standards. Bachem is a critical supplier in that chain, benefiting from the progress of a growing set of pharmaceutical innovators rather than the success of any single drug.

The investment case rests on advantages that are hard to replicate. The company brings roughly five decades of specialist chemistry expertise, an extensive portfolio of regulatory filings that make it costly for customers to switch, and leading scale in its niche. Its financials are strong: healthy margins, a conservative balance sheet, and substantial customer prepayments that point to solid, visible demand. Majority ownership by the founding family reinforces the long-term mindset and disciplined capital allocation we look for in core holdings.

We continue to watch a few factors central to the thesis, including the ramp-up of the company's new manufacturing capacity and the evolving mix of oral and injectable formats. We view both as manageable over a multi-year horizon.

Since we bought, the shares have been volatile - rising meaningfully into late May before easing back to end the second quarter close to our entry level. We see this as short-term price movement around a multi-year thesis that remains firmly intact. The company continues to execute well, demand across the peptide value chain remains strong, and the structural growth drivers behind our decision are as compelling as ever.

Buy Decision

Fuji Electric

Since Fuji Electric was included in the portfolio in March 2026, it has returned 29.5%, outperforming the MSCI Pacific Index by 20.7%. Stock gained because investors started to look beyond AI semiconductors and into the physical infrastructure needed to run AI, where Fuji has direct exposure through power distribution, backup power and energy-efficiency solutions.

Fuji Electric is one of Japan's leading power electronics companies, supported by a business mix that has become more relevant in the current environment. Demand for reliable power infrastructure is rising as electricity consumption increases, grids are upgraded, factories automation and data centres require more resilient power systems. Fuji's Energy business is especially well placed, with products such as substation equipment, switchboards, transformers, UPS systems and facility power systems. This gives Fuji exposure to the same broad electrification and power-efficiency themes that have supported larger global peers such as ABB and Schneider Electric, although Fuji remains more domestically focused and more concentrated in Japan and Asia.

Fuji also has a stronger technology angle than many traditional industrial companies. In semiconductors, it is the No. 3 global player in IGBT modules, which are used for efficient power conversion in EVs, renewable energy equipment, industrial drives and power systems. This does not make Fuji a pure semiconductor growth stock, but it adds an important optionality layer to the investment case.

Earnings of Fuji are supported by higher-quality infrastructure demand rather than only cyclical semiconductor recovery. Fuji is guiding for another year of record sales and profit in FY2026. The company is also expanding overseas production capacity in Malaysia specifically to strengthen its data-center business, which supports the view that the recent share-price gain is backed by a real increase in addressable growth opportunities.

In Focus

Corporate Excellence Award 2026

The five companies that we recognized as winners at the 2026 Corporate Excellence Award share something most celebrated businesses do not - the ability to compound value, quietly and reliably, year after year.

There is a particular type of company that gets very little attention from financial media. It does not announce moonshot products. Its CEO does not give keynotes at consumer technology conferences. It is not the subject of Reddit threads or earnings-day Twitter storms. It simply operates - with exceptional discipline, in a market it largely controls, at margins that most businesses can only aspire to.

These are the companies the Corporate Excellence Award exists to find. The award applies rigorous quality screens to a universe of more than 2,400 global companies and then asks an independent jury to go further, examining the business model, governance, and long-term sustainability of every candidate that clears the quantitative bar.

The result, in 2026, is five winners from five regions of the world. Different industries, different sizes, different geographies. But a remarkably consistent DNA.

How the screen works and what it excludes

The selection process combines quantitative and qualitative analysis. In the first stage financial ratios are applied across both current data and a five-year historical window, while on second stage shortlisted names go through a detailed qualitative review by an independent jury, which examines business model strength, governance, and the sustainability of competitive advantages.

One exceptional year does not make a quality company. Sustained performance over time does.

What the quantitative filter reveals is as interesting as what it rewards. Information Technology makes up 28% of the Global Top 100 Quality Companies - more than double the sector's 13% weight in the MSCI All Country World Index. Healthcare is the second largest overweight, at 16% versus 8% in the benchmark. Both sectors share a common quality trait: durable competitive advantages, whether through software ecosystems, network effects, or proprietary IP that takes decades to build.

Five companies. Five different moats.

Belimo – A global leader in HVAC controls benefiting from long-term energy-efficiency retrofit demand and exceptional profitability.
Orion Pharma – A Finnish pharmaceutical company combining branded medicines with high-margin royalty income from the prostate cancer drug Xtandi.
AutoTrader Group – The UK's dominant online car marketplace, strengthened by powerful network effects and industry-leading margins.
NVIDIA – The leading AI computing platform whose CUDA ecosystem creates deep switching costs and durable competitive advantages.
eMemory Technology – A Taiwanese semiconductor IP licensor generating recurring royalties from embedded memory and security technologies used in billions of chips globally.

What they have in common

If we put the five winners side by side, a pattern emerges that has little to do with sector or geography.
Each of them occupies a position that is genuinely difficult to replicate - not because of regulatory protection or sheer capital scale, but because of accumulated technical expertise, network dynamics, or contractual relationships that have been building for years or decades. Belimo's four decades of HVAC engineering. CUDA's twenty years of developer adoption. eMemory's foundry integrations across the entire global semiconductor supply chain.

Each generates returns that are durable, not cyclical. Orion's royalty stream does not depend on Orion's quarterly execution. AutoTrader's margins do not compress when the car market softens - because the information advantage the platform provides is worth more, not less, in uncertain conditions.
And each has earned its quality rating not in a single strong year, but across a sustained period of performance that the five-year historical filter is specifically designed to surface.

“The companies worth owning are rarely the ones being talked about.”

The companies worth owning for the long term are often the ones operating quietly in niches that sound unglamorous until you understand the economics. Vacuum valves. HVAC actuators. Semiconductor IP licensing. A Finnish pharma company collecting royalties on a prostate cancer drug.

Quality without borders - the Baltic dimension

The same logic applies in markets far smaller than the MSCI ACWI universe. Since 2008, our Latvian team run the Baltic Corporate Excellence Award in cooperation with Riga Technical University - applying the same quality framework to companies listed on the Baltic stock exchanges. The finding is consistent with what global screening reveals: fundamental excellence exists across markets of all sizes, and it tends to cluster in businesses that most investors overlook.

The 2025 Baltic results are striking in their own right. The top five Baltic quality companies deliver an average ROE of 28% - showing that strong earnings power is not the exclusive domain of large-cap Western businesses. Lithuania dominates the equity ranking, with three of the top five positions, reflecting a notable gap in business quality across the three Baltic states.

Winners in Baltics

merko | VILKYŠKIŲ PIENINĖ Nuo 1934 m. | Telia

The leading names in TOP3 - Telia Lietuva, construction group Merko, and dairy producer Vilkyškių Pieninė are not household names beyond the region. But measured by financial discipline, capital efficiency, and the durability of their competitive positions, they sit comfortably within the same quality framework that surfaces Belimo, Orion, and eMemory at the global level. Excellence, it turns out, does not require a large market to grow in.

Quality style in the AI era: implications and lesson

At the beginning of 2026, we stated that the Quality style was well positioned to outperform, as valuation levels had declined substantially during 2025. However, despite these more attractive valuations, the Quality style failed to deliver stronger relative returns in 2026. Although Quality indices have significant exposure to AI-related companies, which have been among the primary drivers of market performance, they also contain many long-term compounders with durable competitive advantages that weighed on returns. This was partly due to the style's still meaningful allocation to software companies, which continued to underperform as AI-driven disruption reshaped the sector.

In the following section, we examine the performance of the Quality style in greater detail, highlighting the factors behind both its strengths and weaknesses. We also demonstrate why disciplined stock selection-guided by structural trends, business momentum, and company-specific fundamentals, has become increasingly important, even within the Quality universe itself.

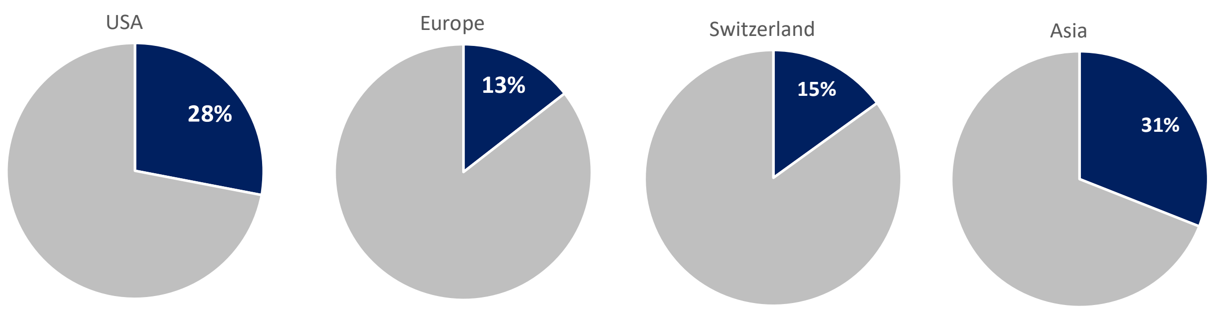
Quality style exposure to AI theme

The AI revolution is arguably the most significant structural transformation of our time. What began as a GPU-driven investment theme between 2020 and 2023 has evolved into a broad economic phenomenon, creating an extensive AI value chain that spans semiconductor equipment, networking, memory, optical components, data centres, power infrastructure, nuclear, natural gas and renewable energy generation, as well as cooling technologies.

According to Goldman Sachs, the world's largest hyperscalers could invest approximately USD 5.3 trillion in capital expenditure between 2025 and 2030. McKinsey estimates that global data centre demand could grow at a compound annual growth rate (CAGR) of around 22% through 2030, requiring cumulative capital investment of approximately USD 6.7 trillion over the same period. These unprecedented levels of current and planned investment are driving significant earnings growth for companies across the AI value chain.

The charts below illustrate the extent to which the Quality style is exposed to the AI theme across different regions. Asia has the highest concentration of AI-related Quality companies, followed by the United States. By contrast, Europe and Switzerland have relatively limited representation, reflecting their traditional sector composition, which has historically been dominated by industrials, consumer businesses, financials, and healthcare rather than technology.

Fig.2 Quality universe exposure to AI value-chain topic



Quality style and its software exposure

Traditionally, the Quality style has had a significant allocation to the technology sector (38% of the MSCI World Quality Index). Historically, this exposure has been a key driver of the style's strong long-term performance.
However, as AI has advanced at a remarkable pace, the Quality style's technology exposure has become a partial headwind. Many software companies exhibit the classic characteristics of high-quality businesses, including high levels of recurring revenue, exceptional profit margins, and asset-light business models.

While the disruption has yet to materially affect their financial results, allowing these companies to remain important constituents of Quality indices globally, equity markets have already begun pricing in the potential long-term impact. This repricing has been pronounced among software companies trading at elevated valuation multiples, resulting in meaningful share price underperformance despite resilient operating fundamentals.

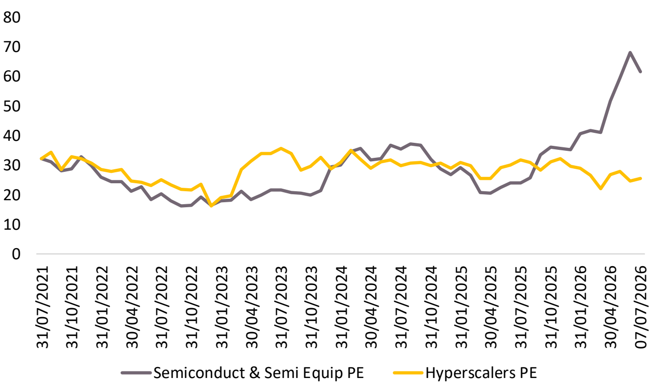
Fig.3 Software perfromance relative to S&P 500.
6 years of relative gains wiped out.

AI cycle and what's next

The immediate beneficiaries of the AI revolution have been relatively easy to identify. Semiconductor designers, foundries, equipment manufacturers, memory producers, networking companies, and power infrastructure suppliers have delivered exceptional revenue growth alongside substantial valuation expansion. For many of these companies, share price performance has been driven as much by AI-related optimism as by improvements in underlying fundamentals such as returns on invested capital, free cash flow generation, or balance sheet strength.

The more challenging question is whether the largest investors in AI infrastructure, the hyperscalers, will ultimately earn attractive returns on this unprecedented wave of capital expenditure. Equity markets currently assume that they will, although a significant degree of uncertainty remains. This divergence is reflected in the valuation gap between hyperscalers and many companies further upstream in the semiconductor and AI infrastructure value chain (fig. 3).

Fig.4. PE ratio for Hyperscalers (Amazon, Alphabet, Microsoft, Meta) and semiconductor industry players



The key uncertainty is whether AI becomes a highly profitable platform or a necessary infrastructure layer with returns competed away over time. If AI capabilities become increasingly commoditised, sustained value creation will depend less on computing capacity and more on proprietary data, distribution, customer relationships and pricing power. Once the infrastructure build-out matures, investors are likely to shift their focus from AI revenue growth to AI returns on invested capital. Companies will increasingly be judged on their ability to convert massive AI expenditures into sustainable earnings, free cash flow and shareholder value.

This transition should favour Quality businesses. Strong corporate governance, disciplined capital allocation, conservative balance sheets and operational agility become increasingly valuable when markets move from rewarding investment to rewarding returns. While today's leaders are those supplying the AI build-out, the long-term winners are more likely to be companies that combine technological relevance with durable competitive advantages and consistently high returns on capital.

About Us

Hérens Quality Asset Management AG is a highly entrepreneurial and solution-oriented investment management boutique focused on Quality investments since 2003. Our investment style is traditional, timeless and has its own performance and risk character. We believe that a clear, disciplined and systematic analysis offers the key to sustainable investment success. In both bond and equity asset classes, our analysis is based exclusively on proprietary research and analytical tools.

Performance overview

Quality Composites*	YTD	2025	2024	2023	3Y p.a.	5Y p.a.	Annual Return	Since Inception	Alpha**	Inception Date
USA (USD)	9.3%	4.8%	15.1%	36.8%	12.8%	6.4%	11.2%	987.0%	0.3%	1/1/2004
MSCI USA Gross (USD)	10.1%	17.7%	25.1%	27.3%	20.6%	13.2%	11.0%	954.5%	-	
Out-/Underperformance	-0.8%	-12.9%	-10.0%	9.5%	-7.8%	-6.8%	0.2%	32.5%	-	
Europe (EUR)	-1.9%	-8.6%	4.9%	21.3%	-0.4%	-0.5%	7.5%	410.9%	0.0%	1/1/2004
MSCI Europe Gross (EUR)	11.3%	20.1%	9.3%	16.6%	15.1%	11.0%	8.0%	466.6%	-	
Out-/Underperformance	-13.2%	-28.7%	-4.4%	4.7%	-15.5%	-11.5%	-0.5%	-55.7%	-	
Switzerland (CHF)	4.6%	8.5%	6.8%	8.3%	6.5%	2.0%	8.6%	534.8%	1.4%	1/1/2004
MSCI Switzerland Gross (CHF)	10.4%	7.3%	6.2%	6.3%	10.8%	5.8%	7.3%	390.7%	-	
Out-/Underperformance	-5.8%	1.2%	0.6%	2.0%	-4.3%	-3.8%	1.3%	144.1%	-	
TOP 15 (EUR)	0.4%	-18.7%	13.7%	33.1%	1.4%	1.1%	9.5%	46.3%	-6.3%	1/1/2020
MSCI World Gross TR (EUR)	12.9%	7.2%	27.2%	19.4%	17.7%	12.5%	13.2%	123.3%	-	
Out-/Underperformance	-12.5%	-25.9%	-13.5%	13.7%	-16.3%	-11.4%	-3.7%	-77.0%	-	
TOP 8 Strategy (CHF)	-13.1%	-27.2%	5.7%	36.0%	-10.2%	-8.2%	7.8%	141.7%	-1.4%	10/1/2014
MSCI World Net TR (CHF)	11.9%	6.3%	28.7%	12.7%	15.7%	8.8%	9.7%	196.6%	-	
Out-/Underperformance	-25.0%	-33.5%	-23.0%	23.3%	-25.9%	-17.0%	-1.9%	-54.9%	-	

* Composite: incl. transaction costs, div. reinvested, without management fees
** Annualized Alpha (risk adjusted)

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