CANOPY
INVESTORS

FY25 investor letter

Canopy Global Small & Mid Cap Fund

Dear Investor,

We're pleased to share our annual letter for the fiscal year ending 30 June 2025, representing the Fund's first full year of operation.

Our objectives

Recall that the Fund invests in a portfolio of 20-40 high-quality global small and mid-cap companies that we believe are attractively valued. Our goal is to generate double-digit annual returns over rolling five-year periods while minimising the risk of permanent capital loss. We expect that over time, the underlying earnings growth of our portfolio companies will drive those returns. However, in the short-term performance will be influenced by sentiment and earnings surprises, both positive and negative. How do we achieve this goal? Over the past year, we've published six chapters of our investor handbook. When completed, we hope this will help our existing and prospective investors understand our investment philosophy and approach in more detail.

FY25 performance review

The Fund delivered a return of 10.3% gross and 9.4% net of fees and other charges in FY25. The fundamental performance of our portfolio companies was generally strong. The weighted average earnings of the portfolio increased by over 10%, and the Fund received over 1% in dividends. The portfolio average price-earnings multiple was relatively flat.

Some highlights of this strong underlying performance included **Wise**, **Heico,** and **Visional,** all new to the Fund during the year.

Wise is the largest non-bank FX transfer service globally, with a Founder-led dedication to lowering fees on cross-border transactions. It has grown strongly for years as consumers and small businesses have gravitated to its attractively priced, convenient, fast, and transparent transfer offering. However, Wise's ultimate goal is to replace the aging financial plumbing that banks use to facilitate currency transfers, a market multiples the size of the consumer market. During FY25 Wise saw several large legacy banks adopt its B2B service, increasing the likelihood of it achieving this long-term goal.

Heico develops and sells aircraft parts that serve as alternatives to the expensive parts sold by original equipment manufacturers. Its non-original parts continue to take share of the total parts market due to their high quality and low prices – the latter maintained even as original part competitors price rapaciously. Strong demand from commercial airlines, coupled with optimism around higher defence spending and greater government efficiency, lifted Heico's sales and earnings growth outlook during FY25.

Visional is the leading anonymous professional job matching service in Japan. It operates a reverse-search model, where professionals create searchable profiles while maintaining privacy until they choose to engage with potential employers or headhunters. Visional has a leading share in a secularly growing market. Traditionally, Japanese professionals have remained employed by the same company for the long-term, with far less mid-career mobility than in other developed markets. This is now changing as Japan's declining population creates labour shortages and accelerating corporate transformation demands more dynamic workforce management, driving more frequent job changes and higher wages.

However, some of our companies also fell short of our expectations during the year, notably those exposed to the US pharma and US housing end markets. While in the past, these high-quality companies have generally improved their relative competitive advantages and market share during cyclical downturns, they are certainly not immune to the health of the industries in which they operate.

The largest negative impact on the Fund in FY25 came from **Icon**, a top-tier global clinical research organisation (CRO). Icon saw a 25% reduction in consensus 2027 EPS estimates during the year, and a more than 50% decline in its stock price, building on the challenges we outlined in our 2025 half-year investor letter. In our view, its currently depressed valuation reflects one of two market narratives: either investors believe the reduction in R&D spending by pharma companies in recent years is permanent, thereby limiting Icon's future growth potential, or more likely, the market sees no immediate growth catalysts and views the stock as 'dead money' in the near term. With the stock trading at a 10% free cash flow yield, we consider the downside risk limited and are content to be patient.

Key contributors and detractors

Contributors	
Dollarama	2.1%
Wise	1.8%
Tradeweb	1.8%

Detractors	
Icon	-2.4%
Edenred	-0.9%
Medpace	-0.8%

Dollarama was the largest contributor to the Fund's FY25 performance. The company operates the largest dollar store chain in Canada with over 1,500 stores - six times more locations than its nearest competitor. It sells general merchandise, consumables, and seasonal items up to $5. Unlike US dollar stores that primarily serve lower-income customers, Dollarama appeals to a broad demographic, using multiple price points to maintain affordability for core customers while attracting higher-income shoppers. This strategy has delivered remarkable consistency, with revenue growth averaging 11% p.a. over the last 15 years without a single down year (see Figure 1).

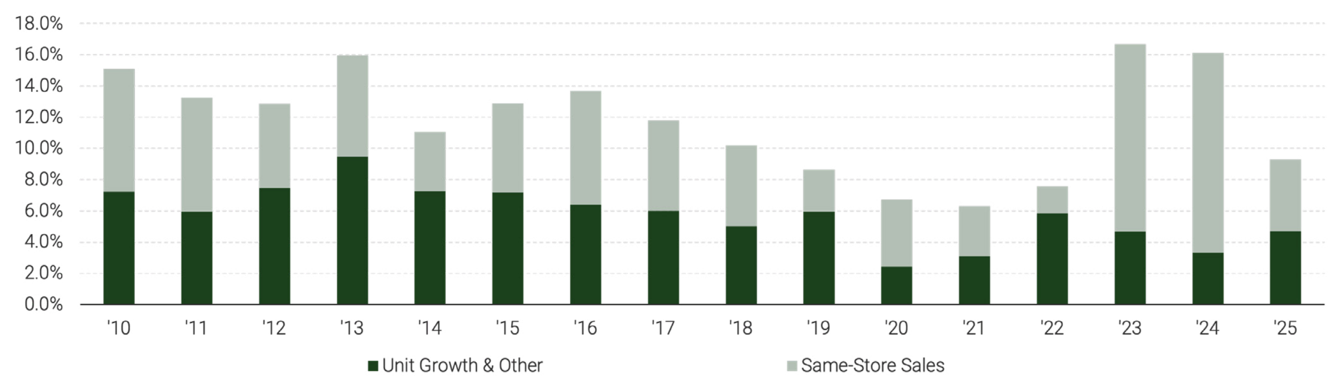
Dollarama is also highly profitable, achieving operating margins of 26.7% (see Figure 2), more than triple its peers, with the difference owing to high private-label penetration (~70%), direct sourcing relationships, and operational efficiency. The company manages its $40 billion enterprise with just 650 head office employees, while the CEO and VP spend three days weekly visiting stores.

FY25 represented another period of relentless execution for Dollarama, with same-store sales growing ahead of expectations. Sentiment towards the stock has improved as Canadian economic weakness drove increasingly value-conscious consumers to the business. During the year, Dollarama also expanded its international strategy, announcing a planned expansion of its successful Latin American JV into Mexico and the acquisition of The Reject Shop in Australia - which extends its runway for growth.

While Dollarama's quality is high, its recent share price performance has rendered its valuation less compelling than at the start of the year. Consequently, we have steadily reduced our position, recycling the proceeds into more compelling opportunities. We are deliberately slow to reduce positions in high quality companies on valuation grounds, because valuation is not an exact science, and quality companies often deliver positive surprises.

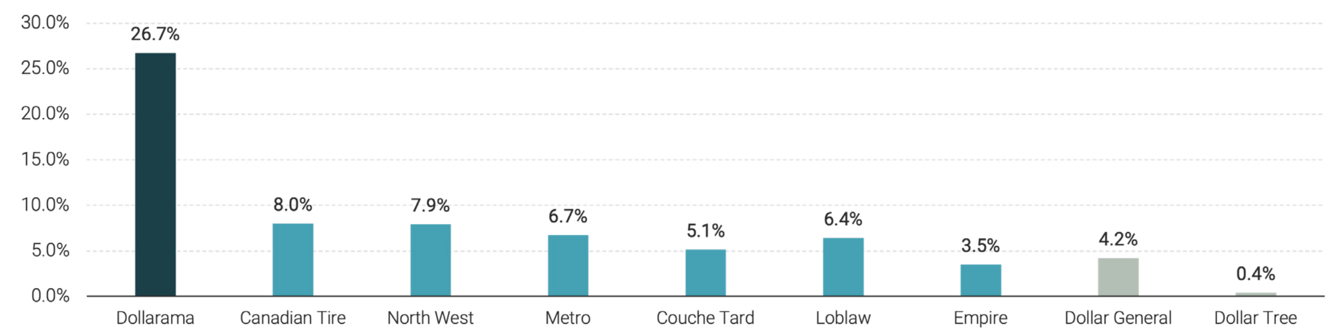
In contrast, as noted above, Icon was the largest detractor from the Fund's FY25 performance. As we have discussed this position at length, we will instead elaborate here on the Fund's second-largest detractor, **Edenred**.

Figure 1: Dollarama sales growth drivers



Source: Dollarama, Canopy Investors.

Figure 2: Dollarama and peer operating margins (LTM)



Source: Dollarama, Canopy Investors.

Edenred is the largest employee benefits provider globally, connecting over 60 million users, one million corporate clients, and two million partner merchants across 45 countries. It is best known for its meal voucher programs - particularly 'Ticket Restaurant' - which originated in France in the 1960s and has since been adopted in countries such as Brazil, Italy, and Belgium. Meal vouchers allow companies to subsidize employees' meals while they are at work, representing a tax efficient way for employers to provide additional purchasing power to their workers. Employer contributions are often exempt from social security charges and taxes, the benefit is typically tax-exempt for employees, and the programs drive traffic to restaurants.

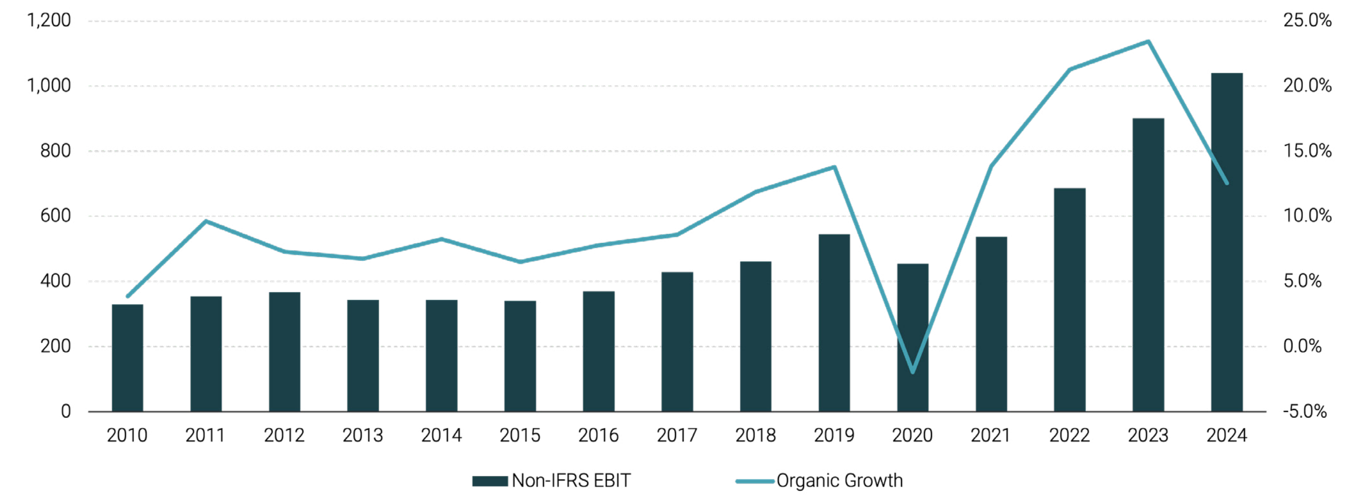
Edenred's proprietary technology orchestrates the meal voucher ecosystem. The company works with employers to pre-fund employee accounts, then provides mobile payment solutions (compatible with Apple Pay and Google Pay) that allow employees to spend their vouchers. The platform enforces spending rules - ensuring funds are used only with approved merchants for eligible food-related items within daily limits – and provides comprehensive reporting to all parties. The structure of this ecosystem creates powerful network effects. Employers often prefer meal voucher issuers whose vouchers are widely accepted, maximising utility for their employees. Merchants prefer partnering with leading issuers who bring the most customer traffic. The result is market concentration: in France for example, the market has been dominated by four primary issuers for several decades, led by Edenred with >40% market share.

Edenred has diversified its business beyond meal vouchers over time, to other benefit categories such as gifting and wellness, as well as fuel/toll cards and corporate payments. As a result, meal vouchers now represent ~40% of its operating revenue. At the same time, its organic growth has compounded at ~10% p.a. over the past 15 years, including ~14% p.a. over the last five years, as governments globally have inflation-adjusted their tax-free meal voucher spending limits, highlighting the resiliency of its business model to inflation. Its earnings similarly grew at a ~10% compound rate over this period (see Figure 3).

However, the company's significant market power and critical role in the administration of meal vouchers, together with its take-rate based business model, have increasingly exposed it to criticism and regulatory risk. This risk has been particularly heighted over the past two years, as high inflation has prompted governments to scrutinise intermediaries perceived as contributing to rising food costs. The company has faced government inquiries in its three largest meal voucher markets - France, Italy, and Brazil - which together represent ~30% of operating revenue. In 2024, the Italian government introduced a 5% fee cap on meal voucher take-rates in response to lobbying from merchants. This measure is expected to reduce EBITDA by ~9%. France has recently proposed legislative changes of its own, which we expect to have a relatively neutral impact on the company in their current form, while Brazil's inquiry remains ongoing.

Notwithstanding the relatively modest financial impact to date, these inquiries have dramatically impacted investor sentiment, with Edenred's forward PE ratio falling from ~30x in the five years to June 2023 to ~10x today. When we initiated our position in the company, it was trading at ~17x forward earnings, which we felt represented adequate compensation for the regulatory risks. Given today's greater clarity around likely regulatory outcomes, and the lower share price, we believe we have a high probability of generating strong returns on the position. This positive asymmetry in the return outcome is critical, as we are typically very hesitant to take regulatory and litigation risk, given their inherent uncertainty.

Figure 3: Edenred non-IFRS EBIT and organic revenue growth



Source: Edenred, Canopy Investors.

Relative performance

The Fund delivered a return of 9.4% net of fees in FY25, which was 11.3% below the benchmark return of 20.7%. As we have previously noted, we expect that our returns will often differ from the benchmark - sometimes meaningfully. This is a natural consequence of our concentrated, quality-focused investment approach, compared with a benchmark comprising thousands of companies with varying business prospects. We do not manage the Fund to achieve relative results, but rather to deliver absolute, double-digit returns over time. However, we are mindful that our results will often be assessed on a relative basis, and so have elaborated on these results following.

In our half-yearly letter, we discussed the Fund's relative underperformance in October and November 2024 (-8.2% in aggregate), particularly as it related to the US stock market following Donald Trump's election as US President. This led to a surge in a broader 'US exceptionalism' narrative and to a relatively discrete number of stocks perceived as being 'Trump winners', including the cryptocurrency and buy-now-pay-later sectors (e.g. Strategy, which ended FY25 +194%), oil and gas exploration (e.g. Texas Pacific Land +46%), and US regional banks. However, in other cases, stocks surged not because of any specific government policy, but because of increased investor risk appetites, particularly retail investors. These included retail trading-related stocks (e.g. Robinhood +312%), stocks that had previously benefitted from the COVID-reopening trade (e.g. Royal Caribbean +98%), and thematic stocks tied to quantum computing (e.g. IonQ +511%) and space (e.g. Rocket Lab +645%), likely enabled by thematic ETFs popular among retail investors. There was also continued strong investor interest in stocks perceived as being AI winners (e.g. CoreWeave +308%). The Fund largely did not have exposure to these companies.

The US exceptionalism narrative faded in the second half of FY25, which also coincided with a surge in interest in European defence companies (e.g. Rheinmetall, which ended FY25 up +316%), and notably decelerated following Trump's 'Liberation Day' tariff announcement in early April. That announcement triggered a meaningful market sell-off, particularly in many of the stocks that had been perceived as benefitting from Trump's election win in the first place. The Fund subsequently outperformed meaningfully during this period and had erased most of its earlier underperformance by early April. However, Trump's subsequent pause in the implementation of those tariffs, which was interpreted by many investors as evidence of a 'Trump put' (later colloquially referred to using the 'TACO' acronym – Trump Always Chickens Out), led to a renewed surge in lower-quality and more speculative parts of the market particularly in late April, May, and June.

The charts following illustrate this dynamic. While the UBS US 'Low Quality Index' - an equal-weighted basket of 100 US-listed stocks with the lowest composite quality scores across profitability, financial health, efficiency, management signalling, and risk - had underperformed by ~7% p.a. in USD from FY16 to FY24, it outperformed by >20% in FY25.

Similarly, the MSCI World Quality Index - which captures companies with high returns on equity, low earnings volatility, and low leverage, and includes NVIDIA for reference - had outperformed the broader MSCI World Index by ~4% p.a. in USD from FY16 to FY24. However, it underperformed by ~10% in FY25. This corresponds with our own analysis, which suggests that the quintile of global small- and mid-cap companies with the lowest profitability and highest leverage outperformed the quintile with the highest profitability and lowest leverage by ~10–15% in USD in FY25.

Figure 4:
US quality returns - FY16-FY25

US quality returns - FY25

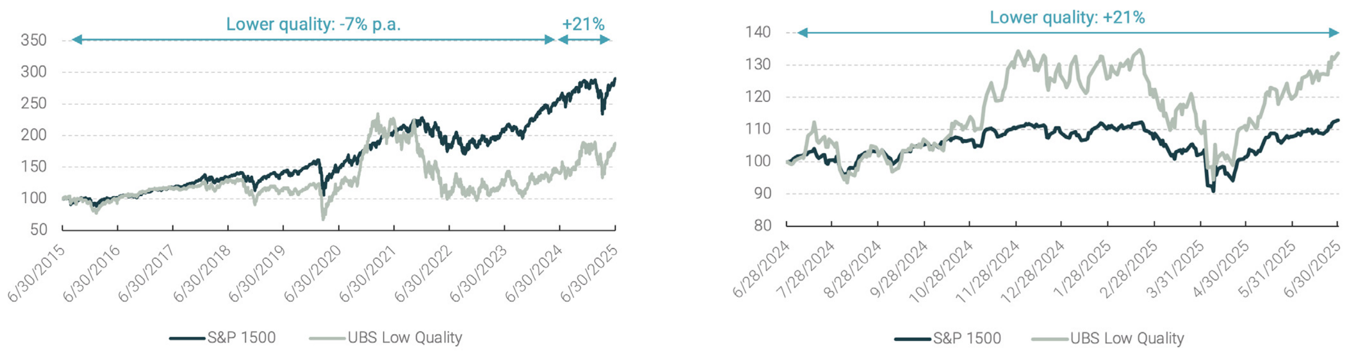
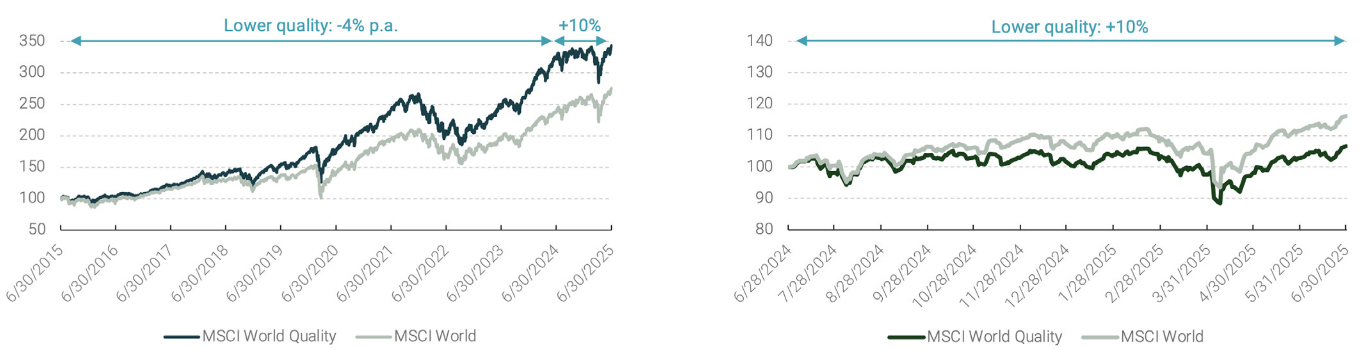


Figure 5:
Global quality returns - FY16-FY25

Global quality returns - FY25



Source: S&P, MSCI, Canopy Investors.

In summary, we believe the Fund's underperformance during FY25 was predominantly due to a surge in lower-quality and more speculative areas of the market – areas in which the Fund does not invest – with a relatively smaller contribution from the Fund's underperforming US healthcare investments, namely Icon (as covered above). While unfortunate, this period has only strengthened our resolve to maintain our strict quality and valuation discipline for the benefit of our long-term investors.

Looking forward

Our collection of 30 high-quality companies is diversified across regions, sectors, and thematics. Over time, we expect their share prices to reflect the growth in underlying business earnings. Our weighted average earnings growth expectation over the next five years is ~13% p.a., with a total expected shareholder return of ~15% p.a. (including dividends, and assuming little impact from changes in valuation multiples). This is comfortably ahead of our absolute return target. While we can't predict how the market will perform going forward, we believe the range of potential outcomes is significantly wider than for our collection of high-quality stocks.

Heading into FY26, volatility and uncertainty remains elevated:

- US policy uncertainty is high, particularly as it relates to tariffs and resulting ad hoc bilateral agreements.
- Interest rate uncertainty is high, given potential US inflation from tariffs and fiscal largess, as well as the impact of a new Fed Chairman in May 2026 (and any efforts to undermine the current Chairman ahead of that). Fiscal expansion in most major countries is heightening this uncertainty.
- Geopolitical uncertainty is high. With Trump's more mercurial and erratic decision-making framework, long standing alliances are no longer as stable.
- Currency uncertainty is high, with high government debt levels globally, while US actions to reduce the trade deficit may impact demand for government bonds.

And yet markets are at all-time highs, with pockets of speculative excess brewing, which implies less risk is priced in than we believe investors currently face. This is as true for large caps as it is for our global small and mid-cap benchmark, which has been driven higher by a relatively narrow group of thematic stocks. While the precise drivers of frothy markets are always different, they are commonly defined by their leaders being lower quality, less profitable, and more debt burdened - often coinciding with the development of a new secular thematic.

As Mark Twain quipped "history doesn't repeat itself, but it often rhymes." It is at these times that we believe investing in quality companies is most valuable, as they are able to weather the inevitable appearance of risk and emerge stronger.

Thank you from the Canopy team for your ongoing trust and investment.

For more information visit canopyinvestors.com or call 1800 895 388 (AU) or 0800 442 304 (NZ).