

**TROY**  
ASSET MANAGEMENT



# **Troy International Equity Strategy Annual Letter to Investors**

January 2026

*This document is intended for accredited investors and qualified purchasers only.*



## Market Review

2025 proved to be an eventful year for markets. Periodic macro concerns - most notably around US trade policy and the so-called "Liberation Day" tariff agenda - were ultimately overwhelmed by a combination of resilient growth, easing financial conditions and the continued dominance of the artificial intelligence investment cycle. Inflation remained above target but stable, labour markets stayed tight, and risk appetite was supported by strong earnings momentum and falling real yields. Against that backdrop, equity markets ended the year in robust shape.

Beneath the headline strength, however, market performance was highly bifurcated. US equities continued to lead global markets, driven almost entirely by growth stocks linked to the AI theme, ranging from semiconductors and hyperscalers through to energy, data-centre infrastructure and related enablers. Rising earnings expectations for this small group of companies accounted for the bulk of US market returns. By contrast, international markets followed a very different path: performance was driven primarily by a cyclical recovery, with banks, industrials and materials leading, supported by improving nominal growth, a weaker US dollar and, in parts of Europe and Japan, looser fiscal policy.

The dominance of the AI trade also had important second-order effects. In software in particular, the market increasingly adopted a "winners and losers" mindset, with fears of disruption and commoditisation leading to sharp valuation compression in large parts of the sector, even as spending on AI-related infrastructure surged. We believe these concerns are not misplaced; AI will reshape the software industry. However, the market's reaction has been blunt. Selection will be critical: some franchises will emerge stronger, while others will struggle to adapt. The wide dispersion in software valuations during the year reflects this growing divide.

## Performance

The Strategy returned +0.6%/+1.0% (net/gross) since its launch in May 2025, which has been disappointing compared to the MSCI EAFE Index return of +15.7%. This was not the result of a single mistake or an adverse event, but rather of a portfolio that was positioned very differently from the parts of the market that performed best during the year.

Equity returns in 2025 were driven by a narrow set of exposures: banks, energy, cyclicals and momentum-led segments of the market performed strongly, while many high-quality, capital-light and service-oriented businesses lagged. From the outset, the Strategy was deliberately constructed around long-term compounders with strong competitive positions, high historic returns on capital and the ability to reinvest through market cycles. That positioning was materially different from the market, and it was in those areas that returns proved weakest, despite generally resilient operational performance across the underlying businesses.

Within that backdrop, stock selection was more mixed. A number of holdings performed well and behaved in line with our expectations. In particular, Taiwan Semiconductor was one of the Strategy's largest positions and delivered strong returns as demand for advanced chips and AI-related capacity continued to grow. Several healthcare and industrial holdings also progressed steadily. At the same time, a broad group of businesses we continue to regard as high quality effectively marked time, with operational performance holding up even as share prices failed to reflect that progress.

Over the course of the year, we made a number of changes intended to improve the quality and balance of the portfolio, reduce valuation risk and diversify the sources of growth on which returns will depend.



First, we exited a number of positions where our confidence in their long-term growth and reinvestment opportunity had diminished in the context of the evolving market and competitive landscape. These sales were not driven by short-term price movements but by fundamental reassessment of capital allocation, industry structure and growth durability.

Second, we reduced valuation risk across the portfolio. In several cases, we trimmed or exited holdings where valuations no longer offered sufficient margin of safety, allowing us to recycle capital into opportunities with more attractive long-term return potential.

Third, we broadened the portfolio's exposure to cyclical and more idiosyncratic sources of growth. We increased allocations to industrial and capital goods businesses such as Siemens and Assa Abloy, where earnings are benefiting from automation, electrification and infrastructure investment. We also built positions in companies like MonotaRO, CTS Eventim and IG Group which combine structural growth with business models that are less correlated to the narrow set of factors that dominated markets in 2025.

We believe these changes will leave the Strategy better positioned going forward. The portfolio retains its core exposure to businesses that can compound capital over time, and we believe it is now better balanced across different growth drivers and end-markets.

## Case studies

### Siemens

Siemens is one of the world's largest industrial technology companies, supplying the equipment and software that allow factories, grids, buildings and transport networks to be designed, automated and electrified. Its products sit at the heart of how physical things are made and powered, from semiconductor fabs and data centres to railways, industrial plants and commercial buildings. Over time the company has become increasingly focused on these higher-quality industrial technology activities, with a decade-long programme of disposals and carve-outs shrinking the conglomerate and concentrating the portfolio on automation, industrial software and electrification.

That transformation is still not fully reflected in how the shares are valued. Siemens today bears little resemblance to the sprawling industrial group of the past. The planned deconsolidation of Siemens Healthineers in 2026–27 will further sharpen the focus of the remaining business and materially improve reported growth, margins and returns on capital, leaving Siemens with a very strong balance sheet and net cash. Management has been clear that capital will be recycled into higher-return software and automation assets, reinforcing the quality of the group rather than diluting it.

The operating businesses themselves are well positioned. In industrial automation, Siemens has a deep installed base and leading positions across controllers, drives and factory systems, a part of the cycle that has been weak but is now positioned to recover as customers move from digestion back to investment. In Smart Infrastructure, Siemens benefits from structural growth in electrification, energy efficiency and data-centre build-out. In industrial software, Siemens has assembled the largest portfolio in the sector, spanning product lifecycle management and electronic design automation, and is now approaching the end of a multi-year transition to subscription models that has temporarily depressed reported growth and margins.

At its November Capital Markets Day, management set out long-term targets of mid- to high-single-digit revenue growth and high-single-digit EPS growth, with strong free cash flow generation, even before any contribution from portfolio simplification or acquisitions. These targets look deliberately conservative.



The group is coming out of a cyclical trough in automation, subscription headwinds in software are fading, and electrification demand remains robust. Despite some near-term margin caution, it is difficult to see how margins do not recover meaningfully over the next few years as operating leverage returns and the portfolio continues to shift towards higher-margin software and digital businesses.

Against this backdrop, Siemens shares trade on around 20 times earnings.<sup>1</sup> This compares with peers such as ABB, Schneider Electric and Rockwell Automation. As Siemens completes its portfolio simplification and the market starts to value it on a “pure-play” industrial technology basis, rather than as a legacy conglomerate, there is a clear path for the multiple to move towards peer levels. Combined with steady earnings growth and strong cash returns, this creates a compelling medium-term return profile for shareholders.

## MonotaRO

MonotaRO is Japan’s leading online platform for maintenance, repair and operations supplies, serving millions of small and mid-sized businesses that historically bought industrial consumables through a fragmented, relationship-driven distribution system. Japan’s MRO (Maintenance, Repair and Operations) market developed as a multi-tiered hierarchy of wholesalers, sub-distributors and local agents, each adding margin, friction and opacity. MonotaRO collapsed that structure into a single digital platform, connecting customers directly to manufacturers and primary distributors with transparent pricing, next-day delivery and an online purchasing workflow that replaces what was previously a slow and manual process. In a market that remains overwhelmingly offline, there is no other player in Japan operating at MonotaRO’s scale with a fully transactional, online-native model.

This has created a structural advantage that continues to compound. The company now offers more than 20 million SKUs, ships hundreds of thousands of order lines per day from highly automated distribution centres and serves over ten million registered users. Each transaction generates data that improves search, recommendations and inventory positioning, reinforcing a flywheel in which greater scale leads to better service, which in turn drives higher frequency, retention and wallet share. Traditional distributors such as Trusco and Misumi remain important suppliers but lack the digital infrastructure to compete directly, while Amazon Business remains small in Japan and focused largely on office supplies rather than industrial MRO. The result is that MonotaRO is not simply an online retailer but the system-level consolidator of an entire supply chain.

The growth opportunity remains large. The digital penetration in the Japanese MRO market is still below 15%, compared with over 60% in the US.<sup>1</sup> MonotaRO’s own market share remains modest, leaving a long runway as procurement continues to migrate online. This structural tailwind is reinforced by Japan’s ageing workforce, labour shortages and a policy push towards efficiency and digitisation, all of which favour self-service, standardised procurement. At the same time, MonotaRO is expanding into large enterprises through its Procurement Management Systems, where adoption within existing customers is still low, creating an additional multi-year internal growth vector even without new client wins.

Management targets around 15% revenue growth over the medium term, with profits growing faster than sales as operating leverage and private-label penetration gradually lift margins. Given the company’s track record of compounding revenues at around 20% and earnings even faster over the past decade, these targets do not appear aggressive. Investments in logistics, particularly the new Mito distribution centre, will temporarily depress free cash flow, but the economics of the model remain extremely attractive, with anticipated high asset turns and returns on invested capital well in excess of most distributors. Over time, scale and automation should allow MonotaRO to grow into these investments while maintaining its cost and service advantage.

<sup>1</sup> Source: Bloomberg



The shares currently trade on around 30 times forward earnings, a level that reflects both the quality of the business and some recent investor caution following slightly softer monthly sales numbers. Consensus estimates implicitly assume growth below management's stated target, suggesting that the market is discounting the sustainability of MonotaRO's expansion. If the company continues to deliver in line with its plans, this scepticism should unwind through earnings upgrades rather than multiple compression. In that scenario, a business with a dominant competitive position, high returns on capital and a very long growth runway would justify a valuation at least in line with its historical range, supporting attractive long-term shareholder returns.

## Outlook

As we enter 2026, growth remains resilient, labour markets are tight and fiscal policy across much of the developed world is still highly stimulative. Inflation has moderated from its peak but remains above target, and wage growth continues to be firm. Markets, however, are priced for a more benign outcome, with investors expecting policy rates to ease even as underlying capacity utilisation remains high. In this setting, the next phase of equity returns is likely to be driven less by macro timing and more by the dispersion between businesses and sectors.

That dispersion is already extreme. Cyclical areas of the market, notably banks, energy and parts of industrials, have seen strong earnings upgrades and material rerating. At the same time, a wide range of high-quality, capital-light and service-oriented companies have been left behind. This bifurcation has created an opportunity set that is both broader and more attractive than headline index valuations would suggest.

The portfolio is positioned to benefit from a continuation of economic growth, but not from a simple extension of the narrow trades that dominated 2025. We have meaningful exposure to European industrials and to consumer-facing businesses that stand to benefit as capital spending, travel and discretionary demand continue to recover. In these areas, earnings momentum is improving while valuations remain reasonable, offering scope for both profit growth and multiple expansion if markets begin to reflect the broader implications of a more durable economic cycle.

By contrast, we remain relatively under-exposed to some of the areas that have led recent market performance. The continued concentration of capital in the AI supply chain, particularly in semiconductors, and the aggressive fiscal stimulus being pursued in countries such as Japan, have driven strong returns in energy, materials and certain infrastructure-related stocks. We have limited exposure to these segments, reflecting our discomfort with the sustainability of some of the underlying fiscal assumptions and the valuations now being paid for what are often highly cyclical cash flows. For now, the market appears unconcerned by these risks, but history suggests that such periods of indifference rarely persist indefinitely.

The portfolio now combines exposure to long-term compounders with a growing allocation to more cyclical and idiosyncratic sources of growth, with a focus on businesses with durable competitive advantages and attractive reinvestment opportunities. This positions the strategy to deliver attractive returns in 2026, on the basis that economic conditions remain supportive and the market begins to look beyond the narrow leadership of recent years as we expect.



**Tomasz Boniek**  
Senior Fund Manager



## Disclaimer

Please refer to Troy's Glossary of Investment terms [here](#).

This document is intended solely for use by U.S. investors who meet the definition of an "accredited investor" as defined under Rule 501(a) of Regulation D of the Securities Act of 1933, as amended, and "qualified purchaser" as defined under Section 2(a)(51) of the Investment Company Act of 1940. This presentation relates to a U.S. private fund which is not available to the public.

The information shown relates principally to Troy International Equity Trust (the "Trust"). Performance data provided is either calculated as net or gross of fees as specified. Fees will have the effect of reducing performance. Past performance is not a guide to future performance. This presentation may also contain forward-looking statements that are based on current expectations, estimates, forecasts, and projections. These statements are not guarantees of future performance and involve certain risks and uncertainties which are difficult to predict. All references to benchmarks are for comparative purposes only. Overseas investments may be affected by movements in currency exchange rates. The value of an investment may fall as well as rise and investors may get back less than they invested. There is no guarantee that the Trust will achieve its objective. Neither the views nor the information contained within this document constitute investment advice or an offer to invest or to provide discretionary investment management services and should not be used as the basis of any investment decision. Prospective investors should consult with their own professional advisors regarding the legal, tax, regulatory, financial, and accounting implications of any investment in a Delaware Statutory Trust. The investment policy and process of the Trust may not be suitable for all investors. References to specific securities are included for the purposes of illustration only and should not be construed as a recommendation to buy or sell these securities. The Trust may invest in emerging market equities. Investing in companies in emerging markets involves higher risk than investing in developed markets. Emerging markets may involve a higher element of risk due to less well-regulated markets and political and economic instability.

Although Troy Asset Management Limited considers the information included in this document to be reliable, no warranty is given as to its accuracy or completeness. The opinions expressed are expressed at the date of this document and, whilst the opinions stated are honestly held, they are not guarantees and should not be relied upon and may be subject to change without notice. Third party data is provided without warranty or liability and may belong to a third party.

Ownership of beneficial interests in the Troy International Equity Trust is restricted to those who are U.S. "accredited investors" (as defined in Rule 501(a) of Regulation D of the Securities Act of 1933) and "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act of 1940 Act. Prospective investors will be required to demonstrate their qualification under the eligibility standards applicable under these laws. All offerings of interest by eligible investors must be made through the Trust's Offering Memorandum and Subscription Document, which contain important information regarding objectives, risks, fees, and expenses. Eligible investors must read these offering documents carefully to fully understand all risks before investing.

Although Troy's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Certain information herein ("Information") is reproduced by permission of MSCI Inc., its affiliates and information providers ("MSCI") ©2025. No reproduction or dissemination of the Information is permitted without an appropriate license. MSCI MAKES NO EXPRESS OR IMPLIED WARRANTIES (INCLUDING MERCHANTABILITY OR FITNESS) AS TO THE INFORMATION AND DISCLAIMS ALL LIABILITY TO THE EXTENT PERMITTED BY LAW. No Information constitutes investment advice, except for any applicable Information from MSCI ESG Research. Subject also to [msci.com/disclaimer](https://www.msci.com/disclaimer).

Troy International Equity Trust ("TIET") is a statutory trust filed under and in accordance with the provisions of the Delaware Statutory Trust Act with file number 10172234. The name and business address of the Delaware Trustee of the Trust, having its principal place of business in the State of Delaware, are The Northern Trust Company of Delaware with registered address 1313 N. Market Street, Suite 5300, Wilmington, DE 19801.

This document is issued by Troy Asset Management Limited, the investment manager of TIET with registered address 33 Davies Street, London W1K 4BP (registered in England & Wales No. 3930846). Registered office: 33 Davies Street, London W1K 4BP. Authorised and regulated by the Financial Conduct Authority (FRN: 195764) and registered with the U.S. Securities and Exchange Commission ("SEC") as an Investment Adviser (CRD: 319174). Registration with the SEC does not imply a certain level of skill or training.

© Troy Asset Management Limited 2025.