Compound Equity Group

Newsletter 4

July 2026

For external use

Compound Equity Group is authorised and regulated by the Financial Conduct Authority FRN: 1023836. Registered in England and Wales: 13369091. Registered Office: 24-26 Old Brewery Lane, Henley-on-Thames, RG9 2DE, UK.

Dear Fellow Fundholders,

An Update on Compound and Our Results

Compound Equity Group continues to make respectable progress. We now manage two funds, they both follow an identical approach, investing globally through a concentrated portfolio, currently 26 stocks, across a broad spectrum of market capitalisations. The custodian for both funds is now State Street. We refer to the funds internally as the Irish fund and the UK fund, and the holdings are identical.

Our results to date are tolerable, neither exceptional nor bad, and are summarised in a table at the end. The Irish fund, which is denominated in € and US$, is now called RGI Compound Global IE Equity Fund. When we started managing this fund at the end of August 2024 the new shares were conveniently repriced at 1.00. Today, on 1 July 2026 the € price is 1.27 (+27%) and the $ price 1.30 (+30%).

The UK fund, which is denominated in GBP, is called RGI Compound Global Equity Fund. On July 1 2026 the shares are priced at 574p versus 425p when we started on August 5 2024, so up 35% in £. For context UK CPI inflation, between the start of August 2024 and end May 2026 was 6%.

Regarding results, please judge us on what we achieve over a rolling 4-5 year period. Compound's strategy and approach is one for the long term, and if you do not have a time span of 4-5 years our approach is probably not appropriate for you. My expectation is investing in these funds will be a prolonged grind with returns eked out. By way of reminder Compound's aspiration is to deliver returns after fees that are well ahead of inflation, thereby increasing the purchasing power of the Compound Global Equity Fund shareholders, and so far we have achieved this. Month by month results are summarised through to the end of June in Appendix 1.

Importantly, the stocks Compound are invested in are highly liquid stocks which means if fundholders wish to redeem, we can rapidly liquidate your holdings and return your investment. This is in stark contrast to many Private Equity and Private Credit funds where redemption is being deferred (more on this below).

On the housekeeping front, and as I mentioned last time, Compound Equity Group is now approved in its own right by the Financial Conduct Authority. We are well capitalised, and it is our firm intention to always have a very strong balance sheet, so that in the event of a stock market collapse we can pay salaries and continue to search for interesting stocks. Another point to note is we are about to change investment platform. Compound are currently on the River Global platform. We use the River platform to provide back-office functions, for example trading and custodial services. River, in a decision that does not surprise us, have decided to sell out to Liontrust Asset management (LTAM). LTAM are a UK listed asset manager with around £20bn under management. LTAM will perform the same functions for us as River Global and we do not anticipate any noticeable change other than the prefix on the fund names. RGI Compound Global IE Equity Fund will become LT Compound Global IE Equity Fund and RGI Compound Global Equity Fund will become LT Compound Global Equity Fund. The ISINs will remain unchanged.

I should also mention we are now based in The Old Brewery in Henley-on-Thames. Brakspear Brewery was a very successful family business and enjoyed rapid growth in the late 1700s under Robert Brakspear. In the 19th C Brakspear became a leading brewery under William Henry Brakspear (WHB) and our building was constructed by WHB in 1897. Brakspear developed a large estate of tied pubs, enjoyed modern malting and bottling facilities, and was renowned for their "double drop fermentation system" which produced a distinctive, fruity, buttery pint of bitter. Remarkably, in the 1890s Henley-on-Thames had over 50 pubs for a population of just 5600. Capitalism however has a relentless habit of catching-up with businesses, even well entrenched breweries. Per capita beer consumption in the UK has declined from around 130 litres per person in 1980 to circa 60 litres today. The Brakspear brewing activities were moved to Witney in 2002, Brakspear is now part of a larger group and the Old Brewery building, which is grade two listed, was converted to offices, flats and a hotel. The plaque on the front of our building, "WHB 1897", is a constant reminder to us at Compound of the attritional power of capitalism, that we can never sit on our laurels, and that our portfolios need to change as the world evolves. Compound does not currently own any companies producing or selling alcohol, not because we advocate temperance, but because the alcohol industry generally faces severe headwinds to revenue growth including from rising health awareness; rising taxation; an ageing demographic; endless regulation; and increasing popularity of GLP-1s. Tim Martin, the iconic Founder and Chairman of the listed pub chain Wetherspoons ("Spoons"), has eloquently explained the effect of outsize taxation on the UK pub industry, pointing out that a Wetherspoons pays over £1m in tax per outlet per year. The shares in JD Wetherspoons, which is the class act of pub chains and is outstandingly well run, have returned just over 4% per year to owners over the last 20 years. Put another way, the brewing and pub industry is just too difficult for us at Compound. We will however treat ourselves to the occasional cholesterol busting breakfast at our local Spoons, The Catherine Wheel in Hart Street. My personal recommendation is their Traditional Breakfast of fried egg, sausage, bacon, baked beans, hash browns and toast for £5.85. Warren Buffett, back in 1980, explained to his shareholders "When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the industry that remains intact".

An Update on Portfolio Revenue Growth:

By way of reminder, we hunt for businesses that can redeploy capital at medium to high returns with a degree of certainty and generate both growth in revenues and growth in owner free cash flow.

Here is an update on the revenue growth. The table shows revenue growth by quarter or half for the stocks in the portfolio:

Stock	3Q 2024	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025	Q1 2026
1	+21	+22	+17	+18	+17	+13	+14
2	+51	+25	+20	+22	+28	+30	+48
3		+9	+7	+7	+6	+6	
4	+17		+14		+10		+17
5			+8		+15		+15
6	+19	+22	+19	+20	+21	+19	+17
7		+7		+6		+7	
8	+15	+11	+9	+8	+6	+5	0
9	+19	+24	+30	+24	+13	+7	+11
10		+13		+10		+12	
11	+13	+15	+17	+16	+15	+14	+12
12	+94	+75	+42	+35	+39	+66	+198
13	+11	-4	-5	+15	-2	+6	+8
14	+11	+10	+8	+9	+8	+9	+8
15	-3	+5	+6	+6	+9	+8	+9
16	+16	+14	+8	+6	+9	+8	+9
17	+19	+21	+16	+22	+26	+24	+33
18		+29		+13		+4	
19	+39	+39	+42	+39	+30	+20	+35
20	+25	+28	+31	+18	+3	-14	+16
21	+39	+45	+51	+40	+26	+14	+10
22	+3	+6	+3	+6	+9	+9	+12
23	+11	+32	+29	+15	+11	+7	+14
Average	**+23**	**+21**	**+19**	**+21**	**+15**	**+13**	**+26**

The over-riding point is the stocks in the portfolio are pumping out robust rates of revenue growth, the portfolio averaged 26% revenue growth in Q1 2026, and if one excludes the huge +198% the average revenue growth rate was 16%.

Compound is trying to identify businesses that can robustly grow revenues and earnings, with reasonable certainty, all the while sending their owners a growing stream of cash or redeploying the cash at satisfactory rates of return. This is easily said, harder to deliver. Certainty comes from staying within our circle of competence, and making sure we know the boundaries of that circle. Layered on top of this is a judgement on valuation. Where a business is generating vast owner free cash flow in relation to its market cap, we are less demanding on the growth rate.

Continued Thoughts on Private Equity & Private Credit

In my last letter I flagged that I was concerned trouble may be emerging in the world of Private Equity (PE) and Private Credit (PC). To recap briefly on PE, my concern was it had grown prodigiously (Harvard for example had 39% of their endowment in PE); that PE appeared increasingly illiquid (hard to withdraw money); that returns were lacklustre; that valuations were untested when PE rolled over funds; that there was a short fall of around $2.7 trillion to refinance PE (basically the shortfall is the size of the French economy); and that ownership of PE was broadening ownership from endowments such as Harvard into the general public.

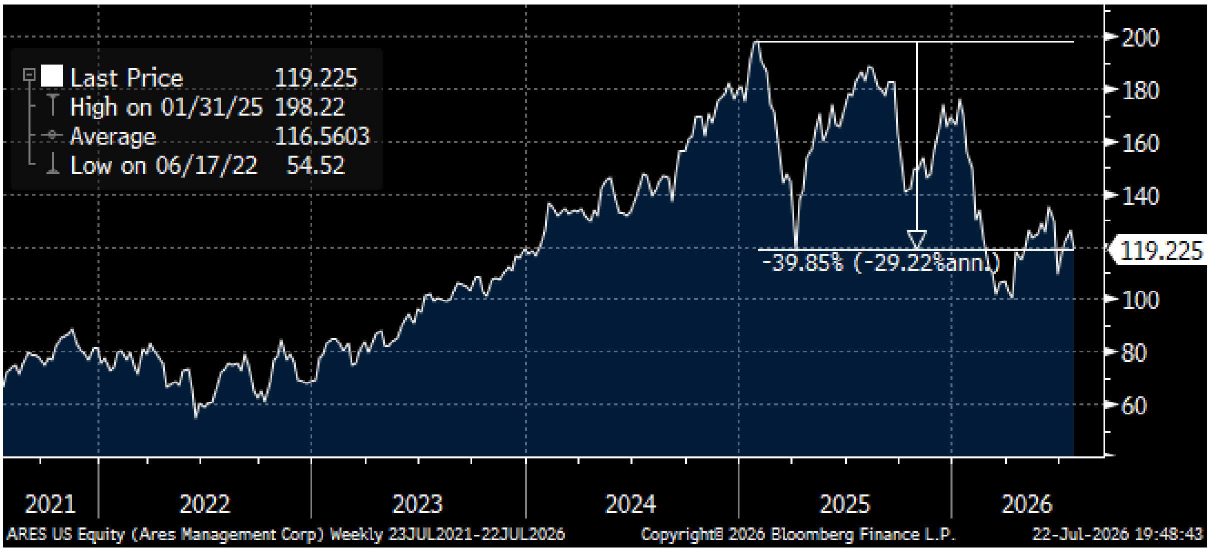
I have also been concerned about the considerable build-up of Private Credit which is now a $2-3 trillion market. My main point here was one should be wary wherever one sees huge accumulation of relatively unscrutinised debt. And again, Private Credit products were starting to be offered to retail investors.

It looks as though a downcycle in credit has properly commenced. Stage 1 was late 2025 with redemption requests. Drawdowns at the Fed's standard Repo facility were $50bn in October, $25bn in November and $75bn in December. In other words, US banks needed cash, probably to cover credit lines being drawn by credit funds. At the same time there was an increase in lending from EU banks to non-bank Financial institutions. The second stage was kicked off with Blue Owl trying to do a net asset value (NAV) merger with its listed Business Development Company (BDC) which was trading at 80% of NAV. Investors rejected this merger. Subsequently Blackstone and various partners have injected circa $400m to help meet redemptions. Now various firms have gated funds including Blackrock, Morgan Stanley, Blackstone, Cliffwater, Blue Owl, Apollo and Ares. Many of these BDCs trade at discounts to NAV, more losses are coming, and the redemption requests will continue unabated. Another sign of trouble is the yields these credit firms are generating. One large brand name firm states 75% of their book is investment grade – yet they have spreads of 200-300bp when the spread on an unsecured investment credit is sub 125 basis points. Usually when it looks too good to be true it is too good to be true. Stage 3 is when the white flag is hoisted, and the losses are realised. The worst hit will probably be the credit funds (Blackstone, Ares, Apollo, KKR, Blue Owl, Goldman). But there will almost certainly be contagion at the sportier banks and insurance companies (think Barclays, Deutsche, UBS, JP Morgan). The market is starting to notice. The share prices of Apollo Global Management and Ares management are shown below. Apollo Global management shares are down 33% from the peak and Ares management shares are down 40% from the peak.

Stock Prices of Alternative Investment Managers

Apollo Global Management

Ares Management



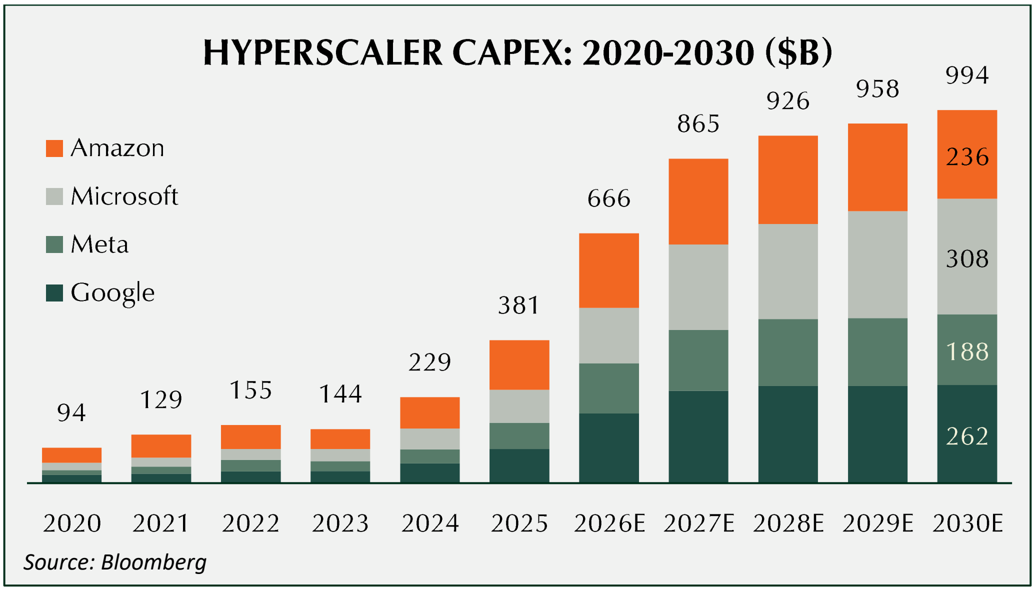
At Compound we try to distil an analysis into a few simple facts we can understand and I can remember, we call it the Postcard Analysis. The Postcard analysis on Private Credit is there is a material asset quality issue in some funds; that liquidity is scant; that exits are delayed/capped; that funds are being rolled over at valuations that may not have been rigorously market tested; that fees remain high; and for those that can exit the returns are mediocre. If you have an alternative perspective please email us, any succinct and well-argued case will receive an airing.

Massive Artificial Intelligence (AI) Capex Boom – Some Observations

The Arrival of the Intelligence Paradigm: Artificial Intelligence (AI) is unleashing a tsunami of change and we do not fully understand the change. AI requires vast amount of computing power and electrical power. According to VAT Group, the world leaders in vacuum valves for semiconductor clean rooms, orders started to look a little more robust in November and December then exploded in January. So the boom is relatively young.

Developments at the Mag 7: The Mag 7 refers to seven technology companies that have driven the appreciation in the S&P 500 over recent years. These seven are Apple, Microsoft, Alphabet, Amazon, Meta Platforms, Nvidia and Tesla. These companies have each mostly had their own swim lane – for example Alphabet dominated Search and had YouTube, Apple dominated high end smart phones, Microsoft had corporate software. The companies were generally capital light and generated prodigious quantities of owner free cash flow.

Four of these companies already are, or intend to become, hyperscalers, companies that operate large scale cloud computing infrastructure from datacentres. They have determined AI is an existential risk to them, and they need to furiously invest in datacentres or potentially face obsolescence. The scale of the capex is mind numbing, over $3 trillion between 2026 and 2029 alone. To give this context the UK economy is worth around $3 trillion and AI capex accounts for roughly 40% of US real GDP growth.



The business models of these hyperscalers is changing. They will be sellers of computing power to large language models such as Anthropic, Chat GPT and Gemini, who in turn will sell AI tokens. Every centime of the vast amount of owner free cash flow the hyperscalers generate will be consumed by capital spending. Furthermore, it will likely become more competitive as they are increasingly dipping into each other's swim lanes. We are now at the beginning of the "inference era", where intelligence will scale with computing capacity. Inference is where you use a trained model to take new input data and produce an output. The future efficiencies of computing are unclear. It is not obvious the US Big Tech stocks will be able to extract monopoly rents, as the Chinese open-source models are cheap and extremely good.

The AI race is between the US and China: There are two geographic regions in the AI race, the US, and China. Europe is a virtual non-starter. Think of it more as a technology war. To succeed in this war the basic requirements are cheap copious electricity and fabulous chip technology. China wins on power, now generating 10.5 petawatt hours, an increase of 2.7 petawatt hours over the last five years, mostly from renewables. The USA in contrast produces 4.5 petawatt hours. In 2025 China added 305 GW of solar power, greater than the entire US solar capacity of 259GW. The USA wins with better chips, thanks to Nvidia, ASML and TSMC. This war moves with astonishing rapidity.

Paying for the Capex: The big four hyperscalers are initially using their free cash flow and their balance sheets, but they will likely need more firepower. Alphabet just raised $85bn of equity to fund their AI build out. To put this $85bn in a European context National Grid, the UK utility, raised £7bn in 2024 – Europe could not even start to fund their own AI programme.

Is this a bubble? Whenever a lot of capital starts chasing new technology investors have to be wary. That said, we are likely quite early in this bubble (see chart above). The lead times are long. Datacentres take time to permit and construct. Demand for tokens is growing exponentially – annualised revenues at Anthropic were $3bn in May 2025 and $47bn in May 2026 – no company in the history of capitalism has scaled so fast. In a similar vein, Chat GPT started in November 2022, today it has over 1bn users.

There are also gating factors, for example shortage of power in the USA; and TSMC, the dominant provider of leading-edge chips, is growing capex just 35% so there will be shortages of leading-edge chips. The financial markets are already trying to guess when the bubble implodes – it seems extraordinary as just 18 months ago a number of the chip stocks were reviled. Probably the key metric will be whether this capex produces a tolerable return on capital employed. If the return on capital employed (ROCE) is not sufficient external funding will likely evaporate.

Concentration: Compound has invested in some of the “hardware” stocks, the nuts-and-bolts providers to this wave of AI Capex. We were fairly sure there would be demand for “more computing capacity”. But what we really liked was the massive market shares of some of these “nuts and bolts” companies. Here are some examples:

- ASML – ASML effectively has 100% market share in EUV lithography machines
- ASMI - ASMI has 55%+ share in single wafer atomic layer deposition
- KLA – KLA has 60% plus share in the semiconductor process control industry, and 80% plus share in optical wafer inspection
- Nova – Nova is a leader in Optical Critical Dimension metrology and Chemical metrology
- VAT Group - VAT Group has 70%+ share in high end vacuum valves used for semiconductor clean rooms
- TSMC – TSMC has 90% share in leading edge foundry, chips of 7nm and below

- SK Hynix – SK Hynix is the world leader in High Bandwidth Memory (HBM) with 55-60% share

Some Other Thoughts on the Current Investment World

"We all know what to do, we just do not know how to get re-elected after we have done it" Jean-Claude Juncker, PM of Luxembourg, 2007 – also known as "Juncker's paradox"

The investment world is extraordinarily complicated and difficult at the moment, as complicated as I can remember. I call it the "litany of grimness". I remind the Compound team with monotonous frequency that our job is to find businesses that can and will prevail despite the challenging and difficult economic and political environment. We try to avoid making decisions where we have little insight, so we constantly ask ourselves what do we really know and how can we invest? Here is a list some issues we think about – some of these issues we think we know with reasonable certainty, but we reserve the right to do a U turn.

France rumbles along with sovereign debt at circa 120% of GDP, a fiscal deficit of around 5%, the economy is hugely over regulated and there is political stalemate. French 10-year bond yields are 3.94%, the highest level since 2009, and 80 basis points higher than German yields. The Spring 2027 Presidential election will be important. The question for the bond markets is can France produce a government with the inclination and ability to reduce the fiscal deficit and stabilise the debt level? One observation I have made previously is poor sovereign governance can oblige domestic companies to do better. The companies cannot rely on the French government so they double down on improving productivity, enhancing innovation and going global.

UK My previous investment newsletters have been scathing on the UK economy and if anything, the economy and outlook continue to deteriorate. Like France, the UK suffers from indifferent governance and over regulation. Public sector debt is now around 95% of GDP. UK 10-year gilt yields are close to 5%. The UK will spend around £110bn in the current tax year servicing the debt, roughly 8-9% of all government revenue, which will come in around £1.4 trillion. Tax as percent of GDP is at a post war high of 37%, up around 500 basis points over 15 years. Welfare, 29% of UK government revenues, healthcare, 21%, and interest expense, 8-9%, combined equal around 58% of UK government receipts. For the UK economy to thrive there needs much more spending on productive investment, for example airports, roads etc, and a massive dose of deregulation. The new UK Prime Minister, PM Andy Burnham, seems keen on "big government" and additional taxation, however additional taxes on capital gains, land and wealth, may backfire and further retard the economy. According to the Henley Private Wealth Migration Report 27K millionaires have left the UK in 2024 and 2025. The recent inheritance tax on farms has clearly backfired with farmers capitulating and selling out – Strutt and Parker report that in H1 2026 there was a record number of small and mid-sized UK farms for sale. Burnham's advocacy of rent controls, if true, signals profound financial illiteracy. Another sector caught in the crossfire of over regulation is UK listed homebuilders which are valued on 20–30-year lows on price to book value. This is particularly striking as the current government made housebuilding a priority. Reasons for the low valuations include additional costly biodiversity rules; potential future taxes on housing developers; concern the government may impose higher affordable housing requirements; landbanks maybe written down; and rising inflation leading to rising mortgage rates. The table below attests to the dismal 10 year returns from UK homebuilder stocks and is a pertinent reminder of how adverse government policy can demolish returns to owners.

Table showing 10-year total returns from UK Homebuilders in GBP

July 2016 to July 2026

Homebuilder	Total 10-year return including dividends	Annualised return
Taylor Wimpey	3.7%	0.3%
Barratt Redrow	22.6%	2.0%
Persimmon	27.6%	2.4%
Bellway	40.6%	3.4%
Berkeley Group	67.2%	5.2%
Vistry Group (ex Bovis)	-48.4%	-6.4%
Crest Nicholson	-76.0%	-13.2%

Deglobalisation and reshoring For most of the last 30 years investors have been helped by globalisation, off shoring and a peace dividend. Production has been moved to the country with the lowest production costs and peace has largely prevailed. A good number of countries in Central and Eastern Europe and Latin America have embraced democracy. The EU expanded to 28 members. International trade blossomed with the advent of the World Trade Organisation in the early 90s. Rapid economic growth in India and China and parts of Southeast Asia have lifted 1bn people out of poverty.

This paradigm is likely changing. I anticipate much more reshoring. The West has woken up to the fact that China dominates the processing of many metals. For example, China is the dominant processor of Lithium-ion battery grade chemicals; processes the majority of global Cobalt; is the dominant processor of rare earths; produces the vast majority of global Magnesium; and is the largest producer of Tungsten. The dominance of China in the processing of metals will take many years to neutralise. Another sector where China dominates is in global pharmaceutical intermediates – this is hard to gauge but one estimate I saw is China produces 44% of global volume in active pharmaceutical ingredients (APIs), rendering global pharmaceutical production very reliant on China.

Global trade is becoming more polarised. China's annualised exports to the G7 have declined from $1.2 trillion in August 2022 to $0.9 trillion in November 2025. Meanwhile China's trade to the developing world ("Global South") has doubled in five years to $1.5trillion.

More wars and unrest There are 3-4 major ongoing wars – Russia-Ukraine, Middle East (Iran, US, Israel), Sudan Civil War and Myanmar. There seems to be no quick solution to any of these conflicts.

I would encourage fundholders to read the November 2025 USA National Security Strategy report, a definitive report on the US position. Some key points to digest:

- The USA seeks peace through strength
- The "era of mass migration is over"
- NATO countries must spend 5% of GDP on defence
- The USA must not be dependent on any outside power for core components
- The USA requires a strong capable industrial base in order to have a strong capable military
- The USA will restore energy dominance in oil, gas, coal and nuclear
- The USA will focus on dominating the Western Hemisphere (as Maduro discovered!)
- Europe receives an excoriating review – the authors state that in Europe political liberty is being undermined, free speech is censored, migration is rife, over regulation is rampant, birth rates are declining, and some European countries maybe so depleted in 20 years that they can no longer be reliable allies to the USA.

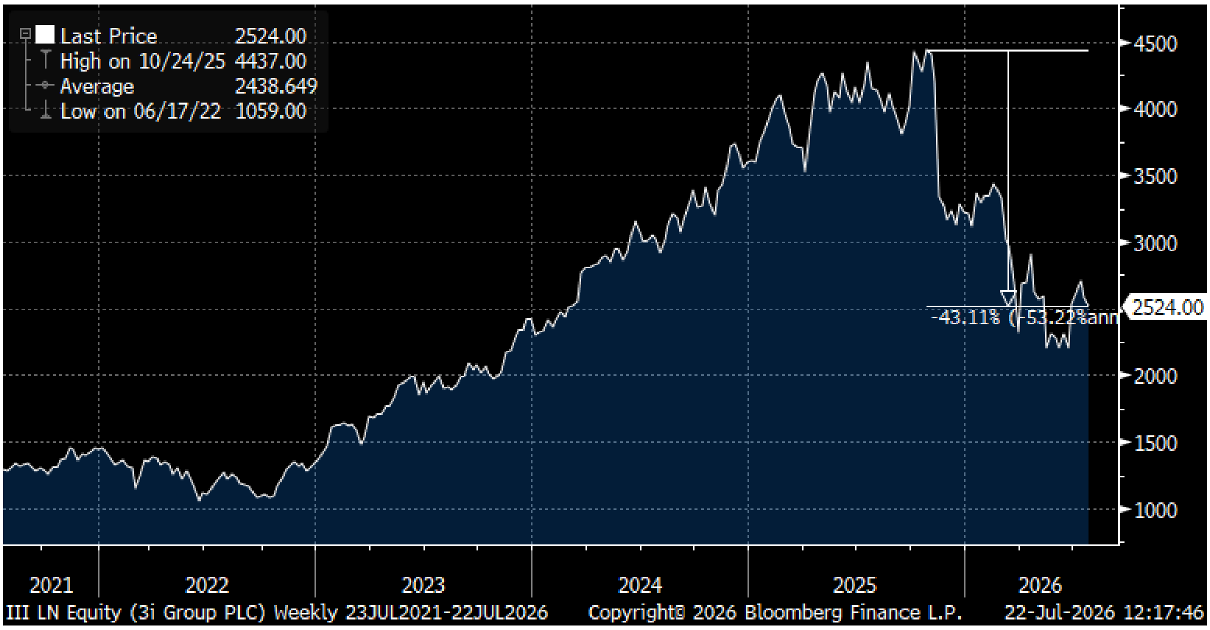
As investors we try to factor this raised level of unilateralism into our thinking. At first glance, one obvious beneficiary is the defence industry. However, it is also clear that defence industry is being turned upside down by the advent of drones. Drones, just like the tank and the machine gun, are profoundly changing warfare so investing in defence is laced with potential uncertainty. A precision strike that used to involve a $50m fighter jet can now be undertaken by a $5K drone. Meanwhile drones render the battlefield visible at all times. Heavy armour such as tanks are more vulnerable. Drones are used in swarms to overwhelm defences. Logistics are under greater threat, witness the chaos with fuel supplies in Crimea or the recent relentless drone attacks on commercial shipping in the Sea of Azov. Ukraine has no navy, yet the Russian navy has vacated the Black Sea to avoid drones and unmanned vessels from Ukraine. Looking forward it is not immediately obvious the traditional defence companies are the outright winners of the future. Military procurement is likely to move away from a few highly sophisticated and expensive platforms towards large volumes of attritable autonomous systems. Civilian technology will play a larger role as many drones are built from commercial components. Defence is besieged by flux and change – in Europe alone there have been between 60 -100 drone start-ups since 2022.

USA US debt to GDP is circa 120% and the US 10-year treasury yield is close to 4.6%, for context this is almost a 15 year high. The new Federal Reserve (Fed) Governor and Chair, Mr. Warsh, has written in the past about shrinking the Fed balance sheet ("tightening"), which currently stands at $6.7 trillion. Whether the US and Mr. Warsh are really prepared to take the pain required to restore public finances is unclear. Currently, US government net interest payments are around $1 trillion, 19% of total government receipts. The US is very vulnerable to rising interest rates, a 1% rise in rates would add $370bn to the interest bill, just over 7% of tax receipts. Eventually it seems plausible that Mr. Warsh's hand is forced, and the US turns to yield curve control (YCC), just as Japan has. As with Japan this would likely weaken the currency, the Yen is now at a forty year low, and boost US equities and gold.

Debasement of the main currencies Given the high levels of public debt, and the pervasiveness of Junker's paradox in G7 economies, continued debasement seems inevitable. For long term investors trying to preserve purchasing power this argues for investing in equities and gold. Where bond yields are artificially suppressed by governments the pressure will be on their respective currencies. As owners of stocks, in a world of interest rates staying higher and for longer, we should be mindful that higher rates will curtail stock valuation multiples.

A Business We Like – 3i – III.LN - £26bn – 2606p

So far, the "Business We Like" seems to have been the kiss of death for stocks we have written up. I wrote up 3i in our second newsletter and they went onto deliver a profit warning. Here are our latest thoughts.



The share price of 3i has almost halved from its peak. I am reminded of the Charlie Munger quote the gist of which is "be willing to own a stock that is declining – and even hold it through a 50% drawdown – this is a necessary "price of admission" for high long term investment returns". Needless to say, I do not enjoy being tested on this but it has happened to me in the past and will no doubt happen again. So, what is going on with 3i?

A quick recap - 3i is a private equity (PE) firm. But a PE firm with a difference. Their main asset is Action which is around 75% of 3i net asset value (NAV). Action is budget retailer with around 3500 stores in 14 European countries. Action stores sell 14 categories of non-perishable goods from no frill stores at incredibly competitive prices. Compound owns 3i stock mainly because we love the profitability (unit economics) of Action, and we love the potential runway for store growth.

Superb unit economics – Action stores cost Euro 600K to start. The cash payback is less than one year. So, Action recovers the Euro 600K investment in less than 12 months. In fact, it is better than that because the Euro 600K does not include working capital which is negative (suppliers fund the inventory). Within a year a new store has paid for itself and is generating free cash for owners. All 3500 stores are profitable.

Long runway – Today Action have 3500 stores, and management are adding 400 per year. Management believes the countries they are already in can absorb up to 8000 stores. In 2026 they are adding Croatia and Slovenia (both small markets), in 2027 Bulgaria and 2028/29 Greece. Very roughly new stores grow revenues 10-11% a year. The real excitement though comes from their imminent expansion into the USA. Action plan to open their first USA store at the end of 2027. There is considerable scepticism over this move into the USA from the financial community - the concern centres around the number of European retailers that have failed in the USA. So, what if Action fails in the USA? If it fails, the hit to profitability is relatively minor – management aim to keep the cost of operations of the USA to less than 3% of group EBITDA. What if Action succeeds in the USA? 3i stock will ramp upwards at a furious pace as brokers add another 5K stores to the runway. I would note the success of the German discounter Aldi in the USA, US consumers are amenable to discounts and private label. Today Aldi has around 2600 stores in the USA and is adding circa 200 stores a year.

The profit warning – 3i stock price was impaled because management reported that like-for-like (LFL) growth for Action in France, their largest market, was flat to down in Q4 2025 and only up +1.3% for the year 2025. For the group it was up 4.9% in 2025. LFL is a measure of store productivity, how much more did Action sell from existing stores versus the prior year? I doubt that productivity improvement has come to a crushing halt in France – for one thing the comparisons were very tough - for the previous four years LFL growth was up an astonishing 56%, cumulatively. And there are many stores in France that are super performing – for example, I gather the Action store in Brie-Comte-Robert sells around Euro 25m per year. Meanwhile, outside of France much of the business is hammering along – LFL growth in Italy, Spain and Portugal is apparently +20-40%. We are assuming 3% LFL group growth in 2026 giving total revenue growth, including new stores, of 13-14%.

To give context, compare the revenue growth with Tesco - consensus forecasts for Tesco's group revenue growth for the year ending February 2027 are 3-4%. I am a huge admirer of Tesco management, they do an extraordinary job, but without a smidgeon of doubt Action have a higher growth rate, longer runway, higher incremental ROCE and superior owner free cash generation.

Valuation – Action continues to indulge owners in an orgy of owner free cash flow (FCF), owner FCF will be around Euro 1.4bn after funding all growth. Action is private but the implied market cap is Euro 34bn, so the owner free cash yield of Action is 4.2%. 3i now owns 65.4% of Action up from 57.5% in the last two years. The postcard summary is 75% of 3i's value is from Action. Action generates over 4% owner FCF a year, the unit economics are superb, revenues are growing 13-14%, the runway is long, and if the USA works the runway is very long. 3i is buying back 2.8% of their shares which trade at an 18% discount to NAV.

Time will tell whether Compound is correct on 3i. There are no future facts, and I cannot be 100% sure, but our analysis suggests is this is a good window to acquire a superb business at a fair price.

In Closing:

I would remind you that Compound thrives off well-reasoned and robust feedback. Please do not hesitate to email us with criticism, comments and even better, new investment ideas. We are aware we constantly need to learn and keep an open mind. I would also note we are looking to add one investor to our team – our dream candidate is a meticulously honest nerd with some/all of the following characteristics – a double first in in physics/maths/engineering or any tough science; a passion for stocks; a thick skin (your ideas will be rigorously cross examined); comfort with uncertainty, markets demand this; an ability to think independently; a desire to listen and learn; a capacity for succinct communication; a sprinkling of humility, paranoia and humour; monastic focus when required; and ideally a few years investing experience – we don't care what you look like or where you are from, we are interested in what returns you can deliver for our fundholders. A tolerance for the office hounds, Boris and Theo, would be an additional plus.

Wishing you all a wonderful summer and thank you for your faith in us,

Jonathan Knowles, July 2026

Fund Returns, Net of Fees*

UK Fund: RGI Compound Global Equity Fund – GBP														
%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug**	Sep	Oct	Nov	Dec	**YTD**	**ITD**
2024								0.6	-0.4	-1.3	3.0	2.2	**4.2**	**4.2**
2025	4.9	-7.1	-8.7	1.9	8.9	4.0	3.0	-2.1	3.1	4.4	-5.8	-0.5	**4.5**	**8.9**
2026	3.9	0.3	-10.5	15.7	6.1	4.0							**19.1**	**29.7**

Irish Fund: RGI Compound Global Equity IE Fund – EUR														
%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**YTD**	**ITD**
2024									0.5	-1.6	3.7	2.5	**5.2**	**5.2**
2025	4.2	-5.9	-9.9	0.2	10.2	2.2	1.9	-2.3	2.2	3.7	-5.2	-0.2	**-0.4**	**4.8**
2026	4.6	-0.7	-9.7	16.1	6.0	4.8							**20.9**	**26.7**

Irish Fund: RGI Compound Global Equity IE Fund – USD														
%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**YTD**	**ITD**
2024									1.5	-4.5	0.8	1.0	**-1.2**	**-1.2**
2025	3.8	-5.7	-6.2	5.2	9.9	5.8	-0.6	-0.3	2.9	2.1	-5.2	1.4	**12.4**	**11.1**
2026	6.4	-1.9	-12.3	18.7	5.3	2.7							**17.4**	**30.4**

YTD = Year-to-Date, ITD = Inception-to-Date

* Since Compound took over management of the funds

** Since 26th August 2024

Disclaimer

The content of this newsletter is provided for informational purposes only and does not constitute, nor should it be considered as, financial advice, a recommendation, or an offer to buy or sell any financial instruments. All opinions expressed herein are those of the presenter and do not necessarily reflect the views of Compound Equity Group Limited ('CEG')

No Financial Advice. This newsletter is not intended to serve as a basis for any investment decision. You should obtain independent financial advice tailored to your personal circumstances before making any investment or financial decisions. Reliance on the information presented herein is at your individual risk.

Accuracy and Completeness. While every effort has been made to ensure that the information contained in this presentation is accurate and up-to-date, CEG makes no warranties, express or implied, regarding its accuracy, completeness, or suitability for any purpose. Past performance is not indicative of future results, and all investments carry risk, including the potential loss of principal.

Regulatory Oversight. Compound Equity Group Limited is authorised and regulated by the Financial Conduct Authority (FCA), Firm Reference Number (FRN) 1023836. This newsletter is provided solely within the parameters of our FCA authorisation and is not intended as a substitute for full regulatory disclosures or documentation.

Risk Warning. Investments in financial instruments and strategies discussed in this presentation carry inherent risks. You should be aware that under current market conditions, the value of your investments may fluctuate, and there is a possibility of losing some or all of your initial investment. You should, where appropriate, seek independent professional advice regarding the risks involved.

Limitation of Liability. Under no circumstances shall CEG, its affiliates, employees, or agents be liable for any direct, indirect, special, consequential, or any other type of damages arising out of, from, or in connection with this newsletter or any actions you may take based on its content.

You acknowledge that you fully understand and accept these terms. If you require further clarification or additional details regarding our regulatory obligations, please consult our Compliance team.