

2026

**INVESTOR UPDATE  
ON RECENT  
PERFORMANCE AND  
EQUITY POSITIONING**

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**Investlinx**

Actively Managed ETFs

# Investor Update on Recent Performance and Equity Positioning

Dear Investors,

Through the end of February, the Investlinx Capital Appreciation ETF declined by 6.5% and the Investlinx Balanced Income ETF declined by 3.2%, due to the negative performance of its equity component, offset by the positive +1.1% return of its fixed income component.

As an active manager, we want to explain what is driving these recent price declines, share our fundamental assessment of the situation and our confidence in the future returns of our portfolios.

The current environment is characterised by a rapid, indiscriminate market reaction to advancements in Artificial Intelligence (AI). While the underlying technology is real and profound, we believe that the market's pricing of risk is currently disconnected from the operational realities of some of our portfolio companies.

## What has happened in 2026

Parts of the equity market (software, professional data and services, logistics, office real estate, insurance broking) have sold-off this year following new product announcements from Anthropic and OpenAI. We can categorise the market's fears into three main factors:

- **Fear of Software Replacement:** Following recent releases of advanced code-writing tools and autonomous AI agents by companies like Anthropic and OpenAI, software stocks experienced a severe decline. The market is worried that inexpensive AI coding will allow businesses to bypass established vendors, creating their own in-house tools. Investors also fear that AI agents will perform tasks currently done by human workers using these software platforms, reducing the number of software licenses sold, pressuring pricing and profit margins. Companies within our ETFs that have been impacted are ServiceNow, Adobe, Cadence and Microsoft.
- **Uncertainty Over Return on Capital of Cloud Infrastructure Spending:** The large cloud computing providers, or "hyperscalers" (such as Amazon and Microsoft), are massively increasing their spending on data centre construction to power these new AI models. Amazon, Alphabet, Meta and Microsoft have announced capital expenditure increases ranging from 53% to 97% for 2026. Investors are cautious. They want to see immediate, accelerated revenue growth to justify these investments and this uncertainty has pressured the stock prices of Amazon and Microsoft in our portfolio.
- **Fear of Service Disintermediation:** AI companies recently announced specialised tools designed for finance and legal professionals. This triggered a sell-off in portfolio companies that provide workflow tools and proprietary data and information such as the London Stock

Exchange Group (LSEG), S&P Global and RELX. In addition, the stock of Arthur J. Gallagher (insurance broker) came under pressure on news that AI-driven tools could automate the brokerage process.

Strong performance within the ETF was reported in our semiconductor companies (TSMC, ASML), in Healthcare (McKesson, Cencora) and in Consumer Staples (Heineken) but these gains were not sufficient to compensate the decline related to the 3 factors discussed above.

## Our View

We have spent the past six weeks rigorously evaluating these new AI capabilities to determine their impact. We must acknowledge that the risks of disruption have objectively increased across all software. However, we concluded that the fundamental business models of our portfolio companies largely remain defensive because our investments skew heavily toward enterprise, mission-critical, complex, system-of-record applications that are often deployed in regulated industries. We believe the market is underestimating the switching costs inherent in legacy enterprise software – both the operational complexity of migration and the governance approvals required to authorise such changes within large corporations, particularly those in regulated industries.

## The Reality of Enterprise Software

- AI systems are probabilistic. They generate output by guessing the most likely correct answer. This is highly effective for drafting an email but large corporations require deterministic certainty in their operations. If a system manages financial records or assigns employee security clearances, it must execute the same actions every time. The legal and regulatory risks of an AI hallucinating an accounting entry or a compliance report are unacceptable.
- Generating the initial lines of code is only a fraction of the cost of software ownership. When an enterprise purchases a subscription from an established vendor, they are paying for reliability, continuous security patching and structural updates every time regulation or internal processes change. If a company uses AI to build its own internal system, it assumes the responsibility for these features, which would require strong coordination and accountability amongst several internal departments (IT, legal & compliance, business line impacted by the process).
- Enterprise IT is not a collection of isolated programs; it is a highly integrated stack. Adding a new employee in an HR platform automatically triggers hardware orders in procurement application, creates cost entries in accounting software and grants accesses to IT systems. Replacing a single off-the-shelf application with an internal AI tool risks breaking this entire chain.

Enterprises are less likely to abandon established, interconnected systems for cheap, AI-generated alternatives because the operational risks and maintenance liabilities are high. This provides protection for pricing and margins of our portfolio companies.

Furthermore, incumbent leaders like ServiceNow, Microsoft and Adobe are not standing still. They are aggressively deploying this exact same AI technology to enhance their own features and drive internal cost efficiencies. They possess the vast resources and deep domain expertise to build and sell AI agents directly to their existing client base. Because of high switching costs and the value of their proprietary data, these established leaders are in a good position to maintain leadership in respective markets. In addition, these businesses enjoy decades of relationship with their clients and know-how of their companies, which will take several years for providers of competing AI tools to build.

### The Contradiction in Cloud Infrastructure

The market's current logic seems somewhat contradictory. Investors are selling software stocks because they believe AI will dominate and simultaneously selling cloud infrastructure stocks because they fear AI investments will not generate an adequate return. Both cannot be true. If AI tools are widely adopted, they will require massive amounts of computing power, making Microsoft and Amazon the clear beneficiaries. These cloud providers are increasing their spending because they have unprecedented, visible demand from their customers, minimising the risk that they are building useless capacity.

Furthermore, Microsoft and Amazon are some of the largest shareholders of OpenAI and Anthropic. This means that they are well-positioned to profit directly from the success of today's perceived AI winners provided this leadership is maintained.

### The Value of Professional Data and Services

The sell-off in professional data and service providers was indiscriminate. AI models require high quality input to function and roughly 90% of the financial data provided by LSEG and S&P Global is highly proprietary, real-time and unavailable on the public internet. AI companies actually partner with these firms to make their tools function properly. Similarly, in the legal sector, RELX owns authoritative, proprietary legal citations that lawyers must use in court. They do not simply provide access to public laws.

In insurance, Arthur J. Gallagher focuses on the commercial segment. This specialised service is unlikely to be replaced by an automated chatbot. In fact, document-heavy businesses like insurance stand to significantly increase their profit margins by deploying AI internally to reduce their own operational costs. Gallagher's exposure to simple, commoditised personal lines is minimal. In the past decades, several technology firms have repeatedly tried to disintermediate commercial insurance brokers with no success: the innovation of AI tools is unlikely to change this outcome given the complexity and know-how required to match risks and capital within the insurance industry.

## Our Current Equity Portfolio Positioning

The current market dislocation provides an excellent opportunity to improve the risk and reward profile of our portfolios. We did not sell any positions out of fear of AI disruption. Instead, we executed gradual, selective changes throughout the recent volatility.

We reduced our positions in companies that had performed very well and reached valuations where the potential for further gains was low and the risk of decline was high. This included reducing our exposure to Danaher, Cencora, McKesson, Heineken, ASML and TSMC.

We redeployed this capital into the companies that we believe face low risk from AI disruption but sold off indiscriminately. We increased our weightings in Cadence, Microsoft, Amazon, LSEG, S&P Global, Adyen, ServiceNow and Arthur J. Gallagher. The valuations of these companies now price in far more risk than they actually face, creating highly attractive upside potential.

Importantly, we maintained strict portfolio balance. Our investments in enterprise software is counterbalanced by our exposure to hyperscalers, semiconductors and sectors not at risk from AI disintermediation, including healthcare, industrials and certain financials.

## Investlinx Balanced Income ETF Update

For investors in the Investlinx Balanced Income ETF, we recognised the increasingly attractive valuations in the equity sleeve and increased the portfolio's overall equity exposure by 3%, bringing it to 58%. No changes were made to the fixed income portfolio.

We thank our Investors for continued confidence. We encourage Investors to reach out to us at [info@investlinx-etf.com](mailto:info@investlinx-etf.com) should they have any questions or wish to discuss in more detail. We remain focused on leveraging our rigorous, bottom-up analysis to capitalise on these market overreactions and generate attractive long-term returns.

10<sup>th</sup> March 2026

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