

TREETOP

MANAGERS' LETTER 3RD QUARTER 2025

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Economic and Market Environment

As we approach the end of the year, we are pleased to see that global equity markets have remained strong in recent months, with all major regions in positive territory[1].

The best performers were the Hang Seng Index, driven by large Chinese companies, and the NASDAQ, led by the “Magnificent Seven” U.S. technology stocks. Europe, after a strong start in 2025, has lagged in recent months as earnings growth fell short of expectations. India, represented by the NSE Nifty, is still positive but has been among the weakest markets, pressured by trade tensions with the United States and its limited exposure to the booming AI sector.

These figures are shown in local currencies, but as the U.S. dollar has depreciated sharply against the euro this year (12%)[2], returns look less impressive in euro terms. At TreeTop, we offer currency-hedging solutions on most of our products, and your financial advisor is available to discuss these options.

Equity Market Performance (in local currency)								
	MSCI ACWI	S&P 500	NASDAQ	Magnificent 7	STOXX Europe 600	Nikkei 225	Hang Seng	NSE Nifty 50
01/01/2025	841	5,882	19,311	26,067	508	39,895	20,060	23,743
30/09/2025	985	6,688	22,660	31,094	558	44,933	26,856	24,611
Change	17,0%	13,7%	17,3%	19,3%	10,0%	12,6%	33,9%	3,7%

FIGURE 1 SOURCE BLOOMBERG, TREETOP CALCULATIONS

In recent quarters, we have become cautious on U.S. technology stocks and have advised our readers to diversify geographically and reduce their exposure to the AI boom. So far, our geographic call has proven more accurate than our sector call, but exact timing is nearly impossible in financial markets. We remain very cautious on the “Magnificent Seven” and other AI-related names, as their market capitalisations reach unprecedented levels. In the stock market, the higher the price you pay, the greater the risk of disappointment.

Beyond the AI boom, we see broadly stable global economic conditions and a more positive growth outlook for most major economies.

1: Past performance does not guarantee future results

2: Bloomberg: USDEUR cross: 0.9659 on the 31st December 2024, 0.8523 on the 30th September 2025

The American economy, despite some questionable actions by the current administration, has accelerated in recent months. The US economy grew by 3.8% year-on-year in Q2 2025, supported by robust consumer spending, following a contraction in the previous quarter.

While the paralysis of the French government and the difficult economic conditions there are making most newspaper headlines, the European economy is picking up slowly. Formerly weak economies are showing how positive reforms can pay off. Italy just had its credit rating upgraded and other 'Club Med countries' like Portugal, Spain and even Greece are expected to grow from 1.8% (Portugal) to 2.6% (Spain). Some eastern bloc economies are leading the continent with Poland growing over 3% per year. Finally the Nordic economies, Germany and the Netherlands, while not growing very fast continue to innovate and have low government debt and prosperous societies.



FIGURE 2 XIAOMI SU-7: STARTS AT EUR26,000 IN CHINA COMPARED TO A STARTING PRICE AROUND EUR108,400 FOR THE PORSCHE TAYCAN

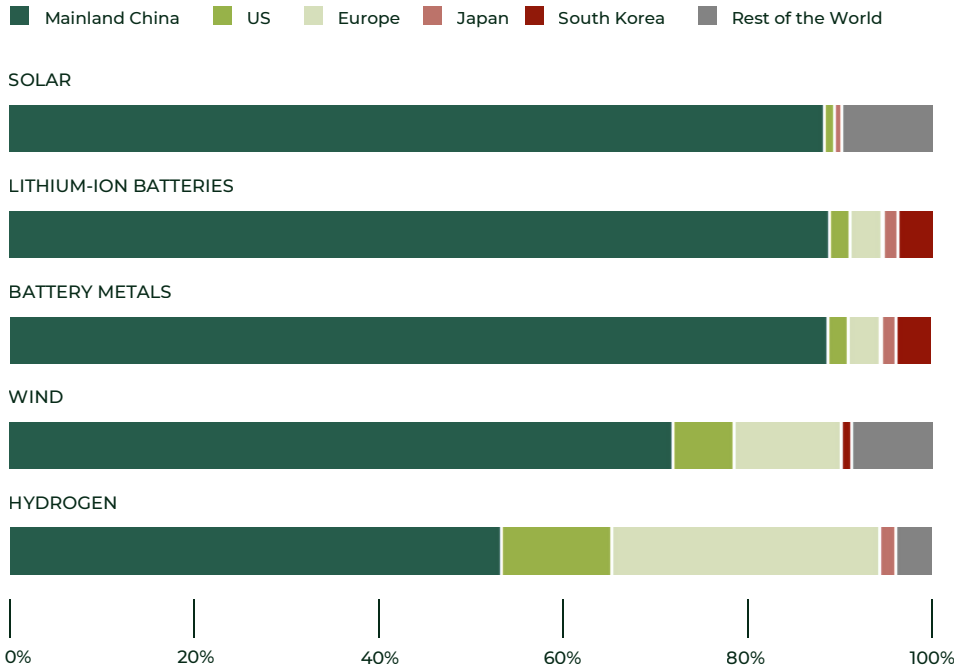
China, now the second largest economy continues to challenge the Western hegemony in technology developing world champions in green technology, artificial intelligence, electronics and e-commerce services. Its best companies, like Xiaomi and Alibaba have world class products and services, like the new SU-7 electric car by Xiaomi, a Porsche-beating product at a 1/3rd of the price.

The Chinese government now seems more open toward private entrepreneurs. Even Jack Ma, the Alibaba founder who once openly criticized the government, has been rehabilitated and attended the recent meeting between Xi Jinping and the country's most famous entrepreneurs. Of course, China is far from perfect — it continues to support Russia economically, press freedom is very limited, and its ageing population is an even greater challenge than in Europe. Still, as investors, we believe it would be irrational to ignore the world's second-largest economy.

Other Asian countries are still growing faster than most Western economies. South-East Asia, with its young population, solid fiscal policies and booming internet economy, is expected to grow by at least 4% per year. India, despite trade tensions with the U.S., remains the fastest-growing large economy in the world. Some Indian companies will be hurt by recent U.S. measures like higher visa costs and 50% tariffs, but local politicians are quickly strengthening ties with other fast-growing Asian economies and with Europe. Interestingly, tensions with the US have also pushed the Chinese and Indian leaders into closer dialogue.

Mainland China dominates Clean-Tech Manufacturing

Clean energy manufacturing capacity by location in 2024



In certain sectors, particularly electric batteries and other technologies, China has built such a strong lead that many U.S. funds now believe it is better to partner with Chinese companies than to try to launch competing products. Bloomberg recently published an article on this very topic: [China Road Trip Exposes List of Uninvestible Assets in the West](#) [3]

SOURCE: BLOOMBERGNEF
 NOTE: BARS SHOW AVERAGE SHARES ACROSS VALUE CHAIN SEGMENTS FOR EACH SECTOR. SOLAR INCLUDES MODULES, CELLS, WAFERS AND POLYSILICON. LITHIUM-ION BATTERIES INCLUDE CELLS, CATHODES, ANODES, ELECTROLYTES AND SEPARATORS. METAL REFINING INCLUDES LITHIUM, COBALT SULFATE AND NICKEL SULFATE. WIND IS NACELLES, AND HYDROGEN IS ELECTROLYZER STACKS.
 PLEASE NOTE THAT THIS ARTICLE IS FOR SUBSCRIBERS ONLY.

Slower-growing countries in Asia, such as Japan, South Korea and Taiwan, continue to produce exceptional companies and stock market successes. South Korea remains the global leader in memory chips with Samsung and SK Hynix, both essential to the electronics industry. While NVIDIA is the poster child of the AI boom as the monopoly supplier of GPUs, these processors cannot function without high-bandwidth memory (HBM), mostly produced by the two Korean firms. Manufacturing all these chips also requires the massive factories of TSMC, Asia's most valuable company, which run on advanced lithography machines supplied by Dutch leader ASML.

3: <https://www.bloomberg.com/news/articles/2025-09-21/china-road-trip-exposes-list-of-uninvestible-assets-in-the-west>

After a few years of strong performance, many investors wonder: “When is the next correction coming?” or “Are we in a bubble?” It is more important than ever to take a long-term perspective. Yes, there are over-hyped stocks in the market, but overall valuations are far from extreme. The MSCI ACWI’s forward price/earnings ratio at 21.5x is much lower than during the late 1990s. Since the internet bubble burst in 2000—and despite major crises such as 9/11, the 2008 financial crisis, and the COVID pandemic—MSCI ACWI earnings per share have grown more than 4.6 times over 30 years, from USD 10 to USD 46 per share, or about 5.2% per year. On top of this earnings growth, global equity investors have also received a dividend yield of 2–2.5% annually.

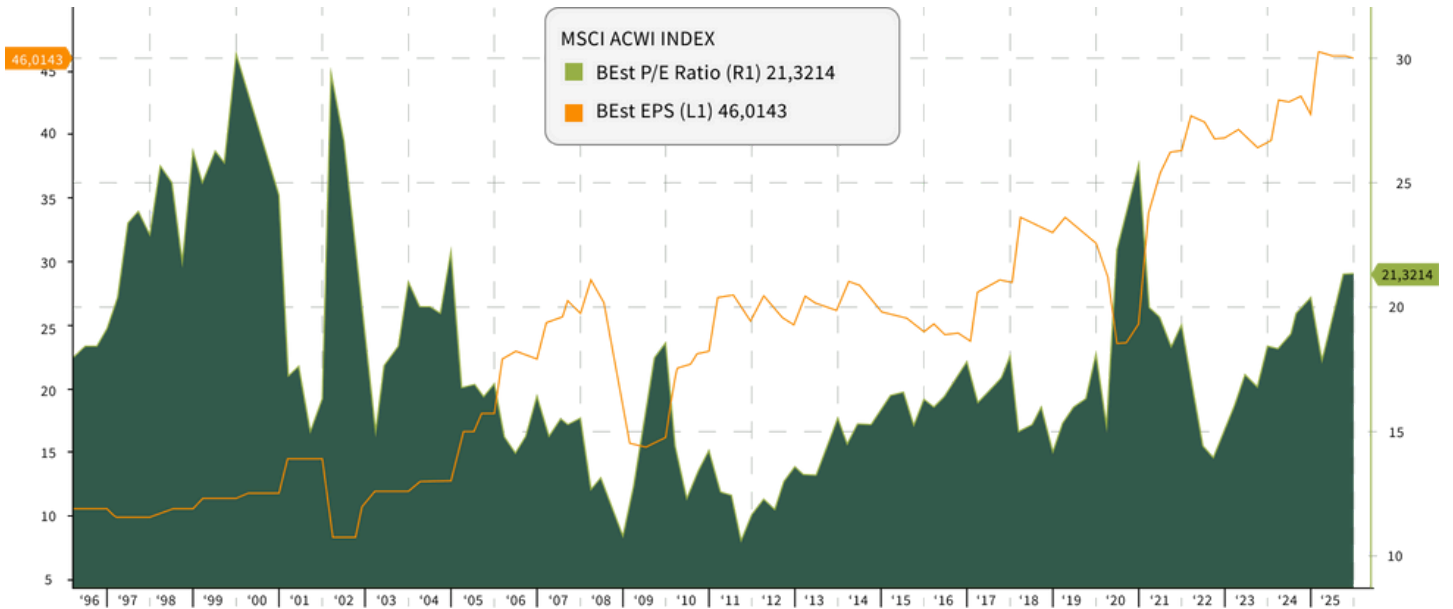


FIGURE 3 - MSCI ACWI VALUATION (BEST P/E SHADED IN GREEN) AND EARNINGS PER SHARE (BEST EPS IN ORANGE), SOURCE: BLOOMBERG

At TreeTop, we are confident in the long-term potential of global equities. The world is in constant motion, with inevitable short-term fluctuations, but one reality remains unchanged: the long-term upward trend of capitalism.

Our convictions

Since we started TreeTop Asset Management twenty years ago, we have been driven by some core beliefs and convictions.

- We take a global approach to investing. Our DNA has always been to look at opportunities wherever they are.
- Our approach is flexible and can change depending on market circumstances and the tools available to investors. We started with active asset management and convertible bonds, then launched a global index tracker and are now using quantitative investment strategies.
- We co-invest with our clients. By investing in our own funds, we demonstrate our commitment to our clients and ensure that our interests are fully aligned.

Two years ago, we launched our first quantitative strategy, the S&P US Buyback Free Cashflow, with the goal of offering clients more consistent returns while avoiding over-concentration in expensive sectors. This strategy has a strong long-term track record of outperformance. Backtesting showed that it would have performed well after the Internet bubble burst in 2000. More recently, it delivered solid results in 2022 during the inflation crisis in Europe and the US, and again after the Trump administration's tariff announcements earlier this year.

We believe the S&P US Buyback Free Cashflow strategy remains one of the most attractive long-term opportunities. By focusing on companies that combine strong free cash flow generation with regular share buybacks, it captures the essence of shareholder value creation. Concentrating on U.S. equities - home to many of the world's most innovative and resilient businesses - the strategy benefits from a dynamic ecosystem of global leaders. Its focused portfolio of around 30 high-conviction holdings ensures each position contributes meaningfully to performance. While this disciplined selectivity can sometimes lead to higher short-term volatility, it has historically been a powerful driver of long-term outperformance^[4].

Building on the strength of the US Buyback Free Cashflow approach, we looked for other quantitative strategies that offer the same clarity, consistency, and evidence-based rigor—while also broadening diversification. This led to the creation of our Global Quantitative Approach, made up of four complementary strategies that share key features:

- 01 Demonstrated regular outperformance versus their respective benchmarks^[5].
- 02 Highly diversified across sectors.
- 03 Low correlation and strong complementarity with one another and with global equity markets.
- 04 A long-term empirical foundation, with live or back-tested results extending over at least 20 years.

⁴: No guarantee of results or performance

⁵: Past performance is not indicative of future results.

TREETOP GLOBAL QUANTITATIVE APPROACH

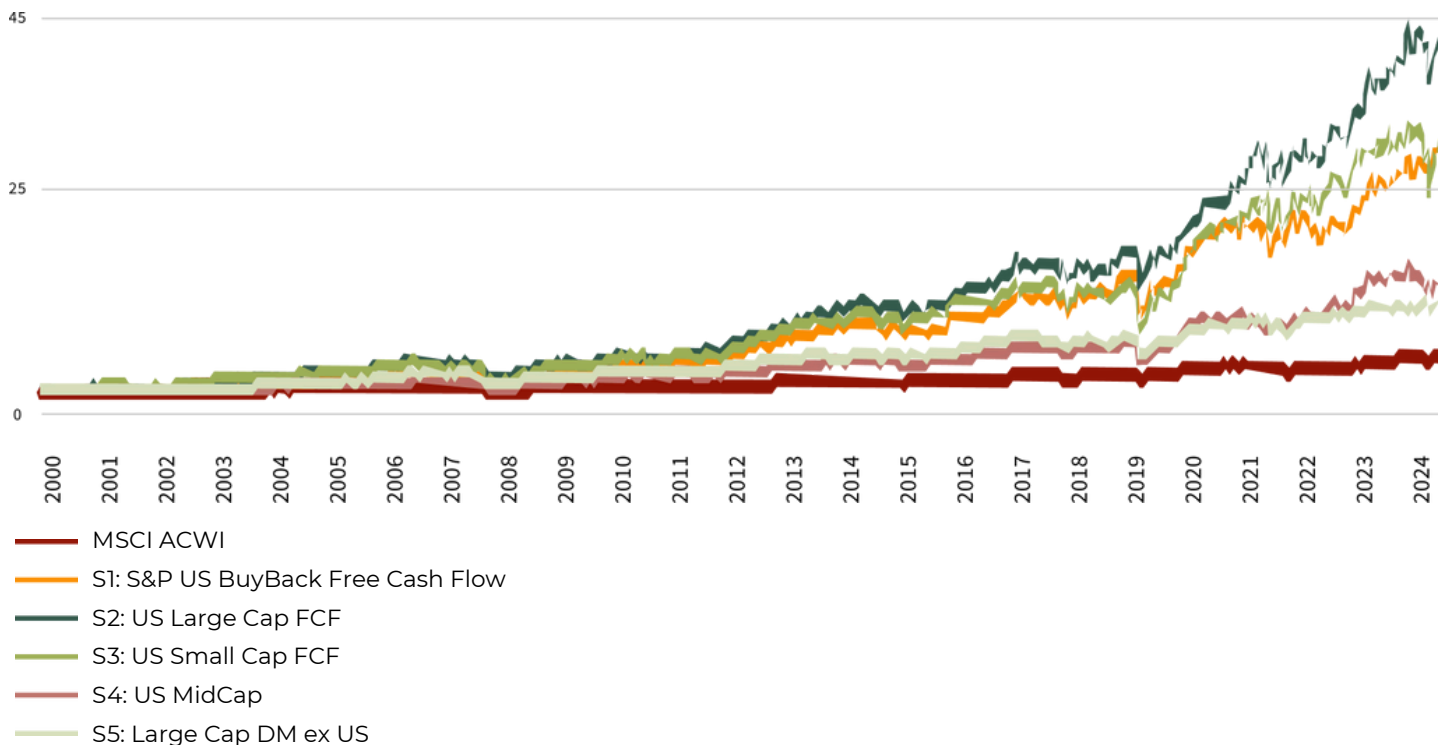
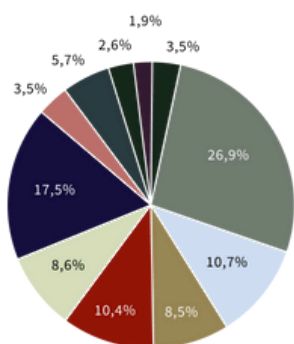
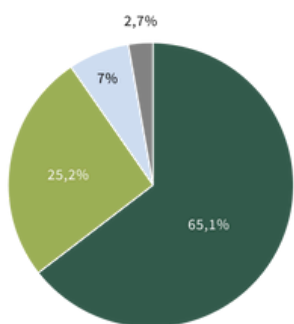


FIGURE 4 - SOURCE BLOOMBERG, PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS

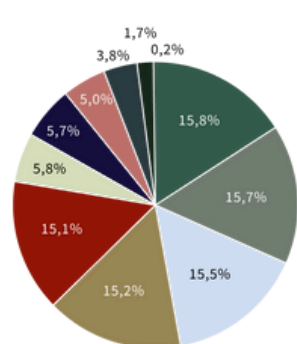
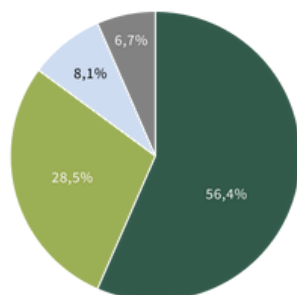
The idea behind all these strategies is to use fundamental factors—such as free cash flow, profitability, valuation, and growth—to select the best stocks worldwide while avoiding overpriced sectors or regions. Overall, our approach includes four U.S. strategies (three focused mainly on free cash flow, and one on profitable growth at reasonable valuation). Beyond the U.S., we have one strategy in other developed markets, also centered on free cash flow.

When we see fit, our quantitative approach also allows us to invest through specific indexes, when they represent good investment opportunities. China is a good example: its economy is now dominant in several sectors, and many stocks trade at low valuations despite strong growth prospects. In this case, we chose an index of large companies as the best way to invest. For emerging markets other than China, we used the index as quantitative strategies did not generate the returns we were looking for.

MSCI ACWI (GLOBAL STOCK MARKET)



TREETOP'S QUANTITATIVE APPROACH



Conclusion

In conclusion, our new quantitative approach has shifted the strategy away from expensive U.S. technology stocks. The U.S. remains our largest exposure, but it now represents nearly 10% less than in the global index. Sector allocations are also more balanced: we reduced technology exposure by 10%, increased industrial and consumer discretionary exposure by around 5% and nearly doubled our exposure to global healthcare to 15.2%. It is important to note that these allocations are not fixed. The strategies adjust continuously with market movements, and we monitor them closely to ensure they remain relevant.

As always, our TreeTop team is here to answer any questions, and we wish you a smooth and successful investment journey.

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Data & Information as of 30th September 2025

Published by TreeTop Asset Management SA, a UCITS Management Company pursuant to the provisions of Chapter 15 of the Law of 17th December 2010 – Registered office at 12 rue Eugène Ruppert L-2453 Luxembourg