WHITE PAPER

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Montrusco Bolton
International Equities

Compounders:
A Differentiated Approach to
International Equity Investing

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White Paper Summary — E. Rybakov, CFA | Portfolio Manager

> *"Only when we are eager to acquire the entire business and own it in perpetuity do we take comfort in holding its fractional share." — Owner-operator mindset*

Durable moats

Wide, defensible advantages — and critically, still expanding

Expanding ROIC

The single most important measure of quality — its level, durability, and direction

Aligned management

Leaders who think and act like owners, with a horizon measured in decades

FIVE TENETS OF PHILOSOPHY

1 Compounding engine

High-ROIC businesses with durable moats generating expanding free cash flows

2 From good to great

Quality is dynamic — seek companies improving ROIC and widening moats over their life cycle

3 Long horizon

Extended ownership periods to capture the full effect of compounding and secular tailwinds

4 Valuation discipline

Buy before broad recognition — earn both earnings growth and multiple expansion

5 Concentration

35–50 high-conviction names so every position counts and the best ideas carry meaningful weight

ROIC-centric valuation: Intrinsic value treated as a range, not a point. Price-implied expectations are reverse-engineered from current prices — quantifying what the market already believes and where the mispricing lies.

WHY ALLOCATE HERE

An inefficient market — by design

International markets trade at meaningful valuation discounts to the US with far greater return dispersion. Benchmark-driven capital has crowded a narrow set of names, leaving large swaths of the opportunity set mispriced and under-researched.

Culture as an untapped edge

Corporate culture is one of the most durable drivers of compounding — and among the least quantified by the market. This strategy treats it as a first-class input, creating a systematic information advantage over purely financial analysis.

Long horizon is the behavioral moat

Most capital is priced for quarters. Holding through full compounding cycles captures returns that short-horizon investors structurally cannot — turning patience into a repeatable source of alpha.

Quality before it is priced in

The edge lies in identifying businesses on the path from good to great — before the market reprices their improving earnings power. Expanding ROIC and widening moats create multiple expansion on top of earnings growth.

Our **Investment Philosophy**

The riverbed of our investment philosophy is our **owner-operator mindset**. Only when we are eager to acquire the entire business and own it in perpetuity do we take comfort in holding its fractional share as an investment in our portfolios. This single conviction shapes the core principles of our approach.

We are quality-growth investors with a long analytical and holding horizon. We seek durable, growing mid- and large-capitalization international businesses positioned to defend and widen their competitive moats and compound shareholder value at high rates of return over the long term. We aim to acquire such businesses before their full earnings power and growth potential are broadly recognized. Our process is holistic: it combines bottom-up analysis of fundamentals with top-down thematic research into secular growth tailwinds, and an assessment of corporate intangibles — culture, human capital, and management — the essential assets that conventional financial statements fail to capture. Valuation discipline is the final gate, helping us enhance investment returns and preserve a margin of safety[1].

[1]Margin of safety is a concept socialized by Seth A. Klarman, founded on the notion of investing in assets at a substantial discount to their full worth. We incorporated additional components of margin of safety, including fragility and predictability of the business model, operational quality, and existence of compounding characteristics.

The Five Tenets of Our Philosophy

Our philosophy rests on five interlocking tenets which, combined, define the quality of a compounder:

- **Compounding Engine.** We seek compounders — high-quality businesses with durable competitive moats, appreciable and improving return on invested capital (ROIC), highly functional corporate cultures, and exceptional management teams aligned with the shareholders that can generate a sustainable stream of expanding free cash flows.
- **From Good to Great.** We treat quality as a dynamic rather than static variable. We look for positive evolution in moats and return on capital as businesses move through stages of their life cycle or undergo a management-orchestrated operational transformation aimed at accentuating unique assets and capabilities.
- **Long Horizon.** We target extended periods of ownership to capture the benefits of compounding and to derive full positive impact from secular growth tailwinds. We conduct business analysis with a long analytical horizon to develop a better understanding of long-term drivers of returns.
- **Valuation Matters.** Buy superior businesses before they are broadly recognized — earn both earnings growth and multiple expansion.
- **Concentration.** We focus on a select number of holdings (35–50), so that every position counts and the best ideas receive meaningful weight. We maintain a higher level of concentration during the less-volatile, bull stage of the investment cycle, and increase diversification when ambiguity caused by geopolitical, economic, and broad valuation risks is elevated.

35–50

Holdings per portfolio

Long-term

Holding horizon

5

Interlocking tenets

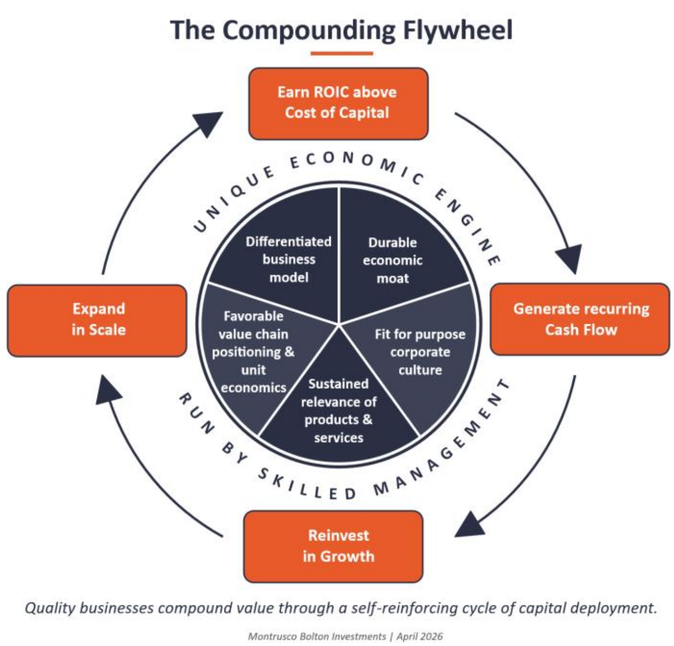
Quality Compounding: A Self-Reinforcing Cycle

THE COMPOUNDING CYCLE

ROIC above the cost of capital, reinvested at comparable or higher returns, sustained over time — the self-reinforcing engine at the heart of our investment creed.

At the heart of our investment creed is a simple conviction: great businesses compound shareholder value through a self-reinforcing cycle. Compounding of earnings is, in its essence, the product of the return a business earns on its invested capital and the share of those earnings it can redeploy at a comparable or higher rate of return. When both inputs are high and sustained, the outcome is an economic engine that, much like a gyroscope, maintains the velocity of value creation and provides immunity against economic downturns and exogenous shocks.

The inner circle represents five components of quality. Under proper care of leadership with a long horizon and an objective to maximize enterprise value over the life of the company, they are the building blocks of an economic engine capable of generating a level of ROIC that sets a self-reinforcing cycle of cash flow generation and capital deployment in motion. This cycle defines three essential components of investment returns: growth in earnings per share, an expansion in valuation multiples, and the effects of excess capital returns through dividends and share buybacks.



Quality businesses compound value through a self-reinforcing cycle of capital deployment.

1. Differentiated Business Model

A business model is the foundational blueprint that explains the company's reason for existing — how it creates, delivers, and captures value. To excel over the long term, a company must offer a unique value proposition to a large yet clearly defined target market, must develop an effective distribution mechanism, and maintain a coherent revenue and cost structure. We invest in business models that are understandable, enjoy relatively low operational volatility, and provide a reasonable degree of confidence in their ability to expand enterprise value at a high rate of return. We hold a full range of different types of models with distinct compounding features, including subscription-based information services (RELX PLC and Experian PLC), marketplace and platform businesses (Sea Ltd and Tencent), as well as financial intermediaries (Mizuho Financial Group and ING Group NV).

2. Durable Economic Moats

Moats — scale, early-mover advantage, proprietary intellectual property, regulatory barriers, switching costs, brands, corporate culture — are what allow a business to earn returns on invested capital above its cost of capital over an extended period. Hard moats — patents, scale, regulation — tend to be most easily observed; soft moats, grounded in culture and operating practices, are frequently harder to replicate and therefore more durable. As a business evolves, so do its moats. We particularly value expanding moats that fortify returns and cash-generative characteristics, and we treat the direction of change in a moat as at least as important as its current width.

3. Sustained Relevance of Products and Services

Solutions that address structural problems — demographic ageing, the intersection of finite resources and a growing population, the tools and services that enhance safety, reliability, and productivity — generate long-duration growth and near-indefinite opportunities for capital redeployment. We utilize thematic analysis to identify decade-long growth tailwinds, which expand the size of addressable markets, and aim to invest in the businesses best positioned to serve such recurring needs.

4. Favorable Positioning Within the Value Chain

Not all layers of a given value chain share the same economics. We examine industries, sectors and various value chains to learn where the majority of economic value is being extracted and seek companies that operate in the most critical and value-added layers of the stack, where unit economics and profitability are structurally superior. This lens is particularly useful during periods of disruption and economic downcycle, when capital, pricing power, and profit pools depart the most commoditized layers yet remain resilient within the most critical parts of a value chain.

5. Corporate Culture

Culture is the bonding element that optimizes the combination of all the features above. We seek companies with a built-for-purpose culture that nurtures human capital and fosters a long horizon in decision making and an owner-operator mindset throughout the organization.

As a company grows and matures, the culture evolves with it. Successful cultures share the same attributes — they treat employees as human capital and maximize their potential; they create a safe environment in which to perform and innovate; and they establish lasting bonds with suppliers, customers, and local communities. Companies with superior cultures frequently enjoy higher profitability and more robust growth than their industry peers.

We assess culture through direct conversations with management, employees, suppliers, and customers; by analyzing management's communications; and by monitoring indicators such as employee turnover, workplace accident rates, and hiring practices.

The formation and maintenance of an optimal culture require a coordinated and perpetual effort from management and employees. Different business models require different cultural attributes to perform at their best. However, successful cultures share the same core attributes — they treat employees as human capital and maximize their potential; they create a safe environment in which to perform and innovate; and they establish lasting bonds with suppliers, customers, and local communities. As such, companies with superior cultures frequently enjoy higher profitability and more robust growth than their industry peers. Yet culture remains one of the most under-appreciated drivers of sustained compounding, precisely because it does not appear on the company's financial statements and is notoriously hard to quantify.

In the absence of a generally agreed-upon culture taxonomy, every assessment of culture is necessarily subjective. We assess culture along three dimensions: through direct conversations with the company's management, employees, suppliers, and customers; by analyzing management's communications with investors, local communities, and government; and by monitoring indicators such as employee turnover, workplace accident rates, and hiring practices. One question we find particularly revealing: we ask management for a short list of advice, bullet-point style, that they would give a new hire on how to succeed at the company. The answer frequently reveals whether the culture is built on trust and open communication, whether it rewards initiative or subservience, and whether it encourages personal and professional growth.

We use this analysis to assess the resilience of economic engines and the duration of compounding runways, and we monitor cultural degradation as a key sell signal.

> **KEY INSIGHT**
> *Culture remains one of the most under-appreciated drivers of sustained compounding — precisely because it does not appear on financial statements. — E. Rybakov, CFA*

Management as Capital Allocators and Culture Architects

ROIC

The single lens through which we evaluate every capital allocation decision

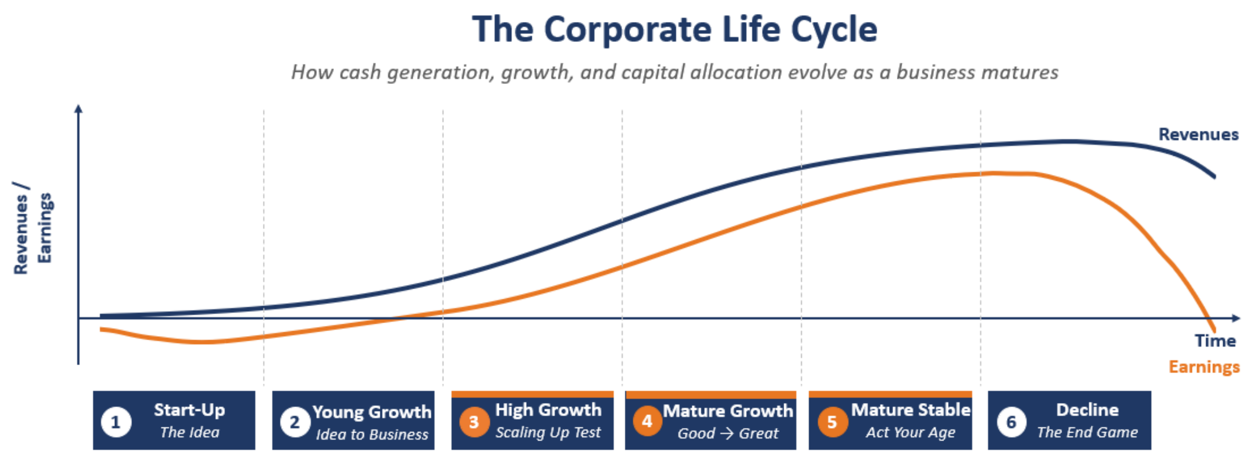
Alignment

Management ownership and shareholder-first communications are non-negotiable

A compounder is only as good as the hands deploying its capital. Over a ten- or fifteen-year holding period, the return earned by a shareholder is determined less by the opening valuation than by the returns a management team earns on each dollar of cash flow it reinvests.

Leadership with a long horizon, prioritization of shareholder returns, and intellectual honesty can substantially influence the rate of growth and ROIC over time by selecting when to reinvest operating cash flows back into the business in the form of capital expenditures, research and development expenses, SG&A outlays, or acquisitions, and when to return capital to shareholders as dividends and share buybacks. We spend a disproportionate amount of time understanding management's values and operating philosophy, adherence to a ROIC-centric framework, assessing their track record of reinvestment and capacity to prioritize growth when it leads to greater returns on incremental capital, and their power to resist empire-building and vanity acquisitions. We pay close attention to management's alignment with shareholders and their openness to clear and bilateral communications.

Just as with culture, the type of managerial talent necessary to optimize a company's value evolves with the stage of corporate life cycle. During growth stages, a company may need Bob the Builder, while at their decline phase, Larry the Liquidator may become handier. Great managers recognize and act their age. They do not deprive a young business of growth by returning capital too early, and they do not try to engineer an unsustainable rate of expansion at a mature business by overpaying for growth through acquisitions. We are particularly attentive to the early warning signs of misaligned capital allocation: growth companies that fail to recognize reinvestment opportunities when organic growth is within reach, and mature companies whose margins begin to soften as they pursue top-line growth at all costs. Finally, the leadership is the core architect and steward of a company's culture. It is directly responsible for nurturing healthy corporate habits, encouraging open communications within the organization, and setting the proper remuneration system to maximize the output and position the business for profitable growth.



Oper. Profits	Large losses	Losses narrowing	Turn positive	Growing strongly	Leveling off	Declining
Reinvestment	Very high	High	Large, scaling down	Decreasing	Low; Capital return	Divestment
Free Cash Flow	Negative	Negative	Crossing over	Positive & growing	Positive & stable	Positive but fading

Our focus: Stages 3–5. We hunt compounders at the inflection Young Growth to High Growth, where expanding ROIC and full earnings power of the economic model are most often mispriced, and we invest in mature businesses when their long-term growth potential is misunderstood.

Montrusco Bolton Investments | April 2026

From Good to Great – an ROIC-centric Framework Combined with Long Horizon

ROIC — RETURN ON INVESTED CAPITAL

The single most important measure of quality. Its level, durability, and direction of change define a compounder's ability to create lasting value.

3 Aswath Damodaran, NYU Stern School of Business, conducted and published extensive research on maximization of corporate value through the various stages of the corporate life cycle.

ROIC defines the free cash flow of tomorrow[2]

It is a straightforward measure of how many dollars are earned by a business for each dollar invested in it. It combines profitability (margins), asset intensity (asset turns and working capital needs), and accounts for all sources of capital (debt and equity). ROIC above the cost of capital is a prerequisite for maintaining momentum of a compounding flywheel. A high and durable level of ROIC is synonymous with quality.

Yet the notion of quality in our framework is dynamic rather than static. We believe that the most attractive investment outcomes arise not from buying businesses that are already universally recognized as great, but from identifying businesses on the path of improving their returns on capital, widening their moats, and lengthening their runway of growth. These are companies on the journey from good to better, and from better to great. Frequently, such companies are discovered when their historically high-ROIC economic engine is temporarily disrupted, and their stock price is impaired. In other circumstances, these are the companies that are evolving through growth stages and have not yet demonstrated the full earnings power of their business models. Finally, a well-established and even mature company earning an appreciable level of ROIC might undergo a transformation and shed unprofitable assets and operations, while reallocating freed-up capital to scale up its faster-growing segments with even higher ROIC.

To identify a change in ROIC over time, we pay close attention to the evolution of return on incremental capital. Understanding where a company sits in its corporate life cycle is central to this assessment. Cash flows, reinvestment needs, and growth expectations all shift meaningfully as a business matures — and some of the costliest analytical errors we see in the market come from applying the wrong template to the wrong stage[3].

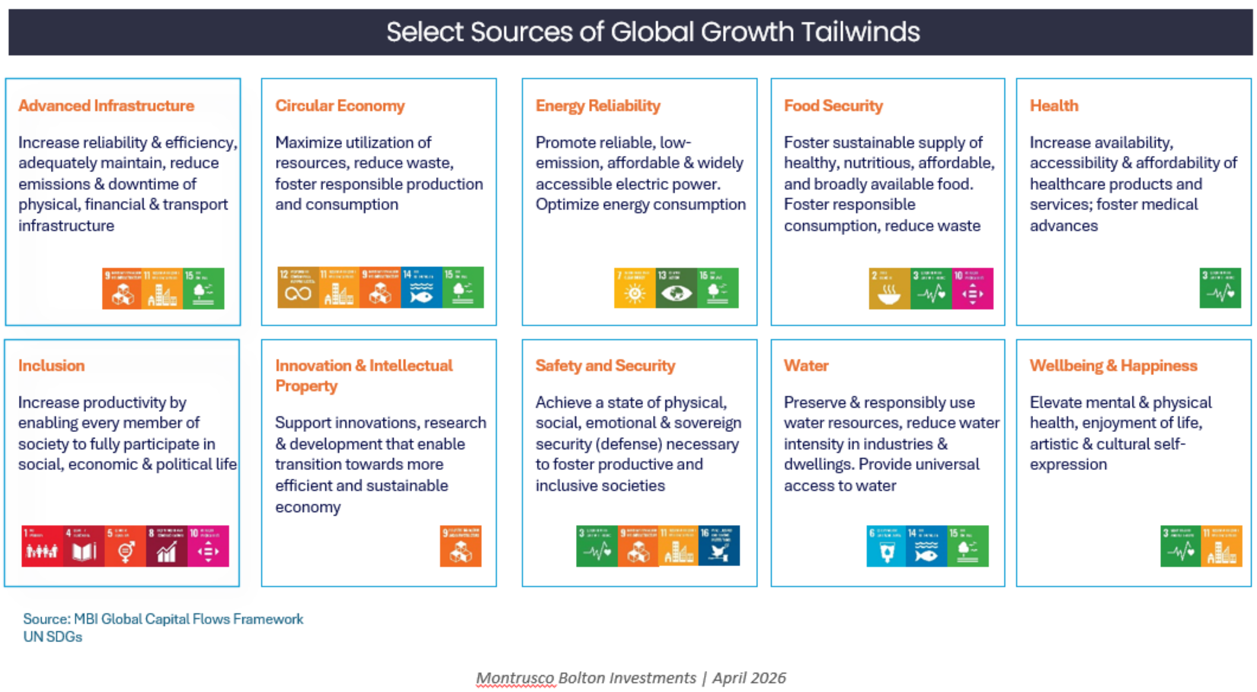
Investing in expanding ROIC and accelerating growth typically delivers higher returns because the market reprices the business as its earnings power becomes visible: earnings compound, and the multiple attached to those earnings expands as perception catches up with reality. Unrecognized earnings growth today becomes an excess return tomorrow.

The lack of appreciation for transformation in ROIC, and ensuing mispricing, often arises from myopia and conservatism bias — the market extrapolates from the present rather than the

[2] Michael J. Mauboussin, ROIC and the Investment Process. Mauboussin emphasizes the importance of transformation of return on incremental capital within the investment framework by demonstrating how companies with improving ROIC outperform companies with steady levels of ROIC, even if the former start from a substantially lower quartile of ROIC distribution compared to the latter.

trajectory, and fails to appreciate compounding characteristics that only become evident over extended periods of time. Our long investment horizon is our behavioral advantage against this form of short-termism.

> **KEY INSIGHT**
> *Unrecognized earnings growth today becomes excess return tomorrow. Our long investment horizon is our behavioral advantage against short-termism.*



Recurrent Growth Tailwinds: Reallocation of Capital Creates Sustained Growth

Markets, like economies, are shaped by the way capital is being reallocated. Many of the most durable growth tailwinds originate from the need to solve complex, recurring problems that a more efficient and more sustainable global economy will have to address — energy reliability, water scarcity, the health and security of ageing populations, and the reliability of physical and digital infrastructure.

Recurrent tailwinds are powerful catalysts of elevated enterprise-value creation: they expand addressable markets, elevate pricing power, and frequently widen the moats of the best-positioned incumbents. Many of our highest-conviction investments sit at the intersection of a strong company-specific compounding engine and a clearly identified, decade-long growth tailwind. We view this intersection as a uniquely rich hunting ground for durable excess returns in international equities.

Our thematic framework is constantly evolving, and currently draws on ten sustained tailwinds[4].

Valuation: A Story and Numbers

We believe in the importance of investing in quality and growth when they are not fully recognized. We seek opportunities among quality compounders where long-term earnings power and growth potential are mispriced, and where excess returns can be generated through multiple expansion as true growth and profitability become more visible. A "good valuation" provides potential for higher investment returns and creates a margin of safety that shields us from the permanent loss of capital in the event of a protracted economic downcycle or an unexpected exogenous shock to the company's operations.

A good valuation is a bridge between the story and the numbers — every number contributing to the valuation is shaped by the narrative behind it. With growing companies where the economic engine continues to take shape, it is the story that defines valuation. Yet with more established, mature companies, it is the numbers that influence valuation the most.

> **E. RYBAKOV, CFA**
>
> *Intrinsic value is not a dot, but a cloud. Our approach treats it as a range of outcomes derived through scenario analysis rather than a single-point estimate. Where the current price sits within that cloud signals how much future growth and ROIC expansion is already priced and how much remains unrecognized. The same scenario analysis also identifies the variables with the greatest impact on intrinsic value, which sharpens our post-investment monitoring by telling us exactly what to pay most attention to.*

> **CASE STUDY: EXPERIAN**

[4] We periodically discover more attractive emerging tailwinds that take precedence over the others. Over time, we observed that our growth tailwinds overlap with the United Nations Sustainable Development Goals (SDGs). This discovery is not surprising, considering that the UN's SDGs originated from a conceptually similar, yet independent, capital allocation mental framework.

> *Described as a global credit bureau, Experian's TAM is roughly $135 billion. Reframed as a data analytics and technology company beyond the credit bureau, its TAM expands to almost $1 trillion — making its compounding runway almost indefinite and justifying a much higher valuation.*

Take Experian, a UK-domiciled global provider of digital solutions evolving from a credit bureau into data analytics, risk assessment, fraud prevention, and healthcare/automotive/insurance tools. Described as a global credit bureau, Experian's total addressable market (TAM) is roughly $135 billion[5]; reframed as a data analytics and technology company, its TAM expands to almost $1 trillion. The latter makes Experian's compounding runway almost indefinite and justifies a much higher valuation.

We calculate intrinsic values using a ROIC-centric model restricted to five straightforward assumptions — rate of revenue growth, ROIC, tax rate, asset turns, and required rate of return. The length of the explicit forecast period and the speed at which ROIC and growth revert to the industry mean beyond it are closely tied to our understanding of the economic model and its predictability. Instead of a company-specific Weighted Average Cost of Capital (WACC), we employ a risk-adjusted required rate of return as our discount rate, which simplifies cross-industry and cross-country comparisons.

We believe such an approach is superior to a traditional DCF, which leans on a long list of sensitive inputs. Despite the lack of precision, the detailed nature of the work can create a false sense of confidence in the output as a whole. Yet, relying even on a well-conceived range of intrinsic value estimates may still lead to overconfidence. To mitigate this bias, we turn to an analysis of price-implied expectations[6]. We start with the current stock price and reverse-engineer the growth, ROIC, and capital reinvestment assumptions embedded in it by the market. Cross-referencing the market-implied expectations with our own helps quantify the magnitude of the upside and avoid value and growth traps.

Portfolio Construction and Concentration

Our International Large Cap portfolios consist of 35 to 50 names, are built from the bottom up, and are geography- and industry-agnostic. We increase the degree of concentration during the

[5] Credit Bureaus Market Report, 2026.

[6] This approach was articulated by Michael Mauboussin in "Expectations Investing: Reading Stock Prices for Better Returns".

bull stage of the investment cycle and broaden the number of holdings during periods of elevated geopolitical and economic ambiguity.

While our portfolios target high active share, we aim to maintain exposure to at least 7 of the 21 countries and at least 10 of the 46 countries in our EAFE and ACWI ex US strategies, respectively. We also aim to invest in securities of issuers that belong to at least 7 of the 11 GICS sectors.

Our position weights are determined by risk/reward, durability of quality and growth over extended periods, and by the contribution each holding makes to a deliberate multi-dimensional portfolio diversification: across types of business models, stages of corporate life cycle, types of recurrent growth tailwinds, sectors, and geographic origin of revenue and cash flows. We prioritize the geographic origin of revenues and cash flows over the country of domicile — an important distinction in a world of multinational supply chains.

1,500+

Non-US companies in our EAFE starting universe

300–400

Quality candidates after proprietary checklist screening

7+

GICS sectors represented in our portfolios at all times

The Power of Checklist

Our starting point is an investment universe of roughly 1,500 non-U.S. companies with market capitalization above $5 billion for EAFE strategies, and approximately 2,500 companies for ACWI ex US mandates. It is narrowed down to a more manageable sub-stack of approximately 300–400 quality and emerging quality candidates with the help of a proprietary checklist that guides due diligence.

The checklist minimizes the impact of behavioral biases, streamlines a complex iterative process, facilitates cross-industry and cross-country comparisons, fosters transparent dialogue within the team, and maximizes the return on the team's time by rejecting inferior ideas early. The checklist examines the foundational characteristics of the business model, its unit economics and growth potential, the competitive moats and ROIC and their direction of change, the company’s exposure to favorable growth tailwinds, the sustainability profile, the quality of the management team, and the fit of its corporate culture. At the final stages of the process, the same checklist guides us through the valuation exercise.

Risk Management and a Few Don'ts

We define risk as the probability and magnitude of a permanent loss of capital. Our pursuit of superior quality and compounding characteristics naturally leads us toward fundamentally sound businesses with strong balance sheets and manageable operating volatility, which reinforces the margin of safety. Furthermore, businesses with higher visibility of operating outcomes, or lower operating beta, generally enjoy a subdued price beta. As such, the historical beta of our portfolios has been around 1x without an orchestrated effort to manage price beta at the portfolio construction level.

We follow a clearly defined sell discipline. A sell decision is triggered when: we have made a mistake in our assumptions; the company's fundamentals, governance, or culture permanently impair its compounding characteristics; there is a substantial exogenous shock; or share price rises beyond our estimated intrinsic value range.

These "Don'ts" are the guard rails protecting our investment process:

- We do not put price ahead of quality.
- We avoid jurisdictions that lack the rule of law or where a risk of expropriation is present.
- We do not invest in commodities or highly cyclical businesses – the cash flows of such models come with a high degree of ambiguity.
- We are averse to ownership of companies with an irresponsible degree of financial leverage. For some economic models, like utilities and financial intermediaries, debt is an acceptable form of cheaper capital that is necessary to maintain and grow an asset-intensive operation, but only if supported by durable and reasonably predictable cash flows. However, high leverage dilutes the benefits of compounding by allocating a disproportionate share of profits to debt holders, to whom equity owners are subordinate. Furthermore, excessive leverage elevates the company’s fragility and its risk of insolvency, which jeopardizes the margin of safety.
- We do not expect to enhance investment returns through market timing.
- We do not accept investment-thesis creep by substituting lower quality with lower valuation.

Why This Approach Is Differentiated

Global equity markets have become increasingly shaped by benchmark-driven investment strategies — capital is allocated according to size rather than underlying fundamental developments, crowding a narrow set of dominant companies and distorting the opportunity set for long-term investors. The US markets of the last decade have become an epitome of indexing and passive investing, with the largest 10 names accounting for the lion's share of the major indices' gains. International markets, by contrast, trade at meaningful valuation discounts and exhibit far greater dispersion, creating an environment unusually rich in inefficiencies for high-conviction, disciplined, and research-oriented active managers.

Our core differentiation rests on a few reinforcing convictions:

- First, that combining fundamental, thematic, and corporate culture analysis with valuation discipline identifies unique business models and high-quality compounders before the market appreciates them as such.
- Second, a concept of dynamic quality guides our search for accelerating return on incremental investment capital and expanding competitive moats, which in turn enhances investment returns through multiple expansion as the higher quality becomes evident.
- Third, corporate culture and human capital are essential building blocks of lasting competitive moats, elevated profitability, and long-duration growth — and among the most under-exploited sources of excess investment returns.
- And finally, when combined with a discount to full intrinsic value, a genuinely long horizon and reasonable concentration are mutually reinforcing: high conviction and low turnover allow compounding to take full effect, while valuation discipline ensures that we capture, rather than surrender, the excess returns embedded in long-duration growth.

Markets compound. Businesses compound. The discipline of owning the right ones, for long enough, at the right price, compounds too.