Investing with Insight

Full Year Investment Report 2025

January 2026

REQ
INVESTING WITH INSIGHT

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Dear Fellow Investors

In 2025, the REQ Global Compounders fund finished down 8.2%[1], and the REQ Nordic Compounders appreciated 8.7%[2].

Since launch, REQ Global Compounders has appreciated 49%, a compounded annual rate of 9%. The REQ Nordic Compounders has since inception appreciated 47%, a compounded annual growth of 10%.

We are not satisfied with the returns in 2025 but are optimistic about the long-term compounding potential of the portfolios. The reasons for the weak performance are a mix of company-specific challenges and our 20% exposure to vertical-market software companies in the REQ Global Compounders fund which has been hit by the AI narrative that "AI is going to eat all software". In this report, we present an in-depth analysis of our insights and perspectives on the topic.

The year was marked by turbulence arising from US tariffs and a generally subdued economic climate. The tariffs affected some of our portfolio companies, while the generally weak economic sentiment translated into low organic growth across several companies, though organic growth has been improving throughout the year.

Once again, our companies demonstrated the resilience of their dual growth engines: when organic growth slows, acquisitions provide an effective counterbalance. Looking ahead, our portfolio companies remain confident about their prospects, supported by healthy pipelines of attractive acquisition opportunities and a more optimistic view on organic performance.

We continue to engage with compelling businesses that could potentially be added to the funds once their valuations align with our prospective returns. Where possible, we take advantage of the funds' smaller sizes and our more than 15 years of investing in these companies by taking meaningful positions in small companies where the long-term value of the businesses might not yet be recognized by the market. We aim to do so without compromising on business or management quality. Small companies also tend to trade at more attractive valuations.

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At REQ, our investment philosophy is ultra-long-term and unconstrained. We build portfolios around acquisition-driven compounders: companies that reinvest a large share of incremental capital at above-average returns, thereby creating high long-term per-share value. Their strategy combines organic growth with acquisitions of smaller private firms.

We aim to own the highest-quality publicly traded businesses, independently of company size, market cap or industry. In practice, we look for outstanding businesses with frugal, trustworthy and performance-driven management teams. We favor a strong track record of sound capital allocation. We also prefer companies where owners and management have skin in the game and incentives aligned with shareholder value creation.

The acquisition-driven compounders we invest in typically share two characteristics. First, they build high-performing, meritocratic, decentralized cultures. Second, they operate durable reinvestment engines that can run for many years. These companies are value investors at their core, and they deploy a substantial amount of their free cash flow to generate the best possible returns across a wide

[1] Return in NOK for the "A" class. The fund has share classes in NOK, SEK, EUR and USD
[2] Return in NOK for the "A" class. The fund has share classes in NOK, SEK, EUR and USD

set of industries and geographies. They understand the value of opportunity cost. Many operate in growing and highly fragmented markets with structural tailwinds.

Preferably, we want to invest in companies that do not define themselves solely by acquisitions. We are looking for company builders who think and act beyond transactions. Alongside a successful private acquisition strategy, they build the right culture and capabilities required for organic expansion. Understanding that cash flow is the foundation of *the model*, they cultivate a strong "cash culture" and a shared sense of purpose beyond mere deal-making. Many have a strong industrial heritage and engineering background, and approach markets with an entrepreneurial and rational mindset rather than a focus on rapid deal-making. They proceed methodically and build capabilities through trial and error. As Niklas Stenberg, CEO of Addtech, once pointed out: "*Doing acquisitions is something that many can do, but achieving organic growth is a proof that you do something that develops companies*."

Therefore, we place great value on companies with strong track records that not only understand what works but also what does not. These are companies with a treasure trove of lessons of both successes and failures.

Our strategy is centered around investing in companies we can understand and in which we have confidence that earnings and free cash flow per share can grow substantially over the long term. Over the long run, our goal is to compound capital at a low to mid-teens rate. The companies we invest in typically grow earnings and cash flow per share around 15% annually. We try not to pay too much for this growth.

As stewards of our investors' capital, including our own, we take a conservative approach to investing. We believe long-term outcomes depend on avoiding permanent capital losses as much as on holding onto winners. For that reason, we have spent considerable time studying companies that failed, not just those that prospered. By doing our best to protect the downside, we increase the odds of delivering satisfactory long-term results for our investors.

The importance of reinvestment opportunities

Imagine two restaurants[3]: The Danish restaurant Noma, which has been awarded the world's best restaurant five times, and McDonald's. Undeniably, for most people, Noma would be considered the best restaurant by any measure compared to McDonald's. Noma provides a culinary experience, craftsmanship, and prestige. They enjoy a pricing power that McDonald's will never have. Yet therein lies the constraint. Noma's brilliance is inseparable from its place and its moment. What makes it exceptional also makes it harder to replicate and scale.

McDonald's, on the other hand, was never built to be exceptional in that sense. Instead, it was designed to be repeatable. Over the decades, it perfected a system that delivers the same experience thousands of times across geographies and cultures. Each new restaurant is not just an opening, but a reinvestment of past success into future growth. The twist is this: while Noma may be the better restaurant, McDonald's is the better compounding machine. Its ability to consistently reinvest cash flows at scale gives it a far longer growth runway.

McDonald's, just like many of the companies we own, is built on a different mindset. The way they systemize and repeat practices and behaviors over and over again is rare. For example, it is no wonder that, since its IPO 50 years ago, Bergman & Beving, with its spin-offs, continues to grow earnings by

[3] This analogy, which inspired us, was provided by Tom Gayner, CEO of Markel, in the Behind the Balance Sheet podcast "The Pladder".

15% annually. The deeply ingrained culture, practices, behaviours, and mindset are what make it unique, not the products or services it sells.

Our portfolio company HEICO has a brilliant way of putting it: "*We are not merely an aerospace company, but rather a vehicle that generates strong cash flow through aerospace parts and technology*." This sheds light on something important. In the end, excellence may win admiration, awards, and headlines, but it is reinvestment of cash flow at scale that tends to create enduring value.

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Our book*, "The Compounders – From Small Acquisitions to Giant Shareholder Returns",* was published on the 2nd of September. A big thank you to everyone who took the time to read the book ahead of the launch and provided us with valuable feedback.

In the book, we explore nine successful acquisition-driven compounders that have demonstrated that their model works over decades and across market cycles and industries. Studying the greats is always valuable. But the real purpose of the book is to uncover the ingredients that make an acquisition-driven compounder successful in the first place. Spotting them early is where the magic of true compounding hides. For us, as authors and portfolio managers, the book has also served as a way to systematize our learnings and translate them directly into portfolio decisions. We believe several companies in our portfolios already have strong long-term potential. With patience and disciplined stewardship, they may be the very companies we are writing about a decade from now.

In the first chapter of the book, we dive into Lifco. In prior roles, we invested in Lifco at its IPO on the 21st of November 2014. Back then, the Systems Solutions segment was far from proven. Fast forward to today, and this segment delivers an EBITA margin of 24% and has grown its earnings by 16x. Back in 2014, despite the company generating healthy cash flow and the CEO, Fredrik Karlsson, having a strong track record, it was somewhat misunderstood due to its "unfocused" approach. Since its IPO, Lifco has delivered a total shareholder return of 19x, equivalent to a 31% CAGR.

A company not mentioned in the book is Diploma. Meeting the former leadership team, Bruce Thompson and Nigel Lingwood, in London in 2014, Diploma was still early in its growth journey, but the essential ingredients were clearly in place. One of our biggest lessons from Diploma is that culture can outlast any single individual. When Johnny Thompson took over from Bruce Thompson in February 2019—an external hire, which is rare among our companies—the compounding did not skip a beat. Since 2014, Diploma has produced a total shareholder return of 10x, or a 21% CAGR.

In the book, we also dive deep into Constellation Software, where we have been invested for almost a decade. Despite the recent 35% decline in its share price, total returns remain more than 6x since we first invested, equivalent to a 23% CAGR even after the pullback in 2025.

One of the key lessons is that investors *do* have the luxury of time: watch, wait, and let the ultimate truth-teller of any emerging success reveal itself—cash flow. If we can identify the right acquisition-driven compounders early, the market tends to reward us handsomely. Studying these companies in their early stages often comes down to evaluating people and culture—how management thinks, communicates, and allocates capital. At the same time, the financials must support it.

We remain committed, to the best of our ability, to applying the same discipline and pace in identifying companies with strong fundamentals and attractive long-term prospects for inclusion in the portfolios.

The book has led to many requests for meetings with boards and management teams at acquisition-driven companies worldwide. We have learnt a lot from these dialogues that we can apply to our quest to find the greatest acquisition-driven compounders of tomorrow.

In July, we also updated our research report "*A Deep Dive into Shareholder Value Creation by Acquisition-Driven Compounders*". In this research report, we go deep into our strategy and research. You can access the report here.

* * *

This journey would not have been possible without partnering with investors who believe in our strategy, trust our team's work and capabilities, and want to invest alongside us for the long run.

Despite weaker returns than usual in 2025, it has been a record year for REQ in terms of net subscriptions to our funds. We do not take this lightly and remain fully committed to being great stewards of that capital.

It is not the first time we have been through weak return periods. From experience, we know that over the long run, returns will mirror the strong underlying performance of our companies. We remain confident that we can deliver strong long-term compounding for our investors.

All the best,
The REQ team

REQ Global Compounders

In 2025, the REQ Global Compounders fund's A-class shares in NOK declined by 8.2%[4]. Since its inception in June 2021, it has increased by 49%.

There are three main reasons for the weak performance of the REQ Global Compounders fund in 2025. Firstly, 20% of the Global fund's exposure is to vertical-market software companies that have been hit by a narrative that AI will pose a threat to their business models. Secondly, a couple of our companies have been hit by tariff- and trade-related uncertainty under the Trump administration. Thirdly, our latest investment in Röko in March 2025 has so far been a weak contributor for the fund. We will cover all three below.

AI's impact on our portfolio

In December, we spoke with a Japanese company after it had sold its CMS software business to Constellation Software. The call was intended as a simple sense check on the transaction. Instead, management explained that they believed agentic AI—specifically Google's Antigravity—would eventually disrupt all software, with no exceptions. That conversation neatly captures how pervasively AI is being framed today. This framing has driven an uneven market reaction: investors have rewarded companies viewed as direct beneficiaries of AI while broadly punishing traditional software — both horizontal platforms and vertical-market software (VMS). As a result, our positions in Constellation Software (hereafter referred to as CSI), Lumine Group, Topicus, and Roper — together around 20% of the fund — have been a meaningful detractor to performance.

In contrast, the same AI narrative has been a clear tailwind for our exposure to the infrastructure layer underpinning AI and data-center expansion. In this part of the ecosystem, fundamentals already reflect a sustained step-up in demand for compute, power, cooling, and related electrical and thermal systems. Within this category, Halma and Diploma (together representing roughly 9% of the fund) delivered strong, broad-based performance, supported by multiple businesses benefiting from the build-out of high-performance computing and data center infrastructure. Their exposure spans sensing, photonics, low-voltage cabling, and other mission-critical components that sit directly in AI's physical supply chain. Amphenol — a long-time leader in high-speed interconnect solutions — has seen similarly robust demand as data-center architectures evolve to support higher power densities and faster networking requirements.

Against this backdrop, we have spent considerable time, well before AI became this year's dominant storyline, assessing its implications across both software and infrastructure. Our approach is grounded in first-principles thinking and an awareness of the incentive structures and biases that shape the narratives we hear. We remain humble about AI's long-term trajectory, which is far from knowable at this stage, but confident that rigor and open-mindedness are the right tools for navigating it.

Where we differ sharply from consensus is in the assumption that AI poses a uniform threat to the entire software universe. Much of the prevailing narrative is extrapolated from consumer-software dynamics and applied indiscriminately to vertical markets with fundamentally different structures and constraints. Claims that agentic AI will displace VMS workflows overlook crucial questions: Who is the customer? What problem is being solved? What integrations, compliance requirements, and "can't-fail" systems must be navigated? Context matters — and in vertical markets, it matters enormously.

Markets often react first and think later. Narratives follow price action and then reinforce it. In such an environment, understanding the underlying economics of VMS is crucial. These businesses often operate in small, specialized markets with high switching costs, deep customer intimacy, and mission-

[4] Return in NOK for the "A" class. The fund has share classes in NOK, SEK, EUR and USD

critical reliability requirements. Cheaper or faster code — "vibe coding," if you will — does not change these structural realities. Switching is not constrained by engineering difficulty but by operational risk, workflow disruption, and compliance implications. A new entrant must offer a meaningfully superior solution to justify a switch — an unlikely proposition in markets too small to reward such risk.

Across CSI's operating groups, we overwhelmingly see verticals and businesses that should be structurally insulated—and, in several cases, may even become net beneficiaries of AI through shared best practices and deeper customer relationships. In mission-critical environments, it is often far more rational for customers to lean further into trusted vendors than to experiment with unproven alternatives — a theme we explore in more detail later in the annual report.

Accordingly, we were comfortable with our VMS exposure prior to the drawdown and are even more comfortable today, which is why we have deployed capital opportunistically and have been net buyers of Constellation Software, Topicus, and Lumine throughout this period. At current valuations, and based on our thesis on how AI may play out for CSI broadly throughout the group, we believe the risk-reward is more compelling.

Mark Miller replacing Mark Leonard

Back in September, just three days after CSI hosted its AI seminar, Mark Leonard announced his resignation as President for health reasons, creating short-term uncertainty. Although the timing was abrupt, he will remain on the board, and likely continue to oversee many of his long-standing responsibilities. In practice, his role had already shifted in recent years away from day-to-day operations and toward shaping cultural norms, guiding experimental initiatives, and contributing to the most complex transactions — rather than the operating-level work and routine M&A activity handled by the groups.

In our view, the structural impact of this leadership change is limited. CSI has never operated as a traditional top-down organization; its five operating groups function independently within broad frameworks set by headquarters. Each group has its own CEO, culture, and approach to M&A. Daily operations, capital deployment, and acquisition processes continue unchanged. This is the strength of a deeply ingrained decentralized model — a "culture of cultures" refined over decades of trial and error. As a result, the organization does not rely on any single individual.

Leonard's successor, Mark Miller, further reinforces this continuity. A more than 25-year veteran of CSI, he joined through the acquisition of Trapeze — the company's very first purchase in 1995 — and most recently served as Chief Operating Officer. Within the Volaris group, the largest of CSI's operating units, he has played a central role in driving a significant portion of its acquisitions. Miller also holds a significant personal equity stake, underscoring his long-term alignment with shareholders. His experience, historical involvement, and alignment send a strong signal of stability.

The cultural foundations Leonard helped shape have been passed down through multiple generations of managers, to the point where there is effectively no key-man risk. CSI is, by design, a culture of cultures: each operating group functions as its own "kingdom," with its own methods, incentives, and acquisition philosophies. There is nothing homogeneous about how CSI operates — and this diversity in decision-making is one of its core strengths. It is also a nuance the market often overlooks.

Ultimately, CSI was deliberately built so that no single individual — including its founder — is indispensable. That design is what underpins its durability.

Policy uncertainty
Judges Scientific and IMCD have both faced challenges during 2025 due to policy uncertainty (university funding for Judges Scientific) and trade-related tariffs (IMCD) under the Trump administration.

Judges Scientific continues to face headwinds in its end markets. The company supplies scientific instruments to universities in the US, and recent reductions in federal research funding have affected short-term performance. However, we have witnessed similar challenges over the years, often followed by significant rebounds in activity and the share price. We do not believe the current soft environment is structural and remain optimistic about the company's long-term prospects.

The Geotek division at Judges Scientific experienced a sharp one-off revenue "air pocket" when a key seismic vessel skipped an expedition, but that vessel has since resumed operations. China-related softness also weighed on demand, though signs point to a normalization rather than a structural reset. In the US, university purchasing has slowed due to uncertainty around future grant allocations — effectively a spending freeze, not actual cuts — creating a temporary vacuum in orders. Taken together, these pressures explain recent performance but do not point to a deterioration in the group's long-term model.

Over the past 18 years, Judges has grown revenues at a compound annual rate of 20% (7% organic) and EBIT at 26% (9% organic), while increasing dividends by 22% annually. We continue to have confidence in its operating model and expect to see a recovery in the coming years.

Separately — and unrelated to these short-term dynamics — Judges announced a long-planned leadership transition. The founder, David Cicurel, will step down as CEO in February 2026 and assume the role of Non-Executive Chair, ensuring continuity in the group's acquisition processes. He will be succeeded by Tim Prestidge, currently Group Business Development Director, who brings senior experience from Halma and Renishaw. The wider management team has also been strengthened to support ongoing operational execution and the group's disciplined M&A strategy.

IMCD is a global leader in the distribution of specialty chemicals. It has experienced macroeconomic pressure due to tariffs over the last year. The current environment is viewed as fundamentally different from past market cycles, characterized by "shock waves" such as the tariff discussions rather than a normal market cycle. The underlying results have been weaker than usual over the last two years. In the first nine months of 2025, operating EBITA decreased 2% compared to the same period of 2024. Since listing in 2014, EPS is up 28% annually, free cash flow per share is up 21% annually and dividend per share is up 27% annually.

IMCD maintains a strategy of growing through small bolt-on acquisitions. The company completed six acquisitions and signed two additional transactions in the first nine months of 2025. IMCD's diversification across geographies and end-markets offers resilience. IMCD's business model offers high incremental margins. As volumes return, we expect high operational leverage and strong earnings and cash flow growth.

Brown & Brown
The share price of the US insurance broker Brown & Brown fell 21% in 2025 despite growth in operating cash flow of 24% during the first 9 months. We believe the main reasons for the decline in the share price are the «wait and see» attitude toward the outcome of the largest acquisition in the company's history during the year and weaker-than-normal trading, due to a softening market with downward rate pressure.

The acquisition of Accession has a transaction value of 9.8bn USD. To put the Accession transaction into perspective, since 1992, Brown & Brown has completed 611 acquisitions for a total transaction value of approximately 15bn USD.

Despite a highly successful track record of acquiring small companies, the market clearly wants to see proof that Brown & Brown can also create value from a significant acquisition like Accession. Acquisitive growth of this scale brings challenges, including the risk that the anticipated benefits from the Accession transaction might not be fully realized.

In general, we are skeptical of transformative deals like Accession, at least when combined with an equity issue. On the other hand, as a specialist insurance broker, we also see rationale for building even more scale. Importantly, there is nothing wrong with cash generation at Brown & Brown. The company increased its dividend by 15% in 3Q, marking the 32nd consecutive year of increases.

Cornerstone investor in Röko IPO

During March, we made a significant investment as a cornerstone investor in the IPO of Swedish-based acquisition-driven compounder Röko AB. Our three most important considerations when considering new investments are track record, management, and growth prospects. We find Röko delivers strongly across all these aspects.

The stock price since the IPO is down 19%, despite delivering a strong EBITA growth of 11% for the first 9 months of 2025. We believe the stock is down due to fewer than expected acquisitions since IPO. Röko is highly disciplined in the prices it pays for acquisitions, and we do not see a lack of deals as a negative in the short run. During the year, Röko announced three acquisitions and since 2019, it has acquired over 30 companies across Europe. Röko's financial position remains strong with interest-bearing net debt to EBITDA of only 0.3x (2.1x including minority debt), which allows for high capacity to grow the business through acquisitions going forward.

Despite a 5% upward revision to 2026 EBITA estimates during the year and underlying EBITA growth of 11%, the company's share price has declined. As a result, the valuation has fallen to an even more attractive level, now trading at 20x EV/EBITA on 2026 consensus estimates. Market expectations remain modest, assuming EBITA growth of only about 5% in 2026. In our view, this reflects an overly cautious assessment of both the company's near-term earnings power and the durability of its business model. We believe the business possesses the characteristics required to compound capital at attractive rates, and we see a reasonable likelihood that it can achieve its long-stated ambition of growing intrinsic value by approximately 15% per year over the long run.

Valuation

At the beginning of 2025, the REQ Global Compounders portfolio traded at 23.8 times next twelve months forward EV/EBITA. By the end of 2025, that multiple has declined to about 20.8 times. In our view, this represents an appealing valuation for a collection of businesses with a strong long-term record, resilience through different market environments, and inherent earnings power. Current market expectations appear modest with earnings growth of roughly 10% in 2026 and 8% in 2027—well below what the businesses in the portfolio have delivered historically, and below what we believe they are capable of achieving over the medium and long term.

Over time, investment returns are largely determined by a company's ability to reinvest capital at attractive rates for long periods. By that measure, the portfolio's companies have performed well, producing an average earnings compound annual growth rate of approximately 17% over the past decade.

REQ Nordic Compounders

In 2025, REQ Nordic Compounders fund's A-class shares in NOK appreciated by 8.7%[5]. Since its inception in January 2022, it has appreciated by 47%[6].

The fund comprises 23 of the highest-quality companies and management teams in the Nordics with a proven track record of strong capital allocation and profitable growth. Historically, the companies in the fund have reinvested 75-80% of operating cash flow at returns of close to 20%. The portfolio-weighted net debt-to-EBITDA is only 1.5x as of 3rd quarter 2025 and our companies are well-positioned and prepared to capitalize on the growth opportunities ahead.

Although we are agnostic to the size and industry of the companies we invest in, we try to leverage the fund's size to take positions in smaller companies with greater potential for multi-decade profitable growth. In total, 65% of the capital is invested in companies with a market cap below SEK 25bn (EUR 2.5bn), and 80% below SEK 50bn (EUR 5bn). We have done so without compromising on track record as the companies in the fund have, on average, been listed for 19 years.

Performance

We are not satisfied with the performance in 2025. We know we can and will do better over the long term. Firstly, our investment in the Röko IPO in March has so far been a drag on performance. Secondly, some of our companies have displayed weak share price performance on the back of weaker-than-expected results this year, while others have seen their share prices decline despite higher earnings growth. We will cover these points in more detail below.

Despite generally sluggish economic sentiment throughout the year, our companies grew their earnings (EBITA) by 13% on average in the first three quarters. The third quarter was also the best in over two years, with total earnings growth and organic growth increasing 22% and 3%, year over year, respectively. Despite headwinds from weaker economic sentiment and negative impact from currency, our companies were able to offset this with their stronger inorganic growth.

A few companies' performance particularly disappointed this year: Green Landscaping, Nibe and NCAB's share prices declined on average by 26%. These companies have been among the fund's smaller positions, in total accounting for 7.7% of the fund.

Green Landscaping reported weaker earnings in its core markets, Sweden and Norway, during the year. In Sweden, higher competition for projects impacted earnings. At the same time, Norway had a mild winter that affected its snow-dependent companies in the beginning of the year, as well as specific project-related write-downs. Management has addressed the issues by introducing greater control and cost management across the group, as well as winding down unprofitable units. These actions are expected to positively impact earnings in the coming year. Green Landscaping trades at an EV/EBITA valuation of 8.7 times based on consensus estimates for the coming year, and, over the long term, we remain optimistic about its growth prospects in a highly fragmented European market.

Secondly, Nibe has been a detractor to the fund during the year. The downturn in the heat pump market has persisted following the initial upcycle post Russia's invasion of Ukraine in 2022, which increased competition and contributed to overcapacity. Despite this backdrop, Nibe's operating earnings increased by nearly 40% during the year, although they remain approximately 30% below the record levels at the beginning of 2023. The combination of higher market expectations and a contraction in valuation multiples weighed negatively on the share price during the year. The recovery

[5] Return in NOK for the "A" class. The fund has share classes in NOK, SEK, EUR and USD. Return in SEK 2025 is 2.2%.

[6] Return in NOK for the "A" class. The fund has share classes in NOK, SEK, EUR and USD. Return in SEK since inception is 30.0%.

has taken considerably longer than expected, but we believe the company is progressing in the right direction, and management's confidence in restoring historical margins remains trustworthy. We are seeing early signs of improvement and believe that, over time, Nibe can grow profitably in a market with favorable long-term fundamentals.

Thirdly, NCAB's earnings were negatively impacted at the beginning of the year by a negative gross margin contribution stemming from delayed price compensation, as well as uncertainty around tariffs. However, despite a sluggish European economy, order intake has gained momentum this year, and NCAB has won important deals in both the aerospace and defense sectors. During the third quarter, order intake improved by a strong 21%, of which 14% organic. With a positive book-to-bill and a less negative currency impact, NCAB is expected to grow its earnings in the coming year.

Additionally, on the back of 29% earnings growth in the first nine months of 2024, the fund's biggest position, Momentum Group, has only increased EBITA by 4% this year due to weaker organic growth, which stronger acquired growth could not fully offset. It has resulted in a negative share price performance of -13% this year. We believe the weaker earnings growth this year is temporary, and expect the company to grow profits in line with its financial targets of 15% over the longer term.

Positively, many of our companies delivered strong performance during the year. Top contributors include Beijer Alma, Berner Industrier, and Bufab. For the first three quarters of 2025, Beijer Alma, Berner Industrier, and Bufab increased their profits (EBITA) by 17%, 60% and 8%, respectively.

When we invested in Beijer Alma in January 2024, our investment thesis centered around Lesjöfors' potential to recover its historical margins and the attractive capital deployment opportunities within Beijer Tech. Under the interim CEO, Johnny Alvarsson — and now with Oscar Fradell stepping in — the company's trajectory has improved, and appropriate actions have been taken to improve margins. With an even leaner and decentralized organization, we continue to see meaningful long-term potential. Additionally, we find the current valuation of 15x EV/EBITA based on 2026 estimates attractive. Beijer Alma accounts for 6% of the fund.

Bufab has also been an important contributor to the performance in 2025. During the first nine months, Bufab increased its EBITA by 8% (+14% in Q3), despite a weaker organic development. The best distributors are not only "moving items" from point A to B. Since its current CEO, Erik Lundén, assumed his position in 2022, he put focus on making Bufab into an even stronger "solutions partner" for its customers rather than a provider of single items with low value-add. This has improved gross margins from 28% to 31%, despite facing organic headwinds. Bufab is active in a highly fragmented market, dominated by smaller, family-owned businesses, where it can utilize the playbook it has built over decades. We continue to see a substantial long-term growth runway for Bufab.

In June, we also initiated a position in Berner Industrier. We had the opportunity to meet its CEO, Caroline Reuterskiöld, even before she assumed the role in early 2022, and the strategic direction she outlined at that time has since been fully executed. The first acquisition took somewhat longer than initially anticipated, but we have been impressed by Berner's operational execution. By the time we established our position, the company had delivered a meaningful improvement in cash flow, strengthened its balance sheet, and decentralized its operations. The company has now completed its second acquisition during Caroline's tenure, and we continue to see strong long-term potential.

Acquisitions

For REQ Nordic Compounders, as in previous years, 2025 has seen a high acquisition pace, with 22 of our 23 holdings announcing at least one acquisition. In total, the companies in the fund announced 145 acquisitions in 2025, compared to 147 in 2024 and 133 in 2023. International expansion continues

to dominate the M&A activity, with 70% of acquisitions announced outside the Nordic countries. The most active acquisition countries outside the Nordics are the UK, Germany, the US, Italy, and the Netherlands. Most active acquirers during the year include Atlas Copco (29 acquisitions announced), Lifco (16), Indutrade (13), Addnode (10), and Lagercrantz (10). Our companies continue to find smaller acquisition opportunities at low multiples, with average acquired sales during the year at EUR 12m, the same as in 2024. An attractive M&A outlook remains among our companies.

Portfolio changes

While our holding periods are long, if the assessment of a company's long-term prospects changes, we act accordingly. Over the past two years, this process has resulted in 12 decisions: 7 investments and five exits. With some skill and a fair amount of luck, four out of our five sell decisions have been beneficial to you as an investor. All our sell decisions have, on average, declined by 17% since we sold. Equally, five out of seven buy decisions have contributed positively to the fund's return since we first invested. Our buy decisions have, on average, appreciated by 40% since we first initiated a position, including the exceptions to the positive returns by Röko and Green Landscaping.

During 2025, we initiated two new positions and exited one. In March, we participated in Röko's IPO. Since listing, the share price has declined by 19% despite EBITA growing by 11%. In June, we initiated a position in Berner Industrier, which has appreciated by 60% since our entry. We also fully exited our remaining position in Instalco in early March. Over the past two years, we have invested in Idun Industrier, Beijer Alma, Bergman & Beving, and Medcap at points when their long-term potential was not yet fully reflected in market valuations. We were also early investors in Momentum Group, initiating a position on the day it was spun off from Alligo.

Valuation

Since the companies in the fund are able to reinvest a greater share of incremental capital at consistently high returns—and thereby grow earnings faster than the average listed company—they are typically valued at a premium to the broader market. We view this premium not as a function of short-term optimism, but as a reflection of durable business models, strong capital allocation, and long reinvestment runways.

At the beginning of 2025, the portfolio's weighted valuation stood at 19.8x EV/EBITA, based on consensus 2026 estimates[7]. By the end of 2025, this valuation has declined to even more attractive levels of 18.0x, driven primarily by strong earnings growth amid improving fundamentals. The market has historically underestimated the growth and runway of our companies. We consider the current valuation compelling given the portfolio's growth potential in the coming years, its long track record, resilience across different market environments, and long-duration growth characteristics. Over time, shareholder returns are ultimately driven by a company's ability to reinvest capital and the returns generated on that incremental investment.

By way of illustration, the four largest Swedish acquisition-driven compounders—Addtech, Indutrade, Lagercrantz, and Lifco—were valued at approximately 16x forward-looking EV/EBITA ten years ago. At the time, these valuations were often perceived as demanding relative to the broader market. However, supported by sustained returns on capital of around 20% and consistent earnings growth, these companies compounded value over the subsequent decade. As a result, they generated an average total shareholder return of approximately 775% over the period with average EBITA growth of 394%, significantly outperforming the Stockholm Index, which delivered a total return of 197% including reinvested dividends. It illustrates that for businesses with long reinvestment runways and high incremental returns on capital, valuation multiples are best understood in the context of growth durability rather than as a static measure at a single point in time.

[7] Consensus estimates derived from Factset.

Sources of durable growth

The durability of long-term returns is ultimately determined by where profits come from and how they can be reinvested. In this section, we provide a portfolio-weighted overview of the fund's sources of growth. Categorizing every company and end market into a single bucket is inherently challenging. Nevertheless, we have sought to provide a representative and informative breakdown that reflects the portfolio's underlying economic drivers.

The fund's underlying exposure is diversified across many structurally growing industries, and many of our companies capitalize on secular trends such as automation, electrification, and digitalization, among others.

Industry Consumables	18%
Light Industrial Equipment	17%
Software	11%
Life science	9%
Energy & Electrification	8%
HVAC Solutions	6%
Construction and Infrastructure	6%
Electronic Components & PCB	6%
Logistics & Transport Solutions	6%
Industrial Automation / ICT	5%
Consumer & Retail Services	3%
Process & Chemical Ingredients	3%
Other General Industry	2%

In terms of exposure, Industry consumables and Light industrial equipment comprise 35% of the portfolio. They are, however, spread across numerous small verticals and are not dependent on a single application area or market. A common characteristic is that their products and services are typically small, mission-critical components or services that customers classify as operating rather than capital expenditure This is very different from businesses dependent on large, discretionary capital projects or volatile consumer demand. Johnny Alvarsson, former CEO of Indutrade, once explained it by saying: "*The products should not be bigger than a horse*." This feature supports stable demand and greater resilience across economic cycles, allowing compounding to persist for decades.

While the organic growth rates are not making the big headlines, portfolio companies typically grow organically at a reasonable pace of 5-10% annually. This way, they contribute an important feature: a strong and predictable cash flow stream, proceeds that are reinvested by our portfolio companies by buying other similar businesses.

Other essential characteristics of the businesses owned by our companies include high margins and leadership positions within narrow niches, where customer satisfaction is at the forefront. Just consider a few examples from the portfolio. Addtech's subsidiary, Caldaro, is regarded as the "Rolls-Royce" of industrial joysticks, serving customers in the agriculture, crane, construction, forestry, and maritime industries. Lifco's Brokk dominates the global market for small, remotely controlled demolition robots, with approximately 70% market share and operating margins exceeding 30%. Lagercrantz's Elpress is the leading supplier of cable shoes for electrical connections with high double-digit margins.

Collectively, our portfolio companies own more than 2,000 small, market-leading niche businesses, many operating in highly specialized segments. It results in broad diversification across end markets and geographies, with no single industry dominating the portfolio. Just under 50% of portfolio revenues are generated outside the Nordic region—a share that continues to increase as portfolio companies expand internationally—further enhancing diversification and reducing concentration risk.

The entrepreneurial mindset and deeply embedded, decentralized cultures of our portfolio companies, characterized by local accountability, lead to responsiveness and adaptability. The exposure supports resilient earnings, predictable cash flows, and the ability to reinvest capital at attractive returns across cycles.

Fundamental value creation

While it is common in our industry to highlight a fund's best-performing investments, our objective is to illustrate our investment philosophy. We want our investors to be comfortable with the process we use to identify businesses that can deliver results over many years, rather than focusing on short-term outcomes from individual holdings. Despite this, when relevant, we will explain both good and bad performance across our holdings.

We are fundamental investors using a bottom-up approach. That said, our investors ultimately own the portfolios as a whole, and their results reflect the combined performance of all our holdings. For that reason, we believe it is more useful to focus on the overall characteristics of the funds than on single investments.

Below, we therefore provide historical figures, sometimes referred to as "look-through earnings," for the companies included in our funds, based on the metrics we believe best reflect shareholder value creation. The conclusion is that our companies have demonstrated a strong ability to increase long-term value per share. History is no guarantee of the future, but we believe our companies continue to have solid growth prospects.

A defining trait across the portfolio is a disciplined emphasis on profitable growth rather than growth for its own sake. Our companies pursue expansion only where returns on invested capital are attractive, and this discipline is clearly reflected in long-term outcomes. Since 2014, companies in both funds have increased earnings by approximately 15% per year, materially outpacing sales growth.

For both funds, EBITA and free cash flow per share have grown fivefold, reflecting meaningful operating leverage, improved profitability, and a strong focus on cash flow generation. This earnings growth has been achieved without any significant dilution for shareholders. This growth has also been achieved with low earnings volatility, primarily due to their inherently diversified portfolios and low reliance on the prospects of any single end market, industry, or geography. Ultimately, shareholder value is created through a company's ability to generate growing free cash flow per share, while maintaining high returns on invested capital. The companies in the funds have consistently demonstrated this capability.

While market attention often centers around short-term earnings fluctuations, long-term outcomes are driven by how effectively management allocates capital over many years. Our portfolio companies have not only earned high returns on deployed capital, but have also reinvested it prudently into high-quality, often family-owned businesses across multiple verticals. It has further strengthened diversification and contributed to stable returns over time.

Although the two funds differ in size, markets, and geographic exposure, the data below shows that companies sharing the same value-creation skills and mindset tend to deliver similar long-term results.

* * *

A note on how we assess return on invested capital (ROIC).
The common approach to measuring ROIC is to measure returns against the book value of invested capital. This method, however, can overstate economic value creation, as current earnings are compared with depreciated or amortized asset values.

For example, if a company acquires earnings of 100 at a purchase multiple of 10x, the implied return on investment is 10%. If, over a ten-year period, the asset base is depreciated by 50%, the return on

book value rises to 20%, even if absolute earnings remain unchanged. It creates a misleading impression of improved economics.

To better reflect true economic value creation, we therefore add back depreciation and amortization of intangible assets, ensuring returns are measured against the full capital invested. This approach aligns more closely with how our portfolio companies think about performance. As David Cicurel, CEO of Judges Scientific, nicely puts it; "*you can't measure the return on something that is, in essence, an accounting fiction—particularly when assets have been amortized.*"

For our portfolio companies, the traditional book-value approach would increase the reported ROIC in the tables by approximately 3 percentage points at the portfolio level.

Below, we present the indexed growth in sales, EBITA, and free cash flow per share since 2014.

REQ Global Compounders

	Sales	EBITA	# shares	FCF / share	ROIC*
2014	100	100	100	100	24 %
2015	104	116	100	105	31 %
2016	108	118	94	120	21 %
2017	125	140	100	133	22 %
2018	141	172	101	141	24 %
2019	152	199	101	239	22 %
2020	153	209	108	201	22 %
2021	179	255	108	249	21 %
2022	226	326	108	237	22 %
2023	265	394	109	401	21 %
2024	303	447	121	420	20 %
Q3 2025	327	470	122	446	19 %
CAGR	11,6%	15,5%	1,9%	14,9%	
10y CAGR	12,5%	15,4%	2,1%	15,9%	
5y CAGR	17,3%	18,6%	2,5%	18,3%	
3y CAGR	14,4%	14,2%	4,4%	25,9%	
* EBITA / (Net debt + Equity + added back accumulated amortization of intangible assets)					

REQ Nordic Compounders

	Sales	EBITA	# shares	FCF / share	ROIC*
2014	100	100	100	100	16%
2015	111	123	100	139	18%
2016	121	128	101	123	17%
2017	132	159	101	135	19%
2018	148	185	101	119	22%
2019	172	210	101	164	20%
2020	179	231	103	130	19%
2021	214	319	106	233	22%
2022	285	394	104	248	22%
2023	329	497	108	524	21%
2024	344	484	109	484	18%
Q3 2025	351	504	109	485	17%
CAGR	12.4%	16.2%	0.8%	15.8%	
10y CAGR	12.6%	15.6%	0.8%	13.7%	
5y CAGR	15.3%	17.9%	1.2%	31.9%	
3y CAGR	7.8%	9.4%	1.6%	27.6%	
* EBITA / (Net debt + Equity + added back accumulated amortization of intangible assets)					

Reflections on AI's Impact on VMS: Opportunities and Risks

Before we get into the specifics of AI and its potential impact on VMS, it's worth stepping back [8]and looking at prior technology waves. Each wave enabled new business models and created openings for new players—while forcing incumbents to adapt. Some companies thrived; others did not.

Tech Waves and Business Models
We have seen this repeatedly: the shift from mainframe-centric computing to client/server architectures in the 1980s–1990s, the commercialization of the internet and the rise of the World Wide Web in the 1990s, the spread of service-oriented architectures (SOA) in the 2000s, the expansion of cloud infrastructure and SaaS delivery models from the mid-2000s through the 2010s, and the mobile era from the late 2000s through the 2010s. Importantly, mainframes did not simply "disappear"—they remain core platforms in many large enterprises and are often discussed today in the context of hybrid environments.

A classic example is SAP's transition from SAP R/2, a mainframe-based system, to SAP R/3, built on a three-tier client-server architecture. SAP dates R/3's breakthrough to 1992, marking a turning point in its expansion into a global enterprise software company. Importantly, the shift was not just technical: SAP generated significant value by successfully migrating its installed base from R/2 to R/3, effectively re-monetizing customers through a new architectural standard.

A similar economic pattern appears in later waves: as software delivery models change, revenue models often change with them. CSI successfully shifted from one-time license revenue to recurring revenue, including SaaS, and many CSI businesses benefited materially from this shift and the creation of new business models.

History also offers a recurring lesson on monetization, well captured by Warren Buffett's tip-toe metaphor: once a few people in a parade stand on their tiptoes, everyone else must follow. No one sees any better, but everyone ends up slightly worse off. Large technology shifts often play out the same way. While they force widespread investment, they do not automatically confer pricing power.

Telecom provides a clear example. Despite massive capital deployment across multiple network generations, intense competition and limited value capture have constrained revenue growth in many mature markets. In practice, upgrades often become table stakes rather than monetization events—raising the industry's cost base without proportionally improving returns.

That point matters for the "cloud/SaaS-first" era too. Predictions are often absolutist, while customer behavior is not. In practice—particularly in telecom—many operators have favored hybrid and multicloud approaches, often to balance control, compliance, and operational requirements, rather than moving everything to a single pure public-cloud/SaaS end state.

Fifteen years ago, the prevailing narrative was that software would move entirely to SaaS—that vendors would never sell perpetual licenses again and that those unwilling to go "cloud-only" should exit. In practice, many competitors that adopted cloud-only strategies and discontinued established product lines encountered significant difficulties; a number of these businesses were ultimately acquired by Lumine Group.

[8] This discussion and the accompanying chart on page 18 are informed by many fruitful discussions with industry insiders, for which we are grateful.

Fast-forward to today, and license-plus-maintenance models have not disappeared. Despite predictions of a full shift to SaaS, many infrastructure-heavy and regulated markets continue to favor perpetual licenses paired with long-term maintenance, reflecting capex-driven customers accustomed to owning systems and operating within capital budgeting frameworks.

The implication for AI is similar: it is a mistake to assume a single, rapid end state. The most durable winners tend to meet customers where they are, modernizing products and delivery models without forcing uniform change. In a highly decentralized group like CSI, autonomy and best-practice sharing are central tenets, and leadership has cautioned against greater centralization. In that context, a pragmatic fast-follower stance—reinforced during the September AI seminar—combined with a largely customer-funded approach to AI adoption is likely to be a better fit than a top-down, "AI-first everywhere" mandate.

Framing the risk and opportunities

"*The notion that business applications exist — that's probably where they'll all collapse in the agent era. Because if you think about it, they're essentially CRUD databases with a bunch of business logic. The business logic is all going to these agents*." - Satya Nadella (BG2 with Bill Gurley & Brad Gerstner)

"*Right now we're in an agentic AI moment where the industrial software complex of the 20th century is being integrated, and in some cases, drastically reduced in numbers of applications and moved to the ServiceNow platform*" – Bill McDermott (CEO of ServiceNow, former CEO of SAP)

With the history of technology waves in mind—and their lessons on humility and second-order effects—pinpointing AI's net impact on CSI's 1,400+ businesses across more than five operating groups and roughly 100 verticals is difficult.

However, when tech leaders and commentators describe AI disruption in software—a highly heterogeneous space—with absolute certainty, it's worth asking what they mean in practice. Are they talking about horizontal software, narrow point solutions, consumer-oriented SaaS, or deeply integrated systems embedded in the "can't fail" back office of a regulated enterprise? Applying consumer AI trends without adjusting for context is misleading; software markets sit on a spectrum. A more sensible approach is to weigh the incentives behind a given claim against the real-world constraints of the specific problem at hand.

A useful way to assess where AI may have the greatest impact—both as a risk and an opportunity—is to evaluate a business through four core operational and structural factors that help frame the discussion.

Market & Operational Factors	VMS Opportunity	VMS Upside (VMS + AI)	Generic Agentic AI
Switching cost (customizations & integrations)	High	High	Low
Market Opportunity & Business Impact	Low	High	High
Repetitive tasks	Low	High	High
Data accessibility	Low	High	High

Switching Cost
Switching costs reflect the collective pain of switching, shaped by the degree of customization and integration required. Markets with tightly integrated solutions in regulated environments, higher complexity, or "can't-fail" operational requirements typically have higher switching costs and therefore higher barriers to disruption. Client inertia also matters, including whether customers have been pushed too hard on pricing and are more willing to switch. By contrast, simple point solutions with low integration requirements—and customers actively seeking alternatives due to dissatisfaction—are easier for new entrants to challenge.

Market Opportunity & Tangible Business Impact
The size of the prize matters for would-be disruptors. When a market offers large cost reductions or clear performance gains—for example, cutting a call-center workforce by 50% rather than 10%—the incentive for new entrants rises sharply, and so does disruption risk for incumbents. Assessing that risk requires understanding the business logic and economic incentives on both sides.

This is where an investor mismatch often appears. Venture capital typically requires very large addressable markets to justify funding, which pushes capital toward broad horizontal tools (e.g., CRM) rather than smaller niches that may only support a few viable players in the $10–$50 million range. Relatedly, many small, profitable vertical niches present a "small prize" problem: even if they are defensible and attractive businesses, they are rarely large enough to be worth pursuing for well-funded AI entrants.

Repetitive Tasks
Workflows that are highly repetitive or operationally mundane are increasingly unlikely to remain manual. AI enables automation to be fast, scalable, and cost-effective, and markets built on such tasks will undergo more rapid transformation.

Data Accessibility
Although plenty of progress is being made through tooling that improves data extraction, normalization, and integration, AI's effectiveness today still depends largely on access to clean,

structured, and complete datasets. Verticals with high data availability are therefore much more conducive to meaningful AI automation or augmentation.

We believe these factors provide a practical framework for evaluating AI-related risks and opportunities across different businesses. The most attractive "VMS Upside" appears where all four elements converge:

- high switching costs,
- substantial and tangible business impact,
- high repetition of tasks, and
- high data accessibility.

In these environments, trusted incumbents and integrated vendors are often best positioned to introduce and scale AI, making upsell and value expansion more likely than displacement.

Risk & Opportunity: Constellation Software Family
Each CSI operating group (and its subgroups) spans a wide range of verticals, and due to poaching rules, businesses are not organized or consolidated strictly by vertical. For example, Vela includes a subgroup, Juniper, that is primarily focused on travel, even though Jonas also owns a significant number of travel-related businesses. As a result, disruption risk is best assessed at the level of customer type, system criticality, and integration depth rather than by vertical label alone. We therefore frame AI-related risk and opportunity along a spectrum defined by customer type, depth of integration, and switching costs, supplemented by scenario thinking for businesses that may be more exposed.

At one end of the spectrum are deeply embedded, mission-critical systems serving large enterprises or public-sector customers—such as administrative healthcare systems, utilities, public transport, and core banking—operating in regulated, "can't-fail" environments. These markets are characterized by complex implementations, deep integration, and high switching costs, which materially constrain both the pace and scope of AI-driven disruption.

As shown in the framework outlined in the chart on page 18, the central question in these settings is not whether AI will be adopted, but who is positioned to deploy it effectively. While many underlying workflows are repetitive and economically meaningful, practical constraints around data access, regulation, and accountability favor incumbents already embedded in core customer workflows. Here, AI is more likely to drive upsell and value expansion for trusted vendors than to displace them outright by AI-native entrants.

At the other end of the spectrum are more consumer-facing or SMB-oriented markets built around point solutions with lower switching costs, including digital marketing, travel, fitness and club management, real estate platforms, and select clinical point solutions in healthcare. Customers in these markets prioritize speed, convenience, and price, and are generally more willing to switch providers. Lower integration requirements, shorter sales cycles, and fewer structural constraints make these segments more susceptible to disruption.

Overwhelmingly, solutions that are too small, overly point-specific, or not truly mission-critical fall outside CSI's core focus and represent a limited portion of the portfolio where they do exist. Where CSI does operate, its businesses are typically structured as integrated systems rather than isolated applications, consisting of layered backend components, core processes, and integrations. Constellation generally owns the backend core and incrementally expands functionality through customization, which supports professional services revenue and increases wallet share over time.

While CSI does own some businesses—often serving more consumer-oriented or small- and mid-sized-business customers—that sit closer to the higher-disruption end of the spectrum, the portfolio is dominated by businesses operating in lower-disruption-risk markets.

This integrated structure also helps explain why common software labels—such as core systems versus middleware—require careful interpretation. In isolation, these distinctions can be misleading. In highly regulated, complex, or "can't-fail" operating environments, particularly within back-office functions, software that might be categorized as middleware in another context can become deeply embedded, operationally critical, and extremely difficult to replace. In such settings, the risk of interference, downtime, or unintended consequences often outweighs the perceived benefits of change, resulting in levels of stickiness and defensibility comparable to, or in some cases exceeding, that of so-called core systems.

This profile is further reinforced by CSI's European operations, particularly Topicus.com—most notably Topicus and TSS Public—which serve public-sector and other institutional end-markets across finance, education, healthcare, and social services through deeply embedded, mission-critical vertical software. By contrast, verticals such as digital marketing remain structurally more exposed to disruption due to lower switching costs and a higher prevalence of point solutions, while real estate—despite its industry-specific nuances—often behaves more like a horizontal market and is therefore heavily targeted by AI-native entrants. In healthcare, we see greater disruption risk in select clinical point solutions, particularly diagnostics, than in administrative and workflow-oriented applications.

Alternative Scenarios: Fast Follower or Milk-Out
Looking across CSI's portfolio—particularly the more consumer-oriented, horizontal, point-solution end—two paths may emerge.

One option is to pursue a fast-follow strategy. It involves accepting manageable technical debt, retaining strong talent, and modernizing quickly. The goal is to fast-follow effectively and keep the product competitive. The other option is to "milk out," a strategy CSI has historically executed well. When technical debt is high and/or talent is limited, even a fast-follow approach may not be the best strategy In those cases, margins (and cash flow) can be expanded through a proven playbook involving price increases, reduced R&D, and other levers. The business may decline over time, but often far more gradually than most people expect, while still delivering the desired IRRs as projected upfront.

Lumine Group: Five-Nines Reliability in the Can't-Fail Zone
Lumine focuses on a large hybrid vertical spanning telecom and media and tends to pursue larger transactions, including complex corporate carve-outs where a proven integration playbook is critical. Roughly half of its deals, both as a percentage and by quantum, consist of large corporate carve-outs, where being a preferred buyer—and ultimately success—depends heavily on being a trusted steward of mission-critical assets. As a result of pursuing larger acquisitions, Lumine serves larger customers and has more concentrated exposure.

At an AI seminar hosted by CSI in September, one comment from Mark Leonard particularly stood out to us. Speaking about vertical-market software, he noted:

"*Vertical market software is the distillation of a conversation between the vendor and the customer that has gone on frequently for a couple of decades. You distill those work practices down into algorithms and software and data and reports, and it captures so much about the business. Being able to examine that in a new way because of AI creates new opportunities to modify, change, and suggest new approaches. So yes, I'm hopeful that this unique and proprietary information will be of value*."

In sharp contrast to consumer markets — where adoption is rapid and switching costs are low — Lumine operates within a distinct VMS category serving large enterprises in telecom and media. These customers are deeply technical, tightly integrated, and extremely risk-averse, running systems where uptime and accuracy matter far more than novelty. Their software sits deep in the back office, inside the "can't-fail" zone, defined by high complexity, stringent compliance requirements, and rigorous audit standards. Even becoming an approved vendor can take up to three years, as clients are cautious about onboarding new providers due to data security and regulatory risks. As a result, winning new logos is structurally challenging in this market.

Many of Lumine's offerings fall under what insiders refer to as "carrier-grade" standards — where systems are engineered for extremely high availability. In telecommunications, carrier-grade systems are typically designed to meet or exceed a 99.999% uptime benchmark, commonly known as five-nines availability. This translates to roughly five minutes of allowable downtime per year — a target reflecting expectations for mission-critical network functions.

Similar reliability expectations exist in other critical infrastructure environments, such as defense, energy and utilities, and key financial services systems, where failures can have far-reaching operational or safety consequences.

For Lumine and its extensive portfolio of telco and media assets, this level of reliability is only one side of the equation. On the security side, they must meet stringent regulatory requirements and undergo continuous compliance audits. In practice, this means it is extremely difficult for a new vendor to win a logo in these "can't-fail" environments — and once you are in, you tend to stay in, unless you make a major mistake.

Staying relevant, however, requires constant dialogue with customers and a clear understanding of their evolving needs. It raises an important strategic question: In such environments, who is the trusted party to implement and upsell AI-related tools? A new startup? The telco itself? Or the vendor that has spent a decade earning trust? Returning to Mark Leonard's quote on VMS as the "distillation of a conversation" between vendor and customer, we believe AI is largely a net benefit for the CSI family of companies — including Lumine — enabling them to deepen their customer relationships even further.

These questions extend to the business case itself — including market size (especially when comparing horizontal versus vertical markets) and the tangible outcome a challenger aims to deliver. There is a material difference between reducing operating expenses by 10% and credibly enabling a 50% reduction in call-center headcount. And in many cases, one must ask why a customer would not simply deepen an existing relationship with a trusted incumbent. Often, the simplest and most rational choice for the client is to pursue an upsell rather than adopt an unproven alternative.

Röko AB – A Compounder Designed for the Long Run

Some businesses are built for the next quarter. Others are built for the next generation. We believe Röko, a Swedish acquirer of niche companies, clearly belongs in the second category. Röko was founded in 2019 by Fredrik Karlsson, the architect behind one of Sweden's most successful compounders, Lifco. With 31 profitable, entrepreneur-led companies across Europe, Röko is building what could become one of the next Nordic champions.

We have been long-time shareholders in Lifco since its IPO and have closely followed how Karlsson delivered extraordinary shareholder value through a disciplined, decentralized, and non-bureaucratic model. Similarly, we have closely followed the development of Röko as a private company since its foundation in 2019. And when they announced an IPO in March 2025, we saw a long-awaited opportunity to invest alongside him again.

Over the past decade, we've spent countless hours engaging with and analyzing acquisition-driven compounders. Throughout that journey, we've encountered many newly founded—and eventually listed—companies that looked compelling on paper but ultimately failed to deliver in practice. Whether due to an unsustainable acquisition pace, excessive leverage, poor capital allocation, limited operational expertise, or simply weak leadership, the outcome was often disappointing. Röko, in our view, stands apart from this. Although the company itself has only a six-year operating history, its management team boasts a depth of experience in operational excellence and a proven track record of creating shareholder value. The company has a unique combination of experienced managers and younger, high-performing individuals that few other newly established compounders can match. Succession planning has been planned since the foundation of the company in 2019 with Johan Bladh as deputy CEO.

Friendship and business

Fredrik Karlsson and his co-founder, Tomas Billing, share a long-standing personal friendship. They got to know each other while learning Russian as military interpreters and later joined the Stockholm School of Economics. Karlsson has a degree in Economics from the Stockholm School of Economics and a degree in Engineering Physics from the Royal Institute of Technology.

Karlsson's and Billing's business cooperation began in 2015, when they made a joint investment in Hjertmans. Hjertmans is a Swedish marine supplies distributor, and it is a company that they still co-own. When Billing resigned as president of Nordstjernan in 2018, he approached Karlsson with the idea of starting a business together. Initially, Karlsson had no intention of leaving Lifco. However, a compensation disagreement at the beginning of 2019 with Lifco's majority owner, Carl Bennet, led to Fredrik Karlsson changing his mind. That same year, Röko was founded.

Designed to Compound

Röko's model is simple yet powerful: acquire high-quality, asset-light companies with strong cash flows and hold them for the long term. The company targets niche companies with EBITA margins above 15%, stable historical profit development, low customer concentration, and limited capital intensity. In Karlsson's own words: "The numbers tell the story. Consistent profit growth over time signals real quality."

Karlsson spent over two decades building Lifco from a low-performing dental distribution business into a world-class acquisition-driven compounder. One lesson he brings from this journey: don't create self-imposed constraints in your business model. At Lifco, the Dental distribution business—a specialized vertical—"only" managed to double its profits between 2014 and 2024. By contrast, the company's "System Solutions" division, which was more flexible and sector-agnostic, saw its profits grow fifteenfold in the same period. This early realization laid part of the foundation for Röko: to build

a compounder that could invest across sectors, borders, and business models, as long as the quality of the business and management is right.

Unlike acquirers with a narrow focus on single verticals, Röko looks broadly across industries—from medtech to premium apparel, from craft beer to industrial distribution. The approach offers flexibility, allowing Röko to choose from a much broader universe of companies, without the constraints of single-exposure companies having to buy assets due to legacy constraints. The world is Röko's oyster market, and as Warren Buffett puts it in Berkshire Hathaway's 2014 annual letter: "if the conglomerate structure is used judiciously, it is an ideal structure for maximizing long-term capital growth." We believe Röko resembles this.

This wide funnel has another benefit: optionality. By looking across industries and geographies, Röko avoids overpaying in hot sectors and has a much larger pool of potential targets. As Karlsson says, "If you're stuck in one sector, you're eventually forced to buy bad companies—just to stay busy." Röko avoids this trap by design.

A common feature among acquisition-driven compounders that successfully operate with a broad mandate, such as Röko, is that they not only acquire high–quality companies but also find high-quality, performance-driven management teams. The idea is that like-minded individuals—or in this case, also businesses—naturally gravitate toward each other. Given Röko's high performance expectations, in combination with Fredrik Karlsson's three-decade experience, proves valuable in avoiding the purchase of "average" businesses. Likewise, "average" type of entrepreneurs not prepared to tuck into Röko's culture will typically not want to sell to Röko—and ultimately will not make it through the process. It fosters a self-selecting meritocratic culture, which is what sets Röko apart.

Röko also differs from other acquisition-driven compounders since it acquires both business-to-business (B2B) and business-to-consumer (B2C) companies. Röko views its exposure to B2C as an advantage, providing diversity and exposure to different economic cycles compared to B2B businesses. To date, they have invested in over 30 businesses, including:

- Rocket Medical – a UK-based medtech manufacturer of disposable surgical devices
- Oppigårds Bryggeri – one of Sweden's most prominent craft breweries
- Ekstralys – a leading Nordic player in vehicle lighting and accessories
- Addedo – a finance-focused software and consulting business

Furthermore, in addition to assessing the individual qualities of each business, we believe it is also important to evaluate Röko's high-performing managers, who have significant skin in the game since Röko typically allows sellers to retain a minority ownership of 20-30%.

A Culture of Trust, Not Control

Röko is not just a collection of companies. It is a philosophy of decentralization, autonomy, and mutual trust rooted in the way Fredrik Karlsson built Lifco.

Each company in the Röko portfolio retains complete operational independence. There are no central ERP systems, no group-wide HR policies, and no top-down synergy programs. Röko only implies strict financial requirements, including a monthly Excel sheet with a P&L, balance sheet, and cash flow, as well as the transfer of excess liquidity to the Röko treasury. Beyond that, Röko's central office (a lean team of just eight people) stays out of the way, but is quick to react when performance deviates.

This minimalistic approach is not about ideology—it is about performance. Röko believes great people build great companies. By leaving founders and managers in charge, Röko preserves their

entrepreneurial energy. Incentives are aligned through ownership since in nearly every deal, the CEO or founder retains 20–30% of the business post-acquisition. Karlsson is obsessed with finding the right founders, operators, and managers—and then letting them get on with it. In his words: "If they love what they do, they'll stay. And if they stay, the business will continue to grow."

This cultural lens is also key to how Röko handles succession. When a founder wishes to retire, Röko often promotes internally. If that's not possible, they conduct a thoughtful search. But one thing is clear: industry knowledge is helpful, but the ability to lead and build trust is non-negotiable. Röko's founder-friendly culture ensures that most leaders choose to stay on long after the ink has dried.

While traditional private equity models often introduce new management teams and three-year turnaround plans, Röko offers something different: a permanent home, long-term capital, and a trusted partner. This makes them a preferred buyer in competitive processes.

The Numbers Speak for Themselves

Since its inception, Röko has executed more than 30 acquisitions across Europe. Röko generates SEK 6.4 billion in revenue and SEK 1.3 billion in EBITA, with a 20% margin. It reflects not only strong underlying performance but operational improvements driven by aligned and motivated leadership at the portfolio level.

Röko typically pays a maximum 8 times EBITA for new companies, and targets operating businesses with minimal to no capital expenditure requirements. The return on operating capital employed in most portfolio companies exceeds 100%, which means that pursuing organic growth is highly profitable. Röko's own ROCE additionally continues to climb year over year as the company matures and the companies it owns start to contribute organically to earnings.

Importantly, Röko avoids leverage-heavy dealmaking. Debt is used prudently and remains well below 3x EBITDA. It leaves the company with ample capacity to fund future acquisitions from internal cash flow generation.

The Valuation and Optics of Röko

Given that the company is sector-agnostic and thus has the opportunity to deploy a large part of its cash flow to high returns for many decades to come, we believe Röko has a very long runway of growth. While the future might be uncertain in the short term, Röko has all the right ingredients to compound its earnings at double-digit rates for many years. Even though on current profits it may not look cheap in the short-term, we expect to share to generate strong future returns as profits and free cash flow per share continue to compound for a long time.

What We Like About Röko

From an investor's perspective, we believe Röko stands out for a few important reasons:

- Experienced founder team with an extraordinary track record and high personal ownership
- A model that blends permanent capital with entrepreneurial autonomy
- Röko's preference for quality over quantity.
- Disciplined capital deployment in profitable, cash-generating businesses
- Sector-agnostic flexibility that enables intelligent capital allocation and growth durability
- A decentralized culture that champions performance and meritocracy

In many ways, Röko reminds us of Berkshire Hathaway—but for small private European businesses. The ambition is clear: to build a high-quality, compounding machine that lasts for generations. With a long runway ahead, a proven playbook, and founders still hungry to build and create shareholder value, we believe Röko is just at the beginning of its journey.

The Compounders – From Small Acquisitions to Giant Shareholder Returns

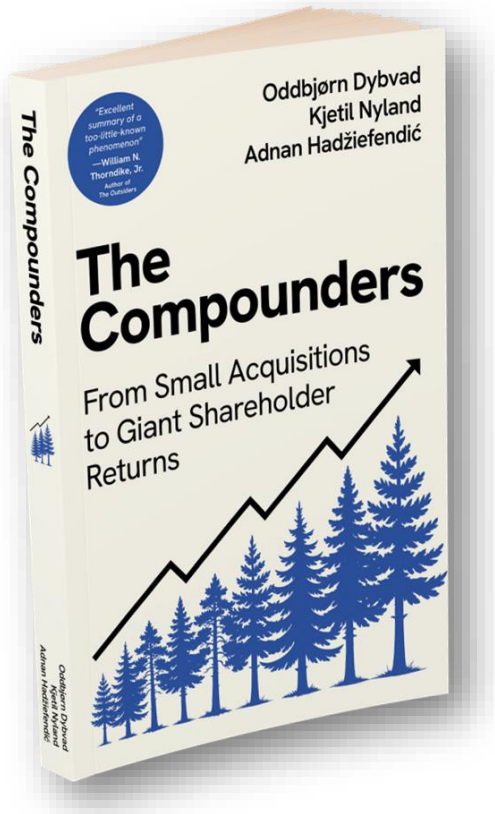
In September, the team published “The Compounders – from Small Acquisitions to Giant Shareholder Returns.”

When writing the book, we aimed to create insights and value for operators and investors, focusing on Acquisition-driven Compounders, primarily in the Nordics. We are overwhelmed by the book's reception from a much broader audience. The feedback from all areas of finance, spanning private equity companies, venture capital, equity research, academia, and private investors worldwide, has been above all expectations. We want to thank everyone for the positive feedback.

The Compounders tells the untold stories of nine extraordinary companies that have quietly rewritten the M&A playbook. With disciplined capital allocation, high-performing decentralized cultures, and a commitment to the long term, these companies have turned modest profits and small acquisitions into generational wealth, delivering returns that rival the greatest legends of investing. Drawing on nearly two decades of research and hands-on investing experience, ”The Compounders” reveals how these companies think, operate, acquire, and endure over time.

From Constellation Software's 375× and Heico's 1,100× return under the Mendelson family's ownership, to Sweden's Bergman & Beving (and its spin-offs) compounding over 7,500×—”The Compounders” unveils a profound truth: if you build the right organizational structure and stay the course, time becomes your greatest superpower.

You can find more information about the book here: Link



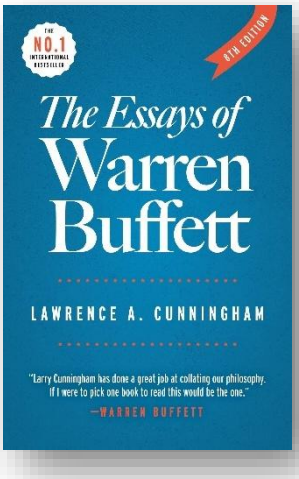
”Excellent summary of a too-little-known phenomenon.”
William N. Thorndike, Jr.
Author of The Outsiders

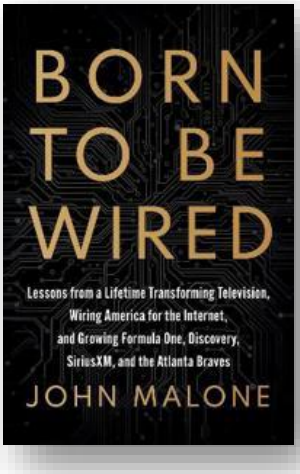
"All you need to know to invest successfully in these compelling business models."
Christopher Mayer
Author of 100 Baggers

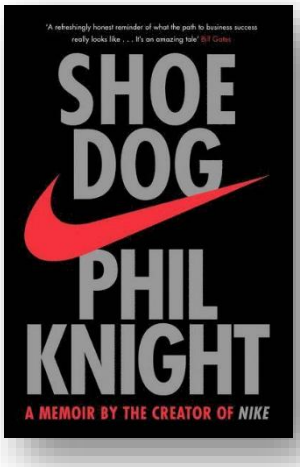
““For anyone seeking to understand how disciplined capital allocation and decentralized decision-making can create lasting value…”."
Lawrence Cunningham
Director, John L. Weinberg Center for Corporate Governance, University of Delaware; editor and publisher, The Essays of Warren Buffett

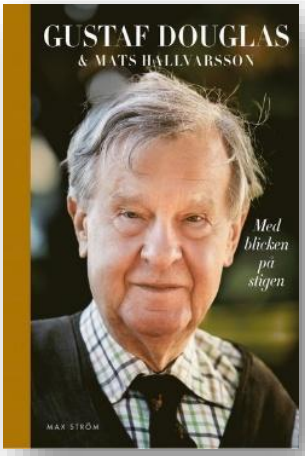
“Highly rewarding and insightful … deepens your understanding of what truly drives value creation in companies over time."
Adam Gerge
Private investor and co-founder of Didner & Gerge fund management company

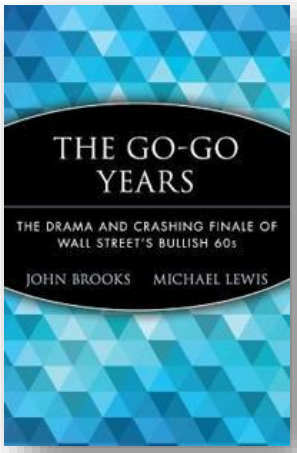
Selection of books we have read and re-read this year

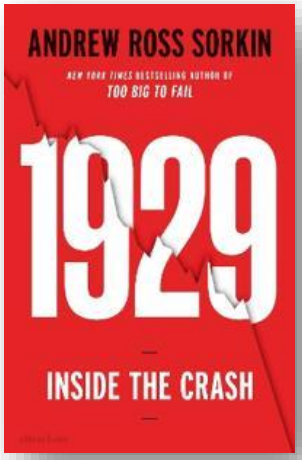


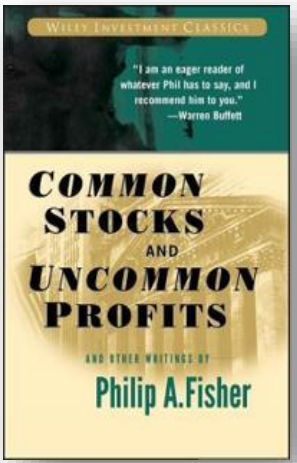


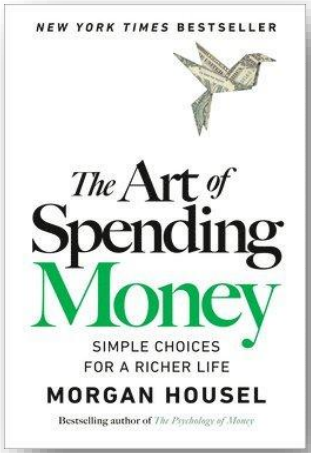












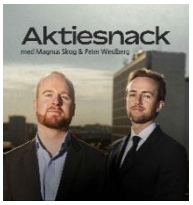
Podcast and other resources

During the first half of 2025 we participated in "Nordnetpodden", a Norwegian podcast about investments. We shared insights into REQ's strategy. In Norwegian only. Link

During the 2nd half of 2025, the team participated in the ”Investing by the Books” podcast. In the podcast, we dive deep into our book ”The Compounders”. You can find the podcast here: Link

We also share more perspectives on our strategy in another podcast by Troy Asset Management ("Far from the finishing post"). You can find the podcast here: Link

The team participated in the Swedish podcast "Aktiesnack" (Swedish only), where we talk about acquisition-driven compounders through a Nordic lens: Link



Our research deck "A Deep Dive into Shareholder Value Creation by Acquisition-driven Compounders" can be found here: Link

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