FLAGSHIP
ASSET MANAGEMENT

Quarterly Telescope Q1 2025

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01

We are a global specialist investment boutique

Flagship is a specialist global asset manager founded in 2001.

We are 100% independent and fully owned by staff and directors.

Our mission is to be the navigators and global authority of your complete investment future, wherever it may lead.

02

We manage global portfolios in three distinct strategies

Global Flexible | Global Fund of Funds | Global Equity

We believe in a focused approach to fund management

Our longest running Funds have track records spanning over two decades

03

We are long term investors who manage diversified portfolios

We use a dynamic investment strategy and active risk management to build robust, diversified equity portfolios.

Our unconstrained approach allows us to navigate diverse market conditions and identify opportunities wherever they arise.

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The Flagship Global Investment Team

Philip Short BSc (Maths), CFA

Philip is a fund manager of the global funds at Flagship and brings specialist macroeconomic expertise to the global team. Philip has gained 20 years' experience in the industry at JP Morgan, Fairtree Capital and Old Mutual as an analyst and portfolio manager. He completed his Bachelor of Science in Mathematics at the University of Pretoria and is a CFA charter holder.

James Hayward BEng (Civil), CFA

JD is a fund manager of the global funds at Flagship, having joined in 2021 as an equity analyst. At the completion of his degree, JD worked in the engineering and fintech start-up industries while pursuing further studies in investments. JD holds an Engineering degree from Stellenbosch University and is a CFA charter holder.

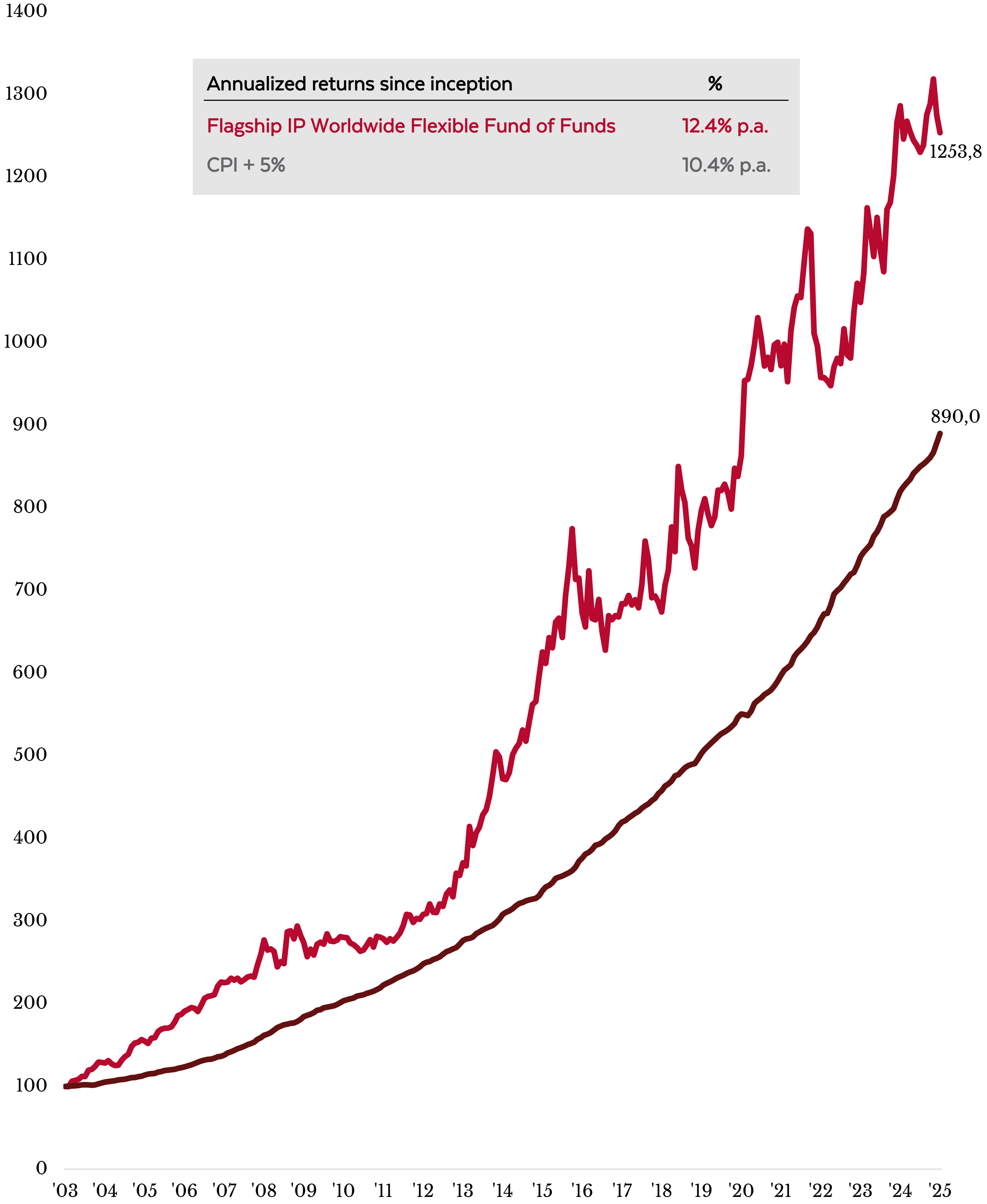
Paul Floquet CA (SA), CFA

Paul is a fund manager of the global flexible strategies at Flagship, as well as portfolio manager of the Flagship IP Balanced Fund. He qualified as a chartered accountant in 1995 with Deloitte and Touche and gained international investment experience with JP Morgan and Merrill Lynch. He became a portfolio manager and director at Flagship in 2004. Paul is a CFA charter holder.

The Power of Long-term Compounding

The **Flagship IP Worldwide Flexible Fund of Funds** (net of all fees) vs. SA CPI +5%

from 3 April 2003 to 31 March 2025 (22 years)



Annualized returns since inception	%
Flagship IP Worldwide Flexible Fund of Funds	12.4% p.a.
CPI + 5%	10.4% p.a.

A Remarkable Career: Winston Floquet

In the past 16 years, the world has seen three contrasting US presidents: Obama, Biden and Trump. Obama was known for his calm and measured demeanour, Biden could be described as benignly absent, and Trump is seen as brash and confrontational. While Obama focused on international diplomacy and environmental protection, Trump pushed protectionism and has thrown the ESG baby out with the polluted bathwater. The presidential style of each of these men has had, and will continue to have, far reaching consequences for America and the rest of the world.

The nature of our leaders is important because culture flows from the top down. Core qualities of transparency, discipline, accountability and acting with integrity remain alive and flourishing at Flagship. Happily, what follows is neither a eulogy, nor an article of fiction. It is, simply, an account of a remarkable career, that of our chairman and co-founder, Winston Floquet.

Some interesting, possibly lesser-known facts about Winston include his initials, which are, in today's parlance, rather unfortunately, WTF - Winston Theodore Floquet. The name Winston, which dates back as far as the ninth century, is derived from ye Olde English words 'wynn' meaning joy or wine and 'stan' meaning stone or settlement. Together we have 'joyful stone' or 'wine settlement', quite appropriate as Winston is known to enjoy a glass of chilled chardonnay against the backdrop of the Constantia winelands.

In exploring his key milestones, we see the vines of discipline and diligence interwoven in his academic results. He invariably placed in the top three during his senior years at school and achieved top marks in all but one of the four years of his accounting course at Natal University. Appointed a 'scholar' of the university after his first-year results, Winston retained this scholarship for the remaining three years. In his final chartered accounting examination, which had a 59% national pass rate among 640 candidates, Winston was one of only 8 students to be awarded honours. He achieved this in 1963, at the age of twenty-one. Three years later, Winston rounded off his qualifications with an MBA from the University of Cape Town, promising himself that he would one day return to the beautiful Cape winelands, a promise that took him exactly thirty-four years to keep, finally returning in January 2001 to Constantia.

The nature of our leaders is important because culture flows from the top down.

Following his career path, there are some interesting twists and turns, including the mandatory five years of articles, followed by two years of auditing in London, and a short but pivotal role working for Edgars Stores. In retrospect, this was a key time in both his personal and professional life, as it was during this period that he encountered his two great loves: Wendy, and the Markets.

As assistant to the managing director of Edgars, Winston was transferred to Werff Bros, a nine-store upmarket retail clothing chain based in London, to install the Edgars financial system in what was then a flailing UK subsidiary. He was meant to only stay in London for two months, an important timeline as, prior to the move, he had met Wendy, who was to become his constant companion in life for fifty-seven years, yielding a wonderfully large family of five children and eight grandchildren.

Winston's beloved Constantia

The two months of systems implementation turned into six months of rather tedious financial and stock control overhaul. Keen to remain stimulated during this prolonged period of separation, Winston became increasingly interested in the UK financial markets, the mergers and acquisitions boom, (these were the days of the great Jim Slater, the buccaneering 1970s financier and asset stripper) and, in particular relation to the stock market, how brokers distributed their research to institutions – the means by which they were rewarded.

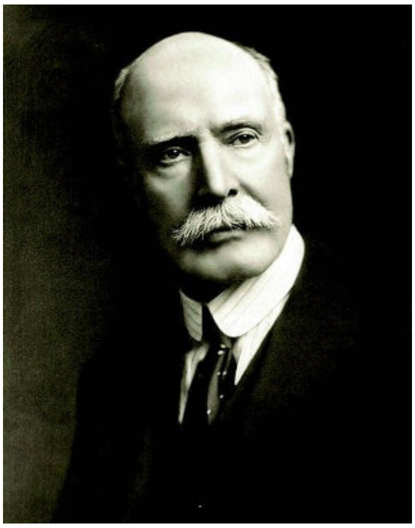
Winston's interest in the merchant banking field resulted, on his return to Johannesburg, in him leaving Edgars and joining City Merchant Bank. However, the alluring potential of the UK broker/client model caused Winston to outline his beliefs to a friend from his accounting days, who was then a partner at a small broking house, Martin & Co. Winston described the practice he noted when in London, where UK brokers produced high-quality research on listed companies and, depending on the quality of the ideas they generated, were given the buy, or sell orders for the stock concerned, thus building their businesses and reputations on the quality of research they produced. In South Africa, apart from a few one-page newsletters which commented briefly on the results of listed companies, there was no in-depth research produced at all. Winston's friend agreed there was indeed a gap in the South African brokerage market and outlined the UK model to his senior partner, Alistair Martin. Winston's proposal, that the UK model was the future for South African brokerage firms, convinced the senior partners of Martin & Co. and he was offered the job of implementing this strategy.

Upon his appointment, Winston instantly set about preparing the first of the in-depth reports that eventually transformed Martin and Co. into a research powerhouse.

Upon his appointment, Winston instantly set about preparing the first of the in-depth reports that eventually transformed Martin and Co. into a research powerhouse. High quality graduates were steadily added to his team to broaden the coverage of the many diverse sectors of the market. A few years later, the Financial Mail started an institutional research survey, requesting institutions to rate brokers over a wide range of market sectors from gold mines to retailers, providing recognition for both individual analysts and the firms which employed them. of the firm and propelling its growth accordingly.

Accumulating the results of each category enabled the best research houses to be ranked. Martin & Co. came out tops in the initial survey and went on to be rated the number one research house in South Africa for eighteen consecutive years, bolstering the size and prestige of the firm.

Yet. despite Martin & Co's research prowess, the firm still suffered from the lack of a dedicated offshore broking house with large lines of stock. Competing broking firms all had long-established trading partners overseas, making it difficult for UK or US institutions to reward Martin & Co. appropriately for its research services. Commissions on deals between SA brokers and their offshore partners were paid into a 'joint account' and shared equally on a 50:50 basis. The practice was deeply rooted and, unsurprisingly, there were no South African brokers with foreign branches, as this would have resulted in them competing with their lifelong UK partners. The only solution was for Martin & Co. to open an overseas branch itself, a feat seeming impossible in 1989, just months after the Rubicon speech which saw tightening exchange control measures, the withdrawal of foreign banks and a collapsing rand.



Robert Melvin Fleming, a Scottish financier, philanthropist, and dominant personality in asset management at the end of the nineteenth century, founded the merchant bank Robert Fleming & Co. in 1873.

Never one for complacency, Winston pondered how to get permission from the Reserve Bank and the Stock Exchange committee to open a foreign branch. Realising that he would need to present a justifiable solution, Winston decided to approach the Reserve Bank for permission on the basis that Martin & Co's offshore firm would have a 50:50 ownership structure, effectively the same as the long-standing 'joint account' practice approved by the authorities. In what felt like a coup, it took just two meetings to secure Reserve Bank approval. The JSE, however, proved much harder to win over. Three presentations, and a positive ultimatum from the Exchange's independent executive president later, Winston's proposal was finally passed, enabling Martin & Co. to open their London branch in 1989 and a second branch in New York in 1991.

Not only did the local presence in London and New York generate considerable additional broking revenues but also proved extremely beneficial for the firm's corporate activities as sponsoring brokers to many top South African companies. Offshore listings, share placements and other corporate activities then also became an important additional source of income. It was not all plain sailing though, as anti-apartheid pressures remained a serious headwind. At one time, the holding company of Martin's offshore partner planned a merger, but its new partner made the disposal of the South African business a precondition of the deal. On another occasion the offshore entity had to change its name to Copthall Martin to protect the reputation of the UK owner, 'Copthall' being the name of the street in London from which the offshore firm operated.

The final partner was the UK firm Robert Fleming & Co, resulting in a name change to Fleming Martin. This marked an expansion into Africa through the purchase of 50% stakes in the leading brokers of Namibia, Botswana, Ghana, Zimbabwe and Mauritius. The purpose of this was to provide a one-stop offering to offshore investors in the African leg of their emerging market funds. The combination of its top-rated research rankings, its offshore presence and corporate finance capabilities powered Martin & Co. to become the largest broker on the JSE in terms of market share, a notable achievement. The Johannesburg staff complement grew to over 200 and, if one includes the Cape Town, Pietermaritzburg, London and New York branches, to over 300 people.

In 1998, when the rules changed allowing offshore brokers to acquire equity interests in South African firms, Robert Fleming & Co. bought the remaining 50% of Martin & Co., renaming it Fleming Martin. (The asset manager and merchant bank, Robert Fleming & Co., founded in Scotland in 1873 by Robert Melvin Fleming, Scottish financier and philanthropist, was subsequently sold to Chase Manhattan Bank for over $7 billion in 2000.)

Three years after this acquisition, Winston finally returned to Cape Town, settling into the Fleming Martin offices in Mowbray. It was here that he partnered with Simon Hudson in establishing Flagship Asset Management, which commenced business on 2 July 2001.

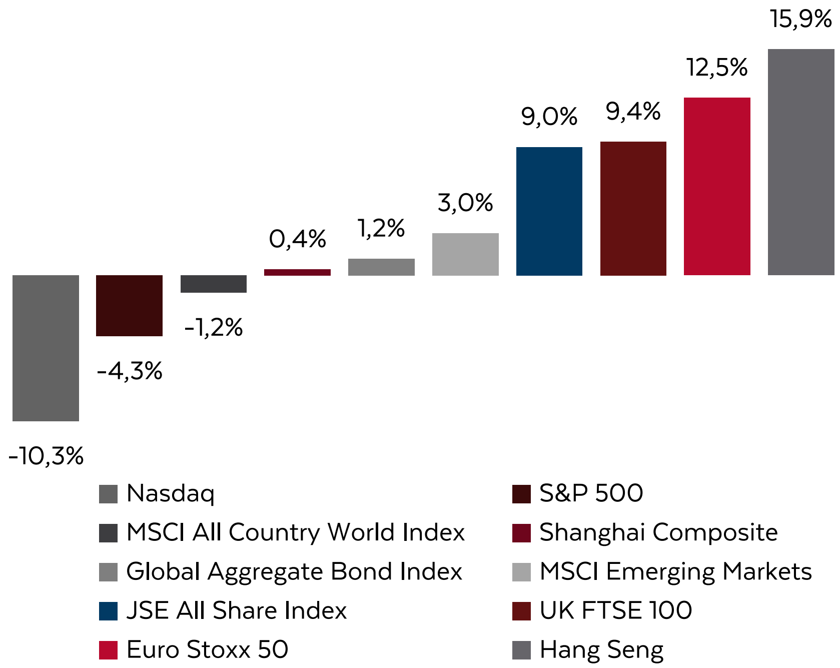
Together, Winston and Simon set up two worldwide funds, an international fund registered in Guernsey, and a Regulation 28 pension fund unit trust. All funds, bar one, were managed by Winston, subsequently winning seventeen Raging Bull and Standard & Poor awards for top performance in their categories until his retirement, twenty years later, in 2021. Leaving a performance culture in his wake, two further Raging Bull's and one FundHub award have been won by Flagship funds since.

As Flagship anticipates celebrating its twenty-fifth birthday in July 2026, and Winston his eighty-fifth birthday the month following, we look back on our heritage, noting what has endured and what continues to flow from the top. In the publication of our quarterly Telescopes, we maintain our roots in research. Transparency continues to thrive in our open-door policy. As a partnership of ethical individuals, we hold each other accountable. The opportunity to act as caretaker of our clients' financial future is one that we hold dearly. In celebrating a remarkable career, we are reminded of what has been achieved by our chairman, and we strive to continue this living legacy.

As Flagship anticipates celebrating its twenty-fifth birthday in July 2026, and Winston his eighty-fifth birthday the month following, we look back on our heritage.

Global Market Commentary

Chart 1: YTD Global Index returns in USD (December 31, 2024 to March 31, 2025)



While markets faltered under increasing policy uncertainty, gold stepped to the fore, proving its worth as a store of value during volatile times.

Global equity markets delivered widely varying results during the first quarter of 2025. There was a delta of 26.2% between the best and worst performing index in the range, above. Contrast this with a much smaller variance of 16.7% during the previous quarter.

Pulling on the short end of the straw were US markets, which experienced a meaningful pullback after two years of blockbuster returns. The tech-heavy Nasdaq was hardest hit, declining by 10.3% during the quarter. The benchmark S&P 500 fared slightly better, losing only 4.3%. On the opposite side of the spectrum, we find the Hong Kong's Hang Seng index, which returned an impressive 15.9% during the quarter, outpacing the 2nd placed Euro Stoxx 50 which returned 12.5%.

It is worth noting that the above returns are all stated in USD, which deteriorated during the quarter compared to the Euro, British Pound, Japanese Yen and Chinese Renminbi. The returns of the Euro Stoxx and FTSE 100 are lower by roughly 5% and 3%, respectively, when measured in their local currencies.

Stepping away from the equity market, commodities deserve a special mention. While markets – especially in the US – faltered under increasing policy uncertainty, gold stepped to the fore, proving its worth as a store of value during volatile times. Gold bullion gained 19% during the quarter and is now up 40% over the last year. Silver and copper also performed strongly, gaining 17.9% and 25% respectively during the quarter.

Lastly, while technically not part of Q1, it would be remiss not to mention the market volatility during the first 10 days of April. It started with one of the steepest two-day declines in history, as the S&P lost more than 10% over the sessions, putting the steepness of the decline on par with the Lehman Brothers collapse in 2008, and the COVID plunge in 2020. The S&P went on to record two more large losses, marking its biggest four-day loss since the 1950's. There was, however, a significant recovery as the Nasdaq gained more than 12% in a single day, its best session in 24 years, while the S&P also recorded a strong session of 9.5%, its largest single day gain since 2008.

We expect that much of this volatility will spill into the rest of the second quarter.

Trump, Tariffs and Turmoil

"A week is a long time in politics."

- Harold Wilson

The first quarter of 2025 has been eventful, to say the least. On January 20, Donald Trump was inaugurated as the 47th President of the United States. By April 3, he had already signed 111 executive orders, signaling an active start to his administration.

Soft Data Points to Growing Consumer Concerns

In February, bearish economic signals began emerging from the U.S. The University of Michigan's Consumer Sentiment Index, which gauges confidence in personal finances and broader economic conditions, revealed a worrying trend: American consumers are increasingly anxious about their current and future financial well-being.

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Chart 2: US Consumer sentiment (January 2015 to January 2025)

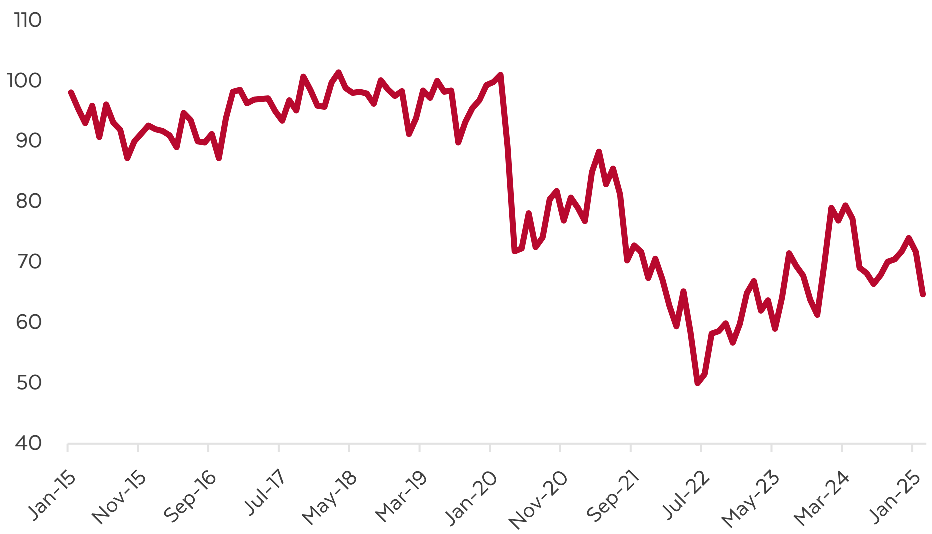
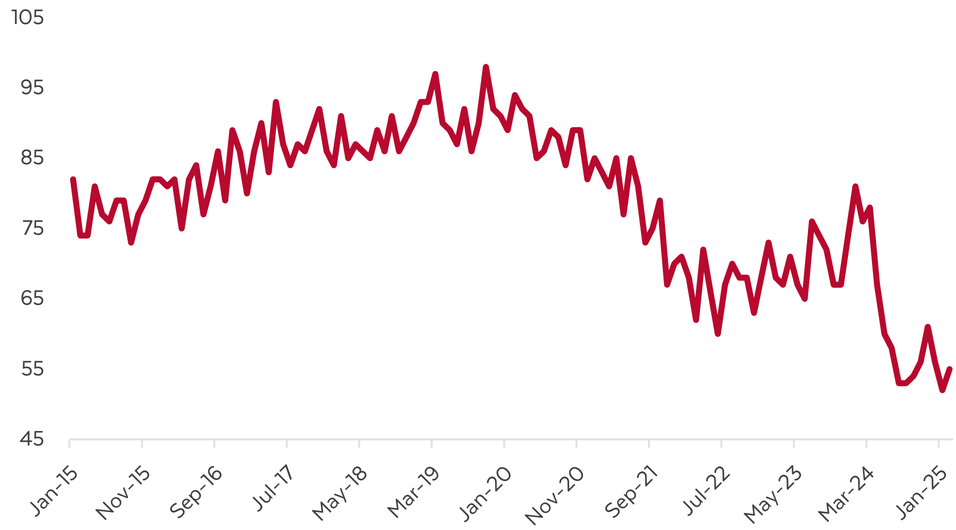


Chart 3: US Inflation expectations (January 2015 to January 2025)

Chart 4: US Expected change in real income (January 2015 to January 2025)



One key metric, the "Expected Change in Business Conditions", reflects whether consumers anticipate improvement, stagnation, or deterioration in economic growth, corporate profits, and labour markets over the year ahead. Unlike assessments of current conditions, this forward-looking measure influences spending, saving, and investment decisions, making it a critical indicator of economic momentum.

Chart 5: US Expected change in business conditions in 1 year (January 2015 to 2025)

Adding another layer to the economic outlook, U.S. Treasury Secretary Scott Bessent has been vocal about his fiscal strategy.

While we don't base asset allocation decisions solely on soft data like this, it helps shape our focus and forms part of the broader market puzzle. What made these findings particularly relevant was that they were collected before the Trump administration introduced new tariffs in early April, a development that could further weigh on sentiment.

The Treasury's 3-3-3 Plan and a Looming "Detox" Period

Adding another layer to the economic outlook, U.S. Treasury Secretary Scott Bessent has been vocal about his fiscal strategy. Before taking office in January, he unveiled his 3-3-3 policy:

- Increase U.S. oil production by 3 million barrels per day (oil-equivalent).
- Achieve 3% real GDP growth.
- Reduce the federal deficit from Biden-era levels of 7% of GDP down to 3%.

On March 1, Bessent remarked:

"We're seeing the hangover from the excess spending of the Biden years. In 6 to 12 months, it becomes Trump's economy."

He also warned of a "detox period" as the economy transitions from public to private sector-driven growth:

"The market and the economy have just become hooked. We've become addicted to this government spending. And there's going to be a detox period."

This outlook added to the current soft data we were seeing. While the administration aims to stimulate private investment, the transition may take time, and weaker growth could follow.

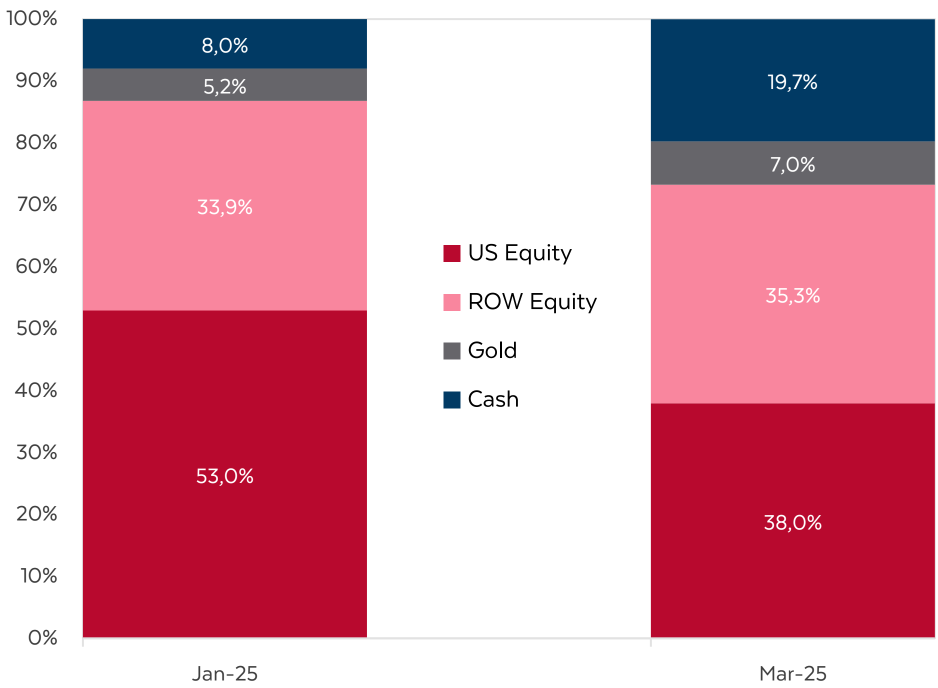
If inflation drives US bond yields higher amid ongoing equity market volatility, stock and bond prices could face significant declines.

Portfolio Adjustments: Reducing Risk, Preserving Flexibility

In response, we made strategic shifts in our Flagship IP Worldwide Flexible Fund, as an example of our general asset allocation:

- Cut total equity exposure from 86.8% to 73.3%, and reduced US exposure from 53% to 38%.
- Maintained a large position in gold, a long-standing hedge, currently at 7%.
- Continued avoiding bonds, as new tariffs could stoke inflation. pressuring bond prices, though lower oil prices may provide some offset.

Chart 6: Flagship IP Worldwide Flexible Fund asset allocation changes during 1Q25



Q2 Outlook: Inflection Points Ahead

The second quarter could be pivotal. With escalating global tariff tensions, we could soon reach an inflection point. We're closely monitoring U.S. bond yields as an indicator for all asset classes: if inflation drives US bond yields higher amid ongoing equity market volatility, stock and bond prices could face significant declines. When these two asset classes move in tandem (are correlated), it is usually doesn't end well.

Fortunately, we've retained ample cash reserves to capitalize on opportunities as they arise.

Strategy Performance

The performance of the Flagship strategies over Q1 '25 and 1 year to 31 March 2025, net of fees, is shown below:

Fund of Funds Strategy	Q1 '25	%Δ 1YR
Flagship IP Worldwide Flexible Fund of Funds (ZAR)	-2.7%	-2.5 %
Flexible Strategy	**Q1 '25**	**%Δ 1YR**
Flagship International Flexible Fund (USD)	-4.7%	-5.4%
Flagship IP Worldwide Flexible Fund (ZAR)	-4.8%	-0.1%
Global Equity Strategy	**Q1 '25**	**%Δ 1YR**
Flagship Global Icon Fund (USD)	-3.3%	1.8%
Flagship IP Global Icon Feeder Fund (ZAR)	-5.8%	-1.9%

Currency moves again had a sizeable impact on performance as the ZAR strengthened by 2.8% vs the USD during the quarter.

The Flagship Global Icon Fund returned -3.3% during the quarter in USD, trailing its MSCI ACWI benchmark which returned -1.3%. Although the fund outperformed its benchmark during January and March, a sizeable pullback during February hurt performance for the quarter. The top performers were Blue Label Telecoms, Rolls Royce Holdings, and Euronext, all of which returned in the region of 30% during the quarter. The largest detractors during the quarter were Nvidia and Broadcom. It is worth nothing that both these positions are much smaller than in the benchmark index, thus limiting their negative attribution.

The Flagship IP Worldwide Flexible Fund (ZAR) returned -4.8%, its performance hurt by the Rand, which strengthened by almost 3% versus the USD during the quarter. As with the global equity fund, the top performers were Blue Label Telecoms, Rolls Royce Holdings, and Euronext. The largest detractors were Nvidia, Broadcom, and the fund's USD cash position.

The top performers were Blue Label Telecoms, Rolls Royce Holdings, and Euronext, all of which returned in the region of 30% during the quarter.

It is noteworthy that the biggest contributors to performance were all European based stocks, while the main detractors were all US-based.

The Flagship IP Worldwide Flexible Fund of Funds (ZAR) returned -2.7% during the quarter. As was the case with our other Rand denominated funds, the strength of the Rand had a negative effect on performance. The top performing fund for the quarter was the GQG Partners Emerging Markets Equity fund. It is notable that this fund was the only one to end in the green, as most funds struggled during the quarter. The largest detractor was the Guiness Global Innovators Fund. Being a long-term outperformer, its recent underperformance was not surprising, given this fund fits squarely within the growth bracket, with close to 50% of holdings falling withing the IT sector.

As mentioned in the market performance segment of this Telescope, gold bullion enjoyed a strong quarter. Given its sizeable allocation across our funds of between 6%-8%, it was one of the top contributors across the board.

Natural Gas in an Evolving US Energy Landscape

By JD Hayward

- ⇒ Globally, data centre electricity consumption has grown by around 12% per year since 2017, more than four times faster than the rate of total electricity consumption. As a result of AI uptake, it's set to rise even faster in the years ahead.
- ⇒ Electricity demand from AI-optimised data centres is projected to more than quadruple by 2030.
- ⇒ A diverse range of energy sources will need to be tapped to meet data centres' rising electricity needs, with renewables and natural gas set to take the lead due to their cost-competitiveness and availability in key markets.

Today, the US energy sector is more diverse and dynamic than ever, shaped by a mixture of political dynamics, market forces and technological advancements.

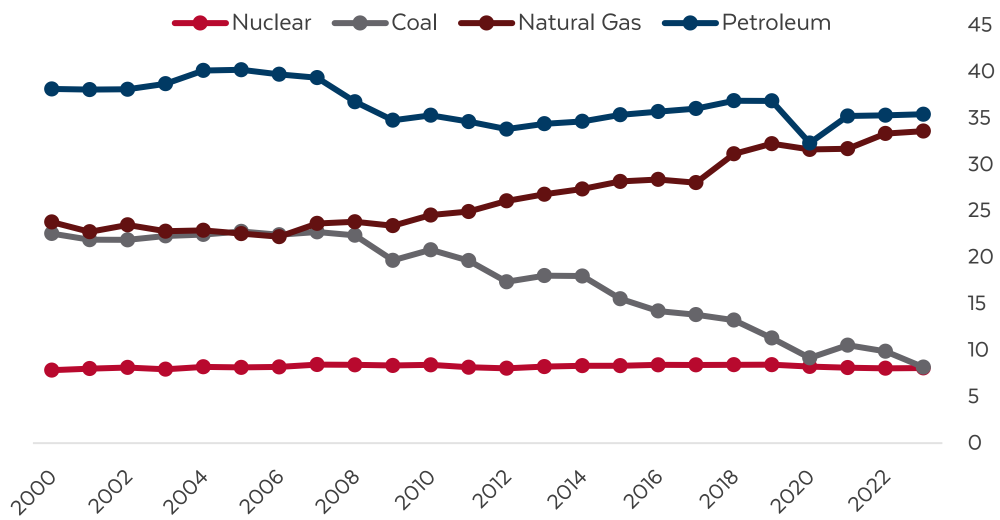
The United States has undergone several significant shifts in its energy landscape over the past two centuries. From wood in the early 19th century to the widespread adoption of coal as the dominant fuel source in the late 1800's, powering industrialization and the expansion of railway networks. The early 20th century saw the rise of oil and natural gas, driven by the automobile revolution and advancements in electricity generation. By the mid-century, nuclear power began to gain traction as an alternative energy source.

During the latter half of the 20th century, the US energy landscape was characterized by a heavy reliance on oil imports, particularly after the oil crises of the 1970's. This period prompted efforts toward energy independence, leading to policies that encouraged domestic production and exploration. Coal remained a major player in electricity generation until environmental concerns and regulatory changes in the early 21st century spurred a shift toward cleaner energy sources, including renewables and natural gas.

The Status Quo

Today, the US energy sector is more diverse and dynamic than ever, shaped by a mixture of political dynamics, market forces and technological advancements. Petroleum products, mainly for fuelling the transportation sector and general industrial purposes, and natural gas, mainly for electricity generation, heating, and liquified natural gas exports, are the primary fuel sources in the US, with gas consumption levels rising closer to that of petroleum over the last 2 decades.

Chart 7: US Energy consumption by source in quadrillion Btu, 2000 to 2023



When considering usage only for the purpose of electricity generation, natural gas has surpassed coal as the leading source in the US, accounting for nearly 45% of all US electricity. Its dominance can be ascribed to abundance of supply, cost efficiencies, and lower carbon emissions – gas emits about 50% less CO2 than coal to generate the same amount of electricity. The use of renewables, mainly wind and solar, is also rapidly expanding due to government incentives (at least under the previous administration), technological advancements, and decreasing costs.

Developments over the last decade have positioned the US as a leader in global energy production, having become the world's top producer of both oil and natural gas.

Despite progress in renewable energy, fossil fuels still account for a significant portion of the nation's energy mix. According to the US Energy Information Administration (EIA), petroleum remains the largest energy source, largely due to transportation needs, while natural gas continues to grow in importance. Meanwhile, coal's share has declined drastically due to market competition and stringent environmental regulations.

Developments over the last decade have positioned the US as a leader in global energy production, having become the world's top producer of both oil and natural gas. The introduction of hydraulic fracturing (fracking) has unlocked vast reserves of shale gas across swathes of the US, making the country a major energy exporter.

The Rise of Natural Gas

The prominence of natural gas in the US energy mix is a relatively recent phenomenon, largely driven by the shale revolution. A simplified timeline for context follows:

- 2000's: Coal is the dominant energy source, providing more than 50% of US electricity.
- 2008 – 2010: Fracking and horizontal drilling led to a natural gas boom, making it much cheaper and readily available.
- 2016: Natural gas officially passes coal as the leading electricity source, enabling the US to become a net exporter of natural gas for the first time in c.60 years.
- 2020 onwards: Natural gas consistently used to generate over 40% of US electricity – with coal now in the mid-teens.
- 2023: US surpassed Qatar and Australia to become the world's largest liquified natural gas exporter. Expansion continuing with more pipelines and more LNG terminals.

Technological advancements in horizontal drilling and hydraulic fracking have enabled the extraction of vast reserves of natural gas trapped in shale formations, particularly in states like Texas, Pennsylvania, and North Dakota.

This surge in production has positioned the US as the world's top producer of natural gas as well as LNG (liquified natural gas), a mantle it received in 2023 after it overtook Qatar and Australia in LNG exports. Between them, these 3 countries account for more than 50% of global LNG supply.

The global oil market catches all the airtime, with people often overlooking the size of the gas market, especially in SA where natural gas is not widely used as an energy source. The gas market is itself a behemoth at around 400 BCFD (billion cubic feet per day), roughly 2/3 the size of the global oil market. At around 120 BCFD, the US is one of the largest users of natural gas, with the other main centres of demand being China, Japan, Korea, and India. This Asia-pacific group of countries is particularly important to the industry's future, as they are expected to account for more than 90% of demand growth through 2030, according to Bernstein research.

Natural gas has several advantages over other fossil fuels. It burns cleaner than coal and oil, producing fewer greenhouse gas emissions and pollutants. This makes it a preferred choice for power generation, industrial applications, and residential heating. Natural gas-fired power plants also offer flexibility, as they can quickly ramp up or down to complement intermittent renewable energy sources like wind and solar.

Naturally, the gain of one source of fuel often leads to the demise of another. The rise of gas was somewhat of a death knell for the US coal industry, where jobs fell from around 90 000 in 2012 to around 37 000 in 2023. Gas-related industry jobs grew, but net-net it was a large loss due to lower manpower requirements for natural gas.

The Effect of Politics on Changing Energy Policy

> The current administration has made its goals clear, adopting a pro-fossil fuel stance, bolstering domestic energy production and easing regulations.

Energy policy in the US is highly influenced by political dynamics, with shifts in administration often leading to changes in regulation. Republican administrations have generally favoured fossil fuel development, advocating for deregulation and increased production. In contrast, Democratic administrations have emphasized climate action, renewable energy incentives, and stricter environmental regulations.

The difference between the Trump administration and the Biden administration clearly illustrates these policy shifts. The 1st Trump administration prioritized energy independence through aggressive oil and gas production, rolling back environmental regulations, and withdrawing from the Paris Agreement. Conversely, the Biden administration set ambitious climate goals, aiming for net-zero emissions by 2050 and rejoining the Paris Agreement.

Natural gas acts as a middle ground whether you proceed with a fossil fuel or renewable energy approach, thus will remain a critical component of the energy transition. While policies are being implemented to curb methane emissions and promote cleaner alternatives, natural gas continues to be viewed as a "bridge fuel" in the shift from coal to renewables.

The current administration has made its goals clear, adopting a pro-fossil fuel stance, bolstering domestic energy production and easing regulations, including:

- Deregulation Efforts: Streamlining permit processes for energy infrastructure projects, thereby reducing delays and costs for natural gas developments.
- Expansion of Drilling and Mining on Public Lands: Policies have been enacted to open federal lands and offshore areas to oil and gas exploration.
- Support for LNG Export Facilities: expediting approvals for LNG export terminals, aiming to enhance the United States' position in the global energy market.

The US natural gas industry is poised for continued growth, both domestically and internationally.

These regulations all form part of the Trump administration's 3-3-3- plan:

1. Increasing energy output by 3 million oil-equivalent barrels per day. (Note that oil-equivalent includes increases in natural gas output).
2. Boosting real GDP growth to 3%.
3. Reducing the budget deficit to 3% of GDP, down from 6% currently.

In rolling out these plans, President Trump recently hosted top US oil executives at the White House, his first sit-down with energy sector leaders since his return to the presidency in January, with discussions mainly aimed at pushing American energy dominance. Some industry participants used this opportunity to convey a warning about the effects of certain other policies, such as steel tariffs and trade disputes with China, which could work against efforts aimed at increasing energy dominance:

- **Tariffs on Steel Imports:** Imposed tariffs have increased costs for pipeline construction and maintenance, affecting the economics of natural gas infrastructure projects.
- **Trade Disputes with China:** Escalating trade tensions have led to retaliatory tariffs, including China's 15% tariff on US LNG, resulting in a significant decline in exports to this crucial market. This has raised concerns about the long-term viability of US LNG in the global marketplace.

Some participants, such as Ed Hirs, energy economist at the University of Houston, believe that Trump's motto of "Drill baby drill" is not the way forward, arguing that prices need to be maintained at steady levels to sustain production, allowing the US to preserve its energy independence and capitalize on export opportunities.

Outlook, Expansion, and Opportunities for US Natural Gas

The US natural gas industry is poised for continued growth, both domestically and internationally. Domestically, natural gas is expected to play a key role in supporting grid reliability as renewable energy expands, especially given the expected surge in electricity demand caused by data centres worldwide, which is set to more than double by 2030 to around 945 terawatt-hours, slightly more than the entire electricity consumption of Japan today. AI is on course to be the most significant driver of this increase.

The international market presents significant opportunities for US LNG exports. With geopolitical tensions affecting global energy supplies, US LNG has become a crucial alternative for countries seeking to reduce dependence on Russian gas. European demand has surged, and Asian markets are also looking to secure long-term LNG contracts. Expanding LNG export infrastructure, including new terminals and pipeline networks, will be essential to meeting this demand.

Challenges remain, particularly in terms of environmental concerns (albeit natural gas is preferable to coal and oil), regulatory hurdles, and infrastructure development. Limitations in terms of pipelines and LNG export facilities take years to be resolved, as does building out the required capacity. Maintaining relations with China, the most important export market for US LNG going forward, will be crucial to the industry's success, particularly given the current administration's foreign policy moves, which can be interpreted as hostile. As the world navigates energy security, climate goals, and economic stability, US natural gas is well-positioned to serve as a reliable and flexible energy source for years to come.

Investment case: EQT Corporation

By JD Hayward

⇒ EQT Corporation is a leading American natural gas producer with vast low-cost reserves in the Appalachian Basin, one of the most productive gas-production regions in the US.

⇒ EQT has demonstrated over the course of nearly 150 years that it is able to manage the volatile nature of the commodity market.

⇒ EQT's business strategy is simple – to be the lowest cost producer of Natural Gas in the United States – and they can achieve this given their substantial inventory in low-cost gas production basins.

EQT, an Appalachian pure gas play, has demonstrated its ability to manage the volatile nature of the commodity market.

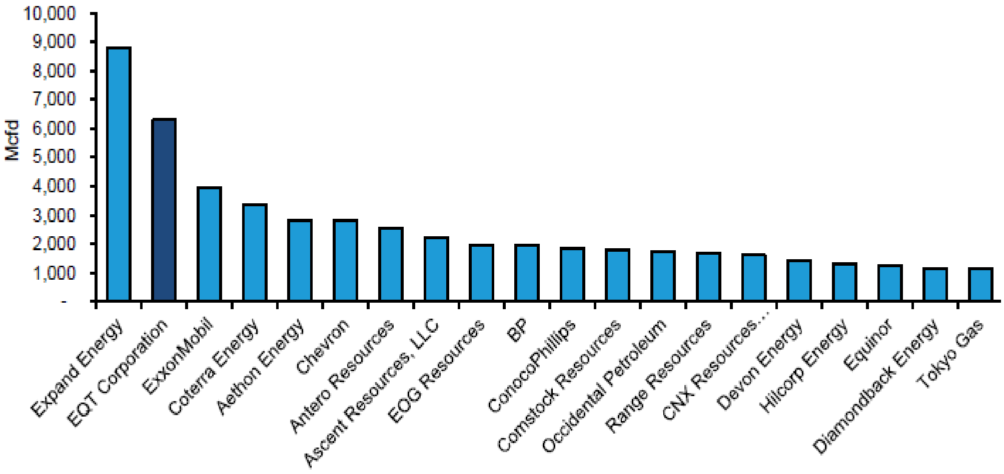
"As the only large-scale integrated natural gas producer in the United States, we are situated to endure and excel during times of market volatility."

- Toby Rice, CEO EQT

EQT Corporation is one of the largest producers of natural gas in the United States. Founded in 1888 as the Equitable Gas Company, it was renamed EQT Corporation in 2009, as it sought a more focussed approach specifically in gas exploration and production. This focus looks squarely at hydrocarbon exploration and pipeline transport, primarily operating in the Appalachian Basin, which includes Pennsylvania, West Virginia, and Ohio.

Over the years, EQT has solidified its position as one of the foremost natural gas producers in the country, largely due to its scale and strategic acquisitions. Up until recently, EQT was the largest producer by a substantial margin, however, the recent merger between Chesapeake Energy and Southwestern Energy to form Expand energy now takes the crown of the largest producer.

Chart 8: Top 20 US gas producers, 2023, Bernstein research



One of the factors that allow EQT to be the leading provider of low-cost gas is their substantial gas inventory, literally sitting on decades worth of supply. Importantly, a very large portion of this supply has a lower breakeven point than many of their competitors, meaning even if policy missteps lead to adverse gas price reactions, they are still better positioned than most peers.

Chart 9: EQT years of inventory, Bernstein research

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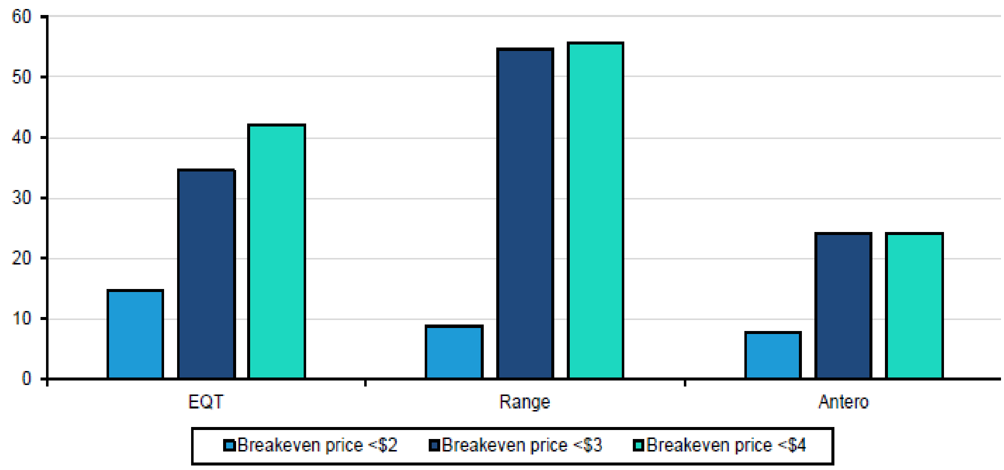

Gas price volatility is certainly a noteworthy risk. Natural gas prices are influenced by global supply and demand dynamics, geopolitical tensions, and seasonal weather patterns. A sustained downturn in prices could compress margins and limit the company's ability to fund growth initiatives or return capital to shareholders, however, they would still be better positioned than most peers.

EQT's core operations are centred in the Appalachian Basin, which is one of the most prolific natural gas-producing regions in the world. The company controls approximately 1.8 million gross acres, tapping into the Marcellus and Utica shales, two of the most productive and cost-effective formations in North America. This dominant position in especially the Marcellus formation, is one of the main strategic advantages that allows EQT to maintain its status as the lowest-cost producer, as this formation is both one of the most productive gas reserves in the US as well as one of the lowest-cost basins for gas extraction. Operating in a commodity market that often sees volatile price movements, this is a key advantage, allowing EQT to stay in business when gas prices are low, but capitalize handsomely when prices are on the rise.

Vertical integration is one of EQT's key competitive advantages.

With a daily production volume exceeding 6 billion cubic feet of natural gas equivalent, EQT's scale allows it to exert significant influence over both regional and national energy markets. The company's upstream business, focused on exploration and production, is complemented by midstream operations that facilitate efficient transportation, storage, and processing of natural gas. This vertical integration is one of EQT's key competitive advantages, with operations encompassing natural gas production, gathering, and transmission. This means they enjoy reduced dependence on third parties, allowing them to increase overall efficiency and retain their position as the lowest cost producer.

By controlling both the production and transportation of gas, the company enjoys cost synergies that many of its competitors do not. This integration enables more predictable cash flows, better control over pricing, and faster responsiveness to changes in supply and demand.

Technology and operational efficiency also play a major role in EQT's success. The company has embraced data analytics, advanced drilling techniques, and automation to enhance productivity and reduce environmental impact. In a sector where margins are tight and environmental scrutiny is growing, these efficiencies offer both financial and reputational benefits.

From a financial perspective, EQT has recently taken significant steps aimed at strengthening its balance sheet. A financing arrangement with Blackstone has provided them with additional capital flexibility, while also signaling strong institutional confidence in the business's long-term viability. Trading at a 12x forward PE, which we believe is reasonable, and a PEG ratio (price earnings to growth) of only 0.3x, we believe EQT offers a compelling opportunity in a market poised to play a key role as a transition energy source.

EQT's inventory of low-cost, production-rich drilling sites, combined with their vertical integration and reasonable valuation, places them as our preferred vehicle of exposure to an evolving US, and global, energy landscape.

In conclusion

Flagship's global investment process is centered on a comprehensive, active risk management system that has been designed to let our winners run, while cutting our losses sooner. Our funds own a highly diversified selection of businesses across industry groups that we believe are favorably positioned compared to their peers from a multifactorial perspective.

We believe this combination of a proprietary risk management system, combined with our approach of considering several factors before a stock or manager can be included in our portfolios, will lead to superior risk-adjusted returns across our range of funds.

While we recognize and appreciate that investing is a long-term endeavour, we also realize that most investors do not want to endure prolonged periods of relative underperformance. We believe our approach strikes a middle ground whereby we can deliver alpha (or excess performance relative to one's benchmark) over the long-term, while shielding investors from protracted periods of negative alpha, compared to the benchmark.

We write these Telescopes so that our investors know what it is we are doing, and why we are doing it. For many of you, we are the caretakers of your global investments, and we would like to use this opportunity to thank you for the trust you place in us and emphasize how deeply committed we are to the responsibility that we hold.

Warm Regards,

The Flagship Global Team

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