The GreenBullet
April 16 2025

Investment Philosophy

SilverCross Global Small-Cap Fund invests in a portfolio of 25-35 high-quality smaller companies. It invests in companies with defensible business models across global developed markets.

The Manager applies four core principles in its stock selection. Its aim is to drive attractive long-term investment returns in excess of the benchmark while keeping portfolio turnover low.

Core Selection Principles

Create Value with a sustainable business model.

Compound Growth thanks to a scalable business model.

Undervaluation implies an asymmetric risk / reward profile.

Insider Ownership ensures alignment with management.

About The GreenBullet

A GreenBullet, is the ESG sibling of our longstanding SilverBullet. With this newsletter we aim to offer further insight into recent ESG events, and how they may affect the SilverCross portfolio.

SilverCross Global Small-Cap Fund

When Trust Breaks, Markets Notice

The stock market is, at its core, a system built on trust. Investors allocate capital with the expectation that the companies in which they invest make rational decisions and that the broader socio-economic environment will remain relatively stable, at least in the short term. There is an implicit assumption that the rules of the game will not change continuously and that while shocks are inevitable, our political leaders will seek to avoid self-inflicted economic harm. More than just a collection of numbers, charts and tickers, the stock market is a delicate ecosystem. One that depends heavily on confidence. When that confidence wavers, the consequences are immediate: volatility spikes, sell-offs begin, and uncertainty ripples through. The market doesn't merely reflect earnings or forecasts; it reflects a collective belief in a system governed by predictability and sound leadership. After all, investors aren't just buying shares; they're buying into a framework based on trust. Trust, then, becomes one of the most vital yet invisible pillars of the financial system. But as Warren Buffett aptly put it:

"Trust is like the air we breathe — when it's present, nobody really notices. But when it's absent, everybody notices."

America's Pursuit of Self-Inflicted Reputational Harm

On April 2nd 2025, that trust took a major hit. In a move that surprised some and disappointed most, President Donald Trump announced a sweeping set of tariffs dubbed "Liberation Day." As we mentioned in the email accompanying our latest quarterly letter, we believe it would be more fittingly coined "Recession Day". The plan included a blanket 10% tariff on all U.S. imports and even harsher measures for most countries. Vietnam, for instance, saw tariffs jump to 49%, while European goods were hit with a 20% or 25% rate. This announcement, delivered without prior consultation or transparency, spooked global markets. Even some of Trump's staunchest allies have shared their public disapproval of the tariffs. Bill Ackman, the billionaire hedge fund manager and one of Trump's most prominent Wall Street supporters, questioned the President's actions publicly. Ackman argues that there isn't a CEO nor board that would feel comfortable making substantial investments amid what he describes as an "economic nuclear war". In his words "business is a confidence game, [and] the President is losing the confidence of business leaders around the globe." History reminds us that while confidence can be lost in an instant, restoring it is often a slow endeavour. In Dutch we say: "Vertrouwen komt te voet en gaat te paard."

SilverCross Global Small-Cap Fund

Fund Details

Managers since July 2014:	David Simons & Chris Andrews
Inception date:	30 July 2014
Currency:	EURO
Share Class:	A
Management Fee:	1.15%
Total Expense Ratio:	1.40%
Minimum Investment:	100,000
ISIN code:	NL0010832242
Bloom-berg:	SCGSCFA NA

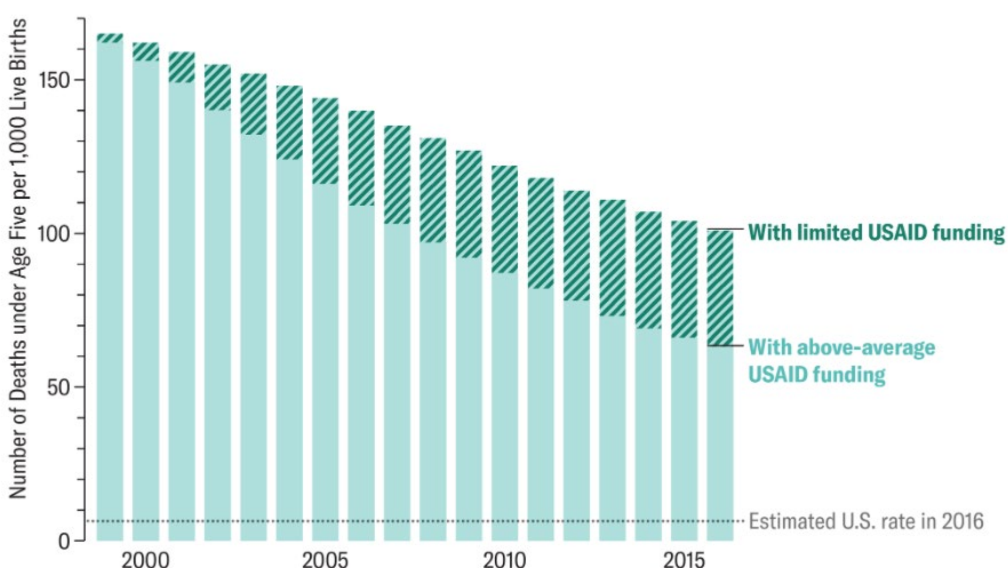
Fears of a lengthy trade war were heightened on April 8th. The U.S. announced even higher “reciprocal” tariffs on Chinese imports to an astounding 104%. These are the highest tariffs on record, including the Smoot-Hawley tariffs of 1930 that some economists believe deepened the Great Depression. The tit-for-tat move came after Beijing refused to back down from their own set of reciprocal tariffs. The escalating standoff caused significant uncertainty. Then suddenly on April 9th, only 14 hours after the tariffs went into effect, Trump declared a U-turn. He announced a 90-day suspension of the higher rates, while maintaining the recently imposed 10% levies on most global goods. Left out of this suspension was China, which saw its tariff increased once again to 125%. The damage to America's reputation is clearly reflected in stock prices. After initial euphoria, sentiment has turned decisively, with the Dow Jones off 16% from its high in November and the Nasdaq down even more, losing 23%. The Chinese government lost the trust of investors many years ago, with severe intrusions in the operations of large tech companies. This is causing a structural valuation discount for Chinese equities. Now it seems it is the U.S. that is undermining investor confidence through erratic policy shifts and self-inflicted economic uncertainty.

America’s Standing on the Global Stage

This uncertainty is not limited to trade. It followed announcements of mass cuts to federal spending. As part of an initiative to reduce government inefficiencies, a new advisory board was formed, the Department of Government Efficiency (DOGE). Despite its name, DOGE is not a government department, for this would have required formal authorisation through an act of Congress. According to its leader, Elon Musk, DOGE could save the US government USD $1-2 trillion. DOGE estimates that approximately $140 billion has been saved since its formation through a series of actions. These include firing federal employees, selling off assets and the cancellation of contracts. Cancelled contracts include the U.S.’s decision to withdraw funding from the U.N. World Food Programme and 83% of USAID programmes.

USAID Funding and Death Rates of Children under Age 5

The chart shows mortality over time among young children in several low- and middle-income countries with above-average USAID funding compared with a synthetic control group of countries with limited USAID funding. An estimate of mortality in U.S. children under age five in 2016 is also shown as a reference point.



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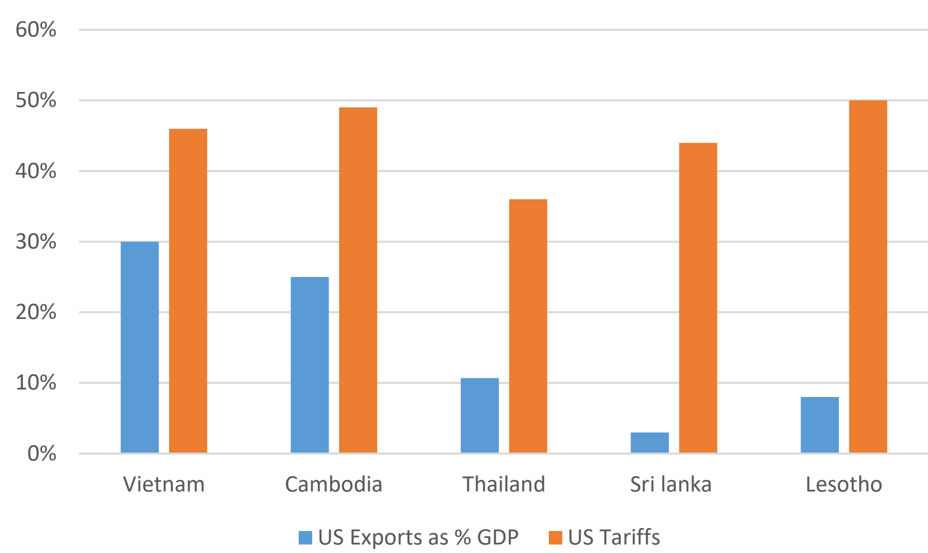
USAID is America's main foreign aid organisation. It predominantly funds health programmes in less economically developed countries, as well as promoting democracy, peace and security. Its activities range from preventing antimicrobial resistance to providing prosthetics limbs to soldiers injured in Ukraine. Many of the programmes centre on disaster relief, disease prevention and famine detection. In the world of health, prevention over treatment is key. For example, the USAID's Malaria Initiative is estimated to have prevented 2.1 billion cases of malaria and reduced the mortality rate by 48%. This is estimated to have saved 11.7 million lives since the initiative began in 2000. Similarly, PREPFAR, the HIV/AIDS prevention programme, has saved an estimated 26 million lives and lowered mortality rates by 20% in recipient countries. The axing of these programmes is likely to have huge implications for the global economy. In an increasingly globalised society, actions in one region of the world have trickle down effects felt across the globe, including the U.S. The cuts, which include vaccination programmes and initiatives attempting to stop the spread of infectious diseases which famously know no borders, could lead to up to 3 million additional deaths globally.

Knock on effects could include increased migration and displacement, as people flee overwhelmed healthcare systems in search of safety, stability, and access to basic medical care. A situation only exacerbated by hunger and famine. Not only does the U.S. risk worsening humanitarian crises, it also, in effect, is ceding critical geopolitical "soft power." In the absence of American support, rivals such as China and Russia are well-positioned to step in, offering financial aid, infrastructure investment, and medical assistance. These gestures, though strategic in nature, allow them to present themselves as saviours on the global stage, while undermining America's reputation as a leader of the international community. The situation is further compounded by the blanket tariffs imposed by the U.S., which disproportionately harm developing economies that rely on exports to American markets. For many of these nations, it reinforces the perception of an America that is not only withdrawing from global responsibility but actively making their path to development more difficult.



Source: World Bank Data (2024)

"A reputation once broken may possibly be repaired, but the world will always keep their eyes on the spot where the crack was." – Joseph Hall, English Bishop, satirist and moralist

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Mass Layoffs, Minimal Planning

As part of its effort to reduce inefficiencies and streamline federal operations, DOGE announced the termination of 216,000 federal jobs in March 2025. This action contributed to a total announcement of over 275,000 job cuts across the U.S in that month. The loss represents a 60% increase compared to the previous month and a staggering 205% rise year-over-year. It marks the third-highest number of monthly job cuts ever recorded in the U.S., surpassed only by the pandemic-driven layoffs of April and May 2020.

We recognise the importance of improving efficiency and eliminating structural inefficiencies, both in the private and public sectors. In fact, we encourage our portfolio companies to optimise operations, streamline processes, and pursue cost discipline. Efficiency is a key driver of competitiveness and long-term value creation. However, we believe that such efforts must be grounded in strategic intent and executed without compromising core fundamentals. We acknowledge that, at times, job cuts are an unfortunate but necessary step toward improving efficiency and ensuring the viability of operations. What concerns us with DOGE's strategy is the apparent disregard for long-term sustainability and national resilience. Cuts to critical agencies such as the IRS, Department of Education, and the Department of Defence, and areas like cybersecurity and extreme weather forecasting, raise serious questions about the future capacity of the U.S. government to uphold its essential responsibilities. Efficiency should not come at the expense of institutional integrity or national safety.

This is not the first time the U.S. government has sought to reduce government inefficiencies, including shrinking its federal workforce. In the 1990s, under the National Partnership for Reinventing Government ("ReGo"), efficiency gains were implemented including the termination of 426,000 federal jobs. But there were key differences in how these cuts were made. Firstly, the cuts were spread across seven years. DOGE is set to terminate on the 250th anniversary of the creation of the United States, July 4th 2026. If this date is achieved, then the cuts announced thus far would need to take place over the span of just over a year. Secondly, while ReGo received its fair bit of backlash, what it did not receive were lawsuits. This is because ReGo went through the established channels. It achieved its federal spending cuts by passing bills through Congress. ReGo followed due processes, such as providing a valid reason for job terminations, including performance issues or the dissolvement of departments.

Some of DOGE's terminations have since been reversed, in part initiated by DOGE itself and in other cases by law. For example, the White House Office of Personnel Management recently mass fired probationary workers, but a federal judge reversed this decision after finding that the department did not have "any authority whatsoever under any statute in the history of the universe to hire and fire employees within another agency". DOGE also attempted to hire back some employees, including those responsible for the control of bird flu and the nuclear weapons programme. But because of DOGE's tactic of immediately revoking terminated employees' email and systems access, they have been unable to find some of them.

The Reputational Risk of DEI Retraction

These events are emblematic of a broader approach within the Trump administration. It is a pattern marked by abrupt decision-making, disregard for institutional processes, and a narrow definition of efficiency. This is particularly evident in the administration's stance on Diversity, Equity and Inclusion (DEI) initiatives. Much like the sweeping federal job cuts, the rollback of DEI programmes reflects a willingness to prioritise short-term optics over long-term value, cohesion, and resilience. While reducing bureaucracy is often framed as necessary reform, the wholesale dismantling of DEI efforts sends a very different message. It is one that risks alienating key communities, weakening workplace culture, and diminishing the U.S.'s global reputation as a proponent of equal opportunities. While the current political climate may be influencing corporate behaviour, the societal challenges that DEI efforts aim to address have not vanished with a change in administration.

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Inequity, underrepresentation, and systemic discrimination remain pressing issues. The retreat from addressing these issues signals a troubling inconsistency in corporate values. This inconsistency fosters an environment of deep mistrust. Both customers and employees are increasingly questioning whether corporations truly stand by the values they profess, or if those commitments were merely performative responses to social and political pressure. When companies reverse course on DEI, especially without transparency or community engagement, they undermine the credibility of their previous efforts. The message received is not one of strategic realignment, but of a willingness to abandon core values when they are no longer politically or economically convenient. The same is true for the law firms now caving to the Trump administration's blackmail tactics.

When Law Bends to Power

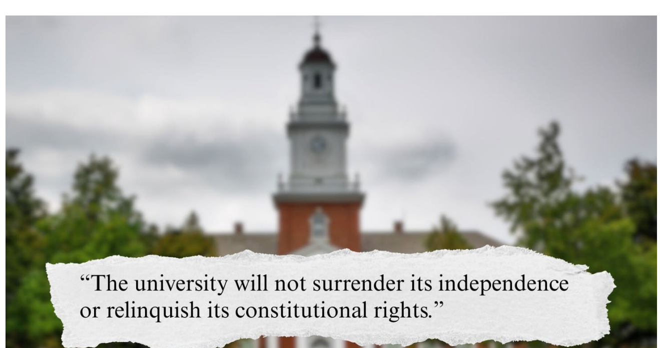
In recent weeks, several prominent U.S. law firms have entered into agreements with the Trump administration to avoid punitive executive orders that could adversely affect their operations. For instance, Milbank, Willkie Farr & Gallagher and Skadden have each committed $100 million in pro bono services to causes endorsed by the administration. They have also agreed to discontinue race-based hiring practices. These settlements have raised significant concerns. The actions signify a change in tides where major law firms are bowing down to political pressure. This not only compromises their independence, it compromises their ethical obligations. From a governance perspective, these developments are alarming. Law firms play a crucial role in upholding justice and maintaining checks and balances within the political system. When legal entities yield to pressure, it sets a dangerous precedent that may deter other law firms from engaging in cases that challenge government authority.

The Stakes of Abandoning Principles

Taken together, these developments reflect more than isolated policy shifts, they represent a fundamental test of institutional integrity. From tariffs and sweeping federal job cuts to the retreat from DEI and the politicisation of the legal profession, the erosion of trust is not just a market risk; it is a systemic one.

The recent standoff between Harvard University and the Trump administration underscores this fragility. On 14th April, it was announced the U.S. government would cut $2.2 billion of funding to Harvard. The announcement came hours after Harvard rejected demands that its president called "direct governmental regulation of the 'intellectual conditions'" of the university. The confrontation highlights how even the most established institutions are vulnerable to political pressures. This raises concerns about the future independence of academia and its role in society. The erosion of academic independence mirrors broader governance challenges. After all, governance, in its truest form, requires consistency, transparency, and a commitment to independence.

At SilverCross, we believe that the preservation of trust is not a soft value. It is a hard asset. One that must be protected with the same urgency as capital. Because when trust is lost, the damage reverberates far beyond markets.



Quote from Havard University's attorney's response letter

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How SilverCross Deals With These Challenges

We recognise that the recent wave of policy shifts, geopolitical tensions, and economic volatility present meaningful challenges for companies around the globe. However, we believe our portfolio is well-positioned to navigate this environment. While much of our portfolio operates with a global footprint, many of our investee companies implement a localised supply chain model. By focussing on the geographic proximity of their production and distribution, our portfolio companies are able to remain resilient amid rising international trade costs and global supply chain disruptions.

Take, for example, Azelis, the second-largest specialty chemical and food ingredients distributor globally. Azelis distributes its products to over 60,000 customers across 65 countries. However, over 90% of its products are distributed in the same markets where they are produced. This significantly reduces their exposure to global tariffs.

Similarly, Interroll and Belimo are two other portfolio companies that demonstrate strong resilience. Leaders in material handling and HVAC actuator solutions, respectively, both companies maintain high gross margins of around 60%. Interroll's local manufacturing footprint, particularly in the U.S., positions it to potentially benefit from protectionist policies. These policies would significantly limit exposure to foreign competition, particularly from China and Japan. While access to critical components like semiconductors and rare earth magnets remains a supply chain challenge, Interroll's high gross margins and pricing power provide a buffer, allowing cost increases to be passed on when necessary. Meanwhile, Belimo's lower production depth and dominant market position in HVAC actuators allow it to pass on cost increases to customers with minimal impact on demand.

HEICO Corp, the American aerospace and electronics company focused on niche-markets and cost saving solutions, is another good example of the operational resilience we seek in the portfolio. Its highly decentralised supply chain, anchored in local markets through hundreds of subsidiaries, limits its exposure to concentrated geopolitical risk. Even under a scenario in which tariffs were applied to half of its trading partners, HEICO estimates only a 3–5% increase in product costs. Management believes these could be passed through to customers without major resistance.

Our investment approach remains focused on companies with pricing power, operational resilience, and a long-term vision. These qualities become even more valuable during times of systemic stress. While external conditions are increasingly complex, we remain confident in our portfolio's ability to not only adapt but thrive.

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About the author

Zinzi Dzuda is the Head of ESG for the SilverCross Global Small-Cap Fund. She oversees the Fund's ESG strategy, including ESG analysis, engagement and regulation .

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