Monthly Manager Commentary

ATLAS
GLOBAL EQUITY INCOME

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During the month we took some profits and reduced our positions in Fastenal, BHP and Atlas Copco. We modestly increased our weightings in selected technology holdings following the July sell-off, as we continue to see solid demand for their products and services, supported by strong corporate earnings.

Featured holding – Diploma

Over the past 50 years Diploma has evolved from a relatively small UK-based distribution business into a global supplier of specialised technical products and services. It focuses on niche markets where technical expertise, product availability and customer service are critical to the customer proposition.

The company has steadily built its position through a combination of organic growth and a disciplined acquisition strategy, expanding across North America, Europe and Australasia while developing leading positions in its Controls, Seals and Life Sciences segments.

Diploma is now regarded as one of the UK's highest-quality industrial compounders, benefiting from exposure to attractive structural growth markets, a decentralised entrepreneurial culture and a long track record of delivering consistent earnings growth underpinned by attractive shareholder returns.

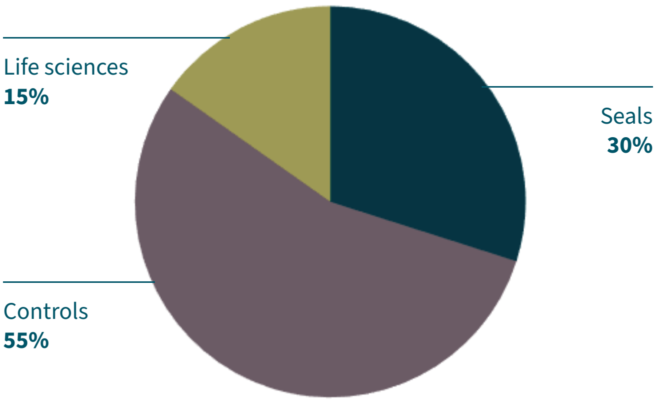
Diploma's end markets

Diploma operates in three highly attractive specialist distribution segments.

- The **Controls** division supplies mission-critical products such as specialist wiring and cable, connectors, fasteners and adhesives to technically demanding markets including aerospace, defence, data centres, infrastructure and medical devices. These are niche markets where customers place a premium on product availability, technical expertise and reliability rather than price alone – creating strong customer relationships and attractive margins.

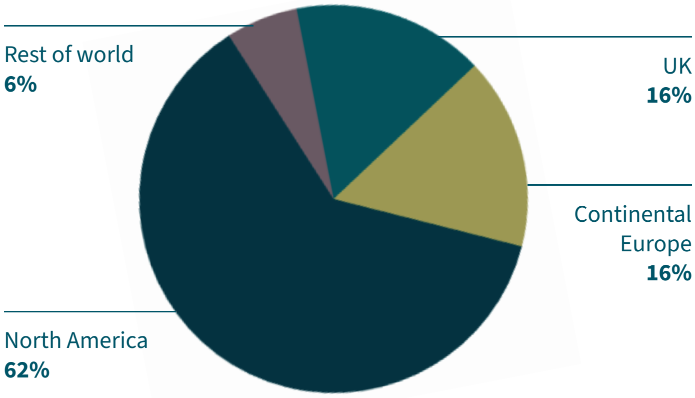
  We think the growth opportunity here is particularly compelling, as many of these markets benefit from long-term structural trends such as increasing electrification, growing investment in data centres, increasing aerospace production and ongoing infrastructure upgrades. As the charts on page 2 show, Controls makes up 55% of group revenue, most of which is generated in the US.

Diploma FY25 revenue breakdown by sector (%)



Source: Diploma, Atlas Global Equity Income Fund

Diploma FY25 core revenue breakdown by region (%)



Source: Diploma, Atlas Global Equity Income Fund

- The **Seals** division provides seals and hydraulics that are essential to keeping industrial equipment operating efficiently and effectively. Its products are used across a diverse range of applications, including agriculture, construction, energy, water infrastructure and industrial manufacturing.

  What makes this market especially attractive is its large recurring aftermarket component. Regardless of the economic cycle, equipment requires ongoing maintenance, repair and replacement parts. This supports resilient demand and allows Diploma to take market share through superior service levels, inventory availability and technical support. In addition, the market remains fragmented, providing ample opportunities for both organic expansion and value-enhancing acquisitions. The company's management often refers to the "value-add" concept, and this is critical to generating a loyal customer base that feels looked after and valued.

- The **Life Sciences** division supplies diagnostic equipment, laboratory products and consumables to hospitals, laboratories and healthcare providers.

  Demand in this segment is underpinned by powerful long-term trends, including ageing populations, rising healthcare spending, growth in diagnostic testing and greater adoption of advanced medical technologies. Unlike many industrial distributors, Diploma focuses on specialised products where technical expertise, regulatory knowledge and customer service are key differentiators.

Combined with the group's decentralised operating model, strong cash generation and proven acquisition strategy, this array of structural growth drivers gives Diploma a long runway to compound revenue and earnings while continuing to gain market share across all three divisions.

A track record of carefully curated M&A

Diploma's strategy is to grow the business organically and via strategic M&A. The approach is generally "bolt-on" in nature and relatively small in scale, thereby avoiding undue balance-sheet pressure.

Take, for example, Diploma's acquisition of Windy City Wire (WCW). Completed in October 2020, it marked a transformative step that significantly expanded the group's US footprint in low-voltage wire and cable distribution.

At the time of the acquisition, valued at around £357 million, WCW was a high-quality, value-add business with a strong track record – delivering a 10-year revenue compound annual growth rate of roughly 12% and EBITDA margins near 20%. It generated revenues of around £143 million for FY20, with resilient performance even amid COVID-19 disruptions, and EBITDA rose about 18% to roughly £33 million.

The acquisition brought a customer-centric platform with patented products such as SmartWire and RackPack systems, as well as nationwide US distribution and exposure to building automation, security, data centres and related markets. All this aligned closely with the Controls sector strategy of specialised technical products and services.

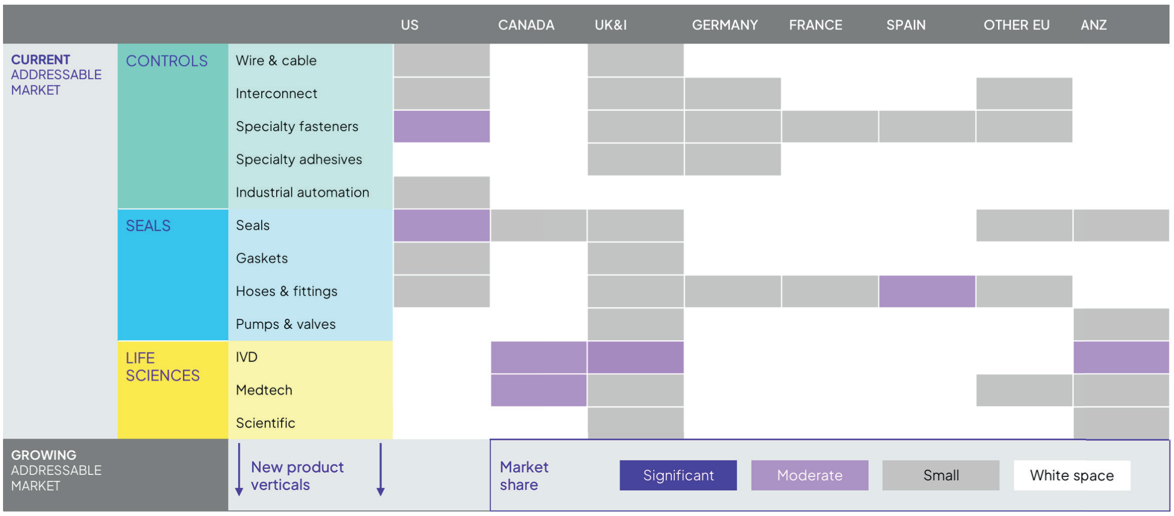
So what has happened to WCW under Diploma's ownership? It has scaled substantially and remains a core growth engine. In Diploma's FY25 – ended September 30 2025 – the broader Controls sector reported revenue of £836.4 million, of which WCW accounted for approximately 36% – equating to roughly £300 million.

This reflects strong volume-led organic growth, including 11% in FY25, driven by market share gains, diversification into high-demand areas such as data centres and continued strength in core buildings markets while maintaining robust margins. From roughly £143 million around the time of the acquisition, WCW has more than doubled its revenue contribution over five-plus years of ownership – illustrating the power of Diploma's decentralised model, investment in growth initiatives and the business's ability to compound in structurally attractive end markets.

The acquisition has been earnings-enhancing and a clear example of successful M&A that compounds value over time. Yet Diploma's management sees plenty of scope for even further growth.

WCW sells product in the US, the UK and Ireland, but it is still only a relatively small player in these core markets. Taken from a recent management presentation, the chart below highlights the opportunities in other geographies – among them Europe, Canada, Australia and New Zealand. With the balance sheet in a healthy position, it is entirely reasonable to expect Diploma to pursue further strategic M&A in the near future.

Significant "White Space"



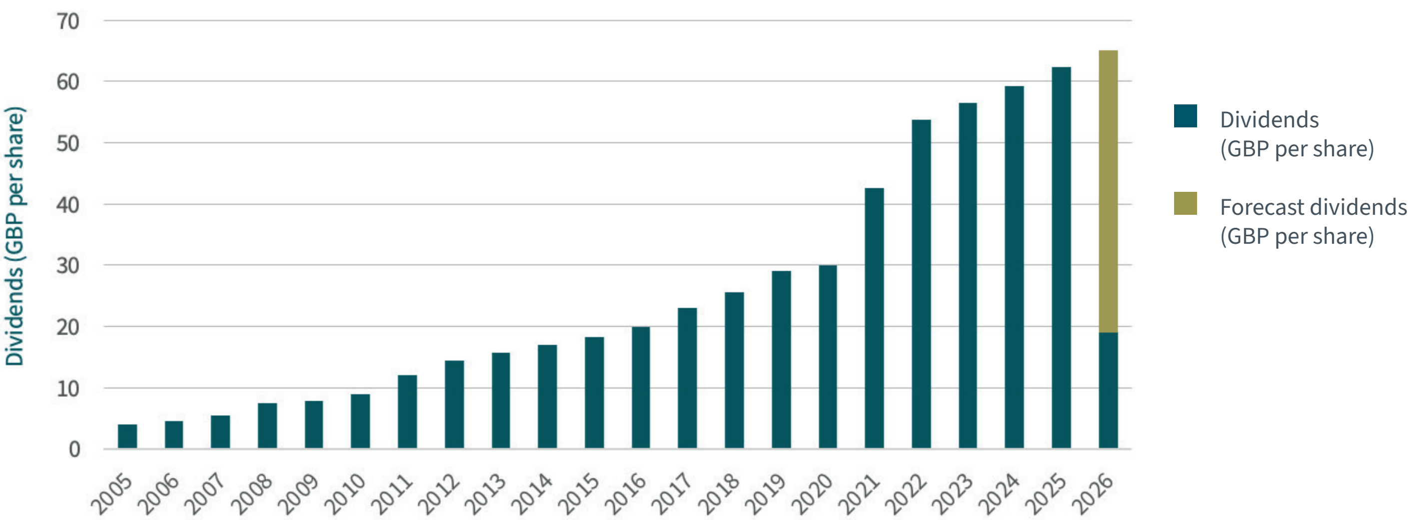
Source: Diploma

Dividends – healthy cash generation through economic cycles

Diploma has followed a progressive dividend policy for many years. The board has aimed to increase the dividend each year, broadly in line with growth in earnings per share.

On a total dividend-per-share basis, Diploma has delivered increases in almost every year over the past 20+ years, with only minor interruptions or slower growth around the COVID-19 period (2020 saw a small rise, while the 2021 total jumped strongly as payments normalised and grew). Recent consecutive annual increases have been between 4% and 5%, but the overall progressive track record is much longer – as the chart below illustrates.

Diploma: Dividends (GBP per share)



Source: Diploma, Atlas Global Equity Income Fund

Conclusion

When we consider the business in the round, we believe Diploma is well positioned to deliver steady growth in both revenue and profits through a balanced combination of organic expansion and selective bolt-on acquisitions. Management has a proven track record of acquiring businesses at sensible valuations, integrating them quickly and enabling local teams to benefit from Diploma's scale while retaining the entrepreneurial culture that drives robust performance. The specialised niche markets in which Diploma operates consistently generate strong returns, as customers prioritise reliable, hard-to-replace products and services. We feel such strengths support a promising outlook for the company and its shareholders, underpinned by a strategy of ambitious yet disciplined growth.

Disclaimer:
As at the end of August 2026, Atlas Global Equity Income holds a long position in Diploma.
This article is not to be taken as investment advice.

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