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Thoughtful Investing.

Investing Amid Uncertainty: Turning Risk into Opportunity



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Fast reading:

- Markets often misprice uncertainty, which can create opportunities for long-term investors who focus on fundamentals rather than short-term visibility.
- The Sustainable International Leaders investment team defines risk as the permanent loss of capital, not short-term volatility, and uses a disciplined framework to assess downside scenarios and business durability.
- Case studies of LSEG and LVMH demonstrate how resilient, cash-generative businesses can thrive despite market concerns; we believe LSEG is positioned to benefit from AI adoption due to its proprietary data and strategic partnerships, while LVMH's heritage brands and ultra-wealthy customer base support long-term value despite cyclical luxury demand pressures.

Global equity markets in 2025 have been marked by sharp gyrations, driven by geopolitical tensions, trade policy shifts, and macroeconomic uncertainty. Investor sentiment appears to have become highly reactive to market signals such as economic data and corporate earnings reports.

Why the market hates uncertainty

The world of investing is uncertain – not only are outcomes unknown but the end states are unknowable. Richard Zeckhauser of Harvard University's Kennedy School[1] has observed that markets often misprice uncertainty. Zeckhauser's work highlights the market's aversion to uncertainty and how that potentially creates opportunities for thoughtful investors. Uncertainty impedes models, earnings guidance, and quarterly narratives. It pushes prices down because many investors (either by mandate or temperament) need visibility. When clarity is absent, prices fall. But the absence of near-term clarity does not automatically imply an elevated *risk* of capital impairment. Zeckhauser's insight is that such gaps between *perceived* and *actual* risk are fertile ground for superior returns. This aligns with our belief that uncertainty can often be a source of opportunity, especially when one invests in resilient, cash-generative businesses.

How we navigate uncertainty and assess risk

In the investment classic *Against the Gods*, Peter Bernstein frames risk as an active choice rather than fate. He further asserted that "the riskiness of an investment…is measured by the probability (or the odds) that you will lose money".

Our investment framework for navigating uncertainty is rooted in our fundamental principles.

First, we define risk as the permanent loss of capital, not short-term volatility. We underwrite downside scenarios by assessing the durability of cash flows, the strength of the business models that we invest in, the robustness of the balance sheet, and management's discipline in capital allocation.

Second, we invest in durable businesses that have typically sustained for decades and withstood multiple different crises over their lifetimes. We expect them to hold up well in a variety of different environments, based on their prior track record and our judgment of their resilience across the business model, operational and financial setup and the quality of their management team[2].

Finally, we do not treat uncertainty as a reason to avoid investment. Instead, when the range of outcomes appears to be wide and yet we do not see significant downside over our investment horizon, we demand a greater margin of safety in our estimate of the intrinsic value of a business and size positions accordingly. We do not pretend to forecast the future precisely, but we do position ourselves with an eye on both the risks and opportunities that uncertainty can provide.

The following examples highlight the approach that we have taken in the drawdowns we recently encountered in two of our investments that we have owned since inception.

Case Study: London Stock Exchange Group Plc[3]

London Stock Exchange Group (LSEG) is a capital-light, data-driven markets infrastructure leader with ~75% recurring revenues and strong pricing power across its data, capital markets, and post-trade businesses[3]. The Refinitiv acquisition has transformed LSEG into a dominant provider of proprietary financial data and analytics, with deep moats in distribution and content. Structural tailwinds such as indexation, electronification of fixed income and FX, and regulatory shifts toward central clearing continue to support long-term growth. With accelerating organic revenue, margin expansion, and double-digit free cash flow growth, we believe LSEG is well-positioned to compound value over the next decade.

The stock has declined materially this year amidst slower subscription growth and broader AI uncertainty around financial information services. AI presents a potential threat to LSEG by enabling new entrants to automate data extraction and analysis, potentially commoditizing basic datasets as well as data distribution.

However, we believe LSEG is well-positioned to defend its moat due to its proprietary, high-quality data, deep distribution capabilities, and integration into customer workflows. Refinitiv and FTSE Russell deliver LSEG unmatched scale in real-time data, benchmarks, and pricing. Roughly half of their enterprise data is real-time pricing information across over 90 million instruments across 500 plus global exchanges with 99.99% of updates occurring in less than 20 microseconds[3]. This depth and breadth of real-time coverage would be virtually impossible to disrupt as LSEG is one of the world's leading providers of this content. Meanwhile, Workspace's cloud-native transformation coupled with additional functionality that comes with LSEG's ten-year strategic Microsoft partnership enhance the product's stickiness and monetization. Furthermore, LSEG is both a data provider and distributor, which few competitors can replicate. Its data is essential for training reliable AI models, and we believe that the demand for structured, high-integrity datasets appears to be rising. With strong retention, pricing power, and exposure to structural growth areas, LSEG is likely to be a net beneficiary of AI adoption, not a casualty. AI may challenge low-value data providers, but in our view, LSEG's scale, proprietary content, workflow integration, and strategic partnerships make it likely a net beneficiary of the AI evolution.

Even if we see a moderation in the growth of the data and analytics business to ~5% longer term, we think the current share price[4] implies an expected return in the mid-teens over five years, assuming high single digit top-line organic growth and double-digit free cash flow growth in this period.

Case Study: LVMH[5]

LVMH is one of the world's most diversified luxury groups, with 75 maisons spanning fashion, spirits, cosmetics, jewelry, and retail. Brands such as Louis Vuitton, Moët & Chandon, and Hennessy are centuries-old franchises that exemplify enduring brand equity and pricing power. The group's vertical integration and control of distribution through over 6,300 owned stores, strict channel discipline, and refusal to discount[6] many of their exclusive heritage brands further reinforce its moat.

The company's shares have come under pressure amid what we see as a cyclical slowdown in luxury demand, particularly in China and among aspirational consumers. LVMH has historically demonstrated resilience in times of crisis. During the 2009 financial crisis, its revenues declined only modestly, and by 2010, the group had returned to growth. In 2020, despite COVID-19 pandemic-related store closures and travel bans, LVMH's Fashion & Leather Goods division posted double-digit growth in the second half, further underscoring the durability of its business model across environments. Part of the strong performance in the subsequent few quarters was a pull forward in demand as consumer savings piled up during the COVID-years lockdowns. What followed was a normalization in the growth rate across all divisions as consumers prioritized luxury experiences such as travel, wellness and social events in 2024 and the market for luxury goods experienced its first real downturn in fifteen years[7]. At the end of 2025, sales for LVMH group are projected to be ~7% below the 2023 peak[8], which coupled with operating de-leverage implies a larger impact to margins and the bottom line.

In our view, the market frets about what is difficult to model: Chinese demand, U.S. tariff noise, aspirational consumers balking at years of price hikes. While uncertainties around timing of a rebound as well as longer term demand for luxury goods have compressed valuations, we view these concerns as transient. Of the estimated 350 million global luxury consumers, the top 2% account for nearly 45% of industry spending[9]. These very high net worth and ultra-high net worth individuals[10] are typically highly resilient in times of economic crisis and are growing faster than the overall population (as per Altrata estimates, the ultra-wealthy population has grown 7x faster than the global adult population over the past two decades[11]).

We believe this provides a healthy setup for demand going forward for LVMH's key timeless brands such as Louis Vuitton and Dior that drive the majority of the economics of the group[12]. In our view, the structural moats of heritage and scale, combined with excellent capital allocation and the willingness to invest for the long-term even through downcycles suggests low risk of permanent capital impairment. LVMH is within our top 10 holdings, and we are confident that time and compounding will assert the franchise's value beyond the noise and uncertainty.

Conviction in the face of ambiguity

In today's market environment, uncertainty is often conflated with risk and we believe investors who can distinguish between the two are better positioned to uncover value. As markets react sharply to ambiguity, prices may fall not because businesses are failing, but because visibility is likely lacking. This disconnect creates fertile ground for long-term investors who focus on fundamentals rather than forecasts. We believe uncertainty is not a signal to retreat, but a call to sharpen focus.

By focusing on resilient, cash-generative businesses with durable competitive advantages, we aim to protect capital while positioning for growth. Whether navigating the evolving dynamics of financial data with LSEG or the cyclical shifts in global luxury demand with LVMH, our approach remains grounded in fundamentals, not forecasts.

Ultimately, uncertainty is not a barrier; it's a gateway. When approached with clarity, discipline, and a margin of safety, it can become a powerful source of opportunity. In a market that often rewards short-term reaction, we believe that long-term conviction remains the true differentiator.



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1. Source: Investing in the Unknown and Unknowable, 2006; https://scholar.harvard.edu/files/rzeckhauser/files/investing_in_unknown_and_unknowable.pdf
2. Source: Brown Advisory, Business Resilience in Portfolio Construction, 09/19/2023; https://www.brownadvisory.com/us/insights/business-resilience-portfolio-construction
3. Source: LSEG company reports, and Brown Advisory analysis. LSEG is a current holding in the Sustainable International Leaders portfolio representative account as of 10/31/2025 and was selected because the investment team believes it demonstrates the strategy's stated investment philosophy; It does not represent all of the securities purchased, sold or recommended for advisory clients.
4. Source: Closing share price of £85.16 as of 30th September 2025.
5. Source: LVMH company reports, and Brown Advisory analysis. LVMH is a current holding in the Sustainable International Leaders portfolio representative account as of 10/31/2025 and was selected because the investment team believes it demonstrates the strategy's stated investment philosophy; It does not represent all of the securities purchased, sold or recommended for advisory clients.
6. Source: Louis Vuitton, https://uk.louisvuitton.com/eng-gb/faq/products/can-i-purchase-louis-vuitton-products-at-a-discount
7. Source: Luxury in Transition: Securing Future Growth, https://www.bain.com/insights/luxury-in-transition-securing-future-growth
8. Source: Factset estimates for 2025.
9. Source: Luxury in Transition: Securing Future Growth, https://www.bain.com/insights/luxury-in-transition-securing-future-growth/
10. Very High Net Worth Individuals are defined as those with wealth in excess of $5m and Ultra High Net Worth Individuals are defined as those with wealth in excess of $30m.
11. Source: Altrata, How many ultra high net worth individuals are there in the world?, https://altrata.com/reports/world-ultra-wealth-report-2025
12. Source: LVMH company reports, and Brown Advisory analysis. LVMH's fashion and leather goods is ~50% of LVMH group revenues and over 70% of group operating profit. We estimate that the Louis Vuitton brand is 25% of group sales and around half of the group operating profit.

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Terms & Definitions

Volatility is a statistical measurement of the degree of variability of the return of a security or market index. **Free Cash Flow** (FCF) is the cash a company has left after spending money to support and maintain its operations and capital assets,