

First-order fears, second-order thinking: Why we own Compass Group

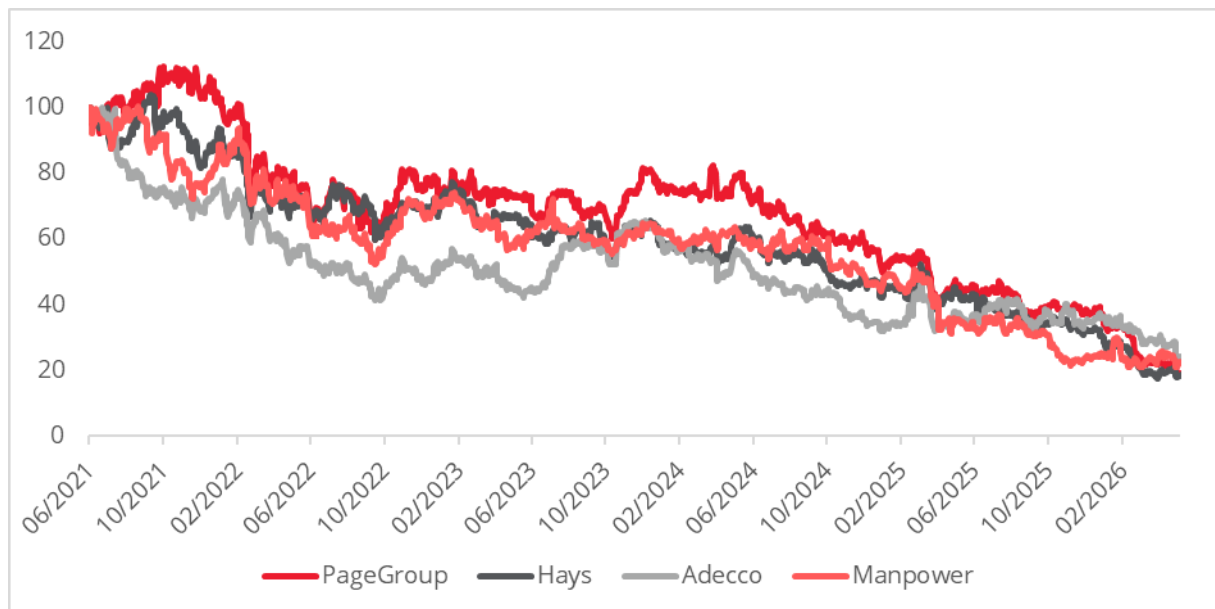
Nick Clay, Portfolio Manager, Redwheel Global Equity Income

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New, disruptive technologies tend to provoke the same investor response: a rush to simple narratives and indiscriminate selling across anything perceived to be in the firing line. We saw this in software earlier this year¹, and more recently in staffing and adjacent sectors, where fears of AI-driven disruption have driven share prices well beyond the fundamentals.

That logic has now spread into contract catering, where concerns over AI's impact on office-based employment have cast a shadow over demand. In our view, this is a classic controversy - rooted in first-order thinking rather than fundamental reality - and one that has created an opportunity to invest in Compass Group², a high-quality business at an attractive valuation.

Chart 1 – Staffing company performance since 2021



Source: Bloomberg, 20 May 2026. Local currency. Normalised to 100. Past performance is not a guide to the future.

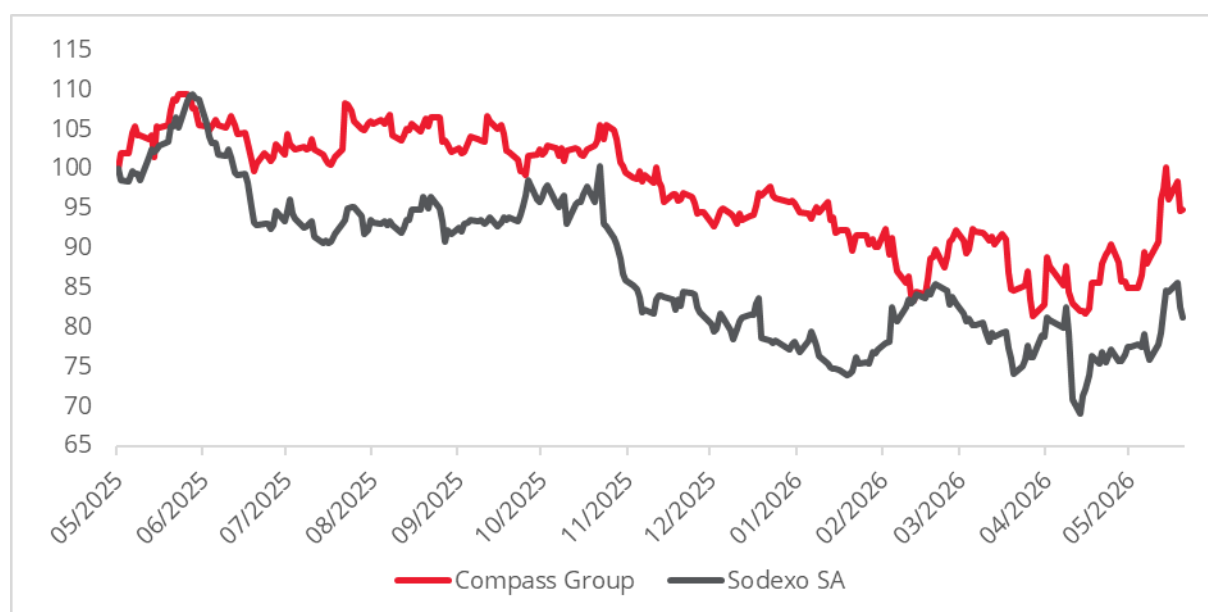
Looking through the controversy

Compass Group was added to the Redwheel Global Equity Income strategy in Q1 2026, having fallen by around 30% over the previous 12 months and mostly since October 2025. The controversy is straightforward: AI will displace employees, and so the revenues Compass earns from catering to workers across a range of industries will come under pressure.

¹ See '[A return to normality](#)', Redwheel, March 2026

² This security has been selected to highlight the strategy's investment methodology and is not representative of the strategy's performance. The investment strategy holds a broad range of securities. Portfolio holdings are subject to change at any time without notice. This information should not be construed as a recommendation to purchase or sell any security

Chart 2 – Compass Group and Sodexo SA – 12 months performance



Source: Bloomberg, 20 May 2026. Compass Group and Sodexo SA are the two largest catering companies globally. Past performance is not a guide to the future. Portfolio holdings are subject to change at any time without notice. This information should not be construed as a recommendation to purchase or sell any security.

But when we look at who Compass actually feeds, the picture is more nuanced. As at September 2025, around 23% of revenues came from healthcare, 18% from education, 14% from sport and leisure and 6% from defence — some 60% of the group in aggregate – see Chart 3. It seems unlikely that AI will stop people falling ill, replace sports people or encourage us to cease education, and this part of the business also retains significant runway for growth, with around 40% of US hospitals and colleges still self-operating their catering.

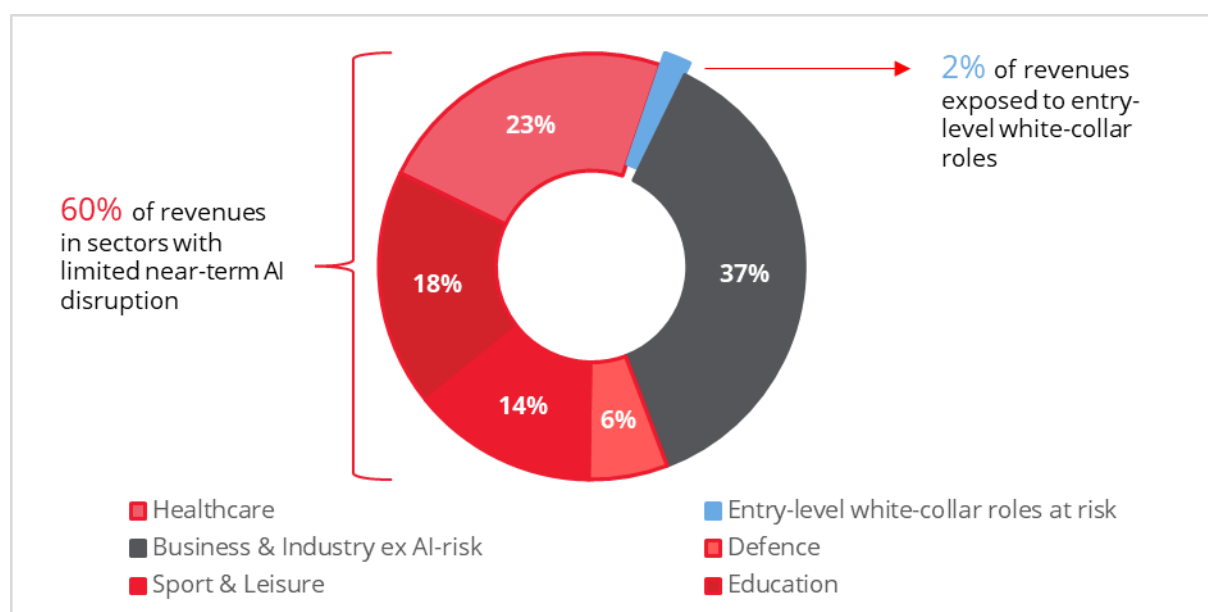
Business & Industry represents about 39% of group revenues, but only part of that is directly exposed to the areas of white-collar employment most often cited as vulnerable to AI³. Of that exposure, our analysis suggests that the group revenue tied to entry-level roles most at risk of displacement is, for now, a maximum of around 2% of sales. Oxford Economics supports our analysis in broader labour market terms: adoption is mainstream but still shallow, only around 10% of information-sector firms report AI replacing worker tasks, and its baseline scenario remains more labour-augmenting than labour-displacing⁴.

This does not mean there is no risk. It does mean the risk appears manageable, likely to emerge over time through slower hiring rather than a sudden hit to revenues, and far smaller than the market reaction has implied.

³ [Bloomberg, May 2026](#): 'StanChart joins AI push with cuts to 'lower-value human capital''

⁴ Oxford Economics, A primer on the AI boom, May 2026

Chart 3 – Compass Group revenue mix by end-market



Source: Compass Group, Annual Report 2025, Redwheel analysis. Total revenue exposure to Business & Industry is 39%. The information shown above is for illustrative purposes.

What assumptions is the market making?

When controversy knocks down the share price of a high-return business, our job is not to predict the future with precision, but to calibrate the range of possible cash-flow outcomes and ask whether the odds have shifted in our favour. In Compass' case, the answer was clear.

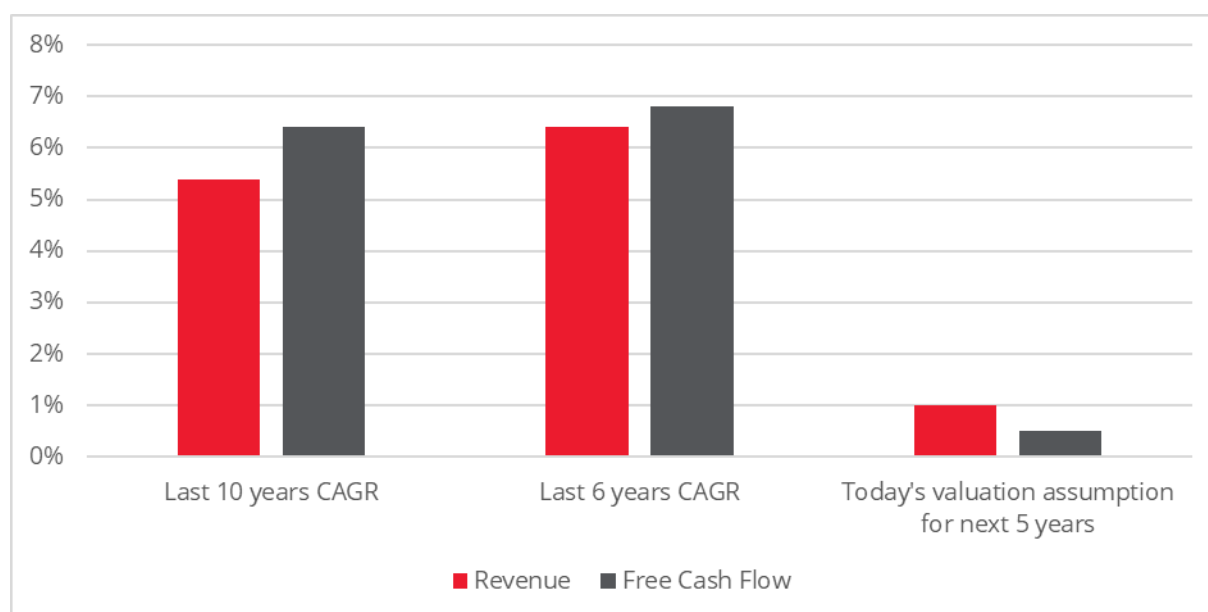
At the lows in March and April, Compass was trading on a free cash flow yield of around 5%.⁵ At that valuation, the shares implied a markedly more pessimistic future than the company's long-term record would suggest.

Even if one assumes that, over the next five years, Compass can grow revenues by only 1% per annum and free cash flow by less than 0.5%, followed by a 2% terminal growth rate, the shares would still only just decline from those levels, with the downside largely the time value of money. That compares with compound annual growth of more than 5% in both revenue and free cash flow over the last decade – see Chart 4.

In other words, the valuation at the March low was already pricing in an abrupt halt in Compass's business. Those are the risk-reward metrics we seek out: situations where the asymmetry is skewed in our favour, rather than investing in richly valued stocks where continued AI-led, US exceptionalism is demanded.

⁵ Bloomberg, May 2026, company financials and Redwheel analysis

Chart 4 – Compass historic revenue and free cash flow growth vs implied market assumptions



Source: Bloomberg, 20 May 2026, company financials and Redwheel analysis. Past performance is not a guide to future results. The prices of investments and income from them may fall as well as rise and an investor's investment is subject to potential loss, in whole or in part. Chart 4 is not a forecast of future performance; actual outcomes may differ materially.

This is our kind of opportunity

Compass is an excellent example of how the Global Equity Income Strategy is designed to exploit controversy to its advantage. The sell-off in catering names, driven by AI and related fears, pushed Compass, a best-in-class company, into the team's yield universe for the first time in years. This is because every holding must yield at least 25% more than the MSCI World Index at purchase. That yield discipline forces patience and avoids overpaying for certainty, momentum or the market's current favourites.

From there, the key question is whether the controversy is likely to be temporary or permanent. By fishing in the same buckets of controversy time after time, the team builds a knowledge library of repeating patterns, helping us to judge whether a problem is an opportunity or something to avoid. For Compass, the evidence suggests the market has extrapolated a narrow risk too broadly across the business in a way that fails to reflect its highly diversified sector exposure and the limited share of revenues tied directly to at-risk roles.

Finally, the team tests whether company cash flows can suffer downturn. With Compass, the breadth of end-markets, and a long record of growing revenues and free cash flow through past cycles all point to a business capable of withstanding the shock that recent headlines have imagined.

Second-order thinking in an age of first-order narratives

In an AI-driven market regime, first-order thinking tends to dominate: "AI will write code, so software companies are dead", or "AI will automate offices, so anything feeding office workers is uninvestable". Compass Group shows why that can be a costly simplification, given its diversified end-markets, modest direct exposure to at-risk roles and history of compounding cash flows.

The Global Equity Income team's process is deliberately built to thrive when this kind of extrapolation meets valuation reality. In that sense, Compass is not just a stock we own; it is a case study in how to invest through AI-driven disruption. By focusing on what can be measured – cash flows, contract structures, end-market exposures and starting valuations - controversy can become a potential source of long-term income and capital growth.

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E invest@redwheel.com | W www.redwheel.com

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