

Quarterly Update - Q4 2024

Protea Fund

Veritas High Equity

31 December 2024



Protea Fund – Veritas High Equity

Performance

| | Q4 2024 | Last 12 months | Last 3 years | Last 5 years | Since 31 Jan 2019 ¹ |
|--|-------------|----------------|--------------|--------------|--------------------------------|
| Protea Fund - Veritas High Equity (Acc)² | 3.9% | 11.6% | 14.8% | 66.1% | 91.2% |
| UK CPI +4% ³ | 1.9% | 6.4% | 30.1% | 46.4% | 53.5% |
| UK CPI ³ | 0.9% | 2.4% | 17.6% | 24.8% | 27.4% |
| Peer Group ⁴ | 2.1% | 9.8% | 5.4% | 25.2% | 42.4% |
| MSCI AC World Equity Index (£) ⁵ | 6.0% | 19.6% | 26.8% | 70.8% | 99.1% |
| FTSE All-Share Index (£) ⁵ | -0.4% | 9.5% | 18.5% | 26.5% | 44.7% |
| Inv. Grade Corporate Bonds (1-10Y) ⁵ | 0.5% | 4.4% | -0.2% | 3.7% | 10.0% |

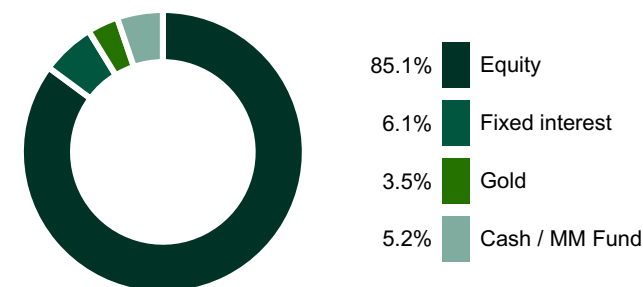
Investment Mandate

| | |
|---------------------|---|
| Objective | To protect our clients' assets and grow them significantly above inflation over the long-term |
| Risk Profile | Medium/high risk with a strategic asset allocation range of 80-100% in equities |

Equity sectors⁶

| | % Weight | Names |
|------------------------|----------|---|
| Health Care | 19.8% | Align Technology, Intuitive Surgical, Labcorp Holdings, Roche, Sonova, Thermo Fisher Scientific, UnitedHealth Group |
| Information Technology | 19.6% | Accenture, Adobe, Amphenol, Cadence Design Systems, Intuit, Microsoft, Synopsys |
| Financials | 16.4% | Fiserv, London Stock Exchange Group, Marsh & McLennan, Mastercard |
| Industrials | 13.5% | AMETEK, Automatic Data Processing, Broadridge Financial Solutions, Bunzl, Experian |
| Consumer Discretionary | 8.2% | Amazon, Next, Tractor Supply |
| Materials | 3.4% | Avery Dennison, DSM-Firmenich |
| Communication Services | 2.5% | Alphabet |
| Consumer Staples | 1.8% | Kerry |

Asset Allocation (% of Portfolio)



Morningstar Sustainability Rating™



Fund Performance figures are in Sterling, total returns with net dividends reinvested. ¹Performance since month of inception. ²Protea Fund returns are net of all fees and costs. ³UK CPI are the most recent figures at the time of publication and obtained from external sources. UK CPI +4% figures are calculated internally using methodology that may differ from external counterparties. ⁴The ARC £ Equity Risk Index initial estimates are subject to revision. ⁵All Indices are gross of fees. Where shown Inv. Grade Corporate Bonds (1-10Y) refers to BofA ML index. ⁶Global Industry Classification Standard (GICS®), as determined by MSCI Inc. and S&P Global Market Intelligence, is used for sector classification of the securities and is shown only for comparability purposes. Source: Pictet, Bloomberg, Factset. All figures are unaudited and subject to change. Totals may not add precisely due to rounding.

Out of 8,339 Aggressive Allocation funds as at 31 December 2024. Based on 91% of eligible corporate AUM and long positions only. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

Quarterly Update

Investment commentary

The fund made good progress, delivering positive performance of 3.9% over the quarter. Calendar year returns are 11.6%.

“We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction.” Bill Gates

The Nokia 3310 was *the* must-have tech item of 2000 and 2001. Sleek, robust and achingly cool, its unprecedented functionality included an 84x48-pixel monochrome display, that Snake game and the option to replace the ‘Xpress-On’ fascia with a design of your choice. It remained in production for fully five years – about twice as long as today’s phones.

Fast-forward 25 years and our 3310 equivalent is the iPhone 15, a ‘phone’ in the loosest sense. It’s a powerful, pocket-sized computer with a 2796x1290-pixel screen resolution and at least as much claim to be a telly, music library or camera. In fact, the iPhone 15’s camera provides 16 times more resolution than pro DSLR cameras did in 2000.

We have no idea what the Nokia equivalent will be in 2050, but there are some things we can know. The first is that technology will continue to develop at an accelerating pace, producing more complex and unexpected innovations. Semiconductor chips will be crucial for all of these, from personal gadgets to cutting-edge AI. Whatever the chips used, they will almost certainly be designed and tested with software from **Cadence Design Systems** and **Synopsys**, two of our fund holdings.

We also know from today’s demographic trends that by 2050 there will be a much smaller global workforce and many more people over the age of 65. Technology and automation will need to do the heavy lifting if economic output is to increase, or even stay at today’s levels.

This plays to the strengths of manufacturers of crucial components and instrumentation such as **AMETEK** and **Amphenol**; global providers of financial plumbing such as **Fiserv**; and even **Avery Dennison’s** humble but efficiency-generating smart labels (RFID tags).

An older population will mean strong demand for healthcare. The sector will need to up its game, being 10 years behind financial services firms in how it uses data and analytics, according to **Experian**, which provides data and software to US hospitals. On the plus side, we live in an era of explosive innovation in life sciences for which **Thermo Fisher Scientific’s** products, from critical lab supplies to high-tech analytical instruments, are the picks and shovels. And, as surgeons age alongside their patients, there will be more demand for **Intuitive Surgical’s** Da Vinci 5 robots. These are helping surgeons carry out more, and more complex, procedures – such as the first fully robotic double lung transplant – while also reducing patient recovery times.

Our job is to ensure that our clients’ savings grow faster than inflation over the long term. We have succeeded in this over multi-year periods by maintaining a forward-looking and highly selective investment approach and staying disciplined on price. This is particularly important when index performance in developed markets (notably the US) is being driven by just a handful of stocks. As our longstanding clients have come to expect, we will leave froth on the table from time to time.

Today, inflation appears to be back to more normal levels, but this masks a 25% cumulative rise during the past five years. We continue to work hard on your behalf, finding high-quality companies that can keep your investments on the right side of history and ahead of inflation.

Top of the class

Amazon is reaping the rewards of its past investment in infrastructure, showing consistent and increasing profitability in its ecommerce and cloud businesses.

Quarterly Update

The company is a global leader in both these areas, which have plenty of long-term structural growth ahead of them. Amazon continues to generate healthy levels of cash, despite its ongoing investment in new data centres. Its annual operating cash flow of \$113bn dwarfs its capex of \$60-70bn. The company is well-placed to act as the world's cloud host of choice – whether for data storage or AI inference.

You there at the back!

UnitedHealth Group's share price declined at the end of the quarter following the tragic murder of the CEO of its insurance business, Brian Thompson, and potential regulatory changes. The company is a lynchpin in the US healthcare system, a critical middleman between patients, doctors, companies and the government. We are long-term holders of UnitedHealth, which is well-placed to help reduce the complexity and cost of US healthcare. Earlier in the quarter we trimmed our position size to maintain balance across the portfolio.

Portfolio activity – main transactions

We sold **Kuehne + Nagel**. The stock has performed well since we first purchased it in 2019, with the company executing brilliantly through the pandemic and improving efficiency with initiatives such as eTouch automation. However, we believe further gains are less certain for the time being and have exited in favour of opportunities that give us more visibility and offer more upside potential.

We topped up **gold** exposure further in the fund. Gold has proved to be resilient in a range of environments, including market dislocations and periods of geopolitical instability, making it a useful 'Swiss Army knife' diversifier alongside our bond and cash holdings.

Portfolio activity – engagement

Cybercrime is a booming business. Since 2018 there have been 588 significant cyberattacks (those costing more than \$1 million or resulting in more than 1 million files leaked) and the estimated annual cost of cybercrime is now \$10.5 trillion, according to McKinsey & Company.

It's important that our portfolio companies are well-protected against cybercrime. This starts with having well-informed, well-prepared leadership. If directors are to oversee cyber risk management effectively, they must not only be well-trained but also kept bang up to date. We are engaging with company boards to understand how they approach this fast-moving space.

Marsh & McLennan (insurance, management consultancy and investment advice) has recently made cybersecurity the responsibility of its entire board, who receive biannual reports from their cyber risk team. During a recent engagement call, they also mentioned that board and executive team members had met with the head of the FBI's cybersecurity team for a briefing on cyber-related matters.

Working with external advisers, **Avery Dennison** (labelling and RFID smart tags) benchmarks itself against third-party cybersecurity standards. Bill Wagner, chairman of Avery's governance committee, believes that all board members should understand cyber issues, rather than relying on one or two experts at the table. He is adamant that "you can never have enough focus and time spent on cyber" and that board members will need to improve faster than the bad actors.

For some companies, devoting more management time and training to cybersecurity may be burdensome, but the stakes are high. In 2022 the average cost of a successful cyberattack was \$4.4 million.

Quarterly Update

Top 10 Equity Holdings

| Holding | % Weight |
|-----------------------------|-----------------|
| Fiserv | 4.5 |
| Mastercard | 4.2 |
| London Stock Exchange Group | 4.1 |
| Thermo Fisher Scientific | 3.9 |
| Intuitive Surgical | 3.6 |
| Marsh & McLennan | 3.6 |
| Microsoft | 3.5 |
| UnitedHealth Group | 3.4 |
| Experian | 3.3 |
| Labcorp Holdings | 3.3 |
| Top 10 Equity Total | 37.5 |

Important Information

| | |
|---|---|
| Fund manager | Meridiem Investment Management Ltd |
| Ongoing charges | 0.75% (reduced on 1st August 2024 from 0.80%) |
| Inception date | 25th January 2019 |
| Fund size | GBP 700.2m |
| Pricing | Daily |
| Base currency | GBP |
| Fund type | UCITS |
| Structure | SICAV |
| Domicile | Luxembourg |
| Tax status | UK Reporting Fund |
| SFDR classification | Article 8 |
| Custodian bank | Pictet & Cie (Europe) SA |
| Dividend paid | January / July |
| Previous dividend rate (January 2024 / July 2024) | GBP 0.89 / 0.98 |
| ISIN (Dis / Acc) | LU1901197852 / LU1901191145 |

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Disclosure

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Changes in rates of exchange between currencies may cause the value of investments to diminish or to increase.

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The Protea Fund - Veritas High Equity does not have a sustainability investment objective.

Sources

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