Quarterly Update - Q2 2024

Protea Fund

Veritas Core Equity
with Fixed Income

30 June 2024

MERIDIEM
INVESTMENT MANAGEMENT

Protea Fund – Veritas Core Equity with Fixed Income

Performance

	Q2 2024	YTD	Last 12 months	Last 3 years	Last 5 years	Since 31 Dec 2018[1]
Protea Fund - Veritas CEFI (Acc)[2]	**0.5%**	**4.5%**	**11.1%**	**17.8%**	**47.4%**	**61.3%**
UK CPI +3%[3]	1.6%	2.9%	5.0%	29.8%	40.2%	42.9%
UK CPI [3]	0.8%	1.5%	2.0%	20.5%	24.3%	25.2%
Peer Group [4]	1.6%	5.6%	10.9%	5.7%	21.9%	34.7%
MSCI AC World Equity Index (£)[5]	2.9%	12.2%	20.1%	28.1%	67.8%	95.2%
FTSE All-Share Index (£) [5]	3.7%	7.4%	13.0%	23.9%	30.9%	47.9%
Inv. Grade Corporate Bonds (1-10Y)[5]	0.5%	1.2%	11.3%	-4.1%	3.0%	7.9%

Investment Mandate

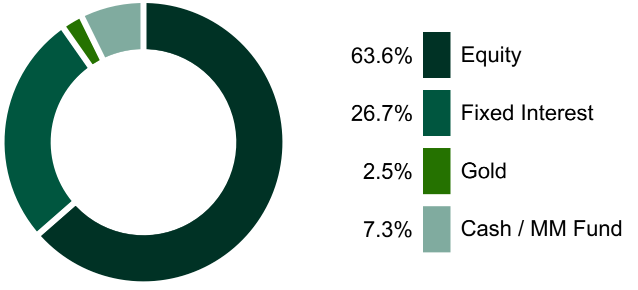
Objective	To protect our clients' assets and grow them well above inflation over the long-term
Risk Profile	Medium risk with a strategic asset allocation of 65% in equities and 35% in cash/bonds

Equity sectors

	% Weight	Names
Health Care	15.3%	Align Technology, Intuitive Surgical, Labcorp Holdings, Roche, Sonova, Thermo Fisher Scientific, UnitedHealth Group
Information Technology	14.7%	Accenture, Adobe, Amphenol, Intuit, Microsoft, Synopsys
Financials	11.0%	Fiserv, London Stock Exchange Group, Marsh & McLennan, Mastercard
Industrials	9.2%	Automatic Data Processing, Broadridge Financial Solutions, Bunzl, Experian, Kuehne + Nagel International
Consumer Discretionary	7.3%	Amazon, Next, Nike, Tractor Supply
Materials	2.9%	Avery Dennison, DSM-Firmenich
Communication Services	1.8%	Alphabet
Consumer Staples	1.3%	Kerry Group

Fund Performance figures are in Sterling, total returns with net dividends reinvested.[1]Performance since month of inception. [2] Protea Fund returns are net of all fees and costs. [3]UK CPI are the most recent figures at the time of publication and obtained from external sources. UK CPI +3% figures are calculated internally using methodology that may differ from external counterparties. [4]The ARC £ Steady Growth Index initial estimates are subject to revision. [5]All Indices are gross of fees. Where shown Inv. Grade Corporate Bonds (1-10Y) refers to BofA ML index. Source: Pictet, Bloomberg, Factset. All figures are unaudited and subject to change. Totals may not add precisely due to rounding.

Asset Allocation (% of Portfolio)



Morningstar Sustainability Rating™

High
5 out of 5 globes

The Protea Fund – Veritas Core Equity with Fixed Income is rated out of 7,518 funds within its global category. Data is as at 30 June 2024.

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Investment commentary

The fund continued to make progress, delivering positive performance of 0.5% over the quarter. Year to date returns are 4.5%.

If today's stored data is thought of as being equivalent to an Olympic-sized swimming pool, by 2030 it will be the size of the Mediterranean. By 2040, it is expected to be equivalent to 15 times all the water on planet Earth.

This estimate from Intel was just one of the remarkable takeaways from a recent convention of R&D experts and academics at the forefront of tech research. Events such as these give us an invaluable leg up to see over the horizon, because today's early R&D conversations tend to result in tangible products and services over the following 6-10 years. These insights provide foresight, reducing our reliance on forecasting.

What we heard was extremely heartening. There is now a strong consensus among researchers that we are rapidly approaching a series of inflection points across the entire tech 'ecosystem' that will supercharge technological innovation.

The grit in this pearl will be the vast energy demand created by exponential growth in the training and use of AI and storage of data. The answer does not lie in simply producing more energy – indeed, traditional energy producers are unlikely to be able to provide enough. Instead, solutions lie in creating efficiencies across the board, from semiconductors, power supplies and tech architecture, to networks and coding. There will be many winners – and losers – in this process of disruptive innovation.

The fund includes a range of companies that have been selected as key beneficiaries in the hunt for efficiency. These include **Amphenol**, **Accenture** and **Microsoft**, and also **Synopsys**, a world leader in semiconductor design tools.

With its ongoing acquisition of Ansys, Synopsys is extending its services into simulation which, for example, can be used to improve how semiconductors in cars interact with an array of other car components.

Following the end of 14 years of Conservative rule, it feels appropriate to comment on this year's bumper crop of over 170 elections around the world. So far, results have upset a few apple carts, with markets responding negatively to unexpected results in India and Mexico, and bond yields moving higher in Italy and France in response to far-right gains.

We do not make investment decisions that rely on election outcomes and, given our focus on structural trends, election results tend to have little impact on the long-term outlook for our portfolios. For example, regardless of who wins the US election, more than 70,000 Americans will continue to turn 65 each year, to the benefit of portfolio companies such as **Intuitive Surgical** and **UnitedHealth**.

In a world in flux, we seek the predictable. Regardless of political upheavals or the latest outlook for interest rates, we invest in carefully selected, high-quality and innovative companies that have ample potential to provide inflation-beating growth over the long term.

Top of the class

Alphabet's ebullient share price performance has been backed by a strong set of results for the first quarter of 2024, with revenues up 16%. Margins are at record highs in both Alphabet's core businesses and its Cloud operations. Progress is also evident in the monetisation of YouTube Shorts, which are proving to be even more profitable than longer YouTube videos.

We were recently reminded of the following lines from Google founders Larry Page and Sergey Brin's iconic IPO letter to shareholders (2004), which chime perfectly with Meridiem's investment approach:

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"If opportunities arise that might cause us to sacrifice short-term results but are in the best long-term interest of our shareholders, we will take those opportunities. We will have the fortitude to do this. We would request that our shareholders take the long-term view."

You there at the back!

Align Technology fell following signs that consumer sentiment is deteriorating in the US. We remain confident that Align will capitalise on its lead in clear dental aligners, which continue to win market share from traditional options – including in the less discretionary area of child orthodontics. Align's forthcoming products will enable it to expand its market further.

Fixed income

Developed market inflation has fallen substantially in the past 12 months, with headline rates now close to central banks' long-term targets in most western economies. It may not feel like it to consumers: a vertiginous rise in the price of kebabs in Germany has inspired headlines about the 'kofta living crisis'.

Interest rates must surely follow inflation lower at some point, but attempting to divine when and by how much has proved a wild goose chase for many. Since December, markets have switched from expecting six US rate cuts in 2024 to just one. We remain cautious, while locking in attractive yields of around 5% (comfortably ahead of May's annual UK CPI reading of 2.8%) from high-quality corporate bonds.

Portfolio activity – main transactions

The second quarter was a time for good housekeeping and portfolio 'tweaks', rather than any significant changes in exposure. Following strong runs for **Amphenol, Thermo Fisher Scientific** and **Tractor Supply** we have trimmed our holdings to maintain valuation discipline across the portfolio.

We redeployed proceeds across a number of other portfolio names. These included **UnitedHealth**, where recent share price weakness is at odds with its long-term potential to benefit from ageing populations and application of AI to its vast databases.

We also topped up exposure to **London Stock Exchange Group** (**LSEG)**, which is trading at a significant discount to its data and stock exchange peers. Our research suggests a bright future for LSEG as it monetises its acquisition of Refinitiv, a financial data provider, and develops its partnership with **Microsoft** to provide cloud-based, next-generation data and analytics.

Portfolio activity – engagement

AI in its current form is a power-hungry beast, both in training and in use. On average, a ChatGPT query chews its way through between 10 and 100 times as much electricity as a Google search, and the data it generates continues to gobble energy when stored.

According to the International Energy Agency (IEA), AI demand could cause electricity consumption by data centres to double as soon as 2026. This would be equivalent to the electricity consumption of Japan.

In fact, the bottleneck in energy supply is already a live issue. Headlines abound about bans on construction of new data centres, but there are also difficulties with connecting data centres to renewable power supplies – including an Amazon facility in Scotland where the offshore wind turbines earmarked to provide power were tantalisingly visible but unattainable.

It was therefore with interest that we recently met with **Microsoft's** ESG Engagement Director to discuss the company's ambitious plans for new data centres. It was good to hear from the company itself that grid connection is unlikely to be a major roadblock.

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Microsoft has set a tough target of powering 100% of its operations with 100% renewable energy, 100% of the time by 2025. A pressing issue for Microsoft is therefore how to procure enough green energy in all the various regions in which it operates. As a large and influential player, however, it is often able to work with governments (a recent case in point being the Taiwanese government) to increase development of renewable energy sources.

Is the 100/100/100 energy target actually achievable? Microsoft concedes that it might miss its target by 4-5%, but in our view this would still be a massive achievement. In such cases, the most constructive course of action for us as investors is to be supportive of company management working hard to achieve laudable outcomes that make good business sense.

Top 10 Equity Holdings

Holding	**% Weight**
UnitedHealth Group	3.3
Microsoft	3.0
Intuitive Surgical	2.9
Intuit	2.9
Amphenol	2.9
Mastercard	2.9
Marsh & McLennan	2.8
Fiserv	2.7
Thermo Fisher Scientific	2.7
London Stock Exchange Group	2.7
Top 10 Equity Total	**28.8**

Important Information

Fund manager	Meridiem Investment Management Ltd
Ongoing charges	0.80%
Inception date	14th December 2018
Fund size	GBP 537.7m
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 (July 2023 / January 2024)	GBP 0.81/ 0.81
ISIN (Dis/Acc)	LU1883344829 / LU1883345123

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Risk Warnings

Past performance should not be seen as an indication of future performance.
The value of investments and the income from them may fluctuate and are not guaranteed Investors may not get back the whole amount they have invested.
Changes in rates of exchange between currencies may cause the value of investments to diminish or to increase.
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