Quarterly Update - Q3 2024

Protea Fund

Veritas High Equity

30 September 2024

MERIDIEM
INVESTMENT MANAGEMENT

Protea Fund – Veritas High Equity

Performance

	Q3 2024	YTD	Last 12 months	Last 3 years	Last 5 years	Since 31 Jan 2019[1]
Protea Fund - Veritas High Equity (Acc)[2]	**1.5%**	**7.4%**	**13.6%**	**22.2%**	**64.6%**	**84.0%**
UK CPI +4%[3]	1.3%	4.8%	5.9%	32.2%	45.7%	51.5%
UK CPI [3]	0.3%	1.8%	1.9%	19.7%	24.0%	26.6%
Peer Group [4]	0.9%	7.6%	13.7%	6.3%	26.6%	39.5%
MSCI AC World Equity Index (£)[5]	0.5%	12.8%	19.9%	26.9%	63.3%	87.7%
FTSE All-Share Index (£)[5]	2.3%	9.9%	13.4%	23.9%	32.2%	45.2%
Inv. Grade Corporate Bonds (1-10Y)[5]	2.6%	3.8%	10.2%	-1.2%	3.5%	9.4%

Investment Mandate

Objective To protect our clients' assets and grow them significantly above inflation over the long-term

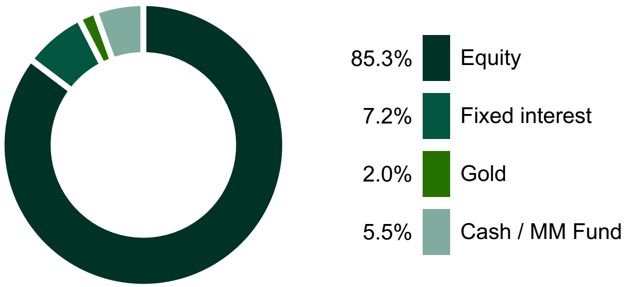
Risk Profile Medium/high risk with a strategic asset allocation range of 80-100% in equities

Equity sectors[6]

	% Weight	Names
Health Care	20.6%	Align Technology, Intuitive Surgical, Labcorp Holdings, Roche, Sonova, Thermo Fisher Scientific, UnitedHealth Group
Information Technology	18.7%	Accenture, Adobe, Amphenol, Cadence Design Systems, Intuit, Microsoft, Synopsys
Financials	15.3%	Fiserv, London Stock Exchange Group, Marsh & McLennan, Mastercard
Industrials	14.2%	AMETEK, Automatic Data Processing, Broadridge Financial Solutions, Bunzl, Experian, Kuehne + Nagel
Consumer Discretionary	8.4%	Amazon, Next, Tractor Supply
Materials	4.1%	Avery Dennison, DSM-Firmenich
Communication Services	2.2%	Alphabet
Consumer Staples	2.0%	Kerry

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 +4% figures are calculated internally using methodology that may differ from external counterparties. [4]The ARC £ Equity Risk 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. [6]Global 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.

Asset Allocation (% of Portfolio)



Morningstar Sustainability Rating™

High
5 out of 5 globes

Out of 8,303 Aggressive Allocation funds as at 30 September 2024. Based on 93% of eligible corporate AUM and long positions only. Sustainalytics provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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Investment commentary

The fund continued to make progress, delivering positive performance of 1.5% over the quarter. Year to date returns are 7.4%.

“If it’s Boeing, I ain’t going.”

We’ve been fascinated by the news that SpaceX will step in to give Butch Wilmore and Suni Williams a ride home from the International Space Station in its Dragon capsule. Technical issues with Boeing’s Starliner have turned an eight-day trip into an eight-month space opera, with the astronauts hitching a lift back courtesy of an innovative upstart company of barely 20 years’ standing.

This incident highlights the speed at which innovative companies are disrupting entire industries. SpaceX’s stablemate Starlink (born 2015) now has 6,350 satellites in orbit, enough for astronomers to grumble about obscured views. Meanwhile, Boeing (founded 1916) is dealing with the aftermath of two tragic air disasters, truculent unions and close questions from its regulator.

Our aim is to beat inflation over the long term, not jump over the moon. Hence, many of our holdings are less headline-grabbing companies that work quietly ‘under the bonnet’ to re-wire themselves or entire swathes of the economy for a connected, digital world.

We don’t hold moon-shot businesses such as SpaceX or struggling once-greats like Boeing, but we do own companies such as **London Stock Exchange Group (LSEG)**, which is revolutionising finance, and **Intuit**, which is democratising accountancy. **Amphenol** and new holding **AMETEK** supply indispensable widgetry and gadgetry, the high-speed fibre optics, hermetic seals, connectors and precision instrumentation needed by an array of industries – including the aerospace and space sectors.

What most of our portfolio companies have in common is predictable and growing revenues based on innovation, continual self-improvement and an ability to repel competition. Such companies do not come cheap, so we need to be patient until the price is right, such as during the recent market sell-off. We took the opportunity to invest in two companies that we have long admired (see **Portfolio transactions**).

Space may be the final frontier, but plenty of frontiers are still being crossed here on our home planet. **Thermo Fisher Scientific’s** latest cryo-electron microscope, for example, is helping to accelerate discovery of new medicines by determining protein structure down to the atomic level. That’s equivalent to being able to see a tennis ball on Earth from the moon.

Our favourite quote of the quarter comes from Alex Lintner, CEO of Experian Software Solutions, discussing generative AI at the Barclays 2024 Credit Bureau Forum:

“I don't want to contribute to hype or anything, but this is the biggest leap forward in technological advancement that I have seen since…the invention of the internet…It will be profound and it will be profound for our customers…”

Balancing the opportunities to invest in this disruption with our hunt for predictable revenue streams means our portfolio will look unlike any given market index. Until there is a re-wiring of our clients' needs, we remain focused on inflation-plus returns.

Top of the class

"We see good growth opportunities in all our sectors besides bricks-and-mortar non-food retail." Bunzl CFO Richard Howes, H1 2024 results call.

One of our workhorse compounders, **Bunzl**, has been enjoying a day in the sun after announcing its first-half results for 2024.

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These included a 7.4% increase in adjusted operating profit, £250 million in planned share buybacks and a three-year plan to allocate £700 million annually to acquisitions and capital returns.

We have held Bunzl since 2017. Its business is unglamorous – supplying low-value but vital products such as cleaning supplies, coffee cups and packaging – but it does it very well, providing a bespoke service at huge scale. Part of its success is due to acquisitions of smaller, locally focused businesses. Bunzl's management point out that most equity analysts do not take into account future acquisitions, resulting in a 'crazy' low valuation of their business.

You there at the back!

Electronic design automation (EDA) giant **Synopsys** was caught in the downdraught of higher volatility among semiconductor-related companies. Synopsys's dominance in semiconductor design software and systems testing offers a 'picks and shovels' (pixels and shovels?) approach to playing technology megatrends such as cloud computing, AI and automation. Its revenues are closely tied to R&D spending, making its business significantly less cyclical than other areas of the semiconductor industry. We have taken advantage of lower EDA company share prices to add **Cadence Design Systems** to the portfolio (see **Portfolio activity** below).

Portfolio activity – main transactions

Synopsys - a world leader in EDA - has been joined in the portfolio by its peer, **Cadence Design Systems**. We do not usually own two similar companies, but both of these high-quality businesses merit places in the portfolio. Together, they diversify our exposure to a strong area for long-term growth.

Virtually every device with a chip has been touched in some way by EDA design and testing tools, which underpin semiconductor development and innovation across the entire tech landscape. It's hard to overstate the long runway for growth and value creation that this implies.

A second new addition, **AMETEK**, is a high-quality, asset-light business with fingers in many pies, from automation, environmental monitoring, medicine and aerospace to power generation and distribution. Its highly differentiated instruments and components are often mission-critical for its diverse niche markets, where it is usually the dominant player.

AMETEK is well positioned to sustain pricing power, benefit from recurring revenues and continue to grow. In addition, it operates in highly regulated markets, where approved devices have a competitive advantage and regulatory moat.

After a frustrating two years, we exited our position in **Nike**. The consistency of Nike's delivery was key to our case for investing in this area of the market, but the current management has lost its way. Nike has bounced back from other periods of under-performance, but it has never before faced such a dearth of new products and low visibility of the path ahead. Since we decided to "Just do it" and exit our position, CEO John Donahoe has announced that he will be replaced by Nike veteran Elliot Hill. The management team has warned that any turnaround will be far from instant.

Portfolio activity – engagement

How much executive pay is enough? It all depends. There is no single magic metric: investors must consider each case with good judgement and a measure of sound common sense.

As long-term owners we want our investee companies to attract and retain skilled management. A fair and competitive pay structure that rewards excellence is crucial in this regard.

Some companies have well-established and transparent compensation arrangements. We recently engaged with **Kerry**, for example, as part of their well-established triennial compensation review.

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We support Kerry's executive compensation increases, which will help Kerry retain key talent needed to drive its growth strategy.

Other cases are more complex. At **Sonova's** AGM in June, only 51.5% of shareholders approved its compensation report. The bone of contention was a lack of disclosure about targets and thresholds used to determine short- and long-term incentives. We were part of the 48.5% that withheld support. While we believe Sonova's remuneration levels are appropriate, weak disclosure makes it challenging to assess alignment between pay, performance and long-term targets.

Sonova set up a taskforce to address this issue. We offered to review their proposals and shared best practice from other companies. This engagement culminated with a call with the Chair of the Nominations and Compensation Committee, where Sonova explained the improvements we can expect to see in next year's compensation report.

Sometimes, a company has transformed to such an extent that its compensation arrangements are no longer suitable. **LSEG** now competes on a global scale as a fintech company, not a regional stock exchange. However, its CEO's compensation was below the bottom quartile of LSEG's peers – difficult to justify given LSEG's size and relative performance – and lower than some of the US-based executives who report to him.

We are engaging with LSEG about its choice of management performance metrics, but we fully endorse its shift to bring CEO pay in line with global peers. This company has a bright future ahead of it – it must compete globally for talent.

Top 10 Equity Holdings

Holding	**% Weight**
UnitedHealth Group	4.6
Fiserv	4.1
Mastercard	3.8
Thermo Fisher Scientific	3.8
London Stock Exchange Group	3.8
Marsh & McLennan	3.7
Intuitive Surgical	3.6
Microsoft	3.6
Tractor Supply	3.4
Bunzl	3.4
Top 10 Equity Total	**37.8**

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 638.4m
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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The Protea Fund - Veritas High Equity does not have a sustainability investment objective.

Sources

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