NEDGROUP
INVESTMENTS

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Nedgroup Investments Global Equity Fund

Quarter One, 2021

Nedgroup Investments Global Equity Fund

1. Market Overview and Outlook

Portfolio Manager Commentary

"Investing is laying out money now to get more back in the future – more money in real terms, after taking inflation into account"

Warren Buffett, Forbes Article "Mr Buffet on the Stock Market" 1999

The Tortoise and the Hare

Warren Buffet is well known as one of the world's most successful investors. His style has morphed over seven decades from his original "cigar butt" value approach to a style based more on investing in companies that have durable competitive advantages when they are available at "fair" valuations and then holding these for the long term to benefit from the compounding in earnings and cash flows. In making this change of style, Buffett acknowledges he was heavily influenced by his partner Charlie Munger. Munger's style and influence on Buffett can be summed up by the following quote:

"Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns 6% on capital over 40 years and you hold it for 40 years, you're not going to make much different than a 6% return – even if you originally buy it at a huge discount. Conversely, if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you'll end up with one hell of a result." From this and other quotes by both Munger and Buffett it is easy to understand their investment philosophy: buy well managed companies that have long term competitive advantages, can continue to deploy more capital at high rates of return, and pay up to a "fair" price for the best businesses. Then sit back and wait for a decade or so, benefiting from the compounding in earnings that inevitably occurs if the original analysis is correct (i.e. the companies did have durable competitive advantages and could deploy more capital at high returns to enable them to grow). This style of investing is proven over the long term and is very similar to the style we employ at Veritas. One important feature of this style of investing is its long-term nature – the investor is seeking to benefit from the long-term compounding in earnings, not trying to catch a one-off rise in valuation or a temporary rise in profits which then revert to previous levels.

This can be contrasted with the style of investing that seems to be increasingly dominating markets today – a huge influx of retail investors, flush with cash that are looking to benefit from short term price spikes in the companies in which they "invest". This style relies primarily on the company having a good short-term narrative rather than any careful analysis of its long term durable competitive advantage. While it lasts, it can be very profitable but historically these episodes have resulted in more money being lost in the declines (when the reality meets the narrative) than was made in the original rise. The last time we had a similar situation was in the late 1990s with Technology, Media and Telecoms (TMT) benefiting from the strong narrative of the day. Today it is electric vehicles, hydrogen and other clean energy, cryptocurrency, semiconductors, AI and a plethora of pseudo software-as-a-service businesses.

Veritas will continue to follow the investment style we have successfully deployed for almost 20 years. Identifying high quality companies (those with strong durable competitive advantages) that earn above average returns on capital, can deploy more capital, are well managed and available to purchase at attractive valuations. Having found these, we will be patient and seek to benefit from the inevitable compounding in earnings. While there will be periods that such a style underperforms other investing styles (typically shorter-term investing) we believe it is the most consistent and lowest risk style of generating attractive real returns over the medium and long term. The current environment is a period not supportive for our style of investing – In the wake of COVID-19 the policies and stimulus applied by governments and other policy makers has encouraged risk taking across all assets. Liquidity is abundant and interest rates are being artificially depressed by policy makers to relieve any pressure on borrowers and encourage further borrowing. This disproportionately benefits higher risk stocks (typically either companies that are marginally profitable and rely on a supportive economy to generate high returns or companies that have high growth rates and where material profitability and cashflows are forecast in the distant future). Companies that deliver solid earnings and cashflows year in and year out are largely being overlooked in favour of their racier cousins. This situation could persist for some time but we continue to believe that over the long term the value of any asset will grow in proportion to the growth in its earnings and cashflows.

In the short-term, valuation changes can make a meaningful positive or negative impact but in the long term, it's the compounding of earnings that counts.

Implications for the portfolio

An example of a company held in the portfolio but currently out of favour with market desires is Baxter International. The company manufactures and provides a diversified portfolio of medically necessary products for acute care within a hospital setting and in addition, home kidney dialysis care equipment (30% of sales). Strong structural growth drivers result in resilient low-to-mid single digit revenue growth for Baxter at low 20s percentage operating margins. The COVID-19 pandemic immediately and dramatically increased global demand for several product lines to hospitals, particularly in CRRT (continuous renal replacement therapy) equipment, infusion systems and intravenous solutions. Baxter responded by ramping production lines and investing in manufacturing capacity and emergency logistics to meet the surge in demand.

As investors focused on appraising a company's ESG performance, we applaud Baxter meeting its social contract to its hospital customers and ultimately to patients globally. The company invested decisively to respond to the demand resulting from the pandemic. For fiscal 2020, this of course meant that the operating leverage from increased volumes in these businesses did not fall fully to the bottom line. Further, other business divisions were temporarily impaired by lower hospital admissions for routine surgeries. However, looking beyond the pandemic, Baxter has strengthened its relationships with customers and governments by delivering critical supply where competitors (of which there are few in its markets) have faltered.

Also overlooked at present, in our opinion, is the potential for supernormal growth in Baxter's US peritoneal dialysis (PD) business from summer 2021. In the US, where 37 million people suffer with chronic kidney disease, dialysis provision has been dominated by in-centre haemodialysis, with PD (which is administered at home) only treating 11-12% of dialysis patients in recent years.

Transplantation rates are low with well over 100,000 patients currently on the transplantation list. In response, in July 2019, the White House announced the Advancing American Kidney Health Initiative (AAKHI) with the aim of increasing the number of patients receiving a transplant or receiving home haemodialysis to 80% by 2025. The Centre for Medicaid & Medicare Services (CMS) subsequently announced several demonstration projects (both voluntary and mandatory) utilising a number of reimbursement models to be conducted over a seven-year period towards this lofty aim. Companies necessary for successful implementation, such as Baxter, were consulted and necessary investments committed.

The CMS demonstration projects will begin from April 2021; understandably delayed by COVID-19, with industry participants predicting these new incentives and increased private payer activity to double the number of PD patients in 5-7 years. In addition, this US move is part of an emerging trend worldwide as payers, clinicians and patients increasingly embrace home PD as a frontline End Stage Renal Disease (ESRD) treatment option based on key economic, therapeutic and lifestyle benefits, increasingly enabled by patient monitoring technology. Further, the coronavirus pandemic appears to have accelerated the trend, focusing health systems on providing cost-effective healthcare in the home where possible, especially for such vulnerable patient groups, with a greater acceptance and reimbursement for telemedicine to support home care.

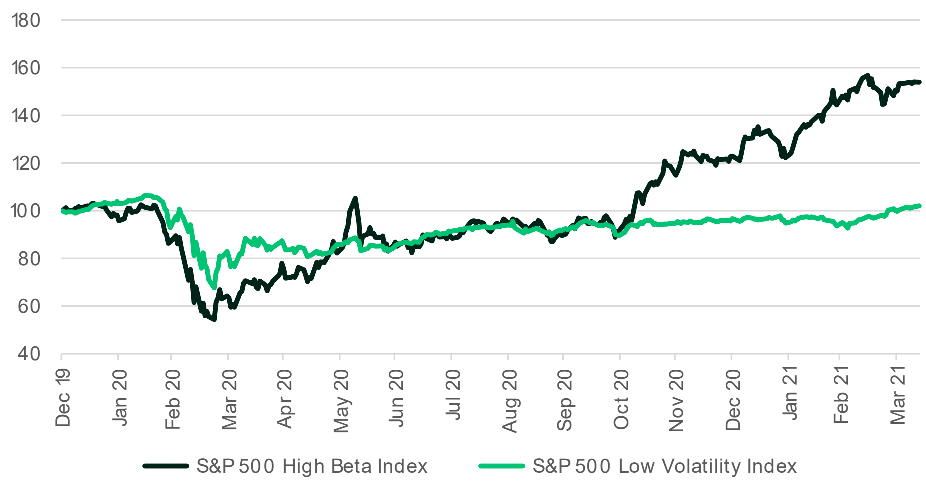
CEO Joe Almeida's previous record of value creation at Covidien is strong and at Baxter he has thus far focused on driving stronger revenue growth and streamlining operations. Only small tuck-in acquisitions have been made to strengthen existing businesses and certain market commentators appear frustrated by the lack of major

Mergers & Acquisitions (M&A) given the strong balance sheet – this despite the record valuations currently for many companies. As long-term shareholders, we applaud this patience and fiscal responsibility, recognising Baxter's Return On Invested Capital (ROIC) has risen to a three-year average of 14%, or 23% excluding goodwill, under Mr Almeida's stewardship. As we enter a new normal for hospital admissions and dialysis care, Baxter will emerge more dominant in its markets and remains attractively valued despite a recent run, offering a low double digit Internal Rate of Return (IRR) .

Longer term perspective

Since the market bottomed in the first quarter of 2020 (a period during which investing in high quality, cash generative companies thrived) the market has had its fastest ever rise, increasing some 76% in just over 12 months. This period has not been one for durably high quality, cash generative companies and instead has been a period during which high risk (high beta) companies have strongly outperformed. These high-risk stocks tend to be either long duration technology companies where the (highly uncertain) earnings are a distant possibility or alternatively are marginally profitable more cyclical companies that are expected to benefit from a policy induced economic upswing thanks to government largesse. This phenomenon of high beta outperforming low volatility can be illustrated using the S&P 500 high beta index vs the S&P 500 low volatility index (see below).

High beta versus low volatility



Returns in USD rebased to 100 as at 31.12.19. Source: Bloomberg

Over the past twelve months, the S&P 500 high beta index generated a total return of 141.7% whereas the S&P 500 low volatility index delivered 26.6%, a difference of 115.1% over twelve months (and all these companies are large and profitable, being members of the S&P 500). Admittedly the difference is a little less stark if we include the COVID-19 related declines by taking performance from the end of 2019; in the 15-month period the high beta index delivered a total return of 54.2% versus the 2.6% return of the low volatility index, a difference of over 50%.

Over Veritas' almost 20-year existence, we have invested in a multitude of different market environments and have followed our simple philosophy and style regardless of what other investors were doing or what economic environment we found ourselves in. Over time we are confident adhering to buying good companies at reasonable valuations and holding them to benefit from the compounding of earnings delivers excellent rewards to investors.

In the shorter term our results can be very different to an index. Our holdings are far more concentrated and we focus on delivering good medium and long term real returns to our investors by identifying and investing in high quality companies when they are attractively valued. Given the performance of low volatility companies in the recent past, this is reflected in the performance of the portfolio.

2. Fund performance contributors & detractors for past quarter

Top 5 contributors and detractors

Holding	Portfolio Average Weight	Portfolio Total Return	Portfolio Absolute Contribution	Index Average Weight	Index Total Return	Index Absolute Contribution	Attribution Total Effect
Top 5 relative stock contributors							
Alphabet	7.9	17.7	1.3	2.2	17.7	0.4	0.6
Canadian Pacific Railway	4.2	9.6	0.4	–	–	–	0.2
CVS Health	3.1	10.6	0.3	0.2	10.7	0.0	0.2
Moody`s Corp	1.0	7.2	0.2	0.1	3.0	0.0	0.1
Sonic Healthcare	3.0	8.8	0.3	0.0	8.7	0.0	0.1
Bottom 5 relative stock contributors							
Charter Communications	6.0	-6.7	-0.5	0.2	-6.7	-0.0	-0.7
Aena SME	2.8	-6.5	-0.2	0.0	-6.6	-0.0	-0.3
Safran	3.8	-3.3	-0.1	0.1	-3.9	-0.0	-0.3
Unilever PLC	3.1	-6.9	-0.2	0.3	-5.9	-0.0	-0.3
Intercontinental Exchange	3.2	-3.0	-0.1	0.1	-2.9	-0.0	-0.2

Regional attribution

Region	Portfolio Average Weight	Portfolio Total Return	Portfolio Absolute Contribution	Index Average Weight	Index Total Return	Index Absolute Contribution	Relative Attribution Analysis Allocation Effect	Relative Attribution Analysis Selection Effect	Relative Attribution Analysis Total Effect
Asia/Pacific Ex Japan	8.6	4.4	0.4	3.6	4.6	0.2	0.0	-0.0	-0.0
Africa/Middle East	–	–	–	0.2	-0.3	-0.0	0.0	–	0.0
Europe ex UK	15.5	-0.7	-0.2	14.7	3.5	0.5	0.0	-0.7	-0.7
Japan	–	–	–	7.8	1.6	0.1	0.3	–	0.3
North America	62.5	4.5	2.9	69.3	5.6	3.9	-0.0	-0.7	-0.7
United Kingdom	7.1	-0.1	0.0	4.4	6.2	0.3	-0.0	-0.4	-0.4
Cash and equivalents	6.2	n/a	-0.0	–	–	–	-0.2	–	-0.2
Total	100.0	3.1	3.1	100.0	4.9	4.9	-0.0	-1.8	-1.8

Sector attribution

Sector	Portfolio Average Weight	Portfolio Total Return	Portfolio Absolute Contribution	Index Average Weight	Index Total Return	Index Absolute Contribution	Relative Attribution Analysis Allocation Effect	Relative Attribution Analysis Selection Effect	Relative Attribution Analysis Total Effect
Consumer Discretionary	3.6	-2.6	-0.1	12.1	3.6	0.4	0.1	-0.2	-0.1
Consumer Staples	5.7	-2.9	-0.2	7.2	-0.6	-0.1	0.1	-0.1	-0.1
Energy	–	–	–	3.1	21.8	0.6	-0.4	–	-0.4
Financials	4.8	1.7	0.1	13.3	13.2	1.7	-0.7	-0.4	-1.2
Health Care	30.3	5.2	1.6	12.7	0.7	0.1	-0.8	1.4	0.6
Industrials	22.8	0.8	0.3	10.6	7.7	0.8	0.4	-1.5	-1.1
Information Technology	10.0	3.6	0.4	21.8	1.4	0.3	0.4	0.2	0.6
Materials	–	–	–	4.6	5.7	0.3	-0.0	–	-0.0
Communication Services	16.6	6.4	1.0	9.0	6.8	0.6	0.1	-0.0	0.1
Utilities	–	–	–	3.0	0.5	0.0	0.1	–	0.1
Real Estate	–	–	–	2.6	6.0	0.2	-0.0	–	-0.0
Cash and equivalents	6.2	n/a	-0.0	–	–	–	-0.2	–	-0.2
Total	100.0	3.1	3.1	100.0	4.9	4.9	-1.0	-0.8	-1.8

Portfolio Attribution Commentary

The portfolio holds no energy positions, which have risen strongly as a sector in Q1 and is the best performing sector this year. The portfolio also has a large underweighting in financials, which as a sector has outperformed the wider market, with the banks rising significantly. We do not generally invest in these types of business as they rarely reach the threshold of 'quality' characteristics we seek – high returns on capital, highly cash generative companies with high barriers to entry, a sustainable growth driver and forward looking management. We do apply strict valuation criteria but unlike traditional 'deep value' we seek companies with long term, sustainable, predictable cash flow profiles. There is less visibility of earnings and cash flows in companies like oil (growth in demand for oil is not sustainable, dependence on oil price etc.) and banks (where are the loans?). Turning to stock specifics over the quarter, Alphabet, Canadian Pacific Railways and CVS Health were the largest contributors and Charter Communications, Aena, Safran and Unilever were the biggest detractors.

Alphabet, the largest position in the portfolio, benefitted from the resilience and quick recovery shown in its Google ad business. Revenue rose 23% largely on the back of the core ad business. It is also well positioned to benefit from recovery in advertising in travel, entertainment, media and automotive as vaccines open up the pent up demand for such products/services. Businesses are accelerating their digital journeys given the enhanced capabilities of digital ad formats compared to traditional types like television. The last quarter saw unprecedented reliance on online channels to drive sales. Illustrating this was the 46% ad growth seen at YouTube, on the back of direct-response ads. Direct-response ads encourage pre-selected consumers to take immediate action like buying something from an e-commerce site or downloading an app. YouTube now reaches more 18-49 year olds than all linear TV networks combined. More than 100m people now stream YouTube from their TV sets. Alphabet disclosed operating results from its Cloud business for the first time, reporting a loss of \$1.3bn in the quarter (and \$5.6bn for the full year) with revenue growing close to 50%. The company is still in the investment stage and rapidly becoming the credible third player after Amazon and Microsoft. Amazon earned a profit of \$13.5bn on its Cloud business, so the potential is large as Alphabet gains market share.

Canadian Pacific Railway agreed to acquire Kansas City Southern (KCS) in a merger valued at about \$25 billion in stock and cash. If approved by the Surface Transportation Board, the transaction would create the first rail network linking the U.S., Mexico, and Canada. The transaction will give Canadian Pacific access to KCS's sprawling Midwestern rail network that connects farms in Kansas and Missouri to ports along the Gulf of Mexico. It would also give it reach to Mexico, which made up almost half of KCS's revenue last year and create the only network that cuts through all three North American countries. While remaining the smallest of six U.S. Class 1 railroads by revenue, the combined company will be a much larger and more competitive network, operating approximately 20,000 miles of rail, employing close to 20,000 people and generating total revenues of approximately \$8.7 billion based on 2020 actual revenues. The company expects synergies of \$780 million, and the merger to be Earnings per Share (EPS) accretive from the first year. A successful deal would also come as trade across the three nations is expected to pick up under the Biden administration. Just days after his inauguration, U.S. President Joe Biden spoke with the leaders of Canada and Mexico, his first calls with foreign counterparts, where issues from trade to climate change were discussed. Mexico is a crucial supplier of automobiles, electronics and food and a major customer of grain, fuel and consumer goods. Ties that are likely to be strengthened by July's passage of the U.S.-Mexico-Canada trade pact. KCS's unique network linking Mexico's largest industrial cities and ports to the U.S. Midwest also would be positioned to benefit if the coronavirus pandemic and deteriorating ties between the U.S. and China prompt companies to move lower-wage manufacturing from Asia to North America. CP and KCS interchange and operate an existing shared facility in Kansas City, which is the one point where they connect. This transaction will alleviate the need for a time consuming and expensive interchange, improving efficiency and reducing transit times and costs. This will improve service and has the potential to contribute to the reduction of rail traffic, fuel burn, and emissions in Chicago, an important hub city. Rail is four times more fuel efficient than trucking, and one train can keep more than 300 trucks off public roads and produce 75% less greenhouse gas emissions. CP is currently developing North America's first line-haul hydrogen-powered locomotive. One drawback is the time to approval of any deal. While the U.S. Justice Department or Federal Trade Commission review mergers in other industries, railroad combinations must clear the five-person U.S. Surface Transportation Board who are notoriously slow.

CVS Health's fourth-quarter earnings beat Wall Street's expectations as prescription volume lifted sales and the drugstore chain attracted new customers with COVID-19 testing and vaccines. About 8 million consumers visited a CVS pharmacy for the first time because of COVID-19 testing. The company anticipates a similar experience with vaccines and described the federal program with CVS and other pharmacies as "the linchpin of the Biden administration's plan to vaccinate 300 million Americans by the end of the summer." CVS has the capacity to administer 20 million to 25 million doses per month, depending on supply. The federal government is shipping doses directly to CVS retail pharmacies' stores. As the country's largest pharmacy chain and a major insurance player, CVS has combined assets to drive sales and lower costs. It has turned more than 650 locations into HealthHubs, where people can go to manage their diabetes, meet with a therapist for behavioural health or even participate in a yoga class. With the vaccine roll-out, many visitors learn about what is available for the first time. Some Aetna insurance plans encourage members to go to MinuteClinics (CVS also own over 1000 of these walk-in clinics which on average charge 40% less than cost for the same treatment in hospitals) instead of other health-care providers by not charging a copay for the visits. The company has also introduced a program that brings kidney dialysis services into the home to reduce hospital admissions and an oncology program that matches people to clinical trials. In short, CVS Health is well positioned to benefit from one of the enduring social trends over the next decade of transition to value based healthcare and preventative medicine.

Charter Communications' shares have been treading water since the Q4 2020 results. The results were strong, with Internet customers up 8.3% year-on-year, total revenues up 7.3% and earnings up 10.3%. While COVID-19 has been positive for the company (with the demand for a fast broadband connection rising), investor concerns have shifted to post-Q4 slowdown.

We continue to believe Charter can achieve a teens Free Cash Flow /share growth after the 2021 normalisation. Cable revenue growth is driven by rising Internet customer numbers and Average Revenue Per User (ARPU). Video customer losses have little impact on profits, as they are offset by falling programming costs, and video revenues were already lower-margin. Cable's low-single-digit overall revenue growth and a rising margin (from mix and flat/lower service costs) produce a high-single-digit Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) growth. Leverage and flat capital expenditure turn a high-single-digit EBITDA growth to a low-teens total Free Cash Flow (FCF) growth. Buybacks, financed by FCF and new borrowings in line with a rising EBITDA (at a 4.0-4.5x leverage target), drive FCF/Share growth further. Customer growth has come from both an expansion of Charter's footprint (the number of properties passed grew 2.2% in 2020) and an increase in its penetration (up 230 bps, to 58.4%). Charter repurchased $10.6bn of its own shares (equivalent to 7.7% of its current market capitalization). The result was FCF grew 56.5% in 2020. Negative headlines about Charter's Q4 results tended to focus on its unfavourable year-on-year comparison and/or a pending 2021 slowdown i.e. COVID-19 benefits are or will be reversing, meaning much slower growth for Charter earnings. While growth was exceptional in 2020, even the figures in prior years were strong enough to support the investment case. While Q4 2020 customer net adds were lower, they came after exceptionally strong growth in Q2 and Q3; net adds in these two quarters were 2 to 3 times the 2019 level and included customers on COVID-19-related support programs that ended in Q3 2020. While management has guided to 2021 net adds being more similar to 2019 than 2020, the 2020 net adds provide an enduring benefit. Charter's Mobile business, while still loss-making and not a meaningful contributor to forecasts, is showing good momentum, with continuing strong expansion while being run at limited losses . While Charter does not like the economics of Mobile as a standalone business, it sees strategic benefits and synergies with its cable business (and a way of holding on to subscribers across devices). Its strategy is a cost-efficient and opportunistic one. The company is planning to push customers' mobile traffic from Verizon's network (the company does not own its own mobile network) and onto Charter-owned cell towers, where they're available, in order to reduce the amount of money Charter pays to Verizon for wholesale access to the Verizon's network.

Aena is a Spanish airport owner and operator. As such it is vulnerable to short term noise in relation to vaccine roll-outs, tourism returning etc. Aena operates 46 airports all over Spain and has a diversified range of carriers flying into it. Aena is serviced by the likes of Ryanair, Vueling and EasyJet. These are regional carriers that will recover faster than the long haulers. In addition to Aena's core business which has regulated tariffs on airlines and passengers, they have non-regulated return assets, including the development of 1 million square meters of land next to their airports around infrastructure and logistics. These assets will benefit from the acceleration of digitalisation and e-commerce. The company also has plans to expand internationally. It already owns 12 airports in Mexico, 6 in Brazil, 2 in Jamaica and 2 in Colombia. The net profit margin over the past few years prior has been pretty consistent at 30%. It has the ability to generate between Euro 1bn and Euro 1.5bn of free cash flow which would put it on around a 9% FCF yield.

Likewise, the Q1 slowing of air traffic recovery in several regions of the world generated short term uncertainty for **Safran**. The company has performed remarkably well considering the magnitude of the impact of the pandemic on civil aviation. At the end of December 2020, combined shipments of CFM56 and LEAP engines reached 972 units, compared with 2,127 in 2019. CFM International delivered 815 units of LEAP engines (this is the more energy efficient engine for narrow body planes like the A320) in 2020 compared with 1,736 units in 2019. LEAP backlog stood at more than 9,600 engines at end-2020. Safran makes the majority of its money in the aftermarket, servicing engines and supplying parts. The 2020 civil aftermarket revenue was down 43% in USD terms but the company still generated almost Euro 1bn of free cash flow. The short-term volatility within aviation can be seen by observing the experience in China. Safran reported a slump in Chinese air traffic in recent months, as Beijing took preventive measures to avoid a new wave of coronavirus infections, and that since the restrictions were lifted there has been a “very, very strong” rebound. Despite this the company has been cautious in its outlook for 2021 given that its revenues are largely driven by number of hours flown and speed at which more routes will re-open.

Whilst the coronavirus pandemic has boosted sales of companies such as **Unilever**, in areas such as hygiene products and in-home packaged food, there has also been sharp decline in foods served in public places such as on beaches and at restaurants. The company expects the food service business to continue to be hit in Europe, where a spike in cases has led to stringent lockdowns but a return to more predictable sales growth later in the year as more countries emerge from lockdown. Unilever receives 60% of its revenue from Emerging Markets (EM). China returned to growth in the second quarter as restrictions were eased, while India returned to growth in the third quarter, although Covid cases have recently risen in India. Last November, Unilever ditched its Anglo-Dutch dual-headed structure in favour of a single corporate entity based in London. This will enable the company to make disposals and acquisitions more easily as it focusses on hygiene, skin care, functional nutrition and plant-based foods. The company has indicated it will invest 1 billion Euros in each of 2021 and 2022 in these areas and look to offload slower growth businesses. It is likely to offload lower margin businesses like tea and increase the penetration of higher margin products under its ‘Future Foods’ initiative. Included in this is targeted sales of Euro 1bn from plant-based alternatives over the next 5 years, driven by the roll-out of The Vegetarian Butcher (a company it acquired three years ago) as well as increasing vegan alternatives within its Hellman’s, Magnum and Walls brands.

3. Current Positioning

Top 10 Portfolio Holdings

Holding	Sector	Country	Portfolio %
Alphabet	Communication Services	United States	8.3
Charter Communications	Communication Services	United States	5.9
Canadian Pacific Railway	Industrials	Canada	4.4
Unilever PLC	Consumer Staples	United Kingdom	4.2
BAE Systems	Industrials	United Kingdom	4.2
Fiserv	Information Technology	United States	4.0
UnitedHealth	Health Care	United States	3.7
Safran	Industrials	France	3.6
Vinci	Industrials	France	3.6
Baxter International	Health Care	United States	3.5
Total			45.4

Portfolio breakdown

Region	Portfolio %
North America	65.1
Europe ex UK	14.5
Asia Pacific ex Japan	8.4
United Kingdom	8.4
Cash and equivalents	3.6
Total	100.0

Sector	Portfolio %
Health Care	30.4
Industrials	23.4
Communication Services	17.1
Information Technology	10.3
Financials	6.1
Consumer Staples	5.8
Consumer Discretionary	3.3
Cash and equivalents	3.6
Total	100.0

Currency	Portfolio %
USD	72.0
EUR	17.2
AUD	5.1
GBP	4.2
CHF	1.6
CAD	0.0
Total	100.0

Please refer to portfolio commentary under items 1 and 2 for further information on current positioning and outlook.

4. Responsible Investment

Proxy Voting

As long term shareholders of equities, we believe in voting on all resolutions. We employ a customised policy which is applied by Institutional Shareholder Services ("ISS") and incorporates the Environmental, Social and Governance ("ESG") Red Lines, developed by the non-profit organisation Association of Member Nominated Trustees ("AMNT"). Whilst we believe in the philosophy behind the ESG Red Lines, they are designed to be applicable to companies within pooled vehicles and only companies domiciled in the UK. As a result, we have signed up ISS to apply a customised screen whereby the Red Lines are applied to UK equities and Global equities on a best endeavours basis. ISS, our third party proxy advisor, provide us with company research and vote recommendations for each meeting resolution based on our blended policy, in addition to providing the vote execution service for the firm. The global investment team will use the research provided alongside their own analysis to determine their vote decision. It is not uncommon for the investment team to have a view which differs to that of our policy vote recommendation. In this scenario we provide rationale to justify our voting decision.

The first section of this report details the overall votes cast and the breakdown of these votes. In cases where we voted "AGAINST" management, rationale is provided.

During the period there were 2 meetings and 25 votable resolutions across the companies: Becton Dickinson and The Cooper Companies.

Voting statistics	
Meetings voted	2
Votes Cast	25
Votes "FOR" Management	24
Votes "AGAINST" Management	1

Votes by country	%
United States	100.0

Votes by Industry sector[1]	%
Health Care Equipment & Supplies	100.0

[1] Votes by Industry Sector uses the Global Industry Classification Standard ("GICs") coding level 3 "Industry" classification.
Source: Veritas Asset Management, ISS

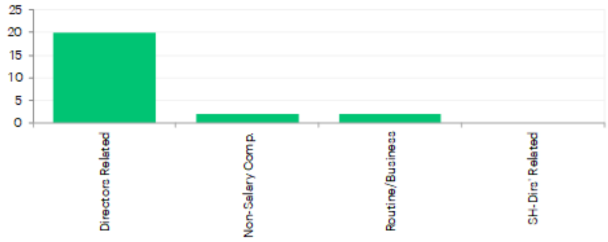
Proxy Voting - Proposal Categorisation

The information provided below details the vote categorisation.

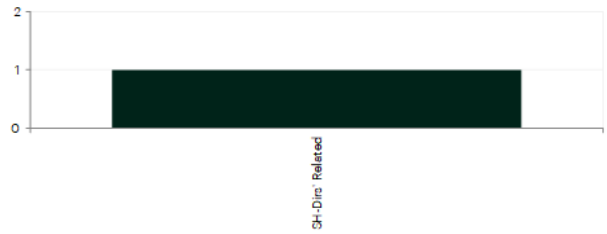
Vote categorisation[1]

Category	Votes "FOR" Management	Votes "AGAINST" Management	Total
Directors Related	20	-	20
Non-Salary Comp.	2	-	2
Routine/Business	2	-	2
SH-Dirs' Related[2]	-	1	1
Total	**24**	**1**	**25**

Votes "FOR" Management Categorisation



Votes "AGAINST" Management Categorisation



[2] Please refer to the glossary for descriptions of category classifications.
Source: Veritas Asset Management/ISS

Across the 25 resolutions, votes cast by VAM LLP resulted in 24 votes “FOR” management and 1 vote “AGAINST”. Please see detailed below rationale examples where votes cast have resulted in a vote “AGAINST” management.

VAM LLP Rationale – Votes “AGAINST” Management Recommendation

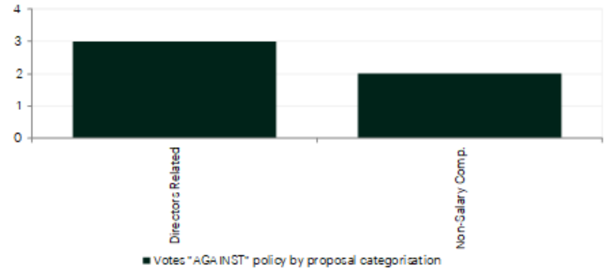
Report Item	Company	Proposal	Management Vote Recommendation	VAM LLP Vote	Voter Rationale
1	Becton Dickinson	Reduce Ownership Threshold for Shareholders to Call Special Meeting	“AGAINST”	“FOR”	A vote FOR this proposal was warranted as a lower threshold would enhance the current shareholder right to call special meetings.

Proxy Voting - ESG Red Lines

The second part of the voting report focuses on the customised Red Line element of our policy. Across the 45 resolutions voted during the period, the overall number of resolutions which triggered the Red Line element of our customised policy was 5. We voted in line ("FOR") on 0 resolutions and contrary to ("AGAINST") for the remaining 5 resolutions. In keeping with the AMNT requirement to either comply or explain, please see below rationale examples where votes cast have resulted in a vote "Contrary to" the Red Line element of our policy.

Votes "FOR" and "AGAINST" VAM LLP Policy

Votes	Red line[1]	Total
Number of votes "FOR" Policy	-	20
Number of votes "AGAINST" Policy	5	5
Total	**5**	**25**



[1] Number of Red Lines triggered and votes "FOR" or "AGAINST".

VAM LLP Rationale – Votes "Contrary to" VAM LLP Policy Recommendation

Report Item	Company	Proposal	Red Line Vote Recommendation	VAM LLP Vote	Voter Rationale
1	Becton Dickinson	Elect Director Vincent A. Forlenza	"AGAINST"	"FOR"	We voted "AGAINST" Redline E1 recommendation. Whilst the relevant committee may not be present or may not be chaired by a board member, we are confident these issues are currently overseen by the board members and given the appropriate concern. The requirement to have such a committee in place should be determined based on whether this area is considered a high-level risk dependent on the products or services provided by the company. The absence of a committee by itself does not signal the absence of good corporate stewardship.
2	Becton Dickinson	Advisory Vote to Ratify Named Executive Officers' Compensation	"AGAINST"	"FOR"	We voted "AGAINST' the Red line G18 recommendation. While time-based incentives do not have a minimum vesting period of 3 years and vest rateably, we are broadly satisfied that compensation is aligned with shareholders. Long term compensation is comprised of stock appreciation rights (40%), performance-based stock units (40%) and restricted stock units called PTVUs (20%). Both the performance base stock units and PTVUs pay out over a 3-year period dependent upon the company successfully delivering upon their financial objectives. The performance units pay out based on average annual ROIC and average revenue growth over 3 years weighted 50/50 with relative TSR used a modifier (120% for 15th percentile down to 80% for bottom quartile). PTVUs vest only if the adjusted earnings per share target has been met over the 3-year period. The stock appreciation rights do pay out rateably over a 3-year period but have a ten-year life designed to align management with shareholders over the long term. We engaged with the company to discuss the one-time adjustment to management compensation made by the board of directors due to the impact of the COVID-19 pandemic on business results. The discussion covered the rationale for the award, how this would not make management's compensation plans whole, the board very specifically did not want to reward management for the Alaris product issues, and that the award was solely to compensate management to some extent for the impact of COVID-19. We discussed the need to strike a balance between incentivising employees, making sure they are aligned with shareholders

and that compensation should not be asymmetric in favour of management. On balance we decided that we would support the board's proposal but noted that we do have some reservations particularly related to the portion of the award to compensate for the impact on the FY 2019 compensation plan which is still in flight. These reservations will be shared with the board. In the relatively unlikely circumstance that the 2019 plan pays out close to original expectations when it vests in late 2021 and employees end up with a double award due to the adjustment made, we asked that the board be willing to reconsider this award. Lastly, we noted that we respected the decision by CEO Tom Polen to forgo his onetime award and that this demonstrated good leadership.

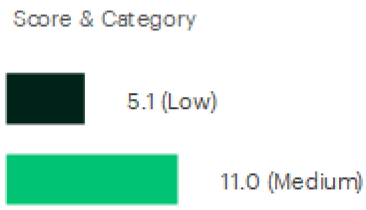
Portfolio Carbon Analysis Overview

The Carbon Portfolio Report provides a deeper understanding of a portfolio's position with regards to the transition towards a low carbon economy. It compares the portfolio with a benchmark across five carbon assessments: Carbon Risk Rating, Carbon Intensity, Fossil Fuel Involvement, Stranded Assets Exposure, and Carbon Solutions Involvement. The combination of these assessments provides a multi-dimensional view of the portfolio's performance versus the benchmark and provide useful insights about the portfolio holdings.

Portfolio   Global Developed Benchmark

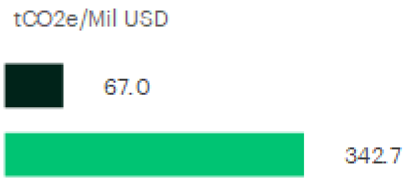
Carbon Risk Rating

The Carbon Risk Rating quantifies the company's exposure and management of material carbon issues in its own operations as well as its products and services. Overall, the portfolio falls into the Low carbon risk category, and has 54% lower carbon risk than the benchmark.



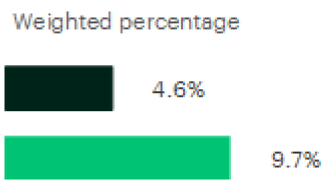
Carbon Intensity

Carbon intensity is a relative metric used to compare company emissions across industries. Sustainalytics divides the absolute emissions by total revenue, meaning the figure is expressed in tonnes of carbon dioxide equivalent per million USD of total revenue. Overall, the portfolio is 80% less carbon intensive than the benchmark.



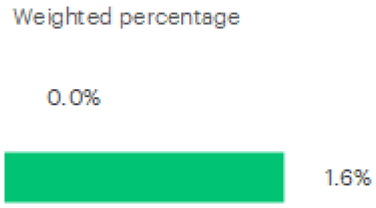
Fossil Fuels

Fossil Fuel Involvement measures the percentage of revenue that companies derive from thermal coal extraction, coal-based power generation, oil & gas production, oil & gas-based power generation, and oil & gas-related products and services. Overall, the portfolio has 53% less exposure to Fossil Fuels than the benchmark.



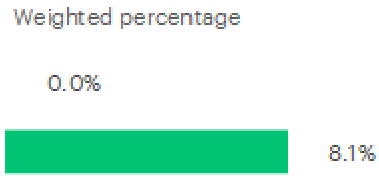
Stranded Assets

The Stranded Assets Exposure Score assesses the financial risk associated with fossil fuel production and reserves, and any specific involvement in high-cost fossil fuel projects. Overall, the portfolio has 100% less exposure to Stranded Asset Risk than the benchmark.



Carbon Solutions

Carbon Solutions Involvement measures the percentage of revenue that companies derive from green transportation and renewable energy. Overall, the portfolio has 100% less exposure to Carbon Solutions than the benchmark.



Carbon Analysis report commentary

Context

Each quarter, we highlight examples of how investee companies are moving toward Paris Alignment. We expect to see Board representation and oversight of Climate related issues and distinct targets and strategy.

Safran's climate strategy

The bulk of Safran's business is providing aero-engines for the aviation market. Its vision is to contribute to a safer, more sustainable world, where air transport is more environmentally friendly.

In 2020, Safran took an important step in designing its climate action plan. The company disclosed emissions from its operations as follows:

- Scope 1 (direct energy-related emissions) and Scope 2 (indirect energy-related emissions) with targets to reduce CO_2 emissions by 2025;
- Some items of Scope 3 indirect emissions (business air travel and waste treatment).

Safran also presented a strategy to reduce the CO_2 emissions from its products, which are the main part of Scope 3 and which constitute its essential contribution to meet the aviation sector goal of halving the emissions by 2050 compared to 2005 (a 90% reduction in average emissions per passenger kilometer across the worldwide fleet).

This ambitious goal is reachable based on several solutions in which Safran plays its part, in particular by:

- working on ultra-optimized thermal propulsion for the next aircraft platforms ("skip a generation"),
- promoting a wide use of sustainable aviation fuels (SAFs), notably drop-in sustainable fuels for current generation aircraft and future long-haul. Safran leads by example by incorporating SAF in its civil engines tests: 10% by year-end and at least 35% by 2025,
- exploring the potential of hydrogen.

Safran's CDP score in 2020 has improved to A-, from the 2019 score of C, highlighting rapid progress.
In 2021, Safran will report additional progress by:

- updating its climate action plan consistent with Task Force on Climate-related Financial Disclosures (TCFD) recommendations,
- revising its Scope 1 & 2 targets to reduce CO2 emissions (30% in 2025 compared with 2018 levels) to maintain ambition beyond the impact of the Covid-19 crisis,
- completing its Scope 3 emissions disclosure with the evaluation of indirect emissions (purchases & logistics and employee commuting),
- disclosing Scope 3 direct emissions from the use of its products, i.e. emissions from civil aircraft engines and helicopter engines.

In 2022, Safran will disclose all Scope 3 emissions including use of products across whole Group perimeter with reduction targets.

Governance - Appointment of a "Director responsible for monitoring climate issues"

The Board has designated Patrick Pélata "Director responsible for monitoring climate issues". He is also the independent chairman of the Innovation, Technology & Climate Committee. He will embody and represent the Board's commitment on climate issues.

Vinci

The best quality companies have forward thinking management that adjust to risk/ opportunities including those related to Environmental issues. Vinci, runs both a concessions business (largely airports and autoroutes) and a contracting business (largely construction and energies). Within these businesses, Vinci is targeting the reduction of Greenhouse gas (GHG) emissions. For example, gradually mainstreaming low-carbon concretes at all Vinci Construction worksites. The company is looking to use 90% low carbon concrete by 2030. Within autoroutes, it is encouraging users to switch to low-carbon options on motorways (expanding electric vehicle fast charging capacity, carpooling facilities and multimodal hubs) and in airports (modulating airport tax charges based on aircrafts' carbon emissions, contributing to developing sustainable biofuel and hydrogen systems). The company is looking to reduce its GHG emissions by 40% by 2030. The impacts of climate change on the company's projects and constructions are assessed. They identify the climate-related risks arising from the geographical locations of existing sites and monitor the percentage of a site's potential affected as part of their risk analysis. The Strategy and Corporate Social Responsibility Committee is Chaired by the Vice Chairman of the Group.

Vinci moved closer to exploiting the opportunity afforded it by climate transition during Q1. Vinci has agreed to buy the ACS energy business for EUR 4.9bn. The acquisition includes ACS' renewables development platform, which consists of 4.4GW of developed projects over the last three years as well as eight greenfield concessions under development and/or construction, mainly in the electrical transmission field. The deal includes early-stage offshore wind farms as well as onshore wind and solar sites. Vinci and Spain's ACS also intend to develop a partnership through a joint venture, with the right to acquire mature renewable energy assets, i.e. those that are fully developed, built and connected to the grid. The joint venture would be 51% owned by Vinci. The company has identified potential of c. 15GW of renewables projects, mainly solar PV and onshore wind. The company has increasingly been moving toward renewables through recent acquisitions of which this is the latest.

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