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Nedgroup Investments Global Equity Fund

Quarter Four, 2021

Market Overview and Outlook

Portfolio Manager Commentary

Musings on Valuation

One of the striking features of the past five years has been the domination of the financial scene by purely psychological elements. In previous bull markets the rise in stock prices remained in fairly close relationship with the improvement in business during the greater part of the cycle; it was only in its invariably short-lived culminating phase that quotations were forced to disproportionate heights by the unbridled optimism of the speculative contingent. But in the 1921-1933 cycle this 'culminating phase' lasted for years instead of months, and it drew its support not from a group of speculators but from the entire financial community. The 'new era' doctrine – that 'good' stocks were sound investments regardless of how high the price paid for them – was at bottom only a means of rationalizing under the title of 'investment' the well-nigh universal capitulation to the gambling fever.

That enormous profits should have turned into still more colossal losses, that new theories should have been developed and later discredited, that unlimited optimism should have been succeeded by the deepest despair are all in strict accord with age-old tradition.

– Benjamin Graham & David Dodd, Security Analysis, 1934

In the era of meme stocks, cryptocurrency and non-fungible tokens, it may seem as though the art of valuation is an irrelevancy: something for a prior generation of investors to worry about, but not required for delivering exceptional returns today. Instead, the game is now about being first to identify the specific stock or asset that will temporarily capture the imagination of the retail crowd and then riding the wave (a discovery process that can be assisted by pumping the stock on Reddit). Of course, this narrative is not really new – it follows a well-worn path going back centuries and covered in many books such as Charles Mackay's "Extraordinary Popular Delusions and The Madness of Crowds". Indeed, we have the concept of "greater fool theory" to aptly describe the strategy.

In just the past 20 years there have been at least 2 similar periods: the Technology, Media and Telecom bubble of the late 1990s and most recently the Global Financial Crisis in the late 2000s. What these periods have in common with today is that valuation was considered irrelevant to generating exceptional returns with no price deemed too high for the seemingly limitless growth opportunities presented. As we know, the prior two periods ended abruptly with those companies at the forefront of the speculation suffering the most in the subsequent declines. The fall from grace of the leading proponents of the speculation was equally dramatic. As Warren Buffett famously said, "Only when the tide goes out do you discover who's been swimming naked". We suspect there are many naked bathers in the water today.

At Veritas we have always been and will always be "valuation disciplined". This means only investing where our analysis indicates we will earn an absolute return more than commensurate with the risk of investing. Typically, this means we seek 12%-15% annualised returns over a 5+ year horizon in the companies in which we invest. This level of prospective return also provides us with a margin of safety on those occasions when the future does not turn out as we had expected, hopefully allowing us to exit the position without suffering a permanent impairment of capital. However, in a rapidly rising bull market driven by companies with stratospheric valuation multiples (or in the case of the many loss-making companies, no multiple at all) the value discipline we employ seems futile: even if we are right and deliver the 12-15% annualised returns anticipated, we may still underperform the rapidly rising equity market indices. Our performance is creditable from an absolute perspective (which is our primary objective) but poor when compared against the equity index. Historically, this situation has corrected itself during the inevitable market declines when our strategy and valuation discipline lead to respectable medium term absolute returns and superior returns relative to an equity index. The difficulty is knowing when this environment will return particularly with the interventionist monetary policies now widely followed. Until such time, we will continue to identify and analyse high quality companies that possess durable competitive advantages and only invest when we assess the entry point to be commensurate with earning acceptable absolute annualised returns.

Implications for the portfolio

Since the Covid declines of Q1 2020, the equity market has been on a tear with the S&P500 increasing well over 100% from its Covid induced lows. During this time, many of the more lowly valued companies within our portfolio have delivered low relative returns as investors shun cash generative but modestly growing companies. We continue to believe that these companies will deliver good absolute returns for many years to come and consequently would like to provide an update on a number of these companies:

Fiserv

Fiserv is a leading provider of payments and technology solutions for financial institutions and merchants, providing the critical technology for these companies to run their operations. Fiserv has developed privileged relationships with US financial institutions through offering a modular IT architecture that allows its banking customers to build and grow, particularly in digital, both faster and with fewer risks than they would otherwise be able to. Fiserv offers best-of-breed bundled products and has a leading market share among mid-sized banks that lack resources to implement tech upgrades internally and we expect this segment to continue offering reliable and stable single-digit growth, as well as sales leads for growing other parts of the company.

In its Payments segment, Fiserv operates the third largest debit network behind Mastercard and Visa. It also benefits from network effects as it exploits its closeness with its core banking customers to be the leading infrastructure provider of bank-to-bank payments through Zelle (owned by its banking customers) that competes successfully with the likes of Venmo in new electronic payment flows.

Merchant Acceptance is well-positioned to post low double-digit revenue growth. While Fiserv has direct relationships with many merchants, the jewel is Clover which offers industry-leading payment acceptance, both offline and online and has grown rapidly, with Fiserv leveraging its relationship with its banking customers to distribute Clover to their merchant customers. This is hugely successful with Clover handling more payment volume and growing faster than Square (now called Block): we cannot ignore the apparent investment valuation anomaly here with Block being valued around the same as the whole of Fiserv. Fiserv has invested to grow – payment acceptance for internet service providers is growing fast and catching up peers. Its slower-growing legacy business is poised to improve when recovery is underway and incremental spending migrates to in-store payments.

Fiserv offers plenty of value and currently trades on a prospective free cash flow (FCF) yield of 6%, with low-teen's expected growth over our investment horizon (leading to a 5-year expected FCF yield of over 10% should the share price remain static). We believe that several factors have kept the lid on Fiserv achieving its value, particularly concerns that its Merchant Acceptance business is 'old tech' with this view reinforced by unexpectedly high capex at the tail-end of 2021. While Fiserv is diversified and lacks pure eCommerce exposure, it has a significant tilt to online spending that has helped it outperform peers over the pandemic but remains well-placed when normality returns. Checks with the company point to an end to its capex-heavy period, that should support cash conversion once again. We have also urged more disclosure surrounding Clover to assist the market in valuing this business and expect this to also help Fiserv fulfill its apparent value.

Unilever

We suspect that when most people think of Unilever they picture their local supermarket shelf lined with Dove, Persil and Hellman's mayonnaise. In reality, Unilever makes 58% of its revenue and a greater proportion of its profits in emerging markets, where each sale is typically a single sachet of detergent, shampoo or stock cube sold for less than $0.50 and bought at a local stall. There are few companies with this degree of breadth and penetration in emerging markets, which is exciting not only because of the long runway for growth it offers, but also because Unilever's scale affords both attractive and resilient levels of profitability.

While Unilever is widely recognised as a decent business, its top line organic growth of 3-5% p/a simply isn't exciting enough in the current environment vs the cyclical recoveries and double-digit growers available elsewhere. However, we believe it is the likely duration of Unilever's growth that is particularly powerful for long term holders. There are a small number of businesses where we believe we can look out 10 or 20 years and reliably expect the subsequent 10 years to be similar to the previous, but Unilever is one. Happily, we find this steady compounding undervalued today and so we do not need to look that far out to justify our investment.

With a well covered 3.6% dividend yield and approaching 5% FCF yield from a conservative balance sheet, we expect Unilever to generate 25% of its current market cap in cash over the next five years. This means that the earnings multiple can fall by almost 40% before we lose money in absolute terms over this holding period, giving a great deal of protection against rising rates and many other eventualities. At that depressed price Unilever would be generating a high single digit FCF yield and with a business model resilient to macro-economic weakness, but also reasonably placed to protect against inflation over time. We find the bond proxy label to be a misnomer. Our cashflow forecast could of course be wrong but we think this would most likely be a short term and rectifiable issue due to poor execution on the part of management as opposed to a structural problem with the franchise.

CVS Health

We have previously made the case that the durable earnings growth and free cash flow generation of CVS was being overlooked by investors searching for higher growth. Whilst share price performance in 2021 has been strong, the case for undervaluation remains and the investment case has strengthened during the year.

To recap, following the 2018 acquisition of health insurer Aetna, CVS Health became a behemoth in US healthcare services. The company's assets include not only Aetna, the country's 5th largest health insurer, but also Caremark, the largest Purchasing Benefits Manager (PBM) and together these companies have a membership base of over 100m Americans and are poised for robust growth. This is further combined with the infrastructure of CVS Pharmacy, the nation's largest retail pharmacy chain with over 10,000 retail pharmacies. The thesis behind our holding has been that over the next 3-5 years CVS Health will increasingly integrate these three assets (health insurance / PBM / retail including care delivery) and invest more in healthcare delivery assets at retail to strengthen their position. The strategy has been clear, for CVS retail assets to evolve to become a 'front door to healthcare', offering greater convenience (given proximity to patients – 85% of Americans live within 10 miles of a CVS Health location) at a lower cost to patients and payers. To the extent the payer is Aetna, this will differentially lower medical costs and enable more competitively priced insurance products, likely leading to market share gains. Aetna are also able to steer patients towards CVS Health services by incentives such as zero co-pays. In the last year, 7,000 Aetna customers have been enrolled in such integrated health plans and results (such as 3-6% lower medical costs/member/month, 18% lower hospitalisations, 10% fewer ER visits) have encouraged management to expand the plans offering this benefit in 2022.

The COVID-19 pandemic has made it undoubtedly more difficult to analyse the early medical cost data of CVS Health integrated products. It has, however, given CVS Health the opportunity to connect with over 32 million new consumers requiring COVID-19 testing and vaccinations (over 66m administered) and highlight the additional services now available at CVS Health. The likely ongoing COVID testing and booster vaccination programs through 2022 will extend this opportunity. Contributing the success has been the easy online booking & reminder system which then connects new customers to the digital CVS Health open platform for all services, now counting over 35 million unique, engaged digital users. Also beneficial to the investment case in the last year has been the return of CFO Shawn Guertin – an experienced, respected and strategic CFO to add breadth and credibility to the leadership team.

At a recent investor day, with net debt to adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) now down to 3.6x and robust base business growth forecast, management announced plans to use up to 55% of deployable cash to invest in primary care physicians by acquisition and partnership to strengthen their integrated health services offerings. Plans to streamline the retail pharmacy base by closing 900 stores over three years were previously announced - a bold and necessary move. The path to double digit EPS growth in 2024 appears more tangible a year on. In our base case the earnings and cash flows will compound at a high single digit annually to 2025. The company already generates prodigious free cash flow (c. $10bn annually) and with a market capitalisation of $135bn this represents an 8.5% FCF yield. Market drivers appear set for continued robust growth at CVS Health over our investment timeframe and a discounted cash flow-based (DCF) valuation suggests the shares currently offer c.50% upside to intrinsic value.

Meta Platforms Inc. (formerly Facebook)
Meta is the dominant social media group globally with 3.6bn monthly users that span across its platforms Facebook, Instagram, WhatsApp and Oculus. The company has significant scale advantages versus competitors. To put this into context, it has over 15k employees in content moderation alone vs c.13k total employees at Twitter, Snap and Pinterest combined. It also spends c.$23bn in R&D annually, approximately 6 times the combined spend of those companies. The network effects of the company allow it to both offer advertisers strong returns on investment and scale investments in platform innovation and safety. Facebook is also supply constrained. It has around 10m advertisers who pay to advertise on the platform and around 200m who use the platforms but only a finite number of advertising slots, which provides positive pricing dynamics.
The stock has been impacted by concerns with regard to Apple privacy changes around ad targeting and also regulation more broadly. In contrast, we believe the ad targeting changes likely benefit Facebook by making first party data more important and improving their relative market position. Stronger and better regulation, aspects of which the company has encouraged, also likely raises barriers to entry in the industry given the implementation costs are significant. In terms of valuation, the company trades on 24x FCF 22e but this capitalises losses in the company's Metaverse/Oculus investments and Whatsapp, where revenues are currently de minimis. These investments likely account for c.25% impact on operating profits. If these businesses were worth zero, which we do not believe they are, the underlying business, which can generate mid-teens operating profit and FCF growth, trades on a FCF yield of c.5.5%. Whilst the company is contentious, we believe the company's competitive position, growth profile and investment optionality provide a compelling risk/reward.

Vinci
Vinci is a European Infrastructure company with three sources of value:

Toll-roads – focused in France where Vinci are the largest player and have concessions extending out into the mid 2030's. The company manages 4,443km of motorway concessions generating almost €5bn in revenue. Motorway traffic was negatively affected by Covid but has recovered substantially and in recent periods, traffic has returned to the levels of 2019. The toll roads business accounts for around 42% of our estimate of intrinsic value.

Airports – Vinci is a leading operator of airports managing 45 worldwide which together handled 77m passengers in 2020 despite the hugely disruptive impact of the pandemic. The impact of the pandemic continues to hamper air travel with traffic still down from 2019 levels by between 40% and 80% depending on the airport and the travel restrictions that apply in that country. These assets are very long duration however, so while the impact of lower traffic is negative to the immediate results, the impact on long term value is much more muted given the long duration nature of the assets and assuming that the propensity to travel is largely undiminished post Covid. Our estimate is that airports represent around 28% of Vinci's value.

Construction and Energy – Vinci undertake large building projects across the infrastructure, complex structures and buildings arenas. The company has substantial experience in project design and bidding as well as in physical construction. The Energy division has a particular focus on energy transition (decarbonisation) and digital transformation (data centres, wireless assets etc) which make it well placed to benefit from large projects for decades to come. This business represents 30% of our value estimate although the upside here is most substantial should investment in energy transition accelerate.

Vinci can be valued by assessing the return the company will generate over the remaining life of its concessions plus a capitalised value for its construction and energy business. This generates a 12% internal rate of return (IRR) over our forecast period. On more traditional metrics, Vinci is valued today at a c.7% FCF yield (2022) and delivers a 3% dividend yield. This high FCF yield is despite the fact that the airports business will not have returned to 2019 levels of profitability and FCF during 2022 so further growth in FCF is assured assuming that the pandemic impact is not permanent.

Longer term perspective

These examples are designed to indicate the value discipline that we employ at Veritas. This discipline has not been richly rewarded in the past few years, but we believe that over time, value discipline is a key part of successful investing.

During 2021, the best performing sectors of the MSCI World were Energy, IT, Financials and Real Estate with all other sectors underperforming the overall market return. Our investments in high quality companies largely preclude investment in energy and financials (and to a large extent real estate). In the IT arena, while we have the scope to invest, we do not assess that the valuations of many of the high-quality IT companies are commensurate with earning good annualised returns over the next five years. This has made performance for the portfolio against the index particularly difficult for the year with the portfolio underperforming the index. One of our primary objectives is to deliver good risk adjusted absolute returns over rolling five year periods. The environment of the last five years has been a difficult one for our style of investment to outperform with high growth companies delivering a large part of the market's return. We believe that over time our style of investment will continue to deliver robust absolute results in a variety of differing market conditions.

Fund performance contributors & detractors for past quarter

Top 5 contributors and bottom 5 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							
CVS Health	4.4	21.8	0.9	0.2	22.1	0.0	0.6
UnitedHealth	3.6	29.2	0.9	0.7	28.8	0.2	0.5
Intercontinental Exchange	2.4	19.1	0.5	0.1	19.3	0.0	0.3
Sonic Healthcare	2.9	15.4	0.4	0.0	15.4	0.0	0.2
Thermo Fisher Scientific	3.0	17.2	0.5	0.4	16.8	0.1	0.2
Bottom 5 relative stock contributors							
Charter Communications	6.3	-10.6	-0.7	0.1	-10.4	-0.0	-1.1
Safran	3.5	-3.7	-0.2	0.1	-3.7	-0.0	-0.5
Aena SME	2.5	-8.8	-0.2	0.0	-8.8	-0.0	-0.4
Fiserv	3.2	-4.3	-0.1	0.1	-4.3	-0.0	-0.4
Catalent	3.3	-3.8	-0.1	0.0	-3.8	-0.0	-0.3

Source: Veritas Asset Management

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	Selection Effect	Total Effect
Consumer Discretionary	5.2	-4.4	-0.1	12.4	8.5	1.0	0.1	-0.7	-0.6
Consumer Staples	3.9	-0.1	-0.0	6.8	9.4	0.6	-0.0	-0.4	-0.4
Energy	–	–	–	3.2	4.5	0.2	0.1	–	0.1
Financials	4.5	15.8	0.8	13.5	3.8	0.6	0.4	0.5	0.9
Health Care	28.1	11.1	3.0	12.4	7.9	1.0	0.0	0.8	0.9
Industrials	20.7	-1.3	-0.2	10.2	5.9	0.6	-0.2	-1.5	-1.7
Information Technology	11.2	7.5	0.8	23.3	13.2	2.9	-0.6	-0.6	-1.2
Materials	–	–	–	4.1	10.0	0.4	-0.1	–	-0.1
Communication Services	18.3	-0.1	-0.1	8.6	-1.8	-0.1	-0.9	0.3	-0.6
Utilities	–	–	–	2.7	11.3	0.3	-0.1	–	-0.1
Real Estate	–	–	–	2.7	10.9	0.3	-0.1	–	-0.1
Cash and equivalents	8.0	n/a	-0.0	–	–	–	-0.6	–	-0.6
Total	100.0	4.3	4.3	100.0	7.8	7.8	-1.9	-1.6	-3.5

Source: Veritas Asset Management

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	Selection Effect	Total Effect
Asia/Pacific Ex Japan	4.8	8.7	0.3	3.2	-0.1	0.0	-0.2	0.3	0.1
North America	68.8	6.6	4.5	71.9	9.8	7.0	-0.1	-2.1	-2.2
Africa/Middle East	–	–	–	0.2	7.0	0.0	0.0	–	0.0
Europe ex UK	10.5	-4.3	-0.5	14.2	5.7	0.8	0.1	-1.1	-1.1
Japan	–	–	–	6.5	-4.0	-0.3	0.8	–	0.8
United Kingdom	7.9	-0.3	-0.0	4.1	5.6	0.2	-0.1	-0.5	-0.6
Cash and equivalents	8.0	n/a	-0.0	–	–	–	-0.6	–	-0.6
Total	100.0	4.3	4.3	100.0	7.8	7.8	-0.0	-3.5	-3.5

Source: Veritas Asset Management

Portfolio Attribution Commentary

The last quarter saw markets rise rapidly (7.8% in USD) and the fund, which is defensively positioned lag (3.9% after fees on A class). A number of healthcare names have performed well, benefitting from being part of the solution on COVID but also investing into the long-term trends that will accelerate as a consequence of COVID. Detractors included companies impacted by the emergence of a new variant, Omicron or short-term competition or supply constraint concerns. In these cases, a reminder of the thesis looking ahead is outlined.

Positive Contributors

CVS Health

CVS has been performing strongly in 2021 and the company boosted its forecasts for revenue and earnings in 2022. CVS Health is to resume share buybacks and increase its dividend for the first time since 2017, when it announced the acquisition of health insurance company Aetna. It said it will raise its annual dividend by 10%. Pandemic-related services has helped lift sales at drugstores. During 2021, Covid tests and vaccines are expected to have driven more than $3 billion in revenue for CVS. It has administered more than 50 million Covid vaccines and about 29 million tests as of the end of November. Those two pandemic-related services have attracted more than 32 million new customers. This has come at a time when the company is in the process of “reimagining CVS locations as health-care destinations.” One of the opportunities that it sees is in mental health by connecting more people to social workers or therapists and treating it as an important piece of wellness. Mental health is an unmet need and one of the biggest collateral damages of the pandemic. CVS wants more people to come to its stores for primary care, such as routine check-ups with a doctor or nurse practitioner. The company wants the booking of a doctor appointment to be as quick and convenient as making a restaurant reservation online. That means having longer hours at its clinics, so people can visit as early as 6 a.m., as late as 9 p.m., or on the weekends. It also means skipping common annoyances, like filling out a clipboard of paperwork and trying to decode a doctor’s advice that is written in medical jargon. CVS is weaving together its numerous drugstores, pharmacy benefit manager Caremark and insurance company Aetna to try to drive more business. The company will add new health products, subscription models and home health care options. It can reduce costs and improve the health of people with chronic conditions like diabetes and congestive heart disease who have Aetna insurance and fill prescriptions at CVS pharmacies. Critically, CVS is uniquely positioned to help fix a broken health-care system that frustrates customers and keeps increasing in cost yet often delivers poor outcomes. About 85% of Americans live within 10 miles of a CVS store. Each day, 4.5 million consumers visit those stores and CVS are starting to monetise what once was solely a destination to pick up prescriptions and maybe buy some toothpaste whilst doing so.

United Health

UnitedHealth, which operates the UnitedHealthcare health insurance business and the Optum medical care services unit gave guidance that its 2022 revenues are projected to be “$317 billion to $320 billion” topping $300bn for the first time. Like CVS, 2021 has been a good year for UnitedHealth, which has reported larger than expected profits at times during the pandemic in part because Americans have delayed getting healthcare services and some routine care. But health insurance companies are also seeing an expansion of government-subsidized healthcare via Medicare Advantage, which health insurers including UnitedHealthcare administer for the elderly, as well as Medicaid (insurance program for people with low incomes), which insurers administer for state governments. Falling unemployment rates also bode well for employer coverage administered by health insurers like UnitedHealthcare if more workers and their employers buy more coverage. Optum, a fast-growing part of UnitedHealth Group and a key reason the company will eclipse $300 billion in total revenue next year, is making a $13bn acquisition for Change Healthcare which will become a part of the OptumInsight business (its data analytics arm) “to provide software and data analytics, technology-enabled services and research, advisory and revenue cycle management offerings to help make health care work better for everyone.” The deal is the most significant addition to the OptumInsight business since United Health in 2017 bought the Advisory Board’s healthcare business, which includes data analytics, consulting and population health for $1.3 billion. Announced in January of this year, the Change acquisition was seen as a move by UnitedHealth and Optum to bolster the company's efforts to improve health outcomes and population health. Managing populations works in tandem with health insurance industry efforts to shift more payments to doctors and hospitals away from fee-for-service medicine (which essentially rewards doctors for prescribing as many services/ drugs as possible) to value-based reimbursement that bases reimbursement on how well providers perform and whether their patients achieve better health outcomes. But getting the providers to achieve the goals of population health also means doctors and hospitals need the tools to get their patients the right care, in the right place and at the right time. This is an area where United Health has been at the forefront and plays into the theme of affordable health and taking cost out of the healthcare system. The company plans to more closely align payer and provider branches moving forward. In an effort to deliver more value to government and employer customers, the company will look toward developing new mental healthcare strategies as one avenue for development. UnitedHealthcare and Optum will become even more collaborative. The health insurer and provider of medical care are already working on ways to package health benefits and services to sell to employers as well as government clients. UnitedHealth's UnitedHealthcare Medicaid, Medicare Advantage, commercial and employer plans already providing benefits for about 50 million Americans. In the last year, UnitedHealth Group's Optum healthcare services unit has launched a virtual care business known as "Optum Virtual" that is expanding telehealth across the U.S. with more specialized medical care providers and services. Virtual health acceptance has risen dramatically through the pandemic. UnitedHealth is now integrating virtual healthcare and access to physicians into a patient's "total healthcare strategy" as part of a "virtual first" approach. It's not virtual only but virtual first as part of the overall continuum of care. Over 60,000 physicians work within the Optum environment and the majority of those are in office-based facilities, primary care and specialty. Optum are essentially integrating their virtual platform within all of that network, so patients don't have to make a choice between virtual and physical.

Intercontinental Exchange (ICE)

ICE reported a strong revenue beat driven by its Mortgage Technology business and further improvement (double digit growth) in the percentage of recurring revenue versus transactional revenue. ICE has three main business segments: Exchanges (including the NYSE), Fixed Income and Data services and Mortgage Technology. The company has been increasing the percentage of reoccurring revenue that makes for an attractive quality investment. A good example is within its Mortgage Technology business. Prior to its acquisition of Ellie Mae, ICE was only involved in the closing and secondary stages of the mortgage lifecycle via previous acquisitions of Simplifile and MERS. Simplifile digitises the signing and storage of paper mortgage documents. MERS, another electronic database, allows for organised tracking of mortgage legal statuses. The total addressable market for closing and secondary stages is approx. $2 billion. The addition of Ellie Mae enhances ICE's reach in the mortgage lifecycle, both in breadth and depth. Ellie Mae's main product, Encompass, is a cloud-based loan origination software (LOS) that facilitates the full origination, processing and underwriting workflow. Earlier this year, Ellie Mae also launched its eClose solution as an extension to Encompass's primary capabilities to target the post-approval closing process. This will further ingrain Encompass into originators' workflow, making the product the 'one-stop-shop' for the mortgage lifecycle. Ellie Mae expanded ICE's mortgage TAM by a total of approx. $8 billion, consisting of origination, processing, and underwriting (~$4B) and data analytics capabilities (~$4B). ICE is currently approx.13% of the market this could grow to 20% by 2026. Despite mortgage origination volume being aligned with macro factors, ICE is continuing to report an increase in recurring revenues in the Mortgage Technology segment (+34% y/y in 1H21). Interest rates aside, the long-term growth prospects for this segment remain favourable as segment revenues increasingly transition to being subscription based (40% currently). The Fixed Income and Data segment (26% or revenues) is benefitting from a number of trends including a) the continued growth of passive - passive exchange traded funds (ETF) AUM benchmarked to ICE indices grew to over $300B as of 2Q21 but is still behind equities in terms of encroachment of market, b) additional product launches and new business wins e.g., real time pricing, end of day (EOD) pricing and derivatives valuation all represent areas of product development that continue to evolve. In addition, Blackrock recently switched index provider for a number of its ETFs from NDAQ to ICE c) the ongoing automation of the fixed income markets - electronic trading in Fixed Income is still less than 30% of overall activity and as this continues to grow. The third segment of ICE's business is Exchanges (54% of revenue). Listings revenue represents one of the most stable sources of revenue across the platform. Listings fees are charged annually but are amortised over a pre-determined period resulting in a consistent steady stream of cash flows. The new issuance market has seen record levels of IPOs. ICE was an early believer in carbon-offset and

"Green" products and has first-mover advantage and market dominance in the segment at a time of accelerating total addressable market - driven by rising environmental, social and governance (ESG) awareness and mandated carbon emission mitigation. One such pressure is government-mandated cap-and-trade programs, wherein a declining annual limit is placed on allowed CO2 emissions in the atmosphere. This dynamic has created a market mechanism to trade carbon allowance credits and offsets (tradable certificate awarded for proactive initiatives that reduce emissions). ICE exchanges facilitate secondary futures markets for the four largest cap-and-trade programs in the world which collectively account for approx. 95% of all applicable volumes. In addition, ICE is deleveraging its balance sheet. The company announced its intent to sell its 9.85% ownership stake in Euroclear for $800m. It had carried Euroclear on its balance sheet at $600m and will thus report a gain on the sale. Proceeds likely to be directed at buybacks as ICE is at its 3.25X leverage threshold. The company has been vocal about the undervalued shares making buybacks sensible.

Sonic Healthcare

Sonic is one of the world's largest providers of medical diagnostics. The provision of COVID-19 testing enabled Sonic to report a record net profit of $1.3 billion on revenues of $8.8 billion, an increase of 149% and 28% respectively. They continued their progressive dividend policy, with a 7% increase. Robust cash generation in the financial year produced a reduction in net interest-bearing debt of over $1 billion, after payments for acquisitions and dividends, resulting in Sonic's gearing at being at the lowest level in over 20 years. Sonic has served 138m patients globally in FY 2021 for COVID-19 (including 36 million COVID-19 PCR tests performed in total to date) out of 60 laboratories globally. As well as also conducting COVID-19 serology testing in some markets COVID-19 whole genome sequencing is performed to aid identification of variants. In Australia Sonic has provided more than 1 million COVID-19 vaccinations to the community through special purpose high volume hubs and through its network of more than 200 medical centres. In addition to these COVID-19 specific services, Sonic's businesses continue to provide essential non-COVID healthcare services for hundreds of thousands of patients every day, despite the operational challenges posed by the pandemic. The base business, stripping out COVID-19 related business, grew 6%. Sonic's base business has become increasingly resilient to impacts of pandemic waves and benefits from the essential nature of its services, as well as geographical and business diversification. The company operates in 7 markets with the three main ones being USA (25%), Germany (23%) and Australia (23%). In addition to organic growth, Sonic continues to focus on synergistic acquisitions and other growth opportunities, supported by current record low gearing levels and significant available liquidity, geographic footprint, leading market positions and brands. They completed the acquisition of Canberra Imaging Group on 1 September 2021. This acquisition is a significant step in the development of Sonic's Imaging division in Australia and follows the move in March 2021 to a majority 80% ownership of Epworth Medical Imaging in Victoria.

Thermo Fisher Scientific

Revenue for the quarter grew 9% to $9.33 billion in 2021, versus $8.52 billion in 2020. The beat was driven largely by the Life Sciences segment which was 26% ahead whilst speciality diagnostics was 23% ahead. Operating margin rose by 2.9% helping to drive a 23% rise in earnings per share. The company is raising its revenue guidance for the full 2021 period by $1.2 billion to $37.1 billion; this would result in 15% revenue growth over 2020. The company is raising its adjusted earnings per share (EPS) guidance by $1.30 to $23.37, which would represent 20% growth year over year.

The results demonstrated broad-based strength, including in bioproduction, pharma services, biosciences, chromatography, and mass spectrometry businesses as well as in the research and safety market channel. Performance in the base business was strong. Driven by immunodiagnostics, clinical diagnostics, and transplant diagnostics which is important from when COVID revenues subside. In the quarter, Thermo generated approx. $2 billion in COVID 19 response-related revenue. With the surge in the Delta variant, they saw strong testing demand around the world. Themo are growing along three lines a) Innovation and launching new products. For example, in genetic sciences, they launched the Applied Biosystems QuantStudio Absolute Q Digital PCR System. This is the first fully integrated digital PCR system designed to provide highly accurate results in only 90 minutes. This system will help advance innovation efforts in areas like oncology and cell and gene therapy which are expected to rapidly advance post COVID, b) leveraging scale to increase offering to customers in high growth and emerging markets. During the quarter, Thermo opened a bioprocesses design centre in South Korea.

This facility will support pharmaceutical research and manufacturing processes, c) building on value proposition to their customers. Thermo will invest over $2.5 billion in CapEx over the next year in building new facilities including a new state-of-the-art biologics site in Switzerland and a commitment to co-invest with the US government in building a facility to manufacture pipette tips. These facilities will be designed in line with Thermo Fisher Scientific's carbon neutrality goals. Thermo completed its deal for buy PPD which will establish Thermo Fisher as a leader in the high-growth clinical research services industry e.g., clinical trials of new drugs.

Negative Contributors

Charter Communications

The cable companies have all come under pressure in the last few months and that includes pure play Charter. In September, the management of another cable firm, Comcast spoke at a conference and said net broadband adds would be a bit light in Q3. The cable stocks all sold off. Q3 results came in and net adds were slightly lower than original expectations. The same has happened in Q4. To put this in perspective for Charter, net adds in 2021 will come in at c.1.1-1.2m for the year versus original expectations of 1.3m and 2020 (which was abnormal due to Covid increasing broadband demand and also subsidies for low-income consumers to get broadband) of 1.8m. 2019, 2018 and 2017 were all between 1.0 and 1.3m per year. So, all in all, not a big difference.

However, this has led to a number of brokers downgrading the cable companies including Charter based on a narrative that slowing net additions will continue due to greater competition from build out of fibre and from Fixed Wireless Access (FWA) at a time when capital spending is increasing, thus reducing free cash flow.

Not only do we believe this to be wrong, but none of these reports also looks at the huge opportunity in mobile i.e., they only consider competition one way. Lots of companies have announced plans to increase fibre. There are two reasons why most of this does not get built. One short term and one fundamental: short term - bottle necks everywhere (labour / glass / backlog of wayleaves agreements etc). Fundamental - economics: the cable companies will respond aggressively where new fibre is laid, and this means the economics will not look at all good and the investment in fibre will be reflexive (i.e., the outcome from early fibre investments will affect the amount of fibre that eventually gets built - if the early stuff is uneconomic then the later stuff will not get the capital needed to allow it to get built).

It is fair that FWA has picked up some subscribers. In Q3 fixed wireless broadband took on around 100k subs (so nothing like the cable Co's) and most of these are in rural areas not served by any other broadband. The real reason that adds are slightly lower appears to be lower churn across the whole industry. People are just not changing provider. Some of this is down to slightly fewer home moves (and certainly a lot less new home connections) but the rest does seem to be a change in habit by consumers. It could be Covid related or, more likely, it could just be that consumers are largely happy with what they have and so have no reason to change (to go through the hassle of saving something has to be either demonstrably better or demonstrably cheaper). Currently all broadband providers (cable and fibre) provide perfectly adequate speeds for most people (>200Mbps) and pricing is very similar. So why change? Is this an issue? Not really. Charter build passings of c.1m per year as they edge out the network. They've had a historic connection rate over time of c.60% and no reason to think these changes. So, 600k of net adds per year without any churn. Then there is the continued share that have slow internet speeds (DSL, ADSL etc) which will continue to donate market share albeit likely at a slower pace (CHTR are only c.50% penetrated in their own footprint) so expect another 400-600k even in a low churn environment. So, all in 1-1.2m per year net adds which is fine (and in a low churn environment retention costs and customer acquisition cost (CAC) will both decrease). The second part of the argument is Capex is going up thus reducing Free Cash Flow growth which has been particularly strong with Charter. Capex will be slightly elevated in 2022 due to Rural Digital Opportunity Fund (RDOF) build out. Initiated in August 2019, The RDOF is a Federal Communications Commission (FFC)-backed initiative to provide broadband Internet speeds to the unserved, underserved, and partially served homes and businesses across the US. The objective is to bring them on par with connectivity in the urban and suburban areas. RDOF aims to accomplish this mission by funding the expansion of rural broadband access with $20.4 billion over ten years, distributed in two phases through an FCC-managed reverse auction. Charter was one of the big winners in the first auction with locations in 22 States. They are looking to invest $5bn in the build out of which $1.2bn will come from government funding. This is fine provided they keep getting 50%+ connected. All Net Present Value (NPV) positive. It also dampens the once voiced regulatory risk on the sector, given the desire to provide broadband over a wider area. There is some investment to improve upload speeds, but this is tiny in the grand scheme of things as is the pathway to ubiquitous 1gb symmetric and then 10gb symmetric.

One of the keys to the thesis of holding Charter is mobile and what is a massive opportunity. When Comcast and Time Warner Cable (the latter became what is Charter today through acquisition) sold their AWS -1 spectrum to Verizon in 2011 (cable operators have bought and sold spectrum over their history, with intermittent flirtations with the wireless market), they believed they were walking away from ever becoming facilities-based wireless players. It was imperative therefore that the sale came with a Mobile Virtual Network Operator (MVNO) agreement with Verizon to compensate for that forfeiture. They achieved this and crucially a contract that is ‘perpetual and irrevocable’. This MVNO agreement with Verizon means that Comcast and Charter can effectively cherry pick - using the MVNO when it would be expensive to put in their own spectrum / plant and investing where they know it will be highly profitable ie high density, high use locations. Because the MVNO agreement is ‘perpetual and irrevocable’ and is based on average prices (ie the same price everywhere, whether easy or hard to reach), cable companies are provided with the perfect return on investment opportunity. Convergence is coming and unfortunately for the telco’s, the cable companies are better positioned because they already have the high-capacity network in the ground (fixed cost already largely depreciated) and the mobile side for them is all variable cost so capacity can be added as they become successful. For wireless operators it is the other way round - they have the wireless plant in place but to offer converged broadband needs them to invest up front in infrastructure. What this all means is that the cable companies can price mobile aggressively, gain more subscribers and still be profitable. Comcast has already undercut Verizon and AT &T but achieved breakeven in their mobile segment at an early stage. Charter are likely to follow. Comcast launched its mobile service in 2017 and Charter, a year later. In 4 years, the cable operators have become the fastest growing wireless providers in the US, accounting for 30% of net adds and currently they are only marketing to their own customers. This suggests that more than half of net wireless industry growth among video and /or broadband subscribers is now being captured by the cable industry’s wireless offering. It’s also interesting to note that one third of Verizon’s earnings growth is currently coming from their cable MVNO relationship and that AT&T had tried for a wholesale deal of their own with cable operators. Its economically more attractive to be the wholesale provider rather than simply lose customers to new entrants.

Aena

Aena is the world's number one airport operator in terms of passenger traffic. Over 275 million passengers passed through Spanish airports in 2019. The company manages 46 airports and 2 heliports in Spain and has direct and indirect shares in another 23 airports: one in Europe (London Luton airport, of which it owns 51% of the share capital) and 22 in the Americas (6 in Brazil, 12 in Mexico, 2 in Colombia and 2 in Jamaica). Aena is a state-owned company (51% stake) with 49% free float. When AENA was partially privatised in 2015 a law was introduced to exercise control over it and to manage and regulate all Aena’s airports. Alongside reduced passenger traffic due to COVID, Aena is also contending with reduced income from concessionaires whose stores have been closed during the pandemic.

As a result of the health crisis triggered by Covid-19 and the measures taken by the public authorities to deal with it, in January 2021 Aena made a discount proposal to the commercial operators of duty-free shops, other stores, restaurants, vending machines, financial services and advertising business with respect to the minimum annual guaranteed rents (MAG). The aim was to adjust the contracts in an even-handed way to cater for the situation of the two sides, both of which have been extremely hard hit by the pandemic. Over 90 commercial operators accepted Aena’s proposal.

On 3 October, the Spanish Government brought into effect a law which says MAG rent specified in contracts to be due from 15 March 2020 until 20 June 2020 cannot be claimed. Furthermore, the new law states that from 21 June 2020 the MAG fixed in contracts will be automatically reduced in proportion to passenger volume compared to 2019. This will remain in place until passenger traffic recovers to pre-pandemic levels. The provisions will not affect Aena's right to demand payment of the variable rent specified in the contracts based on the income derived from sales at the premises concerned. Aena stated that the new rules could cost €1.35bn in reduced commercial income over the next 5 years, based on traffic volume not returning to 2019 levels until 2026.

Aena served 76.5 million passengers in the first nine months of 2021 – equivalent to approx. 36% of the levels seen in 2019 but 18% more than 2020. The company's total consolidated income for the period stands at €1.76bn and Aena recorded a loss of €123.7m across the first nine month of the year. At the start of the COVID crisis, Aena put in place a series of measures to ensure its services are properly operational and that liquidity is available. The company now has cash and credit facilities amounting to 2.3 billion euros in addition to the option of issuing up to 900 million euros through the Euro Commercial Paper (ECP) programme. The company has steadfastly pursued its cost savings targets since March 2020. Adjustment of capacity, cost cutting, and reduction of cash outflows have been tailored to the evolution of traffic, bringing the capacity of its facilities into line with operational needs.

Progress in rolling out vaccination programmes both in Spain and in other countries where passengers come from has led to a rise in passenger demand and an increase in the airlines' offering mainly since May. The timing and intensity of traffic recovery will depend on the evolution of the pandemic and the easing of restrictions in the various countries. The development of a new variant, leading to greater protection for retailers using Aena airports has clearly been a short-term negative but what is clear is how quickly travel volume returns as restrictions unwind. The airlines have programmed 25.6 million seats to the airports of the Canary Islands for the winter season, which represents an increase of 20.4% compared to the seats in the winter season of 2019, before the start of the pandemic, such is the expected demand to travel. Should volumes not take until 2026 to recover to 2019 levels, there would a positive impact on Aena and shares are likely to re-rate on any positive data.

Safran

Safran, whose main business is the manufacture and servicing of aero-engines for narrow body aircraft for both Airbus and Boeing, is clearly impacted by sentiment over COVID-19 and whether travel is restricted in any way. It was no surprise therefore to see the stock fall on the announcement of the Omicron variant in October. Over the last 12 months, there has been a gradual increase in travel which remains bumpy. Narrowbody average seat kilometres (ASK = number of seats available multiplied by the number of km flown) mid-October 2021 was at 74 % of levels seen in 2019. China after being above or close to 2019 levels between March and July, deterioration in August and is now at (9.6)% compared to 2019. North America has seen steady improvement from March to the end of June, yet slowed down in April, now increasing slowly to (9.5)% vs 2019. Europe, stood under (70)% vs 2019 until the end of May with a rapid improvement during the summer season towards (26)% vs 2019. APAC ex China is the most impacted region, recovering slowly, now at (62.0)% vs 2019. Safran delivered a combined 256 units of the CFM56 and LEAP engines in Q3 2021 (vs. 211 units in Q3 2020) up 21%. The bulk of Safran's profits are derived from the aftermarket so depend on km flows. The civil aftermarket (in $) was (7.7)% in 9m 2021 having been down (53.4)% in Q1, up 55% in Q2 and up 43.8% in Q3. Safran reaffirmed its FY 2021 outlook (compared with FY 2020 figures). Adjusted recurring operating margin is expected to increase above 100 bps, at least a 300 bps improvement versus H2 2020 with free cash flow guidance raised to above Euro 1.5bn thanks to further advanced payments. Looking ahead, Safran are targeting annual growth in revenue of more than 10% up until 2025 with the aftermarket revenues growing at 15% pa. They are likely to dispose of the 30% of the Zodiac business (which makes the interiors for planes) not seen as essential to the business. Air traffic, they believe, should return to its pre-crisis level between 2023 and 2025 and companies will need more spare parts and maintenance for their engines, highly profitable activities for the group, which carries out half of its activity in aeronautical propulsion. Safran depends on its LEAP engine and the group is well positioned to take advantage of the deliveries of new aircraft, in particular on short and medium-haul aircraft, for which Boeing and Airbus have started to increase production rates. The market share of its LEAP engine, which equips the totality of the 737 MAX and more than half of the devices of the A320 family, amounts to 72% of the narrowbody market. LEAP deliveries should reach a total of 900 in 2021 and increase to 2000 from 2023. Safran expects operating margin to reach 16% to 18% by 2025 (5% above 2021). Safran benefits from having exposure to younger fleets and less of the retiring wide body planes. The return of travel is only one growth dynamic. The others are decarbonisation of aviation for which Safran is key and the defence/ global sovereignty dynamic.

Fiserv

Fiserv has a unique business, which claims to reach 100% of U.S. households through its 10,000 financial institution clients and 6 million global merchants. The company delivers solutions to financial firms, assisting them with real-time payment processing, online customer portals, and risk and compliance. Consumer expectations are constantly evolving, and they want more of their banking done in real time. The company is divided into three main areas; Merchant Acquiring (Acceptance Segment) – Merchant acquiring features the legacy First Data business acquired by Fiserv in 2019. The First Data / Acceptance business serves merchants by enabling them to accept credit, debit, mobile, and other digital payments via both point-of-sale and online terminals. Also included in the acceptance segment is Clover, Fiserv's competitor to Square's retail merchant solution. As a fee-per-transaction business, merchant acquiring serves as an inflation hedge if the dollar volume of payments processed were to increase due to inflation. Payment Processing (Payments Segment) – The payments segment houses the US third-largest debit card network (after Visa and Mastercard). It also facilitates digital payments including Automated Clearing House, bill payment, electronic billing, account-to-account transfers, and person-to-person payments. Revenue is fee-based per transaction, meaning that the segment will grow in proportion to inflation (in nominal terms) and in proportion to market growth and market share gains (in real terms). Core Processing (Fintech Segment) – Fiserv's core processing solution is the software that powers banking transactions, deposit and loan management, and all other processes that must be maintained in a financial institution. Much like other software systems, this is a recurring revenue business. Fiserv fell during the quarter following news of the loss of a large customer. Fiserv actually delivered decent third quarter results. Revenue for the period rose nearly 10% to $4.16 billion, beating Wall Street's forecast of $4.12 billion, while earnings of $462 million soared 62% year over year. The company even increased the low end of its full-year earnings per share guidance range, from $5.50-$5.60 per share to $5.55-$5.60 per share. It also reiterated expected internal revenue growth of 11%. However, in the earnings call, management also mentioned the loss of a large processing client which impacted North American processing volumes by 500 basis points in the quarter. The loss of a large client is never good but this loss, believed to be online payment processor Stripe, was one of Fiserv's joint-venture partners, which is taking its business in-house, rather than moving to another fintech payments competitor. Clearly this client, while representing a lot of payment volume, doesn't appear to be yielding the company that much revenue. After all, that loss is already in Fiserv's numbers and guidance, and the company did beat expectations while also reiterating its full-year guidance range. Large acquirers and large merchants tend to pay very low fees per transaction. If, more positively, one looks at the massive growth in Clover (which offers card processing and point of sale technology), it comes on at very high yields, 10-20x the yield of Stripe volumes. So, the loss of (Stripe) may be more significant for concerns over fintech disruption than it is for actual future revenue and profits. Some investors have focussed on the rapid growth in Buy Now Pay Later (BNPL). Square, a competitor to Clover, recently acquired Afterpay, an Australian quoted BNPL company. We remain sceptical of BNPL and feel It is not a durable business model but rather one that has been created in the past few years at the tail end of 12 years of languished economic growth (Covid aside), plentiful global liquidity and fiscal support following on the heels of austerity. The BNLP industry is untested through the cycle. Customer cohorts are mostly subprime with some replacing card spend, others are new to credit. In a downturn, consumer credit losses will increase. One thing we know, you cannot eliminate risk, it moves around – in this case to the BNPL intermediary. Worse, the BNPL industry runs a mismatch as revenues are a percentage of sales (vulnerable to downturn) but funding is market based (unlikely to see cheaper wholesale funding to compensate), so spread compression through mismatch, and potentially worse if inflation comes with a downturn. Additionally, late fees are starting to increase – signs of stress on household cashflows. We retain our positive stance on Fiserv since the medium -term. The company is on track to deliver expected revenue and EPS growth in 2021, and growth should continue to be healthy over the next few years. The outlook for consumer spending remains above trend in 2022 before normalising by 2023 but remains a supportive backdrop for continued growth in the acquiring market. Despite the ramp up of BNPL as an alternative payment method, the merchant acquiring market remains large, fragmented, and should still grow well above nominal GDP over the medium term. Merchant acquiring remains a large addressable market, with global consulting firm Boston Consulting Group sizing the global total addressable market at c.$50bn and forecasting this to grow 8 -10% per year over 2021 -24. This growth outlook looks realistic, with Mastercard recently outlining its own expectations for 9 - 11% card volume growth longer -term. The market is still very fragmented. The revenues of the leading companies are individually no greater than a low teens share of the market, suggesting that even if companies such as Adyen and Square continue to take market share over the long term, the incumbents like Fiserv (and Mastercard) still have room to expand. There remain plenty of local banks and lower quality competitors for Fiserv to take share from. According to Nilson industry data the top ten global acquirers facilitated 52% of all card transactions in 2020. It should also be remembered that these companies can also partner to become distribution vehicles for new payment methods, such as BNPL and are still involved in processing card repayments for these vendors. Fiserv's merchant acquiring revenue growth has already returned to 9 -10% levels on a two - year CAGR basis, making its 9 -12% medium -term outlook realistic. Clover is approximately one quarter of Fiserv's acquiring revenue and now drives more than half the segment revenue growth. Clover's volume growth at 47% YoY in Q3 continued to exceed key peer Square at larger scale. The c.80bps take rate is likely adding merchants at higher yields than lost merchants, demonstrating the benefits of adding an integrated software/hardware solution. Fiserv is leading on volume growth too, adjusting for the Stripe customer loss which had negligible impact on revenues and is a relatively unique event. The CEO's strategy of acquiring leading tech and using its market-leading distribution worked well in the Merchant segment with Clover and is more recently being applied to the banking segments, for example with the Ondot acquisition in issuer processing, which should support revenue acceleration.

Catalent

Catalent shares have been weak as it's the company behind the supply constraints faced by Novo Nordisk for Wegovy, a new U.S. Food and Drug Administration (FDA) approved treatment for chronic weight management. Catalent is tasked with filling syringes for injection pens intended to dose patients with the drug. The manufacturing issues impacting Novo are due to an FDA '483' letter received by a Catalent facility. The FDA Form 483 called a 'Notice of Inspectional Observations' is issued at the end of an on-site inspection if the FDA filed investigator observed deficiencies in the quality system. It appears that an FDA inspection revealed concerns with certain undisclosed equipment which requires replacement and there will likely be a delay in said replacement due to the current supply disruption. A '483' letter is not a rare occurrence (one in 3 FDA inspections) but impactful in this case given the delay in remedying and occurring during a highly anticipated launch. We do not consider it a meaningful financial or reputational concern however (it's not made any regulatory disclosure regarding any manufacturing issues suggesting is immaterial to overall business and product -specific). It comes at a time when sentiment is turning to COVID waning over the next 12 months and Catalent having been a beneficiary in working with many of the vaccination providers including Astra Zeneca and Moderna. Catalent is well poised for growth in the coming quarters, backed by its robust facility expansion activities over the past few months. The company, in October, opened a new facility in San Diego in response to increased demand from pharmaceutical and biopharmaceutical customers for integrated development, clinical packaging, and distribution solutions on the U.S. West Coast. Also in October, the company opened its new clinical supply facility in the Shiga prefecture of Japan to meet the growing demand for end-to-end services, including primary packaging and white glove services. The company had robust first-quarter fiscal 2022 performance and had delivered a positive earnings surprise in the last few quarters. It has made a number of strategic deals over the past months which positions it well looking forward. This included the acquisition of Bettera Holdings which manufacturers high growth gummy, soft chew and lozenge solutions to drug delivery.

Current Positioning

Top 10 Portfolio Holdings

Holding	Sector	Country	Portfolio %
Alphabet	Communication Services	United States	8.2
Charter Communications	Communication Services	United States	6.6
CVS Health	Health Care	United States	5.6
Microsoft	Information Technology	United States	5.1
Canadian Pacific Railway	Industrials	Canada	4.2
Baxter International	Health Care	United States	4.0
Meta Platforms Inc.	Communication Services	United States	4.0
Unilever PLC	Consumer Staples	United Kingdom	3.9
Amazon.com	Consumer Discretionary	United States	3.9
BAE Systems	Industrials	United Kingdom	3.8
Total			**49.2**

Source: Veritas Asset Management

Portfolio breakdown

Region	Portfolio %
North America	68.4
Europe ex UK	9.5
United Kingdom	7.7
Asia Pacific ex Japan	3.8
Cash and equivalents	10.5
Total	100.0

Sector	Portfolio %
Health Care	29.3
Industrials	19.4
Communication Services	18.7
Information Technology	11.4
Consumer Staples	3.9
Consumer Discretionary	3.9
Financials	3.0
Cash and equivalents	10.5
Total	100.0

Currency	Portfolio %
USD	78.9
EUR	13.4
AUD	3.8
GBP	3.8
CAD	0.0
Total	100.0

Source: Veritas Asset Management

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 5 meetings and 50 votable resolutions across the companies: Canadian Pacific Railway, Catalent, Inc., Cochlear Limited, Microsoft Corporation and Sonic Healthcare Ltd.

Voting statistics	
Meetings voted	5
Votes Cast	50
Votes "FOR" Management	47
Votes "AGAINST" Management	3

Votes by country	%
United States	74.0
Australia	22.0
Canada	4.0

Votes by Industry sector [1]	%
Software	40.0
Pharmaceuticals	34.0
Health Care Equipment & Supplies	12.0
Health Care Providers & Services	10.0
Road & Rail	4.0

"FOR" Management
"AGAINST" Management

[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.

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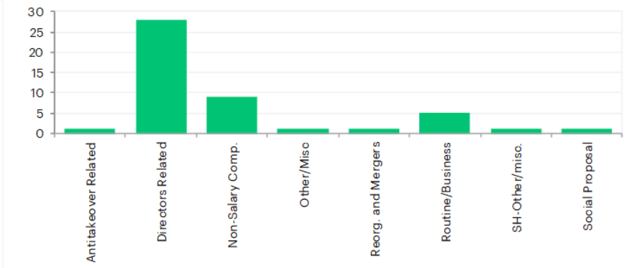
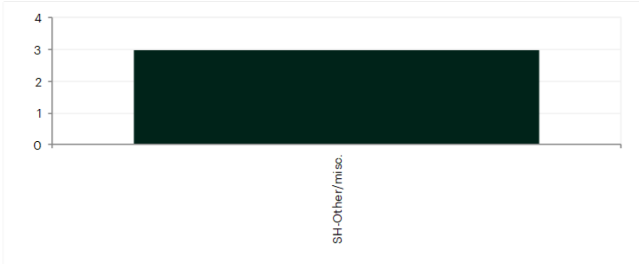
Vote categorisation [1]

Category	Votes "FOR" Management	Votes "AGAINST" Management	Total
Antitakeover Related	1	–	1
Directors Related	28	–	28
Non-Salary Comp.	9	–	9
Other/Misc	1	–	1
Reorg. and Mergers	1	–	1
Routine/Business	5	–	5
SH-Other/misc. [2]	1	3	4
Social Proposal	1	–	1
Total	**47**	**3**	**50**

Votes "FOR" Management Categorisation



Votes "AGAINST" Management Categorisation



[1&2] Please contact us for further descriptions of category classifications.
Source : Veritas Asset Management/ISS

Across the 50 resolutions, votes cast by VAM LLP resulted in 47 votes "FOR" management and 3 votes "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	Microsoft Corporation	Report on Gender/ Racial Pay Gap	"AGAINST"	"FOR"	A vote FOR this proposal was warranted, as shareholders could benefit from the median pay gap statistics that would allow them to compare and measure the progress of the company's diversity and inclusion initiatives.
2	Microsoft Corporation	Report on Effectiveness of Workplace Sexual Harassment Policies	"AGAINST"	"FOR"	A vote FOR this proposal was warranted as the company faces potential controversies related to workplace sexual harassment and gender discrimination. Additional information on the company's sexual harassment policies and the implementation of these policies would help shareholders better assess how the company is addressing such risks.
3	Microsoft Corporation	Report on Lobbying Activities Alignment with Company Policies	"AGAINST"	"FOR"	A vote FOR this proposal was warranted, as a report on the congruency of the company's public position and its political partners lobbying positions would provide shareholders needed information about reputational risks that may arise from publicity around perceived inconsistencies.

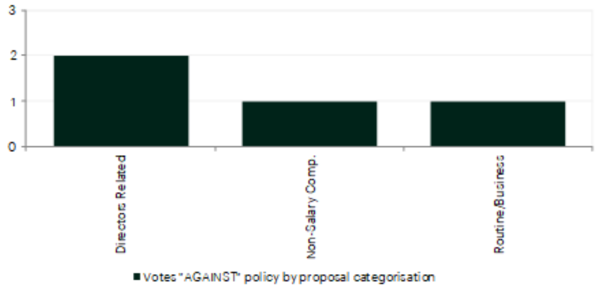
Source: Veritas Asset Management

Proxy Voting - ESG Red Lines

The second part of the voting report focuses on the customised Red Line element of our policy. Across the 50 resolutions voted during the period, the overall number of resolutions which triggered the Red Line element of our customised policy was 4. We voted in line ("FOR") on 0 resolution and contrary to ("AGAINST") for the remaining 4 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. Should you require further examples of rationale please contact us directly.

Votes "FOR" and "AGAINST" VAM LLP Policy

Votes	Red line[1]	Total
Number of votes "FOR" Policy	-	46
Number of votes "AGAINST" Policy	4	4
Total	**4**	**50**



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

Source: Veritas Asset Management

Report Item	Company	Proposal	Red Line Vote Recommendation	VAM LLP Vote	Voter Rationale
1	Cochlear Limited	Approve Financial Statements and Reports of the Directors and Auditors	“AGAINST”	“FOR”	Veritas voted contrary to the guidance provided by Red Line G15; G15 - There is no separate resolution to approve the final dividend. Our rationale is that Cochlear has a long record in paying dividends (since 1996) and growing the dividend in line with earnings. There was a pause of one half-year payment last year (FY2020) given the exceptional litigation settlement in combination with COVID-19 impacts, however, the company re-introduced the dividend at H1 F2021 with full year pay-out in line with their stated 70% pay-out target. The Board’s commitment to the dividend is strong and enduring in our opinion and so a separate resolution regarding the dividend is no reason for us to vote against Item 1.1.
2	Catalent, Inc.	Elect Director John Chiminski	“AGAINST”	“FOR”	Veritas voted contrary to the guidance provided by several Red Lines; E2 - The company has failed to disclose quantitative and qualitative environmental information through CDP's climate change, water and forests questionnaires. E4 -The company has failed to commit to introducing and disclosing science-based emission reduction targets with a coherent strategy and action plan in line with a 2-degree scenario. S4 - The level of gender diversity at the board under analysis falls below 40% and has not improved since the last director elections. We voted "AGAINST" the Red line E2 recommendation. We are comfortable that the company gives environmental stewardship appropriate concern. We have engaged with the company on this issue and encouraged the stated disclosures and found there is evidence of the Board already moving towards these disclosures. We are voted "AGAINST" the Red line E4 recommendation. We are comfortable that the company gives environmental stewardship appropriate concern. In fact, on August 3rd 2021, Catalent announced the company has signed a letter of commitment with the Science-Based Target initiative (SBTi), joining a growing list of companies setting actionable, science-based, greenhouse gas emission reduction targets to limit global warming. Our direct engagement with the company further revealed the following: Catalent's CEO signed an initial 10-year commitment and a 42% reduction in Scope 1 & 2 emissions, as of July 2021. Catalent have 2-years to validate these targets in accordance with the timescales stipulated by SBTI. We are voted "AGAINST" the Red line S4 recommendation. We are comfortable that the company gives gender diversity appropriate concern across the corporation. Catalent have been certified for their gender equality practices by EDGE (Economic Dividends for Gender Equality). As published in the CR Report 2021.

3	Sonic Healthcare Limited	Elect Lou Panaccio as Director	“AGAINST”	“FOR”	Veritas voted contrary to the guidance provided by Red Line G4; G4 - The nominee's continuous service as a director of the company exceeds recommended local tenure limits. We believe Mr. Panaccio’s experience within healthcare services & the pathology industry specifically is far more valuable to the running of the company than complying with the recommended local tenure limits, and therefore does not justify a vote "AGAINST".

Source: Veritas Asset Management

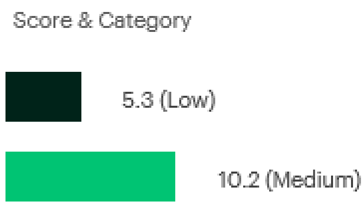
Portfolio Carbon Analysis Overview

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

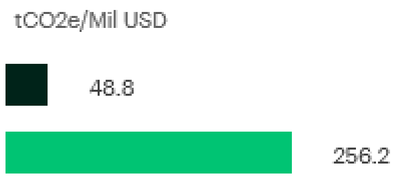
Carbon Risk Rating

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 48% lower carbon risk than the benchmark.



Carbon Intensity

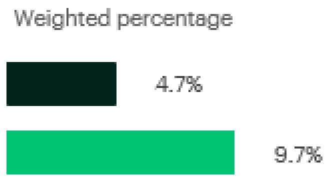
Carbon intensity is a relative metric used to compare company emissions across industries. Sustainalytics divides the absolute emissions by total revenue, meaning the figure is expressed in tonnes of carbon dioxide equivalent per million USD of total revenue. Overall, the portfolio is 81% less carbon intensive than the benchmark.



Source: Veritas Asset Management

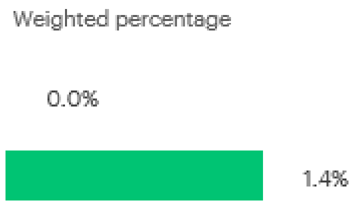
Fossil Fuels

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 52% less exposure to Fossil Fuels than the benchmark.



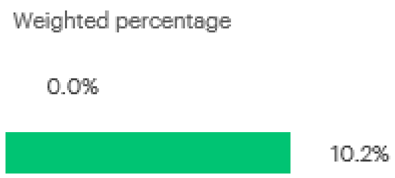
Stranded Assets

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.



Source: Veritas Asset Management

Disclaimer

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