NEDGROUP INVESTMENTS

see money differently

Nedgroup Investments Global Equity Fund

Quarter Two, 2022

Marketing Communication

Nedgroup Investments Global Equity Fund

1. Market Overview and Outlook

Portfolio Manager Commentary

'So, the way I see it: The biggest risk is not going too big, if we go – it's if we go too small'
- President Joe Biden - 5th February 2021

'Is there a risk of inflation? I think there's a small risk. And I think it's manageable.'
- Janet Yellen, US Secretary of the Treasury - 14th March 2021

'It's probably a good time to retire that word (transitory) and try to explain more clearly what we mean'
- Jerome Powell, Chair of the Federal Reserve - 30th November 2021

'Inflation is much too high'
- Jerome Powell - 4th May 2022

What a difference a year makes. In June the FOMC hiked the Fed Funds Rate by 75bps to a range of 1.5% - 1.75% in an attempt to temper the demand for credit, the largest increase since 1994. On July 13th US inflation (CPI) grew 9.1% YoY, the largest gain since 1981. The context for central bank and governmental policy has understandably been challenging given a global pandemic and supply side shocks created by geopolitical tensions. The above timeline of just 14 months highlights the difficulties in navigating policy inputs and resultant outcomes in the midst of unprecedented fiscal and monetary stimulus. At present, fears of continuing higher levels of inflation, policy maker responses and potential real demand impacts are understandably front and centre of investors' minds.

Higher, more persistent inflation is having several effects on the real economy. A sobering statistic is that 64% of Americans live paycheck to paycheck. Median wage growth is growing at c.6%, at levels not seen since 2001 – so in real terms, people are getting relatively worse off with limited financial flexibility. The average 30-year fixed mortgage rates started the year at 3% and now this hovers at 5.75%. Not unsurprisingly, house price transaction cancellations reached 15% in June, levels not seen since the depths of the pandemic. One can add increasing mortgage costs as one of a myriad of headwinds. It is no wonder that the Michigan Consumer Sentiment Survey is weak, in fact in June it was the weakest month on record, in a survey spanning 55 years. Whilst savings rates provide some cover, disposable incomes are likely to remain under pressure in the short term and this will undoubtedly impact the wider economy.

The other side of the inflation coin is the impact on asset prices. If a security delivers $100 of cash a decade from now and you pay c.$25 for it today, you will achieve a 15% return. If you pay $50 for it today, you've accepted a c.7% return. Provided the future cash flows and current price are known, the expected return can always be calculated. This can then be compared against inflation and interest rates. As these rise, the price of the security needs to fall to provide a higher return. In this sense, low interest rates only justify high equity prices in the sense that they justify lower expected returns. This is most evident in long duration, more speculatively valued assets where the cash flows needed to justify their lofty valuations are out in the distant future. Not surprisingly, the GS unprofitable tech index has more than halved from its peak.

What happens next? The four quotes at the head of the page are instructive in that trying to accurately predict policy decisions and resultant outputs is extremely challenging to do on any consistent basis. Even the decision makers themselves, whom it is fair to assume have a positive information asymmetry, can (and often do) get it wrong. The current balancing act between managing inflation and not causing overbearing demand destruction is challenging to say the least. A rational investor can only really surmise that there are a wide range of outcomes and the environment remains volatile. Even if one had perfect foresight on the policy action and response, an investor then has to judge how the market would react. A much more consistent and robust approach is to focus on businesses that are durable, competitively advantaged, and whilst not immune to macroeconomic challenges, can improve their competitive position through these periods. If these companies can compound high returns over time, they should generate significant economic value for shareholders. These are the types of business that the portfolio looks to invest in when they are available at attractive valuations.

The increasing fervour with which central banks are now trying to contain inflation is analogous with its potential detrimental impact. Milton Friedman noted ‘Inflation is the one form of taxation that can be imposed without legislation’ and in his 1977 paper “How Inflation Swindles the Equity Investor” Warren Buffett opined “the Inflation tax has a fantastic ability to simply consume capital”. There are many stark impacts of inflation but for an investor its impact is insidious. The level of inflation is tantamount to a 100% tax rate on your returns up to the level of inflation – If inflation is 2%, the investor has effectively lost the first 2% of their return. If inflation is 9% then the investor loses the first 9% of their return to this insidious force. This highlights the effects of higher and more sustained inflation on the investor. At present it is highly unclear how transitory or not inflation will prove to be and at what level it will settle at (given exogenous shocks in 2022). However, if inflation is more sustained than recent history it does have important implications for equity investment, as Buffett noted.

How inflation impairs returns of fixed interest securities is fairly apparent but how does it impinge on the equity investor and what are the implications for the portolio? There are two high level implications. For the first, if a business is generating a nominal return on equity and inflation rises, if the nominal return does not adjust, the real rate of return will fall by the amount of the change in the inflation. This is straightforward. The second, less obvious, impact is on the cost of growth. Over time companies generate economic value by making returns and using those proceeds to then fund growth – it is the compounding of these returns over the long term that delivers that value. If the inflation rate is higher, and nominal returns on equity the same, then cost of maintaining the asset base (assuming it is depreciating) increases and more of those returns are funnelled away from growth and into maintenance in real terms. An example is the oil industry – as oil is extracted from the ground, the asset base depletes. To maintain the asset base oil companies have to find new resources and to generate production which costs relatively more to replenish. Ultimately, this potentially crowds out expansionary capital (in this case it could be for alternative energy sources). So, if an industry is either capital intensive or one that is low return (or both), it will likely be disproportionately impacted by this effect.

So how can a company potentially offset these impacts and which ones are most able to manage? One way is to increase their return on equity, all else equal. However, there are only really five sources of doing this: generating more revenues from the same asset base, improving operating margins, reducing corporate taxes and increasing leverage or reducing the cost of that leverage. The last three of these are unlikely given all-time lows of corporation tax to GDP in the US and interest rates rising from multi-decade lows.

Turning to generating more sales off their asset base, companies need capital to grow, but this varies between sectors and industries. Whether this is in the form of working capital (e.g., inventories) or fixed, there is a cost to achieving it. In asset light industries the cost of this growth is relatively lower. If we take the software industry for example, if you produce a piece of software (e.g., Microsoft Office), you make that software and then this can be repeatedly sold with a low incremental cost and high incremental margins. The cost to download is minimal. If an oil company wants to double in size, it typically has to have a commensurate increase in asset base. One of the reasons platform businesses such as Google can achieve such large absolute valuations is precisely because the incremental capital required to grow is relatively low. There are also no real physical constraints and the opportunity is highly scalable given a customer base that numbers in the billions. The second way to increase the ratio of sales to a given asset base is to be able to increase pricing. This is where a focus on competitively advantaged companies with strong market positions is key. Companies with this type of pricing power are likely to be able to exert it in inflationary periods and offset some of the impediments discussed above. Microsoft, for example, has recently increased pricing for Office by 8-15% across its Office products, the first time in over 8 years.

The second option of the five above is to increase operating margins. However, corporate operating margins in the United States are at all-time highs (13.3%). Whilst the focus of the last paragraph was on assets, the ability of businesses to leverage operating costs is also equally as important. Companies that have high gross margin structures and strong incremental margins can leverage operating costs as a proportion of revenues. In practise this comes down to improving aspects such as sales force productivity and again, the extent to which corporations can pass on any rise in costs onto customers through higher prices.

The impact of higher inflation affects all actors in the economy but the impacts on the equity markets are often underappreciated, especially when compared to those in fixed income. Asset light businesses, with pricing power and high return on investments are likely to be better placed over time as their capital will be less constrained and the effects of inflation on their cost bases are more likely to be mitigated. We have a number of these types of company in the portfolio and one such is Mastercard.

Mastercard is a card scheme operator that enables customers and merchants to make and receive payments around the world. It enjoys substantial tailwinds to growth with the shift to electronic payments and provides huge convenience and security to its cardholders very cheaply. Mastercard is asset light and well-placed to cope with inflationary outcomes. The key driver for its revenues is payment volume and these stem from nominal personal consumption expenditure (PCE). Higher inflation acts to increase nominal volumes. Mastercard is a prime beneficiary because around half of total revenue is struck as a percentage of these payment flows – in other words, Mastercard has a lot of in-built inflation protection – and this has been part of our investment case.

We originated our investment in Mastercard in March 2020 when the pandemic made the outlook for payments very uncertain. Since then, we have seen robust recovery in domestic spending, that has coincided with a tilt back to spending on credit cards where Mastercard is strongly positioned (discretionary, e.g., restaurant spending is very robust) compared to debit cards (household budgeting). The bigger factor surrounds the ongoing recovery in cross-border payment volumes with borders reopening and physical travel increasing (cross-border eCommerce has been firm during the pandemic). Cross-border flows are more profitable payment streams for the payment networks, of which Mastercard is best placed of all.

However, being mindful that inflation puts pressure on household cashflows, this may somewhat hinder payment volume recovery in the near term. When we look at previous slowdowns, Mastercard has proved to be extremely resilient. In the GFC, while payment growth was impacted, Mastercard used its pricing power in unison with expense control to protect its bottom line. We expect the card schemes to push through higher network fees, especially having held off doing so over the pandemic. And while real growth might see some demand destruction from higher inflation, this also supports nominal PCE as a counterbalance. The other significant offset is that cross-border flows are still recovering post pandemic. The other half of its revenues stem from transactions (usually higher but is smaller lots during slowdowns) and services that are highly recurring. We believe the outlook is far more secured than when we originated our investment in the wake of the pandemic, that was a stress event for global payments. In the meanwhile, earnings have been coming through and its valuation is approaching pandemic lows, so we continue to have lots of conviction in this name.

2. Contributors & detractors for the past quarter

Top 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							
BAE Systems	6.0	8.9	0.5	0.1	8.9	0.0	1.3
Unilever PLC	3.7	0.4	0.0	–	–	–	0.6
Catalent	3.7	-3.3	0.0	0.0	-3.3	-0.0	0.5
CVS Health	5.3	-8.2	-0.4	0.2	-8.1	-0.0	0.4
UnitedHealth	3.1	1.0	0.0	0.9	1.0	0.0	0.4
Bottom 5 relative stock contributors							
Illumina	1.4	-47.7	-0.8	0.1	-47.2	-0.0	-0.5
Meta Platforms Inc.	4.0	-27.5	-1.2	0.8	-27.5	-0.2	-0.4
Amazon.com	3.5	-35.2	-1.4	2.1	-34.8	-0.8	-0.3
Aena SME	2.9	-24.6	-0.8	0.0	-24.6	-0.0	-0.3
Alphabet	6.5	-21.7	-1.5	2.6	-21.6	-0.6	-0.2

Source: Veritas Asset Management

Relative attribution by sector

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	3.5	-35.2	-1.4	10.9	-23.8	-2.7	0.6	-0.5	0.2
Consumer Staples	3.7	0.4	0.0	7.5	-6.4	-0.5	-0.4	0.2	-0.1
Energy	–	–	–	4.9	-5.1	-0.4	-0.5	–	-0.5
Financials	2.1	-25.1	-0.6	13.7	-16.2	-2.2	0.0	-0.2	-0.2
Health Care	29.4	-11.7	-3.5	13.4	-7.2	-0.8	1.4	-1.3	0.1
Industrials	23.1	-10.2	-2.3	9.9	-16.7	-1.7	-0.1	1.5	1.4
Information Technology	10.5	-13.3	-1.4	21.5	-21.7	-4.8	0.7	0.9	1.5
Materials	–	–	–	4.6	-19.7	-1.0	0.2	–	0.2
Communication Services	16.1	-20.6	-3.4	7.6	-19.4	-1.5	-0.3	-0.2	-0.5
Utilities	–	–	–	3.1	-7.5	-0.2	-0.3	–	-0.3
Real Estate	–	–	–	2.9	-14.7	-0.4	-0.0	–	-0.0
Cash and equivalents	11.6	n/a	0.0	–	–	–	1.8	–	1.8
Total	100.0	-12.6	-12.6	100.0	-16.2	-16.2	3.5	0.1	3.6

Source: Veritas Asset Management

Relative attribution by region

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	3.4	-15.8	-0.6	3.5	-14.1	-0.5	-0.0	-0.1	-0.1
North America	65.0	-16.2	-10.7	72.3	-16.8	-12.2	0.0	0.4	0.5
Africa/Middle East	–	–	–	0.2	-20.0	-0.0	0.0	–	0.0
Europe ex UK	10.4	-17.5	-1.9	13.5	-15.7	-2.1	-0.0	-0.2	-0.2
Japan	–	–	–	6.1	-14.6	-0.9	-0.1	–	-0.1
United Kingdom	9.7	5.6	0.5	4.4	-10.5	-0.4	0.3	1.4	1.7
Cash and equivalents	11.6	n/a	0.0	–	–	–	1.8	–	1.8
Total	100.0	-12.6	-12.6	100.0	-16.2	-16.2	2.0	1.6	3.6

Source: Veritas Asset Management

Portfolio Attribution Commentary

Contributors over the quarter

The external environment continues to be dominated by concerns about inflation, the direct/indirect impact of COVID-19 and supply constraints exacerbated by the conflict in Ukraine. Against this backdrop BAE Systems (BAE) has been the best performing stock in the portfolio. Whilst the focus has understandably been on the necessary increased defence spend amongst NATO members, the largely forgotten enduring characteristics of defence companies like BAE have also resurfaced. Whilst most markets are dominated by competition and cycles that can lead to overexpansion and overproduction with the price swings that result, defence companies like BAE agree to large, long term fixed contracts with primarily government bodies. Whilst there is some competition, at the top end of the market the biggest companies have access to unique technology and skills not offered by smaller players. In the US, the world's largest defence market, a new spending bill was signed into law at the beginning of March which increased defence spending to $743bn this year and $773bn in 2023. During June, BAE won a $12 billion contract from the US Department of Defence to support intercontinental ballistic missile systems (ICBM) over the next 18 years. Whilst BAE was among five firms competing for the contract, the company is currently helping the military branch sustain the weapon as part of an eight-year, $534 million contract awarded in July 2013, so it was always likely to be in the driving seat to win the contract.

Before winning this major contract, the group had announced a string of contract wins, including a £590m 11-year deal to support the UK's Hawk training aircraft fleet and contracts worth £2bn (alongside Rolls Royce) to support the UK's £31bn nuclear deterrent renewal programme. Other agreements include a seven-year support, sustainment and readiness contract for Norwegian armoured vehicles, ship repair and maintenance agreements for the USS Essex and USS Mustin and Spain is ordering 20 Eurofighter Typhoon jets. The company ended 2021 with an order backlog of £44bn, which is around two years' worth of revenue at current rates and that order list is growing. It generated net operating cash flow of £2.5bn and the pension deficit, which has long been a drag on the company, is coming down which will free up more capital for the group. Management raised the firm's dividend for 2021 by 6%. It also announced a £500m share buyback last year and with the group projecting £4bn-plus of cumulative free cash flow between 2022 and 2024 it looks as if management will have the capital available for more shareholder distributions. Whilst BAE is best-known for its defence business, the group also has a growing cybersecurity and intelligence arm. The cybersecurity market is booming, forecast to grow at a compounded annual rate of 10% over the next decade. As the world becomes more and more reliant on technology, this could turn out to be conservative.

Unilever is walking a tightrope as the war in Ukraine exacerbates a surge in transport, packaging and raw material costs and simultaneously squeezes household budgets that are straining with higher energy prices. Their dilemma is that they need to raise prices, but if they do too much, consumers will switch to cheaper products. The company is relatively well positioned as its products span the 'good, better, best' spectrum and thus are less likely to suffer from more significant trading down by consumers. Unilever is expecting inflation to get worse in the short term and increased its overall input cost inflation forecast for 2022 from EUR 3.6 billion, which it communicated in February, to EUR 4.8 billion. This will drive an ambitious saving program and further increase prices, although they stress the importance of the cost price competitiveness dynamic. So far, the company has covered about two-thirds of the cost increases it's facing with price hikes. For example, they have increased prices in home care (which is exposed to the chemical market) more than food categories. Here they have shown some agility in 'blend flex' and shifting, for example from vegetable oil (a main export of Ukraine), into rapeseed oil (from Canada).

Unilever, largely under shareholder pressure is in the process of overhauling its complex and slow "matrix" operating model into an organisation with five business groups— beauty and wellbeing, personal care, home care, nutrition, and ice cream — each accountable for their own global strategy, growth, and profit delivery. The aim is to react more quickly to consumer and channel trends while providing clear delivery accountability. For example, the beauty & wellness division will invest more in Direct 2 Consumer and in-store, whereas nutrition invests in Out Of Home (OOH) and grocery. The groups will be supported by a central business operations unit, providing tech, systems, and process support. The regional lockdowns have had an impact on both consumer demand patterns and the ability to supply products but there are many markets which are returning to a new normal. Strategically, Unilever is focussing on growth markets in US, India and China and increasingly moving the portfolio into high-growth products. In the first quarter, the acquisitions that the company made since 2017 grew at 14.8% with skin care within Prestige Beauty continuing to perform well. Despite this, the company has been criticised for being slow in its move to growth markets and that was not helped by its failed bid for the consumer business of GSK earlier in the year which felt like a knee jerk reaction to the criticism. The stock was boosted during the quarter by activist investor Nelson Peltz, being appointed to the board, after the head of Trian Fund Management built a 1.5 per cent stake in Unilever. Peltz is known for pressuring boards to agree to major change and business break-ups. He has mounted activist campaigns at Unilever's rivals Procter & Gamble, Heinz and Mondelez after joining the board of each company. Whilst now is not necessarily the time, it's likely some of the food businesses may be sold to help accelerate the transformation of the business. In the second quarter results were impressive. The company delivered first quarter sales growth of 7.3%., which was comprised of 8.3% price growth and minus 1% volume. So, in the short term they have delivered the strong price growth with only a small impact on volumes. That may be due to brand strength. They possess 13 EUR 1 billion plus brands which now make up over 50% of the turnover. Unilever continue to win competitively, with 58% of the business winning market share. eCommerce grew 27% in the quarter, meaning that over 5 years, eCommerce has grown from 2% of Unilever's turnover to 14% now.

Unilever is considered a defensive type business given that the majority of its products and services are not as susceptible to discretionary spend (there may be some trending down), but Healthcare is generally seen as even more price inelastic (demand does not fall proportionate to price increase). Over the quarter, a number of healthcare companies performed well.

Catalent, Inc. is a contract development manufacturing company (CDMO), which engages in the provision of delivery technologies and development solutions for drugs, biologics, and consumer and animal health products. The company has four divisions that cover everything from manufacturing soft capsules for medicines, prefilled syringes (e.g., for vaccines), metered dose inhalers, controlled release tablets, packaging and inventory management. As the pharmaceutical world increasingly focuses on new and more complex therapies, Catalent has positioned itself to be the partner of choice to help bring these therapies to market. While many CDMOs focus exclusively on mass production of high-volume drugs, Catalent is more heavily focused on highly specialised therapeutics, such as biologics (drugs synthesized from living organisms) and can do it at scale. This is important as pharmaceutical innovation gets more and more targeted, because there is an increasing number of clinical trials for rare diseases or cancers that have less than a few dozen trial participants. When these drugs eventually make it to market, there will continue to be a very finite number of people for whom the treatment is intended. For many pharmaceutical companies, manufacturing something so specialised in such small quantities is not economically viable. In fact, most small biotech start-ups don't have any in-house manufacturing capability at all and need to outsource. Thus, a relationship with a CDMO is a critical part of the success of many pharmaceutical companies, large and small. Catalent estimates that biopharma outsourcing has increased 8% per year since 2015 and represented 37% of the $160B industry's development and manufacturing expenditure in 2020. With all the innovation in this industry (in proteins, RNA, and gene editing) the demand for Catalent's specialised services will continue to grow in conjunction with the growth of the biotech industry.

Catalent's roots date back to soft-gelatine capsules that contain medication. This is still an important business, and the company is already benefitting from its acquisition of Bettera (which make gummies) as soft format medication is preferred amongst older patients. Most drugs have historically been in the small-molecule classification; drugs in this category are chemically synthesized and easier and cheaper to make. About 30 years ago, the large-molecule or biologics classification of drugs began to take hold. These therapies are made from living organisms and include modalities such as proteins, antibodies, mRNA, gene editing, etc. Catalent has positioned itself as the partner of choice for biologics innovators. Catalent has spent over $4B in the last five years through capex and M&A to drive growth. The biologics segment is now 37% of sales. During the quarter this segment grew at 30%, in part driven by COVID vaccine demand but also a ramp up in gene therapy treatment. There had been some concern that as COVID revenues fall, the company would still be able to grow at its long term forecasted target of 8-10%pa. Indeed, they raised full year guidance. Given the growth in the industry and investment in capacity, biologics should comprise 50% of total revenue by 2024. These specialised services have strong pricing power, and as this business grows as a percent of revenue, so does margins. The company expects its margin to increase by 4% by 2024 to ~28%. It is targeting 30% margin by 2026. Catalent has decades of expertise that customers leverage to determine the best way to manufacture medicine and deliver it into the human body. For example, if a drug needs to be administered via nasal spray, Catalent's got the science down to the optimal angle and amount of solution needed for the treatment to be effective. If the medicine is orally administered, Catalent can design tablets that can dissolve on the tongue. This type of tablet is not only more convenient but can be essential in regions where water is not available. The company has also mastered slow-release medications. Because of these different drug delivery methods, Catalent has the potential to take a product and extend its lifespan in the market simply by offering new ways to administer the medicine. One notable example is the way Catalent's innovation played a significant role in the multidecade success of the Advil brand. Many clients partner with Catalent very early in their R&D process to formulate the drug needed for their clinical trials. Being a part of the process early in development positions Catalent well to continue to be the manufacturer when the drug eventually gets approved. Eventually, if the drug's patent expires, Catalent is also well positioned to be the manufacturer of the same drug for generics producers. Not only is Catalent's business sticky, but the company has over 1,000 clients, including 86 of the top 100 branded pharma companies. They also manufacture over 7,000 different products and launch over 160 new projects per year. In relation to its own supply chains, the free cash flow has been negatively impacted in the last two years by the strategic decision at the onset of the pandemic to increase inventory levels, which continue to allow the company to have the inputs needed to meet supply obligations to their customers in a timely manner. Once the company is comfortable with the stabilisation of supply chains, they will begin to reverse course, which will have a future positive effect on free cash flow.

With steadily rising healthcare costs plus an expanding global population, health insurance is well positioned. The global health insurance industry is set to grow at an annual rate of approx. 7%, from $2 trillion in 2021 to $3 trillion by 2028. CVS Health and United Health were both additive to performance. CVS Health (CVS) topped earnings expectations and raised guidance for 2022. CVS Health owns CVS Pharmacy, which is a chain of retail pharmacy stores, CVS Caremark that operates as a pharmacy benefits manager, and Aetna, a health insurance provider. The company demonstrated its resilience to inflationary pressure and its proactive approach to repositioning the business for the future. CVS has attracted new customers, filled more prescriptions and saw a more typical cough, cold and flu season in the first quarter. In the year-ago period, fewer shoppers sought medications for seasonal illnesses as they wore masks and spent more time at home. The company said it also saw sales increase from pharmacy brand inflation. Sales increases were partially offset by reimbursement pressure in the pharmacy segment and a drop in Covid testing demand, but CVS is building on new habits consumers developed and the trust it gained during the pandemic, as people used telehealth and turned to drugstores for Covid tests and shots. CVS attracted 32 million new customers through COVID for vaccines and tests and its now aiming to hold on them as it offers more services at drugstores and customers' homes to make health care more affordable and convenient. Its doing this by focussing on a number of areas. The first is primary care delivery capabilities. The virtual care solution represents one of many care delivery channels and a lower-cost site of care. Pre-pandemic, back in 2019, the company supported 10,000 virtual mental health visits. Last year, this rose to 10 million virtual visits just for mental health. Second, the company is optimising its retail portfolio which will be comprised of three models: advanced primary care clinics (routine physicals, blood tests), enhanced HealthHUB locations (an alternative destination to hospitals for chronic conditions including lifestyle diseases such as sleep apnoea, more extensive treatments) and traditional CVS Pharmacy locations (prescriptions, health products). The company is closing those stores that will not meet its ROC (Return on Capital) expectations. Third, CVS is diversifying the growth portfolio with new health services. This includes expanding capabilities in home health. In 2023 they will launch a pilot for its Aetna insurance arm clients in select geographies that will use technology and home-based care to reduce re-admissions and improve care for customers at a critical juncture on their path to recovery. There is a huge problem with noncompliance in aftercare within the US with apathy shown even with something as critical as insulin injections for those with Type 2 diabetes. Additionally, the company is evaluating their portfolio for nonstrategic assets and selling these. They recently announced the sale of PayFlex (health savings account business). Fourth, CVS are focused on a 'digital-first, technology-forward approach'. They served nearly 44 million unique digital customers as of the end of the first quarter. They offer a digital-first health dashboard offering which puts critical health information into one place: health records, pharmacy medications and next-best actions. There are 5 million active health dashboard users. CVS are also using technology to improve business process and reduce costs. For example, they offer specialty intelligent medication monitoring and adherence which uses machine learning to help most at-risk patients by predicting the likelihood of individual patients becoming non-adherent to their medication. This approach then prompts ways in which they can be coached and helped to maintain their overall health and reduce costs to the payer.

United Health (UNH) Whilst UNH does not own a pharmacy network like CVS, it has seen many of the same positive trends and has been the marker leader when it comes to applying AI. With the increasing demand for health insurance, UnitedHealth Group's medical insurance customer base grew 3% year over year to 51 million customers at the end of the first quarter. Along with price hikes passed on to customers, the company posted better than expected results. UNH aims to produce high-quality diversified growth, pursue excellence in every consumer experience and at every touch point and apply technology to help all stakeholders to improve access, affordability, and outcomes. The company has five key areas to drive the long-term 13% to 16% pa earnings per share growth target it has set itself. The first is value-based care delivery. UNH expect to add 600,000 patients under value-based arrangements during 2022. The aim here is providing care in the setting that makes most sense for the patient. The company announced plans to acquire in-home healthcare company LHC Group for $5.4 billion which will reinforce the company's ability to deliver care and support in the home. The second growth area, health benefits, the focus is scaling value-based care for both commercial and Medicare insurance. In Medicare Advantage, UNH will serve an additional 800,000 people in 2022. (with Medicare Advantage the service is offered via a private scheme but approved by the government). In the commercial benefits market, offerings such as physician-led and virtual first plans have grown to serve 350,000 more people over the past year. This underscores the consumer appeal for these high-quality primary care-based coverage options. Nearly 90% of newly enrolled people in individual exchange offerings, selected plans with significant virtual components in the most recent open enrolment period and nearly 30% selected a virtual-first offering. In the third growth area, Health Technology, the company continues to execute on the major new health system partnerships initiated last year, including a broad relationship with SSM Health and its 11,000 providers caring for people throughout the Midwest of the US. UNH helps alleviate administrative burdens and create operational capacity for their partners to focus on delivering patient care. Fourth, UNH are developing health financial services, streamlining and simplifying payments for providers, payers, and consumers, while reducing friction and increasing speed and convenience. They introduced an integrated consumer card. Many people typically have separate cards for clinical care, pharmacy benefits, food assistance programs, fitness, rewards programs etc. UNH have combined these benefits into a single card. And finally, pharmacy services. The high cost of specialty drugs is one of the most pressing issues for health plan providers. UNH Optum business provides advanced analytical capabilities, collaborating with health plans to provide clinicians access to real-time medical and pharmacy analytics, which are coordinated with a patient-specific benefit plan design, enabling clinicians to determine the most effective and appropriate therapies at the point of care. As a result, specialty costs have fallen by over 15%. These efforts from expanding in-home and broad value-based care offerings to enhancements to Medicare Advantage to simplifying how to finance care are designed to create greater value for consumers and at the same time drive earnings for UNH.

Detractors over the quarter

llumina is an applied genomics technology company that was founded in 1998 with the mission statement: 'To improve human health by unlocking the power of the genome'. Over the past two decades, Illumina has developed high quality, cutting-edge, innovative technologies that are used in disease research, drug development, and for the development of molecular tests.

There are a number of concerns shorter term investors are focussed on. Firstly, Illumina closed the $7 billion impending acquisition of non-invasive, early detection liquid biopsy test provider GRAIL before completion of the European Commission's regulatory review, which is still ongoing, the company needs to hold GRAIL as a separate and independent unit until completion of the review. Secondly, and more relevant to the quarter is concerns Illumina faces increasing competition after a number of firms suggest the $100 genome (cost to map a human genome) is close. The company is launching a number of much anticipated products later this year and as yet have not divulged many details. Against this backdrop, sentiment was not helped when the CFO, Sam Samad, announced he was leaving the company later in the quarter, to take up the same position at Quest

Diagnostics (and to be closer to family on the East coast). Additionally, the company has about 10% revenue exposure to China and to areas affected by lockdowns.

Taking these in turn; GRAIL produce a ground-breaking multi-cancer early detection blood test called Galleri which is rapidly gaining traction. Galleri has been prescribed by more than 2,400 prescribing physicians and GRAIL has entered into 34 partnerships with health systems, employers and insurers who are investing in multi-cancer early detection to improve outcomes. This includes GRAIL's recent partnership with Point32Health, the first collaboration with a commercial health plan in the US. They also announced a multiyear partnership with Munich Re Life US to provide Galleri as part of Munich Re's commitment to advancing cancer early detection and treatment. Munich Re and GRAIL will collaborate to enable carriers and distributors to offer Galleri to existing policyholders who are at high risk of cancer such as those aged 50 and older. The UK NHS Galleri trial continues to progress, with more than 90,000 of the planned 140,000 participants enrolled. The relevance to valuation, is that even if Illumina is forced to sell GRAIL post EC regulatory review, shareholders will benefit if the company is in a stronger position than when the company acquired it. It is well on its way.

Next competitive threats. In terms, of gene sequencing machines, the company announced 20% growth compared to a year earlier and record backlog of orders. More than one-third of shipments in the first quarter were new Illumina customers. This increases the installed base and the profitable and reoccurring consumables business which surpassed $1 bn for the first time. Genetic disease testing also had another record quarter. In the US, critically ill infants are now eligible for Whole Genome Sequencing (WGS) in California, Oregon and Maryland through Medicaid. There was also an agreement with Germany's Hannover Medical School to implement the use of WGS for critically ill children suspected of having a genetic or rare disease. In reproductive health, both Spain and Italy have expanded coverage for non-invasive prenatal testing (NIPT), with Germany likely doing so as well later this year. The World Health Organization announced a 10-year strategy to use the power of genomics for global pan pathogen surveillance, demonstrating the growing trend for broader pathogen monitoring. FIND, a Geneva-based Global Alliance for Diagnostics, established Seq&Treat, a global initiative using sequencing for drug-resistant tuberculosis which affects nearly 0.5 million people globally each year. Another fast-developing area is the integration of genomic data into drug development and clinical trials. Drug development R&D spend is more than $123 billion annually, yet more than 90% of drugs that enter Phase I clinical trials fail to reach clinical approval, with fewer than 70 entering the market each year. A main contributor to this high failure rate is target selection, where genomic-based methods can more than double success rates and dramatically improve cost and speed to market. Today, of the top 10 causes of death for mankind, genomics helps address cancer, only one of those top 10. Over the next decade it could be all 10. The relevance here is that the genomics market is a large and growing market, and we are in the very early stages of penetration. There is room for growth of multiple players in this market. Currently it costs around $600 to map the human genome using one of Illumina's sequencing machines. The headlines that competitors will launch a $100-200 offering misses the total cost of ownership of a system. The price per G or genome is one part of the equation, but then you have to look at things like the compute infrastructure including the cost of processing and storage of data. Illumina entered the market with the first sequencing platform Solexa in 2007, and it cost $150,000 to map a genome. That has fallen to $600. They release a new platform Chemistry X later this year, which will lower the cost further. Illumina also possess machines for all levels of genetic sequencing (it's not always necessary to map the complete genome) and different price points. With the above in mind, the company has been offered improved guidance in 2022. The China lockdown issue will be a temporary impact given the critical nature of the products/ services provided and increase spend in public health within China (they actually gained 28 new hospital relationships over the quarter). It's understandable that with the company at a positive inflection point, investors have been spooked by the CFO suddenly leaving.

Expectations for Meta Platforms Inc. (Meta) were low going into the quarterly earnings and the stock rose strongly early in the quarter on better-than-expected numbers and a rise in number of daily active users. However, the stock sold off on concerns the company faces in the near term. Some are specific to Meta, like the transition to short-form video, which doesn't monetize as well as other Meta platforms like Stories. Some are specific to the industry, like signal loss resulting from Apple's iOS changes. Other challenges are broader macro trends, like the softness in e-commerce after the acceleration seen during the pandemic.

Looking at the two business segments, Family of Apps (Facebook, Instagram, WhatsApp, Messenger) and Reality Labs (Metaverse), the goal from a financial perspective is to generate sufficient operating income growth from Family of Apps to fund the growth of investment in Reality Labs, while still growing overall profitability. That's not going to happen in 2022 and Meta talked of scaling back the investment in the metaverse. They admitted it is possible that prolonged macroeconomic or business uncertainty could force them to trade off against shorter-term financial goals which is a sensible approach.

The three main investment priorities that are expected to drive growth is Reels, Ads and the Metaverse. Reels or short-form video is witnessing increasing popularity. Reels already makes up more than 20% of the time that people spend on Instagram and Video overall makes up 50% of the time that people spend on Facebook. As well as experiencing an increase in short-form video, the company is also seeing a major shift in Feeds from being almost exclusively curated by a user's social graph or follow graph to now having more of their feed recommended by AI, even if the content wasn't posted by a friend or someone you follow. This 'discovery engine' is likely to be valuable in building the best platform for creators to make a living and for advertising. Within the Ads business, there are three areas of focus right now. First, there is progress being made in the shift to short-form video. In the near term, this is a drag on revenue because real monetisation is less than for Stories. Back in 2012, with the transition from desktop feed to mobile feed, mobile feed grew massively but was not monetising well initially. In 2018, when people started using Stories, it was also not monetised well. Second is managing the headwinds from signal loss (ability to track traffic on Apple) and evolving ad systems to do more with less data. This means growing first-party understanding of what people are interested in by making it easier for people to engage with businesses and the apps, whether that's completing purchases on Facebook or Instagram or messaging businesses on WhatsApp or Messenger. This is where you click on an ad on your Facebook or Instagram feed and it opens a chat with the business in Messenger, Instagram Direct, or WhatsApp. An example is Deichmann, Europe's largest footwear retailer, who built a fully automated virtual shoe assistant to give customers personalised footwear recommendations and promoted it through Click-to-Messenger ads on Facebook. They had an 85% click-through rate and saw 30% more incremental purchases than with their usual link ads. Lastly, Meta is making major AI investments to build the most advanced models and infrastructure which will drive better recommendations for people and higher returns for advertisers. The third growth drive is the Metaverse (with spend commensurate to profits generated elsewhere). The centrepiece of the strategy is the social platform that Meta is building with Horizon (Horizon Worlds is Meta's social virtual reality app). It's still early, but as they build out the experience, the next focus will be on growing the community. Later this year the company launch a web version of Horizon that will make it easy for people to step into the Metaverse experiences from a lot more platforms, even without needing a headset (although Meta also continues to sell the best-selling headset, Quest 2, with a higher end model being introduced later this year).

The focus at Amazon.com was the core retail business and whether it's stalled as a flurry of online shopping tapers off amid the economy reopening from the pandemic. The issue is more that the company's operating expenses have increased faster than its sales. The company invested to keep up with demand in the past two years. Whilst labour and physical space are no longer the bottlenecks, they were throughout much of 2020 and 2021, the company continues to face a variety of cost pressures in the consumer business. There are two buckets, externally driven costs, primarily inflation and internally controllable costs, primarily productivity and fixed cost deleverage. Air and ocean shipping rates continued to rise and some of this is due to the impact of the Omicron variant in China and labour shortages at point of origin, and the start of the war in the Ukraine. For example, the cost to ship in overseas containers more than doubled compared to pre-pandemic rates. And the cost of fuel is approximately 1.5 times higher than it was even a year ago. Combined with the year-over-year increases in wage inflation (Amazon had increased average hourly US wages to $18 an hour for warehouse workers and doubling of max base pay for corporate and tech employees), these inflationary pressures have added approximately $2 billion of incremental costs. As the variant subsided in the second half of the quarter and employees returned from leave, Amazon transitioned from being understaffed to being overstaffed, resulting in lower productivity. This lower productivity added approximately $2 billion in costs. Despite still seeing strong customer demand and expansion of the FBA business (Fulfilment By Amazon -third party businesses outsourcing delivery to Amazon), the company currently has excess capacity in its fulfilment and transportation network. Capacity decisions are made years in advance, and during the pandemic Amazon were faced with not only unprecedented demand, but also extended lead times on new capacity so built towards the high end of a very volatile demand outlook. This overcapacity, coupled with the leverage seen in Q1 of last year, resulted in $2 billion of additional costs. The company will grow into this capacity and the benefit will be felt further down the road. When you combine the impacts of the externally driven costs and the internally controllable costs, you get approximately $6 billion in incremental costs for the quarter. The guidance included an expectation that this will drop to approximately $4 billion for these incremental costs in Q2. Additionally, the subscription service, Prime, is still growing, up 11% in the quarter and the company announced a $20 increase in its annual Prime membership fee to $139. The company is also clearly subject to difficult financial comps compared to last year. This year's Prime Day sales event will occur in the third quarter, whereas last year it occurred in the second quarter. Prime Day contributed about 400 basis points to the Q2 2021 year-over-year revenue growth rate. The jewel in the crown, however, is the Cloud business. AWS grew 37% year-over-year and now represent an annualized sales run rate of nearly $74 billion. Companies like Telefonica, Verizon, Boeing, MongoDB, Amdocs, Bundesliga, Maple Leaf Sports & Entertainment, the NHL and Thread all announced new agreements with AWS in Q1. At the current valuation, investors are only paying for AWS. Additionally, the Advertising business is also growing strongly and rose 23% on last year. This business is now generating at a run rate of $30bn pa. Amazon does not suffer from the same signal lose issue as Meta, as users know what they want to buy.

Alphabet's revenue came in at $68 billion, growth of 23% from the same period last year. That's a slowdown from 34% growth in the first quarter of 2021, when the economy was reopening from the pandemic. The company reported close to $55 billion in advertising revenue for the quarter, up from $45 billion the year prior, although YouTube ads were lighter than expected. Google's cloud business was a standout in the quarter, growing 44% and beating estimates as more big enterprises shift their workloads away from their own data centres. The cloud division is still losing money, but the loses are reducing. As more people return to in-person activities, hybrid approaches to learning and working are here to stay. Alphabet plan to invest approximately $9.5 billion in U.S. offices and data centres and areas like Cloud, AI, YouTube, Search. In 2020 and 2021 combined, they invested $40 billion in research and development in the U.S alone. AI continues to be at the heart of the core search and information products. They launched multisearch in Google Search during the quarter. It's a new way people can find what they need using both images and words. For example, you can snap a photo of a shirt pattern and then type the word green to find a green shirt with that pattern. They also shared new features in Search to help people find health care providers who take their insurance and book appointments online. With YouTube, they are working on more ways to appeal to creators, advertisers and viewers. With over 2 billion monthly signed-in users, they are well positioned to do this. YouTube, over the past 2 years, has seen significant growth and has become a central destination for entertainment, learning and educational content. Even as people have returned to in-person activities, time spent on YouTube has continued to grow. This has been seen in Short-form video. YouTube Shorts is now averaging over 30 billion daily views. That's 4x as much as a year ago. In the first quarter, the company added new capabilities to video editing. This is a well-trodden path and similar to what we saw with Meta above – build out a great user experience first and ensure users stay longer within the ecosystem, and then work to monetise over time. On average, viewers are watching over 700 million hours of YouTube content on televisions every day. Over the coming year, YouTube's connected TV viewers will have new smartphone control navigation and interactivity features, allowing people to comment and share content they are watching on television directly from their devices. Likewise, Google Play pricing model is aimed to help developers on the platform succeed. Today, 99% of developers qualify for a service fee of 15% or less. While this impacted short-term results, it's the right long-term approach to support the ecosystem. The company has reignited efforts (like Meta with Reels) in light of greater competition from TikTok. It is also important for investors to understand there is more to YouTube than advertising. For the quarter ended March 31, 2022, Alphabet reported growth in YouTube non-advertising revenue, driven by subscription growth in YouTube Music and YouTube TV.

Aena is the world's largest airport operator in terms of passenger traffic. The company earns that title by shuffling 275 million passengers through Spain's 46 airports and two heliports and another 18 million people through its 51%-owned Luton in the UK, one of the 45 airports outside Spain in which Aena has a direct or indirect holding. Passenger numbers are key for airports because they are the key determinants of their two main sources of earnings One source is aeronautical revenue. This comprises the income from flights, terminal space rentals, landing fees and other usage fees. The other source of revenue for airport operators is non-aeronautical earnings, including the money people spend at shops within a terminal, car rental and parking their cars. The more people fly, the more an airport operator earns. In the case of AENA, which was partially privatised in 2015, a law was introduced to exercise control over it and to manage and regulate all its airports. As such it earns regulated income and unregulated income (commercial revenues). Under the 2022-2026 'DORA' (Airport Regulation Document) airport tariffs will be frozen, placing Aena in somewhat of a vulnerable position in times of high inflation. Tariffs will not increase until at least 2026, while inflation will mean a significant hike in costs. This was seen in the last quarter, when management highlighted the impact from rising electricity costs, which was 4 x the level seen in the same period of 2021. The company has taken up a legal challenge for the revenue lost, beyond its control, related to COVID. The bulk of the profitability, however comes, from the nonregulated assets. Post-pandemic pent-up demand, mostly driven by tourists, has been supporting bookings for this year's summer season. Furthermore, the retail businesses have been performing above management's expectations, with the food and beverages and duty-free segment posting strong results, and the standout being car rentals. These revenues are effectively hedged against inflation (share of revenue). Savings accumulated during the lockdowns support spending at airports, while less congested shops encourage longer visits. EU airports with higher shares of UK passengers have been experiencing increased sales at duty-free shops due to the newly acquired non-EU tax status of UK travellers from January 2021 There is some concern from the staff shortages and the severe disruptions suffered by air travellers in several European markets. The root cause is the combination of a stronger than expected surge in demand alongside very tight labour markets – affecting not just airports but all actors in aviation including airlines, ground handlers, police and border control. Airports got little advance notice of the lifting of travel restrictions by governments, so had very little time to scale up facilities and resources. There is also some fears that the unfolding cost-of-living crisis could quash the positive spending trends and management at Aena will not give guidance for the remainder of 2022.

3. Current Positioning

Top 10 Portfolio Holdings

Holding	Sector	Country	Portfolio %
BAE Systems	Industrials	United Kingdom	6.7
Alphabet	Communication Services	United States	6.1
Charter Communications	Communication Services	United States	5.6
Canadian Pacific Railway	Industrials	Canada	5.4
Catalent	Health Care	United States	4.2
Fiserv	Information Technology	United States	4.1
Unilever PLC	Consumer Staples	United Kingdom	3.9
Vinci	Industrials	France	3.7
CVS Health	Health Care	United States	3.7
Safran	Industrials	France	3.6
Total			47.0

Source: Veritas Asset Management

Portfolio breakdown

Region	Portfolio %
North America	64.7
United Kingdom	10.6
Europe ex UK	10.0
Asia Pacific ex Japan	3.2
Cash and equivalents	11.4
Total	100.0

Sector	Portfolio %
Health Care	30.2
Industrials	23.4
Communication Services	15.3
Information Technology	10.3
Consumer Staples	3.9
Consumer Discretionary	3.5
Financials	2.0
Cash and equivalents	11.4
Total	100.0

Currency	Portfolio %
USD	76.1
EUR	13.9
GBP	6.7
AUD	3.2
CAD	0.0
Total	100.0

Source: Veritas Asset Management

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 19 meetings and 339 votable resolutions across the companies: Alphabet Inc., Amazon.com, Inc., BAE Systems Plc, Baxter International Inc., Canadian Pacific Railway Limited, Charter Communications, Inc., CoStar Group, Inc., CVS Health Corporation, Fiserv, Inc., Illumina, Inc., Intercontinental Exchange, Inc., Mastercard Incorporated, Meta Platforms, Inc., Moody's Corporation, Safran SA, Thermo Fisher Scientific Inc., Unilever Plc, UnitedHealth Group Incorporated and VINCI SA.

Voting statistics	
Meetings voted	19
Votes Cast	339
Votes "FOR" Management	292
Votes "AGAINST" Management	47

Votes by country	%
United States	72.9
United Kingdom	13.0
France	10.3
Canada	3.8

Votes by Industry sector [1]	%
Interactive Media & Services	15.6
Aerospace & Defense	11.8
IT Services	9.4
Health Care Providers & Services	8.8
Capital Markets	8.6
Internet & Direct Marketing Retail	8.3
Life Sciences Tools & Services	8.0
Personal Products	6.2
Media	5.9
Construction & Engineering	5.3
Health Care Equipment & Supplies	5.0
Road & Rail	3.8
Professional Services	3.2

"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

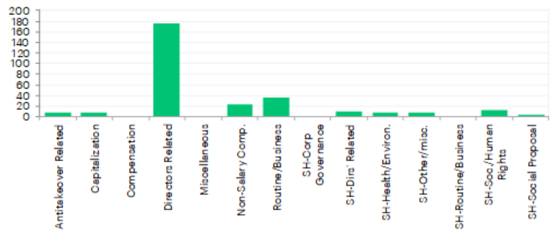
Proxy Voting - Proposal Categorisation

The information provided below details the vote categorisation.

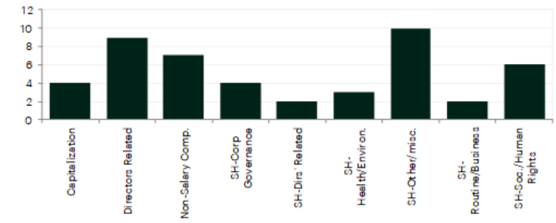
Vote categorisation [1]

Category	Votes "FOR" Management	Votes "AGAINST" Management	Total
Antitakeover Related	8	-	8
Capitalization	8	4	12
Compensation	2	-	2
Directors Related	175	9	184
Miscellaneous	1	-	1
Non-Salary Comp.	23	7	30
Routine/Business	36	-	36
SH-Corp Governance [2]	-	4	4
SH-Dirs' Related [2]	9	2	11
SH-Health/Environ. [2]	7	3	10
SH-Other/misc. [2]	7	10	17
SH-Routine/Business [2]	2	2	4
SH-Soc./Human Rights [2]	11	6	17
SH-Social Proposal [2]	3	-	3
Total	**292**	**47**	**339**

Votes "FOR" Management Categorisation



Votes "AGAINST" Management Categorisation



Source : Veritas Asset Management, ISS

Across the 339 resolutions, votes cast by VAM LLP resulted in 292 votes "FOR" management and 47 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	Alphabet Inc.	Commission Third Party Assessment of Company's Management of Misinformation and Disinformation Across Platforms	"AGAINST"	"FOR"	A vote FOR this proposal was warranted because an independent human rights assessment would help shareholders better evaluate the company's management of risks related to the human rights impacts of disinformation and misinformation.

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2	Charter Communications, Inc.	Report on Effectiveness of Diversity, Equity and Inclusion Efforts and Metrics	"AGAINST"	"FOR"	A vote FOR this proposal was warranted, as reporting quantitative comparable diversity data would allow shareholders to better assess the effectiveness of Charter's diversity, equity/ inclusion efforts, and management of related risks.
3	Unilever Plc	Re-elect Nils Andersen as Director	"FOR"	"AGAINST"	Veritas voted against the re-election of Nils Andersen as we are unhappy with how the business is performing and believe the executive management needs to be replaced.

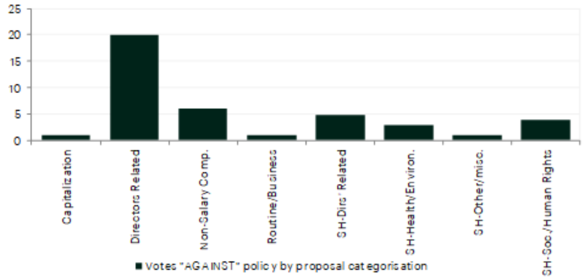
Source : Veritas Asset Management, ISS

Proxy Voting - ESG Red Lines

The second part of the voting report focuses on the customised Red Line element of our policy. Across the 43 resolutions voted during the period, the overall number of resolutions which triggered the Red Line element of our customised policy was 3. We voted in line ("FOR") on 0 resolution and contrary to ("AGAINST") for the remaining 3 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" VAMLLP Policy

Votes	Red line[1]	Total
Number of votes "FOR" Policy	14	298
Number of votes "AGAINST" Policy	18	41
Total	**32**	**339**



Source : Veritas Asset Management, ISS

Report Item	Company	Proposal	Red Line Vote Recommendation	VAM LLP Vote	Voter Rationale
1	Alphabet Inc.	Elect Director Ann Mather	"AGAINST"	"FOR"	Veritas voted contrary to the guidance provided by Red Line 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. The company was identified as one of the issuers to engage with under our Science Based Target (SBT) Thematic engagement initiative that we launched in Q2 22. On this basis, we decided to cast our vote contrary to the RL vote recommendation. We prefer to engage directly with the business in the first instance. If this approach proves unsuccessful, we may vote against the company.

2	Charter Communications, Inc.	Elect Director Thomas M. Rutledge	"AGAINST"	"FOR"	Veritas voted contrary to the guidance provided by; Red Line 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; Red Line S4 - The level of gender diversity on board is below 40% and has not improved compared to the previous year. As the turnover of board members is minimal, the work related to gender diversity is ongoing. Furthermore, four board members are appointed by Advance Newhouse, where Rutledge does not have a say in the gender of individuals. The company has moved a long way since our initial engagement in relation to emissions targets. While we need to engage to encourage further progress, it is not felt we should vote against management while engaging and they are moving in the right direction. The business has made the following climate-related commitments; The company intends to drive efficiency by achieving carbon neutrality across its operations by 2035 (Scope 1+2). They have adopted the TCFD framework and plan to introduce targets in the next two years. The business intends to report these goals in the next CDP submission. In addition, management acknowledges that setting targets will drive efficiencies in the network and operations whilst mitigating against potential future impacts of a carbon price. If the company fails to publish targets within the timeframe specified, then Veritas will likely vote against management at the next AGM.
3	VINCI SA	Approve Remuneration Policy of Xavier Huillard,	"AGAINST"	"FOR"	Veritas voted contrary to the guidance provided by Red Line G17 - No provision for claw back. Veritas does not believe we can apply a policy that requires clawback when we (as a firm) do not have such a provision.

Source : Veritas Asset Management

Portfolio Carbon Analytics

We produce detailed carbon analysis of the portfolio, please contact Nedgroup Investments if you need more information.

Disclaimer

This is a marketing communication Please refer to the prospectus, the key investor information documents (the **KIIDs**) and the financial statements of Nedgroup Investments Funds plc (the **Fund**) before making any final investment decisions.
These documents are available from Nedgroup Investments (IOM) Ltd (the **Investment Manager**) or via the website: www.nedgroupinvestments.com.

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Fees are outlined in the relevant Sub-Fund supplement available from the Investment Manager's website.
The Sub-Funds are valued using the prices of underlying securities prevailing at 11pm Irish time the business day before the dealing date. Prices are published on the Investment Manager's website. A summary of investor rights can be obtained, free of charge at www.nedgroupinvestments.com.

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