NEDGROUP INVESTMENTS

see money differently

Nedgroup Investments Global Equity Fund

Quarter One, 2024

Marketing Communication

1. Market Overview and Outlook

The Money Game

"And yet stocks that go up do come down again, very smart investors are mousetrapped, and every year some group of stocks heads for the moon with its propellants believing the destination is gold and not green cheese. In 1961 the whole world was going to go bowling, but in 1962 Brunswick managed to make it from 74 to 8 with scarcely a skid mark. In 1965 the whole world was going to sit and watch color television, but shortly thereafter Admiral, Motorola, Zenith, and Magnavox collapsed like a soufflé on which the oven door has been untimely slammed. It will happen again."

- *The Money Game (1976 edition) by Adam Smith (pseudonym of George Goodman).*

With the MSCI World delivering a total return of 25.1% (USD) over the past 12 months, greed is once again the dominant emotion for investors. Equity markets are at or near all-time highs and the share prices of some companies have headed for the moon. However, this bull market is one that is imbalanced, with the large gains concentrated in relatively few US technology companies. Generative artificial intelligence (AI) and the excitement about its long-term prospects are driving equity indices higher through outsized gains of companies deemed to be beneficiaries. Perhaps this is no surprise given the seemingly limitless wonders AI may bring – from treatments for cancer to perfect algorithmic trading it seems there is nothing that AI will not be able to solve. As a consequence, hundreds of billions of dollars are being invested in the infrastructure to support AI: huge data centres replete with the latest (Nvidia) AI chips for engineers to train models and then (hopefully) deliver solutions. While the supply side of AI has exploded, demand has remained muted as there are few solutions available today: a "killer app" has yet to be developed.

While the current AI boom is different to previous new technologies there may be some learnings we can take from earlier periods that witnessed the birth of new technologies. One recurrent learning is that major new technologies typically take longer than anticipated (by investors) for the widespread adoption and benefits to accrue and frequently much of the benefit ends up with the ultimate consumer rather than in the corporate wallet: in the late 1990's TMT boom, many dot-com companies IPO'd to great fanfare before collapsing, never to be heard from again. Even the infrastructure providers (largely the telco's) were not immune, investing many billions in the backbone for the internet, only to suffer from a typical capital cycle with too much capital invested in the good times that could never earn an acceptable return as a consequence of intense competition. While it is undeniable that the internet has been a huge benefit to society (with some clear downsides) the value accrued to a small number of companies that were rarely the early leaders. AOL, Nokia, Blackberry, Lucent, Nortel, Intel, MySpace and Yahoo were all early leaders that failed to capitalise on their position. Amazon, Google and Meta (Facebook) have created huge value for their shareholders but even these three companies took their time to develop the profitable businesses we know them for today. Another seeming truism of new technological paradigms is that it is often easier to identify the losers than it is to identify the eventual winners. With the development of the internet, traditional retailers, advertising agencies, travel agents and telco's all found life much more difficult than in a world without the internet. Price transparency became the norm for many industries that previously had managed to keep pricing relatively opaque making it more difficult to earn high returns. Good news for consumers but bad news for all but the most efficient operators.

Only time will tell if this time is different but, in the meantime, investors are keen to own anything AI related. Of the largest six[1] companies in the US, five of them are seen as major beneficiaries of AI and the share prices of these companies reflects the general enthusiasm for AI. These 6 companies have a cumulative market capitalisation of over $13 trillion and account for almost 20% of the MSCI World Index of 1,465 companies. Increasingly the performance of a handful of companies is driving the performance of global equity indices.

"Achetez au son du canon, vendre au son du clairon."

- Nathan Rothschild.[2]

[1] Microsoft, Apple, Nvidia, Alphabet (Google), Amazon and Meta

[2] Allegedly.

While the clamour for AI exposed companies remains high, one area that investors are clearly not interested in today is China. Over the past year the MSCI World index in USD is up c.26% whereas the Shanghai Composite is down c.12% (USD). It is clear that China is out of fashion with investors. Perhaps this is not surprising when one considers the issues facing China and in particular the political tensions with the US and macroeconomic headwinds. On the former, it is difficult to know much with certainty but recent noises coming out of Beijing and meetings between Xi Jinping and US executives bode well. On the latter, it seems clear that policy makers in China over-tightened by imposing too severe regulatory restrictions on the property sector. With property being such an important part of the Chinese economy, the overly tight restrictions led to the property market no longer functioning with transaction volumes declining precipitously. This in turn has created its own problems with much debt secured on property as well as issues for local government that depend on land sales. The slowdown that started in the property market has then been exacerbated by a slower than expected re-opening post Covid. Despite these headwinds China's GDP still grew by 5.2% in 2023, faster than any developed market other than Ireland. China's macroeconomic issues are a clear near-term headwind but are well understood and in the "shop window".

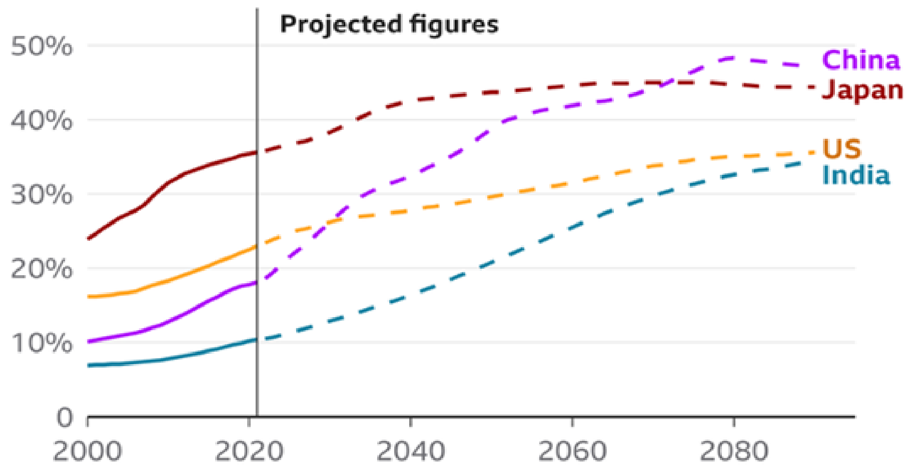
The long-term structural growth of China will be driven by the continued urbanisation of a population that is hard working and ambitious, higher value added work for these newly urbanised workers, growing incomes and consequently growing consumption. This will lead to strong economic growth over the long term, some of which will be offset by an ageing population and worsening dependency ratio. However, given the size of the country, the potential remains enormous. It seems very likely that over the medium- and longer-term household incomes in China will continue to rise[3] and as it does consumption of premium products will see outsized growth.

Due to risks surrounding property rights, regulation and legal process, we are cautious when deploying capital exposed to China, rarely investing directly but instead seeking investments domiciled outside China that benefit from the positive trends. Our investments to date have largely been in healthcare where an aging population, rising incomes and the desire of the Chinese leadership to be a major player in biologic pharmaceuticals benefit our holdings. More recently we have taken a position in the luxury goods company, Richemont, with part of our thesis surrounding the long-term rise in incomes in China and the demand of these consumers for conspicuous luxury.

Healthcare exposure to China

China has a rapidly ageing population, with 27% of the population (or 402 million people) projected to be over the age of 60 by 2040 (Source: WHO). In 2019, around 75% of citizens over 60 were suffering from noncommunicable diseases such as cardiovascular disease, diabetes or hypertension.

China's population is ageing fast- Percentage of people over 60 years old



In clear recognition of this growing burden, President Xi Jinping announced the Healthy China (HC 2030) blueprint in October 2016, a bold declaration that made public health a precondition for all future economic and social development. The blueprint includes five specific goals: to improve the level of health nationwide, control

[3] Between 1990 and 2010, the average Chinese household disposable income rose more than 8-fold.

major risk factors, increase the capacity of the health service, enlarge the scale of the health industry, and perfect the health service system. Of the four core principles for achieving these goals, the global life sciences industry is a clear beneficiary of innovation and scientific development.[4]

> **Four Core Principles**
>
> HC 2030, which is the Chinese vision of health care, is built on four core principles. The first is *health priority*. Based on conditions nationwide, health care should be prioritized and placed in a strategic position in the whole process of public policy implementation. The second core principle is *innovation*. The health care industry should follow government leadership, give play to the role of the market mechanism, and simultaneously speed up reform in key areas. The third principle is *scientific development*. The blueprint emphasizes the importance of both prevention and cure, focusing on prevention and control, Chinese and Western medicine, and changes in the service mode to reduce the gaps in basic health services. The fourth principle is *fairness and justice*. The rural areas of the country are given special attention to promote equal access to basic public health services and to maintain public welfare.

In China's 13th Five Year plan (2016-2020), WHO recommendations to improve the health and well-being of older populations were followed, with the aim of moving closer to the achievement of universal health coverage. Pharmaceutical R&D and supply chains were highlighted for investment, with synthetic biology and regenerative medicine outlined as strategic industries.[5]

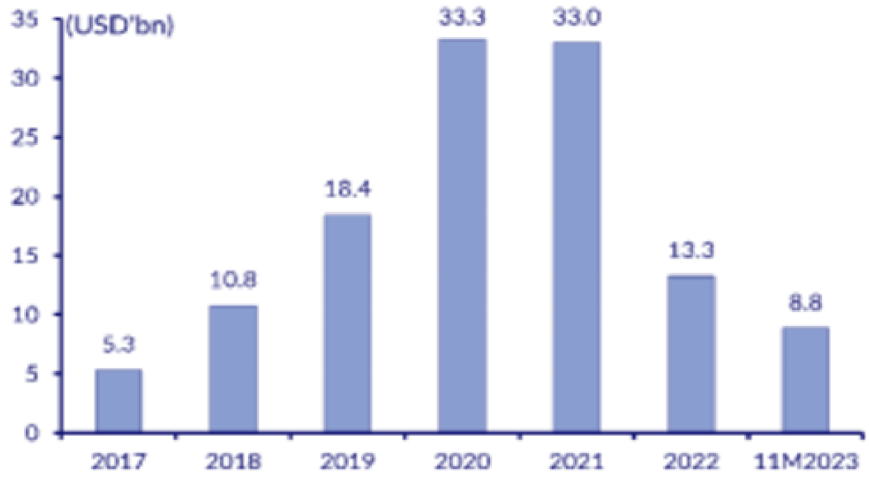
Through this period 2016-2020, life science tools manufacturer Thermo Fisher Scientific grew revenues at a CAGR of 22% in China (to $3.2bn), doubling their growth rate from the preceding five years.

> **Strategic Industries**
>
> In bringing about a future-oriented industry structure, we will foster strategic industries in the fields of aerospace, oceanography, information networks, the life sciences, and nuclear technology. In order to cultivate strengths for future development, we will develop new types of air and underwater vehicles, next generation operating platforms, and integrated aerospace observation systems, develop quantum communication and a safe and ubiquitous Internet of Things, and accelerate the development of synthetic biology and regenerative medical techniques as well as next generation nuclear power equipment, small nuclear power systems, and civil nuclear analytical and imaging techniques.

The COVID-19 pandemic then disrupted the industry as it disrupted all things. Despite an extremely challenging operating environment, the Chinese life sciences industry received a funding surge as new therapies, vaccines and greater biomanufacturing capacity were aggressively sought.

[4] Healthy China 2030: A Vision for Health Care; Tan et al (2017) https://www.ispor.org/docs/default-source/publications/newsletter/commentary_health-care_china_2030.pdf

[5] The 13th five-year plan for economic and social development of the people's republic of China (2016–2020); https://en.ndrc.gov.cn/policies/202105/P020210527785800103339.pdf

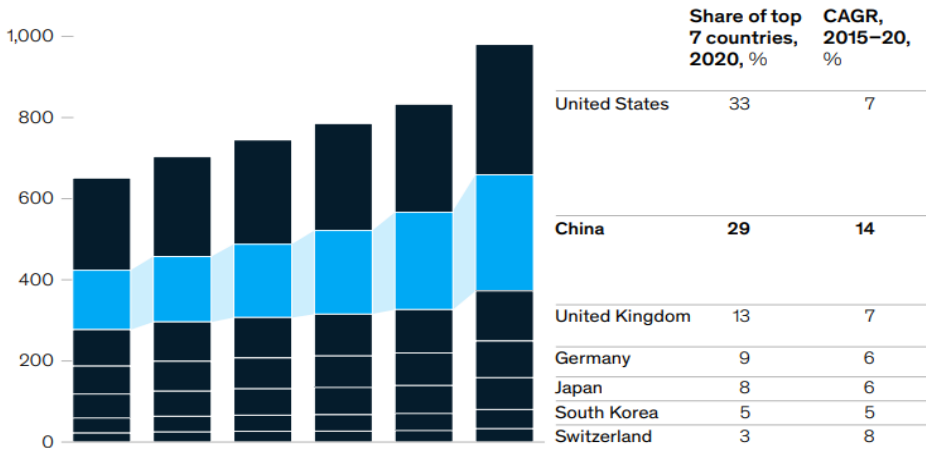


Source: Pharmacube, CLSA

However, by 2022 China's zero-COVID policy, strict lockdowns, global inflation and capital funding weakness precipitated a sharp retraction in China's biotech and supporting industries. Clear overcapacity has become evident in some sub-industries such as contract manufacturing and in analytical instruments, the pull-forward of investment spend having become apparent through 2023. For the multinational corporations (MNC's), local competition has begun to modestly erode their share of some lower value, consumable items serving the life science industry. Compounding the emerging local competition for MNCs is policy from the Chinese administration favouring local providers, driving a domestic first agenda. At Veritas we aim to counter the latter two forces by investing only in companies with globally leading franchises, protected innovation and services. As a point of context, Thermo Fisher Scientific's China revenues through the pandemic grew a CAGR of 5.6% (2020-2023)6, with high single-digit growth in 2022 pivoting to a high single digit decline in 2023 – a result of this confluence of factors.

China's 14th five-year plan for the development of the pharmaceutical industry (from 2020-2025), despite being released amid capital market volatility in 2022, called for biopharma R&D spending to grow more than 10% p.a. through 2025. 7 It is clear China has made strong progress in innovative basic research and drug discovery, though its contribution to breakthroughs of global significance remains limited as yet.

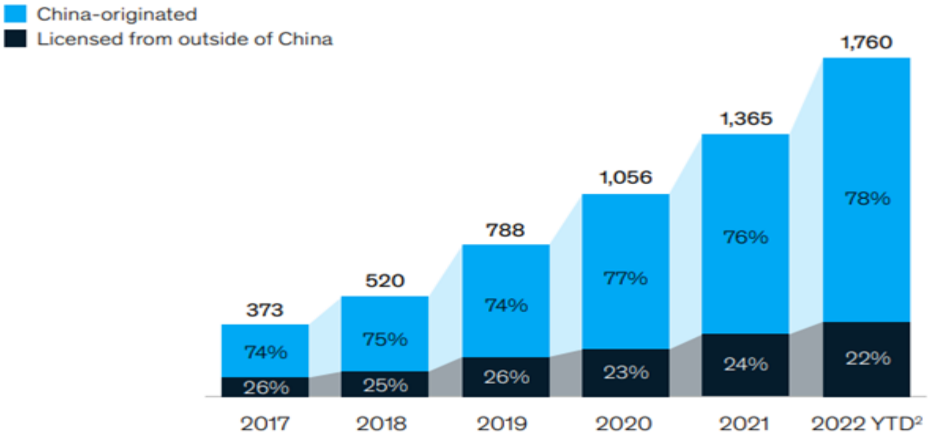
<u>China's contribution to biomedical research is growing:</u>
<u>Biomedical papers by country of author affiliations by year, *thousands*</u>



Source: PubMed.gov

According to Nature magazine's 2021 Nature Index, in China reside 8 of the world's top 100 life sciences institutes. That is still far fewer than the United States' 51 and Europe's 28 but is very close to the number of top institutes in the United Kingdom and Germany (9 and 7, respectively), the individual European countries with the most appearances in the index. The strong growth in biomedical publications above is testament to this development (14% CAGR 2015-2020).

China's clinical development pipeline is growing quickly:
Innovative assets[1] under development in China, *number of assets*



¹Innovative assets include both chemical drugs and biologics whose global status is Phase I–III, or pre-registration.
²Year to date (as of May 2022).

Source: Pharmaprojects, Informa, 2021

China's clinical development pipeline has also grown very strongly in recent years and is a leading indicator of new drug and biologic approvals and manufacturing capacity demand. Putting aside the COVID-related exuberance, the growth in innovative therapeutics under clinical development grew at a CAGR of 41% from 2017-2020.

It is inevitable that the clinical development pipeline will have been trimmed through 2023 to date. An ongoing market downturn has affected the fortunes of many early-stage biotech and related services (contract manufacturing and contract research organisations), forcing them to focus on short-term cash preservation and prioritize their various initiatives. History suggests the difficult funding environment won't last indefinitely and the reforms of the Chinese administration will once again drive investment and market expansion. It is a matter of necessity for President Xi Jinping. It is a matter of time for the patient investor.

Luxury Goods in China

With concerns over the macro-economic environment in China, the major luxury goods companies that have significant sales both directly into China and to Chinese travellers outside China saw their share prices suffer. We have used this weakness to invest in Swiss based, Richemont.

Richemont is, by revenues, the second largest luxury goods group in the world and an almost pureplay investment in "hard luxury", meaning branded jewellery and watches. Structured as a Swiss holding company, it was founded in the late 1980s by South African Johann Rupert, current Chairman and effectively still the business leader. Mr Rupert holds a 9% economic interest in the group but has majority voting control thanks to a dual share class. Whilst such structures are typically a governance concern, we believe in this case (and likewise for competitor LVMH) it has overall helped avoid short-termism in an industry for which protecting and growing long-term brand equity is the cornerstone of value creation. In addition board independence has increased markedly in recent years, with the majority of its members now considered to be independent. On environmental matters, we assess Richemont to be a strong performer with an A- rating from CDP and having almost reached its 2025 goal for 100% renewable energy from own operations.

According to Bain-Altagamma, the personal luxury goods market has grown at a 6% CAGR since 1996 and is expected to perform similarly over the remainder of this decade. Since the product is inherently discretionary, there is economic sensitivity, and the market has suffered year-over-year declines on five occasions over this period. Nevertheless, the long-term trend has been for growth above global nominal GDP. Hard luxury represents ~¼ of the industry and since 2010 has grown about a point faster at a 7% CAGR.

Scaled luxury goods brands represent one of the world's great business models. Rising wealth underpins demand growth but, by definition, products need to be unobtainable for most people, which contributes to some of the strongest pricing power in any major industry. Pricing is typically determined by willingness to pay rather cost of production, resulting in gross margins of 60-70%. One of the biggest challenges for large luxury companies is to gently expand their customer base whilst avoiding ubiquity, often achieved by gradual segmentation of customers into more and more groups served by dedicated product lines, without leaving gaps for competitors to exploit. It is extraordinarily difficult to introduce and scale new luxury brands; in every major luxury category the leading brand is more than 50 years old, and most 100 or more.

We estimate 75-80% of Richemont's profits derive from jewellery, almost all of which is concentrated in two historic brands: 176-year-old market leader Cartier and 118-year-old Van Cleef & Arpels, the third largest luxury jewellery brand. LVMH, thanks to its ownership of Tiffany and Bulgari, has the second and fourth largest brands. Richemont and LVMH enjoy highly attractive relative market shares vs all other branded competitors but as importantly, we believe only 40-60% of luxury jewellery revenues accrue to branded products. This is anomalously low vs all other luxury categories, and we expect leading brands to outgrow the overall category for the foreseeable future, at the expense of both smaller brands and unbranded products.

After an initial sharp downturn in 2020, the luxury industry performed strongly through Covid. However, the more notable feature was that in almost all categories, the leading brands took market significant share at a much-accelerated rate. In part, this probably reflects a preference for proven quality and value-retention in uncertain times, but we also believe many important and enduring industry trends favour ever-increased rewards to scale. Given an increased desire for experiential luxury shopping and aided by better quality and utility of customer data, incentives to control retail channels have risen considerably. Most leading luxury brands are at least heading in that direction. Luxury retail is a scale business, with traffic-driving brands enjoying greater sales densities and lower unit costs. Moreover, many newer, younger luxury consumers wish to show off their purchases on social media, a trend that heavily favours instantly recognisable, iconic products. This is especially true of Chinese luxury customers, who are on average younger than western counterparts and contribute around one third of Richemont revenues. Deloitte estimates that, aggregating the 100 top luxury groups, the top ten of these take 85% of the profit pool and this is a trend we expect to grow more pronounced.

Most of Richemont's profits are earned from the leading position in an especially favoured category of a very attractive industry. It has high gross and operating margins and underlying returns on capital of ~20%. Economic sensitivity and significant operating leverage are cushioned by an exceptionally strong balance sheet, with ~10% of the current market capitalisation in net cash. Yet by our estimates, adjusting for the net cash, the stock trades on a prospective P/E multiple of less than 20x. This is little higher than global indices, despite Richemont's demonstrably better quality and durability, and several points lower than industry bellwether LVMH.

There are in our view a handful of factors contributing to the modest valuation and creating an attractive long-term buying opportunity. Foremost are concerns that, after three terrific years, current profits are unsustainable. In common with peers, growth slowed from mid-2023, partly as a consequence of slower growth from Chinese consumers and the stock has materially underperformed since then. On this front, we agree consensus expectations are somewhat too high and expect minimal growth in profits this year; we acknowledge this risk via a modest initial position size. Whilst the industry may indeed suffer a slowdown (or decline) beyond current expectations, we think it highly unlikely Cartier and Van Cleef will give back the sizeable market share gains of recent years, instead emerging competitively stronger.

Secondly, despite an excellent long-term track record, the 2010s were a comparatively dismal period for the group. The Chinese government clamped down on conspicuous gifting early in this period, a significant headwind to hard luxury. In 2016, after a severe downturn in fundamentals for the Watchmaker division, Richemont (and peers) conceded it had filled wholesale channels with too much product and in the next two years spent several hundred million Euros buying back and destroying excess watch inventory. Compounding these misfortunes, Richemont made an ill-fated attempt to create an industry ecommerce platform by buying YOOX Net-a-Porter. Whilst a comparatively small deal, many investors believe it has blotted an otherwise outstanding long-term track record of capital allocation from Mr Rupert.

Quantifying the above, we think after digesting a period of unusually strong growth, Richemont should grow its revenues at least in the mid to high single digits and with some modest operating leverage drive EPS growth of ~10% without the help of share repurchases. Absent large acquisitions, it can additionally fund a 3-4% dividend yield. With good execution and an improving business mix as the less-impressive watchmaker business continues to diminish in importance relative to jewellery, we think there is also the opportunity for a higher valuation multiple. This mismatch between enduring business quality and investor perception is emblematic of the types of opportunity we seek to exploit.

Longer term perspective

In the quarter to 31 March 2024, the Nedgroup Investments Global Equity Fund was up 8.1% slightly underperforming the MSCI World Index performance of 8.9%. The index performance is increasingly being driven by a handful of large US technology companies to which the Fund has limited exposure.

Over the longer term, the fund has generated a 5 year annualised rate of return of 8.7%, underperforming our primary target of CPI+6% which equates to an annualised return of 9.9% annually. On a relative basis, the 5 year period includes a very difficult period for the fund during Covid when whole countries and specific industries were highly affected by government policy and extreme monetary policy. Over 5 years the MSCI World has delivered an annualised return of 12.1%.

2. Fund performance contributors & detractors for past quarter

Top 5 contributors and bottom 5 detractors

	Portfolio			Index			Attribution
Holding	Average Weight	Total Return	Absolute Contribution	Average Weight	Total Return	Absolute Contribution	Total Effect
Top 5 relative stock contributors							
Safran	3.6	28.8	1.0	0.1	28.8	0.0	0.6
Airbus	5.9	19.5	1.1	0.2	19.4	0.0	0.6
Fiserv	4.5	20.3	0.9	0.1	20.3	0.0	0.5
Amazon.com	6.1	18.7	1.1	2.5	18.7	0.4	0.3
Catalent	2.0	25.6	0.5	0.0	25.6	0.0	0.3
Bottom 5 relative stock contributors							
Charter Communications	2.9	-25.2	-0.9	0.1	-25.2	-0.0	-1.1
UnitedHealth	3.8	-5.3	-0.2	0.8	-5.8	-0.0	-0.5
Sonic Healthcare	2.0	-11.1	-0.3	0.0	-11.1	-0.0	-0.5
Vinci	5.1	2.1	0.1	0.1	2.1	0.0	-0.3
Diageo	4.8	2.6	0.1	0.1	2.6	0.0	-0.3

Portfolio Attribution Commentary

The portfolio posted positive returns but underperformed the MSCI over the three-month period in gross returns. The IT sector was again one of the best performing sectors with a return of 12.3%, and the portfolio only holds 3.2% (Microsoft) versus the index weighting of 23.8%. Whilst the portfolio is underweight IT, the MSCI categorisation of stocks does not tell the whole picture. The portfolio owns Amazon (Consumer Discretionary) and Alphabet (Communication Services) and also Fiserv and Mastercard (Financials), all of which are essentially tech companies and performed well. Indeed, Financials was positive for the portfolio, largely due to the performance of those two financial stocks. The other positive area was industrials and the underlying travel/transport related companies and defence. Safran, Airbus, Aena and CPKC all performed well over the quarter, as did BAE Systems in defence. Healthcare remains out of favour, with United Health and Sonic Healthcare detracting, but, ThermoFisher, a position that has been increased, performed well in Q1. Likewise, consumer staples also lagged what was a sharp rising market.

Contributors

Safran reported that its 2023 revenue rose by 22% compared to 2022, benefiting from Safran's strategic positioning on the growing narrowbody markets (providing engines for typically short-haul single aisle planes used on many tourist routes). Air traffic continued its recovery through 2023 with global narrowbody ASK (Available Seats per Kilometre) capacity gradually improving to 108% of 2019 by the end of the year. Operating income rose 32% and net profit was up 72%. Safran operates three divisions and all three achieved a substantial revenue growth rate. The main division, Propulsion rose 27%, driven by the civil aftermarket where there was solid demand for CFM56 spare parts and by LEAP rate per flight hour (RPFH) contracts (these contracts are essentially payments up front for future servicing based on the number of hours flown). Original Equipment revenue was boosted by LEAP deliveries reaching 1,570 units, compared to 1,136 in 2022. This represents a solid step-up in production (+38%) in a challenging supply chain environment. The second division, Equipment and Defence was up 17% supported by both narrowbody and widebody programs. Aftermarket services within this division again benefited from increased traffic, in particular for nacelles (the casing around the engine) and landing systems including carbon brakes. The tension between very strong demand and a struggling supply chain has been a tailwind for the aftermarket business within this division. The third division, Aircraft Interiors was up by 33% driven both by strong orders and aftermarket services for Cabin (spare parts) and Seats (US and Middle East airlines). In November, Safran won a series of contracts with Emirates, worth over $1.2bn at the Dubai Airshow. It included a $1bn list-price deal for Safran Seats for the carrier's new fleet of Airbus A350, Boeing 777X-9, and existing Boeing 777-300 aircraft. One issue for Safran is its exposure to the fallout from Boeing 737 MAX door plug incident. The LEAP-1B is the exclusive powerplant for the MAX and is produced by Safran with GE through their CFM International joint venture. Whilst there is an impact, driven to some extent by when the FAA will waive their decision to suspend the rate increase of the MAX, Safran is well hedged by an insatiable appetite among airlines and lessors for single-aisle airplanes, notably in India and the Middle East, driving what Safran called a "buoyant" engine market. Safran now has a backlog of 10,675 engines and, in 2023, had a win rate for the A320 neo of 75% (i.e. Airbus has benefited from the issues at Boeing, and whilst Safran provides the Boeing engine, it is the provider of choice for Airbus). Given the positive results, a dividend payment of €2.20 per share will be proposed to the shareholders' vote at the Annual General Meeting on May 23, 2024. It represents an increase of 63% over the prior year dividend amount (€1.35). In 2023, Safran purchased €1.5 billion worth of its own shares in several tranches (11.2 million shares). Also positive, was the forward guidance with estimated LEAP engine deliveries up 20-25% and civil aftermarket revenue up by around 20%. Safran ran a successful test campaign with Airbus performed on an A320 neo using 100% sustainable aviation fuel (SAF) to assess the impact of SAF on aircraft technology and the environment using different types of SAF. Turbotech and Safran successfully tested the first hydrogen-fuelled gas turbine engine for the light aviation market.

Airbus reported a strong year, delivering on its commitments despite a difficult operating environment. The company received net orders of 2094 aircraft, bringing the backlog of orders to 8598 aircraft. The consolidated annual order intake is valued at 187bn EUR which stands at almost three times the company's reported revenue. This represents the state of the aircraft manufacturing market right now, as airlines are not able to source enough new aircraft. The orders included India's IndiGo's huge order for 500 Airbus A320neo family aircraft. 84 percent of the new orders were for the A320neo family, with the A220 and A350 each at 7 percent and the A330 at 2 percent. There were 735 aircraft delivered, which pushed consolidated revenues to €65.4 billion, up 11 percent over FY22. Of this, €47.8 billion is for commercial aircraft, up 15 percent in the previous year. On the highly profitable A320 Family programme, production is progressing well towards the target rate of 75 aircraft per month in 2026. In 2023, construction of the second A320 Final Assembly capacities in Tianjin (China) and Mobile (US) commenced and the new A320 Family Final Assembly Line in Toulouse delivered its first aircraft in December. The first customer for the A321XLR (Air Lingus) entered into the Final Assembly Line in December, with entry-into-service for the aircraft type expected to take place in Q3 2024. When it enters service, the XLR will meet its advertised range of 8700 kilometres i.e. it can fly further on less fuel. Airbus' Helicopters and Defence and Space order intakes grew as well, with the manufacturer noting that its Helicopters division registered 393 net orders (362 in 2022). Meanwhile, the Defence and Space subsidiary's order intake by value increased from €13.7 billion to €15.7 billion by the end of the last year. Airbus ended 2023 with €10.7 billion in net cash, liquidity at €33.3 billion, and €14.6 billion in gross debt. Airbus proposes a €1.80 dividend per share and a special dividend of €1.0. In its FY24 outlook, Airbus guides an Earnings Before Income and Tax Adjusted of between €6.5 and €7.0

billion and free cash flow of €4.0 billion, and to “around 800” commercial deliveries for 2024. While supply chain constraints impose limitations, the airframer thinks it has found a “sweet spot” between what suppliers can handle and what Airbus requires. With 800 projected deliveries, Airbus would be on par with 2018 levels but is still below the record of 863 in 2019. Last year, Airbus invested €3.3 billion in R&D, up from €3.1 billion in 2022, spending on various “technology bricks” as Airbus works on the next-generation single-aisle aircraft that will become the successor of the A320neo family in the second half of the next decade. This new platform will be a short to medium-range aircraft that can run on 100 percent sustainable aviation fuels (SAF). At the same time, the airframer continues to invest in the ZEROe hydrogen program that should enable the entry into service of the first model at the low end of the market by the mid-30s. Recent successful tests with the hydrogen fuel-cell system fuel optimism that this technology is possible. Airbus is still evaluating the two streams of direct burn of hydrogen and fuel-cell technology and wants to test them first. The selection of the propulsion system in 2025-2026 will be the next “maturity gate.”. Airbus will also continue to invest in and look for potential mergers and acquisitions in the digital scene, with the proposed acquisition of ATOS being one example. Digital is a key priority in developing next-generation civil and military aircraft as Airbus builds on the digital design, manufacturing, and services (DDMS) approach introduced with the A350.

Fiserv reported a decent 2023, exceeding guidance, with 12% organic revenue growth, more than 200 basis points of adjusted operating margin expansion, 16% growth in adjusted earnings per share, $4 billion of free cash flow and $4.7 billion returned to shareholders through share repurchase. Fiserv has a 38-year track record of double digit adjusted earnings per share growth. Under its new structure, half of the company, Merchant Solutions, is a leader in the high growth payments market where SMBs and enterprises use an operating system with integration of value-added solutions. The other half, Financial Solutions is a leader in the high recurring revenue financial IT software and services market, helping small and medium sized financial institutions level the playing field with larger banks and helping larger banks migrate to next generation technology. Fiserv continues to see strong opportunity to cross sell and integrate merchant and financial solutions to help financial institutions better serve their merchant customers and enable merchants to retain customers with new financial services offerings. Within Merchant Solutions, its merchant acceptance business grew 24% in the last quarter and 19% for the year. Clover, cloud-based SaaS operating system for small- and medium-sized businesses, accelerated 30% in the quarter as SMBs remained healthy and restaurants in particular continuing to outperform. Clover now accounts for approximately 25% of Merchant revenue and remains on track to reach 35% by 2025, in line with the company’s targets for $10 billion in total Merchant revenue and $3.5 billion in Clover revenue by 2025. Carat grew 11%. Carat is an operating system that delivers both payments and experiences, but instead of small businesses, Carat is for the world's leading brands and large enterprises. Fiserv has recently invested in further differentiating Carat. One is Commerce Hub, which is a software platform used for inventory and order management, consolidation and automation for drop shipping (a form of retail in which the seller accepts customer orders without keeping the stock on hand). Fiserv expanded its global acquiring capability by adding India's UPI and Japan's JCB as payment methods for clients in more than 35 markets. One of its value-added services, an AI-based fraud prevention tool called Advanced Defence, grew volume nearly 5x over 2022. Synchrony (a US consumer financial services company) is in the process of upgrading to Advanced Defence across its portfolio of more than 70 million accounts. In healthcare, Fiserv converted a significant portion of Health Equity's card portfolio onto its platform in the fourth quarter, with the remainder scheduled for later this year. The pace of new core wins remains healthy at 12 in Q4, and clients are demonstrating two important trends. First, they are migrating from one Fiserv core operating system to another. A positive sign that they are finding the answers to their changing needs within the Fiserv portfolio. Second, M&A activity is good for Fiserv as it can compete at any level with any institution without platforms and it creates an opportunity to provide more services to the combined institution. Prosperity Bank, a Texas-based regional bank with $38.5 billion in assets, decided in Q4 to migrate to Fiserv’s cloud-enabled DNA platform and signed up for its CardHub value-added solution. Old National Bank, a $49 billion bank in Indiana, is a core system client and the fourth quarter saw the addition of debit processing, Accel, CardHub, and other value-added solutions. These are examples of how financial technology segment clients are buying into value-added solutions in the payment segment. This ongoing trend of clients buying services across these two segments is the key reason why Fiserv is creating a single new segment, Financial Solutions. Turning to the outlook for 2024, Fiserv expect total company organic revenue growth of 15% to 17%. Fiserv expect continued margin improvement in 2024 with at least 100 basis points of adjusted operating margin expansion, and adjusted earnings per share should grow 14% to 16%. This adjusted EPS growth outlook is in the middle of the range provided at its investor conference in November, and it's meant to be a prudent reflection of the macroeconomic outlook. Economist consensus calls for U.S. personal consumption growth and consumer savings to be lower in 2024, creating a modest headwind to the merchant business. Against a potentially softer backdrop, Fiserv remain confident in its ability to grow Clover and Carat as it adds more merchants, sells more to existing clients and add to our portfolio and penetration of value-added solutions.

BAE Systems, which manufactures defence, aerospace and security solutions, reported £25.2bn in sales for 2023. while underlying earnings per share rose 14%, beating its 10%-12% guidance. The company is positioned for sustained growth in the coming years as governments spend more in defence in response to the Ukraine war, and instability in the Middle East and elsewhere. An order intake of £37.7bn pushed its order backlog to a record £69.8bn. Following the strong results, BAE is increasing its dividend. It recommends a final dividend per share of 18.5p for 2023, taking the total to 30.0p, up 11% paid for 2022. After generating free cash flow of £2.6bn, including net cash flow from operating activities of £3.8bn, the Group closed 2023 with cash of £4.1bn and net debt of £1.0bn. This places the business in a strong position to manage the financing associated with an acquisition for Ball Aerospace acquisition from Ball Corporation for $5.5bn, which completed in February 2024. During the year, the Company repurchased shares representing 4.4% of the called-up share capital. The directors approved a further buyback programme of up to £1.5bn. During the year, three significant events have positively enhanced the business portfolio relevance for the long term. Firstly, in March 2023, further announcements were made as part of the AUKUS trilateral agreement between Australia, the UK and the US, with funding of £3.95bn secured from the UK Ministry of Defence for the next phase of the UK's next-generation nuclear-powered attack submarine programme. Secondly, in December 2023, Ministers from Italy, Japan and the UK signed an international treaty to develop an innovative next generation stealth fighter under the Global Combat Air Programme (GCAP) and confirmed that the joint GCAP government headquarters will be based in the UK. Following the industry collaboration agreement announced in September, as the UK's industry lead, BAE will continue to work closely with its partners Mitsubishi Heavy Industries in Japan and Leonardo in Italy to determine the future joint business construct, which will also be headquartered in the UK. Thirdly, BAE announced the acquisition of the forementioned Ball Aerospace, a leading provider of spacecraft, mission payloads, and optical and antenna systems. The business is headquartered in Colorado, with more than 5,200 employees, adding additional capabilities to design, build and operate satellites and satellite systems to the BAE multi-domain portfolio and increase its exposure to high priority areas of the US Department of Defence budget.

Amazon reported $170 billion in revenue, up 13% year over year, $13.2 billion in operating income, up 383% year over year and $35.5 billion in trailing 12-month free cash flow, up $48.3 billion year over year. Most people think of Amazon as an ecommerce stores business, but this part of the business still loses money. They aim to have the broadest retail selection with hundreds of millions of products available and add tens of millions of new items each year. Last year, this included fashion selections from Coach, Victoria's Secrets Fashion, and Beyonce's Renaissance tour merch to cosmetics from Lancome, Urban Decay Cosmetics, and KNOW Beauty by Vanessa Hudgens, to consumer technology. Given the cost of living and sensitivity to price, Amazon had two Prime Big Deal Days, an exclusive event for Prime members. This was followed by an extended Black Friday and Cyber Monday holiday shopping event, which was open to all customers and ended up being the largest event ever. These events also helped attract new customers and Prime members. In 2023, Amazon delivered to Prime members at the fastest speeds ever with more than 7 billion items arriving same or next day, including more than 4 billion in the U.S. and more than 2 billion in Europe. In the U.S., this result is the combination of two things. One is the benefit of regionalisation, where Amazon rearchitected the network to store items closer to customers. The other is the expansion of same-day facilities where in the U.S. in the fourth quarter, the company increased the number of items delivered the same day overnight by more than 65% year over year. Speed increases the number of occasions that customers choose Amazon to fulfil their shopping needs. The regionalisation efforts have also brought transportation distances down, which has helped lower cost to serve. In 2023, for the first time since 2018, Amazon reduced its cost to serve on a per-unit basis globally. In the U.S. alone cost to serve was down by more than $0.45 per unit compared to the prior year. Amazon is edging closer to breakeven on the stores business, which will have a significant impact. Advertising does generate significant profit and advertising growth remained strong, up 26% year over year, which is primarily driven by sponsored ads. Amazon recently added sponsored TV to this offering in the U.S., a self-service solution for brands to create streaming TV campaigns with no minimum spend, putting this advertising within reach of any business. While still early days, streaming TV advertising continues to grow quickly. Brands are using the capabilities to reach engaged viewers on Twitch, Free V, Fire TV, and Prime Video shows and movies, which just launched in the U.S. as well as Thursday Night Football. Shifting to AWS, revenue in the quarter grew 13% year over year in Q4, and it's now approaching an annualised revenue run rate of $100 billion. There was an acceleration in larger new deals, including Salesforce, BMW, NVIDIA, LG, Hyundai, Merck, MUFG, Axiata, Cathay, BYD, Accor, Amgen, and SAIC. 2023 also was a very significant year of delivery and customer trial for generative AI or Gen AI in AWS. Amazon focusses on what it describes as the three distinct layers in the Gen AI stack. At the bottom layer, is where customers who are building their own models run training and inference on compute and the chip is the key component in that compute. Whilst Amazon offers compute instances with NVIDIA chips, they also have customers who focus on price performance on AI chips, and Amazon have built custom AI training chips named Trainium and inference chips named Inferentia. They recently launched Trainium 2, which offers four times faster training performance and three times memory capacity versus the first generation of Trainium, enabling further advantageous price performance versus alternatives. They already have several customers using their AI chips, including Anthropic, Airbnb, Hugging Face, Qualtrics, Rico, and Snap. In the middle layer, where companies seek to leverage an existing large language model, customize it with their own data, and leverage AWS' security and other features, all as a managed service, Amazon offer Bedrock. The team continues to rapidly iterate on Bedrock, recently delivering capabilities, including guardrails to safeguard what questions applications will answer. They also added new models from Anthropic, Cohere, Meta with Llama 2, Stability AI, and its own Amazon Titan family of LLMs. Customers don't want only one model. They want different models for different types of applications and different-sized models for different applications. Customers want a service that makes this experimenting and iterating simple. At the top layer of the stack is the application layer. One of the very best early Gen AI applications is a coded companion. Amazon launched Amazon Q, which is an expert on AWS, writes code, debugs code, tests code, does translations like moving from an old version of Java to a new one, and can also query customers various data repositories like Internet, Wickes or from over 40 different popular connectors to data in Salesforce, Amazon S3, ServiceNow, Slack, Elastin, or Zendesk. It can also answer questions, summarise this data, carry on a coherent conversation, and take action. Amazon is building Gen AI apps across its businesses, several of which have launched, and others of which are in development. They just launched Rufus, an expert shopping assistant trained on its product and customer data. Rufus lets customers ask shopping journey questions like what the best golf ball is to use for better spin control or which are the best cold weather rain jackets and get useful explanations for what matters and recommendations on products. Gen AI will ultimately drive tens of billions of dollars of revenue for Amazon over the next several years.

Mention should also be given to **Catalent.** Novo Holdings, the parent of Novo Nordisk and Novozymes, has agreed to buy contract drug manufacturing organisation (CDMO) Catalent for $16.5 billion (£13 billion). Novo Holdings will then transfer three of Catalent's manufacturing sites to Novo Nordisk for $11 billion, to support Novo Nordisk's efforts to meet surging demand for its injectable semaglutide-based diabetes and obesity drugs Ozempic and Wegovy. The plants in Anagni, Italy; Bloomington, US; and Brussels, Belgium specialise in producing injectable drugs and two already providing filling lines for Wegovy. Novo Nordisk has struggled to meet booming demand for its semaglutide drugs, which work by mimicking the GLP-1 hormone. Just in case you wondered, here is the science- the GLP-1 hormone plays a crucial role in regulating blood sugar levels and has a profound influence on weight management. One of the main actions of GLP-1 is to stimulate the release of insulin from the pancreas. Insulin helps to lower blood sugar levels by promoting the uptake of glucose into cells. Given high sugar diets, the pancreas becomes less efficient over time at producing enough insulin to deal with glucose levels, which are essentially a toxin if elevated in the blood, and diabetes can result. GLP-1 is a hormone produced in the gut in response to food intake. Ozempic, a GLP-1 drug, activates the GLP-1 receptors in the body, particularly in the pancreas and the brain. By mimicking GLP-1, Ozempic enhances insulin secretion in response to elevated blood glucose levels. The acquisition comes on top of a commitment to spend DKK42 billion (£5 billion) to increase Novo Nordisk's manufacturing capacity in Kalundborg, Denmark and DKK16 billion in Chartres, France. Wegovy is a highly profitable drug that Novo would sell more of if it could raise production. Novo had to limit the number of new US patients starting Wegovy treatment in May 2023, owing to supply restrictions. While it has managed to increase supplies since then, Novo doesn't have enough manufacturing capacity and supply capacity at the moment to match the rising demand. One problem in managing supply chains is to balance supply and demand, and there is always a time lag. That time lag is exacerbated for sterile injectables, because of the extra complexity in setting up appropriately controlled manufacturing units. Eli Lilly too has struggled to meet demand for its GLP-1 analogue Mounjaro (tirzepatide). This was approved for diabetes in the US, Canada and Europe in 2022 and has been used off-label for obesity since then. The drug's US approval for treating obesity (marketed as Zepbound) in November has further accelerated demand. By purchasing Catalent, this allows Novo Nordisk to meet demand by controlling manufacturing and really gaining more power over its supply chain. Lilly, meanwhile, expressed concern around the move by Novo Holdings, as it also has existing contracts with the three manufacturing sites to make its own diabetes and obesity treatments. Catalent will abide by contracts and not jack up the price excessively on Lilly, but the plants could preferentially devote capacity and process innovation efforts to Novo Nordisk, allowing it to benefit from lower costs or greater efficiency. The EU's drug regulator will investigate any risks to the availability of medicines processed at Catalent sites that will be sold to Novo Nordisk. This issue goes beyond Lilly. There will be other companies, already partners with Catalent in research and development of their own products, who will be concerned. Essentially, does one pharmaceutical company want one of its competitors responsible for manufacturing its drugs. All organisations will now need to weigh up the risk of moving to other CDMOs and the time it would take to do a tech transfer, which could jeopardise their supply chains. Novo Nordisk said it would meet all customer obligations at the Catalent sites, once the deal closes. It is only interested in 3 of the 50+ sites, so it remains to be seen what Novo do with the remainder. This could lead to a trend for more vertical integration, with companies wanting control over manufacturing, quantity and quality of their really critical drugs. Catalent is a top-tier supplier of outsourcing services to the industry, wherein they provide skills to hundreds of clients with whom they are contracted as a supplier. So, this current news represents a situation where the industry is watching very closely to understand how this acquisition of Catalent will ultimately affect and influence all of these contract client relationships in the long run. How will Novo Holdings' acquisition of Catalent negatively impact gene therapy manufacturing in the industry? Catalent stands as one of the top gene therapy CDMOs in the world.

Detractors

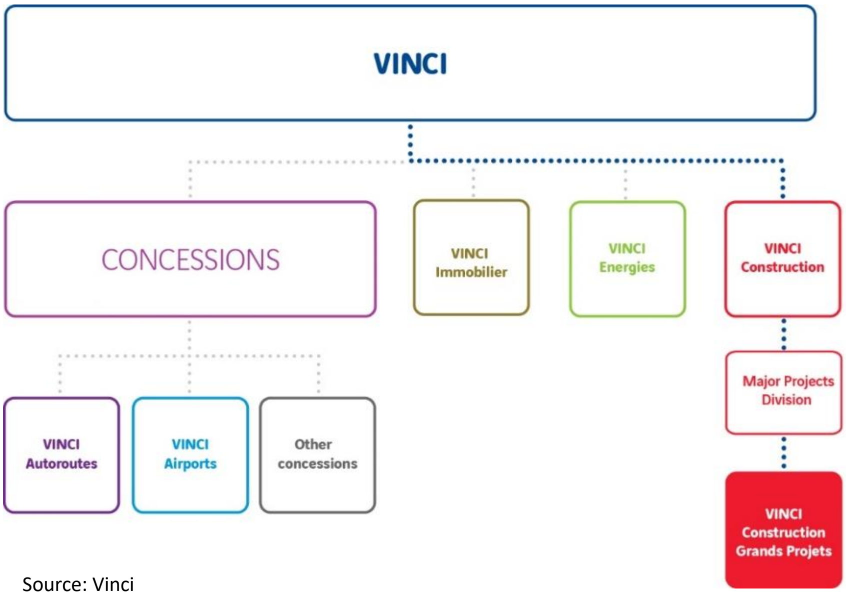
Charter Communications shares fell 16% after its Q4 results. Whilst there was an increase in internet and mobile customers it is facing challenges in internet growth due to heightened competition. The company added 155,000 Internet customers and nearly 2.5 million Spectrum Mobile lines in 2023, marking a growth of almost 50% in the mobile sector. The issue was the 61,000 drop in broadband subscribers in Q4, largely due the dispute with Disney but also competition from FWA (fixed wireless access) and fibre. Given the company is leveraged and adding to capital spend to both future proof the business and widen its footprint in rural areas, shares are being impacted by investors focussing on quarterly subscriber data rather than Charter being a structurally advantaged provider of broadband connectivity. As a reminder, the only competitive product from a speed perspective is fibre which requires c.$2,000 or more capital cost per home passed. FWA, whilst a competitor in the short term, is capacity constrained – at some point the more data intensive FWA users (typically use 500+GB of data per month vs a mobile subscriber at c.15GB per month) will lead to declining service levels for the far more lucrative mobile phones subscribers. Charter has accelerated its plans to upgrade its plant (announced Dec 2022) to offer faster multigigabit speeds. This will help create a differentiated product vs FWA and at the same time allow speed claims on par with fibre. Residential Internet ARPU actually grew by 2.2% year-over-year and the company has been able to maintain a Gross Profit Margin of approx. 45% over the last twelve months, which underscores its ability to manage costs effectively amidst market pressures. In addition, Charter now has 7.8 million mobile lines, up from 5.3 million at the end of 2022. Subscriber numbers have grown at a compound rate of almost 50% for the past 3 years. This growth is masking the profitability of Charter's mobile business as they invest significantly in customer acquisition and with 2.5 million net new subscribers in 2023, the customer acquisition cost outweighs the underlying profitability. As this business matures, it should earn a reasonable return especially as Charter will offload more traffic in the highest density usage areas onto its own CBRS spectrum. Our base case over the next few years is that FWA reaches terminal penetration, taking the pressure off net new adds at the same time as the rural build out sees accelerating new subscribers. This should lead to c.2% subscriber growth. Pricing should add a further 2-3% as ARPU's creep up (note that all participants have recently increased pricing (cable, fibre and FWA) with Charter lagging despite having the lowest ARPU of its close competitors). The mobile business will undoubtedly see slower growth at which point, the profitability of this business should contribute to Charter's EBITDA. In the longer term the investment in the network will lead to the fastest speeds and greater reliability which should be monetised as applications are developed that require greater bandwidth, speed and lower latency. At that point, it is possible that FWA operators become share donors. Currently valued on a 20%+ IRR.

United Health reported better than expected revenue and profit in the fourth quarter but higher than expected claims costs spooked investors. The Medical loss ratio, or the percentage of premiums the company pays out to cover claims, increased to 85%, higher than analysts expected. UnitedHealth said costs rose towards the end of the year as older Americans sought respiratory syncytial virus (RSV) vaccines and received additional medical services. As COVID-19 cases increased around the holidays, hospitalisations rose and spending on each patient also increased beyond typical rates. UnitedHealth Group's shares had dropped earlier in the quarter following a report that the U.S. Department of Justice has launched an antitrust investigation into the healthcare conglomerate. The aim is to determine the possible impacts of acquisitions made through its health services arm, Optum and specifically the relationships between the company's UnitedHealthcare insurance unit and its Optum health services arm, which owns physician groups. Given this came after the company reported an outage following a cybersecurity attack at the company's Change Healthcare unit, investors were spooked. Optum Health, offers a range of healthcare solutions, from pharmacy benefit management to financial consultation and mental health support. Americans are facing soaring healthcare costs, with the estimated healthcare spending per person standing at about $13500 in 2022, according to federal data released last year. The Biden administration has made lowering drug prices a priority. It passed the first U.S. drug pricing legislation ever in the Inflation Reduction Act last year and has since turned its sights on pharmacy benefit manager middlemen. Lawmakers and the Federal Trade Commission (FTC) have been investigating the role of these middlemen in rising healthcare costs. Several bills have been in the works since last year that would require them to make their business dealings public, including the fees they earn on transactions. The WSJ also reported that the DOJ is examining the company's Medicare billing practices to see if doctors are aggressively characterising their patients' illnesses to wrongly increase payments from the government. Investigators have asked about possible impacts of the company's doctor-group acquisitions on rivals and consumers. At this point in time, there is no major concern over this development. There is a need to move away from fee for service in order to get the healthcare spend down, and UNH has been at the forefront of that as an increasing amount of its business is value based (i.e. it is rewarded on outcomes rather than the number of patients its sees, treats etc). The focus on the investigation is the amount of business UNH is essentially doing with itself and whether that is justified. It is unlikely we will see an unravelling of the integration of payer and provider that has been taking place over many years. In terms of results, UnitedHealth Group reported $22 billion in 2023 profits including $5.5 billion in the fourth quarter as its portfolio of health insurance and provider services grew by double-digit percentages. Its 2023 revenue jumped 14.6% to $371.6 billion. At UnitedHealthcare, in particular, full-year revenue grew nearly 13% to $281.4 billion as the company grew its customers served in its health plans by more than 1 million people last year to 52.7 million. Meanwhile, Optum full year revenues grew 24% to $226.6 billion year over year.

Sonic Healthcare saw its net profit fall by 47% on a steep drop in COVID testing volumes. Sonic Healthcare saw tremendous growth from COVID testing and knew that growth was going to be temporary. As COVID revenue disappeared it was important to be replaced by strong base business revenue growth, which would be permanent. Sonic saw a 90% drop in pandemic related sales. Sonic Healthcare produced a revenue number at $4.3 billion which was 5% above the corresponding period last year. But if you exclude COVID and take the base business revenue, the growth is 15%. The base business revenue growth trajectory has significantly strengthened. Sonic has maintained its EBITDA guidance at $1.7 billion to $1.8 billion but warned it was likely it would be at the lower end of that guidance due to a number of factors like a Belgian fee cut that came in on 1 January 2024, currency exchange headwinds since August 2023, and the acquisition of PathologyWatch in January 2024, which is loss making. The company raised its interim dividend meaning it will have at least maintained its annual dividend over 30 years. Offsetting some of these will be cutting staff number to appropriate post COVID, synergies that will come from recent acquisitions and particularly Synlab Suisse in Switzerland and MLD and Diagnosticum in Germany and a program to rationalise its collection centre infrastructure in Australia. The earnings potential that lies ahead comes from recent acquisitions and the major contract wins that the company has achieved. This will be seen in the addition of AUD 500 million of new annual revenue that will come from these acquisitions and contracts. These include the following acquisitions to Sonic's diagnostic lab footprint. In Germany, MLD (Medical Laboratories Dusseldorf), Diagnosticum Laboratory Group and 4 smaller acquisitions, which will generate AUD 250 million. In Switzerland, Synlab Suisse and Pathologie Enge, which are providers of laboratory diagnostic services, including to many national healthcare systems, generating almost AUD 200 million. Synlab was bought at close to zero margin, and Sonic aim to convert to a 20% margin. Switzerland has increased its share of the pie and is now 10% of Sonic revenue, from about 7% a year ago. Sonic is now the largest pathology company in Switzerland with 3 large federated members. The company is looking to integrate the three to achieve the desired synergies and improve performance out of the whole operation. Indeed, the bulk of growth is occurring in Europe, with the Australian lab segment, currently at 24%, likely to get smaller as the years progress. In the U.S., there was the acquisition of PathologyWatch, which is a platform that helps dermatology practices with their workflows using a digital model. PathologyWatch will be rolled out in the USA, but then applied globally across all the company's skin pathology, dermatopathology businesses around the world. In addition to acquisitions, there have been new contracts awarded. In the UK, Sonic won a new NHS contract, for the Whittington Health Trust. The rollout of an enhanced revenue collection system in the U.S. is in progress and Sonic expect material upside to accrue starting in FY 2025. They also now have fee indexation in various markets and contracts, including Radiology, U.K., Belgium and Sonic Clinical Services. The acquisition of PathologyWatch, comes on the back of previous digital related deals with Harrison AI and Microba. Sonic is using AI applications, principally Harrison AI's Annalise products within its businesses to enhance workflows and clinical outcomes. Anatomical pathology is defined as the study of organs and tissues to determine the cause and effect of disease. It is the tissue, which is usually used for cancer diagnoses. Anatomical pathology is necessary for 100% of all cancer diagnoses, and so an essential part of the whole laboratory industry or pathology space. Sonic is one of the biggest players in anatomical pathology in the world. Digital pathology refers to the digitisation of anatomical pathology workflow, and it is set to transform anatomical pathology and bring about big steps in efficiency, quality, capacity and workflow. Radiology has already digitised workflows and processes, but it is only starting to happen now in pathology. Up until now, you basically take a class glass slide, with a stained tissue sample, place on the stage of a microscope and manually look for abnormalities. Now the image will be uploaded, and digitised so AI can power much quicker diagnostics. PathologyWatch is well advanced on a prognostic AI algorithm for melanoma. Sonic has a joint venture with Franklin AI, which is in the process of developing an AI tool for prostate cancer.

VINCI reported strong growth in revenue and earnings compared with 2022. All business lines achieved a substantial increase in operating income, which reached new all-time highs, along with record free cash flow. Earnings amounted to €12.0 billion, a 17% increase over 2022. Half of this rise is attributable to VINCI Airports, a consequence of the recovery in airport passenger numbers, the increase in revenue per passenger, expenses falling and the integration of OMA (post stake acquisition Vinci operates 17 airports in Mexico).

VINCI has a number of business areas as illustrated in the diagram to the right. The Concessions business (approx. 60% of the business) saw revenues rise 13% versus 2022. This business includes autoroutes (mainly toll-roads in France), Airports and other concessions. The latter includes its Stadium business, which reported a very sharp increase due to the 2023 Rugby World Cup, which took place in France. Traffic on toll roads was up 1.3% compared with 2022. The network's airports handled 267 million passengers in 2023, 26% more than in 2022 and 4% less than the 2019 figure. Airports in Portugal, Serbia (Belgrade) and Central America (Mexico, Dominican Republic and Costa Rica) achieved passenger numbers well in excess of their 2019 levels. Japan is likely to hit 2019 levels early this year. Revenue at VINCI Energies (approx. 20% of the business) rose 11% on a like-for-like basis compared with 2022. Order intake in the Energy business was particularly strong and hit a new record of €20.9 billion (up 17% relative to 2022). VINCI Energies' companies in France and abroad are benefiting from their positions in the highly buoyant energy efficiency and digital transformation markets, thanks to their wide-ranging expertise, an effective combination of global reach and local presence, and decentralised management. All four of VINCI Energies' business lines (infrastructure, industry, building solutions and ICT) achieved double-digit growth. Within the Energies business is Cobra IS which increased revenues by 18% compared with 2022. Order intake at Cobra IS was exceptional (€10.3 billion, up 29% compared with 2022), driven by some major contracts relating to green power generation, transformation and transmission. Revenue at VINCI Construction (approx. 17% of the business) rose 8%. In the building segment within France, revenue was driven by the rehabilitation of existing buildings and by the construction of public buildings, particularly in the hospital sector. Outside of France, progress was made with several large civil engineering contracts in Europe, North America and Australia/New Zealand. The one outlier was VINCI Immobilier (the property business) which suffered from a sharp decline in property transactions in France against a background of high interest rates, and its revenue fell 19%. VINCI Immobilier saw 4,214 housing units reserved (down 30% on the year). It is only 3% of the business. Overall, the order book amounted to €61.4 billion as of 31 December 2023. This represents a 7% increase relative to 31 December 2022 and equals almost 13 months of average business activity for the business lines concerned. Guidance for 2024 was cautious which maybe the reason why share were flat over the period. There will be a negative impact of a new tax on long-distance transport infrastructure being introduced by the French government, estimated to cost around €280 million. Some costs involved with renewable energy projects were postponed which may impact 2024. The company guided for the same net income in 2024 as 2023. Given its activities, Vinci is one of the higher carbon emitters in the portfolio. The Group's target for 2030, validated by the SBTi (Science Based Target initiative), is to reduce its Scopes 1 and 2 CO_2 emissions by 40% relative to 2018 and its Scope 3 emissions by 20% relative to 2019. Within Vinci Autoroutes, 100% of its service areas are now equipped with EV charging points. For VINCI Airports, four of the network's airports received Level 5 certification under the Airport Carbon Accreditation programme, having successfully achieved net zero for Scope 1 and 2 emissions. Within its Cobra business, it brought into service the 570 MW Belmonte solar farm in Brazil Works began on new photovoltaic projects in Brazil and Spain, with total capacity of 0.6 GW and 0.8 GW respectively, in the second half of 2023.



Source: Vinci

Diageo reported net sales of $11.0 billion which declined 1.4% due to a $167 million unfavourable foreign exchange impact and an organic net sales decline of $67 million or 0.6%, driven by a $310 million or 23% decline in Latin America and Caribbean (LAC). The decline in LAC was driven by a strong double-digit net sales growth comparator as well as lower consumption and consumer downtrading due to macroeconomic pressures in the region. Excluding the impact of LAC, Diageo reported net sales grew 0.7%, and organic net sales grew 2.5%, driven by Asia Pacific, Africa and Europe. Organic operating profit declined by $205 million or 5.4%, of which $234 million was attributable to LAC. Essentially, as the company had previously announced in November 2023, there was materially weaker performance in LAC. The issue is an unexpected build-up of unsold booze in Brazil and Mexico, where cash-strapped drinkers have been downgrading from pricier premium spirits like Scotch and tequila. In Brazil, for example, consumers have started drinking more beer. Meanwhile, Mexico saw a decline in Don Julio tequila consumption and sales of Casamigos (the high-end tequila brand Diageo bought in 2017 from Hollywood star George Clooney) fell 13% overall. Inflation in some of the largest economies has been growing at its fastest pace in over 20 years. In August 2023, Argentina's annual inflation rate surged 124%. Rising prices and higher interest rates are obviously a toxic combination for disposable income. The fact sales actually grew excluding LAC (approx. 11% of revenue) highlights the strength of its diverse portfolio across the world. Falling sales in a couple of high-margin regions are offset by strength elsewhere. Tequila is down in the Americas, but Guinness grew double digits in Europe. Meanwhile, the company still generated strong free cash flow of $1.5bn while continuing to invest in the potential future growth of its brands. Looking ahead, management expects organic net sales growth to improve in H2. While the macro environment will continue to present challenges, the company is well-positioned and resilient for the long term. It is diversified by category, price point and region and will continue to invest behind its iconic brands to maintain its position as an industry leader in total beverage alcohol. Some of Diageo brands stretch back to the 17th-19th century, including Haig whisky (1627), Guinness (1759) and Johnnie Walker (1820). To prevent a repeat of the inventory debacle, it plans to use RFID labels to track cases of spirits as they move through distribution networks. The company is opting not to discount on its premium brands in the US. This could see it lose some market share in the near term, which the market might not like. But long term, management says this will protect brand equity. Today, the company now has a world-leading portfolio of 200 of mass-market and premium brands that are sold in nearly 180 countries. The stock is now trading in line with the pre-pandemic levels of five years ago.

3. Current Positioning

Top 10 Portfolio Holdings

Holding	Sector	Country	Portfolio (%)
Alphabet	Communication Services	United States	6.5
Amazon.com	Consumer Discretionary	United States	6.4
Unilever PLC	Consumer Staples	United Kingdom	5.0
Vinci	Industrials	France	5.0
Canadian Pacific Kansas City	Industrials	Canada	4.9
Fiserv	Financials	United States	4.8
Diageo	Consumer Staples	United Kingdom	4.7
Intercontinental Exchange	Financials	United States	4.6
Aena SME	Industrials	Spain	4.5
Thermo Fisher Scientific	Health Care	United States	4.3

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

4. Responsible Investment

ESG: Environmental, Social and Governance

International Norms and Standards

Proxy Voting Report

Carbon Portfolio Analytics Report

International Norms and Standards - United Nations Global Compact Screen ("UNGC")

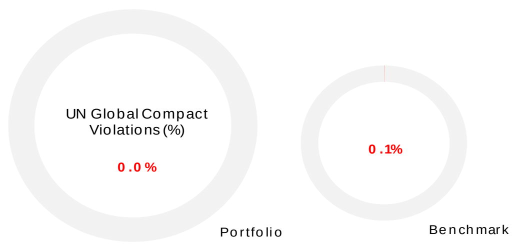
The United Nations Global Compact Screen ("UNGC") identifies companies involved in controversies where the company's alleged actions constitute a violation of one or more of the ten principles that cover environmental, anti-corruption, human rights and labour standards. The framework encourages signatories to share best practices in order to become better, more sustainable organisations.

On a monthly basis, utilising MSCI ESG Research data and an alert system, Veritas reviews all investee companies to determine if a company fails any of the global compact principles. If there are notable changes during the month, our system will distribute an email alert to the Investment Team, Compliance Team, and ESG Team. Veritas will identify which principle has been violated, assess the materiality of the violation, and engage with the business if required.

Fail	The company is implicated in one or more controversy cases where there are credible allegations that the company or its management inflicted serious large-scale harm in violation of global norms.
Watch List	The company is implicated in one or more controversy cases that are serious and warrant ongoing monitoring. However, based on information available to date, it does not constitute a significant breach of global norms according to the methodology.
Pass	According to the methodology, the company has not been implicated in any controversy case constituting a significant breach of global norms within the last three years.

As illustrated in the diagram to the right, during the three months to 31 March 24, 0% of companies held in the Fund "Failed" the UN Global Compact screen. Three companies in the Fund (16.1%) were listed on the Global Compact "Watchlist". For example, Unilever PLC, is listed on the watchlist for a potential breach of Principle 7 – Businesses should support a precautionary approach to environmental challenges, specifically concerning criticisms by NGOs over the alleged contribution to global plastic pollution. Veritas will continue to monitor the company's progress in this area. Should this flag escalate to a "Fail", we will have cause to engage.

United Nations Global Compact Violations (%)



Activity	Portfolio	Benchmark	Active
Global Compact Compliance Violation (%)	0.0%	0.1%	-0.1%
Global Compact Compliance Violation or Watch List (%)	16.1%	16.1%	0.0%

Additional Global Norms Framework Violations (%) [1]

Human Rights Norms Violation (%)	0.0%	0.1%	-0.1%
Human Rights Norms Violation or Watch List (%)	10.9%	15.6%	-4.7%
Labor Norms (%)	0.0%	0.0%	0.0%
Labor Norms Violation or Watch List (%)	10.9%	11.9%	-1.0%

NEDGROUP INVESTMENTS

As long term equity investors, we vote all resolutions in the best interests of shareholders

Veritas is committed to evaluating and voting proxy resolutions in our clients' best interests. We will vote on all proxy proposals, amendments, consents, or resolutions. We will vote against management where we firmly believe doing so is in the client's best interests. This will primarily occur where the matter to be voted upon will affect shareholder value.

Our Voting Policy is made up of two parts, one of which is ESG specific. We vote on all resolutions and our third party proxy advisor, Institutional Shareholder Services ("ISS"), will provide vote recommendations and vote execution services. We also follow a custom ESG Red Line policy. The Red Lines contain 29 guidelines covering topics associated with ESG.

The Association of Member Nominated Trustees ("AMNT") developed the Red Line initiative to enable pension schemes to take a more active ownership role. Whilst segregated clients own the underlying shares and can direct managers on how to vote, pooled fund investors own units in an underlying Fund, making it challenging to direct voting. We have mandated ISS to construct a customised screen for various ESG issues, which incorporates the AMNT ESG Red Lines, applied globally on a best endeavours basis.

Where a red line is breached, the ESG vote recommendation will take precedence over the standard policy recommendation. If we choose not to vote against management, we will explain the rationale for why not (comply or explain). Often, we will set management targets in writing and agree a timeline for these to be achieved. We will then vote with management but explain that if the targets are not met, we will vote against them at the next Annual General Meeting ("AGM").

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 was 1 meeting and 10 votable resolutions across the companies: The Cooper Companies, Inc..

Voting statistics	
Meetings voted	1
Votes Cast	10
Votes "FOR" Management	9
Votes "AGAINST" Management	1

Votes by country	%
United States	100.0

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

"FOR" Management

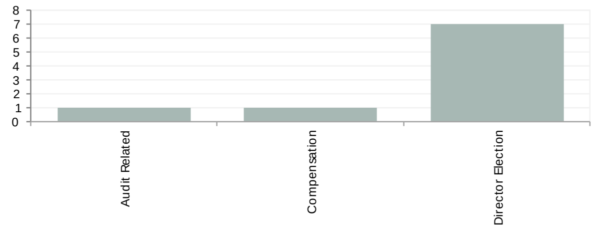
"AGAINST" Management

Proxy Voting: Proposal Categorisation

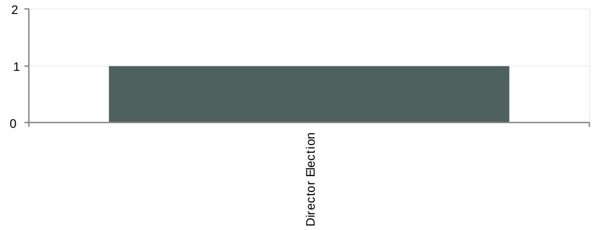
Vote categorisation [1]

Category	Votes "FOR" Management	Votes "AGAINST" Management	Total
Audit Related	1	–	1
Compensation	1	–	1
Director Election	7	1	8
Total	9	1	10

Votes "FOR" Management Categorisation



Votes "AGAINST" Management Categorisation



VAM LLP Rationale – Votes "Against" Management Recommendation

Report Item	Company	Country	Sector	Proposal	Management Vote Recommendation	VAM LLP Vote	Voter Rationale
1	The Cooper Companies, Inc.	United States	Health Care	Elect Director William A. Kozy	"FOR"	"AGAINST"	Veritas voted with the policy guidance of Red Line E3 - 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 1.5-degree scenario. In addition, the company has not adhered to the scheduled milestones for progress as communicated to Veritas in the years 2022 and 2023.

Disclaimer

This is a marketing communication. Please refer to the prospectus, the key investor information documents (the **KIIDs/PRIIPS KIDs**) 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.

This document is of a general nature and intended for information purposes only, it is not intended for distribution to any person or entity who is a citizen or resident of any country or other jurisdiction where such distribution, publication or use would be contrary to law or regulation. Whilst the Investment Manager has taken all reasonable steps to ensure that this document is accurate and current at the time of publication, we shall accept no responsibility or liability for any inaccuracies, errors or omissions relating to the information and topics covered in this document.

The Fund is authorised and regulated in Ireland by the Central Bank of Ireland. The Fund is authorised as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 as amended and as may be amended, supplemented, or consolidated from time-to-time and any rules, guidance or notices made by the Central Bank which are applicable to the Fund. The Fund is domiciled in Ireland. Nedgroup Investment (IOM) Limited (reg no 57917C), the Investment Manager and Distributor of the Fund, is licensed by the Isle of Man Financial Services Authority. The Depositary of the Fund is Citi Depositary Services Ireland DAC, 1 North Wall Quay, Dublin 1, Ireland. The Administrator of the Fund is Citibank Europe plc, 1 North Wall Quay, Dublin 1, Ireland.

The sub-funds of the Fund (the **Sub-Funds**) are generally medium to long-term investments and the Investment Manager does not guarantee the performance of an investor's investment and even if forecasts about the expected future performance are included the investor will carry the investment and market risk, which includes the possibility of losing capital.

The views expressed herein are those of the Investment Manager / Sub-Investment Manager at the time and are subject to change. The price of shares may go down as well as up and the price will depend on fluctuations in financial markets outside of the control of the Investment Manager. Costs may increase or decrease as a result of currency and exchange rate fluctuations. If the currency of a Sub-Fund is different to the currency of the country in which the investor is resident, the return may increase or decrease as a result of currency fluctuations. Income may fluctuate in accordance with market conditions and taxation arrangements. As a result an investor may not get back the amount invested. Past performance is not indicative of future performance and does not predict future returns. The performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

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.

Distribution : The prospectus, the supplements, the KIIDs/PRIIPS KIDS, constitution, country specific appendix as well as the annual and semi-annual reports may be obtained free of charge from the country representative and the Investment Manager. The Investment Manager may decide to terminate the arrangements made for the marketing of its collective investment undertakings in accordance with Art 93a of directive 2009/65/EC and Art 32a of Directive 2011/61/EU.

U.K: Nedgroup Investment Advisors (UK) Limited (reg no 2627187), authorised and regulated by the Financial Conduct Authority, is the facilities agent. The Fund and certain of its sub-funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000.

Isle of Man: The Fund has been recognised under para 1 sch 4 of the Collective Investments Schemes Act 2008 of the Isle of Man. Isle of Man investors are not protected by statutory compensation arrangements in respect of the Fund.

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