# Polar Capital
## North American Fund

April 2024

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### Awards & ratings

**Analyst-driven** 10%
**Data coverage** 96%

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For disclosure and detailed information about this fund please request the full Morningstar Managed Investment Report from investor-relations@polarcapitalfunds.com.

## North America's compounding advantage: an enduring wonder of the world

In Q1 2024, the Fund (USD I Share Class) returned 12.9% compared to 10% for its benchmark, the MSCI North America Net Total Return Index. This also compares favourably to other relevant market-cap and equally-weighted indices.

In a continuation of recent themes, large and mega-cap stocks outperformed their smaller peers, with the market-cap-weighted S&P 500 Index beating the equally-weighted version which, in turn, materially outperformed the small-cap Russell 2000 Index. *Plus ça change*, it would appear.

There were some differences, however. For a start, the Fund outperformed against a backdrop of equally-weighted indices underperforming – this has not happened much in recent years given the unprecedented increase in index concentration and the deliberately high active share of the Fund. The Magnificent Seven were also a little less magnificent, with several shooters falling short. Are they still magnificent if one is the worst performer in the market and another sees its market cap drop by over $300bn? We leave that decision up to the labellers and focus instead on managing a diverse portfolio of businesses from across the market-cap spectrum.

### Business backdrop

The economy has, quite remarkably, proven to be resilient not just against the backdrop of materially higher interest rates but also following one of the steepest rate rises in history. More than two years into an aggressive rate hiking cycle, we are still effectively at full employment and job formation remains healthy. Furthermore, estimates for GDP growth have been revised upwards, particularly in the past six months, with 2024 expected to see 2.2% growth in real terms. Combined with inflation around 2.5%, this results in almost 5% growth in nominal terms, which seems like a figure that few should quibble with.

Even though inflation expectations are at a slightly higher level than they were before Covid, it is notable how well anchored they have been in the face of strong wage growth, high fiscal spending and a period of disruptive and high inflation. All of this is not, in our view, entirely a function of the pace and magnitude of rates rises. It is likely related to inflationary pressures being inherently short-lived, combined with four decades of conditioning consumers, employees, companies and investors to believe in price stability. This feature of monetary policy is particularly important for North American businesses, as it enables more stable operations and longer-term planning.

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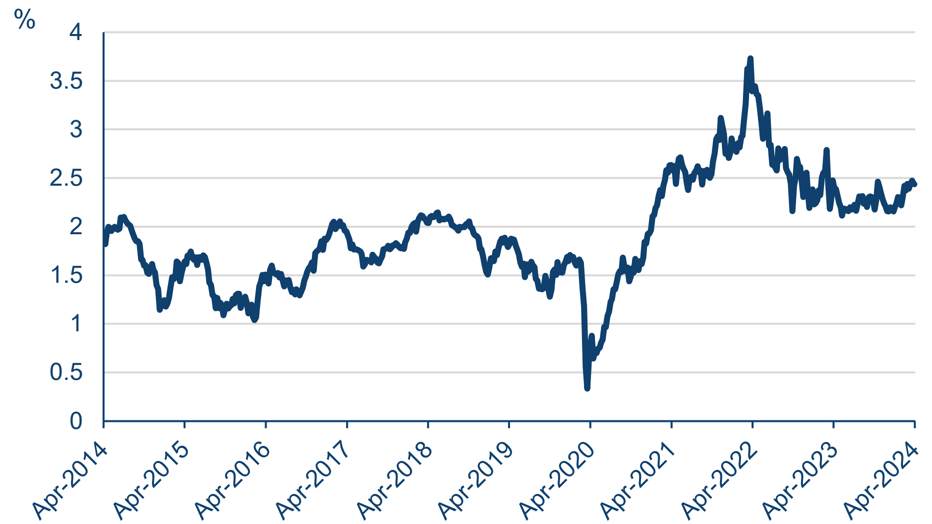
**Inflation expectations (as measured by five-year breakeven rates) remain well anchored**




**Source:** Bloomberg, 1 April 2024.

It is not all roses, however, and while we do not see signs of extreme exuberance or fear in general, there is always something to worry about.

For one, it may be too early to claim the US economy will experience a soft landing. Milton Friedman argued that "monetary changes have their effect only after a considerable lag and over a long period" and added that "the lag is rather variable". This is far from his most 'quotable' quotation but the essence is clear and not lost on policymakers of today. If the economy is in rude health, why bother to cut at all? Some might point to upcoming elections and the pandering to markets; others might point to Friedman's quotation, which warns that there may still be issues down the road.

Just as the broader economy has shown resilience, corporate profits have shown remarkable buoyancy in the face of a torrent of pressures.

Furthermore, there are certainly some pockets of concern, including credit card and auto loan delinquencies and commercial real estate loan books. These are normalising to some degree and any effects so far seem well contained. However, when debt is involved, a situation can go from OK to bad relatively quickly, and with self-reinforcing effects.

Finally, fiscal policy has been a powerful force in propping up economic activity in recent years. However, now the US, along with other western economies, is running a high deficit. This is manageable given the 'exorbitant privilege' the US enjoys, combined with healthy nominal GDP growth. The composition of the deficit has changed, however. A few years ago, the deficit was funding consumption and had a multiplier effect on the economy; now the dollars are mostly going to paying interest on debt.

Just as the broader economy has shown resilience, corporate profits have shown remarkable buoyancy in the face of a torrent of pressures. High inflation, labour shortages and higher debt costs all came on the back of disruption caused by supply chains getting snarled up. We think the strength in revenue growth and margins reflect several enduring features of US businesses, including their ability to innovate and increase efficiency. The healthy wage backdrop has made it easier to pass on higher input costs and hence mitigate pressures on profits. There is also a mix effect with more profitable businesses becoming a larger part of the index. All of these factors contribute to the continuation of the long-term trend in free cashflow margins visible in the chart on the next page.

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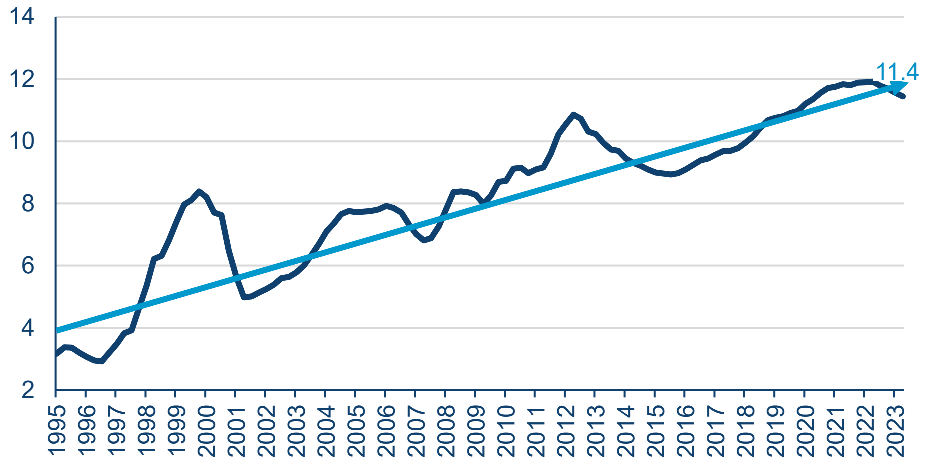
## S&P 500 free cashflow margins have been resilient

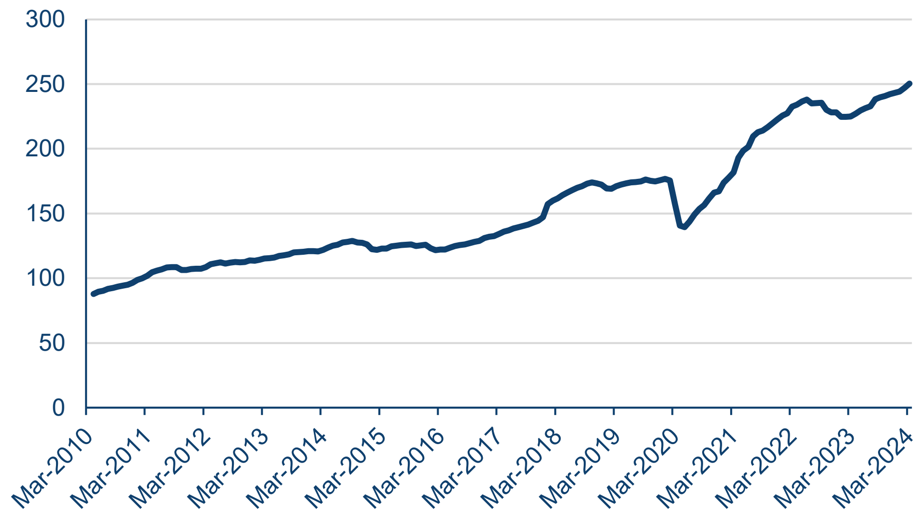



**Source:** Standard & Poors, FactSet, UBS, 31 January 2024. **Note:** Trailing 12-months, 4Q Moving Average, excludes Financials and REITs.

We expect the Fund's progression of earnings and free cashflow to continue compounding at a double-digit rate.

We think these margin gains endure, therefore the base of corporate profits should remain structurally higher than pre-Covid levels. Moreover, S&P 500 earnings are expected to grow at a healthy level in 2024 and likely higher than the roughly 8% we estimate the market has posted on average since the Fund's launch. (Incidentally, the Fund has compounded at a higher rate – more on this later.) Against this backdrop, we expect the Fund's progression of earnings and free cashflow to continue compounding at a double-digit rate.

## S&P 500 earnings per share (EPS) have achieved a higher base since Covid




**Source:** Bloomberg, 29 March 2024.

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We are encouraged by the current period of outperformance against the benchmark and the longer-term outperformance against equally-weighted indices.

### Portfolio performance

Just as the market carried strong performance from Q4 2023 into Q1 2024, many of the best performers in the Fund are common to both periods.

The top contributors to performance included Interactive Brokers Group, Core & Main, CRH, United Rentals and MKS Instruments. Three of these are, to varying degrees, linked to construction activity, where the funding backdrop remains in good shape and recent data points have helped the stocks outperform. These companies also had strong results in the quarter and in all three cases we believe there is some durability to the higher levels of profitability the companies are producing.

Interactive Brokers Group continues to see good account growth, given its advantaged business model, and has arguably also benefitted from a reduction in the number and magnitude of interest rate cuts expected by the market this year. MKS Instruments is an indirect beneficiary of activity in the semiconductor industry – as demand for chips increases, the need for new capacity goes up too and MKS sells parts used to make the machines that make semiconductors, among other things. They are starting to see a recovery in demand from trough levels and are likely to be a late cycle beneficiary of the broader activity in the semiconductor industry.

The biggest detractors included Littelfuse, Envista Holdings, Analog Devices, Union Pacific and Amdocs. Littelfuse and Analog Devices are still going through an inventory normalisation across major end markets, especially automotive and industrial. This is taking longer than expected and has led to weaker outlooks for 2024. Envista Holdings continues to suffer from lower demand for dental implants and inventory corrections in consumables. Both of these issues are negatively impacting margins too, as the company earns higher margins on consumables and implants than other parts of the portfolio. This negative mix effect has been exacerbated by the rapid growth in the company's Spark Clear Aligners, which are currently producing below-normalised margins. Union Pacific lagged its rail peers as it lost a large intermodal contract and saw greater headwinds from coal volumes; on top of that, the company has suggested that the operational improvements under its much-lauded new CEO will take longer to show up in margins. Amdocs lagged as its fortunes remain tied to the telecom and cable industry, which had a tougher start to the year.

As mentioned, Q1 was unusual in that the Fund outperformed in a period when equally-weighted indices underperformed their more famous market-cap weighted siblings. Typically the Fund has outperformed when the opposite is true. Furthermore, the two strongly performing mega-cap stocks not held in the Fund detracted from performance to a greater degree than the two weak performers helped. As a result, the Fund still suffered a drag from the ongoing index concentration issues. We think relative performance will be better when equally-weighted indices do better. We are encouraged by the current period of outperformance against the benchmark and the longer-term outperformance against equally-weighted indices. If and when the concentration issues top out there should be a nice tailwind to relative performance too.

### Artificial intelligence (AI)

This is an update to some initial thoughts we provided in our July 2023 update.

The most common refrain when we hear someone talking about AI is that we are still very early on. This suggests those in the know have clarity about the path. They do not. We are in a phase of building capacity and capability. There is a lot of testing happening and, while there are some applications in use today, we are still waiting for big applications that justify the hype and the dollars being spent.

We think it is likely that, given the power of the tools and the level of activity, something big will come along, beyond just the novelty of ChatGPT. At a minimum, we think lots of little things will add up – perhaps most companies will see productivity improvements and most consumers will find customer service interactions less frustrating, for instance.

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However, we cannot ignore the substantial dollar cost involved or, indeed, the environmental cost, especially when the aggregate benefits are still somewhat nebulous. We think both GPUs (graphics processing units) and AI models will become more efficient over time, and this will partly deal with the cost issues. However, the bar for adding value to consumers' lives and society more broadly is, and should be, quite high.

We are neither naysayers nor cheerleaders – we prefer the role of objective analyst; observing situations and thinking logically, as best we can. In the portfolio we own both likely direct and indirect beneficiaries, from Microsoft with its partnership with OpenAI, monetisation of AI copilots and generally strong enterprise cloud offering through Azure, to SS&C Technologies Holdings, with its automation initiatives, to MKS Instruments, which will see a pick-up in precision electronics production, to Qualcomm, which has power-efficient edge computing capabilities specifically for AI. We own each of these for reasons that are independent of the AI opportunities embedded therein.

Similarly, we try to avoid those that might be disrupted. We see the potential for those operating in certain labour-intensive industries to experience a greater degree of disruption. On the one hand, this could be good as it could reduce operating cost and increase margins. However, if this happens across a whole industry, as it should, then margins and returns are generally competed back down and the main beneficiary is the consumer. If AI also opens the doors to a new type of competitor then margins and returns for incumbents could be decimated. There is a need to tread carefully.

We are neither naysayers nor cheerleaders – we prefer the role of objective analyst; observing situations and thinking logically, as best we can.

In between the winners and losers, there is a large group of businesses that are likely neither to do the disrupting nor to be disrupted. Our portfolio has a high proportion of businesses that, we believe, can just compound away regardless of the AI landscape – these include class 1 railroads, construction companies, a drug distributor and a selection of well-placed energy companies.

We expect to see shifts in the AI narrative over time. At this juncture investing in the capacity builders has been lucrative for investors. Over time, the focus will switch to the users and monetisers. To some extent we are seeing investors 'fighting the last war' when it comes to analysing AI. Looking at what the internet, PCs and smartphones enabled is a good start but these are likely not the perfect blueprint. The smartphone era led to a plethora of new businesses, but it was the coincidence of more than just smartphones that gave rise to the likes of Uber and Instagram. We do not think it is a coincidence that US businesses are at the forefront of the current AI wave, just as it is not a coincidence that US businesses were predominantly the global winners of the opportunities created by smartphones and the cloud.

Most of the value created in previous technology cycles came from areas that were uninvestable at the outset, largely because they did not exist or were hidden among hundreds of small, privately owned businesses, many of which did not survive long enough to even contemplate an IPO. Part of the conundrum for investors is that they can see the potential (or at least think they can see it) and want to get exposure to it. That is manifested in buying shares in NVIDIA or any other company that sells into the capacity buildout. However, the likely long-term winners and losers are not determined as yet. So, yes, we are still 'early on' but there is much to be learned and worked out along the way.

### Case study: Uber Technologies

Uber was the Fund's top performing stock in 2023, up almost 150% and a further 25% in 1Q24 (for a cumulative 210% since the start of 2023). It was among the worst in 2022, down over 40%. Despite exhibiting such swings, as a case study, we think it highlights some of the best features of our investment approach.

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Our long-term, bottom-up approach means we have a framework for thinking through times when a stock's performance is the opposite of what we hope for.

Our initial work focused on the long-term potential of the business model, both in terms of understanding the scope for disruptive growth but also the moat it was building. The ability to change the nature of transportation was always a lofty goal but disrupting the taxi market first and takeaway ordering second were eminently realistic. The company had stumbled upon the holy grail that almost all modern tech start-ups chase: network effects. This is the idea that, as more agents join a network, the value increases for other agents. The more drivers, the lower the wait time and the lower the cost, so riders benefit; and more riders means drivers have less idle time and greater potential for earnings. As a network like this scales it becomes harder for other platforms to attract drivers and riders and ultimately to compete for market share.

In the early days of Uber, it was not hard for others to compete at all. The company had a first-mover advantage and was both a brand and a ubiquitous noun (plus a verb, much like Google). However, in the land of technology, none of these is a guarantee of success.

In the lead up to its IPO and under the leadership of a seasoned CEO (who we knew from his time at Expedia), the company began a process of maturing into a real business. It made friends where it had previously created enemies. It focused and started to think about allocating capital to enhance returns, rather than just allocating capital because it could.

The pandemic had a profound effect on the business, both in the short and long term. In the short term, demand for mobility services was decimated but food delivery took off. The latter was fortuitous because it coincided with a concerted effort to increase market share, hence the company was ready for the increase in demand – this meant a land grab phase was accelerated and they garnered durable market share. The drop in demand in the core business led the company to re-evaluate its cost base. They worked out how to operate with a leaner structure and this laid the foundation for better long-term profitability.

The fly in the ointment came in the form of abundant capital and exuberant venture capital markets; the threat of disruptive peers increased but the interest rate rises that started two years ago and changes in the funding environment put that issue largely to bed.

The company has demonstrated appealing economics, largely in the form of high incremental margins and healthy free cashflow growth, since then. They have cemented the power of the platform, where the combination of favourable customer acquisition costs, better technology and the ability to innovate and scale quickly creates a flywheel of sorts. The company has also exhibited the ability to pivot its capital allocation approach at the right time; in this case, from internal investment through the P&L to a balance of returning free cashflow and capital structure optimisation.

At the outset, we took a holistic approach to valuation. It was clear the company was suppressing profits in order to fund growth; this was the right strategy at the time. As a result, we had to make assumptions about steady-state profitability. In hindsight, we were a little too conservative here; the picture is much clearer now than it was and we see a business sustaining high growth and trading at an attractive normalised free cashflow yield.

Our long-term, bottom-up approach means we have a framework for thinking through times when a stock's performance is the opposite of what we hope for. Momentum investors, or those following a rule to sell at a relative low, for instance, might have sold their position at, or very close to, the bottom. Focusing on the long-term fundamentals and analysing the business, instead of only the stock price, is the best strategy. We are confident the combination of businesses across the portfolio reflects the same kind of high quality analysis and offers a strong opportunity for healthy fundamental progression over time.

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The combination of favourable demographics, a culture of innovation, access to capital and a business-friendly set of laws and institutions compound.

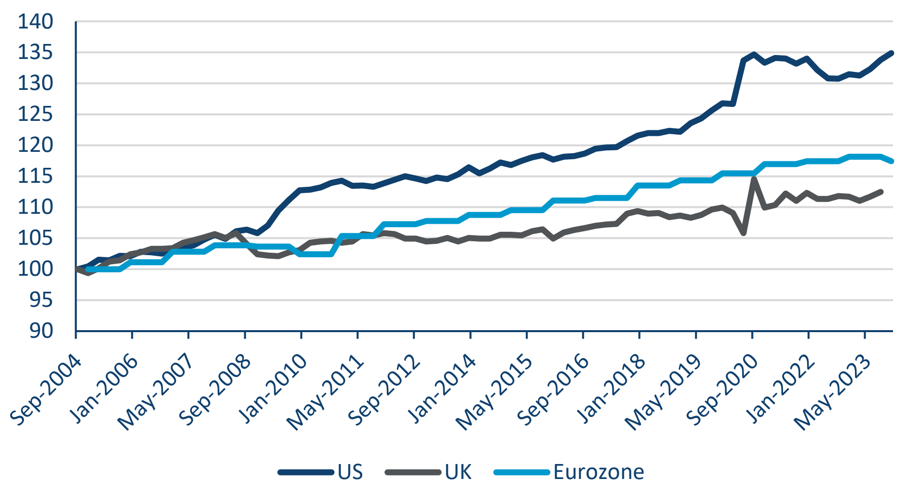
### US: from strength to strength

We recently presented our views on the US market at our very well attended Polar Capital Investor Conference. It was a good opportunity to reflect on and talk about the longer-term picture for the biggest stock market in the world.

For all its flaws as a society (what society does not have flaws?), we cannot think of a better combination of factors that are supportive of value creation. The combination of favourable demographics[1], a culture of innovation, access to capital and a business-friendly set of laws and institutions compound. We think this combination gets better over time – more innovation attracts more innovators, for instance.

This is reflected in better productivity which, over the past two decades, has massively outpaced that of other western economies.

### US labour productivity has outstripped that of other major western economies




**Source:** LSEG, National statistics offices, December 2023.

Without question, index concentration has been an issue for active managers and a keen topic of debate for investors but the fact that trillion-dollar businesses can be created in a relatively short space of time is a feature, not a bug. While we see no reason for concentration to revert in short order, we do not see it increasing at the same rate and magnitude from here.

This should allow focus to shift to the plethora of opportunities we see beyond the biggest companies. These include global brands, advantaged hard assets, industry consolidators and supreme capital allocators.

At our Investor Conference, and in an article published on our website, we presented evidence that suggests the US is much better value than it looks, relative to other markets. First, we dug into a more granular industry breakdown in an effort to compare fruit with fruit, if not quite apples with Apple. The price-to-earnings (P/E) gap shrunk massively when we did this but the analysis could not go far enough because the composition was so different. That is exactly the point, though – the US has different businesses and a comparison only works up to a point. Add in the appealing features we outlined above, plus a superior free cashflow conversion, and the US is quite attractively priced for what you get.

**1.** The US has actually been a big beneficiary of immigration over the past four to five years, despite the efforts of the prior administration, with a 16% increase in the foreign-born labour force since the end of 2019. More broadly, the population pyramid for the US looks healthy, and dramatically better than that of the second-largest economy in the world.

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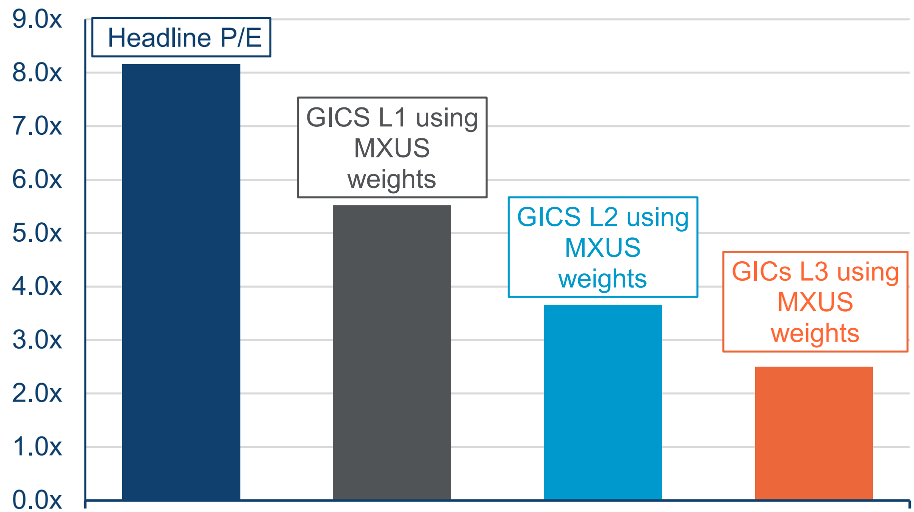
There are limits to the benefits from re-ratings and if this [rerating] does not endure over the next decade the operational performance will matter to a much greater extent.

### The P/E difference between US and EAFE is much smaller than it seems




**Source:** Polar Capital, MSCI, 22 January 2024. **MXUS:** MSCI USA Index. **GICS:** Global Industry Classification Standard. The first bar shows the difference in forward P/E multiples for MSCI USA and MSCI EAFE. The subsequent three bars show the difference when MSCI EAFE constituents, grouped by GICS Levels 1, 2 and 3, are re-weighted to match the corresponding weights of the MSCI USA Index. The closing of the gap shows that the headline P/E difference is determined more by the mix of types of companies in the indices than by any underlying differences in the multiples of earnings similar companies are trading on.

### The power of compounding

Since launch, the holdings in the Fund have compounded business value (growth in earnings or free cashflow per share plus dividend; or growth in book value or NAV, if applicable) at almost 11% CAGR. By comparison, the companies in the MSCI North American Index compounded at an estimated 8%. Over almost 13 years, this is the difference between turning a dollar of profits into $3.90 in the first instance or $2.70 in the latter. If the trend continues, a decade from now the difference will be $11 compared to $5.90. No wonder Einstein was wowed by the power of compounding.

The Index benefitted from re-rating to a greater degree so it marginally outperformed on a total return basis. However, there are limits to the benefits from re-ratings and if this does not endure over the next decade the operational performance will matter to a much greater extent. In such an environment we believe the Fund's characteristics will serve it well both in an absolute and relative sense.

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The valuation, growth and quality metrics of the Fund look very good relative to comparable benchmarks and, in some cases, are among the best in its history.

### Outlook

The economic backdrop for North American businesses is healthy, with good nominal growth and robust free cashflow margins, despite an assortment of pressures in recent years. The strength in the market partly reflects this backdrop, but also the continued dominance and performance of the mega-cap companies. We have been impressed by both the magnitude and extent to which so many companies have consolidated and built on the higher levels of profitability they achieved in the immediate aftermath of Covid. We find it all the more remarkable that such improvement has been sustained given the marked difference in borrowing costs that has prevailed in the past two years.

The Magnificent Seven lost some cohesion this quarter, which is not surprising given their inherent differences. However, AI is a common theme to many and was arguably the force behind the better performing subset. This makes sense in the current phase of building out AI capacity and development of capabilities but the composition and sources of long-run value creation are less clearcut at this juncture.

The Fund outperformed in Q1 despite its lower weighting in mega-caps. Its high active share strategy typically fares better when equally-weighted indices outperform but in recent quarters this pattern has not held, as the Fund has outperformed despite the equally-weighted indices underperforming.

We continue to be enthusiastic about the composition of the businesses in the Fund. At an aggregate level, the valuation, growth and quality metrics of the Fund look very good relative to comparable benchmarks and, in some cases, are among the best in its history. At an individual level, the businesses in the Fund are in good position to continue the longstanding trend of superior compounding of business value.

**Polar Capital North America Team**

**16 April 2024**

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## Risks

- **Capital is at risk and there is no guarantee the Fund will achieve its objective. Investors should make sure their attitude towards risk is aligned with the risk profile of the Fund before investing.**
- **Past performance is not a reliable guide to future performance. The value of investments may go down as well as up and you might get back less than you originally invested as there is no guarantee in place.**
- The value of a fund's assets may be affected by uncertainties such as international political developments, market sentiment, economic conditions, changes in government policies, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made. Please see the Fund's Prospectus for details of all risks.
- The Fund invests in the shares of companies, and share prices can rise or fall due to several factors affecting global stock markets.
- The Fund uses derivatives which carry the risk of reduced liquidity, substantial loss, and increased volatility in adverse market conditions, such as failure amongst market participants.
- The Fund invests in assets denominated in currencies other than the Fund's base currency. Changes in exchange rates may have a negative impact on the Fund's investments. If the share class currency is different from the currency of the country in which you reside, exchange rate fluctuations may affect your returns when converted into your local currency. Hedged share classes may have associated costs which may impact the performance of your investment.
- The Fund invests in a relatively concentrated number of companies and industries based in one region. This focused strategy can produce high gains but can also lead to significant losses. The Fund may be less diversified than other investment funds.

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A decision may be taken at any time to terminate the marketing of the Fund in any EEA Member State in which it is currently marketed. Shareholders in the affected EEA Member State will be given notification of any decision and provided the opportunity to redeem their interests in the Fund, free of any charges or deductions, for at least 30 working days from the date of the notification.

Investment in the Fund is an investment in the shares of the Fund and not in the underlying investments of the Fund. Further information about fund characteristics and any associated risks can be found in the Fund's Key Investor Document or Key Investor Information Document ("KID" or "KIID"), the Prospectus (and relevant Fund Supplement), the Articles of Association and the Annual and Semi-Annual Reports. Please refer to these documents before making any final investment decisions.  These documents are available free of charge at Polar Capital Funds plc, Georges Court, 54-62 Townsend Street, Dublin 2, Ireland, via email by contacting Investor-Relations@polarcapitalfunds.com or at www.polarcapital.co.uk. The KID is available in the languages of all EEA member states in which the Fund is registered for sale; the Prospectus, Annual and Semi-Annual Reports and KIID are available in English.

The Fund promotes, among other characteristics, environmental or social characteristics and is classified as an Article 8 fund under the EU's Sustainable Finance Disclosure Regulation (SFDR). For more information, please see the Prospectus and relevant Fund Supplement.

ESG and sustainability characteristics are further detailed on the investment manager's website: (https://www.polarcapital.co.uk/#/professional/ESG-and-Sustainability/Responsible-Investing/)

A summary of investor rights associated with investment in the Fund is available online at the above website, or by contacting the above email address. This document is provided and approved by both Polar Capital LLP and Polar Capital (Europe) SAS.

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### Benchmark

The Fund is actively managed and uses the MSCI North America Net Total Return Index as a performance target and to calculate the performance fee. The benchmark has been chosen as it is generally considered to be representative of the investment universe in which the Fund invests. The performance of the Fund is likely to differ from the performance of the benchmark as the holdings, weightings and asset allocation will be different. Investors should carefully consider these differences when making comparisons. Further information about the benchmark can be found www.mscibarra.com. The benchmark is provided by an administrator on the European Securities and Markets Authority (ESMA) register of benchmarks which includes details of all authorised, registered, recognised and endorsed EU and third country benchmark administrators together with their national competent authorities.

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### Country Specific Disclaimers

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#### The Netherlands

This document is for professional client use only in the Netherlands and it is intended that the Fund will only be marketed to professional clients in the Netherlands. Polar Capital Funds plc is authorized to offer shares in the Fund to investors in the Netherlands on a cross border basis and is registered as such in the register kept by the Dutch Authority for the Financial Markets ("AFM") www.afm.nl.

#### Spain

The Fund is registered in Spain with the Comisión Nacional del Mercado de Valores ("CNMV") under registration number 771.

#### Switzerland

The principal Fund documents (the Prospectus, KIDs, Memorandum and Articles of Association, Annual Report and Semi-Annual Report) of the Fund may be obtained free of charge from the Swiss Representative. The Fund is domiciled in Ireland. The Swiss representative and paying agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich, Switzerland.

#### Austria/Belgium/Denmark (professional only)/Finland/France/Germany/Gibraltar/Ireland/Italy/Luxembourg/Netherlands/Norway/Portugal/Spain/Sweden/Switzerland and the United Kingdom

The Fund is registered for sale to investors in these countries. Investors should make themselves aware of the relevant financial, legal and tax implications if they choose to invest. Please be aware that not every share class of the Fund is available in all jurisdictions.

### Morningstar

The Morningstar Medalist RatingTM is the summary expression of Morningstar's forward-looking analysis of investment strategies as offered via specific vehicles using a rating scale of Gold, Silver, Bronze, Neutral, and Negative. The Medalist Ratings indicate which investments Morningstar believes are likely to outperform a relevant index or peer group average on a risk-adjusted basis over time. Investment products are evaluated on three key pillars (People, Parent, and Process) which, when coupled with a fee assessment, forms the basis for Morningstar's conviction in those products' investment merits and determines the Medalist Rating they're assigned. Pillar ratings take the form of Low, Below Average, Average, Above Average, and High. Pillars may be evaluated via an analyst's qualitative assessment (either directly to a vehicle the analyst covers or indirect-ly when the pillar ratings of a covered vehicle are mapped to a related uncovered vehicle) or using algorithmic techniques. Vehicles are sorted by their expected performance into rating groups defined by their Morningstar Category and their active or passive status. When analysts directly cover a vehicle, they assign the three pillar ratings based on their qualitative assessment, subject to the oversight of the Analyst Rating Committee, and monitor and reevaluate them at least every 14 months. When the vehicles are covered either indirectly by analysts or by algorithm, the ratings are assigned monthly. For more detailed information about these ratings, including their methodology, please go to global.morningstar.com/managerdisclosures/.

The Morningstar Medalist Ratings are not statements of fact, nor are they credit or risk ratings. The Morningstar Medalist Rating (i) should not be used as the sole basis in evaluating an investment product, (ii) involves unknown risks and uncertainties which may cause expectations not to occur or to differ significantly from what was expected, (iii) are not guaranteed to be based on complete or accurate assumptions or models when determined algorithmically, (iv) involve the risk that the return target will not be met due to such things as unforeseen changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, tax rates, exchange rate changes, and/or changes in political and social conditions, and (v) should not be considered an offer or solicitation to buy or sell the investment product. A change in the fundamental factors underlying the Morningstar Medalist Rating can mean that the rating is subsequently no longer accurate.