Polar Capital North American Fund

October 2020

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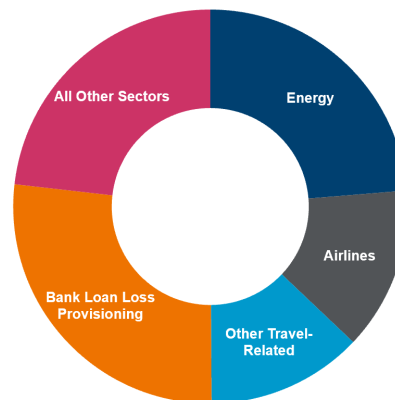
North American Q3 Update

The continued strength in North American equities in the quarter was likely driven, at least in part, by the enduring accommodative monetary and fiscal policy backdrop as well as the sequential improvement in fundamentals as economies partly re-opened. Indeed, some of the performance can probably be attributed to fundamentals being better than expected (or feared). Nevertheless, the sizeable impact, both direct and indirect, of the pandemic on social interaction and the economy more broadly continues to linger. This means the recovery for businesses that were worst hit is taking longer.

Larger American companies have in general proved reasonably resilient in the context of the largest quarterly fall in GDP ever recorded. While second quarter earnings per share for the S&P 500 were down 32% y/y, according to Credit Suisse, the third quarter should see an improvement in the rate of decline to an estimated 20%. However, these headline numbers mark some stark differences in the fortunes of the underlying sectors. Businesses exposed to travel, energy and banking, have naturally had an outsized negative impact on the aggregate earnings numbers.

The S&P 500 Sectoral breakdown of year-over-year decline in earnings Q2 2020E



Source: Empirical Research Partners, Polar Capital. "All other sectors" nets out positive and negative earnings from the rest of the market and therefore it naturally increases the size of the other 4 parts of the chart; the effect is not large.

Outside these sectors, earnings have been propped up by a mixture of businesses that have turned out to be clear beneficiaries of the crisis to those that have almost carried on as usual despite the enormous economic and operational shock, to those that have been hit with an unprecedented slump in demand but nevertheless adjusted well to the circumstances.

The portfolio has a reasonable representation in all of the above groups of stocks though has clearly suffered this year from its exposure to travel-related businesses and companies negatively impacted by physical distancing policies. We see significant recovery opportunities in such businesses on any reasonable investment timeframe and give a few examples later in this commentary.

Corporate responsibility and responsible investing

Crises can provide valuable insights into the values and principles of a business, from the underlying culture to the broader treatment of all stakeholders. Companies that look after all stakeholders and continue to invest, or even take the opportunity to invest more, in areas such as R&D are more likely to prosper in the longer term. Our own analysis shows the majority of companies that increased both R&D and capital expenditure in the global financial crisis outperformed both on the way down as well as in the recovery period. We are looking for businesses exhibiting similar actions this downturn.

Awards & ratings

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> **"Looking after customers, employees and local communities while investing in the business is more likely to result in improved customer and employee loyalty, less regulatory risk, better products and higher long-term cashflows."**

We have been encouraged by how companies in and outside the portfolio are carrying out important work in the crisis and looking after employees and customers as well as their immediate and wider communities. Examples include: Alphabet developing software updates to Android devices to allow apps to play a part in COVID-19 tracing programs; Sysco, the food distributor, donating over 30 million meals to local communities in the second quarter; Mohawk Industries, the flooring manufacturer, repurposing manufacturing areas and retraining employees to create thousands of medical gowns and face shields, which it then donated to hospital systems in northwest Georgia, where half the company's US employees live and work; a broad array of increased charitable donations from companies and personally by management teams; as well as the implementation of policies to look after employees such as increased time off, flexible working arrangements and health benefits.

While it is difficult to prove, during this downturn companies seem to be exhibiting much more socially responsible behaviour than they did during the global financial crisis. This may be because of the health-related nature of the shock forcing better community values, the broader focus on corporate responsibility or perhaps, cynically, a feeling of pressure to be responsible given the growing assessment of ESG factors.

We noted a Forbes ranking, in association with Just Capital, of how well America's largest employers mobilised to meet the challenges of coronavirus as measured by their policies impacting employees, customers and communities. We doubt that such a published ranking took place during the global financial crisis.

A logical reason for better behaviour though is the increasing realisation that it is just good business practice – looking after customers, employees and local communities while investing in the business is more likely to result in improved customer and employee loyalty, less regulatory risk, better products and higher long-term cashflows.

We share this belief and reflect it in our investment process as we assess long term value creation and appraise the risks involved. Central to this is a belief that a company that does not generate value for its other stakeholders cannot create value for shareholders in the long run. Our assessment of this is integrated into how we look at a company's competitive position, management and allocation of resources and financial position.

In addition, the above also underscores the belief that value creation for businesses and society are not mutually exclusive. The best way to contribute to a more sustainable and higher standard of living is through innovation, value creation and natural, competitive market forces. Businesses operating from a position of fundamental strength are often best placed to add value to society. Likewise, businesses adding value to society will be best placed to sustain fundamental strength.

Recently, we put together a paper describing our perspective on responsible investing. We encourage investors to read the document and welcome any feedback on our approach. Please get in touch with your usual Polar Capital representative for more information.

Performance

The Fund (US$ I share class) returned 6.8% in Q3 2020, compared to 9.4% from the MSCI North American Index with net dividends reinvested.

Apple and Tesla, neither of which is owned in the Fund, were the two biggest drags on relative performance, accounting for a combined 150bps. Both performed extremely strongly over the period.

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> **"The Fund has a core of steady free cashflow compounders that should continue to deliver as well as a group of higher growth compounders trading at what we feel are reasonable valuations."**

Among stocks the Fund does own, the two health insurers, **Centene** and **Anthem**, were weak as political concerns in the run-up to the election caused a derating of their multiples to c11x next year's earnings and cashflow. Despite some potential disruption related to the US election, we see little risk to medium and long-term fundamentals given the pivotal role they play in improving the allocation of healthcare resources in the economy. Anthem has compounded earnings and cashflow per share by 14% per annum since it was purchased for the Fund in 2013, while also paying an average annual dividend of 1.5%. Centene has grown at a far faster rate over the same period. We expect both to compound comfortably at a double-digit rate as they take a clip of expanding expenditure on healthcare, increase market share and generate and deploy significant amounts of cashflow. From current valuations, the companies could almost hit our 10% per annum business value creation hurdle from capital deployment alone. Should the stocks rerate to the more reasonable multiples they have traded at in the past, returns would be further supplemented.

Citigroup, the bank, was also weak. Banks in general have performed poorly this year given operating headwinds including higher credit costs and ultra-low interest rates which have squeezed net interest income. Citigroup's higher exposure to credit card debt relative to its peers and the reprimand from regulators regarding its risk management systems caused it to underperform the sector. The latter point in part reflects the company's disparate collection of businesses, which makes management of the organisation harder. This remains our key concern on the business. However, we have seen, and expect to continue see, a long-term trend of improvement in terms of how it is managed. Although interest rates remaining lower for longer is a valid concern for banks, the stock is extremely cheap, with nearly a 5% dividend yield, and trades at a mid-single-digit multiple of our estimate of recovered earnings as provisions for credit losses normalise. Even if the valuation never changes and the company never grows operating profit again from a more normalised base – both unlikely scenarios, in our view – the stock could offer healthy double-digit returns from dividends and share repurchases. Of note, the company returned nearly $70bn of capital back to shareholders from 2016-2019 through dividends and buybacks. This compares with the current market cap of $90bn. While the investment case does not depend on a rerating from here, it is not hard to envisage the company trading at a far higher multiple of normalised earnings as the economy recovers and credit costs recede.

On the positive side, there were notable strong performances from **Qualcomm**, the leading designer and supplier of chips for mobile phones, **Taylor Morrison Home**, the house builder, and **Envista Holdings**, a manufacturer of dental consumables and equipment. Qualcomm was strong following good operating results, a settlement of a dispute with a large customer and indications that the company is already benefiting from the forthcoming cycle in 5G devices. The company sits at the heart of mobile communications and every device needs to use the protocols it has developed in some form. So, as the number of connected devices continues to grow and the complexity of these increases, the company should see sustained growth. At a 5% forward free cashflow yield, the stock is very reasonably valued in the context of such strong drivers of value creation.

Taylor Morrison's stock-price continued its recovery from depressed levels on the back of a healthy US housing market although, interestingly, it remains extremely attractively valued at around 1x the book value of its assets which comprises mostly land and work in progress. Envista continued its recovery from very depressed levels as optimism improved regarding increased visits to dentists. The company has seen its margins fall in recent years given product investment. However, with new products now launching, the base business seeing a recovery and COVID-19 giving management an opportunity to accelerate some planned cost reductions, we think the outlook for both margins and growth is attractive. We find the valuation at a high, single-digit, normalised free cashflow yield is compelling.

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Portfolio

We feel the portfolio is well positioned for several reasons. There is good recovery potential in stocks directly affected by COVID-19. The Fund also has a core of steady free cashflow compounders that should continue to deliver as well as a group of higher growth compounders trading at what we feel are reasonable valuations.

The portfolio also holds a number of world-class high-growth businesses which trade at attractive discounts to our assessment of their longer-term intrinsic worth despite looking more highly valued on near-term cashflows. In addition, we are confident that valuation discipline, a key part of the approach, should become a tailwind over time as opposed to the headwind it has been.

Stocks with recovery potential

The portfolio holds a number of businesses that, despite having been negatively impacted in the near term from COVID-19, will emerge from the crisis competitively stronger and with higher earnings and cashflow power. Given difficult near-term conditions though, such companies offer little to excite the market in their operating results and their stocks have remained relatively depressed. This, however, presents a great opportunity for patient investors given their very low valuations on normalised earnings at a time when many parts of the market have rerated to historically high levels.

For instance, the insurers **Arch Capital** and **Markel** are at price-to-book valuations that are similar to where they traded at the time of the global financial crisis given the uncertainty around the extent of pandemic losses, which is still an ongoing catastrophe event, and a step down in investment income caused by the collapse in interest rates. While we are not dismissing either near-term concern, we are heartened that since the financial crisis their long-term-oriented and disciplined cultures and management teams have helped these companies compound at an admirable rate despite a lacklustre background for their industry.

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Arch has compounded book value per share[2] at a 12% CAGR over the past 10 years and 13% over the past five. Markel's book value per share compounded at 11% and 8% over the same time periods. Both companies' normalised earnings power has compounded at a similar rate. Growth this year will be lower, but we nonetheless still expect book value and earnings per share to grow on an underlying basis. The charts overleaf help highlight the attraction we see in each stock.

Several years of much higher catastrophe losses for the industry, culminating with pandemic-related losses in 2020, have led to the retreat of many alternative capital providers and an unwillingness of competitors with weaker balance sheets to underwrite as much risk as they might have done historically. With ultra-low interest rates also forcing the industry to consider how to offset lower investment income, the pricing outlook for those companies with the balance sheets to underwrite risk is much better than it has been in recent memory.

Arch and Markel have both demonstrated their superior underwriting skills time and again and both have the balance sheet strength to aggressively take share in a so-called 'hard' (inflationary) market for insurance rates. We are confident this means they can return to double-digit value creation in 2021, yet the valuation of each stock remains depressed, which offers both a margin of safety at current levels and an additional source of shareholder return should we see a rerating.

[2]We typically prefer to focus on long-term normalised free cashflow per share as a barometer of value creation. However, for the insurance businesses held, given the volatility of earnings and cashflows, book value per share can be a good barometer of value creation and progression of earnings and cashflow power.

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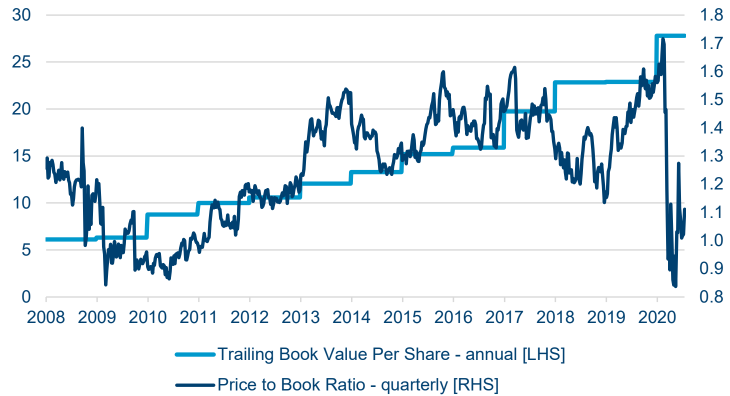
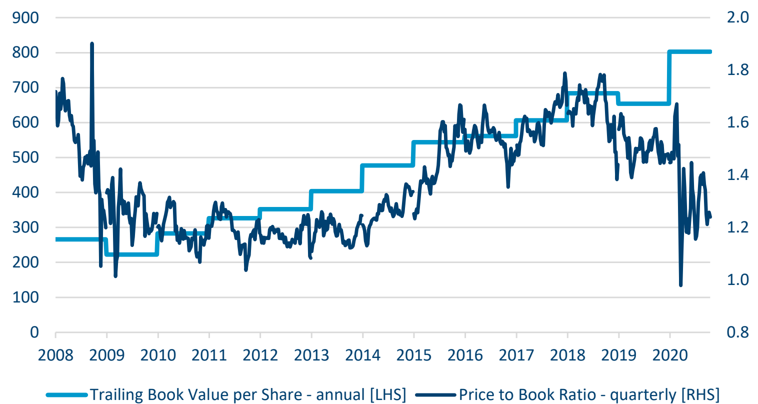
Arch Capital: book value per share and price to book value ratio



Source: Bloomberg, 30 September 2020. **Past performance is not indicative or a guarantee of future results.**

Markel: book value per share and price to book value ratio



Source: Bloomberg, 30 September 2020. **Past performance is not indicative or a guarantee of future results.**

We continue to look for opportunities to invest in good businesses that are improving their normalised cashflow power but are trading at discounts because of near-term headwinds.

One such recent addition to the portfolio is **Formula One Group** which owns the eponymous race series and has been controlled by Liberty Media since 2017. Prior to this, the company was stuck in a suboptimal ownership structure, but under Liberty the sport has been getting a revamp from multiple angles – improved engagement with fans, better monetisation of content and a clearer sponsorship strategy. We have followed the company closely over this timeframe. We also know the Liberty modus operandi well through our ownership of other Liberty entities in the past, so we have a good deal of confidence in the strategy at play here.

"We continue to look for opportunities to invest in good businesses that are improving their normalised cashflow power but are trading at discounts because of near-term headwinds."

Formula One is an incredibly popular sports league with almost 500 million active followers around the world. The company has three main sources of revenue: race promotion, broadcasting and sponsorship. It shares just over half its revenue with the 10 formula one teams, but otherwise has a lean cost base. COVID-19 has put a large dent in race promotion revenue due to a reduction in the number of races and, more importantly, the absence of fans at these races. These receipts from ticket sales to fans enable the race promoters to pay Formula One. However, broadcasting and sponsorship revenue have held up well.

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By some estimates, Formula One is monetising its content at only $0.13 per hour, which compares to $1 on average for other televised sports. We expect the new strategy will lead to an acceleration in revenue growth and a narrowing of this gap as the company exercises pricing power on television rights, grows its direct-to-consumer service and increases the monetisation of sponsorship. The scalable cost base lends itself to healthy operating leverage and the asset-light nature of the franchise results in strong free cashflow generation, which we expect to be deployed in value-additive ways. All in, the business should deliver very healthy compounding in normalised free cashflow per share over 3-5 years (we think comfortably exceeding our 10% hurdle) and be well placed to continue attractive levels of value creation thereafter. We think the long-term value creation potential is largely unchanged by the effects of the pandemic.

A few months ago, Liberty Media reorganised the debt and simplified the holding structure. This means balance sheet is now much stronger, a point that concerned us in the past. In addition, the valuation based on normalised free cashflow per share became more attractive by virtue of the hit COVID-19 had on the share price.

While the contribution to society is strong on some dimensions – for example, the social experience for fans and the fact that the safety features and fuel efficiency improvements developed in F1 are used on road cars later – the green credentials overall are not that strong. There have, however, been encouraging steps to improve on that front with, for example, a switch to hybrid engines, and the organisation is working towards being carbon neutral by 2030.

"A generalisation about US stocks today is that they can be split into two camps: the disruptors and the disrupted. The reality is the US has a huge range of good businesses that do not fit into either of these categorisations."

Free cashflow compounders

Free cashflow compounders continue to make up the heart of the portfolio. These are well run, cash-generative businesses with sound competitive positions that we believe are well placed to compound free cashflow per share at attractive rates for years to come. They are also displaying relatively less operating volatility in the current environment than the recovery stocks we have mentioned. A generalisation about US stocks today is that they can be split into two camps: the disruptors and the disrupted. The reality is the US has a huge range of good businesses that do not fit into either of these categorisations yet have very appealing compounding prospects. Contrary to the perception the US is an expensive stock market, many of these businesses can be found at attractive valuations. We doubt such businesses would trade at cheaper valuations in most other parts of the world and suspect they may be more expensive given their scarcity value. Here are a few examples of such holdings, from a wide range of industries.

Fiserv is a provider of processing services and software to banks. The company has an enviable record of consistent double-digit per annum business value creation over many years, driven by a secular trend towards outsourced processing, a high proportion of recurring revenues, high incremental margins, disciplined cost management, strong free cashflow generation and sound deployment of capital. Last year, Fiserv acquired First Data, an electronic payments processor, which is benefitting from the trend from cash to electronic payments, but which was struggling under a large debt burden. Given the potential to fold a lot of First Data's processing into the Fiserv cost structure, we think there is scope for very high cashflow synergies from the acquisition. We expect steady growth from business, operational synergies from the acquisition and the use of cashflow to retire debt to result in continued strong performance and potentially a doubling of cashflow per share over the next five years. The valuation is attractive at around a 5% yield on next year's free cashflow.

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"[Alphabet has] an attractive valuation in both an absolute and relative sense given its competitive position, growth prospects and financial strength."

Ametek is an industrial conglomerate. But it has some common traits across its decentralised businesses, which manufacture highly engineered industrial components that are an important part of their customers' processes but are not a large cost relative to the value they deliver. These products have strong competitive positions with most holding number one or two market positions in niche areas. The business generates attractive cashflows and demonstrates reasonable pricing power. It has an exemplary track record of value creation driven by healthy profit growth in its underlying operations and an excellent history of buying complementary businesses, which Ametek then helps improve. Since its IPO in 1997, the stock has delivered an annual return of 17% for a total return of 3,700%. That performance is likely not replicable, but the key characteristics of its operating model are unchanged, so we expect annual value creation comfortably in the double digits over the next 5-10 years. The valuation is attractive at over a 4.5% yield on next year's cyclically depressed free cashflow.

Analog Devices makes semiconductors that translate signals between the analogue and digital worlds. These devices are increasingly important in areas such as healthcare, industrials and communications. The need for the likes of autonomous vehicles, medical equipment and industrial robots to interact with increasingly complex real-world situations is a long-lived demand driver. Analogue semiconductors are hard to make and can have lifespans of over 20 years which plays into the hands of the biggest and most diversified players and results in very attractive competitive dynamics. Analog Devices and Texas Instruments dominate the industry. Both companies have a strong focus on cash generation and capital allocation, but Analog Devices has more scope for upside on both points given recent acquisitions (including the pending deal with Maxim) and improvements it is making in its cost base. Despite the deals, leverage will remain low and the company can continue to direct the majority of its free cashflow to shareholder return. We believe the company should comfortably compound free cashflow per share at double-digit rates over our investment horizon and the stock trades at an attractive 5% forward free cashflow yield.

High growth at a reasonable price

The portfolio also has a number of high-growth, world-class businesses that we feel continue to trade at very reasonable valuations. Notably, there are large positions in a few dominant technology platforms, though their sizes in the portfolio are influenced partially by the fact that we want to demonstrate a positive active position. We are often asked our thoughts on valuation for some of these names.

Alphabet is the second largest position in the Fund. Although it has performed well this year, it has lagged many technology stocks as large parts of its business are driven by the offline world (eg advertising for travel or local services). It is perhaps more exposed to regulatory risk than many other large platform businesses . However, we continue to see good growth prospects given further growth in digital advertising and increased monetisation in its YouTube and cloud businesses where it is currently making losses due to high levels of investment. The company has invested heavily in its underlying businesses over the years, an admirable trait, but we do see it exercising more discipline on investments in non-core parts of the business where returns have been more questionable. Stripping out net cash and losses in the 'other bets' division (which we do not think will be sustained into perpetuity) while also factoring in a normalised stock compensation expense, the stock is valued at around 20x next year's earnings, a good barometer for free cashflow under normalised investing conditions. We find this an attractive valuation in both an absolute and relative sense given its competitive position, growth prospects and financial strength.

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We increased the position in **Facebook** earlier this year. We think the company has had a 'good crisis', cementing its contribution to society by connecting friends, families and communities. Its huge investment in content moderation over the past few years has placed it in a better position to withstand potential regulatory pressure. Social media competition is increasing, notably in recent times with the rapid growth in the use of TikTok. However, we feel Facebook's social media platforms will continue to be durable and there is still scope to grow not only in advertising in the Facebook and Instagram franchise but also by expanding in other areas such as e-commerce and perhaps by monetising the WhatsApp business. Like Alphabet, for such a competitively and financially strong business with appealing growth prospects, it is very reasonably valued. The stock's multiple is in the low 20s of next year's earnings/normalised cashflow.

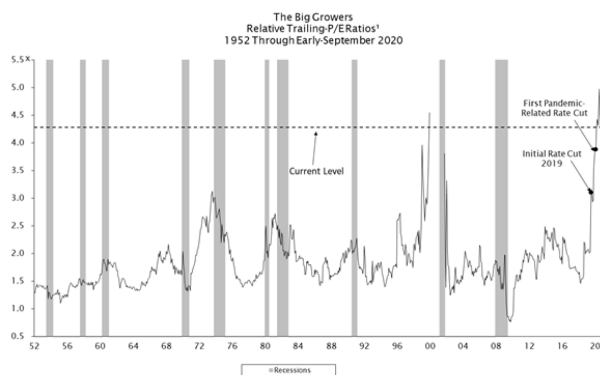
"There is therefore an unusually large premium placed on those companies exhibiting strong growth. Over time, though, as that growth inevitably slows, the premium will shrink."

Amazon is the largest position in the portfolio. The company is a clear beneficiary of the crisis and again has cemented its contribution to society both from a customer perspective and as one of the largest employers, getting even larger given the increased demand it has seen for its services. We value Amazon by awarding its divisions what we consider to be reasonable mature margins, so as not to punish it for its huge current investment which has been integral to its success. On this basis, the stock has rerated from a multiple in the mid-20s of next years mature cashflows to the low/mid-30s. Given the higher valuation, we have taken some profits, having added significantly to the position size at the end of 2019. However, given the huge growth potential for the business, (with e-commerce and cloud penetration rates still low), its wide competitive moat, strong financial position and exemplarily leadership, we feel the valuation is still very reasonable.

Valuation discipline

There has been a significant increase in valuations in parts of the market. The chart below – an updated version of one we have shown before – highlights this well. It shows the trailing price/earnings multiple of the 75 fastest growing large-cap companies and compares it to the others in a universe of 750 companies over almost 70 years. The current premium awarded to the big growers is in line with levels seen in 1999 and much higher than levels from the nifty fifty era in the 1970s.

Relative trailing P/E ratios (1952-2020)



Source: National Bureau of Economic Research (Empirical Research Partners Analysis); September 2020.

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Companies can grow into their valuations and be attractive investments from high starting multiples. Simply looking at near-term valuation metrics such as headline price/earnings is not good enough to fully understand the value that can be on offer. For instance, there are some businesses that are rightly investing heavily and thereby supressing near-term earnings for the benefit of the long term. Amazon is a great example of this. For that reason, we look further ahead when assessing value, typically looking at a normalised free cashflow yield 3-5 years out.

We are cognisant that there are a few businesses for which the crisis has been transformative, where behaviour has changed and cemented demand for a product or service. There are a few more businesses where growth has been brought forward and there are many more stocks that have simply done very well primarily due to a rerating of their earnings, potential earnings or sales multiples with little or no change in long-term fundamentals. A stock going from 25x to 40x earnings or 7x to 15x sales will outperform dramatically. However, from this position, the risk/reward is less favourable.

Various reasons have been put forward to justify higher valuations. One popular reason is that a likely sustained backdrop of low interest rates, and hence discount rates, means that companies with more of their future cashflows further out in time are worth more than they would otherwise be. This argument gets a lot of airtime, but we think it does not explain much of the more recent extreme changes in valuation. Another reason is the extent of disruption in the corporate world. This is creating big winners and a vast array of losers. We have some sympathy with this view. A third possible reason is the relative scarcity of growth. There is therefore an unusually large premium placed on those companies exhibiting strong growth. Over time, though, as that growth inevitably slows, the premium will shrink.

"[Our] valuation discipline has been a headwind for the Fund's performance in recent times though, from such an extreme starting point, there are strong reasons to believe it will be a tailwind in the future."

It is not unreasonable to think there could be a change in the nature and distribution of growth across the market over the coming years and hence a change in the landscape of extreme valuations. We are not in the business of making macro predictions, as this is notoriously difficult to do well, but it is possible to imagine a broader set of companies benefitting from a return to normal social interaction and a recovery from a deep recession. In addition, as we alluded to in our Q2 update, there seems to be a greater chance of higher inflation in the future than we have seen in quite a while. We may also see that the strength of the dollar, which has been a headwind in recent years for many American businesses, has run its course. All in, the outlook is perhaps more complex than the valuations might lead you to believe.

We continue to look for great businesses, including those with faster growth, to add to the portfolio. However, they must fulfil our criteria of being attractively valued. This valuation discipline has been a headwind for the Fund's performance in recent times though, from such an extreme starting point, there are strong reasons to believe it will be a tailwind in the future.

Summary

It is encouraging to see companies held in the portfolio – as well as some that are not – acting responsibly towards their broader stakeholders, especially at a time like this. We think this marks a realisation of the long-term value in aligning interests across the board and focusing on more than just short-term profit metrics.

Despite the recovery and continued strength of the market, there is still a divergence between different businesses, with some benefitting in clear ways or simply proving to be quite resilient, while others are set to see a more elongated path to normality. This has driven already elevated valuation spreads in parts of the market to even wider levels. Strong stock outperformance can be self-fulfilling as investment flows follow past performance and as a fear of missing out overpowers the underlying fundamentals. We wonder if 'high growth at any price' strategies could be like income investing was several years ago in some parts of the world and investing in commodities and emerging markets was a decade ago.

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We believe there are multiple characteristics of the portfolio that position it well from here. The heart of the portfolio comprises a set of resilient businesses with the ability to compound free cashflow per share consistently, even at times like this. The portfolio also has a cohort of stocks that are on a more gradual path to recovery, but which offer a lot of upside in realistic scenarios around a normalisation in social interaction. Finally, there is a cohort of faster growing but reasonably valued businesses we think will benefit from exceptional fundamental characteristics for a long period of time, many of which have seen their competitive positions enhanced by COVID-19.

At the core of our process is the simple idea that whatever we invest in should constitute good value for our investors' capital. We appraise value in a disciplined yet pragmatic way. For example, we think there are limitations to using near-term multiples as a proxy for what constitutes good value and instead look at where the business is under-earning and what it might look like in 3-5 years. Of late, market conditions have not rewarded our valuation discipline. However, we think this discipline is as important as ever, perhaps more so given the extremes we have highlighted. Rather than a headwind, we expect this valuation discipline to be a tailwind in the future.

Polar Capital North American Team

14 October 2020

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Please note that the prospectus of Polar Capital Funds plc and the supplement in relation to the Fund are only available in English.

The European Directive on collective investment schemes n° 2009/65/EC dated 13 July 2009 (UCITS) established a set of common rules in order to permit the cross-border marketing of collective investment schemes complying with the directive. This common foundation did not prohibit different methods of implementation. This is why a European collective investment scheme may be marketed in France even though the activity of such scheme would not respect rules identical to those which are required for the approval of this type of product in France. The Fund received an authorisation for marketing in France from the Autorité des Marchés Financiers on 14 January 2014.

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Holdings: Portfolio data is "as at" the date indicated and should not be relied upon as a complete or current listing of the holdings (or top holdings) of the Fund. The holdings may represent only a small percentage of the aggregate portfolio holdings, are subject to change without notice, and may not represent current or future portfolio composition. Information on particular holdings may be withheld if it is in the Fund's best interest to do so. It should not be assumed that recommendations made in future will be profitable or will equal performance of the securities in this document. A list of all recommendations made within the lesser of the fund inception or the immediately preceding 12 months is available upon request. This document is not a recommendation to purchase or sell any particular security. It is designed to provide updated information to professional investors to enable them to monitor the Fund.

Benchmarks: The following benchmark index is used: MSCI North American Index Net TR. This benchmark is generally considered to be representative of the US Equity universe. This benchmark is a broad-based index which is used for comparative/illustrative purposes only and has been selected as it is well known and is easily recognizable by investors. Please refer to www.mscibarra.com for further information on this index. Comparisons to benchmarks have limitations as benchmarks' volatility and other material characteristics that may differ from the Fund. Security holdings, industry weightings and asset allocation made for the Fund may differ significantly from the benchmark. Accordingly, investment results and volatility of the Fund may differ from those of the benchmark. The indices noted in this document are unmanaged, unavailable for direct investment, and are not subject to management fees, transaction costs or other types of expenses that the Fund may incur. The performance of the indices reflects reinvestment of dividends and, where applicable, capital gain distributions. Therefore, investors should carefully consider these limitations and differences when evaluating the comparative benchmark data performance. Information regarding indices is included merely to show general trends in the periods indicated and is not intended to imply that the Fund was similar to the indices in composition or risk.

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