Andrew Holliman
Fund Manager
Andrew joined Polar Capital in August 2011 to establish the North American Equities team.

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Fund Manager
Richard joined Polar Capital in August 2011 to establish the North American Equities team.

North American Q2 Update

Performance

The Fund returned 6.3% for the second quarter and 16.5% for the first six months of the year. This compares with a return of 8.8% and 14.9% respectively for the performance benchmark (MSCI North America with net dividends reinvested).

The portfolio benefitted from notable strong performance during the first half of the year from Affiliated Managers Group (holding company of boutique fund managers), Mohawk Industries (flooring manufacturer), Canadian Natural Resources (oil producer), United Rentals (industrial and speciality equipment rental) and Applied Materials (semiconductor equipment manufacturer). For the most part, these businesses started the year on low multiples of prospective cash flows that were in themselves somewhat depressed. We continue to see compelling value in these companies despite the recent appreciation of their share prices. For instance, Affiliated Managers Group trades at little over 8x next year's free cash flow, United Rentals at around 12x our estimate of next year's free cash flow, while Canadian Natural Resources trades at less than 5x free cash flow assuming the current oil price holds. Such multiples are not only very appealing in an absolute sense given their prospects but are also far lower than the corresponding multiples of their global peers.

The two advertising behemoths, Alphabet and Facebook, were also strong performers as they continued to demonstrate an ability to grow at a high rate in spite of their size. Even with this share price appreciation, they remain attractively valued, trading at a multiple of forward cash flow in the low 20s excluding cash. We continue to believe we are getting a lot of good things in these businesses without having to pay up for them in the stock price. These include their competitive strength and pricing power, above average growth potential from their core businesses, latent growth potential from under-monetized businesses and financial strength.

In the second quarter, the portfolio gave back some of its strong relative performance. The portfolio's exposure to a cluster of travel-related stocks including Booking.com (online hotel booking site), Uber Technologies (online ride hailing) and Sabre (software for the travel industry) was partly responsible given the stalling of the recovery in the travel industry more recently. More broadly, weak performers over both the second quarter and the first half included Cannae Holdings (investment vehicle), Fiserv (software and processing for banks and payments) and LiveRamp Holdings (online advertising platform). Cannae Holdings underperformed as its underlying quoted investments lagged the broader index and as its discount to NAV widened. Fiserv has lagged on no obvious fundamental news although there is some concern regarding competition heating up in payments. LiveRamp Holdings underperformed due to ongoing uncertainty around changes in the online advertising ecosystem as well as the resignation of the well-regarded head of products and platforms. Finally, although cash is a relatively small part of the portfolio, the strength of the market meant it created an opportunity cost and a drag to relative performance.

Awards & ratings

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Operating leverage and productivity

Operating leverage has been a notable feature across our universe and in the portfolio recently as the economy and corporate profits recover from a period of economic shock. We do not often comment on aggregate quarterly earnings growth as we are bottom-up, longer-term investors. However, we felt that the first quarter results season was worth highlighting given the extent of operating leverage and the impact this has had on expectations for market profits. On March 31, Q1 2021 S&P 500 earnings were forecast to grow 20% over the same period last year. As it turned out, earnings grew c50% in the first quarter according to Bloomberg. Even more remarkable is that Q1 earnings came in >20% higher than in Q1 2019 compared to revenues which grew less than 10%, implying that many companies have emerged from the pandemic more efficient than they were prior to it.

Such strong earnings progression can, at least partially, help justify the performance of the equity market. Indeed, according to Credit Suisse, expectations for market earnings for 2021 have risen by 14% since the beginning of the year, roughly in line with the appreciation of the benchmark S&P index.

The rate of economic recovery and the associated operating leverage seen at many companies will of course inevitably slow down. However, we still see better and wider growth prospects for businesses, especially ones that were able to adapt and innovate during the downturn, than we have seen for the vast majority of the past decade. We remain optimistic about the prospects for the portfolio's value creation potential in the near, medium and long term.

"We see better and wider growth prospects for businesses, especially ones that were able to adapt and innovate during the downturn, than we have seen for the vast majority of the past decade."

The productivity that has contributed to this operating leverage has inevitably come with a tangible human cost given the number of people who lost their jobs. However, unlike previous downturns, successful businesses have been able to adapt faster than they ever have done and innovate to serve their stakeholders in ways that were unimaginable pre-pandemic. Companies with their eye on the long term during tough short-term periods are typically rewarded on the other side, coming out stronger. Our investment process naturally favours these types of business. Doing the right thing for customers, employees and communities is more often rewarding for shareholders in the long run than not.

One example in the portfolio is US Food Holding, a food distributor to restaurants and catering facilities. Although the crisis has unsurprisingly been very tough on US Food Holding, their previous and ongoing investments in technology and a customer-centric culture have been a big asset for their restaurant customers. Examples of how they have helped their clients recently include a best-in-class digital ordering platform, helping customers adapt menus and build offsite ghost kitchens for takeaways, providing webinars to help customers apply for loans, suggesting more innovative private label alternatives geared to provide input cost and time savings in the kitchen, and offering a platform that is well placed to adapt to logistical challenges. Although small and regional competitors have survived the downturn, US Food Holding has been a relative beneficiary, gaining meaningful market share as a result of these actions. We expect such market share gains to be sticky and indeed increase further given the relationships cemented during the downturn as well as the company's ability to deal with supply shortages in the recovery. As a result, when demand recovers to 2019 levels, we expect the company's cash flow generation to be far higher than in 2019.

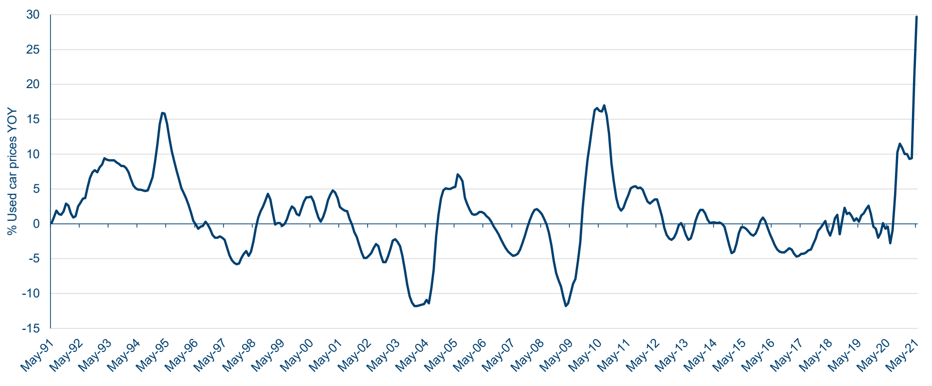
Inflation

We highlighted a change in the outlook for inflation in our Q2 2020 investor update. This observation was driven by the recognition of the sheer force of monetary and fiscal policy in response to the pandemic and, perhaps more importantly, an apparent mind set change at the Federal Reserve and other central banks towards a tolerance of higher inflation. Unlike the global financial crisis, when money creation was largely used to support bank balance sheets, the recent surge in money creation has gone more directly into the real economy. All other things being equal, more money chasing a finite set of goods, services and assets means that the price of those goods, services and assets goes up.

"Given the recovery in the economy (in large part, because of the monetary and fiscal response), it is difficult to think of any period in recent economic history where current and intended monetary and fiscal policy looks so out of step with economic reality"

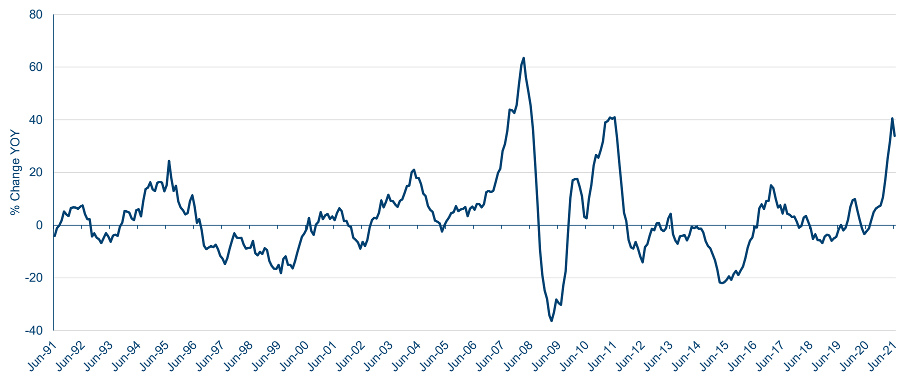
In addition, the pandemic itself has caused imbalances in the economy, with demand for some products far exceeding the norms and many industries suffering with supply chain problems. The combination of the pandemic and policy has resulted in meaningful inflation in many areas including semiconductors, industrial commodities, food, used cars and assets, including houses.

US CPI – Consumer Used Vehicle Price Index (y/y change, non-seasonally adjusted)



Source: Bloomberg, 31 May 2021.

UN Food and Agriculture Price Index (y/y change, non-seasonally adjusted)



Source: Bloomberg, 31 June 2021.

There are some parts of the economy, such as housing and certain commodities, where a lack of investment could result in more prolonged shortages. Should this be accompanied by greater pressure on wages, more sustained inflationary pressures could arise. This is hard to predict but the shift in mindset on fiscal and monetary policy, as mentioned above, could have lasting effects. Also, given the recovery in the economy (in large part, because of the monetary and fiscal response), it is difficult to think of any period in recent economic history where current and intended monetary and fiscal policy looks so out of step with economic reality.

On the other hand, there are credible arguments as to why the recent spike in inflation is transitory. Even if central banks remain supportive, the extent of monetary stimulus was largely a one-off in reaction to a huge economic shock. In many industries, demand will normalise, and supply will increase to address needs. Indeed, we could see prices of some goods which are extended now reverse next year. In addition, we see ongoing technology-driven deflation. This is a constant factor, and is present even in periods of, or in countries with, high inflation. This deflation will likely hit meaningful areas of consumer expenditure such as energy and transport over the next decade. Deflationary forces could also emerge more directly from the COVID-19 crisis. For example, commuting costs will likely decline for many employees, and companies might see deflation in workforce costs given the realisation that more work than previously envisaged can be done from anywhere in the world.

In short, the inflation picture is not straightforward. While extreme and bold predictions in such situations often garner better headlines, they rarely reflect the inherent complexities involved or a proper understanding of probabilities. For what it is worth, we see a greater chance than we have seen in a long time of a sustained level of higher inflation. However, we would not go as far to say it is a probable event.

Rather than make a bet on inflation in aggregate, we think it makes more sense to understand inflationary or deflationary forces at an industry or company level as part of our analysis. This is the best way to assess whether companies prosper or suffer, in our view, given inflation and deflation are not necessarily homogeneous phenomena. In general, we look to invest in businesses that can prosper in disinflationary and/or low inflationary environments as well as inflationary ones.

Assessing pricing power is part of this and, indeed, companies that have more control over their pricing are likely better positioned in both inflationary and disinflationary periods. As a result, such businesses are often widely coveted and pricing power can often be reflected in their market valuations. The portfolio has many businesses that have pricing power and are trading at reasonable valuations including obvious examples such as Microsoft and Facebook and less obvious ones such as SS&C Technologies Holdings (a software provider and processer for financial businesses), Ametek (an industrial business with strong positions in niche areas) and Grupo Cementos de Chihuahua (GCC, a cement producer).

However, an ability to set and increase prices is not the only thing to consider. An ability to control costs and be a cost leader provides advantages during both low and high inflation environments. In low inflation environments, this may result in gaining market share by driving prices down. When there is higher inflation, the ability to raise prices less than competitors results in greater relative value for the customer. Amazon is an obvious example of such a business in the portfolio and T-Mobile US, the lowest cost wireless provider, is another.

“Rather than make a bet on inflation in aggregate, we think it makes more sense to understand inflationary or deflationary forces at an industry or company level as part of our analysis”

The portfolio also has a number of ‘royalty-like’ businesses. These are capital-light companies that take a clip out of the nominal growth of an industry. When there is inflation in such industries they can typically grow at a higher rate without much incremental investment. Examples in the portfolio include S&P Global (royalty on the nominal bond and equity markets), Affiliated Managers Group (royalty on global nominal equity returns), eBay (royalty on used and new consumer products), Booking.com (royalty on hotels rates) and Anthem (royalty on healthcare costs).

In the current environment, we also feel that stocks which are priced as if conditions of the past decade will sustain but which have optionality towards a much more profitable or higher growth reflationary environment are also potentially attractive. In the portfolio, these include Wells Fargo, which has had to adapt to low interest margins but could potentially benefit from expanding margins at some point, and Canadian Natural Resources (oil producer) which has built a portfolio that can withstand and generate cash in periods of low oil prices, but which has significant positive operating leverage as prices rise.

Our long-term mindset and valuation discipline help us avoid paying peak multiples on peak profits for some businesses that could be benefitting from temporary inflation issues such as short-term supply shortages or above normalised short-term demand. Our valuation discipline also provides a margin of safety should it be the case that there is a normalisation of valuations in some areas of the market that may have benefited disproportionately from an era of disinflation and historically low discount rates[1].

1. Related to this, we noted interesting analysis from Empirical Research Partners which shows that stocks that typically outperform when bond yields go down account for a historically high share of market cap and are trading at a record 50% premium on P/E. At the same time, stocks that typically outperform when bond yields go up are trading at 30% P/E discount, which is close to a record.

Overall, and perhaps most importantly, we only look to invest in equities if the underlying business can achieve at least 10% compounding through operational growth and deployment of excess capital in a largely low inflationary environment. Should there be a period of higher general inflation, we believe the portfolio would deliver higher nominal compounding, therefore providing a hedge against inflation.

Portfolio activity

Portfolio activity has normalised somewhat compared to last year when the market dislocation provided greater competition for capital than is typically the case.

There were five new investments for the portfolio during the first six months of the year: Wells Fargo, Shift Technologies, Zuora, Cannae Holdings and Grupo Cementos de Chihuahua (GCC). We go into depth on three of these names below. These businesses illustrate an eclectic range of idiosyncratic opportunities that fit our value creation and value criteria, partly encapsulating one of the key attractions of the investment universe we operate in: the breadth of opportunity. This opportunity comes across a wide variety of the market-cap spectrum, something we are well positioned to take advantage of given our multi-cap approach. For instance, the below purchases vary in market value from less than $1bn for Shift Technologies to nearly $200bn for Wells Fargo.

"Should there be a period of higher general inflation, we believe [our] portfolio would deliver higher nominal compounding, therefore providing a hedge against inflation."

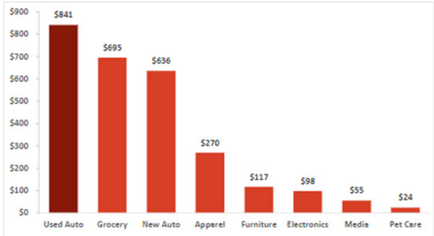
Wells Fargo is one of the largest banking franchises in the United States. Despite its self-inflicted issues in recent years, Wells still has a strong deposit and loan franchise that should enable it to grow as the economy grows at a reasonable nominal rate. The removal of a regulatory limit on the amount of assets the bank can carry on its balance sheet would also free it to take advantage of the heightened loan demand we see as the economic recovery gathers pace. Longer term, we expect the operational growth from a recovered level of profitability to be relatively low for the entire large-cap bank peer group. However, Wells is one of the most over-capitalised banks among its peers, and we expect most of its long-term value creation to come from capital return as this excess capital is returned to shareholders via buyback and dividends.

We think the company is at the bottom of many different cycles with recovery potential from an operational turnaround, an easing regulatory burden and lower credit costs, as well as the potential for higher earnings from the spread it makes on its deposits and loans should interest rates increase. We purchased the stock at a mid-single-digit multiple of the earnings we believe the company can achieve in a more normalised, recovered environment. We expect that, when it reaches that level, most of the profits will be distributed to shareholders via buybacks and dividends, thereby offering attractive long-term business value creation even if operational growth is moderate. The purchase price was also equivalent to the company's tangible book value per share.

Shift Technologies is an owner-operated online used car retailer headquartered in San Francisco, with operations predominately in the western half of the US. The purchase of cars has lagged other areas of commerce in migrating online – only 1% of total used car industry sales in 2020 were fully online. This is despite the very unappealing offline alternative of visiting a number of used car yards and haggling over price. The net promoter scores[2] of Shift and its online peers are vastly superior to offline alternatives and we believe the industry has, partially driven by COVID-19, reached a tipping point in online sales.

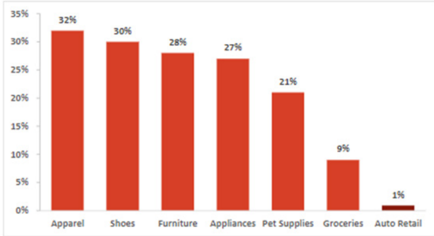
2. The Net Promoter Score is a commonly used index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand.

SFT operates in one of the largest consumer categories with $840B+ of sales…



Source: US census; Well Fargo Securities

But auto retail remains among the lowest consumer categories in online penetration (~1%)



Source: US census; Well Fargo Securities

"Demand is growing, driven by infrastructure spending and a resurgence of new home building following a decade of under-building in the US"

The business has a huge opportunity for growth in a vast, but fragmented, market in which small used car retailers still make up the bulk of sales. Indeed, even if Shift Technologies just replicates its current 4% market share in San Francisco (a market where they continue to rapidly grow market share) in the other markets it has entered, it has an opportunity to grow its units 10-fold from this year's expected levels. On top of this, there are opportunities for the company to drive higher eventual penetration levels, enter new markets, offer financing and other services and provide a third-party selling platform to selected offline merchants.

The company is currently generating negative free cash flow as it invests in growth from a nascent position. Given this, a focus on execution, managing its growth opportunity and avoiding over-reaching are, in our view, the biggest challenges for the management team. However, we have been impressed by the CEO who has taken a considered and customer-centric approach to growth. The current valuation at less than 1x enterprise value to the next 12-months' sales (and around a teens' multiple of cash flow assuming mature margins) provides significant skewed upside potential, in our view. This made it worthy of a small position in the Fund.

Grupo Cementos de Chihuahua (GCC) is a Mexico-headquartered cement business. Cement is a relatively localised business as it can be expensive to transport. GCC has strong positions in its US markets (>75% of profits), which are served primarily from plants located far from the coast in western US states, insulating the company from seaborne imports due to transportation costs. It also has a monopoly position in its native Chihuahua from which it also exports a portion of its volumes to the US. The business is family owned and managed with a very long-term time horizon.

We think the company is well placed to benefit from what could be a particularly strong and elongated pricing cycle, on top of the underlying long-term price increases the industry has enjoyed. Capacity utilisation across its plants is very high. At the same time, demand is growing, driven by infrastructure spending and a resurgence of new home building following a decade of under-building in the US. Meanwhile, industry new supply is limited given regulatory and environmental hurdles. We think the combination of higher demand, positive operating leverage and free cash flow generation (from a 7-8% forward free cash flow to enterprise value yield) can drive attractive business compounding for some time.

The cement industry is a significant carbon emitter and indeed the prospects of increased carbon regulation and the need for the industry to reduce emissions have been important parts of our research. Over the next 10 years, significant emission reductions will come about relatively inexpensively from the use of alternative fuels in the manufacturing process along with a lower clinker content, a key ingredient of cement. Thereafter, the route towards net zero will be driven by carbon capture, a more costly solution.

GCC is a good example of where a holistic approach to understanding ESG issues is required. For example, while we are reassured that the company has a credible path to reduce emissions, we are also reassured it has wherewithal to do so. For instance, the company has a pristine balance sheet which enables it to invest when necessary, unlike many peers. In addition, the company's dominant position in markets which are difficult for imports to reach means the company is well positioned to pass on any added costs to customers when they eventually arise. Finally, cement is only 3% of the cost of any construction project which also makes it easier for customers to deal with higher costs from the industry.

We would not invest in the business if management did not take their ESG goals seriously or were not positioned to pursue their goals. We would not fund or support the construction of a new cement plant given the environmental issues. Indeed, one of the appeals of the industry is that, we believe, no one else will either and this means supply growth will be limited.

Overall, we believe sound engagement policy can add more value to the world than simplistic exclusion policies driven by greenwashing in the pursuit of asset gathering. Although GCC has articulated a very serious long-term decarbonisation strategy we look forward to engaging with them and providing encouragement as they pursue their long-term carbon zero goals.

We have been as busy as ever reviewing new opportunities for the Fund and have increased our bench of potential investments on our 'Followed' List. Often, we meet with, review and/or discuss businesses whose prospects we admire. For valuation reasons they might not be attractive investment candidates at the time of analysis, but we will be ready to invest if there is one in the future. This was the case with Zuora, for example, who we first met three years ago to learn about but could not get our head around the valuation at the time. We continued to follow the business and a different investment opportunity presented itself recently with, in our view, a much more favourable risk/reward.

Two of the Fund's more notable complete sales from the past six months are:

"Overall, we believe sound engagement policy can add more value to the world than simplistic exclusion policies driven by greenwashing in the pursuit of asset gathering."

Accenture was originally purchased in 2014 and has been a very successful investment as the business compounded at an attractive rate through a combination of high single-digit top-line growth, some slight margin expansion and capital return. The returns from the compounding of the business have been further supplemented by valuation appreciation from under 17x enterprise value to forward free cash flow to c35x. This is an example of the situation where a higher valuation can itself impact value creation for shareholders when capital return is a significant driver of returns. At purchase, the company's valuation meant that 4-5% of the equity was being returned to shareholders every year via the dividend and buybacks. Partly driven by the valuation appreciation, capital return has dropped to just over 1% currently. We continue to like the operational prospects for Accenture and will continue to follow it. However, on balance, the appeal has reduced given a higher reliance on operational growth to achieve our value creation hurdle and a much higher valuation which leaves less room for error.

IAC/ InterActiveCorp, by contrast, was only purchased last year yet it was one of the Fund's most successful investments of the past 12 months. InterActiveCorp develops and runs internet businesses. It has been active since the 1980s under the stewardship of the highly regarded capital allocator Barry Diller. The company has owned and developed such businesses as Expedia, Trip Advisor, Live Nation, Ticketmaster, Lending Tree and Match Group (owner of Tinder). We bought the shares when the company spun out Match Group because the market was valuing what was left at less than half what we felt it was worth.

The biggest part of what was left was the majority stake in Angi Homeservices, the home services matching business. We had actually bought Angi for the Fund in the early stages of the pandemic after following the company, as well as InterActiveCorp, for more than five years. We decided to switch into InterActiveCorp as we viewed it as a cheap way to own Angi given we benefitted from the closing of the discount to the sum of its parts, while also being exposed to any additional value creating activities the management team engaged in. That discount closed quickly, and the company also benefited from one of its smaller businesses, Vimeo, becoming one of its largest, at least in terms of the perceived market value. So, while we continue to like the way the company operates and the potential for future value creation, we sold the position after the outsized opportunity disappeared and as the profile of the underlying assets was changing.

We found it interesting that MSCI rates Interactive Corp as CCC in its ESG scoring. It is viewed by some in the industry that the governance structure is a negative, that allows Diller and his family to control 43% of the voting power. We think his influence is a positive and one of the main reasons the company is as successful as it is. Many of the other negatives that feed into the low score pertain specifically to Match Group, which was entirely spun out over a year ago, and should therefore have no bearing on today's rating. We think an asset-light business with an enviable track record of developing and growing businesses that add value to the world should be embraced, rather than avoided, by investors with a long-term view on ESG and sustainable value creation. This, we hope, illustrates why we put more value on judgement and pragmatism than third-party scores in our approach to ESG.

Conclusion

We are pleased with the operational progress of the portfolio's holdings so far this year. While a variety of different factors drove their operational performance, one common factor for the market overall is the sheer extent of the operating leverage, as profit growth has far outstripped revenue growth, even when comparing against the pre-pandemic period. The pace of recovery and operating leverage will slow but the outlook for value creation for the portfolio remains appealing to us in the short, medium and long term.

The operating leverage naturally implies productivity has been boosted. How a firm responds to such a change in circumstances tells you a lot about its future fortunes – investing in activities that help create value in a more sustainable way for a broader set of stakeholders trumps pocketing short-term gains in our book. We, by design, favour companies who stay focused on the long term even when there is upheaval in the short term.

The question of long term versus short term is also relevant when thinking about the outlook for inflation. A variety of factors have caused a recent spike in reported inflation figures, but it is not clear whether this is just a blip or the start of a sustained period of higher inflation. There are good arguments on both sides, and we see the risk as higher than it has been in a while but by no means is it the most likely outcome. We analyse the impact inflation, and indeed deflation, have at a company level and aim to invest in businesses that can do well regardless of the specific path the economy takes. Businesses with pricing power, the ability to control costs or revenue derived from nominal economic activity in an industry as well as low incremental investment requirements are relatively better off.

"The pace of recovery and operating leverage will slow but the outlook for value creation for the portfolio remains appealing to us in the short, medium and long term."

Overall, we think the mix of businesses in the portfolio are well placed to create value in the long run and perform well in a wide range of economic conditions. We have been as busy as ever reviewing new opportunities for the Fund and have continued to increase the bench of potential investments on our 'Followed' list. We are fortunate to have such a broad investment universe and continue to find an eclectic mix of investment opportunities that fit our value creation and value criteria, which are both attractive in an absolute sense as well as versus global peers.

Polar Capital North American Team

12 July 2021

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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.

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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.

Regulatory Status: Polar Capital LLP is a limited liability partnership number OC314700. It is authorised and regulated by the UK Financial Conduct Authority ("FCA") and is registered as an investment adviser with the US Securities & Exchange Commission ("SEC"). A list of members is open to inspection at the registered office, 16 Palace Street, London, SW1E 5JD. FCA authorised and regulated Investment Managers are expected to write to investors in funds they manage with details of any side letters they have entered into. The FCA considers a side letter to be an arrangement known to the investment manager which can reasonably be expected to provide one investor with more materially favourable rights, than those afforded to other investors. These rights may, for example, include enhanced redemption rights, capacity commitments or the provision of portfolio transparency information which are not generally available. The Fund and the Investment Manager are not aware of, or party to, any such arrangement whereby an investor has any preferential redemption rights. However, in exceptional circumstances, such as where an investor seeds a new fund or expresses a wish to invest in the Fund over time, certain investors have been or may be provided with portfolio transparency information and/or capacity commitments which are not generally available. Investors who have any questions concerning side letters or related arrangements should contact the Polar Capital Desk at the Administrator on (+353) 1 434 5007. The Fund is prepared to instruct the custodian of the Fund, upon request, to make available to investors portfolio custody position balance reports monthly in arrears.

Information Subject to Change: The information contained herein is subject to change, without notice, at the discretion of Polar Capital and Polar Capital does not undertake to revise or update this information in any way.

Forecasts: References to future returns are not promises or estimates of actual returns Polar Capital may achieve. Forecasts contained herein are for illustrative purposes only and does not constitute advice or a recommendation. Forecasts are based upon subjective estimates and assumptions about circumstances and events that have not and may not take place.

Performance/Investment Process/Risk: Performance is shown net of fees and expenses and includes the reinvestment of dividends and capital gain distributions. Factors affecting fund performance may include changes in market conditions (including currency risk) and interest rates and in response to other economic, political, or financial developments. The Fund's investment policy allows for it to enter into derivatives contracts. Leverage may be generated through the use of such financial instruments and investors must be aware that the use of derivatives may expose the Fund to greater risks, including, but not limited to, unanticipated market developments and risks of illiquidity, and is not suitable for all investors. Those in possession of this document must read the Fund's Prospectus for further information on the use of derivatives. Past performance is not a guide to or indicative of future results. Future returns are not guaranteed and a loss of principal may occur. Investments are not insured by the FDIC (or any other state or federal agency), or guaranteed by any bank, and may lose value. No investment process or strategy is free of risk and there is no guarantee that the investment process or strategy described herein will be profitable.

Allocations: The strategy allocation percentages set forth in this document are estimates and actual percentages may vary from time-to-time. The types of investments presented herein will not always have the same comparable risks and returns. Please see the private placement memorandum for a description of the investment allocations as well as the risks associated therewith. Please note that the Fund may elect to invest assets in different investment sectors from those depicted herein, which may entail additional and/or different risks. Performance of the Fund is dependent on the Investment Manager's ability to identify and access appropriate investments, and balance assets to maximize return to the Fund while minimizing its risk. The actual investments in the Fund may or may not be the same or in the same proportion as those shown herein.

Country Specific disclaimers: In the United States the Fund shall only be available to or for the account of U.S. persons (as defined in Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act")) who are "qualified purchasers" (as defined in the United States Investment Company Act of 1940, as amended (the "Company Act")) and "accredited investors" (as defined in Rule 501(a) under the Securities Act). The Fund is not, and will not be, registered under the Securities Act or the securities laws of any of the states of the United States and interests therein may not be offered, sold or delivered directly or indirectly into the United States, or to or for the account or benefit of any US person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of such securities laws. The securities will be subject to restrictions on transferability and resale. The Fund will not be registered under the Company Act.

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