Value Investor INSIGHT
The Leading Authority on Value Investing
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Investor Insight: Rezo Kanovich

Rezo Kanovich of Artisan Partners describes the serendipitous nature of his thematic investment research, the types of company journeys that can create significant shareholder value, how his personal background influences the management of his portfolio, and what he thinks the market is missing in Jet2, Kinaxis, Swedish Orphan Biovitrum and Aixtron.

Rezo Kanovich
Artisan Partners

You say your investment approach "marries long-term thematic investing with bottom-up security selection." Describe the key elements of how you do that and why.

Rezo Kanovich: The underlying observation is that while there are always plenty of things to worry about, progress tends to march on. I've seen a fair share of turmoil and disruption in my 48 years, but I've also seen a spectacular amount of innovation and growth and wealth creation. As an investor I want to position myself on the right side of that innovation and growth. I think the best way to do that is to identify quality businesses that can deliver high returns on capital and that also can benefit from structural growth themes, increasing the likelihood that they compound value over long periods of time. We're far more concerned with identifying companies that can eventually grow several-fold rather than obsess over the false precision of a short-term point earnings estimate.

It's important to me that the structural themes we identify come from our bottom-up research and not just from jumping on whatever thematic bandwagon or mania is fashionable in the market at any given time. One of our themes today, for example, we call Next-Gen Auto. The basic idea is that the automobile is undergoing a fundamental re-architecture where it is becoming electrified, connected and, eventually, autonomous. We could have come to that just from top-down observation, but we don't think that's enough to help us identify actionable, truly differentiated ideas.

In the case of this automotive theme, the first step in the process a few years ago was coming across a Japanese company called Rohm [Tokyo: 6963]. We liked the analog semiconductor business – having followed companies like Analog Devices, Maxim Integrated and Linear Technology – and appreciated how those companies had shifted to much more capital-light models, with high customer intimacy, nice margins and high returns on capital. We were basically trying to find something similar in Japan and started looking more closely at Rohm.

The company had once risen to prominence on the back of Sony's success in consumer electronics, but when Sony ceded ground in that area Rohm wasn't able to diversify and internationalize to fully compensate. We wanted to see if the potential was still there for it to do so, which we thought might be a journey in an attractive underlying industry that was worth investing in.

As part of that process we spent time with their R&D people, who talked a lot about how the demands on semiconductors were evolving rapidly as their use in bigger and higher-powered applications – in things like compressors, locomotives and electric vehicles – took off. Next-generation semiconductor materials, able to operate at higher voltages and a broader range of temperatures, were going to be in increasing demand. In particular, Rohm was focusing on chips made at least partly of silicon carbide, a compound containing both silicon and carbide that is manufactured in an extremely complex process and that we think has an important role to play as the semiconductor and software content in cars and other higher-powered equipment rapidly increases.

That conversation with Rohm led us to look into compound semiconductors in general, how they were made and the extent of the growth opportunity they presented. As a result, among others we ended up investing in Rohm, in a somewhat similar U.S. company called Wolfspeed [WOLF], and in a German equipment supplier called Aixtron [Frankfurt: AIXA] that serves manufacturers of compound semiconductors. All of that is meant to illustrate how our thematic development is very organic and serendipitous.

Describe where the companies that typically attract your attention tend to be in their lifecycles.

RK: One important concept for us is the journey for a small company to become a

large company. It's not easy being a small company. It's harder to attract talent. It's hard not to become a slave in somebody else's value chain. It's hard to marshal the resources to continue innovating. That's why most small businesses tend to stay that way. We're looking for those with the underlying structural growth potential, tangible competitive advantages and, very importantly, the management to go from small to big. The earlier we can be involved as that transformation is taking shape, the better the investment result if we're right about the outcomes.

When we first a few years ago came across a company called CAE [CAE], it seemed on the surface like a not very attractive business manufacturing flight simulators. It was somewhat interesting that not many people did it – and that the main competitor was FlightSafety International, owned by Berkshire Hathaway – so we decided to study it a bit more. As we did so we learned that the company was emerging from a meaningful investment cycle in which they were shifting the business model away from just selling flight simulators on a one-off basis to one where they were building out a network of company-owned centers to provide flight training and educational services on an ongoing basis to airlines and other customers. This was significantly changing the business model in what we considered to be a positive way.

The benefits of that were just starting to be realized when Covid arrived and decimated the commercial-aviation industry. CAE played offense in the downturn, pitching to what were then distressed airline customers the advantages of outsourcing such an important expense, and also acquiring a military flight training business from L3Harris to recreate the civil business model on the military side as well. All of this is characteristic of the type of company and journey we try to align ourselves with. We were able to expand our position in the aftermath of Covid.

Another good example of a transformative journey still underway is Nice Ltd. [NICE], a long-term holding that at the end of the first quarter was our biggest position. The company has evolved from a rather disorganized hardware-based conglomerate to a leading enterprise software-as-a-service [SaaS] company, a process with many stages requiring significant, highly disciplined strategic decisions along the way. That has included shedding less-profitable businesses while making value-enhancing acquisitions focused on the contact-center market. It's involved transitioning away from hardware to software. It's meant making heavy investments in R&D to develop significant opportunities in chatbot agents, robotic process automation, AI-enabled omnichannel analytics, financial-transaction compliance and in a variety of other areas.

ON MANAGEMENT:

Every big success I've had in investing is specifically traceable to individuals that we believed in and trusted.

I should emphasize the importance of people in choosing the journeys we want to participate in. Every big success I've had in investing is specifically traceable to individuals that we believed in and trusted, and every big mistake has been closely tied to our misplacing that belief and trust in leadership. One benefit of experience is learning better how to identify people who have the skill as well as the drive to take these companies where they can go. Track record is obviously important, but it's also key for us to understand less-quantifiable aspects such as how the CEO treats people and how he or she makes decisions.

When I was first attracted to Nice, I knew that was that the then-new CEO, Barak Eilam, was the right person to transform the company. He's one of the clearest thinkers you'll meet in your life. The journey necessarily can take a number of turns along the way and you have to be confident those in the driver's seat will take the right ones.

Rezo Kanovich

The Journey

In talking about his best investments, Rezo Kanovich often refers to following a company's journey as it evolves and grows and ideally creates a lot of shareholder value along the way.

Kanovich's own journey has been rather epic on its own. Born and raised in the one-time Soviet republic of Georgia, his high-school graduation coincided with the breakup of the Soviet Union and consequent civil war in Georgia. At 18 he left the country for Israel, working and studying there before joining his parents in 1995 after they emigrated to the U.S.

His resume then becomes more conventional for an investor, with economics and finance degrees from Brandeis University, a Wharton MBA, and experience as a healthcare consultant and investment banker. In 2005 he joined the global equity team at OppenheimerFunds and in 2018 brought the investment philosopy of the small-mid cap fund he was running there to Artisan Partners.

Do his life experiences influence how he invests? "There's no question my personal journey has influenced my perspective on risk," he says. "The desire for resilience in the companies we own is deeply embedded in our thinking."

As you put it in your fund's marketing materials, "Quality growth businesses are rarely available at interesting prices." Describe generally how the prices of such companies might become interesting.

RK: We have to be contrarian in thinking about opportunity and to have patience in building positions. Mismatches between stock prices and long-term business values can happen for a number of reasons, including more general market dislocations, management changes leading to important strategic shifts, temporary setbacks in businesses, or as is more common in our smaller-cap names, misunderstanding about what the company is or where it's going. We believe international small-cap investing in general is underpenetrated, which helps us in identifying before others interesting businesses that are early in their respective journeys and, we hope, in developing actionable, non-obvious insights about them.

In terms of market dislocation, a good example would be our investments in the ophthalmology industry in the midst of Covid. This generally is the type of business that interests us. There's a tremendous amount of innovation taking place, in microscopy, lenses, surgical automation and robotization. Companies in the industry bring tremendous value to their patients, resulting in excellent pricing power. Aging demographics are a tailwind. Intellectual-property protection is high, creating significant barriers to entry. We knew the industry well, having already invested in Carl Zeiss Meditec [Frankfurt: AFX], which was transforming itself from a tiny maker of microscopes in Germany to one of the largest surgical ophthalmology companies in the world.

Then comes Covid and the stocks of these companies fall sharply as people stop going to the doctor and medical-procedure volumes fall significantly. This wasn't true of all parts of healthcare, but we were comfortable in the view that both corrective and preventative eyecare appointments were more likely to be warehoused than lost, as consumers are not at all complacent when it comes to taking care of their vision.

So we had the opportunity to add a position in Alcon [Zurich: ALC], which manufactures surgical equipment and vision-care products to treat eye diseases and disorders. We bought shares in Glaukos [GKOS], a California-based competitor to Alcon focused on novel therapies for the treatment of glaucoma, corneal disorders and retinal diseases. As we continued working through the value chain, we also established a position in Staar Surgical [STAA], which has developed pioneering products in lens implants and devices for the treatment of glaucoma. The short-termism in the market in these cases gave us the opportunity to acquire attractive franchises – underpinned by five-year cash-flow projections – that we historically had found too expensive.

ON POSITION SIZES:

I've seen a lot of dislocation in my life, which is a reason I try to bring a lot of humility to the portfolio-management process.

The selloffs in markets last year similarly surfaced actionable ideas. We had owned shares in the past in a company called Spirax-Sarco Engineering [London: SPX], a high-quality business selling equipment for industrial heating processes. At first that might bring to mind low-margin metal bashing, but they actually make very educated consultative sales, the business isn't overly cyclical, and they have developed the type of real customer intimacy that tends to lead to good margins and good returns.

We had been out of the stock for some time but got interested again last year as the shares became far less richly valued. That was even more true for dollar-based investors, as the shares trade in London and the British pound was also down significantly against the dollar. Another aspect that interested us was that management had developed another business using electric-thermal technology rather than steam for more precise and controllable industrial heating applications. That's not a big enough or profitable enough part of the business to command much notice yet, but we believe it can be. The combination of the share markdown and the transforming aspect of the business made the shares very attractive to us and we took a position in last year's fourth quarter. [*Note*: SPX shares, which fell nearly 50% in 2022 from their late-2021 high above £170, now trade at around £110.]

You run an international fund, but U.S. stocks currently make up more than 15% of the portfolio. What's behind that?

RK: Our U.S. stocks fall into one of three buckets. The first would be foreign companies that happen to be listed in the U.S., like Nice or cybersecurity firm CyberArk Software [CYBR], which is also based in Israel.

The second bucket would be U.S.-based companies that conduct a significant majority of their business overseas. Staar Surgical would be a good example. For much of its life so far its sales have primarily been in Asia – only last year did it get approval to sell certain of its implantable lenses in the U.S.

The final category would include companies that we uncover as we follow where our thematic research is taking us. We've already talked about some examples of that as well, including Glaukos in ophthalmology and Wolfspeed in next-generation semiconductors for electric vehicles. When we find companies that are capable of capitalizing on durable structural growth themes, we don't want to artificially exclude those that happen to be based in the United States.

You have about 125 positions, almost all of them less than 3% of the portfolio. Explain the basic rationale behind that.

RK: I started out as an investor working in a large-cap strategy where in order to differentiate yourself it was important to take relatively big swings in those infrequent cases where you thought you were getting a fat pitch. In the smaller-cap world I inhabit today, I find the opportunity set so rich that it makes much more sense to me, from a risk-management perspective and to build convexity on the upside into

the portfolio, to make a larger number of smaller bets.

I've seen a lot of dislocation in my life, which is a reason I try to bring a lot of humility to the portfolio-management process. We're not afraid to take positions in earlier-stage companies if we believe the return profile is sufficiently asymmetric, but we don't want any one holding or any one type of company to overly concentrate our risk. That generally means position sizes that don't go much above 3% and a fairly long tail of small positions that we think can ultimately grow enough to make a difference. In international small-cap we believe you can embrace diversification to manage risk and still be highly differentiated – we have always run the portfolio with an active share over 95%.

Describe the journey of holiday-travel company Jet2 [London: JET2] and why you're happy to be along for the ride.

RK: This is an interesting company built by Phillip Meeson, a former Royal Air Force pilot who 40 years ago bought an air-freight business and turned it into a vertically integrated British online travel agency with its own airplane fleet selling holiday travel packages. The business generates tremendous returns on capital, bolstered by the commissions it earns from hotels in sometimes remote destinations that are happy to see the arrival of planeloads of vacationing tourists. Unlike at its legacy competitors, all the marketing and sales are done online.

This is another company with a terrific balance sheet that during Covid took advantage of the dislocation in its industry, which included the bankruptcy filing of Thomas Cook, one of its top competitors. Consistent with a company culture obsessed with customer service, they didn't haggle over refunds for trips cancelled by the pandemic and gave all deposits back, no questions asked. Very much against the grain – and even our own arguments – they put in a big order for planes that were available on the cheap. They bought 40 landing slots at key airports, scarce and highly valuable assets that became available only because of the crisis. They also spent a lot of time with hotel partners to plan a joint recovery in their shared business, not in any way trying to take advantage of the partners' distress.

The result of all that was a meaningful increase in capacity, greater flexibility in putting together vacation packages, and a significant increase in earnings power. As travel demand has come back, Jet2 is now the country's largest tour operator with 30% of the market, up from the high single-digits pre-pandemic.

What do you think the market is missing in the stock, which is now trading at around £12?

RK: While there's been some recovery in pent-up travel demand, the economic situation in the U.K. and the perceived health of consumer spending have not been particularly positive for some time. As a result we don't believe the market recognizes the magnitude of the company's increased earnings power. The stock trades on estimated forward EPS at less than 9x.

Our valuation process generally involves looking out five years at what we believe a company can earn, making a

INVESTMENT SNAPSHOT

Jet2
(London: JET2)

Business: Leisure travel operator that packages and provides flight services for holiday vacations to destinations primarily in Europe, the Mediterranean and the Canary Islands.

Share Information
(@5/30/23, Exchange Rate: $1 = £0.81):

Price	**£12.02**
52-Week Range	£6.37 – £13.94
Dividend Yield	0.5%
Market Cap	£2.58 billion

Financials (TTM):

Revenue	£4.37 billion
Operating Profit Margin	8.3%
Net Profit Margin	4.7%

Valuation Metrics
(@5/30/23):

	JET2	S&P 500
P/E (TTM)	13.0	18.4
Forward P/E (Est.)	8.4	18.5

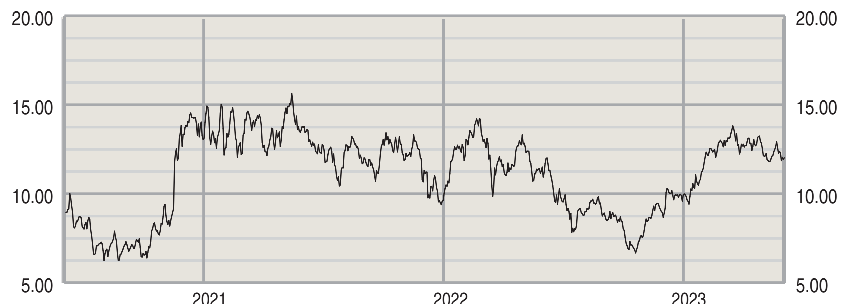
Largest Institutional Owners
(@3/31/23 or latest filing):

Company	% Owned
Artisan Partners	4.0%
Odey Asset Mgmt	3.9%
Jupiter Fund Mgmt	2.7%
Goldman Sachs	2.6%
Artemis Inv Mgmt	2.3%

Short Interest (as of 5/15/23):

Shares Short/Float	n/a

JET2 PRICE HISTORY



THE BOTTOM LINE

The company took advantage of the dislocation in its industry from Covid to significantly increase its capacity, its flexibility in putting together vacation packages, its competitive position and its earnings power, says Rezo Kanovich. At what he considers a reasonable multiple on his earnings estimate five years' out, he believes the stock can at least double.

Sources: Company reports, other publicly available information

conservative estimate of how it might be valued, and then being interested when we believe the stock can at least double from where it is today. Given Jet2's increased capacity to play offense, we believe that's very much the case here.

Describe why you're high on the investment prospects for software company Kinaxis [Toronto: KXS].

RK: We first started looking into Kinaxis when we heard executives at SAP, the big enterprise-software provider, mention it as a credible competitor. The company makes software for modeling and planning complex supply chains for corporate customers worldwide. At a time when the need for efficient and resilient global supply chains has become a regular board-level conversation, it has successfully accelerated its transition from on-premise systems to the cloud and meaningfully invested in its sales effort. That has driven double-digit growth in blue-chip customer wins over the past two years – many of which were competitor replacements – and as the digitalization of supply chains continues we believe their product offerings' relevance and their market share should only grow.

To give an example of the type of problem they try to solve, say there's a hurricane forecast in an area where Walmart or one of its large suppliers has a giant factory or distribution center. Answering what impact that might have and how to respond to it – say, by activating new supply, reconfiguring trucking routes or lengthening inventory cycles – is a difficult and data-intensive exercise. In this type of business your reputation tends to have a snowball effect, and in this case Kinaxis' platform is increasingly seen as a standard.

The company is run by a gentleman named John Sicard, with whom we've met many times and find to be a charismatic leader. He's a musician and has a drum set in his office. We've been quite impressed not only with the agility of the transformation he's led, but also the lack of complacency. As the company became a leader in simulation, he has also been investing heavily in R&D to create a next layer of software up the value chain focused on operational planning. That goes deeper into the customers' process, making the Kinaxis platform more valuable and more difficult to rip out.

The shares have gone relatively sideways over the past three years. How are you looking at upside from today's price of around C$184?

RK: SaaS revenues account for the bulk of the business and have been growing at a 30% annual rate, which we think can continue for some time. EBITDA margins, now in the mid-teens, should continue to increase and we expect to at least reach the mid-20% range. Assuming that normalized margin, the stock today on our estimates trades at just over 20x forward free cash flow.

As I described with Jet2, here as well we believe the probability of doubling our money on this investment over the next five years is high. And that's without including a lot of upside from the build-out of planning functionality.

You're typically overweight in healthcare. Why is Swedish Orphan Biovitrum [Stock-

INVESTMENT SNAPSHOT

Kinaxis
(Toronto: KXS)

Business: Global provider of cloud-based software for supply-chain applications such as supply and demand planning, inventory management and operational logistics.

Share Information
(@5/30/23, Exchange Rate: $1 = C$1.36):

Price	**C$183.75**
52-Week Range	C$119.48 – C$190.31
Dividend Yield	0.0%
Market Cap	C$5.20 billion

Financials (TTM):

Revenue	$369.9 million
Operating Profit Margin	2.9%
Net Profit Margin	2.4%

Valuation Metrics
(@5/30/23):

	KXS	S&P 500
P/E (TTM)	n/a	18.4
Forward P/E (Est.)	88.4	18.5

Largest Institutional Owners
(@3/31/23 or latest filing):

Company	% Owned
Pictet Asset Mgmt	4.4%
Fidelity Mgmt & Research	3.6%
Brown Capital Mgmt	3.5%
RBC Global Asset Mgmt	3.5%
Vanguard Group	3.4%

Short Interest (as of 5/15/23):

Shares Short/Float	n/a

THE BOTTOM LINE

The company's software is in a high-demand market and is increasingly seen as offering standard-setting performance and functionality, says Rezo Kanovich. As it continues to take share, build customer intimacy and naturally improve its profit margins, he believes "the probability of doubling our money on this investment over the next five years is high."

Sources: Company reports, other publicly available information

holm: SOBI] a good example of a pharmaceutical business you find interesting?

RK: The short answer is that we look for companies with already proven products, new products with large embedded optionality, and a robust development pipeline. Swedish Orphan Biovitrum is an excellent representative example.

This is a well-established company, with a product focus on treatments for rare diseases primarily in hematology, immunology and genetic and metabolic disorders. Annual revenues are over 19 billion Swedish kronor (about $1.75 billion) and operating margins are in the mid-20% range.

The most interesting part of the story here is two new products with regulatory approval that are at early stages in their rollout and we believe have considerable potential. The first is Synagis – licensed from AstraZeneca and that SOBI markets in the U.S. – for the treatment of respiratory syncytial virus, or RSV. This virus usually causes mild, cold-like symptoms, but can be serious particularly for infants and older adults. The first generation of the drug was typically given to acutely ill patients, but the latest generation is safe enough and cheap enough that it's expected to be entered in clinical-practice guidelines as a prophylactic treatment for all infants in developed markets. That clearly expands the total addressable market.

The second drug, branded Aprolix or Altuviiio depending on the market, treats hemophilia. Unlike current daily treatments to improve blood clotting, SOBI's drug allows weekly or even biweekly delivery, an innovation that enhances patient quality of life and has significant potential to take market share. Sanofi has licensed the U.S. rights to the drug and is putting considerable marketing effort behind it.

The company 18 months ago agreed to a private-equity buyout offer – at SEK 235 per share – that fell apart shortly thereafter. What happened there?

RK: We think that's still somewhat of an overhang on the stock. The deal essentially fell through because AstraZeneca, which held a material stake in SOBI, didn't go along with it out of concern that it would impact the two companies' partnership on Synagis and on other fronts. A failed acquisition is an important event, but there are different ways to think about it. If anything, we'd argue in this case AstraZeneca's response speaks more positively about SOBI than negatively.

How are you looking at valuation from today's nearly 222 kronor share price?

RK: This is the type of setup we often find attractive in companies like this. You're paying around 17x earnings for the existing slow-growth specialty-pharma business that is nicely profitable but has room to improve margins. We think that's about right for the existing earnings stream, which means you're paying little today for the new products and the development pipeline, which has a number of promising drugs, mostly related to hematology and immunology.

We've mapped out a range of scenarios for the new-product rollouts to treat RSV and hemophilia. Without being overly precise, making what we think are reasonable

INVESTMENT SNAPSHOT

Swedish Orphan Biovitrum
(Stockholm: SOBI)

Business: Based in Sweden, researches, develops, manufactures and sells pharmaceutical products mainly in the therapeutic areas of hematology and immunology.

Share Information
(@5/30/23, Exchange Rate: $1 = 10.87 kronor):

Price	**SEK 221.60**
52-Week Range	SEK 199.10 – SEK 273.80
Dividend Yield	0.0%
Market Cap	SEK 65.73 billion

Financials (TTM):

Revenue	SEK 19.10 billion
Operating Profit Margin	24.0%
Net Profit Margin	16.5%

Valuation Metrics
(@5/30/23):

	SOBI	S&P 500
P/E (TTM)	21.0	18.4
Forward P/E (Est.)	20.2	18.5

Largest Institutional Owners
(@3/31/23 or latest filing):

Company	% Owned
Morgan Stanley	8.2%
AP Fonden	6.9%
BNY Mellon Asset Mgmt	6.7%
Euroclear	3.9%
Swedbank Robur	2.4%

Short Interest (as of 5/15/23):

Shares Short/Float	n/a

SOBI PRICE HISTORY

300 250 200 150 100
2021 2022 2023

THE BOTTOM LINE

Rezo Kanovich believes in mapping out scenarios for the new-product rollouts of the company's treatments for respiratory syncytial virus (RSV) and hemophilia that the combined value of the two at least matches the current market cap, leaving the existing profitable pharma business with room to improve margins available essentially for free.

Sources: Company reports, other publicly available information

assumptions around the addressable markets, market shares, pricing and margins, we think the cash flows they can produce for SOBI make them realistically worth $3 to $4 billion each in value. For a roughly $6 billion market-cap company, we think that's quite interesting.

The company just announced the $1.7 billion acquisition of U.S.-based CTI BioPharma, which specializes in therapies for blood-related cancers. Have you formed an opinion on that yet?

RK: I wouldn't say we yet have a highly nuanced view on the acquisition of CTI, a business we know a bit from a previous investment in a competitor. Our early sense is that it makes sense directionally, improving SOBI's commercial footprint in North America, and given the financial strength of the company it doesn't raise any balance-sheet concerns. It will take some time to have a fuller opinion, but nothing we've seen so far would call into question management's rationale in making the deal.

You mentioned Aixtron earlier in describing the development of your Next-Gen Auto investment theme. Describe more specifically your case for it.

RK: Aixtron is a global market leader in making metal-organic chemical vapor deposition equipment needed to manufacture silicon carbide and other compound semiconductors. We came to it in researching silicon carbide, but there are a number of other compound semiconductors that also appear to have significant growth potential as the world digitizes and as semiconductors made just of silicon reach key limitations. Another example would be gallium-nitride semiconductors, which are well-suited for high-power applications and can operate in a broader range of temperatures. As the use cases for compound semiconductors expand, Aixtron as a leading supplier of equipment to make them should see significant growth.

This is the case because the company has transformed itself from an equipment supplier mainly to makers of liquid emitting diode (LED) lighting to one supplying chipmakers serving end markets such as silicon photonics, micro-displays, lasers and, of course, the aforementioned electric vehicles. Despite all the distractions of the pandemic, supply disruptions and geopolitical dislocation, they have continued to invest heavily in research and development to diversify the business in high-growth markets. It's a materially stronger and broader business than it was a just a few years ago.

How do you see that translating into good news for the shares, now trading at just over €29?

RK: The stock today trades at only about 22x our next year's estimate of free cash flow. That's for a company that over the next five years we believe can grow revenues at close to 15% annually and can earn operating margins even better than the current 20% level. If we're right and the stock then trades at a high-teens normalized free-cash-flow multiple, we would expect to comfortably meet our goal of a doubled share price over the next five years.

INVESTMENT SNAPSHOT

Aixtron
(Frankfurt: AIXA)

Business: Global seller of deposition equipment used to manufacture high-performance components for applications using compound or organic semiconductor materials.

Share Information
(@5/30/23, Exchange Rate: $1 = €0.93):

Price	**€29.14**
52-Week Range	€20.16 – €32.21
Dividend Yield	1.1%
Market Cap	€3.27 billion

Financials (TTM):

Revenue	€451.8 million
Operating Profit Margin	20.3%
Net Profit Margin	20.0%

Valuation Metrics
(@5/30/23):

	AIXA	S&P 500
P/E (TTM)	36.7	18.4
Forward P/E (Est.)	23.0	18.5

Largest Institutional Owners
(@3/31/23 or latest filing):

Company	% Owned
Invesco	9.9%
Norges Bank Inv Mgmt	5.2%
Baillie Gifford	4.9%
Bank of America	4.8%
Abrdn	3.5%

Short Interest (as of 5/15/23):

Shares Short/Float	n/a

AIXA PRICE HISTORY

35 30 25 20 15 10 5
2021 2022 2023

THE BOTTOM LINE

The company has broadened its business from just a few years ago, says Rezo Kanovich, including positioning itself to benefit from demand for next-generation semiconductors needed for electric vehicles. At a high-teens free-cash-flow multiple on his estimates five years' out, the shares would "comfortably" meet his goal of doubling from today's price.

Sources: Company reports, other publicly available information

Are there any investment themes-in-waiting bubbling up in your portfolio?

RK: We have been increasingly interested in the verticalization of software. Particularly in vertical markets that require specialized expertise and knowledge, there are companies going beyond just providing payments or accounting functionality to embedding themselves more deeply with the customer by offering things like inventory management and logistics capabilities, better system interoperability, and more integrated communication up and down the value chain. We don't own Toast [TOST] in the U.S., which does this for restaurants, but we do own a somewhat similar company based in Montreal called Lightspeed Commerce [LSPD], which is particularly active in Europe. We also have a position in Fortnox [Stockholm: FNOX], which is building out its capabilities from its base as an accounting software provider for small businesses. In general, this is a slice of the software business we continue to find interesting and continue to research.

How about cryptocurrencies as a theme?

RK: We are interested in the blockchain and related applications that might disrupt aspects, say, of the payments value chain. But crypto, never. I liken it to burned electricity and would argue it would be better if people just traded electricity. That would be of a lot more use to society. VII

Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by calling 800.344.1770. Read carefully before investing.

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Current and future portfolio holdings are subject to risk. The value of portfolio securities selected by the investment team may rise or fall in response to company, market, economic, political, regulatory or other news, at times greater than the market or benchmark index. A portfolio's environmental, social and governance ("ESG") considerations may limit the investment opportunities available and, as a result, the portfolio may forgo certain investment opportunities and underperform portfolios that do not consider ESG factors. International investments involve special risks, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging and less developed markets, including frontier markets. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid and may have underperformed securities of large companies during some periods. Growth securities may underperform other asset types during a given period.

The discussion of portfolio holdings does not constitute a recommendation of any individual security. These holdings comprise the following percentages of the Fund's total net assets as of 31 March 2023: Nice Ltd 4.5%, JET2 PLC 2.0%, Alcon Inc 1.8%, Swedish Orphan Biovitrum AB 1.8%, AIXTRON SE 1.8%, CAE Inc 1.7%, CyberArk Software Ltd 1.7%, Wolfspeed Inc 1.4%, Fortnox AB 1.4%, Glaukos Corp 1.3%, Rohm Co Ltd 1.3%, Spirax-Sarco Engineering PLC 1.1%, Kinaxis Inc 1.0%, Lightspeed Commerce Inc 0.9%, Carl Zeiss Meditec AG 0.5%, STAAR Surgical Co 0.3%. For the purpose of determining the portfolio's holdings, securities of the same issuer are aggregated to determine the weight in the portfolio. Securities mentioned but not listed here were not held as of the date of this report. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual securities.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is an indicator of a company's financial performance which is calculated by looking at earnings before the deduction of interest expenses, taxes, depreciation and amortization. **Forward Free Cash Flow Yield** is a measure of valuation calculated as the free cash flow per share that a company is expected to earn over the next twelve months divided by the market price per share. **Dividend Yield** is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. **Operating Profit Margin** is a ratio used to measure a company's pricing strategy and is a measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc. **Net Profit Margin** is the ratio of net profits to revenues for a company or business segment - typically expressed as a percentage – that shows how much of each dollar earned by the company is translated into profits. **Short Interest or Shares Short/Float** is the number of shares short divided by the float. Shares Short is the number of shares currently borrowed by investors for sale, but not yet returned to the owner. **Price-to-Earnings (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Forward Price-to-Earnings (P/E) Ratio** is a measure of the P/E ratio using forecasted earnings for the P/E calculation. The forecasted earnings used in the formula can either be for the next 12 months or for the next full-year fiscal period. **Active Share** is the percentage of a portfolio that differs from its benchmark. Active Share can range from 0% for an index fund to 100% for a portfolio with no overlap with an index. **Return on Capital (ROC)** is a measure of how effectively a company uses the money (borrowed or owned) invested in its operations.

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