# MERIDIAN CONTRARIAN FUND

March 31, 2023 Update

MERIDIAN FUNDS
MANAGED BY ARROWMARK PARTNERS

## MARKET SUMMARY

The first quarter offered a tale of two periods for the stock market. Early on, we saw inflationary pressures ease as the impact of the U.S. Federal Reserve's (the "Fed's") aggressive rate-hike campaign worked through the system. Continued macroeconomic strength, especially from the U.S. consumer, added layers of optimism and many of the stocks that had suffered considerably in 2022 recovered well during the first 5-6 weeks of the quarter. Notably, many unprofitable companies, specifically within the technology sector, benefited from investors' willingness to pursue longer-duration opportunities because they believed the Fed was close to halting the rate hikes and the macro landscape was going to stablize.

Markets subsequently flatlined until mid-March, when the collapse of two regional banks turned the enthusiasm into concern. As worries grew that unrealized losses on lower-yielding bonds could derail the banking system, riskier stocks slumped and demand for U.S. Treasury bonds jumped. The late period drop in interest rates contributed to significant outperformance by growth stocks relative to value stocks, according to the Russell family of indices. More broadly, large cap stocks led the market, followed by midcap and small cap stocks.

## FUND PERFORMANCE

The Meridian Contrarian Fund (the "Fund") returned 5.58% (net) for the quarter ending March 31, 2023, outperforming its benchmark, the Russell 2500 Index, which returned 3.39%. Additionally, the Fund outperformed its secondary benchmark, the Russell 2500 Value Index, which returned 1.40% during the period.

Our investment process seeks to identify out-of-favor companies that we believe have depressed valuations and visible catalysts for sustainable improvement. Experience has taught us that businesses with the potential for earnings growth and multiple expansion can be a powerful source of outperformance. As such, we employ a fundamental research-driven process that includes screening for companies that have multiple quarters of year-over-year earnings declines; exploring the reason for the declines; and singling out the companies we believe are poised for an earnings rebound via a cohesive turnaround plan, a new management team, or through improvements or changes to the business. The outcome of this process is a concentrated portfolio of 50-75 of our best ideas.

## TOP 10 HOLDINGS (% OF PORTFOLIO)

| **Holding[1]** *(subject to change)* | **Weighting** |
|---|---|
| CACI International, Inc. | 3.19% |
| First Citizens Bancshares, Inc. | 3.11% |
| VICI Properties, Inc. | 3.11% |
| Advanced Micro Devices, Inc. | 2.81% |
| Juniper Networks, Inc. | 2.67% |
| Cars.com, Inc. | 2.64% |
| Perrigo Co. | 2.61% |
| Molson Coors Beverage Co. | 2.52% |
| Alexander & Baldwin, Inc. | 2.35% |
| Cameco Corp. | 2.24% |

With a process that prioritizes the management of risk over the opportunity for return, we scrutinize the quality of each prospective investment's business model and its valuation. Our high standards for quality require that a company have a durable competitive advantage, improving return on invested capital, and free cash flow, as well as sustainable future earnings growth. While we manage the Fund from the bottom up based on individual company fundamentals, we augment this by monitoring overall portfolio characteristics as part of our risk-management process.

Two of our primary risk measures are beta-adjusted weight and downside capture, both of which we measure at the portfolio, sector, and individual company levels. We analyze the beta-adjusted weights of portfolio holdings against the Russell 2500 Index to determine how sensitive each holding is to movement in the broader market and identify where our risk exposure lies within the portfolio. Depending on the degree to which a stock correlates closely with market movement (high beta) or inversely to the market (low beta), we may increase or decrease our weighting to align with the Fund's risk parameters, as we prioritize risk before reward. Downside capture measures how much a stock will potentially decline, relative to an overall market decline, with lower capture representing lower risk. For both these measures, we focus on absolute levels and changes over time. This is part of our ongoing process of recycling capital, and we are comfortable with the Fund's current lower-risk profile.

### TOP THREE CONTRIBUTORS

The three largest individual contributors to the Fund's relative performance during the quarter were **Advanced Micro Devices, Inc.**, **First Citizens BancShares, Inc.**, and **Cars.com, Inc.**

**Advanced Micro Devices, Inc.**, is a global semiconductor chip maker specializing in central processing units (CPUs), which are considered the core component of most computing devices, and graphics processing units (GPUs), which accelerate operations running on CPUs. We invested in AMD when there was little enthusiasm for the stock, given years of underperformance due to lagging technology and market share losses versus competitors Intel and Nvidia, and the valuation did not reflect the potential for significant market share gains and improved profits. Our research, however, identified that changes and investments made by current management under CEO Lisa Su was producing compelling technology that was viewed as superior to Intel's and positioned AMD as a stronger competitor to Nvidia. The changes continued to pay off during the quarter as AMD's results convinced more investors that the company's advantage over Intel will persist and its share price advanced. In addition, signs of a bottom in demand for data center semiconductors supported expectations of renewed growth in that space during the second half of this year. Although we pared our exposure to AMD as part of our risk-management practice, we maintained a position in the stock as we believe the company's technology leadership over Intel should hold for at least several years while it further increases market share and grows earnings.

**First Citizens BancShares, Inc.**, is a regional bank located in the southeast U.S. with strong legacy relationships and a history of acquiring troubled bank assets at advantageous valuations and folding them into its strong foundation. The company has acquired 16 banks in FDIC receivership since 2009. Its deal to purchase national lender CIT, which was announced in late 2020, diminished earnings through late 2021 and early 2022, as the company tempered its capital use while regulators reviewed and ultimately approved the deal. This scenario allowed us to initiate a position in the stock at a relatively inexpensive valuation. Our analysis indicated that First Citizens' long track record of consistent earnings growth due to its focus on relationship lending and conservative underwriting has led to above-peer returns on equity. During the quarter, First Citizens continued its acquisition strategy by purchasing the remaining bank assets of Silicon Valley Bank, which was in FDIC receivership after failing in mid-March. The acquisition positions First Citizens to expand its reach in venture-backed lending from the biotech hub of Raleigh to Silicon Valley. The accretive deal spurred a 28% rise in First Citizens' stock, which significantly outperformed the volatile regional bank category. Overall, we believe First Citizens' strong capital position, diverse customer base, and recently acquired assets set the company up for differentiated earnings growth going forward. In accordance with our risk-management practice, we reduced the Fund's exposure to the stock after its strong performance significantly increased its weighting in the portfolio.

**Cars.com Inc.** operates the second-largest digital marketplace and marketing solutions provider for North American car dealerships. Having transitioned from a legacy newspaper advertising business, Cars.com's consumer offerings include in-depth automotive news and reviews. The company's earnings suffered during 2020-21 as auto dealers decreased online listings, first, due to pandemic-related demand concerns and second, due to a lack of new car inventory. To adapt to marketplace realities, Cars.com added services to help dealers connect directly with consumers and move the car buying process online while it transitioned its operations to a more cost-efficient cloud-based model. Encompassing advertising, loan processing, and used car acquisition and logistics, Cars.com's dealer-focused services significantly expanded the addressable revenue pool from its dealer customers, who increasingly viewed Cars.com as a preferred partner, enhancing the company's growth potential. During the quarter, Cars.com reported that previously stretched industry inventory levels were starting to normalize, which the company believes will bolster new service penetration. Thus, it issued strong 2023 guidance and the stock reacted favorably, advancing 40%. We maintained our position as the recent outperformance is backed by a mix of new services and industry inventory normalization that should buoy 2023 earnings performance along with a still-reasonable valuation.

### BOTTOM THREE DETRACTOS

The three largest individual detractors from the Fund's relative performance during the period were **APA Corporation**, **The Honest Company, Inc.**, and **American International Group, Inc.**

**APA Corporation** is a global energy exploration and production company with operations in Egypt, the U.K., the North Sea, the U.S. Permian Basin, and Suriname, where it has made a significant oil discovery and sizeable additional discoveries are expected. We believe APA's core global production profile is underappreciated and that the business is viewed as defensive, given its low cost to maintain and grow production. APA's Suriname project, which is moving closer to development with partner TotalEnergies, will likely provide differentiated low-cost production growth in two to three years as TotalEnergies is carrying the bulk of the development cost. This mix has allowed APA to otherwise aggressively allocate capital to pay down debt and increasingly focus on buying back stock as opposed to financing capital-intensive production growth. During the quarter, the stock fell 22% amid a lack of new news on Suriname and falling oil prices. We increased our position in the stock as we anticipate that the company will make a positive announcement on the Suriname development within the next 12 months. We view that project as a unique catalyst in that it provides an idiosyncratic growth driver distinct from the current macroeconomic and geopolitical events currently fueling oil price volatility.

**The Honest Company, Inc.**, is a consumer products company focused on developing natural baby consumables, cosmetics, soaps, and other household supplies. Honest went public in 2021 as the pandemic helped drive high demand for its cleaning products, but the subsequent global supply chain challenges proved exceptionally tough for the smaller company. We view the Honest brand as an authentic differentiator that has outgrown its categories despite the operational challenges that significantly hurt recent earnings potential. Honest stock declined 40% during the quarter as the company issued disappointing results and guidance. We were encouraged, nonetheless, by the hiring of a new CEO who hails from General Mills and Amazon and immediately focused on moving Honest to a position of higher profitability—matching a pattern we look for in our investments. We maintained our position during the quarter as we still view Honest as a strong opportunity with significant internal operating turn potential.

**American International Group, Inc.**, is a global insurance and financial services firm focused primarily on property and casualty insurance. It started divesting its life and retirement business, Corebridge Financial, in September 2022. We first invested in 2018 as AIG entered the final phases of a decade - long turnaround initiated after the global financial crisis which features extensive technology investments that reduce operating costs and a heightened focus on niche lines of insurance underwriting where AIG has operational differentiation to drive better pricing control and market participation. The improvements are evident in its operational performance now matching and beating global peers—a sign the internal levers of change have played out in the highly competitive general insurance industry. Given such developments, we believe that AIG's results will now more closely match peers going forward, which removes a key differentiation point in our investment thesis. Furthermore, with macro uncertainties rising, our conviction in our earnings forecast softened, thus, we exited the position in the quarter.

One new addition to the Fund during the quarter was **Crown Holdings, Inc.**, the second-largest aluminum packaging manufacturer in the world and a leading provider of protective shipping systems and supplies. Both business lines benefit from strong industry fundamentals that allow Crown to consistently grow operating earnings even during significant economic downturns. In 2022, however, earnings declined as Crown's beverage can customers reduced order volumes while pushing price increases onto consumers and price increases in Europe lagged. The company responded by announcing the shutdown of high-cost facilities and restructuring contract terms to contend with volatile energy-input pricing. We believe these actions by the company set Crown up for significant earnings and free cash flow growth in the coming years. Also, in the past, Crown used greater free cash flow to accelerate capital return to shareholders, which could further enhance our potential total return. Given this view and the stock's historically low valuation on depressed earnings, we initiated a position during the quarter.

## OUTLOOK

By quarter-end, market choppiness seemingly reflected which investors had the upper hand on a day-to-day basis—either those who were more optimistic or those who were more bearish. Moving into 2023, we agree the Fed's decision to stop raising interest rates—whenever that occurs—will generally be a positive development, but we're wary of getting too optimistic as leading indicators are flashing mixed messages on the broader outlook. Conditions could lead to earnings declines, which historically spark equity market volatility, in the coming quarters.

Should such volatility materialize, our investable universe may increase substantially because we believe that difficult market conditions create opportunity. Especially as we believe the strength of our investment strategy lies in the bottom-up analysis of companies and long-term business fundamentals. As always, we seek to invest in high-quality companies at valuations that offer us an asymmetric risk/reward opportunity, and we believe that we can prudently exploit current market conditions to make attractive long-term investments.

Thank you for your continued partnership with ArrowMark.

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**FUND TOTAL PERFORMANCE** *(As of 3/31/2023)*

| Share Class | Ticker | Gross Expense Ratio | Net Expense Ratio | Inception Date | 3 Month | 1 Year | 3 Year[4] | 5 Year[4] | 10 Year[4] | Since Inception[4,5] |
|---|---|---|---|---|---|---|---|---|---|---|
| Class A Shares - No Load | MFCAX | 1.46% | 1.46% | 11/15/13 | 5.50% | -7.56% | 25.34% | 8.58% | 10.58% | 11.92% |
| Class A Shares - With Load | MFCAX | 1.46% | 1.46% | 11/15/13 | -0.57% | -12.87% | 22.89% | 7.30% | 9.93% | 11.69% |
| Class C Shares | MFCCX | 2.19% | 2.19% | 7/1/15 | 5.29% | -8.23% | 24.40% | 7.83% | 9.87% | 11.21% |
| Investor Class Shares | MFCIX | 1.18% | 1.18% | 11/15/13 | 5.59% | -7.31% | 25.62% | 8.87% | 10.87% | 12.20% |
| Legacy Class Shares | MVALX | 1.12% | 1.12% | 2/10/94 | 5.58% | -7.26% | 25.71% | 8.95% | 11.02% | 12.40% |
| Russell 2500 Index[2] | | - | - | - | 3.39% | -10.39% | 19.42% | 6.65% | 9.07% | 9.71% |
| Russell 2500 Value Index[3] | | - | - | - | 1.40% | -10.53% | 21.80% | 5.61% | 7.72% | n/a |

*The Fund's performance data represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data shown. The investment return and principal value of an investment will fluctuate so that you may have a gain or loss upon sale. You can obtain performance data current to the most recent month-end at www.arrowmarkpartners.com/meridian.*

[1]Listed holdings are presented to illustrate examples of the securities the Fund has bought and do not represent all of the Fund's holdings or future investments. Information about the Fund's holdings should not be considered investment advice. There is no guarantee that the Fund will continue to hold any one particular security or stay invested in any one particular sector. Holdings are subject to change at any time and are as of the date shown above.
[2]The Fund's Index, the Russell 2500™ Index, measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. One cannot invest directly in an index.
[3]The Fund's second Index, the Russell 2500™ Value Index, measures the performance of the small to mid-cap value segment of the US equity universe. It includes those Russell 2500™ companies that are considered more value oriented relative to the overall market as defined by Russell's leading style methodology. One cannot invest directly into an index.
[4]Performance is annualized.
[5]Since inception returns are calculated using the month end data prior to the Fund's Legacy class inception date of 2/10/94.

A Class: Prior to 7/1/15, the A Class was named Advisor Class. The historical performance shown for periods prior to inception on 11/15/13 was calculated using historical Legacy class performance as adjusted for estimated class-specific expenses, for distribution, shareholder servicing and sub-transfer agency fees without consideration to any expense limitation or waivers. The annual gross expense ratio is 1.46% as of 12/30/22. The annual net expense ratio is 1.46% as of 12/30/22. If the class had been offered prior to 11/15/13, the actual performance and expenses may have differed from the amounts shown. Performance shown for class A shares with load includes the Fund's maximum sales charge of 5.75%. C Class: The historical performance shown for periods prior to inception on 7/1/15 was calculated using historical Legacy class performance as adjusted for estimated class-specific expenses, for distribution, shareholder servicing and sub-transfer agency fees, without consideration to any expense limitation or waivers. The annual gross expense ratio is 1.12% as of 12/30/22. The annual net expense ratio is 2.19% as of 12/30/22. If the class had been offered prior to 7/1/15, the actual performance and expenses may have differed from the amounts shown. Investor Class: The historical performance shown for periods prior to inception on 11/15/13 was calculated using historical Legacy class performance as adjusted for estimated class-specific expenses for shareholder servicing and sub-transfer agency fees without consideration to any expense limitation or waivers. The annual gross expense ratio is 1.18% as of 12/30/22. The annual net expense ratio is 1.18% as of 12/30/22. If the class had been offered prior to 11/15/13, the actual performance and expenses may have differed from the amounts shown. Legacy Class: Legacy class shares of the Fund are no longer available for purchase by new investors, except under certain limited circumstances which are described in the Statement of Additional Information. The annual gross expense ratio is 1.12% as of 12/30/22. The annual net expense ratio is 1.12% as of 12/30/22.

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*Investors should consider the investment objective and policies, risk considerations, charges and ongoing expenses of an investment carefully before investing. The prospectus contains this and other information relevant to an investment in the fund. Please read the prospectus carefully before you invest or send money. To obtain a prospectus, please contact your investment representative or access the website at www.arrowmarkpartners.com/meridian.*

**Principal Investment Risks**

There are risks involved with any investment. The principal risks associated with an investment in the Fund, which could adversely affect its net asset value, yield and return, are set forth below. Please see the section "Further Information About Principal Risks" in the Prospectus for a more detailed discussion of these risks and other factors you should carefully consider before deciding to invest in the Fund. *An investment in the Fund may lose money and is not a deposit of a bank or insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.* **Investment Strategy Risk:** The Investment Adviser uses the Fund's principal investment strategies and other investment strategies to seek to achieve the Fund's investment objective of long-term growth of capital. There is no assurance that the Investment Adviser's investment strategies or securities selection method will achieve that investment objective. **Equity Securities Risk:** Equity securities fluctuate in price and value in response to many factors including historical and prospective earnings of the issuer and its financial condition, the value of its assets, general economic conditions, interest rates, investors' perceptions and market liquidity. **Market Risk:** The value of the Fund's investments will fluctuate in response to the activities of individual companies and general stock market and economic conditions. As a result, the value of your investment in the Fund may be more or less than your purchase price. **Growth Securities Risk:** Because growth securities typically trade at a higher multiple of earnings than other types of securities, the market values of growth securities may be more sensitive to changes in current or expected earnings than the market values of other types of securities. In addition, growth securities, at times, may not perform as well as value securities or the stock market in general, and may be out of favor with investors for varying periods of time. **Small Company Risk:** Generally, the smaller the capitalization of a company, the greater the risk associated with an investment in the company. The stock prices of small capitalization and newer companies tend to fluctuate more than those of larger capitalized and/or more established companies and generally have a smaller market for their shares than do large capitalization companies. **Foreign Securities Risk:** Investments in foreign securities may be subject to more risks than those associated with U.S. investments, including currency fluctuations, political and economic instability and differences in accounting, auditing and financial reporting standards. Foreign securities may be less liquid than domestic securities so that the Fund may, at times, be unable to sell foreign securities at desirable times or prices. In addition, emerging market securities involve greater risk and more volatility than those of companies in more developed markets. Significant levels of foreign taxes are also a risk related to foreign investments. **Glossary**: **Beta**: A statistical measure of the Fund's volatility relative to the broader peer group is measured against the benchmark Index, which is deemed to equal 1.00. **Free cash flow**: A measure of a company's financial performance, calculated as operating cash flow minus capital expenditures. **Basis Point**: A common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

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