# MERIDIAN SMALL CAP GROWTH FUND

March 31, 2023 Update

MERIDIAN FUNDS
MANAGED BY ARROWMARK PARTNERS

## MARKET SUMMARY

Repercussions from the U.S. Federal Reserve's (the "Fed's") aggressive rate-hike campaign roiled financial markets during the first quarter. Fed officials' consistently hawkish mindset led to surging interest rates through the middle portion of the period, followed by heightened concerns that unrealized losses on lower-yielding bonds could derail the banking system, especially following the failure of two regional banks in March. Although the Fed raised its key lending rate by 50 basis points during the period, yields along the Treasury yield curve ended lower as expectations grew that signs of a slowing economy would halt the rate increases.

Small cap stocks lagged midcap stocks, which trailed large cap stocks, according to the Russell family of indices, and growth stocks considerably outperformed value stocks. From a sector perspective, the technology, communications services, materials, and consumer discretionary sectors posted double-digit gains, which was somewhat surprising as the slumping housing market and signs of weakness in the labor market weighed on consumers. Conversely, lower oil and natural gas prices pressured the energy sector.

## PERFORMANCE

The Meridian Small Cap Growth Fund (the "Fund") returned 6.89% (net) during the quarter ended March 31, 2023, outperforming its benchmark, the Russell 2000 Growth Index, which returned 6.07%.

Our investment process prioritizes the management of risk over the opportunity for return. We look to build an enduring strategy that can mitigate capital losses during turbulent bear market environments and, secondarily, participate on the upside during strong market environments. Our philosophy proved effective during the quarter, as the Fund outperformed on each of the five days in which the Index declined 2% or more.

Additionally, our bias towards lower momentum stocks, which underperformed through much of 2021 and 2022, paid off as market preferences reversed course and low-momentum stocks considerably outperformed high-momentum names in the quarter. Similarly, our overweight exposure to companies with moderate but stable growth rates provided a tailwind for performance, as those positions outperformed stocks tied to companies with more rapid growth rates. Conversely, our valuation discipline served as a headwind as the stocks with the highest price-to-earnings ratios posted the strongest returns.

## TOP 10 HOLDINGS (% OF PORTFOLIO)

| **Holding[1]** *(subject to change)* | **Weighting** |
|---|---|
| QuidelOrtho Corp. | 3.42% |
| Ritchie Bros. Auctioneers, Inc. | 3.41% |
| Merit Medical Systems, Inc. | 2.96% |
| Alight, Inc. | 2.61% |
| ACV Auctions, Inc. | 2.38% |
| Hudson Technologies, Inc. | 2.21% |
| Skechers USA, Inc. | 2.16% |
| Heritage-Crystal Clean, Inc. | 2.14% |
| CarGurus, Inc. | 2.02% |
| Frontdoor, Inc. | 1.76% |

At the sector level, stock selection was beneficial across much of the portfolio. Notably, positive stock selection gains helped offset much of the drag caused by an underweight position in the outperforming technology sector and enhanced relative returns in the consumer discretionary sector, where we held a slightly overweight position. Underweight exposure to the slumping energy sector also proved advantageous. Separately, the Fund was not directly affected by the banking system turmoil as it had no exposure to regional bank stocks.

## TOP THREE CONTRIBUTORS

The three largest individual contributors to the Fund's relative performance during the quarter were **ACV Auctions, Inc.**, **Frontdoor, Inc.**, and **Albireo Pharma, Inc.**

**ACV Auctions Inc.** operates a digital wholesale auction marketplace to facilitate business-to-business used car sales between sellers and dealers. It has disrupted the traditional physical used-car auction marketplace by attracting thousands of dealers to its online platform.

*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.*

ACV's competitive advantage is its sizeable team of inspectors and the technology tools supporting this team. The depth and accuracy of ACV's inspection reports provide buyers the confidence to bid aggressively, knowing that they are unlikely to contend with negative post-purchase surprises. Sellers are drawn to ACV due to its lower auction fees and large buyer base. While the results reported during the quarter were essentially in line with expectations, the stock rallied as the company's 2023 guidance exceeded consensus estimates. We believed the outlook reflected management's increasing comfort with navigating the challenging macro environment, including depressed wholesale auction volumes. Despite the industry's issues, ACV has taken considerable market share from competitors. We also believe it is poised to reduce its EBITDA losses sharply in 2023 and achieve profitability in 2024 on an EBITDA and cash flow basis, without burning through an abundance of cash. During the quarter, we slightly trimmed our position as the share price appreciated.

**Frontdoor, Inc.**, provides home service plans that essentially act as a warranty for appliances and home systems such as refrigerators, dishwashers, and electrical and HVAC systems. The coverage allows homeowners to mitigate some of the unpredictability in their household budget as they simply pay a regular monthly fee instead of running the risk of a large one-off expense. A long-time holding, Frontdoor's business has historically proven stable through a variety of economic environments, benefiting from pricing power that allowed it to endure past inflationary periods with little impact. Spiking inflation in 2022, however, caused a setback as the company's one-year customer contracts remained in force until renewal dates, prohibiting it from adjusting to the higher costs in real-time. Signs of stabilizing costs encouraged investors during the first quarter, as did the likelihood of higher full-year revenues in 2023, as the full complement of contract price increases that were implemented in 2022 were poised to flow through to the top line. Optimism also surrounded Frontdoor's announcement of the development of a digital home services app that it plans to launch in the second quarter. We believe it is unlikely this new app will be a runaway success and are concerned that the effectiveness of the company's marketing is declining, potentially resulting in a challenging 2024. For these reasons, we took advantage of the appreciation in the stock to reduce our exposure.

**Albireo Pharma, Inc.**, is a biotechnology firm focused on developing treatments for rare liver diseases in children and adults. The company's Bylvay drug was approved by U.S. and EU regulators in 2021 and its pipeline includes two more late-stage clinical trials for Bylvay that could expand its total addressable market. During the quarter, Albireo Pharma was acquired by France-based Ipsen at roughly a 100% premium to Albireo Pharma's pre-announcement price.

### BOTTOM THREE DETRACTORS

The three largest individual detractors from the Fund's relative performance during the period were **Consensus Cloud Solutions, Inc.**, **Hudson Technologies, Inc.**, and **PMV Pharmaceuticals, Inc.**

**Consensus Cloud Solutions, Inc.**, which offers cloud-based business services to small and mid-sized businesses, was spun out of longtime holding J2 Global (now Ziff Davis) in the fourth quarter of 2022. Consensus has historically enjoyed a high percentage of recurring revenues, low churn, and high margins. Much of the company's current strategic focus is to build upon its legacy digital cloud fax service for the healthcare sector by expanding into securing electronic patient records and doctors' reports. Already attracted to the company's relative stability and consistently solid profitability, its ability to perform well even during market downturns, and the visibility its 100% subscription-based model offers, we like the recent emphasis on the healthcare business, which tends to have lower churn and higher average revenue per user. The stock slumped during the quarter as a misstatement related to revenue recognition caught people off guard. Slowed decision-making among some larger corporate clients also contributed to a modest miss on revenue and EBITDA expectations. We believe, however, that the market's reaction was overdone and the company's prospects to grow amid the uncertainties of 2023 remain solid, as such, we added to our position in the stock.

**Hudson Technologies, Inc.**, is the market leader in recycled and reclaimed refrigerants with proprietary reclamation technology and a national distribution network. We have owned shares of the company for several years due to our belief that its leading position would allow the company to capitalize on improving supply-demand dynamics from the Environmental Protection Agency's (EPA's) phaseout of R-22 (refrigerant used in air conditioners). The phaseout concluded in 2020 and virgin R-22 is no longer being produced. This has resulted in strong refrigerant pricing given stable demand and more limited supply. We also remain optimistic that another catalyst for growth is the AIM Act's mandate to reduce the production of hydrofluorocarbons (HFCs) by 40% by the end of 2024. Similar to the phaseout of R-22, we believe this will result in strong supply-demand dynamics for reclaimed HFC refrigerants and allow Hudson to capitalize on its market-leading position. The stock retreated during a relatively quiet quarter for the company, although it reported a 26% year-over-year increase in quarterly revenues and cut its debt load by more than half in 2022. Given the sound business outlook and firming balance sheet, we added to our position in the stock during the quarter.

**PMV Pharmaceuticals, Inc.**, is a precision oncology company focused on developing small-molecule, tumor-agnostic therapies that target mutations in the p53 gene that enable cancer cells to grow and spread. Mutations in the p53 gene are found in nearly 50% of all cancers, indicating a large market opportunity for tumor-agnostic therapies. We are particularly excited about PMV's lead drug candidate, PC14586, which has shown evidence of tumor regression in a Phase 1/2 clinical trial. During the quarter, PMV's stock declined as the company pushed out an expected first-half clinical data readout to the second half of the year. We anticipate that the readout will lead to a decision from the Food and Drug Administration (FDA) on the treatment's regulatory path going forward. If regulators don't recognize it as a tumor-agnostic therapy, the company may have to identify tumor-specific indications, which would likely require clinical trials on each targeted patient subset. Separately, tolerability issues arose within ongoing clinical trials, although the company seemed to resolve them by calibrating the daily dosage levels. Stock returns also suffered from a downturn in the broader biotechnology industry, as investors shifted out of expensive, higher-growth stocks. We remain optimistic about PC14586 and will continue to closely monitor its progression through clinical trials. However, we trimmed our position in PMV during the period.

## OUTLOOK

Although the Fed's aggressive interest rate hikes seemed to have cooled inflationary pressures during the quarter, we're wary of other consequences such as labor market softness, the trickle-down effect of the housing industry slowdown on consumer spending, and instability in the banking sector. With such recessionary signals burning a bit brighter, we incrementally reduced the Fund's economic exposure during the quarter, particularly in companies tied to big-ticket consumer items and industrial capital goods. More broadly, we believe earnings growth expectations could be at risk through the second half of the year.

Nonetheless, we remain poised to take advantage of any market weakness and multiple contraction by adding to existing positions and building positions in new names when valuations decline to attractive levels, although we remain cognizant of the risks inherent in such a challenging environment. Our focus going forward remains on companies that can not only weather the current market volatility, but also participate when the market ultimately rebounds. The current environment continues to present us with opportunities to upgrade the quality of the portfolio while maintaining our strict valuation discipline.

Thank you for your continued partnership with ArrowMark.

# MERIDIAN SMALL CAP GROWTH FUND

March 31, 2023 Update

MERIDIAN FUNDS
MANAGED BY ARROWMARK PARTNERS

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

| Share Class[2] | Ticker | Gross Expense Ratio | Net Expense Ratio | Inception Date | 3 Month | 1 Year | 3 Year[4] | 5 Year[4] | Since Inception[4,5] |
|---|---|---|---|---|---|---|---|---|---|
| Class A Shares – No Load | MSGAX | 1.49% | 1.49% | 12/16/13 | 6.87% | -11.60% | 17.13% | 5.00% | 9.09% |
| Class A Shares – With Load | MSGAX | 1.49% | 1.49% | 12/16/13 | 0.74% | -16.71% | 14.86% | 3.76% | 8.40% |
| Class C Shares | MSGCX | 2.17% | 2.17% | 7/1/15 | 6.70% | -12.24% | 16.32% | 4.27% | 8.32% |
| Investor Class Shares | MISGX | 1.22% | 1.22% | 12/16/13 | 6.96% | -11.40% | 17.45% | 5.27% | 9.38% |
| Legacy Class Shares | MSGGX | 1.15% | 1.15% | 12/16/13 | 6.89% | -11.37% | 17.52% | 5.36% | 9.45% |
| Russell 2000 Growth Index[3] | - | - | - | - | 6.07% | -10.60% | 13.36% | 4.26% | 6.92% |

*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]Share classes are closed to new investors.
[3]The Fund's Index, the Russell 2000® Growth Index, measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values. One cannot invest directly into an index.
[4]Performance is annualized.
[5]Since inception returns are calculated using the Fund's Legacy class inception date of 12/16/13.

A Class: Prior to 7/1/15, the A Class was named Advisor Class. The historical performance shown for periods prior to inception on 12/16/13 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 1.49% as of 12/30/22. The net expense ratio is 1.49% as of 12/30/22. If the class had been offered prior to 12/16/13, 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 2.17% as of 12/30/22. The net expense ratio is 2.17% 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 12/16/13 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 1.22% as of 12/30/22. The annual net expense ratio is 1.22% as of 12/30/22. Legacy Class: The annual gross expense ratio is 1.15% as of 12/30/22. The annual net expense ratio is 1.15% as of 12/30/22. 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.

**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: Amortization:** Gradually writing off the initial cost of an intangible asset. **Earnings Per Share:** A company's profit divided by its number of common shares outstanding. **EBITDA:** Earnings before interest, taxes, depreciation & amortization. **Free Cash Flow:** A measure of a company's financial performance, calculated as operating cash flow minus capital expenditures. **Price to Earnings:** A valuation ratio of current share price compared to its per-share operating earnings over the previous four quarters. **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.

ALPS Distributors, Inc., a member FINRA, is the distributor of the Meridian Mutual Funds, advised by ArrowMark Colorado Holdings, LLC.  ALPS, Meridian and ArrowMark are unaffiliated.

The statements and opinions expressed in this commentary are as of the date of the commentary. All information is historical and not indicative of future results and is subject to change.

MMF000342