

# MERIDIAN HEDGED EQUITY FUND

June 30, 2024 Update

Formerly known as the Meridian Enhanced Equity Fund



## MARKET SUMMARY

Strong earnings from large-cap technology companies, particularly AI-related names, drove major index returns higher in the quarter. Market breadth, however, told a different story. While the capitalization-weighted S&P 500 Index returned +3.9%, the equal-weighted version of the index, which removes size bias among the largest companies in the US economy, lost -3.1%. Small companies similarly struggled to gain attention and declined -3.3%, according to the Russell family of indices. Bond yields held relatively steady during the period as investors sifted through encouraging inflation news and softening U.S. economic data.

## FUND PERFORMANCE

The Meridian Hedged Equity Fund (the "Fund") gained 0.92% (net) during the quarter, trailing its benchmark, the S&P 500 Index, which gained 4.28%. The Fund also trailed its secondary benchmark, the CBOE S&P 500 BuyWrite Index, which returned 1.49%.

Our investment strategy prioritizes managing downside risks over chasing excess returns. Over time, we expect the preservation of capital in down markets to be a powerful contributor to the long-term compounding of returns.

We seek to build and maintain a durable portfolio capable of minimizing losses during market downturns while participating in upswings. We focus on high-quality businesses with attractive valuations, substantial competitive advantages, strong balance sheets, robust cash flow, and limited volatility.

We seek to own long positions in high-quality companies for growth potential. When conditions warrant, we hedge select positions through call options in an attempt to generate income and mitigate downside risks. We underpin this approach with thorough fundamental analysis that seeks to balance risks with the potential for long-term growth.

At period end, approximately 40% of the portfolio was unhedged, with long-term capital growth as the primary objective. We deployed the rest of the invested portfolio in companies with covered call options, a strategy that seeks to balance the capital growth potential of the underlying companies with downside protection provided by the income generated from writing options.

## TOP 10 HOLDINGS (% OF PORTFOLIO)

Holding <sup>1</sup> (subject to change)	Weighting
Amazon.com, Inc.	3.20%
Qualcomm, Inc.	3.19%
D.R. Horton, Inc.	3.14%
Clear Secure, Inc.	2.93%
Microsoft Corp.	2.85%
MGM Resorts International	2.80%
Live Nation Entertainment, Inc.	2.60%
Sally Beauty Holdings, Inc.	2.50%
Visa, Inc.	2.27%
Alibaba Group Holding Ltd.	2.27%

The contracts we write are structured to allow our fundamental thesis to play out while the strategy gains valuable income and downside protection.

## BOTTOM THREE DETRACTORS

**Liberty Sirius XM Group, Inc., The Walt Disney Company, and U.S. Bancorp** were the three top detractors from the Fund's relative performance during the quarter.

**Liberty Sirius XM Group** is a tracking stock that mirrors Liberty Media's ownership of Sirius XM Holdings, a leading provider of satellite radio and audio entertainment in North America. We own the stock because we believe Sirius XM possesses a durable business model with a stable subscriber base and a robust free cash flow profile. Furthermore, the stock has historically traded at a significant discount to its net asset value, providing an opportunity to acquire a substantial stake in Sirius XM at a lower price. The stock underperformed in the quarter as investor sentiment was dampened by concerns over slowing subscriber growth and competition from streaming services. We continue to have conviction in the company's competitive position and long-term value and held our position in the company.

*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](http://www.arrowmarkpartners.com/meridian).*

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**The Walt Disney Company** operates a diversified entertainment business with theme parks, media networks, and streaming services. We own Disney because we believe its strong brand, valuable IP, and expanding streaming offerings will drive sustainable long-term growth. The company's stock, however, underperformed in the quarter due to concerns about a slowdown in growth at its theme park division. While park revenue still grew by 10% year-over-year, management's commentary suggested a moderation in post-pandemic demand and rising costs, leading to a disappointing outlook for park operating income in the second half of the year. This overshadowed the positive news that the company's streaming segment, driven by strong subscriber growth at Disney+, reached profitability ahead of schedule. We held our position and will continue to monitor the performance of the theme park division.

**U.S. Bancorp** provides banking, payments, investment, trust, and mortgage services to consumers, businesses, and institutions. We own the company because of its historically strong profitability and consistent dividend payouts. The stock underperformed in the quarter due to a downward revision in net interest income guidance, driven by the ongoing shift from non-interest-bearing deposits to higher-cost interest-bearing accounts. To help mitigate the lower net interest income, management is focused on expense control initiatives. We are holding our position in U.S. Bancorp as we monitor the trajectory of net interest income and the success of these expense reductions.

## TOP THREE CONTRIBUTORS

**Vistra Corp., Rivian Automotive, Inc., and Amazon.com, Inc.** were the three top contributors to the Fund's relative performance during the quarter.

**Vistra Corp.** is an integrated retail electricity and power generation company with operations across 20 U.S. states and Washington D.C. We identified Vistra as a likely beneficiary of the projected growth of power-hungry data centers, spurred by the rise of generative AI, increasing electricity demand, and higher power prices. The stock performed well after the company delivered stronger than expected earnings. Management also provided forward guidance that exceeded investors' expectations and reaffirmed shareholder-friendly plans for sizable share repurchases through 2025. We trimmed our position in the quarter following the strong performance and continue to see strong long-term prospects for the company.

**Rivian Automotive, Inc.** is a US-based electric vehicle manufacturer focused on the design, development, and production of electric adventure vehicles, pickup trucks, and commercial delivery vans.

We own Rivian because we believe the company is a future leader in the growing electric vehicle market with a strong brand, compelling products, and a vertically integrated business model. During the quarter, Rivian's stock price was driven by its progress on cost reduction initiatives and management's stated confidence in achieving positive gross margins by the end of 2024. The recent announcement of a joint venture with Volkswagen, involving up to \$5 billion in investment, also significantly boosted Rivian's financing outlook and validated its technology. We trimmed our position in Rivian given the strong performance in the quarter.

**Amazon.com, Inc.** is a global technology company that operates e-commerce, cloud computing, digital advertising, and other businesses. We own Amazon because we believe it is well-positioned to benefit from several strong secular trends, including the shift to online shopping, the growth of cloud computing, and the increasing importance of digital advertising. The company exceeded expectations in the first quarter, with cloud-computing revenue growth accelerating, driven by easing cost optimization pressures and the ramp of generative AI workloads. The North American retail segment drove record operating margins, highlighting the success of Amazon's efforts to improve efficiency and lower its cost to serve. International retail also showed promise, as emerging markets steadily progressed towards profitability. Given the strength across these key segments, we continue to hold the position in the company.

## OUTLOOK

With signs of inflation coming closer to the U.S. Federal Reserve's 2% target, market expectations for Fed rate cuts in 2024 are firming. However, election-year uncertainty and continued geopolitical tensions could create significant volatility ahead

For us, opportunity is often born out of volatility, and we remain comfortable with the portfolio's positioning, including our hedging activity designed to offset a portion of the market's potential downside. Regardless of near-term market conditions, we stick to our playbook and prudently work to manage risk through deep fundamental research in search of high-quality businesses selling at attractive valuations. Meanwhile, our charge to prioritize risk over return remains steadfast, even if that means trading some incremental market upside for downside protection. Through the combination of stock selection and our hedging strategy, we believe our disciplined and conservative approach to deploying capital offers the potential to generate long-term returns with lower volatility.

Thank you for your continued partnership with ArrowMark.

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FUND TOTAL PERFORMANCE (As of 6/30/2024)



Share Class	Ticker	Gross Expense Ratio	Net Expense Ratio	Inception Date	3 Month	1 Year	3 Year <sup>4</sup>	5 Year <sup>4</sup>	10 Year <sup>4</sup>	Since Inception <sup>4,5</sup>
Class A Shares – No Load	MRAEX	1.65%	1.51%	11/15/13	0.81%	14.09%	2.98%	10.83%	11.72%	9.18%
Class A Shares – With Load	MRAEX	1.65%	1.51%	11/15/13	-4.98%	7.51%	0.96%	9.52%	11.06%	8.85%
Class C Shares	MRCEX	2.28%	2.26%	7/1/15	0.61%	13.35%	2.45%	10.36%	11.21%	9.00%
Investor Class Shares	MRIEX	1.34%	1.26%	11/15/13	0.86%	14.34%	3.26%	11.17%	12.00%	9.46%
Legacy Class Shares	MEIFX	1.34%	1.26%	1/31/05	0.92%	14.37%	3.32%	11.21%	12.09%	9.84%
S&P 500 Index <sup>2</sup>	–	–	–	–	4.28%	24.56%	10.01%	15.05%	12.86%	10.36%
CBOE S&P 500 BuyWrite Index <sup>3</sup>	–	–	–	–	1.49%	8.91%	4.96%	5.56%	5.77%	5.46%

Prior to December 30, 2022, the Meridian Hedged Equity Fund was known as the Meridian Enhanced Equity Fund.

**Past performance is no guarantee of future results. 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](http://www.arrowmarkpartners.com/meridian).**

<sup>1</sup>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.

<sup>2</sup>The Fund's Index, the S&P 500<sup>®</sup> Index, is a commonly recognized market-capitalization-weighted index of 500 widely held equity securities, designed to measure broad U.S. equity performance. One cannot directly invest into an index.

<sup>3</sup>The CBOE S&P 500 BuyWrite Index (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index<sup>®</sup>. The BXM is a passive total return index based on (1) buying an S&P 500 stock index portfolio, and (2) "writing" (or selling) the near-term S&P 500 Index (SPXSM) "covered" call option, generally on the third Friday of each month.

<sup>4</sup>Performance is annualized.

<sup>5</sup>Since inception returns are calculated using the Fund's Legacy class inception date of 1/31/05.

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 1.65% as of 6/30/23. The annual net expense ratio is 1.51% after a recoupment of 0.14% as of 6/30/23. 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 2.28% as of 6/30/23. The annual net expense ratio is 2.26% after a recoupment of 0.02% as of 6/30/23. 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 1.34% as of 6/30/23. The annual net expense ratio is 1.26% after a recoupment of 0.08% as of 6/30/23. 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 1.34% as of 6/30/23. The annual net expense ratio is 1.26% after a recoupment of 0.08% as of 6/30/23.

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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 [arrowmarkpartners.com/meridian](http://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. **Options Risk:** Options on securities may be subject to greater fluctuation in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail great than ordinary investments. **Glossary: Alpha:** A measure of performance on a risk-adjusted basis. Alpha compares the volatility (price risk) of the Fund to risk-adjusted performance of the benchmark Index. **Free cash flow** is a measure of a company's financial performance, calculated as operating cash flow minus capital expenditures. **Options** are a financial derivative sold by an option writer to an option buyer. The contract offers the buyer the right, but not the obligation, to buy (call option) or sell (put option) the underlying asset at an agreed-upon price during a certain period of time or on a specific date. **CBOE Volatility Index (VIX):** The VIX Index is a financial benchmark designed to be an up-to-the-minute market estimate of expected volatility of the S&P 500 Index, and is calculated by using the midpoint of real-time S&P 500® Index (SPX) option bid/ask quotes. **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.

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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.