

# MERIDIAN ENHANCED EQUITY FUND

## FOURTH QUARTER 2020



### MARKET SUMMARY

Investor enthusiasm soared during the fourth quarter as COVID-19 vaccine developments progressed from promising clinical trial results to an initial rollout and Congress finally passed a new pandemic aid package in the final week of the year. Concerns about Election Day mayhem proved largely unfounded and although some kept challenging the outcome of the Presidential vote, leading U.S. stock indexes surged to all-time highs near year-end.

The approval of two vaccines for emergency use in December helped soothe anxieties related to a post-Thanksgiving surge in COVID-19 infections that stressed healthcare systems nationwide. Similarly, investors cheered a bipartisan push to produce a \$900 billion stimulus bill that was signed into law by President Trump on December 27.

Although the nation's unemployment rate drifted lower during the quarter to 6.7%, consumers generally tread cautiously as reflected in slumping consumer confidence through November and December and faltering retail sales. Nonetheless, an early read on holiday spending indicated that sales exceeded lowered expectations, propelled by a jump in online purchases. Additionally, steadily increasing business spending, highlighted by rising demand for electrical equipment, computers, and machinery, bolstered economic optimism.

Late in the quarter, the S&P 500 Index, Dow Jones Industrial Average, Nasdaq Composite Index and Russell 2000 Index all hit all-time highs. Market volatility, as measured by the VIX Index, spiked around Election Day but subsequently retreated and hovered near nine-month lows in late December.

### PERFORMANCE

The Meridian Enhanced Equity Fund (the "Fund") advanced 9.43% (net) during the quarter, underperforming its benchmark, the S&P 500 Index, which gained 12.15%. For the full-year period ended December 31, 2020, the Fund advanced 26.22%, topping the 18.40% rise in the S&P 500 Index.

Over the long-term, experience tells us that outperformance is born out of capital preservation and avoiding large drawdowns. As a result, we know that the Fund's quarterly performance may occasionally fall short of broader index returns, especially amid a pervasive risk-on sentiment.

Prioritizing the management of risk over the opportunity for excess market return, we look to build an "all weather" portfolio that can mitigate capital losses during turbulent bear market environments.

*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.meridianfund.com](http://www.meridianfund.com).*

Not FDIC-Insured, Not Bank Guaranteed, May Lose Value  
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### TOP 10 HOLDINGS (% OF PORTFOLIO)

Holding <sup>1</sup> (subject to change)	Weighting
Pinterest, Inc.	8.61%
Palo Alto Networks, Inc.	5.80%
Lamb Weston Holdings, Inc.	4.11%
Sensata Technologies Holding PLC	3.88%
Ball Corp.	3.80%
Apple, Inc.	3.29%
Verisk Analytics, Inc.	3.29%
Microsoft Corp.	3.27%
Exact Sciences Corp.	3.14%
Amazon.com, Inc.	2.98%

Secondarily, we seek upside participation during strong bull market environments. To achieve that, we invest in quality businesses that are maintaining considerable competitive advantages and healthy balance sheets that offer robust cash flow characteristics and muted volatility traits.

At any given time, roughly half of the Fund is invested in higher quality, larger capitalization companies with promising growth prospects. The balance of the portfolio is invested in equities hedged in a risk-managed approach where more opportunistic investments are married with options in an attempt to increase the Fund's margin of safety and reduce downside risks. Underlying this approach is our commitment to deep fundamental research.

Given this strategic foundation and willingness to trade some upside for protection on the downside, we regularly emphasize that we do not expect to keep up with the markets when they post excessive returns. The fourth quarter was proof of that.

Against this backdrop, leading detractors included Shift Technologies, Inc., Vroom, Inc., and Salesforce.com, Inc.

Shift and Vroom are developers of distinct online used car marketplaces. While sector volatility contributed to a setback in both companies during the quarter, we continue to believe both have the potential to dominate as the market increasingly migrates from physical to digital sales.

Our Shift exposure resulted from our participation in a special purpose acquisition company that merged with the online auto marketplace platform in October. We believe Shift's differentiated digital offering, which currently serves communities along the West Coast, is poised for accelerating growth and market share gains from more traditional brick and mortar competitors in the used car space.

Similarly, Vroom is another emerging leader within the automobile e-commerce ecosystem that's disrupting the broadly fragmented \$840 billion used auto market. We believe Vroom's asset-light model is highly scalable and has the potential to experience robust growth in the coming quarters.

We also remain committed to Salesforce.com, which retreated after announcing its acquisition of Slack, a leading-edge collaboration platform provider. The deal represents the second large transaction in less than two years—it acquired data analytics firm Tableau in 2019—and left some observers concerned about integration risk and potential delays in attaining margin expansion goals. Tuning out the market noise, however, we believe the deals will only reinforce Salesforce.com's position as a leading provider of enterprise software.

Leading individual contributors within the fourth quarter included broadband service providers Liberty Broadband Corporation and Altice USA, Inc., as well as The Walt Disney Company.

Our investment in Liberty Broadband stems from our previous stake in GCI Liberty, Inc., which merged with Liberty Broadband during the quarter. Our conviction in GCI Liberty resulted from the company's considerable investment in cable television provider Charter Communications. More importantly, GCI Liberty offered access to Charter, a leading broadband provider with dominant share in all of its markets, at a significant discount. As our GCI Liberty position converted to Liberty Broadband stock during the quarter, some of the embedded discount we had identified through our fundamental research narrowed, driving a strong contribution to returns.

Altice USA owns and operates mission-critical broadband architecture in key markets across the U.S. Although we believe the company holds above-average growth potential due to its SuddenLink high-speed service, which is available in California, Texas, and nine other states, the stock had been trading at a discount to its cable industry peers. During the fourth quarter, the company took steps to address the valuation disconnect by announcing an accelerated share repurchase plan of up to 15% of its outstanding shares. Proceeds from a recent asset sale made the move possible.

Disney rewarded our patience as it rallied after validating the

growth prospects of its Disney+ streaming platform. As COVID-19 first swept across the globe in the spring, Disney's stock slumped amid expectations that its theme park business would be hit hard. While we understood the concerns, our conviction was rooted in the company's deep reservoir of iconic brands and related franchise values, which Disney+ appeared well-positioned to monetize. Separately, as the vaccine news grew increasingly positive during the quarter, the pessimism around the theme parks eased as well.

The Fund continues to be managed in a sector-agnostic way, so changes in sector weights during the quarter largely reflected the performance of underlying holdings. The cash balance grew as we capitalized on strong market performance to exit certain hedged positions.

Some of the proceeds were used to fund two new hedged positions: pulp producer Domtar Corporation and computer security provider McAfee Corp. Domtar qualifies as a special situation as it is selling its personal care business in order to focus on its higher value container board business. We believe the company's plan provides a number of catalysts for future growth, especially in light of its low debt levels and the likelihood of an eventual recovery in demand. McAfee, which went through a series of ownership changes over the past 10 years, returned to the public market in October. With products that address the consumer and enterprise markets, the stock traded at a deep discount to its industry peers, despite the potential for double-digit earnings growth and healthy free cash flow.

## OUTLOOK

Despite progress on multiple vaccines, the ebb and flow of COVID-19 cases continues to pressure the pace and path of the economic recovery. Although the U.S. political picture cleared, uncertainty around policy decisions under the new Administration remained. With the market embracing another round of stimulus and the likelihood of accommodative fiscal policy for the foreseeable future, our sense is that any volatility will likely be short-lived, although the VIX remained elevated at year-end.

When volatility does surface—either broadly or selectively—we will look to capitalize on it by buying high-quality businesses that we believe will compound value over the long-term. We will stick to our playbook, working prudently to manage risk and using deep fundamental company-level research rather than simply turning to broad macroeconomic assessments. Meanwhile, our charge remains to prioritize risk over return, even if that means trading some incremental market upside for downside mitigation. Through the combination of stock selection and our covered call strategy, we believe our disciplined and conservative approach to deploying capital is ideal for a market that still appears to have gotten ahead of economic realities.

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### FUND TOTAL PERFORMANCE (As of 12/31/2020)

Share Class	Ticker	Gross Expense Ratio <sup>2</sup>	Net Expense Ratio <sup>2</sup>	Inception Date	1 Month	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	1.64%	1.61%	11/15/13	3.61%	9.31%	25.74%	21.63%	20.48%	14.44%	10.04%
Class A Shares – With Load	MRAEX	1.64%	1.61%	11/15/13	-2.33%	3.02%	18.49%	19.24%	19.06%	13.76%	9.63%
Class C Shares	MRCEX	2.25%	2.02%	7/1/15	3.61%	9.21%	25.30%	21.14%	19.99%	14.14%	9.93%
Investor Class Shares	MRIEX	1.35%	1.35%	11/15/13	3.69%	9.39%	25.90%	21.89%	20.77%	14.70%	10.30%
Legacy Class Shares	MEIFX	1.28%	1.26%	1/31/05	3.67%	9.43%	26.22%	22.05%	20.92%	15.01%	10.77%
S&P 500 Index <sup>3</sup>	–	–	–	–	3.85%	12.15%	18.40%	14.18%	15.22%	13.88%	9.79%

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.meridianfund.com](http://www.meridianfund.com).

<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 sector. Holdings are subject to change at any time and are as of the date shown above.

<sup>2</sup>The Investment Adviser has agreed to waive a portion of the investment advisory and/or administration fees and/or reimburse other expenses so that the ratio of expenses to average net assets of the (excluding acquired fund fees and expenses, dividend expenses on securities sold short, and interest expenses on short sales) does not exceed 1.60% for Class A, 2.00% for Class C and 1.35% for Investor Class. These expense limitations may not be amended or withdrawn until one year after the date of the prospectus (October 30, 2020).

<sup>3</sup>The Fund's Index, the S&P 500® 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 in an index.

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

<sup>5</sup>Since inception returns are calculated using the month end data prior to 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 1.64% as of 10/31/20. The annual net expense ratio is 1.61% as of 10/31/20. 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 2.25% as of 10/31/20. The annual net expense ratio is 2.02%. Investor Class: The historical performance shown for periods prior to inception on 11/15/13. The annual gross expense ratio is 1.35%. The annual net expense ratio is 1.35% as of 10/31/20. If the class had been offered prior to 11/15/13, the actual performance and expenses may have differed from the amounts shown. Legacy Shares: The annual gross expense ratio is 1.28% as of 10/31/20. The annual net expense ratio is 1.26% with a recoupment fee of 0.02% as of 10/31/20. 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.

*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 [meridianfund.com](http://meridianfund.com).*

### **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. **Covered call:** A financial market transaction in which the seller of call options owns the corresponding amount of the underlying instrument, such as shares of a stock or other securities. **Dow Jones Industrial Average:** A stock market index that measures the stock performance of 30 large companies listed on stock exchanges in the United States. **Nasdaq Composite Index:** A stock market index that includes almost all stocks listed on the Nasdaq stock market. **Russell 2000 Index:** An index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. **Margin of Safety:** A principle of investing in which an investor only purchases securities when their market price is significantly below their intrinsic value.

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