



SIFTER

Investment Management Due Diligence Questionnaire

The most typical 30+ questions from our investors:

Strategy, Process, and Regulatory Clarifications

Sifter Capital Ltd

Updated 26.9.2024

About the creator of this document:

Sifter Capital Oy (Ltd) is an investment company authorized as an investment advisory and wealth management services company under the Finnish Securities Funds Act by the Finnish Financial Supervisory Authority (FIN-FSA). located at Snellmaninkatu 6, P.O. Box 103, 00101 Helsinki. Sifter Capital has its registered office at Kasarmikatu 14 A, 00130 Helsinki, Finland. Our primary offering is to provide portfolio management services for Luxembourg-based SICAV Fund, Sifter Fund Global, and the Fund's management Company Adepa.

The authorization includes the right to provide Asset Management and Investment advisory services. In detail, Sifter Oy is authorized by the Finnish financial supervisory authority to provide the following investment services referred to under Chapter 1, Section 11 of the said Act, and an authorization to provide the following ancillary services referred to under Chapter 2, Section 3, Subsection 1 of the said Act:

- *Transmission of orders referred to under Chapter 1*
- *Asset Management referred to under Chapter 4*
- *Investment advisory services referred to under Chapter 5*
- *The right, referred to under Chapter 2, Section 3, Subsection 1, Paragraph 4, to produce and disseminate investment research, financial analyses, and other corresponding general recommendations regarding trading in financial instruments*

Disclaimer: *The information provided in this document is for informational purposes only and should not be interpreted as investment advice or a recommendation to buy or sell any stocks. It reflects our views on Sifter Fund's investment strategy and on companies in which we have invested or divested. Please note that past performance is not indicative of future results and should not be relied upon for future projections. This IM DDQ report does not replace the Fund's official prospectus or PRIIP/KID documentation. The material is intended solely for professional investors..*



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Sifter Fund in a nutshell

Sifter Fund is a pioneer in Quality Investing, with over 30 years of experience. We apply Nordic values to our investment management model, remaining agnostic to index benchmarks and focusing solely on high-quality global businesses with long-term potential. The Fund has outperformed the MSCI ACWI index over its 21-year track record, without assuming greater risk than the index.

What makes Sifter Fund different?

- Pioneer in Quality-investing over 30 years of experience
- Boutique investment house with a Focus on One Fund
- Sifter DNA lies in research and analysis.
- Systematic and Time-Proven Quality Investment Model - In-house Fundamental Research
- Outperformed indexes and peer group funds
- Deliberate and Thoughtful Decision-making
- Nordic Values embedded in the fund strategy

Nordic-Quality-Investing

Nordic Quality Investing reflects our thinking and culture. The Sifter Fund's investment model is anchored in Nordic values, which guide our pursuit of long-term ownership in quality businesses.

Nordic values: A process-led approach.

- No star managers or hierarchy
- Simplicity sharpens the focus on essentials
- Fact-based consensus decision-making.

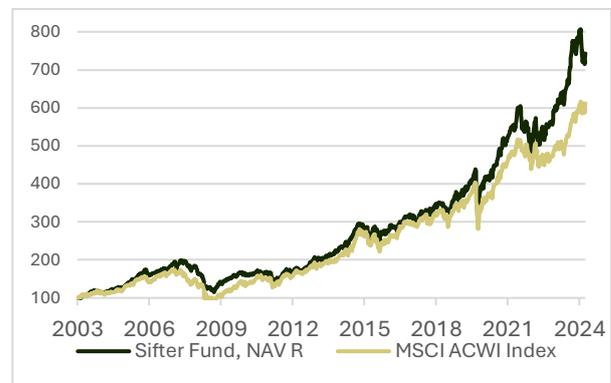
We believe Nordic values and Sifter Culture, embedded in our investment process, are as essential as the investment strategy itself.

For example, all investment decisions are made by a team rather than one individual. **Facts** take precedence over feelings. Especially in turbulent markets, team decisions tend to be more effective than individual ones.

Simplicity allows us to focus on what we do best. For instance, we manage only one fund and concentrate on bottom-up fundamental analysis. For example, we avoid macro speculation, currency hedging or market timing in our decision making.

Historical performance

The graph below illustrates the Sifter NAV (R-class) vs. MSCI ACWI Index since Sifter's inception. Sifter Fund is a quality-focused equity fund with a robust 21-year track record, delivering an annualized net return of 9.8% since inception (2003/06-2024/09)



NAV R vs MSCI ACWI Index, In EUR, 19.6.2003-20.9.2024

Inception 19.6.2003	Management company Adepa Asset Management S.A.
Currency EUR	Officially for sale in Finland, Luxembourg, Switzerland, Spain, France
Fund AUM 266.0 M EUR (30.8.2024)	Fund administration Adepa Asset Management S.A.
Legal structure SICAV I	Portfolio manager Sifter Capital Ltd
Auditor Ernst & Young	Custodian bank Quintet Private Bank
Registered Luxembourg	Supervising authority CSSF (Luxembourg)

Ratings



Investment strategy and process

Investment strategy – Why do we believe in quality companies?

How does Sifter define its investable universe?

Our investable universe includes all publicly traded companies globally (about 65,000). As our investment process starts, we analyse this universe with our Stocksifter Method—it eliminates about 99% of the companies, allowing the analysts to focus on the remaining less than 1%. This leads to a 500-company investable universe. We leave out multiple sectors and most of the emerging markets.

Has Quality investing performed well?

Quality investing has provided very good returns over the past 20+ years. Of course, history is not a guarantee of the future, but carefully chosen quality companies are well situated to succeed in the future as well. Therefore, we choose only very high-quality companies for the Sifter portfolio and own them for a long time—on average, 5 years.

Quality investing during stock market crises

Owning quality businesses gives peace of mind, especially during unexpected stock market crises. Market volatility is not a risk for quality investors. Although the share prices of quality companies may fall during market corrections, their core businesses have often not deteriorated. In our view, Sifter investors can feel safe even during market corrections when they own high-quality companies.

How do we define quality?

There are many ways to define quality. At Sifter, we emphasise three things in our quality businesses:

- **End-Market Growth:** The end-market (sector) where a business operates needs to grow and the company should have opportunities to reinvest capital. Typically, over 60% of a company's growth is explained by end-market growth.
- **Competitive Advantage & different business model:** The company must have a business model with a clear competitive advantage, preferably as a market or niche leader, so that it can take the lion's share of the end-market growth.
- **Strong Financials:** A quality company must have a clean balance sheet and preferably a Net Debt/EBITDA less than 3x. A quality business has a predictable revenue stream, high return on invested capital (over 15%) and industry leading margins.

How do we define a Quality Business

We emphasize three quality characteristics when evaluating quality businesses.

①

End-Market Growth

The sector in which a business operates demonstrates growth, offering the company opportunities to reinvest capital. Typically, more than 60% of a company's growth is driven by the growth of its end market.

②

Competitive Advantages & Distinct Business Model

The company must possess a clear competitive advantage, ideally being the market or niche leader, enabling it to capture a significant share of end-market growth.

③

Strong Financials

A quality company should have a solid balance sheet, with a Net Debt/EBITDA ratio preferably below 3x. It should also boast a predictable revenue stream, a high return on invested capital, and industry-leading margins.

We prefer companies with high ROIC

A high-quality business can boost its earnings year after year by investing with a high ROIC in its growth and capturing a dominant share of long-term market expansion.



Characteristics and metrics of a quality business

Few examples of
Quantitative factors

On average over the last 5-10 years:
→ Net sales have grown steadily
→ Operating profit has grown predictably
→ Gross and net margins are better than competitors
→ High return on invested capital (ROIC, over 15%)
→ A healthy balance sheet, preferably a net debt-free company

Few examples of
Qualitative criteria

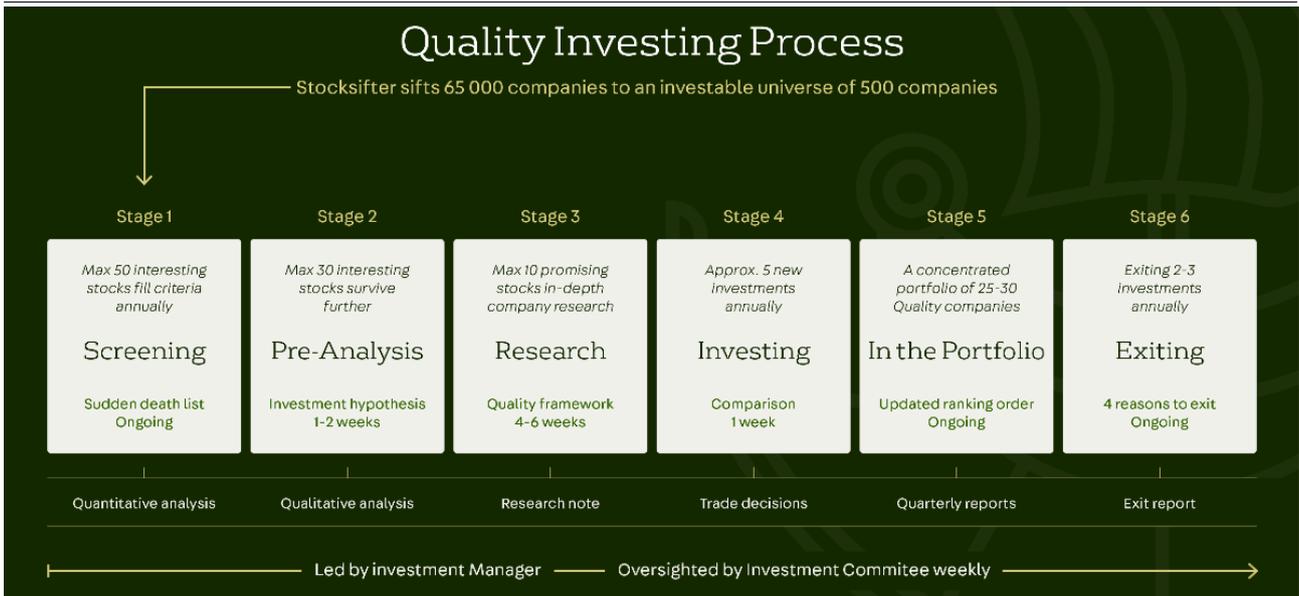
Enabling success in the years to come:
→ The earnings model has a clear competitive edge
→ High barriers to market entry
→ Products and services are critical to customers
→ The product is a small part of the customer's total costs
→ A large share of the revenue is recurring
→ The company's products have pricing power
→ There is growth in the industry or niche market
→ The company has a seasoned management team
→ Strong corporate culture

How do we screen companies – Sifter investment process phases

Are there steps in your investment selection process?

The selection process consists of four stages:

1. **Sifting** (Screening) - this process is done automatically. It is performed by our Stocksifter method by updating the elimination criteria. Experience has shown that this sifting process must be systematic and, dare we say it, brutal. There is no room for emotions or speculations in this game. The Stocksifter analyses companies based on 20 criteria, eliminates 99% of potential candidates and selects 500 companies for further analysis
2. **Comparison** (Pre-analysis) - during this stage, our analysts go through the companies that survived the screening process by order of valuation. At this stage, our analysts place special emphasis on each company's competitive advantage and their prerequisites for maintaining this advantage. Most companies have no permanent competitive advantage and around 30- 50 companies a year are selected for in-depth analysis.
3. **During the in-depth analysis** (Research) stage, our analysts dive deep into each company's revenue model, competitive edges, and competitors. Every single company at this stage is also reviewed by Sifter's Investment Committee, and each analysis is supplemented according to the Committee's instructions. Our analysts prepare an estimate on each company's ability to make money 5 years into the future. We then compare our estimates with other analyses. Of the 30-50 companies subjected to in-depth analyses, only 3–5 new ones are chosen for our portfolio
4. **Investment** - we only make 3–5 new investments every year. A company that is to be included in the Sifter Fund must be better than another existing investment in the portfolio. These new investments are characterized by such factors as:
 - A strong track record of making money
 - High barriers to entry
 - Clear competitive advantages and a time-tested revenue model
 - A healthy balance sheet, preferably with zero debts
 - A suitably affordable price in relation to its expected money-making ability



*How often do you consider replacing a company in the fund?
Can you go into your ESG policy?*

On a monthly basis, we consider replacing an existing portfolio company with a new candidate. However, experience and historical data reveal that we have executed a new investment approximately every quarter by replacing one of the existing holdings (3–5 new holdings per year).

While ESG is not a key focus area for us, we do have some basic principles we follow. We categorically do not invest in companies that derive most of their revenue from the following sectors: weapons, alcohol, gambling, or adult entertainment. The rest of our assessment is qualitative and conducted on a case-by-case basis. We believe that our investment strategy already accounts for many sustainability-related risks, given our comprehensive research approach and long-term perspective. Meanwhile, we are sceptical about the quality of the currently available ESG data and prefer not to let it dictate our investment decisions. Sifter Fund is an Article 6 fund and receives 5 globes in Morningstar.



How often do you conduct investment committees a year?

We hold meetings every Wednesday, totalling 52 times per year. Additionally, four times a year, we conduct two-day workshops where we re-analyse all the holdings and look at the big picture. The outcome of these workshops is an updated ranking within the portfolio list, along with recommendations to reduce, sell, buy, or increase positions in existing companies.

Do you produce papers related to your Macro/market convictions/view?

We do not officially take a stance on macroeconomic factors, nor do we believe we possess superior macro forecasting skills. Market research is conducted when initiating a research report and during the ongoing monitoring of a company, but we do not perform standalone market research unrelated to specific investments. We do not use macroeconomic situations or changes as a basis for portfolio decisions.

How do you define the valuation of investments candidates?

We primarily use valuation in our process to compare investments to each other. We forecast financial statements five years into the future and compare the normalized expected earnings to the current market price (essentially the earnings yield, or E/P). This figure is qualitatively adjusted for idiosyncratic risk and compared to those of other portfolio companies. We are always fully invested in equities regardless of how equities in general are valued. In other words, we do not try to time the market.

Why don't you consider macroeconomic in the Fund's investments?

Firstly, because the Fund is fully invested in stocks, we do not have the ability or desire to make allocation changes based on macroeconomic views. Secondly, macroeconomic forecasts—especially their effects on stock prices—are highly speculative.

Have you made any changes to the management process or selection criteria over the years?

The main principles have remained consistent over 20 years: investing in high-quality businesses for the long term. However, some adjustments have been made. For example, over the past five years, we have placed slightly more emphasis on revenue and end-market growth in our investment cases. Since 2018, we have decided to put more emphasis on net debt-free companies, and in 2019, we decided not to analyse or invest in Chinese companies. In the early years (2003-2008) in Fund's history the investment criteria looser regarding sector and geographical exclusion.

Why are we always 100% invested?

Are you always 100% in stocks?

Yes, we have learned that timing the market is impossible. The Sifter Fund is always fully invested—100% (minus a max. 1 % cash buffer)—in quality companies. We leave it to investors to choose what portion of their total assets to invest in stocks.

Where we don't invest in

Are there industries or companies you don't invest in?

- We do not invest in commodity-related companies such as those in the oil and gas industries, or in companies that do not comply with our ESG policy.
- We do not invest in banks or credit institutions.
- We avoid highly cyclical business models, such as construction companies.
- We do not use debt or derivatives, nor do we lend our shares.
- Additionally, we have found that hedging currencies does not provide additional returns to our investors and would unnecessarily divert focus from important company analysis.

Are there countries you don't invest in?

We do not invest in countries, that have weak investor protection or politically risky. For example, we don't invest in Russia, China or most of the African countries (hard limit). We also avoid investing in most of the emerging countries (Soft limit).



Do you have in the portfolio, some time to time, mid or small cap stocks?

We aim for the portfolio and its investments to always be fully liquid and completely divestible within one week. This limits our ability to buy small-cap and even mid-cap stocks due to insufficient liquidity. The lowest market capitalisation we can consider is approximately 1 billion USD. As of September 2024, the median market capitalisation of our portfolio investments is 90 billion USD, with the lowest market cap being 1.6 billion USD.

We rarely invest in emerging markets due to poor or insufficient available information, weak investor protection, and consequently higher risks. Additionally, liquidity can be limited in emerging markets.

Do you hedge a currency?

No, the investment characteristics are the defining factor, regardless of reporting currency. Most of our investments are multinational corporations with cash flows in all major currencies. At the portfolio level, these cash flows and FX variations will largely cancel out, especially over the long term.

Typical entry positions and holding weight differences

Are the companies in your portfolio of the same weight?

No. According to the fund rules, we can invest up to 10% of the fund's total value in a single company. Our largest holdings, high conviction investments, typically have weights between 6–9%, while the smallest are between 1–2%. When we invest in a new company, the initial investment is usually between 2–3%.

How do you rank and compare companies?

Once the investment case has been thoroughly analysed, we compare it with the current investments in our cylinder portfolio. The new investment must perform better than the median of the existing businesses to improve the portfolio's KPIs. The main investment criteria are expected earnings yield, ROIC, and net debt/EBITDA. In addition, we update the entire portfolio comparison and ranking four times a year.

When do we sell stocks?

Are there specific reasons Sifter sells stocks?

Yes, we will sell shares when:

1. The company's revenue model or competitive advantage is permanently damaged.
2. There are significant changes in the senior management of the company.
3. The company is sold or carries out a significant merger.
4. We identify a better business to replace the existing portfolio company.
5. The company's expected earnings yield has declined excessively over a five-year time span, typically because the stock price has risen too rapidly.

When do we care about stock price development?

When buying a stock, do you care about stock price?

Yes – when investing in a company, we conduct a yield analysis for the next five years. For a company to be included in the fund, its projected fifth-year earnings yield must exceed the portfolio average.

What about if the stock price changes drastically?

Stock price development becomes important when the company's expected earnings yield declines excessively due to a high share price. Although the price of the stock typically plays a minor role in investment decisions, it matters when the price has risen too much relative to the company's long-term capacity to generate earnings. When this occurs, the stock's lower earnings yield makes it a candidate for divestment. Specifically, the stock may be sold if its price is no longer consistent with its fundamentals.



In the case of a stock price decline, we reanalyse the company and, depending on our conclusion, take appropriate action. If the business fundamentals have not deteriorated, we begin to increase our position with lower valuations. This was the case in 2020 when **Safran's** share price plummeted by over 60% due to the COVID-19 pandemic, and we started gradually buying Safran shares with a very good earnings yield.

In 2024, **Disco Corporation's** share price had risen too rapidly compared to our five-year earnings yield. As a result, we decreased our holding in Disco by 30%. We did not sell it entirely because it is very difficult to find excellent businesses, and secondly, our estimates might be incorrect, and the share price could continue to perform well.

Investment management team

Most funds have only one portfolio manager who is responsible for analysing, monitoring, and deciding which stocks to invest in. We believe in teamwork and continuity. Sifter portfolio management is process-driven with Nordic values. That is why we have enlisted a 4+4 team to analyse and monitor our investment opportunities.

History of Sifter Investment Management (IM) team:

- The First IM team was in Geneva from 2003 to 2015. However, organizational changes and regulatory requirements during 2013-2015 presented some challenges.
- Due to Swiss regulations, IM was relocated inside the EU to Helsinki in 2015, and a new IM took over in 2016 when the current CEO became a partner and organized a new IM team. The current team has consistently executed the Sifter investment strategy since 2017.

<i>Santeri Korpinen</i>	CEO (since 2016), Partner since 2017 Mr. Korpinen is currently serving as CEO since 2016 and Board Member of Sifter Capital Oy since 2022. Previously held senior roles including Senior Partner at Talent Vectia Oy, a business consulting firm, and BU Director at Tieturi Oy, a company specializing in project management and business development.
<i>Alexander Järf</i>	Portfolio Manager (since 2017), Partner since 2024 Mr Järf is a business analyst who holds two Master's degrees: from Tech and from Finance. Alexander leverages his engineering background in analysing Sifter's technology and industrial companies. Before arriving at Sifter, his career focused on the Finnish industrial sector.
<i>Olli Pöyhönen</i>	Portfolio Manager (since 2018), Partner since 2024 Mr. Pöyhönen is a seasoned business analyst who leaves no stone unturned in his quest to find the best investment targets for Sifter's portfolio. Before he joined Sifter, Olli served as an analyst in the finance sector and in the Bank of Finland.
<i>Karl-Johan Lidsle</i>	Portfolio Manager (since 2019), Partner since 2024 Karl is the latest addition to the Sifter team. Karl's analytical methods have helped him become a formidable part of the team when it comes to the systematic analysis and investigation of a company.



The Investment Management team since 2017 onwards as well as the Investment Committee



Who is making the investment decisions

Who makes the investment decisions?

The analysis and screening are done by the investment management team of Sifter Capital which meets with the investment committee every week. This eight people team is behind the investment decisions. The decisions are based on teamwork but in a way that every company has one specific portfolio manager who oversees the company.

How does the investment team work?

All Sifter portfolio managers prioritize identifying new opportunities while monitoring existing investments, screening around 50 candidates annually. Potential investments are presented during weekly investment committee meetings, with decisions to continue research typically taking six weeks and involving multiple discussions. Final investment decisions are made by consensus between the portfolio managers and the CEO, leading to 3–5 new investments or divestments each year, usually replacing existing holdings.

The fund maintains a concentrated portfolio of approximately 30 companies to ensure focused research efforts. All portfolio companies are reviewed quarterly, assessing their outlooks, scenarios, and valuations.

Fund performance

Disclaimer: Past performance is not a guarantee of future returns.
Please see the most recent fund performance at Sifter Fund.

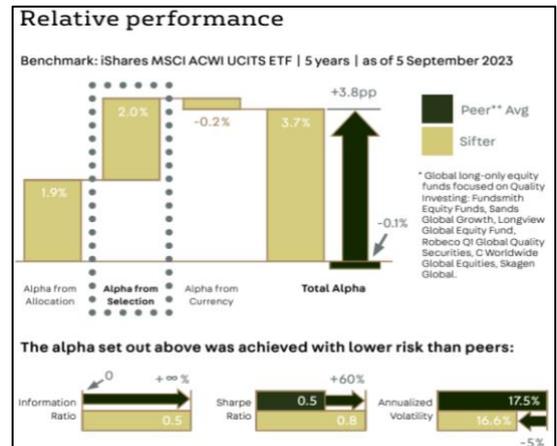
Sifter Fund returns are always presented as net returns (after all fees are deducted) and are based on the most expensive share class (R-Class). The institutional share class (PI-Class) has 0.4% lower fees, which makes a significant difference over the fund's 20-year history.



Fund performance vs. iShares MSCI ACWI ETF 9/14-9/24. Source: Bloomberg Terminal

The Fund has had 4 negative years and 17 positive years in its history. The worst historical return occurred in 2008 (-35.6%), and the best year was 2021 (+34.4%). The Fund's strategy is not to be the top performer in any given year, but rather to deliver stable, risk-averse performance over the long term.

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2003						-1.2%	1.7%	3.6%	-1.3%	4.0%	0.3%	6.2%
2004	1.5%	2.1%	-1.6%	0.3%	-1.3%	0.5%	-0.8%	0.5%	2.1%	-1.0%	4.2%	1.5%
2005	0.8%	3.1%	-1.3%	0.0%	2.4%	3.7%	3.7%	0.6%	6.8%	-3.0%	3.5%	4.7%
2006	4.6%	1.6%	1.3%	1.6%	-5.9%	0.3%	1.1%	1.2%	0.0%	2.5%	0.8%	2.0%
2007	0.4%	-0.9%	1.1%	3.4%	3.5%	1.2%	1.2%	-2.5%	4.0%	2.3%	-3.0%	2.1%
2008	-7.6%	0.9%	5.1%	3.7%	0.7%	-8.1%	-2.0%	-2.4%	-10.7%	-8.8%	-2.1%	-0.7%
2009	-4.2%	-2.8%	1.9%	8.6%	5.1%	0.7%	3.8%	1.1%	2.6%	-0.1%	2.4%	4.6%
2010	2.1%	1.0%	4.7%	-0.2%	-2.0%	0.6%	-2.2%	0.0%	0.2%	2.0%	0.9%	3.9%
2011	-2.6%	-0.1%	-0.4%	0.3%	0.7%	-2.2%	0.3%	-10.3%	-1.5%	5.8%	-3.5%	4.9%
2012	4.8%	4.1%	0.8%	1.6%	-5.3%	1.2%	5.5%	-0.2%	-0.3%	-1.7%	2.1%	-0.3%
2013	2.4%	5.3%	4.3%	1.0%	3.3%	-2.4%	2.0%	-1.8%	1.7%	1.7%	1.9%	1.4%
2014	-0.3%	2.6%	1.4%	0.6%	3.2%	1.4%	1.2%	2.3%	1.9%	0.1%	5.1%	2.8%
2015	3.6%	4.1%	1.2%	-0.1%	1.3%	-5.7%	3.3%	-6.6%	-4.4%	10.3%	3.0%	-2.7%
2016	-6.5%	2.5%	1.3%	0.2%	1.7%	-0.4%	5.1%	-0.9%	-1.6%	0.5%	2.7%	1.8%
2017	0.6%	3.7%	0.8%	0.5%	0.1%	-2.3%	-0.4%	-2.9%	3.5%	6.1%	-1.4%	0.2%
2018	2.2%	-0.1%	-3.7%	2.0%	6.0%	-1.8%	1.9%	1.9%	0.0%	-7.3%	3.3%	-7.3%
2019	8.9%	5.0%	1.2%	5.2%	-5.5%	2.5%	5.1%	-1.7%	3.1%	1.7%	3.1%	-0.2%
2020	3.3%	-7.8%	-11.4%	14.2%	1.6%	0.9%	1.8%	3.0%	-0.2%	-1.2%	8.3%	0.0%
2021	5.3%	1.1%	5.8%	1.3%	-0.2%	3.0%	1.9%	2.3%	-1.5%	4.1%	5.0%	2.1%
2022	-9.2%	-0.7%	3.9%	-3.4%	-4.2%	-3.9%	10.6%	-3.0%	-6.8%	4.0%	3.5%	-4.8%
2023	4.3%	1.4%	3.0%	-0.7%	7.3%	0.3%	4.3%	0.5%	-1.4%	-2.7%	6.9%	4.6%
2024	4.6%	6.3%	3.2%	-3.8%	3.3%	3.6%	-5.5%	-1.1%	-1.8%			



Sifter Fund performance monthly on the left. Sifter fund relative performance compared to peers on the right. As of 1.10.2023. Source: Bloomberg.

In the Financial Times you may follow Sifter Fund rating and performance based on Lipper Leader Scorecard.



As of 31.8.2024. Source: Financial Times

Risk measures 1 year | 3 year | 5 years
Benchmark used: Morningstar Global TME NR USD

	Fund	Category average		Fund	Category average
Alpha	+2.97	--	R squared	+83.03	--
Beta	+0.94	--	Sharpe ratio	+0.81	--
Information ratio	+0.34	--	Standard deviation	13.83%	--

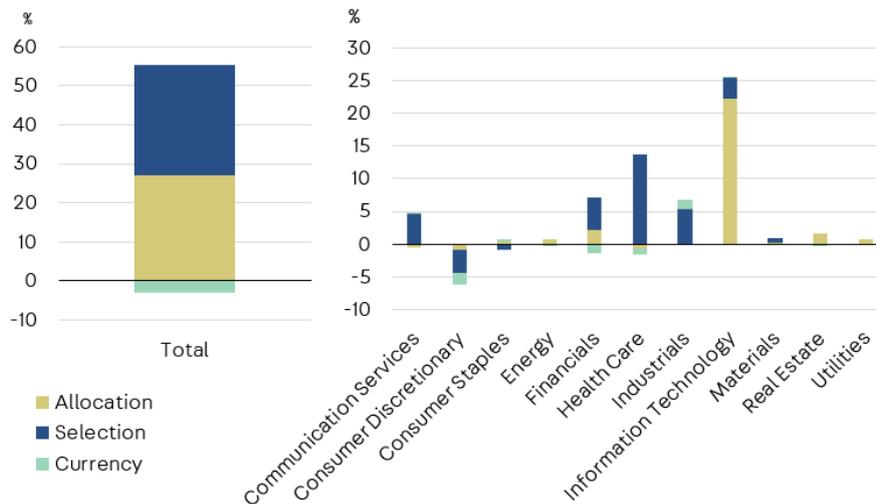
As of Aug 31 2024.

As of 31.8.2024. Source: Financial Times.

Contribution and attribution analysis

The chart below illustrates the attribution by GICS sectors (5-year), comparing Sifter Fund Global with iShares MSCI ACWI ETF.

This chart is updated annually and is designed to help professional investors better understand the factors that have influenced Sifter Fund's return over the 5-year period



All calculations are in EUR. As of 31.8.2023. Gross of fees. Source: Bloomberg terminal.

Do you compare the fund with some specific peers / Benchmark (i.e., MSCI Growth/Value...)?

No single benchmark fully captures our investment philosophy, so we do not have an official benchmark. However, the MSCI World All Country Index would be the most suitable benchmark for performance comparisons.

Close Peers with similar flavour in their investment strategy:

- Fundsmith
- Sands Global
- Coeli BMC Global Select
- C. Worldwide
- Skagen Global

Risk measures, 5 years

	Alpha	Beta	Information ratio	Sharpe ratio	R squared	St.deviation (ann., %)
Sifter Global (R Class)	3.1	1.0	0.5	0.8	0.83	16.6
Peer average	-0.6	1.1	0.0	0.5	0.81	17.5
Fundsmith Equity Fund	2.3	0.9	0.1	0.7	0.73	14.6
Sands Global Growth	-4.3	1.3	-0.1	0.3	0.71	22.4
Longview Global Equity Fund	-1.6	1.1	0.0	0.5	0.81	18.6
Robeco Q1 Global Quality Equities	-0.3	1.1	0.2	0.6	0.92	17.4
C Worldwide Global Equities	0.6	0.9	0.0	0.6	0.84	14.9
Skagen Global	-0.4	1.1	0.0	0.6	0.82	17.3

Sifter Fund Global R class vs. peers. All calculations in EUR and net of fees. As of 31.8.2023. Source: Bloomberg Terminal



Risks and risk metrics

What are the most significant risks of investing in Sifter?

Systematic market risk. If all stocks fall, panic selling may occur, and the stock market could remain at lower levels for an extended period. The last such situation was observed in 2008-2009. The Sifter Fund also declined during that time but performed slightly better than the average indexes. As long-term investors, we do not view volatility as a risk because we do not sell our shares in such situations.

What are Sifter's weaknesses?

Concentration risk: Since we are invested only in max 30 stocks it is possible that in some years The Fund underperforms vs MSCI.
Risk-averse style: Our investment strategy is quite conservative and risk-averse, which we consider our core strength. However, some investors may prefer a more aggressive or exotic approach to investing. Therefore The Fund might underperform vs Growth indexes. Additionally, since we do not hold cash, we are unable to take advantage of market corrections.

What if something happens to Sifter's key people?

Sifter's strategy is founded on a well-proven process that serves as the core of our approach, ensuring the Fund can consistently implement its strategy despite changes in personnel. Furthermore, key members of Sifter, including Portfolio Managers, hold shares in the investment manager company, thereby demonstrating their commitment.

Do you have some risk metrics like Standard Deviation or Max drawdown?

Standard deviation is **15.91%** (annualised based on monthly data, past 5 years 31.7.2019-31.7.2024, source: Bloomberg Terminal)
Maximum drawdown is **31.9%** (based on monthly data, past 5 years 31.7.2019-31.7.2024, source: Bloomberg Terminal)

Do you have some risk/return metrics like Sharpe ratio or information ratio?

Sharpe ratio is **0.93** (based on monthly data, past 5 years 31.7.2019-31.7.2024, source: Bloomberg Terminal)
Information ratio is **0.38** (based on monthly data, over the past 5 years 31.7.2019-31.7.2024, in EUR, using ISAC LN Equity as the benchmark, source: Bloomberg Terminal)

Do you have some metrics like Beta, Correlation, Annualized Alpha?

Beta is **1.0** (based on monthly data, over the past 5 years 31.7.2019-31.7.2024, in EUR, using ISAC LN Equity as the benchmark, source: Bloomberg Terminal)
Correlation is **0.89** (based on monthly data, over the past 5 years 31.7.2019-31.7.2024, in EUR, using ISAC LN Equity as the benchmark, source: Bloomberg Terminal)
Annualized alpha is **2.5%** (based on monthly data, over the past 5 years 31.7.2019-31.7.2024, in EUR, using ISAC LN Equity as the benchmark, source: Bloomberg Terminal)

Historical AUM Growth

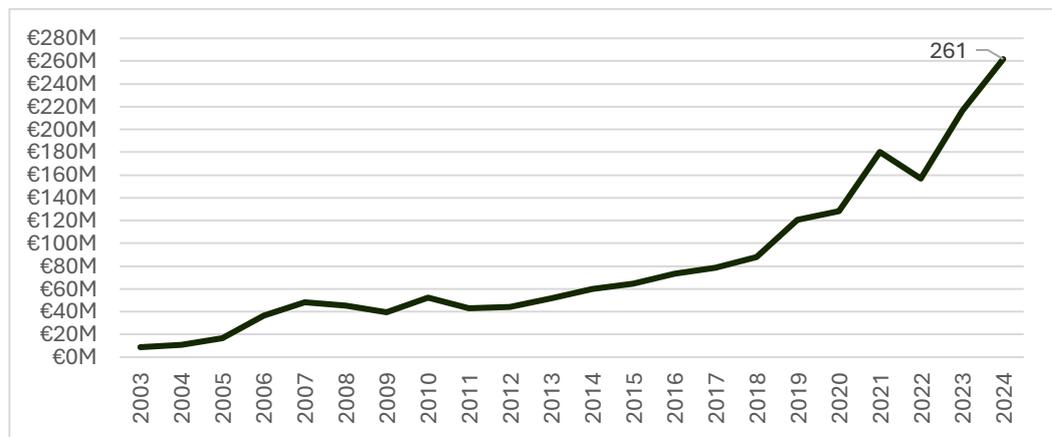
What is the origin of the fund assets?

The fund's assets originally come from the founding family and a few other families from Switzerland, France, and Finland.

Why are the fund's AUM relatively modest despite its long track record and strong performance?

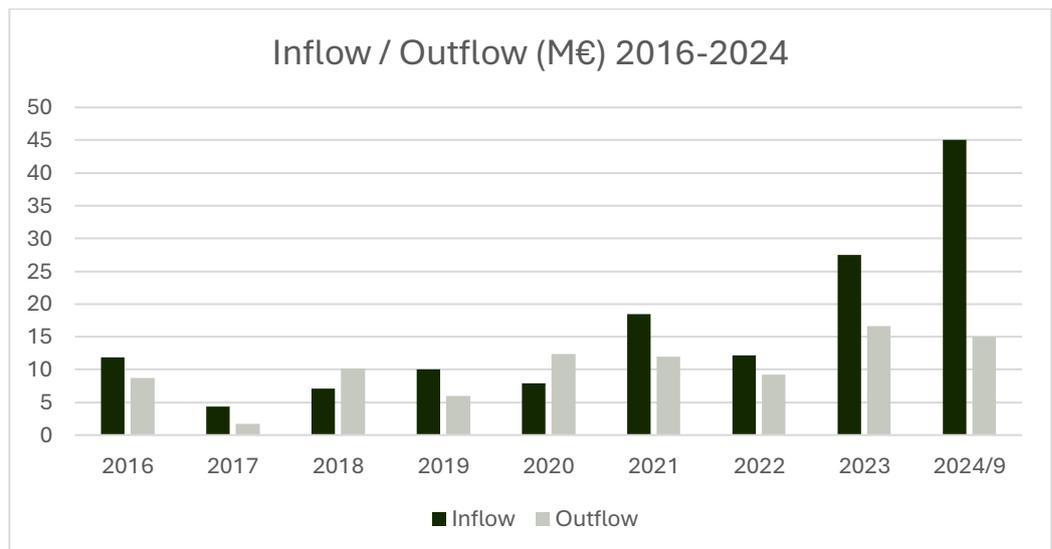
From 2003 until 2016, the Fund was designed to serve family office purposes for a few families, and there were no systematic selling efforts in place. Since 2017, it has been opened to commercial distribution, allowing for steady growth in AUM as larger inflows of capital became possible.

The graph below illustrates the development of Sifter Fund's Assets Under Management (AUM) over time.



AUM development 19.6.2003 - 16.9.2024. In EUR.

Capital appreciation has played a major role in AUM development until 2020. Since then, annual inflow has steadily grown and is expected to reach 50-100 M€ in coming years.



Historical allocation changes

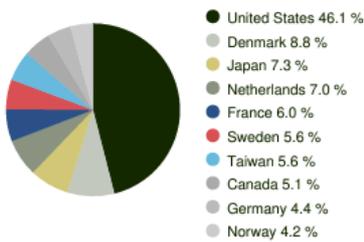
Does Sifter have any allocation principles?

The allocation of the current portfolio is purely the result of a systematic screening process. When selecting companies for the Sifter portfolio, we do not speculate on sectors or geographical areas. More precisely, we do not have predefined targets for specific geographic or sector weights. The current portfolio allocation always reflects the best-quality companies in the world with reasonable valuations.

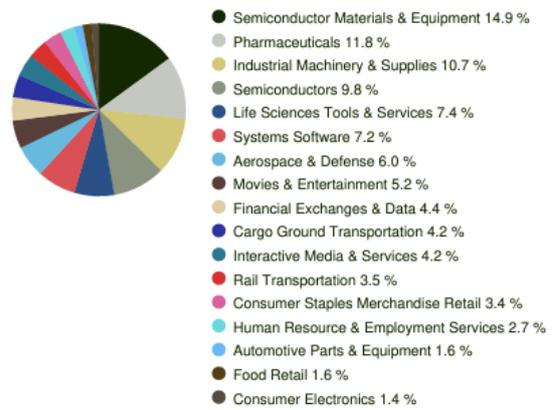
Are there countries you don't invest in?

We do not invest in countries, that have weak investor protection or politically risky. For example, we don't invest in Russia, China or most of the African countries (hard limit). We also avoid investing in most of the emerging countries (Soft limit).

Geographical allocation



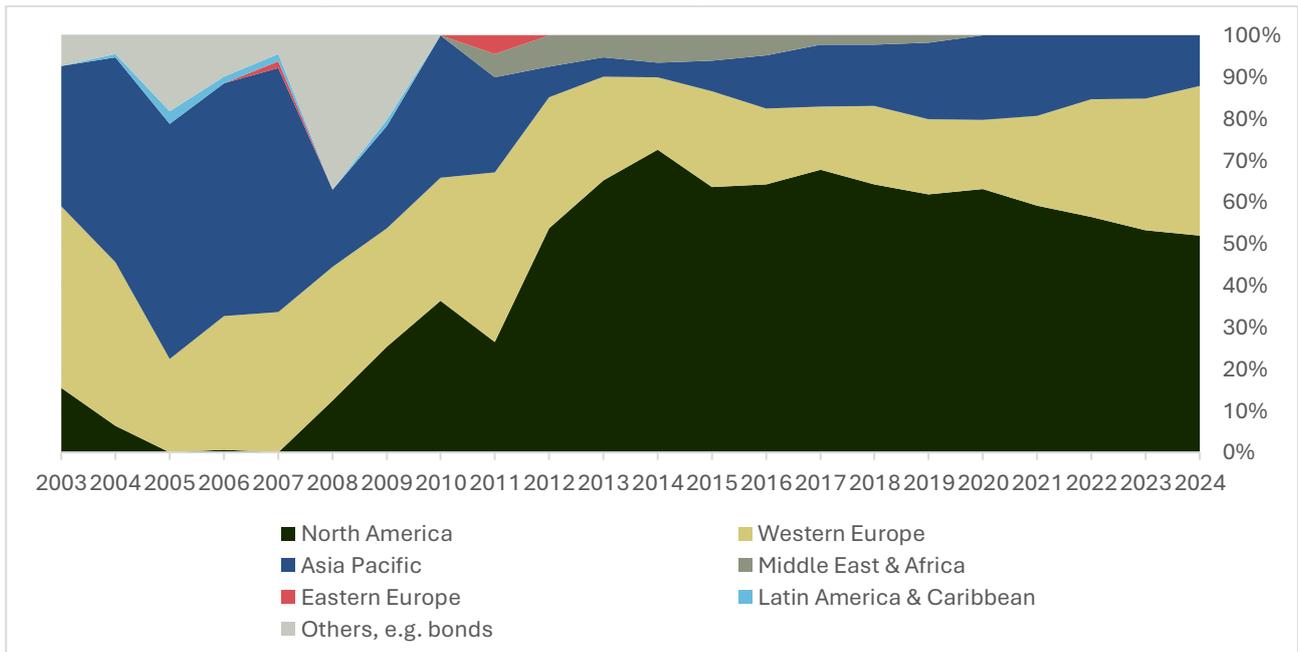
Sector allocation



Geographical and sector allocation in Sifter Fund. As in 22.08.2024

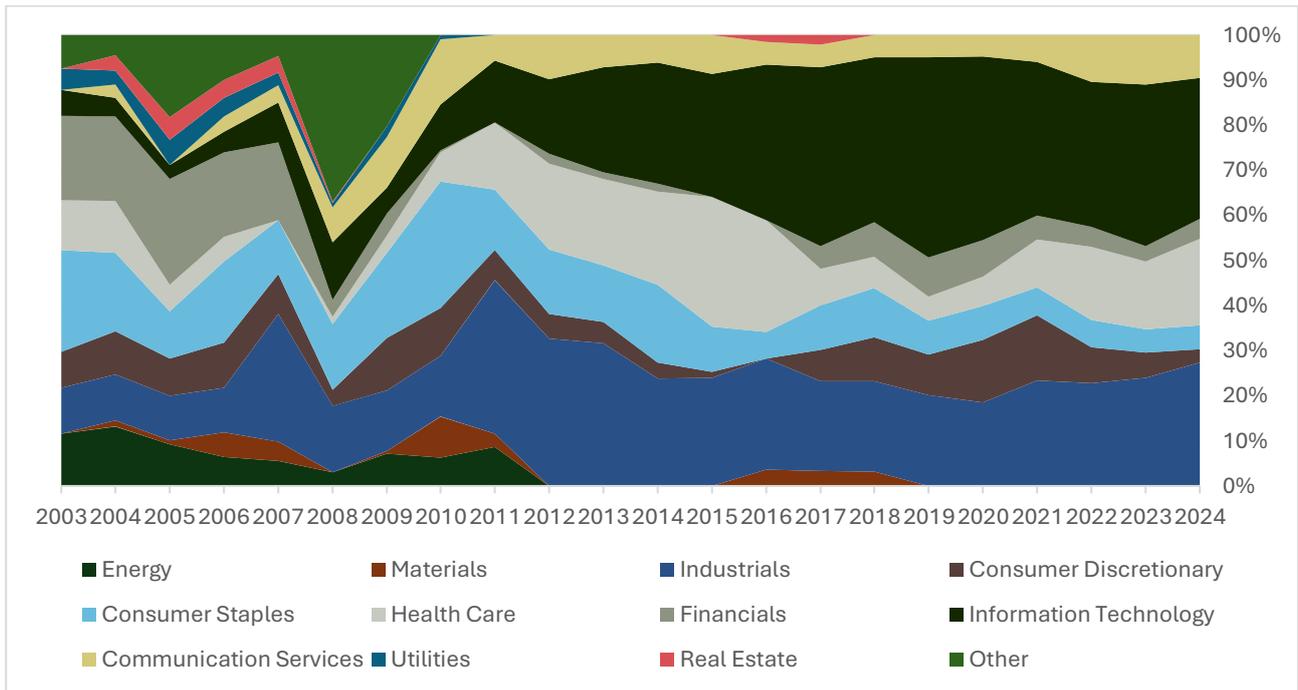
Geographical allocation changes 2003-2024

After the Financial Crisis (2010) the investment strategy has been more honed and investment criteria stricter. The Fund Investment strategy does not limit us to invest weight on certain sectors/countries.



As in 22.08.2024. Source: Sifter Annual reports, Bloomberg Terminal

Sector allocation changes 2003-2024



As in 22.08.2024. Source: Sifter Annual reports, Bloomberg Terminal

Sifter vs. MSCI ACWI

Why does Sifter not have an official benchmark index?

Sifter does not have an official benchmark index, as it is not defined in the fund's prospectus. Additionally, Sifter's geographical and sector allocations do not follow the MSCI Index, making it less aligned with traditional benchmarks.

Sifter Fund Global Geographical allocation vs index			
	Sifter 31.12.2023	MSCI 31.12.2023	Difference
North America	50.2%	64.2%	-14.0%
South and Central America		0.2%	-0.2%
Western Europe	33.8%	20.2%	13.6%
Asia Pacific	16.0%	14.0%	2.1%
Eastern Europe		0.3%	-0.3%
Africa / Middle East		0.7%	-0.7%
Not Classified		0.5%	-0.5%

Sifter Fund Global Sector allocation vs index			
	Sifter Fund	MSCI ACWI ETF	Difference
Information Technology	38.3%	22.5%	+15.8%
Industrials	24.4%	10.4%	+14.0%
Health Care	13.2%	11.0%	+2.3%
Communications Services	9.8%	7.2%	+2.6%
Consumer Discretionary	5.0%	10.8%	-5.7%
Consumer Staples	5.3%	6.4%	-1.1%
Financials	3.9%	15.0%	-11.0%
Energy	0.0%	4.2%	-4.2%
Materials	0.0%	4.1%	-4.1%
Real Estate	0.0%	2.3%	-2.3%
Utilities	0.0%	2.4%	-2.4%
Not classified	0.0%	3.7%	-3.7%

Geographical and sector allocation 31.12.2023, Sifter Fund Global vs MSCI ACWI ETF

Typical holding period and Portfolio turnover

What is the typical holding period of an investment?

The average holding period is five years. If the underlying drivers and investment rationale for a company are no longer being met, we may consider divesting earlier. Conversely, if the company continues to perform well, we may opt to hold the investment for a longer period.

What is the portfolio annual turnover?

In general, turnover range from 10–15 % per annum. The typical investment remains in the portfolio for five years, with the maximum holding period to date being around 15 years.



Examples of a good investment cases

Case: Taiwan Semiconductor Manufacturing Company (TSMC) (1/2 example)

TSMC, which is headquartered in Taiwan, is the largest contract manufacturer in the semiconductor industry (also referred to as a semiconductor foundry). Among its other products, TSMC produces 3-nm microchips that manufacturers such as Apple use in their smart phones and other devices. TSMC's independent foundry model, without its own product lines, avoids conflicts of interest seen in foundries like Samsung and Intel. Smaller competitors like UMC and GlobalFoundries lack TSMC's advanced manufacturing capabilities, as the rising capital expenditure required for each new technological generation has become an insurmountable barrier for them.

TSMC is a dominant player in leading-edge logic chip manufacturing with a long cumulative learning curve and scale economics on their side

Today, TSMC is the only independent foundry able to manufacture the most demanding chips of the next generation. As a result, the company has a strong competitive advantage and high margins. Meanwhile, the end-market demand for more powerful and efficient leading-edge chips shows no signs of abating. It could be said that TSMC almost has a monopoly in a growing market where the threshold for entering the industry is high and the cumulative learning process is long.

Numerical qualitative factors

- The operating margin 42%, on average over a 5-year period
- Return on invested capital (ROIC) 23%, on average, over a 5-year period
- Revenue growth 16% per year, on average, compounded over a 5-year period

Growth prospects

The manufacturing of state-of-the-art semiconductors will narrow to fewer and fewer companies, and this will grow TSMC's volumes. At the same time, the price of the services will remain high. TSMC forecasts that its revenue will grow by 15–20% per year, on average, over the long-term.

Case: Novo Nordisk (2/2 example)

On August 8, 2023, Novo Nordisk announced that its obesity treatment drug, Wegovy, reduced the risk of serious cardiovascular events, such as heart attacks, by 20% compared to the placebo group in the SELECT study.

This news caused Novo Nordisk's stock to rise sharply by 18% in a single day.

The Sifter Fund invested in Novo Nordisk in December 2020. Nearly four years later, in September 2024, the stock's weight is nearly 9% of the entire Sifter Fund's portfolio, surpassing even Microsoft, which is one of our longest-standing investments.

Several positive developments have occurred in Novo Nordisk's business over the past three years, and the company's stock price has offered nearly a 340% increase in euros (from 12/2020 to 9/2024) to Sifter's investors, dividends excluded.

Novo Nordisk's business is protected by high barriers to entry

- High Research and Development (R&D) Investments
- Patents and Intellectual Property Rights
- Regulatory Barriers



Examples of bad investment cases

Typical reasons for failures

Can you outline the typical reasons for underperforming investments?

Based on our lessons learned in the history there are a few typical reasons for failures:

- An unexpected change in the end market that affects the company's growth prospects
- An unexpected shift in the competitive landscape that challenges the company's profitability
- The company makes a large acquisition, which diverts focus and weakens the balance sheet
- Our original investment hypothesis was wrong, and the company's earnings growth does not meet expectations
- The purchase price of the company's shares was too high relative to realized growth expectations.

How do you mitigate potential failures in the future?

We mitigate potential failures through a disciplined and thorough approach. First, we conduct extensive research on companies before making any investment decisions. Additionally, we continuously monitor the performance of each company, and since our portfolio typically consists of fewer than 30 companies, we have the time and capacity to follow each one closely.

Lastly, we have clear criteria in place for when to sell a company, ensuring a structured decision-making process and over 20 years history has strengthened our culture & discipline to follow our investment strategy.

Case: Intel (1/2 example)

Sifter invested in Intel in 2012 when the company was the leading integrated microchip manufacturer for PC and server hardware. Later on, the company began facing significant challenges that eroded its competitive edge. Intel struggled with scaling its 10nm technology, causing delays in developing 7nm chips, while competitors like TSMC advanced by approximately three years. Additionally, competitor AMD, utilizing TSMC's superior manufacturing capabilities, captured a growing share of the data centre market, diminishing Intel's dominance.

Apple's shift to ARM architecture for its laptops and Nvidia's proposed acquisition of ARM further threatened Intel's x86 dominance. Uncertainty around Intel's M&A activities, including speculative moves into self-driving chip technology, raised concerns about the company's strategic direction.

Key Events Leading to Divestment

These multifaceted challenges prompted Sifter to reassess its investment in Intel. The combination of increasing competition, technology setbacks, and questionable management decisions created enough uncertainty about Intel's future performance.

Lessons and Divestment

Recognising the emerging risks, Sifter divested its Intel position in 2019 at a profit, avoiding potential future declines. This decision underscored the importance of exiting investments when a company's core competitive advantages weaken, even if the company remains profitable at the time of sale.

Case: Teva (1/2 example)

Sifter invested in Teva Pharmaceuticals, which became heavily leveraged after a \$40 billion debt-fuelled acquisition in 2016. This acquisition shifted Teva's focus to the low-margin generics sector, making the company vulnerable. In autumn 2016, the pharmaceutical industry faced scrutiny over aggressive drug pricing, leading to sector-wide price deflation that further impacted Teva's generics business. By June 2017, Teva reported preliminary revenues of \$5.7 billion alongside a GAAP operating loss of \$5.7 billion.

Key Events Leading to Divestment

- **August 2017:** Teva issued a revised fiscal year outlook, causing its stock price to drop by c. 30%.
- **Goodwill Impairment:** Teva reported a \$6.1 billion impairment in its U.S. generics business due to price erosion, increased competition, and regulatory changes.



- **Earnings and Dividend Cuts:** These issues led to a significant reduction in earnings guidance and a 75% cut in its quarterly dividend.

Lessons and Divestment

Internal discussions at Sifter Capital during 2016-2017 raised concerns about Teva's high leverage and declining sales. In hindsight, divesting earlier after the Allergan/Actavis acquisition announcement would have been wiser. This experience highlighted the importance of being cautious with highly leveraged companies that lack sufficient free cash flow to support acquisitions.

Regulatory matters

Why is the Fund based in Luxembourg?

When the Fund was established in 2003, acquiring fund management services in Luxembourg was relatively easy and cost-effective. Furthermore, for Central European investors, Luxembourg is regarded as a credible and safe location. However, being domiciled in Luxembourg does not offer any tax advantages to the investor.

Are there specific regulations limiting investment in single holdings?

Yes, the Sifter Fund complies with UCITS regulations, which limit any single holding to a maximum of 10% of the portfolio and ensure that no more than 40% of the portfolio is invested in companies holding more than 5% of the fund's value.

Investor base

What is the structure of your investors?

30% of the assets are held by Founding family, who has long-term commitment to be invested in the Fund. The top five Investors of the Fund own 40 % of the Assets, including the founding family, a Swiss based wealth manager and a Finnish based foundation. The remaining AUM is distributed among wealth managers in Switzerland, Finland, and Luxembourg, as well as private individuals and holding companies/family offices across Europe.

How much of your assets are the top 5

Country		Share class		Investor type	
Finland	40 %	I Class	18 %	Institutional	72 %
Luxemburg	30 %	PI Class	44 %	Retail	28 %
Spain	5 %	R Class	38 %		
Switzerland	20 %				
France	3 %				
UAE	0,50 %				

Does Sifter have institutional investors?

Yes, over 70 % of the investors are classified as institutional investors.

The founding family, a big wealth manager in Switzerland and a foundation in Finland.

How many investors does Sifter Fund have?

The Fund has approximately 3,550 end investors, including those from a small pension fund. A more precise count is approximately 500 investors, sourced through wealth managers, platforms (Allfunds, Inversis, Euroclear), and direct investors via the Fund's transfer agent.

What is the average holding period of investors, and has the fund faced significant redemptions during crises?

The average holding period is approximately eight years. During the 2008-2009 financial crisis and the COVID-19 pandemic in 2020, very few investors withdrew their assets.

A typical Sifter investor, whether retail or professional, shares similar equity investing values with Sifter. They do not view volatility as a risk and rely on the compounding effect of long-term investing in quality businesses.

In which countries can Sifter investments be made?

The Fund is registered for sale in Luxembourg, Finland, Switzerland, Spain, and France. (PRIIP/KID's). The next potential countries for sale are Belgium and Portugal.

We are willing to enter additional countries as demand for the Sifter Fund arises.

How to invest in Sifter Fund

The fund classes are detailed in the table below. Note, to be active 15th of November 2024.

	Distribution Classes				PA-Class EUR**	PB-Class EUR**	PC-Class USD	PI-Class EUR
	RA-Class EUR	RB-Class EUR	RC-Class USD	RD-Class USD				
Subscription Commission*	0	0	0	0	0	0	0	0
Redemption Fee	MAX. 0.5%	MAX. 0.5%	MAX. 0.5%	MAX. 0.5%	MAX. 0.5%	MAX. 0.5%	MAX. 0.5%	0
All-In Management Fee***	2.0%	1.5%	2.2%	1.7%	1.4%	1.2%	1.1%	1.0%
Minimum Initial Subscription Amount	EUR 100	EUR 5M	USD 1	USD 50K	EUR 100K	EUR 500K	USD 1M	EUR 2,5M
Performance-based fee	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Please, see the prospectus. Please, contact Sifter Capital to negotiate Retrocession commercial terms.

Does Sifter have a distribution partner in Switzerland?

The regulatory distribution partner in Switzerland is Acolin Fund Services. Wealth managers, IFA's and other regulated entities are preferably advised to join Acolin network in case of receiving retrocession. Entities operating without retrocessions are advised to contact Sifter Capital to negotiate bundling opportunities.

Do you bundle investments?

From time to time, the Fund's board may resolve to accept multiple subscriptions bundled together when there is evidence that the subscriptions originate from a single entity.
Please contact Sifter Capital for more information.

In which platforms Sifter is available?

Allfunds, Euroclear/MFex, Inversis, Pershing 2024/Q4 expected.

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www.finanssivalvonta.fi