

Santander Prosperity

Annual report

(RED)EFINE HOW YOU INVEST

Santander Prosperity

Santander Prosperity is a global, multi-sector equity fund with a focus on long-term growth and profitability themes that contribute to improving our well-being as a society.

Today's society faces challenges such as population ageing, expanding urbanization, and supplying food and drinking water to a growing world population. These challenges represent investment opportunities through companies around the world that are building the society of the future, which Santander Prosperity takes advantage of.

Investment megatrends

Santander Prosperity invests in companies whose activities are grouped around three basic themes :

Health & Well-Being

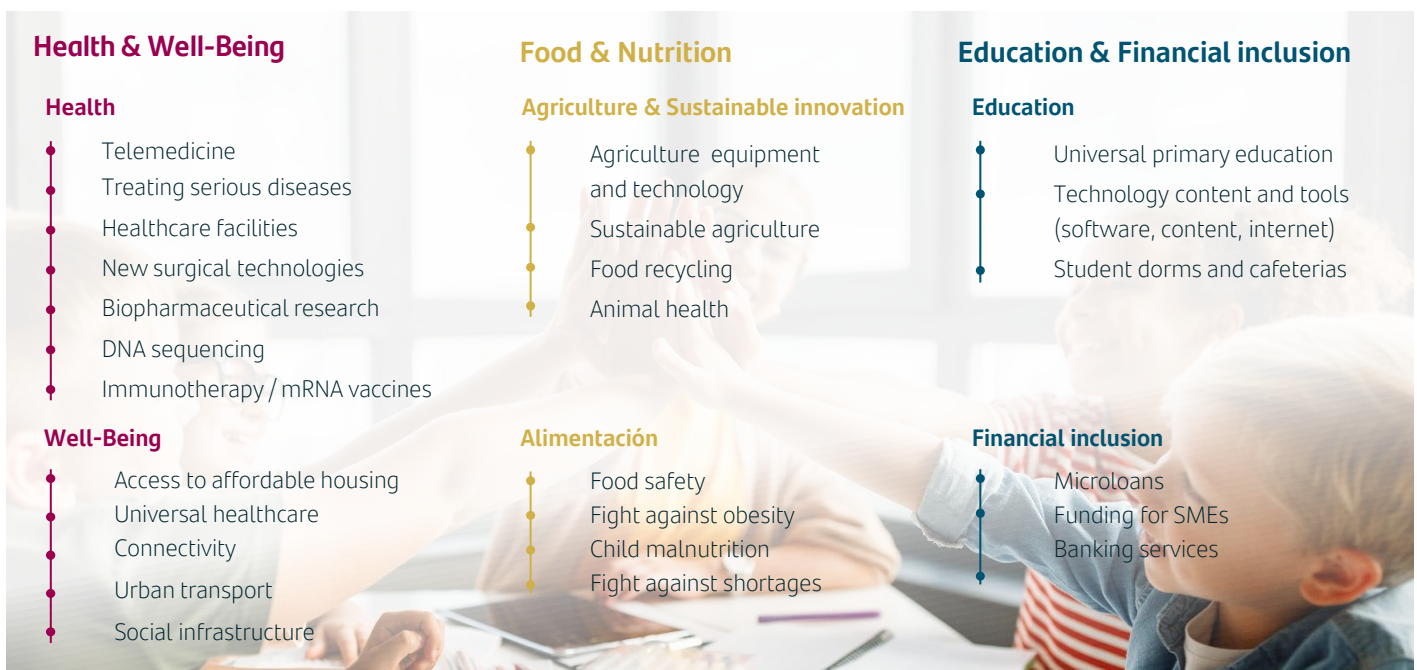
An increasingly long-lived population, technological progress and the need to provide quality medicine at reasonable costs are some of the reasons behind the revolution in the healthcare sector and the rise of companies dedicated to ensuring health and well-being.

Food & Nutrition

Population growth and climate change are affecting both the demand for food and our capacity to produce it. The food industry as a whole needs to be transformed to meet growing production needs sustainably.

Education & Financial inclusion

A growing middle class and accelerating technology during the pandemic have catalyzed an industry that is not only growing, but evolving. This is also one of the topics most directly related to the SDGs, as it has a greater social focus.



Santander Prosperity

Features of the portfolio

52MMUSD*

AUM

61

Number of positions

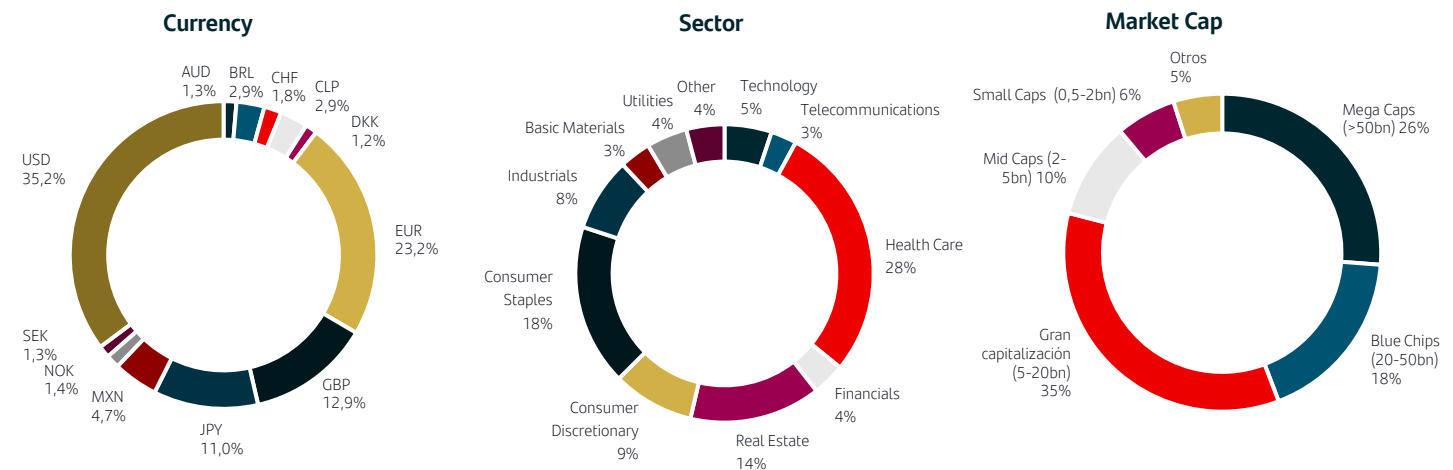
95,49%

Investment in equity

*Assets under management of the current strategy adding the vehicles of Luxembourg and Mexico.
Data as of 31 December 2023

Portfolio positioning

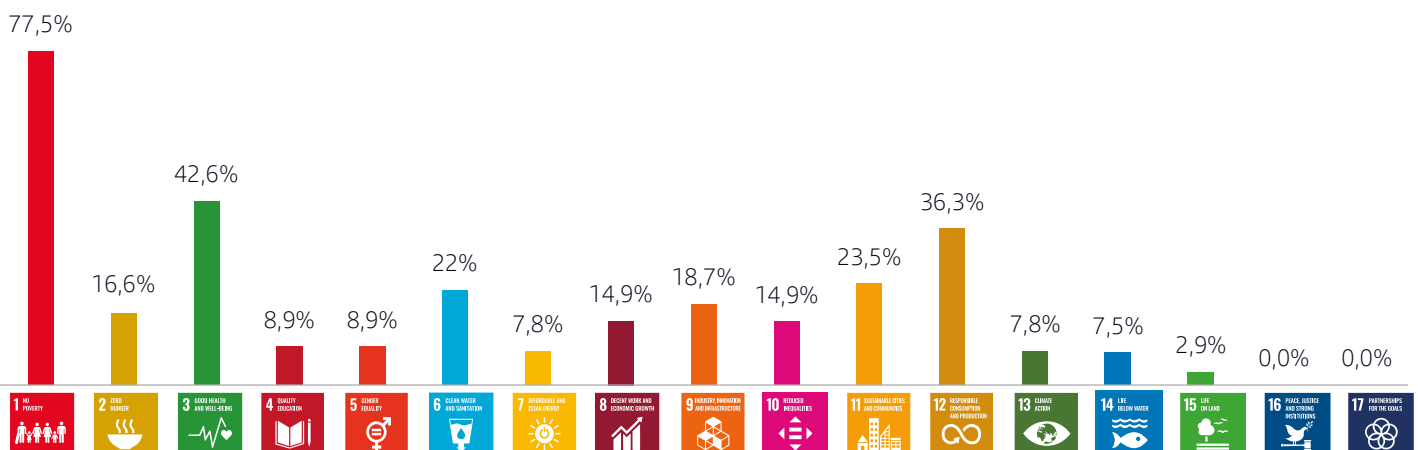
Sector Allocation, by Currency and company size



Exposure of the fund AUM across the 17 SDGs

Santander Prosperity invests in companies whose activities are grouped around three themes: Health & Wellness, Education & Financial Inclusion, and Food & Nutrition.

These three major societal challenges in which the fund invests are mainly focused on the following 6 SDGs: Eradication of poverty, Good health and Wellbeing, Quality education, Gender equality, Decent work and economic growth, and Reduced inequalities.



*The sum of the averages may exceed 100, as a company may contribute to more than one Sustainable development Goal (SDG).

Santander Prosperity

We have joined forces with (RED) to achieve a better future

The Global Fund's work in Latin America focuses on reducing inequalities and providing HIV prevention, care and treatment services.



In 2023, Santander Asset Management continued to market Santander Prosperity, its first social investment fund, formed in collaboration with (RED). Through this partnership, **Santander Asset Management contributes 15% of its management fee to the Global Fund**, to support life-saving health programs in Guatemala and Colombia.



While Latin America has seen a decline in HIV-related deaths since 2010, there has been a rise in new HIV infections in Guatemala due to continued issues of poverty, stigma, and discrimination in key groups including men, the LGBTQ+ community, and indigenous populations. In Colombia, there has been an increase in the number of people living with HIV, due to the regional humanitarian crises and an influx of Venezuelan migrants.



Guatemala

In 2023, Global Fund supported programs in Guatemala ramped up efforts towards HIV prevention, detection, and care. The Global Fund grants specifically targeted key populations like members of the LGBTQ+ community and individuals from indigenous communities.

Some of the services provided:



Implementation of a pilot program to train indigenous midwives to test their patients for HIV

Renovation of 3 comprehensive care units, which provide life-saving medical services to people living with HIV



Continued support for COVID-19 testing and vaccination through Mobile Units

Training for frontline healthcare workers on prenatal care



Colombia

The ongoing humanitarian crisis, coupled with the influx of nearly 3 million Venezuelan migrants in Colombia, has increased the demand for HIV services. To meet this need, the Global Fund's coverage in Colombia doubled from 7 territories to 14 and expanded HIV prevention and community diagnostic systems from 53 to 68 municipalities.

Some of the services provided:



Distribution of 60,000 HIV prevention packages to at-risk communities

Helped nearly 1,000 individuals learn their status



Enhancements of health information systems to drive timely data-driven decision making

Jeiner is a 45 year-old migrant living in Colombia. With the help of a (RED)-supported program, Jeiner is thriving thanks to access to regular HIV treatment and care.



Interview with Ana Maria Baracaldo

Program Officer, Colombia & Venezuela, The Global Fund



Can you tell me about your job working for the Global Fund?

I work as a program officer, currently covering Colombia and Venezuela. My work entails supporting countries to develop strategic funding requests for the Global Fund financing, as well as providing oversight throughout the grant implementation.

How do you and the Global Fund work with ENTerritorio?

ENTerritorio is an entity of the Colombian State whose mandate is to manage national development projects and it was chosen as a principal recipient (PR). Once a grant is approved, the PR is responsible for ensuring that a team is in place to manage the implementation. The PR works with local governments and healthcare providers to drive the sustainability of Global Fund investments.

In Colombia, the Global Fund's investment is focused on a combination of prevention activities for key populations. In the previous grant, funding was provided to update the national HIV Guidelines which integrated more innovative prevention methods such as pre-exposure prophylaxis, post exposure prophylaxis, and self-testing. Now, the Global Fund is supporting the scaling up of these interventions including treatment services to migrant populations.

The private sector is key. Its contribution is a central tenet of the Global Fund partnership framework

What role do you think the private sector plays in fighting the battle against HIV/AIDS?

The private sector is key. Its contribution is a central tenet of the Global Fund partnership framework. It has invested vigorously and has also been instrumental in advocacy efforts to ensure that the fight against this disease remains a priority globally. It also serves as a source for solutions in technology.

In Colombia, having a partner like Banco Santander is a great win. In general terms, the collaboration is calling attention to the challenges that remain as we work to end this disease as a public health threat.

There are 190,000 estimated HIV-positive Colombians, of whom more than 20% are unaware of their status

What are the biggest challenges in the fight against HIV/AIDS in Colombia?

Having testing strategies is fundamental to winning the fight against HIV.

Another challenge facing Colombians is that most people living with HIV in the country do not have access to the latest WHO-recommended dolutegravir-based treatment regimens, which remain out of reach to many due to high costs. At the end of 2023, the Colombian Government declared dolutegravir a product of public interest, which may allow the government to issue a compulsory license, breaking the monopoly, and making it much more affordable for the Colombian government to purchase. If this declaration passes all national requirements, and pharmaceutical companies are able to offer the product, this would reduce the price of the medication by a huge margin, generating savings that can be invested in putting more people on treatment for HIV..

Finally, there are more than 2,500,000 displaced Venezuelans living in Colombia and some 5,000,000 Venezuelans who are in flux. A recent study* estimated that there are roughly 20,000 Venezuelans in the country who are living with HIV and unaware of their HIV status. While the Global Fund grant covers prevention and treatment for some of this population, striving to meet the myriad of health needs they face remains a challenge.

*Financed by John Hopkins University and conducted by the Institute of Health Technology Assessment (IETS)

Education

Education is one of the pillars of a productive, well-functioning society. Quality education can promote democracy, help communities raise their social and economic status and drive innovation in the economy.

Conversely, unequal access to education perpetuates socio-economic inequality, restricts social mobility and widens health and income gaps between demographic groups. It also diminishes talent and the diversity of backgrounds and ideas in multiple academic fields, with negative implications for economic growth and innovation.

According to the United Nations Sustainable Development Goals (SDGs), reducing inequality could open up USD 12 trillion of market opportunities in the food and agriculture, energy and materials, and health and wellness sectors, potentially creating 380 million new jobs by 2030. Better access to education is key to achieving this: giving the entire population of emerging markets access to education could trigger a 70% increase in GDP per capita in low-income countries by 2050 (source: Global Partnership for Education).



Market Opportunities

12.000

million USD

Creating

380

million new jobs

Increase in GDP per capita

70%

by 2050

Global population and increasing participation in education

Morgan Stanley estimates that global spending on education amounted to USD 6 trillion in 2022, representing 5.9% of global GDP. This amount is made up of 1) public or government spending (73% of total spending on education) and 2) private spending (27%). According to its estimates, global spending on education will grow at a year-on-year rate of 3.7% between 2022 and 2030, when it will amount to USD 8 trillion.

This increased spending will mostly go towards training new students, as it is estimated that by 2050 there will be 2 billion more learners worldwide, rising from 7.8 billion in 2020 to 9.4 billion in 2050. In the last 30 years, the number of students in secondary education has increased by 1.5 billion, and it is slated to rise by nearly 1.2 billion in the next 30 years. In post-secondary education, global student numbers increased by 640 million in the last 30 years, and are expected to increase by another 1 billion in the next 30 years.

Source: Wittgenstein Centre for Demography and Global Human Capital, 2022

At present, our education systems are not equipped to meet current demand, let alone to cater for another 2 billion students over the next 30 years.



The solution: online education



Online education is the only viable solution to meet such high demand, given its low cost compared to conventional education and its high capacity for expansion. This is the main reason why we expect educational technology companies to benefit from a significant increase in capital inflows over the next few years.

As well as being able to meet this high demand, technology has the potential to address the other challenges facing the education sector, from fostering accessibility and inclusion, to providing training to institutions and teachers.

Other factors are also conducive to growth in online education, such as:



Increased internet access in many regions of the world



Accelerated implementation of cloud-based solutions thanks to investments by Big Tech



Government support for, and investment in, this industry



Enhanced effectiveness of online education through animation and by incorporating artificial intelligence and machine learning technologies to offer customised learning experiences



An increase in the number of content providers and creators, broadening the available content



An increase in the number of teachers worldwide and a shortage of skills/teacher training in developing countries

Estimates



Although online education has been growing at an impressive rate over the last few years, compounded by Covid-19, we are still in the early stages of this revolution

To give an idea of just how early, by 2025 educational technology will still only account for around 5% of total spending, or even lower in some stages of schooling, such as K-12. For example, before Covid, only 0.9% of all students in US schools were receiving online education. Since Covid, this percentage has risen to 1.4%, and it is expected to continue to grow in the coming years.

In terms of revenue, according to the report published by RAM Market Research, the global online education market reached USD 217 billion in 2022 and is expected to grow to USD 475 billion by 2030, posting a compound annual growth rate of approximately 9.1% between 2023 and 2030.



Global online education market

217,000
million USD in 2022

Growth up

475,000
million USD in 2030

Compound annual growth

9.1%
Between 2023 and 2030

Main advantages



1. It allows teachers and students to set their own pace, customise their schedule according to their individual needs and use their time more efficiently.
2. It offers students greater flexibility and the option to learn and study any time and anywhere provided they have an internet connection.

3. Unlike conventional in-person education, online education is generally more affordable. Not having to travel or pay for printed class materials makes for significant additional savings.
4. Advanced technologies such as gamification, virtual and augmented reality and adaptive learning make it possible to tailor education to individuals' changing needs as they move through life.



Challenges

1. The main obstacle is that the education sector is currently entirely reliant on funding from the public sector, but it is now starting to venture into the public-private markets. EdTech is leading this trend, as investors understand the dynamics of the technology sector and see opportunities to digitalise education as well.
2. Ensuring the quality and accreditation of online programmes



3. Addressing the current digital divide and unequal access to technology and internet connectivity between different segments of the population and countries.
4. Children's growing addiction to smartphones, tablets and computers may dampen the industry's growth.

Focus on portfolio companies



Pearson plc offers a suite of courses, assessments and educational services in the United Kingdom, the United States, Canada, Asia-Pacific, other European countries and globally.

The education sector is undergoing a rapid transition from a heavy reliance on print materials to a hybrid online/software/services-based model, accelerated by Covid-19. Pearson is at the forefront of this transformation



The company operates through five business divisions:

Assessment & Qualifications. is the company's largest business (38% of revenue). It provides testing services and assists with the creation of assessments for different customer groups. It runs Pearson VUE, providing student assessment services in the USA, as well as clinical assessments, GCSE and A-levels in the UK and international academic qualifications and associated courses.

Virtual Learning (Virtual Schools). (21% of revenue) operates government-funded online schools in several US states.

English Language Learning. (8% of revenue) is based primarily on the Pearson Test of English, which is one of the few official exams accepted by Australia, Canada and the UK. This division also offers courses and books for learning English in many countries around the world.

Higher Education. (24% of revenue) is the market leader in university textbooks and homework guidance software in the US. It also has a small international division.

Workforce Skills. (5% of revenue) is a newly-created business focused on adult education. The programmes offered include BTEC, GED, TalentLens, Faethm, Credly, and Pearson college and apprenticeships.

Pearson is currently undergoing a restructuring process, transitioning from a company with shrinking revenue and low margins to one with the capacity to grow by innovating across divisions and reducing costs. The company's financial position is sound again following the reorganisation of its businesses and the sale in recent years of stakes in well-known publishing assets such as The Financial Times, The Economist and Penguin Random House.

After years of structural decline, Pearson is back on a sustainable growth path as it regains market share and enhances its product offering towards online platforms (Pearson+).

In addition, the appointment of Andy Bird as the company's CEO has been very positive. The former Walt Disney chairman joined Pearson in 2020 and has since led a restructuring that has been the main driver of the change at the company.

Stride

Stride Inc is an online educational services company that provides proprietary and third-party online curricula and educational software systems and services to facilitate custom learning for students, primarily pre-K through 12th grade (K-12), in the United States and internationally.

Stride Inc., headquartered in Reston, Virginia, commenced as a conventional school manager in 2000, under the name K12 Inc. It has since transformed to its current model of online education management. Although it initially focused its business model on school-stage educational programmes, in recent years it has expanded to include adult learners.



It currently has three divisions, targeting two kinds of consumer:

School business. Within this division, it offers two different training programmes:

- **General Education:** This is the company's oldest division and, until 2018, it accounted for 100% of the group's activity. It focuses on education from pre-K through 12th grade, the final step before higher education. Its products and services enable educators to engage, teach, track progress and support students through all stages.
- **Career Learning:** This is a new option replacing General Education for grades 5 to 12, where, in addition to learning the conventional curriculum, students take a specialism based on their chosen degree path.

Adult Learnings Programmes:

These are specific training programmes for adults focused on developing skills in information technology, business and health. Its main brands are Galvanize, Tech Elevator and MedCerts. Stride also has a talent development service for companies.

In terms of revenue, **General Education** is still the biggest division, accounting for 61% of the total, with average revenue per enrolment of USD 9,207. This division accounted for 37% of the company's total in 2021 thanks to Covid, before stabilising in 2022, but the average revenue per enrolment continues to rise. Career Learning, created in 2019, now accounts for 32% of revenue, with an average per enrolment of USD 8,885, and has logged annual growth of 80% since its launch. **Adult Learning Programmes**, created in 2020, accounts for 7% of Stride's business and is the division with the biggest scope for growth, as the group currently manages to transfer only 5% of its students from the school-stage business to this programme.

Financially, Stride's position is very strong, with growing cash flows and net debt very close to zero. It has generated USD 740 million in cash flows over the last 10 years, generating cash every year and logging 14% growth in average annual free cash flow. Furthermore, its net debt is very close to zero, with good debt financing conditions, and a cash pile of more than USD 500 million.



Kahoot! ASA was incorporated in 2011 and is headquartered in Oslo, Norway. Kahoot! ASA operates an online learning platform through group participation in the United States, Canada, Europe, Asia-Pacific, Latin America and the Caribbean, Africa, the Middle East and India. The company's platforms help create, share and host learning sessions.

It offers different learning platforms segmented by type of audience and use case. The most popular are:

- Kahoot! A game-based learning solution.
- Actimo and Motimate are also focused on education, but are business-oriented.
- Drops is a game-based visual language learning application.
- Kahoot! DragonBox is for learning mathematics.
- Kahoot! Poio Read app helps children to learn to read as they play.
- Kahoot! Academy is a global community and knowledge platform for all creators, learners and learning providers.



All of these platforms are focused on one or more of the following segments:

Enterprises

Although initially the platform mainly catered for schools, nowadays most of its paid subscriptions come from companies. This is the segment with the highest revenue, representing about 44% of the total, with 550k active paid subscriptions. The offering includes different business subscription plans based on functionality and the number of participants per game. It is used in the workplace to increase engagement and reinforce learning in training courses, presentations and events. More than 97% of Fortune 500 companies, including Facebook and Coca Cola, have contracts with Kahoot!.

Schools

This is the company's second-largest division by revenue, accounting for 33% of the total and currently having 425k paid subscriptions. Teachers use Kahoot! to increase student engagement and conduct training assessments, either by creating their own custom games to suit the curriculum or by searching the Kahoot! database, which contains more than 50 million publicly available games.

Families and individuals

This has been the fastest growing division in recent years. It accounts for about 23% of the group's revenue, with 275k paid subscriptions.

Kahoot! offers exposure to the world of online education, a market with high margins and good future prospects. It has a unique business model with significant entry barriers. Financially, it is a company with little debt, good cash flow (rare in this sector) expected revenue growth well above the sector average. This growth has been both organic and inorganic. The company's two largest acquisitions to date are Clever, in March 2021, and Motimate, in April 2021.

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