



see money differently

A photograph of an open book with white pages, tied with a white string bookmark. The book is positioned on the left side of the page, with the pages fanning out towards the right.

Nedgroup Investments Global Flexible Fund

Quarter Four, 2021

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The following commentary was produced by the sub-investment manager, First Pacific Advisors, LP ("FPA").

USD performance to 31 December 2021	Nedgroup Investments Global Flexible ¹	MSCI World	S&P 500
3 months	1.90%	7.77%	11.03%
12 months	13.50%	21.82%	28.71%

Overview

The Nedgroup Investments Global Flexible Fund ("the Fund") gained 1.9% for the quarter and 13.5% for the trailing twelve months ended 31 December 2021. The Fund generated 53.4% of the average of the MSCI World and S&P 500's return in the trailing twelve months, underperforming its own 73.1% average net risk exposure.²

The Fund's performance relative to various indices is captured in the following table:

Exhibit A: Performance versus Illustrative Indices³

	Q4 2021	Trailing 12-month
Nedgroup Global Flexible Fund	1.90%	13.50%
MSCI World NR USD	7.77%	21.82%
MSCI ACWI NR USD	6.68%	18.54%
S&P 500	11.03%	28.71%
60% MSCI ACWI NR USD/ 40% Bloomberg US Agg	4.02%	10.20%
60% S&P 500 / 40% Bloomberg US Agg	6.57%	15.86%

Portfolio review

The top contributors and detractors to the Fund's returns for the trailing twelve months are listed below:⁴

Winners	Performance contribution	Ave. weight	Losers	Performance contribution	Ave. weight
Alphabet	2.94%	5.75%	Alibaba	-0.68%	1.14%
Broadcom	1.36%	2.86%	SoftBank Group	-0.44%	0.97%
AIG	1.34%	2.84%	Nexon	-0.41%	0.89%
Glencore	1.16%	2.20%	Prosus	-0.40%	2.77%
Jefferies Group	1.16%	1.95%	Just Eat Takeaway.com	-0.30%	0.35%

¹ Source: Morningstar (monthly data series). Reflects the net USD return for the Nedgroup Investments Global Flexible Fund, C class.

² Risk assets are any assets that are not risk free and generally refers to any financial security or instrument, such as equities, commodities, high-yield bonds, and other financial products that are likely to fluctuate in price. Risk exposure refers to the Fund's exposure to risk assets as a percent of total assets. The Fund's net risk exposure as of December 31, 2021 was 73.5%.

³ Comparison to the indices is for illustrative purposes only. The Fund does not include outperformance of any index or benchmark in its investment objectives. An investor cannot invest directly in an index.

⁴ Reflects the top five contributors and detractors to the Fund's performance based on contribution to return for the trailing twelve months through December 31, 2021. Contribution is presented gross of investment management fees, transactions costs, and Fund operating expenses, which if included, would reduce the returns presented. The information provided does not reflect all positions purchased, sold or recommended by FPA during the period. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities listed.

Economic recovery and persistent easy money continued to underpin the financial markets, allowing 2020's global stock market rally to continue in 2021 and benefiting certain positions held in the Fund (as much as global stock volatility *temporarily* hurt their stock prices in Q1 2020). Global Flexible's top five contributors added approximately 8% to the Fund's return in 2021, about 3.8x the (absolute) sum of the top five detractors. Importantly, there was a lack of significant news that impacted the individual investments.

Exposure to each of the top five contributors was reduced in 2021, as their respective valuations reached levels high enough to warrant a reduction in holding size, but not their complete elimination from the portfolio. We did sell out of eight stocks completely in 2021, however. We similarly moved on from these positions largely as a result of valuation, which also drove other changes. Along with the reduction in position size of six financial service companies, we also eliminated positions in Bank of America and CIT Group. The Fund's exposure to travel-related companies was also reduced as a function of selling some of our Marriott International and all of Booking Holdings stakes.

We believe that the portfolio changes in the last year resulted in the exchange of less appealing risk-reward opportunities for more attractive ones. Ten new equities were added in 2021, including new positions in video game stocks Ubisoft Entertainment and Activision Blizzard which joined Nexon to comprise our current sector exposure of 2.8%. Video gaming exposure is destined to contract as Microsoft announced last week that they will be purchasing Activision.

Unsurprisingly due to low yields, there were no new high yield positions and just one new private credit investment.

While the global stock markets remain at more elevated valuation levels, the potential for continued financial repression and its inflationary consequences is the reason why the Fund has a larger position in equities than has been typical (and less in corporate bonds). We believe that more "balanced" portfolios of stocks and bonds (e.g., the 60/40 equity/fixed income portfolios) are likely to generate weaker long-term returns, dragged down by the low yielding bonds – both investment grade and high yield, when compared to a more equity-centric portfolio. The poor performance of fixed income instruments last year, as shown in Exhibit B, and in stark contrast to the equity returns shown in Exhibit A, might just be a harbinger of things to come.

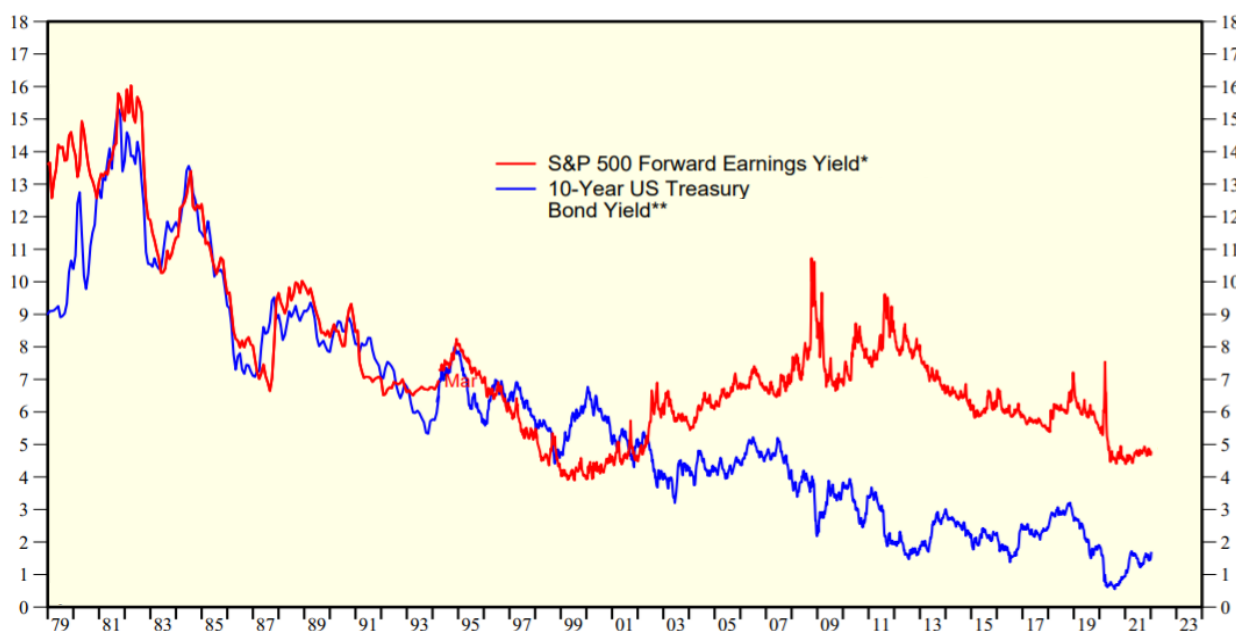
Exhibit B: Bond Returns⁵

	2021
10-Year Government Bonds	
United States	-5.7%
Germany	-10.2%
Japan	-10.5%
US Corporate Bonds	
Investment Grade	-1.0%
High Yield	3.3%

Wrestling with how much to own of stocks versus bonds doesn't seem like much of a contest. The low starting yields of bonds in general, and corporate bonds more specifically with their additional burden of potential default, offered a negative *real* yield at quarter end and into the beginning of 2022. With such an anaemic starting point, it appears that the earnings growth potential of stocks affords the better opportunity for those with a longer-term view despite higher-than-average equity valuations (Exhibit C).

⁵ Source: Bloomberg. As of December 31, 2021.

Exhibit C: S&P 500 Forward Earnings Yield & Nominal 10-Year Treasury Bond Yield⁶



The S&P 500's estimated 2022 P/E is 21.5x, which in its inverse translates to an estimated earnings yield of 4.7%. Given lower stock valuations outside the U.S., the estimated 2022 earnings yield for the global MSCI ACWI is a higher 5.6%. Contrast this with a 1.5% 10-year U.S. Treasury yield or worse, the 0.07% and -0.09% yields for Japanese and German government bonds.⁷

Assuming positive economic growth over the next decade, we believe the total return potential of stocks should exceed that of bonds, albeit with greater volatility. While volatility satisfies the institutional definition of equity risk, we have a different view. More precisely, risk is losing money, or a permanent impairment of capital, and should not factor in episodic, yet temporary price declines. FPA's oft-stated goal is to deliver an equity-like rate of return while avoiding a permanent impairment of capital. The potential discomfort that comes with the ups and downs of the market must be borne if one is to achieve equity-like rates of return.

It is not a truism that more invested = more risk. There are different kinds of risk. We believe, for example, that being less invested in risk assets invites the greater risk of inflation eroding the value of your cash or "conservative" fixed income instruments.

The easy money environment since the great financial crisis set the stage for higher inflation. The pandemic has made things worse, impacting both size and availability of the labour pool and causing supply chain disruptions. While one can reasonably argue that domestic (US) inflation in the future will be lower than 2021's 7%, we believe that inflation will likely average higher in this next decade than the preceding one – something that is not currently expected just as last year's rise was not anticipated (Exhibits D and E).⁸

⁶ Source: Yardeni.com, I/B/E/S data by Refinitiv, FRED. Chart data covers the period December 31, 1978 through January 7, 2022. *Year-ahead forward consensus expected earnings divided by S&P 500 stock price index. **Monthly through March 1994, then weekly.

⁷ Source: Bloomberg, FRED. US, Japanese and German 10-year government bond yields as of December 31, 2021.

⁸ Average inflation over the past 10 years (2011-2020) was approximately 1.9%.

Exhibit D: CPI 1965 to 2021⁹

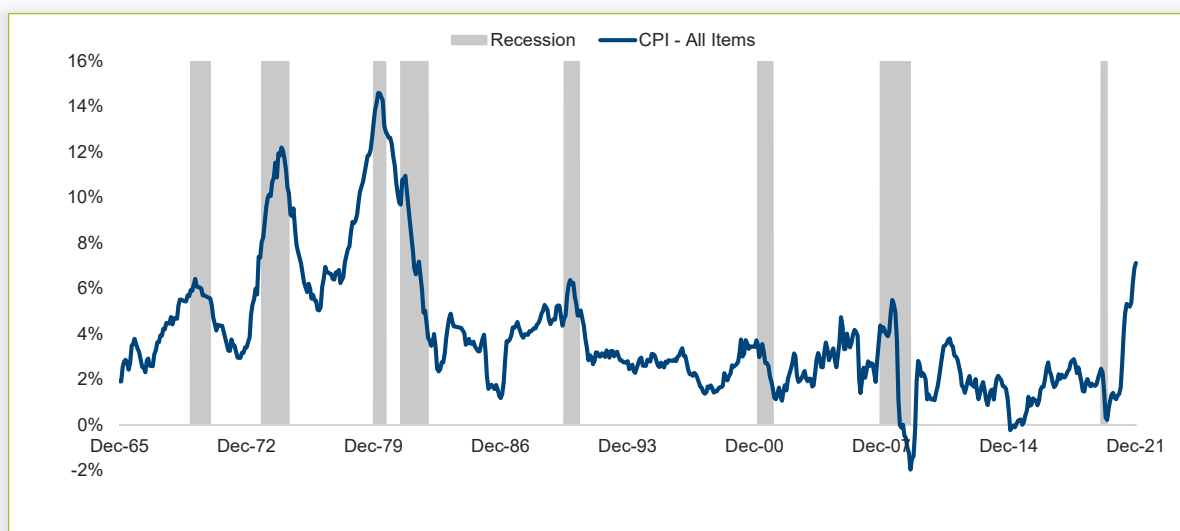
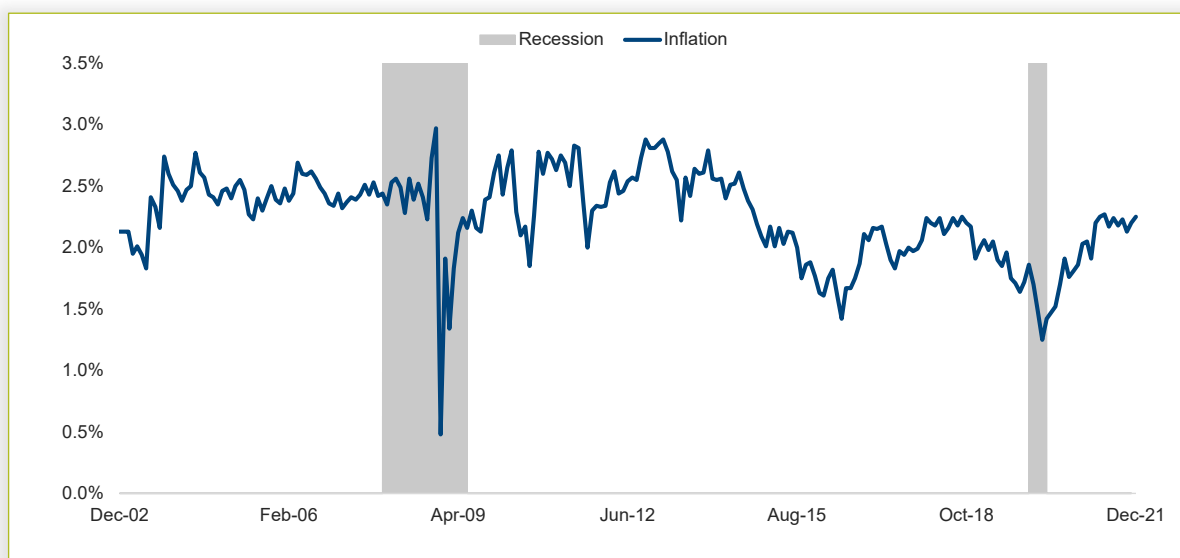


Exhibit E: 5-Year Forward US Inflation Expectation Rate¹⁰



At FPA we manage your capital to seek to provide an acceptable real rate of return over time — both in the absolute, and factoring in the risk assumed to achieve it. This requires us to seek to protect our/your portfolio from the diminution of real return that inflation can cause. To accomplish this, we:

- own more stocks than the historical average, including the Fund's holdings of lower priced overseas-based businesses that we believe offer better potential for risk-adjusted returns than their US counterparts;
- hold good to great quality businesses at good prices. Owning shares in businesses that are both less expensive and growing faster than the stock market should help to achieve our goal, and
- have avoided low-yielding bonds, particularly those with unappreciated credit risk.

⁹ Source: FRED. Chart data covers the period December 31, 1965 through December 31, 2021. *CPI* stands for Consumer Price Index.

¹⁰ Source: FRED. Chart data covers the period December 31, 2002 through December 31, 2021.

Conclusion

We wish we could tell you the Fund's portfolio is as cheap as it has ever been but given the market and the Fund's strong performance since Q1 2020's market bottom, you know that cannot be true. We have repositioned the portfolio as a function of old opportunities that have come to fruition and new opportunities that we believe offer reasonable prospects for attractive risk-adjusted future returns. The portfolio is also built to withstand multiple potential outcomes: e.g., inflation, stagflation, and recession.¹¹

We just watched Peter Jackson's [The Beatles: Get Back](#). Although a music documentary, we couldn't help but appreciate how those four young men from Liverpool managed to focus on what they do best and what they wanted to accomplish, despite pressure from others to do some things differently. Your portfolio managers similarly *come together* to concentrate on the long-term, which means shutting our ears to the many cacophonous voices that whisper to us in the short-term.

Best wishes in the New Year and may you and your families be in good health.

Respectfully submitted,

FPA Contrarian Value Portfolio Management Team

¹¹ The performance of the Fund, the S&P 500 and the MSCI ACWI NR for the period since the Q1 2020 bottom, 03/24/2020, to 12/31/2021 was 70.44%, 119.03%, and 102.12%, respectively. Fund performance is net of fees and expenses and includes reinvestment of distributions.

DISCLAIMER

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The Fund is authorised and regulated in Ireland by the Central Bank of Ireland. The Fund is authorised as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 as amended and as may be amended, supplemented, or consolidated from time-to-time and any rules, guidance or notices made by the Central Bank which are applicable to the Fund. The Fund is domiciled in Ireland. Nedgroup Investment (IOM) Limited (reg no 57917C), the Investment Manager and Distributor of the Fund, is licensed by the Isle of Man Financial Services Authority. The Depositary of the Fund is Citi Depositary Services Ireland DAC, 1 North Wall Quay, Dublin 1, Ireland. The Administrator of the Fund is Citibank Europe plc, 1 North Wall Quay, Dublin 1, Ireland.

The sub-funds of the Fund (the **Sub-Funds**) are generally medium to long-term investments and the Investment Manager does not guarantee the performance of an investor's investment and even if forecasts about the expected future performance are included the investor will carry the investment and market risk, which includes the possibility of losing capital.

The views expressed herein are those of the Investment Manager at the time and are subject to change. The price of shares may go down as well as up and the price will depend on fluctuations in financial markets outside of the control of the Investment Manager. Costs may increase or decrease as a result of currency and exchange rate fluctuations. If the currency of a Sub-Fund is different to the currency of the country in which the investor is resident, the return may increase or decrease as a result of currency fluctuations. Income may fluctuate in accordance with market conditions and taxation arrangements. As a result an investor may not get back the amount invested. Past performance is not indicative of future performance and does not predict future returns. The performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

Fees are outlined in the relevant Sub-Fund supplement available from the Investment Manager's website.

The Sub-Funds are valued using the prices of underlying securities prevailing at 11pm Irish time the business day before the dealing date. Prices are published on the Investment Manager's website. A summary of investor rights can be obtained, free of charge at www.nedgroupinvestments.com.

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Germany: The Fund's Facilities agent in Germany is ACOLIN Europe AG, with the registered office at Reichenaustraße 11a-c, 78467 Konstanz. The Prospectus (in English) and the KIID (in German), may be obtained free of charge at the registered office of the Facilities agent, or electronically by Email via facilityagent@acolin.com, or by using the contact form at <https://acolin.com/services/facilities-agency-services>.

U.K.: Nedgroup Investment Advisors (UK) Limited (reg no 2627187), authorised and regulated by the Financial Conduct Authority, is the facilities agent. The Fund and certain of its sub-funds are recognised in accordance with Section 264 of the Financial Services and Markets Act 2000.

Isle of Man: The Fund has been recognised under para 1 sch 4 of the Collective Investments Schemes Act 2008 of the Isle of Man. Isle of Man investors are not protected by statutory compensation arrangements in respect of the Fund.

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Investing in Special Purpose Acquisition Companies ("SPACS") involves risks. Because SPACs and similar entities have no operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition. SPACs are not required to provide the depth of disclosures or undergo the rigorous due diligence of a traditional initial public offering (IPO). Investors in SPACs may become exposed to speculative investments, foreign or domestic, in higher risk sectors/industries. SPAC investors generally pay certain fees and give the sponsor certain incentives (e.g., discounted ownership stakes) not found in traditional IPOs. Due to this, an investment in a SPAC may include potential conflicts and the potential for misalignment of incentives in the structure of the SPAC. Other risks include but are not limited to: SPACS may not be able to identify an acquisition target; an acquisition target may not get approved by SPAC shareholders or shareholders may not have sufficient voting power to disapprove a SPAC transaction; an acquisition may prove unsuccessful; an investment in a SPAC may lose value; SPACS may be considered illiquid or be subject to restrictions on resale; and an investment in a SPAC may be diluted by additional offerings.



Index Definitions

Comparison to any index is for illustrative purposes only and should not be relied upon as a fully accurate measure of comparison. The Fund may be less diversified than the indices noted herein, and may hold non-index securities or securities that are not comparable to those contained in an index. Indices will hold positions that are not within the Fund's investment strategy. Indices are unmanaged and do not reflect any commissions, transaction costs, or fees and expenses which would be incurred by an investor purchasing the underlying securities and which would reduce the performance in an actual account. You cannot invest directly in an index.

S&P 500 Index includes a representative sample of 500 hundred companies in leading industries of the U.S. economy. The Index focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, but is also considered a proxy for the total market.

S&P 500 Value Index is a subset of the S&P 500 index. Companies within the index are ranked based on growth and value factors including three-year change in earnings price/share, three-year sales/share growth rate, momentum, book value/price ratio, earnings/price ratio, sales/price ratio. The companies at the bottom of this list, which have a higher Value Rank, comprising 33% of the total index market capitalization are designated as the Value basket.

S&P 500 Growth Index is a subset of the S&P 500 index. Companies within the index are ranked based on growth and value factors including three-year change in earnings price/share, three-year sales/share growth rate, momentum, book value/price ratio, earnings/price ratio, sales/price ratio. The companies at the top of this list, which have a higher Growth Rank, comprising 33% of the total index market capitalization are designated as the Growth basket.

MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 26 emerging markets.

Consumer Price Index (CPI) is an unmanaged index representing the rate of the inflation of U.S. consumer prices as determined by the U.S. Department of Labor Statistics. The CPI is presented to illustrate the Fund's purchasing power against changes in the prices of goods as opposed to a benchmark, which is used to compare the Fund's performance. There can be no guarantee that the CPI will reflect the exact level of inflation at any given time.

Bloomberg Barclays U.S. Aggregate Bond Index provides a measure of the performance of the US investment grade bonds market, which includes investment grade US Government bonds, investment grade corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the Index must have at least 1-year remaining in maturity. In addition, the securities must be denominated in US dollars and must be fixed rate, nonconvertible, and taxable.

60% S&P500/ 40% Bloomberg Barclays U.S. Aggregate Bond Index is a hypothetical combination of unmanaged indices and comprises 60% S&P 500 Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index.

60% MSCI ACWI/ 40% Bloomberg Barclays U.S. Aggregate Bond Index is a hypothetical combination of unmanaged indices and comprises 60% MSCI ACWI Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index.

Other Definitions

Earnings Per Share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

Earnings Per Share Growth is defined as the percentage change in normalized earnings per share over the previous 12-month period to the latest year end.

Market Capitalization refers to the total dollar market value of a company's outstanding shares of stock. Commonly referred to as "market cap," it is calculated by multiplying the total number of a company's outstanding shares by the current market price of one share.

Market Cycles, also known as stock market cycles, is a wide term referring to trends or patterns that emerge during different markets or business environments.

Net Risk Exposure is a measure of the extent to which a fund's trading book is exposed to market fluctuations. In regards to the Fund, it is the percent of the portfolio exposed to Risk Assets.

Price to Book is used to compare a firm's market capitalization to its book value. It's calculated by dividing the company's stock price per share by its book value per share (BVPS). An asset's book value is equal to its carrying value on the balance sheet, and companies calculate it netting the asset against its accumulated depreciation.

Price to Earnings is the ratio for valuing a company that measures its current share price relative to its EPS. The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

Sum-of-the-Parts valuation is a process of valuing a company by determining what its aggregate divisions would be worth if they were spun off or acquired by another company.

Trailing Price to Earnings is a relative valuation multiple that is based on the last 12 months of actual earnings.

Forward Price to Earnings is a version of the ratio of price-to-earnings (P/E) that uses forecasted earnings for the P/E calculation.

Price to Sales is a valuation ratio that compares a company's stock price to its revenues. It is an indicator of the value that financial markets have placed on each dollar of a company's sales or revenues.

Risk Assets is any asset that carries a degree of risk. Risk asset generally refers to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds, real estate and currencies, but does not include cash and cash equivalents.

Standard Deviation is a measure of the dispersion of a set of data from its mean.



Trust Value per Share or Net Asset Value per Share (NAV) – The NAV (Net Asset Value) or Trust Value per Share is generally \$10 (the standard offer price per SPAC unit) plus the interest accrued. It is calculated as the Trust Size / Outstanding Redeemable Shares.

Volatility is a statistical measure of the dispersion of returns for a given security or market index. In most cases, the higher the volatility, the riskier the security. Volatility is often measured as either the standard deviation or variance between returns from that same security or market index.